INTERNATIONAL MONETARY FUND

High-Level Conference on World Food Security Rome, June 3, 2008

There is one very important fact about the global food crisis that stands out: it is not a global food shortage. In fact, there is enough food to feed the world.

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.

The immediate and highest priority is to feed the hungry. The most serious risks are starvation and malnutrition which will stunt children's development for decades.

In the very short term we will need to get food to the most affected regions and countries. I am heartened that so many countries have reacted to the appeal of the World Food Program for assistance, but more funding will be needed.

The next priority is for governments to take steps to ease the burden of higher food prices on the poorest people over the next few months.

Scaling up targeted social safety net measures, such as food-for-work programs and conditional cash transfers can be very effective, as shown in Brazil and Mexico.

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

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

Already we are hearing of farmers in developing countries abandoning rice production as domestic prices do not cover input cost.

Emergency measures should be cost effective, well targeted, and not undermine the long-term objectives of increasing food production.

It's also important to contain the macroeconomic costs of the food crisis, and stop it from turning into a general inflation or balance of payments problem.

Higher oil and food prices have led to substantial increases in overall inflation. The rise in food prices accounted for almost 45 percent of total inflation worldwide in 2007 – far more than the rise in oil prices.

Many developing countries have made great strides in bringing inflation under control, benefiting in particular the poor. These gains need not be lost as long as central banks act promptly to prevent expectations of higher inflation from taking root.

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 Congo (almost 2 percent) and Mauritania (3 percent).

How can we—both the international community and the IMF specifically—help?

INTERNATIONAL MONETARY FUND

For our part, the IMF is already discussing with country authorities the appropriate macroeconomic policy response and the design of targeted social measures to alleviate the effects on the poorest. We had recently very productive meetings with the governments of the West African Economic and Monetary Union.

We are helping countries to create the space for stepping up expenditures related to the food crisis while maintaining sound macroeconomic policies. This involves choices about the size of fiscal deficits and the domestic revenue effort.

Financial support from the international community can make these choices easier.

Increased donor aid can cover additional financing needs related to higher food import bills and the fiscal cost of action to help the poor.

The IMF can help with balance of payments support.

We have already doubled our assistance to four low-income countries because of increases in prices of food and also imported fuel—Burkina Faso, Kyrgyz Republic, Mali and Niger—and we are discussing additional support with another 11 countries.

To sum up, this crisis can be managed if we do the right things:

We must act urgently to address immediate needs.

We must help countries direct support to the people who need it most, while avoiding actions that make things worse—like export bans or price controls.

And we must help them manage the macroeconomic consequences.