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Zimbabwe

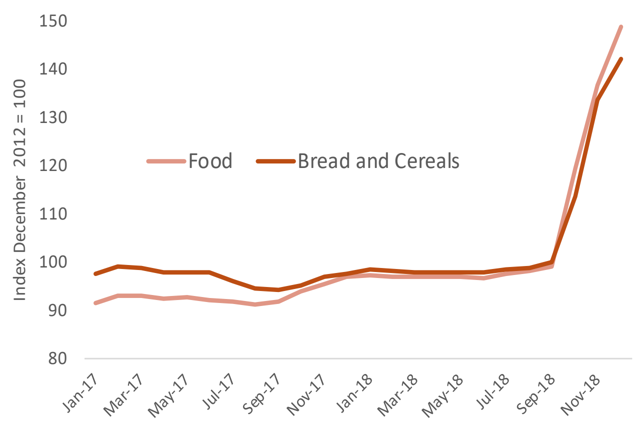
Food insecurity conditions aggravated by rapid and significant price increases

Highlights:

- Triggered by fiscal challenges, food prices have risen significantly since late 2018, with negative impacts on access to food.
- Lower production prospects for the 2019 cereal crop and constrained import capacity also raise concerns about domestic supplies in 2019/20.

Food insecurity conditions have deteriorated sharply in recent months on account of steep price spikes of staple foods since October 2018. The sharp increases were triggered by severe fiscal challenges, primarily foreign currency deficits and a significant loss in the value of the Zimbabwean bond note on the parallel market that caused a considerable increase in import costs. The higher prices were further underpinned by the introduction of a 2-percent tax on electronic payments[1], which constitute the bulk of transactions across the country. The price increases, notably for cereal products, which represent the largest share of calorie supplies, have curtailed households' access to food. In an effort to alleviate price pressure and improve supplies, the Government lifted an import ban on basic commodities in late 2018, which had been in place since 2016 (FPMA Food Policies).

Figure 1: Food price indexes
(January 2017-December 2018)



Source: ZIMSTAT.

By December 2018, the annual food inflation reached 54 percent, while the overall inflation rate was estimated at 42 percent. The index to measure food prices is comprised of several groups, of which *bread and cereals* account for over one third, reflecting their importance in local diets. Among individual cereal commodities, the prices of rice doubled between September and December 2018, while there were significant increases for bread and wheat flour, as well as in the prices of maize meal products (the primary food staple), which climbed 45 percent over the same period in Harare and were between 20 percent and 40 percent higher on a yearly basis across the country. The abrupt growth spurts pushed prices of bread and rice to their highest levels since the last period of hyperinflation that ended in 2008.

[1] The tax rate was previously USD 0.05 per transaction.

High prices have negative impacts on access to food, and the current situation is compounded by several factors. Firstly the timing, as the abnormally high prices are occurring during the lean season, a period when households are increasingly reliant on market supplies to meet their consumption needs. Given that a large proportion of a household's income is allocated to food expenditure (41 percent for rural households) and an increase in incomes to mitigate the impact of higher food costs is unlikely, purchasing power is expected to contract substantially. The harvest of the 2019 cereal crops, which would boost households' supplies of grain for own-consumption and thus reduce their need for market supplies, is expected to start not earlier than April, slightly later than normal, reflecting a delayed onset of seasonal rains.

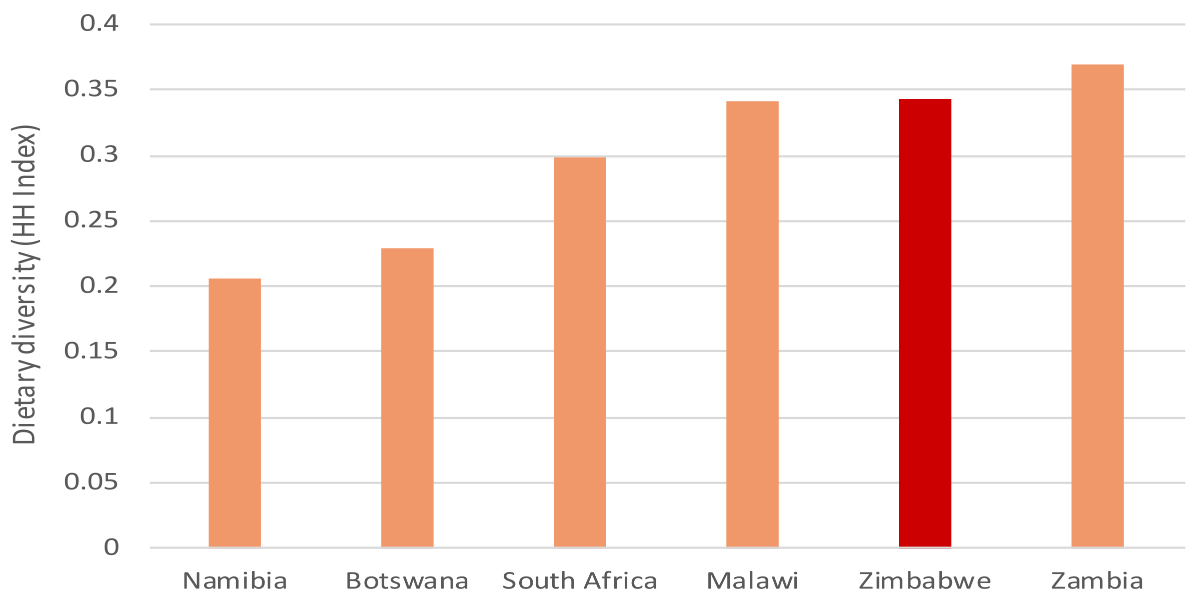
Secondly, diets are largely concentrated on cereals, and on maize specifically. The low diet-diversity infers relatively higher expenditure on cereal products and, hence, price rises would be expected to have large negative welfare impacts on low-income consumers. As illustrated in Figure 2, compared to neighbouring countries, Zimbabwe has one of the most cereal-dependent diets, heightening the country's susceptibility to price shocks of these food products[2]. Moreover, the increase in prices of cereal products hinders the ability of households to easily substitute to alternative foods, prohibiting the employment of a key coping mechanism.

Thirdly, fuel prices more than doubled in January 2019 (FPMA Food Policies), raising operational and distributional costs for millers and retailers. Reports have already indicated that prices of cereals and foods in general have risen further as a result.

Tempering larger price increases of maize (the main food staple) has been the generally favourable supply situation, a fundamental factor that influences price levels. Domestic availabilities were estimated to be sufficient to cover the national consumption needs in the 2018/19 marketing year (April/March) reflecting above-average harvests in 2017 and 2018.

However, the supply/demand situation for maize is expected to be less favourable in the forthcoming 2019/20 marketing year. This reflects reduced 2019

Figure 2: Concentration of cereals in diets
(2011-2013)



Source: FAOSTAT.

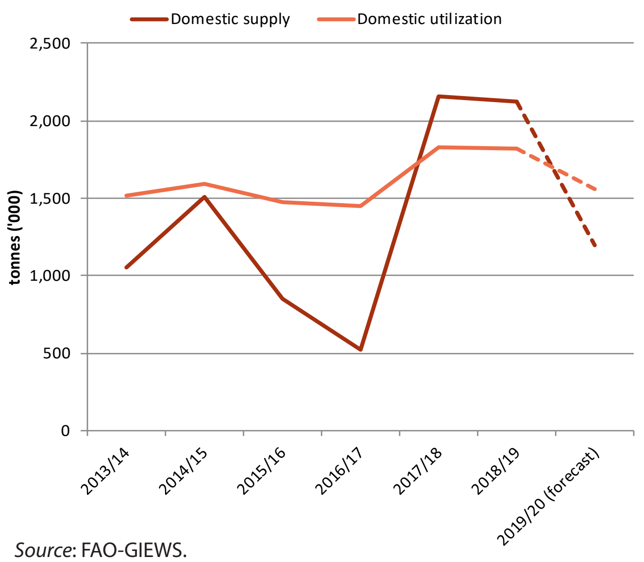
[2] Dietary diversity of staple food consumption is measured by calculating the calories supplied by cereals as a proportion of total food consumption, using the Herfindahl–Hirschman Index (HHI). The closer the HHI value is to 1, the less diverse the diet and the higher concentration on cereals. This approach is taken from: *Managing Food Price Risks and Instability in an Environment of Market Liberalization*, World Bank, 2005, using data from FAOSTAT (2011-2013).

production prospects, on account of dry weather conditions, conflated with a weaker economic situation that restricted access to agricultural inputs and diminished plantings. Reports indicate significant contractions in the area sown to the cereal crop. Although increases in the prices of grains can elicit positive responses in agricultural production, increased costs of agricultural inputs and the general lack of liquidity are considered to have more than offset the positive impact of the higher prices.

The projected tightening of domestic supplies in 2019/20 infers an expected increase in import requirements and a drawdown in stocks to cover the supply shortfall, reducing the country's capacity to cushion supply shocks in the future. Although this is not an unusual situation for the country, which imports on average about 500 000 tonnes of maize per year (2013-2017) to satisfy approximately 1.6 million tonnes of consumption needs, the recent fiscal challenges have further impacted the country's import capacity, amid diminishing foreign currency reserves. As depicted in Figure 4, although it dropped in 2017 the value of cereal imports as a proportion of foreign exchange reserves has risen over the past years, largely in response to diminishing international currency supplies[3]. Given indications of growing shortages of foreign reserves, the domestic capacity to import is expected to weaken, portending difficulties in accessing external supplies. Moreover, a poor outlook for the 2019 cereal production, as well as increasing prices, in South Africa and Zambia, two main exporters in the region, points to a higher likelihood of reduced availabilities in the regional market, further signifying constrained access for Zimbabwe.

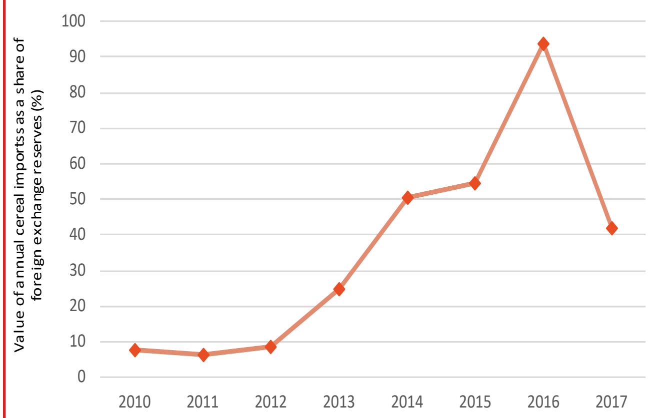
The current conditions have adversely impacted food security, and in conjunction with a poorly performing economy that is restricting income-generating opportunities, the number of food insecure is foreseen to increase sharply in 2019/20. The continuation of food price monitoring and an in-depth assessment of agricultural production prospects for 2019 are pivotal to help inform the necessary interventions.

Figure 3: Maize supply/demand
(2013/14-2019/20)



Source: FAO-GIEWS.

Figure 4: Value of annual cereal imports as a share of international currency reserves



Source: World Bank and Trade Data Monitor.

[3] This method assesses potential vulnerabilities in a country's capacity to access global supplies, by measuring the value of cereal (primary food staples) imports as a share of foreign exchange reserves. This approach was taken from the report: *Managing Food Price Risks and Instability in an Environment of Market Liberalization*, World Bank, 2005.

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Enquiries may be directed to:
Global Information and Early Warning System (GIEWS)
Trade and Markets Division (EST)
Food and Agriculture Organization of the United Nations (FAO)
Viale delle Terme di Caracalla
00153 Rome, Italy
E-mail: *GIEWS1@fao.org*

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