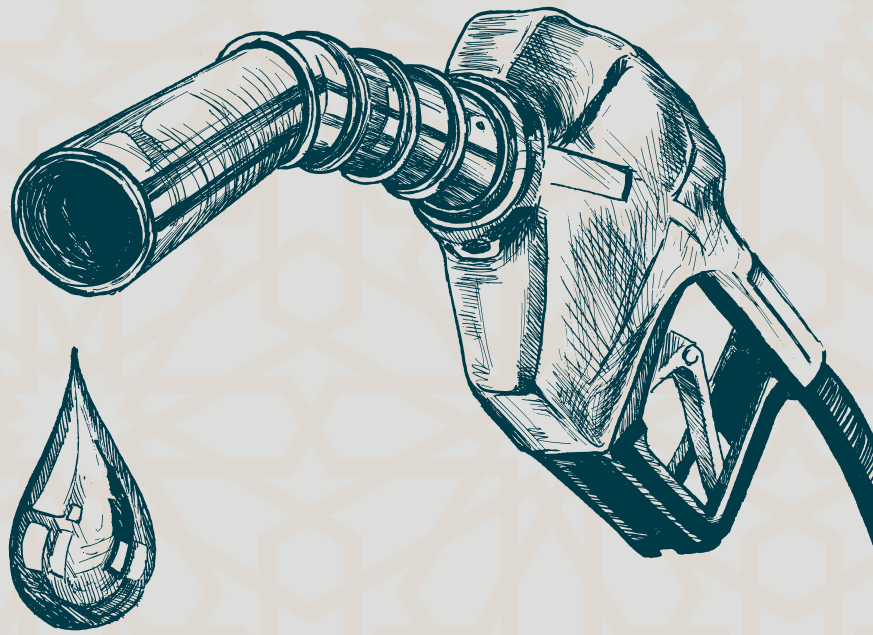




المركز التونسي للإقتصاد
Observatoire Tunisien de l'Economie

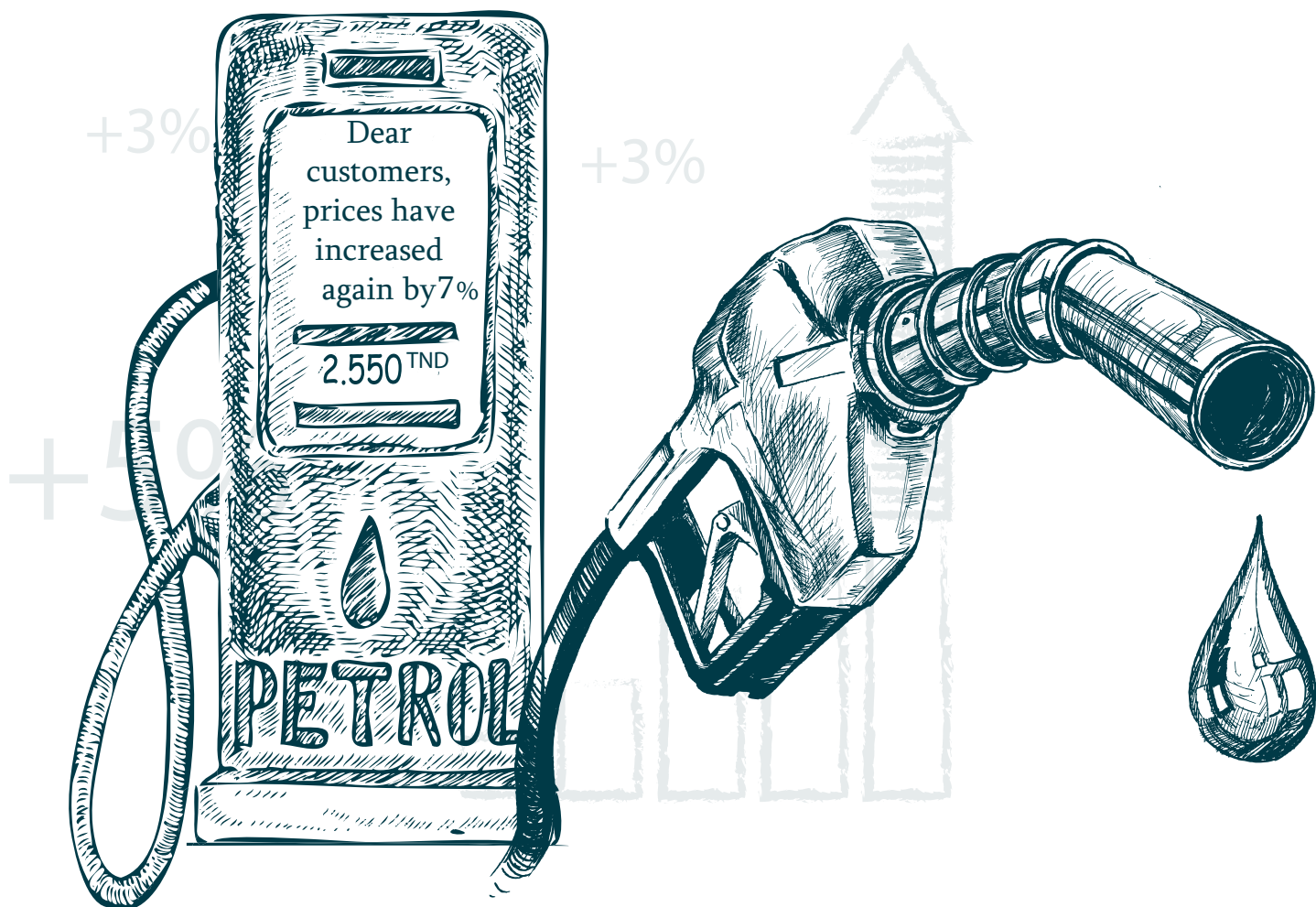
Explanatory Paper | n°1

Reforming the Fuel Subsidy System



Observatoire Tunisien de l'Economie

10/10/2023



Summary

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Introduction/Context

2

Understanding an IMF-influenced Reform

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Retracing the conditions linked to this reform in IMF agreements and reviews

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Deciphering the implementation of reform in Tunisia

Since the beginning of 2022, the government has announced 04 fuel price increases, in February, March, April and September. As announced in its reform program in June 2022, the government continues to implement its strategy lifting energy subsidies namely fuel subsidies.

Although the pace of fuel price increases is currently accelerating, this reform dates back a long way to 2013 following the first agreement (Stand-by Agreement) with the International Monetary Fund (IMF).

This is part of the structural reforms being implemented in return for IMF financing, which aims to lift energy and food subsidies as a universal social protection mechanism, replacing them with a subsidy system that targets the most vulnerable.

This transformation of the fuel subsidy represents one of the most important conditions pursued by the Tunisian authorities through the various IMF and World Bank loan programs and reviews since 2013, right up to the current negotiations for a new loan.

In this fact sheet, we look back at the reform of fuel subsidies since 2013, the year the 1st agreement with the IMF was signed after the revolution.



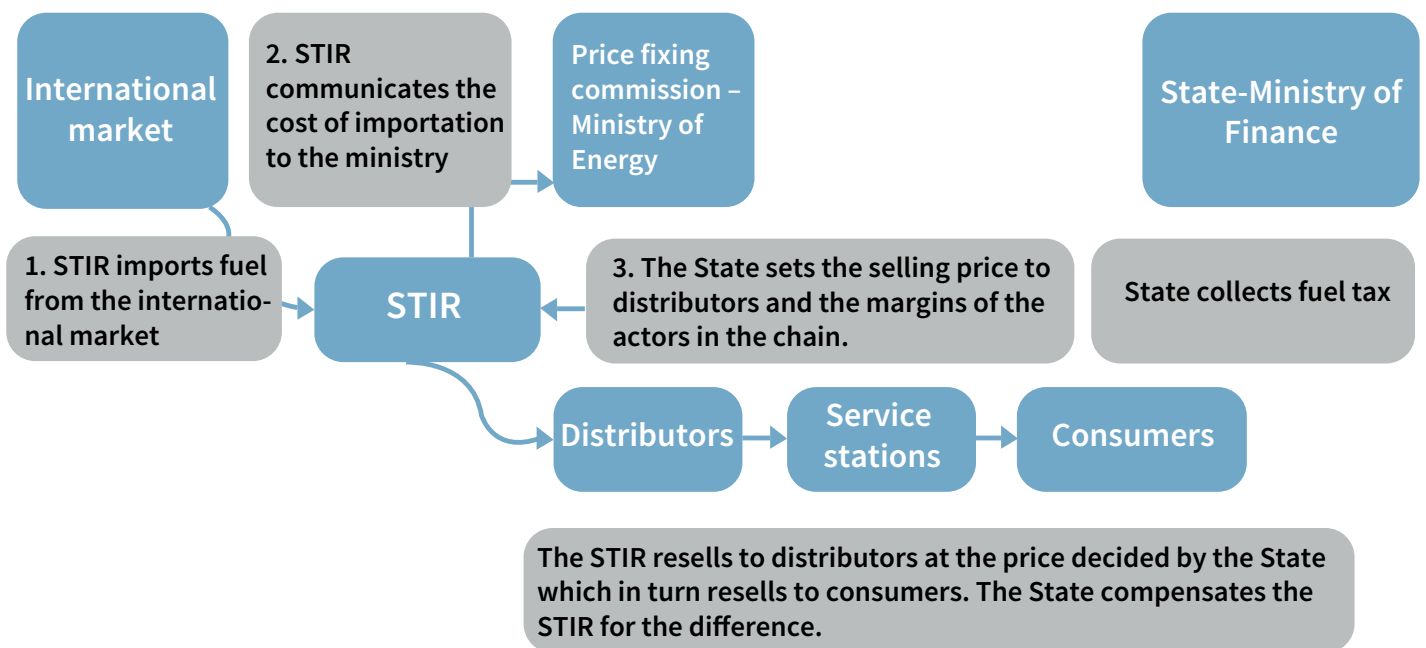
A) The origins of the fuel subsidy policy

The fuel subsidy is part of the broadest compensation policy implemented in Tunisia. The logic of compensation was adopted by the State in the 70s, not only to support the most vulnerable families, but also to protect the purchasing power of Tunisians by ensuring that the local market was supplied with products at affordable prices, far from the fluctuations of the world market, according to the Ministry of Commerce².

Since the 2000s, Tunisia has gone from being an oil exporter to an oil importer. Rising international fuel prices prompted the extension of compensation on energy products in 2004³.

The aim was to protect purchasing power across the board, boost the competitiveness of certain sectors⁴, and thus, support the national production apparatus thanks to the following fuel pricing system:

The process of setting fuel prices



¹ Chebil.F (2017) Politique énergétique en Tunisie. Notes et analyses de l'ITCEQ. N°55. p 31. Available at : <http://www.itceq.tn/files/developpement-durable/politique-energetique.pdf>

² Portée des subventions, Site Web du ministère du commerce 06/10/2022

³ Chebil.F (2017) Politique énergétique en Tunisie. Notes et analyses de l'ITCEQ. N°55. p 31.

⁴ Imed Ben Rabah, Quelle stratégie de réforme de la subvention énergétique en Tunisie ? Tribune de l'ITCEQ N° 19 Mai 2017, p. 1

B) The arguments and measures for reform according to the IMF

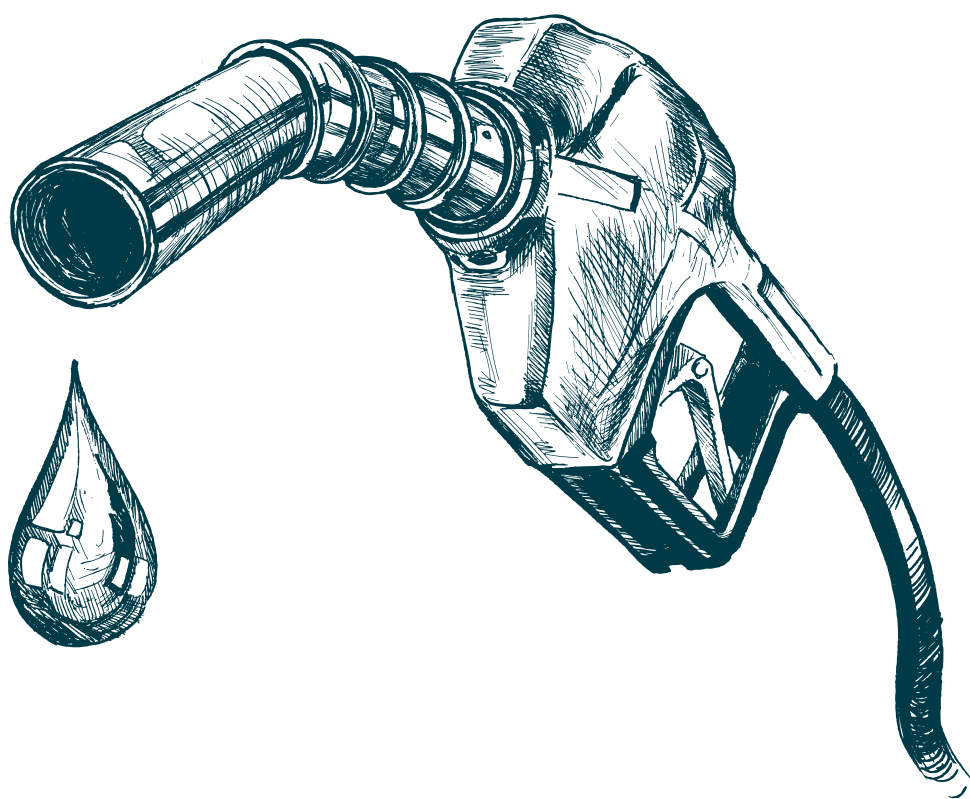
Arguments for reforming fuel subsidy policy:

According to the IMF, the universal subsidy system needs to be reformed for the following reasons:

- 1 Universal subsidies are costly and put a strain on the budget.
- 2 Inequitable: wealthier households benefit more from the subsidy.
- 3 Inefficient: the subsidy acts as a brake on public investment /other state social spending.
- 4 Encourages the biggest consumers and producers of energy.

Reform objectives:

- 1 Reduce the amount of the subsidy (ratio of GDP) by increasing pump prices to bring them into line with the international market price.
- 2 Institutionalize monthly adjustment of local prices to international prices.
- 3 Compensate the most disadvantaged households through targeted minimum transfers (targeting would not take into account small businesses and economic players).



The implementation of the reduction in fuel subsidies began in September 2012, prior to the signing of the 2013 confirmation agreement.

At the time, the government raised fuel prices by 14%⁵.

Since the signing of the 2013 confirmation agreement, increases have become more systematic over time, and have been coupled with a structural change in the price calculation formula and the body in charge of the increase.

Agreement	Review	Conditionality
Confirmation agreement 2013	Text of the agreement	Introduced as a structural measure in the 2013 SBA «Adoption of a new automatic fuel price calculation formula». Reform scheduled for August 2013 ⁶ The criterion was met in R1R2, with a delay. The mechanism is in place, but does not smooth out sharp price rises. ⁷
	Reviews 1&2	N.A
	Review 3	6% increase scheduled for July 2014 «a price smoothing mechanism is envisaged to make the system more resistant to major international price fluctuations.» ⁸
	Review 4	From R4 onwards, the quarterly increase in fuel prices became a prerequisite until the end of the program. This means that the IMF would not disburse the next loan if the increase was not implemented quarterly, as required by the program.
	Review 5	N.A ⁹

⁵ Accord de Confirmation 2013

⁶ Accord de Confirmation 2013

⁷ IMF Country Report No. 14/50, February 2014

⁸ IMF Country Report No. 14/123, May 2014, Third Review Under Standby Arrangement

⁹ International Monetary Fund (December 2014), Fifth review under the stand-by arrangement, request for modification of performance criteria, and rephasing of access—staff report; press release; and statement by the executive director for Tunisia, [IMF Country Report No. 21/44]

Extended Fund Facility EFF2016	Text of the agreement	<p>«The authorities should urgently apply the symmetrical</p> <p>Formula for automatic adjustment of fuel prices»[...].</p> <p>«In order to allow its popularization, this formula will be applied quarterly from July 2016 and monthly from January 2017.»</p>
	Review 1	<p>«Reinstatement of the fuel price adjustment mechanism». «The authorities intend to apply automatic price</p> <p>adjustment for the 3 most important fuels in July2017»¹⁰</p>
	Review 2	<p>Prior measure: Ad-hoc increase in fuel prices</p> <p>«The authorities applied an ad-hoc price increase averaging 3% for the three main fuel categories in December2017 and intend to apply four further prices adjustments in 2018.»¹¹</p>
	Review July 3rd, 2018	<p>Prerequisite measure applied:</p> <p>«(1) Adoption of a ministerial order announcing a significant increase in the prices of the three main petroleum products in June;</p> <p>(2) public announcements of: (i) the capping of energy subsidies at 2.5% of GDP (2,700 million dinars) in 2018; (ii)a monthly price adjustment for the three main petroleum products from July; and (iii) an additional one-off price correction in October if the energy subsidies budget was likely to be exceeded.¹²</p>
	Review 4 October 2018	<p>Prior measure: Quarterly application of the automatic fuel price adjustment mechanism.</p> <p>«Signing of ministerial orders stipulating increases in (i) fuel prices in September and (ii) electricity/gas tariffs; and implementation of fuel, electricity and gas price increases on September1.»¹³</p>
	Review 5 July 2019	<p>Prerequisite measure / Structural benchmark not implemented</p> <p>The fuel price increase was carried out in the third quarter of 2018 (September) and the first quarter of 2019 (March) But not implemented in the fourth half of 2018¹⁴.</p> <p>Hence the program came to an end at the 5th review.</p>

¹⁰IMF Country Report No. 17/203. July 2017. First Review Under Extended Fund Facility

¹¹IMF Country Report No. 18/120. March 2018

¹²International Monetary Fund (July 2018), Third review under the extended fund facility, and request for waiver of applicability and modification of performance criteria, [IMF Country Report No. 18/218], p. 60.

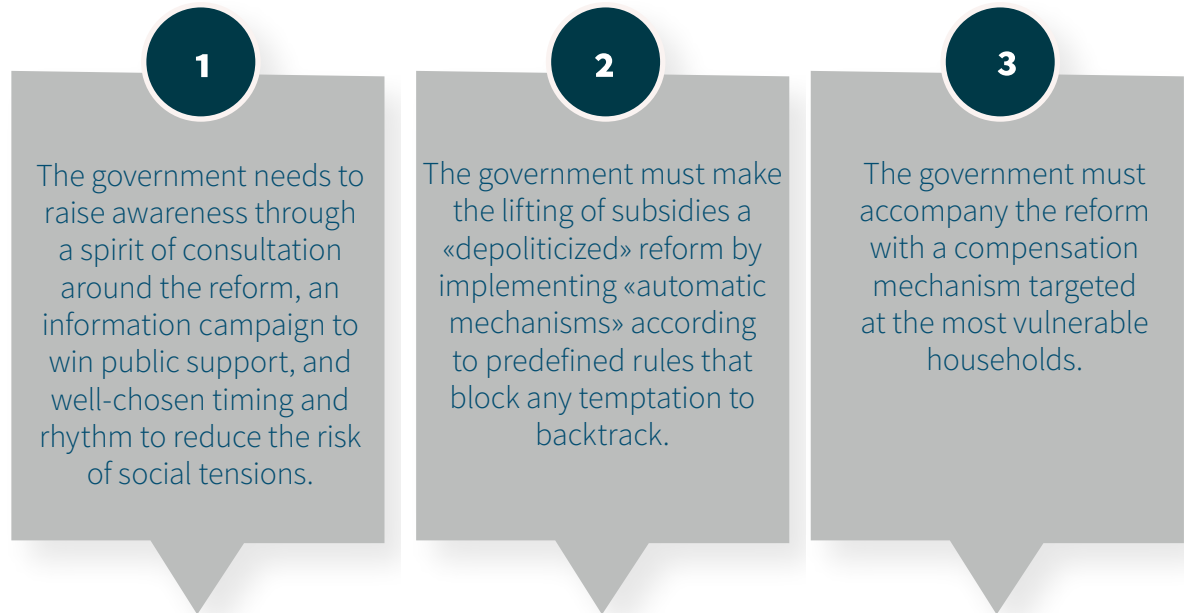
¹³International Monetary Fund (October 2018), Fourth review under the extended fund facility arrangement and request for modification of performance criteria —press release; staff report; and statement by the executive director for tunisia, [IMF Country Report No. 18/291], p.69.

¹⁴ International Monetary Fund (July 2019), Fifth review under the extended fund facility, and requests for waivers of nonobservance and modification of performance criteria, and for rephasing of access, [IMF Country Report No. 19/223], p.72.

4

Deciphering the implementation of reform in Tunisia

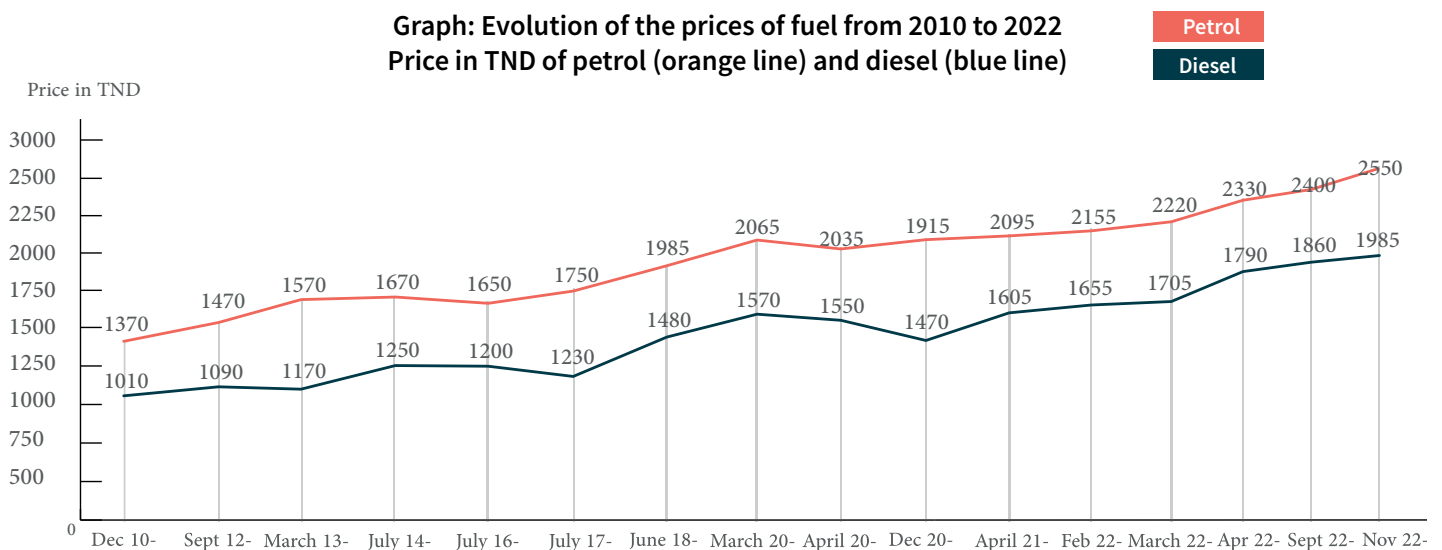
In a report published in 2014¹⁵, the IMF acknowledges that the reform in question will have direct impacts, primarily on the rise in the general price level, the international competitiveness of local energy-consuming products, and the exposure of domestic prices to shocks that may arise from price fluctuations on the world market. To this end, the IMF proposes a number of recommendations:



Since the adoption of this reform, the Tunisian government has initiated all the reform mechanisms recommended by the IMF:

1. The French government has launched a gradual increase in fuel prices¹⁶

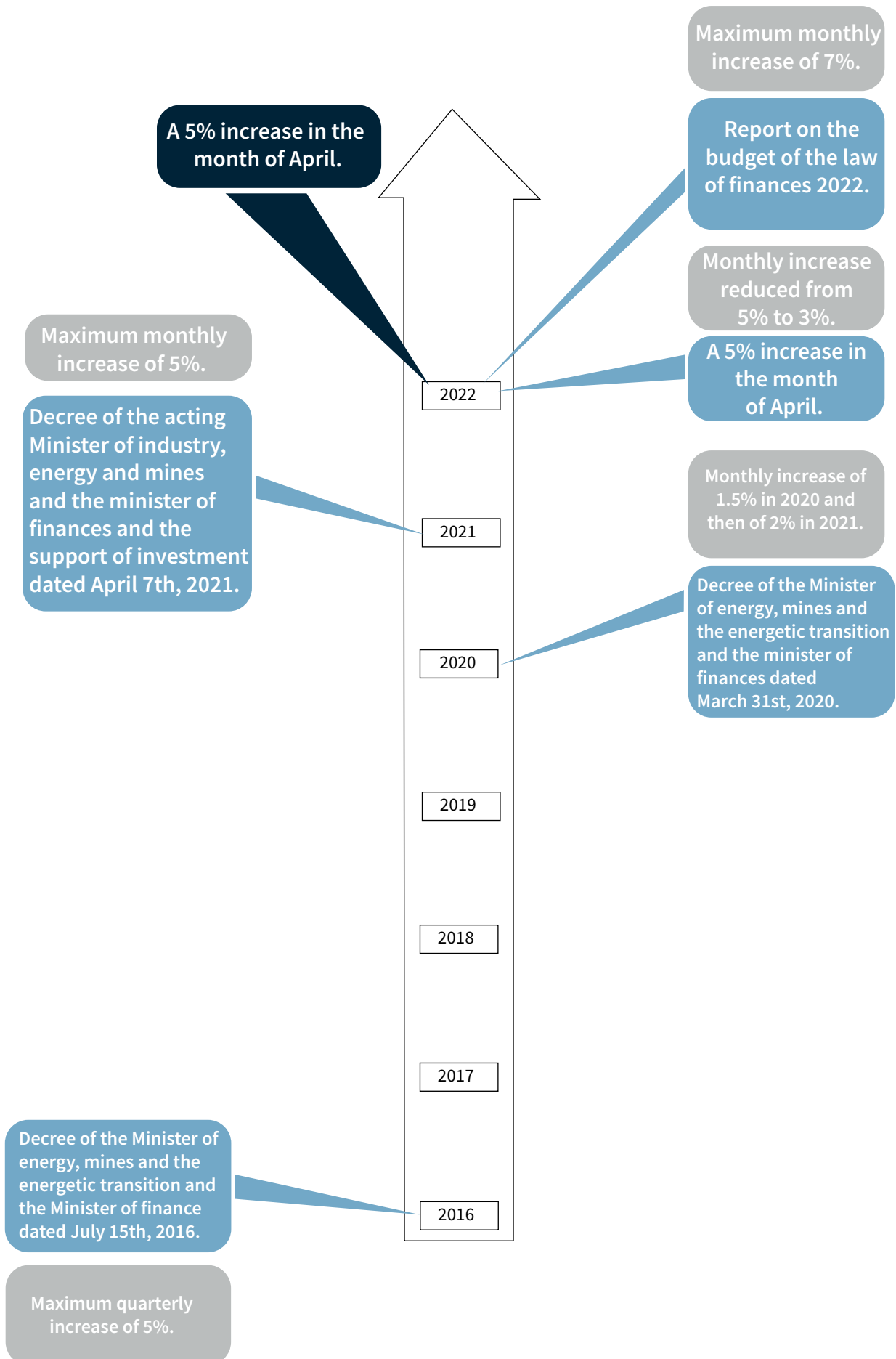
Graph: Evolution of the prices of fuel from 2010 to 2022
Price in TND of petrol (orange line) and diesel (blue line)



¹⁵ IMF (2014, March) Energy Subsidies in the Middle East and North Africa: Lessons for Reform

¹⁶ [Graphique subvention essence.xlsx](#)

2. The State has anchored the automatic price adjustment mechanism in the legislature through the implementation of the automatic fuel price adjustment mechanism.



17 <https://www.energiemines.gov.tn/fr/themes/energie/hydrocarbures/raffinage-transport-stockage-et-distribution-du-petrole/distribution-des-carburants-et-gpl/>

Text 1: July 2016

Decree of the Minister of Energy and Mines and Energy Transition and the Minister of Finance of July 15, 2016 establishing the composition and operation of the commission responsible for setting and monitoring the selling prices of imported finished petroleum products and those refined locally

Link: <https://bit.ly/3g7dTNL>

- Frequency of increase: **Quarterly**
- Rate of increase : **Capped at 5%**

Text 2: Mars 2020

Order of the Minister of Energy and Mines and Energy Transition and the Minister of Finance of March 31, 2020, setting the composition and operation of the Technical Commission responsible for setting and monitoring the selling prices of imported finished petroleum products and those refined locally

Link : <https://www.pist.tn/record/143966?ln=fr>

- Frequency of increase : **Quarterly**
- Rate of increase : **Capped at 5%**

Text 3: April 7, 2021

Decree of the Acting Minister of Industry, Energy and Mines and the Minister of Economy, Finance and Investment Support of April 7, 2021, amending the order of March 31, 2020, setting the composition and operation of the technical commission responsible for setting and monitoring the selling prices of imported finished petroleum products and those refined locally.

Link : <https://www.pist.tn/jort/2021/2021F/Jo0322021.pdf>

- Frequency of increase: **Quarterly**
- Taux d'augmentation : **Capped at 5%**

Text 4: State budget report (Finance Act 2022)

Lien : http://www.finances.gov.tn/sites/default/files/2022-02/ANNEXE_01_0.pdf

- Frequency of increase : **Quarterly**
- Rate of increase : **Capped at 3%**

This compensation refers to a broader reform of the social protection system by targeting poverty, the «Amen Social» social security program launched in ²⁰¹⁹ and supported by the World Bank. «Amen Social» aims to bring together all existing non-contributory, targeted social protection mechanisms¹⁸ such as PNAFN¹⁹, AMGI²⁰, AMGII²¹ and is also intended to compensate for the lifting of subsidies (currently universal) for the poorest households through direct financial transfers.

In the ²⁰²¹ Article IV consultation report with Tunisia, the IMF asked the authorities to finalize the development of the database (Amen Social) and start making cash transfers to compensate for the cancelled energy subsidies.²² The IMF report also stresses that the reform of targeted subsidies, namely energy and food subsidies, must be one of the first measures taken to mitigate the social consequences of the COVID-¹⁹ pandemic, as part of a «socialpact»²³.

The transition from a universal fuel subsidy system to a targeted support system is thus envisaged for the most vulnerable social categories. However, the identification and targeting methods delay an effective and guaranteed compensation payment for the most vulnerable, and raise the question of error and exclusion rates in the targeting systems. What's more, targeting the most vulnerable households excludes the entire middle class, who will bear the full brunt of the reform without any form of social protection.

¹⁸ CRES, Redistribution des revenus, disponible sur : <http://www.cres.tn/index.php?id=182>

¹⁹ Programme National d'Aide aux Familles Nécessiteuses, PNAFN

²⁰ Programme d'Assistance Médicale Gratuite (type I)

²¹ Le Programme de carnet de soins à tarifs réduits (AMG II)

²² IMF Country Report: Tunisia, 2021 Article IV Consultation, 26 February 2021, p. 23.

²⁴ "calls on the authorities to strictly prioritize spending in favor of health and social protection, while exerting strict control over the civil service bill, ill-targeted energy subsidies, and transfers to inefficient stateowned enterprises."

²⁴ Ibid. "Given past reform failures and resistance, staff urges the authorities to consult and communicate with the broader public a medium-term reform program (...). To be credible and gain buy-in, the reform program (...) would need to be supported by a social compact, with the main stakeholders committing to support reforms within their remit."


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15. IMF (2014, March) Energy Subsidies in the Middle East and North Africa: Lessons for Reform
16. Graphique subvention essence.xlsx
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