GETTING ENERGY PRICES RIGHT

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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.
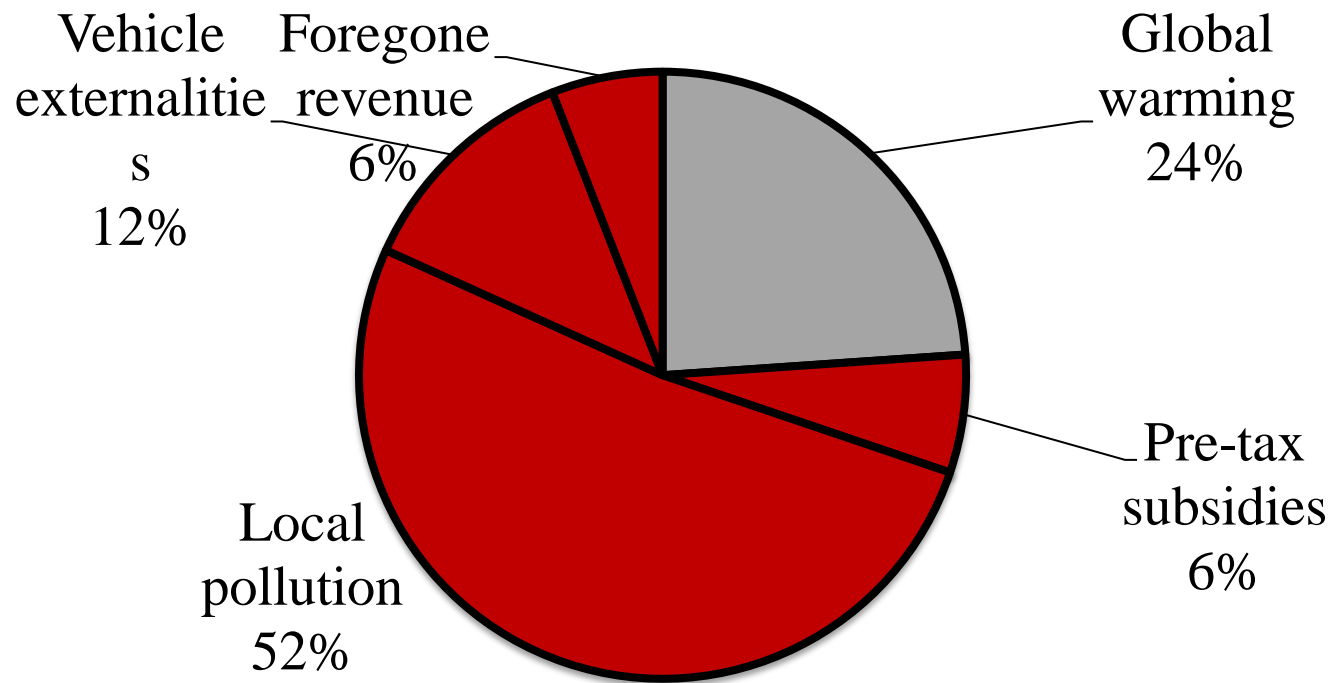
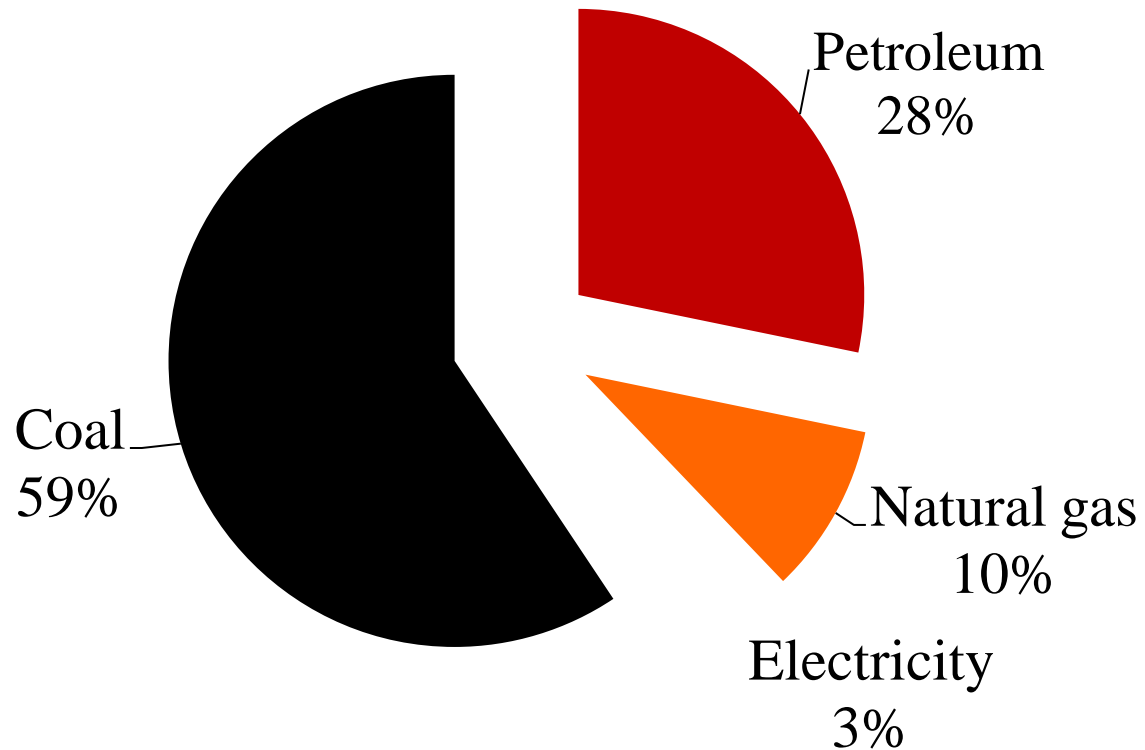# Global energy subsidies are large…
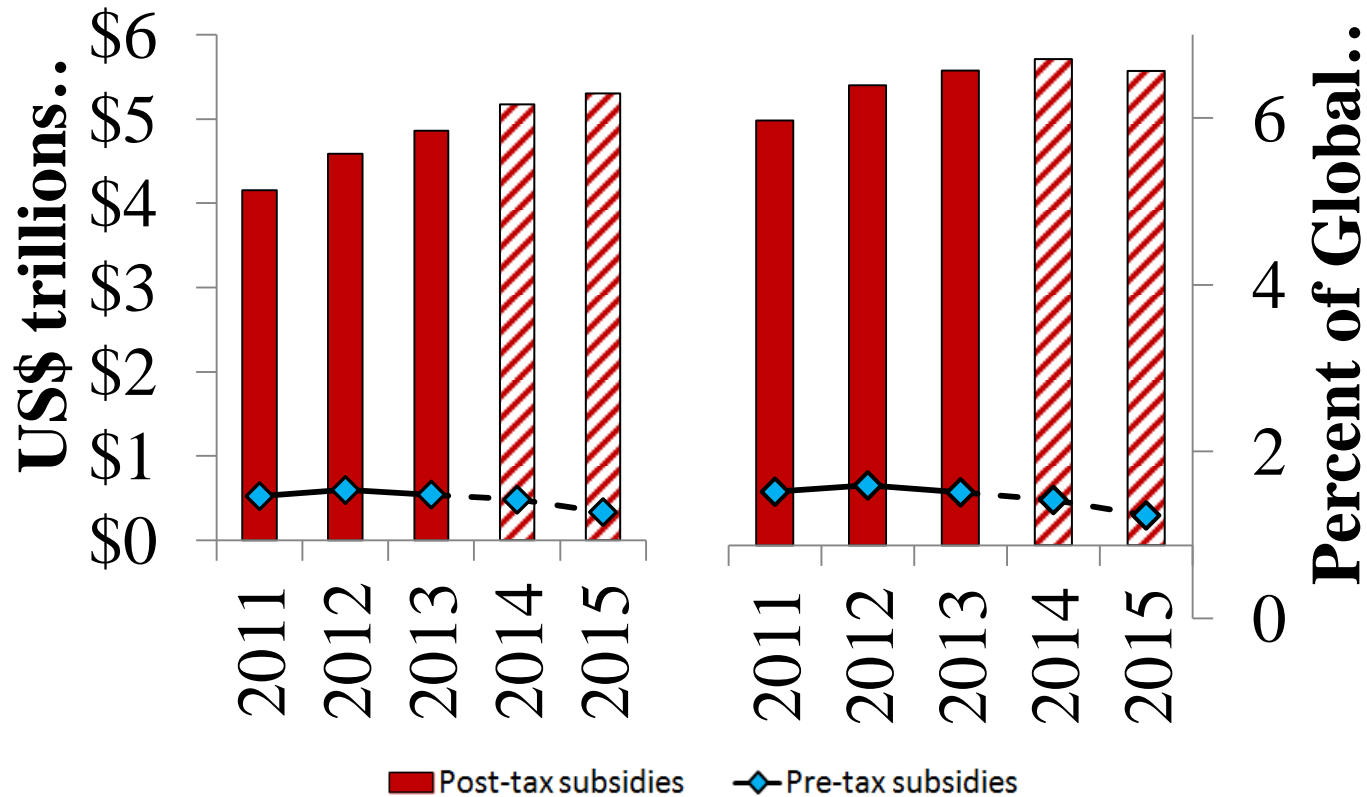
… reflect mostly local factors…
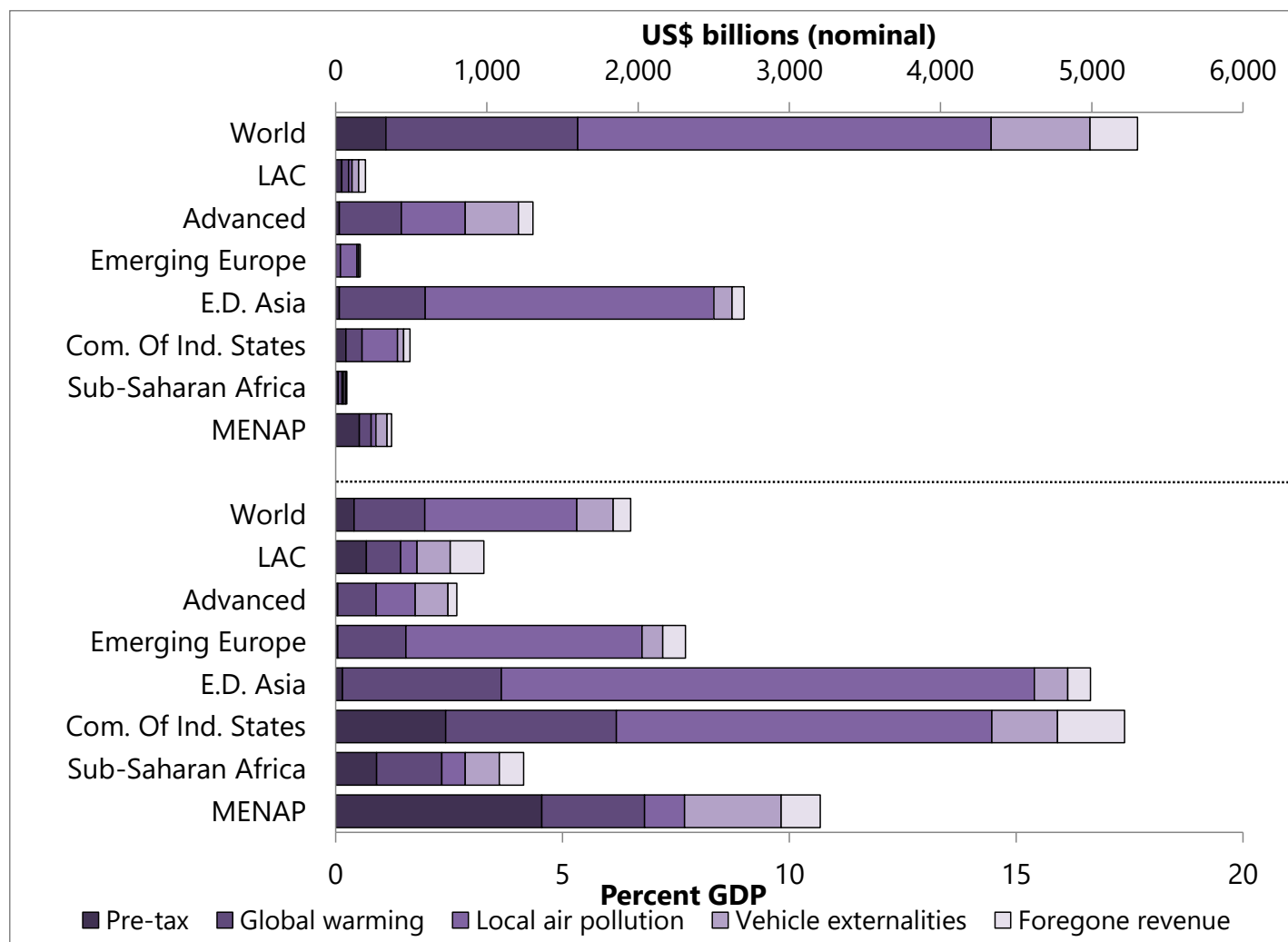
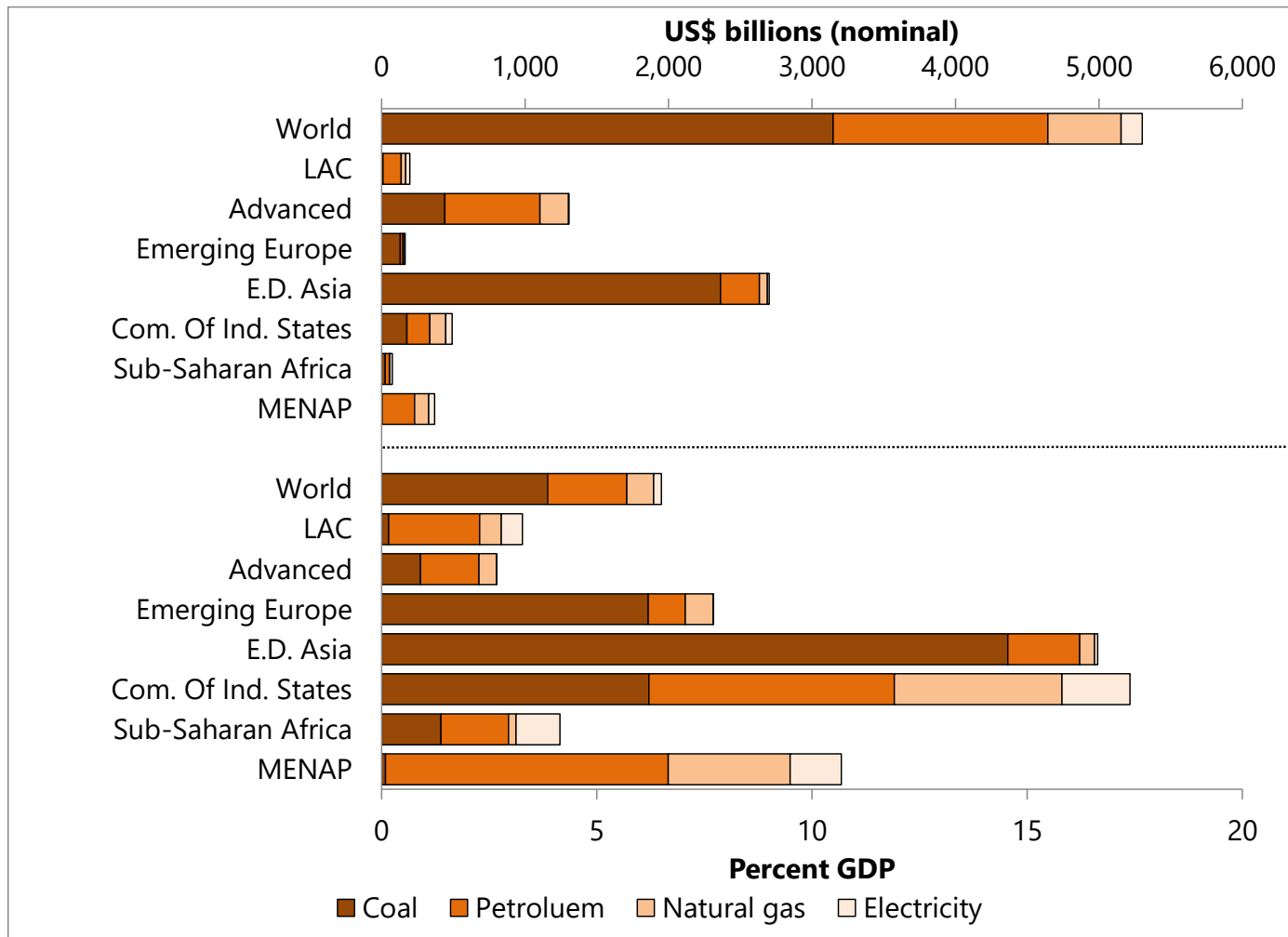Components of global energy subsidies, 2015

… and are mostly from coal

Product composition of global energy subsidies, 2015

Petroleum
28%

Natural gas
10%

Electricity
3%

Coal
59%

Global energy subsidies, by region and component

US$ billions (nominal)

Regions (top panel): World, LAC, Advanced, Emerging Europe, E.D. Asia, Com. Of Ind. States, Sub-Saharan Africa, MENAP

Regions (bottom panel): World, LAC, Advanced, Emerging Europe, E.D. Asia, Com. Of Ind. States, Sub-Saharan Africa, MENAP

Percent GDP

■ Pre-tax ■ Global warming ■ Local air pollution ■ Vehicle externalities □ Foregone revenue

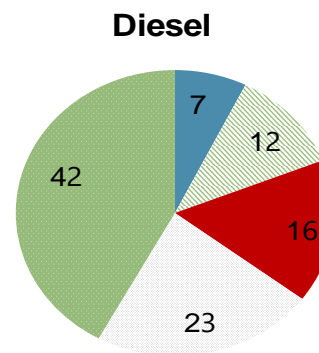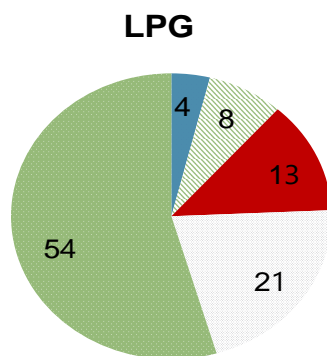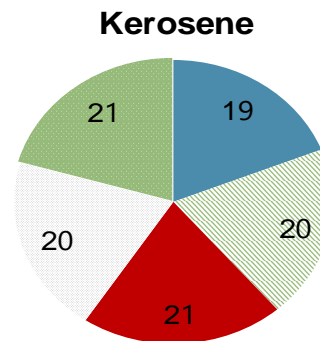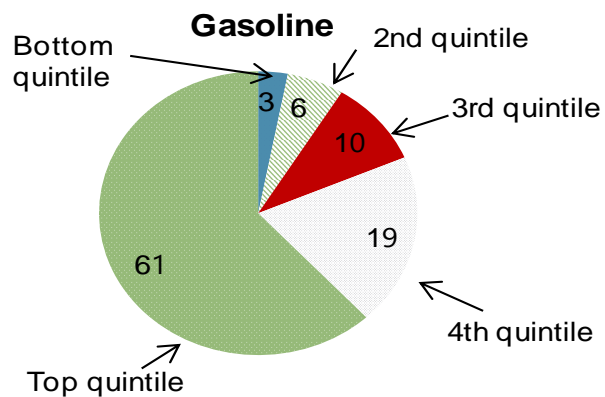Global energy subsidies, by region and product

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)
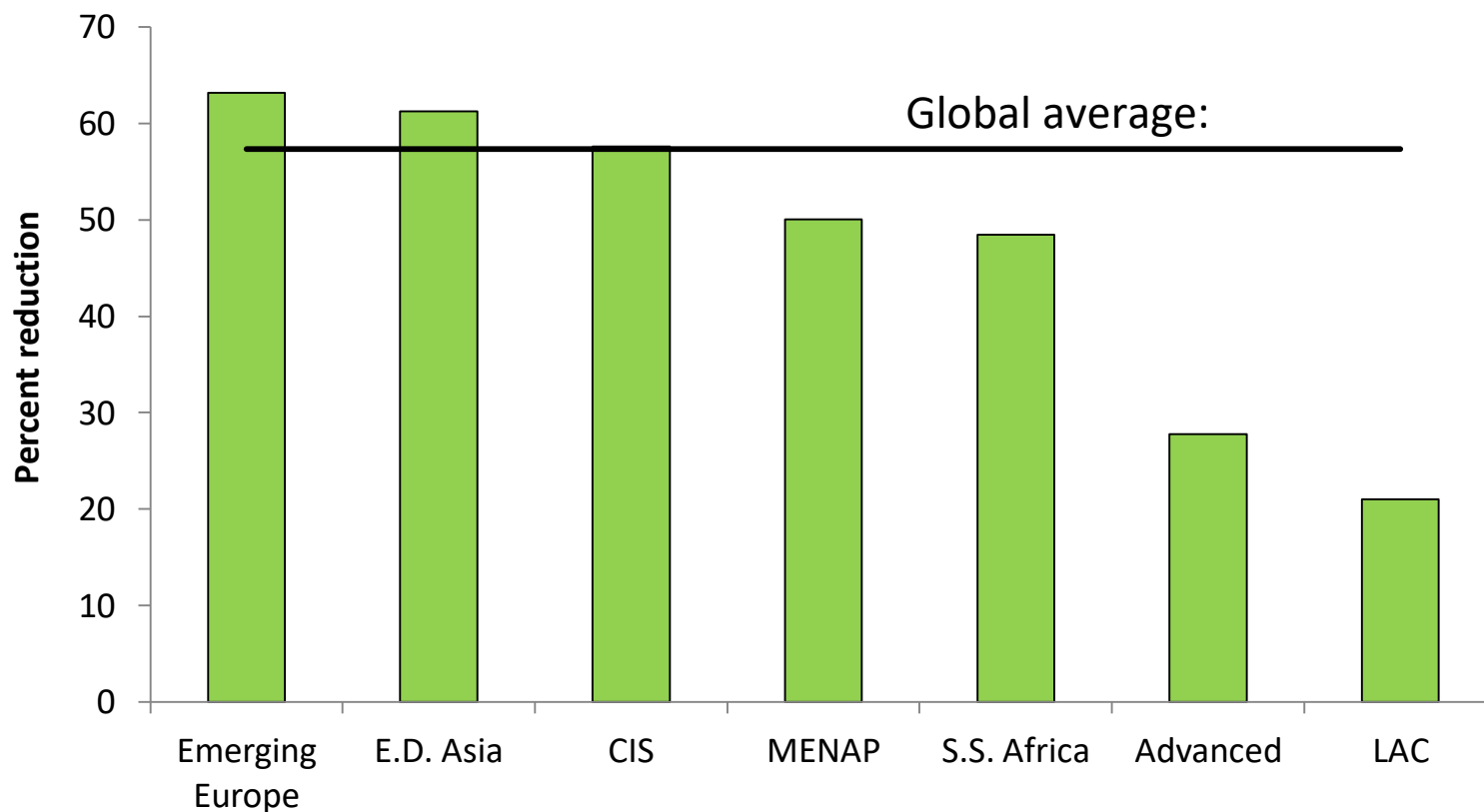
- Reinforce inequality

Distributional impact

Gasoline

Bottom quintile — 3
2nd quintile — 6
3rd quintile — 10
4th quintile — 19
Top quintile — 61

Kerosene

21, 19, 20, 20, 21

LPG

4, 8, 13, 21, 54

Diesel

7, 12, 16, 23, 42

Energy price reform can generate substantial health benefits…

Reduction of fossil-fuel emissions-related deaths, 2015

Bar chart showing "Percent reduction" on the y-axis (0 to 70) by region. Global average line drawn at approximately 57.

- Emerging Europe: ~63
- E.D. Asia: ~61
- CIS: ~57
- MENAP: ~50
- S.S. Africa: ~48
- Advanced: ~28
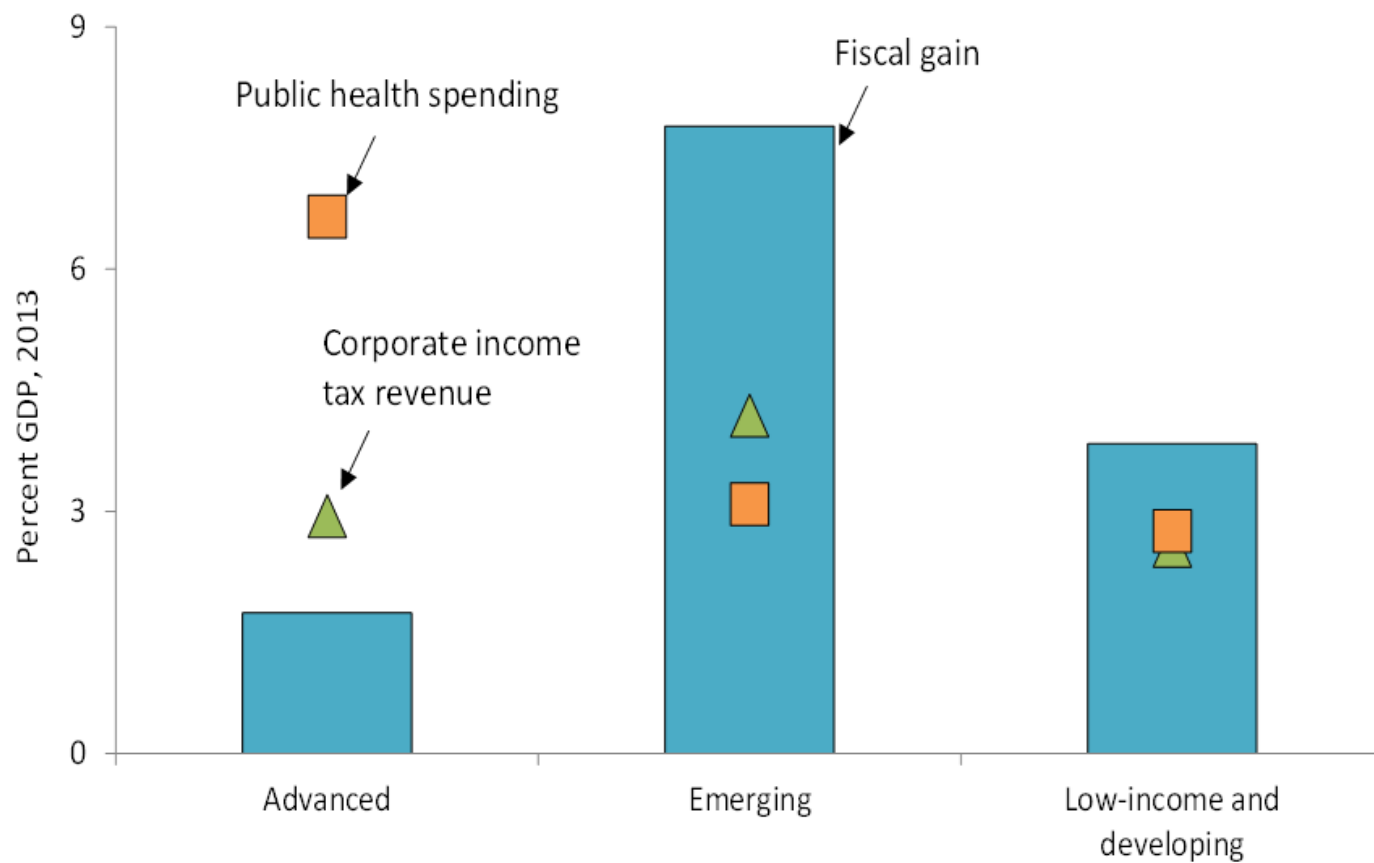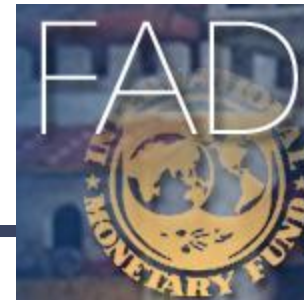- LAC: ~21

Global average: (line across chart)

…and carbon emission reductions…

Reduction of fossil-fuel related CO$_2$ emissions, 2015
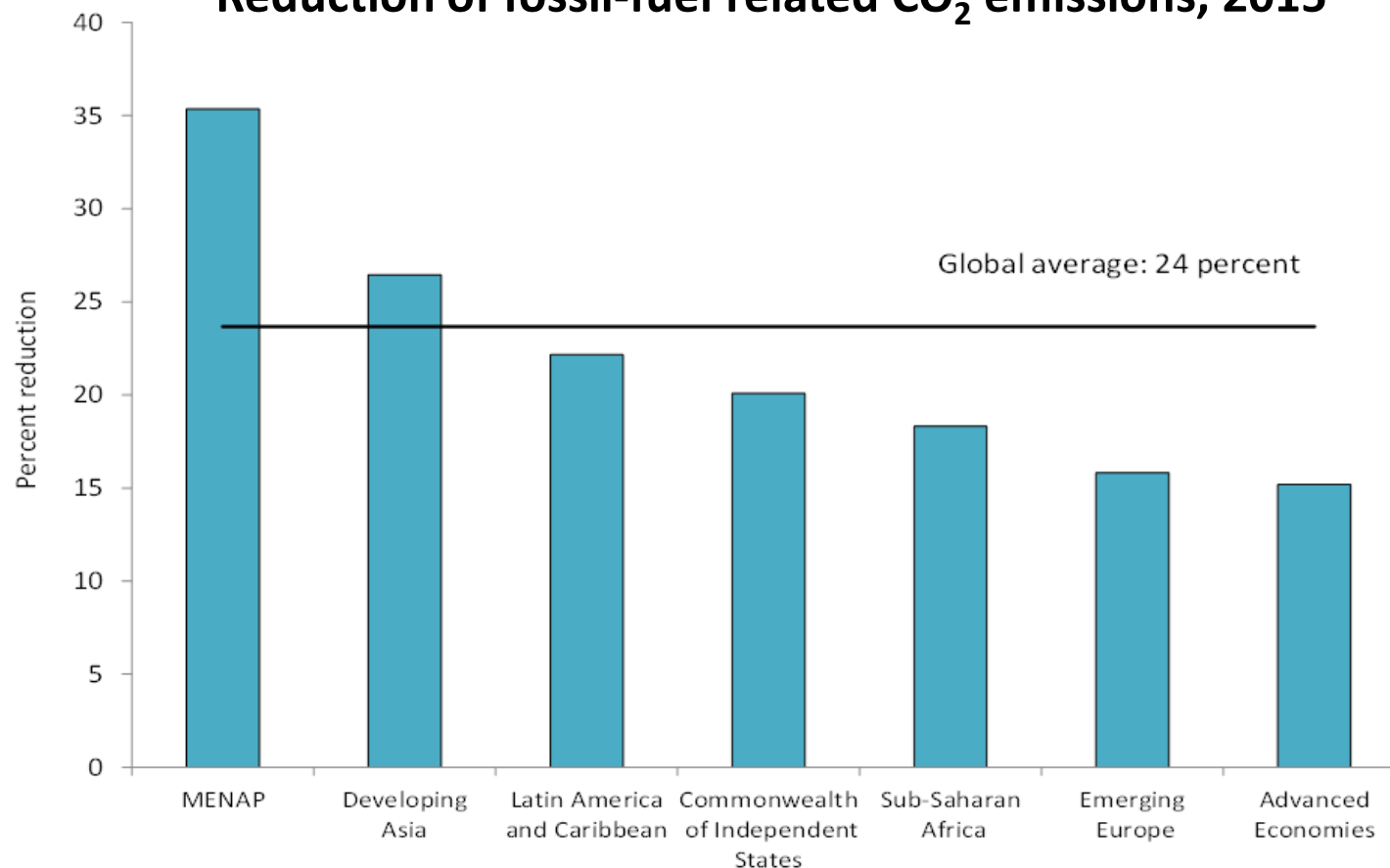
…as well as a significant fiscal dividend
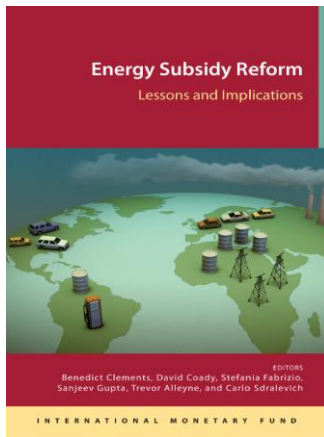
Time is now: act local, solve global!

- Mispricing of energy is substantial and pervasive across advanced and developing countries

- Reforms are needed for domestic reasons

- 195 countries signed on to the Paris climate agreement

- Low energy prices provide a window of opportunity

- Reform process should *start now* and be *gradual*
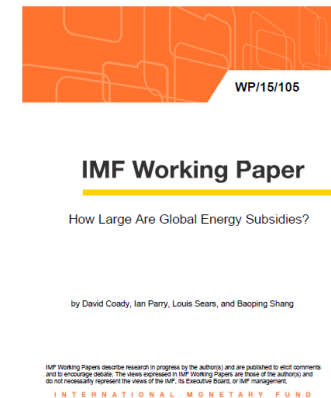
Some references

1. Reforming energy subsidies

2. Apply appropriate corrective taxes

3. Global magnitude and reform benefits

See http://www.imf.org/external/np/fad/subsidies/
http://www.imf.org/external/np/fad/environ/