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State Budget and Long-term Planning in the U.A.R.

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I. Preface

One can clearly observe that the adoption of central long-term planning and the growth of government interference in economic activities have influenced the development of the budget system in the United Arab Republic. Since the adoption of central planning and the budget is undergoing considerable changes in form and content to reflect the economic policies of the country and the financial aspects of the national plan.

Besides, the relative importance accorded the budget function and the budget role in controlling and carrying out economic activities have undermined its classical role as a tool for balancing government revenues with government expenditures. Instead, and as a result of the increasing importance of the economic role of public enterprises, the budget has become the major financial tool for controlling and executing the national central plan at a number of annual stages.

The national long-term plan is a projected course of action which includes social and economic objetives and the policies, procedures, and programs necessary for achieving these objectives; it is a decision or a set of decisions as to what to be done in order to achieve certain long-term objectives.

And, while the plan objectives are long run objectives the fulfillment of these objectives takes place on gradual annual stages. The budget plays its economic role here and attempts to establish a self balanced annual financial plan to implement the central economic plan.

Accordingly, the relation between the budget and the plan cannot be overlooked. The budget is affected by the plan and in turn affects the plan; the relation between the budget and the plan is a two way relation.

In this paper the writer surveys the way in which the budget of the United Arab Republic is used as a tool for implementing the national plan of long-term economic and social development, and as a tool for establishing annual or short-term financial plans which necessiate the revision of long-term planning objectives.

However, it must be noticed that this paper represents the actual procedures which were used by the Ministry of the Treasury of the UAR in preparing the state budget during the budget years 1965/66, 1966/67, and 1967/68. At that time the writer was given the apportunity to participate in the economic studies which were made for preparing the budget framework and structure. The most pressing problem during that years was the inflation which resulted from the expansion in the utilization of the concept of deficit financing and foreign loans during the first five year national plan. Therefore most of the efforts of the Ministry of the Treasury were directed towards curbing inflation and bringing the UAR economy back to a state of internal as well as external equilibrium. The same problem may not be equally in existence today. Nevertheless, the budgetary tools, procedures and techniques which were used during that years are still applicable today.

II. The State Budget and the First Five Year Plan

The year 1960 witnessed the execution of the first formal five year plan of social and economic development in the United Arab Republic. The general objective aimed at in the initial preparation of that plan was to double the national incom. This required a full utilization of our human and limited material resources. The surplus of labor force compelled us to seek to employ the largest possible number of workers, thereby increasing the domestic purchasing power. This policy was reflected in the budget text in the form of a considerable increase in chapter one which measures the cost of employment.

The employment of a great number of workers required a horizontal expansion in investment projects. These expansions in investment projects were reflected in the budget text in the form of a considerable increase in chapter three which measures the value of gross investment expenditures.

Besides, the Treasury took several measures to control chapter two of the budget text which reflects the government purchases of current goods and services.

During the first five year plan the responsibility of government was extended to the productive units of the economy through the public sector's general organizations. This new responsibility required the government to undertake and finance the major part of investment projects.

Accordingly, heavy reliance was placed upon the state budget as a tool for executing the national plan. The budget was able to exercise some control over the rates of expenditures of the government administration and government business sector. The government became a producer and a consumer and through increasing its expenditures on wages, investments, and purchases of current goods and services it was able to influence and direct the national economy. However, because of our limited financial resources, foreign loans and budget deficits played an important financial role. The Budget had to rely to a great extent on the Central Bank of Egypt and on credit granted by foreign governments and institutions.

III. Evaluation of the Economic Situation

The execution of the first five year plan which resulted in a great expansion in investment and employment financed by a budget deficit, and the dealings with the external world have led to internal and external imbalances in the national economy. These imbalances are crystalized in two major phenomena which are:

1. A continuous deficit in our international balance of current transactions, and our balance of payments, in general.
2. An increase in the purchasing power of individuals which is not matched with an equal increase in the available consumption goods. In other words, the money flows have exceeded the commodity flows and the apparent effect was a continous pressure on prices which led to an average price increase of 4.5% to 8.5% of the base year (1960/1961) prices. This unexpected price increase has led to an inflationary gab.

These bottlenecks or imbalances became the subject matter of an intermediate three year financial plan. The main role of the budget was to bring the economy back to a state of internal and external equilibrium. The extent to which the budget could be used as a financial tool for executing the national plan at that time was measured by the extent to which it can bring the economy back to a state of equilibrium.

IV. The state Budget and the Intermediate Three Year Plan

The purpose of setting up an intermediate three year plan (65/66-1967/68) was to correct the economic and social imbalances resulted from the execution of the first five year plan. These imbalances were external and internal. The budget of the state as a financial tool played an important role.

1. The State Budget and External Equilibrium

By external equilibrium we mean an equilibrium between the available foreign cash resources which are derived or obtained from visible and invisible exports, and foreign loans and credit facilities, and the utilization of these cash resources in the form of commodity imports, invisible imports, and payment of installments of foreign debts. The tool used for reaching this external equilibrium is called the foreign cash budget. The relation between the state budget and the foreign exchange budget is very strong because the state budget is affected by and, in turn, affects the status of the foreign exchange budget.

The projections of government revenues and expenditures are made according to a predetermined level of production. The revenues of the state budget such as taxes and the surplus of the government owned enterprises depend, directly or indirectly, upon the level of domestic production. The fulfillment of production targets depends upon the availability of the foreign currency required for importing raw materials and intermediate goods. And, the realization of government estimated revenues depends upon the fulfillment of production targets. Accordingly, any shortage in foreign currency would result in a shortage in production targets and a shortage in government revenues or financial resources. For that reason the foreign cash factor plays an important role in determining the level of the government budget.

The government budget also affects the foreign cash requirements. Government appropriations for investments and current consumption, and their influence on the level of private consumption determine the foreign cash requirements. This takes place in the following manner.

The government, in its attempt to provide the public with the necessary public services such as health and educational services, has to acquire certain goods and services.

Some of these goods and services are imported and the rest represent a part of domestic production which utilize imported raw material or intermediate goods. Besides, some of the goods and services which the government consumes could be exported. All of these types of government expenditures have considerably increased in the past few years to the extent that they represent now a sizable percentage of the final demand on goods and services. And, since these expenditures have a direct effect upon the requirements of foreign exchange the government budget plays a major role in determining the needs of foreign currency and achieving an external economic equilibrium.

Besides, the considerable increase in private consumption during the past few years required the government to increase the size of imports and such an increase in imports has led by necessity to an external imbalance. Accordingly, it was necessary to use budgetary policies which could limit private consumption by controlling the income available for consumption and absorbing the increase in the purchasing power of individuals. The effect of these policies on the internal equilibrium of the economy will be covered when we discuss the role of the budget in obtaining an internal equilibrium between commodity and money flows.

Finally, it could be said that the government investments by both the government business sector and the government administration represent about 95% of total new investments. These investments place a great pressure on foreign cash requirements because any new investment consists, to a great extent, of imported equipments and intermediate goods and services. Accordingly, it is necessary for the budget to control the level of new investments.

This brief account shows how the state budget affects and is affected by the foreign cash budget. Accordingly, it became necessary for us to start our budget estimates with a realistic projection of the foreign cash resources and to plan our needs accordingly. This means that the foreign cash budget is regarded as the foundation of the state budget and the controlling factor in planning the levels of production, consumption, and investment.

Since the foreign currency situation affects most of our plans the Ministry of the treasury and the Ministry of the National Economy start the budgeting process with a projection of the export capabilities in order to determine the size of foreign curency which could be made available for our importing needs.

Our export estimates are divided into commodity exports and invisibles. Commodity exports consist of agricultural and industrial goods. The main components of invisables are the Suiz Canal revenues, and revenues, from tourism.

<u>Anticipated Receipts from Exports</u>

a) Commodity exports — Agricultural exports
Industrial exports

b) Invisibles — Suiz Canal
Tourism

After the anticipated receipts are determined, a projection is made of the unavoidable foreign liabilities and invisibles which reduce the receipts available for commodity exports. The difference between the anticipated receipts and the unavoidable payments represent the estimated net cash resources. To this last figure we add the amount of foreign loans and credits which we expect to receive during the budget year. The result gives us the final balance of foreign currency available for commodity imports. This process could be shown as follows:

Resources of the Foreign Cash Budget

Anticipated Receipts from exports	xxxx
less - unavoidable foreign liabilities	x
	xxx
less - Anticipated invisibles	x
cash balance	xx
plus - Expected loans and credits	x
Foreign Resources available for commodity imports	xxx

After the foreign resources are determined we turn to the utilization of these resources. The next step is to determine our needs from imports. These imports are divided as follows:

a. Commodity imports required for private consumption.
b. Commodity imports required for government consumption.
c. Commodity imports required for investments.
d. Commodity imports required for exports.

In other words, we estimate the commodity imports necessary for each component of the final demand. For that reason, we have to determine in the same time each component of the final demand taking into consideration the amount of foreign currency available for commodity imports. Each component of the final demand consumes a given amount of foreign currency. Therefore, the determination of the optimum level of final demand and its components is a necessary step for estimating the requirements of commodity imports. When these requirements are determined we start to balance the import requirements with the resources available for commodity imports in order to reach the state of external equilibrium. The problem which always exist is that our needs of commodity imports exceed the available resources. Therefore, we have to review the planned level of final demand and its several components till we reach the state of equilibrium. In attempting to control the elements of final demand we exclude the imports requirements for exports because these exports represent one of the foreign cash resources. Therefore, any reduction in the level of exports would result in reducing our capabilities for obtaining foreign cash. The Pressure is then placed on the levels of private consumption, government consumption, and investment. We must control these three elements of final demand in order to balance our import needs with the available resources. And, any diminution in the elements of final demand would affect the state of internal equilibrium. Therefore, our next step in the budget process is to review our estimates of the final demand at a given level of prices and income available for final consumption.