

FUELING REFORM

Energy subsidy reforms are challenging, but many countries are making progress

ENERGY SUBSIDIES ARE policy measures that aim to lower the cost of energy consumption. In 2015, these subsidies amounted to 6.5 percent of global GDP, or roughly \$5.3 trillion. Subsidies have many negative economic and environmental effects, and they primarily benefit the wealthiest households. Despite this, they have proved difficult to reduce or remove. But in recent years a few factors may have shifted the balance to provide incentive for reform: subdued growth since the global financial crisis, lower energy prices since a sharp decline in mid-2014, and pledges to reduce greenhouse gas emissions signed by 190 countries as part of the December 2015 Paris Agreement.

In fact, at least 32 countries have actively reformed their subsidies since mid-2014. More than half of them are oil exporters and have had to make up for declining oil revenues. Most of these oil-exporting countries faced much larger fiscal deficits than oil importers did. Environmental concerns have been

another driver in some countries—which have introduced a carbon tax, raised carbon tax prices on top of existing systems, or announced their own emission-trading systems. And recent reforms benefited from lessons of past experiences, which makes them more likely to succeed.

Successful energy subsidy reform has six key ingredients according to IMF research, and many recent reforms have incorporated them in their designs: a comprehensive plan with clear long-term objectives, transparent communication with stakeholders, phased-in price increases, more efficient state-owned enterprises, measures to protect the poor, and depoliticized pricing mechanisms.

In addition, energy subsidy reforms that are driven by long-term considerations, such as addressing environmental concerns or reducing oil dependency, are likely to be more durable than those driven by short-term factors, such as budget deficits resulting from lower oil revenues. **FD**

Why is energy subsidy reform important?



Getting energy prices right could:

Reduce global carbon emissions by

24%

Reduce fossil fuel air pollution deaths by

57%

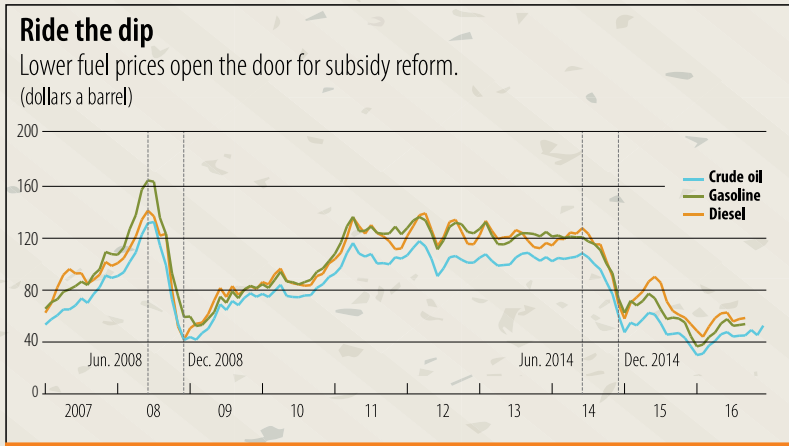
Generate **3.5%** of global GDP, so countries could reduce inefficient taxes or expand priority public spending on health care, education, etc.

Alleviate **income inequality**, as subsidies largely benefit the rich

When is the right time?

Now!

The sharp drop in international energy prices since mid-2014 creates an opportunity for energy importers to remove their subsidies, and puts pressure on energy exporters to reform theirs.



And greenhouse gas reduction pledges submitted by over **190** countries in 2015 provide further impetus for change.

What kinds of reforms are being implemented?



Raising government-set prices (Angola, Egypt, Ukraine)

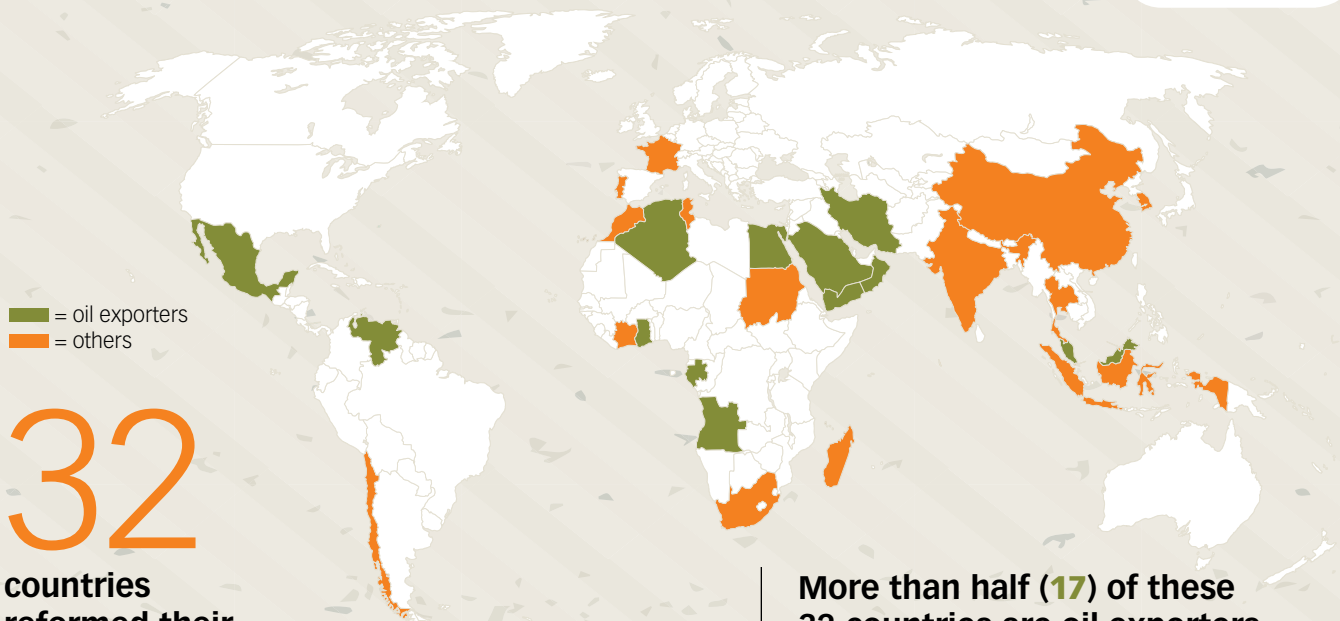


Liberalizing energy prices or introducing an automatic pricing mechanism (India, Madagascar, United Arab Emirates)



Introducing an emission trading system or carbon tax, or raising carbon prices (Mexico, Portugal, South Africa)

Where are reforms taking place?



32
countries reformed their subsidies since mid-2014 by raising energy prices:

Algeria, Angola, Bahrain, Chile, China, Côte d'Ivoire, Egypt, France, Gabon, Ghana, India, Indonesia, Iran, Jordan, Kazakhstan, Korea, Kuwait, Madagascar, Malaysia, Mexico, Morocco, Oman, Portugal, Qatar, Saudi Arabia, South Africa, Sudan, Thailand, Tunisia, United Arab Emirates, Venezuela, and Yemen

More than half (17) of these 32 countries are oil exporters

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