



Prices

What Governments Should Do When Food Prices Surge

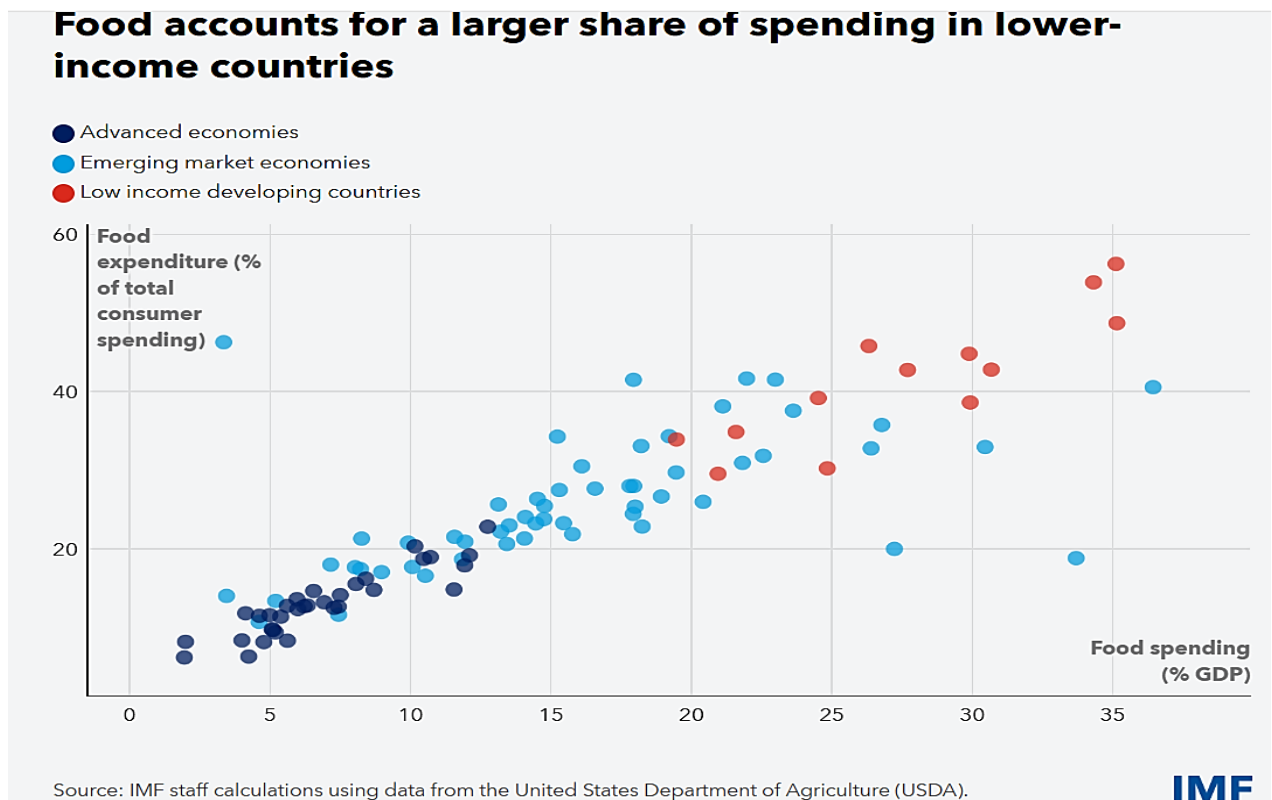
The right choice between subsidies, vouchers, or in-kind distribution can help countries save precious resources

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The food security of millions of people, particularly in low-income households, is coming under renewed pressure from two different forces. The possibility of a stronger or even “[super](#)” El Niño has renewed concerns about food security in vulnerable agricultural regions. At the same time, an escalation of the war in the Middle East could further disrupt fertilizer and energy supplies, increasing production costs for farmers, and potentially raising prices.

When food prices rise, governments face immediate pressure to act, because food affordability is primarily a socio-economic issue with significant impact on income inequality and public health. In many countries, buying food sometimes accounts for more than half of a family’s spending. But should governments subsidize prices, distribute food directly, or provide vouchers to help mitigate the impact? The answer matters because choosing the wrong tool can waste scarce resources while failing to protect the most vulnerable.



For policymakers in some of the world's most vulnerable countries, the question is not *if* a food shock will happen, but *when*. El Niño, the meteorological pattern in which the warming of the Pacific Ocean alters rain patterns across the globe, has been closely studied at least since the 1960s. The last occurrence, in 2015-16, affected food security for about [60 million people](#) worldwide. The 2022 food-price spikes triggered by Russia's war in Ukraine pushed about [71 million people](#) into poverty worldwide, within three months.

When the war in the Middle East started earlier this year, prices for some fertilizers rose by almost 50 percent. Although prices have since normalized, the increase coincided with the planting season in many countries. Because farmers incurred higher input costs, the impact on crop yields, agricultural incomes, and food prices will continue to be felt during the current harvest.

A simple decision framework

A [new IMF publication](#) examines this challenge and provides practical guidance for governments opting to use food assistance programs. When food prices spike, policymakers need to ask four basic questions to determine the type of assistance:

- 1 – Is food available?
- 2 – Is affordability the problem?
- 3 – Are markets functioning properly?
- 4 – Can beneficiaries be targeted?

Taken together, these questions provide a simple decision path: assess availability, affordability, market functioning, and administrative capacity. The combination of these critical issues is often overlooked in practice, particularly in crisis situations, when speed takes precedence over policy diligence. The result is that governments sometimes end up with expensive and poorly targeted measures for longer than necessary.

When a crisis hits, price subsidies are often the first response. They can be deployed quickly and require limited administrative targeting capacity, so are attractive when speed is critical. But they are also a costly instrument, often benefiting richer households that consume more and are less price-sensitive.

The [IMF recommends](#) that price subsidies should be ideally avoided and, if used, should be exceptional, temporary, transparent, and tightly circumscribed. Countries should allow domestic prices to reflect international costs, while shielding vulnerable households and viable small businesses with temporary, targeted and tailored fiscal measures.

Food vouchers can be better targeted, provided governments have enough administrative capacity to sort out those who need the most help, using social registries and digital payment infrastructure.

But subsidies or vouchers will be ineffective if there is not enough food to buy. Market disruptions occur when supply chains and distribution networks break down, or when food production is interrupted. That can happen (among other factors) because of conflict—when a country cannot export or import, or logistics is disrupted—or when natural disasters destroy crops.

For example, the 2015-16 El Niño severely reduced Vietnam's rice production due to drought and saltwater intrusion. Some farmers lost 90 percent of their harvest. In Southern Africa, 40 million people were affected by lower maize harvests, also because of droughts. Meanwhile, heavy rain and floods caused agricultural losses in places as far apart as Ecuador and Somalia.

When food is physically unavailable, direct in-kind food transfers are essential and can save lives. But they can be costly to implement. If used for too long, they can suppress demand for locally produced food, reducing prices and weakening incentives for domestic farmers and food producers to expand production.

Fiscal constraints

While food subsidies can provide critical support during price shocks, poorly designed programs can absorb substantial fiscal resources and limit governments' ability to invest in long-term food security through agricultural research and infrastructure, as well as other essential public services, including health and education. Governments in low-income countries already devote a significant share of their resources to generalized food subsidies, with spending often rising sharply during crises.

Therefore, clear exit strategies are critical. Temporary crisis measures can easily become permanent, especially when they are perceived as entitlements. Once entrenched, they are often difficult to unwind—even when they are inefficient or inequitable. To tend to both fiscal health and people's health, governments should plan how to shift toward more targeted and efficient assistance, supported by stronger administrative systems, as emergencies subside.

Identify problems before acting

The recent global food crises have exposed both the strengths and weaknesses of existing systems in many countries. While some were able to respond quickly, others relied too heavily on costly and poorly targeted measures. Weather events such as El Niño can quickly create new shocks by disrupting harvests, tightening supplies, and destroying infrastructure, further increasing food prices.

There is no universal blueprint for food assistance. To help governments act quickly, they should invest before a food price surge occurs in assessing their food support systems (guided by the four questions noted above) and plan for time-bound support. By first properly diagnosing the problem they are trying to solve, governments can choose the best policies to more efficiently protect their most vulnerable citizens, at the lowest cost.