

Lower international food prices have not eased economic pressures at macro and household levels



International food prices had been trending downward since their peak in March 2022 with the start of the war in Ukraine, but they remain at historically high levels (FAO, June 2023).

The FAO Food Price Index averaged 123.9 points in July 2023, which represents a 1.3 percent increase over the previous month, but still a 12 percent decrease from July 2022 (FAO Food Price Index, July 2023). See figure 1.8. These lower prices have not translated into relief in many domestic markets for a host of reasons, including a stronger US dollar vis-à-vis national currencies, continued high prices of agricultural inputs, and rising levels of public debt in many countries, as explained further below (FAO/WFP, May 2023).

Thirty nine of the 73 countries/territories selected for inclusion in the GRFC 2023 experienced minor decreases in food inflation during the first six months of 2023 (5 percentage points on average). Rwanda, Türkiye and Sri Lanka saw significant reductions: having started the year with food price inflation rates of over 50 percent, they saw them decrease by more than 20 percentage points by June 2023. The opposite occurred in another 20 GRFC countries/territories where domestic food prices continued to rise, with the largest increases seen in Egypt, Lebanon and the Bolivarian Republic of Venezuela. See map 1.6.

High domestic food prices, together with increased energy costs, particularly in low and middle income countries, have been the main drivers of the persistence of the cost-of-living crisis. Countries continue to move through the cycle of inflation, increasing debt burdens and currency depreciation (IMF, June 2023; GRFC 2023). A significant number of low-income countries has been assessed as being at, or at high risk of, debt distress as of early 2023 (WB, June 2023). As a result, many countries have been limited in their ability to import foods (FAO, June, 2023).

This macroeconomic distress in the countries/territories selected for inclusion in the GRFC 2023 – over 75 percent

of which are net-food importers – continued to constrain household purchasing power and exacerbate issues of food access (GRFC 2023; FAO/WFP, May 2023).

Governments' room to manoeuvre fiscal policy, in particular their ability to sustain social protection or other measures that could mitigate this negative impact on households, is limited by the combination of weak growth prospects, low foreign exchange reserves, high levels of public debt and elevated borrowing costs (FAO, June 2023; WB, June 2023).

The war in Ukraine continues to create uncertainty in global food markets

Uncertainty due to the war in Ukraine continues to make international food prices sensitive to any global food supply changes – perceived or real. The Kakhovka dam breach in June 2023 and the termination of the Black Sea Grain Initiative (BSGI) in July 2023, are two factors linked to the conflict that could decrease the amount of exportable surpluses and the volume of exports, therefore influencing future global food supplies and the stability of international food prices.

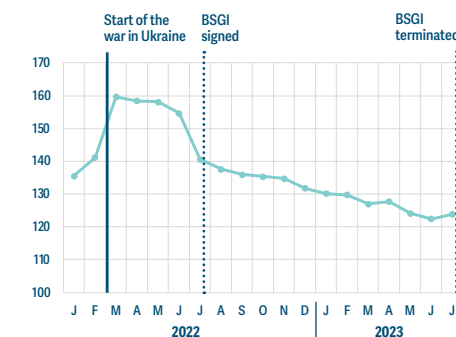
The actual impact of the dam breach will largely depend on production developments in other main producing countries that contribute to availability on the global markets. Nevertheless, disruption in irrigation on both sides of the Dnipro River will have a significant effect on the production of nutritious high-value foods, such as fruits and vegetables, supplying mostly domestic markets (FAO-GIEWS, July 2023). In southern Ukraine loss of irrigation could decrease yields, as well as reduce local incomes and producers' investments in their land (UNCT, June 2023; IFPRI, June 2023).

The United Nations-brokered BSGI between the Russian Federation, Türkiye and Ukraine helped alleviate some of the upward pressures on global food prices after it was signed in July 2022 (GRFC 2023) despite unpredictability surrounding its implementation. In December 2022, and again at the beginning of May 2023, the Russian

FIGURE 1.8

FAO Nominal Food Price Index, January 2022–July 2023

Base year equivalent: 2014–2016=100



Source: FAO, July 2023.

Federation slowed the rate of daily inspections of ships leaving the ports of Odesa, Chornomorsk and in particular Pivdennyi (UN, July 2023). The latest constraint to vessel movement halved the amount of cargo shipped – down from over 2.7 million tonnes in April 2023 to 1.3 million in May 2023 (UN, July 2023).

Nevertheless, nearly 33 million metric tonnes of grains, maize and other agricultural products were exported from Ukraine in the year to mid-July 2023 (UN, July 2023), with over half going to low and middle-income countries and humanitarian operations in Afghanistan, Ethiopia and Somalia (UN, July 2023; IFPRI, August 2023). Egypt and Bangladesh were the two GRFC 2023 countries that received the most food commodities through the BSGI, nearly 1.6 million and 1.1 million tonnes respectively (UN, July 2023).

Since the signing of the BSGI Memorandum of Understanding, the Russian Federation exported large

volumes of fertilizers, wheat and oilseeds after ideal weather conditions during the 2022/23 season supported record-high wheat outputs. This high quantity of exports occurred despite the Russian Federation imposing restrictions on the export of their own agricultural products, such as sunflower oil, rice, wheat, maize and nitrogen-based fertilizers (USDA, May 2023; FAO, June 2023; UN, July 2023).

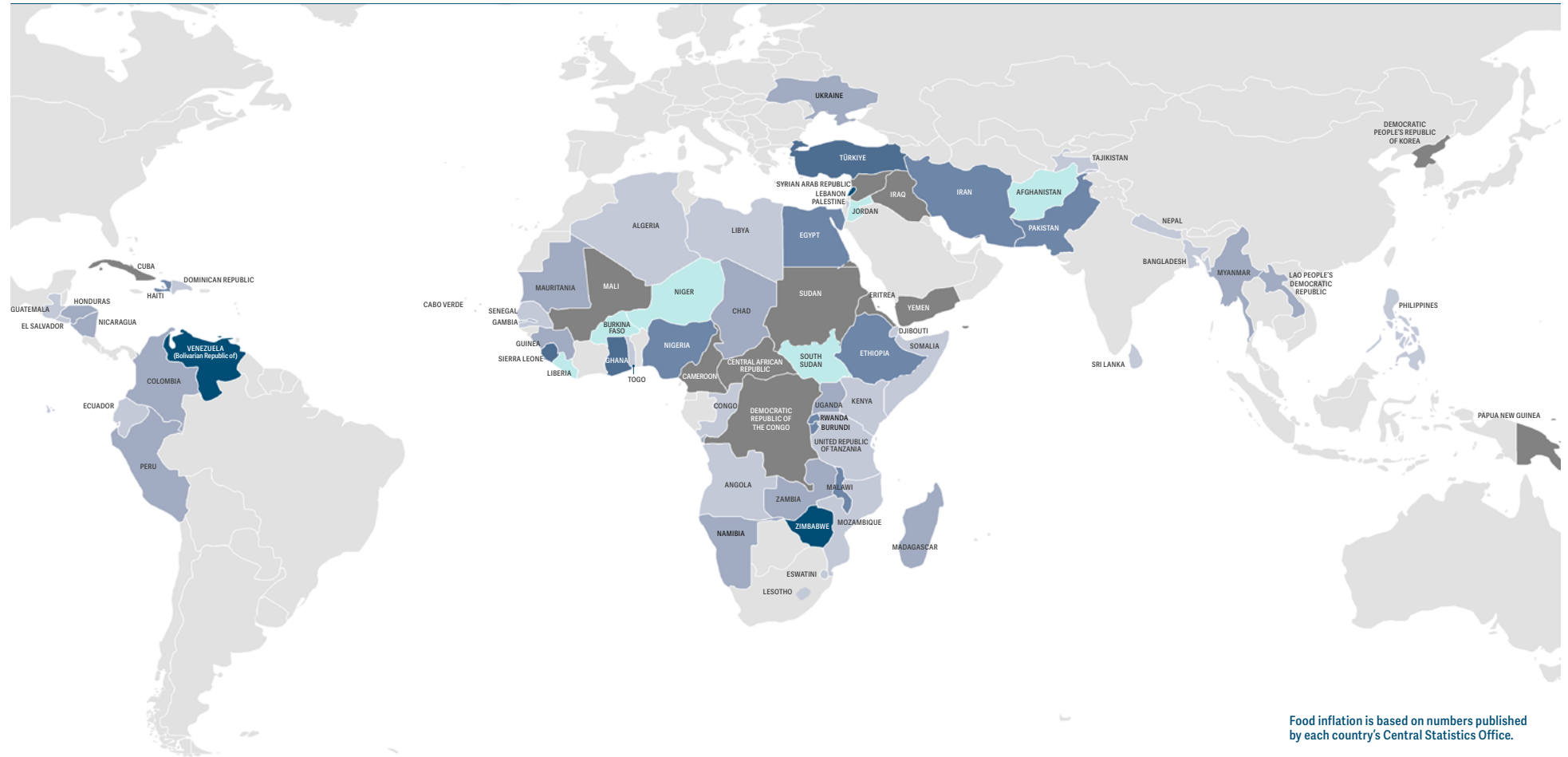
The BSGI was not renewed by the Russian Federation on 17 July 2023. Ukraine must now find alternatives to export its agricultural products, including through the Solidarity Lanes, which would be costlier. This could lead to lower prices for Ukrainian producers, thus driving reduction in the 2024 production of wheat and maize (IFPRI, July 2023; FAO, July 2023).

While the immediate effect of the BSGI termination on international food prices was negligible, it remains unclear what the long-term impact will be. Prices for key food commodities are likely to remain responsive to potential shortfalls in terms of the continued availability of Ukrainian exportable surpluses in combination with the evolution of cropping conditions in other large producing countries (FAO, July 2023).

Any potential changes to global market supplies and international prices could be exacerbated by low levels of global grain stocks and the erosion of country and household resilience (FAO, July 2023). The lingering effects of successive economic shocks combined with likely changes in supply and demand for foodstuffs due to weather extremes resulting from El Niño suggest a turbulent rest of 2023.

MAP 1.6

Annual food inflation in GRFC-qualifying countries/territories as of June 2023



Food inflation is based on numbers published by each country's Central Statistics Office.

<0 percent 0-10 percent 11-20 percent 21-50 percent 51-100 percent >100 percent Data unavailable Country not selected for analysis

Algeria, Egypt, Iran, Jordan, Rwanda and Türkiye were selected for inclusion in the GRFC only because they were hosting refugee populations in need of humanitarian assistance. The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations. Final boundary between the Republic of Sudan and the Republic of South Sudan has not yet been determined. Final status of the Abyei area is not yet determined.

Source: WFP Economic Explorer, 2023.