Food Crisis and Debt Distress

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Abstract :
This paper studies how food crises and sovereign debt defaults are connected in developing economies reliant on food imports. Fluctuations in food prices can worsen these economies' debt situations, leading to defaults. To examine this, we use unexpected harvest shocks as an instrument to isolate the impact of food price changes. Focusing on Ghana, which defaulted in 2022, we find that positive price shocks raise import prices, inflation, trade imbalances, currency depreciation, and external debt. We use a small open economy model to clarify this interplay. The results indicate that even countries reliant on food imports with low debt can default due to high food import prices. On the other hand, highly indebted nations can default even with minor price increases. These findings emphasize the need for urgent international aid to mitigate the combined effects of food and debt crises, especially for countries heavily reliant on commodity imports.