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Case study

Energy subsidies in the Middle East and North Africa

Bassam Fattouh ^{a, b} ... Laura El-Katiri ^{a, 1}

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Abstract

The policy of maintaining tight control of domestic energy prices has been widely spread in the Middle East and North Africa. Energy subsidies that keep domestic energy prices below market prices serve as a strategic tool to promote industrialization and diversification, to protect the income of citizens, and to distribute state benefits to the population. However, whilst they may be seen as achieving some of these objectives, this paper argues they do so in a costly and highly inefficient way. Energy subsidies distort price signals and lead to a systemic misallocation of resources. They also tend to be regressive, and the mounting fiscal burden they cause makes them increasingly unsustainable from a budgetary point of view. For this reason, a reform of energy pricing is in many MENA countries increasingly unavoidable “ despite being a politically and economically delicate task. The diversity of MENA suggests that no single reform agenda will fit all countries in the region equally.

Highlights

• Energy subsidies are a widely spread policy throughout the Middle East and North Africa. • Price controls are often costly, highly inefficient, and tend to be regressive. • A reform of domestic energy pricing mechanism in the MENA seems unavoidable. • No single reform agenda will fit all MENA countries equally.



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Keywords

Energy subsidies; Energy pricing; Energy price reform; Middle East and North Africa; MENA; Fossil fuels

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