Fiscal Policy for Mitigating the Social Impact of High Energy and Food Prices

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The surge in energy and food prices that started in the summer of 2020 represents a terms of trade loss for importing countries. It also implies a loss of real income, particularly to those at the lower end of the income distribution. Fiscal policy has a crucial role in lessening the impact on the most vulnerable households. Governments must balance by ensuring access to energy and food, normalizing fiscal policy after unprecedented support in 2020, and promoting green transformation. The advice will be country-specific but general principles for policymakers include:

**Countries with strong social safety nets (SSNs)**
- Allow a full pass-through of higher international fuel prices to domestic users.
- Provide targeted and temporary cash transfers to vulnerable households.
- If existing SSN programs do not adequately cover affected middle-class households, consider one-off cash payments, smoothing energy consumption bills over time, or energy bill discounts.

**Countries with weak SSNs and without existing energy and food subsidies**
- Expand existing SSN programs, such as targeted transfers or child benefits, leverage measures introduced during COVID-19, and harness the power of digital tools to identify eligible households and to deliver assistance.
- Consider reducing education, health, or public transportation fees.
- If food security is a concern and all other options have been exhausted, consider temporarily lowering taxes or providing price subsidies with clear sunset clauses for basic food staples.
- Use the momentum to invest in strengthening the SSN system.

**Countries with weak SSNs and with existing energy and food subsidies**
- Gradually pass through higher international prices to retail prices while committing to the elimination of subsidies over the medium term.
- Carefully calibrate price increases considering the gap between retail and international prices, the available fiscal space, and the ability to put mitigating measures in place.
  - *Fuel*: Consider differentiating adjustment paths of domestic prices by type of fuel based on their relative weights in the consumption of different income groups.
  - *Utilities*: Adjust prices gradually in line with changes in costs while providing uniform lump-sum bill discounts and smoothing energy consumption bills over time.
  - *Food*: If a food subsidy program exists, increase rationed food prices gradually. Consider improving targeting and reducing leakages to higher income groups.

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1 SSNs are programs aimed at protecting households from poverty and are financed by general government revenues (IMF 2019).
The Surge in Energy and Food Prices and Its Social Impact

The ongoing increases in energy and food prices are large and persistent. The Food Price Index, constructed by the Food and Agriculture Organization (FAO), a composite of five commodity group price indices, reached its all-time high in March 2022 (Figure 1). Prices for cereals, meat, and oils are at their historical peaks. For energy, while current oil prices are not unprecedented, natural gas prices are at their historical highs, especially in Europe (Figure 2). Commodity prices were already on a rising trend since the summer of 2020 but were exacerbated by Russia’s invasion of Ukraine in February 2022. Russia accounts for about 45 percent of the EU’s total gas imports and about 10 percent of total oil exports globally. Russia and Ukraine together account for about 25 percent of global wheat exports, about 15 percent of corn exports, and about 75 percent of sunflower oils exports. The rising inputs (for example, fuels and fertilizer) and transportation costs are putting further pressures on food prices. These challenges are not new for policymakers as this is the third global commodity price shock observed in the last 20 years. However, the macroeconomic environment for the current shock may be more challenging now than in previous episodes of high commodity prices.

Figure 1. International Food Prices
(Index, 2014-16=100; January 2000–April 2022)

Figure 2. International Oil and Gas Prices
(Index 2016=100; January 2000–March 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.

Source: IMF’s Primary Commodity Prices. 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.

The real income cut from higher energy and food prices is more pronounced for poorer households. Food takes up a considerably higher share of the consumption basket in low-income households than high-income households. For an average household in a low-income country, food expenditure can take up to 44 percent of the consumption basket (compared with 28 percent in emerging market economies and 16 percent in advanced economies, Figure 3), and therefore the contribution of food to inflation in these countries is particularly high (Figure 4). Within a country, for example in the United States, 27 percent of household spending in the poorest income quintile goes to food compared with 7 percent among the richest income quintile (USDA, Bureau of Labor Statistics). With about 800 million people undernourished in 2020 (10 percent of the world population), higher food prices put further pressure on many households already made fragile by the pandemic (FAO and others 2021). The share of energy in the consumption basket is higher, on average, for higher income households. The composition of the energy basket differs by product and across regions (Coady and others 2015). However, a sharp increase in prices can impact low-income households because of second-round price effects and a more limited ability to cope with shocks.

2 For example, in developing countries, kerosene is mainly used by low-income households, while gasoline is used by high-income households.
Figure 3. Shares of Food in Consumption Basket
(In percent of CPI basket)

Note: Shares of food and non-alcoholic beverages in CPI. Symbols “×” and “—” denote the average and median in each group, respectively. The boxes show the 25th–75th percentiles, and the whiskers show the minimum and maximum points. CPI = Consumer Price Index.

Figure 4. Contribution of Food to Inflation in 2022
(In percent)

Note: Calculated as the ratio of contribution of food to CPI inflation over CPI inflation. Symbols “×” and “—” denote the average and median in each group, respectively. The boxes show the 25th–75th percentiles, and the whiskers show the minimum and maximum points.
Initial Policy Responses

Actual changes in retail prices suggest that the pass-through from international prices has been relatively limited in most countries so far this year. On average, the pass-through for main fuel products (diesel) has been the highest in advanced economies and the lowest in emerging and developing economies. The lower pass-through in emerging and developing economies is explained by the prevalence of price subsidies, especially in the Middle East, North Africa, and sub-Saharan Africa. In the first four months of 2022, the pass-through on diesel has been lower, on average, for all country income groups compared with last year when international prices were also increasing (Figure 5). Even advanced economies with liberalized prices, have not increased retail prices to the same extent as they did last year. The lower pass-through implies that the current crisis of rising energy prices will have adverse fiscal implications in all regions with the largest impact expected in the Middle East, North Africa, and sub-Saharan Africa. The limited pass-through will put even more pressure on low-income economies with limited fiscal space. On the other hand, oil-exporting countries will see an increase in oil revenues. The pass-through of international food prices to domestic markets is usually lower than for non-agricultural goods. The pass-throughs for wheat, corn, and rice are lower overall in Africa, Asia, and Oceania, and higher in Europe and North and South America (Greb and others 2016).

A recent IMF survey confirms that most countries have limited the pass-through of higher international prices to domestic consumers. Most countries surveyed announced at least one measure since the beginning of the year (26 out of 31 advanced economies and 45 out of 103 emerging and developing economies). The fewer announcements in emerging and developing economies likely reflect continued reliance on existing energy and food subsidies while limiting adjustments in domestic prices, less fiscal space, and lower ability to quickly scale up SSNs. In advanced economies, cash and semi-cash transfers (including vouchers and utility bill discounts) were announced by the greatest number of countries (in about half of all countries), while most other measures aimed at lowering prices including reductions in value-added tax (VAT) (for example, in Belgium and Italy) and excise taxes (for example, France, Korea, and New Zealand) (Figure 6). A cap on fuel prices was announced in Slovenia, and France provided subsidies to distributors to reduce gasoline prices. Estonia, Luxembourg, and the Slovak Republic announced measures to reduce electricity prices. In emerging and developing economies, the most announced measures were reductions in VAT and excises (24 percent of

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3 Pass-through is defined as the change in retail fuel prices divided by the change in international fuel prices over the same period with a monthly lag, both expressed in US dollars per liter. Domestic retail prices are obtained from the Global Petrol Prices Database. Supply cost is obtained from the International Energy Agency. There are three different international oil prices used depending on the region of the country. A transportation cost of $0.10 per liter is added for all countries and an additional margin of $0.10 per liter is added to oil-importing countries.

4 Government measures encompass fiscal (revenue and spending) measures, below-the-line measures (for example, loans), and non-fiscal measures, such as trade restrictions.
all emerging and developing economies). This includes Poland and Turkey, which each announced a reduction in VAT rates on food and/or energy, and Côte d’Ivoire, Serbia, and Thailand, which each announced a temporary reduction or exemption of excise taxes. Some emerging and developing economies resorted to a temporary reduction or suspension of import duties (for example, Brazil, Iraq, Turkey). Finally, about 55 percent of all announced measures intended to mitigate the impact of higher energy prices, 30 percent intended to mitigate the impact of higher food prices, and intention for the remaining measures is not narrowly defined.

**Figure 6. Recently Announced Measures in Response to High Energy and Food Prices**

<table>
<thead>
<tr>
<th>Advanced Economies</th>
<th>Emerging and Developing Economies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and semi-cash 1/</td>
<td>48%</td>
</tr>
<tr>
<td>Reduction in Consumption Taxes 2/</td>
<td>42%</td>
</tr>
<tr>
<td>Price Freeze/Price Subsidies</td>
<td>35%</td>
</tr>
<tr>
<td>Other Revenue Measures 3/</td>
<td>35%</td>
</tr>
<tr>
<td>Subsidies to Specific Industries</td>
<td>16%</td>
</tr>
<tr>
<td>Below-the-Line</td>
<td>10%</td>
</tr>
<tr>
<td>Customs Duties</td>
<td>5%</td>
</tr>
<tr>
<td>Trade Restrictions</td>
<td>1%</td>
</tr>
<tr>
<td>In-Kind Subsidies</td>
<td>16%</td>
</tr>
<tr>
<td>No new measures</td>
<td>4%</td>
</tr>
</tbody>
</table>

Source: IMF staff estimate based on an IMF survey of 134 countries (31 advanced economies and 103 emerging and developing economies) conducted in March 2022 on the measures taken by governments since 2022 in response to rising food and commodity prices.

Note: “No new measures” refers to countries that responded to the survey and have not announced any measures.

1/ Includes cash transfers and semi-cash, such as vouchers and utility bill discounts.

2/ Includes value-added and excise taxes.

3/ Includes changes to income taxes and other revenue measures.

The announced measures also included efforts to provide direct income relief to households. Some countries announced measures to reduce income taxes. For example, Lithuania announced that it would raise the tax-free income threshold. Measures on the spending side included subsidies provided to specific (energy and food) industries/businesses, vouchers, and utility bill discounts and cash transfers to support households. A few countries have announced temporary and targeted cash transfers, with about three-quarters of all cash transfer programs announced in advanced economies. For example, Latvia announced monthly support to seniors and persons with disabilities (€20) and families with children (€50). Germany announced a one-time payment to families of €100 per child and additional one-time payments to recipients of social benefits. The Philippines announced unconditional cash transfers of 500 pesos per month to the bottom 50 percent of households (about 12 million families) for six months starting in April 2022. Poland announced means-tested benefits (from Zi400 to Zi1,438 per household) for poorer households to compensate for energy price growth. Other measures included trade restrictions and some below-the-line measures, such as loans to energy and agricultural firms.

Reductions in energy and food prices were the most common responses during previous episodes of high commodity prices while many countries also resorted to adjustments in import tariffs. Food taxes were reduced in more than 80 countries between 2006 and 2008—in most cases through reduced import duties rather than VAT or other consumption taxes (IMF 2008a and 2008b). From the perspective of fiscal costs, fuel-
related measures often create larger fiscal pressures compared with food, as many countries were reluctant to pass through price increases, especially in energy products (IMF 2008a, 2008b, and 2011).\(^5\)

**Several announced measures to ensure affordable access to energy in the near term might create challenges for the green transition.** These include measures that reduce consumption taxes on energy products. Furthermore, some measures could encourage the production and consumption of carbon-intensive energy. These measures are aimed at further boosting coal production to reduce reliance on imported coals (for example, China), or to sustain household consumption of coal briquettes through price subsidies (for example, Mongolia). In contrast, some countries announced measures aimed at maintaining incentives for the green transition, such as additional funding for the climate bonus for environmentally friendly vehicles (for example, Sweden), and initiatives toward energy efficiency (for example, Luxembourg and Norway).

**Political considerations may explain the policy responses observed so far to limit the pass-through or maintenance of price subsidies.** Social unrest over price increases for energy and basic goods is not new (Morrisson 1996), and protests over (planned) fuel price increases have occurred often, including in the recent past (for example, Ecuador, France, Haiti, Iran, and Kazakhstan). Such protests have the potential to spark widespread discontent with government policies. Some conditions, such as high poverty, inequality, and the electoral cycle, may increase the risk of social unrest (Alesina and others 2019). A high perception of corruption may lead to resistance to removing price subsidies because they are viewed as one of the few tangible benefits provided by the government and there is a lack of confidence in governments reallocating the resulting budgetary savings to benefit the population (Strand 2013). Finally, the existence of strong and well-organized interest groups—not necessarily the most vulnerable—benefiting from lower prices or the status quo, can fuel social unrest. Whereas these political considerations and the challenges in scaling up SSNs may prompt measures that limit the pass-through, such interventions are costly and regressive, and cannot be a sustainable response to a persistent shock. Therefore, it is crucial to let various measures that have been adopted recently to limit the pass-through (for example, tax cuts) expire so that they do not get entrenched. A comprehensive communication strategy is crucial to address underlying resistance.

**Managing the Effects of High Energy and Food Prices**

**Given the magnitude of the shock to real household incomes, a policy response may be necessary and should be based on a careful assessment of fiscal and welfare trade-offs.** The appropriate policy response should consider country-specific circumstances, but some general considerations apply to all. The strength of SSNs should be a key consideration in developing policy responses. Strong SSNs can increase households’ resilience to the shock, protecting them from falling (deeper) into poverty. Countries with strong SSNs should be able to protect poor and vulnerable households, while those with weaker SSNs would typically face difficulties in reaching vulnerable households in a timely manner.\(^6\) Other considerations include the availability of fiscal space, and threats to food and energy insecurity.

**Allow Price Pass-through**

**Countries should aim at allowing domestic prices to follow international prices.** Price signals are crucial for inducing demand responses. For energy, the demand response can be sizable. Short-term price elasticity of demand in the empirical literature has been estimated at \(-0.2\), with the highest elasticity for gasoline \((-0.29)\)

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\(^5\) Based on a survey of 159 countries in light of rising commodity prices, the median fiscal costs were reported as 1.4 percent and 0.3 percent of GDP for fuel-related and food-related measures, respectively (IMF 2008a). A different survey conducted on 71 low-income countries on the measures taken in response to rising commodity prices in 2011 found that the median budget impact of measures in response to higher fuel prices was 1.25 percent of GDP, compared to less than 0.5 percent of GDP for measures in response to higher food prices (IMF 2011).

\(^6\) World Bank (2018) provides a helpful overview of SSNs.
followed by natural gas (–0.18) and diesel (–0.15) (Labandeira and others 2017).\(^7\) Long-term price elasticities of demand are even greater. In contrast, food is a basic good that takes a higher fraction of incomes of the poor and may be less price-elastic. Ensuring affordable access to basic staples, especially where food security is a concern, therefore, should be prioritized. Higher prices on energy should encourage more efficient use of energy and investments in renewables, while higher food prices should encourage more agricultural production. Measures aimed at preventing domestic prices to adjust are costly, crowd out productive spending, and reduce producer incentives. At the same time, it is possible to appropriately design measures to protect the vulnerable households.

**Protect the Most Vulnerable**

The ability of countries to effectively protect vulnerable households from energy and food price shocks depends on the strength of their SSNs. Strong SSNs allow governments to identify eligible households to better target and efficiently deliver such assistance. Strong SSNs can be defined as a set of benefit programs that have high coverage of the poor, adequate benefit levels, good benefit incidence,\(^8\) are effective at reducing poverty, and have good infrastructure to scale up transfers in response to shocks. The scalability of SSNs depends on the availability of strong information systems, such as universal and robust identification that is effectively linked to databases with socio-economic information (household characteristics, employment, and income), on the adequate implementation capacity to deliver benefits to the intended beneficiaries in a reliable and timely manner and on strong medium-term fiscal frameworks that ensure flexible and sustainable financing.

Countries with strong SSNs could use targeted and temporary cash transfers to mitigate the impact on low-income and vulnerable groups. Transfers that are independent of the consumption of energy or food are preferred as they do not distort relative prices. Tax systems can also be used to provide relief to vulnerable households, for example, using refundable tax credits.\(^9\) With energy prices, if existing SSN programs cannot be scaled up immediately, then other temporary measures that rely on utility service providers could be considered. For example, by combining household income information with utility bill information governments can provide lump-sum discounts to those who fall below a certain income threshold. Such lump-sum benefits are preferred over benefits that are proportional to utility bills as they are more progressive and less distortive. Additionally, smoothing energy consumption bills over time could be considered. While the immediate relief should be temporary (time-bound), more permanent support through existing SSNs should be provided by indexing the benefits to inflation.

Countries without strong enough SSNs to provide support to the most vulnerable can expand existing programs. When feasible, the existing most efficient SSN programs (for example, school feeding programs) can be expanded to provide some relief to low-income and vulnerable households by increasing benefit levels and coverage as needed. Alternative approaches to targeting, such as geographic, categorical, self-selection, community-based, or proxy-means testing, can be used. Ad-hoc measures, such as those introduced in response to COVID-19, can be considered.\(^10\) In this respect, digital tools can be leveraged, for instance for beneficiary intake and registration through online applications complemented with information on individual situations from non-standard sources, such as telecom metadata. Benefits can be delivered through Government-to-Person (G2P) mobile payment platforms. During the pandemic, some governments, such as Brazil and Thailand, implemented registration processes through dedicated websites. In Togo, the government was able to quickly identify and enroll the vulnerable with the help of biometric voter IDs and satellite and phone record data. Cash transfers through a digital G2P platform. Nigeria used a new targeting method based on census data and high-resolution satellite imagery to map the poorest urban areas and target benefits. However, these technology-based approaches can lead to the exclusion of low-income households that may not have

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\(^7\) Price elasticity of demand is defined as the percentage change in demand for energy resulting from a 1 percent change in price.

\(^8\) Benefit incidence is the proportion of transfers received by the poor as a percent of total transfers (World Bank 2018).

\(^9\) More relevant for advanced economies.

\(^10\) Gentilini and others (2022) provide detailed information on social protection measures adopted in response to COVID-19.
access to digital tools and/or may be difficult to reach through digital mechanisms. Governments could also consider reducing education, health, or public transportation fees if they help in reaching the targeted groups and can be effectively implemented. All these imply that countries with weak SSNs must rely on a combination of measures to reach the desired target groups.

Countries with existing energy or food subsidies should gradually pass through international prices to retail prices while committing to eliminate subsidies over the medium term. The pace of pass-through should be carefully calibrated based on the gap between retail and international prices, the available fiscal space, and the ability to put measures in place to mitigate the impact on vulnerable households.11

- **Fuels.** Countries with fuel subsidies could consider differentiating adjustment paths of domestic prices by type of fuel based on their relative weights in the consumption of different income groups. For example, in some countries, liquefied petroleum gas and kerosene are more important for low-income households—which use these fuels for cooking or heating, and hence could have a slower adjustment path than prices for gasoline and diesel. Once the domestic price is increased in line with the international price, countries could adopt an automatic energy pricing mechanism with smoothing that prevents sharp adjustments in fuel prices as a transition to liberalized pricing. The expansion of fuel subsidies could also impose a risk to fuel security as incomplete compensation of fuel suppliers is often associated with supply shortages.12

- **Utilities.** Countries with utility subsidies can adjust prices gradually in line with changes in costs. To mitigate the impact of higher prices, some temporary measures, such as uniform lump-sum bill discounts could be considered. In addition, smoothing of energy bills throughout the year can help households avoid falling into arrears during the months when more energy is needed for heating or cooling. While lifeline tariffs will continue to play a role in cushioning the impact of high prices on low-income households, they may need to be redesigned to make them fiscally affordable.13 Moreover, lifeline tariffs are generally inferior to other alternative measures, such as lump-sum discounts for several reasons: the consumption level of poor households is not always lower (Komives and others 2005), the measure reduces the average tariff for the utility and distorts prices, and poor households who do not have access to the power network are not likely to benefit from it.

- **Food.** In countries with food subsidies, rationed food prices can be increased gradually. Targeting of existing programs can be improved to reduce leakages to higher income groups and in the supply chain of food subsidies. This could reduce the fiscal burden of food subsidies while not impacting the most vulnerable benefitting from food subsidies. Food security should be prioritized within the existing fiscal envelope. If food security is a concern and all previously-mentioned options have been exhausted, governments can consider other temporary measures, such as providing price subsidies or lowering consumption/import taxes with clear sunset clauses for basic food staples. Efforts should also be made to increase the food supply by supporting production and avoiding hoarding behaviors14 by using food reserves15 when available and prioritizing human consumption over other uses of food crops.

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11 Such a reform could rely on a comprehensive reform plan; a far-reaching communications strategy; appropriately phased energy price increases, sequenced differently across energy products; targeted mitigation measures; improvements in the efficiency of state-owned enterprises; and depoliticization of energy pricing (see Clements and others 2013).
12 This is prevalent in countries with limited fiscal space and the inability of the government to compensate fuel suppliers adequately for the rise in costs, leading to arrears and supply shortages.
13 Lifeline tariffs are tariff-setting mechanisms that ensure that small users (as a proxy for poor households) pay less than the full cost of energy. Lifeline tariffs have been quite popular in the past, but the experience in implementing these tariffs has been mixed and their sustainability questioned (Ruggeri Laderchi and others 2013).
14 For example, if necessary, by temporarily limiting the quantity of goods purchased by an individual.
15 Public stocks can play a limited but important role in food security, complementing a broader nonstock strategy. Public stocks have two main purposes: stabilize domestic prices and provide readily available emergency food targeted at the most vulnerable. The price stabilization objective can be ineffective and result in high budget costs. The food security intervention objective is more effective in the short run, especially for bridging the time needed for food imports and targeting support to the most vulnerable in times of market shocks. Guiding principles about reserves include transparency and accountability; limited size (to avoid a dominant position in the market); the inclusion of cereals, preferably locally produced; and limited types of food to facilitate management (see World Bank 2012).
Cut Taxes on Affected Goods Only as the Last Resort

In general, reducing taxes on energy and food are not advisable. Given the prevalence of ad valorem taxes (such as VAT or ad valorem excises), higher prices and relatively lower price elasticity of demand implies that in many countries tax revenues will go up when energy and food prices rise. This additional tax revenue can be used to provide targeted support to vulnerable households. On the other hand, a general reduction in taxes implies providing relief to all including the most affluent households and results in the loss of significant revenues when these are most needed. For fuel taxes, such as excises, there are several additional considerations. Externalities that fuel excises address remain valid to mitigate climate change, therefore higher fuel taxes are still needed. Even in the absence of an explicit tax cut, a specific excise tax falls as a share of the consumer price when the pretax price rises. Leaving aside environmental considerations, there could be a case for some rebalancing by cutting the equivalent ad valorem tax while increasing the specific tax. In countries with weak SSNs where the expansion of existing programs does not provide sufficient protection and where food security concerns are particularly severe, governments can consider temporary reductions in taxes with clear sunset clauses for staple foods. Import tariff cuts on necessities, which are less distortionary, would then be preferable.

Permanent excess profit taxes that target economic rents are preferred over ad hoc tax surcharges on windfall profits. The surge in energy prices and the profits of some energy companies has led to renewed calls for the imposition of taxes on windfall profits. However, such taxes could discourage investments and thus be counterproductive (Baunsgaard and Vernon, forthcoming). Instead, a tax on excess profits—economic rents in excess of the return required by investors—is preferred (Hebous and others, forthcoming). Excess profit taxes would support social cohesion by enabling contributions from businesses that prosper during the crisis rather than those companies (and their workers) that are hit hard and earning normal profits or even incurring losses. Such taxes could become a source of significant revenue while causing little distortion.

Manage the Rationing Efficiently

In extreme cases, countries can use quantitative controls in combination with price mechanisms. Rationing can be an option if prices are too high and raise concerns about food security or access to energy. Food rationing can be implemented through ration shops (for example, the public distribution system in India, see Gadenne 2018), vouchers, or direct food distribution. With respect to energy rationing, maintaining price signals to entertain demand response and providing clear targets to the population through a communication campaign are important. For example, in the early 2000s, Brazil designed an effective quota system with price signals and achieved a more than 20 percent reduction in consumption in one year (Maurer and others 2005). Implementing quotas without prices is less efficient. After the March 2011 earthquake and the subsequent shutdown of nuclear power plants, Japan set consumption targets for enterprises and reduced demand for air conditioning. Electricity demand decreased by 15 percent (Kimura and Nishio 2016). Blackouts should only be used as a last resort. Although easy to implement, such an indiscriminate form of rationing, which does not distinguish between essential from non-essential users, results in larger economic losses (Maurer and others 2005).

Strengthen International Cooperation

International cooperation is key for ensuring an adequate and affordable supply of energy and food on the global market. Low-income countries, where food inflation is running high, have little fiscal space for an effective policy response. Those heavily dependent on food imports from Russia and Ukraine (countries in the Middle East and North Africa, Central Asia, and sub-Saharan Africa) are particularly vulnerable in the short run. Vulnerable countries would need external assistance, which should include the provision of emergency food

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16 Fuel taxes are a significant source of revenue for many countries.
supplies, financial support, and increased agricultural and fertilizer production. Moreover, the recently adopted Doha Program of Action calls for exploring the feasibility of a system of stockholding for the least developed countries on a regional and subregional basis. Export restrictions, which have already been announced by several countries, can be harmful to global food security and add to further price pressures, especially when imposed by countries with a sizable share of the global market. Lessons from the previous food price peaks in 1973 and 2008 have shown that trade barriers are ineffective in stabilizing domestic prices, on average, while increasing further world prices.\(^\text{17}\) In the long run, export bans may also hurt countries imposing restrictions as they reduce production incentives and encourage smuggling to countries with higher prices.

**Accelerate the Climate Agenda**

The crisis offers an opportunity to galvanize support for diversifying energy supplies away from fossil fuels and for achieving more sustainable, inclusive, and efficient food systems. Diversification of energy supplies can help accelerate a transition to green economies and strengthen energy security. Countries should aim to increase investments in the production of renewables and reduce their dependence on fossil fuels. However, in the short run, as economies grapple with supply shortages, alternative supply sources of nonrenewable energy, including, for example, enhancing markets for liquefied natural gas, and expanding production of shale oil and gas may be needed. This should be done in a way that is consistent with climate change goals and avoids investing in long-duration and capital-intensive fossil fuel projects. Consideration could be given as to whether excessive incentives are in place to use corn for biofuel production rather than the food supply (Glauber and Laborde 2022). Governments should also promote measures to improve energy efficiency by encouraging thermostat adjustments and accelerating energy efficiency improvements. In addition, governments need to incentivize the shift towards more environmentally and socially responsible food production and consumption.

\(^{17}\) See, for instance, Martin and Anderson 2011
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