

HALMUN



ECOFIN BACKGROUND GUIDE

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1. Letter from the Chairs

Dear Delegates,

Welcome to the Economic and Financial Committee! Our names are Alikseniia Martysheva and Tomiris Kamitova, and we are beyond thrilled to be your Dais for HALMUN 2022. We have more than four years of MUN experience, beginning as the delegate of Bangladesh in WHO at MIS MUN and the delegate of Ecuador in UNW at YOMUN. We aim to continue our education in socio-humanitarian disciplines like law and politics and are currently studying in an international school in Almaty, Kazakhstan.

We both enjoy participating in MUN conferences since active engagement in the process gives us a unique opportunity to develop versatile skills essential in the future – diplomacy, group collaboration, oratory, critical thinking, and research. From the delegates in this committee we expect that prior to the conference you choose a couple of those skills and concentrate on developing them throughout the discussions with other delegates.

We would like to take this occasion to welcome you to HALMUN 2022! Past events may have forced last year's conference to be held online, but we realised that online events provide delegates with more flexibility without stripping them of the offline format advantages. While it is a shame that we will not be able to meet and interact with you in person, we strongly believe that lasting memories and friendships over the years can be made. We really hope that one day HALMUN will hold a very special place in your heart!

As the Chair and Vice Chair, we seek to be as accessible and inclusive as possible for all delegates, regardless of prior MUN experience. Please feel free to contact us if you have any inquiries, worries, or requests. We pledge to help you as much as we can. Good luck, and take your time researching!

Head Chair: Alikseniia Martysheva 10martyshevaa@haileyburyalmaty.kz

Vice Chair: Tomiris Kamitova 11kamitovat@haileyburyalmaty.kz

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2. Committee Overview

a. History and Organisation

The Economic and Financial Committee (ECOFIN or C2) is the second of the six committees of the United Nations General Assembly (UNGA). The Committee was formed alongside the other General Assembly bodies during its founding in 1945, and was first convened in San Francisco on April 25th, 1945¹. ECOFIN is open for attendance to all 193 member states of the United Nations (UN) each of which has equal representation and voting rights².

ECOFIN primarily deals with global finance and economic matters, emphasising globalisation and interdependence. Through utilising all instruments available to it, the Committee seeks to (1) eradicate poverty, (2) finance and enhance sustainable development in urban and rural human settlements, including development of agriculture in order to provide food security and nutrition worldwide. The Second Committee at its seventy-sixth session will also consider issues relating to groups of countries in special situations, as well as the item on permanent sovereignty of the Palestinian people in the Occupied Palestinian Territory, including East Jerusalem, and of the Arab population in the occupied Syrian Golan over their natural resources³.

The Committee meets every year in early October and aims to finish its work by the end of November, though extensions are often granted until early to mid-December. The work is split into two main stages: (1) general debate, which lasts up to a week, and (2) action on individual items id est negotiations on draft proposals, lasting around four weeks. The Committee also meets annually in a joint meeting with the Economic and Social Council.⁴

The United Nations Environment Assembly of the United Nations Environment Programme (UNEP) and the Governing Councils of the three Rio Conventions (Biodiversity, Climate Change and Desertification) and of the United Nations Human Settlements Programme (UN Habitat) report to the General Assembly through C2.

C2 adopts about 35–45 resolutions, mostly by consensus. The majority of these are tabled by the Chair of G-77 and China, with a smaller number also tabled by individual States or a number of States⁵. Though resolutions adopted by the Committee do not have the binding forces over the member nations (apart from

¹ Kosmidis, Bill. "Research Binder Friday: Ecofin." *Best Delegate Model United Nations*, 9 Jan. 2016, bestdelegate.com/committee-guide-to-ecofin-economic-and-financial-committee/.

² "United Nations General Assembly." *Wikipedia*, Wikimedia Foundation, 5 May 2022, en.wikipedia.org/wiki/United_Nations_General_Assembly.

³ "United Nations, Second Committee, Economic, Financial, Main Body, Main Organs, General Assembly." *United Nations*, United Nations, www.un.org/en/ga/second/.

"United Nations Official Document." United Nations, United Nations, www.un.org/ga/search/view_doc.asp?symbol=A%2FC.2%2F76%2F1.

⁴ "United Nations General Assembly Second Committee." *Wikipedia*, Wikimedia Foundation, 17 Apr. 2022, en.wikipedia.org/wiki/United_Nations_General_Assembly_Second_Committee.

⁵ *A Practical Guide to the United Nations General Assembly*. www.unitar.org/sites/default/files/media/publication/doc/un_pga_new_handbook_0.pdf.

budgetary measures) and instead constitute recommendations, their weight is determined by the international community.

b. Recent Actions and Accomplishments

In December 2021, ECOFIN has adopted 37 resolutions and 2 decisions that aim at overcoming hindrances to development caused by the COVID-19 pandemic, climate change and continuous inequities. By a resolution on “International trade and development”, the Assembly emphasised the need to combat protectionism and rectify trade-distorting measures inconsistent with World Trade Organisation (WTO) rules. Adopting a resolution on “Commodities”, the Assembly called for action at the national, regional and international level to address excessive price volatility and support commodity-dependent developing countries in mitigating negative impacts. Addressing sustainable and equitable development, the Assembly adopted a resolution on “Ensuring access to affordable, reliable, sustainable and modern energy for all”, where relevant stakeholders are strongly encouraged to increase the global share of new, renewable energy for clean, low-emission, low-carbon climate-resilient and affordable energy to reduce the 12.6 million deaths each year due to environmental risks, especially air pollution⁶.

In December 2016, reaffirming the role of the Second Committee in promoting sustainable development, the General Assembly adopted 36 resolutions and 1 decision forwarded by that Committee. A resolution on “Permanent sovereignty of the Palestinian people in the Occupied Palestinian Territory, including East Jerusalem, and of the Arab population in the occupied Syrian Golan over their natural resources” was passed by the terms of which the Assembly demanded that Israel stop exploiting, damaging, depleting or endangering natural resources in that Territory. Further, it recognized the Palestinians’ right to claim restitution for damage, loss, depletion or endangerment of natural resources due to illegal measures taken by Israel and its settlers. The Assembly also adopted a resolution titled “Oil slick on Lebanese shores”, where it was considered that the oil slick had heavily polluted the shores of Lebanon and partially polluted Syrian shores and consequently had serious implications for the Lebanese economy. It reiterated its request to the Government of Israel to assume responsibility for prompt and adequate compensation to the Government of Lebanon for that damage as well as to other countries directly affected by the oil slick, such as Syria⁷.

In December 2015, ECOFIN took considerable steps to the development of least developed countries (LDCs) and middle-income countries (MICs). The General Assembly adopted a text on “Agricultural technology for development”, where it urged Member States, relevant United Nations organisations and other stakeholders to strengthen efforts to improve the development of sustainable agricultural technologies and their transfer and dissemination under mutually agreed terms to developing countries, especially LDCs. It also called upon Member States to mainstream gender into agricultural policies and projects, and to focus on closing the gender gap. The Assembly also adopted a text on “Development cooperation with middle-income countries” by which it called upon both developed- and

⁶ “General Assembly Takes Action on Second Committee Reports by Adopting 37 Resolutions, 2 Decisions | UN Press.” *United Nations*, United Nations, press.un.org/en/2021/ga12397.doc.htm.

⁷ “General Assembly Takes Action on Second Committee Reports by Adopting 37 Texts | UN Press.” *United Nations*, United Nations, press.un.org/en/2016/ga11880.doc.htm.

developing-country members of the WTO declaring themselves in a position to do so to realise the timely implementation of duty-free and quota-free market access on a lasting basis for all products originating from all LDCs⁸.

3. Topic Overview (“Tackling Global Inflation”)

a. Introduction

The topic for this year’s ECOFIN is “Tackling Global Inflation”. Before exploring this topic in greater detail, key concepts should be defined and distinctions should be made to avoid any baseline misunderstandings.

Inflation is the rate of increase in prices of a basket of goods and services over a given period of time. The most commonly used inflation indexes are the Consumer Price Index (CPI) and the Wholesale Price Index (WPI). The CPI is a measure that examines the weighted average of prices of a basket of goods and services which are of primary consumer needs. The CPI is calculated by taking price changes for each item in the predetermined basket of goods and averaging them based on their relative weight in the whole basket. The prices in consideration are the retail prices of each item, as available for purchase by the individual citizens. The WPI, on the other hand, measures and tracks the changes in the price of goods in the stages before the retail level⁹.

Inflation is commonly classified as either demand-pull or cost-push. Demand-pull inflation is caused by an increase in consumer demand for goods and services, outweighing their supply and therefore leading to a rise in prices¹⁰. Cost push inflation is caused by an increase in prices of factors of production, which leads to a decreased supply of goods and services relying on those inputs. Demand for the goods and services remains constant, outweighing their supply and inflating prices¹¹.

Deflation is the rate of decrease in prices of a basket of goods and services over a given period of time. Deflation can be demonstrated through the same indexes as inflation and can similarly have demand and supply-side causes. Disinflation is the decrease in the rate of inflation. Unlike inflation and deflation, which refer to the direction of prices, disinflation refers to the rate of change in the rate of inflation¹².

Stagflation refers to an economy characterised by high inflation, low economic growth and high unemployment. It occurs when there is a lack of supply pushing prices higher, but consumers are unable to increase their spending¹³.

⁸ “General Assembly Adopts 48 Texts in Total as It Takes Action on Reports of Its Second Committee | UN Press.” *United Nations*, United Nations, press.un.org/en/2015/ga11746.doc.htm.

⁹ Fernando, Jason. “What Is Inflation?” *Investopedia*, Investopedia, 11 Aug. 2022, www.investopedia.com/terms/i/inflation.asp.

¹⁰ White, Jeff. “Demand-Pull Inflation: Definition & Causes.” *SeekingAlpha*, Seeking Alpha, 27 May 2022, seekingalpha.com/article/4488432-demand-pull-inflation.

¹¹ “What Is Cost Push Inflation? Definition of Cost Push Inflation, Cost Push Inflation Meaning.” *The Economic Times*, economictimes.indiatimes.com/definition/cost-push-inflation.

¹² Kenton, Will. “Disinflation.” *Investopedia*, Investopedia, 1 June 2021, www.investopedia.com/terms/d/disinflation.asp.

¹³ Jackson, Anna-Louise. “Is the U.S. Economy Heading for Stagflation?” *Forbes*, Forbes Magazine, 26 July 2022, www.forbes.com/advisor/investing/stagflation/.

b. Historical Background

Inflation is a relatively new phenomenon, largely belonging to the 20th and 21st centuries. Before then, there were occasional long periods of mild inflation (last years of the Roman Empire, Tudor times and Napoleonic Wars in England). There were other occasions when there were bursts of rapid inflation (the American War of Independence in the 1780s, the French Revolution in the 1790s, the American Civil War in the 1860s). However, widespread and high inflation belongs almost entirely to the last 100 years or so¹⁴.

When countries adhered to a metallic standard (i.e. money was determined in metal, usually gold or silver), it was difficult or even impossible for inflation to develop. The supply of money could not grow fast enough, but when such a standard was abandoned, as it was in Britain during the Napoleonic Wars, inflation appeared¹⁵.

Extreme examples of inflation have almost invariably been found in countries during civil war, where the established governments were still trying to preserve peace among opposition. Spending to fight resistance combined with low tax returns led to huge budget deficits, which left governments to borrow and when the possibilities for that were exhausted, money was printed. Money growth expanded at a rate that precluded any possibility of output growth matching it and inflation followed.

There were several examples of hyperinflation in the early 1920s – in Russia, Poland, Hungary, Austria and Germany. Then in the 1940s, Hungary, Greece and China all experienced hyperinflation. After 1950, examples can also be found – in countries such as Indonesia in the 1960s, Serbia in the 1990s, much of Latin America and elsewhere in between these dates. All of these were cases of civil war¹⁶, sometimes following a world war.

The daily inflation rate of Hungary (1945-46) reached 207%, with prices doubling every 15 hours. World War II had a devastating effect on Hungary's economy, leaving half of its industrial capacity destroyed and its infrastructure in shambles. This reduction in productive capacity arguably created a supply shock that sparked the beginning of Hungary's hyperinflation.

Rather than try to dampen inflation by reducing the money supply and increasing interest rates (policies that would have weighed down an already depressed economy) the government decided to channel new money through the banking sector towards entrepreneurial activities. The hope was that this would help to restore productive capacity, infrastructure, and economic activity¹⁷.

¹⁴ Capie, Forrest. "Conditions in Which Very Rapid Inflation Has Appeared." Carnegie-rochester Conference Series on Public Policy. (1986): 115-168. Print.

¹⁵ Authors , et al. "How Has Inflation Been Fought in the Past?" *Economics Observatory*, 12 Apr. 2022, www.economicsobservatory.com/how-has-inflation-been-fought-in-the-past.

¹⁶ Authors , et al. "How Has Inflation Been Fought in the Past?" *Economics Observatory*, 12 Apr. 2022, www.economicsobservatory.com/how-has-inflation-been-fought-in-the-past.

¹⁷ Johnston, Matthew. "Worst Cases of Hyperinflation in Modern History." Investopedia, Investopedia, 9 June 2022, www.investopedia.com/articles/personal-finance/122915/worst-hyperinflations-history.asp.

The plan was a success in the long-run, as much of Hungary's pre-war industrial capacity was restored by the time price stability finally returned, however in July 1946, inflation in Hungary peaked at a staggering 41,900,000,000,000,000%. On 1 August 1946, the government adopted a radical stabilisation programme that included drastic tax reform, the recovery of gold assets taken abroad, and the introduction of a new currency, the forint, backed by gold reserves and world currencies¹⁸.

Other previously seen causes of hyperinflation are the consequences of government policies followed by various supply shocks. This occurs when supply diminishes and prices start to rise. As a result the quantity demanded reduces and the government is responsible for either providing consumers with an opportunity to adjust to the higher prices, or stimulating supply to lower the prices. To proceed with either option, the government needs extended spending, which becomes difficult to finance with reduced tax returns from decreased production and consumption. The government runs into a budget deficit and often debt, leaving it to resort to printing notes.

In the late 1990s, the Zimbabwe government introduced a series of land reforms. This involved redistributing land from the existing white farmers to black farmers, but, with little experience, the new farmers struggled to produce food, and there was a large fall in food production. The economy experienced a sharp fall in output (both agricultural and manufacturing), and this caused a collapse in bank lending.

The government began increasing the rate at which they were printing money, thus, increasing the money supply. This started with printing money to finance a war in the Congo and also to increase the salaries of officials and soldiers, but, as the economic crisis worsened, printing money became a very short-term solution to try and placate people relying on government pay.

With the economy in decline, government debt increased. To finance the higher debt, the government responded by printing more money, which caused more inflation. Inflation meant bondholders saw a fall in the value of their bonds and so it was hard to sell future debt.

Due to the decline in output, there were shortages of goods, which pushed prices up. Nominal demand was rising because people had more paper money. This combination of more money chasing fewer goods caused very rapid rises in price.

Ironically, this shortage of supply was made worse by the imposition of price controls. Price controls set the price for basic goods (the idea was to keep prices affordable and stop inflation). However, as the cost of production increased faster than prices, suppliers had little incentive to supply the goods (at least through the official channels). This made the shortage worse and the actual inflation worse¹⁹. By November 2008, inflation had reached 79,000,000,000% a month.

¹⁸ Uchoa, Pablo. "How Do You Solve Catastrophic Hyperinflation?" *BBC News*, BBC, 21 Sept. 2018, www.bbc.com/news/business-45523636.

¹⁹ Pettinger, Tejvan, et al. "Hyper Inflation in Zimbabwe." *Economics Help*, 10 Dec. 2019, www.economicshelp.org/blog/390/inflation/hyper-inflation-in-zimbabwe/.

c. Current Situation

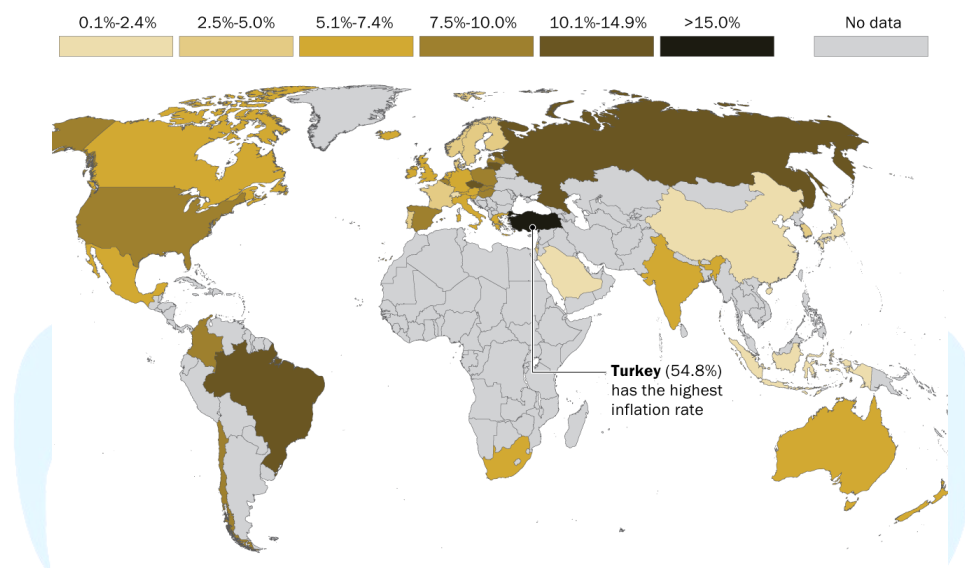


Fig.1 “Where inflation is highest and lowest across 44 countries; Annual inflation rate, first quarter 2022”²⁰

In 37 of the 44 nations, the average annual inflation rate in the first quarter of this year was at least twice what it was in the first quarter of 2020. In 16 countries, first-quarter inflation was more than four times the level of two years prior. Among the countries studied by Pew Research Centre, Turkey had by far the highest inflation rate in the first quarter of 2022 – 54.8%. Turkey has experienced high inflation for years, but it rapidly increased in late 2021 as the government cut interest rates instead of raising them.

The U.S. inflation rate has almost quadrupled over the past two years, averaging just below 8.0%, however the country where inflation has grown fastest over the past two years is Israel. The annual inflation rate in Israel had been below 2.0% every quarter from the start of 2012 through mid-2021; in the first quarter of 2020, the rate was 0.13%. After a relatively mild recession, Israel’s CPI began rising quickly: It averaged 3.36% in the first quarter of this year, more than 25 times the inflation rate in the same period in 2020. Besides Israel, other countries with very large increases in inflation between 2020 and 2022 include Italy, which saw a nearly twenty-fold increase in the first quarter of 2022 compared with two years earlier (from 0.29% to 5.67%); Switzerland, which went from -0.13% in the first quarter of 2020 to 2.06% in the same period of this year; and Greece, a country that experienced several years of low inflation and even deflation, underwent a rapid change in prices with inflation reaching 7.44% in this year’s first quarter – nearly 21 times what it was two years earlier (0.36%).

²⁰ “Where Inflation Is Highest and Lowest across 44 Countries.” Pew Research Center, Pew Research Center, 14 June 2022, www.pewresearch.org/fact-tank/2022/06/15/in-the-u-s-and-around-the-world-inflation-is-high-and-getting-higher/ft_22-06-08_globalinflation_1/.

Most countries show variations on the same basic pattern: relatively low levels before the SARS-CoV-2 pandemic struck in the first quarter of 2020; flat or falling rates for the rest of that year and into 2021, as many governments sharply reduced most economic activity; and rising rates starting in mid- to late 2021, as the world struggled to get back to something approaching normal. Nevertheless, Russia's inflation pattern became an exception – inflation rates rose steadily throughout the pandemic period before surging in the wake of its invasion of Ukraine. In Indonesia, inflation fell early in the pandemic and has remained at low levels. Similarly, Japan has continued battling its steadily low inflation rates. Most abnormally, in Saudi Arabia, the pattern was reversed: inflation surged during the pandemic but then fell sharply in late 2021.²¹

i. SARS-CoV-2

In addition to bringing devastating casualties worldwide, the spread of SARS-CoV-2 also caused an economic shock. Due to a global lockdown, the borders had to be closed and numerous establishments went out of business, including factories, enterprises and various facilities, ultimately, leading to a rise in unemployment. The Personal Consumption Expenditure Price Index (PCE) measures the average level of prices; it's the current price across the entire spectrum of goods and services or just the price for goods and services. In 2020 the price level fell on average by 0.5%²² from February to April 2020 before starting to rise in May.²³

Energy prices increased by 11% between December 2020 and March 2021 in 2021²⁴. The collapse of oil prices in the spring of 2020 fell drastically due to COVID-19's earlier events. This was the biggest drop in energy inflation since the 2009 financial crisis. In the spring of 2021, the significant decline impacted the energy inflation rate year over year. The World Bank reports that between January 2020 and December 2021, energy inflation increased by 50%. Ultimately this includes the increase in coal, oil and natural gas prices.

Supply-side during the COVID-19.

Examples of supply-side declining during COVID-19: When COVID struck, meat production around the world slowed down. The operation scale decreased, the cost of production increased, and labour shortage was impacted, creating an imbalance between demand and supply²⁵. As the production cost for goods and services increased during the pandemic, businesses would most likely not produce them due to the

²¹ DeSilver, Drew. "In the U.S. and around the World, Inflation Is High and Getting Higher." Pew Research Center, Pew Research Center, 15 June 2022,

www.pewresearch.org/fact-tank/2022/06/15/in-the-u-s-and-around-the-world-inflation-is-high-and-getting-higher/.

²² "Pandemic Prices: Assessing Inflation in the Months and Years Ahead." *The White House*, The United States Government, 30 Nov. 2021,

<https://www.whitehouse.gov/cea/written-materials/2021/04/12/pandemic-prices-assessing-inflation-in-the-months-and-years-ahead/>.

²³ Kenton, Will. "Price Level." *Investopedia*, Investopedia, 19 May 2021, https://www.investopedia.com/terms/p/price_level.asp.

²⁴ Rubene, Ieva, and Gerrit Koester. "Recent Dynamics in Energy Inflation: The Role of Base Effects and Taxes." *European Central Bank*, 6 May 2021, www.ecb.europa.eu/pub/economic-bulletin/focus/2021/html/ecb.ebbox202103_04~0a0c8f0814.en.html.

²⁵ "Pandemic Prices: Assessing Inflation in the Months and Years Ahead." *The White House*, The United States Government, 30 Nov. 2021, www.whitehouse.gov/cea/written-materials/2021/04/12/pandemic-prices-assessing-inflation-in-the-months-and-years-ahead/.

cost-push inflation. Cost-push inflation is when the inflation is caused by an increase in the price of inputs. The supply of beef was reduced, and the price for a pound of steak increased by 18%.²⁶ In early April of 2020, meat factories started to shut down due to the virus's rapid spread among the workers. Harvesting and shipping meat was complex due to a decrease in the workforce. Purchasing and transporting live animals across the country was complicated due to restrictions in transportation. Another reason there is a vast supply chain disruption is that China has shut down large production cities. For years China was one of the key countries behind the world economic growth, but when COVID struck, China had to slow down its economic productivity. According to the Fitch Ratings, city lockdowns in Shanghai and Beijing disrupted the production of the global supply chain. China placed pressure by imposing high export restrictions on goods such as fertilisers and steel.

As more people got their vaccination, high demand outstripped supply. Examples of this might be eating out in a restaurant or staying at a hotel. During the pandemic, people had a high demand for eating out in restaurants or consuming new technology, yet, few options were available as most restaurants were closed or operated at a particular hour, and technology production was temporarily on hold for health safety. As the situation continued, businesses raised their price for the products. The price of almost everything increased during the pandemic: milk became 15% more expensive on average, eggs 25% more expensive on average, and bread 20% more expensive.

Demand-side during the COVID-19

On the demand side, public health restrictions were imposed, and individual health conditions reduced the total real consumption at the early stage of the pandemic. The consumption of services and goods behaved differently.²⁷ Consumption of services decreased dramatically at the start of the epidemic; however, as the world started recovering and the vaccines and travel restrictions were eased, demand for services immediately increased²⁸. But the consumption of goods increased right at the start of the pandemic. However, as the year pandemic continued, the production of goods slowed down due to increased production costs and the low efficiency of the workers. However, people still were in demand for basic necessities.

ii. War in Ukraine

Following the Russian invasion of Ukraine in 2022, there has been an increase in global inflation, with food and energy prices setting new highs. Oil prices were high before the invasion due to the COVID-19 pandemic's emergence, but Vladimir Putin's invasion of Ukraine has resulted in several issues, including increasing oil prices. The West imposed financial sanctions, making it challenging to have Russian oil transactions through Western Banks. The challenge is that Russian oil is 10% of the global oil supply. Oil

²⁶ Ijaz, Muawuz, et al. "Meat Production and Supply Chain under Covid-19 Scenario: Current Trends and Future Prospects." *Frontiers*, Frontiers, 1 Jan. 1AD, www.frontiersin.org/articles/10.3389/fvets.2021.660736/full.

²⁷ Taylor, Adam. "5 Problems behind the Global Cost-of-Living Crisis." *The Washington Post*, WP Company, 24 May 2022, www.washingtonpost.com/world/2022/05/20/cost-living-inflation-uk-global/.

²⁸ Soyres, Francois de, et al. "Demand–Supply Imbalance during the COVID-19 Pandemic: The Role of Fiscal Policy." *CEPR*, 1 Mar. 2022, cepr.org/voxeu/columns/demand-supply-imbalance-during-covid-19-pandemic-role-fiscal-policy.

currently costs about \$100 per barrel. As they deal with rising prices, Ukraine's bordering countries' humanitarian efforts for refugees struggle with a hunger crisis. The Monthly Food Price Index: according to the UN Food and Agriculture Organisation, food prices nearly increased by 34% over the past year in 2021. Statistics indicated that between February and March, there was an increase in food prices of 12.6%.²⁹ Concluding the price levels reached the highest level since its inception in 1990. Prices in certain nations, like Britain, are growing by 5.4 percent, and in 19 EU nations, they are up by 5.1 percent. The global concern over inflation gives rise to more reports, such as the World Economic Outlook from the IMF, published in April 2022³⁰, which predicted that global inflation would reach 8.7 percent in developing nations and 7.5 percent in wealthy countries—accompanied by forecasts that a vast number of people will live in poverty.³¹

iii. Climate Change

Weather changes are increasingly raising the cost of living. Due to climate change, draughts and storms occur more frequently, thus damaging the crops. This ultimately makes the food we buy more expensive. Climate change is no longer just an environmental issue; it is a huge economic problem. According to the statistics provided by Bob Keefe in NOAA, weather disasters will cost the US more than \$145bn in 2021; there was a 50% increase from last year³². According to the statistics provided by Bob Keefe in NOAA, weather disasters will cost the US more than \$145bn in 2021; there was a 50% increase from last year. Climate change and natural disasters adversely affect economies worldwide; for example, floods can destroy the harvest. This would affect the supply of grain and other crops. If there is a supply shortage, the prices increase. Capital assets, schools, infrastructure, roads and dams are lost during a natural disaster. There is a decrease in economic activity due to loss of life and the destruction of education infrastructure. In general, over the last five years, the US spent more than \$750bn on climate-related issues, and the prediction was made that the total cost will exceed 2.195tn. A reinsurance firm Swiss Re reported that climate disaster could potentially cost the US economy 10% of its GDP by 2050. And NCA (National Climate Assessment) predicted that all the rising temperatures around the world with extreme heat waves would severely ruin the economic growth of many countries, and there would be a decrease in productivity by \$221bn by 2090.³³ Temperature shock tends to affect the energy supply and reduce productivity. This is a significant concern for the agricultural sector. The primary sector (agriculture) is sensitive to climate change as the average rainfall, and temperature rise will determine crops' global output and distribution. With extreme heat waves, workers would be discouraged from harvesting,

²⁹ P. Scott Shearer | Apr 15. "Record World Food Prices, U.S. Inflation Highest since 1981." *National Hog Farmer*, 15 Apr. 2022, www.nationalhogfarmer.com/news/record-world-food-prices-us-inflation-highest-1981.

³⁰ "World Economic Outlook, April 2022: War Sets Back the Global Recovery." *IMF*, <https://www.imf.org/en/Publications/WEO/Issues/2022/04/19/world-economic-outlook-april-2022>.

³¹ "Inflation Bites Hardest in Developing World as Ukraine War Raises Prices." *The Guardian*, Guardian News and Media, 29 Apr. 2022, www.theguardian.com/global-development/2022/apr/29/inflation-bites-hardest-in-developing-world-as-ukraine-war-raises-prices.

³² "Climate Crisis Is 'Battering Our Economy' and Driving Inflation, New Book Says." *The Guardian*, Guardian News and Media, 11 June 2022, www.theguardian.com/business/2022/jun/11/climate-crisis-inflation-economy-climatenomics-book.

³³ "Climate Crisis Is 'Battering Our Economy' and Driving Inflation, New Book Says." *The Guardian*, Guardian News and Media, 11 June 2022, <https://www.theguardian.com/business/2022/jun/11/climate-crisis-inflation-economy-climatenomics-book>.

ultimately causing productivity to fall. A decrease in the supply of necessities causes the prices to go up.

³⁴

Right now, due to the significant loss of homes and the destruction caused by climate change, such as wildfires and storms, the housing construction cost has increased. There is an increase in demand.

However, the supply cannot follow.

With increasing claim disasters, a widespread phenomenon, 'Go Green, ' occurred with people starting to use renewable technologies and practising more environmentally friendly decisions. However, with the inflation rate being the highest, Greenflation occurred. Greenflation is when the prices of goods in the green energy sector is increased, the rise in prices for essential minerals that are used to make renewable technologies. For example, the increase in the price of lithium and cobalt has doubled since 2021.

Aluminium, copper and nickel had a rise of 25% to 40%. ³⁵This is unfortunate as Cobalt is used in electronic devices and batteries. Cobalt can be found in many products, from aircraft engines to lithium-ion batteries. Cobalt plays a crucial part in producing wind turbines and renewable biogas technology. Lithium is ideal for use in batteries hence giving the ability to store large amounts of energy, which is crucial to a renewable energy

d. Case examples: How global inflation affected countries around the world?

i. Turkey

Turkey's inflation has been struggling to improve ever since the pandemic era. This is mainly due to President Erdogan's unorthodox economic policies - refusing to let interest rates go up. This philosophy contradicts the advice of modern economists and has been subjected to endless criticism from the Turkish people. It appears that Erdogan is adamant with his decision and is refusing to change. One of the reasons for why Erdogan is sticking with this mentality - in spite of the inflation - is expected revenue from tourism. This profit stream cannot be taken for granted, especially in the volatile age of COVID.

ii. Spain

When COVID-19 pandemic occurred, Spain's economy had a sudden rise in inflation. Mainly there was an increase in electricity and energy prices. In 2021 between February and October inflation surged from -0.1% to 5.4%. As tourism is one of the primal income sources for the Spanish government and the newly implemented travel restrictions, Spain's economic growth suffered. According to the Spanish Statistical Institute (INE) as of now Spain's inflation rate hits 10.8%, it's the highest it's been in 38 years. INE stated that there is a rise in electricity prices, petrol food and alcoholic and non-alcoholic drinks, there was 11% annual increase in these items. The supply side factors in the situation are behind as there is rising in the price for natural resources due to the pandemic: the mental index increased by 26%, food index increased by 14.4 and energy prices rose to 35%. During the pandemic Spain's supply side for

³⁴ Mukherjee, K., and B. Ouattara. "Climate and Monetary Policy: Do Temperature Shocks Lead to Inflationary Pressures? - Climatic Change." *SpringerLink*, Springer Netherlands, 10 Aug. 2021, <https://link.springer.com/article/10.1007/s10584-021-03149-2>.

³⁵ "What Is Greenflation and Its Impact on Green Energy Stocks?" *Finology Blog - Latest Updates & News on Finance and Legal in India*, Finology Blog, <https://blog.finology.in/economy/what-is-greenflation>.

technology contracted. The low productivity is the result of the rising prices in natural resources and the underinvestment. This was a dilemma for the country as the demand for goods increased in 2020.

iii. Sri Lanka

With rising inflation and lack of foreign currency reserves, in Sri Lanka movement to bring down the government started. As the government struggled to import food, fuel and medicine to the country, Sri Lanka is facing the worst financial situation ever since they got their independence as resources become more scarce. As reported by CNBC, in the next two months the inflation rate in Sri Lanka will reach about 70%. Compared to 2021 the food inflation in June reached 80.1%. Households are experiencing power cuts up to eight hours daily, exams being cancelled and newspapers closing down due to the government not being able to afford the paper and print them. The officials have stated that there is currently a medical crisis as pharmacies run out of medicine and drugs. The national CPI increased in May of 2022 was 45.3% which was a significant rise compared to 33.8% in April. As Sri Lanka is facing a major economic crisis: foreign debt, fuel shortages, the president Gotabaya Rajapaksa fled the country just after being forced to resign, sparking protests over the country.

iv. Greece

Greece experienced a massive increase in inflation. Fuel prices, consumer goods and services have risen, causing an economic burden on households. As the government implements a higher interest rate, this threatens the Greek economy as the public debt will be high in 2022. Greece's inflation rate will return to the level it was in 1994. In April, the inflation rate was 10.2%. Increase in price for: natural gas 122.6%, electricity 88.8%, heating oil 65.1%, fuel and lubricants 29%, ferry tickets 17.7%, hotels 16.1% and airline tickets 15.8%. In addition, food products also had a significant price increase: 14.1% for meats, 13.8% for vegetables, 11.7% for dairy products, 10% for bread, and 6% for coffee.

The evidence shows that rapid inflation decreases consumer confidence as the country has been going through a recession for nearly a decade. According to the IOBE (Foundation for Economic and Industrial Research), consumer confidence has decreased and has been lowest since 2017. In April the index fell from -51.4 to -55.3. In April, the industry rate also fell from 117.1 points to 108.8 points. The purchase made by consumers was low, with the prediction of 64% of consumers making less spending in 2022. On May 1, 2022, the government increased the minimum monthly wage to 50 euros, 713 euros higher than the previous value, 663 euros. This is a 7.5% increase in pay with a daily wage increase from 29.62 euros to 31.85 euros. The cost of living is still not entirely covered by the minimum wage due to growing fuel, electricity, and food prices.

As one of the key factors in the nation's economic growth, the government is currently working to revive tourism. The quarantine and the Covid reduced tourism's contribution to economic growth to 12.6%. The goal is to restart tourism while implementing a thorough recovery. Businesses and households associated with tourism will gain from this.³⁶

³⁶ Peter. "Greece Economy Briefing: The Rapid Rise of Inflation and Its Impact in the Greek Economy." *China*, 30 June 2022, <https://china-cee.eu/2022/05/24/greece-economy-briefing-the-rapid-rise-of-inflation-and-its-impact-in-the-greek-economy/>.

4. Questions to be Considered

- How does global inflation impact domestic and foreign political affairs of each country? What can the international community undertake to inhibit deteriorating effects?
- What multilateral and international laws, treaties, agreements, and organisations are influencing the ways in which countries battle inflation?
- How does globalisation impact patterns of inflation in interconnected countries?
- What instruments are available to enhance the recovery of most affected industries and sectors in the post-pandemic era?
- Which socio-economic region requires foremost address?

5. Suggested Reading

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