Impacts of the war in Ukraine on the Arab region

Global impacts

The full impact of the war in Ukraine at the global, regional and national levels is likely to last long after the guns fall silent. While the human losses will continue to mount to even more tragic proportions and the full toll will only be known after the cessation of hostilities, some dimensions of the impact of this war are beginning to emerge. Coming at a time when the global economy has not yet fully recovered from the impact of COVID-19, the sanctions imposed on the Russian Federation and the disruption to some major global supply chains are already having significant impacts globally.

Since the beginning of the war, wheat and maize prices have risen by 35 per cent, while overall food prices have increased by 5 per cent globally. The Russian Federation and Ukraine produce 55 per cent of the
world’s sunflower oil, 32 per cent of the world’s barley, 30 per cent of the world’s wheat and 20 per cent of the world’s maize.¹ Disruptions to harvesting and shipping are likely to increase if the armed conflict is prolonged, with severe consequences on the availability and prices of staples.

With the Russian Federation being the second largest oil exporter and largest natural gas exporter globally, the war and the consequent sanctions have driven up the price of oil to a peak of $125 in the first week of March 2022. While oil prices have receded, they are still far above the pre-war average of $70, a serious fiscal burden on oil-importing countries.

The International Monetary Fund (IMF) has revised down the 2022 global growth rate from 4.9 per cent to 4.4 per cent, a $550 billion loss for the global economy. Increases in global prices of food and fuels will drive inflation up by 3 percentage points in 2022 and 2.3 percentage points in 2023. This could also have serious social consequences as the poor and middle class will be the most affected by the increase in food and energy prices.

The conflict will have a significant impact on the global environment, especially on climate change as countries make alternative choices for energy. The International Atomic Energy Agency warns that this is the first time a military conflict has taken place near the facilities of a large and established nuclear power programme — which in this case includes the site of the world’s worst nuclear disaster at the Chernobyl Nuclear Power Plant in 1986.

¹ UNCTAD figures.
Impacts on the Arab region

The war in Ukraine is expected to have asymmetric economic impacts across the countries of the Arab region – the worst impacts are likely to be faced by low-income and middle-income countries that import energy and food, and those that are dependent on financial aid.

Growth: Due to the war, Arab middle-income countries are likely to lose 2.3 per cent from their expected GDP in 2022. Arab least developed countries (LDCs) are expected to lose 0.6 per cent of their GDP while Arab conflict-affected States will lose 0.5 per cent of their 2022 GDP. Only Arab energy-exporting countries will see an increase in their GDP, of about 0.7 per cent, primarily due to increased demand for and prices of energy. If these trends continue, the economies of the region will lose $11 billion in 2022 and $16.9 billion in 2023.

Tighter fiscal spaces and debt: The increase in oil prices would negatively impact fiscal and current account balances in oil-importing low-income and middle-income countries. This is likely to accentuate their external deficits and liquidity shortages. An increase in external borrowing is likely in this situation. Public debt in middle-income countries of the Arab region is already high (at 92 per cent of GDP on average). Several Arab LDCs are at risk of debt distress. Middle income countries would likely face an 8 per cent increase in debt service amounting in 2022 to around $500 million due to an increase in interest rate and currency depreciation (in some countries). Increase in interest rate is mainly transmitted to the

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Exchange rates: The surge of international prices has put pressure on the international reserves of food-importing countries and consequently their exchange rates. As of April 2022, the Egyptian pound has devaluated by 17 per cent against the dollar, the Moroccan dinar by 4.5 per cent, the Tunisian dinar by 3 per cent and the Lebanese pound by 25 per cent (per the Sayrafa rate). Currency depreciation would likely have a negative impact on inflationary pressures on food as well as other goods and services, which depletes purchasing power of individuals’ incomes and also puts an additional burden on state budgets. Food prices have already gone up in several countries across the region in February-March 2022. In Egypt, food prices rose by an estimated 17 per cent during February, for instance.

Terms-of-trade: will worsen as currencies devaluate, with the prices of imports surging relative to exports. Some Arab economies may incentivize domestic grain production, while others will turn to new trading partners to replenish their food stockpiles. Both measures are likely to negatively impact the terms of trade. Just as COVID-19 accelerated digital transformation, the war in Ukraine will trigger a supply-chain transformation, albeit at a slower pace where old economic alliances and old trading routes will be re-configured. This situation has provided a scope for enhancing the intra-Arab regional trade.

Energy markets and prices: With the price of oil exceeding $100 per barrel, Arab energy exporting countries have enjoyed significant windfalls. These countries hold more than 40 per cent of petroleum reserves. Their public and private sector energy companies are likely to channel these windfalls in expanding production capacity, particularly if the sanctions on the Russian Federation extend to the energy sector and are maintained in the medium to long term. If such an expansion of oil and gas production were to occur, and if the idea of an eastern Mediterranean gas hub were revived to reduce European dependence on oil, there could be a transformative long-term impact on energy trade in the Arab region. Higher oil revenues could be invested in strengthening sovereign wealth funds or postponing the removal of energy subsidies and tax hikes that were planned before the crisis. Those countries might also find themselves with less of a drive towards economic diversification away from dependence on the oil sector and with a reluctance to continue or add to short term investments in renewable energy. The longer term result would be an increase in greenhouse gas emissions and a failure to meet climate promises such as net-zero emissions by 2050 under the Paris Agreement.

The crisis does not carry good news for net energy-importing countries such as Lebanon, Jordan, the State of Palestine, the Syrian Arab Republic, Tunisia and even Egypt. These and other energy importers are witnessing the twin impacts of high prices of energy and imported goods which has the result of threatening energy security, damaging the balance of trade and squeezing government budgets. Indeed, Tunisia raised fuel prices by 3 per cent in March 2022 and each dollar increase in the price of oil adds an extra $47.5 million to public spending on fuel subsidies. In Morocco, the war sent diesel and gasoline prices soaring by 15 per

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3 https://mei.edu/publications/war-ukraine-and-drought-home-perfect-storm-maghreb
cent and 33 per cent, respectively. As a result, Morocco is starting to subsidize diesel fuel for transport to mitigate the impact until prices return to normal levels. In Lebanon, gasoline and diesel prices increased by 4 per cent and 13 per cent, respectively, during the week of 21–25 March 2022. This situation may push the countries to invest more in renewables to increase energy security.

Food security: The Russian Federation and Ukraine are significant sources of grain and vegetable oil imports for the Arab region. Egypt, Lebanon, Oman, Qatar and Somalia sourced over two thirds of their wheat imports from the two countries in 2020. At the same time, sunflower oil imports of Iraq, Jordan, Lebanon, Oman, Qatar, Saudi Arabia and the United Arab Emirates were greater than 60 per cent in 2020. In the case of Algeria, Egypt, the Sudan and Tunisia, this share exceeded 90 per cent. The situation in the Arab region is compounded by an impending increase in demand for food as Muslim families buy more than their usual requirements to share with the poor during Ramadan.

The supply chain disruption caused by the war and the associated sanctions have reduced the grain and edible oil supply from the Russian Federation and Ukraine. Combined with the seasonal high demand for food and the low food reserves in some countries, prices are rising, putting additional fiscal pressure on governments as most of the food items are subsidized. In Egypt, overall food prices rose by an estimated 17 per cent during February. In the Sudan, cereal prices were 70–80 per cent higher in February 2022 than in February 2021. In the Syrian Arab Republic, the prices of most other food commodities were on the rise, mostly as a result of higher fuel prices, particularly in Idleb where dry beans were more than 13 per cent more expensive and sugar 27 per cent more expensive than in January 2022. The situation in Lebanon is particularly worrisome since its food reserves were estimated at just 1.5 months in March as some of its food storage capacity was lost due to the 2020 port explosion that destroyed the country’s only grain silos. In addition, most North African countries are facing a drought this year, leading to lower wheat and other grain production and making them more reliant on imports.

The Russian Federation is also a major producer and exporter of fertilizers. If supply constraints due to the conflict and sanctions are protracted, food security concerns in the medium term will be aggravated globally. Under such a scenario, Arab countries are likely to be much more affected than other regions, as they have limited capacity to ramp up food production and their reliance on food imports is particularly high.

Humanitarian conditions: While the humanitarian conditions in Ukraine itself are a cause for concern, the war is also jeopardizing deliveries of aid by humanitarian organizations, putting millions of refugees and displaced people in the Arab region at risk of hunger. In Yemen, the World Food Programme (WFP)

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4 Ibid
estimated in mid-March 2022 that 17.4 million people are experiencing high levels of acute food insecurity with 2.2 million acutely malnourished.7,8 In the Syrian Arab Republic, according to the results of the WFP nationwide food security and livelihoods assessment, 12 million people, 55 per cent of the total population of the country, are facing acute food insecurity, and 1.9 million people are at risk of sliding into food insecurity.9,10

Vulnerabilities: The three dimensions impacted by the war, food, fuel and finance combine to constitute a wide set of vulnerabilities for the Arab countries ranging from Djibouti, Lebanon, Somalia and Yemen, among others, as the most vulnerable to Qatar, United Arab Emirates and Bahrain as the least vulnerable.

Poverty in the region: As a result of the war, the expected rise in household income in the region will slow down to 0.34 per cent in 2022 and to 0.54 per cent in 2023. The poverty rate in the 15 non-GCC countries is likely to reach 32 per cent. This means that in 2023, 3.7 million additional people will join the ranks of the poor pushing the total to an all-time record of 125.8 million people living below national poverty lines. Moreover, extreme poverty is likely to increase to 16.2 per cent pushing an additional 2.8 million people to live in extreme poverty by 2023, relative to the pre-crisis scenario.

Recommendations

National

Immediate actions

• Maintain and/or increase social protection measures, particularly those providing food and food subsidies to the poorest and most vulnerable households.

• Explore immediate alternative sources for food imports impacted by the war.

• Allocate the necessary fiscal resources, even if on a temporary basis.

• Enforce consumer protection measures to prevent unjustified food price increases.
Short to medium-term actions

• Establish integrated food security policies and strategies including:
  o Diversified import sources to hedge against future crises.
  o Early warning systems to anticipate food crises.
  o New technologies and options to enhance agricultural productivity while balancing staple and cash crops.
  o Enhanced strategic food reserves for wheat, rice and other staples, including strategically positioned community-based silos, while investing in better storage technologies and management.
  o Awareness campaigns that emphasize reducing food loss and food waste.

• Invest in and incentivize investments in energy efficiency and adoption of renewables, particularly solar energy.

Regional

Immediate actions

• Lower trade barriers and customs procedures and fees to facilitate trade in food, grains and staples among Arab countries and between the Arab region and the rest of the world.

• Countries of the Arab region should lobby to ensure that sanctions exclude food products and humanitarian assistance.

• Arab countries with large strategic food reserves should make some of their stocks available to countries in need in the spirit of regional and societal solidarity.

• Use some of the financial windfall to help alleviate the burden of countries with tighter fiscal spaces and greater debt burdens.

• Establish a multi-dimensional observatory, network or group for the Arab region to monitor the crisis and its impacts in the region.

• Monitor impacts of the crisis on climate policy in the region and provide the necessary support to keep the momentum on climate action and the achievement of the SDGs.

• Countries of the region should collectively lobby the IMF to:
  o Activate more swiftly an emergency fund to be more easily and effectively accessed by countries impacted by the crisis.
  o Extend the coverage of DSSI and prolong the duration of maturity of lending under this scheme.
  o Make more optimal use of SDRs, focusing on more re-allocating SDRs that are currently not utilized to countries facing high levels of vulnerabilities

Short to medium-term actions

• Develop strategic regional and/or sub-regional food reserves, taking advantage of capacities in countries where infrastructure is available.

• Support the development of an Arab food security emergency fund.