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جمهورية مصر العربية



Co-Published Brief on State Budget for FY 20/21

Including Public Spending on Covid-19

Transparency Brief No.4



This document was prepared in collaboration between the Fiscal Transparency and Citizen Engagement Unit in the Ministry of Finance and the UNICEF Community Policy and Outreach Unit for citizen engagement purposes. All the information detailed hereafter is the sole responsibility of the Ministry of Finance of Egypt as it is the leading source for all the state budget allocations for the FY 2020-2021.

Contents



Introduction	4
What's New about this Year's Budget?	4
How was this year's budget prepared in light of the challenges of the Coronavirus?	9
Increased Allocations for Child Relevant Sectors and Human Development	15
Contingent Liabilities in 2020/2021 Budget	19
Efforts to Develop State-Owned Companies and Public Business Companies	20

1

Introduction

This brief aims at engaging citizens about budget provisions displayed in the executive budget proposal published usually by the Ministry of Finance at any time after the budget estimates sent to the parliament by the end of March for means of discussion ahead of budget approval before the end of June, to enhance fiscal transparency and citizen engagement purposes. In doing so, the document will disclose efforts as a means for adopting participatory budgeting during the COVID-19 pandemic crisis and highlight expenditures that are relevant for child wellbeing and human development at large.

2

What's New about this Year's Budget?

The FY2020/21 budget is dedicated to achieving sustainable, inclusive growth while fostering human development and implementing wide-ranging structural reforms. It is also characterized by an unprecedented set of measures and a stimulus package of EGP 100 billion, considered the largest in the history of Egypt for exceeding in size and measures the package implemented for the global economic crisis in 2008. This stimulus package aims at supporting citizens and sectors negatively affected by COVID-19 crisis. Further, it includes many incentives for productive industries and projects. All in consideration of the valuable partnership the Government has with the private sector and the accent the Government puts on protecting people's lives.

¹ Although the advent of COVID-19 has affected the assumptions upon which the budget was prepared, MOF decided to maintain the estimates shared with the Parliament in March 2020, complying with the sectorial obligation set by the 2014 Constitution. Meanwhile, MOF would be keen to adopt any necessary changes to the state budget in light of the fiscal performance results to be announced during the First Quarter of FY20/21, and that with a full coordination with the Egyptian Parliament.

Summary of Economic Classification

(LE Billion)

	2017/2018 Actual	2018/2019 Actual	2019/2020 Budget	Proposed Bud- get 2020/2021
Total Revenues	821.1	941.9	1,134.4	1,288.8
Taxes	629.3	736.1	856.6	964.8
Grants	3.2	2.6	3.8	2.2
Other Revenues	188.6	203.2	274.0	321.8
Total Expenditures	1,244.4	1,369.9	1,574.6	1,713.2
Wages and Compensations	240.1	266.1	301.1	335.0
Purchases of Goods and Services	53.1	62.4	74.9	100.2
Interests	437.4	533.0	569.1	566.0
Subsidies, Grants and Social benefits	329.4	287.5	327.7	326.3
Other Expenditures	74.8	77.6	90.4	105.0
Purchases of Non-Financial assets (Investments)	109.7	143.3	211.2	280.7
Cash deficit/ surplus	-423.3	-428.0	-440.1	-424.4
Net Acquisition of Financial assets	9.3	2.0	5.0	7.7
Overall deficit/Surplus	-423.6	-430.0	-445.1	-432.1
Cash deficit/ surplus (% of GDP)	-9.5%	-8.2%	-7.1%	-6.2%
Overall Fiscal deficit/ surplus (% of GDP)	-9.7%	-8.2%	-7.2%	-6.3%
Primary deficit/ surplus (% of GDP)	0.1%	2.0%	2.0%	2.0%

The Main Reform Measures for the State Budget FY 2020/2021

Increase spending allocations for health, and education, and human development.

Increase non-sovereign tax receipts by 0.5 percent of GDP.

Increase spending allocations for investments, maintenance, export subsidies, and infrastructure.

Widening tax base, improving tax collection, and enhancing tax automation.

Allocate LE 3.5 billion to extend natural gas pipe lines to around 1.2 million beneficiaries.

Allocate LE 5.7 billion to finance social housing.

Increased efficiency of the state administrative apparatus to cope with economic and technological developments.

Achieve efficient pricing of goods, and services.

Improve and rationalize public spending. Reprioritize spending allocation from current to capital and productive expenditure.

Expanding the application of program-based budgeting for enhanced performance and better exploitation of the country's resources.

Increased allocations in FY 2020/2021 budget



Increasing the total public expenditures to reach **EGP 1,713.2 billion**, with a growth rate of **8.8%**.

136.6% increase in allocations for water.



46.2% increase in social housing support.

33.7% increase in total spending on purchasing goods and services.



26.4% increase in investments funded by the state's public treasury.

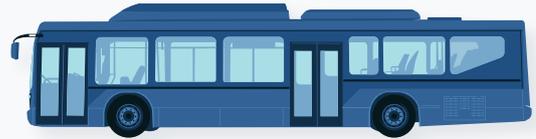


18.4% increase

in food allocation (includes school feeding).

15.6% increase

in allocations for mass transit.



16.7% increase in export development fund.

11.3% increase in wages.



12% increase

in health insurance subsidies, and treatment for those who are unable to afford it, in addition to Medicines allocations.

2.7% increase

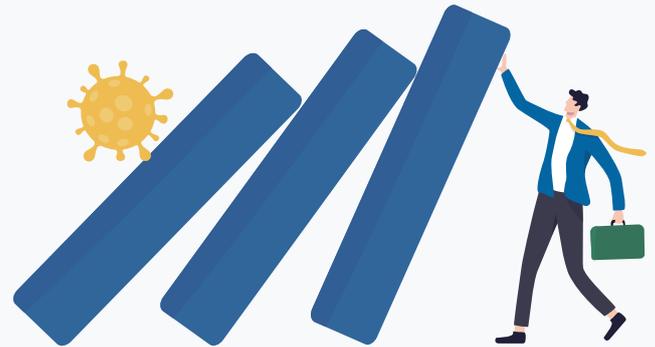
in cash subsidies (solidarity pension + Takaful & Karama Subsidy Program).



3

How was this year's budget prepared, especially in light of the challenges of the Coronavirus?

The Egyptian government, with the support of all national authorities, seeks to capitalize on the gains of the economic reform program undergone between 2016 and 2019. These gains allowed fiscal space and structural flexibility to better cope with the current crisis. Although the timing of FY20/21 budget preparation coincided with the spread of the COVID-19 pandemic around the world, the program set forth comprehensive measures to safeguard citizens, productive industries and exporters and help them overcome the crisis with the least damage in a way that enables our economy to recover rapidly.



How will both citizens and the private sector contribute to overcome the pandemic of the Coronavirus?

The Government has defined a set of precautionary measures as a prerequisite for recovery that will engage both citizens and the private sector. On the one hand, citizens are a partner in the fight against the pandemic, as their compliance with the government measures and international protocols will be critical to halting the spread of the virus and protecting lives. On the other hand, the private sector will be in the driving seat during the recovery not only for providing real new job opportunities but also for following the necessary precautionary measures necessary to protect people lives and keep the production wheel running.

How is the Government of Egypt Addressing the Fallout from the Spread of the Coronavirus in FY 2019/2020 & FY2020/2021 budgets?

EGP 100 billion

allocated by the Government of Egypt to support the adopted comprehensive presidential plan aiming to :



Combat COVID-19 Pandemic



Alleviate burdens on affected industries



Ease the financial burden on less advantaged citizens

The government announced in early May 2020 that

63 billion out of the 100 billion

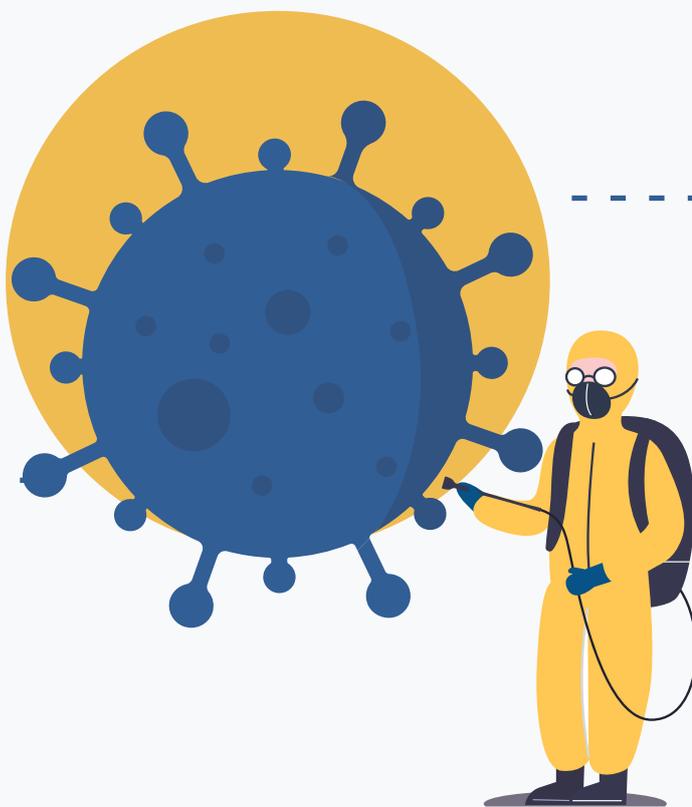
have already been allocated to cover some urgent additional:

Social Support

Health & Non- Health Expenditures

Incentives to Productive Industries

Tax Exemption





Additional

142,000 households¹

to be added to social pension and Takaful & Karama Programs that serves around 3.6 million.

Allocate 500 EGP

monthly disbursement for Three months with a total 1500 EGP to support irregular workers.



Increase payments to women community leaders in rural areas from

EGP 350 to EGP 900 per month.

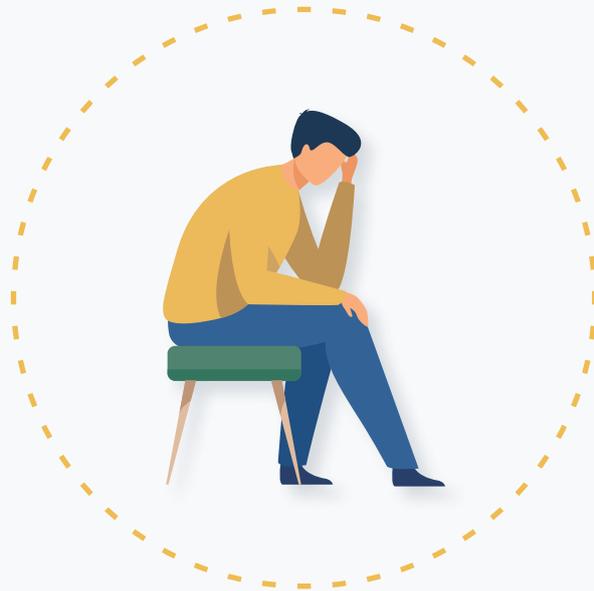
In coordination with Non-governmental institutions, the Egyptian Food Bank is in cooperation with local/governorate level and the Ministry of Social Solidarity to distribute food rations in various governorates.



¹UNICEF, Middle East & North Africa Region, COVID-19 Situation Report No. 6, 15th June, 2020

https://www.unicef.org/appeals/files/UNICEF_MENARO_COVID19_Situation_Report_6_1_15_June_2020.pdf

Tax Incentives/ Cost Reductions



- ▶ Increasing the tax exemption limit from **EGP 8,000 to EGP 15,000 annually.**
- ▶ Employees of third parties also get an **EGP 9,000** personal tax exemption, for those earning an annual income of EGP 24,000 or below.

New Low-Value Tax Bracket



A new, low-value (2.5%) tax bracket was introduced for those with annual income below **EGP 30,000 instead of 10%.**

Reducing the price of natural gas for industry to **\$ 4.5 per million thermal units** to reduce factories production costs.



Reducing the electricity prices for the industry for the high, medium and high voltage by **10 piasters per kilowatt to reach EGP1.08 per kilowatt.**

Maintaining electricity prices for other industries at current levels and over 3-5 years.

With regards to the tourism sector, launching the non-performing loans initiative through the replacement and renewal of residence hotels, floating hotels and tourism transportation fleets, and postponing financial obligations to companies operating in the tourism sector.



● **Bonuses/Incentives**



EGP 50 billion

for real estate financing initiatives for middle-income citizens for a maximum period of 20 years directed to real estate financing through banks at a 10% return rate.

How the Egyptian Economy will address COVID-19?

- 
- **The gains of the comprehensive economic reform program** that started in 2016 as they allowed fiscal space and structural flexibility .
 - **The digital economy transformation endeavours pursued by the Government in budgeting and tax and customs collections.**
 - **The support of the international community.**
 - **The positive credit rating given to the country** as a result of the trust financial institutions have in Egypt's ability to overcome the crisis.
 - **An unprecedented set of reform measures and a stimulus package** that support frontline health professionals, critical productive sectors and exporters stand the adverse effects of the pandemic.

- Reduce the tax burden on the affected sectors by making a settlement of the tax arrears due on the investors in exchange for paying only 1-5% of the value of the tax arrears.

- Postpone the payment of real estate taxes to the affected factories for a period of 3 months.

- Drop the real estate tax for a period of 6 months on all tourist and hotel establishments, and postponing the payment of all dues on these establishments for a period of 3 months.

- Provide about 11 billion Egyptian pounds to support the health sector and disburse incentive bonuses for medical staff and workers in quarantine outlets, isolation hospitals, central laboratories and their branches in governorates, central work teams and their assistants, epidemiological surveillance teams and ambulance agency.

- Provide 3 billion Egyptian pounds for irregular employment.

- Pump 3 billion Egyptian pounds during the period from April to June to support the Export Development Fund to provide additional liquidity to exporters.

- Provide a financing agreement of 5 million Egyptian pounds to support the tourism and civil aviation sectors.

- Increase government investments by an additional 10 billion Egyptian pounds to pay the dues of contractors and suppliers.

4

Increased Allocations for Child Relevant Sectors and Human Development

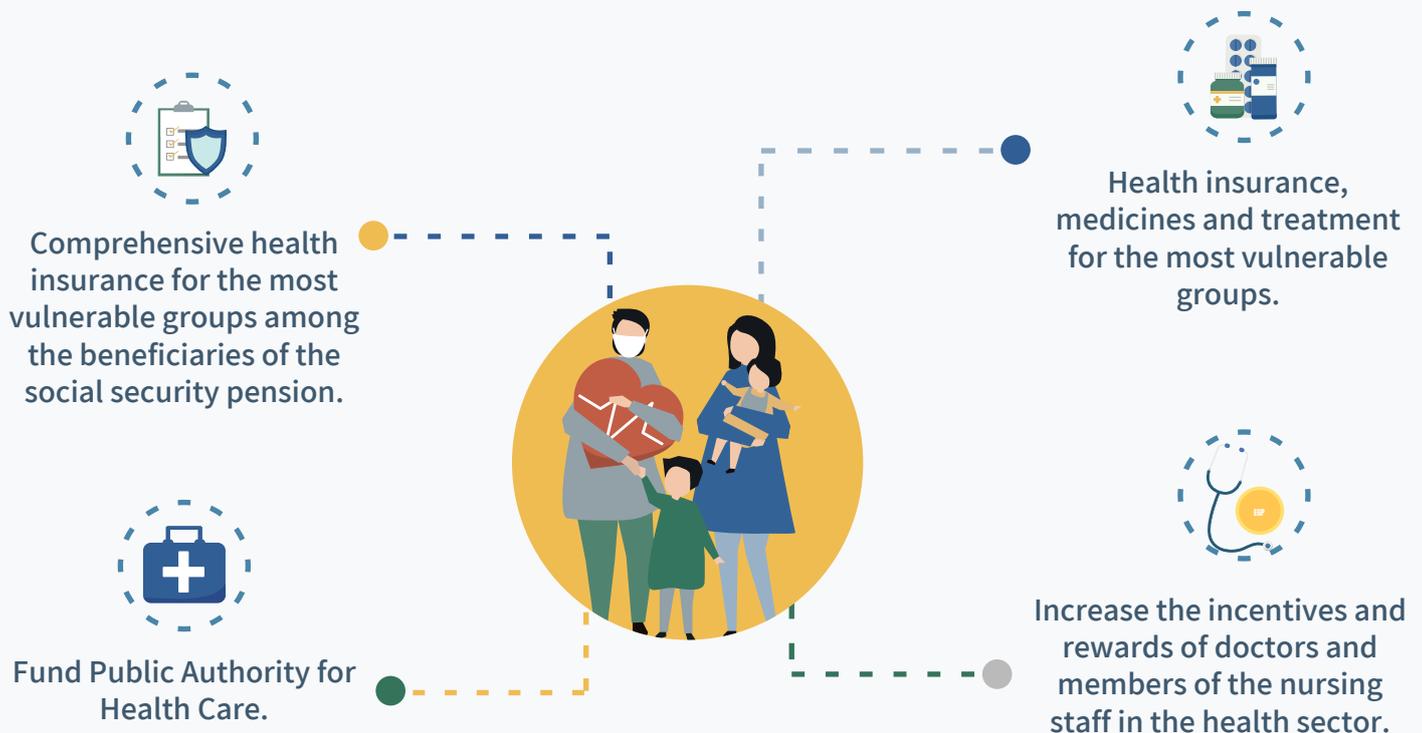
The FY 2020/2021 budget ensures the enhancement of education, health, and social protection programs that directly benefit children. Both of the preliminary budget documents contain allocations that conform to the commitments previewed in the Egyptian Constitution of 2014, Articles 18, 19, 21 and 23. The above articles commit the Government to allocate no less than 3 % of GDP to health (art 18); 4% of GDP for pre-university education (art 19), 2% for university education (art 21); and 1% for scientific research (art 23).

Health

(15% of total budget & 3% of GDP)

Increased allocations for the health sector to improve the quality of services provided and to cover health insurance, medicine, staff incentives, and treatment for the most vulnerable groups:

The budget has an allocation of EGP 258.5 billion for health, with an increase of EGP 83.2 billion (47%) compared to last fiscal year. The increased allocations will be devoted to:



¹ Allocation spending on sectors that are related to the achievement of the mentioned constitutional objectives include the following: (i) The spending of Economic authorities and other companies on Education, health and Scientific research; (ii) the Spending from other institutions that do not necessarily follow the administrative classification of education, health, and scientific research or even related Ministries such as (Hospitals of Defense and Al Azhar, comprehensive health insurance and its programs, as for the education, it also includes the schools built by the Urban Communities Authority in new cities); (iii) the share of debt service burden (Chapter three of the budget domestic and foreign interest payments) is added to each sector separately from the total borrowing made by the Ministry of Finance during the previous years of disbursement dedicated to health, education and scientific research sectors.

Education

(21% of total budget & 6% of GDP)

The budget has an allocation of
EGP 363.6 billion for education
 with an increase of 46.9 billion (14.8 percent) compared to last year with a focus on technical education and teacher capacity building.

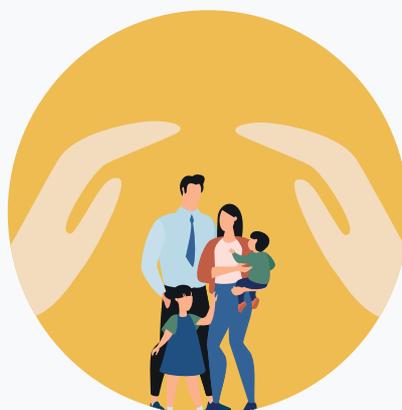


Initiatives proposed in FY 20/21 Draft Budget for the sectors of health, pre-university and university education, and social solidarity

Initiatives of (Entity Name)	Total Spending (in EGP Billions)
The Ministry of Health and Population, including: (Woman's health, the presidential initiative of pilot hospitals, early detection of hearing impairment for newborns, treatment of kidney failure, prevention of infections from pregnant mothers to fetus, neonatal diseases, preventing children from chronic diseases, provision of serums, vaccines and medicines for public health, treatment at the State expense, mental health and improving the financial conditions of the medical professions members by raising the medical professions allowances by 75% and raising the reward for excellence doctors from EGP 400 pounds to EGP 2200).	16.3
The Ministry of Education The initiative to improve the conditions of teachers and inspectors in kindergarten and first and second grades.	1.5
The Ministry of Higher Education The initiative to improve the conditions of the teaching staff in universities, research centers, institutes, and authorities.	1.5
The Ministry of Social Solidarity The Takaful and Karama Program (Solidarity and Dignity) and the Social Security Pension Program (for 3.4 million families).	19
Total initiatives	38.3

Social Protection

Allocations for social support are intended to ensure the continuity, improvement, and expansion of existing social protection programs (e.g. food subsidies, income support, and school nutrition) to stimulate human development and ensure a more equitable distribution of the benefits of economic growth. Some of the allocations include:



Measure	% GDP	Amount (EGP Billion)
Increase wages and salaries and finance promotions as follows:	0.5%	34.0
A periodic bonus of 7% of the basic salary will be granted on June 30, 2020 to employees under the Law on Civil Service.	0.1%	8.0
12% of the basic salary will be granted on June 30, 2020 for employees not subject to the Law of Civil Service.		
Improved income of employees and servants in the State administrative apparatus (range from LE 150 to LE 375 monthly).	0.2%	15.0
Financing the promotion phase for those who meet the requirements for promotion next July.	0.02%	1.5
Continued improvement of income for faculty and inspectors to kindergarten and first and second grades (incentive for pre-university education improvement), will be continued.	0.01%	0.5
Continued improvement of income for faculty and inspectors to universities, research centres and institutes (quality incentive) as well as other incentives relevant to performance indicators, will be continued.	0.01%	0.5
Funding some initiatives of the Ministry of Health to increase the incentives and rewards of doctors and members of the Nursing Authority in the health sector.	0.01%	0.5
Improve wages for employees in the health sector by increasing allowances by 75%, and increasing allowances for pre-mid doctors from LE 400 to LE 2200.	0.03%	2.6
Others	0.07%	5.4

Measure	% GDP	Amount (EGP Billion)
 Increasing the tax exemption limit from EGP 15000 to EGP 24000 and introducing a new tax bracket of a Low value of 2.5% for owners of incomes less than EGP 30000.	0.07%	5
 The special allowance to be granted to pensioners at 14%.	0.5%	31
 Increasing the allocations for Takaful & Karama Program.	0.3%	19
 Allocations for social housing*	0.08%	5.7
 Complete compensation payments for the people of North Sinai and Nubian inheritors.	0.01%	0.8
 Increase in allocations for lighting, electricity and water.	0.01%	1.0
 Allocations covering the cost of delivering natural gas services for 1.2 million housing units.	0.05%	3.5
 Allocations to finance the comprehensive social health insurance system.	0.06%	4.2
 Increasing the allocation for treatment at the state expense, for those who cannot afford.	0.1%	7.0
 The financial burden of increasing insurance for workers (incurred by state budget).	0.09%	6.0

5

Contingent Liabilities in 2020/2021 Budget

- **Public debt and financing sources**

The budget seeks to ensure that both the level and rate of growth of public debt are fundamentally sustainable and are on a downward path, reaching about 83% of GDP by June 2021 compared to 108% of GDP in June 2017. Current fiscal policies aim to diversify financing sources (domestic & foreign) to strengthen the quality of public debt management and reduce the country's vulnerability to international financial shocks. It is expected that total financing needs for the FY 2020/2021 will reach LE 987.7 billion, of which LE 921.7 billion are domestic financing and the rest are foreign.

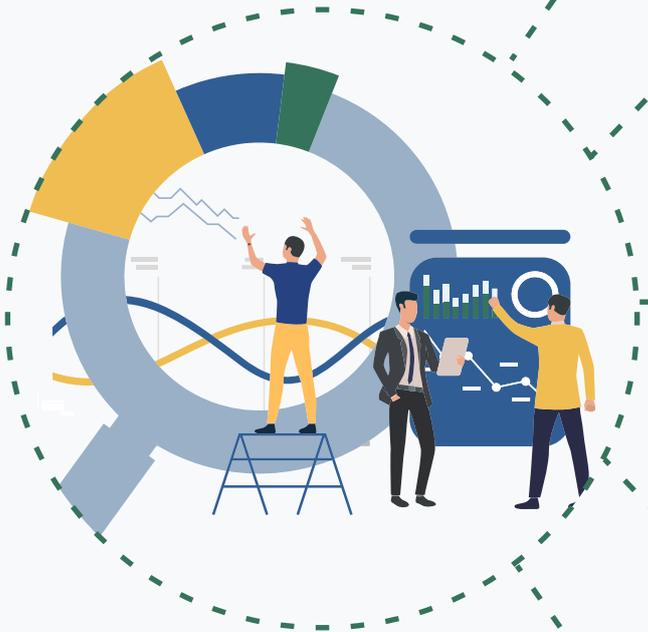
- **Contingent Liabilities (Guarantees and Financial Liabilities) as follows:**

Initial estimates of total secured debt issued by the public treasury at the end of December 2019 is about 20.5% of the GDP; domestic guarantees represent about 8.5% of the GDP, while external guarantees represent 12% of the GDP.

The issuance of guarantees is concentrated in the energy and transportation sectors where they made up 76% of the total existing guarantees on December 31, 2019.

6

Efforts to Develop State-Owned Companies and Public Business Companies



Raising the efficiency of the financial structures of economic authorities and the public business sector.

Making amendments to the Public Business Sector Law and to the Law on Protection of Competition and Prohibition of Monopolistic Practices.

Applying the Initial Public Offering program (IPO).

Targeting the transfer of about LE 22 billion of surplus from economic authorities to the public treasury excluding the surplus of the Suez Canal transferred to the treasury.

Targeting the collection of LE 10 billion in profits from public sector banks and about LE 7 billion in profits from public business sector companies.



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