



# Fiscal Affairs Department

## ENERGY SUBSIDY REFORM: KEY ISSUES AND RECENT DEVELOPMENTS

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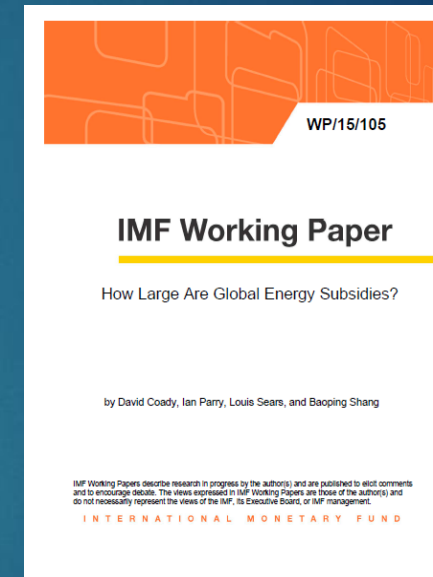
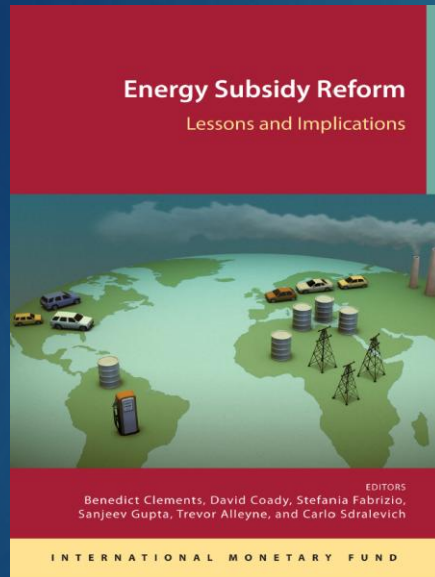
G7 Meeting on EHSs and EFRs, 14 March, 2017

\*The views expressed in this presentation are the authors' and do not reflect those of the International Monetary Fund, its Executive Committee, or its Board.



# Efficient energy pricing reform comprises two steps:

1. Reforming energy subsidies
2. Apply appropriate corrective taxes
3. Global magnitude and reform benefits



See [www.imf.org/environment](http://www.imf.org/environment)

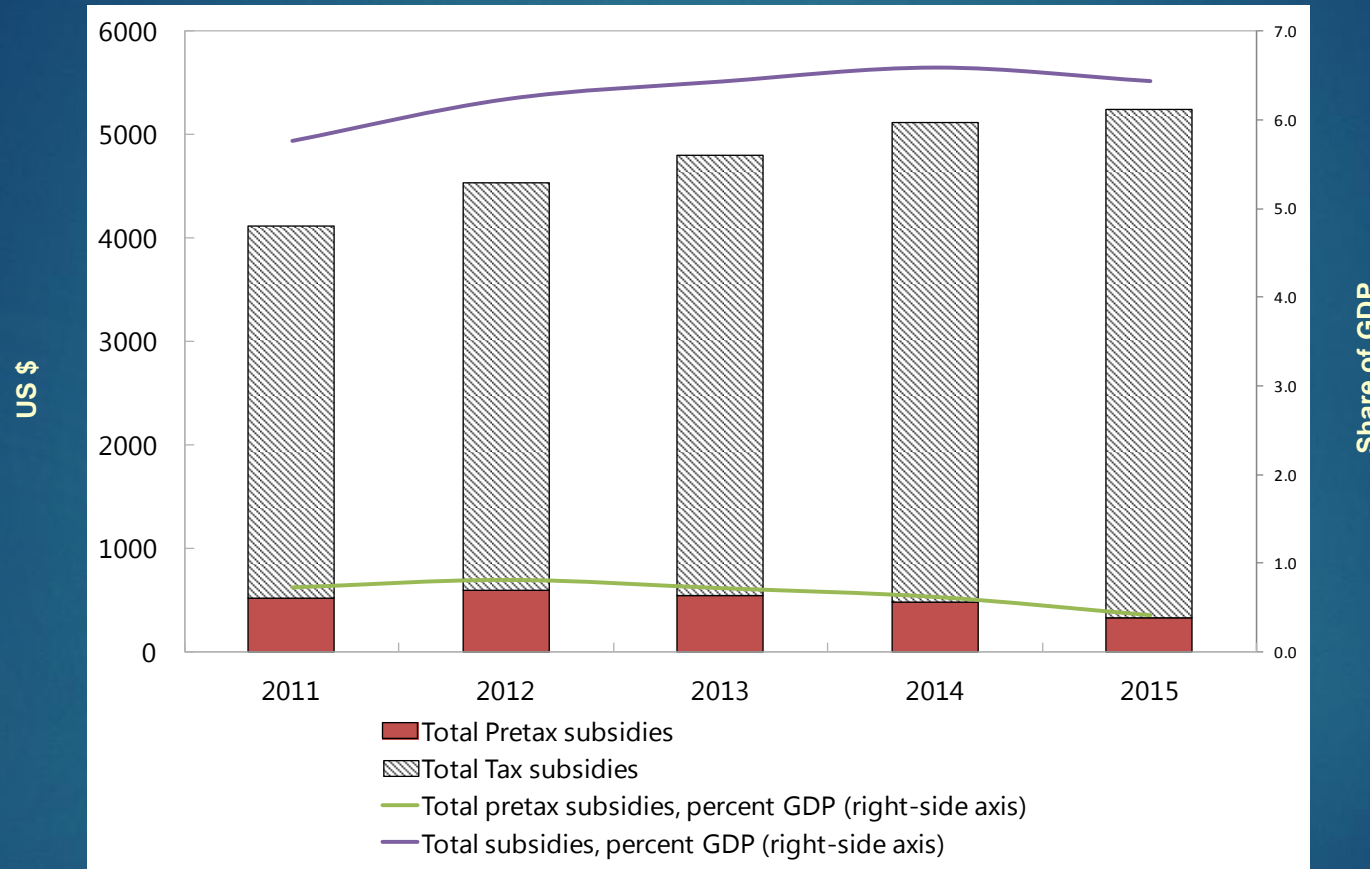
# Defining Energy Subsidies

- ▶ **Pre-tax subsidies** exist when energy consumers pay a price below the supply cost of energy
- ▶ **Tax subsidies** exist if energy taxes are too low (i.e., fail to correct fully for externalities)
- ▶ **Post-tax subsidies** = pre-tax subsidies + tax subsidies.

# Why tax energy products?

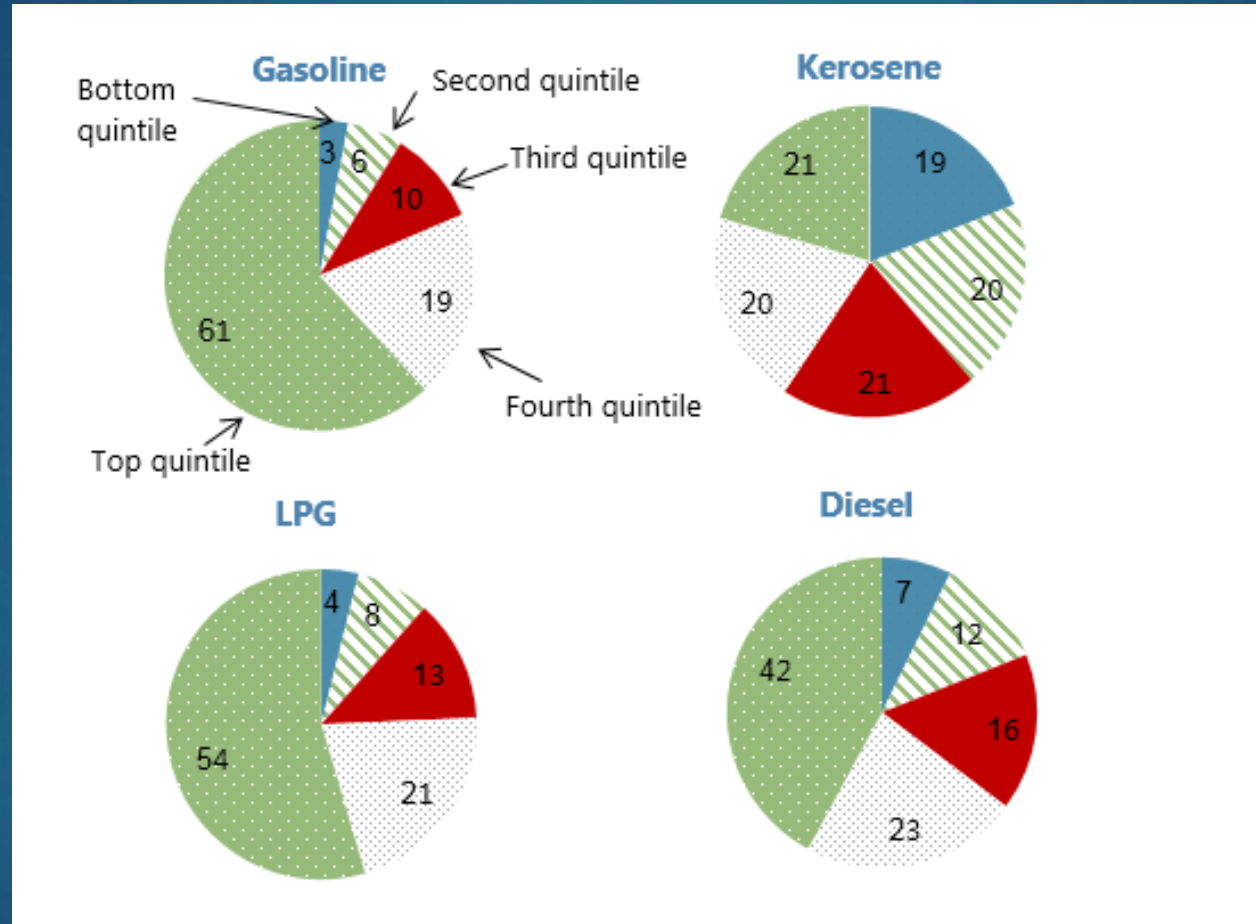
- ▶ Correct for negative externalities
  - ▶ Environment: CO<sub>2</sub>, local air pollution
  - ▶ Non-pollution externalities from motor vehicles: congestion, accidents, road damage
- ▶ Raise revenue to finance public expenditures or reduce other taxes
  - ▶ Developing countries especially need revenue (large informal sectors)
  - ▶ But developed countries have heavy, distortive labor and capital tax burdens that could be alleviated with more efficient environmental taxes

# Global energy subsidies remain large



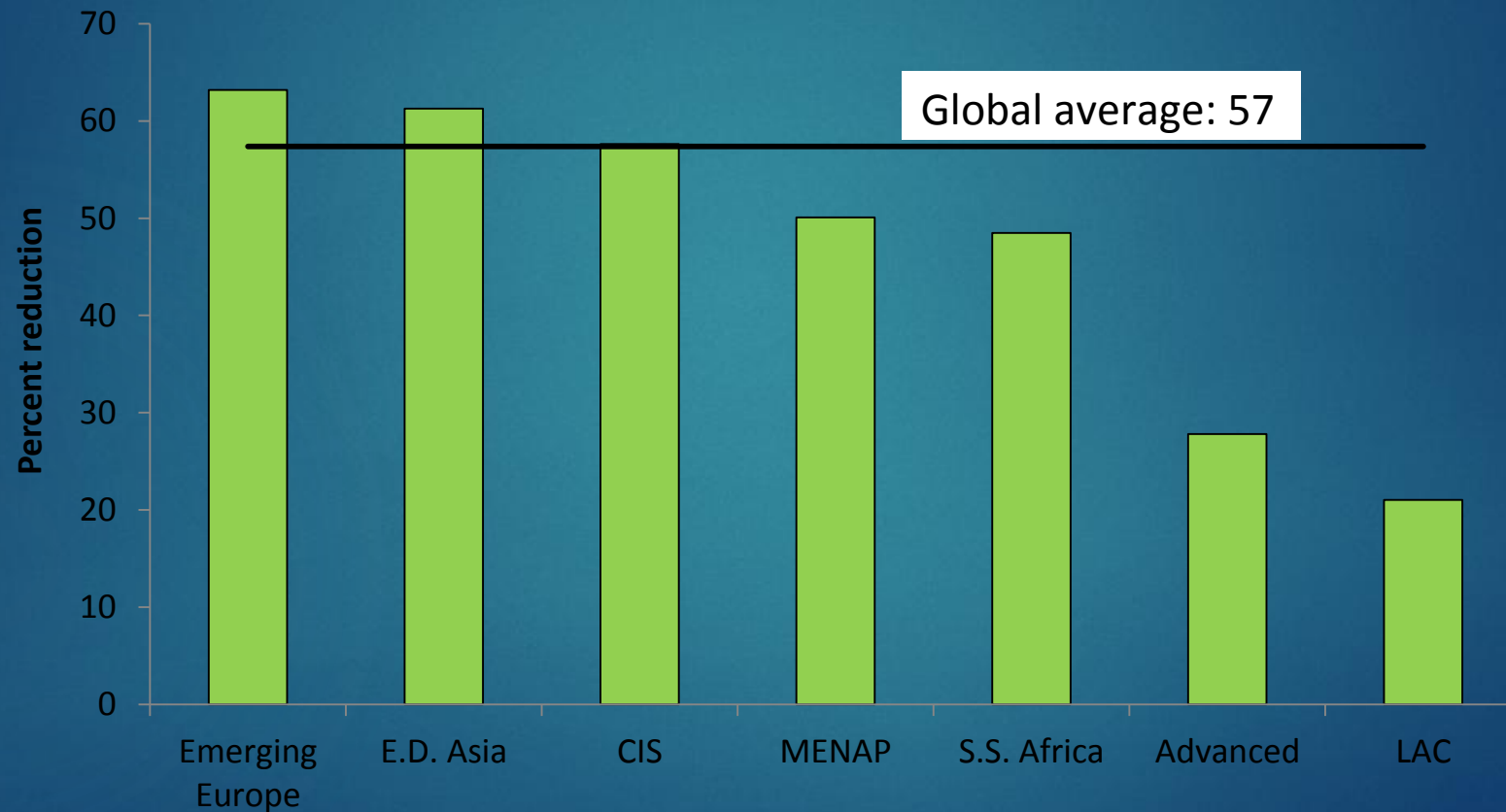
Source: IMF staff estimates

# A large share of subsidy benefits are captured by high-income groups

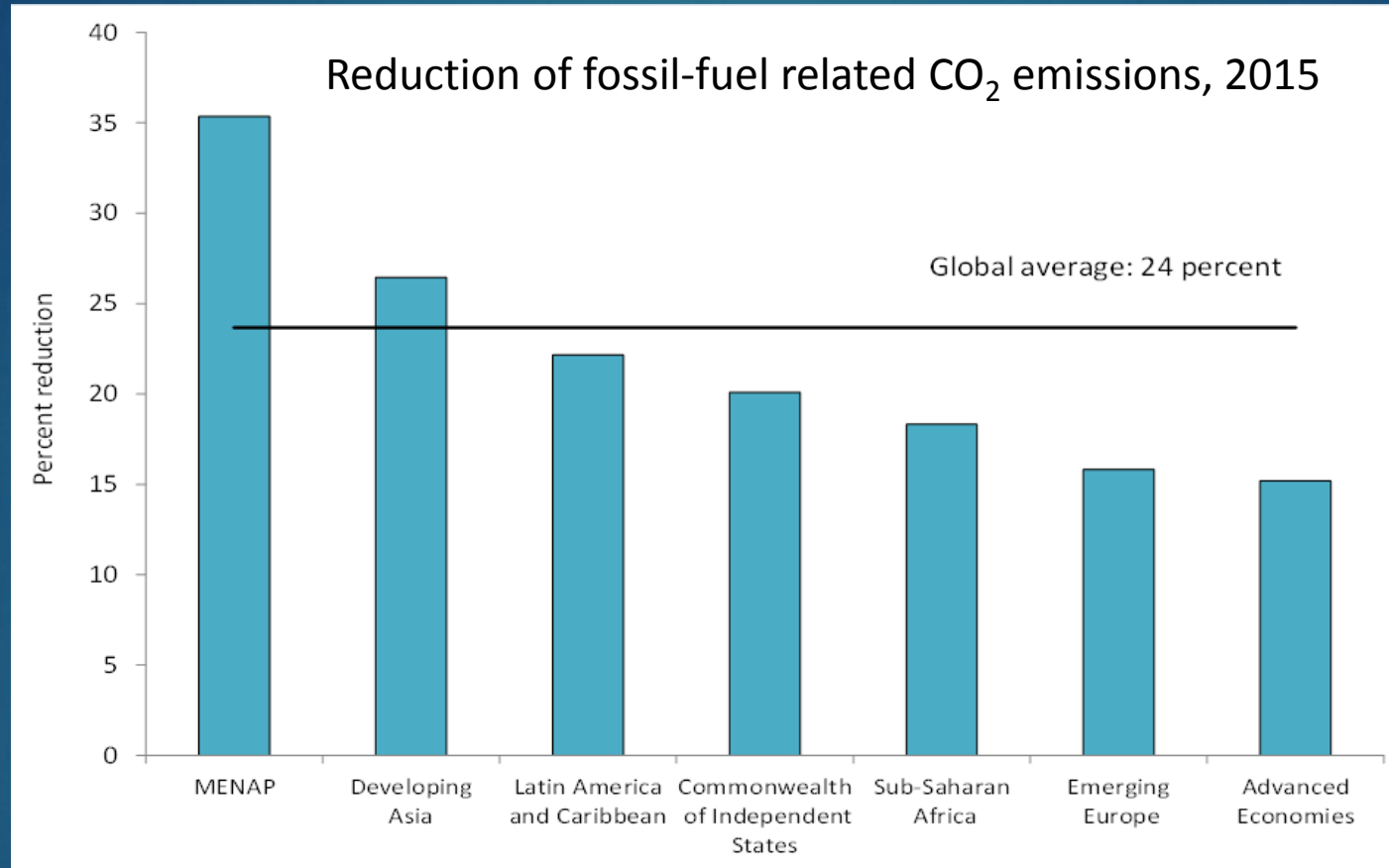


# Energy price reform can generate substantial health benefits...

Reduction of fossil-fuel emissions-related deaths, 2015

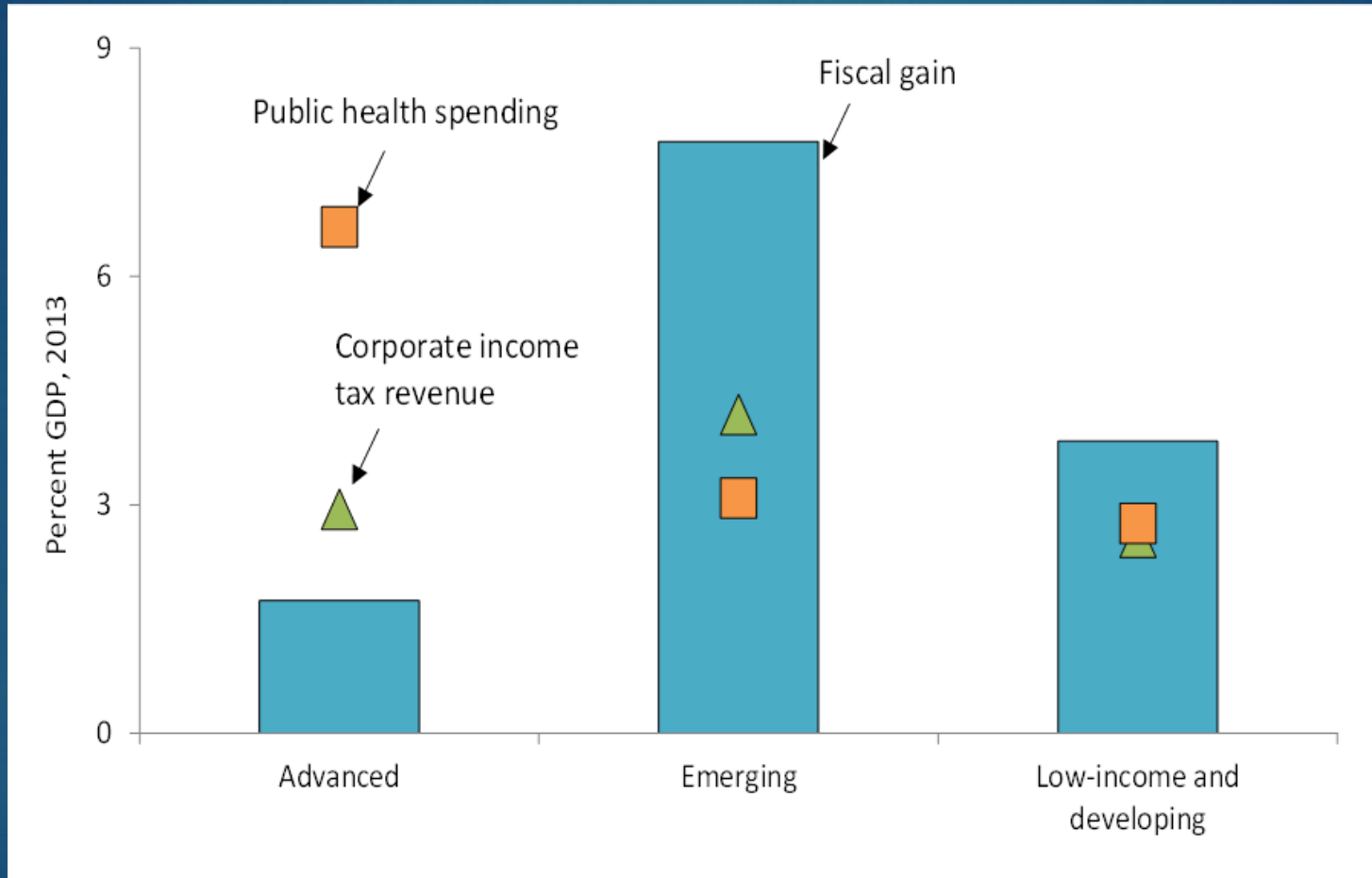


...and reduce CO<sub>2</sub> emissions by an average of 24 percent

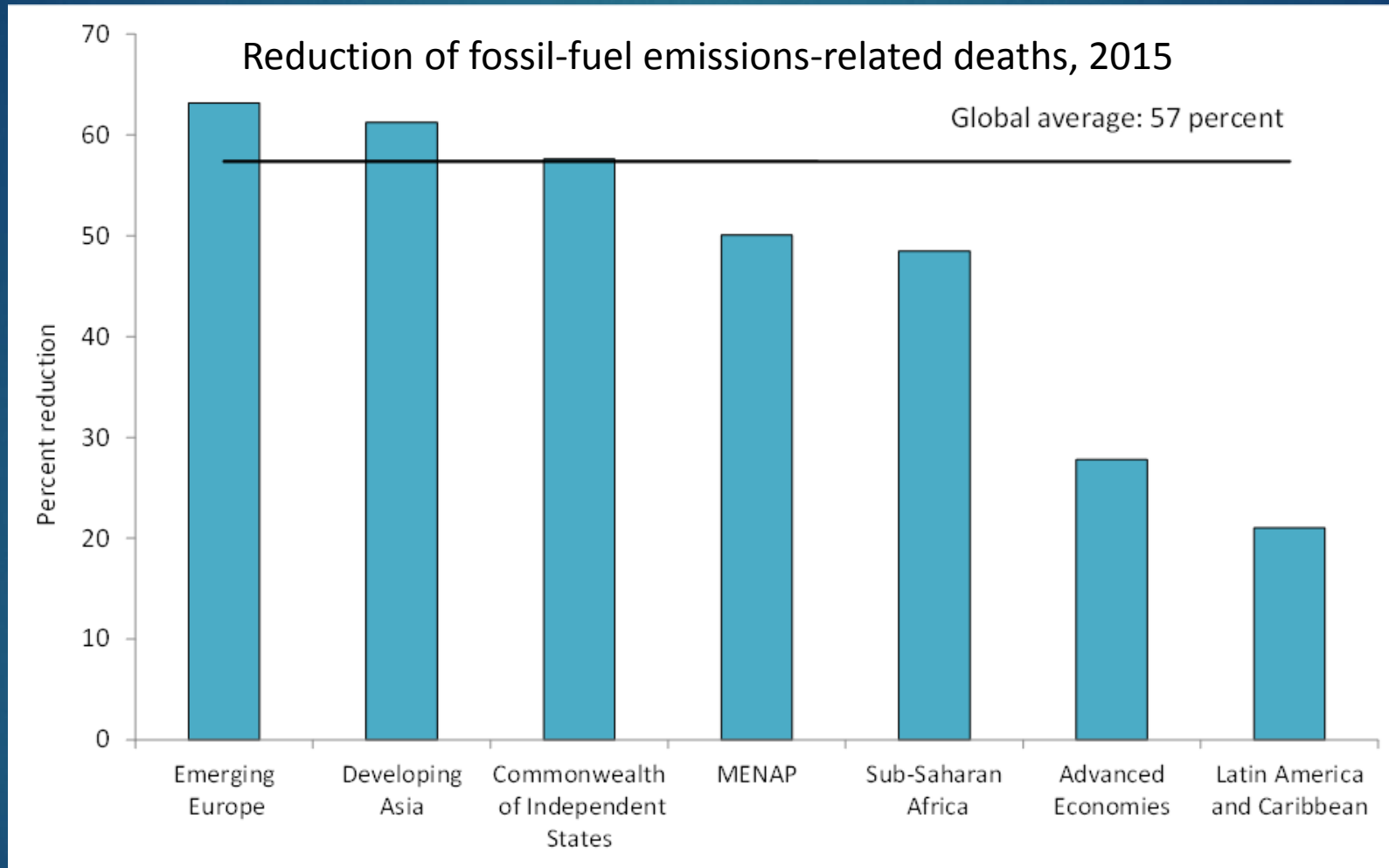




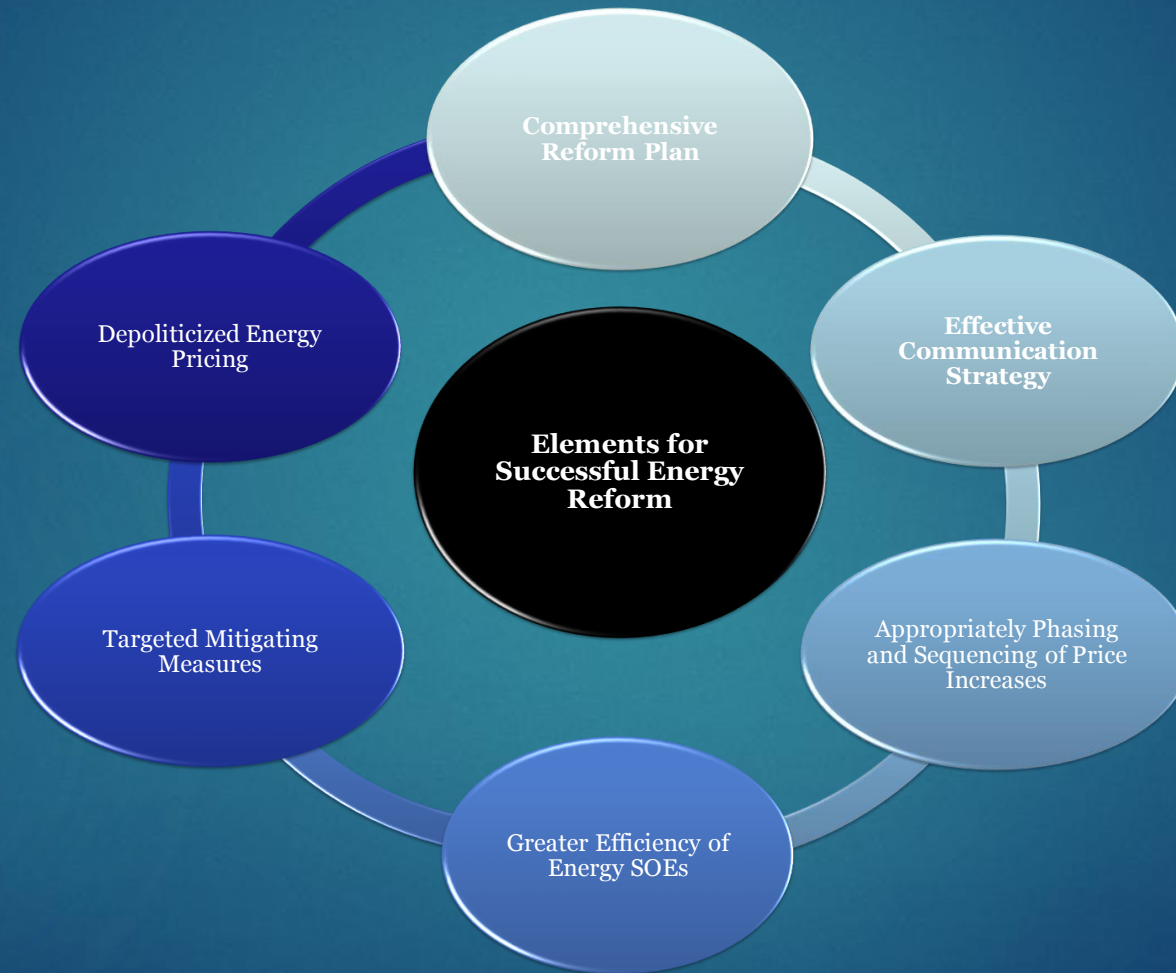
# The revenues from efficient fuel pricing are significant – particularly for emerging and developing countries



# Efficient energy pricing would yield substantial health benefits...



# Reform, however, is often difficult and a well-designed strategy can help



# Some current conditions are favorable for reform

- ▶ International energy prices have dropped sharply since 2014, providing a window of opportunity for reform
- ▶ At the Paris climate conference (COP21) in December 2015, 195 countries adopted the first-ever universal, legally binding global climate deal
- ▶ Mounting fiscal pressures in many economies

# Many countries have taken steps, but further efforts are needed

- ▶ Energy subsidy reforms in the MENA region:
  - ▶ Bahrain, Egypt, Iran, Jordan, Kuwait, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, UAE, and Yemen
- ▶ Energy subsidy reforms in other regions:
  - ▶ Angola, Cameroon, China, Côte d'Ivoire, Ghana, Haiti, India, Indonesia, Kazakhstan, Madagascar, Malaysia, Mali, Sao Tome and Principe, Sudan, Thailand, and Venezuela
- ▶ Energy subsidy peer-reviews:
  - ▶ G20 peer reviews: China and United States just completed their G20 peer review with the report published
  - ▶ APEC peer reviews: a number of peer reviews have been completed under the APEC including Peru, New Zealand and Philippines
  - ▶ Germany, Mexico and Indonesia have since agreed to undertake peer reviews under the G20

# IMF resources

## ▶ Analytical work

- IMF Working Paper: “[How Large Are Global Energy Subsidies?](#)”
- IMF Book: “[Getting Energy Prices Right: from Principle to Practice](#)”
- IMF Book: “[Energy Subsidy Reform: Lessons and Implications](#)”

## ▶ Technical assistance missions and workshops

## ▶ Tools

- [Energy Subsidies Template](#)
- [Interactive Tool to Assess Energy Tax Reform](#)
- *Interactive Tool to Assess the Distributional Impact of Energy Subsidies & Fuel Price Smoothing Template*
- *EdX course on energy subsidies*
- <http://www.imf.org/external/np/fad/subsidies/>