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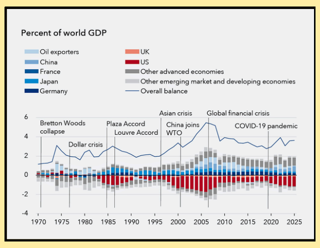
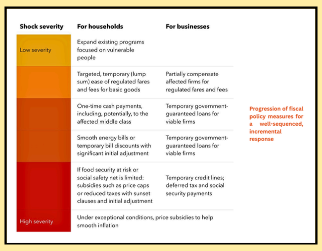


Explained
IMF: Tariffs and Industrial Subsidies 'Largely Ineffective' as Global Trade Imbalances Reverse Post-2008 Gains

ECONOMICS BEHIND EVERYTHING COMES DOWN

World News



Explained
Subsidies Help the Rich More Than the Poor During Energy & Food Price Spikes

Ebola Outbreak Strains Fragile Health Systems -900 Suspected Cases Expose High Economic Cost of Weak Surveillance and Risk to Frontline Workers

There is a public health emergency situation currently taking place in some regions of Central and Eastern Africa where the Ebola Bundibugyo virus is present. It is considered one of the most serious health threats to both Uganda and the DRC (Democratic Republic of the Congo) as of today. According to the DRC Ministry of Health, there are 101 confirmed cases and 10 deaths due to this virus. The actual number of infected will be much higher than these current numbers because there are about 900 suspected cases and about 220 reported suspected deaths.

Therefore, there is an urgent need for improved surveillance systems, enhanced testing capabilities, and a more robust emergency medical response capability within communities for improving public health outcomes.

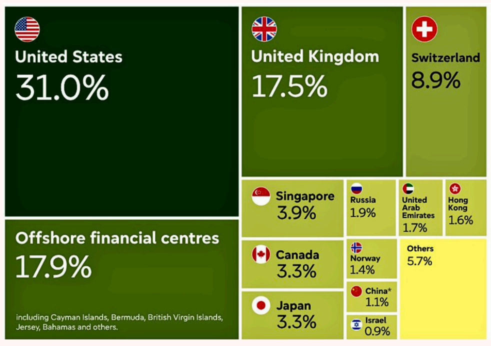
In Uganda, 2 additional health care workers have recently tested positive for the virus, bringing their total number of confirmed infections to 7, including 1 death. Infected healthcare professionals illustrate the extreme level of risk that frontline medical personnel face during the course of an Ebola outbreak, highlighting the necessity for adequate personal protective equipment, timely diagnosis, and rigid infection control procedures. Many international health organizations and respective partner organizations are continuing to enhance their response capabilities in both DRC and Uganda.

As investigations and testing continue, health authorities now anticipate additional cases related to the infection will continue to arise over the next few days and weeks. The rapid identification of infected individuals as well as the immediate identification and tracking of all those individuals that have had contact with an infected individual will be crucial to controlling this outbreak. When you get treated early, it will reduce the chances of the virus spreading further, and if you get treatment early, you will likely have a much better chance of being treated successfully, as opposed to waiting until you have more severe symptoms.

The current outbreak demonstrates our global interdependence with respect to the public health of the world; therefore, we need to work collaboratively to develop better-prepared communities around the world to reduce the spread of other infectious diseases that threaten to become epidemics or pandemics.

| World Health Organization

| Public Health



508 Votes Seal EU Crackdown on Foreign Control of Defence, AI & Chips

The European Parliament adopted strong measures to protect its economy from geopolitical risks for investing, with a harsher regulation of foreign investments in critical sectors. It was cross-party, cross-floored, with 508 votes for, 64 against, and 90 abstaining, and was clearly viewed as one of economic self-defense.

In the new version, all EU nations will have to decide on foreign investments made in so-called "strategic sectors" like defence, artificial intelligence, semiconductors, critical raw materials, and financial services. The regulation does not stop deals that are struck within the EU, but where the final beneficiary of the deal is not from the EU, nor is it an EU entity. This will effectively plug a big hole that enabled indirect foreign influence on European assets.

The new rules will improve the existing national screening procedures, minimize administrative burden, and help to better coordinate the screening processes across the member states and between the European Commission and the member states when it comes to risks stemming from cross-border investment.

The Commission has also been given specific instructions to outline conditions for foreign investment in specific strategic sectors, which the Commission has done by submitting the Industrial Accelerator Act proposal in March 2026. EU member states have for far too long tolerated the influence of external forces on key areas of the European economy, said Parliament rapporteur Raphaël Glucksmann, who called the EU legislation a turning point. The overall process of gaining European sovereignty via investment policy continues. The EU foreign direct investment screening regulation was adopted in October 2020.

In recommending the revisions in January 2024, the Commission was inspired by the COVID-19 pandemic and the current geopolitical tensions arising out of the 2019 war in Ukraine. The regulation still needs to be formally approved by the EU Council. If authorized, member states will have 18 months to comprehensively implement it in law.

25.4% of All Fruits and Vegetables Lost Before Reaching Consumers, UNECE Experts Launch New Framework to Cut Waste

An ambitious new framework to address food losses among fresh and dried fruits and vegetables, one of the largest and most neglected inefficiencies in the global food supply chain, has been agreed upon by experts in agricultural quality from 34 countries across the United Nations Economic Commission for Europe (UNECE). The effort is in response to the increasing magnitude of the problem. Approximately 13% of all food is lost from harvest to retail, and an additional 19% is lost at the retail, food service, and home levels.

Initial outcomes of standard revisions alone illustrate potential impacts. Cyril Julius, chair of the UNECE Specialized Section on Standardization of Fresh Fruit and Vegetables, said that by 2025, the South African table grape exporters would have a noticeable improvement, as the packhouse losses were reduced from almost 5% to less than 1% due to a simple modification of the UNECE table grape standard. This momentum was followed by the endorsement of three measures by experts. First, a new product-based approach to food loss reduction, instead of being embedded in UNECE agricultural quality standards. Secondly, a chapte

-r of a new Code of Good Practice guiding the dried fruit and nut value chains on the handling, processing, manufacturing, and trade of dried fruits and nuts, which may have to pass through multiple stakeholders and long supply chains.

Thirdly, a voluntary standardized package marking system, which will minimize rejections at the border due to incorrect or incomplete package marking, is one of the most neglected sources of waste in the supply chain.

What is important is that even small improvements in handling, storage, and packaging can make a significant difference in shelf life and in reducing waste, says UNECE Specialized Section on Standardization of Dry and Dried Produce vice chair Dorian LaFond. The updated and new standards will facilitate progress towards SDG target 12.3, reducing food waste and losses in the food supply chain by 50% by 2030.

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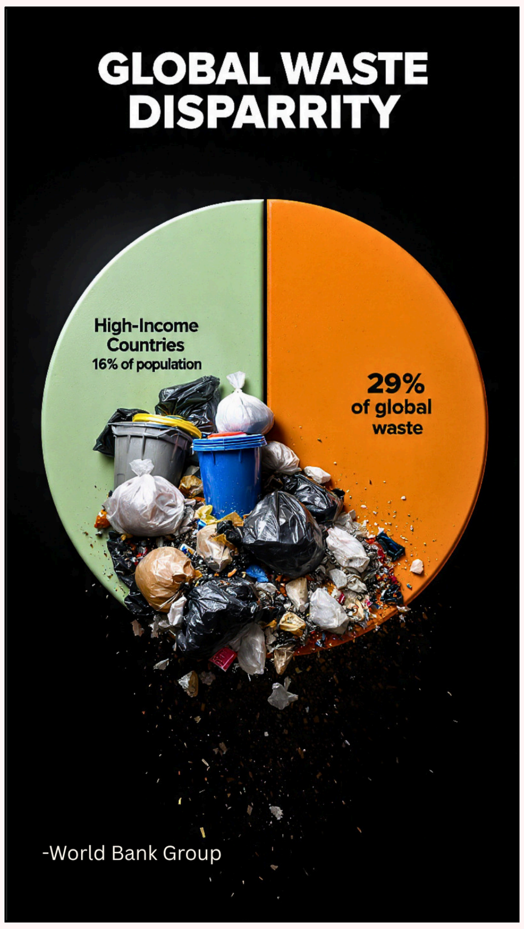


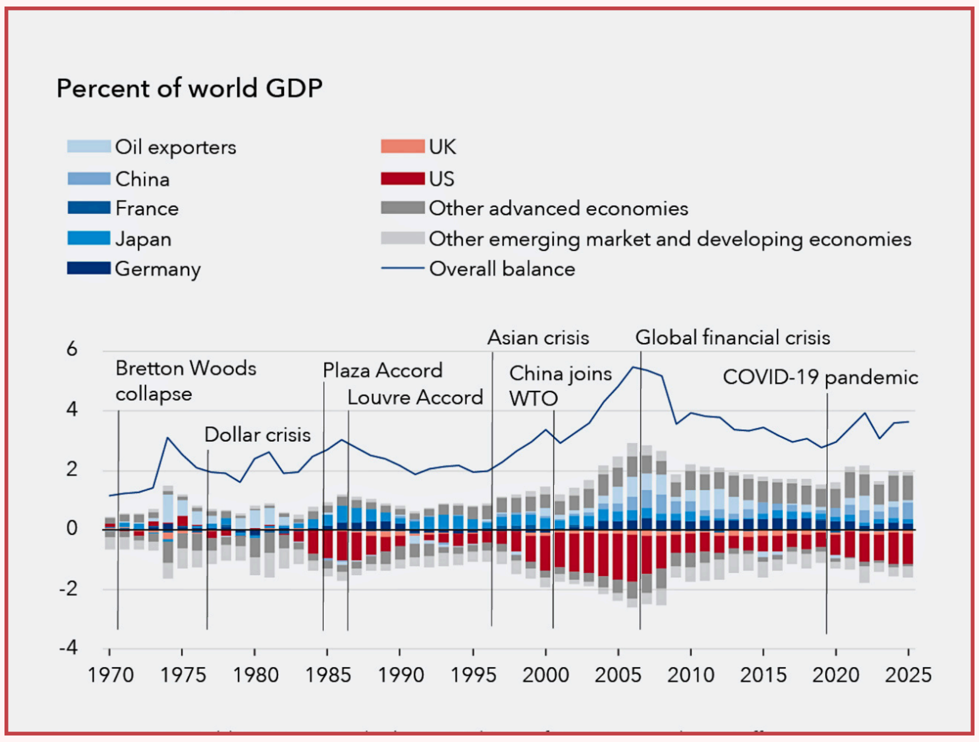
IMF: Tariffs and Industrial Subsidies 'Largely Ineffective' as Global Trade Imbalances Reverse Post-2008 Gains

Since the 2008 financial crisis, the world has made some progress towards a more balanced and fair global trade system, but that progress has now reversed. Largely ineffective and, in some cases, damaging to economic welfare are the world's favorite political fixes, tariffs and industrial subsidies, the International Monetary Fund warned in a pointed new policy paper. The Fund's key message is clear: rebalancing is not about putting up trade barriers but about coordinating domestic macroeconomic reform.

The gap in current account transactions with the rest of the world has also narrowed significantly since the global financial crisis a decade ago, the most comprehensive indicator of trade and financial transactions between a country and the rest of the world. That's all changed these days. The IMF says that the slowdown was caused primarily by "well-known macroeconomic influences," including "persistently large deficits in national saving" in the United States and China's "ongoing real estate slowdown," which has reduced domestic demand and raised savings. This new split is serious. History suggests that a widening of imbalances is often followed by crises, sudden capital flow reversals, and major shocks to the industries and labor markets of trading partners. The world economy is grappling with a series of overlapping shocks, and any disorderly unwinding of these positions is likely to be very expensive, the IMF cautions. Much of the IMF's analysis has been directed at the constraints that are increasingly being imposed on trade restrictions, which are often argued as a way to "close trade deficits." These results confirm that, as the Fund's research has shown, tariffs tend to have small and less predictable impacts on current account balances.

The underlying principle is the reactions of the households and businesses to them. If either tariffs are seen as permanent or trading partners respond with counter-tariffs, the saving response of consumers or firms is not a meaningful one. The external balance may not be affected much, as the demand for imports may rise, but that of imports does not fall. The IMF mentions just one exception: "If the tariff is truly temporary, it can in theory induce households to save more for the future, which will increase the nation's savings." The effects on the current account, however, are typically small and short-lived and are rarely experienced in practice. The study is presented in a timely fashion. Rising tariffs between key economies do not seem to be shrinking deficits but rather reducing output in the various parts of the world without significantly changing trade balances, and this does not provide a boost of economic growth or rebalancing. Industrial policy has also gained momentum in both advanced and emerging economies owing to strategic, security, and economic interests. The IMF makes an important distinction between two large groups and comes to very different conclusions regarding each group.

Micro-industrial policies that focus on tax incentives or subsidies for a particular firm or sector are generally less clear and less effective on external balances. Such measures, when they succeed in increasing productivity, usually increase both investment and consumption, with a negative impact on the current account. If they misallocate resources and lower the overall level of efficiency, then their external accounts could improve, but at the cost of economic output. This is not the case for macro industrial policy. Measures that involve state-led export promotion coupled with capital flow controls, financial repression, and foreign asset accumulation can result in greater and steadier current account surpluses. But these results are not obtained by improving efficiency; they are obtained by squeezing domestic consumption and pushing national savings higher. The IMF is clear that such policies can only diminish economic welfare and are not a blueprint for sustainable growth. The IMF's preferred option rests on the old-fashioned approach to macroeconomic policy changes, which are to be implemented at the same time by both surplus and deficit countries. The Fund's scenario modeling indicates that a coordinated strategy, in which fiscal consolidation in countries with large deficits is complemented by a transition to consumption-led growth in countries with surpluses and investment to increase productivity in regions with stagnant output, could help reduce global imbalances while boosting world output.



The channels of transmission mutually reinforce each other. If China's domestic demand were to pick up, particularly in the interest rate-sensitive areas of the rest of the world, it would be easier for countries like the United States to pursue fiscal consolidation. On the other hand, a tighter fiscal stance in the U.S. would help to reduce the deflationary pressures in China and promote a structural increase in household consumption. In Europe, on the other hand, the country should be able to reap the rewards of productivity-enhancing investments that have been long overdue due to years of relative stagnation. The IMF points out that even if countries are not able to fully coordinate internationally, they shouldn't delay. The unilateral domestic adjustment is the first-best alternative for each economy assessed separately, and early action helps to minimize the risk of disorderly adjustment in the future. If delayed, the Fund warns, it will imperil national and global economic stability. The IMF expects global imbalances to further grow if trends continue. The U.S. is projected to run big deficits and have continued strong consumer spending. With limited coverage of social safety nets, China will likely keep its savings high and support its export industry handsomely. Investment and productivity growth are still weak in Europe. In this context, tariff escalation is simulated as a decrease in global production, but one that does not significantly address the underlying imbalances.

The IMF's findings come as the issue of trade policy has become an integral part of geopolitical competition. The institution's analysis does not negate the possible strategic or security goals of industrial policy or tariffs. The Fund is urging its member countries to take action on the levers that will make a difference, rather than waiting for markets to adjust.

Subsidies Help the Rich More Than the Poor During Energy & Food Price Spikes

Shock severity	For households	For businesses
Low severity	Expand existing programs focused on vulnerable people	
	Targeted, temporary (lump sum) ease of regulated fares and fees for basic goods	Partially compensate affected firms for regulated fares and fees
	One-time cash payments, including, potentially, to the affected middle class	Temporary government-guaranteed loans for viable firms
	Smooth energy bills or temporary bill discounts with significant initial adjustment	Temporary government-guaranteed loans for viable firms
	If food security at risk or social safety net is limited: subsidies such as price caps or reduced taxes with sunset clauses and initial adjustment	Temporary credit lines; deferred tax and social security payments
High severity	Under exceptional conditions, price subsidies to help smooth inflation	

Progression of fiscal policy measures for a well-sequenced, incremental response

The International Monetary Fund (IMF) provides guidance on how to mitigate the challenges posed by surging global energy and food prices as well as geopolitically imposed disruptions in supply chains. Businesses and governments are under more pressure to control the effects of rising prices due to growing energy and food costs, which also reduce consumer purchasing power and induce inflation. All of these aspects make it harder for nations to make the optimal judgments.

The IMF notes that due to nations' differing fiscal capabilities, energy import dependence, and social policies, no single solution will apply to addressing the various challenges different nations face in responding to events when they occur; however, many nations have sufficient financial resources available to assist their citizens in mitigating the effects of price spikes, while others are burdened by excessive debt that leaves them little capability to provide assistance. Therefore, the only way for governments to provide assistance to the most targeted groups within society, without undermining long-term economic stability, is to adopt carefully designed policies that protect those groups.

Imposition on global supply and production, rising costs, and reduced levels of economic activity result from energy prices, thus causing inflationary pressures throughout the global economy. Therefore, it is recommended that countries implement the principles outlined by the IMF in addressing any impairment to the functioning of the market system, such as allowing domestic prices for energy goods to reflect the reality of the world marketplace; providing temporary assistance to low-income households through income transfers; and providing assistance to financially viable businesses through liquidity rather than subsidizing them, unless the crisis is so severe it warrants a more extensive policy response in the form of price controls. Furthermore, the IMF maintains that by continuing to restrict the price of energy through governmental issuance of subsidies and price ceilings, consumers will continue to consume large quantities of energy, even though they would rather use their resources efficiently when available (i.e., long-term need/resource shortages) and will ultimately experience significantly higher deficits and costs for governmental budgets. Additionally, since wealthy households generally consume a larger amount of energy than do lower-income households, the relative wealth of a household will lead to its receiving a greater share of any subsidy program.

Micro-industrial policies that focus on tax incentives or subsidies for a particular firm or sector are generally less clear and less effective on external balances. Such measures, when they succeed in increasing productivity, usually increase both investment and consumption, with a negative impact on the current account. If they misallocate resources and lower the overall level of efficiency, then their external accounts could improve, but at the cost of economic output. This is not the case for macro industrial policy.

The IMF supports governments' implementation of cash transfers through their existing welfare programs to help households that fall within the low-income classification cope with the effects of rising food and energy prices. When food and energy prices spike, low-income households typically bear a higher proportion of their total income than higher-income households; therefore, a rise in food and energy prices causes low-income families to face more financial hardship than those in other income brackets.Short-term assistance measures that governments may take to provide low-income families with relief from rising living costs while still preserving fair competition include expanding the number of families eligible for welfare programs, providing one-time tax rebates to qualified low-income families, and providing additional assistance through existing financial assistance programs. Governments can also provide reductions in tax rates or create subsidies for basic food items in emergency situations where food insecurity exists; however, the government should have an exit plan for measures once food security has been re-established.

The IMF also supports the idea of providing short-term liquidity assistance to businesses that are facing increased costs for energy (e.g., transportation-related businesses), rather than making long-term subsidies to these same businesses. A number of businesses, particularly small ones and those where transportation/fuel is a significant factor in expenses, are suffering from cash-flow constraints due to the increase in energy prices. To assist such companies, the government could also extend guaranteed loans, defer tax payments, and/or offer temporary lines of credit. However, governments should refrain from offering direct payments or long-term subsidies that are funded by taxes because these become ingrained in the future and will be politically challenging to withdraw from recipients when conditions improve. The IMF also cites risks related to broadly applicable policy solutions to this circumstance, such as price freeze measures, general subsidies, and fuel tax reductions. While these policies may temporarily keep the public from putting pressure on political leaders, they would also distort market signals, require federal governments to expend more funds than planned, and cause shortages if suppliers are not compensated to the extent of their losses from such disruptions. Rarely should these policies be put into place (e.g., when price pressures and projections become unstable or when a shock is expected to continue for a brief period of time and the absorptive capacity exists for implementation).

A second key issue from the crisis response is that developing and emerging economies are strained much more unequally than advanced economies. Developing nations generally have less developed welfare systems than developed nations, have a larger proportion of energy imported from other nations, have a much lower borrowing capacity, and have a wide variety of extremely precarious inflation-controlling systems; as a result, these economies have numerous competing goals that must be handled while resolving the growing energy prices. Large subsidy outlays have the potential to erode government resources and elevate government debt very rapidly. The IMF recommends that governments take a disciplined and well-prepared approach to policymaking. Government responses must be temporary, targeted, and transparent based on how long the crisis has existed and how severe the crisis was at that time. By targeting assistance to poor families, helping viable businesses remain in operation, and maintaining appropriate signaling from the market, countries can limit the negative effects of the crisis and prevent future inflation and budgetary problems brought on by the government's handling of the crisis.