



# Energy Subsidy Reform

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## Structure of Presentation



- I. Definition of energy subsidies
- II. Magnitude of energy subsidies
- III. Benefits of energy subsidy reform
- IV. Design of energy subsidy reform

## I. Definition of Energy Subsidies

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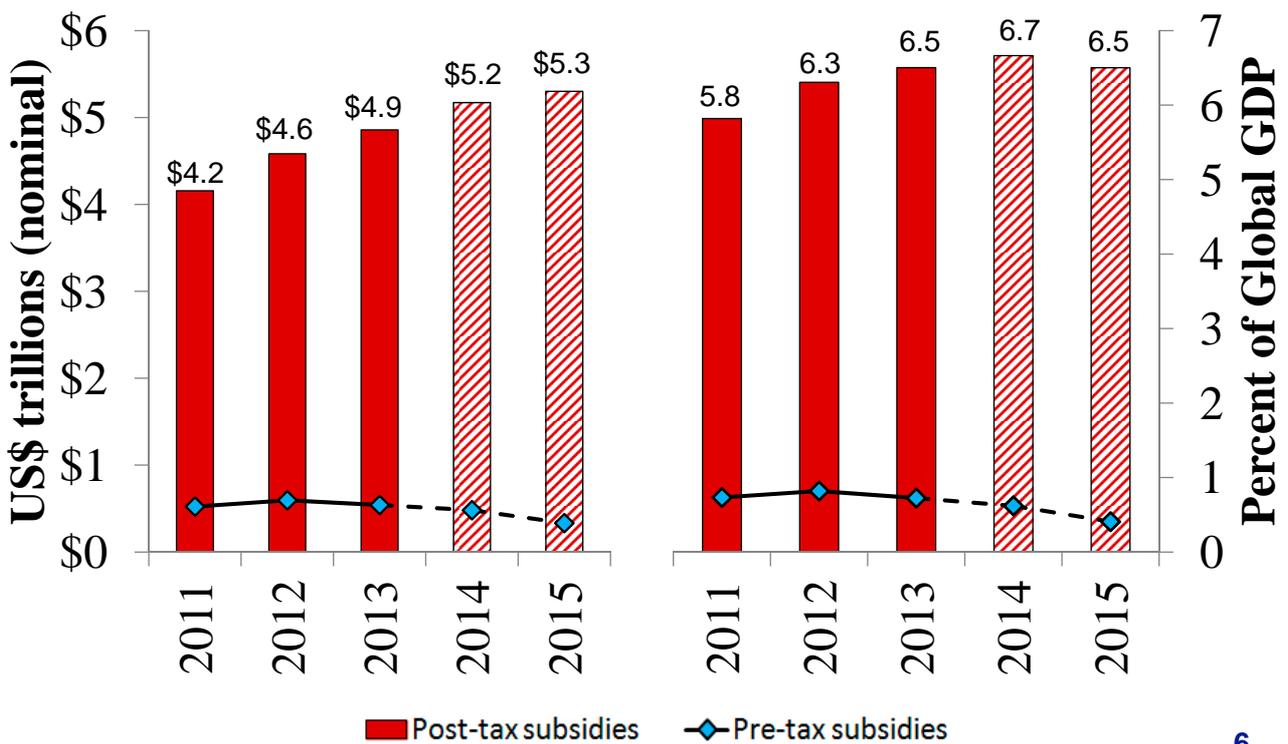
## Two notions of energy subsidies

- **Narrow/pre-tax—undercharging for supply cost of energy, including transportation and distribution costs.**
- **Broad/post-tax—undercharging for supply cost and environmental cost (global warming, local pollution, traffic congestions and accidents etc.), as well as the failure to tax energy consumption just as other consumption goods to raise revenue.**
- **Substantial variations across regions, countries and energy products**

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## II. Magnitude of Energy Subsidies

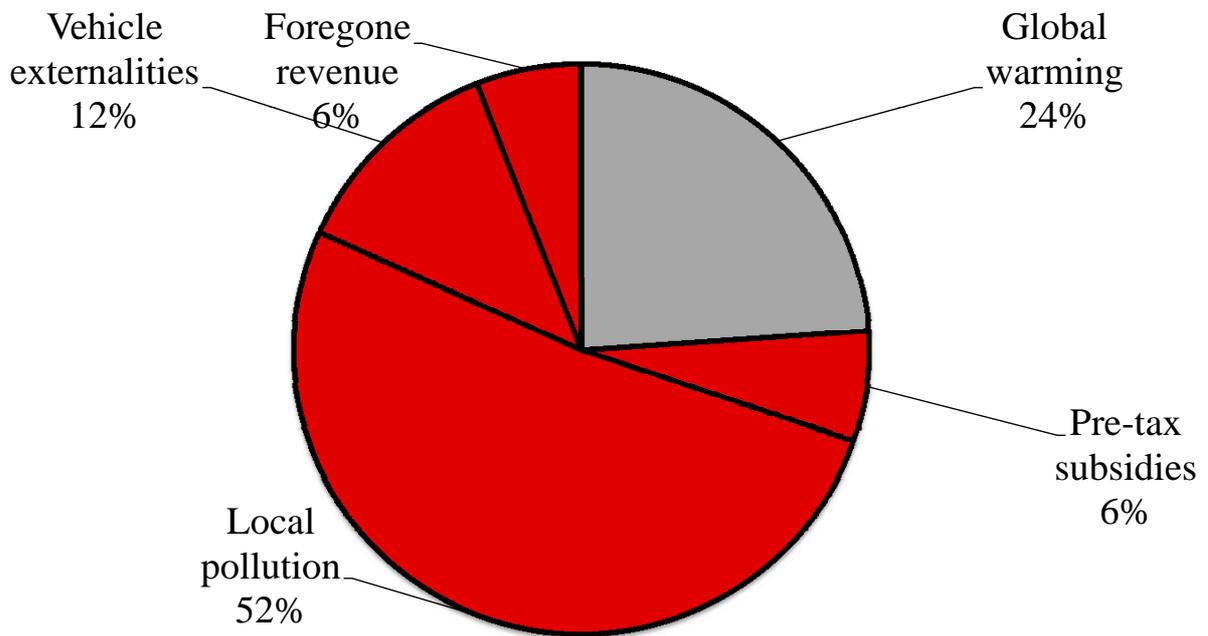
### Global energy subsidies are large...



..... reflect mostly local factors.....



Components of global energy subsidies, 2015

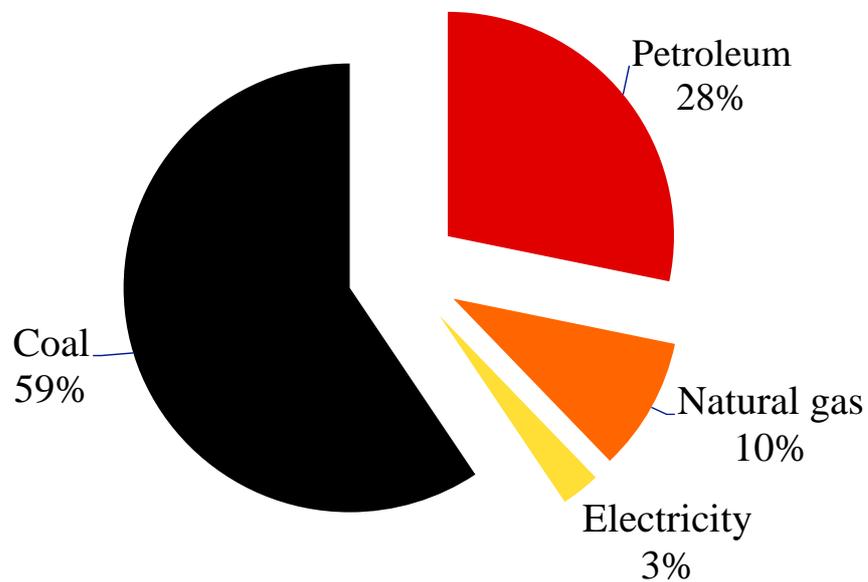


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..... and are from coal

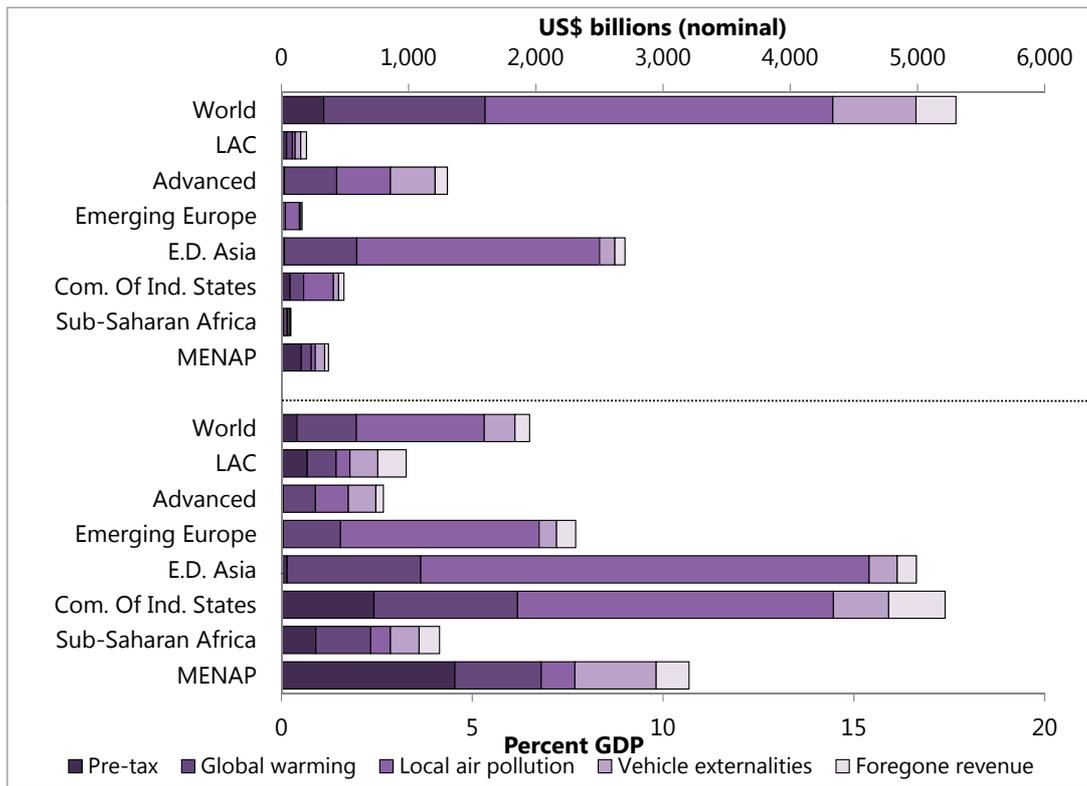


Product composition of global energy subsidies, 2015

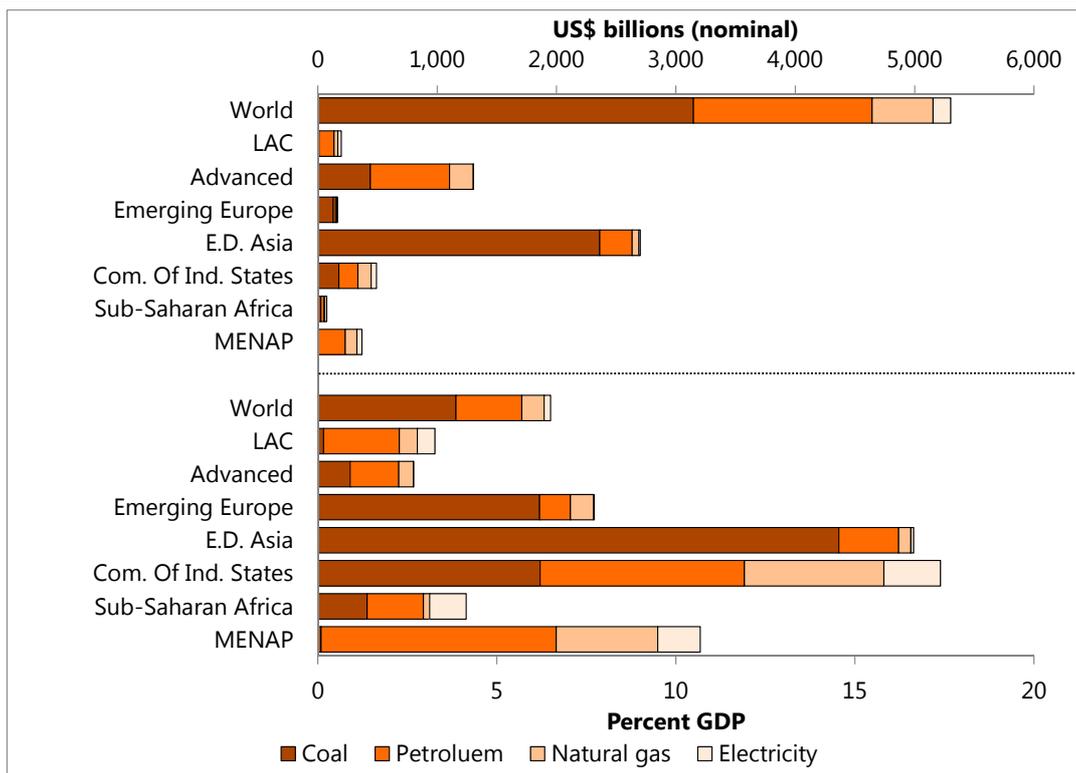


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# Global energy subsidies, by component



# Global energy subsidies, by product



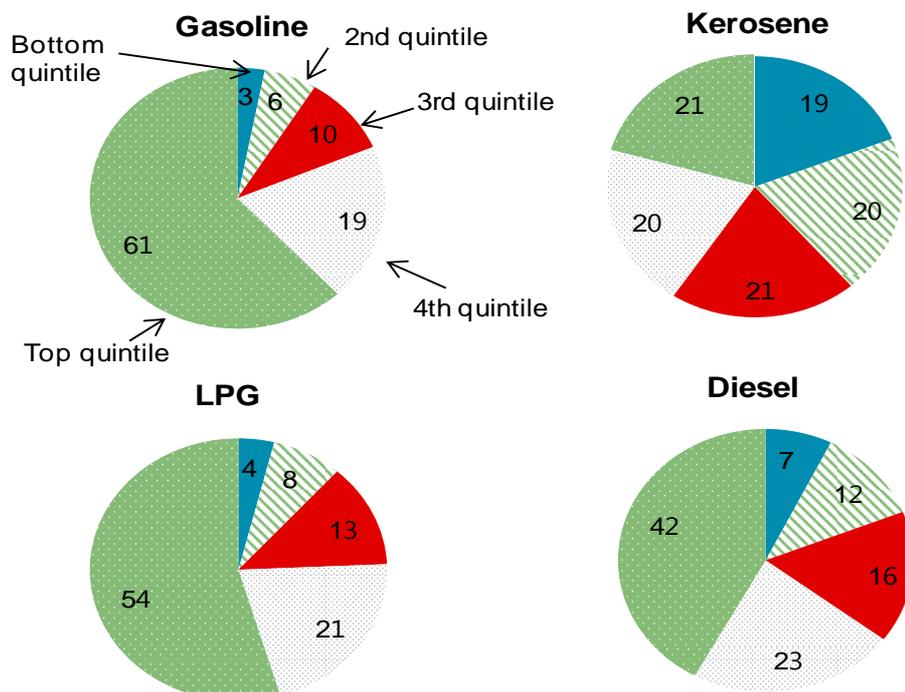
# Consequences of energy subsidies go well beyond fiscal costs



- ❑ **Depress growth**
  - ❑ reduce investment in the energy sector
  - ❑ crowd-out critical public spending
  - ❑ over-allocate resources to energy intensive sectors
- ❑ **Exert pressure on balance of payments of energy importers**
- ❑ **Create negative externalities (for example, global warming)**
- ❑ **Reinforce inequality**

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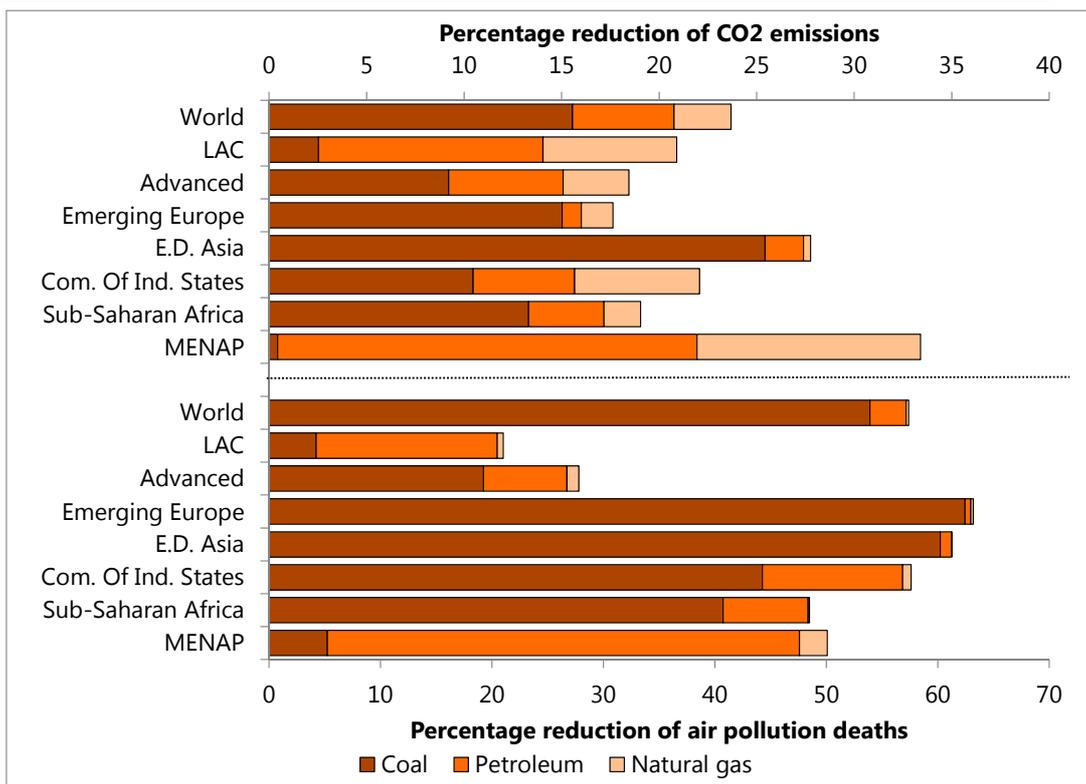
## Distributional impact



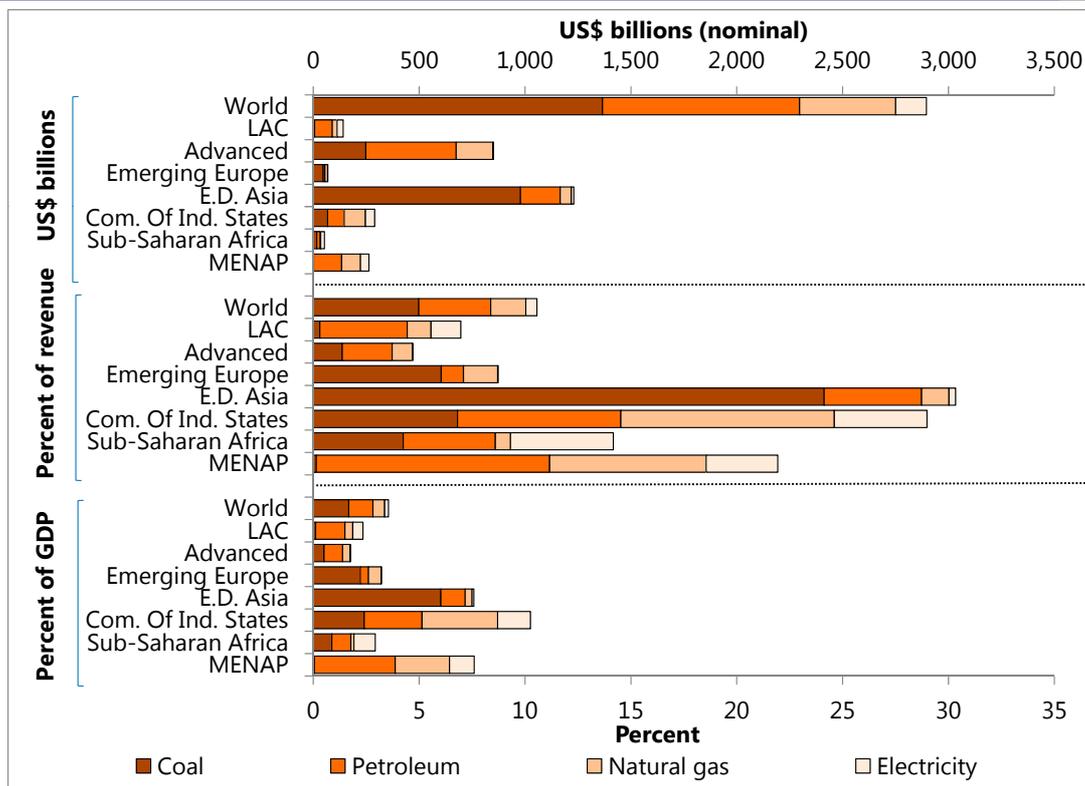
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# III. Benefits of Energy Subsidy Reform

## Energy subsidy reform can generate substantial environmental benefits...



# ..... as well as a significant fiscal dividend



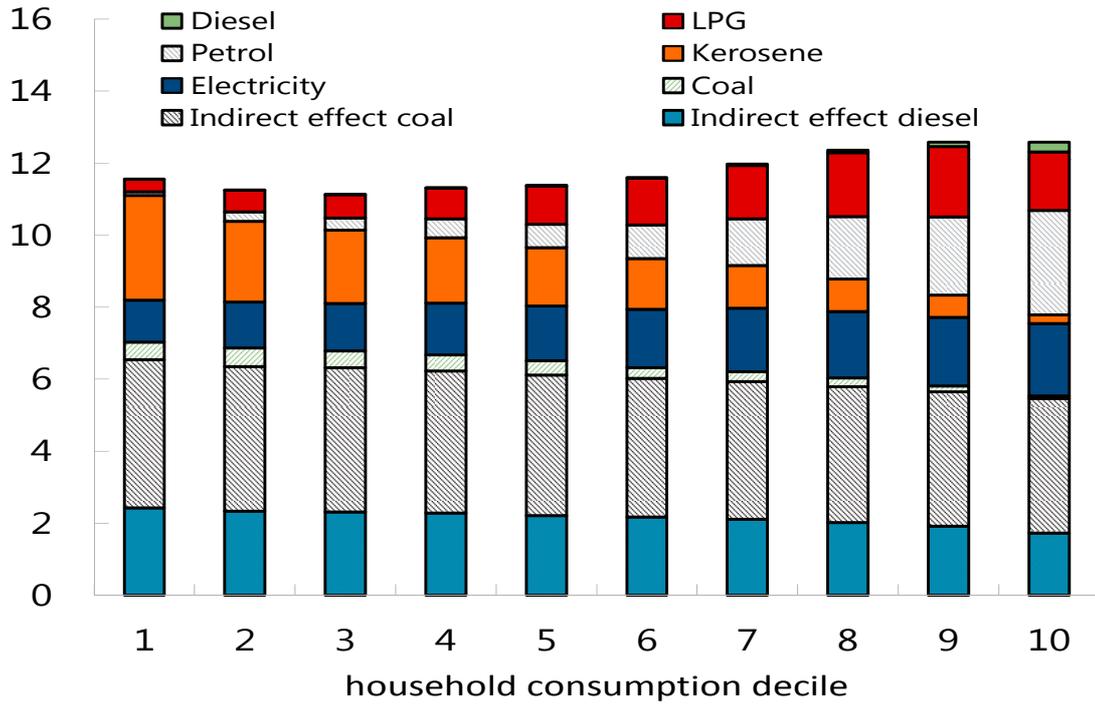
## Macroeconomic impact



- **Boost long-term economic growth by**
  - ❑ Promoting more efficient resource allocation (steering the economy away from energy/capital intensive industries)
  - ❑ Encouraging private investment in the energy sector including renewables
  - ❑ Creating fiscal room for growth enhancing-public investment (infrastructure, education and health)
  - ❑ Reducing incentives for smuggling
- **Reduce fiscal and external balance volatility**
- **Lead to inflation and negatively affect competitiveness and economic growth in the short term**

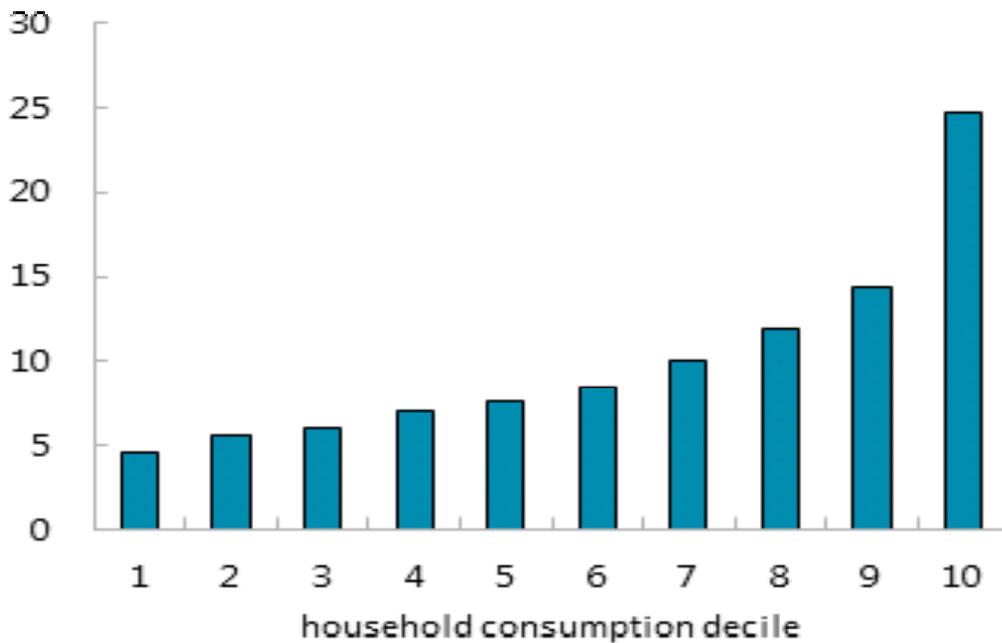
# Distributional Impact: India

(Percent of household consumption)



# Distributional Impact: India

(Share of total loss)



## IV. Design of Energy Subsidy Reform

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### Six key reform ingredients

#### (i) A comprehensive reform plan

- clear long-term objectives
- assessment of the impact of reforms
- consultation with stakeholders

#### (ii) A far-reaching communications strategy

- inform the public of the size of subsidies and benefits of reform
- strengthen transparency in reporting subsidies

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## Six key reform ingredients



### (iii) Appropriately phased and sequenced price increases

- permit households and enterprises time to adjust and governments to build social safety nets
- sequence increases differently across products

### (iv) Improvements in the efficiency of state-owned enterprises (SOEs) to reduce their fiscal burden

- improve information on their costs, set performance targets and incentives, and introduce competition where appropriate
- improve collection of energy bills

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## Six key reform ingredients



### (v) Targeted mitigating measures to protect the poor

- targeted cash transfers are preferred
- when cash transfers are not feasible, other programs can be expanded as administrative capacity is developed
- SOE restructuring may also require targeted measures (e.g., job training)

### (vi) Depoliticize price setting

- implement automatic price mechanism (with price smoothing)
- establish an autonomous body to oversee price setting

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# IMF analytical work and tools



## 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](#)”

## 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/>