

I.2 .. GOVERNMENT FINANCES

BUDGET EXECUTION: 2001/2002 - 2005/2006¹⁰

Revenues

Revenue implementation (actual revenues as a percent of budgeted or projected revenues) has overall strengthened between 2001/2002 and 2004/2005. The medium-term forecasting of revenues from the different revenue components is currently being enhanced in the newly established macro-fiscal unit with a view to making budget projections more accurate.

Concerning overall budget revenues, there are across the board overestimates of both tax and non-tax proceeds. However revenue execution has improved between 2001/2002 and 2004/2005, with implementation rates rising from 81 percent in 2001/2002 to 93.7 percent in 2004/2005. The execution of tax revenues has similarly improved to 95.1 percent, although customs proceeds weakened in 2004/2005 to 61.4 percent compared to previous years because of tariff reductions that became effective in September 2004.

During the first three quarters of 2005/2006 the performance of customs revenue was stronger, and on track, compared to the corresponding period of last year (77.1 percent versus 45.5 percent) as the tariff reductions were worked into the budget projections. Income tax performance is also stronger, with implemented income tax proceeds recording 69.6 percent of projected revenues compared to 66.2 percent during July-March 2005. The performance of individual tax revenues was particularly strong, yielding 70.1 percent of budgeted individual tax revenues, compared to 51.9 percent in the first three quarters of 2004/2005, indicating the impact of the tax awareness campaign, the elimination of exemptions and consequently improved transparency, compliance and less tax evasion. All these factors served to improve projections of individual tax receipts. In contrast, implemented corporate tax proceeds were lower, standing at 69.8 percent of projected receipts compared to 73.9 percent last year.

Concerning non-tax revenues, after strengthened implementation in 2002/2003 and 2003/2004, revenue execution from the Suez Canal and the Central Bank saw some weakening in 2004/2005. However July-March 2005/2006 saw an improved performance over the same period last year.

Expenditures

Looking at the expenditure levels provided for the past four years, we find that total expenditures executed are largely on track. Some expenditure items are overestimated but only by a small margin. Notable weaknesses are in defense, investment expenditures and other expenditures, which are consistently underestimated. While defense and other expenditures are almost always off track, investment expenditure projections are uneven.

Concerning interest payments, both domestic and foreign payments tend to be consistently overestimated. During the first three quarters of 2005/2006 expenditure implementation overall strengthened compared to the same period of 2004/2005.

The Budget Deficit

While fiscal consolidation is key to achieving a sustainable budget deficit, an equally important challenge on how to generate more revenues and improve revenue projections in order to make more informed expenditure estimates is currently being addressed. Current tax reformation is one step towards that objective. The new macro-fiscal unit at the Ministry is being developed and enhanced to be able to provide a more useful and accurate outlook of the budget, thus improving performance against budget estimates.

¹⁰ Data available for the first three quarters of fiscal year 2005/2006 (July-March, 2006).