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IMF Is Helping Countries Respond to Food Price Crisis

The IMF is helping low-income countries hit by high food prices take appropriate policy action while providing financial assistance to some of the worst-affected nations, Managing Director Dominique Strauss-Kahn said.

In remarks prepared for a June 3–5 United Nations conference in Rome on world food security, Strauss-Kahn said that high food prices were stoking worldwide inflation and undercutting the economies of low-income countries, particularly in Africa.

The IMF has doubled financial assistance to four low-income countries affected by food and fuel price hikes and is discussing additional support with another 11 countries, Strauss-Kahn told delegates. He said that Burkina Faso, the Kyrgyz Republic, Mali, and Niger received the extra aid.

The IMF said on May 29 it was giving an extra $21 million to the landlocked West African nation of Mali to help with the crisis and boosting assistance to the Kyrgyz Republic, a mountainous Central Asian country, by $14.4 million.

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Maya Vidon/AFP

Rice harvest in Doro, Indonesia: the IMF says the food price crisis can be managed and that action is a "moral and economic imperative."

Inflation Risks Have Reemerged

IMF First Deputy Managing Director John Lipsky has called for a strong policy response by governments around the world to address commodity supply bottlenecks and longer-term supply issues while tackling inflationary risks.

Lipsky warned in a May 8 speech at the Council on Foreign Relations in New York that the recent pickup in inflation around the world in part reflected the impact of higher energy and commodity prices. "This inflation speed-up must be taken seriously, as it creates potentially significant challenges to economic stability that could undermine prospects for restoring the combination of solid growth and low inflation that prevailed earlier in this decade," he said.

Demand for commodities has remained robust because of strong growth in emerging and developing economies, led by China and India, whose growth is more energy- and commodity-intensive than that of more developed economies.

As spare capacity and inventories have dwindled, the oil market has become highly sensitive to news of supply disruptions and geopolitical events. This has pushed oil prices

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Khaled Desouki/AFP

Filling up a car in Cairo, Egypt: world oil markets are expected to remain under pressure.

Turkey's Challenge

Turkey's economy has performed well since the 2001 crisis, but is now facing less favorable external conditions.

Global developments are creating headwinds for growth, inflation, and external financing. The current environment poses a policy challenge for Turkey, as it does for many emerging markets.

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Address editorial correspondence to:

Current Communications Division
Room 7-106, IMF, Washington, DC 20431 U.S.A.
Tel.: (202) 623-8585; or e-mail any comments to imfsurvey@imf.org.

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Inflation risks

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to all-time highs in real terms, surpassing their 1979 peak by some 16 percent.

The IMF also forecasts that food prices will remain high.

Policy responses

Lipsky said that, in the IMF's view, policies must adjust both to the reality of permanent relative price shifts and, in some cases, to a broader resurgence in inflation.

Advanced, emerging, and developing economies alike have a role to play in ensuring that policies do not hinder the restoration of demand-supply balances in commodities markets. He identified a number of appropriate structural policy responses:

• ***Promoting a demand response while cushioning vulnerable groups.*** Given that some portion of the latest increases in oil prices appears to be durable, allowing a demand response to the reality of higher oil prices will be crucial. Indeed, the pass-through of changes in international oil prices to domestic prices would help promote an inevitable demand response to changing market conditions and encourage conservation. At the same time, well-targeted policy supports should be put in place to protect the most vulnerable groups.

• ***Encouraging investment in the oil sector.*** Policies are needed to foster greater investment in oil. These include efforts by oil producers—particularly those in emerging and developing countries—to ensure that investment regimes are stable and predictable; encourage greater cooperation and synergies between national and international oil companies through well-designed partnerships; and facilitate the establishment of an orderly, predictable, and transparent market through improved data dissemination on demand and supply conditions.

• ***Reducing biofuel subsidies.*** Efforts to reduce the level of protectionism and subsidies aimed at stimulating biofuels production would remove distortions and allow for greater overall efficiency.

• ***Improving agricultural policies.*** Without sufficient infrastructure to increase cultivation, boost productivity, and bring agricultural products to the market, the supply response in many emerging and developing countries may remain elusive. Thus, policies should aim to upgrade infrastructure, distribution, and storage systems; expand irrigation systems; and redirect subsidies toward high-yield products and key agricultural inputs, such as fertilizer. At the same time, subsidized production in advanced countries should be phased out.

Macroeconomic policies also critical

• In the **United States**, policy interest rates have been lowered significantly as the growth outlook has deteriorated. As U.S. growth recovers, developments in inflation and inflationary expectations will assume greater importance for policymakers. The 2008 fiscal stimulus should help provide some cushion for demand. However, new fiscal measures could focus on stabilizing key sectors that are vital to limiting downside risks to growth, such as the housing sector and the financial system.

• In the **euro area**, the sharp rise in inflation and concerns about potential deterioration in inflationary expectations are dampening consumer confidence and spending. The inflation outlook appropriately is central to the policy considerations of the European Central Bank. Policy prospects could shift, however, if inflationary expectations remain well anchored and slowing growth reduces inflationary pressures. For Japan, core inflation remains very low at 0.1 percent and, given the uncertainty concerning growth prospects, Bank of Japan policy is not expected to change soon.

• In **emerging economies** whose currencies are closely linked to the dollar and that are facing overheating concerns, macroeconomic policies need to be tightened. In China, movement toward a more flexible exchange rate regime could provide greater scope for effective and stabilizing monetary policy action. Among Middle Eastern commodity exporters, fiscal spending should aim to alleviate supply bottlenecks—particularly in infrastructure—that have contributed to inflation pressures. ■

UN food security conference

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Crisis can be managed

Strauss-Kahn, a former French finance minister, said in remarks read into the record that the crisis could be managed if the world took appropriate action to

- address immediate needs of the worst-affected regions and feed the hungry
- help countries direct support to people who need it most, while avoiding actions that make things worse, such as export bans and price controls; and
- help countries contain the macroeconomic costs and stop the crisis from turning into a general inflation or balance of payments problem.

Balance of payments effects can also be large. IMF projections show that in about one-half of African countries the increase in the cost of food imports could exceed 1 percent of GDP this year. Increases are greatest in some of the poorest countries, such as the Democratic Republic of the Congo (almost 2 percent) and Mauritania (3 percent). In other countries, higher fuel prices are also having an important negative impact.

The Rome meeting, chaired by United Nations Secretary-General Ban Ki-moon, brought together the heads of key UN agencies, as well as the IMF and the World Bank, along with many heads of state and government. Ban called on world leaders gathered at the summit to take "bold and urgent" steps to tackle the global food crisis, including boosting food production and revitalizing agriculture to ensure long-term food security.

Addressing the high-level conference, Ban said that more than 850 million people around the globe were short of food before the current crisis began. That number could rise by a further 100 million, and the poorest of the poor will be the hardest hit.

Not a global food shortage

Strauss-Kahn said it was important to know there was not a global food shortage. "In fact, there is enough food to feed the world," he stated. "Rather, the problem is that prices have risen and many people cannot afford food. So we need to get food—or the money to buy food—to those most in need." He welcomed the appeal of the World Food Program for $755 million to deal with the surge in food costs.

Emergency measures should be cost effective and well targeted and not undermine the long-term objectives of increasing food production. Strauss-Kahn said that scaling up targeted social safety net measures, such as the food-for-work program and conditional cash transfers to the poorest, can be very effective, as shown in Brazil and Mexico.

Other effective short-term measures are reducing or eliminating tariffs on key food items (which more than 40 countries have done), temporary subsidies on the one or two products most vital for the poor, and expanding the school feeding programs that exist in many countries (for example, Kenya and South Africa).

Some responses, however, should be avoided, such as export restrictions, which export hunger from one country to another; subsidies that do not target the poor; or direct price controls, which discourage production.

"Already we are hearing that farmers in developing countries are abandoning rice production, as domestic prices do not cover input costs," Strauss-Kahn said.

Food prices to remain high

A report issued May 29 by the United Nations Food and Agriculture Organization (FAO) and the Organization for Economic Cooperation and Development (OECD) predicts that food prices in the next 10 years will remain well above the levels of the past decade.

The report says that current high prices will hit the poor and hungry the hardest and calls for the urgent mobilization of humanitarian aid as well as a greater focus on boosting agricultural production in the longer term.

"Coherent action is urgently needed by the international community to deal with the impact of higher prices on the hungry and poor," Jacques Diouf, Director-General of the FAO, said at a press conference in Paris.

"Today some 862 million people are suffering from hunger and malnourishment—this highlights the need to reinvest in agriculture. It should be clear now that agriculture needs to be put back onto the development agenda."

Using prices corrected for inflation, the report says that, over the next decade, rice and sugar prices will increase by less than 10 percent; wheat by less than 20 percent; butter, coarse grains, and oilseeds will rise by 30 percent; and vegetable oils by more than 50 percent. High oil prices, changing diets, urbanization, economic growth, and expanding populations are underlying factors behind the rise in food prices, according to the report.

The FAO and OECD also cite growing demand for biofuel as another factor forcing up prices, saying that world ethanol production has tripled between 2000 and 2007 and is expected to double again in the next decade. Climate change, low stock levels, and speculation could also add to price volatility.

World Bank commitment

The World Bank Group announced on May 29 that it would support global efforts to overcome the global food crisis with a new $1.2 billion rapid financing facility to address immediate needs, including $200 million in grants targeted to the vulnerable in the world's poorest countries.

Announcing several measures to address immediate to longer-term food challenges, the World Bank Group said it would boost its overall support for global agriculture and food to $6 billion next year up from $4 billion, and would launch risk management tools and crop insurance to protect poor countries and smallholders. ■