

COVID SPECIAL



# Business Barometer

Issue #59

April – June 2021



## Businesses Evaluation and Outlook





## The Egyptian Center for Economic Studies

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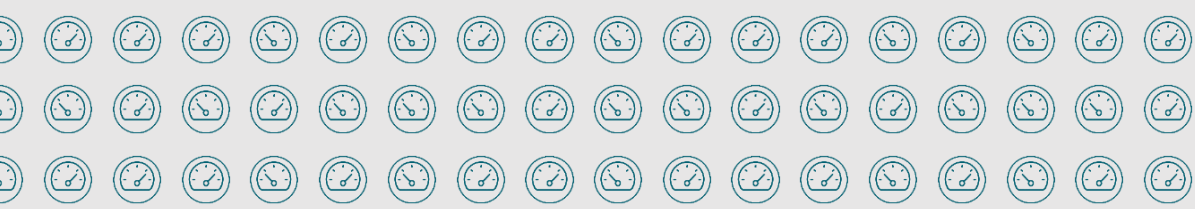
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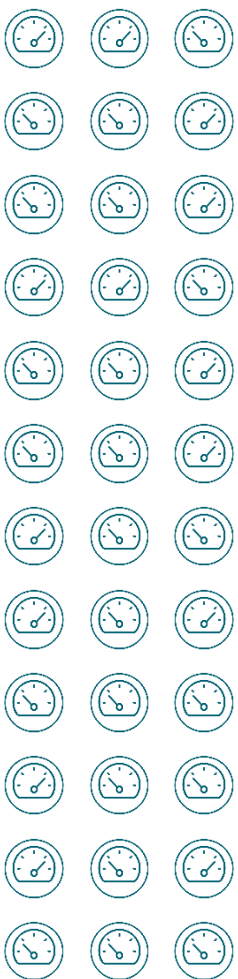


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## Contents



<b>Business Barometer: Methodology</b>	<b>5</b>
<b>Executive Summary</b>	<b>7</b>
<b>Overview</b>	<b>7</b>
<b>Business Barometer Index</b>	<b>9</b>
<b>I. Past performance evaluation and outlook for the upcoming period, according to the overall index</b>	<b>15</b>
<b>II. Constraints faced by businesses during the quarter under review and priorities for improving the business environment from their perspective</b>	<b>20</b>
<b>III. Evaluating performance and outlook at the level of sub-indices</b>	<b>25</b>
<b>Tables Index</b>	<b>31</b>

# Business Barometer: Methodology

To complement its efforts in providing integrated information that reflects the developments witnessed by the Egyptian economy in general, and the business community in particular, the Egyptian Center for Economic Studies (ECES) has been issuing the Business Barometer (BB) since 1998. The BB provides a quarterly evaluation of the performance of a sample of private firms covering various sectors and sizes. This assessment reflects the views of the business community regarding developments across a set of variables during the quarter under review, and sheds light on its outlook for the developments of the same set of variables in the next quarter.

## 1. Production and Sales Indicators



## 2. Prices and Costs Indicators



## 3. Investment and Employment Indicators

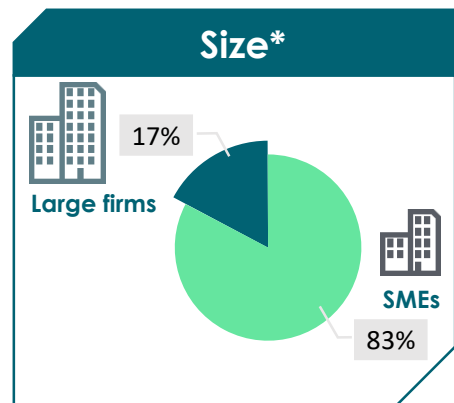
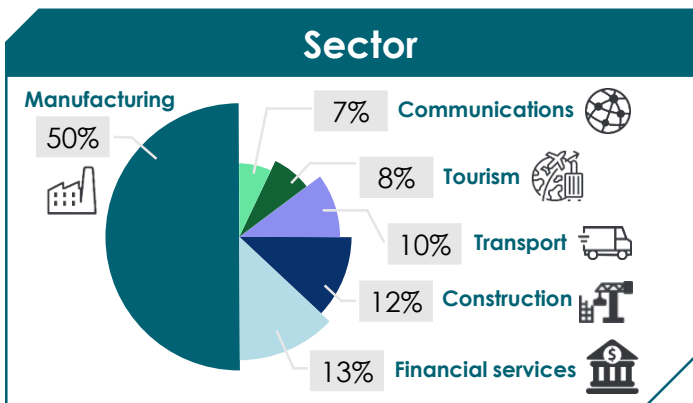


The importance of this issue of the BB is further reinforced by the challenges faced by the business community since the beginning of 2020 as a result of the COVID-19 pandemic. Therefore, it is important to track the impact of the pandemic on the business community, especially in light of the measures taken by the government to counter its impact.

This issue offers an assessment of the performance of the sample at hand during the quarter (April - June 2021) and its outlook for the quarter (July - September 2021).

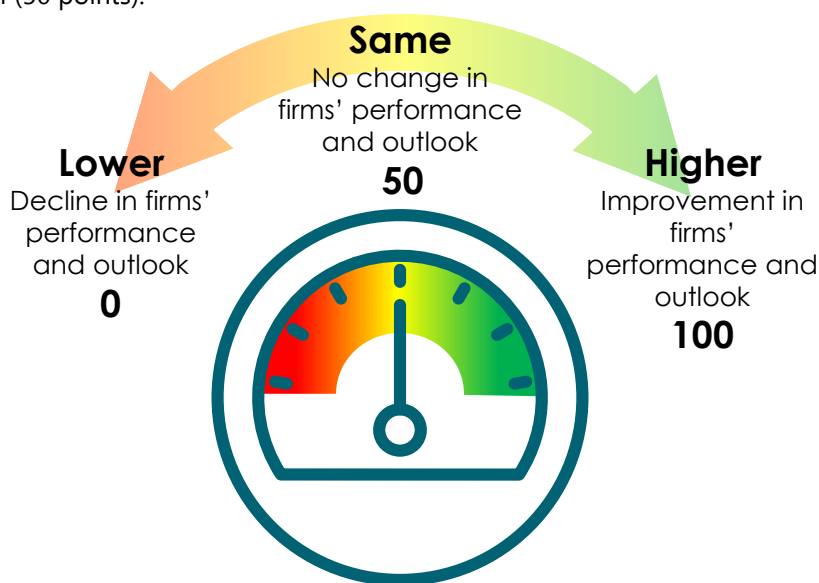
The report begins with an overview of the macroeconomy at the global and domestic levels, and presents the evaluation and outlook results of the overall index. It then moves on to the constraints faced by the business community during the quarter under study, and the priorities suggested for improving the business climate from the perspective of the sample firms. Finally, it concludes with an assessment of performance and outlook at the level of sub-indices.

The BB is built on the results of an ECES quarterly survey of a stable sample of 121 private firms distributed as follows:



\* According to the Central Bank of Egypt (CBE) definition issued 5 March 2017.

- The analysis evaluates the performance of the sample firms during the quarter under study and their outlook for the next quarter, comparing the results with those of the previous quarter and the corresponding quarter of the previous year.
- Performance and outlook are evaluated at two levels: results of the overall index and results of sub-indices.
- The BB Index represents a simple average of the set of sub-indices of the variables mentioned in the questionnaire. The overall index takes values greater than, less than, or equal to the neutral level (50 points).



The sub indices are calculated for each variable using this equation:

$$X = \frac{I + S}{100 + S} \times 100$$

where  $I$  is the share of firms reporting an increase and  $S$  is the share of firms reporting "same."

The index is designed to have a maximum of 100 points 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. The index ranges between 0 and 100, with the higher index reflecting a better business environment and vice versa. It is worth noting that the index is inverted for both inventories and input prices as increases in these two variables reflect an unfriendly business environment for firms.

### Constraints and Suggested Priorities for Improving the Business Environment:

Firms assess the severity of each constraint with a rating that ranges between 0 (non-significant), to 4 (highly significant). Firms are allowed to cite more than one constraint. With regards to priorities for improving the business environment. Firms also evaluate them with a view towards improving the business environment. The evaluation of each pillar ranges from 0 (not a priority), to 4 (high priority). In addition, firms are allowed to name more than one pillar as a priority to improve the business environment.

This is followed by calculating a weighted average of the number of firms and their evaluation of the constraint/priority at the whole sample level.

The averages of all constraints/priorities are re-evaluated to range between zero and 1, then normalized using new values of the averages of all constraints/priorities so that the constraints/priorities can be arranged in a descending order of severity, with 100 percent being the severest constraint and highest priority.

# Executive Summary

This report reviews the results of a periodic assessment carried out by ECES from a sample of 121 private firms, covering various sectors and sizes. The assessment reflects the perspectives of the business community regarding developments in a set of variables, namely; production, domestic sales and exports, inventory, capacity utilization, prices, wages and employment, and investment, during the period (April - June 2021). It also presents firms' outlook for the upcoming period (July - September 2021). The results are compared with both the previous quarter (January-March 2021) and the corresponding quarter (April-June 2020).

The following is a brief overview of the most important findings for the quarter under study (April - June 2021):

## I. Evaluating past performance and outlook according to the overall index

The performance index continued to decline during the quarter under study. However, firms expressed positive expectations for improvement in performance during the next quarter (July-September 2021). The evaluation of firms' past performance and their expectations varied according to firm size and sectors.

- The pandemic continues to impact the performance of the business community in Egypt. The performance index recorded a slight decline from the neutral level (50 points) during the quarter (April - June 2021). However, it remains better than both the previous and corresponding quarters.
- With respect to firm size, the index of small and medium enterprises (SMEs) continued to decline in the quarter under study, albeit to a lesser degree compared to the previous and corresponding quarters. The performance of large firms improved slightly. All firms expressed positive outlook for the upcoming quarter, which may be attributed to expectations that the crisis would end in the near future.
- At the level of economic sectors, the following is noted:
  - The communications and transport sectors performed well during the quarter under study. The index values for both sectors rose from the neutral level, while all other sectors witnessed a continued decline in performance.
  - Comparing the sectoral performance during the quarter under study with that of the previous quarter, it is clear that the performance of most sectors improved with the exception of the communications and construction sectors, which recorded better performance in the previous quarter.
  - Comparing the sectoral performance during the quarter under study with the corresponding quarter in 2020, which witnessed the largest decline due to the pandemic, it is clear that the performance of all sectors has improved.
- The outlook for the upcoming quarter (July-September 2021) is generally positive for all economic sectors, except for tourism, given the developments related to COVID-19 and the new requirements restricting the travel and movement of individuals within many countries.

## II. Constraints faced by businesses during the quarter under review and priorities for improving the business environment from firms' perspective

All firms reported that "high production costs" remain the biggest constraint they faced, followed by increased government service fees, weak purchasing power and challenges related to the tax system during the quarter under study and the previous quarter. The severity of reported constraints varied according to firm size:

- Large firms cited weak purchasing power, i.e., slowdown of domestic demand on top of the list of constraints they faced, followed by dealing with the customs system, and government procedures and service fees.
- SMEs reported high government service fees, followed by weak purchasing power, and challenges related to the tax system as the main constraints they faced.
- Comparing the constraints that firms faced during the quarter under study with those of the previous quarters clearly shows that the order of constraints differed. Constraints related to the precautionary measures declined, while firms' suffering intensified with regards to dealing with government agencies, government service fees, tax and customs systems, low purchasing power, lack of skilled labor, and inflation.
- This clearly shows that SMEs are encountering demanding constraints caused by high government service fees and failure to announce increases in service fees prior to their application with sufficient notice.

**The sample firms unanimously agreed that the priorities for improving the business environment in Egypt should include improving the process of digitizing government services, facilitating government procedures, continuing support for sectors impacted by the crisis, and revisiting energy pricing for all economic activities. Priorities varied according to firm size as follows:**

- Large firms reported that the digitization of government services, followed by improving investment policies and solving customs-related problems should be top priorities to improve the business environment.
- SMEs and large firms both agreed on the importance of digitization and the associated facilitation of government procedures. However, they believe that continuing to support crisis-hit sectors, reducing government service fees, solving their problems with the tax system, and reducing energy prices should be the utmost priorities for improving the business climate.
- In light of the government's projects and its current orientation, the business community expects further improvement in infrastructure, financial and credit services. However less improvement is expected in terms of interest rates, investment policies, skilled labor availability, and inflation. This means that more efforts are needed in these areas.



### III. Evaluating performance and expectations at the level of sub-indices

- With respect to past performance, the indices of domestic sales and production improved, while the export index of all firms declined during the quarter under study due to the increase in final products prices as a result of the rise in input prices and wages. While the investment and employment indices improved for large firms, they continued to decline for SMEs.
- Regarding the outlook, all firms expect performance indicators to improve during the upcoming quarter (July-September 2021), specifically domestic sales, production, capacity utilization, and inventory. However, the expectations for the export index varied. Firms also expect a continued rise in input prices and wages, which will be reflected in higher final product prices. Finally, all firms expect employment to remain stable. While large firms expect higher investment, SMEs expect that it remains stable.





# Macro Overview

This section provides an overview of the main developments in the global economy, as well as the performance of key macroeconomic indicators in Egypt (according to the latest available data at the time of writing this report.)

Despite the gradual global recovery of many economic activities during the second quarter of 2021, ambiguity still clouds developments surrounding the Covid-19 pandemic due to the emergence of new strains in some countries, causing high infection and death rates. This prompted some countries to return to lockdown in July 2021, namely, India, Australia, some Chinese provinces and the United Kingdom. Despite the uncertainty associated with the developments of the pandemic, global recovery is expected to continue towards the end of this year, especially in light of developed countries vaccinating nearly 40 percent of their populations. Despite stable IMF projections for the global growth rate at 6 percent during 2021 compared to -3.3 percent in 2020, growth forecasts for emerging and developing economies for 2021 were reduced from 6.7 percent last April to 6.3 percent in July as a result of the pandemic developments and low vaccination rates in these countries, as well as restrictions on public finances. In contrast, growth forecasts for advanced economies were revised up from 5.1 percent last April to 5.6 percent in July as a result of sound health measures and additional stimulus packages that the United States is expected to approve during the second half of 2021 (IMF 2021).<sup>1</sup>

Commodity prices are expected to rise faster than anticipated in April, as oil prices are expected to rise by about 60 percent compared to 2020. The prices of non-oil commodities are also expected to rise by up to 30 percent compared to 2020, as a reflection of higher prices for minerals and foodstuffs. In addition, the slowdown in container traffic will continue, thus prolonging the delivery times of inputs, and increasing freight costs.

**At the local level**, with the gradual return of economic activities and the decline in infections over the past few months, the Egyptian economy witnessed a gradual recovery. The GDP growth rate rose from 0.7 percent in Q1 FY 2020/21 to 2 percent in Q2, and to 2.9 percent in Q3, with average GDP growth rate reaching 1.9 percent during the first nine months of FY 2020/21 compared to 5.3 percent during the corresponding period of the previous fiscal year, i.e. before the impact of the Corona pandemic that caused a decline in the GDP growth rate to about -1.6 in Q4 FY 2019/2020 (Figure 1).

The Ministry of Planning and Economic Development expected GDP to grow in Q4 FY 2020/2021 (April-June 2021) to 7.7 percent, rendering the average annual growth rate for 2020/21 in the range of 3.3 percent against 3.6 percent in the previous fiscal year.

Regarding sources of growth during the first nine months of FY 2020/2021, both government and private final consumer demand remains the main source of growth, with a continued modest contribution of investment to output. This is related to multiple factors, including the persistent challenges facing the business environment in Egypt, and the impact of the pandemic and the

<sup>1</sup> International Monetary Fund (IMF), *World Economic Outlook*, 2021.

associated uncertainty regarding its developments on both the domestic and global investment.

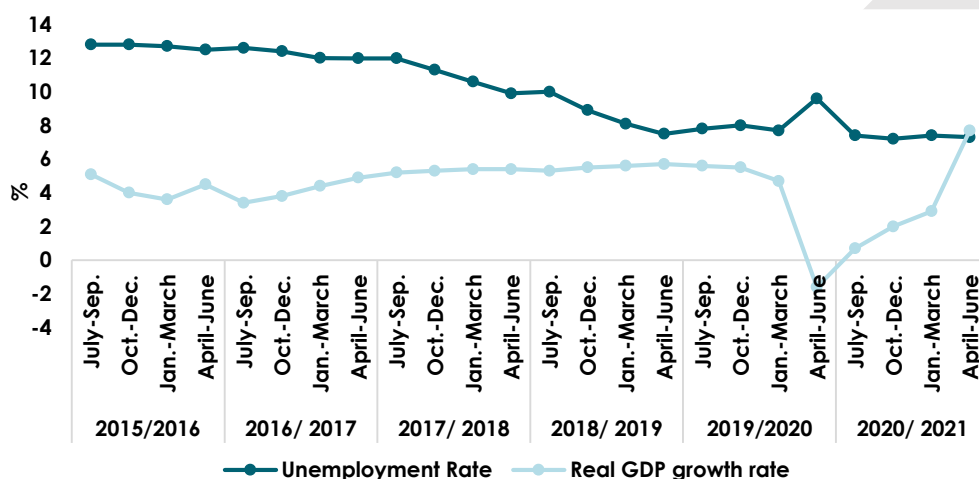
On the supply side, the service sectors, particularly communications, and construction continued to achieve growth rates that exceeded average GDP growth rate during the first nine months of FY 2020/2021. The tourism, manufacturing, and extractive industry sectors, however, remain negatively affected by the ongoing pandemic and its global and local aftermath (CBE 2021).<sup>2</sup>

Compared to the previous quarter, the recovery in economic growth during the second quarter of 2021 (April-June) was accompanied by a slight decline of about 0.1 percent in unemployment, which recorded 7.3 percent, and by about 2.3 percent compared to the corresponding period of the previous year, which witnessed the severe repercussions of the Corona pandemic on the Egyptian economy (Figure 1).

The unemployment rate varied according to gender, age group, educational qualification, and geographic location; as reflected by the characteristics of the unemployed during the second quarter of 2021 (April-June). The female unemployment rate (15 percent) remains higher than that of the male unemployment rate (5.7 percent). The percentage of unemployed youth (age group 15-29 years) is about 68.4 percent of total unemployed, while the percentage of the unemployed with intermediate, above-intermediate and university qualifications and above is 81.7 percent of total unemployed. In terms of geographic distribution, the unemployment rate was higher in urban areas (11.2 percent) compared to 4.1 percent in rural areas.

Regarding the relative distribution of workers over economic activities, agriculture, wholesale and retail, construction, manufacturing, transport, and storage accounted for about 19.2, 15.3, 13.6, 12.9, 8.8 percent of total workers, respectively. This indicates that no significant change has occurred in the nature of jobs generated. This situation continues in the distribution of the employed during the quarter under study, especially as these sectors largely attract unskilled labor and offer irregular employment (CAPMAS).<sup>3</sup>

**Figure 1.  
Real GDP  
Growth  
and  
Unemploy-  
ment Rate**



Sources: Central Agency for Public Mobilization and Statistics (CAPMAS), *Quarterly Labor Force Survey*, August 2021; Central Bank of Egypt (CBE), *Monthly Statistical Bulletin*, July 2021; Ministry of Planning and Economic Development.<sup>4</sup>

2 Central Bank of Egypt (CBE), *Monthly Statistical Bulletin*, July 2021.

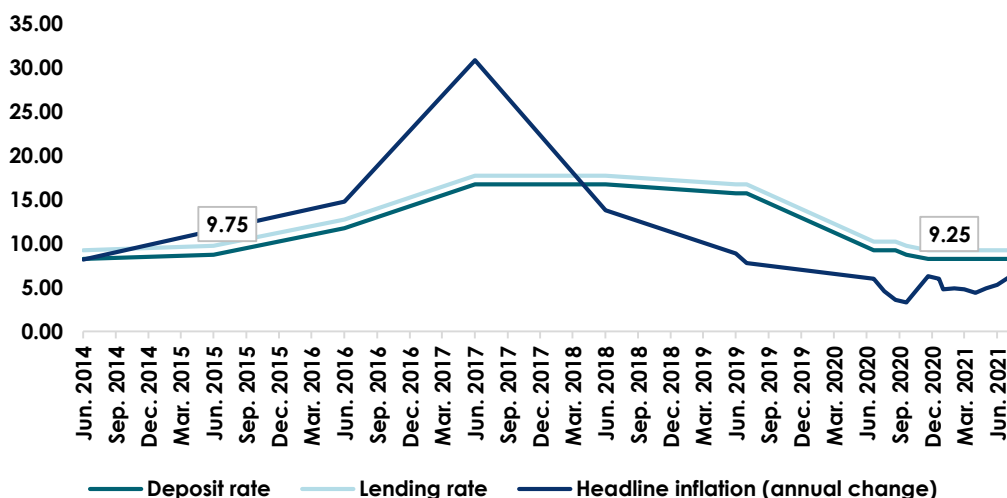
3 Central Agency for Public Mobilization and Statistics (CAPMAS), *Quarterly Labor Force Survey*, Second Quarter, April-June 2021, August 2021 issue.

4 Press release.

On the monetary side, the annual inflation rate rose to 6.1 percent in July 2021 compared to 5.3 percent in the previous month, and 4.6 percent in July 2020, reflecting higher consumer price indices on housing, water, electricity, and gas expenditure, followed by seasonal spending on culture and entertainment associated with Eid Al-Adha and the start of the summer season.

The CBE Monetary Policy Committee believes that the inflation rate remains consistent with the target rate (7 percent) for 2021/22, so it decided at its meeting held on August 5, 2021 to maintain the overnight deposit and lending rates as well as the credit and discount rate at 8.2, 9.25 and 8.75 percent, respectively (Figure 2), (CBE 2021).<sup>5</sup>

**Figure 2.**  
Inflation  
and Policy  
Rates



Sources: CBE, *Monthly Statistical Bulletin*, various issues; CAPMAS, *Monthly Bulletin of Consumer Price Index*, various issues.

On the external front, the balance of payments posted a total surplus of about \$1.8 billion during the first nine months of FY 2020/2021 compared to a deficit of about \$5.1 billion during the corresponding period. The surplus is attributed to the rise in the net inflows of the capital and financial account by about \$17.1 billion. The increase in the overall surplus was offset by the deficit in the current account. The following is a brief explanation of the most important developments in the main components of the balance of payments.

### 1) Current Account:

The deficit in the current account increased during the quarter under review to about \$13.3 billion (compared to about \$7.3 billion in the corresponding period), mainly as a result of the decline in the service balance surplus, and higher non-oil trade balance deficit. The rise in the current account deficit was offset by the rise in unrequited current transfers, a surplus in the oil trade balance, and a decline in the investment income balance deficit. The following is an explanation of these items:

<sup>5</sup> CBE, *Monthly Statistical Bulletin*, July 2021.



- The balance of services surplus decreased by 62.2 percent to about \$3.2 billion (compared to about \$8.4 billion), mainly due to the decline in the tourism revenues by 67.4 percent to about \$3.1 billion, and the decline in transportation receipts by 12.9 percent to about \$5.5 billion, primarily as a result of the drop in the proceeds of Egyptian airlines due to the Corona pandemic, as well as the lower Suez Canal receipts.
- The deficit in non-oil trade balance widened by 12.7 percent to \$30.7 billion as a result of the rise in payments for commodity imports by about \$4.5 billion to \$45.4 billion. Commodity exports did not exceed \$14.6 billion during the study period.
- Unrequited net current transfers rose by 6.8 percent to about \$22.9 billion, mainly as a result of the 8.5 percent increase in remittances from Egyptian workers abroad.
- The oil trade balance posted a surplus of \$174.9 million (compared to a deficit of \$773.3 million), as a result of a decline in payments for oil imports by about \$2.3 billion to about \$5.8 billion. The proceeds of petroleum exports also decreased by \$1.4 billion to about \$5.9 billion.
- The deficit in investment income balance decreased by \$326.4 million to about \$8.9 billion (compared to about \$9.2 billion), as payments declined by \$689.2 million to about \$9.2 billion. Proceeds from investment income also declined by \$362.8 million to \$320.1 million.

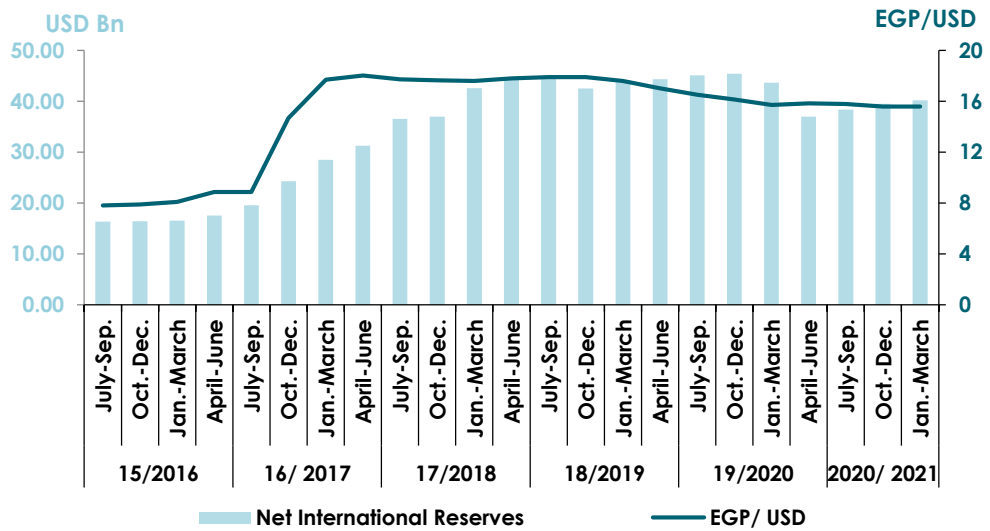
## **2) Capital and Financial Account:**

The net inflows of the capital and financial account increased by about \$13.0 billion to about \$17.1 billion during July 2020-March 2021 (compared to about \$4.1 billion in the corresponding period of the previous fiscal year). This is due to the following:

- Portfolio investments registered about \$16.0 billion in net inflows (compared to a net outflow of about \$7.9 billion during the corresponding period).
- Net foreign direct investment (FDI) inflows dropped by 19.3 percent to about \$4.8 billion (compared to about \$5.9 billion), mainly as a result of investments in the petroleum sector realizing a net outflow of \$322.5 million (against a net inflow of \$787.6 million) and net inflows from abroad for the purpose of investing in the non-oil sectors stabilizing at about \$5.1 billion.
- Net usage of long- and medium-term loans and facilities rose to about \$5.0 billion (compared to about \$2.0 billion).

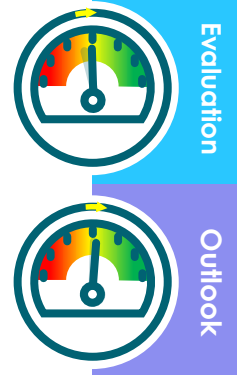
- The pandemic continues to negatively affect some sources of foreign exchange for Egypt, particularly tourism revenues and net FDI. However, the relative stability of Egypt's total foreign exchange sources, especially remittances from workers abroad, led to an increase in net foreign reserves to \$40.5 billion during January-March 2021, an increase of 2 percent from its value in the previous quarter and 8 percent from the last quarter of 2020, through which Egypt had weathered the pandemic.
- The increase in foreign exchange earnings contributed to the stability of the exchange rate against the US dollar, which has stabilized around LE 15.6/ dollar since July 2020 (Figure 3).

**Figure 3. Net International Reserves and Exchange Rate**



Source: CBE, Monthly Statistical Bulletin, various issues.

# I. Past Performance and Outlook per the Overall Business Barometer Index (BBI)



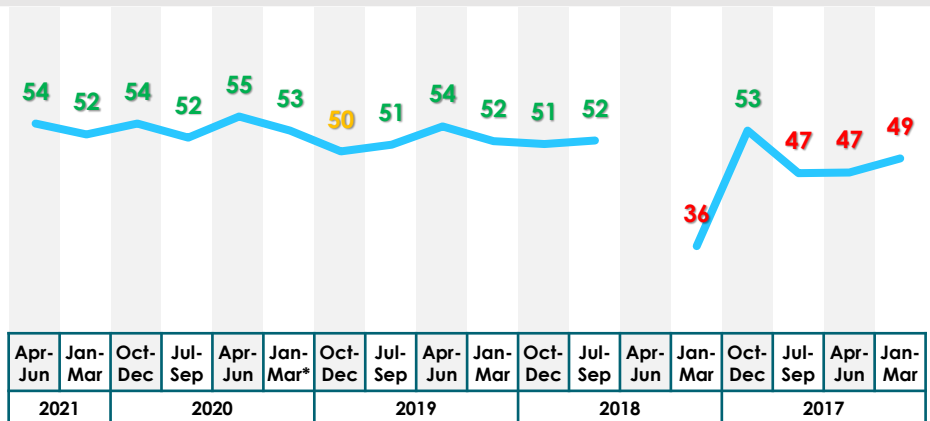
The performance index continued its decline during the quarter under study, along with a positive outlook for the upcoming quarter; performance and outlook vary according to firm size and sector

## 1.1. Overall Index Development

The pandemic continued to impact the performance of businesses in Egypt. The business performance index declined slightly during the quarter under study (April - June 2021), scoring 49 points. However, this decline has improved over that of the previous quarter, as well as the corresponding quarter in 2020, which witnessed the largest decline due to the impact of the pandemic (Figure 1.1).

Figure 1.1. Development of the Overall Business Barometer Index

Past Performance

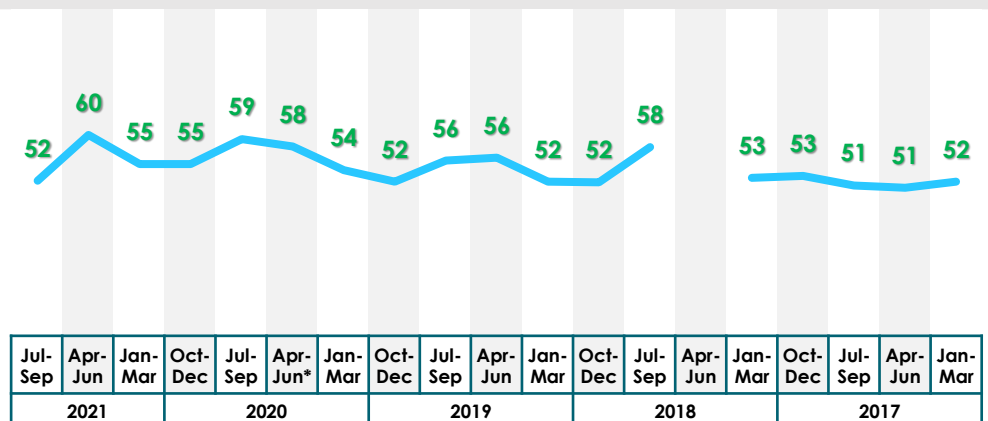


Source: Survey results.  
\* Data for January-March 2020 are unavailable due to the lockdown related to the pandemic.

Despite the emergence of new mutated strains of COVID-19 and continued uncertainty regarding the pandemic, the business community voiced optimistic expectations regarding performance in the upcoming quarter (July-September 2021). The outlook index value reached 52 points, higher than the previous quarter and one point lower than the corresponding quarter in 2020 (Figure 1.2).

Figure 1.2. Development of the Overall Business Barometer Index

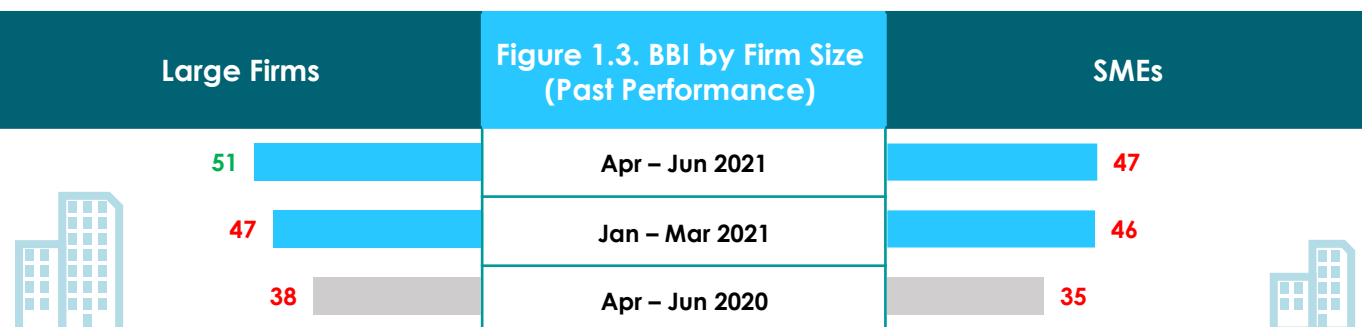
Outlook



Source: Survey results.  
\* Data for April-June 2020 are unavailable due to the lockdown related to the pandemic.

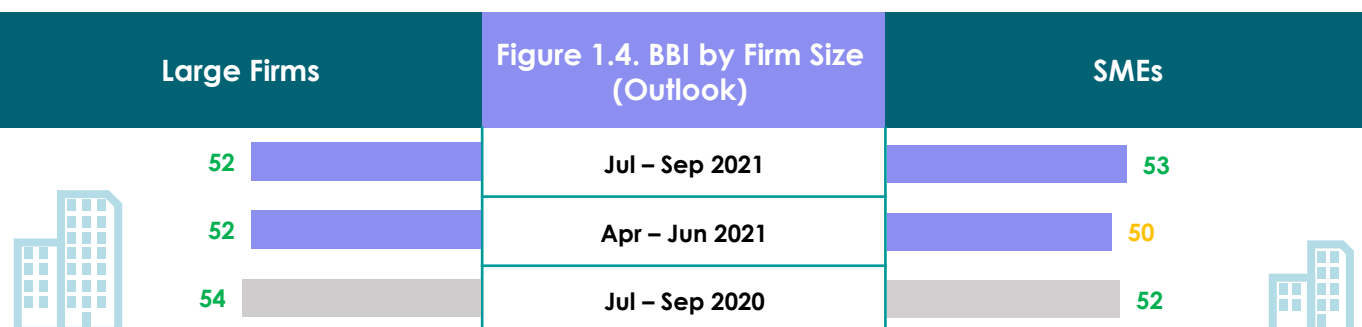
## 1.2. The Index by Firm Size

According to the survey results, the SMEs index continued its decline during the quarter under study (April-June 2021), albeit to a lesser degree compared to both the previous and corresponding quarters; underlining the challenges they encounter and their weak ability to adapt to the pandemic and other challenges. Meanwhile, the performance index of large firms slightly improved, scoring 51 points; higher than their performance in both the previous and corresponding quarters. It is considered their best performance since the beginning of the COVID-19 pandemic, reflecting their ability to adjust their methods of work and develop plans for a potential continuation of the crisis (Figure 1.3).



Source: Survey results.

All firms reported positive expectations for the next quarter. The outlook index for large firms scored 52 points, same as the previous quarter, but less optimistic than the corresponding quarter. This optimism is attributed to expectations that the crisis would end in the near future, in addition to these firms' formulation of plans for dealing with critical developments, and long-term plans for business sustainability in the future. The outlook of SMEs was also optimistic, with the index scoring higher values than both the previous and corresponding quarters, which may be due to their expectations that the crisis would end soon (Figure 1.4).



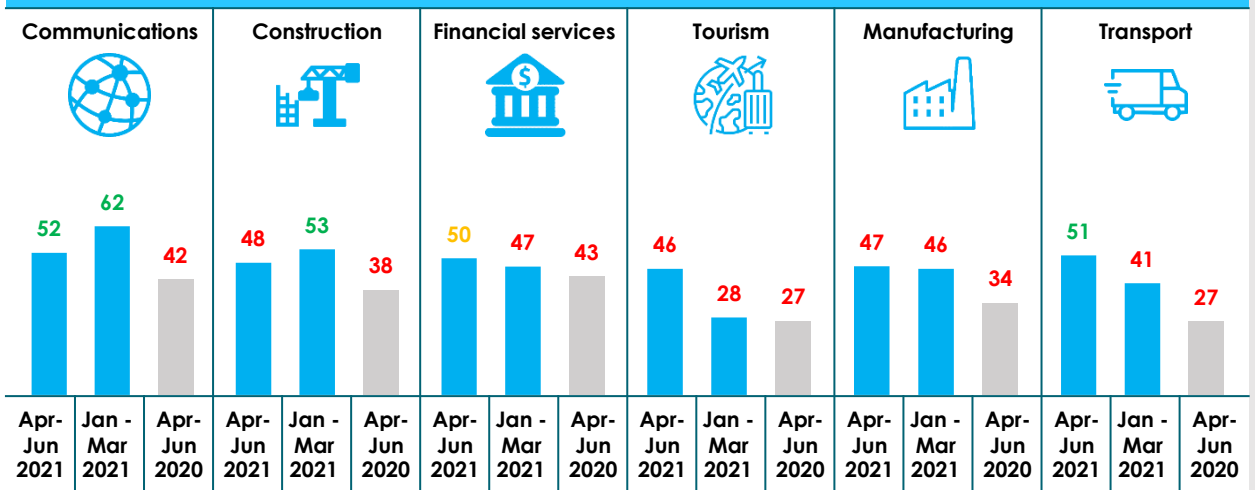
Source: Survey results.



### 1.3. The Index According to Economic Sectors

The communications and transport sectors performed well during the quarter under study with the index rising from the neutral level. Meanwhile, all other sectors witnessed a continued decline in performance. Comparing sectoral performance during the quarter under study with that of the previous quarter shows improvement in most sectors, with the exception of communications and construction, whose performances in the previous quarter were better. Compared with the corresponding quarter in 2020, which witnessed the largest decline in performance as a result of the pandemic, all sectors have witnessed improved performance (Figure 1.5).

Figure 1.5. Business Barometer According to Economic Sectors (Past Performance)



Source: Survey results.

The following is an analysis of the sectoral performance during the quarter under review according to the sample firms :

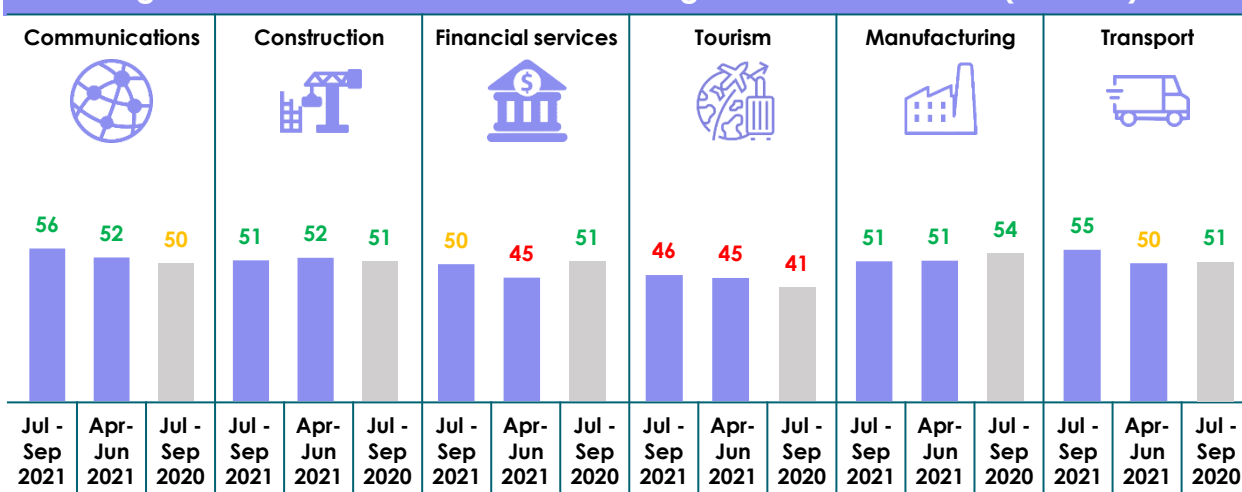
- The **tourism sector** continued to decline, though recorded a significant improvement compared to the previous and corresponding quarters. This indicates gradual recovery in the sector linked to the revival of domestic tourism, with a rise in occupancy rates to nearly 50 percent due to holidays and the start of summer. However, Tourism still suffers from the lingering effects of the pandemic, failure of foreign tourism to recover, and the continued suspension of Hajj and Umrah pilgrimage.
- The **manufacturing sector** declined, but its decline was less severe than in the previous and corresponding quarters. Among the most important reasons for the decline are the rise in the prices of raw materials and operational production requirements, slowing global container traffic, delays in delivery times, the surge in domestic shipping prices, as well as slow import and export procedures. The relative recovery in domestic demand helped reduce the decline in the sector's performance, amid troubled external demand and closure of some foreign markets as a result of the spread of new strains of COVID-19.
- The **construction sector** declined, despite its good performance during the previous quarter. One of the most important reasons for the sector's declined performance is that the Ministry of Housing offered housing units for low and middle-income citizens with easy payment plans and subject to the 3 percent real estate financing initiative, causing a decline in demand within the private sector. In addition, the private sector's benefit from the real estate initiative to revive

demand was limited, due to the difficulty of applying the initiative's terms; for example, the initiative covers fully finished units only, while most private sector units are either under construction or delivered unfinished.

- The **telecommunications sector** continued its good performance, albeit to a lesser degree than in the previous quarter. This is due to continued demand for its services from individuals and institutions as a result of the expansion of remote education and work technologies as well as continued efforts of the state to automate government services. It should be noted here that the sector's declined performance compared to the previous quarter reflects problems in implementing digitization in many government agencies, including, for example, implementation challenges that caused multiple delays in the pre-registration of imports.
- The **transport sector** posted slight improvement, following its sharp decline in the corresponding quarter, and slight decline in the previous quarter. The improvement is due to relative recovery in domestic tourism.
- The **financial services sector** witnessed a stable performance, following a decline in both the previous and corresponding quarters due to the impact on trading of political events relating to the failure of the Renaissance Dam negotiations, as well as certain practices that have shaken investors' confidence in the transparency of the financial market. For example, cancelling trading on some shares without justification.

As for the outlook, the expectations for the upcoming quarter were generally positive for all sectors except for the tourism sector, as shown in Figure (1.6). The expectations of improved performance are due to firms' optimism regarding controlling the new strains and expanding vaccination efforts.

Figure 1.6. Business Barometer According to Economic Sectors (Outlook)



Source: Survey results.

- Firms in the telecommunications sector conveyed the most positive outlook regarding the sector's performance during the next quarter. This reflects the government's determination towards digitization and the automation of the tax and customs systems. Firms in the transport sector came next, amid expectations of a gradual return of internal and external transport. The results also showed that the construction firms expect a slight improvement as a result of the participation of many firms in implementing the "**Decent Life**" initiative adopted by the state to improve the standard of living in Egyptian villages, in addition to national projects pertaining to roads and bridges.
- The positive outlook of the manufacturing sector for the next quarter depend on the extent of control over the pandemic, and the gradual recovery expected at the external and domestic levels.
- Tourism firms conveyed negative outlook for the upcoming quarter due to the new anticipated waves and strains of the virus, as well as subsequent measures that may reach the point of partial lockdown again, in addition to new regulations restricting the travel and movement of individuals as well as the services provided at their destinations according to the precautionary measures taken in these countries and efforts to control the pandemic.



## II. Constraints that faced the business community during the quarter under study, and priorities for improving the business environment from the sample firms' perspective

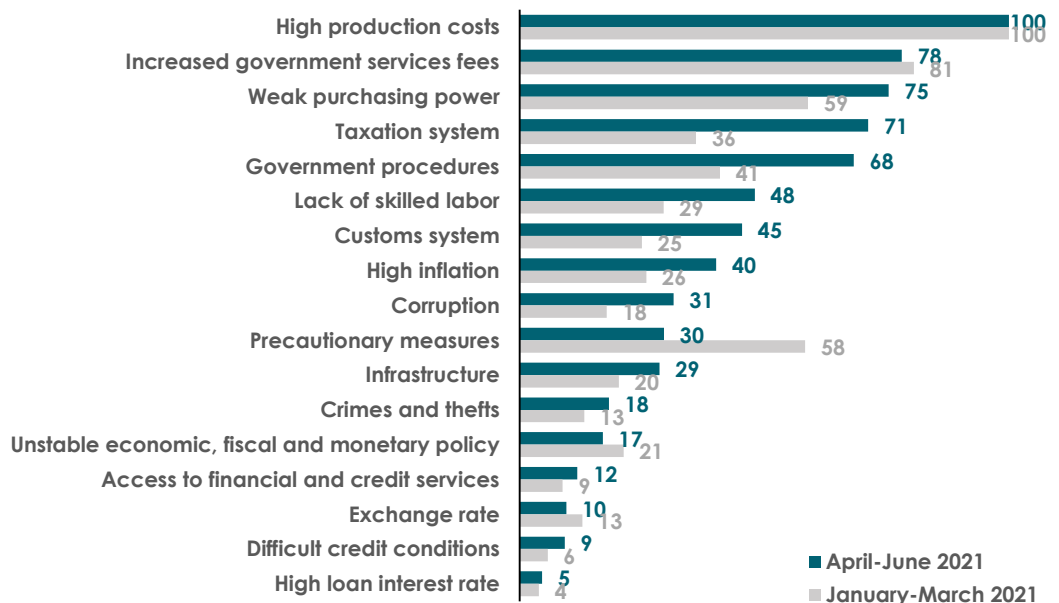
**High production costs remain the biggest obstacle faced by all firms during the quarter under review, followed by increased government service fees, then weak purchasing power and challenges related to the tax system. The severity of these issues varied.**

Figure 2.1 shows the main difficulties faced by businesses during the reviewed quarter (April-June 2021), arranged in a descending order of severity from the perspective of the sample firms.

High production costs continued to top the list of constraints for all firms, as a result of the increase in the prices of raw materials and the sharp rise in container shipping prices, in addition to the frequent rises in energy prices. Increased fees for government services came as the second largest hindrance facing businesses, including road and bridge tolls and surcharges, as well as licensing and registration fees. Weak purchasing power followed, reflected in low domestic demand. Firms' suffering through dealing with the tax system came next, both in terms of the difficulties in implementing e-taxation, as well as the occasional suspension of e-tax returns, or the diverse and overwhelming taxes imposed on them at a time they have yet to recover fully from the repercussions of the pandemic.

Compared with the previous quarter, the order of obstacles faced by firms during the reviewed quarter clearly shifted. While the constraints related to precautionary measures declined, obstruction intensified with regards to dealing with government agencies, government services fees, tax and customs systems, weak purchasing power, the lack of skilled labor, and inflation.

**Figure 2.1.**  
Constraints Facing the Business Sector (Normalized Index of Severity)

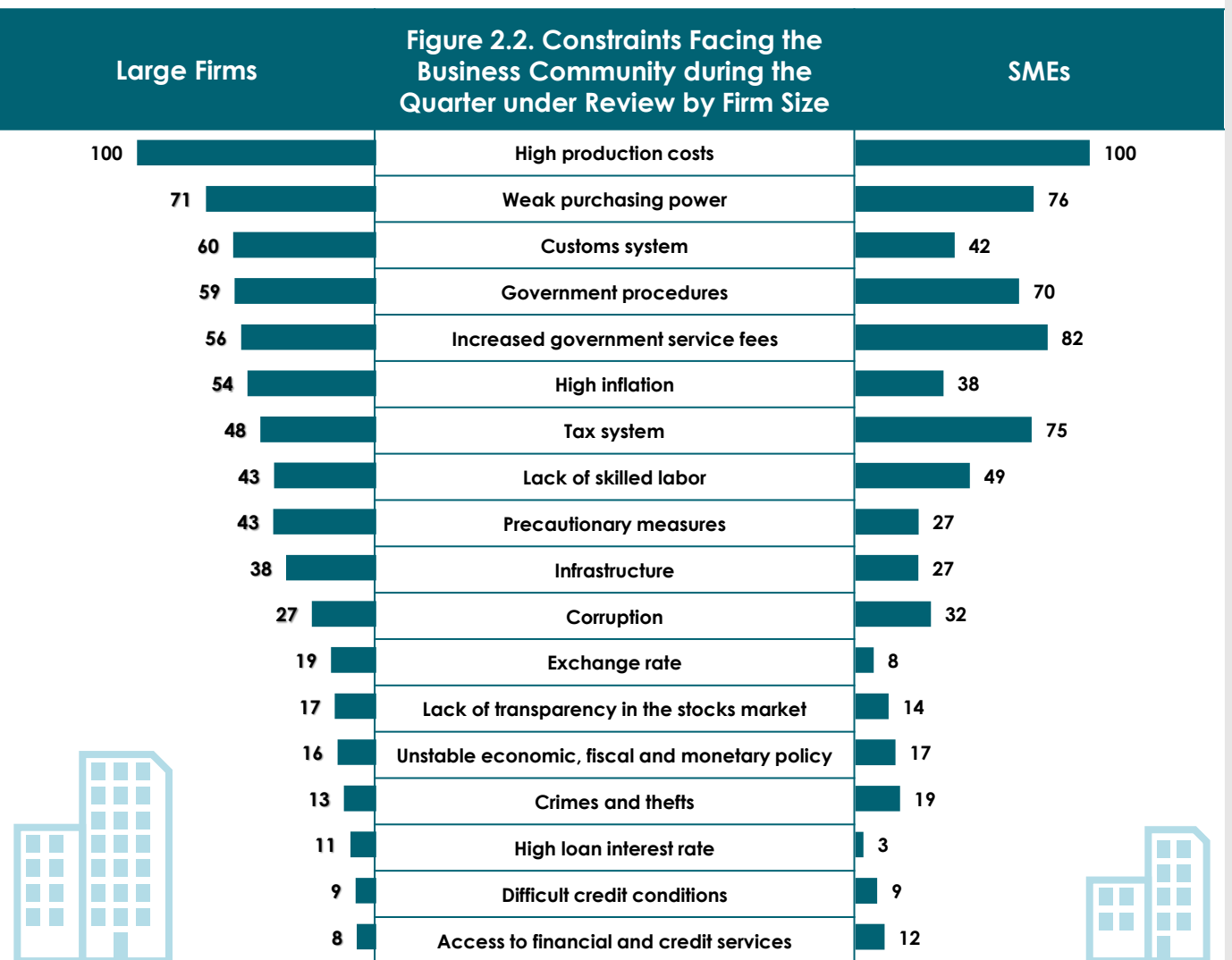


Source: Survey results.

With respect to firm size, all firms reported that high production costs remained the main constraint during the quarter under study. While all firms face these hurdles, the extent of suffering differed by firm size. Weak purchasing power topped the list of struggles facing large firms, followed by dealing with the customs system, and government procedures and service fees. Small firms suffered from high government service fees, followed by weak purchasing power and challenges related to the tax system.

The survey results revealed a correlation between the constraints and the orientation of firms, with the focus on the external market being of greater interest to large firms. Therefore, the problems of the customs system topped the list of problems facing them, while the weak financial capacity of small firms makes their plight more severe due to government taxes and fees, which requires revisiting government service fees and a different tax treatment for them.

Figure 2.2 shows the main constraints encountered by large firms and SMEs during the quarter under study (April-June 2021), arranged in a descending order of severity from their perspective.



Source: Survey results.

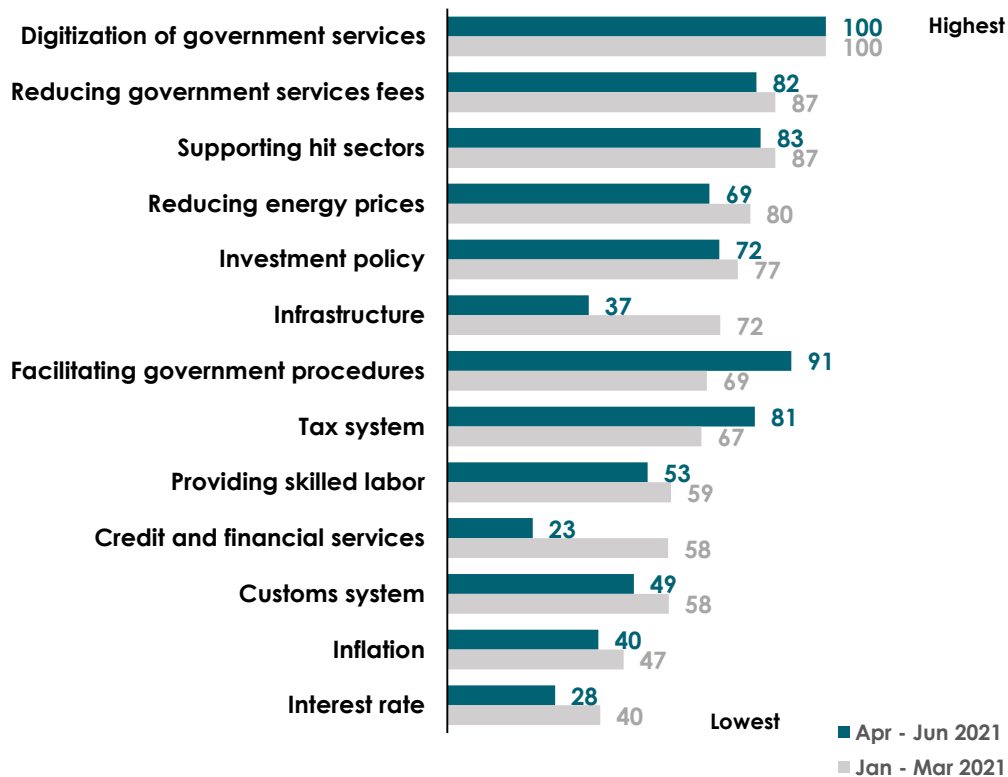
# Priorities to Improve the Business Environment in Egypt (from the perspective of the Sample Firms)



According to the sample firms, the most important priorities that must be focused on are: Improving the mechanisms of digital transformation of government services, facilitating government procedures, continuing support for the sectors hit by the crisis and revisiting energy pricing for all economic activities. Priorities vary with firm size.

All sample firms unanimously agreed that priorities for improving the business environment in Egypt should include speeding up and improving the mechanisms of digitizing government services, including facilitating procedures and reducing government service fees, followed by continuing support for struggling sectors as long as the crisis continues, and then revisiting energy pricing for all economic activities (Figure 2.3).

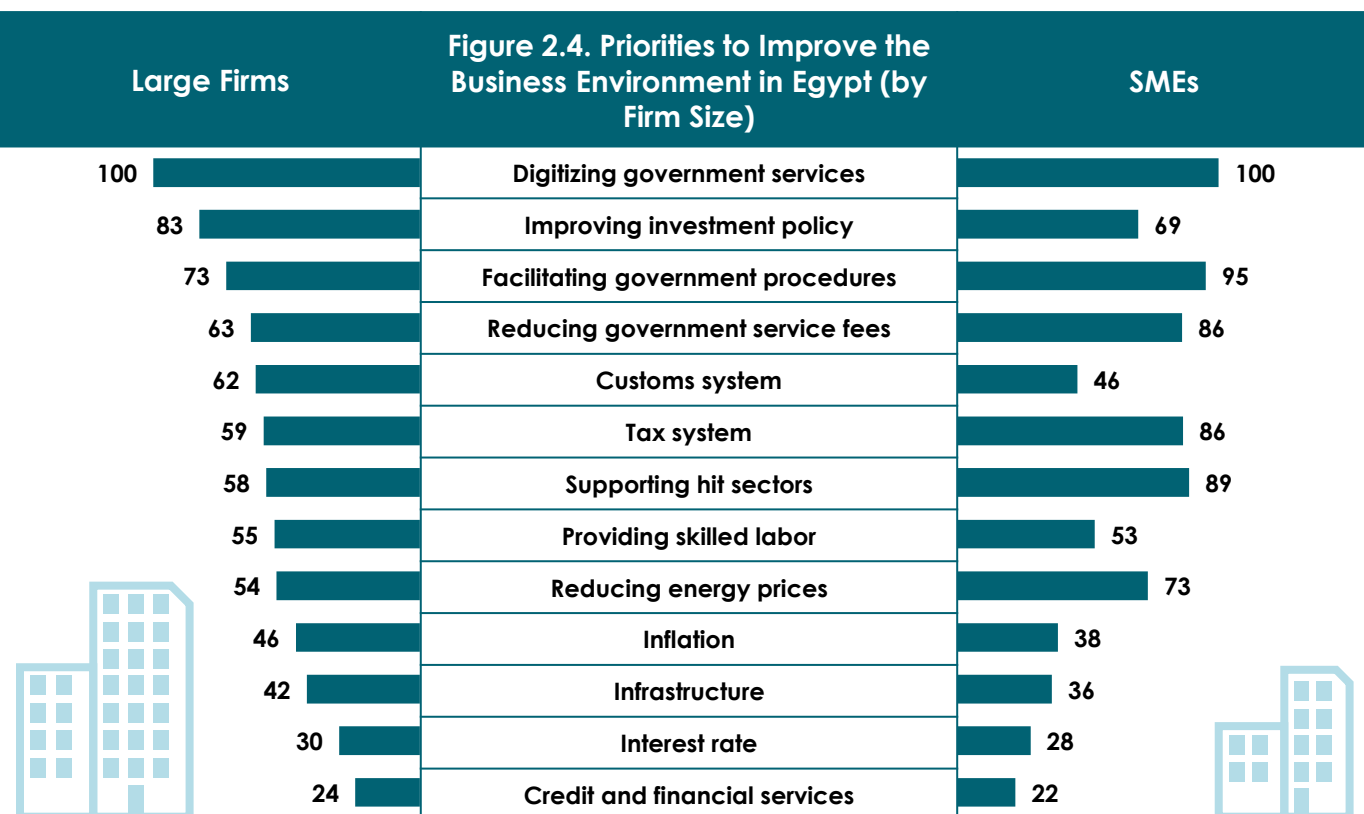
**Figure 2.3.**  
Priorities to Improve the Business Environment in Egypt (According to a Normalized Index based on Significance of Priorities)



Source: Survey results.



- According to large firms: digitizing government services, improving investment policies and solving problems related to the customs system should be on the list of priorities to improve the business environment in Egypt.
- SMEs agreed with large firms on the importance of digitization and the associated facilitation of government procedures; However, they reported continuing to support crisis-hit sectors, reducing fees on government services, solving their problems with the tax system, and reducing energy prices among the most important priorities for improving the business environment (Figure 2.4).



Source: Survey results.

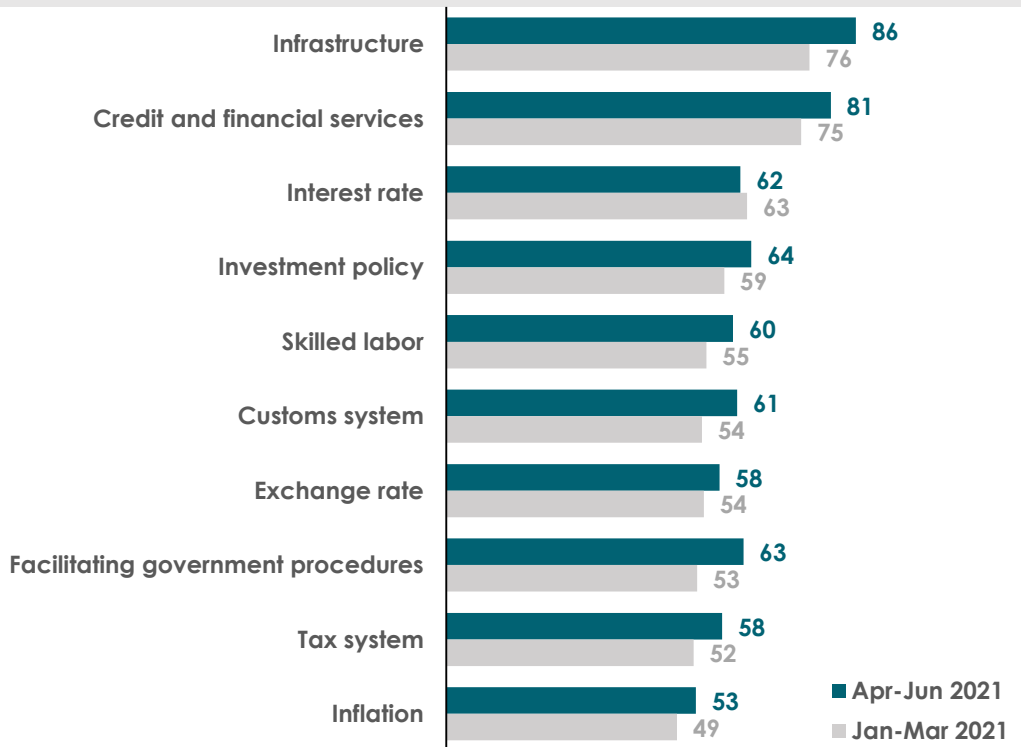
# The Outlook of Businesses for Aspects of Improvement, based on their Views of Current Government Orientation



## Expected improvement in infrastructure, financial and credit services, interest rates, and investment policies

In light of government projects and its current orientation, the business community expects further improvement in infrastructure, as well as financial and credit services. There are also lesser expectations regarding improvements in the interest rate, investment policy, government procedures, skilled labor availability, and inflation. This indicates that more efforts are needed in these areas (Figure 2.5).

**Figure 2.5. The Outlook of Businesses for Aspects of Improvement based on their views of current government orientation (According to the Business Barometer Methodology)**



Source: Survey results.





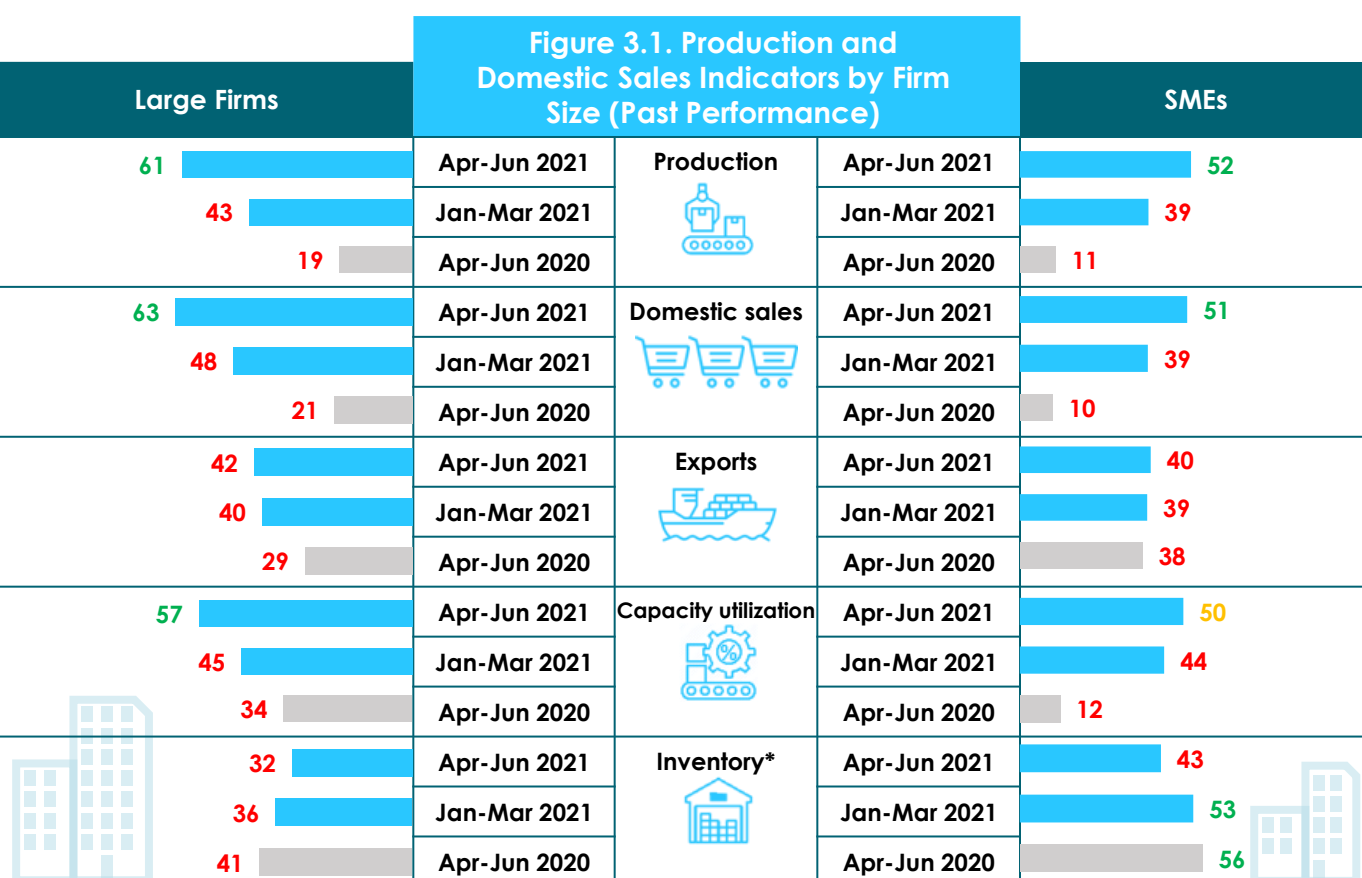
# III. Evaluating past performance and outlook at the level of Sub-Indices



## 3.1. Past Performance

### Improved domestic sales and production, and declined exports for all firms

All firms reported improved domestic sales and production during the quarter under study, but declined exports due to the partial closure of some markets to contain the new waves of the virus. The performance of SMEs was modest compared to that of large firms. While large firms made leaps in domestic sales, production, and capacity utilization from the neutral level, the increase was limited in the case of small firms, except for capacity utilization, which remained stable (Figure 3.1).

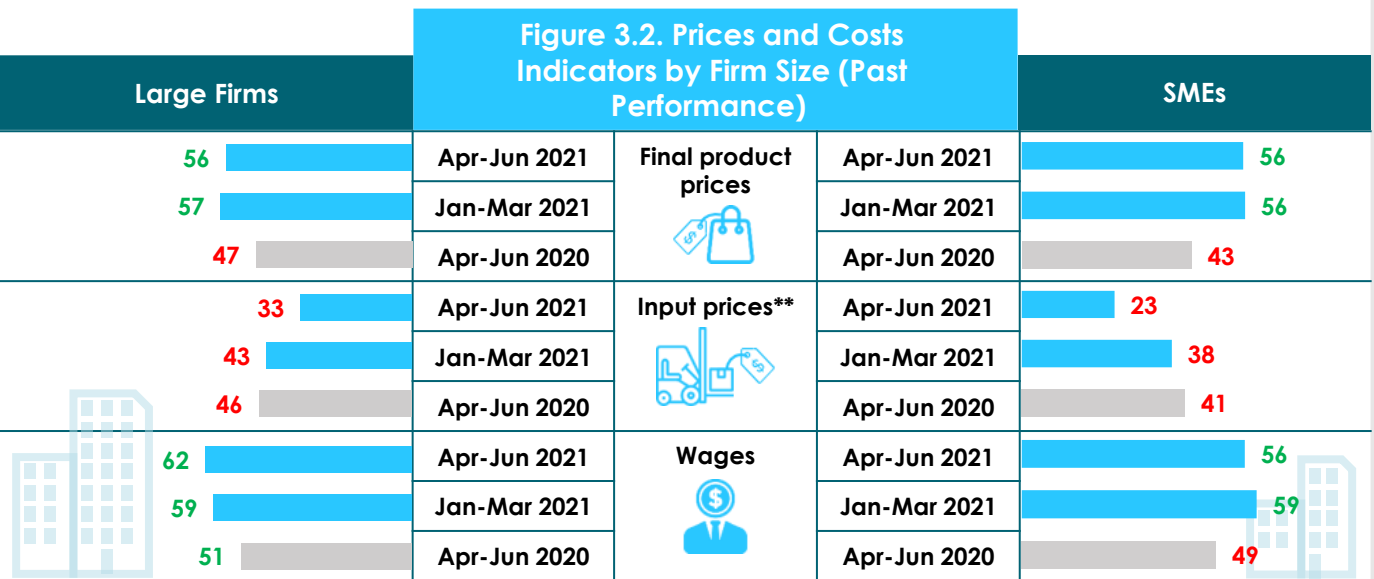


Source: Survey results.

\* The index for inventory is inverted to indicate the negative impact of its increase on businesses. Hence, a higher inventory index indicates lower inventory and vice versa.

## An increase in the final product price index as a result of a rise in the input prices and wages indices

The evaluation results of firms' past performance showed a rise in input prices for all firms due to domestic and other global factors. Globally, the prices of raw materials witnessed a remarkable increase during the quarter under study. Shipping and transportation costs rose due to the disruption of global supply chains, slow container traffic and delay in delivery times. Also, firms suffered locally from slow customs clearance procedures, and an increase in the prices of shipping services that reached up to ten times the usual price, as well as in operating costs in general, including the increase in fuel and transportation prices. The results also showed a rise in the wage index, as all firms have to give incentives and commissions during the reviewed period to maintain workers. All of the above was reflected in a rise in the final product price index for all firms, exceeding the neutral level by 6 points for large firms and SMEs alike (Figure 3.2).



Source: Survey results.

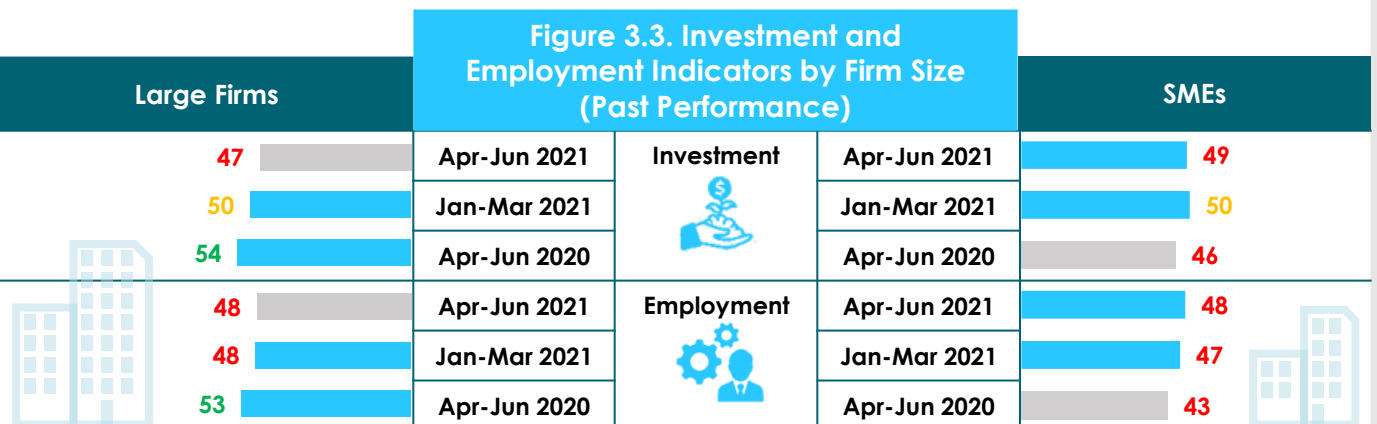
\*\* The index for input prices is inverted to indicate the negative impact of price increases on the overall index. Hence, a lower index indicates higher prices and vice versa.

Although high input prices pose a challenge for all firms, the suffering of SMEs was greater in the absence of pooled procurement mechanisms, weak financial capabilities and the high costs they incur.

## The investment and employment indices for SMEs continued to decline but improved for large firms

Despite the government's efforts to improve the business environment and support all firms in the face of the pandemic, the investment and employment indices for small firms continued to decline, while results of large firms showed improved performance in these two indices. This indicates the ability of large firms to benefit from the measures adopted by the state to mitigate the fallout of the pandemic across the business community, as well as their greater ability to address the challenges facing the business environment.

As for SMEs, it is necessary to review the initiatives and incentives announced by the state for small enterprises, and speed up intervention to solve their current problems such as high government fees. Also, the roles of the various agencies entrusted with providing technical support to these enterprises and solving their problems, including high production costs and marketing problems, should be revisited (Figure 3.3).



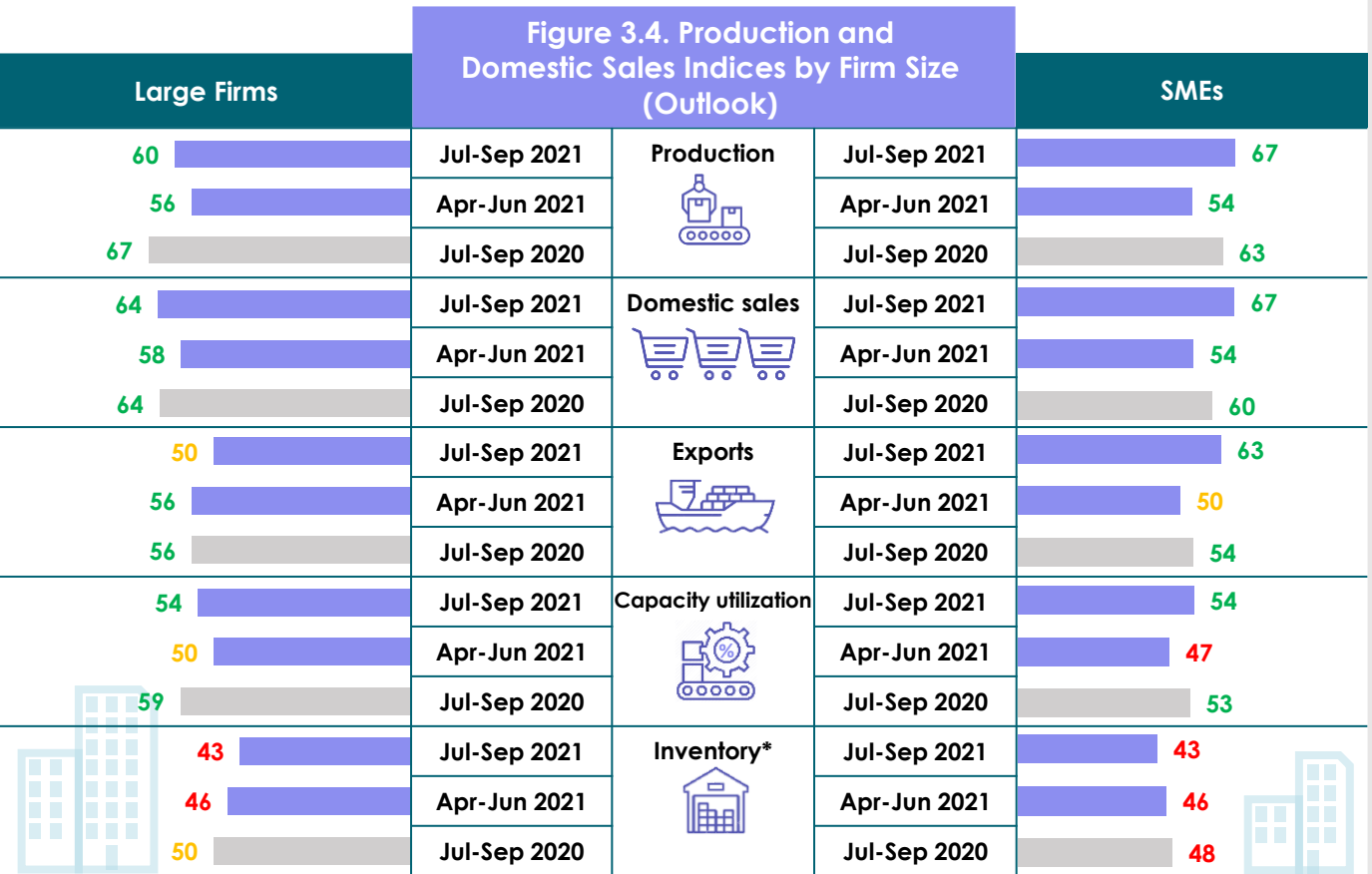
Source: Survey results.

### 3.2. Performance Outlook

#### Expected improvement in most economic indicators for all firms in the upcoming quarter

Firms conveyed more positive expectations for most economic indicators during the upcoming quarter (July-September 2021), compared to the previous quarter. The optimistic outlook may be attributed to expectations of a global economic recovery, assuming greater control over the virus as a result of wider vaccination in many countries (Figure 3.4).

Large firms and SMEs alike expressed positive outlook regarding domestic sales and production in the next quarter, which is reflected in expectations of an improvement in capacity utilization and inventory. However, the expectations for exports varied. While SMEs are optimistic about improvement of conditions and reopening of foreign markets, large firms expect the export index to remain stable as a result of uncertainty prevailing in the world amid new waves of the virus that may lead to re-closure.

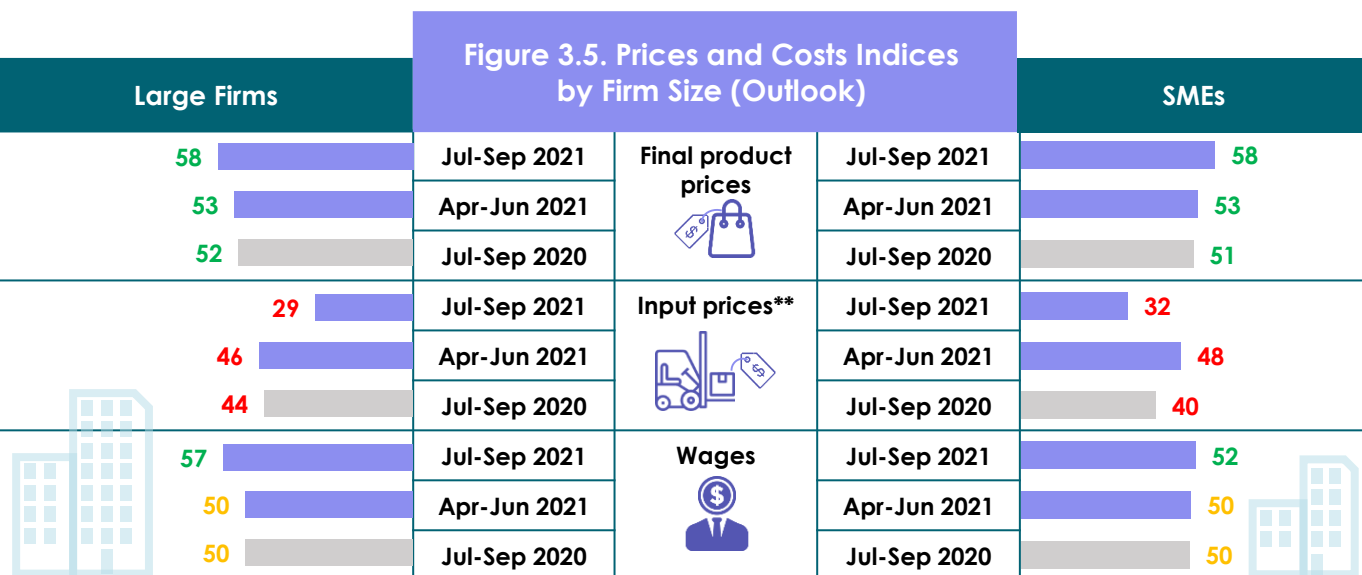


Source: Survey results.

\* The index for inventory is inverted to indicate the negative impact of its increase on businesses. Hence, a higher inventory index indicates lower inventory and vice versa.

## Expected increase in input prices and wages, resulting in higher final product prices

All firms expect a continued rise in input prices and production costs, as they expect increased burdens due to the gradual increase in energy and gasoline prices, which is reflected in higher prices of raw materials. The business community also expects an increase in government service fees, including customs, duties, prices of packing materials, and freight and transport prices; in addition to uncertainty about the regularity of supply chains in the near term. The results also showed expectations of an increase in the wage index for all firms. The rises in the input and wage indices are translated into a higher final product price index for all firms, recording an increase of 8 points from the neutral level, higher than the expectations of the previous and corresponding quarters (Figure 3.5).



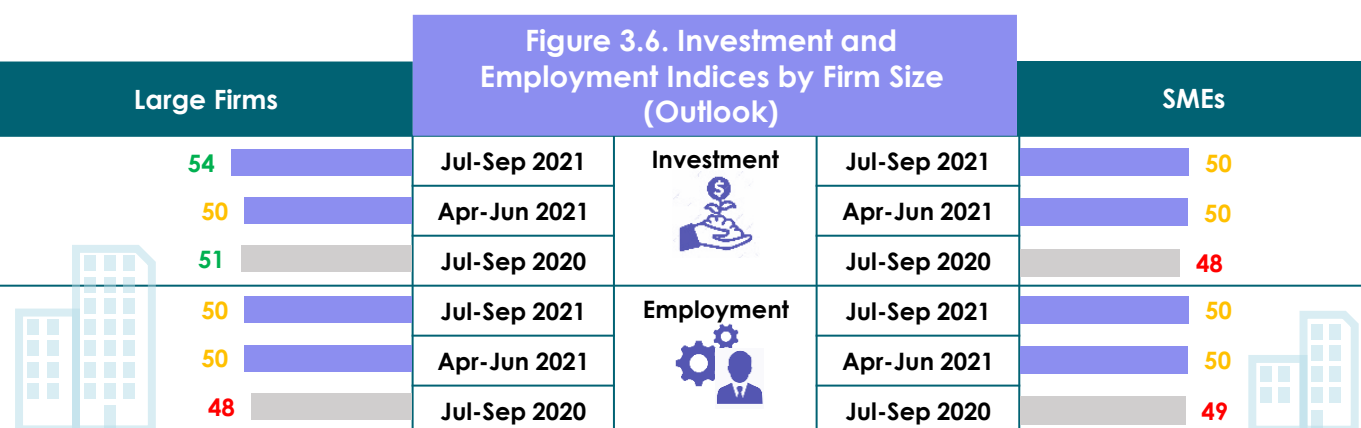
Source: Survey results.

\*\* The index for input prices is inverted to indicate the negative impact of price increases on the overall index. Hence, a lower index indicates higher prices and vice versa.

## Expectations of stable employment for all firms, improved investment for large firms and its stability for SMEs

Large firms expect an increase in investment during the next quarter, with the outlook index scoring an increase of 4 points, higher than both the previous and corresponding quarters. Meanwhile, the results showed that SMEs expect investment to remain at the neutral level during the next quarter (July-September 2021), with the index recording 50 points—similar to the previous and corresponding quarters. This can be attributed to the greater challenges encountered by SMEs in relation to the business environment, or their limited ability to develop future plans for expansion in light of high uncertainty about developments of COVID-19 and its repercussions. The government's move to directly invest in various sectors, and the inability of small enterprises to compete with government firms is one of the most important challenges SMEs cited in this regard.

Despite their varying expectations regarding investment, all firms expect stable employment, which indicates that even the expected investment expansions from large firms will not be accompanied by increased employment, as these investments are in sectors with limited capacity to generate jobs. Therefore, it is necessary to motivate firms to increase employment by revisiting the labor law, their insurance payments, and other challenges that limit the ability of firms to create jobs (Figure 3.6).



Source: Survey results.

# Tables Index

**Table A1: Survey Results: Summary of all firms evaluation at the sectoral level (April-May-June)<sup>1</sup>**

Indicator	Manufacturing			Construction			Tourism			Transportation			Communications			Financial Services			
	Higher	Percentage	Index <sup>2</sup>	Higher	Percentage	Index <sup>2</sup>	Higher	Percentage	Index <sup>2</sup>	Higher	Percentage	Index <sup>2</sup>	Higher	Percentage	Index <sup>2</sup>	Higher	Percentage	Index <sup>2</sup>	
	Same	Low	47	Same	Low	48	Same	Low	46	Same	Low	51	Same	Low	52	Same	Low	50	
<b>Economic activity</b>																			
Production	34	22	43	64	29	7	72	50	10	40	55	50	33	17	63	63	38	0	73
Domestic sales	36	20	45	57	29	14	67	50	10	40	55	50	33	17	63	63	38	0	73
Exports	15	40	45	39	-	-	-	-	-	-	50	50	0	67	33	0	67	33	-
Inventory	49	28	23	40	54	38	33	50	10	40	45	27	64	9	44	63	38	0	27
Capacity utilization	7	84	9	50	0	100	0	50	10	40	40	36	64	0	61	63	38	0	73
<b>Prices</b>																			
Final product prices	36	55	9	59	36	64	0	61	0	90	10	47	17	75	8	25	75	0	57
mediate product prices	64	31	5	28	100	0	0	100	0	100	0	50	100	0	0	88	13	0	11
Wage level	37	63	0	61	0	100	0	50	0	90	10	47	33	67	0	60	38	63	0
<b>Primary inputs</b>																			
Investment	2	95	3	50	7	93	0	52	0	60	40	38	8	92	0	52	25	75	0
Employment	5	90	5	50	0	100	0	50	0	60	40	38	0	92	8	48	25	63	13

**Table A2: Survey Results: Summary of all firms expectations at the sectoral level (July-August-September)<sup>1</sup>**

Indicator	Manufacturing			Construction			Tourism			Transportation			Communications			Financial Services			
	Higher	Percentage	Index <sup>2</sup>	Higher	Percentage	Index <sup>2</sup>	Higher	Percentage	Index <sup>2</sup>	Higher	Percentage	Index <sup>2</sup>	Higher	Percentage	Index <sup>2</sup>	Higher	Percentage	Index <sup>2</sup>	
	Same	Low	51	Same	Low	46	Same	Low	55	Same	Low	56	Same	Low	50	Same	Low	50	
<b>Economic activity</b>																			
Production	33	53	14	56	57	43	0	70	80	20	0	17	58	33	8	69	50	50	0
Domestic sales	36	48	16	57	57	43	0	70	80	20	0	17	64	27	9	71	50	50	0
Exports	25	65	10	55	-	-	-	-	-	-	-	0	100	0	67	50	50	0	67
Inventory	25	57	18	48	38	54	8	40	80	20	0	17	36	55	9	41	50	50	0
Capacity utilization	9	91	0	52	0	100	0	50	60	30	10	31	30	70	0	59	50	50	0
<b>Prices</b>																			
Final product prices	31	67	2	59	64	36	0	74	30	70	0	41	25	75	0	57	0	100	0
mediate product prices	56	44	0	30	93	7	0	7	17	83	0	45	0	100	0	50	13	88	0
Wage level	12	88	0	53	7	93	0	52	10	90	0	47	8	92	0	52	13	88	0
<b>Primary inputs</b>																			
Investment	2	97	2	50	0	100	0	50	10	90	0	47	9	91	0	52	25	75	0
Employment	3	95	2	50	0	100	0	50	0	100	0	50	0	100	0	50	0	100	0

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

# Tables Index

**Table A3: Survey Results: Summary of all firms past performance (by size) (April-May-June)<sup>1</sup>**

Variable	SMEs				Large Firms			
	Percentage			Index <sup>2</sup>	Percentage			Index <sup>2</sup>
	Higher	Same	Low		Higher	Same	Low	
				<b>47</b>				<b>51</b>
<b>Economic activity</b>								
Production	37	31	31	<b>52</b>	43	48	10	<b>61</b>
Domestic sales	36	32	33	<b>51</b>	50	35	15	<b>63</b>
Exports	25	25	50	<b>40</b>	15	46	38	<b>42</b>
Inventory	37	46	17	<b>43</b>	58	32	11	<b>32</b>
Capacity utilization	10	79	10	<b>50</b>	24	76	0	<b>57</b>
<b>Prices</b>								
Final product prices	25	69	6	<b>56</b>	24	71	5	<b>56</b>
Intermediate product prices	70	27	3	<b>23</b>	53	41	6	<b>33</b>
Wage level	22	77	1	<b>56</b>	38	62	0	<b>62</b>
<b>Primary inputs</b>								
Investment	2	92	6	<b>49</b>	14	86	0	<b>54</b>
Employment	2	90	8	<b>48</b>	14	81	5	<b>53</b>

**Table A4: Survey Results: Summary of all firms expectations (by size) (July-August-September)<sup>1</sup>**

Variable	SMEs				Large Firms			
	Percentage			Index <sup>2</sup>	Percentage			Index <sup>2</sup>
	Higher	Same	Low		Higher	Same	Low	
				<b>53</b>				<b>52</b>
<b>Economic activity</b>								
Production	56	34	10	<b>67</b>	33	67	0	<b>60</b>
Domestic sales	55	35	10	<b>67</b>	47	47	5	<b>64</b>
Exports	45	45	9	<b>63</b>	8	85	8	<b>50</b>
Inventory	32	59	9	<b>43</b>	32	58	11	<b>43</b>
Capacity utilization	16	82	1	<b>54</b>	15	85	0	<b>54</b>
<b>Prices</b>								
Final product prices	27	72	1	<b>58</b>	29	71	0	<b>58</b>
Intermediate product prices	54	46	0	<b>32</b>	59	41	0	<b>29</b>
Wage level	7	93	0	<b>52</b>	24	76	0	<b>57</b>
<b>Primary inputs</b>								
Investment	2	97	1	<b>50</b>	15	85	0	<b>54</b>
Employment	2	97	1	<b>50</b>	0	100	0	<b>50</b>

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 methodology.