

Food Security and the Increase In Global Food Prices

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The Surge in Food Prices

- Longer-term structural influences:
 - rising demand
 - decreased investment in agriculture
 - low prices
 - distortions in agricultural markets

World prices of certain foodstuffs have doubled in the last 2 years and are expected to remain high

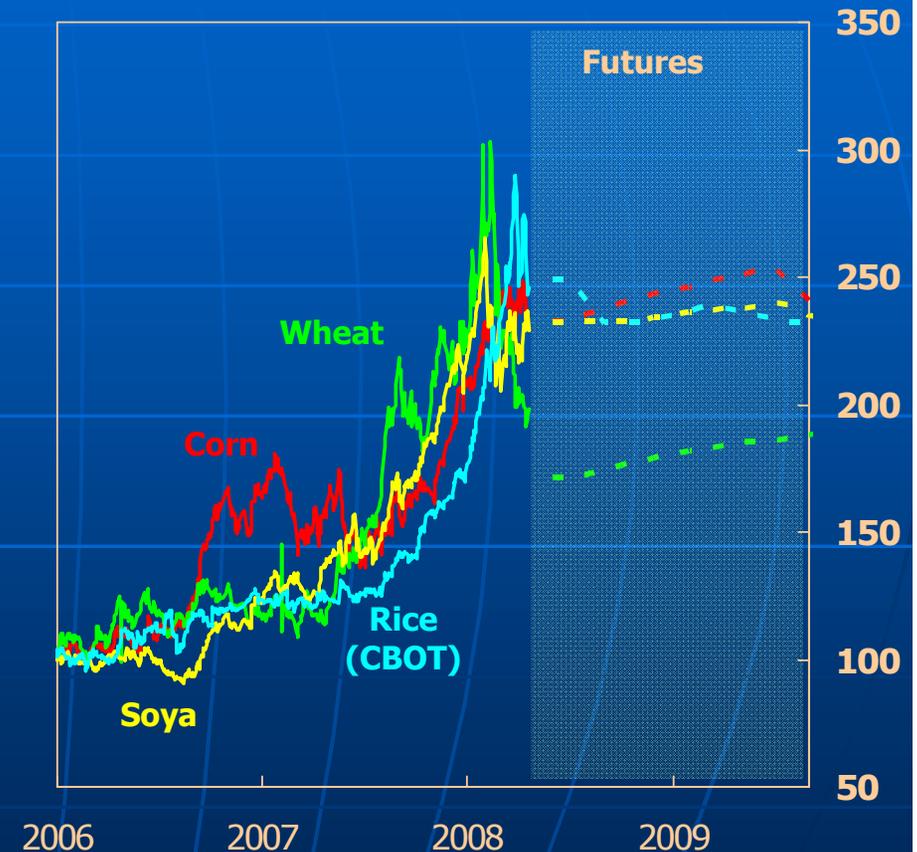
Commodity indices

(dotted lines correspond to futures prices) 1/



Prices of grains

(January 2006 = 100) 2/

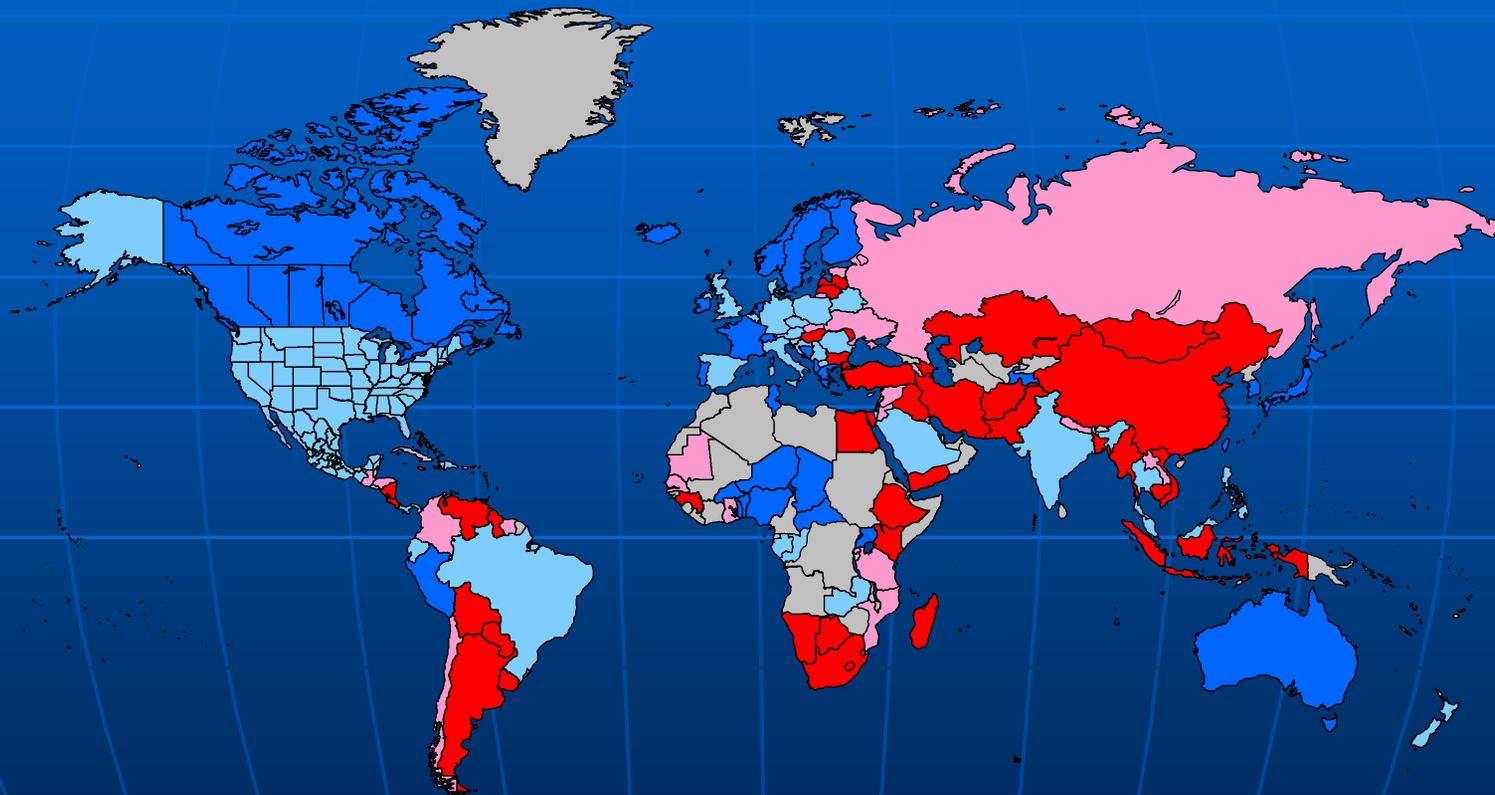


1/ The food index includes barley, corn, soy and soy derivatives, pork, vegetable oils, sugar, and wheat. The metals index includes aluminum, copper, lead, nickel, tin, and zinc.

2/ Prices of futures, May 21, 2008.

Rising food prices have had a substantial impact on world inflation

Food inflation, 2007
(as a percentage)



- Food inflation over 10%
- Food inflation between 7% and 10%
- Food inflation between 3% and 7%
- Food inflation less than 3%
- No information.

Reasons for Price Increases

- Bad harvests
- Increasing demand
 - Emerging countries
 - Biofuels
- Input costs related to oil
- Export restrictions

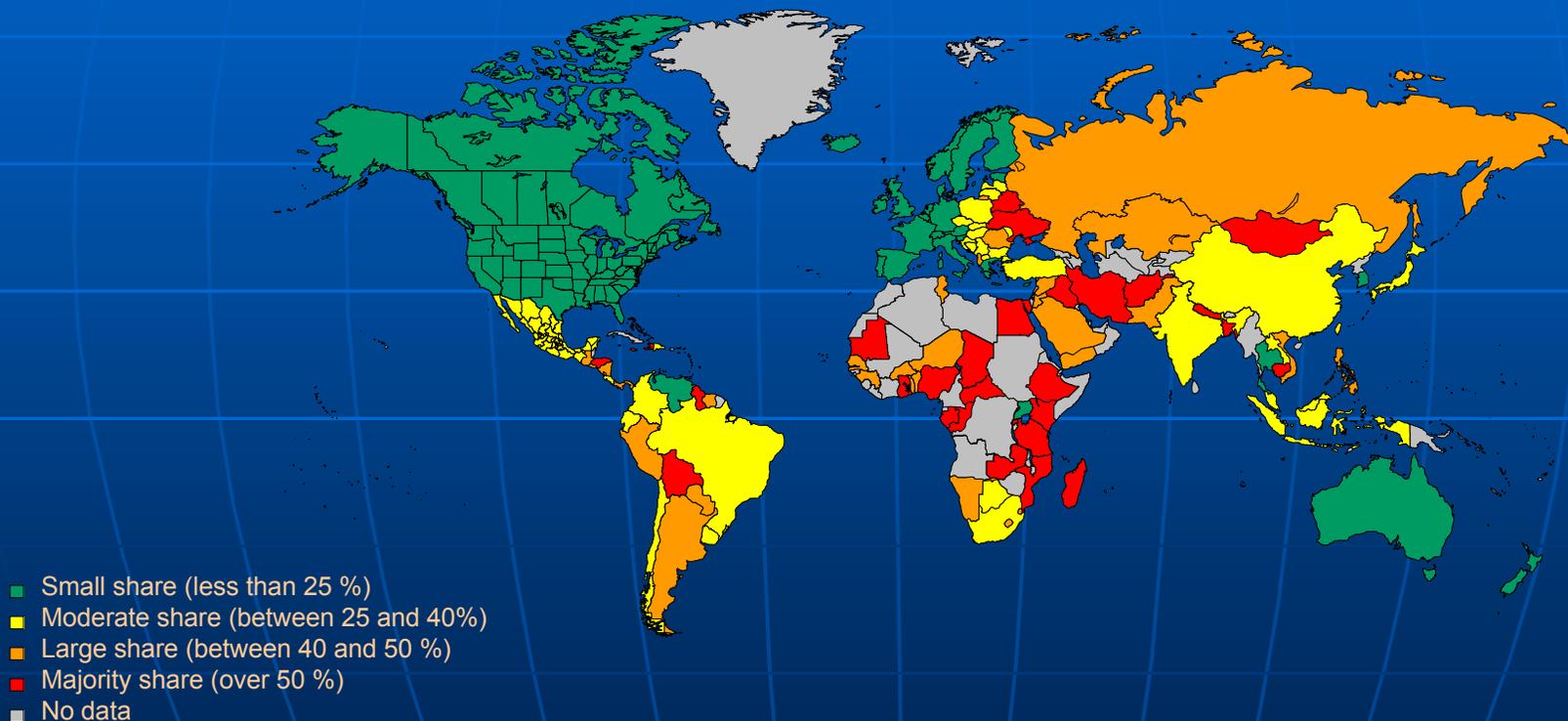
Looking ahead, prices are expected to ease in short-term and medium-term but will remain higher than in the past.

Food Crisis: Impact on Food Security

The immediate problem is due to the increase in food prices, rather than a global shortage of food.

Food and fuel make up a larger proportion of household expenditure in poor countries

Shares of Food, Beverages, and Fuel in Household Expenditure, 2007 1/

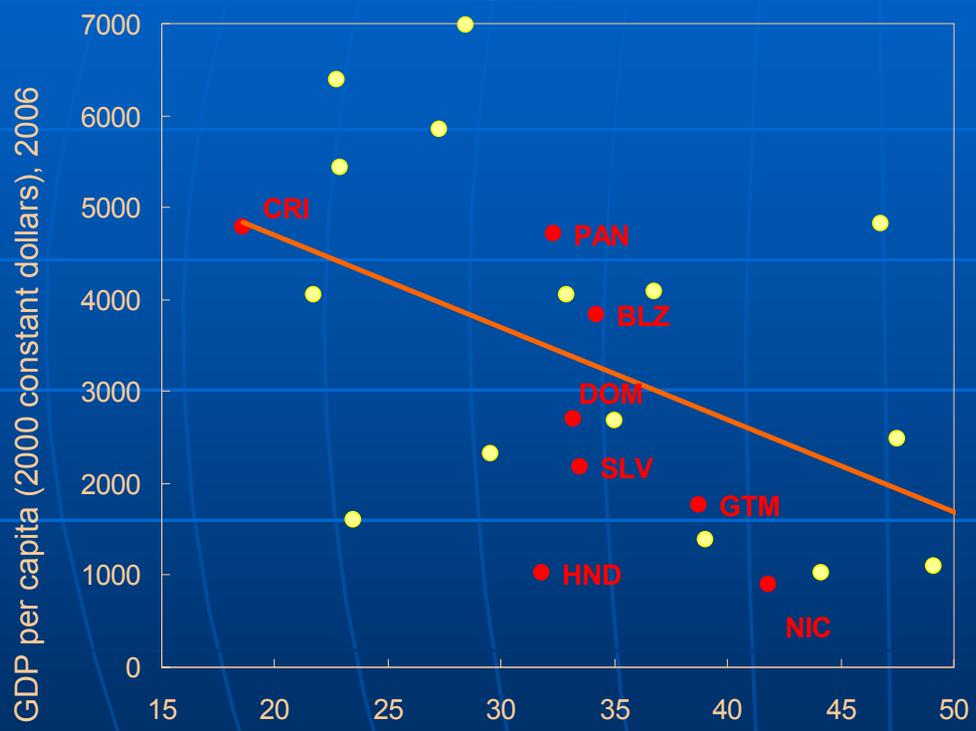


Source: IMF staff estimates, based on expenditure weights used by countries to calculate the CPI.

1/ Definition of fuel weights vary and in some cases may include public transport and fuel for heat.

The most vulnerable members of society are hardest hit by the rise in food prices

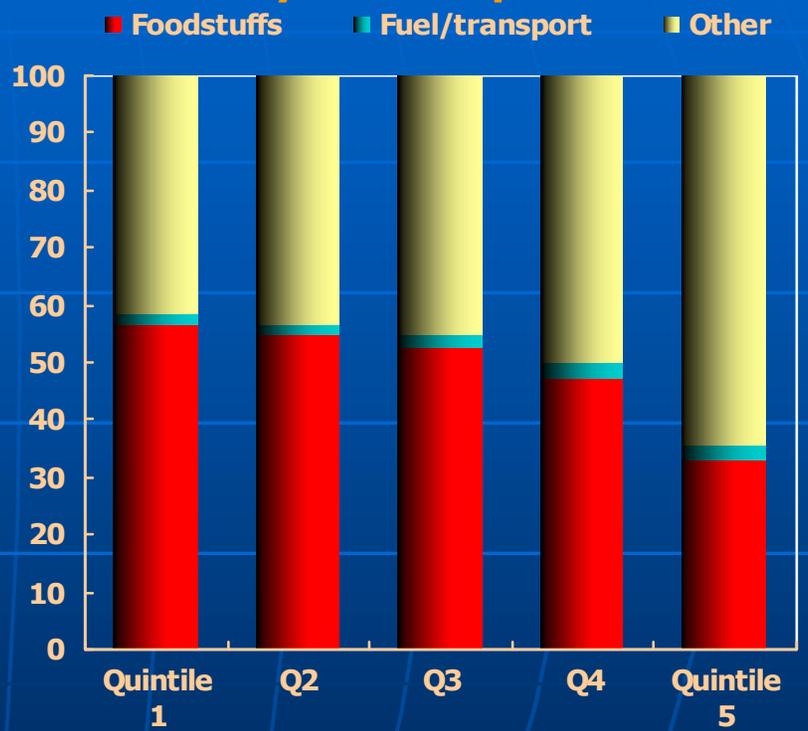
GDP per capita and weight of foodstuffs in the CPI



Weight of foodstuffs in the CPI, 2007

● Other countries in Latin America.

Honduras: consumption of foodstuffs by income quintile



Food Crisis: Policy Challenges

Short-term challenge:

- Provide food to the most affected countries and poorest groups within them
- Ease burden of higher food prices: well-targeted safety nets, temporary subsidies for the poor, school feeding and food for work programs, tariff reductions
- But we need to avoid measures with negative spillover effects: export restrictions, direct price controls, and general subsidies

Macroeconomic Implications of the Food Crisis

- Higher oil and food prices have led to:
 - Increases in inflation especially in emerging markets and low-income countries
 - Higher import bills and strained BOP positions
 - Higher government spending

In the region, inflation has risen considerably...

Overall inflation

(as a percentage: end of period)



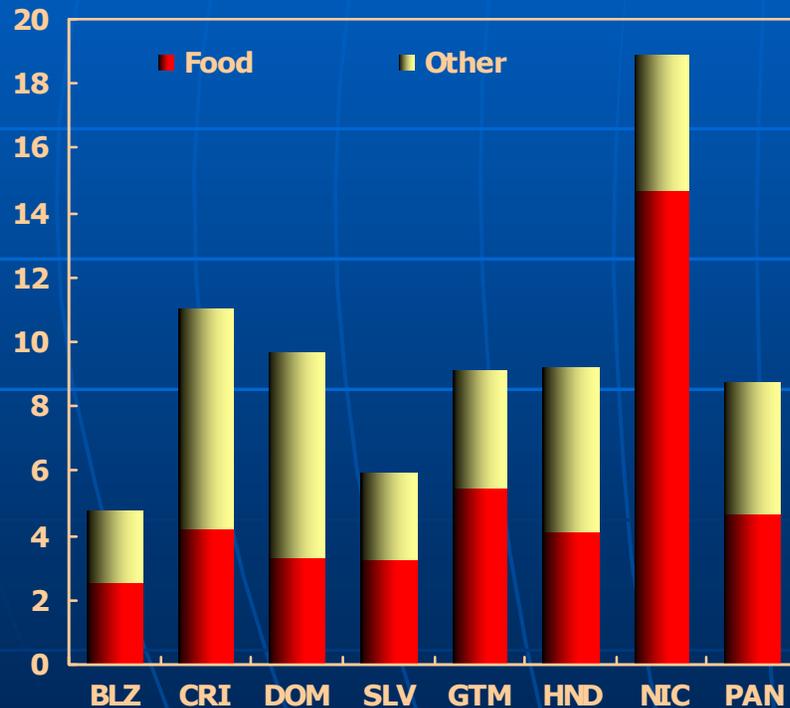
Food inflation

(as a percentage: end of period)

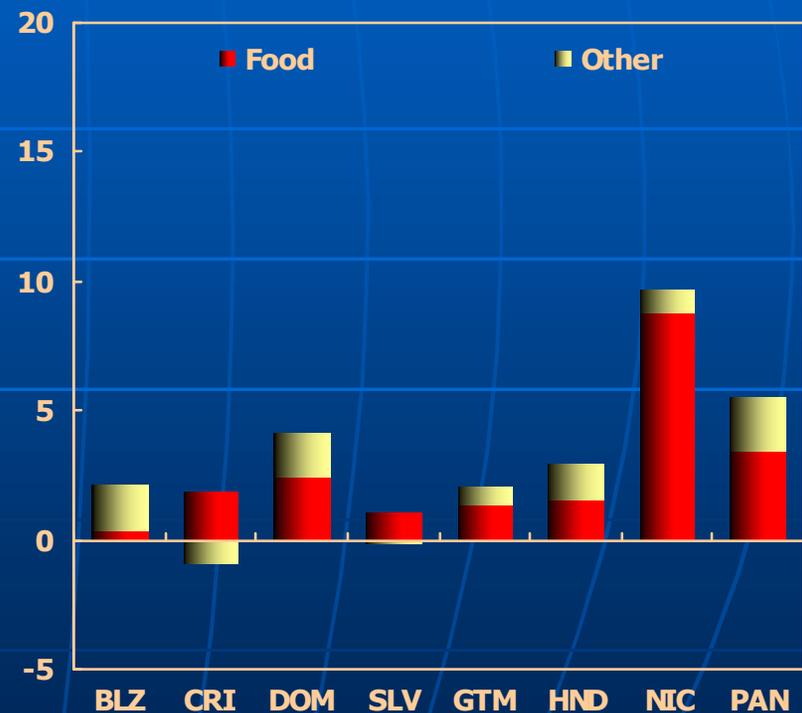


...reflecting particularly substantial contributions by food prices, among other factors

Contribution to overall inflation
(as a percentage; March 2008)

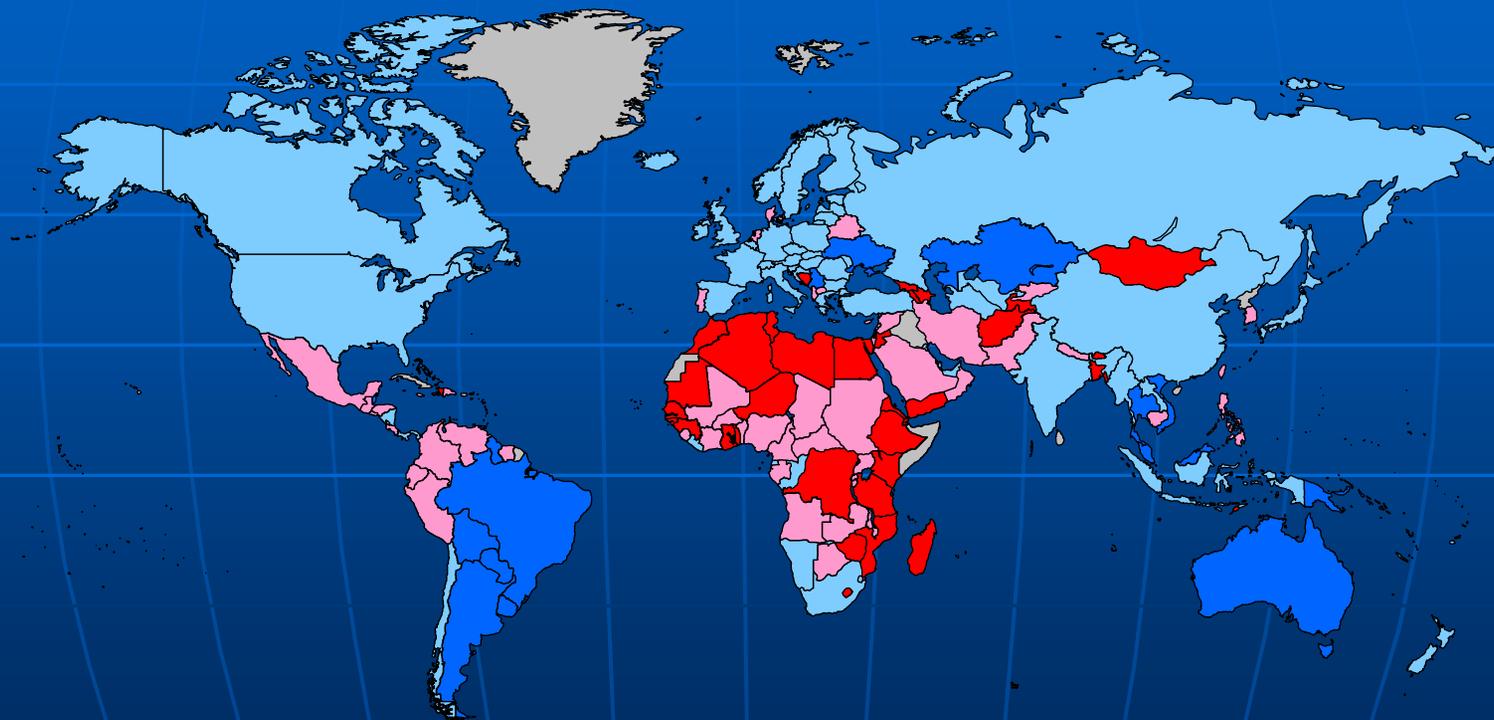


Increase in the contribution to overall inflation
(as a percentage; difference 2007-08)



A significant impact on the trade balances of some countries is expected

Impact on the trade balance resulting from an increase in food prices
(estimated impact of changes in 2008; as a percentage of GDP)



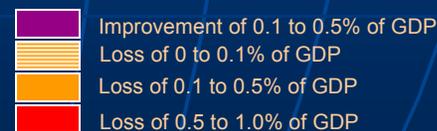
- Loss of over 1% of GDP
- Loss of 1% to 0.2% of GDP
- Little impact (trade balance changes by -0.2% to 0.2% of GDP)
- Improvement by more than 0.2% of GDP
- No information.

Rising food prices are expected to have a generally limited impact on trade balances in Central America

Net exports of food, 2007
(as a percentage of GDP)



Impact on the trade balance resulting from rising food prices
(estimated impact of changes in 2008; as a percentage of GDP)



Policy Responses

- Permanent price shocks should be fully passed through to consumers (over time) and to producers
- Short-term measures can mitigate price impacts
- Short-term measures should minimize disincentives for long-run supply responses

Policy Objectives

- Limiting second-round effects of external price shocks on inflation
- Monitoring and containing fiscal costs of mitigating measures, and creating fiscal space to accommodate these without jeopardizing fiscal sustainability

Role of the Fund in Addressing the Global Food and Fuel Price Shocks

- Help countries design targeted social measures, assess fiscal costs of policy responses, and create sustainable fiscal space
- Advise country authorities on containing inflation
- Assess food and fuel prices impact on countries' BOP and provide BOP support when necessary
- Advocate trade policies to keep global food markets open