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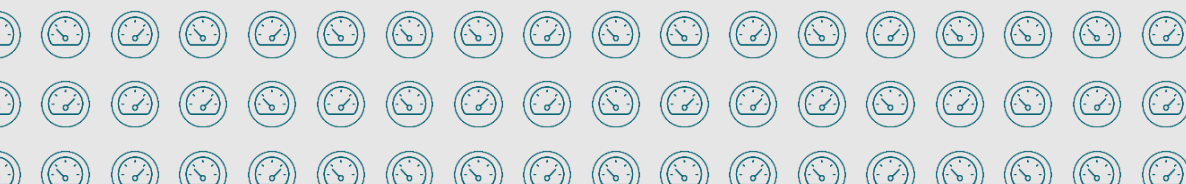
Business Barometer

Issue #61

October – December 2021



Businesses Evaluation and Outlook





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.



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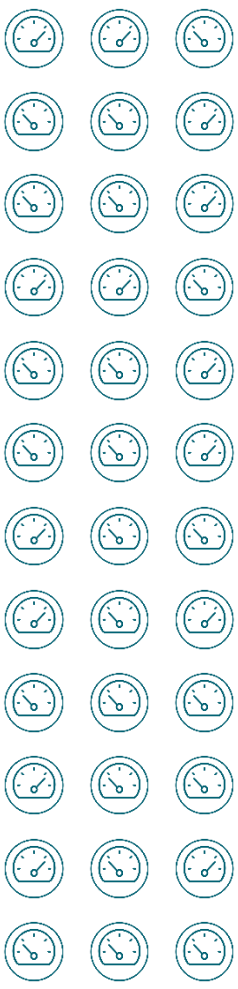
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Executive Summary

This issue of the Business Barometer (BB) demonstrates a periodic assessment carried out by the Egyptian Center for Economic Studies of a sample of 121 private sector firms covering various sectors and sizes. The assessment reflects the opinion of the business community regarding the developments in a group of variables, namely: production, domestic sales and exports, inventory, level of capacity utilization, prices, wages and employment, and investment, during the quarter (October-December 2021) and its expectations for the quarter (January-March 2022).¹ It also draws a comparison of results with the previous quarter (July-September 2021) and the corresponding quarter (October-December 2020).

The following is a brief review of the key results of the report on the quarter under study (October-December 2021), which focuses on the most important developments regarding the macroeconomy and the results of the Business Barometer Index.²

Macro Overview

Globally, a slow recovery of global economic growth is expected, given the global supply chain disruptions, shortages of raw materials, continuation of inflationary waves and uncertainty about their path over the coming period, in addition to mounting fears of the spread of the Omicron variant of COVID-19, which could lead to many countries banning travel once again.

Locally, GDP growth rate declined during FY 2020/2021 to 3.3 percent, compared to 3.6 percent in the previous fiscal year, and government debt (domestic and external) increased by about 6 percent from its value in June 2019 to reach EGP 5094 billion at the end of June 2020.³ The unemployment rate rose by about 3 percent compared to the previous quarter, to record 7.5 percent during the third quarter of 2021.

Performance evaluation and expectations according to the overall index

Performance evaluation: The Business Barometer Index (BBI) for the current quarter has declined from the previous quarter due to the constraints that all firms faced, most importantly high production costs and weak purchasing power. Performance varied according to firm size and economic sectors.

At the level of firm size: The Business performance index of large, small and medium firms declined compared to the previous quarter, but the decline in the index of small and medium firms was more severe, indicating the magnitude of the challenges facing them.

At the level of economic sectors: Continued decline in performance during the quarter under study, with the exception of the communications and tourism sectors, which recorded a performance above the neutral level. The financial services sector posted the most decline in performance, while the manufacturing sector posted the least decline.

Expectations: Despite the challenges that the business community faced during the quarter under study, the outlook index of all firms recorded higher values compared to both the previous and corresponding quarters. The most positive expectations came from firms in the telecommunications sector.

The most important priorities for improving the business climate in Egypt from the point of view of the firm sample: Improving digitalization of government services, addressing the challenges of the customs regime, reducing fees imposed on government services, and reducing tax burdens. Priorities varied according to firm sizes and economic sectors.

1 The survey was conducted during November and December 2021.

2 The report includes a detailed review of performance evaluation and expectations at the level of sub-indices.

3 According to the latest available data.

4 The neutral level is 50 points, for more details please refer to the methodology.

Report Details

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 its Business Barometer (BB) since 1998. The BB provides a quarterly assessment of the performance of a sample of private firms covering various sectors and sizes. This assessment reflects the opinion of the business community regarding developments in 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

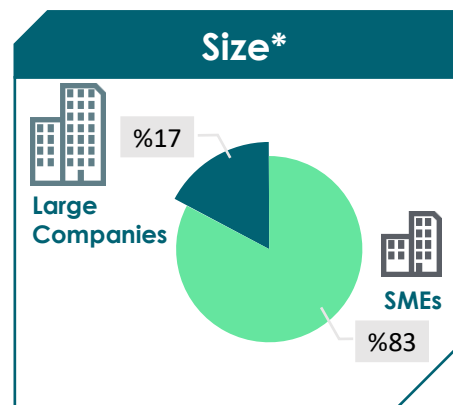
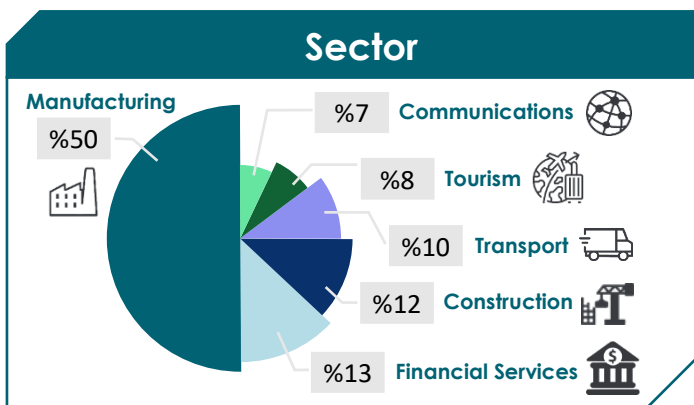


The importance of this issue of the BB is further magnified by the challenges that the business community has been facing since the beginning of 2020 as a result of the COVID-19 pandemic. Therefore, it is important to track the impact of the pandemic on the business community, especially in light of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

This report offers an assessment of the performance of the sample at hand during the quarter (October-December 2021) and its outlook for the quarter (January-March 2022).

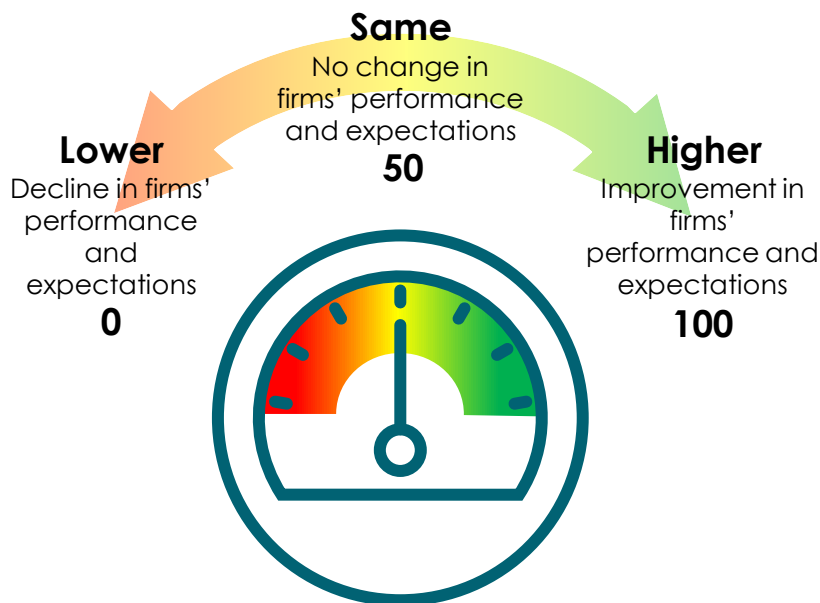
The report begins with an overview of the macroeconomy at the global and domestic levels, then presents the results of performance assessment and outlook at the overall index level. It then moves on to the constraints faced by the business community during the quarter under study, and the priorities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

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



* According to CBE definition issued on March 5, 2017

- The analysis evaluates the performance of the firm sample during the quarter under study and their outlook for the next quarter, comparing them both with the results of the previous quarter and those of 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 overall index represents a simple average of the set of sub-indices of the variables mentioned in the questionnaire. It takes values greater than, less than, or equal to the neutral level (50 points).



The index is 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 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 Priorities for Improving the Business Environment:

Firms assess the severity of each constraint with a rating that ranges from 0 (non-significant constraint), to 4 (highly significant constraint). The firm is allowed to cite more than one constraint. With regards to priorities for improving the business environment, the evaluation of each pillar ranges from 0 (not a priority) to 4 (high priority). Firms are allowed to name more than one pillar as 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 and then normalized using new values of the averages of all constraints/priorities so that the constraints /priorities can be arranged in descending order of severity, with 100 percent being the most severe constraint and highest priority.

Macro Overview

This section provides an overview of some of the major developments in the global economy, as well as the performance of key macroeconomic indicators in Egypt, according to the latest available data up to the writing of this report.

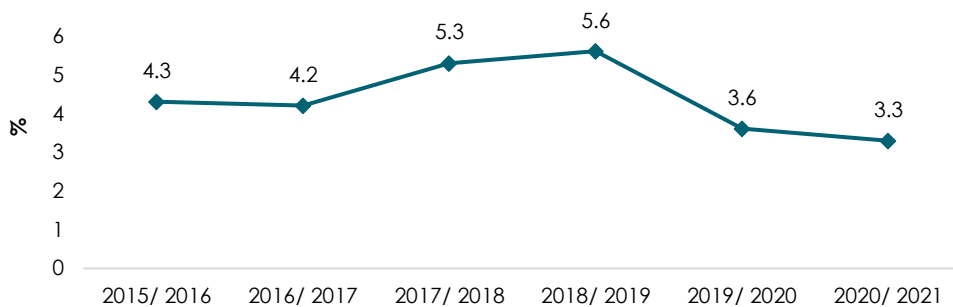
Globally, the International Monetary Fund's expectations of a cautious recovery in global economic growth, issued last October, are still valid. It projects the global GDP growth rate to reach 5.9 percent, down by 0.1 percent from its expectations last July. This slight reduction reflects the impact of global supply chain disruptions, shortage of raw materials, suspension of some production lines in many advanced economies, and at the same time continued suffering of developing countries, especially low-income countries, from the mutations of COVID-19, weak vaccination rates and fragility of their health systems (IMF 2021).⁵

The Purchasing Managers' Index (PMI) improved slightly to 54.8 in November, compared to 54.4 in October, reflecting the recovery of the service sectors and manufacturing. The inflationary pressures continued during the fourth quarter of 2021, albeit at lower rates than in October. This is a result of the decline in oil prices by 15 percent to reach about \$73 / barrel in mid-December, after the decision of the Organization of the Petroleum Exporting Countries (OPEC) to increase production. The rise in the prices of energy, raw materials and shipping costs led to an increase in the food price index issued by the Food and Agriculture Organization by 1.2 percent (27.3 points) from its counterpart in the previous month, to reach 134.4 points during November, driving the index to its highest level since June 2011. The rise in the food index reflects higher prices of cereal, dairy and sugar (FAO 2021).⁶

The slowdown in global recovery, continuation of inflationary waves, and uncertainty about their path during the coming period; in addition to escalation of fears of the spread of the Omicron variant globally and possible return of travel bans, are all factors that increase uncertainty and impose pressure on monetary policies, especially in emerging and developing countries. This has prompted countries like Brazil and Mexico to raise nominal interest rates again, and has increased the possibility of a deterioration in the values of the national currencies of many countries (WB 2021).⁷

In terms of local macroeconomic indicators, the Ministry of Planning and Economic Development has updated its estimates of economic growth. The GDP growth rate declined during FY 2020/2021 to 3.3 percent, compared to 3.6 percent in the previous fiscal year. Final consumer demand - both governmental and private - is still the main source of growth, with a continued modest contribution of investment to output, although the decline in investment contribution recorded a lower rate than that of the previous fiscal year. On the supply side, the service sectors, specifically telecommunications and construction, continued to achieve growth rates exceeding the average GDP growth rate during FY 2020/2021, while the tourism, manufacturing and extractive sectors are still experiencing a negative impact from the continuing pandemic and its global and local repercussions Figure 1. (Central Bank of Egypt, December 2021).

Figure 1.
Real GDP
Growth



Source: Ministry of Planning and Economic Development; Central Bank of Egypt, Monthly Statistical Bulletin, Dec. 2021

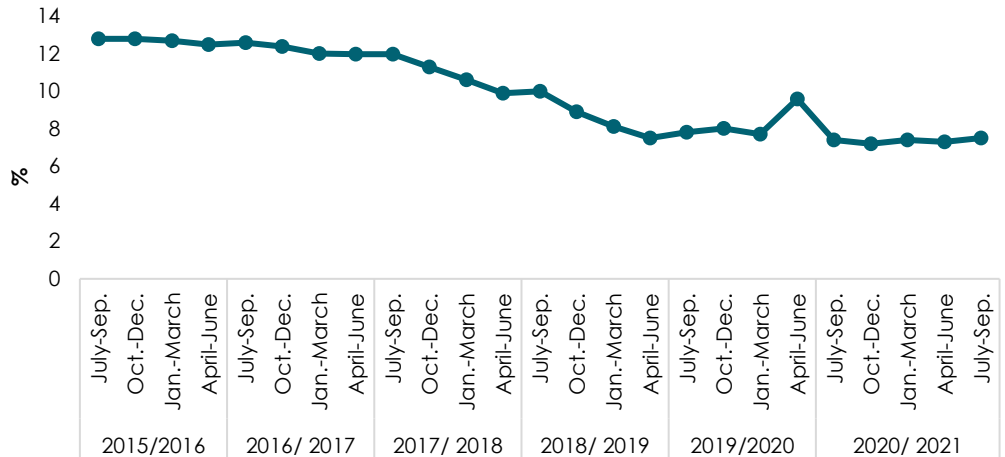
⁵ IMF (International Monetary Fund). 2021. World Economic Outlook: Recovery during a Pandemic, October. Washington: IMF

⁶ FAO (Food and Agriculture Organization) Food Price Index, World Food Situation, Rome: FAO.

⁷ WB (World Bank). 2021. Global Monthly, December. Washington: WB

The unemployment rate reached approximately 7.5% in the third quarter of 2021 (July-September), having risen around 3% from the previous quarter, and 1% from the corresponding quarter the previous year (Figure 2)

Figure 2.
Unemployment Rate



Source: Ministry of Planning and Economic Development; Central Bank of Egypt, Monthly Statistical Bulletin, Dec. 2021

The unemployment rate varied in terms of gender, age group, educational qualification, and geographical region. The female unemployment rate (15.3 percent) still exceeded the male unemployment rate (5.9 percent), and the unemployment rate for the 20-24-year age group was still the highest, reaching 20.6 percent. The unemployment rate for those with university qualification and above was 14.3 percent. By region, the unemployment rate was highest in the border and urban governorates, with the average unemployment rate around 16 percent.

According to the relative distribution of workers at the level of economic activities, agriculture, wholesale and retail trade, and construction and building still account for the largest percentage of workers. They accounted for about 19.6 percent, 15.1 percent, 13.7 percent, and they are sectors that attract largely low-skilled labor in addition to being unsustainable opportunities (Central Agency for Public Mobilization and Statistics 2021).⁸

At the fiscal and monetary level, the overall deficit as a percentage of GDP increased to about -3.7 percent during the period (July-November 2021/2022), compared to -3.2 percent during the same period of the previous fiscal year. The increase in the deficit is due to the increase in public expenditures to a higher degree than the increase in the growth rate of public revenues. Revenues rose by 6.5 percent to reach EGP 390 billion, while expenditures rose by 16 percent to record EGP 659 billion during the period (July-November 2021/2022) (Ministry of Finance 2021).⁹

The annual inflation rate during November 2021 was about 6.5 percent, compared to 6.2 percent in the previous month, and 6.0 percent during the corresponding month of the previous year. This reflects the rise in consumer price indices for the food and drink spending group compared to its counterpart during the previous year, especially oils and fats (Central Agency for Public Mobilization and Statistics 2021).¹⁰

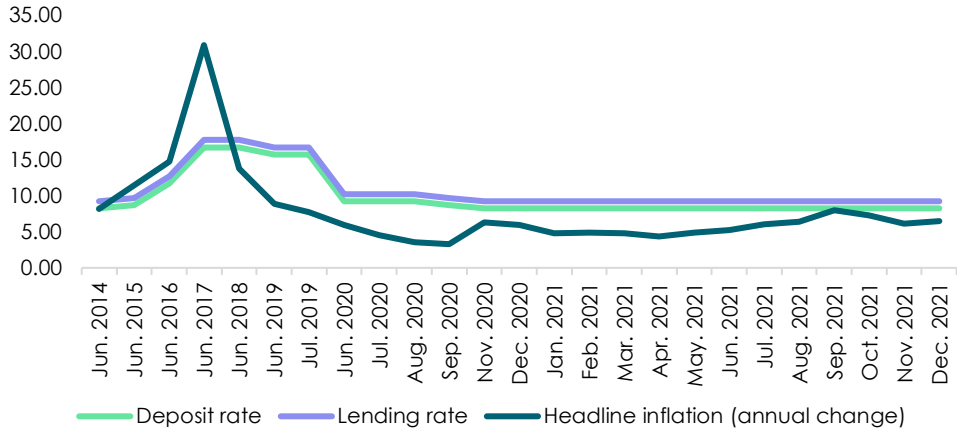
⁸ Central Agency for Public Mobilization and Statistics, Quarterly Labor Force Survey, Third Quarter July-September 2021, November.

⁹ Ministry of Finance. 2021. Monthly Financial Report, December 2021.

¹⁰ Central Agency for Public Mobilization and Statistics. 2021. Monthly Consumer Price Index Bulletin, December 2021, January 2022.

The Monetary Policy Committee of the Central Bank kept the overnight deposit and lending rates, and the credit and discount rate at 8.25%, 9.25%, and 8.75%, respectively; as the inflation rate is still consistent with the target rate (7%) during the year 2021/2022 (Figure 3) (Central Bank of Egypt 2021).¹¹

Figure 3.
Inflation
and Policy
Rates



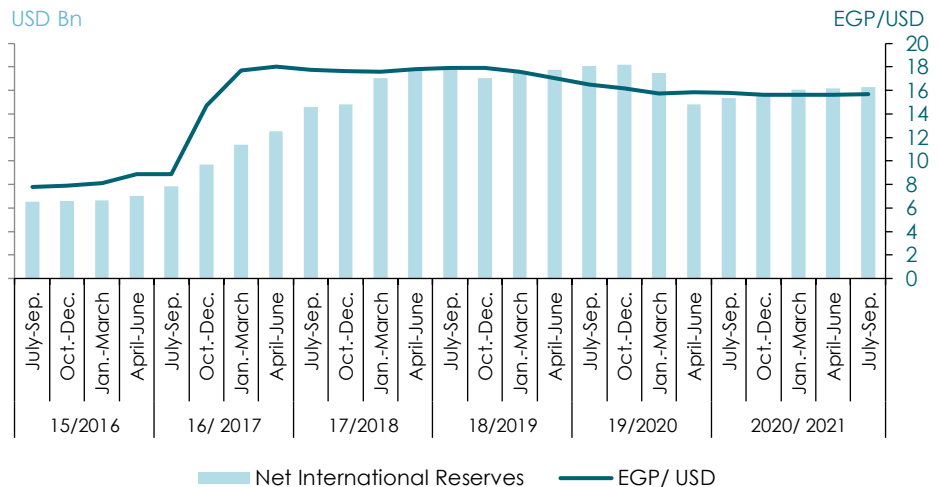
Sources: The Central Bank of Egypt, Monthly Statistical Bulletin, various issues, and the Central Agency for Public Mobilization and Statistics, Monthly Consumer Price Bulletin, various issues.

On the external level, the balance of payments during FY 2020/2021 posted a total surplus of about \$1.9 billion, compared to a deficit of about \$8.6 billion during the previous fiscal year. This surplus is mainly due to the capital and financial account achieving a net inflow of about \$23.4 billion during the year 2020/21 compared to \$5.4 billion in the previous year, while the current account deficit increased by 64 percent to reach about \$18.4 billion during the year 2020/ 2021.

The [previous issue](#) of the BB provided an explanation of the most important developments in the main items of the balance of payments.

Net foreign reserves amounted to about \$40.9 billion during November 2021, an increase of 21 percent over their value during the previous month, and 4 percent more than their equivalent during the corresponding month of the previous year. The rise in foreign exchange earnings contributed to the stability of the pound's exchange rate against the dollar, to stabilize at 15.6 pounds/dollars since July 2020 (Figure 4).

Figure 4.
Net
International
Reserves
and
Exchange
Rate



Source: The Central Bank of Egypt, Monthly Statistical Bulletin, various issues.

¹¹ Central Bank of Egypt, Monetary Policy Committee statement on December 16, 2021.

Business Barometer Index

I. Past Performance and Outlook per the Overall Business Barometer Index



Evaluation



Outlook

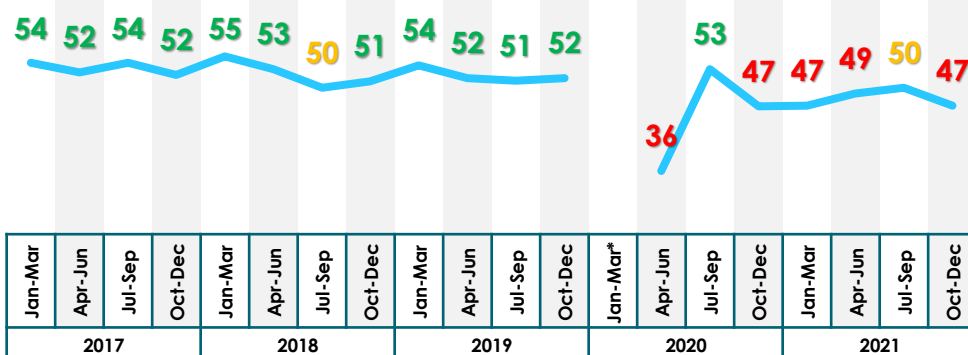
Decline of the business performance index during the quarter under study, and expectations of an improvement in performance during the next quarter, with varying performance and expectations for the sizes of firms and different sectors.

1-1 Overall Index

Disruptions in global supply chains and inflationary waves the world witnessed as a result of the rise in energy, raw materials and shipping costs were reflected in the Business Barometer index, which declined by three points from the neutral level, a performance lower than the previous quarter, and similar to the corresponding quarter, which witnessed the beginning of the repercussions of the COVID-19 pandemic on the business community (Figure 1-1).

Development of the Overall Business Barometer Index

Figure 1.1. Past Performance

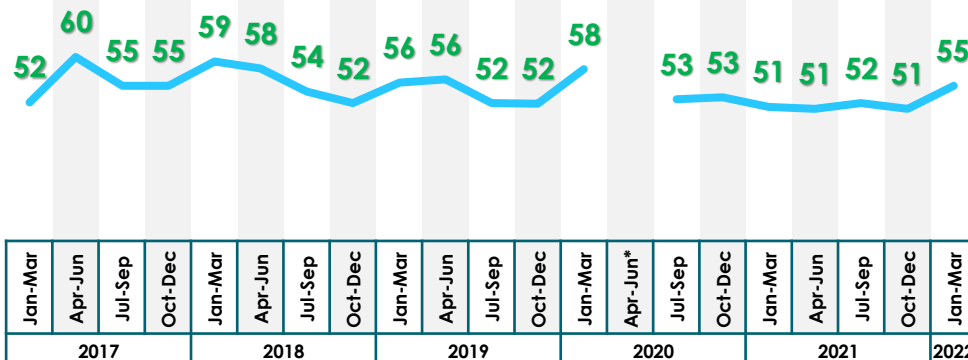


Source: Survey results
* Data for January – March 2020 are unavailable due to the pandemic lockdown.

Despite the lack of clarity regarding the state of economic stagnation with the emergence of new strains of the COVID-19 virus and the problems associated with higher production and shipping costs, the outlook of the business community towards the quarter January - March 2022 was higher than the neutral level by five points, and also higher than the previous and corresponding quarters (Figure 1-2).

Development of the Overall Business Barometer Index

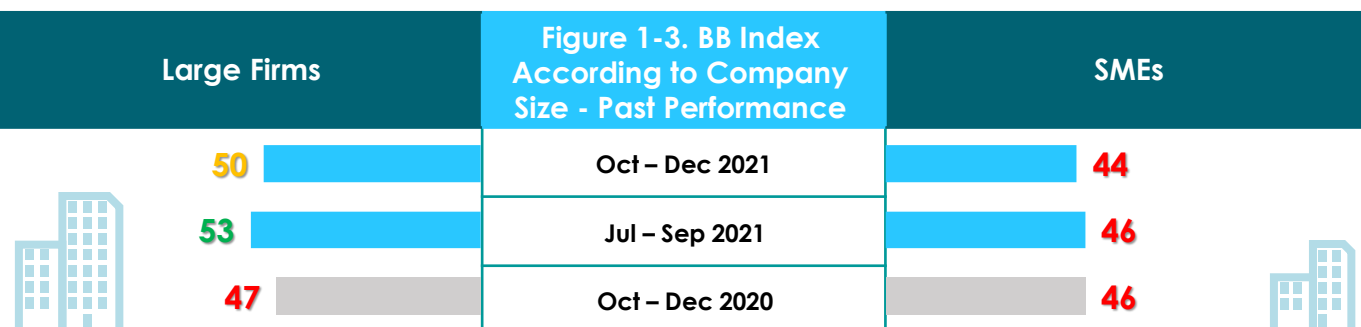
Figure 1.2. Outlook



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

1-2 The Index According to Firm Sizes

All firms were negatively affected by the previous global turmoil, but the suffering of small firms was more significant. The business performance index of small and medium-sized firms during the quarter under study (October-December 2021) was six points less than the neutral level and less than the previous and corresponding quarters. This reflects the inability of firms to bear the burden of the insane rise in production and shipping costs, weakness in adapting to crises, and subsequent recession. Meanwhile, the value of the business performance index of large firms during the quarter under study was neutral, showing an increase of three points than that of the corresponding quarter and three points lower than that of the previous quarter (Figure 1-3).



Source: Survey results.

All firms expressed their optimism about their performance during the next quarter, albeit the degree of optimism of large firms is higher than that of small and medium ones. The expectations index for small and medium-sized firms rose from the neutral level by three points, which is a higher performance than during the previous and corresponding quarters. The expectations of large firms about the next quarter were also optimistic; the expectations index of large firms was higher than the neutral level by 7 points, which is higher than the expectations of the previous and corresponding quarters. This is due to the emergence of new strains of the COVID-19 virus and the continuation of the global inflationary wave (Fig. 1-4).

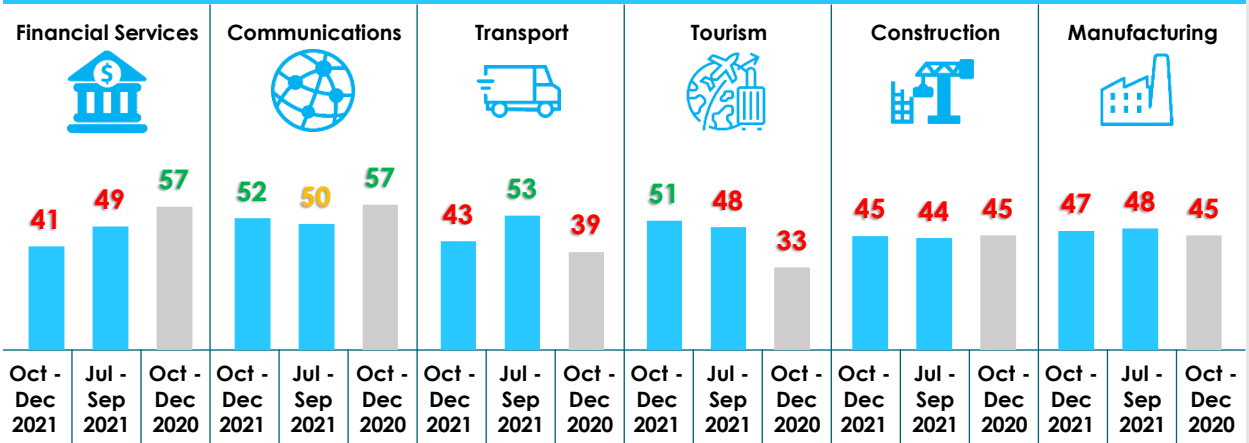


Source: Survey results.

1-3 The Index According to Economic Sectors

All sectors witnessed a continued decline in performance during the quarter under study; with all sectors recording index values below the neutral level, with the exception of the communications and tourism sectors, which recorded a higher performance than neutral (Figure 1-5).

Figure 1.5. Business Barometer According to Economic Sectors - Past Performance

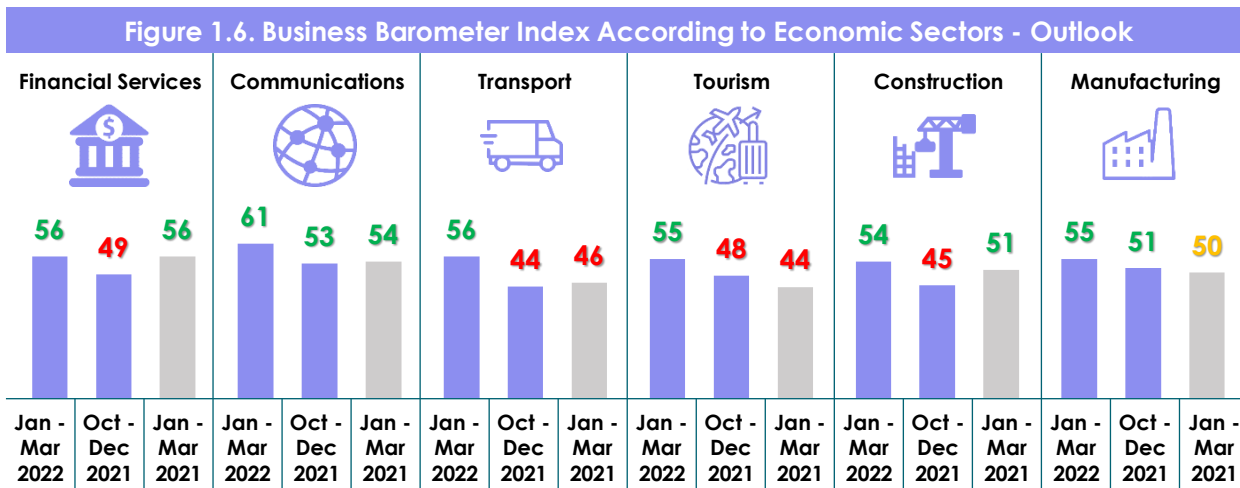


Source: Survey results.

The following is an analysis of the performance of economic sectors according to the opinions of the sample during the quarter under study compared to the previous and corresponding quarters:

- The **manufacturing sector** recorded an index value three points less than neutral, which is a lower performance than the previous quarter and higher than the corresponding quarter. Among the most important reasons for the decline are skyrocketing prices of raw materials and production requirements, disruption of global supply chains, slow movement of shipping, delays in delivery times, difficulties in implementing the ACI system for the pre-registration of shipments that led to slow import traffic and delayed delivery times, excessively higher freight prices, weak purchasing power, and low market demand.
- The performance of the **construction sector** was below the neutral level by five points. This performance is better than the previous quarter by one point, and similar to the corresponding quarter, reflecting the continuing challenges facing this sector from the previous year; in addition to important developments such as higher prices of building materials since the previous quarter, complexity of licensing procedures and their high costs, new requirements in the Unified Building Law, the increase in tax burdens on the sector, as well as the decline in market demand and lack of firm liquidity.
- The **tourism sector** witnessed an increase of one point from the neutral level, a performance that is better than its counterpart during the previous and corresponding quarters. This indicates a gradual recovery in the sector linked to the recovery of domestic tourism, higher occupancy rates, New Year's celebrations and holidays, as well as improvement of foreign tourism after the resumption of flights to some countries, including the GCC. However, the sector is still suffering from the repercussions of the pandemic and continued suspension of Hajj and Umrah trips.
- The **telecommunications sector** recorded a performance two points higher than neutral, which is better than the previous quarter, and less than the corresponding quarter, due to the high demand for the sector's services and products, and the presence of new software contracts from the GCC. However, the sector suffers from poor customer liquidity and consequently the slow collection of firm dues, lack of sufficient funding for the operation and maintenance of networks, and low firm liquidity, which makes them withhold from investing in huge projects, in addition to the high prices of imported inputs.
- The performance of the **transportation sector** was lower than the neutral level compared to its previous quarter, but higher than the corresponding quarter. This reflects global supply chain disruptions, slow container traffic, and delayed delivery times, as well as difficulties in implementing the ACI pre-registration system, slowing import and customs clearance.
- The **financial services sector** witnessed the largest decline in performance across sectors, as it recorded a nine point decrease from neutral, which is less than its performance during the previous and corresponding quarters. This decline is due to the increase in speculation after E-finance went public and a large percentage of shares were allocated to foreigners, which lowered the share price. In addition, there is still obscurity regarding the imposition of a capital gains tax, and some practices that shake investors' confidence in the transparency of the money market; for example, changing the rules of trading during active trading, as well as canceling trading on some shares without giving reasons.

As for outlook, expectations for the next quarter were higher than neutral for all sectors, and more optimistic than the previous and corresponding quarters, as shown in Figure 1-6.



Source: Survey results.

The following is an analysis of performance projections for economic sectors regarding the next quarter and comparison with the previous and corresponding quarters:

- The **telecommunications sector** led all sectors in terms of the business community's optimism about improved performance during the next quarter, which reflects high demand for the sector's services and products in general, in addition to the government's seriousness about digitalization and the actual start of automating the tax and customs system.
- The **financial services sector** comes next in terms of optimism concerning performance, which is higher than the previous quarter. This is due to a clearer picture regarding the application of the capital gains tax, as investors will not require a tax file, where the tax authority will be in charge of collection, in addition to the reduction of some fees and the abolition of the stamp tax on stock market transactions. Furthermore, there are expectations of an increase in trading volumes by institutions and funds, more government placements during the coming period, deduction of all trading expenses from the tax base, and reduction of taxes on profits made from new placements.
- The **transport sector** comes next, as expectations were better than those during the previous and corresponding quarters, as a result of expectations of a return of global freight traffic to normal, and expectations of an increase in citrus, onion and potato exports in the coming period.
- The **manufacturing sector** comes next, as expectations about the sector's performance were higher than the previous and corresponding quarters. Positive expectations are linked to optimism that the global inflationary wave is temporary, especially after the decline in the price of oil in December, the improving global ability to control the virus, and a gradual recovery in demand at the external and domestic levels.
- The **tourism sector** also recorded optimistic expectations, which are higher than those of the previous and corresponding quarters. This is linked to expectations of recovery in internal and external tourism as a result of holidays, and the reopening of airlines with the GCC.
- The outlook of the **construction sector** was also optimistic and better than the previous and corresponding quarters.

II. Obstacles that faced the business community in the quarter under study, and priorities for improving the business environment from the point of view of the firm sample



Firms of all sizes continued to agree that high production costs is the biggest obstacle they face, followed by weak purchasing power. Severity of the constraints facing firms varied according to size and economic sector.

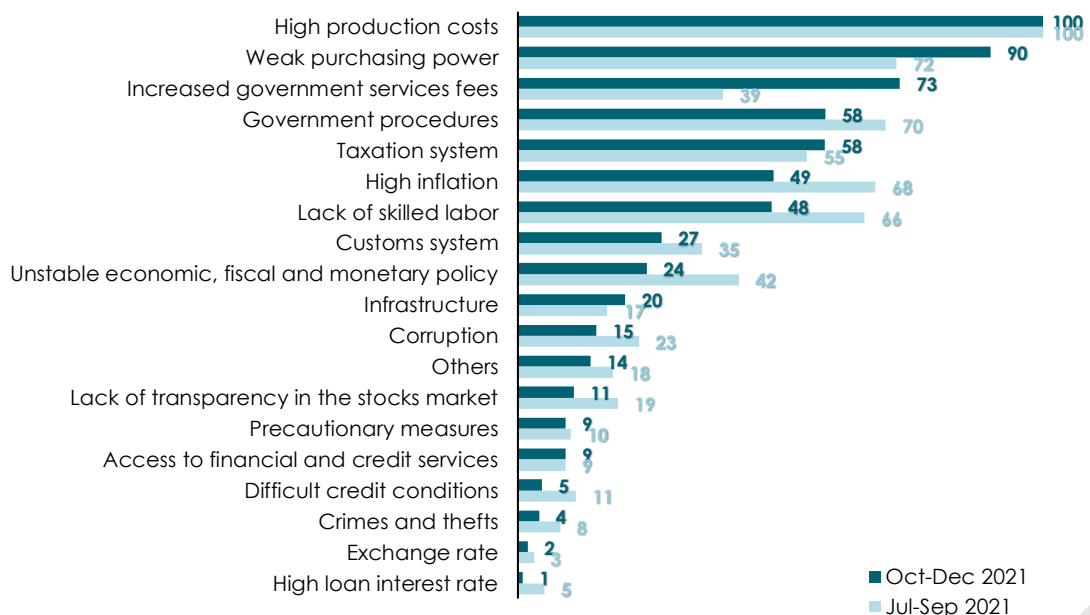
Figure 2.1 shows the main obstacles that faced the business community as a whole during the quarter under study (October-December 2021), arranged in descending order of severity from the point of view of the firm sample.

The rise in production costs continued to lead the list of obstacles for all firms during the current and previous quarters, as a result of the exorbitant increase in the prices of production inputs, high prices of sea freight, disruption of global supply chains, shortage of raw materials and the increase in their prices; in addition to the repeated hikes in energy and transportation prices, followed by weak purchasing power, which reflected in the low level of domestic demand with the rise in prices. Then comes the customs system, as the new ACI system represents a major reason for the disruption of customs work because it led to an increase in the time taken for customs clearance, disruption of import, in addition to the suspension of firms abroad from supplying Egypt due to the complexity of customs procedures and the improper application of the ACI system. The increase in fees for government services came as the fourth largest obstacle facing the business community, without being matched by an improvement in services, including customs fees, road and bridge fees, and licensing and registration fees.

The results also showed other constraints faced by the business community during the quarter under study, including delayed value-added refunds, export subsidies, exaggerated expenses of freight forwarders, and lack of coordination between government agencies.

By comparing the obstacles that the firms faced during the quarter under study with their counterparts during the previous quarter, the business community suffered more significantly from the challenges of the customs system, weak purchasing power, and then high inflation. Meanwhile, there has been some relief with regard to fees imposed on government services, procedures for dealing with government agencies, and challenges related to the tax system.

Figure 2.1.
Constraints Facing the Business Community during the Quarter under Review



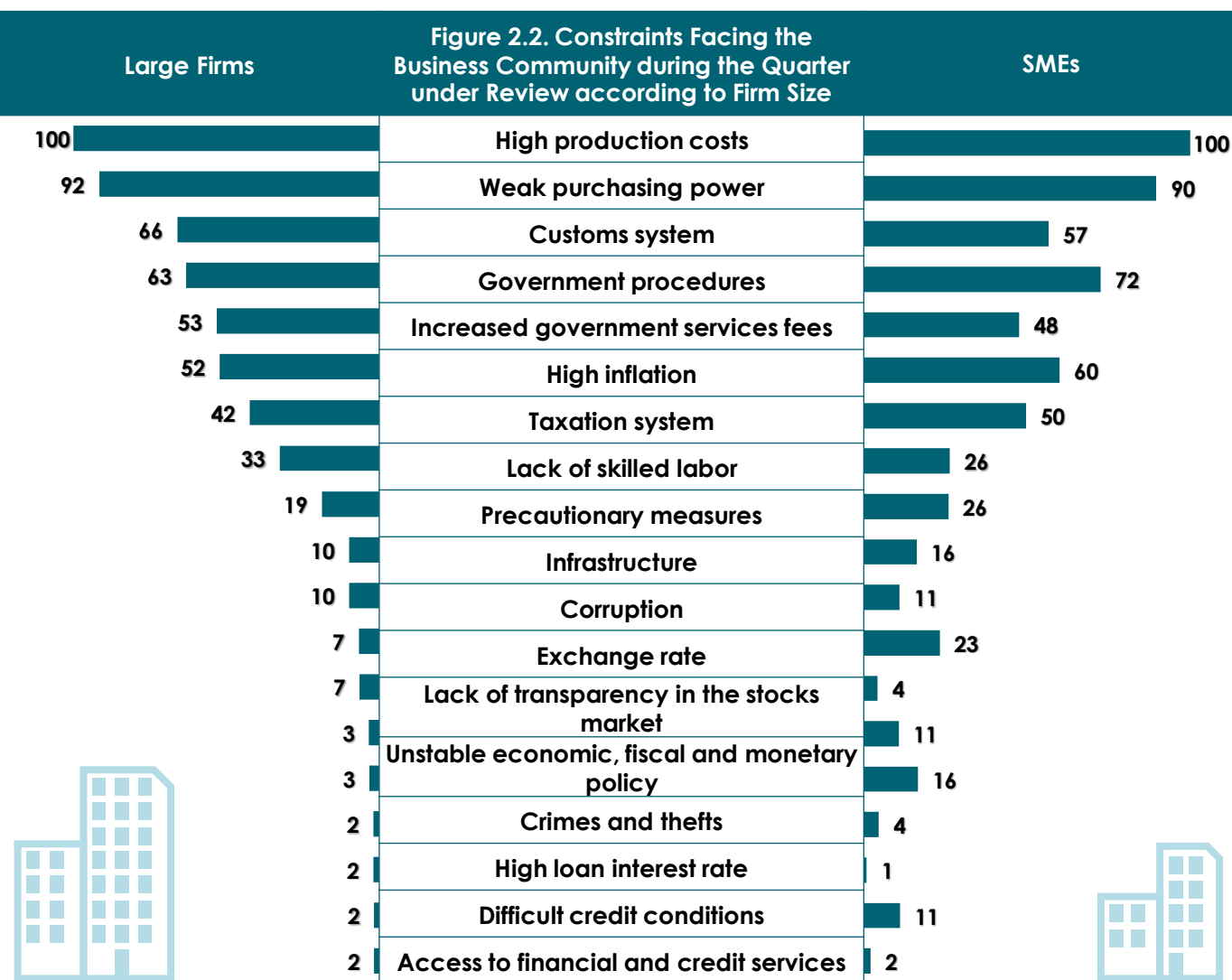
Source: Survey results.

The main obstacles faced by the business community according to firm size

With respect to firm sizes, high production costs topped the list of obstacles, followed by weak purchasing power, then the challenges related to the customs system came in third place for small and medium firms due to the difficulty of adhering to the new system of shipments (ACI), followed by the increase in fees imposed on government services, then high inflation. The results also showed other obstacles faced by small and medium firms during the current quarter, including the inability of small firms to market abroad, and the government's competition with the private sector in all fields.

The results also showed other obstacles faced by large firms, including lack of linkage between government agencies. Large firms cited high inflation as the third largest obstacle they face, followed by challenges of the customs system, and then dealing with government agencies.

Figure 2.2. Shows the main obstacles that large, small and medium firms faced (according to size) during the quarter under study (October-December 2021), arranged in a descending order of severity from the point of view of the firm sample.









Source: Survey results.

The main obstacles faced by the business community according to economic sectors

There is discrepancy in the ranking of constraints at the level of the economic sectors, with the high production and operating costs being the biggest obstacle facing the manufacturing, construction, tourism, and transportation sectors. Meanwhile, the increase in fees for obtaining government services and procedures for dealing with government agencies came as the biggest obstacle facing the telecommunications sector. All firms in the transport sector suffer from weak purchasing power, and the sample in the financial services sector unanimously agree that lack of transparency in the stock market is the biggest obstacle they face (Figure 2-3).

Figure 2.3.
Constraints Facing the Business Community during the Quarter under Review

| |  Financial Services |  Communications |  Transport |  Tourism |  Construction |  Manufacturing |
|---|--|--|--|---|--|---|
| High production costs | - | 73 | 100 | 100 | 100 | 100 |
| Increased government services fees | 35 | 100 | 12 | 87 | 87 | 81 |
| Government procedures | 9 | 100 | 11 | 73 | 67 | 72 |
| Weak purchasing power | - | 50 | 100 | 57 | 98 | 94 |
| Taxation system | 81 | 73 | 11 | 80 | 49 | 57 |
| Lack of skilled labor | 0 | 36 | 2 | 13 | 36 | 44 |
| High inflation | 19 | 68 | 13 | 73 | 93 | 89 |
| Customs system | - | 86 | 22 | - | 51 | 68 |
| Unstable economic, fiscal and monetary policy | 81 | 0 | 20 | 13 | 13 | 24 |
| Corruption | 0 | 0 | 3 | 0 | 20 | 19 |
| Infrastructure | 0 | 0 | 1 | 0 | 36 | 26 |
| Precautionary measures | 0 | 0 | 8 | 20 | 4 | 2 |
| Others | 95 | 0 | 4 | 0 | 0 | 5 |
| Crimes and thefts | 0 | 0 | 1 | 0 | 20 | 4 |
| Access to financial and credit services | - | 41 | 0 | 0 | 9 | 6 |
| Difficult credit conditions | - | 41 | 0 | 0 | 9 | 6 |
| Exchange rate | 0 | 0 | 0 | 0 | 0 | 2 |
| High loan interest rate | - | 0 | 0 | 0 | 4 | 2 |
| Lack of transparency in the stocks market | 100 | 0 | - | 0 | 8 | 7 |

Source: Survey results.

Priorities to Improve the Business Environment in Egypt (According to Views of the Company Sample)

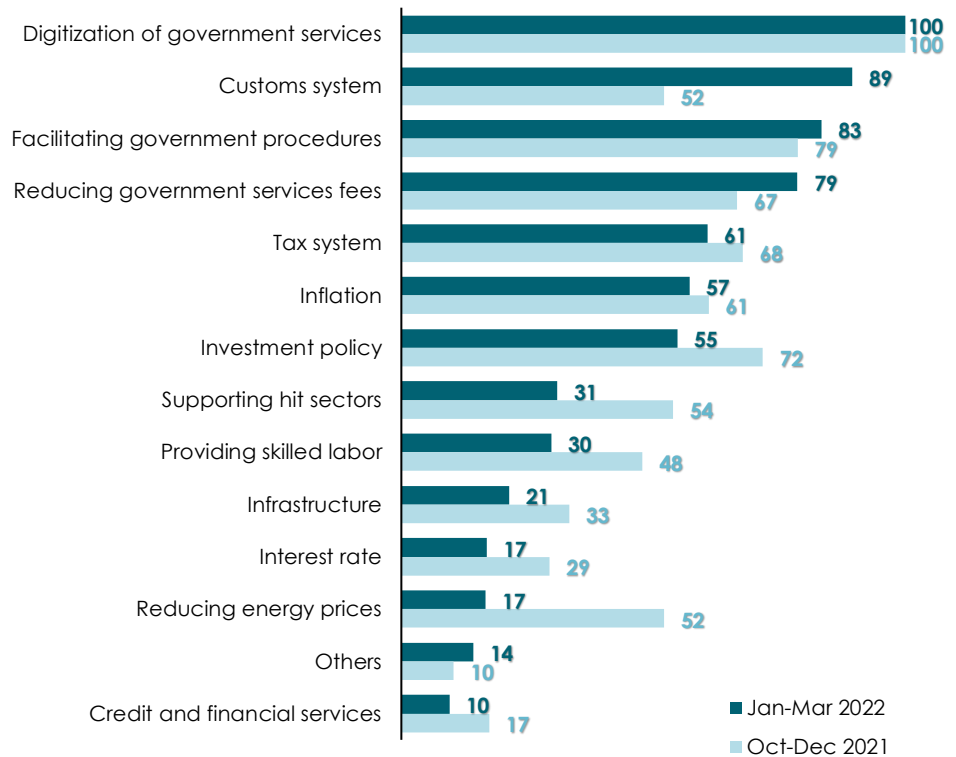


The most important priorities that must be focused on: Improving the mechanisms of digitalizing government services, facilitating government procedures, improving investment policies, and reducing tax burdens. Priorities varied with sizes of firms and economic sectors.

Priorities from the perspective of the business community as a whole

Consensus among the sample of firms continued that the speed and improvement of the mechanisms of **digitalizing** government services are among the top priorities for improving the business climate in Egypt. Improving digitalization mechanisms requires setting a clear time-table, linking government agencies with each other, improving infrastructure, strengthening networks, and enhancing training of workers and users on the new system. This is followed by addressing the challenges of the customs system by improving the mechanisms for applying the advance shipping system (ACI), followed by facilitating government procedures, then reducing fees imposed for obtaining government services, especially registration and licensing fees, and the need to improve service provision (Figure 2-4).

Figure 2.4.
Constraints Facing the Business Community during the Quarter under Review according to Sector



Source: Survey results.

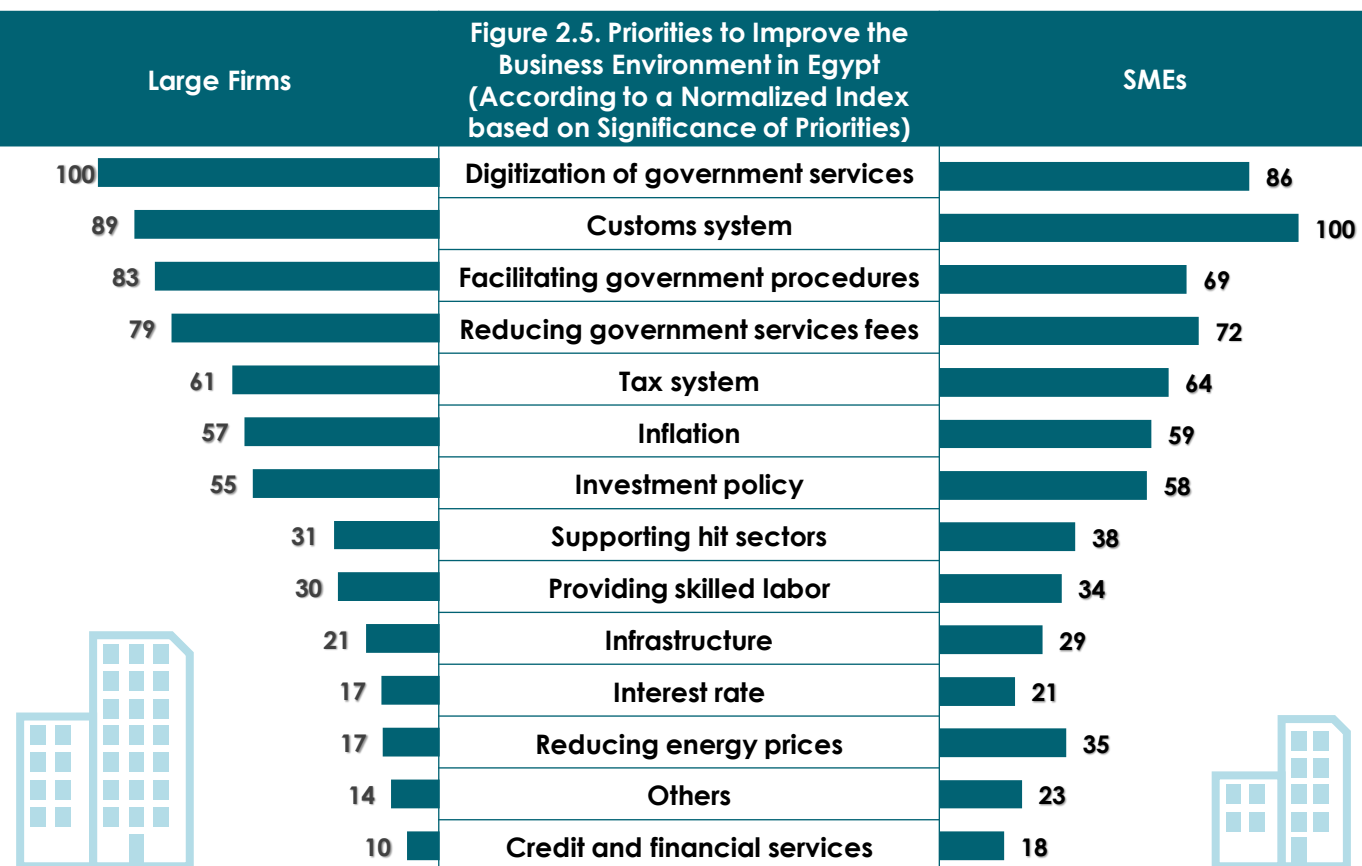


By comparing priorities for improving the business climate in the current quarter with the previous quarter, it is clear that addressing challenges related to the customs system came after digitalization as a priority during the next quarter compared to the previous quarter, followed by the need to facilitate government procedures and reduce fees on government services, while the tax system and investment policies witnessed a slight decline as priorities during the next quarter.

Priorities that should be focused on from the perspective of the business community according to the size of firms

Comparing priorities according to the size of the firms, the following can be noted:

- **Large firms** believe that improving the mechanisms of digitalization of government services, and finding solutions to the challenges of the customs system, then facilitating government procedures, and reducing fees imposed for obtaining government services should be on the list of priorities to improve the business climate.
- **Small and medium firms** believe that solving the problems of the customs system, especially the ACI system, (like large firms) the need to improve digitalization mechanisms, reducing fees imposed on government services, in addition to the need to facilitate government procedures, as the most important priorities for improving the business climate (Figure 2-5).
- **Small and medium firms** added other priorities, including the need for an entity to market their products, expanding the mechanisms of artificial intelligence, deepening local manufacturing in the field of packaging, and motivating firms to register in the stock exchange.









Source: Survey results.

Priorities according to Economic Sectors

Priorities varied across economic sectors. Improving digitalization of government services, and facilitating government procedures were a top priority according to the manufacturing, tourism, construction, and communications sectors. Addressing the challenges of the customs system followed by digitalization were the most important priorities of the transport sector. Other priorities, such as increasing the trading time in the stock market, canceling the auction session, and making new placements, emerged as the biggest priority for the financial services sector.

Priorities for the manufacturing and construction sectors were diverse, as they identified a wide range of priorities during the coming period. Both sectors shared the importance of making more efforts to improve investment policies, reduce fees on government services, improve the tax system, and tackle domestic inflation. The construction and tourism sectors agreed on the need to continue supporting the sectors affected by the COVID-19 pandemic as long as the crisis persists.

Figure 2.6.
Constraints Facing the Business Community during the Quarter under Review

| |  Financial Services |  Communications |  Transport |  Tourism |  Construction |  Manufacturing |
|-------------------------------------|--|--|--|---|--|---|
| Digitization of government services | 81 | 100 | 96 | 100 | 100 | 100 |
| Facilitating government procedures | 12 | 100 | 42 | 100 | 100 | 92 |
| Investment policy | 69 | 0 | 52 | 0 | 81 | 79 |
| Tax system | 79 | 50 | 47 | 60 | 82 | 71 |
| Reducing government services fees | 51 | 56 | 80 | 78 | 91 | 90 |
| Inflation | 38 | 50 | 42 | 50 | 86 | 75 |
| Supporting hit sectors | 0 | 28 | 9 | 70 | 82 | 44 |
| Reducing energy prices | 7 | 0 | 7 | 0 | 74 | 51 |
| Customs system | - | 66 | 100 | - | 63 | 89 |
| Providing skilled labor | 0 | 28 | 7 | 5 | 63 | 54 |
| Infrastructure | 0 | 0 | 14 | 0 | 77 | 40 |
| Interest rate | 0 | 0 | 0 | 0 | 63 | 30 |
| Credit and financial services | 0 | 31 | 0 | 0 | 54 | 19 |
| Others | 100 | 0 | 28 | 0 | 0 | 13 |

Source: Survey results.



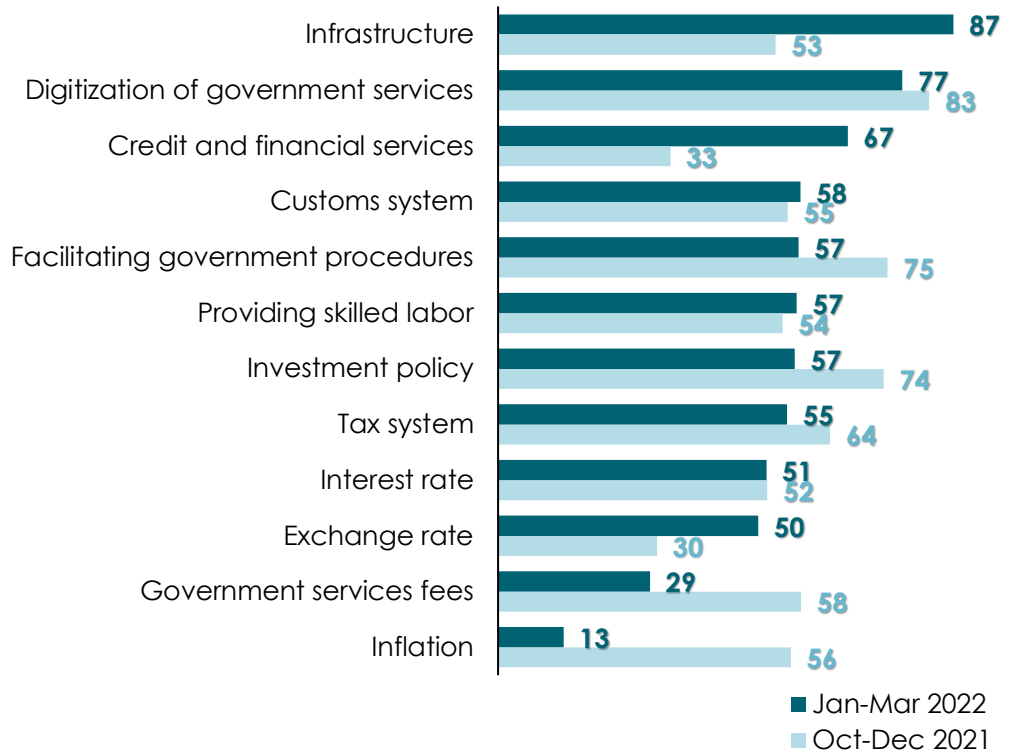
Outlook of the Business Community toward Aspects of Improvement, based on their View of Current Orientation of Government



Expectations of improvement in infrastructure, digitalization, financial and credit services, and the customs regime over the coming quarter

In light of current government projects and trends, most firms expect continued improvement in infrastructure due to the various projects underway, followed by the digitalization of government services as a result of the various efforts announced to this end, then financial and credit services (Figure 2.7).

Figure 2.7.
Outlook of the Business Community toward Aspects of Improvement, based on their View of Current Orientation of Government (according to the same methodology of the Business Barometer)



Source: Survey results.





III. Past Performance and Outlook at the level of Sub-Indices

3-1 Past Performance

Improvement in all performance evaluation indicators for large firms and mixed indicators for small and medium firms

The indices of domestic sales and exports achieved good performance for large firms during the quarter under study, which was reflected in the indices of production and capacity utilization. Both posted values higher than the neutral level due to the gradual recovery of the local and foreign markets, as well as the expansion on immunization campaigns to control the new wave of COVID-19.

By comparing the performance evaluation for the current quarter versus the previous quarter, it is clear that the performance of the indices of domestic sales, production and exports has improved during the current quarter, albeit lower than their counterparts during the previous quarter.

Indicators of production, exports, and capacity utilization improved compared to the corresponding quarter.

The performance of small and medium-sized firms was modest compared to the performance of large firms. The results showed a significant decrease in all indicators from the neutral level, which points out the challenges facing these firms during the quarter under study, including high production costs, shortages of raw materials and a decline in demand.

Comparing the performance in the current quarter with that of the previous quarter; a significant decline is noted in the indices of production, domestic sales, exports and capacity utilization.

Comparing the performance in the current quarter with its counterpart in the corresponding quarter; the domestic sales index witnessed a decline in performance compared to the corresponding quarter, while the indices of production, exports, capacity utilization, and commodity inventories witnessed improvement compared to the corresponding quarter.

Figure 3.1. Production and Sales Indices According to Firm Size - Past Performance

| Large Firms | Figure 3.1. Production and Sales Indices According to Firm Size - Past Performance | | | SMEs |
|-------------------------------------|--|---------------------------------|--------------|-----------|
| 59 67 50 | Oct-Dec 2021 | Production | Oct-Dec 2021 | 38 |
| | Jul-Sep 2021 | | Jul-Sep 2021 | 51 |
| | Oct-Dec 2020 | | Oct-Dec 2020 | 35 |
| 53 63 56 | Oct-Dec 2021 | Domestic Sales | Oct-Dec 2021 | 38 |
| | Jul-Sep 2021 | | Jul-Sep 2021 | 50 |
| | Oct-Dec 2020 | | Oct-Dec 2020 | 45 |
| 59 75 37 | Oct-Dec 2021 | Exports | Oct-Dec 2021 | 48 |
| | Jul-Sep 2021 | | Jul-Sep 2021 | 46 |
| | Oct-Dec 2020 | | Oct-Dec 2020 | 20 |
| 54 51 50 | Oct-Dec 2021 | Capacity Utilization | Oct-Dec 2021 | 38 |
| | Jul-Sep 2021 | | Jul-Sep 2021 | 47 |
| | Oct-Dec 2020 | | Oct-Dec 2020 | 14 |
| 50 44 44 | Oct-Dec 2021 | Inventory* | Oct-Dec 2021 | 60 |
| | Jul-Sep 2021 | | Jul-Sep 2021 | 55 |
| | Oct-Dec 2020 | | Oct-Dec 2020 | 55 |

Source: Survey results.

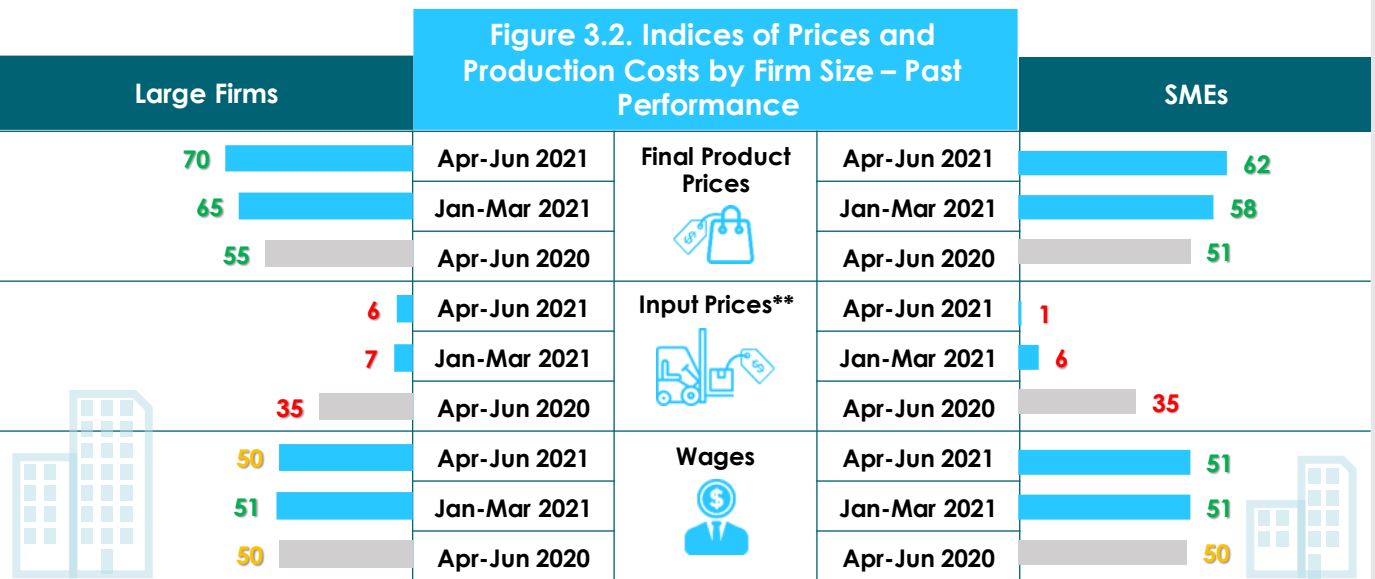
* The index for inventory is inverted to indicate the negative impact of its increase on businesses. Hence, a higher inventory index indicates lower inventory and vice versa.

A drastic rise in input prices and a stable wage index, which reflected in a significant increase in the prices of final products across firms of all sizes

The results of the performance evaluation showed a radical rise in the prices of inputs for all firms as a result of the continuation and even exacerbation of its driving factors locally and globally. Globally, raw material prices witnessed a notable increase during the quarter under study, as did freight and transportation fees, due to disruption of global supply chains, slow container traffic, and delays in delivery times; as well as slow customs procedures, higher freight tariffs, and costlier operating expenses due to higher fuel and transport costs. The results also showed a stable wage index at the neutral level for large firms, and a slight increase for small and medium firms. All of the above was reflected in a noticeable rise in the final product price index for all firms. The rise in the final product price index was greater for large firms (20 points from the neutral level) than for small and medium firms (12 points from the neutral level) (Figure 3-2).

In comparison with the previous and corresponding quarters, it is clear that the indices of input prices, wages and prices of final products increased during the current quarter for all firms of all sizes.

Although the rise in input prices represents a clear challenge faced by all firms, the suffering of small and medium-sized firms was greater in the absence of pooled procurement mechanisms, low liquidity and consequently high costs incurred.



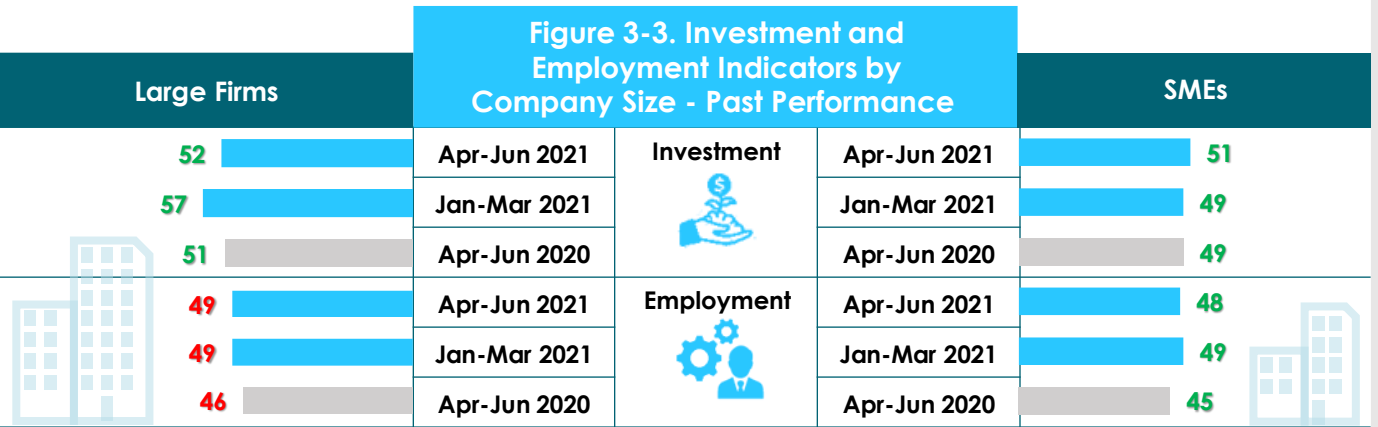
Source: Survey results.

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

A slight improvement in the investment index and a decline in the employment index for all firms

Despite government efforts to improve the business environment and support all firms:

- Survey results of **large firms** showed a performance higher than the neutral level in the investment index during the current quarter, although it was lower than its counterpart during the previous quarter. A slight decrease was noted in the employment index during the current quarter, as the index recorded values one point lower than the neutral level, which is similar to the previous quarter, but better than in the corresponding quarter. This indicates the ability of large firms to benefit from the measures taken by the state to improve the investment climate, but these investments were coupled with an increase in the employment index.
- For **small and medium-sized firms**, the results showed that the investment index increased by one point from the neutral level, which is a better performance compared to the previous and corresponding quarters, while the employment index decreased from the neutral level, recording a performance lower than the previous quarter, but better than in the corresponding quarter. This indicates the need to review the initiatives and incentives announced by the state for small enterprises, and to speed up intervention to solve the current problems they face such as high government fees, in addition to reviewing 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 (Figure 3-3).



Source: Survey results.

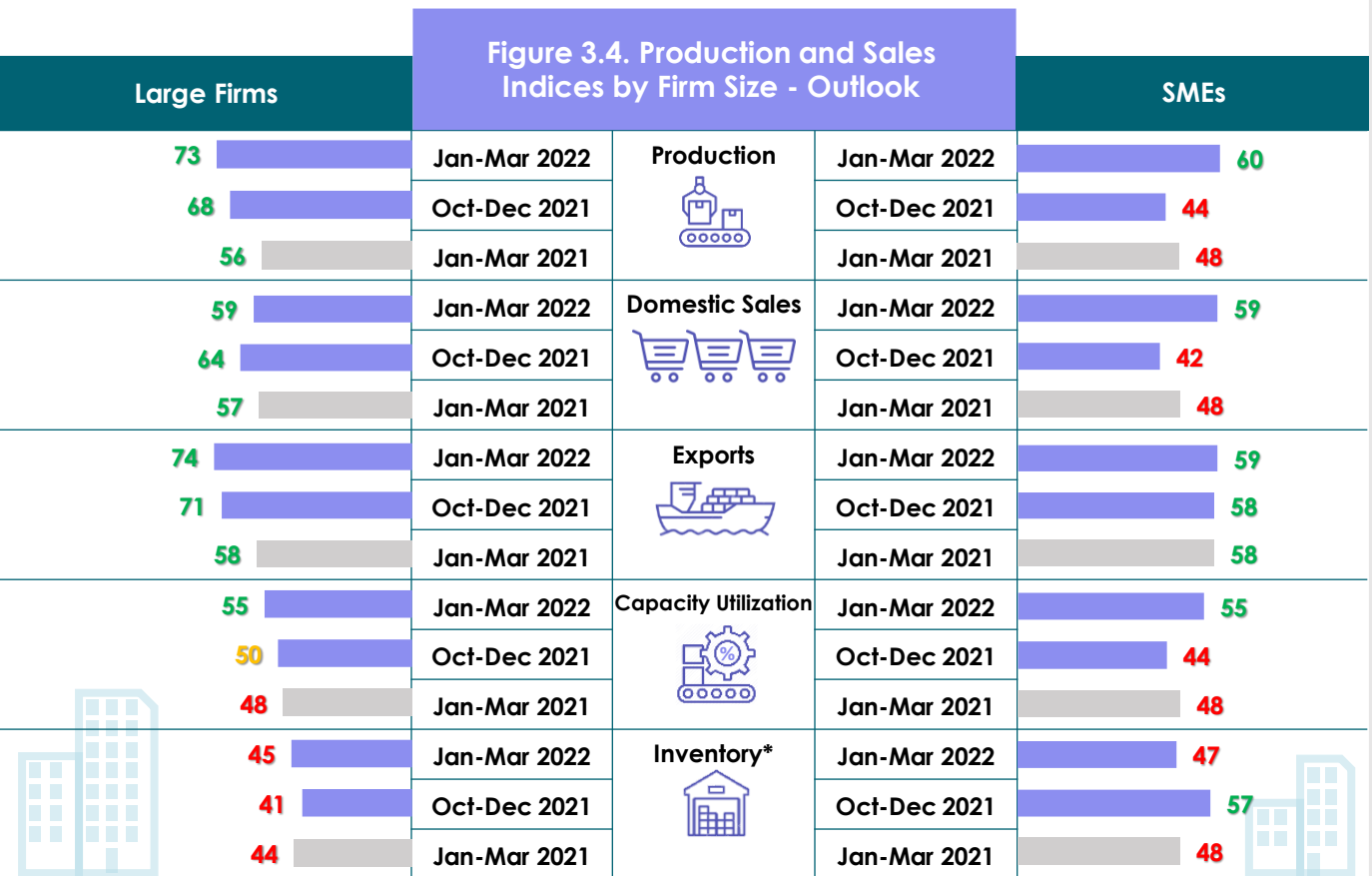
2-3 Performance Outlook

Expected improvement in most indicators of economic activity for all firms during the coming quarter

Firms expect an improvement in most indices of economic activity during the next quarter, (January-March 2022) as the values of all indicators rose from the neutral level, and the inventory index decreased, which are more optimistic expectations compared to the corresponding quarter. Some are more optimistic than in the previous quarter, specifically regarding production, exports and capacity utilization. This may be attributed to expectations of a recovery in the global economy and thus external demand (Figure 1-4).

Despite the improvement in the expectations index for domestic sales compared to the corresponding quarter, it is lower than the previous quarter, indicating weak expectations for domestic demand.

The expectations of small and medium-sized firms were optimistic about the next quarter regarding all indicators of economic activity; as all indicators recorded a performance above the neutral level, except for the inventory index. In comparison with the previous and corresponding quarters, we find that the expectations for the quarter under study were more optimistic about all economic activity indicators.



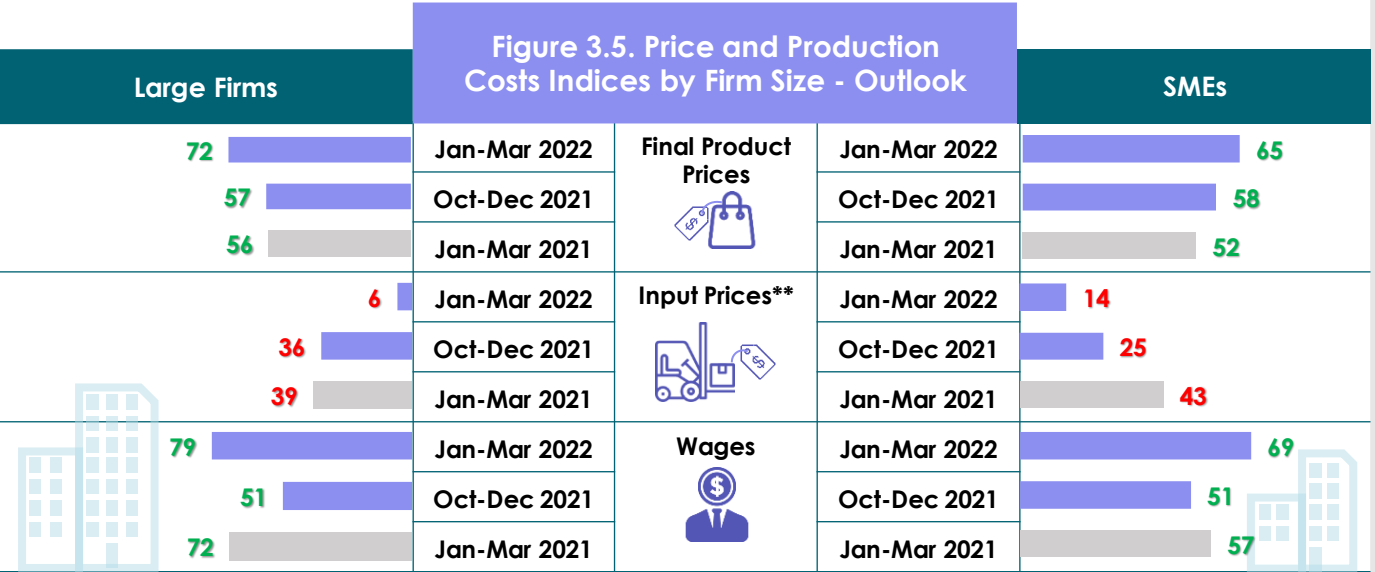
Source: Survey results.

* The inventory index is inverted to reflect the negative impact of rising inventory on businesses. In other words, a higher index indicates lower inventory and vice versa.

Expectations that input price and wage indices will continue to rise, which will reflect in a rise of the final product price index for all firms

All firms expect continuation of the rise in input prices and production costs as a result of firm expectations of a continued rise in the prices of production and employment, including a rise in the prices of raw materials. The business community also expects an increase in fees for government services, including customs duties, an increase in the prices of packaging materials, an increase in freight and transport prices, in addition to uncertainty about supply chains in the near term. The results also showed expectations of an increase in the wage index for all firms due to annual salary increases with the start of each year. Consequently, rises in the input and wage indices are reflected in a rise in the final product price index for all firms during the next quarter (Figure 3.5).

As for prices of final products and wages, expectations for the next quarter were higher than in the previous and corresponding quarter for all firms.



Source: Survey results.

** The index for input prices is inverted to indicate the negative effect of the increase in input prices on the overall index. Hence, a lower value of this index indicates higher input prices.

Expectations of a slight improvement in employment and investment for all firms

Large, small and medium firms expressed optimistic expectations about investment and employment. Both indices recorded higher values than the neutral level, which are more optimistic expectations compared to the previous and corresponding quarters, and may reflect expectations of investment expansions, and the opening of new production lines during the recovery phase from the COVID-19 crisis (Figure 3-6).



Source: Survey results.

Tables Index

Table A1: Survey Results: Summary of all firms evaluation at the sectoral level (October-November-December 2021)¹

| Indicator | Manufacturing | | | Construction | | | Tourism | | | Transportation | | | Communications | | | Financial Services | | | | | | | | | |
|--------------------------|--------------------|------|-----|--------------------|------|-----|--------------------|------|-----|--------------------|------|-----|--------------------|------|-----|--------------------|------|-----|----|----|----|-----|----|----|----|
| | Higher | Same | Low | Higher | Same | Low | Higher | Same | Low | Higher | Same | Low | Higher | Same | Low | Higher | Same | Low | | | | | | | |
| | Index ² | | | Index ² | | | Index ² | | | Index ² | | | Index ² | | | Index ² | | | | | | | | | |
| | 47 | 47 | 47 | 45 | 45 | 45 | 51 | 51 | 51 | 43 | 43 | 43 | 52 | 52 | 52 | 41 | 41 | 41 | | | | | | | |
| Economic activity | | | | | | | | | | | | | | | | | | | | | | | | | |
| Production | 28 | 28 | 43 | 27 | 20 | 53 | 39 | 60 | 40 | 0 | 71 | 0 | 25 | 75 | 20 | 63 | 38 | 0 | 73 | 12 | 0 | 88 | 12 | | |
| Domestic sales | 22 | 34 | 44 | 27 | 20 | 53 | 39 | 60 | 40 | 0 | 71 | 0 | 25 | 75 | 20 | 63 | 38 | 0 | 73 | 12 | 0 | 88 | 12 | | |
| Exports | 40 | 35 | 25 | 56 | — | — | — | — | — | — | — | — | 0 | 78 | 22 | 44 | 67 | 33 | 0 | 75 | — | — | — | | |
| Inventory | 27 | 33 | 40 | 55 | 29 | 14 | 57 | 63 | 60 | 20 | 67 | 0 | 42 | 58 | 71 | 63 | 38 | 0 | 27 | 6 | 6 | 88 | 89 | | |
| Capacity utilization | 8 | 67 | 25 | 45 | 0 | 86 | 14 | 46 | 0 | 80 | 20 | 44 | 8 | 25 | 67 | 27 | 38 | 50 | 13 | 58 | 12 | 0 | 88 | 12 | |
| Prices | | | | | | | | | | | | | | | | | | | | | | | | | |
| Final product prices | 62 | 35 | 3 | 72 | 67 | 33 | 0 | 75 | 30 | 70 | 0 | 59 | 17 | 83 | 0 | 55 | 13 | 88 | 0 | 53 | 0 | 100 | 0 | 50 | 50 |
| mediate product prices | 98 | 2 | 0 | 2 | 100 | 0 | 0 | 0 | 100 | 0 | 0 | 0 | — | — | — | 100 | 0 | 0 | 0 | 0 | — | — | — | — | |
| Wage level | 8 | 92 | 0 | 52 | 0 | 100 | 0 | 50 | 0 | 100 | 0 | 50 | 0 | 100 | 0 | 50 | 0 | 100 | 0 | 50 | 0 | 100 | 0 | 50 | 50 |
| Primary inputs | | | | | | | | | | | | | | | | | | | | | | | | | |
| Investment | 5 | 93 | 2 | 51 | 0 | 100 | 0 | 50 | 0 | 100 | 0 | 50 | 0 | 100 | 0 | 50 | 38 | 63 | 0 | 62 | 0 | 100 | 0 | 50 | 50 |
| Employment | 7 | 78 | 1.5 | 48 | 7 | 53 | 40 | 39 | 0 | 100 | 0 | 50 | 0 | 100 | 0 | 50 | 0 | 100 | 0 | 50 | 0 | 100 | 0 | 50 | 50 |

Table A2: Survey Results: Summary of all firms expectations at the sectoral level (January-February-March 2022)¹

| Indicator | Manufacturing | | | Construction | | | Tourism | | | Transportation | | | Communications | | | Financial Services | | | | | | | | | |
|--------------------------|--------------------|------|-----|--------------------|------|-----|--------------------|------|-----|--------------------|------|-----|--------------------|------|-----|--------------------|------|-----|----|----|----|-----|----|----|----|
| | Higher | Same | Low | Higher | Same | Low | Higher | Same | Low | Higher | Same | Low | Higher | Same | Low | Higher | Same | Low | | | | | | | |
| | Index ² | | | Index ² | | | Index ² | | | Index ² | | | Index ² | | | Index ² | | | | | | | | | |
| | 55 | 55 | 55 | 54 | 54 | 54 | 51 | 51 | 51 | 56 | 56 | 56 | 61 | 61 | 61 | 41 | 41 | 41 | | | | | | | |
| Economic activity | | | | | | | | | | | | | | | | | | | | | | | | | |
| Production | 42 | 45 | 13 | 60 | 40 | 40 | 20 | 57 | 50 | 0 | 67 | 50 | 33 | 17 | 63 | 75 | 25 | 0 | 80 | 53 | 47 | 0 | 68 | | |
| Domestic sales | 29 | 53 | 19 | 53 | 40 | 40 | 20 | 57 | 50 | 0 | 67 | 33 | 50 | 17 | 56 | 75 | 25 | 0 | 80 | 53 | 47 | 0 | 68 | | |
| Exports | 50 | 50 | 0 | 67 | — | — | — | — | — | — | — | 33 | 56 | 11 | 57 | 67 | 33 | 0 | 75 | — | — | — | — | | |
| Inventory | 11 | 64 | 24 | 54 | 36 | 43 | 21 | 45 | 50 | 0 | 33 | 17 | 67 | 17 | 50 | 75 | 25 | 0 | 20 | 29 | 71 | 0 | 41 | | |
| Capacity utilization | 12 | 77 | 12 | 50 | 20 | 80 | 0 | 56 | 10 | 90 | 0 | 53 | 50 | 33 | 17 | 63 | 38 | 63 | 0 | 62 | 53 | 47 | 0 | 68 | |
| Prices | | | | | | | | | | | | | | | | | | | | | | | | | |
| Final product prices | 67 | 32 | 2 | 75 | 60 | 40 | 0 | 71 | 80 | 20 | 0 | 83 | 0 | 100 | 0 | 50 | 50 | 50 | 0 | 67 | 0 | 100 | 0 | 50 | 50 |
| mediate product prices | 85 | 15 | 0 | 13 | 80 | 20 | 0 | 17 | 100 | 0 | 0 | — | — | — | — | 88 | 13 | 0 | 11 | — | — | — | — | | |
| Wage level | 65 | 35 | 0 | 74 | 60 | 40 | 0 | 71 | 90 | 10 | 0 | 91 | 42 | 58 | 0 | 63 | 88 | 13 | 0 | 89 | 18 | 82 | 0 | 55 | 55 |
| Primary inputs | | | | | | | | | | | | | | | | | | | | | | | | | |
| Investment | 8 | 92 | 0 | 52 | 7 | 93 | 0 | 52 | 0 | 100 | 0 | 50 | 17 | 75 | 8 | 52 | 50 | 50 | 0 | 67 | 0 | 100 | 0 | 50 | 50 |
| Employment | 10 | 83 | 7 | 51 | 27 | 73 | 0 | 58 | 0 | 100 | 0 | 50 | 17 | 83 | 0 | 55 | 25 | 75 | 0 | 57 | 0 | 100 | 0 | 50 | 50 |

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.

Tables Index

Table A3: Survey Results: Summary of all firms past performance (by size) (October-November-December 2021)¹

| Variable | SMEs | | | Index ² 44 | Large Firms | | | Index ² 50 |
|-----------------------------|------------|------|-----|---------------------------------|-------------|------|-----|---------------------------------|
| | Percentage | | | | Percentage | | | |
| | Higher | Same | Low | | Higher | Same | Low | |
| Economic activity | | | | | | | | |
| Production | 23 | 24 | 53 | 38 | 48 | 26 | 26 | 59 |
| Domestic sales | 21 | 27 | 52 | 38 | 39 | 30 | 30 | 53 |
| Exports | 28 | 39 | 33 | 48 | 36 | 57 | 7 | 59 |
| Inventory | 24 | 26 | 50 | 60 | 36 | 27 | 36 | 50 |
| Capacity utilization | 5 | 54 | 41 | 38 | 26 | 61 | 13 | 54 |
| Prices | | | | | | | | |
| Final product prices | 40 | 58 | 2 | 62 | 57 | 43 | 0 | 70 |
| Intermediate product prices | 99 | 1 | 0 | 1 | 94 | 6 | 0 | 6 |
| Wage level | 5 | 95 | 0 | 51 | 0 | 100 | 0 | 50 |
| Primary inputs | | | | | | | | |
| Investment | 4 | 95 | 1 | 51 | 9 | 91 | 0 | 52 |
| Employment | 4 | 83 | 13 | 48 | 4 | 87 | 9 | 49 |

Table A4: Survey Results: Summary of all firms expectations (by size) (January-February-March 2022)¹

| Variable | SMEs | | | Index ² 53 | Large Firms | | | Index ² 57 |
|-----------------------------|------------|------|-----|---------------------------------|-------------|------|-----|---------------------------------|
| | Percentage | | | | Percentage | | | |
| | Higher | Same | Low | | Higher | Same | Low | |
| Economic activity | | | | | | | | |
| Production | 42 | 45 | 12 | 60 | 65 | 30 | 4 | 73 |
| Domestic sales | 39 | 48 | 13 | 59 | 39 | 48 | 13 | 59 |
| Exports | 33 | 61 | 6 | 59 | 64 | 36 | 0 | 74 |
| Inventory | 25 | 61 | 14 | 47 | 32 | 50 | 18 | 45 |
| Capacity utilization | 24 | 68 | 8 | 55 | 22 | 74 | 4 | 55 |
| Prices | | | | | | | | |
| Final product prices | 47 | 52 | 1 | 65 | 61 | 39 | 0 | 72 |
| Intermediate product prices | 83 | 17 | 0 | 14 | 94 | 6 | 0 | 6 |
| Wage level | 56 | 44 | 0 | 69 | 74 | 26 | 0 | 79 |
| Primary inputs | | | | | | | | |
| Investment | 9 | 90 | 1 | 52 | 13 | 87 | 0 | 53 |
| Employment | 11 | 85 | 4 | 52 | 13 | 87 | 0 | 53 |

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.