

Egypt Macro Flash

A Budget Best Taken With A Pinch Of Salt

- The Egyptian Minister of Finance, El-Morsi El-Sayed Hegazy, has submitted a draft budget for the upcoming fiscal year (beginning 1 July) to the Shura Council, the country's interim legislative body. The details of the budget and how it compares to both the current year's budget as well as our forecast outcomes are included overleaf.
- In summary, the 2013 budget sees expenditures rising overall by almost one-third compared with the current year budget. The government has pencilled in a 26% rise in wages, a 36% rise in interest payments, and a 41% rise in subsidies vis-à-vis the current year's budget.
- The government proposes to cover the increased expenditure with reform of the sales tax and a widening and raising of the tax umbrella (Al Ahram, 23 April). The government is expecting an increase in overall revenues of 26%, compared with last year's budget. According to our own estimates, however, the government could miss its revenue target this year by over 10%, meaning the actual budgeted increase in revenues next year could be as much as 42% over this year's expected outturn.
- The growth assumption incorporated in the budget is 3.8% over the upcoming fiscal year, against 2.0% this year.
- Simply put, we think this budget is unrealistic. The current political environment is unlikely to prove conducive to the implementation of revenue-raising tax measures, making the revenues targets suspect in our view.
- The budget also reveals Egypt's limited space to manoeuvre with respect to expenditure rationalisation, reflecting the difficulty in containing growth in the subsidy and wage bill, let alone trimming it.
- The budget also exposes Egypt's public finances to risks from asymmetric implementation: if on the one hand revenue measures fail to materialise and performance mirrors that of the past two years, while on the other hand the government carries out its expenditure plans in full, we estimate the budget deficit could widen to around 15% of GDP next year, according to our calculations. Indeed, Mr Hegazy warned that this could be the case in his address to the Shura council (Egypt Independent, 23 April).
- This budget does not alter our view that the odds of an IMF deal before parliamentary elections are long, and even if one does materialise in the coming weeks, implementation is likely to be weak.
- We also note that opposition groups have publicly questioned the constitutionality of the budget process (Al Ahram, 23 April), and thus we expect further legal uncertainty regarding the government's economic programme in the coming weeks.

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Figure 1. How the 2013/2014 budget stacks up against the current year

	2012/2013 Budget	2012/2013 forecast	2013/2014 Budget	Change on previous budget	Change on our forecast for the current fiscal year
Revenues	393.4	350.0	497.1	26%	42%
Tax	266.9	240.6	356.9	34%	48%
Grants	9	3.6	2.4	-73%	-33%
Non-Tax	117.5	105.8	137.8	17%	30%
Expenditures	533.7	558.6	692.4	30%	24%
Wages	136.6	137.3	172.2	26%	25%
Goods and Services	28.8	21.4	30.7	7%	44%
Interest	133.6	160.3	182	36%	14%
Subsidies	145.8	179.6	205.5	41%	14%
Other	16.4	20.0	38.3	134%	92%
Investments	55.6	40.0	63.7	15%	59%
Deficit	140.3	208.7	195.3	39%	-6%
%GDP	8.4%	12.5%	9.5%	1.1%	-3.0%

Source: Egyptian Ministry of Finance (Draft 2012/2013 Budget), Egypt Independent (April 23), Haver Analytics, Citi Research

Appendix A-1

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