

Evolution of the Budget Deficit and Current Account Deficit in Egypt(1980-2017)

Altahra el sayed hemaya* Asmaa Mohamed Hussein**

Norhan Boshra Mahmoud Ibrahim***

Abstract

Egypt has managed to preserve macroeconomic stability in the period following the revolution, but a broad-based recovery of the economy has yet to set in. Growth has been held back by political and policy uncertainty, security problems, and the global slowdown. Moreover, financial distortions have risen owing to a decline in international reserves and an increase in each of the fiscal (internal) deficit and the current account (external) deficit.

* Professor of Economics and Foreign Trade, Faculty of commerce and Business Administration, Helwan University.

**Lecturer of Economics and Foreign Trade, Faculty of commerce and Business Administration, Helwan University.

***Demonstrator of Economics and Foreign Trade, Faculty of commerce and Business Administration, Helwan University

Therefore, this research tends to analyze the relationship between budget deficit and the current account deficit.

Key words: Budget Deficit, Current Account Deficit

المقدمة:

تمكنت مصر من الحفاظ على استقرار الاقتصاد الكلي في الفترة التي أعقبت الثورة، لكن التعافي واسع النطاق للاقتصاد لم يبدأ بعد. وقد أعيق النمو بسبب الاضطراب السياسي، والمشاكل الأمنية، والتباطؤ العالمي. علاوة على ذلك، ارتفعت التسهيلات المالية بسبب انخفاض الاحتياطات الدولية وزيادة في كل من العجز المالي (الداخلي) والعجز في الحساب الجاري (الخارجي). لذلك يميل هذا البحث إلى تحليل العلاقة بين عجز الموازنة وعجز الحساب الجاري.

Introduction:

In the aftermath of the 1973 war, the world witnessed rapid and profound changes in the economic activity. These changes became noticeable in the mid-1970s, where the Egyptian government adopted a new policy, which is known as the policy of economic openness "Infitah. However, in the post openness era, the performance of the Egyptian economy has been uneven and suffered from significant macro-fiscal imbalances, despite the unprecedented improvement after the adoption of the economic reforms and structural program (ERASP) in 1991.

Furthermore, Egypt has been experiencing a period of political transition since the outbreak of January 25 revolution. This revolution has also carried challenging transition phase faced with low foreign direct investment, high budget and current account deficits, a high debt rate, a high unemployment rate, a high poverty rate, and a low standard of living.

In response to these problems and obstacles in late 2016, the Egyptian authorities launched a homegrown economic program, which supported under the IMF's Extended Fund Facility, to address longstanding challenges in the Egyptian economy.

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Under these conditions which Egypt has gone through, it can be considered as an appropriate case study to analyze the evolution of the double deficit hypothesis. This analysis is to be undertaken the study period (1980-2016) to answer the question of whether these two deficits are positively correlated or not.

The period of study can be divided into four sub periods. The first period is named as post economic openness policy during the period (1980-1990) as it explains the feedbacks of the adoption of "Inftah", while the second period is the economic reform within the period (1991-2000). The third period (1991-2000) might be known as the external shocks period, since during this period the Egyptian economy has exposed to number of external shocks. The fourth period could be named the internal shocks, as this one will show the effect of the Egyptian 25 January revolution on the economy.

Post Economic Openness Policy (Inftah) Period (1980-1990):

Back to the early 1960s, to achieve economic development, the Egyptian authorities had adopted, like many developing countries, "a central planning system" where the public sector dominated all activities in the economy. This context began

with the rejection of any way of occupation and oppression. The development plan had successes to a large extent, but the 1967 war brought an end to such economic achievement. This war left the country with destructions and serious damages, with losses at nearly LE11 billion, or \$25 billion, at the time when the Egyptian pound was worth 2.3 US dollars (Al Essawi, 2007: 78).

This made Egypt concerned about developing the military infrastructure using the public saving to prepare for war. Therefore, Egypt's burdened economy had to launch a major mission for funding and compensating these direct economic losses, and finance replacements for losses in equipment and military infrastructure. The sources of financing were mainly made by the public sector and its heavy industry base that played the greatest role in preparing Egypt for the October War of 1973 after the 1967 war.

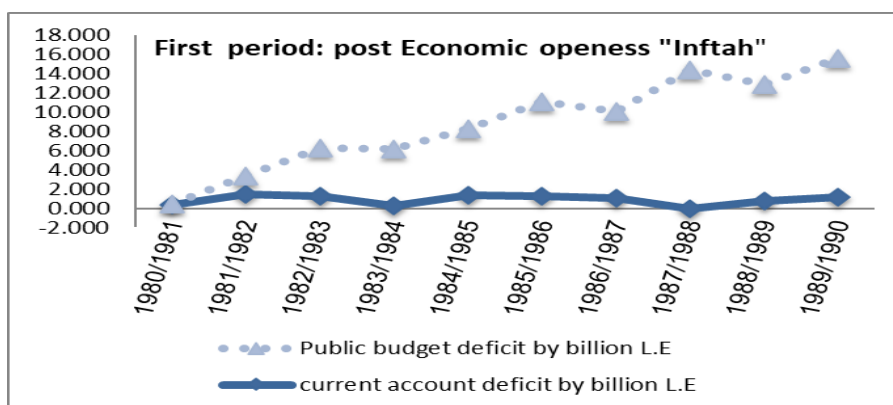
As a result, the economy suffered from recession, investment rates and economic growth declined, and Egypt lost a major resource for foreign exchange and increased military spending. Therefore, to improve the productive efficiency to boost up the economic growth to a desirable level, Egypt has adopted an

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open-door economic policy (infitah), that shrink the role of the public sector, and also the strategy of imports- substitution.

The economic transitions and their effects in the Egyptian economy during this period included changes in the budget deficit and the current account deficit in the period (1980/1990) as it is shown in figure (1). During this period the budget deficit and the current account deficit continued to increase in the same direction in most of the current period. It can also be noted that the deficit in the budget is higher relative to the incurred deficit in the current account.

Figure (1): Public budget deficit and current account deficit in Egypt(1980/81-1989/90)



Source: drawn by researcher using data from CAPMAS

These deficits in the Egyptian economy began to reveal its shortcomings and structural weaknesses as the aim of the openness of promoting the production efficiency to meet the domestic needs and export the surplus had not been achieved.

Firstly, regarding the budget deficit, it grew continuously by percentage change of around 7.9 % on average during the period. But after the mid of 1980s, the budget deficit witnessed more fragilities which will be mentioned earlier.

As mentioned earlier, despite the gained revenues from the openness policy, most of these revenues were directed toward the government expenditure. Since the Egyptian government adopted strong expansionary domestic fiscal and monetary policy to alleviate the losses from the 1973 war. Therefore, higher levels of investment were made in infrastructure, such as electricity and public utilities, transportation, and communications. These expenses generated a net outflow of foreign currency which increased from \$572 million in 1973 to \$4.87 billion in 1981-82, or from about 6 percent of GDP to about 14 percent (Hansen, 1991: 190-200).

It's worth to mention that, the government expenditure contains three main pillars which are the wage costs, subsidy and the

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interest service debt. The wages cost recorded a continuous increase during this period till it reached LE 6.064 billion in 1989-90 with 18.43% of the total expenditure comparing with LE 2.202 billion in 1982-83 with 15.09% of the total expenditure. Similarly, the interest service debt witnessed a multiplication as it increased from 4.33% of the total expenditure in 1980-81 to 10.05% in 1989-90 (Al Essawi , 2007: 782-785).

On the line of such increases in the budget deficit over this period, year 1985/86 witnessed an accelerated deterioration in the economics due to the collapse in windfall revenues following the oil price crash. The price of oil exports reached 13.5 dollar a barrel compared to 32 dollars in 1980. In addition to the downfalls in the worker's remittances which reached 2.7 billion dollars comparing to 4 billion in the previous three years (Al Essawi , 2007: 348).

While the recorded decline of the budget deficit in 1986/1987 was due to the unprecedented decline in the expenditure on the third pillar (direct production subsidies). Such subsidies declined from LE323 million in 1984/1985 to LE68 million in 1986/1987 or from 17% of the government expenditure to

8.3%. Since, this downfall in subsidies was made in response to the incurred distortions from the oil crash. Therefore The Egyptian government took steps aimed at liberalizing the economy: in 1986 the government resorted to giving up part of its support to citizens, by liberalizing the relationship between the government and the farmer and abolishing the agricultural cycle system. (Hansen, 199: 177).

Moreover the year of in 1987/1988, the budget deficit recorded the highest value, as the Egyptian economy was severely shocked by pressures on the main sources of hard currency due to the sharp drop in oil prices and the global recession, which led to a sharp decline in oil revenues, Suez Canal fees and workers' remittances. Also this year witnessed the repayment of some of the previous installments of at least \$ 5.5 billion. On the other hand, the government expenditure, recorded L.E. 30 billion as the highest value during this period. However, the economy grew by 4.4% annually until the late 1980s (Galal, 2012: 100).

With respect to the current account deficit, it witnessed a significant shift by signing the GATT agreement in 1974. Moreover, the Egyptian government issued number of laws to

encourage the liberalization of foreign trade by issuing Law No. 118 of 1975 on the regulation of import and export, allowing the private sector to import besides the public sector and allowing individuals to import for personal and private use. (Hassan,2019,40)

As shown in figure(1), the current account deficit had depressed twice in 1983-1984 and 1987-1988 compared to the rest of the period. In 1983/1984, the trade deficit decreased because of the higher exports of Egypt, as the Egyptian government had signed an agreement to develop and facilitate trade with Arab countries which called "Global system of trade Preferences" (G.S.T.P). This agreement increased the exports with around L.E 8 billion with no change observed in the imports. (Firjani, 2000: 379)

The current account balance started recording deficit again, as Egypt followed a dumping importation "import without currency conversion" during the whole period. This system encouraging the private sector, national capitalism and capitalism of multinational companies by providing them with foreign exchange resources to use them directly in paying for the imports without the need to return to the banking system.

This system tried to compensate these sectors which has negatively affected by the national industry and the public sector (firgani, 2000: 414).

In 1987, the current account deficit decreased one more time because of establishing the free foreign exchange market in May 1987. As before this, Egypt had a two-tiered exchange rate: The official rate of exchange which was LE 0.39 for one dollar and the incentive or so-called parallel rate which was LE 0.68 for one dollar, which assured the necessity of combating currency traders, preventing and eliminating the spread of the black market phenomenon. Therefore, the local currency had been devaluated by 37% and reached LE 2.156 for 1 dollar. This increased the confidence of the foreign investors and increased the exports with higher level than the increase in the imports(Shehata,2012) .

The most remarkable results that emerged from the data and the analysis of the main deviations of the two deficits over most of this period, that there is positive relationship between the budget deficit and the current account deficit. Except in the year of 1987/1988, they move in the opposite direction. Pre- the outbreak of the Gulf War in August 1990, the Egyptian

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economy continued its dependence on excessive and restricted government interventions for external and internal transactions and the dependence on external financing sources due to the weakness and inefficiency of its domestic revenue sources (Galal, 2012:104).

Economic Reform Period (1991- 2000):

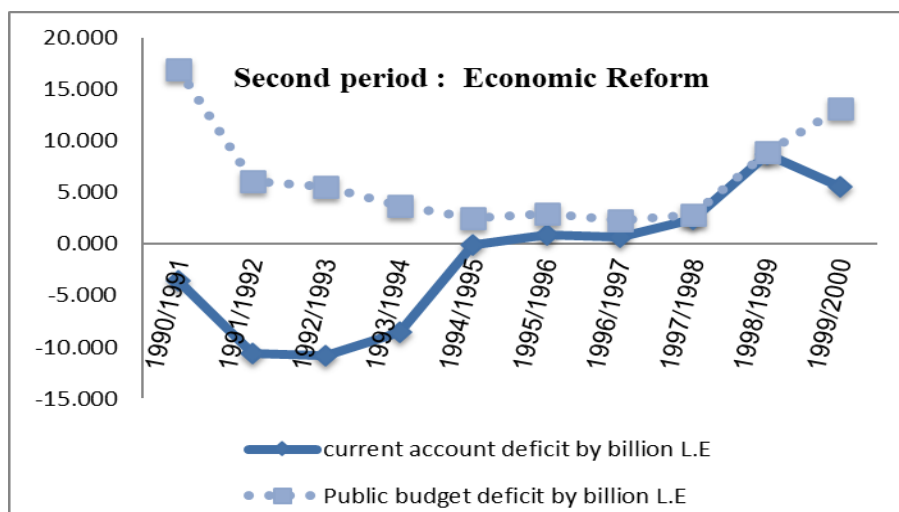
The end of the Gulf war came as a lifeboat for Egypt, as it has brought positive changes in its economy. The Gulf countries, especially Saudi Arabia, the United States and the Paris Club commended for the financial assistance, forgiving or rescheduling its debts to Egypt. These changes made it possible to obtain the required percentage of the hard currency that would enable it to launch a new reform program with the support of the International Monetary Fund and the World Bank in 1991 (Albolbol et al,2004:12).

The year 1991 witnessed a key turning point in Egypt's modern economic history, as the Egyptian authorities concluded a standby agreement with the IMF in May 1991 and a program which had addressed the following: financial reforms, fiscal

policy and budget reforms and finally private sector and trade reforms (Handoussa, 2005: 11).

The favorable results of the stabilization program have been eroded since 1994/1995, as shown in Figure (2). As opposed to the previous period, the current account deficit and the budget deficit witnessed significant improvement after the ERSAP so their behavior will be divided into three transitions. Firstly, the budget deficit showed a declining trend till 1994/1995. While the current account balance recorded a surplus in the same transition. Secondly from 1994/1995 to 1998/1999, they recorded a relative stable balance in both. Thirdly the last two years, there were more deficits running in the two variables.

Figure (2): public budget deficit and current Account Deficit in Egypt (1990/91- 1999/00).



Source: drawn by researcher using data from CAPMAS

With regard to the budget deficit, there was a noticeable decrease in the first four years of this period. The recorded decrease in the public budget deficit was due to higher revenues, on one hand, and lower government expenditure, on the other.

The lower government expenditure was achieved, to a large extent, by the recommended IMF policy measures of the Economic Reform Program of 1991. These policy measures

were mainly directed to decreasing growth rate of wage bill, subsidies, and government investment (Privatization).

The real wage bill decreased from 35.4% in 1987 to 26.5% in 1996. Similarly, expenditure on subsidies in 1992 represented 6.3% of GDP. But in subsequent years, it showed remarkable reduction, falling by more than LE 3 billion to amount to 2.6% of GDP in 1993, and 1.9% of GDP in 1994 and 95. And the government investment decreased from 18.1% of GDP in 1990 to 8.3% over the first four years (Institute of national planning ,2001:98).

Consequently, the average per capita expenditure has declined by around 4.33% on average (1990-1998) compared to positive change over the period after the openness equal 6.24%. Also the average per capita direct subsidy had reduced by 16.08%: while after the openness it decreased by only 5.69% (Al Essawi , 2007:364).

Moreover, the lower expenditure has alleviated the dependence on the external financing. For the total external debt, it experienced decreasing amount from 49.2 billion dollar in 1990/1991 to 26.1 in 2000/2001. This was mainly due to the exemption of many creditor countries to Egypt by about 24

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billion dollar. Therefore, the external debt to GDP decreased from 151% to 23.6%. Consequently, the paid interest service debt became lower (Korayem, 1997: 16).

With respect to the total revenues, the government succeeded to increase the revenues from taxes from 14% in 1990-91 to 19% in 1998-99. This increase was attributed to three main reasons. First, reforming the tax policy that maximizes revenue from local taxes and improving the tax climate, such as broadening the sales tax base (GTS) which rates range from five percent to 25 % with a standard rate on goods of 10 %.(Kheireldein, 1999: 10).

Secondly, the higher revenue gained from the Suez Canal, oil exports, and from the tariff imposed on the international trade which doubled for the first three years from 5.5% of GDP to 10.3% (Al Essawi ,2007,781). This duplication was attributed for the Action on the exchange rate involved unifying the multiple rates that existed in early 1991 by liberalizing the foreign exchange market. (Ikram, 2007: 64).

Thirdly, the establishment of the Social Fund for Development with a grant of 600 million dollars from the European Union, a

number of other donor countries, and the United Nations (Al Essawi , 2007: 350).

By the end of 1997, the budget deficit tended to rise again as the Egyptian economy faced a liquidity crisis. Since the Egyptian economy was exposed to several endogenous and exogenous shocks. Such as the Luxor massacre and the financial crisis that erupted in East Asia and its repercussions most notably the sharp decline of oil prices. The barrel price reached 9.5 dollar. Oil revenues dropped from \$ 2.6 billion in 1996/97 to \$ 1.7 billion in 97/98. Moreover, the attack on foreign tourists in Luxor led to a sharp decline in tourism revenues (Hussein, K., & Noshay, A, 2000: 6). Also, it caused a huge drop on foreign investment by 42% during this period (El Touny, 2005: 496).

On the other hand, the current account balance recorded surplus and relatively balanced account in the period after the reform program as shown in the figure. These unprecedented improvements in this balance were exercised from the taken procedures concerning the program patterns.

The tariff structure was restructured in 1991, where the range of tariffs was narrowed from 0.7-120 percent to 1-100 percent,

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and average nominal protection on manufacturing products and agricultural commodities declined successively from 47.5 percent after the 1986 tariff reform to 24.62 percent in 1997 and further to 22.2 percent in 1999 (kheireldein, 1990: 6).

In 1997, Egypt had faced a severe deterioration in its trade balance after the Asian crisis. The huge increase was because of the growth rate of imports has reached 26.2 percent in 1998. (Hussein, K., & Noshay, A, 2000: 11).

The main inference can be drawn from analyzing the two deficits is that the reform program positively affected both. Moreover, the improvements in the current account deficit extended to make a surplus, while the budget deficit experienced only a tremendous decline. Also, the turmoil in the late of this period negatively affected the two deficits. The budget deficit continued to raise rather the current account deficit decreased again in the last year.

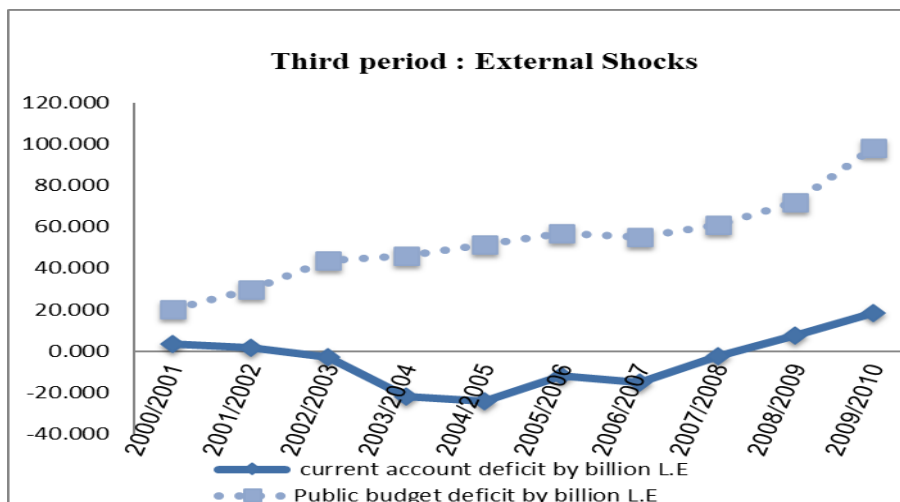
External Shocks period (2001- 2010):

During this period, Egypt's GDP growth rate started to decline largely due to a combination of the lagged effects of these three external shocks, mentioned above, including the emerging

markets crises, the Luxor attack on tourists, and the sharp decline in oil prices in 1997-98. All of these events had severe repercussions on Egypt and sent the economy into a decelerating growth period. In addition to these three external shocks, the world has witnessed other shocks the September 11 attack (2001), the subsequent invasion of Iraq (2003). Consequently, the world in general had an uncertain and unstable political condition and in particular the Middle East region. Moreover, the outbreak of the global financial crises in the second half of 2008 led to slowdown the Egyptian economy due to the global economic recession.

The vulnerability of the Egyptian economy to these external shocks and especially the two deficits will be analyzed using figure (3). This figure shows the behavior of the budget deficit and current account deficit during this period.

Figure(3) : public budget deficit and current Account Deficit in Egypt (2000/01 - 2009/10).



Source: drawn by researcher using data from CAPMAS

This period experienced an accelerating growth in the budget deficit by around 8%, with remarkable increase of the first three years rather a lower trend from year 2003/ 2004 to year 2007/2008, then it increased again in the last two years. While, the current account balance in the first three years was balanced, moreover, it recorded a surplus for the following five years after that it made deficits again.

Firstly in accordance to the budget deficit, the volume of expenditures increased as a percentage of GDP and reached an

average of 31.6% with larger share of wages and subsidies as opposed to the public investment. For public revenues, its percentage of GDP and the percentage of revenue from GDP decreased by 21.9% , as shown in table (2.3) .

The upturn in the first three years was owed to the subsequent world's events, which affected the two sides of the budget. For the expenditure, these events negatively affected the local currency. Therefore, the government has resisted the devaluation of the Egyptian pound by injecting sums from the international reserves into the foreign exchange market, which made shortages in the foreign currency. The foreign reserve decreased from 19.87 million dollar to 11.43 (see table (A.3) in the appendix).

The downfalls in the reserves were accompanied by inflationary pressures on the general price level, as: it increased from 6% in year 2000/2001 to 14% in year 2003/2004 which in turn severely affected the government expenditure (Al Essawi , 2007: 770).

Second reason for the higher spending made by the government was the adoption of expansionary fiscal policies as a reaction to these initial shocks, by clearing of arrears as a stimulus to the

private sector, motivate the domestic consumption and increase in public investment, such as the execution of “Four mega” projects such as Toshka, Al-Salam Canal in Sinai, the Gulf of Suez, and East of Port Said (Hussein, K., & Noshy, A,2000: 9). In the following three years, the overall fiscal deficit on a downward trend reaching 6.8% in year 2007/2008 down from a peak of 9.6% in 2004/2005. These downfalls happened as Egypt changed the direction of economic policies sharply in 2004 focusing on revitalizing the supply side of the Egyptian economy through improving the business climate, The privatization process passed through rapid space and recorded L.E 16 billion (Pérez, 2005: 5).

Also, foreign direct investment peaked to a record of US\$ 13.2 billion or 8.1 % of GDP in 2007/08 up from US\$ 407 million or 0.5 % in 2003/2004, helping the renovation of the capital base, boosting future growth potential and driving investment ratios up to 22.3% of GDP in 2007/08 up from 16.9% in2003/2004 which in turn reduced the imbalances in the budget (Pérez, 2005: 6).

Conversely, the budget deficit further increased after the financial crisis of 2008. The conduct of macroeconomic policy after this crisis had been dictated by the need to mitigate the adverse impact of the global crisis on the domestic economy. Fiscal policy had been expansionary, allowing the overall deficit to rise to 8.1 percent of GDP in 2009/10, more than one percentage point higher than the average in the previous three years. This had been justified as a countercyclical policy to activate the economy, and was driven by higher expenditures due to the stimulus packages that the government implemented in the 2009/2010 budget.

As opposed to the budget balance, a slight improvement in the trade deficit has occurred since 1999-2000. Preliminary figures for 2002-03 show a trade deficit of US \$6.6 billion which is approximately half the trade deficit in 1998-99. This is mainly due to a decline in imports rather than an improvement in exports. The shortage in foreign exchange coupled with the recession, reduced demand for imports. Where, the ratio of merchandise exports to imports has declined from 26.1% to 57.2% between 1998/99 and 2003/04 (Economic research forum, 2004: 15).

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These downfalls occurred as under Egypt's trade liberalization program and in accordance with its (WTO) obligations, Egypt has made progress in reducing tariffs. The Egyptian customs started to implement the invoice-based system for the assessment of import duties on 1st July 2001. On this date the government of Egypt began implementing phases two and three of General Sales Tax Law 11 of 1991, extending value added tax (VAT) to the wholesale and retail levels.

Between 2003/04 till 2007/08 the current account balance recorded a surplus for many reasons. As all foreign exchange generating activities exhibited robust growth during 2004, when the government announced in January the free floatation of the Egyptian currency after having been pegged to the dollar for almost a decade since ERSAP (Egypt human development report 2005, 2005: 107).

Similarly, In September 2004 saw significant tariff reductions lines from 13,000 to around 6,000; the tariff reduction decree reduced the weighted average tariff from 14.6% in 9%. And that, were followed by a second round of cuts in December 2004. (Negm, 2008: 28) .

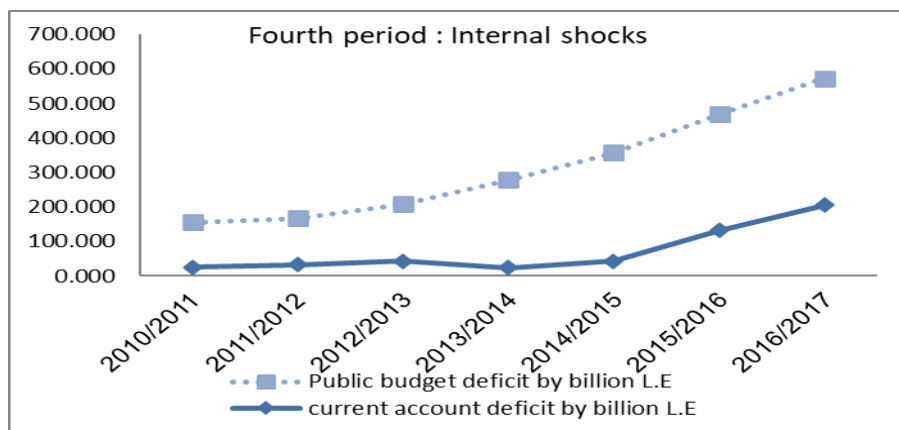
After the financial crisis (2008), Egypt has been protected from

financial shocks but exposed to real shocks in the economy. As, Egypt's financial system is less integrated into the world's financial system than many other countries. This assertion could explain the satisfactory performance of the current account which spanned to record surplus. On the contrary with budget balance, it scored continuous deficit, which, captured the structural inherited distortion in the Egyptian economy.

Internal Shocks Period (2010-2017):

The Egyptian economy has suffered from severe social conditions, such as an increase in the unemployment rate, poverty, and the absence of social justice. Where, the disparity between the rich and the poor increased which resulted from the absence of a regulatory framework, inadequate institutions and political stagnation. Thus far, these problems caused the revolution of January 25 which regarded as a transformative event, both at the political and economic domains. Since the uprising in 2011, Egypt has undergone a difficult transition. Therefore, the January 25 revolution caused pressure on the budget deficit and current account deficit, as shown in figure (4).

Figure (4): public budget deficit and current Account Deficit in Egypt (2010/2011 to 2016/2017)



Source: drawn by researcher using data from CAPMAS

As indicated from figure (4) , the budget balance testified successive increase in the whole period . Additionally, the current account track recorded a slight increase in the first five years, while, it increased more speedy in the last two years.

The overall budget deficit has increased during this period with around 20% compared to 8.5% in the third period (2000/10).Whereas, Egypt's fiscal stance deteriorated further, with the overall deficit peaking at 13% of GDP in FY2013: close to double the ratio that was achieved during the fiscal consolidation period.

Expenditures increased following the January 2011 revolution due to a number of populist measures that the government undertook, including the lifting of the freeze on civil servants' employment, as the government changed the contracts of the temporary employees to make them permanent civil servants, in addition to raising the minimum wage to EGP1200/per month in year 2012. The energy subsidies (fuel + electricity) bill also surged: reaching 7% in year 2013. (Eskander, 2014: 5).

According to the central bank of Egypt, the wages bill increased from L.E 79 billion in 2010/2011 to 184 billion in 2016/2017. Moreover, the paid subsidies have been duplicated, as it reached L.E 202 billion in 2016/2017 comparing to 93.5 billion in 2011/2012.

Many foreign investors stopped on-going investment and some left the country, leading to a net USD 164 million outflow of FDI in the first quarter of 2011. As a consequence, unemployment rate has increased since fiscal year 2010/11, reaching 12.7% in 2012, which is the highest rate in more than a decade (Business climate Review of Egypt, 2014: 10).

On the revenues side, tax revenues dropped sharply with the lower economic activity, decreasing from 14% of GDP in year

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2010 to 12.4% of GDP in Year 2015. Total revenues also declined as the government's property income decreased as well (especially from the oil sector that suffered a big hit following the 2011 revolution), however a surge in "official assistance/grants" in Year 2014 boosted total revenues temporarily.

Tax Reform program applied in 2014 taking the following procedures: (a) a broadening of the tax base, (b) tax on property, (c) 10 per cent tax on capital gains and dividends, (d) additional 5 per cent tax on incomes exceeding EGP 1 million of physical persons and corporate bodies, (v) increase in taxes on alcohol (+200 per cent average) and cigarettes (+50per cent) (EEDC, 2015: 11-14).

With regard to the trade balance, the global economy has suffered from fluctuation and deterioration reflected on the average growth of global merchandise trade, reaching 1% in the first six months of 2016 comparing to: which is the lowest growth rate since the financial crisis in 2009. The Egyptian economy had been influenced by the decline in major countries economic growth forecasts, especially EU countries and USA,

with these countries being Egypt's most significant commercial partners. (Industry and Trade Development Strategy, 2020: 8). Internally, the drop in real economic growth rate and the political volatility directly negatively affected the trade balance as shown in figure (2.4). As mentioned before the deficit in the trade balance could be attributed for either the export or imports volumes.

According to the World Bank indicator, the Egyptian exports declined from 24.8 % of GDP in 2010/2011 to 13.2% in 2016/2017. In addition to the sluggish world performance, other factors contributed to this, including the rise of the Egyptian Pound value against other currencies such as the Euro, lack of hard currency, and significant escalation in Egyptian budget deficit. One of the budget deficit reasons was the increase in salaries that significantly maximized consumption rates, and which were not met by sufficient rise in local manufacturing level, hence leading to a surge in import rates. (World Bank indicator, 2016)

Despite these unfavorable conditions, the Egyptian economy continued to register positive, but very modest, economic

growth, driven mainly by resilient private consumption and buoyant government expenditure. To keep the economy afloat, the government continued to boost its expenditure, despite suffering from declining revenue, raising the government deficit to unprecedented levels. Therefore, in November 2016, Egypt embarked on an ambitious and challenging home-grown economic reform program supported by a three-year Extended Fund Facility (EFF) from the International Monetary Fund worth US\$12 billion. The objectives of the reform program are to address key imbalances in the economy, primarily the external imbalances and the unsustainable fiscal deficit, while achieving the macroeconomic stability that is necessary for sustainable and inclusive economic growth.

Conclusion

The main inference that can be drawn from this analysis is that budget deficit and current account deficit in Egypt over the period of study move in parallel in most of the period of study with short term differences in the degree of responses to the events. Thus, in order to show whether more deficit in the current account resulted from more deficit in the public budget (i.e the double deficit hypothesis verified) .

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