ECES
المركز المصري للدراسات الاقتصادية
The Egyptian Center for Economic Studies

Business Barometer

Issue 66 January – March 2023

Performance Evaluation for the period January – March 2023
and Outlook for the period April – June 2023
from the Business Community's point of view

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Business Barometer

Issue 66 January – March 2023

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Executive Summary

This report presents a periodic evaluation by the Egyptian Center for Economic Studies (ECES) of a sample comprising 120 private sector firms covering various sectors and sizes, and reflects the views of the business community regarding the 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 January-March 2023 and its expectations for the quarter April-June 2023, along with a comparison of the results with the previous quarter (October-December 2022) and the corresponding quarter (January-March 2022). The following is a brief review of the most important findings of the report for the quarter under study (January-March 2023), focusing on key macroeconomic developments and results of the overall Business Barometer Index (BBI).

Macroeconomic Overview

At the global level, as the global economy began to witness slight improvement due to the decline in the severity of disruptions in supply chains and energy and food markets, and as monetary tightening policies started to bear fruit in mitigating the impact of inflation. However, these policies also caused financial sector turmoil, resulting in instability, high debt levels, persistent inflation, and increasing uncertainty. Therefore, the International Monetary Fund (IMF) reduced its growth forecast in April 2023 by 0.1 percent from January expectations to settle at 2.8 percent in 2023, rising to about 3 percent in 2024 compared to 4.3 percent in 2022. The slowdown in the global economy is mainly driven by expectations of a decline in growth in advanced economies, specifically the United States, the euro area, and the United Kingdom, with higher expectations of growth in emerging market economies and developing countries in 2023 (IMF 2023).[1]

Global inflation is expected to decline slowly to 7 percent in 2023 compared to 8.7 percent in 2022 as a result of the relative decline in global prices of oil and non-oil commodities due to weak global demand and continued monetary tightening. The World Bank Energy Price Index registered 111.1 points[2] during the first quarter of 2023, down by 27 percent from its reading in 2022, but is still 16 percent higher than its 2021 reading. The Food Commodity Price Index recorded 136.1 points in the same quarter, down 50 percent from its reading in the first quarter of 2022 (World Bank Commodities Price Data 2023).

The decline in global supply chain disruptions, reopening of the Chinese economy, and start of a decline in inflation levels led to a slight recovery in the Purchasing Managers' Index (PMI) to record 49.6 points in March 2023, up 1 percent from its reading in January 2023. While both the United States and the euro area achieved slight growth in March, China outperformed both, and India and Thailand witnessed the fastest growth rates. Contraction was concentrated in Japan, South Korea, and the United Kingdom (IHS Markit 2023).[3]

1. International Monetary Fund (IMF). 2023. World Economic Outlook Update: Gloomy and More Uncertain. April, IMF.
2. World Bank commodity price indices for low- and middle-income countries (2010=100).
3. IHS Markit. 2023. JPMorgan Global Manufacturing PMI, April, IHS Markit.

At the local level, Standard & Poor's revised its outlook for the Egyptian economy from stable to negative, based on Egypt's high need for external financing and the delay in adopting structural reforms, which intensifies pressures of devaluation, while maintaining Egypt's credit rating at 'B/B'.[4] Fitch Ratings followed, downgrading the Egyptian economy from "B+" to "B" and revising its outlook downward from stable to negative; due to Egypt's high financing requirements, extreme uncertainty about the exchange rate, and decline in international reserves, in addition to the risks of debt sustainability in the medium term.[5]

Contraction in Egypt's non-oil private sector has continued over the past two years. The PMI remains below 50 points (neutral level), recording 47.3 points in April 2023. This contraction is due to domestic factors, most importantly, the monetary tightening implemented by the Central Bank to curb inflation, continued disruptions in the local supply chain, rising prices, depreciation of the pound and persistence of the problem of foreign currency shortage; resulting in difficulties in importing production requirements, in addition to the global factors associated with the slowdown of the global economy, repercussions of the Russian-Ukrainian war, and monetary tightening.

Performance Evaluation and Outlook according to the Overall Index

Performance evaluation: The business community continues to face an unfavorable mix of local and global conditions. Despite the decrease in the severity of disruptions in global supply chains and the slight improvement in inflation rates, there are still huge domestic difficulties. Most importantly, the decline in demand due to high inflation, difficulty in obtaining foreign currency, and the large gap between official and unofficial exchange rates and the consequent market instability. The performance evaluation index scored 50 points (neutral level) during the quarter understudy, reflecting mainly the large jumps in input and wage price indices, and hence the final product price index, meaning that it is not driven by improvement in other indices of production, exports, domestic sales, and capacity utilization.

Outlook: Due to the continuing unfavorable conditions facing the business community, the outlook index for the quarter April-June 2023 scored 51 points, exceeding the neutral level by one point—a performance lower than that of the previous and corresponding quarters. The index values reflect expectations by most of the sample firms of stable performance during the next quarter rather than improvement.

Key Constraints Facing the Business Community during the Quarter under Review

Inflation still leads the list of constraints facing all firms for the aforementioned local and global reasons, followed by **exchange rate instability**, as most of the production requirements are imported. Also, having more than one exchange rate in the market distorted prices and increased market turmoil. This is followed by **high production**

4. Standard & Poor's, April 2023, available at: https://login.spglobal.com/oam/server/obrareq.cgi
5. Fitch rating, May 2023, available at: https://www.fitchratings.com/research/sovereigns/fitch-downgrades-egypt-to-b-outlook-negative-05-05-2023

costs as a result of the steep increase in the prices of production requirements, especially imports, the rise in sea freight costs, disruption of global supply chains, shortage of raw materials and the increase in their prices, in addition to the frequent rises in energy and transportation prices, as well as weak purchasing power. Finally, some firms reported that the delay in the government offering program negatively affects the business environment and sheds doubt on the State's commitment to making room for the private sector.

Priorities for Improving the Business Climate in Egypt from the Perspective of the Sample of Firms

Addressing the high inflation rate continues to top the list of priorities that require focus during the coming period, because of its negative impact on all sectors, followed by the improvement of investment policies, with the need to engage representatives of the business community from various activities in developing a strategy to identify target areas for improvement, and the required policies. Improving **mechanisms of digital transformation of government services** remains a priority to enhance the business climate in Egypt, due to the need for facilitation of government procedures, elimination of bureaucracy, and reduction of informality in all sectors. The business community continued to demand the development of the tax system and limit the increase in the tax base.

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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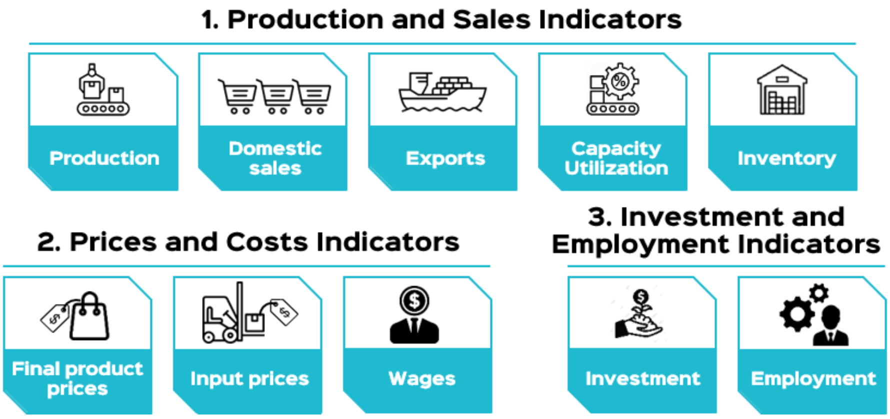
Report Details

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.

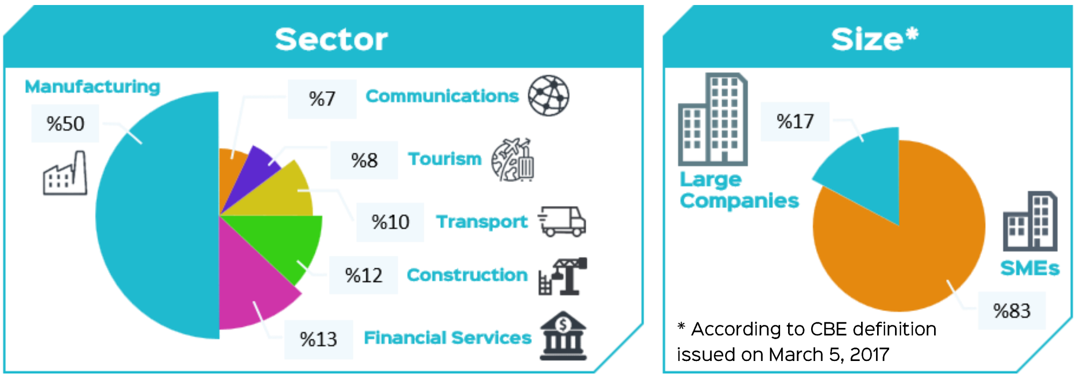


The importance of this issue of the BB is further magnified by the challenges that the business community has been facing since the beginning of 2020 as a result of the COVID-19 pandemic. Therefore, it is important to track the impact of the pandemic on the business community, especially in light of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

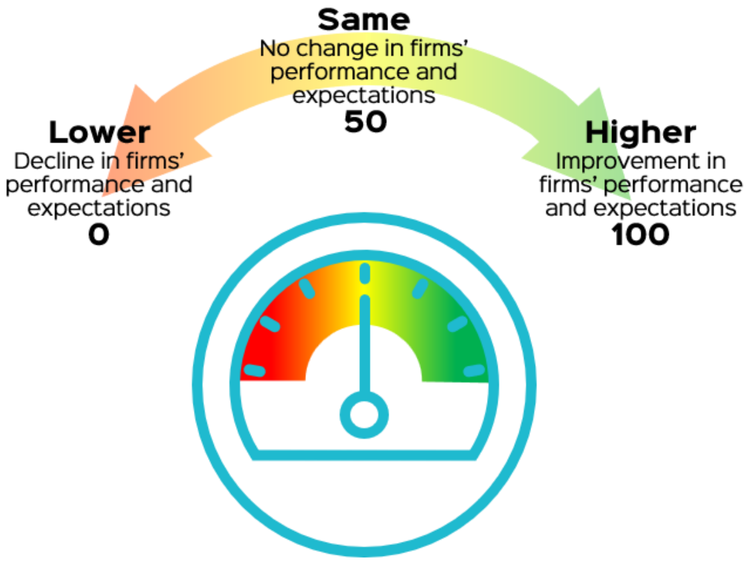
This report offers an assessment of the performance of the sample at hand during the quarter (October-December 2021) and its outlook for the quarter (January-March 2022).

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, lower 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

Macroeconomic Overview

This section provides an overview of major developments in the global economy, and performance of the key macro indicators in Egypt, according to the latest data available until the date of publication of this report.

Slow recovery fraught with huge financial risks and more uncertainty

As the global economy began to witness slight improvement as a result of the decline in the severe disruptions in supply chains and energy and food markets, and while monetary tightening began to bear fruit in easing the impact of inflation, it also caused financial sector turmoil, threatening instability, high debt levels, persistent inflation, and increasing uncertainty. Therefore, the IMF reduced its growth forecast issued in April 2023 by 0.1 percent, from its January expectations to settle at 2.8 percent in 2023, to rise to about 3 percent in 2024 compared to 4.3 percent in 2022. The slowdown in the global economy is mainly driven by expectations of a decline in growth in advanced economies, specifically, the United States, the euro area, and the United Kingdom, while growth in emerging markets and developing economies is expected to rise in 2023 (IMF 2023).[6]

Global inflation is expected to fall slowly from 8.7 percent in 2022 to 7 percent in 2023, as a result of the relative decline in global prices for oil and non-oil commodities, due to weak global demand and continued monetary tightening. [7] The World Bank Energy Price Index reached 111.1 points during the first quarter of 2023, down by 27 percent from its reading in 2022, but still 16 percent higher than its 2021 reading. The food commodity price index recorded 136.1 points in the same period, down by 50 percent compared to its reading in the first quarter of 2022 (World Bank Commodities Price Data 2023).

The decline in global supply chain disruptions, reopening of the Chinese economy, and the start of a decline in inflation levels led to a slight recovery in the PMI to record 49.6 points in March 2023, up 1 percent from its January reading. While the United States and the euro area grew slightly in March, China outperformed both, and India and Thailand saw the fastest growth rates. Contraction was concentrated in Japan, South Korea, and the United Kingdom (IHS Markit 2023).[8]

The Egyptian Economy

Standard & Poor's revised its outlook for the Egyptian economy from stable to negative, based on Egypt's high need for external financing and its delay in adopting structural reforms, which increases the pressures for further devaluation, while maintaining Egypt's credit rating at 'B/B' [9]. It was followed by Fitch Ratings, which downgraded the Egyptian economy from "B+" to "B" and revised its outlook downward from stable to negative. This is due to Egypt's high financing requirements, extreme uncertainty about the exchange rate, and decline in international reserves, in addition to the risks to debt sustainability in the medium term. [10]

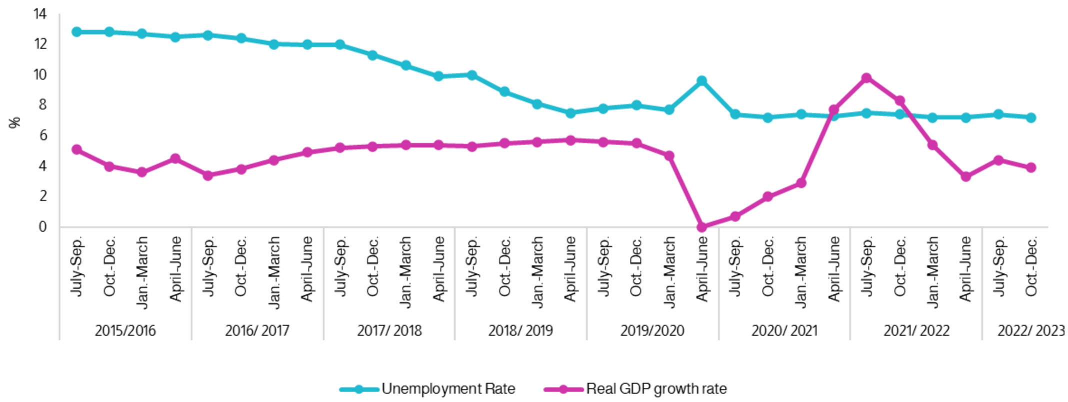
6. IMF. 2023. World Economic Outlook Update: Gloomy and More Uncertain. April, IMF.
7. World Bank commodity price indices for low- and middle-income countries (2010=100).
8. IHS Markit. 2023. JPMorgan Global Manufacturing PMI, April, IHS Markit.
9. Standard & Poor's, April 2023, available at: https://login.spglobal.com/oam/server/obrareq.cgi
10. Fitch rating, May 2023, available at: https://www.fitchratings.com/research/sovereigns/fitch-downgrades-egypt-to-b-outlook-negative-05-05-2023

The contraction in Egypt's non-oil private sector continued over the past two years, as evident by the PMI value, which remained below 50 points (neutral level), scoring 47.3 points in April 2023. This contraction is due to local and global factors. The former relates to the Central Bank of Egypt (CBE) raising the interest rate more than once to curb inflation, continued local supply chain disruptions with the escalation of prices and depreciation of the pound, and persistence of the problem of foreign currency shortage. The global factors are linked to the slowdown of the global economy and repercussions of the Russian-Ukrainian war (S&P Global 2023).[11]

The following section presents the latest developments in 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, the growth rate in Q2 of FY 2022/2023 was about 3.9 percent, a decline of 53 percent from the corresponding quarter and about 13 percent from the previous quarter. The unemployment rate recorded about 7.2 percent during the second quarter of 2022/2023, down 0.2 percent from the previous quarter of the same year and the corresponding quarter of FY 2021/2022 (Figure 1).

Figure 1. Real GDP Growth and Unemployment Rate

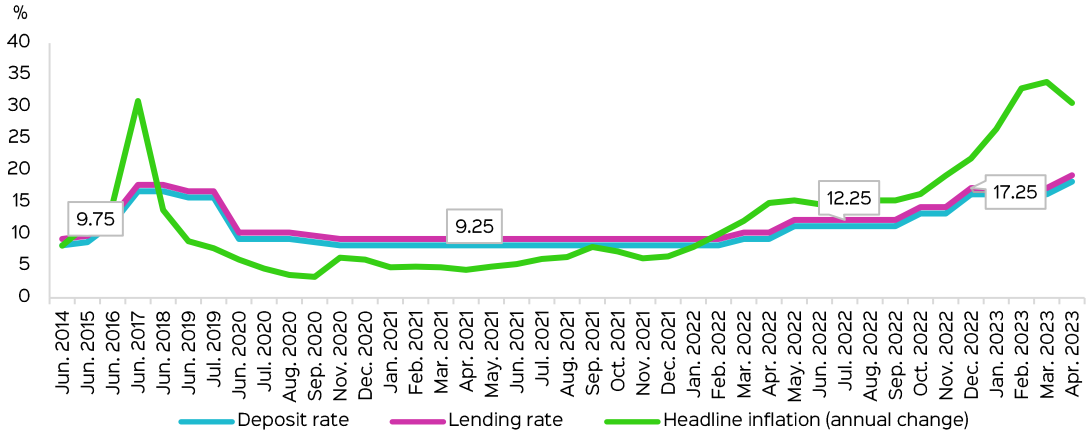


Sources: Ministry of Planning and Economic Development, Central Agency for Public Mobilization and Statistics (CAPMAS), Quarterly Labor Force Survey, various issues.

- The annual rate of inflation fell slightly to record 30.6 percent in April, after rising continuously since the beginning of 2022, reaching its peak in March (32.7 percent). Despite its slight decline, the inflation rate is twice that recorded in April 2022 due to the depreciation of the pound against foreign currencies and the latter's shortage, in addition to escalation of seasonal demand for foodstuffs during the month of Ramadan, and the increase in gasoline prices by the decision of Egypt's Fuel Automatic Pricing Committee on March 2, 2023 (Figure 2) (CAPMAS 2023).[12]

11. S&P Global. 2023. Purchasing Managers Index (PMI).
12. Central Agency for Public Mobilization and Statistics (CAPMAS) 2023, Monthly bulletin of the consumer price index, April 2023, March issue.

Figure 2. Inflation and Key Interest Rates



Sources: CBE, Monthly Statistical Bulletin, various issues; CBE Monetary Policy Press Release on October 27, 2022; CAPMAS, Monthly Consumer Price Bulletin, various issues.

- The CBE's Monetary Policy Committee decided, in its meeting on March 30, 2023, to raise the overnight deposit and lending rates as well as the rate of the main operation of the Central Bank by 200 basis points to 18.25 percent, 19.25 percent, and 18.75 percent respectively. The credit and discount rate was also raised by 200 basis points to 18.75 percent.[13] Thus, the total increase since March 2022 is ten percentage points.
- **In terms of foreign transactions,** the balance of payments recorded in H1 of FY 2022/2023 a total surplus of $599.1 million, compared to a total deficit of about $14 million in the corresponding period of the previous fiscal year (2021/2022). The following are more details about developments in the most important items of the balance of payments:[14]

1. **Current account:** The current account deficit decreased by 77.2 percent from its value during the previous fiscal year, recording $1.8 billion in H1 of FY 2022/2023. The decrease in the deficit is due to the following:

   - The deficit in the non-oil trade balance declined by about $6.5 billion (27.3 percent), to record $17.3 billion due to the decline in non-oil imports by about 17.3 percent to $30.2 billion compared to the corresponding period of the previous fiscal year, while non-oil exports amounted to $12.9 billion.
   - The petroleum trade balance achieved a surplus of about $1.8 billion (compared to about $2.1 billion in the corresponding period of the previous year), which is attributed to an increase in petroleum exports by $690.6 million (due to an increase in natural gas exports by about $2.0 billion as well as a decrease in crude oil exports by $690.5 million) and in petroleum products by about $652.4 million), with an increase in petroleum imports by $980.3 million (due to an increase in imports of petroleum products by about $554.1 million, and natural gas by about $382.4 million).
   - Tourism revenues improved by 25.7 percent, recording $7.3 billion during H1 of FY 2022/2023, compared to $5.8 billion in the corresponding period of 2021/2022, due to increased number of tourist nights and the number of visiting tourists.

13. CBE Monetary Policy Committee press release, March 30, 2023.
14. CBE, press release on the performance of the balance of payments during FY 2021/2022.

- Traffic revenues from the Suez Canal increased by 17.8 percent to about $4 billion (compared to about $3.4 billion), which contributed to an increase in transport revenues by 45.1 percent to $6.8 billion (compared to about $4.7 billion).

Improvement in the current account deficit was offset by the following:

- Remittances of Egyptians working abroad decreased by 23 percent to about $12 billion.
- The investment income deficit increased by 25.5 percent to about $8.9 billion during FY 2022/2023.

2. **Capital and Financial Account** recorded a net inflow of about $2.8 billion (compared to about $11.4 billion) due to the following developments:

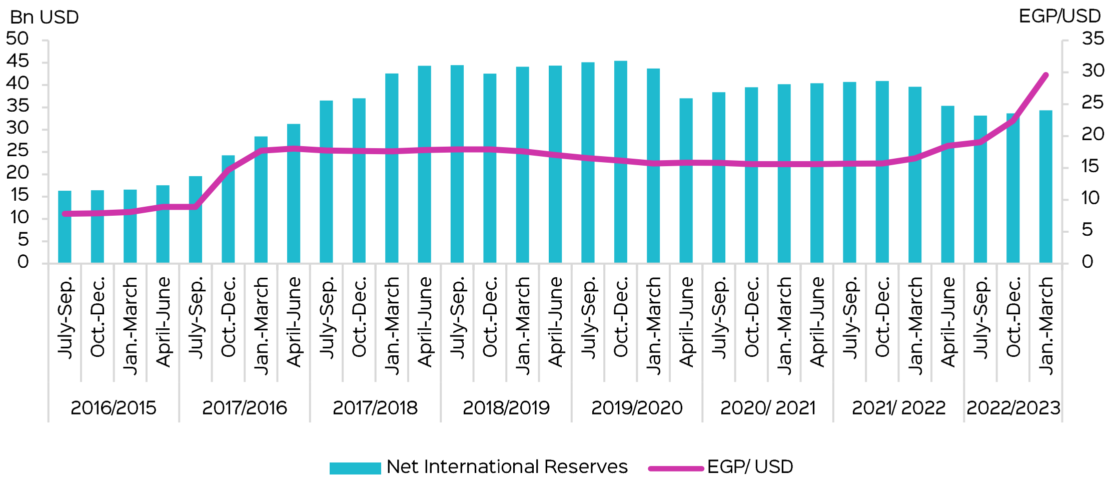
    - Increased net outflow of investments in the securities portfolio to $3 billion (from $2.5 billion), coinciding with the continued deflationary monetary policies pursued by the US Federal Reserve that led to the exit of hot money from emerging markets.
    - Banks' net foreign assets increased by $1.8 billion (outflow), compared to a decline of $8.3 billion (inflow) in the corresponding period.
    - The net inflows of foreign direct investment (FDI) increased to about $5.7 billion, compared to about $3.3 billion during H1 of FY 2022/2023. Net FDI inflows in non-oil sectors rose to about $6.6 billion due to an increase in both net incoming investments to establish new firms or increase the capital of existing ones, and the proceeds of selling firms and productive assets to non-residents. Retained net earnings also increased while net outflows of FDI in the petroleum sector declined to $277.9 million.
    - The change in the Central Bank's obligations recorded a net inflow of about $1.5 billion (compared to about $2.3 billion).

The balance of Egypt's external debt amounted to about $155 billion at end of September 2022, down by 0.5 percent from its value in September 2021 due to the decline in the exchange rates of most borrowed currencies against the US dollar by about $2.7 billion, and the increase in net loans and facilities by about $2 billion. External debt service amounted to about $4.8 billion during the period July-September 2022/2023 (installments paid are about $3.2 billion, and interest paid is about $1.6 billion). The ratio of external debt balance to GDP was about 32.4% by end of September 2022.

Net foreign reserves increased by about $104 million to about $34,551 billion at end of April 2023, compared to about $34,447 billion at end of March 2023. Thus, average foreign currency reserves during the first quarter of 2023 rose by about 2 percent compared to the previous quarter, though still about 13 percent below their value in the corresponding quarter of 2022 (Figure 3).

The Egyptian pound slipped further against the US dollar, recording EGP 30.800 per dollar in March 2023, down by about 33 percent during the first quarter of 2023 compared to the previous quarter, and by about 88 percent compared to the first quarter of 2022 (Figure 3).

Figure 3. Net International Reserves and Exchange Rate



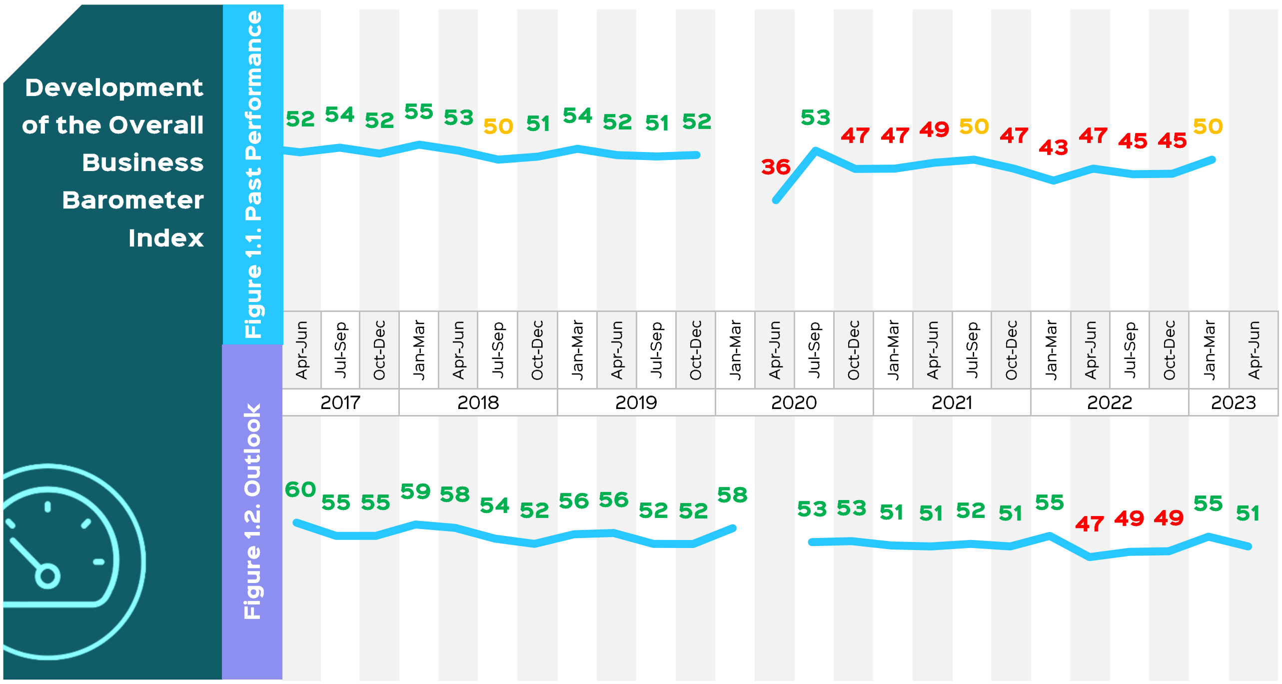
Sources: CBE, Monthly Statistical Bulletin, various issues; and the Ministry of Finance (MoF), Monthly Financial Report, various issues.

Business Barometer Index

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

1.1. Changes in the Overall Index

The business community still faces an unfavorable mix of local and global conditions. Despite the decrease in the severity of disruptions in global supply chains, and the slight improvement in inflation rates, there are still huge local difficulties, most importantly, the decline in demand due to high inflation, difficulty in obtaining hard currency, and the large difference between the official and unofficial exchange rates and resulting market instability (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 performance evaluation index scored 50 points (neutral level) during the current quarter, reflecting mainly the large jumps in the input price and wage indices, and hence the final product price index, i.e., it is not driven by improvement in the other factors, namely production, exports, sales, and level of capacity utilization indices.

Affected by the continued unfavorable conditions facing the business community, the outlook index for the quarter (April - June 2023) recorded 51 points, which is one point higher than the neutral level, and lower than both the previous and corresponding quarters. The index values reflect expectations by most firms of stable rather than improved performance during the next quarter (Figure 1.2).[15]

15. For more details, see Table A3.

1.2. The Index according to Firm Size

The BBI for large firms scored 47 points (3 points below the neutral level), while that for small and medium enterprises (SMEs) scored 53 points, exceeding the neutral level by three points. In general, performance of all firms of all sizes during the reviewed quarter is relatively better compared to the previous and corresponding quarters for price reasons as indicated below (Figure 1.3).

Large Firms	Figure 1-3. BB Index According to Firm Size – Past Performance	SMEs
47	Jan – Mar 2023	53
45	Oct – Dec 2022	45
46	Jan – Mar 2022	40

Source: Survey results.

The outlook index for large firms exceeded the neutral level by two points - albeit lower than both the previous and corresponding quarters. The SMEs' outlook index stabled at the neutral level, and 4 points lower than the previous quarter, but higher than the corresponding quarter (Figure 1.4).[16]

Large Firms	Figure 1.4. BB Index According to Firm Size - Outlook	SMEs
52	Apr – Jun 2023	50
56	Jan – Mar 2023	54
48	Apr – Jun 2022	45

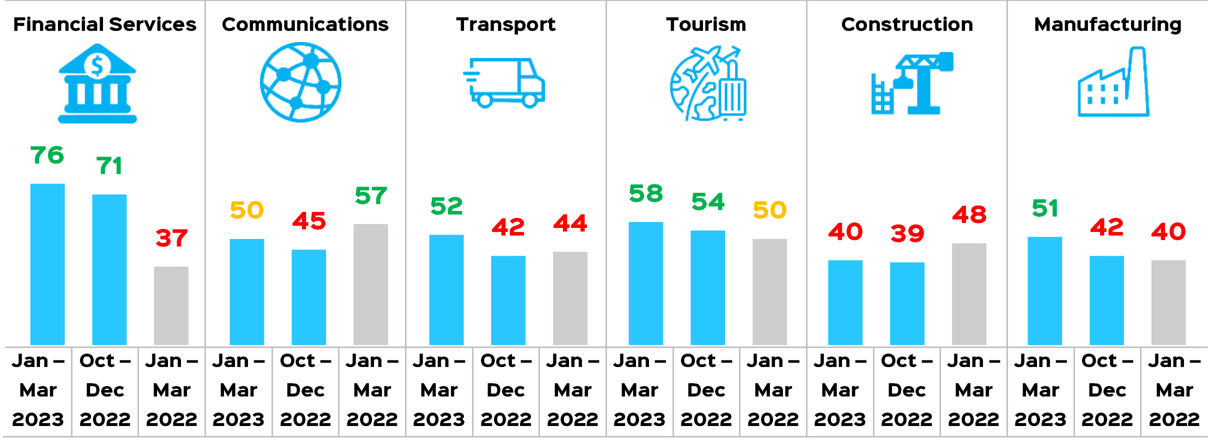
Source: Survey results.

1.3. The Index according to Economic Sectors

The BBI of most economic sectors, specifically manufacturing, tourism, transport and financial services registered values greater than the neutral level, and higher than both the previous and corresponding quarters. The construction sector registered values below the neutral level, and the telecommunications sector recorded values at the neutral level (Figure 1.5).

16. For more details, see Table A3.

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



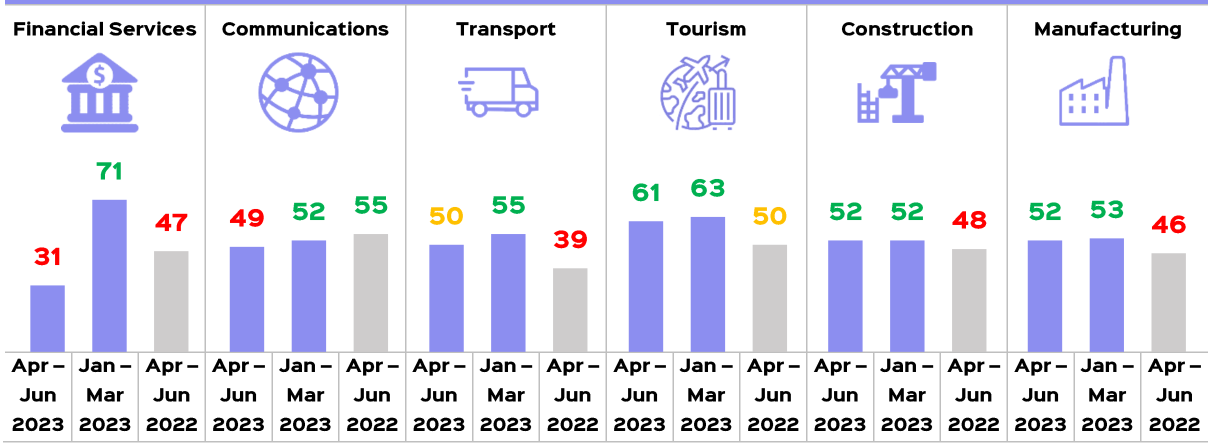
Source: Survey results.

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

- The high index values for the **manufacturing and transport sectors** reflect the rising indices of wages and input prices, and hence the index of final product prices. Meanwhile, the values of the remaining indices of production, sales, exports, and capacity utilization fell below the neutral level. The decline was more significant in the construction sector.
- The **financial services sector** was the highest performer during the reviewed quarter. Its index values exceeded the neutral level by 26 points with a performance higher than the previous and corresponding quarters. This improvement is attributed to higher trading rates, especially after the liberalization of the exchange rate, which prompted market makers to inject money into the market to invest in stocks. Also, the liberalization of the exchange rate combined with the high interest rate led to a decrease in the value of Egyptian assets, which attracted many Arab and foreign investment funds to the Egyptian market to acquire firms.
- The **tourism sector** registered an improvement in performance, as its index exceeded the neutral level by 8 points, a better performance than the previous and corresponding quarters. This improvement is mainly due to the recovery of foreign tourism, along with the Chamber of Tourism increasing the number of pilgrims. Domestic tourism has also flourished after the opening of many museums and cultural centers recently.
- The **construction sector** performance deteriorated the most during the reviewed quarter, recording a decrease of 10 points from the neutral level. However, this performance is better than the previous quarter by one point, and the corresponding quarter by 8 points. The deteriorating performance is due to weak liquidity in the market and the high prices of imported raw materials. The sector still suffers from difficult licensing procedures, weak demand and increased tax burdens.

The outlook index varied across sectors. Manufacturing and construction recorded values slightly above the neutral level, while the transport sector stabilized at the neutral level. Firms in the tourism sector reported the highest expectations among all sectors. Finally, the outlook index values for the telecommunications and financial services came below the neutral level.

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 compared with the previous and corresponding quarters:

- The outlook index for the **tourism sector** registered the highest values across all sectors, exceeding the neutral and corresponding levels by 11 points. However, these values are lower than the previous quarter by two points. This may be attributed to the expected recovery in tourism with the advent of summer, holidays and the Hajj season.
- Outlook of the **manufacturing and construction sectors** exceeded the neutral level by two points, but was close to the previous quarter and higher than the corresponding quarter, reflecting firms' expectations of stable performance in production, sales, exports, investment and employment indicators, and the continued rise in price and input indices. This is due to firms' expectations that the problems they are facing will continue, such as importing raw materials the high prices of raw materials and freight, which have become a significant burden, declined demand due to higher inflation, and the difficulties banks face in obtaining foreign currency.
- Outlook of the **transport sector** during the next quarter stabilized at the neutral level, i.e., lower than the previous quarter by 5 points and better than the corresponding quarter by 11 points. This reflects expectations of a low, stable performance for all indices due to import difficulties; and absence of indices indicating an increase in the volume of business, with expectations of an increase in the exchange rate of the dollar and higher inflation, which reduce the volume of business, in addition to continuation of geopolitical turmoil and its negative effects on global trade as a whole.
- The outlook of the **financial services sector** regarding the next quarter was negative. The outlook index slipped below the neutral level by 19 points, with values lower than both the previous and corresponding quarters. This could be attributed to speculations that market makers will stop trading, which led to a decline in the value of shares and setting the market for a decline in share prices with the slow offering program, many holidays and the decrease in the number of working hours during the study period. As the stock market is a speculative market with a group of market makers controlling it, when the trading rates and the value of the shares rise, they sell all at once until the shares fall again and they make profits, then after the shares fall, they buy again and make profits as well.
- The outlook index for the **telecom sector** is one point lower than the neutral level, 3 points lower than the previous quarter, and 6 points lower than the corresponding quarter. This indicates continued difficulties facing the sector, including import problems and delayed customs release of the sector's supplies due to security measures.

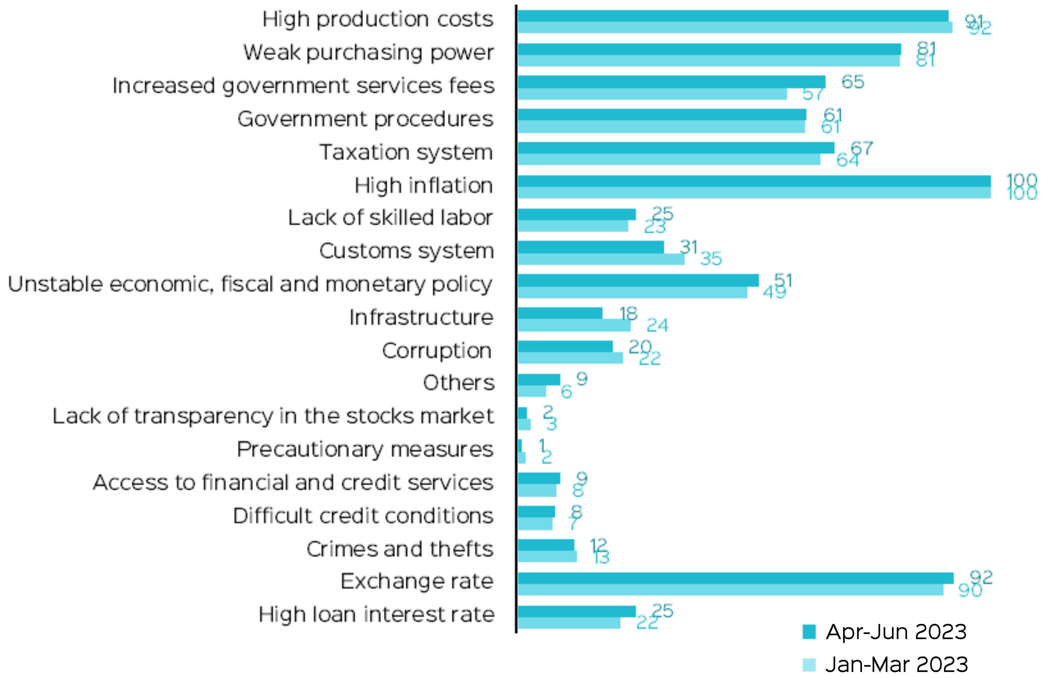
II. Constraints that Faced the Business Community during the quarter under study, and Priorities of improving the Business Climate from the Perspective of the Sample of Firms

There is consensus among all firms that high inflation, unstable exchange rate and high production costs are the biggest constraints they face during the quarter under study

Figure 2.1 shows the main constraints that faced the business community during the quarter under review (January-March 2023), 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 topped the list of constraints to all firms in an unprecedented way, due to the aforementioned local and global reasons. **Exchange rate instability** followed, causing the business community to suffer, especially since most of the production requirements are imported. Multiple exchange rates in the market distorted prices and increased market turmoil. **High production costs** came next as a result of the exorbitant increase in the prices of production requirements, especially the imported ones, the rise in sea freight costs, disruption of global supply chains, shortage of raw materials and their high prices, in addition to the repeated increases in energy and transportation prices, as well as weak purchasing power.

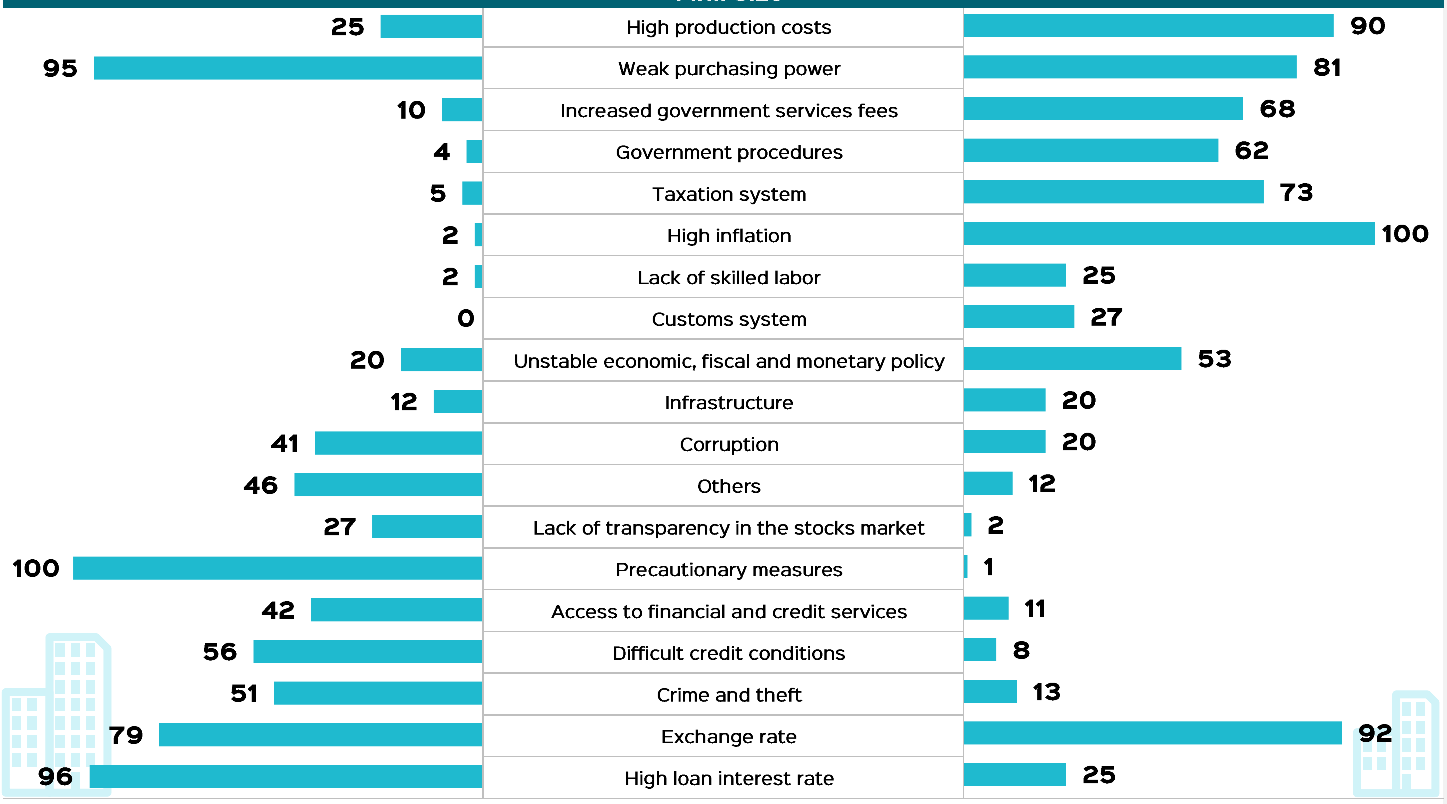
Finally, some firms reported that the delay in the government offering program negatively affects the business environment and may reflect the State's lack of commitment to making room for the private sector.

2.1. Constraints according to Firm Size

Comparing the constraints faced by firms during the quarter under study with those in the previous quarter, **inflation, high production costs, exchange rate instability,** and **weak purchasing power** remained the biggest constraints facing all firms of all sizes. The severity of the remaining constraints varied across firms, albeit the suffering of **SMEs** was more severe.

Figure 2.2 shows the main constraints faced by large, small and medium firms alike during the quarter under study (January-March 2023), arranged in a descending order of severity from the point of view of the sample of firms.

Large Firms | **Figure 2.2. Constraints Facing the Business Community during the Quarter under Review according to Firm Size** | **SMEs**



Source: Survey results.

2.2. Constraints according to Economic Sectors

There is no significant variation in constraints at the level of the economic sectors. **High inflation** was the biggest constraint facing **manufacturing, tourism, transportation,** and **communications. Unstable economic, financial and monetary policies** stood as the biggest constraints for the **financial services sector. High production costs** were the most significant constraint for the construction sector, while exchange rate instability was an additional constraint for the **transportation and communications sectors** (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	84	96	82	100	99
Increased government services fees	19	63	70	79	57	63
Government procedures	0	75	62	54	60	65
Weak purchasing power	0	50	96	64	89	90
Taxation system	81	63	66	92	40	53
Lack of skilled labor	0	9	13	0	17	38
High inflation	36	100	100	100	94	100
Customs system	0	47	36	5	6	40
Unstable economic, fiscal and monetary policy	100	47	4	26	13	50
Corruption	0	6	21	0	11	28
Infrastructure	0	0	28	0	13	25
Precautionary measures	0	0	0	0	4	2
Others	56	0	0	0	0	2
Crime and theft	0	0	17	0	11	16
Access to financial and credit services	0	28	0	0	6	12
Difficult credit conditions	0	22	0	0	4	10
Exchange rate	6	100	100	87	98	96
High loan interest rate	0	50	0	79	8	23
Lack of transparency in the stocks market	0	0	0	0	2	3

Source: Survey results.

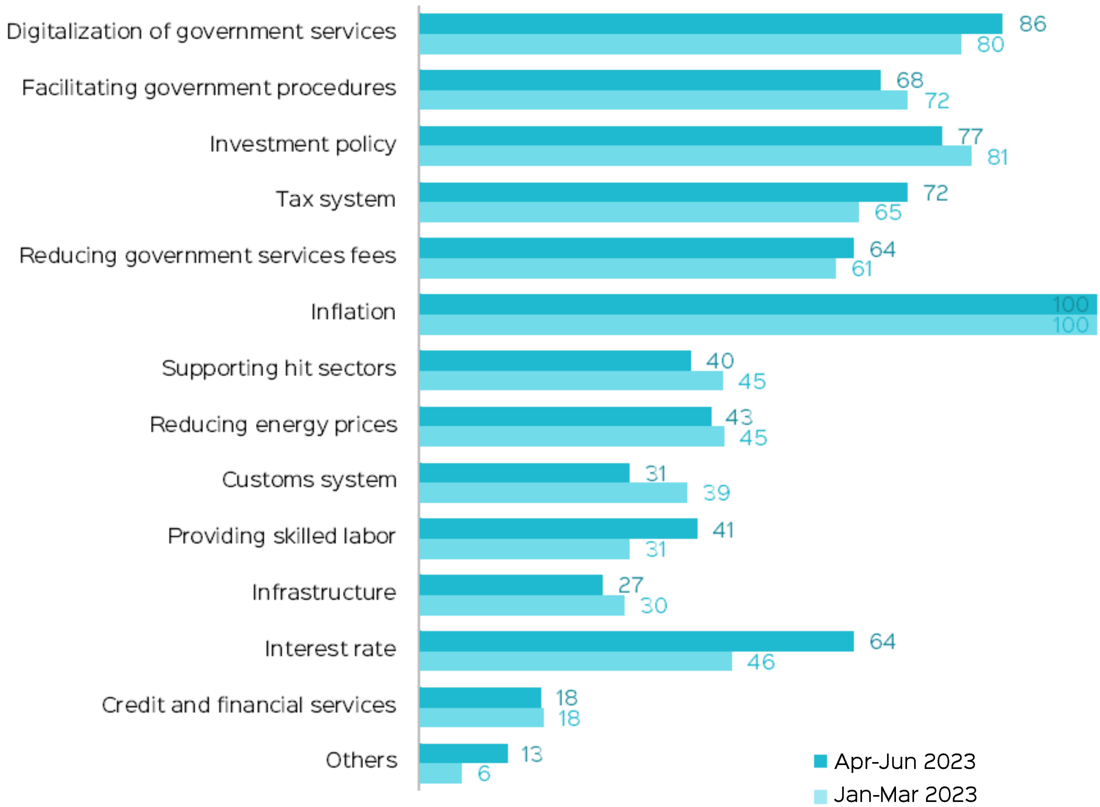
Priorities to improve the Business Climate in Egypt (according to the Opinions of the Sample of Firms)

Key priorities to focus on: Addressing high inflation, the State's attention to government investment policies, and improving mechanisms for digital transformation of services. Priorities varied according to firm size and economic sector

Addressing **high inflation** continued to top priorities that must be focused on during the coming period, because of its negative impact on all sectors, followed by improvement of investment policies, with the need to engage representatives of the business community across various activities in developing a strategy to identify the target areas and the required policies. Improving **mechanisms of digital transformation of government services** remained a priority to improve the business climate in Egypt due to the need for facilitation of government procedures, elimination of bureaucracy, and reduction of the informal sector. The business community continued to demand reform of the tax system and limiting the increase in the tax base.

Figure 2.4. Priorities to Improve the Business Environment in Egypt

(A Normalized Index based on Significance of Priorities)

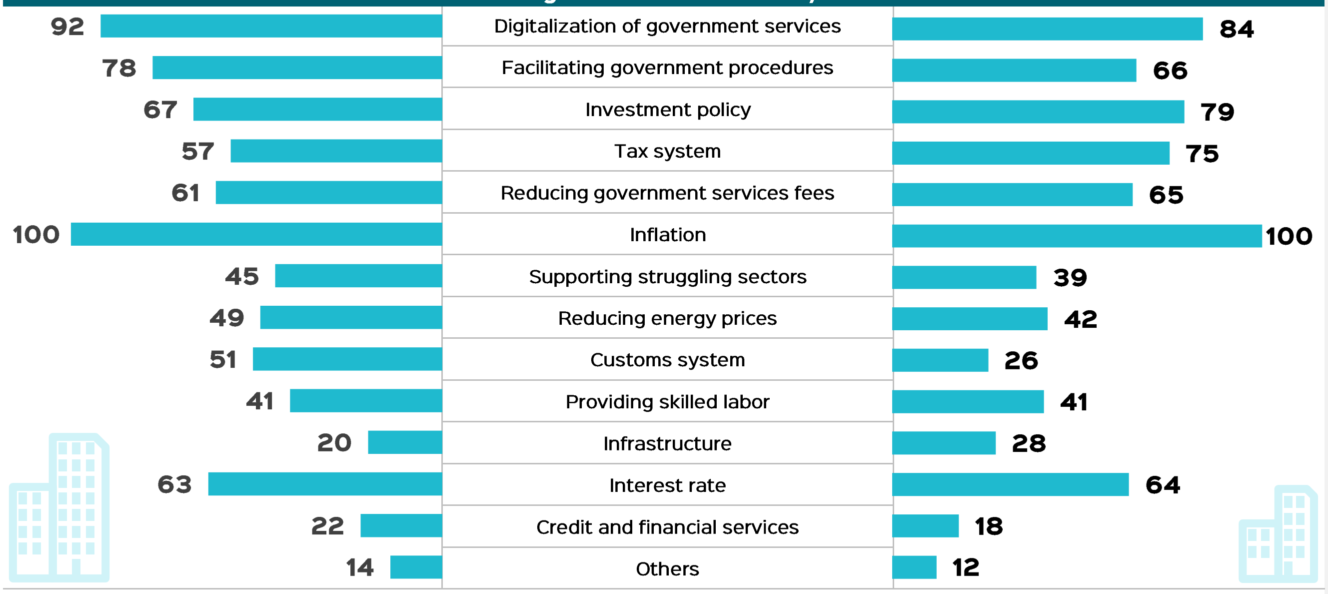


Source: Survey results.

1. *Priorities according to Firm Size*

- All firms agreed that finding solutions to address **high inflation** should be high on the list of priorities to improve the business climate.
- There is no significant difference in priorities among firms, although their order differs according to firm size. **Large firms** see that **paying attention to mechanisms of digital transformation** comes second, and **facilitating government procedures** comes third, with **investment policies** ranked fourth, and **interest rate** in fifth place. According to **SMEs**, **paying attention to the mechanisms of digital transformation** comes second, **investment policies** comes third, while **improving the tax system** ranks fourth, and facilitating government procedures comes in fifth place (Figure 2.5).

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



Source: Survey results.

2. Priorities according to Economic Sectors

There is no discrepancy in priorities among sectors. **Finding solutions to address high inflation** topped priorities for **manufacturing, construction, tourism, financial services, and communications. The transport sector** sees **reform of the customs system** as a top priority, since the delay in customs procedures affects transport traffic, reducing demand from firms that import raw materials and production requirements. **Attention to digital transformation mechanisms** poses an additional priority for the **communications sector**.

Figure 2.6. Priorities to Improve the Business Environment in Egypt According to Firm Size

(A Normalized Index based on Significance of Priorities)

	Financial Services	Communi-cations	Transport	Tourism	Construc-tion	Manufac-turing
Digitalization of government services	84	100	71	100	88	82
Streamlining government procedures	0	75	73	60	89	79
Investment policy	95	34	76	5	79	87
Tax system	94	63	64	95	68	63
Reducing government services fees	30	44	69	60	70	73
Inflation	100	100	87	100	100	100
Supporting struggling sectors	0	0	85	3	61	47
Reducing energy prices	0	0	80	0	59	55
Customs system	0	47	100	3	5	41
Providing skilled labor	0	25	64	0	54	51
Infrastructure	0	0	31	0	41	37
Interest rate	94	69	29	33	46	71
Credit and financial services	0	19	20	0	20	25
Others	63	0	0	0	0	9

Source: Survey results.

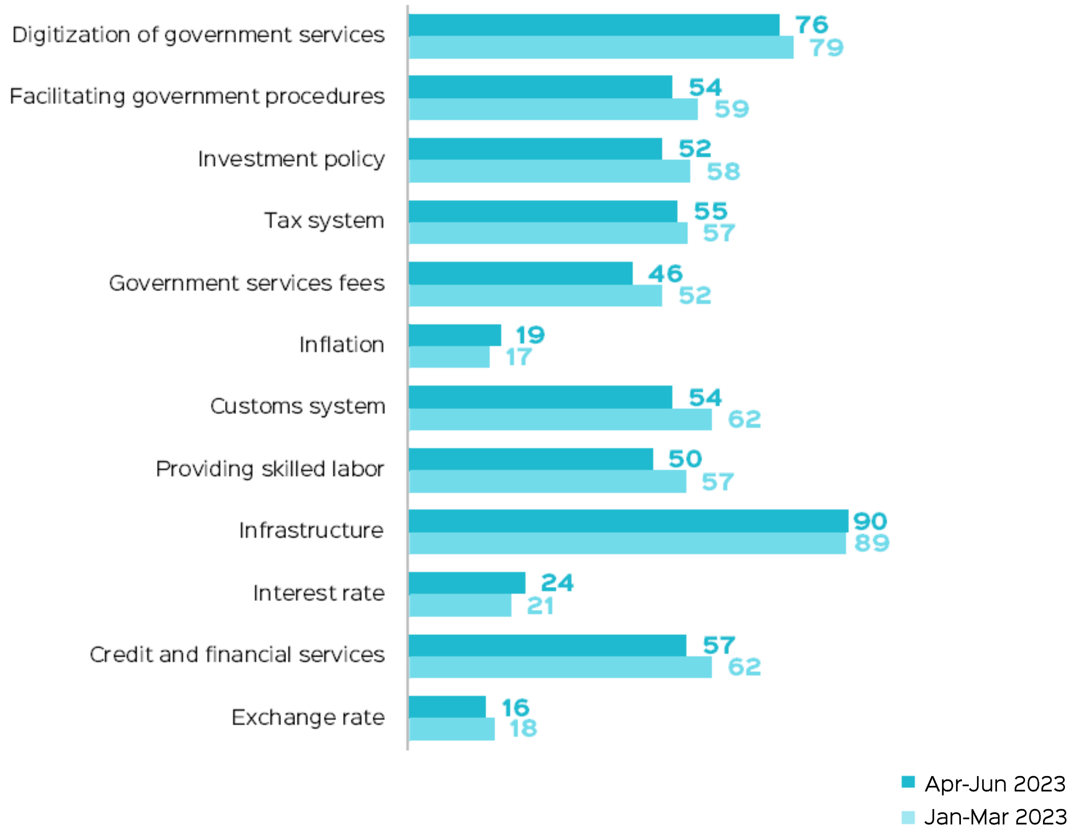
The outlook of the business community regarding aspects of improvement based on its view of the Government's current orientation

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

In light of the government's projects and current orientation, 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 as a result of the various efforts announced in this regard, followed by improvement of the financial and credit services, and improvement in the tax and 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 Outlook according to Sub-indicators

3.1. Performance Evaluation

Most performance evaluation indices declined for all firms, with the severest decline among large firms

The indices of production, domestic sales, and capacity utilization recorded values below the neutral level, which led the commodity inventory index to rise, recording values higher than the neutral level for large firms. The exports index recorded values higher than the neutral level for SMEs, but fell by about 19 points below the neutral level for large firms.

Comparing compared with the previous and corresponding quarters for **large firms**, the production index increased during the current quarter compared to the previous quarter by 4 points, but is lower than the corresponding quarter by one point. However, the domestic sales and exports indices scored lower values than the previous and corresponding quarters. The capacity utilization index fell below its values in the previous quarter, but is better than the corresponding quarter.

SMEs recorded an increase in the indices of production, domestic sales, and exports with better values than the previous and corresponding quarters, but the capacity utilization index recorded lower values than the previous quarter, though better than the corresponding quarter.

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

Source: Survey results.

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

A rise in the prices of inputs and a significant rise in the wage index, resulting in rising prices of final products

All firms agreed on an increase in the indices of production inputs and wages compared to the previous and corresponding quarters, which led to an increase in the index of final product prices for all firms, exceeding the previous and corresponding quarters, noting the greater ability of large firms to pass the increase through to consumers more than SMEs.

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

Large Firms				SMEs
85	Jan - Mar 2023	Final Product Prices	Jan - Mar 2023	75
73	Oct - Dec 2022		Oct - Dec 2022	74
77	Jan - Mar 2022		Jan - Mar 2022	69
0	Jan - Mar 2023	Input Prices*	Jan - Mar 2023	0
0	Oct - Dec 2022		Oct - Dec 2022	0
0	Jan - Mar 2022		Jan - Mar 2022	0
88	Jan - Mar 2023	Wages	Jan - Mar 2023	96
51	Oct - Dec 2022		Oct - Dec 2022	52
88	Jan - Mar 2022		Jan - Mar 2022	66

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.

Lack of improvement in the investment and employment indices for all firms

The investment index values for large firms exceeded the neutral level by one point and were better than the previous quarter by two points, but lower than the corresponding quarter by one point. SMEs' investment index recorded values below the neutral level by one point, but one point higher than the previous quarter, and lower than the corresponding quarter by two points. The employment index for all firms achieved lower values than the neutral level but similar to the previous quarter, and lower than the corresponding quarter (Figure 3.3).

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

Large Firms				SMEs
51	Jan - Mar 2023	Investment	Jan - Mar 2023	49
49	Oct - Dec 2022		Oct - Dec 2022	48
52	Jan - Mar 2022		Jan - Mar 2022	51
49	Jan - Mar 2023	Employment	Jan - Mar 2023	48
49	Oct - Dec 2022		Oct - Dec 2022	48
51	Jan - Mar 2022		Jan - Mar 2022	49

Source: Survey results.

3.2. Outlook

All firms expect a decline in most indices of economic activity

The decline in the performance of large firms during the current quarter did not preclude their optimism about improving performance in the next quarter. The outlook index for all variables recorded values higher than the neutral level, except for inventory, which stabilized at the neutral level. The expectations indices for production, exports and capacity utilization were lower than the previous quarter, but better than the corresponding quarter. The expectations for the domestic sales index were better than the corresponding quarter, while those for inventory were one point below the previous quarter.

As for SMEs, the outlook index for production, domestic sales, and capacity utilization recorded values below both the neutral level and those of the previous quarter, but better than the corresponding quarter. However, the outlook index for exports recorded values higher than both the neutral level and those of the corresponding quarter, but lower than the previous quarter.

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

Large Firms				SMEs
54	Apr – Jun 2023	Production	Apr – Jun 2023	47
61	Jan - Mar 2023		Jan - Mar 2023	55
46	Apr – Jun 2022		Apr – Jun 2022	44
56	Apr – Jun 2023	Domestic Sales	Apr – Jun 2023	48
56	Jan - Mar 2023		Jan - Mar 2023	53
42	Apr – Jun 2022		Apr – Jun 2022	43
56	Apr – Jun 2023	Exports	Apr – Jun 2023	59
57	Jan - Mar 2023		Jan - Mar 2023	67
50	Apr – Jun 2022		Apr – Jun 2022	45
55	Apr – Jun 2023	Capacity Utilization	Apr – Jun 2023	47
57	Jan - Mar 2023		Jan - Mar 2023	53
45	Apr – Jun 2022		Apr – Jun 2022	44
50	Apr – Jun 2023	Inventory*	Apr – Jun 2023	51
50	Jan - Mar 2023		Jan - Mar 2023	47
51	Apr – Jun 2022		Apr – Jun 2022	51

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.

It is expected that the price index of finished products will continue to rise, albeit sharply lower than the previous and corresponding quarters

All firms expect an increase in the prices of finished products during the next quarter, albeit sharply lower than the previous and corresponding quarters. In contrast, firms expect the input price index to stabilize during the upcoming quarter compared to the large increases it witnessed during the previous and corresponding quarters. As for the wage index, SMEs expect wages to remain stable in the coming quarter, while large firms expect a slight increase therein. However, the wage index values for all firms are much lower than those of the previous quarter but close to those of the corresponding quarter.

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

Large Firms				SMEs
65	Apr – Jun 2023	Final Product Prices	Apr – Jun 2023	62
73	Jan - Mar 2023		Jan - Mar 2023	66
70	Apr – Jun 2022		Apr – Jun 2022	65
34	Apr – Jun 2023	Input Prices*	Apr – Jun 2023	31
20	Jan - Mar 2023		Jan - Mar 2023	20
22	Apr – Jun 2022		Apr – Jun 2022	10
54	Apr – Jun 2023	Wages	Apr – Jun 2023	50
81	Jan - Mar 2023		Jan - Mar 2023	78
51	Apr – Jun 2022		Apr – Jun 2022	52

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.

Expectations of stable investment and employment indices for all firms

All firms expect the investment and employment indices to remain stable, as there is no significant difference compared to the previous and corresponding quarters (Figure 3.6).

Figure 3.6. Price and Production Costs Indices by Firm Size - Outlook

Large Firms				SMEs
50	Apr – Jun 2023	Investment	Apr – Jun 2023	50
50	Jan - Mar 2023		Jan - Mar 2023	49
50	Apr – Jun 2022		Apr – Jun 2022	50
50	Apr – Jun 2023	Employment	Apr – Jun 2023	51
49	Jan - Mar 2023		Jan - Mar 2023	50
50	Apr – Jun 2022		Apr – Jun 2022	50

Source: Survey results.

Tables Index

Table A1: Survey Results: Summary of all firms' performance evaluation at the sectoral level (January – February – March 2023)[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	51	Higher	Same	Low	40	Higher	Same	Low	58	Higher	Same	Low	52	Higher	Same	Low	50	Higher	Same	Low	76
Economic activity																								
Production	30	15	55	**39**	7	14	79	**19**	40	30	30	**54**	8	33	58	**31**	25	38	38	**45**	94	6	0	**94**
Domestic sales	29	12	59	**36**	7	14	79	**19**	0	67	33	**40**	8	42	50	**35**	25	38	38	**45**	94	6	0	**94**
Exports	41	14	45	**48**	—	—	—	—	100	0	0	**100**	—	—	—	—	33	67	0	**60**	—	—	—	—
Inventory	22	37	41	**57**	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Capacity utilization	30	15	55	**39**	7	14	79	**19**	40	30	30	**54**	8	33	58	**31**	25	38	38	**45**	94	6	0	**94**
Prices																								
Final product prices	97	3	0	**97**	71	29	0	**78**	60	40	0	**71**	50	50	0	**67**	50	50	0	**67**	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	92	8	0	**92**	93	7	0	**93**	100	0	0	**100**	100	0	0	**100**	88	13	0	**89**	100	0	0	**100**
Primary inputs																								
Investment	2	92	7	**49**	0	93	7	**48**	0	100	0	**50**	0	100	0	**50**	13	88	0	**53**	0	100	0	**50**
Employment	3	88	8	**49**	0	79	21	**44**	0	100	0	**50**	0	100	0	**50**	0	88	13	**47**	0	100	0	**50**

Table A2: Survey Results: Summary of all firms' expectations at the sectoral level (April – May – June 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	52	Higher	Same	Low	52	Higher	Same	Low	63	Higher	Same	Low	50	Higher	Same	Low	49	Higher	Same	Low	76
Economic activity																								
Production	23	58	18	**52**	14	79	7	**52**	60	40	0	**71**	0	100	0	**50**	0	88	13	**47**	6	0	94	**6**
Domestic sales	25	53	22	**51**	21	79	0	**56**	100	0	0	**100**	0	100	0	**50**	0	88	13	**47**	6	0	94	**6**
Exports	45	41	14	**61**	—	—	—	—	0	100	0	**50**	—	—	—	—	0	100	0	**50**	—	—	—	—
Inventory	8	69	24	**55**	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Capacity utilization	23	58	18	**52**	14	86	0	**54**	50	50	0	**67**	0	100	0	**50**	0	88	13	**47**	6	0	94	**6**
Prices																								
Final product prices	60	40	0	**71**	50	50	0	**67**	30	70	0	**59**	8	92	0	**52**	13	88	0	**53**	0	100	0	**50**
Intermediate product prices	63	37	0	**27**	50	50	0	**33**	0	100	0	**50**	—	—	—	—	25	75	0	**43**	—	—	—	—
Wage level	3	97	0	**51**	7	93	0	**52**	0	100	0	**50**	0	100	0	**50**	14	86	0	**54**	0	100	0	**50**
Primary inputs																								
Investment	0	98	2	**50**	0	100	0	**50**	0	100	0	**50**	0	100	0	**50**	0	100	0	**50**	0	100	0	**50**
Employment	8	92	0	**52**	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) (January – February – March 2023)[1]

Variable	SMEs				Large Firms			
	Percentage			Index [2]	Percentage			Index [2]
	Higher	Same	Low	53	Higher	Same	Low	47
Economic activity								
Production	37	17	46	**46**	23	23	55	**37**
Domestic sales	33	20	47	**44**	18	23	59	**33**
Exports	65	24	12	**71**	25	8	67	**31**
Inventory	30	41	29	**50**	24	38	38	**55**
Capacity utilization	37	17	46	**46**	23	23	55	**37**
Prices								
Final product prices	67	33	0	**75**	82	18	0	**85**
Intermediate product prices	100	0	0	**0**	100	0	0	**0**
Wage level	96	4	0	**96**	86	14	0	**88**
Primary inputs								
Investment	0	96	4	**49**	9	86	5	**51**
Employment	2	90	8	**48**	0	95	5	**49**

Table A4: Survey Results: Summary of all firms' expectations (by size) (April – May – June 2023)[1]

Variable	SMEs				Large Firms			
	Percentage			Index [2]	Percentage			Index [2]
	Higher	Same	Low	50	Higher	Same	Low	52
Economic activity								
Production	18	55	27	**47**	23	68	9	**54**
Domestic sales	22	51	27	**48**	32	55	14	**56**
Exports	35	59	6	**59**	33	50	17	**56**
Inventory	10	78	12	**51**	14	71	14	**50**
Capacity utilization	17	56	27	**47**	23	73	5	**55**
Prices								
Final product prices	39	61	0	**62**	45	55	0	**65**
Intermediate product prices	55	45	0	**31**	48	52	0	**34**
Wage level	1	99	0	**50**	14	86	0	**54**
Primary inputs								
Investment	0	99	1	**50**	0	100	0	**50**
Employment	5	95	0	**51**	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.