Measuring the pass-through effect of global food price volatility and South Africa's CPI on the headline inflation of Zimbabwe

Gabriel Mhonyera, Stein Masunda and Daniel Francois Meyer

Abstract:

Pronounced food price volatility has challenging effects on the macro-economic performance of countries. Particularly, large food price swings can generate rippling effects on inflation and poverty. This article examines the inflation effect of global food price volatility and South Africa's Consumer Price Index (CPI) on Zimbabwe using annual data spanning 1995 to 2019. Using the Generalized Autoregressive Conditional Heteroscedastic (GARCH) techniques for volatility mod-elling and a standard backward-looking Phillips curve framework that controls for an output gap, the results of this article indicate that volatility of global food prices and the variations in South Africa's CPI are significantly transmitted to Zimbabwe's headline inflation. For instance, every 10% increase in global food prices results in 33% of the variation being passed through into the headline inflation of Zimbabwe. For South Africa's CPI, the results indicate that about 228% is passed through into Zimbabwe's headline inflation for every 10% increase in prices. Policymakers in Zimbabwe, therefore, should be wary of global food prices and South Africa's CPI and it is also fundamental that the country improves its food processing capacity in terms of both the revival and efficacy of existing manufacturing facilities within its food industry.

Keywords: CPI; food price volatility; GARCH; headline inflation; pass-through effect; South Africa; Zimbabwe