The Impact of the Global Economic and Financial Crisis on Food Security and the Agricultural Sector

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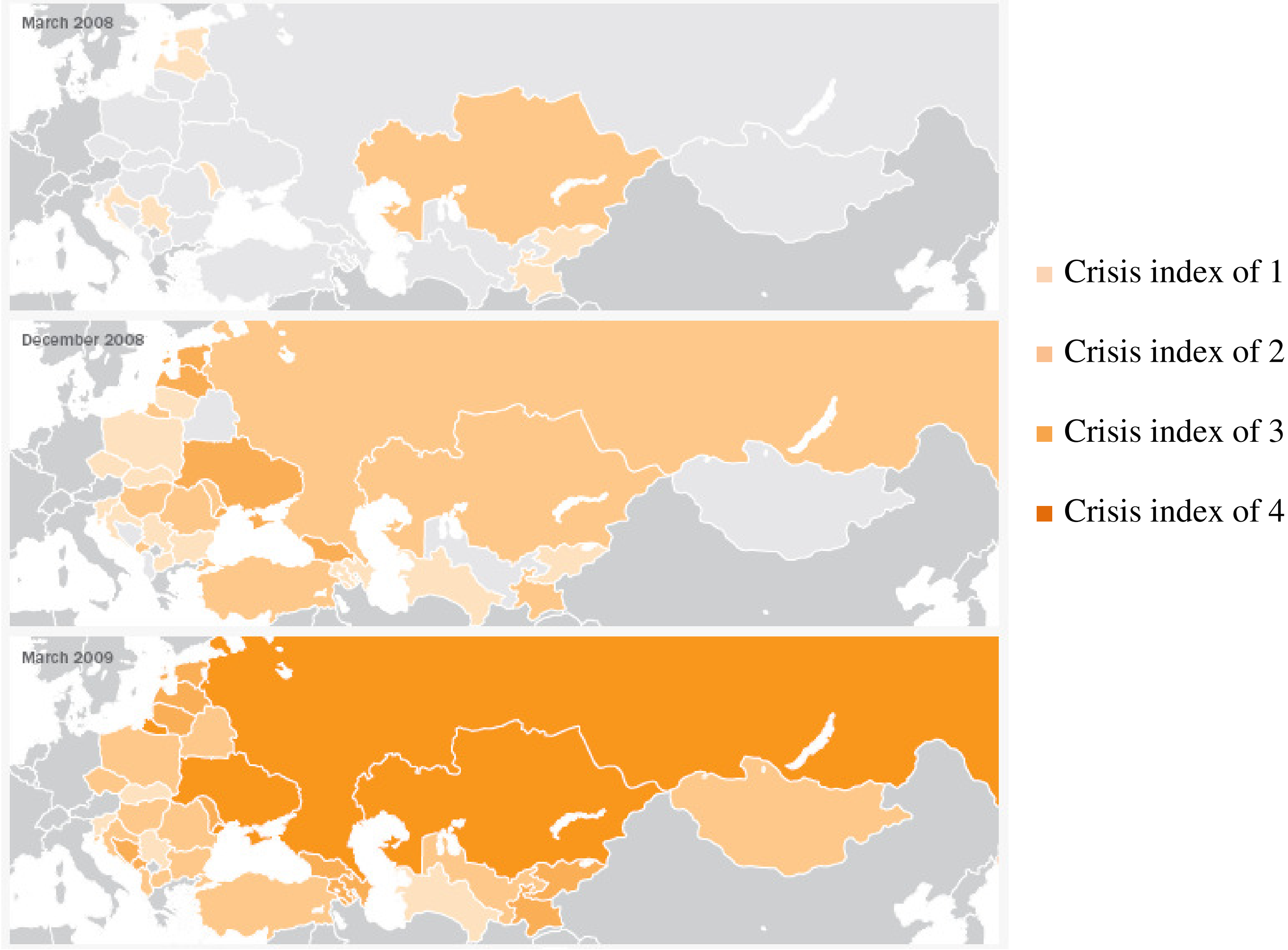
UN/IFI Dialogue Meeting on the Social Impacts of the Global Economic and Financial Crisis in Eastern Europe and Central Asia, Almaty, Kazakhstan, December 2009

Outline

- Evolution of the crisis
- Impact on the agricultural sector
- Impact on poverty and food security
- Policy recommendations

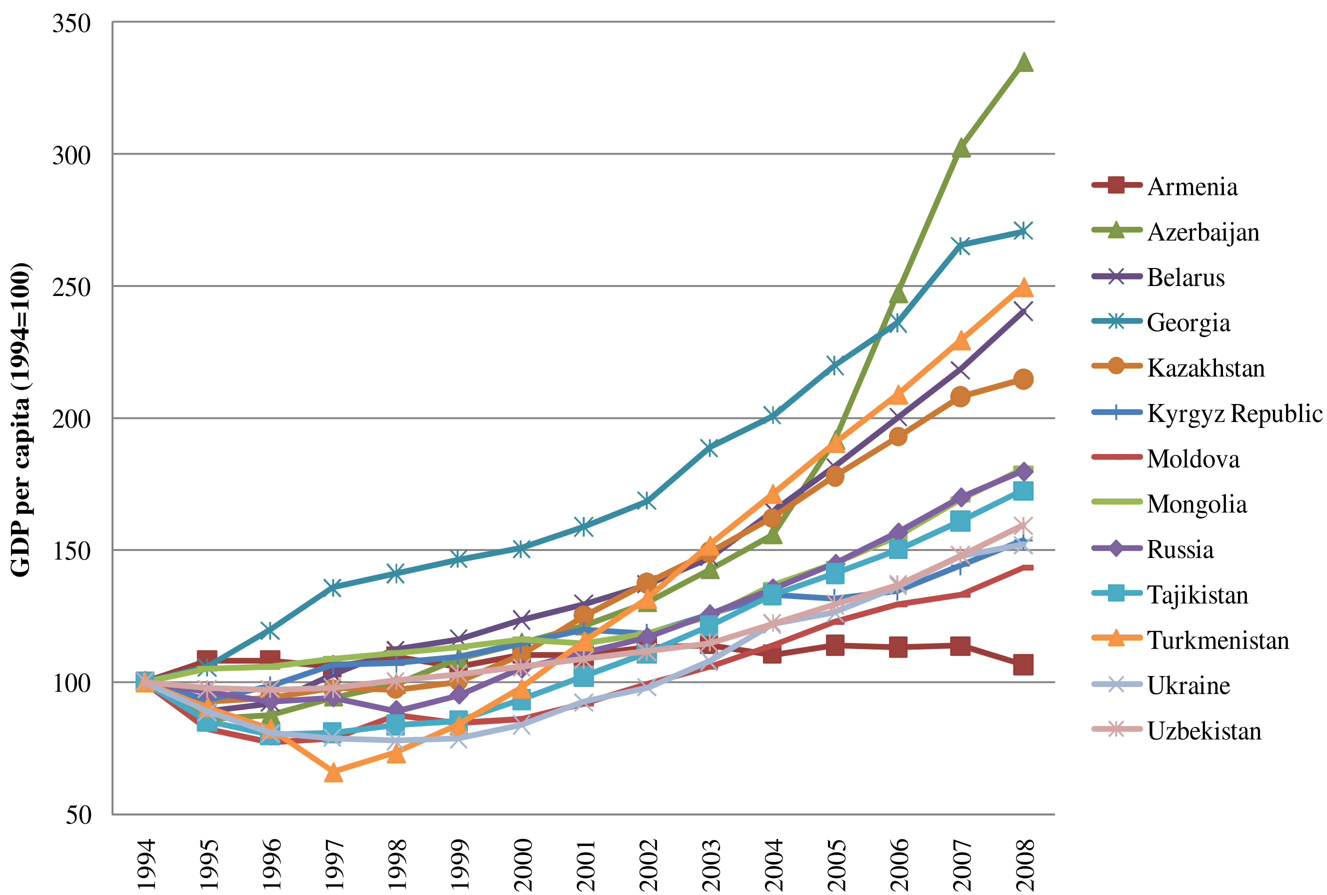
Evolution of the crisis



“Not affected period”

(July 2007 to September 2008)

- Booming economy as usual….



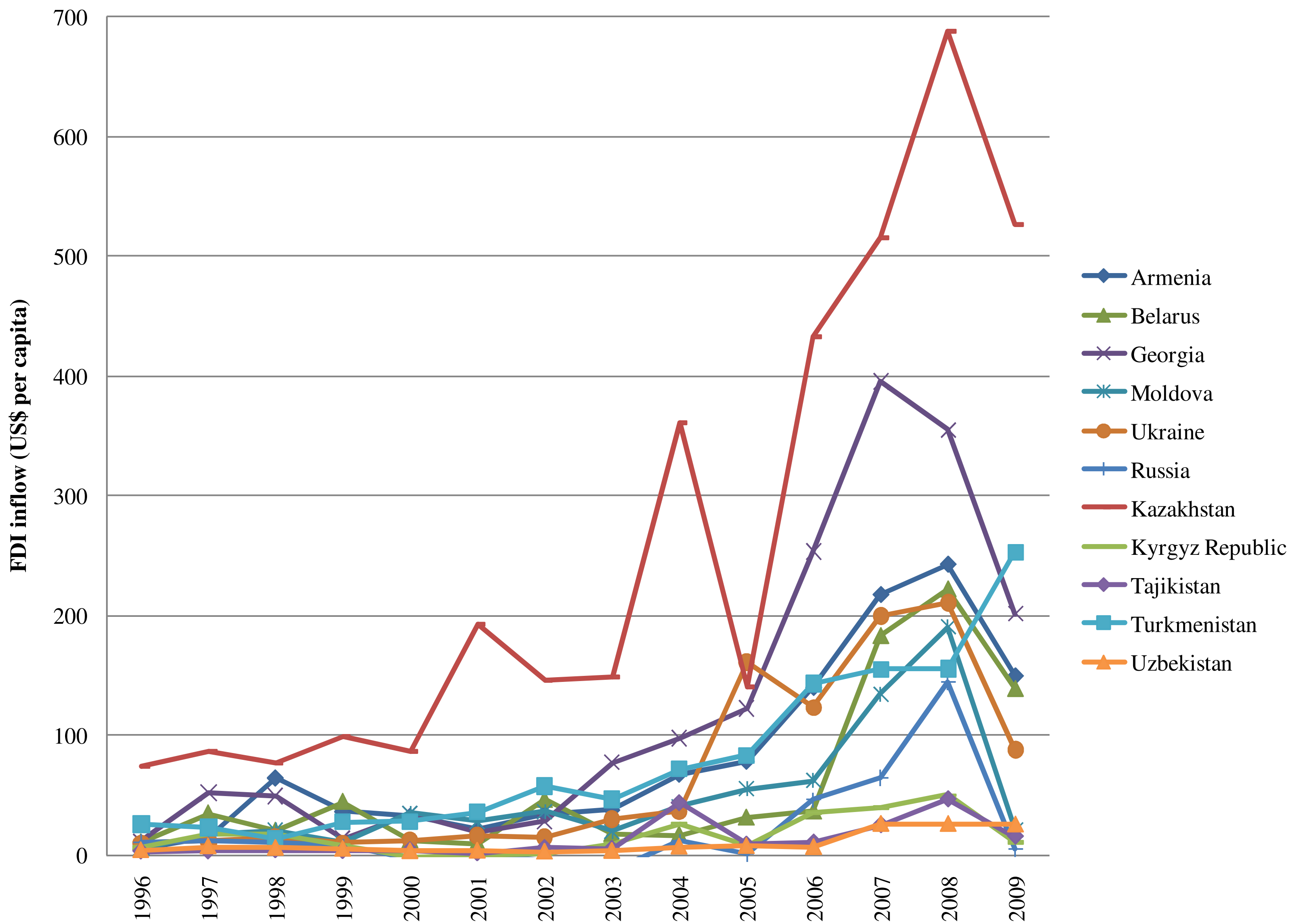
"Crisis period"

(September 2008 to March 2009)

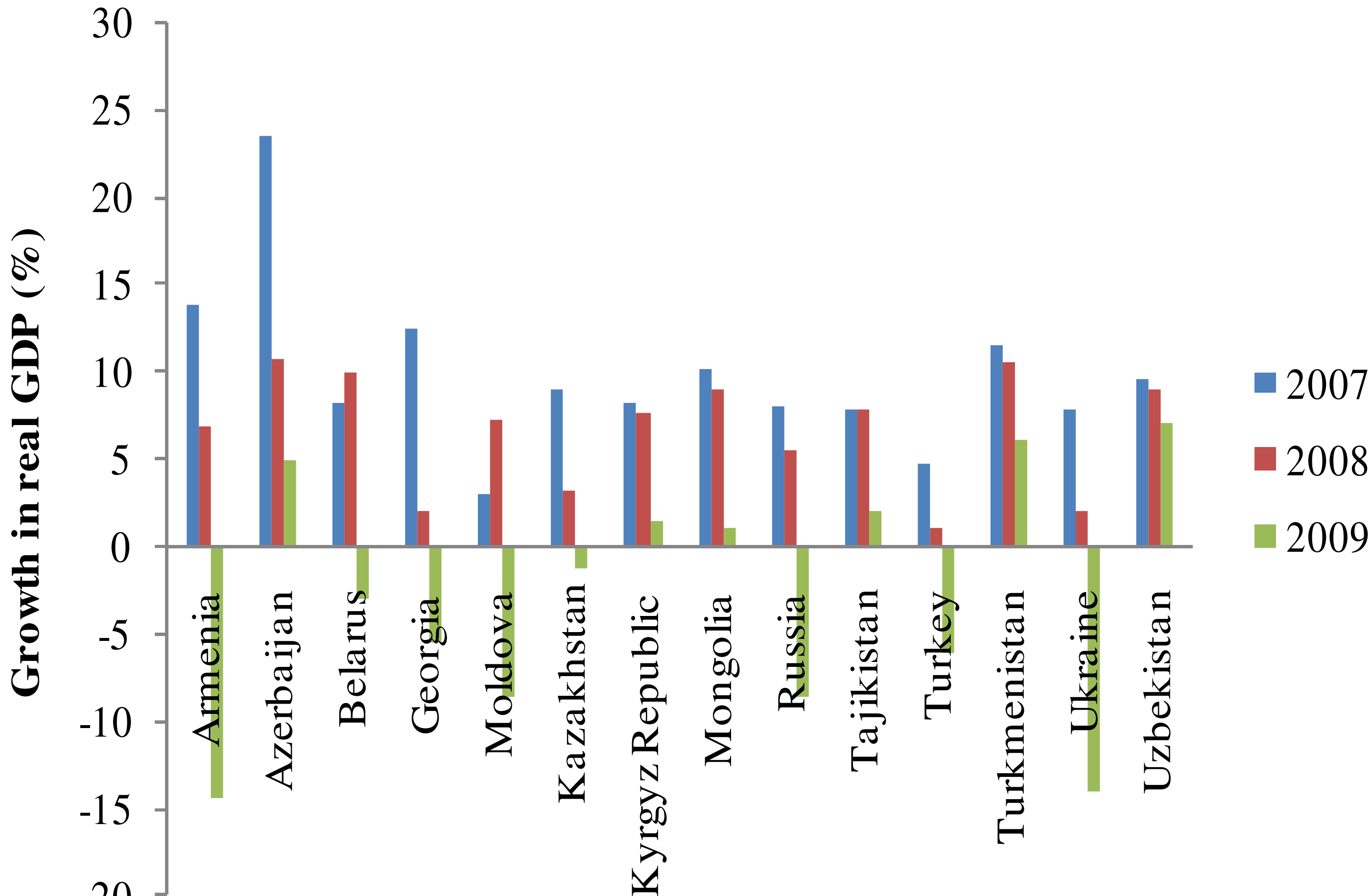
- Reasons:
  - Increase of risk premia for investments in emerging economies
  - Decrease cross border lending
  - Collapse of commodity prices

- Consequences:

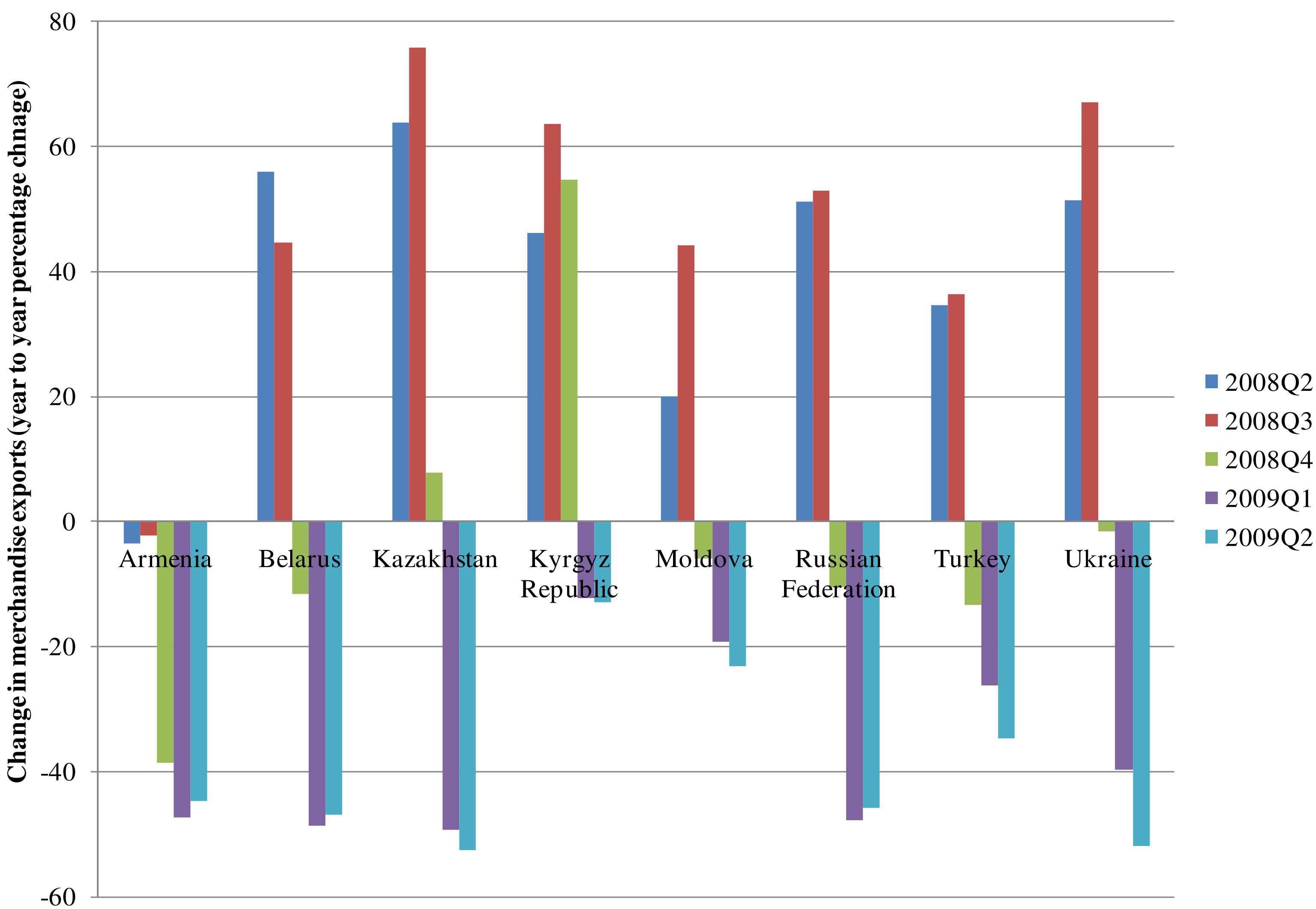
Reduction in investments



Decline in domestic production

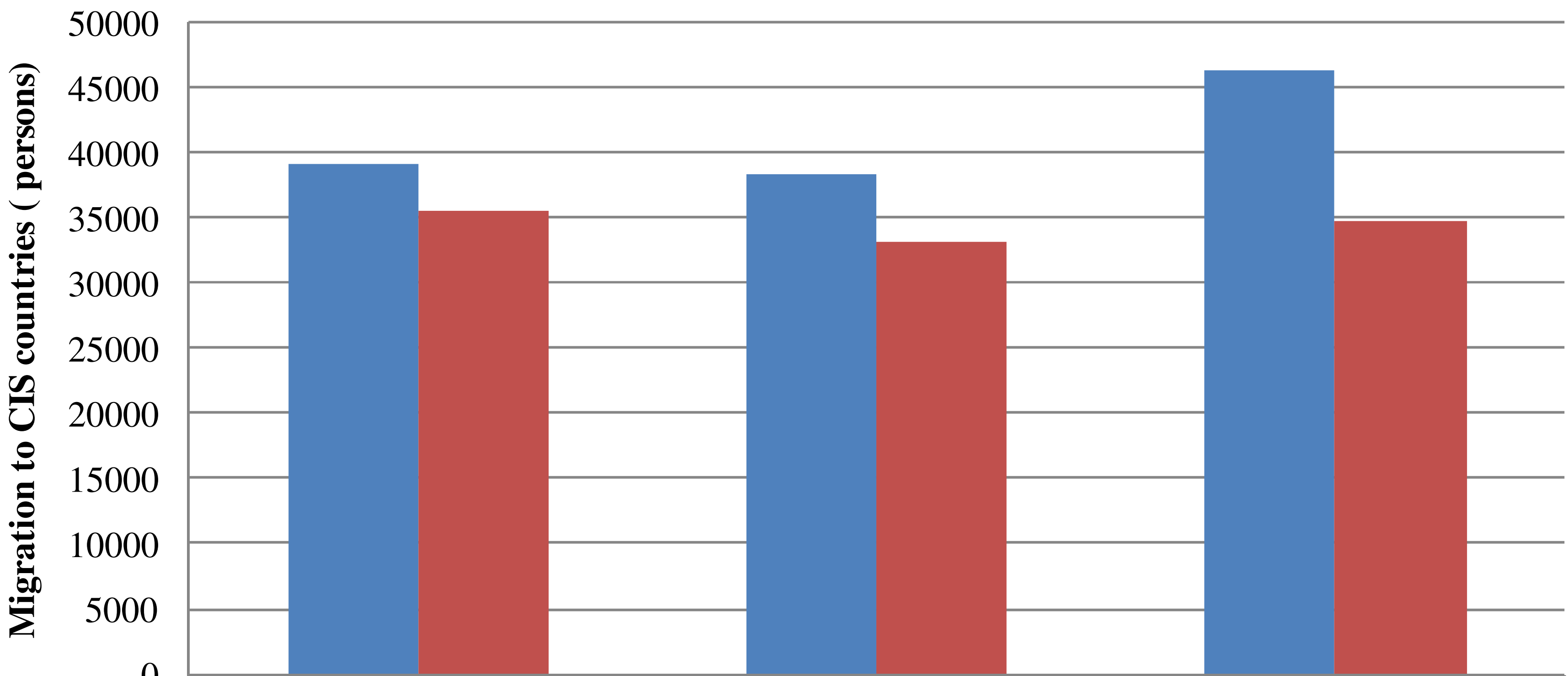


Decline in exports



Decline in migration

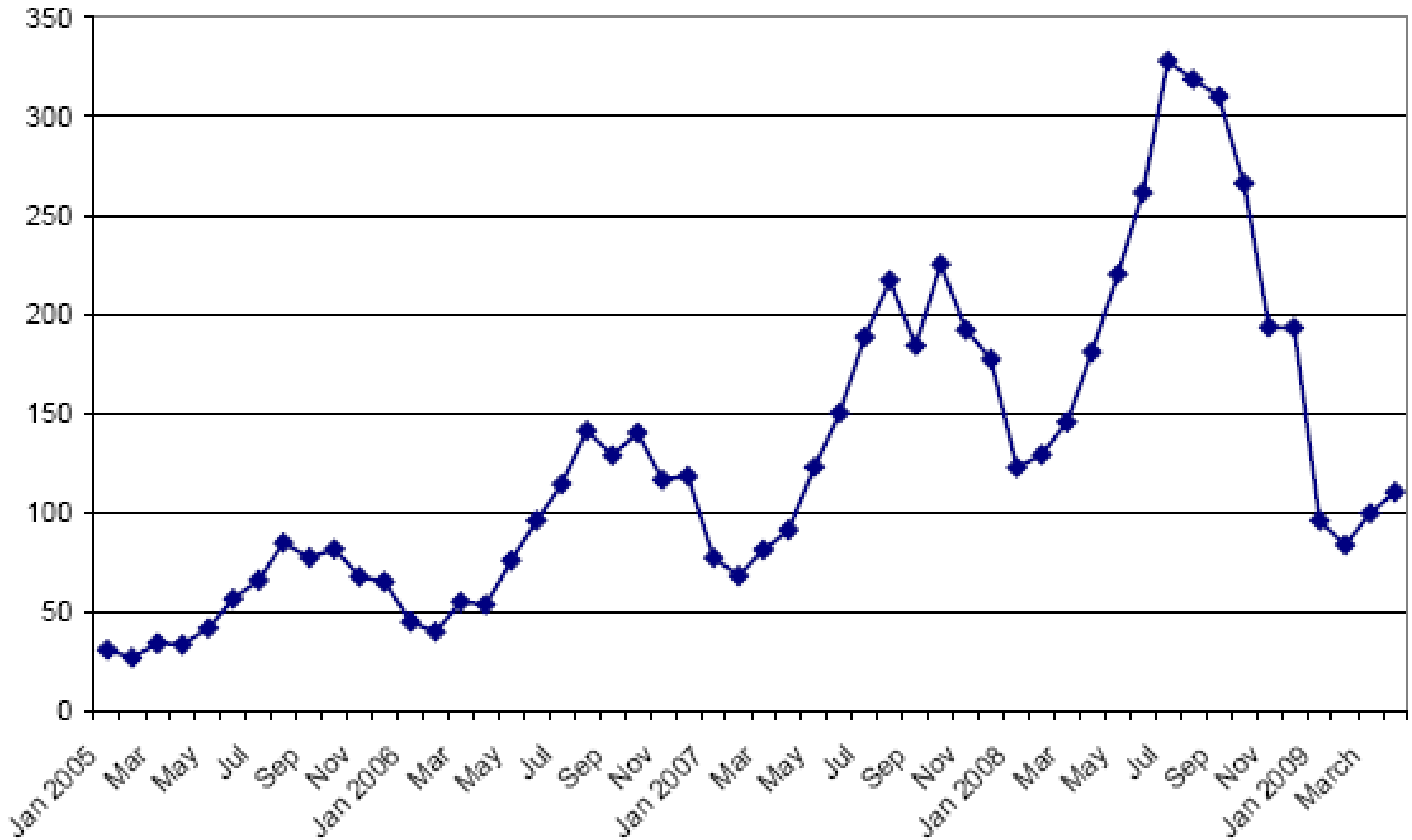
(data from Armenia)



	Jan	Feb	Mar
2008	39168	38327	46423
2009	35571	33128	34772

Decline in remittances

(data from Tajikistan in mio US$)



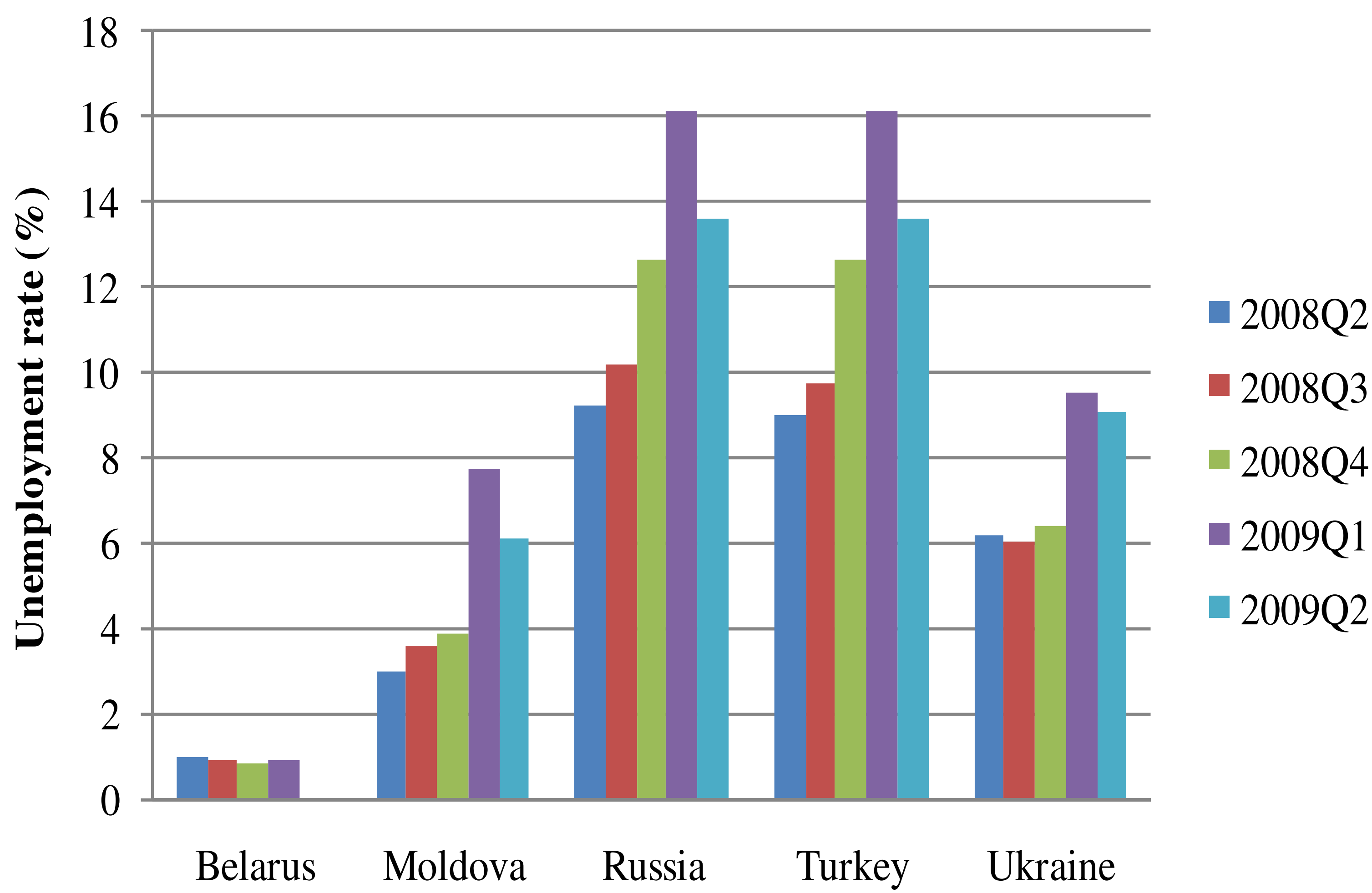
“Stabilization period”

(April 2009 to Present)

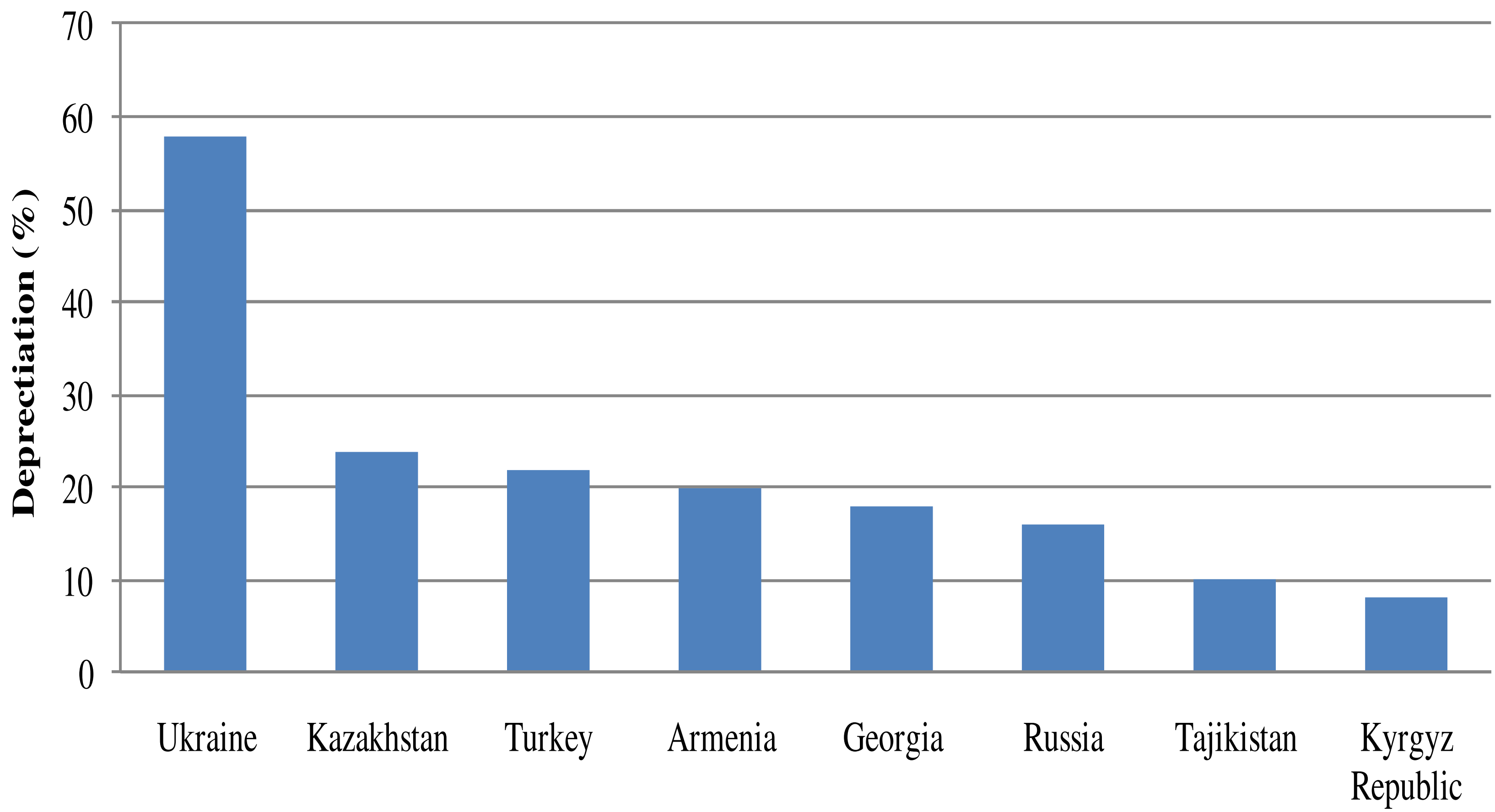
- Recovery of the international markets at the start of the second quarter of 2009

- Ripple effects of the crisis on the overall evonomy and individual households become clear:

Effect on unemployment



Effect on exchange rates



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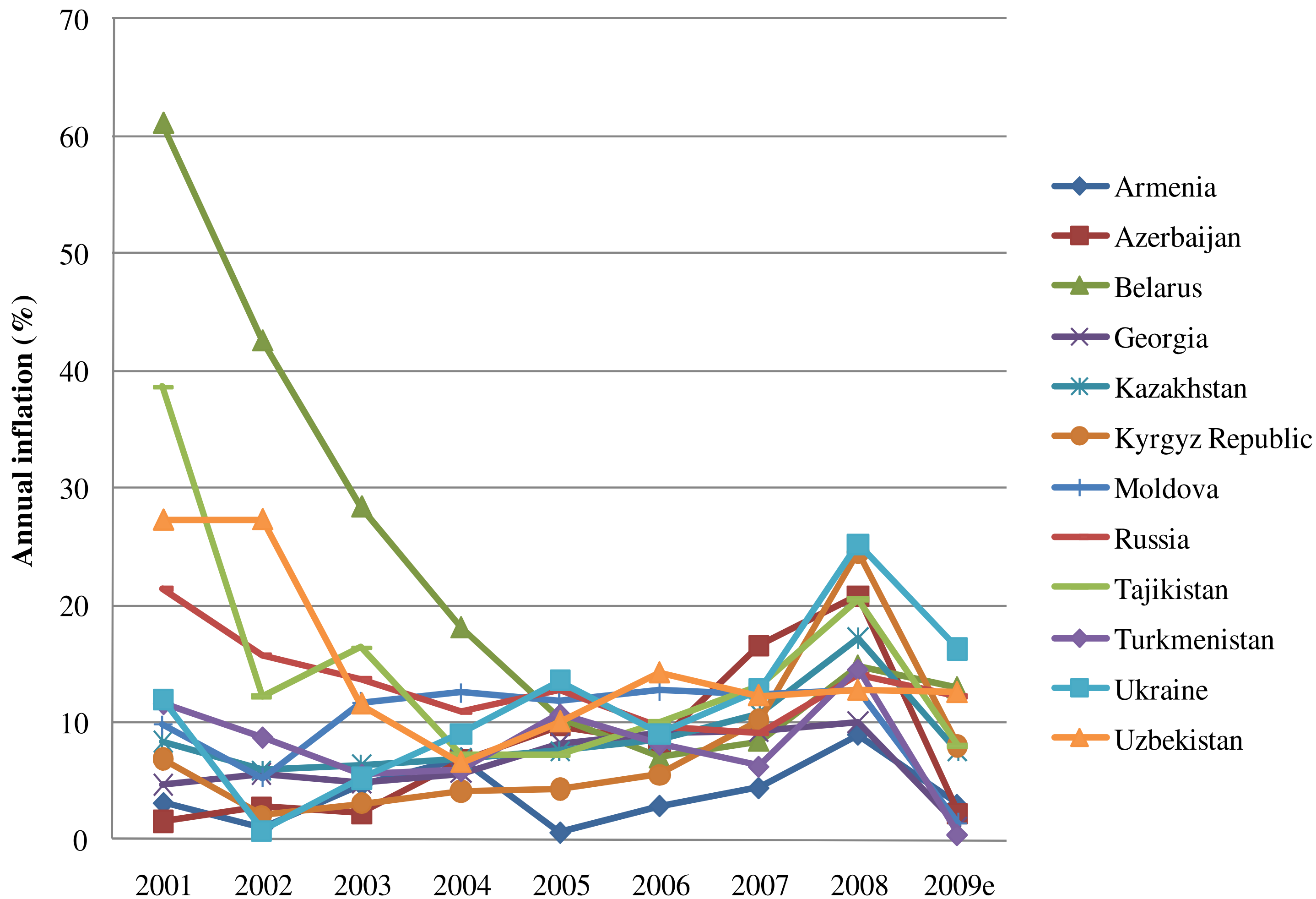
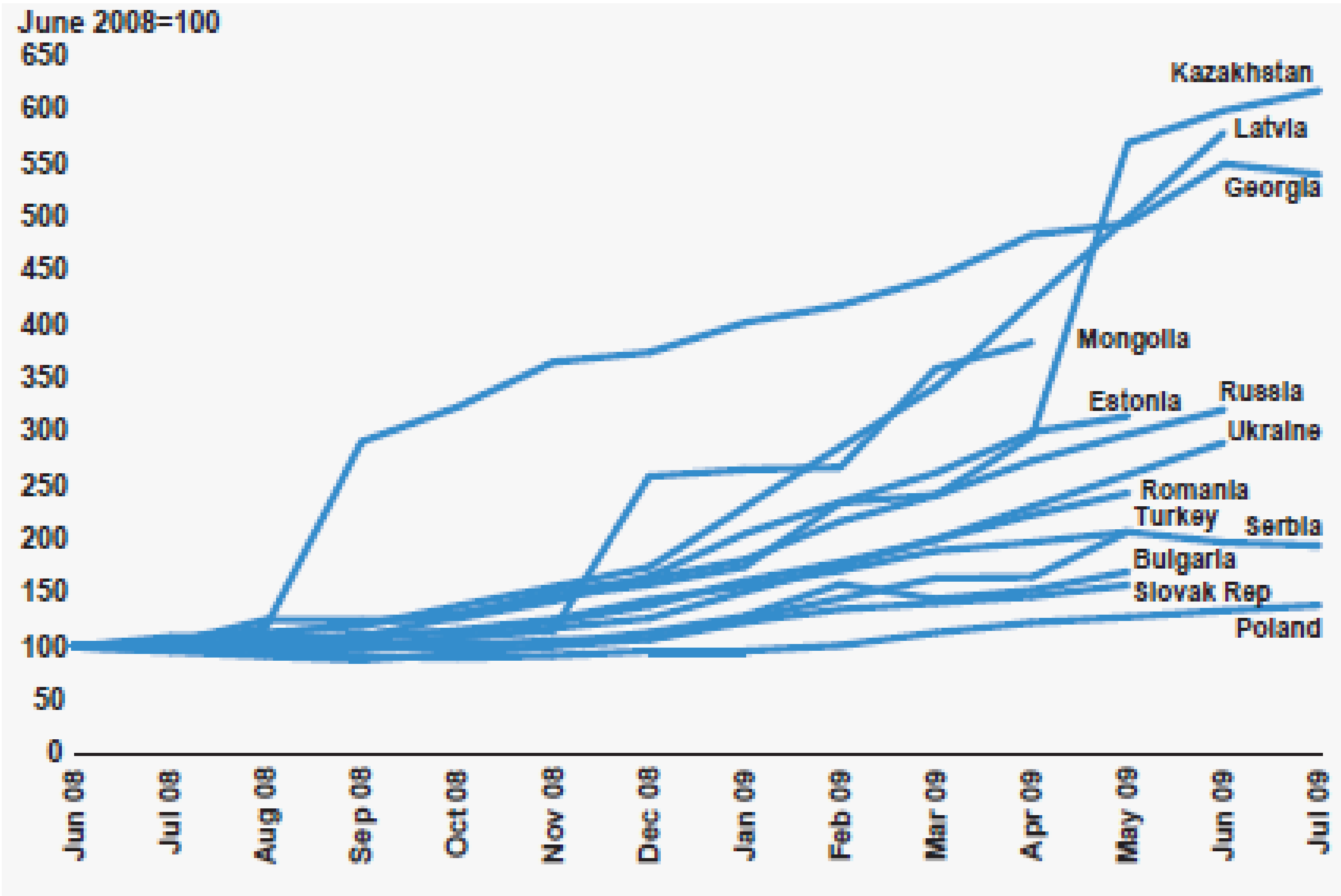
Effect on inflation rates



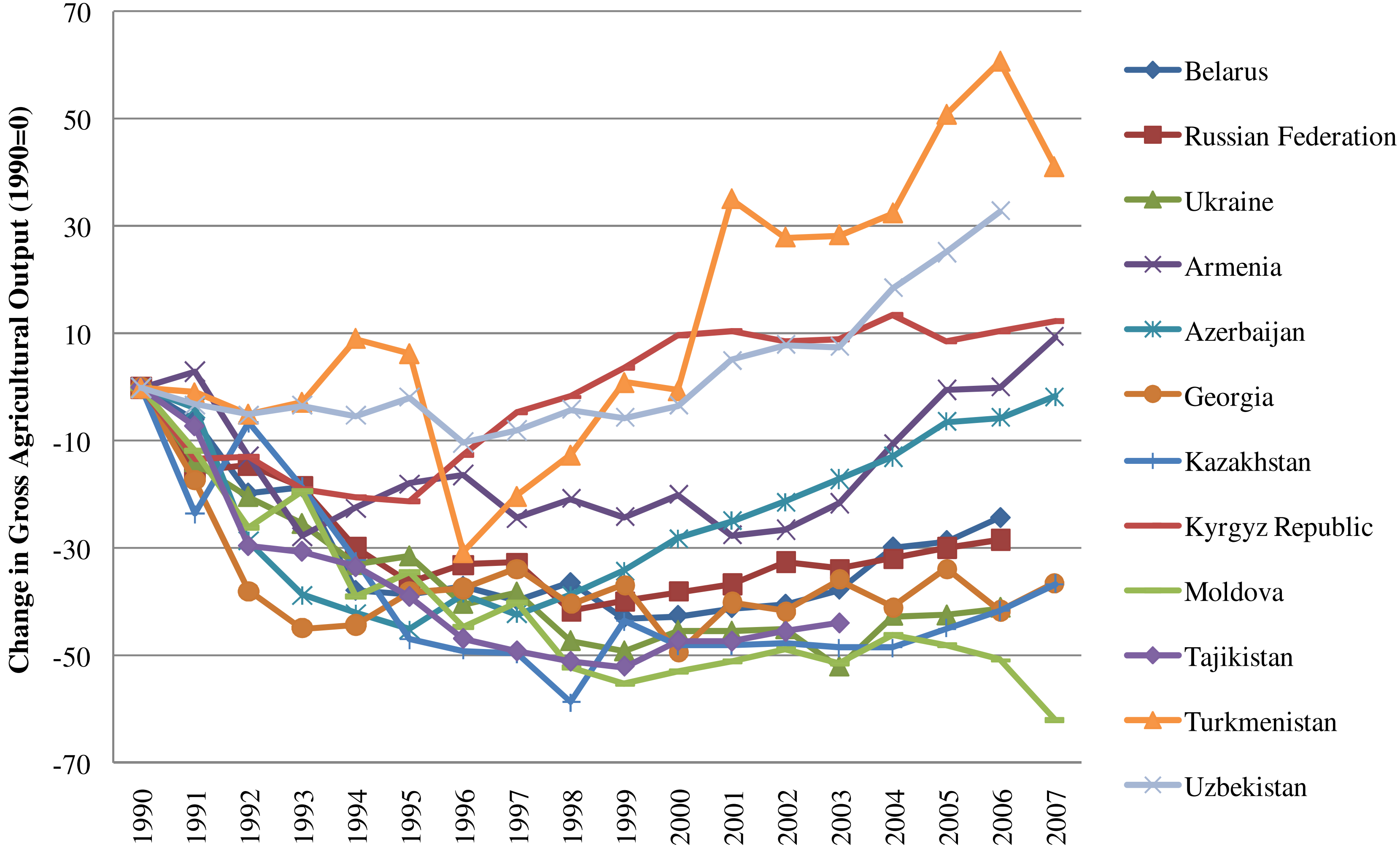
Effect on non-performing loans



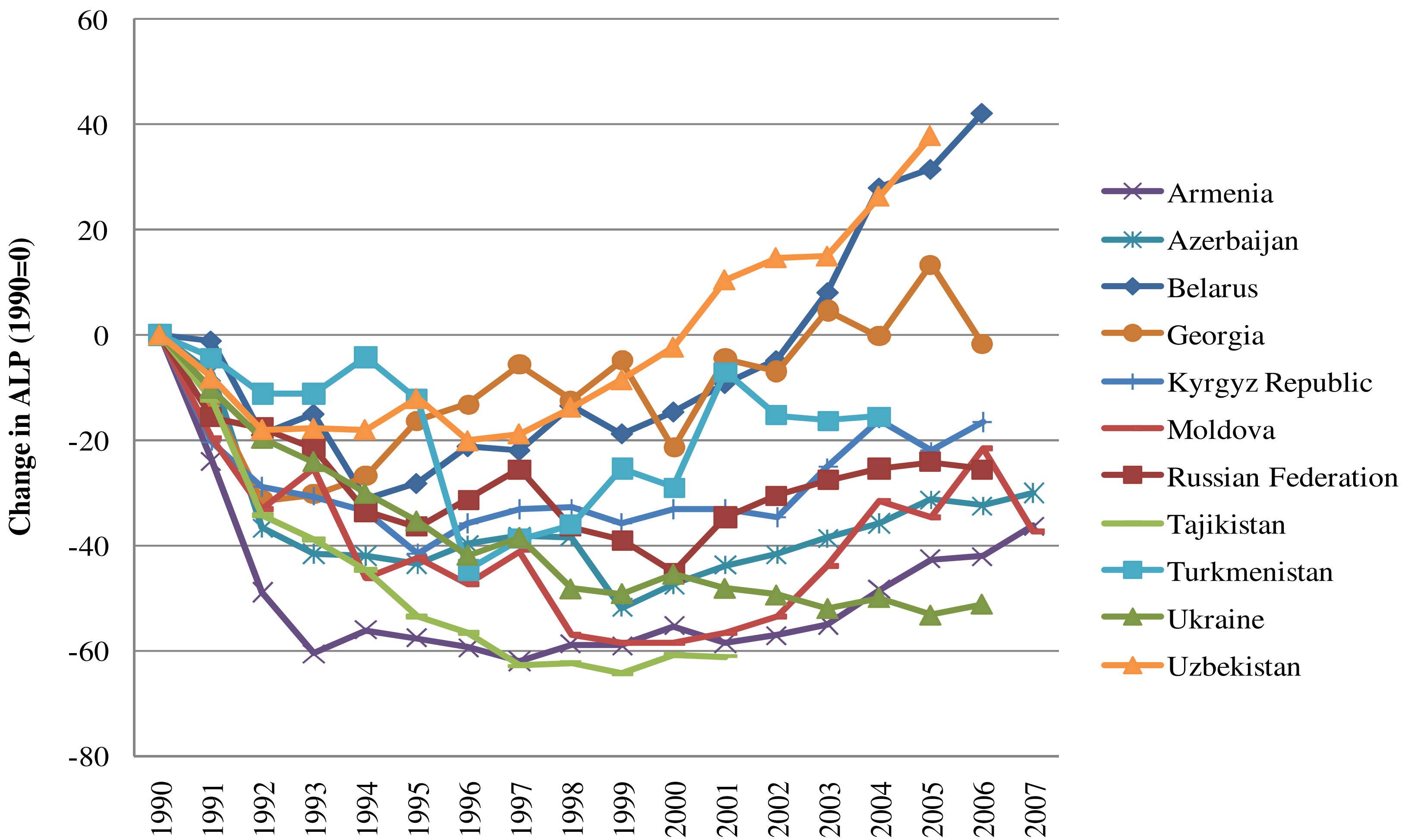
Agricultural sector

- Agricultural sector largely affected by the transition to a more market-orientated economy in beginning of 1990s
- Impossible to look at the effect of the financial crisis without considering the recent evolutions in the sector

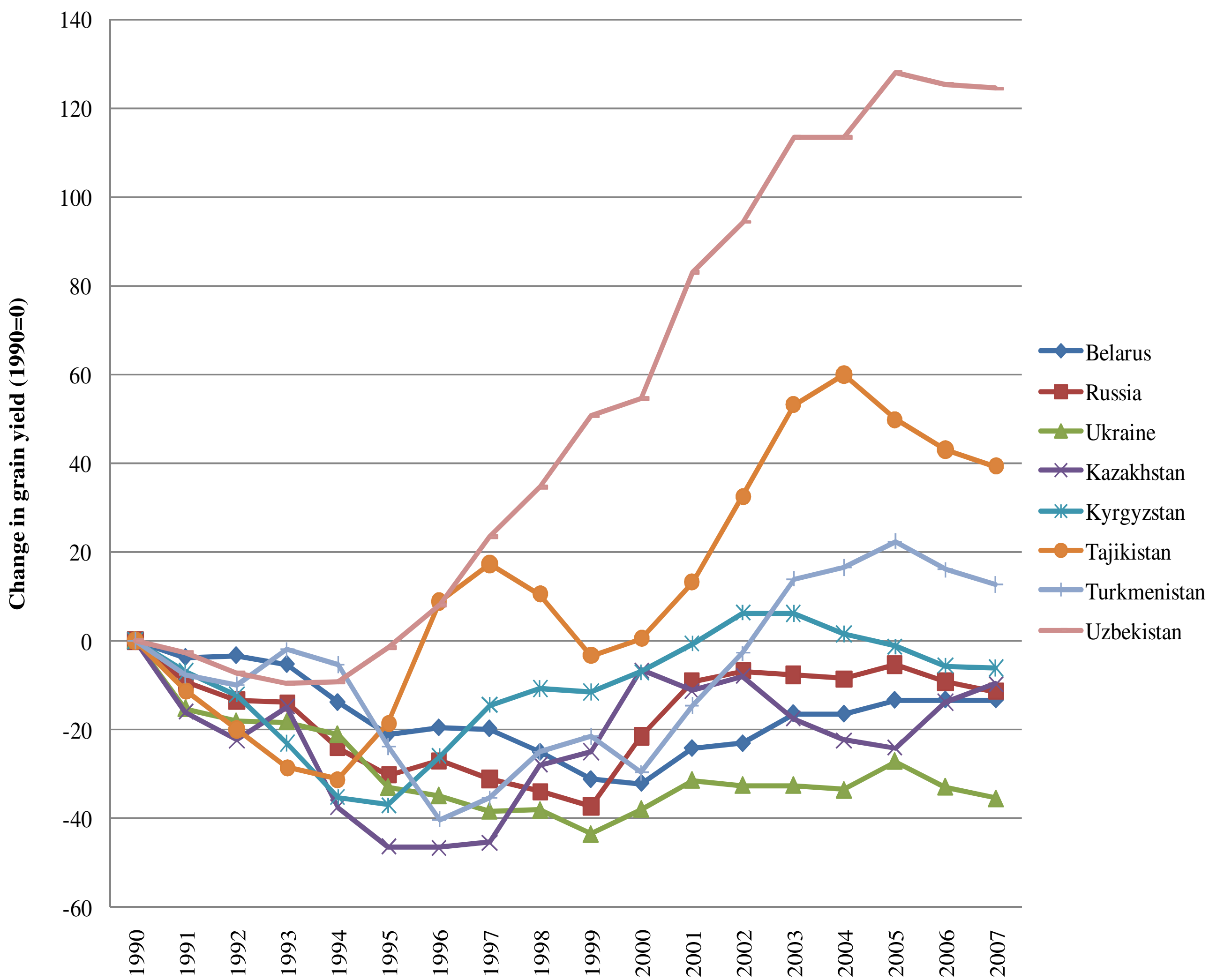
Agricultural output



Agricultural labor productivity

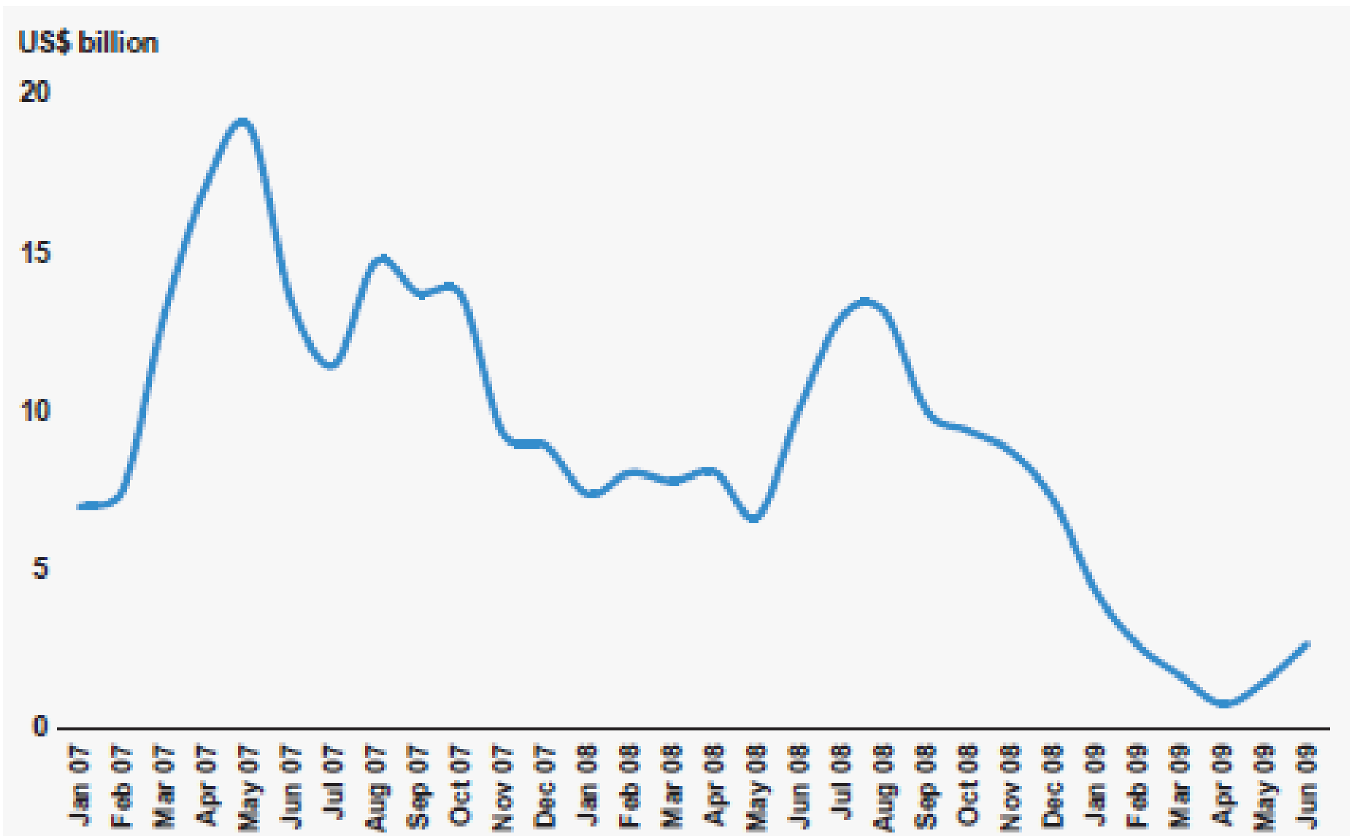


Change in grain yields



Impact of the crisis

- Decrease in loans to private borrowers/ investments



Impact of the crisis

- Reduced demand for high value products
- Switch to basic products
- Examples:
  - In Kazakhstan and Turkey: risk coping by switching to lower quality food
  - In Russia, for the first time in ten years: decrease in dairy consumption

Impact of the crisis

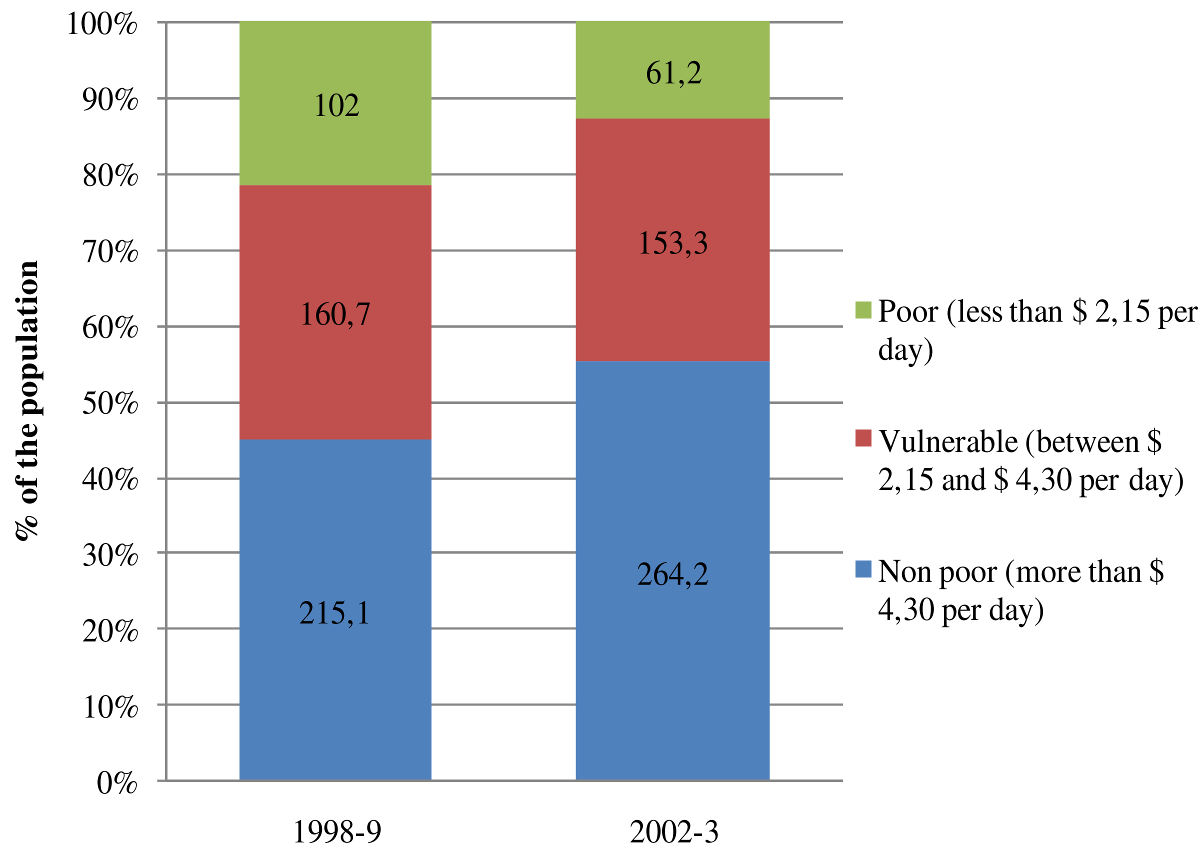
- Increase in public expenditures on agriculture in Russia and Kazakhstan
  - ➡ Be careful that the increase in government intervention does not lead to a (partial) reversal of reforms and does not affect efficiency in the sector

Poverty and food security

- Poverty and food security improved strongly until crisis periods hit the region:
  - ➡ Food crisis
  - ➡ Financial crisis

Poverty and food security before the crisis periods

Strong decrease in poverty due to economic growth



Impact of the food crisis

- In general: higher food prices are worser for the urban than for the rural (farm) population

  But

  Rural population is heterogeneous:

  - subsistence farmers who still buy food products
  - agricultural labourers
  - net producers of agricultural products

Impact of the financial crisis

- Negative impact on household income
  - Increase in unemployment
  - Decline in remittances
  - Examples:
    - Tajikistan: 30% decline in remittances → decline in consumption of the poorest households between 17% (rural) and 21% (urban)
    - Russia: number of people below the poverty line increased from 13,5% in the last quarter of 2008 to 17,4% in the first quarter of 2009

Impact of the financial crisis

- Negative effect on government revenue trough taxes and other revenues

➡ Possible negative impact on government spending on social assistance programs: Preliminary data from a few countries found a significant decrease in the number of beneficiaries between June 2008 and June 2009, the period when more households have become vulnerable

Policy recommendations

- Enhance economic growth
- Enhance investments
- Enhance social security safety nets
- Avoid non effective policies
- Avoid short run policies that conflict with long run development goals

Enhance economic growth

- Effect on poverty:

  Reduces poverty in two ways:

  - Increase in households income
  - Increase in government budget which can be used to enhance social safety nets

- Effect on the agricultural sector:

  Reduces surplus labour and increase R&D

  ➡ Increases agricultural productivity

Enhance investments

- Government should provide favorable regulatory climate to attract investments:
  - Invest in R&D and rural infrastructure
  - Continue the reform process (currently slowdown in reforms)

Enhance social security safety nets

- Scale up the programs that reach the poorest
- Introduce new poverty focused programs:

  Focused on people that will fall into poverty because of the crisis and that are not reached by the existing programs (e.g. migrant workers that return to their home countries)

Avoid short run policies that conflict with long run development goals

- No inappropriate short run policies:
  Welfare consequences can be far larger than the welfare losses resulting directly from the shocks themselves (e.g. trade restrictions introduced as a consequence of the food crisis)

- No policies that conflict with the key longer-term reform agenda