



Photo: Ion Buga/UNDP, Moldova

MOLDOVA: POTENTIAL IMPACTS OF INCREASED FOOD AND ENERGY PRICES ON POVERTY AND VULNERABILITY



Moldova: Potential impacts of increased food and energy prices on poverty and vulnerability

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The current scenario of increased food and energy prices and the possibility that it will persist or worsen throughout the year because of the war in Ukraine threatens household welfare in Moldova. Under the food and energy inflation levels recorded in February 2022 (23% and 29.4% increase in prices, respectively), the number of people living in poverty could increase by about 250,000 people. Under a more extreme scenario equivalent to twice those levels of inflation, the increase in the number of poor people could reach up to 550,000.

Context

The development impacts of the war in Ukraine extend regionally and globally. Some of the transmission channels to countries in Europe and Central Asia are the natural gas import dependency and disruptions in international trade, wheat imports, and income from remittances. This brief aims to assess the potential impact of the war in Ukraine on household welfare in Moldova, in particular with regard to increased food and energy prices. Moldova is entering the crisis with an elevated inflation rate. Inflation was 18.5% in February 2022, with food and utility (energy) inflation reaching 23% and 29.4%, respectively. Inflation is likely to remain high given the increased global prices of commodities like wheat and cereals and Moldova's natural gas dependency on Russia. We present estimates of the magnitude of potential increased expenditures at the household level and estimates of the corresponding increases in poverty and vulnerability under two scenarios of inflation.

Analysis and assumptions

First, we determine a benchmark of household welfare in 2022 had the crisis not occurred. Following well-established approaches, we project forward the distribution of household per capita income and consumption to 2022 using the GDP per capita growth rate over 2020-2022 derived from the IMF World Economic Outlook Database as of October 2021, reflecting the expected growth in the absence of the war in Ukraine and subsequent crisis. This projection accounts for the [empirical regularity](#) that about 85% of the growth in GDP per capita is passed through to households, as well as for annual demographic changes. The incidence of poverty in the country, as measured with the \$5.50-a-day poverty line (PPP 2011) is estimated at 14% of the population in 2020 (up from 10.5% in 2019 as a result of the pandemic-induced contraction), and, based on the abovementioned projections, such incidence would have declined in 2022 by 3 percentage points in the absence of the crisis, reaching 11% of the population.

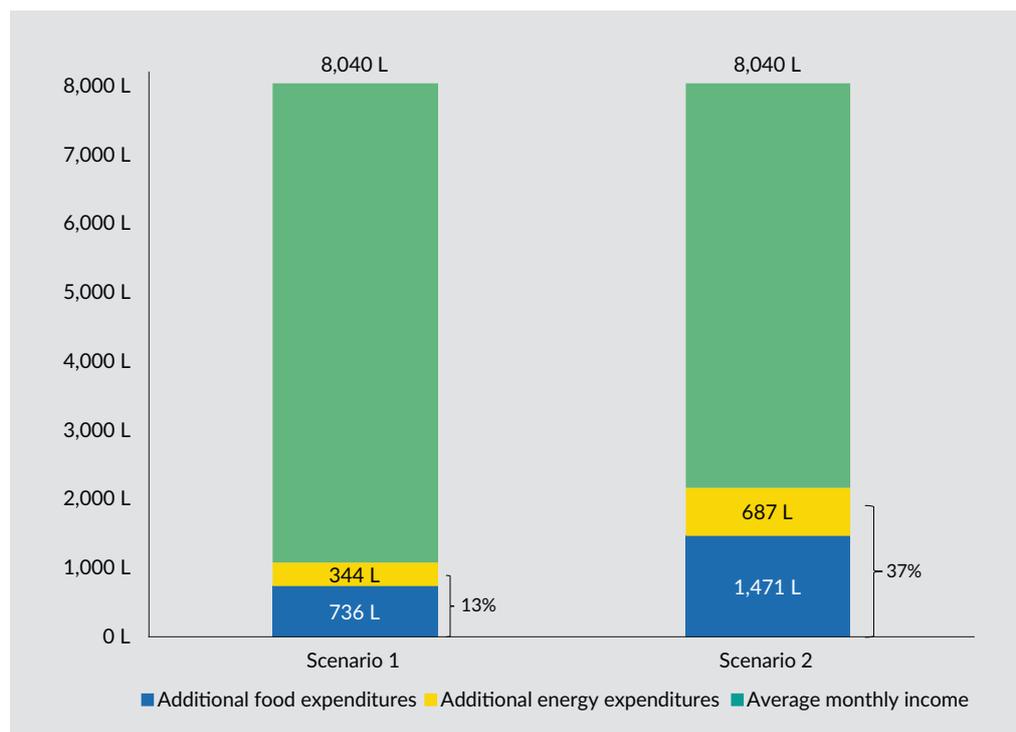
Second, to measure the potential changes in poverty and vulnerability-to-poverty in 2022 induced by increased food and energy prices, we simulate two scenarios of higher household expenditures in food and utilities (energy) resulting from high inflation. The **first scenario** assumes that the high levels of inflation recorded in February 2022 will not be transitory and will persist throughout the year because of the armed conflict. Even though the latter did not unfold until late February, prices were already high in Moldova during that month: food and utilities prices were up by 23% and 29.4% with respect to the levels observed in February 2021. The high prices in utilities were mostly driven by increased prices in fuels and gas (35.4% and 31% inflation, respectively).

In a **second scenario** we assume more extreme levels of inflation: twice the size the levels of the first scenario (i.e., a 46% increase in food prices and 58.8% increase in utilities prices). This is consistent with possible increases in food and energy prices in the case of more severe disruptions. For instance, natural gas supply prices have [more than doubled](#) from March to April and are expected to continue rising. While it is unlikely that the second scenario will persist throughout the year, it can be informative of the short-term impacts of an extreme price spike on vulnerable households.

Potential outcomes in poverty and vulnerability rates

The price spike in food and utilities would represent additional household expenditures equivalent to 13% of households' income, on average, under scenario 1 and 37% under the more severe scenario 2 (Figure 1). The largest increase in these scenarios is driven by food expenditures. With inflation levels of 23%-46% and 29.4%-58.8% (scenarios 1-2), the average household would have to spend an additional 736-1,471 L on food and 344-687 L in utilities every month to maintain their consumption levels.

Figure 1. Additional monthly expenditures in food and energy under two scenarios and average household income (L and % of household income)



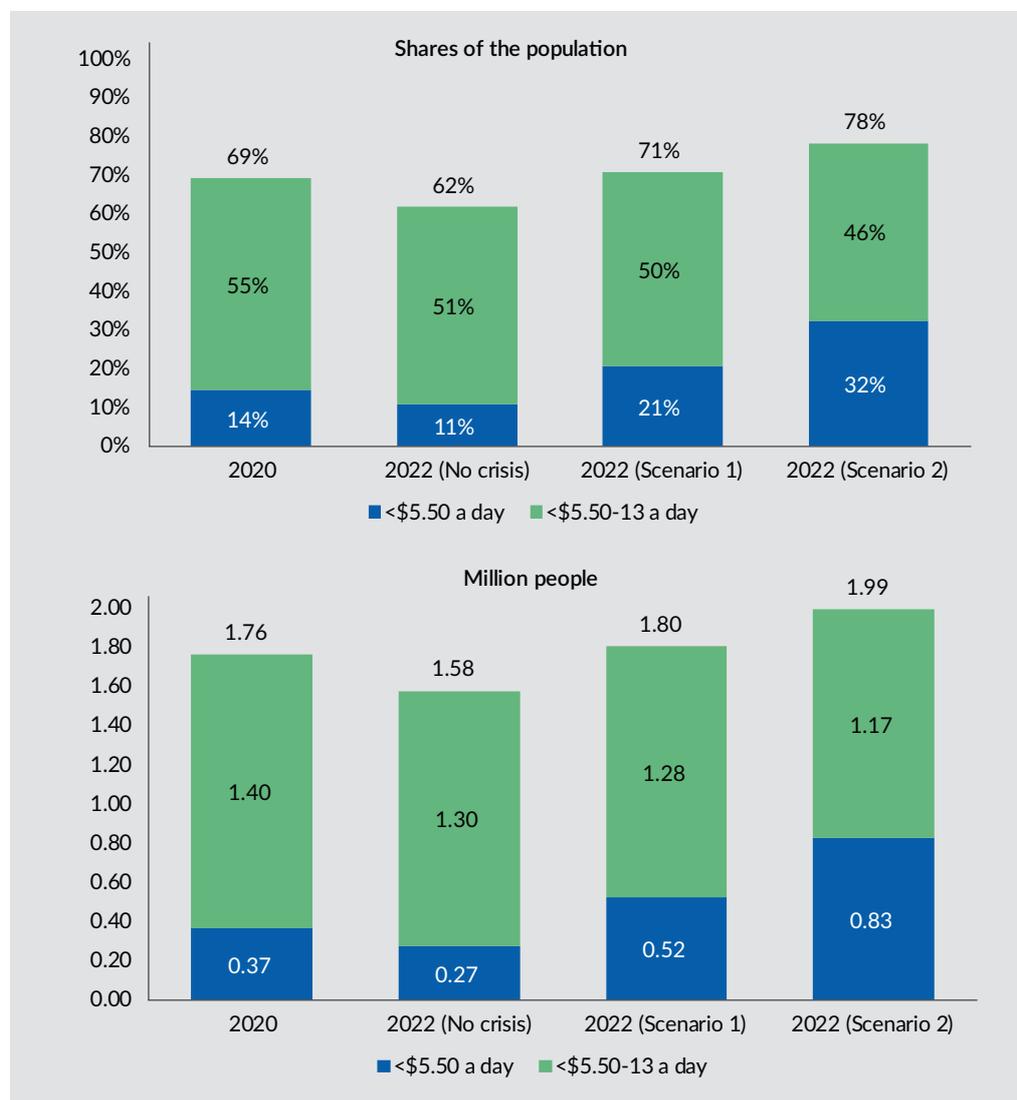
Source: Own estimates based on Moldova’s Household Budget Survey 2020 and IMF’s World Economic Outlook Database (October 2021 update).

Notes: Monthly amounts are expressed in local currency at current prices. Scenario 1 considers a 23% increase in food prices and 29.4% in utilities. Scenario 2 considers a 46% increase in food prices and 58.8% increase in utilities.

Compared to a situation in 2022 in which the crisis had not occurred, for the increases in food and utilities prices of 23% and 29.4%, respectively (scenario 1), the increase in the number of people living in poverty would be of about 250,000 people, reaching 520,000 people or 21% of the population (Figure 2). The size of the population at risk of poverty (i.e., those living on \$5.50-13 a day) would shrink slightly, driven by the increase in poverty, from 1.3 million to 1.28 million, reaching 50% of the population. The total of those individuals living either in poverty or at-risk of it (i.e., those living under \$13 a day), would reach 1.8 million, equivalent to 71% of the country’s population.

Under a scenario of more severe inflation of 46.6% for food and 58.8% for utilities (scenario 2), 550,000 people would fall into poverty compared to the benchmark, reaching 830,000 people (up from 270,000 people in the no crisis benchmark) or 32% of the population, whereas the number of individuals living either in poverty or at risk of poverty would reach 1.99 million people, or 78% of the population.

Figure 2. Population in poverty and vulnerability under different scenarios (million people and % of the population)



Source: Own estimates based on Moldova’s Household Budget Survey 2020 and IMF’s World Economic Outlook Database (October 2021 update).

Notes: Poverty (\$5.50 a day) and vulnerability (<\$13 a day) thresholds are expressed in \$PPP 2011. 2022 (no crisis) corresponds to the benchmark had prices remained as last year. Scenario 1 considers a 23% increase in food prices and 29.4% in utilities. Scenario 2 considers a 46% increase in food prices and 58.8% increase in utilities.

Conclusion

The ongoing situation of increased food and energy prices and the possibility that they will persist or worsen throughout the year because of the war in Ukraine threatens household welfare in Moldova. The share of the population living in poverty could reach between 21% and 32%, depending on the level of inflation, surpassing the poverty levels recorded in 2020 at the onset of the pandemic –14% of the population. These estimates highlight the need for policy action –e.g., by providing emergency relief, either targeted or universal, to smooth households' consumption and potentially mitigate the short-term poverty increases, and which can take the form of either one-off transfers or time-bound schemes that could be extended for a few months.

Implementing any compensation schemes resulting from the combination of different levels of coverage and generosity will likely depend on fiscal space, competing priorities of public spending, the creation of political coalitions in support of the policy, and the conditions of existing administrative and delivery capacities. While the materialization of a cash relief support may turn challenging for some of these reasons, the potential costs of not supporting the population can be deprivation and human suffering in the short term and disinvestments and asset depletion that could hinder country's development in the long term.

To support these efforts, UNDP Moldova has formulated its programmatic offer to the Government aiming at enhancing the economic, social and environmental resilience of Moldova. The offer includes assisting national and local public authorities in providing a coherent and coordinated response that addresses the immediate impacts of the compounded crises. It is also looking at strengthening the resilience of institutions and people to better cope with multiple vulnerabilities and uncertainties which are already jeopardizing human development gains. UNDP is working across the complex Humanitarian-Development-Peace Nexus (HDP) to ensure a coordinated and integrated approach that addresses the immediate needs, and supports the resilience of people, community and institutions, while also ensuring a conflict-sensitive approach to programming to maximize opportunities to contribute to social cohesion and peace. The support offer is available [here](#).