WFP

World Food Programme

REGIONAL MARKET ANALYSIS

Economic Trends across RBC Region H1 2022 Update

Issue #11 - August 2022

WFP/Mohammad Batah

KEY FINDINGS

- Short after the slight recovery of economies in 2021, the region was further challenged by the conflict in Ukraine. According to the World Bank, the average regional GDP growth fell from 2.8 percent in 2021 to 2.2 percent in 2022.
- Crude oil prices have been steadily increasing in 2022, the Europe Brent Spot Price recorded a monthly average of USD 123 /barrel in June 2022, up from USD 74 in June 2021. Increasing energy prices would benefit net oil exporting countries in the region such as **Iraq, Iran, Algeria,** and **Libya**, only if oil production levels remained at least the same. In terms of oil production, oil exporting countries increased their production levels between 2021 and the first half of 2022, except for Libya which witnessed a 20 percent drop in their oil production levels between H2 2021 and H1 2022.
- The region, being highly dependent on food imports from the black sea, was directly affected by the conflict that resulted in trade and supply disruptions and global prices spikes of both food and energy. Lebanon keeps recording the highest annual food inflation rates (332 percent) in June 2022, not only in the region but among top three countries worldwide, **Türkiye** recorded the second highest inflation rate in the region with nearly 94 percent annual food inflation rate in June 2022.
- A comparison for the food basket cost in the region is feasible by converting the cost of food basket from local currency units into USD. Throughout the first half of 2022, **Armenia, Libya, Jordan,** and **Türkiye** reported the highest food basket cost in USD terms.
- Comparing H1 2022 against its corresponding period in 2021, we observe that the cost of food basket in USD terms increased in most countries. This suggests that inflationary pressures surpassed the effect of currency


WFP/Hussam Al Saleh

depreciation. In **Türkiye**, the cost of food basket in Turkish Lira increased by 60 percent but this did not offset the sharp depreciation in the currency that went up from TRY 7.6 to TRY 14 per one USD in the first four months of 2021 and 2022.

- Economic accessibility related challenges, through spiraling food and energy prices, are just one side of the coin. Physical availability of key staples is a global concern given that Russia and Ukraine comprise one third of global wheat exports, 20 percent of corn exports, and 80 percent of sunflower oil exports. Associated risks of food availability on each country in the region is subject to domestic production and stock levels, relative dependency on imports especially from the black sea, and ability to find and finance alternative trade sources. **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.

- Inflationary pressures imported from spiraling global food and energy prices, and further devaluation of the Egyptian pound will negatively affect the purchasing power of households, especially the vulnerable. Furthermore, accumulation of public debt and bleeding public finances could affect income levels of households through subsidies rationing or cutting and/or revisiting public sector employment given that wages and compensation comprise nearly one fifth of total government expenditures, and/or higher tax rates. According to the World Bank April Economic update, enhancing public expenditure efficiency and revenue mobilization will be crucial to avail the fiscal space.

    o Securing Gulf funds and another IMF loan did not prevent further depreciation of the currency which first slid from EGP 15.7 per dollar to

WFP/Edmond Khoury

KEY FINDINGS

EGP 18.2 on the 21st of March, to depreciate further to EGP 18.8 per dollar by the end of June. Yet, the injection of hard currency at this critical time could withhold severe repercussions of the global and regional crises.

o Governmental measures to boost local agricultural production along with diversification of trade supply sources could lessen spill overs of global food crisis. Reforms to enhance private investment, exports and FDI remain crucial for the economy's resilience and competitiveness. Importantly, continuing to pursue structural reforms to unleash the private sector's potential in higher value-added and export-oriented activities are necessary to create jobs, and improve living standards.

The region refers to countries that fall under WFP regional Bureau of Cairo. This includes **Algeria**, **Armenia**, **Egypt**, **Iran**, **Iraq**, **Jordan**, **Lebanon**, **Libya**, **Palestine**, **Syria**, **Tunisia**, **Türkiye**, and **Yemen**.

WFP/Ashwaq Rashid

TABLE OF CONTENTS

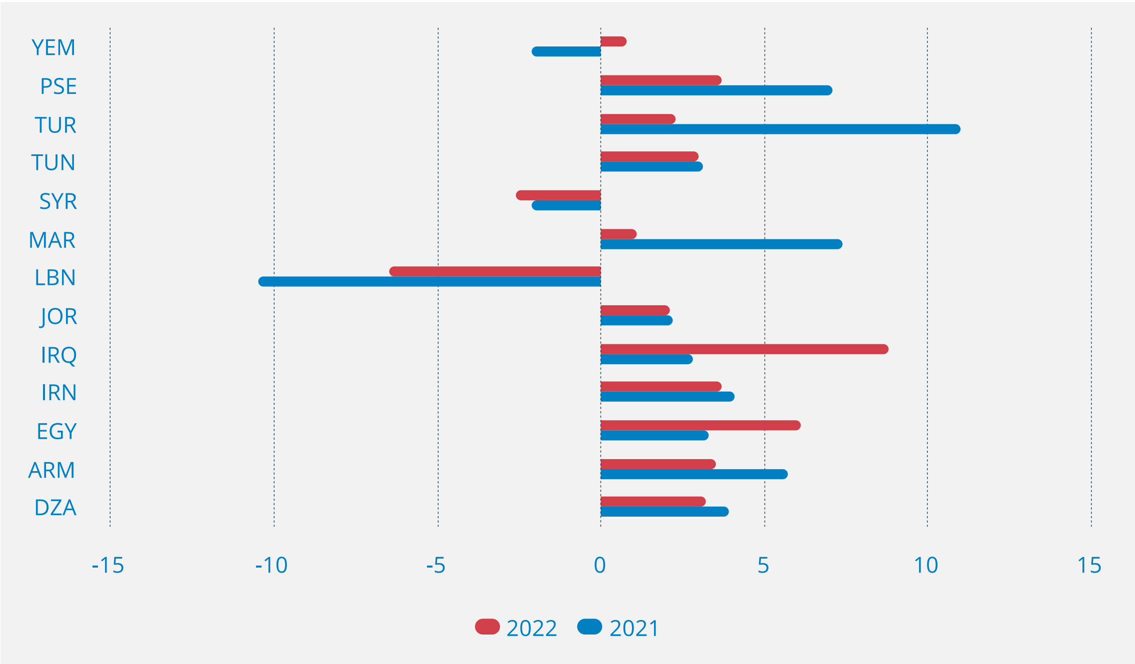
I. MACROECONOMIC OUTLOOK

a. GDP

Short after the slight recovery of economies in 2021, the region was further challenged by the conflict in Ukraine. The main factors contributing to the current recession are the heavy reliance on the black sea for the provision of keys staples[1], the dependance on tourism from Russia and Ukraine, the global surge in food and energy prices, and the supply bottlenecks that, followed the pandemic, were already affecting global supply chains through delayed deliveries and soaring shipping costs.

According to the World Bank, the average regional GDP growth fell from 2.8 percent in 2021 to 2.2 percent in 2022[2]. Yet, for some countries the rising crude oil prices could support governments' budget revenues. In **Iraq**, for example, GDP growth is predicted to increase from 2.8 percent in 2021 up to 8.8 percent in 2022. On the contrary, the long lasting financial and economic crisis in **Lebanon** and **Syria** will be reflected in negative GDP growth rates in 2022.

Figure: GDP growth rates, constant, 2021 & 2022



WFP/Ashwaq Rashid

Source: *World Bank, Global Economic prospects*

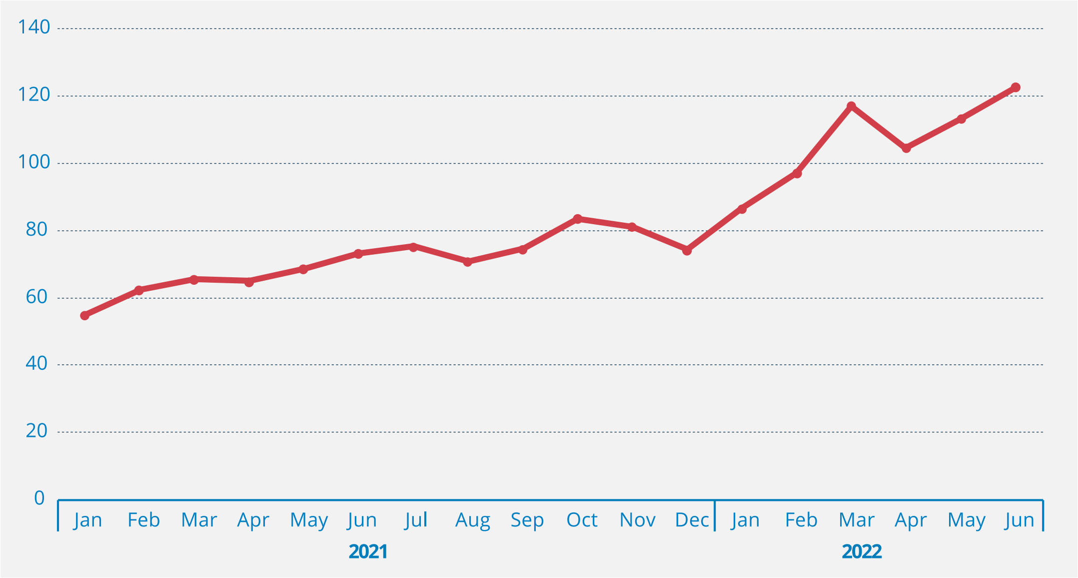
1 For detailed information about import dependency of the region on the black sea, please check this study, slides 20-25.

Economies of the region rely on three key economic sectors: oil revenues, tourism, and remittances. In the following sections, we deep dive into each of these three key economic sectors.

b. Oil revenues

Crude oil prices have been steadily increasing in 2022, the Europe Brent Spot Price recorded a monthly average of USD 123 /barrel in June 2022, up from USD 74 in June 2021. Increasing energy prices would benefit net oil exporting countries in the region such as **Iraq**, **Iran**, **Algeria**, and **Libya**, only if oil production levels remained at least the same. On the contrary, the rise of crude oil prices is posing an excessive burden on net oil importing countries, which constitutes majority of countries in the region.

Figure: *Europe Brent Spot Price FOB Dollars per Barrel*



Source: *EIA*

WFP/Reem Nada

*2 The regional average includes **Algeria, Armenia, Egypt, Iran, Iraq, Jordan, Lebanon, Morocco, Syria, Tunisia, Turkey, Palestine, and Yemen**. It excludes **Libya** because there are no estimates available yet for 2022 and **Ukraine** because the GDP is predicted to decline by 45 percent, which will bias the regional average.*

In terms of oil production, oil exporting countries increased their production levels between 2021 and the first half of 2022, except for **Libya** which witnessed a 20 percent drop in their oil production levels between H2 2021 and H1 2022. Political instability and shutdown of oil ports and facilities led to a drop in oil production levels to 629 thousand barrels/day in June 2022. Should the shutdown persist, decrease in oil production levels might outweigh increase in crude oil prices. Oil prices averaged USD 107/barrel in H1 2022 in the four countries, up from USD 76 in H2 2021 and USD 64 in H1 2021.

Figure: Oil production levels, thousand barrels/day

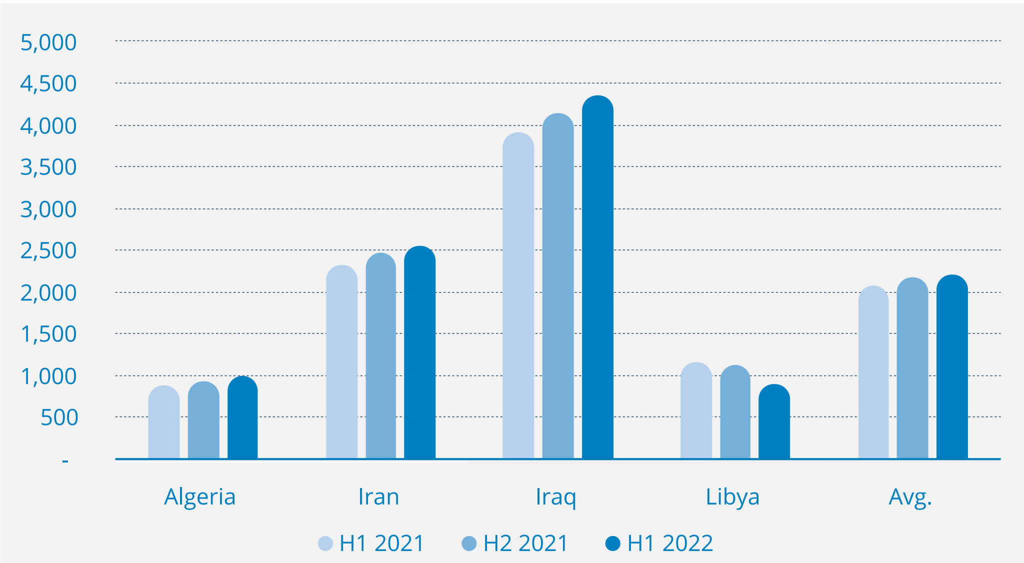
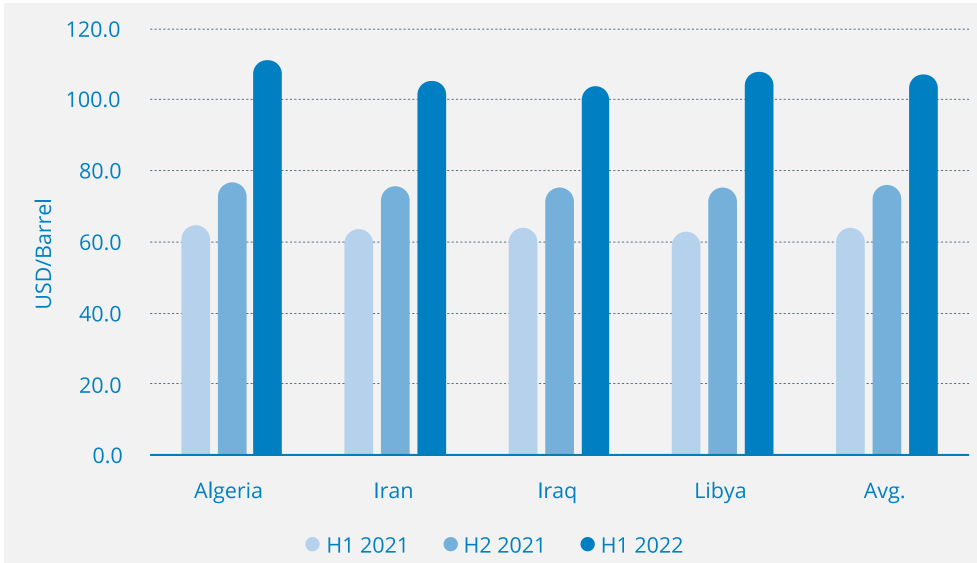


Figure: Oil prices, USD/Barrel



Source: *OPEC*

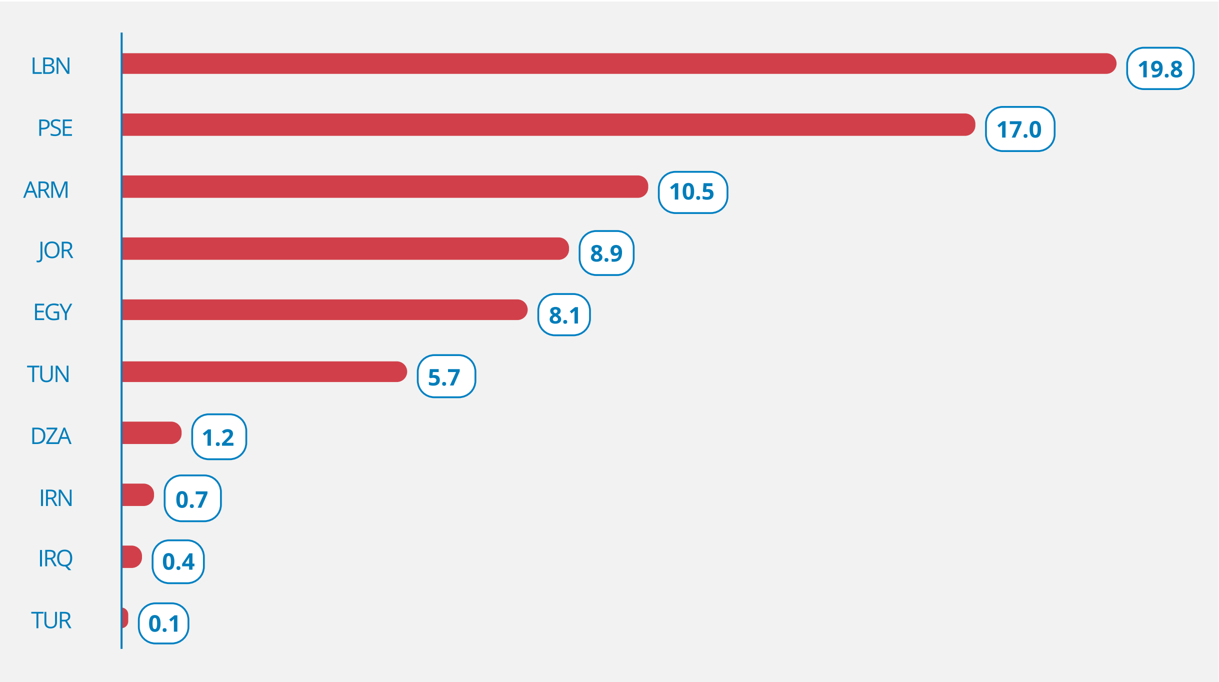
c. Remittances

For the developing Middle East and North Africa region, remittances have long constituted the largest source of external resource flows. **Lebanon** followed by **Palestine** are the two countries with the highest share of remittance to GDP (nearly one fifth of GDP in **Lebanon** and 17 percent in **Palestine**).

In 2021, the return to growth of host countries in the European Union (notably France and Spain) led to a surge in remittance receipts for the Maghreb (**Algeria, Morocco,** and **Tunisia**) by 15.2 percent. Similarly, the upsurge in global oil prices positively affected the GCC countries and resulted in strong gains in remittance inflows to **Egypt**[3] (up 12.6 percent to USD 33 billion). On the contrary, flows to **Jordan** and **Lebanon** fell in 2021 by 6.9 percent decline and 0.3 percent respectively. The outlook for remittances in 2022 is one of slower growth of 3.6 percent due to risks stemming from COVID-19[4].

In **Armenia**, remittance inflows were estimated to be adversely affected with Russia being the most popular destination for 73 percent of Armenian migrants. Nevertheless, net inflow of remittances (individual transfers) from Russia has increased in June 2022. According to the Central Bank of **Armenia** nearly USD 917.5 million were remitted to **Armenia** in the first half of the year, almost a five-fold rise compared to the first half of 2021. This is mainly related to the appreciation of the Russian ripple since the onset of the crisis.

Figure: Remittance inflows as % of GDP, 2020[5]



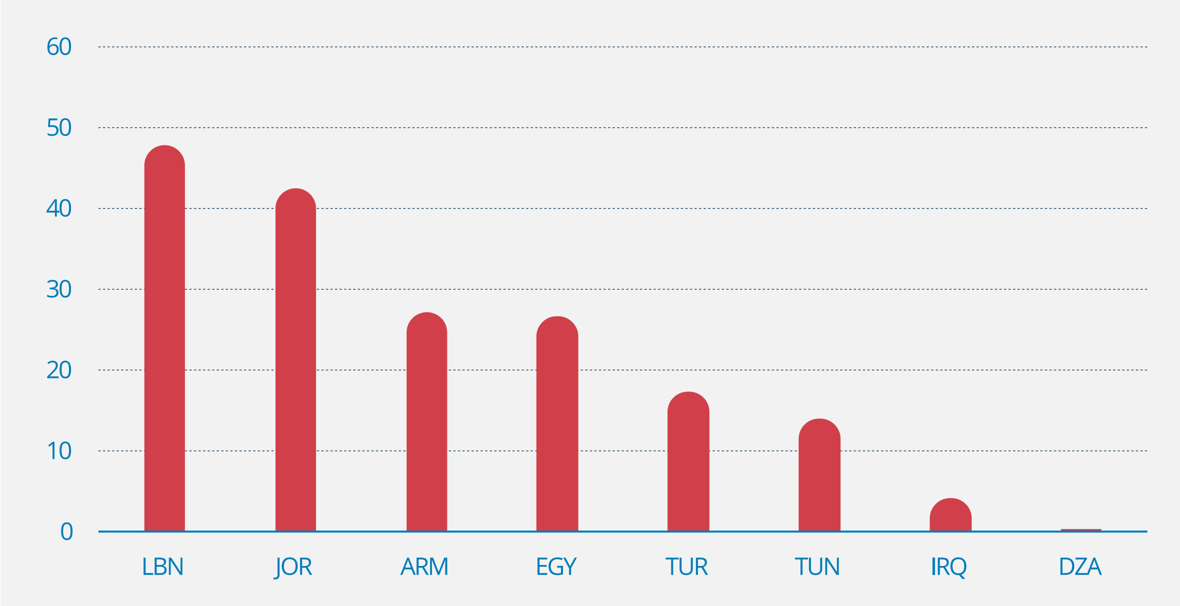
Source: *WDI, WB*

*3 GCC countries is the largest source of remittance inflows to **Egypt**.*
4 World Bank, November 2021, Link
*5 2020 is the latest available data for share of remittances as % of GDP. No data is available for **Syria** or **Libya** or **Yemen**.*

d. Tourism

Tourism receipts is another important source of income and contributor to the economy of the region, in addition to being an important source of hard currency. In 2019, tourism receipts as a share of total exports stood at 48 ad 42 percent in **Lebanon** and **Jordan**[6], followed by **Armenia, Egypt, Türkiye,** and **Tunisia**.

Figure: Tourism receipts, as a share of total exports, 2019



Source: *WB, WDI*

WFP/Giulio d'Adamo

In 2021, movement restrictions following the pandemic were relaxed and countries witnessed an increase in tourism receipts. **Türkiye**, the country with the highest value of tourism revenues, recorded an annual increase of 103 percent in 2021 at USD 24.5 bn. **Egypt**, the second top in tourism revenues, witnessed an annual increase of 102 percent in 2021 at USD 9 bn. The ongoing conflict in **Ukraine** will hit hard tourism sector especially in **Egypt**; for one third of tourist arrivals coming from Russian and **Ukraine**. Accordingly, Egypt is exploring new ways to diversify tourism and increase Arab tourism.

6 Source: World Bank WDI. 2019 is the latest available.

II. PRICES AND EXCHANGE RATES

a. Inflation Rates

The region, being highly dependent on food imports from the black sea, was directly affected by the conflict that resulted in trade and supply disruptions and global prices spikes of both food and energy. **Lebanon** keeps recording the highest inflation rates not only in the region but among top three countries worldwide, this is attributed mainly to the long-lasting financial and economic crisis which started in October 2019. **Türkiye** recorded the second highest inflation rate in the region with nearly 80 percent annual inflation rate in June 2022. Despite inflationary pressures in **Türkiye**, overnight lending rate remain unchanged since December 2021 at 15.5 percent. According to the Ministry of Treasury and Finance, it expected that consumer prices would start dropping by the end of the year. In **Egypt**, inflation picked up the pace following the recent devaluation of the Egyptian currency in March 2022, one of the repercussions of the conflict with **Egypt** being the top buyer worldwide of wheat from Ukraine and Russia. Annual inflation rates in Ukraine increased from 10 percent in December 2021 to 22 percent in June 2022.

Food inflation rates are even higher in the region as they are driving general price levels; an alarming 332 percent in **Lebanon**, 94 percent in **Türkiye**, and 83 percent in **Iran** were reported in June 2022. Food prices rose by 28 percent in Ukraine, 22 percent in **Egypt**, and 17 percent in **Armenia**.

Other countries in the region such as **Jordan** and **State of Palestine** witnessed price increases as well but was still able to maintain single digit inflation rates, thanks to their relative stable currencies. Yet, the cost of food basket which comprises key staples consumed by a typical

Figure: annual inflation rates, June 2022[7]

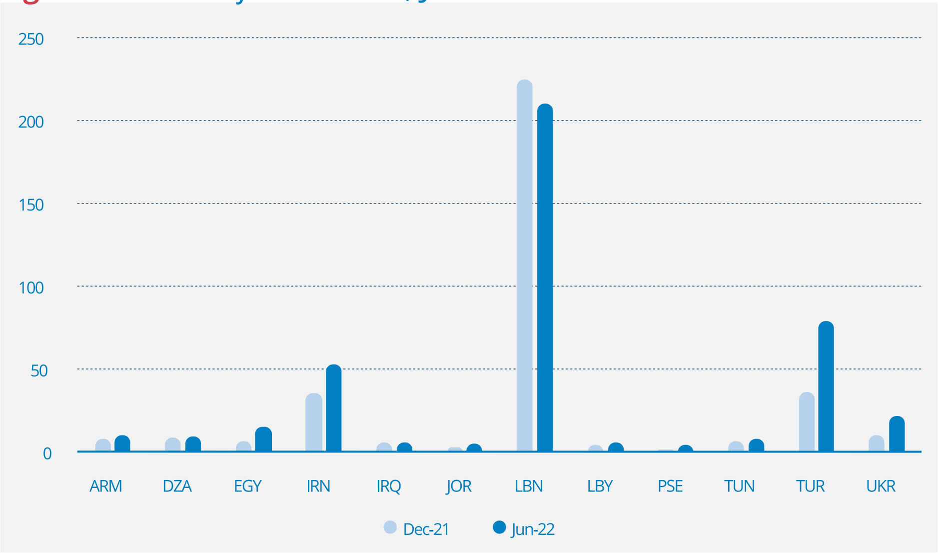
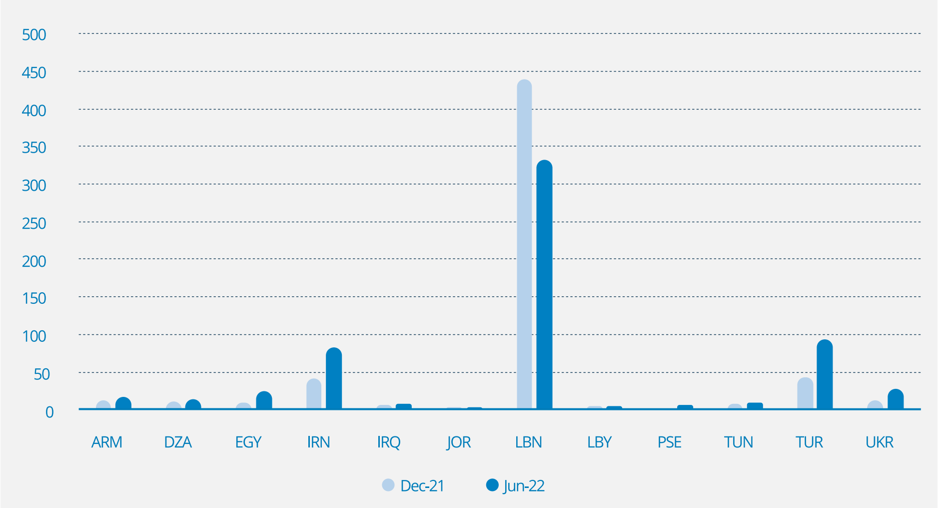


Figure: Annual food inflation rate, June 2022



Source: *official statistical centers/central banks.*

7 *Latest available data is May 2022 for **Iraq** and March 2022 for **Libya**. In **Algeria**, latest available is May 2022 for annual inflation rate and March 2022 for annual food inflation rate.*

household recorded higher increase rates[8]. The below table shows fluctuations in the local currency against USD. **Armenia** and **Yemen** are the only two countries that witnessed currency appreciation between December 2021 and June 2022.

Table: Exchange rate (USD/LCU) (informal whenever applicable)

Country	Dec-21	Jun-22
Egypt	15.7	18.7
Libya	5.0	5.1
Lebanon	26,109	28,602
Jordan	0.7	0.7
Syria	3,489.7	3,979.0
Iraq	1,477.2	1,479.9
Turkey	13.5	17.4
Armenia	485.5	423.0
Palestine	3.1	3.4
Yemen-SBA	600.1	556.6
Yemen-IRG	1,219.1	1,086.7
Yemen	909.6	822.0


WFP/Ashwaq Rashid

b. Variation in the Cost of the Food Basket

Since there are data limitations about inflation rate for some countries such as **Syria** and **Yemen**, we leveraged WFP field price monitoring to capture the two countries in our analysis. According to the cost of food basket, a proxy for food inflation rates, **Syria** reported an alarming annual increase of 93 percent in June 2022 and the cost of food basket in **Yemen** increased by 59 percent with notable discrepancies between Internationally Recognized Government and Sanaa-based authorities; 77 and 38 percent respectively.

8 *Variations in the cost of food basket are covered in detail in section 1.*
9 *Data for the reference food basket cost over the comaprable time interval is not available for **Egypt***

Table: *Food basket cost in LCU and food basket variations*[9]

	H1 2022	Jun 22/jun 21	Jun 22/Jan 22	Jun22/Dec 19	H1 22/H1 21	H1 22/H2 21
Libya	153	33%	16%	46%	23%	9%
Lebanon	696,253	214%	28%	1319%	252%	57%
Jordan	21	7%	4%	4%	6%	4%
Syria	57,460	93%	42%	752%	82%	48%
Iraq	27,608	22%	13%	45%	16%	12%
Turkey	390	74%	16%	108%	60%	41%
Armenia	15,752	27%	18%	85%	23%	16%
Palestine	29	26%	19%	27%	15%	11%
Yemen- SBA	8,520	38%	13%	75%	42%	21%
Yemen- IRG	15,459	77%	17%	211%	85%	20%
Yemen	11,674	59%	16%	137%	65%	20%

Source: *WFP Cos. Latest data available for **Türkiye** is April 2022, so H1 refers to the first four months of 2022 and Jun 22 refers to April 2022. No data is available for **Tunisia, Algeria, Iran.***

WFP/ Cassandra Prena

High import dependency (wheat flour, bulgur, rice, cooking oil, sugar and petrol among other items) aggravated by poor performing agriculture seasons and other economic factors render **Syria** more susceptible to high global prices. WFP's standard reference food basket has increased by 42 percent since January 2022. Compared to May 2022, notable decreases were observed for tomatoes (down 52 percent), potatoes (down 33 percent) eggplants (down 21 percent), onions (down 11 percent) and meat (down 11 percent). The decrease in the price of vegetables could be attributed to arrival of new summer harvests coupled with the effect of export restrictions on fresh produce issued earlier this March. The **Syrian** pound witnessed a depreciation against USD in March 2022, right before the central bank announces the official devaluation of the pound in April 2022, setting the formal exchange rate to SYP 2,814/USD[10].

Conflict and economic crisis remain the main drivers of acute food insecurity in **Yemen**, further exacerbated by a series of internal and external shocks including the intensification of severe fuel shortages across the country; a spike in global food and fuel prices; the impact of the Ukraine-Russia conflict on the global availability and prices of wheat and cooking oil; and the reduced humanitarian funding for life-saving food assistance in **Yemen**[11].

Against this backdrop, in April 2022, the parties to the conflict in **Yemen** agreed to the United Nation's proposal of holding a two-month truce. The agreement—the first countrywide truce since 2016—included a cessation of offensive military operations inside **Yemen** and across its border, as well a commitment to facilitate fuel ships to enter into Al Hodeidah port and to allow commercial flights to and from Sana'a airport. This agreement opened the door to addressing the urgent humanitarian and economic needs and contributed to building trust and creating a conducive environment to resume negotiations for a peaceful settlement of the prolonged conflict. In June, the truce was extended beyond the two-month period with the consent of the parties. The two-month truce agreement led the Kingdom of Saudi Arabia and United Arab Emirates to announce an economic support package of more than two billion dollars to stabilize the new **Yemeni** riyal in the south. Despite the non-materialisation of the deposit at Central Bank of **Yemen** (CBY), the exchange rate appreciated by 34 percent during the first two weeks of April, highlighting how highly speculative and volatile the currency market is in the south.

WFP/ Hebatallah Munassar

10 Syria Market bulletin, June 2022, Link
11 Insights are extracted from Yemen CO food security quarterly report, Q1 2022, Link.

Food prices in the south are highly sensitive to exchange rate movements. In areas under IRG, the cost of a minimum food basket (MFB) briefly improved during the last two weeks of December 2021 following the currency appreciation. However, as the exchange rate started depreciating again since the beginning of 2022, the cost of the MFB also increased and peaked during March 2022. The increase in domestic food prices was also driven by the increase in global prices of food and fuel and hampered exports of wheat and vegetable cooking oil. On the other hand, the riyal remained stable during Q1-2022 in areas under Sana'a-based authorities at around YER 600/USD 1, almost the same rate since January 2020. This is mainly attributed to the strict control measures implemented by the authorities in Sana'a, including the ban on circulation of the new banknotes printed by CBY and the imposed restrictions on the transfer of foreign currency.

c. Regional Comparison for the Cost of Food Basket[12]

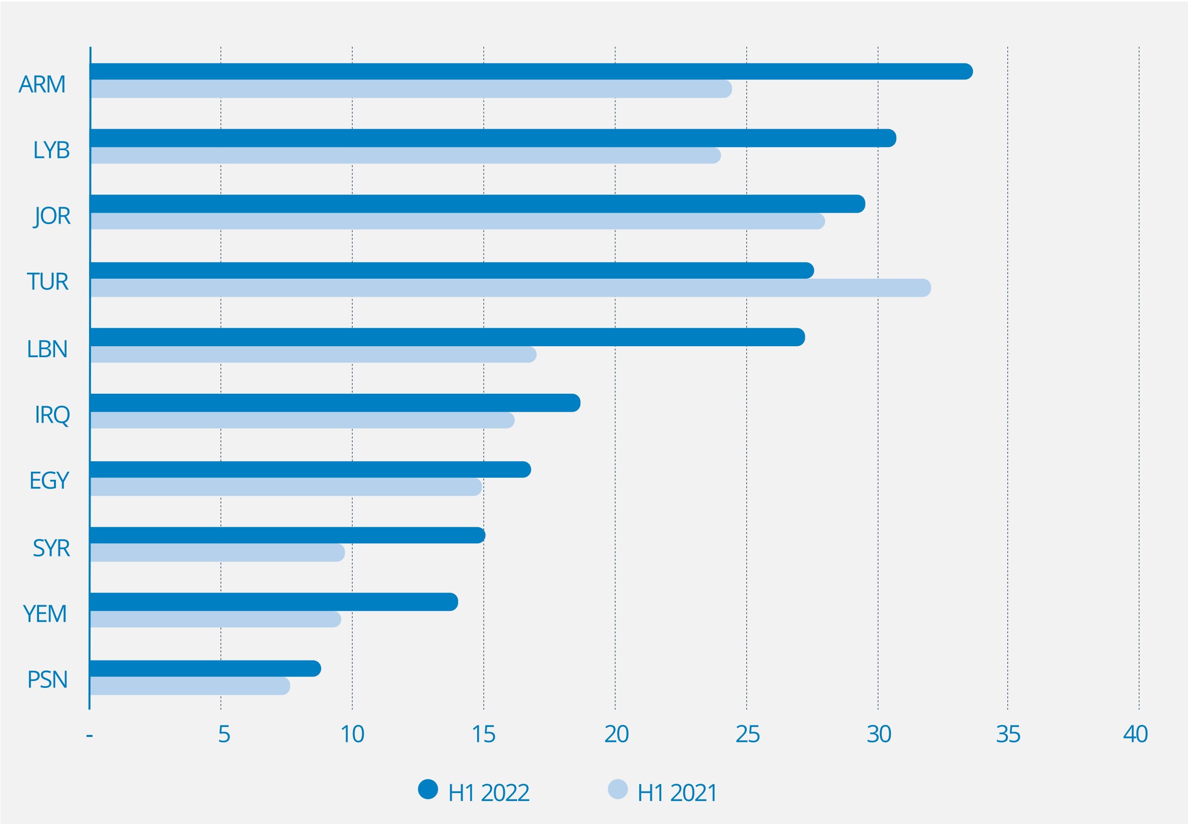
A comparison for the food basket cost in the region is feasible by converting the cost of food basket from local currency units into USD. In the region, some countries have more than one exchange rate, the official rate and an unofficial market rate that is higher than the official rate. In the below analysis, we apply the unofficial rate which represents market rate and actual cost of price items.

Throughout the first half of 2022, **Palestine** followed with **Yemen, Syria, Egypt,** and **Iraq** recorded the lowest food basket cost in USD terms. **Armenia, Libya, Jordan,** and **Türkiye** reported the highest food basket cost in USD terms.

WFP/ Mohammad Gamal

12 Although the components of the food basket vary across these countries, they represent what is equivalent to 2,100 kcal per capita per month.

Figure: Cost of the food basket cost in USD (parallel rate), Jan-June 2022 & Jan-June 21



***Source:** WFP COs. Latest data available for **Türkiye** is April 2022, so H1 refers to the first four months of 2022 and June 22 refers to April 2022.*

WFP/ Anastasiia Honcharuk

Comparing H1 2022 against its corresponding period in 2021, we observe that the cost of food basket in USD terms increased in most countries. This suggests that inflationary pressures surpassed the effect of currency depreciation. In Türkiye, the cost of food basket in Turkish Lira increased by 60 percent but this did not offset the sharp depreciation in the currency that went up from TRY 7.6 to TRY 14 per one USD in the first four months of 2021 and 2022.

III.PHYSICAL AVAILABILITY OF FOOD AMID THE CONFLICT

Economic accessibility related challenges, through spiralling food and energy prices, are just one side of the coin. Physical availability of key staples is a global concern given that Russia and Ukraine comprise one third of global wheat exports, 20 percent of corn exports, and 80 percent of sunflower oil exports. A FAO study estimated that the war will lead to a severe loss in global trade volumes of key staples; 16 million tons of wheat, 12 million tons of maize, 5 million tons of other coarse grains, and 3 million tons of other oilseeds[13]. The reliance of Near East and North Africa region on imports of grains originating from the Russian Federation and Ukraine is relatively high and associated with the low shipping costs thanks to these countries' physical proximity to the Black Sea basin.

Amid the ongoing conflict and rising food prices worldwide, on 22 July, a UN-brokered deal to resume exports of Ukrainian grain via the Black Sea, has been signed by Ukraine, Russia and **Türkiye**. The Joint Coordination Centre (JCC) will enable the safe transportation, by merchant ships, of commercial food stuffs and fertilizer from three key Ukrainian ports in the Black Sea: Odesa, Chornomorsk and Yuzhny. The first commercial ship leaving the port of Odesa since February has sailed for **Lebanon**, carrying 26,527 tonnes of corn.

If from one hand the deal will help to effectively respond to and prevent rising global food insecurity the underlying factors that drove markets higher remain unchanged (pandemic, war and climate change) and prices remain high especially in the net fuel and food importer economies.

Associated risks of food availability on each country in the region is subject to domestic production and stock levels, relative dependency on imports especially from the black sea, and ability to find and finance alternative trade sources. **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. **Egypt** and **Türkiye** are top importers of wheat worldwide from the black sea at 11.3 and 8.9 million tons respectively[14], yet domestic production levels are considerable placing these two countries among countries in the region with the lowest wheat import dependency ratios.

The conflict in Ukraine and the sanctions against Russia were seen as serious causes for

WFP/ Cassandra Prena

13 FAO note, June 2022 update, Link
14 WFP, Ukraine Conflict Impact on RBC operations and MENA economies, March 2022, Link. Despite Turkey being one of the top wheat importing country worldwide and from the black sea, the country produces 20 million tons of wheat a year.

WFP/ Alia Khafaga

food security disruption in **Armenia**. The country heavily depends on food imports from Russia to meet domestic demand. **Armenia** also heavily depends on import of fertilizer and fuel from Russia. Therefore, **Armenia** could face severe issues with food availability in case of trade disruptions from Russia to **Armenia**. However, Russia announced that **Armenia** would be provided with the requested quantity of products of import with a condition of no re-exporting to third parties. As the prices for imported products may be higher compared to previous years, it can be concluded that if the situation stays unchanged, **Armenia** will not face any major issues in terms of food availability, meantime, it may face issues with food accessibility.

Lebanon has recently approved a World Bank Loan of USD 150 million that will be used to cover the imports of loan for up to 9 months, according to the Ministry of Economy, and allow the current subsidization of wheat for the production of Lebanese Pita bread to continue for that time period. Following the end of the loan, the Ministry of Economy has already indicated that the subsidization mechanism will most probably be ending. Shortage of bread was registered in the country during the period of June and July 2022, however at the end of July 2022, several shipments, estimated by the Ministry of economy at more than 45 thousand metric tons of wheat, were brought in, to cover the period until the world bank loan kicks in around a month from now.

Another concerning consequence of the war are heightened prices and limited global supply of fertilizers. The Russian Federation is ranked as the world's top exporter of nitrogen fertilizers, the second leading supplier of potassic fertilizers and the third largest exporter of phosphorous fertilizers. Although this could be perceived as an additional burden for most countries in the region with high import dependency on fertilizers, it could be an opportunity for other countries in the region such as **Egypt** and **Jordan** with notable production and export levels. In 2019, **Egypt** and **Jordan** produced nearly 5 and 2 million tons of fertilizers (nitrogen, phosphate, and Potash), respectively. Out of which, the two countries exported 2.4 and 1.6 million tons.

IV.CASE STUDY: EGYPT

The Ukraine conflict had instant global repercussions on the availability and price levels of food and energy. Russia and Ukraine are one of the world's breadbaskets representing one third of global wheat exports and 80 percent of global sunflower oil exports. In terms of food availability, around 20 million tons of wheat is currently setting in storage in Ukraine and exporters are struggling, because Ukrainian ports, such as Odesa port, are under blockade. Accordingly, global wheat prices soared reaching USD 522 per tonne in May 40 ;2022 percent increase compared with January 2022, and 148 percent higher than pre-pandemic levels in December 2019.

a. Trade and dependency on the black sea

While all countries worldwide are experiencing price pressures, the severity of the recent conflict might differ from one country to another. **Egypt**, the largest importer worldwide of wheat from the black sea with 11.3 million tons in 2020, comprised alone one fifth of total wheat exports from Russia and Ukraine. Wheat imports dependency ratio, the extent by which a country relies on imports to meet its domestic demand, stood at 52 percent. Considering recent escalations and global supply bottlenecks, **Egypt** undertook number of measures to ensure an undisrupted supply of wheat; on June 3, for example, a swap deal between **Egypt** and India to import 500,000 tons of Indian wheat in exchange for Egyptian exports of fertilizers and other products was signed according to the Minister of Supply and Internal Trade, Ali al-Moselhi. In 2022, **Egypt** plans to increase wheat production by nearly 1 million tons, for a total of 10 million tons. A legislative decision was issued in March 2022, obliging farmers to sell 60 percent of their wheat production. After meeting the quota, farmers would need a permit from the government to sell the rest of their wheat elsewhere. Farmers who fail to comply would be denied access to subsidized fertilizers in the summer, as well as any support from the Agricultural Bank of **Egypt**. With the implementation of this new regulation, the Supply Ministry is aiming to procure more than 6 million tonnes of wheat from the local harvest this season, 66 percent more than the quantity of wheat procured the previous year. Finally, the government has been investing in expanding its storage capacity and silos.


WFP/ Alia Khafaga


WFP/ Alia Khafaga

b. Government mitigation measures

According to the prime minister, Madbouly, **Egypt** has suffered around EGP 130 bn in direct losses amid the crisis, spiraling commodity prices, and global monetary tightening. He estimated that the economy has seen another EGP 335 bn in “indirect losses” in terms of higher wages, pensions, social protection, and tax exemptions. In response to global escalations and its repercussions on the local economy, **Egypt** launched a package of financial and social protection measures to mitigate economic challenges. Measures include an allocation of EGP 2.7 billion to include 450,000 new families in the Takafol and Karama social protection programme, in addition to allocating EGP 190.5 billion to disburse the annual increase in pensions with a minimum of EGP 120 per pensioner as of 1 April.

In May 2022, the Government of **Egypt** announced a plan to deal with the global economic crisis. The plan includes implementing urgent measures to support the Egyptian private sector, improving the investment climate and attracting foreign direct investments, and adopting all necessary policies to ease the burden of this crisis on the Egyptian citizen. The plan consists of five main pillars as follows:

Pillar 1. Reinforcing the role of the national private sector in economic activity

Pillar 2. Establishing a USD 10 billion-a-year, four-year Public-private partnership program in state-owned assets

Pillar 3. Announcing a binding plan to reduce public debt over four years

Pillar 4. Reinforcing the role of the Egyptian Stock Exchange to enhance sustainable development.

Pilar 5. Providing commodities and supporting farmers

c. Fiscal Balance

Budget of the Fiscal Year (FY) 2022/2023 predict total expenditures at EGP 2.1 trillion, a 15 percent increase compared to FY 2021/2022. The increase is mainly attributed to higher allocations to interest payments which represent 33 percent of total government expenditures and capture 40 percent of increase in total government expenditures. Higher interest payments are linked to higher interest rates globally and locally in 2022, in addition to the devaluation of the Egyptian currency, which translates into higher payments in local currency units for external debt. "While we were borrowing with an interest rate of 5 percent, now we are borrowing at interest rate between 12 percent and 13 percent," said Maait, Minister of Finance.

Subsidies and wages represent 17 and 19 percent of total government expenditures and shall contribute with 16 and 15.6 percent of increase in total government expenditures, respectively. This is linked to higher commodity prices; a ton of wheat costed USD 522/ton in May 2022, up from USD 297 in May 2021 and a barrel of oil made USD 113, up from USD 68 in May 2020. **Egypt** is a net importer of wheat and oil.

Table: Government revenues, budget of FY 2022/2023, in Mln EGP

Expenditure item	2021/2022	2022/2023	Increase in gov. expenditures	Contribution of each exp. item in the total increase
Wages and compensation	357,050	400,000	42,950	16%
Purchase of commodities and services	94,953	125,600	30,647	11%
Interest payments	579,582	690,150	110,568	40%
Subsidies and social protection	311,465	355,993	44,528	16%
investment in non-financial assets	343,352	376,429	33,077	12%
Other expenditures	108,475	122,700	14,225	5%
Total expenditures	1,794,877	2,070,872	275,995	

In terms of government expenditures by activity, Health and Education sector comprised 15 percent of total government expenditures, yet 57 percent of which are spent on wages and compensations. Total government revenues, mainly from taxes, is projected at EGP 1.52 trillion in FY 2022/2023, 16 percent higher than FY 2021/2022. The increase in government expenditures offsets increase in government revenues leading to wider budget deficit of EGP 553 bn in FY 22/23 against EGP 491 bn in FY 21/22.

Table: Government revenues, budget of FY 2022/2022, in Mln EGP

	2021/2022	2022/2023	Increase in gov. revenues	Contribution of each rev. item in the total increase
Tax revenues	946,375	1,168,795	222,420	104%
Grants	3,799	912	-2,887	-1%
non-tax revenues	354,013	348,147	-5,866	-3%
Total revenues	1,304,186	1,517,854	213,668	

Accordingly, the World bank estimates government budget deficit to increase to 7.9 percent of GDP in 2022, up from 7.4 percent in 2021. In addition, the government debt, the total amount borrowed by the government to cover budget deficits, shall increase by 4 percentage points between 2021 and 2022 to reach 96.4 percent in 2022[15]. The government intends to lower the debt to 75 percent of GDP within the coming four years, according to the prime minister in May 2022[16].

d. Loans

On March 23rd, the Egyptian authorities have requested the International Monetary Fund's (IMF) support to implement their comprehensive economic program. The anticipated loan programme for **Egypt** from IMF aims to support the country's social protection system amid rising food and energy prices on the back of the Russian war in Ukraine, said IMF managing director Kristalina Georgieva. In 2016, **Egypt** was given an IMF loan worth USD 12 billion for its economic reform programme that concluded in 2019. In 2020, **Egypt** also received two IMF loans worth about USD 8 billion to address the challenge posed by COVID-19[17]. This places **Egypt** as the second largest client of IMF, comprising 13 percent of total IMF outstanding credit, as of 24th of June 2022[18].


WFP/ Hebatallah Munassar

15 World Bank Economic Update, April 2022, Link.
16 Egypt adopts five-pillar approach to cope with global economic crisis: PM Madbouly, May 2022, AlAhram, Link.
17 Egypt expected to reach agreement on new IMF programme within 'very few months': PM, May 2022, AL Ahram, Link.
18 IMF database, Link.

On March 21, the Central Bank of **Egypt** (CBE) raised its lending rate by 1 percentage point to 10.25 percent and stopped its support of the Egyptian pound. In the days after this decision, the Egyptian pound declined from 15.7 to the dollar to 18.5 to the dollar. The Egyptian pound averaged EGP 18.7 for one dollar in June 2022, according to the Central Bank of **Egypt**. **Egypt** has settled debts of around USD 24 billion since the beginning of 2022, including USD 10 billion as external debts and USD 14 billion for foreign funds. On June 6th, the CBE announced that its net international reserves (NIR) declined by 4.38 percent month-on-month (MoM) at the end of May to USD 35.5 bn due to the USD 2 billion external debt repayments carried out in May 2022[19]. Yet, NIR covers 5 months of merchandize imports[20]. In June 2022, NIR declined further to USD 33.4 bn USD. Following a widening in the current account deficit, **Egypt** has secured USD 22 billion from the United Arab Emirates, Qatar and Saudi Arabia[21]. In early April, three Gulf Cooperation Council countries pledged around USD 22 billion to **Egypt**. The Saudis deposited USD 5 bn into Egypt's central bank and USD 10 billion in investments after the signing of an agreement to facilitate the Saudi Public Investment Fund activities in **Egypt**, according to a Cabinet statement. Emiratis and Qataris made investment deals. The Abu Dhabi Developmental Holding, a sovereign wealth fund based in the capital of the United Arab Emirates (UAE) invested USD 2 bn in **Egypt** through the purchase of stakes in a number of state-owned companies. Approximately half of this amount was used to acquire about 18 percent of Commercial International Bank, while the remainder was invested in companies in sectors such as fertilizers and port services.

On March 29, Qatar announced an agreement to place another USD 5 billion in a series of investments and partnerships in **Egypt**, according to a statement from the Egyptian government. To implement the agreement, the two parties agreed to establish a joint higher committee led by their foreign ministers. And as **Egypt**'s Minister of Planning Hala Elsaid told Bloomberg, the Qatar Investment Authority, the country's sovereign wealth fund, will hold the proposed investments.

WFP/ Ashwaq Rashid

*19 **Egypt** settles $24bln external debts in 2022, Zawya, June 2022, Link.*
20 CBE, June 2022, Link.
21 Gulf states give Egypt $22 billion to mitigate fallout from Ukraine war, Al Monitor, April 2022, Link.


WFP/ Hebatallah Munassar

e. Concluding Remarks

Inflationary pressures imported from spiralling global food and energy prices, and further devaluation of the Egyptian pound will negatively affect the purchasing power of households, especially the vulnerable. Furthermore, accumulation of public debt and bleeding public finances could affect income levels of households through subsidies rationing or cutting and/or revisiting public sector employment given that wages and compensation comprise nearly one fifth of total government expenditures, and/or higher tax rates. According to the World Bank April Economic update, enhancing public expenditure efficiency and revenue mobilization will be crucial to avail the fiscal space.

Securing Gulf funds and another IMF loan did not prevent further depreciation of the currency which first slid from EGP 15.7 per dollar to EGP 18.2 on the 21st of March, to depreciate further to EGP 18.8 per dollar by the end of June. Yet, the injection of hard currency at this critical time could withhold severe repercussions of the global and regional crises. Governmental measures to boost local agricultural production along with diversification of trade supply sources could lessen spill overs of global food crisis. Reforms to enhance private investment, exports and FDI remain crucial for the economy's resilience and competitiveness. Importantly, continuing to pursue structural reforms to unleash the private sector's potential in higher value-added and export-oriented activities are necessary to create jobs, and improve living standards[22].

*22 World Bank April Economic Update, **Egypt**, Link.*

For further information, please contact:

Eliana Favari
Research, Assessment, and Monitoring Officer
eliana.favari@wfp.org

Omneya Mansour
Regional Economist
omneya.mansour@wfp.org

World Food Programme