

## The Rising of Food Prices in Egypt: Reasons and Solutions

<sup>1</sup>Ezzat Molouk Kenawy and <sup>2</sup>Mohamed Fathy Abd-El Ghany

<sup>1</sup>Department of Economics, Faculty of Commerce, Kafr El-Sheikh University, Egypt

<sup>2</sup>Al-Shorouk Academy, Egypt

**Abstract:** This paper aimed to diagnose the phenomenon of rising food prices in Egypt as an international phenomenon with clarification of its reasons and relation to the world financial crisis and the policies that should be implemented to face that phenomenon. Egypt is one of the mostly affected countries of the food crisis the world is facing due to the increased inflation rate and the increased prices as a result of the 2008 world financial crisis. The public budget mainly endures the burden of financing a package of government procedures against the increased prices and inflation. Therefore, the state public budget' deficit increased. To explain the effects and content of this crisis, there should be a distinction between economic crisis, cycle and fluctuations and the long-term public trend. The study has used the analytical descriptive method to explain this phenomenon based of the actual available data, information and studies relevant to the topic of the study. Finally the paper drew recommendations related to drawing a strategic plan action whose axes are based on increasing the grains food security; encouraging the rationalization of consumption patterns, reconsidering the Egyptian-pound exchange rate policy and deepening the Arab cooperation.

**Key words:** Rising Food Prices • World Financial Crisis • Food Line Poverty • Consumption Patterns

### INTRODUCTION

Since 2007 the developing countries including Egypt suffer from the rising of food prices. The Egyptian family's food expenditure rises from 30% of its income to more than 48% during the period 2007-2008. This means its living standard deterioration and expenditure decline on education, health and culture despite their importance. The grains prices are doubled in a short period, the dollar value reduced against Euro by almost 20%. Do these changes constitute crisis, cycle, fluctuations or long-term trend? What are their inflections on the Egyptian economy? What are the policies needed to lessen the negative impact of this trend in the future? Since Robert Maltes had expected in the late eighteenth century the repetition of starvation occurrence due to the population increased rated surpass the food production rates [1]. It occurs in some countries, but in a way different to the expected way as a result of productivity increase. The current grains and food crisis might be of that type too. Despite the competition is not now between food and population, but among food, population and energy [2]. In light of the above-mentioned, the paper aimed to diagnose the phenomenon of rising food prices in Egypt

as an international phenomenon with clarification of its relation to the world financial crisis and the policies that should be implemented to face it. The paper has adopted the analytical descriptive method based on actual available data and information relevant to the research topic. The paper was divided into two sections: the first section diagnoses the phenomenon, its reasons and relation to the world financial crisis whereas, the second section handled the necessary policies that should be implemented to face that phenomenon and curb the rising food prices in Egypt.

### First: Phenomenon Diagnose, its Reasons and Relation

**to the World Financial Crisis:** At the beginning there should be a distinction between economic crisis, cycle and fluctuations and the long-term trend as well. The economic crisis means an imbalance of supply and demand circumstances. This leads to rising prices as things soon return to it normality. That is, there is a relatively short time for the crisis which does not exceed three years [3]. For example, the bad weather affects wheat production then in the following year harvest increases and the crisis ends. The economic cycle affects certain economic phenomena and agricultural crops as the

displayed amount changes between increase and decrease till things become stable. This cycle takes about eight years for all its phases. The economic fluctuations means slight increases and decreases within a period does not exceed a few months. Finally, the public trend means a changeable long-term downward or upward development [4].

Egypt is one of the mostly affected countries of the world food crisis and it becomes on the verge of unprecedented actual famine since several decades. Food prices witnessed a remarkable rising, particularly the prices of flour, oils and vegetables. The Western markets witnessed a rising of food commodities prices in 2007 by a rate ranged between 10 to 40%. Consequently, the prices of some food commodities increased by a rate ranged between 60-120% [5]. The increase of main food commodities prices in 2007 was considered as an international phenomenon which worsened in 2008 as the increase rate of grains prices and food commodities exceeds 70 and 60% in 2007 and 2008 as compared to 4.8 and 6% during the period of 2000-2005 subsequently [6]. Egypt came on top of mostly affected countries of the rising world prices of food commodities within the states in which there is a relative family's high spending on food. Thus, these countries were the mostly affected by waves of inflation and rising prices in 2008 as shown in Table 1. There are less-affected countries which witnessed less inflation rates and these are the countries which characterized by more-balance distribution of family spending on the basket of commodity and services [7]. Whereas the food spending constitutes about 40% of Egyptian family's total expenditure, this rate decreases to 14% in a state like Korea. This means rising food prices laid pressure on the Egyptian family budget on the contrary to the Korean family [8]. That is, all people all over the world were negatively affected by the rising commodities prices in 2008. However, they were differently affected by that increase from a society to another according to the prevailed consumption pattern in such communities. These patterns diverge according to the relative significance which a group of commodities and services has in the family expenditure.

A World Bank study, 2009 pointed out that the high inflation rates in Egypt has led to the increasing abject poverty rates and inequality at the same time. The cost of providing one of the most cheapest main food commodities increased by 47% during the period of February 2005-2008. This rate has exceeded the increasing rate of the recorded figure of consumers' prices (inflation)

estimated about 31% during the same period. This increase has led to the higher danger of being exposed to extreme poverty (the inability to satisfy the necessary food needs) by about 20% of which actually 6% of Egyptian people have been affected (they moved to the extreme poverty category) in February 2008. It is an unprecedented rate since 1990. Therefore, the extreme food prices rising during that period has played an effective role in curbing the positive effects of the economic growth on the living standards [9].

The study showed the increased expenditures of poor families or low-income groups in the Egyptian villages on food and drinks. In the countryside, the spending rate estimated 50.3% compared to 40.8% in the cities. Meanwhile food spending reached 55.4% for families whose annual spending is less than L.E. 2000. The rate retreated to 22.7% for families whose annual spending reached L.E. 50, 000 [10]. A study carried out at the national centre for criminal and social research in Egypt asserts that the ratio of Egyptian families under the food poverty line reached 56.1% of the rural families and 40% of the urban families in the governorates and 37% of families in Cairo. The drafted text of the concluded agreement between the world food programme and Egypt in 2008 regarding aids provision to create fixed assets in Upper Egypt shows that 55% of the poor Egyptians live in the Upper Egypt. The governorates of Sohag and Assuit have come on top of the poorest Egyptian governorates deprived of the development projects which can elevate the population living standards. It reveals that about 43.2% of Upper Egypt population lives in general under the poverty line of them 36.4% consume fewer rates of main food needs [11].

It was clear that poverty in Egypt is a human industry succeeded in failing all development policies and led to poor results in the field of poverty and impoverishment. There are about 20.5 million Egyptians categorized within the extreme poverty group earning daily less than a dollar. There are 35.8 million Egyptians whose daily income is less than two dollars while 20% of Egypt's population dominates 43.6% of the national income as 20% of the poorest Egyptians gets less than 8.6% of the national income [12].

With the prices decline in different world countries, the prices of an important commodities group in Egypt have witnessed a remarkable decline during the last years of 2008 and till the early months of 2009. The annual and monthly inflation rates began to decline and reached negative rates in a clear reference to the declined prices of goods and services as shown in Table 2.

Table 1: The relative weigh of spending on the food commodities group in a group of countries during 2007-2008

The State	Relative weigh of food basket in the recorded number of the consumers' prices	Inflation rate annual average	
		2007	2008
Egypt	47.9%	11.0	11.7
The Philippines	46.6%	2.8	10.1
Indonesia	42.3%	6.2	9.8
China	33.2%	4.8	6.4
Thailand	32.7%	2.2	5.7
Malaysia	30.0%	2.0	6.0
Hong Kong	26.9%	2.0	4.8
Singapore	23.4%	2.1	6.5
Korea	14.0%	2.5	4.8

Source: the international monetary fund- Report of global economy horizons, 2008 [16]

Table 2: Development of inflation rates in Egypt in 2008-2009

Month	Inflation rate	Monthly inflation rate Food and drinks group	General number
January 2008	10.5%	4.0%	5.7%
February 2008	12.1%	1.8%	6.2%
March 2008	14.4%	2.5%	5.1%
April 2008	16.4%	2.0%	5.3%
May 2008	19.7%	2.7%	4.7%
June 2008	20.2%	0.6%	4.1%
July 2008	22.0%	2.2%	3.0%
August 2008	23.6%	2.4%	0.8%
September 2008	21.5%	0.3%	- 0.2%
October 2008	20.2%	-0.1%	- 2.9%
November2008	20.3%	-0.1%	-0.2%
December 2008	18.3%	-1.3%	-1.4%
January 2009	14.3%	0.5%	- 0.5%

Source: central system for public mobilization and statistics: monthly newsletter for the recorded number of consumers' prices [17]

The state public budget has remarkably and fundamentally borne the burden of financing government procedures package against rising prices. In spite of slight increasing the prices of certain oil products to finance part of those procedures, Egypt is still among the world countries that highly subsidize food commodities and oil products. In light of food commodities subsidy expansion, Egypt is among the highest six countries subsidizing food commodities out of 159 countries were the population of the study. That subsidy exceeds 1% of the gross domestic product of the state in 2008. These countries include Jordan, Morocco, Burundi, Maldives islands and East Timor [13].

Clearly there was a trend in the food prices rising for a relative long period due to consumption increase in certain developing countries whenever income improved particularly India and China. In addition to oil and grain transformation into vital fuel and the climate changes which led to grain crops shortage especially in Australia. Unless a new green revolution occurs and the advanced world abstains from using grains as fuel instead of food, the current changes of food rising prices will last for relative long years.

## Second: Necessary Implemented Policies in Facing the

**Phenomenon:** Lessening the sharp effect of the high living cost on the Egyptian economy, the government has been keen on introducing a package of policies and financial and economic procedures which can pass the prices inflation effect to the rich categories in the society while taking the necessary actions to strengthen the society particularly the care deserved categories against the negative effects of that inflation waves. This could be done through a number of certain steps: increasing salaries of the state administrative employees by 30% and increasing the incentive reward for those working in the municipals by 75% instead of 25% as they are the least income employees in the state administrative system. The increment salaries rate of the employees at the administrative system ranged according to the employment class as 81% for the first class to 1.6% for the sixth class. This reflects the government feeling of the public's impulse and it is close to the low-income group suffering. This has a clear effect on the nominal wage increase for state employees as the average annual wage increased from L.E 5.5 thousand1999-2000 to about L.E.11.7 thousand 2007-2008. As the Egyptian pound

Table 3: The development of government employees' numbers, cash and real average wage during 1999/2000-2007/2008

Year	Employees' number (million employee)	Total cash wages (L.E. billion)	Total real wages (L.E. billion)	Employees' average cash wages (L.E.)	Employees' average real wages (L.E.)
99-2000	4.6	25.2	24.3	55500.0	5299.0
00-2001	4.6	28.1	26.3	6066.0	5690.0
01-2002	4.7	30.5	28.0	6439.0	5907.0
02-2003	4.8	33.8	30.4	7025.0	6306.0
03-2004	50.0	37.3	32.3	7429.0	6438.0
04-2005	5.1	41.5	32.9	8212.0	6496.0
05-2006	5.2	46.7	35.9	9000.0	6921.0
06-2007	5.2	52.2	42.8	9992.0	8193.0
07-2008	5.4	62.8	46.8	11745.5	8755.4

Source: Ministry of industry and foreign trade's database (the Egyptian central bank) [18]

purchasing power differs over the years due to the rising prices from one year to another, therefore, the purchasing power of the nominal wage of the state employees should be measured. This is what is called the real wage. The analysis of the state employees' real wage, that is inflation effect exclusion, it was noted that the employee's average real wage increased continuously from L.E 5299.0 in 99-2000 to about L.E.8755.4 in 2007-2008. The increment rate estimated about 65.2% as shown in Table 3. It means the purchasing power of the wage obtained by a government employee really increased by proportions exceed the rising prices over the last years. In addition, the government increased the state pension income by 20% with maximum L.E 100 monthly. This means a net benefit exceeds any increment rate of the pension income ever. About 6.2 million people and their families benefited from these procedures besides the food commodities increased subsidy whose total in the 2007-2008 budget estimated L.E. 19 billion as compared to L.E. 10 billion in 2006-2007; which increased to about L.E. 23 billion in 2008-2009. As such the bread selling price does not exceed 20% of the actual cost that the state bears. In addition, the supplementary commodities have been doubled and distributed over the supply cards. The government has adopted several procedures in this concern like increasing the additional shares of flour and the supply commodities directed to all governorates; redistribution of shares for the interest for the care-deserved areas besides the project of bread production separation from its distribution in the republic governorates at the 91% of total bakeries through about 14.000 outlet [14]. In addition, the expansion of the benefited people of the supply cards and the allocations of the supply cards subsidy were doubled. Finally, the babies born from 1988 till 2005 are added to the supply cards. Thus, the number of enrolled people in the supply cards reached 63 million people covering about 80% of the Egypt's total population.

Facing the food problem and rising prices, Egypt should adopt a strategic action plan whose axis are based on the grains food safety increase at least to 75% instead of the current rate estimated about 50%. Attention should be paid to research and development in the fields of agriculture and irrigation to produce hybridized types with high productivity [15]. Rationalization of consumption types and non-food waste should be encouraged and grains should not be used a animal fodder. In addition, the Arab cooperation should be deepened to achieve collective food security. The Egyptian production and its relative specialization should be restructured. The volume of transactions with the developing countries, whose size is maximized in the global economy, should be increased, particularly China, India and Brazil. In addition, the Egyptian pound exchange policy should be reconsidered in order to achieve balance between the objectives of export and import.

## CONCLUSION

Egypt is one of the mostly affected countries of the food crisis the world is facing due to the increased inflation rate and the increased prices as a result of the 2008 world financial crisis. The public budget mainly endures the burden of financing a package of government procedures against the increased prices and inflation. Therefore, the state public budget' deficit increased. To explain the effects and content of this crisis, there should be a distinction between economic crisis, cycle and fluctuations and the long-term public trend. In light of the above-mentioned, the paper aims to diagnose the phenomenon of rising food prices in Egypt as an international phenomenon with clarification of its relation to the world financial crisis and the policies that should be implemented to face it. The paper has adopted the analytical descriptive method based on actual available data and information relevant to the research topic. The

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