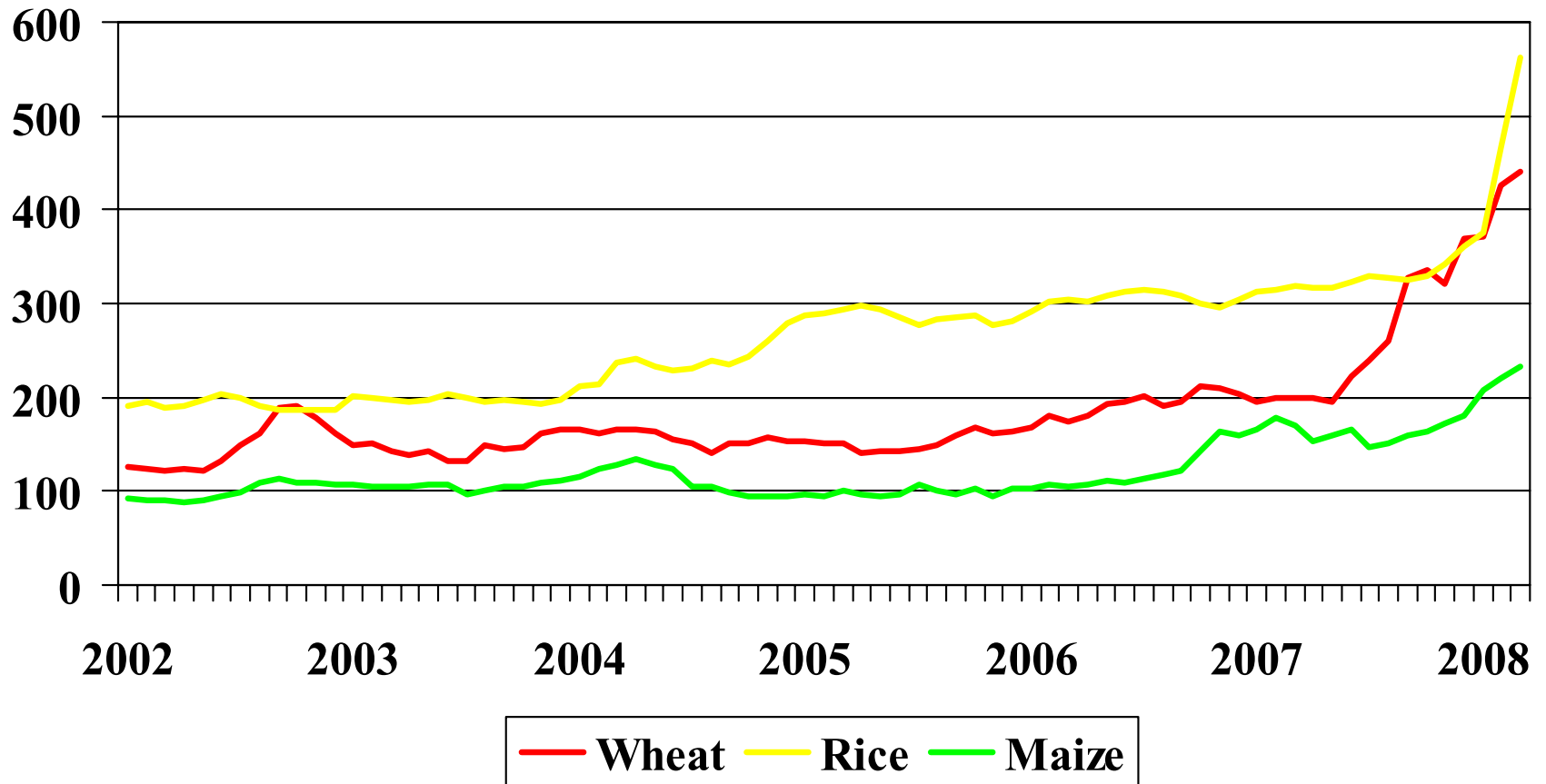


The Food Crisis: Global Perspectives and Impact on MENA

Fiscal & Poverty Impact

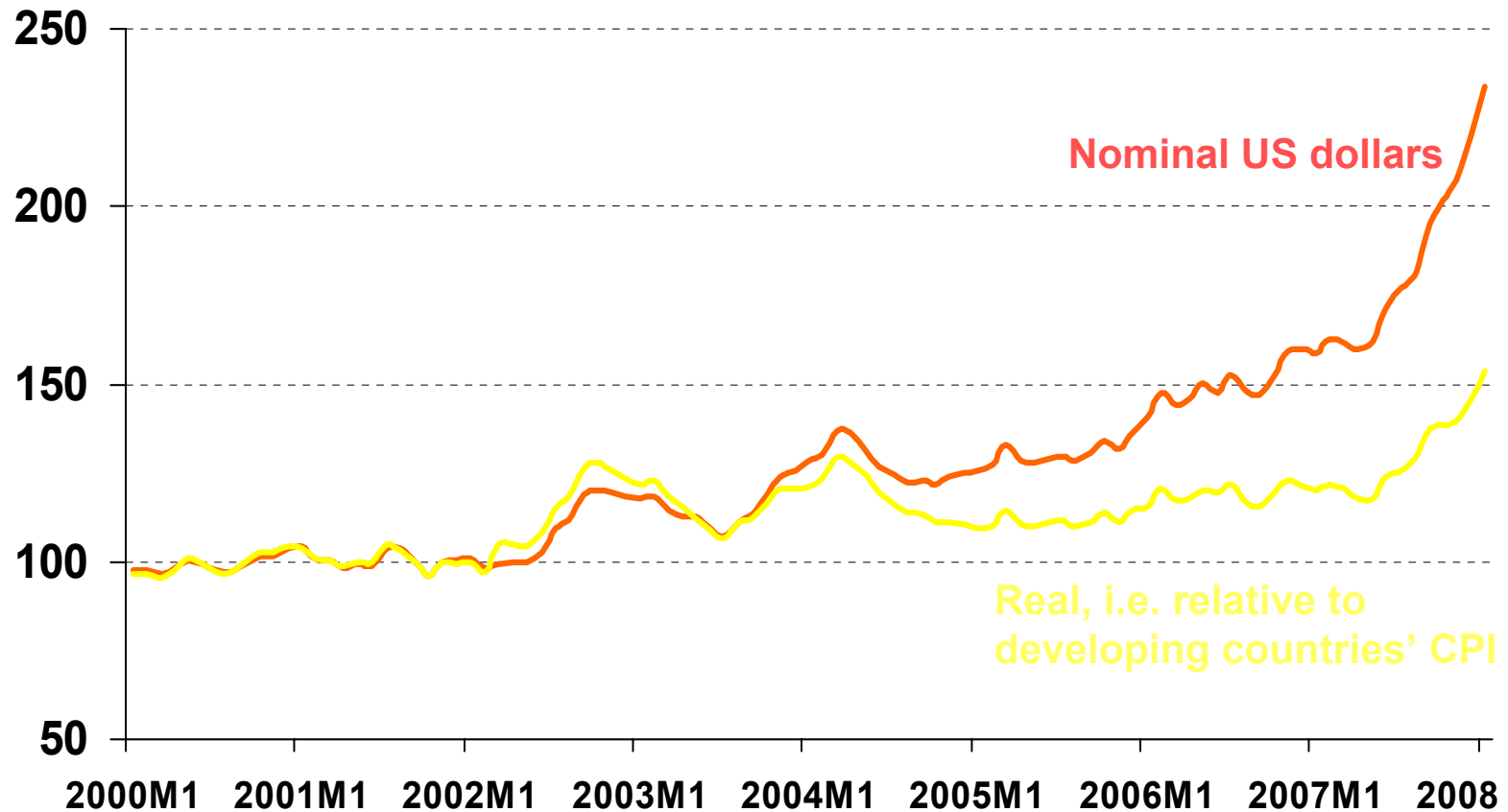
Ruslan Yemtsov, MNSD
MENA BBL Monday, June 16

Grain Prices (nominal \$/ton)



US dollar prices overplay real increase

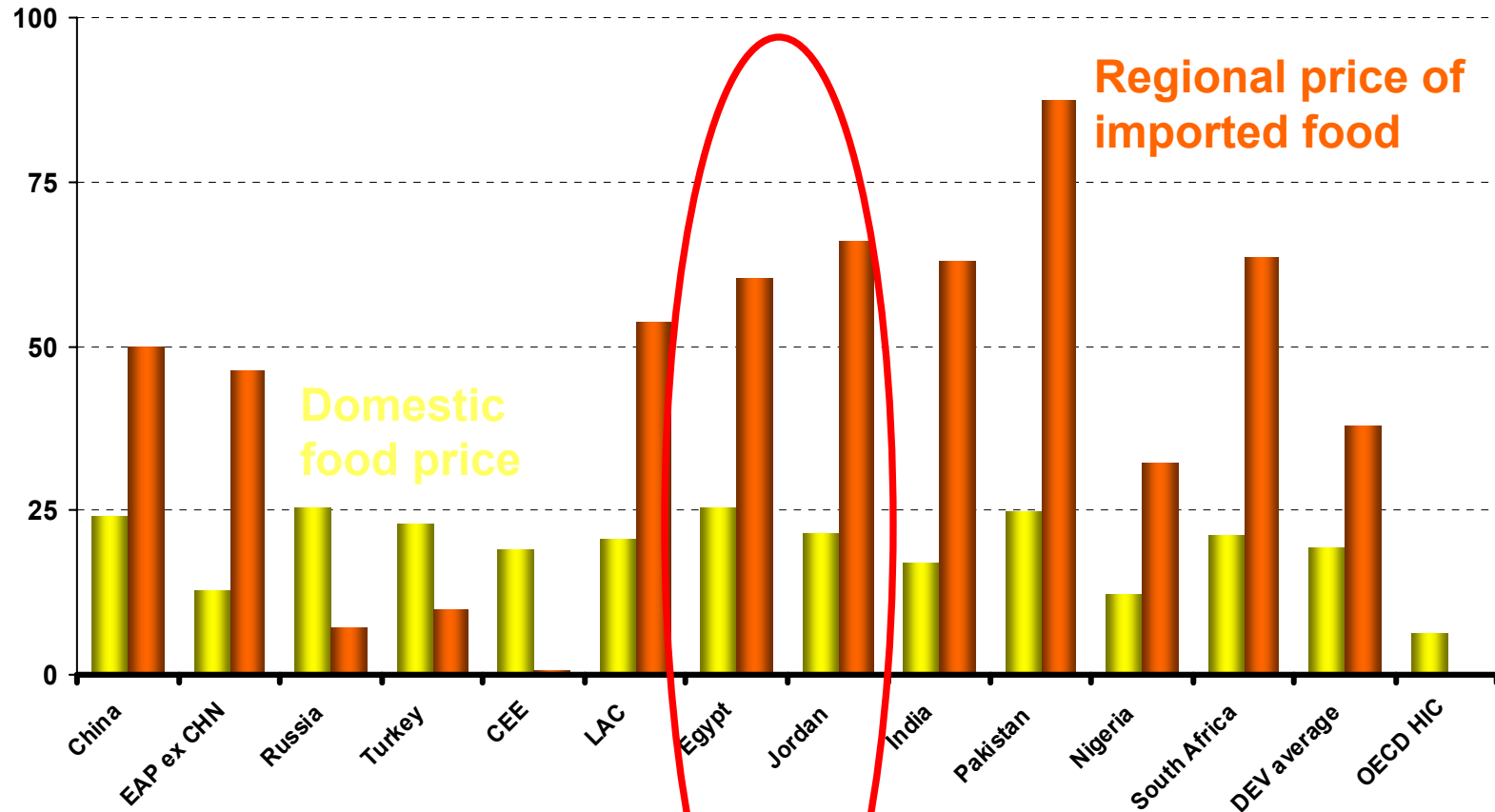
International food price indices, 2000=100



Source: DECPG

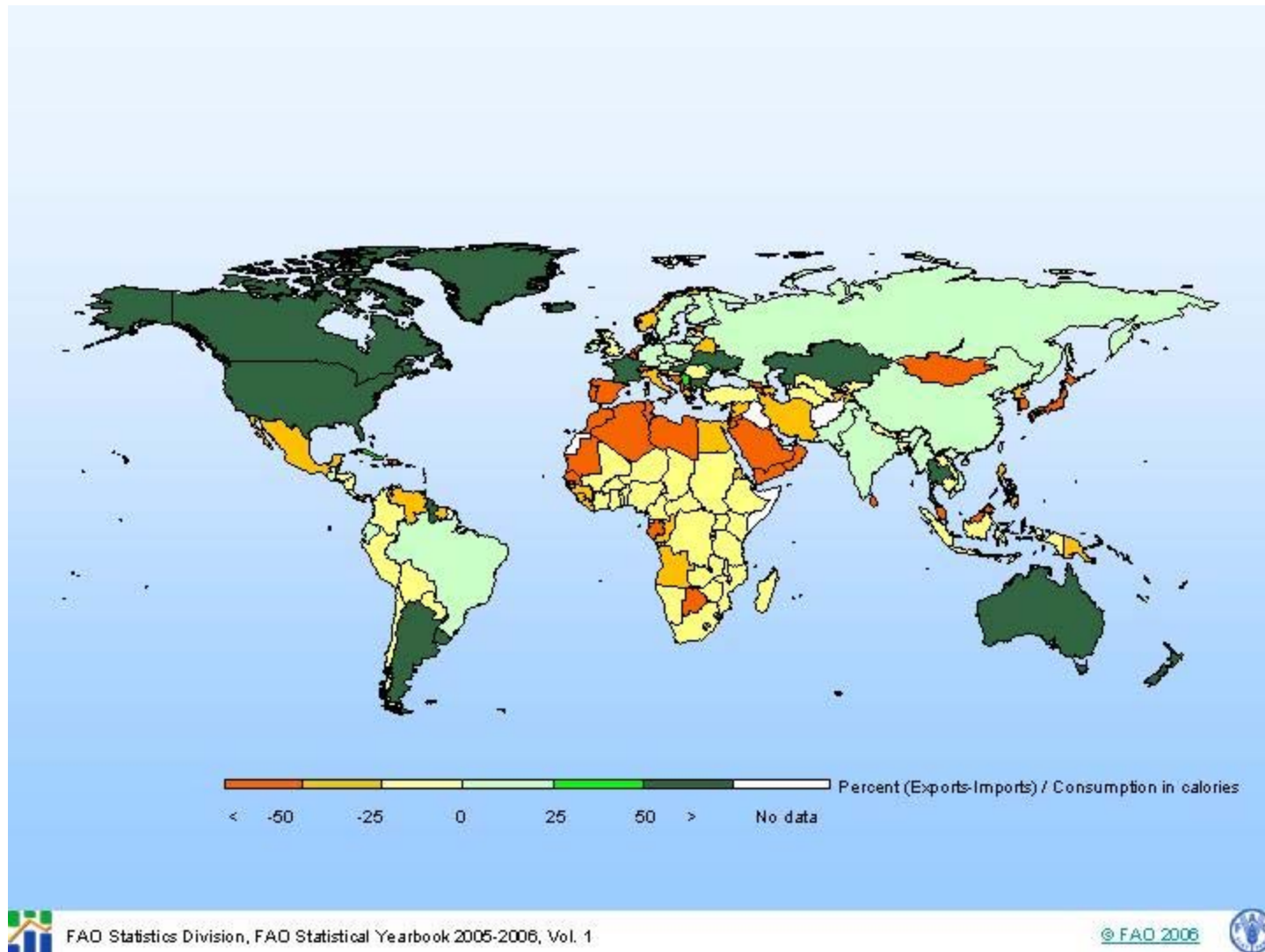
Prices of imported and domestic food

percentage change January 2006-January 2008



Source: DECPG

MENA countries are net importers of food



1. MENA specifics

- Subsidies dominate the policy response
- High share of staples in consumption
- High dependence of imported food
- Relatively high (for income levels) malnutrition rates
- Fragile social equilibrium : recent growth is widely perceived to be pro-rich
- Absences of targeted safety nets

2. Channels of impact on social/poverty

Channel 1: Cost of living up => poverty up

- Very poor people spend between one fifth and one third of their income on staples. Staples inflation is faster than CPI ,and food inflation

Channel 2: Incomes from agriculture up => poverty down

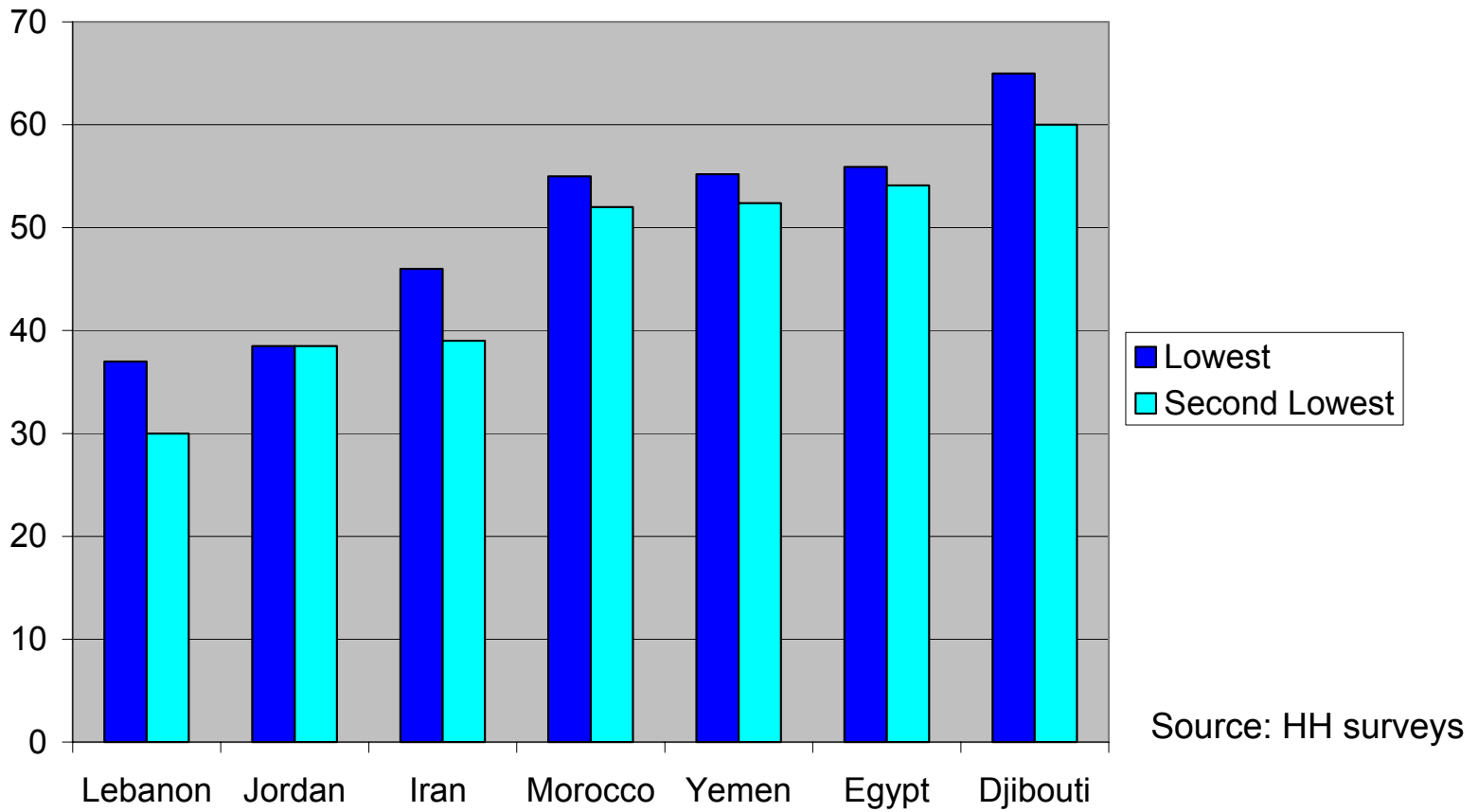
- Farmers and farm laborers are often very poor
 - Perhaps higher food prices will make rural people better off?
 - Perhaps this will lower national poverty levels?
- Poor farmers often self-consume most of their output
 - And higher prices only benefit farmers on the share they sell ~

Channels 3/4: Labor demand (wages) up;subst.away=>mitigate

- Higher farm incomes increases demand for labor and push wages up
 - Can offset the effect of rising food prices
- Substitution effects away from more expensive food

Illustr.: High proportion of food in expenditure of the poor

Share of food in total expenditures of two lowest quintiles



In Egypt staples (wheat, oil, sugar)= 20% of total consumption of the poor

In Morocco staples()= 15% of total consumption of the poor

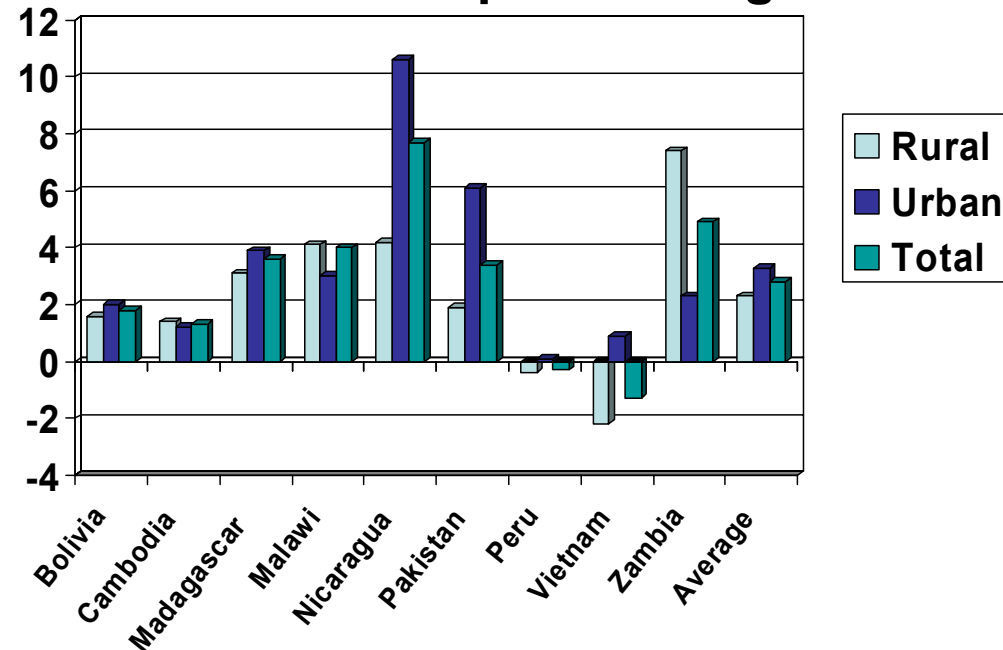
3. Offsetting effects

- + Region has experienced robust growth – this is the major effect. How inclusive? We do not know yet.
- Here are some facts on possible factors:
 - Ch 2: Farmers (and their families) account for about 60 % of all poor in Egypt and Morocco, but farm makes up only 40% of their incomes. Most rural poor are net food consumers!!! And they simultaneously are farmers and sell their labor.
 - Ch 2: Changes in farmgate prices so far have fallen below expectations (MNSSD)
 - Ch 2: But market participation rates are high.
 - Ch 3: What 1973-75 experience tells? Datt's study of wages in rural Egypt: only $\frac{1}{2}$ of food price increases were offset by increased wages, but long term effects important
 - Ch 4: Kraay's result for Egypt: substitution effects in consumption are 30 times smaller than direct negative income effects from increased food prices

4. Comparing effects of food prices on poverty in MENA and elsewhere

- Egypt 2005-2008:
 - Ch 1: 30% increase in food prices poverty up by **+12 pp**
 - Ch 3: real consumption up 25% poverty down by **-14 pp**
 - **poverty down by 2 p.p**
 - **But some groups can be strongly adversely affected!**
- Morocco 2004-2008:
 - Ch 1: 14% increase in food prices poverty up by **+4 pp**
 - Ch2: but increased prices for farmers- poverty down by **-3 pp**
 - Ch 3: real consumption up 16% poverty down by **- 5 pp**
- Djibouti 2005-2008:
 - Ch 1: **21%** increase in CPI for food , but staples prices up **43%** - extreme poverty up from 40% to 54%: **+14 pp**
 - At best wage. growth in the same period reduced poverty by **- 5 pp**

% pt change in poverty rates from 2005-7 price changes



Source: Maros Ivanic & Will Martin

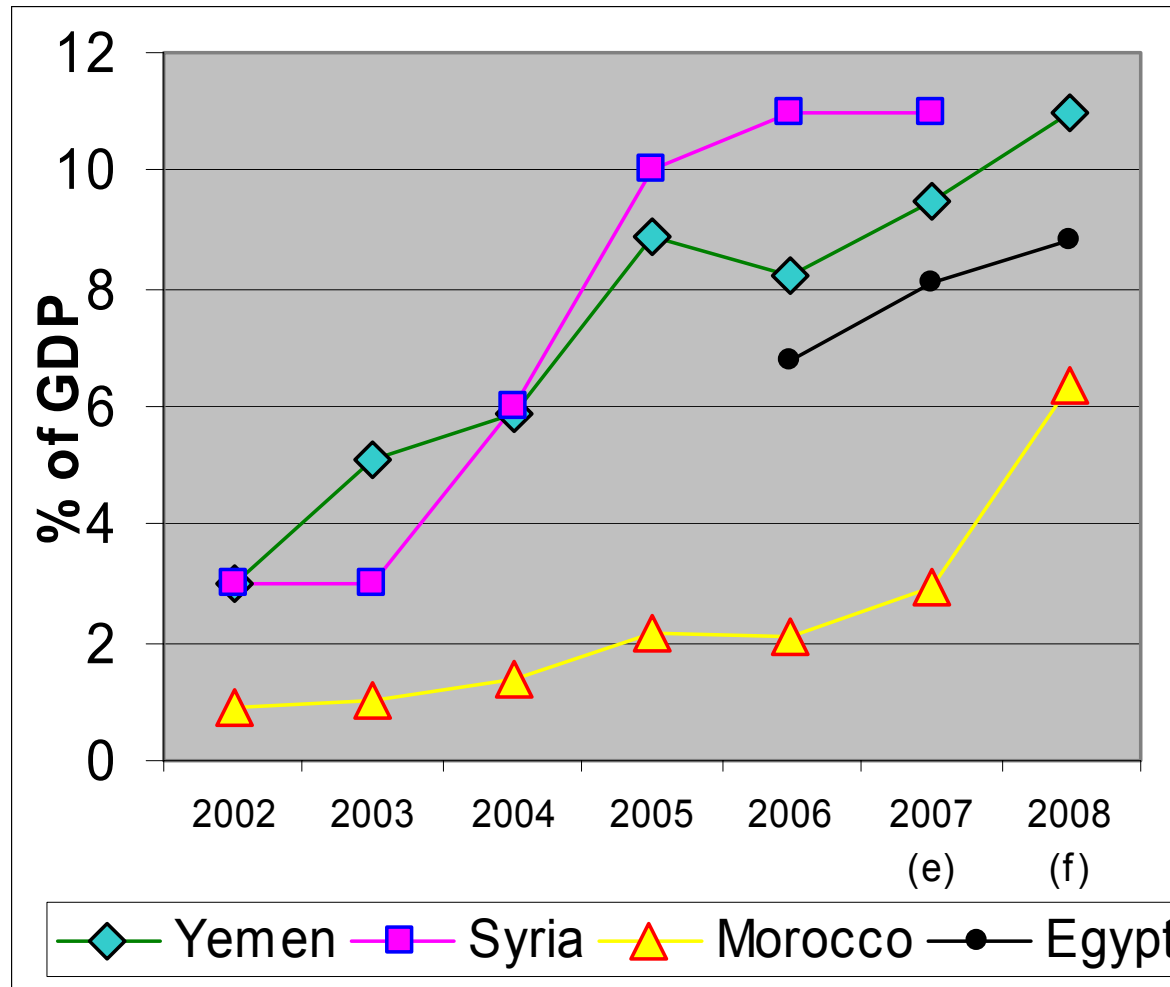
Note: 2005-8 price changes with partial pass-through and offsets: rural by 4.2% pts, urban by 5.0% pts and Total by 4.5% pts

These are \$1 PPP poverty

5. Channels of impact on fiscal/macro

- Terms of trade effects mitigated by rising oil etc. prices, but not for all countries
- Exchange rate appreciation partially offsets the effects of increases in dollar prices
- **But everywhere:**
 - Inflation rates - increased
 - Cost of food/energy subsidies – increased
 - Wages and transfers – increased
 - Import tariffs on food (budget revenue) - reduced
 - “Food security” projects – increased pressure
- **Impacts differ across countries, but similar challenges**

Higher prices push up cost of subsidies.



Policy responses in MENA to higher food prices were second or third best

Country	Economy-wide Policies				Social Protection Programs			
	Reduce taxes on food	Increase supply using food stocks	Export restrictions	Subsidies and /or Price Controls	Cash transfer	Food for work	Food ration/ stamp	School feeding
Egypt			√	√	√		√	
Morocco	√	√		√				√
Tunisia	√	√		√	√			
Djibouti	√		√	√				√
Yemen		√	√	√				

Source: PRMPO

Thank you!