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The Ukraine-Russia War Enters its Sixth Day



The Russian army continued its advance into Ukrainian territory towards the capital, Kyiv, for the sixth day after it managed on Tuesday to control the city of Kherson in southern Ukraine, near the Crimean Peninsula. Meanwhile, Russian President Vladimir Putin set 5 demands in exchange for a ceasefire, foremost of which is respect for Russia's security considerations.

[Link to the News Story](#)

Our Views

1. To start, we would like to point out the acceleration in the course of events in a way that makes it difficult to accurately predict their results or evaluate their direct or indirect repercussions.
2. The military position of all parties in the conflict may witness a fundamental change at any moment, for the following reasons:
 - The strength of the economic repercussions of the crisis, being intertwined in a way that makes it difficult to limit the negative impact of the sanctions on the concerned country only, for example: the negative impact of excluding Russia from the SWIFT system¹ will extend to all countries of the world, including the European countries themselves, because the suspension of one of the chain links of the system (Russia in this case) will undoubtedly affect the rest of the links/countries.
 - The power of Russian gas as a pressure card on European countries, especially those with which Russia has huge investments in this field, such as Germany, particularly that US pressure on Russia to disrupt gas projects could be the undeclared reason for provoking the conflict between Russia and Ukraine.
 - The strength of the Russian economy and its readiness for sanctions, most of which were previously witnessed, give Russia a measure of experience in dealing with them. This was evident in its reduction of its dollar reserves in exchange for increasing reliance on gold, transferring a large part of its

¹ SWIFT is an integrated system for financial payments involving more than 16 thousand banks worldwide.

debt from the dollar to the ruble, and providing aid packages for investors affected by the crisis and other proactive measures.

3. This means that the outcome of the conflict can change overnight, but the most important question remains: How will Egypt deal with these developments? And whether it has sufficient flexibility and acuity to calculate the net impact on the one hand, as well as take the necessary measures and policies to reduce potential damage on the other hand. In this regard, the impact of the crisis on Egypt comprises three main pillars: International trade, agriculture, tourism, and public finance. The details of each are as follows:

I. International trade:

- Cereals, especially wheat and corn, are on top of the commodities that will be negatively affected by the crisis. As for corn and soybeans, Egypt imported \$1.7 and 1.4 billion in 2019, respectively, and their prices increased by up to 50% immediately after the outbreak of the conflict, which will undoubtedly affect the prices of local meat. The size of the local strategic stock and its sufficiency of corn and soybeans is unknown, as they are imported by the private sector.
- As for wheat, Egypt is the largest importer of wheat in the world. Russia ranks first in exporting wheat and Ukraine comes fifth. The price of wheat rose by 18% immediately after the outbreak of the conflict, and there is no doubt that this rise, if it continues, will negatively affect the net fiscal deficit, let alone the availability of sufficient wheat for consumption in the medium to long run, especially in the event of a prolonged conflict.

- It is important to use new means of payment for the purchase of wheat from Russia. Specifically, to consider the use of the equivalent transaction system that was used until the eighties, according to which services were traded without financial exchange. Even though this system is not economically efficient in principle, it is an appropriate solution in times of crisis, especially if the prices were properly set in advance.
- It is also possible through this system to solve the problem of obtaining the current costs of Ukrainian and Russian tourism that have not been paid. For example, wheat could be supplied to Egypt in return for the amounts due, which requires coordination between all concerned ministries, the most important of which are tourism, supply, and foreign affairs, as well as banks. It also needs high flexibility in negotiating skillfully and appropriately with the Russian side.

II. Agriculture:

- Despite the presence of local reserves sufficient for four months, especially since the Ministry of Supply carried out the largest purchase of wheat in its history (600,000 tons) last December, as well as the approaching wheat harvest in the current season (mid-April), the crisis has shown the necessity of conducting immediate and quick review of all planting plans for the next season and providing farmers with the necessary incentives to increase planting, so the percentage of self-sufficiency is increased from the usual 50%.

III. Tourism:

- The negative impact of the crisis will certainly extend to the tourism sector, due to Egypt's substantial dependence on Russian and Ukrainian tourists, though being among the least spending tourists (\$30-40 dollars per day on average).
- It is important to take advantage of the crisis to attract new nationalities of tourists, especially from China and Japan, as well as Arab countries, who spend at least twice this amount daily, in addition to the necessity of drawing on conference, exhibition, adventure, and other types of tourism.

IV. Public finances:

The crisis led to a rise in energy prices, as the price of oil exceeded \$100 per barrel, while the budget estimates for the current fiscal year assume \$61 a barrel, which will undoubtedly lead to a rise in the fiscal deficit. However, the rise in gas prices will mitigate this negative impact, albeit to a limited extent, due to the gas liquefaction infrastructure reaching its maximum capacity. Calculating the net impact and following it up accurately remains the purview of the concerned ministries. The crisis led to a rise in energy prices, as the price of oil exceeded \$100 per barrel, while the budget estimates for the current fiscal year assume \$61 a barrel, which will undoubtedly lead to a rise in the fiscal deficit. However, the rise in gas prices will mitigate this negative impact, albeit to a limited extent, due to the gas liquefaction infrastructure reaching its maximum capacity. Calculating the net impact and following it up accurately remains the purview of the concerned ministries.

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