

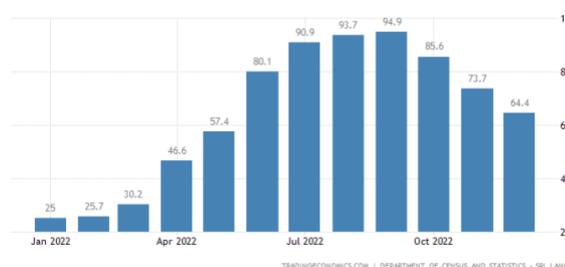
## Sri Lanka Food Price Inflation

**Forum:** Economic and Social Council

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### Introduction

Food prices have been rising globally due to various factors including the Covid-19 pandemic, the Russia-Ukraine war, shrinking crop yields, and spiking prices. Sri Lanka was ranked among the top 5 countries with the highest food price inflation, with a record of 94.9% in September 2022. Even staples such as rice are unaffordable for millions of families. “The economy has collapsed and the country has run out of the money needed to import essentials like fuel, food and fertilizer,” says the World Food Programme Representative and Country Director Abdur Rahim Siddiqui, urging more donor support to WFP and other humanitarian responders.



*Sri-Lankan Inflation rates in 2022*

### Background

Multiple factors caused by both global and local supply chains have shaped Sri Lanka's food price inflation. These include ban on chemical fertilizers, aftershocks of Russia-Ukraine War, and expansionary monetary policy. The government has banned imported chemical fertilizers on their crops in order to make farming more environmentally sustainable and promote organic farming. However, this move reduced agricultural output within the country and heightened supply chain disruptions. Sri Lanka is also feeling the aftershocks of the war in Ukraine. Since Russia has been limiting shipments from Ukraine, the current queue with grain has accumulated in the Black Sea since September. Sri Lanka's ability to import has been reduced a lot due to this disruption in exports of agricultural commodities. Additionally, expansionary monetary policy done by previous government has contributed to higher food inflation.



*Grain accumulated in ships*

People living below the poverty line or in middle-income groups are the most vulnerable and severely impacted by this high inflation. According to a recent survey by the Sri Lankan Red Cross Society and the International Federal of Red Crescent Societies, 50% of households reported that they reduced the consumption of meat and fish, while 11% have completely dropped protein consumption. Also, more than one-third of Sri Lanka's population

is in food insecurity, while 79% of households are adopting food-based coping strategies to keep food on the table.

### International Actions

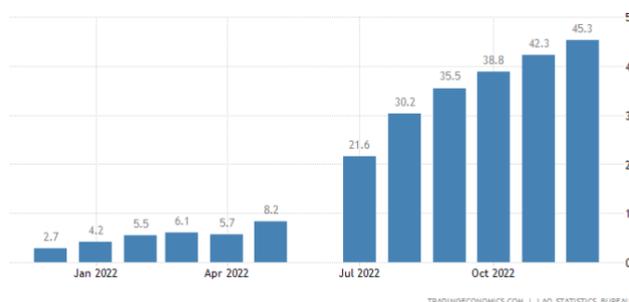
According to WFP and the UN Food and Agriculture Organization, 6.3 million people in the country are food-insecure and 5.7 million people are in need of humanitarian assistance in 25 districts across the country. As a response to the government's request for support, The United Nations has proposed a \$47.2 million plan for the period from June to September. Since the fuel stocks are predicted to run out in five days, the government services and schools in Colombo were shut down to reduce the number of people taking transportation.

With regard to health issues, about 200 essential medicines are unavailable, with a predicted additional shortage of 163 critical medicines. Hospitals have postponed surgeries and procedures due to power cuts and lack of fuel. To prevent and manage moderate acute malnutrition, WFP supports the national health system. WFP has distributed about 1,000 vouchers to pregnant women and expects to reach all 2,200 by June. Fortified rice, cooking oil, and lentils have been purchased and are en-route to Sri Lanka. The Government of Australia confirmed a \$15.3 million contribution to WFP's emergency response operations.

### Places of High Concern

#### *Laos*

Laos is going through a similar situation to Sri Lanka. The rise in oil prices caused by The Russian invasion of Ukraine has pushed up the cost of food. Some households had been unable to pay their bills and it is estimated that a third of people would live in poverty. Laos' currency has been plunging and has decreased more than a third against the US dollar. Higher interest rates in the US have strengthened the dollar, and weakened local currencies, increasing their debt burden and making imports costlier. Laos is struggling to repay those loans or pay for imports since it is already heavily in debt. According to the World Bank, the country had \$1.3 billion of reserves as of December last year. Laos' public debt takes up 88% of its Gross Domestic Product (GDP) in 2021, according to the World Bank, with almost half of that owed to China.



*Laos' Inflation rates in 2022*

#### *Pakistan*

The country is struggling with the inflated cost of goods. The annual inflation was highest in June, with a rate of 21.3%. After the government ended fuel subsidies, fuel prices are increasing by about 90%. Like Sri Lanka and Laos, Pakistan has also faced low foreign currency reserves, which have almost halved. In order to reduce the gap between government revenue and spending, it has imposed a 10% tax.

### *China*

China has been a dominant lender to several developing nations including Sri Lanka. 10% of Sri Lanka's debt goes to China. The country's strategy is also called "debt trap diplomacy." Even though Sri Lanka is going through food price inflation, China has not been willing to forgive any of Sri Lanka's debt. In addition, the total percentage of Chinese-held debt is closer to 26% since they are also held by Chinese banks, such as the EXIM Bank of China and the China Development Bank.

## **The Stances of the P5 Nations**

### *United States of America*

In June 2022, at the G-7 Summit, the total U.S. commitments in 2022 for economic and humanitarian assistance were brought to \$32 million, as President Biden announced \$20 million of additional humanitarian assistance for Sri Lanka. It is likely that the United States and other QUAD allies will increase their relief packages for Sri Lankans.

### *United Kingdom*

The UK has provided urgent food and farming support to Sri Lanka. UK's package of £3 million lifesaving support was set out in a meeting with Sri Lankan Foreign Minister Ali Sabry at the UN General Assembly. Delivered through Red Cross and UN partners, this will provide foods and tools to grow crops and mental health care.

### *France*

Although France also recognizes the crisis in Sri Lanka, the country has not taken any significant actions.

### *China*

China has been a dominant lender to Sri Lanka. The country holds about 10% of Sri Lanka's debt, with an additional 26% debt held by the Chinese Bank. Despite the serious crisis in Sri Lanka, China has not been willing to forgive any of the debt.

### *Russian Federation*

Russia is partly responsible for the crisis since wheat and petrol prices have risen immeasurably as a result of the Ukraine War. According to the Prime Minister of Sri Lanka, Moscow offered to supply wheat.

### Possible Solutions

Since the Government banning chemical fertilizers sharply reduced agricultural output, increasing domestic production and further resilience of food production system is needed. Some measurements such as incentive schemes, implementation of food storage and preservation strategies, and government subsidies would address the issue. Also, food assistance to the most vulnerable groups (low income groups) should be provided through humanitarian initiatives and social safety nets.

Limited imports of agricultural commodities due to Russia-Ukraine War also take a part in increasing the food prices. In order to activate the exports of food commodities from Ukraine, it is especially necessary for the United Nations to urge Russia to mitigate measures regarding shipments of Ukraine. Furthermore, it is strongly encouraged for member states of United Nations to respond quickly and generously to Sri Lanka's request for food aid and to collaborate with several NGOs such as FAO (UN Food and Agriculture Organization) and WFP (World Food Programme) to distribute food aids with the most efficient way.



*Sri Lanka farmers protest over ban causing fertiliser shortage*



*Ukraine and Russia sign UN-brokered grain export deal*

### Glossary

*Food Inflation:* the rate at which the prices of food items increase caused by numerous factors

*UN Food and Agriculture Organization (FAO):* a specialized agency of the United Nations leading international efforts to defeat hunger. FAO's goal is to achieve food and security for all and make sure that people have regular access to enough high-quality food and lead active, healthy lives.

*WFP (World Food Programme):* the leading humanitarian organization saving lives and changing lives, delivering food assistance in emergencies and working with communities to improve nutrition and build resilience.

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