



**Performance & Expectations of
the Egyptian Business Sector**

About the Egyptian Center for Economic Studies

The Egyptian Center for Economic Studies (ECES) is an independent, non-profit think tank that conducts specialized economic research, drawing on international experience and constructive discussions among various stakeholders. ECES's main objective is to propose sound economic policies, and institutional and legislative reforms that contribute to sustainable development in Egypt, all on the basis of combined economic efficiency and social justice.

About the Business Barometer

This edition of the Business Barometer reports the results of a stratified sample of 120 public and private firms. The survey covers their assessment of economic growth and the results of their operations over the fourth quarter of FY 2015/2016. It also summarizes their expectations for overall future economic performance as well as their own activities for the first quarter of FY 2016/2017.

From the ECES Board of Directors

Omar Mohanna, *ECES Chairman, and Chairman, Suez Cement Group of Companies*

Mohamed Taymour, *ECES Vice Chairman, and Chairman, Pharos Holding Co. for Financial Investments*

Tarek Zakaria Tawfik, *ECES Secretary General, and Managing Director, Cairo Poultry Group (CP)*

Alaa Hashim, *ECES Treasurer, and Chairman, TRANSCENDIUM*

ECES Team

Dr. Abla Abdel Latif, *Executive Director and Director of Research*

Magda Awadallah, *Deputy Executive Director for Finance and Administration*

Mohsen Adel, *Financial Consultant*

Khaled Wahid, *Statistical Analyst*

Kadry Sayed, *IT Manager*

Yasser Selim, *Managing Editor*

Fatema Ali, *Translator/Editor*

For more information, please contact:

The Egyptian Center for Economic Studies

Nile City Towers, North Tower, 8th floor

Corniche El Nil, Cairo 11221, Egypt

Tel.: {202} 24619037- 44 Fax: {202} 24619045

E-mail: eces@eces.org.eg

URL: www.eces.org.eg



Business Barometer

Issue No. 40 - 2016

Contents

Overview

Performance Indicators

Business Strategy Going Forward

Constraints Facing the Business Sector

Commentary on Survey Results



Overview

This edition of *the Business Barometer (BB)* presents the survey results of a stratified panel of 120 firms regarding their perceptions about the performance of the Egyptian economy and assessment of their own business for the fourth quarter of FY15/16 (April-June) and their outlook for the first quarter of FY16/17 (July-September).

Despite the relative improvement in economic indices, the limited increase rings an alarm to the government to revisit its policies with a view to stimulating the Egyptian economy, especially in light of the three overriding concerns of the business community, namely, foreign currency availability, escalating inflation and slow growth.

Performance Indicators

Egypt's transactions with the outside world during the first nine months of FY15/16 (July-March) led the overall balance of payments deficit to increase to \$3.6 billion compared to 1\$ billion during the corresponding period of the previous fiscal year. This was coupled with a rise in the current account deficit to about \$14.5 billion (compared with about \$8.3 billion), while the capital and financial account posted a net inflow of about \$13.9 billion (compared with about \$6.6 billion).

The current account deficit is the outcome of several developments, including the trade balance deficit that amounted to about \$29.3 billion (compared with \$29.5 billion in the corresponding period). This is due in part to Egyptian exports and imports being affected by the decline in world oil prices. Commodity export earnings decreased by about \$3.7 billion to reach \$13.4 billion only (compared with about \$17.1 billion).

Meanwhile, annual inflation stood at 14.8 percent in July 2016 according to data published by Central Agency for Public Mobilization and Statistics, while monthly inflation rose by 0.7 percent in July 2016 compared to June of the same year, due to price increases in vegetables, grains, bread, eggs, fruit, tobacco as well as a group of miscellaneous goods and services.

The budget deficit during the first 11 months of FY15/16 rose to 11.2 percent of GDP compared with 10.8 percent of GDP during the corresponding period of the previous fiscal year. The overall deficit reached EGP 311 billion during the period July-May 2016 compared to EGP 262 billion (equivalent to 10.8 percent of GDP), during the corresponding period of the previous year.

International reserves declined to \$15.54 billion by the end of July compared to \$17.55 billion by the end of June—a decrease of \$2 billion as a result of the Central Bank’s repayment of all external commitments and availing foreign exchange needed to secure imports.

The government has begun implementing its economic reform program, after formally asking the International Monetary Fund to support the country in reviving its troubled economy, and to provide \$12 billion in loans over three years.

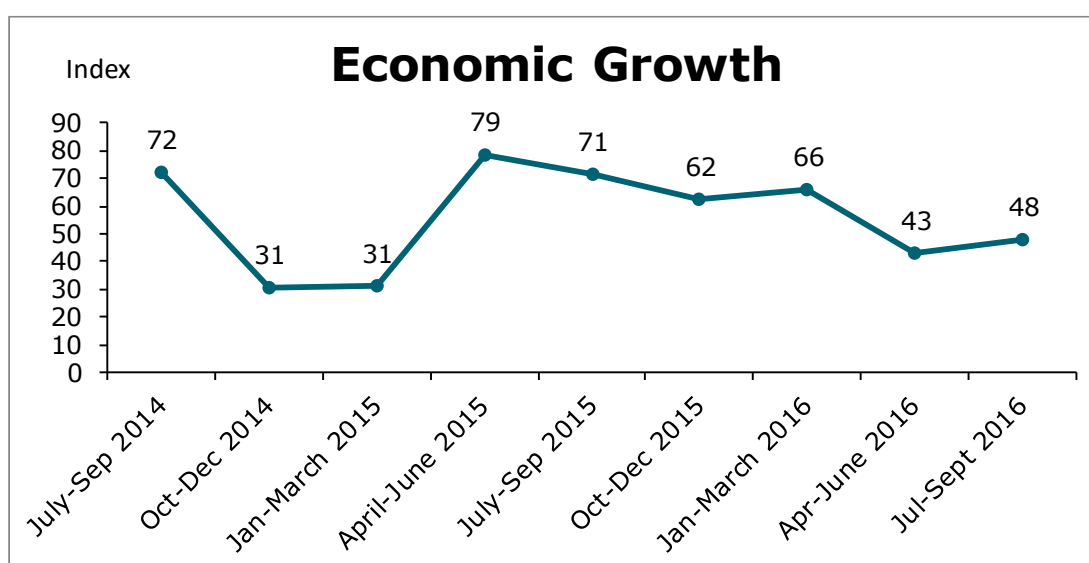
Business Strategy Going Forward

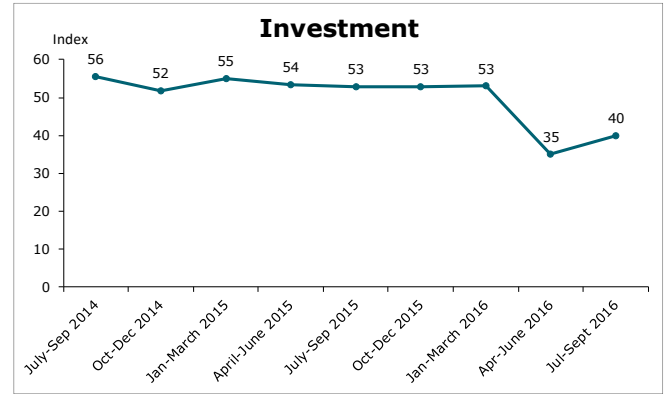
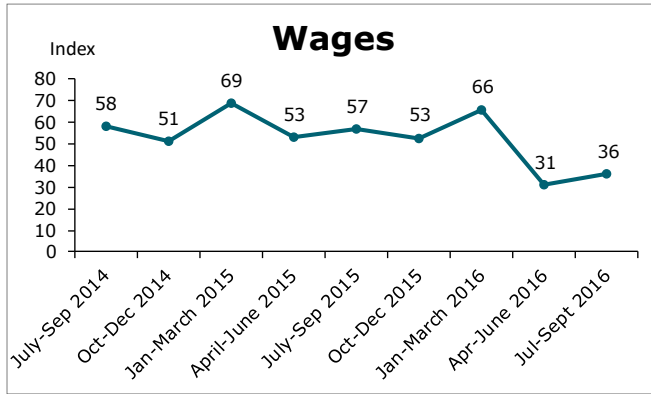
Firms’ outlook for the upcoming quarter July-September 2016 is more optimistic than their expectations for the previous quarter in contrary to their declining performance in April-June 2016. Their expectations for economic growth were cautious in line with the current obstacles facing growth.

Sectorally, the manufacturing and the financial intermediation sectors expressed the most optimistic outlook, reporting higher economic growth, production and wages.

Both SMEs and large firms expressed an optimistic outlook. Yet, large firms are more optimistic than SMEs. All firms expect a wage increase during the upcoming quarter.

The index of expected economic growth rose by 5 points to 48 points in the first quarter of FY16-17 compared to 43 points in the fourth quarter of FY15-16. The wage index trended upward during the third quarter of the year along with increased expectations of investment growth during the same period.





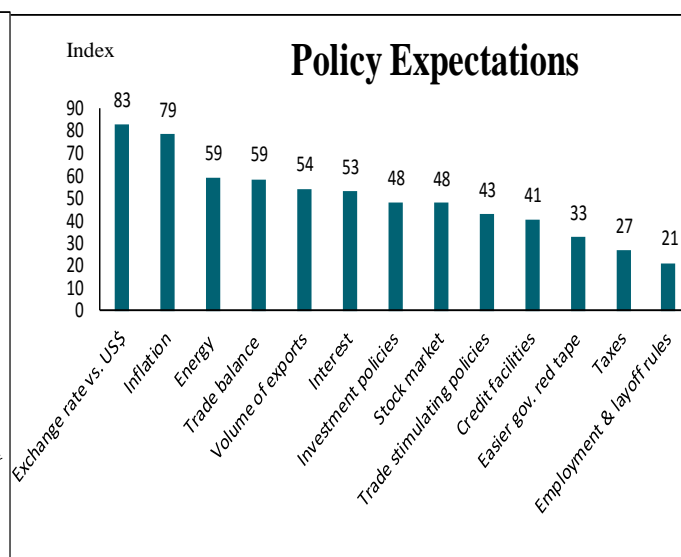
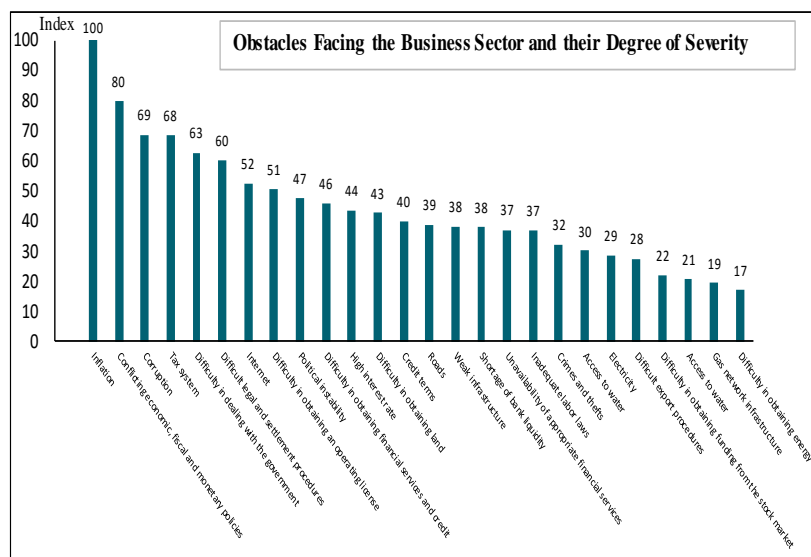
Constraints Facing the Business Sector

Inflation was among the main constraints in this quarter (July-September 2016), perhaps due to in part to the Central Bank's decision to increase interest rates in an attempt to check inflation. On the other hand, the rise in interest rates did not hinder firms' performance as it was reported as the least constraint. Red tape represented a major risk for firms. Firms also faced obstacles related to labor, access to land and gas network infrastructure.

During the previous quarter, government policies were on top of the obstacles facing firms, with red tape representing a main risk for firms, and inflation coming in an intermediate position. Also, in the previous quarter, the rise in interest rates did not hinder firms' performance as it was reported as the least constraint.

Trade stimulating policies and reducing red tape were among the policy expectations. Since red tape is a persistent constraint facing firms, there is an increasing need to reduce it. The exchange rate policy was at the forefront of policies the business community asked the government to address, including alleviating its impact and increasing foreign currency availability.

The Central Bank is expected to adopt a more flexible exchange rate system as a necessary step to secure the IMF loan. However, this should occur gradually, taking into account the availability of foreign exchange to meet demand, especially in a country like Egypt that depends heavily on imports for production inputs.



Commentary on Survey Results

It may be encouraging to see signs of improved confidence in economic growth prospects, even if these signs are temporary.

But it must be emphasized that the results still point out the need to stimulate external demand factors such as promoting exports, attracting more investment and addressing problems related to the investment climate in light of the current shortage of foreign currency, which is expected to continue until the end of the first quarter of FY16-17. Addressing the lack of foreign currency liquidity is essential to bring about greater economic stability; especially that exchange rate uncertainty in the short term can lead to further reductions in growth, and a further escalation in inflationary pressures.

In addition, improving the legislative structure of the economy would raise the level of economy performance, especially if substantive reform measures are taken with respect to the tax and industrial licensing systems, the investment law, mechanisms of land allocation, in addition to the issuance of a law that governs and encourages the small and medium enterprise sector.