ACCI Business Tendency Survey Report

March 2016

With the cooperation of GIZ

ACCI Business Tendency Survey Report[1]

Major findings

- Companies partially resume their optimism regarding the outlook of their businesses.
- Despite a little improvement compared to last survey, except Balkh none of the provinces have a positive business climate indicator.
- The order books are in a very poor condition, however a little improvement is seen in this survey compared to last survey.
- While the security condition has reportedly improved in four regions (Kandahar, Herat, Kabul and Nangarhar), Kandahar is the only region that has recorded a positive security indicator in this survey.
- The call for administrative reforms has gradually increased in recent surveys.

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).

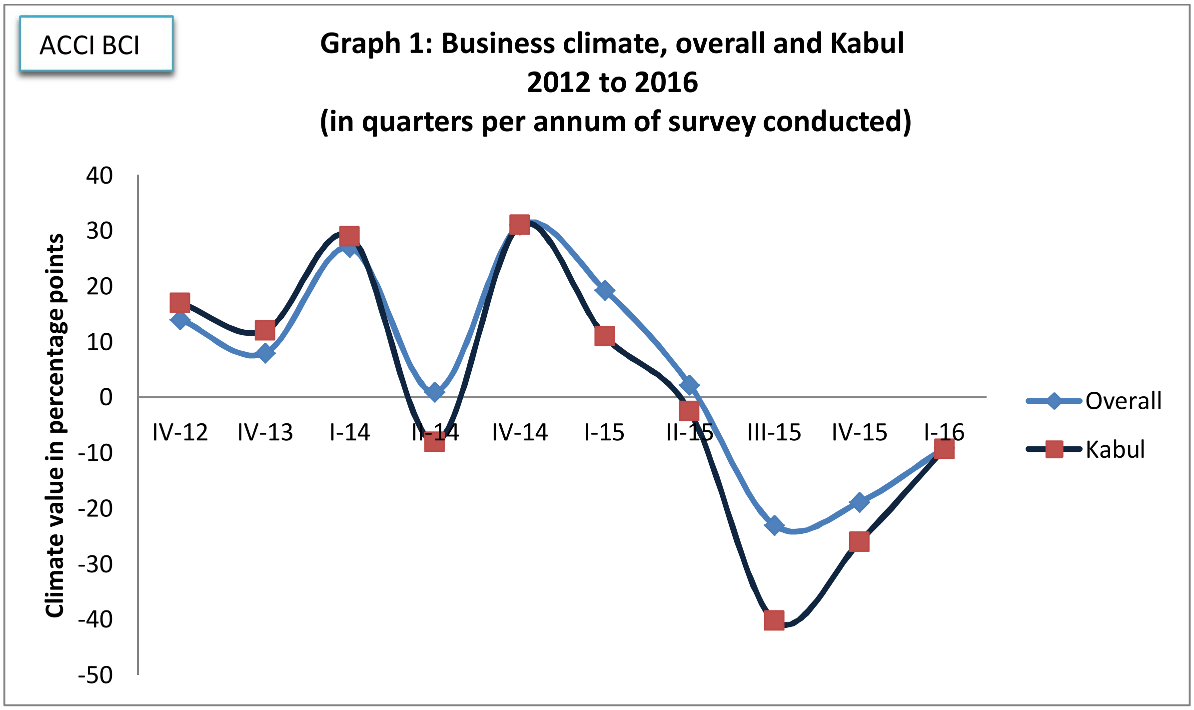
The indicator values range from 0 (meaning “normal”) up to a possible maximum of plus 100 for a positive climate and from 0 to a possible minimum of minus 100 for a negative climate.

[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 560 companies were interviewed through phone during first and second week of March 2016.

A.1- Business Climate overall and by Region

The overall Business Climate indicator in March 2016 for Kabul, Balkh, Kandahar, Nangarhar & Herat regions altogether valued -9.072 points while in last survey it was -18.865 points.

Companies partially resume their optimism regarding the outlook of their businesses and the surveyed companies expect a better condition for coming months (35.89), while the current situation of their businesses is reported as very poor (-54.11).



Kandahar shows the least favorable condition compared to the previous surveys. This is mainly because of the lack of a positive expectation among Kandahar businesses compared to other regions. They see their current situation better than that of Kabul & Nangarhar, but have not a similar perception regarding their business outlooks. Kandahar is followed by Nangarhar, Herat and Kabul. Balkh is comparatively more confident regarding the six coming months. As illustrated in graph 2, Balkh, Kabul and Herat looks a little more optimistic compared to last survey.[2] The comparison over time shows a highly volatile and inconsistent business climate.

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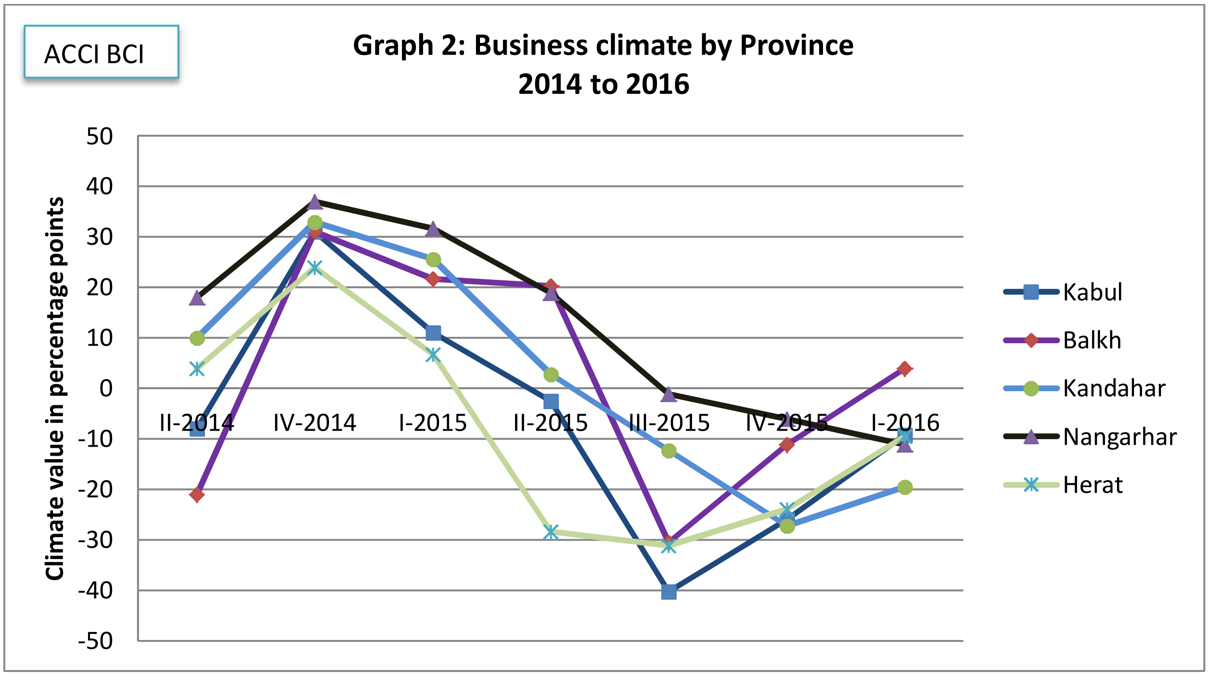
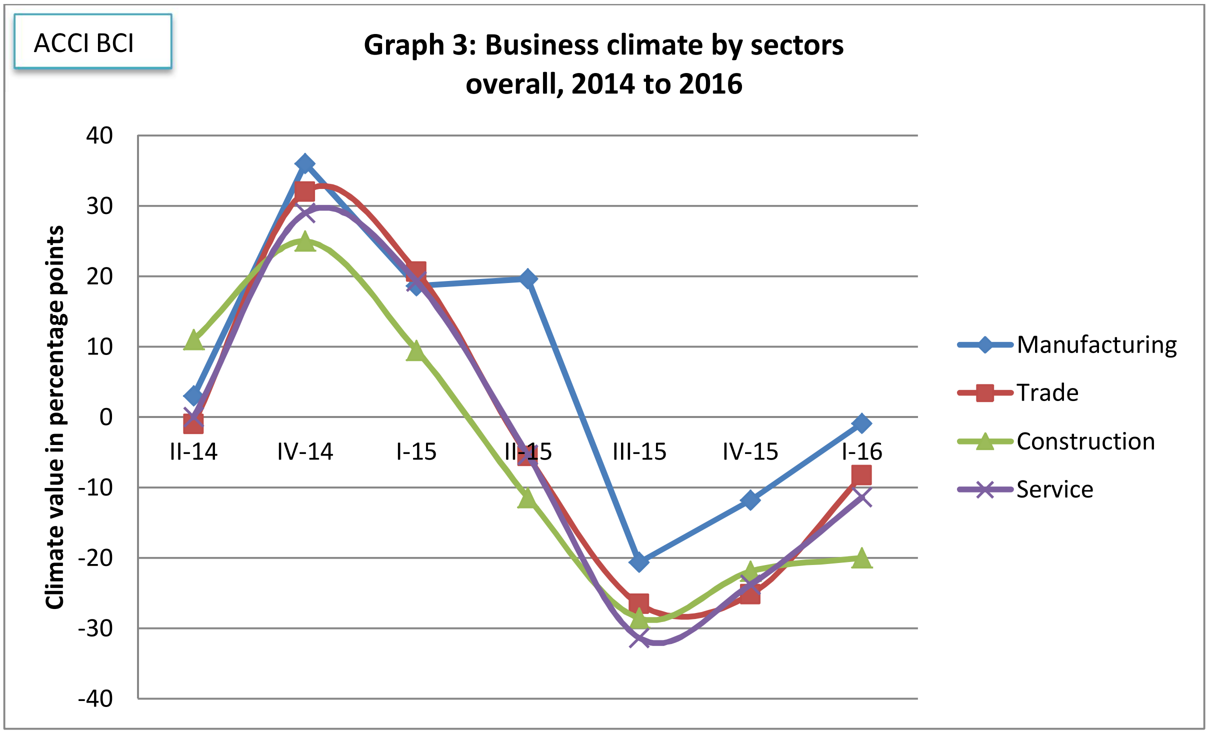
2 The number of Provinces were increased over time to five, which should represent the country's situation:
IV-2012 Kabul, Balkh
IV-2013: Kabul, Balkh, Kandahar
I-2014: Kabul, Balkh, Kandahar, Nangarhar
Since II-2014: Kabul, Balkh, Kandahar, Nangarhar and Herat.



A.2- Business Climate by Sectors

This survey shows improvements in all sectors. Construction companies have reported the worst condition and manufacturers top in sectorial ranking; however the business climate indicator for this sector is also negative.

As illustrated in graph 3, services and trade sectors also suffer from an unfavorable business condition. The balances of positive minus negative responses on their current business performance ranged between -57.93 and -51.72 across the sectors, but the respondents are resuming their hopes for future.



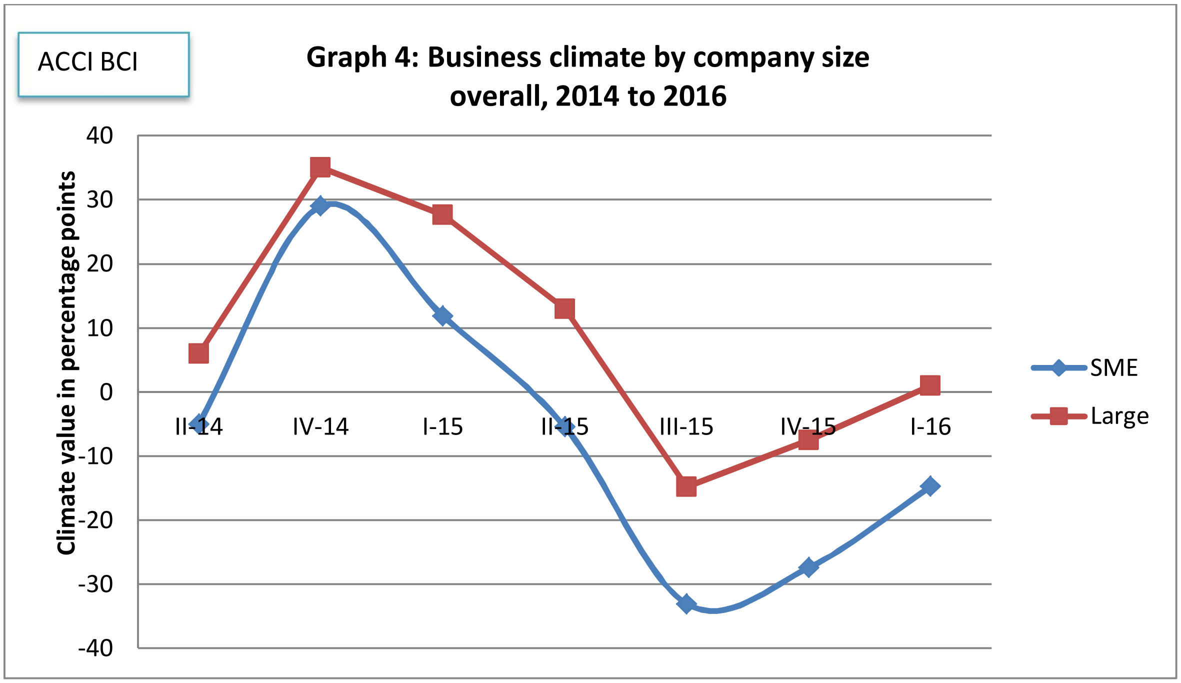
Despite improvements in the surveyed companies' expectations, the comparison of three latest surveys shows that the real business condition has largely worsened this year, and businesses have largely lost their optimism.

A.3- Business Climate by Company Size

The Business Climate survey shows improvements for both SMEs and large enterprises.

The Business Climate Indicator value for SMEs was (-27.41) about three months back when the fourth ACCI 2016 Business Tendency Survey was conducted, but now this indicator has improved to (-14.74)

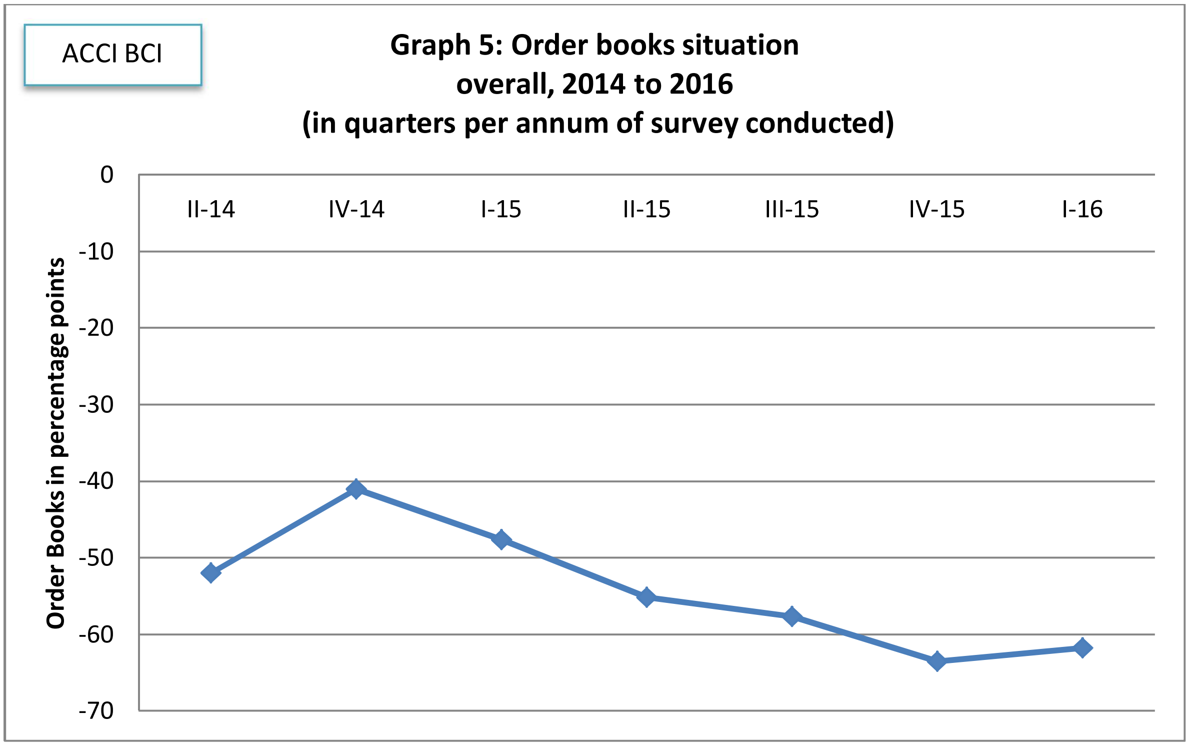
The Business Climate Indicator value for large companies is (1). In last survey it was (-7.5).

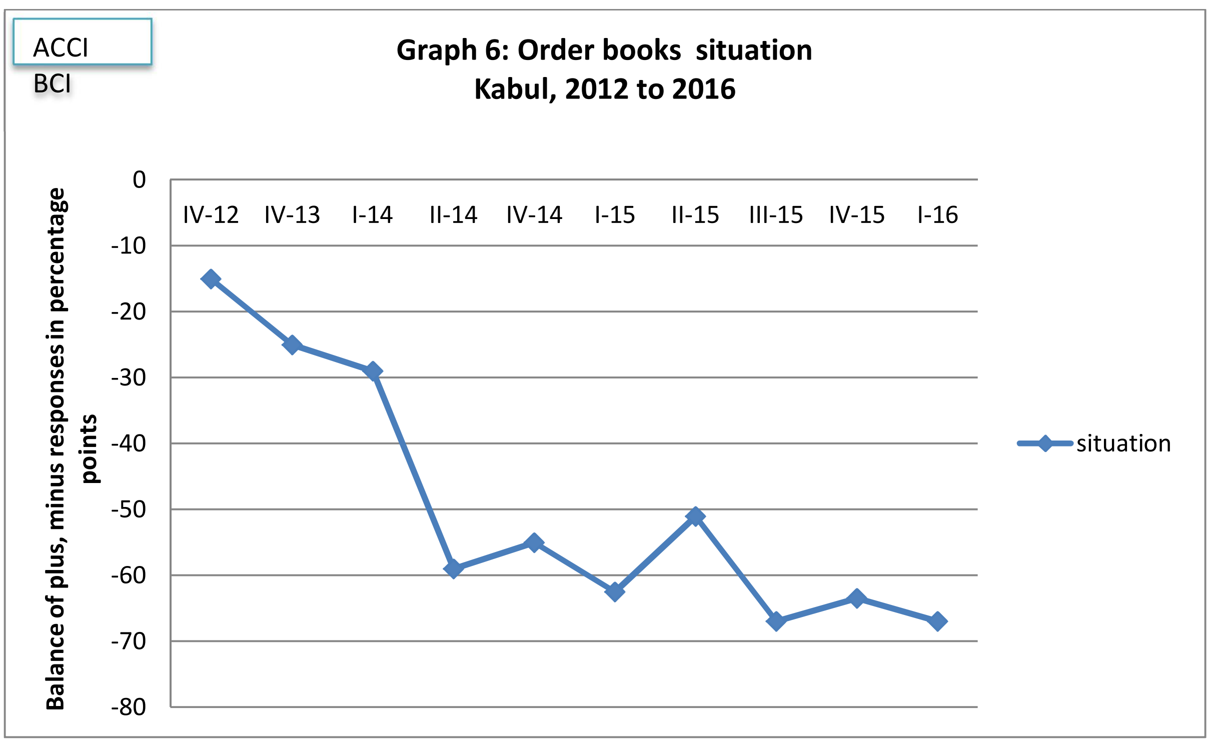


B. Order Books

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).

The order books are in a very poor condition, however a little improvement is seen in this survey (-61.79) compared to last survey (-63.57).



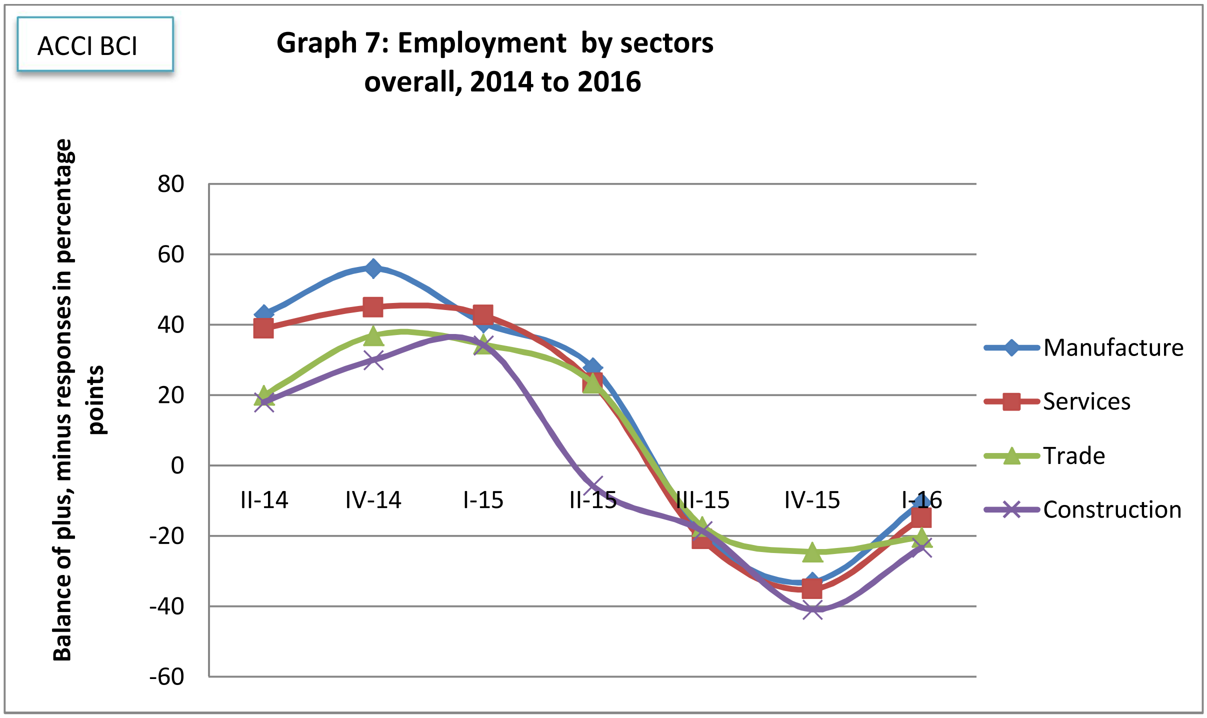


An overview of the Kabul order books indicators over time reveals that since 2012 the order books situation has continually declined. It is worth mentioning that in last Survey (Nov 2015) it showed a minor improvement but this time it has slightly declined (-63.5 to -67).

C. Employment Expectation

The survey reveals that the managers and owners of surveyed companies are optimistic regarding their employments in coming three months.

The balance of the future employment plans is (13.4) points across the sectors which is much higher than that of the previous survey (-11.43)

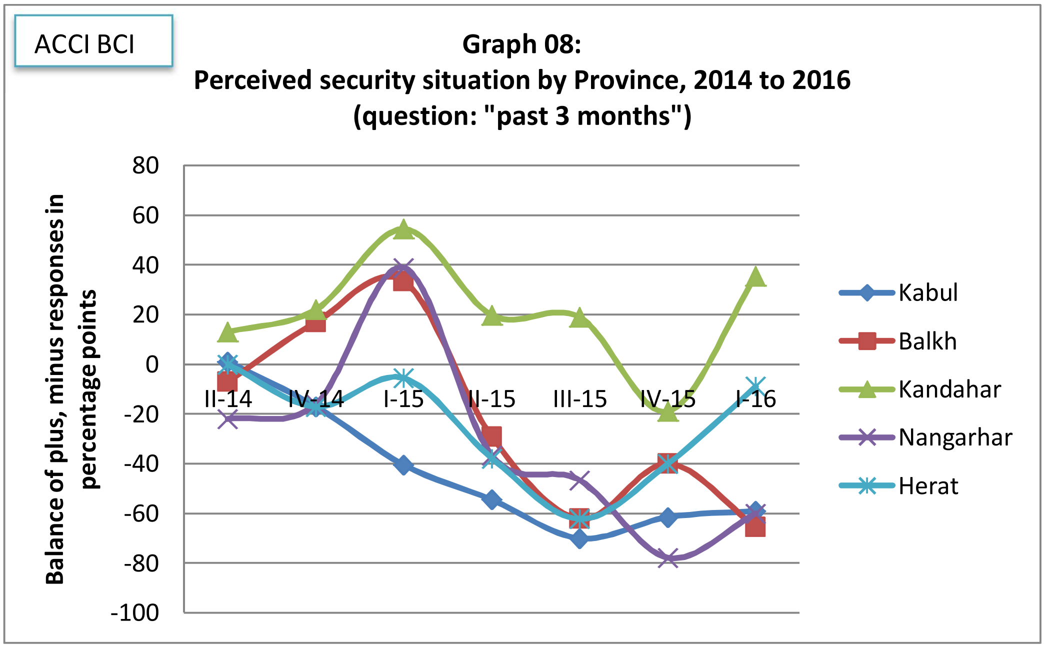


It is worth mentioning that the real situation of the employment was different to what the businesses expected in previous survey. In November the surveyed companies expected about -11.43 points decrease in their employments for then the coming three months, while this survey showed a more negative tendency in employment during last three months. The number of respondents who say they have decreased their employees is -46.61 more than those who say they have employed more people during last three months.

Construction (-61.91) and Trade (-53.1) employees have lost considerably more jobs compared to Service (-40.69) and Manufacturing (-36.36). Fortunately this time survey shows that all Sectors are expecting a positive employment indictor for coming three months.

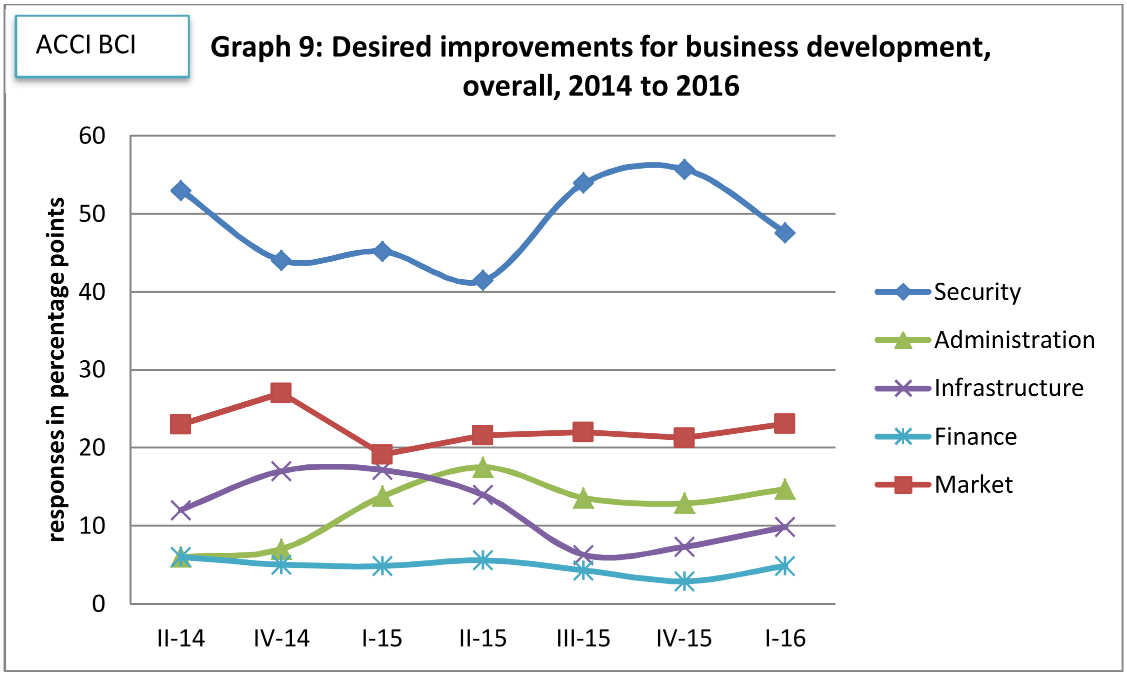
D. Security Situation

The security condition has reportedly improved in four regions (Kandahar, Herat, Kabul and Nangarhar). Kandahar is the only region that has recorded a positive security indicator in this survey, while Balkh has reported highly worsened security conditions in last three months.



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, better infrastructure and access to finance. As illustrated in Graph 9. The call for administrative reforms has gradually increased in last seven surveys and in last four surveys it is ranked as more urgent than infrastructural developments.



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Graph 9: Desired improvements for business development, overall, 2014 to 2016
responses in percentage points
60
50
40
30
20
10
0
II-14
IV-14
I-15
II-15
III-15
IV-15
I-16
Security
Administration
Infrastructure
Finance
Market

Appendix:

The Definition of the Business Climate Indicator

The Business Climate is based on a periodic survey of company managers in Manufacturing, Construction, Services and Trade 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).

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