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The Egyptian Center for Economic Studies

The Egyptian Center for Economic Studies

Business Barometer

January 2013

Issue No. 30

Performance and Expectations of the Egyptian Business Sector

The Egyptian Center for Economic Studies (ECES) is an independent, nonprofit research institute. It was founded by leading members of Egypt's private sector in 1992. The objective of the Center is to promote economic development in Egypt by assisting policy makers in developing appropriate policy reforms based on international experience. In pursuit of this objective, ECES conducts applied policy research and disseminates its findings through a select series of publications, lectures, conferences, and roundtable discussions.

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About the Business Barometer

In an attempt to provide timely information about the state of economic activity in Egypt, ECES published the first issue of the Industrial Barometer in 1998. The periodical reported the results of a biannual survey of 165 firms fully drawn from the industrial sector. However, to improve the depth of the report, the survey was expanded in the July 2000 issue to include 35 firms from the construction sector. This step converted the former Industrial Barometer into today's Business Barometer. The survey was further expanded in the July 2002 issue to include 10 firms from the tourism sector. In July 2006, the survey was expanded again to include a total of 320 firms (from 210). In July 2007, another 154 firms were added to the sample. These firms cover the transportation, communications and financial sectors. The new sample includes a total of 474 firms. Starting July 2011, the Business Barometer is based on a modified sample survey in terms of firm size, comprising 218 large firms, 57 medium firms and 199 small firms. Firm size is determined by the number of employees as per CAPMAS classification, with the number of employees in small firms ranging between 5-49; in medium firms between 50-99; and in large firms more than 100. Starting this edition, the Business Barometer includes a business environment index aimed at summarizing the results of the survey and tracking changes over time. The index is calculated for large firms as well as SMEs, once for evaluation of performance and once for expectations.

This edition of the Business Barometer reports the results of a stratified sample of 474 public and private firms. The survey covers their assessment of economic growth and the results of their operations over the second half of 2012 in terms of production, sales, capacity utilization, inventories, prices, wages, employment and investments. It also summarizes their expectations for overall future economic performance as well as their own activities for the first half of 2013.

The interpretations and comments expressed in this survey are those of the ECES team, and do not necessarily reflect those of the ECES Board of Directors.

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Overview

This edition of the *Business Barometer* reflects the views of 474 firms regarding the overall performance of the economy and their own activities during the second half of 2012 (July-December 2012) as well as their expectations for the first half of 2013 (January-June 2013). The purpose is to assess firms' actual economic activity and shed light on their projections in the context of continued repercussions of the January 25 Revolution, and political and economic developments in the second half of 2012. The surveyed firms cover manufacturing (50 percent), financial intermediation (13 percent), construction (12 percent), transportation (11 percent), tourism (8 percent), and communications (6 percent). The survey is conducted across a number of small, medium and large enterprises, specifically 42, 12 and 46 percent, respectively.

This overview will provide a bird's eye view of the macroeconomy during the period under study subject to data availability. Specifically, it will explore economic growth, employment, inflation, the stock market, the external sector–the current account, the capital account and international reserves–and finally the state of public finances. The discussion of the survey results will follow the overview.

Economic growth

Egypt's real GDP[1] growth recovered to 2.6 percent in the first quarter (Q1) of fiscal year 2012/13 (henceforth FY13)–up from 0.3 percent in Q1 FY12. Though the increase is inflated due to a base effect, the 2.6 percent growth is still lower than the average pre-Revolution rate for this period of the year. The average growth for Q1 in the three years preceding the Revolution was 5.2 percent. Throughout July-December 2012, economic growth was undermined by political turmoil and sporadic outbursts of violence against the backdrop of the contentious new constitution. These adverse effects were exacerbated by the continued economic slowdown in Europe, which affects Egypt's exports and the Suez Canal revenues.

While undermined by the drop in investment, growth in Q1 of FY13 was driven by increased consumption and net exports. Real consumption rose by 10.3 percent compared to the corresponding quarter in FY12. Data for Q1 of FY13 show a decline in both exports and imports. But due to a larger decline in imports, net exports increased by 5.7 percent. Conversely, real investment decreased by 6.1 percent. Savings and investment rates, as a percent of GDP, stand at 6.1 and 11.1 in Q1 of FY13, respectively, which is below the level needed to support faster economic growth. Listed in their order of importance, the main sectoral contributors to economic growth in Q1 of FY13 were agriculture, manufacturing as well as retail and construction, which together formed 1.6 percentage points of the aforementioned 2.6 growth rate in Q1 FY13.

Growth prospects are strongly linked to political developments.[2] Greater political stability would improve capital inflows, trade and tourism, supporting the economy to grow at an average of 3 percent in FY13. It is worth mentioning that the government's growth estimate for FY13 is 3.5 percent, while the IMF estimate is 3 percent and that of the World Bank is 2.2 percent.

Employment

In Q2 of FY13, the number of the unemployed reached 3.5 (out of a labor force of 27 million)–registering an unemployment rate of 13 percent compared to 12.4 percent in Q2 of FY12 and 12.5 percent in Q1 of FY13. The rise in unemployment can be explained by the slowdown in economic activity. It is worthy of note

[1] Egypt's nominal GDP in 2011/12 was EGP 1542.3 billion ($257.3 billion).

[2] Due to recent political turbulences, international credit rating agencies have downgraded Egypt's rating from B to B- (Standard & Poor's), from B+ to B (Fitch) and from B2 to B3 (Moody's).

that the youth represent 73.9 percent of the unemployed. Unemployment is also more pronounced among the educated and in urban areas. Almost 90 percent of the unemployed are educated. Urban areas witnessed a 16.9 percent unemployment rate compared to 10.0 percent in rural regions. The expected real economic growth of around 3.5 percent for FY13 would not be sufficient to generate the 700 thousand jobs targeted by the government by the end of FY13.

Inflation

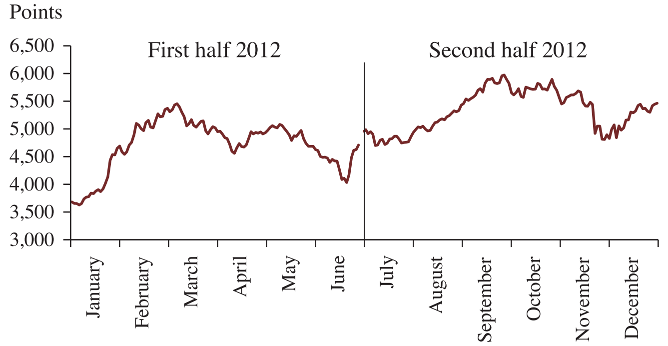
Weak domestic demand and base effects contributed to a slowdown in inflation rates. Year-on-year inflation registered 4.6 percent in December 2012. Also, inflation slowed down to its lowest level since 2006–falling from an average year-on-year monthly rate of 8.8 percent during July-December 2011 to 5.8 percent during the corresponding period in 2012. This could also be ascribed to easing global inflation, driven by decelerated international food prices that mitigated the effect of imported inflation.

However, downside risks to domestic inflation remain significant due to the imbalances in domestic and global markets. Domestically, the recent severe currency depreciation would generate inflation by adding to the import and subsidy bills, given the high imported content of many locally produced goods. Moreover, with government attempts toward fiscal consolidation, through the expected implementation of some revenue-enhancing measures[3] and subsidy system reform, inflation may reach double digits in FY13. Globally, the rebound in international food prices, particularly wheat, would put extra burden on the budget.

Stock market

The optimism associated with the presidential election in June 2012, along with the appointment of a new government in July, pushed the EGX-30 index upward throughout September 2012 (Figure 1). However, concern over political turbulences related to the new constitution reversed the index, only to regain its upward trend with the referendum and the adoption of the constitution in December. Overall, the EGX-30 registered a 16 percent increase at end-December 2012 relative to end-June 2012, while the EGX-70 rose by 13 percent and the EGX-100 by 9 percent.

Figure 1. EGX-30, January-December 2012



Source: www.egx.com.eg.

External sector

The balance of payments deficit narrowed from \$2.3 billion in Q1 of FY12 to \$0.5 billion in Q1 of FY13–an improvement from 0.9 percent to 0.2 percent of GDP. While the capital and financial surplus remained virtually the same (around \$0.5 billion), the current account deficit narrowed from \$2.2 billion to \$0.3 billion, leading to the overall improvement in the balance of payments. This current account improvement was driven primarily by a \$0.9 billion increase in remittances, coupled with a \$0.7 billion decrease in non-petroleum imports and a \$0.2 billion increase in commodity exports, in addition to a stable service balance. The drop in imports can be attributed to weak economic activity in the domestic market. It can also be explained by the large appreciation of the Egyptian pound versus the euro (from 8.42 EGP/€ on average in Q1 of FY12

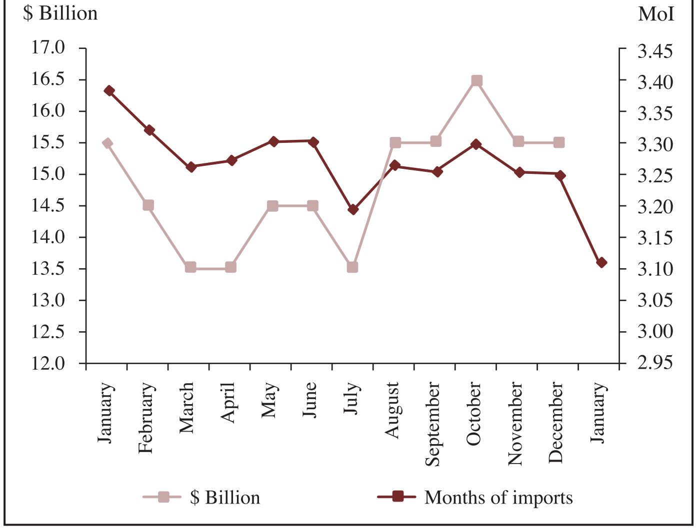
[3] The government backtracked on introducing tax-raising measures in December 2012, including an adjustment of the sales tax along with other taxes. Those measures included: higher telecommunications tariffs, new capital gains taxes on mergers and acquisitions and some other stock market transactions, a reduction in the threshold for the 25 percent income tax rate to LE 1 million (from LE 10 million) and increasing and unifying the corporate tax rate at 25 percent.

to 7.63 EGP/€ in Q1 of FY13), which decreased the imports bill from Europe–Egypt's main trading partner. Meanwhile, the depreciation of the pound versus the dollar from 5.97 EGP/$ to 6.1 EGP/$ during the same period was not significant enough to increase the imports bill. It is important to note, however, that the recent large depreciation of the Egyptian pound vis-à-vis the US dollar is bound to raise the value of imports without much affecting their volume because of high inelasticity of most imported goods. In addition, depreciation may not strengthen export competitiveness given the high import content of many domestically produced goods.

With the tough domestic political environment and the sluggish economic performance in foreign economies, Suez Canal revenues declined from $1.4 billion in Q1 FY12 to $1.3 billion in Q1 FY13,[4] tourism revenues from $2.7 billion to $2.6 billion and net FDI from $0.4 billion to $0.1 billion. However, net portfolio outflows decreased from $1.7 billion to $0.3 billion, in line with the good performance of the stock market, compensating for the decrease in net borrowing and "other assets" with banks, which preserved the financial account.

As shown in Figure 2, net international reserves (NIR) reached a record low in July 2012, registering $14.4 billion, i.e., 3.1 months of imports (MoI), due to the maturity and coupon payment of the Egyptian bonds maturing July 2012. They later increased to $15.5 billion in October thanks to receiving a part of the Qatari deposit as well as remittances from workers abroad. The reserves remained stable in December, preserved by the large depreciation of the pound. However, they witnessed a drop to $13.6 billion in January 2013 mainly due to the Paris Club debt payments as well as a decline in tourism revenues due to the recent turbulences.

Figure 2. NIR, January 2012-January 2013



Source: The Central Bank of Egypt Monthly Bulletin.

Foreign exchange auctions were introduced on 30 December 2012 to control the supply of hard currency. Since then, the pound has dropped by 8 percent against the dollar up to the end of January 2013, bringing the cumulative depreciation over the past year to 10 percent. With the appointment of a new central bank governor in January 2013, increased focus is expected to be given to striking a balance between exchange rate flexibility and net international reserves.

Public finances

The government has initially targeted an overall deficit of 7.6 percent of GDP for FY13 compared to an actual figure of 10.7 percent registered in 2012. However, during the first half of FY13, the budget deficit increased to 5.1 percent of GDP compared to 4.8 percent during the corresponding half of FY12. Due to this increase, and absent fiscal consolidation, the government will most likely miss the targeted deficit, which could reach an absolute value of LE 214 billion (11.8 percent of GDP) by the end of the fiscal year.

Recently, the government announced a bundle of reforms aimed at narrowing the widening fiscal deficit. This

[4] It is worth noting that Suez Canal revenues declined by 9.1 percent in January 2013 compared to January 2012.

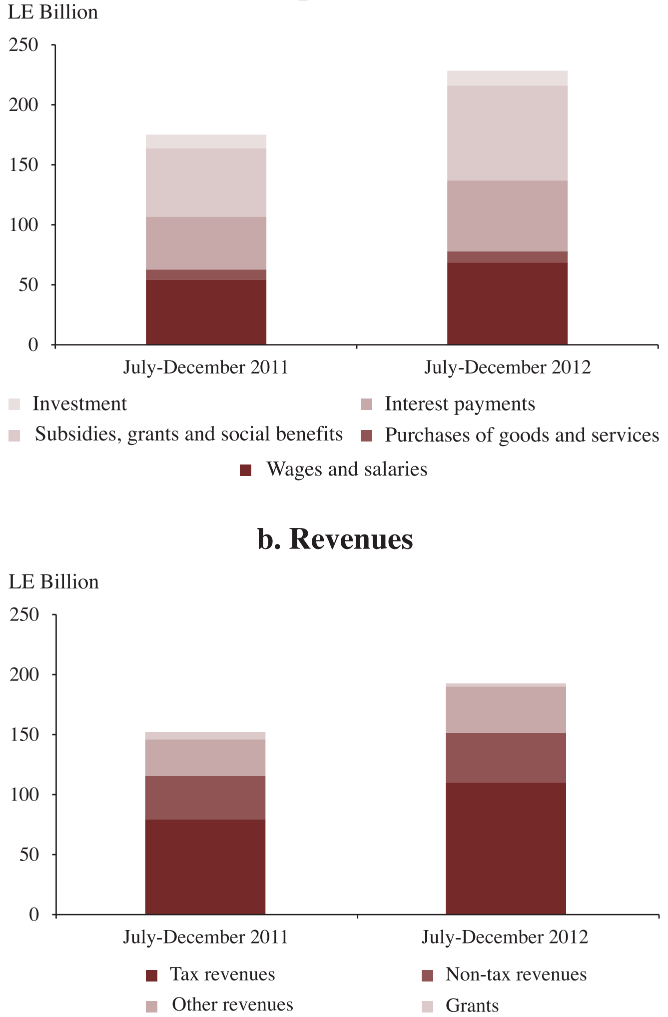
bundle mainly included removing subsidies on 95 octane petrol (implemented in November 2012) and raising natural gas prices for energy intensive industries.[5] The government estimates that the increase in natural gas prices would save LE 3.5 billion annually. A smart card system to ration subsidized fuel is also scheduled for June 2013. The fiscal impact of these measures has not been reflected in the spending figures of the first half of FY13. Large subsidies continue to exert excessive strain on the budget, crowding out public spending on priority areas such as education and health. Energy subsidies jumped to LE 52.6 billion during the first half of FY13 relative to 35 billion in the corresponding period in FY12. Wages and interest payments accounted for more than half of current public spending.

On the other hand, revenues increased by 40 percent during the first half of FY13 compared to an increase of 31 percent in spending. However, revenues did not cover expenditures and the overall deficit continued its rising trend. The increase in revenues was primarily attributed to the 39 percent hike in tax revenues coupled with the 13.4 percent rise in non-tax proceeds.

Public domestic debt increased in Q1 of FY13, reaching 70 percent of GDP (LE 1.2 trillion in September 2012)–5 percentage points higher than September 2011. The increase was mainly attributed to continued domestic borrowing through excessive issuance of Treasury bills and bonds to finance the budget deficit. Commercial bank holdings of government debt accounted for 56 percent of their loan portfolios at end-September 2012 compared to 45 percent at end of 2010. Yields on 273-day Treasury bills, the main form of issuance in FY13, have increased to 14.5 percent in September 2012 compared to 10.3 percent in September 2010. However, these yields have declined to 12.5 percent at the last auction (4 February 2013), which is in line with higher demand on short-term bills due to current uncertainty. As for external debt, which is mainly on a medium or long term and concessional basis, it increased to $34.7 billion in September 2012 compared to $34 billion in September 2011. However, it continued its declining trend as a percent of GDP, decreasing to 11.9 percent relative to 12.9 percent in September 2011.

Figure 3. Breakdown of Government Budget

a. Expenditures



Source: Ministry of Finance, *the Financial Monthly.*

In light of the above overview, intense efforts are needed to revive the economy conditional on achieving political stability and promoting investment. Proactive policies should focus on containing the widening fiscal deficit and growing debt as well as alleviating the expected inflationary pressures and enhancing Egypt's external position.

[5] Ministry of Planning, 2012/13 plan report.

Starting this edition of the *Business Barometer*, a new index–Business Environment (BE) index–is introduced summarizing the survey results. This index portrays the business sector performance and outlook and helps track changes in the business environment over time. The index is a simple average of 11 sub-indexes, which represent firms' responses regarding each indicator of the survey. The index methodology is presented in more detail in the appendix.

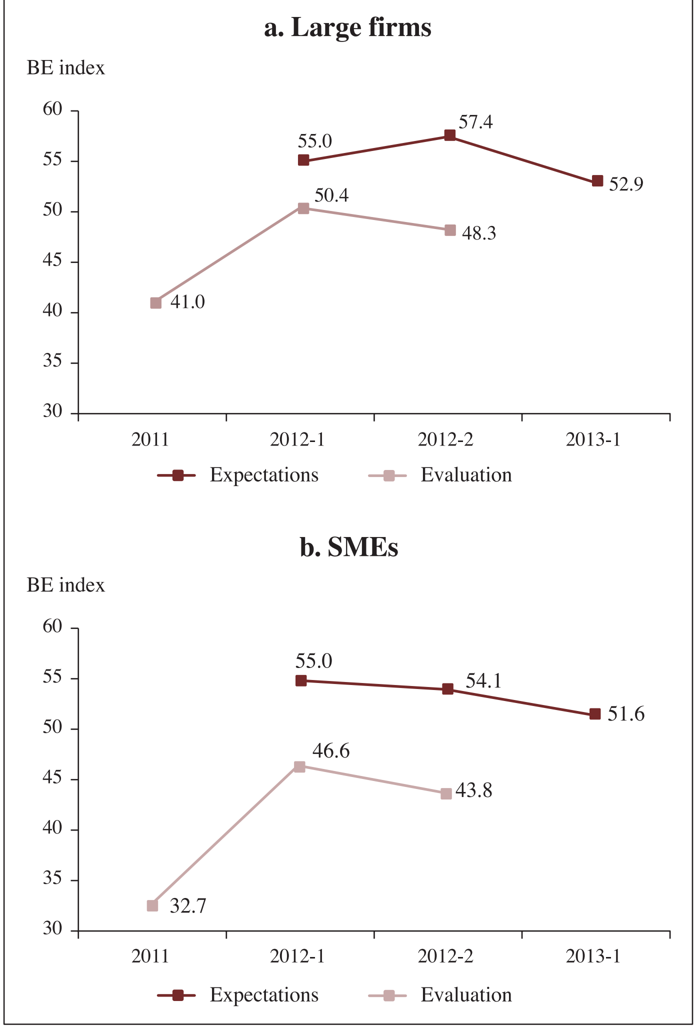
The remainder of this edition of the *Business Barometer* presents the main findings of the survey under five main headings: the BE index, the level of economic activity (overall growth, production, sales, capacity utilization and inventory), prices and wages, investment and employment and finally the constraints facing the surveyed firms.

The Business Environment Index

The BE index takes a value between 0 and 100. Increases in this value indicate a more favorable climate and vice versa. Figures 4a and 4b display the BE index for large firms and SMEs, respectively.

Despite a significant improvement in the business environment in the last survey period, the evaluation index this time shows a slight decline for both types of firms, reflecting a less favorable business climate. As will be shown by the detailed results of the survey, this is mainly due to higher input prices as well as lower production, sales and less positive assessment of economic growth, despite higher investments compared to the first half of 2012. The outlook of large firms and SMEs has also become less favorable, particularly for large firms. Political turmoil, coupled with weak domestic demand, currency depreciation and global slowdown, has negatively affected the business performance in the last six months and resulted in an uncertain outlook for the next six months.

Figure 4. The Business Environment Index



Source: Authors' calculations based on survey results.

The Level of Economic Activity

Figure 5 portrays the sub-indexes of economic activity variables, namely, perceptions of economic growth, production, domestic and international sales, capacity utilization and inventory. Panels (a) and (b) show the evaluation of large firms and SMEs, respectively, for the period July-December 2012 compared to January-June 2012. Panels (c) and (d) show the expectations of large firms and SMEs for January-June 2013 compared to their previous expectations for July-December 2012.

Evaluation

A slight decline in all economic activity indicators, more pronounced in economic growth

Economic growth

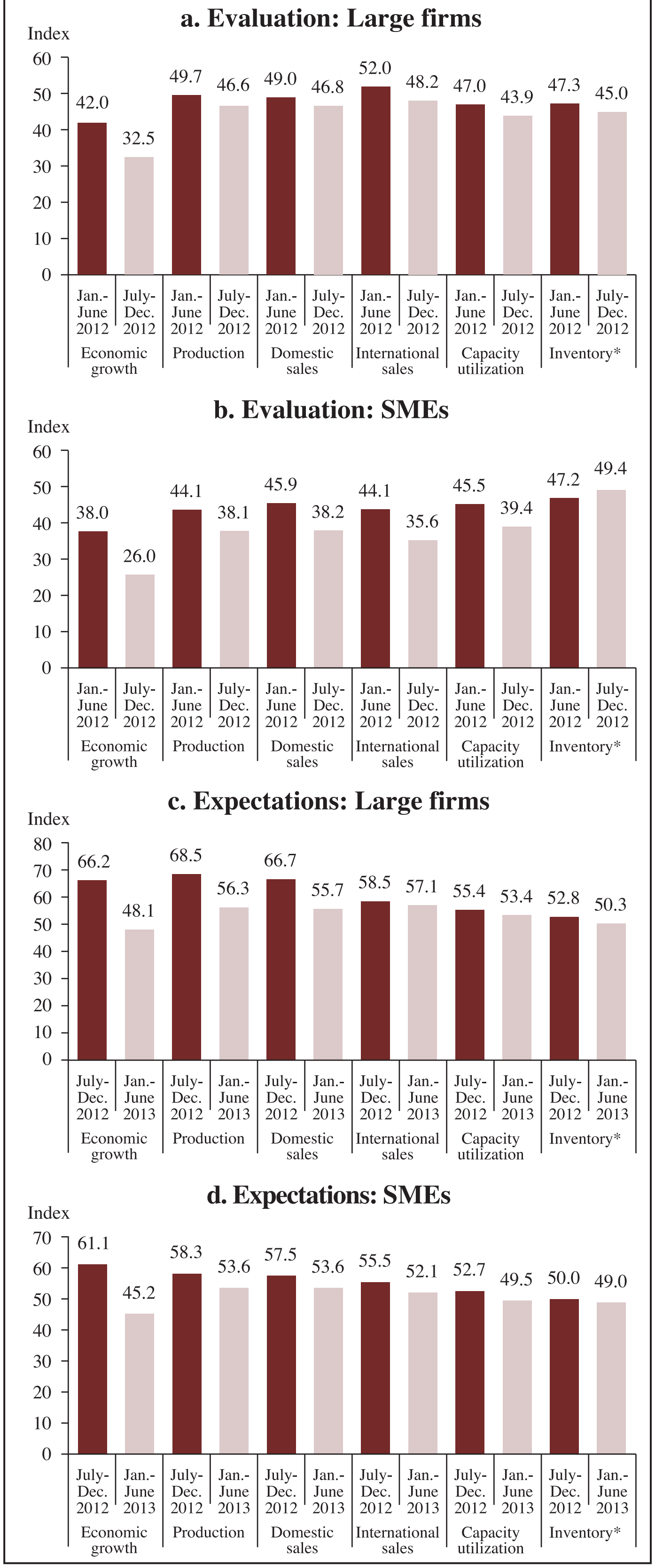
Figures 5a and 5b reflect a slight general decline in economic activity indicators, with a more pronounced decline in the assessment of economic growth. This pronounced decline is in line with the drop in real annual GDP growth from 4.2 percent in the first half of 2012 to 2.6 percent in the period July-September. These patterns come after preliminary signs of recovery were reported in the last issue of the *Business Barometer*, as shown in Figure 4. Indeed, more than half of large firms and SMEs have reported perceptions of lower growth in the second half of 2012 compared to the first half of the year. Comparing 5a with 5b shows that the drop in growth is more felt by SMEs. Survey data also show that it is more felt by private firms than public firms. Across sectors, results are very similar, though finance firms reported a relatively better evaluation of economic growth.

Production, domestic sales and international sales

Indexes of production, domestic sales and international sales declined by 2-4 points in large firms, and by 6-9 points in SMEs (Figures 5a and 5b). Many firms that had reported stability of these variables in the last survey reported the decrease thereof in the current survey (Table 1). This is more pronounced in the private sector. Across sectors, manufacturing industries fared better than service activities, though some industries had lower-than-average results such as textiles and clothing. Among services, the financial sector reported relatively better results regarding production and sales. Figure 9 at the end of this barometer will show in detail the main business constraints faced by firms during the last six months.

According to survey data, 59 percent of firms indicated that the exchange rate depreciation had a negative effect

Figure 5. Economic Activity

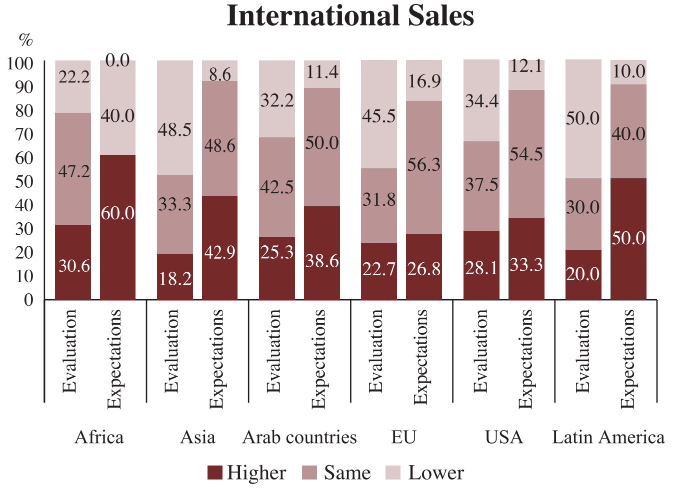


Source: Survey results.
* The index for inventory is inverted to indicate the negative impact of its increase on businesses. Hence, a higher inventory index indicates lower inventory.

on their activities, while 36 percent reported no effect and only 5 percent denoted it had a positive effect. Exporters stated high intermediate input costs as the primary constraint on their exports. This becomes even more significant with the weakening pound, especially that 52 percent of exporters' inputs on average are imported.

The unconducive business environment was exacerbated by weak global demand. As shown in Figure 6, a large share of firms exporting to Latin America, followed by Asia, the EU and the US, reported a decline in exports; mainly service exports like transport services, tourism and telecommunications. Slowdown in these economies is believed to have been the main reason behind their low imports. For instance, Latin America's growth went down from 4.5 percent in 2011 to 3.2 percent in 2012, US growth declined from 3.1 percent in the first half of 2012 to 2.2 percent in the second half, while EU growth remained around -0.1 percent over the same period. These trends have been partially offset by stable or increasing exports to Africa and Arab countries. Favorable expectations were mostly reported for Africa, Latin America and Asia, where growth prospects are expected to be better in 2013.

Figure 6. Geographic Distribution of International Sales



Source: Survey results.

Capacity utilization and inventory

In line with production, a decline was observed in the capacity utilization index, for both large firms and SMEs. The largest share of firms reporting a decrease in capacity utilization was in tourism and telecommunications. The decline in capacity utilization was larger in the private sector than in the public sector.

The inventory index[6] has decreased for large firms and increased for SMEs, indicating higher inventory for the former and lower inventory for the latter. Sales dropped by more than production for large firms, while the opposite was true for SMEs.

Expectations

A conservative outlook by large firms, SMEs less cautious

Firms' outlook for the first half of 2013 is less optimistic than their previous outlook, particularly in their expectations for economic growth, production and sales. The less favorable outlook is more pronounced for large firms in these variables (Figures 5c and 5d). At the sectoral level, firms' outlook for economic growth, production and sales is the most optimistic in finance, and the least optimistic in tourism. In line with their evaluation, private firms have a less positive outlook than public firms. The decline in the capacity utilization and inventory indexes mirrors the expected slowdown in sales and production.

When asked to what extent they expect the economic environment to be conducive to raising their exports during the next six months, exporting firms mostly indicated it would not be favorable, while some firms indicated it would have a positive but limited impact

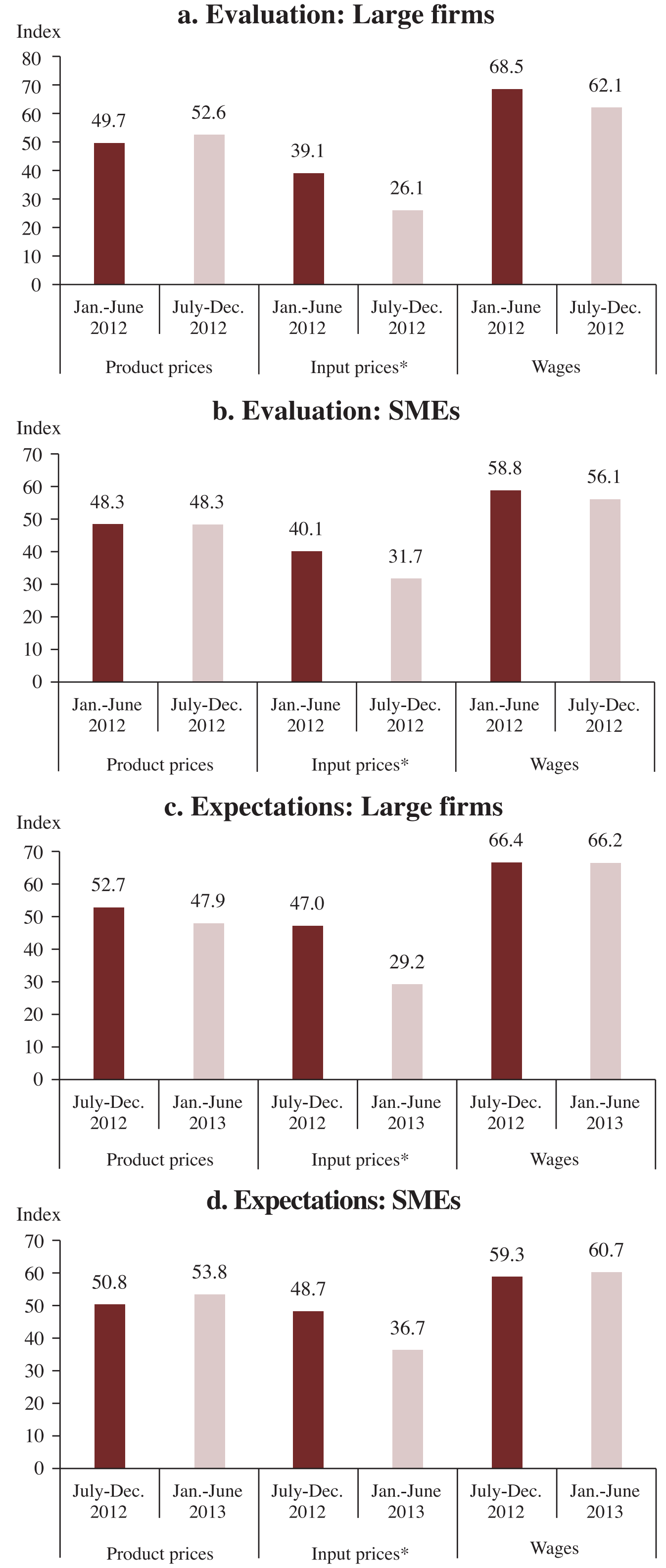
This conservative outlook can be explained by several factors, including ongoing political turmoil, the currency depreciation and its expected pass-through effect, the widening fiscal deficit and the price increase expected to follow, along with the resulting expected subsidy decrease and tax increase.

[6] As noted under Figure 5, the inventory index is inversely related to inventory levels in order to reflect their negative impact on the overall business index.

Prices and Wages

Figure 7. Prices and Wages

a. Evaluation: Large firms



Source: Survey results.
* The index for input prices is inverted to indicate the negative effect of the increase of input prices on businesses. Hence, a lower value of this index indicates higher input prices.

Evaluation

Modest increase in output prices, more pronounced in input prices and modest decrease in wages

Output prices

While the output price index remained stable for SMEs during July-December 2012, it increased modestly for large firms (from 49.7 to 52.6), although the majority of firms reported stable prices. These relatively stable or meagerly increasing trends are in line with the weak economic activity and slowdown in inflation caused by shrinking domestic and global demand.

All sectors reported stable output prices with the exception of construction and tourism, which witnessed increases. Within the construction sector, the index inched up to 55 (Table 3) compared to 48 during the previous six months. The reported increase can be ascribed to the increase in input prices, specifically steel and cement, in addition to the decrease in energy subsidies granted to cement and heavy industries that the construction industry is heavily dependent on. On the other hand, the tourism sector surprisingly saw an increase in its output prices registering an index of 48 during July-December 2012, up from 39 during the previous six months. This was triggered primarily by the hike in input prices and the relatively quick positive response of tourism demand after the presidential election. According to official data, the sector's income recorded an increase of 28 percent in October 2012 relative to October 2011.

Input prices

The input price index witnessed a decrease for large firms and SMEs, reflecting a hike in these prices[7] during July-December 2012. The increase in prices was consistent across all sectors, with the most significant increase reported in construction as mentioned above, where the input price index decreased by half its value, hitting a low of 24 during July-December 2012, down from 49 during the previous half. Also, the 6.8 percent protectionist tariff imposed on imported steel rebars has driven steel prices higher.

Wages

The wage index decreased slightly for SMEs, but more significantly for large firms during July-December 2012. These results were consistent across all sectors except for construction, which witnessed an increase in the wage level in line with the increase in its output prices. Moreover, public firms reported a larger increase in wages than private firms, registering a wage index of 75 and 57, respectively, during July-December 2012. This can reflect the annual salary increases with the start of the new fiscal year as well as the wage increases introduced by the government to appease labor protests.

Expectations

Higher prices in light of inflationary expectations

The majority of firms expect higher input prices, which is in line with inflationary expectations in the upcoming six months. However, this is not expected to fully translate into an increase in the output price index due to weakening domestic and foreign demand reflected in lower expected sales (Figure 5c and 5d). At the sectoral level, all firms expect a stable or modest increase in output prices; however, higher input prices are expected for all sectors, especially construction (Table 3).

For the upcoming six months, most public firms plan to increase wages in response to persisting labor protests. Firms in various sectors are anticipating wages to stabilize or increase modestly.

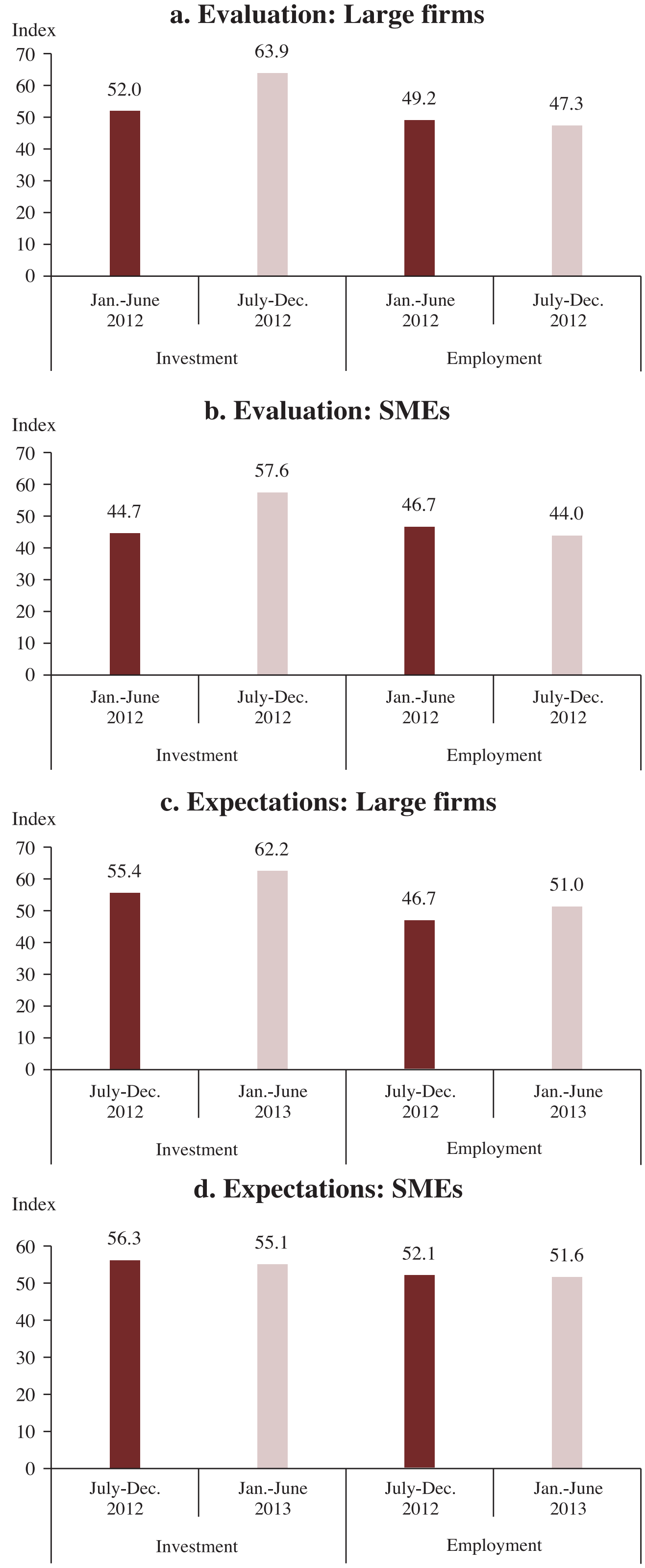
Investment and Employment

Evaluation

Rise in investments with limited impact on job creation

Optimism prevailed initially upon the election of the first civilian president, motivating firms to expand investments. Consequently, the investment index witnessed an increase for both large firms and SMEs.

Figure 8. Investment and Employment



Source: Survey results.

[7] The input price index is inversely related to input prices in order to reflect their negative impact on the overall business index.

All sectors saw a rise in investments with the exception of the financial intermediation sector. When political turmoil broke out later and affected activity indicators, such investments were already in place and could not be reversed as most of them are in fixed assets. Most of the reported investments were mainly directed to purchasing new machinery and equipment, buildings as well as to land acquisition, which are non-labor intensive. The employment index saw a slight decrease for large firms and SMEs during July-December 2012. The decrease in employment was slightly more pronounced among private firms, registering an index of 45, compared to 48.3 in public firms. This trend reflects an attempt to reduce current costs.

Expectations

Modest increase in investment and employment in large firms, with expected stability for SMEs

Large firms plan modest increases in investment, with SMEs anticipating stable investment. This is expected across all sectors with the exception of the financial sector, which seems highly vulnerable to the ongoing unrest. This sector registered an index of 47 compared to an average of 65 across sectors.

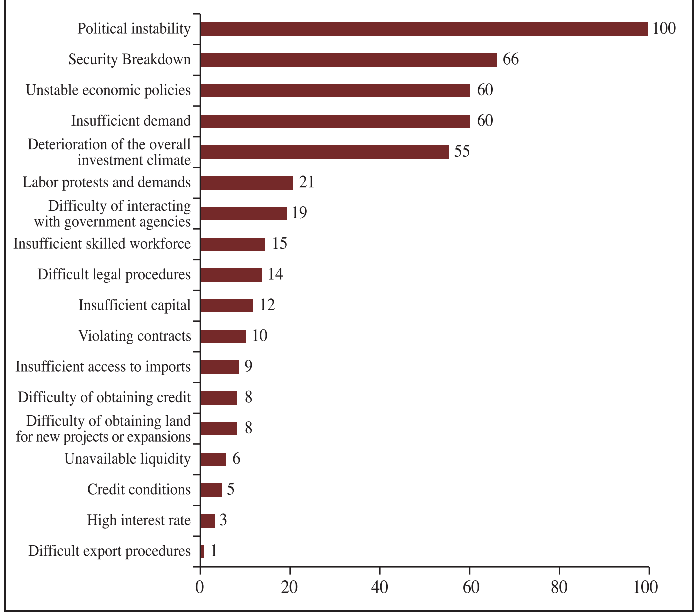
Regarding employment, large firms anticipate an increase in employment in line with their planned expansions, while SMEs intend to keep the employment level stable consistent with their investment plans. This is expected to hold across sectors, again with the exception of the financial sector.

Business Constraints

Major constraints: Political instability, security breakdown, unstable economic policies and insufficient demand

Figure 9 shows the major constraints on doing business in a descending order of severity, as perceived by respondents. The two most severe impediments reported by firms during July-December 2012 were political instability and security breakdown. This is the first time political instability ranks as the most severe constraint. Unstable economic policies were also among the major constraints during July-December 2012 due to a lack of a clearly defined economic reform program. Insufficient demand remained a major constraint as a result of continued insecurity and higher unemployment, particularly for demand elastic sectors such as construction, telecommunications and tourism.

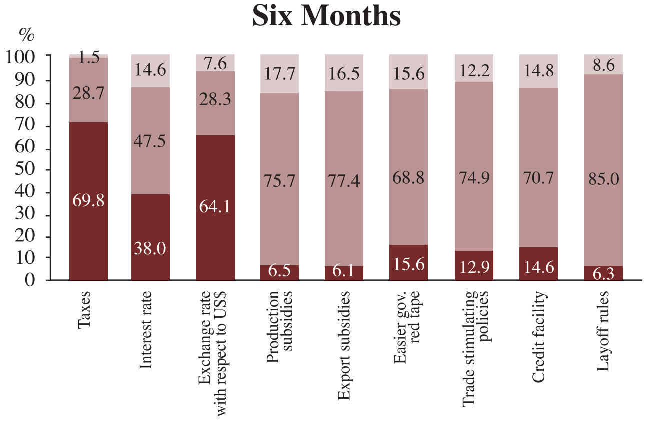
Figure 9. Major Constraints Facing the Business Sector (Normalized index of severity)



Source: Survey results.

Regarding policy expectations (Figure 10), the majority of firms anticipate higher taxes, especially on beverages and tobacco, telecommunications and petroleum products in the upcoming six months. These responses are mainly due to the recently declared, yet suspended, new taxation rules targeting those sectors. More currency depreciation and higher interest rates are also expected in light of the widening fiscal deficit and in an attempt to limit dollarization. Firms do not expect changes in production subsidies, trade, credit or employment policies. In response to a question about what firms request from the government in the period ahead, 40 percent of firms responded with "restoring stability," 11 percent with "increasing production subsidies," and 10 percent with "decreasing taxes." Other requests included "easing government procedures," "enhancing transparency," and "restructuring government agencies."

Figure 10. Policy Expectations for the Coming Six Months



Source: Survey results.

Appendix: Index Methodology

The index aims at calculating a single figure for the responses of firms on each variable.

The index's equation is:

$$x=[(I+S)/(100+S)]\text{x}100 \quad ,$$

where I is the share of firms reporting an increase and S the share of firms reporting "same". The index is designed to have a maximum of 100 when all firms report an increase, a minimum of 0 when all firms report a decrease and a middle value of 50 when all firms report no change. Between 0 and 100, the index grows proportionally with larger shares of "increase," and inversely with larger shares of "decrease," while the change in "same" is given less effect by including it in the numerator and the denominator. A higher index thus reflects a better business climate and vice versa. It is worth noting that the index is inverted for both inventory and input prices as increases of these two variables reflect an adverse business climate for firms.

The Business Environment index (Figure 4) is a simple average of the variables' indexes, calculated once for large firms and once for SMEs, both for evaluation and expectations.

Table 1. Survey Results: Summary Evaluation for all Firms (July-December 2010 - July-December 2012)[1]

Indicator	July-Dec. 2010				Jan.-Dec. 2011				Jan.-June 2012				July-Dec. 2012			
	Higher	Same	Lower	**Index[2]**	Higher	Same	Lower	**Index[2]**	Higher	Same	Lower	**Index[2]**	Higher	Same	Lower	**Index[2]**
Economic growth	28	49	24	**51.7**	2	8	90	**9.3**	16	40	44	**40.0**	12	24	64	**29.0**
Business activity																
Production	37	43	20	**55.9**	10	18	72	**23.7**	20	49	31	**46.3**	23	33	44	**42.1**
Domestic sales	36	44	20	**55.6**	11	17	72	**23.9**	20	52	29	**47.4**	21	37	42	**42.3**
International sales	36	50	14	**57.3**	16	25	59	**32.8**	22	56	22	**50.0**	24	36	40	**44.1**
Inventory	20	63	18	**49.7**	27	52	22	**48.7**	18	72	9	**47.1**	22	66	12	**47.0**
Level of capacity utilization	24	61	15	**52.8**	11	43	46	**37.8**	7	74	19	**46.6**	7	59	34	**41.5**
Prices																
Final product prices	24	69	8	**55.0**	16	65	19	**49.1**	8	80	12	**48.9**	13	74	13	**50.0**
Intermediate input prices	61	39	1	**28.8**	58	40	3	**30.7**	36	61	2	**39.1**	60	38	2	**29.0**
Wage level	35	64	1	**60.4**	54	37	9	**66.4**	44	52	4	**63.2**	31	67	2	**58.7**
Primary inputs																
Investment	32	65	3	**58.8**	17	70	12	**51.2**	17	64	18	**49.4**	42	49	9	**61.1**
Employment	12	78	11	**50.6**	6	65	28	**43.0**	6	80	14	**47.8**	6	72	22	**45.3**

Table 2. Survey Results: Summary Expectations for all Firms (January-June 2011 - January-June 2013)[1]

Indicator	Jan.-June 2011				April-Dec. 2011				Jan.-June 2012				July-Dec. 2012				Jan.-June 2013			
	Higher	Same	Lower	**Index[2]**	Higher	Same	Lower	**Index[2]**	Higher	Same	Lower	**Index[2]**	Higher	Same	Lower	**Index[2]**	Higher	Same	Lower	**Index[2]**
Economic growth	41	46	12	**59.6**	38	34	27	**53.7**	30	54	16	**54.5**	47	46	7	**63.7**	25	41	34	**46.8**
Business activity																				
Production	50	40	9	**64.3**	45	36	19	**59.6**	34	61	5	**59.0**	43	54	4	**63.0**	29	57	15	**54.8**
Domestic sales	49	43	8	**64.3**	44	37	19	**59.1**	33	61	6	**58.4**	39	58	3	**61.4**	27	59	13	**54.1**
International sales	45	43	12	**61.5**	32	52	16	**55.3**	30	65	4	**57.6**	31	63	6	**57.7**	32	53	15	**55.6**
Inventory	12	68	20	**52.4**	12	66	21	**52.4**	10	79	11	**50.3**	4	86	10	**51.6**	9	85	6	**49.2**
Level of capacity utilization	32	62	6	**58.0**	20	71	9	**53.2**	15	82	3	**53.3**	16	82	2	**53.8**	10	83	6	**50.8**
Prices																				
Final product prices	29	68	3	**57.7**	21	73	7	**54.3**	11	87	2	**52.4**	8	90	2	**51.6**	21	76	3	**55.1**
Intermediate input prices	47	50	2	**34.7**	33	64	3	**40.9**	27	71	2	**42.7**	11	87	2	**47.6**	49	49	2	**34.2**
Wage level	57	42	1	**69.7**	35	62	3	**59.9**	41	58	1	**62.7**	41	59	1	**62.9**	43	56	1	**63.5**
Primary inputs																				
Investment	40	58	2	**62.0**	21	68	11	**53.0**	18	82	0	**54.9**	23	74	3	**55.7**	34	63	3	**59.5**
Employment	14	80	6	**52.2**	9	86	5	**51.1**	9	87	4	**51.3**	8	91	1	**51.8**	10	84	6	**51.1**

[1] Numbers represent percent of total responses. Higher, same and lower may not add up to 100 due to rounding.
[2] The index's method of calculation is provided in the appendix.

Table 3. Survey Results: Summary of Business Sector Evaluation and Expectations[1]

Indicator	Manufacturing Sector								Construction Sector								Tourism Sector							
	Evaluation July-Dec. 2012				Expectations Jan.-June 2013				Evaluation July-Dec. 2012				Expectations Jan.-June 2013				Evaluation July-Dec. 2012				Expectations Jan.-June 2013			
	Sector's evaluation index:[2] 45.5				Sector's expectations index:[2] 53.7				Sector's evaluation index:[2] 42.6				Sector's expectations index:[2] 51.8				Sector's evaluation index:[2] 41.2				Sector's expectations index:[2] 49.0			
	Higher	Same	Lower	**Index**	Higher	Same	Lower	**Index**	Higher	Same	Lower	**Index**	Higher	Same	Lower	**Index**	Higher	Same	Lower	**Index**	Higher	Same	Lower	**Index**
Economic growth	9	28	63	**28.9**	22	51	27	**48.3**	16	18	66	**28.8**	27	20	53	**39.2**	20	15	65	**30.4**	23	35	43	**43.0**
Business activity																								
Production	20	37	43	**41.6**	29	62	9	**56.2**	20	25	55	**36.0**	40	35	25	**55.6**	25	28	48	**41.4**	23	45	33	**46.9**
Domestic sales	20	37	43	**41.6**	28	63	9	**55.8**	19	26	56	**35.7**	38	33	29	**53.4**	11	66	24	**46.4**	18	66	16	**50.6**
International sales	30	39	30	**49.6**	38	55	7	**60.0**	0	67	33	**40.1**	63	38	0	**73.2**	31	19	50	**42.0**	15	46	38	**41.8**
Inventory	22	66	12	**47.0**	8	85	6	**49.2**	17	67	17	**50.3**	14	86	0	**46.2**					0	100	0	**50.0**
Level of capacity utilization	7	60	33	**41.9**	10	86	3	**51.6**	0	77	23	**43.5**	0	95	5	**48.7**	13	35	53	**35.6**	8	70	23	**45.9**
Prices																								
Final product prices	12	76	11	**50.0**	20	79	1	**55.3**	27	62	11	**54.9**	42	58	0	**63.3**	13	68	20	**48.2**	13	75	13	**50.3**
Intermediate input prices	59	39	2	**29.5**	39	61	0	**37.9**	69	31	0	**23.7**	81	17	2	**16.2**	65	35	0	**25.9**	65	35	0	**25.9**
Wage level	39	59	2	**61.6**	46	54	0	**64.9**	38	60	2	**61.3**	38	55	7	**60.0**	25	75	0	**57.1**	48	53	0	**66.0**
Primary inputs																								
Investment	45	49	6	**63.1**	34	66	0	**60.2**	25	56	19	**51.9**	45	50	5	**63.3**	80	20	0	**83.3**	50	50	0	**66.7**
Employment	6	74	20	**46.0**	6	91	3	**50.8**	9	58	33	**42.4**	20	64	16	**51.2**	8	60	33	**42.5**	13	83	5	**52.5**

Indicator	Transportation								Communications								Financial Intermediaries							
	Evaluation July-Dec. 2012				Expectations Jan.-June 2013				Evaluation July-Dec. 2012				Expectations Jan.-June 2013				Evaluation July-Dec. 2012				Expectations Jan.-June 2013			
	Sector's evaluation index:[2] 47.0				Sector's expectations index:[2] 49.3				Sector's evaluation index:[2] 43.6				Sector's expectations index:[2] 51.5				Sector's evaluation index:[2] 49.5				Sector's expectations index:[2] 54.8			
	Higher	Same	Lower	**Index**	Higher	Same	Lower	**Index**	Higher	Same	Lower	**Index**	Higher	Same	Lower	**Index**	Higher	Same	Lower	**Index**	Higher	Same	Lower	**Index**
Economic growth	7	28	65	**27.3**	17	37	46	**39.4**	14	7	79	**19.6**	25	39	36	**46.0**	18	29	53	**36.4**	40	31	29	**54.2**
Business activity																								
Production	19	31	50	**38.2**	13	69	19	**48.5**	14	36	50	**36.8**	18	64	18	**50.0**	39	31	31	**53.4**	42	48	10	**60.8**
Domestic sales	17	33	50	**37.6**	11	70	19	**47.6**	15	41	44	**39.7**	15	70	15	**50.0**	39	32	29	**53.8**	42	48	10	**60.8**
International sales	8	38	54	**33.3**	8	77	15	**48.0**	0	44	56	**30.6**	25	50	25	**50.0**	67	0	33	**67.0**	75	25	0	**80.0**
Inventory									0	0	100	**100.0**					0	100	0	**50.0**				
Level of capacity utilization	20	60	20	**50.0**	0	100	0	**50.0**	0	54	46	**35.1**	25	64	11	**54.3**	8	76	16	**47.7**	8	88	4	**51.1**
Prices																								
Final product prices	7	74	19	**46.6**	13	83	4	**52.5**	0	86	14	**46.2**	21	71	7	**53.8**	13	79	8	**51.4**	16	81	3	**53.6**
Intermediate input prices	50	50	0	**33.3**	0	100	0	**50.0**	44	52	4	**36.8**	30	59	11	**44.0**	58	42	0	**29.6**	72	24	3	**21.8**
Wage level	19	80	2	**55.0**	24	76	0	**56.8**	18	75	7	**53.1**	46	54	0	**64.9**	13	84	3	**52.7**	47	52	2	**65.1**
Primary inputs																								
Investment	100	0	0	**100.0**	0	100	0	**50.0**									25	63	13	**54.0**	9	73	18	**47.4**
Employment	2	91	7	**48.7**	6	87	7	**49.7**	0	61	39	**37.9**	14	75	11	50.9	10	76	15	**48.9**	15	81	5	**53.0**

[1] Numbers represent percent of total responses. Higher, same and lower may not add up to 100 due to rounding.
[2] Equal to the simple average of the variables' indexes. The index's method of calculation is provided in the appendix.