

The Quest for Subsidies Reforms in the Middle East and North Africa Region (2010-2014)

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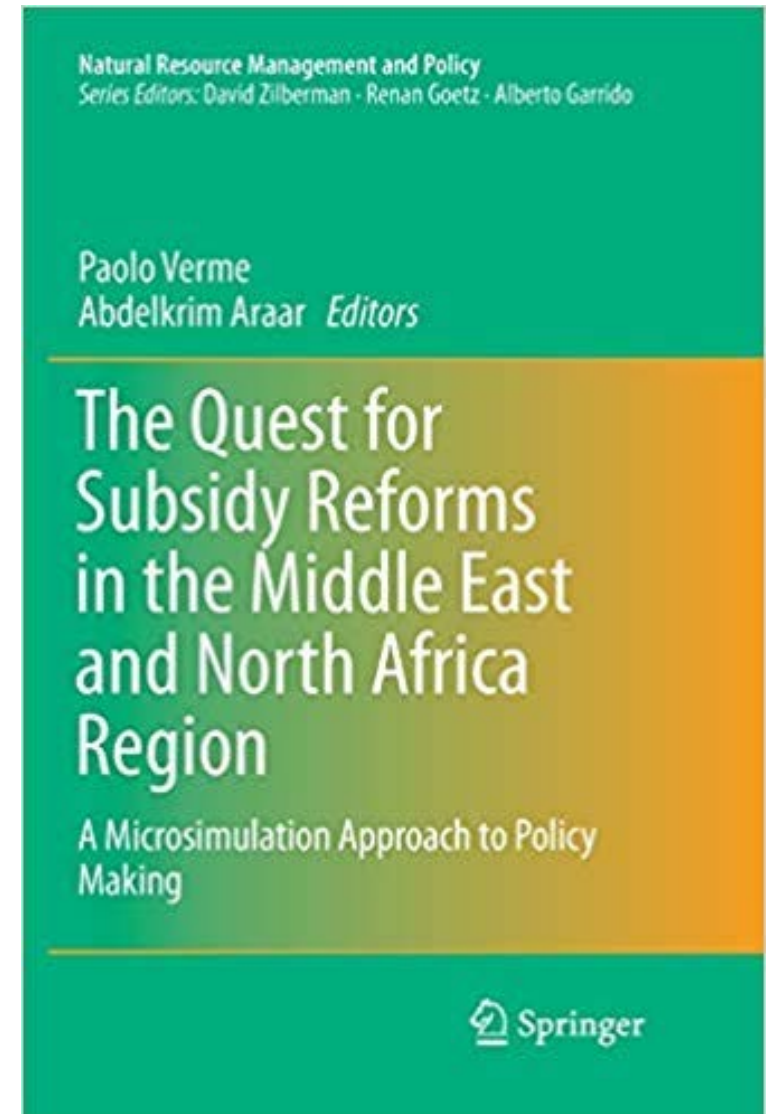
World Bank

Outline

- Introduction
- A brief history of subsidies
- What triggered reforms
- Who reformed, when, why and how
- What have we learned
- The unfinished business
- The distribution of remaining subsidies
- What will take to eliminate subsidies

Introduction

- Why 2010-2014?
 - A spike in demand for subsidies reforms
 - A window of opportunity
- The World Bank traditional approach:
 - Computerized General Equilibrium Model (CGEs)
 - Partial Equilibrium Models (PEMs),
 - Microeconomic simulations
- A different approach: The SUBSIM project
 - A mobile team working with policy makers
 - A quick and flexible simulation model



A Brief History of Subsidies

- 1940-1960 – Introduction of the subsidy systems as *price stabilization* mechanisms (*caisses de compensation*)
- 1970s – Transformation into *social protection system*. This coincided with the turning of the MENA region towards socialism and the revolutions that put dictators into power between the 1950s and the 1970s. (Gaddafi's revolution, introduction of subsidies soon after in 1971)
- 1980s - *Enterprise support mechanisms*. Import substituting, infant industry protection or export oriented growth are some of the wording used to justify subsidies in this context. The search of a third way.
- 1990s - *Obstacle to economic development*. The socialist period in the MENA region came to an end during the 1990s when enlighten dictators, presidents and monarchs started to implement structural reforms including privatization and financial stabilization in the aftermath of the fall of the Berlin wall. But low oil prices.
- 2000s – *The last bastion of power*. The change in attitudes towards subsidies are generated by two concomitant factors. Subsidies are an obstacle to further reforms. The surge in oil prices generates huge budget deficits.

Why Subsidies Persist?

Ten reasons to remove subsidies

Political

1. Support undemocratic regimes and populists governments
2. Non-transparent to the population

Economic

1. Distort consumption
2. Distort production
3. Distort investments
4. Delay important strategic decisions on energy
5. Encourage informality and illegality

Social

1. Costly for the tax payers
2. Inequitable and pro-rich
3. Costly for the environment

Ten reasons to keep subsidies

Political

1. Risk of social uprising
2. Buy political consensus
3. Benefit established monopolies/oligopolies related to politicians

Economic

1. Reduce production costs and increase export competitiveness.
2. Reduce price volatility, financial risks and uncertainty for households

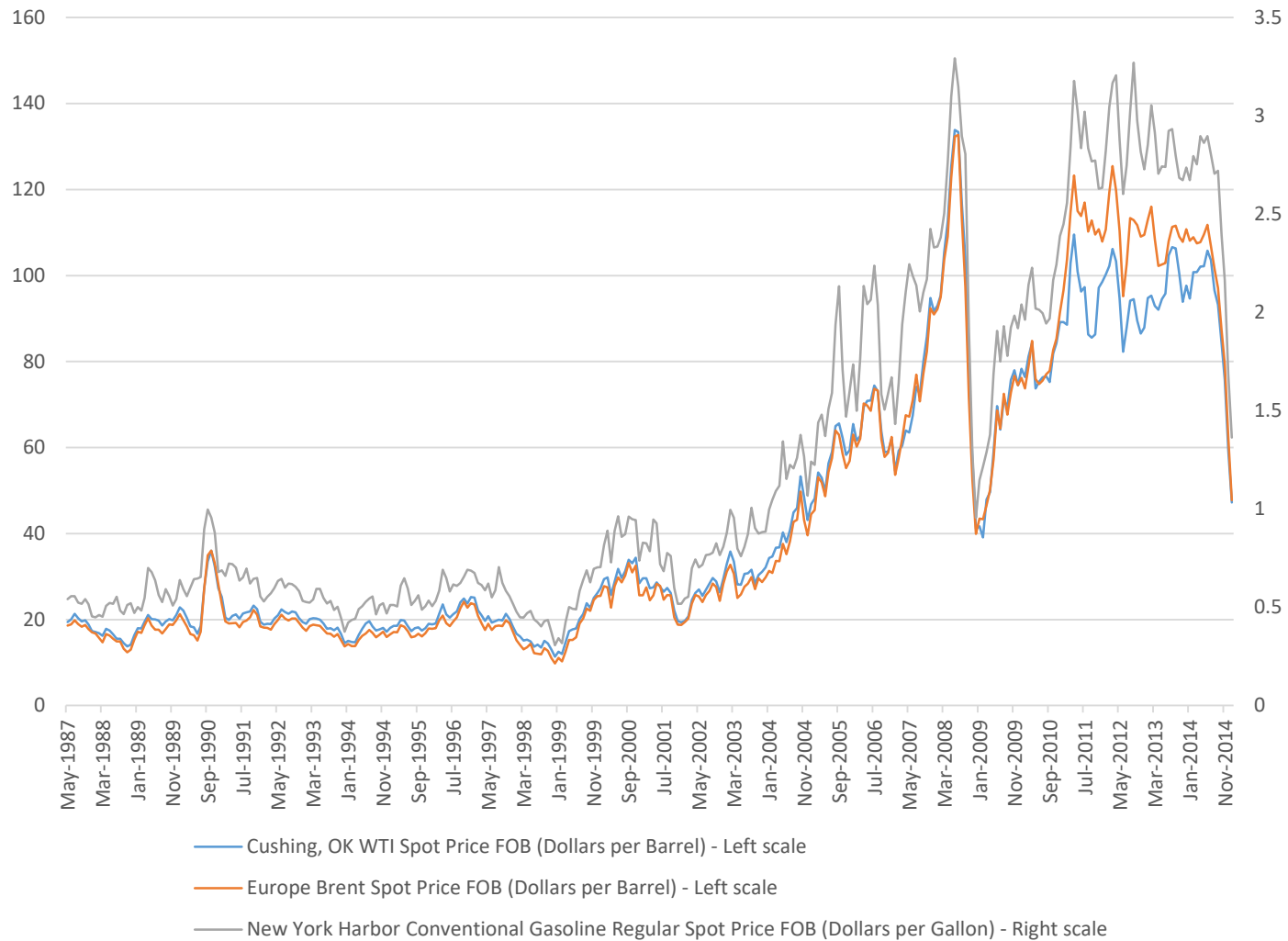
Social

1. Work as social protection mechanism
2. Compensate for general increases in prices
3. Benefit the poor, the middle-class and the rich
4. Perceived as a basic human right
5. Increased demand for subsidies due to economic decline in MENA

What Triggered Reforms?

- Political changes that took the region by storm. Regimes changes in Tunisia, Libya, Egypt and Yemen changed the political settings in these countries and had a demonstration effect on countries that did not experience revolutions first hand
- New social contract with the populations which became less averse to reforms, including subsidies reforms
- Economic decline generated by the revolutions magnified the budget impact of subsidies
- Oil prices and budget deficits

Spike in Oil Prices



Spike in Commodity and Food Prices



Relatively Low Initial Prices in MENA

	Gasoline	Diesel	Kerosene	LPG
East Asia and Pacific	\$1.25	\$1.03	\$1.11	\$1.20
Europe and Central Asia	\$1.16	\$1.23	n.a.	n.a.
Latin America and the Caribbean	\$1.24	\$1.14	\$1.18	\$1.01
South Asia	\$1.25	\$0.91	\$0.86	\$1.44
Sub-Saharan Africa	\$1.24	\$1.22	\$0.96	\$0.97
Middle East and North Africa	\$0.67	\$0.44	\$0.41	\$0.40

Who Reformed, When, How and Why

Big bang reforms

- Iran (December 18th, 2010)
- Jordan (November 13, 2012)
- Egypt (July 5th, 2014)

Gradualist reforms

- Morocco (September 16th, 2013-October 1st, 2014)
- Tunisia (2012-2014)

No reforms

- Libya, Yemen (conflict)
- Oil producers (less affected)
- Djibouti (only tax subsidies)

What Have We learned

- Big bang vs gradualist approach (Iran vs Morocco)
- Compensation vs non compensation (Jordan vs. Morocco)
- Complementary fiscal and social policies
- Public information vs no information (Iran vs Jordan)
- Vertical vs horizontal reforms
- Poor vs middle class
- Stakeholders - The dark matter of subsidy reforms

The Unfinished Business

- Only one of the countries studied in the book is on the right track to achieve a complete elimination of consumer subsidies: Morocco
- Gasoline and diesel – gradual increases during low oil prices
- LPG – *ad hoc* reforms, combine with natural gas distribution
- Electricity – Tariffs reforms, prices and structure
- Food subsidies – Different political economy

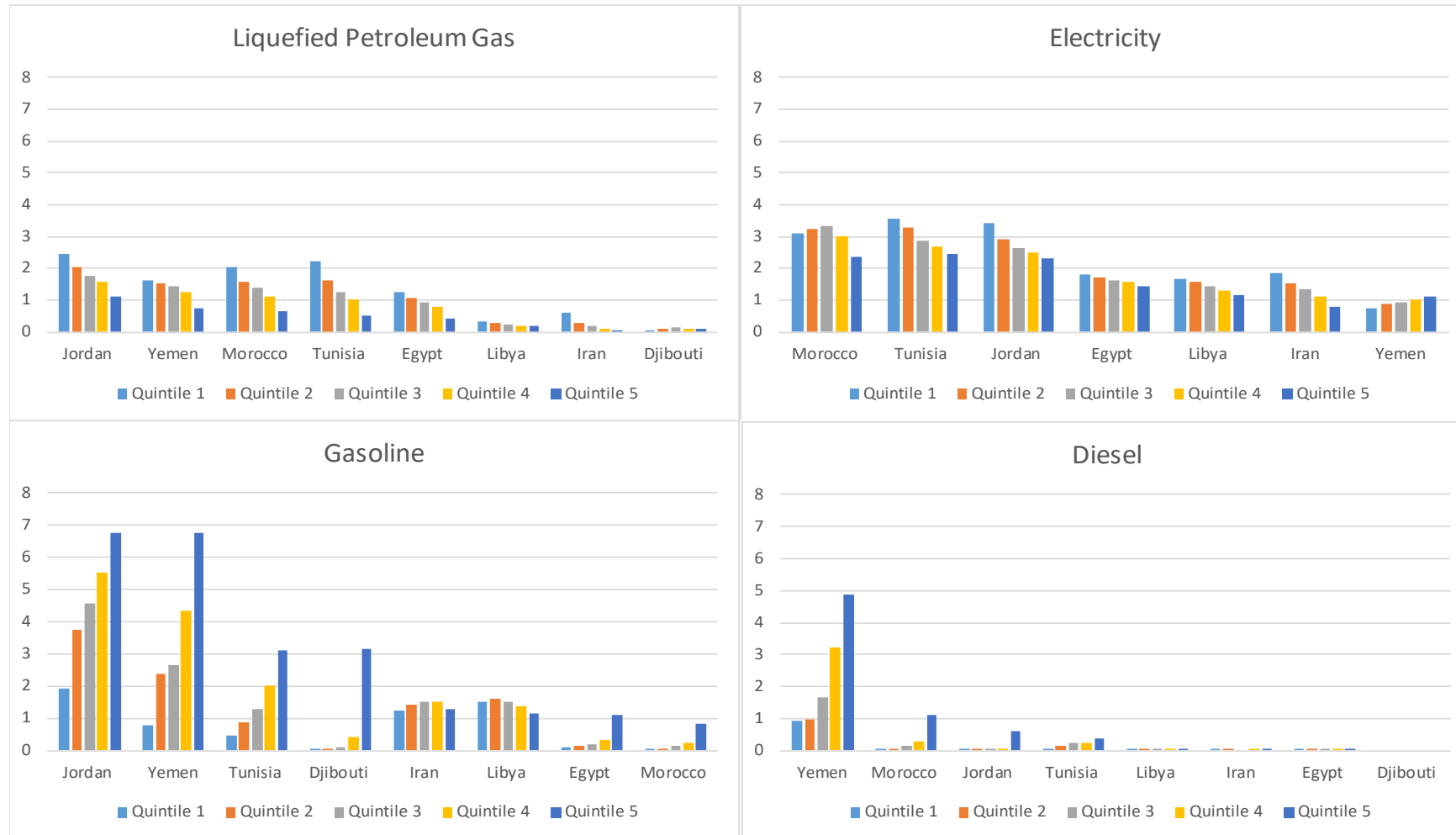
Looking Forward

Country	Population	Number of households	Total expenditures	Per capita expenditures	Household expenditures
Djibouti	939 000	166 966	1 856 869 376	1 977	11 121
Egypt	85 833 000	16 589 115	276 454 473 728	3 221	16 665
Iran	77 969 000	21 909 116	582 976 929 792	7 477	26 609
Jordan	6 694 000	1 246 860	37 757 407 232	5 640	30 282
Libya	6 213 000	991 549	12 318 968 832	1 983	12 424
Morocco	33 179 000	7 070 798	138 341 810 176	4 170	19 565
Tunisia	11 060 000	2 548 655	43 800 788 992	3 960	17 186
Yemen	27 460 000	3 656 854	66 954 182 656	2 438	18 309
Total	249 346 992	54 179 912	1 160 461 418 496	4 654	21 419

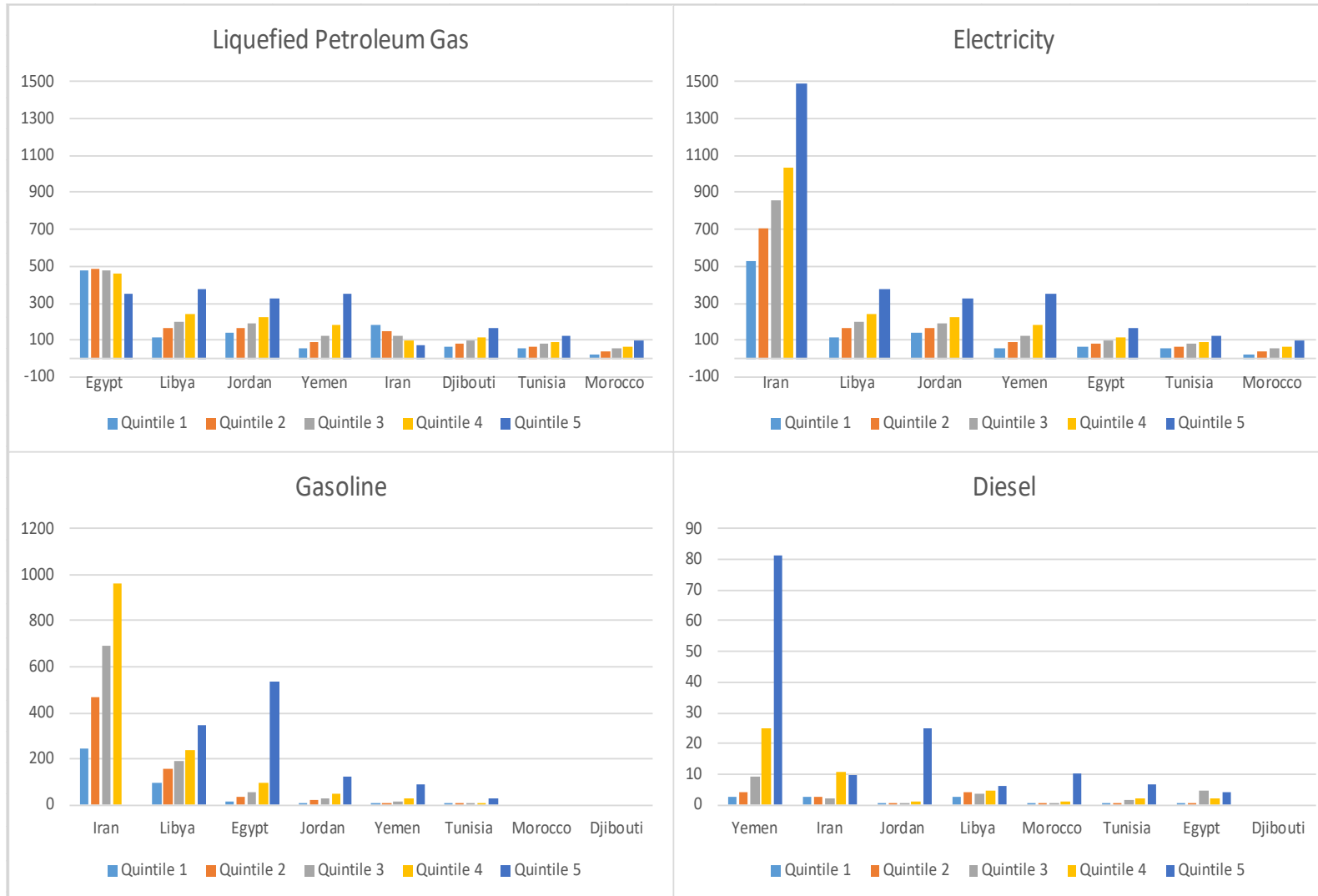
Prices

	Price	Subs.	Subs. (%)	Increase (%)	Price	Subs.	Subs. (%)	Increase (%)
	LPG (13 kg)				Electricity (kWh, av.)			
Djibouti	28.3	2.8	9.1	10.0				
Egypt	3.9	10.8	73.3	275.0	0.04	0.28	87.6	705.9
Iran	1.9	9.7	83.3	500.0	0.18	0.25	58.5	140.7
Jordan	19.1	25.8	57.5	135.4	0.03	0.23	88.6	780.0
Libya	2.9	27.4	90.4	947.0	0.26	0.11	30.6	44.0
Morocco	10.4	20.7	66.6	199.8	0.21	0.15	42.3	73.2
Tunisia	9.8	20.9	68.0	212.7	0.11	0.63	85.4	583.0
Yemen	14.7	6.4	30.4	43.7	0.12	0.68	85.1	571.4
	Gasoline (L)				Diesel (L)			
Djibouti	3.0	-0.1	-2.0		2.1	0.3	11.1	12.5
Egypt	0.9	0.8	48.3	93.5	0.5	1.0	65.6	190.9
Iran	0.5	2.3	83.3	500.0	0.4	2.3	84.8	557.1
Jordan	2.1	0.3	12.5	14.3	1.5	0.5	24.6	32.7
Libya	0.2	1.6	87.7	714.7	0.2	1.6	88.1	740.0
Morocco	3.1	0.0	0.0		2.4	0.2	7.5	8.1
Tunisia	2.5	0.2	9.1	10.0	2.1	0.4	17.4	21.1
Yemen	1.6	0.3	17.8	21.7	1.6	0.4	21.1	26.7

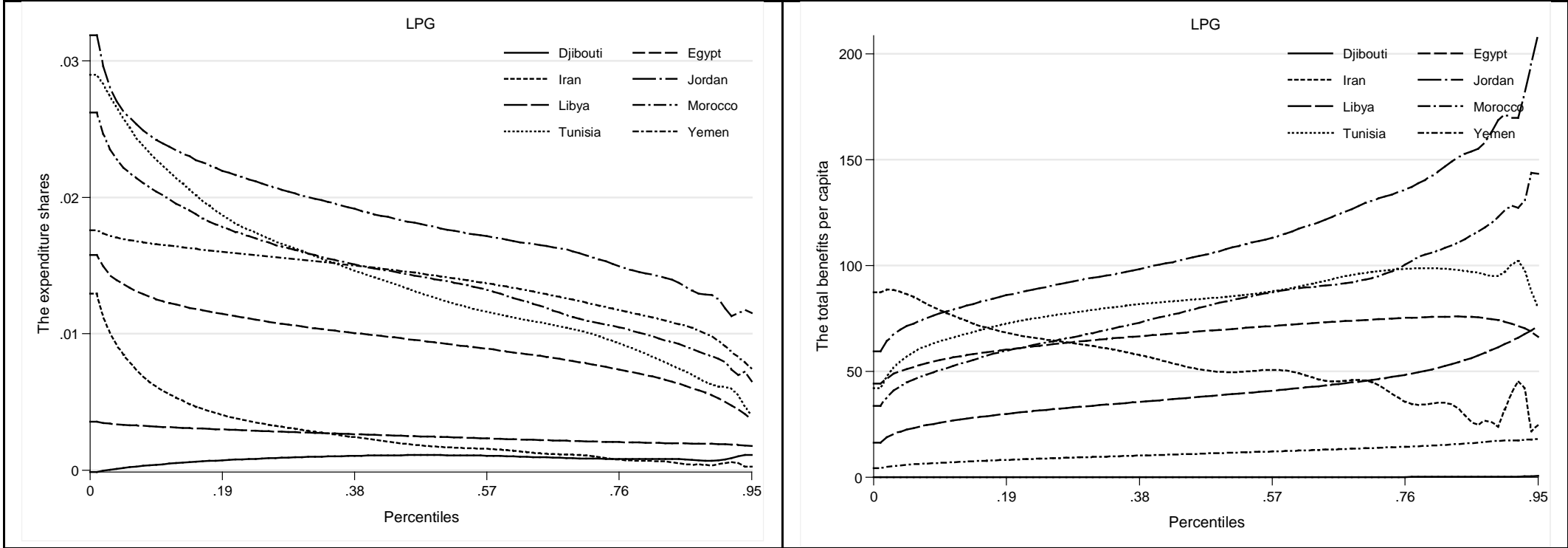
How Important are Subsidized Products?



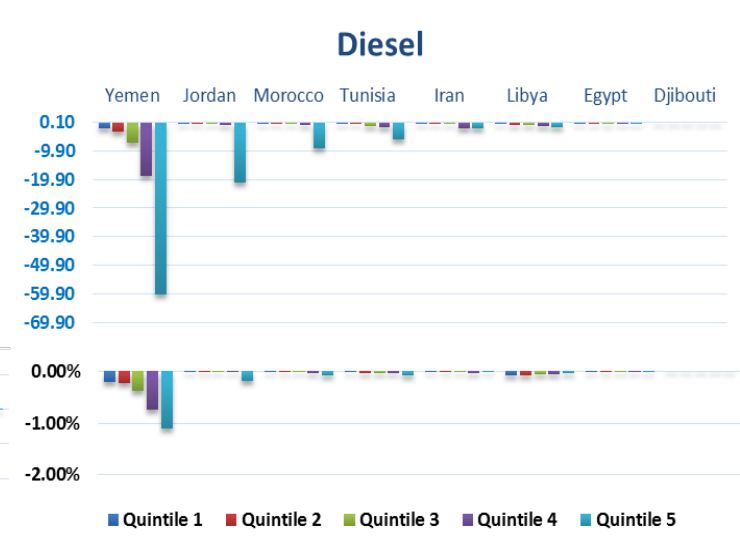
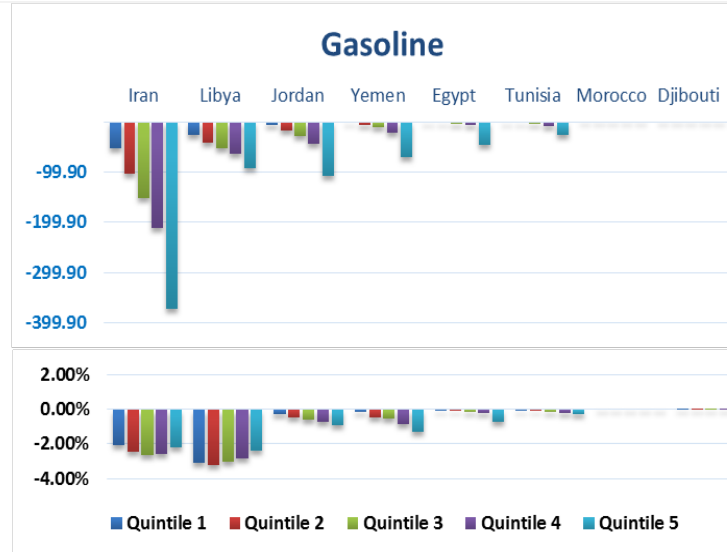
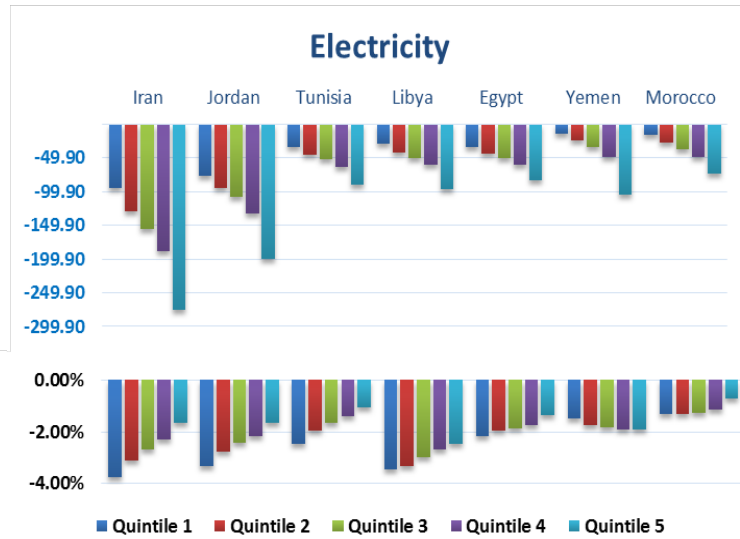
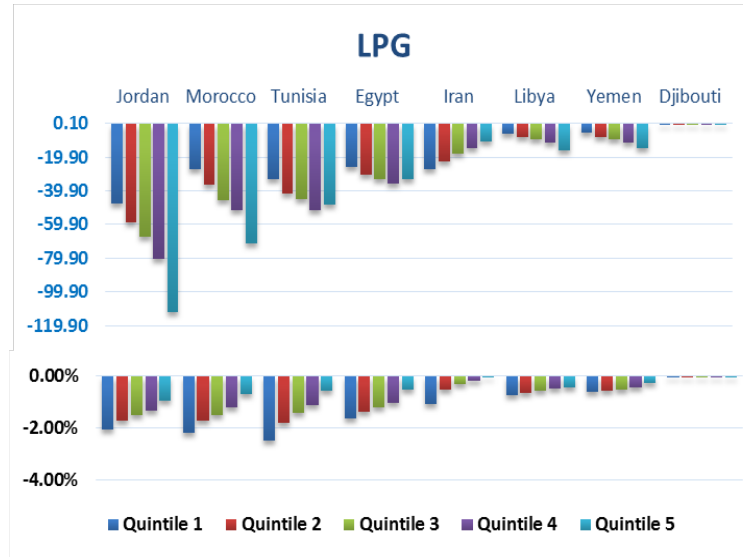
Who Gets Subsidies?



A Policy Dilemma

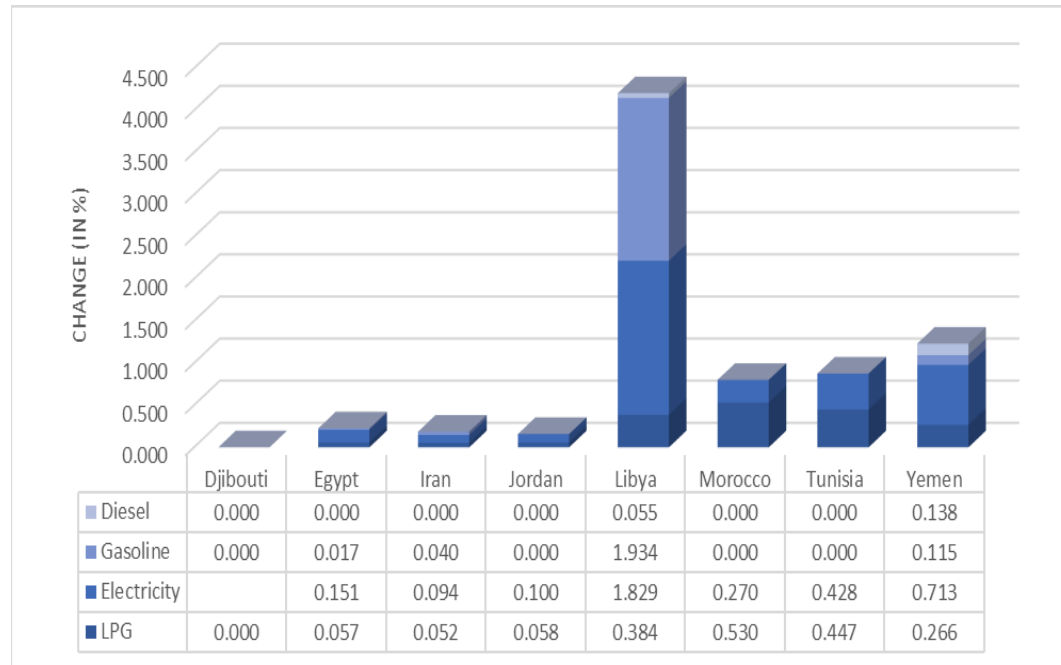


Welfare Impact of Full Elimination of Subsidies

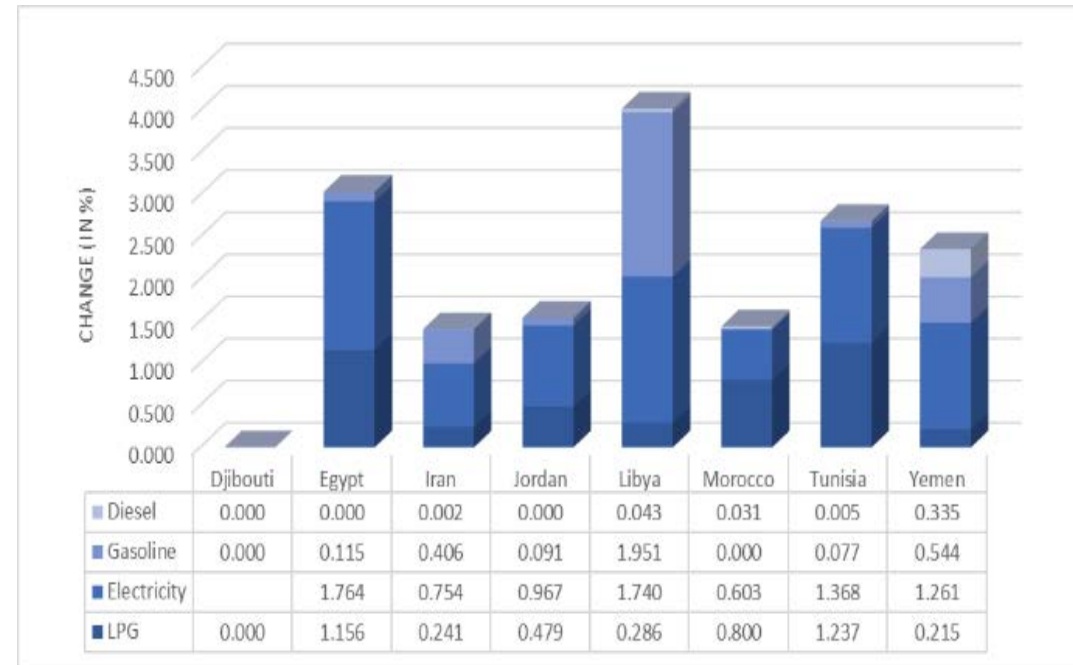


Poverty Impact

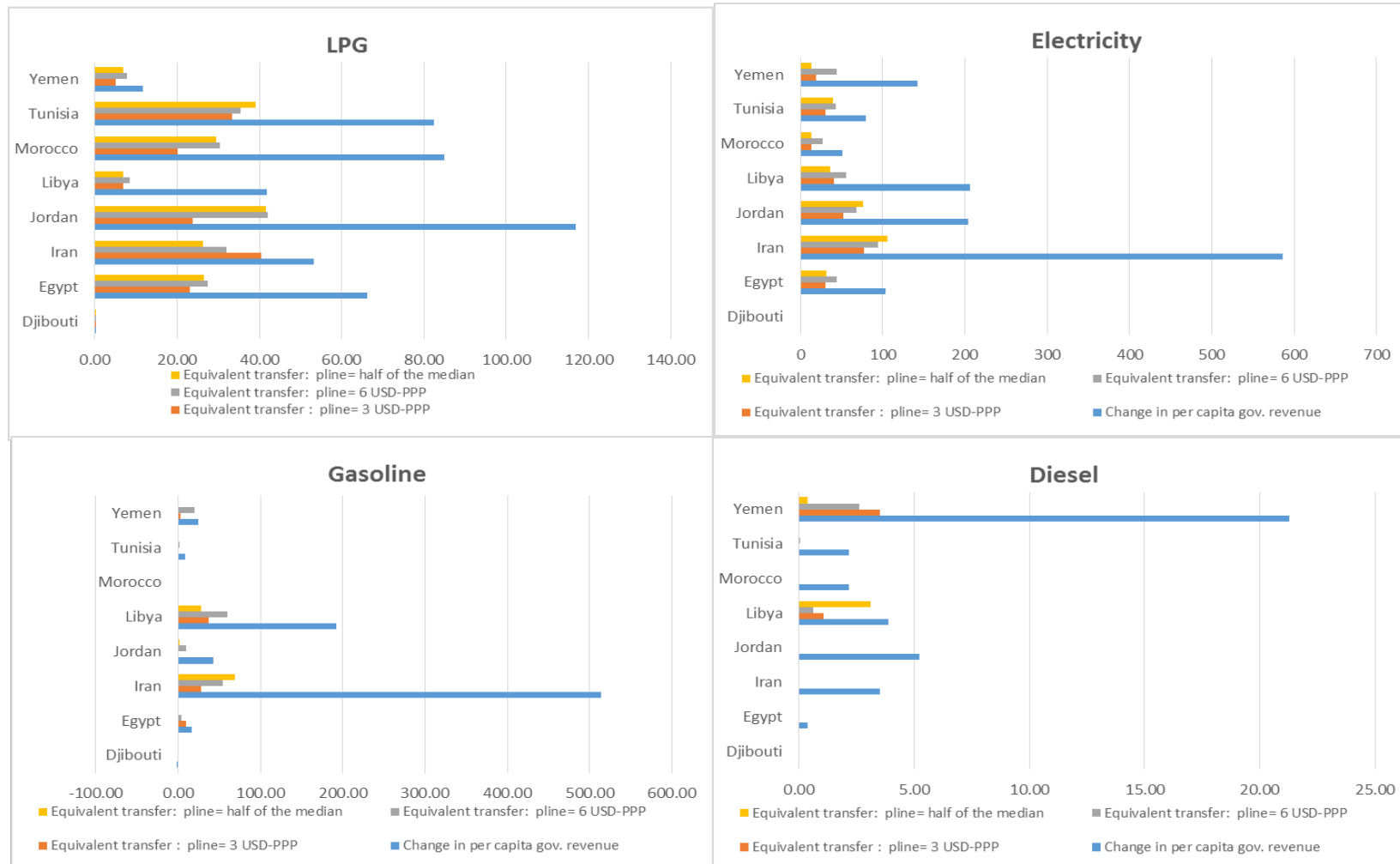
Poverty Line = 3 USD/Day



Poverty Line = 6 USD/Day



Budget Trade-offs



Conclusions

- Long history of non-reforms
- Reform momentum (2010-2014)
- Uncompleted reforms
- Low oil prices (Iran agreement)
- Opportunity to eliminate gasoline and diesel subsidies
- Big task ahead for LPG and Electricity
- Product by product approach
- Learn more at: www.subsim.org