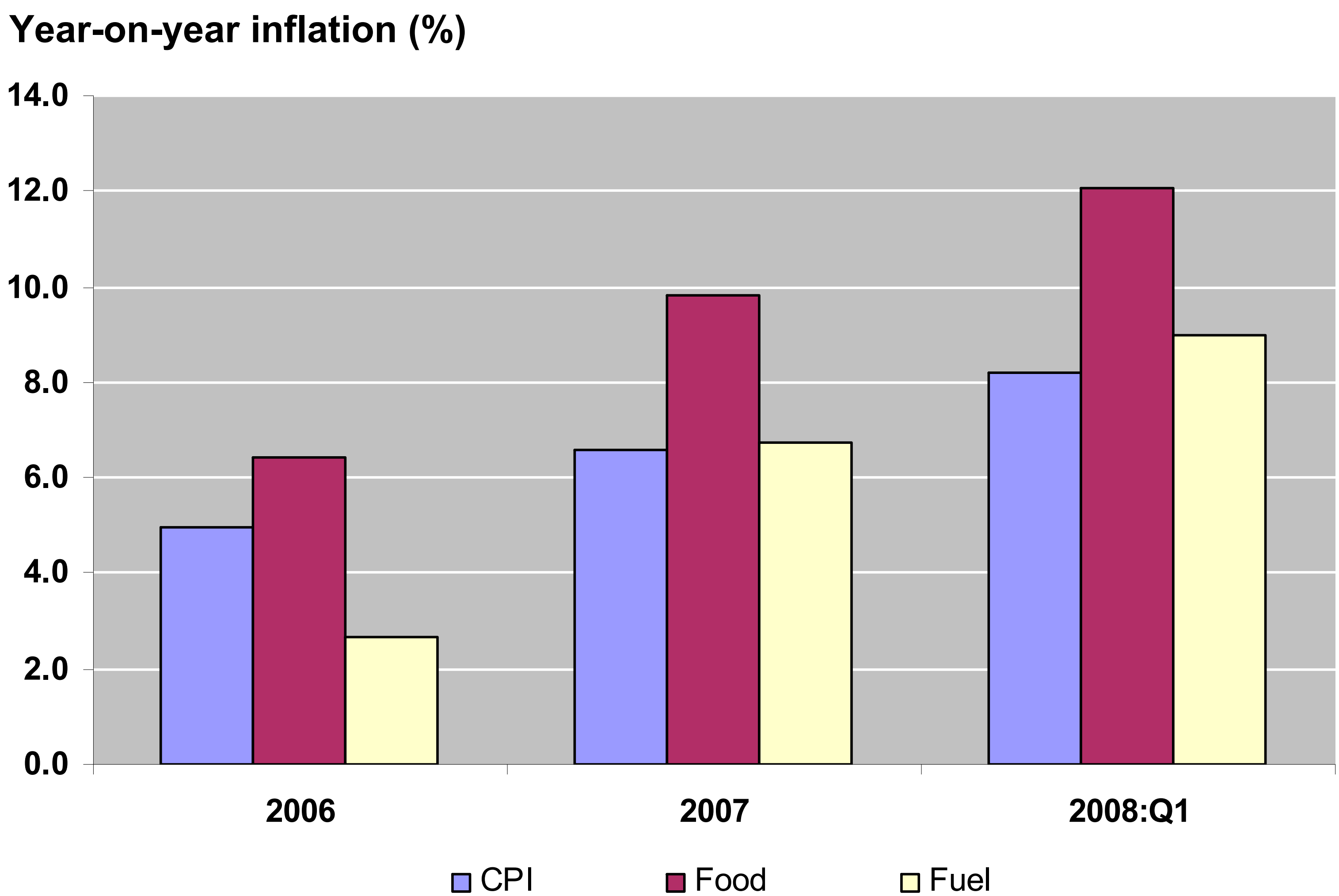
IMF Seminar

Food and Fuel Price Surge

Tuesday, July 1, 2008, 10:00 a.m.
Washington, DC

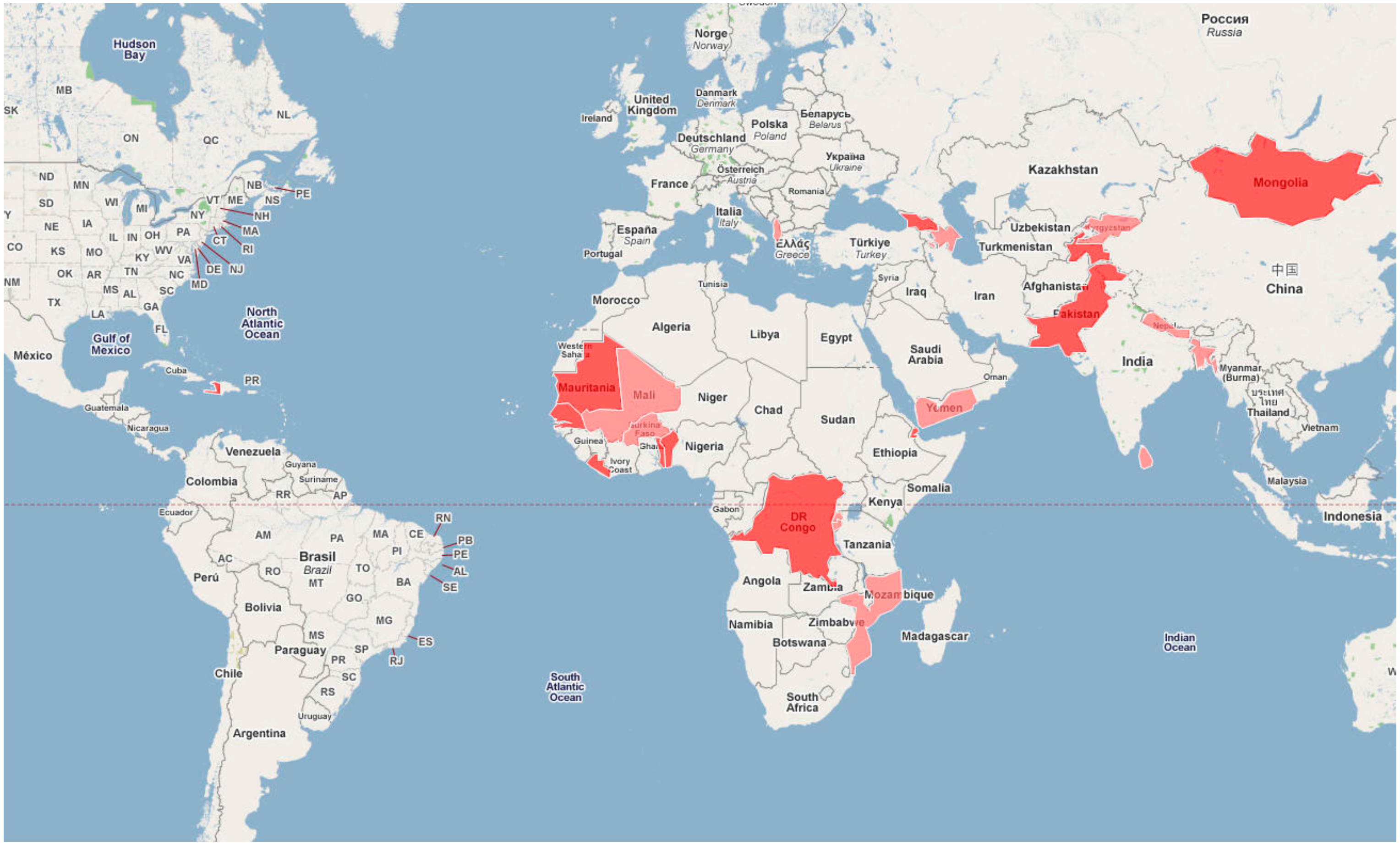
Food and Fuel Inflation Have Doubled Since 2006

Median Inflation in 120 low- and middle-income countries, 2006-08



Food

Balance of payments deterioration from higher food prices in 33 low-income net food importers (Jan 07-Apr 08)

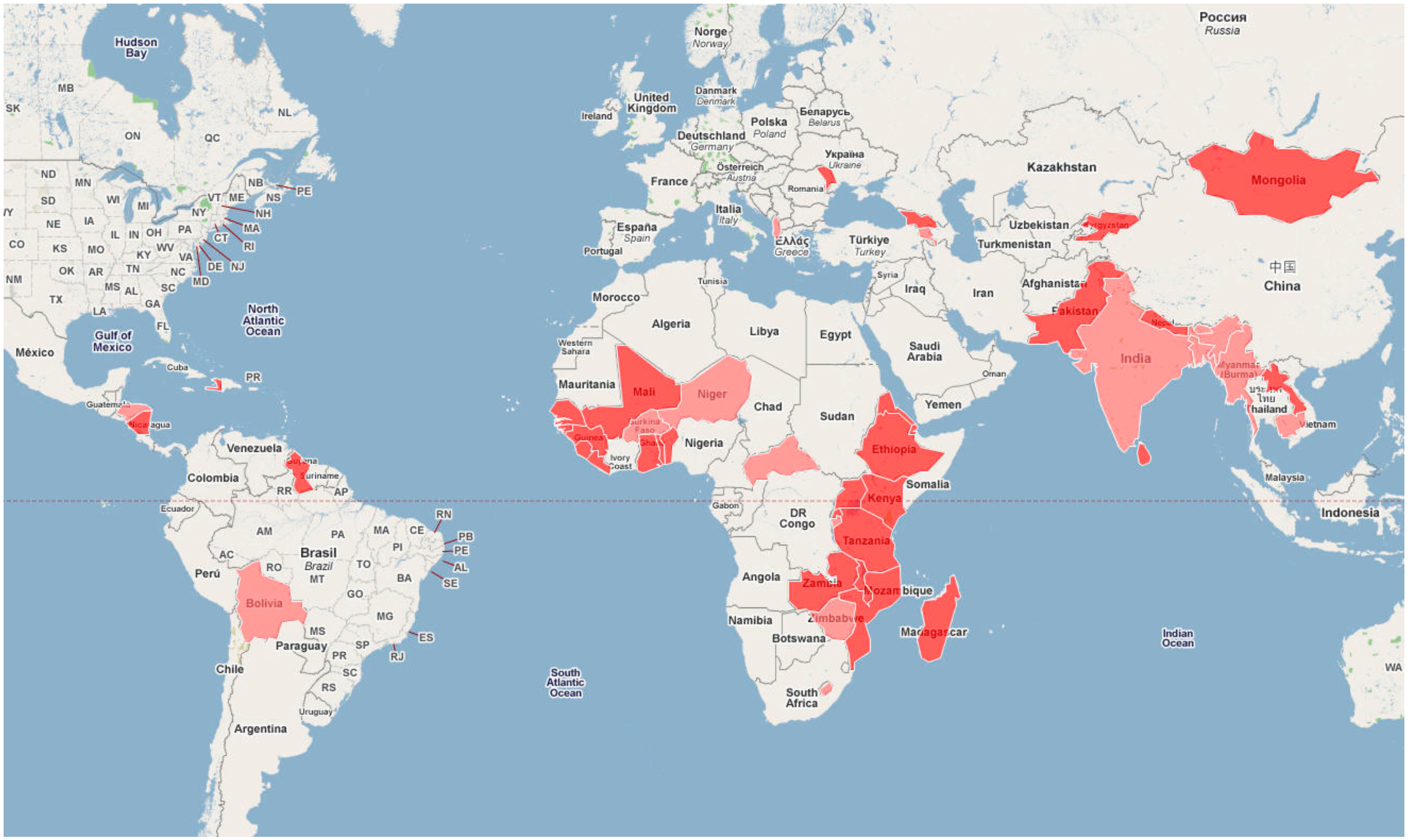


High impact (greater than 1% of GDP)

Medium impact (up to 1% of GDP)

Fuel

Balance of payments deterioration from rising oil prices in 59 low-income net oil importers (Jan 07-Apr 08)



High impact (greater than 2% of GDP)

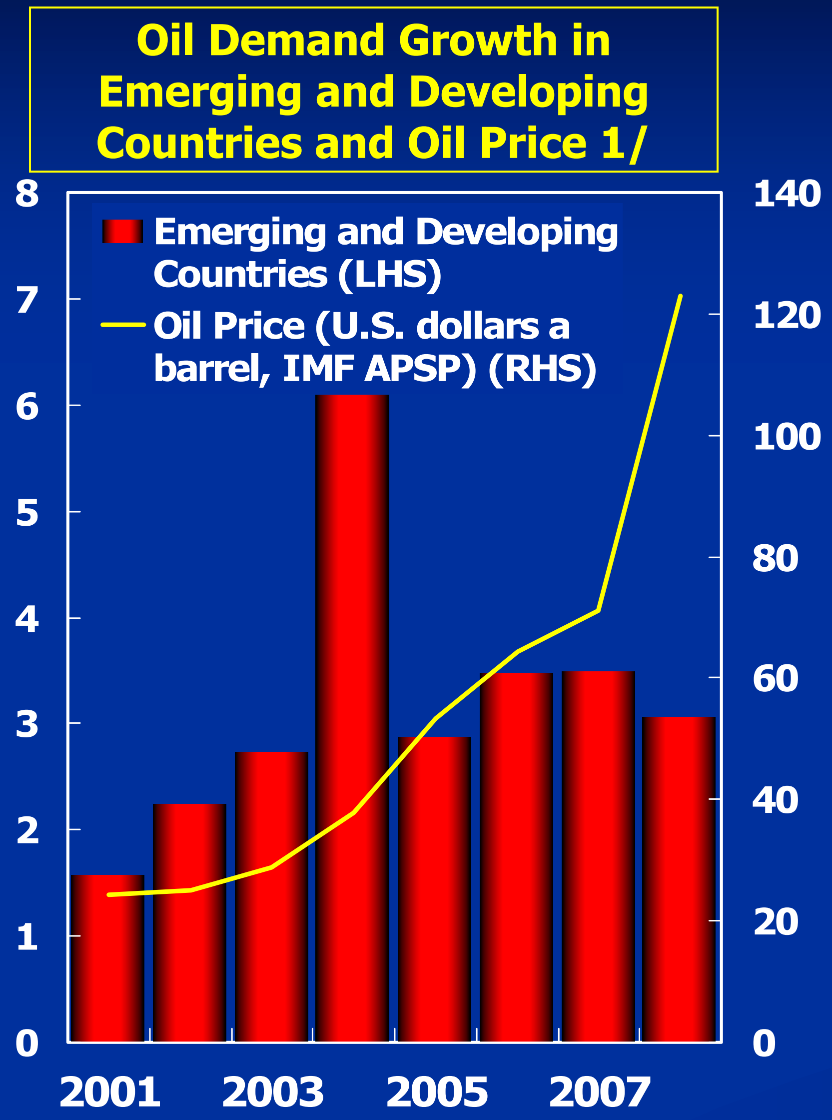
Medium impact (up to 2% of GDP)

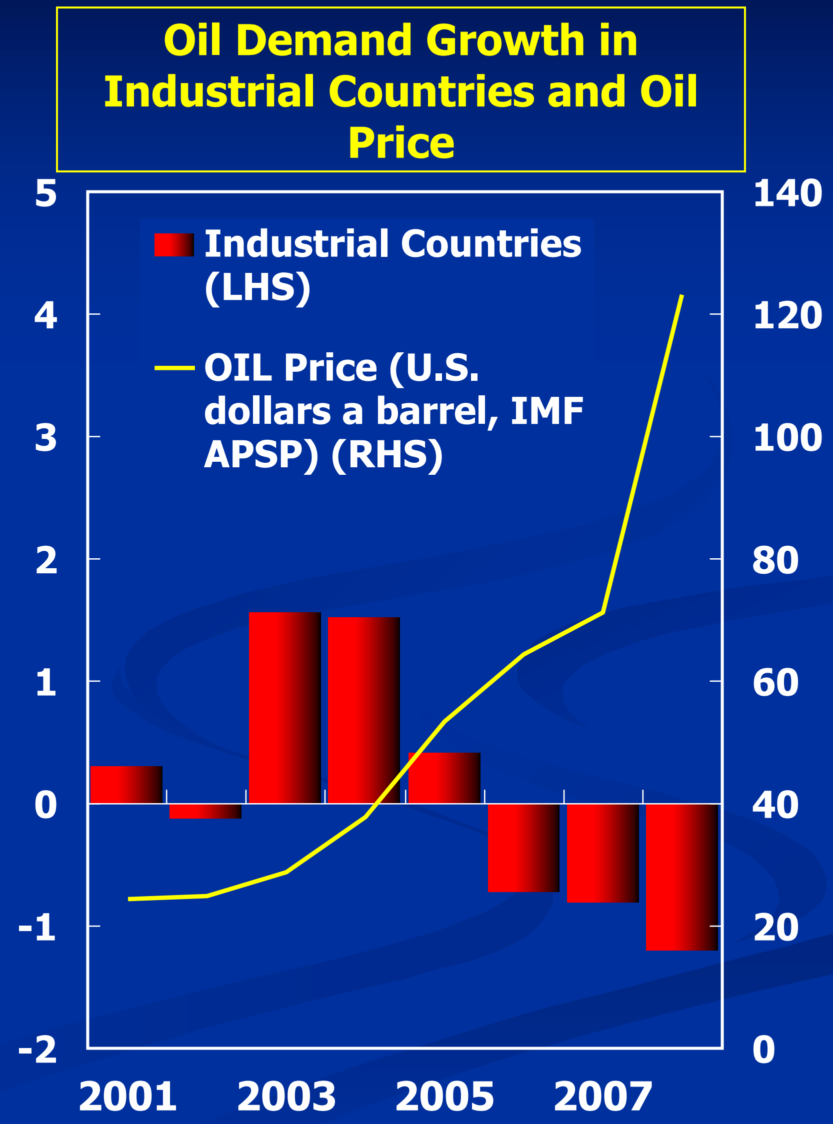
Food and Fuel Price Increases

Recent Developments, Macroeconomic Impact, and Policy Responses

Research Department,
Fiscal Department, and
Policy Development and Review Department
International Monetary Fund

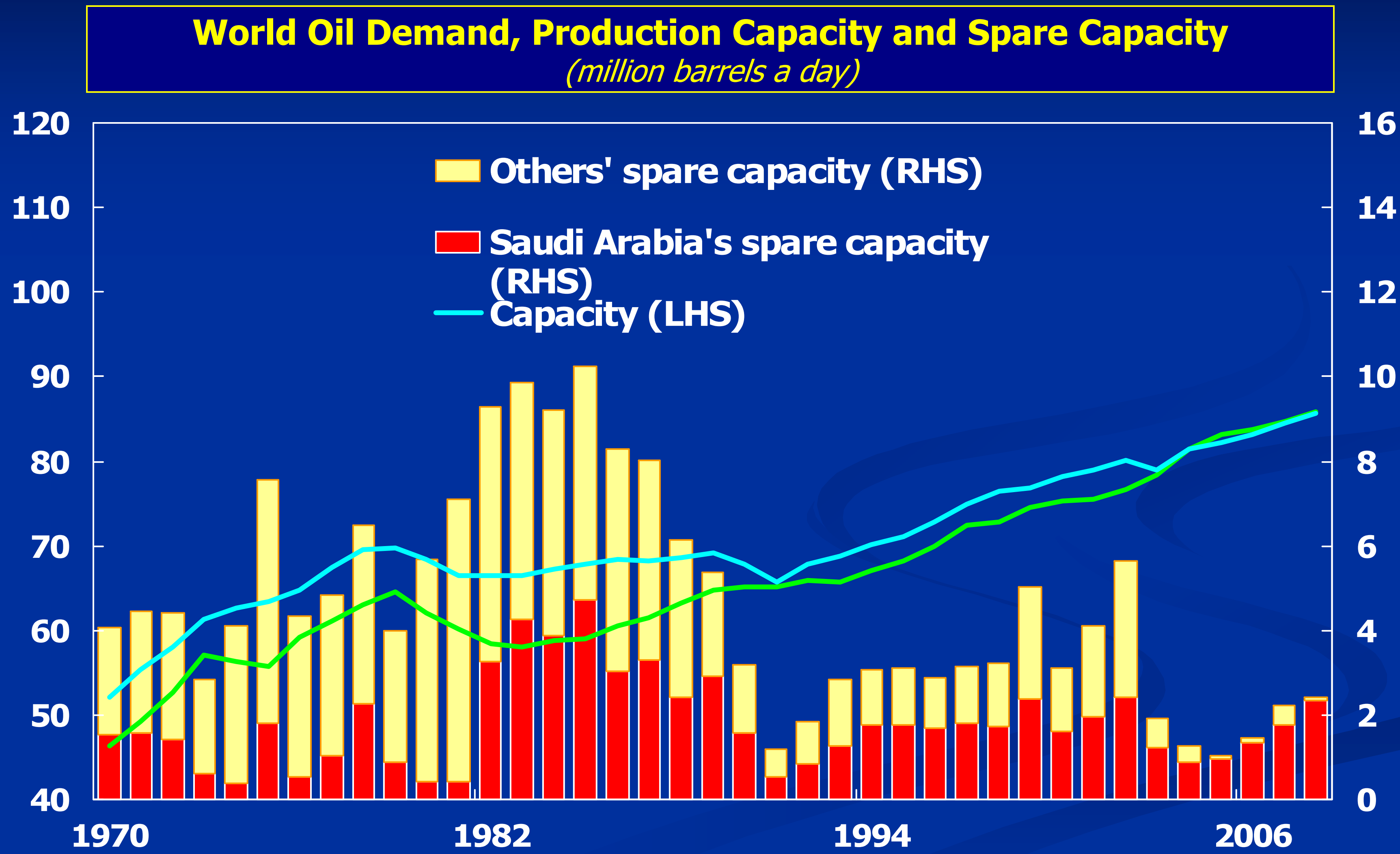
Oil demand growth has shifted to emerging and developing economies



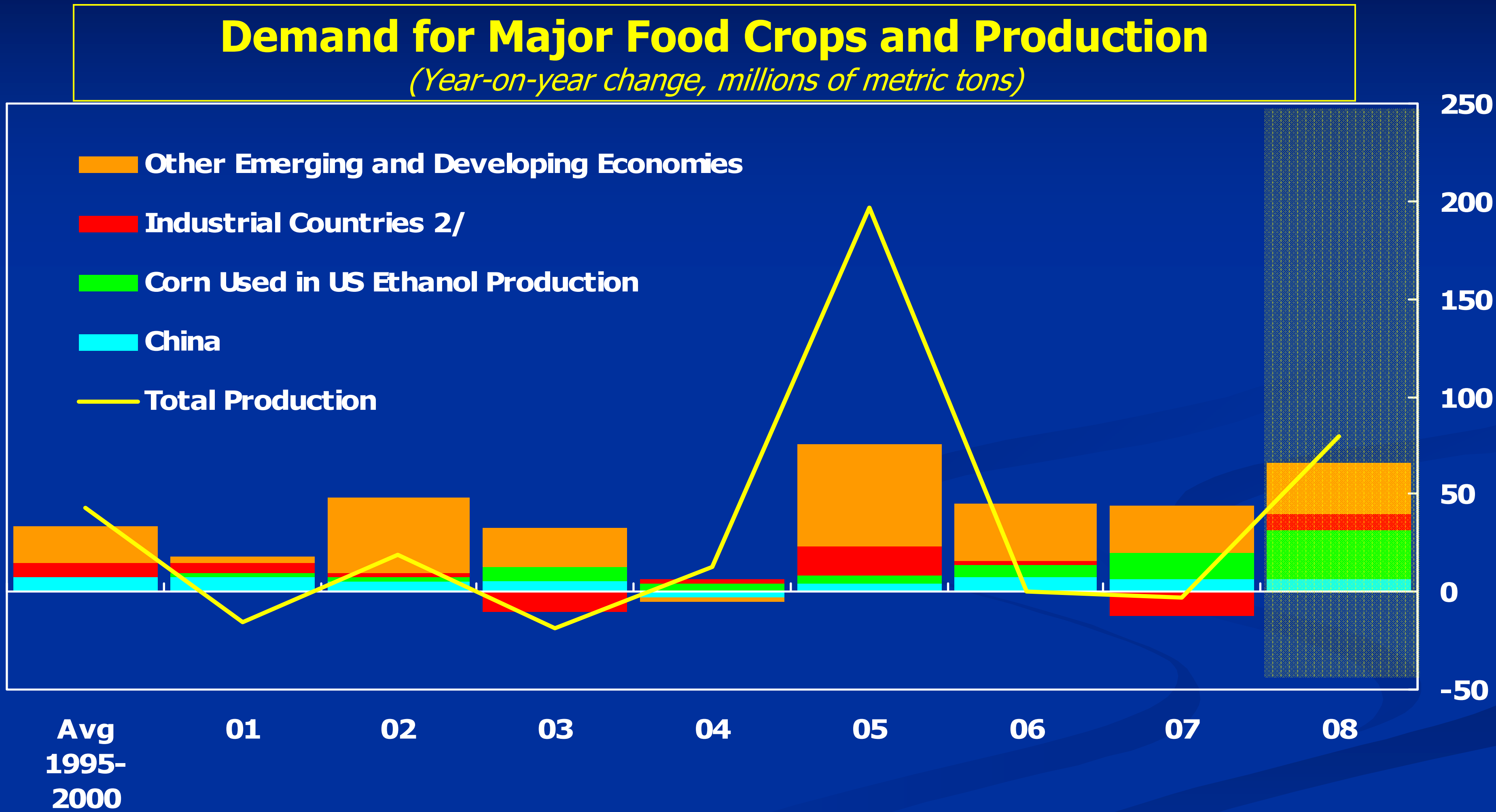


1/ June 2008 Forecast.

Perpetuation of very low spare capacity and tight oil market conditions



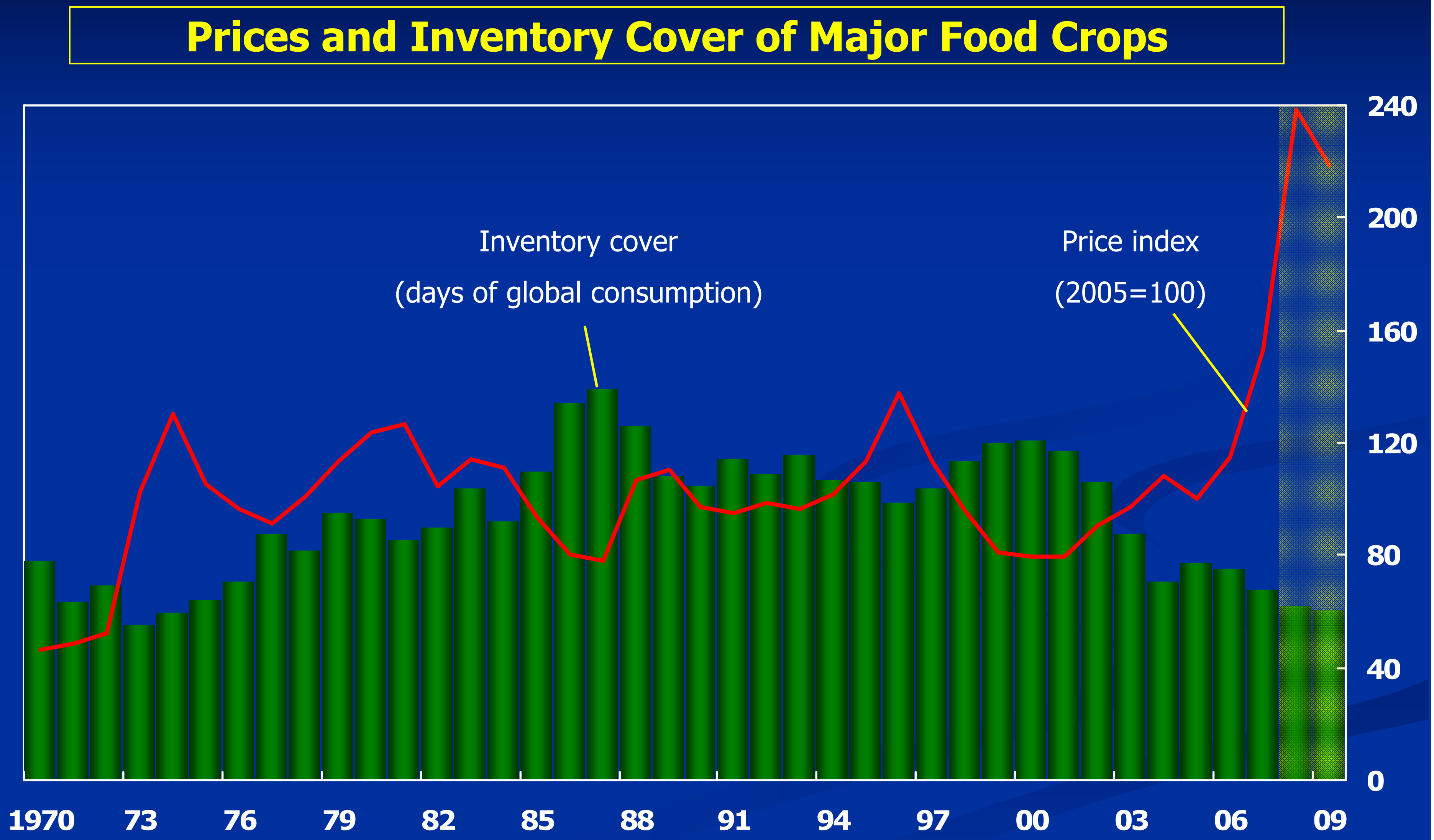
Demand for major food crops has accelerated while production has been slow to increase 1/



1/ Includes corn, rice, soybeans, and wheat.

2/ Excludes corn used in U.S. ethanol production.

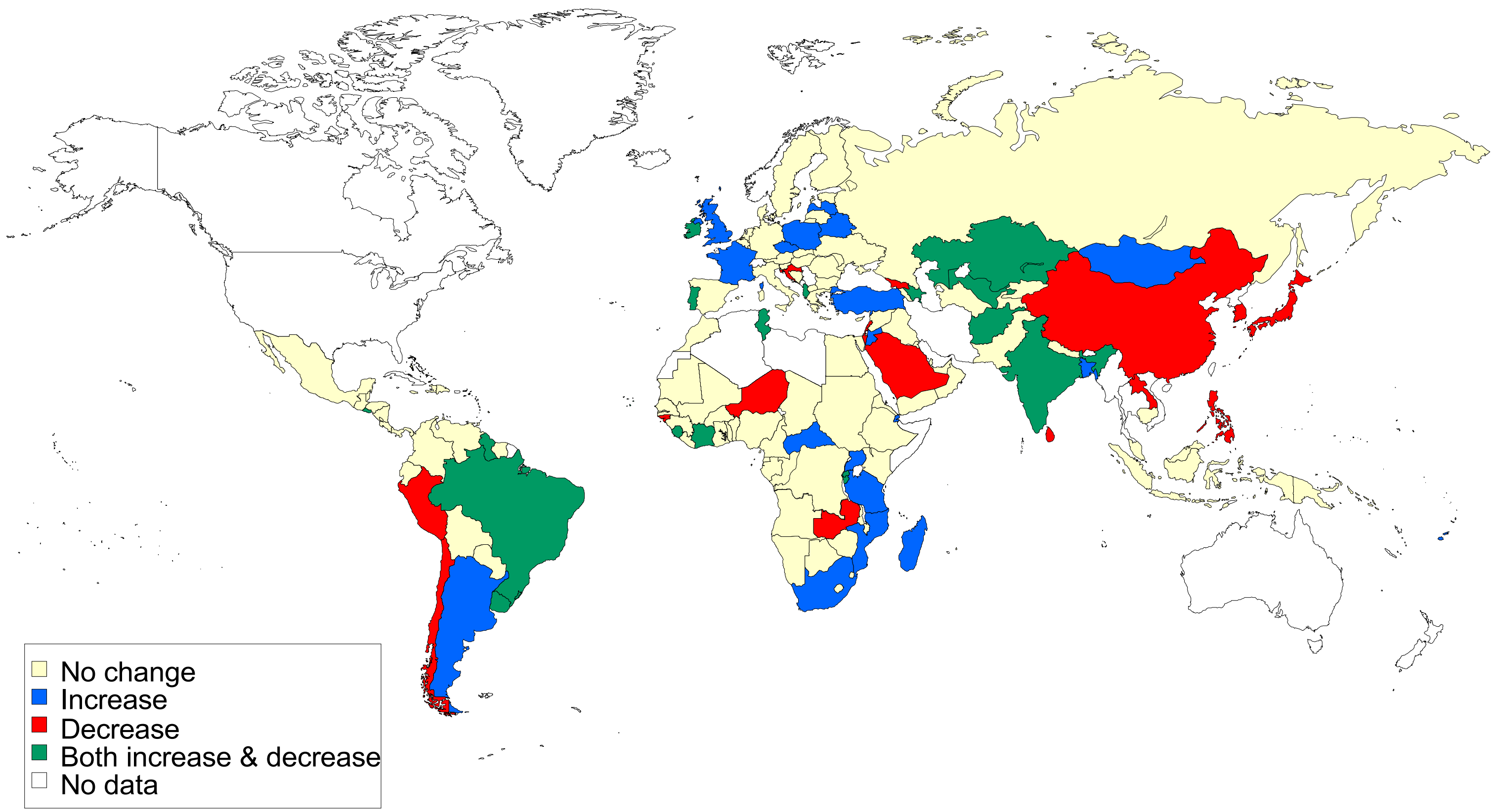
Inventories of major food crops have been declining



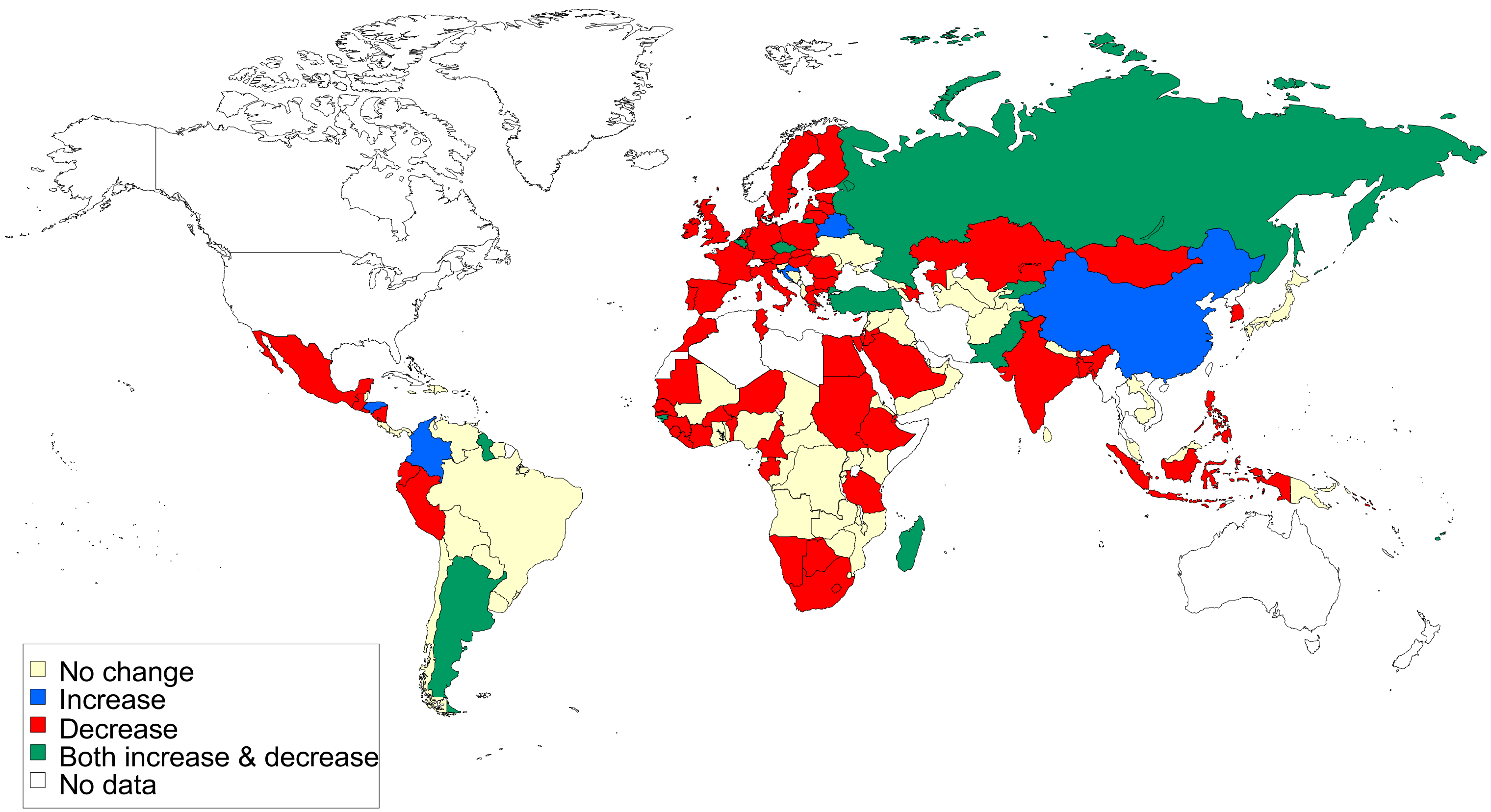
Fiscal Policy: Challenges

- Challenge is to combine pass-through with measures to protect the poor
- Full pass-through of price increases
  - encourages efficient responses by consumers &
  - facilitates sound fiscal policy
- But, pass through can hurt the poor
- Countries have adopted a broad array of policy responses toward this end

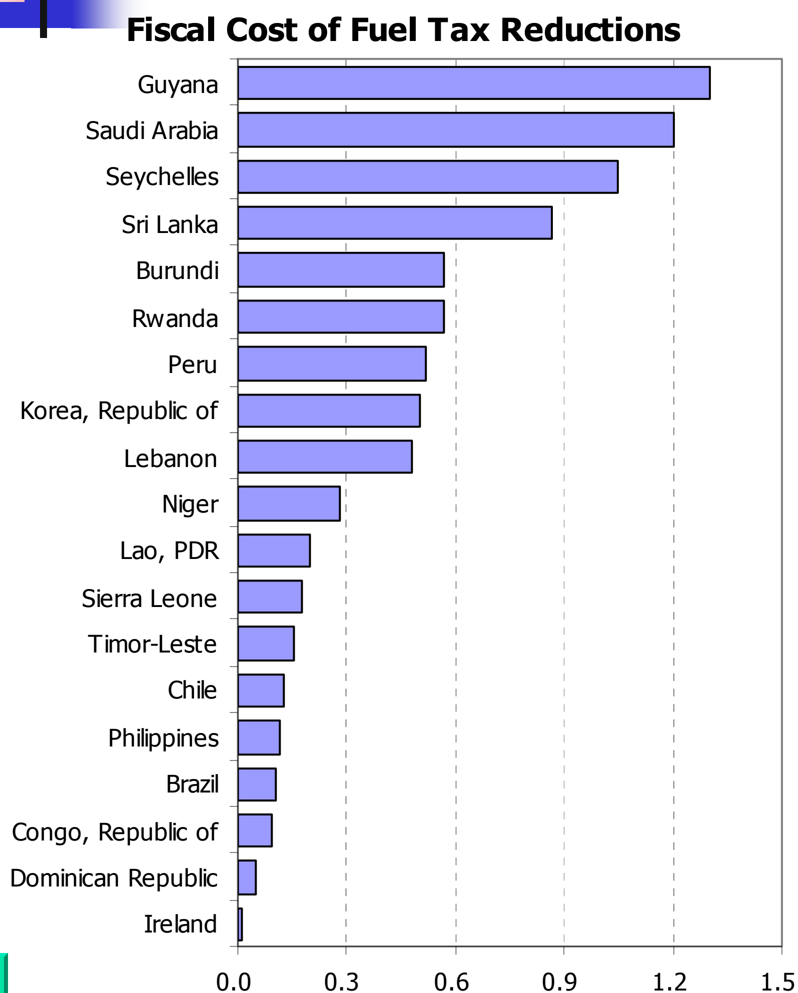
Changes in fuel taxes

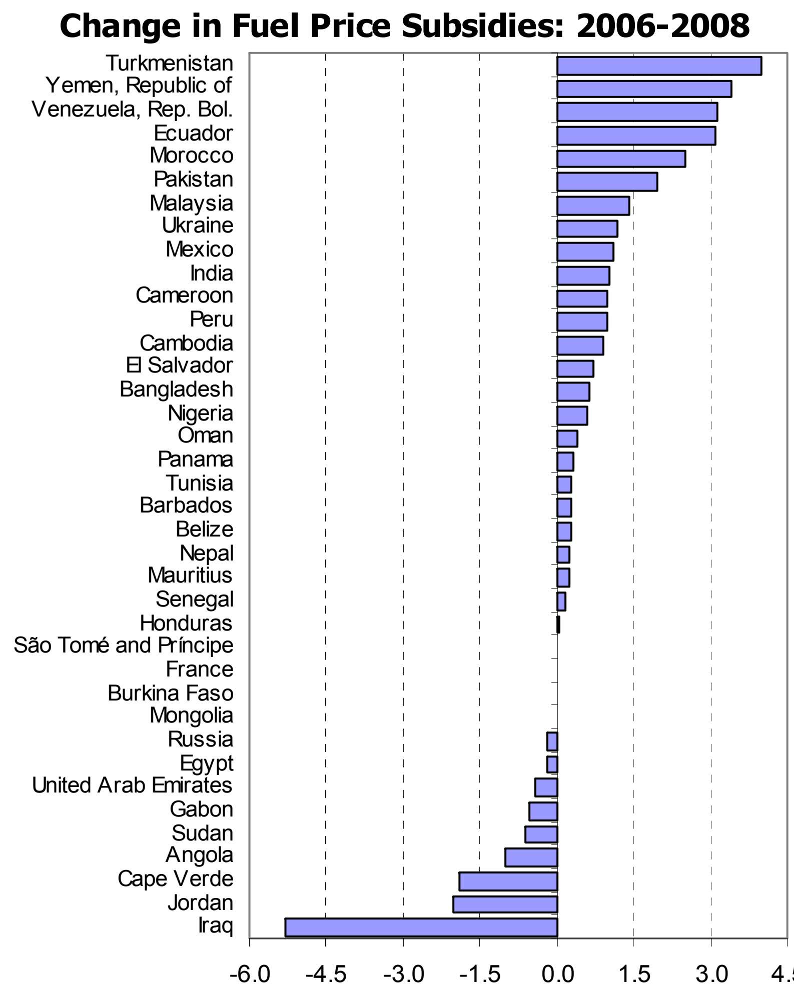


Changes in food taxes

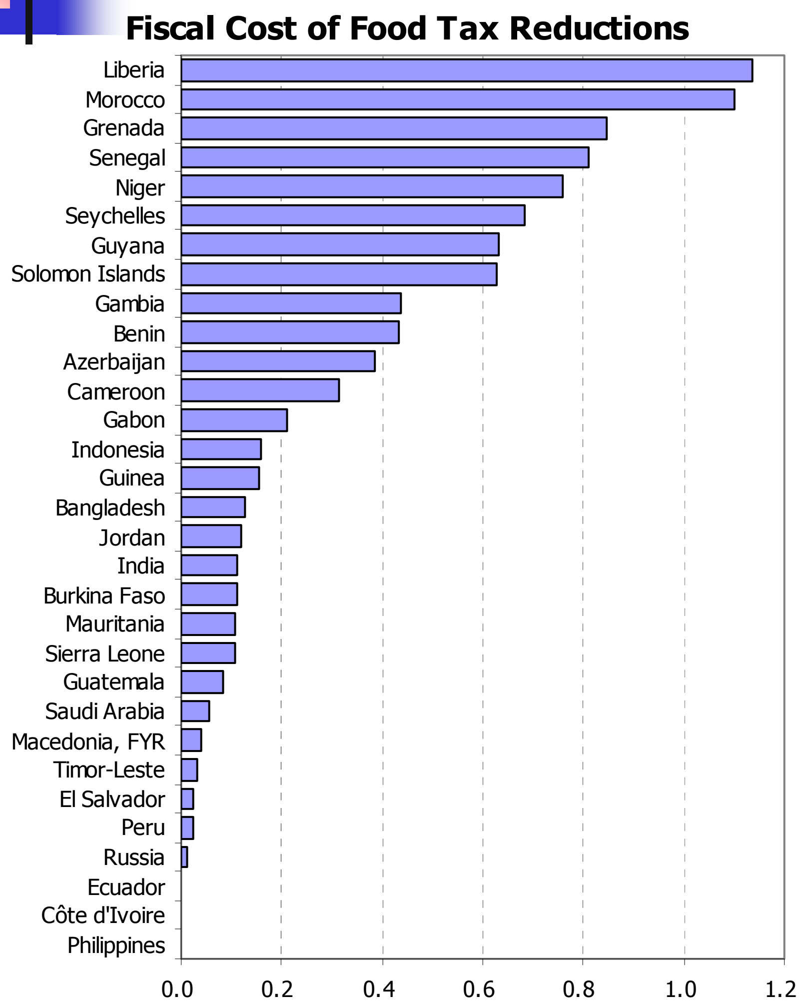


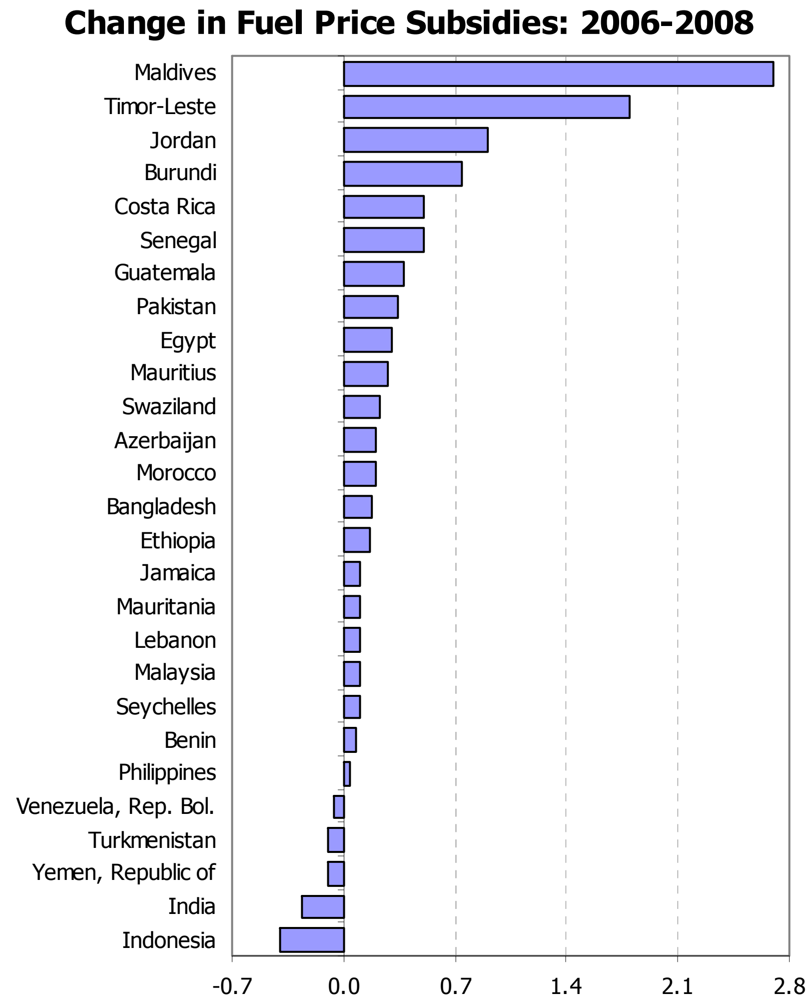
Fuel tax & subsidy costs



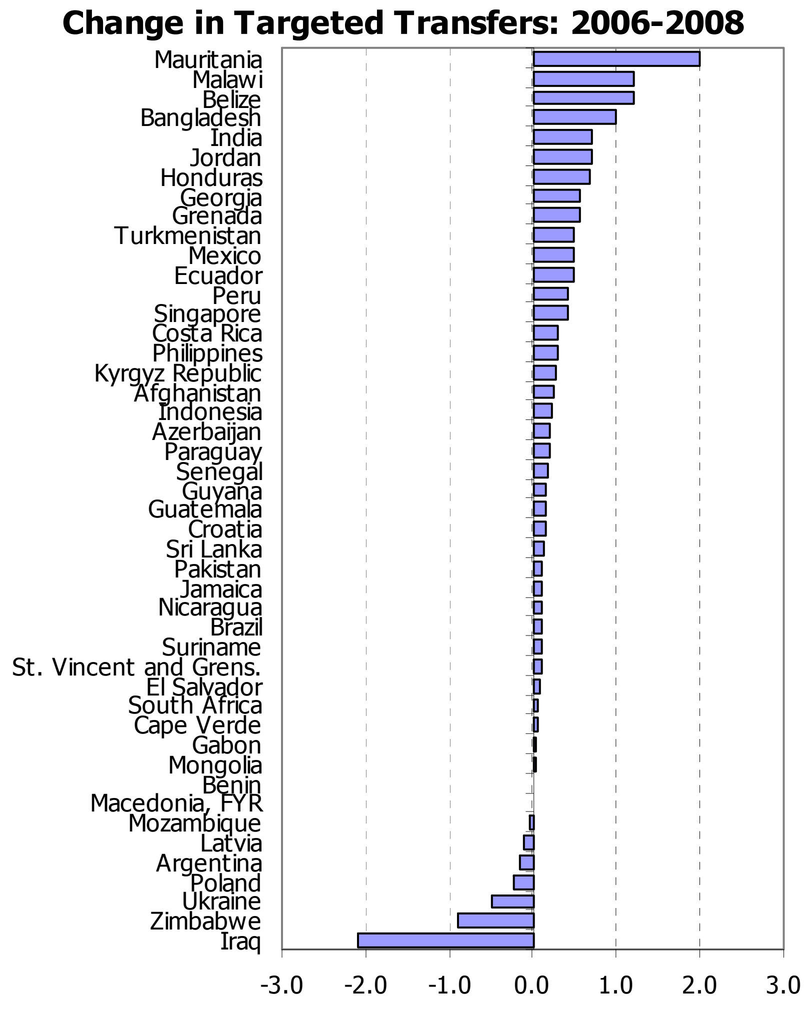


Food tax & subsidy costs

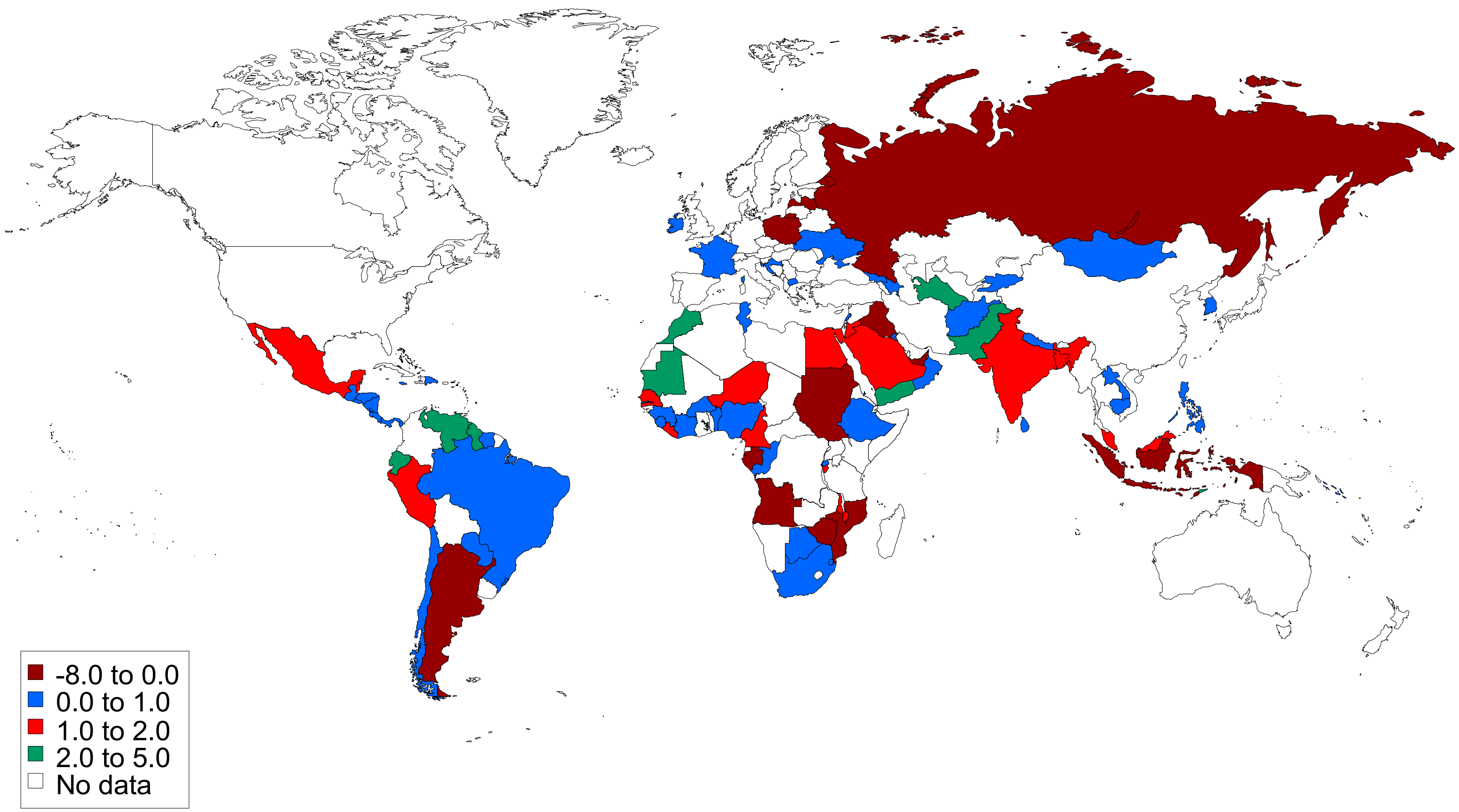




Targeted program changes



Total fiscal costs by country

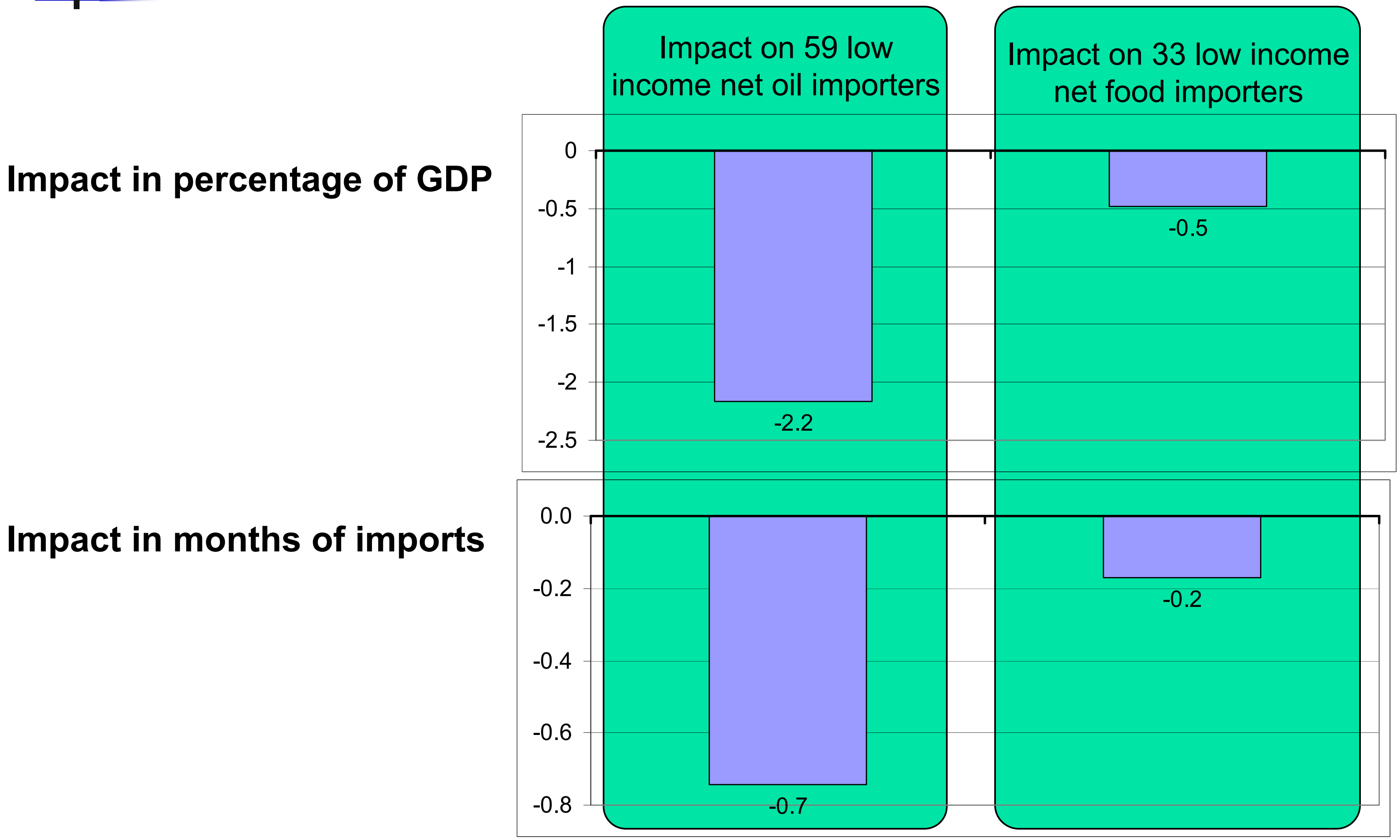


Challenges going forward

- Develop targeted transfers to protect poor from price surges as part of a broader poverty reduction strategy
- Find the fiscal space to implement mitigating measures
- Address the political hurdles presented by subsidy reform
  - Precipitous reform can engender backlash from affected groups and even social unrest

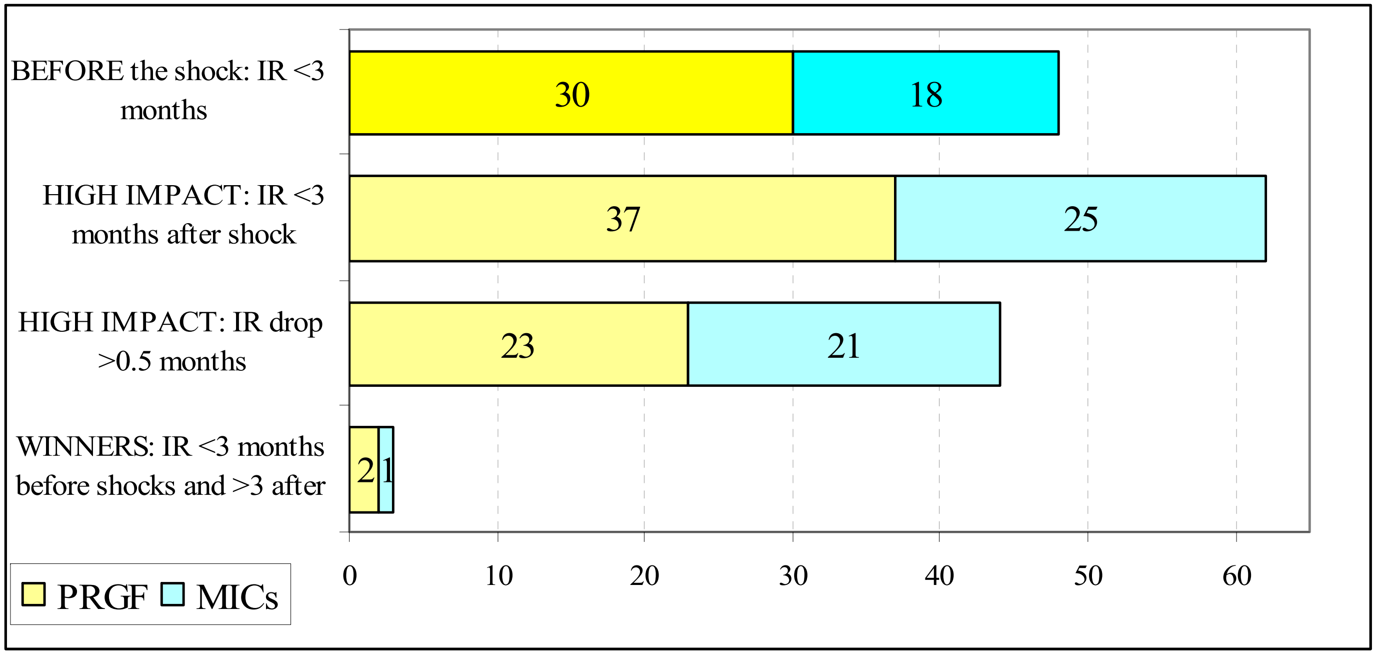
Balance of Payments Impact (1)

- BOP impacts of food and fuel shocks from Jan 2007-April 2008 already quite sizable



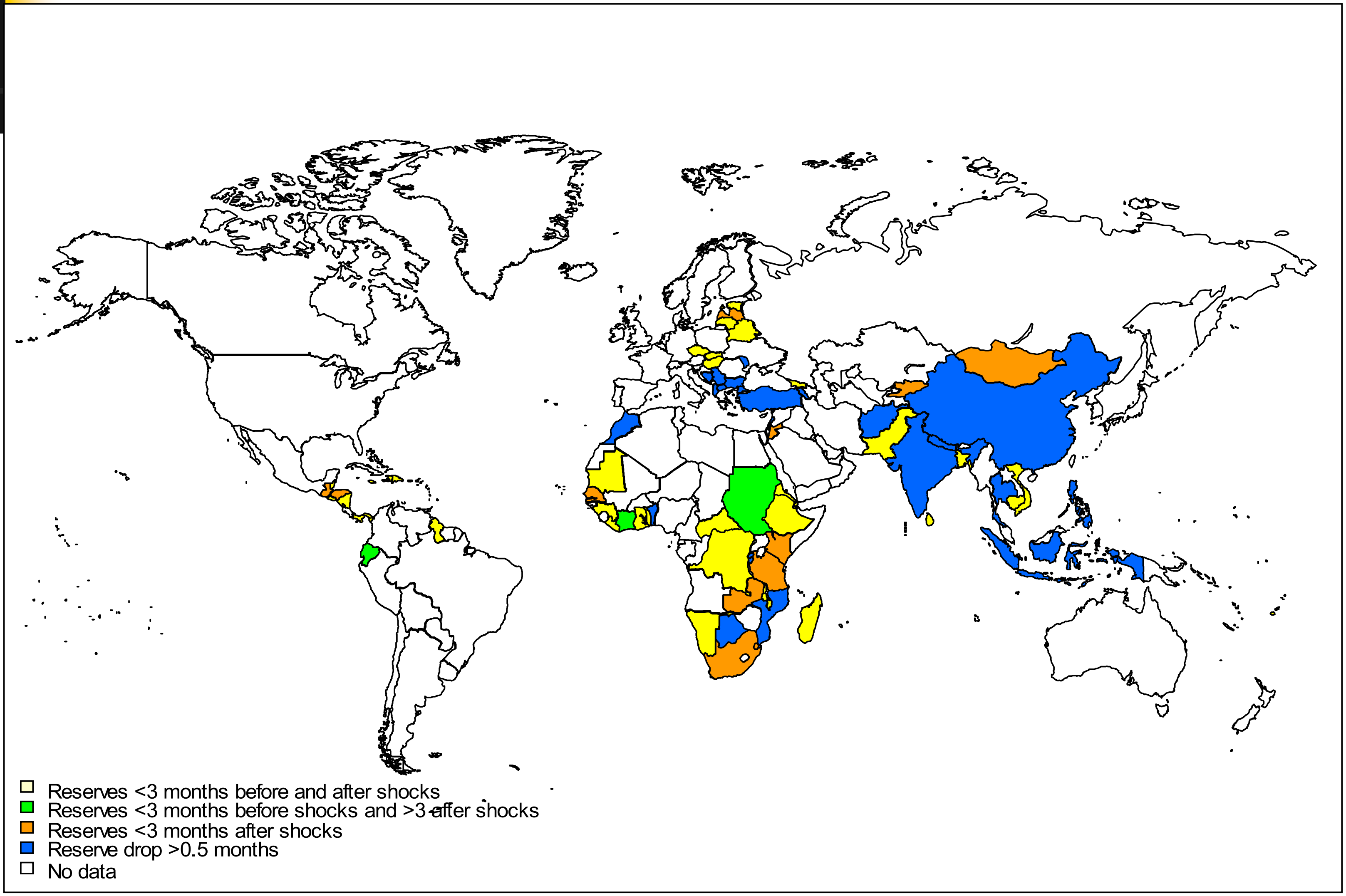
Balance of Payments Impact (2)

Simulation of further shocks to assess which countries highly impacted.*



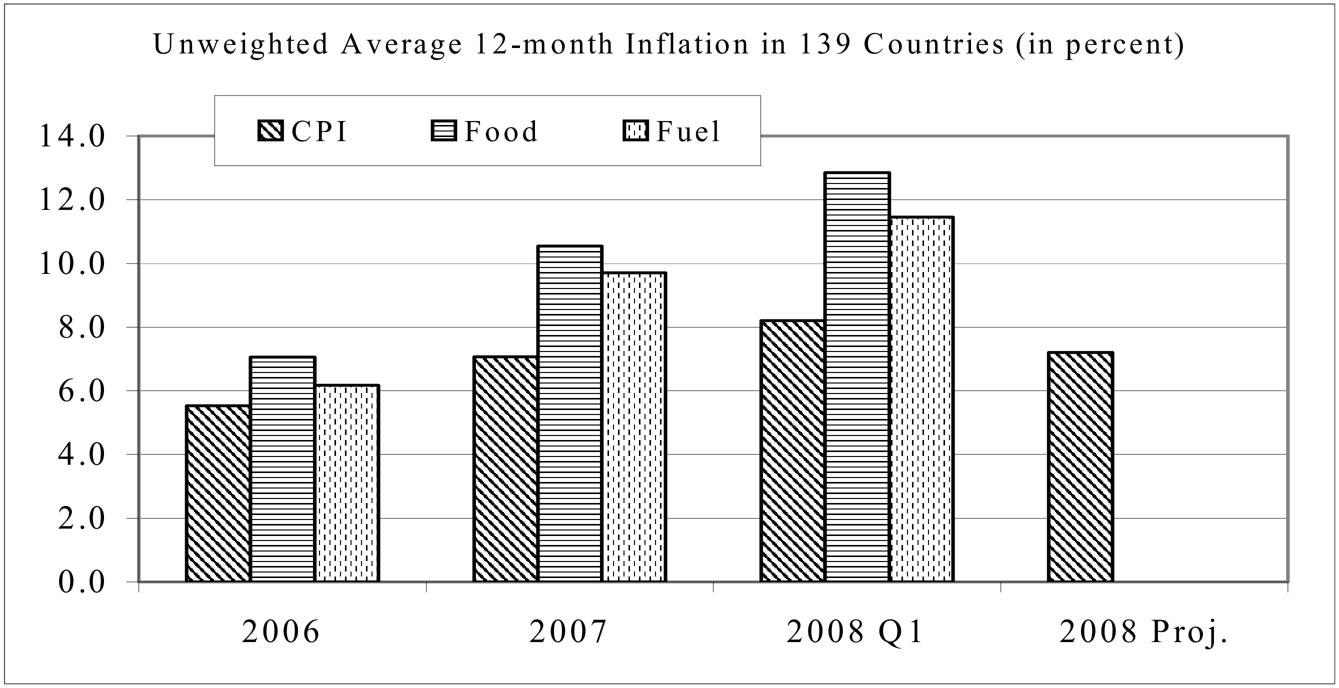
*Shocks simulate a 20 percent increase in food and fuel prices from levels prevailing at the time of the IMF's Spring 2008 World Economic Outlook projections.

BOP impact (3): large but wide variance among countries. Fuel greater impact



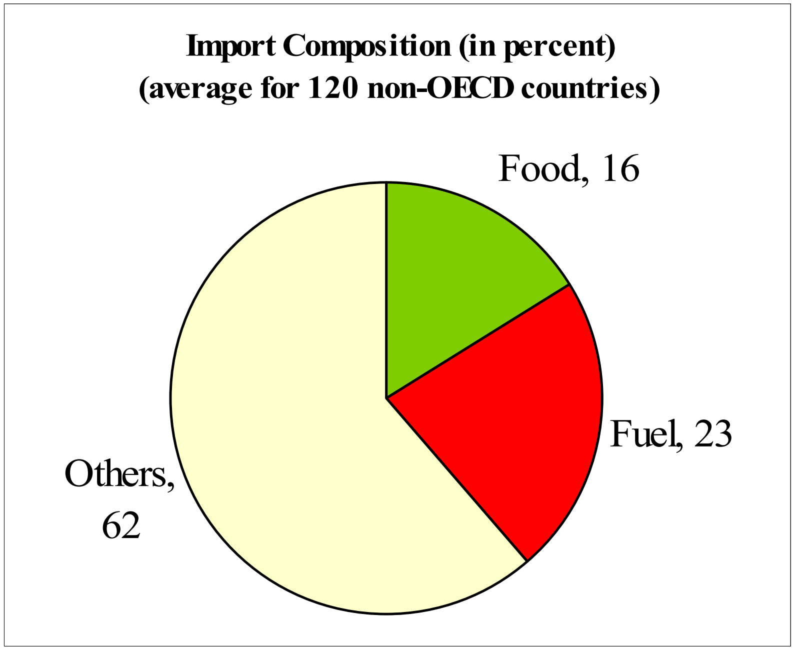
Inflation impact (1)

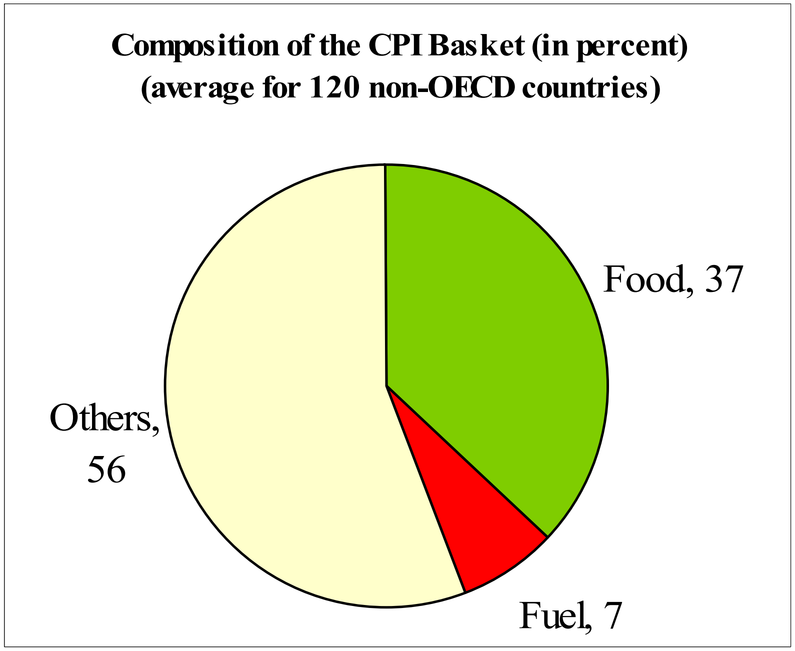
Widespread and dramatic effect: higher fuel and food prices have led to substantial increases in headline inflation.



Inflation Impact (2)

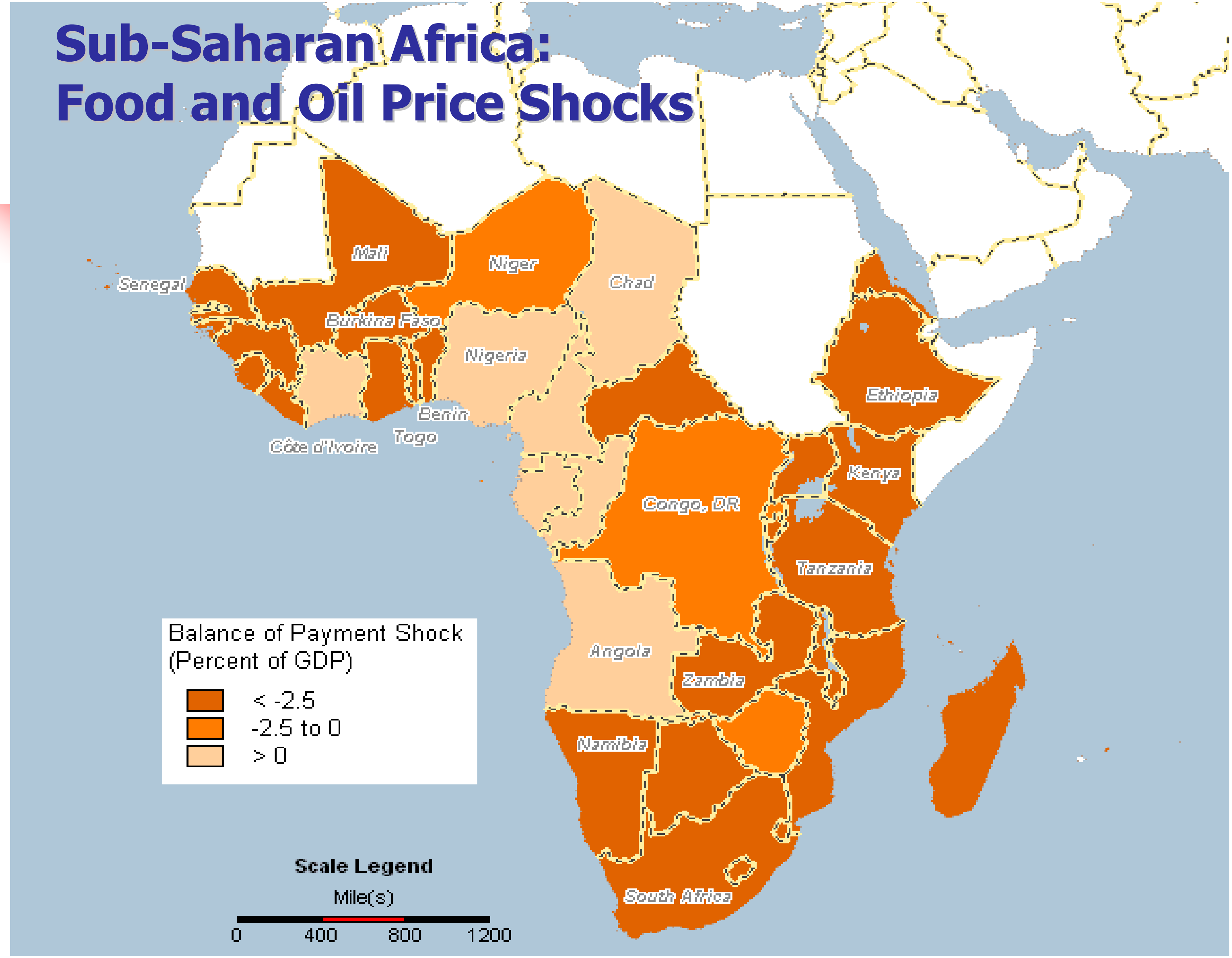
Food prices have more impact on inflation than fuel prices: larger share of food in the CPI and imports



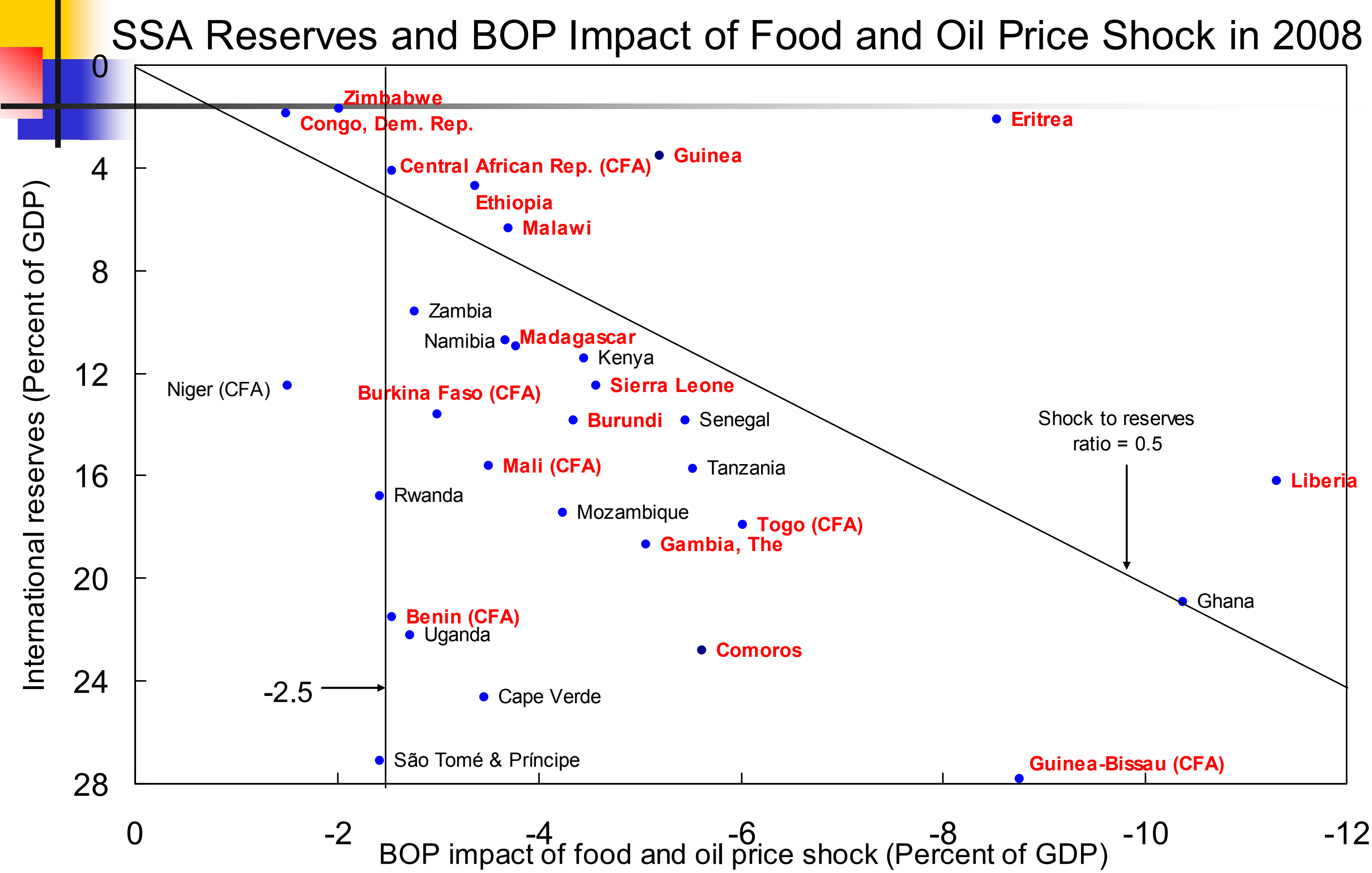


Sub-Saharan Africa: Food Price Shocks

Sub-Saharan Africa: Food and Oil Price Shocks



Worst Hit sub-Saharan African Countries

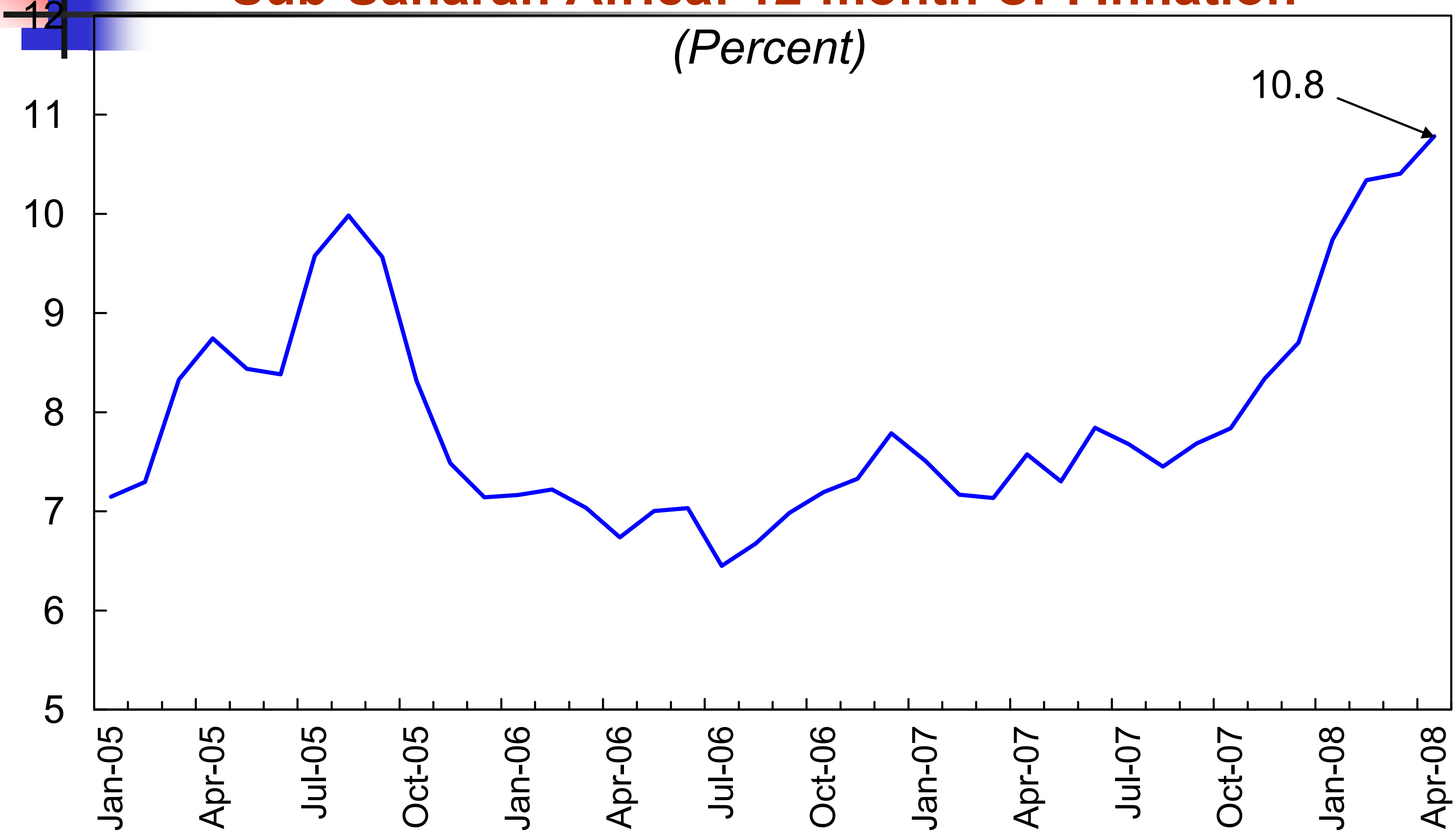


Notes: Countries in the CFA Franc zone pool reserves, the group reserve holdings can be more informative than country reserve ratios.

Spikes in oil and food prices are building inflationary pressures

Sub-Saharan Africa: 12-month CPI Inflation[1]

(Percent)



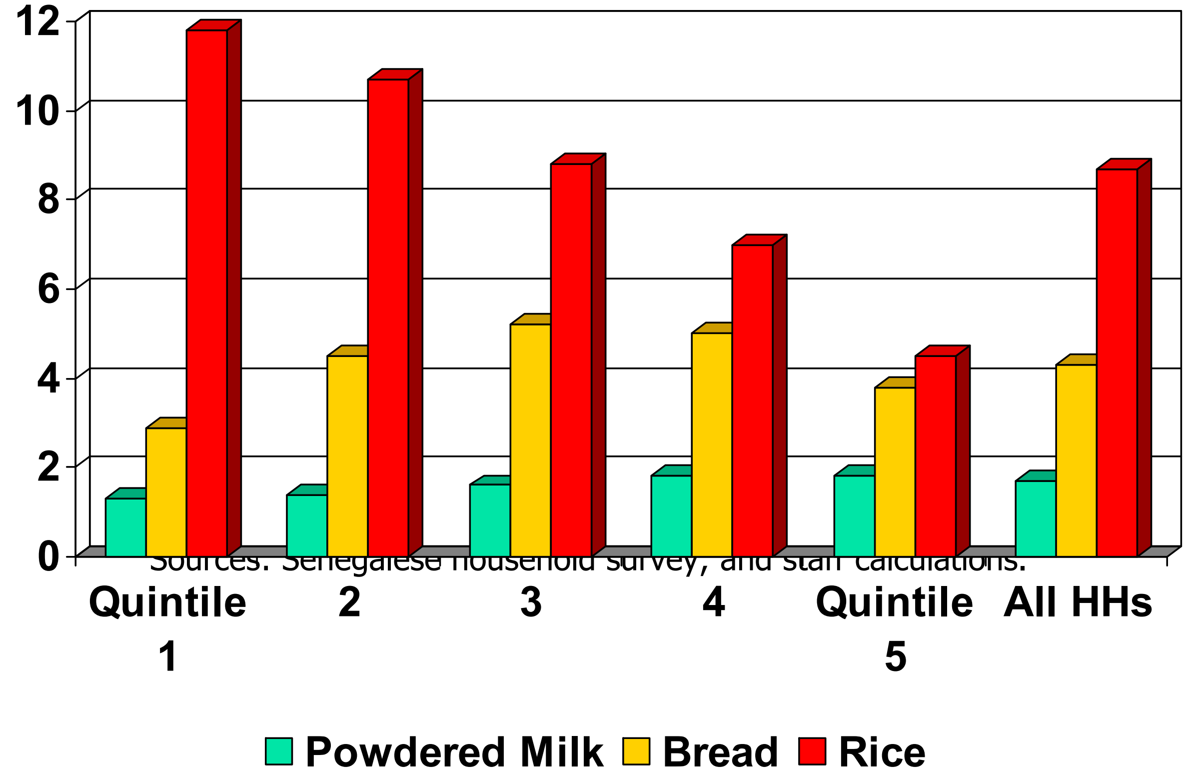
Source: IMF, *International Financial Statistics.*

[1] The April 2008 figure includes available data for 25 countries.

Senegal
Poverty Impact of Rising Food Prices

- Distributional impact of price increases
- Rice and bread are important components of household food consumption:

Average Budget Shares for Food Items, All Households



Sources: Senegalese household survey, and staff calculations.

Increases in Access for sub-Saharan Africa

Poverty Reduction and Growth Facility Eligible Countries

As of 6/30/08

Countries	In mill of SDRs	In % of quota	Board Date
Benin	9.29	15	6/16/08
Burkina Faso	9.03	15 1/	1/9/08
Central African Republic	8.36	15	6/18/08
Mali	18.66	20 2/	5/28/08

1/ Burkina Faso's augmentation was approved by the Board last January.

2/ Mali's new arrangement increased access from 10 to 30 percent.