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Research Report

Food policy measures in response to COVID-19 in Central Asia and the Caucasus: Taking stock after the first year of the pandemic

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Food policy measures in response to COVID-19 in Central Asia and the Caucasus: Taking stock after the first year of the pandemic

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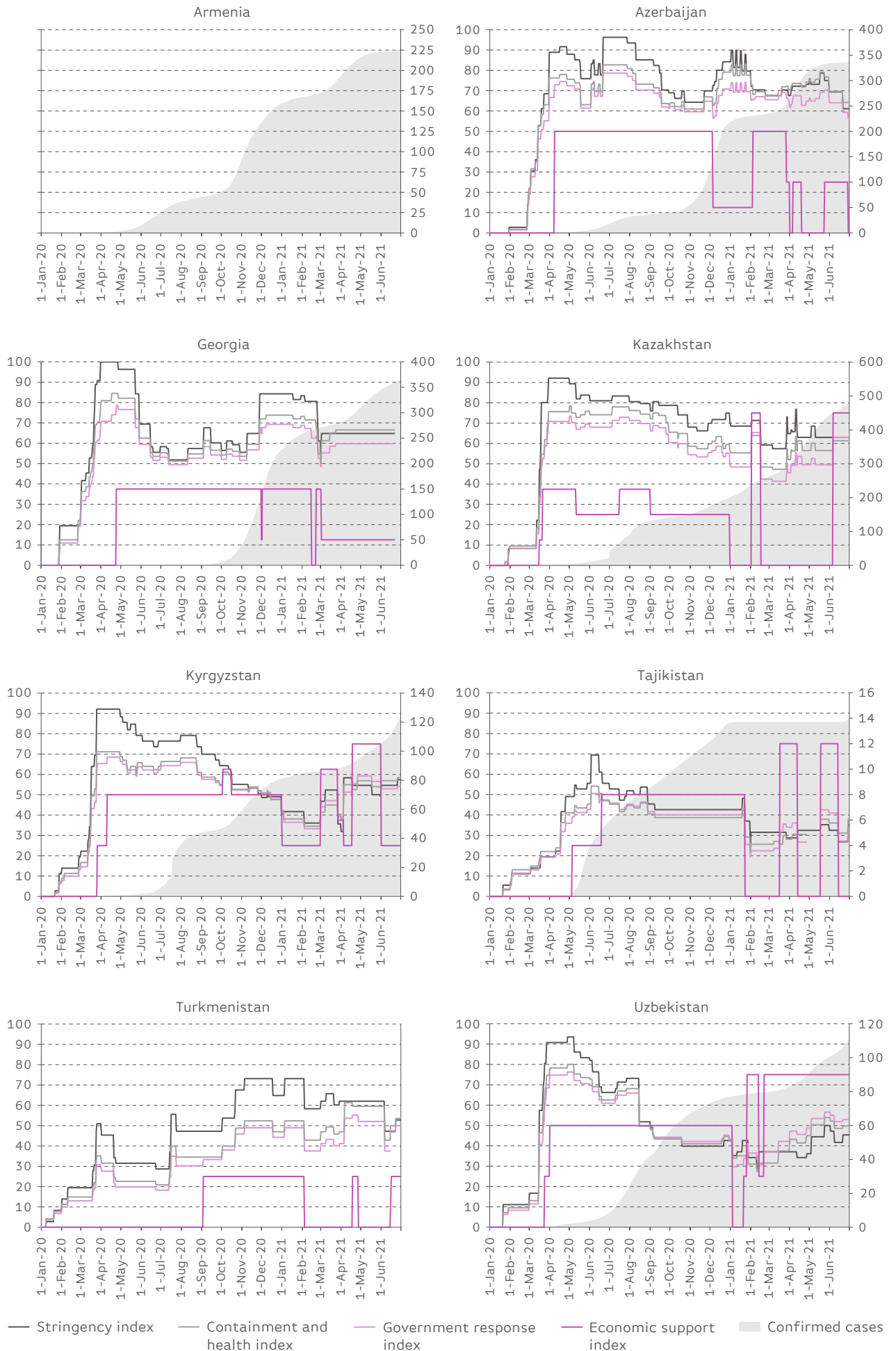
Despite initial concerns of catastrophic outcomes, the COVID-19 pandemic and the resulting lockdown measures did not severely affect regional agriculture in Central Asia and the Caucasus. They did, however, affect food supply chains in terms of demand and logistics. Food prices were volatile throughout 2020 and particularly high in countries with currency depreciation. However, the on-going COVID-19 pandemic as a human and health crisis presents an ever increasing risk to the economies of Central Asia and the Caucasus. The global implications of the pandemic, combined with a decline in oil and gas exports and migrant remittances, could impede recovery and undermine economic stability in the region. Policymakers should avoid disrupting domestic food supply chains and placing barriers to trade through export bans and quotas. At the same time, they must ensure food security and reduced price volatility through diversified trade networks. Deeper domestic value chains and efficient management of public and private food stock reserves will better prepare countries to face the continuing effects of the COVID-19 pandemic. Better-informed and targeted policy responses to a pandemic require improved national systems of nutrition research and monitoring, and timely availability of data not only relating to production but also to other levels of the agrifood chain.

COVID-19 in Central Asia and the Caucasus

The COVID-19 pandemic hit the Central Asia and the Caucasus (CAC) region in the first quarter of 2020 before further spreading in different waves—during the summer in Central Asia and autumn in the Caucasus. Turkmenistan is the only country in the CAC region, and one of few globally, that has not officially confirmed any COVID-19 cases. To protect human lives and prevent their health systems from collapsing, the CAC governments opted for a range of measures that varied in degree of strictness and reflected the high level of uncertainty that prevailed particularly at the onset of the pandemic. Figure 1 shows the country comparison of the level and timing of various policy indicators based on the Oxford COVID-19 Government Response Tracker (OxCGRT).

While all countries introduced at least some measures to reduce person-to-person contact and mobility, measures to stimulate economic recovery were more heterogeneous. The overall government response index shows that CAC governments, except for Tajikistan and Turkmenistan, responded with stricter measures in early spring 2020 when the pandemic was first entering their countries. The variation in the intensity of measures reflects the state of outbreaks in the different countries in the region. In the third quarter of 2020, despite a persistently high infection rate, Kyrgyzstan, Tajikistan and Uzbekistan began to relax containment measures as the strict lockdowns were considered economically unsustainable. In the Caucasus countries, where outbreaks re-emerged in autumn 2020, containment measures remained relatively stringent.

Figure 1: Indices of government responses (1–100) and reported COVID-19 cases (1 000 people), right scale
 Note: OxCGRT data on Armenia are not available. The Turkmenistan government is yet to officially confirm any COVID-19 cases. Therefore, data on case numbers are not available. Source: Authors based on Hale et al. (2021).



Agriculture and food policy measures

In the agricultural sector, the governments introduced new measures to minimise the economic effects of disruptions in agrifood supply chains. The character and extent of the measures varied from country to country due to political weight and financial capacities. The measures mainly focused on providing relief to agricultural producers and processors by postponing, reducing or eliminating interest rates, loan repayments, taxes and social contributions. As a general approach, most countries introduced tax and subsidy incentives such as a reduction of taxes on certain agricultural activities and processing. Temporary reductions in VAT, aimed at stimulating consumer demand, were also introduced. The governments implemented a targeted fiscal stimulus for businesses and households, which would ease the financial burden of the pandemic, particularly in smallholder farming systems. In all countries, business policies that covered agrifood processors and traders applied a grace period for loans of three to six months for small and medium-sized enterprises, as well as tax postponement or temporary exemptions from taxes for agrifood processors.

To ensure sufficient supplies of food and curb increasing food prices, several countries in the CAC region temporarily introduced export restrictions, lower/zero import customs duties and import subsidy programmes for most essential food products. Social protection measures varied across countries, and typically included food aid, one-time assistance payments to vulnerable groups, and food-price controls. The major challenge for the governments was that in some cases vulnerable people were not targeted quickly enough or not targeted at all, in particular returning migrants and remittance-dependent households.

Macroeconomic impact

The COVID-19 pandemic affected the region's major income sources, such as oil revenues, remittance inflows, and tourism, and resulted in the contraction of the general economy of the CAC countries, which in 2017–2019 had high economic growth rates (OECD 2020). Although GDP declined on average by 1.9 per cent across the eight countries of Central Asia and the Caucasus, some countries still reported positive growth rates (World Bank 2021). Kyrgyzstan, Armenia and Georgia experienced the most severe economic declines, while Tajikistan, Turkmenistan and Uzbekistan reported positive growth rates in 2020, although substantially lower than in previous years. The economies did not fully recover after the containment measures were eased or lifted in the second half of 2020. The Caucasian countries further suffered from the surge in COVID-19 cases in October. The military conflict between Armenia and Azerbaijan added to economic decline in these countries.

In comparison with 2018–2019, national exchange rates with respect to the US dollar were more volatile over the course of 2020 placing a

burden on terms of trade of import-dependent countries of the region. During the first lockdown measures in March–April, the currencies of several CAC countries depreciated with respect to the US dollar. The abrupt drop in the economies of major trading partners, mainly Russia, further contributed to the currencies' depreciation. For oil exporters of the region, the OPEC+ output cuts and slowdown of the global economy in early 2020 weakened the value of the official exchange rates.

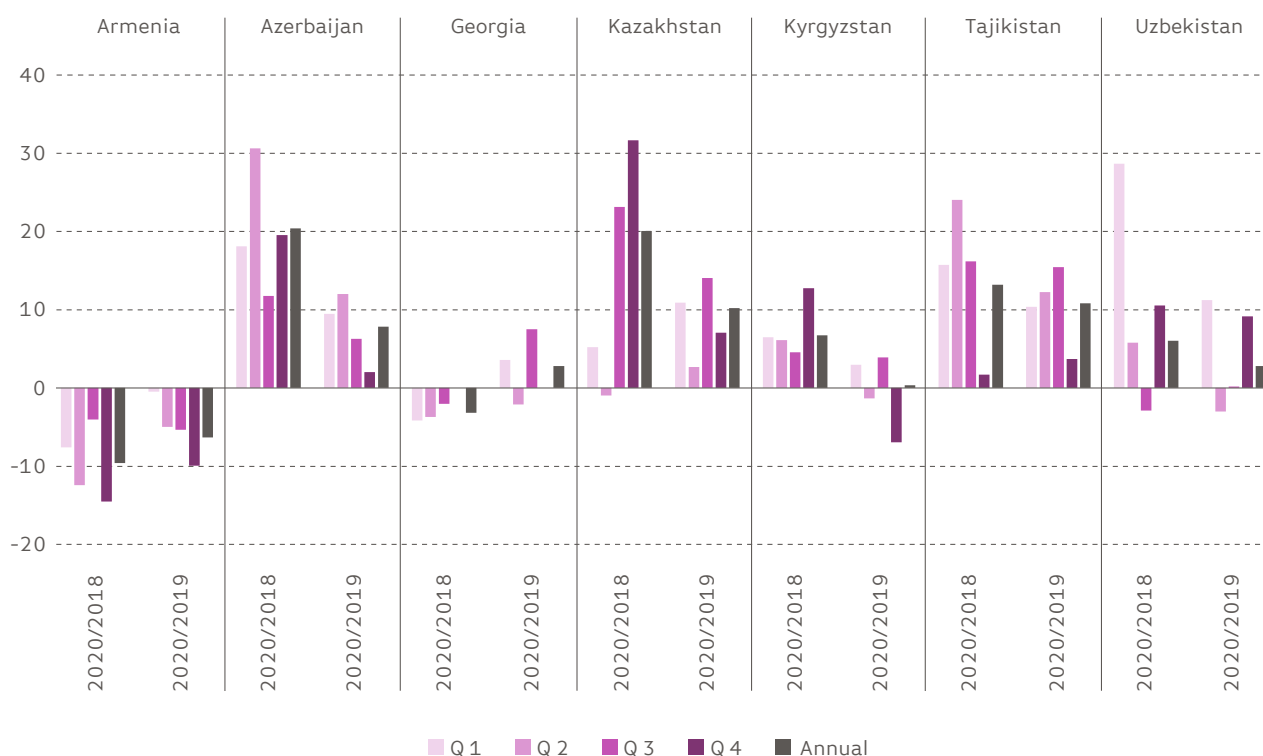
The pandemic resulted in an unprecedented reverse migration to the CAC region that provided a large downside shock to remittance inflows in March–May. The closure of urban sectors, such as service and construction sectors in destination countries, drove many seasonal migrants home. Bans imposed by border countries and Russia, as a major destination country, meant many intending migrants from the CAC region were not able to leave their countries. For the remittance-dependent economies, Armenia, Kyrgyzstan, Tajikistan, and Uzbekistan, the sharp decline in remittance inflow contributed to the weakening of their currencies. The devaluation of the national currencies of the Russian Federation and Kazakhstan in March further added to this dip. Despite the overall projected decline of remittances in 2020, in total, annual remittances could recover in the second half and in some instances produced a rebound.

Impact on agriculture and food markets

Despite fears of catastrophic outcomes for agriculture, available preliminary information shows that agricultural production in the CAC region was not affected by the pandemic or the lockdown measures. In fact, it saw a growth due to favourable weather conditions in 2020. The official statistical data of gross agricultural output (GAO) suggest that agricultural production in all CAC countries, except Armenia, was resilient to the shocks of the pandemic (Figure 2). Despite the lockdown measures, agricultural production in 2020 exceeded the 2018/19 levels in most of the countries, making the sector one of the drivers of economic recovery in 2020. Agricultural producers benefitted from lower input prices of imported fertilizer and diesel fuel, but were affected by the continuing growth of animal feed prices. The transportation ban at the onset of lockdown measures did not have a severe impact on the supply and sales of farm inputs. Furthermore, regional farmers benefitted from the reverse migration that brought additional hands to agriculture.

While the production of agricultural goods appears to have been less affected, food supply chains were largely impacted by the COVID-19 pandemic in the form of disruptions to demand and logistics. Decreased demand from the catering and hospitality sector, as well as the closure of open-air bazaars, increased the need for storage and cooling facilities, as farmers had to switch to other marketing channels. There was a significant decline

Figure 2: Changes in quarterly and annual GAO in 2020 compared to corresponding periods in 2018 and 2019, % change
 Source: Authors based on the official data of national statistical agencies.



in food retail turnover as shops and food markets were closed during the peak of the COVID-19 pandemic. Moreover, logistical problems, such as the storage of high-value agrifood products, and catering and hospitality closures, reduced demand from food processors.

The domestic consumer market in 2020 demonstrated high volatility. Lockdowns and numerous restrictions on movement affected the supply and demand of consumer goods, and food prices. Overall, the region experienced a substantial surge of consumer prices, particularly in the countries where local currencies depreciated. The severity of stay-at-home orders at the start of the pandemic increased the prices of bread, meat, milk, fruits and vegetables during March–May due to decreased imports, delivery problems, the closure of local markets, as well as panic buying and hoarding.

The governments responded with food-stabilisation policies, including price subsidies for food importers, export restrictions, and price ceilings – although with different degrees of success. Although in the absence of subsidies, food prices could have increased even more, it appears that state measures were not able to eliminate fully the adverse impact of local currency depreciation and the pandemic. The second wave of inflation happened at the end of 2020 and might be associated with the overall growth of world food prices, supply disruptions in the regional markets, and further national currency depreciation.

Agrifood trade proved to be resilient in the face of the pandemic in 2020 and did not experience significant disruptions. Many categories of exports initially fell in response to weak external demand,

as the major trading economies contracted substantially in 2020. However, over the course of the year, agrifood exports from the CAC countries rebounded quickly, reaching normal levels. Agrifood imports also experienced a modest decline, reflecting decreased domestic demand due to the faltering tourism sector, as well as the reduced incomes of the local population.

Recommendations

Potential policy options to increase the resilience, robustness, and adaptability of the agriculture, food, and rural sector to a similar pandemic or other risks in the future in the CAC region are listed below:

- The governments should maintain and expand free international trade relationships for food items. Trade restrictions that banned food exports have proved to be the worst possible response to safeguard the agriculture and food sector collectively.
- Longer-term policies should not only strengthen domestic production of major food products, but also target diversification of import as well as export markets. More diversified trade networks are expected to contribute to a reduction in price volatility. For imports, especially for foods with a high share of the consumption basket, greater diversification of origin countries can contribute to ensuring food security. Similarly, more diversified export destinations for perishable fruits and vegetables would provide a buffer against demand shocks in individual countries.
- Governments should focus on deepening domestic value chains by stimulating the production of

higher value-added processed food products with a longer shelf life, and enable producers and processors to meet international food safety standards.

- Governments should build an efficient and transparent system to manage public and private food stock reserves as this is vital to being better prepared for any continued COVID-19 crisis.
- More needs to be done to improve reintegration of returning migrants and include them in the labour market. Governments should increase investment in both returning migrants and future labour migrant capacities, as this is crucial to

increasing the positive impact of remittance inflows to the economy and successfully reintegrating returning migrants.

- The lack of frequently collected high-quality data is the main challenge preventing the proper assessment of the impact of COVID-19 on food supply chains. Hence, the priority should be to ensure the timely availability of data for analysis and policy design, not only relating to production, but also to other levels of the chain, including consumption in the hospitality sector, dynamics of migration and remittances, home consumption, processing, and prices.

Further Information

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