UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

# A DOUBLE BURDEN

## The effects of food price increases and currency depreciations on food import bills

16 December 2022

UNITED NATIONS
UNCTAD

## ACKNOWLEDGEMENTS

This paper has been prepared by the Division on International Trade and Commodities of UNCTAD, under the supervision of Miho Shirotori with the contribution of Julien Bliesener, Rodrigo Carcamo, Jeanelle Clarke, Stefan Csordas, Taisuke Ito, Christian Knebel, Graham Mott, Alessandro Nicita, Janvier Nkurunziza, Romain Perez, Ralf Peters, Carlos Razo and Mesut Saygili.
Graphic design and desktop publishing were done by Nadege Hadjémian.

## INTRODUCTION

**The price of food has increased everywhere, reaching historic levels in 2022, as stated by the Global Crisis Response Group. This is a challenge for food security globally, but particularly for net food-importing developing countries. And unlike in previous food crises, they now face a double burden. They not only pay higher prices for the food they import, but the price increase is exacerbated by the depreciation of their currency vis-à-vis the US dollar. This erodes the fiscal space that many developing countries need to face the concomitant challenges of recovering from the COVID-19 pandemic, the cost-of-living crisis, and the climate emergency.**

**This note assesses the potential effect of high prices of wheat and concurrent currency devaluations on the import bills of selected developing countries.**

# CONTENTS


# The emergence of the double burden: historically high food prices coupled with a strong US dollar

In the current century, the world has suffered three major food price spikes. The first two happened in 2007-2008 and 2010-2012. The third one is happening now. Brought on by the COVID-19 pandemic and the war in Ukraine, food prices have risen to historic heights (Figure 1).

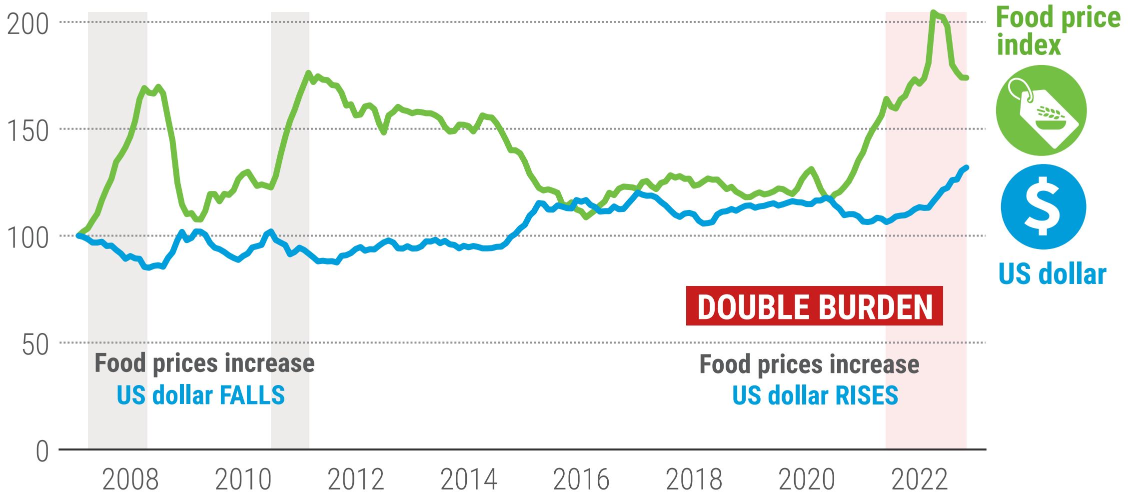
But there is a major difference among these price spikes, with severe consequences for net food-importing developing countries. During the first two spikes, as food prices went up, the value of the US dollar, the main currency used in international trade transactions, went down. The depreciation of the US dollar and the consequent appreciation of other currencies made imports cheaper and provided some ease to food import bills for many developing countries.

However, the current price spike is different. In an attempt to combat high inflation in the United States of America, the Federal Reserve increased its interest rates causing the US dollar to appreciate some 24 per cent between May 2021 and October 2022 (Figure 1). This made the US dollar and the food that developing countries buy with it more expensive.

For net food-importing developing countries, the international market for food is a lifeline. And as it becomes more expensive to buy US dollars, it also becomes harder for these countries to prevent millions of people from going hungry. These countries face a double burden of high food prices and a depreciation of their local currency against the US dollar. With national budgets stretched thin, net food importers are placed in a vulnerable position.

**Figure 1. A double burden: high food prices and a strong US dollar**

US Dollar Index and FAO Food Price Index (Base 2007= 100)




*Source:* UNCTAD secretariat based on Refinitiv and FAO data.


# The impact of high food prices and currency depreciations on net food-importing developing countries

Research shows that exchange rates can have a significant impact on food prices. Take for example the price effects on wheat, the most widely cultivated crop in the world, for six countries: Egypt, Ethiopia, Mauritius, Pakistan, Peru and Thailand.[1]

Since 2020 wheat prices have increased substantially (Figure 2). As of October 2022, the average price was 89 per cent higher than the average in 2020. During the same period, the average US dollar exchange rate vis-à-vis the respective national currencies rose between 10 and 46 per cent.

**Figure 2. The upward trend of wheat prices**
Price of wheat in US dollars by metric ton