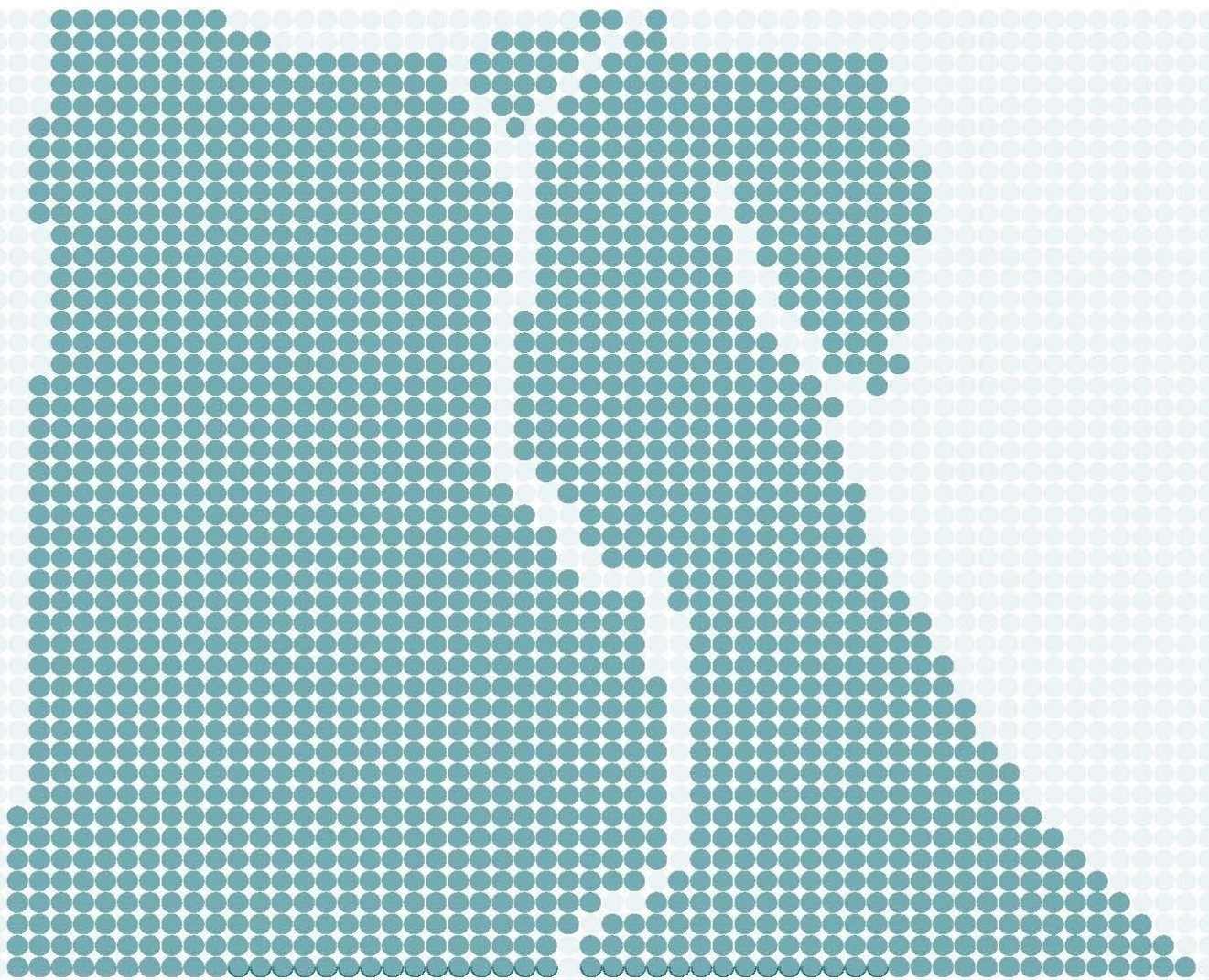




# Business Barometer

## Issue 47

## 2018



## Performance & Expectations of the Egyptian Business Sector

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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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Economic efficiency and social justice are of core interest to ECES. Combined, they constitute the Center's strategic direction. ECES research and activities focus on studying past, present and future challenges facing the Egyptian economy, whether they are related to macroeconomic stability, microeconomic efficiency, or political economy aspects both on the internal and external dimensions. In its analysis, ECES is keen on adopting a comprehensive approach that encompasses legislative, institutional, policy and structural aspects of whatever problem or area addressed, not to mention implementation mechanisms. In all its activities, ECES relies on its competent team of in-house researchers, in addition to collaboration with external experts and like-minded think tanks as needed.

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# *Business Barometer*

Issue No. 47 – 2018

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About the Business Barometer

## **About the Business Barometer**

The Egyptian Center for Economic Studies (ECES) publishes its Business Barometer (BB) survey quarterly as part of its role in providing timely information about the developments of economic activity in Egypt based on macroeconomic indicators. The survey covers firms' assessment of economic growth and results of own operations in terms of production, domestic sales, exports, commodity inventories, capacity utilization, prices, wages, employment and investment during the quarter under review as well as their outlook for the same set of variables in the upcoming quarter.

The surveyed firms cover manufacturing (50 percent), financial services (13 percent), construction (12 percent), transportation (10 percent), tourism (9 percent) and telecommunications (7 percent). The survey is conducted on a number of micro, small, medium and large firms as defined by the Central Bank of Egypt (CBE). ECES launched its first Business Barometer in 1998.

This edition of BB covers firms' assessment of the performance of a sample of 126 firms in the private sector and results of their operations in the third quarter of FY2017/2018 (January-March 2018). It also summarizes their expectations for overall economic performance as well as their own activities for the fourth quarter of FY2017/2018 (April-June 2018).

## Methodology

The BB Index is a simple average of the sub-indices of surveyed variables (production, domestic sales, exports, inventory, capacity utilization, prices, wages, employment and investments). The Index is calculated once for large firms and once for SMEs, both for evaluation and expectations.

Index Value	Index Definition
50 points	Same (no change in firms' performance and expectations)
Above 50 points	Higher (improvement in firms' performance and expectations)
Below 50 points	Lower (decline in firms' performance and expectations)

The index is calculated for each variable using the following 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. Between 0 and 100, the index grows proportionally with larger shares of “increase,” and inversely with larger shares of “decrease,” while the change in “same” is neutralized by including it in the numerator and the denominator. A higher index thus reflects a better business climate and vice versa. It is worth noting that the index is inverted for inventories and input prices as increases of these two variables reflect an adverse business climate for firms.

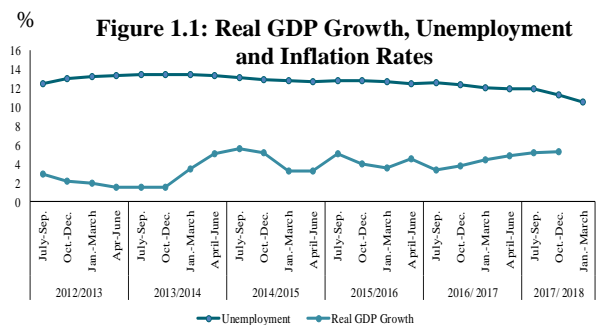


## Overview

This section provides an overview on the main developments of the third quarter of FY2017/2018 as well as an assessment of the performance of the main macro indicators (as per the latest available data). This will help place the survey results into a broader context.

The quarter under review witnessed several domestic developments on both the political and the economic fronts. With regard to political developments, the state of emergency has been extended for another three months as of January 13, followed by a large counter-terrorism campaign named “Sinai 2018” that commenced in February. In addition, the presidential elections took place in March. Though these developments may affect the business sentiment towards employment or investment (which will be shortly reviewed through the survey results), they did not restrain efforts to continue legislative reform in order to avail a more conducive business environment. The New Bankruptcy Law no. 11/2018 was promulgated and amendments to the Capital Market law and Companies' Law were introduced. Moreover, a draft for a new SME law was sent from the Ministry of Industry to the Cabinet for review. The quarter under review also carried good news for the tourism sector in Egypt. The Russian President signed a formal decree to resume flights between Moscow and Cairo as of April.<sup>1</sup> The return of Russian tourists is expected to boost the sector's performance over the coming months.

Two rating agencies highlighted positive indicators regarding the Egyptian economy as a whole. Fitch revised Egypt's outlook to positive from stable and affirmed its rating at B, while Moody's predicted growth will accelerate to 5 percent by FY2018/2019 and to 5.5 percent by 2021. Moody's revision comes in line with the 5.3 growth rate achieved in October-December 2017. Unemployment reached 10.6 percent in January-March 2018 (Figure 1.1). The reduction of the unemployment rate is a reflection of both an increase in the number of employed and seasonal employment that caused the labor force to shrink by 86,000 individuals. The sectors that mostly absorbed new employees are trade, tourism, construction and manufacturing (CAPMAS 2018).



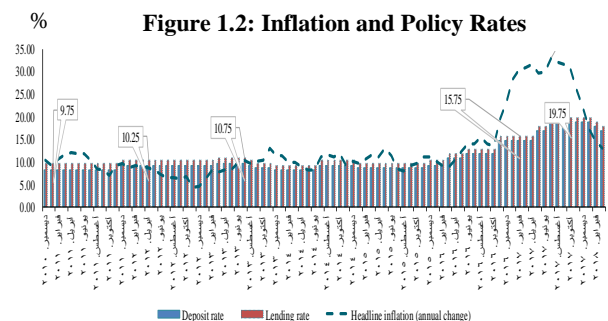
Sources: Ministry of Planning, Monitoring and Administrative Reform (MPMAR); CAPMAS.

Inflation has been showing a downward trend after reaching a peak in July 2017. Annual rates in the quarter under review recorded 17.1, 14.4 and 13.1 percent in January, February and March 2018, respectively. Consequently, the Central Bank of Egypt (CBE) decided in two consecutive meetings (February and March) to ease its tight stance and cut policy rates. This yielded a total reduction of 200 basis points in policy rates. By end of March 2018, the overnight deposit rate, overnight lending

<sup>1</sup>The decree was signed in January. The resumption of flights was originally planned for February but was delayed to April.



rate and the main operation rate reached 16.75 percent, 17.75 percent, and 17.25 percent, respectively. The discount rate was 17.25 percent (Figure 1.2).



Source: Central Bank of Egypt.

On the fiscal front, the overall budget deficit for the period July-January 2017/2018 has shrunk to 5.1 percent of GDP compared to 5.6 percent in the corresponding period of the previous year. The reduced deficit was attributed to a reduction in expenditure accompanied by an increase in tax revenues, especially taxes on goods and services. On the expenditure side, both wages and purchase of goods and services as a share in total expenditure (and as a percentage of GDP) were reduced from the huge increase in interest payments. The latter's share in expenditure constituted 36 percent in July 2017/2018 compared to 33.2 percent in the corresponding period of the previous year. The public debt structure continues to witness higher levels for external debt, which reached 36.1 percent of GDP by end of March 2018 (Figure 1.3).

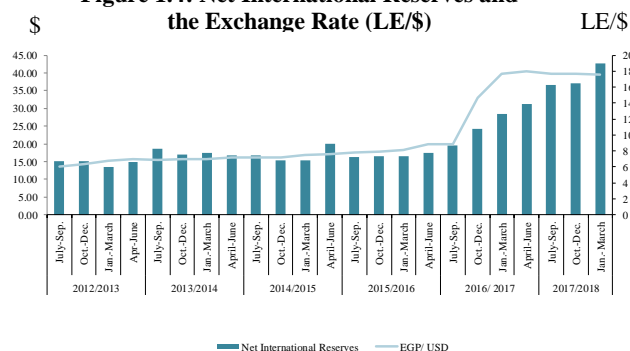
Figure 1.3: Public Debt and Fiscal Deficit



Sources: Ministry of Finance, Monthly Bulletin; CBE, Monthly Statistical Bulletin, various issues.

With regard to the external sector, the balance of payments ran an overall surplus of US\$5.6 billion (2.4 percent of GDP) during the period July-December 2017/2018, compared to US\$7 billion (1.8 percent of GDP) during the corresponding period last year. This resulted in a lower trade deficit and higher services balance that offset the lower net inflows of the capital and financial account. Net international reserves by the end of March 2018 reached US\$42.6 billion. The average exchange rate of the Egyptian pound against the US dollar averaged 17.6 during the first three months of 2018, a relatively stable price for approximately a year (Figure 1.4).

Figure 1.4: Net International Reserves and the Exchange Rate (LE/\$)



Source: Central Bank of Egypt (CBE), Monthly Statistical Bulletin, various issues.

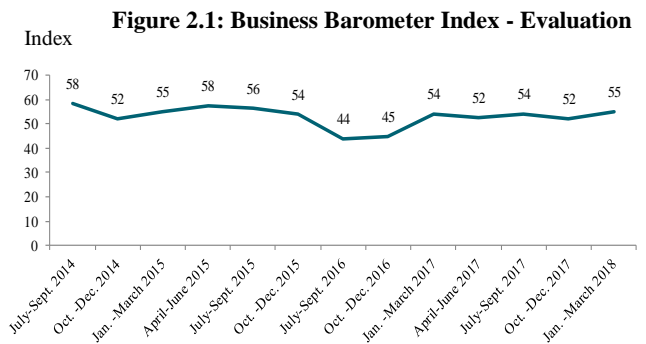
## Business Barometer Index (BBI)

### Higher evaluation index and continued improvement in outlook

The overall performance of businesses continued to improve during the relevant quarter, with the evaluation index reaching 55 points. This performance is three points higher than the previous quarter and also higher compared to the corresponding quarter of the previous fiscal year (Figure 2.1). Survey results also reflect firms' more optimistic expectations for the upcoming quarter (April-June 2018), albeit lower compared to the previous quarter (Figure 2.2).

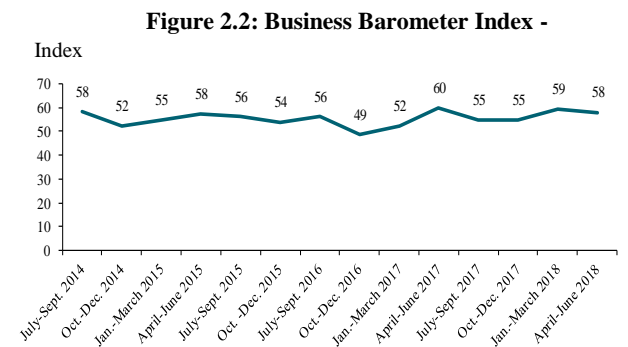
The survey results reflect continued improved performance of **large firms** during January-March 2018, albeit at a lower pace compared to the corresponding quarter of October-December 2017. The outlook index also increased for large firms during the fourth quarter of 2017/2018 at a pace comparable to the previous quarter, which is explained by large firms adjusting to the results of economic measures (Figure 2.3).

Regarding the performance of **SMEs**, survey results showed an improvement in the relevant quarter to 54 points compared to 50 points in the previous quarter. The results also showed positive expectations, albeit less than the previous quarter, which emphasizes the need to provide small and medium enterprises with more support to enable them to continue to improve performance.



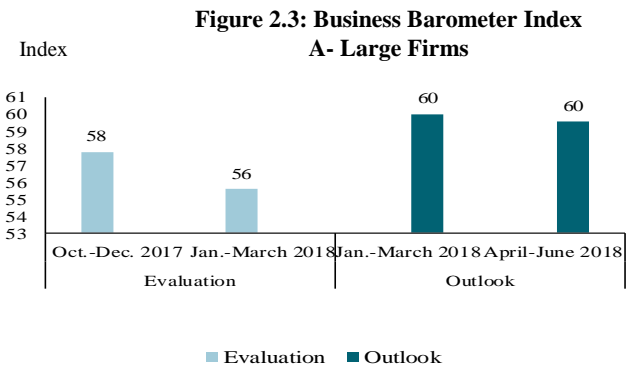
Source: Survey results.

\* Data for the two quarters of January-March and April-June 2016 are unavailable.

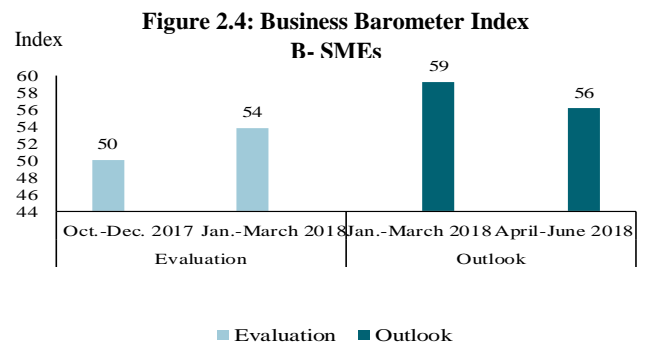


Source: Survey results.

\* Data for the two quarters of April-June, and July-September 2016 are unavailable.



Source: Survey results.



Source: Survey results.

## Past Performance of Businesses

### Improved economic activity for large firms and SMEs

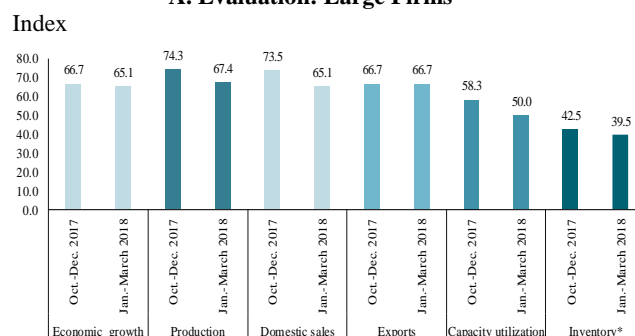
At the economic activity level, large firms reported positive views regarding domestic sales and exports during the quarter under review (January-March 2017), leading to an increase in production, and reflecting positively on the economic growth index. These views are consistent with the official data released by the Ministry of Planning, which show increased real GDP growth rate. However, the inventory rose during the quarter under review, indicating firms' concern about possible changes in energy prices or trade policy, thus maintaining higher inventory (Figure 3.1).

Past performance indicators for SMEs were lower compared to large firms, with the former reporting positive views regarding domestic sales and exports during January-March 2018, resulting in a slightly higher production index and slight increase in capacity utilization. This was reflected on inventory for SMEs (see the methodology), emphasizing the positive impact of supporting these enterprises (Figure 3-2).

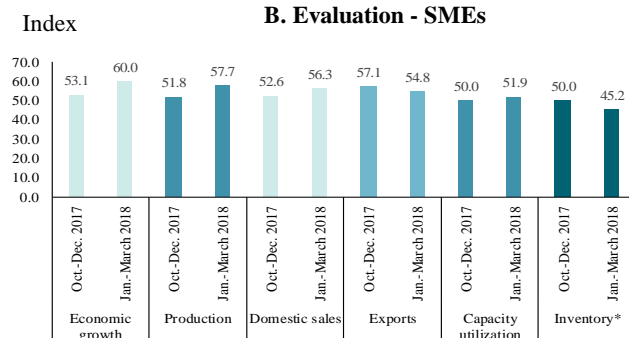
Sectorally, the service and manufacturing sectors showed improved performance, as reported by the business community (Appendix Table 1). Within the service sector, the financial services sector recorded the best performance, which may be attributed to increased investment in securities and the placement of government enterprises in the stock exchange. The manufacturing sector registered an improvement in overall performance due to increased domestic sales and exports of

some industrial sectors, such as readymade garments and food processing industries. This is followed by the construction sector due to increased investments, and tourism due to resumption of flights between Cairo and Moscow. The transport sector came next, with slight improvement in performance despite the tight credit conditions facing firms. The communications sector witnessed unchanged performance, as the communications companies await the new communications law.

**Figure 3.1: Economic Activity**  
**A. Evaluation: Large Firms**



**Figure 3.2: Economic Activity**  
**B. Evaluation - SMEs**



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.

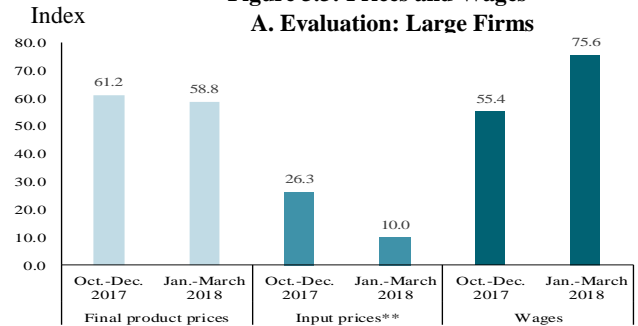
## Increased input and final product prices and higher wages

The past performance assessment of large firms and SMEs showed a continued rise in the prices of inputs during the quarter under review. The inputs index dropped below 50 points for all firms, indicating higher input prices (see the methodology). This led to higher final product prices, albeit lower than in the previous quarter. Wages witnessed significant increase during the period under review, which may be attributed to annual salary increases, which normally take place at end of December of each year (Figures 3.3 and 3.4).

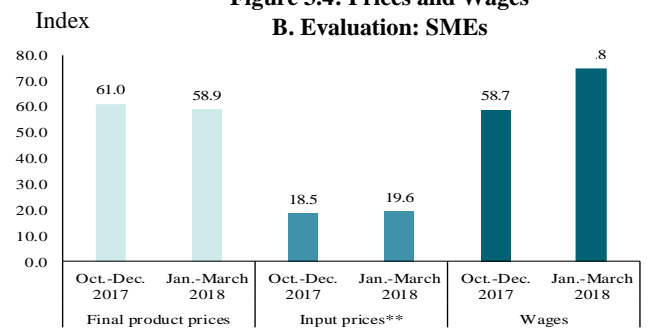
## Investment and employment indices continue to improve

The investment index improved during the quarter under review for large businesses and SMEs. This can be attributed to optimism resulting from the reform measures taken by the Government to improve the investment climate. Comparing the index values in the quarter under review with those of the previous quarter shows that the investment index for SMEs improved, but fell by three points for large businesses. The results also show a rise in the employment index for both large businesses and SMEs (Figures 3.5 and 3.6).

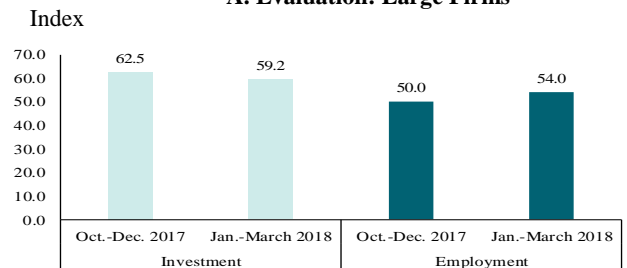
**Figure 3.3: Prices and Wages**  
**A. Evaluation: Large Firms**



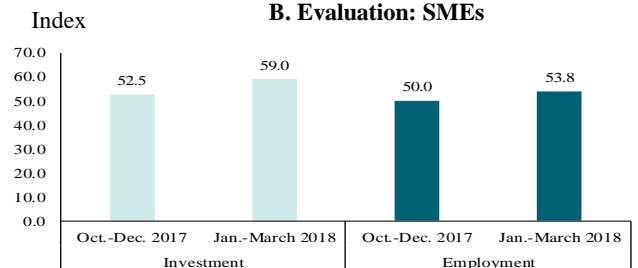
**Figure 3.4: Prices and Wages**  
**B. Evaluation: SMEs**



**Figure 3.5: Investment and Employment**  
**A. Evaluation: Large Firms**



**Figure 3.6: Investment and Employment**  
**B. Evaluation: SMEs**



Source: Survey results.

\*\* The input prices index is inverted to reflect the negative impact of rising input prices on the BBI. In other words, a lower index indicates higher input prices.

## Business Strategy Going Forward

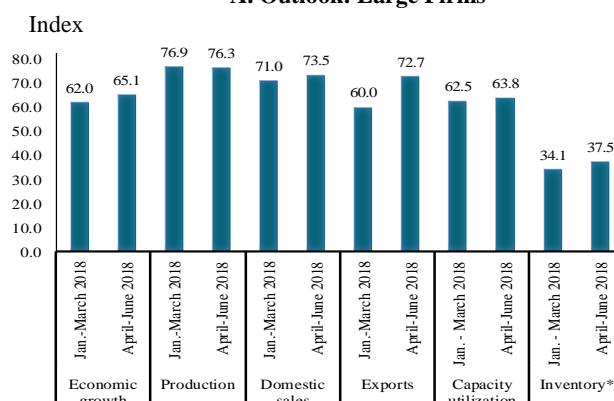
### Expectations of improved economic activity for SMEs

The outlook of large firms for quarter April-June 2018 reflects optimism on the part of the business community about the economic reform program and its impact on long-term economic balance. The outlook of large firms for economic growth was positive, while expectations were more optimistic about production, domestic sales, exports and capacity utilization. Expectations were less optimistic about commodity inventories in the same period (Figure 4.1).

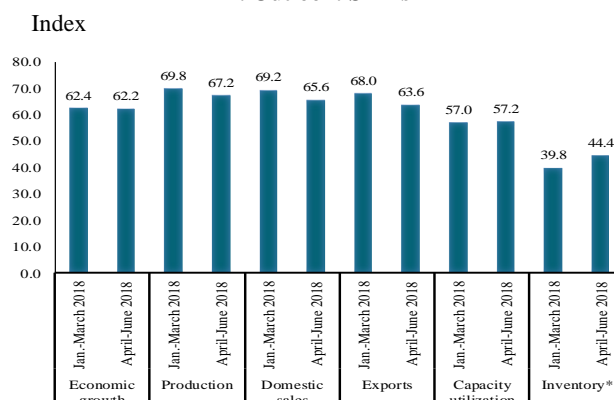
Survey results for SMEs were similar to those of large firms in the quarter under review for economic activity indicators, as the business community expects higher economic indicators, albeit at a slower pace than before (Figure 4-2).

At the sectoral level, the outlook for the coming quarter is positive for the services and manufacturing sectors, with the latter registering the most positive expectations, followed by communications, then financial services, construction, tourism and transportation (Appendix Table 2).

**Figure 4.1: Economic Activity  
 A. Outlook: Large Firms**



**Figure 4.2: Economic Activity  
 B. Outlook: SMEs**



Source: Survey results.

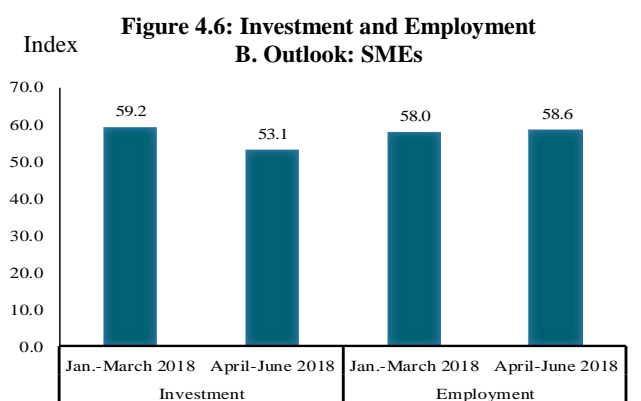
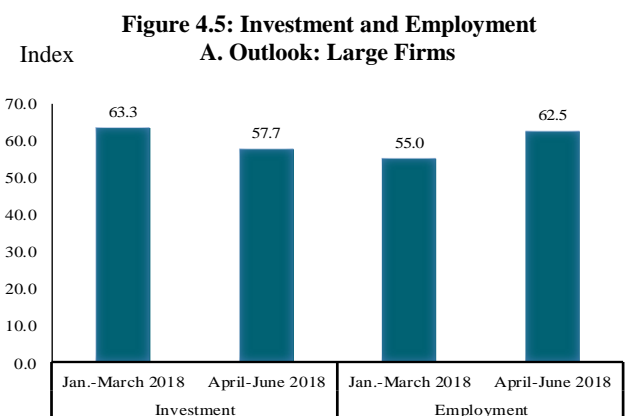
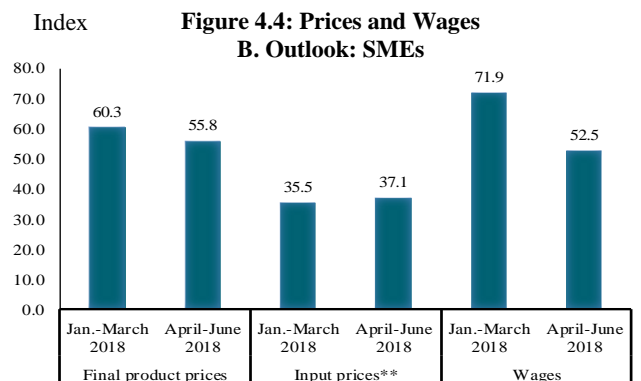
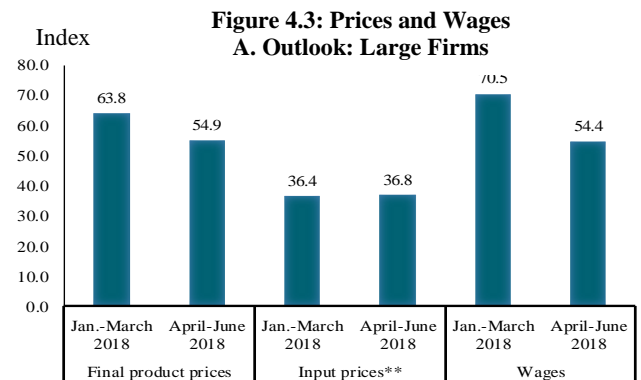
\* The inventory index is inverted to reflect the negative impact of rising inventory on businesses. In other words, a higher index indicates lower inventory and vice versa.

## Expectations of continued rise in the prices of final products, inputs and wages

Large firms expect input and final product prices to continue rising during the final quarter of FY2017/2018. They also expect a similar trend for wages, albeit slightly less than in the previous quarter (Figure 4.3). Results for SMEs were similar to those of large firms for April-June 2018, with both groups expecting higher input and final product prices as well as wages, albeit lower than in the previous quarter (Figure 4.4).

## Expectations of higher investment and employment indices

Most large businesses and SMEs expect higher investment during the fourth quarter of FY2017/2018 albeit at lower rates than the current quarter. Large firms expect employment to rise, which is consistent with their outlook for economic activity. The same is true for SMEs, although their rate of employment is unchanged compared to the previous quarter (Figures 4.5 and 4.6).



Source: Survey results.

\*\* The index for input prices is inverted to indicate the negative effect of the increase in input prices on businesses. Hence, a lower value of this index indicates higher input prices.



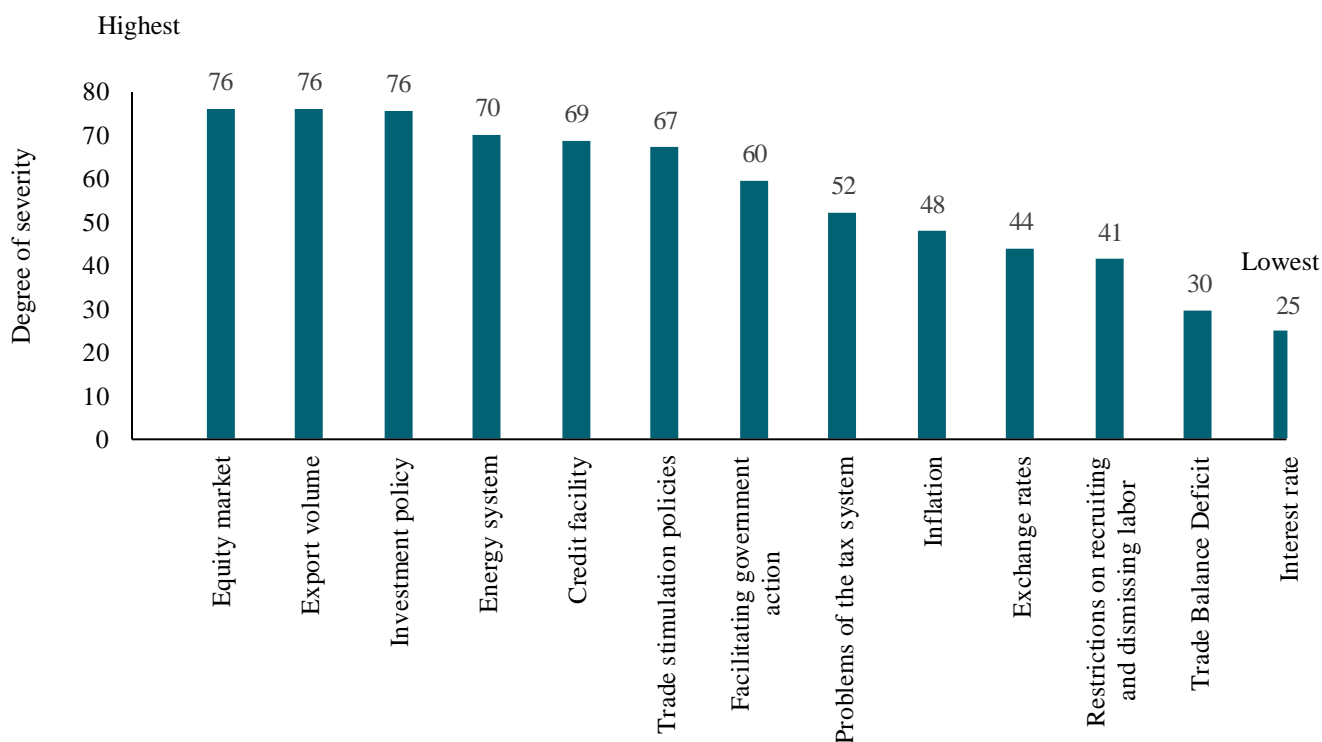
## Business Constraints

### Major constraints facing the business sector:

#### Major constraints: inflationary pressures, difficulty in interacting with government authorities, corruption and difficulty in obtaining licenses

Figure 5 shows the major constraints that faced businesses during the surveyed period, arranged in a descending order of severity. In particular, firms expressed concern about rising inflation, difficulty in interacting with government authorities, continued corruption, and difficulty in obtaining licenses. It is worth noting that the order of constraints remains relatively similar to that of the previous survey, indicating minimal progress in removing these constraints, and that obtaining funding from the stock market was ranked as the least constraint.

**Figure 5: Major Constraints Facing the Business Sector  
 (Normalized Index of Severity)**



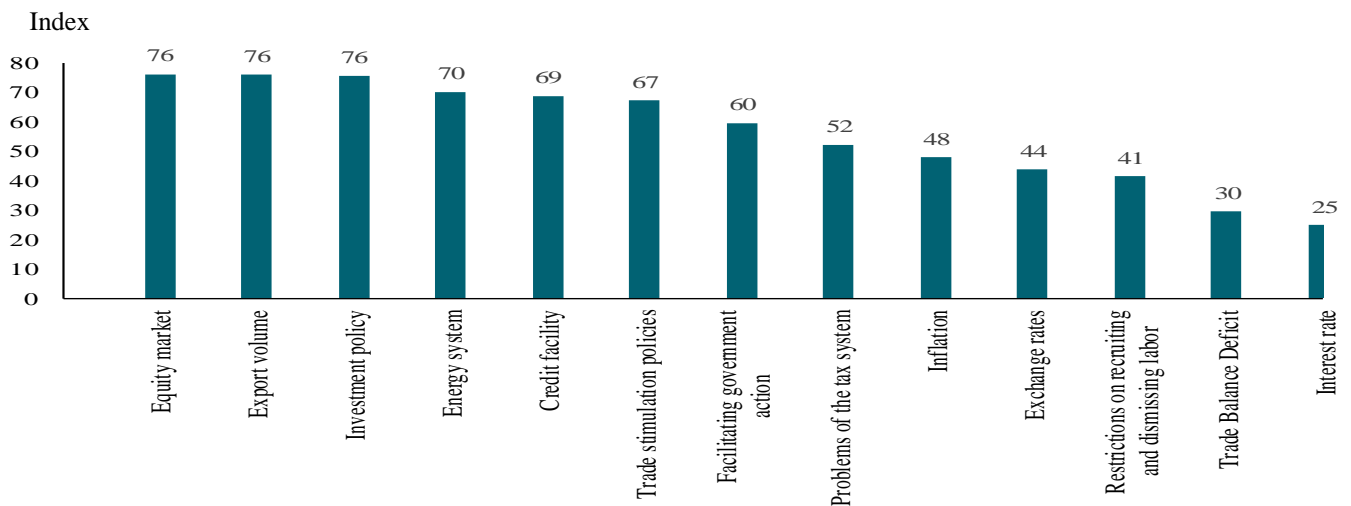
Source: Survey results.

## Policy Expectations

### Expected improvement in the stock market, exports, investment policy, and the energy system

According to Figure 6, most firms expect improvements in the stock market in the upcoming quarter due to the promulgation of the capital market law, the companies' law, in addition to the Government's placement program, increased exports and improved investment policy due to availing a more conducive environment to increase foreign direct investments, improvement in the energy system due to the government's efforts in establishing new and renewable energy projects as well as availing an opportunity for investors to invest therein.

**Figure 6: Policy Expectations**



Source: Survey results.

**Table A1. Survey Results: Summary of Business Past Performance of all Firms (by Sector) (January-February- March 2018)<sup>1</sup>**

Indicator	Manufacturing				Construction				Tourism			Transportation			Communications			Financial Intermediation						
	Percentage			Index <sup>2</sup>	Percentage			Index <sup>2</sup>	Percentage			Index <sup>2</sup>	Percentage			Index <sup>2</sup>	Percentage			Index <sup>2</sup>				
	Higher	Same	Lower	56	Higher	Same	Lower	53	Higher	Same	Lower	52	Higher	Same	Lower	52	Higher	Same	Lower	50	Higher	Same	Lower	56
<b>Economic growth</b>	39	51	10	59	57	43	0	70	50	50	0	67	8	75	17	48	57	29	14	67	56	38	6	68
<b>Business activity</b>																								
Production	42	42	16	59	36	50	14	57	30	50	20	53	42	25	33	53	43	14	43	50	81	19	0	84
Domestic sales	39	44	17	58	21	71	7	54	10	70	20	47	42	25	33	53	43	14	43	50	81	19	0	84
Exports	41	45	14	59	-	-	-	-	67	0	33	67	50	0	50	50	33	33	33	50	0	100	0	50
Inventory	28	49	23	48	36	55	9	41	40	40	20	43	22	44	33	54	50	33	17	38	69	31	0	24
Level of capacity utilization	21	63	16	51	7	71	21	46	20	70	10	53	25	58	17	53	0	86	14	46	31	63	6	58
<b>Prices</b>																								
Final product prices	45	50	5	64	36	57	7	59	10	80	10	50	17	75	8	52	29	71	0	58	13	88	0	53
Intermediate input prices	81	19	0	16	93	7	0	7	40	60	0	38	57	43	0	30	67	33	0	25	100	0	0	0
Wage level	76	24	0	81	79	21	0	82	40	60	0	63	58	42	0	71	43	57	0	64	50	50	0	67
<b>Primary inputs</b>																								
Investment	35	64	2	60	29	71	0	58	10	90	0	53	25	67	8	55	14	71	14	50	53	47	0	68
Employment	28	61	10	56	21	64	14	52	0	80	20	44	17	67	17	50	14	86	0	54	31	63	6	58

**Table A2. Survey Results: Summary of Outlook of all firms (by Sector) April-May-June 2018)<sup>1</sup>**

Indicator	Manufacturing				Construction				Tourism			Transportation			Communications			Financial Intermediation						
	Percentage			Index <sup>2</sup>	Percentage			Index <sup>2</sup>	Percentage			Index <sup>2</sup>	Percentage			Index <sup>2</sup>	Percentage			Index <sup>2</sup>				
	Higher	Same	Lower	58	Higher	Same	Lower	55	Higher	Same	Lower	53	Higher	Same	Lower	53	Higher	Same	Lower	56	Higher	Same	Lower	55
<b>Economic growth</b>	46	49	4	64	43	50	7	62	40	60	0	63	25	75	0	57	57	43	0	70	40	53	7	61
<b>Business activity</b>																								
Production	63	33	4	72	50	43	7	65	50	30	20	62	42	42	17	59	71	29	0	78	63	31	6	71
Domestic sales	61	27	12	69	43	36	21	58	50	40	10	64	42	42	17	59	71	29	0	78	63	31	6	71
Exports	63	29	8	71	-	-	-	-	0	67	33	40	50	50	0	67	33	67	0	60	0	100	0	50
Inventory	31	44	25	48	27	55	18	47	40	40	20	43	40	50	10	40	60	40	0	29	69	25	6	25
Level of capacity utilization	30	69	1	58	21	64	14	52	20	70	10	53	33	67	0	60	33	67	0	60	56	44	0	70
<b>Prices</b>																								
Final product prices	19	76	4	54	50	36	14	63	40	60	0	63	25	67	8	55	29	71	0	58	13	81	6	52
Intermediate input prices	35	64	2	40	64	29	7	28	40	60	0	38	38	63	0	38	75	25	0	20	67	33	0	25
Wage level	12	87	1	53	14	86	0	54	20	80	0	56	0	100	0	50	0	100	0	50	19	81	0	55
<b>Primary inputs</b>																								
Investment	12	87	1	53	36	64	0	61	10	90	0	53	0	92	8	48	29	71	0	58	33	67	0	60
Employment	34	64	1	60	29	71	0	58	10	80	10	50	25	67	8	55	43	43	14	60	56	44	0	70

<sup>1</sup>Numbers represent percent of total responses. Higher, same and lower may not add up to 100 due to rounding.

<sup>2</sup>Equal to the simple average of the variables' indexes. The index's method of calculation is provided in the Methodology.

Table A3. Survey Results: Summary of Past Performance of all Firms (by size) January-February-March 2018)<sup>1</sup>

Indicator	SMEs				Large Firms			
	Percentage			Index <sup>2</sup>	Percentage			Index <sup>2</sup>
	Higher	Same	Lower	54	Higher	Same	Lower	56
<b>Economic growth</b>	<b>39</b>	<b>53</b>	<b>8</b>	<b>60</b>	<b>52</b>	<b>39</b>	<b>10</b>	<b>65</b>
<b>Economic activity</b>								
Production	42	37	21	58	55	39	6	67
Domestic sales	38	42	20	56	50	43	7	65
Exports	36	41	23	55	56	33	11	67
Inventory	34	47	20	45	44	41	15	39
Level of capacity utilization	20	66	14	52	19	61	19	50
<b>Prices</b>								
Final product prices	34	61	5	59	32	65	3	59
Intermediate input prices	76	24	0	20	89	11	0	10
Wage level	66	34	0	75	68	32	0	76
<b>Primary inputs</b>								
Investment	32	66	2	59	33	63	3	59
Employment	23	66	11	54	26	61	13	54

Table A4. Survey Results: Summary of Outlook of all Firms (by size) (April-May-June 2018)<sup>1</sup>

Indicator	SMEs				Large Firms			
	Percentage			Index <sup>2</sup>	Percentage			Index <sup>2</sup>
	Higher	Same	Lower	56	Higher	Same	Lower	60
<b>Economic growth</b>	<b>41</b>	<b>56</b>	<b>3</b>	<b>62</b>	<b>50</b>	<b>43</b>	<b>7</b>	<b>65</b>
<b>Economic activity</b>								
Production	55	38	7	67	71	23	6	76
Domestic sales	53	38	9	66	71	10	19	74
Exports	45	50	5	64	70	10	20	73
Inventory	35	47	19	44	52	28	20	38
Level of capacity utilization	28	67	4	57	43	57	0	64
<b>Prices</b>								
Final product prices	24	72	4	56	26	65	10	55
Intermediate input prices	42	57	1	37	44	52	4	37
Wage level	11	88	1	53	16	84	0	54
<b>Primary inputs</b>								
Investment	14	84	2	53	27	73	0	58
Employment	32	65	3	59	42	55	3	63

<sup>1</sup>Numbers represent percent of total responses. Higher, same and lower may not add up to 100 due to rounding.

<sup>2</sup>Equal to the simple average of the variables' indexes. The index's method of calculation is provided in the Methodology.