ECES
المركز المصري
للدراسات الاقتصادية
The Egyptian Center
for Economic Studies

Business Barometer

Issue 65 October – December 2022

Performance Evaluation for the period October – December 2022 and Outlook for the period January – March 2023 from the Business Community's point of view

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Business Barometer

Issue 65 **October – December 2022**

Contents

Executive Summary

This report presents a periodic evaluation 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, commodity inventory, level of capacity utilization, prices, wages, employment, and investment, during the quarter October-December 2022 and expectations for the quarter January-March 2023. It also draws a comparison of the results with the previous quarter (July-September 2022) and the corresponding quarter (October-December 2021). The following is a brief review of the most important findings of the report for the quarter under study (October-December 2022), focusing on the most important developments in the macroeconomy and results of the overall business barometer index.

Macroeconomic Overview

At the global level, the economy is expected to witness low growth during 2023 because of the repercussions of monetary tightening by central banks to curb inflation, and continuation of the Russia-Ukraine war, although reopening of the Chinese economy has slightly accelerated recovery expectations. The International Monetary Fund (IMF) projections in January 2023 indicate a decline in growth from 4.3% in 2022 to about 2.9% in 2023, then a rise to about 3.1% for the years 2023-2024. In this regard, it is worth noting that the expected growth rate is still lower than the historical average for the period (2000-2019), which amounted to 3.8%, but 0.2% higher than the October 2022 forecast.

The annual global inflation rate is expected to decline to 6.6% and 4.3% on average for the years 2023 and 2024, compared to 8.8% in 2022, because of weak global demand. However, it is still higher than the pre-Pandemic average in 2017-2019, which was about 3.5%. Suffering from the repercussions of inflation is expected to be more severe in the case of emerging and developing market economies. The priority in most economies during 2023, besides finding solutions to the high cost of living crisis, remains to reduce the inflation rate in a sustainable manner.

At the local level, contraction continued in the non-oil private sector in Egypt for the past two years. The PMI is still below 50 points (the neutral level), recording 47.2 in December, which is due to local and global factors. The local factors include pressures facing the business community because of high prices, decline in demand, increase in production and employment costs after the decline in the value of the Egyptian pound against the US dollar, as well as delay in implementation of contracts and their accumulation as a result of continued restrictions on imports. Global reasons relate to the slowdown in the global economy, repercussions of the Russia-Ukraine war, and decline in global demand.

Although the Central Bank, on December 29, 2022, canceled its previous decisions issued in February 2022, and announced the facilitation of customs release procedures, the eventual impact on the import process is not yet clear. There is still a delay in availing foreign currency and customs release procedures, as voiced by many business owners.

The World Bank lowered its growth forecast for the Egyptian economy during the year 2023 to 4.5%, compared to an average of 4.8% last June. This is because of the impact on domestic consumption of the high rate of inflation, erosion of the real value of wages, and decline in external demand, which will limit activity of the manufacturing and tourism sectors. Continued fiscal and monetary tightening to curb inflation and large current account deficits are also limiting growth.

Moody's downgraded Egypt's rating from B2 to B3 and changed its outlook from negative to stable, attributing this to the decline in external reserves and Egypt's ability to absorb shocks, which reflected in the decline in foreign currency availability and net foreign assets in the banking system. The agency also attributed its stable outlook to the measures the government will take in light of its agreement with the IMF towards structural adjustment and increasing the role of the private sector in the economy, which will help generate capital flows to meet the increasing external debt payments through the sale of some state-owned assets as announced by the government and commitment to the flexible exchange rate.

Performance evaluation and expectations according to the overall index

Performance evaluation: The business community is still witnessing a mix of unfavorable local and global conditions, which reflected in a decrease in the domestic production and sales indicators for all firms. This led to the continued deterioration of the overall index during the quarter under study (October-December 2022), recording a decrease of 5 points from the neutral level, which is similar to the previous quarter, but two points less than in the corresponding quarter. The deterioration of the index was offset by a rise in the indicators related to prices and production costs. Domestically, the business community suffers from continued stagnation of the local market and decline in purchasing power with the higher inflation rates, deterioration of the value of the local currency, increase in the prices of products and raw materials and their scarcity due to the difficulty of importing. Globally, challenges include the continued slowdown in global economy, decline in external demand and rise in prices of raw materials and energy.

At the level of economic sectors:

Deterioration of the performance of most economic sectors; specifically, **manufacturing industries, construction, communications, and transport,** all of which recording index values below the neutral level. The construction and building sector witnessed the most deterioration, followed by manufacturing industries and transportation, which reflects the enormity of the constraints and challenges facing these sectors locally and globally. The **financial security and tourism** sectors recorded values higher than the neutral level.

Outlook: The performance outlook index during the quarter January-March 2023 recorded values that are five points higher than the neutral level, and higher than its counterpart in the previous quarter, but similar to the corresponding quarter. However, it does not reflect the expectations of a real improvement in the variables of economic activity locally and globally, especially considering extreme uncertainty, whether about developments or policies. Rather, it reflects expectations of a steadily deteriorating performance of most non-price sub-indicators that make up the main index, such as

production, sales, exports, and capacity utilization, and expectations of an increase in the indicators of prices and production costs only during the next quarter.[1]

The most serious constraints facing the business community during the quarter under study

Inflation topped the list of constraints for all firms during the quarter under study due to the previously mentioned local and global factors. This was followed by **high production costs** because of the high increase in the prices of production inputs, especially imported ones, rise in shipping freight tariffs, disruption of global supply chains, in addition to the repeated increases in energy and transportation prices. Next came the exchange rate movement, which reflected negatively on the sentiment of the business community because of the rise in the US dollar against the Egyptian pound, and subsequent rise in the prices of most goods and services, especially that most of the production requirements are imported.

Priorities for improving the business climate in Egypt from the perspective of the sample of firms:

Limiting the **high rates of inflation** jumped to the top of priorities that must be focused on during the coming period, especially addressing local factors to say the least. In addition, **investment policies** moved to the list of priorities, with an emphasis on the need for the business community, in various activities, to participate in defining investment policies in the targeted sectors. Attention continued to the **digital transformation of government services** as a priority to improve the business climate in Egypt, as this will facilitate government actions, eliminate bureaucracy and reduce corruption.

[1] For further details, please see Table 3 in the appendix.

About ECES

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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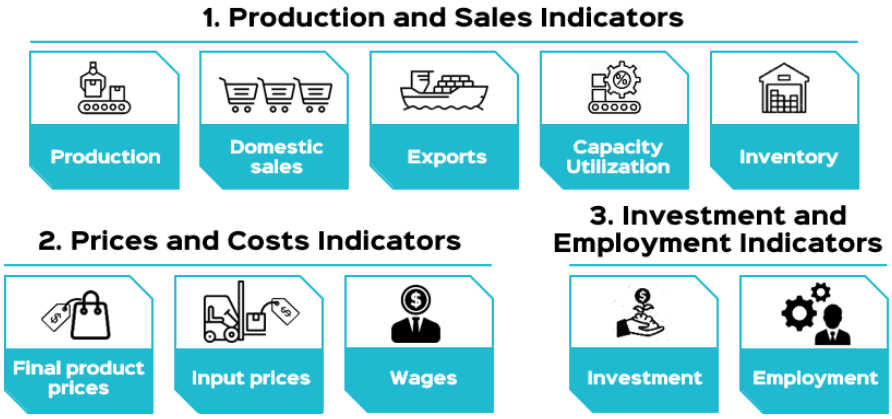
Report Details

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.

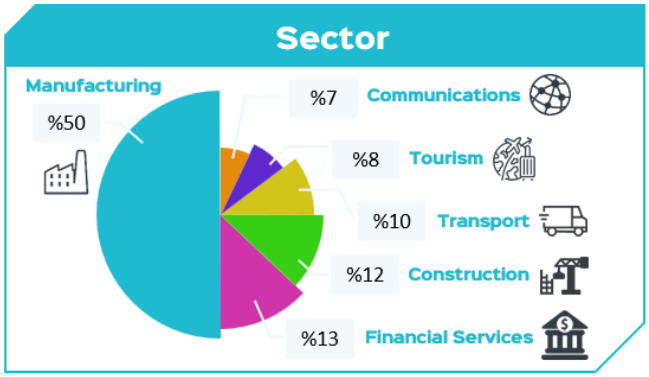


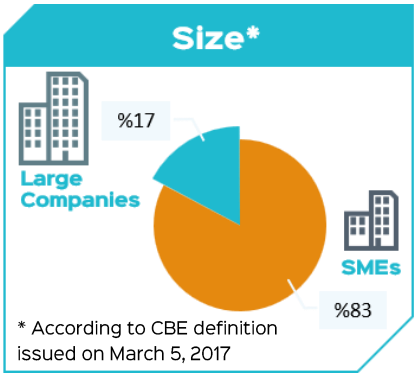
The importance of this issue of the BB is further magnified by the challenges that the business community has been facing since the beginning of 2020 as a result of the COVID-19 pandemic. Therefore, it is important to track the impact of the pandemic on the business community, especially in light of 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 (October-December 2021) and its outlook for the quarter (January-March 2022).

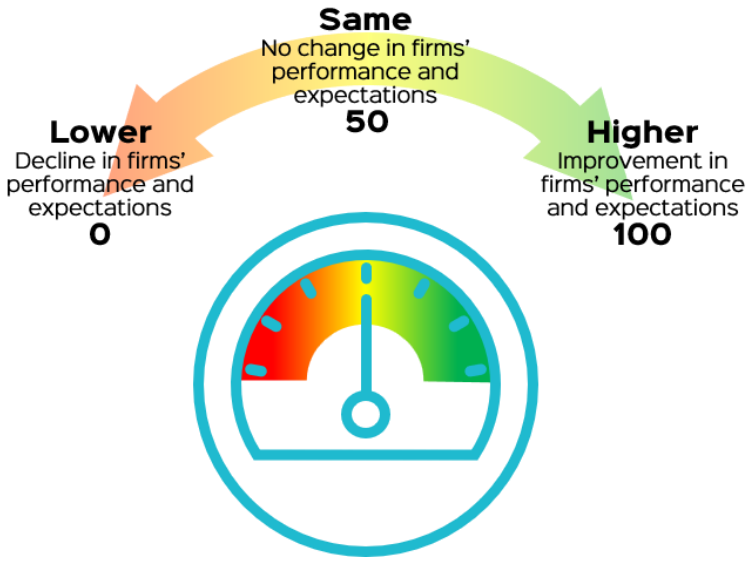
The report begins with an overview of the macroeconomy at the global and domestic levels, then presents the results of performance assessment and outlook at the overall index level. It then moves on to the constraints faced by the business community during the quarter under study, and the priorities 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 120 private firms distributed as follows:





- 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 major developments in the global economy, as well as performance of the key macro indicators in Egypt, according to the latest data available until the date of publication of this report.

Repercussions of monetary tightening, continuation of the Russia-Ukraine war, and the possibility of new waves of the virus reduce the global economic growth outlook for 2023.

Global economic activity continued to slow down, especially the manufacturing sector, due to the decline in demand and in new global orders at rates lower than 2009. The PMI reached about 48.2 in December 2022, which represents a decline of about 11% from its value in December 2021, the lowest level in 30 months and below the neutral level for the fourth month in a row. However, supply conditions improved, with fewer reported supply delays. The rise in prices still represents one of the key risks to the recovery of demand and leads to higher production costs (HIS Markit 2022).[2]

The global economy is expected to witness slow growth during 2023 because of the repercussions of monetary tightening by central banks to curb inflation and continuation of the Russia-Ukraine war, although the reopening of the Chinese economy has slightly accelerated recovery expectations. Growth is expected to slow down from 43% in 2022 to about 2.9% in 2023, then rise to about 3.1% in 2023 and 2024, as per the IMF forecasts released in January 2023. The projected growth rate is still below the historical average of 3.8% for the period 2000-2019, but 0.2% higher than the forecast for October 2022. Despite alleviation of supply chain bottlenecks, the decline in global demand is expected to reduce the average growth rate of world trade from 5.4% in 2022 to about 2.4% in 2023.

The IMF expects a decrease in global growth for 2023, driven by decline in growth in 90% of advanced economies due to the repercussions of raising interest rates and its negative effects on economic activity, and the erosion of real incomes, bringing the growth to 1.2% compared to 2.7% in 2022. However, a slight improvement in growth in emerging and developing markets is expected because of expectations of reopening the entire Chinese economy. The growth rate will reach 4% compared to 3.9% in 2022 (IMF 2023).[3]

The IMF also expects a decline in the annual average global inflation rate to reach 6.6% and 4.3% for 2023 and 2024, compared to 8.8% in 2022 because of weak global demand due to monetary tightening and lower global prices for oil and non-oil commodities, although it is still higher than the Pre-Pandemic average (2017-2019), which amounted to about 3.5%. Suffering from the repercussions of inflation is expected to be more severe in the case of emerging and developing market economies, as the inflation rate (8.1%) will be twice that of developed economies (4.6%). In addition to finding solutions to the high cost of living crisis, the priority in most economies during 2023 is to sustainably reduce the inflation rate (IMF 2023).[4]

The average food price index issued by the FAO reached 143.7 for 2022, which represents a decline of about 14% from that of 2021, but about 50% higher than in 2019 before the pandemic (FAO 2022).[5]

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[2] J. P. Morgan Global Manufacturing PMI, December.
[3] International Monetary Fund (IMF). 2023. *World Economic Outlook Update: Gloomy and More Uncertain*. Jan., IMF.
[4] Ibid.
[5] Food and Agriculture Organization of the United Nations (FAO). 2023. World Food Situation. FAO.

The Egyptian economy

The contraction in the non-oil private sector in Egypt over the past two years continues, with the PMI value still below 50 points (neutral level), scoring 47.2 in December. This contraction is due to local and global factors. Local factors include the pressures facing the business community as a result of high prices, decline in demand, increase in production and employment costs after the decline in the value of the Egyptian pound against the US dollar, as well as the delay in the delivery of contracts and their accumulation as a result of continued restrictions on imports, and recession prompting a reduction of employment in firms for the second time in three months, and receding demand for inputs. The global factors relate to the slowdown in the global economy (S&P Global 2023).[6]

Although the Central Bank on December 29, 2022 canceled all the decisions it issued in February 2022,[7] announcing the facilitation of customs release procedures, the final impact of this move on the import process has yet to be clear, as there is still a delay in availing hard currency and in customs release procedures, according to the opinions of many firms.

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]

Moody's downgraded Egypt's rating from B2 to B3 but changed its outlook from negative to stable. The agency attributed the decline to the lower international reserves, foreign exchange liquidity and net foreign assets in the banking system. The agency attributed its stable outlook to the measures the Government will take considering its agreement with the IMF towards structural adjustment and increasing the role of the private sector in the economy, which will help generate capital flows to meet the increasing external debt payments through the sale of some state-owned assets as announced by the Government, and adherence to the flexible exchange rate.[10]

The following section presents the latest developments in terms of macroeconomic indicators according to the latest published data up to the publication of this report:

- According to estimates by the Ministry of Planning and Economic Development, GDP growth rate during the first quarter of FY 2022/2023 recorded about 4.4%, an increase of 33% over its counterpart during the last quarter of 2021/2022 and a decline of about 55% compared with the corresponding quarter. The recovery was driven by improved economic activity in the tourism, agricultural, wholesale and retail trade sectors. As for unemployment, it increased during the first quarter of FY 2022/2023 by about 3% compared to the last quarter of the previous fiscal year, recording 7.4% (Figure 1).

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[6] S&P Global. 2023. Purchasing Managers Index (PMI).
[7] https://www.cbe.org.eg/ar/Pages/HighlightsPages/Regarding-conducting-import-transactions-through-IDCs.aspx
[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
[10] Moody's, Jan 2023. At: https://www.moodys.com/research/Moodys-downgrades-Egypts-ratings-to-B3-changes-outlook-to-stable--PR_473012.

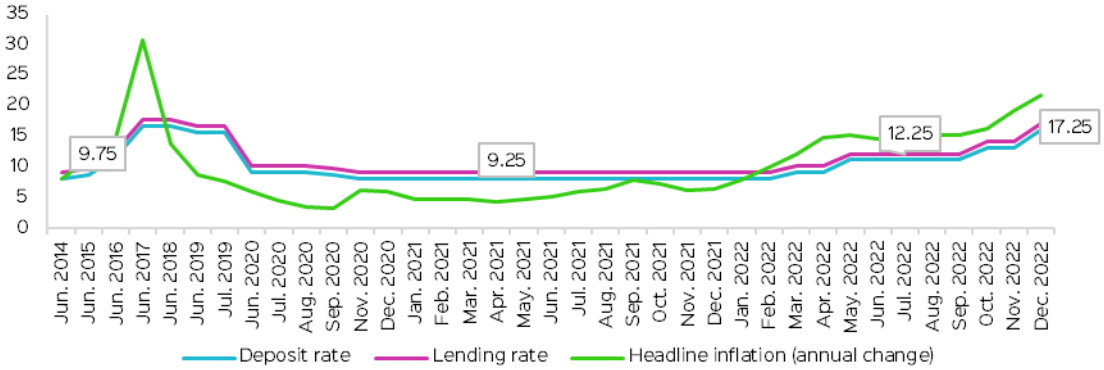
Figure 1. Real GDP Growth and Unemployment Rate

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

- **On the fiscal side,** the overall deficit in the State budget as a percentage of GDP decreased during FY 2021/2022 to 6.1%, compared with 6.8% during the previous fiscal year, and revenues increased by about 14.5% compared with an increase in expenses by about 14.3%.[11]

- **On the monetary side,** annual inflation continued its upward trend since January 2022, reaching around 21.9% during December 2022. This rate is close to three times its counterpart in December 2021 (6.5%). The adoption of a flexible exchange rate for the pound is one reason for the recent inflationary wave, in addition to import restrictions that led to higher production costs, in addition to the repercussions of the Russia-Ukraine war. The inflation rate reflects the increase in annual changes in most consumer indices for the various groups, as the food and beverage group witnessed the highest increase, followed by restaurants and hotels, culture and entertainment, and furniture and equipment (Figure 2) (CAPMAS 2023).[12]

Figure 2. Inflation and key interest 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.

[11] Ministry of Finance, *Monthly financial report, December 2022.*

[12] Central Agency for Public Mobilization and Statistics 2022, *Monthly bulletin of the consumer price index,* December 2022, January 2023 issue.

- In the face of the inflationary wave and global monetary tightening, the Monetary Policy Committee decided on December 22 to raise the overnight deposit and lending rates and the rate of the main operation of the central bank by 300 basis points to 16.25%, 17.25% and 16.75%, respectively. The credit and discount rate was also raised by 300 basis points to 16.75% (Figure 2) (Central Bank of Egypt 2022).[13]

- **In terms of foreign transactions,** during the first quarter of FY 2022/2023, the balance of payments recorded an overall surplus of $523.5 million, compared with a total surplus of about $311.4 million in the same period of the previous FY 2021/2022. The following are more details about developments in the key components of the balance of payments:[14]

1. **Current account:** The current account deficit improved by 20.2% from its value during the first quarter of the previous fiscal year, to record $3.2 billion in July/September 2022/2023. The decrease in deficit is due to the following:

   - The non-oil trade balance deficit improved by 18.2% $9 billion. This is due to an increase in non-oil commodity exports by about 5.1% over their value during the corresponding period of the previous fiscal year, to record $6.3 billion, while non-oil imports decreased by 9.9% to about $15.3 billion.

   - Tourism revenues increased by 43.5%, about $1.3 billion, compared with the first quarter of FY 2021/2022, to record $4.1 billion during the first quarter of FY 2022/2023.

   - Revenues from the Suez Canal increased by 19.1%, to record about $2 billion (compared with about $1.7 billion), which contributed to an increase in transport revenues by 33.7%, to record $3 billion (compared with about $2.3 billion).

   - The stability of the petroleum trade balance deficit at $106 million due to the increase in petroleum exports by about $807.3 billion considering the increase in natural gas exports. This rise was offset by a decline in crude oil exports by about $449.9 million, in petroleum products by $393.3 million, and an increase in petroleum imports by $767.7 million.

   - Improvement of the current account was limited by the following:

   - Remittances of Egyptians working abroad decreased by 20.9%, to record about $6.4 billion.

   - The investment income deficit increased by 16.8% to about $4.5 billion during the first quarter of FY 2022/2023.

2. **Capital and Financial Account:** This account recorded a net inflow of about $4.4 billion (compared with about $6 billion), because of the following developments:

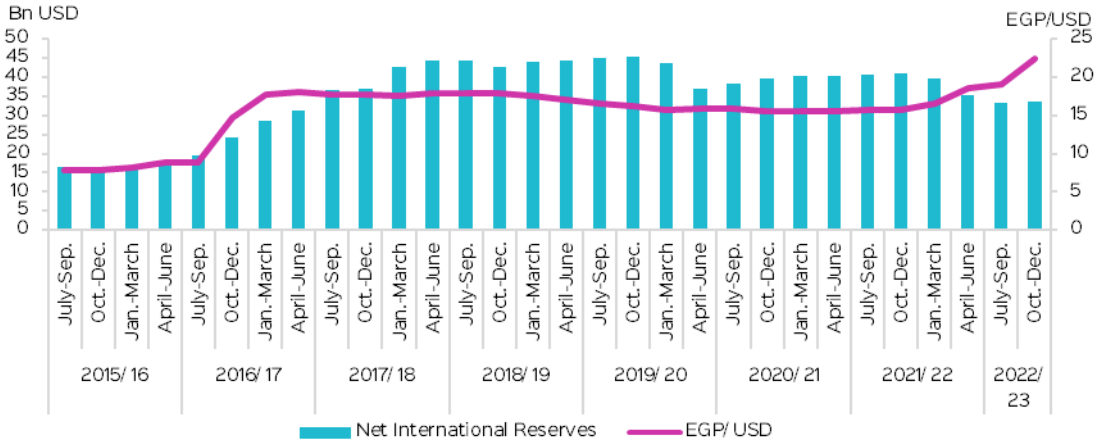
   - Net foreign direct investment inflows doubled to about $3.3 billion, compared with $1.7 billion during the first quarter of FY 2022/2023. Foreign direct investment in non-oil sectors increased to record $3.6 billion because of inflows from abroad to establish new firms, increase the capital of existing firms, or acquire some of the assets of local firms. The net outflow of investments from the petroleum sector decreased to $320.5 million.

[13] Central Bank of Egypt, *Monetary Policy Committee press release on December 22, 2022.*

[14] Central Bank of Egypt, *A press release on the performance of the balance of payments during the first quarter of FY 2022/2023.*

- Investments in the securities portfolio posted a net outflow of about $2.2 billion (compared with a net inflow of about $3.6 billion concentrated during January-March 2022 following the outbreak of the Russia-Ukraine war, and the US deflationary monetary policies and the resulting capital outflow from emerging markets, including Egypt).
- The Central Bank's liabilities changed to record $652.4 million net inflow.
- The net foreign exchange reserves of the Central Bank increased to $34 billion at end of December 2022, compared with $33.5 billion at end of November of the same year. This increase is due to the higher foreign exchange reserves during the last four months by more than $860 million. Reserves during the quarter under study are estimated at about $33.6 billion, an increase of 1% compared to the previous quarter, and a decline of about 18% from the corresponding quarter. The average exchange rate of the pound against the US dollar during the quarter under study was about 22.4 EGP/dollar, a decline in the exchange rate by about 18% from that of the previous quarter, and 43% from that of the corresponding quarter (Figure 3) (Central Bank of Egypt).[15]

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.

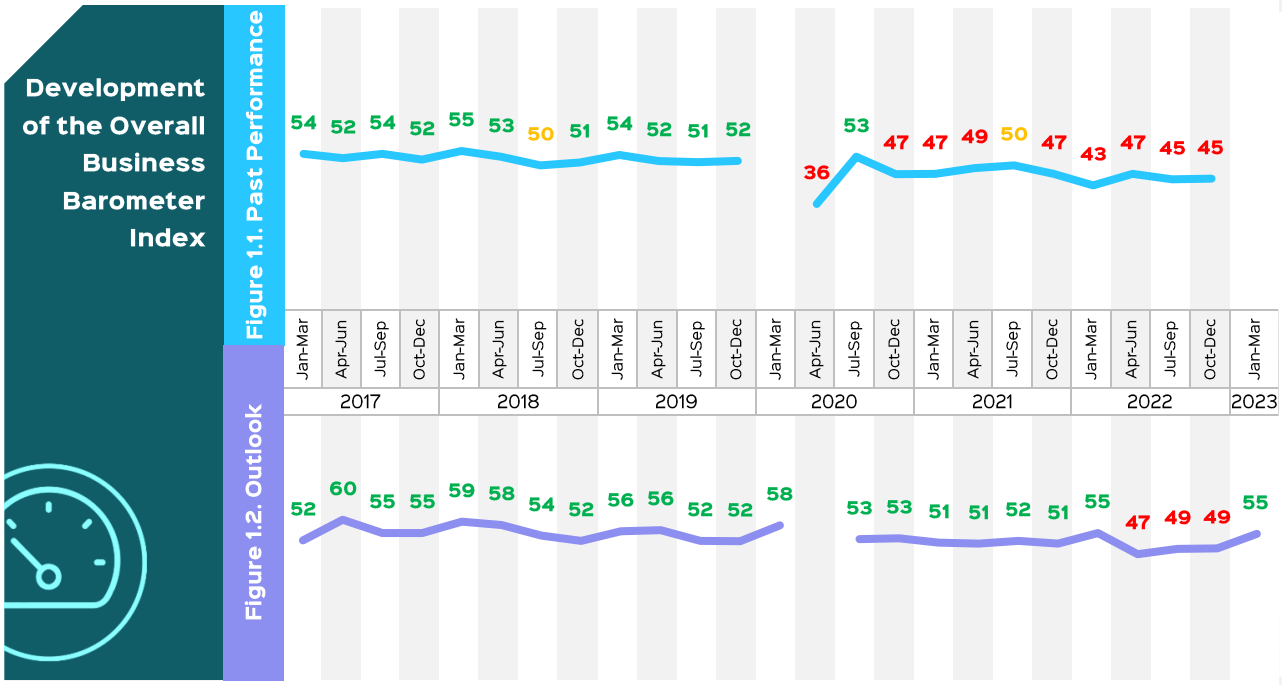
[15] Central Bank of Egypt, *Press release, January 16, 2023.*

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 divergent performance and expectations at the sectoral level.

1.1 Changes in the overall index

The business community is still witnessing a mixture of unfavorable local and global conditions, which was reflected in a continued decline in the business performance index during the quarter under study (October-December 2022). The index recorded a decrease of 5 points from the neutral level, which is similar to the previous quarter, but two points lower than its counterpart in the corresponding quarter. Domestically, the business community suffers from continued stagnation of the local market, decline in purchasing power, with high inflation rates, deterioration of the value of the local currency, and increase in the prices of products and raw materials and their dearth due to the difficulty of importing. Globally, factors include the continued slowdown in global economic activity, decline in external demand, and rise in raw materials and energy prices (Figure 1.1).



Source: Survey results.

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

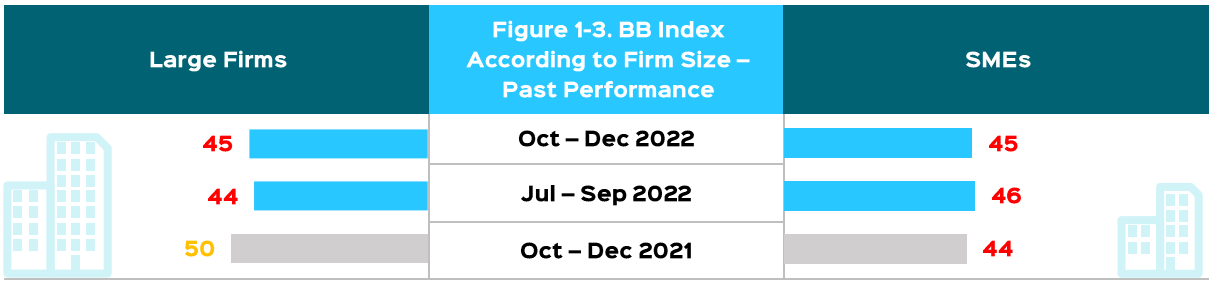
** Data for April-June 2020 are unavailable due to the pandemic-related lockdown.

The outlook index for the quarter January-March 2023 registered values five points above the neutral level (Figure 1.2), a higher performance than that of the previous quarter, and similar to the corresponding quarter. However, this does not reflect the expectations of a real improvement in the

variables of economic activity locally and globally, especially in light of higher uncertainty, whether regarding variables or policies, but rather reflects expectations of continued deteriorating performance of most non-price sub-indices, such as production, sales, exports, and capacity utilization, and expectations of an increase in the indices related to prices and production costs only during the next quarter.[16]

1.2 The index according to the sizes of firms

The business performance index for all firms declined by 5 points from the neutral level. The performance index of small and medium-sized firms during the current quarter is close to that of the corresponding quarter, but one point higher than in the previous quarter. The performance index of large firms continued to decline. Its values decreased compared to the corresponding quarter by five points, although it is still better than the previous quarter by one point, which reflects the continued difficulties facing firms of all sizes over a full year (Figure 1.3).



Source: Survey results.

Small and medium-sized firms recorded an expected performance exceeding the neutral level by four points, which is better than in the previous and corresponding quarters, while the outlook index for large firms exceeded the neutral level by six points and posted six points higher than the previous quarter and one point lower than the corresponding quarter. However, this increase in outlook indicators did not come because of expecting an improvement during the next quarter, but rather reflects an expected stable performance for most of the sub-indices that make up the main index (Figure 1.4).[17]

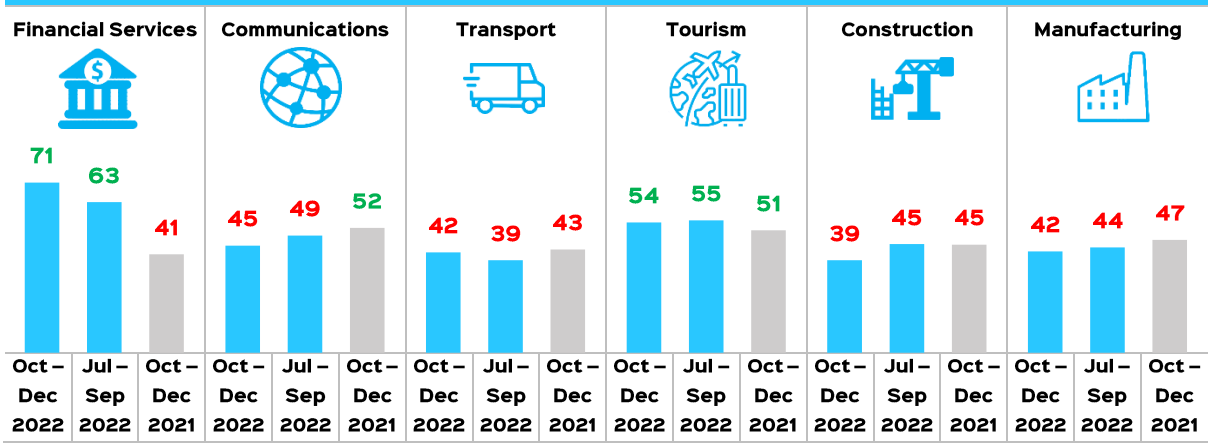
Source: Survey results.

[16] For more details, please see Table A3.
[17] For more details, please see Table A3.

1.3 The index according to economic sectors

The performance of most economic sectors has deteriorated, especially **manufacturing industries, construction, building and communications, and transport,** which all recorded index values below the neutral level. Whereas the financial intermediation and tourism sectors registered values higher than the neutral level (Figure 1.5).

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



Source: Survey results.

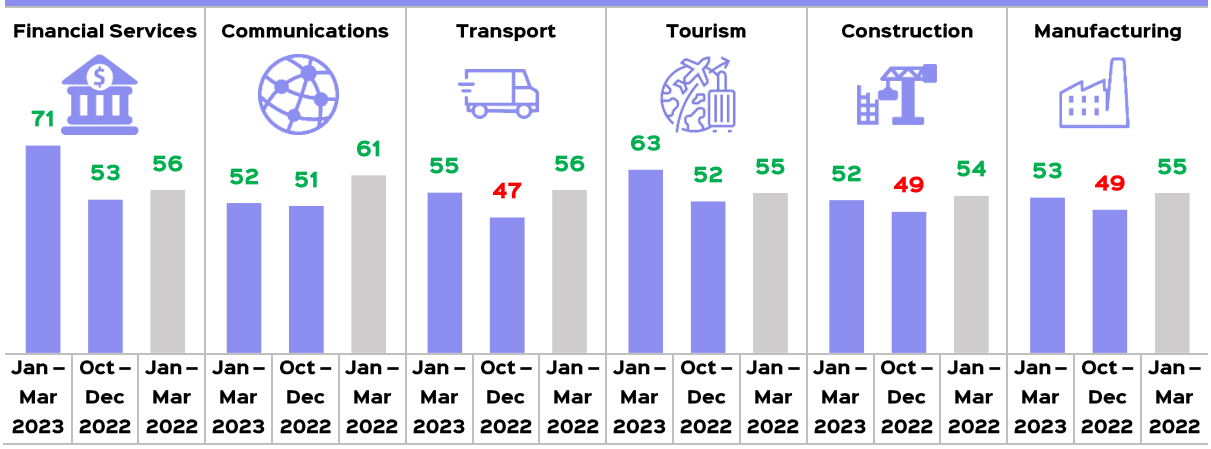
The following is an analysis of the performance of economic sectors during the quarter under study, according to the opinions of the sample, compared to the previous and corresponding quarters:

- The **manufacturing sector** registered index values that are 8 points below the neutral level, a sharper decline than in the previous and corresponding quarters. The deteriorating performance is due to several reasons, including persistence of import difficulties and failure to quickly release production requirements from customs, which led to a shortage and higher prices of raw materials, and weak exports due to weak global demand, in addition to weak purchasing power due to higher rates of inflation.
- The **construction sector** experienced the most deterioration in performance during the quarter under study, recording a decrease of 11 points from the neutral level, a performance that is less than the previous and corresponding quarter by 6 points. The deteriorating performance is due to weak liquidity in the market, and higher prices of imported raw materials. The sector is still suffering from difficult licensing procedures, in addition to the new requirements of the Unified Building Law, and increased tax burdens.
- The **telecom sector** performed less than the neutral level by 5 points, which is 4 points lower than the previous quarter, and 7 points higher than the corresponding quarter. This is attributed to import problems for some information technology firms, scarcity of raw materials in the local market, weak liquidity in the market, and non-release of shipments in ports.
- The **transport sector** witnessed a decrease of about 8 points from the neutral level during the quarter under study, three points higher than the previous quarter and one point higher than the corresponding quarter. This decline is due to the persistent difficulties in importing and obtaining foreign currency, decline in exports at the level of most economic activities, decline in the performance of the construction sector, and overall decrease in business volume.

- The **tourism sector** showed an improvement in performance, as the index exceeded the neutral level by 4 points, and performed better than the corresponding quarter, but less than the previous quarter. This improvement is due to the demand for religious tourism after a two-year hiatus, recovery of internal and external tourism, recovery of conference tourism, and the increase in arrivals from abroad.
- The **financial services sector** was the best performer during the current quarter; it recorded an improvement from the neutral level by 21 points, which is higher than the previous and corresponding quarters. This improvement is due to the announcement of the imminent start of the government placement program, which includes selling shares of some state-owned firms. In addition, the liberalization of the exchange rate along with the higher interest rate led to a decrease in the value of Egyptian assets, which attracted many Arab investment funds to enter the Egyptian market to acquire firms.

As for outlook, expectations for the next quarter exceeded the neutral level for all sectors. However, this does not reflect a real improvement in business conditions during the next quarter, but rather reflects stable expectations for most of the sub-indices that make up the main index (Figure 1.6).

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



Source: Survey results.

The following is an analysis of the performance expectations of economic sectors during the next quarter and their comparison with the previous and corresponding quarters:

- The outlook of the **financial services sector** was optimistic about performance during the next quarter—higher than the neutral level by 21 points, and better than the outlook of the previous and corresponding quarters. This is due to expectations of a recovery in the stock market because of the start of the government placement program, and attraction of foreign investors after raising interest rates and adopting a flexible exchange rate.
- The outlook of the **tourism sector** is higher than the neutral level by 13 points, and better than the previous and corresponding quarters, which may be due to the expectations of an increase in tourism and Umrah.

- Performance expectations of the **telecom sector** for the next quarter is 2 points higher than the neutral level, 1 point higher than the previous quarter, but 9 points lower than the corresponding quarter.
- The outlook of the **manufacturing sector** was higher than the neutral level by 3 points, better than the previous quarter by 4 points, and less than the corresponding quarter by 2 points. This is due to the firms' expectations of continuing problems related to importing raw materials, in addition to higher prices of raw materials and freight, representing a huge burden, and at the same time lower demand with higher inflation.
- Expectation of the **construction sector** regarding the next quarter was higher than the neutral level by two points, better than the previous quarter by 3 points, and less than the corresponding quarter by two points. This is a result of firms' expectations that no decisions will be taken to improve the sector, in addition to the stagnation in demand, weak liquidity, high imported raw materials, and obstacles related to building permits and heights.
- The performance outlook of the **transport sector** during the next quarter is 5 points higher than the neutral level—higher than the previous quarter by 8 points and the corresponding quarter by one point. This reflects expectations of stable performance during the next quarter, continuation of import restrictions, and weak volume of business in the construction and building sector, in addition to continued geopolitical unrest and its negative effects on global trade.

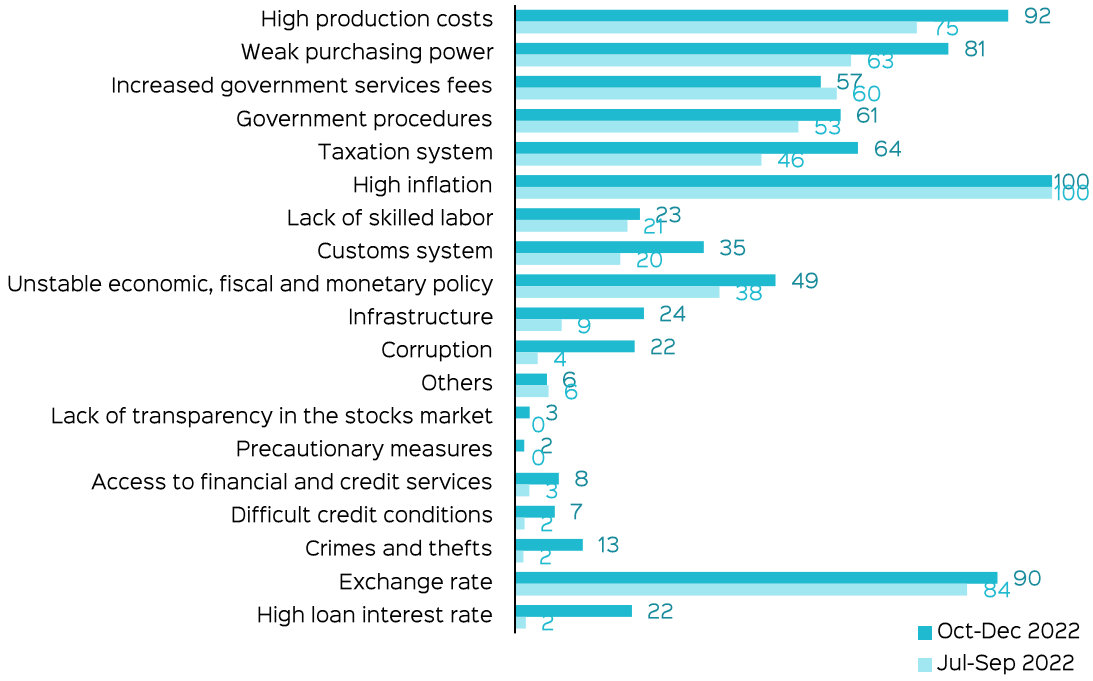
II. Constraints that faced the business community during the quarter under study, and priorities of improving the business climate from the perspective of the sample of firms

There is a consensus among firms of all sizes that high inflation, exchange rate movement and high production costs are the biggest constraints during the quarter under study.

Figure 1.2 shows the main constraints that faced the business community during the quarter under study (October-December 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 of Priorities)

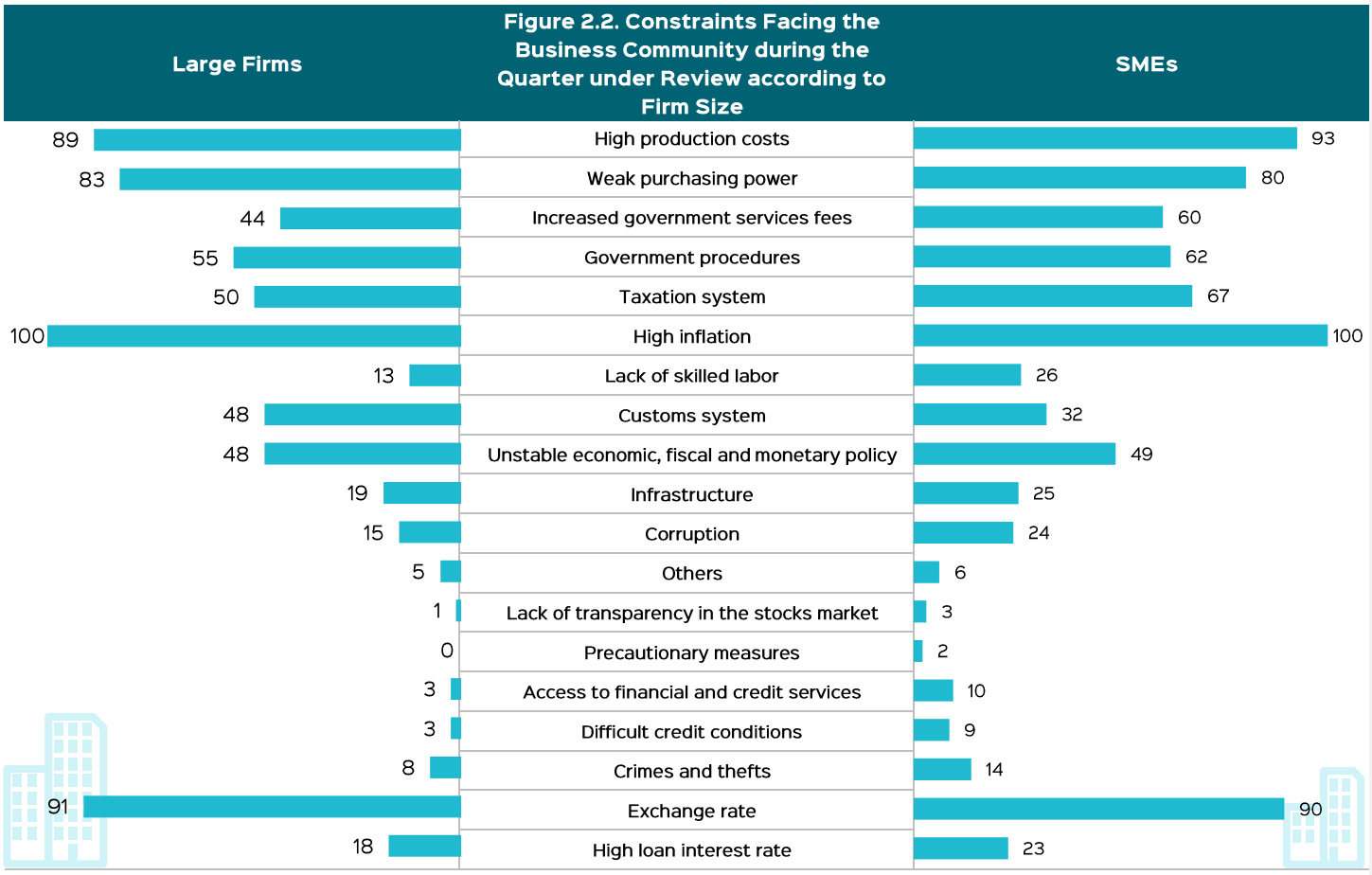


Source: Survey results.

Inflation unprecedentedly topped the list constraints due to the local and global factors previously mentioned, followed by **high production costs** as a result of the insane increase in the prices of production requirements, especially imported ones, rise in sea freight rates, disruption of global supply chains, shortage of raw materials and their higher prices, in addition to repeated rises in energy and transportation prices, followed by **exchange rate** movement. The latter was the reason behind the suffering of the business community because of the rise in the exchange rate of the dollar against the pound and the consequent rise in the prices of most goods and services, especially that most production requirements are imported. The existence of more than one exchange rate in the market created price distortion and increased speculation.

Comparing the constraints faced by firms during the quarter under study with the previous quarter, it is clear that the business community continues to suffer from the **high rate of inflation** being the biggest constraint, and deterioration of the Egyptian pound against the US dollar as one of the constraints, but this does not necessarily mean that other constraints have been resolved.

Although firms of all sizes face the same set of constraints, the order of their severity varies according to the size of the firm. For **small and medium-sized firms, inflation** topped the list of constraints, followed by **high production costs**, with the **exchange rate movement** in third place, then **weak purchasing power** in fourth place. For **large firms, high inflation** topped the list of constraints, followed by challenges related to the **higher exchange rate**, then **higher production costs** in third place. **Weak purchasing power** came in fourth place. Figure 2.2 shows the main constraints faced by large, small, and medium-sized firms alike during the quarter under study (October-December 2022), arranged in a descending order of severity from the perspective of the sample of firms.



Source: Survey results.

Constraints according to economic sectors

There is no significant variation in the constraints at the level of economic sectors, with **high inflation** being the biggest constraint facing the **manufacturing, construction, tourism, transportation, communication sectors**, while the **tax system** and **unpredictable economic, financial and monetary policies** as the biggest constraint for the **financial intermediation sector**, with **weak purchasing power** as an additional constraint for the **transport sector**, and **exchange rate movement** as an additional constraint for the **construction sector** (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	2	81	93	100	89	98
Increased government services fees	0	56	71	79	59	54
Government procedures	2	69	52	62	50	67
Weak purchasing power	0	34	100	65	96	88
Taxation system	100	50	48	71	46	52
Lack of skilled labor	4	6	29	9	15	30
High inflation	27	100	100	100	100	100
Customs system	0	25	64	0	26	41
Unstable economic, fiscal and monetary policy	100	50	0	62	4	44
Corruption	0	0	24	18	19	28
Infrastructure	4	0	26	24	24	28
Precautionary measures	0	0	5	0	2	2
Others	36	0	0	0	0	2
Crimes and thefts	0	0	19	12	13	14
Access to financial and credit services	0	13	0	9	4	11
Difficult credit conditions	0	16	0	9	4	9
Exchange rate	0	91	98	91	100	92
High loan interest rate	2	53	0	56	6	21
Lack of transparency in the stocks market	7	0	7	3	2	1

Source: Survey results.

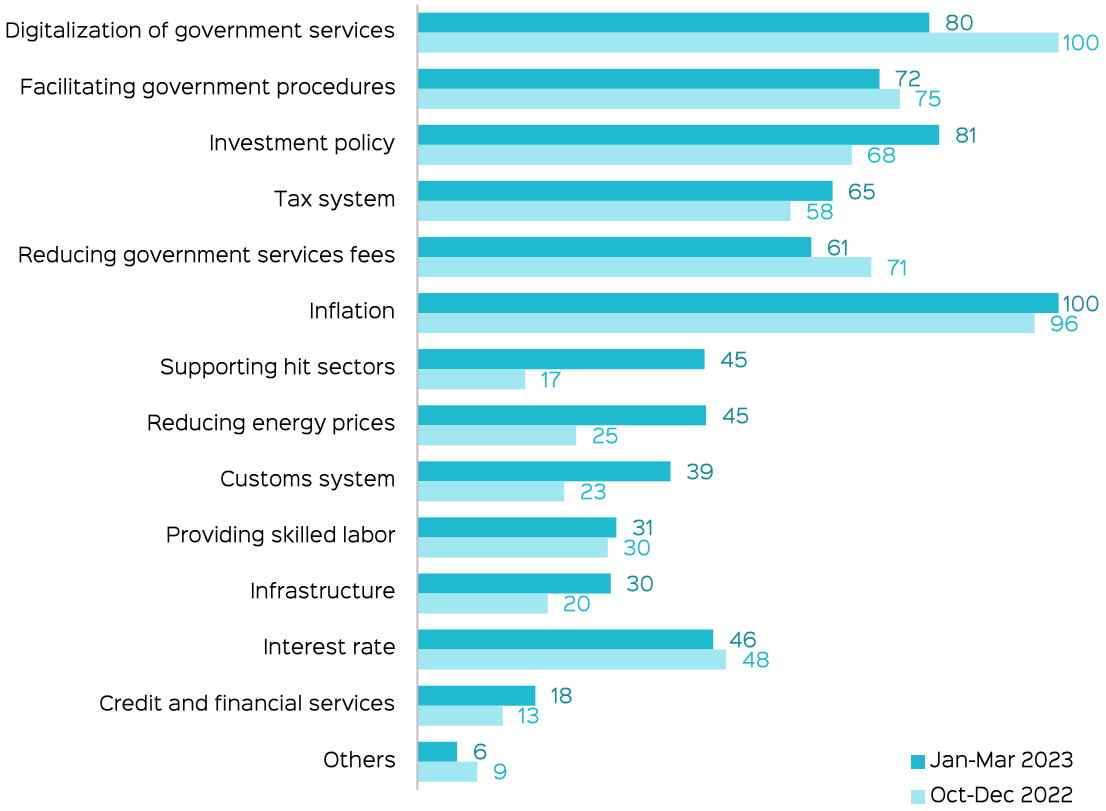
Priorities to improve the business climate in Egypt (according to the opinions of the sample of firms)

Key priorities to focus on: Addressing high inflation rates, attention to investment policies, improving mechanisms for digital transformation of government services, and the State's role in facilitating government procedures. Priorities varied according to the size of the firms and the economic sectors.

High inflation jumped to the top of priorities that must be focused on over the coming period, due to its negative impact on all sectors. **Attention to investment policies** also became a top priority. It is necessary for the business community from various activities to participate in developing a strategy to define targeted investment policies and attract more foreign investments. **Mechanisms of digital transformation of government services** remains a high priority to improve the business climate in Egypt due to the consequent facilitation of government procedures and the elimination of bureaucracy.

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

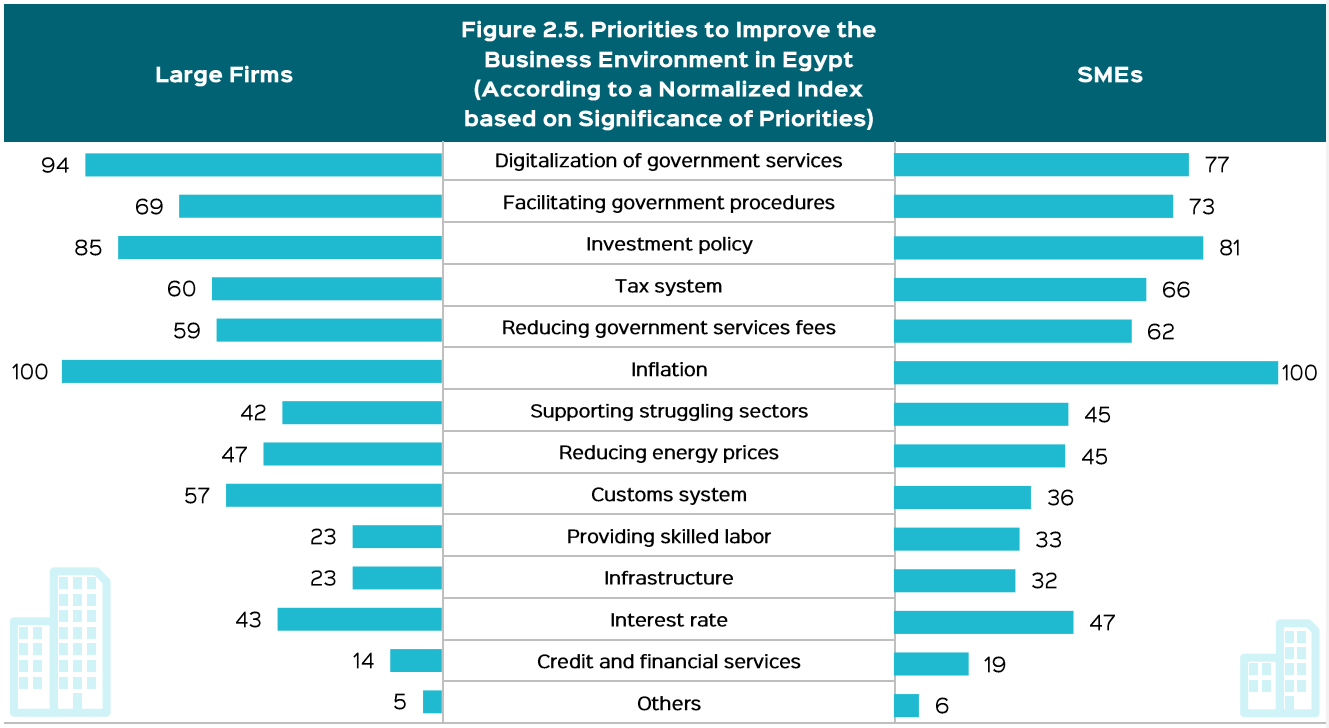
(According to a Normalized Index based on Significance of Priorities)



Source: Survey results.

Comparing priorities according to the sizes of firms:

- All firms agreed that finding solutions to the **high inflation rates** should be on the list of priorities to improve the business climate.
- There is no variation of priorities at the level of firms, albeit the order differs according to firm size. For **small and medium-sized firms**, **investment policies** ranked second, paying attention to **mechanisms of digital transformation** third, **facilitating government procedures** fourth, and **tax system** fifth. For **large firms**, **mechanisms of digital transformation** came second, **investment policies** third, **facilitating government procedures** fourth, and **tax system** fifth (Figure 2-5).



Source: Survey results.

Priorities according to economic sectors

There is no variation of priorities at the level of economic sectors, as **finding solutions to the high inflation** topped the priority list for **manufacturing industries, construction, tourism,** and **financial services**; the **transport sector** sees that **supporting sectors affected by the crisis** is a top priority, and the **telecom sector** ranks **paying attention to digital transformation mechanisms** as a top priority.

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	78	100	50	95	80	80
Streamlining government procedures	5	88	83	73	76	83
Investment policy	97	56	65	40	96	87
Tax system	95	44	54	60	65	62
Reducing government services fees	5	63	65	73	81	68
Inflation	100	94	96	100	100	100
Supporting struggling sectors	5	0	100	15	69	49
Reducing energy prices	0	0	92	15	63	54
Customs system	0	38	63	0	35	53
Providing skilled labor	3	16	48	13	43	37
Infrastructure	8	0	35	23	37	38
Interest rate	12	66	52	50	43	50
Credit and financial services	3	19	21	13	20	22
Others	41	0	0	0	0	2

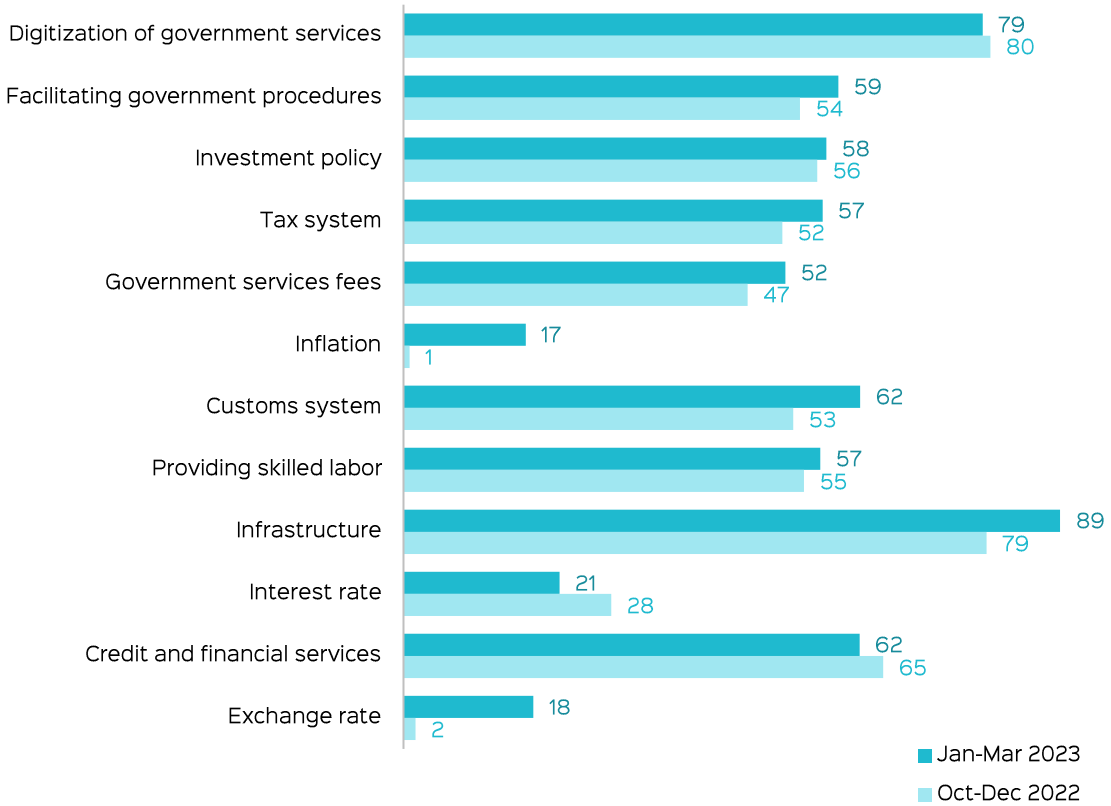
Source: Survey results.

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

Expectations of improvement in infrastructure, digital transformation of government services, financial and credit services, and the customs system over the coming period

Given government projects and current directions, most firms expect continued improvement in infrastructure due to the various projects implemented by the State in this field, then digital transformation of government services because of the various efforts announced in this regard, followed by improvement of financial and credit services, and improvement in the customs system (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

1.3 Performance evaluation

Decline of all performance evaluation indices for large firms and a decline in most indices for small and medium-sized firms

For the indices of production, domestic sales, and capacity utilization, **small and medium-sized firms** recorded values that are less than the neutral level and the previous quarter, with the exception of the export and inventory indices, which posted values that are higher than the neutral level and better than the previous quarter, reflecting reliance of firms on their available inventory to meet demand.

Most indices for **large firms** declined from the neutral level, except for commodity inventory, which recorded values higher than the neutral level.

Comparing the performance evaluation for the current quarter against the previous and corresponding quarters, it is clear that the production index declined sharply during the current quarter compared to the previous and corresponding quarters. However, the decline was less severe in the indices of domestic sales, exports, and capacity utilization compared to the previous quarter. Nevertheless, performance continues to deteriorate significantly compared to the corresponding quarter. As for the commodity inventory index, a rise was recorded compared to the previous and corresponding quarters.

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

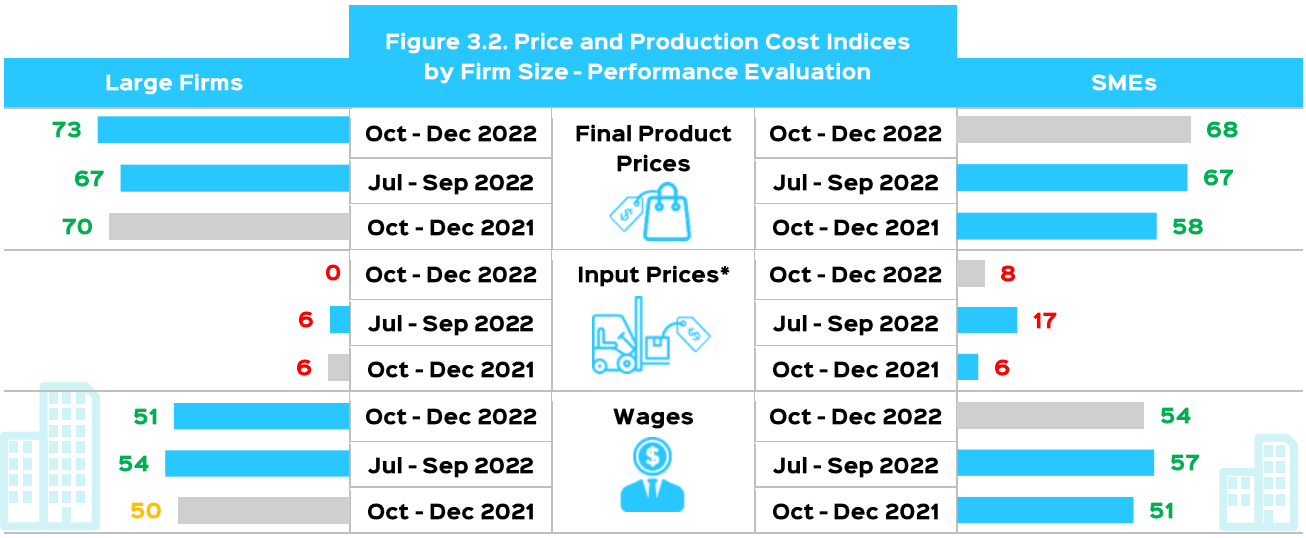
Large Firms				SMEs
41	Oct - Dec 2022	Production	Oct - Dec 2022	46
50	Jul - Sep 2022		Jul - Sep 2022	37
67	Oct - Dec 2021		Oct - Dec 2021	51
31	Oct - Dec 2022	Domestic Sales	Oct - Dec 2022	43
47	Jul - Sep 2022		Jul - Sep 2022	36
63	Oct - Dec 2021		Oct - Dec 2021	50
42	Oct - Dec 2022	Exports	Oct - Dec 2022	48
50	Jul - Sep 2022		Jul - Sep 2022	53
75	Oct - Dec 2021		Oct - Dec 2021	46
46	Oct - Dec 2022	Capacity Utilization	Oct - Dec 2022	49
45	Jul - Sep 2022		Jul - Sep 2022	39
51	Oct - Dec 2021		Oct - Dec 2021	47
56	Oct - Dec 2022	Inventory*	Oct - Dec 2022	47
54	Jul - Sep 2022		Jul - Sep 2022	58
44	Oct - Dec 2021		Oct - Dec 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 unprecedented rise in the prices of inputs and a slight rise in the wage index from the neutral level, resulting in a rise in the prices of final products

All firms, regardless of size, agreed that prices of final products increased during the current quarter compared to the previous and corresponding quarters because of the significant increase in the production input price index. The wage index for all firms posted values higher than the neutral level during the quarter under study. This increase is mainly due to statistical reasons, as a result of the increase in the percentage of firms that reported a stable index compared to those reporting an increase therein.

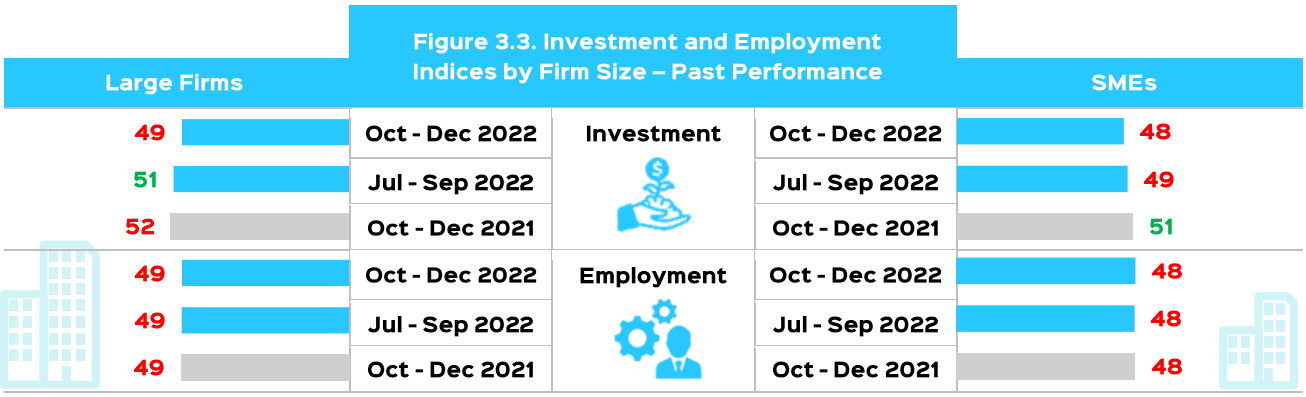


Source: Survey results.

* 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.

Decline in investment and employment indices for all firms, posting values below the neutral level

All firms recorded a decrease in the investment index. Small and medium-sized firms recorded values that are two points less than the neutral level, and less than the previous and corresponding quarters. Large firms recorded values that are one point less than the neutral level, and less than the previous and corresponding quarters. The employment index was stable during the previous and corresponding quarters for all firms, posting values less than neutral level (Figure 3-3).



Source: Survey results.

3.2 Performance Expectations

Expectations of improvement in most economic activity indices at the level of all firm sizes

Small and medium-sized firms expect an improvement in performance for all indices. Expectations were higher than the previous quarter and lower than the corresponding quarter for production, domestic sales, and capacity utilization, while expectations for exports were lower than in the previous and corresponding quarters.

Large firms expect an improvement in production, domestic sales, exports, and capacity utilization, as indices exceeded the neutral level. Expectations are higher than in the previous quarter, but lower than the corresponding quarter for production, domestic sales, and exports. Expectations regarding capacity utilization are better than in the previous and corresponding quarters. This optimism may be due to cancellation of the Central Bank's decisions issued in February 2022 and the start of facilitating procedures.

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

Large Firms			SMEs
61	Jan - Mar 2023	Production	55
59	Oct - Dec 2022		50
73	Jan - Mar 2022		60
56	Jan - Mar 2023	Domestic Sales	53
48	Oct - Dec 2022		49
59	Jan - Mar 2022		59
57	Jan - Mar 2023	Exports	67
52	Oct - Dec 2022		52
74	Jan - Mar 2022		59
57	Jan - Mar 2023	Capacity Utilization	53
54	Oct - Dec 2022		49
55	Jan - Mar 2022		55
50	Jan - Mar 2023	Inventory*	47
47	Oct - Dec 2022		51
45	Jan - Mar 2022		47

Source: Survey results.

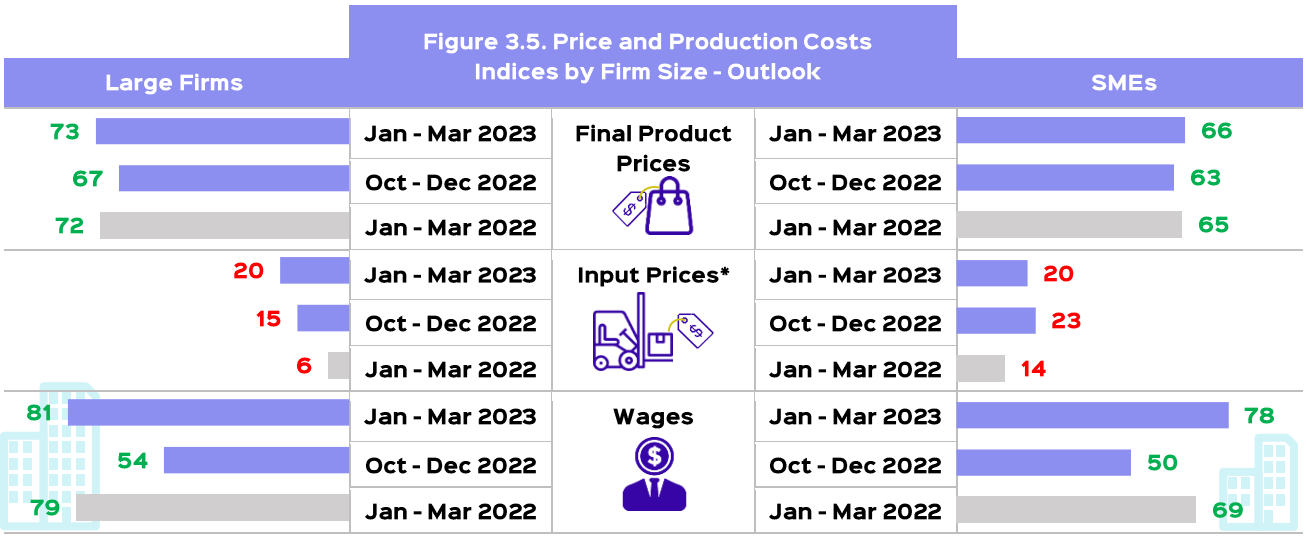
* The index for inventory is inverted to indicate the negative impact of its increase on businesses. Hence, a higher inventory index indicates lower inventory and vice versa.

Expectations of a continued rise in input prices and its impact on the prices of final products

All firms expect an increase in the wage index during the next quarter, to exceed that of the previous and corresponding quarters. Most private sector firms introduce the annual increase in wages beginning of the year. As for the input price index, the expectations index for small and medium-sized firms recorded lower values than the previous quarter but higher than the corresponding quarter,

while the expectations index for large firms recorded higher values than the previous and corresponding quarters.

The rise in the input price and wage indices will reflect in a rise in the final product price index during the next quarter, to exceed its counterpart in the previous and corresponding quarters for all firms.

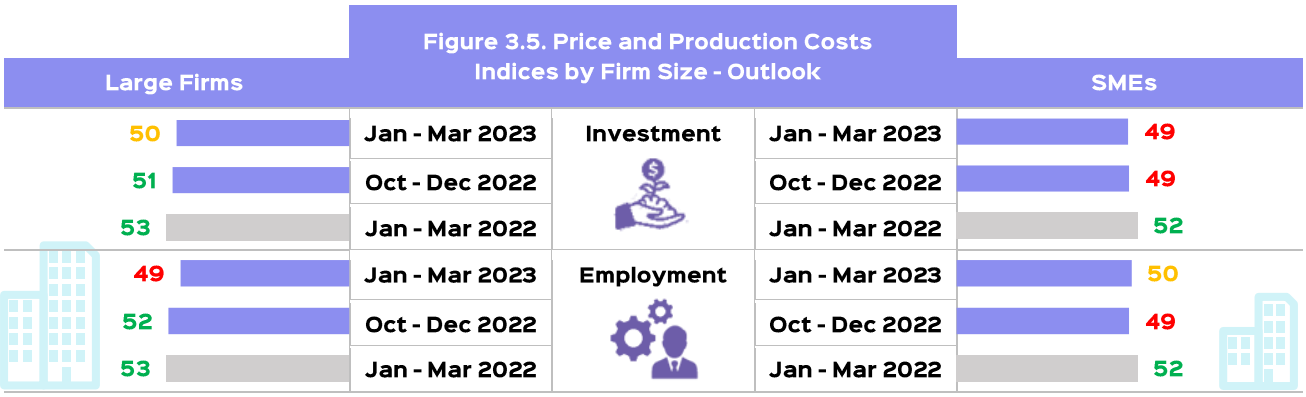


Source: Survey results.

* 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.

Concerning the investment index, **small and medium-sized firms** recorded values that are one point less than the neutral level and similar to the previous quarter, but higher than the corresponding quarter by three points. The employment index recorded values at the neutral level, one point better than the previous quarter, and higher than the corresponding quarter by two points (Figure 3.6).

In the investment index, **large firms** recorded values at the neutral level and lower than the previous and corresponding quarters, while the employment index fell below the neutral level by one point, and at a sharper pace than the previous and corresponding quarters.



Source: Survey results.

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	42	Higher	Same	Low	39	Higher	Same	Low	54	Higher	Same	Low	42	Higher	Same	Low	45	Higher	Same	Low	71
Economic activity																								
Production	10	18	72	**24**	14	7	79	**20**	50	40	10	**64**	0	8	92	**8**	13	75	12	**50**	100	0	0	**100**
Domestic sales	9	11	80	**18**	14	0	86	**14**	30	50	20	**53**	0	17	83	**14**	13	75	12	**50**	100	0	0	**100**
Exports	23	50	27	**48**	____	____	____	____	86	14	0	**88**	____	____	____	____	0	75	25	**43**	____	____	____	____
Inventory	23	32	45	**58**	____	____	____	____	____	____	____	____	____	____	____	____	____	____	____	____	____	____	____	____
Capacity utilization	2	62	37	**39**	0	100	0	**50**	10	80	10	**50**	0	91	9	**48**	13	75	12	**50**	94	6	0	**94**
Prices																								
Final product prices	85	13	2	**87**	57	43	0	**70**	80	20	0	**83**	67	33	0	**75**	38	62	0	**62**	0	100	0	**50**
Intermediate product prices	100	0	0	**0**	100	0	0	**0**	100	0	0	**0**	____	____	____	____	100	0	0	**0**	____	____	____	____
Wage level	12	88	0	**53**	21	79	0	**56**	0	100	0	**50**	0	100	0	**50**	0	100	0	**50**	0	100	0	**50**
Primary inputs																								
Investment	2	87	12	**47**	0	100	0	**50**	0	100	0	**50**	0	92	8	**48**	0	100	0	**50**	0	100	0	**50**
Employment	5	78	17	**47**	7	79	14	**48**	0	100	0	**50**	0	100	0	**50**	0	88	12	**47**	6	94	0	**52**

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	53	Higher	Same	Low	52	Higher	Same	Low	63	Higher	Same	Low	55	Higher	Same	Low	52	Higher	Same	Low	71
Economic activity																								
Production	22	58	20	**51**	14	79	7	**52**	70	30	0	**77**	0	100	0	**50**	25	75	0	**57**	81	13	6	**83**
Domestic sales	14	63	23	**47**	14	71	14	**50**	40	60	0	**63**	0	100	0	**50**	25	75	0	**57**	81	13	6	**83**
Exports	43	48	10	**61**	____	____	____	____	86	14	0	**88**	____	____	____	____	0	100	0	**50**	____	____	____	____
Inventory	11	64	25	**54**	____	____	____	____	____	____	____	____	____	____	____	____	____	____	____	____	____	____	____	____
Capacity utilization	12	75	14	**50**	0	100	0	**50**	40	60	0	**63**	0	100	0	**50**	12	88	0	**53**	80	13	7	**82**
Prices																								
Final product prices	75	25	0	**80**	36	64	0	**61**	70	30	0	**77**	0	100	0	**50**	50	50	0	**67**	0	100	0	**50**
Intermediate product prices	75	25	0	**20**	50	50	0	**33**	100	0	0	**0**	____	____	____	____	100	0	0	**0**	____	____	____	____
Wage level	62	38	0	**72**	64	36	0	**74**	100	0	0	**100**	83	17	0	**86**	75	25	0	**80**	100	0	0	**100**
Primary inputs																								
Investment	0	93	7	**48**	0	100	0	**50**	0	100	0	**50**	0	100	0	**50**	12	88	0	**53**	0	100	0	**50**
Employment	3	95	2	**50**	0	100	0	**50**	0	100	0	**50**	0	100	0	**50**	0	88	12	**47**	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	45	Higher	Same	Low	45
Economic activity								
Production	27	18	55	**38**	18	23	59	**33**
Domestic sales	25	13	62	**34**	15	35	50	**37**
Exports	41	41	18	**58**	18	55	27	**47**
Inventory	32	32	37	**52**	14	29	57	**67**
Capacity utilization	15	64	21	**48**	14	64	23	**47**
Prices								
Final product prices	65	34	1	**74**	64	36	0	**73**
Intermediate product prices	100	0	0	**0**	100	0	0	**0**
Wage level	9	91	0	**52**	5	95	0	**51**
Primary inputs								
Investment	0	94	6	**48**	5	86	9	**49**
Employment	4	85	11	**48**	5	86	9	**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	54	Higher	Same	Low	56
Economic activity								
Production	28	61	11	**55**	45	41	14	**61**
Domestic sales	23	63	14	**53**	33	52	14	**56**
Exports	50	50	0	**67**	40	40	20	**57**
Inventory	23	63	14	**47**	19	62	19	**50**
Capacity utilization	19	73	8	**53**	27	68	5	**57**
Prices								
Final product prices	48	52	0	**66**	64	36	0	**73**
Intermediate product prices	74	26	0	**20**	75	25	0	**20**
Wage level	72	28	0	**78**	77	23	0	**81**
Primary inputs								
Investment	0	97	3	**49**	5	91	5	**50**
Employment	2	97	1	**50**	0	95	5	**49**

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.