

Grain inflation shakes emerging countries

Watch out for a “multicrisis” of inflation, foreign currency shortage, and political instability

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Emerging countries suffer soaring grain prices and procurement difficulties

The surge of grain prices are accelerating, fueled by the Russia-Ukraine war. Concerns over declining Russian grain supplies as sanctions begin to bite and stagnating exports from Ukraine brought about by the ongoing military conflict and logistics disruptions are driving up prices.

Global grain exports totaled \$23.19 billion in 2018. Of this amount, Russia accounted for \$1.15 billion (5.0% of the total amount) and Ukraine \$0.94 billion (4.0%), reflecting their positions as powerhouse producers of grain. But the intensifying conflict in Ukraine has seriously impacted grain exports. According to media coverage,¹ the export volume of Ukraine’s corn and wheat dropped in March to one-fourth of the previous month. Furthermore, the disruption of major maritime transportation through the Black Sea² by Russia’s military activities, among other factors, is being reported.

Sluggish grain exports from Russia and Ukraine are dealing a blow to grain procurement mainly in Middle Eastern and African countries. The heatmap in **Chart 1** depicts the global grain procurement dependence on Russia and Ukraine. We can see that the Middle East and Africa have relatively high dependence. This is due to a combination of the two factors of low self-sufficiency ratio for grain and high grain import dependence on Russia and Ukraine.

The current geopolitical situation is presenting procurement challenges for regions that rely on grain from Russia and Ukraine. The governments of Egypt and Lebanon, for example, announced in late March countermeasures that included the regulation of speculative wheat trading and the introduction of rationing systems.³ In these regions, rising grain trading prices worldwide and supply shortages stemming from the decline in imports may very likely cause domestic food prices to skyrocket.

Emerging nations face “multicrisis” risk arising from food inflation

With the uncertain outlook of the Russia-Ukraine war, grain imports from the two countries are expected to remain

¹ Nikkei, “Ukrainian grain exports fell to one-fourth. One hundred ships confined due to the blocked Black Sea,” April 4, 2022.

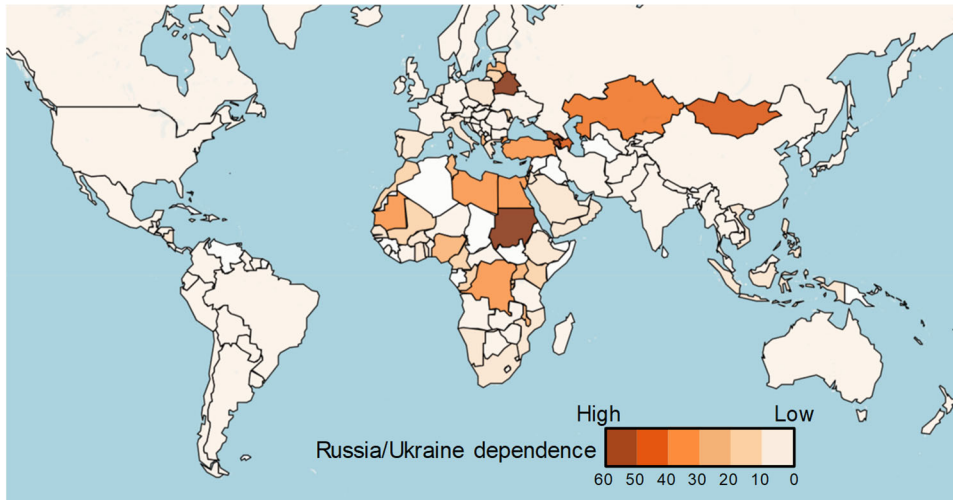
² Financial Times, “Black Sea wheat’s fragile link to the West,” December 17, 2015.

The Ministry of Agriculture, Forestry and Fisheries (2021), “Global Trend of Food Supply and Demand,” March 2021.

³ Nikkei, “Middle East suffering from wheat insecurity. Economic crisis in Lebanon and other countries,” March 22, 2022.

unstable in the immediate future. Middle Eastern and African countries, as mentioned earlier, are particularly exposed to the growing risk of multiple crises, namely, foreign currency funding problems and political instability, in addition to inflation.

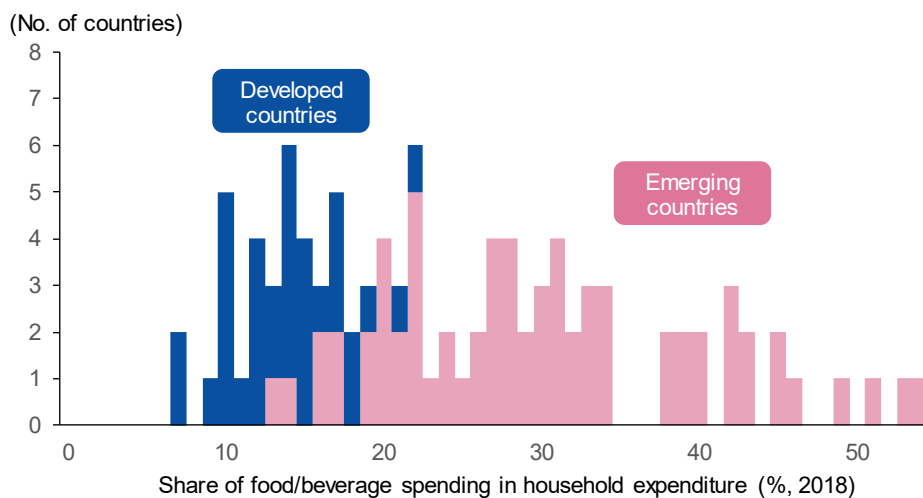
[Chart 1: Emerging countries’ grain procurement dependence on Russia and Ukraine]



Note: Grain imports are the sum of HS code chapters 10 to 12.
 Russia/Ukraine dependence = Import dependence on grain (weight basis) × Russia/Ukraine dependence on grain imports
 Import dependence on grain = Net import of grain / Domestic procurement of grain (domestic production + import - export)
 Source: Made by MHRT based upon FAO and UN COMTRADE.

The primary factor impacting these nations’ economies is food inflation. Emerging countries will be hit particularly hard since the proportion of food spending in total household expenditure is high, making household finances vulnerable to food inflation (Chart 2).

[Chart 2: Ratio of food spending in total household expenditure]



Source: Made by MHRT based upon the US Department of Agriculture.

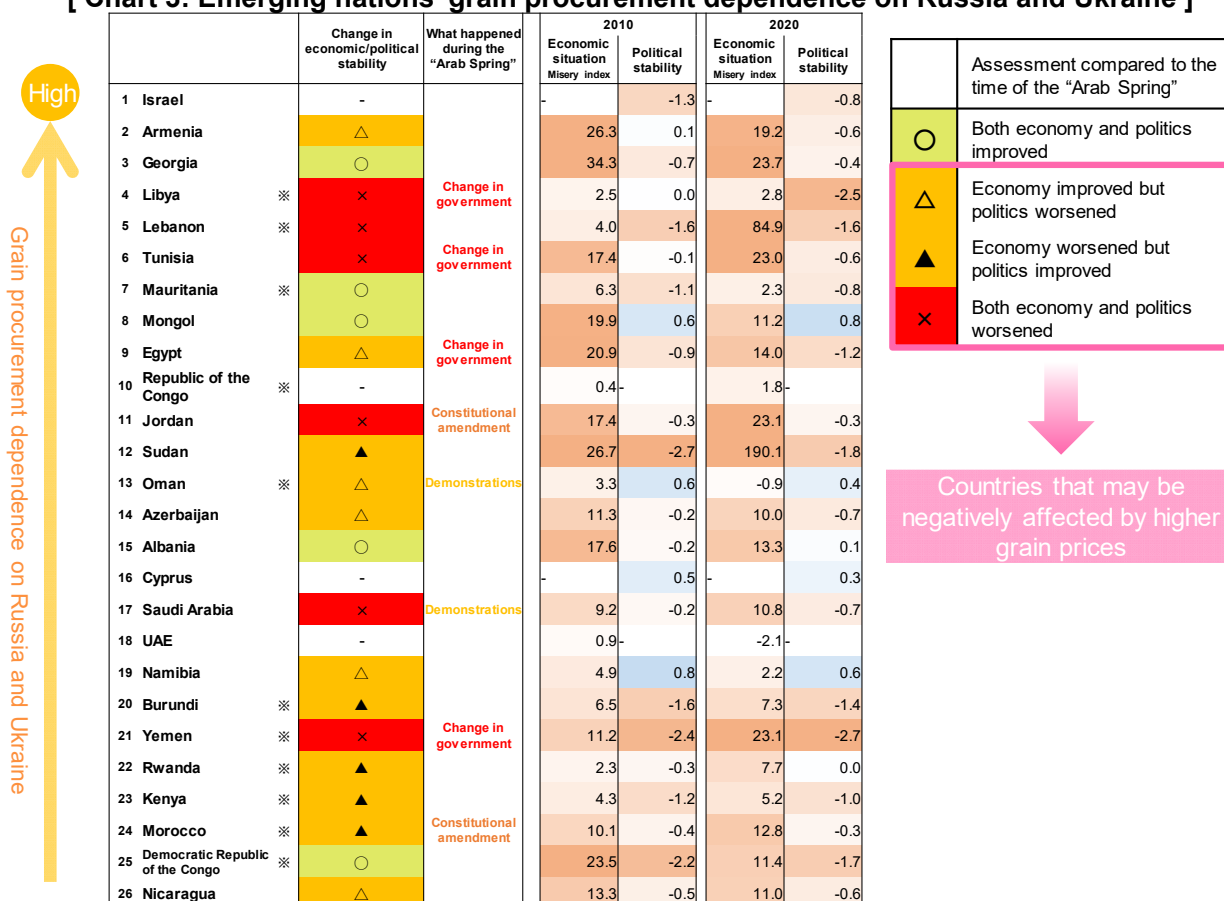
Moreover, the impact on foreign currency management has started to surface in these countries. Countries that depend on grain imports need to secure larger amounts of foreign currency for making external payments when grain prices surge, and to make matters worse, the deteriorating market sentiment and concerns over inflation are putting pressure on currency depreciation. This situation will not only affect foreign currency cash management and raise the risk of external default, but will also make payment for import goods other than grain difficult and push imported inflation even higher. In March, Egypt actually devalued its currency and applied for a new IMF loan, showing that

these risks are materializing.

Furthermore, economic and financial market disruptions may negatively influence the political situation in these countries. The Middle East and Africa are two regions plagued with many politically unstable countries. In 2010, the “Arab Spring” spread as a wave of pro-democracy protests across the Middle East and North Africa. An earlier study⁴ points to surging food prices under conditions of constant recession and poverty, coupled with heightened political anxiety, as factors driving the “Arab Spring.” In the current phase, spikes in food prices and procurement difficulties may stimulate anti-government movements once again.

So who are the high risk countries? **Chart 3** compares the misery index⁵ of various countries and the political stability and absence of violence/terrorism index released by the World Bank in 2010 when the “Arab Spring” erupted with the indices in 2020. The higher the position in the list, the higher the dependence on Russian and Ukrainian grain. The chart reveals that Libya, Lebanon, Tunisia, and Jordan, countries in relatively high positions, have seen their economic and political situations deteriorate from 2010. Also, in Armenia, Egypt, and Sudan, either political stability or economic situation has deteriorated. These nations are considered to face a higher risk of food inflation destabilizing their politics.

[Chart 3: Emerging nations’ grain procurement dependence on Russia and Ukraine]



Note: Misery index: Inflation rate + unemployment rate. Both inflation rate and unemployment rate are based on the IMF database. For countries marked with ※, only the inflation rate is shown due to the lack of data. Political stability: Political stability and absence of violence/terrorism index released by the World Bank. The greater the figure in the negative direction, the more unstable the political situation is.

Source: Made by MHRT based upon IMF and the World Bank.

⁴ Ismail, Z. (2021)

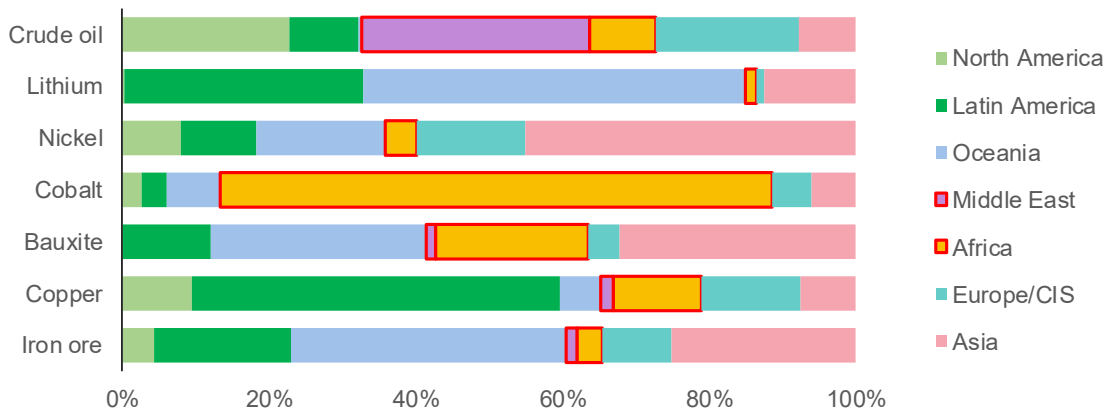
⁵ The misery index is an economic indicator that shows the degree of poverty experienced by citizens. The index is computed by adding the unemployment rate to the inflation rate (year-on-year increase in consumer prices). It is generally said that when the misery index exceeds 10%, citizens’ dissatisfaction will grow.

Beware of new conflicts arising from risks surrounding mineral supply and soaring prices

Rising political instability in the Middle East and Africa can destabilize mineral production sites and have a ripple effect on the global economy in the form of higher prices. The Middle East and Africa are the world’s leading producers of minerals. If we look at the production volume of major minerals by region, the Middle East boasts a substantial share in crude oil, while Africa is rich in cobalt, copper, and bauxite (**Chart 4**). If the political situation were to destabilize in these mineral-producing regions, a drop in supply capacity and growing anxiety over the future might trigger a surge in mineral prices.

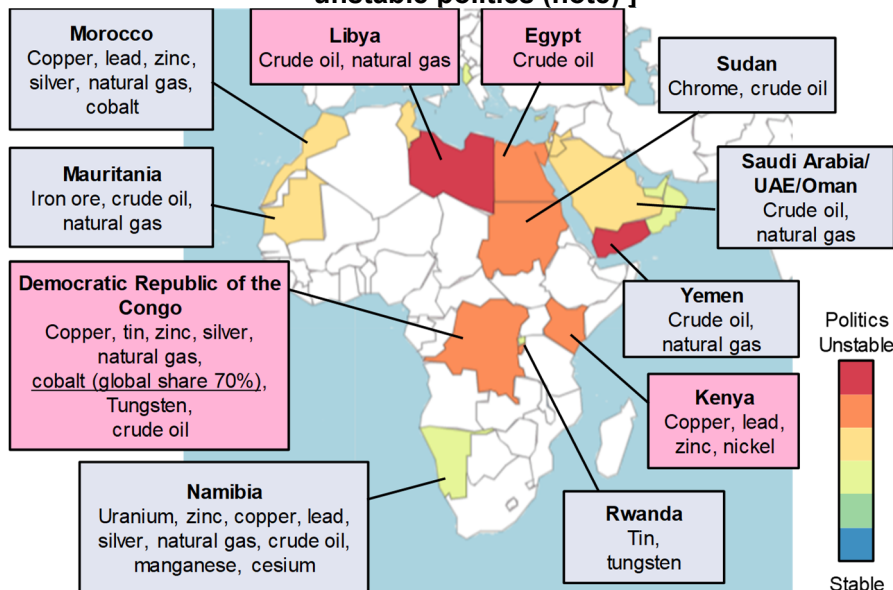
Countries facing the high risk of multiple crises mentioned in the previous section also include nations that produce minerals. For example, Middle Eastern countries such as Libya and Egypt extract crude oil, and the Democratic Republic of the Congo is a major producer of cobalt (accounting for 70% of the global production volume) (**Chart 5**). For these reasons, we need to keep a close eye on the situations in the Middle East and Africa in addition to Russia and Ukraine in the coming months.

[Chart 4: Share of mineral production (by region)]



Source: Made by MHRT based upon USGS and Enerdata.

[Chart 5: Mineral products of high risk countries with grain procurement difficulties and unstable politics (note)]



Note: Political stability: Political stability and absence of violence/terrorism index released by the World Bank. The greater the figure in the negative direction, the more unstable the political situation is.

Source: Made by MHRT based upon USGS and the World Bank, among others.

Reference

Refer to the original Japanese report by clicking the URL below for the reference material.

<https://www.mizuho-ir.co.jp/publication/report/2022/pdf/express-eg220408.pdf>

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