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11 july 2019

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July 11, 2019

Egypt's FY2019-20 Budget & Govt.'s Alleged Achievements

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On Tuesday 25 June 2019, immediately after the Egyptian parliament ratified the state's Fiscal Year 2019-20 budget, Egypt's Minister of Finance Dr. Mohamed Maait said in an interview with Bloomberg TV that Egypt is in talks with the IMF for a non-loan program and hopes to reach an agreement by October. "We started discussing with the IMF, first of all, what are the options Egypt is eligible to and after that we set up a framework for the elements and components of the program and presented it to the IMF and we are in a dialogue about that," Maait said. According to the Minister of Finance, the duration of the program has yet to be determined but will likely be around two years. Although the new program does not include provision of loans to Egypt, however, this agreement will be the Egyptian government's tool for obtaining loans from the international bond market by about $ 8 billion during the FY 2019-20, starting July.

In fact, the negative connotations of Egypt's entry into a new agreement with the IMF seem extremely clear, as borrowing has become an indispensable source of funding for the Egyptian budget, undermining any claims on efforts exerted for achieving an initial budget surplus. However, the public debt burdens (interest + premiums) amounted to about LE 944 billion, by 83.2% of expected public revenues in the budget, exceeding the tax revenues that amounted to about LE 856 billion. This means that all procedures that Egyptian government has followed as part of its agreement with the IMF in November 2016, have not succeeded in bridging the funding gap in the Egyptian budget, where subsidies for fuel, electricity, gas and drinking water were reduced, new taxes were levied, existing taxes increased, and prices of most government goods and services were increased.

Regarding the government's announcement that it is seeking a new non-loan agreement with the IMF, a fundamental question significantly arises on whether this proposed agreement, expected in October 2019, will be the last one that will enable Egypt's economy to rise and emerge from the swirls of debts, dependency, and deterioration of education and health services, and enhance its human resources?

The budget indicators, being the financial program of the plan, show that Egypt lacks any political will or competent economic management that would enable it to get out of the IMF agreements and adopt a national development agenda.

First: Expenditure

Expenditure in FY 2019-20 budget is estimated at LE 1.57 trillion ($ 94 billion). Debt service represents the largest figure of expenditure, LE 569 billion; followed by allocations of subsidies, grants and social benefits, LE 327 billion; allocations of wages, LE 301 billion; allocations of public investments, 211 billion pounds; other expenditures, LE 90 billion; and finally allocations for the purchase of goods and services, 74 billion pounds.

It is noteworthy that these figures are mostly inevitable expenses, notably the debt interest and installments, wages and salaries, and the purchase of goods and services. The item "other expenses" includes allocations for the expenditures of defense, national security, foreign ministry, presidency, parliament, judiciary, and central auditing organization. Although the allocations for public investments have seen an increase of about LE 63 billion, however, it is necessary to wait to see the actual spending; as the final accounts of previous fiscal years showed that the actual expenditure was much less than the figures that were stated in the budget. In addition, most of the public investments in the budget are allocated to spending on infrastructure and government real estate, which lack value added and do not lead to sustainable or stable jobs.

The budget's analytical statement for the same fiscal year shows that the largest allocation for public investments is devoted for fixed assets, LE 192 billion, equivalent to 91%. However, exploring the fixed assets item, we found that LE 24 billion were set for housing buildings, LE 33 billion for non-housing buildings, and LE 76 billion for construction; a total of about LE 133 billion directed to the real estate sector. About LE 44 billion is allocated for the purchase of tools and equipment. Given that Egypt does not produce tools and equipment, it imports most of its needs from abroad, which makes the Egyptian economy's benefit from this expenditure very limited.

As for spending on subsidies, grants and social benefits, the government gave up subsidies for fuel and electricity at high rates: the fuel subsidies were reduced from LE 89 billion pounds to LE 52 billion pounds, and electricity subsidies were reduced from LE 30 billion to only LE 4 billion, increasing the burden of living costs on the Egyptian family and leading to high inflation rates in the post-July 2019 period. The allocations of providing support to farmers were reduced by LE 500 million, and to health insurance and drugs by about LE 244 million.

While subsidy for the above mentioned items, mostly for low-income and poor people, is reduced, the budget includes an increase of export support allocations by LE2 billion, up to LE6 billion against LE 4 billion in the FY2018-19, despite the fact that the return from this support has almost been negative over more than 10 years, especially that it is exploited as a channel of corruption. In addition, the performance of Egyptian commodity exports, other than oil, has been poor, according to FY2017-18 balance of payments data, with non-oil exports reaching $ 17 billion, an increase of only $ 2 billion against the FY2016-17.

The fifth section of expenditure in the Egyptian budget, titled, "other expenses", represents uncertainty and lack of transparency, where the post-coup 2014 Constitution has expanded, to include allocations for spending on defense, national security, foreign ministry, presidency, parliament, judiciary, and central auditing organization. The analytical statement figures show that the allocations of this section jumped from LE 75 billion in FY2018-19 to LE 90 billion in FY2019-20, an increase of 15 billion pounds, by 20%, while the subsidy allocations for the essential goods and services for the low-income Egyptians were cut.

Second: Revenues

The public revenues in the FY2019-20 budget have amounted to LE 1.13 trillion (about $ 68 billion) that come largely from tax revenues amounting to LE 856 billion, by 75% of total public revenues, while other revenues amounted to LE 274 billion, by about 24% of total public revenues.

The scope of (foreign) grants in public revenues shrank to only LE 3.8 billion, which means that the grants announced by the regional and international supporters of Egypt are shrinking significantly. However, these supporters maintain provision of assistance to the Egyptian government in the form of credit facilities to finance oil imports or some commodity imports.

It is noteworthy that the structure of tax revenues relies on indirect taxes, estimated at LE 415 billion, accounting for 48% of total tax revenues. This has helped the government to impose a set of tax laws such as the value-added law, or the successive increases in the stamp tax, experiencing steady increases on an annual basis. In general, the structure of taxes in terms of composition, and the predominance of indirect taxes coincides with the fact that Egypt is a developing country, where individuals can evade direct taxes, either by not keeping records and working outside the formal economy, or through settlement of their tax files through the corruption system.

Third: Negative Attitude towards Deficit

The total budget deficit amounts to LE 445 billion (about $ 26.5 billion dollars). The state has no other option than borrowing to cover this deficit, whether from local or foreign sources, but mostly from domestic banks.

But the solutions put forward by the Egyptian government to address the issue of deficit and public debt do not seem appropriate for resolving this dilemma. The conversion of short-term debts into long-term debts may give room for postponement of borrowing, but it keeps the debt out and does not mitigate the accumulated burdens that tie the hands of the financial policy maker.

The talk about a decline in the ratio of public debt or the overall budget deficit to GDP is meaningless in view of the escalating public debt that devours the largest proportion of public revenues. As for the sale of public assets to settle the debt of some public institutions, as it has recently happened, it only means a decline in economic activity. It is no secret that abandonment of capital assets would weaken the financial situation of the State as a whole, not only the government.

Recently, the government has sought to settle some of the debts of the Railways Authority, by transferring some of its assets to the National Investment Bank, which is the creditor. However, this opens the door to expectations on the likely sale of the Railways Authority after deducting a large percentage of its debts, as it used to happen with the public institutions that were privatized, most notably the Bank of Alexandria.

However, the government is not aware that its recent move to sell some capital assets in order to pay off part of the debts leads to annual accumulation of debt burdens that would consume any economic efforts. The real remedy to such dilemma is to confront corruption, enhance the private sector's production orientation, and keep the army away from the potential of civil economy; to allow the Egyptian economy access to real competition, and enable the government of acquiring a transparent system for collecting taxes in a way that would help to finance the budget in real terms and to pay off the principal public debt.

Fourth: Limited Spending on Significant Sectors

Egyptian public budget's spending on education and health is still low. Some LE 132 billion has been allocated to the education sector and about LE 73 billion has been allocated to the health sector.

Although there is an increase in spending on education during the period 2014-2019, statistics indicate a high illiteracy rate in Egyptian society, estimated in 2016 at 24.8% of the total population (Age: 15 years and above). Also, there is a decline in education quality amid continuing problems of overcrowded classrooms in public schools and exacerbation of the problem of private tuition that poses an economic burden to the Egyptian families, depriving them of other requirements that are likely to contribute to improvement of their living conditions. One of the biggest drawbacks of Egypt's education sector is that educational institutions are not linked to the labor market needs, which contributes to increasing the number of the unemployed and adding them to the unskilled labor.

Undoubtedly, spending on the health sector is disproportionate to the population growth experienced by Egypt. On the other hand, the economic measures implemented under the IMF agreement in 2016 led to a decline in individuals’ incomes and a decrease in their purchasing power, which means poor health care provided by government institutions on the one hand, and the inability of individuals to access private health care on the other, owing to their high cost.

The following tables show some indicators that reflect the decline in health care in government institutions during the last period, which negatively affected the human right to health care in Egypt.

Physicians per capita ratio (Number of doctors for every 100 thousand Egyptians):

Year	2010	2015
Doctors (for every 1000 inhabitants)	**113**	**82**

Nurses per capita ratio (Number of nurses per 100 thousand population in Egypt:

Year	2010	2015
Nurses (for every 1000 inhabitants)	**201**	**144**

Inhabitants served by every hospital bed:

Year	2010	2015
Inhabitants served by every hospital bed	**1923**	**2111**

Expenditure on health (%) 2015:

Public Sector	**38.2**
Private Sector	**61.8**

Declining number of doctors in government sector (numbers in thousand):

Year	2013	2014	2015	2016
Doctors	71.8	113.1	87.7	95.1

Myth of Biggest Budget

When the budget is presented to the parliament early April every year, the pro-regime media outlets usually reiterate that it is the biggest budget in the history of Egypt. Naturally, the budget witnesses an increase every year compared to the previous year due to the higher inflation rates, which has in no way been less than 14% over the last period.

Moreover, the successive Sisi governments have borrowed too much, which required payment of debt burden (interest and premiums) on an annual basis. This will continue until the government reaches a solution to this dilemma, which can only be achieved by reducing the debt value and stop manipulation of some indicators related to this issue, such as the ratio of public debt to GDP, or the budget deficit to GDP. In fact, these indicators mostly give a fake and unreliable impression about the performance of the Egyptian budget, in light of the continued rise in public debt and its burdens, as well as the vague figures announced by the Sisi regime on the GDP.