Arab Republic of Egypt

Institute of National Planning

The Role of Fiscal Policy in Achieving Financial Sustainability in Egypt

Scholar Name

Ali AL-Sayed Ali AL-Haron

Master's Degree in Planning and Development

Under Supervision

Prof. Dr. / Abdel Fattah Mohamed Hussein

Professor of Economics

Dr. / Amal Zakaria Amer

Lecturer of Economics

2015

SUMMARY

The interest in the topic of financial stability is due to its close connection to the general budget of the state, which is regarded as a program to achieve specific economic and social goals, as well as a major tool of the fiscal policy tools within the framework of a general plan for economic and social development, The public budget of the state can play a positive role in working to rationalize public spending in addition to its principle roles a tool of financial control and then achieve financial stability, but a deficit in the state public budget and the increase of this deficit leads to a sharp rise in both internal and external public debt to overcome the budget deficit, which leads to the depletion of economic resources and affects financial stability, Thus, financial stability is one of the things that concern economic departments in the developed and developing countries, especially the developing countries within the increasing of the economic crises at the both internal and external level, hence financial stability has become one of the most fundamental goals that the International Economic Organizations and especially the International Monetary Fund and the World Bank seek to achieve for their members to maintain the balance of the global economy.

Accordingly, the study has been divided into three main chapters:
The first chapter:

The theoretical intellectual framework and of fiscal policy and monetary policy, financial stability, this chapter is divided to three basic sections, the first section is the theoretical and intellectual framework fiscal policy and monetary policy, financial stability, while the second section is relation between the financial policy and the Monetary policy, while the third section is the theoretical and intellectual framework of financial stability.

The first chapter abstract:

The fiscal and monetary policy have an important and influential role in financial stability if each of them was used efficiently and effectively, at the end of this chapter the first assumption has been verified based on the use of instruments of fiscal policy and monetary policy may allow the achievement of financial stability, it has proved

the validity of this assumption in case of the efficient use of both financial and monetary policy and the need for full coordination between them.

The second chapter:

The development of the state budget, this chapter is divided to two sections, the first section is the study of the evolution of the state budget in Egypt from (2000 / 2001) to (2012 / 2013), while the second section is the sources of funding for the state budget deficit in Egypt.

The second chapter abstract:

(1) Egypt suffers from a permanent and growing deficit in the state budget during the period covered by the study from (2000 / 2001) to (2012 / 2013), and this may affect the development of financial stability in Egypt.

(2) The budget deficit in developed countries is due to political reasons and this deficit can be controlled as in the United States, and therefore these countries take the principle of flexible budget, while in developing countries, including Egypt, the fiscal policy for development requires using the principle of current surplus in the current budget of the government, which can subsequently achieve the overall balance in the budget, and are often difficult to control the budget deficit treatment.

The third chapter:

The evolution of public debt in Egypt and its impact on financial stability in Egypt from (2000 / 2001) to (2012 / 2013), this chapter is divided to two sections, the first section is the evolution of public debt, while the second section is the measurement of financial stability in Egypt from (2000 / 2001) to (2012 / 2013), with the assessment of the role of policy in achieving financial stability in Egypt

The second chapter abstract:

(1) Through analytical study of the internal and external public debt, found that there is an increase in each of them. After that it was internal debt balance of 245.5 billion LE in (2000/2001) reached 1,238,137 million LE in (2012/2013), as well as high service internal debt of 20 billion pounds in (2000/2001) to 154.3 billion pounds in (2012/2013), as well as the case for debt has increased from $ 26.5 billion in 2000 to 34.3 billion $ during the second quarter of (2012/2013), and this may affect the development of financial stability in general in Egypt.

(2) After the financial stability tests in Egypt for internal public debt, found that Egypt suffers from the problem of financial stability during the period covered by the study from (2000/2001) until (2012/2013), after comparison is made between internal debt growth rate and the interest rate on Treasury bills and between each of the total revenue and total uses found :

* Internal debt growth rate exceeds the interest rate on treasury bills, which means the existence of financial instability and inability to curb state borrowing.
* There is no symmetry between each of the total revenue and total uses of series and even delinquency there is clear and growing from year to year, which means the existence of financial instability.

This was confirmed after the use of indicators to assess the existence of financial stability for the internal debt, which are a tax gap index and the index of total income gap and gap index tax revenue and debt index of initial surplus gap (deficit first), found that there was a case of lack of financial instability for the internal debt.

(3) After using indicators to judge the financial stability for external debt during the period from (2000/2001) until (2012/2013), at the level of individual years it is found that there was financial stability for external debt during the years (2002/2003, 2004/2005, 2005/2006, 2006/2007, 2007/2008, 2009/2010, 2012/2013), and there was a instability financial stability for

external debt during the years (2000/2001, 2001/2002, 2003/2004 , 2008 / 2009, 2010/2011).

Finally, the study has reached a number of conclusions and a number of recommendations to achieve financial stability in Egypt.