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# Egypt continues to weather the impacts of significant global shocks

The continued disruption to wheat markets from the Russian invasion of Ukraine predictably draws global attention to Egypt's own 'wheat problem.' The high quantities of international wheat procured, and money spent, consistently places Egypt as the world's largest importer by a significant margin.

More fair and complete assessments of Egypt's wheat problem would include consideration of the following:

The Egyptian government has reduced risks in the wheat supply, chiefly by addressing quantity risks but not price risks. Despite domestic agricultural sector investments finally modernising some elements of the wheat supply, more reform is very much needed to address future risks and decrease domestic demand

Continuing to transition the government budgets towards cash transfers and away from food subsidies will have massive gains in human capital stock, economic efficiency and social justice

## Risks to the wheat supply

Egypt continues to perform globally well at weathering the impacts of significant global external shocks.

The country also continues to impress in its ability to bounce back and deliver substantial economic growth following global crises. But the Covid-19 pandemic and the Russian invasion of Ukraine continue to present market disruptions that increase the risks to Egypt's wheat supply.

To address quantity risks, the Egyptian government has diversified its wheat suppliers.

Before the end of the previous financial year, Egypt's General Authority for Supply Commodities announced the largest single acquisition of wheat since 2012, which included French, Romanian and Bulgarian wheat. Egypt also has an exemption to purchase stocks from India despite the country's ban.

Russian and Ukrainian wheat historically account for more than three-quarters of Egypt's imported wheat supply.

Recent imports have included Russian wheat; however Ukrainian wheat continues to face delays in reaching Egyptian ports. The two countries typically supply more than a quarter of the world's wheat.

While this massive purchase of wheat did take advantage of a recent minor price slump to bolster supply, Egypt continues to face significant price risks. Although the Covid-19 pandemic and the Russian invasion have substantially affected current quantity risks, price risks are typically the bigger issue.

Food prices are volatile and high and will remain so, probably at least for a year or two.

One week into the Russian invasion of Ukraine, wheat prices reached a 14-year high and then continued to set new records. The international benchmark for wheat prices saw a 50 percent jump since the invasion, for example. Price risks will also continue even after the Russian invasion ends immediate market disruptions because of input shortages and disruptions to the crop cycle.

Old estimates suggested Egypt could have saved up US\$600m of its US\$2.75bn wheat import bill following the historic food price highs that came about after the 2008 global financial crisis if it utilised modern financial instruments, according to a 2009 report co-published by the World Bank, the FAO and IFAD. Current prices and volatility are higher than they were then.

While the Egyptian government does work to reduce price risk by focusing on macro-economic stability through foreign currency reserves and exchange rate stability, it is not doing much to directly reduce exposure to international market volatility.

Meanwhile, Egypt continues to aim to increase its reliance on domestic production and increase efficiency gains through investments in grain silos.

According to government announcements, this year's domestic production will show an expected over 10 percent year-on-year increase. To reduce post-harvest losses from the old system of open-air containers, significant investments continue to be made to build modern and digitally monitored grain storage.

In 2015, Egypt finally introduced two cash transfer programs that currently support over two million households — households with the poor, the elderly and people living with disabilities. Rigorous gold-standard evaluations assessing the impact of Egypt's cash transfer programs indicate the country has done a very good job with its initial implementation.

As it expands its cash transfer programs, Egypt will benefit from the great amount of existing research that well identifies critical issues for consideration. Mitigating current poverty and ensuring social stability with rising food prices and inflation is no doubt a chief consideration. The Covid-19 pandemic and the Russian invasion of Ukraine have delayed reforms Egypt needs and presented new challenges to Egypt's wheat problem.

Since the last major global food crisis, the Egyptian government has taken effective action to reduce risks to the wheat supply.