Egyptian Budgetary Responses to COVID-19 and Their Social and Economic Consequences

Abstract
Purpose: This paper discusses the impact of Covid-19 pandemic on the Egyptian economy and Egyptian government’s budgetary responses to the pandemic.

Design/Approach: We undertake a critical analysis of Egyptian government’s economic and social interventions in response to the COVID-19 pandemic, the funding of these interventions and their short- and long-term implications.

Findings: Our analysis shows that the Egyptian government’s response to the pandemic will shrink Egypt’s fiscal space significantly as increased borrowing and debt service obligations are not offset by the levying of Corona tax on salaries and wages. However, increased taxation will impact negatively on poverty. We show that social interventions such as cash transfers are not provided at a level which will make an impact on alleviating poverty. We highlight increased spending on health as well as the adoption of a gender perspective in the response to the pandemic as positive outcomes with potential for future societal impact.

Originality: We highlight the Egyptian government’s budgetary response to the COVID-19 pandemic and the economic and social implications of this response.

Keywords: Covid-19; Egypt, Budget, Taxation, Poverty
1. Introduction

The COVID-19 pandemic has placed unprecedented challenges on healthcare and economic systems of countries all over the world. This has put significant pressure on budgetary structures and has led countries to design huge and unprecedented stimulus packages of billions of dollars to boost the economy and support sectors impacted by the pandemic. The accounting literature has begun to explore the nature and impact of these budgetary responses to the COVID-19 pandemic (Andrew, Baker, Guthrie & Martin-Sardesai, 2020; Cho & Kurpierz, 2020; de Villiers, Cerbone & Van Zijl, 2000; Ejiogu, Okechukwu & Ejiogu, 2020; Kim, 2000; Raudla & Douglas, 2020).

From this emerging literature and also from previous experiences of economic crisis, we know that while stimulus packages may have positive impacts in the short run, they might have negative budgetary implications in the long run, especially in emerging economies like those of most African countries (de Villiers, Cerbone & Van Zijl, 2000; Ejiogu, Okechukwu & Ejiogu, 2020). Indeed, responding to crisis of this nature usually entails a stimulus package which is usually followed by significant structural reform in budgets (Kopits, 2008). While countries will be impacted and respond differently to crisis such as the COVID-19 pandemic, prior evidence shows that the combination of sustained budget deficit together with the heavy reliance on foreign trade, and inflows of remittances could make a country more vulnerable to the impacts of crises (Darvas, 2010). This seems to be the case in Egypt where the budget, like most of other African countries, shows a sustained deficit (Ezinando & Jeroh, 2017), while remittances from Egyptians abroad, tourism, and Suez Canal earnings constitute the main sources of inflows into the economy. Accordingly, this paper aims to assess the impact of Covid-19 pandemic on the Egyptian economy as well as analyse the budgetary responses and their short and long-term implications.

The remainder of this paper is organised as follow. Section 2 discusses the structure of Egyptian budget, its main features and the social context. Section 3 addresses the impact of Covid-19 on the Egyptian economy and the budgetary responses. Section 4 analyses the budgetary responses and their short term and long-term implications. Section 5 presents the conclusions and recommendations.
2. The Egyptian Context

Prior to the pandemic, Egypt had begun implementing a programme of economic reforms characterized by liberalisation of the exchange rate, fiscal consolidation and energy sector reforms. The reforms were aimed at improving the country’s fiscal space, stabilizing and rebalancing the economy.¹ While the reforms enabled Egypt to achieve a primary budget surplus, decrease the debt-to-gross domestic product (GDP) ratio, and increase foreign reserves (World Bank Group, 2020a), the decrease in the debt-to-GDP ratio has not resulted from a decrease in debt levels. On the contrary, there has been a huge expansion of borrowings internally and externally over last few years; the total external debt doubled (from US$56b to US$113bn) over the last 3 years (June 2016- Dec 2019) and the total domestic debt skyrocketed from EGP 2,481 billion to EGP 4,204 billion between June 2016 and March 2019 (Central Bank of Egypt, 2020). However, the increase in debt levels has been outpaced by GDP growth with GDP growth rates of 4.3%, 4.2%, 5.3% and 5.6% in 2016, 2017, 2018 and 2019 respectively (World Bank Group, 2020b) resulting in decreases in the debt-to-GDP ratio over the same period, from 12.5% in 2015-2016 to 8.4% in 2018-2019 (Ministry of Finance, 2020a). Along with increased debt levels has come increased interest commitments. Indeed, the largest expenditure item in the 2018-19 budget (the most recent budget prior to the pandemic) is debt interest payments which account for 39% [EGP 533 billion (US$33.3bn)] of the budget. Expenditure on ‘subsidies, grants and social benefits’ are the next largest expenditure accounting for 21% [EGP 287 billion (US$18bn)] while wages are the third largest expenditure accounting for 19% [EGP 266 billion (US$17bn)] of budgeted expenditure. The main source of revenues is tax collections with EGP 736 billion (US$23bn), constituting 78% of total revenues (Ministry of Finance, 2020a).

Although the reforms have been successful in macro-economic terms, they have had social implications. Egypt is the second most populous country of the Middle East and North Africa (MENA) with a population of 102 million people (World Meter, 2020). It is a lower-middle income country with high unemployment levels and rising poverty rates. The increasing poverty rate has been attributed to austerity measures introduced to meet the International Monetary Fund (IMF) loan conditions (EgyptToday, 2019). Indeed, as part of a commitment linked to the US$12 billion IMF loan in 2016, energy subsidies have been dramatically reduced. This is translated in forms of dramatic increases in prices of basic goods and services. For example, the government increased electricity prices by around 30% in 2016, 40% in 2017, 26% in 2018 and 15% in 2019 (Reuters, 2019). Further, the fuel prices have seen similar increases, leading to big increases in transportation costs and therefore the prices of most products and services (Ismail and Lewis, 2019). There has not been matching increases in household incomes, which has pushed more millions to live under poverty line. The poverty rate increased from

¹ Fiscal space refers to the government’s ability to deploy additional budgetary resources to achieve set goals without impacting negatively its financial position or the sustainability of the budget (Roy et al., 2007; Heller, 2005).
27.8% in 2015 to around 32.5% in 2018 and the World Bank stated in 2019 that around 60% of Egyptians are either poor or vulnerable (World Bank Group, 2019a).

3. Impact of Covid-19 pandemic and Budgetary Response

The pandemic has affected the Egyptian economy in several ways, primarily through the slowdown in tourism sector, declining remittances from Egyptians abroad, and reduced Suez Canal earnings (IMF, 2020a). These activities are the main sources of the foreign income and they constitute a large portion of the Egyptian GDP, implying severe impacts of the pandemic on the Egyptian economy. A recent study conducted by International Food Policy Research Institute (IFPRI, 2020), using social accounting matrices and multiplier analysis, found that the loss of the Egyptian GDP could reach 0.8% for each month the pandemic continues, where the absence of tourists alone could cause a monthly losses of US$1.5bn (two thirds of the total impact). The cumulative loss in GDP is expected to be between 2.1 and 4.8% in 2020. This is expected to result in a monthly decline in household incomes between 9% to 10.6% per person (IFPRI, 2020) and a further increase in the already rising trend of Egyptians living under poverty line from 32.5% (2018-2019) to between 38% and 45%, pushing between 5.6 million to 12.5 million more Egyptians to live under poverty line (Institute of National Planning, 2020). Also, significantly impacted is the informal sector in Egypt which represents 30-40% of GDP and 63% of total employment in all sectors. The Egyptian Centre for Economic Studies (ECES, 2020) estimates that about 1.6 million workers in this sector will lose their jobs further magnifying issues of poverty and social inequality as workers in the informal sectors suffer from absence in health and social insurance.

In response to the pandemic, the Egyptian government has made a number of economic interventions. It announced a stimulus package of EGP 100 billion or US$6.2bn (2% of GDP) at the beginning of the pandemic (Ministry of Finance, 2020b). About half of the stimulus package was allocated to the severely-hit tourism sector, EGP 8 billion (US$0.5b) was allocated to the health sector in forms of medical supplies and bonuses to medical staff while support for the industrial and aviation sectors were mainly in the form of real estate tax relief and lowered energy prices (IMF, 2020a). The government also announced a two-year extension for the suspension of tax on agricultural land to increase agricultural production and to help farmers to deal with negative financial consequences as a result of the pandemic. In addition to these measures, the central bank has reduced interest rate by about 2% on loans to support critical economic sectors such as tourism, industry, agriculture and construction, along with approval of EGP 100 billion guarantee to cover lending with this low interest rate to help these sectors to cope with the negative consequences of the pandemic (IMF, 2020a). In addition, it has asked microfinance institutions to reduce or postpone the instalments due from the clients by 50% of the value of each instalment.
In designing stimulus packages at times like this, governments seek to address not only economic factors but also social factors (Campbell & Sances, 2013). This is the case in Egypt as a number of social interventions have been introduced with the aim of softening the impact of the pandemic on the poor. First, the five bonuses due for pensioners have been increased by 80% of the basic wage and an annual increase of 14% awarded for the next fiscal year. Second, the cash transfer programme known as Takaful and Karama\(^2\) (TK) was expanded. The TK programme was launched as a social safety net programme in 2015 with the help of a US$400 million World Bank program (with additional financing of US$500 million from the World Bank in 2019) and covered about 2.4 million households (9.4 million individuals), or approximately 10% of Egypt’s population prior to the pandemic with monthly payments of EGP 325. In response to the pandemic, the TK programme has now been expanded to include an additional 100,000 households. Also, a new, albeit short-term, cash transfer programme has been instituted to provide cash transfers to support around 1.6 million irregular workers with a monthly grant of EGP 500 (US$31) for 3 months. Third, low income and middle class families are granted a reduction in interest rate from 10% to 8% for housing loans. Fourth, an increase in monthly payments to women community leaders in rural areas from EGP 300 to EGP 900 (OECD, 2020). This is important as approximately 50% of working women in Egypt are informally employed with minimal wages and limited access to social protection measures (Zeitoun, 2018). This makes women among the most negatively affected groups in Egypt from COVID-19 outbreak.

The government has sought to fund the COVID-19 stimulus package primarily through borrowing. It has obtained a loan of US$5.2 (EGP 83 billion) from the IMF (IMF, 2020b), and sourced US$5 billion (EGP 83 billion) from foreign markets via debentures in Egypt’s largest ever issuance (Bloomberg, 2020a). In addition to borrowing, the Egyptian government has sought to raise funds from taxation by introducing a 1% Corona tax on all salaries in all economic sectors both public and private, on employees with monthly net income above EGP 2000 (US$125), and 0.5% on state pensions, starting from July 2020 for 12 months (IMF, 2020a).

4. Analysis of budgetary responses and their implications

The Egyptian government’s economic and social interventions in response to COVID-19 pandemic as well as the funding of these interventions will have significant short- and long-term implications for the country in general and on the poor and middle income households more particularly. It is to these we now turn.

\(^2\) Takaful and Karama translates to “Solidarity and Dignity”
**Fiscal Space**

Egypt’s response to the pandemic impacts on its fiscal space from two opposing directions. First, there is a squeeze of the fiscal space as a result of increased borrowing to fund the pandemic response. As noted previously, the main source of funding for the COVID-19 pandemic response has been increased borrowing domestically and from the IMF. While increased borrowing has allowed the government to respond to the crisis, it has longer term implications as these debts have to be serviced. Indeed, IMF borrowing went above 187.5% of quota leading to a higher cost of debt. The increased debt service obligations will put additional pressure on other expenditures items (e.g., subsidies and wages) and will ultimately push more households to live under poverty line (IMF, 2020b).

Second, there is an expansion of the fiscal space as a result of increased revenue from the Corona tax imposed on salaries and pensions. However, given that Egypt, like many other countries in the region, faces significant challenges in taxing personal income especially given the large informal sector, we do not expect that a significant amount will be raised from levying this tax. Consequently, we anticipate that the net effect of Egypt’s response will be a significant squeeze on its fiscal space.

There is an expectation that the reduction in GDP and consequent squeezing of the fiscal space is temporary with the European Bank for Reconstruction and Development (EBRD) projecting a rebound to 5.2% GDP growth in 2021 (Zgheib, 2020). If this rebound does not occur, the government’s ability to service its debts would be severely limited. This raises concerns for the solvency and financial sustainability of the country.

**Poverty and Social Inequality**

The expansion of the TK programme to include 100,000 new households and the increased monthly payments to women community leaders in rural areas while having some impact on alleviating immediate financial hardships caused by the pandemic should also have longer term impacts in terms of poverty reduction and women empowerment. The monthly grant of EGP 500 (US$31) for 3 months for irregular workers on the other hand will only have short term impacts of alleviating immediate financial hardships resulting from the pandemic. However, the expansion of the TK programme and the monthly grants to irregular workers suffer from an inherent defect – they do not enable the recipients meet the average cost of living as they fall below the national poverty line of US$1.5 per day and the line identified by the World Bank of US$1.9 per day (World Bank Group, 2015). This will limit their impact in alleviating financial hardship in the short term and reducing poverty in the longer term.

While the TK and other cash transfer programmes will have some, albeit limited, positive impact on poverty, the drive to increase public revenue through taxation will have significant and more widespread negative impacts on poverty. We expect that the imposition of a 1% Corona-tax on all salaries in all economic sectors both public and private, on employees with monthly net income above EGP 2000 (US$125), and 0.5% on state pensions, starting from July 2020 for 12 months (IMF, 2020a) will affect
the middle-income households living on the margin disproportionately. This will lead to pushing several of these middle-income households into working poverty especially when this is coupled with increasing prices from subsidy reductions highlighted earlier. Although, the corona tax is a short term (1 year) measure, if increased taxation is pursued as a measure to reduce budget deficits in subsequent years, the impact on middle income households will be more prolonged and indeed might be irreversible.

**Healthcare**

Egypt, similar to other African countries, has a relatively weak health systems and inadequate sanitation, and hygiene infrastructure. Thus, the pandemic has served to highlight the crisis in the Egyptian health sector which has been chronically underfunded as evidence shows the inability of public hospitals to cope with the pandemic with doctors and other healthcare workers complaining of the lack of personal protective equipment and beds for sickened staff and patients (Egypt Independent, 2020). Further, the services provided by private hospitals, which constitutes 62.5% of the total number of hospitals in Egypt (Central Agency for Public Mobilization and Statistics, 2019), are expensive for most Egyptians, where the cost of treating a COVID-19 patient could reach EGP 10,000 (US$625) per day (Bloomberg, 2020b). Other factors have contributed to aggravate the health issues in Egypt. For example, the last decade has seen an increasing number of doctors resigning from the public health services every year (3,500 in 2019 up from 2,600 in 2018 and 2,050 in 2017) primarily due to low salaries (Middle East Eye, 2020) and increased migration opportunities (Egypt independent, 2018). Public hospitals left for decades without proper investments, have in many instances been dependent on donations (Reuters, 2020). Accordingly, it seems there is a need for structural budgetary changes in order to significantly improve and sustain the public healthcare service. This might primarily include significant investments in the infrastructure of public hospitals and structural changes in salaries of doctors and other healthcare workers. The one-off investment of EGP 8 billion targeted at the healthcare sector is unlikely to be anywhere near enough to address the systemic issues in the sector. What is needed is sustained investment in the healthcare sector. The government announced in April 2020 of a 46% increase of the budgetary allocation to health in the 2020/21 draft budget (EgyptToday, 2020a), which is a step in the right direction but it remains to be seen if this increased level of investment will be sustained once the pandemic eases.

**Gender Perspective**

A more positive and potentially long-term impact of the pandemic and the budgetary response is the adoption of a gender perspective in the COVID-19 pandemic economic response plan. This is evident in the economic stimulus package which provides more incentives for sectors such as tourism and agriculture which have high percentages of women in their workforce; increased payments to women community leaders in rural areas; expansion of the TK programme (80% of the program beneficiaries
are women); and the delaying of loan instalments by the Egyptian Central Bank (70% of loan recipients are women) (EgyptToday, 2020b). Although, these are mostly short-term interventions, the prioritising of women in the design of the interventions signals a more gender sensitive approach to social and economic planning and if sustained could lead to more gender sensitive budgets in subsequent years. If this is the case, it might have significant implications for poverty in Egypt as evidence shows that increasing women’s economic equality reduces poverty for everyone (Muchiri & Nzisabira, 2020). The adoption of a gender perspective by Egypt in its response to the pandemic also sets the bar for other African countries in the pursuit of the African Union’s strategy for Gender Equality and Women’s Empowerment (GEWE) which is aimed at achieving women’s Economic empowerment and sustainable development (African Union, 2020).

5. Conclusion

This paper discusses the impact of Covid-19 pandemic on the Egyptian economy, addresses the budgetary responses, and analyses the short- and long-term implications of polices adopted. We highlight the pandemic’s primary impact on the Egyptian economy as the slowdown in all domestic activities and the significant fall in income from tourism, remittances and Suez Canal which have severely eroded household incomes, pushing millions to live under the poverty line. We describe the fiscal, monetary and social measures adopted in response to the pandemic as well as the ways in which the Egyptian government sought to raise funds to finance its response to the pandemic. We then analyse the social and economic impacts of the Egyptian government’s response. Our analysis highlights how increased borrowing and the attendant increase in debt service obligations squeeze the fiscal space while the levying of Corona tax on salaries and wages has the opposite effect of expanding the fiscal space. Our discussion also highlights the limited effect social interventions, particularly cash transfers, will have in terms of alleviating poverty as well as the negative impact of increasing taxation on poverty levels in the country. In addition, we highlight the adoption of a gender perspective in the response to the pandemic and the potential for building on this to develop a more gender sensitive approach to the budget going into the future as well as the potential for sustained long term investment in the health sector. In summary, while the budgetary responses to the pandemic have provided some economic and social relief, significant gaps still exist, which have implications for poverty and sustainability of the country’s public finances.

References


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