

# Overview

1. The reform of price subsidies has been a key element of IMF-supported programs in many countries. These reforms have brought prices of subsidized items closer to their market-clearing levels and have sought to target any remaining subsidies to the needy. Reform is typically undertaken in the context of macroeconomic adjustment, and its major aim is to achieve fiscal savings consistent with stabilization of prices and exchange rates. Reform of price subsidies may also improve allocative efficiency and promote economic growth, but can—at least in the short run—have adverse social and political effects. These effects can be mitigated or eliminated by establishing social safety nets and, in some cases, by gradually phasing out subsidies.

2. This guide is intended to assist policymakers in achieving the fiscal benefits of price-subsidy reform with minimal social disruption. To this end, the guide draws on the experience of a wide range of countries and lists factors that must be considered in the design of price-subsidy reform. The countries met at least one of the following criteria: the budgetary cost of the subsidies was significant before reform; the Fiscal Affairs Department of the IMF provided technical assistance on reforming price subsidies or assigned a fiscal economist to the country; or price-subsidy reform was a major element of the IMF-supported program. The 28 countries examined are listed in Appendix 1.

3. Section 2 of this guide presents possible reform options; Section 3 provides a checklist of considerations in the design and implementation of price-subsidy reform; Section 4 discusses political considerations; and Section 5 draws key lessons. The appendices describe the nature of price subsidies, discuss different price subsidies (Appendix 2), and illustrate how the impact of price-subsidy reform on real household incomes could be assessed (Appendix 3).