KfW Research
Economics in Brief

Low-income countries are in the grip of soaring global market prices for fuel and foodstuffs

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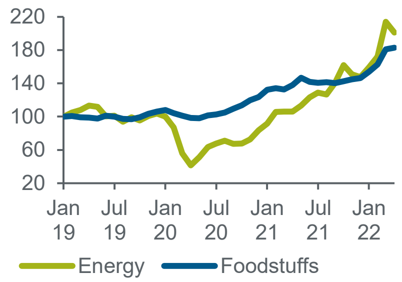
War in Ukraine is adding upward pressure on global market prices of fuels and foodstuffs

The prices of foodstuffs and energy have been supercharged by the Ukraine war which started on 24 February 2022. The IMF expects prices to remain elevated in the coming years. After all, Russia is a major exporter of energy commodities, particularly for Europe, and Russia and Ukraine are important suppliers of wheat and fertiliser. It is expected that supply shortfalls and delays in the delivery of foodstuffs will come upon demand for imports to meet basic needs and that the relatively inflexible natural gas infrastructure will make it difficult to adjust supplies and keep prices high.

Prices of both groups of products have already experienced significant increases in the course of the recovery from the coronavirus crisis. Robust and rapidly rebounding demand has contributed to this over the past two years. Higher food production costs due to rising fertiliser and fuel prices have added to the increase. Problems in international supply chains have created additional price pressure, as they have for other goods.

Figure 1: Development of commodity prices

Indexes 01/ 2019=100, Jan. 2019 to Apr. 2022



Source: World Bank, KfW Research.

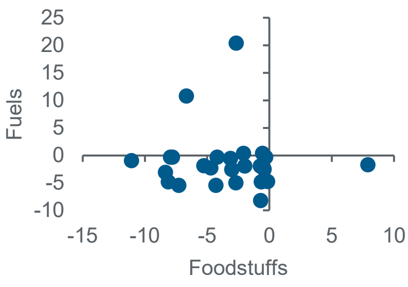
Most low-income countries are net importers of fuels and foodstuffs

Globally, significantly more countries are net importers than exporters of both fuels and foodstuffs. Most of the 27 economies classified by the World Bank as low-income countries (LICs) are net importers of both groups of products. Only Guinea-Bissau exported more foodstuffs (excluding tea, cocoa, coffee and spices) than it imported in 2020. For fuels, this is the case for Chad, Niger, South Sudan and the Dem. Rep. of Congo.

Costlier and/or diminished food imports will likely worsen food insecurity, which according to the World Bank affects nearly 60% of the population of LICs to a significant or moderate degree. Furthermore, if increased import prices are passed on to consumers, or if shortages push up prices, that will drive inflation and reduce purchasing power, even taking into account different dietary habits. High food prices are an extreme burden for poor households in particular. The poorest segment of the population in LICs spends an average of 63% of their income on food.

Figure 2: Net exports of low-income countries

As a percentage of GDP, 2020, 25 countries



Source: UNCTAD, KfW Research.

Precarious state finances have little scope

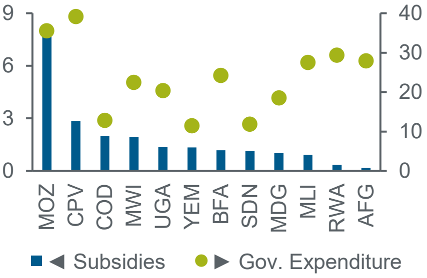
Rising (import) prices of fuels and foodstuffs mean more pressure on the national budget if these goods are subsidised. In some countries fuel subsidies are on a significant scale relative to economic output. Even if social protecttion systems in LICs are underdeveloped, greater expenditure is expected for them and for food subsidies.

State finances in LICs are already in poor shape. The government debt-to-GDP ratio increased by a median of 9.6 PP between 2019 and 2021 and according to the IMF more than half the LICs are at heightened risk of or already under debt distress.

The OECD therefore demands that there should be no barriers to international food and fuel trade channels, especially to LICs. The Food and Agriculture Organization of the UN (FAO) has proposed providing financial support for food imports of particularly affected countries, with USD 6.3 billion required to meet the most urgent needs.

Figure 3: Government fuel subsidies and government expenditure

As a percentage of GDP, subsidies 2019, government expenditure 2021



Source: Our world in data / OECD, IMF.