SOCIAL AND ECONOMIC POLICY WORKING BRIEFS

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Economic Update: Countries' Evolving Vulnerability from a Child's Perspective

- Local food prices and household earning prospects are among the key factors affecting the well-being of children
- A sizable number of low-income countries continue to face high and rising food prices at local levels
- Combined with weakening growth and job prospects, high and rising food prices are severely eroding households' purchasing power in these countries, especially among the poor
- Existing child nutrition, health, and survival conditions are weak in most of these countries, implying that a large share of their populations are entering this crisis with limited coping capacity

INTRODUCTION

On the heels of the unprecedented food and fuel price increases in 2007-08, global economic activity is expected to contract for the first time since the WWII[1]. In combination, these events are likely to have a serious impact on the well-being of children in lower-income households around the world.[2] An important step towards identifying appropriate policy responses is the frequent assessment of how and to what extent a country is being adversely affected. While it is difficult to rapidly measure the direct impact of the crisis on children, child vulnerabilities can be indirectly assessed by monitoring developments in areas that are closely related to child well-being and for which timely data is available.

Children are particularly affected by changes in local food prices, not only as there are a greater number of children living in poorer households, but under-nutrition - even for short periods - can have long term consequences for children.[3] As such, changes in local food prices give important insights into how household budgets and, in turn, provisions for children's nutrition and health are being squeezed. Furthermore, as poorer households generally have fewer assets and limited access to credit, their coping capacity depends crucially on their earning prospects, which may be approximated by measuring the overall growth prospect of a given country. By examining the recent developments in local food prices and the latest economic projections, this note identifies the main sources of vulnerabilities at the country level, taking into account existing child nutrition, health, and survival conditions.

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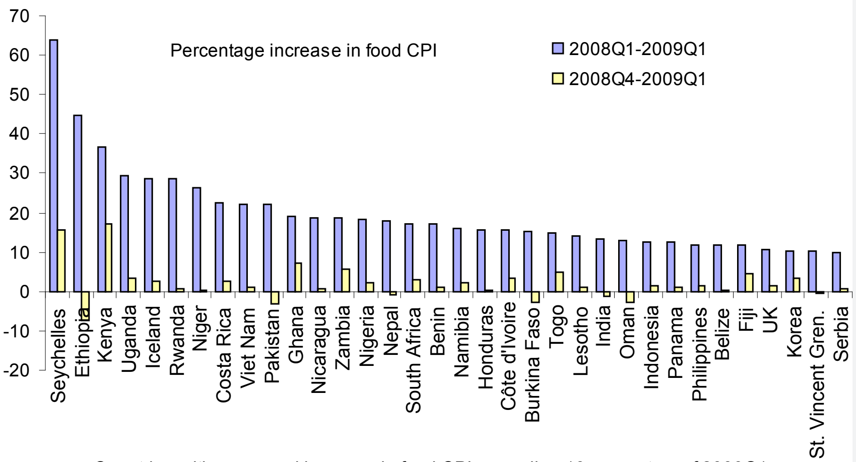
Figure 1. Local food prices remain high and continue to rise in many countries



Countries with an annual increase in food CPI exceeding 10 percent as of 2009Q1

Sources: ILO Laborsta database (May 2009) and UNICEF staff calculations.

HIGH AND, IN SOME CASES, RISING FOOD PRICES REMAIN A THREAT TO CHILD SURVIVAL IN LOW-INCOME COUNTRIES

The economic recession has dampened the inflationary pressures from the large food and fuel price increases in 2007-08 in most developed countries. World inflation in 2009 is expected to moderate to a low single digit level, while the international wholesale raw food price index has for the moment fallen back to its 2006 level since its decline in the second half of 2008. However, reports emerging from many low-income countries continue to highlight food insecurity among poor households, with rural areas being hardest hit in some countries and poor urban areas in others.[4] Using data regularly published by the ILO for over 100 countries, analysis confirms what is being witnessed in many developing countries in terms of the severity of the impact of continued rising food prices on households' purchasing power.

While the world raw food index had dropped 20 percent in one year by early 2009, local food prices, measured as part of the consumer price index basket, have instead risen more than ten percent over the same period (2008Q1-2009Q1) in 34 countries (out of 100 countries where food CPI data is available for 2009 - Figure 1). In ten countries, seven of which are low-income African countries, local food prices have increased more than 20 percent, reaching over 35 percent in Seychelles, Ethiopia, and Kenya. In addition, while a handful of countries' food prices have come down from their peaks in 2008, 27 countries continue to see their food prices rising, although the rate of increase has generally moderated.

Moreover, the effects of the cumulative price increases on households' purchasing power are shown to have been considerable in some countries over the past two years. Figure 2 compares the increases in local food prices with those in nominal per-capita GDP (a crude proxy for change in per capita income).[5] It shows that, over the past two years, in 24 countries with relatively high food inflation, economic growth has fallen short of generating sufficient income to cover the rising food cost for the population as a whole, implying reduction in household real income (or purchasing power) by 20 percent or more in Seychelles, Kenya, Nicaragua, Togo, and Fiji. In particular, poorer households in these countries are likely faring even worse, considering that they spend a greater proportion of their earnings on food and at the same time tend to earn less than those skilled and/or in formal sectors.[6]

In countries where per capita GDP growth has exceeded food price increases, some households' gross income may have increased enough to offset the food price increases. However, there is still a risk that the purchasing power of the poorer households is being eroded by the food price increases, as earnings tend to be accrued by higher income segments of the population. As such, the cumulative effects of rising food prices is particularly worrying for the nutrition security of children in poorer households, whose coping capacity had been weakened by the previous hikes in food and fuel prices.[7]

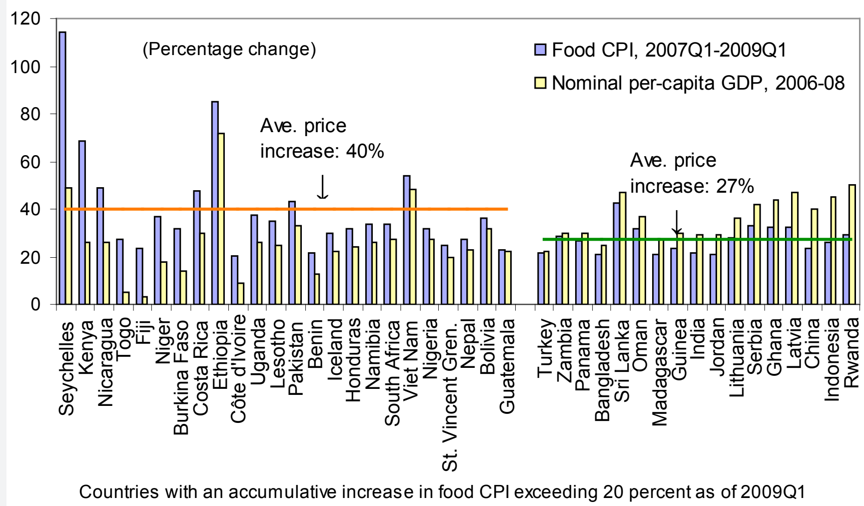
ECONOMIC SLOWDOWN IS HAVING A VISIBLE IMPACT ON HOUSEHOLD INCOME

The global economic crisis is not only making things significantly worse in countries facing continued high and rising food prices (mostly low income and some middle income countries), but is also quickly creating economic difficulty in others.

These difficulties are being felt through four main channels. First, a sharp contraction in world trade volume and commodity prices—projected by IMF to be 12 percent and 27-46 percent respectively—is leading to growth deceleration and in turn increased un- and under-employment. Secondly, remittances have decreased or stopped as a result of job losses or fewer working hours among international labour migrants, with the impact being felt much more strongly among the poor families left behind.[8] Thirdly, disruption in international capital markets has caused a sharp contraction in net private capital inflows to developing countries—a reduction of 70 percent from the 2007 peak level according to the World Bank—with decline in foreign direct investments having particularly adverse impact on employment. Finally, the prolonged weak economic conditions in advanced market countries are putting Official Development Assistance (ODA) under threat, limiting the scope for households to cope through public resource transfers.

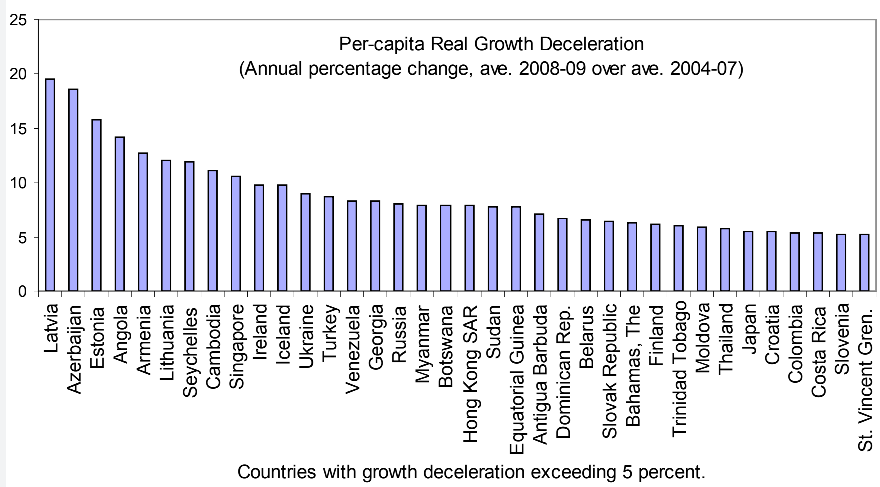
While these channels are affecting countries and their populations in different ways, they are invariably slowing countries' economic growth, weakening their current account balance, and, where combined current and capital account

Figure 2. Households' purchasing power is severly eroded in some countries



Sources: ILO laborsta database (May 09), IMF WEO database (Apr. 09), and UNICEF staff calculations.

Figure 3: Growth in countries heavily dependent on commodity/ tourism exports and capital inflows is expected to slow sharply

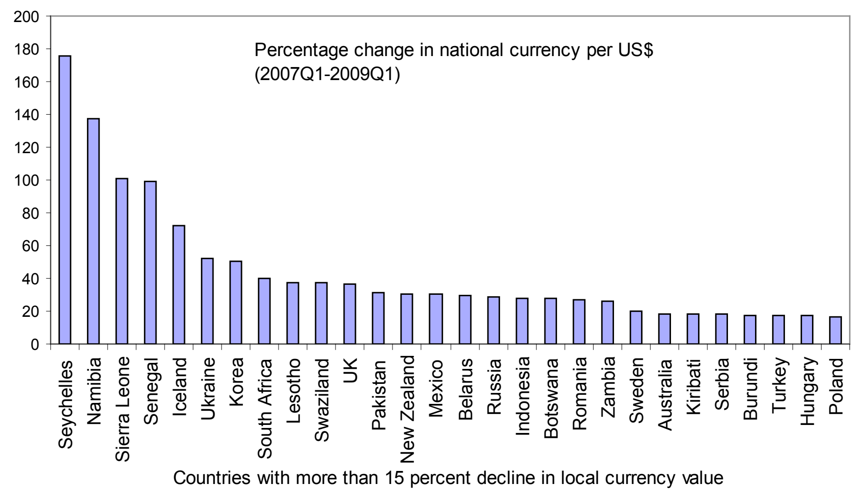


Sources: IMF WEO database (April 2009) and UNICEF staff calculations.

(i.e. balance of payments) difficulty is severe, causing local currency devaluations.

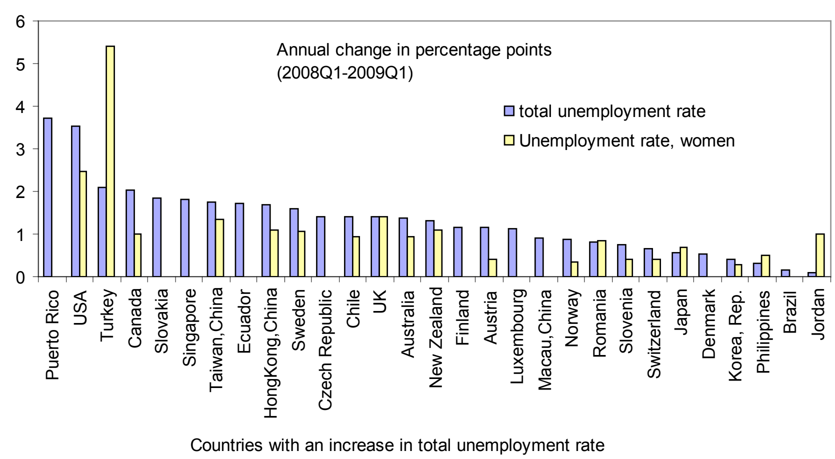
The latest IMF projections show that, although the crisis has emanated from the advanced markets, nearly half of all developing countries are expected

Figure 4: Balance of payment difficulties have led to sharp deterioration in some countries



Sources: IMF IFS database (June 2009) and UNICEF staff calculations.

Figure 5: Unemployment rate has risen in some countries and territories



Sources: ILO Laborsta database (May 2009) and UNICEF staff calculations.

to experience significant growth deceleration and current account deterioration (Figure 3). In particular, countries that have relied heavily on capital inflows (such as Latvia, Estonia, Lithuania), energy-exporting countries (such as Angola, Armenia, and Azerbaijan), and countries heavily dependent on tourism (such as Seychelles and the small-Caribbean island states) appear to be hardest hit. In these countries, the sharp economic slowdown is likely to lead to substantial losses of jobs and incomes.

In addition, the two waves of food and economic crisis have caused significant current and capital account deterioration, notably in several low income and import-dependent countries, and this has led to sharp depreciation of the local currency, fueling the increases in local consumer and food prices through higher import costs. Since 2007, 20 countries have lost over 20 percent of value in their currencies, of which Seychelles, Namibia, Sierra Leone, Senegal, and South Africa experienced dramatic depreciations exceeding 40 percent (Figure 4). In these countries, while the rate of depreciation has slowed, the full pass-through effects of such large losses in local currency values on local prices are likely to be felt at a later time.

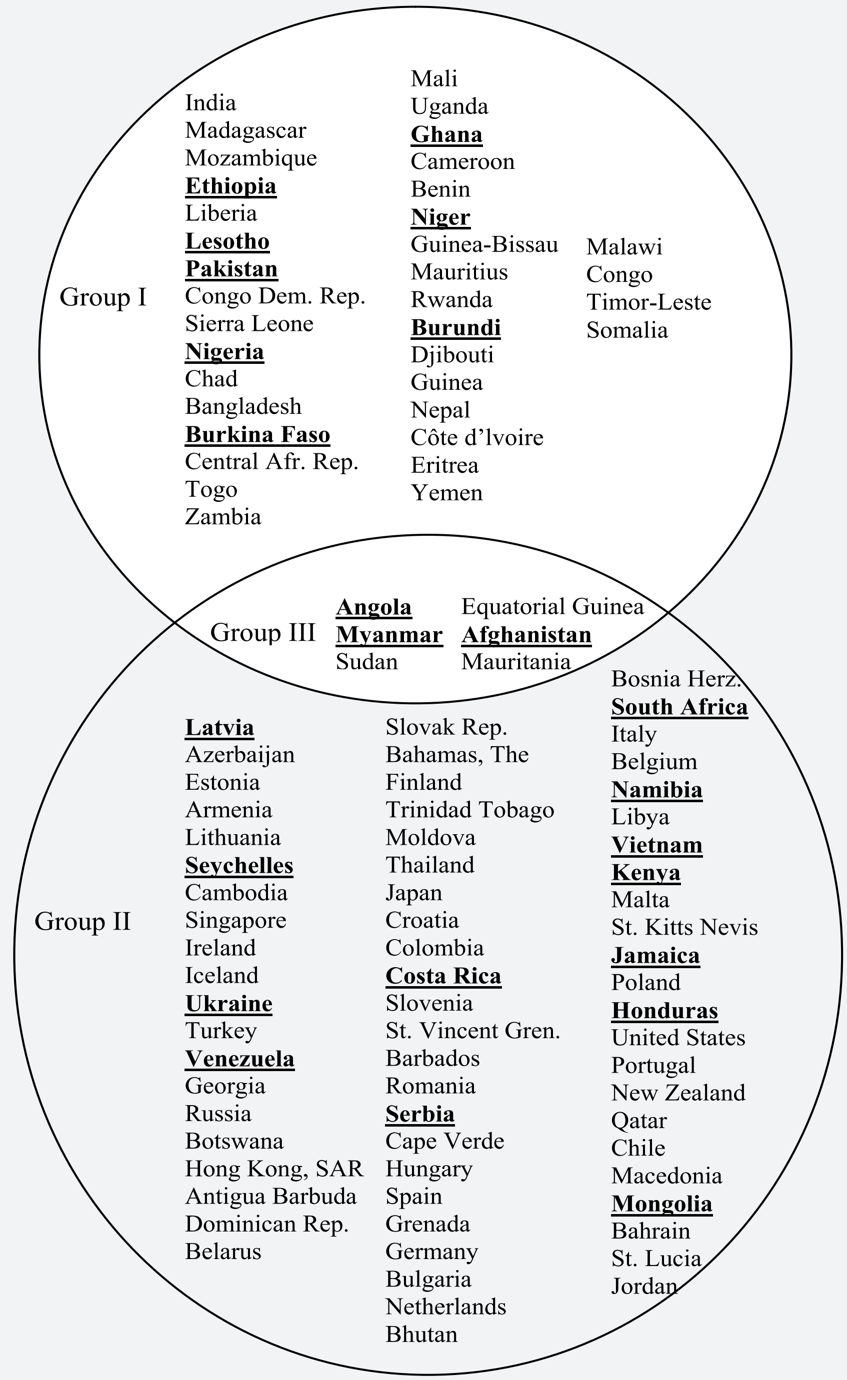
The latest unemployment data from ILO, available for 36 countries, allow a preliminary assessment of countries that have shown signs of labour market distress as of the first quarter of 2009 (Figure 5). Not surprisingly, the U.S. and advanced market countries have seen a sharp increase in the unemployment rate over the past year. Several developing countries are also suffering rising unemployment, although little can be said for most developing countries where up-to-date unemployment data is not available. Relatively high female unemployment rates also suggest that women are being harder-hit than men in some developing countries (i.e. Jordan, Turkey, Philippines, and Romania). The emerging signs of labour market distress is particularly worrying for poorer people, as unemployment will likely intensify the downward pressure on informal sector earnings and many of the poor are in 'vulnerable' employment and/or are considered as 'working poor' to begin with.

COUNTRIES ARE VULNERABLE IN DIFFERENT WAYS

The recent developments above highlight the increasing vulnerabilities in many low-income countries and some middle-income countries, where households continue to battle with the effects of high and rising food prices, while sharply slowing domestic growth is limiting their coping capacities through earnings. For other countries, notably many middle- and high- income countries, inflation pressures have largely subsided, but households are grappling with the challenge of rapidly worsening employment prospects as a result of significant growth deceleration and current account deteriorations. Regardless of the sources of risk, the level of existing child outcomes are a vital indicator to consider, as weak existing child nutrition, health, and survival conditions leave children particularly vulnerable to any further shocks.

Country vulnerabilities can be grouped according to the main sources of risk that each country faces (although clearly these vulnerability groupings will change as the crisis evolves and the full effects are manifested throughout the year). Figure 6 identifies countries that have high levels of existing child vulnerability (Group I) [9] and those being heavily impacted by the crisis through negative income shocks and with sharply decelerating per-capita growth and current account deterioration in 2008-09 (Group II)[10]. Countries in which children are at particularly high risk are those that fall into both categories (Group III). Countries that are underlined face continued high and rising local food prices, and in these children's vulnerabilities are likely to further increase as households' purchase power continues to decline.[11]

Figure 6: An Example of Country Vulnerabilty Groupings



Group I: countries that have high levels of existing child vulnerability.
Group II: countries heavily impacted by the crisis through negative income shocks.
Group III: countries falling into both Groups I and II.
Underlined countries face continued high and rising local food prices.

Sources: State of World Children (UNICEF 2009) and World Economic Outlook database (IMF 2009).

CONCLUSION

This update finds growing vulnerabilities in an large number of countries. A sobering picture and one that may yet get worse. While this update focuses on prices and earning prospects, social spending and services also play a role in helping households cope, and a worrying development in this regard is the considerable fiscal deterioration experienced in many countries.[12] As developing country governments have gradually depleted fiscal reserves and are facing tighter cash constraints—at a time that external credit and aid access is also becoming more difficult and uncertain—social spending cuts have already been announced in some countries and will likely be seen more widely as the year progresses. There is the additional risk of the global economic crisis becoming protracted as a result of delayed or ill-designed policy responses. For both reasons, the full effects of the crisis may yet to have been fully felt, with the situation likely to worsen throughout the year and into 2010. Accordingly, in-depth surveys, rapid assessments, and poverty and situation analyses at the country and regional levels are going to be crucial to monitor the price of food and other vital commodities as well as other economic and social developments.

REFERENCES

1. See example for World Economic Outlook (IMF 2009) and Global Development Finance (World Bank 2009).
2. The adverse impact of the food and fuel crisis in 2007-08 on nutrition and health is well documented in Thematic Report 2008 on Policy Advocacy and Partnerships for Children's Rights (UNICEF 2009). See also "The impact of the increase in food prices on child poverty and the policy response in Mali" (Innocenti Working Paper 2009-02).
3. UNICEF launched a Global Study on Child Poverty and Disparities in September 2007, which aims to influence the economic and social policies that affect resource allocations, and to make children a priority in national programmes addressing the poverty of families raising children.
4. According to the 2009 UNICEF report on "A Matter of Magnitude: The Impact of the Economic Crisis on Women and Children in South Asia," the number of people suffering from chronic hunger in South Asia has increased by about 100 million in the space of the past two years.
5. Given that the poor receives a smaller share of the national income, the gaps between the two columns may be seen as a low bound estimate on what the average change of poor households' real income or purchasing power has been since the end of 2006 in these countries.
6. The majority of farmers in developing countries are small- and medium-hold farmers, who are net food buyers on an annual basis. See discussions in The Hunger Series: Hunger and Markets, WFP 2009.
7. Recent reports on the impact of the Global Financial Crisis on Vulnerable Households in Ghana, Bangladesh, and Nicaragua (WFP 2009) found that the poor coped with the effects of the 2007-08 food and fuel crisis by cutting down non-food expenses, reducing food intake, and selling belongings, especially in rural areas.
8. Recent report on the Impact of the Economic Downturn on International Labor Migrants and Their Families in Vietnam (UNICEF 2009) revealed that the majority of international labor migrants of Vietnam experienced sharp reduction in income or stopped sending remittances to their families. They also borrowed to look for new work, putting them in a vicious cycle of indebtedness.
9. These are countries which have high measurements in at least two of the four social indicators (under-five mortality>100, wasting>10%, stunting>30%, and HIV prevalence>1%). Countries in each group are sorted vertically by per-capita GDP growth deceleration in a descending order.
10. These are countries with GDP per capita growth deceleration > 3% of GDP (or GDP per capita

growth <-3%) and current account deterioration >3% of GDP (or current account deficit/ GDP < -3%). Countries in each group are sorted vertically by per-capita GDP growth deceleration in a descending order. Data for Zimbabwe is not available.

11. These are countries with greater than 30 percent increase in food CPI over 2007Q1-2009Q1, or if food CPI is not available, over 30 percent increase in year-end CPI over 2006-2008.

12. The latest IMF projection in World Economic Outlook (2009) expects 5 percent of GDP deterioration in fiscal balance in emerging and developing countries, and 7 percent of GDP decline in advanced countries, which likely leads to further cuts in foreign aid.

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This Working Brief was submitted by Jingqing Chai of the Economic and Social Policy Unit of UNICEF's Division of Policy and Practice (DPP). For more information on this issue, or to share comments, please contact jchai@unicef.org. Working Briefs are prepared to facilitate greater exchange of knowledge and stimulate analytical discussion on social policy issues. Their findings, interpretations and conclusions do not necessarily reflect the policies or view of UNICEF. The designations in this publication do not imply an opinion on legal status of any country or territory, or of its authorities, or the delimitation of frontiers.

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