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The impact of the Russo-Ukrainian war on Egypt's wheat market

Az orosz-ukrán háború hatása Egyiptom búzapiacára

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Abstract

Food insecurity is one of the most pressing global problems. Armed conflicts, climate-related shocks, and natural and man-made disasters all contribute to the volatility of food supply chains. Currently, the Russo-Ukrainian war is one of the biggest conflicts bringing about a great challenge to secure the stability of food supplies. This war particularly affects those countries that rely heavily on food imports. Egypt is the largest wheat importer worldwide and Russia and Ukraine were among its top exporters. The country – already suffering from decades-long wheat shortages – faced a dire situation following the outbreak of the Russo-Ukrainian war. In my research, I attempt to highlight Egypt's challenges regarding its food system with a special focus on its wheat market. I will first analyze the importance of wheat for Egyptian society, and the country's demand and supply of wheat. Then, I will take a closer look at the state's involvement in the wheat market, as well as the government's subsidy and import policies. In the subsequent chapters, I will conduct research on how the Russo-Ukrainian war affected Egypt's wheat supplies, and what response the country's leadership gave to the crisis. In the end, I will attempt to draw a conclusion and highlight possible solutions.

This paper is based on desk research and uses data derived from various online sources. The nature of the research method poses a limitation to my analysis because I could not conduct field research to collect primary data. Nevertheless, I attempted to use only reliable sources (for example World Trade Institute, World Bank, Food and Agriculture Organization, International Grains Council), and I also compared the various datasets to weigh their credibility.

I concluded that the Russo-Ukrainian war had a profound impact on Egypt's economy, primarily on its domestic market. First, international wheat prices significantly increased following the outbreak of the war, making it more expensive for Egypt – a country heavily reliant on imports – to purchase wheat on the foreign market. This also affected the national budget, as the government had to allocate more funds for imports. In return, it became more expensive to maintain the domestic food – mainly wheat - subsidy system. As food prices increased, more people were pushed into a state of insecurity. High inflation and budgetary problems forced the Egyptian government to turn to international financial institutions (such as the International Monetary Fund) for additional loans. Second, the eruption of the war brought a restructuring of Egypt's wheat imports. Before 2022, Russia and Ukraine provided over eighty percent of the country's wheat; by 2023, this has changed. On the one hand, imports from Russia grew

significantly, whereas imports from Ukraine showed a sharp decline. In addition, other European exporters such as France and Romania played a more important role as wheat exporters to Egypt. Regarding diplomatic and foreign relations, Egypt-Russia ties became stronger, not only in terms of trade but in other fields as well (such as the construction of Egypt's first nuclear plant by Rosatom, a Russian company). Finally, Egypt stepped up its policy of neutrality as it sought to maintain good relations with Russia while keeping its strongest ally and financial supporter, the United States. Thus, Egypt is very cautious about making statements about the Russo-Ukrainian war; on the one hand, it condemns Russia for its act of aggression (and usually votes in favor of such declarations in the United Nations General Council), but on the other hand, it also calls on Western countries for imposing sanctions on Russia, making them responsible for the economic consequences (i.e. increased food insecurity) African countries need to face.

Keywords: Egypt, wheat market, imports, prices, Ukrainian war, Russia

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1. Introduction

1.1. Content and scope

The Russo-Ukrainian war which broke out in February 2022 had unquestionably shaped international relations in the past two years. This war had far-reaching repercussions, from the political to the military and the economic spheres. The latter is especially characterized by dynamic changes as domestic and international markets are very sensitive to external shocks, thus, they rapidly adjust to new environments. This phenomenon can be observed in the grain market which was particularly affected by the war. Ukraine – often referred to as "the breadbasket of the world" – together with Russia accounted for over 20 percent of total grain exports in 2021 (Observatory of Economic Complexity, 2024). The sudden decrease in the volume of grain available on the global market led to a sharp rise in its price, evoking a cost-of-living crisis in many countries. Those who were heavily reliant on Russian or Ukrainian grain were hit most severely. Egypt was the single largest net importer of grain - particularly, wheat - due to its limited domestic production (World Trade Institute, 2022). As the war unfolded, the country faced an increasingly dire situation and its leaders had to find alternative ways to feed the population.

In my thesis, I attempt to analyze the relationship between the Russo-Ukrainian war and the changes in Egypt's wheat market. After introducing the domestic wheat market in Egypt by looking at the demand and supply, I will describe government policies, more precisely, how, and why the government interferes in the market. I attempt to answer these questions with the help of analyzing state involvement in the supply chain, e.g.: with direct purchases, imports, and subsidies. In the third chapter, I will take a closer look at the interlinkages between the Ukrainian war and the Egyptian wheat market, thus, I will shift the focus to international economic relations. After giving a short theoretical description of exogenous economic shocks, I will look at how the Egyptian wheat market reacted to the challenges brought about by the war. In the following chapter, I will extend the scope of my analysis by looking at the response of Egypt's leaders to the crisis, including domestic and import policies, and international loans. Turning to the broader political sphere, I will analyze the impacts of the Black Sea Grain Initiative, Egypt's stance on the war, and how diplomatic and trade relations between Egypt and Russia changed over time. At the end of my thesis, I will assess my findings and make some concluding remarks.

1.2. Relevance

I believe that the topic of my thesis is particularly relevant in the contemporary international environment when armed conflicts – such as the one between Ukraine and Russia – heavily influence global markets. By analyzing the Russo-Ukrainian war and the changes in Egypt's wheat market, I point at the interlinkages between two phenomena that would otherwise seem unrelated. I attempt to draw attention to the interconnectedness of political events and economic changes, especially in the case when a country is strongly dependent on the import of a certain good.

1.3. Research methodology

This thesis is based on desk-based descriptive analysis. Throughout the research process, I gathered data from online databases. These are secondary sources: data sets that have been already processed. The nature of the data used for my analysis poses a limitation to my thesis because I can only rely on sources previously collected and processed by someone else. Nevertheless, I attempted to use only reliable sources (for example World Trade Institute, World Bank, Food and Agriculture Organization), and I compared the data gathered from these sources to ensure their credibility.

In my thesis, I follow a deductive approach. I assume that the Russo-Ukrainian war had an impact on the Egyptian wheat market. I attempt to prove this assumption by analyzing the Egyptian wheat market (e.g.: domestic supply of and demand for wheat), and the changes in prices and trade patterns over time. I primarily focus on the period preceding the war (2021 and early 2022) and then compare it to the period following the outbreak of the war (after February 2022). In case I have up-to-date and reliable data from later periods (e.g.: from 2023 or even early 2024), I will include it in my research.

I created the following research question: "How did the Russo-Ukrainian war affect the Egyptian wheat market?". To answer this question, I also created sub-questions to help break down my research into smaller parts. Thus, I attempt to answer how the Egyptian wheat market works, how and why the government interferes in the market, and what are the government's subsidy and import policies. As I proceed with my thesis, I will also answer what role did Ukraine and Russia play in the global wheat market, and how did the war affect the global, as well as the Egyptian wheat market. Broadening the scope of my analysis, I will look at how the changes in the wheat

market affected the Egyptian fiscal balance, and what measures did the Egyptian government take to remedy the crisis. In the end, I will also attempt to answer what effects the changing trade patterns have on Egypt's diplomatic relations with Ukraine and Russia.

International economics provides the theoretical background for my thesis. Concepts, such as trade balance, exports and imports, markets (demand and supply), subsidies, and economic shocks are used as "building blocks" for my analysis. I attempt to clarify these abstract concepts with the help of indicators. Variables are the actual data provided in the thesis to help measure indicators. These include the amount of exports and imports, GDP per capita, domestic supply and demand, poverty rate, wheat consumption, price of wheat, fiscal balance, and amount of loans. The numeric data gathered from various sources provides for the values assigned to the variables, thus completing the analysis.

1.4. Limitations

Due to its desk-based nature, my research faces limitations concerning data collection methodologies. As I am not capable of conducting field research (e.g.: interviewing Egyptian farmers or government members) I can only rely on data available online, as well as articles and papers written by other authors. In this regard, a more in-depth analysis could be carried out with the help of direct observation. Also, it is beyond the reach of this work to investigate other factors that could have had a direct impact on the Egyptian wheat market (e.g.: climate change-induced draughts). Another topic for further research could be the analysis of the changes in Egyptian society (e.g.: the perception of security) brought about by the economic turbulence.

2. The wheat market in Egypt

2.1. Introduction

The Arab Republic of Egypt (in the following, I will refer to it as Egypt) is a North African country, bordered by the Mediterranean Sea on the North, the Red Sea on the East, Sudan on the South, and Libya on the West. It has a territory of around 1,010,000 square kilometers, however, only three percent of its land is arable. Hence – although Egypt is an agriculture-based country – its agricultural production is confined to the area of the Nile Valley where the combination of fertile soil and sub-tropical climate enables the farming of a wide variety of crops. Among its main crops, fruits and vegetables (such as citrus fruits, dates, potatoes, and tomatoes), as well as various grains

(such as wheat, maize, and rice) can be found (Galal, 2023). Agriculture contributes to around 14 percent of the GDP (Abdalla et al., 2022), and around 20 percent of the workforce was involved in agricultural production in 2021 (Statista, 2023).

Egypt has a population of around 113 million people, and a population growth rate of 1.63 percent (although, it is estimated to decline), which means that 2 million people are added to the population every year (World Population Review, 2024). With one-third of Egyptians living under the poverty line (that is, below two dollars per day), the country faces extreme difficulties in feeding the population and meeting the growing demands for wheat. Because the population grows faster than the capacity to produce wheat, there is an increasing gap between supply and demand. This puts significant pressure on imports and pushes the country into food insecurity (Abdalla et al., 2022). In 2022, Egypt ranked 77th out of 113 countries on the Global Food Security Index, although, it improved by 2.2 basis points compared to 2012 (Global Food Security Index, 2022).

2.2. The importance of wheat

Wheat is historically known as one of the most important products in Egypt. Bread made from wheat (called baladi) is considered a basic food staff and it provides one-third of the population's calorie intake. It is also a major source of protein, especially among the poor (Abdalla et al., 2022). Thus, the majority of the Egyptian population is heavily reliant on wheat. Because of the extreme importance of bread, the government massively subsidizes every step of the bread-making process, from farming to milling and baking. Also, the price of bread is fixed and hasn't changed in decades. Every time there was a change in the quantity or quality of bread, it triggered mass protests and even riots among the population. Some others believe that the increase in global wheat prices as a result of the ban on exports by Russia following a drought-induced internal shortage, and consequently, a shortage of bread in Egypt, played a significant role in the Arab Spring revolution in 2011 (Abdalla et al., 2022; Soffiantini, G., 2020). Despite the population's dependence on wheat, Egypt is unable to produce enough to meet the increasingly growing demands.

2.3. Demand for wheat

As we discussed in the previous chapter, wheat is one of the most important goods consumed by the Egyptian population. In 2020, 100 million Egyptians consumed about 20 million

metric tons of wheat, and it is expected that by 2050, this level will reach 30 million metric tons and a population of 140 million (Abdalla et al, 2022).

According to a detailed report by the United Nations Food and Agriculture Organization, cereals are responsible for the largest share (around 62 percent) of Egyptians' calorie intake, equivalent to about 2,200 calories (Food and Agriculture Organization, 2015). According to the same report, domestic cereal consumption – particularly wheat - increased by 600 percent between 1961 and 2011 (Food and Agriculture Organization, 2015). This high level of consumption (mostly in the form of bread) is mostly due to its affordability, as a significant part of the population cannot afford to buy more expensive products (such as fruits, vegetables, or meat). In high-income countries, the average diet consists of a basket of different products of which wheat accounts for only a small portion. Whereas in the case of Egypt, which is classified by the World Bank as a lower-middle income country (World Bank, n.d.), the majority of the population heavily relies on wheat and other types of cereals. It is expected that if the income level rises, the average diet will diversify. However, at the current income level, that is a GNI per capita ratio of 4,100 dollars (as of 2022), Egyptians are unlikely to switch to a more diverse diet by cutting wheat consumption (World Bank, n.d.). Thus, it is of utmost importance that the country meets its wheat demand to secure the nutritional needs of its population. In the following chapters, we will examine which policies Egypt follows to realize this goal.

2.4. Supply of wheat

2.4.1. Domestic supply

Agricultural production in Egypt is confined to the narrow strip of the Nile valley (the "old land"), particularly to the Nile Delta on the Mediterranean coast. Farmland is divided into small units, called feddan which equals around 0.42 hectares. More than eighty percent of farmers fall under the category of small landholders, which means that they own less than three feddan (less than two hectares) of land (Food and Agricultural Organization, 2015). The sub-tropical climate enables farmers to harvest throughout the year: once in the winter, and once in the summer. Also, there might be a third season between August and October. Winter crops mostly include wheat, vegetables (like onions, potatoes, and beans), sugar beets, and berseem (an Egyptian plant similar to clover that is mainly used as animal feed). In the summer season, irrigated crops such as maize, rice, cotton, soybean, and sunflower are harvested (Food and Agriculture Organization, 2015).

Farmers usually divide their land into two (or three) parts and plant their crops on a rotational basis.

One of the main problems with domestic production arises from its high level of inefficiency. Due to the fragmentation of agricultural land, only small-scale farming is possible which results in higher costs and lower levels of productivity. Another important factor is the lack of machinery: most production-related tasks are carried out manually, and only a few are mechanized (Food and Agriculture Organization, 2015). This is partly due to the high prices of machines, but also because it allows for a higher level of employment as more people are needed to farm a unit of land. Furthermore, the excessive number of subsidies (which we will touch upon in the next chapter) provides that farmers have no incentive to boost efficiency by decreasing their production costs because the government will purchase their wheat above market prices, thus, in essence, it alleviates any market competition.

2.4.2. Subsidies

2.4.2.1. A brief description of subsidies

Subsidies are often used by governments as a tool to help the poorest meet their basic needs. Subsidies are a sum of money paid to producers to help them ensure that their business is profitable. They can also be given to suppliers as a form of compensation e.g.: if the price of a product is regulated by law and it is below the market price. Subsidies often serve as a tool to incentivize the production of certain goods that are highly demanded but underproduced (a good example of that is agricultural products because they are essential for the consumers, but few want to work in the agricultural sector due to unfavorable conditions or other reasons). The more inelastic the demand (i.e.: there are no alternatives to the product, as it is in the case of bread) the more subsidies are needed to incentivize producers and to ensure consumers' access to the good. Thus, subsidies distort the market in a way that fits government policies and results in a new equilibrium that (under ideal circumstances) reflects the desired outcome of such policies. However, subsidies are very costly, and governments need to cover them with taxes which often leads to an increase of tax revenues. On the other hand, it is often the only way to help the poorest who often live under the poverty line (on less than two dollars per day) and couldn't otherwise satisfy their basic needs such as buying staple food products.

2.4.2.2. The government's subsidy policy in Egypt

Subsidy policy in Egypt has been present for decades and it is one of the most important elements of food and poverty reduction policies of every incumbent government. Despite a significant reduction in the percentage of the population living under the poverty line, there are still many who rely on subsidized bread (baladi) to meet their daily calorie intake. Because of the highly inefficient agricultural production, farmers are also reliant on government subsidies to a great extent. A third factor influencing the subsidy system is the social and political pressure. Once the subsidy policy was established, it has become increasingly difficult to remove. Thus, it is in the interest of every government to continue this type of agricultural regime, which in turn further exacerbates the inefficiency of the system.

In effect, the government is involved in every step of the production process. It purchases a great amount of wheat from foreign countries (primarily from Russia and Ukraine) which it then gives to state-owned mills. Domestically, the government directly buys wheat from farmers well above the market price and sells it to mills at lower prices. Indeed, the government is the sole purchaser of domestic wheat, as it is banned for farmers to sell their produce to others than the government (e.g.: to private firms or foreign exporters). Once wheat is processed, flour goes to bakeries who again receive subsidies for making bread. In the end, consumers have access to bread for the same price as they had decades ago (EGP 0.55 or USD 0.01 per loaf) (Abdalla et al., 2022). According to a report by the Food and Agriculture Organization, the government spends over seventy percent of its food subsidies on bread (Food and Agriculture Organization, 2017). A report issued by the IMF in 2023 includes that Egypt spent 1.2 percent of its GDP on food subsidies alone in the 2021-2022 fiscal year (International Monetary Fund, 2023).

The bread subsidy program benefits some 72 million people, and it is the largest food subsidy program in Egypt. The subsidy program allows individuals (mostly those, who live at or under the poverty line) to buy one loaf of bread at 5 piastres, (around 0.03 USD) which covers only one-twelfth of its actual production cost (World Bank Group, 2022). The government compensates bakeries by paying them the remaining amount. Each individual is entitled to buy five of these loaves. The program costs about 3 million dollars in wheat imports every year. Altogether, food subsidies account for 1.4 percent of the GDP (World Bank Group, 2022).

2.4.2.3. The negative effects of subsidies

The Egyptian subsidy policy comes with significant drawbacks. Due to the high prices the government pays for wheat, domestic farmers are not incentivized to innovate and to produce more efficiently. Also, the inefficiency of the supply and production chains leads to waste and leakages (e.g.: due to improper storage, and the sale of subsidized wheat flour on the black market). Moreover, the extensive state presence gives way to large-scale corruption, further contributing to the wasting of precious resources (Food and Agricultural Organization of the United Nations, 2017).

2.4.3. Import of wheat

2.4.3.1. The effect of imports on domestic markets

Imports are an essential feature of the global economy because no single country can be self-sufficient in the sense that its supply meets all the population's demands. Thus, imports are inevitable, but they do not harm the economy as long as they equal the amount of exports of the given country. Imports boost consumption because they increase the amount of goods available, usually at a lower price. They can also incentivize innovation because domestic producers must compete with foreign producers. However, imports can hurt local producers if the imported products have significantly lower prices because in this case, they have to sell their goods at a lower price, or even below production costs. Otherwise, they will be left with no market as cheaper imported goods will satisfy domestic demand. To mitigate the adverse effects imports may have on the domestic market, some – mostly, but not limited to, developing countries - are following more protectionist policies by establishing barriers to international trade, such as tariffs, duties, and quotas. Others discriminate against foreign firms by offering subsidies and tax exemptions to national companies.

2.4.3.2. The effect of imports on the Egyptian market

To support domestic farmers, the Egyptian government purchases wheat from local farmers above the market price (a procurement with a premium), thus creating a market for them. In this way, even if wheat coming from exporter countries is cheaper, Egyptian farmers will be incentivized to sell their wheat at a higher price. However, this results in a lack of innovation

because domestic suppliers do not have to compete with foreign suppliers, hence, Egyptian wheat production will remain highly inefficient.

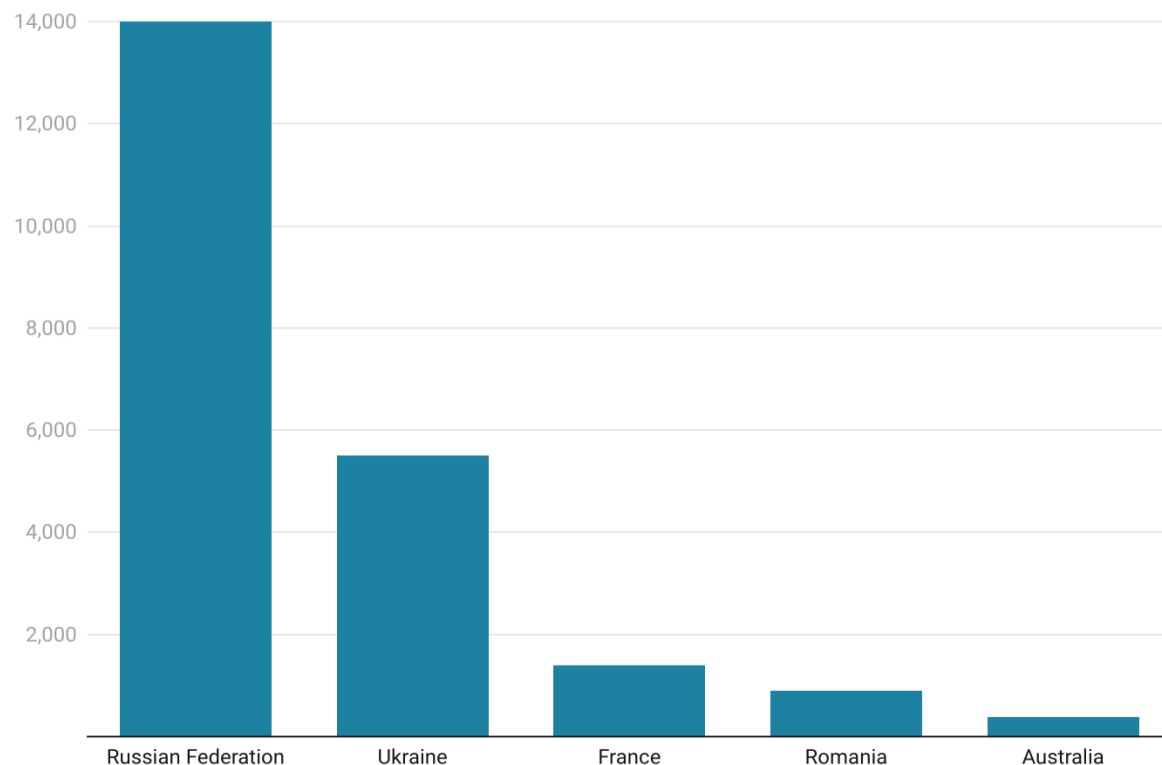
2.4.3.3. Egypt's reliance on imported wheat

As we mentioned in the previous chapter, Egypt's reliance on wheat imports is very significant. According to a report from the World Trade Institute, the domestic supply of wheat covers less than fifty percent of the country's demand (World Trade Institute, 2022). In the 2021-2022 period, wheat demand exceeded 20 million metric tons, whereas domestic supply accounted for only 9 million tons. Egypt covered the remaining 11.5 million (56 percent) by imports (World Trade Institute, 2022). Together, wheat coming from Russia (53.9 percent) and Ukraine (18.8 percent) accounted for 72.7 percent of all imports.

Figure 1.

Wheat imports by Egypt, 2020

Volume of imports in 1,000 metric tonnes



Source: Statista • Created with Datawrapper

According to a different source – Statista – wheat imports from Russia had even a larger share in Egypt's total imports. Figure 1. shows the volume of Egypt's wheat imports in 2020, expressed in 1,000 metric tonnes. Here, the combined volume of Russian and Ukrainian wheat reached 19,500 thousand tonnes, while imports from other countries (France, Romania, Australia) made up only 2,692 thousand tonnes (Galal, S., 2023).

2.4.3.4. The government's import policy

Egypt is one of the largest importers of wheat: in the 2021-2022 season, its wheat demand amounted to 20.5 million tonnes, out of which 11.5 million were imported. That is equivalent to fifty-six percent of its demands, according to the World Trade Institute (World Trade Institute, 2022). In the same period, sixty-seven percent of wheat imported by Egypt arrived from Russia. The second largest exporter was Ukraine, with twenty percent. Together, these two countries accounted for eighty-seven percent of wheat imports (World Trade Institute, 2022). Romania is the third largest exporter, although wheat coming from the country contributes to only five percent of Egypt's total imports.

Wheat is imported either by the state or by large companies. State imports account for forty percent of total imports. In this case, the General Authority for Supply Commodities (GASC) directly purchases wheat through state tenders which often involves a long bureaucratic procedure. Still, governmental imports are essential for sustaining the country's wheat supply. The remaining sixty percent is carried out by private traders. Many transnational companies (for example, COSCO) trade between their branches. Other Egyptian private imports are subject to negotiations with exporters. (World Trade Institute, 2022). Wheat arrives via two main routes: either by the Mediterranean or by the Red Sea. Thus, ensuring that supplies arrive in a safe and timely manner is another key factor that needs to be considered by importers.

2.4.4. An assessment of state-involvement in the wheat supply chain

As we could observe in the previous chapters, the Egyptian government is involved in all steps of the wheat production chain, from subsidizing domestic farmers to importing wheat through state-owned companies and shipping it to state-owned storage facilities. The state is also heavily involved in processing wheat, as it owns mills with the largest capacities. In addition, there are state-owned bakeries (although only 2 percent of all Egyptian bakeries) that are responsible for around twelve percent of bread production (Food and Agriculture Organization, 2015).

To somehow fix the erroneous system, the government set ambitious targets to reach wheat self-sufficiency. These goals are reflected in the "Egypt Sustainable Development Strategy Towards 2030", created in 2014. The plan targeted a seventy-four percent wheat self-sufficiency level for 2017, however, only forty-three percent was achieved (Abdalla et al., 2022). The agenda envisions a two-fold improvement: one is extensification, that is, to make more area of land (the "new lands") suitable for agricultural production; the other one is intensification, the aim of using resources more efficiently with the help of technological and infrastructural development.

3. Impacts of the Russo-Ukrainian war on Egypt's economy

3.1. War as an exogenous economic shock

In economic terms, we can distinguish between various shocks that can be classified as either endogenous –a shock that arises from within the system-, or exogenous – a shock caused by external factors outside the system (Widmaier et al, 2007). War and political upheaval can be mentioned as good examples of the latter (even though not all economists agree on this categorization). Inter-state armed conflicts affect the economy in many different ways.

First of all, trade is usually put to a halt when a war breaks out. Due to the direct, physical threat to the safety of ports, cargo ships, and other product-carrying vehicles, parties are strongly discouraged - and often virtually unable - to continue their trading activities.

In addition, war usually leads to mass migration, thus, a sudden decrease in the labor force. It is accompanied by compulsory subscription, further exacerbating the situation. In case of an armed attack against key facilities and infrastructure, it becomes theoretically impossible to continue production, even if a labor force is available. Another important factor is the instability brought about by the uncertainty of the behavior of various actors. Foreign investors tend to react to the heightened level of risks by withdrawing capital which in turn strengthens the perceptions of other investors that it is irrational to invest in the country.

It is also worth mentioning that in many cases (especially in the case of the Russo-Ukrainian war) the international community reacts to inter-state conflicts by imposing sanctions on the aggressor. These sanctions have wide-ranging consequences as they not only affect the state on which they are imposed but – due to the strong interlinkages between national economies, - they also affect other states that have strong trade relations with the given state. The situation can be extremely dire for those who heavily rely on certain goods imported from the sanctioned state.

Again, this can be observed in the Russo-Ukrainian war, where many states, mainly from North Africa and the Middle East, had to face extreme challenges replacing staple products (primarily grains, and fertilizers) arriving from Russia. Now, let us take a closer look at the role of Ukraine and Russia in the global wheat market.

3.2. The role of Ukraine and Russia on the global wheat market

In 2021, the Russian Federation was the biggest exporter of wheat, accounting for 14.4 percent of global exports. In the same year, Egypt was the top importer with 7.33 percent of total imports (Observatory of Economic Complexity, 2024). Egypt was also the largest importer of Russian wheat, accounting for 27.4 percent of imports. On the other hand, Russian exports had a share of 53.9 percent of Egyptian wheat imports. Ukraine and Romania were the second largest exporters of wheat to Egypt, both accounting for 18.8 percent of imports. Globally, Ukraine was the fifth biggest exporter with 9.5 percent, following Russia (14.4 percent), the United States (12.7 percent), Australia (11.9 percent), and Canada (11.2 percent) (Observatory of Economic Complexity, 2024).

In view of these figures, we can state that Russia's and Ukraine's importance in the wheat market is unquestionable. Hence, any change in their wheat production ratios has an adverse effect on the global supply chains. We can also conclude that Egypt is highly exposed to Russian and Ukrainian imports which makes it exceptionally vulnerable to disruptions.

3.3. Impacts of the war on the global wheat market

As we discussed in Chapter 3.1., war acts as an exogenous economic shock. In the case of the Russo-Ukrainian war, markets reacted to it with rising food and fuel prices, resulting in high inflation in almost all countries. The grain sector was particularly marked by this phenomenon. Immediately after the outbreak of the Russo-Ukrainian war, the world faced an exponential rise in global wheat prices. In January 2022, the price of wheat was 741.5 dollars per bushel; by the end of February, it reached 1175.25 dollars. At the end of March, it fell back to 984.25 dollars per bushel, only to increase to 1177.5 dollars two months later (Trading Economics, 2024).

Figure 2.

Grains and Oilseeds Index (GOI) and Wheat Sub-Index

Basis January 2000 = 100



The index uses a weighted basket of seven products and measures their international price movements compared to the 2000 baseline.

Source: International Grains Council • Created with Datawrapper

The Grain and Oilseed Index and its Wheat Sub-Index created by the International Grains Council allows us to observe the changes in the price of wheat compared to the average price in January 2000 (Figure 2.). The price of wheat is expressed as the percentage change from the median over a twenty-day period compared to January 2000. By the 7th of March, the wheat sub-index exceeded 375% which is equivalent to a 60% increase from the 24th of February (International Grains Council, 2024). These numbers are comparable to those of the 2008-2009 economic crisis. Indeed, the Grains and Oilseeds Index reached an all-time high of 358% on the 22nd of March (International Grains Council, 2024). Although wheat prices fell back to pre-war levels (as of February 2024), disruption of supply chains still poses a great challenge. In addition, many countries – including Egypt – struggle to curb inflation. Although wheat prices fell to pre-war levels (as of February 2024), disruption of supply chains still poses a great challenge. In addition, many countries – including Egypt – struggle to curb inflation.

3.4. Impacts of the war on Egypt's wheat market

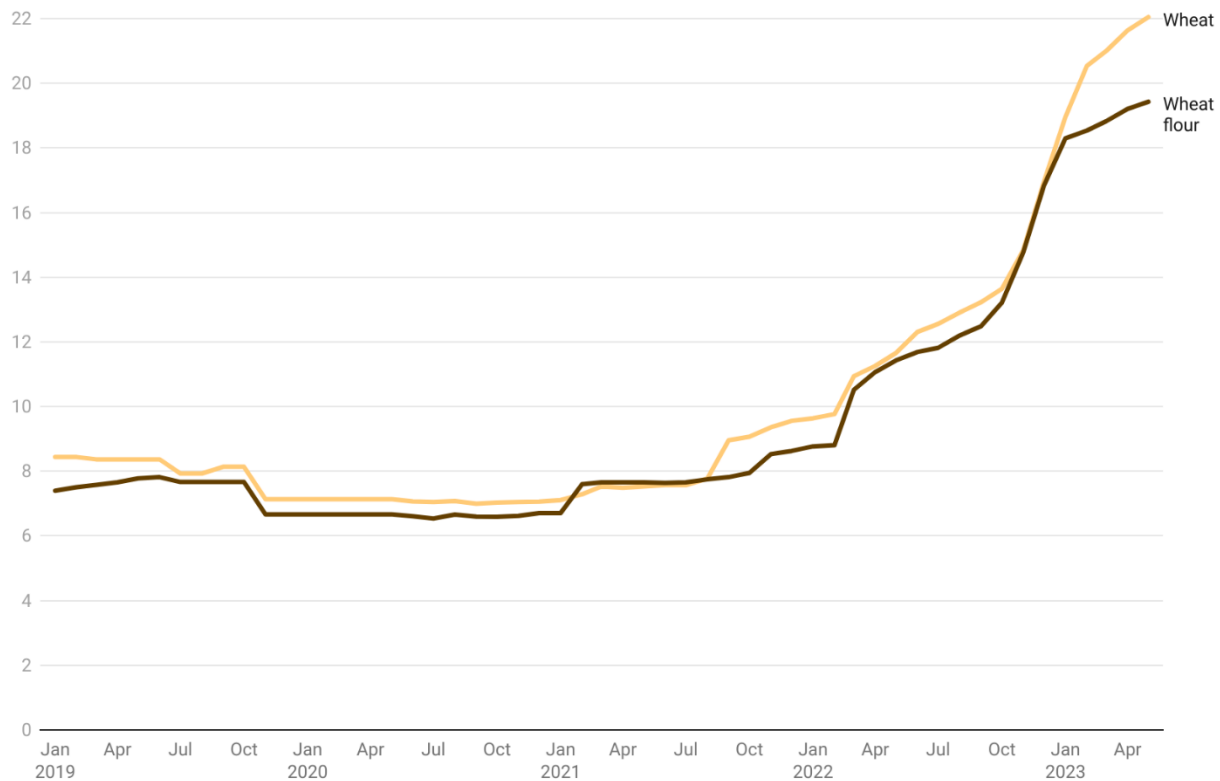
3.4.1. Changes in the price of wheat in Egypt

According to Statista, an international statistics portal, the price of wheat in Egypt increased from 7.53 Egyptian pounds per kilogram in May 2021 to 11.26 in May 2022, only to reach a record-high level of 22.05 in May 2023 (Statista, 2023). Although, this is partly due to the new procurement measures introduced by the government to enhance domestic production, high import costs also had a big impact on the sudden spike in wheat prices.

Figure 3.

Monthly average prices of wheat and wheat flour in Egypt

Prices are expressed in Egyptian pounds per kilogram



Source: Statista • Created with Datawrapper

Figure 3. clearly shows that the sudden spike in the prices of wheat and wheat flour started immediately after the outbreak of the Russo-Ukrainian war, ending a period of relatively stable prices between 2019 and 2021.

3.4.2. Changes in the production and imports of wheat in Egypt

3.4.2.1. Domestic production

In response to the unfolding crisis, the Egyptian government introduced new measures to boost domestic wheat production. In 2022, new procurement prices and mandatory quotas were announced to incentivize farmers. They were required to sell at least 1.7 tonnes of wheat per feddan (a unit of land that is equal to around 0.42 hectares), and they received an additional sum for every 150 kilograms. Overall, the government set an ambitious target of purchasing 5.5 to 6 million tons of wheat domestically (Barnes, 2023). However, farmers were unable to meet the quota requirement, because selling 1.7 tonnes of wheat would have meant that they could not retain enough for their own household. Thus, the government fell short of its target amount as it only purchased 4.2 million tonnes by the end of the procurement season in 2022 (Barnes, 2023).

According to a report issued by the United States Department of Agriculture, in April 2023, the government of Egypt increased its procurement prices by 70 percent, from 885 EGP (Egyptian pound) to 1,500 EGP (or about 325 dollars) per 1 ardeb (which is equal to 150 kilograms) (United States Department of Agriculture, 2023). In November 2023, the government, yet again, increased its procurement prices from 1,500 to 1,600 EGP. It is a guaranteed minimum price that is subject to change in case of an increase in wheat prices on the world market.

Despite the continuous failure to increase domestic harvests, Egyptian politicians envision a brighter future for wheat production. The government has ambitious plans to claim "new lands", that is to make desert lands suitable for agriculture.

3.4.2.2. Imports

The volume of Ukrainian wheat exports significantly decreased immediately after the outbreak of the Russo-Ukrainian war. While in February 2022, Ukraine's wheat exports to Northern Africa reached an average of 0.2 million tonnes every two weeks, this number fell to almost zero at the beginning of March 2022. Although the volume of exports later increased, it never reached pre-war levels (World Trade Organization, 2024).

This resulted in a significant change in the trade patterns of Egypt: while the quantity of wheat purchased from Ukraine decreased, the country imported even more from the Russian Federation, indicating a shift. According to UN Comtrade statistics, Egypt imported 4,287,581.425 tonnes of wheat in 2022. In 2023, this amount was 6,148,794.664 tonnes (UN Comtrade, 2024).

In contrast, wheat from Ukraine worthed 623 million dollars in 2021, but in 2022, this number fell almost by two-thirds, to 219 million (UN Comtrade, 2024). In terms of quantities, there is no data available for the year 2022, however, looking at the data from 2021 and 2023, it can be observed that there is a clear tendency for declining wheat imports from Ukraine. In 2021, Egypt imported 1,885,830.455 tonnes of wheat; this number fell to 1,081,386.819 in 2023 (UN Comtrade, 2024). Thus, wheat imports from Ukraine decreased by 804,443.636 tonnes, or by more than 40 percent over the course of two years. At the same time, imports from Russia increased by 1,861,213.239 tonnes which equals a 30 percent growth within a year.

Wheat imports from France and Romania also increased significantly, signaling a change in trading patterns. Imports from France rose by more than 85 percent, from 195,145.125 tonnes in 2021 to 1,385,811.723 tonnes in 2022, but fell back to only 298,381.285 tonnes in 2023 (UN Comtrade, 2024). Statistics of Romanian wheat imports also show a slight increase (from 1,060,432.710 tonnes in 2021 to 1,171,602.236 tonnes in 2023), but they are not comparable to those of France (UN Comtrade, 2024). However, even though they upscaled their trading activities, these countries cannot export enough to entirely replace the amount of wheat coming from Russia and Ukraine which together accounted for over seventy percent of Egypt's imports. As we discussed in Chapter 3.2, the United States was also among the larger exporters of wheat. It would have been reasonable for Egypt to increase its imports from the US, however, increasing shipping costs create a significant barrier to tighter trade relations (Barnes, 2023).

According to a World Bank report, Egypt spent around three billion dollars on wheat imports for its bread subsidy program in the 2021-2022 fiscal period, and this cost nearly doubled in the following year due to supply chain disruptions (World Bank Group, 2022).

Since the outbreak of the Ukrainian war, Egypt has been struggling with a sharp decrease in its foreign currency reserves (El Safety, 2023). Because many foreign investors pulled out of the country, Egypt faced difficulties paying for international wheat imports. The General Authority for Supply Commodities (GASC), - the state agency responsible for wheat imports - introduced a system called "letter of credits" to ease the pressure caused by its lack of reserves. Foreign suppliers received the payment for the cargo from their banks in advance, and the GASC issued letters of credit in which it guaranteed to repay the value of imports for the suppliers' banks. These letters of credit included specific details about the timing of payments (usually a few weeks). However,

since its shrinkage of foreign currencies, Egypt notoriously delayed its payments, even for months, undermining suppliers' confidence in state purchases (El Safety, 2023).

3.5. Food inflation, fiscal deficit, and the national budget

3.5.1. Food inflation

Food inflation can be defined as the percentage change in the price of a basket of products compared to the same month in the previous year. The Food and Agriculture Organization prepares a Food Price Index every month, using the average of the same basket of products (the most traded goods, namely meat, dairy, cereals, vegetable oil, and sugar) weighted by the average export shares of each group between 2014-2016. (FAO Food Price Index, 2024). The global food price index peaked in March 2022, just after the outbreak of the Russo-Ukrainian war, reaching an all-time high of 160.3 percent (Statista, 2024).

Similarly to other countries around the world, Egypt also experienced a sharp increase in its food prices. According to data derived from Trading Economics, food inflation jumped from 17.6 percent in February 2022 to 26 percent within two months (Trading Economics, 2024). However, the largest appreciation started in October of the same year when prices increased by 30.9 percent, only to reach a 48 percent inflation rate in January 2023. This rising tendency didn't stop until September 2023, hitting 73.6 percent, the highest level in the past fifteen years. Since then, food inflation steadily decreased, reaching 49.7 percent (as of February 2024), although, it is still well above the pre-war level. Rising fuel and fertilizer prices put additional inflationary pressure on the food market.

3.5.2. Fiscal deficit and the national budget

In the 2023-2024 fiscal year, the parliament approved the national budget with revenues expected to amount to 2,142,110 million Egyptian pounds (around 69,5 million US dollars) and expenditure to equal 2,990,925 million pounds (or 97 million USD), thus resulting in a projected fiscal deficit of 824,440 million pounds (in which the net acquisition of financial assets equalling -24,375 million pounds are also included) or 7 percent of the country's GDP (Ministry of Finance, 2023). Egypt allocated 127 billion pounds for food subsidies for the same fiscal year (this amount was 90 billion in the previous year) out of which 92 billion will be spent on the bread subsidy program (United States Department of Agriculture, 2023).

According to IMF estimates, gross government debt reached 92.7 percent of the country's GDP by 2023, a twelve percent increase from 2019, although, it is estimated to decline and eventually fall back below pre-war levels (International Monetary Fund, 2023).

Figure 4.

General government gross debt

Expressed as a percentage of GDP



Source: IMF DataMapper • Created with Datawrapper

To cover the increasing costs, the government launched a massive privatization program aimed at attracting foreign investment by selling stakes at state-owned companies such as Telecom Egypt (Al Jazeera, 2023).

3.6. International loans

3.6.1. IMF

The International Monetary Fund (IMF) is one of the main international organizations providing aid, loans, and other financial assistance to countries. Established in 1945, the IMF's goal was to ensure the stability of the international financial system. It has 190 member states that receive loans according to their contribution – also referred to as subscription - to the budget. These so-called subscriptions are paid both in the country's own currency and in Special Drawing Rights

(SDR) a weighted basket of the major currencies including the US dollar, the euro, the Chinese renminbi, the Japanese yen, and the pound sterling. The IMF provides various financial facilities (e.g.: short, - medium, - and long-term loans), according to the needs of individual member states. However, there is a set of criteria attached to these facilities that need to be met in order to receive them. This conditionality principle is very dividing: on the one hand, the IMF argues that certain criteria are needed to ensure that the country will pay back the loans it received, thus avoiding a debt trap. On the other hand, member states argue that these criteria are often very harsh and extremely difficult to deliver which hinders the desired economic growth and leads to political turbulences. Also, there are accusations that these conditions are only tools in the hands of Western countries (primarily the US) to control others in a way that suits them the best.

3.6.1.1. The IMF in Egypt

Egypt has a long history of IMF loans. According to the official database of the International Monetary Fund, Egypt is the second largest debtor after Argentina with 10,980,529,177 in SDR (Special Drawing Rights, a basket of weighted currencies), even preceding Ukraine (International Monetary Fund, 2024). A report issued by the IMF in January 2023 highlights Egypt's need for financial assistance. The report elaborates on the economic impact of the Russo-Ukrainian war in Egypt, and the need for structural reforms (International Monetary Fund, 2023). Unable to deal with the unfolding crisis, Egypt turned to the IMF to request extended arrangements under the Extended Fund Facility (EFF), a type of loan offered to countries to address medium-term balance of payments problems. Egypt received a 46-month extension under the EFF, amounting to three billion US dollars.

3.6.2. World Bank

The World Bank Group – the other major international organization providing financial assistance – consists of five branches: the International Bank for Reconstruction and Development, the International Development Association, the International Finance Corporation, the Multilateral Investment Guarantee Agency, and the International Centre for the Settlement of Investment Disputes. Its objectives are similar to those of the IMF, although, it provides assistance through its branches that deal with different types of countries categorized based on their level of development (by development, here I refer to the classification of the World Bank, not my own understanding of the concept). The goal of the World Bank is to redirect capital flows and to support the private

sector. It issues bonds to wealthier (more credit-worthy) countries and provides loans to poorer states on concessional terms but with very favorable conditions (often with 0% interest rates and long repayment periods). It also protects investments by providing guarantees for non-conventional risks (e.g.: war, terrorism, political disturbances, nationalization of facilities). However, the World Bank's activities are highly criticized because of bias towards richer countries reflected in the decision-making processes.

3.6.2.1. The World Bank in Egypt

Separately from the IMF, the World Bank (more precisely, its two branches, the International Bank for Reconstruction and Development, and the International Development Assistance) provides a 500-billion-dollar loan to help Egypt achieve its social policy goals, including the continuation of its food subsidy agenda (World Bank Group, 2022). The agreement was signed in June 2022. Although the project report recognizes the need for structural reforms in Egypt's wheat supply, particularly its resilience to external shocks, the World Bank is willing to assist the country in its emergency policies to feed its population, especially the 71 million people living on or below the poverty line (World Bank Group, 2022). However, the report stresses that emergency support will be provided only for the first three to six months, and it is aimed at ensuring the minimal (critical) level of wheat supplies to avoid a socioeconomic catastrophe resulting from the unmet caloric needs of the population. The project allocates 380 million dollars to emergency response, and 112 million dollars to improve farm-level and wheat supply chain resilience (World Bank Group, 2022). It is aimed at benefiting the poor and most vulnerable households (including children, elderly persons, and persons with disabilities), small farmers, and the government.

3.6.3. International Islamic Trade Finance Corporation

The International Islamic Trade Finance Corporation (ITFC), as a member of the Islamic Development Bank Group, has long been a creditor to Egypt. Until February 2024, the bank provided 16.5 billion dollars worth of trade financing to the country. In 2022, as an effort to secure Egypt's wheat imports despite soaring prices, the ITFC provided 1.97 billion dollars to help Egypt purchase 3.7 million metric tons of food commodities, according to the ITFC's annual report (International Islamic Trade Finance Corporation, 2023). In 2024, the ITFC and Egypt signed an additional USD 1.5 billion annual programme, aimed at boosting the Egyptian economy, and –

among others – strengthening the country's food security (International Islamic Trade Finance Corporation, 2024).

3.6.4. African Development Bank and the European Bank for Reconstruction and Development

In 2023, in addition to the above-mentioned financial institutions, both the African Development Bank (AfDB) and the European Bank for Reconstruction and Development (EBRD) provided various types of loans to Egypt. These instruments targeted the financial market, with the primary aim of helping Egypt to secure its foreign currency reserves. These programs targeted the private sector, particularly the small and medium-sized enterprises (SMEs). Together, financial assets provided to Egypt by the AfDB and the EBRD amounted to 1.448 billion dollars (African Development Bank Group, 2023, Zgheib 2024).

4. Impacts of the Russo-Ukrainian war on Egypt's diplomatic relations

4.1. The Black Sea Grain Initiative

The Black Sea Grain Initiative (BSGI) was an agreement between Russia and Ukraine on the export of grains and fertilizers through the Black Sea. The deal was brokered by the United Nations with the active participation of Türkiye. Signed on the 22nd of July 2022, the agreement was aimed at resolving the crisis brought about by a lack of grain imports throughout the first few months of the war. This dramatic decrease in imports, as detailed above, had worldwide repercussions, resulting in increased food insecurity, especially in countries already facing extreme food shortages (such as Ethiopia, Somalia, and Afghanistan). Initially, the BSGI was concluded for 120 days, with the possibility of an extension upon the agreement of the parties. The creation of a Joint Coordination Centre, headquartered in Istanbul, was included in the Initiative to supervise the parties' compliance with the agreement. Also, inspection sites were established in Turkish territory.

The Initiative had been regarded as a success as it immediately eased the pressure on global grain markets, which led to a drop in food and fertilizer prices all around the world. It was renewed three times throughout the next year: first, in October when Russia decided to withdraw from the agreement but rejoined after a few days; it was extended again in March 2023, but only for 60 days; this was also repeated in May. However, upon the expiry of the third extension (on the 17th of July), Russia unilaterally decided to withdraw from the Initiative, this time without any prospects for negotiations (Glauber et al., 2023). The argument was that sanctions (especially those

involving the banking sector) imposed on Russia by Western countries undermined its ability to export wheat and fertilizers to the global markets. Thus, as long as Russia's needs are not taken into account – so the argument goes, - Russia will not agree on the extension of the Initiative. Another claim of the Russian side is the re-opening of the Tolyatti-Pivdennyi pipeline which is essential for the ammonia export Russia heavily relies on (Glauber et al., 2023). It is the longest ammonia pipeline, and it carries up to 2.5 million tonnes of ammonia – a key fertilizer, - every year from the riverside city of Tolyatti to the port of Pivdennyi. However, it has been shut down since the beginning of the Russian invasion, hindering ammonia exports (Reuters, 2023).

4.1.1. Achievements of the Black Sea Grain Initiative

According to a United Nations database, 32.9 million metric tonnes of grains and vegetable oils were exported during the one year of the Initiative (United Nations, 2024). Corn was the most exported commodity, followed by wheat with 8.9 metric tonnes. Also, the increased flow of exports through the Black Sea enabled the World Food Programme (part of the United Nations system as one of its funds dealing with food security) to distribute humanitarian aid in the seven most vulnerable countries in terms of hunger (e.g.: Ethiopia, Yemen, or Afghanistan). However, the share of exports shows significant inequalities because most of them were received by high-and upper-middle-income countries such as China, Spain, Italy, and the Netherlands. Despite this disparity between high- and low-income countries, Egypt was the sixth largest beneficiary of the Initiative with 1.6 metric tonnes of goods, out of which 417,800 tonnes were wheat (United Nations, 2024).

4.1.2. The termination of the Black Sea Grain Initiative and its repercussions for Egypt

Following Russia's announcement that it was withdrawing from the Black Sea Grain Initiative, many African leaders called for an immediate revision of the agreement. Among others, Egyptian President Abdel Fatah al-Sisi heavily criticized Russia for its unilateral decision. He called for an "urgent solution", emphasizing Africa's need for grain and fertilizer imports (Arab News, 2023). The United States Embassy in Egypt, together with five other Western countries, issued a declaration underlining the importance of the Initiative and pushed for the full restoration of the BSGI (U.S. Embassy in Egypt, 2023).

Russia's unilateral withdrawal from the Black Sea Grain Initiative forced countries to find alternative trade routes. On the one hand, the European Union allowed Ukrainian grain (primarily

wheat) to transit through its territory, thus, Ukrainian exports could reach overseas markets (even though, this decision resulted in serious conflicts within the EU). On the other hand, Russia had to find new transport routes to export its products. One possible way is to go through the Caspian Sea and reach southern and eastern partners via the Caucasus. Russia has been heavily investing in transport infrastructure connecting major cities with Iranian ports. This way, Russia (and Iran) could create a "sanctions-free" trade route (Tirone, J., et al., 2022).

4.2. The impact of the war on Egypt's diplomatic relations

4.2.1. Russia-Egypt relations

Almost immediately after the termination of the Black Sea Grain Initiative, on the 27th-28th of July 2023, Russia held its second Africa Summit in Saint Petersburg. Describing itself as "the highest-profile and largest-scale event in Russian–African relations" (Russia-Africa Summit, 2023), the summit aims to strengthen relations between Russia and the African continent in various (e.g.: economic, and social) fields. The summit was attended by most African countries, including Egypt. At the plenary session, Egypt's President al-Sisi made a strong call on Russia to continue its efforts in ensuring the safe trade on the Black Sea. Other individual countries such as Kenya, and collectively the African Union (including all 55 states of the continent), also criticized Russia's withdrawal from the Initiative (Roth, A., 2023).

Despite its strong rhetoric, Egypt remains an ally of Russia, even so, because of its need for grain imports. According to Reuters, Egypt's GASC (Great Authority for Supply Commodities) directly bought half a million tonnes of wheat in September 2023. The article highlights that Egypt shifted from previously used tenders to direct, thus more secure, purchases (El Safety, S., Hogan, M., 2023).

In addition to trade relations, Egypt also has strong ties with Russia in terms of nuclear energy. Rosatom, the Russian state-owned energy company, is constructing Egypt's first nuclear power plant in El-Dabaa, a coastal town located in the northern part of the country. The fourth and final unit is currently under construction, and the whole plant is expected to be fully operational by 2030 (Enerdata, 2024). Upon its completion, Egypt will be the second African country to own a nuclear power plant.

While Egypt has been a traditional ally of the West since the end of the Cold War, its relationship with Russia is increasingly important. The election of President Abdel-Fattah al-Sisi

in 2014 brought about a new era in Russo-Egyptian relations. In 2018, the two countries signed a comprehensive partnership agreement that covered economic, trade, as well as military cooperation (Al-Anani, 2021). In 2020, a similar agreement followed, highlighting enhanced cooperation in fighting terrorism. It is also important to mention that Russia provides a large demand for the Egyptian tourism market which is a key source of revenue for Egypt (Al-Anani, 2021).

Despite these strong linkages, the view of the Egyptian population on Russia's military invasion of Ukraine remains negative. An opinion poll conducted by The Washington Institute for Near East Policy in March 2022 shows a strong discontent with Russia's move. 64% of the population agreed (either strongly or somewhat) with the statement that Russia's military actions in Ukraine are to blame for the rising food prices. Still, in November 2022, 50% of the people believed that it is (somewhat or strongly) important to have good relations with Russia (Pollock, 2022).

Before the invasion of Ukraine, Egypt was one of the main purchasers of Russian arms and military equipment. According to the Stockholm International Peace Research Institute (SIPRI), between 2018 and 2022, Egypt was the third largest recipient of Russian arms exports with 9.3%, outpaced only by two giants, India (31%) and China (23%) (Wezeman et al., 2023). However, there was a 31% decline in Russian arms exports compared to the 2013-2017 period. This might be due to Russia's domestic need for arms since the Ukrainian war, and also, because of external pressure (mainly from the United States) on allies not to import Russian weaponry. Hence, there have been no arms transfers from Russia to Egypt since 2021, and in 2022, Egypt also backed out of an arms deal for combat weapons (Wezeman et al., 2023).

4.2.2. Egypt's stance on the war - Policy of neutrality

Since the outbreak of the war, there has been growing pressure on Egypt from its Western allies, primarily the United States, to loosen its ties with Russia. It became increasingly difficult for Egypt to maintain good relations with both sides, and it was nearly impossible to make clear statements regarding the war without losing one of its two strongest allies. Because of its need for secure wheat imports, Egypt cannot afford to abandon Russia upon the request of the West. Its strive for a policy of neutrality is expressed in a post on the official webpage of the State Information Service. Published on the 31st of March 2023, the text summarizes Egypt's political

stance on the war: "Egypt will not change its balanced approach in foreign policy concerning its relations with Russia and the United States, as well as Ukraine, especially since Egypt has distinguished military and economic cooperation relations with these parties." (State Information Service, 2023). Although Egypt emphasized that its opinion is in line with international law and the United Nations' principles (peaceful means of conflict resolution, respect for the territorial integrity of states), it also stressed that it rejects economic sanctions that are "outside the framework outlined by the mechanisms of the multilateral world order" (State Information Service, 2023). Furthermore, Egypt continuously draws attention to the severe humanitarian crisis as a consequence of the war, but also, as a consequence of the economic sanctions imposed on Russia by the West.

As for wheat diplomacy, it is worth mentioning that Egypt also strengthened its ties with India; in exchange for its help in providing medicine during the Covid-19 crisis, India shipped 61.5 thousand tonnes of wheat to Egypt in 2022, shortly after the outbreak of the Ukrainian war (Haq, Z., 2022).

5. Summary

Egypt is one of the most import-dependent countries in terms of grains, particularly, wheat. In order to feed its growing population – some 110 million people with one-third living below the poverty line (World Population Review, 2024) – Egypt must simultaneously boost its domestic production while securing its safe access to imports.

Bread is of particular importance in Egyptian society: it provides the largest share of people's daily calorie intake because of its affordability, also, it represents traditional and cultural values and provides a sense of security. Thus, bread (or baladi in the Egyptian language) has a political meaning as well and is at the center of government policies. Due to its geographic location, Egypt is short of arable land. Fertile soil is found in the Nile Valley, however, not all of it is suitable for farming. The country's main agricultural products are sugar beet, fruits and vegetables (citrus fruits, dates, tomatoes, and potatoes), but wheat, maize, and rice are also harvested (Galal, 2023). Besides the lack of fertile soil, the fragmentation of farmland also poses a challenge. Most farmers fall within the category of small landholders, owning less than one feddan which is equal to 0.42 hectares (Food and Agriculture Organization, 2015). These farms are usually run by families with the additional help of seasonal workers, and most of the work is carried out manually, involving only a limited amount of machinery. Around 31% of the workforce

is employed in the agricultural sector (Abdalla et al., 2022). Due to the high level of inefficiency of this unmechanized small-scale farming, wheat production is far from meeting domestic demand. Furthermore, Egypt's population increases faster than its domestic wheat production (in terms of volumes), which leads to food insecurity. Currently, Egypt ranks 113th out of 169 countries on the Global Food Security Index (Global Food Security Index, 2022).

To mitigate the adverse effects of food insecurity, the government is heavily involved in the wheat supply chain, from purchasing wheat through state tenders to subsidizing domestic mills and bakeries. In addition, the price of one loaf of bread (baladi) has been fixed at 0.05 EGP (around 0.001 USD) since 1989 (Food and Agriculture Organization, 2015). The government purchases wheat from domestic farmers below the market price. After having been processed at state-owned mills, the wheat flour goes to (partially state-owned) bakeries that receive subsidies for selling their final product (the baladi) at less than one-seventh of its production cost (Food and Agriculture Organization, 2015). Despite all the government's efforts to boost domestic production, Egypt is largely dependent on wheat imports. Between July 2021 and June 2022, Egypt imported 11.5 million metric tonnes of wheat, while it only produced around 9 million (World Trade Institute, 2022). Throughout the past two decades, Egypt has been the single largest net importer of wheat (Observatory of Economic Complexity, 2024). Its main trading partners were Russia and Ukraine; together, they accounted for over 70 percent of the country's wheat imports prior to the outbreak of the war (World Trade Institute, 2022). Other exporters were European countries such as Romania and France (Observatory of Economic Complexity, 2024). Wheat trade is carried out by private companies and by the state through its General Authority for Supply Commodities (GASC). The GASC purchases wheat directly from foreign producers via state tenders; this accounts for almost half of Egypt's wheat imports (World Trade Institute, 2022).

The Russo-Ukrainian war had a profound impact on the global wheat market: wheat prices jumped while the quantity of exports plummeted. However, after the initial shock – and partly due to the positive consequences of the Black Sea Grain Initiative -, prices fell back as markets adjusted to the situation (International Grains Council, 2024). In Egypt, the decrease in the volume of imports as well as the higher prices caused a major problem. Rising inflation, primarily regarding food products, further aggravated the insecurity the country faces. Inflation reached 73.6 percent in September 2023, an unprecedented level in the past fifteen years (Trading Economics, 2024). Egypt's leadership had to find an urgent solution to the unfolding crisis: they introduced new

measures (such as higher procurement prices and mandatory quotas) domestically to increase local wheat production. Also, they allocated a significantly larger share of the national budget to the bread subsidy program (United States Department of Agriculture, 2023). To cover the extra costs and to mitigate the budgetary deficit, Egypt took loans from various international institutions, most importantly, from the International Monetary Fund and the World Bank. These loans help the country maintain its subsidy policy, but require the structuring of the economy, i.e.: privatization, opening up to free trade, and eliminating fixed exchange rates (International Monetary Fund, 2023, World Bank Group, 2022).

In terms of imports, Egypt scaled up its trade activities to guarantee that the required amount of wheat arrived in the country. Egypt imported more wheat from European countries like France, Romania, and Bulgaria, and – unsurprisingly – the volume of wheat coming from Ukraine decreased significantly. However, Egypt's imports from Russia increased unexpectedly following the outbreak of the war (UN Comtrade, 2024). This came with strengthened diplomatic relations between the two countries. Egypt's desperate need for Russian wheat (also, fuel and fertilizers) also explains its reluctance to condemn Russia under Western (mainly US) pressure, and its strive to maintain a neutral stance on the war.

6. Conclusion

In conclusion, we can observe that the Russo-Ukrainian war resulted in a restructuring of the Egyptian wheat market. At the domestic level, it led to new government measures (higher procurement prices, mandatory quotas) aimed at enhancing local production. Regarding Egypt's import policy, the war brought about significant changes in the composition of wheat imports, so there was a shift from Ukraine to Russia, as well as to other European countries (France, Romania).

The disruption of supply chains and the uncertainty in international politics had far-reaching economic repercussions for Egypt. Inflation (primarily in food products), loss of foreign reserves, and the pullout of foreign investors from the country all contributed to the economic insecurity. To ensure the maintenance of the bread subsidy program, Egypt needed to ensure that there were enough wheat supplies. Thus, the government allocated more money (a larger share of the national budget) to subsidize farmers as well as to secure imports by increasing direct purchases through state tenders. To cover the increasing costs and the growing budget deficit, Egypt took loans from

various international organizations, most importantly from the International Monetary Fund – whom it has already been a large debtor – and from the World Bank.

Besides all the economic impacts described above, the war also affected foreign relations of Egypt: most importantly, it led to stronger ties with Russia. Although, in its public speeches, Egyptian president Al-Sisi stressed the need for the peaceful resolution of the conflict and the restoration of the Black Sea Grain Initiative, Egypt seeks to keep its Russian ally. This also means that Egypt is following a more cautious foreign policy towards the United States and the West, and it seeks to maintain a more balanced approach regarding the Ukrainian war.

7. Future prospects

There are many uncertainties in the future of Egypt's wheat market. It is questionable whether the country will achieve its desired state of wheat self-sustainment. Although, the Egyptian leadership has ambitious plans (laid out in the "Egypt Sustainable Development Strategy Towards 2030") - claiming "new lands" and investing in infrastructural and technological development, - their feasibility remains controversial. However, as the country's population is growing faster (at a rate of 1.63 percent per year) than its wheat production capacities, finding solutions is a matter of urgency. The future of the bread subsidy program – which currently benefits 72 million people - is another question. In the long run, it is highly unsustainable, however, as a key part of the social policy that's been existing for decades, it is also very unlikely to be abolished in the near future.

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9. List of figures

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