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At a time when the Egyptian economy is suffering from a severe crisis, the main ailment of which is the poor performance of the macroeconomic system, the Egyptian Ministry of Finance has announced the draft general budget for the new fiscal year (2023/2024).

In fact, there are many symptoms of that ailment that the Egyptian economy is suffering from, including the deficit in the trade balance and accordingly the scarcity of the dollar, as well as the deficit in the state's general budget, and accordingly the state's poor potential to provide appropriate services in both quantity and quality to citizens, in addition to laying more burdens on citizens' shoulders, by imposing additional taxes and fees or evasion from carrying out its (the state's) duties towards vulnerable and marginalized groups, especially in provision of basic commodities at prices and quantities commensurate with their conditions which are getting more and more difficult day after day.

To begin with, it should be noted that when reviewing the new draft budget figures, the devaluation of the Egyptian pound over previous years should be at the forefront of any attempt to compare figures for the next year budget and those of previous years, to find out the truth about the claim of increases in the services provided by the government to citizens, especially in light of the almost total dependence on importing basic commodities, medicines, and production requirements from abroad. This is now estimated not only at the dollar exchange rate in the parallel market, but also at its price in future contracts, which has been approved by the Central Bank of Egypt as a new mechanism, in attempt to push commercial banks to pour their dollar reserves (basically negative) into the hands of importers.

It should be noted that the main objective of this report is not to introduce a detailed or even a brief review of the aspects of the draft budget, but it is only an attempt to explore the key points therein, as follows:

## First: Draft budget's declared objectives

According to the Ministry of Finance's statement, the Ministry is implementing a comprehensive structural financial reform plan to maintain macroeconomic stability, control of public finances, and enhance achievement of a strong and comprehensive economic growth path led by the private sector. The state's new general budget (FY2023/2024) and its allocations target achievement of a sustainable financial discipline, and to concordantly expand the social protection network and achieve comprehensive and increasing growth rates by targeting the following:

- 1- Maintaining support for the economic and productive sectors and providing all financing needs for all state agencies.
- 2- Continuing to support and provide necessary support to push social protection efforts and support vulnerable groups of society, the most needy and the most affected by the repercussions of the current crisis, and working to mitigate repercussions on those groups as well as, the impact on the middle class.
- 3- Maintaining the policy of proper pricing of goods and services.
- 4- Expanding the preparation and follow-up of the budget on the basis of the approach of a program and performance budget.
- 5- Expansion of the tax base in an efficient and fair manner and raising the efficiency of the tax administration.
- 6- Maintaining the maximization of returns from the state's assets, and progress in programs to restructure the state's financial assets.
- 7- Raising the efficiency and rearranging the priorities of public spending in favor of marginalized and lower-income groups, achieving social justice and fair distribution among the various groups of society and regions all over the country, with a focus on reforming financial structures to raise the efficiency and performance of economic bodies and the public business sector.

## Second: Ministry's plan to achieve the budget targets

Within the framework of the Ministry's comment on way of achievement of the budget targets, the Ministry has included paragraphs handling this; and following are the most prominent paragraphs in this regard:

### A- In relevance to "State Ownership Policy" and promoting investment:

"The state's efforts to support economic activity focused on adopting initiatives to support the productive and export sectors; introduction of the "State Ownership Policy" to support the private sector's participation in economic activity; announcing the launch of the government offerings program; working hard to create proper investment climate, achievement of sustainable development objectives, moving towards green transition, and benefiting from the gains achieved from Egypt's hosting of the UN climate change conference (COP27)."

The above government clarification shows that the most important thing that the government has done so far and intends to maintain is introduction of the State Ownership Policy document and launch of government offerings program; which means that privatization (selling state assets in the new term) is the focus of economic performance for the new year; and perhaps the most accurate expression is that it is the government's hope and only way out to avoid defaulting on foreign debt after the continued decline in the credit rating of Egyptian economy in general, as well as for some major banks.

Despite centrality of privatization in the declared government concern, the issue is semi-frozen during the past months, in light of the Gulf States reluctance to purchase (offered government-owned assets) under the pretext of waiting for further devaluation of the pound, a step that the Egyptian authority fears due to its devastating effects on the living standards of a broad segment of citizens, amid reports on negotiations to sell these assets at a much lower value to compensate the Gulf buyers for the exchange rate, deemed unreal from their point of view.

With respect to encouraging foreign investment, the Supreme Investment Council (SIC) in May 2023 issued 22 decrees related to several sectors and economic fields, targeting improvement of the investment environment, such as reducing restrictions imposed on incorporation, facilitating land acquisition, expanding the issuance of the golden license, as well as enhancing governance,

transparency and competitive neutrality in the Egyptian market and facilitating the import of production requirements.

The SIC decrees also included facilitating the import of production requirements, allowing foreign investors to join the importers register for a period of 10 years, easing financial and tax burdens on investors, and approving a draft decree to undertake amendments to some legal articles that grant preferential treatment to state-owned companies and entities with the aim of enhancing competitive neutrality in the Egyptian market.

It should be noted that these decrees were not the first amid several other failed attempts to attract investment over the past few years. In this regard, the following can be noted, in brief:

- Although the board of the Supreme Investment Council was reconstituted, and its operation system approved last November, stipulating that the SIC shall convene, upon the invitation of its chairman, at least once every three months and whenever need arises, the first meeting of the Council came after more than 6 months without mention of the results of the previous Council decisions.
- The formation of the council lacks representatives of investors, as it is known that government decisions do not come in the light of coordination between the components of economic activity such as investors, producers, merchants, businessmen, the Federation of Industries, and others. In fact, government decisions come out randomly and do not meet the needs of investors.
- The sharp and continued decline in the exchange rate, in addition to the high inflation rates deny any opportunity for a real feasibility study on which the investor can rely. These are the conditions that have clearly been ongoing during the last period, undermining any chance for success of the new steps - assuming they are serious - except in petroleum and mineral exploration and research activities, or for export-oriented sectors.
- Even in those sectors that are oriented towards exporting, it is likely that internal political factors can hinder many of such trends, in light of the great internal tension resulting from the deterioration of economic conditions.

## B- The Ministry's social support plan

The Ministry's plan for social support included paragraphs, reading as follows:

- "The state has made efforts to support economic and social activity and is working to boost social safety nets while ensuring protection for the neediest groups to mitigate the effects of the acute inflationary wave facing world countries and economies, including the Egyptian state."

- "The government maintains its efforts to provide social protection for the most vulnerable segments of society; and for achieving this purpose it has set a huge budget as support allocations for the most vulnerable citizens, despite the large financing needs in the FY2023-2024 budget."

*In this regard, the Ministry has cited several figures in attempt to stress its endeavor to achieve this goal, including the following:*

- 1- EGP 529.7 billion in allocations for subsidies, grants and social benefits, a growth rate of 48.8%.
- 2- EGP 127.7 billion for subsidizing food commodities, an annual growth rate of 41.9%.
- 3- EGP 119.4 billion to subsidize petroleum products.
- 4- EGP 6 billion for health insurance and medicines, an increase of 58.2% in the current fiscal year.
- 5- EGP 10.2 billion to support housing for "low-income and social housing", an annual growth rate of 31.5%.
- 6- EGP 31 billion for the social security pension, an annual growth rate of 25%; and EGP 202 billion for pension fund contributions, an annual growth rate of 6%.
- 7- EGP 8 billion for the treatment of citizens at the state expense, an annual growth rate of 14.3%.
- 9- EGP 470 billion for wages, an annual growth rate of 17.5% in the current fiscal year, to improve the conditions of civil servants.
- 10- EGP 111.2 billion allocations for the health sector, an increase of EGP 13.3 billion, a growth rate of 14%. However,

- The above figures indicate that the growth rate of total allocations for support, grants and social benefits is 48.8%; and in light of the official devaluation of the Egyptian pound by more than 100% (from EGP 15.5 to EGP 30.9 per dollar), this means that allocations have actually decreased by more than 50% according to the official prices announced by the Central Bank of Egypt (CBE), and much more than 50% based on the parallel market price and futures contracts. It should be noted that this decline may be close to 100%, with the expected continued decline in the exchange rate in the futures contracts in which import operations take place.
- The above analysis applies to all items constituting subsidy allocations, particularly the subsidy for food commodities which grew by 41.9% in the budget, but actually decreased by more than 100%. Likewise, the social security pension actually decreased by 75%, and real wages also decreased by more than 80%. All this comes at the beginning of the fiscal year, and it is likely to continue to decrease during the rest of the year.

### C- Increasing public revenues

The new Egyptian budget (FY2023-2024) targets a growth in public revenues by 27%, compared to the expected revenues for the current budget (FY2022-2023), about one trillion and 530 billion pounds, compared to one trillion and 204 billion pounds, with a total rate of taxes and fees exceeding 75% of revenue volume.

The Egyptian government has already taken decisions to implement this plan, including:

- The Egyptian Council of Ministers approved the decree related to the dollar sale system for housing and service projects, which comes within the framework of the state's urban development plan, and according to mechanisms aimed at attracting foreign transfers of hard currency, taking into account the possibility of foreigners owning real estate in Egypt, without being restricted to specific numbers.
- The Egyptian Parliament's Plan and Budget Committee approved a draft law submitted by the government to amend Stamp Tax Law No. 111 of 1980 and Law No. 147 of 1984 imposing a fee for developing the state's financial resources, with the aim of imposing a stamp tax at an additional rate of 1% on insurance premiums and fees.

- The bill imposed a fee of EGP 100 (approximately \$3.2) when leaving the territory of the Egyptian state, except for foreigners coming for the purpose of tourism only to the governorates of the Red Sea, South Sinai, Luxor, Aswan and Marsa Matrouh, where the fee becomes EGP 50. However, the Egyptian and foreign drivers of passenger and public goods transport vehicles, and those working on lines or trucks that regularly cross the Egyptian border are excluded from this fee.
- It also imposed 3% of the value of each commodity purchased from duty-free shops with a minimum of one and a half dollars, including one liter of alcoholic beverages, and the collection of 10% of the value of each additional liter of alcoholic beverages authorized for personal use, with a minimum of 12 dollars.
- The draft law also imposed a tax of 2% of the value of the final product for durable goods of all kinds, where a statement of these goods shall be issued by the Minister of Finance; and a tax of 5% of the value of the final product for soft drinks of all kinds, whether soda or fragrant, sweetened or unsweetened soft drinks, packed in bottles or other containers, locally produced or imported, with a minimum of EGP 0.25 per container.
- It also imposed a fee of 10% of the value of the invoice for customs purposes, in addition to the customs tax on the following imported materials: salmon fish, salmon fillets, shrimp, lobster, cheeses with blue veins, anchovies, caviar, and crustaceans fresh or dried fruit, roasted coffee, chocolate, grinders, blenders, electric-motor operated shaving machines, hair dryers, coffee and tea makers, toasters for home use, headphones, earphones, wrist and pocket watches, tricycles, scooters, buggies pedals, and cigarette lighters.

It is likely that the above draft law is an introduction to a series of draft laws, decrees, and procedures that will come frequently during the coming fiscal year, as part of the state's relentless pursuit to suppress the fiscal deficit and show it at a rate that would satisfy the International Monetary Fund.



## Key indicators of the Egyptian economy:

Average	Dec. 2022	Jan. 2023	Feb. 2023	March 2023	April 2023
Inflation	21.3%	25.8%	32.9%	32.7%	30.6%
Official Exchange Rate	EGP 24 to dollar on average	EGP 30 at the end of Jan.	EGP 30.85 at the end of Feb.	EGP 30.7 at the end of March	EGP 30.9 at the end of April
Foreign Exchange Reserves	\$34 billion at the end of Dec.	\$34.2 billion at the end of Jan.	\$34.352 billion at the end of Feb.	\$34,447 billion at the end of March	\$34,551 billion at the end of April
Purchasing Managers Index	47.2 points at the end of Dec.	45.5 points at the end of Jan.	46.9 points at the end of Feb.	46.7 points at the end of March	47.3 points at the end of April
Expats' Remittances	July 2022	August 2022	1st. quarter of FY2022-2023	-	-
	\$2.4 billion	\$2.2 billion	\$6.4 billion, a drop of 20.9%	-	-

## Conclusion

A careful review of the preliminary figures disseminated about the new fiscal year general budget indicates the great dilemma that the Egyptian public finances are suffering from, where revenues have not only become entirely short of serving the Egyptian citizen, but have also likely become uncontrollable by the government, especially in light of the significant devaluation of the Egyptian pound, which is expected to continue at least during the year of implementing this budget. Therefore, it can be said that the objectives of this budget are dreamy and completely far from possibility of implementation on the ground. In addition, the government is promoting increases in some

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expenditures, especially those related to social protection, despite the continued devaluation of the pound, which means continued depreciation of the real value of those expenditures and the continued government neglect of health and education.

With respect to encouragement of foreign investment, the regime knows very well that the new laws, decisions and procedures have not and will not be fruitful compared to successive similar procedures since 2016, where the problem is in the fact that the regime focuses on appeasing security services at the expense of the country's economy reputation, a position the regime appears to have been sticking to as one of the most important pillars of its survival.

Finally, the regime's solutions to avoid the structural imbalance of the Egyptian budget are diminishing, or almost fading away; where in light of this dilemma, it is logical that it will resort to traditional money collection methods such as increasing taxes and fees, and further raising the prices of electricity, gas, fuel and public transportation, the methods that have become usual from its side to face the crisis and falsify the reality of deficit to international institutions<sup>1</sup>.

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<sup>1</sup> The views expressed in this article are entirely those of the author's and do not necessarily reflect the views of the Egyptian Institute for Studies