



WORLD BANK GROUP

Fuel pricing policy: How have governments fared recently?

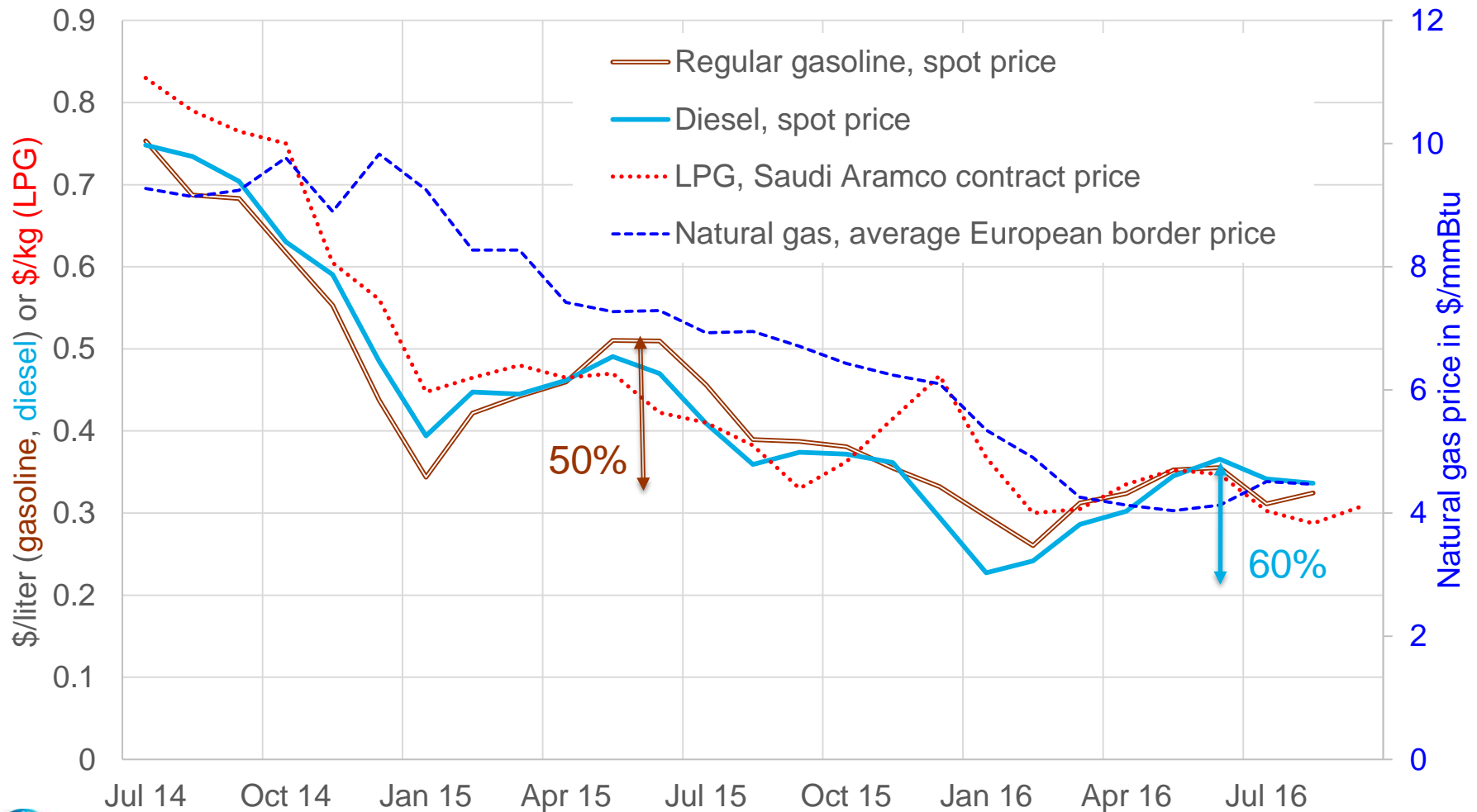
Masami Kojima
13 October 2016

Impact of low world prices

Issue	Major hydrocarbon exporter	Net importer
Government revenue	Significantly down	Little
Pressure to reduce price subsidies	Significant	Varies
Ease of price subsidy reform	Challenging because of general state of economy	Easier than before
Impact of price subsidy reform	If fuel shortages and high black market prices: not as large as official prices would suggest	Varies but likely to be less than in major exporting countries because of generally higher domestic prices, and in some cases nil because prices may be at cost recovery at this point in time
	If official prices hold: could be significant because “savings” are more than offset by government revenue loss, making compensation difficult	

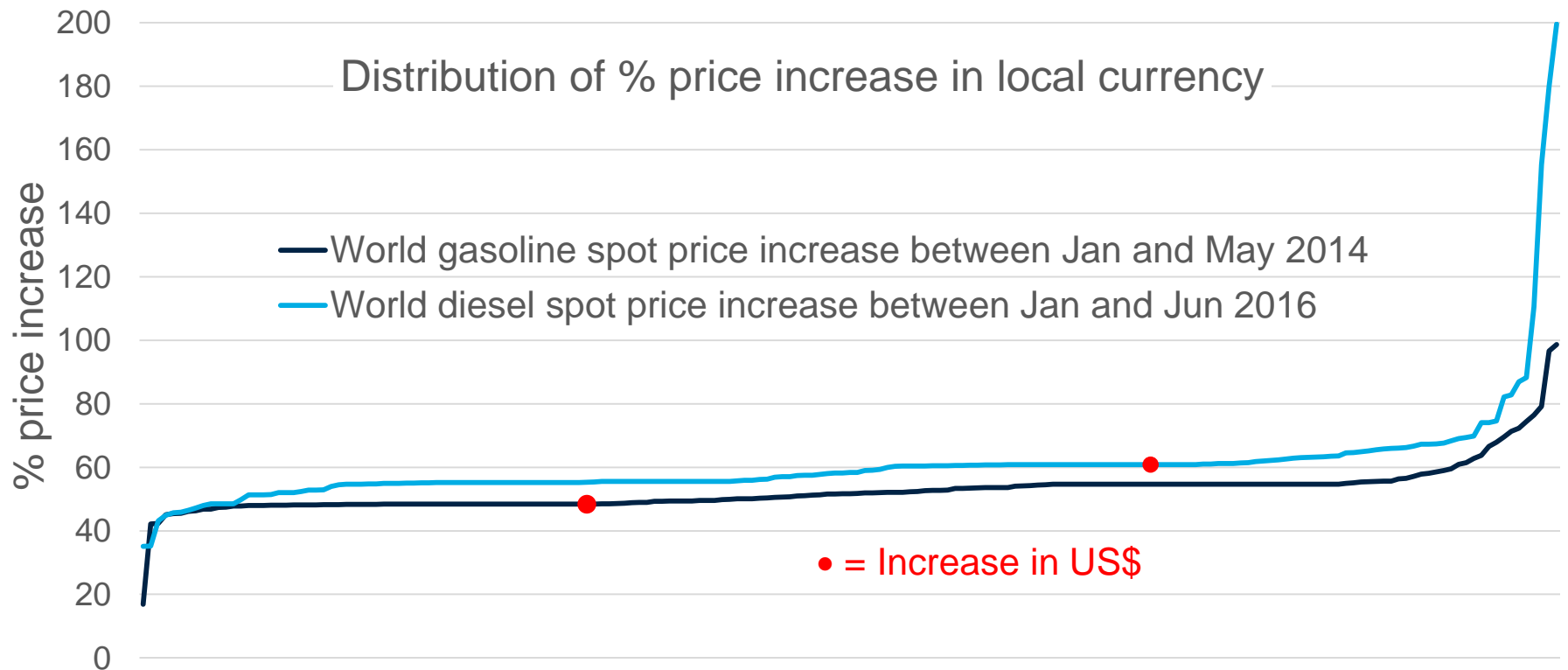
Challenge of fuel price volatility

World price increases in the first half of 2015 and 2016 tested commitment to pricing reforms in some countries.

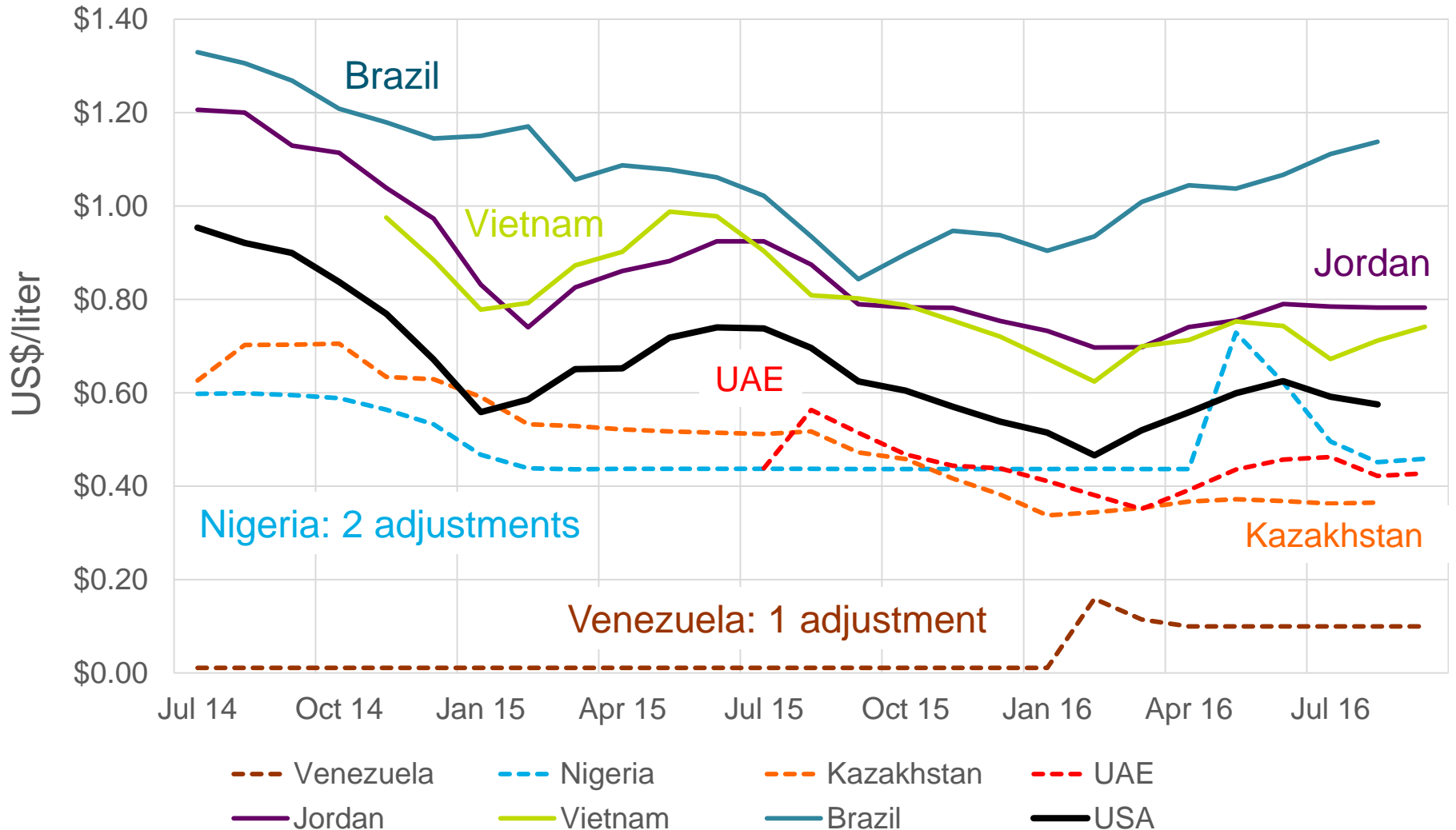


Impact of currency on world price volatility

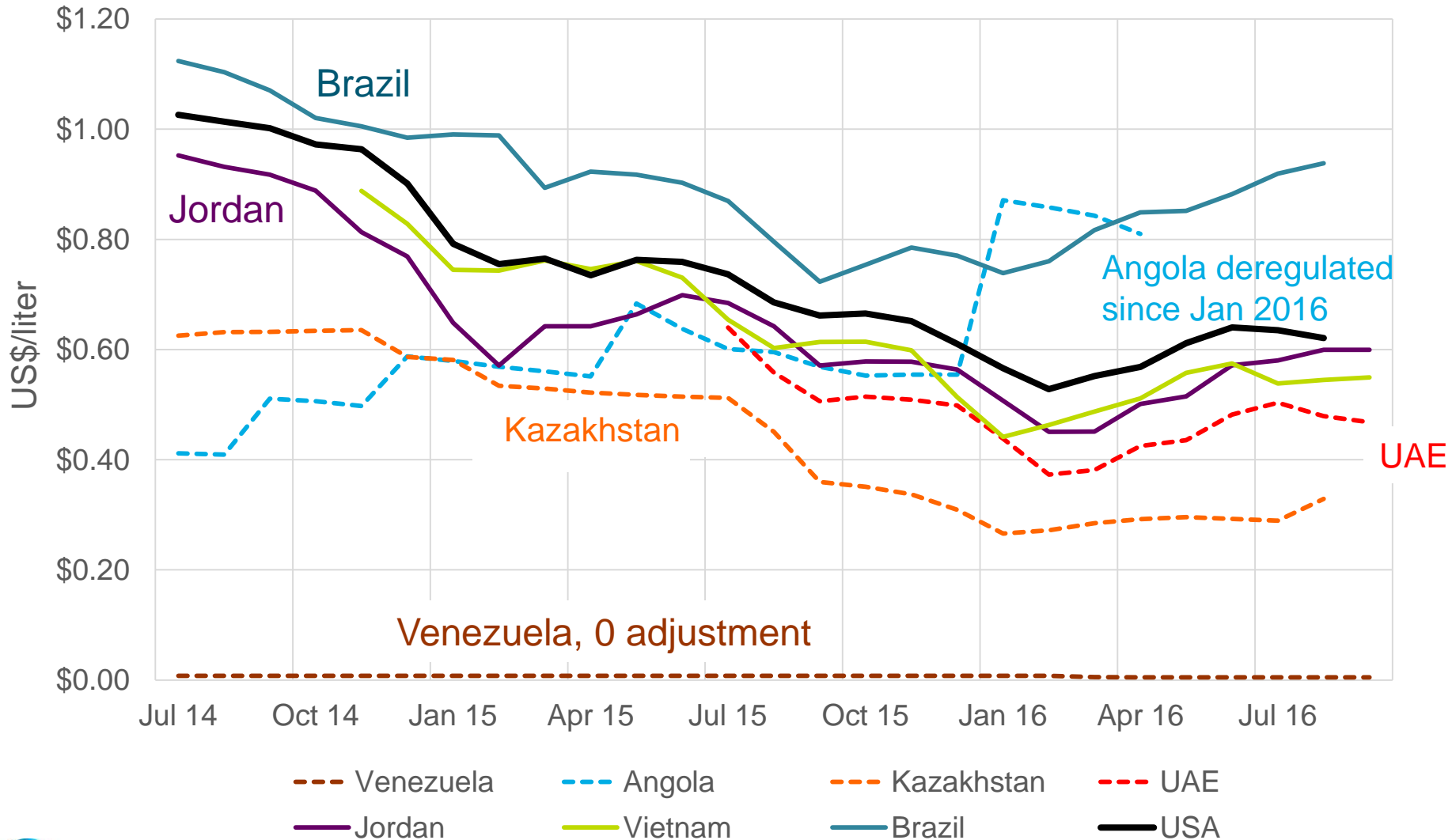
World fuel price increases were exacerbated by currency depreciation in some countries. Gasoline price increases were larger in local currency units than \$ increases in 2/3 of all countries, while diesel price increases exceeded 100% in 4. Some countries faced smaller price increases.



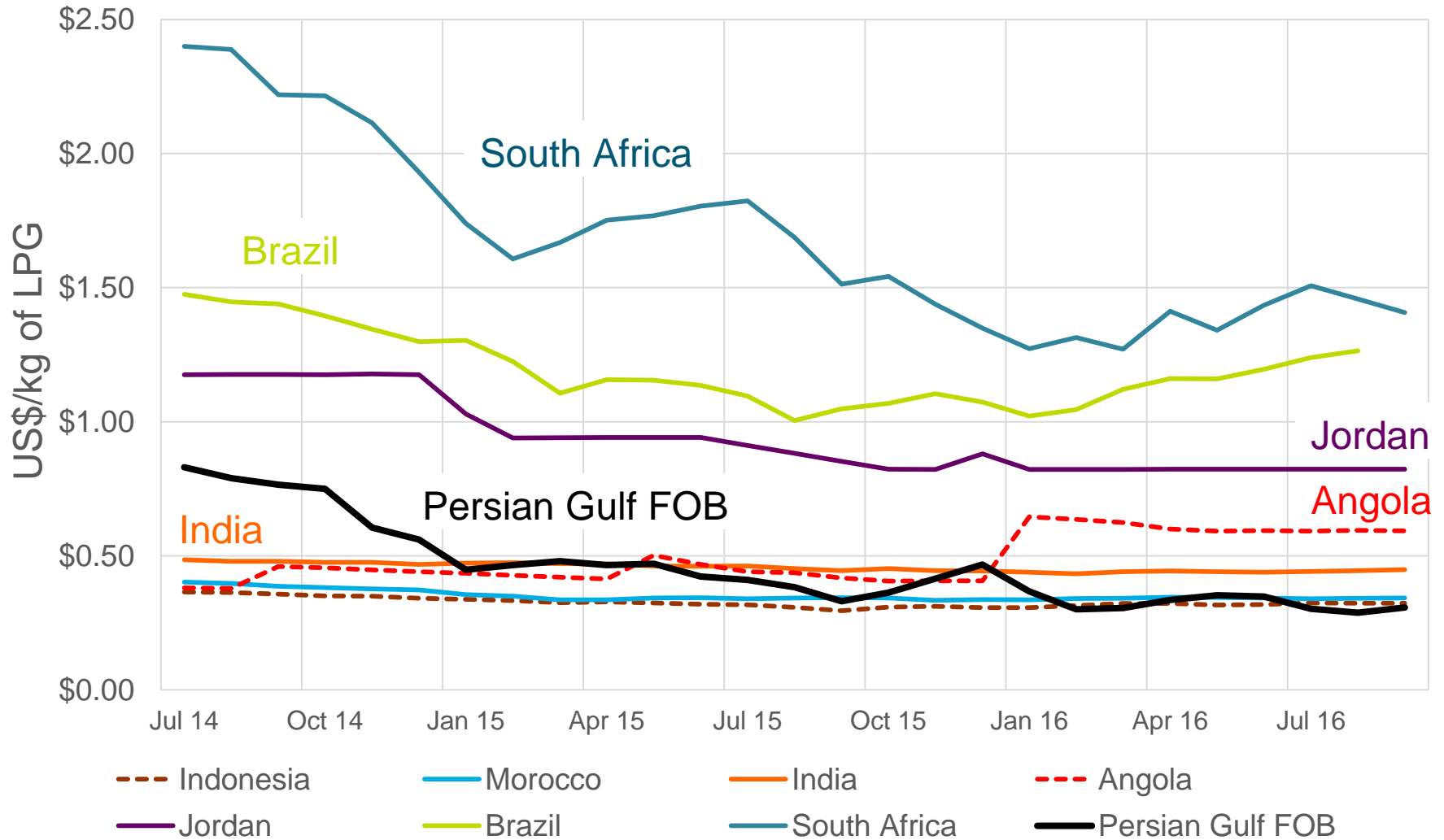
Comparison of retail regular gasoline prices



Comparison of retail diesel prices



Retail prices of LPG for household use

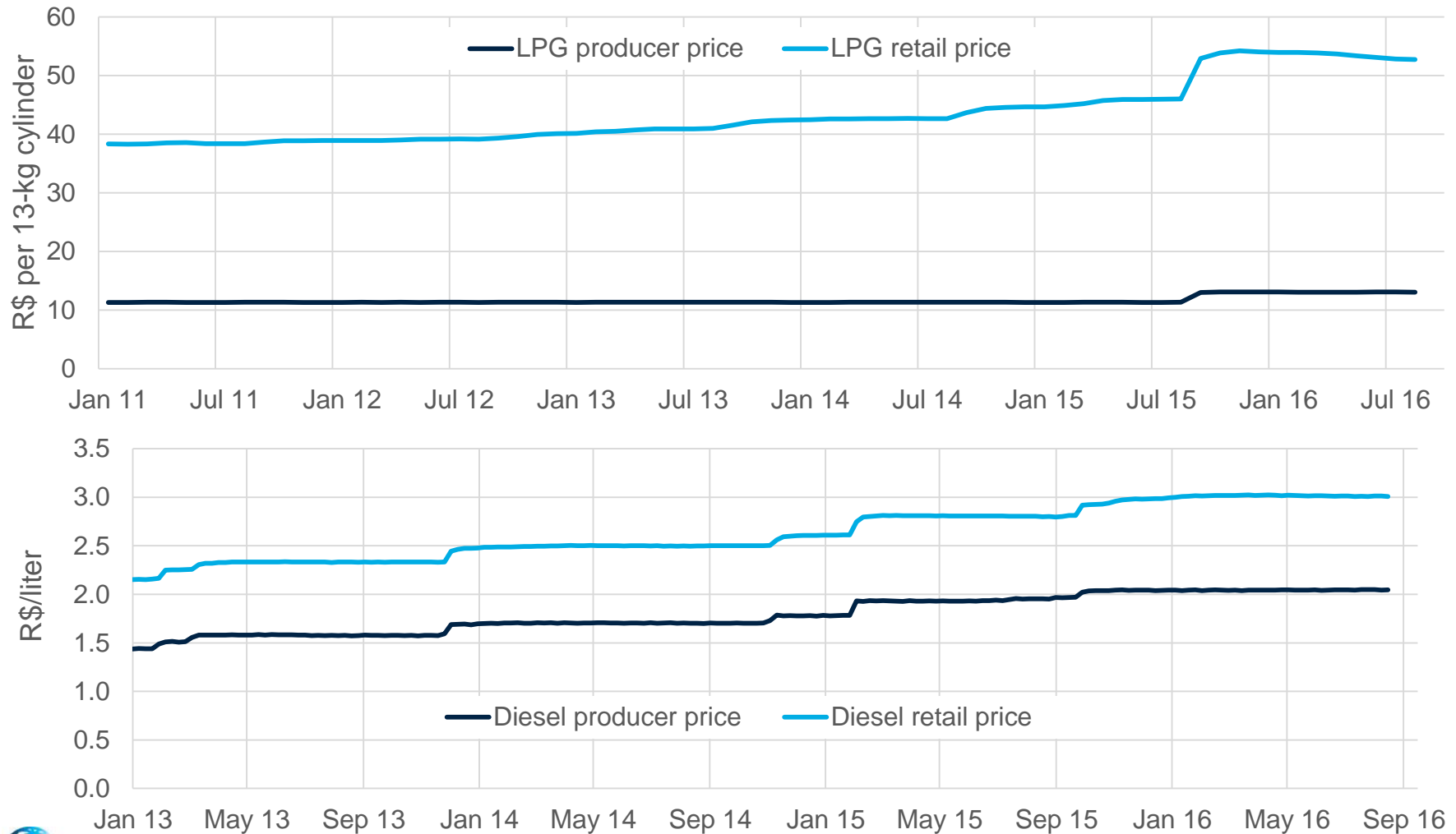


Different paths

Pricing policy	Countries
Rare, ad hoc price increases or price freezes for years at a time	Algeria, Ecuador, Egypt, Iran, Kuwait, Saudi Arabia, Turkmenistan, Venezuela
Rare price adjustments	Bangladesh, Bolivia, Cameroon, Mozambique, Niger, Sri Lanka, Tunisia
Large price subsidies for certain fuels with infrequent adjustments	LPG in Indonesia, Morocco, Tunisia; kerosene in India; diesel in Venezuela
Monthly adjustments of fuel prices	Jordan, Madagascar, Malawi, UAE
Monthly or semi-monthly adjustments of price ceilings	Kenya, South Africa, Tanzania, Vietnam
Deregulation of certain fuels	Angola (gasoline, diesel), Nigeria (diesel)
Trade restrictions or high export tariffs	Kazakhstan, Russia (in the past)
Free or heavily-discounted-price fuels	Especially for power generation
Domestic supply obligation	Gas in Nigeria
Implicit government control of prices	Brazil
Deregulation with targeted assistance	Chile, Philippines, Turkey

Official vs. actual policy in practice

Law 9478 deregulating fuel prices was fully “implemented” by Dec 2001.

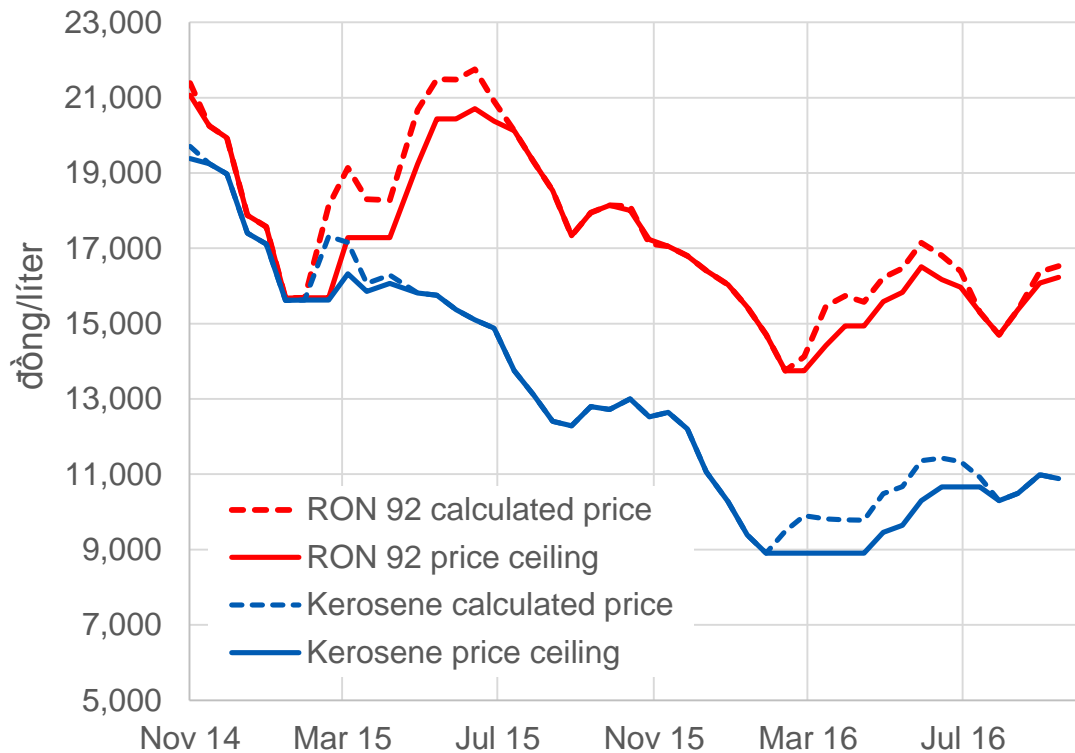


Coping with price volatility: Attempts at smoothing

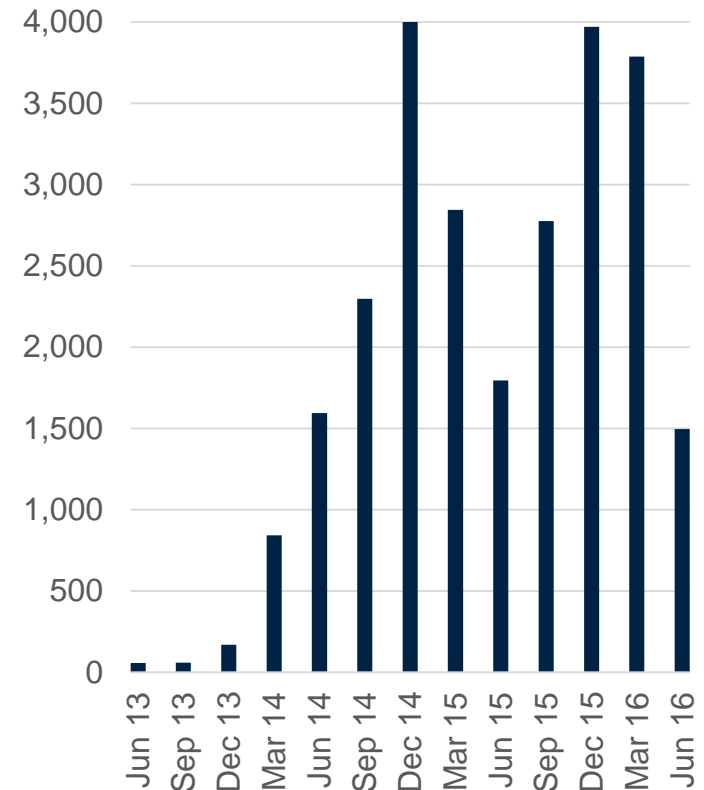
- Price stabilization fund is intuitively attractive:
 - Save in times of low world prices, spend in times of high world prices
 - Self-financing, achieving price smoothing at no cost to government
- Self-financing if prices revert to the mean frequently
 - Since 2001, reversion to the mean has not held
 - Either prices are not smoothed much, or large budgetary transfers to the fund (\$0.7 billion in Chile, \$2.4 billion in Peru)
- Another challenge: growing fund balance invites political pressure to spend
 - “It is very hard to have a huge sum of money at the bedside and to tighten your belt at the same time.”

Fuel price stabilization fund in Vietnam

- Base prices set for 92 RON gasoline, E5, kerosene, diesel and fuel oil
- Stabilization fund

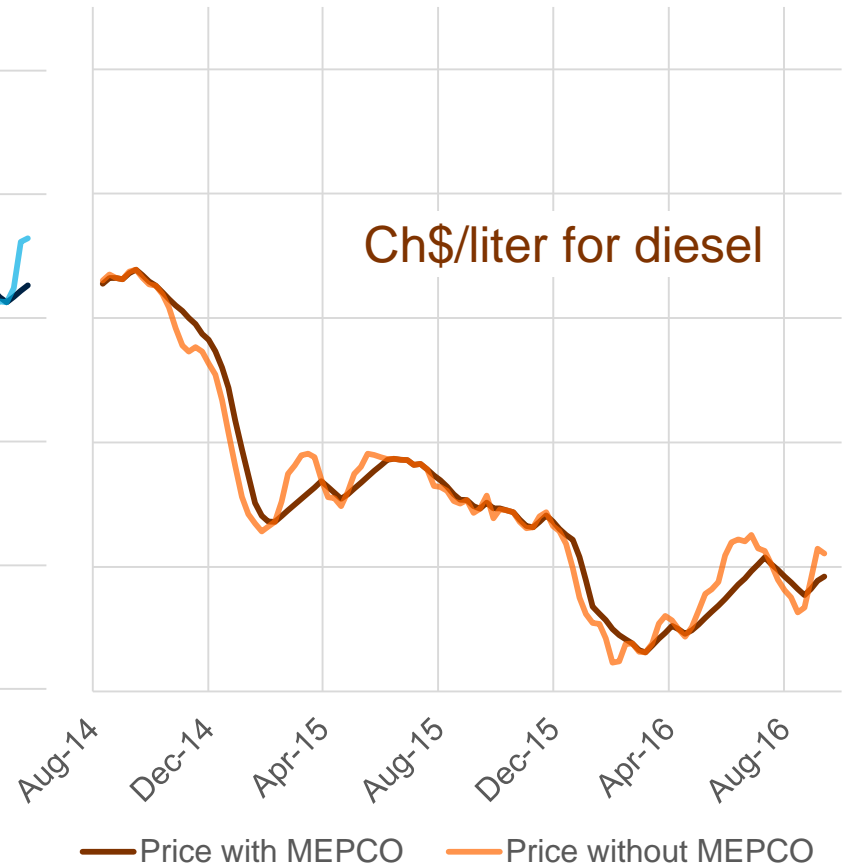
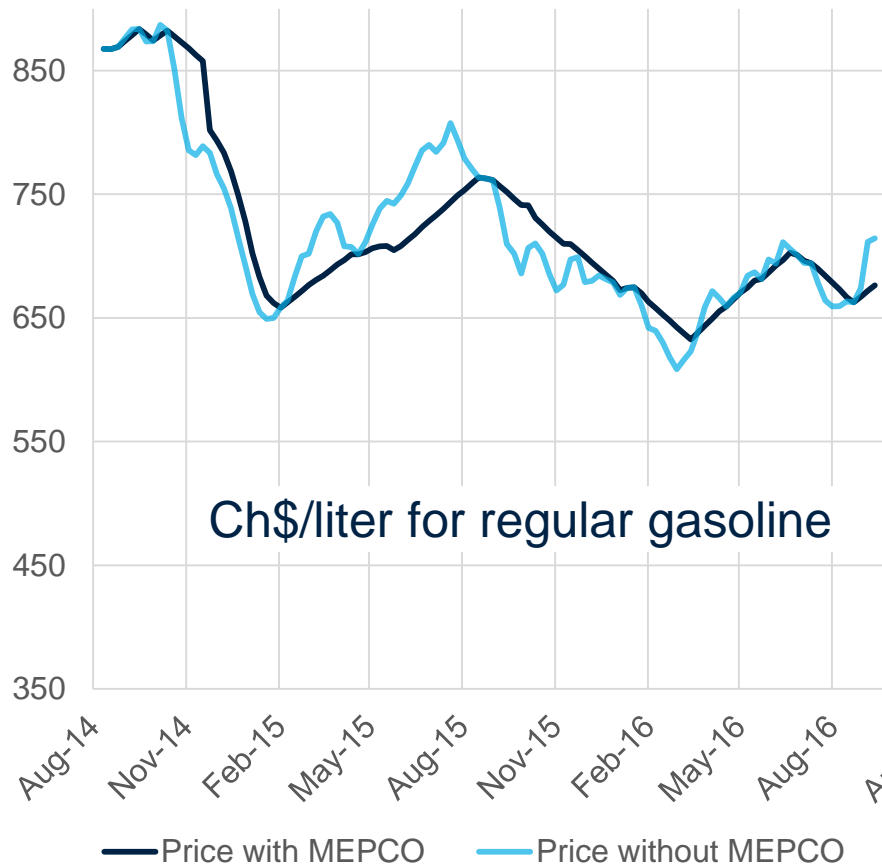


Fund balance, billion đồng



Chile adjustable fuel tax (MEPCO)

Two-component tax, fixed and variable. Limits weekly price increases and decreases and follows a numerical formula strictly
Prices are deregulated – no market interference or distortions



Concluding observations

- Oil price collapse of 2014 dramatically reduced price subsidies without much government action
 - Victory claimed for “slashing” subsidies
 - But political commitment was tested when prices rose
- Much smaller fiscal space for compensation adds to the challenges faced by major oil exporters
- Absent adequate competition, price ceilings may be needed – continuing government price control
- Power sector and fuel sector have to work together on pricing reforms for natural gas, coal, and fuel oil
 - Low power tariffs and/or poor payment discipline make fuel pricing reforms difficult

Concluding observations (continued)

- Implementation of automatic pricing mechanisms requires **very strong political commitment** – many countries fail to implement them *systematically*
 - Temptation is to lower prices when world prices fall, without matching increases when world prices rise
 - Announce new prices at the specified time interval, even if no changes, and cite reasons for no change or departure from policy
- Key challenge is government policy response to fuel price volatility, and especially significant price increases in the future
 - Frequent, small price increases to introduce flexible fuel tax may be an option for dealing with future volatility