

HIGHLIGHTS from Chapter 4 Box 2:

Food price volatility and inflation in low-income countries

Key Points

- *Inflation in low-income countries (LICs) increased in the run-up to, and following, the outbreak of COVID-19. The rise has been largely driven by increases in the price of food, which accounts for around half of consumption in LICs.*
- *In the near term, further rises in global agricultural prices are likely to add to inflationary pressures in LICs. Agricultural commodity prices increased by 37 percent in May relative to a year ago, the largest increase since 2011.*
- *More persistent rises in food prices or a broad-based rise in consumer prices more broadly could warrant tighter monetary policy.*
- *Attempts to lower food prices through subsidies or export controls risk driving global food prices higher.*

Emerging inflation pressures in LICs. Whereas inflation in advanced economies and EMDEs fell after the widespread implementation of restrictions on movement across the world, median inflation in LICs rose from 3.9 percent in January 2020 to a new peak at 5.6 percent in April 2020 (**figure 1**). LIC inflation for 2020 as a whole increased by 1.1 percentage points from the previous year. Food prices contributed 1.3 percentage points to inflation in LICs, explaining most of the increase in headline inflation relative to 2019.

Rising food prices and food insecurity. Higher food prices have contributed to rising food insecurity, compounding the effect of income losses and disruptions caused by the pandemic and conflict. About 165 million people are estimated to have experienced food insecurity crises in 2020, of which more than 110 million people lived in LICs.

Prospects for inflation in LICs. With food accounting for almost one-half of household consumption in LICs, LIC inflation may rise further as a surge in global agricultural commodity prices passes through into domestic food prices. As of May 2021, agricultural commodity prices were 37 percent higher than a year ago, the fastest price increase since 2011.

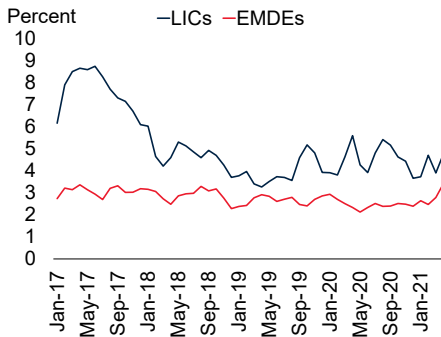
Policies to tackle rising food insecurity. Attempts to suppress food price inflation through price subsidies, or the reemergence of protectionist policies, could drive global prices higher and prove to be self-defeating. Targeted social protection measures, such as cash and food transfers, may mitigate the impacts of the pandemic on food security with fewer adverse impacts on global food prices than price and export controls. However, LICs may face larger challenges than other EMDEs in delivering and developing sources of revenue for these transfers, requiring technical and financial assistance. International support for improved logistical capabilities and to ensure the climate resilience of local food supply can contribute to both near- and longer-term food security in LICs.

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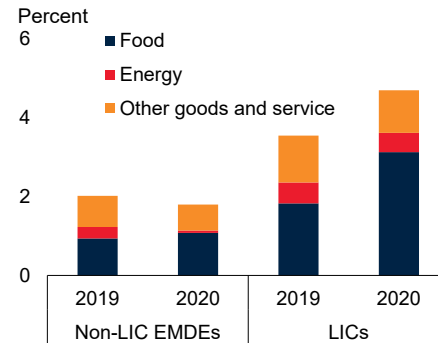
Figure 1. Inflation in LICs and food price developments

Inflation in low-income countries (LICs) rose following the outbreak of the pandemic, in contrast to a fall in other EMDEs. Rising food prices contributed to most of the increase in inflation in LICs. Surging agricultural commodity prices may fuel further inflation increases and risks further increasing the number of people experiencing food security crises. Policies to reduce food prices through export controls or price subsidies may be self-defeating.

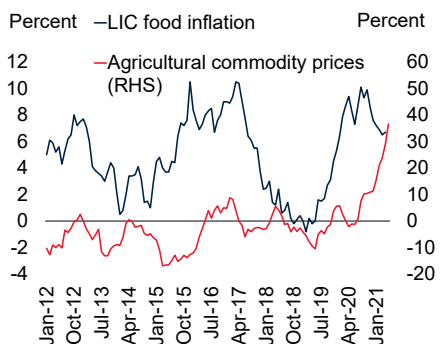
A. Median inflation in LICs and EMDEs: 2017-21



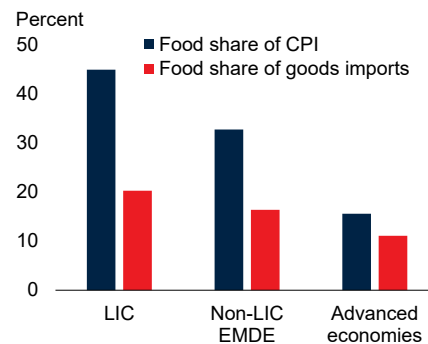
B. Contribution of food and energy prices to inflation



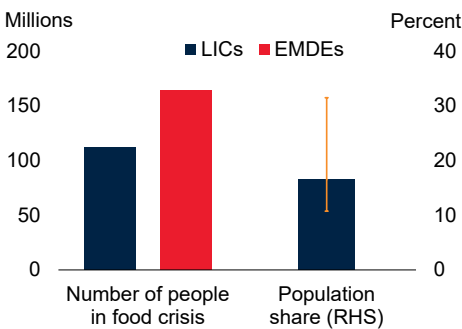
C. Agricultural commodity prices and food price inflation in LICs



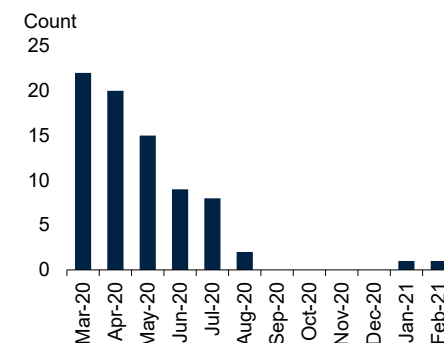
D. Share of food in goods imports and consumption



E. People experiencing a food security crisis in 2020



F. Food export restrictions in place



Sources: Havers Analytics; FSIN and Global Network Against Food Crises (2021); International Monetary Fund; Labord, Mamun, and Parent (2020); National sources; World Bank.

Note:

A. EMDEs = emerging market and developing economies; LICs = low-income countries. Based on headline consumer price inflation for up to 20 LICs and 80 EMDEs.

B. Sectoral headline consumer price index (CPI) inflation rates are based on median across 111 countries in 12 sectors. Sectors are categorized following International Financial Statistics. Food indicates food and nonalcoholic beverages and alcoholic beverages, tobacco, and narcotics sectors. Energy indicates housing, water, electricity, gas and other fuels. Other goods include clothing and footwear, furnishings, household equipment and routine household maintenance sectors. Service sector includes health, transportation, communication, recreation, education, restaurants, and miscellaneous sectors.

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C. Average food and nonalcoholic beverage price inflation in up to 10 LICs and annual growth in the nominal agricultural commodity price (from the World Bank's Pink Sheet).

D. Weight of food and nonalcoholic beverages in the CPI and share of total merchandise imports.

E. "Number of people in food crisis" reflects those classified as Integrated Food Security Phase Classification (IPC/CH) Phase 3, i.e., in acute food insecurity crisis or worse, in 2020. "Population share" reflects the sample median. Whiskers reflect the interquartile range.

F. Number of restrictions on the export or import of food in place. Data on announcements available to end-November 2020.