Evaluating the impact of reforming the food subsidy program in Egypt: a mixed demand approach.

Abstract

Food subsidy is one of the policies considered to protect consumer welfare against food price increases, in particular when the insufficient local production has to be complemented by food imports with volatile prices. Egypt has experienced several “food crises” (the latest in 2008), which put an end to attempts to reform in depth the system of food subsidies because of social unrest. In this paper, we use a Mixed Demand approach to analyze the consumption structure of Egyptian households. Our model specification takes into consideration the characteristics of the Egyptian food subsidy system, where some food items have predetermined quotas while others are associated with predetermined (subsidized) prices. Price, income and quota elasticities are estimated from the Egyptian family expenditure survey, and welfare change measures are derived by income class. Simulations of various options to eliminate
subsidies on selected food items are conducted. We estimate the negative welfare impact of the reforms, especially in the context of increasing food prices, by comparing welfare effects of policy options by income quartiles and by household category (rural, urban).

Highlights

- Food subsidy is one of the policies considered to protect consumer welfare.
- A Mixed Demand model is used to analyze the consumption of Egyptian households.
- Welfare measures by income class are derived from estimated price and quota elasticities.
- We simulate subsidy policy reforms in the context of increasing food prices.

Keywords

Food subsidy; Mixed Demand; Policy assessment; Egypt
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