



# ***The Double Crisis – Food Prices and Economic-Financial Turmoil Impacts in SEE***

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# Outline

- *Food price increase*
- *Impact of economic crisis*
- *Policy actions and recommendations*

# Key Messages



- In the first half of 2008, the world was facing the highest food price levels in 30 years and a global food insecurity crisis. Food prices were up as much as 40 percent from their 2007 level and 76 percent from 2006
- In 2009 domestic prices have declined from their peaks in most countries the declines have been small and real prices are typically 19 percent higher. Therefore many people are faced difficulties with higher food in prices in the midst of a global economic slowdown
- Changes in domestic prices also determine the magnitude of consumer and farmer response that eventually affect demand and supply on world market
- FAO estimates that the number of hungry people could increase by a further 100 million in 2009 and pass the one billion mark. Malnutrition steadily exists in the region



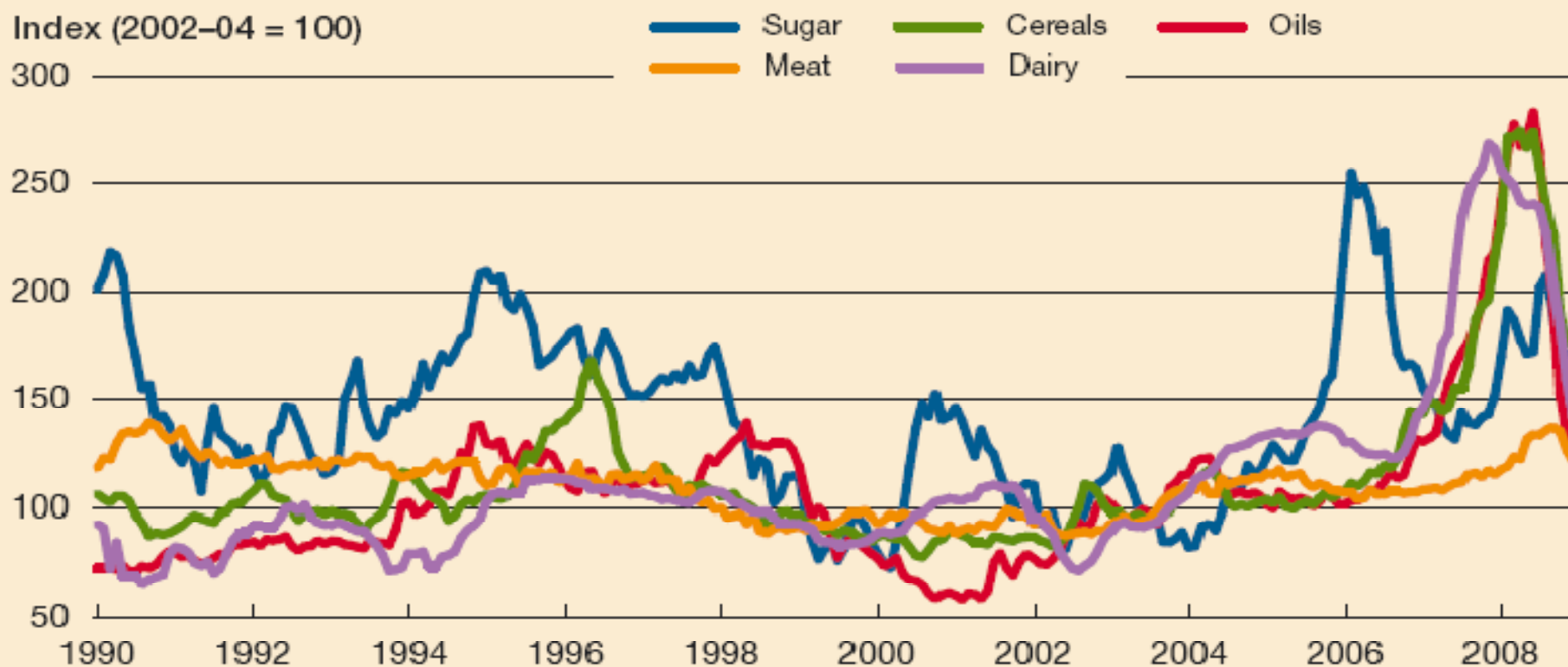
# The impacts of high food prices

- The FAO food price index rose by 7 percent in 2006 and 27 percent in 2007, and that increase persisted and accelerated in the first half of 2008
- Since then, prices have fallen steadily but remain above their longer-term trend levels
- For 2008, the FAO food price index still averaged 24 percent above 2007 and 57 percent above 2006



Agricultural product prices increased at least in nominal terms, however the rate of increase varied significantly

### Evolution of monthly FAO price indices for basic food commodity groups





# Key messages

- why such a drastic increase
- there is no single explanation
- also production costs (based on oil as an input) increased

# Why food prices increase so much



The longer-term structural problems faced by agriculture sector of developing country:

- slowing growth in yields
- lack of investment
- declining share of agriculture in development aid
- declining funds for research and development
- subsidies and other policy measures



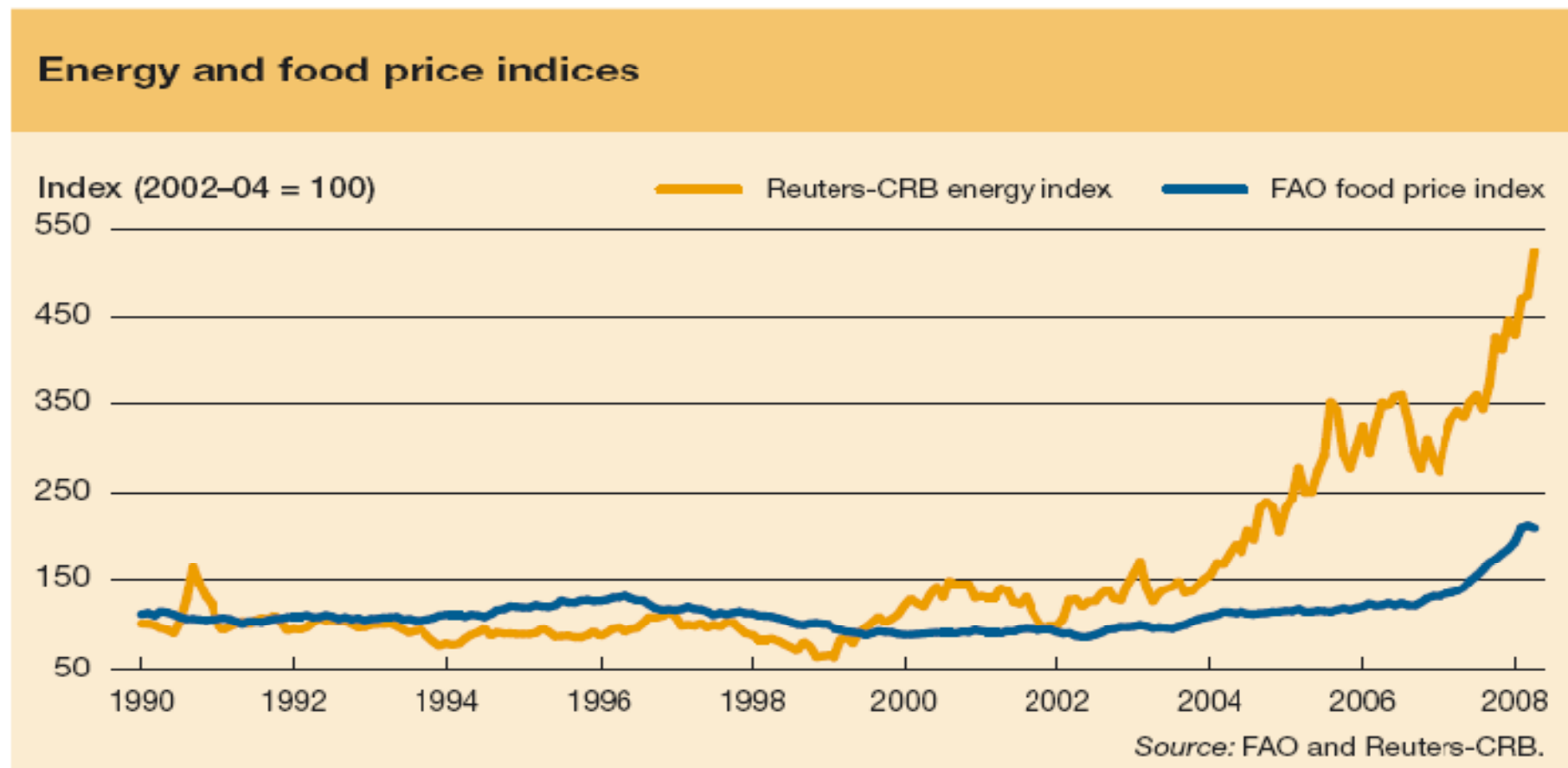
# Why food prices increase so much

- Biofuel production increase
- Energy prices
- Population growth
- Rapid economic growth in certain emerging economies, notably China and India
- Increasing interest of speculative funds in agriculture commodities
- “Traditional” explanations:
  - drought in major export countries
  - lowest cereal stock levels for more than 30 years

# Why did food prices increase so much



- Energy price versus food price trends





# What about bio-fuels?

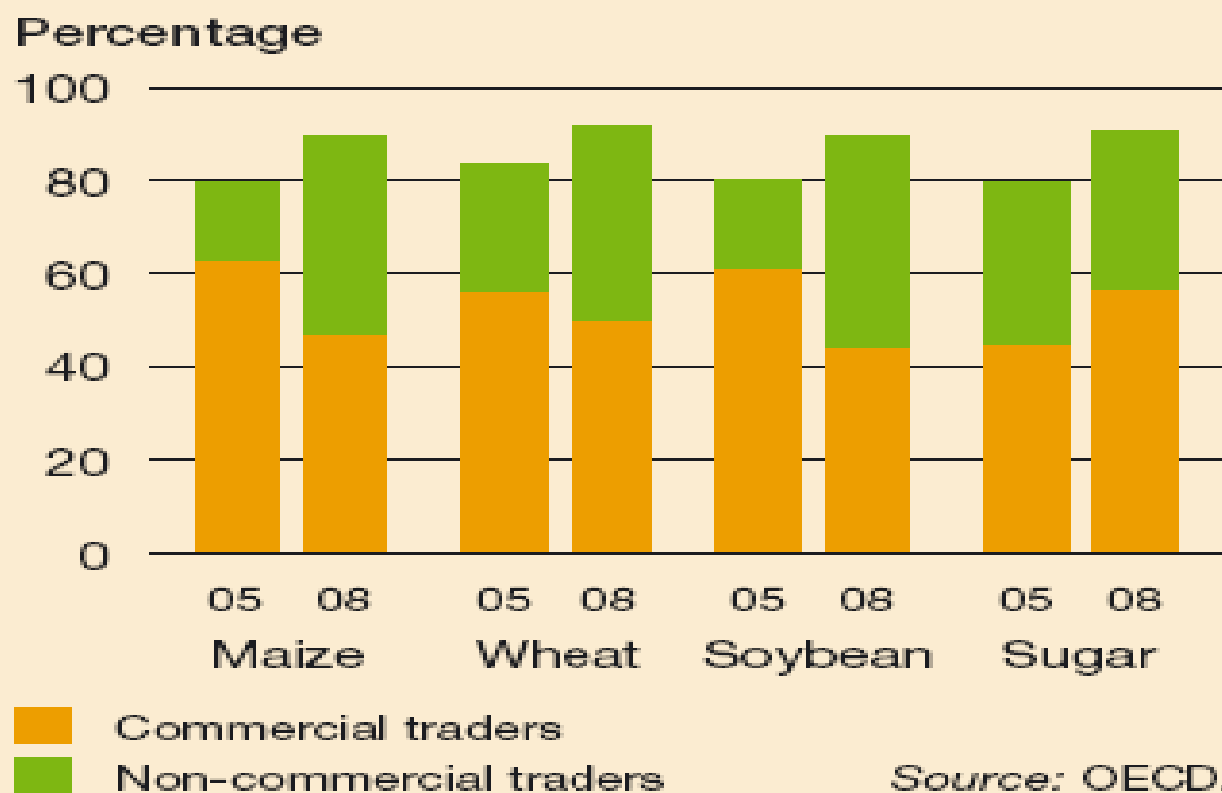
- Demand for certain agricultural commodities increased: as feedstock's for bio fuels can mean fewer productive resources used in the production of food crops
- Availability of food decreased: biofuel production may reduce the availability of food commodities on the market because “effective” demand for grains, sugar or oils and other basic food staples as feedstock for fuel production could outbid that for food where the prices of oil and feedstocks favour bio fuel production



# What is the role of speculation?



## Share of commercial and non-commercial traders in futures markets





# Prices increased but so did costs

- The dramatic increase in oil prices that began in 2003 has had a profound effect on all economic sectors, including agriculture.
- Increases in fuel prices have raised the costs of producing agricultural commodities both directly by raising the cost of farm power and transport, but also indirectly because oil is an important cost item in fertilizer production.

# Conclusions food prices



- To satisfy world demand it is necessary to reach crop production growth by increasing the productivity of the land already being farmed today. It will be difficult to accomplish as global agricultural productivity growth has been in decline since the Green Revolution of the 1960s and 1970s
- Cereal Production it estimated to be lower in 2009 than 2008, and it is near more likely that in 2010 as well
- The level of ODA to agriculture sector has to be increased for supporting investments and creating more favorable agriculture environment
- It is right time to analyze situation, share lessons learned, and develop policy measures
- No single explanation for soaring food prices!
- Food prices are still high!



# Key messages – economic crisis

- **Impact of economic crisis**
  - falling demand
  - inflation
  - falling exports
  - falling consumption
  - falling remittances
- **Country case studies: Hun, Cro, BiH**
- **Policy actions and recommendations**



## Specifics of European Region

- Eastern European and CIS including Central Asian countries as well as Turkey were still in vulnerable position when the global crisis started
  - relatively high current account deficits and external debt burden through a consumption boom mainly financed by foreign currency borrowing
- => made ECA region more vulnerable

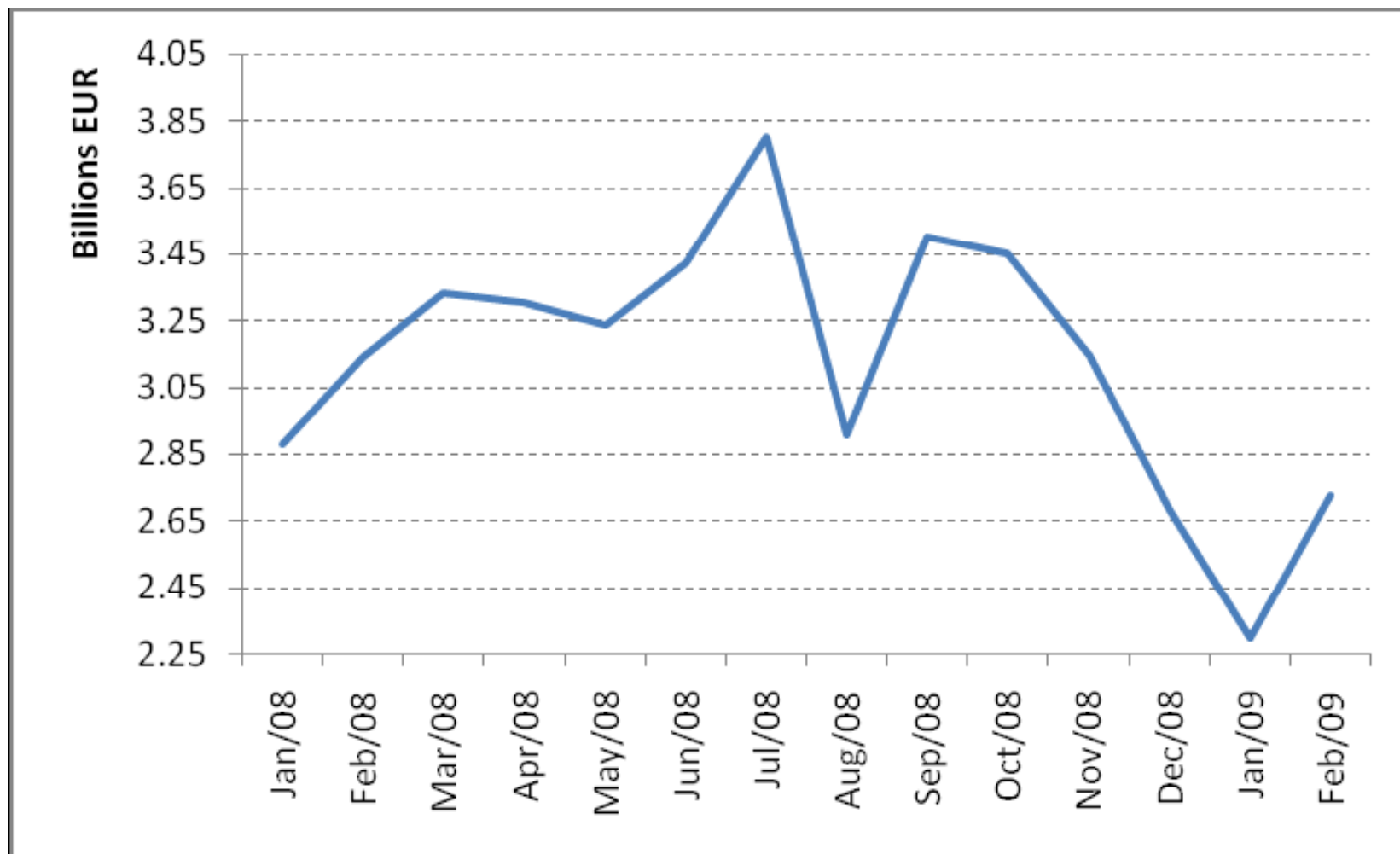


# Impact of Crisis

- Due to falling demand from key EU trade partners, the region's economic situation is worsening through to:
  - lower industrial production
  - reduced private consumption as remittances decrease
  - private credit has come to a standstill
- Indeed, the Economist Intelligence Unit (EIU) predicts negative real growth of about -0.6 in the region for 2009

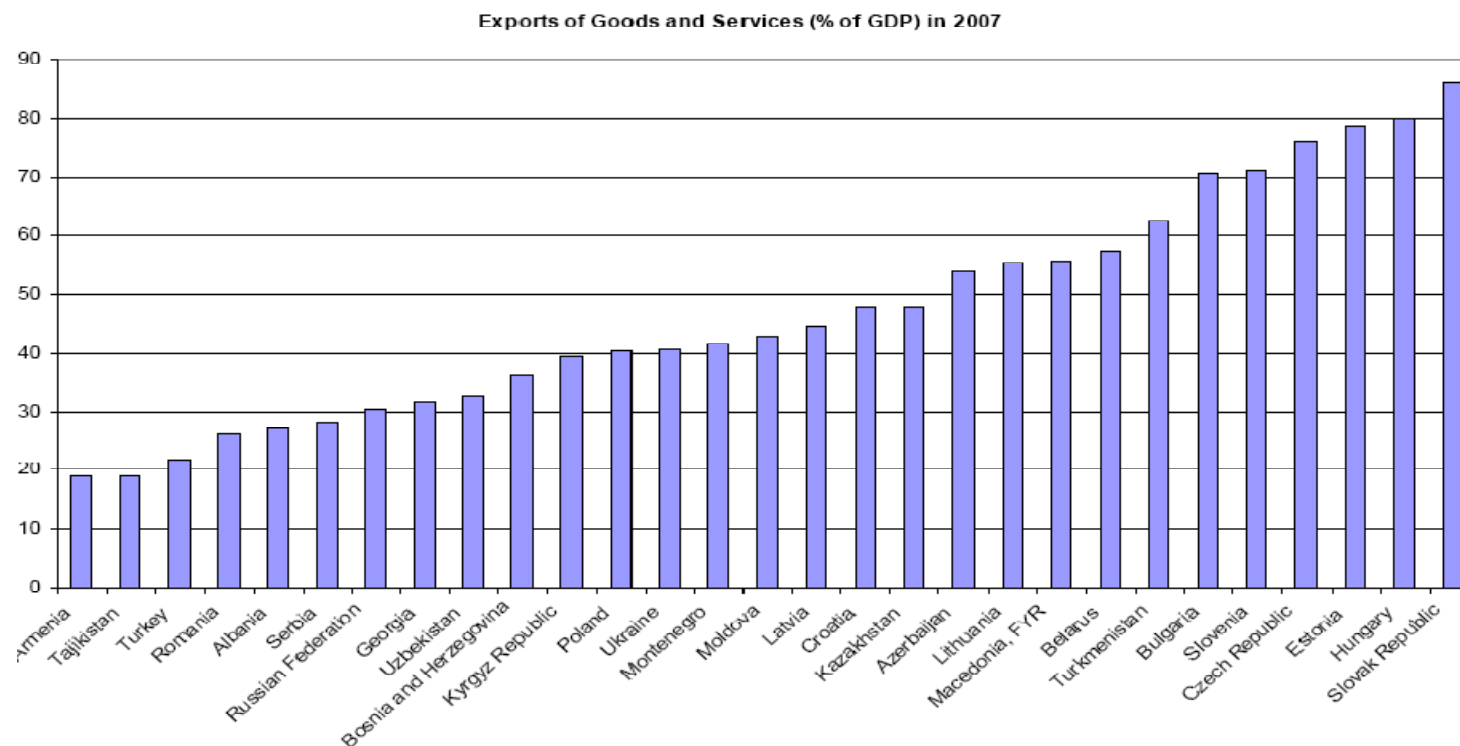


# Exports slowed down



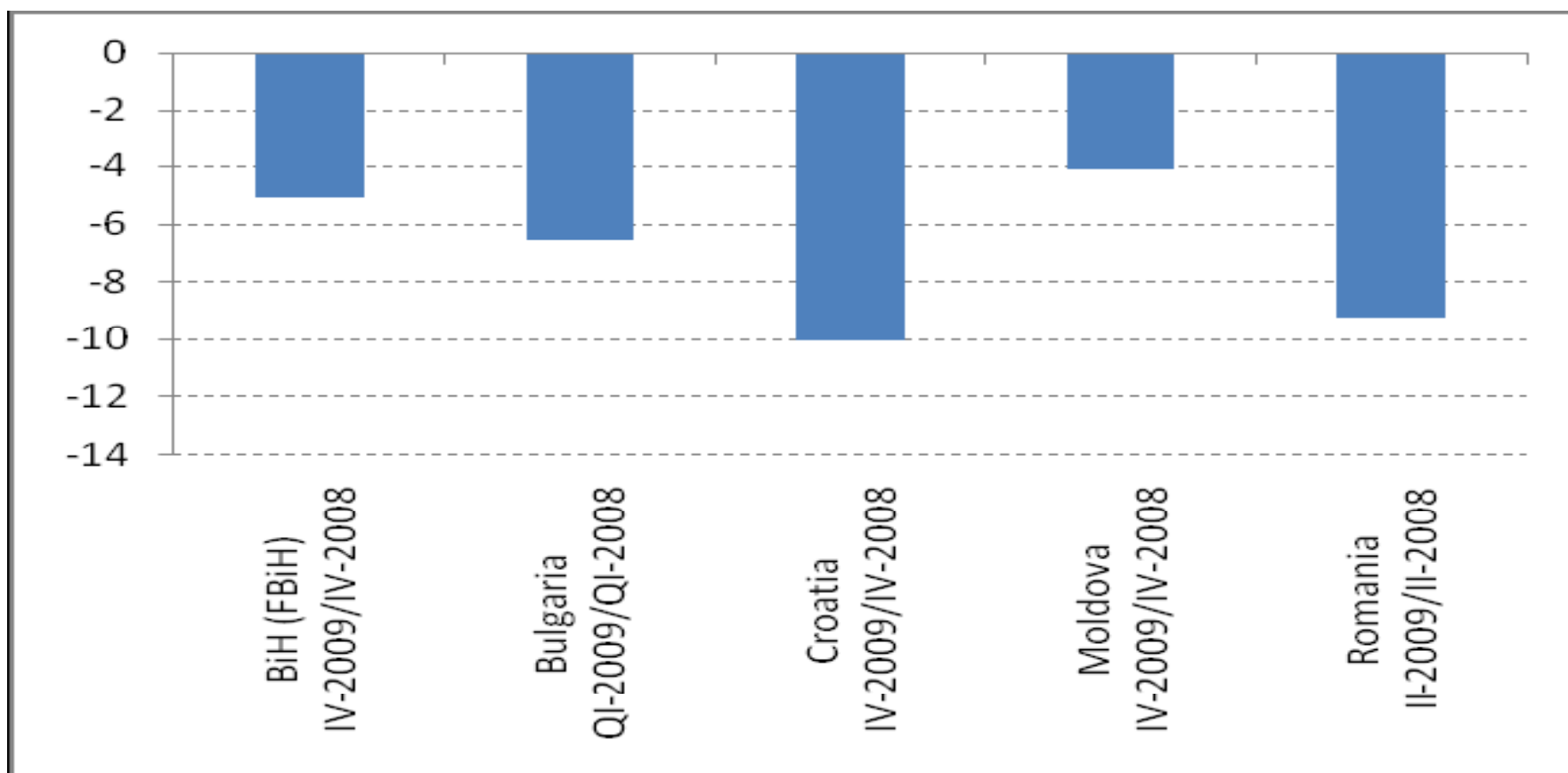


# Dependency on export



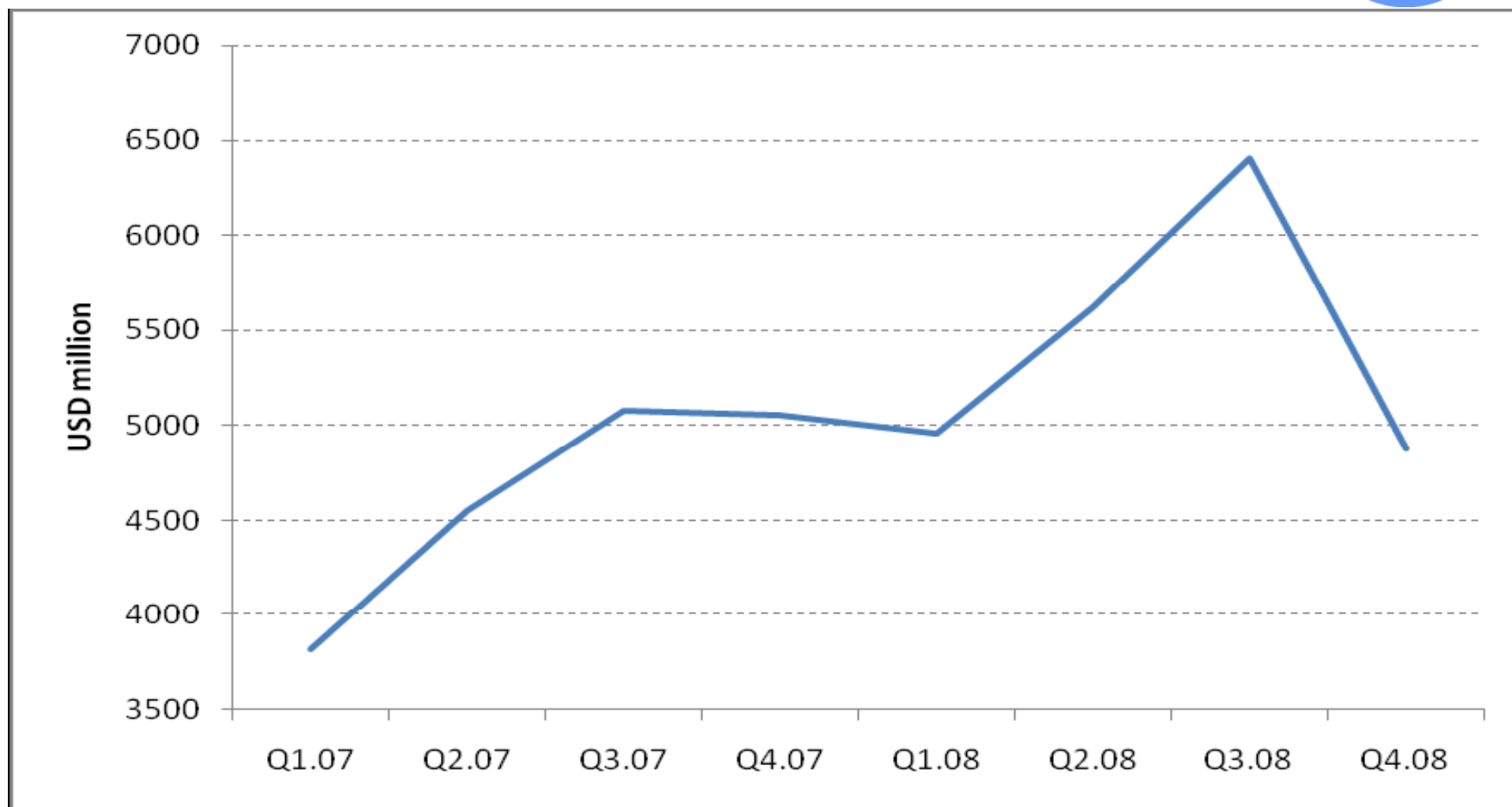


## *Private consumption*





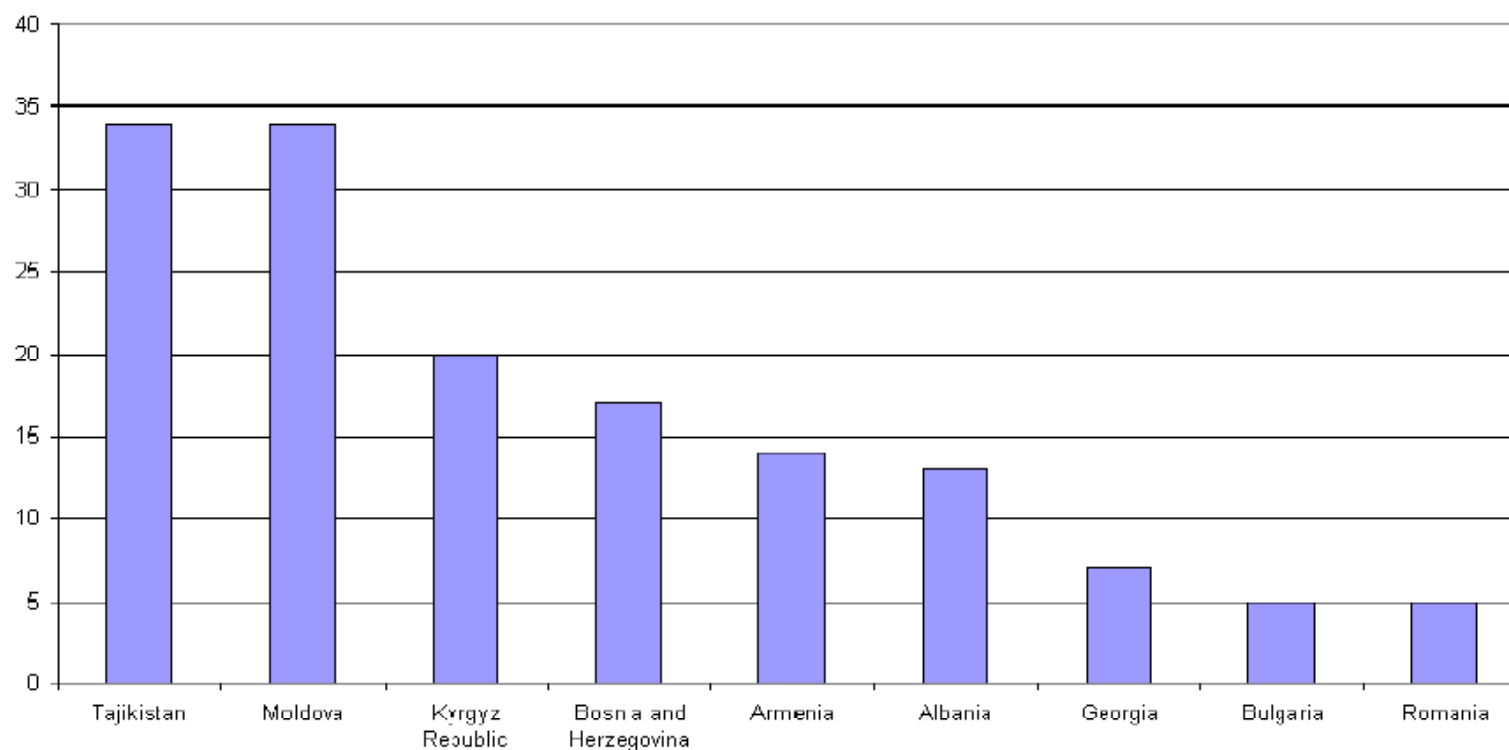
# Remittance inflows declined





# Dependency on remittances

Workers' Remittances (% GDP) 2007



*Note:* Workers' Remittances comprise workers' remittances and compensation of employees as measured in the current account.  
*Source:* World Development Indicators.

# Policy Actions of Governments



Many countries made policy changes or introduced new policy measures:

- Encouraging food imports and discouraging food exports
- Production subsidies, especially on grain production, have been used to reinforce incentives
- Subsidies on inputs such as fertilizer and seeds have also been common
- Price control



# What policy measures should be taken

- Safety nets for poor consumers - various programmes aimed at assisting vulnerable population groups
- Managing markets and stocks to increase food supplies mainly through effective pro-competitive policies
- Cutting tariffs to increase food imports
- Restricting exports to increase domestic food supplies (for short term)
- Managing increasing food prices for investment
- Institutional strengthening for monitoring food and agriculture production and managing risks
- Increasing investment in agriculture and expanding research activities



# THANK YOU!

