ACCI Business Tendency Survey Report

September 2017

3rd Quarter

With the cooperation of GIZ

ACCI Business Tendency Survey Report[1]

Major findings

- The overall business climate has slightly improved during recent surveys, but this survey shows no tangible change compared to the same periods of 2016.

- The surveyed businesses' level of confidence regarding their current condition has also improved compared to the previous survey but their expectations regarding the coming six months have decreased.
- Like two earlier quarters of 2017, only Nangarhar region maintains positive business climate indicator, but Kandahar and Balkh have also shown small signs of improvements.
- Agriculture expects the highest rate of employment (13.1) and manufacturing the lowest (-9.4).
- Since the last season of 2016 manufacturing has gradually dropped to the bottom of sectoral ranking.
- Large companies keep improving, while SMEs suffer from a worsening business condition.
- Businesses have reported that their order books keep shrinking.
- The most important factor for business development is security; and none of the regions have reported a positive security indicator.

[1] The Business Tendency Survey asks the managing directors of businesses for their opinions on the current business situation and their expectations for the next six months. The current survey was conducted in five regions (Kabul, Balkh, Kandahar, Herat and Nangarhar) and 705 companies were interviewed through phone during last week of August and first week of September 2017.

A. Business Climate

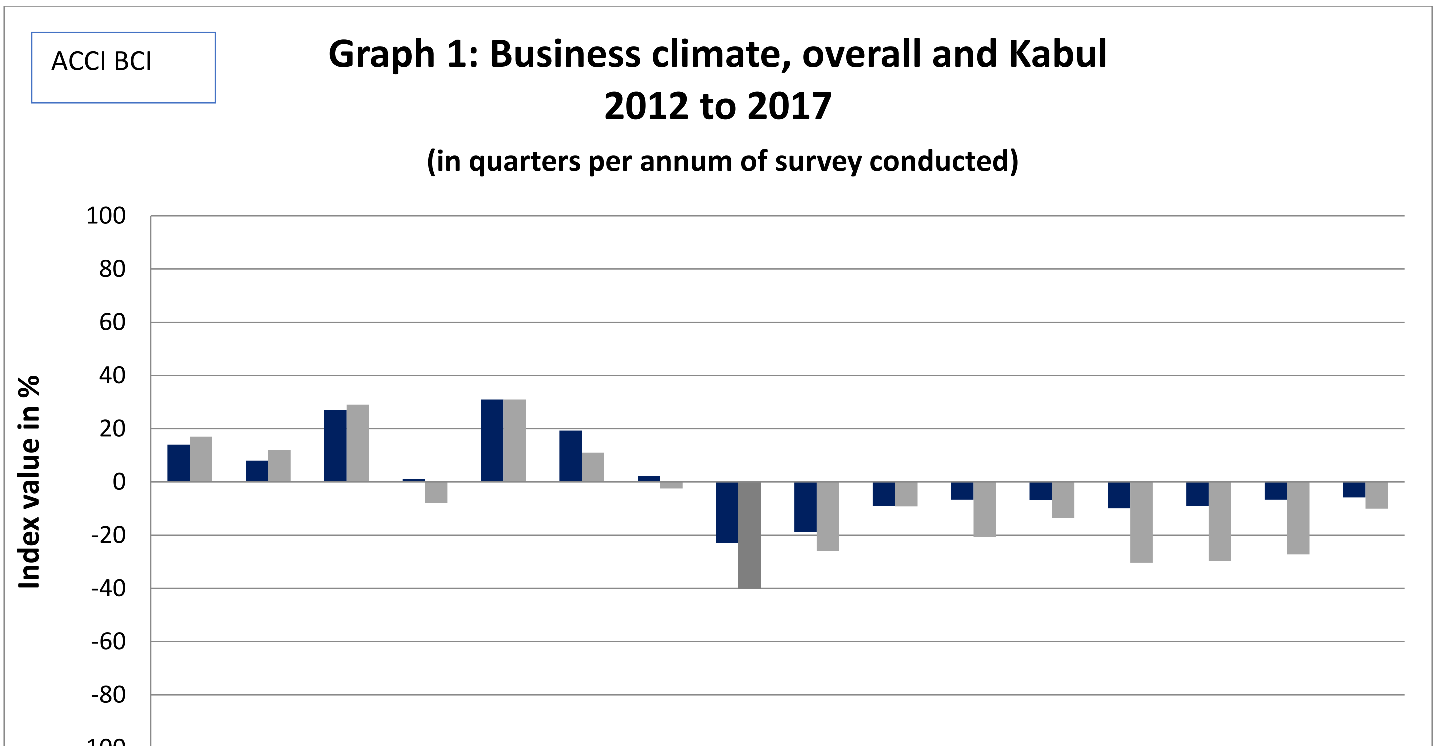
The Business Climate is an indicator for GDP growth tendencies. The indicator usually is leading; it indicates GDP changes in advance (on average a few months if no unexpected change in frame conditions occurs).

The Business Climate indicator is constructed from the judgments of managers on their present business situation and their business expectations for the next six months by a standardized and internationally used formula (for methodology see at the end of the report).

The indicator values range from 0 (meaning "normal") up to a possible maximum of plus 100 for a positive climate and from 0 to a possible minimum of minus 100 for a negative climate.

A.1- Business Climate overall and by Region

The overall Business Climate indicator in August 2017 for Kabul, Balkh, Kandahar, Nangarhar & Herat regions altogether valued points (-5.8) while in last survey it was (-6.7) points.



	IV-12	IV-13	I-14	II-14	IV-14	I-15	II-15	III-15	IV-15	I-16	II-16	III - 16	IV - 2016	I - 2017	II - 2017	III - 2017
Overall	14	8	27	1	31	19.3	2.208	-23.1	-18.9	-9.07	-6.71	-6.81	-9.93	-9.1	-6.7	-5.8
Kabul	17	12	29	-8	31	11	-2.5	-40.3	-26	-9.25	-20.8	-13.5	-30.4	-29.6	-27.2	-10.0

As shown in Graph 1. the overall business climate has slightly improved during recent surveys, but this survey shows no tangible change compared to the same periods of 2016.

The surveyed businesses' level of confidence regarding their current condition has also improved compared to the previous survey (-30.5→ -23.2) but their expectations regarding the coming six months (9.5→9.5) have decreased. As usual, surveyed businesses maintain their optimism as far as their business plans and prospects are concerned, but they are not contended with what they have achieved during last three months.

Like two earlier quarters of 2017, only Nangarhar region maintains positive business climate indicators, but Kandahar and Balkh have also shown small signs of improvements. On the other hand, Kabul and Herat regions have reported a downturn. It is worth mentioning that summer is a favorable business season, considering the importance of weather and agriculture factors in Afghan economy.

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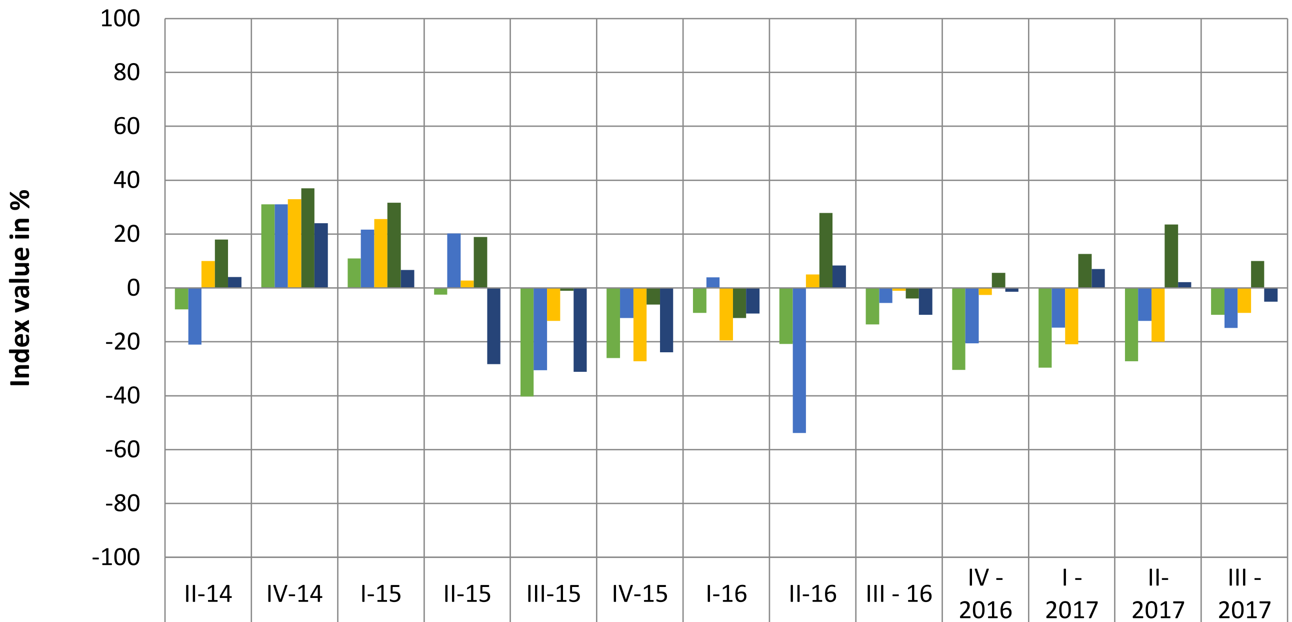
Graph 2: Business climate by Province 2014 to 2017



	II-14	IV-14	I-15	II-15	III-15	IV-15	I-16	II-16	III - 16	IV - 2016	I - 2017	II- 2017	III - 2017
Kabul	-8	31	11	-2.5	-40.25	-26	-9.25	-20.75	-13.5	-30.41	-29.6	-27.2	-10
Balkh	-21	31	21.7	20.225	-30.56	-11.11	3.89	-53.89	-5.555	-20.57	-14.7	-12.2	-14.9
Kandahar	10	33	25.55	2.75	-12.22	-27.22	-19.44	4.995	-1.11	-2.61	-20.9	-20	-9.2
Nangarhar	18	37	31.7	18.89	-1.11	-6.11	-11.12	27.78	-3.89	5.65	12.6	23.5	10
Herat	4	24	6.7	-28.33	-31.11	-23.89	-9.445	8.33	-10	-1.47	7	2.2	-5.1

A.2- Business Climate by Sectors

There is a big difference between Manufacturing (-19.4) and other sectors (-1.3 to 1.1). At the end of 2014, Manufacturing was functioning better than other sectors, and it showed more resilience against the general worsening business environment in 2015 and 2016 compared to trades, services and construction; but since the last season of 2016 manufacturing has gradually dropped to the bottom of sectors.

Agriculture, which was added to the survey in last quarter of 2016, has also shown a worsened condition compared to last two surveys, but it still tops in sectoral ranking (1.1).

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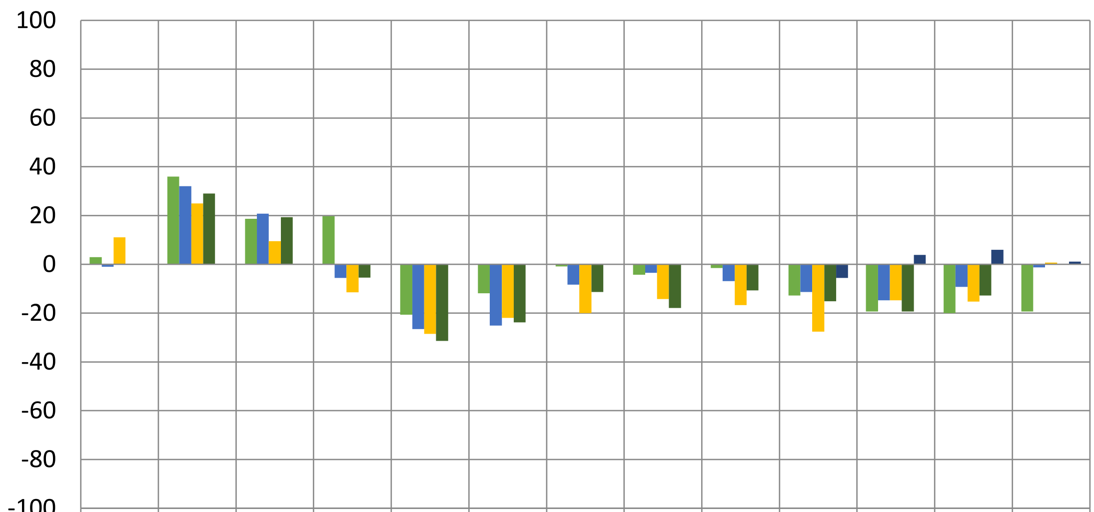
Graph 3: Business climate by sectors overall, 2014 to 2017

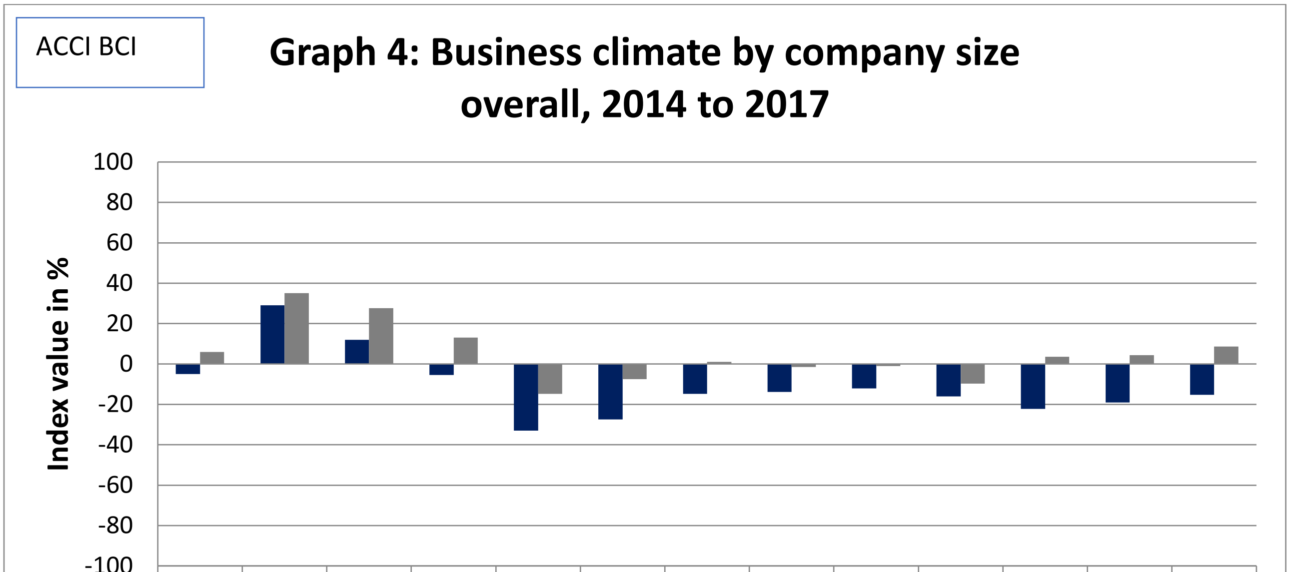


	II-14	IV-14	I-15	II-15	III-15	IV-15	I-16	II-16	III - 16	IV - 2016	I-2017	II-2017	III - 2017
Manufacturing	3	36	18.7	19.695	-20.61	-11.82	-0.905	-4.24	-1.515	-12.73	-19.4	-20	-19.4
Trade	-1	32	20.7	-5.515	-26.56	-25.17	-8.275	-3.45	-6.9	-11.38	-14.8	-9.3	-1.3
Construction	11	25	9.5	-11.43	-28.58	-21.9	-20	-14.29	-16.67	-27.62	-14.8	-15.3	0.7
Service	0	29	19.3	-5.4	-31.38	-23.79	-11.38	-17.93	-10.69	-15.17	-19.4	-12.8	0.1
Agriculture										-5.515	3.8	5.9	1.1

A.3- Business Climate by Company Size

This Business Climate Survey, like the previous ones, shows that there is a meaningful difference between the perception of large companies and SMEs about the business condition. SME's report a negative business climate indicator (-15.3) which is slightly better than the first quarter (-19) but worse than that of the same season in last year (-12.12). In contrast, large companies report an improved and positive business climate indicator, which is considerably higher than the same season of last year and thereafter.

Large (24) and Medium (12) companies are optimistic about the coming six months but small companies forecast a worsening business condition (-7.6).

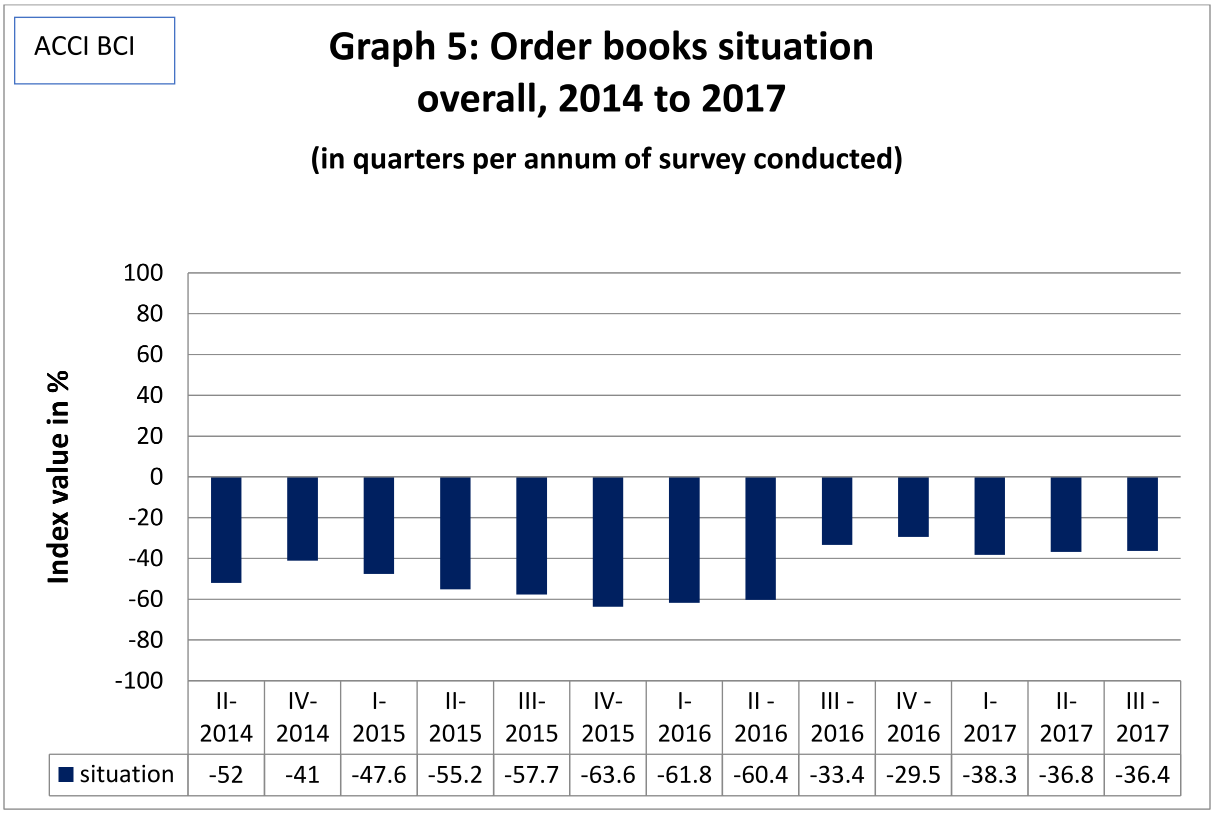


	II-2014	IV-2014	I-2015	II-2015	III-2015	IV-2015	I-2016	II-16	III - 16	IV - 2016	I-2017	II-2017	III - 2017
SME	-5	29	11.9	-5.415	-33.05	-27.42	-14.74	-13.88	-12.12	-16.04	-22.3	-19	-15.3
Large	6	35	27.7	13	-14.8	-7.5	1	-1.5	-1	-9.73	3.6	4.4	8.6

B. Order Books

The order books situation is another indicator for the business situation. It is complementary to the Business Climate and can be used as a control for the climate tendency. The result figures are based on percentage balance values (positive minus negative answers).

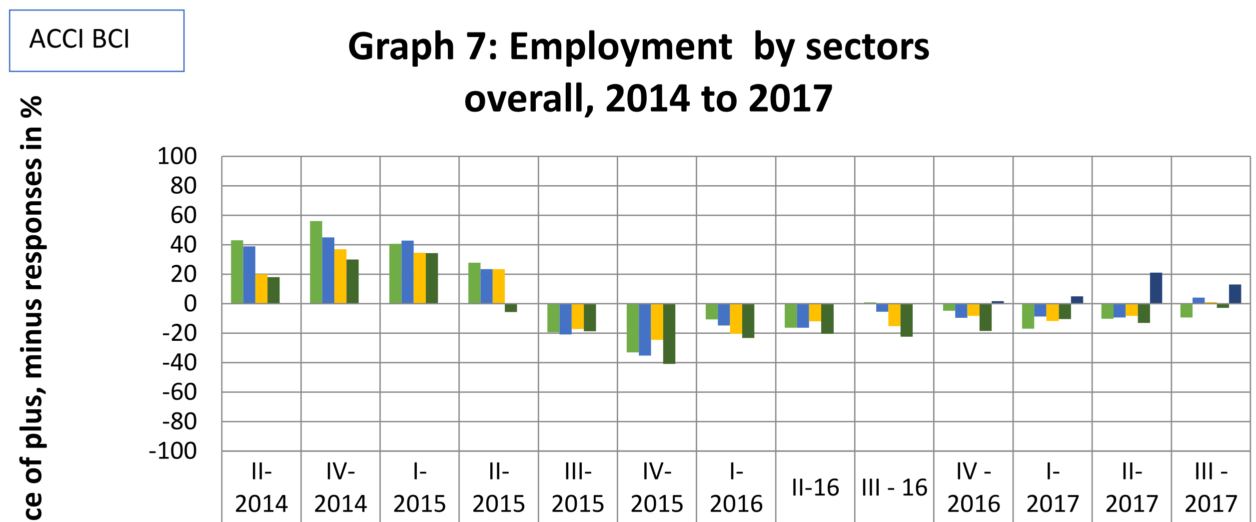
Businesses have reported that their order books keep shrinking (-36.4). This figure is slightly lower than the border books indicator of the same season in 2016 (-33.4). No region reports a positive indicator, but Nangarhar (-4.4) is in a comparatively better condition than other regions: Kabul (-41.3), Balkh (-52.2), Kandahar (-50.4), and Herat (-28.7).



	II-2014	IV-2014	I-2015	II-2015	III-2015	IV-2015	I-2016	II - 2016	III - 2016	IV - 2016	I-2017	II-2017	III - 2017
situation	-52	-41	-47.6	-55.2	-57.7	-63.6	-61.8	-60.4	-33.4	-29.5	-38.3	-36.8	-36.4

C. Employment Expectation

Graph No. 7 shows the employment climate which is the arithmetic mean of the situation (balance value) and the expectations (balance value). According to this survey companies are optimistic about their employment prospects (10), and the level of their optimism has increased 0.5 points compared to the previous survey. Agriculture expects the highest rate of employment (13.1) and manufacturing the lowest (-9.4).



	II-2014	IV-2014	I-2015	II-2015	III-2015	IV-2015	I-2016	II-16	III - 16	IV - 2016	I-2017	II-2017	III - 2017
Manufacture	43	56	40.61	27.88	-19.39	-33.04	-10.61	-16.37	0.91	-4.85	-17	-10.3	-9.4
Services	39	45	42.75	23.45	-20.95	-35.17	-14.83	-16.21	-5.52	-9.66	-8.7	-9.4	4.1
Trade	20	37	34.48	23.45	-17.24	-24.48	-20.35	-12.07	-15.18	-8.275	-11.7	-8.3	1.1
Construction	18	30	34.29	-5.72	-18.62	-40.95	-23.34	-20.48	-22.39	-18.57	-10.5	-13	-2.9
Agriculture										1.752	4.9	21	13.1

As usual, the real employment situation was different to what the businesses expected in previous survey. In March, the surveyed companies expected about 9.5 points increase in their employments for the then coming three months, while this survey showed a more negative tendency in employment during last three months. The number of respondents who say they have decreased their employees is about 8 percent more than those who say they have employed more people during last three months.

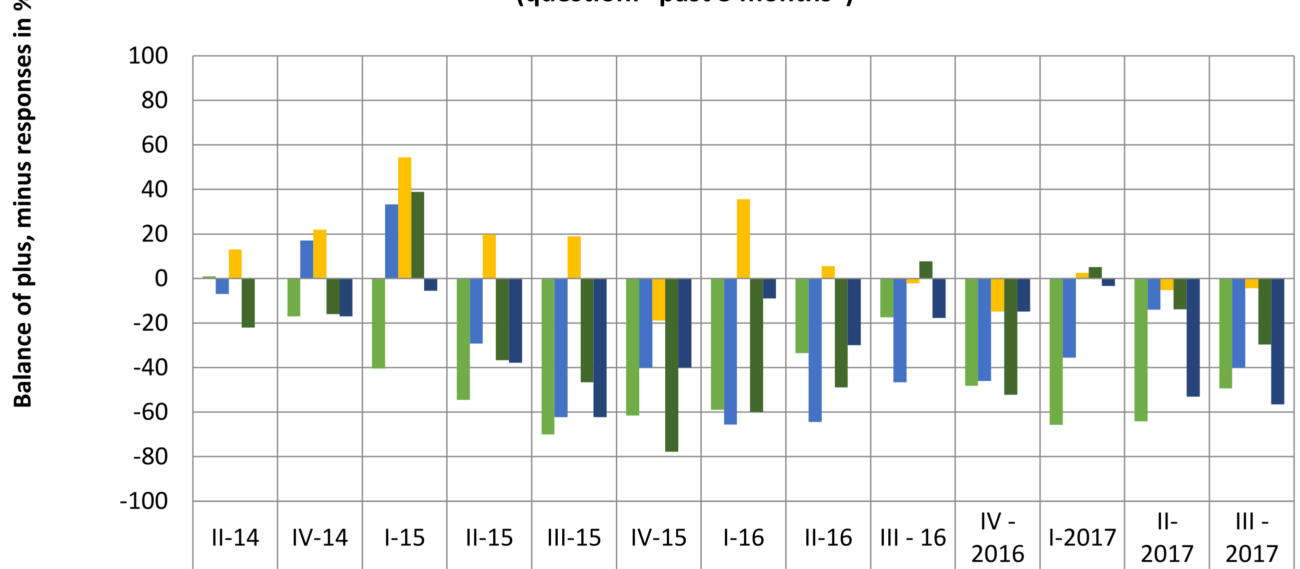
Manufacturing (-9.4) and construction (-2.9) have lost jobs, while Trade (1.1), Service (4.1) and Agriculture (13.1) have created jobs.

D. Security Situation

The average indicator for security situation has slightly worsened (-38.5) compared to the previous survey (-36.4), and regional differences are high.

None of the regions have reported a positive security indicator, but Kandahar (-4.4) region is reportedly less insecure than Nangarhar (-29.6), Balkh (-40), Kabul (-49.4) and Herat (-56.5).

Graph 08:
Perceived security situation by Province, 2014 to 2017
(question: "past 3 months")



	II-14	IV-14	I-15	II-15	III-15	IV-15	I-16	II-16	III - 16	IV - 2016	I-2017	II-2017	III - 2017
Kabul	1	-17	-40.5	-54.5	-70	-61.5	-59	-33.5	-17.5	-48.17	-65.7	-64.1	-49.4
Balkh	-7	17	33.33	-29.22	-62.22	-40	-65.56	-64.45	-46.67	-46.09	-35.6	-14	-40
Kandahar	13	22	54.45	19.78	18.89	-18.89	35.56	5.55	-2.22	-14.78	2.5	-5.2	-4.4
Nangarhar	-22	-16	38.88	-36.67	-46.67	-77.78	-60	-48.89	7.77	-52.18	5.2	-13.9	-29.6
Herat	0	-17	-5.55	-37.78	-62.22	-40	-8.89	-30	-17.78	-14.78	-3.3	-53.1	-56.5

E. Desired Improvements for Business Development

The evaluation of major business constraints shows that the most important factor for business development is security; it is followed by market and demand, administrative reforms and better infrastructure.

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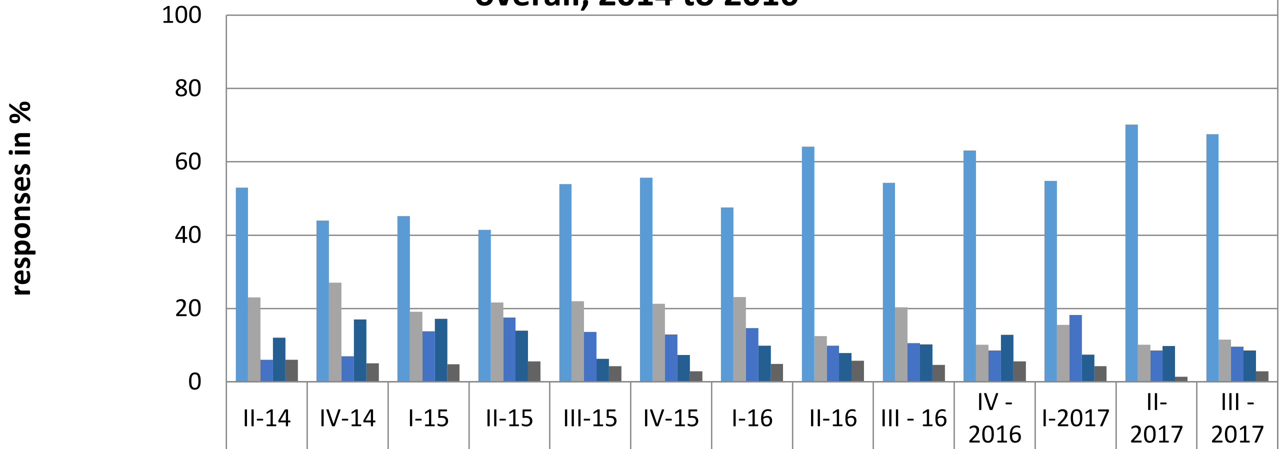
Graph 9: Desired improvements for business development, overall, 2014 to 2016



	II-14	IV-14	I-15	II-15	III-15	IV-15	I-16	II-16	III - 16	IV - 2016	I-2017	II-2017	III - 2017
Security	53	44	45.18	41.43	53.93	55.71	47.58	64.11	54.29	63.12	54.8	70.2	67.5
Market	23	27	19.11	21.61	21.96	21.25	23.08	12.5	20.36	10.07	15.5	10.1	11.5
Administration	6	7	13.75	17.5	13.57	12.86	14.67	9.82	10.54	8.51	18.2	8.5	9.6
Infrastructure	12	17	17.14	13.93	6.25	7.32	9.84	7.86	10.18	12.77	7.4	9.8	8.5
Finance	6	5	4.82	5.54	4.29	2.86	4.83	5.71	4.64	5.53	4.3	1.4	2.9

Appendix:

The Definition of the Business Climate Indicator

The Business Climate is based on a periodic survey of company managers in Manufacturing, Construction, Services Trade and Agriculture sectors. The managers are requested to report on their present business situation as well as on their expectations for the next six months. They may judge their situation to be “better than normal”, “normal” or “worse than normal”. On their expectations they may answer that the situation will “improve”, “remain the same” or “deteriorate”.

The balance value of the present situation is the difference of the percentage shares of the answers “better than normal” and “worse than normal”. The balance value for the expectations is the difference of the percentage shares of the answers “improve” and “deteriorate”.

The Business Climate is the arithmetic mean of the situation (balance value) and the expectations (balance value).

In graphical presentations for the first survey rounds the “normal” and “remain the same” judgments are taken as the zero line. The range of the climate indicator may vary between 0 and in its maximum up to one hundred towards the positive (plus) and as well one hundred towards the negative (minus) side. At a later stage, after time series can be established, the “zero” line will be based on a normal year climate (taken as 100 and the following quarterly climate values indexed to this year).

Prepared by: Younus Negah, Neamat Ullah ALISHIRYAN & Dr. Masood Parwanfar

Interviewed by: Ali Seraj, Sanger Jabarkhil, Fazil Ahmadi, Abdul Qader & Homira Rezaee