

Financial Shocks and Coping Strategies in Egypt

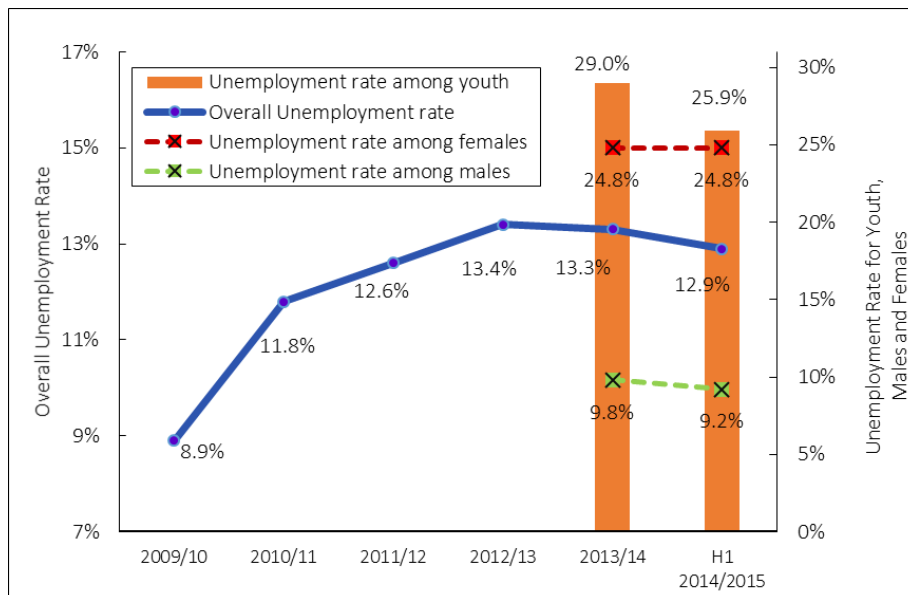
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Introduction

Figure 1 shows the growth of the unemployment rate in Egypt from 2009 to 2015, including highlighting the growth in youth unemployment after the January 25th 2011 revolution.

It could be assumed that household perceptions regarding the key shocks that affected their real incomes would most likely revolve around the breakout of the revolutions, the deterioration in the security situation or even the loss of livelihoods associated with the sudden economic slowdown.

Figure 1: Increasing Unemployment Post-2011 Revolution



Source: CAMPAS quarterly report on employment

1. Key Shocks affect Financial Status

One of the important collected information in Household Income, Expenditure and Consumption Surveys (HIECS) 2011, 2013 and 2015 is the key shocks facing interviewed households and affect their financial situation. Most households facing shocks during the two years preceding the survey, however, there are some shocks mentioned frequently and others mentioned very rare. The most frequent shocks affect the financial status of households are the following shocks:

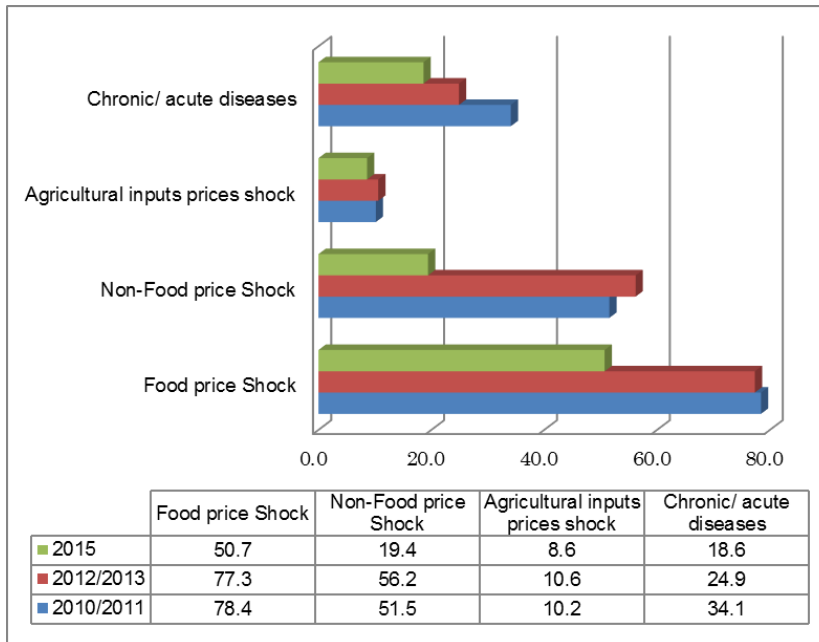
1. Rise in food price shock
2. Rise in non-food price shock
3. Agriculture input prices shock among population in rural areas
4. Chronic/ acute diseases (or any emergency disease facing one of the members)

About half of surveyed households (51%) in 2015 perceived the rise in food prices as a principal shock that affected their financial status during the year preceding the survey, and 63 % of poor households reported that they were significantly affected by the increase in food prices.

This result is very similar to that from the 2011 and 2013 HIECS, where about 77% of households in both 2011 and 2013 reported that they affected by rise in food prices and considered as the principal shock that affected their financial stability. This indicates that household vulnerability is in essence an economic one that revolves around the increasing cost of living and the inability to cope with it. Households did not perceive the political shifts or security situation as the cause of the destabilization of their financial wellbeing. In fact, they perceived price inflation, mainly food price inflation, as the major threat to their financial stability. This perception is not only linked to the actual increase in market prices, it is also linked to the deterioration in the purchasing power of households associated with stagnant incomes, deteriorating quality of jobs, and the overall increase in unemployment rates in the presence of poorly targeted social protection schemes.

Figure 2 demonstrates household perceptions of the shocks affecting their financial status in 2011, 2013 and 2015. The figure shows that the second type of shock most frequently reported by households after the rise in food prices is the rise in non-food prices. This is followed by chronic/ acute diseases or any emergency disease facing one of the members in the household, as well increase in agricultural inputs prices shock (seeds, fertilizers, and chemicals) for households in rural areas.

Figure 2: Shocks Affecting Household Financial Status, 2011, 2013 and 2015



Source: CAPMAS, 2012/2013, 2015 HIECSs, Authors calculations

Table 1 shows the prevalence of main shocks experienced by households and affects their financial situations in urban and rural areas. It shows that rise in food prices is the common shock mentioned by households, where 51% of households exposed to rise in food price shock and affect their financial status during the year prior to the survey, with some differences between urban and rural areas. Households in rural areas are more likely to experience rise in food prices and affects their financial status than those in urban areas. The prevalence of main shocks stated by households and affect their financial status in urban and rural almost did not change overtime, where the frequency of stated shocks has almost the same trend between urban and rural areas in 2011 and 2013.

Table 1: Percentage of households who exposed to shocks and affect their financial status by place of residence in 2011, 2013 and 2015

Residence	2015		2013		2011	
	Food Price Shock	Non Food Price Shock	Food Price Shock	Non Food Price Shock	Food Price Shock	Non Food Price Shock
Urban	48.2	21.8	74.23	57.74	76.29	54.58
Rural	52.8	17.3	79.81	54.94	80.25	48.88
Total	50.7	19.4	77.32	56.19	78.41	51.53

Source: CAPMAS, 2012/2013, 2015 HIECSs, Authors calculations

The second common shock mentioned by households is rise in non-food prices, however, unexpectedly; percentage of households experienced this shock decreased in 2015. Less than one fifth of households in 2015 mentioned rise in non-food shock, while this percentage reached 56% in 2013 and 51% in 2011. Non-food prices related shocks that affect the financial status of households are more obvious among households in urban areas than those in rural areas.

2. Household Coping Strategies

The ability of households to cope with shocks was not only hampered by the exposure to successive economic shocks since 2011, but also by the compounded effect of being exposed to numerous shocks at the same time.

Households adopted various consumption and stress strategies to cope with the increase in food and non-food prices, and other shocks. The coping strategies adopted by households can be grouped into 5 main categories: stress, crises, emergency, consumption rationing, and change in employment strategy. These categories are outlined in Table 2.

Table 2: Household Coping Strategies

Stress Coping Strategy	Borrowing food stuffs and money to buy food Buying food on credit Sending family members to eat at others Selling jewelry or family property to buy food
Crisis Coping Strategy	Using stored grains kept for the coming season Reducing average spending on health and education to save money for food Taking children out of school and sending children to work
Emergency Coping Strategy	Relying on aid from family and friends Seeking aid and charity to buy food
Consumption Rationing Strategy	Relying on cheaper kinds of food Reducing meal portions Reducing the portions given to adults to feed children Spending one or more days without food Reducing the number of daily meals Reducing daily intake of meat, poultry, and fish
Change Employment Strategy	Increasing number of working hours Members not work in the household joined the labor market Change type of work

Source: Authors

There is a clear pattern of association between the types of shocks experienced, and the coping strategies adopted. Households tend to cope with the increase in food prices primarily through consumption rationing strategies in 2015, while they rely more on crisis coping strategies in the case of non-food inflation, and stress coping strategies for agricultural shocks. Similar patterns are observed in 2011 and 2013. However, it should be noted that in 2015, households tended to rely more on the consumption rationing strategy and less on crisis and stress coping strategies to cope with inflation in food prices.

Table 3 shows the distribution of households according to coping strategies adopted for each type of most common shocks in 2011, 2013, and 2015. Table 3 shows that in 2015, households coped with the increase in food prices mainly through Consumption Rationing Strategies (57%); including the reduction of food consumption and increasing reliance on cheaper foods, whereas they coped with the increase in non-food prices mainly through Crisis Coping Strategies (30%) like selling assets, and reducing non-food expenses. The increasing reliance on Consumption Rationing Strategy and Stress Coping Strategies indicate that households compensated for the increase in prices by spending less on food, which in most cases translated into greater spending on cheap calories and less on those micronutrients needed for a healthy balanced diet. It also indicates that households are becoming more vulnerable to future shocks, especially as many of them resorted to stress strategies which make households less resilient.

Table 3: Household Coping Strategies by Type of Shock, 2011, 2013 and 2015

Increase in Food Prices				Increase in Non-food Prices			
Coping Strategy	2015	2013	2011	Coping Strategy	2015	2013	2011
Consumption	57.4	45.3	51.2	Consumption	26.8	18.5	15.7
Stress	16.0	20.3	16.6	Stress	21.3	14.1	14.8
Crisis	16.1	20.1	14.6	Crisis	29.5	57.3	56.4
Emergency	4.8	6.9	8.9	Emergency	8.3	4.6	6.3
Change Employment	5.7	7.4	8.7	Change Employment	14.1	5.4	6.7
Increase in Agriculture Input Prices				Emergency Diseases			
Coping Strategy	2015	2013	2011	Coping Strategy	2015	2013	2011
Consumption	11.2	13.7	15.3	Consumption	18.3	8.8	7.2
Stress	49.7	41.8	41.4	Stress	36.5	53.9	53.7
Crises	19.7	24.6	22.1	Crises	14.3	13.8	13.1
Emergency	5.4	5.0	10.3	Emergency	20.9	15.6	19.1
Change Employment	14.1	14.8	10.9	Change Employment	10.0	7.9	6.9

Source: CAPMAS, 2012/2013, 2015 HIECSs, Authors calculations

Coping strategies adopted for financial shocks change according to characteristics of households. Regarding the rise in food prices shock in 2015, data presented in Table 4 shows that poor households depend on Crisis Coping Strategy (taking children out of school, reduce spending on health and education to buy food, etc) – after Consumption Rationing Strategy - more than non-poor households. Moreover, buying food on credit or borrowing food is more prevalent in rural Upper Egypt, where households in rural Upper Egypt are more likely to adopt Stress Coping Strategy than households in other regions. Slightly less than one fifth of households in rural Upper Egypt (18%) rely on Stress Coping Strategy to cope with rise in food prices, compared to only 13% among households in Metropolitan region.

Table 4: Distribution of households according to coping strategies adopted for rise in food prices by characteristics, 2015

	Consumption coping	Stress coping	Crisis coping	Emergency Coping	Change employment coping	Total
Residence						
Urban	57.9	15.0	16.0	4.7	6.3	100.0
Rural	57.0	16.7	16.2	4.9	5.2	100.0
Region						
Metropolitan	58.5	13.3	16.6	4.8	6.8	100.0
Urban Lower	58.9	15.5	13.6	5.8	6.3	100.0
Rural Lower	59.4	14.6	16.4	4.5	5.0	100.0
Urban Upper	56.6	17.3	16.6	3.8	5.6	100.0
Rural Upper	55.4	18.4	15.5	5.2	5.5	100.0
Frontier	35.1	9.9	48.3	4.0	2.6	100.0
Poverty Status						
Non Poor	56.9	17.2	15.5	4.8	5.7	100.0
Poor	59.0	12.3	18.0	4.9	5.7	100.0
Sex of head						
Male	57.5	15.9	16.3	4.2	6.1	100.0
Female	56.8	16.4	15.1	8.0	3.7	100.0
Education of head						
None	59.1	13.6	16.5	5.9	4.8	100.0
Primary-Preparatory	57.9	14.0	16.3	4.9	6.9	100.0
Secondary	56.8	17.1	16.1	3.8	6.3	100.0
More than Sec	53.0	23.0	14.6	3.2	6.1	100.0
Employment of head						
Wage Earner	58.3	15.6	15.4	4.0	6.7	100.0
Employer	55.8	16.0	18.2	3.1	7.0	100.0
Self-employed	55.3	16.2	16.8	4.0	7.8	100.0
Unpaid Worker	44.4	28.9	13.3	8.9	4.4	100.0

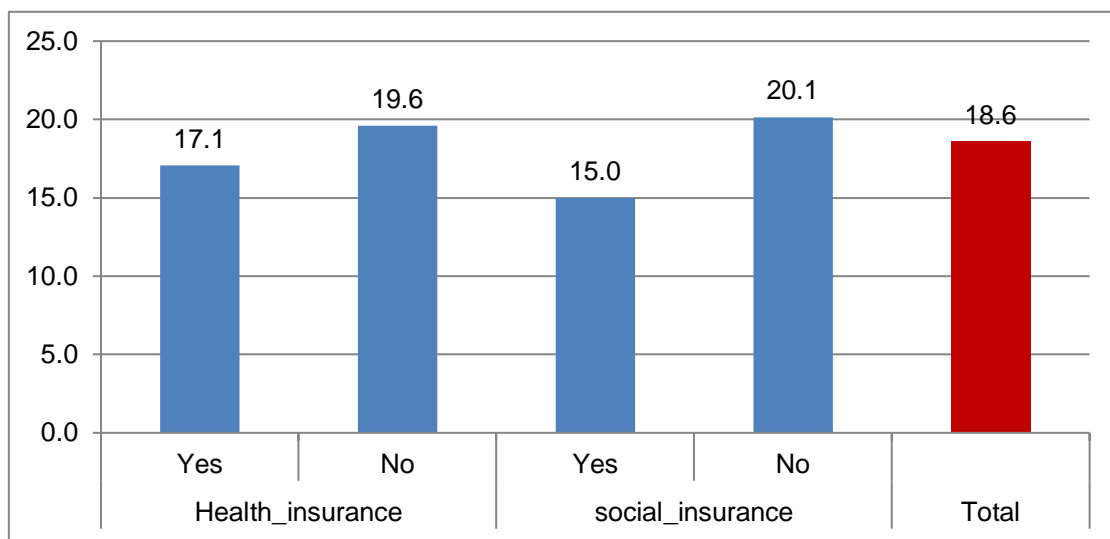
Unemployed	55.0	15.3	13.5	13.5	2.7	100.0
Out of Labor Force	57.2	16.9	16.1	7.1	2.6	100.0
Out of human force	58.7	15.6	15.8	7.8	2.2	100.0
Occupation of Heads						
Agriculture	55.8	13.7	19.7	4.0	6.9	100.0
Non Agriculture	57.6	16.4	15.3	3.8	6.9	100.0
Type of Sector						
Government	56.2	19.1	15.0	3.7	6.1	100.0
Public or Public business	52.4	20.6	17.1	4.5	5.3	100.0
Private investment	58.2	14.3	13.9	5.2	8.4	100.0
Normal Private	58.6	15.4	15.7	3.9	6.4	100.0
Other	59.4	15.6	20.8	3.1	1.0	100.0
Outside establishments	57.1	13.8	17.5	3.6	8.0	100.0
Out of labor force or out of working age	57.8	16.3	15.9	7.5	2.4	100.0
Working stability of heads						
Permanent work of head	56.6	16.7	16.4	3.6	6.7	100.0
Temporary work of head	59.7	12.3	15.2	4.9	8.0	100.0
Household Size						
1-2 persons	57.6	16.9	14.7	7.9	2.9	100.0
3-4 persons	57.3	16.1	16.1	4.8	5.7	100.0
5-6 persons	57.3	15.4	16.6	4.1	6.6	100.0
7-9 persons	57.6	16.1	16.3	3.2	6.7	100.0
10 persons or more	60.5	13.7	18.5	1.2	6.0	100.0
Having a Ration Card						
Have RC	57.3	15.9	16.3	4.8	5.6	100.0
No RC	59.0	16.0	13.2	5.0	6.8	100.0
Total	57.4	15.9	16.1	4.8	5.7	100.0

Source: CAPMAS, 2015 HIECS, Authors calculations

Characteristics of household heads have marked impact on coping strategies adopted by households. Non-educated household heads and those who work in agriculture works are more likely to depend on Crisis Coping Strategy than other households who depends more on other strategies. Additionally, households with heads working in non-private works (government or public) are more likely to adopt Stress Coping Strategy to cope with rise in food prices.

Availability of health and social insurance affect the impact of suffering the household from any disease on its financial status. Figure 3 shows that 20% of households whose heads do not have health insurance reported that they exposed to a financial shock because one of their members suffered from acute/chronic disease, while this percentage declined to 17% among those whose heads have health insurance. The gap is wider for the availability of social insurance, where these figures reached 20% and 15% respectively.

Figure 3: Percentage of households who exposed to acute diseases and affect their financial status according to availability of health and social insurance, 2015



Source: CAPMAS, 2015 HIECS, Authors calculations

Conclusion

Most households facing shocks and affect their financial status, and the most frequent shocks are rise in food and non-food prices, agriculture input prices and suffering one of the household members from chronic or acute diseases. More than half of households in 2015 perceive the rise in food prices and two thirds of the poor reported such shock. Households in rural areas are more likely to experience rise in food prices and almost three quarters of households in most Upper Egypt governorates mentioned food prices as the main shock that affect their financial status.

Households tend to cope with the increase in food prices primarily through Consumption Rationing Strategy in 2015 including the reduction of food consumption and increasing reliance on cheaper food.

Social safety net affects the prevalence of facing financial shocks and the used coping strategy. Households who own ration cards are less likely to suffer rise in prices shocks, and availability of health and social insurance decreases the exposure to financial shock if one of the household members suffer chronic or acute disease.