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SAVING
LIVES
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LIVES

FOOD SECURITY SITUATION IN THE KYRGYZ REPUBLIC

FEBRUARY 2021

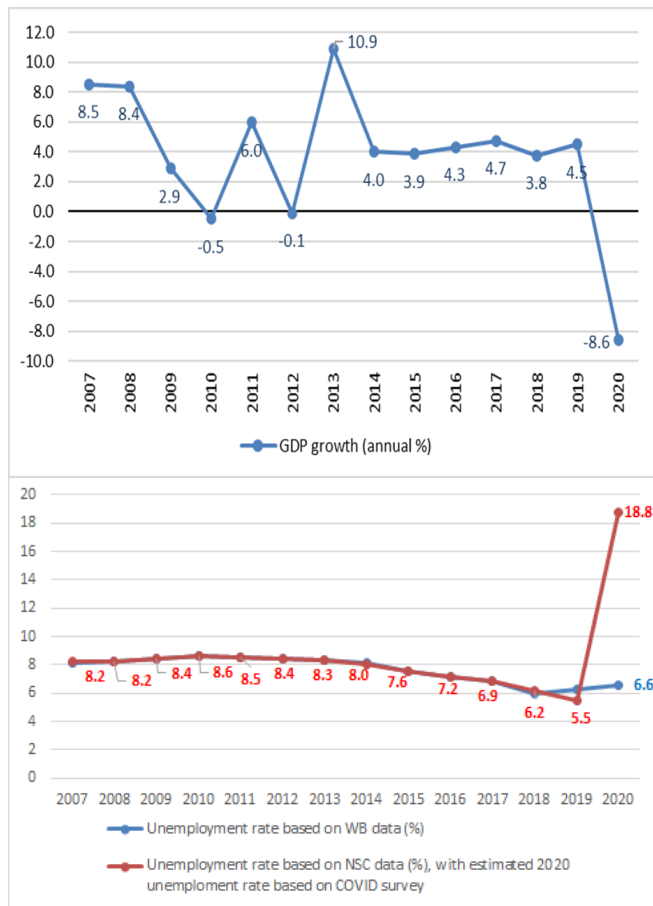
The health crisis, caused by the COVID-19 outbreak, has led to a profound economic crisis in the Kyrgyz Republic, as the country sees its economy slow down and its budgetary expenses rise. Adding to the already fragile situation caused by the pandemic, the recent political crisis and the resulting instability have led to even more uncertain prospects. The resultant ***negative socio-economic shocks are having severe consequences on food security.***

DECREASES IN HOUSEHOLD INCOME THREATEN ACCESS TO NUTRITIOUS FOOD - MACRO ANALYSIS

According to the National Statistics Committee (NSC), in 2020 the Kyrgyz Republic's GDP amounted to 598.3 billion Kyrgyz soms (KGS), a decrease of 8.6% compared to 2019¹. Negative trends were observed in the construction, wholesale and retail trade sectors.

As elsewhere, the contraction in economic growth has led to a decline in the population's income -experienced by 54% of households²- and to an increase in the ***unemployment rate***, leaving a large number of people unemployed and without sources of income. A recent assessment on the impact of COVID-19 shows that unemployment may be more severe than predicted as 22% of households reported that at least one member had lost his/her job³. Using these results, the minimum number of newly unemployed could be estimated around 344,200 people or 13.3% of economically active population⁴. Adding to the 140,900 people (5.5% of economically active population) who were unemployed prior to the crisis, assuming they had not found employment in the meantime, the estimated minimum unemployment rate reaches 18.8%.

Graph 1: Gross Domestic Product & Unemployment rate (%), 2007 – 2020)



Source: WB, NSC and author's calculation

Given the high share of *informal employment* (73.8% in 2018, ILO⁵), the situation is particularly severe for those “invisible” to the formal employment systems, by large, urban and semi-urban populations. With the lost livelihood opportunities, these people are now required to become visible to the institutions in order to have the possibility of access to the social assistance system.

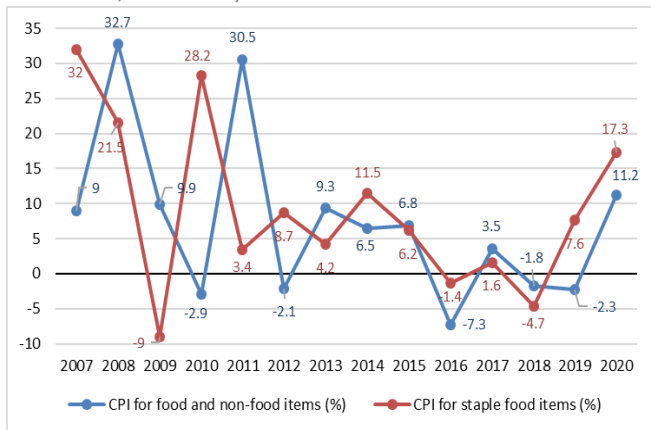
In 2018, more than 740,000 Kyrgyz citizens were registered as *migrants* in different countries, with Russia alone absorbing over 86% of all Kyrgyz migrants⁶. Due to the COVID-19 crisis, about two-thirds of migrants (63%) have reported losing their jobs. As unemployment is becoming an issue all over the world, both migrants remaining abroad and returning home are at risk of becoming food insecure⁷. The assessment showed that most migrants are willing to return back to Kyrgyzstan to look for jobs or open their own businesses to help boost the economy and development of the country. The surge of migrants returning could lead to an increase in unemployment and further limit access to basic resources, including food as they compete with the local

population for income-generating opportunities. This puts additional pressure on the government to deal with unemployment and those in need of social protection, especially in rural areas.

Apart from representing about 30% of the country's GDP, *remittances* are a primary source of income for many households and in 2019, they contributed to reducing the national poverty rate by 11 percentage points indicating that 715,000 people rely on them to remain out of poverty⁸. As a result of the pandemic, in Central Asia, 83% of migrants either lost or had a reduction in their usual income and, among those who have lost their jobs, 90.2% were unable to transfer money to their homeland⁹. Although a significant decrease in remittances was forecasted compared to last year, official statistics from the NBKR showed only a minor decrease in the inflow of remittances (-1.63%) and even a marginal increase (+1.2%) when the net inflow was considered, due to a considerable decrease in outflows. Most likely, with travel restrictions, remittances that were sent ‘informally’ before are now sent through formal channels or money transfers, hindering the ability of official statistics to capture the real impact of the pandemic on remittances. A recent assessment showed that a decrease in volume was experienced by 85% of family receiving remittances from a family member abroad¹⁰. Therefore, although not quantifiable, we could assume a sizeable drop in remittances in 2020. ***Together with rising unemployment and the reduced purchasing power due to higher prices, the reduction or loss of remittances' income not only jeopardizes the food security of vulnerable households, but also increases their risk of falling into poverty.***

Rising food prices are impairing access to food – as the main staples like wheat and flour have increased by 25-30% in price compared to 2019. This trend is confirmed by the Consumer Price Index (CPI) which on average has increased by 17.3% for cereals, meat, fish, milk and dairy products, fruits and vegetables. Recent simulations by the World Bank indicate that a 5% increase in consumer prices alone can increase the national poverty level by 3.6 percentage points.

Graph 2: CPI trend (% of food and non-food items & % of staple food items, 2007-2020)



Source: WB and NSC

Apart from the reduced availability of food and higher prices, during the lean season access to food is also hindered for 20.4% of the economically active population that derive their livelihood from agriculture (WB, 2020) as they face lower income having invested in sowing but earning a profit only after the harvest is sold. Therefore, it is particularly crucial to keep monitoring the food security and nutrition situation in the country during the lean season in order to promptly address critical situations.

One of the main drivers of the food price surge in Kyrgyzstan is the **depreciation of the national currency** owing to the country's high reliance on imported food - around 47% for wheat¹¹, 37% sugar and 84% for vegetable oil. Notwithstanding that the National Bank of the Kyrgyz Republic (NBKR) has already sold USD 379.5 million in foreign exchange reserves since March, by February 2021 the Kyrgyz som depreciated by 21.2% vis-a-vis the US dollar compared to last year (pre-COVID estimate), after a prolonged period of stability. At the end of December 2020, reserves amounted to USD 2.81 billion – USD 136.1 million less than two months earlier.

Coupled with the shrinking of the economy, higher expenses to counter the crisis have widened the **budget deficit** run by the national government, which now amounts to KGS 29.76 billion (USD 360 million), 5.1% of GDP¹². A deficit will also be carried into 2021, amounting to KGS 8.4 billion (USD 10.1 million) or 1.3% of GDP¹³. **The tightening of the overall budget may have repercussions on the availability of funds for enhancing**

social protection schemes to cover the 'new poor'. From January to November 2020, due to the economic crisis, the number of poverty benefit recipients ("ui-buloogo komok" allowance) has increased by 7%, from 96,080 to 102,504 households with children¹⁴. As a 'shock-response' support, in addition to already existing social protection programmes, one-off food assistance to poor families, people with disabilities, newly poor and unemployed was provided. Families needing food assistance had to call via an ad hoc hotline. Since the beginning of the pandemic, 683,295 people have applied for food assistance to the Ministry of Labour and Social Development, which has been able to accommodate 523,880 applicants thus far¹⁵.

Loss of income sources or a decrease in volume, enhances households' vulnerability as they are likely to adopt **negative coping strategies**. According to the latest impact assessment on COVID-19, as a result of economic hardships, 44% of households have cut food costs by decreasing their food consumption and/or by moving towards less expensive but less nutritious food options. This behavior is detrimental to further development, perpetuating the cycle of poverty. Moreover, through a rapid assessment conducted by WFP in May, 82% of respondents compared to 58% in 2019 have already applied some form of asset depletion coping strategy. This indicates a **reduced ability of households to deal with shocks, a reduction in current and future productivity, and human capital formation**.



Photo: WFP/ Dilshod Ismonaliev

ADDING FUEL TO THE FLAMES: POLITICAL INSTABILITY AFTER OCTOBER'S PARLIAMENTARY ELECTIONS

The political unrest in October was an additional strain on the country's economy costing over USD 100 million, including the damage caused by the looting of large companies, according to preliminary estimates of the International Business Council of Kyrgyzstan. The unrest negatively affected the investment climate in the country, weakening investors' confidence thus influencing investment, including foreign direct investment (FDI). Within just the week following the elections, the Kyrgyz som lost 3% of its value, impacting food prices.

The political instability also delayed the approval between Kyrgyzstan and Russia of an indicative balance that determines the volumes of duty-free deliveries of fuels and lubricants. Kyrgyzstan relies on oil and gas imports, mainly from Russia and Kazakhstan, for more than half of its energy needs particularly during the winter months when hydropower production is low (IEA). The agreement was strongly requested by oil traders who had warned the Government that available volumes would not have been enough to last until the end of the year¹⁶.

Political instability is likely to further disrupt the ability of people to have access to food. For a long-term perspective, it may also affect the availability of food in the markets, seriously undermining the food security and nutrition situation in the country.

WORSENING AN ALREADY FRAGILE SITUATION

Poverty: Around 20% or 1.2 million of Kyrgyz citizens lived on less than USD 1.2 a day¹⁷ (KGS 2,748 per capita per month) in 2019 (NSC), with a high concentration of the population living just above the national poverty line. In total, 0.5% of the population lived in extreme poverty, earning less than USD 0.65 a day (KGS 1,476 per capita per month). As a result of the pandemic, Kyrgyzstan's poor population is projected to increase by another 10%, resulting in about 1.9 million poor people in the country¹⁸.

Food Security: Household living below the poverty line spend on average 70% of their income—80 cents, if they earn USD 1.2 per day—to cover their basic food needs,

according to the World Bank¹⁹. The share of income spent on food is an indicator of food security as the poorer and more vulnerable a household, **the larger the share of household income spent on food and the higher the vulnerability to fluctuation in prices on both the quality and quantity of household food consumption**. A high share of income spent on food leaves households little room for other expenses like education and health services, hindering their ability to graduate out of poverty. In 2019, it was estimated that 46% of the population consumed less than 2,100 kcal per day²⁰, implying that the poor (and those just above the poverty line) do not meet their daily adequate energy consumption.

The situation is more dramatic in regard to a nutritious diet as up to 76% of households could not afford a nutrient adequate diet prior to the crisis²¹ (SOFI, 2020). In the Kyrgyz Republic, dietary patterns are characterized by a high consumption of wheat, potatoes and sugar, undermining the nutritional status of individuals. Consumption levels of nutrient dense food, such as meat, milk and their products have substantially decreased compared to 1990, while consumption of wheat and wheat products have remained unchanged during the same period. **An adequate diet is vital for all-round growth and development, which ultimately leads to an improved quality of life, the graduation out of poverty, and the ability to break the poverty cycle.** In 2020, the World Bank estimated that 40% of the productivity of the next generation of workers is already lost relative to the benchmark of complete education and full health²².

Households that live above the national poverty line but below the minimum subsistence level²³ (53% of population according to calculations (KIHS 2018)) are at risk of becoming the 'new poor' if they are unable to recover from the current crisis. **A considerable share of the population falls into the 'vulnerable' category** as, in 2020, the minimum subsistence level was almost twice as high as the threshold of the national poverty line, reaching USD 2.31²⁴ a day (KGS 5,358.53 per capita per month) of which USD 1.5 a day (KGS 3,483.06 per capita per month) only to cover food products²⁵. The amount of minimum subsistence level has grown by 11.5% compared to last year, in line with the rise in inflation.

A CONCERNING WAY FORWARD

1) Gloomy forecasts for 2021: Inflation & Food prices

The health, economic and social crisis led by the COVID-19 will have profound repercussions in 2021. The NBKR forecasts that in 2021 the average inflation rate is expected to be around 6.5-6.8%, as prices for almost all types of goods are continuing to rise. The following are among the factors that are likely to affect food prices in 2021:

- Given its deep integration in regional trade, events in the main partner countries of the EAEU, Russia and Kazakhstan in particular, have a chain reaction in the economy of the Kyrgyz Republic. Thus, unpredictable policies from larger neighboring countries could cause price shocks. For example, as Kazakhstan is a main exporter of wheat in the region and the Kyrgyz Republic a net importer of both wheat and wheat flour²⁶, a key risk for both Kyrgyzstan and the region as a whole could be the possible introduction of more stringent tariff and non-tariff regulation measures by Kazakhstan²⁷ also to the EAEU countries. If introduced, these measures will likely increase the price of wheat, with dire consequences on the food security of the population of the Kyrgyz Republic for which wheat is the main staple. Russia, one of the world's largest wheat exporters, has imposed an export quota limiting the export of grains (including wheat, corn, rye, and barley) to 17.5 million mt and an export tax on wheat of USD 30.32 per mt from 15 February to 30 June 2021 to non-EAEU countries²⁸. This has been done in an attempt to stabilize domestic food prices. In case this leads to increased grain supplies to EAEU countries, these actions could have a positive effect on stabilizing the price of grains, including in the Kyrgyz Republic.
- The exchange rate, affected by trade flows and foreign currency inflows. If the national currency continues to depreciate, all food and consumer goods that Kyrgyzstan imports will rise in price.
- Another factor influencing food prices in Kyrgyzstan is the cost of fuel. Despite the fact that the Kyrgyz som is not directly related to the oil market, it has reacted to the decline in oil quotes due to its sensitivity to regional dynamics. With a large share of migrants living in Russia (and remittances amounting to 30% of GDP), the economy of the

Kyrgyz Republic is influenced by the economic growth in the Russian economy. Since the beginning of 2020, crude oil prices slumped dramatically following the 'Russia–Saudi Arabia oil price war' in March 2020 and the decline in consumer demand with the spread of the COVID-19 pandemic, further impacting the global economy. The reaction of the Kyrgyz economy to decreasing oil prices could be due to the fact that oil accounts for over 30% of Russia's gross domestic product and over 60% of its exports²⁹. Between January and July 2020, Russia earned 37.7% less from oil exports than the previous year³⁰. Although since mid-November 2020 oil prices have experienced slight increases as the hope for the development of successful coronavirus vaccinations spread, demand is not expected to fully recover before 2022.

- Moreover, the food sector in general is likely to face increased production and distribution costs associated with compliance to COVID-19 prevention measures³¹.

2) Impact of new COVID-19 strain & Vaccination Plan

A new, more contagious strain of coronavirus has emerged and is now spreading in the UK and several other countries. Although there is no evidence on the new strain being more deadly, it appears to be up to 70% more contagious³², according to British health officials, leading countries to take more stringent measures at borders, and sanitary and epidemiological controls have been strengthened, including at the borders of the Kyrgyz Republic.

As of 20 January 2021, the total number of cases of COVID-19 in the country amounted to 83,430 with 1,392 casualties³³. A second spike in cases would have a tremendous impact on the already-fragile economy. Considering how the economy had shrunk during the first wave, although now more prepared, the country will have to undergo significant expenditures to enhance its health services.

The Ministry of Health (MoH) of the Kyrgyz Republic has developed a National Plan for the deployment of vaccinations against COVID-19 in three stages, which was submitted it to the Ministry of Finance. The first stage is expected to cover high risk groups (less than 3% of the population), including medical workers, health professionals in long-term care facilities, vaccinators and teachers.

The second stage will be carried out using vaccines received under the COVAX program for the elderly (aged 60 and over), people with clinical risk factors and the socially vulnerable. The COVAX programme is predicted to reach more than 1.3 million people in the period from June to July 2021. The third stage of vaccinations will continue at the expense of the state and donor organizations for the remaining populations³⁴.

3) Credit Line Disruptions & Impact on MSMEs

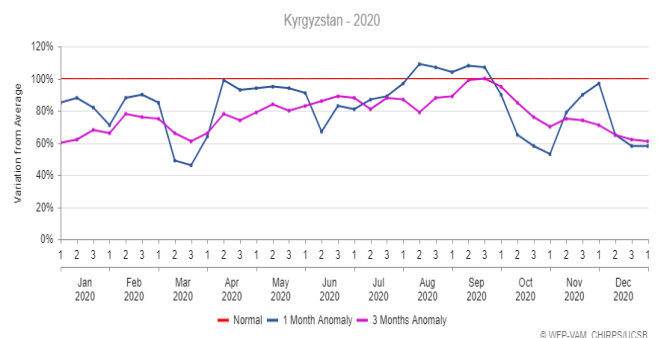
After a preliminary analysis conducted in March 2020, the IMF decided to provide emergency support to the Kyrgyz Republic amounting to USD 242 million given the magnitude of the expected financing gap (USD 500 million)³⁵. With this emergency support, the IMF aimed also to catalyze other donors' support to fill the financing gap. In July, the World Bank approved a financial package of USD 121 million to help mitigate the unprecedented health, economic, and social challenges caused by the COVID-19 pandemic³⁶. In August 2020, the Eurasian Fund for Stabilization and Development (EFSD) decided to provide Kyrgyzstan with a USD 100 million loan.

The widespread concern among donors about the legality of the October political events, calling the new government to uphold the Kyrgyz Constitution and the rule of law, influenced the continuation of aid disbursement. Russia had suspended the provision of any financial support to the Kyrgyz Republic until the political situation in the country stabilized³⁷. Unfortunately, the EFSD loan was cancelled as the availability period for disbursement expired on 31 December 2020. As the loan is not transferable to 2021, the Kyrgyz Republic will have to undergo the application process again. This is likely to have repercussions on the national budget estimates for

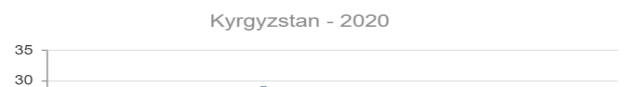
4) Climate Change impacts on the agriculture sector & Exposure to natural disasters

Agriculture is the most climate-sensitive sector, since its productivity depends on climatic conditions such as precipitation levels, the seasonal distribution of rainfall and the moisture content during the growing season. Over the past five years, anomalies in precipitation from March-June have impacted the timeline of the planting season and/or affected lower valley plantings. These anomalies in climate were observed in the country throughout 2020 due to climate change and have been already detected this year as some areas of the country have experienced below-normal rainfall in January-February 2021³⁸. The stability of the agriculture sector and produce prices remains at risk in 2021 as below-normal rainfalls with above-normal temperatures are predicted for Kyrgyzstan during March-July 2021 (due to the impact of La Niña climate pattern)³⁹.

Graph 3: Rainfall anomalies - ratio between rainfall for the current year and the long-term average



Graph 4: Average rainfall and rainfall predicted levels based on historical observations



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