

# BUSINESS CONFIDENCE SURVEY



# 2021

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**Innovation &  
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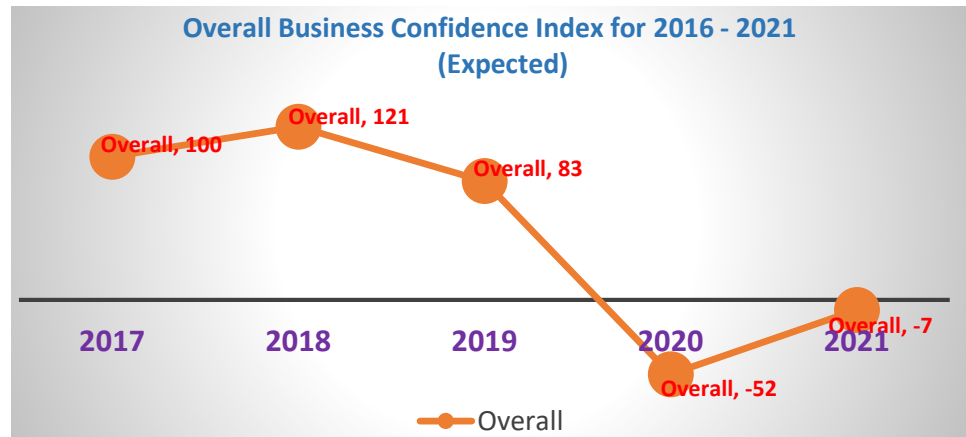
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# RESULTS AT A GLANCE (2021)

## THE BUSINESS EXPECTATIONS INDEX HAS IMPROVED IN 2021 AS COMPARED TO 2020

Expectations remained positive across sectors till 2018, decline sharply for services sector and exporting firms in 2019. Expectations have improved across sectors, especially for exporting firms in the year 2021.



## NEGATIVE IMPACT OF COVID-19 ON PAKISTANI BUSINESSES



**77%**

Of firms reported that Covid-19 had a negative impact on their revenues in 2020.

**57%**

Of firms reported that Covid-19 had a negative impact on their investments in 2020.

**73%**

Of firms reported that Covid-19 had a negative impact on their employments in 2020.

**56%**

Of firms reported that Covid-19 had a negative impact on their export sales in 2020.

## PAKISTANI BUSINESSES REPORT DETERIORATED FINANCIAL PERFORMANCE



**20%**

Of firms reported a decline in total sales in 2020/2021 as compared to 2019.



**24%**

Of firms reported a decline in domestic sales in 2020/2021 as compared to 2019.



**62%**

Of firms said that their export sales decreased in 2020/2021 which is 32% lower than the 2019.

## RETAIL SECTOR, MANUFACTURING SECTOR AND SERVICES SECTOR PERFORMED WORSE COMPARED TO PREVIOUS YEARS IN TERMS OF GROWTH IN REVENUES FROM TOTAL SALES, DOMESTIC SALES AND EXPORT SALES



**61%**

Of service sector firms reported a decline in total sales while 30% of firms reported a decline in total sales in the sector in 2019.



SALES DECLINE

**100%**

Of retail sector firms reported a decline in domestic sales while 79% of manufacturing sector reported a decline in domestic sales in 2020/2021.



**73%**

Of services sector firms reported a decline in export sales while 57% of manufacturing sector firms reported a decline in export sales in 2020/2021.

## FURTHER DECLINE IN OVERALL EMPLOYMENT LEVELS

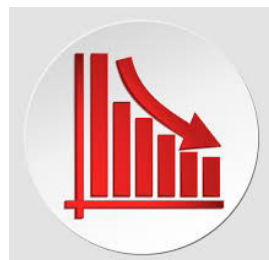


**14%**  
Of firms reported a decline in employment level in 2020/2021.



**100%**  
Of retail sector firms reported a decline in employment level in 2020/2021. Whereas, 50% of services sector firms reported a decline in employment level in 2020/ 2021.

## 64% OF OVERALL FIRMS REPORTED A DECLINE IN THEIR LEVEL OF INVESTMENT



**11%**  
Of firms reported an increase in their investment level in 2020/2021 as compared to 27% in 2019.



**74%**  
Of firms reported a decline in investment level in the manufacturing sector firms in 2020/2021 as compared to 18% in 2019. Moreover, 64% of overall firms across sectors reported a decline in their investment level as compared to only 17% in 2019.

## AROUND 89% OF OVERALL FIRMS REPORTED THAT THEIR BANK BORROWING REMAINED UNCHANGED

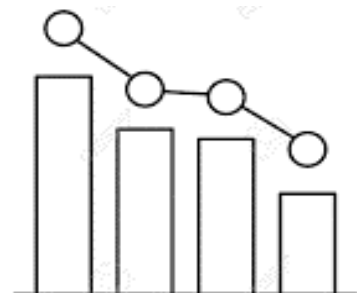


**13%**  
Of firms reported a decline in bank borrowing level in 2020/2021.



**50%**  
Of manufacturing sector firms reported an increase in bank borrowing in 2020/2021.

## REASONS BEHIND DECREASED IN EMPLOYMENT LEVEL, INVESTMENTS AND BANK BORROWINGS



**65%**  
Of firms reported that the main reasons behind not increasing employment levels in 2020/21 was a slowdown in business growth and 22% of forms reported that they did not hire because the maximum capacity of the firm has been reached.

**48%**  
Of firms reported slowdown in business growth and 23% of firms reported the pandemic as the main reasons behind decline in investments.

**34%**  
Of firms reported that the main reason behind stagnant bank borrowing was because they had met their current investment needs from existing funds.



## UNINTERRUPTED ELECTRICITY & GAS AND GOVERNMENT SUBSIDIES IMPORTANT TO BOOST EXPORTS



Majority of firms in 2020/2021 survey, indicated an un-interrupted Electricity and Gas (84%), government subsidies (78%), and upgrading technology of firms (73%) as the most important factors that could boost exports.

## 55% OF EXPORTERS SELL THEIR PRODUCTS TO ALL AROUND THE WORLD



Majority of firms reported that their major export markets in 2020/2021 were all around the world (55%), Asia/South Asia (18%) and Europe (18%).

## A SIGNIFICANT NUMBER OF FIRMS INCREASED THEIR IMPORTS

**52%**

Of all firm reported an increase in imports in 2020/2021 as compared to only 30% in 2019.



**23%**

Of exporting firms reported an increase in imports in 2020/2021 as compared to 2019.



**43%**

Of manufacturing sector firms reported an increase in imports in 2020/2021.



**57%**

Of services sector firms reported an increase in imports in 2020/2021.



**100%**

Of retail sector firms reported a decline in imports in 2020/2021.



**52%**

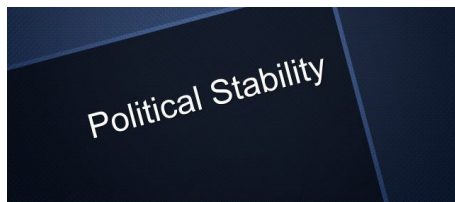
of importing firms indicated that they imported machinery, 30% reported raw materials and 17% reported finished goods in 2020/2021.

## MOST IMPORTANT FACTORS AFFECTING BUSINESSES



**63%**

of firms indicated that Law & Order, 61% of firms reported Political Stability & Energy and 40% of firms reported Access to Finance as the most important factors affecting their businesses.



**66%**

of manufacturing sector firms found Political Stability, 65% found Law & Order Situation, 56% found Energy and 47% found Access to Finance as the most important factors in 2020/2021.



**69%**

of services sector firms found Energy, 61% found Law & Order Situation, 52% found Political Stability and 31% found Access to Finance as the most important factors in 2020/2021.



**81%**

of retail sector firms found Political Stability, 54% found Law & Order Situation, 54% found Energy and 36% found Access to Finance as the most important factors in 2020/2021.

## STAGNATED OPTIMISM ABOUT THE PERFORMANCE OF THE PAKISTANI ECONOMY OVER TIME

**2021**

**64%**

Of overall firms said that the performance of the Pakistani economy will decline in 2021 as compared to 59% in 2019. Manufacturing sector was the most pessimistic as only 12% of firms expressed that the performance of the Pakistan's economy will improve in 2021.

**18%**

Of firms expressed positive expectations about the performance of the Pakistan's economy in 2021 which is almost same as compared to 19% in 2020.

## MANUFACTURING SECTOR AND RETAIL SECTORS ARE LEAST OPTIMISTIC ABOUT THE IMPACT OF CPEC ON THEIR BUSINESSES



**26%**  
Of respondent firms showed optimism about the impact of CPEC on their businesses in 2021 as compared to 85% in 2020.



**18%**  
Of the retail sector firms and 22% of the manufacturing sector firms said that CPEC would have a positive impact on their businesses in 2021.

## FIRMS EXPECTATIONS FOR 2021 WERE POSITIVE



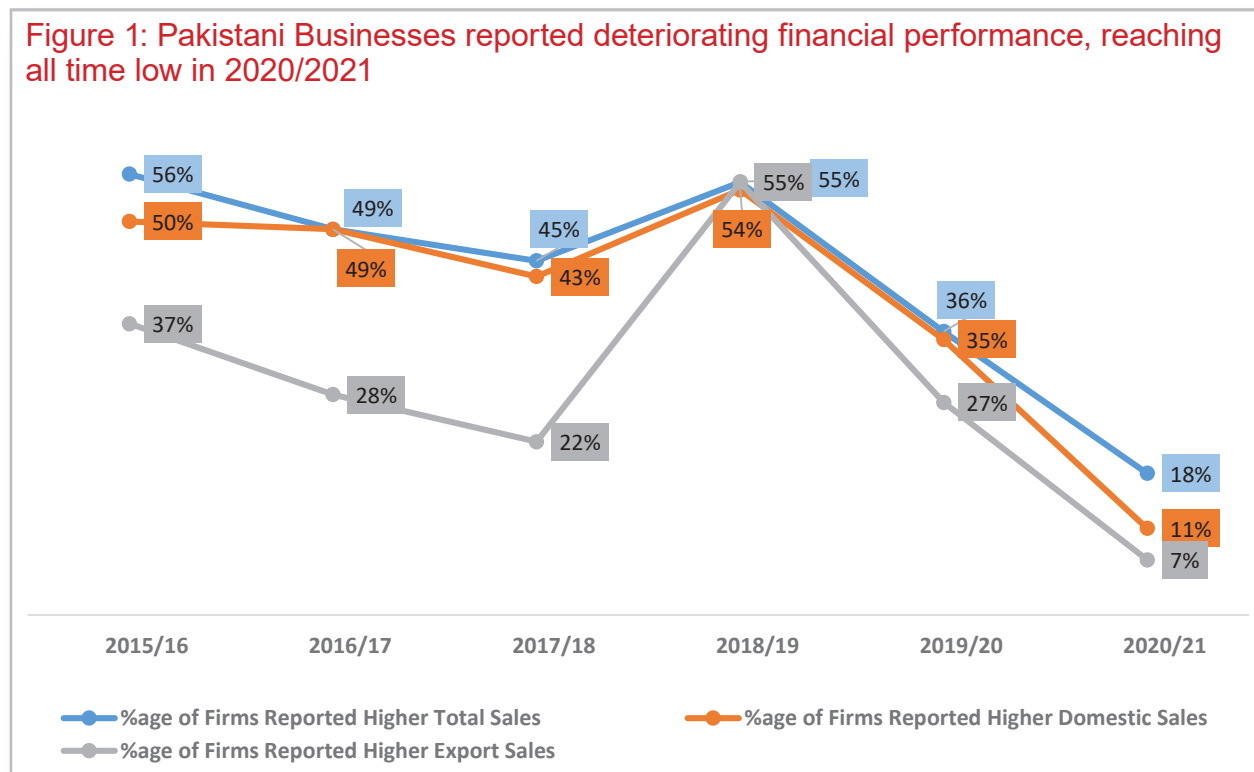
All firms had positive expectations for revenues, export sales, investment and employment level for 2021 as compared to 2020.

# 1 TRENDS

## 1.1 BUSINESS CONFIDENCE SURVEY 2020/2021 TRENDS

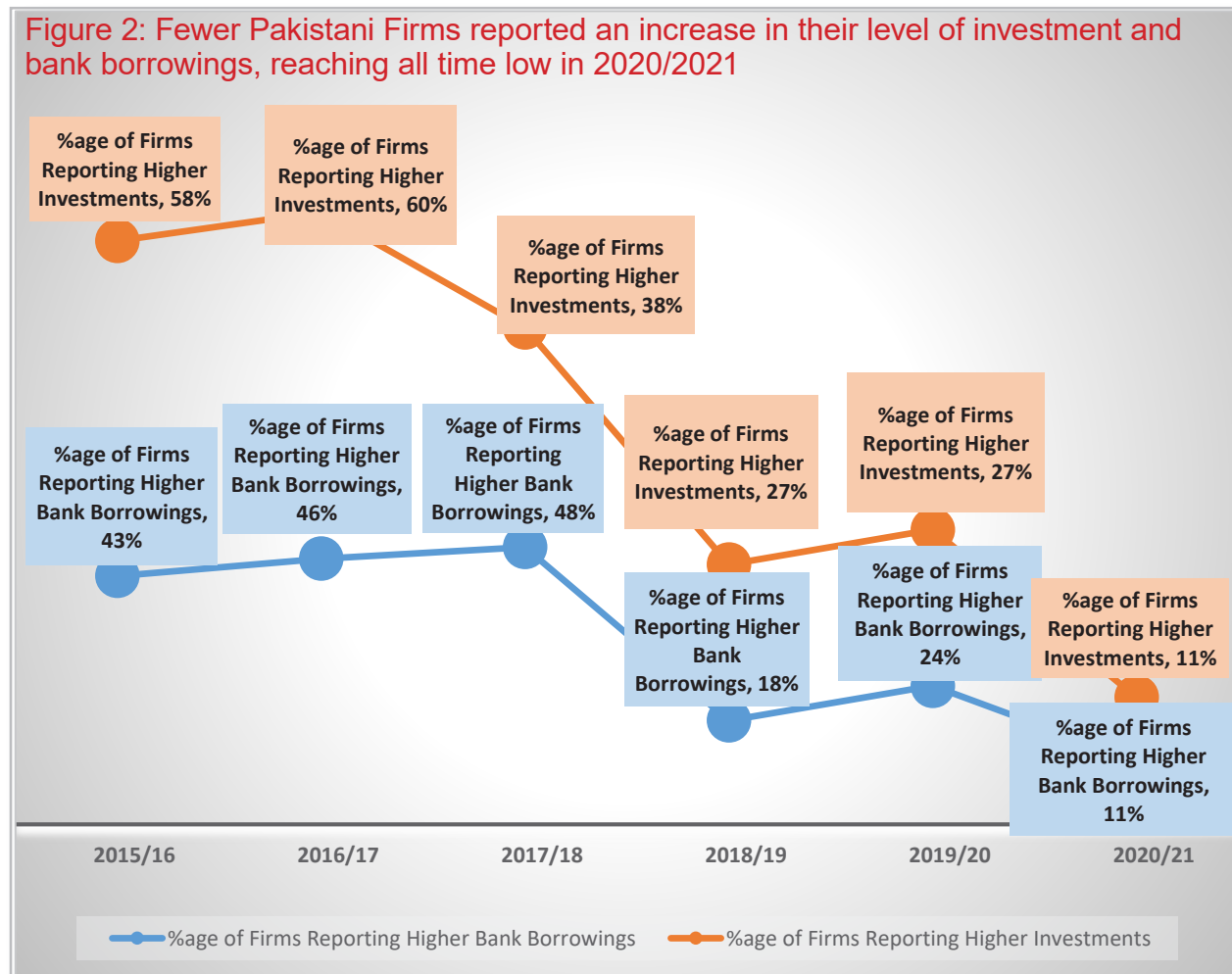
### Financial Performance

Overall financial performance of firms has declined across sectors in 2020/2021. Exporting sales declined the most, followed by domestic sales.



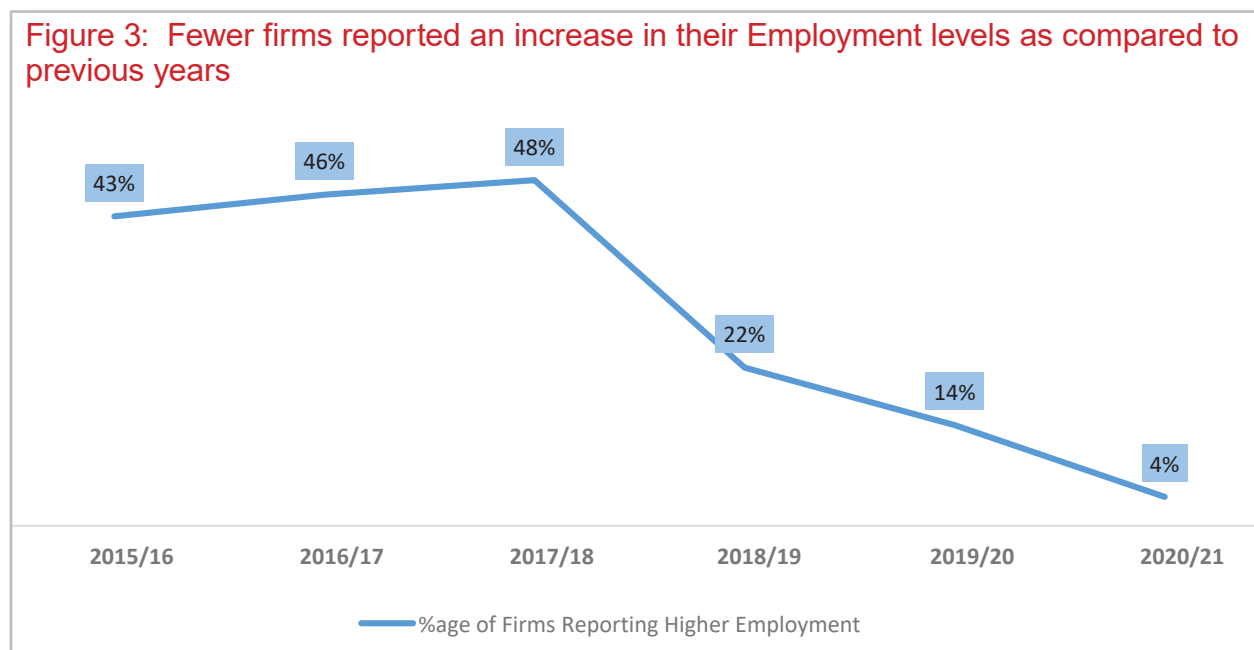
## Levels of Investments Growth & Bank Borrowings

Both Investments and bank borrowings declined sharply in 2020/2021 across sectors. Percentage of firms reporting, investments fell by 13% in 2020 as compared to the previous year.



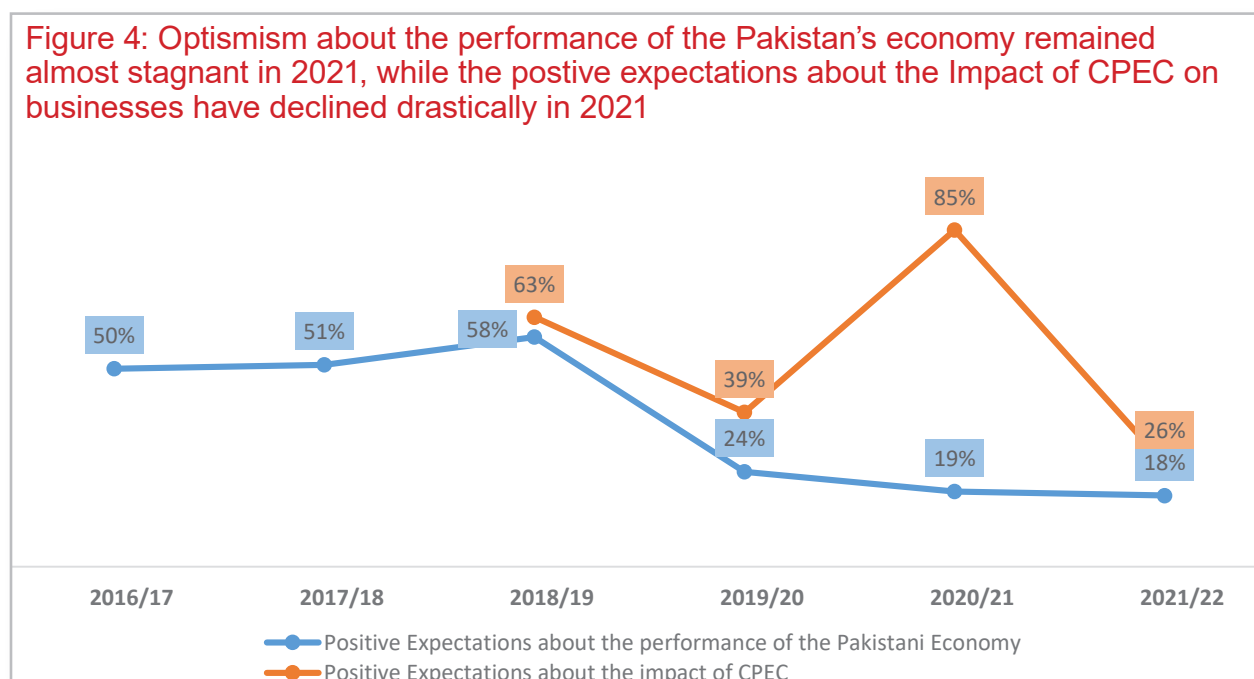
## Employment Levels (Size)

Employment growth has been falling since 2017, reached its lowest level in 2020/2021.



## Optimism

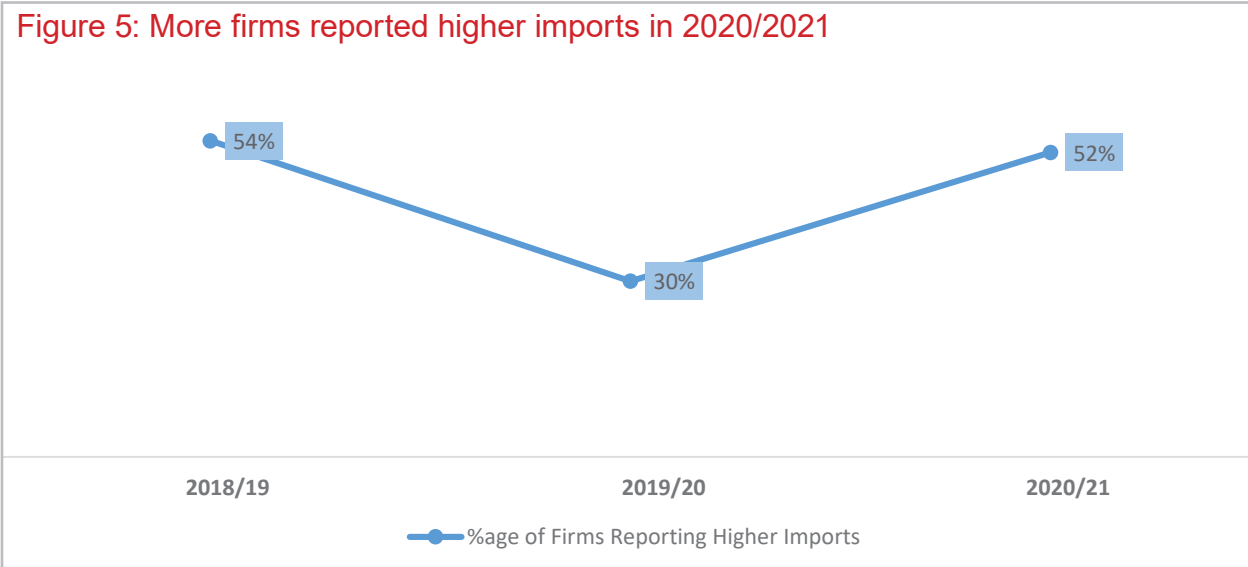
Optimism about the performance of Pakistani economy decreased in 2018 and remained almost the same from 2020-2021, while the optimism for the impact of CPEC on businesses has declined drastically from 85% for 2020 to 26% for 2021.



# Imports

Percentage of firms reporting import growth have increased by almost 20% in 2020/2021 as compared to 2019.

Figure 5: More firms reported higher imports in 2020/2021



## 2 INTRODUCTION

The Innovation and Technology Centre (ITC) of the Lahore School conducted its fifth annual business confidence survey in 2021 to understand the perceptions of the business community regarding the prevailing economic conditions with a special emphasis on declining exports and high imports. This year's survey also analyzed the impact of Covid-19 on Pakistan's business community.

The data was collected from 162 firms and firms that responded were put into three different sectors i.e. manufacturing (51%), services (42%) and retail sectors (7%) in order to see the differences in the economic performance across various sectors. Looking at the size of firms in the survey, majority of the firms were small sized firms (65%), with a significant proportion of medium sized firms (28%) and smaller proportion of large sized firms (7%).

Business confidence and expectations indices were measured using indicators for (i) sales, (ii) investment, (iii) employment level and (iv) expectations about the performance of the Pakistan's economy. Business Confidence index was created by combining the indicators to obtain a picture of the prevailing economic conditions. The Business Confidence Index has fallen in 2020 as have the sector-specific business confidence indices. The business Confidence index for 2021 is based on firm-level expectations from 2020 survey.

This year's survey also asked exporting and importing firms a separate set of questions. Out of the total respondents, there were 61 exporting firms and 22 importing firms with 56% of the exporting firms belonging to the manufacturing sector. However, a majority of the importing firms in the survey were from the services sector (64%). The results from the responses shed light on the steps that could be taken to boost exports and also to tackle the problem of deteriorating balance of payment in these sectors over the coming years.

### Summary of Data (Survey 2020/2021)

Sectors	Number of firms	Percentage of respondents	Size*		
			Small	Medium	Large
All Firms	162	100%	105 (65%)	44(28%)	11 (7%)
Manufacturing	83	51%	43 (52%)	30 (36%)	9 (11%)
Services	68	42%	56 (83%)	11 (17%)	0 (0%)
Retail	11	7%	6 (55%)	3 (27%)	2 (18%)

A summary of the firm level descriptive statistics of the respondents is as follows:

Category	Number of firms	Percentage of respondents	Size*			Sectors			
			Small	Medium	Large	Manufacturing	Services	Retail	Other
Exporters	61	37%	42 (69%)	15 (24%)	4 (7%)	34 (56%)	24 (39%)	3 (5%)	0
Importers	22	13%	18 (82%)	3 (14%)	1 (4%)	7 (32%)	14 (64%)	1 (4%)	0

\*Size: 1-49 (Small scale), 50-249 (Medium scale), 250 & above (Large scale)



# 3 TIMELINE OF THE BUSINESS CONFIDENCE AND EXPECTATIONS INDICES-2021

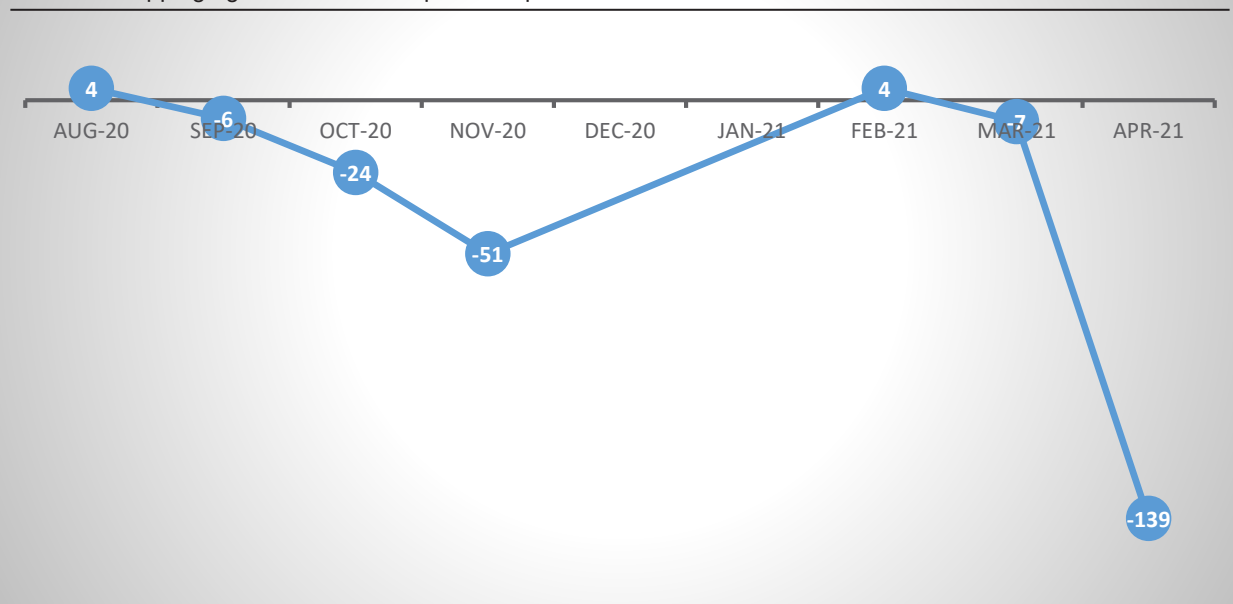
## (CURRENT & EXPECTATIONS)

The business confidence and business expectations indices were constructed based on the feedback received from firms across the Lahore region about various parameters such as revenues, investment, employment levels and the performance of the Pakistan's economy over the period of 9 months from August 2020-April 2021 during which the survey was being conducted by interviewing the surveyed firms.

The survey reflects that business confidence index has been decreasing over time.

**Figure 6: Timeline of Business Confidence Monthly Index**

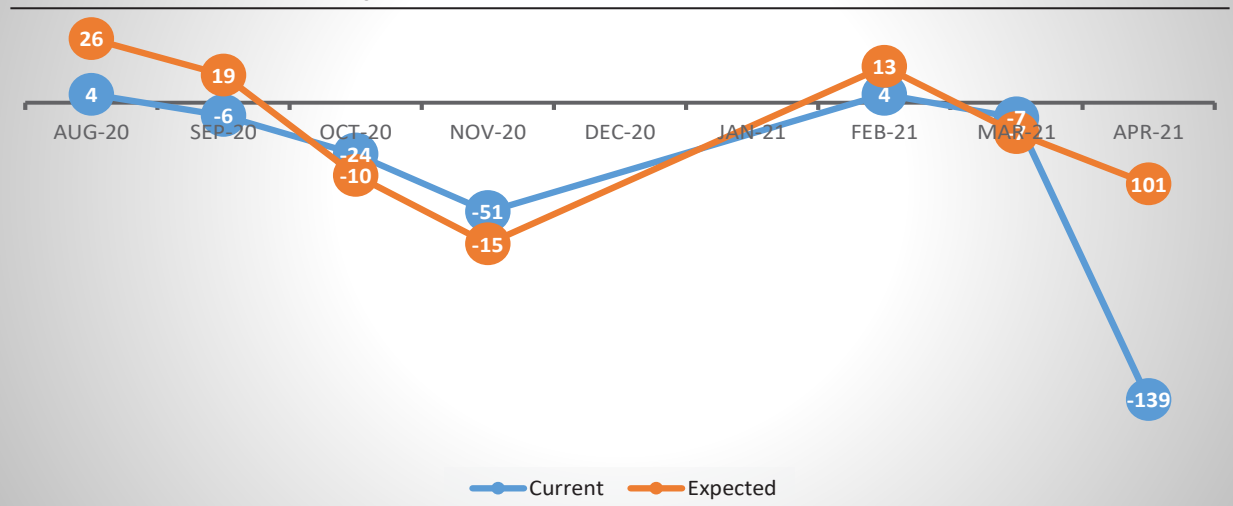
Monthly Index remained negative from September 2020 till November 2021, recovering in the next few months and then dropping again till the lowest point in April 2021



Similar to the business confidence Index, the business expectations index was created by taking responses about firm-level expectations about key financial and economic indicators. Looking at the business expectations index, we see that it tends to mirror the business confidence index. When we look at the expectations about the different parameters, we see fluctuations over time. Interestingly, we can see a positive current index in August 2020 and positive expectations index in August 2020 & September 2020, which after a slight drop till November 2020, picked up again till February 2021 and have then been decreasing drastically over the remaining months. Timeline of indices show that expectations in October and November 2020 fell below current business confidence, implying negative expectations.

**Figure 7: Timeline of Current Business Confidence Index and Expectations Index (August 2020- April 2021)**

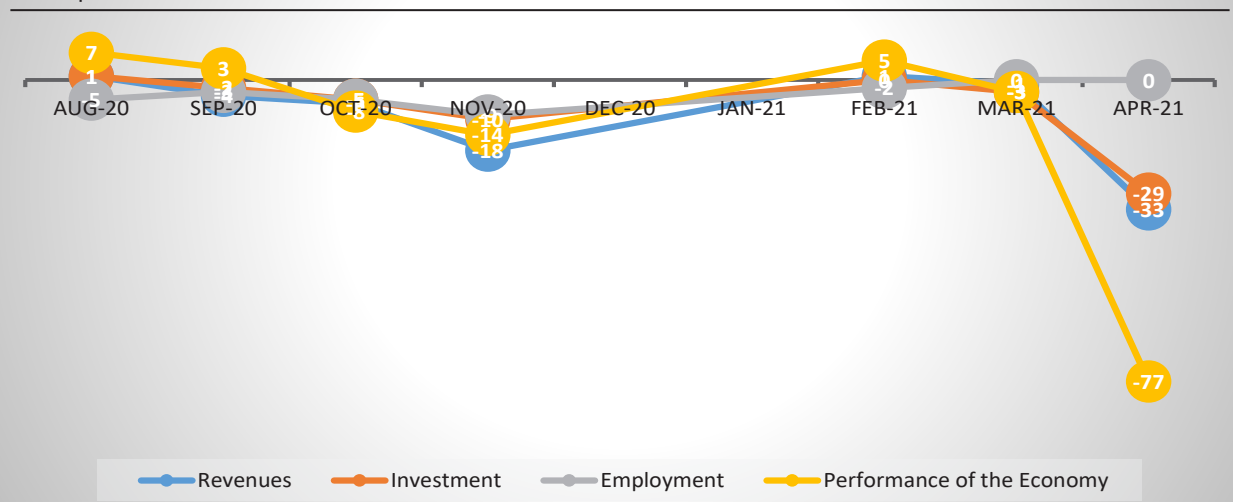
Current and expectations indices were fluctuating together till February 2021, whereas there was a sharp decline in the actual index in the following months.



The survey reflects that current business confidence index has been decreasing over time. The decrease is mainly coming from the decline in the perceptions about the performance of the Pakistan economy which was positive in October 2018, reaching the lowest in April 2021. The other most significant factors behind the decrease were the fall in revenues, investments and almost zero growth in employment levels.

**Figure 8: Timeline of Monthly Indices for Revenues, Employment, Investment and performance of Pakistan's Economy 2020 (Current)**

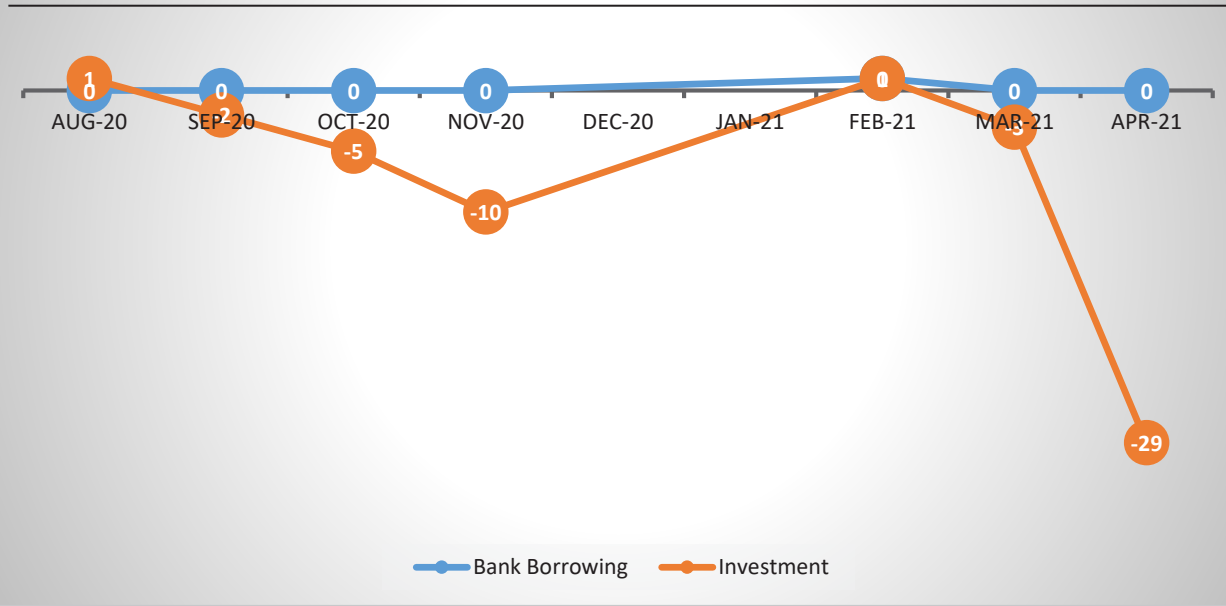
All of the indices were fluctuating together in the same direction from August 2020 till March 2021 and there was a sharp decline in April 2021.



Timeline of the bank borrowings shows that it remained almost zero throughout the time frame under consideration. Whereas, investments declined sharply in 2020/2021, being negative in most of the months. Compared to last year, when the index for investment was mostly positive, we can say that 2020/2021 were not productive years for investments for businesses.

**Figure 9: Investment and Bank Borrowing Current Index (August-20-April-21)**

Bank Borrowing index remained low throughout the period, while the investment index fluctuated from August till February-21, with a sharp decline afterwards

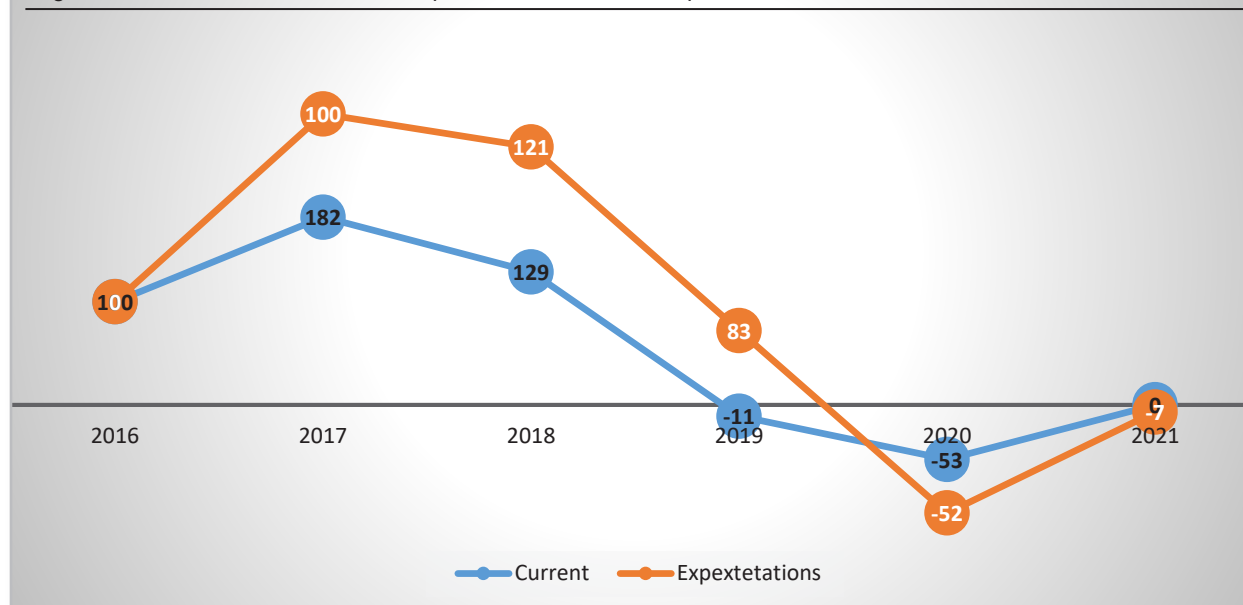


### Business Confidence & Business Expectations Indices

Overall, the business confidence has declined as compared to the previous year. The graphs on the comparisons of overall actual and expectations index revealed that the overall actual index remained higher than expectations from 2016 till 2019, however the expectations index has been negative and showing a downward trend in 2020 and 2021.

**Figure 10: Current Business Confidence Index 2016-2021 (Expected)**

Business confidence index reached the highest point in 2017 and has been decreasing ever since then becoming negative in 2019 & 2020. Business Expectations Index has improved in 2021

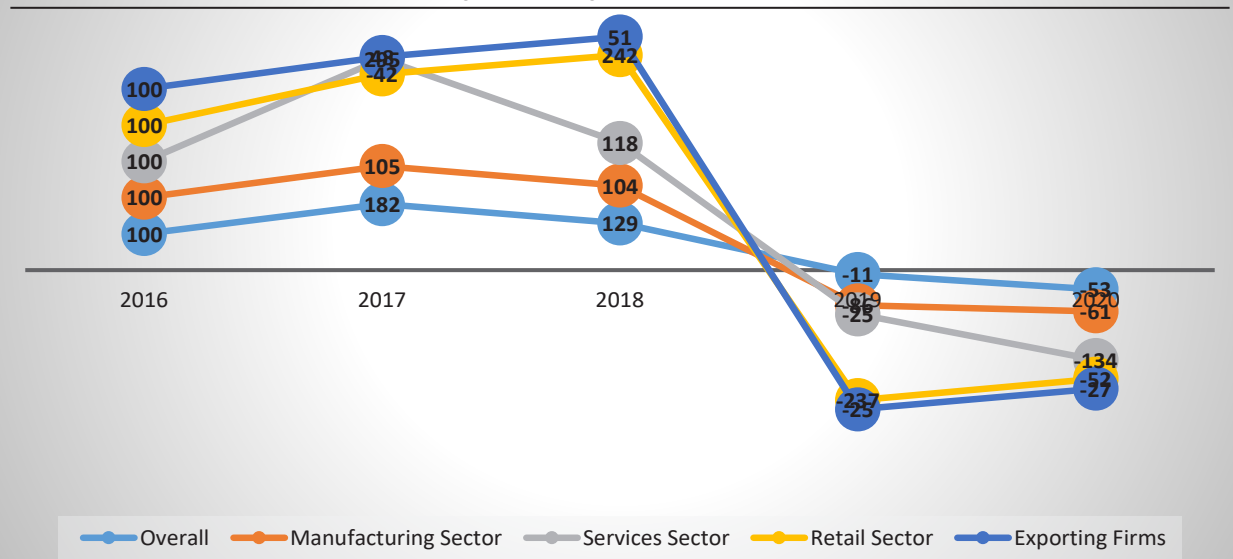


## Sector-wise Indices

Sector-wise comparisons of business confidence and business expectations indices over the years showed that the decline in business confidence is mainly coming from the retail sector which was most optimistic during the previous year. Similarly, the exporting firms have shown extreme pessimism in 2019 and 2020.

**Figure 11: Current Business Confidence Index**

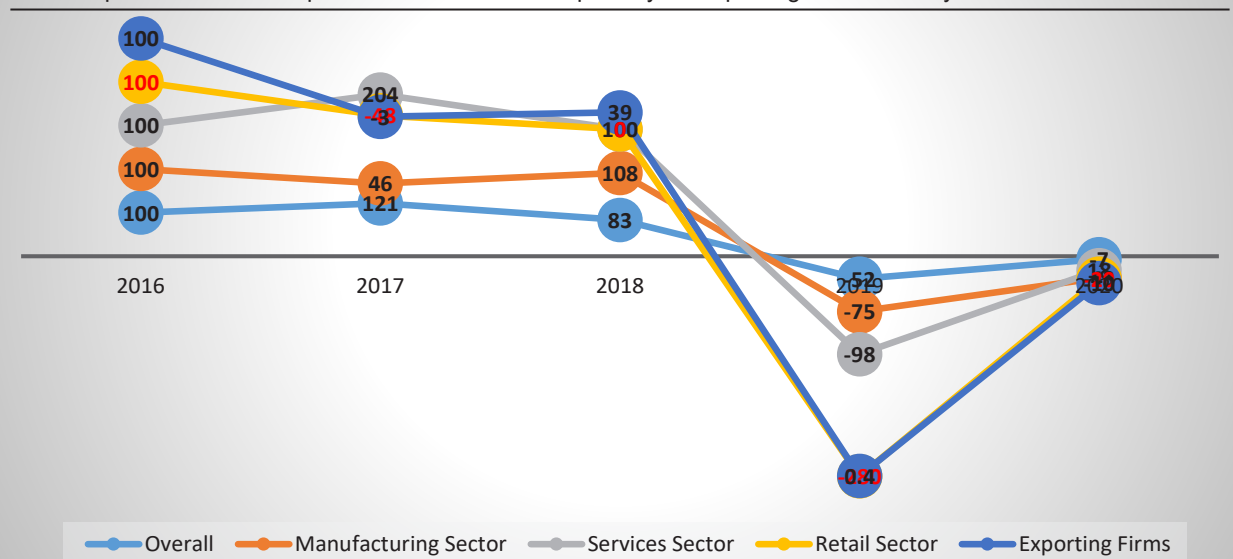
Current Business Confidence Index remained positive till 2018 with a sharp decline in 2019 & 2020 across sectors, with the retail sector and exporting firms being the most affected



Moreover, looking at the sector wise expectations index over the years, all sectors including exporting firms, which had higher expectations till 2018, are now more pessimistic as reflected in the business expectations indices of 2020 and 2021.

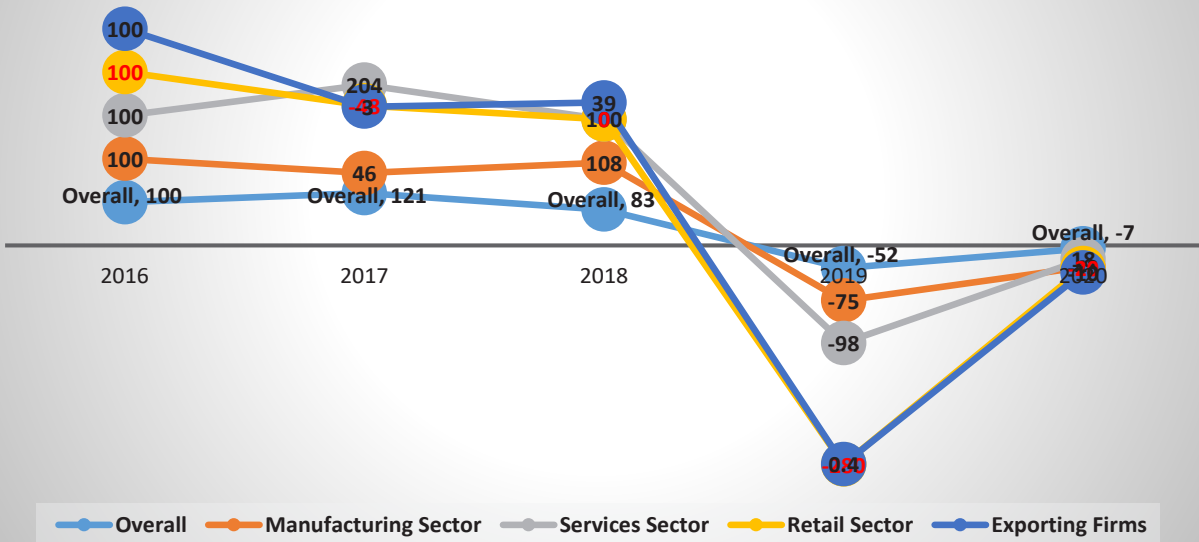
**Expected Business Confidence Index for 2021**

Expectations remained positive across sectors till 2018, decline sharply for services sector and exporting firms in 2019. Expectations have improved across sectors especially for exporting firms for the year 2021



**Figure 12: Expected Business Confidence Index 2021**

Expectations remained positive across sectors upto 2018, declined sharply for services sector and exporting firms in 2019. Expectations have improved across sectors especially for exporting firms in 2021



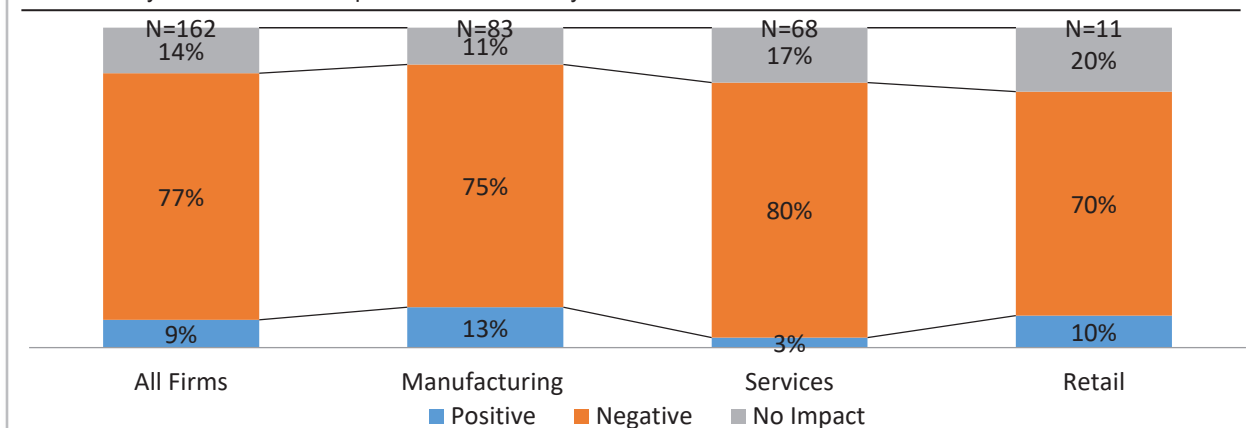
# 4 IMPACT OF COVID-19 ON PAKISTANI BUSINESSES

## a) Impact of Covid-19 on revenues

Majority of firms (77%) said that Covid-19 had a negative impact on their revenues. The services sector was most hit by the negative impact of Covid-19 on their businesses, with 80% of firms reporting a decline in their revenues, followed by manufacturing firms, where 75% of firms reported a decline.

**Figure 13: A majority of surveyed firms reported a negative impact of covid-19 on their revenues**

How would you evaluate the impact of Covid-19 on your revenues?

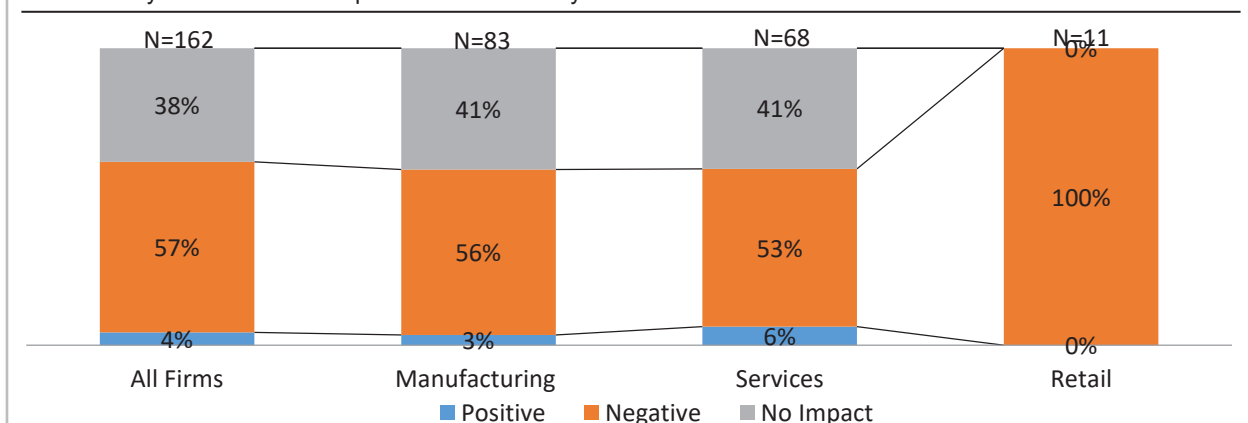


## b) Impact of Covid-19 on Investments

More than half firms (57%) said that COVID-19 had a negative impact on their investments. Retail sector was badly hit by Covid-19 as 100% of firms reported a decline, followed by manufacturing sector where 56% of firms reported a decline.

**Figure 14: A majority of the firms reported a negative impact of covid-19 on their investments**

How would you evaluate the impact of Covid-19 on your investment?

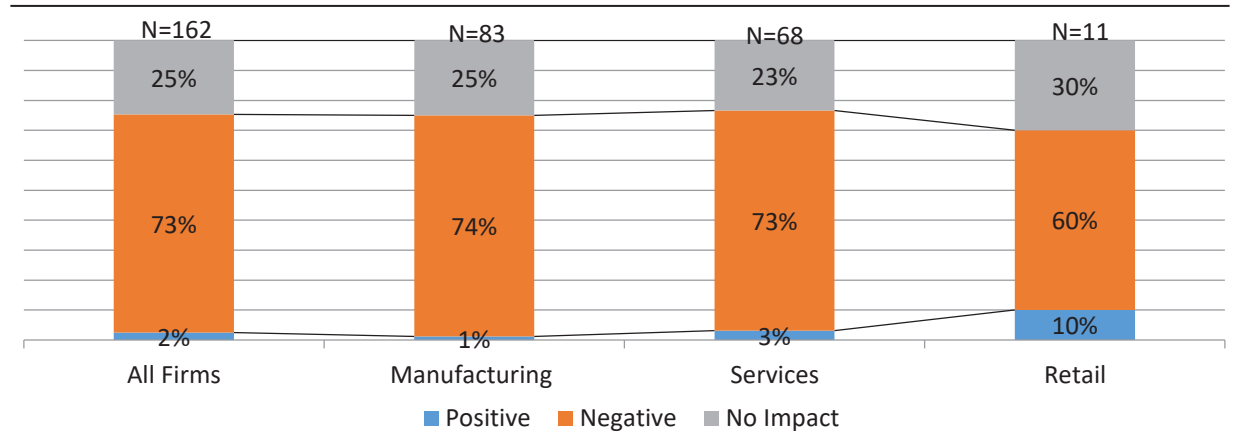


### c) Impact of Covid-19 on employment levels

A majority of firms (75%) reported a negative impact of Covid-19 on their employment levels. Manufacturing sector was most hit, with only 1% of firms reporting an increase in employment, followed by services sector, with only 3% of firms reporting an increase in employment in 2020/2021.

**Figure 15: Many manufacturing and services firms have reported a negative impact of covid-19 on their employment levels**

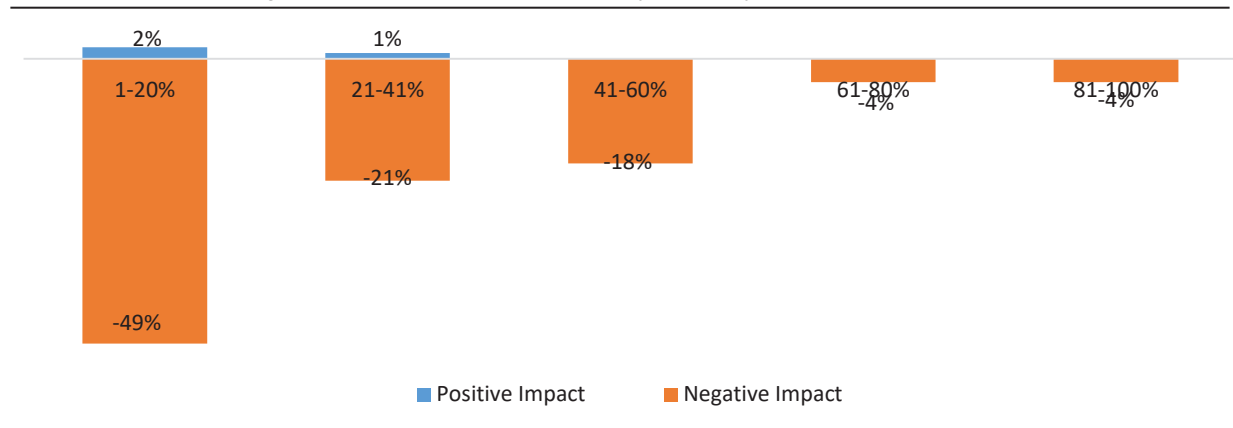
How would you evaluate the impact of Covid-19 on your employment levels?



- Magnitude wise breakdown for Covid-19 on employment levels**

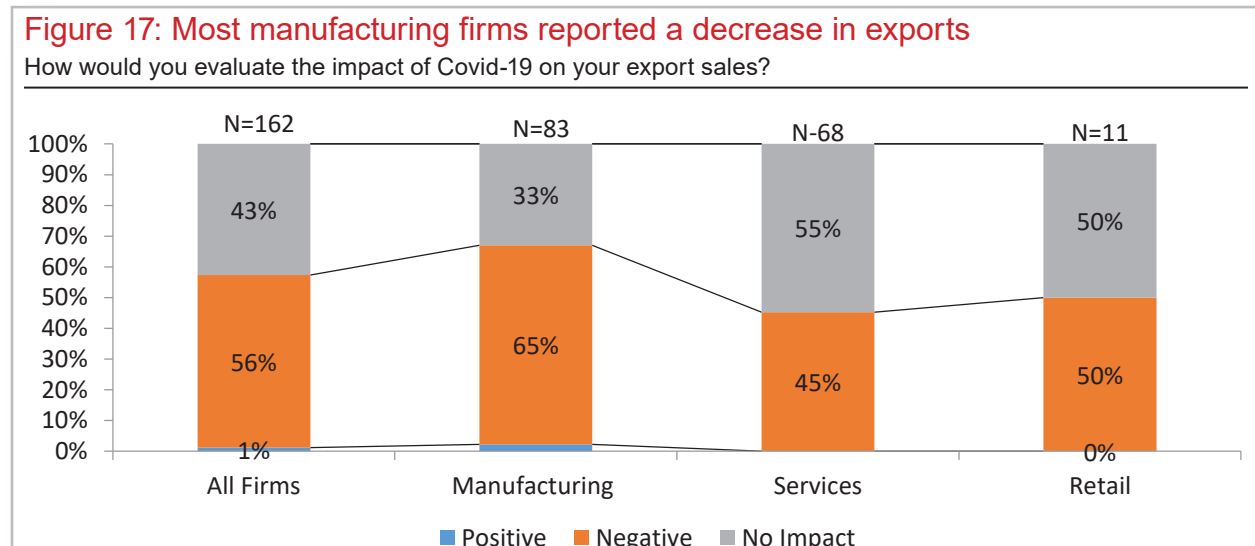
**Figure 16: A Majority of firms reported a reduction in their employment levels of upto 1-20% due to Covid-19, while only 3% were expecting an increase in 2020**

How do you expect the magnitude of increase or decrease of your employment level in 2020?



#### d) Impact of Covid-19 on Exports

Majority of firms (56%) reported a negative impact on their export sales due to Covid-19. Exports sales either declined or remained constant across sectors, as only 1% of overall firms reported an increase in export sales during Covid-19.





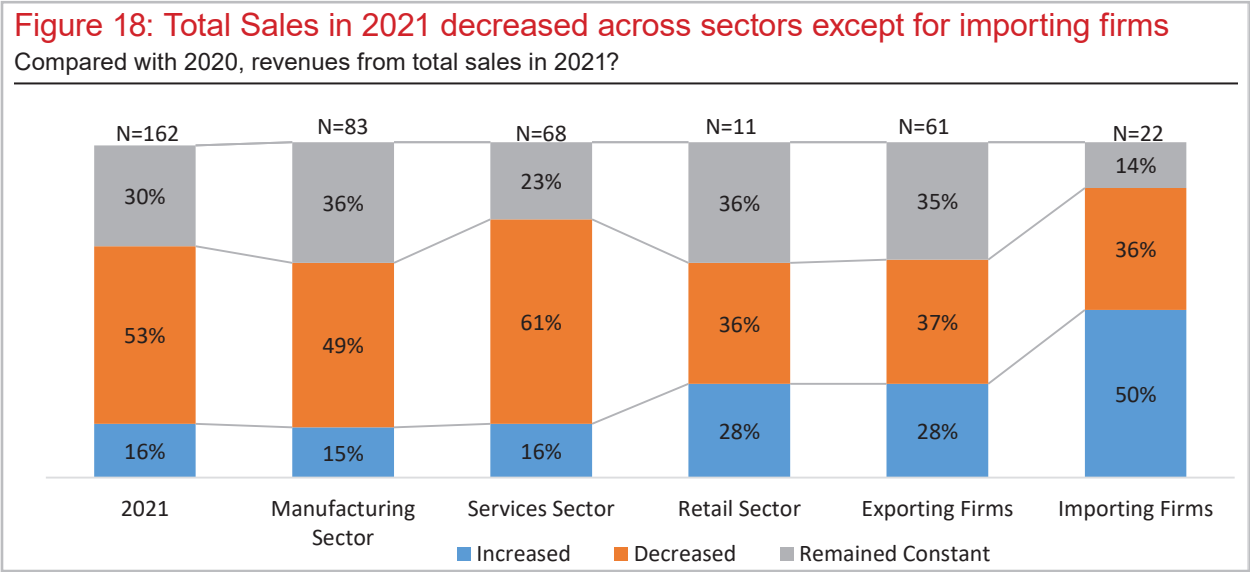
# 5 FINANCIAL PERFORMANCE OF FIRMS

A significant decrease in revenues from total sales, domestic sales and export sales was reported by the respondent firms in 2020/2021 when compared to 2019. Among the three sectors, the services sector witnessed the greatest decline in total sales (61% of firms), followed by manufacturing sector (49% of firms), and exporting firms (37% of firms). Furthermore, the respondent firms reported a decline in domestic sales as compared to the previous year. The main sectors that witnessed a decline in growth were the retail sector which showed no growth at all, followed by manufacturing sector, where 79% reported a decline, and 77% of services sector firms reporting a decline.

## 5.1 Total Sales

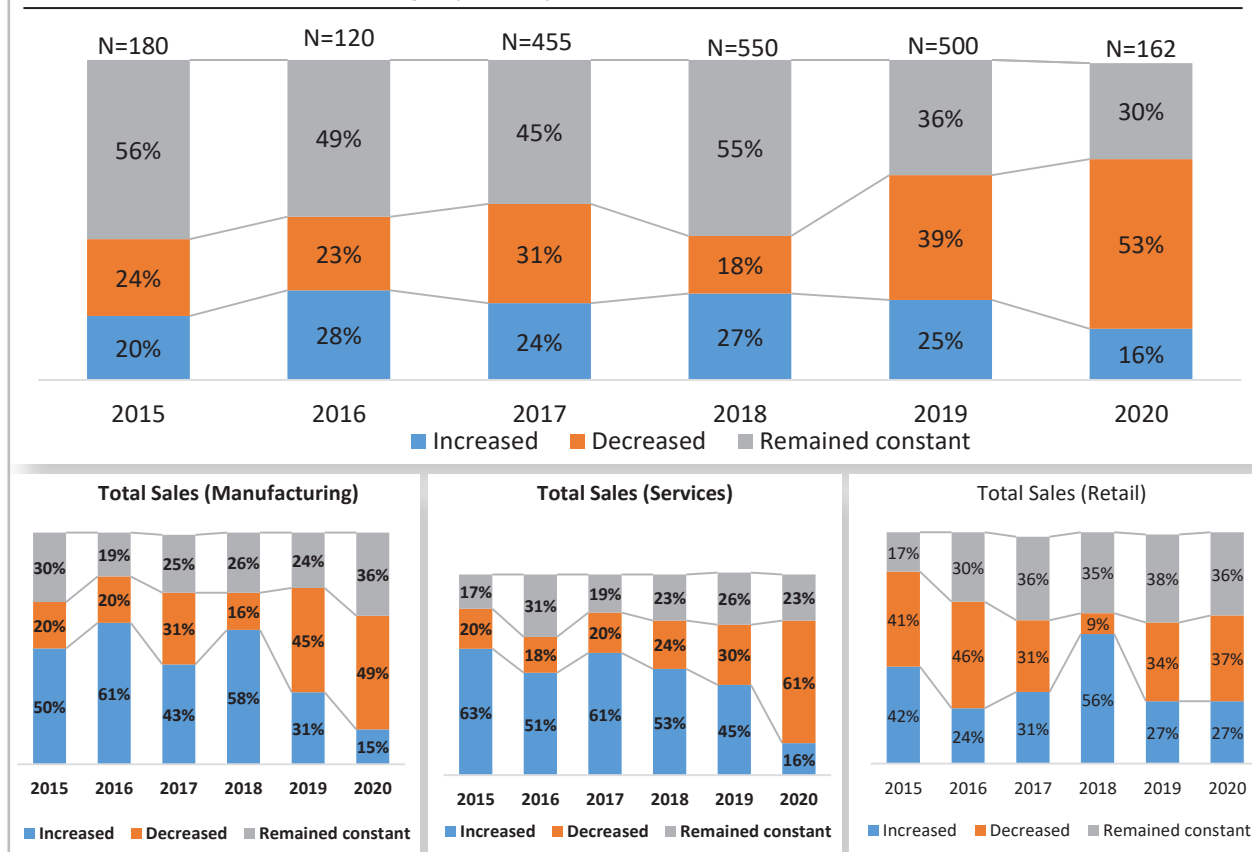
**Figure 18: Total Sales in 2021 decreased across sectors except for importing firms**

Compared with 2020, revenues from total sales in 2021?



**Figure 19: Total sales decreased by more than 50% which is lowest compared to all previous years**

How revenues from total sales changed year on-year?

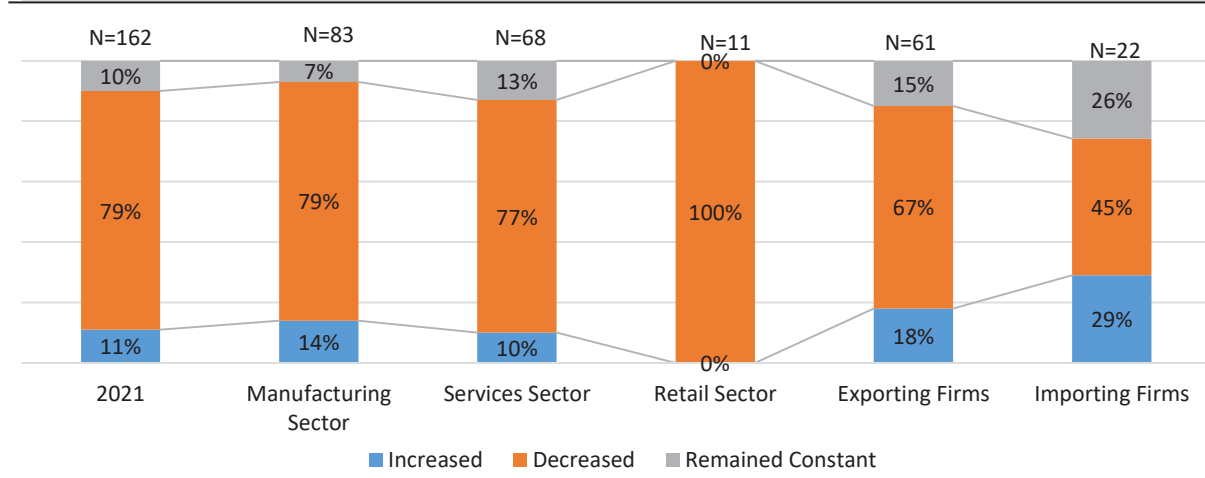


## 5.2 Domestic Sales

Despite the growth in domestic sales in 2018 (see figure 21), a majority of businesses reported a decline growth in domestic sales in the recent years. This decline in domestic sales in 2019 is mainly coming from the manufacturing sector firms where 27% reported a decline in growth as compared to last year.

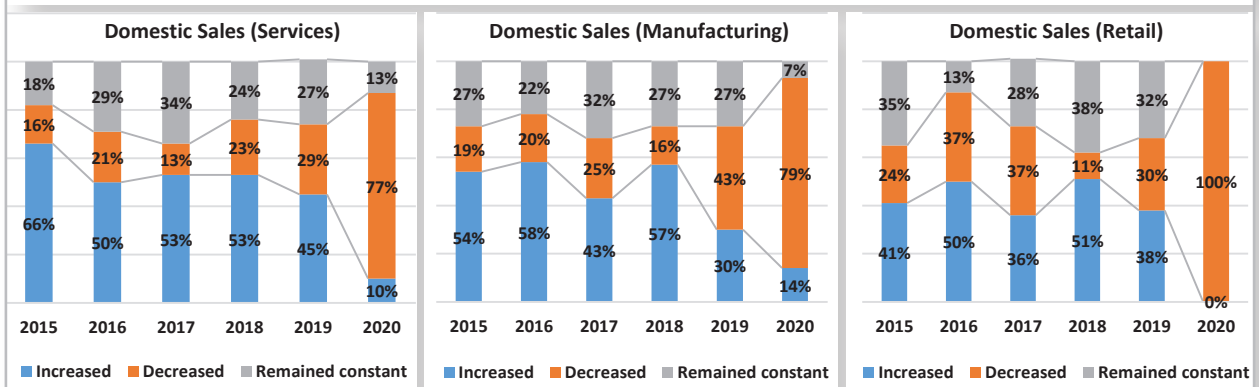
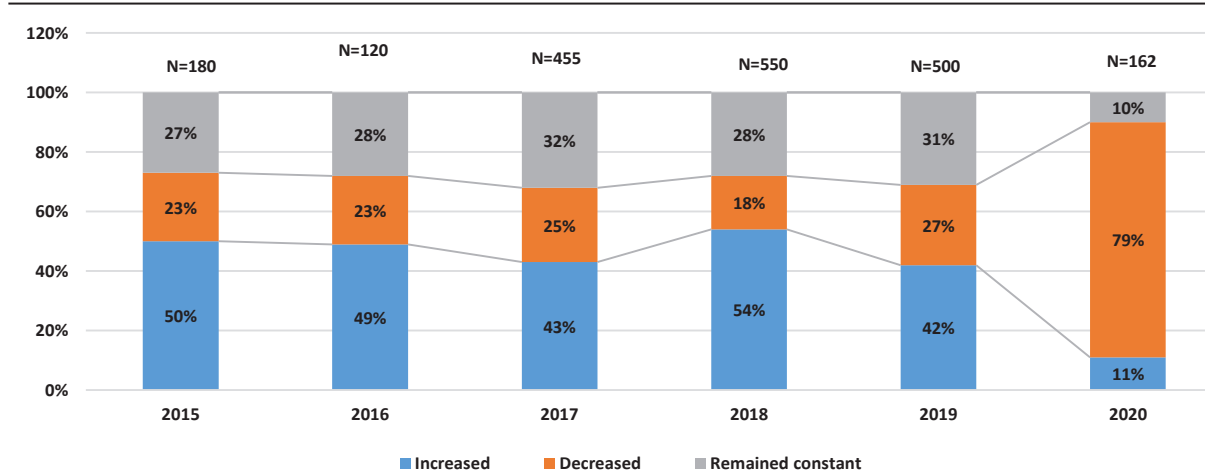
**Figure 20: Domestic sales decreased across sectors in 2020**

Compared to 2019, revenues from domestic sales in 2020?



**Figure 21: Domestic sales declined drastically and reached all time low in 2020**

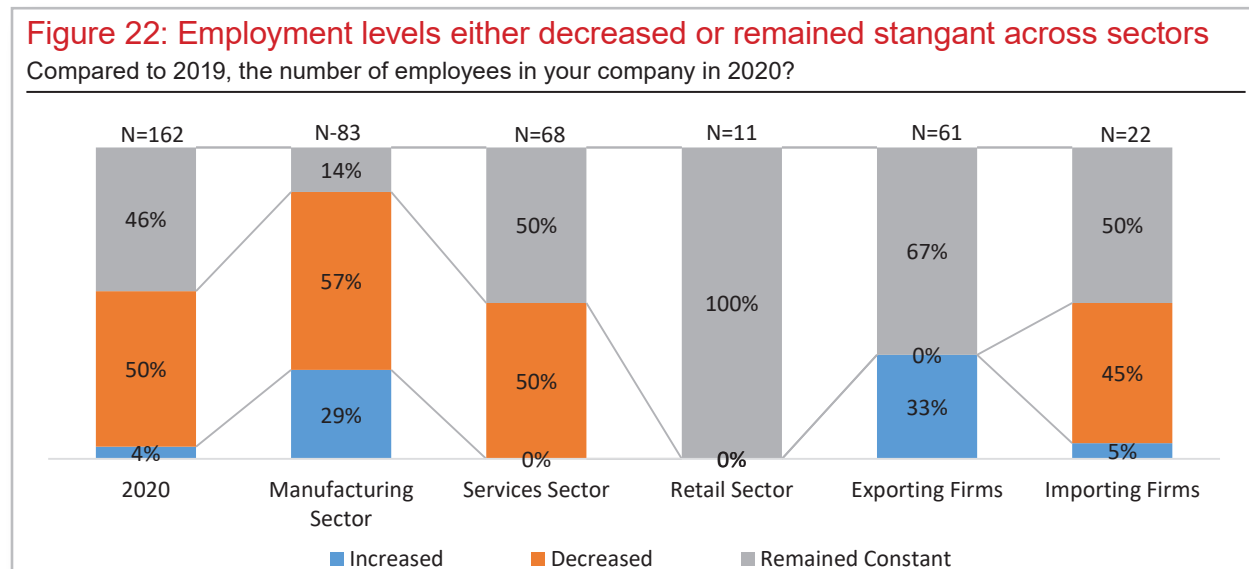
How revenues from domestic sales changed year on-year



# 6 EMPLOYMENT LEVELS

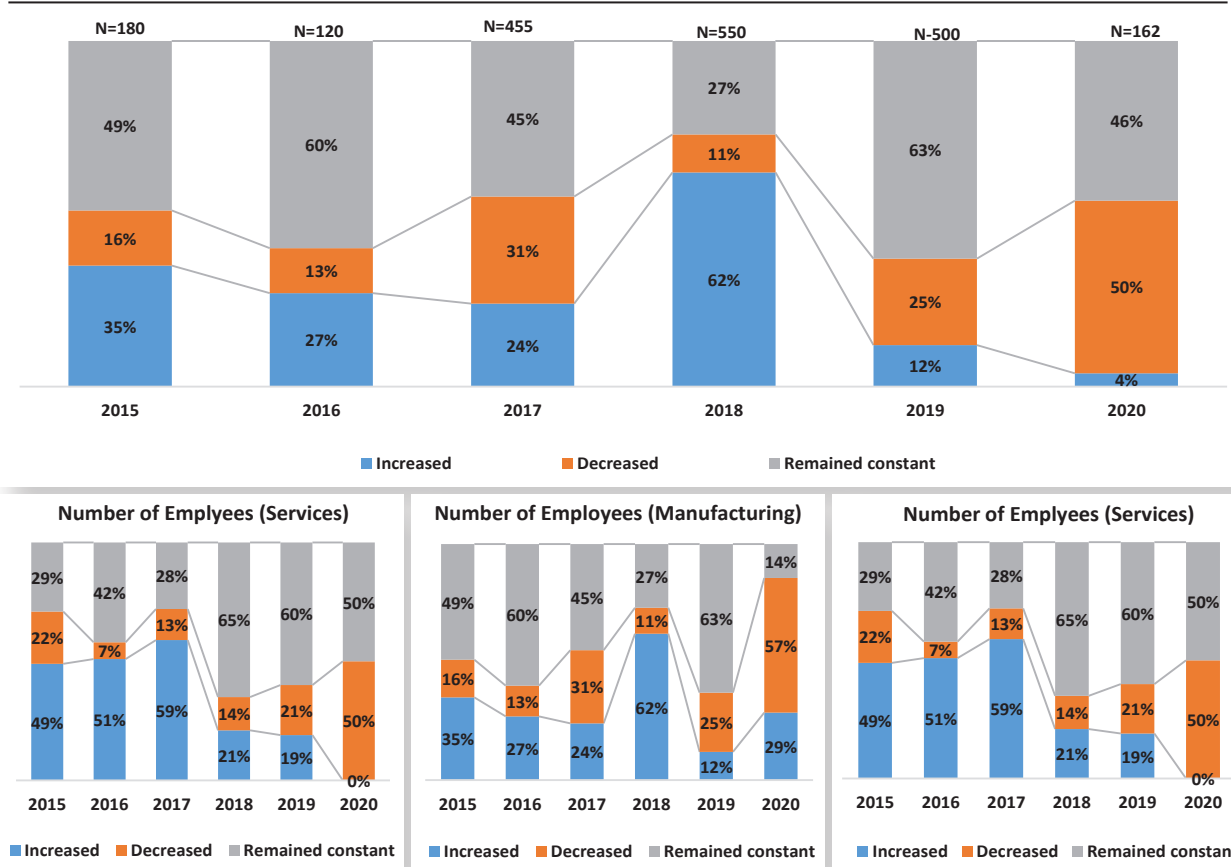
A majority of firms reported a decline in employment growth in 2020 as compared to 2019 (see figure 23). This decline in growth is mainly coming from the services sector firms which reported a decline in growth in 2020 as compared to 2019. Similarly, all retail sector firms reported no employment growth in 2020.

**Figure 22: Employment levels either decreased or remained stagnant across sectors**  
 Compared to 2019, the number of employees in your company in 2020?



**Figure 23: There was almost no growth in employment across sectors in 2020**

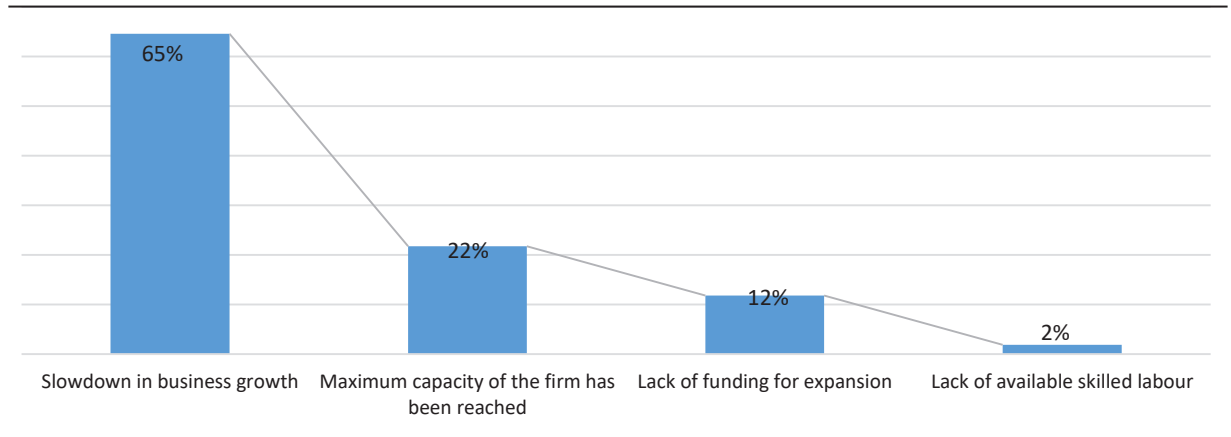
How the number of employees in your company changed year on year?



## 6.1 Reasons behind the decline in Employment Level in 2020/2021

**Figure 24: The major reason behind the decrease in employment reported by the respondent firms in 2020 was “slowdown in business growth”**

If the number of employees in your firm decreased or remained constant in 2020, what do you think were the reasons?



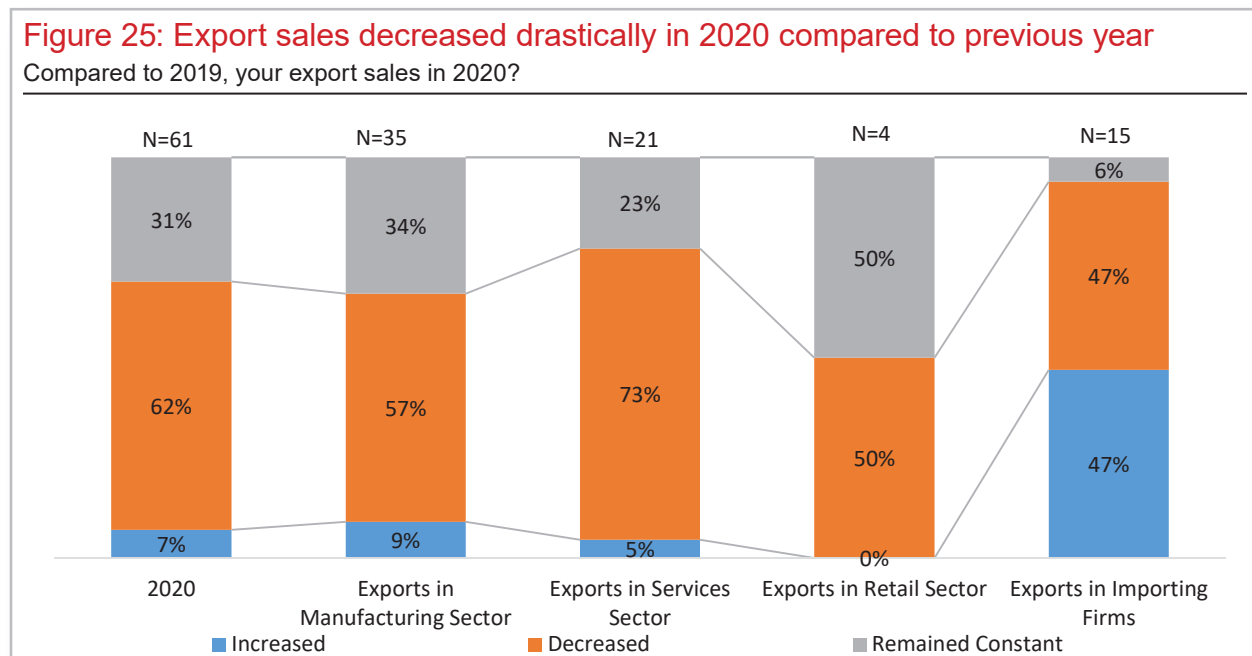
# 7 EXPORT & IMPORTS

## 7.1 Analysis of Exporting Firms

After 2017, a large number of respondent firms reported an increase in exports across sectors 2018 but in 2019 only 28% of firms reported an increase in exports, reaching all time lowest to 7% in 2020. The growth in export sales declined for retail sector firms and only 27% of firms reported an increase in 2020 as compared to 2019, followed by services sector firms and manufacturing sector firms reported where 37% and 16% of firms reported an increase respectively. The majority of firms considered “uninterrupted supply of electricity and gas”, “government subsidies”, “promoting export of higher value-added goods” and “upgrading technology” as the most important factors to boost exports. Whereas, a majority of businesses are not in favour of further devaluation of Pakistani Rupee in order to boost exports as a measure to control balance of payment problems prevailing in the country. Moreover, majority of exporters are exporting their goods and services to “all around the world” followed by “Asia” and “Europe”.

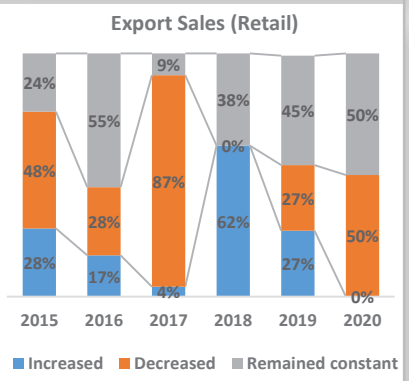
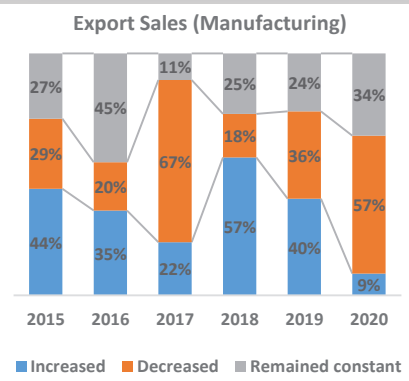
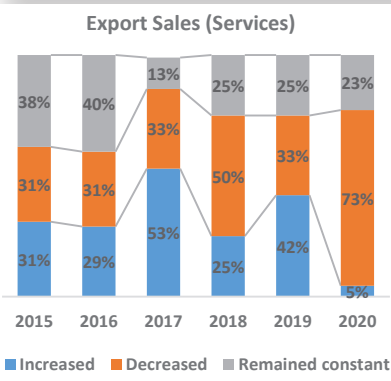
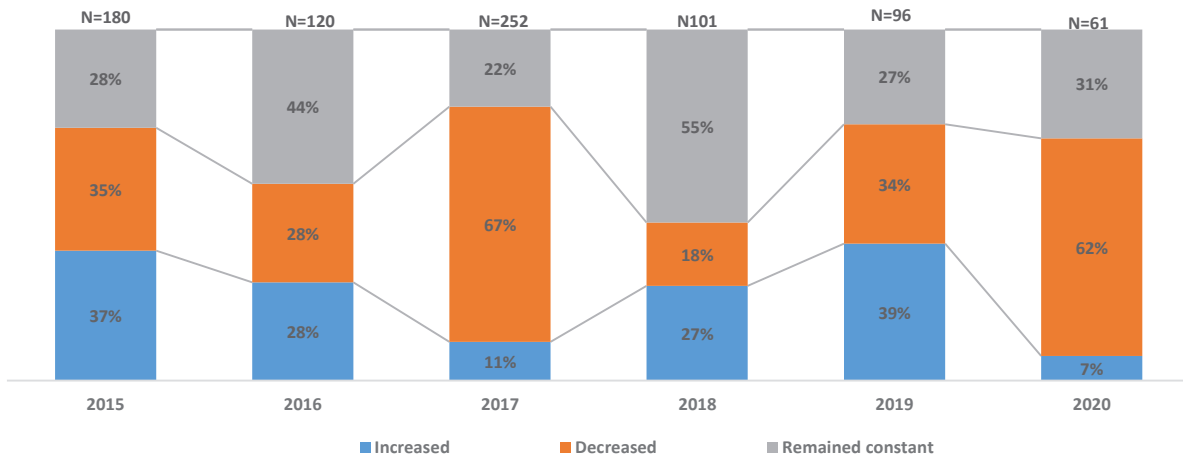
## 7.2 Export Sales

Percentage of firms reporting an increase in export sales was only 7% in 2020 as compared to 27% in 2019. The decline in growth in exports sales was coming from Services sector (37% of firms reported a decline in growth in exports, Retail sector (27% of firms reported a decline in growth of exports) and manufacturing sector (16% of firms reported a decline in growth of exports) as compared to the previous year, while 24% of importing firms reported an increase in growth in exports in 2020.



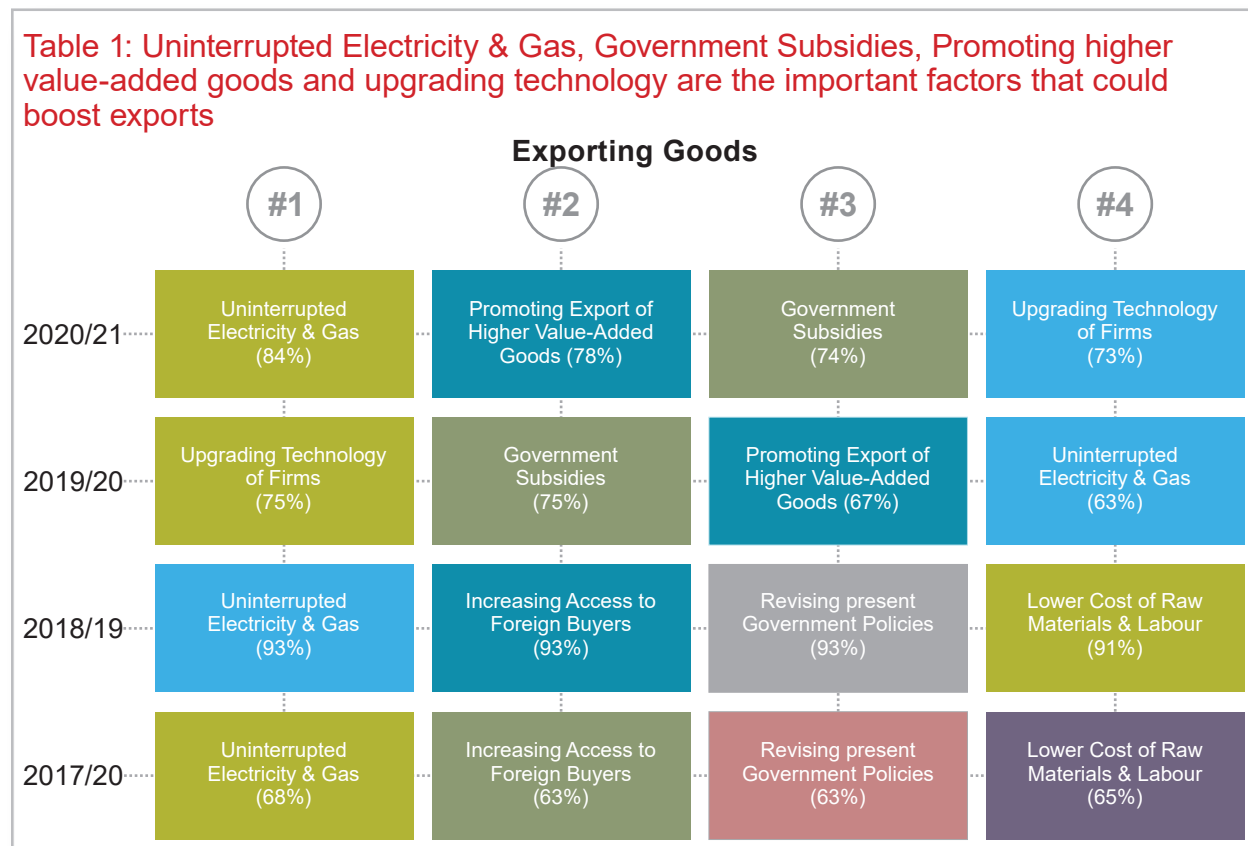
**Figure 26: Export sales decreased to the lowest level compared to all previous years**

How revenues from export sales changed year on year?

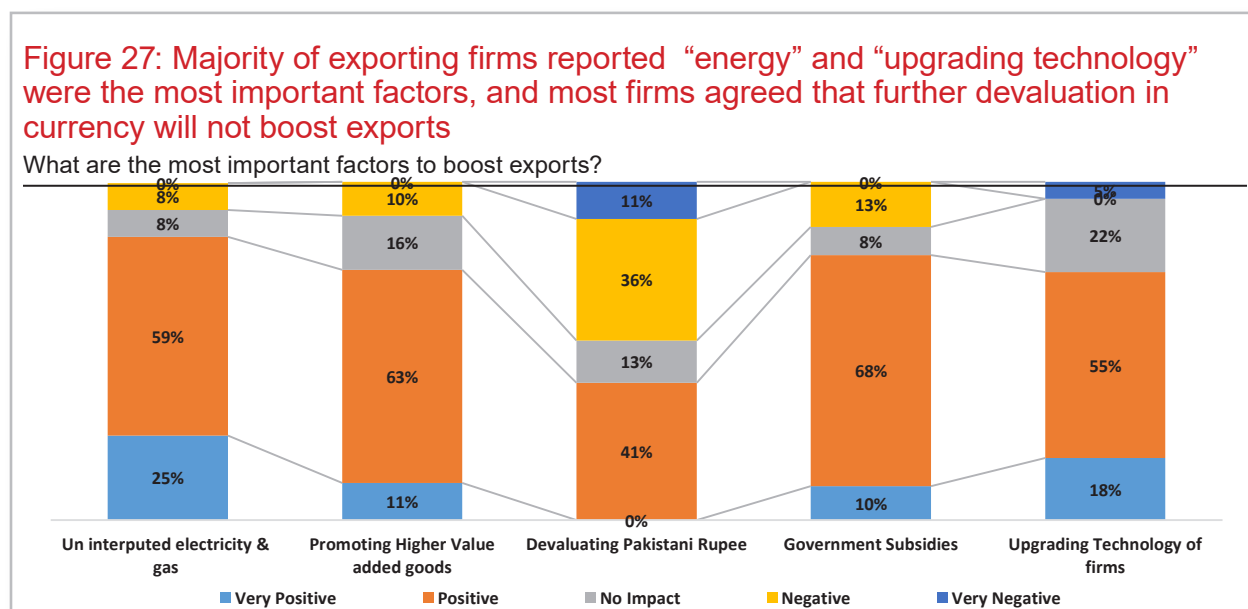


### 7.3 Top Rated Factors for Boosting Exports

The impact of various factors was analyzed by arranging them in order of importance. The complete analysis for overall firms and sector wise analysis is given as under:



### 7.4 Impact of Various Factors on Potential Exports

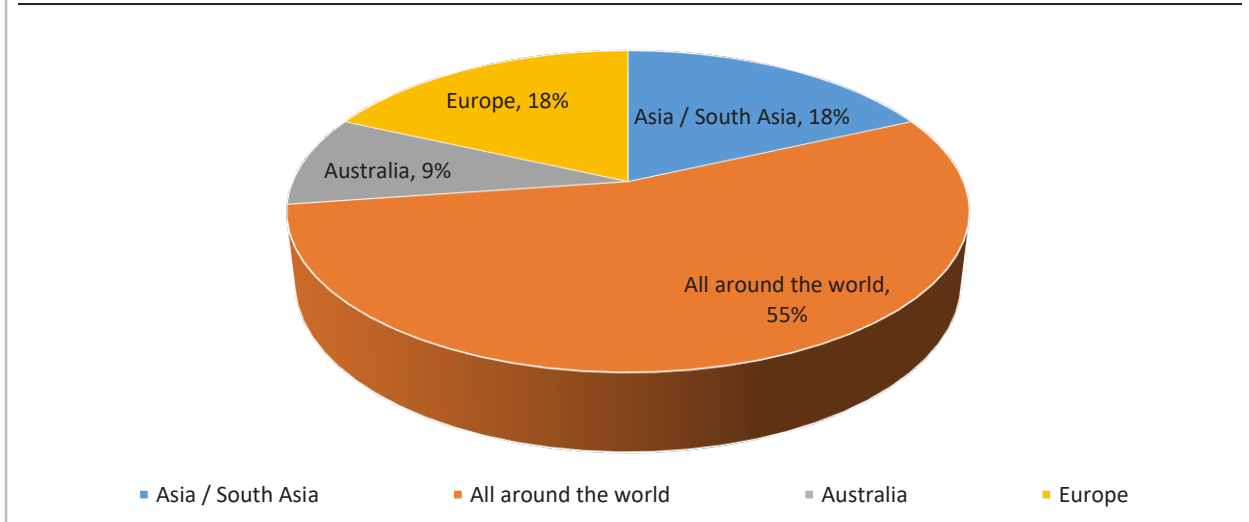




## 7.5 Major Export Markets

**Figure 28: Almost half of exporting firms reported that they sell their product/services all around the world**

If your form does export, what are your major markets? (export destination)

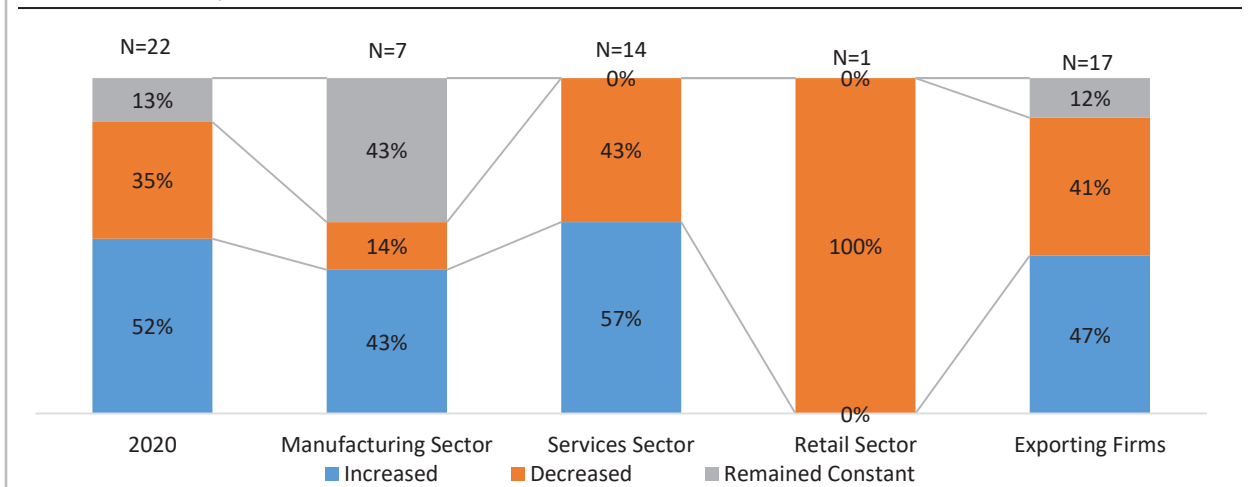


## 7.6 Analysis of Importing Firms

Firms reported that imports have significantly increased across sectors (except for retail sector) in 2020 as compared to 2019. A majority of firms imported machinery, followed by raw material and finished goods.

**Figure 29: Almost half of the importing firms reported that their imports increased in 2020 (as compared to only 30% in 2019)**

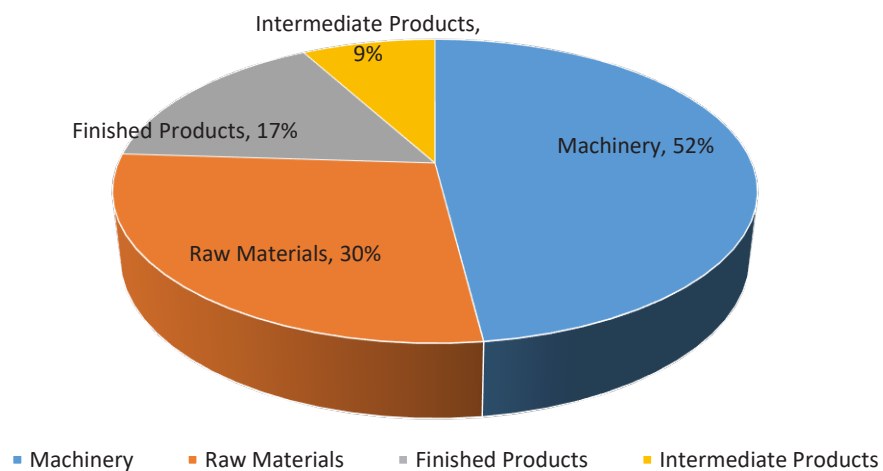
Compared to 2019, your level of imports in 2020?



## 7.7 Breakdown of Imports

Figure 30: Majority of imports in 2020 were machinery and raw materials

What are your major imports?

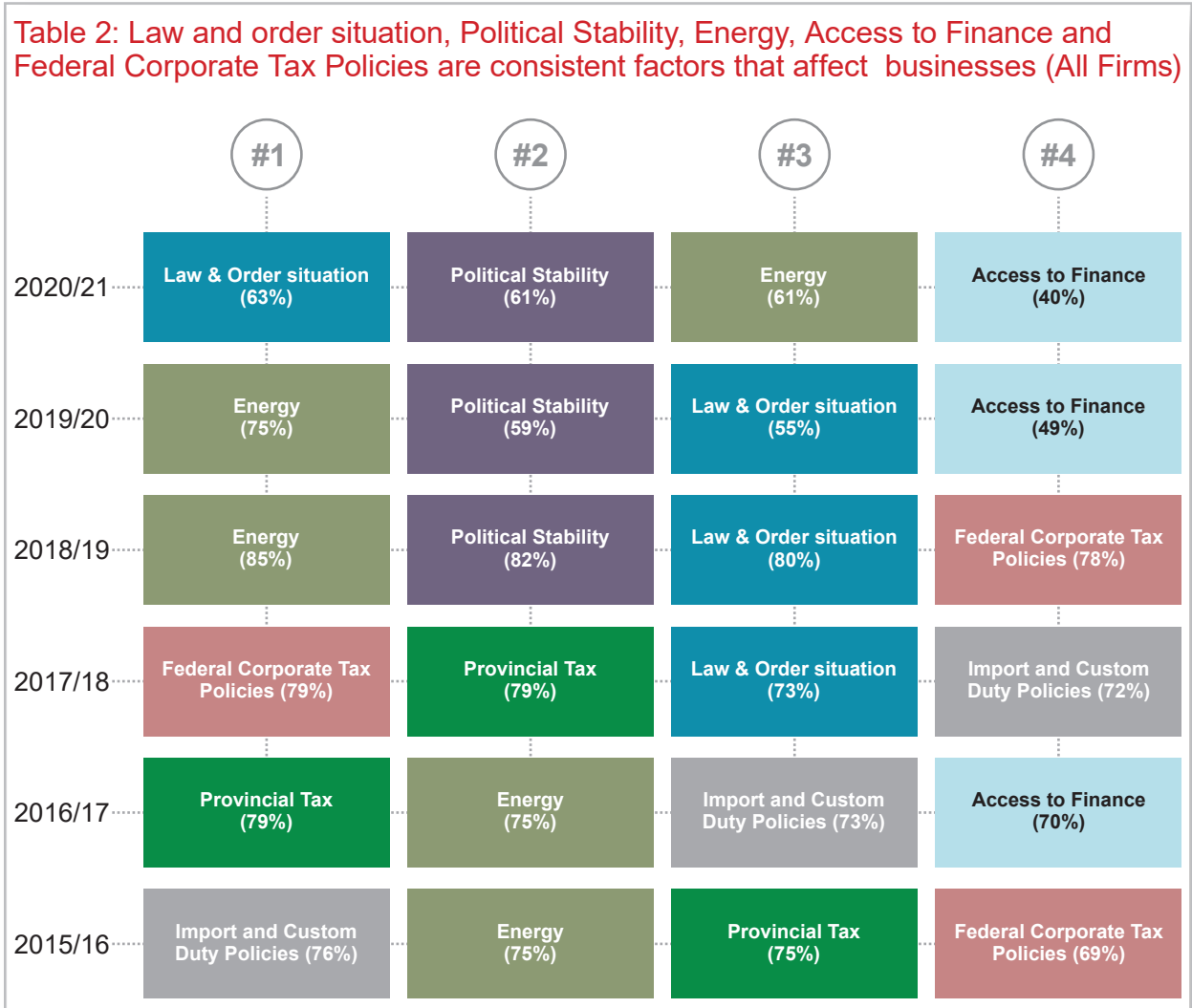


# 8 DRIVERS OF GROWTH

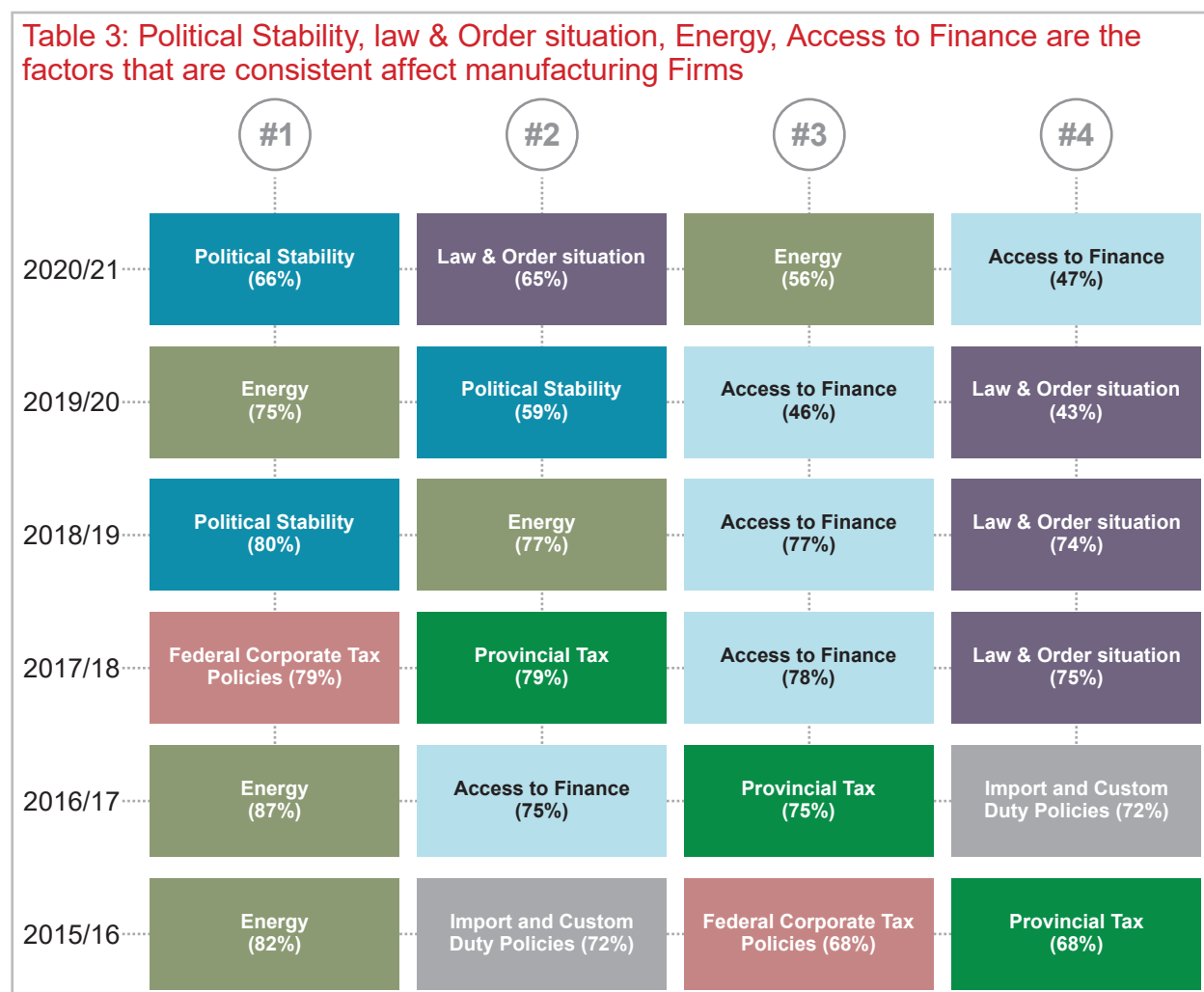
In this section of the survey, the firms across all three sectors were asked about their opinion about other factors affecting their businesses.

## 8.1 Top-Rated Growth Factors

The impact of various factors was analyzed by arranging them in order of importance.



These results are illustrated below:



**Table 4: Energy, Law & Order situation, Political Stability, Federal Tax Policies, Imports and Custom Policies consistently affect services sector firms**



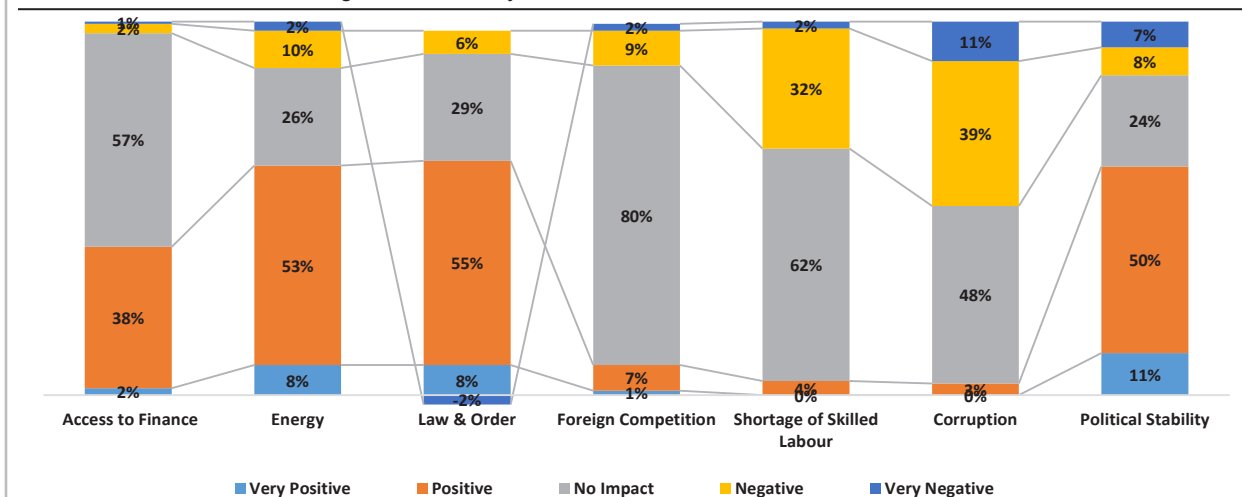
Table 5: Law & Order, Political Instability, Energy, Access to Finance and Provincial Tax Policies consistently affect retail sector firms



## 8.2. Analysis of factors affecting growth of Pakistani Businesses

Figure 31: Law and Order, Energy and political stability were the most important factors affecting growth of Pakistani Businesses

How does each of the following factors affect your business in 2020?



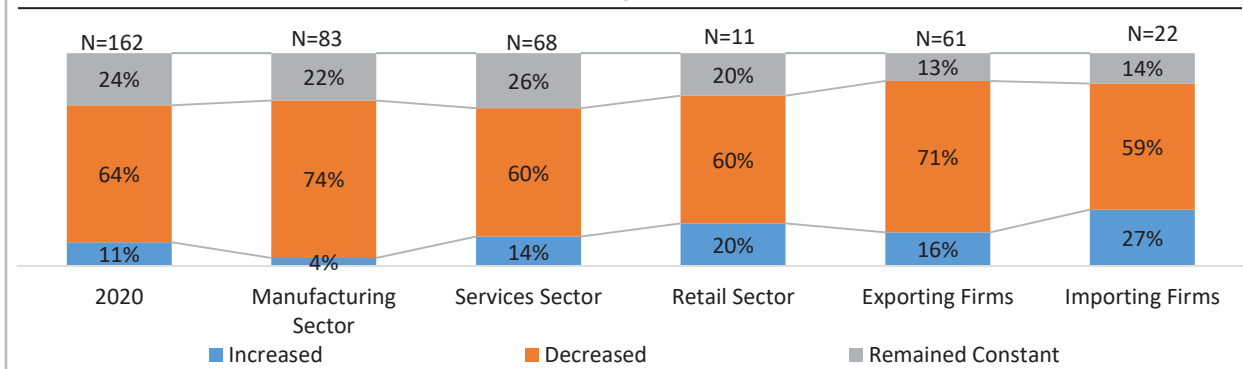
# 9 INVESTMENT AND BANK BORROWING

## 9.1 Levels of Investment

Investment levels either declined or stagnated in 2020. Looking sector-wise, manufacturing sector firms reported the greatest decline in investment in 2020, followed by the services sector firms.

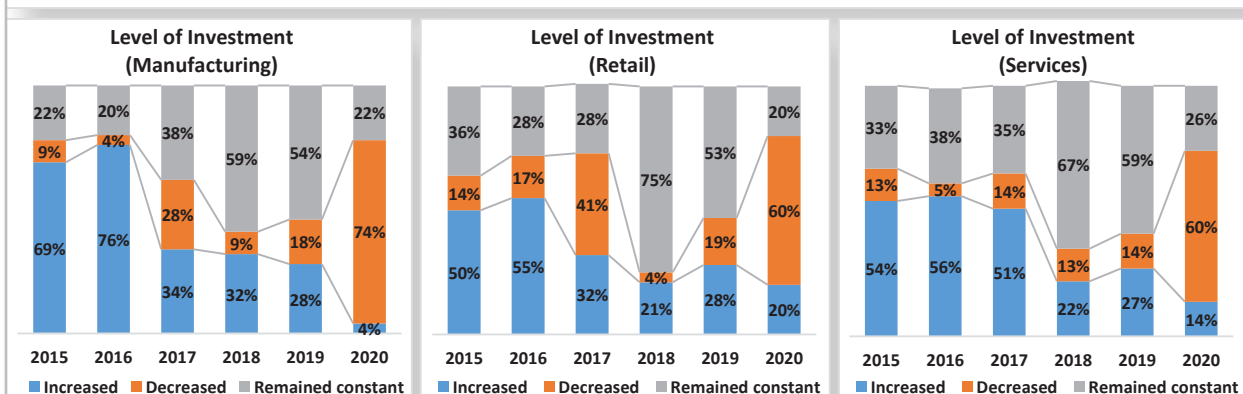
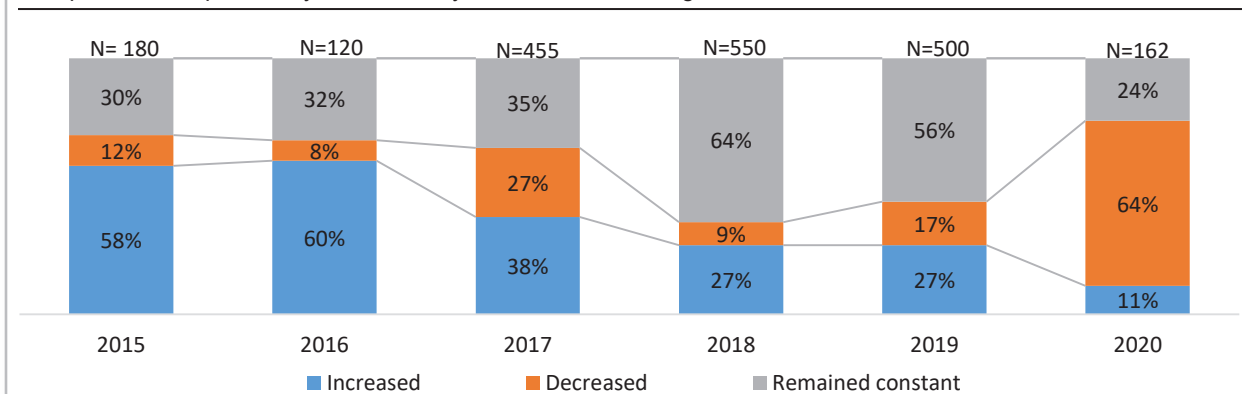
**Figure 32: Slowdown in Investments in overall firms in 2020 as compared to 2019, with manufacturing sector reporting a decline of 74%**

Compared to 2019, how did the level of investment change in 2020?



**Figure 33: Investments remained lowest in 2020 compared to all previous years**

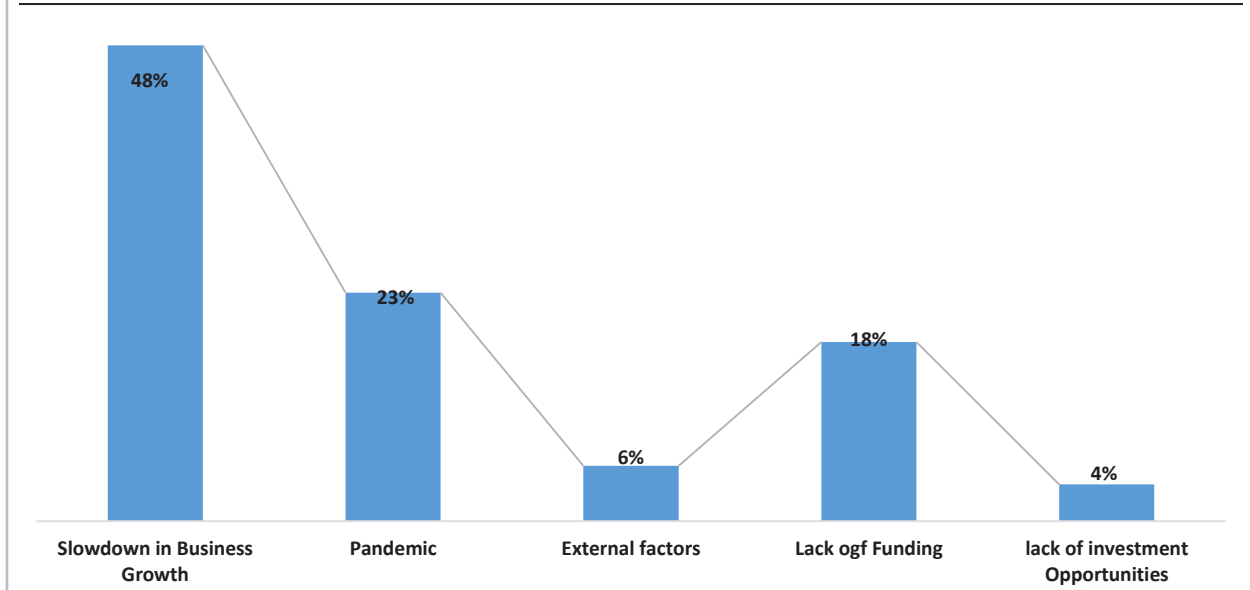
Compared to the previous year, how did your investment change over time?



## 9.2 Reasons behind stagnant employment levels in 2020/2021:

**Figure 34: Slowdown in business growth and Pandemic were the main factors behind the decrease in Investments in 2020**

If your level of investment decreased/remained constant in 2020, what do you think were the reasons behind that?

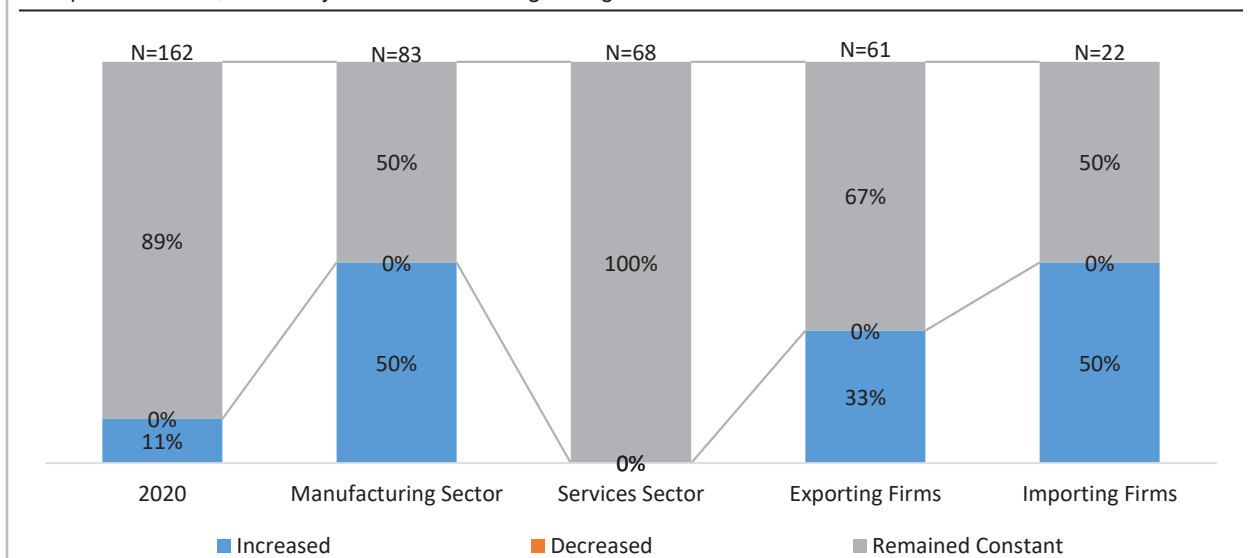


## 9.3 Level of Bank Borrowing

A majority of firms reported no growth in bank borrowing in 2020. Respondents firms from retail sector were not using bank borrowing at all, while for services sector firms, bank borrowing stagnated in 2020, as compared to 27% of firms reporting an increase in bank borrowing in the previous year.

**Figure 35: Bank borrowing remained stagnant across sectors in 2020**

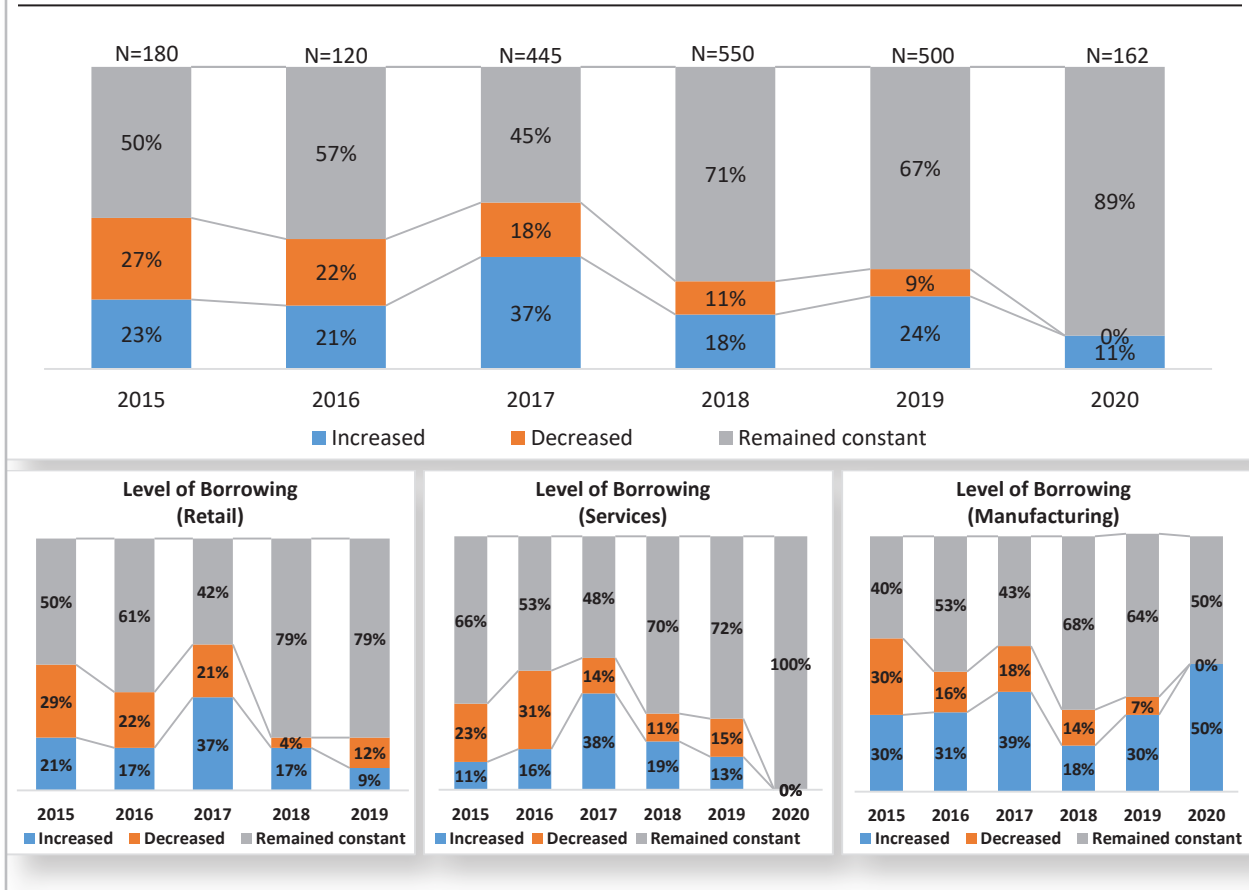
Compared to 2019, how did your bank borrowing changed in 2020?





**Figure 36: Bank borrowing was reported lowest in 2020 as compared to all previous years**

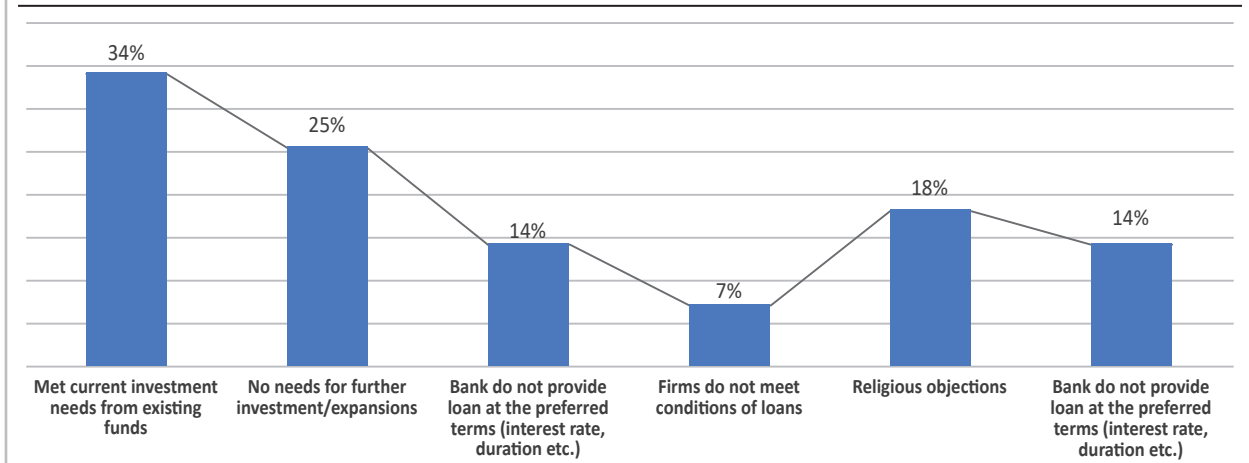
How bank borrowing changed in your company year on year?



### 9.4 Reasons behind stagnant bank borrowing by firms in 2020/2021:

**Figure 37: Majority of the firms stated that the main reason behind not borrowing was that they “Met their current investment needs from existing resources”**

If your firm did not use bank borrowing, then what were the reasons?



# 10 ECONOMIC OPTIMISM

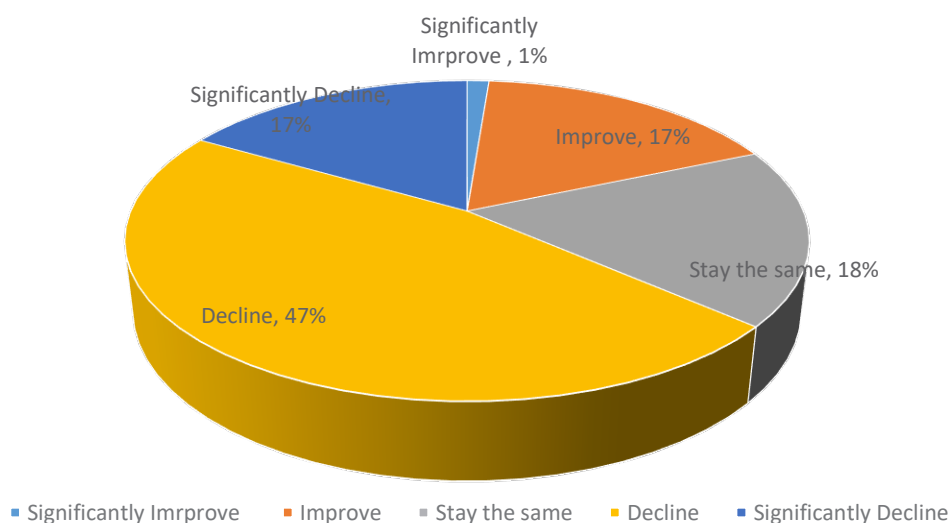
## 10.1 Analysis of Firm Level Expectations about Pakistan's Economy

The last few surveys revealed that pessimism about the performance has increased over time especially in year 2021.

There was a significant decline in the overall optimism about the performance of the Pakistan's economy in 2021 across sectors. The retail and manufacturing sectors were least optimistic about the performance of the Pakistani economy, followed by exporting firms and the services sector.

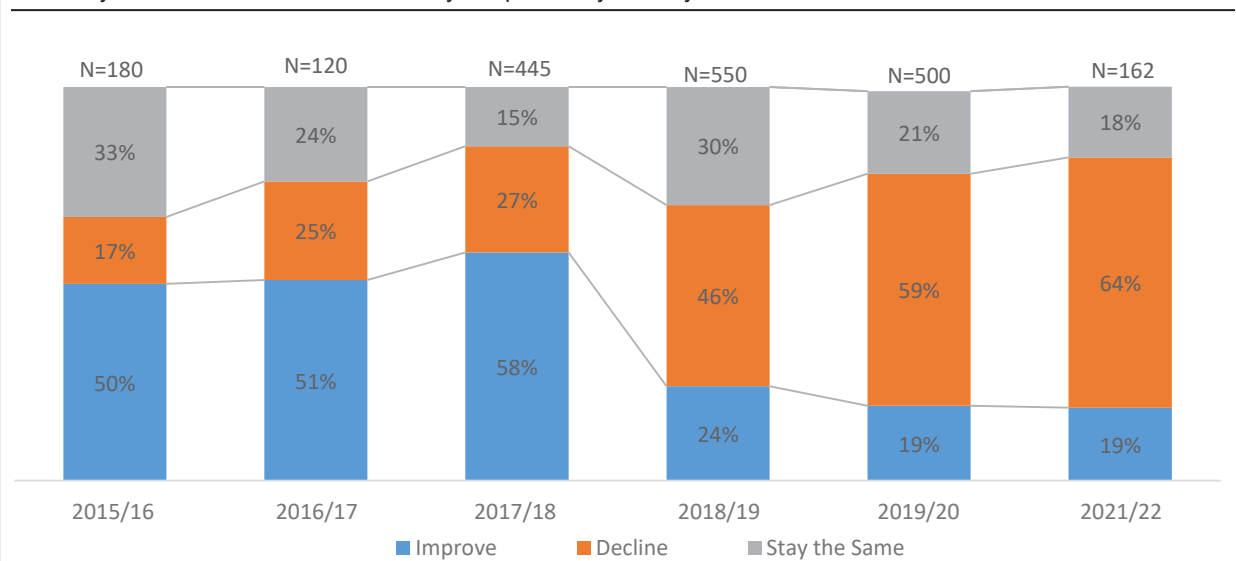
**Figure 38: Almost 64% of firms reported that the performance of the Pakistan's Economy will decline in 2021/22**

Compared with 2021, how would you think the economy of Pakistan will perform in 2021?



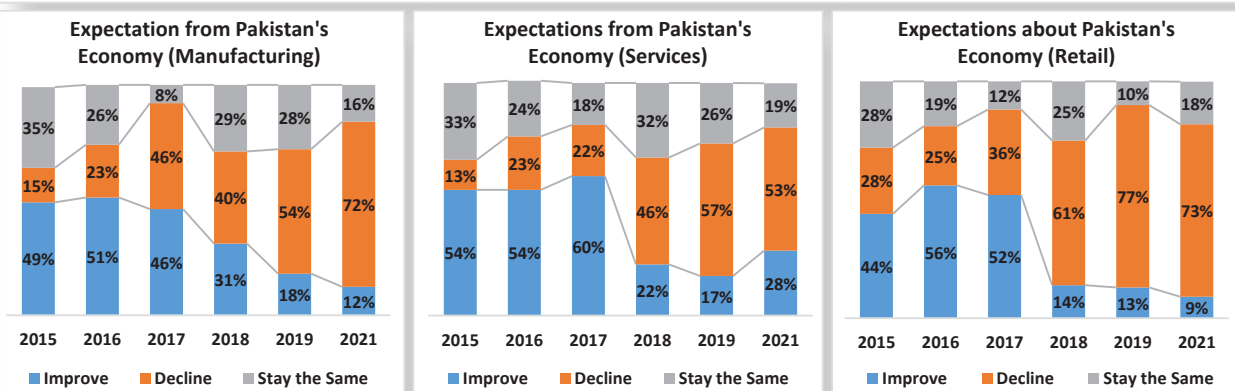
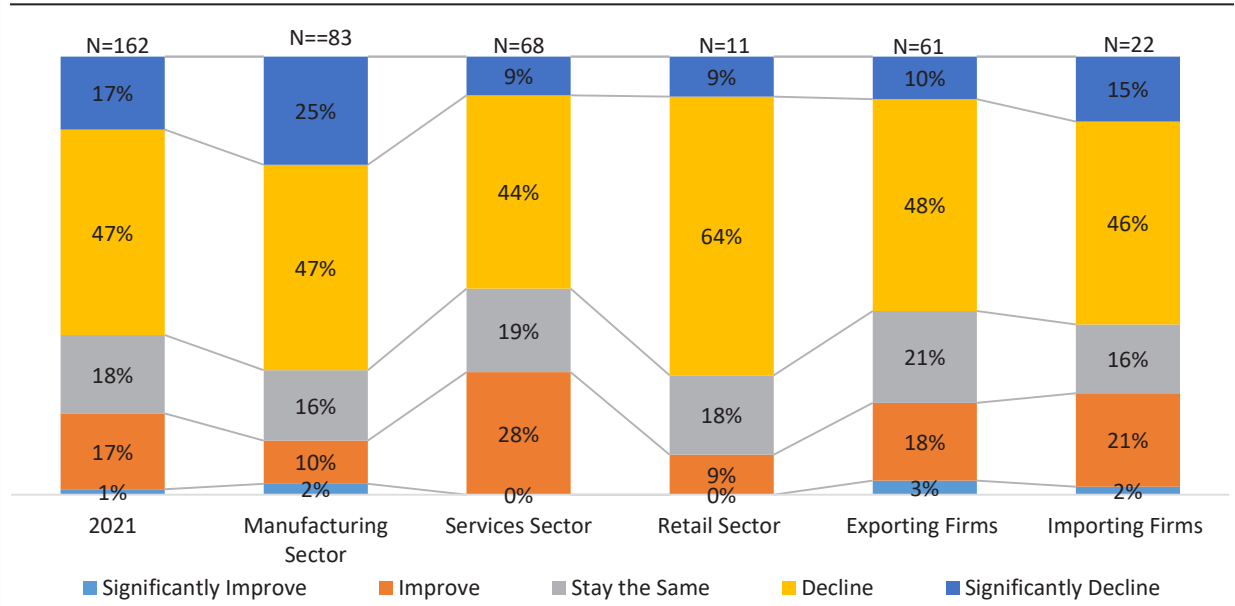
**Figure 39: Decline in optimism about Pakistan's economy over time**

How do you think the Pakistan's economy will perform year on year?



**Figure 40: Manufacturing and Retail sectors are least optimistic about the performance of Pakistan's Economy**

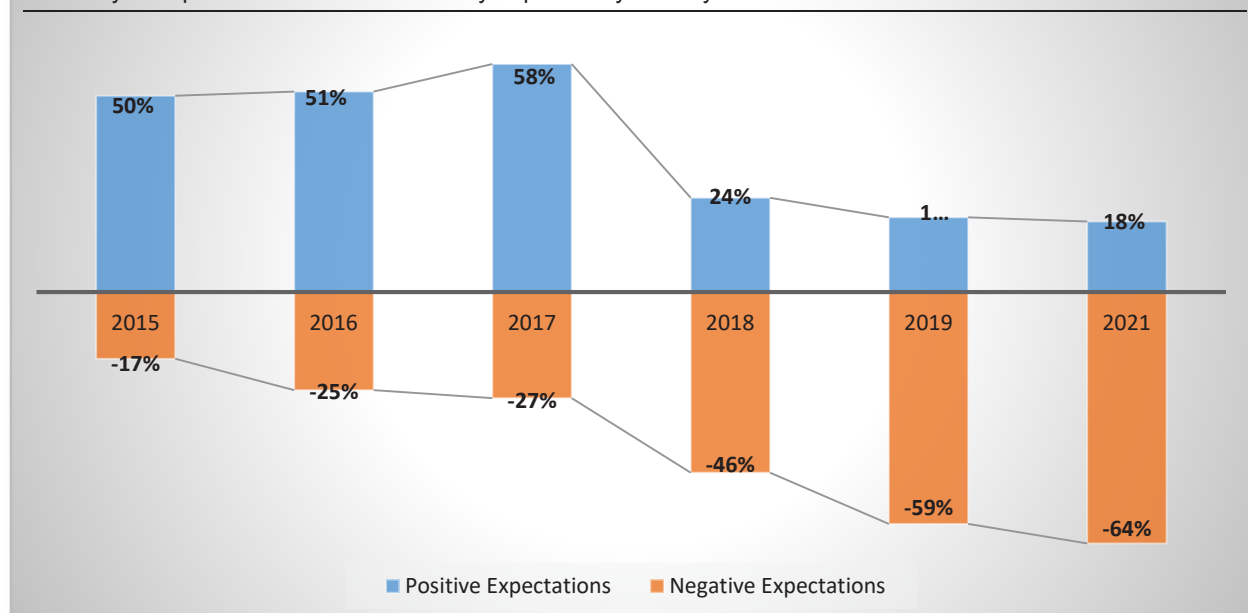
Compared with 2020, how do you think the economy of Pakistan will perform in 2021?



## Comparison between optimism and pessimism about the performance of the Pakistan's economy

Figure 41: Pessimism about the performance of the Pakistan's economy has increased over time and reached all time high for 2021/2022

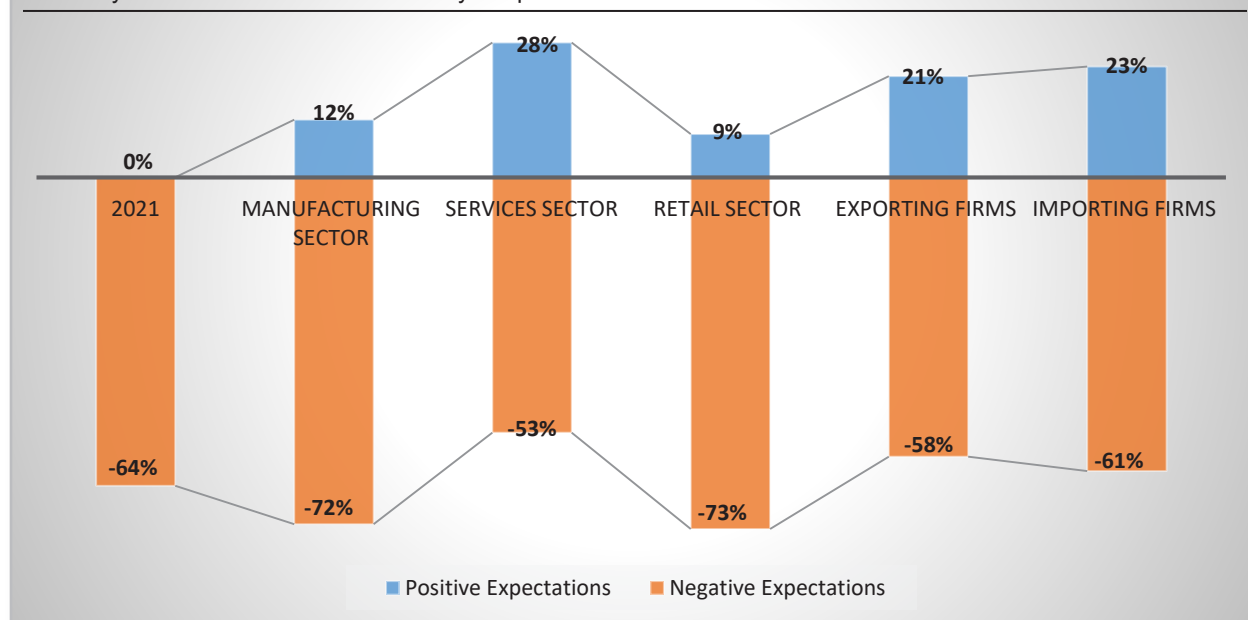
How do you expect the Pakistan's economy to perform year on year?



## Sector-Wise Optimism

Figure 42: Retail and manufacturing sectors are most pessimistic about the performance of the Pakistan's economy

How do you think the Pakistan's economy will perform in 2021/2022?

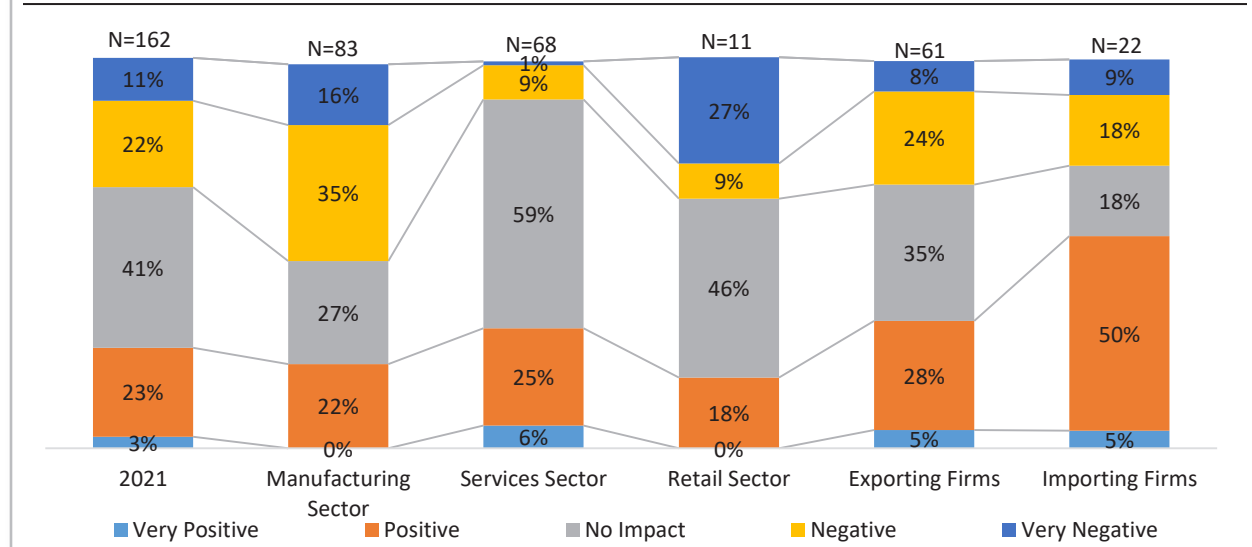


## 10.2 Analysis of Firm Level Expectations about Impact of CPEC

This year's survey revealed that firms are becoming less optimistic about the impact of CPEC on their businesses compared to the previous year. 85% of respondent firms reported positive expectations 2020 survey as opposed to only 26% for 2021. Manufacturing sector firms and retail sector firms were least optimistic followed by sector firms.

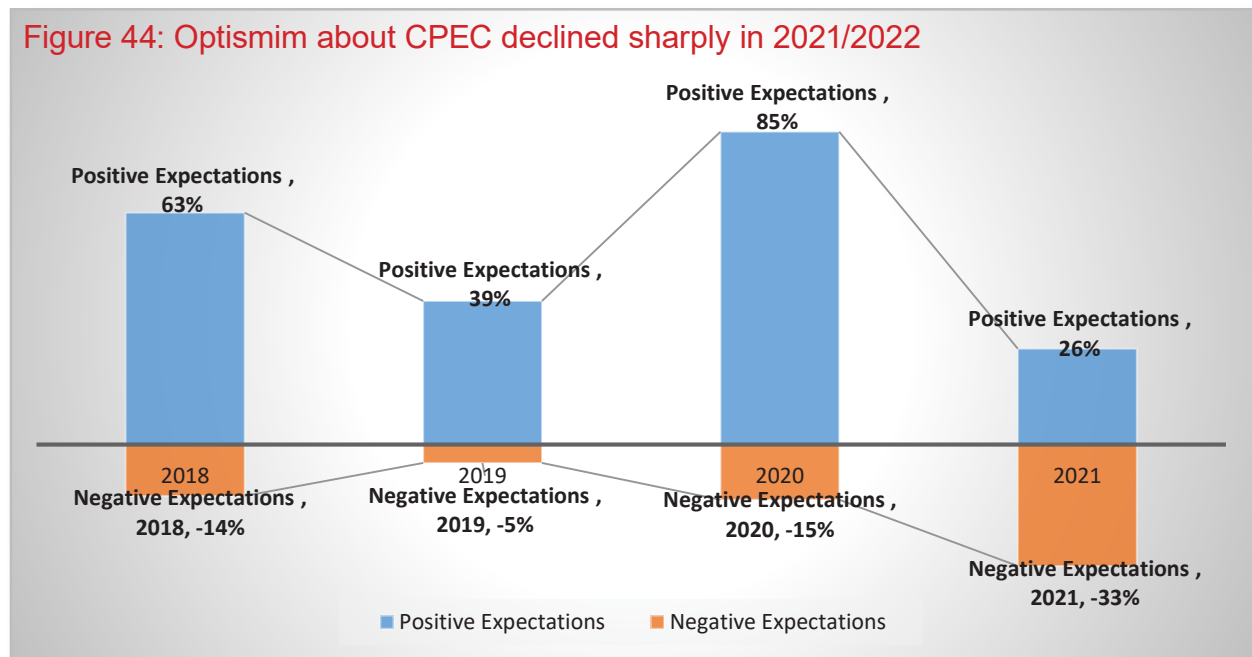
**Figure 43: Only 26% of firms showed optimism about the impact of CPEC on their business in 2021 as compared to 85% in 2020**

What impact do you think CPEC will have on your business in 2021?



### Comparison between optimism and pessimism on the perceived impact of CPEC on businesses

**Figure 44: Optimism about CPEC declined sharply in 2021/2022**

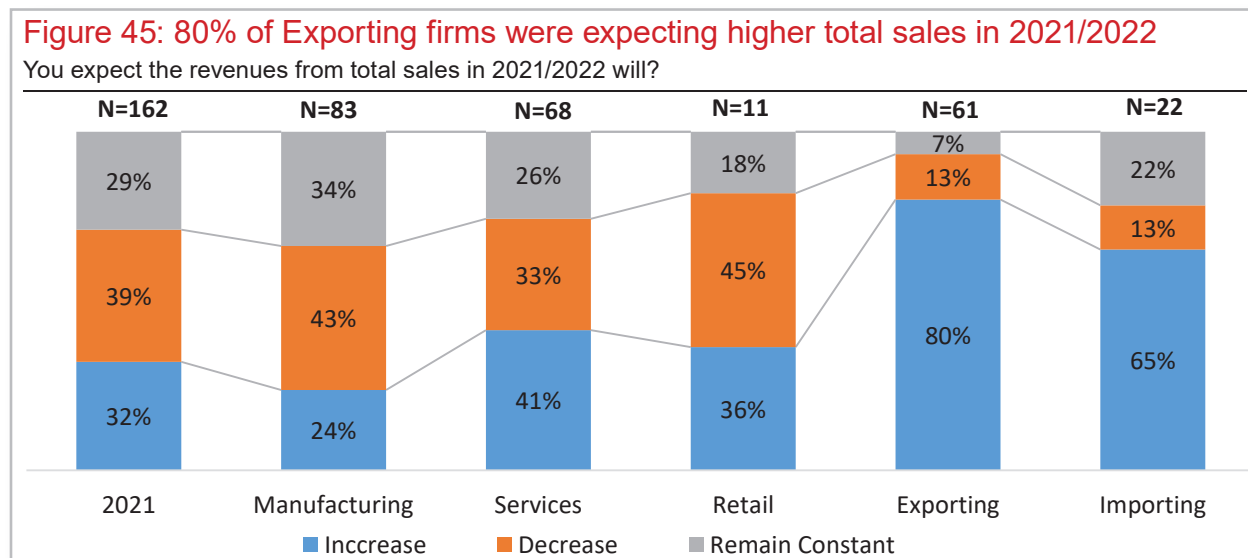


# 11 FORECASTS

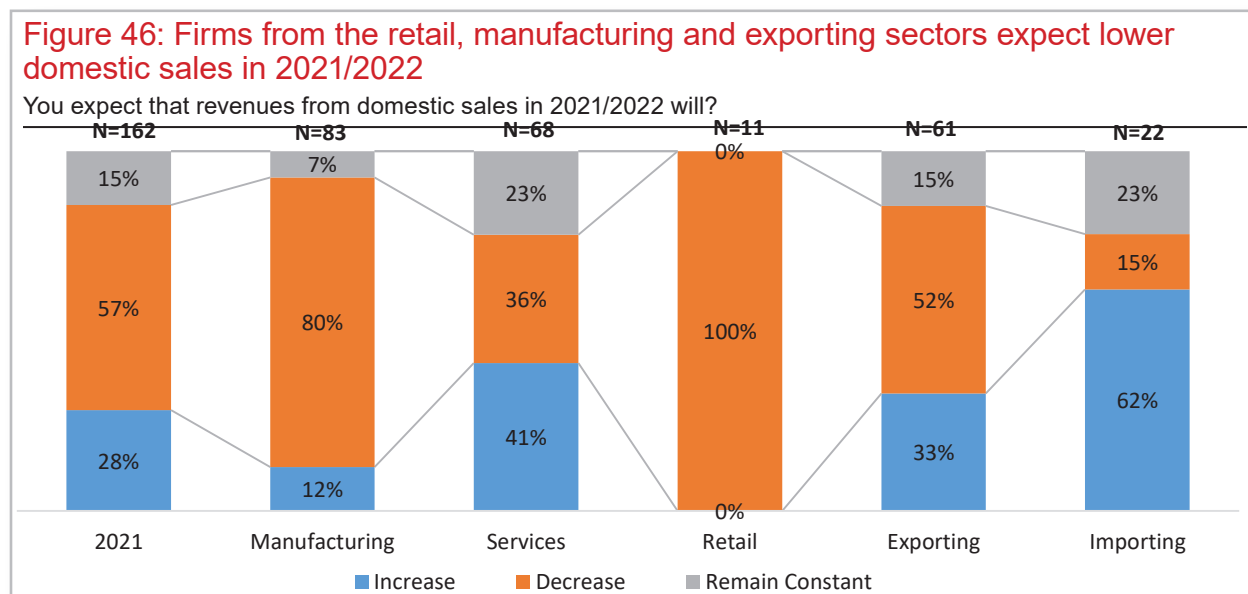
## 11.1 Financial Growth

A majority of firms are expecting their total sales to go up in 2021, as 4% of firms across sectors are expecting increase in growth in total sales as compared to 2020. Similarly, 3% of firms across sectors are expecting an increase in their growth in domestic sales as compared to the previous year, and 80% of exporting firms are expecting an increase in total sales, followed by 65% of importing firms having positive expectations and 41% of services sector firms also having positive expectations.

### Expectations about Total Sales



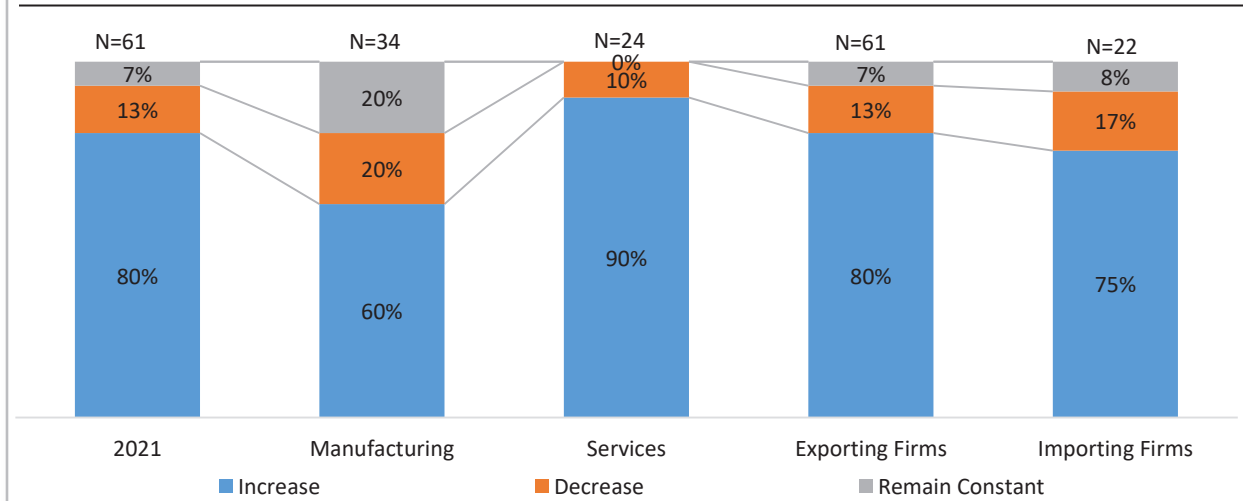
### Expectations about Domestic Sales



## Expectations about Export Sales

**Figure 47: 80% of firms across sectors have positive expectations that exports sales will increase in 2021/2022**

You expect that revenues from export sales in 2021/2022 will?



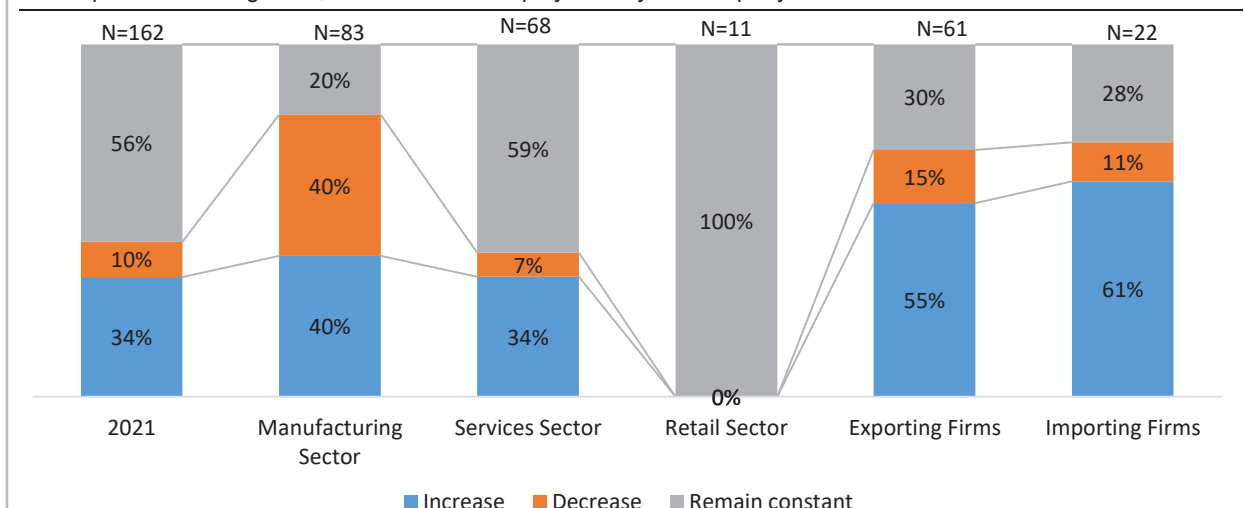
## 11.2 Levels of Employment

### Expectations about Number of Employees:

A Majority of firms across sectors are not planning to increase their employee base in 2021.

**Figure 48: A large number of firms from the manufacturing sector, exporting firms and importing firms expect to increase their employee base in 2021/2022**

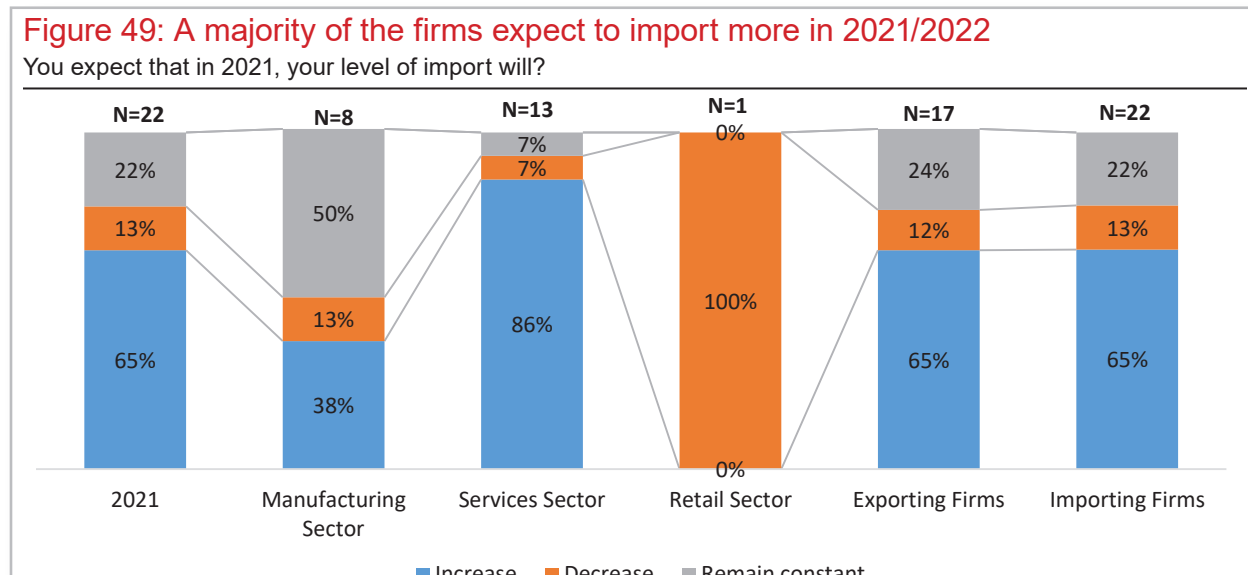
You expect that during 2021, the number of employees in your company will?



## 11.3 Imports

### Expectations about Imports

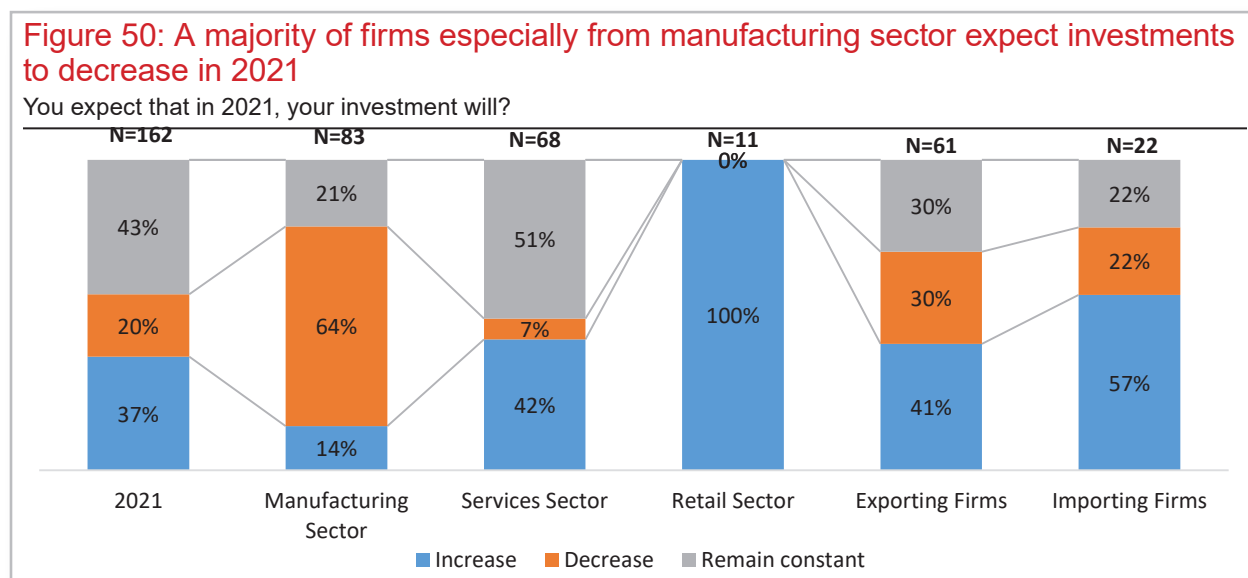
65% of firms across sectors are expecting an increase in imports in 2021 as compared to only 29% of firms in 2020. The largest increase in positive expectations is coming from the services sector, followed by exporting sector firms and importing sector firms.



## 11.4 Investment & Bank Borrowing

### Expectations about Investment

Firms are planning to increase their level of investment in 2021, with the majority of this increase in expectations is coming from retail sector, followed by importing firms and exporting firms. Whereas, the manufacturing sector is planning to decrease their level of investment in 2021 as compared to 2020.



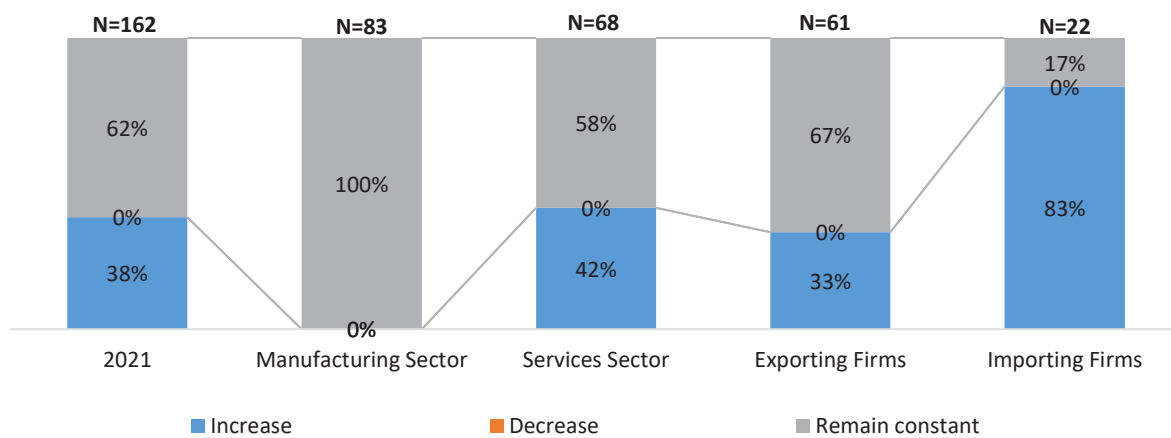


## Expectations about Bank Borrowing

Overall, 38% of firms are expecting to increase their level of bank borrowing in 2021 as compared to only 15% in 2020. Looking sector-wise, 16% of manufacturing sector firms were planning to reduce the bank borrowing in 2021 as compared to last year. Whereas, 15% of services sector firms were planning to increase its bank borrowing in 2020 as compared to 40% in 2021. Similarly, most of the importing firms and exporting firms are planning to rely heavily on banking sector for borrowing in 2021.

**Figure 51: Most firms, especially manufacturing sector firms, are not planning to rely on banking sector in 2021**

You expect that in 2020, your level of bank borrowing will?



# 12 CONCLUSION

Pakistan's trade deficit has increased as compared to the last fiscal year. The main reason behind this is that exports have declined, while imports have steadily gone up. In order to explain this unprecedented trade deficit, policy makers need to urgently determine what factors have led to the fall in exports and what measures do we need to tackle the deterioration in Pakistan's trade balance. The Lahore School of Economics conducted a sixth business confidence survey of firms in 2020/2021 to determine the industry specific and general macroeconomic trends prevailing in the local markets/industries. The survey was conducted selecting a variety of firms across three important sectors viz. the manufacturing sector, the services sector and the retail sector.

This year's survey also analysed the impact of Covid-19 on Pakistani businesses as the country was struggling with surge in covid cases and country-wide lockdown. This year's survey found that Covid-19 had an overall negative impact on revenues, export sales, level of investment and employment levels.

This year's survey has found that majority of firms reported deteriorated financial performance with decline in growth in their total sales, domestic sales and export sales as compared to all previous years. Of the three sectors, the manufacturing and retail sectors performed all time lowest in 2020 as compared to all previous years.

In order to address the balance of payment issues, this year's survey looked at the trends of exports in Pakistan during the last few years and what steps could be taken with the perspective of exporting firms that could boost exports in the country in the coming years. Contrary to last year, the survey found that exports have further declined in 2020 as compared to 2019 and the majority of this decline in growth of export revenues is coming from the manufacturing, services and retail sectors. When asked about the factors that could boost exports, a significant proportion of firms reported un-interrupted supply of electricity and gas, government subsidies, promoting exports of higher value-added goods, and upgrading technology as the most important factors. The survey results indicated that exporting firms are mostly exporting to different continents (all of the world), Asia/South Asia and Europe. There is a great opportunity for the exporting firms in exploring newer markets for their products and services in order to optimize their role and share in the international markets. The survey also found that imports have significantly increased in 2020/2021 as compared to 2019 and most of this increase in imports was coming from the services sector firms. Moreover, the survey found that 52% of all imports are imported machinery, adding to the existing trade deficit.

This survey results showed that firms across sectors slowed down in terms of their level of investment and bank borrowing, except for manufacturing sector, which has increased its bank borrowing in 2020/2021 as compared to 2019. Further, most of the respondent firms expressed positive expectations about their increase in revenues, export sales, investment, bank borrowing and employment levels in 2021 as compared to 2020.

The current year's survey also studied the overall optimism in the business community by analyzing firm-level expectations about the performance of Pakistan's economy and the possible impact of China-Pak Corridor (CPEC) on the business sector in Pakistan in 2021. The analysis of the results showed that the overall optimism has fallen in the current year as compared to last year. The manufacturing, services and retail sectors were least optimistic about the performance of Pakistan's economy in 2021. The results of the survey also showed that overall optimism about the impact of CPEC on businesses has fallen drastically for 2021.

Overall analysis of the impact of some other important factors showed that the majority of firms thought that political stability, law & order situation, energy and access to finance were the most important factors affecting their businesses. The sector-wise analysis showed that the manufacturing sector firms indicated political stability, law and order situation, energy and access to finance as the most important factors affecting their business, the services sector indicated energy, law and order

situation, political stability and access to finance as the most important factors to boost exports. Whereas, the retail sector firms indicated political stability, law & order, energy and access to finance as the most important factors affecting their business.

Overall, 2020 cannot be considered a good year for most of the firms as a majority of respondent firms experienced a decline in their revenues, domestic sales, export sales, investments, employment levels and bank borrowing and a majority of firms expressed a pessimism about the performance of the Pakistan's economy and impact of CPEC on their businesses. One of the major reasons behind this slowdown in 2020 is the negative impact of Covid-19 pandemic on businesses and economy. This year's survey also asked the respondent firms about the major reasons behind not increasing their employment levels, investments and bank borrowings. The majority of firms reported the major reasons behind their decrease in employments were slowdown in business growth and also because the maximum capacity of the firm has been reached. The major reasons reported behind the decrease in investments were the slowdown in business growth and pandemic. While, the major reasons reported behind not utilizing bank borrowing facility were because firms had met their current investment needs from existing funds, no need for further expansions and banks do not provide loan at the preferred terms ( interest rate, duration etc.

Finally, the firms attributed the drag on economic growth to the inconsistent and cumbersome policies, regulations and taxation of the federal and the provincial governments. They felt that while regulations and taxations were important, they must account for the needs and requirements of the business community. The collaboration between the government and the business community and the joint efforts by them in developing a workable industrial strategy can promote the growth.

# BUSINESS CONFIDENCE SURVEY



# 2021