WFP

World Food Programme

SAVING LIVES
CHANGING LIVES

Ukraine Conflict

Impact on RBC operations and MENA economies

RBC RAM | March 2022

Global grains and energy markets in turmoil

The conflict in Ukraine threatened both the availability and economic accessibility of key staples:

Globally, Russia & Ukraine combined represent:

33%
of wheat exports
(55 mln tons)

20%
of corn exports

80%
of sunflower oil
exports

Globally, Russia represents:

9%
of mineral
fuels exports

9%
of natural gas
exports

13%
of fertilizers
exports

- Amid the conflict, trade from **Black Sea region** has become stranded and commercial movement in the Azov Sea stands is closed. **USA** announced the suspension of energy exports from Russia, among other trade restrictions from the west. **Russia** is suspending the export of wheat, rye, barley and corn to ex-Soviet countries which includes Armenia.

As a result, commodity futures of both agriculture and energy spiked.

World Food Programme

Agricultural commodity futures

U.S. wheat futures climbed past their record highs reached in 2008. The strength prevailing in wheat markets has also influenced maize quotations.

Figure: Wheat futures, May 2022

+20% m-o-m

+78% y-o-y

Figure: Corn futures, May 2022

+9% m-o-m

+37% y-o-y

WFP World Food Programme

Source: CNBC, CBOT, screenshot taken on 23rd of March

Energy commodity futures

High and volatile energy prices have also been at play affecting agricultural commodities: directly through fuel/gas and indirectly through agri-chemicals such as fertilisers, pesticides and lubricants.

Figure: Brent futures, May 2022

+23% m-o-m

+82% y-o-y

Figure: Natural gas futures, May 2022

+12% m-o-m

+105% y-o-y

Note: Industrial and metal futures also witnessed price increases. Further information is available through (Link1, Link2).

Source: CNBC, CBOT, screenshot taken on 23th of March

WFP World Food Programme

Impact on global food prices

Increasing global food prices

An impact estimation and scenarios building for the impact of recent invasion on global food prices and all associated determinants are the first building blocks of our analysis.

- Global food prices have seen near-uninterrupted increases since H2 2020 following the pandemic and associated supply chain disruptions. In February 2022, the FAO Food Price Index (FFPI) reached an all-time high.
- What happens if we capture the impact of the recent conflict as well:
  - **Supply shock**: 8-16 million tons reduction in global trade volume of wheat.
  - **Fuel prices:** hit record highs and that affect transportation costs and shipping rates. On 11th of March, the brent price per barrel made USD 109.

Note: FAO Food Price Index (FFPI) is a measure of the monthly change in international prices of a basket of food commodities; cereals, meat, dairy, vegetable oils, and sugar. It consists of the average of five commodity group price indices weighted by the average export shares of each of the groups over 2014-2016.

Figure: FAO Food Price Index

Source: FAO

WFP
World Food Programme

Increasing oil prices

An impact estimation and scenarios building for the impact of recent invasion on global food prices and all associated determinants are the first building blocks of our analysis.

- Global food prices have seen near-uninterrupted increases since H2 2020 following the pandemic and associated supply chain disruptions and in February 2022, the FAO Food Price Index (FFPI) reached an all-time high.
- What happens if we capture the recent conflict as well:
  - **Supply shock**: 8-16 million tons reduction in global trade volume of wheat.
  - **Fuel prices:** hit record highs and that affect transportation costs and shipping rates. On 11th of March, the brent price per barrel made USD 109.

Figure: Brent Prices, USD/Barrel

Source: EIA

Crisis and conflict then (1979/80 & 2008) and now

A comparison between the current conflict and 1979-1981:

Now: sanctions on energy exports from Russia, conflict in the region, and spiraling food and energy prices.

1979: oil supplies disruptions following the Iranian revolution of 1979 or the outbreak of the war between Iran and Iraq in 1980.

1979/80	2022
USD 112 (inf. Adjusted)	**USD 100-110** (estimated)

The current conflict and 2008 crisis:

FAO FFPI spiked in 2008 with an average annual of 25 percent. In 2021, the index reported an average annual increase of 28 percent.

Similarly, crude oil prices in March 2022 were the highest ever since 2008.

Yet, these comparisons should be considered with caution. The financial crisis in 2008 was demand type of shock, while what we are facing now is more of a supply shock.

Indicator	2008	2021	2022 (2m)
Food Price Index-FAO			
FAO FPI- annual %	25%	28%	20%
FAO Cereals Index- annual %	36%	27%	14%
FAO Vegetable oils Index- annual %	31%	66%	35%
Crude Oil			
Crude Oil- USD/barrel	100	68	92
Crude Oil- annual %	38%	74%	57%

Spiralling price of staple foods

FAO Projections

	Annual loss in global trade volumes: Moderate Shock	Annual loss in global trade volumes: Severe Shock	Increase in annual prices, globally: Moderate Shock	Increase in annual prices, globally: Severe Shock
Wheat	**8** mill ton of wheat	**16** mill ton of wheat	**+8.7%** y-o-y of wheat	**+21.5%** y-o-y of wheat
Maize	**7** mill ton of maize	**12** mill ton of maize	**+8.2** y-o-y of maize	**+19.5%** y-o-y of maize
Other coarse grains	**2.5** mill ton of other coarse grains	**5** mill ton of other coarse grains	**+7%** y-o-y of other coarse grains	**+19.9%** y-o-y of other coarse grains
Oilseeds	**1.5** of other oilseeds	**3** of other oilseeds	**+10.5%** of other oilseeds	**+17.9%** of other oilseeds

WFP World Food Programme

The story behind vegetable oil: the conflict and beyond

Vegetable oil is constantly recording the highest increase rates:

- Given the significant export shares of Ukraine and the Russia in the global sunflower seed oil market (80 percent), any disruption to their shipments would have notable implications for major sunflower oil importers, namely India, EU, China, and Turkey.
- Beyond the conflict, the continued price strength mostly stemmed from rising palm, soy, and sunflower oil prices. In February, international **palm oil** prices increased for the second consecutive month due to the sustained **global import demand** that coincided with **reduced export availabilities** from **Indonesia**, the world's leading palm oil exporter.
- In the meantime, world soy oil values continued to rise on **deteriorating soybean production prospects** in **South America**.

Source: FAO, link

More insights on dairy products:

International quotations for all dairy products represented in the index firmed, underpinned by the continued tightening of global markets on the back of lower than expected milk supplies in Western Europe and Oceania. Besides tight global supplies, persistent import demand, especially from North Asia and the Middle East, led to steep increases in whole milk powder and cheese price quotations. International skim milk powder prices rose significantly as well, reflecting a lower volume of milk deliveries for drying plants in Western Europe, while butter prices received a boost from high demand for spot supplies.

Source: FAO, Link.

Transmission rate from international markets to domestic markets

Transmission rate and speed – literature review

I- Regional food price transmission, FAO 2014, link:

- The transmission of international commodity prices to food consumer prices is generally incomplete, lagged, and differ across regions.
- In developing regions, the maximum impact is generally felt sooner after the initial shock, often in the 1st or 2nd month.
- The highest impact is greater in developing regions, where it reach **0.05** (Eastern Africa), compared to **0.01** in North America and Europe.
- According to Eastern Africa figures, *the transmission rate of global food price increase could be as high as 0.11 within the next 4 months.*
- *The study leveraged FAO FPI and regional food CPIs from 2001-2013.*

Table 1: *Response of regional food consumer prices to a 1% shock in the FAO Food Price Index*

		North America	Europe	South America	Central America	South-Eastern Asia	Southern Asia	North Africa	Western Africa	Eastern Africa	Southern Africa
Highest effect (%)		0.01	0.01	0.02	0.01	0.02	0.02	0.01	0.03	0.05	0.03
Horizon at which highest effect occurs (month)		8	11	1	2	2	1	7	7	2	13
Response (%) after:	2 months	0.01	0.01	0.03	0.01	0.02	0.03	0.01	0.03	0.05	0.0
	4 months	0.03	0.02	0.05	0.04	0.04	0.04	0.03	0.06	0.11	0.02
	8 months	0.07	0.06	0.08	0.07	0.10	0.06	0.07	0.16	0.21	0.10
	16 months	0.14	0.13	0.11	0.12	0.21	0.08	0.13	0.33	0.47	0.28
	32 months	0.22	0.19	0.12	0.20	0.38	0.20	0.25	0.60	0.79	0.54
	Long-term	0.30	0.27	0.42	0.47	0.57	0.54	0.53	0.90	1.05	0.64

Source: author's calculations

Note: the highest effect corresponds to the highest IRF which did not include 0 in its 95% confidence interval; the responses for each horizon (2 months, 4 months, etc.) correspond to the sum up to the given horizon of the IRF which did not include 0 in their confidence interval; the long-term elasticity is the sum of all the IRF statistically different than 0 at the 95% threshold.

Transmission rate and speed – literature review

II- Price Transmission from International to Domestic Markets, World Bank, 2017, Link:

- On average, roughly **three-quarters** of a change in international prices will be transmitted to domestic markets in the long run. The study indicates a relatively slow rate of PT as it takes approximately **6-7 months** for **one-half of a given price shock** on international cereal markets to be transmitted to domestic markets.
- *An increasing ratio of net imports to domestic consumption is associated with slower PT, which may be an indication of increased intervention on politically more sensitive markets. (using FAO GIEWS until 2011).*

Table 4: Average estimates of the long-run PT coefficient β taken the literature and GIEWS samples, by product and region

	Maize		Rice		Wheat		*All three cereals*	
	GIEWS	Lit.	GIEWS	Lit.	GIEWS	Lit.	*GIEWS*	*Lit.*
Asia & ME	0.77	1.03	0.53	0.60	1.97	1.09	*0.87*	*0.67*
E. Africa	0.93	0.76	0.87	0.48	0.76	0.65	*0.89*	*0.72*
W. Africa	0.42	1.74	0.64	0.46	1.27	-	*0.60*	*0.63*
Europe	0.82	0.61	0.92	0.54	0.98	0.94	*0.88*	*0.71*
L. America	0.69	-	0.69	0.55	1.14	-	*0.73*	*0.55*
N. America	-	-	-	1.00	-	0.89	-	*0.89*
Oceania	-	-	0.91	-	-	-	*0.91*	-
All regions	*0.72*	*0.78*	*0.66*	*0.55*	*1.41*	*0.89*	*0.76*	*0.74*

Note: Averages by region and cereal weighted by the number of observations in each category.
Source: Own calculations with literature sample and GIEWS price data.

WFP World Food Programme

Transmission rate : conclusions

- *The transmission of international commodity prices to food consumer prices is generally incomplete, lagged, and differ across regions, according to literature.*
- *But the overall impact is highly dependent on local factors that will determine the overall impact of the conflict on each economy.*

Impact on local economies

Implications on the MENA (Vulnerability indicators)

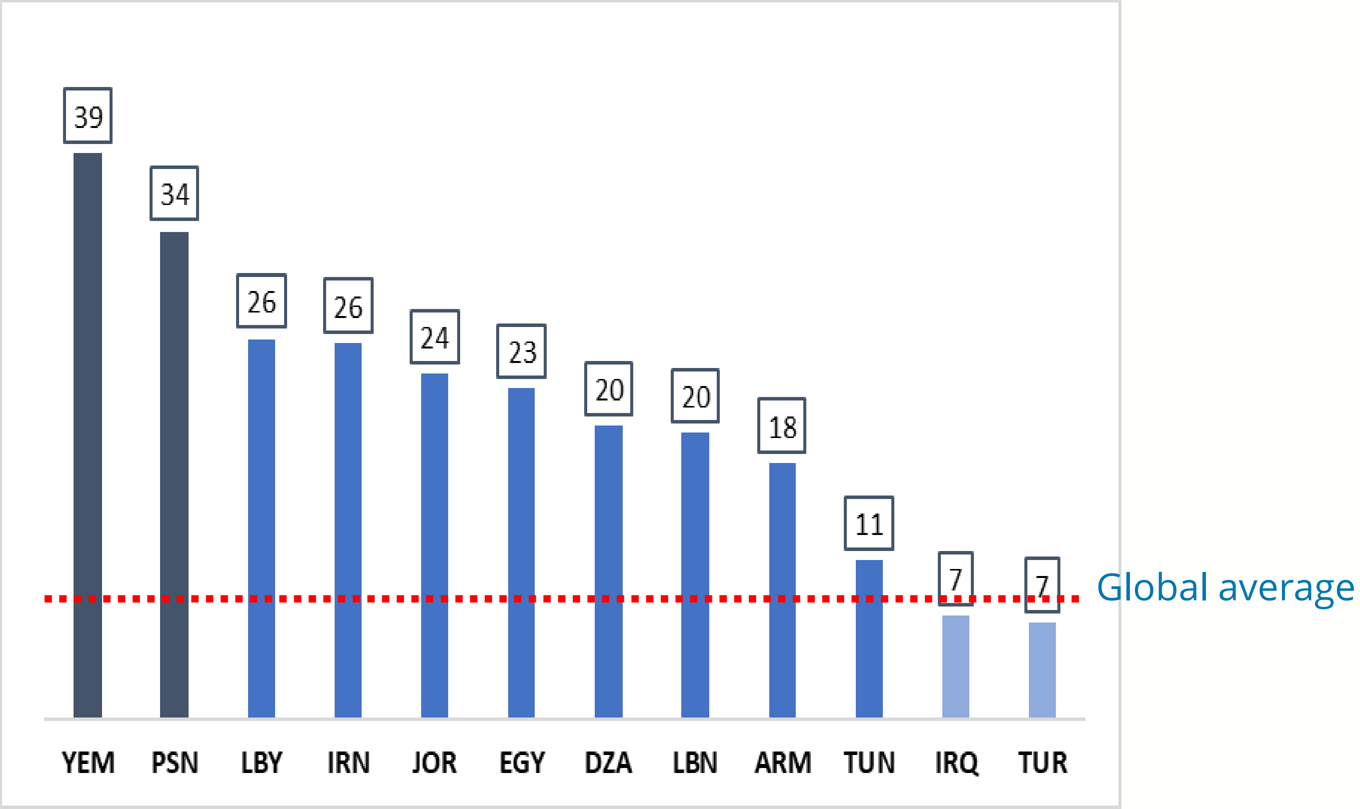
Reliance on global trade	Economic structure	Purchasing power
Food imports share	Tourism	Inflation rates
Import dependency ratios	Oil rent	Currency fluctuations
Food reserves	Remittances	Unemployment rates

Implications on the MENA
(Reliance on global trade)

Food imports share in Yemen is 4 times the global average

- Food imports, as a share of total merchandize imports, are exceptionally high in the MENA region (2.4 times the global average).
- **Yemen** and **Palestine** are the two countries recording highest food imports share.

Figure: Food imports, as % of total merchandize imports, 2020

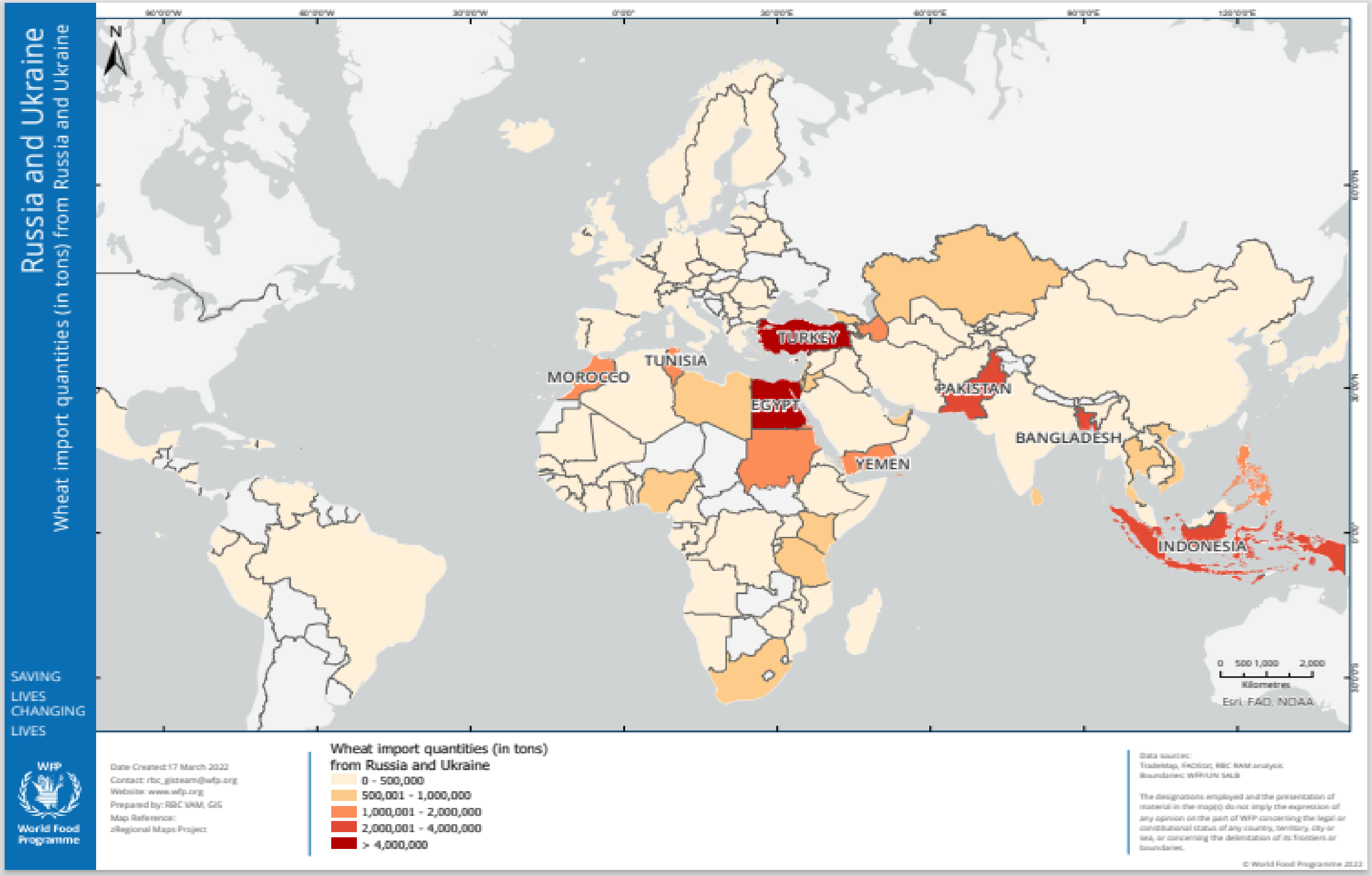


Source: World Development Indicators. Shares refer to 2020 or latest available

MENA is the largest grains importer from Russia and Ukraine

37 percent of wheat exports volume from Russia and Ukraine goes to Egypt and Turkey.

MAP: Wheat import quantities (in tons) from Russia and Ukraine

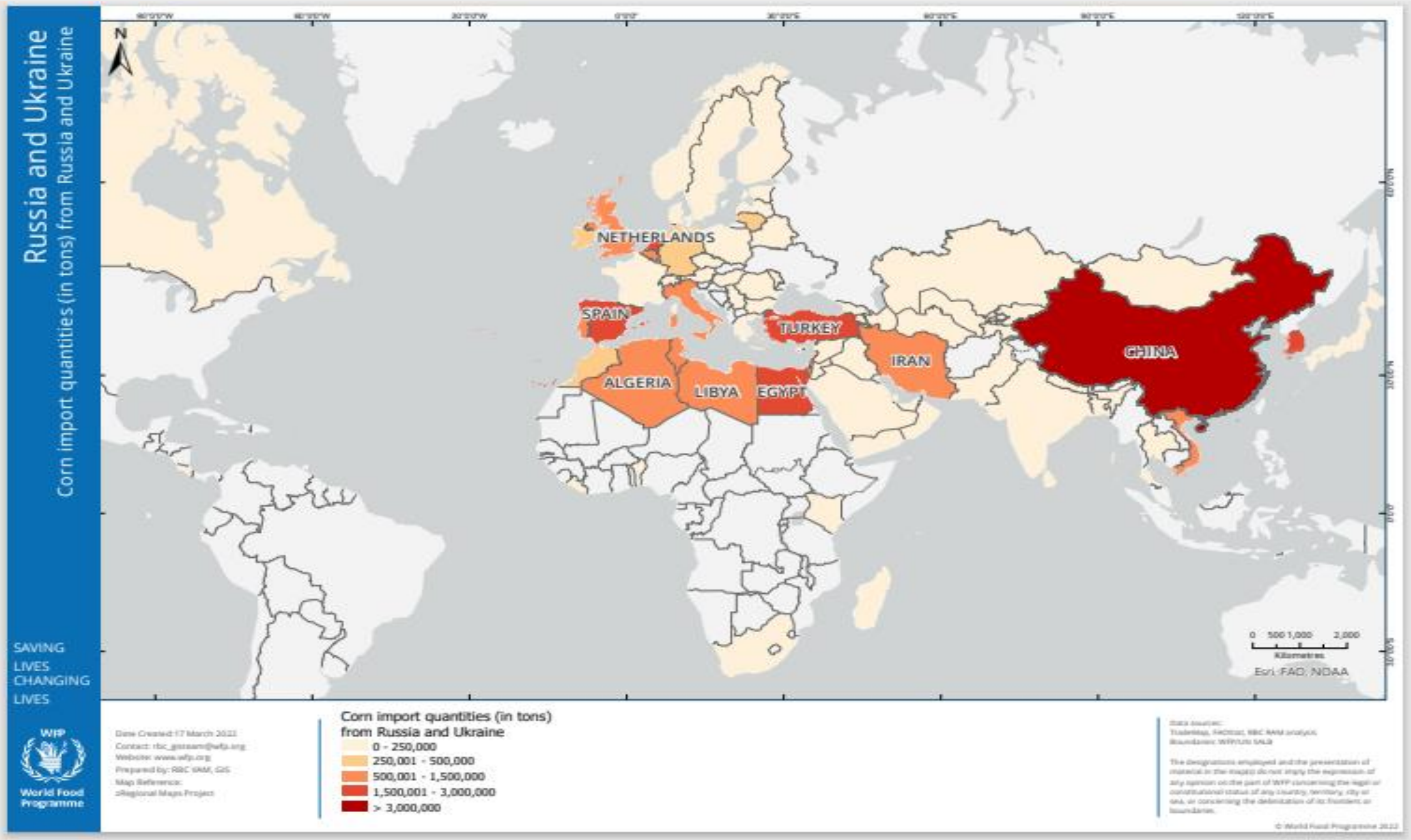


World Food Programme

MENA is the largest grains importer from Russia and Ukraine

17 percent of corn/maize exports volume from Russia and Ukraine goes to Egypt and Turkey.

MAP: Corn import quantities (in tons) from Russia and Ukraine

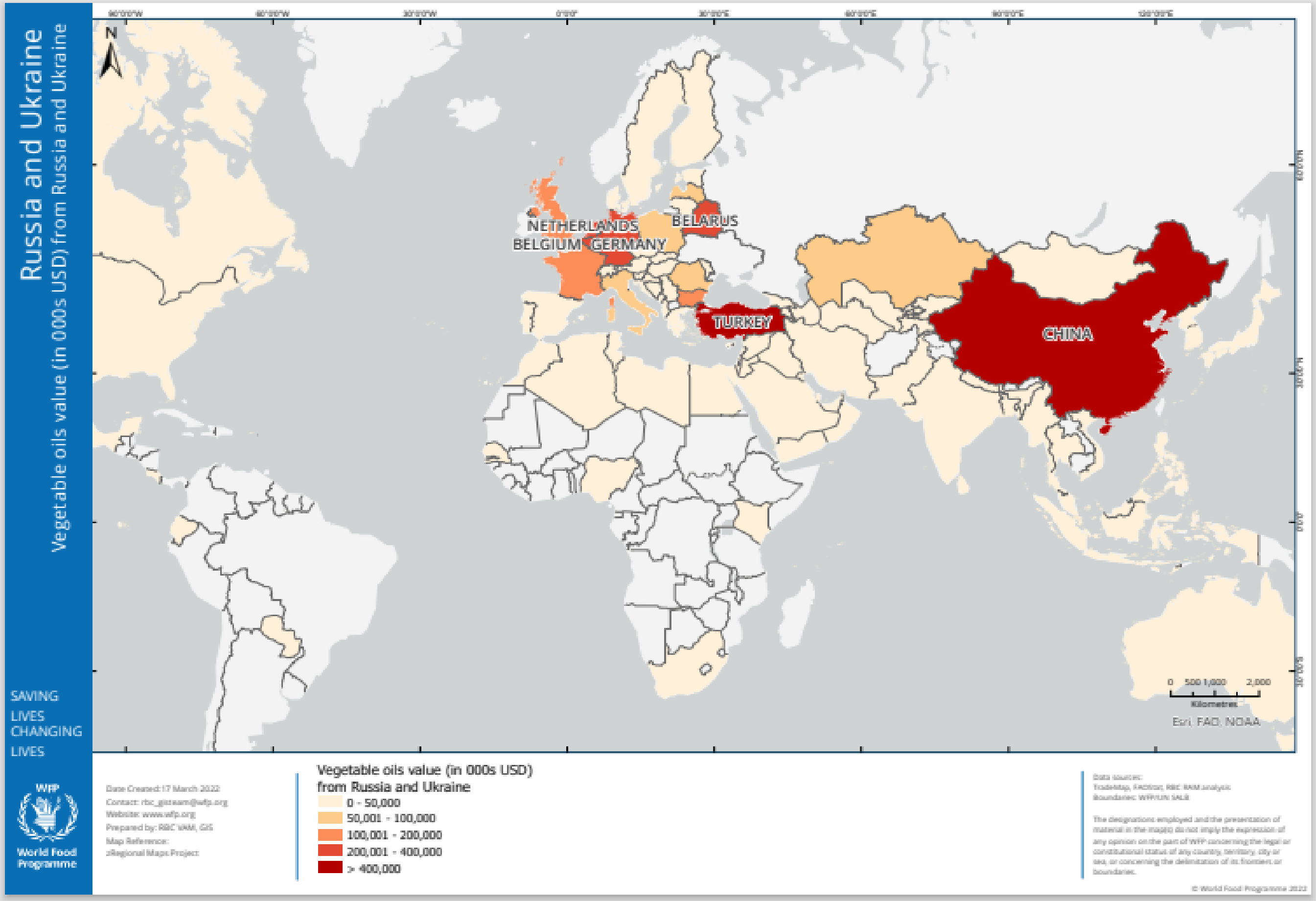


World Food Programme

MENA is the largest grains importer from Russia and Ukraine

- 16 percent of vegetable oils exports value from **Russia** and **Ukraine** goes to **Turkey**, the largest importer in the region from the black sea.
- But **Egypt** and **Turkey** are the two most populous countries in the region! (~190 Million equiv. to 42 percent of total population in RBC).
- How about import dependency ratios? And the share of imports sourced from the black sea?
- Will Egypt and Turkey remain the two countries with the highest risk?

MAP: Vegetable oils import value (in 000s USD) from Russia and Ukraine

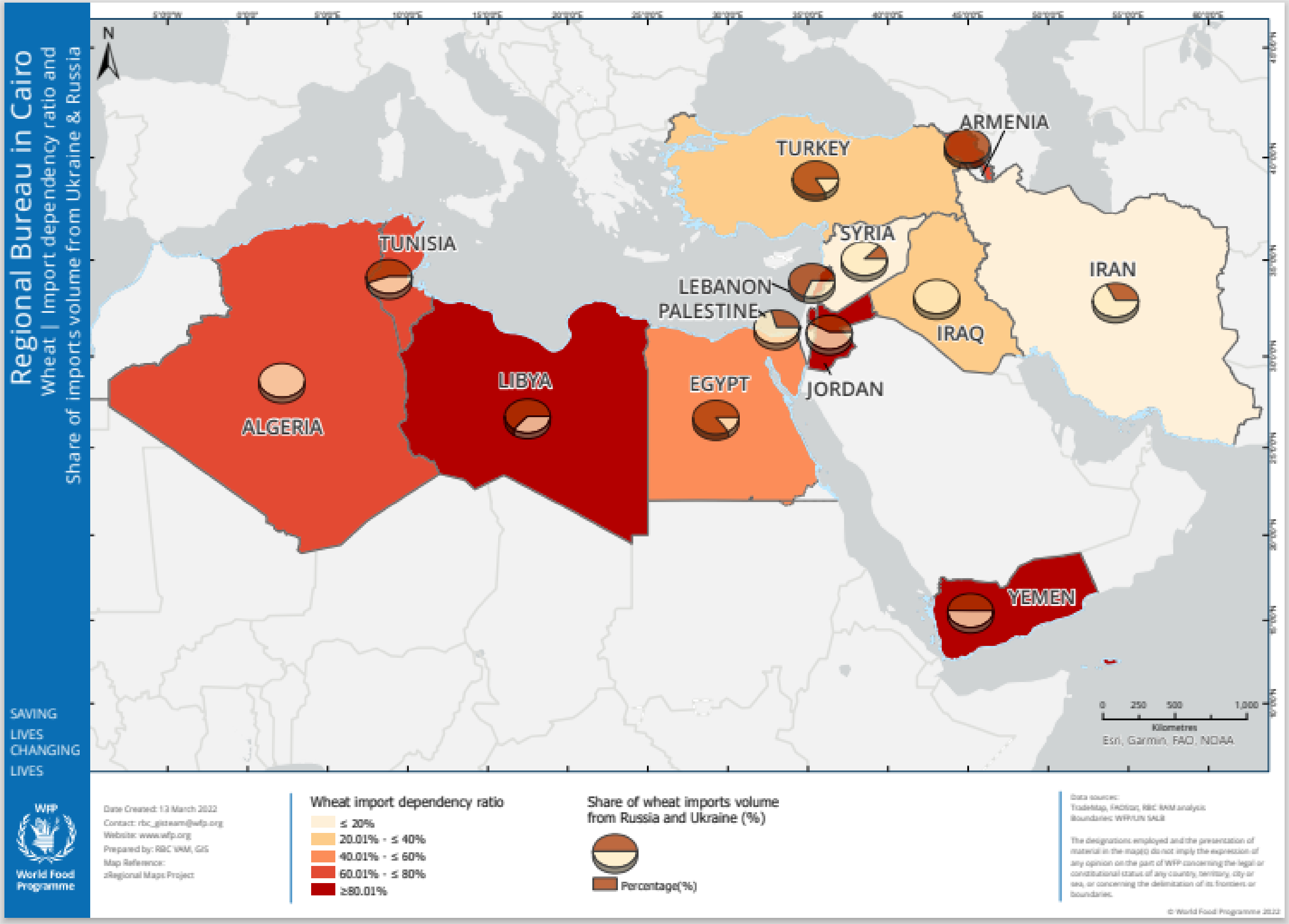


WFP
World Food Programme

Import quantities and import dependency ratio are two different stories

- **Armenia**, **Lebanon**, **Libya**, **Jordan** and **Yemen** are at higher risk for relatively high wheat import dependency ratio and high share of sourced wheat imports from **Russia** and **Ukraine.**
- In **Armenia**, 100 percent of wheat imports are coming from the black sea!
- **Egypt** and **Turkey** are top importers of wheat worldwide from the black sea, yet their domestic production share stands at 39-52% respectively.

MAP: Wheat import dependency and share of imports volume from the black sea

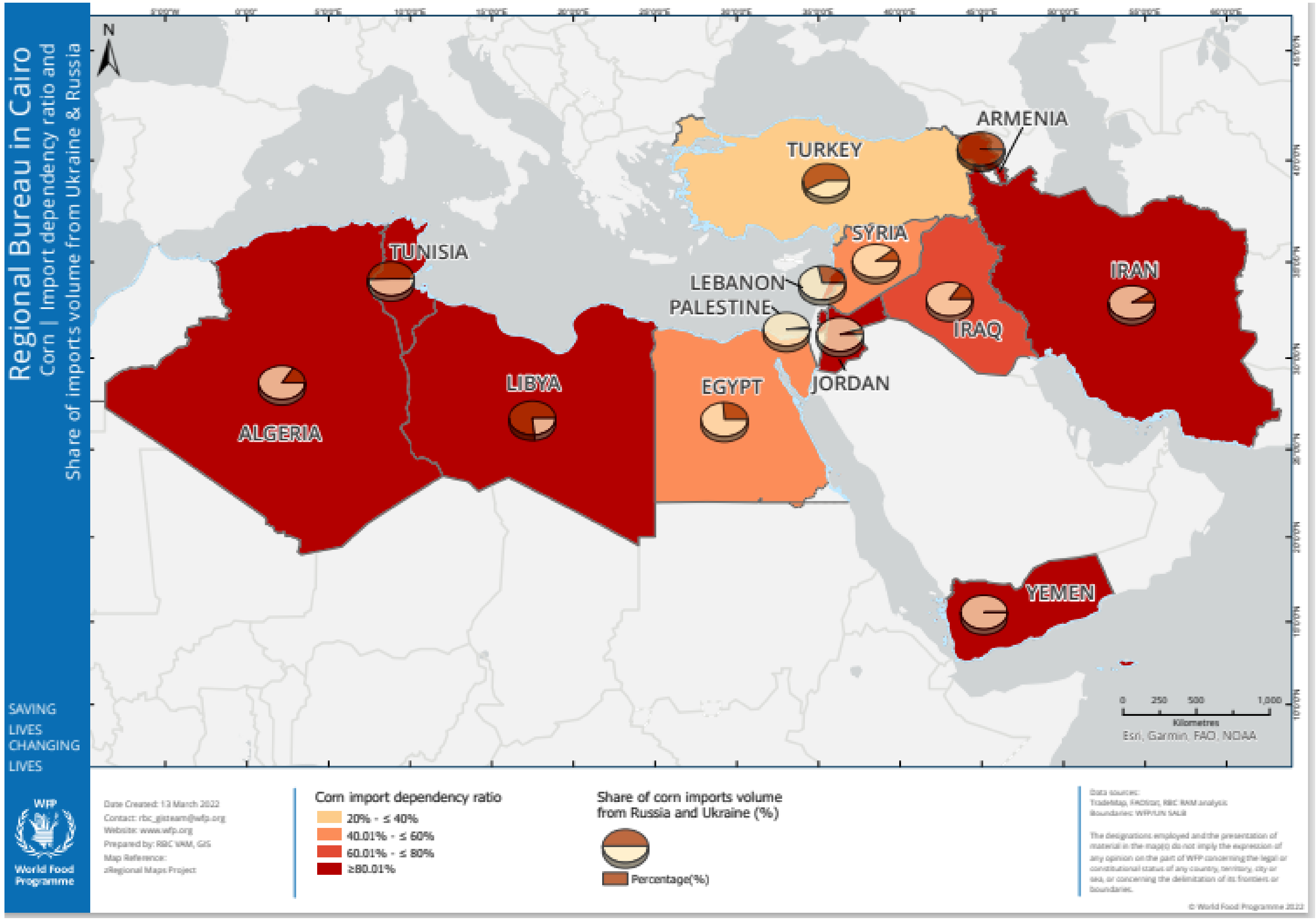


World Food Programme

Import quantities and import dependency ratio are two different stories

- The region is more dependent on maize/corn imports to meet its domestic consumption; the regional average maize important dependency ratio stands at 81 percent against 62 percent of the regional average wheat import dependency ratio.
- **Armenia**, **Libya**, and **Tunisia** are at higher risk for relatively higher maize import dependency ratio and high dependency on the black sea to source these maize imports.
- Jordan

MAP: Maize import dependency and share of imports volume from the black sea

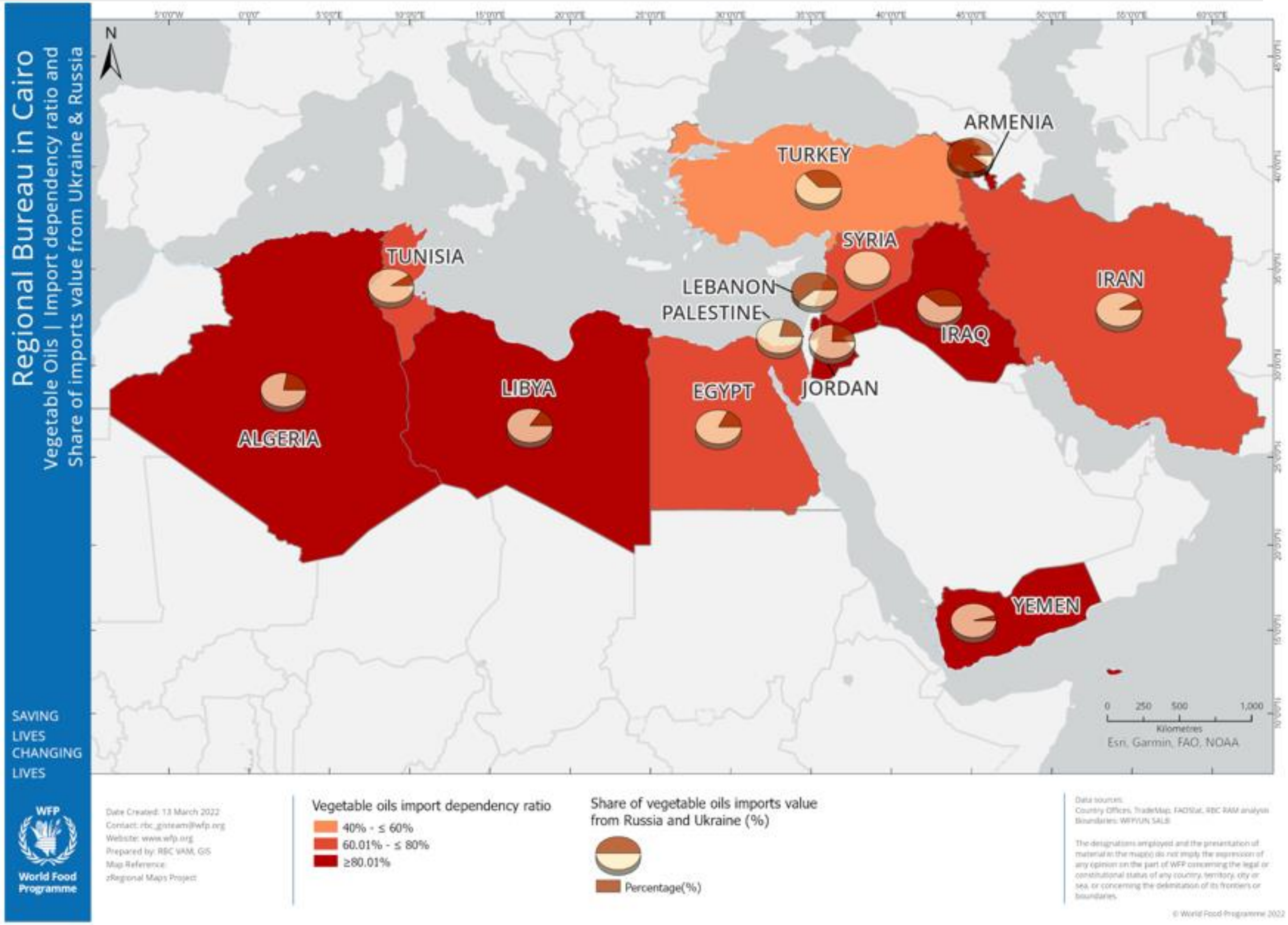


WFP
World Food Programme

Import quantities and import dependency ratio are two different stories

- In terms of Vegetable oils: countries in the region are heavily dependent on imports to meet their domestic demand with an average import dependency ratio of **81** percent, but they are not heavily relying on sourcing from Russia or Ukraine.
- **Armenia**, **Lebanon**, **Turkey,** and **Iraq** are the countries that rely more on the black sea (90, 61, 37, and 32 percent, respectively).
- Nearly half of MENA countries depend on no less than 90 percent of imports to meet the domestic needs of vegetable oils.
- While some countries in the region rely on imports from southeastern Asia such as Egypt and **Tunisia,** others rely on **Turkey** such as **Libya, Syria, Iran, Iraq, and Yemen** which indicates an implicit importation from the black sea because **Turkey** relies on imports from the black sea.

MAP: Veg. oils import dependency and share of imports volume from the black sea



WFP World Food Programme

Lebanon, Armenia, and Iraq might face wheat shortage

	Egypt	Jordan	Libya	Lebanon
Wheat stock in months	**4.5**	**15**	**6**	**1.5**

- In **Armenia**, official stock level has not been shared.
- The Egyptian government considers securing longer-term tender contracts with alternative sources of grain export, such as Australia and Argentina. On the 12th of March, Egypt **banned exports** of wheat, flour, lentils, pasta, flour, fava beans, corn, and vegetable oils for three months from March 11. (Source Link)
- **Source Links for wheat stock**: Egypt, Jordan, Libya, Lebanon.

WFP World Food Programme

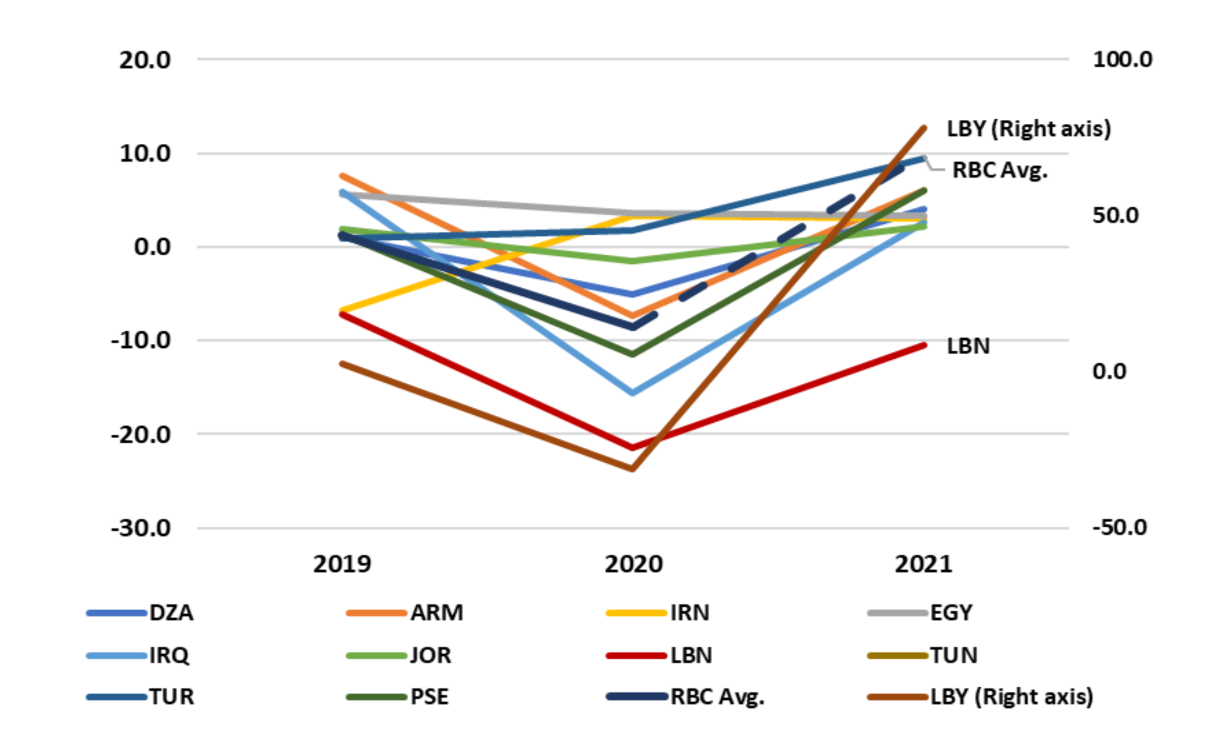
Impact on local economies

(Economic Structure)

MENA economies are highly susceptible to global trends

- In 2020, economies of the region contracted, on average, by **8.6** percent following the pandemic, however, rebounded by **9.8** percent in 2021.
- **Lebanon** is the only country that experienced further contraction in the economy in 2021. The ongoing economic crisis and political instability led to further contraction in the economy by 10.5 percent in 2021.
- **Libya** (Right axis) shifted from an alarming economic contraction of more than 31 percent in 2020 to 78 percent annual growth in 2021.

Figure: GDP growth rates



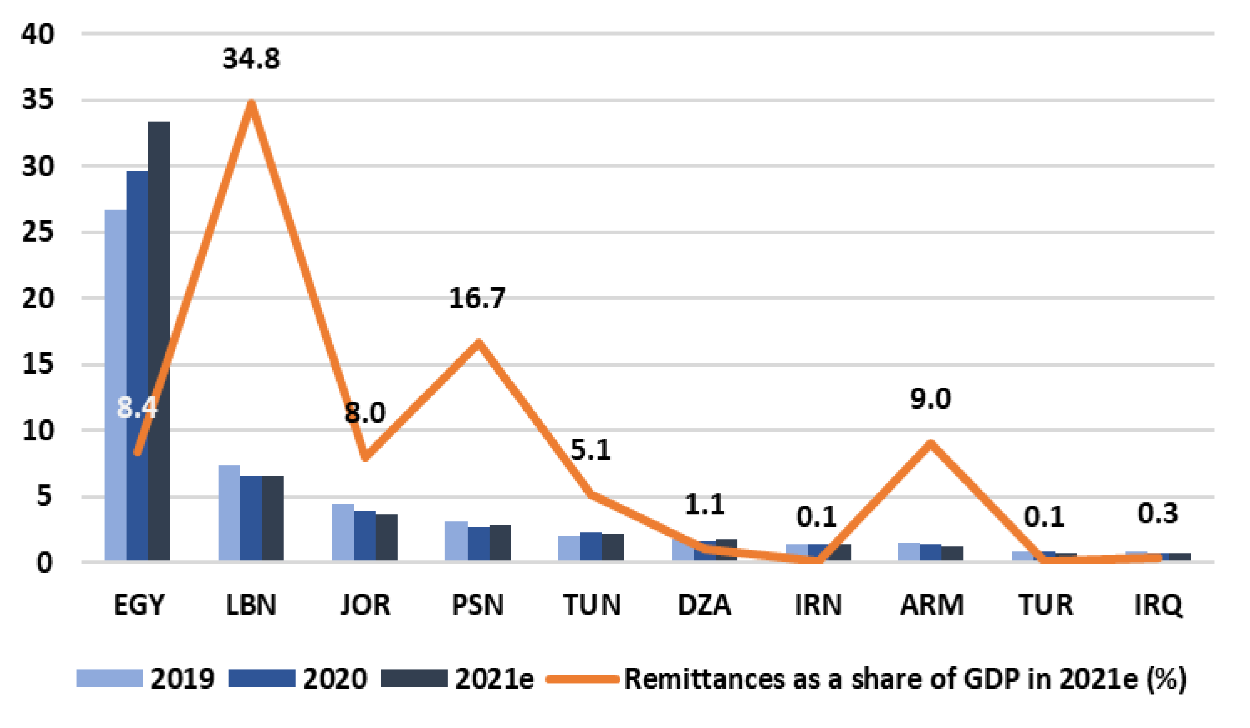
World Food Programme

Source: WB. No data is available for Syria or Yemen.

The impact of the conflict on remittance inflows depend on the main source of these remittances

- Remittances inflows witnessed 14 percent decline between 2020 and 2021 in **Turkey** and 7 percent annual decline in **Armenia**, **Jordan**, and **Tunisia**.
- **Egypt**, the largest recipient of remittance inflows in absolute values in the region, reported 13 percent annual increase.
- **Lebanon**, the country with the largest share of remittance inflow share of GDP, witnessed a slight annual decline of 0.3 percent in 2021.
- Majority of remittance inflows is coming from GCC countries whose economies may boom following jump in crude oil prices which promise steady and uninterrupted flow of remittances. The
- In Armenia, the story is different with Russia being the most popular destination for 73 percent of Armenian migrants.

Figure: Remittance inflows (bn USD) and share of GDP (%)



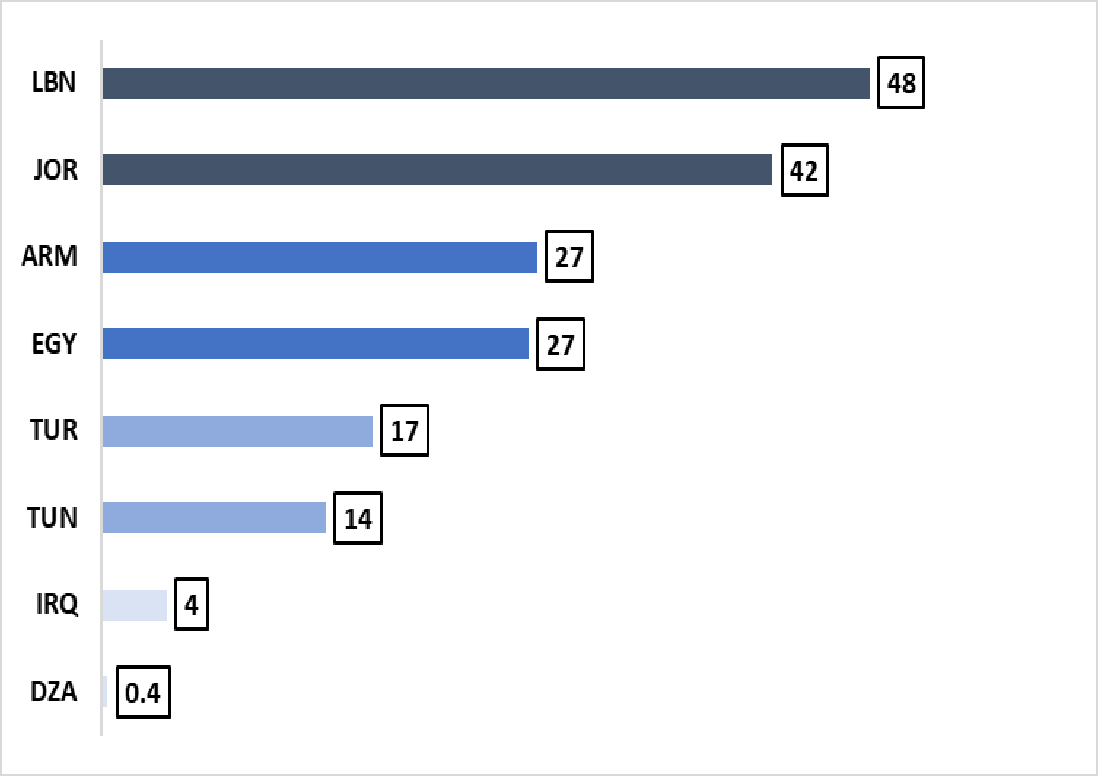
World Food Programme

Source: WB, no data for Syria, Yemen or Libya

Tourism is a main source of income and foreign currency

- Nearly half the countries in the region rely on tourism as one of the main sources of hard currency and income.
- In 2019, tourism revenues in **Lebanon** and **Jordan** represented 48 and 42 percent of total exports, respectively, followed by **Armenia** and **Egypt** (27 percent each).
- Tourism revenues are also critical for **Turkey and Tunisia.**

Figure: Tourism receipts, share of total exports in 2019



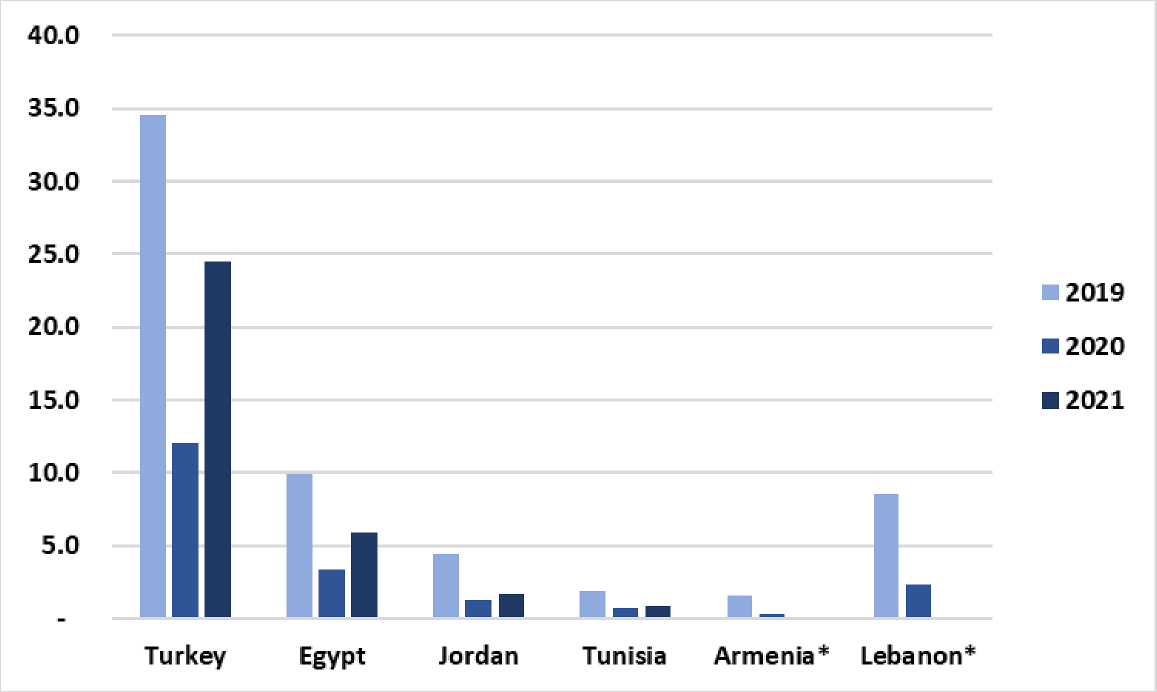
Source: World Development Indicators, World Bank

World Food Programme

Tourism revenues slumped in 2020 as a result of the pandemic and it didn’t fully recover in 2021

- The pandemic affected severely tourism revenues of these six countries in 2020; 67 percent decline, on average, for a total of USD 20 bn in 2020.
- The sector partially recovered in 2021 for most countries just before the invasion that threatens tourism flows from Russia and Ukraine.
- Tourists from Russia and Ukraine represent at least ***30*** percent of total # of tourist arrivals in **Egypt** and the figure is ***23*** percent in **Turkey**, respectively.

Figure: Tourism revenues, in BN USD



World Food Programme

Source: Central Banks and official statistical centers. No data available for LBN or ARM in 2021.

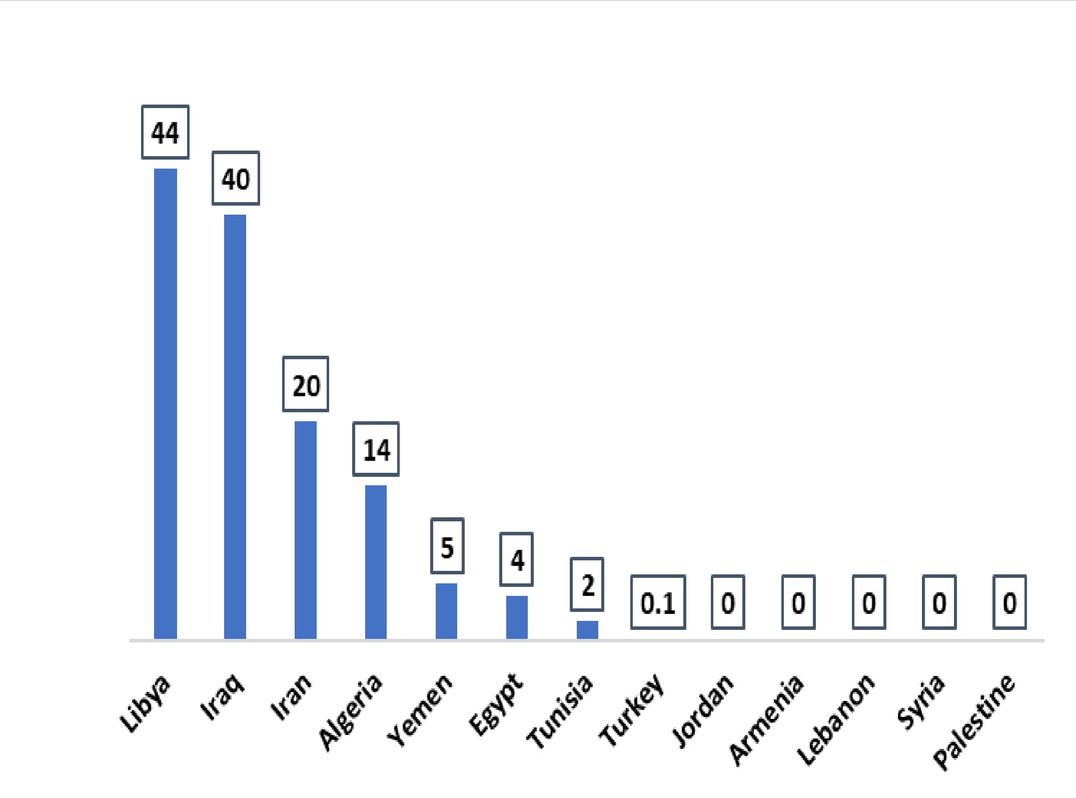
Additional Insights on tourism..

- Egyptian media reported that travel bookings for Russian and Ukrainian tourists fell by 30% in February.
- After a six-year ban was lifted in July 2021, more than **700,000 Russians** visited Egypt in 2021. According to the latest statement by the vice minister for Tourism at the Ministry of Tourism and Antiquities of Egypt, **1.2 million Ukrainians** visited Egypt from July 2020 to July 2021.
- Prior to the COVID-19 pandemic, Russian and Ukrainian tourists accounted for almost **30%** of annual visitors to Egypt. Ukraine's closed airspace and damaged economy – and the likely decline in the value in the Russian rouble – would severely curtail these numbers in 2022.
- Source: Ahramonline news, Feb. 2022, link

Four countries in MENA are net oil exporters

- Four countries in the region are net oil exporters namely **Iraq**, **Iran**, **Algeria**, and **Libya**.
- As a share of GDP, **Libya** and **Iraq** reported the highest share of oil rents in 2019 at 44 and 40 percent, respectively.

Figure: Oil rents, share of GDP in 2019



Source: World Development Indicators, World Bank

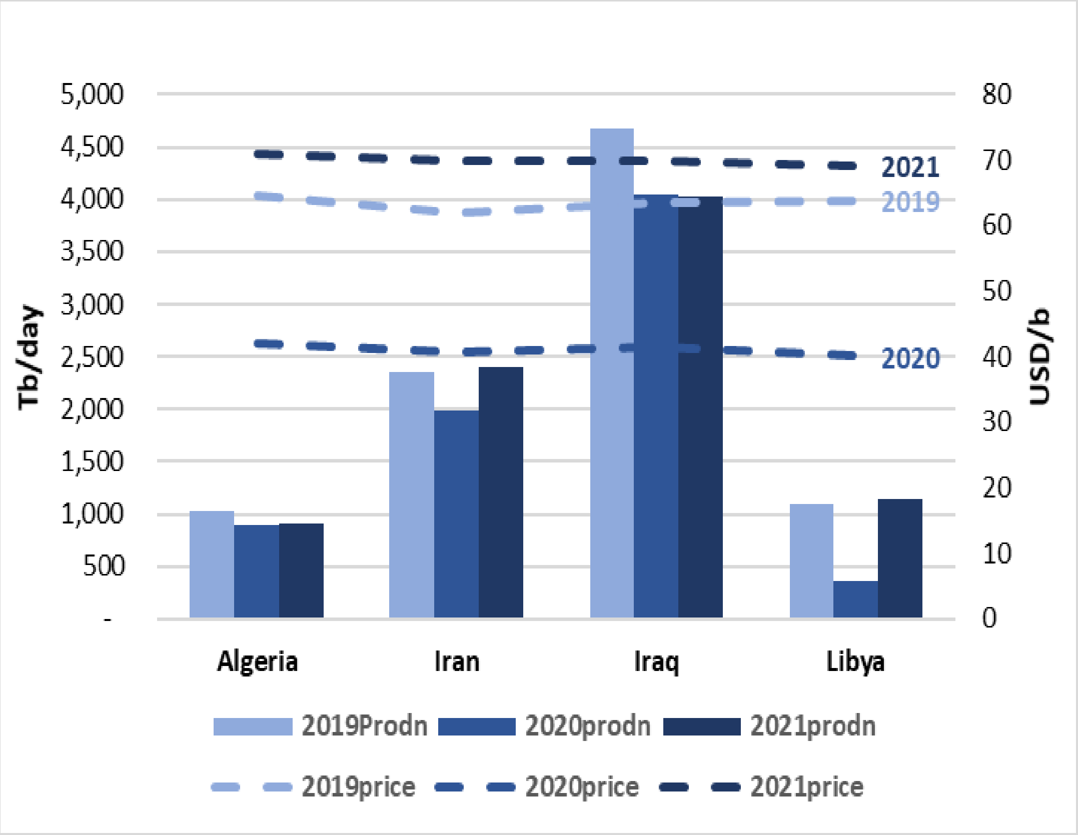
World Food Programme

Oil revenues picked the pace in 2021 after a decline in 2020

- The year of the pandemic witnessed a decline in global oil prices and production across the four net oil exporting countries.

- In 2021, global oil prices recovered, and oil production increased, especially in **Libya**, resulting in a significant improvement in oil revenues between 2020 and 2021.

Figure: Oil production (tb/day) and oil prices (USD/barrels)



Source: OPEC

WFP World Food Programme

Higher crude prices might narrow, to an extent, the fallout of the war

	Oil export revenues (BN USD) 2021	2022	*Food imports (BN USD)* 2021	2022	*Increase ratio (Food imports/ oil revenues)* 2022
(Iraq flag)	75	107	12	14.4	0.07
(Algeria flag)	19.1	26.9	10.0	12.0	0.26
(Libya flag)	21.5	31.2	3.92	4.7	0.08
(Iran flag)	34.5	49.4	12.4	14.8	0.17

Assumption: countries that are net oil exporters could be in better position because higher oil revenues might narrow the fallout of the war and higher food import bills.

WFP World Food Programme

Notes on oil revenues and food imports estimations

Oil revenues:

- 2020 figures are based on annual average of ~USD 70/barrel and 2021 estimates are based on USD 100/barrel
- For Iran, oil export revenues in 2021 are not available. Therefore, we calculated 2021 figure based on share of oil export revenues to total oil revenues in 2020 (56.3 percent) and then we multiplied total oil revenues in 2021 sourced from OPEC by the 56% to estimate the value of export revenues in 2021 = USD 34.5 bn.

Food imports:

- Food imports values are sourced from official statements available through national news (Iraq) and from trade map through summing all food related products – for Libya, Iran, and Algeria.
- Estimated food imports in 2022 are based on 20 percent annual increase in global food prices (Severe shock estimated by FAO) and we assumed a full and unlagged transmission from international market to domestic markets of these oil exporting countries.
- The increase ratio of food imports bill to oil export revenues is just an indication of the increase in food imports bill to increase in oil revenues and should be considered with caution because the four oil exporting countries are not only importing food, rather other imports. In addition, oil revenues are not solely directed to trade sector rather other sectors and debt repayments. For example, government salaries and pensions in **Iraq** and **Libya** comprise around 70 percent each of total government (operating) expenditures.
- Political stability in Libya and sanctions in Iran might affect production levels to an extent that can overplay the positive spillover of higher crude oil prices.

Additional insights on oil exporting countries

- **Iraq**’s cereal imports, including flour, was around USD 0.9bn in 2020-2021, the imports for 2021-22 are projected to almost triple to reach **USD 3bn** given the failed barley harvest, reduced wheat harvest and the increase of global cereal prices by almost double, said Hadi Fathallah, director with the NAMEA Group. (Source Link)
- In February 2022, **Libya**'s oil production has fallen below 1 million barrels a day, as the OPEC member plunges deeper into political crisis. State-controlled National Oil Corp. halted shipments from the ports of Zawiya and Mellitah after militias shut down Sharara, the country's biggest field, and El Feel. The fields serve the two western terminals, which have been put under force majeure, a clause in contracts allowing exports to be suspended. In 2020, the intensification of the conflict led to a significant drop in oil production to less than 0.4 mill barrels per day. (Source link)
- In **Iran**, Oil export revenues made USD 16.7 bn in 2020 down from USD 66 bn in 2018 following reduction in both oil prices and production levels. Sanctions on oil exports affected production to levels below 2.5 million barrels per day in 2021. If we assume these production levels will remain the same, oil revenues could jump to USD 49.4 in 2022 bn thanks to estimated increase in oil prices. (Source: TradeMAP & OPEC)
- **Saudi Arabia** Considers Accepting Yuan Instead of Dollars for Chinese Oil Sales. China buys more than 25% of the oil that Saudi Arabia exports. If priced in yuan, those sales would boost the standing of China’s currency. The Saudis are also considering including yuan-denominated futures contracts, known as the petroyuan, in the pricing model of Saudi Arabian Oil Co. , known as Aramco. (Source link)

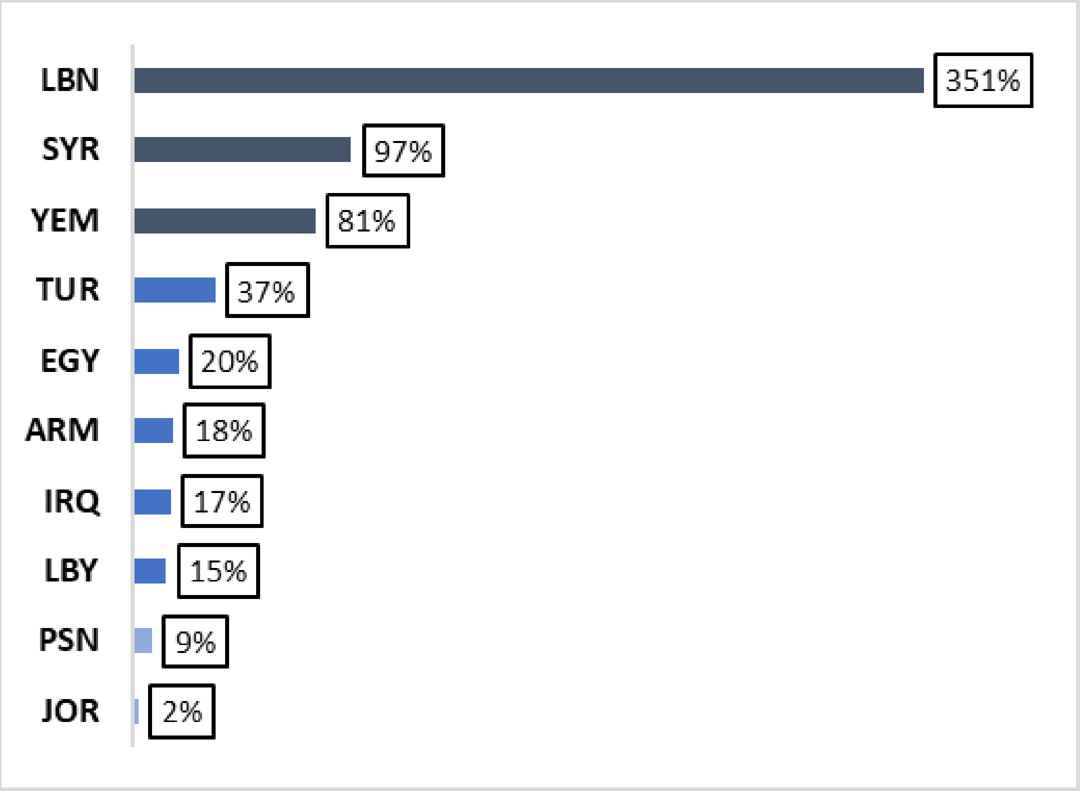
Impact on local economies

(Purchasing power)

Inflationary pressures and currency depreciation are prevailing at wider scale and higher severity

- As inflation bites, purchasing power of vulnerable households is at stake across the region. In 2021, the average cost of food basket in the region was **65 percent** higher than 2020 levels.
- Food basket cost in **Lebanon**, **Syria**, and **Yemen** reported alarming annual increases of **351**, **97**, and **81** percent respectively in December 2021.
- In **Yemen**, there is a notable discrepancy between **IRG** (117 percent) and **SBA** (41 percent).

Figure: Food Basket cost in L.C.U, December 2021



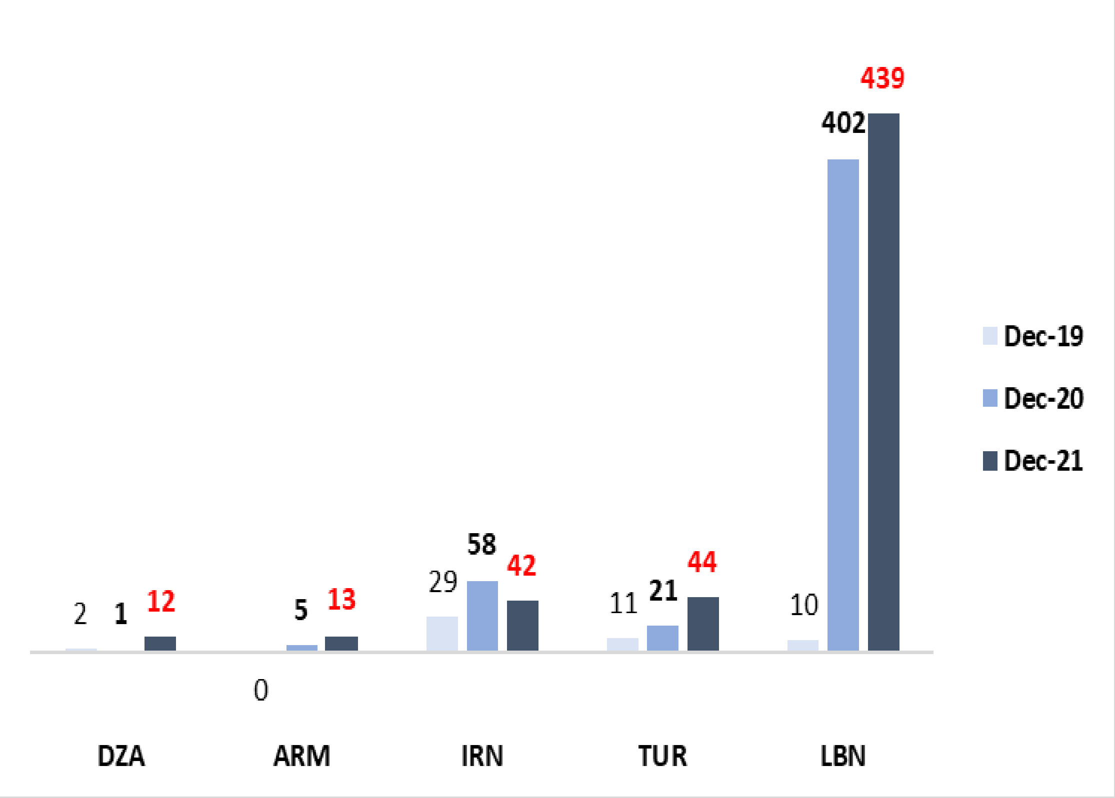
Source: WFP Cos.

WFP World Food Programme

Inflationary pressures and currency depreciation are now prevailing at wider scale and higher severity

- In terms of food inflation rates, **Lebanon** reported the highest annual food inflation rate in December 2021 as well the highest increase between December 2019 and December 2021.
- In **Turkey,** annual food inflation rates stood at 44 percent in December 2021 compared with 11 percent in December 2019.
- **Iran** reported an annual increase of 42 percent in December 2021/
- Food inflation rates went up from 0-2 percent in December 2019 to 13 and 12 percent in **Armenia** and **Algeria** in December 2021, respectively.

Figure: Annual Food inflation rates, December 2019-2021

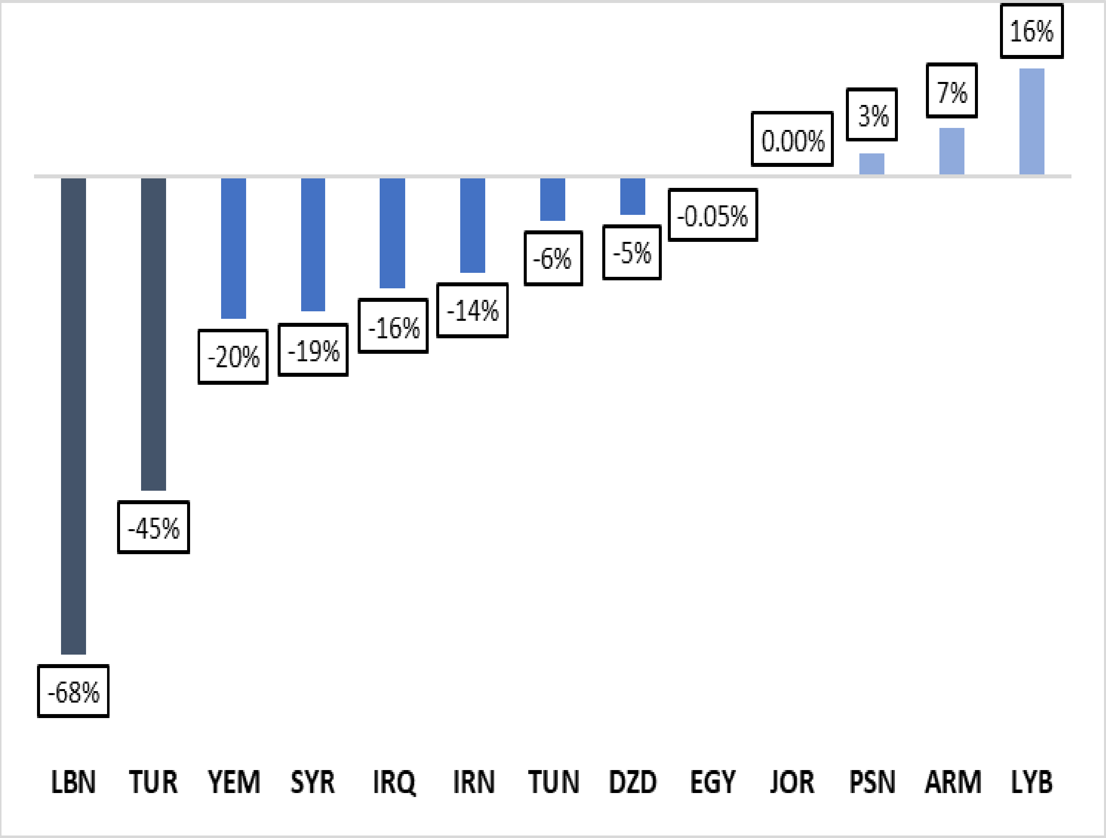


Source: Official sources

Inflationary pressures and currency depreciation are now prevailing at wider scale and higher severity

- Currency depreciation expose countries to higher import bills and this doesn't include the effect of increasing international prices.
- In just on year, **Lebanon** lost 68 percent of its currency value, followed by **Turkey** at 45 percent.
- On the 21st of March, the **Egyptian** pound depreciated by 14 percent after Russia's invasion of Ukraine prompted foreign investors to pull billions of dollars out of Egyptian treasury markets, putting pressure on the currency. (Source Link)

Figure: Currency Volatility, annual rate of change against USD, December 2021

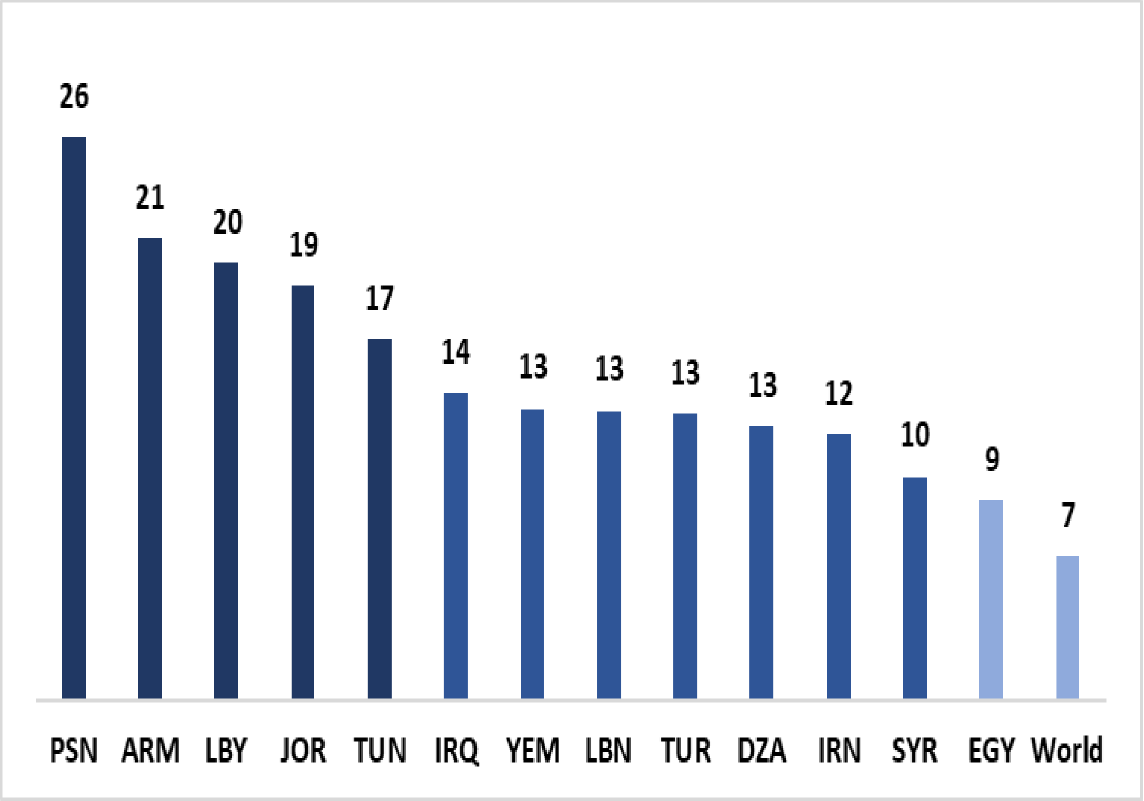


Source: WFP Cos and FXTOP

Unemployment rates in the region are 2.4 times the global average

- Unemployment rates in the region are alarming at 15 percent; **2.4 times** the world average in 2020.
- **Palestine** recorded the highest rate (26 percent), 4 times the global average and mainly driven by high rates in Gaza.
- **Armenia** reported the second highest unemployment rate (21 percent).

Figure: Unemployment rates, 2020



Source: WB

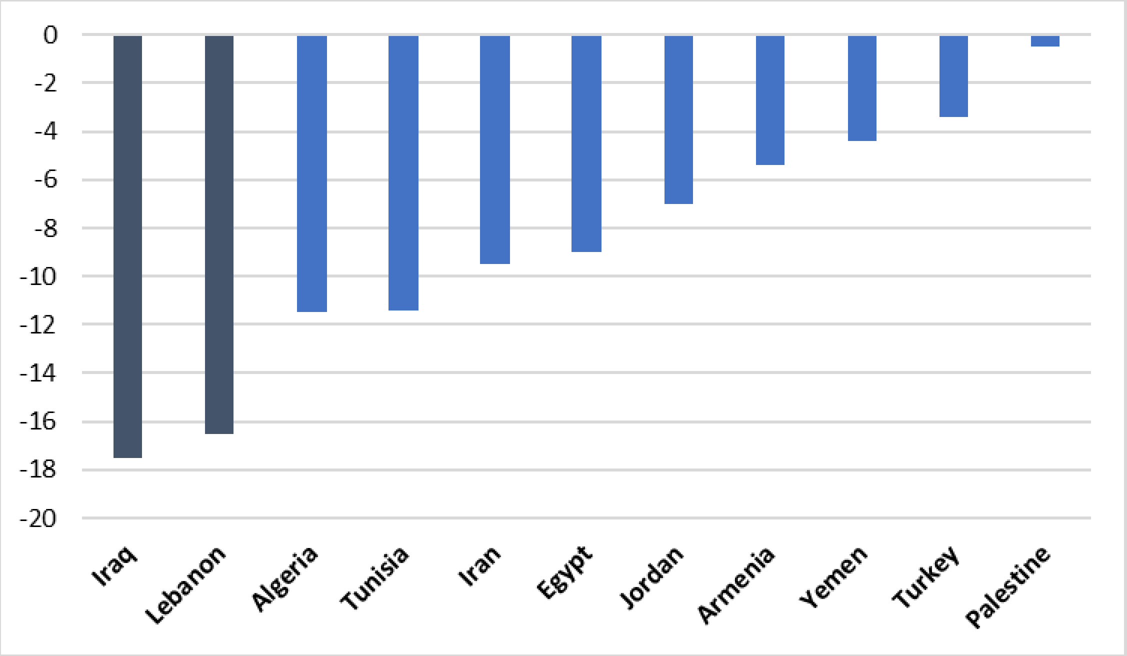
Impact on local economies

(Economic Capacity)

MENA is facing twin deficits and alarming government debts!

- No single economy in the MENA reported a budget surplus in 2020.
- Budget deficits are the highest, in terms of GDP, in **Iraq**, **Lebanon**, followed by **Algeria**, and **Tunisia**.
- Libya recorded an alarming deficit in 2020; above 100 percent of GDP. This is linked to exceptionally low oil production levels and hence Libya is removed from the chart to avoid bias.

Figure: Budget deficit, % of GDP, 2020



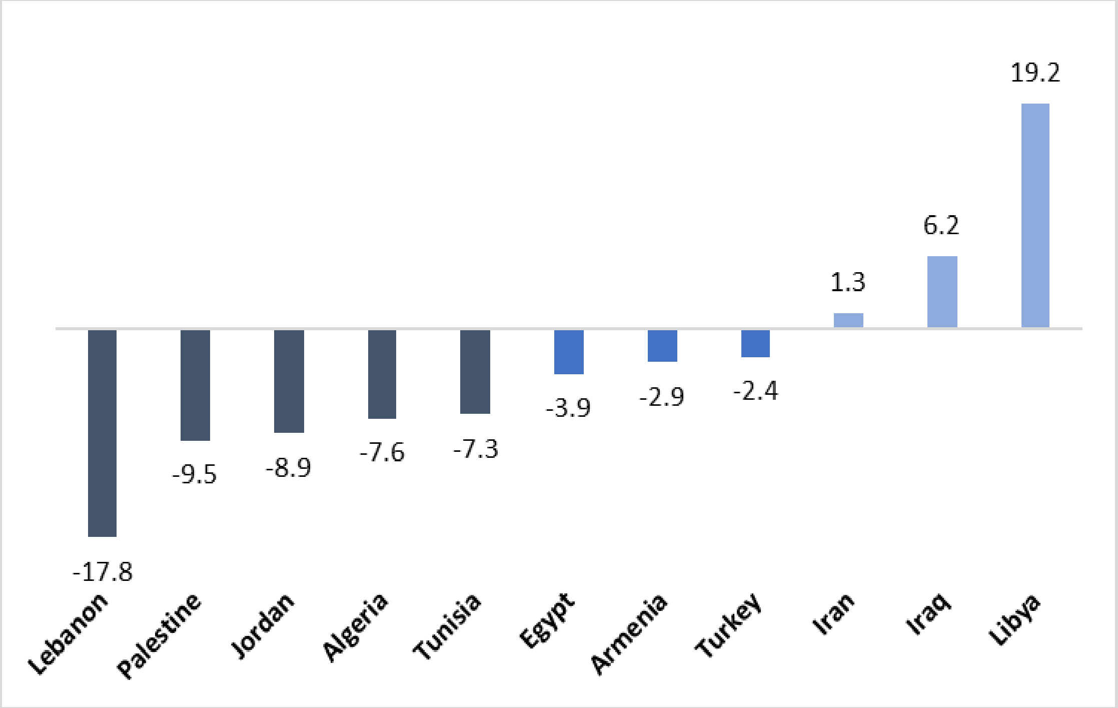
Source: Trading economics, Latest data available is 2019 for Palestine and 2018 for Yemen

World Food Programme

MENA is facing twin deficits and alarming government debts!

- **Lebanon** reported the highest deficit in current account, followed by **Palestine** and **Jordan.**
- **Libya** exceptionally reported a surplus in 2021 (19.2 percent of GDP) due to an increase in global oil prices from USD 40/barrel in 2020 up to USD 70/barrel in 2021 and a jump in oil production levels from 0.4 million barrels per day up to 1.1 million barrels per day.
- Similarly, **Iran** and **Iraq** recorded surpluses in 2021 thanks to higher oil revenues.

Figure: Current Account deficit, % of GDP, 2021



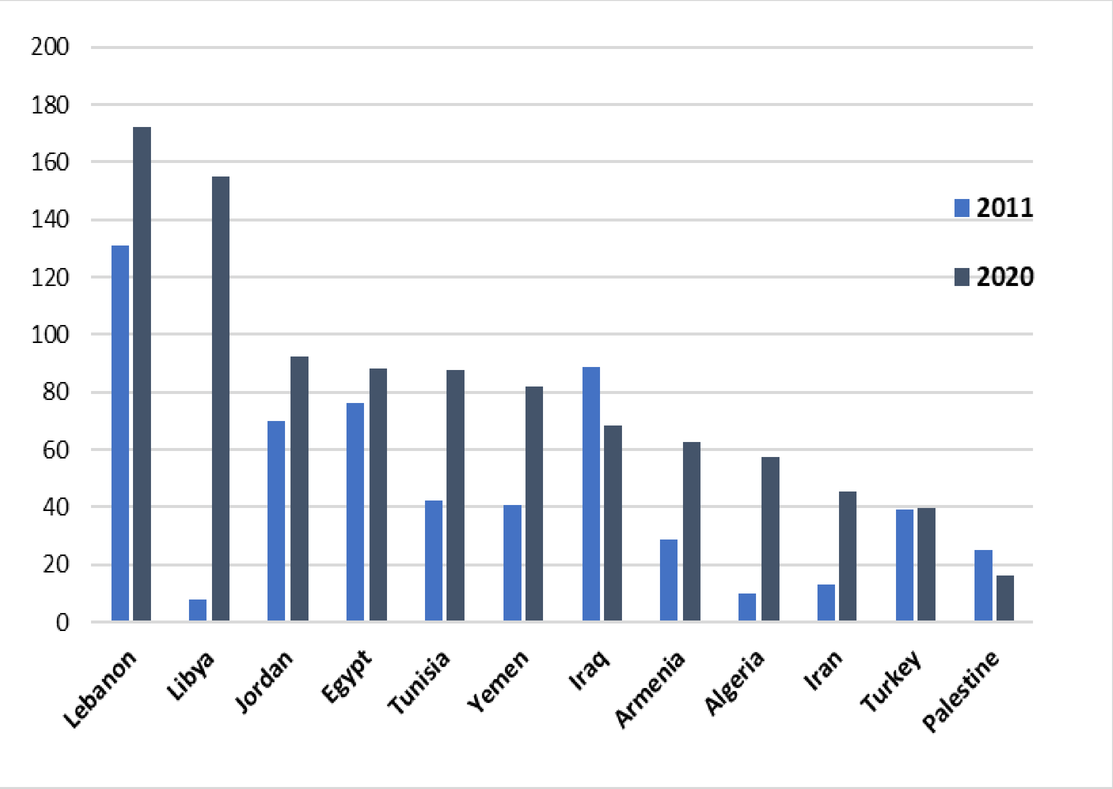
Source: IMF WEO. Latest data available for Lebanon is in 2020 and no data for Syria or Yemen

WFP World Food Programme

MENA is facing twin deficits and alarming government debts!

- Government debts as a percentage of GDP have been increasing in most economies since almost 10 years from an average of 51 percent in 2011 up to 74 percent in 2020.
- **Lebanon** recorded the highest government debt (172 percent), followed by **Jordan** and **Egypt** at 92 and 88 percent, respectively.
- Between 2011 and 2020, **Libya** reported the highest increase in government debt (147 percentage points), followed by **Algeria**, **Tunisia**, **Lebanon**, and **Yemen** (no less than 40 percentage points).

Figure: Government Debt, % of GDP, 2020 and 2011



Source: Trading economics, Latest data available is 2019 for Jordan and Palestine

World Food Programme

Rollback of subsidy schemes

22%
Currency devaluation

20%
Currency devaluation

Lifting subsidies

Subsidy revisions

14%
Currency devaluation

End of 2020

mid 2021

?

WFP
World Food Programme

EGYPT: Rollback of subsidy schemes?

5.5 bn USD
Food subsidies

3 bn USD
bread
subsidies

+ 1.5 bn USD
Bread subsidy
import bills

Reduce bread subsidy bills?
Targeting?

World Food Programme

Additional insights: social protection systems in MENA

- In July 2021, **Lebanon** started lifting its subsidies of medicine, fuel, and input costs associated with bread production such as cooking gas, diesel, yeast, nylon bag, sugar. Accordingly, the price of bread in December 2021 was 4.4 times the price of bread in December 2020. Similarly, the prices of fuel were 12-18 times higher compared to December 2020.
- In **Syria** and as a result of limited wheat availability, the Ministry of Internal Trade and Consumer Protection (MoITCP) announced a new mechanism for subsidised bread allocations through the smart card system. Quotas of subsidised bread bundles are to be provided by family size and not to exceed a specific amount per week. A household of five people has access now to 12 bundles of bread per week compared with 18 bundles per week before the implementation of new mechanism in August 2021. In addition, a recent revision booted about 600k beneficiaries.
- In **State of Palestine**, there is no subsidy policy for food or fuel. The government has a National Cash Transfer programme (NCTP) for Vulnerable families, yet these registered families have not received any payments since May 2021 due to the lack of funding.

Additional Insights: social protection system in Egypt

- **Egypt** is the world's largest importer of grain and 86 percent of its imports are sourced from the black sea. Persistently higher wheat prices would increase the likelihood of the government reviewing and reducing its existing bread subsidy programmes.
- **Egypt** state allocated what's equivalent to USD 5.5 bn yearly to food subsidies, out of which USD 3bn is allocated to bread subsidies. This year's budget assumed that imports would cost USD 255 a tonne of wheat but the state paid early March 2022 USD 350, said Supply Minister Ali Moselhy. In 2021, the country imported 11.6 million tons of wheat yearly (56 percent of total required amount for 102M people). ***Based on price increase estimates, bread subsidy import bills could increase by at least USD 1.5bn (0.4% of GDP).*** (Source: Economist)
- The Supply Ministry is reported in Egyptian media to be considering several scenarios for reducing bread subsidies, including targeted cuts that ringfence the most vulnerable people by providing cash payments instead. Bread subsidies are the cornerstone of the country's social protection system.

Additional Insights: social protection system in Egypt and Tunisia

- According to CAPMAS report, the pandemic affected food consumption of households with 92.5 percent resorting to low quality of food, 90 percent reducing consumption of protein, and nearly 37 percent decreasing the number of meals a day.
- Bread subsides benefit nearly 1/3 of the population and a removal of bread subsidies will threaten the food security status of the extremely vulnerable. On 15th of March, the Egyptian government announced implementing a pricing mechanism for unsubsidized bread to combat price spikes for bread. **This suggests that a decision to remove bread subsides might be postponed.**
- **In Tunisia**, Fadhila Rabhi, the Tunisian trade minister, says subsidised baguettes that sell for 190 millimes (USD 0.06) already cost 420 millimes to produce. The country is ill-equipped to cope with a higher subsidy bill. It has a fiscal deficit of around 11% of GDP.
- Sources: Link1, Link2, Link3

Social Protection systems

The food security impacts of the conflict on vulnerable groups necessitates timely monitoring and well targeted social protection interventions to alleviate the hardship caused by the conflict and to foster a recovery from it.

Countries will be affected in different ways

Severe economic crisis + political instability

Salient characteristics:

- Net importers of food and energy
- Price volatility
- Severe humanitarian crises

Affected countries:

- Yemen
- Syria
- Lebanon

Moderate economic crisis + relative political stability

Salient characteristics:

- Net importers of food and energy
- Decrease in gov. /export revenues
- Alarming government debts

Affected countries:

- Armenia
- Palestine
- Jordan
- Egypt
- Turkey
- Tunisia

"Oil exporters"

Salient characteristics:

- Net importer of food
- ***Net exporter of energy***
- High budget deficits and government debt

Affected countries:

- Libya
- Iraq
- Iran
- Algeria

World Food Programme

Impact on food security

Rising hunger and malnutrition

Pre-Covid	February 2022	Further Increase in 2022
34.4 Mill. people	**42.4** Mill. people	?

The number of food insecure is estimated to increase by 4-6 million people in the MENA region amid the conflict.

- *For further details, please check WFP paper, source link.*
- *MENA region includes countries that fall under WFP Regional Bureau of Cairo. Algeria, Armenia, Egypt, Iran, Iraq, Jordan, Lebanon, Libya, State of Palestine, Syria, Tunisia, Turkey, Yemen.*

WFP World Food Programme

Note: Regional Acute Hunger Trend (IPC 3+ and equivalent)

For further information, please contact:

Eliana Favari

Research, Assessment, and
Monitoring Officer

eliana.favari@wfp.org

Omneya Mansour

Economist
RAM unit

omneya.mansour@wfp.org

World Food Programme