

# TOKYO FISCAL FORUM

Strengthening the Credibility of Public Finances

June 2022

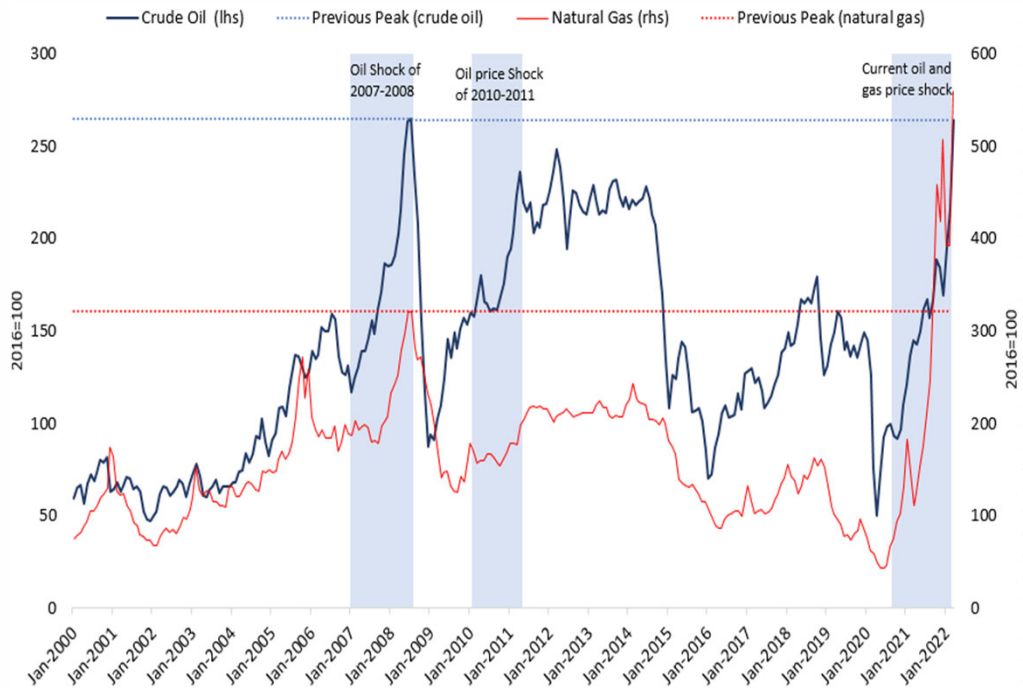
Paolo Mauro

Fiscal Affairs Department, International Monetary Fund

The analysis and policy considerations expressed in this presentation are those of the presenter and do not necessarily represent the views of the IMF, its Executive Board, or IMF management.

# Energy and Food Price Developments

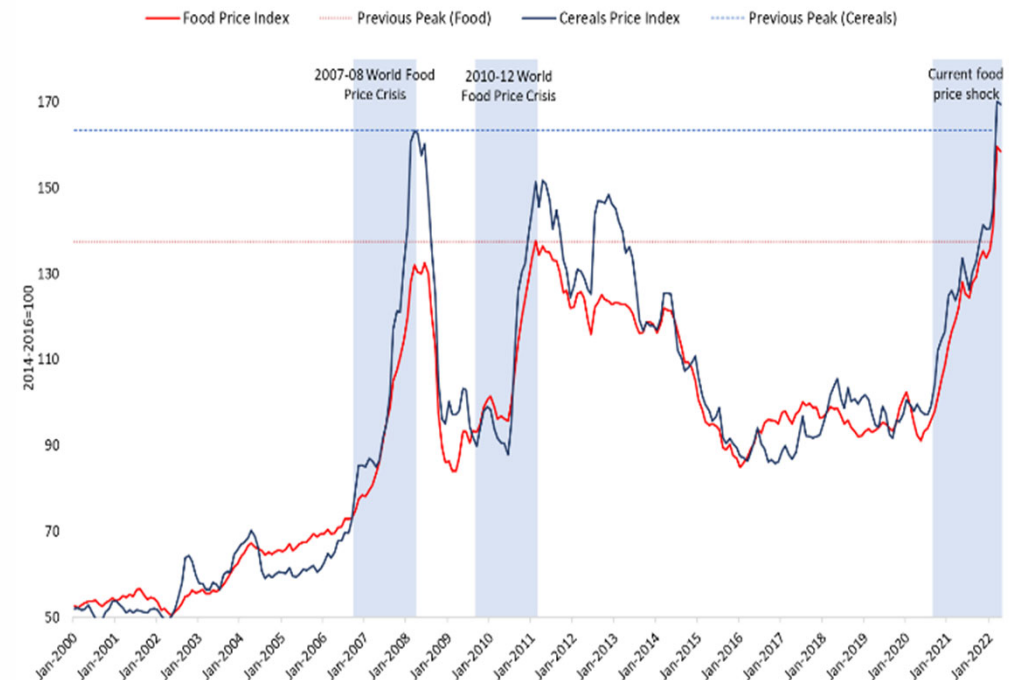
## International Oil and Gas Prices (Index 2016=100; Jan 2000–March 2022)



Source: IMF's Primary Commodity Price.

Note: Crude oil (petroleum) price index 2016 = 100, simple average of three spot prices; Brent, the West Texas Intermediate, and the Dubai Fateh. Natural gas price index 2016 = 100, includes American, European, and Japanese natural gas price indices

## International Food Prices (Index, 2014-16=100; Jan 2000–April 2022)

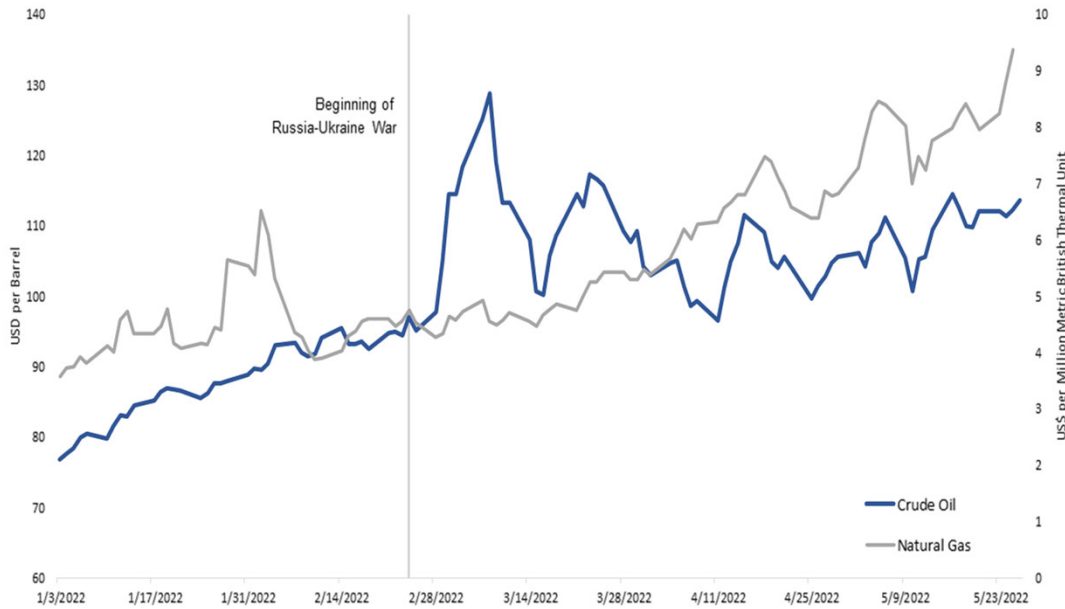


Source: UN Food and Agriculture Organization.

Note: Food price index 2014–2016=100, weighted average of meat, dairy, cereals, vegetables, oils, and sugar. Cereal price index 2014–2016=100, weighted average of price indexes for wheat, maize, barley, sorghum, and rice.

# Energy and Food Price Developments

## International Oil and Gas Prices (January 1- May 23, 2022)

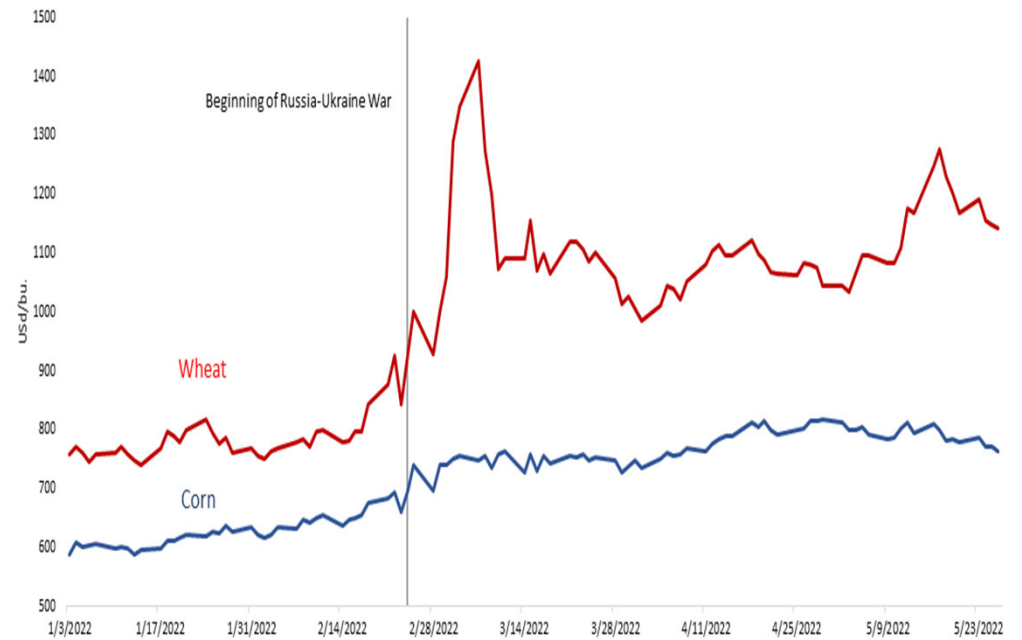


Source: Bloomberg.

Note: Natural Gas, Natural Gas spot price at the Henry Hub terminal in Louisiana, US\$ per Million Metric British Thermal Unit

Crude oil: the average of Brent, WTI and Dubai

## International Food Prices (January 1- May 23, 2022)



Source: Bloomberg.

Corn: USDA Grain Export-Louisiana No.2 Yellow Corn. Wheat: USDA No. 1 Hard Red Winter Wheat /Kansas City Missouri

# Policy Advice

## Countries with Strong Social Safety Net

### Pass through

Allow full pass-through of international prices to domestic consumers.

### Temporary and Targeted Support

Provide targeted and temporary transfers relying on existing SSN programs.

### Other Temporary Measures

Temporary measures, such as smoothing energy consumption bills over time or energy bill discounts could be considered (if SSN cannot be immediately expanded).

IMF Note on “Fiscal Policy for Mitigating the Social Impact of High Energy and Food Prices”



# Policy Advice

## Countries with Weak Social Safety Net

### Social Safety Net

- **Expand** the most efficient existing SSN programs by increasing benefit levels and coverage as much as feasible.
- Consider **reducing** education, health, or public transport fees.
- Rely on **digital tools**, and information & delivery mechanisms.
- Invest in **strengthening** the SSN and set out a reform strategy:
  - ✓ Address program duplication and fragmentation.
  - ✓ Expand coverage.
  - ✓ Improve targeting capabilities.

### Fuels and Utilities

- **Gradually** increase prices while committing to eliminate subsidies.
  - **Calibrate** the pace of pass-through.
-  **Fuels**
- Adopt a **slower pass-through** for products consumed mostly by the poor.
-  **Utilities**
- Consider **lump-sum bill** discounts.
  - Consider **smoothing** of energy consumption bills over time.

### Food

- If a food subsidy program exists, **increase rationed food prices** gradually while committing to eliminate subsidies.
- Reduce **consumption taxes** temporarily with clear sunset clauses if food security is a concern and all other options have been exhausted.

# Policy Advice

## The Role of International Cooperation



Countries vulnerable to **food insecurity** will require international assistance through an international coordinated mechanism.



Avoid measures that contribute to the rise of **biofuels** (substitution with food).

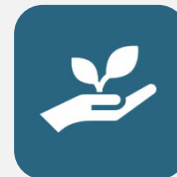


**Export restrictions** are counterproductive and need to be avoided.

High energy prices offers an opportunity to **diversify away** from fossil fuels, but... in the short run alternative supplies of nonrenewable energy can be considered.



Incentivize the shift toward more sustainable food production systems.

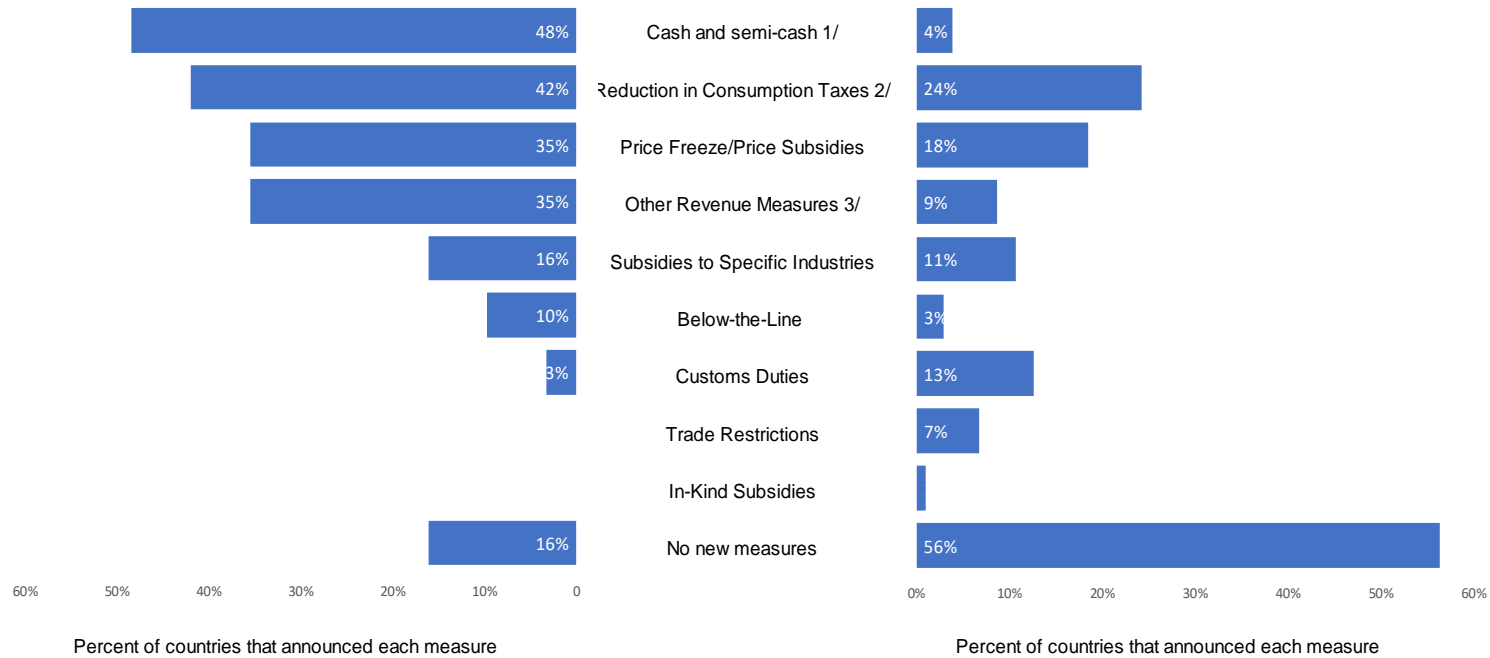


# Initial Policy Responses

## Recently Announced Measures in Response to High Energy and Food Prices

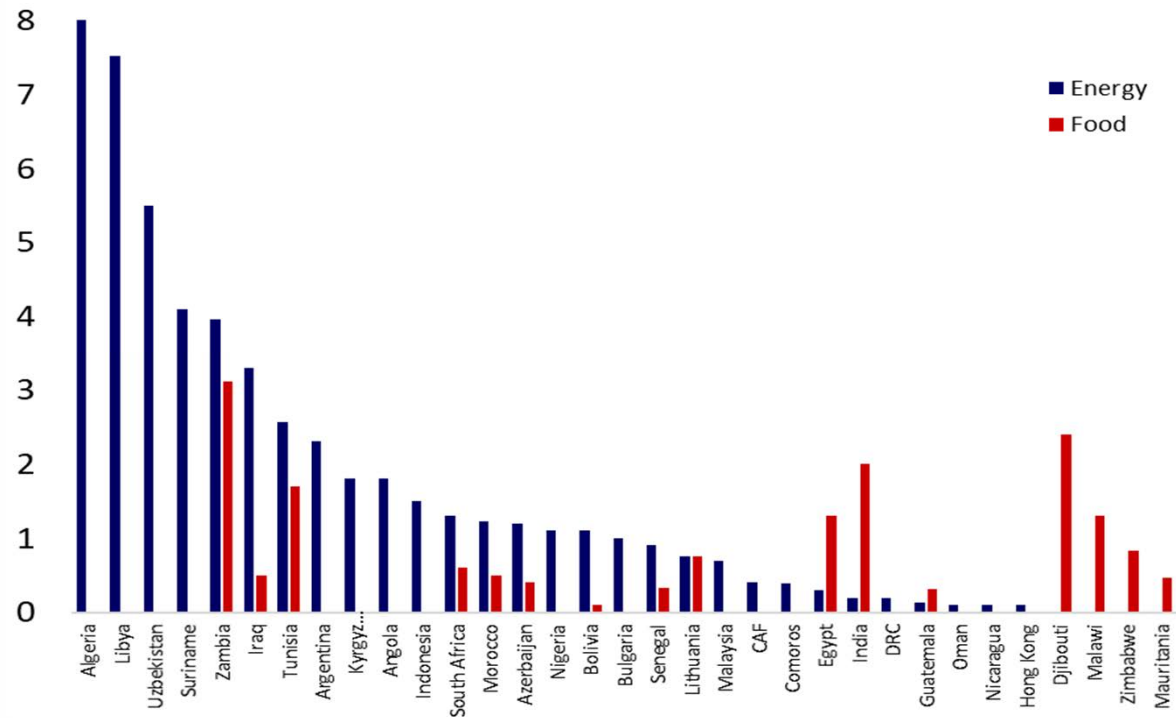
### Advanced Economies

### Emerging and Developing Economies



# Initial Policy Responses

## Energy and Food Subsidies, 2021 (percent of GDP)

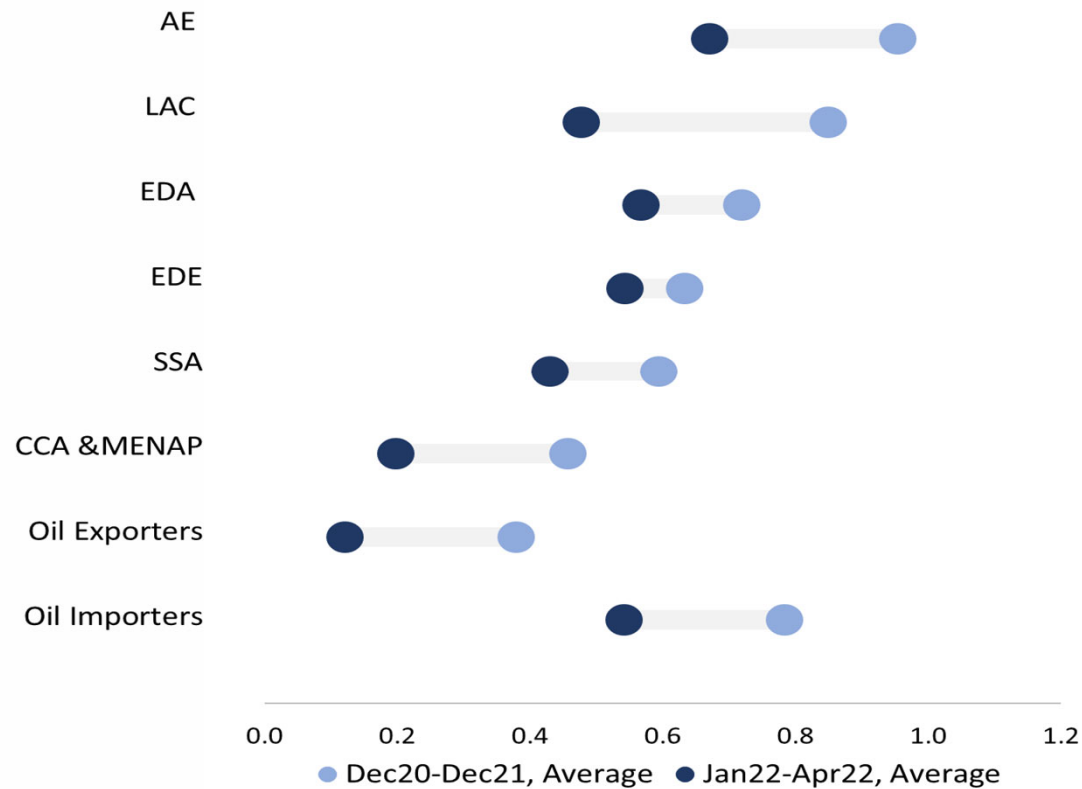


Source: IMF desk survey based on inputs for 134 countries (responses received during March 2022)



# Pass Through of International Prices

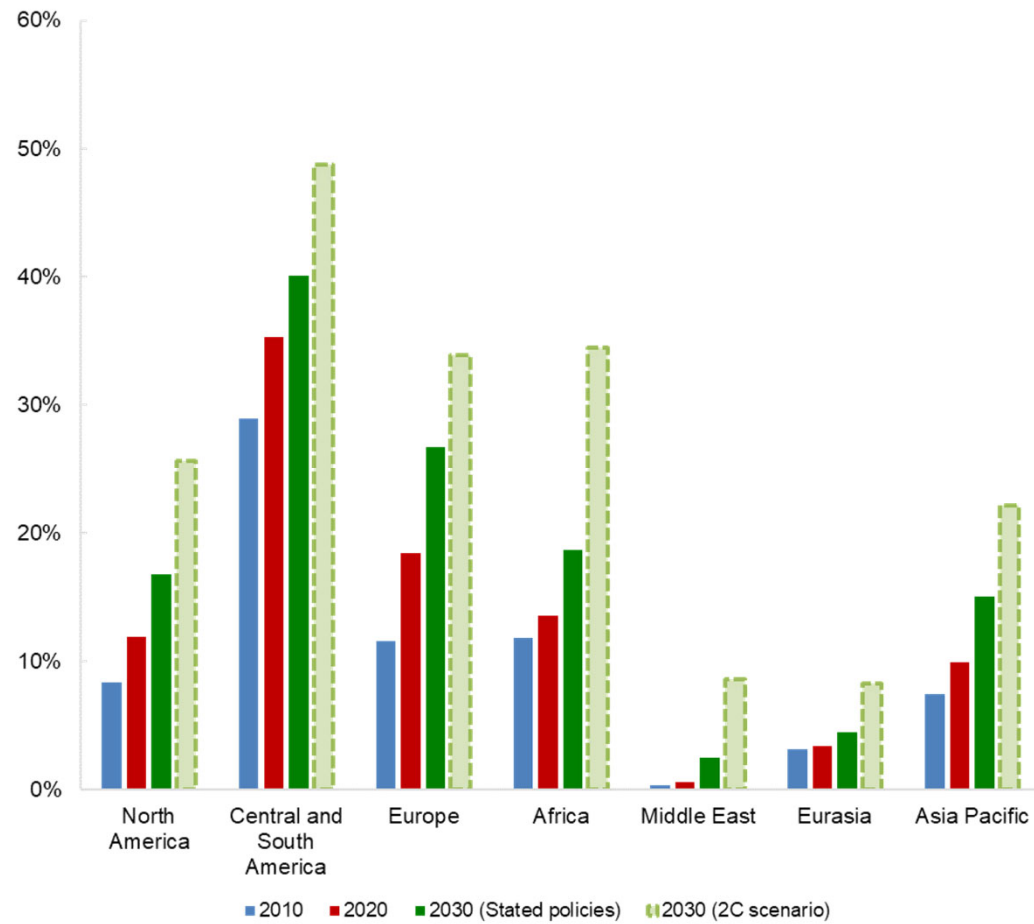
## Estimates of Pass-through of Prices for Fuel



Source: IMF staff calculations based on the global petrol price database and International Energy Agency.

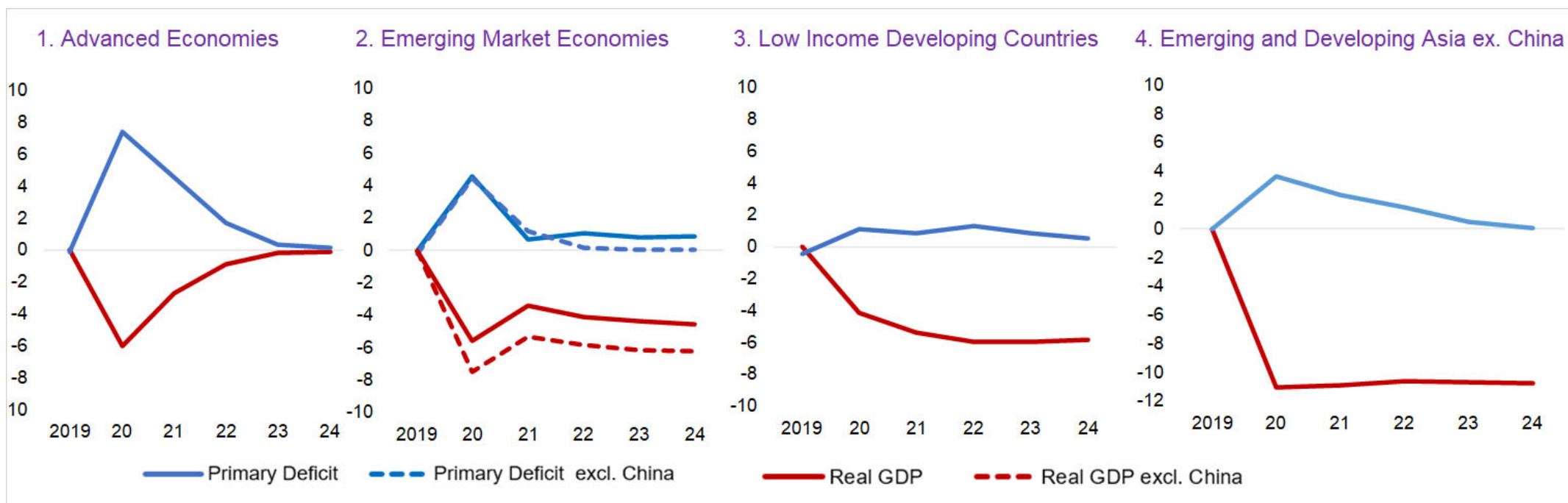
Note: AE = advanced economy; CCA = Caucasus and Central Asia; EDA = Emerging and Developing Asia; EDE = Emerging and Developing Europe; LAC = Latin America and the Caribbean; MENAP = the Middle East, North Africa, Afghanistan, and Pakistan; SSA = Sub-Saharan Africa.

## Share of Renewable Sources in Total Energy Supply (Percent)



# Uneven Economic Recoveries

## Uneven Economic Recoveries and Fiscal Deficits (Deviations from pre-pandemic projections)

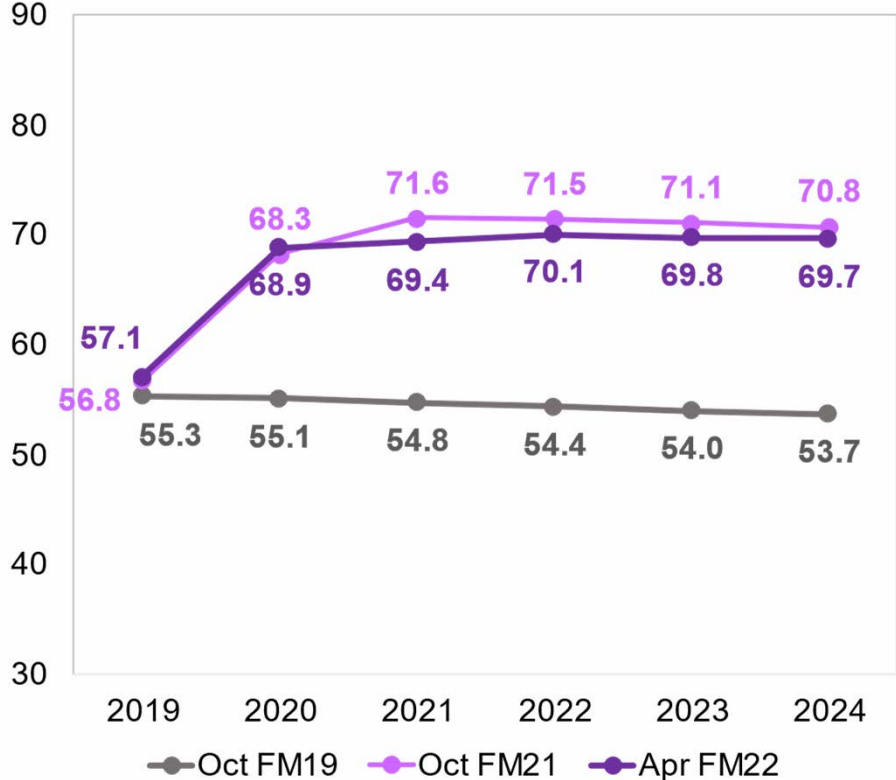


Sources: World Economic Outlook Database and IMF staff calculations.

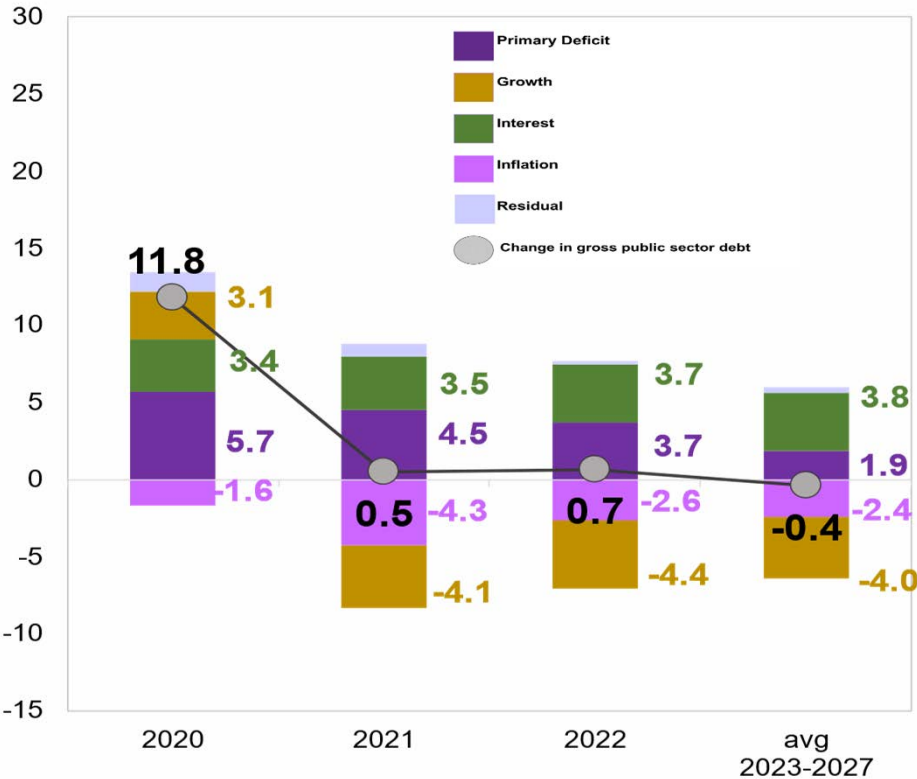
Note: The chart shows the deviations from pre-pandemic projections reported in the January 2020 World Economic Outlook. Primary deficit is shown as a percentage of GDP. Real GDP is shown as percentage points.

# Debt and Deficits in Emerging Market Asia excluding China

## Public Debt (in percent of GDP)



## Decomposition of Public Debt (Percent of GDP, Fiscal Monitor April 2022)

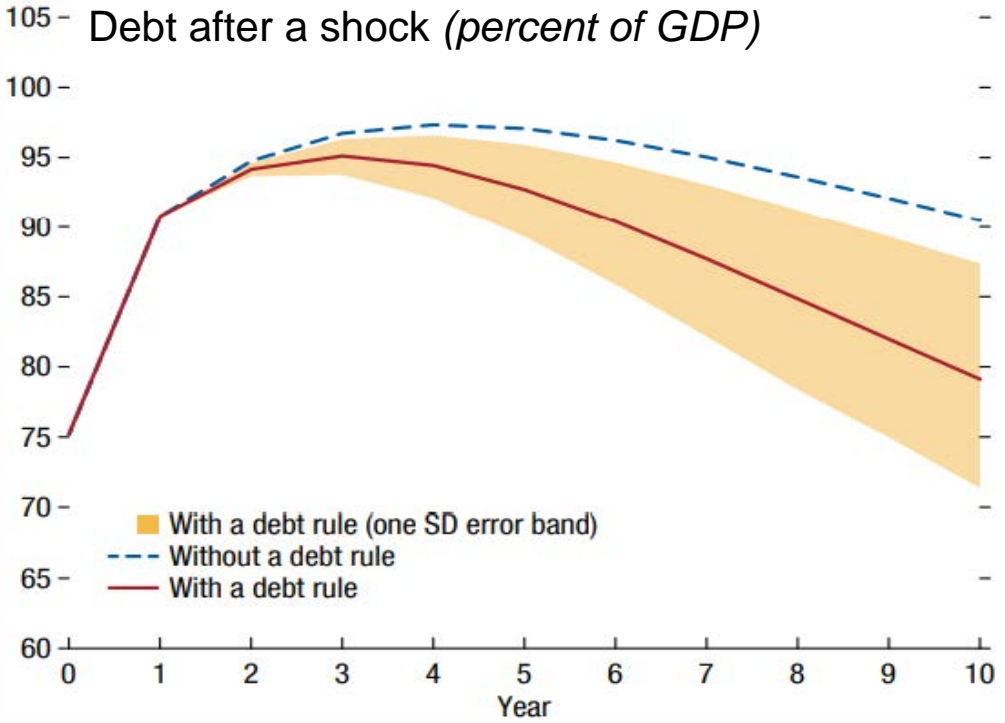


Source: IMF Fiscal Monitor (FM) & Staff Estimates.

Note: Data labels in the debt decomposition charts in black show the change in debt (in percentage points); labels in yellow show the contribution of growth to the change in debt, labels in green show the contribution of interest and labels in pink show the contribution of inflation. The blue stacked columns are the residual.

# Fiscal anchors have contributed to debt sustainability over the years.

## *Budget balance rules and debt rules have been associated with fiscal prudence*



Source: IMF Fiscal Monitor “Strengthening the Credibility of Public Finances”  
Note: Based on panel estimation of fiscal reaction function linking primary balance to past debt, for 55 countries over 1970-2018. Illustrative simulation using estimated coefficients from the panel estimation and calibrated to average debt of advanced economies in 2019 and their average debt increase in 2020.