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Executive summary

The study attempts to extrapolate the Egyptian FY2020/2021 pre-budget statement, analyzing the estimated revenues and expenditures, and exploring how far it may be able to face the likely economic repercussions of the coronavirus pandemic on the Egyptian economy, in addition to facing the shortcomings in previous budgets, especially the rights of the needy categories as well as the health and education allocations – which can be summarized as follows:

- The new draft budget assumes an increase of about LE844 billion in the GDP, at a growth rate of 4.5%, which is a very optimistic assumption that ignores the global conditions caused by the outbreak of the coronavirus pandemic, especially in light of the semi-rentier nature of the Egyptian economy, and the chronic structural imbalance of its various sectors, in addition to its exposure to the foreign world and its dependency on it.

- The 2% growth rate reported by international organizations is likely to be resulting from an increase in the nominal value of the GDP (a dummy increase), or it is one of the optimistic scenarios that expect production of a coronavirus vaccine shortly. According to the analysis of the sectoral contribution to the GDP, it can be said that maintaining the current productive levels of economic sectors (zero growth rate) may become an achievement in light of the current data, and according to an objective reading of these implications.

- Although several international expert and research houses expected that it is difficult for the oil price to exceed $30 dollars a barrel before the end of 2020, the ministry of finance is determined to estimate oil prices at about $61 dollars per barrel in the new draft budget, which indicates that the ministry intends to make profits at the expense of the consumer.

- A number of countries have announced either a total suspension on wheat exports, or suspension on exports outside the European Union, which has contributed to raising the wheat prices globally, especially after the supply crisis due to the coronavirus pandemic, which the draft budget ignored when it reduced the price of wheat compared to last year.

- The Central Bank of Egypt (CBE) has proven that it is clinging to fixing the exchange rate, especially after the announcement of a decline in the foreign exchange reserve, of about $5.5 billion in March, in addition to withdrawal of more than $10 billion of investment in domestic debt instruments, and the repercussions of the crisis on foreign exchange sources may surely bypass the capabilities of the CBE and its will in fixing the exchange rate on which the new draft budget is based.

- The Ministry of Finance aims to increase tax revenues by about 12.6%, and the actual figures for the first half of the current fiscal year indicate that the ministry is unable to achieve its tax targets in the current budget with a deficit of LE125 billion, i.e. 9% lower than the target, as well as the non-tax revenues. Certainly, the large gap between the estimated figures and the figures that can actually be achieved affect negatively and severely the credibility of the ministry and its ability to estimate not only in the tax item but in all items of the budget.

- Reviewing the economic sectors, it can be asserted that these tax targets on which revenues were based are not likely to be achieved, and that the approximately 30%-decline rate even before the crisis is most reasonable, as is the first half of this year, in addition to the expected decline due to the slowdown in Egyptian economic activity in light of the COVID-19 pandemic; thus, the expected decrease in the tax revenues may reach 50% of the percentage estimated in the new budget.

- The pre-budget statement estimates the external debt at LE 873 billion, which is a wrong figure, as the external debt amounts to approximately $110 billion dollars, at an average exchange rate of 16 pounds per dollar, that is to say that the external debt is equivalent to LE1,760 billion, which raises many questions and clearly highlights the recurrent mistakes in the draft budget.

- The financing gap is approaching LE1 trillion against LE1.3 trillion of revenues, which shows the huge dilemma for the Egyptian public finance away from the initial surplus that the Ministry of Finance is promoting.

- The coming budget is likely to witness the first decline in the deficit, approximately LE13 billion; and this meager decline explains why the Ministry of Finance insists on promoting success in achieving an initial surplus, and the deficit rate to the GDP which increased being denominated in the local currency due to the inflation leaps during the years following the IMF program.

- The domestic and external debt interest is the largest item in the draft budget, amounting to LE566 billion, a figure that is close to half of the public revenues, eating up about 33% of the total expenses for the new fiscal year.

- The government intends to borrow LE 96 billion (over $6 billion) from abroad, a very small figure in light of Egypt's obligations during 2020, amounting to $18.5 billion, in addition to approximately $2 billion for the gas imported from Israel, regardless of the coronavirus pandemic's repercussions on Egypt's sources of foreign exchange (tourism - Suez Canal - remittances of Egyptian expatriates).

- The external borrowing will certainly increase during the coming period, especially in light of the availability of huge funds from the World Bank and the International Monetary Fund to help developing countries to face the repercussions of the coronavirus pandemic, and after the exit of hot money abroad, where Egypt will be prompted to tend to more external borrowing. However, the government's resorting to international institutions will be only an insurance certificate to assist it in penetrating international and regional loan markets, where Egyptian loans may shortly reach record figures compared to the past two years.

- The draft budget did not provide any solutions to face the State's worsening debt crisis, and the government may face a crisis in external borrowing through international bonds in light of the expected international fallout – which may be manifested in higher interest rates on borrowing to face the crisis.

- The increase in wage allocations is less than 20%, most of which goes to countering the rise in prices, where the inflation rate remains within 10% according to the base year 2018, which may exceed 20% according to the previous base year 2010. Therefore, the inflation rate is likely to swallow this increase which can be described as "formal", not real.

- Doubling support to the export sector in the current year by about LE1 billion, with an increase of 16.7% in the new year, the government shows a tendency to support exports, but it must be emphasized that doubling the amount of support in the current fiscal year did not contribute to any increase in Egyptian exports; as major companies dominate export support, while medium and minor companies suffer from negligence, in contrast to the selectivity in choosing the companies that deserve support.

- The limited steady increase in support for health insurance, medicines, and treatment at the expense of the State during the past years compared to the continuous increase in inflation rates, especially during the period from 2017 until now. In general, these allocations are still very weak, especially the increase in the current project, considering that this increase comes one year after partially launching the comprehensive health insurance system, that is supposed to expand geographically, which requires increasing the allocations to meet these expansions.

- Increasing cash support in the new budget by only half a billion pounds to reach LE19 billion, is an extremely limited increase, compared to the different cuts in support allocations over four years, for several reasons, including continuation of the very weak rates of Takaful and Karama pension, less than 20 dollars per person monthly, as well as ignoring the numerical expansion of beneficiaries during the new fiscal year.

- The decline in foodstuff subsidies – despite the increasing numbers of the poor and needy as a result of the COVID-19 pandemic – indicates that the government intends to reduce the number of ration cards, and it should be noted here that the expected increase in prices of food commodities globally requires an increase in these allocations, not a reduction.

- The government's target of total removal of fuel and electricity subsidies in the FY2020/2021 draft budget is based on its assumption that the oil price is $61 per barrel; and in light of the currently prevailing international oil prices, it can be suggested that fuel and electricity subsidies have actually been lifted, and it is assumed that the prices of fuel and electricity will witness a real and significant reduction during the coming period.

- Gas pricing for homes and factories is still a dilemma that the government has not faced. The contract to import gas from Israel at more than five dollars per million thermal units has created a problem for factories whose products would not be able to compete in the absence of a reduction in the government's gas price.

- The total allocations for education and health in the draft budget amounted to LE678.5 billion, constituting 40% of the total general expenses; and if we take into account that 33% of the total general expenses go to interest payments, and about 27% are allocated for support, grants and social benefits, which altogether constitutes 100% of expenses, the question that arises is: how does the government provide for the expenses of the rest of budget items? – which means that the figures included in the pre-budget statement are misleading, where the Ministry of Finance misleads the public opinion that spending on health and education has reached the Constitution targets.

- Increasing the item "other expenses", directed to entities related to the regime, by about LE15 billion, for the second year in a row, confirms the government's keenness to increase allocations for this item steadily, by more than the reduction in support for foodstuffs and electricity. Also, this increase is almost equal to the total support provided for "farmers", "health insurance and medicines", "Upper Egypt development, and "passenger transportation" altogether.

- The government raised the allocations for the "public order and public safety affairs sector" item, which shows the regime's bias to the bodies supporting it. However, these allocations increase according to how far a sector is close to authorities, where the increase in allocations for the "other expenses" item was three times the increase in allocations for the "public order and public safety affairs sector", which means that authorities arrange those entities in terms of their closeness to the regime and accordingly estimate their allocations.

Introduction

The State's budget is considered the financial program for the economic plan for the coming fiscal year, which seeks to achieve a set of goals within the framework of implementing the general economic and social development plan of countries.

The Egyptian FY2020/2021 draft budget acquires special importance in light of being the first draft budget after the end of the International Monetary Fund's economic reform program, and the government's promotion of its success in the process of financial control and reducing the budget deficit in relation to the Gross Domestic Product (GDP), the consequences of which were borne by the Egyptian citizen. Accordingly, the new draft budget is supposed to carry good news for Egyptians about easing some of these burdens and reaping the first fruits resulting from implementation of the IMF program.

The importance of this draft budget has increased after the outbreak of the coronavirus pandemic around the world, and the spread of its repercussions at the international and domestic levels, and it has become expected that the new draft budget will address or at least try to reduce the pandemic's effects on the fragile Egyptian economy that suffers from chronic structural imbalances and the effect of this on Egyptians, particularly the poor.

This paper attempts to initially extrapolate the most important items of the new draft budget, in light of the preliminary data available on the Ministry of Finance's official website, which are the only data available after the Council of Ministers' approval of the draft budget and its transfer to Parliament. Before starting this extrapolation, it is significant to note that:

The conditions of the outbreak of the coronavirus pandemic make setting general targets for the budget an extremely difficult job, as the coming fiscal year is completely exceptional. Therefore, talking about any targets is outside the scope of reason and logic, and insisting on this may represent a government approach of ignoring provision of the necessary and adequate support to the deserving categories.

The hypothesis of the previous observation in relation to the government's attempt to ignore allocating additional resources to confront the COVID-19 pandemic, in addition to facing the shortcomings in previous budgets, especially in the rights of needy categories and the health and education allocations, can be examined through the following points:

First: Egyptian FY2020/2021 draft budget's targets and general assumptions

The Egyptian government aims to achieve a set of goals through the fiscal year 2020/2021 draft budget, based on a set of assumptions. The following two tables summarize these targets and assumptions as follows:

Egyptian FY2020-2021 draft budget targets the following:	
Growth Rate	Achieving a growth rate of 5.4% during FY 2020-2021
Financial Stability	Achieving an initial GDP surplus of 2% in the state's budget during the fiscal year 2020-2021, accompanied by a reduction of about 83% in the debt rate
Containment of Inflation	Achieving an inflation rate of about 9% (± 3%) during the fiscal year 2020-2021, as targeted by the Central Bank of Egypt
Foreign Reserves	Net foreign reserves reached $40 billion at the end of March 2020

Source: Ministry of Finance website: Pre-Budget Statement, p. 7

Key assumptions in the FY2020-2021 budget:

Key economic assumptions in the medium term				
Statement	FY2017/18 (Actual)	FY2018/19 (Actual)	FY2019/20 (Estimated)	FY2020/21 (Initial draft)
GDP (LE billion)	4,441	5,256	6,030	6,844
Real GDP growth rate (%)	5,3	5,6	5,1	4,5
Contraction (%)	21,6	12,2	8,2	9,0
Average interest rate on government bonds and securities (%)	18,5	18	15,5	13,5
Average price per barrel of Brent (dollars / barrel)	64,0	70,0	68,0	61,0
Average price of American wheat (dollars)	185,6	178,3	214,0	199,5

Source: Ministry of Finance website: Pre-Budget Statement, p. 16

The most important assumptions and targets mentioned in the previous two tables can be reviewed through the following points:

1- GDP and the assumed growth rate

The budget assumes an increase in the Gross Domestic Product by about LE844 billion to reach LE6.844 billion compared to LE6.030 billion in the current fiscal year, to achieve a growth rate of 4.5% compared to 5.1% in the current budget, and down from 6.5% as an assumed growth rate before the outbreak of the coronavirus pandemic.

It is clear that the assumption of such increase in GDP, and the consequent growth rate, is extremely optimistic as it ignores the global conditions caused by the outbreak of the coronavirus, especially in light of the semi-rentier nature of the Egyptian economy, and the chronic structural imbalances of its various sectors, in addition to its exposure to the outside world and its deep dependency on it.

According to the 2018 data about the contribution of the various economic sectors to the GDP, the tourism sector contributed about 2%, the construction, building, and real estate activities sector 16%, the manufacturing industry sector 17%, the agricultural and fisheries sector 12%, the wholesale trade 14%, and the transportation and storage sector 5%; while the general government contribution reached 7%, the social services 5%, and others 11%[1].

Certainly, all sectors will be negatively affected by the expected global economic slowdown, and the vulnerability degree will differ from one sector to another according to the degree of its exposure to the outside world and its production flexibility, which can be reviewed briefly as follows:

- The tourism sector completely stopped in mid-February, and it is likely that foreign tourism is not likely to return at least until mid-2021 – according to the most optimistic scenarios – and thus its contribution to the GDP and growth rate may be halved in the new fiscal year and perhaps less.

- The manufacturing sector contributes approximately $50 billion to the GDP, by 17%; and according to the data of the unified Arab report for 2019, the exports of manufactured goods amounted to $13.7 billion, accounting for 53.6% of the total Egyptian exports in 2017. This means the largest percentage of industrial production goes to the domestic market, in addition to its contribution to more than half of the non-oil commodity exports.

- It is expected that the global demand for Egyptian manufactured goods will be affected as part of the decline in the pace of global demand, as it is expected that domestic demand will also be affected negatively for the same reasons. Thus, the contribution of the industrial sector to the GDP and the growth rate is likely to decline during the remainder of 2020; and taking into account the government's determination to implement its projects, this decrease may be close to a third of industrial production.

- The construction and real estate activities sector contributes to about 16% of the gross domestic product; and taking into account that Egypt suffers from a glut of the real estate supply, therefore

[1] Dr. Ahmed Zikrallah, Egyptian Institute for Studies, "Egyptian economy after 2013, policies and challenges"

the real estate sector's activities, which contribute to about 6% of the GDP, may be affected and its contribution may drop to more than 75.

- The construction sector is expected to retain a large proportion of its activity during the fiscal year because it mainly relies on government spending on a group of projects; and the government has repeatedly announced its intention to continue implementing them, which may be due to political reasons.

- The agriculture and fisheries sector contributes about 12% of the gross domestic product, and it is expected to be little affected by the pandemic, mainly due to some of the difficulties that may impede the transportation and supply operations; and the negative impact of the Ethiopian Renaissance Dam on the sector will not likely appear until the end of the next fiscal year.

- Wholesale trade contributes about 14% of the GDP, and it is expected to be severely affected as a result of the pandemic's impact on imports and the expected decrease in domestic demand.

- Transport and storage 5%, public government 7%, social services 5%, and others 11%: These sectors are expected to be only affected by the pandemic at little proportions, as they are largely dependent on government funding.

From the previous analysis, one can conclude the negative impact of the pandemic on the Egyptian gross domestic product and its growth rate in the coming fiscal year, and it is logical that the GDP will decrease by at least a third when estimating the new draft budget; but in light of the expected rise in the prices of imported goods and production requirements, the GDP's nominal value may increase, which is in fact a largely fake increase in the growth rate.

As for the new draft budget's targeting of a growth rate of 4.5%, it is too far from economic logic, as it ignores the impact of the pandemic on the Egyptian economic situation, and it is likely that the 2% growth rate that international organizations talked about may be this illusionary rate that was previously mentioned, or it is one of the optimistic scenarios that expect imminent production of a coronavirus vaccine.

In general, it can be said that maintaining the current productive levels of economic sectors (zero growth rate) may become an achievement in light of the current data, and the objective reading of these implications.

2- The average price of Brent crude during the coming fiscal year is $61

It is likely that this price was adopted before the Russian-Saudi oil crisis that caused oversupply and lower prices in the current dramatic form, amid expectations of international expertise and research houses that it is difficult for oil prices to exceed $30 per barrel before the end of 2020.

The above data should have led the Ministry of Finance to review these estimates, which are far from reality, unless the Ministry of Finance intends to make profits at the expense of the consumer due to setting fuel prices much higher than global rates, which has recently been apparent in reducing the price of gasoline by only LE 0.25.

3- The average price of imported wheat is $199.5 per ton

The draft budget did not consider the consequences of the COVID-19 pandemic on the global prices of wheat, especially that Egypt imports more than 60% of its needs from abroad. Rather, it reduced the price of wheat estimated in the current budget to $199.5 dollars per ton against $214 dollars in the previous year's budget.

Wheat global prices have already started to rise, as Russian wheat, for example, increased to $231 per ton on April 20, 2020, which are tentative increases, especially in light of the fact that a number of countries either announced suspension of wheat export after fulfilling previous contracts such as Russia, or to suspension of wheat export outside the European Union such as Romania and France.

The problem was exacerbated when the government set wheat prices last season at LE685 per ardeb of wheat for the highest grade degree of purity (23.5), LE670 per ardeb to the medium degree of purity (23), and LE655 for the lowest degree of purity (22.5), which caused a decrease in the areas cultivated with wheat this season by about 100,000 feddans, where 3 million and 250 thousand feddans were cultivated with wheat last season against 3 million and 150 thousand feddans this season, according to recent statements by the Chairman of the Farmers Syndicate[2].

In general, it can be said that Egypt will not face a crisis in finding its needs of wheat in the current season as the harvest date came at the beginning of the crisis, and with a little diversification of sources, the required quantities may be available, but it is certain that the prices will be much more than those estimated in the draft budget, which applies to the rest of the imported food commodities. Therefore, the government should have increased the allocations for supporting the food commodities, not cutting them, as will be discussed later.

4- The estimated dollar exchange rate in the draft budget

The Minister of Finance has stated that preparation of the state's draft budget for the new fiscal year relied on the average exchange rate prevailing in the market during the period from January 1 to the end of March 2020[3].

According to the data of the Central Bank of Egypt (CBE) on the average dollar exchange rates, the exchange rate of the US dollar during that period ranged between 15.69 and 15.99 pounds for purchase, and between 15.79 and 16.09 pounds for sale.

Certainly, the decline in the regular sources of the dollar in Egyptian economy is one of the most prominent repercussions of the coronavirus pandemic on the Egyptian economy, and it makes sense that this would negatively affect the pound's exchange rate. However, the Central Bank of Egypt has proven that it is holding onto stabilizing the exchange rate, especially after announcement of a decline in the foreign exchange reserve by about $5.5 billion last March, in addition to the withdrawal of $10 billion of treasury bills investments.

Despite the CBE's management of the pound's exchange rate and its directives to stabilize its price, the repercussions of the pandemic crisis on foreign exchange sources may bypass the CBE capabilities and its will to stabilize the exchange rate on which the new draft budget was based.

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[2] Al-Mal, "Chairman of the Farmers Syndicate: 3 problems threatening cultivation of wheat in Egypt"

[3] Bnok al-youm, "Ministry of Finance announces price of dollar and oil in FY2021/2020 draft budget"

Second: Analysis of revenues and expenditures and their impact on the estimated deficit and financial stability:

The size of the state's general draft budget for the fiscal year 2020-2021 amounted to LE2.298 trillion, where expenditures amounted to LE1.713 trillion, and total revenues amounted to LE1.3 trillion. The FY2020/2021 draft budget's targeted sources varied between taxes, grants, and other revenues by about LE1.289 trillion, with proceeds from possession of financial assets amounting to about LE21.1 billion and borrowing through securities, bonds, and others amounting to about LE987.6 billion.

Therefore, the estimated deficit is LE432 billion, about 6.3% of the GDP, while the financing gap is about LE987 billion, including the budget deficit (LE432 billion) due debts during the fiscal year amounting to LE555.5 billion.

The following is an analytical review of the key items of revenues and expenditures in the new FY2020/2021 draft budget:

1- Review of the key items of revenues:

There are many items of revenues in the new draft budget, of which the two main components will be addressed, as follows:

A- Tax revenues:

Tax revenues consist of two parts: the first is sovereign tax revenue, including the taxes of the Suez Canal, the Central Bank of Egypt, treasury bills and bonds; and the second part includes regular revenues generated by the Tax Authority.

The pre-budget statement of the FY2020-2021 draft budget, published by the Ministry of Finance on its website, shows that the ministry aims to increase tax revenue by 12.6% to reach LE964.7 billion ($61.45 billion), compared to LE856.6 billion in the current fiscal year.

The government aims to increase revenues from cigarette and tobacco taxes by 13.3 percent, to reach LE74.6 billion, in addition to increasing the value-added tax revenues imposed on various productive, commercial and service sectors.

The Ministry of Finance report on performance of the state budget for the first half of the current fiscal year indicates a decline in tax revenues, where the total tax revenues amounted to LE304 billion against LE309.9 billion for the first half of the FY2018/2019. Added to this will be the repercussions of the coronavirus pandemic on the economic activity in Egypt, and consequently its negative impact on tax revenues.

The previous actual figures indicate that the Ministry of Finance was unable to collect its targeted taxes in the current budget amounting to about LE857 billion, which means that half of this figure should have reached LE429 billion, while it actually achieved only LE304 billion with a deficit of LE125 billion, i.e. a 29 % rate compared to the target.

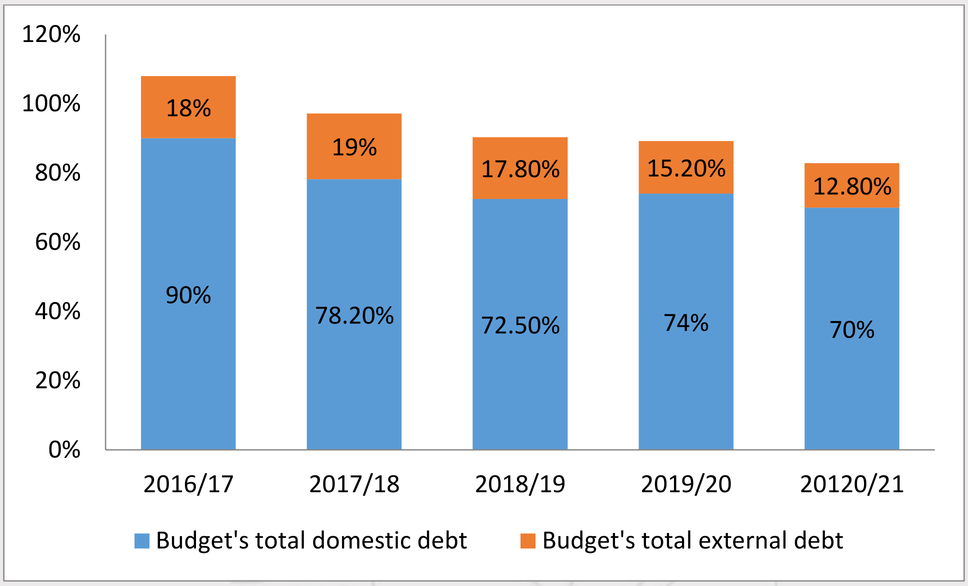
The ministry also targeted non-tax revenues estimated at about LE278 billion in the current fiscal year budget, where LE85.6 billion were actually achieved during the first half of the year instead of an estimated LE139 billion.

Certainly, the big gap between the estimated figures and the actually achieved figures negatively and severely affects the Egyptian finance ministry's credibility and its ability to estimate not only with respect to the tax item but in all items of the draft budget. Consequently, it makes sense that the repercussions of the coronavirus pandemic will widen this gap, and it can be asserted that these tax targets on which public revenues were based will not be achieved, and that the approximately 30%-decline rate even before the crisis is most reasonable, as is the first half of this year, in addition to the expected decline due to the slowdown in Egyptian economic activity in light of the COVID-19 pandemic; thus, the expected decrease in the tax revenues may reach 50% of the percentage estimated in the new budget.

B- Government debt:

The total targeted debt in the FY2020/2021 draft budget is about LE5.7 trillion as domestic debts (representing 70% of GDP), and LE873 billion as external debt (representing 12.8% of GDP).

The following two figures depict evolution of public debt and the financing gap during the period from FY2016/2017 to FY2020/2021:



Source: Ministry of Finance Website - Pre-budget Statement, p. 30

Funding Sources (External/Domestic) in FY2020/2021 Budget

Funding needs for the fiscal year (in millions)					
Statement	2016/2017 Actual	2017/2018 Actual	2018/2019 Actual	2019/2020 Budget	2020/2021 Expected
FY Funding Needs	653,353	700,212	672,582	820,706	987,663
Total Deficit	379,590	432,580	429,951	445,140	432,095
Repayment of Loans	273,763	267,632	242,631	375,566	555,569
Funding Sources	653,353	700,212	672,582	820,706	987,663
External Funding	174,000	179,215	149,550	95,550	95,550
Domestic Funding	479,353	520,997	523,032	725,156	892,113
Issuing treasury bills	302,553	345,497	62,832	435,093	490,662
Issuing treasury bonds	176,800	175,500	460,200	290,062	401,451

Source: Ministry of Finance Website - Pre-budget Statement, p. 30

The data included in the two tables show the following:

- It is expected that the total financing needs for FY2020/2021 will reach LE987.7 billion, including LE432.1 as a total deficit, and LE555.6 for repayment of domestic and external loan installments. The government is expected to obtain local financing of LE892.1 billion through issuance of treasury bills worth LE490.7 billion and issuing treasury bonds worth LE401.5 billion.

- The pre-budget statement estimates the external debt at LE 873 billion, which is a wrong figure, as the external debt amounted to approximately $110 billion dollars, at an average exchange rate of 16 pounds per dollar, which means that the external debt is equivalent to LE1,760 billion, which raises questions and clearly indicates the repeated mistakes in the draft budget.

- The government is expected to obtain external financing from international institutions and bodies of about LE96 billion through issuance of international bonds.

- The total interest payments is expected to reach LE566 billion, divided into LE517 billion for domestic interest and LE48.8 billion for foreign interest.

From the previous data, we can conclude:

- The financing gap is approaching LE1 trillion against LE1.3 trillion of revenues, which shows the huge dilemma for the Egyptian public finance away from the initial surplus that the Ministry of Finance is promoting.

- Although the overall budget deficit is increasing on an annual basis as the above table shows, the coming budget is likely to witness the first decline in the deficit, approximately LE13 billion (from LE445.1 billion in the current fiscal year to LE432.9 billion in the new fiscal year) – assuming that this can be achieved, as this hypothesis has become quite far away. However, this meager decline explains why the Ministry of Finance insists on promoting success in achieving an initial surplus, and the deficit rate to the GDP (which increased being denominated in the local currency due to the inflation leaps during the years following the IMF program).

- The coming budget is likely to witness the first decline in the deficit, approximately LE13 billion; and this meager decline explains why the Ministry of Finance insists on promoting success in achieving an initial surplus, and the deficit rate to the GDP which increased being denominated in the local currency due to the inflation leaps during the years following the IMF program.

- The domestic and foreign debt interest is the largest item in the draft budget, amounting to LE566 billion, a figure that is close to half of the public revenues, eating about 33% of the total expenses for the new fiscal year.

- The government intends to borrow LE 96 billion (over $6 billion) from abroad, a very small figure in light of Egypt's obligations during 2020, amounting to $18.5 billion, in addition to approximately $2 billion for the gas imported from Israel, regardless of the coronavirus pandemic's repercussions on Egypt's sources of foreign exchange (tourism - Suez Canal - remittances of Egyptian expatriates).

- The external borrowing will certainly increase during the coming period, especially in light of the huge availability of the World Bank and the International Monetary Fund to help developing countries to face the repercussions of the coronavirus pandemic, and after the exit of hot money abroad, where Egypt will be prompted to tend to more external borrowing. However, the government's resorting to international institutions will be only an insurance certificate to assist it in penetrating international and regional loan markets, where Egyptian loans may shortly reach record figures (double the estimated figure to reach $12 billion) compared to the past two years.

- The draft budget has not provided any solutions to face the State's worsening debt crisis, and the government may face a crisis in external borrowing through international bonds in light of the expected international fallout – which may be manifested in higher interest rates on borrowing to face the crisis.

C- Government decisions regarding new revenues outside the draft budget:

- The government approved two important decisions in the context of searching for new revenues to compensate for the expected shortfall in tax revenues.

These decisions can be addressed as follows:

The first decision: Imposing a fee for developing the state's financial resources (on gasoline and diesel products)

- The House of Representatives (parliament) approved the government's request to return item No. (24) of Article Two of the draft law submitted by the government to amend some provisions of Law No. (147) of 1984 for imposing a fee for developing the state's financial resources, i.e. the item on imposing a fee on all kinds of gasoline products by LE 0.30 for each liter sold, and the diesel by LE 0.25 per liter. The Parliament's Plan and Budget Committee had deleted item 24 while discussing the bill.

- According to the Minister of Finance, this decision will not lead to any increase in the prices of diesel and gasoline for citizens, as there will be a settlement between the public treasury and the General Petroleum Corporation, so that this value goes to the public treasury.

- Here, a question arises about the General Petroleum Corporation’s bearing of this fee and its source of payment. In fact, the General Petroleum Corporation has recently accumulated profits from obtaining oil at low global prices and selling it to citizens at high prices, and these accumulations will continue as long as the oil price remains low globally, which simply means that citizens’ pockets are the financier of this fee, but through the General Petroleum Corporation.

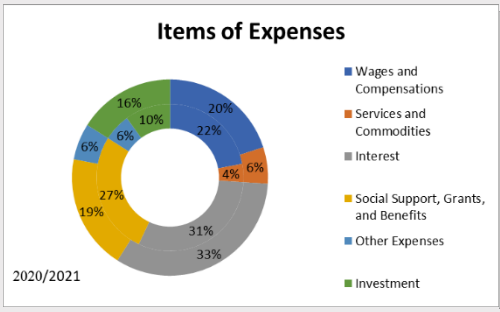
The second decision: a draft law to deduct 1% of salaries of civil servants:

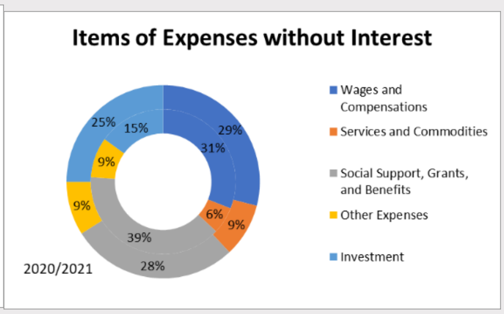
- Although the draft law has not yet been issued, it is likely to be issued soon; and according to the Minister of Finance, this decision, will provide the state budget with 6 billion pounds of revenues.

It is noted that the draft law does not differentiate between various income categories of employees, and does not exempt those who receive the minimum wages, in complete ignorance of the needy and continued dependence on them to finance the budget revenues, and also in a bias to the high ranking employees who earn hundreds of thousands of pounds per month, in the absence of maximum wage limits.

2- General expenses:

The FY2020/2021 draft budget aims to increase expenditures to reach LE1713.2 billion, with a growth rate of 8.8% compared to the current fiscal year. The following graph shows the economic division of general expenses with and without interest, as follows:





Source: Ministry of Finance Website - Pre-budget Statement, p. 21

The most important items of expenses can be reviewed as follows:

A- The main overheads:

- The budget aims to increase spending on the purchase of goods and services by about 33.7% compared to the previous year's budget, food allocations, including school feeding by about 17.8%; and water allocations by about 133%, which is described in the draft budget as focusing on increasing allocations for production requirements and services with productive and social dimension that citizens receive.

The following table shows these increases as follows:

Allocations of key items of commodity and services purchase (in billions)						
Statement	16/2017	17/2018	18/2019	19/2020 Budget	20/2021 Initial Budget	
					LE Billion	Growth Rate (%)
Food allocation (including for schools)	2.1	2.3	3.3	4.5	5.3	17.8%
Medicines allocation	4.3	7.1	8.2	9.1	11	20.9%
Water allocation	0.8	1.1	1.4	0.9	2.1	133.3%
Transport allocation	3	3.2	3.7	4	4.7	17.5%

Source: Ministry of Finance Website, Pre-budget Statement p. 20

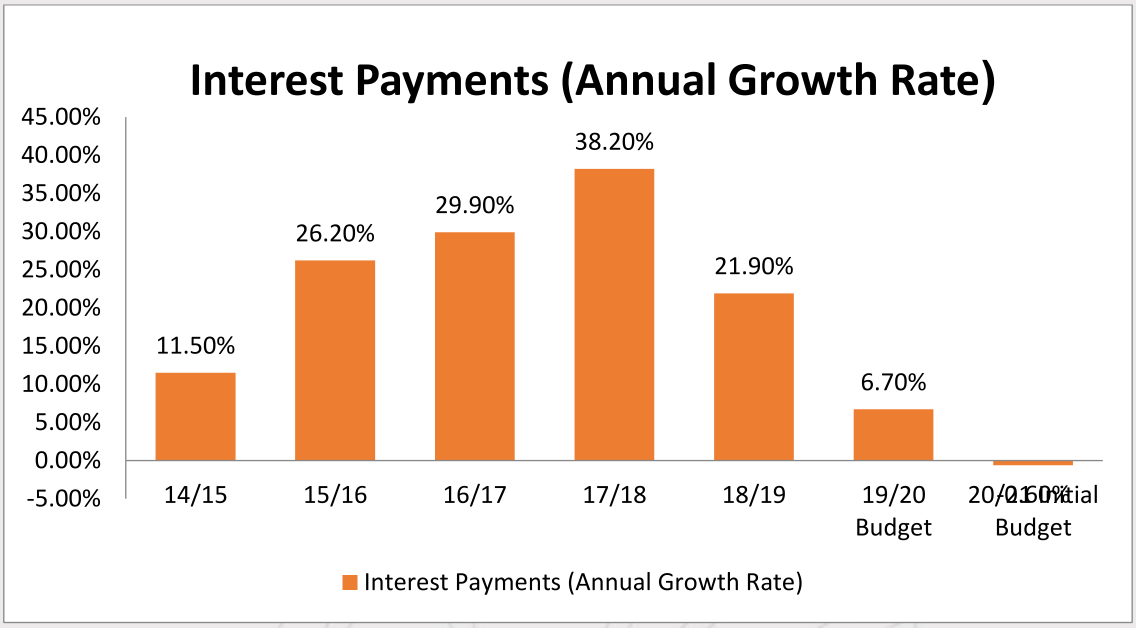
- The draft budget aims to increase investments funded by the state's treasury by about 26.4%, wages by 11.3% compared to the current year's budget, the cash support (Takaful and Karama pension) by 2.7%; the health insurance, medicines and medical treatment at the state's expense by about 3.9%; and social housing by 46.2% compared to the current fiscal year.

The following table shows this as follows:

Evolution of allocations for key support items (in billions)							
Statement	15/2016	16/2017	17/2018	18/2019	19/2020 Budget	20/2021 Initial Budget	
						LE Billion	Growth Rate (%)
Support for export development	3.7	3.3	2.3	3.3	6	7	16.7%
Support for health insurance, medicines, and treatment of unable patients	3.7	5.8	7.3	8.9	10.2	10.6	3.9%
Support for social housing	2	-	-	-	3.9	5.7	46.2%
Cash support (Social Security, Takaful and Karama Pension)	8.8	13	17.5	17.5	18.5	19	2.7%

Source: Ministry of Finance Website, Pre-budget Statement p. 20

- According to the draft budget, the coming fiscal year will witness control over the interest payment bill, which will decrease by 0.6% compared to the previous year's budget. The following table shows this as follows:



Source: Ministry of Finance Website - Pre-budget Statement, p. 21

- The new budget aims to improve the wages of workers in the country and improve their conditions, as LE335 billion were allocated for wages, an increase of LE34 billion compared to the current fiscal year, by 11.3% - for disbursement of periodic increments by 7% of job wages for civil servants and 12% of the basic salary for other employees with a minimum of LE75, and the additional bonus that ranges from LE150 to LE375.

- Increasing the allowance for medical professions by 75% (for doctors and nurses) by LE2.25 billion.

From the previous data, the following can be clarified:

- The increase in wage allocations is less than 20%, most of which goes to countering the rise in prices, where the inflation rate remains within 10% according to the base year 2018, which may exceed 20% according to the old base year 2010. Therefore, the inflation rate will swallow this increase which can be described formal, not real.

- As for increasing water allocations by about 133%, it is undoubtedly a commendable increase, but reviewing the development of the figure spent on water, we find that it is very low. In fact, this allocation decreased from LE1.4 billion in the FY2018/2019 budget to LE0.8 billion in the current year's budget. Therefore, the increase in the draft budget seemed to be a major leap. Anyway, despite this increase, the water sector in Egypt still needs a real boom, especially after raising the water prices for homes more than once due to the IMF program.

- The current fiscal year witnessed doubling support to the export sector by about LE1 billion, with an increase of 16.7% in the new year, the government shows a tendency to support exports, but it must be emphasized that doubling the amount of support in the current fiscal year did not contribute to any increase in Egyptian exports

of export subsidies, as the new budget project increased by about one billion pounds, with an increase of 16.7%. There is no doubt that this increase shows the state's orientation towards export subsidies, but it must be emphasized that doubling the amount of support in the current fiscal year and the fulfillment of the state By paying the due companies, he did not contribute to a small increase in Egyptian exports.

- Export support is dominated by major companies while medium and minor companies suffer from negligence, in contrast to the selectivity in choosing the companies that deserve support. Therefore, the state must re-consider this matter according to serious scientific studies.

- There is a remarkable increase in agricultural exports over the last two years, and despite questioning this due to water scarcity, lack of self-sufficiency in many commodities, and the need for crop restructuring, especially in light of the coronavirus crisis, it is better to direct part of this support to the agricultural product itself.

- The limited steady increase in support for health insurance, medicines, and treatment at the expense of the State during the past years compared to the continuous increase in inflation rates, especially during the period from 2017 until now. In general, these allocations are still very weak, especially the increase in the current project, considering that this increase comes one year after partially launching the comprehensive health insurance system, that is supposed to expand geographically, which requires increasing the allocations to meet these expansions.- Increasing the cash support in the new budget by only half a billion pounds to reach LE19 billion, is an extremely limited increase, compared to the different cuts in support allocations over four years, for several reasons, including continuation of the very weak rates of Takaful and Karama pension, less than 20 dollars per person monthly, as well as ignoring the numerical expansion of beneficiaries during the new fiscal year.

As for the increase allocated for social housing by 46%, it needs a separate study on the role of the state in this type of housing and how it turned into a real estate developer that trades and raises the value of land and then resells it under many titles.

- The draft budget's planned increases in wages are only the usual increases, that are still much lower than the inflation rates, and does not secure a decent life for the vast majority of state employees. As for the allocations for the General Authority for Insurance and Pensions, LE170 billion, part of it is devoted to repayment of the second installment of the state's obligations to the public treasury, including the differences resulting from the disbursement of the five increments, and the special increment to be granted to pensioners by 14%, which is less than the previous year's increment by 1%.

The draft budget's estimates for social support came as follows:

- The draft budget also revealed a decline in subsidies for food commodities by about LE4.6 billion, compared to the current fiscal year budget, where the total support for supply goods amounted to LE84.4 billion against LE89 billion; while the government's support for passenger transport was reduced from LE1.850 billion to LE1.8 billion.

- The government also reduced the allocations for the item of support, grants, and social benefits from LE327.69 billion to LE326.27 billion, in preparation for the complete removal of subsidies for fuel and electricity, as the Egyptian government reduced support for petroleum products from about LE52.963 billion (about $3.36 billion) to LE28.19 billion, by about 47%; and reduced support for electricity from LE4 billion to (zero), which means liberalizing the prices of electricity to citizens.

The following are noted in these estimates:

- The decline in foodstuff subsidies – despite the increasing numbers of the poor and needy as a result of the COVID-19 pandemic – indicates that the government intends to reduce the number of ration cards, and it should be noted here that the expected increase in prices of food commodities globally requires an increase in these allocations, not a reduction.

- The government's target to completely lift fuel and electricity subsidies in the FY2020/2021 draft budget is based on its assumption that the oil price is $61 per barrel; and in light of the currently prevailing international oil prices, it can be concluded that fuel and electricity subsidies have actually been lifted, and it is assumed that the prices of fuel and electricity will witness a real and significant reduction during the coming period.

- Gas pricing for homes and factories remains a dilemma that the government has failed to face. The contract to import gas from Israel at a value of more than five dollars per million thermal units has created a problem for factories whose products would not be able to compete in the absence of a reduction in the government's gas price, given that the global price at the present time is less than two dollars per million thermal units, in addition to the government's insistence not to reduce gas prices for homes. It is also worth noting that the price of the butane gas cylinder is currently not subsidized with regard to the international prices.

B- Fulfilling the constitutional entitlement rates for health and education:

The new draft budget indicated that the constitutional entitlement rates for health, university education, pre-university education and scientific research have been met, as health allocations amounted to LE254.5 billion, an increase of LE98 billion compared to the current fiscal year, by 45%; and allocations for education have increased by LE46.9 billion to reach LE363.6 billion, an increase rate of 14.8%, and scientific research with LE7.5 billion, an increase rate of 14.1% to reach LE60.4 billion[4].

This brings the total allocations to these sectors to LE678.5 billion, which represents approximately 10% of the GDP estimated at about LE6.8 trillion, to meet provisions of Articles 18, 19, 21 and 23 of the Constitution, related to the state's commitment to allocate a percentage of government expenditure that is no less than 3% of Gross Domestic Product (GDP) to health, 4% to pre-university education, 2% to higher education, and 1% to scientific research.

Commenting on the above data, we can say:

[4] Ministry of Finance, "Pre-budget Statement", p. 7

- The estimated budget for the health sector for the current fiscal year 2019/2020 is about LE73 billion and 62 million, an increase of LE11 billion and 52 million compared to the previous FY2018-2019 budget, estimated at LE61 billion.

This means that the estimated increase to the health sector in the new draft budget exceeds LE180 billion compared to the current fiscal year. Here, a question arises: Will this boom actually be applied?

- The education sector ranked third in terms of expenditures in the draft budget at LE132.038 billion compared to LE115.7 billion in the FY2018/2019 with an increase rate of (14%). This means that the planned increase for the education sector with its various components amounts to approximately LE204.5 billion, which raises the same previous question: Will the government actually implement these plans?

- By adding the draft budget's education allocations to health allocations, we find that they amount to LE678.5 billion, constituting 40% of the total public expenditures that amount to LE1713.2 billion; and taking into account that 33% of these expenditures are directed to interest payments, It simply means that about 73% of expenses goes to these three items only.

- Referring to the above graph that shows the items of public expenditures, we find that the draft budget allocates another 27% for support, grants and social benefits, thus completing 100% of general expenses, although the graph shows allocating 20% of expenses to wages, 16% to purchase of non-financial assets, 6% for the purchase of commodities, and 6% for other expenses. Thus, the total expenses constitute 140% !!.

- From this analysis, we can emphasize the figures included in the pre-budget statement are misleading, where the Ministry of Finance misleads the public opinion that spending on health and education has reached the Constitution targets, while the figures announced with respect to expenditures are contradictory, which questions the real figure of allocations, in addition to raising questions about the government's ability to provide those allocations.

- Accordingly, everyone should demand the government's fulfilment of its pledges, taking into account that this leap in allocations requires national spending plans, such as plans to build 50 hospitals, 500 schools, and 10 government universities, as well as developing the capabilities of research centers during the coming five years, if the government is really serious in this regard.

C- Increasing the allocations of entities related to authorities:

These entities can be divided into two main groups, the allocations of which can be explained as follows:

- The item "other expenses":

The item "other expenses" in the new draft budget increased from LE90.44 billion to LE105 billion, of approximately LE15 billion, and this is the second consecutive increase in almost the same amount, which confirms the government's keenness to increase the allocations for this item.

It is noteworthy that the item "other expenses" includes allocations to the budgets of defense and national security, the Ministry of Foreign Affairs, the Central Auditing Agency, the House of Representatives, as well as international contributions, compensation, and fines, which are often called the one-figure budget.

Generally, review of this increase shows that it is bigger than the decrease in the allocations for subsidies to foodstuffs, which declined from LE89 billion to LE84.487 billion (approximately LE5 billion) in addition to electricity subsidies, which became zero compared to LE4 billion, the two items that benefit millions citizens.

Also, this increase is almost equal to the total support directed to farmers, estimated at LE665 million, health insurance and medicines, estimated at LE3 billion and 599 million, and the development of Upper Egypt, estimated at LE250 million, and transportation of passengers, estimated at LE one billion and 800 million, which shows the government's bias towards these entities that support the regime at the expense of the rest of the Egyptian people

- Allocations for the "Public Order and Public Safety Affairs":

The government raised the allocations for the "Public Order and Public Safety Affairs" sector from LE69 billion and 688 million in the current budget to LE78 billion and 879 million in the new draft budget, including LE59 billion and 166 million for wages and compensations, an increase of LE5 billion and 129 million.

The allocations for this item include police services, prisons, fire protection, courts, the Ministry of Interior, the Ministry of Justice, the Supreme Constitutional Court, judicial bodies, the Egyptian Iftaa House, etc.

We consider the increase in allocations for this item an indicator of the government's bias to these bodies that support the regime. However, the allocations increase according to how far a sector is close to authorities, where the increase in the allocations for the "public order and public safety affairs" item means that authorities arrange those entities in terms of their closeness to the regime and accordingly estimate their allocations.

Conclusion

This review of the FY2020/2021 draft budget attempted to examine the hypothesis that the government evaded allocation of additional resources to face repercussions of the COVID-19 pandemic, and failed to amend targets and main items in order to support the needy sectors and groups, which has actually been proven through many of the draft budget's assumptions, targets, and allocations.

Also, reviewing allocations revealed the government's misleading attitude about meeting the constitutional entitlement in allocation percentages to health and education in the draft budget, as well as highlighting its bias in favor of some entities loyal to the authority, with respect to financial allocations.

The government also continues to lift support for citizens, whether it is support for foodstuffs or for electricity or fuel, and the government sets exaggerated oil prices in the draft budget to achieve much savings, which means that citizens 'pockets are the source of revenue for the government that makes profits from fuel price differences.

The government continued to ignore the agricultural sector and farmers, whether with respect to the shameful amount of support directed to farmers, or to buying wheat from farmers at a price much lower than the global average prices.

The government announced that if repercussions of the Covid-19 pandemic continue without containing it before the beginning of the new fiscal year in July, it is expected that the budget deficit will grow to 7.7% of GDP, instead of the target decline of 6.3%, with the possibility that revenues related to economic activity will not be able to achieve their targets. With regard to such scenario, the government has not clarified how it will address it; and the answer may simply be "through more external borrowing".