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NOTES

Reforming Energy Subsidies in the Arab Region

Jeong Dae Lee, Jarin Nashin, Bilal Tabti, and Haytem Troug

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October 2025

Executive Summary

Energy subsidies remain prevalent across the Arab world. Unlike most other products, energy prices, particularly of fuel and electricity, are often administratively controlled, and most Arab countries still have some form of energy subsidies in place. In many cases, they are intended to lower the cost of energy consumption for households and support their purchasing power. In other cases, subsidies are intended to support various economic sectors and particularly energy-intensive industries. In hydrocarbon-producing countries, pricing energy below international prices could be seen as a form of hydrocarbon wealth redistribution.

Subsidies, however, come at a substantial fiscal, economic, and environmental cost. Energy subsidies are nearly eight times higher in the Arab region than in the rest of the world. Not only are they expensive, but they are also distortive, exacerbate social inequities, and hinder overall economic activity. Subsidies divert financial resources from critical areas, with budget spending on subsidies about 70 and 37 percent higher than on healthcare and education, respectively. In addition, subsidies are regressive, benefiting larger users and thereby wealthier segments of society disproportionately, without providing effective income support to low-income households. Moreover, by keeping energy prices administratively low, they also lead to overconsumption of energy and contribute to pollution and resource misallocation. Where budgets only absorb part of the cost of subsidies, losses are imposed on energy state-owned enterprises (SOEs) or on other sectors through cross subsidization, distorting their activity. In all cases, they discourage investments in renewable resources and energy efficient technologies.

Some countries have managed to make important progress on energy subsidy reforms. In response to fiscal pressures and to boost economic efficiency and social equity, several Arab countries have initiated subsidy reforms over the last decade. Specifically, Bahrain, Egypt, Iraq, Jordan, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE) have all made progress in reducing subsidies by pricing energy closer to, or in line with, international prices. Meanwhile, fiscal savings from subsidy reforms have created space to increase priority public spending. These reforms have also aligned price incentives to invest in renewable energy, aiming to diversify energy portfolios and reduce reliance on fossil fuels.

Experience shows that subsidy reforms can be successfully implemented and have often been supported by efforts to address social and economic concerns. Establishing compensatory measures, such as cash transfers, can provide more effective income support to low-income households. Implementing tiered pricing can also help alleviate the burden on low-income households, while targeting full price adjustments to higher-income households. Moreover, reallocating subsidy savings to social and development spending—including in human capital—can significantly enhance public support for reforms. Including energy subsidy reform in a broader reform strategy can support both social welfare and economic growth, and help maximize public buy-in. Complementary reforms may include measures to

improve governance and the business environment, and facilitate an efficient allocation of resources, supported by clear and proactive communication.

The Costs of Energy Subsidies—A Fiscal, Social, and Environmental Burden

Energy subsidies in the Arab world have been widespread. Most Arab countries still have some form of energy subsidies[1]. By keeping energy prices below their supply costs, subsidies are intended to support households' purchasing power or the operations of energy-intensive industries and, in energy-rich countries, serve as a form of hydrocarbon wealth redistribution.

In many Arab countries, retail energy prices remain significantly lower than in the rest of the world. As of 2023, the average price of gasoline and diesel in the region was approximately $0.77 per liter, in stark contrast to the global average of $1.3 per liter. The situation is even more pronounced for natural gas and electricity, with prices in Arab countries approximately half of global averages. The price differences are even wider among hydrocarbon-exporting countries, where subsidies are more entrenched (Figure 1).

Figure 1. Retail Energy Prices in 2023

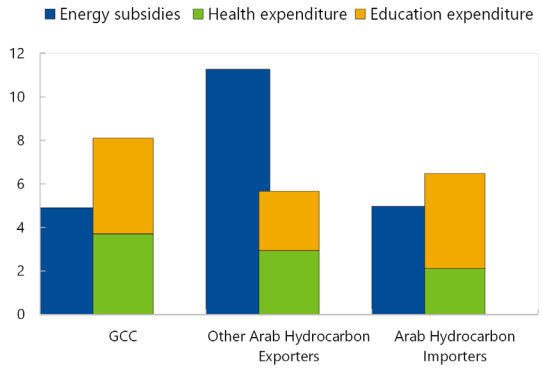
Source: IMF Fiscal Affairs Department (FAD) database.
Note: Electricity tariffs reflect averages derived from multi-tiered pricing structures. Retail prices are inclusive of all non-recoverable charges, including excises, carbon taxes, Emissions Trading System allowances, and value-added tax. GCC includes all six members of the Gulf Cooperation Council; Other hydrocarbon exporters include Algeria, Iraq, and Libya; and hydrocarbon importers includes all other Arab states.

[1] As defined in Box 1.

However, subsidies are fiscally costly. Subsidies can strain government budgets and divert funds from critical areas like healthcare, education, and infrastructure, thereby hampering growth potential (Sdralevich and others 2014). On average, spending on energy subsidies in Arab countries amounted to 7 percent of GDP, which was more than double the spending on healthcare and education during 2021–23[2] (Figure 2). Arab countries accounted for approximately $206 billion, or 21 percent of global energy subsidies. Notably, hydrocarbon-exporting countries accounted for nearly 74 percent of subsidies in the region, reflecting not only their larger economies but also higher subsidy-to-GDP ratios (Figure 3). However, the overall share of Arab countries in global energy subsidies has declined since 2015, partly reflecting recent reforms, but also the significant drop in global oil prices.

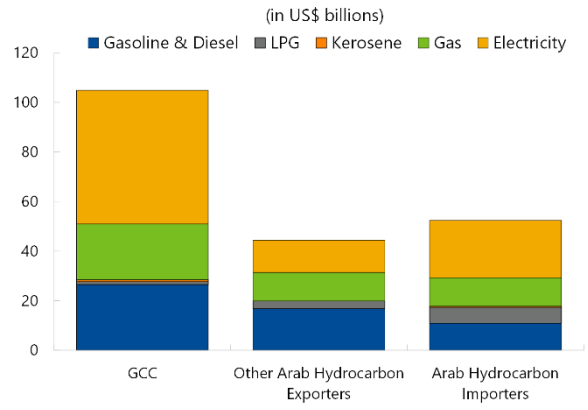
Figure 2. Subsidies versus Health and Education Expenditure (2021–2023)

(In percent of GDP)

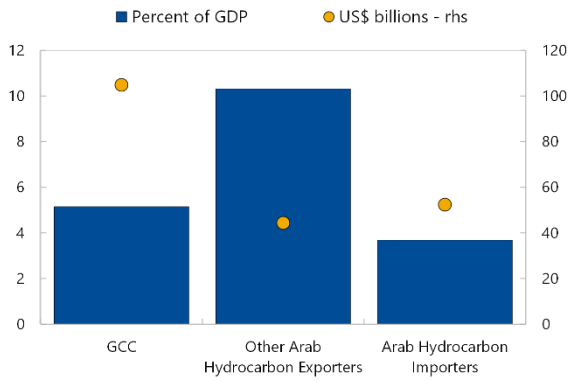


Source: *World Economic Outlook* IMF staff calculations.
Note: GCC = Gulf Cooperation Council.

Figure 3. Fossil Fuel Subsidies in 2023



Source: IMF FAD database.
Note: GCC = Gulf Cooperation Council; LPG = liquefied petroleum gas.



Source: IMF FAD database.
Note: GCC = Gulf Cooperation Council; rhs = right-hand scale.

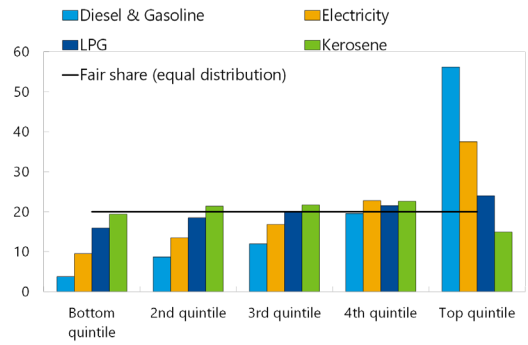
Subsidies also exacerbate social inequity. Energy subsidies disproportionately benefit wealthier groups. While the motivation is often to increase the affordability of energy to lower income households, only a fraction of the subsidies is used by households in lower income deciles. Instead, the largest energy users, which are often the wealthier groups, benefit the most from subsidies (Figure 4).

[2] Government intervention to support lower energy prices could also affect budgetary revenue when fuel and electricity are exempted from various sales and other relevant taxes.

Subsidies adversely affect economic activity and may lead to resource misallocation. They distort market prices and lead to overconsumption. Access to overly cheap energy also favors the expansion of energy- and capital-intensive industries, and may support companies that are not economically viable. Businesses may also focus on obtaining or retaining subsidies rather than on improving efficiency and increasing productivity, thereby dampening economic growth potential. Arab countries, where energy subsidies are more prevalent, tend to have lower GDP and TFP growth, on average. A simple growth decomposition also reveals that output growth in countries with higher energy subsidies depends more on capital accumulation than employment growth (Figure 5). In this regard, energy price reforms could also have a positive effect on economic growth and jobs by increasing the efficiency of resource use (IMF 2015b).

Figure 4. Distribution of Subsidies by Income Groups

(In percent)

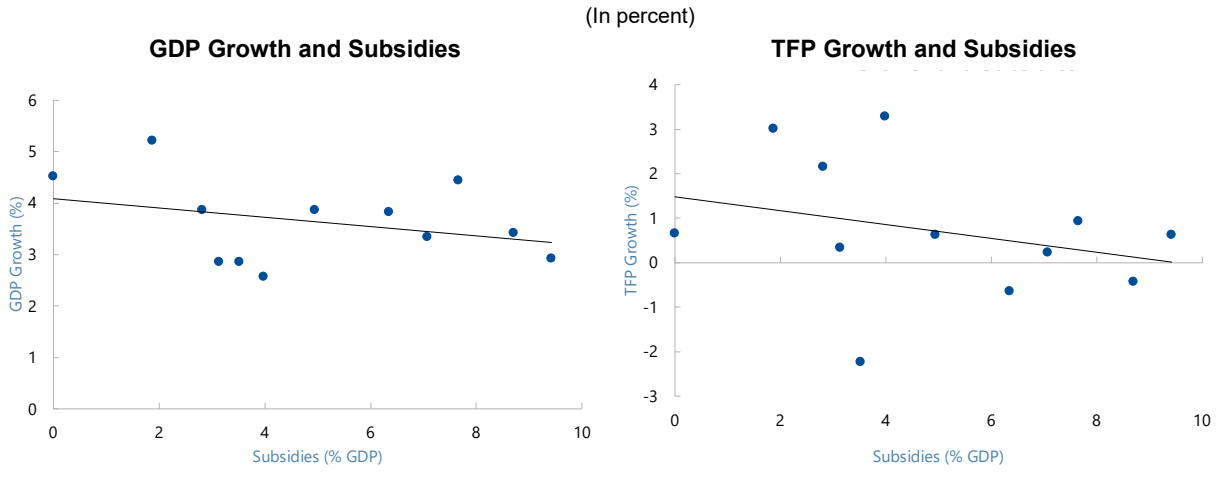


Source: Country authorities, and IMF staff calculations.
Note: The average distribution was calculated for Egypt, Jordan, Lebanon, Mauritania, Morocco, and Tunisia, utilizing data gathered during (2003–2021). LPG = liquefied petroleum gas.

Subsidies contribute to negative environmental and climate outcomes. Low prices create excessive reliance on fossil fuels and discourage investments in cleaner energy alternatives that reduce greenhouse gas emissions. This is particularly concerning in the context of global climate change, where reducing greenhouse gas emissions and transitioning to cleaner energy sources is crucial, especially since all Arab countries are signatories to the Paris Agreement.[3] The high emissions associated with energy subsidies (Figure 7) also impact public health and environmental sustainability, since poor air quality from fossil fuel combustion (Figure 6) can lead to serious health issues .

Figure 5. Energy Subsidies and Drivers of GDP Growth in Arab Countries (2021-2023)

(In percent)

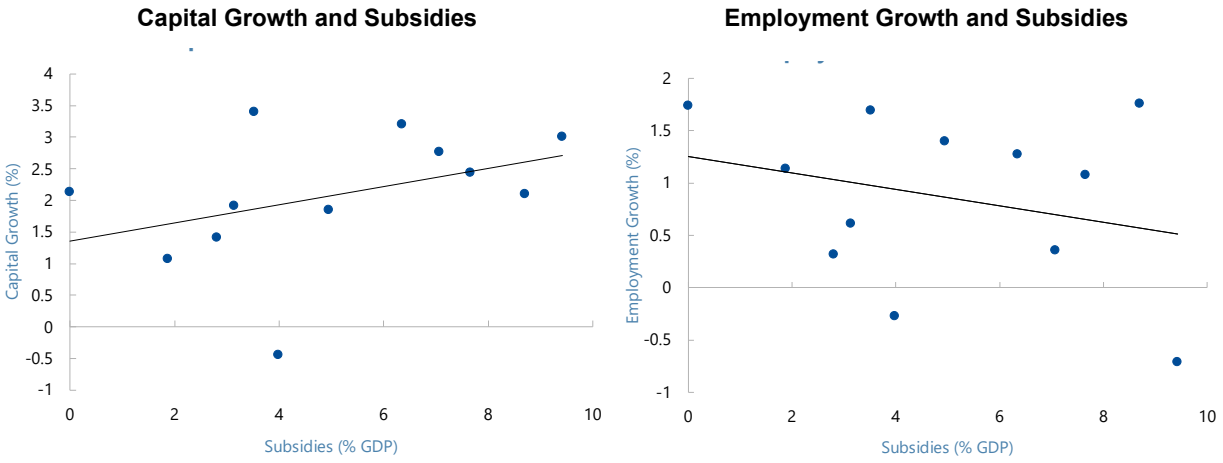


[3] The environmental gains from reducing energy subsidies can be substantial: recent analytical work on Saudi Arabia suggests that eliminating subsidies would contribute to one-third of the emissions reduction target.

Source: IMF FAD database; *World Economic Outlook*; Penn Tables; and IMF staff calculations. Conflict-affected states are excluded from calculations. The growth decomposition exercise assumes a Cobb-Douglas form for the production function.

Figure 5. Energy Subsidies and Drivers of GDP Growth in Arab Countries (2021–2023) (Continued)

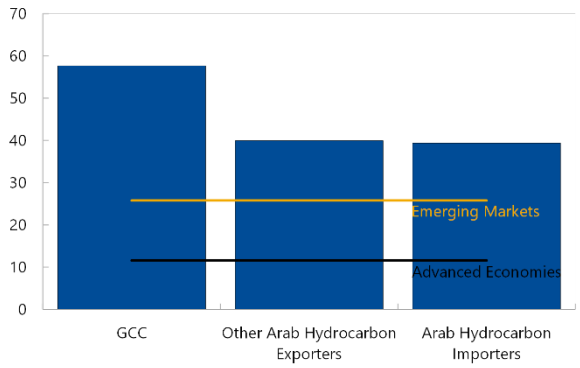
(In percent)



Source: IMF FAD database; *World Economic Outlook*; Penn Tables; and IMF staff calculations. Conflict-affected states are excluded from calculations. The growth decomposition exercise assumes a Cobb-Douglas form for the production function.

Figure 6. PM2.5 Air Pollution, Mean Annual Exposure, 2019

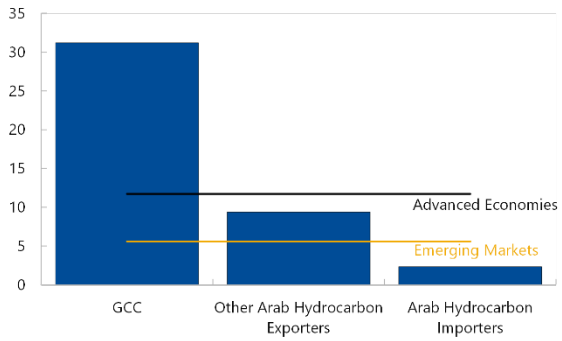
(Micrograms per cubic meter)



Source: World Development Indicators database and IMF staff calculations.
Note: GCC = Gulf Cooperation Council.

Figure 7. Greenhouse Gas Emissions Per Capita, 2021

(In tons CO2 equivalent per capita)



Source: CAIT; and IMF staff calculations.
Note: GCC = Gulf Cooperation Council

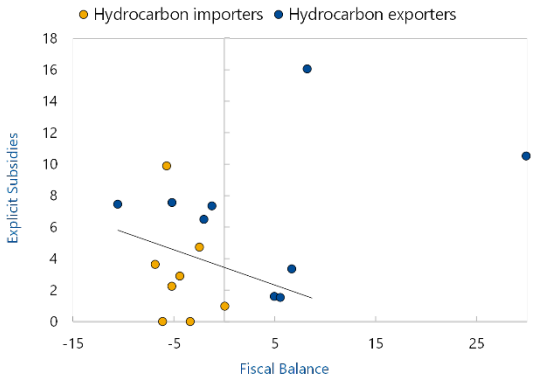
Low energy prices may also manifest as energy SOE losses distorting their activities. The cost of subsidies from low pricing of production or sale of energy products—when not compensated by the

budget—could be imposed on energy SOEs, resulting in lower overall profits and investment, and weaker service delivery.

Lower energy pricing could also transfer the cost to other users through cross subsidization. In some countries with tight budget constraints, the cost of subsidizing household users of electricity is transferred to other groups, such as industry, which increases the cost of energy above cost recovery and the cost in peer countries, undermining their competitiveness and activities.

Figure 8. Fuel Subsidies and Fiscal Balances in Arab Countries, 2023

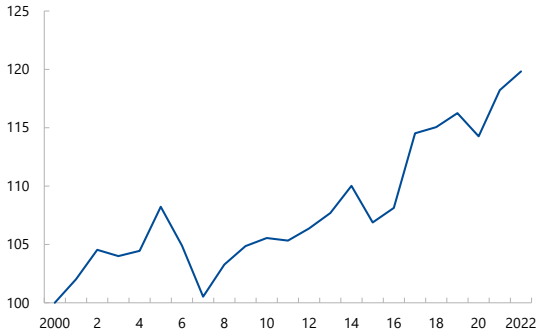
(Percent of GDP)



Source: IMFFAD Database and IMF staff calculations.

Figure 9. Energy Intensity in Arab Countries

(Energy Consumption/GDP, Index 2000=100)



Source: Haver Analytics; and IMF staff calculations.
Note: Arab countries include Algeria, Bahrain, Comoros, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, UAE, West Bank and Gaza, and Yemen.

Box 1. Defining Energy Subsidies

Energy subsidies arise when retail energy prices are below supply costs. According to this definition, energy subsidies are measured as a product of the price gap, which is the difference between the retail price and supply costs, and consumption volumes. For tradeable products (for example, oil), the supply cost is the international price, which also reflects the opportunity costs for hydrocarbon exporters of consuming the product domestically rather than selling it in global markets. For non-traded products like electricity, the supply cost is the cost-recovery price for domestic producers, including distribution costs and margins. Retail prices also include all non-recoverable charges, such as consumption and other relevant taxes. For finished petroleum products, a shipping and distribution margin of $0.15–0.22 per liter is added to the international price. See Black and others (2023) for more detail on the methodology used.

The price gap approach provides a comprehensive measure beyond what may be captured in fiscal accounts. Best international practice requires that subsidy costs are transparently reflected in fiscal accounts (*Government Finance Statistics Manual 2014*). However, in some cases the price gap may manifest as energy SOE losses from production or the sale of energy products—not compensated by budgeted subsidies—resulting in lower overall profits and investment, or weaker service delivery. For hydrocarbon exporters, pricing energy below export parity results in foregone revenue, while for hydrocarbon importers pricing below import parity results in outright losses.

Recent Reforms—Some Progress in Reducing Subsidy Dependence

In recent years, several Arab countries have undertaken efforts to reform subsidies to address fiscal challenges and promote social equity and economic efficiency. These reforms have aimed to alleviate the

burden on government budgets and create space for additional spending in critical sectors such as healthcare and education. For hydrocarbon-exporting countries, persistently high global energy prices prompted these countries to reassess their subsidy strategies, leading to the partial removal of energy subsidies and a push for diversification into renewable energy sources. For hydrocarbon-importing countries, fiscal constraints are often more binding, diverting resources from other essential public services such as healthcare and education (an issue less prevalent for hydrocarbon exporters given less binding fiscal constraints), and limiting their ability to invest in sustainable energy solutions and energy efficiency.

Hydrocarbon-exporting countries have implemented substantial energy subsidy reforms over the past decade. Saudi Arabia, as part of its Vision 2030 initiative, has introduced significant price increases for gasoline and electricity, followed by targeted increases in diesel and other fuel prices, although all from a low base. Similar energy subsidy reductions took place in Bahrain, Iraq, Oman and Qatar. The UAE deregulated gasoline and diesel prices in 2015 in the context of substantially lower oil prices.[4] These reforms also reflect a broader acknowledgment that maintaining artificially low prices is unsustainable in the long term, especially as hydrocarbon windfalls continue to fluctuate and countries accelerate their diversification agenda.

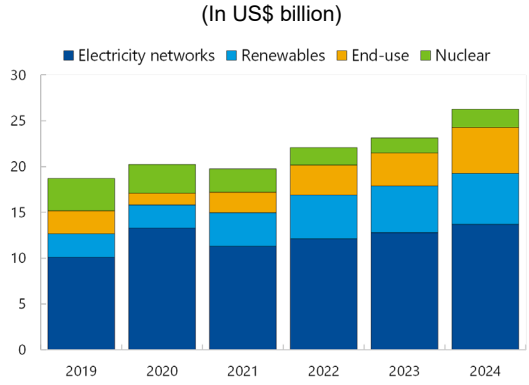
Some hydrocarbon-importing countries have also made progress with energy subsidy reforms. For example, Jordan and Morrocco reformed their fuel price structures to better reflect international price variations while adjusting electricity tariffs for higher consumption, with fuel prices indexed to global prices. Egypt's government implemented a substantial 30 percent fuel price increase in 2016 after initially cutting subsidies, a move aimed at addressing the fiscal deficits exacerbated by rising import costs. In 2024, further reforms resulted in weighted fuel prices rising by some 54 percent. In Lebanon, energy subsidy removal was implicit through the removal of the exchange rate subsidy. Energy prices in Comoros and Mauritania were adjusted on an ad hoc basis in the face of the recent increase in global energy prices. These reforms reflect a critical shift in policy aimed at enhancing economic fundamentals and reducing reliance on external financing.

In parallel with price increases, countries have implemented social support mechanisms to cushion the impact on vulnerable populations. Countries such as Bahrain, Oman and Saudi Arabia have rolled out cash transfer programs to alleviate the impact of rising costs on low to middle-income families. Iraq has initiated pilot programs aimed at providing financial assistance to families that are most affected by subsidy cuts. In Morocco, 10 percent of savings from the fuel subsidy reform were allocated to existing social assistance programs. Egypt also expanded its social safety net programs to cover 21 million citizens, allocating around $970 million for cash assistance to low-income families in the FY 2023/2024. To prevent potential overruns in these compensation programs, Saudi Arabia introduced unique social identifiers that aim to guarantee that assistance is allocated solely to the intended beneficiaries.

[4] In the UAE, fuel prices were frozen after the onset of the coronavirus pandemic, but controls were removed swiftly in March 2021.

Meanwhile, investment in renewables is rising (Figure 10). GCC countries are channeling funds and attracting FDI into solar and wind energy initiatives to diversify energy portfolios, potentially reducing over-reliance on fossil fuel revenues, and lower carbon emissions[5]. Investment in renewables will play a key role in the preparation for a future where fossil fuels may not be the dominant energy source, ensuring economic resilience and environmental responsibility. Djibouti, Egypt and Morocco are actively exploring ways to diversify their energy portfolios and reduce their dependency on imported fossil fuels. However, unlike hydrocarbon-exporting countries, hydrocarbon importers have limited fiscal space to expand investments in renewable and need to further enhance their business environments and regulatory framework to attract FDI inflows and domestic investments to the renewable energy sector.

Figure 10. Clean Energy Investments in Arab Countries



Source: World Energy Investment 2024.

Reform Design to Maximize Success

Despite the clear economic gains, subsidy reform often faces significant challenges. Removing or reducing energy subsidies can lead to sizable price increases, affecting households and sectors that have relied on cheap energy, potentially contributing to public discontent and social unrest.[6] In this regard, it is often difficult for governments to enact changes. However, recent examples of countries that have successfully reduced subsidies offer a few key lessons.

Subsidy reforms can be designed to garner social acceptance. As most energy subsidies are regressive, benefiting higher-income households more, compensation mechanisms can be designed to maximize public buy-in:

- **The reduction in energy subsidies could start by targeting products consumed by the wealthiest.** Several hydrocarbon exporters have targeted increases in prices of gasoline products, specifically high-octane fuels, as they tend to be consumed by higher-income households. In Kuwait, the 2016 price increase for the highest grade of fuel was twice that for low-octane gasoline (83 percent versus 42 percent), although as a one-off measure and from a low base, while Iraq's 2024 gasoline price reform led to a 25 to 30 percent increase in premium fuels, keeping the price of regular petrol constant.

- **Subsidy reforms could also target the largest users.** Since high-income households tend to consume more than low-income groups, adjusting subsidies based on consumption can focus on large users, while still protecting use below a certain threshold. Several countries of the region (Bahrain, Egypt, Iraq, Jordan, Morocco, Qatar, Saudi Arabia, and Tunisia) have introduced tiered electricity tariff structures, for example, concentrating price increases on the highest consumption

[5] In some instances, these efforts started well over a decade ago. For instance, the Masdar City Solar Photovoltaic Plant, the first grid-connected solar energy project in the UAE, was inaugurated and connected to the Abu Dhabi grid in 2009.
[6] Recent empirical analysis by Kpodar and Boya (2022) indicates that increases in fuel prices result in higher inflation rates, exhibiting a more prolonged response in developing economies. This persistence is evidenced by a notable response from most CPI components, with 10 out of 12 demonstrating significant sensitivity to fuel price increases.

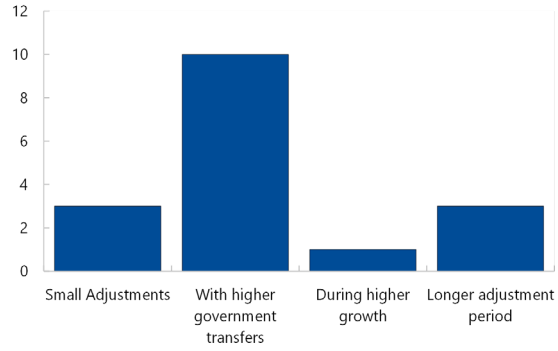
baskets. Tiered pricing could also be implemented for fuel products through fuel subsidy cards. Policymakers could also consider reducing subsidies on diesel, which is used for commercial and industrial purposes, as was done in Saudi Arabia and Yemen.

- **Compensation mechanisms through cash or near-cash transfers can help promote social acceptance of reforms.** A 2023 World Bank survey of 37 thousand individuals across 12 middle-income countries (Hoy and others 2023) found limited support (less than one-third of respondents) for subsidy reforms, particularly among the middle class compared to the poor. However, this support could more than double with alternative policies using fiscal gains from subsidy removal. For instance, in Egypt, the survey shows that average support for energy subsidy reforms could jump from under 40 percent to over 80 percent if compensatory measures were introduced.

- **Recent IMF analysis underscores that well-designed communication and compensation strategies can play a critical role in building public support for reform efforts** (Figure 11, April 2025 *Fiscal Monitor*)**.** Specifically: (i) introducing or scaling up targeted cash transfers ahead of energy price adjustments can help cushion the adverse impact on household sentiment; (ii) where feasible, adopting a gradual, extended reform path provides households and firms with time to adapt, thereby facilitating broader acceptance; and (iii) advancing reforms during periods of robust economic growth can support a phased approach, helping to mitigate social resistance and preserve reform momentum.

Figure 11. Social Acceptance of Energy Price Reforms

(After six months of reform announcement, sentiment index)



Source: April 2025 Fiscal Monitor and IMF staff calculations

In particular, supporting low income and vulnerable groups should be a key objective in designing and implementing subsidy reforms. This requires identifying and reaching vulnerable households and building capacity to administer compensation programs:

- **It is critical to identify the eligible population for targeted transfers.** Eligibility should be carefully considered to avoid excluding poor households, which could undermine social and political support (Hanna and Olken 2018; Banerjee and others 2019). A key recommendation from an evaluation study of Egypt's cash transfer programs (Breisinger and others 2018) was to expand coverage, as many ultra-poor individuals were not reached, primarily due to non-application or exclusion errors from income-proxying methods. Challenges in identifying eligible populations can be addressed by adopting community-based targeting to determine who are the most in need (Hanna and Olken 2018). Alternatively, policymakers could use exclusion criteria to maximize the likelihood of reaching those in need, especially in countries where informal work is prevalent.

- **Leveraging technology can help reach intended beneficiaries and increase transparency.** Once governments have identified the eligible population for cash transfers, it is essential to determine the most efficient delivery mechanisms for compensation. In some Arab countries,

leveraging the banking sector for compensation transfers may be ineffective with a substantial unbanked population (60 percent of the adult population does not own a bank account[7]). Additionally, the use of physical cash for social benefit payments poses several logistical challenges (Davidovic and others 2020). To address these issues, governments can leverage mobile transfer platforms, which can serve as a foundation for robust social protection systems that ensure equitable and effective coverage for low-income individuals[8] and those vulnerable to energy subsidy reforms. The Kenyan government has employed mobile technology to deliver cash transfers to vulnerable populations affected by subsidy reforms, ensuring timely and efficient assistance. Also, by establishing a digital social registry, governments can enhance the efficiency and effectiveness of cash transfer programs, ensuring that support reaches those who need it most while minimizing leakage and inefficiencies. With digital systems, beneficiaries can monitor how and when compensations are distributed, reducing opportunities for corruption and mismanagement (Lowder 2017). For instance, online dashboards can provide real-time information on distribution, making it easier for stakeholders to track and assess the effectiveness of programs. Egypt, Oman, Saudi Arabia, and Tunisia are making progress to establish and upgrade social registries.

- **Using simple compensation mechanisms can help overcome administrative capacity constraints.** In countries with prevalent informal work (most non-GCC countries) and significant government capacity constraints, a wider cash transfer program that includes part of the middle-class and excludes only the most affluent consumers may be preferred (Coady and Prady 2018) in the short-term, while countries increase their efforts to build effective social protection systems. While less targeted, this approach could save on starting costs and garner broader support to initiate reforms.

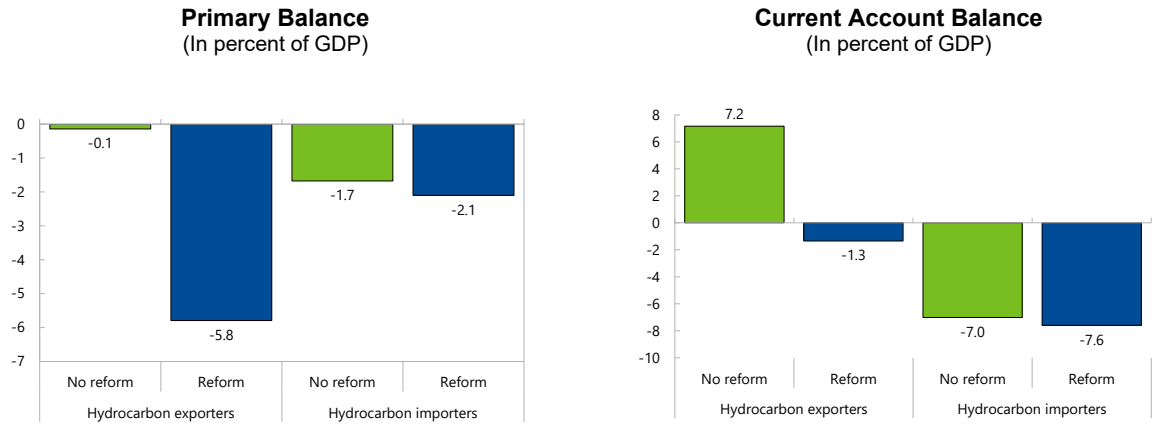
The success of energy subsidy reforms depends on their timing and pacing. A careful calibration and announcement of reform measures can help maximize public support, minimize disruptions, and enhance the reforms' long-term sustainability.

The timing and pace of phasing out subsidies are important upfront decisions. Ideally, subsidy reforms should be considered during periods of economic growth and low inflation when it may be easier to gain public buy-in. However, in practice reforms often take place under economic pressure when they are critical to preserve or restore debt sustainability. Several energy price reforms among hydrocarbon exporters in the Arab region occurred between 2014 and 2020 when commodity prices were low and pressures to address eroding buffers intensified. Similarly, energy price reforms among hydrocarbon importers in the Arab region often took place within an adjustment program. Implementing reforms during downturns or crises make them more challenging as public discontent may be high. In this context, it is important to take advantage of periods of macroeconomic stability to initiate the reforms.

[7] According to the latest available data in the World Development Indicators (WDI) database.

[8] In DRC and Togo, mobile money platforms were used to pay eligible households (Bird and Hanedar, 2023).

Figure 12. Primary and Current Account Balance across Arab Countries (2012–2023)



Sources: IMF *World Economic Outlook*, and IMF staff calculations.
Note: "Reform" indicates the average balance of countries who have conducted energy subsidy reforms in a given year during this period while "No reform" represents countries that have not conducted reforms in that year.

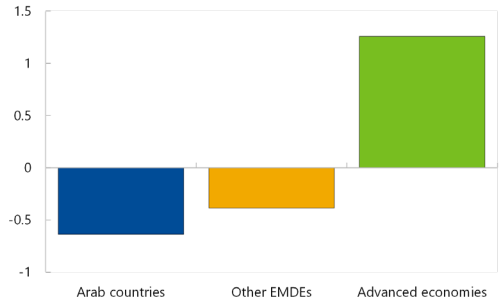
- **The pacing of reforms depends on the extent of fiscal and external space, and the government's readiness for compensation mechanisms (Figure 12).** A rapid increase in energy prices provides immediate fiscal savings and can signal a firm commitment to reform, positively impacting investor confidence. However, sudden price increases without accompanying compensation can lead to public discontent that could undermine the reforms. When possible, phased in price increases and a gradual removal of subsidies would give businesses and consumers time to adapt to rising prices (April 2025 *Fiscal Monitor*). It also allows for the assessment of reform impacts, adjustments based on feedback and data, including by scaling up social assistance. For instance, Indonesia implemented gradual reforms in the gasoline sector in mid-2013 (Coady and others 2018), slowly increasing gasoline prices while simultaneously providing cash assistance to low-income households.

Complementary Actions to Support Flexible Reform

Including energy subsidy reform in a broader reform strategy can support social welfare and economic growth, and help maximize public buy-in. The 2023 World Bank survey indicates stronger support for reforms when they are part of a broader package. In Egypt, for example, 87 percent of the population would support subsidy reform if complemented with expenditure reprioritization. Allocating fiscal savings towards schools, roads, and hospitals is particularly popular. Survey findings also highlight the crucial role of improving governance and building more credible and transparent medium-term fiscal frameworks that strategically allocate spending to improve public service provision. Other complementary reforms may include measures to improve the business environment, and facilitate an efficient allocation of resources, supported by clear and proactive communication.

Figure 13. Government Effectiveness (2022)

(Score from -2.5 to 2.5)



Source: Worldwide Governance Indicators; and IMF

Structural Reforms to Promote an Efficient Allocation of Resources

Structural reforms can help countries maximize the macroeconomic benefits of energy subsidy reform. Since energy subsidies distort market prices and resource allocation, removing subsidies can lead to an efficient reallocation of resources from energy-intensive sectors to less energy-intensive sectors, boosting economic growth and job creation. This reallocation can be facilitated by reforms to reduce red-tape and improve the business environment, allowing firms to enter new markets or expand production. Measures to reduce trade restrictions, such as tariff and non-tariff measures, can encourage the flow of goods and services and create new opportunities. Similarly, reforms to maximize the mobility of capital and labor, such as improving access to credit and programs to promote education and reskilling, can reduce the costs of resource reallocation.

Reforming State-Owned Enterprises

Reforming SOEs support transparency and boost productivity. SOE losses from low regulated prices are often exacerbated by bottlenecks and inefficiencies, such as high transmission losses, outdated infrastructure, and poor management practices, coupled with a weak payment culture and limited enforcement capacity. These issues undermine operational efficiency and further increase cost-recovery prices and the gap with regulated prices. Reforming SOEs can help mitigate these challenges by introducing accountability and performance metrics. For example, the energy sector in Pakistan has been burdened by SOE losses, leading to significant fiscal pressures. Recent reforms aim to align energy prices with actual costs, while improving sectoral governance and efficiency (among others, through performance-based contracts and reductions in transmission losses). Oman, under a comprehensive SOE reform agenda, has recently merged the electricity distribution and supply companies to lower costs in the electricity sector over the medium term, boost system efficiency, and develop services. Putting energy SOEs on a sound financial footing will improve their services (avoiding intermittent stoppages and backouts) and increase investment that would reduce the supply cost of energy.

Communication and Accountability

Energy price adjustment and subsidy reforms should be transparent and widely communicated. Recent analytical work on the social acceptability of reforms (IMF 2024) highlights the importance of communication and consultation strategies for successful implementation. Clear communication about the reasons for reforms—such as the unfair and regressive nature and environmental externalities of energy subsidies—expected outcomes, and timelines helps build trust and garner public support. Communication channels should clearly articulate the eligibility criteria for the compensatory targeted programs and provide guidance on the application process for citizens. Utilizing traditional media, social media, and public forums, to reach various audiences ensures that information about reforms is accessible to all. Establishing channels for public input, such as consultation on reform proposals, surveys, or community meetings, allows citizens to voice concerns and suggestions and to de-politicize reforms. Adapting strategies based on this feedback can lead to more widely accepted reforms. The Colombian government continues to engage in extensive public consultations before implementing energy subsidy reforms (Gutierrez and others 2024) to reduce pushback and build greater support for the proposed changes.

Reporting and accountability play a critical role in preventing mismanagement of compensation programs. Alongside reporting on other social programs, governments should report the use of public money for compensation programs and assess their effectiveness. Regular audits of spending allocations can also be used to identify inefficiencies, recommend improvements, and hold accountable those involved in the distribution process. Public reporting of compensation program implementation, assessments, and audits enhances accountability and transparency, as citizens can track how funds are allocated and utilized. A stronger institutional framework – trust in the government's action – is also associated with improvements in sentiment following fuel price reforms (April 2025 *Fiscal Monitor*). When citizens see that compensation is distributed fairly and effectively, they are more likely to support government initiatives (Sapienza 2021). Furthermore, building capacity in independent audit institutions and their ability to hold the government accountable helps increase trust in the outcome of challenging reforms. By shifting from in-kind subsidies to cash transfers, the Indian government has significantly reduced leakages and corruption. The Direct Cash Transfer (DCT) system has improved the efficiency of subsidy distribution, ensuring that funds reach the intended beneficiaries without unnecessary intermediaries (Dar and others 2022).

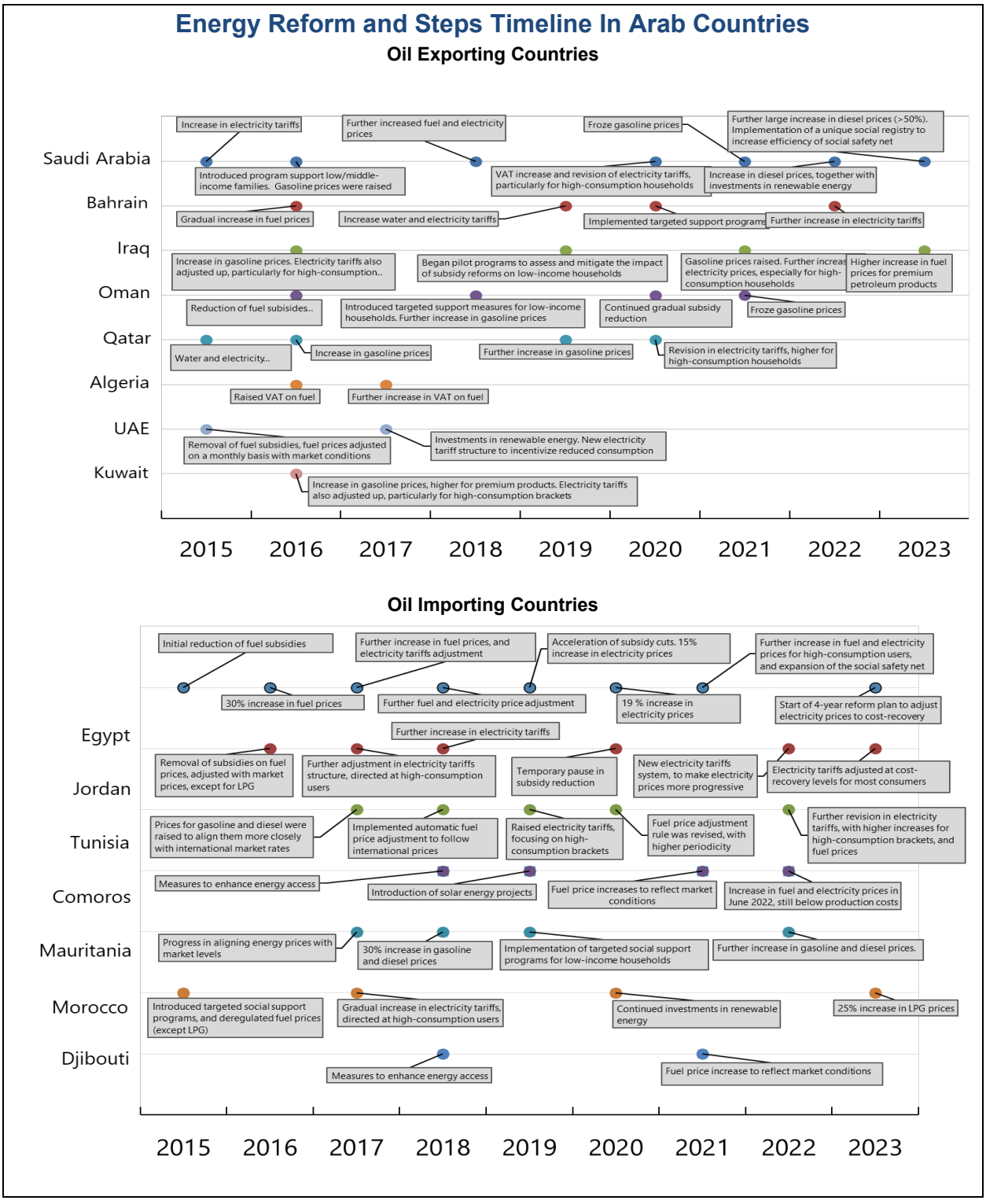
The initial steps need to be part of clear medium-term objectives which would guide the reforms. Ideally, subsidy reforms should be accompanied by institutional reforms that depoliticize energy pricing, such as giving the mandate to price increases to an independent energy regulator, and the introduction of automatic pricing mechanisms that adjust domestic prices to international market developments. Pricing energy like most other commodities will reduce the political and social pressure on governments from ad-hoc price adjustments. Over the longer term, the reforms should aim to fully liberalize pricing. More liberalized regimes—where prices are determined by private sector suppliers and move freely with international prices—tend to be more robust to the reintroduction of subsidies than automatic pricing mechanisms (Baig and others 2007), though the latter could facilitate the transition towards full liberalization, as in the Philippines during the 1990s.

Concluding Remarks

Reforming energy subsidies in the Arab region offers a pathway towards a more sustainable and equitable future. By addressing the fiscal burdens and social inequities created by energy subsidies, governments can unlock essential resources for public services and foster a more resilient economy. Targeting higher-income groups and large consumers while protecting vulnerable populations through well-calibrated compensation mechanisms, such as direct cash transfers, can help ensure social acceptability. Effective communication, transparency, and appropriate pacing are essential to build trust and maintain reform momentum. Complementing subsidy reform with strategic investments in renewable

energy and social safety nets further enhances its long-term impact. The IMF supports these efforts by providing policy advice, technical assistance, and financial resources through instruments such as the Extended Fund Facility and the Resilience and Sustainability Facility.

Annex 1. Cross-Country Energy Subsidy Reform Measures



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