

Executive Summary:

Government debt, or what is called the debt of public budget agencies, is the largest component of the Egyptian public debt balance, as the balance of this debt amounted to about EGP ٦,٩ trillion, or ٨٧,٢% of GDP in June ٢٠٢٢. The Ministry of Finance is adopting a strategy to reduce the level of this debt to about ٧٩% of GDP by ٢٠٢٧, by targeting an annual primary surplus in the general budget that ranges around ٢% of GDP. The general budget has already achieved a primary surplus over the past six years, although it did not reach the target percentage.

By analyzing the current policy paper of the developments witnessed by the Egyptian government debt over the past six years and the main sources of debt accumulation during that period, the paper reached several results as follows:

- The primary surplus achieved by the public budget over the last six years, despite its importance, is not sufficient to maintain the sustainability of government debt, as achieving this surplus was associated with a steady increase in the value of this debt and its ratio to GDP as a result of the high cost of borrowing and interest payments Debt, as well as the significant increase in financial operations below the line, which leads to an increase in the accumulation of government debt without affecting the annual budget deficit.
- The increase in the size of government debt and its ratio to GDP was associated with an important shift in the structure of this debt, as the relative share of external government debt increased from ١٧,٧% of the government debt balance in June ٢٠١٨ to ١٩,٢% in June ٢٠٢٢, and it is expected to reach ٢٢,٤% of the government debt stock in June ٢٠٢٣. Needless to say, the increase in the relative share of external debt in the government debt structure in

this way raises the volume of financial risks and sustainability threats facing this debt, especially in light of the instability of the exchange rate of the national currency.

- The large expansion of government borrowing resulted in this borrowing exceeding, for the first time in the history of the Egyptian budget, the volume of public revenues, which could have many economic and social repercussions and effects, mainly:

The continued escalation of frequent waves of inflation to which the Egyptian economy has been exposed since the beginning of ٢٠٢٢, and the consequent great economic and social effects, especially on low-income classes, which places more burdens on the public budget to increase support and protection programs for these classes.

Increasing competition to the private sector over the years of the last decade, which resulted in a significant decline in the share of this sector in the volume of domestic credit from ٤٢,١% in ٢٠١٠ to only ٢١,٨% in September of ٢٠٢٢. Here it is necessary to point out the consequences of the competition of the private sector which has been increased over the last decade due to an unprecedented decline in the volume of its activities and the investments it makes, as the data of the Ministry of Planning indicate a decline in the relative share of the private sector in the total investments implemented, to reach only ٢٦,٢% in the fiscal year ٢٠٢١/٢٠٢٢, compared to ٦٢. ٤% of the total investment in the fiscal year 2011/2012. Here, the current paper notes the risks that may result from continuing on this path. With the increase in the volume of government debt as expected in the current fiscal year ٢٠٢٢/٢٠٢٣

and the coming years, the government may be forced to reduce the volume of public investments, whether they are implemented above or below the line, which in turn will lead, and in light of the continuous decline in private sector investments - Which is estimated to continue declining to reach only ٢١,٤% of the total investments in the plan for the fiscal year ٢٠٢٢/٢٠٢٣ - to a severe shortage in the volume of the total investments implemented, which undermines the path of sustainable economic growth, and in a manner that could have major repercussions and prolonged negative effects. On the sustainability of public debt, both governmental and non-governmental.

Accordingly, the paper proposes a number of necessary measures to maintain the sustainability of government debt and reduce it to the desired level. These measures are based on four main axes: (١) strengthening the path of sustainable economic growth, as the main pillar for preserving the sustainability of public debt, in both its governmental and non-governmental parts, (٢) improving the efficiency of public debt governance frameworks in both its governmental and non-governmental parts, (٣) adopting a package One of the necessary institutional measures to achieve fiscal discipline and raise the efficiency of public spending is (٤) completing the reform and development efforts adopted by the government to raise the efficiency of the Egyptian tax system.