

How Large Are Global Energy Subsidies?

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Background

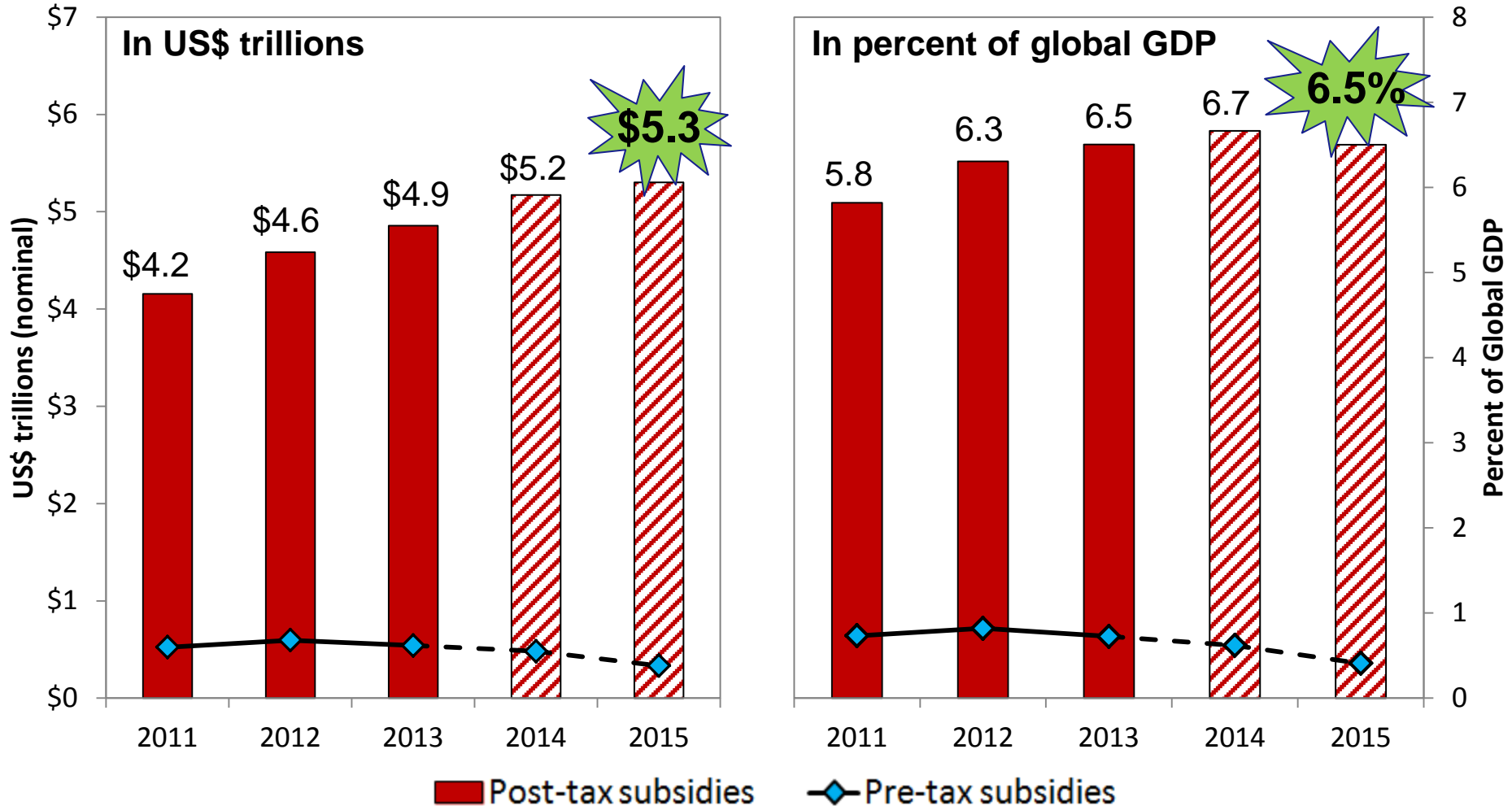


The presentation draws from a new paper and two blogs from the IMF:

- Provides a comprehensive, updated picture of energy subsidies and the impacts of subsidy reform
 - Focusing on the broader notion of ***post-tax*** energy subsidies, instead of ***pre-tax*** subsidies
 - The ***estimates*** of the environmental, revenue and welfare impacts of eliminating energy subsidies are “***partial equilibrium***” in nature
- Points to the need to begin reform immediately while adopting a gradual reform strategy

Global energy subsidies are \$5.3 trillion

Global energy subsidies



Pre-tax consumer subsidies arise when the price paid by consumers is below the cost of supplying energy. Post-tax consumer subsidies arise when the price paid by consumers is below the supply cost of energy plus an appropriate “Pigouvian” (or “corrective”) tax reflecting the environmental damage associated with energy consumption and an additional consumption tax that should be applied to all consumption goods for raising revenues.

Costs are far-reaching

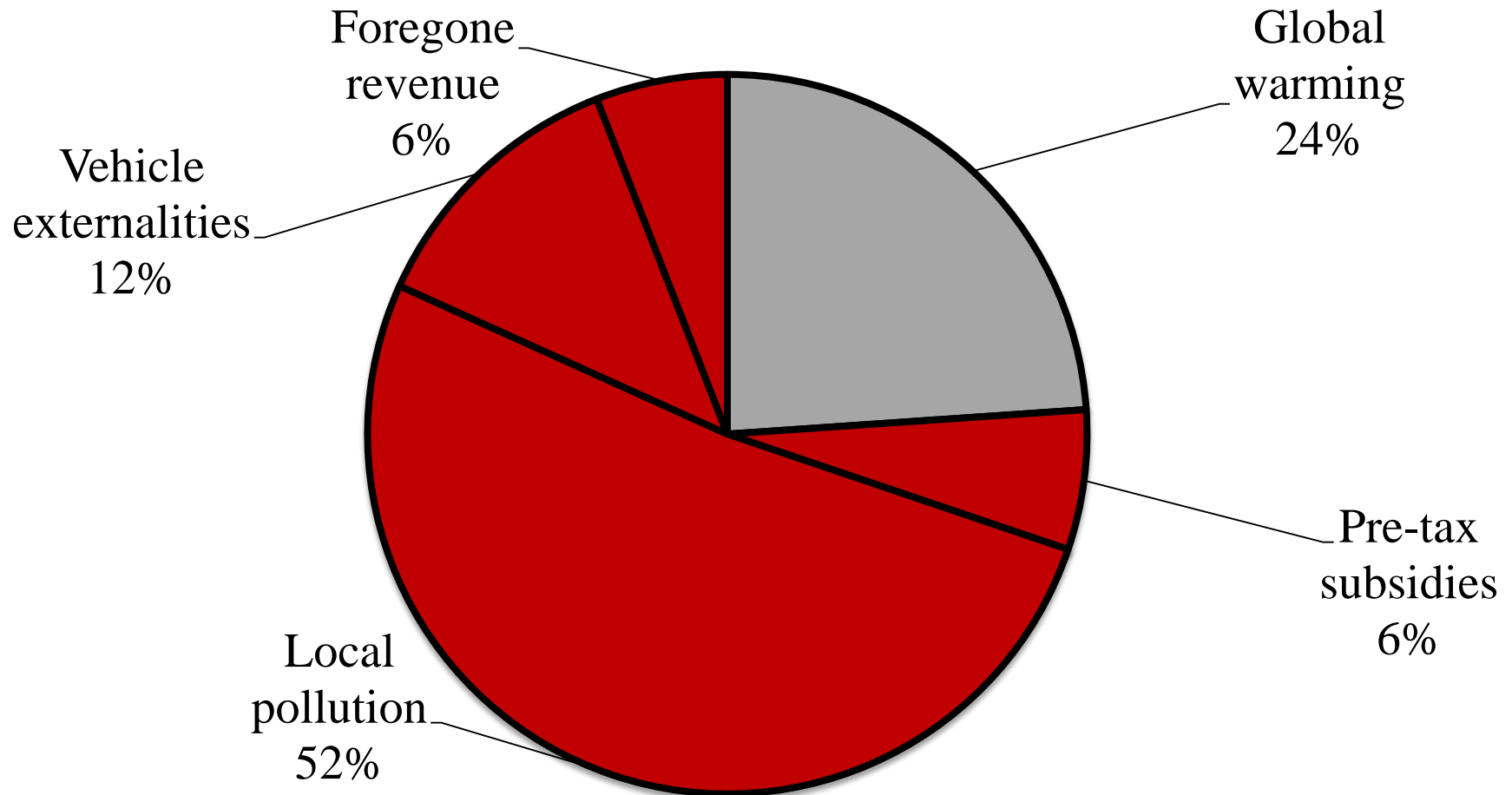


- **Exacerbate environmental damage**
 - Local pollution, traffic congestion and accidents, road damage, and global warming
- **Worsen inequality**
 - Most of the benefits are captured by rich households
 - Better targeted policy instruments are often available or can be quickly developed
- **Retard economic growth**
 - Discourage energy investments and encourages energy inefficiency
- **Fiscally costly**
 - Which requires higher distortionary taxation and crowds out high priority spending (education, health, infrastructure)

.....mostly local



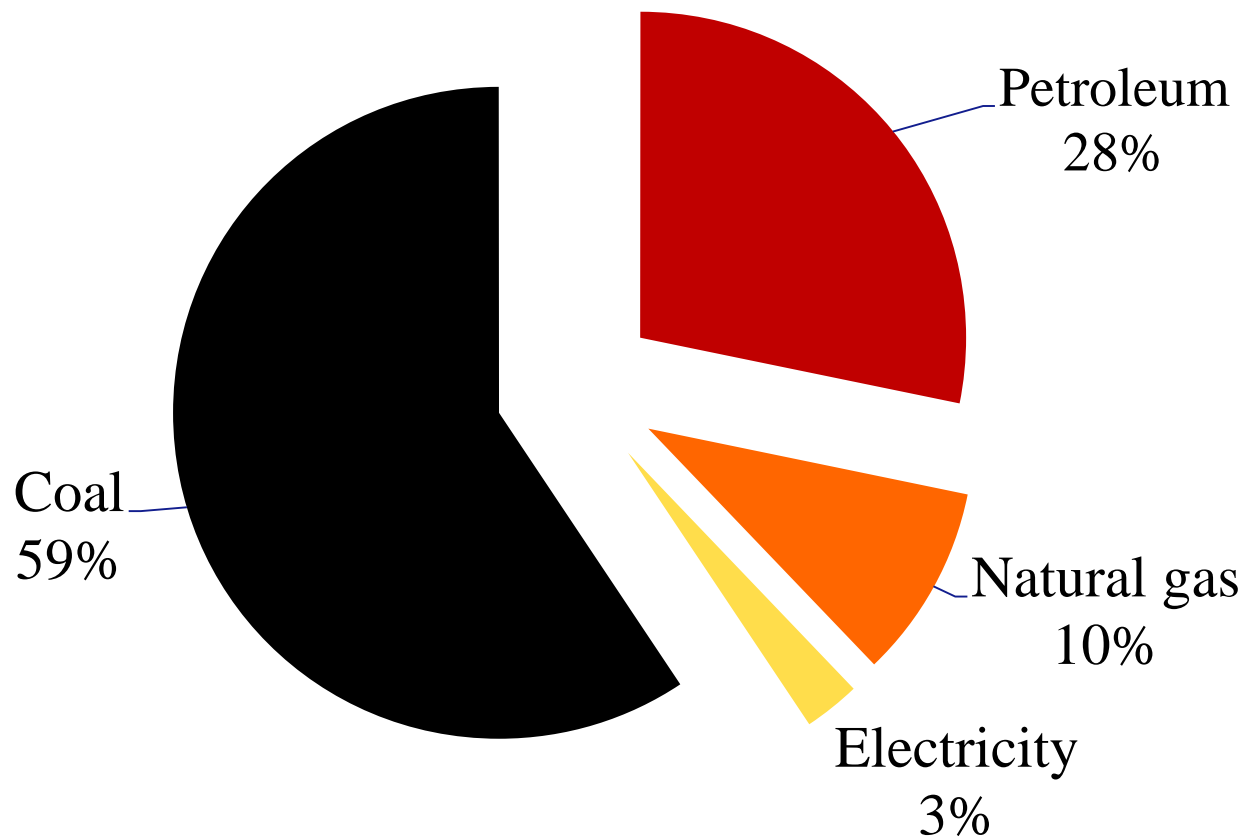
Components of global energy subsidies, 2015



..... and from coal



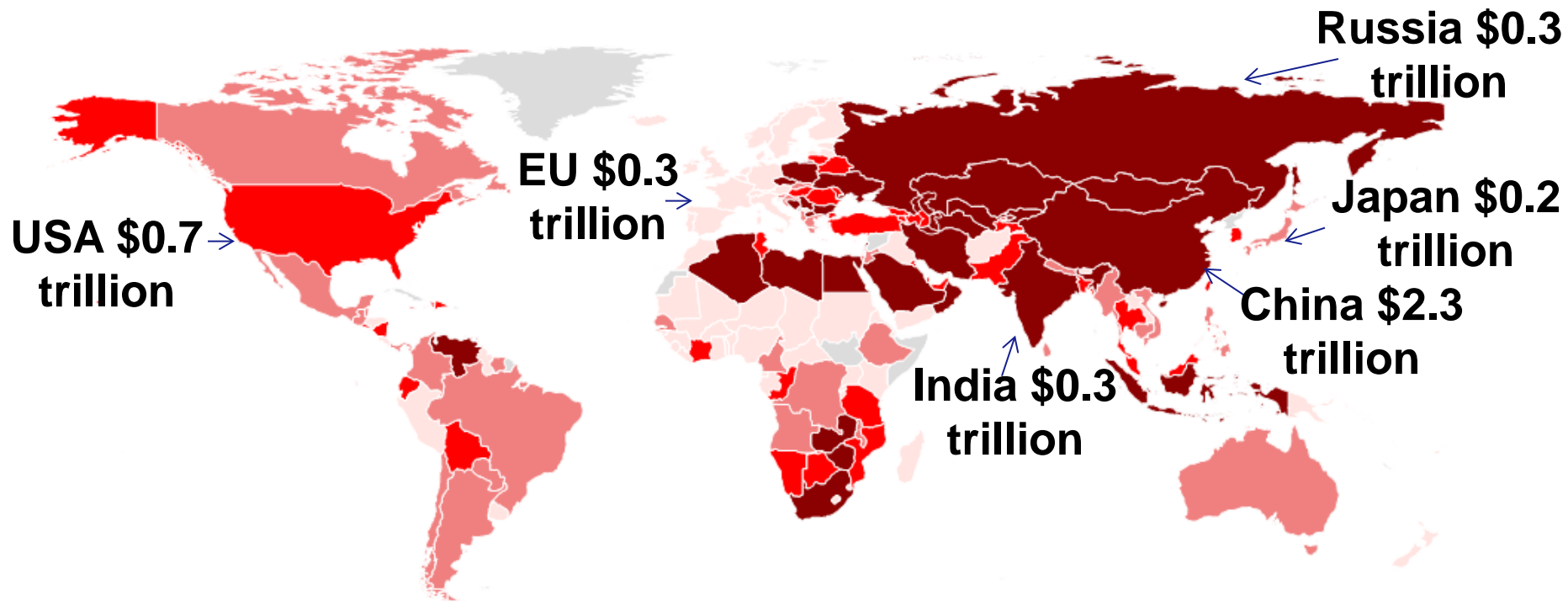
Product composition of global energy subsidies, 2015



Energy subsidies are pervasive



Geographic distribution of global energy subsidies, 2015



Subsidies, percent of GDP

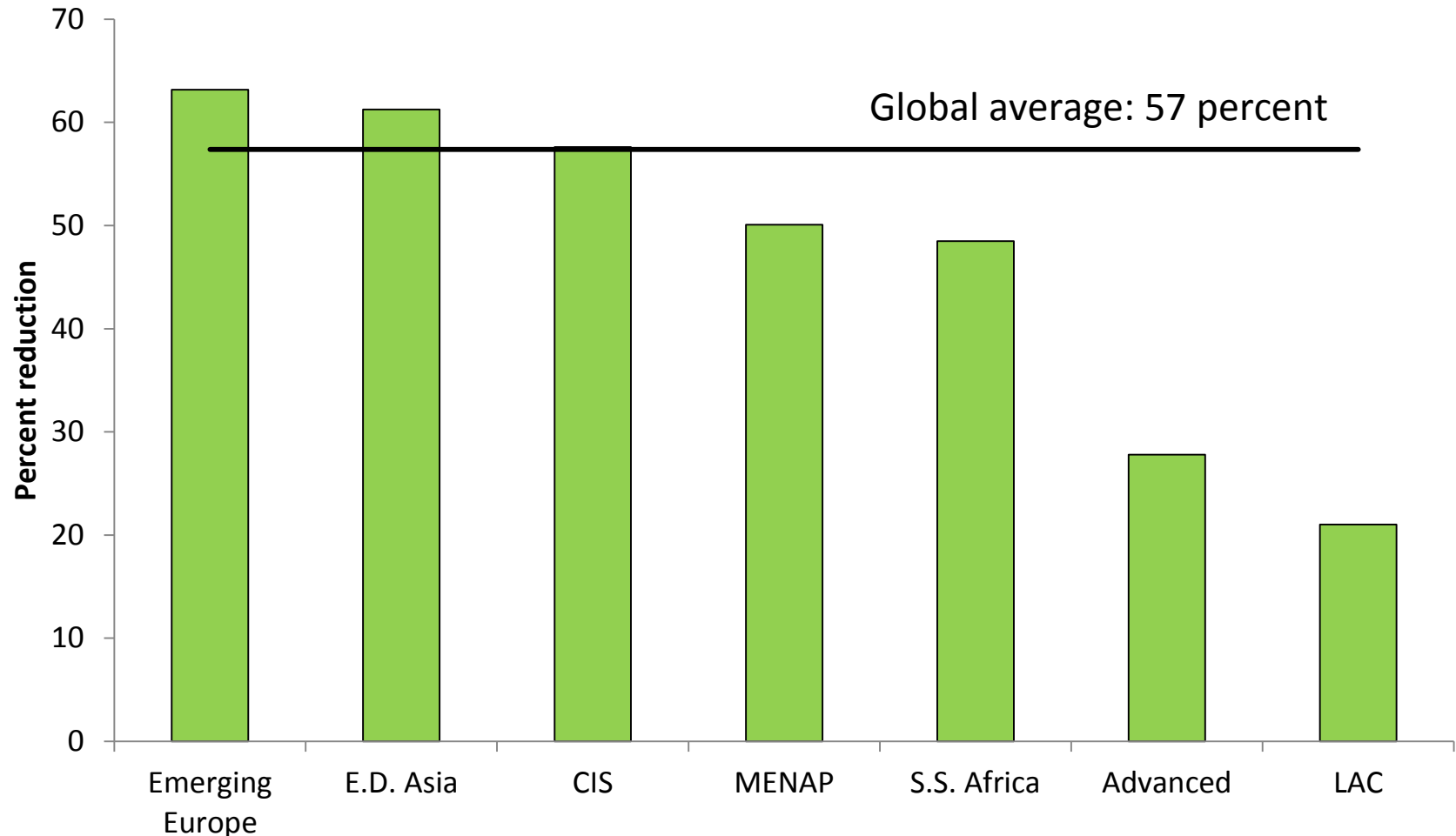
Legend for Subsidies, percent of GDP:

- Data unavailable
- Less than 2 percent
- 2 to 4 percent
- 4 to 8 percent
- More than 8 percent

Energy subsidy reform can generate substantial health benefits



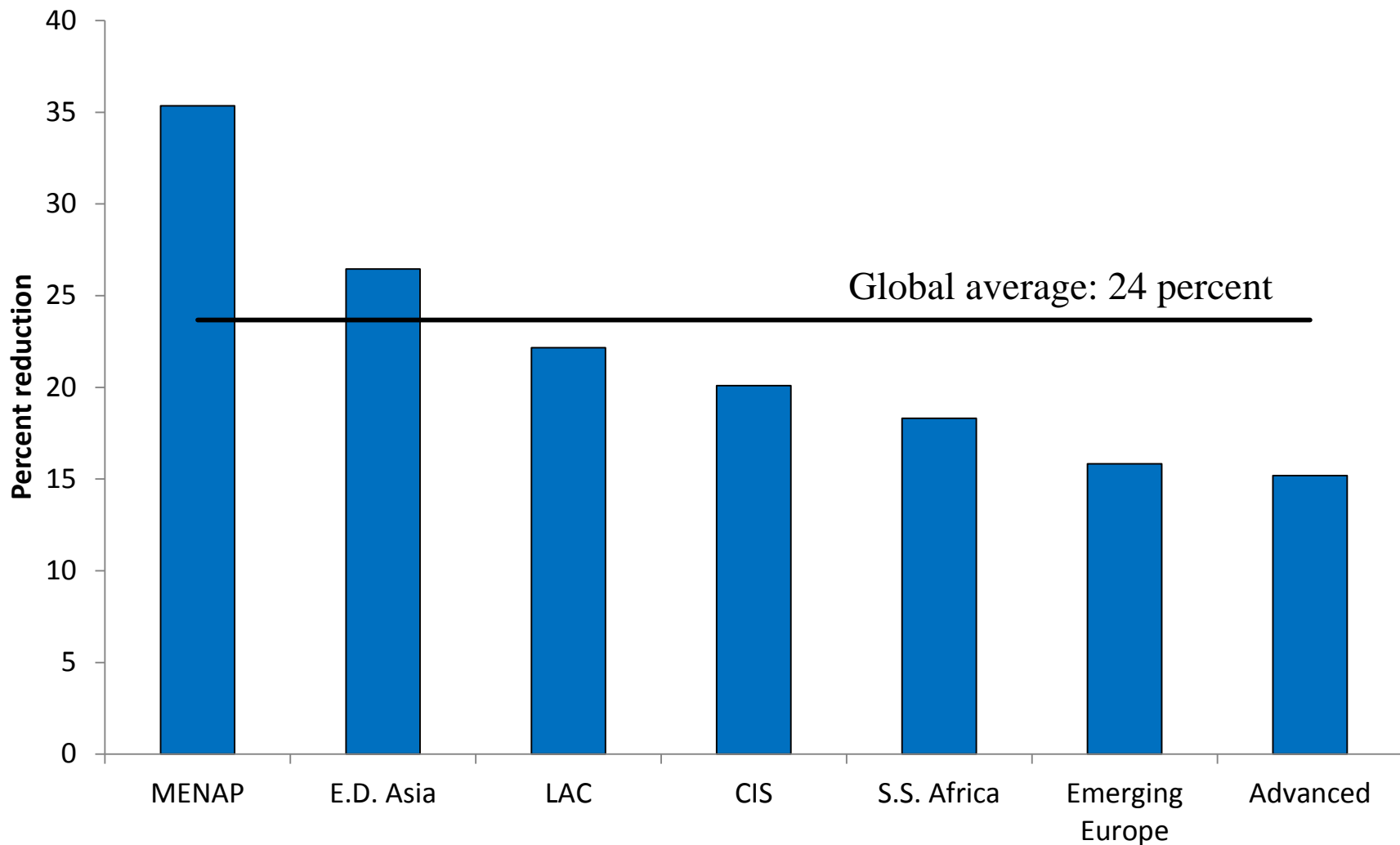
Reduction of fossil-fuel emissions-related deaths, 2015



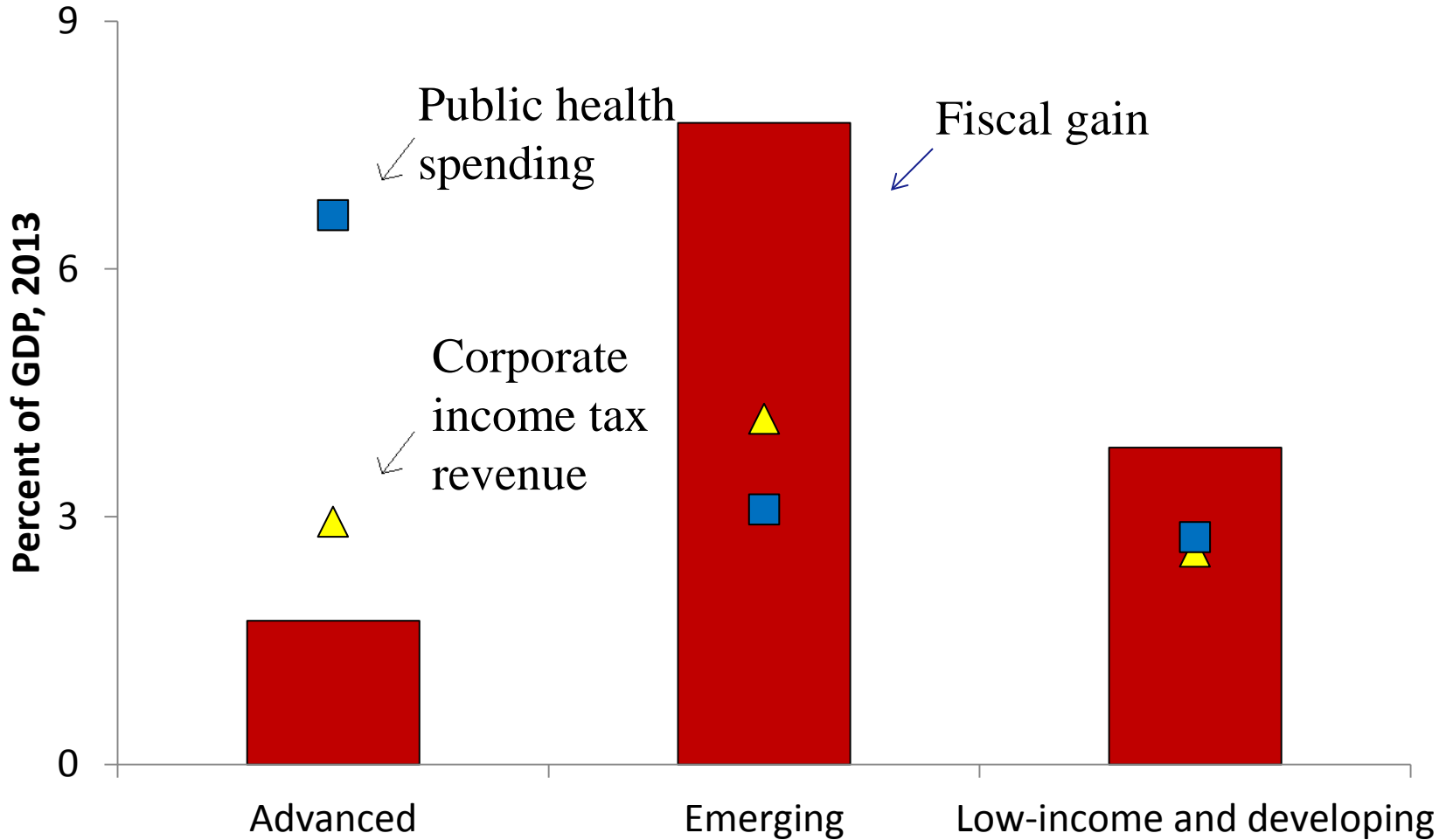
..... and carbon emission reductions



Reduction of fossil-fuel related CO₂ emissions, 2015



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



Time is now: act local, solve global!



- Energy subsidy reform is urgently needed in many countries for domestic reasons
- This will also contribute to carbon emission reductions (in the run up to Paris 2015 UN Climate conference)
- Low international energy prices provide a window of opportunity for reform

Reform process should ***start now***
and it should be ***gradual***

Thank you!

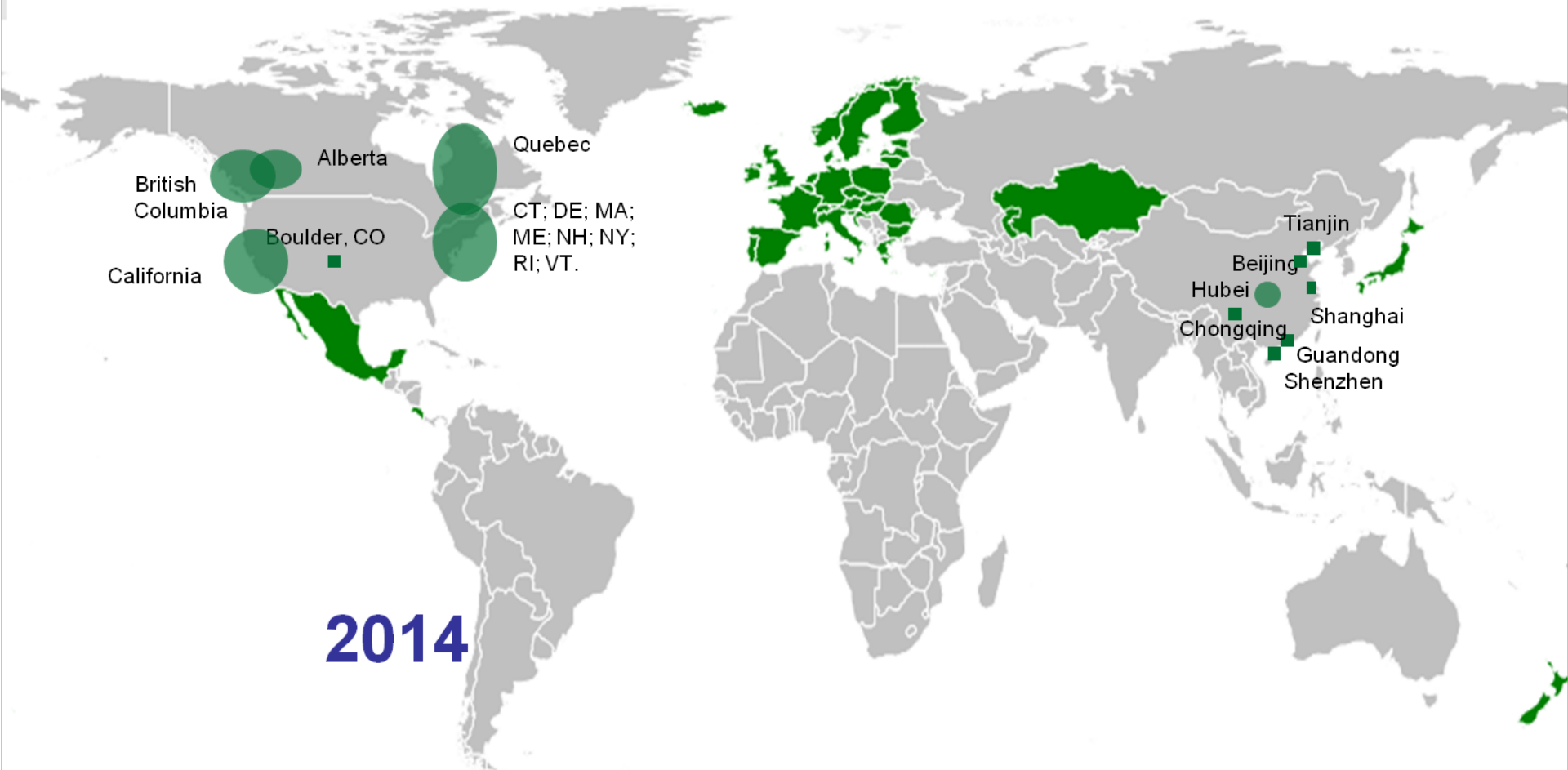


- The working paper “***How Large Are Global Energy Subsidies***”
- The blog “***Act Local, Solve Global: Energy Tax and Subsidy Reform***”
- The blog “***Global Energy Subsidies Are Big—About US\$5 Trillion Big***”
- All can be found at:
<http://www.imf.org/external/np/fad/subsidies/>

Background slides

A number of countries have started to reform energy taxation

Carbon taxes and emissions trading systems



Other references



- Clements, B. J., D. Coady, S. Fabrizio, S. Gupta, T. Alleyne, C. A. Sdravovich, 2013, *Energy Subsidy Reform: Lessons and Implications*. Washington D.C.: International Monetary Fund.
- Clements, B. J., D. Coady, S. Fabrizio, S. Gupta, B. Shang, 2014, “Energy Subsidies: How Large Are They and How Can They Be Reformed”, *Economics of Energy & Environmental Policy* 01/2014; 3(1).
- Parry, I., D. Heine, E. Lis, and S. Li, 2014, *Getting Energy Prices Right: From Principle to Practice*. Washington D.C.: International Monetary Fund.