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Fiscal Policy and Economic Stability in Developing Economies: A Case Study of Egypt

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Abstract

This research seeks to delve into the indispensable role played by fiscal policy in establishing and sustaining both economic stability and inclusive growth in developing economies, and the case of study is Egypt. As inequalities between the many global economies grow, so have fiscal interventions become a way for governments to make certain that everyone in a given economy has access to all resources equally and construct a long-term balance in macroeconomics. This paper seeks to analyze the channel through which fiscal instruments can increase growth, reduce poverty, and correct structural imbalances- through taxation, government expenditure, and public investment. It employs an extensive review of the existing literature and of aggregate macroeconomic data to assess the way fiscal policy frameworks have evolved and the effects they have had on stabilization.

Egypt also shows how these fiscal reforms are used in real terms in the post-2016 transformation in controlling deficits, reforming subsidies, managing debts, and being socially protective. This study identifies the channels through which fiscal policy impacts labor markets, physical and human capitals and productivity. It leads to policy recommendations for integrated efficient fiscal expenditure, sustainable public debt reduction, and inclusive economic outcomes. In the scope of subsequent evidence provided, the current research has, underpinning, contributed to a formative comprehension of the fiscal facet as a stimulus for stability and inclusive growth in emerging and developing economies.

Keywords: Fiscal Policy, Economic Stability, Inclusive Growth, Developing Economies, Egypt, Public Finance, Resource Allocation.

1. Introduction

Fiscal policy has become a key element of macroeconomic management and public finance, both in theory and practice. According to classical theories in public finance, largely based on Musgrave's three-function model, fiscal activities of government are held to perform three functions: stabilization of the economy, allocation and redistribution of income [1]. Its main function is to keep employment high while prices remain stable, redistribution relating to an equitable or just distribution of income, and allocation toward the efficient-use-of-resources function [1]. Moreover, Keynesian economics holds stabilization as the primary objective: an active governmental stimulus intervention through spending and taxation is often necessary to uphold aggregate demand and pull the economy away from economic downturn [2]. According to Keynesian philosophy free markets do not guarantee that full employment will be maintained so the fiscal policy may be used to smooth the cycles of economic activity and avoid serious and prolonged recessions [2].

Low- and middle-income countries have narrow tax bases and limited fiscal space to conduct counter-cyclical policies for development. For example, as recently as 2020, close to half of the emerging market economies had a tax-to-GDP ratio under 15 percent, the ratio below which most scholars regard development sustainability as endangered [3]. Under such conditions of a very limited revenue base, governments cannot finance ordinary expenditures and must resort either to external borrowing or to money creation. Thus, fiscal policy, originally intended to be countercyclical, is often procyclical. Even though many developing countries went on stimulus during the global financial crisis of 2008–09, their fiscal buffers have been almost entirely eroded since then [4]. Expansionary fiscal policy, therefore, cannot be used by policymakers in these countries in the face of constraints set by either high borrowing costs or investor skepticism about debt sustainability-- or the growth of inflation pressures [5].

Apart from the macroeconomic constraints, developing countries must use fiscal policy also to engender inclusive, equitable growth; this is fraught with great difficulty. Yet, rapid economic growth in the developing world is worryingly associated with widening income gaps and persistent poverty [6]. Unlike advanced economies with great social safety nets, developing nations are limited in terms of resources but have urgent needs in the sphere of inclusive growth [6]. The fiscal policy is expected to stabilize short-run fluctuations but also to finance long-run development (infrastructure, education, and health) and redistribute income or social protection. Hence, most low-income countries rely on regressive consumption taxes (for example, VAT) and have fewer tools for progressive taxation or targeted transfers, curbing the full potential of fiscal policy in redistribution [5]. In addition, weak institutions and budgeting processes may prove to be a barrier to optimum performance by public resource allocation.

Against this backdrop, Egypt is a meaningful and instructive example showing how the developing economy exercises fiscal policy in achieving stability and growth amid constraints. In 2016, the government embarked on a comprehensive IMF-supported reform program designed to correct acute fiscal and external imbalances. The main features of the reforms were the introduction of VAT, gradual phasing out of subsidies, restraint on wage growth in the public sector, and liberalization of the exchange rate [7]. Those reforms were designed to basically restore macroeconomic stability. Initially, the onset of the currency float led to a sharp rise in inflation, which took it beyond 30% in 2017. However, by 2018-2019, GDP growth once again exceeded 5%, the primary deficit shifted to surplus, and public debt-to-GDP ratios started to fall [8]. Inflation likewise fell back to single digits in

2019, with the IMF declaring that macroeconomic stabilization had been achieved in Egypt by then [8]. Meanwhile, social protections were expanded, such as Takaful and Karama, to lessen the plight of the vulnerable groups [9].

The advances were halted by the level 3 crises of COVID-19 and world price shocks in 2021–2022. In trying to handle this crisis, Egypt, just as any developing nation would probably, had to increase expenditure, which, in its turn, pushed once again the fiscal deficit and public debt onto an upward trajectory. Inflation soars upward of 40 percent by the year 2023, while the Egyptian pound sees massive depreciation-a fresh set of corrosive macroeconomic pressures [10]. These events give credence to the fragility of macroeconomic stability in these developing countries and also indicate the persistent need for structural reforms and fiscal resilience.

Therefore, drawing upon the above-mentioned background, this paper seeks to assess the role of fiscal policy in providing economic stability and equitable growth in developing economies, with special attention to Egypt's recent experience. The analysis will address the following questions: (1) positioning Egypt's fiscal trajectory within broader theoretical frameworks; (2) exploring the hindrances confronting developing economies; (3) considering Egypt's fiscal reforms since 2016 in terms of design and outcomes; and (4) drawing lessons and policy implications for other developing nations. This study adds to the literature on fiscal policy as a stabilizing and income redistribution mechanism for economies undergoing structural transformation.

Research Question: What macroeconomic stability and equitable growth fiscal policies can be strengthened in developing economies, and what lesson can Egypt's post-2016 reform hold for this?

2. Literature Review

2.1 Theoretical Foundations of Fiscal Policy

The development of early economic theories provided an array of technical tools and methods to approach fiscal policy's role in the economy. According to Keynesian economics, active fiscal policy should be mainly used to maintain aggregate demand. During contractions, increased spending or tax cuts work to increase aggregate demand and output (the multiplier effect). Fiscal contraction, however, would serve to cool down prices in situations where the economy is overheating [11]. Therefore, one usage of budgets countercyclically stood far away from the hands-off laissez-faire approach, thus offering the perspective that government budgets can be manipulated for full employment and economic stability.

Within the sphere of public finance, Musgrave proposed three essential aims for fiscal policy [12]:

- **Macroeconomic stabilization:** using government spending and taxation to smooth business cycles, maintain high employment, and control inflation.
- **Income redistribution:** using progressive taxation and social transfers to bring about a more equitable distribution of income and wealth.
- **Resource allocation:** uses intervention to guide resources toward their most efficient uses when markets fail to provide public goods and correct externalities.

Musgrave's 1959 framework forms the cornerstone of fiscal theory and is regularly cited in more modern fiscal policy literature. The stabilization function includes short-run demand management and the long-term sustainability of public finances (so that debt and deficits remain manageable and do not themselves become a factor of instability for the economy). On the other hand, the allocation function seems to indicate government intervention in ensuring an outcome better than the private market could provide when it comes to such goods as infrastructure, education, or healthcare, thereby uplifting an economy's productive potential. The distribution function is the basis for using fiscal instruments to reduce inequalities or poverty, depending on societal preferences for equity. Theoretically speaking, such considerations paint fiscal policy as a multitasking instrument that is expected to balance objectives for growth, equity, and stability.

Modern contributions have evolved fiscal theory. One such idea was given by Abba Lerner in the 1940s, in proposing "functional finance," whereby fiscal policy should work for full employment and price stability and not for balancing budgets-a notion supported in Modern Monetary Theory (MMT). MMT scholars defend the idea that sovereign governments borrowing in their own currency have greater fiscal space to finance deficits for growth and employment, with inflation (rather than insolvency) as the main constraint [13]. As Kelton (2020) [13] explained, thereby, the same understanding opposing deficit limits challenges the debate on how much fiscal stimulus developing economies can undertake without destabilizing themselves. Thus, contemporary fiscal theory is the combined result of Keynesian demand management and the concerns about sustainability and structural reform. These changes are jointly sometimes called the 'modern fiscal consensus,' a thinking that majorly recognizes fiscal policy, along with monetary policy, as the chief lever for economic performance.

2.2 Fiscal Policy and Macroeconomic Stability

One principal fiscal policy argument points towards promoting macroeconomic stability by dampening fluctuations and to whichever extent is feasible, preventing fiscal crises. This, in practice, means the application of countercyclical fiscal policy – shedding expenditures or tightening fiscal policy through booms and laying out expenditures and becoming more expansive during recessions to smooth out output volatility. Empirical studies argue that developed economies tend to implement countercyclical budgets - or at worst master acyclic budgeting - provided they have stronger institutions and greater access to financing. Developing economies, meanwhile, have traditionally been beset by procyclic fiscal behaviors (increased spending during booms and cutbacks during recessions) [15][16]. Frankel, Vegh, and Vuletin (2013) further found that for most emerging markets, being trapped for a long time into procyclical behavior was a result of limited borrowing constraints paired with weak budget institutions, although a few have "graduated" to a countercyclical stance in recent years with performing institutions [15]. The MENA region corroborates this finding: governments tend to be procyclical in their expenditures, while revenue volatility and external financing conditions constrain them, a situation made worse in countries with weak governance and a higher risk premium. Hence, fiscal stabilization appears contingent on both fiscal space and institutional quality.

The fiscal multiplier brings about stability by linking fiscal policies. A major point of disparity in the economic literature is the multiplier's magnitude across advanced and developing economies- much bigger for some authors in developed countries and negligible in developing nations according to others. Hory (2016) shows that in emerging market economies, fiscal spending multipliers are close to zero in the short run but around 1 (or higher) in advanced economies [14]. Lower multipliers in developing countries are purportedly due to higher import leakages (a large share of the incremental demand is on imports), limited monetary accommodation, and weaker financial systems [14]. This would imply that the expansionary fiscal policy would have diminished immediate output effects in developing contexts, although it can still exert stabilizing effects if well timed. State-dependent effects of fiscal policies have found increasing attention in recent years: Ramey and Zubairy (2018) and Wang et al. (2017) summarize that fiscal stimuli have larger multipliers in recessions or when interest rates are at the lower bound, and smaller multipliers during expansions or high-debt environments [16][15]. These considerations become even more relevant in developing economies like Egypt while calibrating fiscal responses to shocks so as not to compromise investor confidence.

Another edge of stability concerns fiscal sustainability. Sustained large deficits and mounting public debt can destabilize an economy by causing inflation, crowding out private investment, or triggering debt crises. So, in effect, treatment of debt at sustainable levels has become a part of the stabilization role of fiscal policy. There exists a debate concerning how high debt can climb before it constitutes a real danger, with more traditional views advocating caution once the ratio to GDP crosses certain thresholds. But latest analysis of Blanchard (2019) opines that, if interest rates stay lower than growth rates, higher debt levels might even be sustained by advanced economies without impairing their stability [15]. The adoption of a more permissive view of public debt has revived the debate on fiscal space, which is quite useful for developing countries in need of investing for growth but, historically, has been subjected to higher borrowing costs. Most experts concede, however, that a cautious fiscal framework like medium-term budget planning or a fiscal rule would help anchor expectations and prevent instability from finding its way into the fiscal policies themselves [13]. For example, some emerging markets have relied on fiscal rules - such as balanced budget requirements or debt brakes - to counter procyclical tendencies and safeguard their credibility, although the effectiveness of those rules vary and must allow sufficient flexibility to undertake countercyclical action in downturns [13][5].

Important lessons have also been drawn about fiscal policy's capacity to stabilize an economy since the global financial crisis of 2008 and later faced with the COVID-19 pandemic. During the 2008–09 crisis, many advanced and emerging economies launched stimulus packages to avoid deeper recessions. Austerity, however, hit stride in Europe in the 2010s. Stockhammer et al. (2019) document that, whereas in the initial phase of 2008–09 all countries responded in an expansionary fashion, fiscal stances diverged afterward, as the US, UK, and Germany kept a moderate stimulus or neutral stance, while Greece, Ireland, and others embarked on harsh fiscal-contractionary episodes having negative effects on demand [6]. The combination of fiscal contractions and recessions in these latter countries is a particularly strong illustration of how premature fiscal tightening can work against recovery [6]. In contrast, developing countries with stronger balance sheets (e.g., China or some Gulf states) were able to continue stimulus, thus aiding accelerated recovery. More recently, those views were further solidified by the unprecedented fiscal expansions implemented during the pandemic in 2020, averaging just over 6% of GDP in discretionary measures worldwide [16]. Simultaneously, these expansions placed public debt at a record high in many countries, thus bringing into question exit strategies from fiscal decisions as well as risk management of fiscal funds (e.g., building buffers in good times to use in bad times). In brief, since 2015, the literature has affirmed that countercyclical fiscal policy can stabilize output and employment, But it has also presented barriers in developing countries and the importance of maintaining fiscal health to keep fiscal maneuvering room.

2.3 Fiscal Policy, Inclusive Growth, and Inequality

In the view of IMF [3], fiscal policy, in the short run, ensures macroeconomic stabilization. In the long run, however, it can be utilized to promote inclusive growth, which needs to be broad-based and inclusive in alleviating poverty and inequality. In Musgrave's framework, this corresponds to the distribution function of fiscal policy [2]. Governments can affect how income is distributed through tax policy (e.g., progressive income taxation, inheritance, or wealth taxes, removal of regressive subsidies) and expenditure policy (e.g., social welfare programs, and public spending on education and health). Theory often states there may be a trade-off between equity and efficiency, but contemporary literature observes that appropriately designed fiscal redistribution can enhance social outcomes without significantly harming growth [10]. High inequality itself may affect long-run growth adversely by hindering social cohesion and human capital development, which presents the economic rationale for fiscal interventions to build an inclusive economy.

After about the mid-2010s, some studies were undertaken about the extent to which fiscal policy can curb inequality and help marginalized groups. Much redistribution is accomplished through taxes and transfers in advanced countries: for example, IMF studies have shown that in advanced OECD countries, direct taxes and cash transfers can reduce income inequality by almost one-third on average, as measured by the Gini coefficient [8]. Fully three-quarters of this reduction inequality is affected by way of transfer payments (pensions, unemployment benefits, child allowances), leaving the remaining one-quarter for progressive taxes; in contrast, in developing countries, reduction of inequality through fiscal policy is only nominal [8]. Most low- and middle-income countries subsidize indirect taxes heavily and have weak social safety nets, due to which, generally, their fiscal systems manage to lessen the Gini coefficient by only a few points, if not more [8][10]. For example, Latin American and MENA countries traditionally used generalized price subsidies (on food, fuel, etc.) rather than welfare-oriented transfers, which cost too much and are not as progressive-but this is now changing with reforms in countries such as Egypt and Jordan that aim to restructure subsidies toward direct transfers to the poor [11]. Literature has reiterated that improving public spending composition (towards health, education, and targeted anti-poverty programs) and making taxation more progressive are among the key steps toward inclusive growth in any country [9][10].

2.4 Fiscal Policy and Resource Allocation for Growth

Fiscal policy, in its turn, also affects greatly the resource allocation in an economy, with heavy consequences on long-term growth and efficiency. Some order must be established in this approach to fiscal policy depending upon market failures and public goods provided, as mentioned by Musgrave [2]. On the one hand, a government, when it designs spending choices, can direct resources toward infrastructure, education, healthcare, and productive activities that the private sector might not adequately provide. Therefore, its taxation policy could discourage or encourage certain behaviors, thereby determining the allocation of economic resources among sectors and uses.

Among the chief channels for public investment theory and evidence points toward well-conceived public investment, raising an economy's productive capacity and potential growth rate. For instance, the construction of a transport network, power grids, and communication infrastructure can lower costs for businesses and, hence, attract private investment. An IMF policy paper (2015) analyzed efficient public investment in infrastructure and concluded that the payoff from such investment is high, noting that it significantly raises output in the long term and, if the economy is slack, also in the short term [7]. Estimates show higher-than-1 public investment multipliers in many cases, mostly when projects are not wasteful and are financed in a sustainable manner [7]. Infrastructure deficits are often cited by development economists as a growth-bottleneck in areas like South Asia and Africa and, thus, fiscal policies that emphasize capital expenditure in these regions could improve the allocation of resources by remedying several important gaps that would not otherwise be addressed by the market (due to high upfront costs or significant externalities). Simply spending more, however, does not always heal all ailments, quality and efficiency in investment matter much more. Knowing well from research on public investment management, countries with the best appraisal, selection, and execution of public investment projects get a much higher growth impact per investment dollar, versus those with lackluster governance in which the gross wastage or outright diversion of funds are only too common events. This has prompted global institutions to suggest new arrangements in public financial management, with scarce fiscal resources deliberately pushed towards productive uses [7][11].

Fiscal policy also affects the allocation of resources through the tax system. Tax incentives or disincentives can alter behavior and the allocation of labor and capital. For example, high corporate tax rates can deter private investment or push it into the informal sector, whereas well-designed tax incentives for R&D or small businesses can stimulate entrepreneurship and innovation. De Mooij (2011) documents how tax biases (e.g., preference for debt financing over equity) can redirect resources in the financial markets and suggests that economic performance can be improved through efficiency-biased or neutral tax reforms [32]. One of the most common issues in developing countries is how to broaden the tax base without deterring activity too much: this involves restricting excessive tax loopholes and holidays and potentially cutting marginal rates to encourage investment and compliance. Taxation policy to regulate resource allocation also entails solutions to negative externalities – i.e., the imposition of carbon or pollution taxes to internalize environmental costs, which can reallocate resources to cleaner technology and sustainable use. These budget interventions are coming to be regarded as win-win, making allocation more efficient (by placing the right price on external costs) and pursuing long-run development goals.

Another allocation issue in many developing countries has to do with the composition of government expenditures between current consumption and investment, and across various sectors. Research has revealed that many low-income and developing countries go so far as to absorb more than half of their budget for wages, subsidies, and other current costs, leaving a relatively small amount for capital investment or upkeep of infrastructure [11]. Such an allocation is detrimental as short-term needs are infinitely prevalent and always taking precedence over long-term growth-inducing expenditures. For example, energy subsidies have devoured significant amounts of fiscal resources in parts of MENA and South Asia regions, resources that have frequently outstripped public investment in education or health. By rewarding excessive use of fuel, these subsidies distort allocation and shrink the fiscal room for more productive expenditure. Recent studies and policy papers have gone on to recommend that expenditures be reallocated from the generalized subsidies to targeted transfers and development projects to improve equity and free up resources for growth priorities [11][10]. One concrete illustration is Indonesia, in 2015, when it cut fuel subsidies and diverted the savings to infrastructure and social programs, a process the World Bank and IMF recognized as enhancing the efficiency of public expenditure.

In these countries, efficient resource allocation through fiscal policy is essential for sustained growth avenues. In Egypt, the government was involved heavily in the economy, and fiscal policy was used to direct resources to certain sectors, such as public infrastructure, housing, and food subsidies. In some instances, however, the policies may have had an adverse effect on fiscal allocation; for instance, energy subsidies and public-sector employment were overemphasized, leaving fewer resources for private sector credit and investments in high-growth areas. According to an IMF report on Egypt, before the reforms, capital allocation was often inefficient, with relatively low returns on investment and under-utilization of labor, thus translating into slow growth and job creation [11]. Hence, if fiscal reforms can remove distortions by phasing out inefficient subsidies, as Egypt started doing after 2016, and by improving the business environment for the private sector, they will be able to revive the flow of resources to the more dynamic sectors of the economy [11]. Development theory suggests that economic transformation is facilitated by the state: using fiscal instruments to divert resources from low-productivity applications (bad subsidies or inefficient public enterprises) towards high-productivity uses (infrastructure, education, or enabling private entrepreneurship). The literature points out that if such reallocation is done correctly, it increases both the growth trend and inclusiveness of growth, as investments in human capital and infrastructure usually do help large segments of society over time.

2.5 Fiscal Policy in Egypt and Comparable Developing Economies

Research explores the fiscal policy efficiency through empirical studies which analyze the performance of emerging markets including Egypt within the MENA and South Asian regions. The literature provides essential knowledge regarding how governments have deployed fiscal tools to achieve economic stability and growth during periods of financial constraints and institutional weaknesses. The research highlights common challenges alongside important policy insights which can help shape Egypt's future economic strategies.

Comparative studies have shown that fiscal policy produces different outcomes across developing nations. A study conducted by Guruge et al. (2018) analyzed the economic growth effects of fiscal policy across India and Sri Lanka. The study results showed that India experienced substantial short-term economic growth from its fiscal expansion while Sri Lanka did not. The study authors explained that India’s stronger economic base with more variety enabled it to benefit more from fiscal stimulation. Sri Lanka achieved some success because it faced both greater external risks and lower fiscal resources.

The analysis of numerous economic studies highlights the distinct performance of fiscal policy across countries within the MENA and South Asian regions. The studies show how fiscal instruments work together with government stability measures to stabilize economies while promoting economic expansion under both financial and institutional constraints. The comparison between different countries reveals common obstacles alongside essential training that could assist Egypt in establishing its future policies.

The effectiveness of fiscal policy in stabilizing economies with financial constraints and institutional challenges remains a subject of study through multiple research papers. The study by Guruge et al. (2018) evaluated the fiscal policy impact on economic growth through their analysis of India and Sri

Lanka. The research discovered India's economy experienced substantial short-term growth from its fiscal policy expansion while Sri Lanka's economic growth remained unchanged. Egypt's economic situation benefits from this comparative analysis since the country encounters the same external and budgetary challenges as the other nations. The research shows that economic composition together with external capabilities directly affects the effectiveness of fiscal measures.

Perhaps the second most important study, by Saqib & Aggarwal (2017) analyzed the impact of fiscal and monetary policies on growth in Pakistan. Focusing on the years from 1984-2014, they measured the impact that both policy areas have on increasing the country's GDP growth (the total amount of goods and services produced in a country). When fiscal policy is pitted against monetary policy, specifically changes to monetary policy, like interest rates and money supply, monetary policy arguably had a much greater effect overall. This begs the question of why fiscal policy alone may not be sufficient to spur growth, perhaps due to poor-quality spending or crowding out private investment. The solution, say the authors, is a more coordinated approach with fiscal and monetary policy working in tandem to improve outcomes. They argue that fiscal policy should be more prominent if it's aimed at addressing structural issues, such as a lack of capital or underutilized factors, such as investing in infrastructure to relieve capacity constraints. For Egypt, which suffers from some of the same issues as Pakistan, such as large levels of public debt and transitory inflation, the biggest takeaway is that fiscal stimulus is effective in boosting growth, but it's more effectively used in conjunction with solid monetary management and structural reform. Boosting the productivity of government expenditure has been at the centre of Egypt's latest reforms.

Focusing further west in the MENA region, Chugunov and Makohon (2019) offer an insightful overview of fiscal strategy in transition economies that can inform fiscal policy in developing countries seeking economic stabilization. [13] While their research focuses on Ukraine (a transition economy), they make a clear difference between advanced countries and emerging economies in terms of fiscal planning. As they rightly point out, advanced economies often use the output gap as a touchstone for implementing countercyclical fiscal policy – i.e., adjusting the level of spending to maintain the economy around a full employment – while many developing or transitioning economies are still installing the apparatus (e.g., medium-term budget frameworks and independent fiscal councils) required to execute these strategies in practice [13]. The authors highlight the importance of a well-designed medium-term fiscal strategy in ensuring macroeconomic stability. By budgeting over a multi-year horizon and establishing explicit debt and deficit targets, governments of EMDEs can manage volatility more effectively and keep fiscal policy in line with growth objectives [13]. This wake-up call comes at an appropriate time for Egypt that has already committed since 2016 to a medium-term fiscal consolidation plan to lower public debt and generate fiscal space for priority spending. The Ukrainian experience, as described by Chugunov and Makohon, further emphasizes the role of fiscal institutional capacity – i.e. robust treasury operations, credible budget processes, and budgetary transparency – in delivering on professed fiscal objectives. In short, sound fiscal governance is a prerequisite for fiscal policy to contribute to stability and growth, a finding that rings true across our developing country case studies.

Within Egypt itself, recent years illustrate both the potential and limitations of fiscal policy. Following a period of turmoil and large deficits in the early 2010s, Egypt undertook significant fiscal reforms starting in 2016 under an IMF-supported program. These reforms included introducing a value-added tax, cutting energy subsidies, and restraining the public wage bill, alongside social measures like expanding cash transfer programs. The result was a marked improvement in Egypt's macro-fiscal indicators: the budget deficit fell from over 12% of GDP in 2016 to around 8% of GDP by 2019, and public debt which had exceeded 100% of GDP began to decline [11][17]. As noted by Lipton (2018), by 2018 Egypt had "restored macroeconomic stability and market confidence – growth has resumed, inflation has fallen, and the public debt ratio is expected to drop for the first time in a decade" [17]. This stabilization provided a platform for economic recovery – indeed, growth accelerated to about 5% annually pre-COVID, one of the highest rates in the region. However, observers also stress that the quality of growth and its inclusiveness remain ongoing challenges. Despite the fiscal consolidation, unemployment and poverty rates in Egypt have been slow to improve, indicating that the benefits of macro stability have not yet fully translated into broad-based gains. The IMF and World Bank have pointed out that the next stage for Egypt is to leverage its now-stabilized fiscal position to spur inclusive, private-sector-led growth – for example, by increasing public investment in infrastructure, education, and health, and by further reforming the tax system to be fairer and more supportive of small and medium enterprises [17][11]. In other words, having achieved a measure of stability, fiscal policy in Egypt should pivot towards its developmental role, catalyzing job creation and human development.

Peer economies in the MENA region like Jordan and Morocco have followed a similar path: both started the decade with high fiscal deficits, implemented consolidation and reform measures (mostly under control of IMF programs), and managed to return to fiscal health while still facing high youth unemployment and inequality. Research related to these emerging economies usually emphasizes the challenge of keeping social support during fiscal constriction and the need for sequencing reforms correctly (e.g., rolling out targeted cash transfers before eliminating subsidies to shield the impoverished). 11 The overall lesson from these types of case studies is that credibility and public buy-in are essential to fiscal policy effectiveness. If citizens have confidence that fiscal sacrifices (whether taxes or body blows to intensity-killing subsidies) are employed wisely to forge a brighter economic future, then the hard policies have the chance to really succeed. This was perhaps most evident in Egypt's recent reforms – though painful, these went hand-in-hand with a strong communications effort and more than 200 offsetting social measures, ensuring the public stayed on side and reform momentum continued. Peer-to-peer learning between countries like Egypt will be essential here, exchanging best practices on designing fiscal adjustments that stabilize the economy while limiting social hardship, and how to redirect these funds towards high-impact investments that provide the biggest bang for the buck in increasing quality of life for the general population.

2.6 Recent Debates and Gaps in Literature

The now much richer literature on fiscal policy in developing economies has opened many discussions and pointed to many gaps for future work. One of the disputes that has marked this period is the tension between calls for fiscal responsibility and fiscal activism. This is the classic economic orthodoxy – the virtue of being prudent – of low and stable deficits, controlling debt levels, building confidence particularly in developing economies, whose fortunes lie at the fickle behest of investor sentiments. The lessons learned in the wake of the global financial crisis and, more recently, during the pandemic crisis, sparked a fresh re-evaluation of this balance. Some economists have claimed that too many countries have been overly timid with fiscal policy, missing out on growth by under-investing in infrastructure or human capital. The popularity of theories such as MMT has contributed to this discussion by arguing that nations with monetary sovereignty need not be afraid of deficits when resources are unemployed, if inflation is controlled. [3] Critics of MMT warn that developing countries do experience financing and credibility constraints that advanced countries (such as the US or Japan) do not, such that irresponsible fiscal expansion could still trigger a loss of currency value or capital flight in emerging markets. Literature has yet to come to an agreement on this front, and empirical evidence is currently being collected as some countries test out more aggressive fiscal interventions. This discussion is quite pertinent to policy in developing countries such as Egypt. How much can they stretch their budget for development purposes before jeopardizing macro stability? The answer, we would argue, is probably highly country-specific (institutional strength, credibility with markets, etc.), perhaps the area where more research and counsel are warranted.

A second prominent debate has focused on the effectiveness of fiscal stimulus in various circumstances, e.g. when public debt is high or when interest rates are at the zero lower bound. His 2019 re-examination [15] of low debt sustainability, where lower interest rates render higher debt levels more manageable, refutes prior claims that suggested hard debt caps for stability. This has important policy implications for developing economies with high debt burdens too: instead of hurriedly going towards austerity as some would have them do, they should necessarily first look at the growth context and interest rate environment, some argue. The counter counterargument is that while developing countries are less likely to experience the borrowing privileges of advanced economies at ultra-low rates, their debt tends to be externally held—so they are more susceptible to debt distress. The gap in the literature here is understanding at what level does debt genuinely start to become a drag on growth at various developing country settings – and the empirical evidence isn't clear cut and probably is non-linear. This is a fertile ground for more case study and cross-country analyses, as the results appear to be mixed: some countries have prospered out of high debt (e.g., India in the 2000s) and others have fallen into crisis at much lower levels of debt.

There is a very live debate on the right design of fiscal policy to promote inclusive growth. Regardless of whether fiscal policy should be seen as a reward or punishment, there seems to be broad agreement that these fiscal instruments can and should be used to reduce inequality, though questions remain on which instruments work best, under which contexts. To take one example, should developing countries prioritize broadening the tax base first before increasing social spending so that it's progressive or can they do both at the same time? How can fiscal policy focus on rectifying income inequality, regional disparities and absence of access to essential services (a dimension of inclusive growth)? Recent work has begun to bring together gender and climate considerations in fiscal policy. For example, gender-responsive budgeting and "green" fiscal policy act as new frontiers in this literature. These are all relatively new areas and so represent clear gaps where further research and evidence from pilot programs is needed. Moreover, the effect of large fiscal programs (e.g., universal basic income trials or public job guarantee schemes) in developing countries remains sparse, highlighting a disconnect between theory and evidence in inclusive fiscal policy.

A big but specifically cited gap in the literature I found was in comparing the use of fiscal policy frameworks between LICs vs middle-income developing countries. Most research on fiscal policy (such as estimations of multipliers, debt sustainability analyses or assessments of automatic stabilizers) has been conducted for advanced and emerging-market economies. LICs, which typically feature super shallow financial markets and extreme reliance on foreign aid, may work in a different set of constraints and therefore be more in need of different analytical frameworks. Take just one example, what's the effectiveness of countercyclical fiscal policy in an economy with big informal sectors and low tax capacity? While there is some nascent work building semi-structural models specifically designed for LICs and building fiscal space indexes including concessional borrowing and grants [16], this is still an area requiring further exploration. Bridging this gap is critical as scores of developing economies (including Egypt's lower-income African neighbors) are looking for advice on how to navigate fiscal policy toward stability and growth under extremely constrained resource environments.

Overall, the deficit fiscal policy and macroeconomic stability literature in developing economies has progressed considerably since 2015 with new evidence and paradigms surfacing. Those basic theories come to us from Keynes and Musgrave, but still today do they offer the conceptual landscape — focusing on stabilization, distribution, and efficient allocation — and recent research has deepened our understanding of how those goals manifest in the real world across developing and developed countries alike. Comparative insights between advanced and developing economies show that context is key: policy tools that work in one setting can't simply be imported to another without considerable adaptation. For Egypt and economies like her, the main lessons learned are the need for strong fiscal institutions, a focus on spending that promotes inclusive growth, and enough flexibility to absorb shocks. The ongoing debates and unresolved questions in the literature leave an opening for more research, which this in-depth case study on Egypt's fiscal policy attempts to address. By situating Egypt's experience against the backdrop of international research findings, we can identify, and isolate which aspects of fiscal policy can be honed to maximize economic stability and inclusive growth in developing economies.

3. Research Methodology

This literature adopts a qualitative and descriptive analytical approach to exploring the ways in which fiscal policy can promote long-term economic stability and pro-poor growth in developing economies, using Egypt specifically as an in-depth case study. The methodology is designed to promote a nuanced appreciation of theoretical foundations and empirical realities, fusing macroeconomic data, policy analysis, and cross-country comparison.

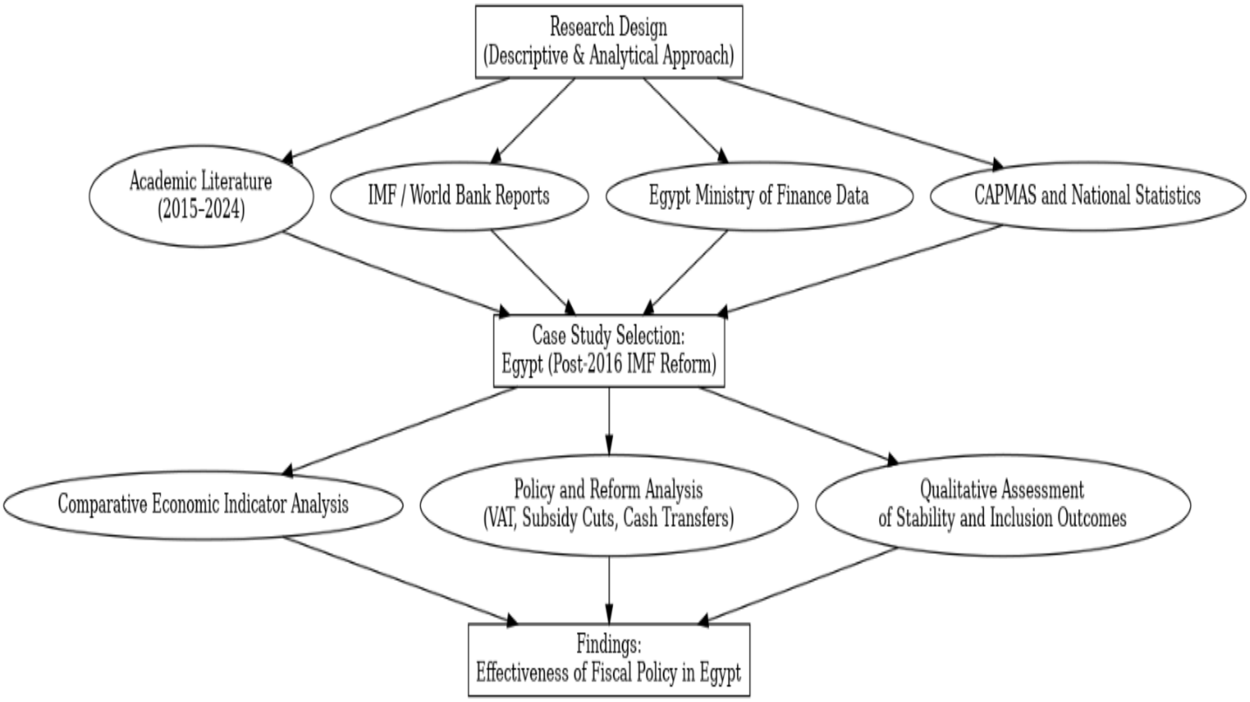

Figure 1: Research Methodology

3.1 Data Collection and Analysis Research Design

The study adopts a descriptive-analytical method based on the theory of public finance and macroeconomics. This schematic encourages the incorporation of:

- *Inductive reasoning, employed to draw conclusions from the broader literature and national-level data trends observed.*
- *Case study methodology, selected to permit in-depth examination of Egypt's fiscal reform trajectory.*
- *Ideological learning, which is something like comparative analysis circumvents, allowing for contextual evaluation in relation to other developing countries facing fiscal straits.*

Such a nuanced design allows for a vigorous test of the hyper-efficient ideal that fiscal tools can operate in the complicated constraints and institutional environments of the real world.

3.2 Data sources and collection

Drawing on thorough and authoritative secondary data, this study assesses Egypt's fiscal policy and macroeconomic impact for the period spanning from 2014-2023. These questions drove the data collection, which aimed to track macroeconomic indicators and the effects of structural reforms.

Our primary sources of data have been:

- Annual World Economic Outlook (WEO) databases, Article IV Consultation Reports and Fiscal Monitor publications contributed to understanding Egypt's fiscal performance, debt dynamics, inflation and budgetary trends. Provided essential development indicators such as GDP growth, poverty levels, unemployment, and social protection data.
- Egyptian Ministry of Finance (MoF): Official budget documents, fiscal statements, and plans for fiscal policy reform provided direct data on fiscal deficits, tax reforms (including implementation of a VAT), and subsidy cuts.
- Shared national statistics including income poverty, employment, and inflation figures at both national and regional levels.
- Championed data on the reach and development of the Takaful and Karama conditional cash transfer programs.

Beyond analyzing existing reports and institutional data, the author created a detailed, time-series-relational dataset spanning the past ten years (2014-2023). These are the most critical indicators for this dataset, including: real GDP growth rate, inflation rate, fiscal deficit as a percentage of GDP, public debt-to-GDP ratio, national poverty rate, national unemployment rate, and the total number of beneficiaries enrolled in the Takaful and Karama social programs. These values were then coded, double coded, and categorized to allow for comparative and thematic analysis across pre-reform, reform, and post-reform periods.

Where there was a data gap (i.e., for poverty figures for certain years), values were either entered as blank or estimated conservatively through interpolation based on reported trends from government and World Bank modeling.

Indicator	**Source(s)**
Real GDP Growth (%)	IMF World Economic Outlook, World Bank, Trading Economics
Inflation Rate (%)	IMF Article IV Reports, CAPMAS, Trading Economics
Fiscal Deficit (% of GDP)	IMF Fiscal Monitor, Egypt Ministry of Finance
Public Debt (% of GDP)	IMF Fiscal Monitor, Egypt Ministry of Finance
Poverty Rate (%)	CAPMAS Household Income & Expenditure Survey, World Bank Poverty & Equity Brief
Unemployment Rate (%)	CAPMAS Labor Force Reports, World Bank Labor Statistics
Takaful/Karama Beneficiaries (Million)	Ministry of Social Solidarity, World Bank Social Protection Program Review

Table 1. Data Source Mapping for Egypt's Fiscal and Social Indicators (2014–2023)

3.3 Developing a Case Study: Egypt

Egypt was determined to be the most relevant central case for the study, given the depth of the fiscal and monetary reform program it started in 2016, guided by the IMF. This reform package offers an unprecedented opportunity to dive into:

- *The sequencing and structure of fiscal measures, especially in a developing economy.*
- *The macroeconomic effects of these measures in the long run.*
- *Addressing the challenges and limitations of implementing fiscal discipline with equity objectives under a constrained fiscal environment.*

Egypt's experience is especially instructive given the magnitude of its adjustments and the clarity of its outcomes seen in key macroeconomic indicators.

3.4 Analytic Techniques

To maintain substantive analysis over flashy graphics and minimal text, we employed the following analytical approaches.

1. Fiscal year 2012–2016 data were compared to data from fiscal year 2017 onward to estimate changes in fiscal performance following enactment of the law, such as:
   - Budget deficit and primary balance
   - Public debt-to-GDP ratio
   - GDP growth, inflation, and unemployment trends
2. Evaluation of the implementation of these Policy Content Analysis core fiscal instruments, with special focus on Evaluation of evaluation of Civil Society actors' core civil fiscal corruption, which instruments, including implementation minimal funding regarding allegations of Design but, like lobbying, black box time, appears political and for.
   - Introduction of VAT
   - Subsidy reform (fuel, energy)
   - Public wage bill controls
   - Expansion of social safety nets (e.g., Takaful and Karama programs)
3. Selected comparisons with countries such as Jordan, Pakistan and Sri Lanka were employed to make inferences about the wider applicability of Egypt's experience.
4. Qualitative Interpretation – Used to understand purposes, communication styles, etc.
   - How fiscal reforms interact with social equity.
   - The bottom line on fiscal sustainability vs. inclusive development trade-offs.

3.5 Justification of Methodology

The following factors make this methodology suitable for a postdoctoral-level, produced-by-policy-analysis.

- This enables triangulation of different types of data (literature, economic indicators, policy text) to bolster reliability.

- This qualitative case study approach offers a rich and nuanced narrative that adds depth to macro-level theoretical understandings.
- Such a comparative perspective allows for important reflection on policy transferability and structural variation across the developing world.
- This descriptive-analytical lens provides the study an opportunity to go beyond a technical pearly-gate evaluation and interpret the socio-economic impacts in totality.

Taken together, the research methodology is aimed at accurately capturing the macroeconomic impacts as well as the human dimensions of fiscal reform in developing and often resource-scarce contexts, with Egypt serving as a focused and data-rich example.

4. Fiscal Policy in Egypt: A Case Study

4.1 Reform Context and Justification

By 2016, Egypt faced substantial macroeconomic instability characterized by a high fiscal deficit (11.5% of GDP in 2015), rising public debt (96.7% of GDP in 2016), dwindling foreign reserves, and double-digit inflation (13.8% in 2016) [28]. To stabilize its economy, Egypt entered a three-year, $12 billion Extended Fund Facility (EFF) agreement with the IMF in November 2016 [29]. This reform program aimed at macroeconomic stabilization, sustainable growth, and improved social protection mechanisms.

4.2 Key Fiscal Measures Implemented

- **Value-Added Tax (VAT) Introduction**: In 2016, Egypt replaced its general sales tax with a VAT initially set at 13%, rising to 14% in July 2017. This aimed to increase revenue and expand the tax base [30].
- **Fuel Subsidy Reforms**: Fuel subsidies significantly burdened the budget, consuming approximately 20% of government expenditures in 2013-2014. Egypt systematically reduced these subsidies, nearly eliminating them by 2019 [31].
- **Public Sector Wage Bill Management**: Hiring freezes and salary structure reforms were implemented from 2016 to contain the rising public-sector wage bill [32].
- **Social Protection Enhancement (Takaful and Karama)**: The conditional cash-transfer programs "Takaful" and "Karama" were expanded, supporting vulnerable groups. Beneficiaries increased from approximately 0.5 million households in 2014 to about 3.9 million in 2023 [33].

4.3 Macroeconomic Trends (2014–2023)

Table 4.1 summarizes Egypt's key macroeconomic indicators from 2014–2023.

Year	GDP Growth (%) [28]	Inflation (%) [34]	Fiscal Deficit (% GDP) [28]	Debt (% GDP) [35]	Poverty (%) [36]	Unemployment (%) [37]	Takaful/Karama Beneficiaries (Millions) [33]

2014	2.2	10.1	12.2	89.2	26.3	13.1	0.5
2015	4.4	11.0	11.5	92.1	27.8	12.8	1.7
2016	4.3	13.8	10.4	96.7	28.2	12.5	2.2
2017	4.2	29.5	9.7	103.0	32.5	11.9	2.8
2018	5.3	14.4	8.2	89.0	N/A	9.9	3.3
2019	5.6	9.2	8.1	85.0	29.7	7.9	3.6
2020	3.6	5.7	7.9	87.0	N/A	7.2	3.7
2021	3.3	13.0	6.8	90.6	30.0	7.4	3.8
2022	4.2	33.9	7.2	88.0	31.5	7.2	3.8
2023	4.0	35.0	7.1	89.5	N/A	7.1	3.9

Table 2: Egypt's Key Macroeconomic Indicators (2014–2023)

As shown in Figure 2, Egypt's GDP growth improved notably after the 2016 fiscal reforms, peaking in 2019 before declining due to external shocks.

Figure 2: Egypt's GDP Growth Trend (2014–2023)

Figure 3 illustrates the volatility in inflation rates, particularly the spike in 2017 after currency flotation and recent increases due to global events.

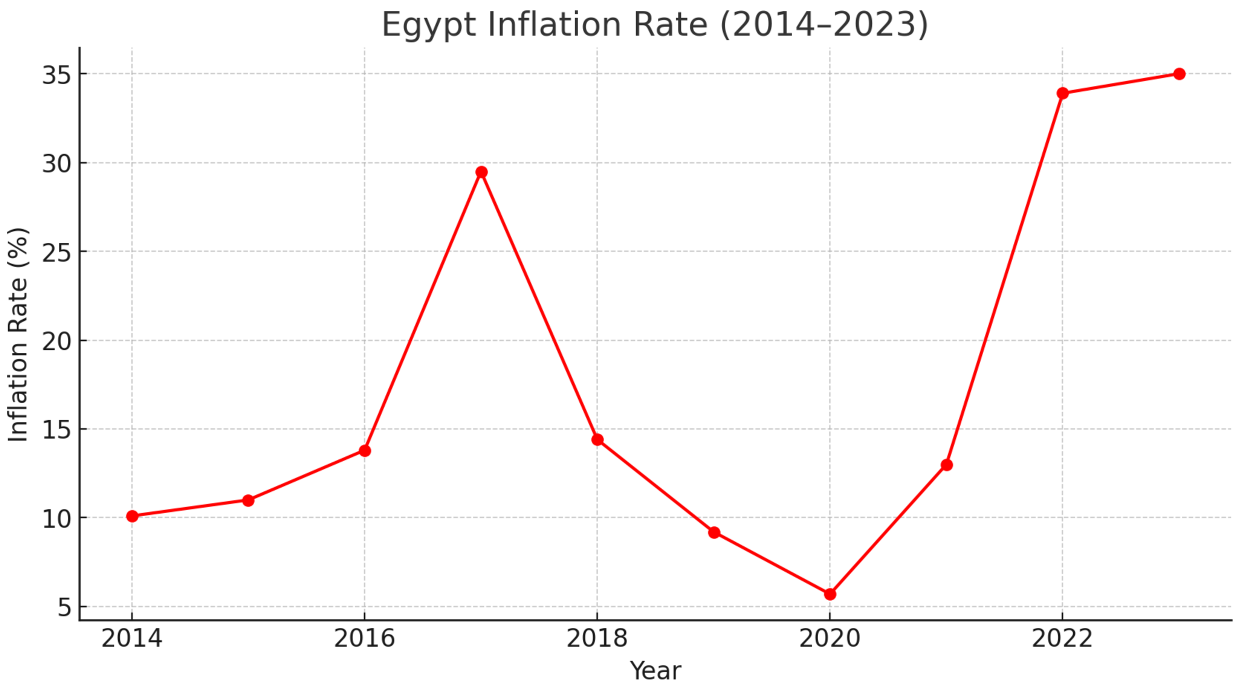

Figure 3: Egypt's Inflation Rate (2014–2023)

4.4 Outcomes and Impact Analysis

The implemented reforms achieved several objectives:

- **Fiscal Stabilization:** Egypt's fiscal deficit improved significantly from 12.2% (2014) to 7.1% (2023) of GDP, indicating stronger fiscal discipline and enhanced revenue collection [28]. The combined trend in Figure 4 highlights improvements in fiscal deficit management, alongside the challenges of sustained debt reduction.

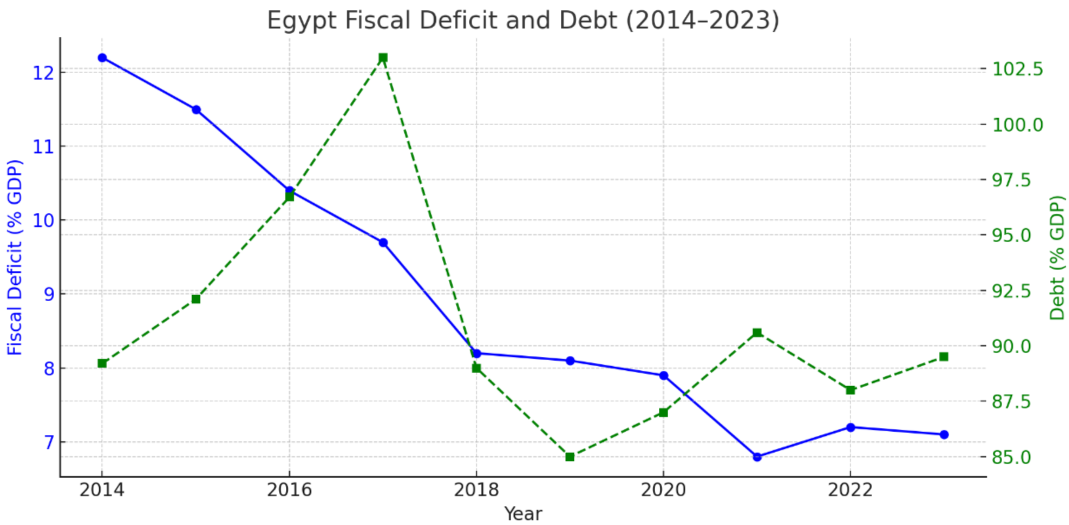

Figure 4: Fiscal Deficit and Public Debt as % of GDP (2014–2023)

- **Public Debt Reduction:** After peaking at 103% of GDP in 2017, debt levels declined to approximately 89.5% by 2023, demonstrating improved debt management [35].
- **Economic Growth Recovery:** Growth reached 5.6% in 2019, though it was subsequently affected by external shocks (COVID-19 and global inflationary pressures), highlighting vulnerability to external factors [28].
- **Social Protection Expansion:** The expansion of the Takaful and Karama programs mitigated reform impacts on vulnerable populations, increasing coverage significantly by 2023 [33].

However, challenges remained:

- **Persistent Inflationary Pressures:** Inflation spiked significantly, reaching 35% in 2023 due to external shocks and currency depreciation, negatively impacting living standards [34].
- **Poverty and Inequality:** Despite social protection measures, poverty rates remained elevated (around 30%), suggesting persistent structural inequalities [36].

4.5 Post-Reform Pressures

External shocks following reforms significantly impacted Egypt's economy:

- **COVID-19 Pandemic (2020-2021):** GDP growth slowed to 3.6% in 2020 due to reduced economic activities, especially in tourism and remittances [28].
- **Russia-Ukraine Conflict (2022):** Exacerbated global price volatility, significantly raising inflationary pressures (33.9% in 2022), impacting food and energy imports [34].
- **Currency Devaluation (2022–2023):** The Egyptian pound depreciated substantially, escalating inflation and debt-servicing costs, challenging macroeconomic stability [34].

4.6 Summary: Lessons from the Egypt Case

Egypt's fiscal reform experience provides several crucial insights:

- **Comprehensive Reform Design:** Successful reforms require a holistic approach integrating revenue, expenditure, and social protection measures simultaneously.
- **Social Protection Importance:** Strengthening safety nets (e.g., Takaful and Karama) is essential to sustain public acceptance and protect vulnerable groups. As Figure 5 demonstrates, while social protection programs expanded significantly, poverty rates remained challenging, indicating limitations in reform benefits distribution.

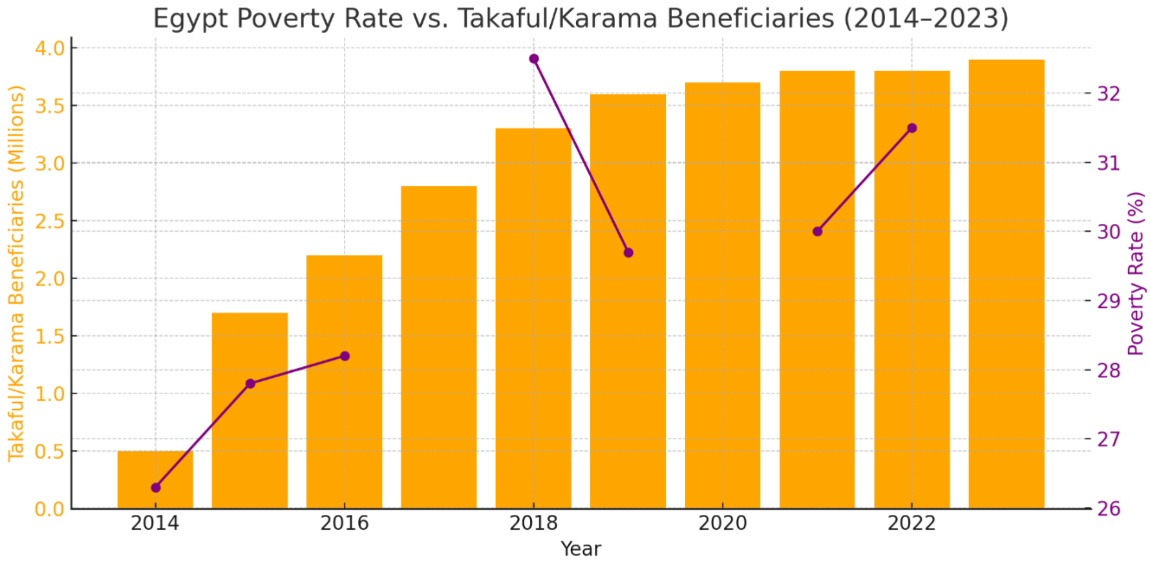

Figure 5: Poverty Rate vs. Takaful/Karama Program Coverage (2014–2023)

- **Macroeconomic Resilience:** Building economic resilience to external shocks requires ongoing structural reforms, enhanced diversification, and prudent debt management.

5. Discussion

5.1 Interpretation of Findings

Egypt’s fiscal reform program initiated in 2016 has produced significant macroeconomic stabilization outcomes, particularly evident in fiscal deficit reduction and temporary improvements in debt sustainability. The implementation of VAT, substantial reductions in fuel subsidies, and controlled public wage spending have effectively increased government revenue and improved fiscal discipline, reflecting the theoretical arguments proposed by Keynesian and Musgravian frameworks regarding macroeconomic stabilization and resource allocation efficiency. The temporary decline in inflation (from the peak of 29.5% in 2017 down to 5.7% by 2020) further underscores the stabilizing effect of these reforms. However, the resurgence of inflation in 2022-2023 highlights the ongoing vulnerabilities and external dependencies inherent in Egypt’s economy.

Social protection expansion through the Takaful and Karama programs significantly cushioned vulnerable segments of the population from the adverse impacts of reforms. Yet, poverty rates did not experience substantial or sustained reductions, indicating potential limitations in coverage, targeting accuracy, or adequacy of cash transfers in offsetting income losses from structural reforms.

5.2 Comparison with Other Developing Economies

Comparative analyses of similar fiscal reform programs in Jordan and Pakistan, both of which underwent IMF-supported reforms, indicate similar macroeconomic stabilization outcomes but varying degrees of social success. Jordan’s program, like Egypt’s, achieved deficit reduction and temporary stabilization, yet faced continued challenges in unemployment and social equity. Pakistan’s reforms led to mixed outcomes, with persistent macroeconomic instability and challenges in poverty alleviation, exacerbated by political volatility and institutional weaknesses.

Egypt's comparative success in maintaining sustained reform momentum and achieving primary budget surpluses for several years underscores the importance of strong political commitment, substantial international financial backing, and targeted social safety nets. Yet, Egypt's persistent poverty rates and inequality highlight a common limitation across these reform programs—the inability of stabilization policies alone to ensure equitable growth without parallel structural transformations in employment and social infrastructure.

5.3 Implications for Fiscal Policy Theory

The findings from Egypt's fiscal reforms provide empirical support for Keynesian stabilization policies, particularly the role of countercyclical fiscal measures in mitigating macroeconomic volatility. Musgrave's theories on fiscal policy also gain validation through observed outcomes in resource allocation and stabilization; the reduction in wasteful subsidies and reallocation towards targeted social programs reflect efficient resource use as outlined in Musgrave's allocation and redistribution frameworks.

However, Egypt's experience also raises critical questions around debt sustainability and fiscal space, engaging directly with Modern Monetary Theory (MMT) debates. While proponents of MMT suggest sovereign currency issuers have extensive fiscal space limited only by inflation, Egypt's rising inflation rates following currency devaluation and external shocks point towards practical limitations on fiscal expansion in emerging economies heavily dependent on external financing and imports. This suggests a nuanced view is necessary—fiscal space exists but is sharply constrained by structural economic factors and external vulnerabilities.

5.4 Strengths and Limitations of the Egyptian Approach

The Egyptian fiscal reform program exhibited several strengths: effective stabilization of macroeconomic indicators, improved fiscal discipline, and significant enhancements in social protection coverage. These successes were facilitated by clear policy direction, IMF guidance, and sustained political commitment.

Nevertheless, Egypt's reform approach displayed notable limitations. Persistent poverty and rising inflation rates indicate incomplete social and economic transformation. Additionally, high dependence on external financing exposes Egypt to recurring vulnerability from international economic shocks, underscoring the necessity for diversified economic foundations and robust domestic revenue generation mechanisms.

5.5 Policy Recommendations

Based on Egypt's fiscal reform trajectory and observed outcomes, several policy recommendations emerge:

- Enhance targeting and adequacy of social protection programs to reduce persistent poverty and inequalities more effectively.
- Build economic resilience through diversification, focusing on domestic industry development to reduce external vulnerabilities.
- Strengthen fiscal institutions and frameworks to manage public debt proactively, ensuring long-term debt sustainability and fiscal discipline.

- Continue incremental reform momentum while prioritizing equitable growth, employment generation, and inclusive development policies.

Egypt's experience demonstrates the intricate balancing act between macroeconomic stability, social equity, and fiscal sustainability, offering critical insights for policymakers in similar emerging-market contexts.

6. Conclusion and Policy Recommendations

This study systematically examined the role of fiscal policy in achieving economic stability and inclusive growth, using Egypt's comprehensive fiscal reforms from 2014 to 2023 as a focused case study. The analysis highlighted how targeted fiscal measures, such as the introduction of VAT, subsidy rationalization, wage bill management, and the expansion of social protection programs, successfully contributed to macroeconomic stabilization, improved fiscal discipline, and social welfare.

Key findings indicate substantial improvements in fiscal deficits, reducing from 12.2% of GDP in 2014 to 7.1% by 2023, and notable debt stabilization post-2017 reforms. However, persistent inflation, external vulnerability, and stubbornly high poverty levels underscore the limitations of fiscal consolidation alone in achieving comprehensive economic resilience and social equity.

The comparative analysis with similar IMF-backed reform programs in other developing countries, such as Jordan and Pakistan, provided valuable insights into common challenges and differentiated outcomes shaped by political stability, institutional capacity, and the scale and effectiveness of social interventions.

6.1 Policy Implications

The Egyptian experience underscores the necessity of balancing fiscal austerity with robust social protection mechanisms. This balance ensures public support for reforms and mitigates adverse impacts on vulnerable groups. Future fiscal strategies should prioritize the following key areas:

- **Enhanced Targeting and Expansion of Social Protection:** Refine the Takaful and Karama programs to improve target accuracy and benefit adequacy, directly addressing persistent poverty and inequality issues.
- **Economic Diversification and Resilience Building:** Strengthen domestic economic sectors to reduce dependency on external financing and imports, thus insulating Egypt from global economic volatility.
- **Fiscal and Debt Sustainability Frameworks:** Establish robust fiscal rules and debt management strategies to sustain fiscal discipline and transparency, preventing future debt distress and economic instability.
- **Institutional Strengthening and Governance:** Enhance institutional capacity, particularly in revenue mobilization and expenditure management, to maintain reform momentum and effectively respond to economic shocks.

6.2 Research Contributions

This study contributes theoretically by validating and extending Keynesian and Musgravian perspectives on fiscal policy roles in stabilization, allocation efficiency, and income redistribution within emerging market contexts. Empirically, it enriches the discourse on fiscal space and debt sustainability debates, providing nuanced insights that temper extreme theoretical perspectives with practical economic realities observed in Egypt's experience.

6.3 Limitations

The research faced limitations related to data availability, particularly in accurately measuring the socioeconomic impacts of reforms during the turbulent periods of COVID-19 and subsequent global economic shocks. These gaps in data underline the need for enhanced statistical capabilities and more granular social impact assessments.

6.4 Suggestions for Future Research

Further research could beneficially explore longer-term impacts of fiscal reforms on structural economic transformations, labor market dynamics, and social mobility in Egypt and comparable economies. Additionally, exploring innovative fiscal tools and their efficacy in diverse institutional contexts could offer valuable policy insights for future economic management in emerging markets.

In summary, Egypt's fiscal reform experience provides vital lessons in balancing economic stability with social equity. Policymakers must adopt holistic, adaptive strategies that not only ensure fiscal prudence but also proactively foster inclusive, sustainable, and resilient economic growth.

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