

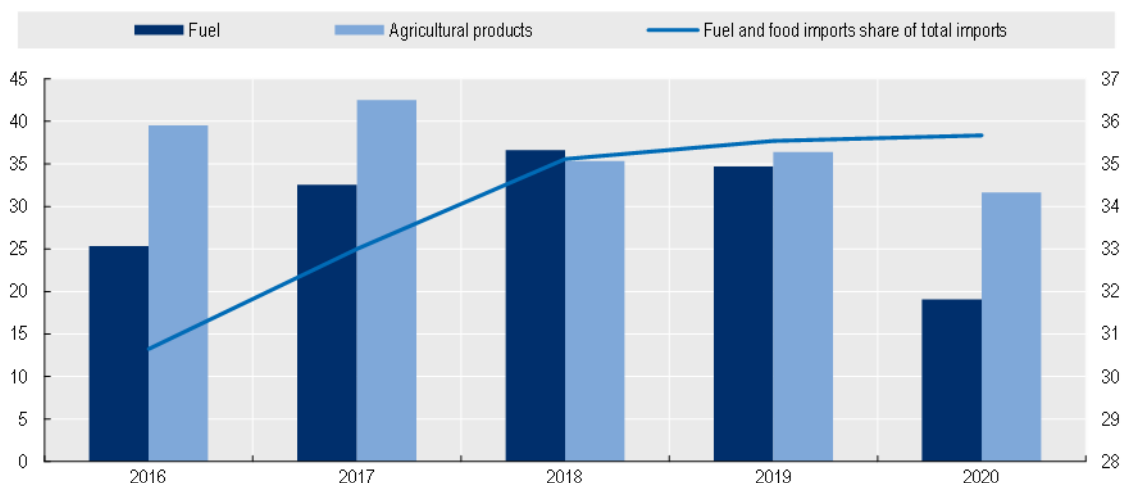
# Russia's aggression against Ukraine and impacts in the MENA region

This report was prepared before Russia's large scale aggression against the Ukraine. Nevertheless, it is important to add a preliminary analysis on the impact the war will have in the MENA region<sup>1</sup>.

While the war is relatively distant from the region's borders, MENA countries are expected to experience a significant economic impact as the conflict disrupts the region's supply chains for food imports, on which most MENA countries depend, and alters global energy prices (Figure 1).

**Figure 1. More than one third of MENA imports relate to food and fuel and their share had increased during the pandemic**

Left axis: Billions of USD; right axis: % of total exports



Source: OECD calculations, UN Comtrade Database.

**Fuel imports.** As Russia is one of the largest producers and exporters of hydrocarbons, production and supply disruptions, as well as the sanctions imposed on Russia, have major effects on oil, gas and fuel prices. These have already seen a significant increase since 2021, after an initial decrease at the beginning of the pandemic.

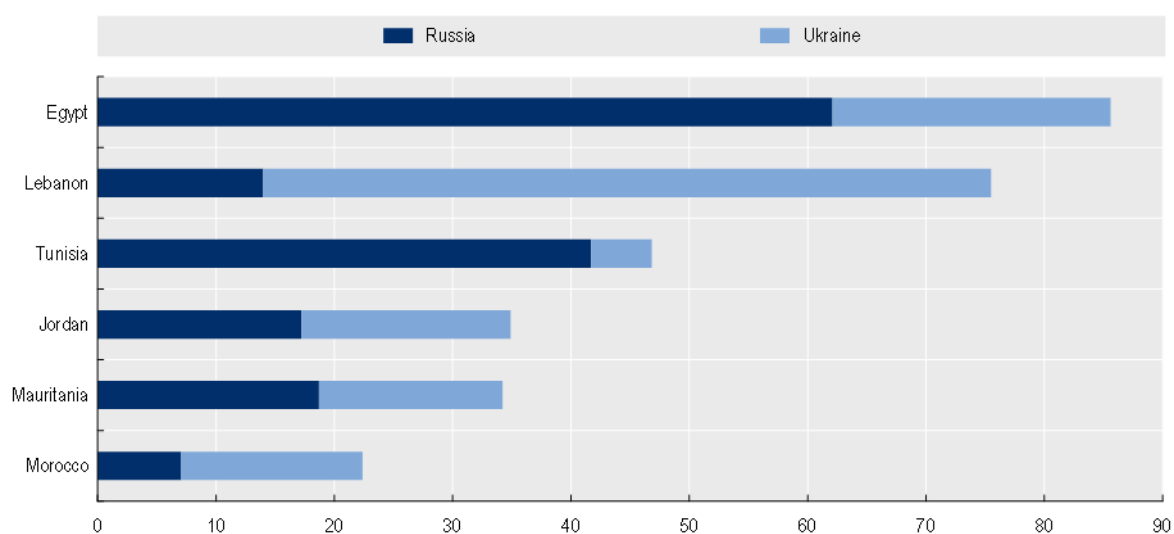
The search for alternatives to Russian sources of hydrocarbons could benefit MENA producers in the medium to long term. Replacing Russia's oil and gas exports to Europe would require both addressing investments to boost local production and building new intra-regional infrastructures, in particular for the more complex logistics for gas, which cannot possibly be achieved in the short-term. Sustained high oil and gas prices may also contribute to inflation and/or stressed public budgets through increased energy subsidies. According to the IEA, in 2020 Algeria's average energy subsidisation rate was 52%, representing USD 191 per capita and 5.8% of GDP; and Egypt's average energy subsidisation rate was 29%, representing USD 77 per capita and 2.2% of GDP. For oil importing MENA countries, high energy prices will have substantial impacts in fiscal budgets, trade balances and hard currency reserves, contributing to economic and social instability.

**Food imports.** MENA countries imported in 2020 over 30 billion USD on agricultural products and food. This represented 22% of the region's total imports of goods and remained the most relevant category in the import basket. Russia and Ukraine are major producers of staple foods (cereals) around the world, accounting for around 30% of the world's wheat exports and 14 % of maize exports, as well as more than 50% of sunflower seed oil. Russia (and Belarus, which is also being subject to sanctions) are also major producers of fertilisers.

Many MENA countries are particularly reliant on agricultural imports from Russia and Ukraine. For example, Lebanon imports 60% of its wheat from Ukraine, and Egypt imports nearly 85% from Russia and Ukraine, Tunisia over 47% from the two countries, with a high very reliance on Ukraine, Morocco imports nearly a quarter and Jordan imports over 34% from these countries (Figure 2).

**Figure 2. Wheat imports from Russia and Ukraine by country, 2020**

Percentage of total wheat imports



Note: Algeria's and the Palestinian Authority's wheat imports from Russia and Ukraine in 2020 were negligible.

Source: OECD calculations, UN Comtrade database.

The MENA region has one of the highest rates of food insecurity in the world. Given the dependency on food imports, the war in Ukraine is likely to increase food insecurity in the region. The number of food insecure people in the MENA countries has steadily increased during the first 3 months of the war, from 26 million in February to 28.3 in May 2022<sup>2</sup>.

**Migration.** Lastly, possible effects also concern movements of people from MENA to the Northern shore of the Mediterranean. Important flows of Ukrainian refugees are currently being relocated across Europe. In the near future, this could have an impact on the opportunities to work and study in European countries for people of other geographical areas.

### Box 1. Overview of impact of the war in Ukraine in MENA countries. A preliminary assessment

Despite the common challenges countries in the MENA region are facing, analysis at the country level will be necessary to assess properly the impact of the war. Preliminary findings are summarised below.

**Algeria** traditionally has not relied heavily on food imports from Ukraine or Russia<sup>a</sup>. However, the country is exposed to higher food prices due to global markets fluctuations. Algeria, which was already facing a surge in prices since 2021, will most likely continue expanding its efforts to prevent basic food goods inflation. This will require increasing public expenditure in a context of budgetary resource rationalisation, which has been a relevant goal of the government since the start of the pandemic. Unlike other neighbouring countries, Algeria's increased hydrocarbon revenues, due to the international oil price surge, will facilitate the government's plans to reduce the inflation's short-term impact but may delay the implementation of budget rationalisation reforms.

**Egypt**, the world's largest wheat importer, heavily relies on Ukraine and Russia for meeting its national cereal needs and is a net importer of other essential basic food items, such as cooking oils. In this context, soaring prices, the drop of tourism from Ukraine and Russia -a significant source of foreign currency - and the increasing investment outflows, forced Egypt to request assistance to the IMF in March 2022. The IMF's external financing is expected to help the country to address inflation, while maintaining its foreign reserves and implementing a debt rationalisation programme starting in 2022.

**Jordan** has managed to contain inflation below 2% during the past year but the impact of the conflict in Ukraine is yet to be assessed. As a net importer of basic food goods and fuel, it is to be expected that Jordan's households and public accounts will be further stressed due to rising food and oil prices and reduced tourism flows caused by a drop in the global purchasing power. In this context, Jordan will most likely increase public debt, already rising since the pandemic's onset, increasing interest rates and furthering currency devaluation.

**Lebanon** is expected to be among the MENA countries most affected by the war in Ukraine. Lebanon heavily relies on wheat imports from Ukraine and is a net oil importer. As the country is still suffering the consequences of the fuel crisis in 2021, heavy inflation and currency devaluation, and shortages in supermarkets, additional prices stress in basic goods and those services which very much depend on oil costs (such as transport or electricity generation) will most likely exacerbate the economic collapse and increase food insecurity. Lebanon is currently discussing with the IMF a four-year extended fund facility to support the country's stabilisation.

In **the Palestinian Authority**, wheat costs have increased over 25% since the war started, and other food goods have also seen a significant increase in prices, which heavily affected local households' purchasing power. According to the WFP, food insecurity has reached 31.2% (64% in Gaza, 9% in West Bank). Also, without specific measures, wheat reserves could be soon exhausted (less than a month according to Oxfam; 2-3 months according to the Ministry of National Economy).

**Morocco** has a strong agricultural sector, which includes wheat production, albeit insufficient to meet the internal demand. Traditionally, the country has imported around 20% of its wheat needs from Ukraine and Russia. While the economic performance of the country will depend more on the demand of European countries of Morocco's manufactured products, inflationary food and oil prices will nonetheless affect the country's households and economic activities, limiting growth prospects for 2022.

In **Tunisia**, inflation reached 7.2% in March 2022, in year-to-year basis, the highest level in three years. Similarly to other food-importers-non-oil producers from the region, Tunisia is particularly sensible to oil and food price fluctuations. The current crisis may exacerbate Tunisia's feeble economic prospects, which remained weak for the last decade -and were worsened by the pandemic. Under a scenario of low employment generation and high unemployment, Tunisia is working with the IMF to expand the current help to tackle the effects of the pandemic to face the worsened scenario caused by the war.

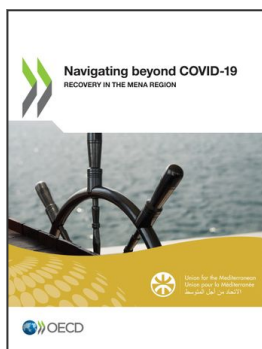
a. Over the past years, Algeria planned to significantly increase its wheat imports from Russia, to become by 2022 the main source for the country, <https://www.reuters.com/article/algeria-wheat-russia-idAFL5N2O435X>

Sources: Comtrade data; IMF; World Bank; national administrations.

## Notes

<sup>1</sup> MENA region or MENA countries refer to the group of countries that are members of the Union for the Mediterranean. These countries are: Algeria, Egypt, Jordan, Lebanon, Mauritania, Morocco, Palestinian Authority and Tunisia. Where the term "broad MENA region" is used, it refers to the group of MENA countries that include UfM and non-UfM members.

<sup>2</sup> Source: WFP HungerMap<sup>LIVE</sup>. Includes data from two sources: (1) WFP's continuous, near real-time monitoring systems, which remotely collect thousands of data daily through live calls conducted by call centres around the world; and (2) machine learning-based predictive models.



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