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The Policy Of Fiscal Austerity And Its Impact On The Public Budget Deficit In Egypt For The Period (2004-2021)

Saja Basit Mohammed *
Department of Economics,
College of Administration and Economics,
University of Baghdad, Iraq.

ly2339960@gmali.com

*Corresponding author

Mohammed Saleh Salman
Department of Economics,
College of Administration and Economics,
University of Baghdad, Iraq.

mohamedsalih224466@gmail.com

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Abstract:

The study aimed to take austerity measures to address the public budget deficit in Egypt, as the public budget deficit is one of the most important economic problems that affects the public financial situation, and the Egyptian economy does not differ from the rest of the world's countries in terms of the increasing public budget deficit. The analytical approach was used to show the impact of the financial austerity policy on the public Budget deficit. Egypt succeeded in adopting a policy of financial austerity, as after several years of slow growth and weak economic performance, the Egyptian economy began to recover. The financial situation improved as a result of the implementation of the value-added tax and reductions in energy subsidies, in addition to the floating of the pound, Which led to the improvement of the external sector and, thus, an increase in exports in exchange for a decrease in imports, in addition to the International Monetary Fund and many international evaluation institutions praising the results of the economic reform program, as these institutions modified their view of Egypt positively and praised the success of liberalizing the exchange rate, which confirms the increasing foreign investor confidence.

Paper type: Research paper

Key Words: Fiscal Austerity, public Budget Deficit, Egyptian Economy

1. Introduction:

In recent years, many economic problems have toppled many countries and caused many problems and crises, which required governments to take many measures, including fiscal austerity policy measures. The term fiscal austerity policy in economics refers to the policy that aims to reduce public spending and increase taxes. Together, governments may resort to implementing an austerity policy through their tendency to reduce the expenses of ministries, primarily those described as luxuries that can be dispensed with, such as decorations and ornamental works in departments and others. The situation in the Egyptian economy is similar to that in the rest of the world's countries in terms of the increasing deficit. Budget, increasing public debt, and increasing unemployment necessitated taking urgent austerity measures to control the public financial situation.

1.1. literature Review :

Many studies have dealt with the topic from different aspects, and these studies are as follows.

Vinals, (2012) investigated the possible negative repercussions of government austerity plans on growth rates, as it indicates the possibility of a decline in economic growth by the same amount of government austerity in the event of the availability of reinforcing factors, most notably: the inability of the central bank to reduce interest rates, the passage of The economy is in recessionary cycles and the focus of government austerity on reducing spending instead of imposing taxes. The study found that economic growth decreases by the same amount as the decrease in government spending if factors are present, including the inability of the central bank to reduce interest rates, the economy going through recessionary cycles and the focus of government austerity on reducing spending instead of Imposing taxes. The study recommends that the government move seriously towards stimulating growth through various means and methods. At this level, the government must pay attention to new capital projects to achieve the most significant economic benefit, whether by selecting the projects that most stimulate growth or through efficiency in financing. Moreover, follow up on the implementation of these projects.

Brie (2013) clarified that the leading proponents of austerity, represented by the International Monetary Fund, said that the austerity measures did not yield the expected results. On the contrary, they harmed growth and equality. The austerity programs implemented in European countries, relying on reducing expenditures and increasing taxes, disrupted fair growth and equality mechanisms. The austerity policy has reduced the actual value of average incomes in countries that implement the austerity policy through significant cuts in spending. In 2011, 10 million people across Europe faced the prospect of working in the shadow of inequality and poverty. The study's conclusion is the ineffectiveness of the austerity policy in European countries the study recommends taking into consideration the poor class when applying the financial austerity policy to ensure equality among individuals.

Younis (2016) developed a strategy that supports both stability (through austerity) and growth at the same time, which is possible, taking into account the actual costs and difficult choices that financial austerity requires in the short term, especially since growth has become lower than its possible levels. The study indicated that the countries that implemented the austerity policy had a negative impact, especially on growth. The most important recommendations that came from the study are that to achieve a balance between austerity and growth, the accurate diagnosis of the budget deficit and its causes must be dealt with as a structural deficit and not a periodic deficit, meaning that actual measures must be taken to confront this deficit.

Al-Mukhtari(2019) established an analytical study through the state's application of its budget under the austerity policy. The study concluded that the years from 2013 to 2017 express great fragility of public finances. Because of the high budget deficits, the researcher reached a link between the state's oil revenues and the extent of their impact on the state's budget and that these deficits resulted from a decrease in fuel revenues. However, they also and equally reflect the weakness of the regular tax, given the potential scope for collection in this area. Therefore, in a circumstance where the revenue control fund has run out. In the face of the prospects of weak oil prices in the coming years, and to ensure the sustainability of public finances in the medium term, it the study recommends Subsequently:

- Improving tax collection
- Reducing subsidies so that only low-income segments benefit from them.
- Rationalizing various customs exemptions and levies in order to expand the tax base

Saeedi (2020) aimed to study the interactive relationship between the austerity policy and local administration. The study reached a set of results through which it realized the clear impact of implementing the austerity policy on the change in the volume of local expenditures, especially after the year 2015, when the volume of expenditures at the municipal level tended to decrease, and these expenditures were some of them that were obligatory and necessary for the daily life of the citizen, which makes the application of this policy as a punishment for the citizen the study recommends that when adopting a policy of financial austerity, studying the country studying the country situation and the size of public expenditures so that this policy does not become an obstacle for citizens .

The research lies in the problem that the public budget deficit is one of the most important economic problems that affect the public financial conditions, and that the Egyptian economy does not differ from the rest of the countries of the world in terms of the increasing general budget deficit. Hence the research problem lies in the following question: How is the Egyptian state budget managed in light of the financial austerity policy for the period(2004-2021)?

The research objective to take austerity measures in Egypt to address or reduce the public budget deficit.

The research was based on the hypothesis that the policy of fiscal austerity has a role in addressing the public budget deficit and controlling public financial conditions.

2.Material and Methods:

In this section, theoretical literature will be presented on the concept of fiscal austerity policy, the concept of budget deficit, in addition to fiscal austerity policy procedures and analysis of economic indicators in Egypt.

2.1. Fiscal Austerity Policy :

2.1.1. Concept of Fiscal Austerity Policy:

There were many points of view in defining the austerity policy, as economists and economic experts did not agree in defining a comprehensive definition and concept of the austerity policy. There are several definitions, including: A government program of an economic nature that aims to improve economic conditions by implementing many measures taken by the government to pressure expenditures due to the economic conditions that the country is going through. It works to reduce the budget deficit by reducing spending and increasing taxes (Al-Saqq, 2018)

Austerity policy can also be defined as: those policies that aim to reduce the deficit in the state budget, that is, the difference between what the government spends and what it collects in revenues, and that austerity measures consist of reducing public spending and increasing taxes. Every country differs in terms of its economic, political and social conditions.

Other countries, meaning that the austerity measures taken by the state differ from one country to another (Al-Ghitani, 2012)

Austerity is used in operations to control the growth of public debt, including reducing ministries' expenses, especially those described as luxuries that can be dispensed with, closing employment in the public sector or reducing it to its minimum levels, in order to reduce the financial burdens incurred by the public treasury (Ali and Dawood, 2018).

The policy of financial austerity is often resorted to in urgent cases when the state implements possible economic solutions to improve economic conditions. The policy of financial austerity is usually not popular with citizens, as the policy of financial austerity aims to increase tax rates, which fuels a state of anger and resentment among all citizens in particular. In light of the difficulty imposed by the policy of financial austerity in economic life and the high cost of living (Al-Sabai, 2016), there are many countries that implemented the policy of financial austerity that witnessed sit-ins and protests, such as Greece, which witnessed large protests against financial austerity policies in 2011 (Bondarenko, 2020).

For this reason, many governments resort to following alternative measures to the policy of financial austerity to address the budget deficit and the economic conditions that the country is going through (Qadshi and Abdel-Wahab, 2018). For example, the state resorts to borrowing from the financial markets, but this measure has an effect only in the short term and fills a portion of the budget deficit, but the state bears a heavy burden for subsequent years and the accumulation of debts (Majeed, 2023).

This leads the state to use many economic measures and severe austerity policies over relatively long future periods of time, and a policy of financial austerity is usually followed when there are loans. A large amount granted to the state by private bodies, the most important of which is the International Monetary Fund, which requires the country receiving the loan to follow an austerity policy in exchange for the state obtaining these loans so that this country can gradually compensate for these loans in the coming years (Bondarenko, www.britannica.com, 2020)

Financial austerity policies may differ from one period to another and from one country to another, as the measures taken by the state differ on many economic matters in the country (Shamkhi et al, 2022), for example, raising the income tax with the aim of obtaining greater tax revenues, especially for the rich and those with high incomes, and reducing Retirement age, abolishing access to health care, reconsidering the conditions for providing benefits to those affected by unemployment, and other financial austerity policy measures. (Amadeo www.thebalance.com, 2020)

Accordingly, the policy of financial austerity can be defined: It is an economic and reform approach undertaken by the government, which includes a set of economic measures, procedures and policies represented by reducing government spending and increasing taxes with the aim of reducing the budget deficit, that is, with the aim of reducing the difference between what the government spends and what it receives. Revenues according to the circumstances of each country

2.1.2. Financial Austerity Policy Between Reducing Spending and Increasing Taxes:

Supporters of austerity agree that this policy will help the state get out of the problems of public debt and fiscal deficit, but they disagree about whether the austerity programs rely on reducing spending more or increasing taxes more. That is, the extent to which this policy relies on reducing spending or increasing taxes. The Italian economist Alberto Alesino and others explained in a study in 1995 that austerity based on reducing spending leads to expansion, while austerity based on increasing taxes causes stagnation. In his view, increasing taxes or reducing spending has the opposite effect, and the economist Alesina, Favero, concluded: and Giavazzi in 2012 indicated that fiscal control operations based on reducing spending are associated with moderate and short-term recession, while those based on increasing taxes are associated with deep and long-term recession.

This is because reducing public spending can contribute to reducing the fiscal deficit and increasing private sector capital accumulation while increasing corporate investment. In productive activities, purchasing machinery and opening new factories, especially those capable of creating jobs and increasing individuals' incomes and thus stimulating economic activity, while when taxes are increased, the deficit will decrease and capital accumulation will collapse (Alesina and last,2015). In 2014, the economist Alesina and others concluded that Austerity based on reducing spending is better than based on increasing taxes.

The amendments that were implemented in Italy in the period 2010-2013 were based on increasing taxes, which resulted in a recession that the country witnessed in the period from 2011-2012 with negative growth in the gross domestic product in the two years (Alesina and the last, 2014) In 2019, the economist Alesina and others, in a book entitled "Austerity: When Does It Work and When Doesn't It Work," conducted a practical study by applying 3,500 austerity standards carried out by 16 developed countries from the 1970s until 2014, focusing on studying existing austerity plans? On increasing taxes and those based on reducing spending, they found that the austerity policy based on increasing taxes leads to a recession in the short and medium term and is ineffective in addressing debt problems, and that the austerity policy based on reducing spending does not lead to a recession in the short and medium term and is effective in addressing debts. The conclusion, in their view, may invalidate Keynes's claim that cutting government spending reduces demand and leads to recession (Alesina and Favero and Giavazzi, 2019).

A study by the International Monetary Fund in 2010 indicated that the austerity policy tends to achieve contraction in the short term, and that an austerity policy based on increasing taxes is more harmful to economic growth than one based on reducing government spending (Hatom and Lubik, 2013). There is a study by Padovano and Gani analyzed data from 23 countries in the period 1951 to 1990 and found that high tax rates are negatively related to long-term economic growth. In a recent study conducted in 2002, researchers estimated that increasing tax rates by 10% led to a reduction in annual growth by 0.23%, while a study found Skinner & Engen conducted a study in 1996 in which they examined 20 studies examining the relationship between tax rates and economic growth in the United States of America and abroad.

They concluded that undertaking major tax reform that includes reducing tax rates by 5% is expected to lead to an increase in growth rates over the years. The long term ranges between 0.2-0.3% (Murphy, 2013). In contrast to all of this, some considered that the best way to reduce the fiscal deficit is to reduce the government's role in economic activity and focused on the importance of the government avoiding increasing taxes as they conflict with saving and investment, which will reduce Time required to return to prosperity (Rothbard, 2000). The researcher's opinion is joined by the need for the state to rely on reducing spending in austerity more, but in a more literal way, meaning that the level of demand for goods and services does not decrease in the short term. The government can reduce investment expenditures on long-term investments, or work to slow down the movement of activity in them, or even suspend work in them. The researcher encourages increasing taxes because this means reducing the level of production and thus increasing the unemployment rate, as well as increasing tax evasion and ultimately decreasing total tax revenues.

2.1.3. The General Budget Deficit:

The general budget deficit is considered one of the familiar economic concepts, and it sometimes reflects a problem that most countries suffer from, which is the problem of the government's inability to finance its public expenditures and its resort to other means of financing, which differ from one country to another depending on its economic activity (Ali, 2016).

There have been many studies to define an accurate concept of the budget deficit, and these studies have come up with several concepts for the state's general budget deficit, where it can be defined Public budget deficit is the situation in which public expenditures are greater than public revenues (Andrew and Bernanke,2009)

The general budget deficit is also known as a reflection of the inability of public revenues to cover public expenditures, i.e., an increase in public expenditures over public revenues (Salem,2012).

The budget deficit is considered an annual concept, meaning it represents the difference between public expenditures and public revenues during one year. When revenues exceed expenditures, there is a surplus in the budget and it is also considered annual (Brux, 2011). The general budget deficit is also known as the excess of the state's public expenditures over revenues. In addition to the general budget deficit, another term appears, which is the cash deficit, which is the delay in obtaining public revenues from the date of disbursing expenditures in the general budget during the implementation period, which leads to a lack of cash liquidity (Taleb and Alwan, 2018).

From this, we conclude that the budget deficit is the government's inability to meet public spending requirements and its turning to other ways to finance this deficit as a result of the increase in public expenditures over public revenues (Ashour et al, 2017). Sometimes the intended deficit is beneficial as it helps to overcome economic crises, especially the recession crisis, which sometimes coincides with an expansionary financial policy. The way to increase government spending to keep pace with the increasing supply (Hantush, 2019).

2.1.4. Reasons for The General Budget Deficit;

It is known that the emergence of the public budget deficit is the result of an increase in the growth of public expenditures at a rate greater than the growth occurring in public revenues (Rayan, 1999). Therefore, we find that the reasons for the occurrence of the budget deficit are that part of these reasons is due to the increase in public expenditures and part of them is due to the slowdown in public revenues. (Taqa and Al-Azzawi, 2007) Perhaps one of the most important reasons that leads to the emergence of a budget deficit is the increase in public expenditures as a result of state intervention in economic and social life (Mahmoud and Abdel-Halim, 2017).

There are many factors that lead to an increase in public expenditures, including increasing military spending, as military spending is considered one of the important reasons for increasing public expenditures due to wars, security instability, as well as political instability. Military spending has played an important role in the general budget deficit because it does not only include wages, salaries, current goods and services of the military institution, but also includes the costs of importing weapons. And all the requirements of military spending (Al-Hajaya, 2018). Likewise, lavish spending on constructing huge and luxurious buildings and buying luxury furniture is considered one of the important reasons for the increase in public expenditures. Therefore, the more spending on these facilities, i.e. increasing the spending allocations for these facilities, increases the volume of expenditures and thus affects the budget. The public is negatively affected, i.e. the emergence of a state of budget deficit (Zaki, 2000).

In addition to the occurrence of economic crises, economic crises cause a deficit in the state's general budget due to increased public spending (Ashour et al, 2020). For example, in the event of a recession, the state increases public spending to increase employment, and this is only effective in developed countries because they are characterized by a productive apparatus. Flexible (Dur douri, 2014)

As for the slowdown in public revenues, while public expenditures grew significantly, revenues, including taxes, did not record a corresponding growth, and thus the deficit in the general budget continued (Majeed et al., 2022). Statistics indicate that the ratio of public revenues to gross domestic product It has decreased in most countries, and one of the most

important reasons for the decrease in the volume of public revenues is the decrease in tax revenues

Taxes play an important role in public revenues, so a decrease in tax collections in general may lead to a financial deficit, and there are several reasons that lead to a decrease in tax collections (Zeinat, 2003).

A. Tax evasion and tax avoidance: Tax evasion means the attempt of the taxpayer to pay it in whole or in part and is held accountable by law (Al-Assaf and Al-Wadi, 2009). As for tax avoidance, it means the taxpayer subject to the tax following methods and methods of his project legally in order to reduce the amount of tax imposed on him. (Al-Mamouri,2012) .Therefore, tax evasion and tax avoidance lead to a decrease in tax revenues, thus affecting the general budget and causing a deficit in it (Safwat, 2019).

B. Weak tax effort: Some developing countries are characterized by weak tax effort, which depends largely on the size of national income. Therefore, a decrease in the size of national income and a decrease in the average per capita share of it will lead to a decrease in tax revenues, and one of the most famous measures used to measure the relative importance of the tax system and its contribution to revenues. The general tax burden is what is called the tax burden, which represents the ratio of taxes to the gross domestic product (Al-Faris, 2001). As for what is known as tax energy, it means the ability to bear the tax burden, whether at the community level or at the individual level. The objective of studying tax energy is to follow the best methods with the aim of setting tax systems and rates in order to obtain the largest tax revenues with the least possible damage (Al-Batriq, 2017).

C. Tax capacity varies from one country to another depending on the different economic and financial conditions. Most developing countries share a low tax capacity, as the tax revenue is less than the available capacity. The reason for the weak tax capacity in developing countries is due to the decline in national income and the decrease in the tax base, and thus the decrease in tax revenues. Whether direct or indirect (Awadallah, 2003), in the case of direct taxes such as the capital tax, the relationship is direct between capital and the tax imposed on it, meaning that national income decreases when national capital decreases and thus tax capacity decreases (Radhwan, 2009). In the case of indirect taxes, such as taxes on spending according to the type of goods, where spending is large on luxury goods and therefore the tax capacity is greater, essential goods are exempt or cost as little as possible, but in developing countries the national income is low and thus reflects negatively on tax revenues. (Awadha and Qutaish, 1995).

D. Underdeveloped systems and tax exemptions: The difficulty of inventorying project activities is due to the lack of organized accounts (Atwi, 2003), and thus the difficulty of determining their tax bases (Fath Allah, 1999). Also, the complex tax structure reduces the volume of tax revenues, as well as tax exemptions in developing countries. It plays an important role in the decline in tax

collections, and thus deficits are higher in complex tax systems (Kiki, 2014).

2.2 Economic Indicators in Egypt:

2.2.1. Overhead Expenses :

Public expenditures are the basic pillar of public finance, as they work to satisfy the public needs and increasing desires of individuals. Through public expenditure, it is possible to determine the levels of aggregate demand and then influence growth, employment, and the pattern of distribution of national income. Public expenditure in Egypt consists of three main components, which are public expenditures, which include: On wages and workers' compensation, the purchase of goods and services, benefits, support, grants, social benefits, local and foreign investments, as well as the possession of financial assets in addition to the repayment of loan installments. Public expenditures are divided into two main parts: current (operating) expenditures and investment expenditures, as shown in the following table

Table 2: Public expenditures in Egypt during the period (2004-2021), million dollars

Year	Current expenses Operational	Compound growth rate of current expenditures %	Investing expenses	Compound growth rate of investment expenditures %	Public	Compound growth rate of public expenditure%
2004	188908		316989		2206069	
2005	238922		401986		2791206	
2006	325142		369611		3621031	
2007	348273		451851		3934518	
2008	455812		628164		5186284	
2009	554581	%19.66	781818	%16.24	6327628	%19.20
2010	479741		730252		5527662	
2011	609094		671058		6761998	
2012	718418		593097		7777287	
2013	798649		575196		8561686	
2014	916535		747237		9912587	
2015	846915	%9.94	778688	%9.94	9247838	%8.96
2016	471258		435945		5148525	
2017	518135		612857		5794207	
2018	625757		588047		6845617	
2019	736211		860396		8222506	
2020	727203		1121106		8393136	
2021	839032	%24.76	1644154	%10.09	10034474	%11.76

Reference: Arab Republic of Egypt, Central Agency for Public Mobilization and Statistics, Annual Bulletin of the State public budget, 2020-2021.

*Percentages from the researcher's extraction.

*The values of public expenditures were converted from pounds to dollars by the researcher based on the exchange rates corresponding to each year.

We note from Table (2) that current and investment expenditures increased at a compound growth rate (19.66% and 16.24%) during the period (2004-2009). This is due to the Egyptian government adopting a financial policy to support economic growth as well as increasing the amounts allocated to the health and education sectors, in addition to the negative effects. Due to the repercussions of the global economic crisis, during the period (2010-2015) current expenditures increased at a compound growth rate (9.94%) as a result of the events of the January 25 Revolution and the June 2013 Revolution. The government worked to take several measures. It worked to establish a compensation fund for individuals and establishments, and to increase the number of Families benefiting from the security salary and compensation for the families of the martyrs of the revolution.

As for investment expenditures, they declined at a compound growth rate (1.08%) as a continuation of the cessation of implementation of some projects since the beginning of the revolution and the exit of the majority of foreign investments due to conditions of security instability, unrest, and frequent labor sit-ins. During the period (2016-2021), current expenditures and investment expenditures were rising at a growth rate. Composite (10.09%-24.76%) due to the increase in workers' wages and compensation, as well as the increase in government spending on the health and education sectors, and the development of investments in infrastructure such as roads, electricity, gas, water, sewage, and public transportation networks, with the exception of the year 2020, in which current expenditures decreased as a result of the Corona pandemic that swept The country, while investment expenditures rose, rose as a result of the government's continued increase in public investments with the aim of

developing and modernizing infrastructure, as well as expanding housing projects and increasing investments in the health and education sectors to improve services provided to citizens, especially in light of the repercussions of the new Corona virus pandemic.

2.2.2 Public Revenues:

Public revenues in Egypt consist mainly of tax revenues, which occupy the largest proportion of the volume of public revenues, which consist of taxes on income and profits, property taxes, taxes on goods and services, customs duties, and other tax revenues. As for non-tax revenues, they consist of interest. Proceeds from lending, re-lending, and dividends such as profits from the Suez Canal and other economic bodies, state lease contracts, and other non-tax revenues. The following table shows the size of public tax and non-tax revenues for the period (2004-2021):

Table 3: Public revenues in Egypt during the period (2004-2021), million dollars

Year	Tax revenues	Compound growth rate of tax revenues %	Percentage of tax revenues over public revenues%	Non-tax revenues	Compound growth rate of non-tax revenues %	Percentage of non-tax revenues over public revenues %	Public revenues	Compound growth rate of public revenues %
2004	112098		69.22	49840		30.77	161938	
2005	130844		86.33	60630		31.66	191474	
2006	170376		65	93199		35.35	263575	
2007	202597		63.4	116762		36.56	319359	
2008	252057		62.0	154710		38.03	406767	
2009	293828	%17.33	58.0	214730	%27.56	42.22	508558	%21.01
2010	257504		64.0	147439		36.40	404943	
2011	323190		72.40	1231193		27.59	446383	
2012	342486		68.31	158870		31.68	501356	
2013	365528		72.0	144401		28.31	509929	
2014	367795		57.0	277658		43.01	645453	
2015	385822	%6.97	66.0	200862	%5.29	34.23	586684	%6.37
2016	221790		72.0	87612		28.31	309402	
2017	259408		70.08	110711		29.91	370119	
2018	349809		78.0	98946		22.04	448755	
2019	441849		78.15	123522		21.84	565371	
2020	432685		76.0	137941		24.17	570626	
2021	565089	%16.87	75.0	189759	%13.75	25.13	754848	%16.03

Reference : Arab Republic of Egypt, Central Bank of Egypt, annual reports, Research and Statistical Studies Department, time series.

*Percentages from the researcher's extraction.

*The values of public revenues were converted from pounds to dollars by the researcher based on the exchange rates corresponding to each year..

We note from Table (3) that public revenues witnessed significant fluctuations during the study period, as the compound growth rate during the period (2004-2009) for tax revenues reached (17.33%) and non-tax revenues (27.56%), which led to a rise in public revenues to (21.01). %) This is due to the increase in revenues from the Suez Canal and taxes on income, in addition to the increase in aid and grants sent by the Gulf countries.

During the period (2010-2015), tax revenues increased at a compound growth rate (6.97%) as a result of the measures taken by the state to confront the repercussions of these events.

As well as the measures taken by the state to achieve tax reform and increase state resources, while non-tax revenues fluctuated during the period (2010-2015) at a compound growth rate (5.29%) due to the decrease in foreign grants, investment financing, and other revenues.

During the period (2016-2021), tax revenues increased at a compound growth rate (16.87%) due to the government adopting some measures to increase tax revenues and adopting a policy of fiscal austerity on taxes. As for non-tax revenues, they increased at a compound growth rate (13.75%) as a result of the increase Foreign grants and increasing the proceeds from the sale of goods and services and other taxes.

2.2.3. Deficit/Surplus In The public budget:

Egypt faced a deficit in the general budget as a result of the increase in its public expenditures over its revenues. As a result of the recent political events that Egypt went through, the budget deficit increased significantly, and the government tended to follow various means to reduce the budget deficit, including resorting to borrowing, whether that was internally by issuing treasury bonds and bills or Externally, from countries or foreign institutions, or by following a policy of financial austerity in reducing expenditures or increasing taxes, or both, Egypt has tended to increase taxes and thus work to reduce the budget deficit. The following table shows the budget deficit in Egypt for the period (2004-2021).

Table 4: Deficit/surplus in the public budget in Egypt for the period (204-2021) million dollars

Year	Public revenues	Public expenditure	Deficit/ surplus financial	Compound growth rate of deficit %
2004	161938	2206069	2044131-	
2005	191474	2791206	2599732-	
2006	263575	3621031	3357456-	
2007	319359	3934518	3615159-	
2008	406767	5186284	4779517-	
2009	508558	6327628	5819070-	19.05%
2010	404943	5527662	5122719-	
2011	446383	6761998	6315615-	
2012	501356	7777287	7275931-	
2013	509929	8561686	8051757-	
2014	645453	9912587	9267134-	
2015	586684	9247838	8661154-	9.15%
2016	309402	5148525	4839123-	
2017	370119	5794207	5424088-	
2018	448755	6845617	6396862-	
2019	565371	8222506	7657135-	
2020	570626	8393136	7822510-	
2021	754848	10034474	9279626-	11.46%

Reference: Arab Republic of Egypt, Central Bank of Egypt, annual reports, Research and Statistical Studies Department, time series.

*Percentages from the researcher's extraction

We note from Table (4) that the fiscal deficit increased during the period (2004-2009) at a compound growth rate (9.05%), but in 2008 it increased significantly as a result of the global crisis that swept the world and the increase in state expenditures. However, in the period (2010-2015) it increased.

The budget deficit is at a compound growth rate of (9.15%) due to the January 25 Revolution, the increase in expenditures, and its negative effects on economic performance. During the period (2016-2021), the deficit decreased in 2016 as a result of adopting a policy of fiscal austerity and increasing taxes, thus increasing revenues over expenditures. It rose again in the following years due to increased public expenditures on purchases of goods and services, as well as increased spending on wages and workers' compensation, and because of procedures and reforms. The structure within the framework of the economic reform program, as well as the result of the policies adopted to confront the repercussions of the Corona virus pandemic that swept the country with a compound growth rate of (11.46%).

2.2.4. Unemployment Rate/GDP Growth Rate:

Unemployment is a phenomenon that occurs when there is no opportunity for people to obtain work. Unemployment is usually measured by unemployment rates, and the gross domestic product is what reflects the economic condition of the country by estimating the size of the economy and the growth rate of this country.

Table 5: Unemployment rate and GDP in Egypt during the period (2004-2021)

Year	Unemployment rate%(1)	GDP at current prices ((million dollars) (2)	GDP growth rate (3)%
2004	10.3	87623	-
2005	11.2	89528	2.17
2006	10.50	107378	19.93
2007	8.80	130367	21.40
2008	8.50	162464	24.62
2009	9.10	188489	16.01
2010	8.80	218387	15.86
2011	11.90	235464	7.81
2012	12.60	275681	17.07
2013	13.10	285458	3.54
2014	13.10	301737	5.70
2015	13.10	332699	10.26
2016	12.40	269057	-19.12
2017	11.70	234325	-12.90
2018	9.8	251069	7.14
2019	7.8	303167	20.75
2020	9.2	363092	19.76
2021	9.3	372174	2.50

Reference :

1. The World Bank, World Bank data, website : data.albankaldawli.org
2. Unified Arab Economic Report, different years
3. Column (3) is the work of the researcher

Table (5) shows an increase in unemployment rates in 2005, reaching 11.2% as a result of a decrease in investment expenditures, while in 2007 it was recorded at 8.80% as a result of an increase in investments compared to the previous year. It is noted that the gross domestic product increased from 2005 to 2009 due to the growth of activities. Economic based on the state's plan for infrastructure projects, and pumping funding for economic projects, thus increasing investments, providing job opportunities, and thus reducing the unemployment rate (Arab Democratic Center: 4), while in 2011 and 2013, the gross domestic product decreased to 3.54% as a result of the May 25 Revolution.

Unemployment rose again in 2016, reaching 13.10% due to the negative effects of the May 25 Revolution and the complete cessation of the tourism sector, especially after the incident of the Russian plane that took off Metro jet. This affected the Egyptian economy, especially the tourism sector, which led to the migration of tourism sector workers to other economic sectors due to the stagnation of tourist facilities and weak production in Egypt, and the closure of a large number of factories, approximately 1,500 factories, due to the events of the January 2011 revolution due to the lack of funding. While it decreased in 2017 to reach 11.7% for an increase in investment expenditures, as well as in 2019 it decreased to 7.8% and rose again in 2021 to reach 9.3% due to the Corona pandemic and the cessation of factories and businesses, and the gross domestic product decreased again in 2021 to reach 2.50% as a result of the cessation of project due to the Corona pandemic.

2.3. Financial austerity policy measures in Egypt:

The most important austerity reforms taken by the state in order to control the public budget deficit and the increasing public debt are as follows:

2.3.1 Rationalization of energy subsidies: The increase in the amount of commodity subsidies in general and energy subsidies in particular leads to the depletion of the state's resources, and causes difficulty in providing petroleum products to the local market, which significantly affects the possibility of regular electrical current (Al-Jaafrawi, 205), and therefore is considered rationalization of subsidies. Energy is one of the most important reforms that the government has begun to implement due to the large amount of subsidies directed to energy (oil, electricity). The subsidy reforms in the first phase of the program included the gradual price reform prepared by the Ministry of Oil for implementation in the medium term, as well as raising the efficiency of energy use, i.e. energy use. Clean and environmentally friendly energy and the application of the smart card system for gasoline distribution (Yunus, 2016)

2.3.2 Liberalizing the Exchange Rate (Floating Egyptian Pound):

Because of the exchange rate system followed in Egypt, it was difficult for the Egyptian external economy to continue to operate under it, which caused a severe shortage of foreign currency, led to a reduction in growth rates, and weakened Egypt's competitiveness against the countries of the world. In addition to the loss of a large amount of the Central Bank's cash reserves (Nafel, 2016), so the Egyptian government decided to float the currency in the year 2016, which is part of the reforms of the International Monetary Fund. Here, the Central Bank of Egypt decided to float the exchange rate of the pound and make it a flexible exchange rate, as it is supposed to improve Egypt's external competitiveness and thus support exports, tourism, and attract investments, thus improving growth and the economic situation .

2.3.3. Tax Reforms:

The Egyptian government decided to carry out tax reforms, which are considered one of the most important reforms, in order to reduce the large budget deficit and reduce government debt. Thus, the government had to not only resort to reducing spending, but also resort to increasing revenues and then increasing tax revenues through... Reducing the tax rate and expanding the tax base (Abdel Qader, 2016), and one of the most important tax reforms is the income tax, as Resolution No. 101 of 2012 was issued in Law 91 of 2005, to amend the Income Tax Law, and its most important amendments are based on the subjection of the resulting capital gains in the event of a change in the legal form. To one or more legal persons, in addition to imposing a lump sum tax of 15% on the profits achieved by natural persons 30.(Ghair Bal, 2007), the decision also stipulates the removal of tax distortions and achieving justice by redistributing progressive tax brackets to natural persons in a way that achieves the tax philosophy, and in line with Income levels and taking into account that the maximum tax does not exceed 25% in order to contribute to achieving social justice for citizens, provided that those whose income is less than 5 thousand pounds are exempted, and a tax of 10% is imposed on people whose income exceeds 5 thousand pounds (Yousif, 2014)

As well as the sales tax, as Law No. 102 of 2012 was approved amending Law No. 11 of 1991 amending the general sales tax law. A tax was imposed on cigarettes, as the sales tax on them was increased by 50% of the selling price to the consumer, and 250 piasters were added to the cigarette package. The law, with its new amendments, also imposed a 25% tax on domestic and imported carbonated water. (Al-Obaidi, 2016).

In addition to the stamp tax, Law 104 of 2012 was approved to amend some provisions of the Stamp Tax Law No. 11 of 1981, and to impose a proportional tax on the balances of credit facilities, loans, and advances, at a rate of 4 per thousand annually. The law also included that there be a tax on advertisements, as well as The same decision stipulated the imposition of a specific tax of 3 pounds annually on the supply of both water and electricity, 3 piasters on every kilowatt of electricity used for lighting in any place, and 3 pounds per ton of gas and stove consumption for industrial purposes (Al-Ghitani, 2012).

3. Conclusions:

The austerity policy is used to treat the budget deficit in the event that public expenditures exceed public revenues, and Egypt succeeded in following the policy of financial austerity, as after several years of slow growth and weak economic performance, the Egyptian economy began to recover, as the growth rate in 2018 reached (4.8%), which represents the fastest growth rates since A period of time, as growth reached this percentage as a result of supporting growth through increased investment spending, the recovery of the tourism sector, the expansion of investment in the gas sector, and the decline in the unemployment rate to 7.8% in 2019, which is the lowest rate compared to previous years.

The financial situation also improved as a result of the implementation of the value-added tax and reductions in energy subsidies, in addition to the floating of the pound, which led to the improvement of the external sector and thus an increase in exports in exchange for a decrease in imports, in addition to the praise of the International Monetary Fund and many international evaluation institutions for the results of the economic reform program, as those institutions modified their outlook. To Egypt, she expressed positivity and praised the success of liberalizing the exchange rate, which confirms the increasing confidence of foreign investors.

Authors Declaration:

Conflicts of Interest: None

-We Hereby Confirm That All The Figures and Tables In The Manuscript Are Mine and Ours. Besides, The Figures and Images, Which are Not Mine, Have Been Permitted Republication and Attached to The Manuscript.

- Ethical Clearance: The Research Was Approved By The Local Ethical Committee in The University.

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سياسة التقشف المالي واثرها على عجز الموازنة العامة مصر في مصر للمدة (2021-2004)

محمد صالح سلمان⁽²⁾
جامعة بغداد / كلية الادارة والاقتصاد / قسم الاقتصاد
بغداد, العراق
mohamedsalih224466@gmail.com

سجي باسط محمد⁽¹⁾
جامعة بغداد / كلية الادارة والاقتصاد / قسم الاقتصاد
بغداد, العراق
ly2339960@gmail.com

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مستخلص البحث:

هدفت الدراسة الى اتخاذ اجراءات تقشفية لمعالجة عجز الموازنة العامة في مصر, اذ ان عجز الموازنة العامة من اهم المشكلات الاقتصادية التي تؤثر على الاوضاع المالية العامة وان الاقتصاد المصري لا يختلف عن بقية دول العالم من تزايد عجز الموازنة العامة وتم استخدام المنهج التحليلي لبيان انعكاس سياسة التقشف المالي على عجز الموازنة, ونجحت مصر باتباع سياسة التقشف المالي اذ بعد سنوات عدة من تباطؤ النمو والاداء الاقتصادي الضعيف بدأ الاقتصاد المصري بالانتعاش وتحسن الوضع المالي نتيجة تطبيق ضريبة قيمة المضافة وتخفيضات دعم الطاقة, اضافة الى تعويم الجنيه الذي ادى الى تحسين القطاع الخارجي وبالتالي زيادة الصادرات مقابل انخفاض الواردات, اضافة الى اشادة صندوق النقد الدولي والكثير من مؤسسات التقييم الدولية بنتائج برنامج الاصلاح الاقتصادي حيث عدلت تلك المؤسسات نظرتها الى مصر بالإيجابية واشادت الى نجاح تحرير سعر الصرف ما يؤكد على تزايد ثقة المستثمر الاجنبي.

نوع البحث: دراسة حالة.

المصطلحات الرئيسية للبحث: التقشف المالي, عجز الموازنة, الاقتصاد المصري.