08/03 As Prepared for Delivery

Remarks by Dominique Strauss-Kahn,
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At his Participation on a Panel on the Food Crisis
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I am very pleased that we are holding this discussion, and I thank you for inviting me.

For the last few weeks, the world has been transfixed by the crisis in the U.S. financial markets. There is certainly every reason for this: the events we are witnessing have deep implications for global economic stability. But we must not lose sight of the "*other crisis*" facing the global economy.

I'm going to talk today not just about food but also about fuel, because many countries are facing problems from rising prices in both food and fuel.

In June, the IMF gave an assessment of the global impact of food and fuel price increases. Last week we updated that assessment and I would like to share with you the results.

First, the problem has not gone away. While fuel and food prices have eased somewhat in recent months they still remain well above their levels at the onset of the recent price surges. The situation remains very difficult for many countries.

Second, the additional aid that countries were promised, as is often the case, has failed to materialize. Many countries and many people are still waiting for it.

Let me highlight some facts.

All net food- and fuel-importing countries have suffered from the increase in prices, and about 50 are really hurting.

The impact of the food and fuel increases on developing countries, far from diminishing, has continued to mount since our report last June. As a result, we project that some 50 low- and middle-income countries will remain “at risk” this year and through 2009—meaning they have uncomfortably weak reserve positions.

Some orders of magnitude:

We project that net fuel-importing, low-income countries are facing an increase in their fuel bill this year equivalent to 3.2 percent of their 2008 GDP relative to 2007 or US$60 billion;

For 43 net food importers, the rise in their food bill is 0.8 percent of their 2008 GDP or US$7.2 billion.

This is a very significant shock.

Beyond weakening balance-of-payments positions, inflation is on the rise. In fact, inflation has risen by more than would be expected from food and fuel price increases alone.

National budgets are also under pressure, partly because many countries have responded to rising prices by reducing taxes and tariffs, increasing general subsidies, expanding transfer programs, and increasing public sector wages. Most of the additional fiscal costs come from higher fuel subsidies or reduced food taxes.

In 37 countries, the combined fiscal cost from rising fuel- and food-related measures is expected to exceed 1 percent of GDP. In addition to being unsustainable, these subsidies are almost always poorly targeted. For example, energy subsidies that concentrate on gasoline, used mostly by the upper part of society, hardly benefit the poor.

I am especially concerned about inflation, which has accelerated, particularly in low-income countries where the average rate increased by almost 3 percentage points during the second quarter of 2008, and is expected to exceed 13 percent by the end of the year.

As we all know, inflation hurts everyone, but it especially hurts the poor, because the ones least able to protect themselves against rising prices—and especially rising prices of food—are the poor.

What can we do? Well the world must do more. We need to help fight inflation, help the poor and help countries to find sustainable solutions to the problem.

One thing that is important is to target subsidies and support. It's not easy for governments: often low-income countries do not have the administrative capacity to target their support. But a shift toward subsidies for goods particularly consumed by the poor, or, when feasible, better-targeted social safety net programs is needed to protect the poor in a more cost-effective manner.

Donors must also do their part. It's not only money that matters in solving this problem, but money is certainly part of the solution. Donor support is vital to ease the burden of adjustment and limit the effect on real income and poverty, as well as to help finance agriculture and other sectoral programs.

Let me finish by saying a few words about what the Fund is doing. We are helping in three ways:

We are helping through policy advice. For example, in Honduras, we advised the authorities to restructure electricity tariffs and use the savings to expand a targeted social safety net and funding for the social investment fund. In Bolivia, we advised the government to eliminate the subsidy on gasoline, over 60 percent of which went to the richest 10 percent of the households, and to implement targeted subsidies for LPG and food.

We are helping through technical assistance. For example, in Peru we helped the authorities make their fuel subsidies more efficient.

We are helping through financial support. For example, in the case of Haiti, we provided additional resources to help smooth the adjustment to higher food and fuel prices. In fact, so far we have augmented our lending to 15 affected countries.

We are also making it easier for countries to get financial support from the Fund. A fortnight ago, the IMF Board approved my proposal for a reform of our Exogenous Shocks Facility. The aim is to provide assistance more quickly, in larger amounts, with more focused conditionality, and more flexibly. For example, the facility will now include a rapid-access component that will allow members to request assistance without a program, and to use the facility without canceling a Policy Support Instrument or forgoing Emergency Post-Conflict Assistance.

So we have not forgotten the developing countries of the world, and we must not forget them, whatever twists and turns are to come in the crisis in financial markets.

Once again, thank you for inviting me, and I look forward to our discussion.