المركز المصري للدراسات الاقتصادية
The Egyptian Center for Economic Studies

Business Barometer

Issue 71 April – June 2024

Performance Evaluation during the period April – June 2024 and Outlook for the period July – September 2024 from the Business Community's point of view

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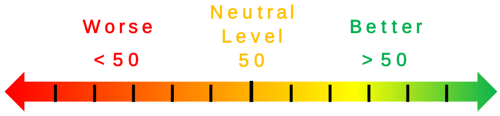
Executive Summary

Executive Summary

This report presents a periodic assessment conducted by the Egyptian Center for Economic Studies on a sample of 120 private sector firms, covering various sectors and sizes. It reflects the business community's opinions on developments across a set of variables, specifically: production, domestic sales and exports, commodity inventory, capacity utilization, prices, wages, employment, and investment, during the period (April - June 2024), along with their outlook for the period (July - September 2024) and comparisons with the previous quarter (January - March 2024) and the corresponding quarter (April - June 2023). Below is a brief overview of the key findings of the report for the study period (April - June 2024), focusing on significant developments regarding the macroeconomy and the overall Business Barometer Index results.[1]

Evaluating performance and exploring the outlook based on the overall index



The Business Performance Index declined during the study period after a fragile recovery in the previous quarter.

- A sharp decline in the performance index for large firms and continued deterioration for small and medium-sized enterprises (SMEs) during the current quarter.
- Performance indicators dropped across all sectors except for telecommunications, which remained stable.
- There was consensus that challenges related to rising inflation, followed by energy and water costs, and then tax system issues, were the biggest constraints facing firms.

All firms' expectations of stability in most indicators in the coming quarter

The Business Performance Index for the period (April - June 2024) decreased by five points from the neutral level, recording lower values than the previous quarter (January - March 2024) by seven points, and the same values as the corresponding quarter (April - June 2023). This decline reflects a drop in production, domestic sales, and export indicators for all firms, as well as continued increases in input prices due to import-related issues and the impact of geopolitical tensions in the Red Sea on global shipping. Additionally, there was an increase in final product prices, albeit at a slower rate than in previous quarters.

For large firms, the performance index dropped by 12 points compared to the previous quarter, recording the same values as the corresponding quarter. This suggests that the index rise in the previous quarter was only a temporary relief, and challenges resurfaced quickly. For SMEs, the performance index continued to deteriorate during the study period.

The performance index for the manufacturing, construction, transport, and financial services sectors continued to decline, while the performance of the tourism and telecommunications sectors, which had improved in the previous quarter, also saw a downturn. All sectors recorded values below the neutral level except for telecommunications, which recorded values below the neutral level.

[1] Data were compiled from early April to mid-May 2024.

Inflation-related challenges continued to top the list of constraints for all firms during the study period, followed by the continued rise in energy and water costs, which imposed an additional burden, especially as the government moves toward completely eliminating energy subsidies. The tax system ranks third as an obstacle to investment due to ongoing tax audits for previous years beyond the legally prescribed period, the lack of implementation of the capital gains tax law, and the imposition of taxes on training costs, even though this sector is legally exempt. Additionally, a large portion of firms' expenses remains unaccounted for by official invoices as they deal with the informal sector.

Despite the decline in the performance index, the performance expectations index for the next quarter (July - September 2024) recorded an increase by two points above the neutral level, though five points lower than the previous quarter and matching the values of the corresponding quarter. This reflects firms' expectations of stability in most indicators without recovery, particularly in production, sales, exports, capacity utilization, and final product prices. Intermediate input prices are expected to continue rising in the coming quarter, reflecting expectations of increased shipping costs and anticipated increases in domestic energy prices. Investment and employment indexes are expected to remain stable.

Top Priorities for Improving the Business Environment in Egypt According to the Sample of Firms:

Addressing high inflation continues to top the list of priorities that sampled firms believe must be addressed due to its negative impact on all sectors. Following this, there is **a need to resolve tax system issues**, prevent double taxation, stop audits for previous years, and complete the executive regulation for the capital gains tax law. Finally, there is a strong need **for clarity in economic policy** and for a long-term vision, allowing firms to develop future plans that align with the state's directions.

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

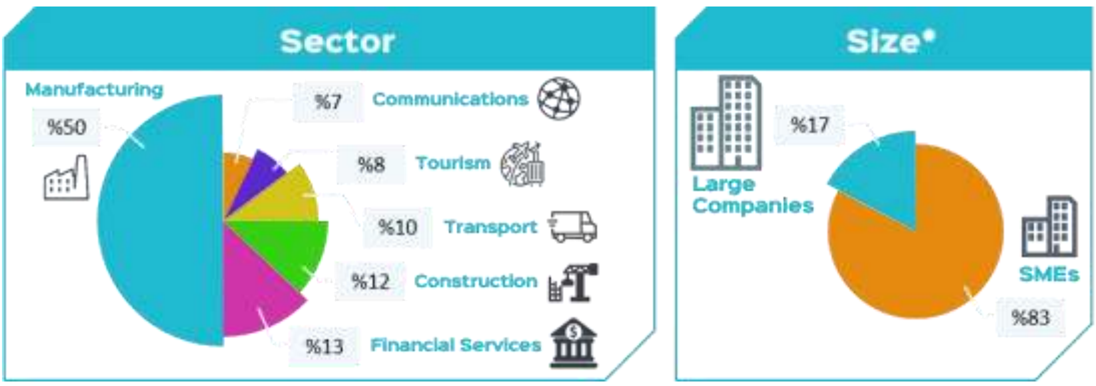
To complement its efforts in providing integrated information that reflects the developments witnessed by the Egyptian economy in general and the business community in particular, the Egyptian Center for Economic Studies (ECES) has been issuing its Business Barometer (BB) since 1998. The BB provides 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.

The significance of this issue of the Business Barometer increases in light of the challenges the business community has faced since early 2020, starting with the COVID-19 pandemic, followed by a recovery accompanied by many challenges in 2021, the Russian-Ukrainian war in early 2022, and most recently, the war in Gaza and geopolitical unrest in the Red Sea since October 2023, which has exacerbated these challenges. Therefore, it is important to track the impact of these developments.

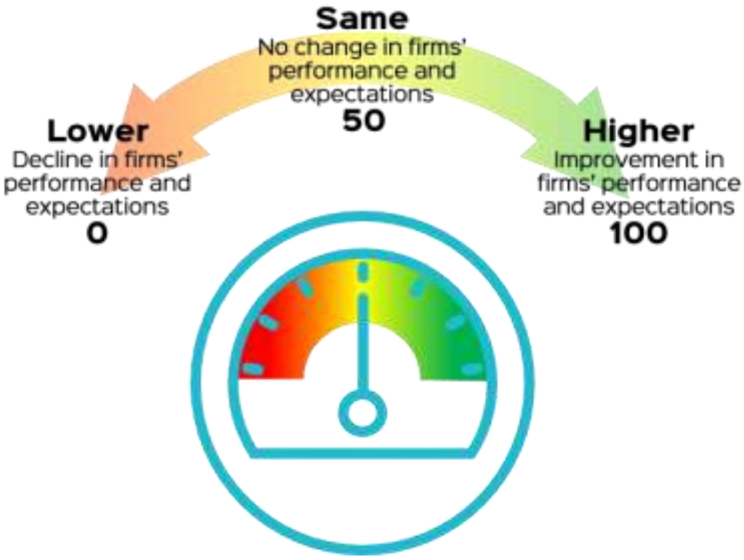
This report presents an evaluation of the sample firms' performance during the quarter (April-June 2024) and their expectations for the quarter (July-September 2024).

The report begins with an overview of the macroeconomy at both the global and local levels, then moves to the performance evaluation and expectations results at the level of the overall index. It then shifts to the constraints faced by the business community during the study period and the priorities for improving the business climate from the sample firms' perspective. Finally, the report concludes with an evaluation of performance and expectations at the level of the sub-indexes.

The Business Barometer is built based on the results of a periodic survey conducted by the center every three months on a fixed sample of 120 private sector firms distributed as follows:



- The analysis evaluates the performance of the sample firms during the study period and their expectations for the next quarter, compared to the results of the previous quarter and the corresponding quarter of the previous year.
- Performance and expectations are evaluated on two levels: the overall index results and the sub-indexes results.
- The Business Barometer Index represents a simple average of a set of sub-indexes for the variables mentioned in the questionnaire. The overall index takes values greater than, less than, or equal to the neutral level (50 points).



The index is calculated for each variable using this equation:

$$X = \frac{I + S}{100 + S} \times 100$$

where I is the share of firms reporting an increase and S the share of firms reporting "same."

Regarding the constraints and priorities for improving the business climate:

Firms evaluate the severity of each constraint, with the rating ranging from zero (not impactful) to four (highly impactful). Firms are allowed to choose more than one constraint. Regarding the priorities for improving the business climate, firms rate the priorities, with the rating for each axis ranging from zero (not important) to four (high priority). Firms are allowed to choose more than one axis as a priority for improving the business climate.

Next, a weighted average is calculated based on the number of firms and their evaluation of the constraint/priority across the entire sample.

All averages for constraints/priorities are re-evaluated to range between zero and one, followed by normalization of the new averages for all constraints/priorities. This allows for ranking the constraints/priorities in descending order according to their severity, with 100% being the most severe constraint and the 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, despite the beginning of global economic recovery and declining inflation, the outlook for growth and inflation for the coming period remains uncertain.

The International Monetary Fund's (IMF) forecasts in July 2024 are consistent with those issued in April regarding stable growth at 3.2% in 2024 and 3.3% in 2025. Emerging market economies in Asia remain the primary driver of the global economy, with growth expectations raised for India and China, which will account for nearly half of global growth. However, the growth outlook for the next five years remains weak.

Inflation in the services sector hampers the desired progress in slowing inflation rates, making it difficult to restore normal monetary policies, in addition to the price pressures arising from renewed trade and geopolitical tensions. The escalation of trade tensions could lead to increased short-term inflation risks by raising the cost of imported goods at various stages of the supply chain. Moreover, uncertainty surrounding the baseline scenario is increasing due to potential significant policy fluctuations linked to the upcoming U.S. elections, which could lead to negative global repercussions. These potential changes may result in risks from fiscal overextension, exacerbating debt dynamics, negatively affecting long-term returns, and fueling protectionism (IMF July 2024).

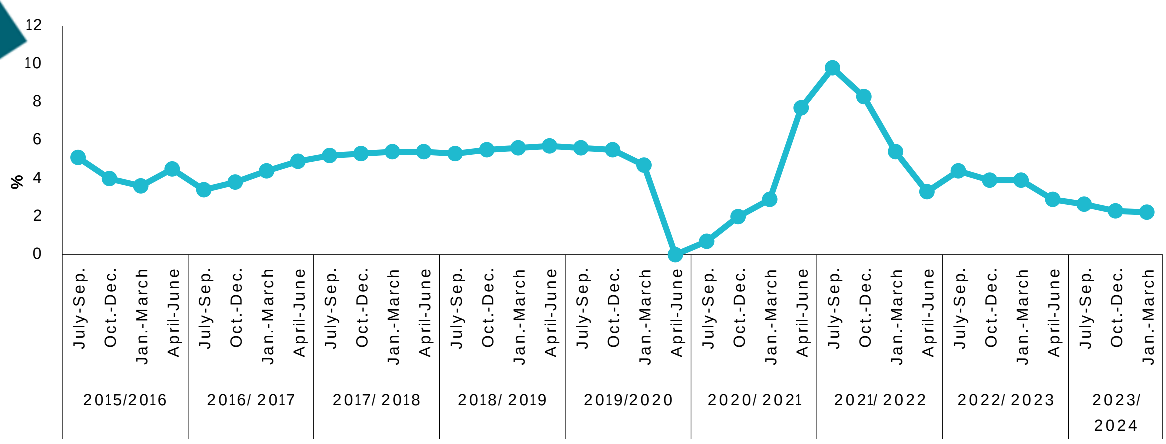
Global inflation is expected to decrease by about 11% from last year, reaching 5.9% by the end of 2024, driven by declining energy prices since the beginning of 2024, although these prices remain higher than the previous year. It is also expected that the pace of inflation slowdown in some advanced economies will decelerate. However, due to the continued inflation in services prices and rising commodity prices, inflation may exceed expected levels, increasing uncertainty about monetary policies in the coming period. It is noteworthy that price pressures are linked to the consequences of growing trade disruptions and geopolitical tensions, as well as the expected volatility in energy prices following the significant production cuts approved by OPEC+ countries (IMF July 2024).

Global economic recovery is still ongoing, driven by a rebound in the services sector, with the Purchasing Managers' Index exceeding the neutral level, recording 52.9 points in June 2024. However, average performance during the second quarter of 2024 indicates a slowdown in the services and industrial sectors compared to the first quarter, due to uncertainties associated with trade and political tensions, which may push inflation back to high levels.

Locally: Continued Economic Slowdown Reflects Domestic Challenges and the Impact of Regional and Global Geopolitical Tensions.

According to estimates from the Ministry of Planning and Economic Development, the growth rate continues its downward trajectory, recording 2.22% in the third quarter (January – March) of the 2023/2024 fiscal year. This represents a decrease of about 3% from the previous quarter and about 43% from the same quarter of the previous fiscal year. The growth rate is expected to reach 2.9% in the current 2023/2024 fiscal year, influenced by the slowdown in economic activity and the impact of geopolitical tensions in the region.

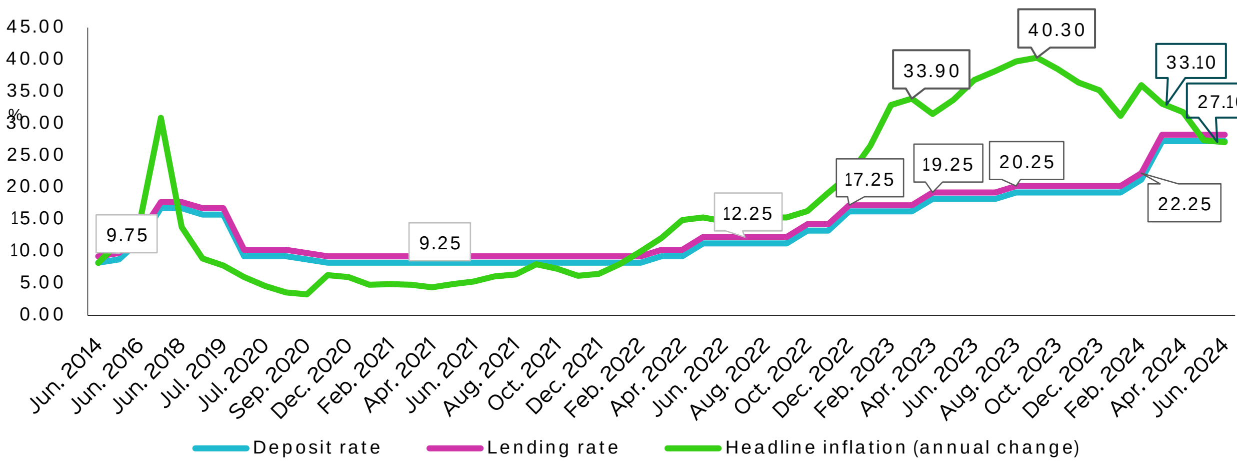
Figure 1: Real GDP Growth (2015/2016 – Q3 2023/2024)



Source: Ministry of Planning and Economic Development

- According to data from the Central Agency for Public Mobilization and Statistics (CAPMAS), the annual inflation rate decreased to 29.4% during the April–June 2024 quarter, down from the previous and corresponding quarters. However, the average annual inflation rate for the 2023/2024 fiscal year, which reached 33.3%, remains at least 10 percentage points higher compared to the previous fiscal year (CAPMAS, 2024).
- To reinforce the sustainable downward trajectory of inflation, the Central Bank of Egypt's MPC decided to keep the overnight deposit and lending rates, and the main operation rate, unchanged at 27.25%, 28.25%, and 27.75%, respectively. The credit and discount rate was also kept at 27.75%. Inflationary pressures continued to ease.

Figure 2: Inflation and Key Interest Rates

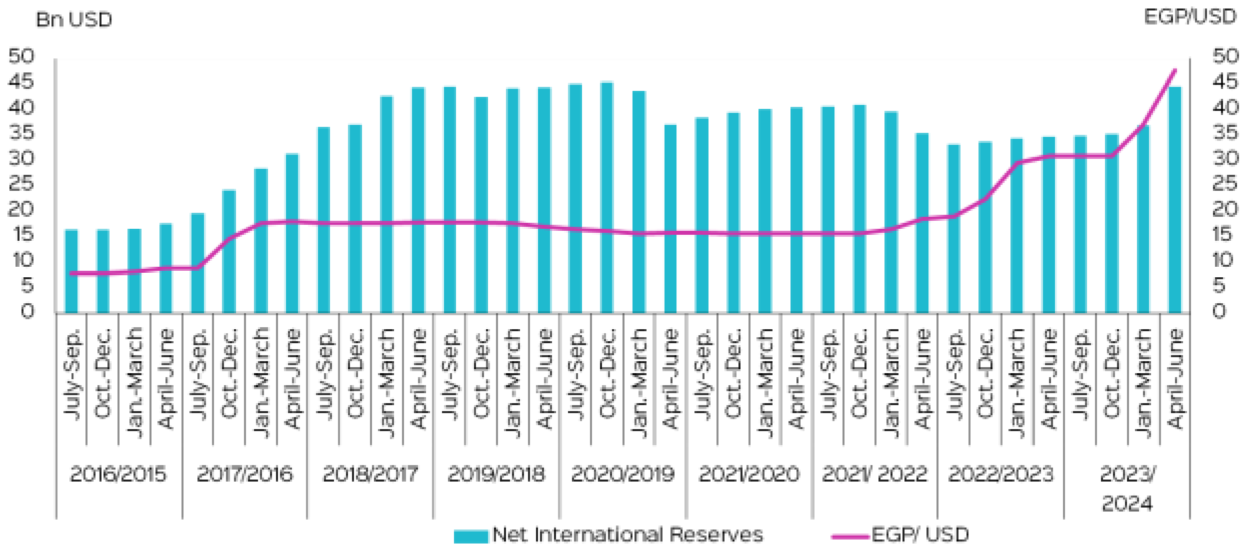


Sources: Central Bank of Egypt, Monthly Statistical Bulletin; Press release on the exceptional meeting of the Monetary Policy Committee on March 6, 2024; CAPMAS, Monthly Bulletin of Consumer Price Indexes, various issues.

- On the external transactions front: The balance of payments recorded an overall surplus of about $4.1 billion during the period July-March of the 2023/2024 fiscal year (compared to a total deficit of $409.6 million in the first half of 2023/2024). This was due to the net inflow of capital and financial transactions, which amounted to approximately $20 billion, following a package of reforms implemented by the government on March 6, 2024. These reforms led to an increase in net foreign direct investment, which reached $23.7 billion, and a reversal in portfolio investment flows to a net inflow of $14.6 billion. Meanwhile, the current account deficit widened to $17.1 billion (compared to $9.6 billion in the first half of 2023/2024), due to the petroleum trade balance deficit of $5.1 billion, a drop in petroleum exports by $7.2 billion, a decrease in petroleum imports by about $403.1 million, a 7.4% decline in Suez Canal revenues, and a 17.1% decline in remittances from Egyptians abroad (Central Bank of Egypt, 2024).

- Egypt's external debt decreased to $160.60 billion by the end of Q3 (January-March) of 2023/2024, a decline of about 2% from the previous quarter and about 3% from the same quarter of the previous year (Central Bank of Egypt, 2024).
- For the second time in a row, net foreign assets in Egypt's banking system showed a surplus, reaching $13 billion in June 2024, about $1 billion less than in May 2024. This surplus was supported by the inflows from the "Ras Al-Hikma" deal and improved inward financial flows following the currency devaluation in March 2024.
- The Central Bank of Egypt announced an increase in Egypt's net international reserves to $46.38 billion by the end of June 2024, compared to about $46.13 billion in May 2024. As a result, the average net reserves increased by about 20% during the April–June 2024 quarter compared to the previous quarter and by about 28% compared to the same quarter in 2023. The Egyptian pound lost about 33% of its value during the April–June 2024 quarter compared to the previous quarter and about 54% compared to the April–June 2023 quarter (Figure 3).

Figure 3: Net International Reserves and Exchange Rate



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

- In terms of public finances, the overall deficit in the state budget as a percentage of GDP during the period July-May 2023/2024 decreased to 3.57% from 6.09% in the corresponding quarter of the previous year. This was due to a 74% growth in revenues during the current quarter compared to the same quarter, while expenditures grew by only 43% during the same period.
- On July 29, 2024, the Executive Board of the International Monetary Fund (IMF) completed the third review under the Extended Fund Facility (EFF) for Egypt, allowing the country to access $820 million (618.1 million Special Drawing Rights), representing the third tranche. The review report indicated that the government's recent efforts to restore economic stability are beginning to yield

positive results, with inflationary pressures gradually easing, the foreign exchange shortage being resolved, and fiscal targets being met (including halting spending on large infrastructure projects). These improvements have positively impacted investor confidence and private sector sentiment.

- The report emphasized the importance of maintaining a flexible exchange rate and a free foreign exchange system to avoid the buildup of external imbalances. Additionally, continued fiscal consolidation and energy sector reforms are necessary to support the downward trajectory of public debt, mobilize revenues, and make funds available for education and healthcare spending. The report stressed the importance of completing structural reforms, including accelerating the state's withdrawal from economic activities, improving the business environment by facilitating firms' establishment, easing trade, supporting competition, strengthening the financial sector, and improving governance in the banking sector.
- The report highlighted certain risks that may hinder Egypt's economic recovery. These risks include regional instability due to the escalating war in Gaza and disruptions to trade in the Red Sea. Additional risks relate to the inability to adhere to policies regarding exchange rate flexibility, inflation control, and the continuation of structural reforms.

Business Barometer Index (BBI)

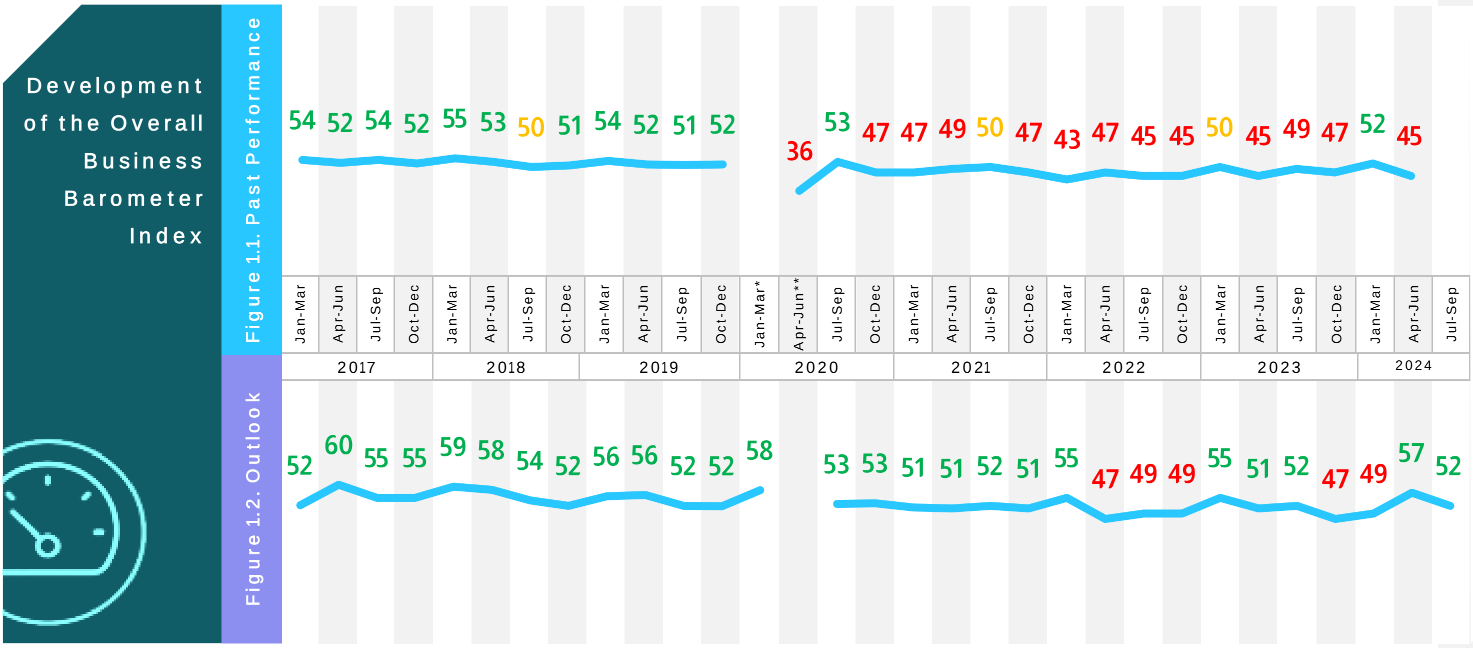
I. Past performance evaluation and outlook according to the overall Business Barometer Index

Decline in the Business Performance Index During the Quarter Under Study After a Fragile Recovery in the Previous Quarter, With Varying Performance and Expectations Across Sectors

1.1. Development of the overall index

The Business Performance Index for the quarter under study (April – June 2024) dropped by five points below the neutral level, marking a seven-point decline from the previous quarter and the same values as the corresponding quarter. This reflects a decline in production, domestic sales, and exports for all firms, as well as continued rising input prices due to import-related issues, the impact of geopolitical tensions in the Red Sea on global shipping, and rising final product prices, albeit at a slower rate than in previous and corresponding quarters (Figure 1-1).

Despite the decline in the Business Performance Index, the Performance Expectations Index for the quarter (July – September 2024) rose by two points above the neutral level, although it was five points lower than the previous quarter and the same as the corresponding quarter. This reflects firms' expectations of a steady performance in most indicators in the upcoming quarter, without recovery, particularly in production, sales, exports, capacity utilization, and final product prices. Meanwhile, intermediate input prices are expected to continue rising due to anticipated increases in shipping costs and energy prices domestically, with investment and employment indicators remaining stable (Figure 1-2).



Source: Survey results.

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

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

1.2. Index according to firm size

The performance index for large firms declined by 12 points compared to the previous quarter, registering the same values as the corresponding quarter. This indicates that the rise in the index during the previous quarter was a temporary relief for firms, and challenges quickly reemerged. The performance index for small and medium-sized enterprises (SMEs) continued to deteriorate during the quarter under study (Figure 1-3).

Regarding the expectations index, all firms recorded values two points above the neutral level, but lower than those of the previous quarter. Comparing the expectations index with the corresponding quarter shows that the index remained stable for large firms and improved by one point for small firms (Figure 1-4).

Large Firms	Figure 1.3. BBI by Firm Size Past Performance	SMEs
45	Apr – Jun 2024	45
57	Jan – Mar 2024	47
45	Apr – Jun 2023	45

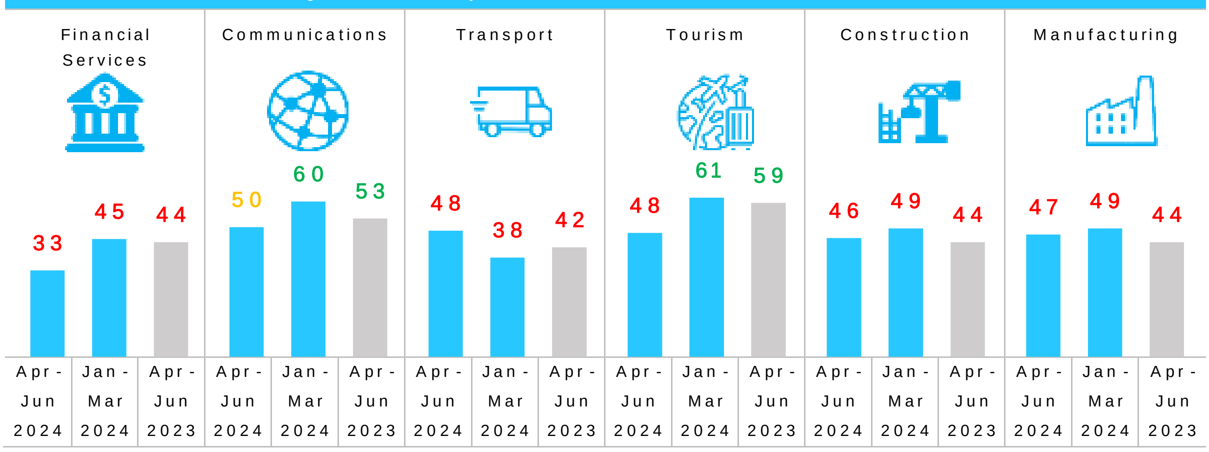
Large Firms	Figure 1.4. BBI by Firm Size Outlook	SMEs
52	Jul – Sep 2024	52
59	Apr – Jun 2024	55
52	Jul – Sep 2023	51

Source: Survey results.

1.3. Index according to economic sector

Compared to the previous and corresponding quarters, the performance index for all sectors fell below the neutral level, except for the telecommunications sector, which recorded values at the neutral level. The performance index continued to decline for **manufacturing, construction, transport, and financial services** sectors, while the **tourism and telecommunications** sectors saw a decline after improvement in the previous quarter (Figure 1-5).

Figure 1.5. BBI by Economic Sectors - Past Performance



Source: Survey results.

The following is an analysis of the economic sectors' performance during the quarter under study, based on survey sample feedback, compared to performance in the previous and corresponding quarters:

- **The manufacturing sector** recorded values three points below the neutral level, two points lower than the previous quarter but three points better than the corresponding quarter. This decline is due to several factors, including a drop in production, exports, sales, and capacity utilization, along with inventory accumulation reflecting issues in both supply and demand. Inflation reduced purchasing power, while production costs increased due to the unavailability of raw materials, rising prices, and global shipping disruptions, leading to higher final product prices. Additionally, there was a working capital shortfall due to delayed export support payments and multiple tax burdens.

- **The construction sector** recorded values four points below the neutral level during the quarter under study, three points lower than the previous quarter but two points better than the corresponding quarter. The decline in performance is attributed to decreased production and sales due to significant and unstable raw material prices, inability to set pricing, market liquidity issues, ongoing licensing challenges, and the slow implementation of the new reconciliation law.

- **The tourism sector** recorded values two points below the neutral level, lower than in both the previous and corresponding quarters. The decline in performance is due to decreased international tourism resulting from current geopolitical events and a decline in domestic tourism due to inflation.

- **The transport sector** recorded values two points below the neutral level due to decreased production, sales, and capacity utilization, with other indicators remaining steady. However, this performance is better than in both the previous and corresponding quarters. The sector's weakness reflects reduced import and export activities due to foreign currency shortages, high shipping costs, insufficient container availability, global shipping disruptions, and ongoing geopolitical conflicts, in addition to the weak performance of most sectors reliant on transport.

- **The telecommunications sector's** performance was at the neutral level during the quarter under study, lower than in both the previous and corresponding quarters. This is attributed to steady production and sales indicators from the previous quarter, despite an increase in exports. Rising raw material prices, a labor force migration, and firms' efforts to reduce maintenance costs led to decreased capacity utilization.

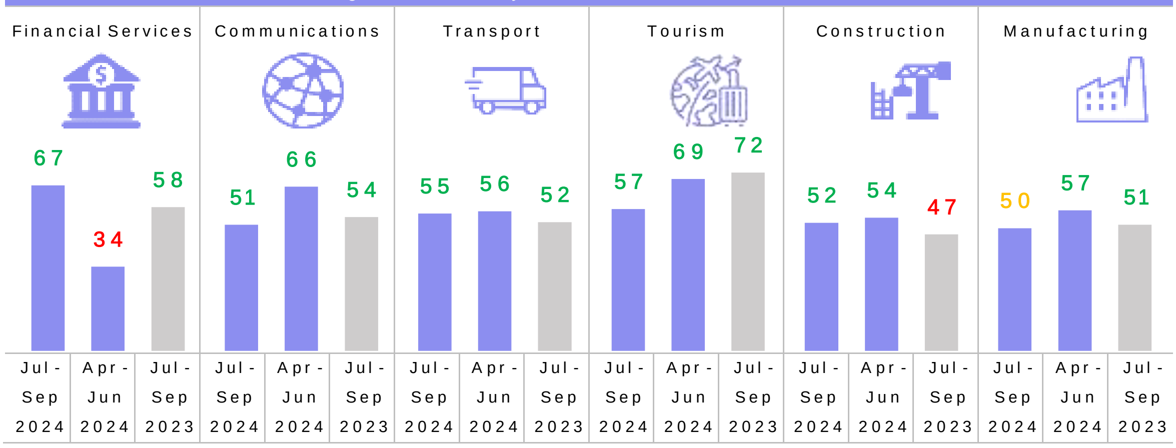
- **The financial services sector** was the worst-performing sector, with values 17 points below the neutral level and lower than in both the previous and corresponding quarters. This was due to declining trading volumes, driven by the Central Bank's monetary measures, including sustained high interest rates and treasury bill yields, which deterred market participants from trading toward the end of the quarter under study.

Despite the decline in the performance index for all sectors, the expectations index exceeded the neutral level for the **construction, tourism, transport, telecommunications, and financial services** sectors, while the **manufacturing** sector's expectations were at the neutral level. This performance is lower than in the previous quarter for **manufacturing, construction, tourism, transport, and telecommunications**, but higher for the **financial services** sector only. This reflects expectations of steady production, sales, and exports for the **manufacturing, construction, and telecommunications** sectors, while improvement is anticipated in the **tourism, transport, and financial services** sectors. All firms expect an increase in input prices in the next quarter.

The following is an analysis of the expected performance of economic sectors for the upcoming quarter, compared to the previous and corresponding quarters:

- **The manufacturing sector** had the lowest expectations for the upcoming quarter, with values at the neutral level, lower than in both the previous and corresponding quarters. This reflects steady expectations for all indicators except input prices, which are expected to rise, indicating continued challenges, particularly in imported raw materials. Thus, the sector is expected to maintain current production rates amid weak domestic and international markets, as Egyptian products are less competitive due to high production costs compared to regional competitors.
- **The construction sector's** expectations exceeded the neutral level by two points, lower than in the previous quarter by two points but five points higher than the corresponding quarter. This is due to expectations of similar performance to the previous quarter, rising raw material and final product prices, licensing challenges, and slow progress with the new reconciliation law.
- **The tourism sector's** expectations exceeded the neutral level by seven points, but were lower than in both the previous and corresponding quarters. This may be due to an anticipated increase in domestic tourism with the start of the summer season, holidays, higher occupancy rates in hotels and resorts, and increased demand for airline bookings.
- **The transport sector** expectations for the upcoming quarter are optimistic, with values five points above the neutral level, one point lower than the previous quarter but three points higher than the corresponding quarter. This is due to expectations of increased import activity with anticipated improvements in foreign currency inflows and a recovery in the tourism sector.
- **The telecommunications sector** expectations were one point above the neutral level, lower than in both the previous and corresponding quarters. This is due to expected steady performance in all sub-indicators, partial release of raw materials, continued call for e-invoicing, and the ongoing "Decent Life" initiative.
- **The financial services sector** had the best expectations, with values 17 points above the neutral level, higher than in both the previous and corresponding quarters. This is due to expectations of new IPOs and foreign investments in light of declining global markets and the devaluation of the local currency (Figure 1-6).

Figure 1.6. BBI by Economic Sectors - Outlook



Source: Survey results.

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

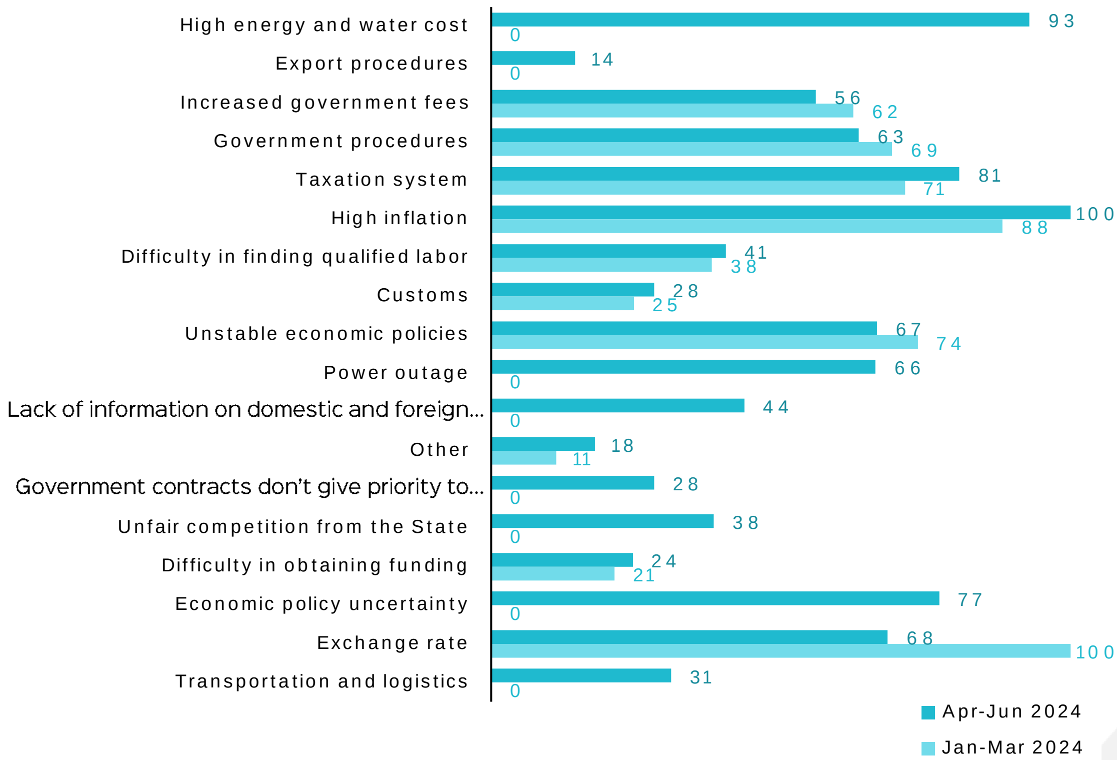
2.1. Constraints faced by the businesses during the quarter under study

There is consensus that challenges related to rising inflation, energy and water costs, followed by issues with the tax system, represent the biggest constraints facing firms during the study quarter.

Figure 2-1 illustrates the main constraints faced by the business community during the study quarter (April - June 2024), ranked in descending order according to their severity as perceived by the sample firms.

Constraints facing the Business community during the Quarter under Review

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



Source: Survey Results.
Note: Some indicators were newly introduced starting from the study quarter.
The numbers refer to the percentage of firms that identified specific obstacles, and firms could select more than one obstacle.

Inflation-related challenges surged to the top of the list for all firms during the current quarter, causing significant strain on the business community due to increased operating costs, weak demand resulting from decreased purchasing power, reduced supply, continuous demands for wage increases, reduced business volume, and lack of liquidity for investment. **Rising energy and water costs** ranked second, as the ongoing increase in these costs adds extra burden on firms, especially in light of the government's trend toward fully removing energy subsidies. **The tax system** ranked third as an investment constraint due to ongoing practices of tax examination for previous years beyond the legally prescribed period, the absence of executive regulations for capital gains tax, and the imposition of taxes on training costs within firms, despite legal exemptions. Additionally, a significant portion of firms' expenses are not documented by e-invoices due to their occurrence within the informal sector. **The lack of clarity regarding future economic policy directions** also negatively impacts firms, preventing them from planning in alignment with state strategies and long-term visions, particularly concerning investment and debt. **Exchange rate challenges** ranked fifth, as businesses are suffering from the appreciating dollar against the pound and its unavailability, leading to increased prices for most goods and services and reduced competitiveness in foreign markets.

2.1.1. Constraints according to firm size

Both **large and small/medium-sized firms** agreed that rising inflation topped the list of constraints. For large firms, **exchange rate challenges and the lack of clarity on future economic policies** were the most severe constraints, while energy and water costs and tax system issues were greater barriers for small and medium-sized enterprises (SMEs).

Figure 2-2 shows the main constraints faced by large and small/medium-sized firms during the study quarter (April – June 2024), ranked in descending order of severity as perceived by the sample of firms.

Large Firms	Figure 2.2. Constraints Facing the Business Community during the Quarter under Review according to Firm Size	SMEs
80	High energy and water cost	96
25	Export procedures	12
42	Increased government fees	59
48	Government procedures	67
71	Taxation system	83
100	High inflation	100
35	Difficulty in finding qualified labor	42
43	Customs	25
69	Unstable economic policies	66
46	Power outage	70
40	Lack of information on domestic and foreign markets	44
18	Other	18
23	Government contracts don't give priority to locally manufactured products	29
28	Unfair competition from the State	41
29	Difficulty in obtaining funding	23
82	Economic policy uncertainty	77
85	Exchange rate	65
29	Transportation and logistics	31

Source: Survey Results.

Note: Some indicators were newly introduced starting from the study quarter.

2-1-2 Constraints According to Economic Sectors

There is variation in constraints across economic sectors. **Inflation** was the most severe challenge for the **manufacturing, tourism, and telecommunications** sectors, while **power outages** were the top constraint in the construction sector. **Rising energy and water costs** were the most significant barriers for the **transportation and tourism** sectors. For the financial services sector, the main constraints were **tax system issues** and the lack of clarity on future economic policies (Figure 2-3).

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

	Financial Services	Communications	Transport	Tourism	Construction	Manufacturing
High energy and water cost	89	96	100	100	90	41
Increased government fees	64	65	46	21	45	20
Government procedures	68	71	85	0	77	17
Export procedures	25	0	0	12	0	0
Taxation system	67	79	97	36	84	100
Difficulty in finding qualified labor	49	38	23	0	74	4
High inflation	100	96	100	94	100	48
Customs	43	4	0	0	48	0
Unstable economic policies	57	73	41	36	65	98
Power outage	49	100	64	67	58	70
Lack of information on domestic and foreign markets	51	25	28	33	68	11
Other	9	8	33	36	39	15
Economic policy uncertainty	72	88	26	61	58	100
Difficulty in obtaining funding	20	29	31	24	58	0
Transportation and logistics	32	38	46	12	39	0
Exchange rate	76	94	15	85	26	28
Government contracts don't give priority to locally manufactured products	36	29	5	0	35	9
Unfair competition from the State	29	98	28	0	71	11

Source: Survey Results.

Note: Some indicators were newly introduced starting from the study quarter.

It is notable that despite receiving priority from the government, the **construction sector** continues to face several constraints beyond inflation and energy costs, including **power outages, unfair competition from the state, and exchange rate** challenges.

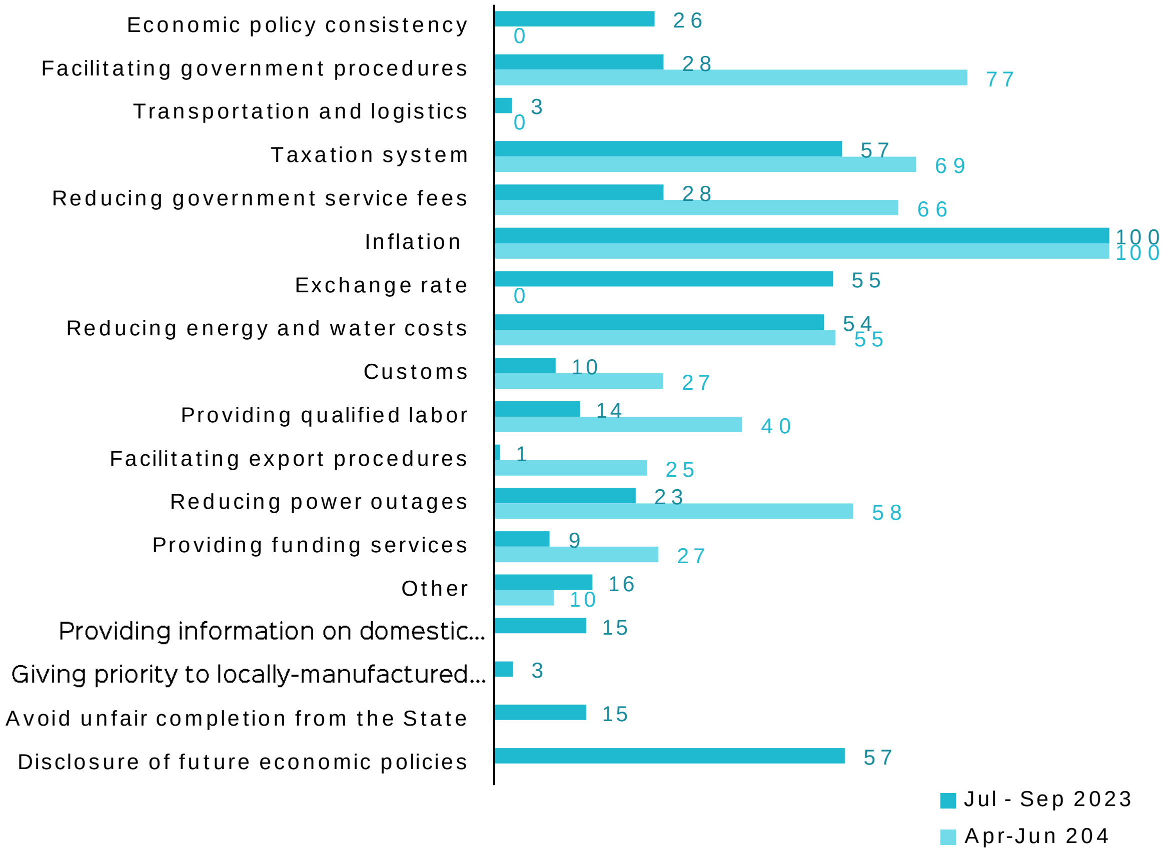
2-2 Priorities for improving the business environment in Egypt (according to the surveyed firms)

The key priorities that firms believe should be addressed include reducing inflation, resolving tax-related issues, and clarifying future economic policy directions.

Addressing rising inflation remained at the top of the priorities as it negatively impacts all sectors, followed by resolving tax system issues, eliminating double taxation, ceasing tax inspections for previous years, completing the legal regulations for capital gains tax, and clarifying future economic policies to ensure long-term vision alignment with state plans (Figure 2-4).

Figure 2.4. Priorities to Improve the Business Environment in Egypt

(A Normalized Index based on Significance of Priorities)



Source: Survey Results.

Note: Some indicators were newly introduced starting from the study quarter.

2.2.1. Priorities according to Firm Size

A comparison of priorities by firm size shows the following:

Addressing **inflation** topped the list for **all firms**, while the other priorities varied. **Large firms** prioritized **clarity on future economic policies and the exchange rate**, while **small and medium-sized firms** focused on the **tax system and reducing energy and water costs** (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)

Large Firms		SMEs
23	Economic policy consistency	27
23	Facilitating government procedures	29
8	Transportation and logistics	2
38	Taxation system	61
31	Reducing government service fees	27
100	Inflation	100
54	Exchange rate	55
31	Reducing energy and water costs	59
0	Customs	13
23	Providing qualified labor	13
8	Facilitating export procedures	0
23	Reducing power outages	36
8	Providing funding services	9
38	Other	11
31	Providing information on domestic and foreign markets	11
0	Giving priority to locally-manufactured products in government contracts	4
8	Avoid unfair completion from the State	16
62	Disclosure of future economic policies	55

Source: Survey Results.

Note: Some indicators were newly introduced starting from the study quarter.

2.2.2. Priorities according to Economic Sectors

The **manufacturing, construction, and tourism sectors** agreed that controlling **inflation** was the top priority. The **telecommunications sector** prioritized **improving the tax system**, while the **financial services sector** focused on **clarifying future economic policies**. For the **transport sector**, **reducing energy and water costs and inflation control** were the top priorities (Figure 2-6).

Figure 2.6. Priorities to Improve the Business Environment in Egypt According to Economic Sector

(A Normalized Index based on Significance of Priorities)

	Financial Services	Communications	Transport	Tourism	Construction	Financial Services
Economic policy consistency	14	9	13	33	0	75
Facilitating government procedures	36	18	13	0	60	0
Transportation and logistics	0	0	0	17	20	0
Taxation system	39	18	88	17	100	83
Reducing government service fees	44	9	0	33	0	0
Inflation	100	100	100	100	80	33
Exchange rate	61	91	0	67	0	17
Reducing energy and water costs	47	27	88	100	40	17
Customs	8	0	0	0	80	0
Providing qualified labor	19	9	13	0	20	0
Facilitating export procedures	3	0	0	0	0	0
Reducing power outages	25	27	13	67	0	50
Providing funding services	0	0	25	17	60	0
Other	14	0	13	33	0	25
Providing information on domestic and foreign markets	22	0	0	33	0	0
Giving priority to locally-manufactured products in government contracts	6	0	0	0	0	0
Avoid unfair completion from the State	6	55	13	0	20	0
Disclosure of future economic policies	56	18	0	83	0	100

Source: Survey results.

Addressing the exchange rate problem emerged as a priority in both the **manufacturing and construction sectors. Reducing energy and water costs**, alongside **solving tax system issues**, was a top priority for the **tourism sector**. **Inflation control and customs challenges** were prioritized by the **telecommunications sector**, while **solving tax system problems** was an additional priority for the **financial services sector.**

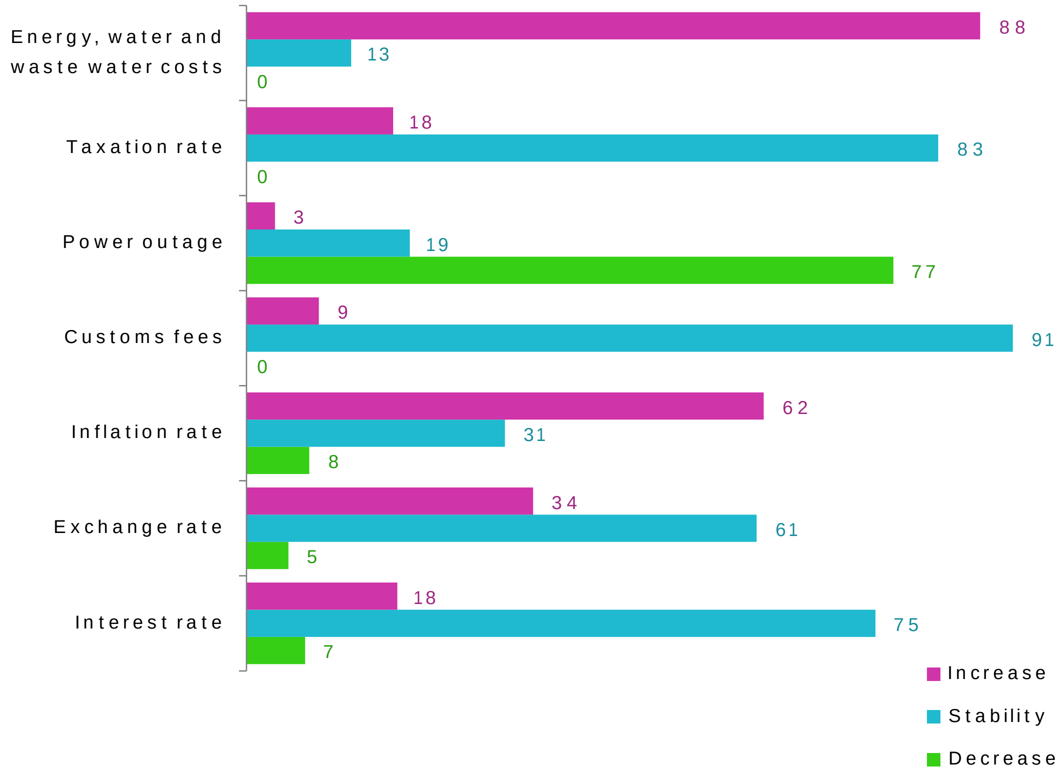
The business community's expectations of improvements based on its perception of the Government's current directions

Expectations of Rising Energy, Water, and Sewage Prices Alongside Decreased Electricity Outages

88% of sampled firms expect **an increase in energy, water, and sewage prices**, while 77% foresee **a reduction in electricity outages**. Additionally, 62% predict **a rise in inflation rates**. **The rest of the variables remained stable** (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.

Note: Some indicators were newly introduced starting from the current quarter.

III. Performance evaluation and outlook according to sub-indexes

3.1. Performance evaluation

Decline in performance indicators for all firms below the neutral level

Large firms experienced a decline in performance indicators during the current quarter, with all values falling below the neutral level. This follows a temporary recovery in the previous quarter, especially in **exports and inventory levels**. However, their performance in the current quarter is better compared to the same quarter of the previous year.

Small and medium-sized enterprises (SMEs) also saw a decline in performance indicators during the quarter, with all measures falling below the neutral level. However, there was a relative improvement in some indicators compared to the previous quarter and corresponding quarter, especially in **production, local sales, capacity utilization, and inventory levels**.

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

Large Firms	Period	Indicator	Period	SMEs
40	Apr – Jun 2024	Production	Apr – Jun 2024	43
53	Jan – Mar 2024		Jan – Mar 2024	37
31	Apr – Jun 2023		Apr – Jun 2023	41
36	Apr – Jun 2024	Domestic Sales	Apr – Jun 2024	40
50	Jan – Mar 2024		Jan – Mar 2024	33
27	Apr – Jun 2023		Apr – Jun 2023	38
45	Apr – Jun 2024	Exports	Apr – Jun 2024	47
69	Jan – Mar 2024		Jan – Mar 2024	48
50	Apr – Jun 2023		Apr – Jun 2023	44
40	Apr – Jun 2024	Capacity Utilization	Apr – Jun 2024	43
53	Jan – Mar 2024		Jan – Mar 2024	37
36	Apr – Jun 2023		Apr – Jun 2023	41
44	Apr – Jun 2024	Inventory*	Apr – Jun 2024	39
83	Jan – Mar 2024		Jan – Mar 2024	47
54	Apr – Jun 2023		Apr – Jun 2023	55

Source: Survey results.

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

Input and Final Product Prices Continue to Rise but at a Slower Rate Compared to the Previous and Corresponding Quarters

The final product price index recorded lower values than the previous and corresponding quarters, while the **input** price index showed higher values for all firms. The **wage index** continued to rise above the neutral level, reflecting stable wages during the current quarter after an increase in the previous one (Figure 3-2).

Figure 3.2. Price and Production Cost Indexes by Firm Size – Performance Evaluation

Large Firms	Period	Indicator	Period	SMEs
57	Apr – Jun 2024	Final Product Prices	Apr – Jun 2024	56
65	Jan – Mar 2024		Jan – Mar 2024	65
76	Apr – Jun 2023		Apr – Jun 2023	67
28	Apr – Jun 2024	Input Prices*	Apr – Jun 2024	34
6	Jan – Mar 2024		Jan – Mar 2024	17
14	Apr – Jun 2023		Apr – Jun 2023	8
54	Apr – Jun 2024	Wages	Apr – Jun 2024	54
85	Jan – Mar 2024		Jan – Mar 2024	84
58	Apr – Jun 2023		Apr – Jun 2023	56

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.

Stability in firms and employment indicators for all firms

- **For large firms**, both the **investment and employment** indicators remained above the neutral level during the current quarter, reflecting stability rather than improvement.
- **For SMEs**, the **investment** indicator remained neutral, matching the previous quarter's values, while the **employment** indicator fell two points below neutral, similar to the previous and corresponding quarters (Figure 3-3).

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

Large Firms	Period	Indicator	Period	SMEs
54	Apr – Jun 2024	Investment	Apr – Jun 2024	50
56	Jan – Mar 2024		Jan – Mar 2024	50
52	Apr – Jun 2023		Apr – Jun 2023	49
52	Apr – Jun 2024	Employment	Apr – Jun 2024	48
49	Jan – Mar 2024		Jan – Mar 2024	50
49	Apr – Jun 2023		Apr – Jun 2023	49

Source: Survey results.

3.2. Performance expectations

Lower Expectations for the Next Quarter Compared to the Previous Quarter, but Above Neutral for Most Indicators

All firms provided their expectations for **production, local sales, exports, and capacity utilization** for the next quarter (July – September 2024), with values above neutral, though lower than the previous quarter. However, expectations for **inventory** were below neutral and the previous quarter's values.

Compared to the corresponding quarter last year, **all firms** reported lower values for **inventory**, while **large firms** reported five-point lower values for **production and capacity utilization**. **Local sales** were one point higher, and **exports** were three points higher. SMEs matched the same values for **exports and capacity utilization**, with **production** one point lower and **local sales** two points lower (Figure 3-4).

Figure 3.4. Production and Sales Indexes by Firm Size – Outlook

Large Firms	Period	Indicator	Period	SMEs
56	Jul – Sep 2024	Production	Jul – Sep 2024	56
72	Apr – Jun 2024		Apr – Jun 2024	58
61	Jul – Sep 2023		Jul – Sep 2023	57
58	Jul – Sep 2024	Domestic Sales	Jul – Sep 2024	55
63	Apr – Jun 2024		Apr – Jun 2024	57
57	Jul – Sep 2023		Jul – Sep 2023	57
53	Jul – Sep 2024	Exports	Jul – Sep 2024	55
65	Apr – Jun 2024		Apr – Jun 2024	64
50	Jul – Sep 2023		Jul – Sep 2023	55
56	Jul – Sep 2024	Capacity Utilization	Jul – Sep 2024	56
72	Apr – Jun 2024		Apr – Jun 2024	58
61	Jul – Sep 2023		Jul – Sep 2023	56
47	Jul – Sep 2024	Inventory*	Jul – Sep 2024	48
50	Apr – Jun 2024		Apr – Jun 2024	55
42	Jul – Sep 2023		Jul – Sep 2023	46

Source: Survey results.

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

Expectations of Increased Input Prices for All firms for the Next Quarter

For **large firms**, the outlook index for **final product prices** rose above neutral and the previous quarter but was one point lower than the corresponding quarter last year. The **wage index** rose four points above neutral and the corresponding quarter last year, although it was one point lower than the previous quarter.

For **SMEs**, the final **product price index** rose above neutral and both the previous and corresponding quarters, driven by rising input prices. The **wage** outlook showed an increase of three points above neutral, one point higher than the previous quarter, and two points higher than the corresponding quarter of last year (Figure 3-5).

Figure 3.5. Prices and Production Cost Indexes by Firm Size - Outlook

Large Firms		Index		SMEs
61	Jul – Sep 2024	Final Product Prices	Jul – Sep 2024	64
47	Apr – Jun 2024		Apr – Jun 2024	42
62	Jul – Sep 2023		Jul – Sep 2023	59
30	Jul – Sep 2024	Input Prices*	Jul – Sep 2024	30
58	Apr – Jun 2024		Apr – Jun 2024	68
32	Jul – Sep 2023		Jul – Sep 2023	34
54	Jul – Sep 2024	Wages	Jul – Sep 2024	53
55	Apr – Jun 2024		Apr – Jun 2024	52
50	Jul – Sep 2023		Jul – Sep 2023	51

Source: Survey results.

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

Stable Employment outlook for All firms Compared to the Previous Quarter

Large firms expect stability in the **investment index** at the neutral level, similar to the corresponding quarter last year, but two points lower than the previous quarter. The **Employment** outlook showed a one-point rise above neutral and the corresponding quarter.

SMEs expect the **investment index** to remain neutral, similar to the previous quarter but one point lower than the corresponding quarter. A slight increase of one point above neutral and the corresponding quarter's values is expected for the **employment outlook** (Figure 3-6).

Figure 3.6. Investment and Employment Indexes by Firm Size - Outlook

Large Firms		Index		SMEs
50	Jul – Sep 2024	Investment	Jul – Sep 2024	50
52	Apr – Jun 2024		Apr – Jun 2024	50
50	Jul – Sep 2023		Jul – Sep 2023	49
51	Jul – Sep 2024	Employment	Jul – Sep 2024	51
51	Apr – Jun 2024		Apr – Jun 2024	51
50	Jul – Sep 2023		Jul – Sep 2023	51

Source: Survey results.

Tables Index

Table A1: Survey Results: Summary of all firms' performance evaluation at the sectoral level (April - May - June 2024)[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	47	Higher	Same	Low	46	Higher	Same	Low	48	Higher	Same	Low	48	Higher	Same	Low	50	Higher	Same	Low	33
Economic activity																								
Production	33	25	42	47	29	21	50	41	10	70	20	47	33	17	50	43	25	63	13	54	0	13	88	11
Domestic sales	31	19	50	42	36	14	50	44	10	70	20	47	33	17	50	43	13	75	13	50	0	13	88	11
Exports	27	30	43	44	_	_	_	_	_	_	_	_	_	_	_	_	67	33	0	75	_	_	_	_
Inventory	42	44	14	40	_	_	_	_	_	_	_	_	_	_	_	_	_	_	_	_	_	_	_	_
Capacity utilization	33	25	42	47	29	21	50	41	10	70	20	47	33	17	50	43	25	63	13	54	0	13	88	11
Prices																								
Final product prices	40	48	12	60	14	71	14	50	20	80	0	56	33	67	0	60	38	63	0	62	0	94	6	48
Intermediate product prices	60	23	17	32	36	43	21	45	50	50	0	33	_	_	_	_	100	0	0	0	_	_	_	_
Wage level	28	72	0	58	14	86	0	54	0	100	0	50	0	100	0	50	0	100	0	50	0	100	0	50
Primary inputs																								
Investment	5	92	3	50	0	100	0	50	0	100	0	50	0	100	0	50	13	88	0	53	0	100	0	50
Employment	8	82	10	50	0	64	36	39	0	100	0	50	0	100	0	50	0	100	0	50	0	100	0	50

Table A2: Survey Results: Summary of all firms' outlook at the sectoral level (July - August - September 2024)[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	50	Higher	Same	Low	52	Higher	Same	Low	57	Higher	Same	Low	55	Higher	Same	Low	51	Higher	Same	Low	67
Economic activity																								
Production	23	48	28	48	14	86	0	54	70	20	10	75	50	17	33	57	25	50	25	50	88	6	6	88
Domestic sales	23	42	35	46	14	86	0	54	70	20	10	75	50	17	33	57	25	50	25	50	88	6	6	88
Exports	27	60	13	54	_	_	_	_	_	_	_	_	_	_	_	_	33	67	0	60	_	_	_	_
Inventory	22	62	16	48	_	_	_	_	_	_	_	_	_	_	_	_	_	_	_	_	_	_	_	_
Capacity utilization	23	48	28	48	14	86	0	54	70	20	10	75	50	17	33	57	25	50	25	50	88	6	6	88
Prices																								
Final product prices	45	53	2	64	50	43	7	65	80	20	0	83	50	50	0	67	38	63	0	62	0	100	0	50
Intermediate product prices	53	45	2	32	57	43	0	30	100	0	0	0	_	_	_	_	50	50	0	33	_	_	_	_
Wage level	15	85	0	54	14	86	0	54	0	100	0	50	0	100	0	50	13	88	0	53	6	94	0	52
Primary inputs																								
Investment	0	100	0	50	0	100	0	50	0	100	0	50	0	100	0	50	0	100	0	50	6	94	0	52
Employment	3	95	2	50	14	86	0	54	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 Appendix

Table A3: Survey Results: Summary of all firms' past performance (by size) (April - May - June 2024)[1]

Variable	SMEs				Large Firms			
	Percentage			Index [2]	Percentage			Index [2]
	Higher	Same	Low	45	Higher	Same	Low	45
Economic activity								
Production	24	32	44	43	32	14	55	40
Domestic sales	23	29	48	40	30	10	60	36
Exports	29	33	38	47	33	22	44	45
Inventory	44	44	13	39	36	45	18	44
Capacity utilization	24	32	44	43	32	14	55	40
Prices								
Final product prices	29	63	8	56	32	59	9	57
Intermediate product prices	56	30	14	34	69	13	19	28
Wage level	16	84	0	54	14	86	0	54
Primary inputs								
Investment	1	97	2	50	14	86	0	54
Employment	3	86	11	48	9	91	0	52

Table A4: Survey Results: Summary of all firms' outlook (by size) (July - August - September 2024)[1]

Variable	SMEs				Large Firms			
	Percentage			Index [2]	Percentage			Index [2]
	Higher	Same	Low	52	Higher	Same	Low	52
Economic activity								
Production	39	39	22	56	32	55	14	56
Domestic sales	39	35	26	55	35	55	10	58
Exports	29	58	13	55	22	67	11	53
Inventory	23	59	18	48	18	73	9	47
Capacity utilization	39	39	22	56	32	55	14	56
Prices								
Final product prices	44	54	2	64	36	64	0	61
Intermediate product prices	57	41	1	30	56	44	0	30
Wage level	10	90	0	53	14	86	0	54
Primary inputs								
Investment	1	99	0	50	0	100	0	50
Employment	3	96	1	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.