



## MIDDLE EAST AND CENTRAL ASIA DEPARTMENT

# A REPEAT OF THE PAST? FISCAL IMPLICATIONS OF COMMODITY PRICE SURGES IN THE MIDDLE EAST AND NORTH AFRICA

DECEMBER 2022

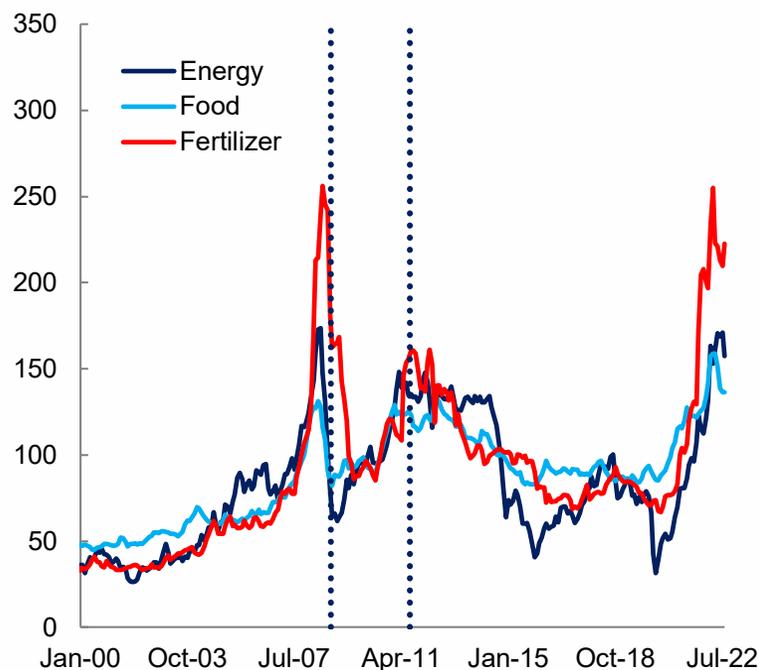
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# The region has faced recurring global commodity cycles...

**A Global Commodity Price Upswing Broadly Similar to the Past**

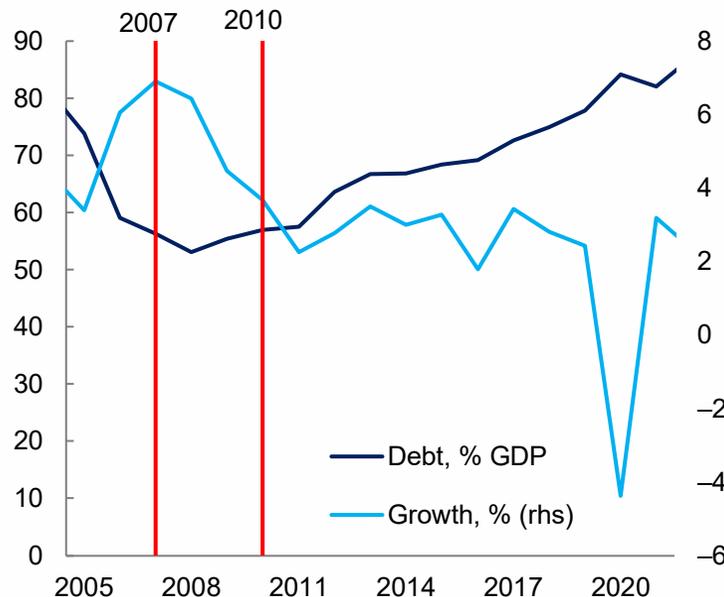
**Global Commodity Prices**  
(Index, 2010 = 100)



Source: World Bank.  
Note: Energy includes coal, crude oil, natural gas. Food includes cereals, vegetable oils, other food.

**The current commodity price shock is however occurring in different context**

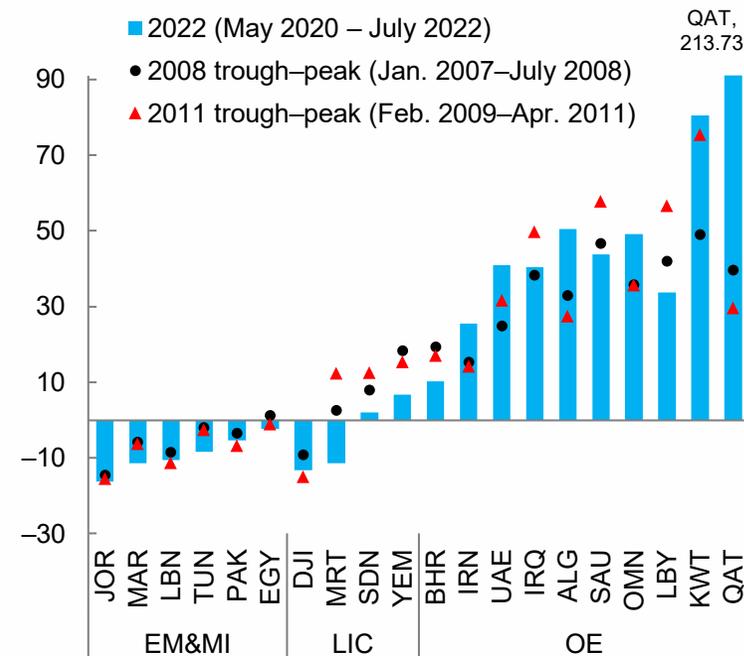
**MENA EM&MI + Pakistan**  
(Median)



Source: IMF World Economic Outlook database; and IMF staff calculations.

**Commodity price surges cause heterogeneous shocks in MENA..**

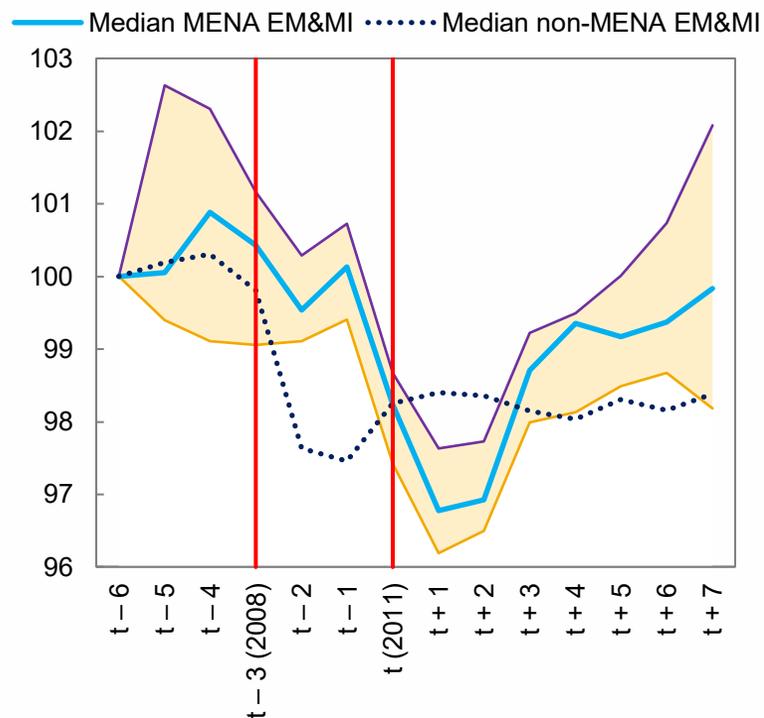
**MENA + Pakistan: Commodity Terms of Trade**  
(Percent change)



Sources: IMF World Economic Outlook database; and IMF Commodity Terms of Trade database.

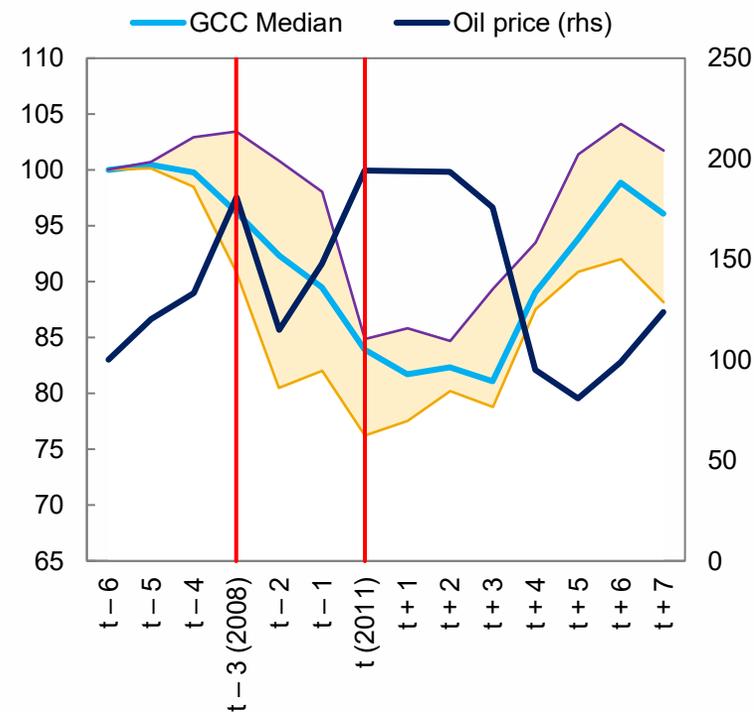
# ...with past commodity price surges resulting in large and persistent fiscal expansions...

**Primary balances: MENA EM + Pakistan**  
(% of GDP, Index 2005 = 100)



Source: IMF World Economic Outlook database; and IMF staff calculations.  
Note: Time  $t-3 = 2008$ , and  $t = 2011$ .

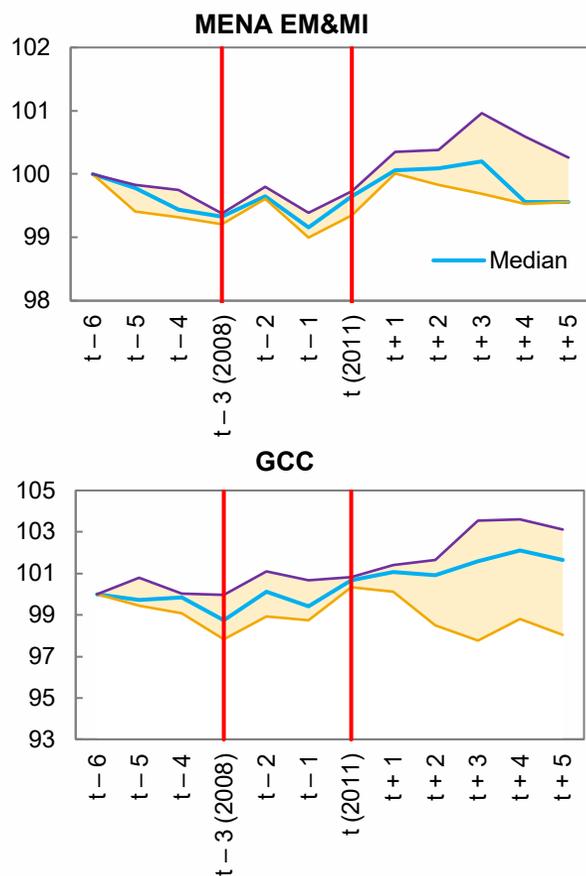
**Non-oil primary balances: GCC**  
(% of GDP, Index 2005 = 100)



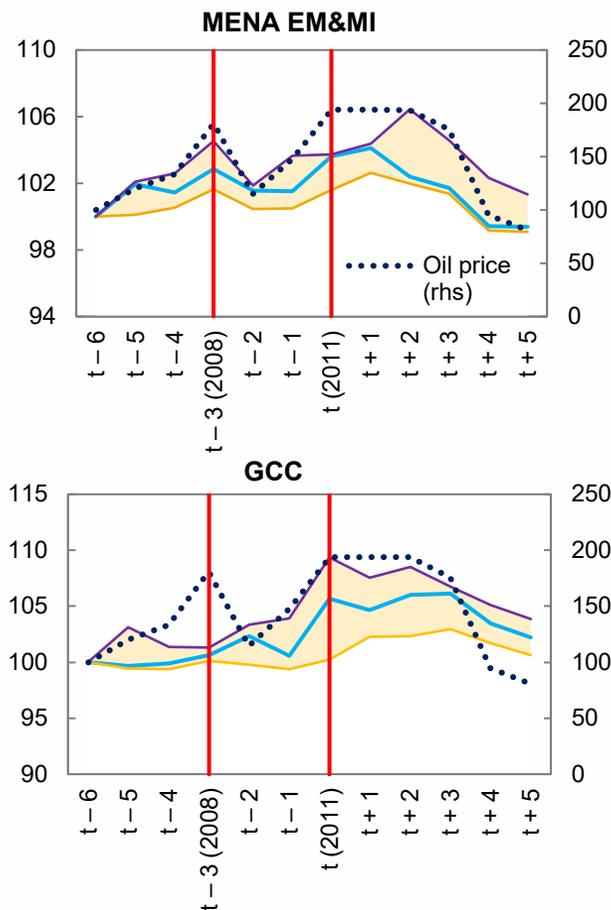
Source: IMF World Economic Outlook database; and IMF staff calculations.  
Note: Time  $t-3 = 2008$ , and  $t = 2011$ .

# ...and a reallocation of spending towards wages and subsidies at the cost of lower public investment.

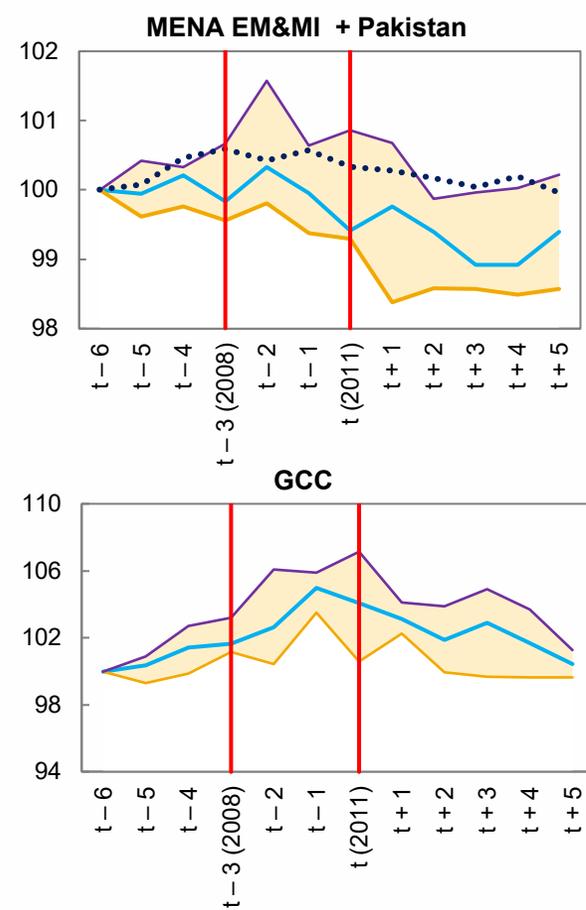
## Increase in wages and salaries



## Increase in subsidies and transfers



## Decline in capital spending



Source: IMF World Economic Outlook database; and IMF staff calculations.

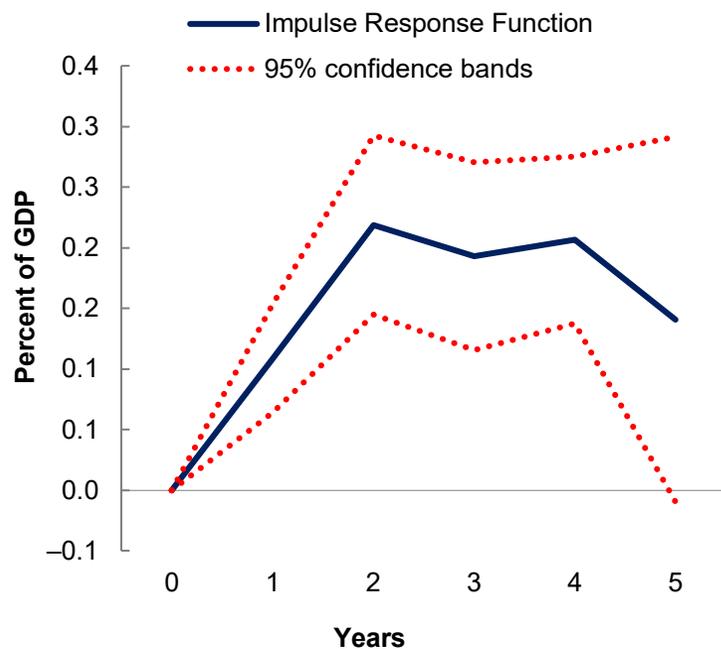
Note: Time  $t - 3 = 2008$ , and  $t = 2011$ . The shaded area is the spread between the first and third quartile for MENA EM&MI and Pakistan. For the purpose of this chart, index values are calculated to preserve the interpretation of changes in fiscal aggregates as percentage points of GDP.

# The increase in subsidies was stronger for countries with weak social safety nets and higher inequality

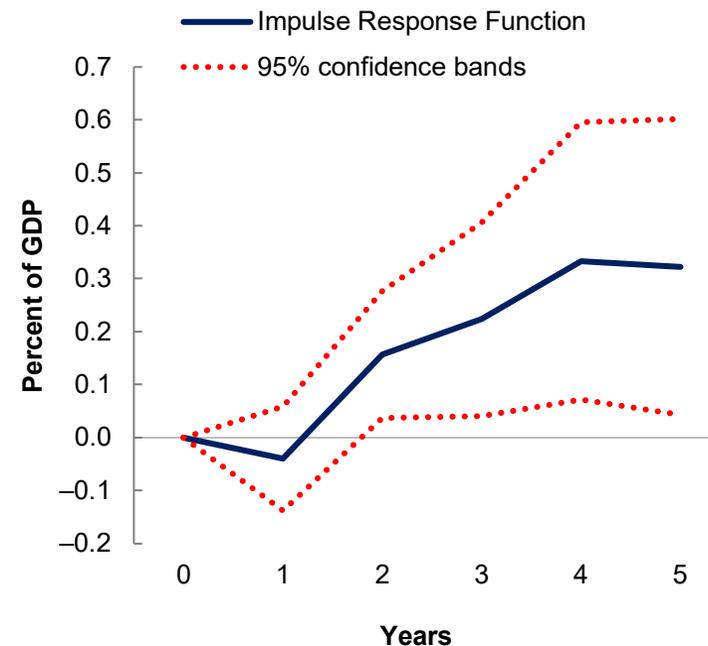
Stronger response for countries with lower targeting of social protection...

...and higher inequality

### Lower Targeting of Social Protection



### Higher GINI coefficient



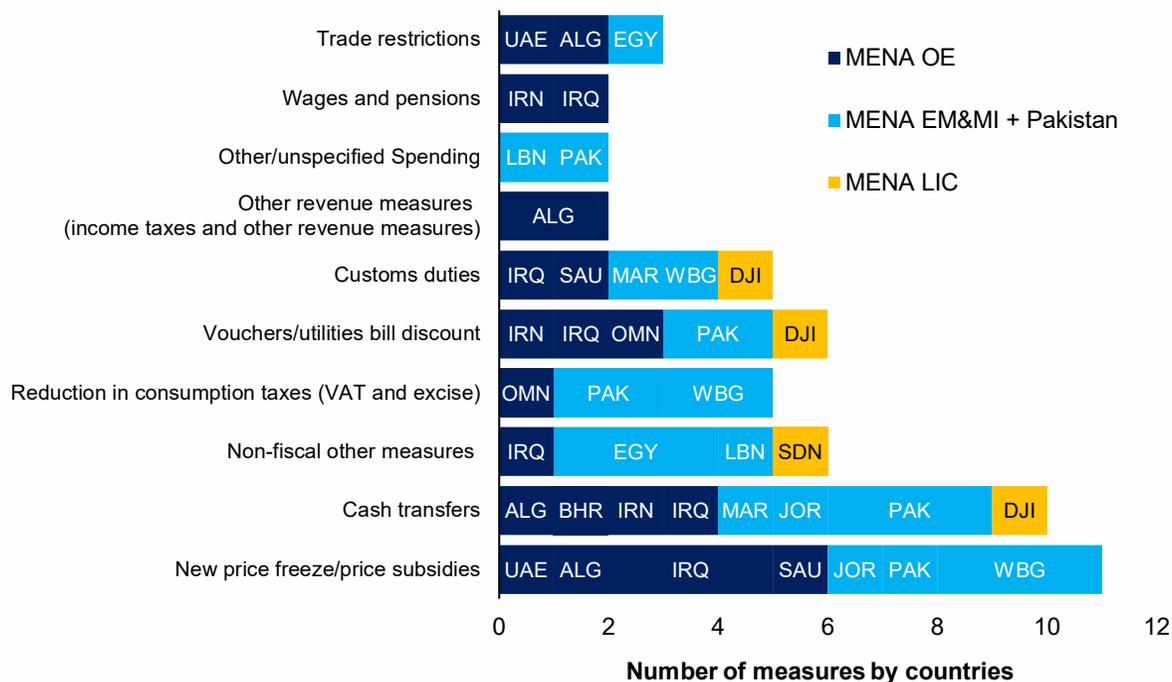
Source: IMF staff calculations.

Note: The chart shows cumulative Impulse response functions for the interaction term between a positive (above the median) oil price shock and 1) left figure: a dummy variable identifying poor targeting in domestic social safety nets (below the MENA median of the first quarter beneficiary incidence) and 2) right figure: higher GINI coefficient (above the MENA median). Dependent variable = subsidies and transfers, % of GDP.

# **CURRENT COMMODITY PRICE SURGE: POLICY RESPONSE AND FISCAL OUTLOOK**

# Countries activated similar policy responses to the past but at a smaller scale so far...

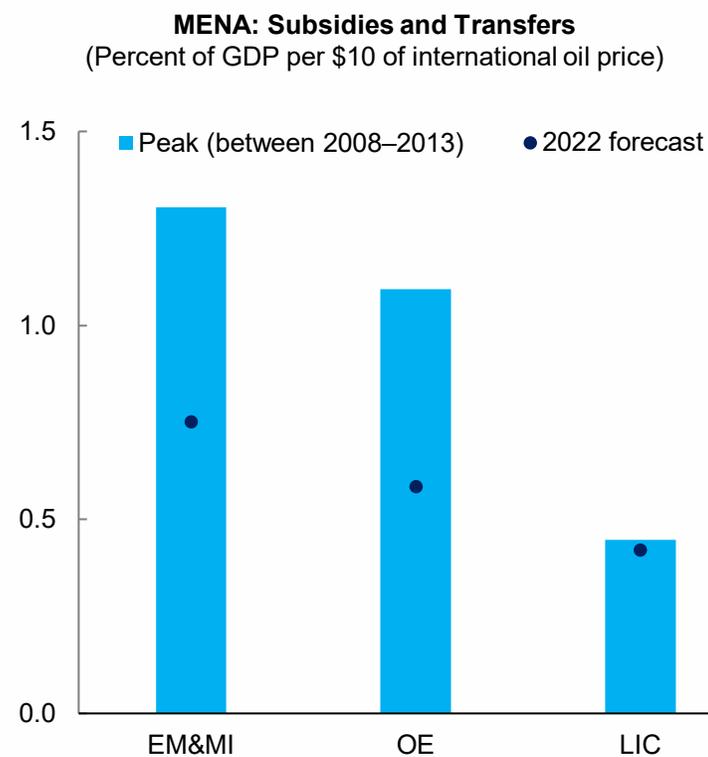
Introducing price subsidies has been the most common policy response



Source: National authorities; and IMF staff calculations.

Note: Other unspecified spending includes subsidized wheat at the official exchange rate (Lebanon) and reduction in power price for all residential and commercial users (power blanket subsidy in Pakistan); Non-fiscal other measures are all relevant new other measures that may either affect households, industries, governments, or prices and supply including re-allocation of imports and exports, regulatory measures, and so on. This also includes cases in which government announces introduction of price controls of energy or food products but does not finance this by a fiscal measure, but rather by lowering the margins or profits of energy or food companies.

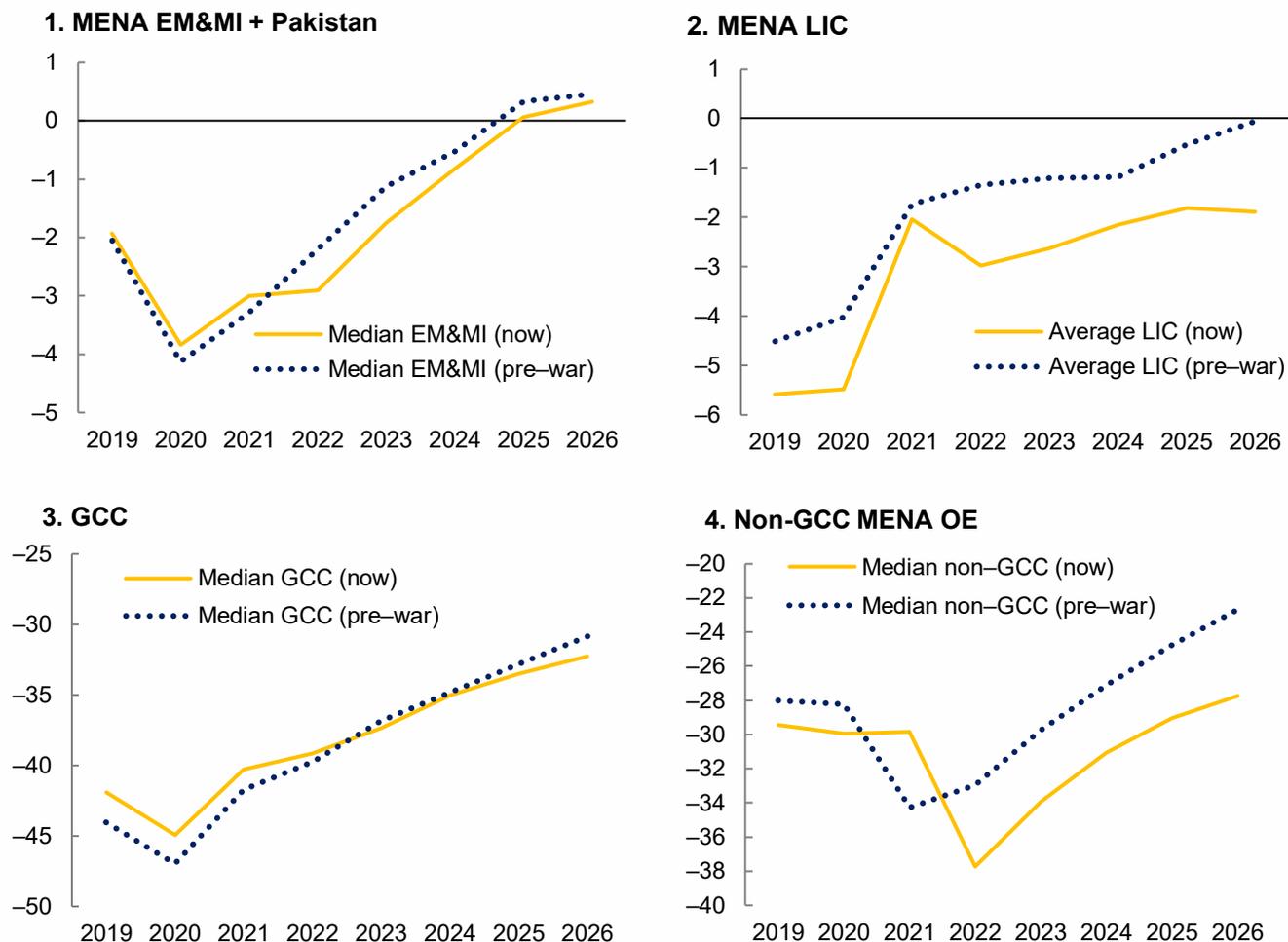
Even if this time around subsidies increase has been more limited than in the past



Source: IMF World Economic Outlook database; and IMF staff calculations.

# ...implying only a slight delay in medium term fiscal adjustment paths...

**Primary Balances: Current versus Prewar Expectations**  
(Percent of GDP; non-oil GDP for oil exporters; simple average)

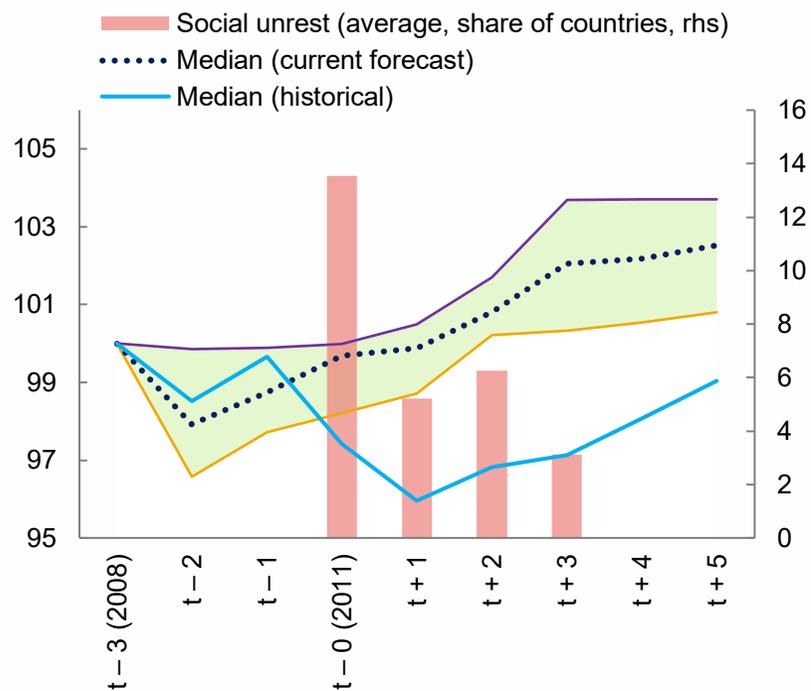


Source: IMF World Economic Outlook database; and IMF staff calculations.

# ... but surrounded with substantial risks

Past episodes show a close association of social tensions and expansionary fiscal policy for EM

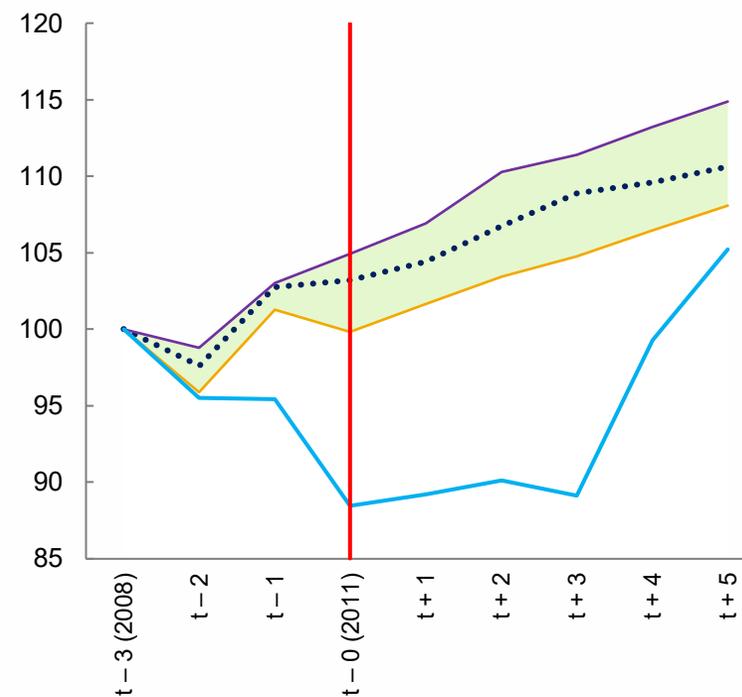
MENA EM&MI + Pakistan: Primary Balance



Source: IMF World Economic Outlook database; and IMF staff calculations.  
 Note: For the current forecast, time  $t - 0 = 2022$ . For the historical series, time  $t - 0 = 2011$ .  
 Social unrest events are inferred from exceptionally large increases in country media coverage of key terms related to protests, riots, and other forms of civil disorder.

While oil exporters face the risk of fiscal profligacy

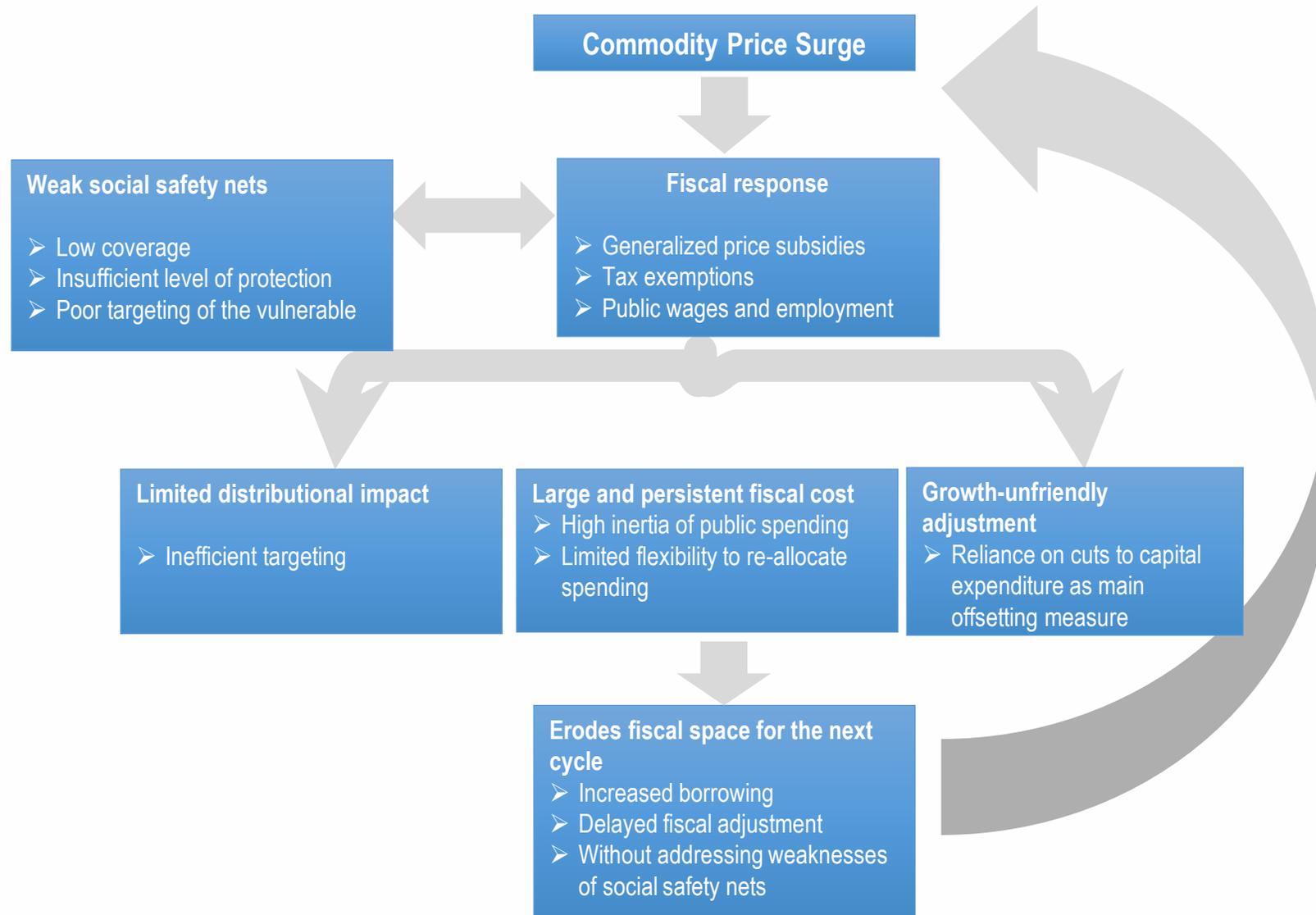
GCC: Primary Non-oil Balance



Source: IMF World Economic Outlook database; and IMF staff calculations.  
 Note: For the current forecast, time  $t - 0 = 2022$ . For the historical series, time  $t - 0 = 2011$ .

# Policy Lessons and Implications for the Future

# Past equilibria point to an unsustainable cycle of fiscal interventions...



# ...necessitating a re-thinking of fiscal policy in the face of commodity price cycles

## NEAR TERM

Cushion the Impact of Inflation on the Vulnerable

### Dos:

- Implement targeted cash transfers
- Use food price subsidies judiciously
- Ensure that measures are temporary (i.e. using sunset clauses)

### Don'ts:

- Refrain from costly and regressive price subsidies on fuels
- Prevent tax cuts & blanket exemptions
- Avoid risks to fiscal sustainability or worsening the quality of fiscal spending

## MEDIUM TERM

Building Resilience to Future Commodity Price Shocks

- Further strengthening the effectiveness and efficiency of safety nets
- Continuing energy subsidy reforms
- Bolstering revenue mobilization
- Adopting risk-management strategies
- Continuing to enhance governance and public financial management

**Thank you!**