INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 08/219
FOR IMMEDIATE RELEASE
September 24, 2008

International Monetary Fund
Washington, D.C. 20431 USA

IMF Says 50 Countries Still Hurt by Food, Fuel Price Increases

Some 50 developing countries remain at risk through 2009 as a result of food and fuel price increases, according to an updated assessment from the International Monetary Fund (IMF). IMF Managing Director Dominique Strauss-Kahn said that while the international community is currently focused on the ongoing financial crisis in advanced economies, “it is important not to lose sight of the ‘other crisis’—the continued debilitating impact of food and fuel hikes on some of the world’s poorest countries.”

“While food and fuel prices have eased somewhat in recent months, they remain well above their levels at the onset of the recent price surges,” said Mr. Strauss-Kahn. “What this means for a large number of countries—particularly in Africa—is a significant shock.” He called for “bolder action” from the international community in terms of additional aid to help vulnerable countries.

The IMF’s updated assessment shows that the impact of food and fuel price increases on developing countries, far from diminishing, has continued to mount since its previous report last June. As of mid-September, oil prices were at some 40 percent below their mid-July peaks, but still double the levels recorded at end-2006. Similarly, food prices have eased 8 percent from their June peak but are still above end-2006 levels.

As a result, the IMF projects that net fuel-importing low-income countries are facing an increase in their fuel bill equivalent to 3.2 percent of their GDP—or US$60 billion. For 43 net food-importing countries, the rise in their food bill is 0.8 percent of GDP—or US$7.2 billion.

“From a macroeconomic perspective, we see the effects in weakening balance-of-payments positions and national budgets—and acceleration of inflation,” said Mr. Strauss-Kahn. The average inflation rate for low-income countries increased by almost 3 percentage points during the second quarter of 2008, and is expected to exceed 13 percent by the end of this year. “As we all know,” Mr. Strauss-Kahn noted, “inflation hurts everyone, but it especially hurts the poor.”

The costs of the fiscal policy response to the food and fuel crisis also have continued to increase. Countries have responded to rising prices primarily by reducing taxes and tariffs, increasing universal subsidies, expanding transfer programs, and increasing public sector wages. The IMF’s updated assessment shows that in 24 countries, the combined fiscal cost from rising food and fuel subsidies is expected to exceed 2 percent of GDP. The report also points out that these subsidies are almost always poorly targeted in terms of reaching those people most in need.

A Call For Action

Mr. Strauss-Kahn said that “Faced with these dire statistics, the world must do more. We need to combine forces on the domestic and international level to guard against excessive inflationary and budget pressures, while at the same time, helping the poor.”

The IMF study points to two priorities for the affected countries: First, to bring inflation back under control, which will require a robust monetary policy stance—tightening where necessary—and the avoidance of unsustainable wage increase. Second, a shift to better-targeted social safety net programs to protect the poor in a more cost-effective manner.

Mr. Strauss-Kahn also called upon donors to do more. “External support, preferably grants in the case of low-income countries, continue to be vital to ease the burden of adjustment and to limit the effects on real income and poverty.”

The IMF, working with other international organizations, has augmented its assistance to 15 affected countries, for a total so far of US$264 million. In this regard, the IMF, World Bank, and Organization of Economic Cooperation and Development (OECD) met on Sept. 23 at IMF headquarters to discuss how they can better coordinate their work programs to help member coutnries address the challenges posed by high food and fuel prices. In addition, the Fund’s Executive Board last week approved the reform of an existing credit line—the Exogenous Shocks Facility—to make it easier and faster for affected countries to receive financial support.