

Business Barometer

Issue 70

January - March 2024



**Performance evaluation during the period January - March 2024
and outlook for the period April - June 2024
from the business community's point of view**

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Business Barometer

Issue 70

January – March 2024

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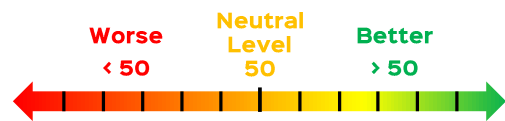
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Executive Summary

This report presents a periodic evaluation conducted by the Egyptian Center for Economic Studies (ECES) 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 January–March 2024 and its outlook for April–June 2024. It also draws a comparison with the results of the previous quarter (October–December 2023) and the corresponding quarter (January–March 2023). The following is a brief of the main results of the report for the quarter under study (January–March 2024), focusing on the results of the overall Business Barometer Index (BBI) and the most important developments regarding the macroeconomy.¹

Evaluating performance and exploring the outlook based on the overall index



A fragile recovery in the overall business performance index during the quarter under study, with mixed performance according to firm size and sector

- Performance indicators for small and medium-sized firms continue to deteriorate, with improvement in some indicators for large firms
- The performance of the tourism and communications sectors improved, while that of the rest of economic sectors—the main contributors to economic growth in Egypt—continued to deteriorate
- Inflation remains the most serious challenge facing all businesses

Survey results showed a fragile recovery in the overall business performance index during Q1 2024, after a decline that lasted more than three years. The period under study (January–March 2024) witnessed an increase in the index by two points from the neutral level, and achieved better values than the previous and corresponding quarters.

This improvement mainly reflects an increase in the production and exports of large firms, a decrease in their inventory of final goods, besides the higher wages across all firms. Meanwhile, all performance indicators for small and medium firms remained in decline, reflecting the severity of the many domestic challenges they face, including a shortage of foreign exchange resources, an exaggerated rise in the exchange rate outside the banking system, delayed customs clearance, in addition to the inflationary wave and its effects in terms of declining demand and rising production costs.

Sectorally, performance of the tourism and communications sectors improved, while that of the remaining economic sectors – the main contributors to economic growth – continued to deteriorate, with all recording values less than the neutral level. The financial services sector witnessed the lowest performance during the quarter under study due to negative impact of the Central Bank’s decisions to liberalize the exchange rate and raise interest rates on trading volumes on the Egyptian Stock Exchange.

¹ The survey was conducted during the period January 2–February 8, 2024.

Key constraints facing the business community during the quarter under study:

The surveyed firms agreed that high inflation, challenges related to the exchange rate, and conflicting economic policies are the most severe constraints facing all firms, regardless of size and sector.

Although the performance index of the communications and tourism sectors improved during the quarter under study, these two sectors face many constraints that inhibit their ability to grow, followed by the manufacturing sector, which faces many other challenges, including higher fees on government services, and difficulty of procedures in dealing with government agencies.

Outlook: The overall outlook index during the quarter April–June 2024 exceeded the neutral level by 7 points, achieving higher values than the previous and corresponding quarters. This increase reflects the optimism of all firms regarding production, sales, exports, and capacity utilization. It also reflects their expectations that raw materials will be sufficiently available for the production process as a result of measures that brought the exchange rate under control, availability of hard currency, and undertaking more customs releases. The increase also echoes their expectations of a greater decline in the prices of finished products.

Priorities for improving the business environment in Egypt from the point of view of surveyed firms:

Addressing high inflation is a top priority because of its negative impact on all sectors, followed by **digital transformation** as it would improve the business climate, then **improving investment policies**, along with the need to involve businessmen in the making of economic decisions and protecting the private sector from competition by foreign entities. **Facilitating government procedures** comes next, then linking different government agencies, eliminating bureaucracy, and reducing time and effort. Demands continue for improving the **tax system**, and reducing the number of tax bases, which would help improve the investment climate.

Macroeconomic Overview

Low and uneven growth and multiple challenges facing the global economy

The IMF expects the growth rate of the global economy will reach about 3.2% during the years 2024 and 2025, driven mainly by the growth of emerging and developing markets (4.2%), and will reach about 1.7% in advanced economies. Many challenges are responsible for the slowdown in the growth of the global economy, most importantly: Higher borrowing costs, long-term effects of the COVID-19 pandemic, the Russian invasion of Ukraine, weak productivity growth; increased geo-economic fragmentation, and faltering growth in China due to the turmoil in the real estate sector (IMF 2024).

The IMF also expects global headline inflation will decline from an annual average of 6.8% in 2023 to 5.9% in 2024 and 4.5% in 2025 as a result of the relative decline in prices of energy and goods, with the easing of supply chain bottlenecks. However, energy and food prices remain higher than their pre-Pandemic levels. The World Bank noted that inflation in local food prices is still high, as it recorded an increase of more than 5% in 57.1% of low-income countries, 63.8% of lower-middle-income countries, 36% of upper-middle-income countries and 21.8% of high-income countries. Egypt ranked sixth in terms of real food price inflation at a rate of 12%, which is a noticeable improvement compared with 27% in February 2024 (food security update 2024).

Domestically, economic activity slowed down due to the severe shortage in foreign exchange resources, followed by a temporary relief after the Ras al-Hikma deal and the IMF

loan. A comprehensive reform program is now urgently needed to address the structural imbalances of the Egyptian economy.

On the back of the multiple challenges facing the Egyptian economy recently, including the foreign currency shortage, import difficulties, and high inflation, in addition to regional tensions in the Red Sea, GDP growth rate continued to decline in Q2 FY 2023/2024 (October–December 2023), recording 2.3%, down by about 13% from the previous quarter and by about 41% from the corresponding quarter. The average growth rate is expected to reach about 2.9% by end of 2023/2024. With the ongoing geopolitical tensions, the World Bank reduced its forecasts of January 2024 for GDP growth during FY 2023/2024 to 2.8% in April 2024, compared with 3.5% in previous forecasts. The IMF kept its forecast at 3%.

In February 2023, the Council of Ministers approved the Ras Al-Hekma development plan, according to which the UAE will pump \$35 billion in direct investments into the project. As a result of the flows related to the Ras al-Hekma deal and the IMF loan, net foreign currency reserves increased to about \$40.36 billion by end of March 2024. Also, Standard & Poor's, Moody's, and Fitch revised their future outlook for the Egyptian economy to positive.

In April 2024, the IMF issued its latest report on the first and second reviews of the Extended Fund Facility with Egypt, in which it noted that Egypt had succeeded in meeting many of the program's criteria, but highlighted potential risks that require close monitoring, including : (1) halting the transition to a free exchange system; (2) inadequacy of monetary policy to control inflation; (3) lack of comprehensive and transparent integration of extra-budgetary investments into macroeconomic policies; (4) the complementary economic reforms that remain to be completed, deterring investors and exacerbating external pressures; (5) financial shortcomings in the event of a delay in enhancing tax revenues, implementing the fuel pricing mechanism, and using divestment proceeds to reduce debt.



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 across a set of variables during the quarter under review, and sheds light on its outlook for the developments of the same set of variables in the next quarter.

1. Production and Sales Indicators



2. Prices and Costs Indicators



3. Investment and Employment Indicators

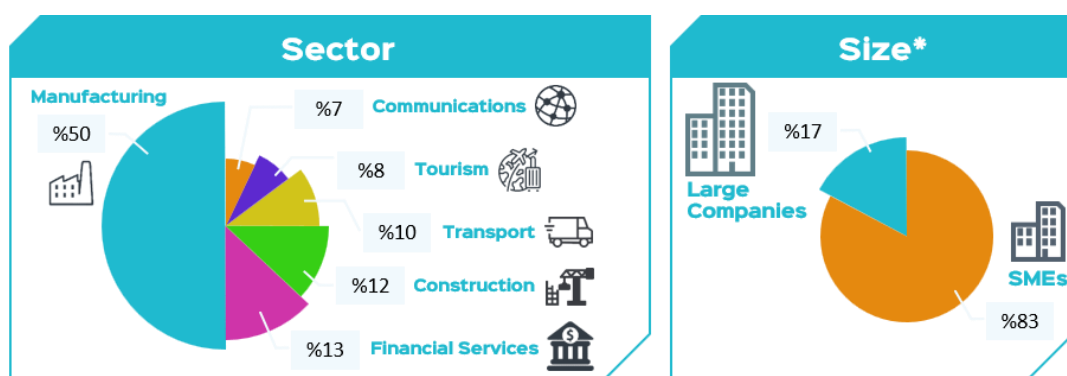


The importance of this issue of the BB is further magnified by the challenges that the business community has been facing since the beginning of 2020 as a result of the COVID-19 pandemic. Therefore, it is important to track the impact of the pandemic on the business community, especially in light of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

This issue of the business barometer offers an assessment of the performance of the sample at hand during the quarter (October-December 2023) and its outlook for the quarter (January-March 2024).

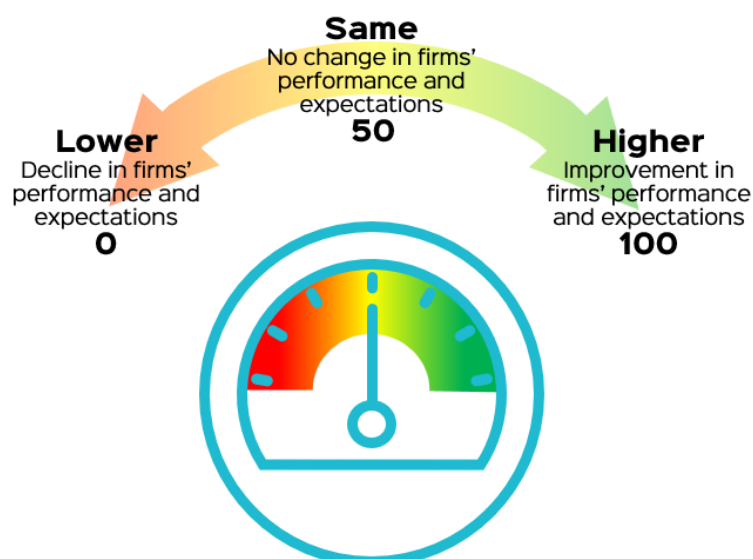
It begins with an overview of the macroeconomy at the global and domestic levels, then presents the results of performance assessment and outlook at the overall index level. It then moves on to the constraints faced by the business community during the quarter under study, and the priorities suggested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

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



* According to CBE definition issued on March 5, 2017

- The analysis evaluates the performance of the firm sample during the quarter under study and their outlook for the next quarter, comparing them both with the results of the previous quarter, and those of the corresponding quarter of the previous year.
- Performance and outlook are evaluated at two levels: Results of the overall index and results of sub-indices.
- The BB overall index represents a simple average of the set of sub-indices of the variables mentioned in the questionnaire. It displays 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 (insignificant 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

The following section includes the most important developments and published data for the key economic indicators until the publication of this report

Globally, low and uneven growth, and multiple challenges facing the global economy.

The IMF projected the growth rate of the global economy would reach about 3.2% during 2024 and 2025, driven mainly by growth of emerging and developing markets (4.2%), while it would reach about 1.7% in advanced economies. Many challenges are responsible for the slowdown in global growth, most importantly: higher borrowing costs; the long-term effects of the COVID-19 Pandemic; Russian invasion of Ukraine; weak productivity growth; increased geo-economic fragmentation, and faltering growth in China due to turmoil in the real estate sector (IMF 2024).

The IMF also expects global inflation to decline from an annual average of 6.8% in 2023 to 5.9% in 2024 and 4.5% in 2025 due to the decline in energy² and commodity prices, with the easing of supply chain bottlenecks. However, energy and food prices remain higher than their pre-Pandemic levels. The World Bank noted that local food price inflation is still high, recording an increase of more than 5% in 57.1% in low-income countries, 63.8% in lower-middle-income countries, 36% in upper-middle-income countries and 21.8% in high-income countries. Egypt ranked sixth in terms of real food price inflation at a rate of 12%, a noticeable improvement over its counterpart in February 2024 (27%) (food security update 2024).

Domestically, economic activity slowed down due to the severe shortage in foreign exchange resources, but experienced a relief after the Ras al-Hekma deal and the IMF loan. In this respect, it is of the essence to implement a comprehensive reform program to address structural imbalances in the Egyptian economy.

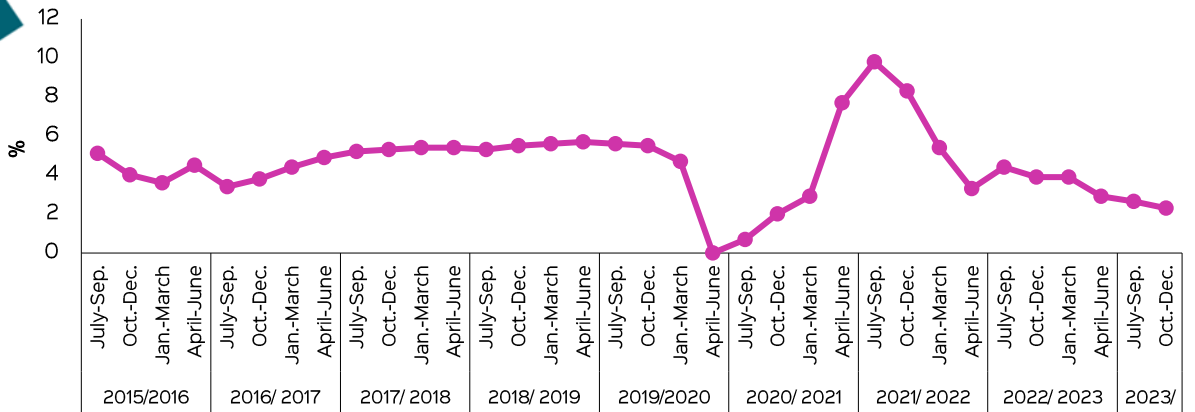
Recently, the Egyptian economy has faced many challenges, most importantly the decline in foreign exchange revenues, exchange rate turmoil, shortage of hard currency, and the resulting difficulty in importing production requirements, high inflationary pressures, and increasing financing needs, in addition to global challenges and regional tensions in the Red Sea and their repercussions on Suez Canal receipts. These challenges led to a slowdown in economic activity and a decline in local and international growth rate estimates.

According to the Ministry of Planning and Economic Development, the growth rate in Q2 of FY 2023/2024 (October–December 2023) decreased to 2.3%, declining by about 13% from the previous quarter and by about 41% from the corresponding quarter. The average growth rate is expected to reach about 2.9% by end of 2023/2024. The World Bank also revised down its forecast of January 2024 for GDP growth in FY 2023/2024 to 2.8% in April 2024, compared to 3.5% previously, due to geopolitical tensions. The IMF maintained its forecast of 3% (World Bank 2024).³

² The price of Brent crude registered 85.4 per barrel in March 2024, with its average price in Q1 being \$83.1 per barrel, lower than the previous quarter by \$0.9 per barrel, but still higher by \$1.7 per barrel than the corresponding quarter in 2023. The price of natural gas registered \$8.55 in March 2024, with the average price reaching \$8.75 in Q1, lower than the previous quarter by \$4.77 and the corresponding quarter in 2023 by \$8.09.

³ World Bank, 2024 Egypt MPO.

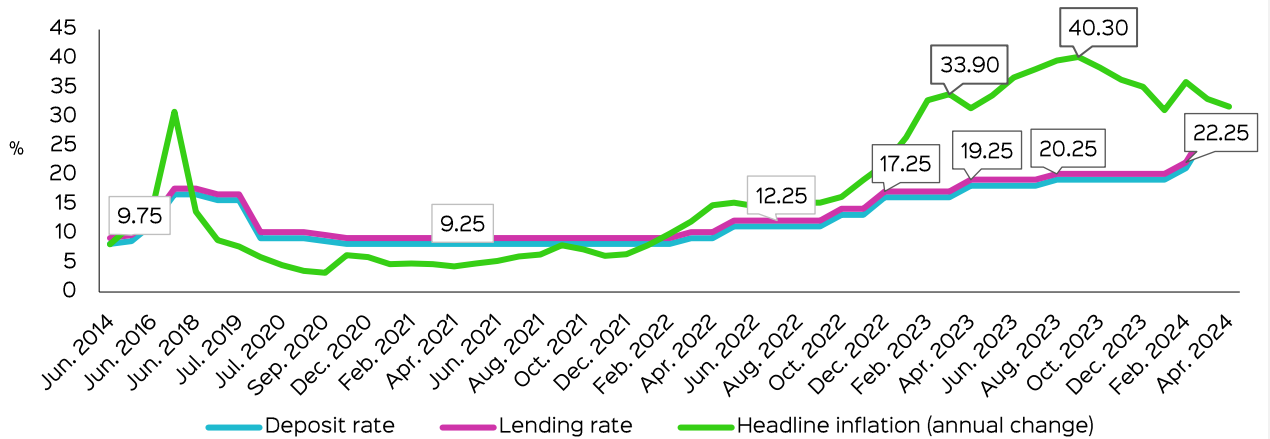
Figure 1. Real GDP Growth Rate during (2015/2016 – 2023/2024)



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

- In February 2023, the Council of Ministers approved the Ras Al-Hekma development plan, according to which the UAE would pump \$35 billion in direct investments into the project.⁴
- In March 2024, the Central Bank of Egypt announced the move towards exchange rate unification as an important measure to eliminate the parallel market and begin the transition to a free exchange rate, while continuing the monetary tightening policy to accelerate inflation's downward trajectory by raising the overnight deposit and lending interest rates and the Central Bank's main operation rate by 600 basis points to reach 27.25%, 28.25% and 27.75%, respectively. The credit and discount rate was also raised by 600 basis points to reach 27.75%, following an increase of about 200 points in February 2024.⁵

Figure 2. Inflation and Policy Rates



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

- On the public finance side, the overall deficit in the State budget as a percentage of GDP increased in July-February 2023/2024 to 6.55%, compared with 4.97% in the corresponding period of the previous year. This is due to the growth in expenses by about 52% (EGP

⁴ akhbarelyom.com

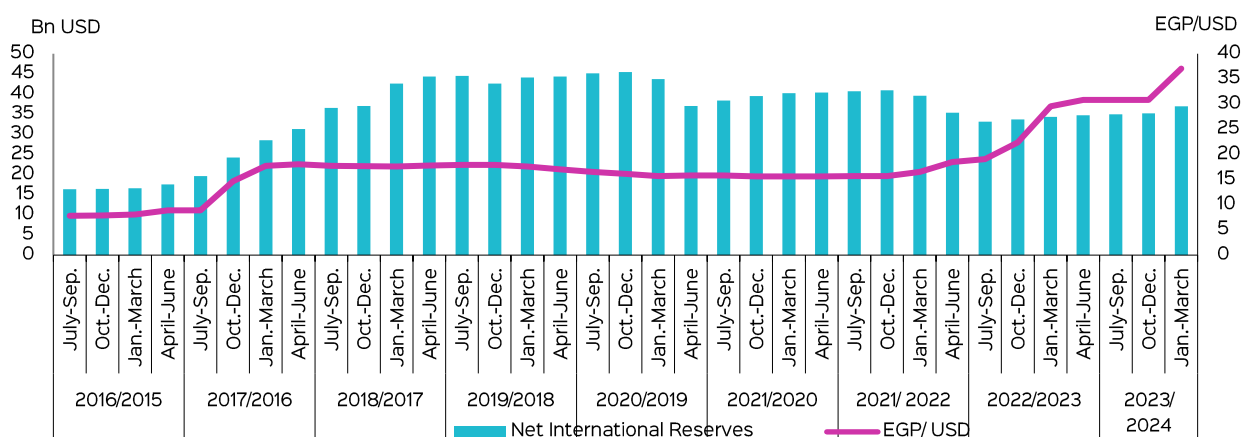
⁵ Central Bank of Egypt, *press release of the Monetary Policy Committee exceptional meeting, March 6, 2024.*



1,993,694 in July-February 2023/2024 compared to EGP 1,312,880 in the corresponding period of 2022/2023), while revenues grew by only about 35%.⁶ The higher expenses reflect the currency devaluation and the rise in interest rates, especially in light of reliance on financing through short-term Treasury bonds and bills with interest rates reaching about 25%.

- In terms of foreign transactions: In H1 of FY 2023/2024 (July–December 2023), the balance of payments recorded an overall deficit of \$410 million, compared to an overall deficit of \$599 million during H1 of FY 2022/2023. The deficit is mainly due to the increase in the current account deficit as a result of a 20% increase in the trade balance deficit to \$18.7 billion, a decrease in net current transfers, and a decline in the surplus in the services balance. Meanwhile, capital and financial transactions achieved a net inflow of about \$8.4 billion. Foreign direct investment recorded a net inflow of about \$5.5 billion, while securities portfolio investments achieved a net inflow of \$252.8 million (Central Bank of Egypt 2024).
- Egypt's external debt rose to \$168.03 billion at end of December 2023, compared with \$164.521 billion at end of September 2023—an increase of about \$3.5 billion.⁷
- The deficit in net foreign assets of the banking system declined to \$4.2 billion (equivalent to EGP 200 billion) at end of March 2024, compared with about \$27 billion (equivalent to EGP 841.4 billion) in December 2023. This is the first decline in the net foreign assets deficit since November 2021.
- As a result of the flows related to the Ras al-Hekma deal and the IMF loan, net foreign currency reserves increased to about \$40.36 billion by end of March 2024. Thus, the average net reserve increased during January-March 2024 by about 5% compared with the previous quarter, and by about 8% compared with the corresponding quarter in 2023. During the January-March 2024 quarter, the Egyptian pound lost about 20% of its value compared to the previous quarter, and about 24% of its value compared to the corresponding quarter (January-March 2023)⁸ (Figure 3).

Figure 3. Net International Reserves and Exchange Rate



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

⁶ Ministry of Finance, *Monthly Financial Report*, March, 2024.

⁷ Central Bank of Egypt. Egypt's external debt rose to \$168.03 billion at end of December 2024.

⁸ Central Bank of Egypt. Egypt's international reserves jump 14.4% to \$40.36 billion in March 2024.



- In April 2024, the IMF issued its latest report on the first and second reviews of the “Extended Fund Facility” signed with Egypt, following the recent agreement with the Egyptian government to increase Egypt’s financial package by \$5 billion to about \$8 billion.
- The IMF confirmed in its report that Egypt succeeded in fulfilling many of the program’s conditions, including (1) abolishing the Central Bank of Egypt’s decisions restricting imports; (2) publication of the state ownership policy document to promote private investment; (3) amending the competition law governing mergers and acquisitions; (4) expanding the scope of those eligible for social assistance; (5) setting tax policy measures for Fiscal Years 2023-2024; (6) refraining from granting exemptions to commercial banks that violate the net limits of open foreign currency positions; and finally (7) refraining from offering subsidized lending plans through the Central Bank of Egypt.
- However, the IMF highlighted potential risks that require close monitoring, including: (1) failure to continue the transition to a liberalized exchange rate system; 2) inadequacy of monetary policy to control inflation; (3) failure of comprehensive and transparent integration of extra-budgetary investments into macroeconomic policies; (4) incompleteness of the remaining complementary economic reforms, which could deter investors and exacerbate external pressures; (5) financial shortcomings in the event of a delay in enhancing tax revenues, implementing the fuel pricing formula, and using divestment proceeds to reduce debt.
- The report noted several policy measures that the Egyptian government had not met, including: (1) enhancing the transparency of public procurement; (2) implementing the agreed-upon fuel pricing mechanism; (3) publishing the Central Auditing Organization reports; (4) enhancing the transparency of tax spending; (5) implementing a risk-based approach to accelerate the release of imports at the Port of Alexandria; (6) completing the electronic transfer of all government records to enhance tax collection; (7) strengthening the monitoring and reporting of payment areas by the Ministry of Finance, including state-owned firms; (8) issuing the executive regulations of the Unified Public Finance Law, which define the basic elements for evaluating the budget, adopting the financial strategy paper, separating the baseline from new initiatives, and the commitments towards climate activities.
- In March and April 2024, Standard & Poor’s, Moody’s, and Fitch revised their future outlook for the Egyptian economy to positive, following alleviation of the foreign exchange crisis, as UAE investments worth \$35 billion were pumped into the Ras al-Hekma project, and a new financing agreement with the IMF was signed, besides the implementation of some reform measures, most importantly the unification of the exchange rates, currency devaluation, and continued tightening of monetary and fiscal policy.
- Non-oil private sector activity in Egypt is still suffering from persistent deterioration for 41 months (below the level of 50 points), with the Purchasing Managers’ Index recording 47.4 points in April 2024. The decline in private sector activity is due to weak demand as a result of high inflation, exchange rate fluctuations, and weak purchases of production inputs, while the inflation rate in input prices fell to its lowest level since March 2021 (Global P&S, 2024). This highlights the need to adopt serious structural reform measures in order for the Egyptian economy to get out of its vicious cycle.

Business Barometer Index (BBI)

I. Past performance evaluation and outlook according to the overall Business

Barometer Index

A fragile recovery for the overall Business Barometer Index during the quarter under study, with mixed performance with firm size and sector



Evaluation

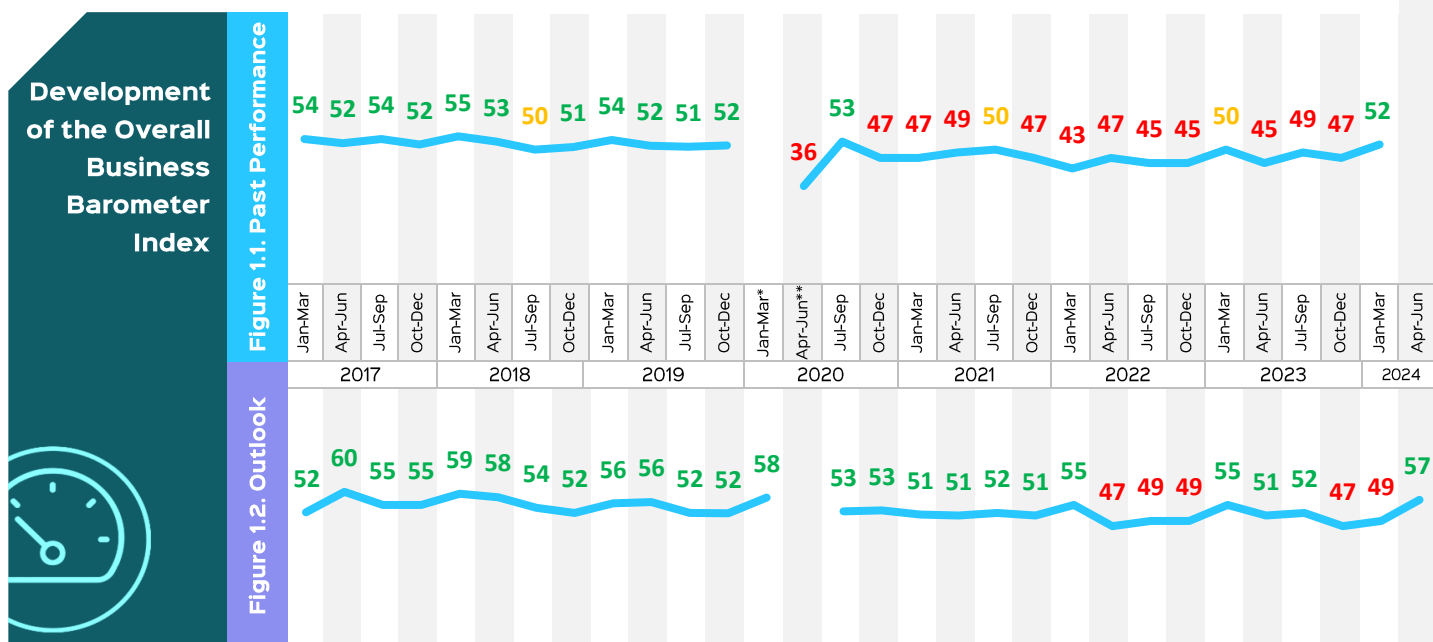


Outlook

1.1. Development of the overall index

Survey results showed a fragile recovery in the overall business performance index during Q1 2024, after a decline that lasted more than three years. The period under study (January–March 2024) witnessed an increase in the index by two points from the neutral level, achieving better values than the previous and corresponding quarters (Figure 1.1).

This improvement is mainly attributed to increased production and exports by large firms, a reduction in their inventory of finished goods, and a rise in wages across all companies. Additionally, this performance reflects improvements in the tourism and communications sectors, although the other sectors, which are the main contributors to Egypt's economic growth, continue to deteriorate (Appendix Tables M1 and M2). This quarter also witnessed attempts to secure foreign currency resources, which resulted in partial customs releases of production requirements. Hence the decline in input prices, which was reflected in a slight improvement in the input index. The quarter under study also witnessed extensive Government interventions to control the prices of some commodities. This echoed in a decrease in price rises in finished products and a decline in the price index of final products for all firms in the current quarter, albeit still much higher than the neutral level.



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 in the quarter April–June 2024 exceeded the neutral level by 7 points, with higher values than the previous and corresponding quarters. This reflects firms’ optimism regarding production, sales, exports, and level of capacity utilization. It also echoes their expectations that more raw materials would be available for production as a result of bringing the exchange rate under control, more hard currency availability, and clearing the customs backlog. This was reflected in expectations of a greater decline in the prices of final products.

Firms also expect an improvement in the business performance index for all sectors except the financial services sector. Tourism firms expressed the most optimistic expectations (Figure 1.2).

1.2. Index according to firm size

The performance index varied with **large, small, and medium firms**

Although the domestic challenges facing the business community—including the severe shortage of foreign exchange resources, steep rise in the exchange rate outside the banking system, delayed customs clearance, the inflationary wave and its impact on declining demand, and high production costs—have affected **all firms, small and medium-sized firms** were the most affected, as reflected in the continued deterioration of their performance index compared to that of **large firms**.

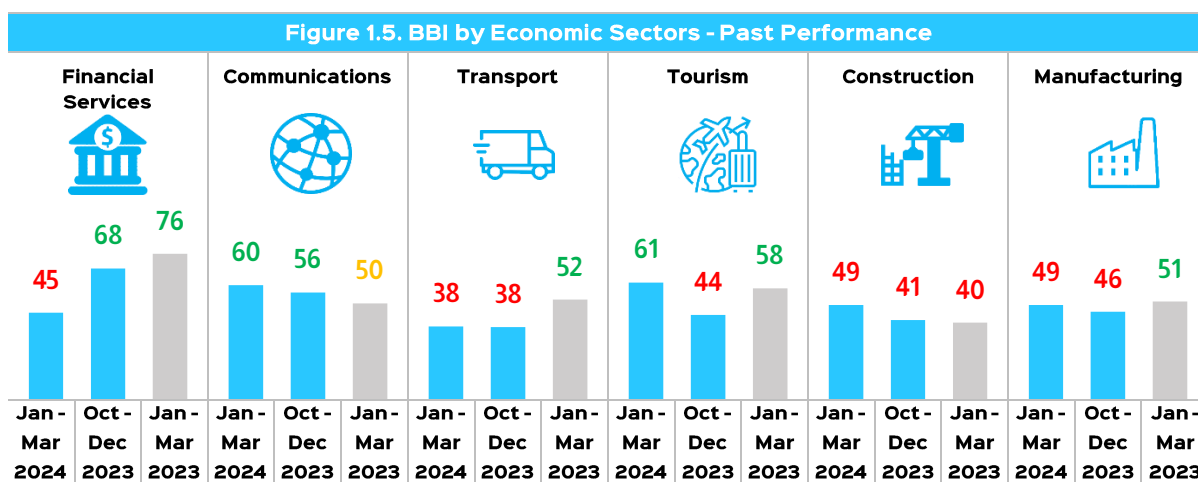
During the quarter under study, the performance index for large firms exceeded the neutral level by 7 points, showing an improvement of 10 points compared to the previous and corresponding quarters. In contrast, the performance index for small and medium-sized firms was 3 points below the neutral level, which is 1 point better than the previous quarter but 6 points lower than the corresponding quarter (Figure 1.3).As for the outlook index, all firms recorded values higher than the neutral level. **Large firms** performed 10 points higher than the previous quarter and 7 points higher than the corresponding quarter. **Small and medium firms** performed 7 points higher than the previous quarter and 5 points better than the corresponding quarter (Figure 1-4).



Source: Survey results.

1.3. Index according to economic sector

Performance of most economic sectors witnessed a decline, specifically **manufacturing, construction, transportation, and financial services industries**, with all recording values below the neutral level. The **communications and tourism** sector recorded values higher than neutral (Figure 1-5).



Source: Survey results.

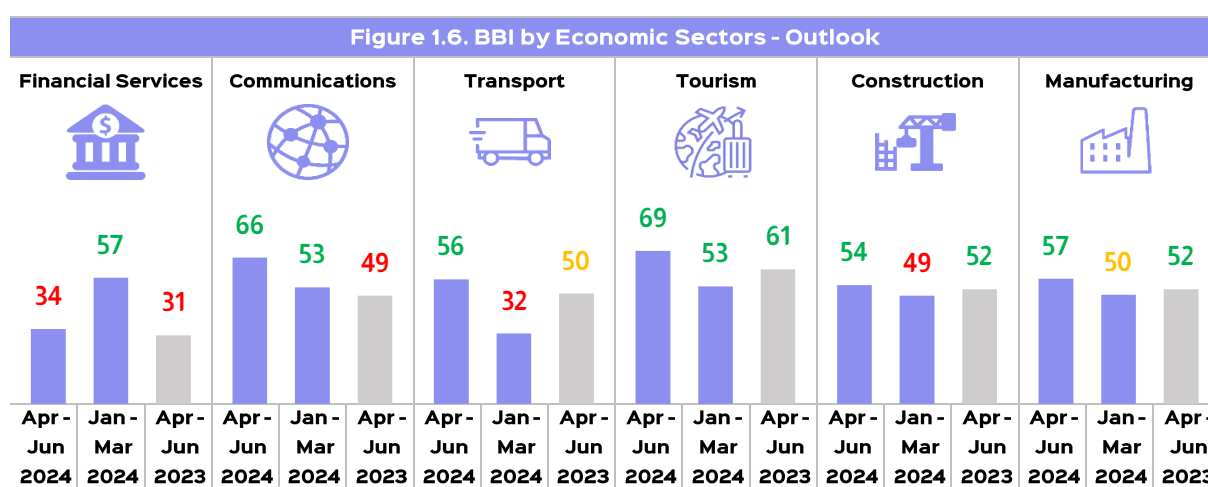
The following is an analysis of the performance of economic sectors in the quarter under study according to the opinions of surveyed firms, and compared to performance in the previous and corresponding quarters.

- The **manufacturing sector** came less than the neutral level by one point, but higher by 3 points than the previous quarter, and lower by 2 points than the corresponding quarter. The decline in the sector's performance is due to several factors. Production and exports declined due to continued difficulty in securing foreign currency and delayed customs releases, resulting in a shortage of raw materials and their higher prices. Other factors include disruption of global shipping, rising product prices with higher inflation, and a significant decline in domestic sales as a result of weak purchasing power, in addition to lack of working capital due to delayed disbursement of export subsidies and the multiple tax bases.
- The performance index for **construction firms** was one point lower than neutral in the quarter under study, but better than the previous and corresponding quarters. The decline in the sector's performance is attributed to the decline in production and sales due to the significantly higher prices of raw materials and their volatility—and hence the inability to determine prices—higher wages, and weak liquidity in the market. The sector still suffers from the difficulty of licensing procedures, in addition to the new requirements in the Unified Building Law.
- **Tourism** recorded the highest reading in the performance index during the quarter under study, exceeding the neutral level by 11 points, which is better than the previous and corresponding quarters. The higher index values are due to the increase in both domestic tourism and the number of arrivals, in addition to the Hajj and Umrah season and granting facilities for obtaining visas.
- The **transport sector** reported the most deterioration, with values similar to the previous quarter (12 points below neutral) and 14 points lower than the corresponding quarter. This decline is due to weak imports and exports, whether due to shortage of foreign currency resources or global shipping disturbances, not to mention the modest performance of most interlinked sectors.
- Performance of the **telecommunications sector** in the quarter under study surpassed the neutral level by 10 points, outperforming the previous and corresponding quarters. This is attributed to the continuation of the presidential initiative "Hayaa Kameera (Decent Life)" and higher demand for

Internet services due to implementing the e-invoicing system and increased demand for smart devices coinciding with increased investment in the new cities.

- The **financial services sector** scored 5 points below the neutral level, and lower than the previous and corresponding quarters. This is due to the repercussions of the Central Bank’s measures to liberalize the exchange rate and hike the interest rate, which led to dealers’ reluctance to make deals at the end of the quarter under study to maintain the value of their shares and for fear of making losses from selling. Similarly, the trading volume of new investors decreased due to the high interest rates in the banking system and thus dissipation of the extraordinary profits previously made in the stock market.

Regarding the outlook for the upcoming quarter, **manufacturing, construction and building, tourism, transportation, and communications** exceeded the neutral level, while **financial services** came below it. The following is an analysis of the economic sectors’ performance expectations in the upcoming quarter and comparison thereof with the previous and corresponding quarters.



Source: Survey results.

- **Manufacturing** surpassed the neutral level by 7 points, and performed better than the previous and corresponding quarters due to expectations of an increase in production, sales, exports, level of capacity utilization, decrease in the prices of production requirements and their availability, and lower prices of finished products, thus stimulating demand.
- The outlook index for **construction** registered higher values than neutral by 4 points and better than the previous and corresponding quarters. This is due to expectations of a decline in raw material prices and hence decline in final product prices. However, the difficult licensing procedures and high fees for availing services continue to significantly affect the sector’s production and sales.
- The best expectations were reported by **tourism**, which recorded values that exceeded the neutral level by 19 points, and better than the previous and corresponding quarters. This may be due to expectations of an increase in arrivals with the summer and vacation season and the Hajj and Umrah season.
- The outlook regarding **telecommunications** in the next quarter is optimistic, as it exceeds the neutral level by 16 points and is higher than the previous and corresponding quarters due to expectations of an increase in production and exports after the partial release of raw materials and a decrease in their prices as well as the implementation of the e-invoicing system.

- The outlook index for the transport sector scored 6 points above the neutral level, outperforming the previous and corresponding quarters. This improvement is attributed to the expectations of increased import activity following recent monetary measures, the availability of foreign currency, the appreciation of the local currency against foreign currencies, and the improved performance of other sectors that the transport sector heavily relies on. The lowest expectations were reported by the **financial services sector**, as the outlook index recorded values 16 points below neutral, and 23 points below the previous quarter, albeit better than the corresponding level by 3 points. This is due to the appreciation of the Egyptian pound against foreign currencies, which prompted many clients to sell to take in profits, in addition to expectations of a decrease in trading volume to benefit from the high interest rate in the banking system or due to expected difficulty of selling at prices lower than the purchase prices. Finally, the shares of some companies have been affected by the high debts incurred due the high interest rate and thus the market value of their shares plummeted (Figure 1-6).

II. Constraints facing the business community during the quarter under study, and priorities for improving the business climate from the point of view of the sample of firms



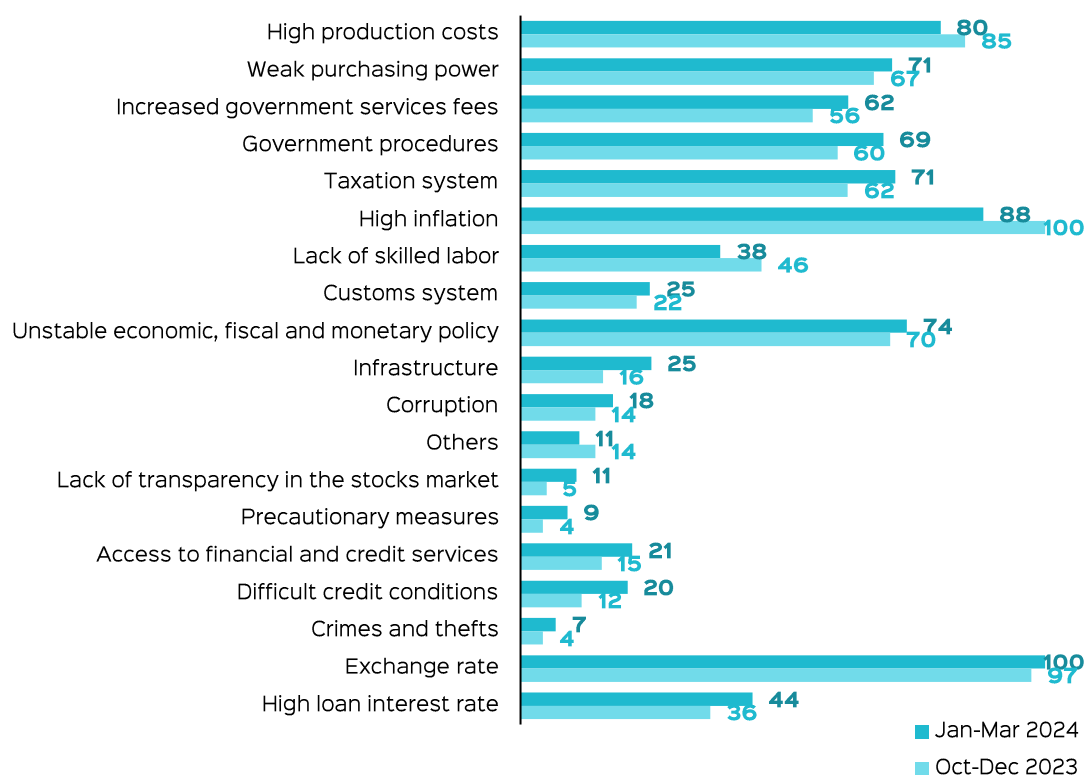
2.1. Constraints faced by the businesses during the quarter under study

There is agreement that the challenges related to the exchange rate, high inflation, and conflicting economic policies are the most serious constraints facing firms in the quarter under study

Figure 2.1 shows the most serious constraints facing the business community in the quarter under study (January–March 2024), ranked in a descending order of severity from the point of view of surveyed firms.

The challenges associated with the exchange rate jumped to the top of the list of constraints facing all firms in the current quarter due to their negative impact on the business community. This can be explained by the disruption in the availability of foreign currency resources needed for imports, higher rate of the US dollar against the Egyptian pound, and the subsequent rise in the prices of most goods and services. It is also attributed to distortions of the exchange rate system due to the presence of more than one rate in the market, and lack of predictability in exchange rate policy, and thus the inability to determine product prices for forward contracts. This was followed in second place by the problems associated with the rise in inflation due to their repercussions on the supply and demand sides. On the one hand, high inflation caused a decline in demand for products, and on the other hand, it led to an increase in production costs, and thus a decline in supply.

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.

This is in addition to workers' demands for continuous wage increases, a decrease in business turnover, and a lack of liquidity for investment. **High production costs** came in third, as continuous increases in production costs lead to instability in the market, hence a decline in sales and losses for firms. This is in addition to a rise in sea freight rates, disruption of global supply chains, and shortage of raw materials and their higher prices, resulting in an inability to compete in foreign markets and weak sales in domestic markets. Then comes **conflicting economic, financial, and monetary policies**, lack of involvement by the private sector in policy formulation, and absence of institutional reforms and a long-term vision. **Weak purchasing power** comes in fifth place, followed by the tax system as a barrier to investment as it lacks awareness of the nature of business, and due to arbitrary tax assessments and inspections of previous years.

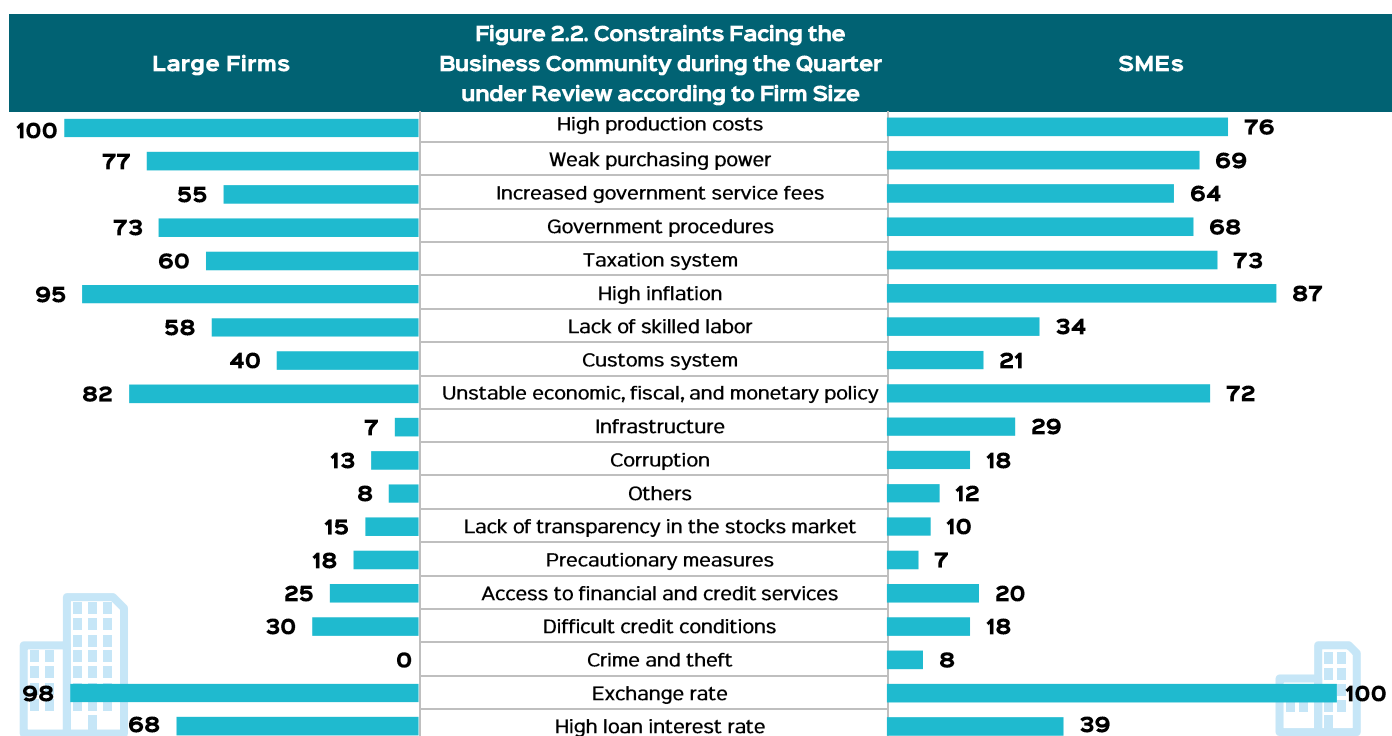
Add to that the emergence of challenges associated with the **exchange rate** and **conflicting financial and monetary policies**, a slight decline in inflation and higher production costs compared with the previous quarter.

2.1.1. Constraints according to size of firms

The ranking of constraints varied with the size of firms. **Challenges associated with the exchange rate** topped the list of constraints for **small and medium firms**, followed by **high inflation** in second place, then **higher production costs** in third. The **tax system** came next in fourth place, followed by **conflicting economic, fiscal, and monetary policies** in fifth place.

High production costs topped the list of constraints for **large firms**, followed by the **challenges associated with the exchange rate** in second place, high inflation in third place, and **conflicting economic, fiscal, and monetary policies** in fourth place, then **weak purchasing power**.

Figure 2.2 shows the main constraints that faced both large, small, and medium firms during the quarter under study (January–March 2024), ranked in a descending order of severity from the point of view of surveyed firms.

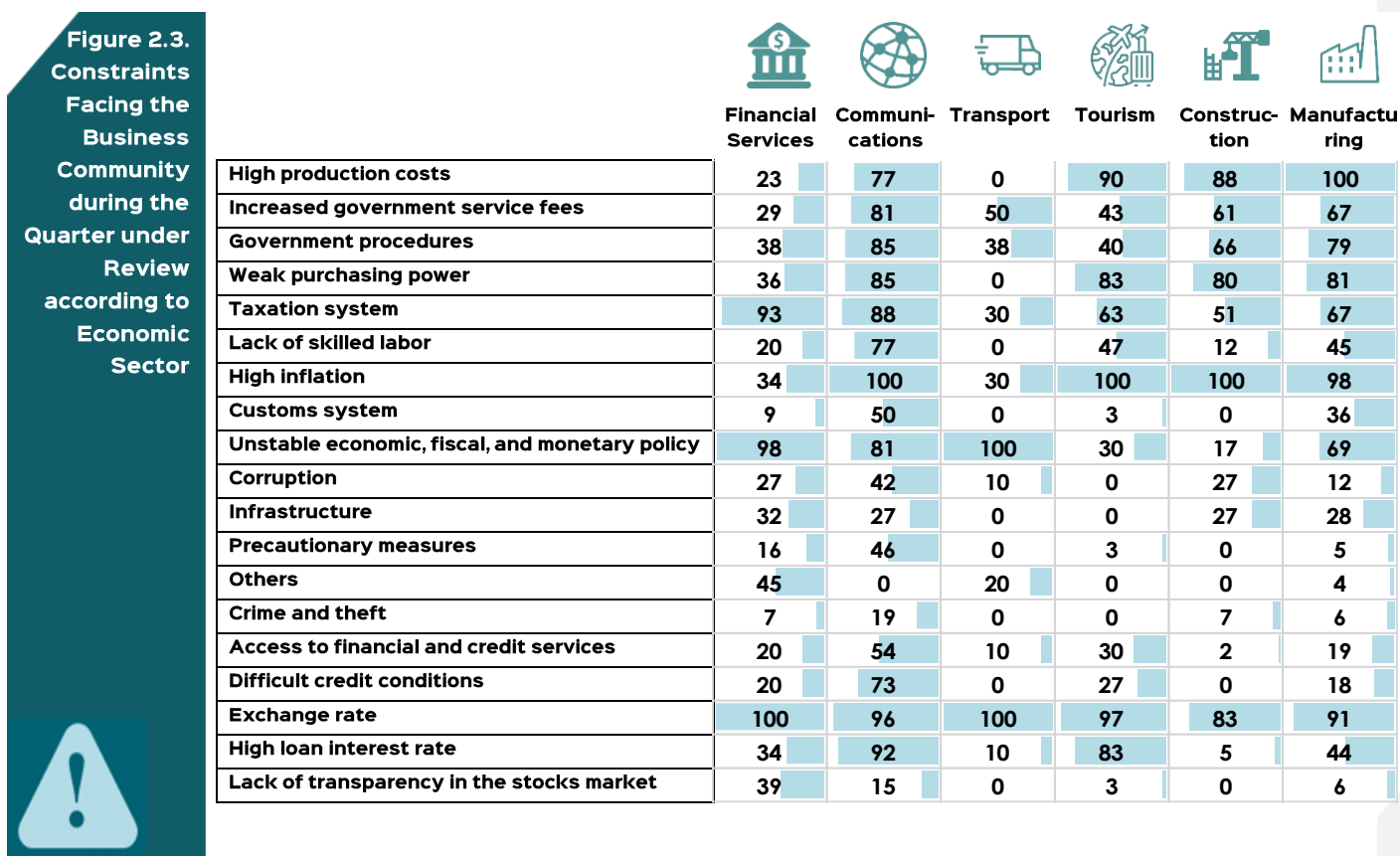


Source: Survey results.

2.1.2. Constraints according to economic sectors

Although the performance of **communications and tourism** improved during the quarter under study, both sectors face constraints that limit their ability to expand and grow in the future, followed by **manufacturing industries** in terms of the multiple constraints faced.

Constraints varied with economic sectors. **Inflation** was the main constraint facing **construction, building, tourism and communications**, while the challenges associated with the **exchange rate** topping the list constraints for **transport and financial services firms**. **High production costs** were a constraint for **manufacturing industries**, while **conflicting economic, fiscal and monetary policies** were an additional constraint to **transport firms** (Figure 2.3).



Source: Survey results.

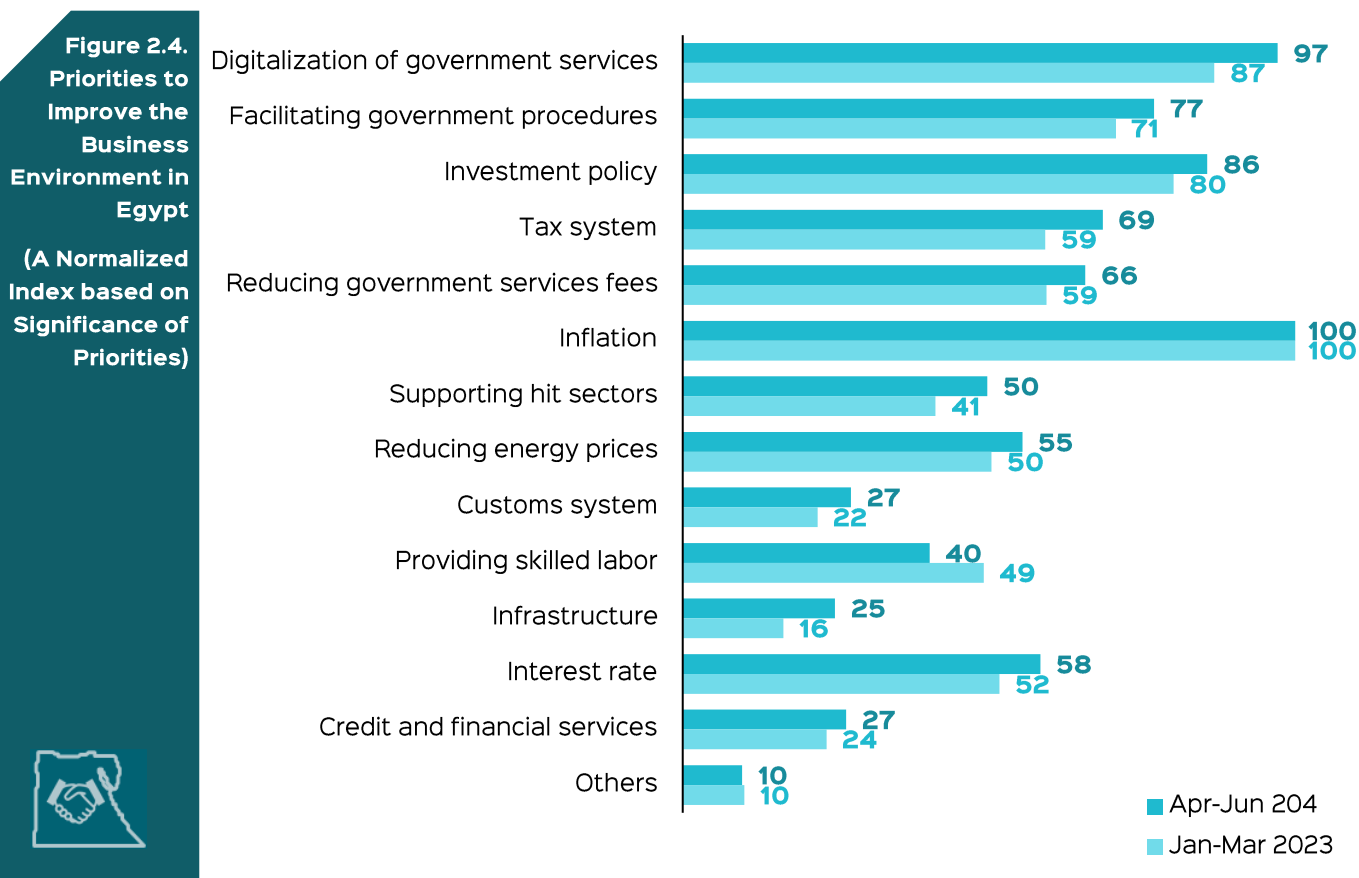
2-2 Priorities for improving the business environment in Egypt (according to the surveyed firms)



The most important priorities from the point of view of surveyed firms: **Reducing inflation, improving digital transformation of government services, paying attention to investment policies, facilitating government procedures, and reducing the multiple tax bases** (Figure 2-4).

Addressing high inflation continues as a top priority due to its negative impact on all sectors, followed by promoting digital transformation, as it would improve the business climate. Then comes improving investment policies, along with the need to involve businessmen in the formulation of economic decisions and protecting the private sector from competition by sovereign entities. This is followed by facilitating government procedures, linking different government agencies, eliminating bureaucracy and reducing time and effort. Improving the tax system and reducing the number of tax bases is a priority that can improve the investment climate.

Compared to the last quarter, digital transformation of government services jumped in rank in the current quarter, and so did investment policies, tax system, reducing fees on government services, and the interest rate.

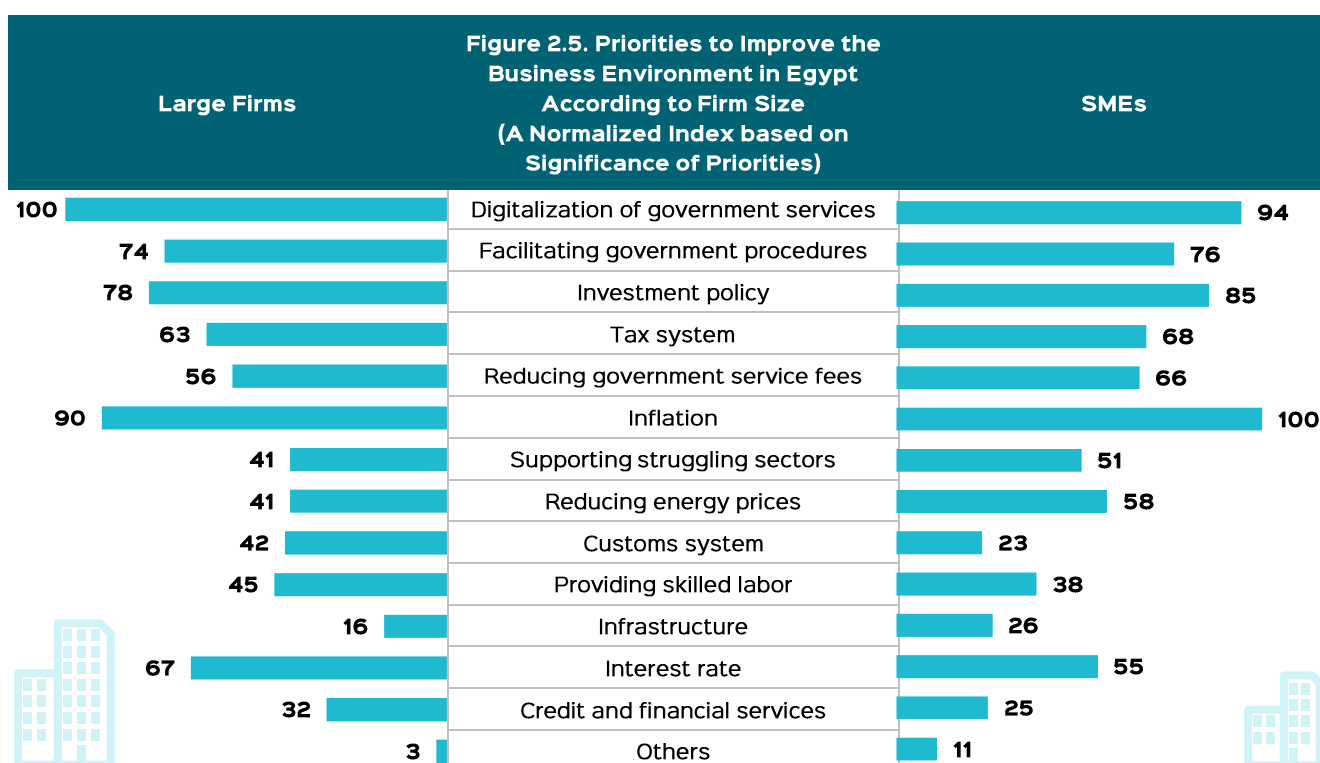


Source: Survey results.

2.2.1. Priorities according to Firm Size

Comparing priorities according to firm size demonstrates the following:

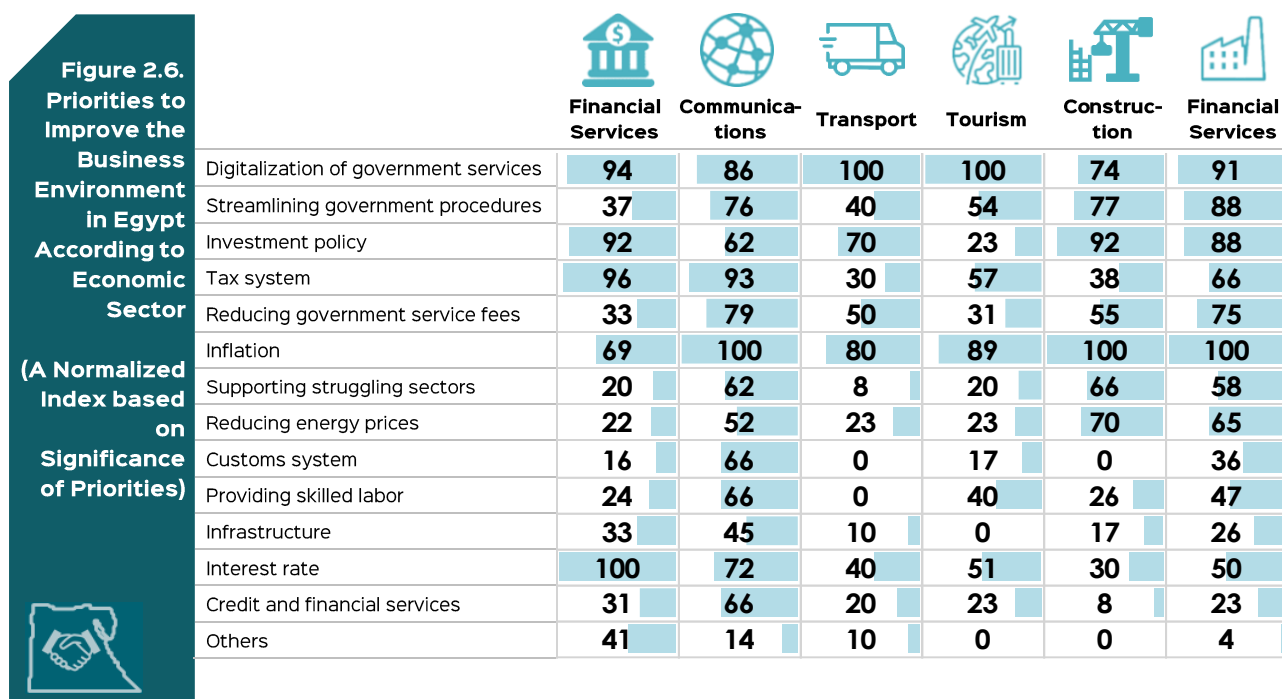
The order of priorities varies between firms: Digital transformation was a first priority for large firms, then addressing high inflation in second place, investment policies in third place, facilitating government procedures in fourth place, and the interest rate in fifth place. Addressing high inflation rates topped the list of priorities for small and medium firms, followed by digital transformation in second place, investment policies in third, and facilitation of Government procedures in fourth place. The tax system came in fifth place (Figure 2.5).



Source: Survey results.

2.2.2. Priorities according to Economic Sectors

Manufacturing, construction and building, and communications firms agreed that containing inflation topped the priority list, while reducing the interest rate was reported as a priority by the financial services sector. Tourism and transportation firms were concerned with digital transformation as a top priority. The remaining priorities varied by sector as reported in Figure 2-6.



Source: Survey results.

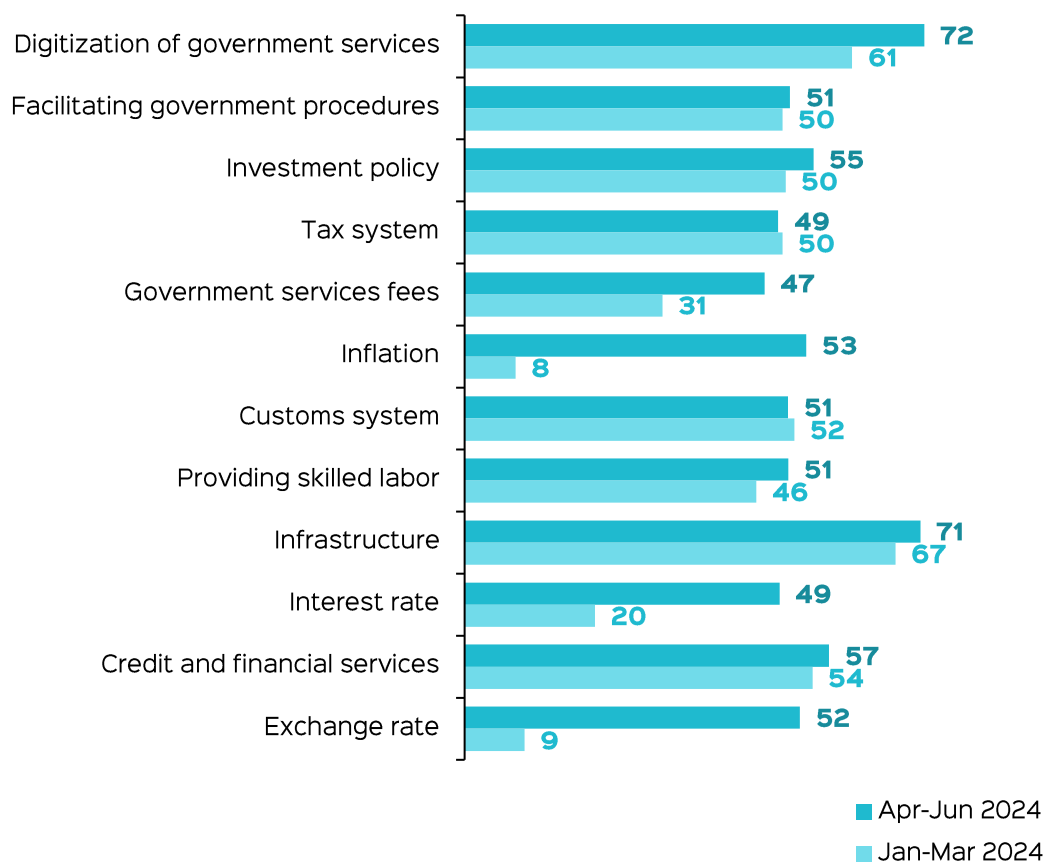
The business community's expectations of improvements based on its perception of the Government's current directions



Expectations of improvement in the upcoming quarter in digital transformation of government services, infrastructure, financial and credit services, and investment policies.

In light of the Government's projects and current directions, most firms expect improvement in digital transformation as a result of the multiple efforts being announced in this regard, then in infrastructure due to the various projects implemented by the State in this respect, followed by improvement in financial services, better investment policies and lower inflation (Figure 2.7).

Figure 2.7.
Outlook of the Business Community toward Aspects of Improvement, based on Current Government Orientation
 (According to the same Methodology of the Business Barometer)



Source: Survey results.

III. Performance evaluation and outlook according to sub-indexes

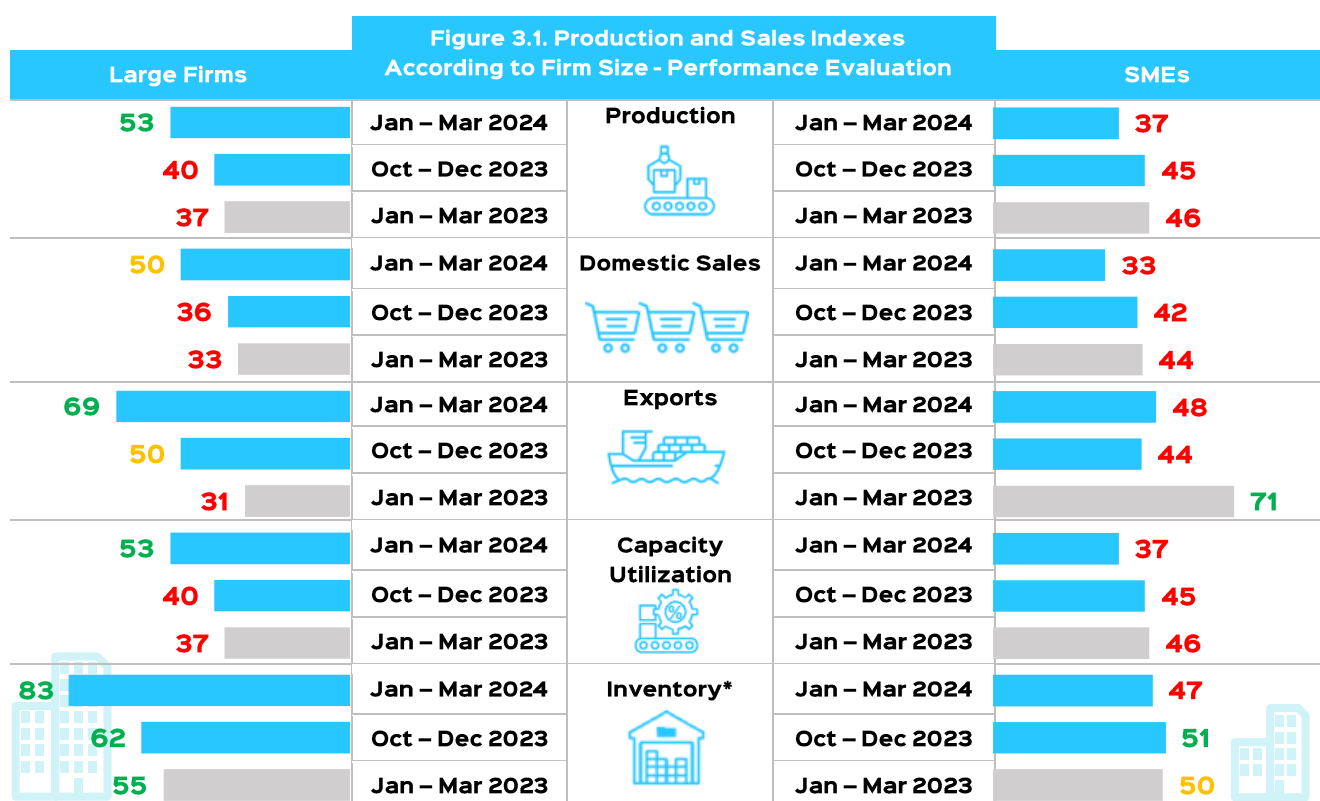


3.1. Performance evaluation

Most performance evaluation indicators for large firms during the quarter under study rose above the neutral level, while all indicators for small firms decreased below neutral.

For large firms, performance in production, exports, capacity utilization, and commodity inventory exceeded the neutral level and both the previous and corresponding quarters, while domestic sales came at the neutral level, albeit better than the previous and corresponding quarters.

Meanwhile, small and medium-sized firms reported values in production, domestic sales, capacity utilization and commodity inventory that are lower than the neutral level and both the previous and corresponding quarters.



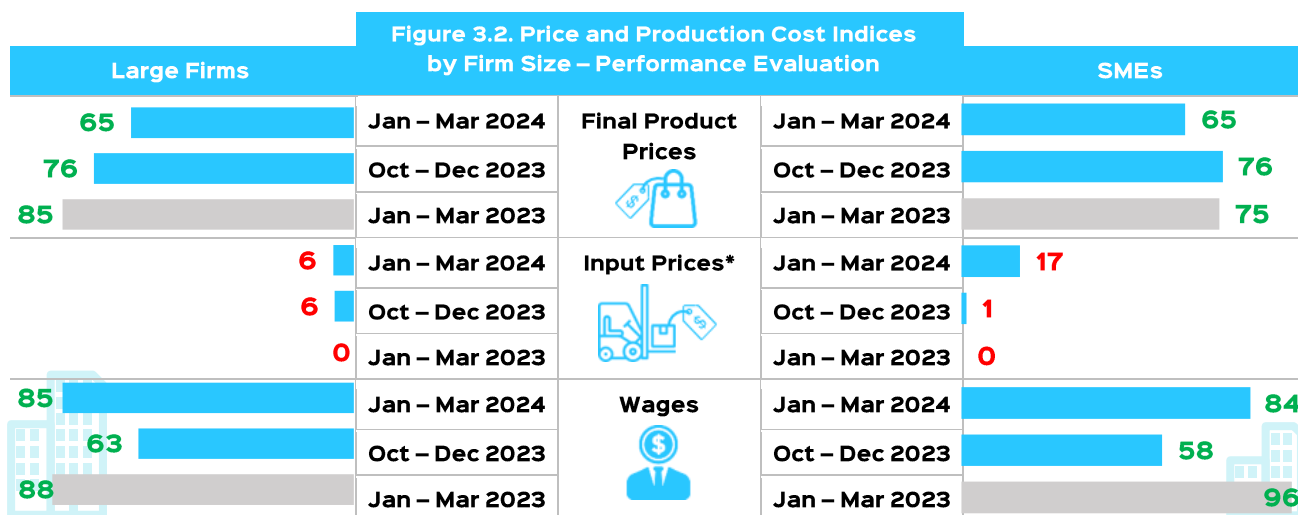
Source: Survey results.

* 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.

The final product prices and wages index posted a higher value than neutral for all firms.

For large firms, the final product prices index posted values lower than the previous and corresponding quarters, while the basic input index recorded similar values to the previous quarter, albeit better than the corresponding quarter by 6 points. In the wage index, they reported better values than the previous quarter, albeit 3 points lower than the corresponding quarter.

As for the small and medium firms, the final product prices index scored lower values than the previous and corresponding quarters, while the wage index achieved better values than the previous quarter by 26 points, albeit less than the corresponding quarter by 12 points. The input index posted values greater than the previous and corresponding quarters.



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.

The investment index for large firms improved, exceeding the neutral level.

- Results for large firms showed an increase by 5 points in the performance of the index compared to the previous and corresponding quarters, while the employment index decreased below the neutral level by one point and below the previous quarter by two points, albeit recording the same values as the corresponding quarter.
- The results for small and medium-sized firms also showed a slight increase in the investment index to settle at the neutral level, albeit one point better than the previous and corresponding quarters. Likewise, the employment index recorded a slight increase to settle at the neutral level, although higher by one point than the previous quarter and by two points than the corresponding quarter (Figure 3.3).



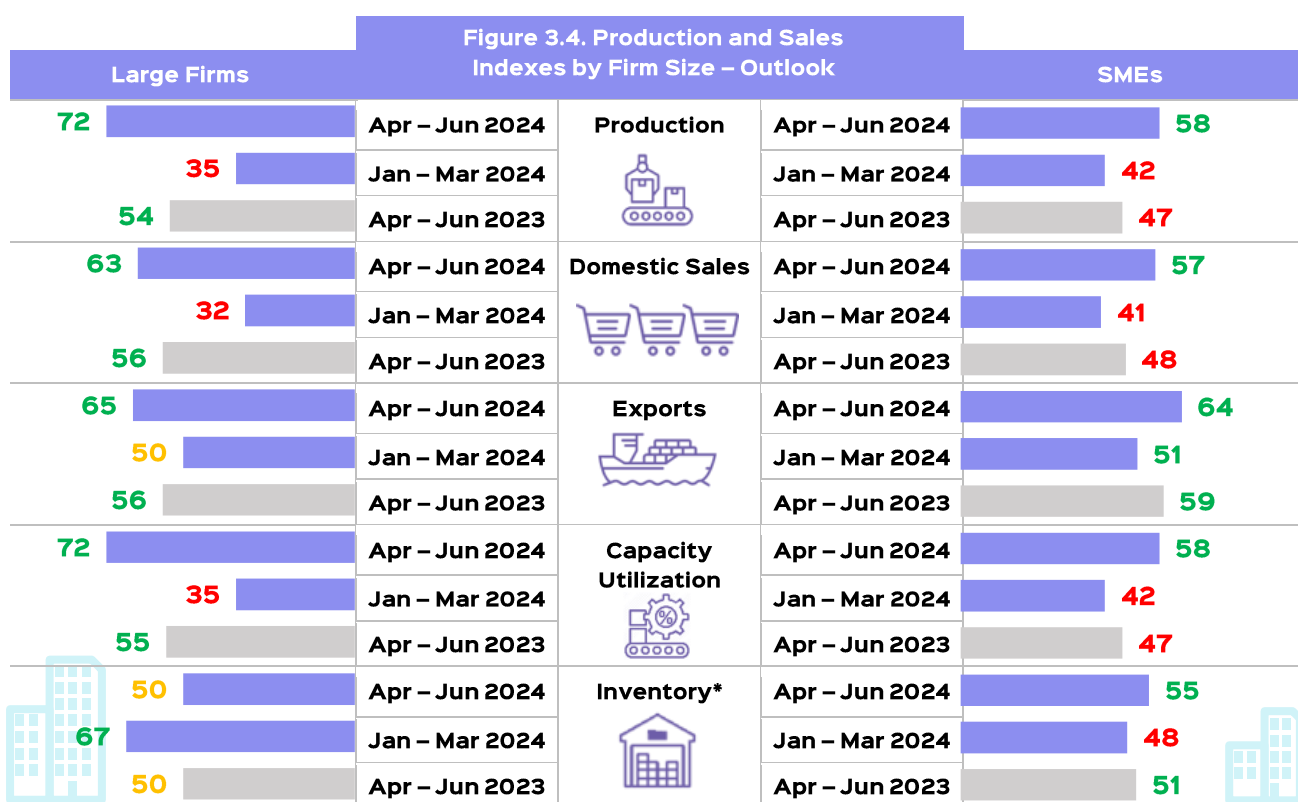
Source: Survey results.

3.2. Performance expectations

Expectations are higher than neutral regarding most indicators for all firms during the upcoming quarter

All firms expressed optimism regarding production, domestic sales, exports and capacity utilization during April-June 2024, as the outlook index recorded values higher than the neutral level and better than both the previous and corresponding quarters, indicating expectations of an improvement in all indicators as a result of liberalization of the exchange rate and the resulting availability of raw materials and their lower prices, and a decrease in the prices of end products.

The outlook index for large firms in commodity inventory came at the neutral level, albeit 17 points lower than the previous quarter and similar to the corresponding quarter. In the same indicator, small and medium firms reported 5 points higher than the neutral level and better than the previous and corresponding quarters (Figure 3.4).



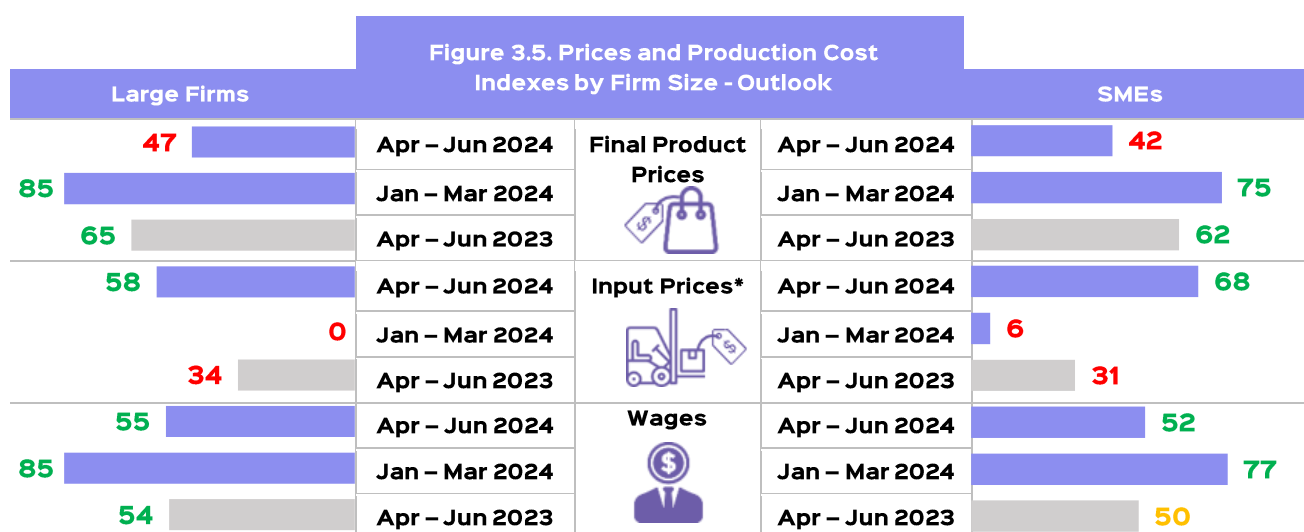
Source: Survey results.

* 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.

All firms expect prices of final products to fall below the neutral level and below the previous and corresponding quarters, driven by expectations that the input index would rise during the next quarter above the neutral level and the previous and corresponding quarters.

The wage index expectations reported by the small and medium-sized firms exceeded the neutral level by two points, albeit 25 points less than the previous quarter and two points better than the corresponding quarter. Large firms posted values in the wage index that are five points higher than the neutral level,

albeit 30 points lower than the previous quarter, but one point better than the corresponding quarter (Figure 3.5).



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 an increase in the investment index for large firms and a slight increase in the employment index for small and medium-sized firms.

Large firms expect the investment index to rise two points above the neutral level and the previous and corresponding quarters, while the employment index will remain stable, posting the same values as the previous quarter albeit one point higher than neutral. Small and medium firms expect a slight decrease by one point in the investment index compared with the previous quarter to record similar values to the corresponding quarter and stabilizing at the neutral level. They also expect a slight improvement by one point from the neutral level in the employment index compared with the previous quarter, registering similar values to the corresponding quarter (Figure 3.6).



Source: Survey results.

Tables Index

Table A1: Survey Results: Summary of all firms' performance evaluation at the sectoral level (January – February - March 2024)¹

Indicator	Manufacturing			Construction			Tourism			Transportation			Communications			Financial Services								
	Percentage Higher	Index ² Low	Index ² High	Percentage Higher	Index ² Low	Index ² High	Percentage Higher	Index ² Low	Index ² High	Percentage Higher	Index ² Low	Index ² High	Percentage Higher	Index ² Low	Index ² High	Percentage Higher	Index ² Low	Index ² High						
Economic activity																								
Production	23	30	47	41	21	50	29	48	50	30	20	62	0	8	92	8	38	50	13	58	19	6	75	24
Domestic sales	20	22	57	35	21	50	29	48	44	33	22	58	0	8	92	8	25	50	25	50	19	6	75	24
Exports	35	27	38	48					100	0	0	100				100	0	0	0	100				
Inventory	32	26	43	54																				
Capacity utilization	23	30	47	41	21	50	29	48	50	30	20	62	0	8	92	8	38	50	13	58	19	6	75	24
Prices																								
Final product prices	62	32	7	71	50	50	0	67	40	60	0	63	58	42	0	71	50	25	25	60	0	94	6	48
Intermediate product prices	82	17	2	16	86	14	0	13	100	0	0	0				71	14	14	25					
Wage level	83	17	0	86	57	43	0	70	100	0	0	100	67	33	0	75	88	13	0	89	94	6	0	94
Primary inputs																								
Investment	5	92	3	50	0	100	0	50	10	90	0	53	0	100	0	50	25	63	13	54	13	88	0	53
Employment	3	93	3	50	7	93	0	52	10	90	0	53	0	92	8	48	13	50	38	42	0	100	0	50

Table A2: Survey Results: Summary of all firms' outlook at the sectoral level (April – May - June 2024)¹

Indicator	Manufacturing			Construction			Tourism			Transportation			Communications			Financial Services								
	Percentage Higher	Index ² Low	Index ² High	Percentage Higher	Index ² Low	Index ² High	Percentage Higher	Index ² Low	Index ² High	Percentage Higher	Index ² Low	Index ² High	Percentage Higher	Index ² Low	Index ² High	Percentage Higher	Index ² Low	Index ² High						
Economic activity																								
Production	55	35	10	67	21	50	29	48	90	10	0	91	58	17	25	64	75	13	13	78	13	0	88	13
Domestic sales	54	33	13	65	21	50	29	48	89	11	0	90	58	17	25	64	38	50	13	58	13	0	88	13
Exports	38	54	8	60					100	0	0	100				100	0	0	0	100				
Inventory	21	48	31	54																				
Capacity utilization	55	35	10	67	21	50	29	48	90	10	0	91	58	17	25	64	75	13	13	78	13	0	88	13
Prices																								
Final product prices	8	43	48	36	0	64	36	39	10	90	0	53	0	100	0	50	25	63	13	54	0	100	0	50
Intermediate product prices	8	37	55	67	7	0	93	93	0	100	0	50				29	71	0	42					
Wage level	5	95	0	51	7	93	0	52	0	100	0	50	8	92	0	52	63	38	0	73	19	69	13	52
Primary inputs																								
Investment	2	97	2	50	0	100	0	50	0	100	0	50	0	100	0	50	25	75	0	57	13	75	13	50
Employment	5	93	2	51	14	86	0	54	0	100	0	50	0	100	0	50	25	75	0	57	6	81	13	48

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 Appendix

Table A3: Survey Results: Summary of all firms' past performance (by size)
(January - February - March 2024)¹

Variable	SMEs				Large Firms			
	Percentage			Index ²	Percentage			Index ²
	Higher	Same	Low	47	Higher	Same	Low	57
Economic activity								
Production	20	27	53	37	36	36	27	53
Domestic sales	17	23	60	33	33	33	33	50
Exports	35	25	40	48	64	18	18	69
Inventory	39	31	31	47	9	9	82	83
Capacity utilization	20	27	53	37	36	36	27	53
Prices								
Final product prices	50	43	7	65	45	55	0	65
Intermediate product prices	80	17	3	17	94	6	0	6
Wage level	82	18	0	84	82	18	0	85
Primary inputs								
Investment	3	94	3	50	23	77	0	56
Employment	5	90	5	50	0	95	5	49

Table A4: Survey Results: Summary of all firms' outlook (by size)
(April - May - June 2024)¹

Variable	SMEs				Large Firms			
	Percentage			Index ²	Percentage			Index ²
	Higher	Same	Low	55	Higher	Same	Low	59
Economic activity								
Production	47	26	28	58	64	32	5	72
Domestic sales	46	25	29	57	48	43	10	63
Exports	50	40	10	64	45	55	0	65
Inventory	19	47	33	55	25	50	25	50
Capacity utilization	47	26	28	58	64	32	5	72
Prices								
Final product prices	6	62	32	42	9	73	18	47
Intermediate product prices	8	35	56	68	12	53	35	58
Wage level	9	89	2	52	18	82	0	55
Primary inputs								
Investment	3	94	3	50	9	91	0	52
Employment	7	90	3	51	5	95	0	51

¹ Numbers represent percentage 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.