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How governments are trying to ease the burden of inflation

When inflation is making bread unaffordable, what can the government do to soften the blow? We look at Poland, Nepal, and Ghana

Poland

15,6 per cent - this is the inflation rate in Poland in July, and the 'good' news is that it is only 0,1 per cent higher than in June. Not many though believe that the inflation peak in Poland is already reached. Daily costs of living – food, fuel, gas, and electricity - have risen in fact much more. Polish people haven't seen such price hikes since the late nineties. The government keeps introducing further 'anti-inflation' measures, and points to external conditions and foes as those to blame for rising prices. The opposition charges the government, and especially the head of the national bank closely linked to those in power, with incompetence, incoherence and, in fact, contributing to deepening of the crisis.

In 2022 the government introduced a so called 'anti-inflation shield', lowering the VAT on fuel, gas, electricity and many daily products (even to 0 per cent). The aim at the beginning of the year was to keep the inflation rate below 10 per cent. In July the government prolonged those measures till the end of the year.

As a measure to combat inflation, the interest rates in Poland have been raised starting in October 2021 – from 0,1 per cent to 6,50 per cent in August 2022. This translated into brutal increases in mortgage instalments for some 2,5 million Poles who bought their houses and apartments on credit. Nearly all such loans in Poland are variable rate mortgages, and thus the instalments go up or down, according to the changes of the official interest rate. The conditions for obtaining a mortgage in the first place have tightened so much that thousands of Poles can no longer afford to buy an apartment even on credit. This in turn puts the pressure on prices of apartments for rent – they are few, and much too expensive for students or young people at the beginning of

their careers.

Over two million unlucky borrowers were offered a true gift – the possibility to suspend their payment of instalments four times (since August) in 2022, and four times in 2023, without any consequences, the only condition being that the immobility is used to meet one's own housing needs. A great majority of those entitled are expected to use the opportunity.

The government wants to help also those who worry about the energy prices. People owning houses still heated by solid fuels have started stocking up coal for the next winter already in spring this year. Coming back from holidays, many with central heating find in their post-boxes information that they will have to pay, at times, twice as much for basic utilities. What they can count on this autumn is a subsidy amounting from around €100 to €650, depending on the source of heating.

The inflation in Poland sometimes causes people to panic: this summer we have observed a run on sugar – people stocking up, chasing the disappearing good in grocery markets and shops. In June this year the sugar price was 40 per cent higher than in June 2021. The panic that erupted not only caused shortages, but of course has driven the price even more up.

The government and the chief of the national bank claim that all inflation has external sources – they sometimes call it 'Putinflation'. Because of the growing discontent of the society and numerous fields of daily life where the inflation hits people, the opposition has quite a wide array of weak spots where it can hit the government ahead of the 2023 parliamentary elections. Liberal experts and politicians claim that instead of fighting the inflation, the measures taken, and thus growing government spending, only lead to deepening of the problem. Many commentators say that forecasting inflation rates in the currently unstable situation in the world is like fortune-telling, but they also suppose that the prices in Poland have not yet stopped rising and that the next year will, most probably, not bring the much-awaited relief.

Barbara Szelewa, FES Warsaw

Nepal

With no access to the sea of its own, surrounded by the two Asian giants China and India, and an economy almost entirely dependent on imports, Nepal is vulnerable to external shocks. Most of the raw materials for the already limited local production are imported, as is a significant portion

of the country's food requirements - mostly from India. These imports are largely financed by remittances from Nepalese migrant workers active in the Gulf States and other Asian countries like Malaysia, and who account for around 25 per cent of the total economic performance.

Extreme price fluctuations are not uncommon: A poor onion harvest in India, and prices in Nepal can quickly multiply. The long (and often difficult) transport routes also make price developments in the country particularly dependent on fuel prices. Petrol and diesel as well as propane gas, used for cooking, are imported almost entirely from India, and the price trend in recent months has hit Nepal hard. The price of diesel rose from less than 120 rupees (about €0.90) per litre at the beginning of the year to more than 190 rupees (about €1.50) at the end of June, with panic buying and bottlenecks leading, at times, to long queues at the few gas stations that were open.

In the meantime, the Nepalese government has reacted by reducing the working week for public sector employees from six to five days in order to reduce fuel consumption. In addition, a reduction in value-added tax on fuel was decided, despite the considerable resulting losses for the state treasury.

In Nepal, one of the poorest countries in Asia, such increases, of more than 50 per cent in some cases, pose almost insurmountable problems for many households. The state also has a very limited scope for expensive support measures to contain the effects of rising energy costs. At the same time, parliamentary elections are due in November and rising prices are the dominant public issue. According to official figures, the prices for cooking oil and ghee (South Asian butter) have risen by 25 per cent, and those for fruit, vegetables and dairy products by 10 to 15 per cent. The reality in the local markets often reveals much larger price jumps.

Officially, the inflation rate is put at around 8 per cent, but for most people it feels like it is many times higher. So far, government measures have focused primarily on controlling fuel prices. But salaries for most public employees were also raised by a solid 15 per cent. In addition, there is particular concern about the already large and growing trade deficit, driven in turn by rising oil prices. Fuel and gas account for some 20 per cent of total imports. In the course of the past few months, the voices of those who see an economic crisis looming have increased. Many observers have been asking whether Nepal faces economic collapse like Sri Lanka. The currency reserves have shrunk steadily. Currently they still cover the payment requirements of 6-7 months.

In response, the Nepalese government in April imposed an import ban

on 10 goods, including potato chips, alcoholic beverages, cigarettes, mobile phones valued at over US$600, televisions larger than 32 inches, toys, motorcycles larger than 250cc and cars, except ambulances and hearses. So far, with these and other measures, the government has managed to slow down the development and at least stabilise the currency reserves.

As far as fuel prices are concerned, the worst seems to be over, at the moment - the price at which the state-owned Nepal Oil Corporation purchases imports from India has recently fallen. The price of diesel and petrol has fallen by around 10 per cent again, even though the latest price reductions have not yet been passed on to end customers. A reason for this: India's increasing oil imports from Russia.

Despite many parallels, key economic parameters such as foreign debt are not too worrying compared to Sri Lanka. But the tide can also turn quickly. Because in Nepal also - another parallel with Sri Lanka - it has not been possible to cover the demand for artificial fertilisers for the country's monsoon-dependent agriculture. Up to 90 per cent of the farmers have been unable to obtain artificial fertiliser.

It is to be hoped that the monsoon season will bring Nepalese farmers good harvests even without sufficient fertiliser. Because overall, Nepal's economy - also in the aftermath of the corona pandemic - is not on the most stable footing and the ongoing crisis mode is increasingly affecting the economic basis. On the other hand, rising gas prices have set in motion a discussion about alternatives to raw material imports. Greater use of the electricity that is increasingly being produced in the country from hydropower could help. However, this would also require considerable investments, for which there would first have to be room for manoeuvre.

Jonathan Menge, FES Nepal

Ghana

A few weeks ago, a video circulated in Ghana's social media showing a young man who, after filling up his motorbike, takes the petrol nozzle from the gas station attendant's hand, puts his index finger in the opening and skilfully funnels the last drops of the hardly affordable fuel into his tank. Then he starts his motorbike again and takes off. A feeling of tension and anger lingers in the air. This moment symbolises the extreme price increases of the last few months and the continuously growing frustration of Ghana's population.

Although Ghana is an oil exporter, it has to import over 80 per cent of its end products, petrol and diesel. Global oil prices ensure that the prices at the gas pumps in Ghana are also increasing. Just a year ago, a litre of petrol cost the equivalent of €0.90. Since then, the price has climbed to almost €1.30. Diesel has become even more expensive over the same period. The consequences can now be felt in all areas of the Ghanaian economy.

According to official statistics, inflation in Ghana in July was 31.7 per cent – the highest in over 30 years. People employed in informal and mostly precarious jobs in the country's largest cities bear the brunt of this situation. But the middle class is also increasingly complaining publicly. With minimum wage currently equivalent to €1.40 a day and rising prices for transport and food, many people are living below the poverty line despite being employed. A significant number of these *working poor* can only afford one real meal a day. For many, the economic situation had never been so difficult since the founding of the 'Fourth Republic' in 1992.

A few figures illustrate this experience. While a loaf of bread cost around 70 cents in April, the price has now risen to over a euro or more. The popular corn dish *kenkey*, a staple in Ghana, cost around 20 cents on the street for a standard portion size last year. Meanwhile the price has increased by over 50 per cent. Some street vendors reduce portion sizes so as not to alienate customers with higher prices. Fertilisers that have become more expensive mean that prices for fruit and vegetables are also rising continuously. At the beginning of last week, the tariffs for electricity and water were hiked by over 20 per cent, with further increases planned.

The liberal-conservative government under President Nana Akufo-Addo has scarcely any room to absorb these price increases and initiate social programmes. Government debt has grown to over 85 per cent of gross domestic product. More than half of government revenues are used to service the debt. Downgrades by rating agencies means that Ghana has almost no more access to the international financial markets. The local currency, the cedi, loses value almost daily against foreign currencies, in which most of Ghana's debt is denominated. The government has been in talks with the IMF since July and is trying to negotiate a support programme, despite previously promising never to use one. Some economists are saying openly that Ghana is bankrupt.

For the government of Ghana, the culprits for the misery are quickly identified: the pandemic and the war on Ukraine are the ultimate justifications for the deteriorating situation. Others say that this analysis

no longer only reflects the elites' distance from reality, but also their downright indifference to the impoverishment of their own population. The massive mismanagement of recent years is ignored, as is the failure to collect enough taxpayers' money during the years of strong growth to reform the economy from the ground up. Election gifts that were generously distributed in 2020 - disguised as Corona aid - (including free electricity and water for three months) appear from today's perspective to have been even more of a waste than they already seemed two years ago.

The next few months will be critical. Will the government succeed in securing an IMF programme again in order to increase its standing (and thus gain access to more funds) with international financiers? Will the country first have to talk debt restructuring with its creditors, which could damage its reputation in the medium term? Will the government be able to convey to the people that an IMF programme will involve greater austerity measures, possibly involving layoffs in the bloated public sector? The likelihood that further burdens and deprivations will cause frustration to mount and take over the streets is increasing with each passing day.

What is needed now is a coordinated debt restructuring initiative. With the involvement of all creditors and with special attention paid to the social dimension, ways to relieve debt must be identified that must not be at the expense of the population, as so often in the past. Rather, care must be taken to ensure – and this can be one of the conditions of the debt relief programme – that the government fulfils its task and demonstrates visible success in doing business responsibly and transparently and in driving forward the structural and sustainable restructuring of the economy.

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