



## Support Program for Economic and Enterprise Development (SPEED)

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### *Cesta Básica e Subsídio de Transportes: What's in the Future?*

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#### Summary

On the launching of the “*Basic Food-basket and Transport Subsidies*” the government wanted to protect the most vulnerable from potential price increases. Problems with administration and implementation together with slower domestic inflation and good economic performance led to a decision to stop moving ahead with these two subsidies. The question now is whether economic and social conditions that government originally wanted to address with the subsidies have been resolved.

The immediate reaction is to say that those conditions are yet to be resolved and, therefore, the need for these social safety nets is still current. Public demonstrations occurred in the past were caused by increases in urban transportation prices. Increases in urban transportation tariffs always impact household expenditures and income in particular of the poor, for which majority of income is spent on basic foodstuffs.

Petroleum prices have already been increased twice in the last three months. They will increase further if prices of oil and refined products follow the last 6-month trend of steadily rising prices. It is also possible, though that oil prices will not continue to rise. With respect to food prices however, the world continues to record accelerated price increases in basic foodstuffs and there is little likelihood that these prices will fall to previous levels. A scenario where petroleum and basic foodstuff prices continue to increase will exert pressure on domestic prices.

Given a likely scenario of continually rising fuel and food prices, the question is which policies and instruments should the government pursue? A policy of doing nothing seems short sighted. The rising fuel and food prices which led the government to design these two subsidies in the first place are still strongly relevant. Therefore, policy and instruments should be urgently defined to address the potentially troublesome impact of price increases.

This Note stresses the need for policy and instruments to reduce the impact of increased prices on the deeply poor and guarantee economic and social stability, which is crucial for economic growth and poverty reduction. The Note proposes creation of a long-term instrument and two short-term instruments:

- Long-term: program for the protection of poor urban women.
- Short-term:
  - ✓ Cash-for-work program.
  - ✓ School feeding program.

The short-term instruments can be either implemented together or just one might be selected. The safety net program for poor urban women and the cash-for-work program continue to be the best long and short-term instruments.

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