Forum: General Assembly 2

Issue: The question of global inflation and its impact on the world's poorest population

Student Officer: Charlotte Chen

Position: Chair (Charlotte Chen)

Introduction

As inflation continues to increase the cost of living, the world's poorest population is the one affected the most. For the world's poorest population, the majority of income already goes into daily essentials such as food. Therefore, when there's even a minute increase in price, the financial strains on them get even heavier, forcing them to often skip meals, delay essential medical treatments, and pull their kids out of school early to start working. Inflation also weakens income over time as the purchasing power of the same amount of money decreases, adding even more burden on those already struggling.

Recently, price spikes, or inflation, have been driven by several factors, including pandemic after-effects, supply-chain disruptions, conflicts in key food and energy regions such as Ukraine, extreme weather tied to climate change, and currency depreciation in many countries. Because many of these factors occurred at the same time, they magnified their effects, resulting in rising poverty, widening inequality, and increased pressure on public services. Overall, to combat the effects of inflation on the world's poorest population, nations would need to create more efficient safety nets, more resilient food and security systems, and international support that helps governments protect vulnerable communities without driving their government into debt.

Definition of Key Terms

Inflation

In economic terms, is generally defined as the sustained rise in the average price of goods and services over time. For example, if bread costs $1 now and inflation is 10% annually, next year it may cost about $1.10. In the issue, as inflation rises, the world's poorest population is affected as the amount of essentials they are able to buy with their wages decreases, creating a hefty financial burden on these populations.

Purchasing Power

Purchasing power refers to how many goods and services a unit of money can buy. When price rises substantially faster than income, purchasing power falls. For example, the same $5 buys much less food after a price surge.

Social Protection

Social protections are programs that protect people during economic hardships through cash transfer, food stamps, or school meals.

Consumer Price Index

This is a group of goods/services that are used to track price change over time. Examples include food, rent, transport, and utilities weighted to reflect typical household spending.

Stagflation

Stagflation is an economic condition where high inflation occurs simultaneously with slow, stagnant growth and rising unemployment. It is considered very challenging to resolve, as policies aimed at reducing inflation often worsen unemployment, while measures to boost growth and intensify inflation.

Monetary policy

Monetary policy is the process by which a country's central bank manages the supply and interest rates to change overall economic activity. Its main objective is usually to control inflation, stabilize currency, promote economic growth, and maintain employment.

Background Information

Drivers of Inflation

Currency Depreciation

When currency becomes comparatively weak to other currencies like the dollar or euro, imports become more expensive. This is very common in countries with high external debt or low foreign-exchange reserves.

Climate Shocks

Natural disasters like droughts, earthquakes, and storms often damage crops and infrastructure. Repeated occurrence of these disasters reduces harvest and hence, pushes up food prices, hitting rural and urban consumers alike.

Global Supply Chain Disruptions

Events such as the pandemic, geopolitical conflicts, or trade restrictions can slow down the movement of goods across the world, hindering global supply chains. As a result, many crucial industries such as that of semiconductors, medical supplies, and agricultural goods experience shortages that cause rise in prices.

Inflation affects on Poverty and Inequality

Wages and Employment

Inflation may cause prices to rise much faster than wages, especially in informal sectors where workers have little bargaining power. As Employers cut hours or delay payment, under inflation, the worker's real income falls.

Public Services

Just as people need public services the most during inflation, the cost for governments to provide these services increases, making it also difficult for governments to sustain these programs. Therefore, services decline just when people need them the most.

Major Countries and Organisations Involved

United States

Through its powerful currency and leverage on the global economy, the US has significant influence over global inflation. When US rates rise, many developing countries face higher borrowing costs and weaker currency, which makes essential imports like wheat, field, and medicine more expensive.

European Union

The European Union shapes food and energy markets through its farm policies, climate rules, and sanctions related to conflicts. Energy price swings in Europe can easily spread to global fuel and fertilizer markets, raising costs around the world. Meanwhile, EU protection programs support partner countries with cash transfers, school meals, and basic services when prices increase.

People’s Republic of China

As a major power in manufacturing and a large buyer of commodities, China has significant power over prices worldwide. Changes in Chinese demand for energy, metals, and food can move global markets, and many prices of goods depend on Chinese factory costs and shipping. China also provides fertilizers and essential goods; when exports slow or transportation costs rise, poorer importers can feel the impact faster.

Ethiopia

Ethiopia, a low-income country, is very vulnerable to inflationary pressures due to its reliance on imported goods. Rising global and energy prices can quickly bump up domestic costs, causing food insecurity and increased poverty levels. This is more apparent in rural communities where households already spend the majority of their income on necessities.

Viable Solutions

To help cope with inflating prices for the world’s poorest populations, international organizations can expand or create cash-transfer programs that automatically adjust to local food inflation using the consumer price index. This keeps the purchasing power of poorer families steady and ensures that food budgets are protected. Additionally, scaling up school meals and nutrition support through programs led by the World Food Program can prevent malnutrition, while targeted emergency food aid can reach the most vulnerable during shocks.

Beyond immediate relief, multilateral institutions such as the IMF and World Bank can provide emergency financing, debt relief, and low-interest loans to governments under inflationary stress. The G20 could revive debt service suspension initiatives for low-income countries, while the FAO and WFP can coordinate a “humanitarian grain corridors” to guarantee food supply during times of crises. The International Energy Agency(IEA) can organize strategic fuel reserve releases to stabilize energy markets, and WTO members could agree to limit export bans on essential staples like wheat and fertilizers.

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