

BRIEF NO.2

Global impact of the war in Ukraine: Billions of people face the greatest cost-of-living crisis in a generation

UN GLOBAL CRISIS
RESPONSE GROUP
ON FOOD, ENERGY
AND FINANCE

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Executive Summary

A war is always a human tragedy, and the war in Ukraine is no exception. The ripple effects of the conflict are extending human suffering far beyond its borders. The war, in all its dimensions, has exacerbated a global cost-of-living crisis unseen in at least a generation, compromising lives, livelihoods, and our aspirations for a better world by 2030.

After two years of fighting COVID-19, the world economy has been left in a fragile state. Today, 60 per cent of workers have lower real incomes than before the pandemic; 60 per cent of the poorest countries are in debt distress or at high risk of it; developing countries miss \$1.2 trillion per year to fill the social protection gap, and \$4.3 trillion is needed per year - more money than ever before - to meet the Sustainable Development Goals (SDGs).

The ability of countries and people to deal with adversity has therefore also been eroding. As the war erupted, global average growth prospects have been revised downward; many countries' fiscal balances have deteriorated, and the average household has lost 1.5 per cent in real income due to price increases in corn and wheat alone. Worldwide, more people have been facing famine-like conditions, and more people have faced severe hunger emergencies. The lingering effects of the pandemic, coupled with the war in Ukraine and the impacts of climate change, are likely to further increase again the ranks of the

poor. And as poverty increases so does vulnerability, particularly for women and girls.

Countries and people with limited capacity to cope are the most affected by the ongoing cost-of-living crisis. Three main transmission channels generate these effects: rising food prices, rising energy prices, and tightening financial conditions. Each of these elements can have important effects on its own, but they can also feed into each other creating vicious cycles - something that unfortunately is already starting. For instance, high fuel and fertilizer prices increase farmers' production costs, which may result in higher food prices and lower farm yields. This can squeeze household finances, raise poverty, erode living standards, and fuel social instability. Higher prices then increase pressure to raise interest rates, which increase the cost of borrowing of developing countries while devaluing their currencies, thus making food and energy imports even more expensive, restarting the cycle. These dynamics have

dramatic implications for social cohesion, financial systems and global peace and security.

Food should never be a luxury; it is a fundamental human right. And yet, this crisis may rapidly turn into a food catastrophe of global proportions.

This catastrophe has been years in the making, but since the war it has become unbearable for many countries. In 2022, between 179 million and 181 million people are forecasted to be facing food crisis or worse conditions in 41 out of 53 countries where data are available¹. In addition 19 million more people are expected to face chronic undernourishment globally in 2023, if the reduction in food exports from the Russian Federation and Ukraine result in lower food availability worldwide². Record high food prices, exchange rate devaluation and inflationary pressures are key factors. While the FAO food price index had reached a record high in February 2022 before the war started, since then it has had some of the largest one-month increases in its history, with its record high in March 2022. And yet, despite a very challenging situation today, some factors suggest the food security situation may get much worse still in coming seasons.

Higher energy costs, trade restrictions and a loss of fertilizer supply from the Russian Federation and Belarus have led to fertilizer prices rising even faster than food prices. Many farmers, and especially smallholders, are thus squeezed to reduce production, as the fertilizers they need become more expensive than the grains they sell. Critically, new fertilizer plants take at least two years to become operational, meaning that most of the current supply of fertilizers is limited. Because of this key fertilizer issue, global food production in 2023 may not be able to meet rising demand. Rice, a major staple which up to now has low prices because of good supplies, and is the most consumed staple in the world, could be significantly affected by this phenomenon

of declining fertilizer affordability for the next season.

Time is short to prevent a food crisis in 2023 in which we will have both a problem of food access and food availability. If the war continues and high prices of grain and fertilizers persist into the next planting season, food availability will be reduced at the worst possible time, and the present crisis in corn, wheat and vegetable oil could extend to other staples, affecting billions more people.

Export restrictions on food and fertilizers have surged since the start of the war. The scale of current restrictions has now surpassed that experienced during the food price crisis in 2007/08, which contributed to 40 per cent of the increase in agricultural prices. Trade restrictions today affect almost one fifth of total calories traded globally, which further aggravates the crisis. All food crises are distributional in nature. This one is no different. Export restrictions prevent the trade needed to bring essential food supplies and fertilizers to where they are most required.

In one way or another, everyone is exposed to the shock waves of the war. The level of exposure of a country and its ability to deal with the shock determine a country's vulnerability. And this is a challenge in the developing world. The UN Global Crisis Response Group, together with the United Nations Regional Economic Commissions, undertook a global vulnerability assessment on the capacity of countries to cope with each of the channels of transmission and the vicious cycles they can create. The results confirm a widespread picture of vulnerability: 94 countries, home to around 1.6 billion people, are severely exposed to at least one dimension of the crisis and unable to cope with it. Out of the 1.6 billion, 1.2 billion or three quarters live in 'perfect-storm' countries, meaning countries that are severely exposed and vulnerable to all three dimensions of finance, food, and energy, simultaneously.

1 See Global Network Against Food Crises Report 2022 http://www.fightfoodcrises.net/fileadmin/user_upload/fightfoodcrises/doc/resources/GRFC_2022_FINAL_REPORT.pdf

Notes: All websites in footnotes were accessed in May 2022. The term "dollars" (\$) refers to United States dollars unless otherwise specified.

2 Forthcoming State of Food Security and Nutrition in the World 2022 Report.

This vulnerability of Governments and people can take the form of squeezed national and household budgets which force them into difficult and painful trade-offs. If social protection systems and safety nets are not adequately extended, poor families in developing countries facing hunger may reduce health-related spending; children who temporarily left school due to COVID-19 may now be permanently out of the education system; or smallholder or micro-entrepreneurs may close shop due to higher energy bills. Meanwhile countries, unless a multilateral effort is undertaken to address potential liquidity pressures and increase fiscal space, will struggle to pay their food and energy bills while servicing their debt, and increase spending in social protection as needed.

The clock is ticking, but there is still time to act to contain the cost-of-living crisis and the human suffering it entails. Two broad and simultaneous approaches are needed:

- 1 Bring stability to global markets, reduce volatility and tackle the uncertainty of commodity prices and the rising cost of debt. There will be no effective solution to the food crisis without reintegrating Ukraine's food production, as well as the food and fertilizer produced by the Russian Federation into world markets – despite the war.
- 2 Increase people and countries' capacity to cope. This means helping the most severely exposed countries help their poor and vulnerable populations, by increasing countries' fiscal space and liquidity access so that they can strengthen social protection systems and safety nets and hence enhance the ability of people to deal with adversity.

Taken together, this suggests – as the United Nations Secretary-General said recently – that “there is no answer to the cost-of-living crisis without an answer to the finance crisis”. All available rapid disbursement mechanisms at international finance institutions must be reactivated, and a new emission of Special Drawing Rights must be pursued. It is also important,

however, to ensure resources are well spent. To complement efforts to create social protection systems, countries can respond to the crisis with additional targeted and/or, time-bound emergency measures, which should be aligned with sustainable development needs and not allocated universally. Lastly, a domino effect where solvency problems create a systemic developing country debt crisis must be avoided at all costs. The G7 and G20 need to rise to the challenge in putting forward debt restructuring instruments that are fit for purpose.

To succeed, strong political will across the multilateral community is needed. Piece-meal approaches will not work. What will, is a comprehensive approach that looks at the emergency today without forgetting about the future. The vicious cycles this crisis creates shows that no one dimension of the crisis can be fixed in isolation.

This crisis touches all of us. It is everyone's problem and a common responsibility. Yet, we must accept that not everyone is affected equally. Some countries, communities and people are more vulnerable than others, and those need to be assisted first. It takes a world to fix a world, what is needed now is to start.

1. The largest cost-of-living crisis of the twenty-first century to date

The largest cost-of-living crisis of the twenty-first century has come when people and countries have a limited capacity to cope. The war in Ukraine has trapped the people of the world between a rock and a hard place. The rock is the severe price shocks in food, energy and fertilizer markets due to the war, given the centrality of both the Russian Federation and Ukraine in these markets. The hard place is the extremely fragile context in which this crisis arrived; a world facing the cascading crises of the COVID-19 pandemic and climate change. A shock of this magnitude would have been a significant challenge no matter the timing; now, it is of historic, century-defining proportions.

A cost-of-living crisis due to severe price shocks

- The FAO food price index is at near-record levels and 20.8 per cent higher than at this time last year.³
 - Energy market volatility has increased with recognition that a prolonged conflict will lead to higher energy prices in the medium to long term. Crude oil has now reached over \$120 per barrel and energy prices overall are expected to rise by 50 per cent in 2022 relative to in 2021.⁴ The price of European natural gas in particular has risen ten-fold compared to 2020. Many large natural gas importers have committed to dramatically reducing reliance on Russian natural gas through higher imports of Liquefied Natural Gas from other countries, which may
- potentially price out some developing countries from the Liquefied Natural Gas market on which they rely for energy imports.⁵
 - Fertilizer prices are more than double the 2000–2020 average.⁶
 - Maritime transport costs are more than triple the pre-pandemic average,⁷ due to the lingering effects of the COVID-19 crisis and the destruction of the transport infrastructure (and especially the ports) of Ukraine, as well as higher volume of traffic and congestion related delays and other factors such as rising fuel costs. On North-South trade routes, the aggregated fuel cost increase of the last three months is estimated to already result in a 5-to-14% increase of total maritime transport costs.⁸
 - Rising interest rates and growing investor uncertainty has eroded both the value of developing countries' currencies, as well as their capacity to borrow in foreign markets. After the first 100 days of the war, the currencies of 142 developing countries have depreciated, on average, by 2.8% against the US dollar (2.7% YTD), and their bonds yields have increased by an average of 77 basis points.⁹
 - Of greatest concern are the vicious cycles beginning to emerge along the transmission channels of the crisis. Higher energy prices, especially diesel and natural gas, increase the costs of fertilizers and transport. Both factors increase the costs of food production. This leads to reduced farm yields and to even higher food prices next season. These, in turn, add to inflation metrics, contributing to what were already increasing interest rate pressures and tightening financial conditions. Tighter financial conditions erode the buying power of the currencies of developing

3 Calculations based on FAO Food Price Index data, <https://www.fao.org/worldfoodsituation/foodpricesindex/en/>

4 World Bank, 2022, Commodity markets outlook, April 2022: The impact of the war in Ukraine on commodity markets, available at <https://openknowledge.worldbank.org/handle/10986/37223>. See <https://www.bloomberg.com/energy>.

5 Ibid.

6 UNCTAD secretariat calculations, based on data from the International Food Policy Research Institute.

7 UNCTAD, forthcoming, The war in Ukraine: What it means for the logistics of international trade.

8 Ibid.

9 UNCTAD secretariat calculations, based on Refinitiv data.

countries, further increasing the import costs of food and energy, reducing fiscal space and increasing the costs of servicing debt.

- And the story does not end there. The vicious cycles created by a cost-of-living crisis can also spark social and political instability. Higher inflation means higher food and energy prices, and a higher cost of living. This in turn reduces families' real income, and with it, their living standards and their opportunities for a better future. Some families start making painful trade-offs: reducing meals or the quality of them, dropping out of schools, or reducing healthcare spending. Often these decisions affect women and girls the most. These decisions have worrying long-term effects, from higher poverty levels, to rising inequality, lower education, lower productivity and declining real wages. All this reduces the ability of people and governments to cope with a crisis, further fuelling social and political unrest.

The compounded crises of the pandemic and climate change have limited people's and countries' capacities to cope

People's capacity to cope is decreasing

- Since 2019, the number of people living in extreme poverty has risen by 77 million and the number of people facing acute food insecurity has risen to 193 million.¹⁰
- Worldwide, three out of five workers, mostly in developing countries, have lower real incomes than before the pandemic.

- In Africa, 58 million people living just above the poverty line are at risk of sliding into poverty due to the combined effects of the pandemic and the war in Ukraine.¹¹
- About 4.1 billion people lack social protection.
- The gender gap in global working hours has increased due to the pandemic; globally, women spend 18.9 hours weekly in employment, or 57 per cent of the average 33.4 hours worked by men.¹²
- More than 20 million people are forcibly displaced each year due to climate change effects.¹³
- Nearly 90 million people in Asia and Africa who had previously gained access to electricity, can no longer afford to pay for their basic energy needs.¹⁴
- Globally, between 2019 and 2021, 30 million people lost access to clean cooking fuel and the global figure now stands at 2.4 billion who lack access.
- In 2020, 15 million people in sub-Saharan Africa who had recently gained tier-1 electricity access were no longer able to afford it and slipped back into energy poverty¹⁵. About 568 million people in Sub-Saharan Africa lacked access to electricity in 2020¹⁶.

Countries are also weaker to cope with this new crisis

- The UNCTAD global gross domestic product (GDP) growth forecasts for 2022 have been revised downwards by a full percentage point since the start of the war¹⁷, while the IMF has

10 United Nations Inter-Agency Task Force on Financing for Development, 2022, Financing for sustainable development report 2022, available at <https://developmentfinance.un.org/fsdr2022>; Data on acute food insecurity in 2021 for 53 countries monitored by the Global Network Against Food Crises, 2022, Global report on food crises, available at <https://www.wfp.org/publications/global-report-food-crises-2022>.

11 United Nations Economic Commission for Africa (UNECA).

12 International Labour Organization (ILO), 2022, ILO monitor on the world of work, ninth edition, available at https://www.ilo.org/global/publications/books/WCMS_845642/lang-en/index.htm.

13 See <https://www.unhcr.org/climate-change-and-disasters.html>.

14 IEA, IRENA, UNSD, World Bank, WHO. 2022. Tracking SDG 7: The Energy Progress Report. World Bank, Washington, D.C.

15 See <https://www.iea.org/commentaries/the-pandemic-continues-to-slow-progress-towards-universal-energy-access>.

16 Tracking SDG 7, the Energy Progress Report. IEA, IRENA, UN Statistics Division, the World Bank, WHO, June 1, 2022. Available: <https://trackingsdg7.esmap.org/>

17 UNCTAD, 2022, Trade and development report: Tapering in a time of conflict, available at <https://unctad.org/webflyer/tapering-time-conflict-trade-and-development-report-update-march-2022>.

The International Monetary Fund, in the world economic outlook update in April, also downgraded the growth prospects of 143 countries.

The ability of countries to cope with crises is being eroded



0.8–1%

downgrades due to the war
expected GDP growth in 2022
from 3.6% to 2.6%



3 out of 5 workers

have lower real incomes
than before the pandemic



**60% of the
poorest countries**

face rising debt levels
and a high risk of distress



\$1.2 trillion financing gap

in social protection
in developing countries



\$520 billion

is the annual cost of climate disasters
to the global economy

revised downwards their growth forecasts for 143 countries.

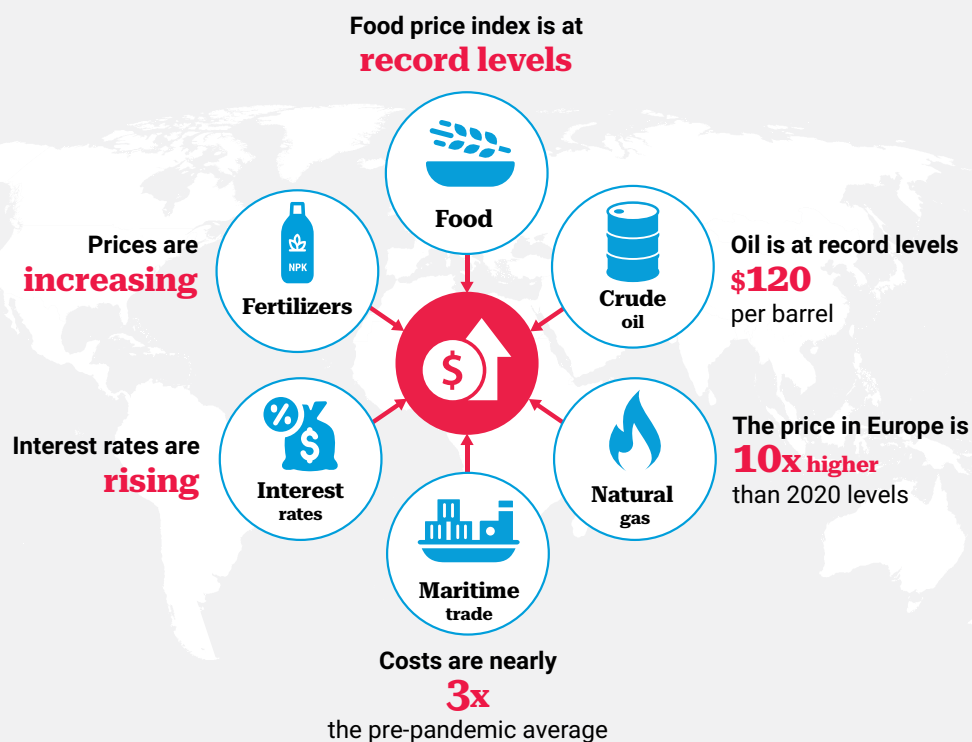
- In developing economies, public debt levels increased from 55.7 to 65.1 per cent of GDP between 2019 and 2021 and, in 2022, these economies are estimated to require \$311 billion to service public external debt, a figure that amounts to 13.6 per cent of government revenues.
- Globally, 60 per cent of the poorest countries are in debt distress or at a high risk of debt distress.¹⁸
- ILO has estimated that the social protection financing gap is \$1.2 trillion per year in developing countries.¹⁹
- UNCTAD estimates that the annual financing gap for achieving the Sustainable Development Goals is \$4.3 trillion, revised upwards from \$2.5 trillion, which was estimated to be needed annually as of 2015, when the 2030 Agenda for Sustainable Development was adopted.
- Climate disasters cost the global economy around \$520 billion per year²⁰, with a disproportionate share of the adverse effect being borne by developing countries who are forced to redirect domestic public money towards adaptation and loss and damage efforts, as opposed to development spending.

¹⁸ See <https://blogs.imf.org/2022/04/07/restructuring-debt-of-poorer-nations-requires-more-efficient-coordination>.

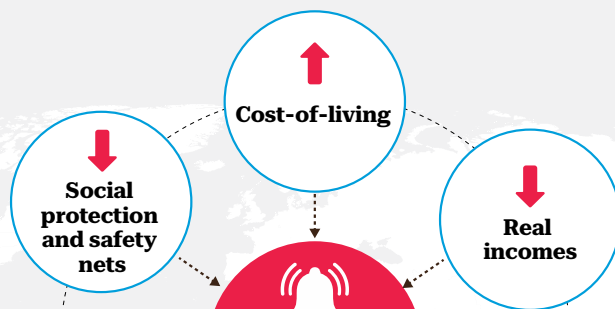
¹⁹ ILO, 2020, Social protection spotlight, available at https://www.ilo.org/secsoc/information-resources/publications-and-tools/Brochures/WCMS_755475/lang--en/index.htm.

²⁰ See <https://www.worldbank.org/en/results/2017/12/01/climate-insurance>.

Vicious cycles are emerging



Vicious cycles may trigger social and political unrest



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