

The impact of higher agricultural commodity prices on emerging and low-income countries

After several years of stability, international food prices peaked in the spring of 2022 following the outbreak of the war in Ukraine. The rally began in Q4 2020 and intensified in 2021 with the increase in energy prices, disruptions to global supply chains following the pandemic and extreme weather events that reduced harvests. Subsequently, between March and May of this year following the invasion of Ukraine, prices rose to record highs due to the disruption in the flows of agricultural commodities from two of the world's leading exporters.¹ Today, almost 10 months after the start of the war, a large part of the trade flows through the Black Sea have been restored,² while fears about interruptions in basic food supplies have also subsided. As a result, prices of agricultural goods, particularly cereals, have fallen since that peak reached in the spring (wheat by more than 40% and corn by around 20%), despite still remaining around 30% above the average for the last five years.

However, the relative improvement in international prices of agricultural goods has barely been reflected in global consumer prices. The main reason for this is the depreciation of many countries' currencies against the dollar. In particular, this depreciation intensified with the Fed's first interest rate hike, and it has led to higher commodity prices in local currencies relative to their US-dollar price.³ As an example, while the price of corn went from 650 to 789 dollars per bushel between February and May, the price in Turkish lira rose from 9,014 to 12,592 over the same period. This aspect also helps to explain why the upward pressure exerted by domestic food prices on countries' inflation rates has persisted.

The surge in agricultural prices does not affect all countries alike

Rising food prices, coupled with rising energy prices, have eroded consumers' purchasing power over the past 12 months around the world. But the impact has not been the same in all countries. According to the IMF,⁴ food products account for a larger portion of consumer

1. According to data from the Food and Agriculture Organization of the United Nations (FAO), Russia and Ukraine account for a quarter of the world's wheat exports, one fifth of barley and corn exports and over half of sunflower oil exports, and they supply around one-eighth of all the calories traded in the world.

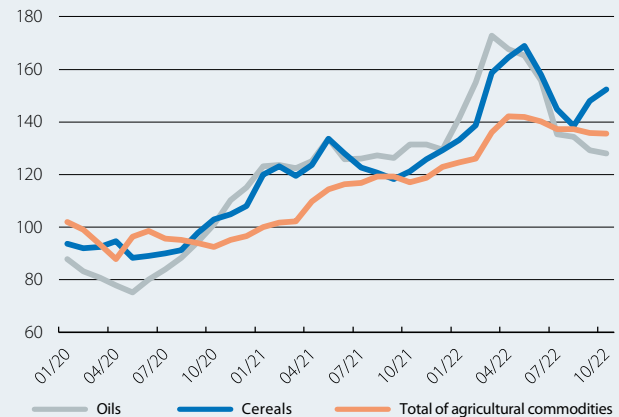
2. The [Black Sea Grain Initiative](#) signed between the United Nations, Russia and Ukraine in July 2022 has allowed Ukraine to export over 11 million tons of agricultural goods by sea to date since August.

3. Since the 1980s, most commodities are traded in international markets in US dollars.

4. See IMF (2022). «[Fiscal Policy for mitigating the social impact of high energy and food prices](#)» (June).

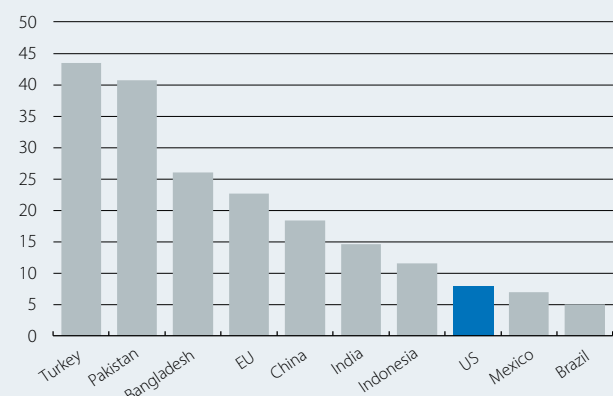
Agricultural commodities: prices

Index (100 = January 2010)



Source: CaixaBank Research, based on data from the FAO and Bloomberg.

Wheat: price change in local currency (%)



Note: Percentage change in prices between February and September 2022.

Source: CaixaBank Research, based on data from the World Bank.

spending in low-income countries than they do in high-income countries. Whereas in the former the average expenditure on food reaches as high as 44% of disposable income,⁵ in emerging economies this percentage is around 28% and in developed economies it drops to 16%. This uneven distribution has been reflected in the significant increase in inflation rates in lower-income countries and in some emerging countries, reaching double digits in most cases. In addition, the support from governments to limit the negative impact of price increases on real incomes has also been uneven. The fiscal effort of emerging and lower-income countries during the pandemic has significantly reduced the scope

5. Low-income countries are found all around the world, although sub-Saharan Africa is where the largest number of these countries are concentrated.

for action of their fiscal policies. So far this year, 44% of these economies have implemented price measures, compared to 84% in the case of advanced economies.

The surge in food prices in the group of less-favoured countries not only has an impact on inflation, but also extends to other areas of the economy and highlights their vulnerability to the volatility of international food prices. At the macroeconomic level, the price rally leads to a decline in the rate of growth.^{6,7} In addition, as observed in the food crisis of 2008-2009, rising food costs tend to coincide with episodes of currency weakness, and this accentuates the tightening of domestic financial conditions and exacerbates the trade deficit in these countries (75% of emerging and low-income countries are net importers of agricultural commodities). At the microeconomic level, rising food prices reduce households' purchasing power, lead to greater social inequality (in terms of access to food), and exacerbate poverty.

Food security: a key issue

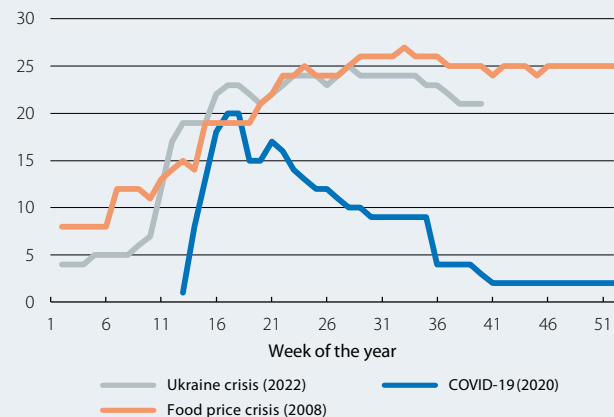
The World Bank estimates that international prices of agricultural commodities will fall by an average of 5% in 2023, as a result of the gradual return of export flows from Ukraine and the moderation of demand in the context of a slowdown in the global economy, before later stabilising in 2024. However, despite this dynamic, prices of the main cereals (wheat, corn and rice) are expected to remain above their historical average, in view of the fall in global grain production between 2022 and 2023, which could reach 2.3% (57 million metric tons) according to the US Department of Agriculture.

Nevertheless, in the face of high geopolitical and economic uncertainty, there are risks that could lead to further price rallies. In addition to the war in Ukraine, which could lead to a fall in Ukraine's agricultural production of up to 45% between 2022 and 2023, these risks also include: the persistence of inflationary pressures worldwide, the appreciation of the dollar, continued high energy costs – not only crude oil and natural gas, but also fertilizers –, the diversification towards crops for biofuel generation, the restrictive trade policies of some exporting countries in an attempt to control domestic prices, and increasingly extreme weather events such as La Niña.

Moreover, rising food prices – accentuated by the war – have contributed to an increased risk of food crises in many emerging and low-income countries (especially in

Trade: countries prohibiting exports of agricultural goods

Number of countries



Source: CaixaBank Research, based on data from IFPRI.

sub-Saharan Africa, the main importers of Russian and Ukrainian grain), as well as accelerating the process of food insecurity⁸ in certain parts of the world (led by sub-Saharan Africa, Eastern Europe, Central Asia, and Latin America). In addition to posing a serious humanitarian problem,⁹ this aspect could slow these countries' economic growth in the medium term.

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6. See World Bank. «Commodity Markets Outlook. Food Price Shocks: Channels and Implications» (worldbank.org).

7. The exception to this trend is observed in net commodity exporting countries. For example, Brazil is one of the five largest net exporters in the world. Exports of agricultural goods account for 37% of its total exports and grew at a rate of 9.4% per year over the last two decades.

8. According to the FAO, food insecurity occurs when people do not have regular and permanent access to food of sufficient quantity and quality to survive.

9. Estimates by the Food Security Information Network suggest that over 200 million people around the world were in a situation of food insecurity as of September 2022.