

**Voluntary Report** – Voluntary - Public Distribution

**Date:** February 25, 2022

**Report Number:** EG2022-0004

**Report Name:** The Resilience of the Egypt Economy in the face of COVID-19 Shocks and High Commodity Prices

**Country:** Egypt

**Post:** Cairo

**Report Category:** Agricultural Situation, Agriculture in the Economy, National Plan, Policy and Program Announcements, Agriculture in the News, MISC-Commodity

**Prepared By:** Ahmed Wally, Agricultural Specialist and Olutayo O. Akingbe, Agricultural Attaché

**Approved By:** Kurt Seifarth, Minister-Counselor for Agricultural Affairs

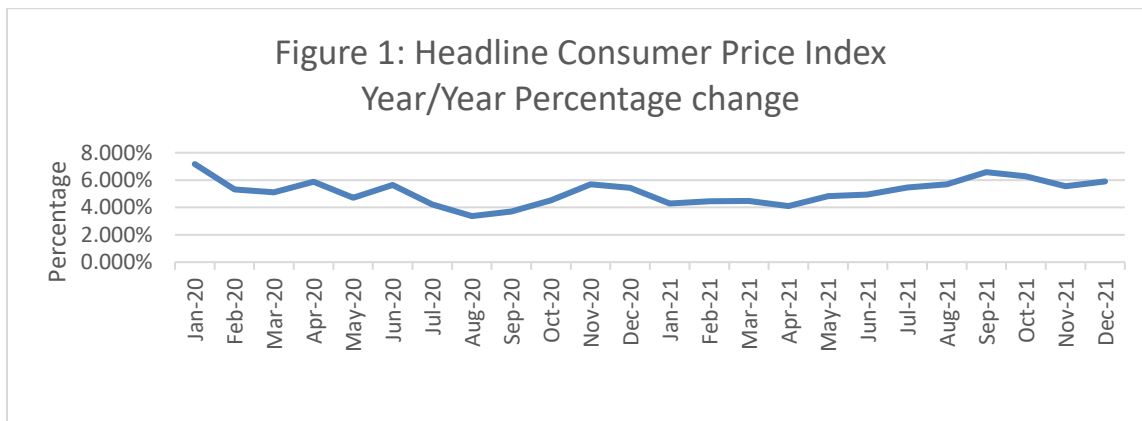
**Report Highlights:**

Despite the COVID-19 pandemic and the rise in commodity prices globally, Egypt succeeded in maintaining inflation rates within the Central Bank of Egypt's (CBE's) target range of 7 percent ( $\pm 2$  percent) in 2021, at a time when many countries of the world are witnessing a wave of high inflation. Egypt has adopted rational economic and monetary policies over recent years that have taken into account achieving stability in commodity prices, as well as setting interest rates in line with inflation targets. This put Egypt at the forefront of emerging markets in reducing its rate of inflation.

In calendar year (CY) 2021, the Egyptian economy went through many vital developments that represented limitations and opportunities at the same time. Egypt eased its international travel restrictions that had previously been imposed to contain the COVID-19 pandemic as vaccination programs took place in many countries. However, the world also witnessed a significant increase in oil prices and global supply chain disruptions in 2021. In addition, there were higher freight prices and a rise in commodity prices to its highest level in nearly ten years due to a lack of supplies and extreme weather conditions that led to crop losses this summer, especially for wheat in major exporting countries.

Combined higher food prices and freight rates contributed to a rise in the cost of importing food globally in 2021, amounting to USD 1.75 trillion, a 14 percent increase (USD 218 billion) over 2020. The bulk of the foreseen growth in the global food import bill is said to be cost-driven, reflecting higher price levels of internationally-traded food, as well as a threefold increase in freight costs. (FAO, Food Outlook, November 2021)

Egypt was not isolated from the global developments that caused unprecedented rises in inflation rates at varying rates globally. Particularly in the second half of 2021, the rise in food and energy costs following global crises put inflation at its highest level in 20 months at 6.57 and 6.26 percent in September and October 2021, respectively. (See Figure 1)



Source: Central Bank of Egypt

Inflation rates had been on a downward trend since January 2021. Starting in May 2021, it began to trend upwards following a rise in international prices of food commodities, oil, and freight. In addition, higher food demand driven by growth in the tourism sector also impacted inflation rates in Egypt, where tourism is estimated to return to pre-pandemic levels by autumn 2022.

In the last quarter of CY 2021, hotel demand for fresh products such as poultry, meat, vegetables, and fruits more than doubled to meet the daily needs of tourists. Demand also peaked in September 2021 with the resumption of schools and universities Egypt, and Egyptian families tend to raise the volume of their food stock in this month to ensure the availability of the necessary food in homes.

On the local supply side, high temperatures negatively impacted the productivity levels of several fruit, vegetable, and small-scale poultry operations in the summer 2021. This created a gap in supply versus demand, the effects of which were clearly visible in food prices during the months of September and October 2021.

Despite the upward trend in inflation in the last quarter of the CY 2021, Egypt succeeded in maintaining its rates within the CBE's target range of 7 percent ( $\pm 2$  percent) at a time when many countries are witnessing a wave of high inflation. This can be attributed to the growth of economic productivity rates in several sectors and the measures the Egyptian government took to avoid a shortage of basic commodities and higher prices in the local market.

### **Limiting the effects of global inflation on the Egyptian market**

In recent years, the government of Egypt initiated a number of arrangements designed to improve food security on both the production and consumption sides. Egypt has made the development of the agricultural sector a priority, ensuring sustained levels of investment. Egypt was able to enhance and increase food availability through the implementation of large, modern agricultural projects, increasing the area available for production output as well as increasing the yields of major field crops, vegetable and fruit crops, poultry, and fish. Egypt also secured its food import needs from international markets and various origins, whether through tenders or contracts, to meet the needs of a growing population (102 million, 2021).

Over the course of several years, Egypt also raised its capabilities to store grains from 1.6 MMT to 4MMT, and as a result increased its strategic stockpile of major food commodities from 3 to 6 months. This enables the state to deal with any rise in global commodity prices, as this reserve secures food demand by the Egyptian market for a period of time until prices resume a downward trend.

Most Egyptians receive food subsidies, which is the cornerstone of the country's social protection system. According to the Central Agency for Public Mobilization and Statistics, 88.5 percent of Egyptian families use the country's food subsidy system. In recent years, the government introduced several reforms to make the system more efficient and more technologically advanced.

The Egyptian government also launched several social programs within the National Strategy for Sustainable Development Goals 2030, the aim of which is to protect vulnerable households by improving their food security status and quality of life. These programs have also been designed to ensure a better standard in their economic, social, and environmental statuses. For example, *Takaful and Karama*, Social Housing Support Program, Low-Income Housing Initiative, *Hemaya* Program, Health Care Program for the Disadvantaged, and *Hayah Karima* Initiative, which is the largest program as far as funding, scope, and outreach to improve the quality of life for the neediest villages across the country, especially in Upper Egypt.

**Concluding Remarks:**

The Egyptian economy has shown resilience against the COVID-19 pandemic shocks as well as the challenges of inflated commodity prices globally. In fact, Egypt's gross domestic product grew by 2.9 percent in the first quarter, jumped to 7.2 percent in the second quarter, before continuing to rise in the third quarter to reach 9.8 percent.

The CBE is expected to contain future inflation rates in 2022 and remain within the target rate of 7 percent ( $\pm 2$  percent) on average, despite the anticipation of global prices increasing or staying at its current high levels. The Government of Egypt aims to contain inflation rates at 6 percent and maintaining the unemployment rate at 7.3 percent until the end of the 2021-2022 fiscal year.

In short, the inclusive policies of the CBE were vital in achieving national economic goals, including containing inflationary burdens, steadying unemployment rates, and raising GDP rates which contributed to the stabilization of the economy amid supply and demand shocks facing the global economy.

**Attachments:**

No Attachments.