



**FISCAL AFFAIRS**

# **Fiscal Response to Commodities Price Shock from the Conflict in the Middle-East**

**FAD—ATI-AFE WEBINAR**

**MAY 21, 2026**

# Key Questions in Designing a Policy Response

1. Is a policy response needed?
2. If so, what fiscal space is available and how will it be financed?
3. What is the appropriate policy response?
4. Demand versus Supply shocks

***This presentation focuses mostly on the third question and from a broad perspective.***

***Country specific policy recommendations are provided by the country team in AFR.***

# **Policy Response to Commodity Price Shocks: General Principles**

# Standard Policy Recommendations Remain Relevant

- Allow price signals to fully pass-through to consumers
  - Generalized price subsidies should be avoided, given their regressivity, high fiscal costs, difficulty to unwind, and distortionary impact
- Support measures should be calibrated within available fiscal space
- Protect vulnerable households through existing, well-targeted social assistance
- Avoid policies that distort incentives or undermine market functioning
- For oil-exporting countries, windfall revenues should be used to rebuild fiscal buffers and reduce debt, rather than to expand generalized subsidies

# When Are Exceptional Measures Justified?

- In the case of **extraordinary but largely short-lived shocks**, full and immediate pass-through may entail substantial economic and social costs
- There may be **risks to viable productive capacity**, particularly where supply disruptions affect critical sectors that may risk producing long-term damage/scarring
- *Then, **time-bound and targeted discretionary support** may be warranted to mitigate severe disruptions and preserve social and political stability*

***Fiscal response should be calibrated incrementally***

***Short-term support measures should not introduce long-term distortions***

***In all case, price signal should be allowed to operate, and fiscal sustainability should be preserved***

Pecking Order of Fiscal Support Measures

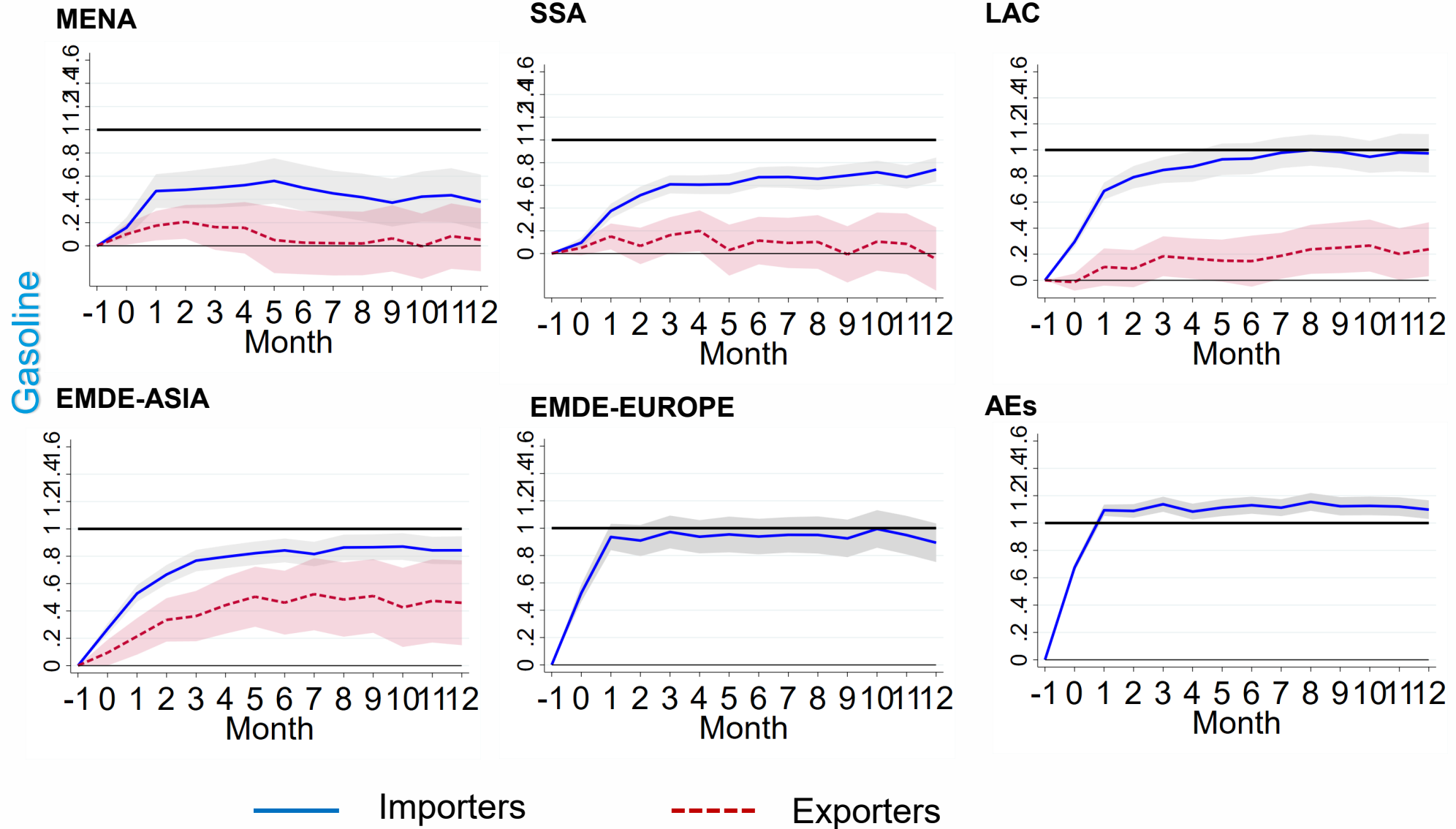
|  | For Households                                                                                                                                                                                             | For Firms                                                             |
|--|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------|
|  | Expand existing programs focused on vulnerable                                                                                                                                                             |                                                                       |
|  | Targeted, temporary (lump sum) ease of regulated tariffs of basic goods                                                                                                                                    | Partially compensate affected firms for regulated tariffs             |
|  | One-off cash transfers, incl. affected middle-class                                                                                                                                                        | Temporary government-guaranteed loans for viable firms                |
|  | Smooth energy bills or temporary bill discounts with significant initial adjustment                                                                                                                        |                                                                       |
|  | If food security at risk or limited SSN: price subsidies (price caps or reduced taxes) with sunset clauses and initial adjustment                                                                          | Temporary credit lines; Deferrals of tax and social security payments |
|  | Consider energy subsidies to help smooth inflation when pass-through to core is high, shock is temporary; with limited overheating; weak international policy synchronization; and sufficient fiscal space |                                                                       |

Shock severity

# Other Consideration to Frame Policy Response

- **Fiscal space** varies widely across countries and is now tighter
  - Discretionary fiscal policy response will have to be selective and incremental
  - Where fiscal space is limited or not available, it will involve difficult tradeoffs and reprioritization
- **Rationing** has high economic and social costs but may need to be considered in extreme situations where food and energy access is at risk
- Fiscal response should be **coordinated** with monetary policy efforts, including its potential impact on aggregate demand
- Key lesson from the response in 2022:
  - **Fiscal space** was often a binding constraint
  - **Targeting and temporariness** were critical to limit fiscal risks
  - **Policy design matters:** some measures are more difficult to phase out

# Pass-through of Fuel



# Generalized Price Subsidies

- Many countries in AFR have some form of subsidy
- Costly, regressive, distortionary, and politically difficult to unwind
- **When already in place:**
  - There is less justification for introducing new discretionary measures.
  - It provides opportunity to gradually raise energy prices and develop an exit strategy as energy prices normalize
- **When not in place**, such measures should be considered only as last resort—to cushion extreme price spikes—in the absence of adequate social safety nets and where there is a risk of significant productive disruptions
- Consider energy subsidies to help smooth inflation if all of the following 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.

# Tax Policy Choices – Design Perspectives

VAT cuts on food and energy are **poor instruments**:

- **Price incidence** is uncertain and likely incomplete
- **Targeting**: richer households consume more food and energy in cash terms, so they capture a large share of such tax relief
  - Targeted cash transfers protect vulnerable households more effectively per dollar of subsidy
- **Food and energy benefit from VAT preferential treatment** in many countries

Where **fuel excises are specific and not indexed**:

- They **fall as a share of the consumer price** when the pretax price rise
- Externalities that excises address are not getting smaller

**Windfall taxes**

- Tax upstream rents only where private producers capture windfalls that existing fiscal instruments do not already absorb
- Recycle windfalls transparently through the budget—for instance, to fund an increase in transfers to households

**17 countries exempt basic food from VAT:**

Examples: Ghana, Kenya, Burkina Faso, Congo (Rep.), Cameroon

**8 countries low- or zero-rate basic foods:**

Examples: Lesotho, Zimbabwe, Zambia, South Africa, Uganda

**16 countries apply VAT broadly including to food:**

Examples: Angola, Benin, Botswana, Burundi, Cabo Verde, Central African Republic, Comoros, Congo (Dem. Rep.), Ethiopia, Gambia.

**Fuel products are regulated in many countries in AFR, where tax-inclusive retail prices are relatively low (before current crisis)**

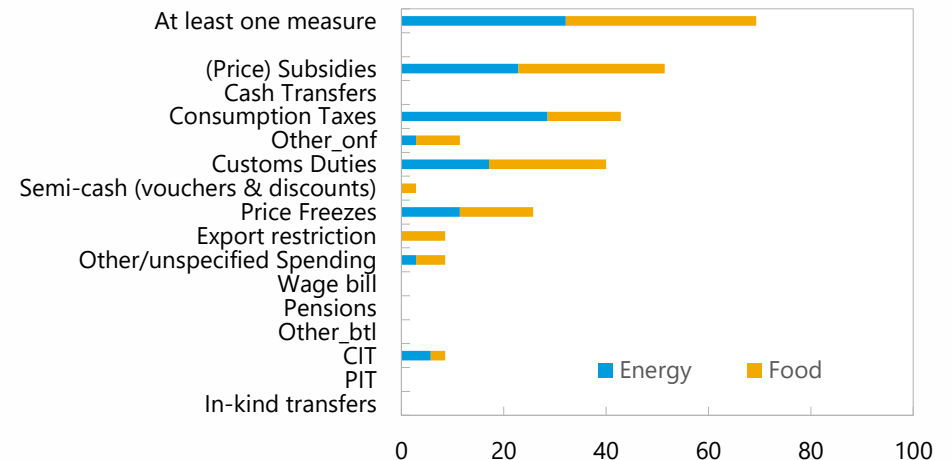
# Policy Tools Used during the 2022 Energy Crisis in AFR

- LICs (82 percent took measures):
  - Focused on both food and energy
  - Price subsidies and price freezes
  - Consumption taxes
  - Custom duties
- EMEs (all of them took measures)
  - Greater focus on energy
  - Other unspecified spending (e.g. food reserve)
  - Price freezes
  - Consumption taxes

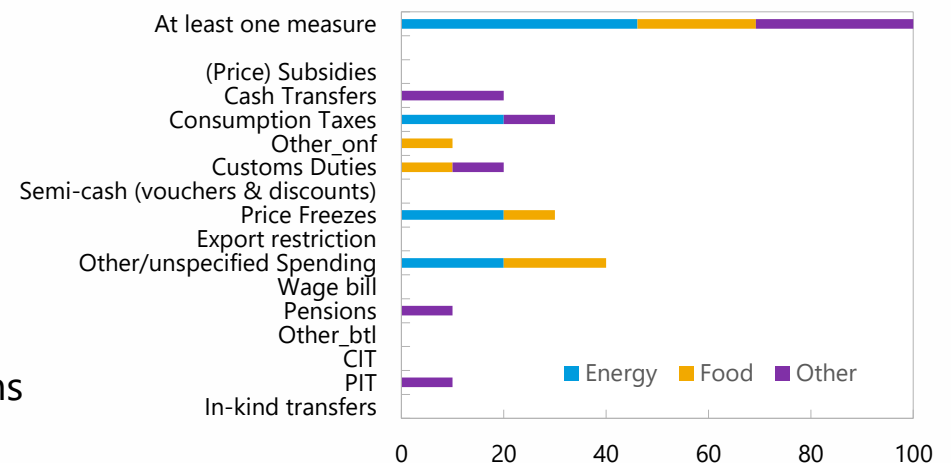
## ***Countries used multiple instruments, to:***

- Reduce inflationary impact
- Support the vulnerable or most affected
- Support often extended beyond vulnerable households and firms

LIDC (share)



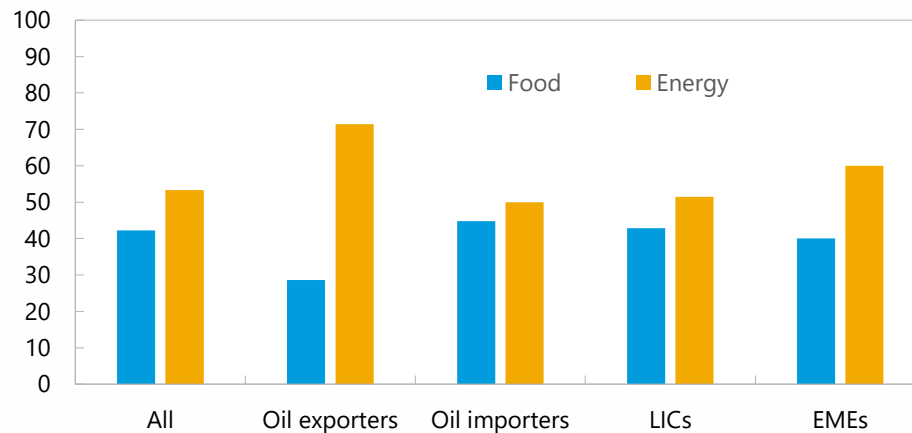
EME (share)



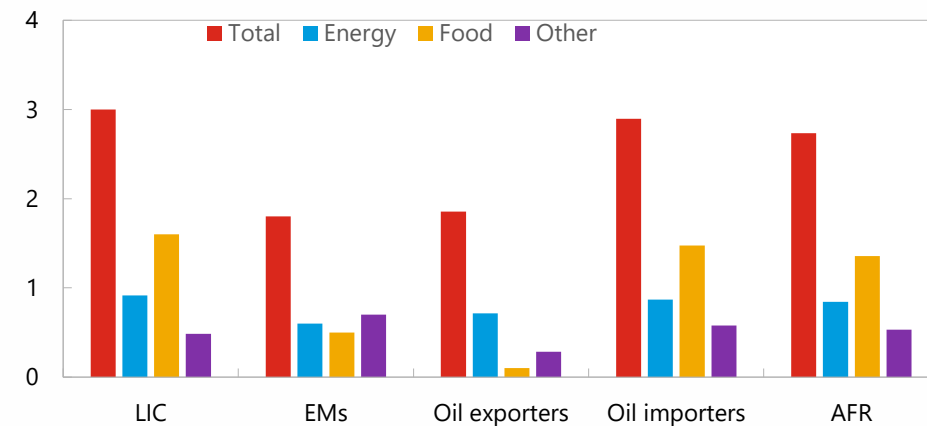
# Policy Tools Used during the 2022 Energy Crisis in AFR

- Many countries—including LICs—entered the shock with pre-existing subsidies
- The largest share of policy measures focused on food.
- A smaller share of LICs took measures, but they took more measures per country, with more measures on food than energy.

**AFR Pre-existing Subsidies in 2022**  
(share of total)



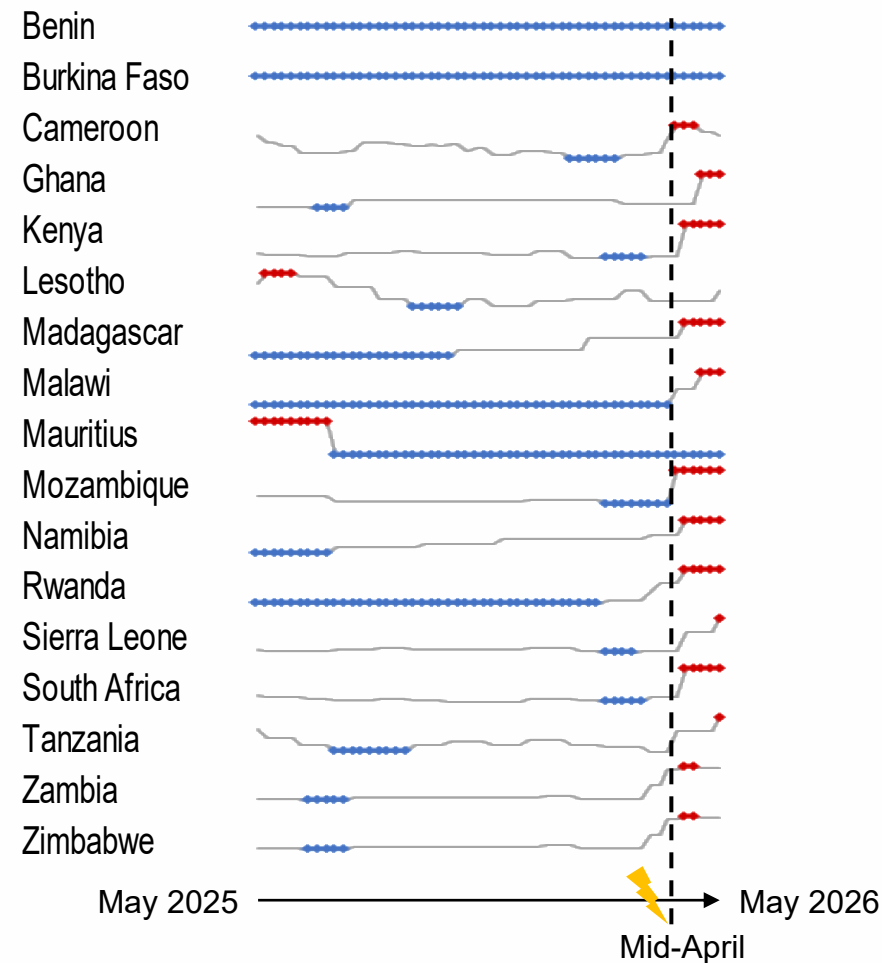
**AFR Measures per Country (2022)**



# Political Economy of Raising Domestic Fuel Prices

- **Speak with one voice** and avoid contradictory messaging
  - Strong ownership of difficult price increases with a whole-of-government approach
- **Strengthen trust** in the authorities' capacity to manage the crisis
  - Good if a trusted / independent agency (regulator, sectoral SOE, think tank) explains the technicalities of the adjustments
- **Communicate on mitigating measures**, acknowledging hardship of vulnerable and stressing tradeoffs that imply difficult choices
- **Show flexibility and agility**, acknowledging the changing context and stressing the importance of evidence-based monitoring

Weekly diesel price at the pump in several African countries  
(May 2025 to May 2026)



Source: IMF staff on Global Petrol Price Database.

# Maximize Efficiency of Support Packages

- **Conservation measures are consistent with preserved price signals**
  - Fixed prices discourage conservation, stress supply chains and are fiscally costly
  - Smoothing can be an option if fiscal space is available
  - Critical to lean on proven pricing mechanisms and transparent rules
- **Target sectoral support to diffuse pressures from the nexus of goods and services with regulated prices, balancing fiscal and inflation concerns**
  - Transport is a key input into many goods and services whose prices are regulated (basic food staples, public transport fares)
  - Fuel products are used in electricity generation with regulated tariffs

# Sources

- [Responding to the Energy and Food Price Shock: Getting the Policy Details Right \(IMF Blog\)](#)
- How (Not) to Price Fuel Products (Prady et al, HTN/2026/03)
- Fiscal Policy for Mitigating the Social Impact of High Energy and Food Prices (Amaglobeli et al, NOTE/2022/01)
- Expanding and Improving Social Safety Nets through Digitalization (Bird et al, NOTE/2023/007)
- Consideration for Designing Temporary Liquidity Support to Businesses (Special Series on COVID-19, IMF)
- Pumps and Plates—Passthrough of International Fuel and Food Price Shocks to Domestic Markets (Nguyen, H.; Thévenot, C, IMF WP, forthcoming)

# **Expenditure Policy Division**

# Expenditure Policy – Broad Range of Topics

## Expenditure Policy Division

The Expenditure Policy Division (EPD) undertakes policy development and research, and provides operational support to area departments, and technical assistance (TA) and broader capacity development to member countries on public expenditure policy issues and their fiscal and macroeconomic implications.

### Broad

- Expenditure assessment for spending rationalization (with efficient and equitable design)

### Focused

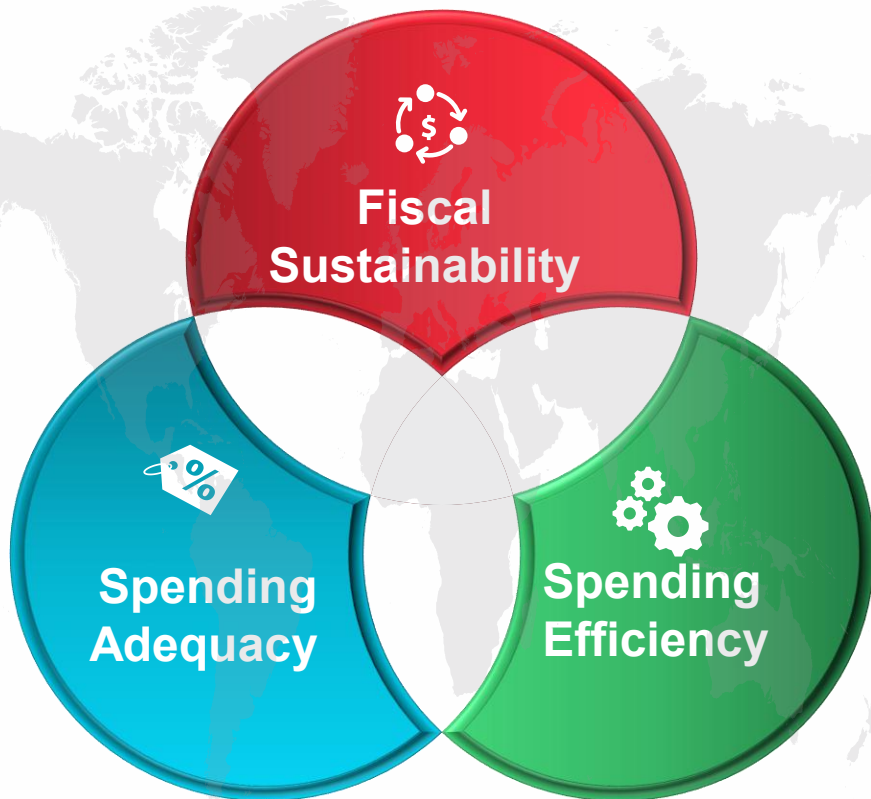
- Economic classification (e.g., wage bill, subsidies, public investment)
- Functional classification (e.g., pensions, SSNs, health, education)

### Cross-Cutting Issues

- Spending Adequacy
- Spending Efficiency
- Distributional analysis of policies
- Fiscal Sustainability

# Collaboration with Development Partners

## Common Concerns

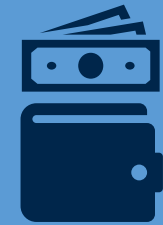


## Complementary Approaches



## Common Challenges

### Financing and Sustainability



**Thank you**

# Background Slides

# Key Macro Vulnerabilities

- High exposure among **energy importers**, including fertilizers
- Pressure on **energy intensive sectors**
- Elevated risk for **food-importing** countries
- Heightened **food insecurity**, particularly for vulnerable populations
- **Weak macroeconomic fundamentals** can magnify impact of the shock
- International **spillovers** may result in supply disruptions for small and LIC economies

# Key Policy Vulnerabilities

- Limited or no fiscal space, eroded by recent major shocks, including covid-19 and the 2022 energy crisis
- Heavy reliance on costly subsidies prior to the shock
- Constrained non-fiscal policy space, reflecting weak policy buffers
  - Low international reserves
  - Limited policy credibility, reducing effectiveness and increasing the cost of interventions
- Risk of ‘keeping up with the Joneses’ if discretionary measures are widely adopted elsewhere

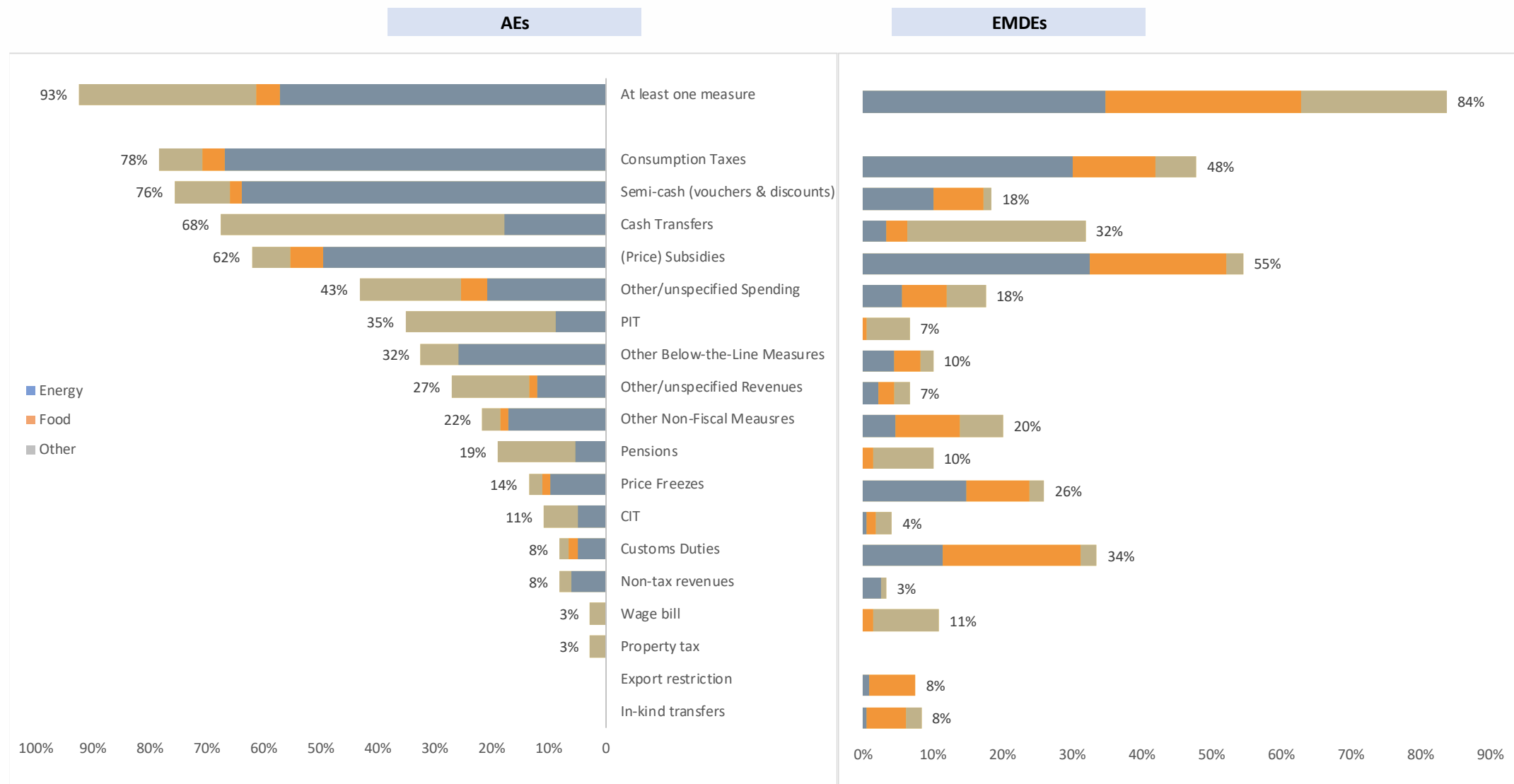
# **Response to the 2022 Energy Shock in AFR**

# Policy Tools Used during the 2022 Energy Crisis

- Measures focused mostly on energy, with half of countries providing subsidies.
- Response was largely untargeted.

## ***Countries used multiple instruments, to:***

- Reduce inflationary impact;
- Support the vulnerable or most affected;
- In practice, support often extended beyond vulnerable households and firms.



Source: Updated results of the DEFPa IMF Country Desk Survey from Amaglobeli and others (2023) (182 country teams response with 40 AEs and 142 EMDEs).

Note: Policy measures announced in 2022

At least one measure represents the ratio of countries taking at one measure relative to the total number of countries responded the survey in that income group

The rest of bars represent the share of countries that announced at least one measure in each category relative to countries taking at least one measure

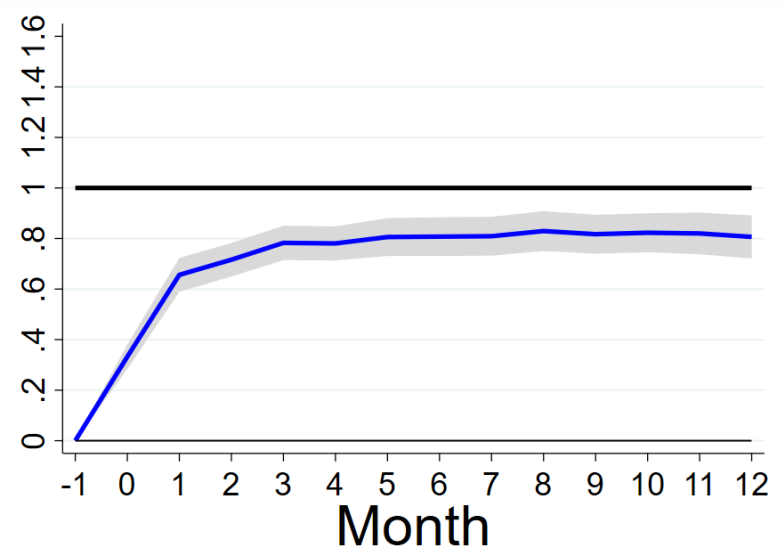
The stacked bar shows the break down of total measures in each category in terms of food, energy and other. Here, other indicates the measure is either targeted at both food and energy or is unspecified

# Sources

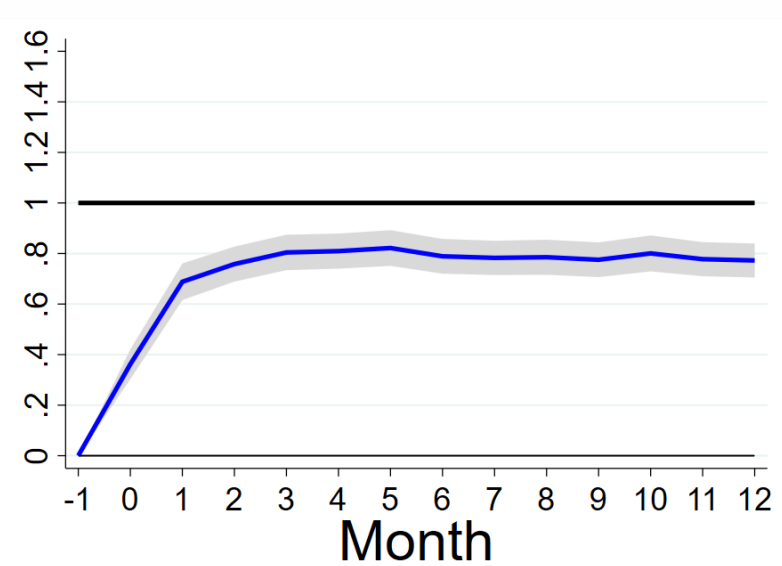
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# Pass-through

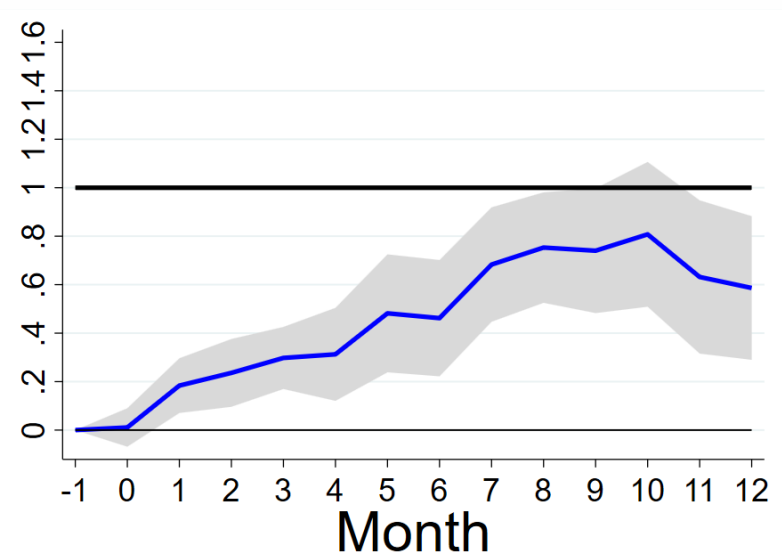
**Gasoline**



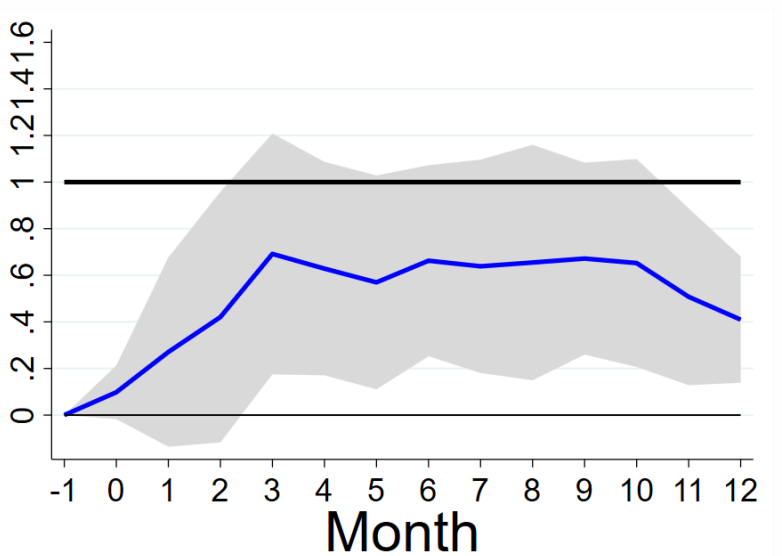
**Diesel**



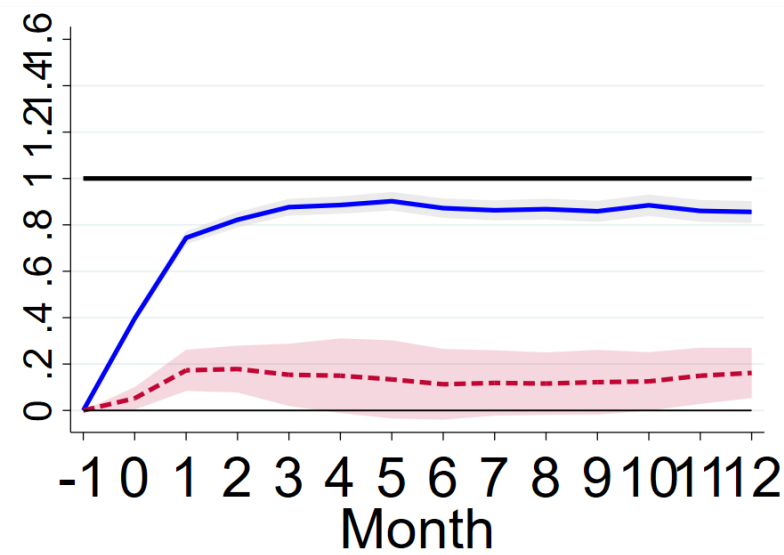
**Wheat**



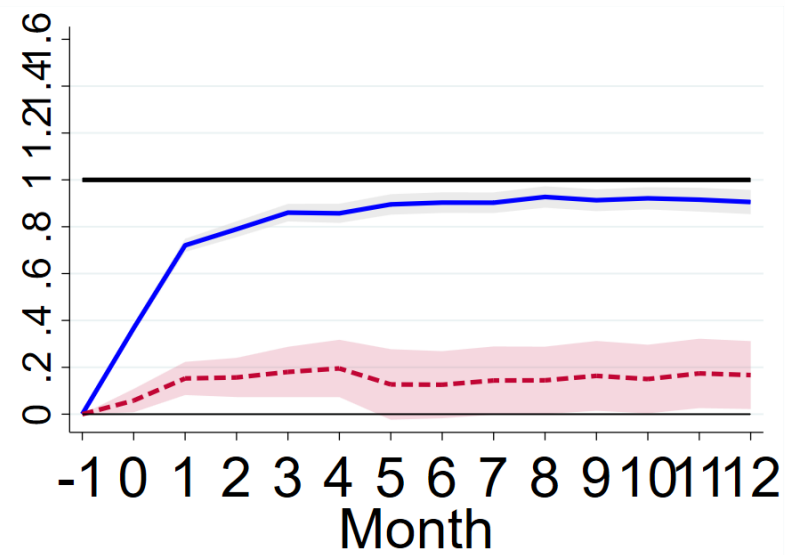
**Rice**



Gasoline

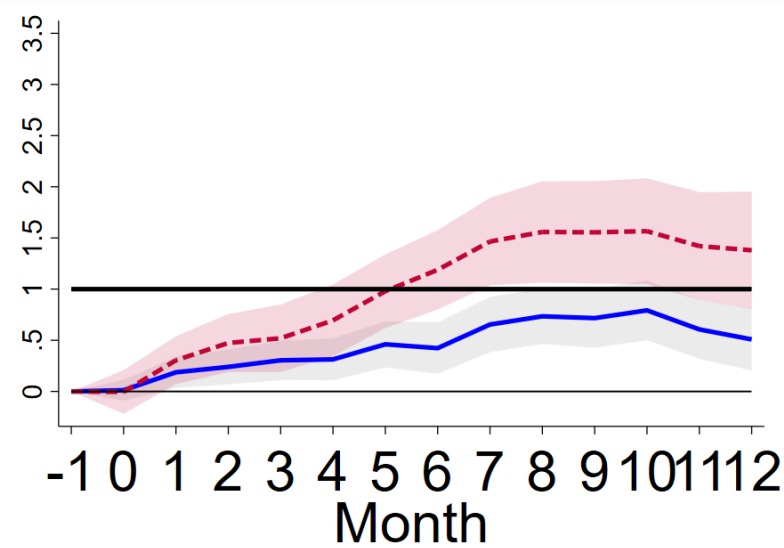


Diesel

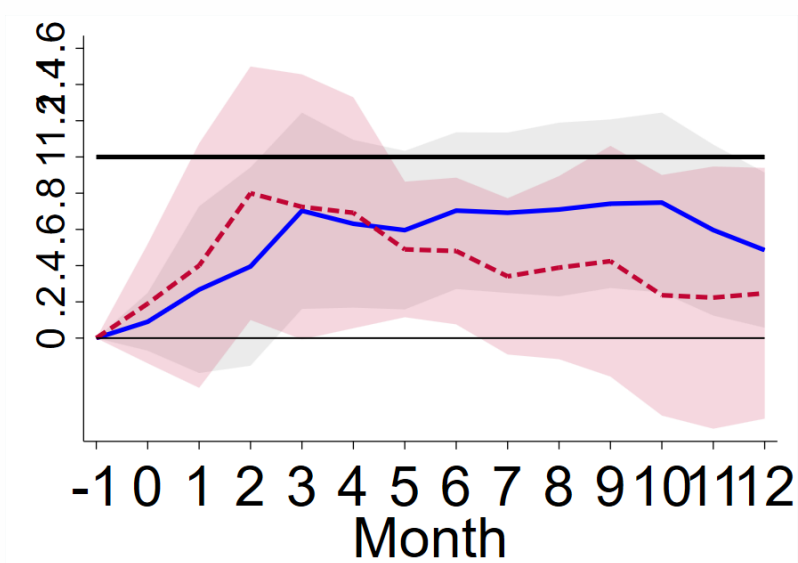


— Importers  
- - - Exporters

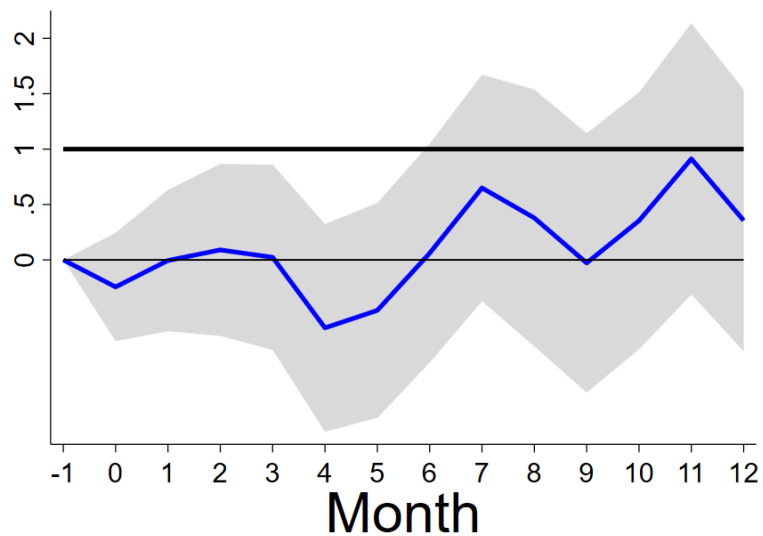
Wheat



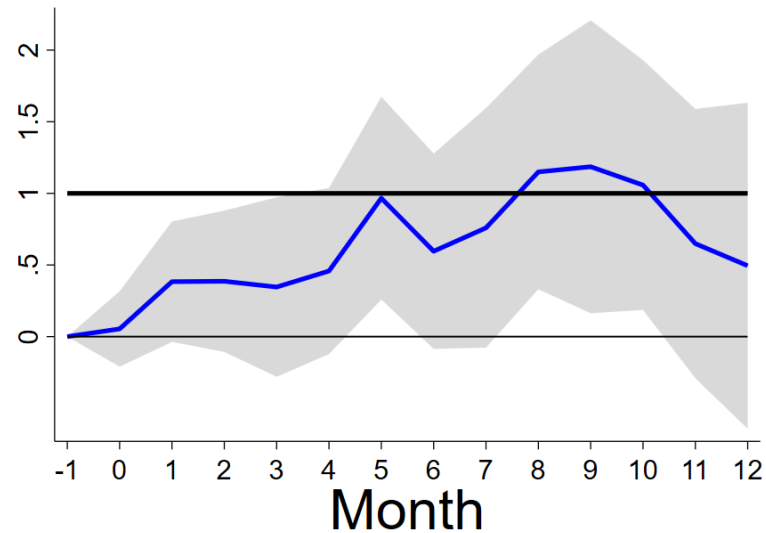
Rice



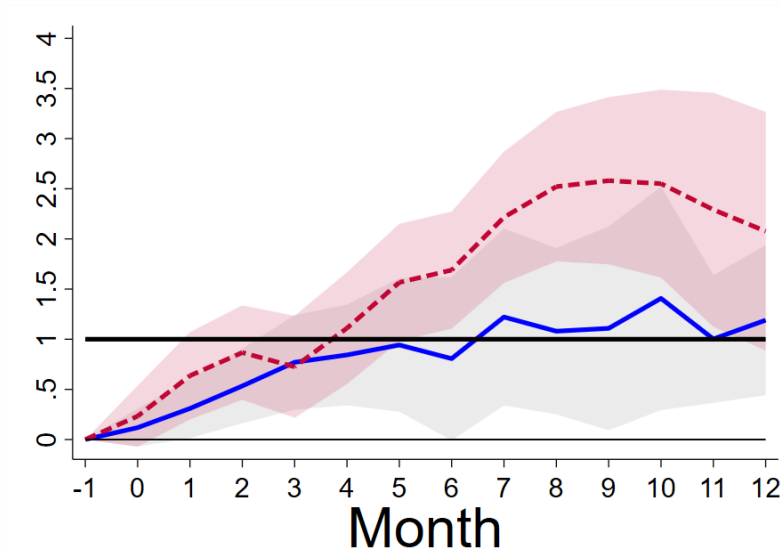
## MENA



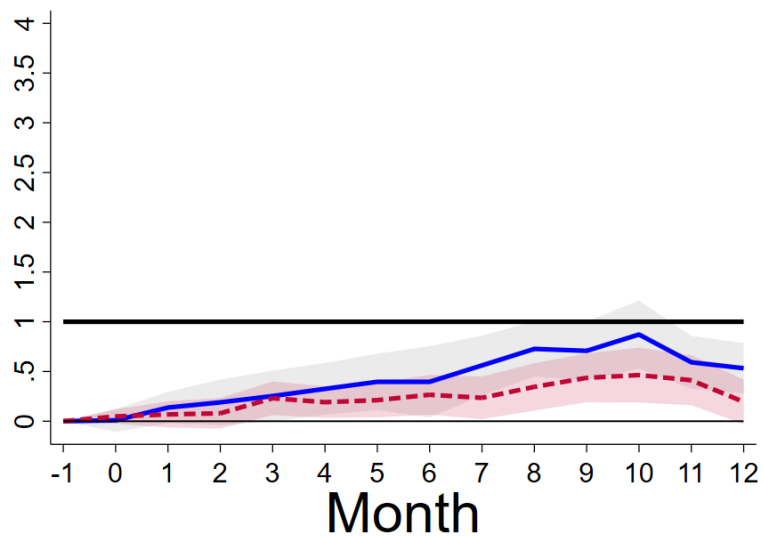
## SSA



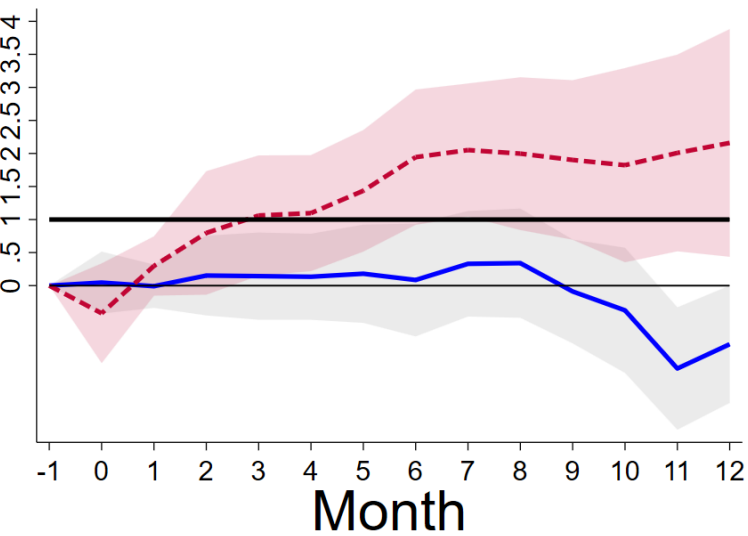
## LAC



## EMDE-ASIA



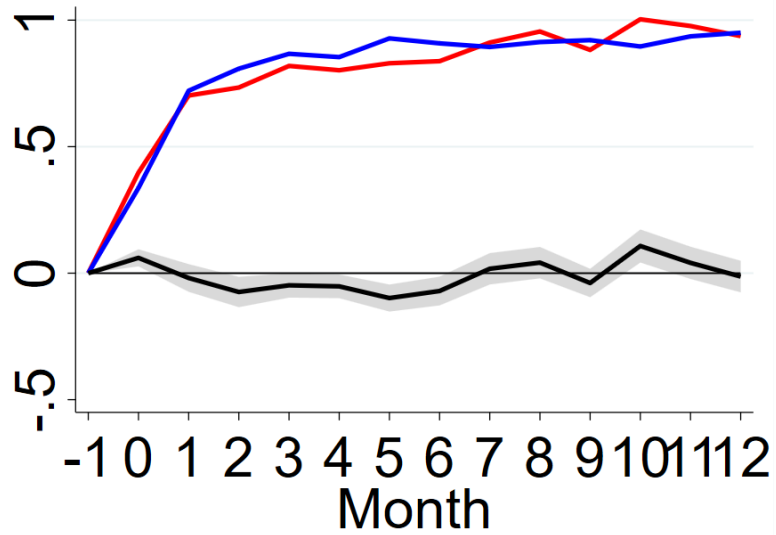
## EMDE-EUROPE



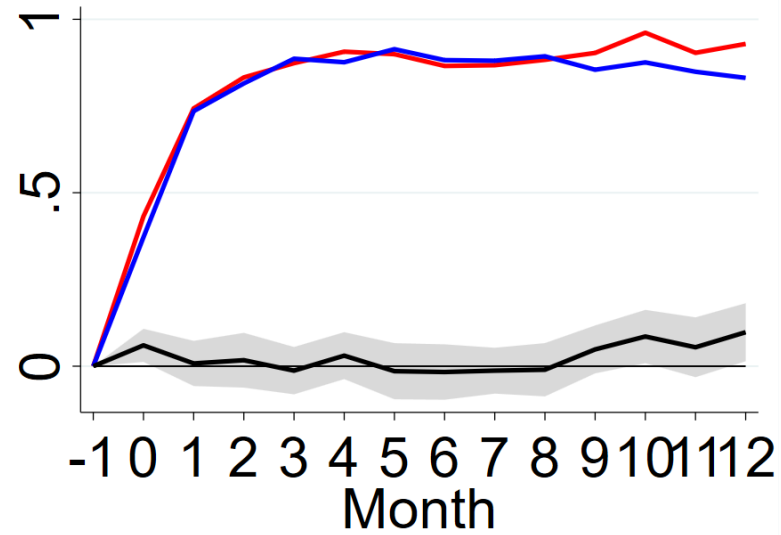
## AEs

— Importers  
- - - Exporters

### Gasoline

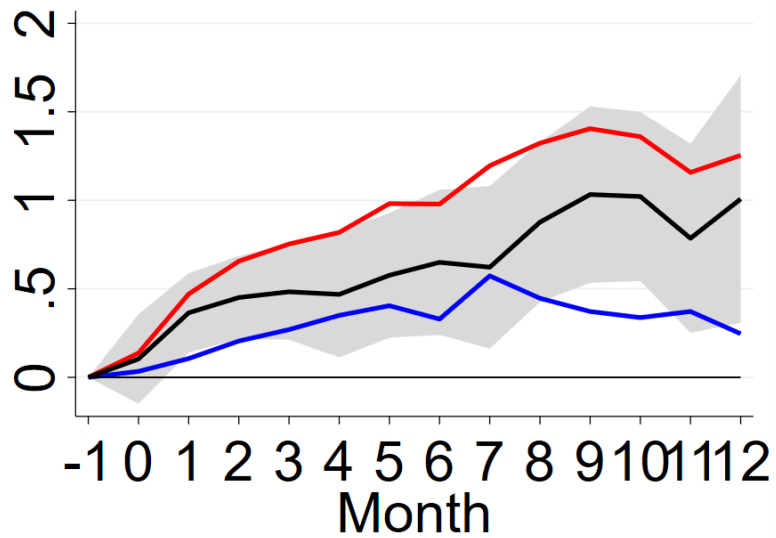


### Diesel

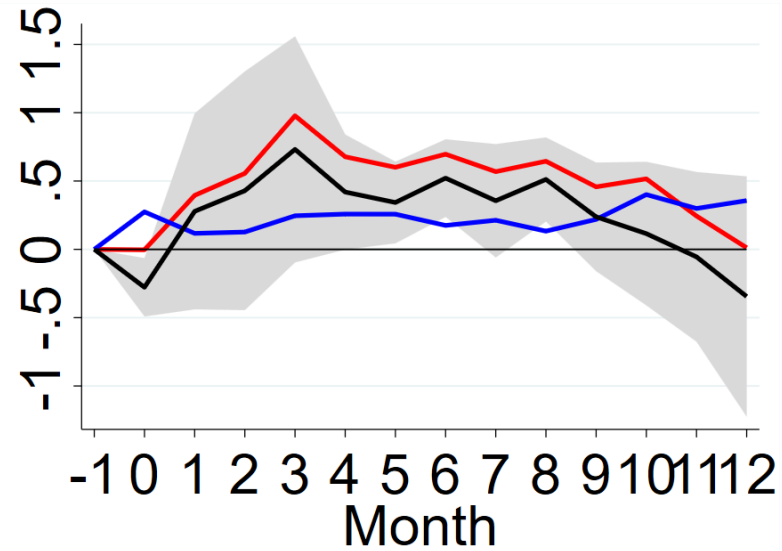


Below 1SD threshold  
Above 1SD threshold  
Difference

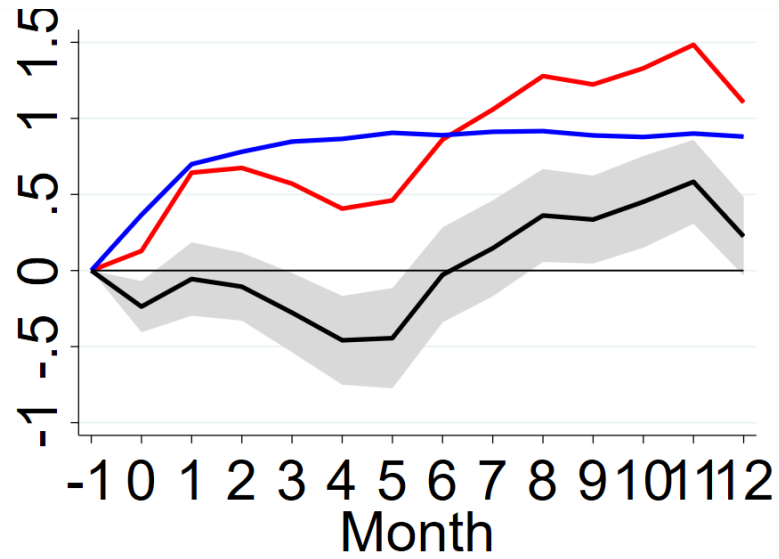
### Wheat



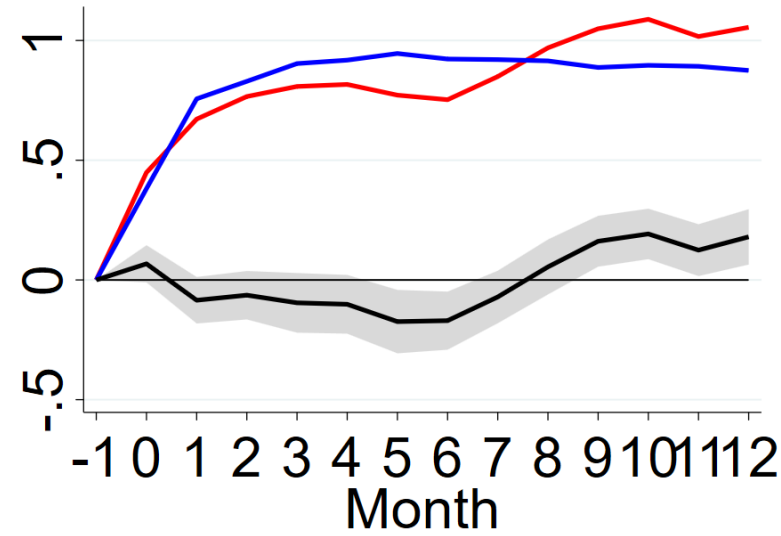
### Rice



### Gasoline

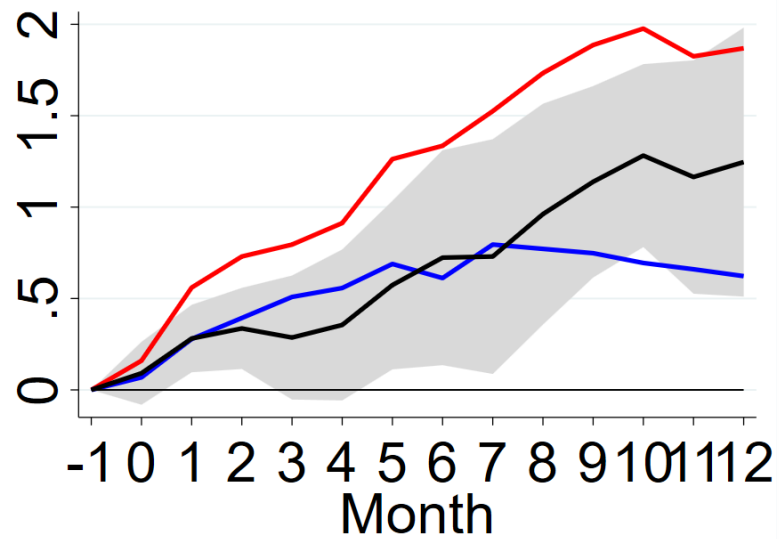


### Diesel



— Below 3SD threshold  
- - - Above 3SD threshold  
— Difference

### Wheat



### Rice

