

Annex: Mitigating the Impact of High Energy and Food Prices

	Large Shock + Strong Social Safety Net	Large Shock + Weak Social Safety Net	Very large shock + Strong Social Safety Net	Extraordinary and Disruptive Shock + Weak Social Safety Net
Shock	Within historical range, even if large	Within historical range, even if large	Very large by historical standards but likely temporary	Sudden, extraordinary, largely temporary but likely disruptive
Fiscal response	Automatic stabilizers	Automatic stabilizers plus discretionary response subject to fiscal space	Automatic stabilizers plus discretionary response subject to fiscal space	Automatic stabilizers plus discretionary response subject to fiscal space
Prices	Allow full pass-through	Allow full pass-through	Consider smoothing price increases but allow large upfront increase in energy prices, followed by a gradual convergence toward long-term levels.	Consider smoothing price increases but allow large upfront increase in energy prices, followed by a gradual convergence toward long-term levels.
Households	Targeted and temporary cash transfers to vulnerable households	Expand existing programs (targeted transfers, child benefits)	Targeted and temporary cash transfers to vulnerable households.	Expand existing programs (targeted transfers, child benefits)
		Use digital tools to identify beneficiaries and deliver support	If coverage is insufficient, expand existing programs and consider one-off cash transfers to affected middle-income households	Use digital tools to identify beneficiaries and deliver support
		Consider temporary reductions in regulated tariffs (education, health, transport)		Consider temporary, lump sum, cushion in regulated tariffs (education, health, transport)
			Consider smoothing energy bills or temporary bill discounts (if no price smoothing is already in place) but allow large initial adjustment	Consider smoothing energy bills or temporary bill discounts (if no price smoothing is already in place) but allow large initial adjustment
Support measures			Consider smoothing energy bills or temporary bill discounts (if no price smoothing is already in place) but allow large initial adjustment	As a last resort, if food security is at risk, temporarily reduce taxes or provide price subsidies for basic food items, with clear sunset clauses
Firms	No specific support	No specific support, except for temporary reductions in regulated tariffs, if implemented, which should be fully compensated	Provide support only if the shock creates liquidity—not solvency—problems	Provide support only if the shock creates liquidity—not solvency—problems
			Target otherwise (pre-shock) viable or strategic energy firms disproportionately affected, to prevent unnecessary bankruptcies and loss of productive capacity	Target otherwise (pre-shock) viable or strategic energy firms disproportionately affected, to prevent unnecessary bankruptcies and loss of productive capacity
			Consider providing temporary government-guaranteed bank loans (with risk sharing).	Consider providing temporary government-guaranteed bank loans (with risk sharing).
			Consider providing temporary credit lines or working-capital facilities	Consider providing temporary credit lines or working-capital facilities
			Consider introducing deferrals of tax and social security	Consider introducing deferrals of tax and social security
			Avoid direct grants and equity injections given their fiscal cost and difficulty to unwind	Avoid direct grants and equity injections given their fiscal cost and difficulty to unwind
Generalized energy price subsidies	Not in place	Do not introduce	Do not introduce	Do not introduce
				Consider only as a last resort , and solely to cushion extreme price spikes if no other instrument is available Consider energy subsidies to help smooth inflation if all of the following conditions are likely to materialize: shock is temporary; with limited economic overheating but strong pass-through to core inflation; weak international policy synchronization; and where fiscal space is available Any use should be transparent, temporary, and designed to minimize distortions Price caps are easier to phase out but risk shortages while tax reductions reduce supply risks but are harder to reverse and may lead to persistent revenue losses Fuel: Vary adjustments by fuel type, reflecting consumption patterns across income groups Utilities: Gradually adjust tariffs, complemented by uniform lump-sum bill discounts Food: Increase rationed food prices gradually; improve targeting and reduce leakages
	Already in place	Gradually increase energy prices and elaborate an exit strategy when international prices moderate	Gradually increase energy prices and elaborate an exit strategy when international prices moderate	Gradually increase energy prices and elaborate an exit strategy when international prices moderate

Sources:

IMF (2022), *Fiscal Policy for Mitigating the Social Impact of High Energy and Food Prices* ;
 IMF Special Series on COVID-19, *Considerations for Designing Temporary Liquidity Support to Businesses* .
 IMF Office Memorandum, Fiscal Energy Price Measures and Inflation, October 4, 2023