



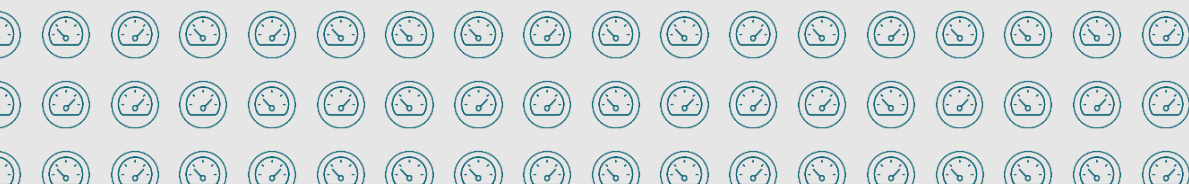
Business Barometer

Issue #62

January – March 2022



**Businesses Evaluation during the quarter (January-March 2022),
and Outlook for the quarter (April-June 2022)
according to the business community point of view**



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Executive Summary

This report presents a periodic assessment carried out by the Egyptian Center for Economic Studies of a sample of 120 private sector firms covering various sectors and sizes. The assessment reflects the opinion of the business community regarding developments across a set of variables, namely: Production, domestic sales, exports, inventory, level of capacity utilization, prices, wages, employment, and investment, during the quarter January-March 2022 and expectations for the quarter April - June 2022. It also compares results with the previous quarter (October - December 2021) and the corresponding quarter (January - March 2022).

The following is a brief review of key results of the report regarding the quarter under study (January-March 2022), with focus on key developments in the macroeconomy and results of the Business Barometer Index.

Macro Overview

Globally, the world economy is witnessing many developments that drive it towards further slowdown. The Russo-Ukrainian war is on top of these developments, contributing to the intensification of global supply chain bottlenecks, escalating inflation, further monetary tightening, and rising uncertainty. Locally, the new crisis has cast a shadow over the Egyptian economy, which is still suffering from the repercussions of the COVID-19 pandemic, in addition to the existing structural challenges.

Sharp decline in the Business Barometer Index during the quarter under study, and for the first time, expectations of a decline in performance during the next quarter

The Business Barometer Index for the quarter under study declined compared to that of the previous and corresponding quarters. This decline reflects disruption in the market due to the lack of raw materials and supplies, and high prices thereof as a result of import restrictions associated with the mandatory application of the ACI system, decisions of the Central Bank to cancel collection documents, slow procedures for documentary credits, and difficulty obtaining foreign currency. Moreover, many suppliers led by European suppliers halted their supplies to Egypt, and several companies were written off for non-compliance with registration in accordance with Minister of Industry Decision No. 34 of 2016, followed by the Central Bank's decisions to raise interest rates. The Egyptian pound lost about 20 percent of its value against the US dollar, which caused further production cost hikes. The Russo-Ukrainian war exacerbated the problem, causing more supply chain bottlenecks, higher global energy and food prices, slow international freight traffic because of a shortage of containers and higher shipping costs, in addition to a shortage of many raw materials for which Russia and Ukraine are major suppliers.

For the first time since 2017, the business community expressed negative performance expectations during the next quarter, which are lower than those of the previous and corresponding quarters, and even lower compared to the first waves of the COVID-19 pandemic, all reflecting companies' expectations of continued difficulties locally, and continued supply chain disruptions, higher prices, and shipping costs because of the repercussions of the Russo-Ukrainian war and increased uncertainty.

Constraints that faced the business sector during the quarter under study, and priorities for improving the business climate from the perspective of the sample of firms

Higher production cost is the biggest constraint during the quarter under review

Firms of all sizes continued to agree that higher production costs are the biggest constraint they faced for the third consecutive quarter, due to many local and global factors. The local factors relate to import restrictions and resulting exorbitant increase in the prices of production requirements and imported raw materials. The global factors are the continuation of supply chain disruptions, shortage of raw materials and their higher prices, and higher energy and shipping prices. Higher production cost is followed by weak purchasing power and inflation, resulting in recession in the markets and decline in demand, especially for non-essential products.

Results also showed other constraints, such as the slow process of documentary credits, difficulty obtaining foreign currency, in addition to delays in value-added tax refunds and export subsidies, exaggerated expenses of freight forwarders, as well as sudden decisions and the speed of their implementation without giving sufficient time for compliance, in addition to lack of business community participation in government decisions, and government's failure to adopt major investment projects that serve multiple sectors, such as feeding industries and packaging activities.

Key priorities that should be focused on from the point of view of the sample of firms

Addressing high inflation, improving digital transformation mechanisms for government services, and resolving the challenges of the customs system

Facing high inflation rates was on top of the priorities that must be focused on through reviewing decisions that caused many suppliers to exit the Egyptian market, followed by expediting completion of documentary credits and facilitating the supply of foreign currency, reducing interest rates, lowering government fees (especially registration and licensing fees) and improving service provision, tightening control over the markets to ensure prices are not exaggerated, stimulating investment in substitute local products, and promoting the quality of local products.

The sample of firms continued to agree that the mechanisms of digitalization of government services lead priorities for improving the business climate in Egypt for the third consecutive quarter, as it facilitates government procedures and eliminates bureaucracy. Implementation, however, requires setting a clear timeframe, linking government agencies, improving infrastructure, strengthening communication networks, and increasing training of workers and users on the new systems, followed by quickly improving and addressing the challenges of the customs system by improving the mechanisms for implementing the ACI system, as well as improving the training system for customs officials to facilitate the import and export process.

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

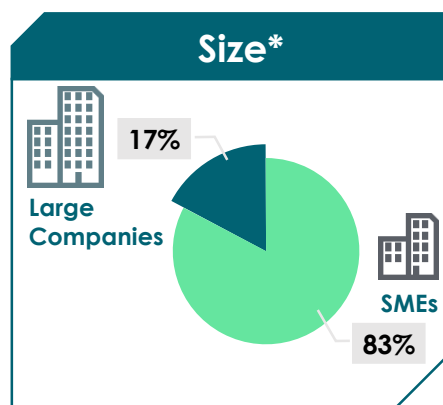
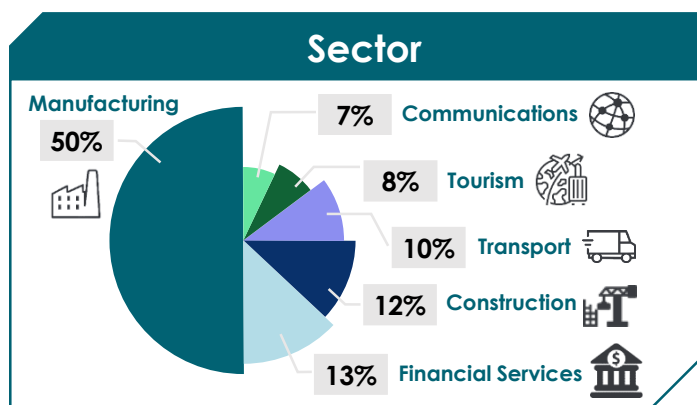


The importance of this issue of the BB is further magnified by the challenges that the business community has been facing since the beginning of 2020 as a result of the COVID-19 pandemic. Therefore, it is important to track the impact of the pandemic on the business community, especially in light of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

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

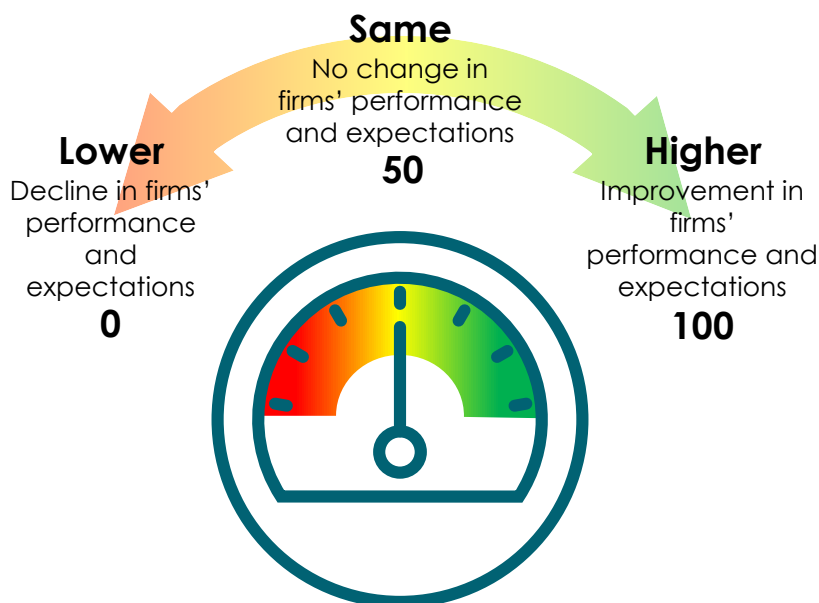
The report begins with an overview of the macroeconomy at the global and domestic levels, then presents the results of performance assessment and outlook at the overall index level. It then moves on to the constraints faced by the business community during the quarter under study, and the priorities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

The BB is built on the results of a quarterly survey conducted by the ECES for a stable sample of 121 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 takes values greater than, less than, or equal to the neutral level (50 points).



The index is calculated for each variable using this equation:

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

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

The index is designed to have a maximum of 100 points when all firms report an increase, a minimum of 0 when all firms report a decrease and a middle value of 50 when all firms report no change. The index ranges between 0 and 100, with the higher index reflecting a better business environment and vice versa. It is worth noting that the index is inverted for both inventories and input prices as increases in these two variables reflect an unfriendly business environment for firms.

Constraints and Priorities for Improving the Business Environment:

Firms assess the severity of each constraint with a rating that ranges from 0 (non-significant constraint), to 4 (highly significant constraint). The firm is allowed to cite more than one constraint. With regards to priorities for improving the business environment, the evaluation of each pillar ranges from 0 (not a priority) to 4 (high priority). Firms are allowed to name more than one pillar as priority to improve the business environment.

This is followed by calculating a weighted average of the number of firms and their evaluation of the constraint/priority at the whole sample level.

The averages of all constraints/priorities are re-evaluated to range between zero and 1 and then normalized using new values of the averages of all constraints/priorities so that the constraints /priorities can be arranged in descending order of severity, with 100 percent being the most severe constraint and highest priority.



Macro Overview

This section provides an overview of some major developments in the global economy, as well as the performance of the most important macroeconomic indicators in Egypt (according to the latest locally available data up to the date of publication of this report).

The war is driving the global economy toward a slowdown, accelerating the pace of inflation and debt, monetary tightening, and uncertainty

The global economy is witnessing many developments that could drive it towards further slowdown in the medium term. The International Monetary Fund (IMF) has reduced its global growth forecast from 6 percent during 2021 to about 3.6 percent during 2022 and 2023, and recent projections are even lower by about 0.8 percent and 0.2 percent of the IMF's forecast in January 2022. The IMF also expects global growth to reach 3.3 percent in the medium term, and output and employment levels will therefore remain lower than their corresponding levels until 2026.

The Russo-Ukrainian war is a key reason behind this deterioration due to its global implications for commodity markets, trade, and financial channels. The war contributed to the intensification of global supply chain bottlenecks and escalating inflation during 2022, in addition to continuing uncertainty associated with mutations of COVID-19, which forced many production centers in China to close again, leading to a slowdown in global economic activity and more bottlenecks in global supply chains (IMF 2022).¹

There are expectations that prices will continue to rise for a long time ahead; as Russia and Ukraine account for a third of global wheat exports, in addition to Russia being the third largest exporter of oil and fertilizers in the world. Both are major suppliers of many production inputs, as such the war has led to higher food and energy prices. Since the outbreak of the war, the world has witnessed a rise in commodity prices and an increase in the fluctuations of average oil prices, which ranged between \$98-130 a barrel and are expected to stabilize at \$107 a barrel during 2022—almost double its level in 2019 (IMF 2022).

The Food Price Index issued by the Food and Agriculture Organization (FAO) also recorded about 158.5 point within a month, an increase of about 30 percent over the same period in the previous year (FAO 2022).²

In the face of rising inflation levels, the US Federal Reserve raised the interest rate by 0.5 percent in May—the highest increase since the beginning of the new millennium. This was followed by many countries raising interest rates, especially in emerging markets, to check capital outflows; increased capital outflows lead to raising financing costs and impose pressures to reduce the values of national currencies.

The aforementioned developments of slowing global economic activity, escalating geopolitical tensions, and inflationary pressures **led to** a global industrial production decline at the beginning of the second quarter of 2022, with the PMI falling to 52.2 in April 2022—the lowest level since August 2020 (IHS Markit 2022).³

The new global economic crisis has cast a shadow over the Egyptian economy, which is still suffering from the repercussions of COVID-19, in addition to many structural challenges. There are many channels through which the repercussions of the war on the global economy can be transmitted to the Egyptian economy, either directly or indirectly. The crisis is expected to affect tourism revenues, given that a third of the tourists coming to Egypt are from Russia and Ukraine. It is also expected that Egypt's imports of grain will be affected, as Russia and Ukraine account for about 42 percent of Egypt's total imports of grain in 2021, in addition to the fact that the rise in energy and food prices will exercise pressure on the State budget. Considering the outflow of capital with rising interest rates in advanced economies, debt levels and burdens are expected to increase.

1 International Monetary Fund (IMF). 2022. World Economic Outlook Update: War Sets Back the Global Recovery. April, IMF.

2 Food and Agriculture Organization of the United Nations (FAO). 2022. World Food Situation. FAO.

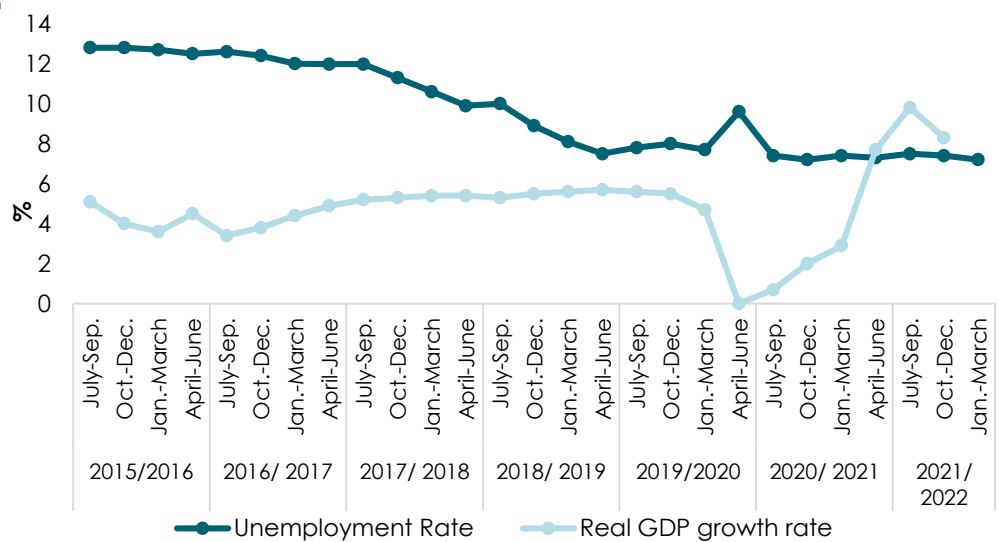
3 IHS Markit. 2022. J. P. Morgan Global Manufacturing PMI, May, IHS Markit.

The losses incurred by the Egyptian economy since the outbreak of the war are estimated at EGP 130 billion borne by the state general budget as a result of the rise in the prices of strategic and energy commodities and losses in tourism revenues, in addition to indirect effects that are expected to be in the region of EGP 335 billion.⁴

Prior to the global economic crisis that resulted mainly from the Russo-Ukrainian war, the Egyptian economy witnessed an improvement in some of its macro indicators, albeit many challenges facing it persist, with some becoming exacerbated as a result of the war. The following section presents the latest developments with respect to macroeconomic indicators according to the latest published data up to the date of publication of this report:

- According to the estimates of the Ministry of Planning and Economic Development, the growth rate declined to about 8.3 percent during the second quarter of FY2021/2022, which represents a 15 percent decline from its level during the first quarter. Thus, the growth rate reached about 9 percent during the first half of FY2021/2022, which is an improvement compared to the first half of the previous fiscal year (1.35 percent) (Figure 1). The ministry attributed this improvement to the recovery of the tourism sector, and improved growth for the telecommunications sector. Despite this improvement, consumption still represents the main source of growth, and the service sectors are still the main driver of growth.


**Figure 1:
Real GDP
Growth and
Unemployment
Rate**



- The unemployment rate reached 7.2 percent during the first quarter of 2022 (January-March), down by 2.7 percent compared to the previous quarter and the corresponding quarter (Figure 1). The female unemployment rate (17.7 percent) is still higher than the male unemployment rate (4.9 percent), and the unemployment rate among the 20-24 age group is still the highest at 28.2 percent. According to qualifications, the highest percentage of unemployed came among those with university qualifications and above (45.4 percent), while according to region, the urban unemployment rate was twice that in the rural areas, recording 10.5 percent in urban areas, and 4.5 percent in rural areas (CAPMAS 2022).⁵

4 Cabinet, 2022, The Egyptian government's plan to deal with the global economic crisis, May 2022.

5 CAPMAS, 2022, Press release on the results of the labor force survey for the first quarter (January - March 2022), May .

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- According to the relative distribution of the employed workforce over economic activities, agriculture, wholesale and retail trade, and construction and building still account for the largest percentage of employees (at 18.9 percent, 15.0 percent, 14.2 percent, respectively of the total employees). These sectors are attractive to low-skilled labor to a large extent, in addition to providing unsustainable job opportunities (CAPMAS 2022).⁶
 - On the fiscal side, there is slight decline in the percentage of overall budget deficit to GDP to about -4.89 percent during July-March 2021/2022 compared to -5.03 percent during the corresponding July period of the previous fiscal year. The deficit is due to increased public expenditure at a higher rate than the increase in public revenue. Revenue recorded a growth of about 7.7 percent to reach EGP 781 billion, while expenditure rose by 9.7 percent to record about EGP 1171 billion during the mentioned period.
 - In terms of foreign transactions, the balance of payments during the first half of FY2021/2022 (July-December) recorded a limited overall deficit of EGP 14.1 million compared to a total surplus of about EGP 1466 million in the first half of the previous fiscal year (2020/2021). The following are more details about developments in the most important components of the balance of payments:⁷

1. Current Account: The current account deficit increased by about 2.6 percent from its value during the first half of the previous fiscal year (2020/2021) to reach \$7.8 billion in the first half of the current fiscal year (2021/2022). The increase in the deficit is due to:

- Higher deficit in the non-oil trade balance by 24.2 percent to about \$23.8 billion during the first half of the FY2020/2021. This is a result of an increase in non-oil imports by about \$8.1 billion (28.3 percent) compared to their value in the first half of the previous fiscal year (2019/2020), while the increase in non-oil exports was limited to about \$3.4 billion (37.6 percent).
- The investment income balance deficit increased by 30.5 percent to about \$7.1 billion during the first half of FY 2020/2021.

The increase in the current account deficit was limited due to the following factors:

- The oil trade balance shifted from a deficit of \$54.2 million to a surplus of about \$2.1 billion because of the increase in the value of natural gas exports by about \$2.6 billion due to the rise in exported quantities and in international prices, which also led to an increase in the value of exports and imports of crude oil despite the decrease in quantities.
- The service balance surplus increased by 198 percent to about \$5.6 billion during the first half of the FY 2020/2021, compared to \$1.9 billion mainly because of an increase in tourism revenues by 225.6 percent and an increase in transport receipts by 27.9 percent.
- Remittances from Egyptians working abroad increased slightly by 0.4 percent to reach \$15.6 billion.

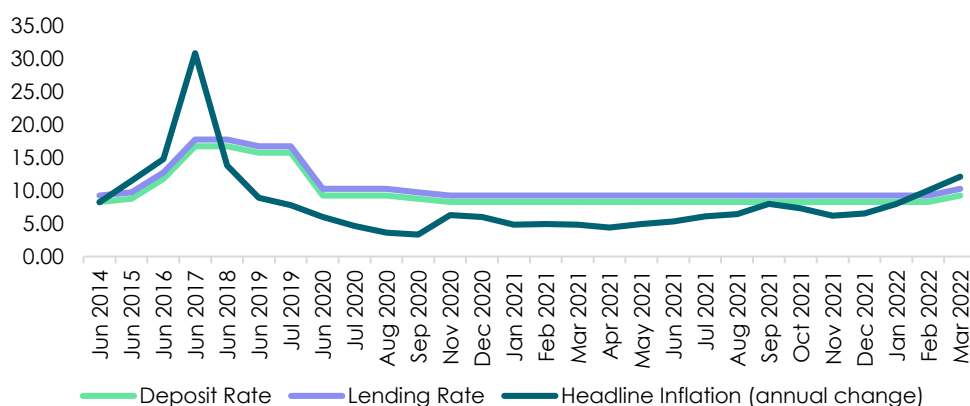
⁶ Ibid.

⁷ CBE. 2022. Press release on the performance of the balance of payments during the first half of the fiscal year 2021/2022.

2. Capital and financial account: The capital and financial account surplus increased by 23.9 percent to record \$11.4 billion in the first half of FY2021/2022, compared to \$9.2 billion in the first half of the FY2020/2021.

- The net flow of foreign direct investment in Egypt decreased by 2.7 percent to reach \$3.3 billion during the first half FY2021/2022, compared to \$3.4 billion in the first half of FY2020/2021, as foreign direct investments in the non-oil sectors increased by \$1.2 billion, to record a net inflow of about \$4.4 billion. Investments in the petroleum sector recorded a net outflow of about \$1.1 billion.
- Portfolio investments shifted from a net inflow of about \$10.2 billion dollars to a net outflow of about \$2.5 billion.
- The net use of long and medium-term loans and facilities declined to \$779.8 million (compared to a net use of about \$4.5 billion).
- Net foreign assets of the banking system decreased by the equivalent of EGP 242.0 billion during July/January of FY2021/2022. The decline is due to a decrease in the net foreign assets of banks, by the equivalent of EGP 208.6 billion, and the net foreign assets of the Central Bank by the equivalent of EGP 33.4 billion.⁸
- The annual inflation rate continued to rise since January 2022, reaching about 14.9 percent in April 2022, compared to 12.1 percent in March 2022 and to 4.4 percent in March 2021. This is due to local and global factors. At the global level, recovery in 2021 was accompanied by supply chain disruptions and shortages of raw materials, which led to higher levels of energy and shipping prices. The war has exacerbated the crisis. At the local level, import restrictions and problems associated with the decisions of the Central Bank led to an increase in prices. In addition, part of the inflation is considered seasonal inflation due to higher demand during the month of Ramadan and the holidays (CAPMAS, 2022).⁹
- The Monetary Policy Committee of the Central Bank of Egypt (CBE) decided in its extraordinary meeting on March 21 to raise the interest rates on deposits, overnight lending, and the credit and discount rates by 100 basis points to 9.25 percent, 10.25 percent, and 9.75 percent, respectively, to absorb inflationary pressures and reduce capital outflows (Figure 2) (CBE 2022).¹⁰

**Figure 2.
Inflation
and
Policy
Rates**



Sources: CBE, Monthly Statistical Bulletin, various issues; CAPMAS, Monthly Consumer Price Bulletin, various issues.

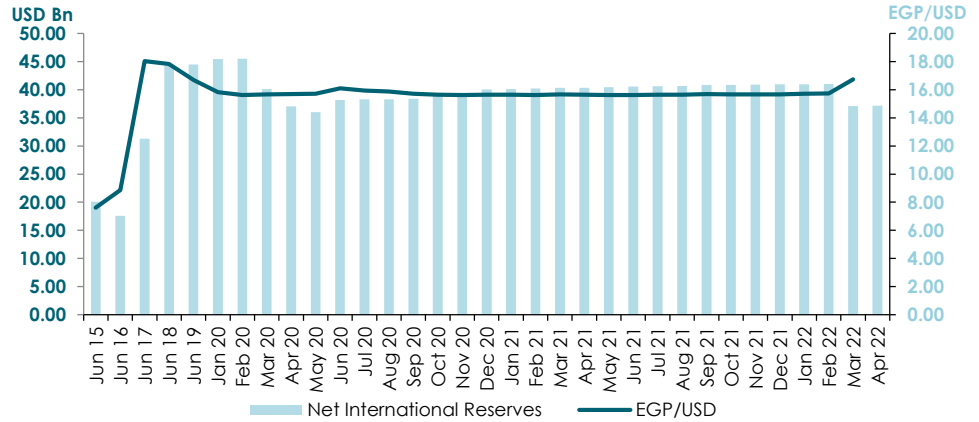
8 CBE, Monthly Statistical Bulletin, March 2022.

9 CAPMAS. 2022, Monthly Bulletin of Consumer Price Index. April 2022, May.

10 CBE. 2022. Press release of the extraordinary meeting of the Monetary Policy Committee on March 21, 2022.

- Net foreign reserves declined to about \$37.12 billion in April 2022, a decrease of 8 percent compared to April 2021. The Central Bank attributed this decline to using part of the foreign reserves to cover the needs of the Egyptian market, as well as to cover the exit of foreign investments and international portfolios, and to ensure the import of strategic goods, in addition to the payment of international obligations related to the State's external debt.
- The decline in foreign exchange receipts contributed to a rise in the exchange rate to 16.7 pounds in March 2022 after stabilizing around 15.6 pounds/dollar since October 2020.¹¹ With the Monetary Policy Committee's decision to raise interest rates, the pound lost about 20 percent of its value against the US dollar to officially revolve around 18 pounds/dollar (Figure 3).

Figure 3.
Net International Reserves and Exchange Rate



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

- Finally, global and local developments resulted in the continuation of the contraction witnessed by the non-oil private sector in Egypt for 17 consecutive months. The value of the PMI recorded less than 50 points (the neutral level) during the month of April 2022, which is due to the continued rise in production costs, especially after the devaluation of the pound, raising interest rates, supply disruptions, geopolitical turmoil besides the continued decline in demand (S&P Global 2022).¹²

11 CBE, Monthly Statistical Bulletin, March.

12 S&P Global. 2022. Purchasing Managers Index (PMI).

Business Barometer Index

I. Evaluating past performance and outlook according to the overall index



Evaluation



Outlook

Sharp decline in the Business Barometer Index (BBI) during the quarter under study, and expectations of a decline in performance during the coming quarter with performance and expectations varying by firm size and sector.

1.1. Development of the Overall Index

The Business Barometer Index (BBI) decreased by 7 points from the neutral level, which is lower than its counterparts during the previous and corresponding quarters. This decline reflects the turmoil the market has witnessed due to the shortage of raw materials and supplies leading to high prices. The shortages occurred due to import restrictions, due to the problems associated with the mandatory application of the ACI system; and the subsequent decisions of the Central Bank to cancel collection documents, slow procedures of documentary credits, as well as difficulty securing foreign currency. In addition, several firms were written off for their non-compliance with registration in the lists of approved suppliers according to Minister of Industry Decision No. 34 of 2016, which caused many suppliers to refrain from supplying Egypt, led by European suppliers.

These developments were followed by the Central Bank's decisions to raise interest rates on March 21 by 100 points, and reduce the value of the pound by about 20 percent against the US dollar, driving production costs even higher. The outbreak of the Russian-Ukrainian war exacerbated the problem, causing more supply chain bottlenecks, more global energy and food price hikes, slow international freight traffic because of the shortage of containers, and high freight costs, in addition to the shortage of many raw materials of which Russia and Ukraine are a major supplier (Figure 1.1).

Expectations of the business community towards the quarter April - June 2022 were less than the neutral level by three points, which is lower than the previous and corresponding quarters, as well as lower than expectations during the early waves of the COVID-19 pandemic. This reflects firms' expectations of continued difficulties locally, continued turmoil in supply chains, rising prices and freight costs as a result of the repercussions of the Russian-Ukrainian war and the increased uncertainty (Figure 1-2).

Development of the Overall Business Barometer Index

Figure 1.1. Past Performance

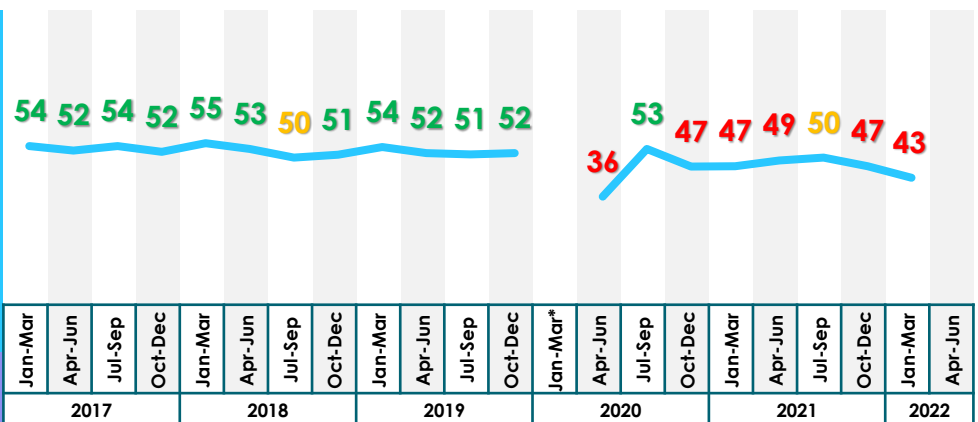
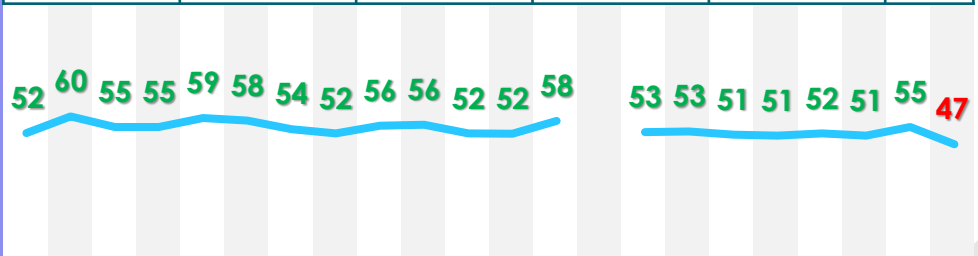


Figure 1.2. Outlook



Source: Survey results.

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

1.2. The Index by Firm Size

Performance of all firms declined during the quarter under study, as they recorded index values less than the neutral level, and lower than in the previous and corresponding quarters. However, small and medium-sized firms are witnessing a sharper decline than large firms; their Business Barometer Index (BBI) recorded a decrease of 10 points from the neutral level, compared to a decrease of four points from the neutral level of large firms (Figure 1.3).



Source: Survey results.

Firms conveyed negative expectations for performance in the next quarter. The outlook index values are below the neutral level, and lower than those recorded in the previous and corresponding quarters. However, small and medium-sized firms expressed more negative expectations compared to large firms. SMEs outlook index dropped 5 points below the neutral level, compared to a decrease of 2 points for large firms.

The apprehension is due to expectations of continuing difficulties facing the business community locally, and increasing uncertainty about changes in the global economy, especially developments of the Russian-Ukrainian war (Figure 1.4).

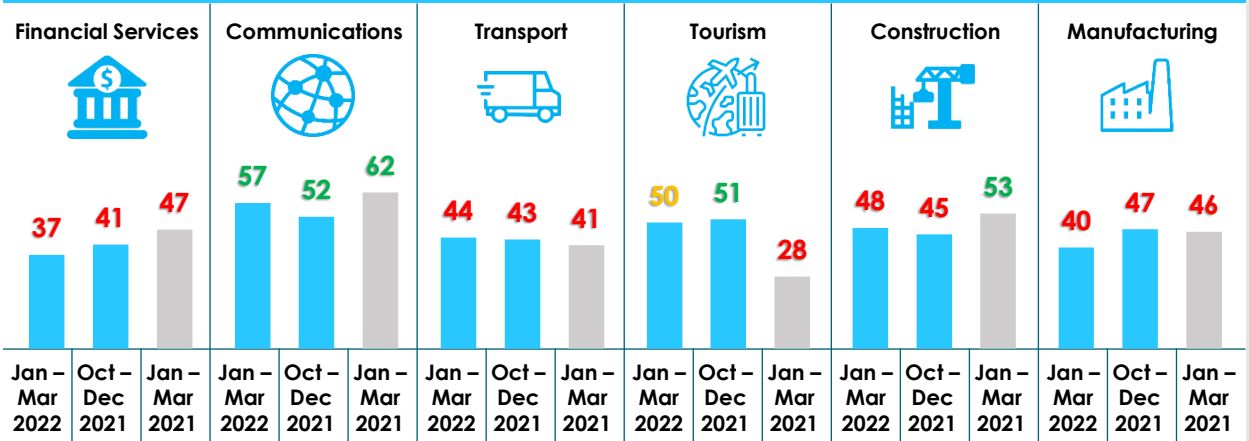


Source: Survey results.

1.3. The Index According to Economic Sectors

Most sectors witnessed deteriorating performance during the quarter under study, with all recording index values below the neutral level, except for the telecommunications and tourism sectors. The performance of the telecommunications sector scored higher than the neutral level while the tourism sector stabilized at the neutral level (Figure 1-5).

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



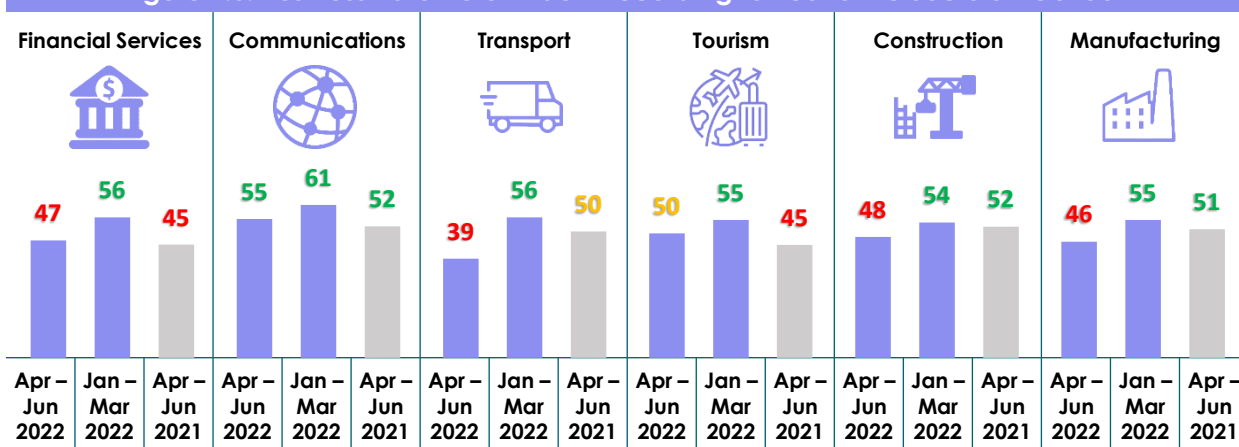
Source: Survey results.

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

- **The manufacturing sector** recorded an index value ten points less than neutral, which is a lower performance than in the previous and corresponding quarters. The deterioration in performance is due to several factors, including the Central Bank's decision to stop using collection documents in import operations and replace them with documentary credits, which led to halt of imports, as well as due to the shortage of raw materials and an increase in prices globally, and weak purchasing power and high inflation rates.
- **The construction and building sector** recorded a performance less than neutral by two points during the quarter under study. This performance is higher than the previous quarter, and lower than in the corresponding quarter, which reflects the continuation of the challenges facing this sector from the previous year, and their exacerbation with the outbreak of the Russian-Ukrainian war. The most important of these challenges are the significant rise in the prices of building materials (particularly steel and cement), difficulty of licensing procedures and their high cost, in addition to the new requirements set in the Unified Building Law, as well as the increase in tax burdens on the sector, as well as a significant decrease in demand and a shortage of firms' liquidity.
- **The tourism sector** recorded stable performance at the neutral level. This performance is better than the corresponding quarter and lower than in the previous quarter, because of current demand on religious tourism.
- **The telecommunications sector** posted seven points higher than neutral during the quarter under study, which is better than in the previous quarter, and less than its counterpart in the corresponding quarter, because of high demand for the sector's services and products, digitalization of most government services, as well as expansion in the implementation of communications networks and remote working technologies.
- **The transportation sector** recorded a performance less than neutral by about 6 points during the quarter under study. This performance is close to the previous and corresponding quarters. This decline is attributed to the imposition of import restrictions, slow and complex import procedures, liberalization of the exchange rate, a significant decrease in the volume of business; as well as the Russian-Ukrainian war and its repercussions on the global economy, international trade, and shipping traffic.
- **The financial services sector** recorded the largest decline in performance at the level of sectors, as it recorded a significant decline from the neutral level, which is lower than the previous and corresponding quarters. This decline is due to the decrease in trading rates because of the issuance of investment certificates at an 18 percent interest rate, which caused some investors to exit the stock exchange, and the low transparency of the decisions of the Financial Supervisory Authority. To cite but a few examples; canceling operations and stopping customer codes without justification, as well as lack of clarity regarding the capital gains tax, in addition to the geopolitical events that led to a decrease in trading rates in most of the world's markets except for the GCC market, which witnessed a rise in trading rates following the rise in oil prices.

As for outlook, expectations for the next quarter were lower than neutral for most sectors, except for the communications and tourism sectors.

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



Source: Survey results.

The following is an analysis of projections for economic sectors regarding the next quarter, and comparison with the previous and corresponding quarters:

- **The telecommunications sector** ranked first in terms of the business community's optimism about performance regarding the next quarter, although expectations were lower than in the previous quarter and higher than in the corresponding quarter. This reflects high demand for the sector's services and products in general, in addition to the government's seriousness about digitalization and the initiation of automating the tax system and customs duties, although problems still exist related to firms collecting their dues and poor infrastructure.
- **The tourism sector** witnessed stable expectations about the next quarter, which are lower than the previous quarter and higher than the corresponding quarter. This is linked to expectations of an increase in Umrah trips as well as the Hajj season in the coming period.
- **The expectations of the manufacturing sector** were not optimistic about the next quarter and were lower than the previous and corresponding quarters. These unfavorable expectations are related to the problems that firms faced with importing raw materials in addition to the rise in freight prices, which have become a great burden on firms; repercussions of political turmoil with its negative impact on global supply chains, and finally the unavailability of raw materials and production requirements and their higher cost, which led to a decrease in production as well as the global inflationary wave.
- **The outlook of the construction sector** about the next quarter was not optimistic. These expectations are lower than the previous and the corresponding quarters because of lack of optimism about solving the sector's problems, including repeated rises in the prices of building materials as well as the government's lack of action in taking decisions that would improve the sector, in addition to stagnant demand and laws on building and elevation permits.
- **The transport sector** recorded the largest non-optimistic expectations regarding performance over the next quarter, which are lower than the previous and corresponding quarters. This can be attributed to expectations that some problems related to congestion in Ain Sokhna port will continue because of expansions and road maintenance, lack of sufficient containers to transport goods, and the continuation of the repercussions of the Central Bank's decisions on the decline in imports, in addition to the ongoing geopolitical turmoil with its negative impact on global trade in general.
- **The expectations of the financial services sector** showed the business community's lack of optimism about performance during the next quarter, which is lower than the previous and corresponding quarters. This can be ascribed to lack of clarity regarding the application of the capital gains tax, as well as the decline in trading rates in most global markets because of the Russian-Ukrainian war, and expectations of a significant downturn in the stock market, despite the government's announcement of IPOs for 10 state-owned firms on the Egyptian Stock Exchange this year.

II. Constraints Faced by Businesses during the Reviewed Quarter, and Priorities for Improving the Business Environment from the Point of View of the Firm Sample



All firms continued to agree on high production costs as the biggest obstacle they face, followed by weak purchasing power and inflation. Severity of the constraints facing firms varied according to size and economic sector.

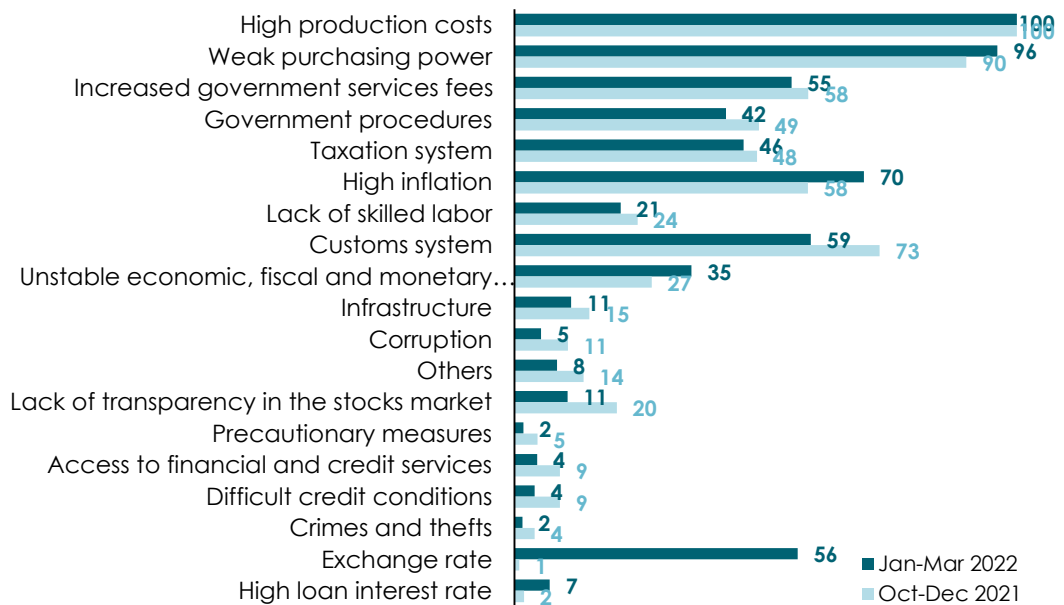
Figure 2.1 shows the main obstacles that faced the business community during the quarter under study (January - March 2021), arranged in a descending order of severity from the point of view of the firm sample.

The rise in production costs continued to lead the list of obstacles for all firms during the current and previous quarters, as a result of the exorbitant increase in the prices of production inputs, high prices of sea freight, disruption of global supply chains, shortage of raw materials and the increase in their prices; in addition to the repeated hikes in energy and transportation prices, followed by weak purchasing power, which reflected in the low level of domestic demand with the rise in prices. Then comes the customs system, as the new ACI system represents a major reason for the disruption of customs work because it led to an increase in the time taken for customs clearance, disruption of import, in addition to the suspension of firms abroad from supplying Egypt due to the complexity of customs procedures and the improper application of the ACI system. The increase in fees for government services came as the fourth largest obstacle facing the business community, without being matched by an improvement in services, including customs fees, road and bridge fees, and licensing and registration fees.

The results also showed other constraints faced by the business community during the quarter under study, including delayed value-added refunds, export subsidies, exaggerated expenses of freight forwarders, and lack of coordination between government agencies.

By comparing the obstacles that the firms faced during the quarter under study with their counterparts during the previous quarter, the business community suffered more significantly from the challenges of the customs system, weak purchasing power, and then high inflation. Meanwhile, there has been some relief with regard to fees imposed on government services, procedures for dealing with government agencies, and challenges related to the tax system.

Figure 2.1.
Constraints Facing the Business Community during the Quarter under Review

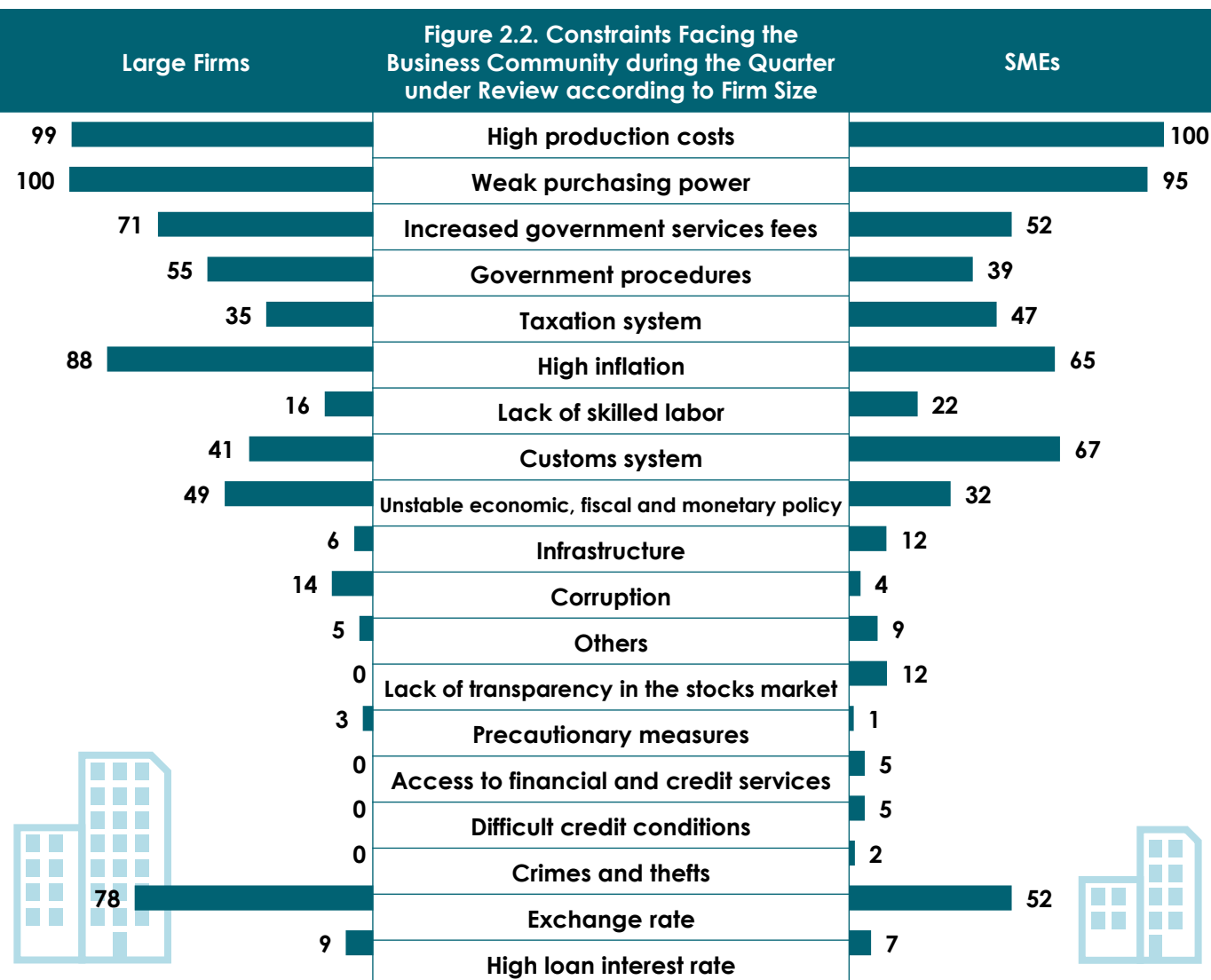


Source: Survey results.

The main obstacles faced by the business community according to the size of the firms

With respect to firm sizes, higher production costs topped the list of obstacles, followed by the challenges related to production costs for large firms, then came higher inflation in third place, and the increase in fees imposed on government services in fourth place. For small and medium-sized firms, higher production costs topped the list of obstacles, followed by weak purchasing power, with the customs system ranking third, followed by higher inflation.

Figure 2.2. shows the main obstacles that large, small and medium firms faced (according to size) during the quarter under study (January - March 2021), arranged in a descending order of severity from the point of view of the firm sample.









Source: Survey results.

The main obstacles faced by the business community according to economic sectors

There is divergence in the ranking of constraints at the level of the economic sectors, with higher production and operating costs being the biggest obstacle facing the manufacturing, construction, tourism, and communications sectors. The confusing economic, financial and monetary policies came as the biggest obstacle facing the financial services sector, while the exchange rate movement came as the biggest obstacle facing the transportation sector (Figure 2.3).

Figure 2.3.
Constraints Facing the Business Community during the Quarter under Review

	 Manufacturing	 Construction	 Tourism	 Transport	 Communications	 Financial Services
High production costs	70	70	50	15	80	3
Increased government services fees	100	91	92	-	80	-
Government procedures	61	47	61	28	68	83
Weak purchasing power	44	17	6	0	52	0
Taxation system	95	96	83	80	84	79
Lack of skilled labor	52	-	-	15	76	-
Customs system	37	4	25	97	16	100
Unstable economic, fiscal and monetary policy	9	2	14	9	0	0
Corruption	19	26	0	5	16	3
Infrastructure	2	0	17	0	0	0
Precautionary measures	7	0	0	17	0	41
Others	1	11	0	0	0	0
Crimes and thefts	4	0	0	4	16	-
Access to financial and credit services	4	0	0	9	16	-
Difficult credit conditions	86	83	67	100	72	0
Exchange rate	11	0	11	0	16	-
High loan interest rate	0	0	0	-	0	69

Source: Survey results.

Priorities to Improve the Business Environment in Egypt (According to Views of the Firm Sample)

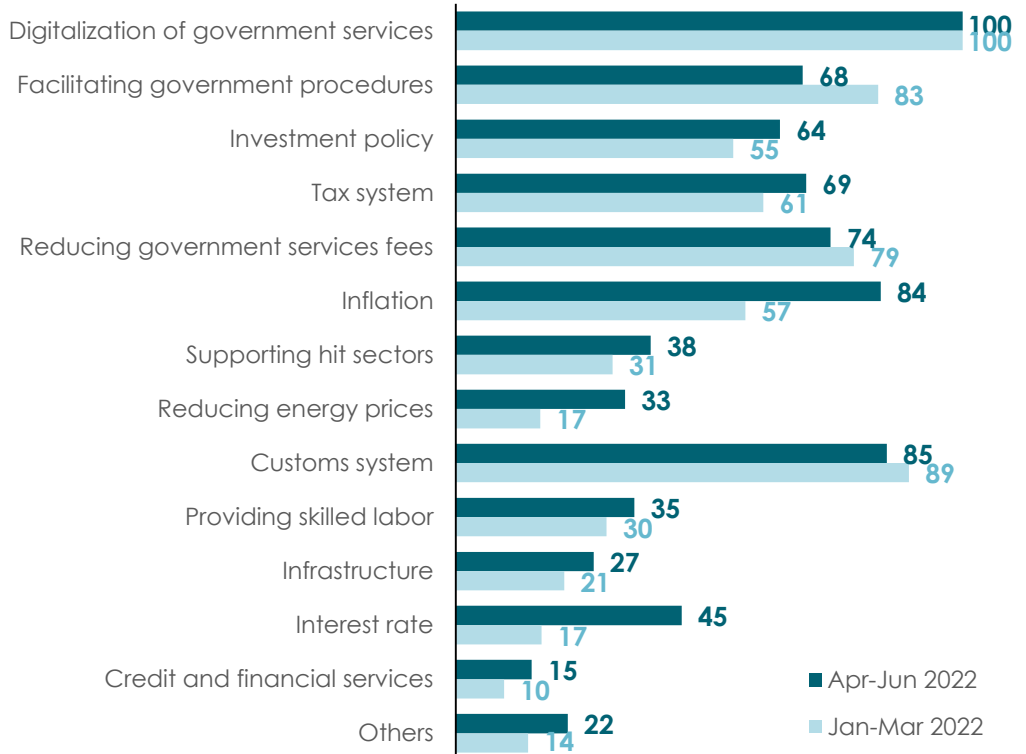


The most important priorities that must be focused on: Improving the mechanisms of digitalization of government services, improving the customs system, and bigger role for the State in combatting inflation. Priorities varied with sizes of firms and economic sectors.

Facing high inflation jumped to the top of priorities that must be focused on by revisiting the decisions that caused the exit of many suppliers from the Egyptian market, speedy implementation of documentary credits and securing foreign currency, reducing interest rates, reducing government fees (especially registration and licensing fees), improving service provision, tightening control over the markets to ensure that prices are not exaggerated, stimulating investment in substitute local products, and improving the quality of local products.

Consensus among firms continued for the third quarter in a row that the speed and improvement of the mechanisms of digitalization of government services are among the top priorities for improving the business climate in Egypt, streamlining government procedures and red tape. Improving digital transformation mechanisms requires setting a clear timetable, coordinating government agencies, improving infrastructure, strengthening communication networks, and enhancing training of workers and users on the new system. This is followed by addressing the challenges of the customs system by improving the mechanisms for applying the advance shipping system (ACI), as well as improving the training system for customs officials to facilitate the import and export process (Figure 2.4).

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

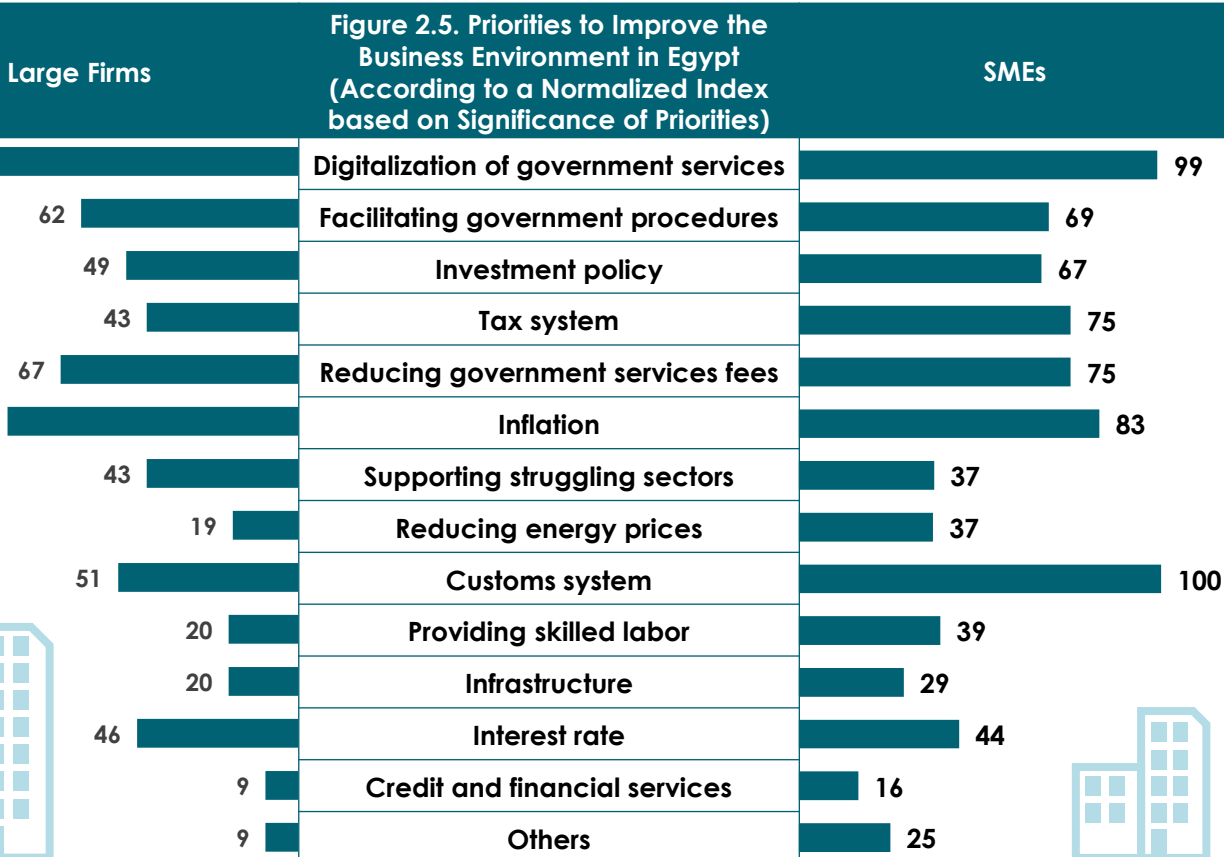


Source: Survey results.



Comparing priorities by firm size, the following can be noted:

- **Large firms** believe that improving the mechanisms of digitalization of government services and finding solutions to the challenges of the customs system, addressing high inflation, reducing fees imposed for obtaining government services, and facilitating government procedures should be on the list of priorities to improve the business climate.
- **Small and medium firms** believe that solving the problems of the customs system, especially those related to the ACI, and (like large firms) improving digitalization procedures, addressing high inflation, reducing fees on government services, and reducing tax bases as the most important priorities for improving the business climate (Figure 2-5). **Small and medium firms** added other priorities, including the need for the State to support the supplying industries in Egypt.









Source: Survey results.

Priorities according to Economic Sectors

Priorities varied across economic sectors. Improving the digitalization of government services was a top priority according to manufacturing, tourism, and communications sectors. While addressing high inflation is one of the most important priorities of the transportation sector. Facilitating government procedures came on the top of the construction sector's priorities. Other priorities, such as new IPOs to revitalize the stock market, as well as stopping the Egyptian Financial Supervisory Authority from canceling operations and stopping customer codes, came as the biggest priority for the financial services sector.

Given the broad and diverse challenges facing the construction sector, it has identified a wide range of priorities that should be addressed over the coming period, including reducing fees imposed on government services, investment policies, and rising inflation rates.

Figure 2.6.
Constraints Facing the Business Community during the Quarter under Review

	 Manufacturing	 Construction	 Tourism	 Transport	 Communications	 Financial Services
Digitalization of government services	100	100	100	96	100	81
Streamlining government procedures	92	100	100	42	100	12
Investment policy	79	81	0	52	0	69
Tax system	71	82	60	47	50	79
Reducing government services fees	90	91	78	80	56	51
Inflation	75	86	50	42	50	38
Supporting struggling sectors	44	82	70	9	28	0
Reducing energy prices	51	74	0	7	0	7
Customs system	89	63	-	100	66	-
Providing skilled labor	54	63	5	7	28	0
Infrastructure	40	77	0	14	0	0
Interest rate	30	63	0	0	0	0
Credit and financial services	19	54	0	0	31	0
Others	13	0	0	28	0	100

Source: Survey results.



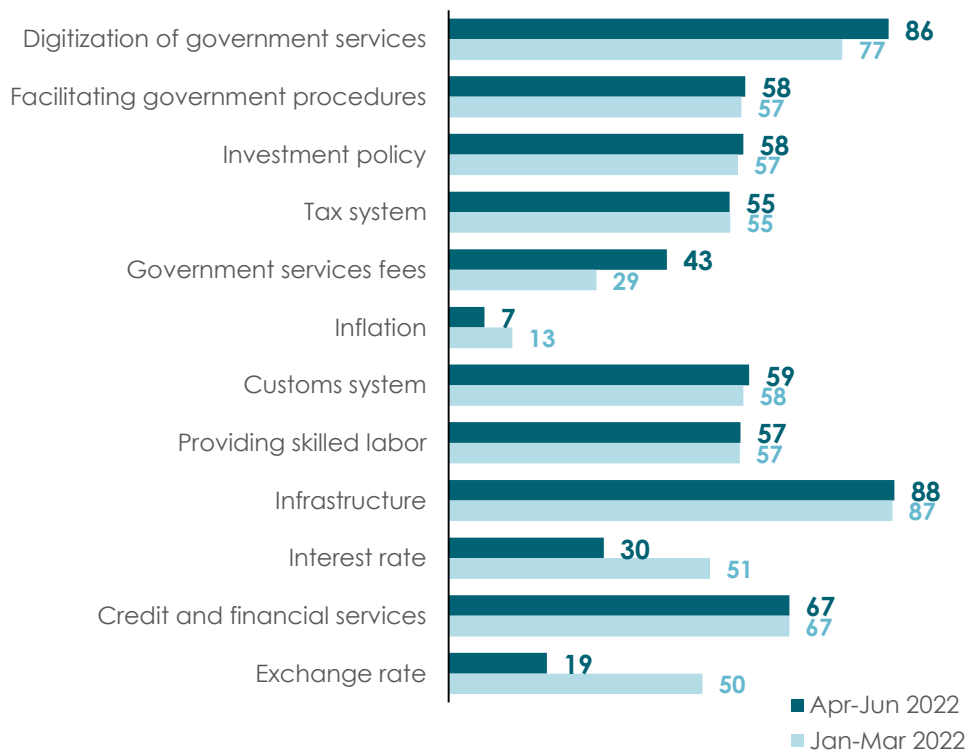
Outlook of the Business Community Towards Prospects of Improvement, Based on their View of the Current Orientation of Government



Expectations of improvement in infrastructure, digitalization, financial and credit services, and the customs regime over the coming quarter

Considering current government projects and trends, most firms expect continued improvement in infrastructure due to the various projects underway, followed by digitalization of government services because of the various efforts announced in this regard, then financial and credit services (Figure 2.7).

Figure 2.7.
Outlook of the Business Community toward Aspects of Improvement, based on their View of Current Orientation of Government (according to the same methodology of the Business Barometer)



Source: Survey results.



III. Evaluating Performance and Outlook at the Level of Sub-Indices

3-1 Past Performance

Lower performance indices for all firm sizes






A significant decline in the indices of domestic sales and exports of all large firms during the quarter under study, reflecting in the production index that recorded values below the neutral level because of the gradual decline in demand in the local and foreign markets. By comparing the performance evaluation for the current quarter with the previous quarter, there is a significant decline in performance indices of sales, production, exports, capacity utilization and commodity inventory during the current quarter.

The performance of SMEs is consistent with that of large firms. The results showed a significant decline in all indices from the neutral level, which confirms the existence of huge challenges facing these firms during the quarter under study, including high production costs, shortage of raw materials and a decline in demand. By comparing the performance in the current quarter with the previous quarter, lower indices were noted in production, local sales, and capacity utilization compared to the previous quarter.

By comparing the performance in the current quarter with its counterpart in the corresponding quarter, the indices of production, local sales and exports witnessed a discrepancy in performance compared to the corresponding quarter, while indicators of production and exports, capacity utilization and commodity inventory witnessed a significant decline in performance compared to the previous quarter for all large, small and medium firms.



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

Large Firms	Figure 3.1. Production and Sales Indices According to Firm Size - Past Performance			SMEs
38	Jan - Mar 2022	Production 	Jan - Mar 2022	23
59	Oct - Dec 2021		Oct - Dec 2021	38
43	Jan - Mar 2021		Jan - Mar 2021	39
36	Jan - Mar 2022	Domestic Sales 	Jan - Mar 2022	20
53	Oct - Dec 2021		Oct - Dec 2021	38
48	Jan - Mar 2021		Jan - Mar 2021	39
43	Jan - Mar 2022	Exports 	Jan - Mar 2022	32
59	Oct - Dec 2021		Oct - Dec 2021	48
40	Jan - Mar 2021		Jan - Mar 2021	39
34	Jan - Mar 2022	Capacity Utilization 	Jan - Mar 2022	35
54	Oct - Dec 2021		Oct - Dec 2021	38
45	Jan - Mar 2021		Jan - Mar 2021	44
38	Jan - Mar 2022	Inventory* 	Jan - Mar 2022	56
50	Oct - Dec 2021		Oct - Dec 2021	60
36	Jan - Mar 2021		Jan - Mar 2021	53

Source: Survey results.

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

An unprecedented rise in input prices and the wage index, which reflected in a significant increase in the prices of final products at the level of all firm sizes

Results of the performance evaluation showed a significant increase in the prices of inputs for all firms because of the continuation and even exacerbation of the driving factors locally and globally. Globally, the prices of raw materials witnessed remarkable increases during the quarter under study, especially after the Russian-Ukrainian war. Shipping and transportation fees also increased due to the turmoil in global supply chains, slow container traffic and the delay in delivery times, in addition to barriers that firms faced locally such as the slow customs clearance procedures and the high prices of freight services, and higher overall operating costs due to the rise in fuel and transportation prices. The results also showed a significant increase in the wage index for large firms and a slight increase for small and medium firms because of the annual wage increase at the beginning of each year. All the above was reflected in a noticeable increase in the final product price index for all firms. The rise in the final product price index was greater for large firms than for medium and small firms (Figure 3.2).



The indices of input prices, wages, and prices of final product prices during the current quarter exceeded their counterparts during the previous and the corresponding quarter for all firms of all sizes.

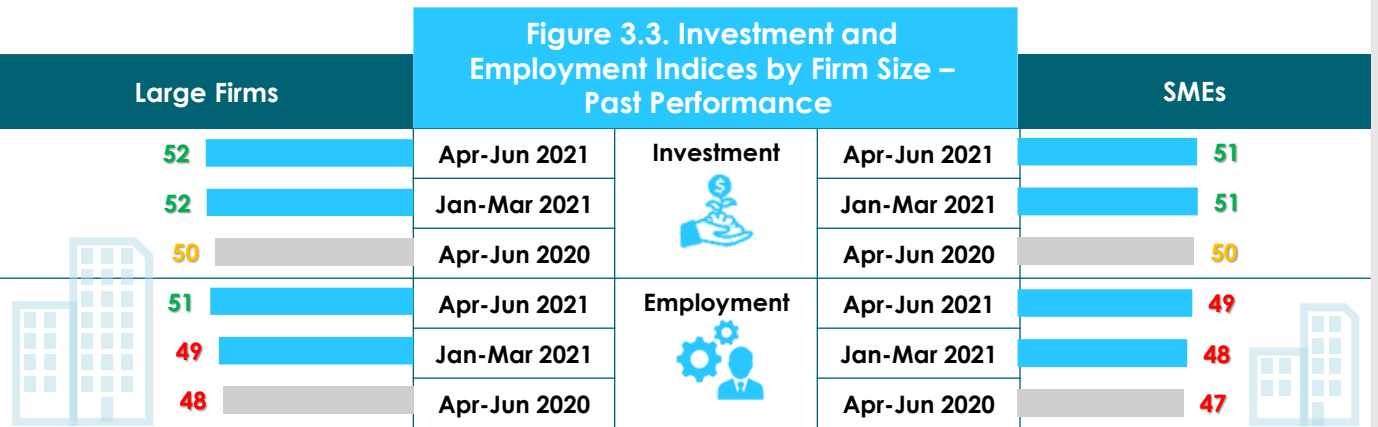
Source: Survey results.

* 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.

A slight improvement in the investment index and a decline in the employment index for all firms

Despite government efforts to improve the business environment and support all firms:

- The results of large firms showed a performance higher than neutral in relation to the investment index during the current quarter, and similar performance to the previous quarter but higher than the corresponding quarter as a result of expansions of some telecom sector firms, as well as slight improvement in the employment index during the current quarter, with the index recording values one point higher than neutral, and a higher level than the previous and corresponding quarters due to higher employment.
- The results of small and medium-sized firms also showed a slight increase in the performance of the investment index at the neutral level. This performance is the same as the performance of the previous quarter and higher than the performance of the corresponding quarter for the same reasons mentioned above for large firms, while the employment index during the current quarter recorded a decrease from the neutral level, but lower than that of the previous and corresponding quarters (Figure 3.3).

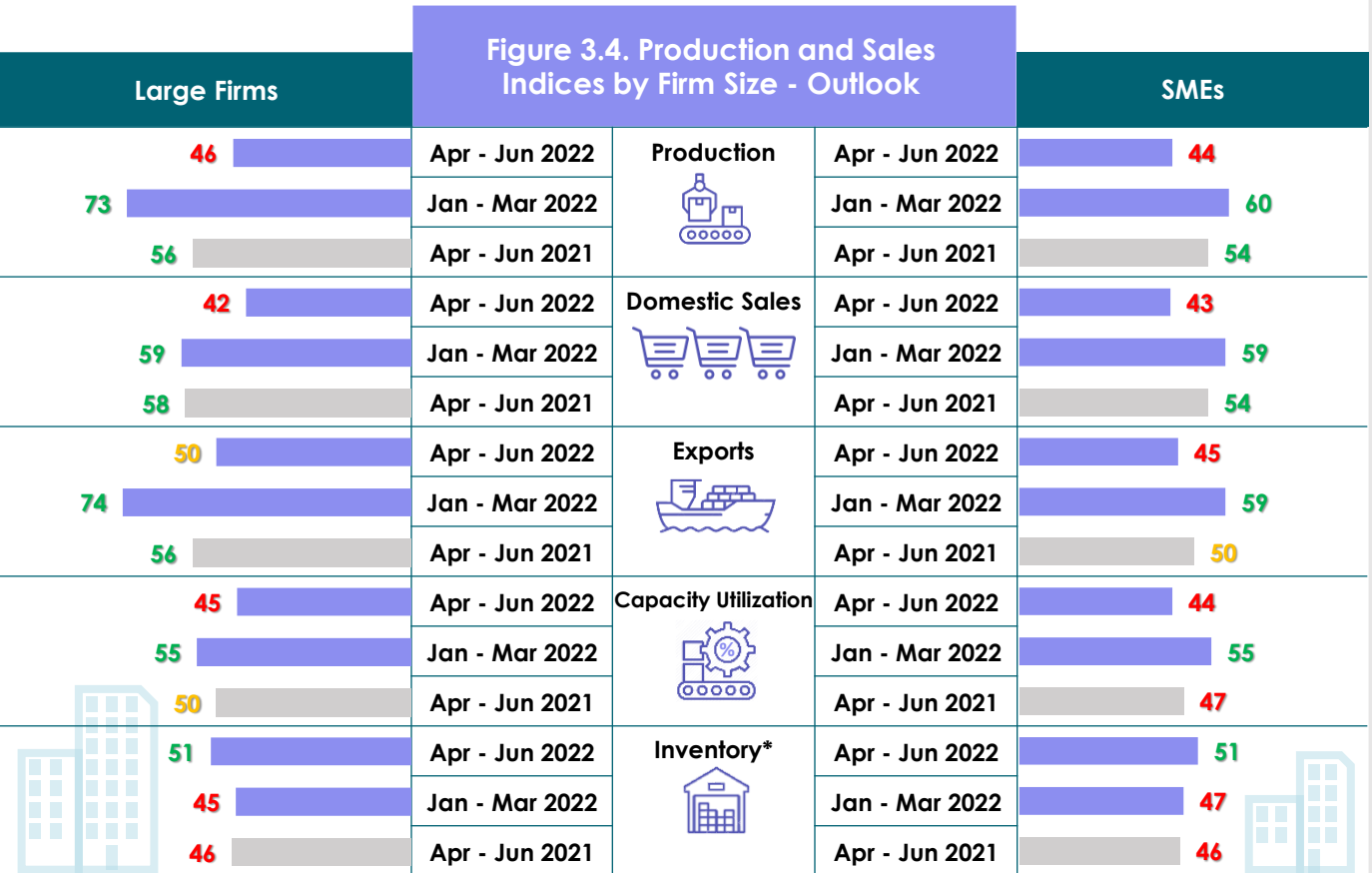


Source: Survey results.

2-3 Performance Outlook

Non-optimistic expectations for indices of economic activity for all firms of all sizes during the next quarter.

Expectations of large firms were not optimistic about all indices of economic activity during the next quarter, April-June 2022, as the values of all indices decreased below the neutral level, except for the exports index, which was neutral. These are less optimistic expectations compared to the corresponding and the previous quarters. This may be attributed to expectations that the global economy will not recover in the coming period and the decline in external demand (Figure 3.4).



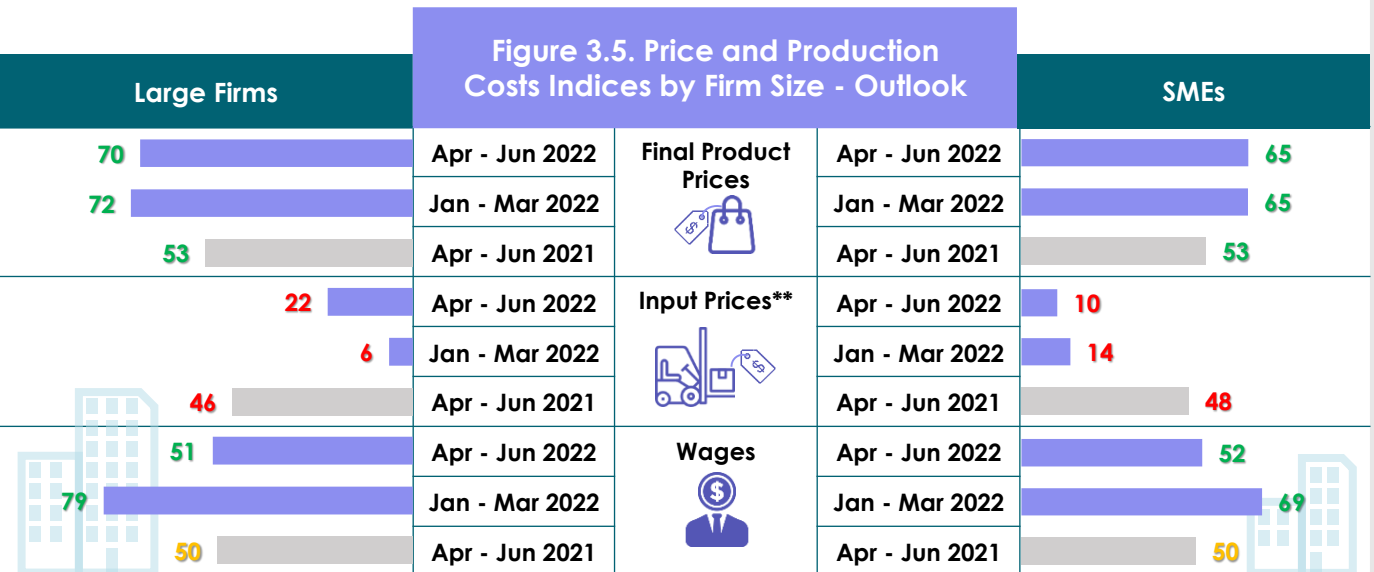
Source: Survey results.

* 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.

The expectations of small and medium-sized firms were not optimistic about the next quarter regarding all indices of economic activity, as all indices posted performance slightly above the neutral level. By comparing the expectations of the current quarter with their counterparts during the previous quarter, we find that they were less optimistic about all indices during the previous and corresponding quarters.

Expectations that input price and wage indices will continue to rise, which will reflect in a rise of the final product price index for all firms

All firms expect continuation of the rising trend in input prices and production costs because of firm expectations of a continued rise in the prices of raw materials. The business community also expects an increase in fees for government services, including customs duties, prices of packaging materials, freight and transport prices, in addition to increased uncertainty about supply chains in the near term. The results also showed expectations of a marginal increase in the wage index for all firms. Consequently, rises in the input and wage indices are reflected in a rise in the final product price index for all firms during the next quarter (Figure 3.5).



Source: Survey results.

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

Expectations of stable employment and investment indices for all firms

Large, small and medium firms expected the investment and employment indices to remain at the neutral level, which is less optimistic compared to the previous quarter and similar to the corresponding quarter (Figure 3-6).



Source: Survey results.

Tables Index

Table A1: Survey Results: Summary of all firms evaluation at the sectoral level (January-February-March 2022)¹

Indicator	Manufacturing			Construction			Tourism			Transportation			Communications			Financial Services			
	Higher	Percentage	Index ²	Higher	Percentage	Index ²	Higher	Percentage	Index ²	Higher	Percentage	Index ²	Higher	Percentage	Index ²	Higher	Percentage	Index ²	
Economic activity			40			48			50			44			57			37	
Production	5	15	80	7	50	43	38	50	0	50	50	27	75	25	0	80	0	100	0
Domestic sales	3	12	84	7	50	43	38	50	0	50	50	14	75	25	0	80	0	100	0
Exports	13	25	63	—	—	—	—	0	100	0	50	38	13	50	44	100	0	100	—
Inventory	49	29	22	40	7	50	43	62	50	0	50	42	61	75	25	0	20	0	94
Capacity utilization	3	53	44	37	0	100	0	50	0	30	70	23	8	25	67	27	38	50	13
Prices																			
Final product prices	78	22	0	82	64	36	0	74	90	10	0	91	25	75	0	57	25	75	0
mediate product prices	100	0	0	0	100	0	0	0	100	0	0	0	—	—	—	100	0	0	0
Wage level	72	28	0	78	57	43	0	70	80	20	0	83	42	58	0	63	38	63	0
Primary inputs																			
Investment	2	98	0	50	0	100	0	50	0	100	0	50	0	100	0	50	50	50	0
Employment	3	95	2	50	0	86	1.4	46	0	100	0	50	0	100	0	50	0	100	0

Table A2: Survey Results: Summary of all firms expectations at the sectoral level (April-May-June 2022)²

Indicator	Manufacturing			Construction			Tourism			Transportation			Communications			Financial Services			
	Higher	Percentage	Index ²	Higher	Percentage	Index ²	Higher	Percentage	Index ²	Higher	Percentage	Index ²	Higher	Percentage	Index ²	Higher	Percentage	Index ²	
Economic activity			46			48			50			39			55			37	
Production	13	53	33	43	14	50	36	43	30	70	0	59	8	83	15	71	29	0	
Domestic sales	10	52	38	41	14	50	36	43	50	40	10	64	8	83	15	63	38	0	
Exports	9	70	22	46	—	—	—	—	0	100	0	50	0	75	25	43	67	33	
Inventory	13	72	15	51	14	50	36	57	50	50	0	33	8	33	58	69	63	38	
Capacity utilization	3	70	27	43	0	100	0	50	30	70	0	59	8	92	8	50	50	0	
Prices																			
Final product prices	70	30	0	77	71	29	0	78	20	80	0	56	17	83	0	55	25	75	0
mediate product prices	87	13	0	12	93	7	0	7	67	33	0	25	—	—	—	75	25	0	
Wage level	7	93	0	52	23	77	0	57	0	100	0	50	0	100	0	50	13	88	0
Primary inputs																			
Investment	0	98	2	50	0	100	0	50	0	100	0	50	0	100	0	50	0	100	0
Employment	0	97	3	49	0	100	0	50	0	100	0	50	0	100	0	50	13	88	0

1 Numbers represent percent of total responses. Higher, same and lower may not add up to 100 due to rounding.
2 Equal to the simple average of the variables' indices. The index's method of calculation is provided in the appendix.

Tables Index

Table A3: Survey Results: Summary of all firms past performance (by size) (January-February-March 2022)¹

Variable	SMEs				Large Firms			
	Percentage			Index ²	Percentage			Index ²
	Higher	Same	Low	40	Higher	Same	Low	46
Economic activity								
Production	11	15	73	23	22	26	52	38
Domestic sales	9	14	77	20	22	22	57	36
Exports	25	10	65	32	20	40	40	43
Inventory	29	27	45	56	50	32	18	38
Capacity utilization	4	48	48	35	9	39	52	34
Prices								
Final product prices	56	44	0	69	70	30	0	77
Intermediate product prices	100	0	0	0	100	0	0	0
Wage level	49	51	0	66	87	13	0	88
Primary inputs								
Investment	3	97	0	51	9	91	0	52
Employment	1	96	3	49	4	96	0	51

Table A4: Survey Results: Summary of all firms expectations (by size) (April-May-June 2022)¹

Variable	SMEs				Large Firms			
	Percentage			Index ²	Percentage			Index ²
	Higher	Same	Low	45	Higher	Same	Low	48
Economic activity								
Production	20	43	38	44	17	52	30	46
Domestic sales	20	41	39	43	17	43	39	42
Exports	10	65	25	45	13	73	13	50
Inventory	21	54	25	51	18	59	23	51
Capacity utilization	11	58	31	44	9	65	26	45
Prices								
Final product prices	46	54	0	65	57	43	0	70
Intermediate product prices	89	11	0	10	72	28	0	22
Wage level	7	93	0	52	4	96	0	51
Primary inputs								
Investment	0	99	1	50	0	100	0	50
Employment	1	97	2	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.