



*Conference: "Albania—Opportunities and Challenges in the Move Towards Emerging Market Status"*

# **Policy Challenges in an Environment of Rising Commodity Prices**

*May 14, 2008*

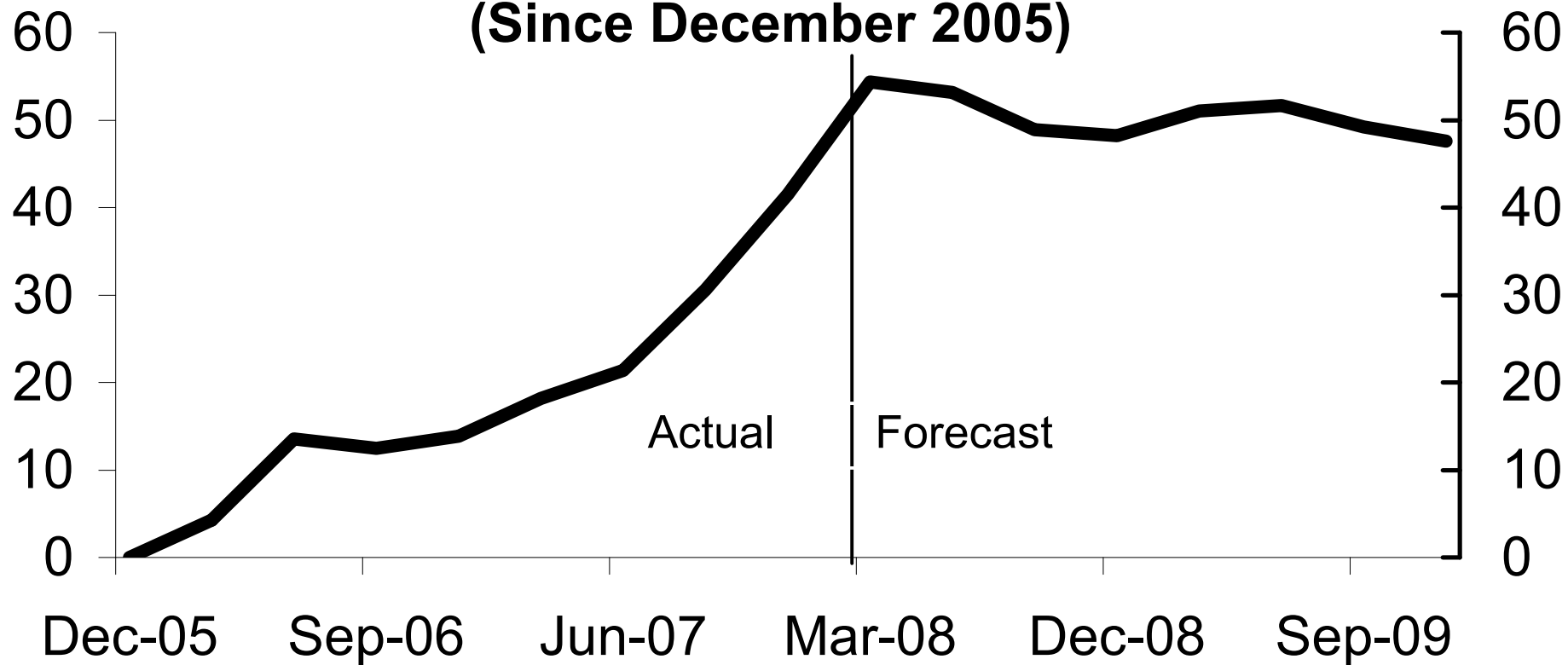
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# Food price inflation is a global phenomenon

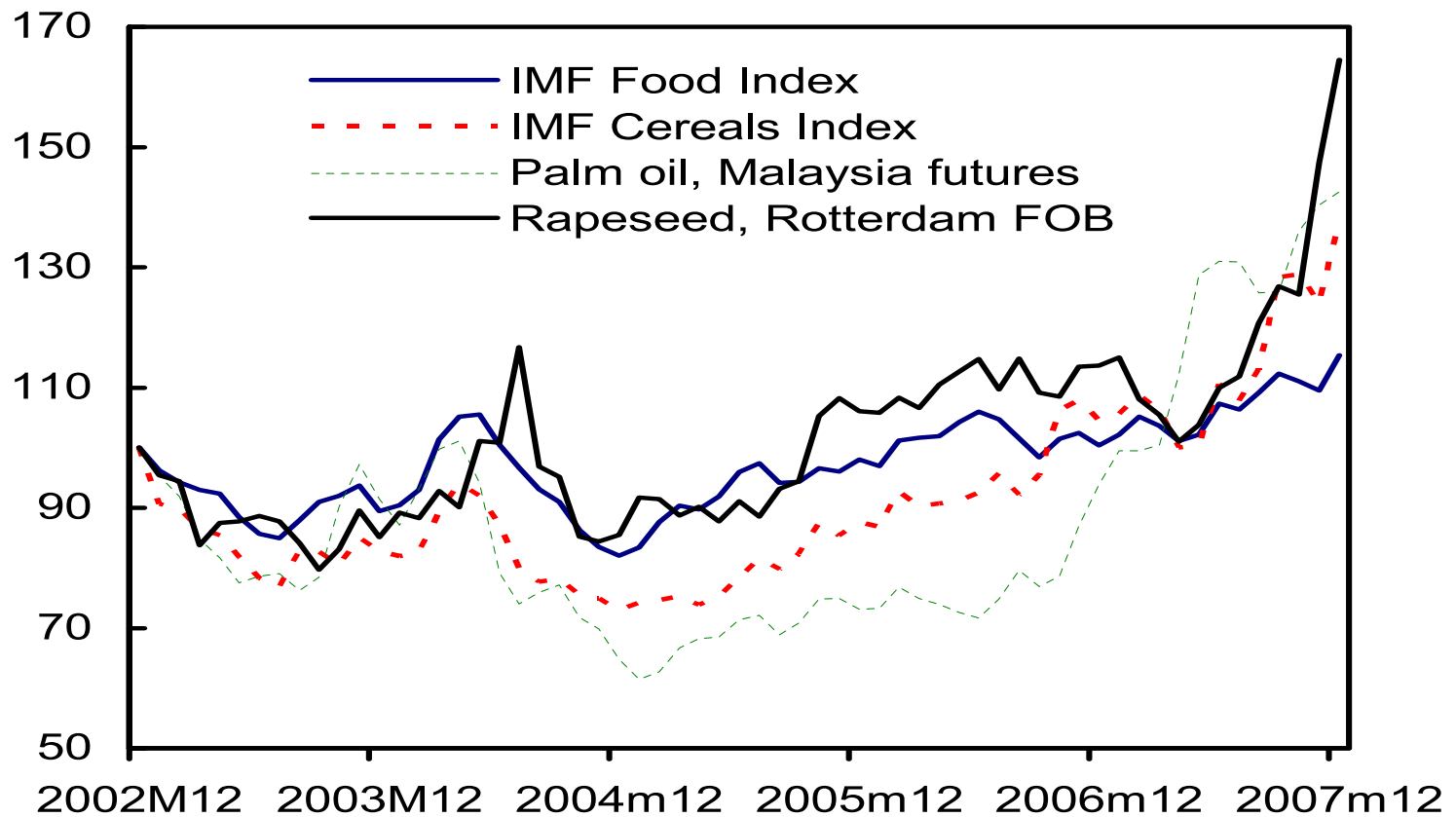
**Cummulative Percentage Change in IMF Food Price Index  
(Since December 2005)**





The increase is most pronounced in primary food products.

World Agricultural Commodity Prices (Euro indices, Dec. 2002 = 100)





# The acceleration of food prices internationally has both demand and supply origins

- Demand is up from emerging markets, notably China and India;
- Supply has been constrained by poor harvests and diversion of crops to biofuel production;
- Rising input costs (fertilizers, fuel) due to rising price of oil;
- Possible speculative bubble on top of fundamentals



# The effects

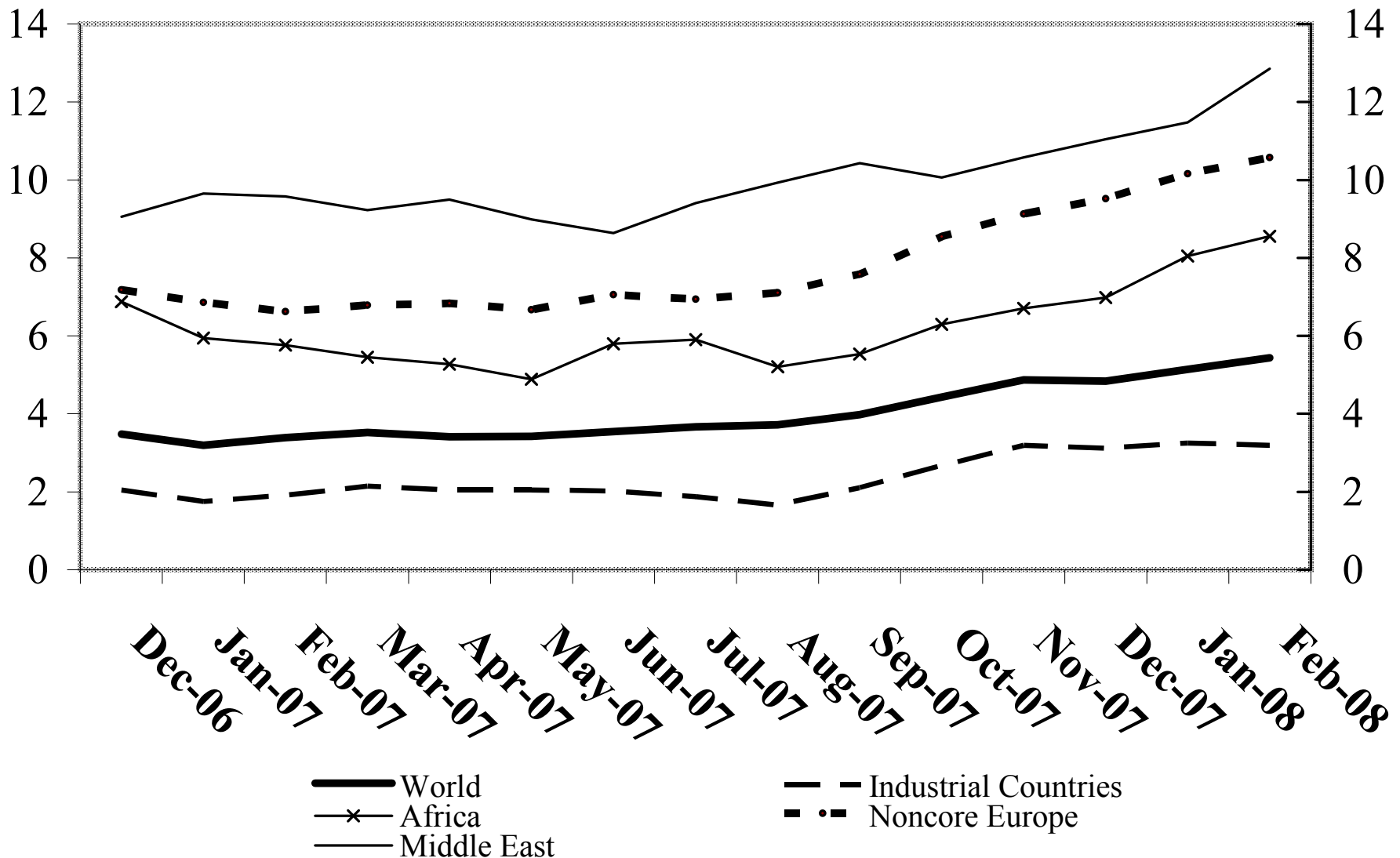
- For a net food importer, a rise in food prices means a fall in real income.
- The effect is felt more by poorer segments of the population.
- Net food exporters benefit in the aggregate, but the gains are unevenly distributed.
- Inflationary pressure





# Inflation is rising worldwide

World: Year-on-Year Headline Inflation, Dec 2006-Feb 2008

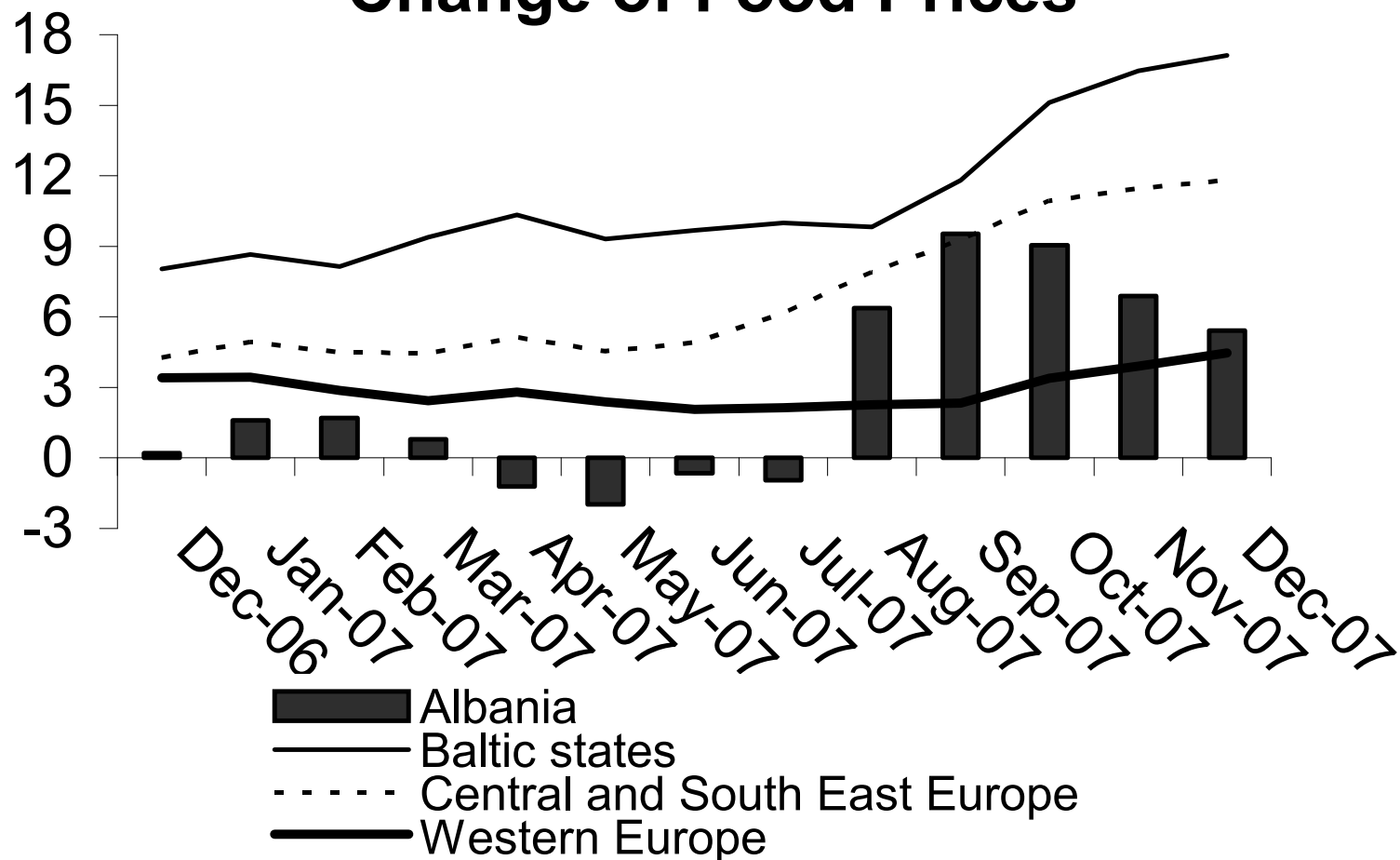






Food prices have risen throughout Europe, but the larger increases were concentrated in Central Europe and the Baltic states...

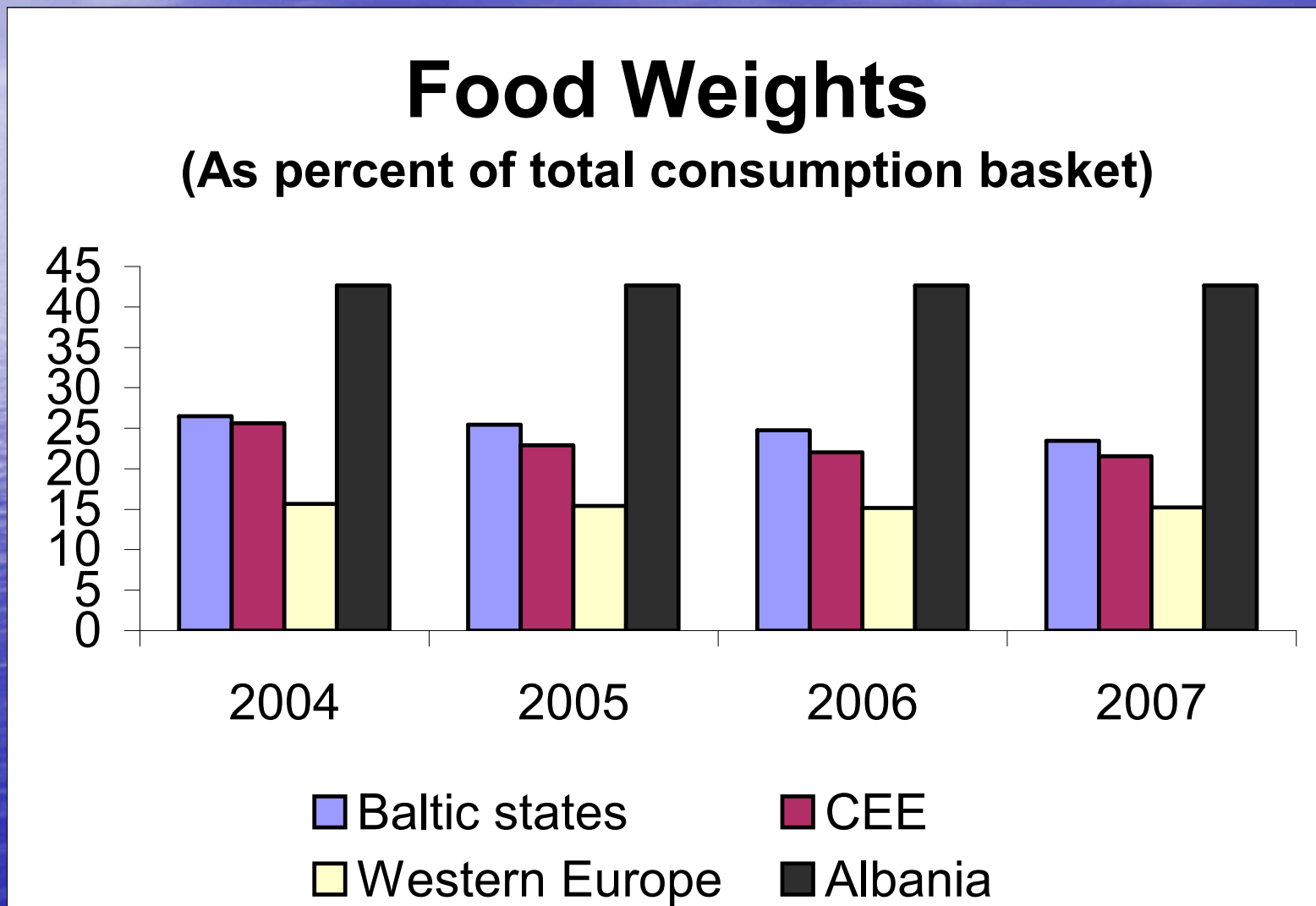
## Annual Year-on-Year Percentage Change of Food Prices





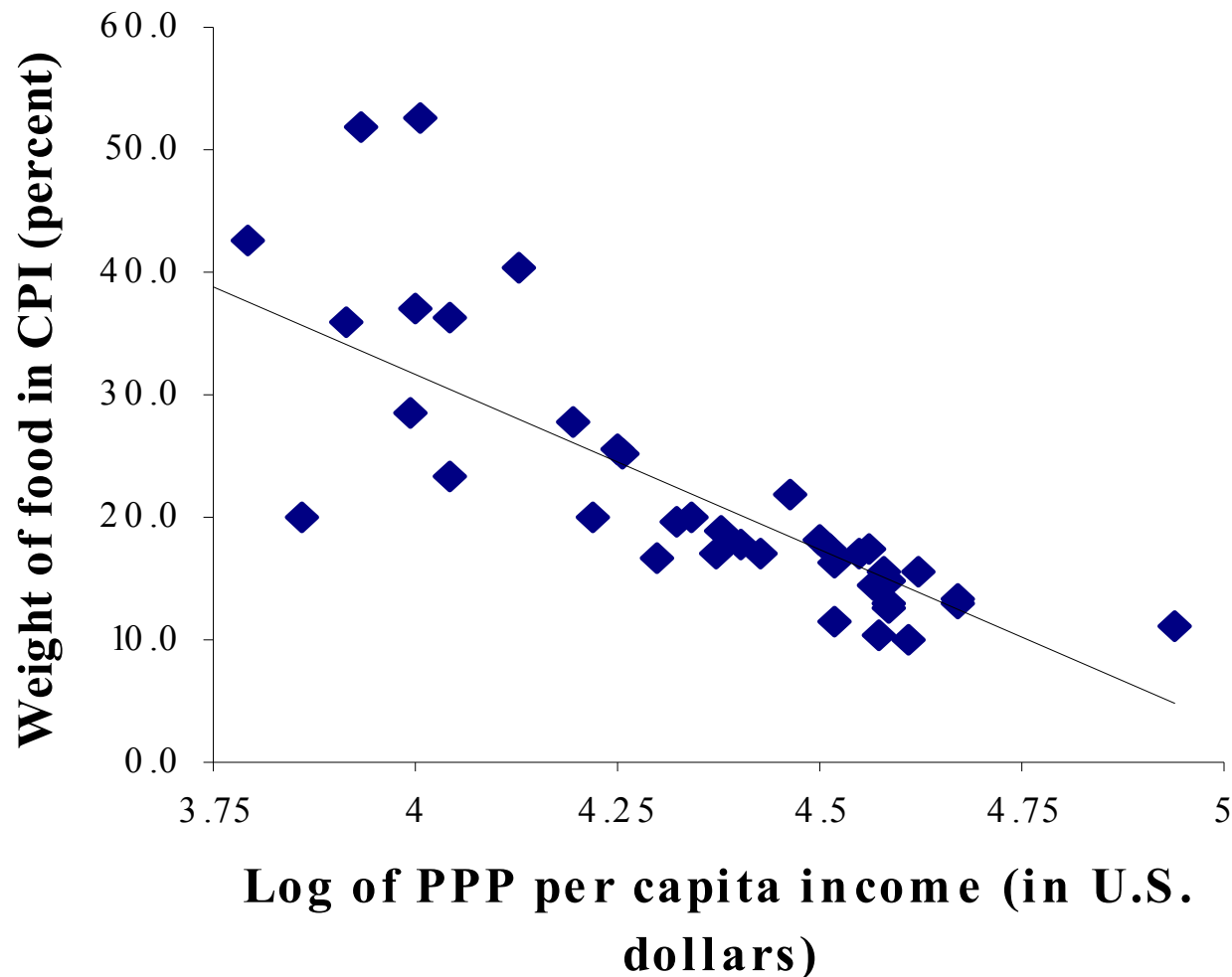


...and where the weight of food in consumption is higher...





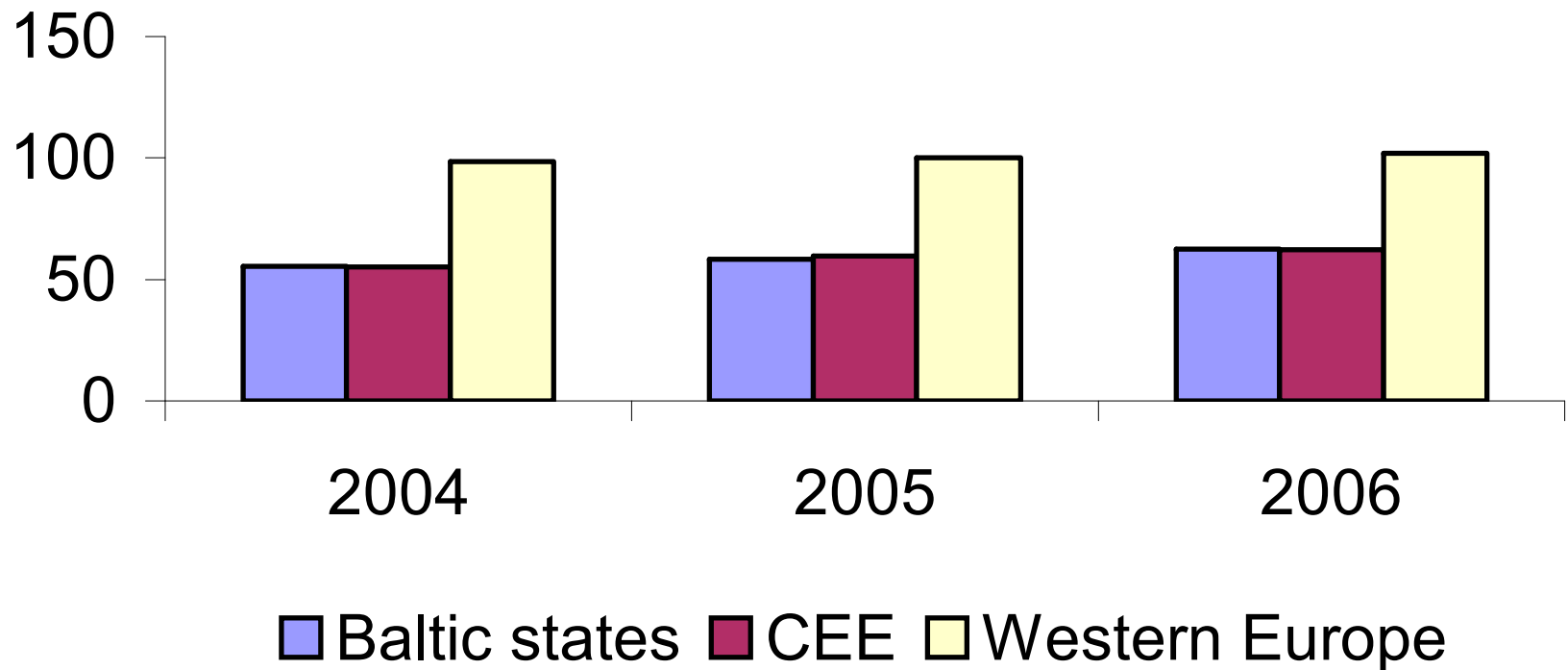
Higher weights on food can be at least partially explained by lower income levels.





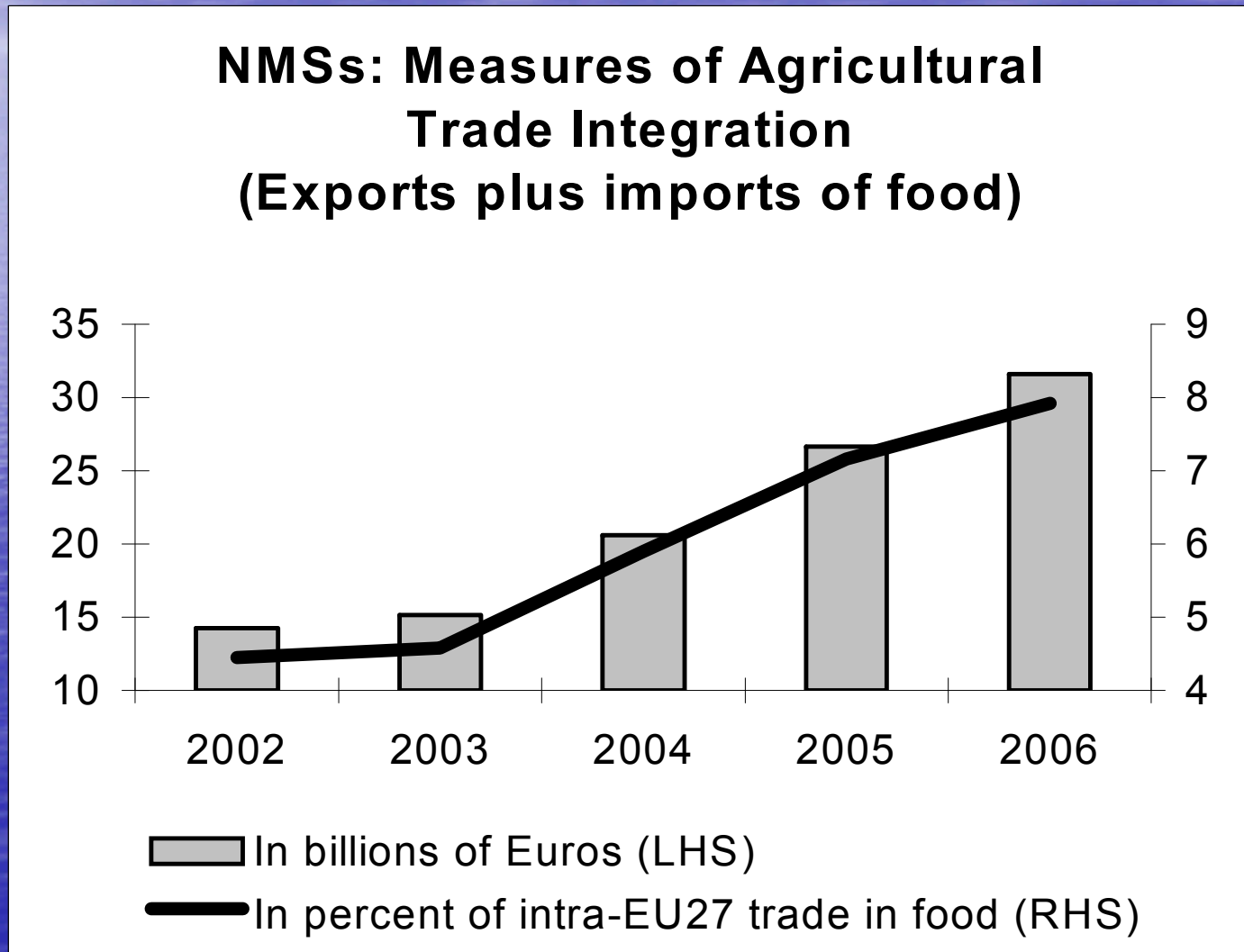
...where absolute prices are lower...

## Euro Value of Comparable Food Consumption basket (Western Europe in 2005 = 100)





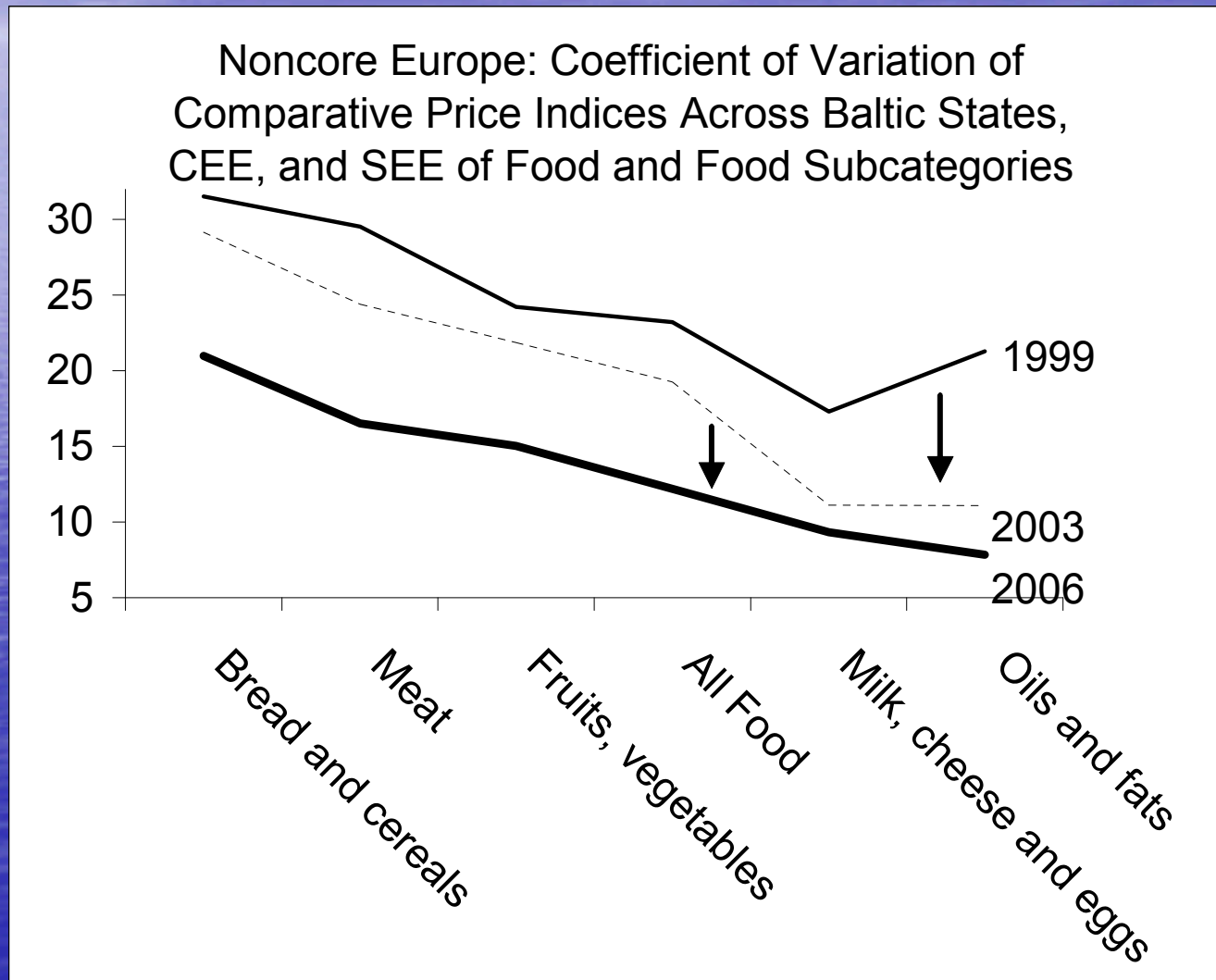
Since 2002, intra-EU trade in food of the new member states more than doubled.





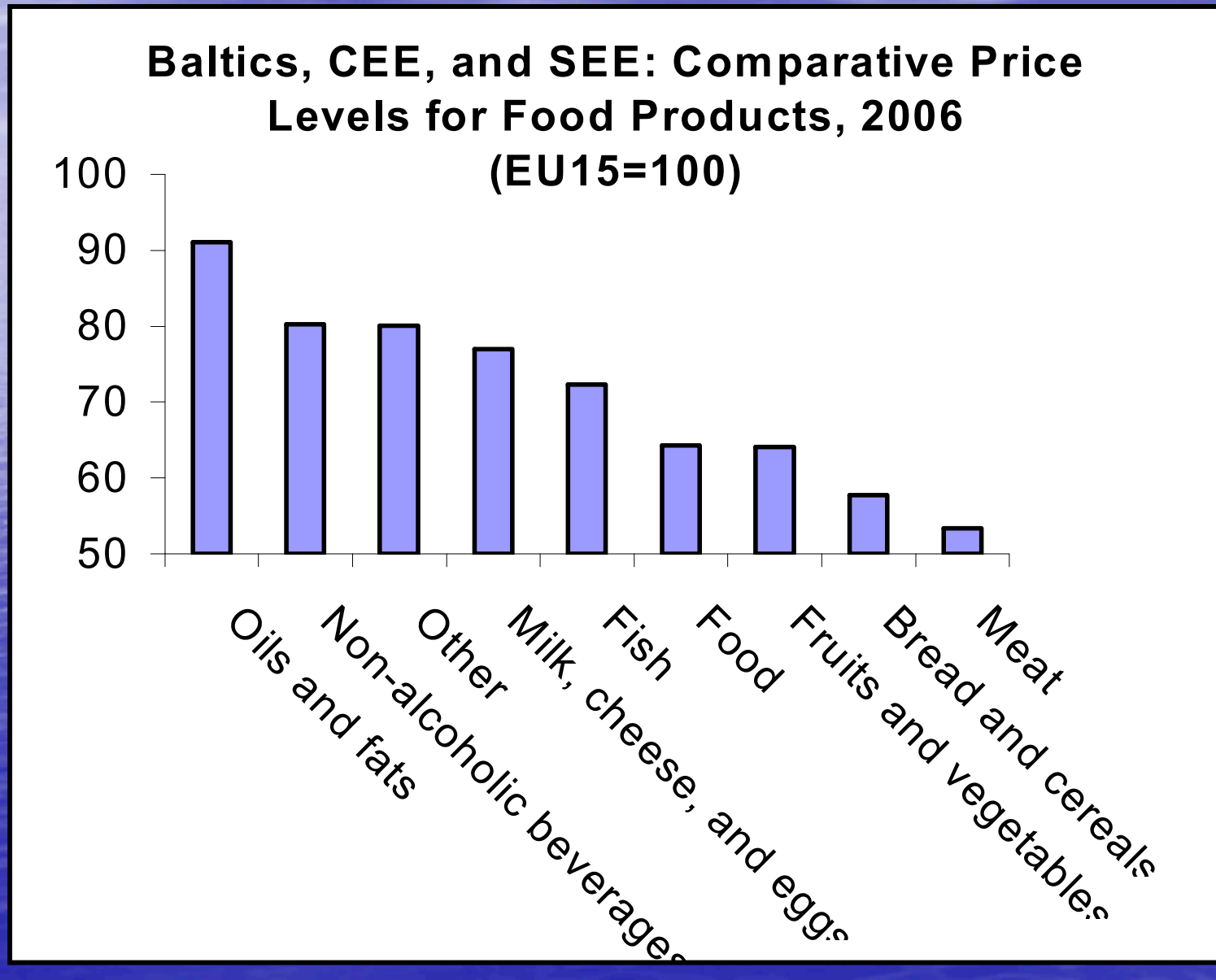


# Food price convergence is apparent within the new member states



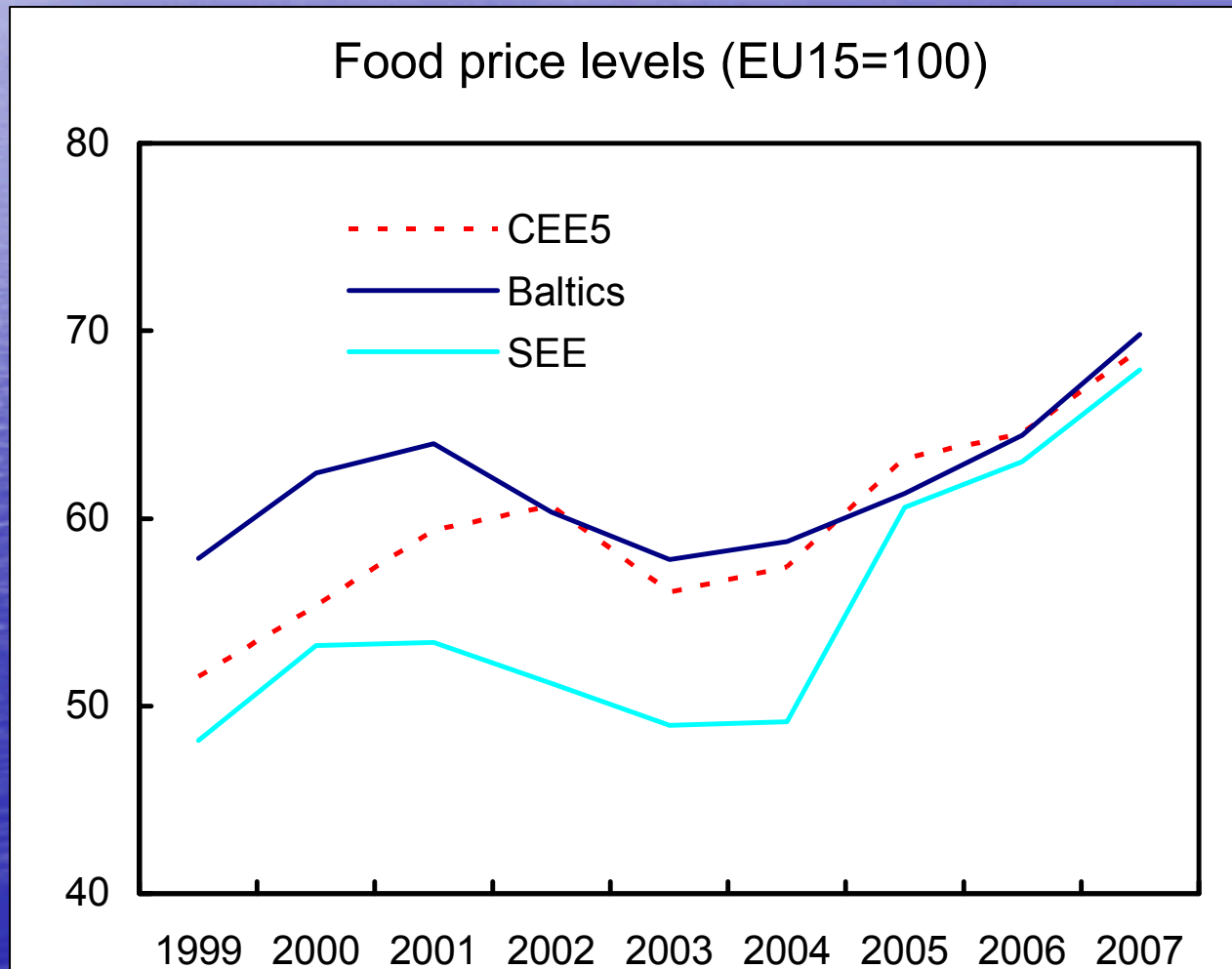


# The prices of more processed food products seem to be converging more quickly





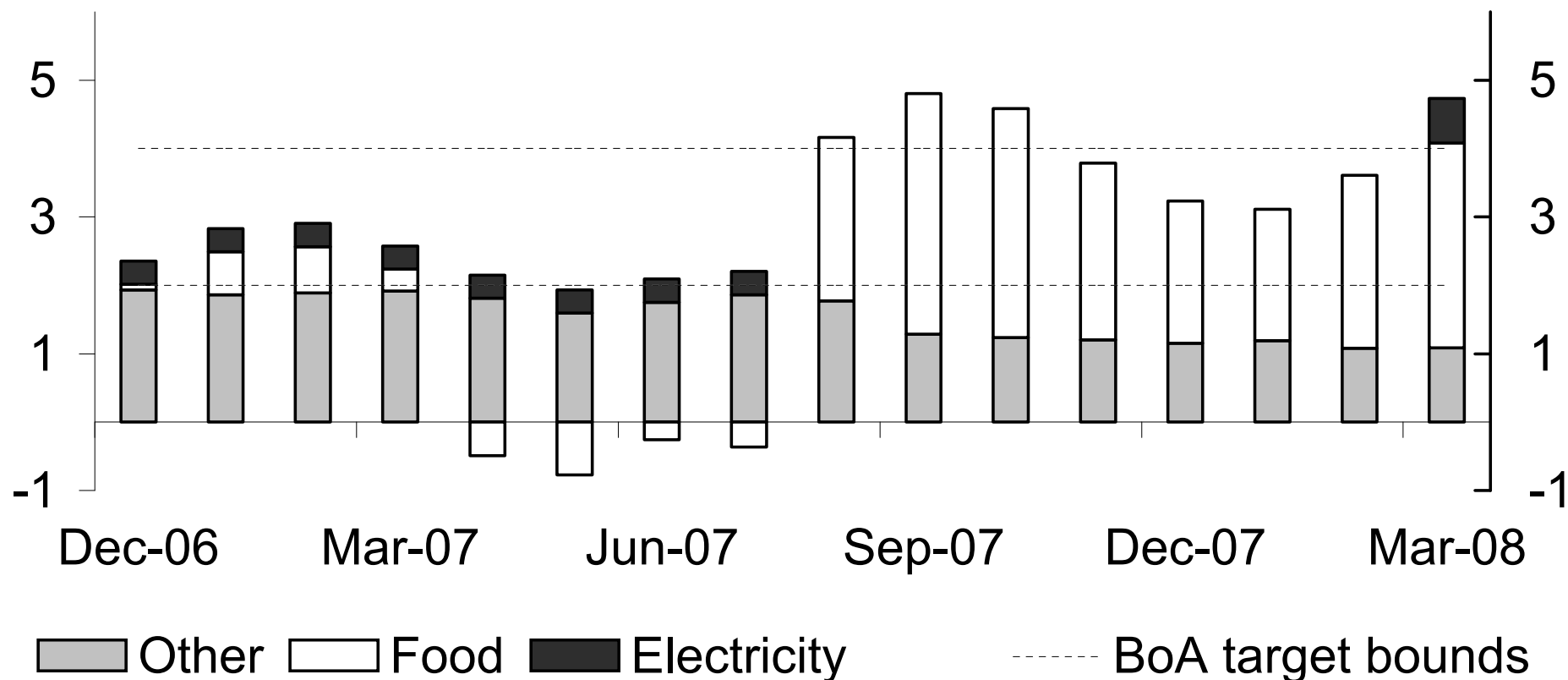
As a result of the differential rate of food price increase, food prices can be seen to be converging across Europe...





Food price inflation is rising in Albania, and accounted for most of the inflationary pressure in recent months.

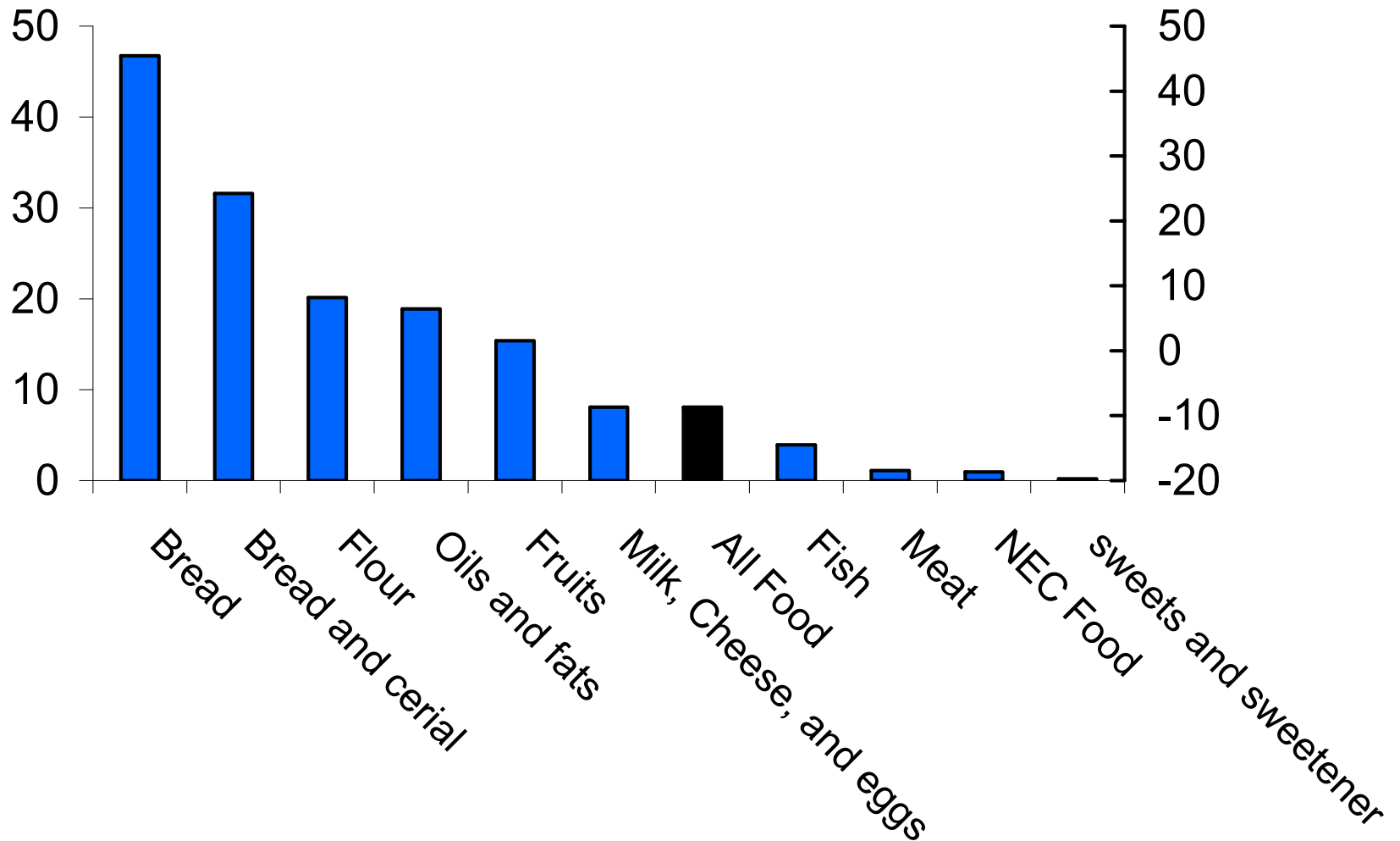
**Albania: Percentage Contribution to Year-on-Year Total Inflation, December 2006-March 2008**





# Albania food inflation

**Albania: Percentage Change in Food Prices March 2007-March 2008**





# Looking ahead, what can be expected?

- IMF commodities division expects the rapid acceleration of world prices to end soon, but for prices to remain relatively high;
- However, convergence of food prices in lower income European countries means that upward pressure on food inflation in the east of Europe may not end with the rise in world prices.
- But a considerable deceleration would be expected



# Policy recommendations given food price increases

Efforts to raise the competitiveness of the retail and distribution sectors.

Monetary policy action should focus on containing second round effects of the price increase

Maintain clear communication with markets

Promote a supply response

Avoid price controls and export restrictions should be avoided





# Social protection—General principles

- Maintain macroeconomic stability;
- If countries decide to act, a tailored solution taking into account individual country characteristics is required.
- As a general rule, the IMF is recommending targeted subsidies impacting only the most vulnerable groups
- Avoid blanket transfers or wage increases





END