Fighting Hunger Worldwide

October 2013

Economic slow-down on top of drought: A reason to worry about increased food insecurity?

Special Focus Zimbabwe

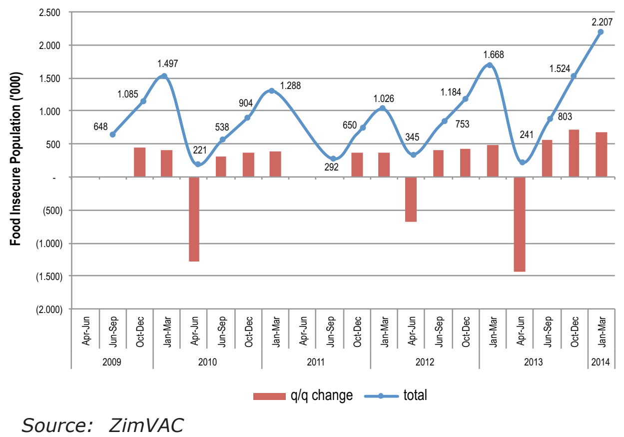
- **Food insecurity is likely to increase significantly during the next lean season due to two consecutive years of poor maize production, much reduced food stocks, low import capacity and a slowdown in economic recovery after a decade long economic recession and high unemployment rates.**
- **Dollarization reduced inflation, capital flight and improved savings ability; but these benefits are being undermined by limited access to credit lines, low foreign reserves and reduced competitiveness of local products.**

The food security situation is deteriorating due to unfavourable weather

Food insecurity is estimated to reach crisis levels in much of rural Zimbabwe during the next lean season (Jan-Mar 2014). As of July 2013, households' food security was classified in crisis conditions in Matabeleland North, Matabeleland South and Masvingo provinces, while stressed levels were prevalent in other rural areas (see below map). By January 2014, crisis conditions are expected in all provinces except Mashonaland East and West[1]. In general, food security trends are strongly seasonal. However, in poor production years, more rural people exhaust their limited resources and become food insecure earlier than expected. This is the case in 2013/14 with estimates anticipating that some 2.2 million will be food insecure at the peak of the lean season (+32% from Jan-Mar 2013)[2]. The country will thus be facing its highest prevalence of food insecurity since 2009, with about 25% of the rural households affected. The most affected provinces are in the south-west of the country, where 30-40% of households are expected to become food insecure.

Despite a short-lived recovery in 2010-2012, domestic supply of maize (the main staple) has reduced significantly, increasing the country's dependency on import to meet demand. Following last year's record low production of 968,041 tons, maize production in 2013/14 marketing year is estimated to be even lower; about 40% short from covering domestic consumption.

Food Insecure People (2009-2014)



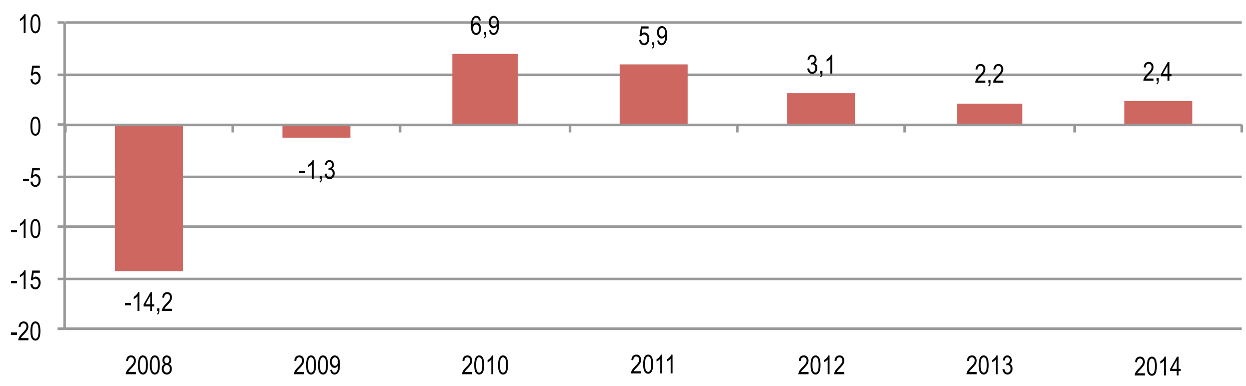
Source: *ZimVAC*

2.2 million people are expected to be food insecure.

1. IPC Zimbabwe Current Acute Food Insecurity Situation Overview, July 2013.
2. ZimVAC, *Rural Livelihoods Assessment Draft Report*, 2013.

After five consecutive years of partial recovery from the dip in 2008/09, maize yields have again declined in 2013/14 (from 1.01 tons per hectare the year before to 0.82) as dry spells during the flowering and grain filling periods (Feb 2013), insufficient inputs and poor production systems affected the harvest. Moreover, many smallholders are shifting to tobacco production to cushion against poor food crop harvests and 'unattractive' maize producer-prices. The maize harvested area has declined by 31% compared to the bumper harvest in 2011/12. As a result, the level of stocks in relation to annual use (*i.e.* stock-to-use ratio) has dropped dramatically to 4.5%, marginally above the 2004-2010 levels, and way below the 30% recorded in 2011/12[3].

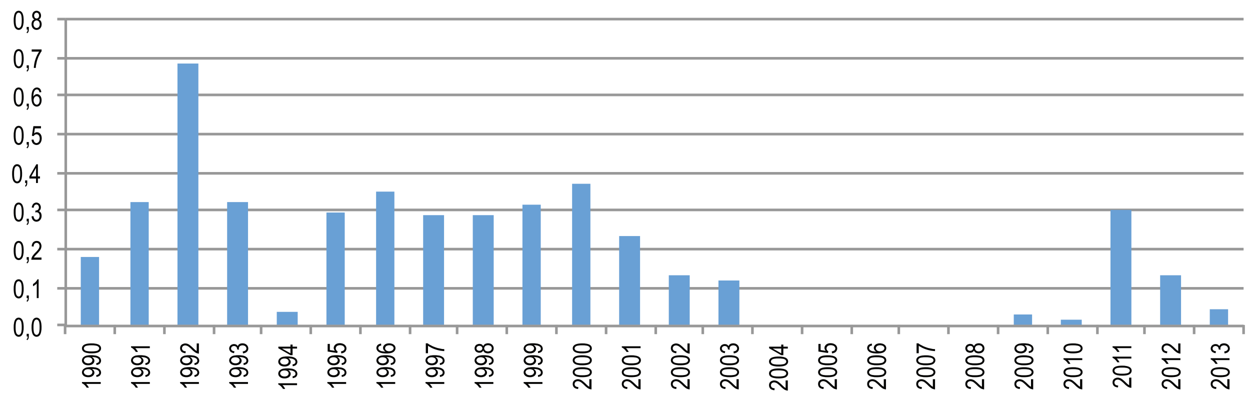
Real GDP Growth (2008-2014), in %



Source: Economic Intelligence Unit

Despite the recovery after 2008, GDP growth declined continuously.

Maize Stock-to-Use Ratio (1990-2013)



Source: USDA

The maize stock-to-use ratio declined dramatically in 2013 to 4.5%.

Demand pressure on food markets is likely to increase in the coming months, as only 11% of rural households are expected to meet their food requirements through own production[4]. As a matter of fact, most markets in the maize production areas have reached abnormally high price levels during the quarter July-September according to the WFP ALert for food Price Spikes (ALPS)[5]. The most noticeable increases as compared to the same quarter of last year occurred in Murombedzi-Mashonaland West (+50%), Murambinda-Manicaland Province (+42%), and Mount Darwin-Mashonaland Central (+41%). As the lean season progresses, it is likely that pressure in surplus areas may trickle down towards deficit areas. The level of prices in these areas is already higher than in the rest of the country, ranging between 0.40 and 0.46 US$ per Kg of maize, compared to 0.29 to 0.34 US$ per Kg in grain-surplus production areas.

3. WASDE, Data Accessed in September 2013.
4. ZimVAC, *Rural Livelihoods Assessment Draft Report*, 2013.
5. The warning scale of the ALPS is composed of four different price volatility levels (*i.e.* Normal, Stress, Alert, and Crisis) as food prices increase abnormally from their seasonal trends (http://foodprices.vam.wfp.org/ALPS-at-a-glance.aspx).

Drivers of food insecurity in Zimbabwe - September 2013

Alerts for maize price spikes and vegetation development status for the last growing season (2012-2013)

Source: WFP, IPC, SPOT-Vegetation.

Current pressure on prices in surplus areas is likely to trickle down to deficit areas.

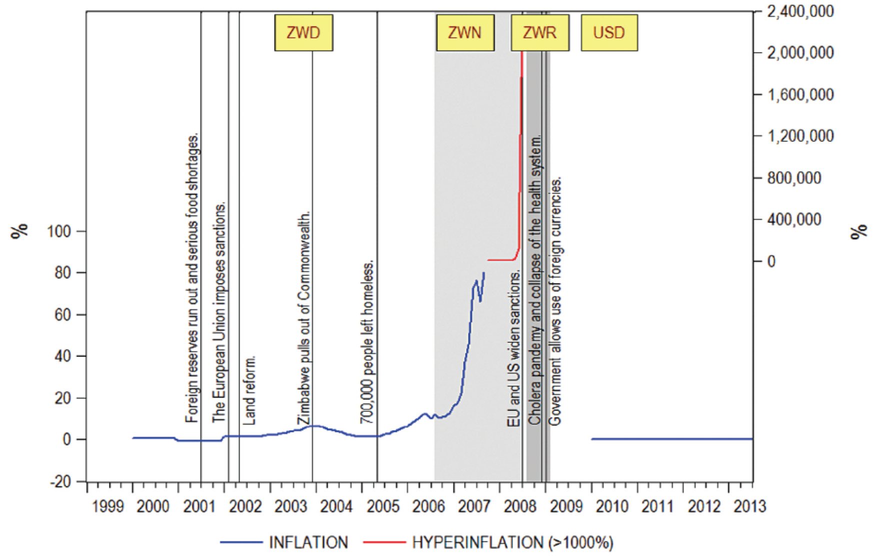
Recent economic slowdown reduces the country's capacity to withstand shocks

Zimbabwe has limited fiscal and economic capacity to buffer against the underperforming agricultural production and weather related shocks. Most resources are channelled to import goods and services, with fuels accounting for 19% of import values and cereals for less than 1%[6]. In 2013, the balance of trade deficit is projected to increase by 13.7% year-on-year (y/y). The economy is set to grow at only 2.2% in 2013; the fourth consecutive year of deceleration from the 6.9% recorded in 2010[7].

Although the dollarization of the economy brought inflation under control from 2009 to 2012, recent estimates are indicating an increase in 2013. A *de facto* dollarization decided by the National Unity Government after three unsuccessful attempts to revalue the Zimbabwean dollar in August 2006, August 2008 and February 2009, was in fact the ultimate attempt to stop the hyperinflation that plagued Zimbabwe in the 2000's. Excessive money printing intertwined with the unbudgeted cost of military interventions in Congo (1998), contractionary effects of the Fast Track Land Reform Programme (2000-2002), weather shocks (severe crop failure resulting in a food crisis in 2002), protracted international sanctions since 2005 and a cholera epidemic outburst (2008/2009), all paved the way to runaway inflation and a deep economic contraction for a decade (1998-2008). During the high inflation and hyperinflation period employment growth plummeted, especially during the period of extreme crisis (2001-2007) at an annual rate of 7.5%[8]. It is estimated that the real GDP slumped by 14.2% in 2008 compared to 2007, on top of the 40% cumulative decline during 2000-2007[9]. Following the introduction of US dollar, inflation (y/y) returned to single digit levels at slightly above 3% in 2010-2012, and only 1.2% in July 2013[10].

6. International Trade Centre, Trade Map Database. Reference year: 2012. Data accessed in September 2013.
7. Economic Intelligence Unit, Data Accessed in September 2013.
8. IMF, *Zimbabwe: 2009 Article IV Consultation—Staff Report*, Country Report No. 09/139, International Monetary Fund, Washington D.C., May 2009.
9. *Ibidem.*
10. Reserve Bank of Zimbabwe, *Monthly Economic Review*, July 2013.

Yearly Inflation (2000-2013)



Currency Legend

ZWD: 1st Zimbabwean Dollar
ZWN: 2nd Zimbabwean Dollar (August 2006)
ZWR: 3rd Zimbabwean Dollar (August 2008)
USD: US Dollar (February 2009)

Source: Reserve Bank of Zimbabwe (RBZ); timeline of events from http://www.bbc.co.uk/news/world-africa-14113618

The dollarization of the economy in 2009 brought inflation under control.

However, according to other sources, official figures may not fully reflect rapid wage inflation and should, therefore, be revised upwards at 7.2% in 2013[11].

Despite the indisputable success of the dollarization in controlling inflation, economic factors are undermining its benefits. In 2013, forecasts suggest that foreign exchange reserves (minus gold) have plummeted by almost 47% as compared to 2009[12]. The elimination of exchange rate volatility has reduced capital flight, helping the Reserve Bank of Zimbabwe to slowly regain its function as the lender of last resort since 2012. However the pegging of the economy to the US dollar also means increased vulnerability to its fluctuations. The currency stability granted by the US dollar would allow businesses and better-off people to save and invest in the medium term, but it did not necessarily benefit the most vulnerable. Moreover, real interest rates on loans remain high (above 20%) due to lack of capital, limited lines of credit from institutional lenders, and low foreign reserves. Local products have also become less competitive in the international market due to the strength of the dollar.

Official unemployment rate is estimated at 7.7%[13]. Yet 31.5% of the population is engaged in the informal sector, raising debate over a much higher structural unemployment rate. This rate was as high as 78% in 2011[14]. In the wake of the end-July 2013 electoral ballots, uncertainties persist on socio-economic measures. Meanwhile, the banking system is showing signs of tension, with commercial and merchant banks shifting their position from long- (over-30 day) to short-term (under-30 day) deposits[15].

Remittances (mainly from South Africa, the United Kingdom and Botswana) amounted to between 28% and 40% of Zimbabwe's GDP in 2012[16] and are a means of protecting many households to some extent from destitution, hunger and malnutrition.

Yet, after an ephemeral recovery, the country is again facing a slowdown in economic growth, a weak food import capacity and low food stock levels to meet domestic consumption. All these factors are further delaying households' recovery from the decade long economic recession and compounding an already concerning weather-induced food insecurity situation.

11. Economic Intelligence Unit, Data Accessed in September 2013.
12. *Ibidem.*
13. Zimbabwe National Statistic Agency, *Poverty Income Consumption and Expenditure Survey, 2011/12 Report*, April 2013.
14. International Labour Organization, Data accessed in September 2013.
15. Based on data from the Reserve Bank of Zimbabwe, *Monthly Economic Review*, July 2013.
16. PASSOP, *Strangling the Lifeline, An analysis of remittance flows from South Africa to Zimbabwe*, April 2012.

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