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The Egyptian Center for Economic Studies

Business Barometer

Issue 64 July – September 2022

Performance Evaluation for the period July – September 2022
and Outlook for the period October – December 2022
from the Business Community's point of view

Business Barometer

Issue 64 July – September 2022

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Executive Summary

This report presents a periodic evaluation conducted by the Egyptian Center for Economic Studies of a sample of 120 private sector firms covering various sectors and sizes, and reflects the opinion of the business community regarding developments in a set of variables, specifically: Production, domestic sales and exports, inventory, level of capacity utilization, prices, wages, employment, and investment, during the quarter July-September 2022, and its outlook for the quarter October-December 2022, along with a comparison of the results with the previous quarter (April-June 2022) and the corresponding quarter (July-September 2021). The following is a brief review of the most important findings of the report for the quarter under study (July-September 2022),[1] focusing on the most important macro developments and results of the overall Business Barometer (BB).

Macroeconomic Overview

Globally, the world economy is expected to witness further slowdown, contraction, and uncertainty because of the pandemic and repercussions of the Russian-Ukrainian war. The International Monetary Fund (IMF) in October 2022 reduced its growth projection from 6 percent in 2021 to about 3.2 and 2.7 percent in 2022 and 2023, the weakest growth patterns since 2001 except for the period of the global financial crisis and the acute phase of the pandemic.

Locally, the non-oil private sector in Egypt continued contracting **over the past two years.** The value of the PMI is still below 50 (neutral level), as the index recorded 47.7 in October. This contraction is due to local factors, such as continued restrictions on imports because of the decisions of the Central Bank announced last March, unavailability of hard currency and disruption of local production chains, in addition to the global reasons related to slowdown of the global economy and worldwide repercussions of the Russian-Ukrainian war.

Overall BB index: Performance evaluation and outlook

<u>Performance evaluation:</u> The business performance index continued to decline for the fourth consecutive quarter, registering 5 points below the neutral level, which is a lower performance compared to the corresponding quarter. This reflects shortage of raw materials and production requirements, and their significantly higher prices, which threatens to bring economic activity to a halt. This may be attributed to multiple factors.

Most importantly, import difficulty and slow procedures of documentary credits due to weak banks' ability to secure hard currency, in addition to depreciation of the Egyptian pound and higher cost of imports with the liberalization of the exchange rate. Factors also include the continuous rise in prices of raw materials, energy, and shipping globally, with the persistence of the Russian-Ukrainian war exacerbating the situation, which leads to higher global prices of raw materials, energy, and freight, as well as disruption of supply chains and slowdown in global economic activity.

<u>Economic Sectors:</u> The most crucial point to note is that the manufacturing, construction and building, communications, and transportation sectors witnessed lower performance, as all of them recorded index values below the neutral level. The largest sectoral decline was witnessed by the transportation sector, whose index fell by about 11 points below the neutral level. This was followed by the manufacturing sector, which declined by about 6 points, a performance that is lower than the previous and corresponding quarters due to the domestic and global factors, then the construction sector, which declined by five points. Finally, the telecom sector recorded the least sectoral decline, as its index fell one point below the neutral level. In the meantime, performance of the tourism and financial services sectors improved for reasons that will be addressed in more detail in the analytical part of this report.

<u>Outlook:</u> The business community's outlook for the quarter October-December 2022 were not optimistic, registering one point lower than the neutral level, two points less than the corresponding

[1] The survey was conducted from September 5 to October 23, 2022.

quarter, and showing a similar pace to the previous quarter. This reflects firms' expectations of continued difficulties at the local level, supply chain disruption, higher shipping costs, unavailability of raw materials, higher foreign currency prices, and continued contraction of economic activity.

For the second quarter in a row, firms of all sizes and sectors agreed that high inflation, exchange rate movement, and higher production costs represent the biggest constraints they faced. Inflation topped the list of constraints for all firms during the quarter under study, both locally and globally, compared to the previous quarter. This reflects higher production costs and shortage of inputs, especially imported requirements.

Other priorities for improving the business climate in Egypt from the point of view of the sample of firms: **Reducing high inflation rates jumped to the top of priorities that must be focused over the coming period, while improvement of digital transformation mechanisms for government services, and role of the state in countering inflation rates and facilitating government procedures are also among the most important priorities.**

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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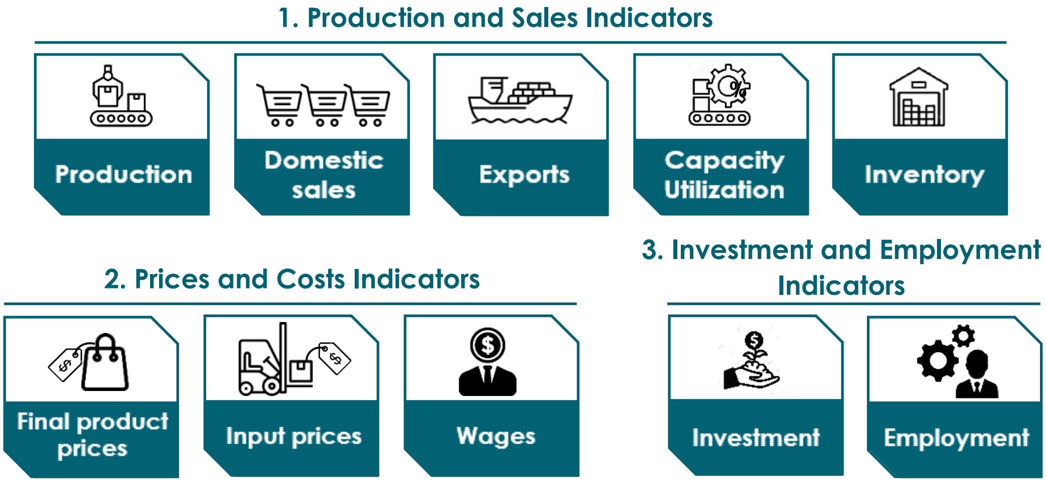
Report Details

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.

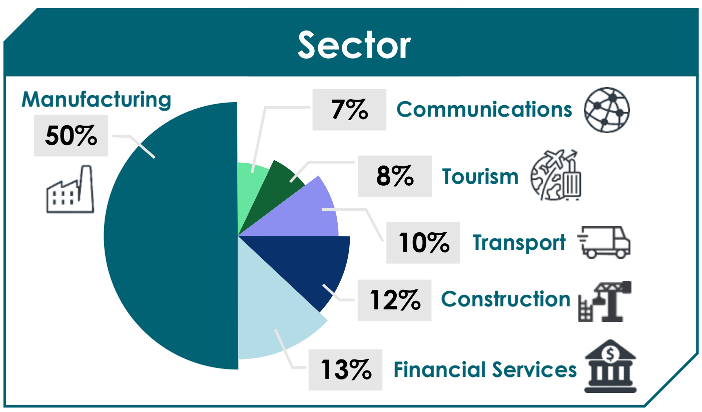


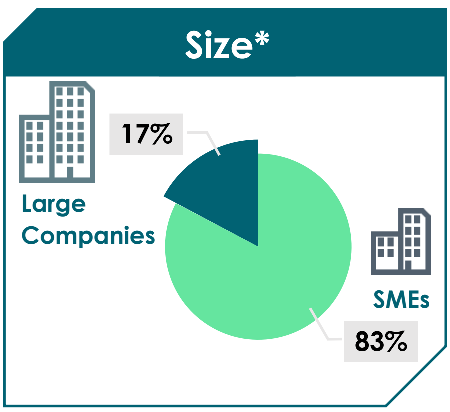
The importance of this issue of the BB is further magnified by the challenges that the business community has been facing since the beginning of 2020 as a result of the COVID-19 pandemic. Therefore, it is important to track the impact of the pandemic on the business community, especially in light of 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 (April-June 2021) and its outlook for the quarter (July-September 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.

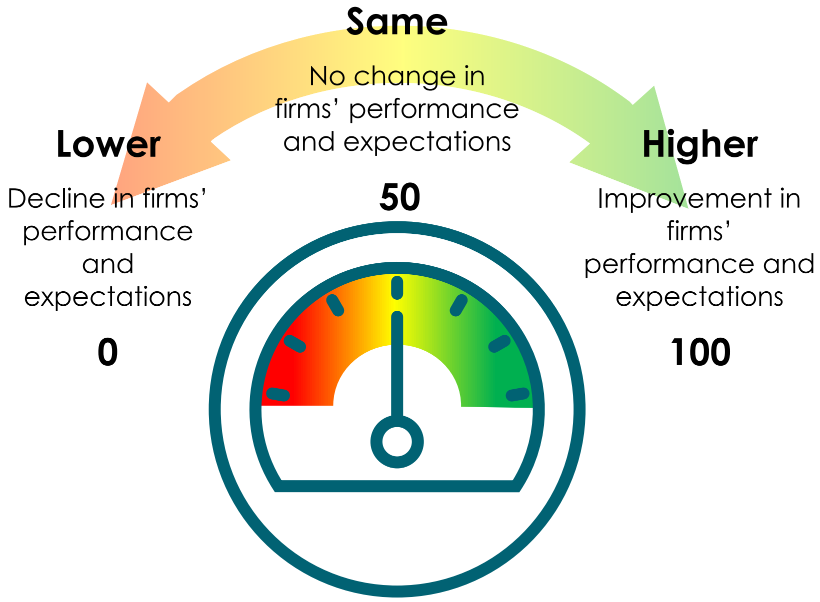
The BB is built on the results of a quarterly survey conducted by the ECES for a stable sample of 120 private firms distributed as follows:





* 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 key developments in the global economy, as well as performance of the most important macroeconomic indicators in Egypt considering the most recent data available locally until the date of this report.

Further slowdown in the global economy, expectations of higher inflation, continued monetary tightening and more uncertainty

The global economy is expected to witness further slowdown, contraction, and uncertainty because of the pandemic and the repercussions of the Russian-Ukrainian war. In October 2022, the IMF reduced its growth projection from 6 percent in 2021 to about 3.2 and 2.7 percent in 2022 and 2023, which represents the weakest growth pattern since 2001 except for the global financial crisis and the acute phase of the pandemic.

The economic performance of the three largest economies witnessed a decline. In the United States, tight monetary policy and declining household purchasing power reduced growth by 1.4 percent to 2.3 percent for 2022 and 1 percent the following year. In China, the state's adoption of stricter closure measures and depth of the real estate crisis led to a reduction in growth expectations by about 1.1 percent to 3.3 percent this year, which is the slowest rate in more than four decades. The repercussions of the Russian-Ukrainian war on the Eurozone are still ongoing, as it suffers from a severe energy crisis, which led to a sharp rise in the cost of living, faltering economic activity, and a decline in growth to 2.6 percent this year and 1.2 percent in 2023 (IMF 2022).[2]

Global inflation is expected to double to 8.8 percent in 2022 compared to 4.7 percent in 2021 and is expected to reach its peak in late 2022. It is expected that inflation will be around 7.2 percent in advanced economies, and 9.8 percent in emerging market and developing economies—an increase of 0.6 and 0.3 percentage points from last July's estimates, reflecting the persistence of supply and demand imbalances, repercussions of the Russian war, and the application of the "zero COVID" policy in China, monetary policies in major economies, supply chain disruption and the pass-through of repercussions to the cost of living and significantly lower purchasing power in developed and developing economies.

In the face of rising levels of inflation, monetary policy tightening expanded around the world, resulting in huge economic costs, pressures on international reserves, higher borrowing costs, depreciation of currencies against the US dollar, and further balance sheet losses. These challenges come at a time the financial positions of governments in many countries are already under pressure, with 60 percent of low-income countries either approaching or already in debt distress (IMF 2022).[3]

Slowdown in global economic activity, geopolitical tensions, inflationary pressures and a combination of food, energy and financing crises led to a decline in global manufacturing at the beginning of the second quarter of 2022. This caused the PMI to drop to 49 in October 2022, which is a decline of about 15 percent from its value in March 2022—the lowest level since June 2020 (IHS Markit 2022).[4]

With respect to the Egyptian economy, contraction of the non-oil private sector continued over the past two years. The PMI is still below 50 points (neutral level), as the index recorded 47.7 in October. This contraction is due to local factors such as continued restrictions on imports because of the decisions of the Central Bank last March, difficulty in securing hard currency and disruption

[2] International Monetary Fund (IMF). 2022. World Economic Outlook Update: Gloomy and More Uncertain. July, IMF.
[3] Ibid.
[4] IHS Markit. 2022. J. P. Morgan Global Manufacturing PMI, September, IHS Markit.

of local production chains, in addition to global factors associated with the slowdown of the global economy and the worldwide repercussions of the Russian-Ukrainian war (S&P Global 2022).[5]

In its report issued in November 2022, Fitch Ratings kept the rating of the Egyptian economy at B+ but changed the outlook from stable to negative. The negative outlook reflects increasing risks regarding Egypt's ability to absorb external shocks, and repay external obligations considering tightening fiscal policies, higher borrowing costs, and sharp increase in inflation.[6]

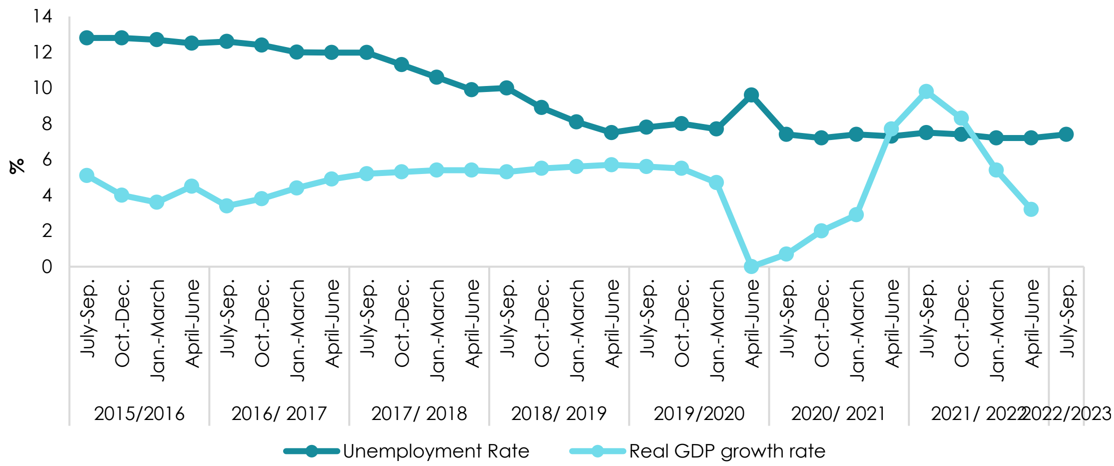
On its part, the World Bank in its Global Economic Prospects report dated October 2022 lowered its forecast for growth of the Egyptian economy in the current fiscal year to 4.8 percent, compared to an average of 5.5 percent in its forecast of June 2022, due to higher food and energy prices and the increase in input costs in the major economic sectors. The decline is offset by continued tourism flows, gas extraction sector, remittances from the GCC countries, and continued monetary reforms (World Bank, 2022). [7]

In its forecast issued in June 2022, the World Bank lowered its forecast for the growth of the Egyptian economy in 2023 to 4.5% from 4.8%, due to the impact of the high inflation rate on domestic consumption, erosion of the real value of wages, and decline in external demand that limits the activity of the manufacturing and tourism sectors. Continued fiscal and monetary tightening to curb inflation and large current account deficits are also limiting growth. The gradual trend to lift import restrictions may limit the decline, but trade remains affected by the rules governing foreign exchange[8] (World Bank 2023).[9]

The following section presents the latest developments in macroeconomic indicators considering the latest published data up to the date of this report:

- According to estimates of the Ministry of Planning and Economic Development, the growth rate during the last quarter of FY2021/2022 registered about 3.3 percent, which represents a decline of 39 percent from its corresponding rate in the third quarter. However, the high growth rates achieved in the first half of FY2021/22 increased the average annual growth rate to about 6.6 percent during FY2021/22—double the estimated rate for FY2020/2021. The unemployment rate recorded about 7.2 percent during the last quarter of the same fiscal year (Figure 1).

Figure 1: Real GDP Growth and Unemployment Rate



Source: Ministry of Planning and Economic Development, Central Agency for Public Mobilization and Statistics, Quarterly Labor Force Survey, various issues.

[5] S&P Global. 2022. Purchasing Managers Index (PMI).
[6] Trading Economics.
[7] The World Bank, *Global Economic Prospects Report*, October 2022.
[8] World bank, Global Economic Prospects, January 2023.
[9] https://openknowledge.worldbank.org/bitstream/handle/10986/38030/GEP-January-2023-Analysis-MENA.pdf?sequence=15&isAllowed=y

- **On the fiscal front,** the overall budget deficit as a percentage of GDP decreased during FY2021/2022 to 6.7 percent compared to 6.8 percent during the previous fiscal year, while revenues increased by about 23 percent compared to an increase in expenses by 16.4 percent.[10]
    - **On the monetary front**, annual inflation continues to rise since January 2022, reaching about 16.3 percent in October 2022 compared to 7.3 percent in October 2021. The adoption of a more flexible exchange rate is one reason for the recent inflationary wave, in addition to the seasonal rise in the prices of public and private education, educational supplies, increase in commodity prices in general, higher prices of food commodities such as vegetables, dairy products, eggs, cereals and bread, and higher prices of ready-made clothes (Figure 2) (CAPMAS, 2022)[11]
    - In the face of the inflationary wave and monetary tightening, the Central Bank of Egypt, like central banks around the world, resorted to raising the policy interest rate, which was already done on May 19, 2022, by 200 basis points, then on October 27, 2022, by another 200 points. Thus, the overnight deposit and lending rates, the rate of the central bank's main operation, and the credit and discount rates reached 13.25 percent, 14.25 percent, 13.75 percent, and 13.75 percent, respectively (Central Bank of Egypt, 2022).[12]
    - In terms of foreign transactions, in FY2021/2022, the balance of payments recorded an overall deficit of $10.5 billion compared to an overall surplus of about $1.8 billion in the previous fiscal year (2020/2021). The following are more details about developments in key items of the balance of payments.[13]

1) Current Account: The current account deficit increased by 10.2 percent compared to the previous fiscal year to record $16.6 billion in 2021/2022. The increase in the deficit is due to:

- The non-oil trade balance deficit increasing by 13.7 percent to $47.8 billion, which is due to the increase in non-oil imports by about 18.7 percent to $73.8 billion compared to the corresponding period of the previous fiscal year, while non-oil exports did not exceed $25.9 billion.
- The investment income deficit increased by 27.1 percent to about $15.8 billion during FY2021/2022.

The increase in the current account deficit was offset because of the following:

- An increase in the petroleum trade balance surplus by about $4.4 billion (compared to a slight deficit of $6.7 million in the previous fiscal year) due to an increase in petroleum exports by about $9.4 billion considering the increase in the value of natural gas exports as a result of the higher global prices, and the increase in the quantity exported to new markets in Europe, including Turkey, Italy, France, Spain, Croatia and Greece.
- Tourism revenues increased by about $5.9 billion to $10.7 billion during FY2021/2022 compared to FY2020/2021.

[10] Ministry of Finance, *Monthly Financial Report, October 2022.*

[11] Central Agency for Public Mobilization and Statistics 2022, *Monthly bulletin of the consumer price index*, October 2022, November.

[12] Central Bank of Egypt, *Monetary Policy Committee press release on October 27, 2022.*

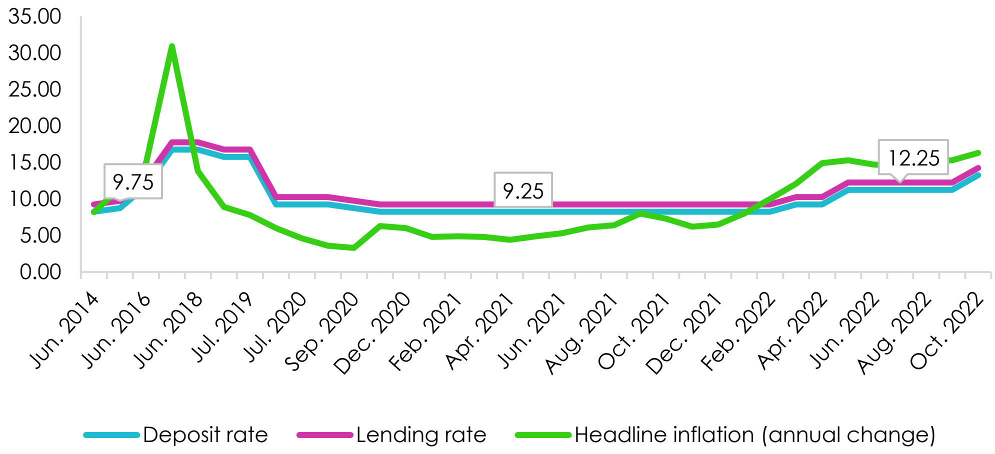
[13] Central Bank of Egypt, *press release on the performance of the balance of payments during FY2021/2022.*

- Suez Canal revenues increased by 18.4 percent to record about $7 billion (compared to about $5.9 billion in the previous year), which contributed to an increase in transport revenues by 29.3 percent to $9.7 billion (compared to about $7.5 billion in the previous year).
- Remittances of Egyptians working abroad increased by 1.6 percent to about $31.9 billion.
- An increase of 53.1 percent in commodity exports (both oil and non-oil).

2) Capital and Financial Account: The capital and financial account surplus declined by 49.5 percent to $11.8 billion in FY2021/2022 compared to $23.4 billion in FY2020/2021. This is because of the following developments:

- Investments in the securities portfolio shifted from a net inflow of about $18.7 billion to a net outflow of about $21 billion concentrated around January-March 2022, following the outbreak of the Russia-Ukraine war, the US deflationary monetary policies and the resulting outflow of capital from emerging markets, including Egypt.
- The net inflow of foreign direct investment into Egypt increased by 71.4 percent, to record $8.9 billion during FY2021/2022. Foreign direct investment in non-oil sectors increased by $5.2 billion to a net inflow of about $11.6 billion because of inflows from abroad to establish new firms or acquire assets of local firms. Investments in the petroleum sector recorded a net outflow of about $2.6 billion.
- The net foreign assets of the banking system decreased by EGP 385.8 billion in August 2022. The decline followed the decrease in the net foreign assets of the Central Bank by EGP 154.6 billion, and the net foreign assets of banks by EGP 231.2 billion.
- The balance of Egypt's external debt amounted to about $155.7 billion at end of June 2022, an increase of 12.9 percent compared to June 2021. This rise came following an increase in the net usage of loans and facilities by about $22.2 billion, and a decline in the exchange rates of most currencies against the US dollar by about $2.3 billion. Debt service burdens amounted to about $26 billion by the end of FY2021/2022, of which $21.7 billion are installments and $4.6 billion interest (Central Bank of Egypt).

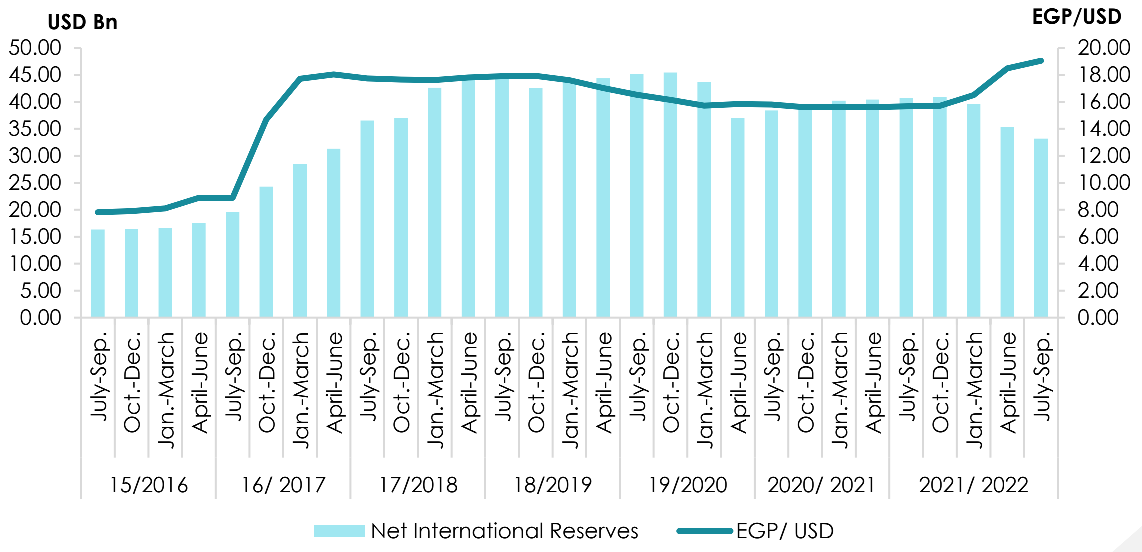
Figure 2. Inflation and Policy Rates



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

- The Central Bank's net foreign reserves decreased by about $7.2 billion to $33.3 billion at end of FY2021/2022 compared to $40.5 billion at end of FY2020/2021. The Central Bank attributed this decline to the repercussions of the war and the tight fiscal policies followed globally, along with an increase in the liabilities and decline in the assets of Egyptian banks in foreign currency (Central Bank of Egypt).
- The decline in foreign exchange earnings contributed to continued decline in the exchange rate since March 2022 to EGP 19.34 per US dollar in September 2022, after stabilizing around EGP 15.6 per US dollar since October 2020. With the Monetary Policy Committee's decision to raise interest rates and adopt a flexible exchange rate in October 2022, the Egyptian pound lost about 20 percent of its value against the US dollar, as the average exchange rate of the dollar reached 23 in October 2022 (Figure 3).

Figure 3. Net International Reserves and Exchange Rate



Sources: Central Bank of Egypt, Monthly Statistical Bulletin, various issues; and the Ministry of Finance, Monthly Financial Report, various issues.

Business Barometer Index

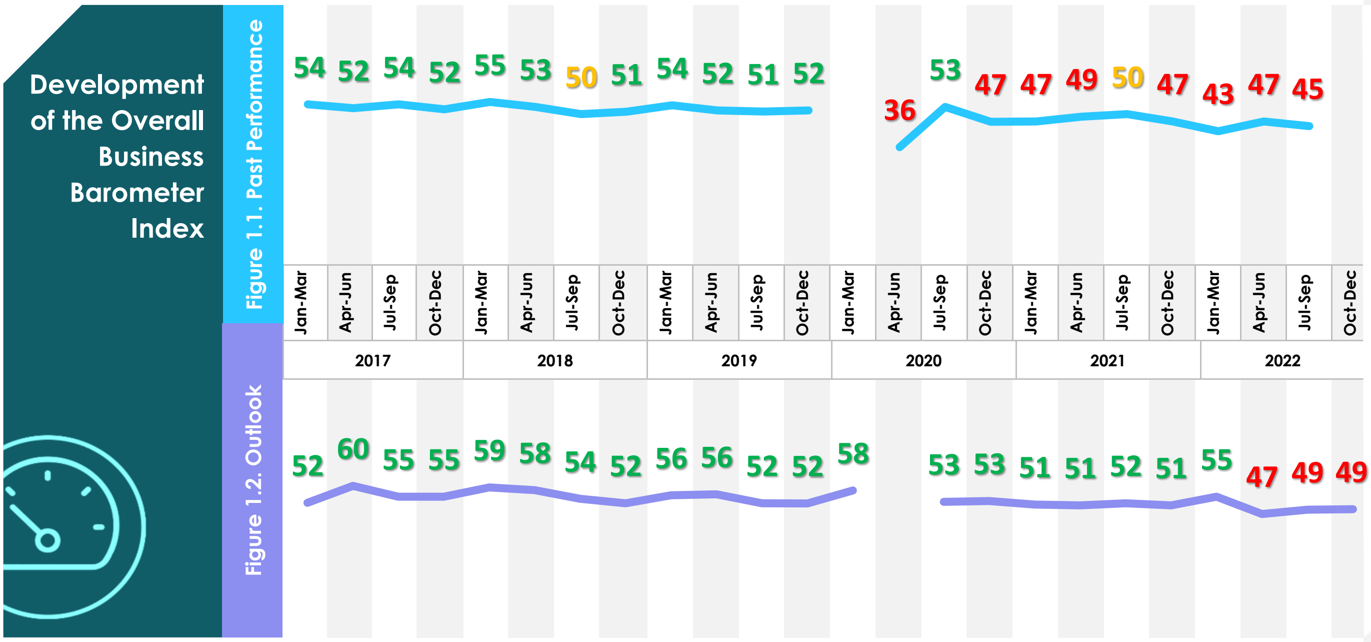
I. Past Performance and Outlook per the Overall Business Barometer Index

Continued decline in the business performance index during the quarter under study, with unoptimistic expectations for the next quarter, and a variation in the Business performance index according to company sizes and economic sectors

1.1. Evolution of the overall index

The period under study (July-September 2022) witnessed a continued decline in the business performance index for the fourth quarter in a row. It was down 5 points from the neutral level, which is a lower performance than in the corresponding quarter. This reflects shortage of raw materials and production requirements, and their significantly higher prices, which threatens to bring economic activity to a halt. There are many reasons behind this, the most important of which is the difficulty of importing and the slow procedures of documentary credits due to the weak ability of banks to secure hard currency in addition to the deterioration of the value of the pound and higher cost of imports with the further liberalization of the exchange rate. Other factors include the continuous rise in the prices of raw materials, energy, and shipping globally. The continuation of the Russian-Ukrainian war exacerbated the problem, causing a rise in global prices of raw materials, energy, and freight, in addition to disruption of supply chains and a slowdown in global economic activity (Figure 1-1).

The outlook of the business community about the quarter October-December 2022 is not optimistic, falling below the neutral level by one point, and below the corresponding quarter by two points, but remains like the previous quarter. This reflects firms' expectations of continued challenges at the local level, supply chain disruption, higher prices and freight costs, unavailability of raw materials, higher foreign exchange rates, and hence continued contraction in economic activity during the next quarter (Figure 1-2).



Source: Survey results.

* Data for January-March 2020 are unavailable due to the pandemic-related lockdown.

** Data for April-June 2020 are unavailable due to the pandemic-related lockdown.

1.2 The index according to the sizes of firms

Continued decline in performance of all firms during the quarter under study, and lack of optimism about improved performance in the next quarter

The performance index of small and medium-sized firms declined from the neutral level by 4 points, which is like the previous and corresponding quarters. The performance index of large firms for the quarter under study also declined, registering 6 points below the neutral level—a faster pace than the previous and corresponding quarters, which reflects the difficulties faced by firms locally and globally (Figure 3-1).

Large Firms	Figure 1-3. BB Index According to Firm Size – Past Performance	SMEs
44	Jul – Sep 2022	46
47	Apr – Jun 2022	46
53	Jul – Sep 2021	46

Source: Survey results.

As for outlook, large firms recorded values at the neutral level, which are better expectations than in the previous quarter, albeit lower than in the corresponding quarter. As for small and medium-sized firms, the outlook index recorded a decline of two points from the neutral level, which is lower expectations than in the previous quarter and the same pace as the corresponding quarter.

The lack of optimism reflects expectations of continued difficulties facing the business community locally and globally, and the elevated level of uncertainty regarding the improvement of global economic conditions with the continuation of the war in Ukraine and the search for radical solutions to domestic challenges (Figure 1-4).

Large Firms	Figure 1.4. BB Index According to Firm Size - Outlook	SMEs
50	Oct – Dec 2022	48
48	Jul – Sep 2022	49
54	Oct – Dec 2021	48

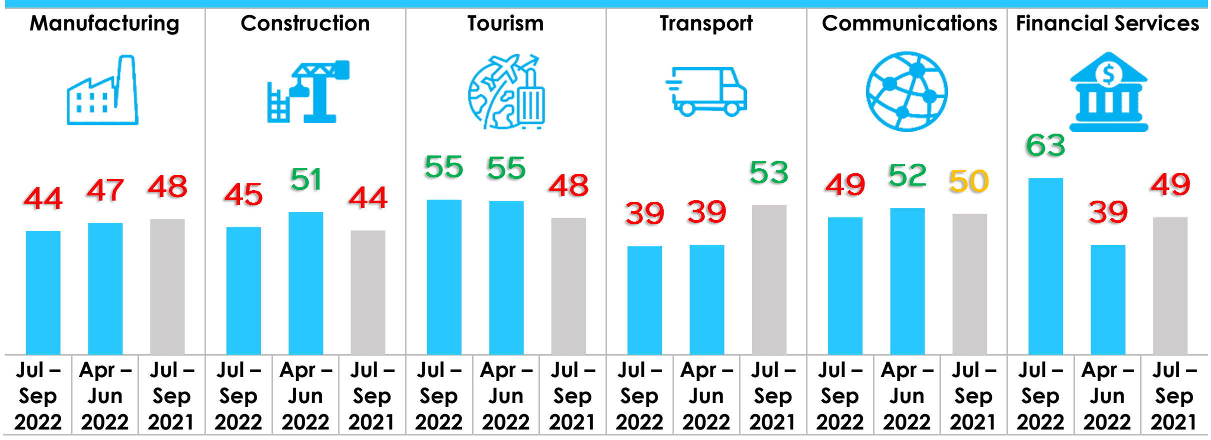
Source: Survey results.

1.3 The index according to economic sectors

There is clear divergence in the business performance index among sectors. The performance of the manufacturing, construction and communications industries continued to deteriorate during the quarter under study, with the improvement of the tourism and financial services sectors.

The following is a performance analysis of the economic sectors according to the opinions of the sample for the quarter under study compared to the performance in the previous and corresponding quarters (Figure 1-5).

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



Source: Survey results.

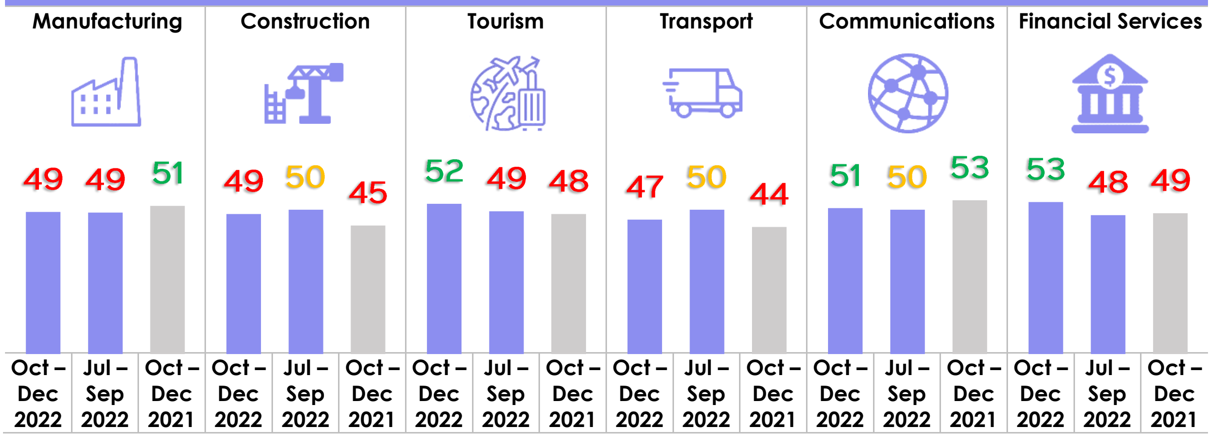
The following is an analysis of the performance of economic sectors according to the views of the sample during the quarter under review compared to the previous and corresponding quarters:

- **The manufacturing sector** registered index values 6 points below the neutral level, which is lower performance than in the previous and corresponding quarters. The deteriorating performance is due to several factors, the most important of which are difficulties in importing as a result of the decisions of the Central Bank, in addition to the lack of hard currency in the banking system, which led to a shortage of raw materials and their higher prices, production disruption and a decline in exports, in addition to weak demand locally as a result of weak purchasing power, high inflation, and further slowdown in the global economy and demand.
- **The construction sector** recorded a decrease of 5 points from the neutral level during the quarter under study. This performance is considered lower than the previous quarter. The deteriorating performance is due to weak liquidity in the market, higher prices of raw materials and decline in demand. Moreover, the sector is still suffering from difficult licensing procedures, as well as the new requirements of the Unified Building Law, and the higher tax burdens.
- **The telecom sector** registered a performance that is less than the neutral level by one point in the quarter under study, which is lower than the previous and corresponding quarters. This is attributed to import problems that led to scarcity of raw materials and requirements of the sector's companies, in addition to firms' weak liquidity.
- **The tourism sector** witnessed an improvement in performance, exceeding the neutral level by 5 points, which is like the previous quarter and higher than the corresponding quarter. The improved performance is due to demand for religious tourism after a two-year hiatus, and revival of domestic and foreign tourism.
- **The financial services sector** is the best performer among all sectors during the quarter under study, registering a rise from the neutral level by 13 points—a much better performance compared to the previous and corresponding quarters. This significant improvement is due to the recovery of the Egyptian Stock Exchange and return of investors because of the measures taken by the Central Bank to reduce the exchange rate of the pound in addition to raising interest rates, which made Egyptian stocks more attractive for investment. The positive effect could also be explained by exempting investment funds from income taxes and granting investors payment facilities.
- **The transport sector** witnessed the largest sectoral decline in performance during the quarter under study, with the performance index recording a decline of about 11 points below the neutral level during the quarter under study, which is like the performance of the previous quarter, but a sharp decline compared to the corresponding quarter. This decline is due to import restrictions and the resulting decrease in commodity traffic and export and import of products, which led to a significant decline in the volume of this sector's business.

Regarding the outlook for the next quarter, the manufacturing, construction, and transportation sectors expressed unoptimism about performance, while the financial services, tourism and communications sectors expressed positive expectations regarding performance.

The following is an analysis of expectations of the economic sectors for the upcoming quarter, including a comparison with the previous and corresponding quarters (Figure 1-6).

Figure 1.6. Business Barometer Index According to Economic Sectors - Outlook



Source: Survey results.

- The **financial services sector** expressed **the highest sectoral expectations for the next quarter, recording values three points higher than the neutral level,** which are better expectations than the previous and corresponding quarters. This is due to expectations that foreign investors will return to buying Egyptian stocks, which have become more attractive after devaluation of the Egyptian pound and rise in interest rates, in addition to the imminent announcement of IPO dates for several government firms.
- The outlook of the **tourism sector** came higher than the neutral level by two points, which is better than the previous and corresponding quarters. This can be attributed to expectations of a recovery in tourism, especially conferences, because of Egypt's hosting of the United Nations Conference on Climate Change (COP27).
- The expectations index **for the telecommunications sector** regarding the upcoming quarter is one point higher than the neutral level and the previous quarter, but lower than the corresponding quarter. This optimism is due to expectations that the Central Bank would cancel its decision, which would facilitate the import process.
- The outlook index **for the manufacturing sector** registered a value less than the neutral level by one point, which is the same as the previous quarter, but lower than the corresponding quarter. The decline in the outlook index is attributed to companies' expectations of continuing import-related problems, continuing waves of inflation and the consequent rise in input prices and production costs, and market recession because of decline in purchasing power.
- Regarding outlook of the **construction sector** for the next quarter, it came less than the neutral level by one point and less than the previous quarter, but higher than the corresponding quarter. The negative expectations relate to the Government's slow decision-making in matters that would improve the sector, especially with regards to licensing and revisiting the requirements of the Unified Building Law, in addition to expectations of a continued rise in raw material prices and recession in real estate demand.
- The **transport sector** registered lower outlook values for the next quarter, with the index decreasing by three points from the neutral level, which is lower than the previous quarter, but higher than the corresponding quarter. This decline reflects expectations of persistent import problems and a decline in imports and exports, in addition to geopolitical turmoil that has negative implications for global trade in general.

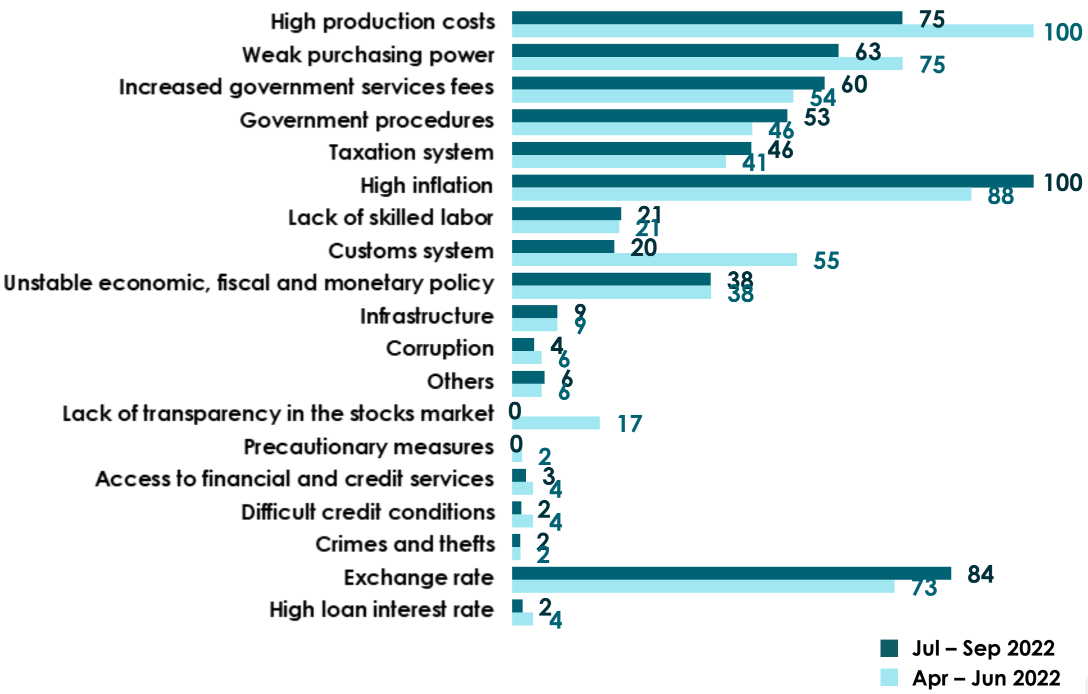
II. Constraints that faced the business community during the quarter under study, and priorities of improving the business climate from the perspective of the sample of firms

Firms of all sizes and sectors agreed that high inflation, exchange rate movement, and high production costs are the biggest constraints they faced for the second quarter in a row

Figure 2-1 shows the main constraints that faced the business community during the quarter under study (July-September 2022), arranged in a descending order of severity from the point of view of the sample of firms.

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

(According to a Normalized Index based on Significance



Source: Survey results.

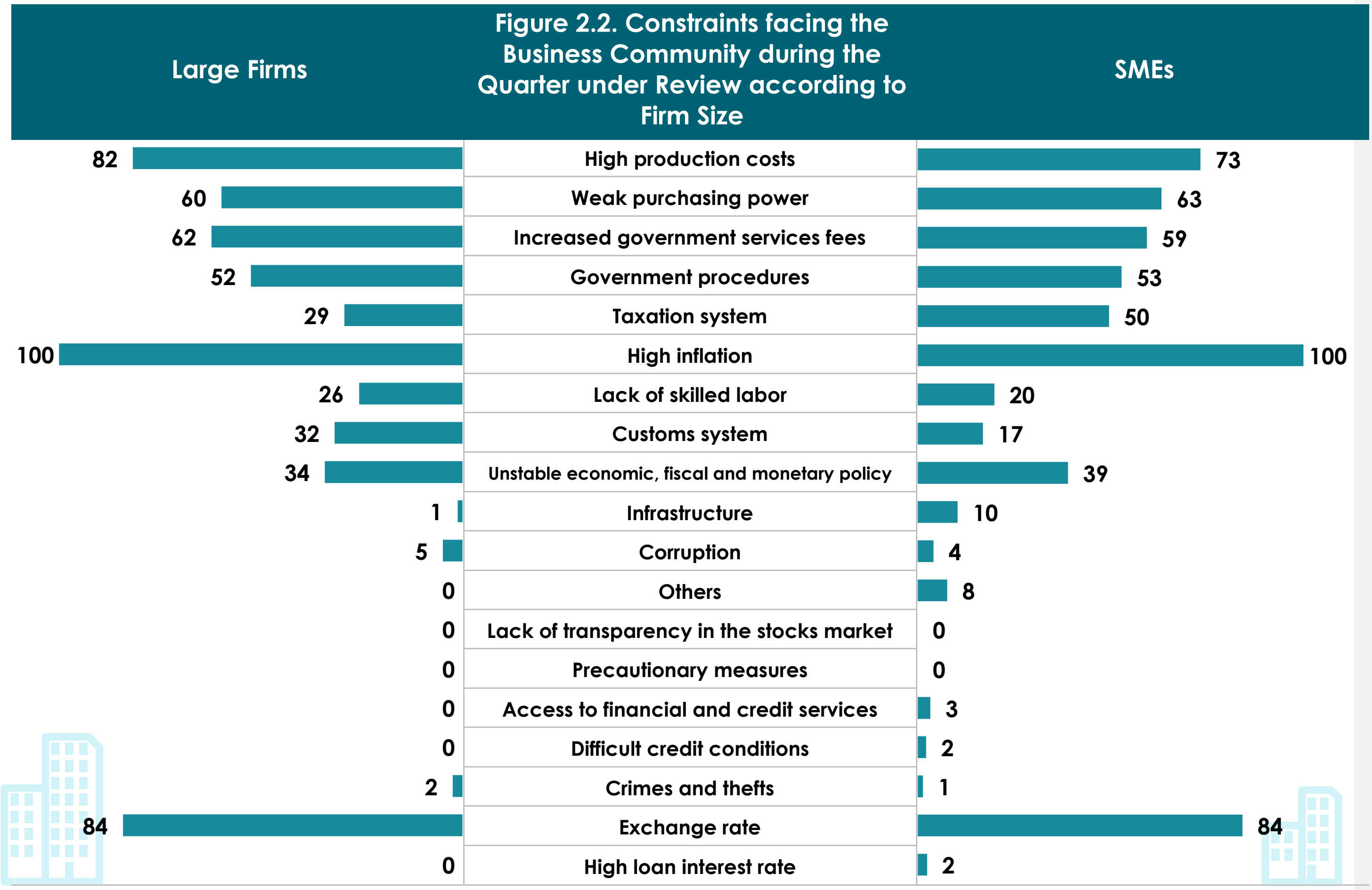
Inflation topped the list of constraints for all firms during the quarter under study, both locally and globally, compared to the previous quarter. This reflects high production costs and shortage of inputs, especially imported ones, due to the local and global factors. Next came **exchange rate movement, as the value of the pound deteriorated, leading to another rise in production costs as well as prices of imported raw materials, and prices of goods and services.** The existence of multiple exchange rates in the market led to the exit of foreign investors. This was followed by **high production costs**, because of shortage of raw materials and increase in their prices, rise in sea freight rates, and disruption of global supply chains, in addition to rises in energy and transportation prices. The **weak purchasing power came next, resulting from the high rate of inflation and hence stagnant domestic and global demand for goods and services.** This was followed by **increased fees for government services,** without a corresponding real improvement in their quality, including social insurance fees, customs fees, road and bridge toll fees, licensing and registration fees, and fees charged by the Export Development Authority, Food Safety Authority, and Industrial Security.

By comparing the constraints faced by firms during the quarter under study against the previous quarter, the suffering of the business community has intensified due to the significant rise in inflation and deterioration of the pound against the US dollar deemed the biggest constraint, however, this does not necessarily mean other obstacles have been resolved.

Constraints according to firm size

There is no significant variation in the constraints according to the size of the firms, as all firms suffered from high inflation and exchange rate movement, resulting in higher production costs. Figure 2-2 shows the main constraints faced by large, small, and medium-sized firms alike during the quarter under study (July-September 2022), arranged in a descending order of severity from the point of view of the sample of firms.

Figure 2.2. Constraints facing the Business Community during the Quarter under Review according to Firm Size



Source: Survey results.

Constraints according to economic sectors

There is no significant difference in constraints faced by economic sectors, as high inflation represents the most significant constraint facing all in addition to exchange rate movement. The manufacturing and construction sectors face a set of constraints, besides inflation, such as higher fees for Government services, difficulty in dealing with Government agencies and weak purchasing power (Figure 2-3).

Figure 2.3. Constraints Facing the Business Community during the Quarter under Review according to Economic Sector

	Financial Services	Communi-cations	Transport	Tourism	Construc-tion	Manufac-turing
High production costs	0	81	0	75	96	99
Increased government services fees	29	50	6	45	84	74
Government procedures	0	69	15	30	66	69
Weak purchasing power	0	34	0	55	100	84
Taxation system	77	44	21	43	63	39
Lack of skilled labor	4	44	0	15	9	29
High inflation	100	100	85	100	98	100
Customs system	0	53	8	0	5	28
Unstable economic, fiscal and monetary policy	90	28	98	0	0	30
Corruption	0	0	8	0	2	6
Infrastructure	0	19	0	0	13	11
Precautionary measures	0	0	0	0	0	0
Others	46	0	8	0	0	0
Crimes and thefts	0	0	0	0	9	1
Access to financial and credit services	0	19	0	0	0	3
Difficult credit conditions	0	13	0	0	0	2
Exchange rate	15	100	100	100	95	86
High loan interest rate	0	13	0	0	0	2
Lack of transparency in the stocks market	0	0	0	0	0	0

Source: Survey results.

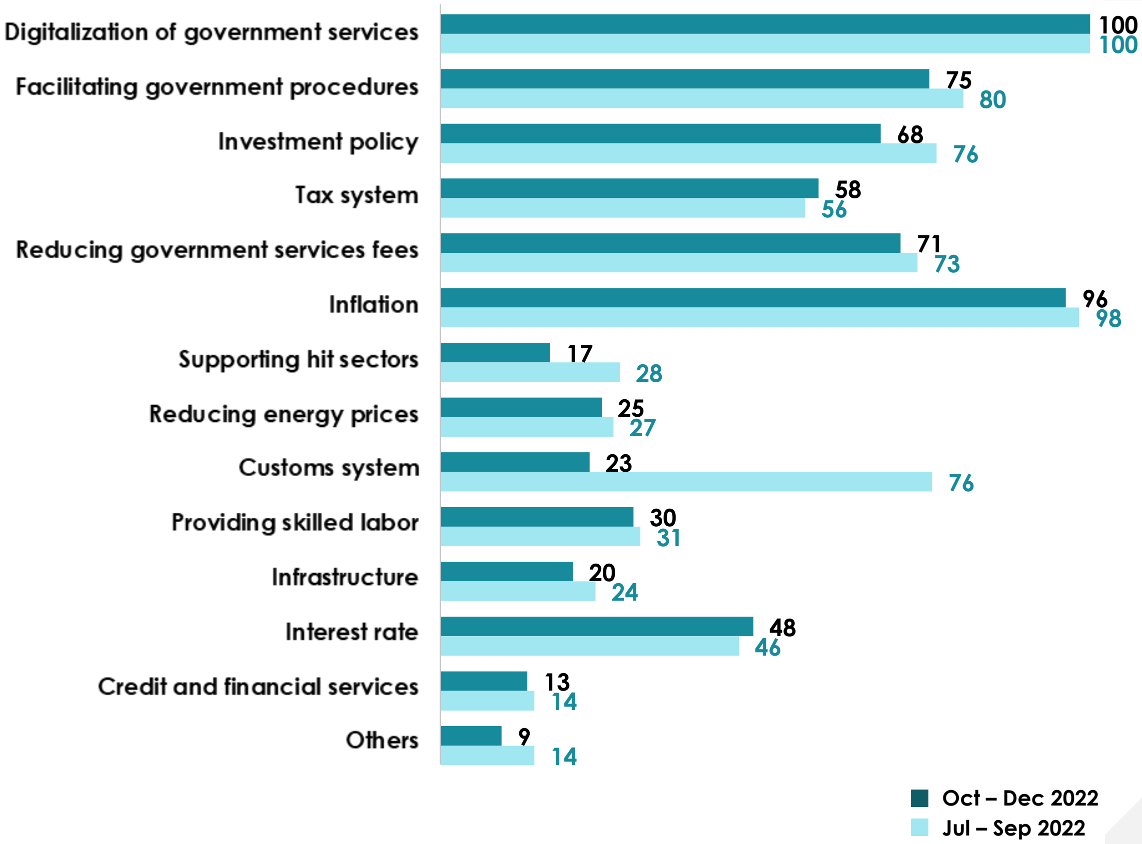
Priorities to improve the business climate in Egypt (according to the opinions of the sample of firms)

Key priorities to focus on: Improving the mechanisms of digital transformation of Government services, role of the state in facing high inflation and facilitating Government procedures

For the fourth quarter in a row, the sample of firms agreed that digital transformation mechanisms for Government services are at the top of priorities for improving the business climate in Egypt, due to its consequent facilitation of Government procedures and the elimination of bureaucracy. Firms, however, believe that implementation requires setting a clear timeframe; linking government agencies with each other; improving infrastructure; strengthening networks; and increased training of workers and users on new systems. Reducing high inflation has also become a top priority that must be focused on during the upcoming period (Figure 2-4). There is no significant discrepancy between firms regarding priorities, whether at the level of firm sizes or sectors (Figures 2-5 and 2-6).

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

(According to a Normalized Index based on Significance of Priorities)



Source: Survey results.

Figure 2.5. Priorities to Improve the Business Environment in Egypt (According to a Normalized Index based on Significance of Priorities)

Large Firms	Priority	SMEs
100	Digitalization of government services	100
77	Facilitating government procedures	75
52	Investment policy	71
33	Tax system	64
74	Reducing government services fees	70
86	Inflation	99
14	Supporting struggling sectors	18
16	Reducing energy prices	27
38	Customs system	19
27	Providing skilled labor	30
11	Infrastructure	22
35	Interest rate	51
7	Credit and financial services	15
0	Others	12

Source: Survey results.

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

	Financial Services	Communi-cations	Transport	Tourism	Construc-tion	Manufac-turing
Digitalization of government services	92	100	78	100	100	100
Streamlining government procedures	7	94	15	89	100	91
Investment policy	84	19	52	0	96	73
Tax system	89	34	15	44	83	54
Reducing government services fees	38	47	20	53	96	86
Inflation	100	69	100	58	100	97
Supporting struggling sectors	0	0	0	0	43	23
Reducing energy prices	5	0	28	0	50	29
Customs system	0	44	9	0	15	34
Providing skilled labor	7	44	0	22	26	41
Infrastructure	2	22	0	0	48	25
Interest rate	61	28	67	14	43	47
Credit and financial services	0	19	9	0	24	16
Others	59	0	0	0	0	2

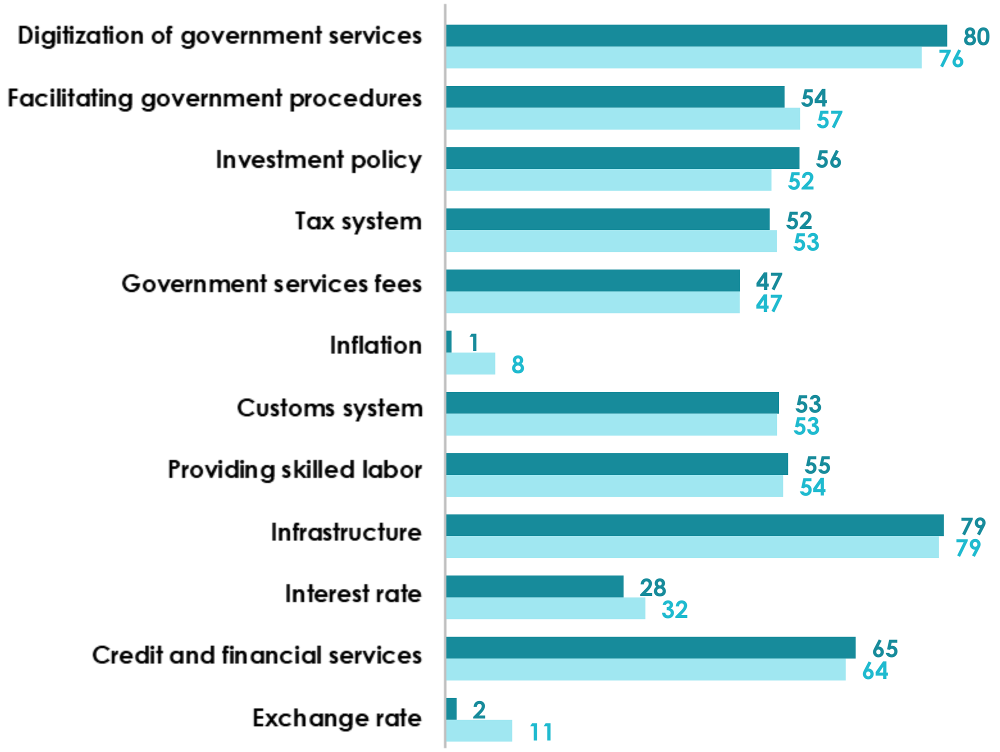
Source: Survey results.

The outlook of the business community regarding aspects of improvement based on its view of the Government's current directions

Expectations of improved digital transformation of government services, infrastructure, financial and credit services, and investment policies over the next quarter

Considering Government projects and its current directions, the majority of firms expect continued improvement in the digital transformation of government services as a result of the various efforts announced in this regard, then in infrastructure due to the various projects implemented by the State, followed by improvement of financial and credit services, then improvement in investment policies. (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. Performance evaluation and expectations according to sub-indicators

3.1 Performance evaluation

Most performance evaluation indices during the quarter under study continued to decline from the neutral level

The results showed a decrease in the indices of production, domestic sales, and exports for large firms, achieving values less than the neutral level and lower than the previous and corresponding quarters. The index of capacity utilization decreased from the neutral level by about 4 points, which is better performance by one point than in the previous quarter, but less than the corresponding quarter. Finally, the commodity inventory index increased during the quarter under study, reflecting the decline in production.

While the indices of production, domestic sales, and capacity utilization for small and medium-sized enterprises recorded values that are less than the neutral level, they are better than the previous quarter, but less than the corresponding quarter, except for capacity utilization. A decline was reported in the indices of exports and commodity inventory from the neutral level, as well as compared to the previous quarter.

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

Large Firms				SMEs
41	Jul - Sep 2022	Production	Jul - Sep 2022	46
50	Apr – Jun 2022		Apr – Jun 2022	37
67	Jul - Sep 2021		Jul - Sep 2021	51
31	Jul - Sep 2022	Domestic Sales	Jul - Sep 2022	43
47	Apr – Jun 2022		Apr – Jun 2022	36
63	Jul - Sep 2021		Jul - Sep 2021	50
42	Jul - Sep 2022	Exports	Jul - Sep 2022	48
50	Apr – Jun 2022		Apr – Jun 2022	53
75	Jul - Sep 2021		Jul - Sep 2021	46
46	Jul - Sep 2022	Capacity Utilization	Jul - Sep 2022	49
45	Apr – Jun 2022		Apr – Jun 2022	39
51	Jul - Sep 2021		Jul - Sep 2021	47
56	Jul - Sep 2022	Inventory*	Jul - Sep 2022	47
54	Apr – Jun 2022		Apr – Jun 2022	58
44	Jul - Sep 2021		Jul - Sep 2021	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.

An increase in the prices of inputs and the wage indices, which was reflected in a significant increase in the prices of final products at the level of all sizes of firms

Results of the performance evaluation showed a significant increase in the prices of inputs for all firms because of persistence, and even exacerbation, of the factors driving this locally and globally. At the global level, the prices of raw materials witnessed a remarkable increase during the quarter under study, especially in the context of the Russian-Ukrainian war. Locally, the factors include the increase in foreign exchange rates, higher freight, and transportation fees due to the disruption of global supply chains, slow container traffic, and the delay in delivery times, in addition to the constraints firms faced locally in terms of slow customs clearance procedures and the significant increase in the prices of shipping services, and the increase in operating costs in general due to the higher prices of fuel and transportation. Results also showed an increase in the wage index of large firms because of the inflationary wave. All the above led to a noticeable increase in the price index of final products for all firms. The rise in the final product price index was greater for large firms than for medium-sized and small firms (Figure 2-3).

Figure 3.2. Price and Production Cost Indices by Firm Size - Performance Evaluation

Large Firms				SMEs
67	Jul - Sep 2022	Final Product Prices	Jul - Sep 2022	68
63	Apr – Jun 2022		Apr – Jun 2022	67
65	Jul - Sep 2021		Jul - Sep 2021	58
6	Jul - Sep 2022	Input Prices*	Jul - Sep 2022	8
10	Apr – Jun 2022		Apr – Jun 2022	17
7	Jul - Sep 2021		Jul - Sep 2021	6
54	Jul - Sep 2022	Wages	Jul - Sep 2022	54
52	Apr – Jun 2022		Apr – Jun 2022	57
51	Jul - Sep 2021		Jul - Sep 2021	51

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.

Comparing the price index of final products for all firms during the current quarter with the previous and corresponding quarters, it is higher than the previous and corresponding quarters, achieving values higher than neutral.

A significant decrease was reported in the input price index, as it recorded a decrease for all firms compared to the previous quarter, i.e., an increase in the prices of final products.

An increase was reported in the wage index for large firms compared to the previous and corresponding quarters, registering values four points higher than neutral, while small and medium-sized firms registered values higher than neutral by four points, albeit less than the previous quarter and a slower pace than in the corresponding quarter.

Slight improvement in the investment index for large firms but a decline for small and medium-sized firms, and a decline in the employment index for all firms.

- Results for large firms showed a stable investment index at a higher level than neutral by one point, like the previous quarter, but less than the corresponding quarter by six points. Small and medium-sized firms recorded a decrease in the investment index in the current quarter by one point from the neutral level, although less than the previous quarter by one point, but the same as the corresponding quarter (Figure 3-3).

- Results for large, small, and medium-sized firms showed employment index values less than the neutral level. Performance of the index for small firms is less than the previous and corresponding quarters, while in the case of large firms, performance did not change from the corresponding quarter, but is slightly better than the previous quarter.

Figure 3.3. Investment and Employment Indices by Firm Size – Past Performance

Large Firms				SMEs
51	Jul - Sep 2022	Investment	Jul - Sep 2022	49
51	Apr – Jun 2022		Apr – Jun 2022	50
57	Jul - Sep 2021		Jul - Sep 2021	49
49	Jul - Sep 2022	Employment	Jul - Sep 2022	48
47	Apr – Jun 2022		Apr – Jun 2022	49
49	Jul - Sep 2021		Jul - Sep 2021	49

Source: Survey results.

3.2 Performance Expectations

An optimistic outlook regarding production, export, and capacity utilization indices for large firms, but unoptimistic expectations regarding domestic sales and capacity utilization for small and medium-sized firms.

The small and medium-sized firms outlook index recorded unoptimistic views regarding domestic sales and capacity utilization, as their index fell below the neutral level. While expectations of the production index remained stable at the neutral level, expectations of the export index were optimistic, exceeding the neutral level. The indices of production, domestic sales, and capacity utilization were higher than their counterparts in the corresponding quarter, but lower than in the previous quarter, except for capacity utilization. The export index improved compared to the previous quarter but is still much lower than the corresponding quarter.

Large firms reported optimistic expectations regarding production, exports, and capacity utilization indices for the upcoming quarter (October-December 2022), as index values rose above the neutral level, albeit they are still significantly lower than the corresponding quarter, except for the capacity utilization index. Meanwhile, the domestic sales index recorded values below the neutral level and lower than the previous and corresponding quarters. This is perhaps due to expectations that the economy would not recover in the short run, low domestic demand, and persistence of the domestic challenges facing the business community (Figure 3-4).

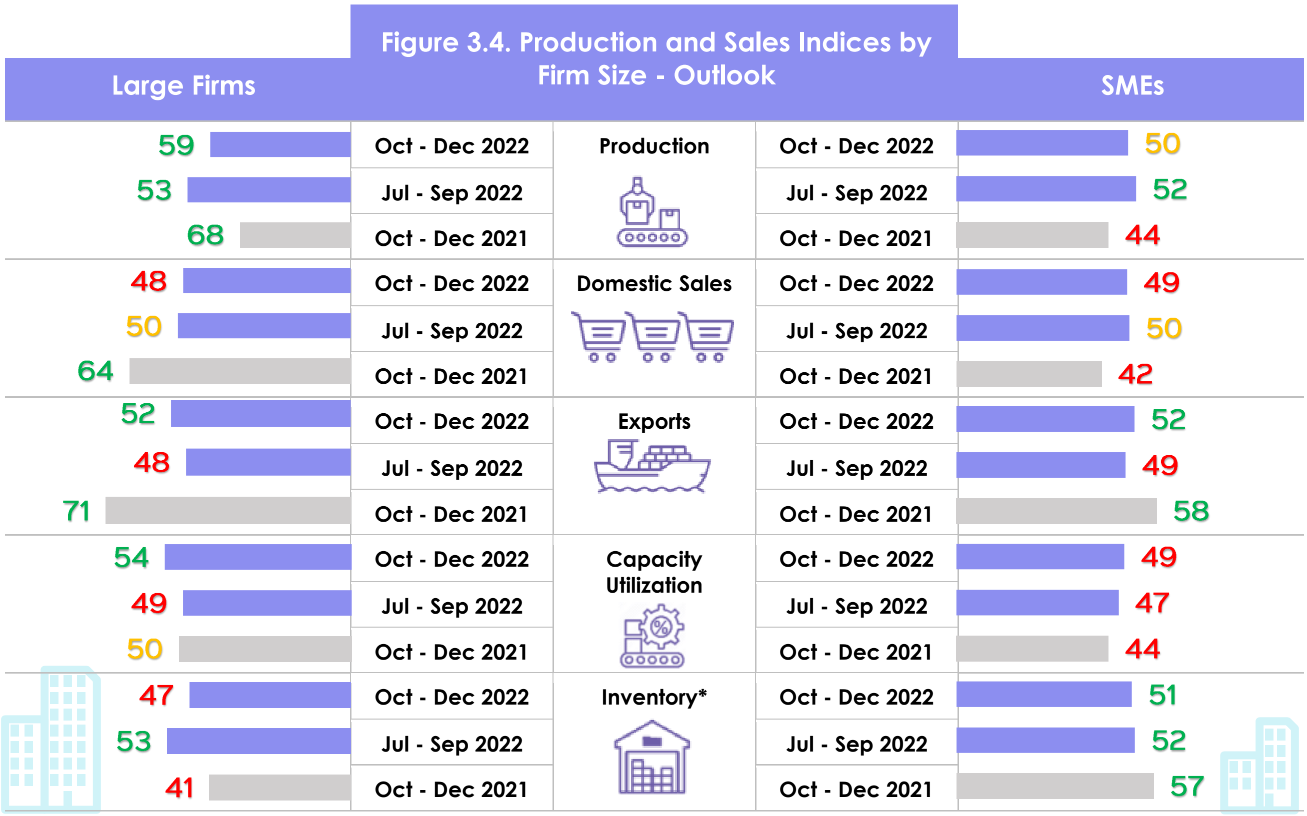


Figure 3.4. Production and Sales Indices by Firm Size - Outlook

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.

Expectations of an increase in the input price index leading to an increase in the final product price index for all firms

Large, small, and medium-sized firms expect the final products price index to rise over the next quarter, as it recorded values above the neutral level and higher than its counterpart for the corresponding quarter. The results also showed expectations of an increase in the wage index for large firms over the next quarter, as the index recorded values higher than the neutral level and higher than its counterpart for the previous and corresponding quarters, as this period usually witnesses annual wage increases in the private sector. The wage index for small and medium-sized firms posted values equal to the neutral level and lower than in the previous and corresponding quarters (Figure 3-5).

Figure 3.5. Price and Production Costs Indices by Firm Size - Outlook

Large Firms				SMEs
67	Oct - Dec 2022	Final Product Prices	Oct - Dec 2022	63
67	Jul - Sep 2022		Jul - Sep 2022	60
57	Oct - Dec 2021		Oct - Dec 2021	58
15	Oct - Dec 2022	Input Prices*	Oct - Dec 2022	23
11	Jul - Sep 2022		Jul - Sep 2022	31
36	Oct - Dec 2021		Oct - Dec 2021	25
54	Oct - Dec 2022	Wages	Oct - Dec 2022	50
50	Jul - Sep 2022		Jul - Sep 2022	52
51	Oct - Dec 2021		Oct - Dec 2021	51

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.

An expected increase in the investment and employment indices for large firms, but a slight decrease in the investment and employment indices for small and medium-sized firms.

Large firms expected the investment and employment indices to rise from the neutral level over the next quarter, which is a better performance than the previous and corresponding quarters. Meanwhile, the values of the employment and investment indices for small and medium-sized companies remain below the neutral level and less than the corresponding quarter, reflecting the severe problems they face and their expected persistence. Small firms expect the employment index to remain one point below the neutral level and one point below corresponding quarter. They also expect a slight decrease in the investment index by one point less than the neutral level and corresponding quarter, but two points less than the corresponding one (Figure 3-6).

Figure 3.6. Investment and Employment Indices by Firm Size – Outlook

Large Firms				SMEs
51	Oct - Dec 2022	Investment	Oct - Dec 2022	49
50	Jul - Sep 2022		Jul - Sep 2022	50
50	Oct - Dec 2021		Oct - Dec 2021	51
52	Oct - Dec 2022	Employment	Oct - Dec 2022	49
49	Jul - Sep 2022		Jul - Sep 2022	49
50	Oct - Dec 2021		Oct - Dec 2021	50

Source: Survey results.

Tables Index

Table A1: Survey Results: Summary of all firms' evaluation at the sectoral level (October-November-December 2022)[1]

Indicator	Manufacturing				Construction				Tourism				Transportation				Communications				Financial Services			
	Percentage			Index[2]	Percentage			Index[2]	Percentage			Index[2]	Percentage			Index[2]	Percentage			Index[2]	Percentage			Index[2]
	Higher	Same	Low	44	Higher	Same	Low	45	Higher	Same	Low	55	Higher	Same	Low	39	Higher	Sam	Low	49	Higher	Same	Low	63
Economic activity																								
Production	10	30	60	**31**	0	64	36	**39**	80	20	0	**83**	8	17	75	**21**	50	38	13	**64**	100	0	0	**100**
Domestic sales	2	25	73	**21**	0	64	36	**39**	80	20	0	**83**	8	17	75	**21**	50	38	13	**64**	100	0	0	**100**
Exports	25	38	38	**45**	—	—	—	**—**	—	—	—	**—**	0	71	29	**42**	33	33	33	**50**	—	—	—	**—**
Inventory	19	42	40	**57**	—	—	—	**—**	—	—	—	**—**	—	—	—	**—**	—	—	—	**—**	—	—	—	**—**
Capacity utilization	3	70	27	**43**	0	100	0	**50**	0	100	0	**50**	8	17	75	**21**	13	75	13	**50**	100	0	0	**100**
Prices																								
Final product prices	78	22	0	**82**	43	57	0	**64**	60	40	0	**71**	0	100	0	**50**	38	63	0	**62**	6	88	6	**50**
mediate product prices	93	7	0	**6**	79	21	0	**18**	100	0	0	**0**	—	—	—	**—**	100	0	0	**0**	100	0	0	**0**
Wage level	20	80	0	**56**	29	71	0	**58**	10	90	0	**53**	8	92	0	**52**	0	100	0	**50**	0	100	0	**50**
Primary inputs																								
Investment	0	97	3	**49**	0	100	0	**50**	0	100	0	**50**	0	100	0	**50**	13	75	13	**50**	6	94	0	**52**
Employment	2	87	12	**47**	0	79	21	**44**	0	100	0	**50**	0	100	0	**50**	0	100	0	**50**	0	100	0	**50**

Table A2: Survey Results: Summary of all firms' expectations at the sectoral level (January-February-March 2023)[2]

Indicator	Manufacturing				Construction				Tourism				Transportation				Communications				Financial Services			
	Percentage			Index[2]	Percentage			Index[2]	Percentage			Index[2]	Percentage			Index[2]	Percentage			Index[2]	Percentage			Index[2]
	Higher	Same	Low	49	Higher	Same	Low	49	Higher	Same	Low	55	Higher	Same	Low	47	Higher	Sam	Low	51	Higher	Same	Low	63
Economic activity																								
Production	18	62	20	**49**	7	93	0	**52**	20	80	0	**56**	17	50	33	**44**	25	75	0	**57**	38	44	19	**57**
Domestic sales	13	63	25	**46**	7	93	0	**52**	20	80	0	**56**	8	50	42	**39**	25	75	0	**57**	38	44	19	**57**
Exports	25	58	17	**53**	—	—	—	**—**	—	—	—	**—**	0	100	0	**50**	0	100	0	**50**	—	—	—	**—**
Inventory	11	68	20	**53**	—	—	—	**—**	—	—	—	**—**	—	—	—	**—**	—	—	—	**—**	—	—	—	**—**
Capacity utilization	7	82	12	**49**	0	100	0	**50**	10	90	0	**53**	17	42	42	**41**	0	100	0	**50**	38	44	19	**57**
Prices																								
Final product prices	68	32	0	**76**	50	50	0	**67**	10	90	0	**53**	0	92	8	**48**	25	75	0	**57**	0	100	0	**50**
mediate product prices	82	18	0	**15**	79	21	0	**18**	0	100	0	**50**	—	—	—	**—**	50	50	0	**33**	0	100	0	**50**
Wage level	5	95	0	**51**	0	100	0	**50**	0	100	0	**50**	0	100	0	**50**	0	100	0	**50**	6	94	0	**52**
Primary inputs																								
Investment	2	95	3	**50**	0	100	0	**50**	0	100	0	**50**	0	100	0	**50**	0	100	0	**50**	0	100	0	**50**
Employment	3	93	3	**50**	0	100	0	**50**	0	100	0	**50**	0	100	0	**50**	0	100	0	**50**	0	100	0	**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' indices. 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 2022)[1]

Variable	SMEs				Large Firms			
	Percentage			Index [2]	Percentage			Index [2]
	Higher	Same	Low	46	Higher	Same	Low	44
Economic activity								
Production	31	28	42	46	23	32	45	41
Domestic sales	28	26	45	43	14	24	62	31
Exports	28	39	33	48	13	50	38	42
Inventory	35	38	27	47	26	32	42	56
Capacity utilization	18	60	21	49	9	68	23	46
Prices								
Final product prices	53	46	1	68	50	50	0	67
Intermediate product prices	91	9	0	8	94	6	0	6
Wage level	15	85	0	54	14	86	0	54
Primary inputs								
Investment	1	96	3	49	5	95	0	51
Employment	1	90	9	48	0	95	5	49

Table A4: Survey Results: Summary of all firms' expectations (by size) (January-February-March 2023)[1]

Variable	SMEs				Large Firms			
	Percentage			Index [2]	Percentage			Index [2]
	Higher	Same	Low	48	Higher	Same	Low	50
Economic activity								
Production	15	68	16	50	41	45	14	59
Domestic sales	16	66	18	49	19	57	24	48
Exports	11	83	6	52	25	56	19	52
Inventory	14	69	17	51	26	58	16	47
Capacity utilization	8	79	13	49	23	68	9	54
Prices								
Final product prices	41	58	1	63	50	50	0	67
Intermediate product prices	70	30	0	23	82	18	0	15
Wage level	1	99	0	50	14	86	0	54
Primary inputs								
Investment	0	98	2	49	5	95	0	51
Employment	0	98	2	49	9	91	0	52

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' indices. The index's method of calculation is provided in the appendix.