



UNDERSTANDING
EGYPT'S
FUEL SUBSIDY
EVOLUTION
OVER A DECADE

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BY NADA ABBAS AND HAGAR TAREK

Fuel subsidies in Egypt are one of the largest expenditures in the state's general budget. This came amid demands from the International Monetary Fund (IMF) to abolish them and the government's keenness to continue them to mitigate the consequences of austerity measures on low-income people. Reforming energy subsidies and correcting their prices, especially fuel, was at the forefront of the goals of the Egyptian economic reform program launched in 2016.

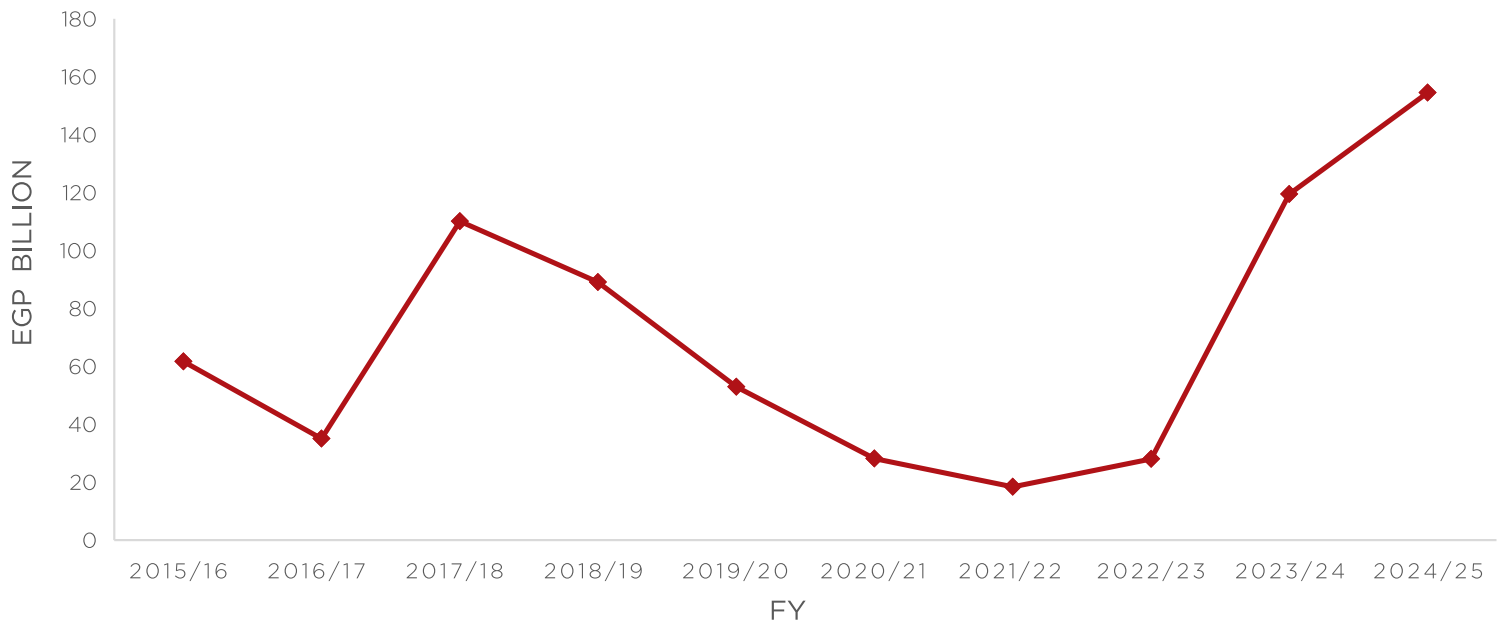
This analysis delves into the budget allocations for fuel subsidies from fiscal year (FY) 2015/16 to FY 2024/25. Throughout this period, fuel subsidies represented an average of about 20% of the total value of all subsidies allocated in the general budget.

However, subsequent years witnessed fluctuating trends, influenced by factors such as currency devaluation, global oil price fluctuations, and geopolitical events. Despite initial reform efforts, including significant cuts on subsidies, global and regional challenges, such as the COVID-19 pandemic, the Russia-Ukraine conflict, and the Gaza war, compelled the government to revisit its subsidy policies.

The analysis also sheds light on the specific reforms implemented over the years and the projections from the IMF for subsidy allocations until FY 2028/29.

Fuel Subsidy Allocations in Egypt's Preliminary General Budget

FUEL SUBSIDY BUDGET



The graph above illustrates the evolution of budget allocations for the fuel subsidy in Egypt's general budget. During the analysis time frame, the annual average of the allocated budget for fuel subsidies was approximately EGP 69.8 billion. On average, fuel subsidies represent about 36% of total subsidies for commodities.

In FY 2016/17, the Egyptian government decreased the allocated budget for fuel subsidies by about 43% year-on-year. This reduction was the result of the launch of an energy subsidy reform program in FY 2014/15, which was repeatedly delayed by political instability. It included gradually cutting subsidies and increasing fuel prices in the budget.

In FY 2017/18, due to Egypt's currency devaluation and global oil inflation, the government allocated a budget for fuel subsidies that was about 214% higher than the previous year. Then, the government gradually reduced the allocated budget for fuel subsidies from FY 2018/19 until it reached the lowest value at EGP 18.4 billion in FY 2021/22. This represented an 83% reduction compared to that in FY 2017/18.

Due to the global economic crisis that followed the Russia-Ukraine war and the continuous decline in the stability of exchange rates, the government slowed down the pace of phasing out fuel subsidies. As a result, the allocated budget for fuel subsidies for FY 2022/23 was set higher than the previous year by 52%,

driven by a significant rise in global petroleum prices and exchange rate instability.

Considering the global inflationary wave and high exchange rates, the Egyptian government allocated EGP 119.42 billion for fuel subsidies in FY 2023/24, about



326% higher than the previous year. It represented 47% of the subsidy allocation for commodities and 23% of all subsidy allocations for FY 2023/24. For FY 2024/25, the government allocated EGP 154.5 billion, representing the highest allocation during the ten fiscal years and an increase of 29% over the previous year.

Fuel Subsidy and Reforms Development in Egypt



Energy subsidies have long been a cornerstone in Egypt's economic policy to ensure affordable energy services for lower-income households. Yet, the insufficiency of domestic oil and gas production, the increase in energy costs, and the deterioration in the

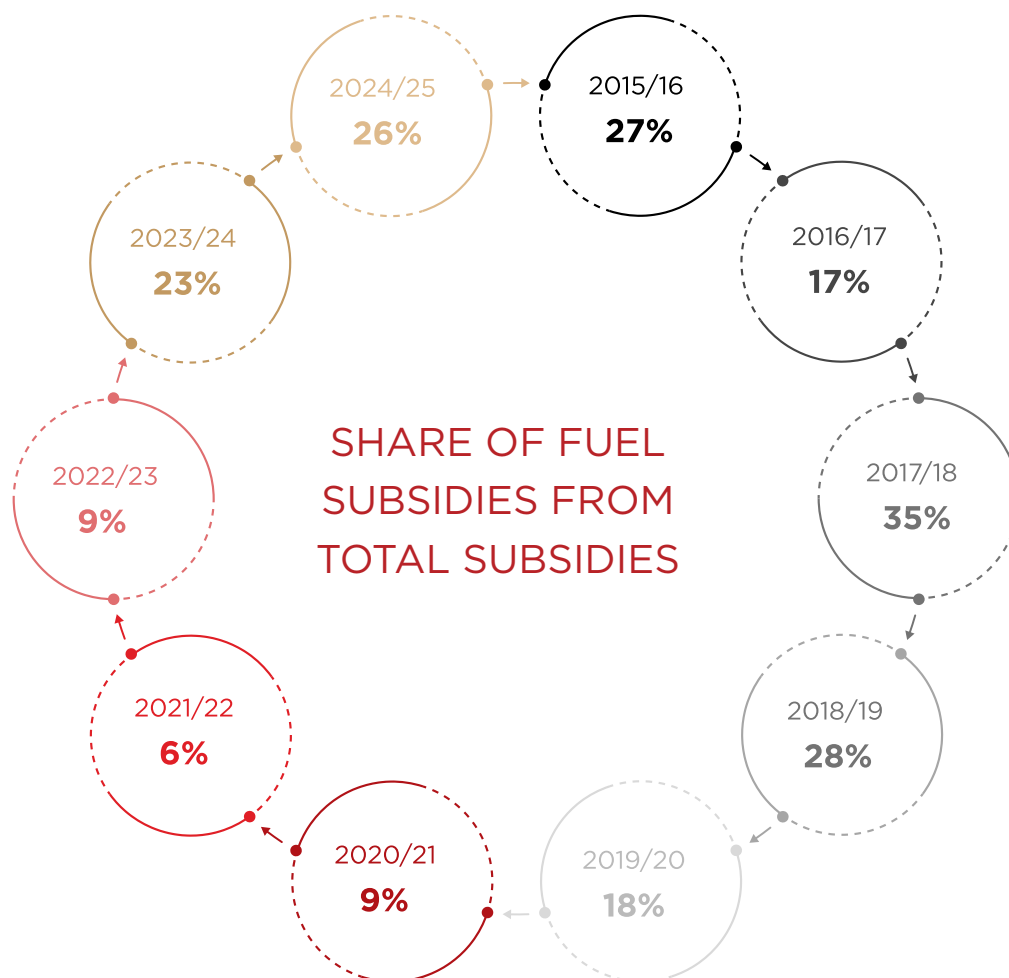
budget deficit have pushed the government to launch the energy subsidy reform program in 2004. The initiative was abandoned in 2009 due to the global economic recession.

FUEL SUBSIDY AND IMPLEMENTED REFORMS

 Fiscal Year	 Reforms																		
2004/05	- The government launched the energy subsidy reform program which targeted raising gasoline and diesel oil prices gradually until reaching full cost recovery by 2014.																		
2010/11	- All local fuel prices increased compared to the previous prices as follow: <table border="1" data-bbox="662 1282 1315 1375"> <thead> <tr> <th>Gasoline 95</th> <th>Gasoline 92</th> <th>Gasoline 80</th> <th>Diesel</th> <th>Kerosene</th> </tr> </thead> <tbody> <tr> <td>57%</td> <td>32%</td> <td>78%</td> <td>47%</td> <td>47%</td> </tr> </tbody> </table>	Gasoline 95	Gasoline 92	Gasoline 80	Diesel	Kerosene	57%	32%	78%	47%	47%								
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57%	32%	78%	47%	47%															
2011/12	- Again, the political and economic disruptions hindered the reform plans. - Egypt was ranked eighth in the world in terms of the volume of energy subsidies for fossil fuels, with spending representing between 20% and 25% of total public spending. These subsidies covered more than 50% of the prices of fossil fuels.																		
2012/13	- All local fuel prices increased compared to the previous prices as follow: <table border="1" data-bbox="662 1702 1315 1795"> <thead> <tr> <th>Gasoline 95</th> <th>Gasoline 92</th> <th>Gasoline 80</th> <th>Diesel</th> <th>Kerosene</th> </tr> </thead> <tbody> <tr> <td>113%</td> <td>41%</td> <td>47%</td> <td>64%</td> <td>64%</td> </tr> </tbody> </table>	Gasoline 95	Gasoline 92	Gasoline 80	Diesel	Kerosene	113%	41%	47%	64%	64%								
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2016/17	-The IMF approved a 3-year \$12 billion Extended Fund Facility for Egypt to support the government's economic reform program. As part of the reforms, Egypt was required to remove subsidies on most energy products by June 15, 2019 to achieve expenditure optimization. - Local fuel prices increased twice as follow: <table border="1" data-bbox="615 2274 1430 2377"> <thead> <tr> <th>Month</th> <th>Gasoline 95</th> <th>Gasoline 92</th> <th>Gasoline 80</th> <th>Diesel</th> <th>Kerosene</th> </tr> </thead> <tbody> <tr> <td>Nov</td> <td>0</td> <td>34%</td> <td>51%</td> <td>55%</td> <td>55%</td> </tr> <tr> <td>June</td> <td>6%</td> <td>35%</td> <td>23%</td> <td>51%</td> <td>51%</td> </tr> </tbody> </table>	Month	Gasoline 95	Gasoline 92	Gasoline 80	Diesel	Kerosene	Nov	0	34%	51%	55%	55%	June	6%	35%	23%	51%	51%
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FUEL SUBSIDY AND IMPLEMENTED REFORMS

 Fiscal Year	 Reforms						
2018/19	- Some local fuel prices increased compared to the previous prices as follow: <table border="1" data-bbox="749 613 1223 723"> <thead> <tr> <th>Gasoline 95</th> <th>Gasoline 92</th> <th>Diesel</th> </tr> </thead> <tbody> <tr> <td>17%</td> <td>19%</td> <td>23%</td> </tr> </tbody> </table>	Gasoline 95	Gasoline 92	Diesel	17%	19%	23%
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17%	19%	23%					
2022/23	- The IMF approved a \$3 billion loan for Egypt to support its economic reform program that also caused fuel prices to increase.						



FUEL AUTOMATIC PRICING MECHANISM

Fuel Automatic Pricing Committee (FAPC) convenes every three months to assess fuel prices and propose changes, which cannot exceed 10% in either direction. This reform process was part of a broader effort to address Egypt's fiscal challenges, including a growing budget deficit and energy shortages. On the other side, it aims at reducing the country's reliance on fossil fuels and promoting a more sustainable energy mix.

Since the establishment of the committee, the automatic pricing mechanism for petroleum products has relied on a ministerial committee that meets once every three months to determine fuel price increases according to a price equation as follows:

$$\max \{ \min \{ \text{Percentage change in retail fuel price}_t, 10 \text{ percent} \}, - 10 \text{ percent} \}$$

where:

$$- \text{Percentage change in retail fuel price}_t = 0.8 \times \text{Percentage change in (Brent } t-1 \times \text{FX}t-1) + 0.2 \times \text{Annual adjustment due to other costs}_t + \text{Catchup adjustment}_{t-1}$$

- The retail fuel price in quarter t is the average price in a quarter in domestic currency.

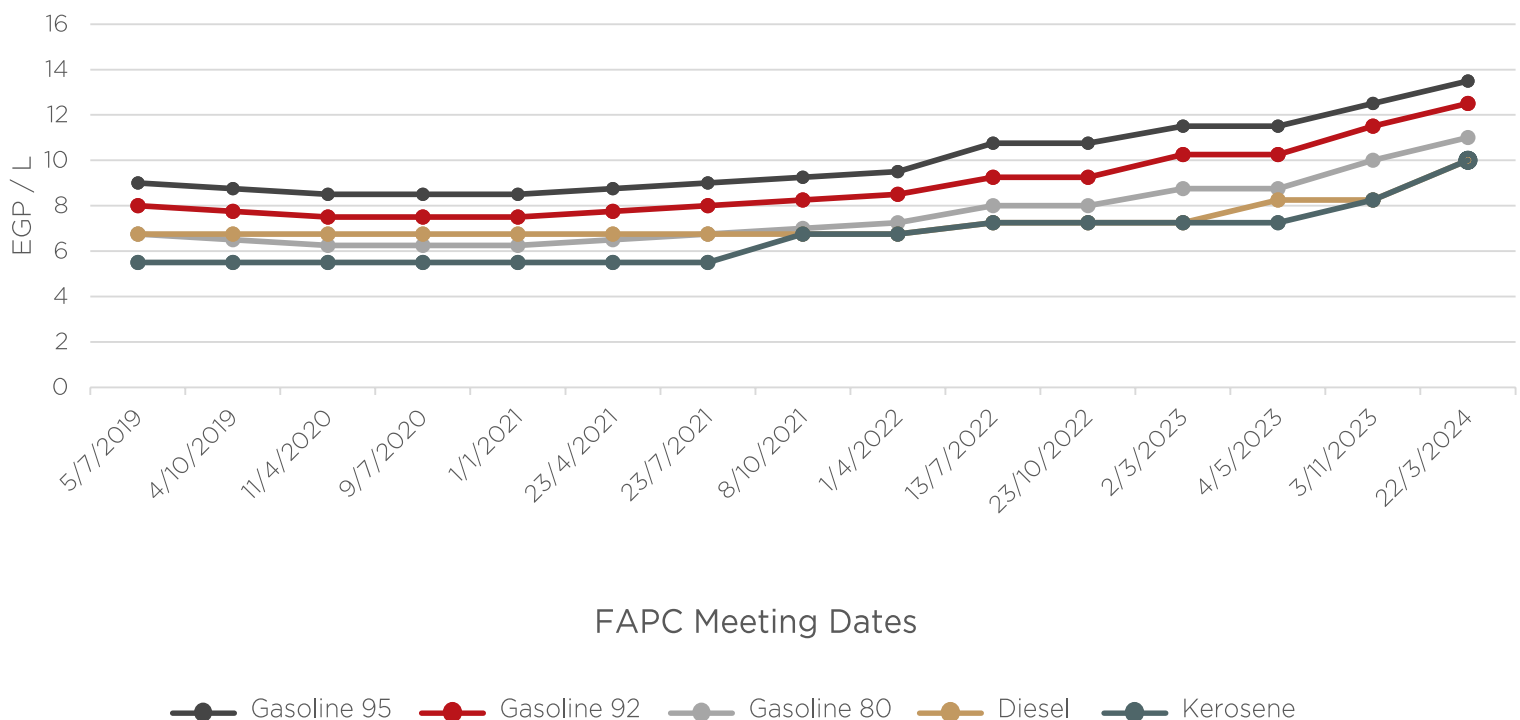
- **Brent** $t-1$ is the average Brent crude oil price in the U.S. dollar in the previous quarter, $\text{FX}t-1$ is the average exchange rate of the Egyptian pound against the U.S. dollar in the previous quarter, and 0.8 is the share of oil in the production cost of fuel products. For gasoline and diesel, the change is rounded to multiples of 25 piasters.

- **Annual adjustment due to other costs:** Adjustments to other direct and indirect costs are included on an annual basis in the second quarter of the fiscal year. Adjustments due to other direct and indirect costs are zero in the remaining quarters of the fiscal year.

- **Catchup adjustment:** Since the changes in retail fuel price are capped at 10% in absolute value, any adjustments not fully implemented in one quarter will result in additional adjustment in the following quarter, giving rise to the term *Catchup adjustment* $t-1$. The catchup adjustment is taken to be zero for the adjustment in the third quarter of FY 2022/23.

The figure below shows the evolution of local petroleum product prices since the establishment of the committee until Jan 2024:

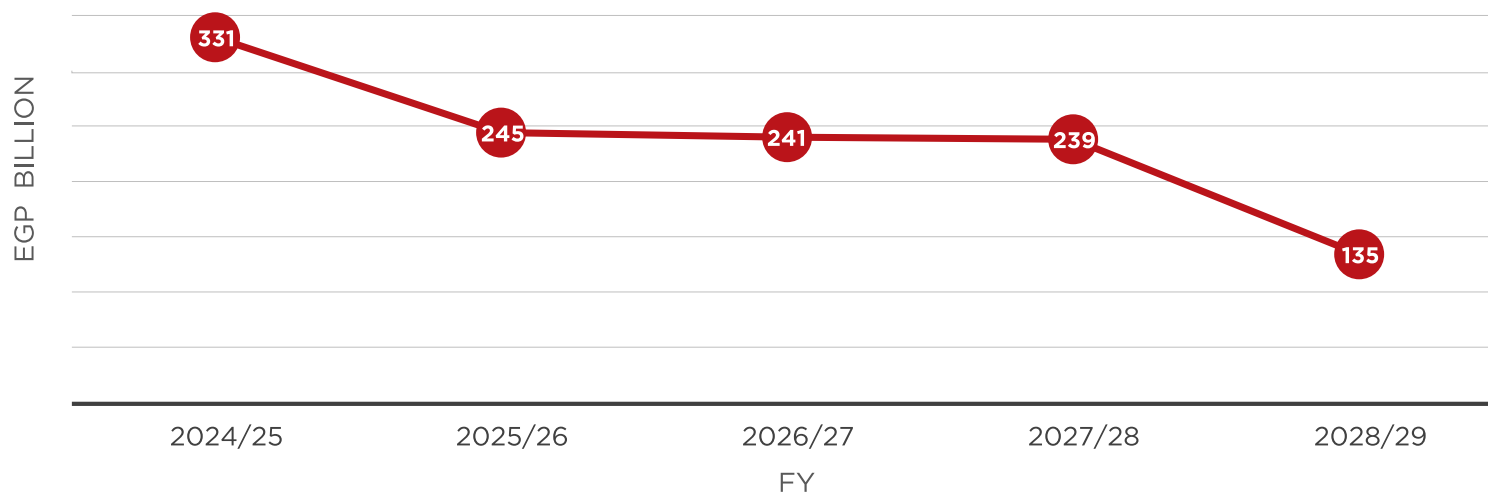
CHANGE IN THE LOCAL PETROLEUM PRODUCTS PRICES



The above graph illustrates the trend in the increase in local petroleum product prices from the inception of the committee until the last price that was set.

Fuel Subsidy Outlook

FORECAST FOR THE FUEL SUBSIDY



The above graph shows the forecasts for the fuel subsidy for the next five fiscal years, as published in the report on the first and second reviews of the extended credit facility program with Egypt by the IMF in April 2024.

The IMF estimated that fuel subsidies would reach EGP 331 billion during FY 2024/25, which is equivalent to about 214% of the government's estimates of approximately EGP 154.5 billion in the draft budget which is under discussion by the Egyptian Parliament. The IMF then gradually reduced its expectations for the FYs following 2024/25, reaching the lowest forecast in FY 2028/29 at a value of EGP 135 billion, representing a reduction rate of about 60% compared to FY 2024/25.

Regarding the significant difference in estimates between the IMF and the government, the Egyptian Minister of Finance indicated that the Fund's estimates might account for differences in the prices of fuel sold for electricity. For instance, a ton of diesel is sold at EGP 4,200 (\$87.5), while its market price is \$450 per ton. Similarly, gas is priced at \$3 per million British thermal units (Mm Btu), although it is supposed to be priced at no less than \$5.

The government revealed in a statement published in April 2024, that it is working on developing a plan to adjust diesel prices to align with the full implementation of the pricing equation established at the beginning of the program. Therefore, it is expected that the coming period will witness more price increases across all local petroleum products.

In conclusion, the analysis of Egypt's fuel subsidy allocations over the past decade reveals a complex interplay of economic reforms, global market dynamics, and political considerations. The subsidy has consistently constituted a significant portion of Egypt's general budget, despite fluctuations influenced by policy shifts and external economic pressures.

The substantial cuts in fuel subsidies observed in the mid-2010s aimed to address fiscal deficits and promote economic sustainability. However, the global economic crisis, exchange rate volatility, and geopolitical events such as the Russia-Ukraine war, followed by the conflict in Gaza and Israel, necessitated a temporary increase in subsidy allocations in recent years. Moving forward, the IMF projections indicate a gradual decrease in fuel subsidies, reflecting ongoing commitments to economic reform and fiscal discipline.

REFERENCES

Data Source: Ministry of Finance (MoF); International Monetary Fund (IMF); The Fuel Prices

Analysis Sources: MoF; IMF; EIA, Country Analysis by U.S. Energy Information Administration (EIA); Finance and Business Magazine (Port Said University); the forum – Economic Research Forum (ERF) Policy Portal; International Institute for Sustainable Development



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