Summary for non-specialists
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Food and Energy prices, Government Subsidies and Fiscal Balances in South Mediterranean Countries

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Just before the global crisis soaring commodity prices, especially for food and energy pushed up inflation significantly. This was markedly the case in the southern Mediterranean countries neighbouring the EU. These price shocks affected public finances in the southern Mediterranean region, notably via government subsidies. Partly due to delayed effects of higher commodity on prices into prices for final users, subsidies continued to weigh heavily on public finances despite the price falls registered in the wake of the credit crisis. Downward price rigidities played a role in this.

As the recovery from the crisis unfolded, commodity price pressures have re-emerged. We focus on food prices and analyse recent developments in food inflation in the following Mediterranean neighbour countries of the EU: Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, the occupied Palestinian territories, Syria and Tunisia in comparison with other middle income economies in other parts of the world. Subsidies on food and fuel as provided by the national governments are quantified per country for the period 2002-2010. The higher government subsidies due to higher prices entail an estimated deterioration of the government finances of up to more than 2% of GDP in 2008 and, for most countries only slight improvements in the global recession year 2009. Ensuing longer-term challenges for public finances remain as inflation rises on the back of the rebound in global economic growth. Against this background, some policy options are discussed that can lead to more efficient government spending, even in the event of sharp swings in the prices of basic necessities. Finally, as recent events in Tunisia and Egypt illustrate, price pressures were among the factors triggering massive popular protests with important economic and political ramifications stretching even beyond the region.