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Budget and Fiscal Policies What the Books Actually Say

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What the Books Actually Say

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Chapter Structure

I. Introduction

II. Egypt's Budgetary Approaches, Processes and Institutions

III. Evolution of the Key Fiscal Policy Aggregates

IV. Policy Implications

V. Conclusion

Introduction

- The **State budget** is the primary **document** that defines the **government's comprehensive plan** for the next fiscal year.
- State budget is **not merely a financial document**, as it reflects **economic and social priorities** of the government as well as the **institutional and political economy** factors that govern the budget cycle (i.e., a tool for public scrutiny of the government's fiscal performance).



Introduction: Literature Review

1. The Cyclical Behavior of Fiscal Policy

- Fiscal policy in Egypt shows a procyclical or a-cyclical trend, in contrast to the counter-cyclical fiscal policies that are often observed in developed countries (El Hussein, 2018; Hassan, 2007; Slimane and Tahar, 2013).

2. The Social Impacts and Redistributive Effects of Fiscal Policy

- Government social spending, especially on health and education, and redistribution policies effectively reduce poverty and inequality (Elshahawany and Elazhary, 2023; Fan et al., 2006; Lara Ibarra et al., 2019).

Introduction: Literature Review

3. The Impact of Fiscal Policy on Macroeconomic Variables

- Impact of fiscal policy on **unemployment and real GDP**: initial government spending has positive but temporary effects that tend to decline over time (Ibrahim, 2021; Omran, 2017; Omran and Bilan, 2020).
- **Optimal size of government**: the existence of a non-linear, inverted U-shaped relationship between government spending and economic growth (Abdel-Latif and Mishra, 2016; Alatrash and Nurmukhametov, 2021; El Hussein, 2019).
- **Validity of Wagner's Law** (Ghazy and Ghoneim, 2021).

Introduction: Literature Review

4. Fiscal Deficit and its Determinants

- The role of political and institutional factors (Torayeh, 2015), the impact of the budget structure on Egypt's fiscal deficit (El Hussein, 2023a), and the effectiveness of spending-based austerity measures in reducing the fiscal deficit-to-GDP ratio in Egypt (El Hussein, 2016b).

Literature Review

5. The Relationship/Interaction between Monetary and Fiscal Policies

- Poor policy coordination, characterized by a fiscal policy dominance, with significant implications for **inflation, budget deficit, and exchange rate stability** (Elhendawy, 2019; Abdel-Haleim et al., 2014; El-Khishin and Kassab, 2021; El-Refaie, 2001).
- Fiscal policy tends to have a **larger**, more **predictable**, and **faster** impact than monetary policy on GDP growth (El Hussein, 2023b).

Introduction: Literature Review

6. Fiscal Governance, Budgetary Institutions, and PFM

- Political economy and institutional challenges of fiscal policy reforms; importance of strong budgetary institutions and social accountability mechanisms for the fiscal performance of the government (Kienle, 2004; Wurzel, 2004; El Hussein, 2016a; Amin, 2015, Zaky and El-Khishin, 2016; El-Khishin and Zaky, 2021).



Introduction: Contribution

- This chapter **contributes** to the relevant literature by providing a **comprehensive analysis of the evolution of Egypt's fiscal policy and its budgetary institutions**, over several decades, proposing relevant **policy implications**.

Introduction: Methodology

- A **descriptive-analytical approach**, relying on a range of secondary data sources and the final accounts of Egypt's SGB.
- **Time-frame**: 1970s-2022.
- **Scope**: SGB

Key Issues Discussed

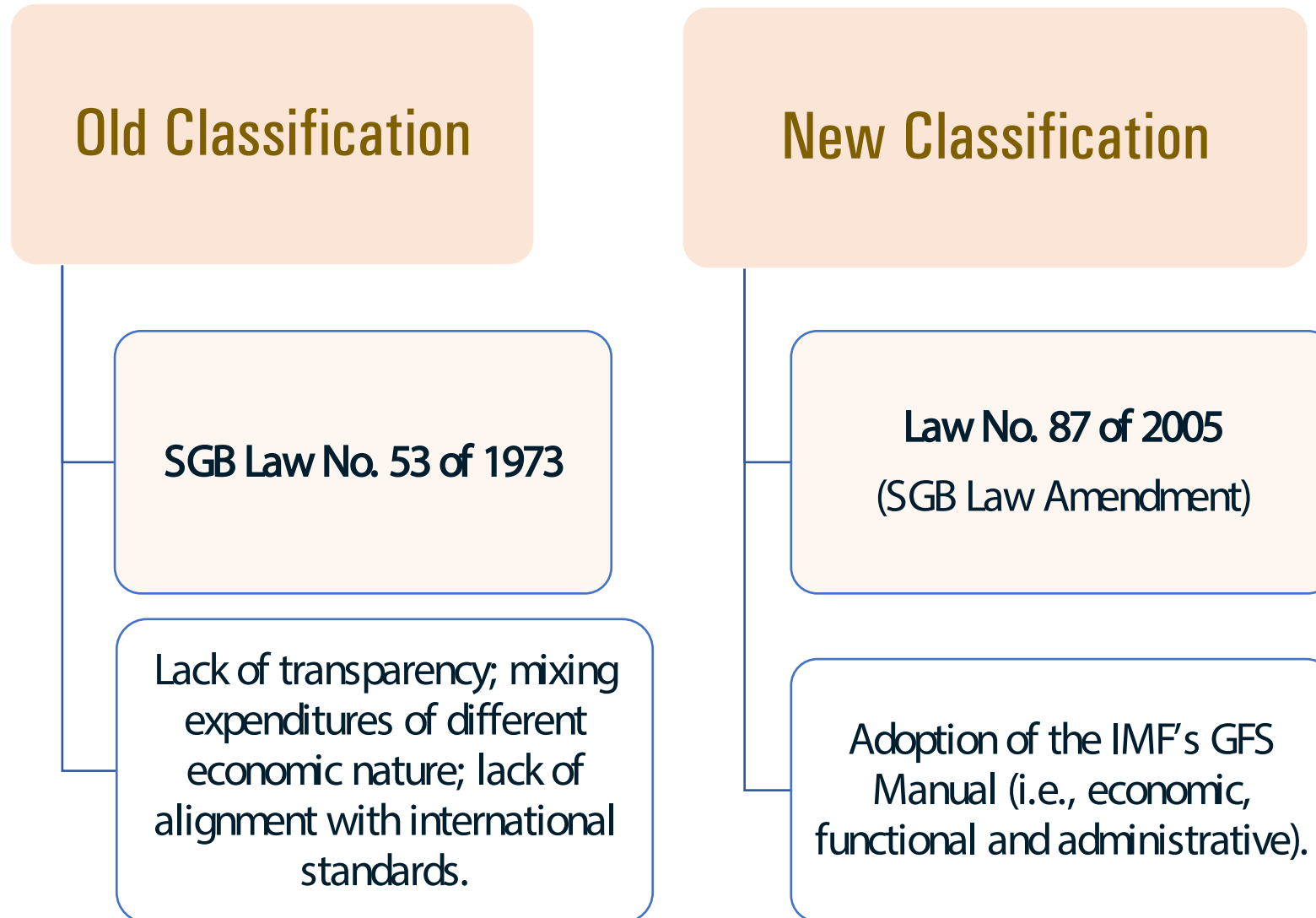
Egypt's Budgetary Approaches, Processes and Institutions

- a. Budget classification systems and budgetary approaches
- b. Budget cycle and budgetary institutions
 - i. Budget formulation and negotiation stage
 - ii. Budget discussion and approval stage
 - iii. Budget implementation and review stage

- Constitutions of 1971 and 2014.
- Budget Laws: SGB Law No. 53 of 1973 and its amendments, replaced by the UPF Law No. 6 of 2022.

Main Findings

Budget Classifications Reforms





Main Findings

Shifting from line-item to program- and performance-based budgeting

- The **line-item budgeting** approach, adopted in Egypt for decades, has contributed to the relatively **weak fiscal performance** of the government (i.e., weak linkages between annual budgets and multi-year development plans and strategies).
- **Attempts** to implement program-based budgeting **began in 2005**, but initial implementation was **superficial**, missing key components like **programs** and **performance indicators**.
- The **UPF Law of 2022** mandates full adoption of this approach **within four years**, extended to **6 years** by the Law's amendment of 2024. But!!



Main Findings

Institutional weaknesses during the budget design and prioritization process

- **Absence of fiscal rules:** (i.e., quantitative fiscal targets and/or expenditure ceilings). **The UPF Law?**
- **Lack of medium-term budgeting perspective** (i.e., MTBF, MTEF). **The UPF Law?**
- **Line-item budgeting,** lack of sectoral priorities; budget fragmentation and excessive number of budgetary authorities.
- **Dual budgeting.**
- **Limited budget comprehensiveness:** extra-budgetary funds; lack of information on quasi-fiscal activities and fiscal risk statements (i.e., loan guarantees).



Main Findings

Institutional weaknesses during the budget discussion, approval and implementation phases

- Discussions mainly focus on budget allocations to specific sectors and/or governorates rather than budget prioritization based on development goals.
- Lack of top-down procedure of voting.
- Procedures of ex-ante internal controls, financial inspections, and ex-post reviews, by MoF, exist. But,.....Internal Audit?
- In-year budget amendments.
- Reforms: TSA, GFMIS, ISIPPM.

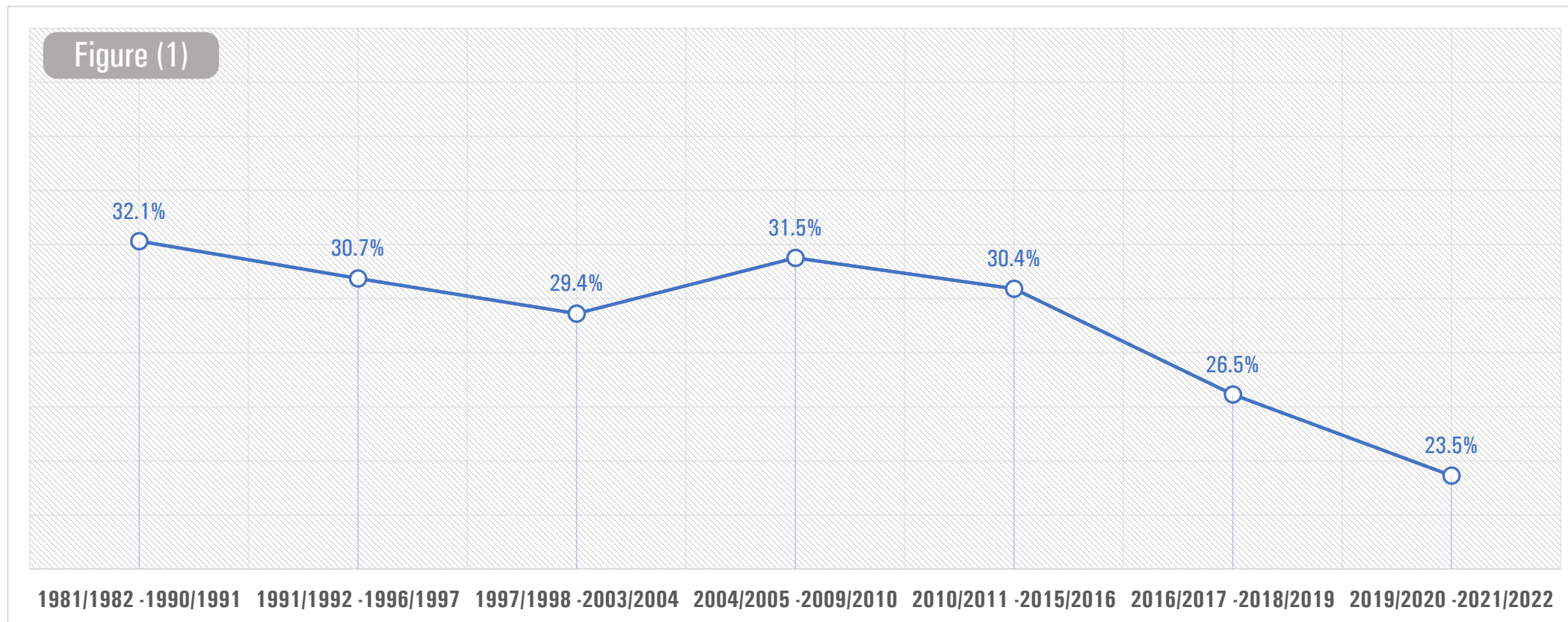
Key Issues Discussed

Evolution of the Key Fiscal Policy Aggregates

| | | |
|---|---|---------------------|
| 1 | Socialism and economic nationalization | Before the 1980's |
| 2 | Liberalization onset and external debt management | 1981/1982-1990/1991 |
| 3 | Structural adjustments and IMF engagement | 1991/1992-1996/1997 |
| 4 | Recession and economic crises | 1997/1998-2003/2004 |
| 5 | Reforms, privatization, and global crisis | 2004/2005-2009/2010 |
| 6 | Political instability and economic challenges | 2010/2011-2015/2016 |
| 7 | Bold economic reforms | 2016/2017-2018/2019 |
| 8 | Pandemic response | 2019/2020-2021/2022 |

Main Findings

Evolution of Government Expenditure (%GDP)



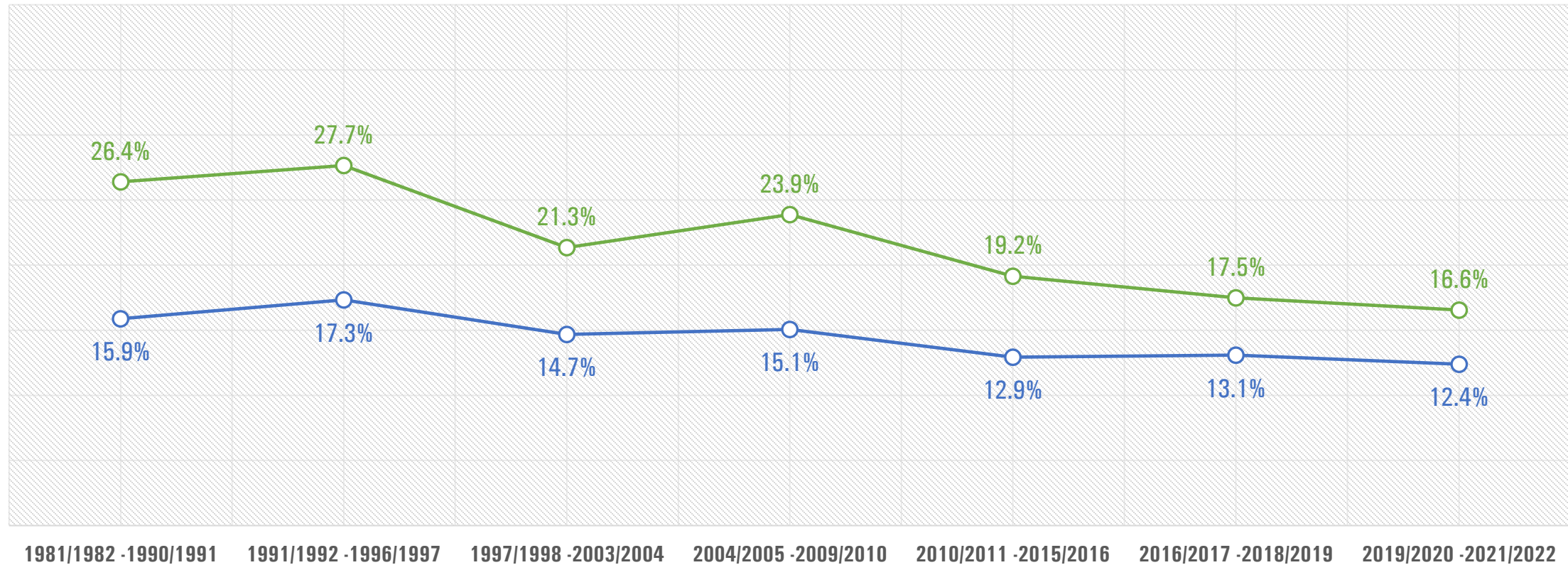
Source: The ratios presented in this figure are calculated by the author based on the final accounts data of Egypt's SGB, issued by MoF, and GDP data, at current-market prices, issued by MoPED.

Main Findings

Evolution of Government Revenue and Tax Revenue (%GDP)

Figure (2)

—○— Tax Revenues —○— Total Revenues

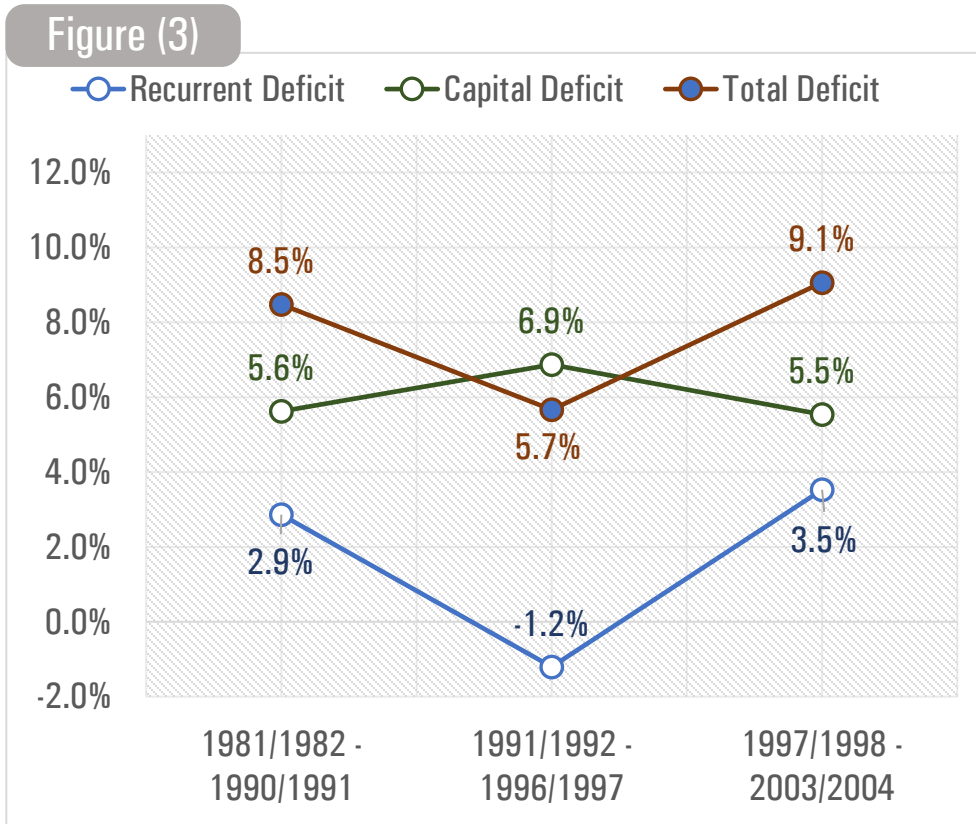


Source: The ratios presented in this figure are calculated by the author based on the final accounts data of Egypt's SGB, issued by MoF, and GDP data, at current-market prices, issued by MoPED. Israa A. El Husseiny

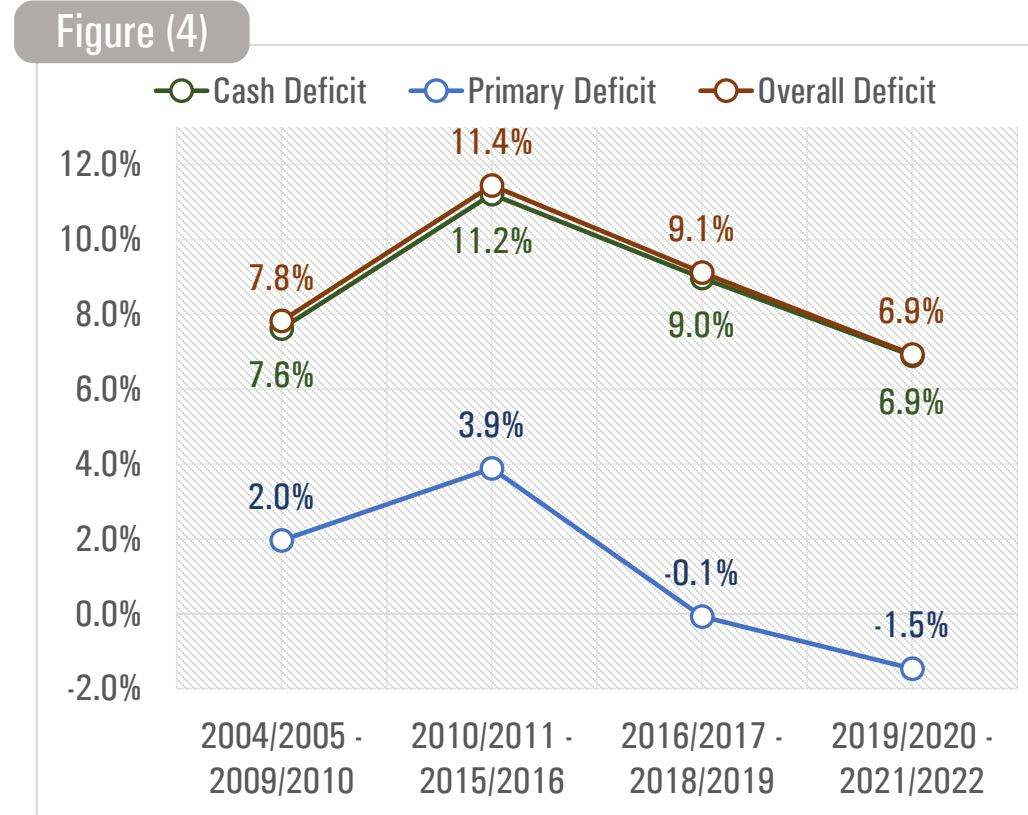
Main Findings

Evolution of Budget Deficit Indicators (%GDP)

Under Old Classification



Under New Classification

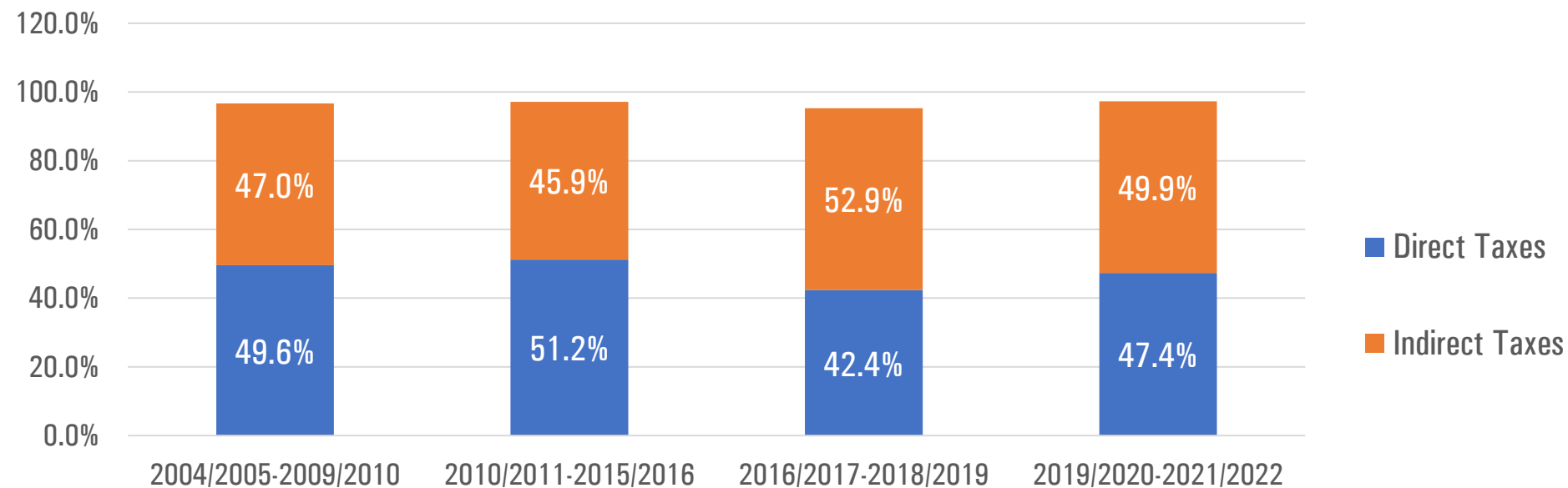


Source: The ratios presented in this figure are calculated by the author based on the budget deficit data extracted from the final accounts of Egypt's SGB, issued by MoF, and GDP data, at current-market prices, issued by MoPED.

Main Findings

Tax Structure (% of Tax Revenue)

Figure (5)



Source: The ratios presented in this figure are calculated by the author based on the final accounts of Egypt's SGB, issued by MoF.

Main Findings

Structure of Chapter 4 “Subsidies, Grants and Social Benefits”

Figure (6) (% of Total Gov. Expenditure)

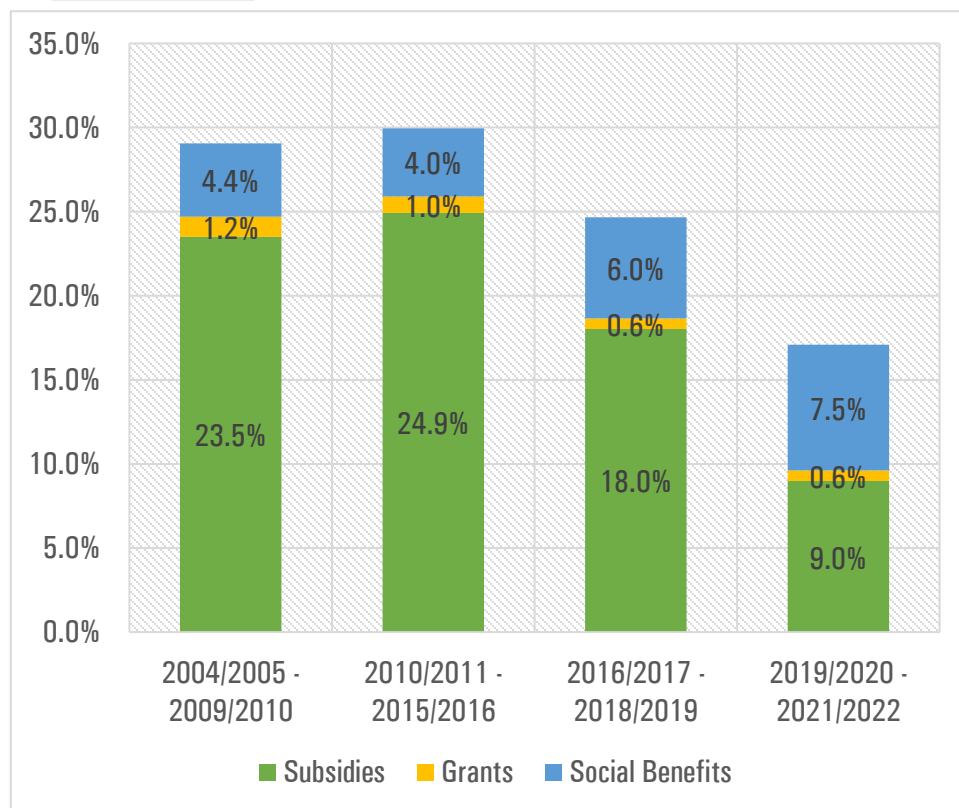
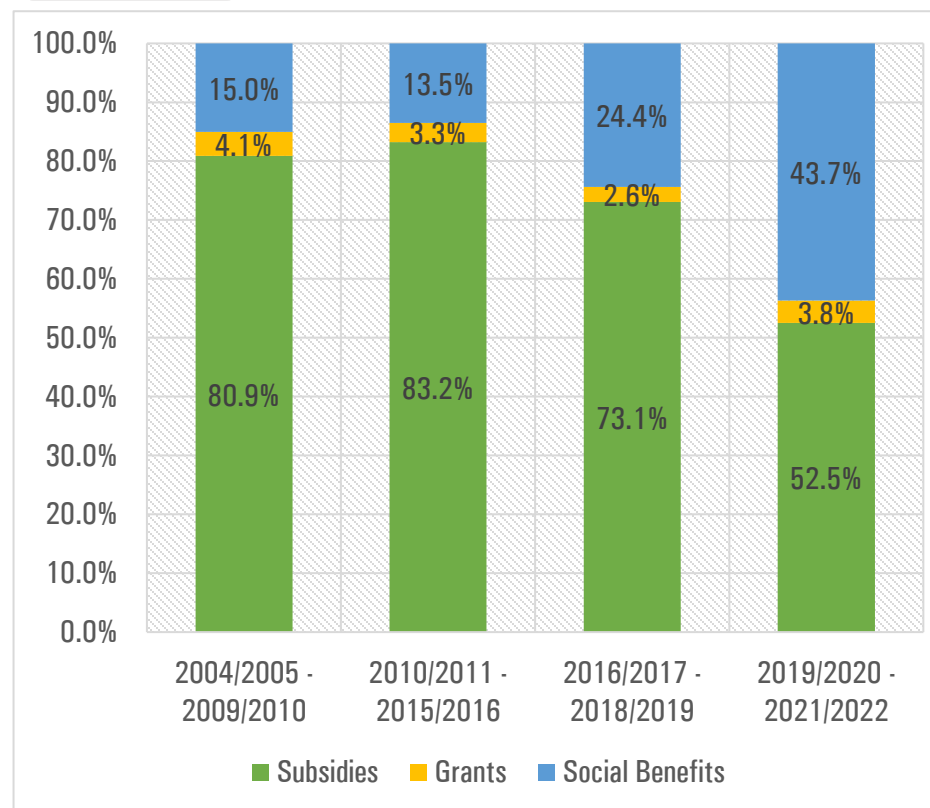


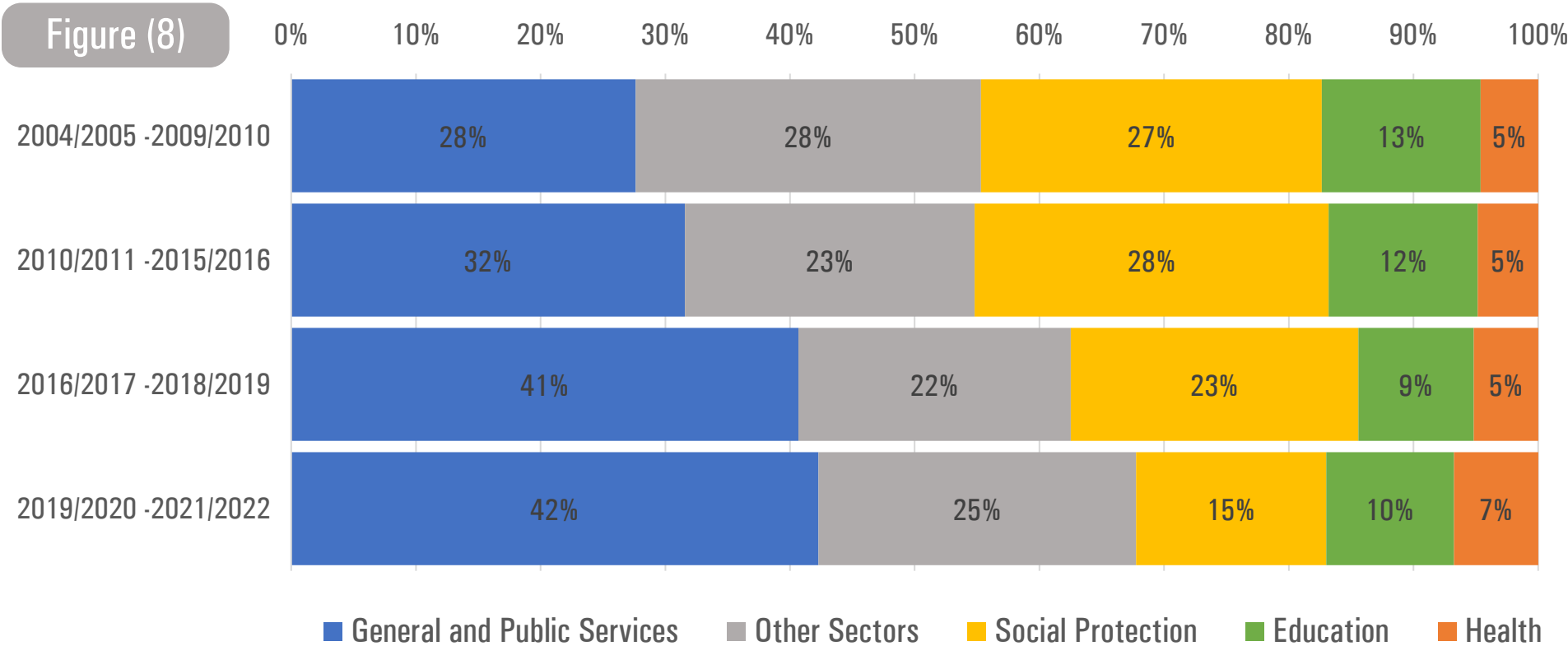
Figure (7) (% of Total Chapter 4)



Source: The ratios presented in this figure are calculated by the author based on the final accounts of Egypt's SGB, issued by MoF.

Main Findings

Structure of Government Expenditure by Functional Classification

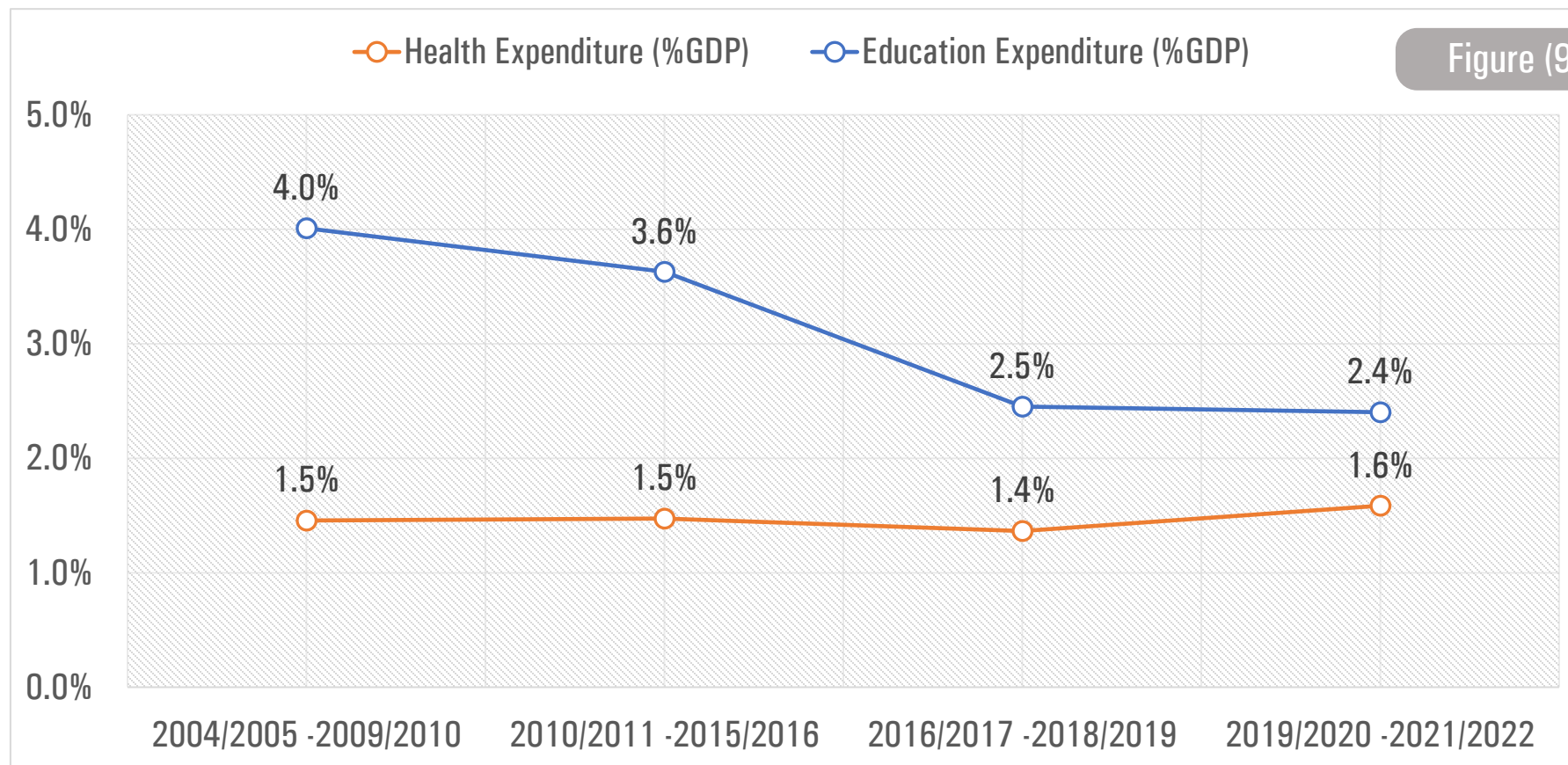


Source: The ratios presented in this figure are calculated by the author based on the final accounts of Egypt’s SGB, issued by MoF.

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Main Findings

Evolution of Health and Education Expenditure (%GDP)



Source: The ratios presented in this figure are calculated by the author based on the final accounts data of Egypt's SGB, issued by MoF, and GDP data, at current-market prices, issued by MoPED.



Policy Implications

1. Robust Budgetary Institutions and PFM Reforms

- Budget comprehensiveness.
- Fiscal transparency / Freedom of Information Law.
- Realism, policy orientation, budget prioritization (i.e., expenditure ceilings; top-down & bottom-up mix, resource allocation between and within sectors).
- Maintaining and continuing the initiated PFM reforms (i.e., GFMIS).

UPF Law?

Policy Implications

2. Social Protection Sector

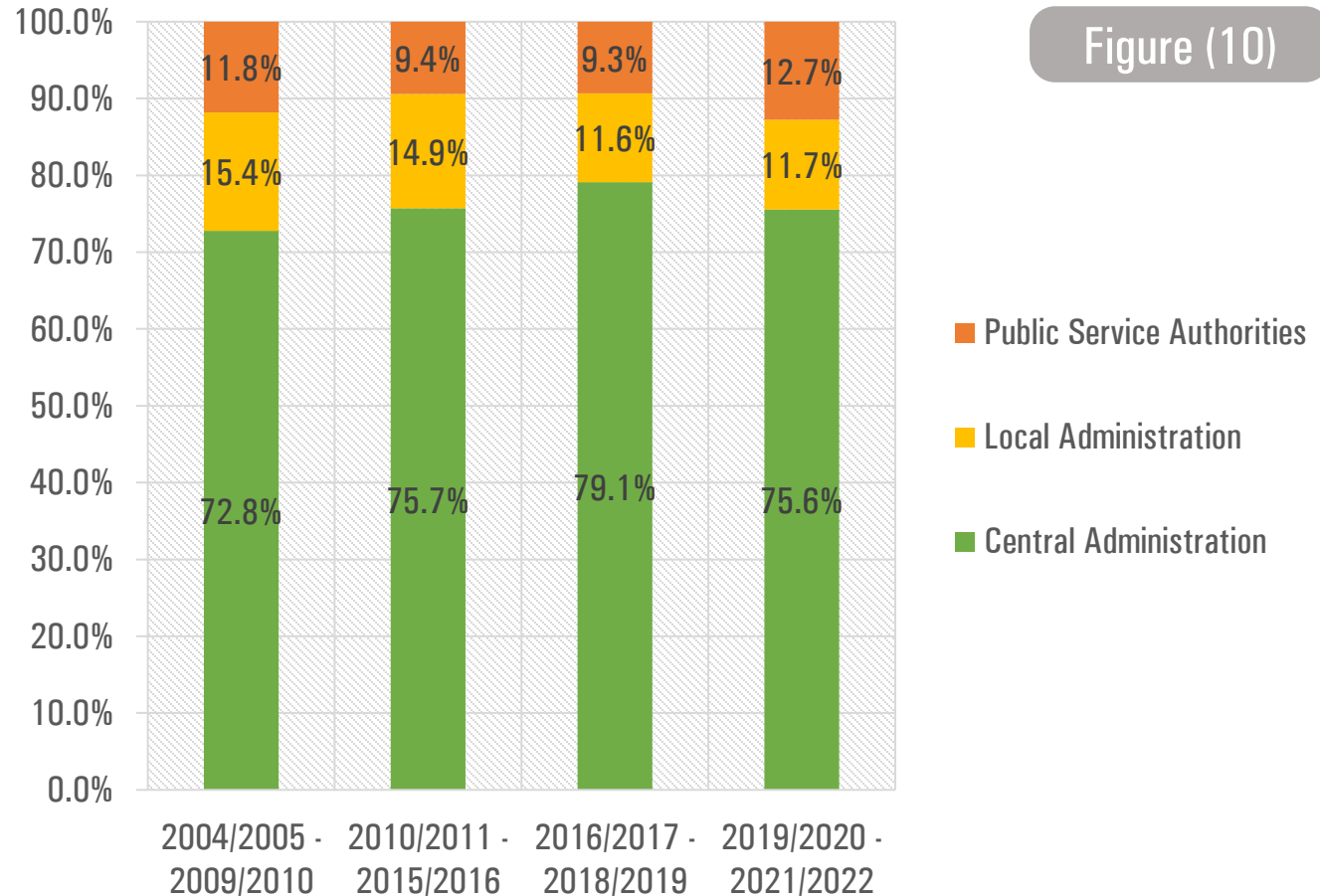
- **Reallocation** of resources from “subsidies” to “social benefits” is not sufficient:
 - ✓ A focus on improving **policy design** and **implementation** is critical.
 - ✓ In-depth evaluation of **spending efficiency** is needed.

Policy Implications

3. Fiscal Decentralization

- Share of local administration in the state's general budget.
- Legislative framework.
- Capacity building at the local level.

Structure of Government Expenditure by Administrative Classification





Policy Implications

4. Tax Administration System

Egypt's relatively low **tax-to-GDP** and **government revenue-to-GDP** ratios, call for:

- Addressing **narrow tax bases** and strengthening the **tax administration system**.
- Adopting a strategic **review of the tax structure** (mix), reflecting the needed balance between efficiency and equity considerations.

Conclusion

- Institutional and political economy barriers to the full and effective implementation of the initiated fiscal and PFM reforms need to be accurately identified and addressed:
 - Acceptance
 - Authority
 - Ability

Thank You!