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Review and Outlook of Egypt's General Budget (2022-2025)

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The general budget is the annual economic plan of the Egyptian state, where the government discloses its intentions towards citizens, especially the poor and marginalized classes, as well as its arrangements regarding companies and investors through the budget's estimates, whether related to the state's public revenues or public expenditures.

The significance of the current fiscal year budget stems from the fact that it witnesses global recovery from the Covid-19 crisis, maintains the remaining procedures of the financial control program with the International Monetary Fund (IMF)¹, and provides an outlook of the Egyptian economy over the next three years².

This can be reviewed through the following points:

1- Targets of the 2021/2022 budget³

The general budget's financial statement indicates targeting achievement of some key objectives, including:

- Achievement of a growth rate of 5.4% and a primary surplus (the deficit minus debt interest) of 1.5% of GDP, in coincidence with a decline in the budget deficit to 6.7% and a decline in the debt of the state administrative apparatus, local administration and service bodies to 89.5% of GDP, with the aim of controlling debt rates.
- Achievement of a 7% (\pm 2%) inflation rate during the fourth quarter of 2021/2022.

Table No. (1) shows the rest of the numerical targets of the general budget, as follows:

¹ For more details, see: Dr. Ahmed Zikrallah: Egypt's economic decisions to address coronavirus repercussions, [Egyptian Institute for Strategic Studies](#), March 2020.

² For more details, you can see: Dr. Ahmed Zikrallah: Review of Egypt's FY2020-2021 draft budget, [Egyptian Institute for Strategic Studies](#), May 2020

³ The preliminary financial statement before the state's general budget 2021/2022, website of Egyptian Ministry of Finance, pp. 6, 7, p. 20.

Table No. (1)

Key economic assumptions of FY 2021/2022 draft budget

Statement	2016/2017 actual	2017/2018 actual	2018/2019 actual	2019/2020 actual	2020/2021 expected	2021/2022 preliminary
Real GDP growth rate (%)	4.2	5.3	5.6	3.6	8.2	4.5
Average interest rate on government bills and bonds (%)	18.0	13.5	18.0	14.8	14.0	13.2
Average price of a barrel of Brent (dollars / barrel)	0.50	64.0	70.0	52.0	61.0	60.0
Average price of US wheat (dollars)	189.6	165.6	175.6	178.3	193.9	255.0

1/ In light of Ministry of Planning estimates, CBE targets, and estimates of international prices.

2/ The future price of a barrel of Brent was predicted using the average price of Brent future contracts and IMF forecast of oil prices in the World Economic Outlook report. It is also guided by expectations of a large number of international financial institutions.

3/ The future price of US wheat was predicted using the average future purchase price traded on the international stock exchange AHDB. It was also guided by predictions of several international financial institutions.

Source: Ministry of Finance

- Regarding the targeted GDP growth rate, the rate appears normal following a sharp decline last year to below 3%, with the return of most of the revenues of the traditional main sectors in the Egyptian economy to its normal activity.
- The gradual recovery of the tourism sector, coupled with the increase in the natural gas productivity, could constitute two main factors for achievement of a significant recovery of the Egyptian economy, pushing towards reasonable rates of targeted growth.
- It is noteworthy that a significant part of this growth is due to the rise in global inflation rates, which significantly raised the prices of domestic production, meaning that a percentage of the stated growth rate appears to be to a large extent nominal, not real.
- Regarding the contribution of economic sectors to components of the GDP for the last fiscal year, the Central Agency for Public Mobilization and Statistics (CAPMAS) published a detailed report, most notably⁴:
 - The manufacturing sector contributed about 16.1% of the GDP, the agriculture and fishing sector 11.3%, which means that the total contribution of the productive sectors to the GDP is 27.4%. If the contribution of the communications and information technology sector, about 2.8%, is added to this rate, their total contribution will reach 30.2% of the GDP.
 - Wholesale and retail trade contributed 13.6% of the GDP, the transport and storage sector 4.6%, the education sector 1.8%, and the health sector 2.3%, bringing the total contribution of the servant sectors to 22.3%, nearly a quarter of the GDP. If the contribution of the government sector, about 8.6%, is added to them, the total contribution of the services sectors will become 28.9%, that is, approximately one third of the GDP.
 - The construction sector contributed 6.3% of the GDP, and real estate activities 10.3%, that is their total contribution amounted to 16.6%, where their large contribution came as a result of government construction and service projects, and therefore it is expected that these rates will diminish if the role of the state shrinks, especially in light of the decline in net foreign loan

⁴ El Balad News, Details of sectors' contribution to Egypt's GDP, August 2021 <https://www.elbalad.news/4924308>

revenues (the difference between new loans and the old loans' repayment amounts) and consequently a lack in the state's financing potentials.

- Things are likely to get worse in light of the injustice of the government and sovereign bodies toward the private real estate sector, amid unprecedented accumulation of state-built units, in absence of accurate studies about the domestic market needs, which led to a supply glut and unprecedented decline in demand due to the rising poverty rates and erosion of the middle class, in light of unit high prices, the government's engagement in trading land, in addition to decisions related to new urban space and determination of building height and many other factors led to decline of the private sector's share in the total activities of the sector.
- The petroleum refining sector contributed 4.3% to the GDP in FY 2019/2020, where during the next three years we may witness a recovery in the petroleum sector's contribution to the GDP as an interim result of the increase in the production and export of gas.
- Though the traditional contribution of Egyptian tourism sector to the GDP used to be over 12%, yet it decreased to less than 5% due to Covid-19, and it is expected to gradually improve in the coming years, where the next fiscal year may witness a return to the pre-Covid-19 levels.

- In general, analysis of the previous figures indicates that the gradual recovery in tourism sector, along with the increase in the productivity of natural gas, could constitute two main factors for achieving a recovery in the Egyptian economy during the coming period, and therefore it is expected that the growth rate will continue to rise, perhaps close to 7% over the next three years.

Figure 1 indicates sources of Egyptian GDP growth from FY2010/2011 to FY2019/2020, where it is clear that the household sector is still the main engine of growth over the last ten years, with a slight growth in the investment contribution that quickly declined due to the spread of Covid-19⁵.

⁵ Quoted from the Egyptian Center for Economic Studies, Handbook of Egypt Economic Statistics, 2021, p. 16.

Figure 1: Sources of GDP Growth



2- Challenges facing GDP and growth rate in 3 years:

The above-mentioned expectation of a continuous improvement of Egypt's gross domestic product and the growth rate does not mean that there are no major challenges facing such improvement. Some of these challenges can be reviewed as follows:

- Shifting towards maximizing the role of the productive sectors, a challenge that has no real indications stemming from comprehensive plans, driven by a serious political will. In fact, we only see scattered projects that are not united by a developmental link, stemming from services, amid control of sovereign bodies, and a diminishing role of the private sector, which suggests that the Egyptian productive sectors may not witness significant growth during the next three years.
- The limited ambition in the tourism sector despite the huge Egyptian potentials to occupy a position among the top ten world countries in attracting tourists, which may be due to the fact that tourist attraction does not depend on tourism components only, but rather through integrated policies for the security, diplomatic and marketing aspects. Therefore, the yield of international openings of some archaeological projects is expected to be limited, in absence of other strategic elements.
- The state's contribution and vision for development of informal economy, which constitutes nearly half of the total production, is still limited. Rather, it stems from a desire to collect money more than to absorb and develop the formal economy, and to guarantee the rights of the vast majority of informal workers. This is evidenced by the faltering the new labor draft law since 2014 until now, amid blatant bias to businessmen at the expense of labor, in a poor reproduction of the previous law.

- The construction and completion of the Grand Ethiopian Renaissance Dam (GERD) is a serious challenge Egypt's national security, which is likely to cause a severe shortage of water resources, based on the duration of filling the dam's reservoir and the size of the flood, amid varying estimates about the size of the resulting agricultural land shortage, where the area of land that will be sacked may reach half the cultivated land in Egypt, according to some estimates, which will severely affect the volume of agricultural production and, consequently, the gross domestic product, which will lead to devastating economic and social effects, due to the high unemployment rate, the need for huge foreign currency amounts to import food, and others.
- The problem of exaggerated numerical estimates of budget assumptions still has consequences that go beyond the gap between the draft budget and the final statement, leading to major pressure on the budget's main expenditure items. For example, the prices of wheat and corn in the budget are completely far from the global prices, repeating the same mistake of previous budgets with respect to the same item, which makes things seem that it is just figures to achieve the overall form of the budget to allow the state to address international institutions, regardless of reasonableness and realism of the budget.
- This is confirmed by a study by the HSBC bank, stating that "with global food prices rising to the highest level in more than ten years, the increase in fertilizer prices will increase pressures on the food purchasing power, especially in import-dependent countries, while the pressures on public budgets do not allow the government to support prices⁶.
- The same analysis above applies to the expected price of a barrel of oil in the budget, at about \$60, which globally increased to more than \$85 in some periods; and despite the downward trend in oil prices due to the fact that major countries withdrew part of their reserves, it has not declined to \$60 till now, but rather some expectations indicate that the price will get close to \$100 per barrel during the year, which means that the profits that the budget will reap due to the global rise in natural gas price may be eroded by the increase in oil prices. Also, the frantic race of countries to overcome Covid-19 repercussions and compensate the lost production during closure, and the rising global

⁶ - The supply chain crisis strikes again, [Turk Now](#)

problems after Covid-19, the budget may not achieve the savings it aspires from exporting gas in the coming years.

- Perhaps the decrease in the average interest rate on treasury bills is the most indicative of the absence of studies on the global economy during determination of the general budget targets. Since the world achieved phased victory over the Covid-19 crisis, talk is centered about ending the monetary easing phase and the need to raise the interest rate by central banks around the world, that are accused of being behind the severe inflation wave that the world is suffering from. Though several central banks and international institutions expect the inflation wave to be temporary, raising interest rates during 2022 is almost a matter of time, according to most experts.

- With the increase in interest rate and the transfer of hot money towards countries with stronger currencies and economies, the competition of emerging market countries for these funds will increase through raising domestic interest rates, which is rejected by the Egyptian Finance Ministry, which even assumes a low interest rate in order to control the amount of reduction in deficit to the extent it pledged in the financial control program. However, these developments will eventually end with stopping the hot money that comes to the country as investment in debt instruments, taking advantage of the high interest rate on the local currency, which will constitute a sharp decline in foreign flows of hard currency to Egypt, which will put major pressure on the price of the Egyptian pound and the reserves of the Central Bank of Egypt, as well as the government's ability to meet its various hard currency obligations.

- The increase in the average interest rate on treasury bills may seem logical in the Egyptian case, which depends on a large and increasing volume of treasury bills to control the exchange rate and meet its foreign exchange requirements, which are set to increase due to the global rise in food and commodity prices, in addition to insistence on recreational service projects that need imported production requirements, which caused significant increases in imports.

Thus, it can be said that during the next three years, pressures will increase on the Egyptian financial administration, where it will have to raise the interest rate on treasury bills, in line with global conditions, as this raise will have more than one effect: first, an increase in the burden of servicing domestic debts; second, an increase in the estimated budget deficit than the limits mentioned by the

government, which is also confirmed by Fitch Ratings, an American credit rating agency about the expected increase in the Egyptian deficit for the next fiscal year.

In short, global monetary conditions are becoming less favorable for Egypt and represent major risks to positive trends in public finances and macroeconomic fundamentals. According to Fitch Ratings⁷, since the middle of 2020, there has been a dynamic that reinforces each other between the stability of the exchange rate and inflows from non-residents to the government bond market in Egyptian pounds, against the backdrop of the rise in real interest rates in Egypt and the easy global monetary conditions and the “risk” at the global level.

Fitch Ratings states that foreign holdings of government treasury bills and treasury bonds reached an all-time high of \$34 billion in September 2021 (more than 12% of government domestic debt and 85% of the foreign reserves at the Central Bank of Egypt), up from their lowest levels of less than \$10 billion in June 2020. However, these inflows could reverse in response to any confidence shock or shift in global liquidity conditions, putting pressure on foreign exchange liquidity, interest rates and the exchange rate.

The data also shows a decline by 1.4% in spending on supporting the household sector, despite the repercussions of the Covid-19 on the health and living conditions of the population, while support and grants to government bodies increased by about 7% in the FY2021/2022 budget.

Support directed to the private sector also decreased by approximately a third, with a decline in export and petroleum subsidies (where about 80% of the petroleum subsidy bill in the state's general budget is directed to the private sector). But this reduction was compensated by another aspect, the data of which do not appear clearly in the budget⁸.

Subsidy directed to both natural gas and electricity, which benefit the private sector, have also increased, with combined cost of about EGP11 billion annually, where EGP5 billion are annually allocated to the cost of reducing electricity prices to the industrial sector for the first time since the

⁷ [Fitch Ratings' full report on the Egyptian economy](#)

⁸ The 2021/2022 budget: priority given to debt, the new capital, and senior state officials... with less than half of the constitutional limit for health and education, [EIPR](#), July 2021.

flotation of the Egyptian pound, where electricity prices have been reduced for the super high, high and medium voltage used in industry at a value of 9% (that is a decrease in the price of a kilowatt by EGP 0.10, to become EGP 1.08), while maintaining electricity prices for other industries at the current levels over a period of 3 to 5 years, in addition to an annual cost of EGP6 billion for the decision to unify the price of natural gas for industry at \$4.5 per thermal unit, according to the financial statement⁹.

All government decisions and their repercussions on the financial statement of the current general budget indicate leakage of subsidies to the private sector amid decline of subsidies to citizens, where the coming years is likely to witness more measures in the same direction, especially in light of the continuous complaints from the private sector about unfair competition with state agencies.

In general, it can be said that the limited expected increase in the budget deficit for the current and next fiscal years will be due to revenue support measures, including the new customs law, various fee increases and modernization of the tax system. It is noteworthy that the Parliament's Plan and Budget Committee has approved a bill amending some provisions of stamp tax laws and imposing a fee for developing the state's financial resources and entry tax for theaters and amusement parks¹⁰.

Also, international arbitration cases may pose a threat manifested in a likely increase in the public budget deficit, especially in light of the large number of cases brought against the Egyptian government, and the failure of negotiations with some major companies to settle disputes, whose compensation amounts to billions of dollars.

3- Karama Project

The state has launched the Karama (decent life) project with the aim of improving and developing the living conditions of citizens of the countryside. The project aims to raise the developmental, service and social dimensions of citizens, as well as to bring about a real change in the lives of more

⁹ Ibid, and figures from an analysis by the Egyptian Initiative for Personal Rights

¹⁰ The Parliament approves new amendments to the stamp tax and the tax on access to theaters and amusement parks, [Mail Yahoo](#)

than half the Egyptian population. The project includes development of 4,584 villages and village tracts, as well as construction of sewage networks and lining of irrigation canals.

A review of the allocations of the Karama project in the FY22/2021 budget, amounting to EGP200 billion, and the details of their distribution and aspects of spending, may give an analytical approach to the Egyptian trend in this regard, as follows:

- EGP27.5 billion for health, and EGP 4.4 billion for education.
- EGP20 billion for electricity, and EGP102 billion for sewage and drinking water.
- EGP12.2 billion allocated for paving roads.
- Establishment of 10,828 classrooms and 782 youth centers/futsal courts.
- Establishment and development of 317 government service buildings.
- Rehabilitation and lining of irrigation canals with a length of 2,670 km.
- Establishment of 100,000 decent housing units, and developing 319 post offices.
- Establishment and development of 1250 health care units and 389 ambulance centers.
- Supplying 800 ambulances, and providing 510 mobile clinics.
- Establishing and developing 112 veterinary units and 191 agricultural service centers.

A quick look at the distribution of project allocations for the current fiscal year indicates the government's pursuit to load the investment projects of the state's general budget on the Karama initiative projects.

In this context, a set of questions arise here, such as: Does the government really intend to maintain the project and fulfill its pledges? Where will decent housing, as described, be built? Does this come to replace the worn out housing? Are you really going to build all these educational classes in one year? Where? And how will the government face the lack of resources in the coming years, especially

after the expected pressure of domestic and external debt repayments, and the decline in loan revenues?

Taking into account that this initiative came as a reaction to the demonstrations of the Egyptian countryside after the government announced intention to demolish houses that violate the rules of the building law, if it is actually implemented, even partially, it would constitute a qualitative leap in the citizen's view of and relationship with the ruling regime over the next three years. On the other side, implementation of the project will put more pressure on imports, and will therefore increase the need for foreign exchange resources.

4- Have allocations for education met the constitutional minimum?

The Egyptian Constitution of 2014 states that "Education is obligatory until the end of the secondary stage or its equivalent ... The state commits to allocating a percentage of government spending that is no less than 4% of the GDP for education. It will gradually increase this until it reaches global rates". Despite the passage of more than five years since this obligation, the state is still ignoring its implementation. However, the government announced that education allocations have reached the minimum constitutional limit in the current year's budget.

Table (2) Gov. Expenditure to GDP %

Year/ Others	1982	1994	2005	2015/2016	2018/19	2020/21	Constitution Percentage	Developing Countries Average
%	5.6	4.6	4.8	4.0	2.0	2.4	4.0	6.0

The table data shows a decline in spending on education in relation to the GDP in Egypt, from 5.6% in 1982 to 4% in 2015/2016 down to only 2.4% in last year's budget.

Expenditure on education in last year's budget amounted to EGP157.6 billion; and despite the increase in education allocations this year by EGP15 billion , to reach EGP172.6 billion, it did not reach half the minimum stipulated by the Constitution.

In order for the budget to reach the education constitutional ratios, it added (as a kind of fraud) a set of other items to the education allocations, as it added the education sector's share of debt interests (equal to its percentage of the total public expenditures), amounted to EGP 42.5 billion,

according to the data of the following table, in addition to some other expenses that used to be stated under other items in the general budget before.

The data in Table 3, according to the Egyptian Initiative for Personal Rights (EIPR) for FY2015/2016, illustrates digital fraud, which has brought the education sector allocations to the required constitutional minimum.

Table 3 – Government spending on pre-undergraduate education

Statement	Partial spending	Full spending
Education based on classification in budget		55106
Added to it		81336
1- Al-Azhar	12229	
2- Support of student subscriptions	125	
Scholarships (Social Solidarity Ministry)	100	
National Authority for Quality Assurance and Accreditation in Education	24	
Education share from debt interests	42558	
Total spending on pre-undergraduate education		136442
Expected GDP 2015/16		2772110
Spending to GDP %		4.9%

This is just an example of how the government deals with its human resources, especially in education and health, which has also been charged with its share of interest expenses.

Also, this example may depict the reality of the Karama project, which raises a question: Is the government that defrauds the constitution in the two most important sectors for the people, namely education and health, and detracts from citizens' subsidy in favor of more support for the private sector, sincere in presentation of the Karama project?!

Conclusion

The paper reviewed the objectives of the general budget for the current fiscal year, in an attempt to explore the extent of their realism. It also touched on the percentages of the Egyptian productive sectors' contribution to the GDP, with a focus on the contribution of the real estate, construction and mining sectors to the GDP, the possibility of sustainability or development of these percentages, and the expected impact of that. on the state budget deficit.

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The paper also touched on the constitutional ratio established for the education sector and how the Ministry of Finance added other clauses to the actual allocation, including adding the sector's share of loan interests, in order to reach the constitutional ratio.

Finally, the paper reviewed the Karama project and explained how the government has imposed the investment projects of the state's general budget on the project, such as lining irrigation canals, establishment of post offices, and ambulance centers.

