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Economic contraction and food insecurity in the post- Soviet region

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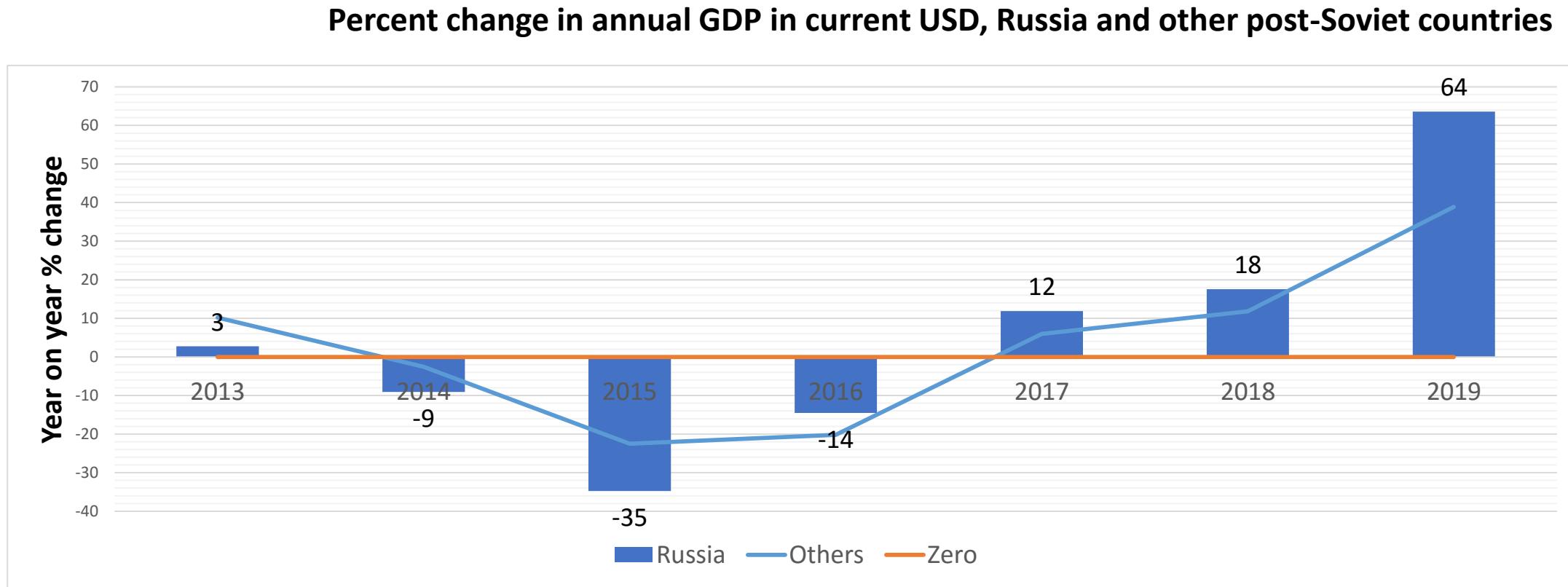
Outline

- Food insecurity
- Main macroeconomic shock
- Exchange rates
- Expected spillover effects
 - Trade
 - Financial system
 - Remittances
- Conclusion

Food insecurity

- Definition
 - Food security—when all people at all times have physical and economic access to sufficient, safe and nutritious food that meets their dietary needs and food preferences for an active and healthy life (FAO, 2006).
- Food security concern of the presentation:
 - Spillover effects on the most food insecure countries
 - 5 countries: Kyrgyzstan, Tajikistan, Georgia, Armenia, Uzbekistan

Main Shock: Fall in USD value of Russian GDP in 2014-16, other countries follow...



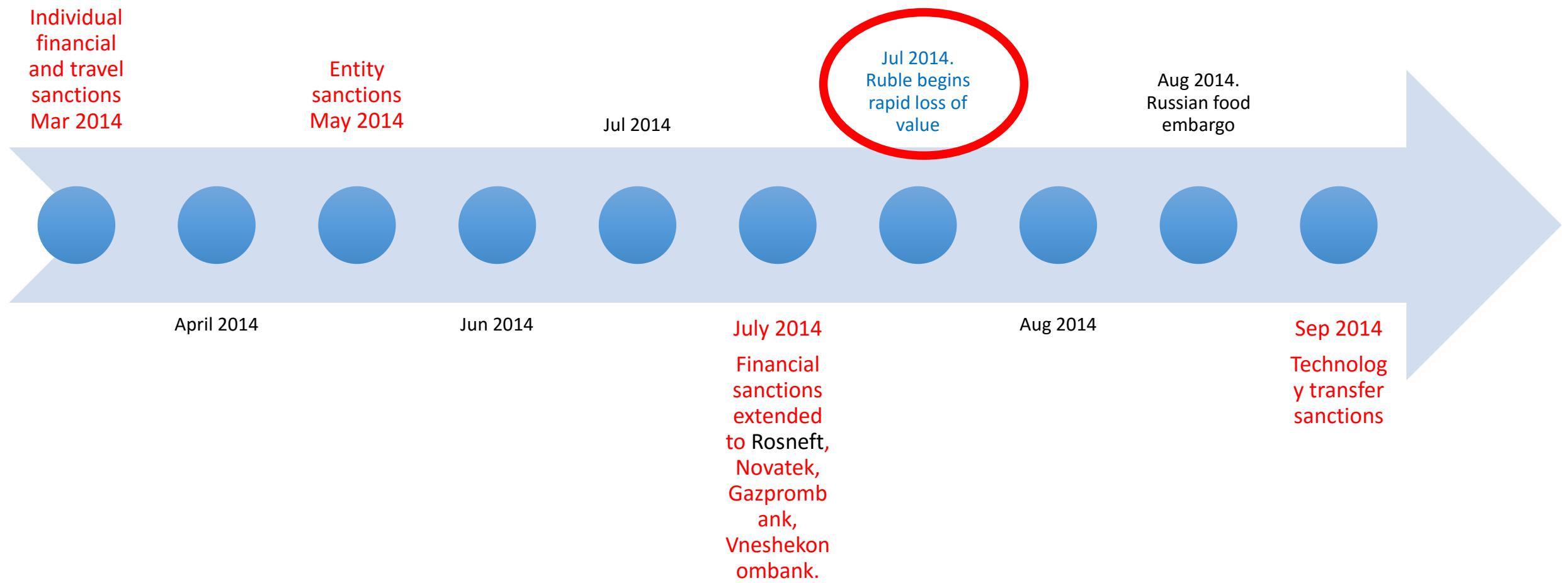
Source: IMF WEO database (July 2016).

Note: Others=Ukraine, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan.

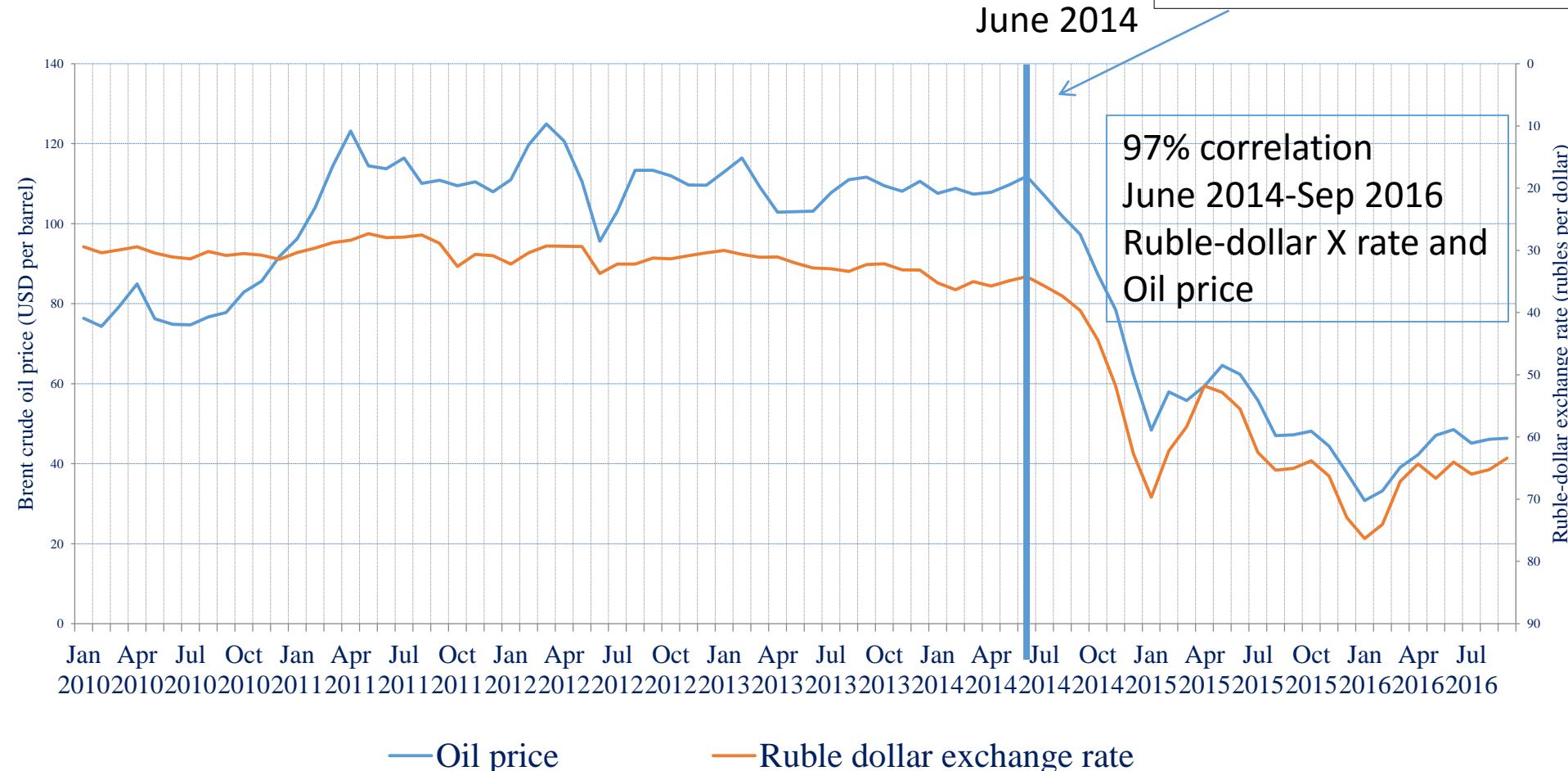
Almost all is exchange rate movements...

	2013-2015 changes (%)		
	USD value of GDP	Real GDP in LCU	LCU/USD exchange rate (2013=100)
Azerbaijan	-27	4	131
Belarus	-25	-2	179
Kazakhstan	-25	6	146
Kyrgyzstan	-9	7	133
Russia	-41	-3	191
Tajikistan	-8	10	129
Ukraine	-50	-16	273

Effect of Sanctions?



Russian exchange rate change is triggered by change in price of oil...



Decline in Russian GDP and exchange rate depreciation: Expected spillover effects on other countries

- **Trade effects**
 - Fall in Russian demand for other countries' goods/services
- **Financial system effects**
 - Outward investment flows
- **Remittances effects**
 - Drop in production should mean fall in derived demand for labor and perhaps wage decline (in some sectors). Perhaps fall in ruble value of remittances.
 - In addition, ruble value remittances are worth less due to depreciation.

Trade spillover effects

Unclear whether fall in Russian demand had an effect on partner country exports and GDP

Total exports to Russia as portion of GDP (%)

Country	2013
Belarus	23
Lithuania	14
Estonia	13
Ukraine	8
Moldova	6
Latvia	5
Uzbekistan	4
Slovakia	3
EU-28	0.9

Total exports to world (prev year=100) %

Country	2013	2014
Belarus	83	104
Lithuania	108	102
Estonia	99	99
Ukraine	93	89
Moldova	115	103
Latvia	99	102
Uzbekistan	116	109
Slovakia	105	101
EU-28	103	98

Change in GDP % (LCU)

Country	2013	2014	2015
Belarus	1.0	1.6	-3.9
Lithuania	3.5	3.5	1.8
Estonia	1.4	2.8	1.4
Ukraine	0.0	-6.6	-9.9
Moldova	9.4	4.8	-1.1
Latvia	2.9	2.1	2.7
Uzbekistan	8.0	8.1	8.0
Slovakia	1.5	2.6	3.8
EU-28	0.2	1.5	2.2

Sources: EUROSTAT, Unctad, IMF.

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Effects of Russian downturn on EU agrifood exports

**EU 28 Agrifood Exports, Total
(2014-2015, mln EUR)**

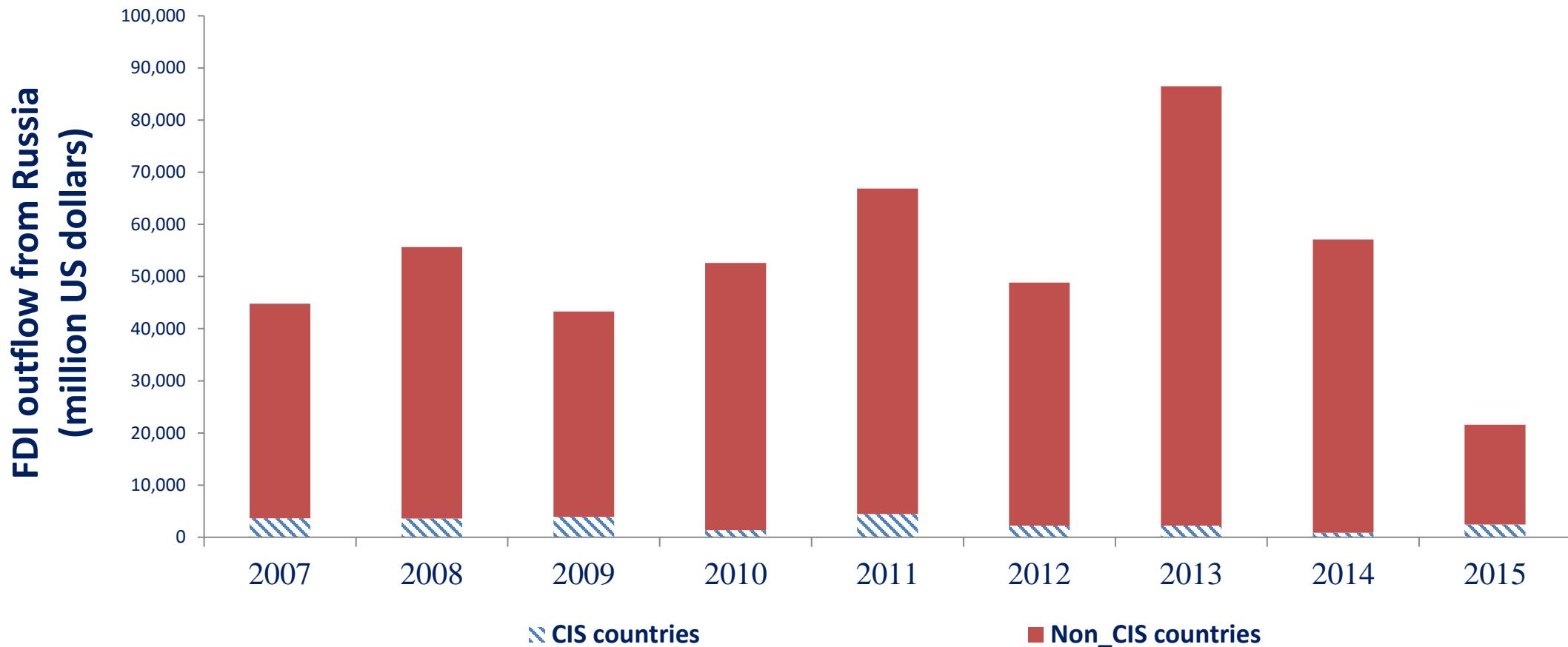
August to July	Change (%)
To all countries	6%
To Russia	-43%
Ukraine	-28%
US	16%
China	33%
Turkey	26%
Korea	29%
Egypt	26%

**EU 28 Agrifood Exports by Product
(2014-2015, % change)**

August to July	To all countries	To Russia
Bovine sector	+23	-57
Hog sector	0	-95
Poultry sector	+5	-67
Butter	+3	-99
Cheese	-14	-97
Skimmed milk powder	-10	-100
Whole milk powder	-24	-100
Fruit and Vegetables	-12	-89

Investment spillover effects

Outward net foreign direct investment flows, Russian Federation, 2007-2015



Source: Central Bank of Russia, Direct investments, 2016.

Remittance effects

Personal remittances as % of GDP of the recipient country, 2006-2014

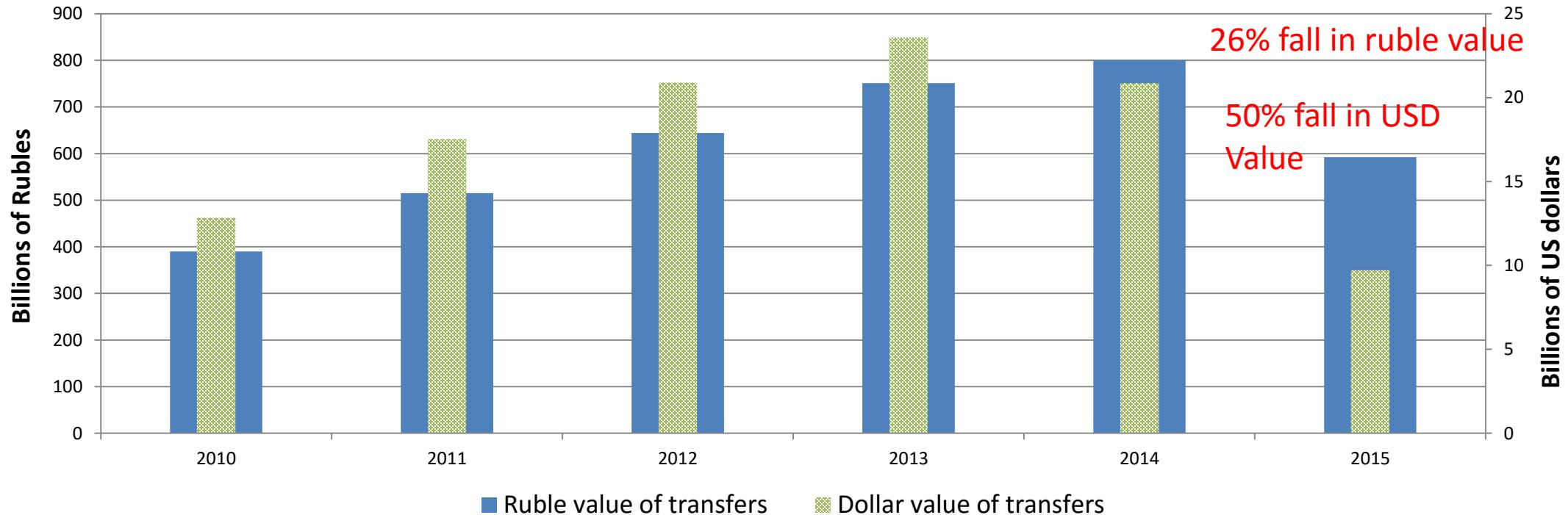
Country Name	2010	2011	2012	2013	2014
Ukraine	5	5	5	5	6
Latvia	5	5	5	5	6
Albania	10	9	8	9	9
Montenegro	7	8	8	9	9
Bosnia and Herzegovina	11	11	11	11	11
Georgia	10	11	11	12	12
Armenia	18	18	18	20	18
Moldova	23	26	27	27	26
Kyrgyz Republic	26	28	31	31	30
Tajikistan	41	47	47	50	43

Source: World Bank, WDI.

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Recorded money transfers from Russia, 2010-2015 (current rubles and US dollars)



Source: Central Bank of Russia, Cross border transfers, 2016; World Bank, WDI, 2016.

Local currency value of recorded money transfers from Russia, 2010-2015

	2013	2014	2015
Armenia drams	654,172	588,942	325,940
Kyrgyz soms	100,751	108,703	69,812
Tajikistan somoni	19,795	18,916	7,876
Moldovan lei	15,872	17,053	8,882
Previous year=100			
Armenia drams	112	90	55
Kyrgyz soms	117	108	64
Tajikistan somoni	115	96	42
Moldovan lei	111	107	52

Source: World Bank, WDI.

Effects of fall in transfers on GDP and food insecurity

- **Remittances are not counted as part of GDP in recipient country**
 - Affect GDP only through change in aggr. demand, but that depends on what they are spent on
 - Only if spent on domestic goods, they increase aggregate demand and GDP
 - Remittances spent mostly on *personal consumption*
- **Effect of remittances in 2009 Tajikistan (ILO, 2010)**
 - Remittances: 100% of income for 30% of HH, >50% of income for 60% of HH
 - 60% of remittances spent on immediate consumption needs
 - *So, it is likely that a 58% fall in the domestic value of remittances in Tajikistan had a moderate to severe effect on household food security there.*

Conclusions: spillover effects of fall in Russian GDP and ruble value

- Trade effects:
 - Uncertain, no convincing evidence that fall in Russian demand influenced GDP, except possibly for Belarus.
- Outward investment:
 - For countries outside of post-Soviet region. Dollar value falls quite substantially.
 - For post-Soviet countries, no evidence of a significant decline, except for 2014.
- Remittances:
 - In poor countries fall in remittances probably created moderate to severe household food security stress