

DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

**FOR
AGENDA**

MASTER FILES
ROOM C-120

01

SM/83/131
Correction 1

CONTAINS CONFIDENTIAL
INFORMATION

June 20, 1983

To: Members of the Executive Board
From: The Secretary
Subject: Compensatory Financing Facility and Buffer Stock Financing
Facility - Review of Experience with Financing of Fluctuations
in the Cost of Cereal Imports and Selected Policy Issues

The following corrections have been made in SM/83/131 (6/17/83):

Page 33, para. 2, last line: for "(Annex II, Chart 1)" read "(Chart 2)"

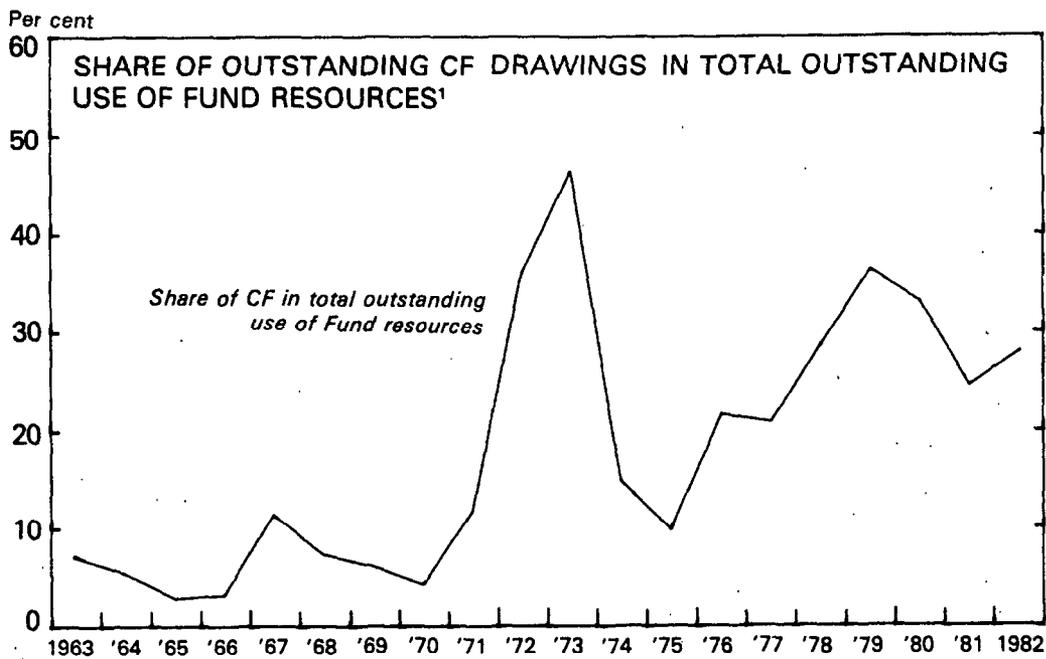
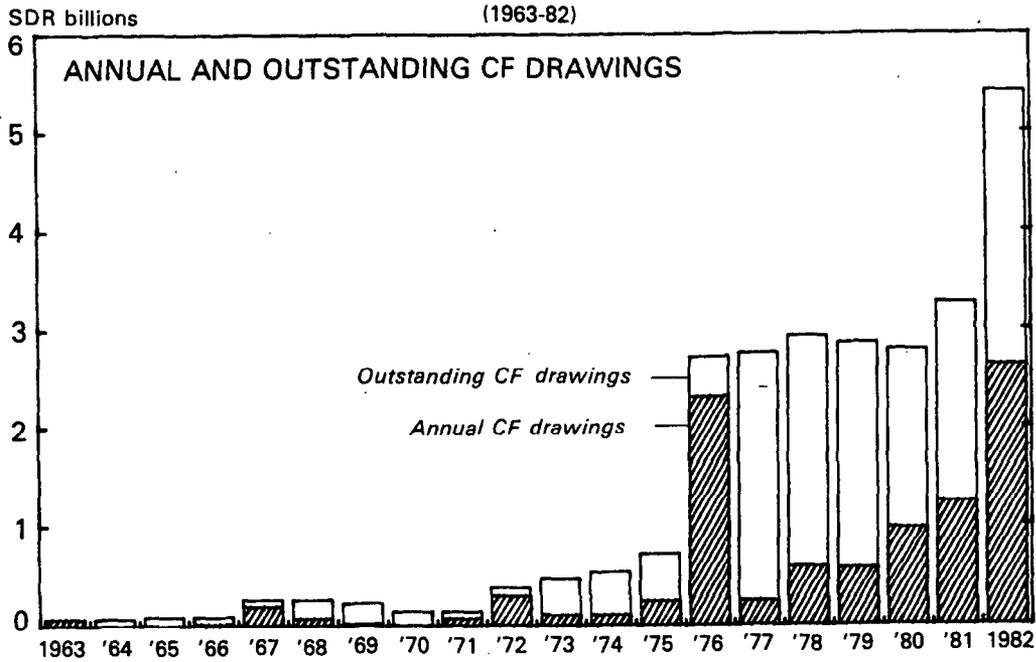
The charts (pages 12a and 34a), which were inadvertently inter-
changed, have also been corrected.

Corrected pages are attached.

Att: (3)

Other Distribution:
Department Heads

CHART 1 USE OF FUND RESOURCES UNDER THE COMPENSATORY FINANCING FACILITY



¹Excluding reserve tranche purchases.

World Cereal Situation and Outlook

In the discussions leading up to the establishment of the cereal facility in mid-1981, concern had been expressed over the outlook for declining supplies of cereals and rising prices. World production had declined in both 1979 and 1980, accompanied by a sharp increase in imports, a decrease in food aid, and a substantial rise in cereal prices--by 17-20 per cent over the period 1978/79 to 1980/81. At the same time, world stocks as a share of consumption had dropped below 17 per cent, the level considered by the FAO as the minimum safe level for world food security. This situation, however, was reversed in the course of 1981-82, as a recovery in world cereal supplies caused a significant easing of the supply situation.

World cereal production increased by 6 per cent in 1981 and by a further 3 per cent in 1982, with output increases of the same order being achieved by the developing countries (Table 1). Imports of the developing countries declined for the first time since 1975/76--by 2 per cent in 1981/82--and although estimated to rise by 7 per cent in 1982/83, the rate of increase in imports for the two years taken together--2 per cent--represents a significant slowdown in the annual rates of increase since the mid-1970s. At the same time, world cereal stocks rose by 20 per cent in both 1981/82 and 1982/83, reaching levels equivalent to 18 and 21 per cent of world consumption, respectively, the highest in more than 10 years. There was some increase in the volume of food aid in both years to levels accounting for roughly 10 per cent of the total cereal imports of developing countries. With the availability of more ample supplies, the prices of all major cereals declined substantially (Chart 2).

Wheat accounts for about 60 per cent of the cereal imports of developing countries. Although world production increased by 2 per cent in 1981 and by 5 per cent in 1982 to reach record high levels, wheat prices have not declined as rapidly as the prices of maize and rice, because international trade in wheat was at a high level through 1981/82. Prices actually increased by one per cent in 1981 before declining by 8 per cent in 1982. They increased somewhat in the latter part of 1982 and early 1983, but the market situation is such that, with record levels of stocks, a strong rise is unlikely in the near term. The only significant factor that could exert an upward pressure on prices is the implementation of various acreage-reduction programs by the United States, which is the world's largest wheat exporter.

Maize and other coarse grains account for about 30 per cent of the cereal imports by developing countries. World maize harvests also reached record high levels in 1981 and 1982, but international trade was weaker than that for wheat because demand for maize as a feed for livestock declined in 1981/82 and 1982/83 as a result of the adverse effects of the recession on demand for meat. The combination of record large production and reduced demand caused world maize stocks to increase by 30 million tons (or 61 per cent) in 1981/82 and by another 30 million tons in 1982/83. Prices declined by 17 per cent in 1982. By April 1983 they had recovered by about 40 per

Table 1. World Cereal Situation

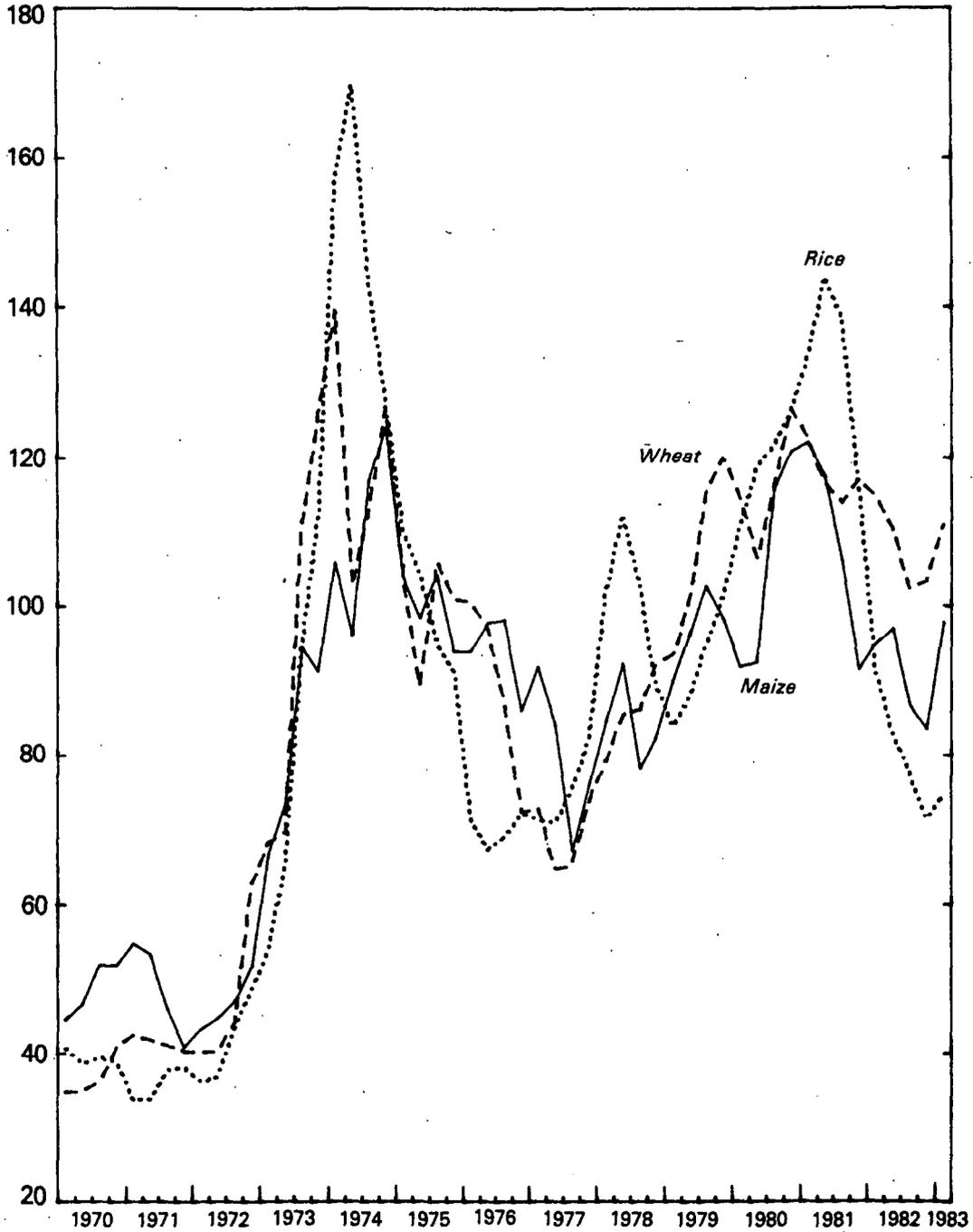
(In millions of metric tons)

Year <u>1/</u>	Production <u>2/</u>		Imports		Food Aid	Ending Stocks <u>3/</u>	Stocks/ Consumption	Export Prices (US\$/ton)		
	World	Developing Countries	World	Developing Countries				Wheat <u>4/</u>	Rice <u>4/</u>	Maize <u>4/</u>
1973/74	1,273	527	135	60	5.6	186	.15	177	584	116
1974/75	1,236	539	134	62	8.4	179	.14	163	439	132
1975/76	1,260	579	150	56	6.9	187	.14	151	295	116
1976/77	1,372	596	148	58	9.1	245	.18	112	257	108
1977/78	1,355	590	163	72	9.2	237	.17	116	337	96
1978/79	1,473	627	175	82	9.5	274	.19	141	330	103
1979/80	1,429	637	198	91	8.9	255	.18	175	387	115
1980/81	1,428	641	207	99	8.9	231	.16	190	477	142
1981/82 <u>5/</u>	1,513	680	214	97	9.0	275	.18	170	390	118
1982/83 <u>6/</u>	1,557	690	201	104	9.2	329	.21	158 <u>7/</u>	274 <u>7/</u>	115 <u>7/</u>

Source: FAO, Food Outlook, various issues.

1/ Data refer to July/June year.2/ Data refer to calendar year of first year shown.3/ Stock data are based on an aggregate of national carryover levels at the end of national crop years.4/ Average spot quotations for July-June. Wheat = U.S. No. 2, Hard Red Winter, Ordinary Protein, f.o.b., Gulf ports; Rice = Thai, White, 5 per cent broken, f.o.b., Bangkok; Maize = U.S. No. 2 Yellow, f.o.b. Gulf ports.5/ Estimated.6/ Forecast.7/ July/May.

CHART 2
PRICES OF MAJOR CEREALS¹
(1975 = 100)



¹Maize: U.S. No. 2 yellow, f.o.b. Gulf ports; wheat: U.S. No. 2 hard red winter, f.o.b. Gulf ports;
rice: Thailand, white milled 5 per cent broken, f.o.b. Bangkok.