

# Bread subsidies in Egypt

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## Abstract

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The topic of baladi bread subsidies is of great interest to the Egyptian people. About 80% of Egyptian people consume baladi bread. The food subsidy guarantees the supply of basic food to the poor. Subsidies protect the welfare of the poor and the economically disadvantaged. Consumer benefits from food subsidies are highest for baladi bread. Food subsidy programs are facing more criticism in developing countries because of their large contribution to government budget deficits. The cost of food subsidies reached about 1.8 % of the GDP in Egypt in 2008.

Leakages in the baladi bread subsidy system are substantial. Baladi bread leakages at the national level were about 41 percent of the total supply in 2004/05. The higher the leakage is, the higher the cost of delivering subsidies. There is a complete lack of targeting in the system. The system allows all customers to enjoy the benefits and there is minimal supervision to ensure that the bread reaches the poor.

This research focuses on the targeting of baladi bread to the intended customers and explores the policy options in this regard. It derives the income elasticities of baladi bread for three income groups: high income, medium income, and low income. The study clearly illustrates that baladi bread is an inferior good for high-income families. The research also derives the demand function for the group of bread and cereals based on 2008/09 CAPMAS survey.

The study reveals that poverty has almost no weight in deciding on the allocation of bread subsidies to different governorates. Field studies suggest that poor people prefer in-kind subsidies to cash subsidies because they do not trust the government.

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