

Global energy subsidies to hit \$5.3 tn this year: IMF

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A wind turbine rises up above farmland near Middleton, Wisconsin on November 19, 2013

The International Monetary Fund voiced alarm Monday about energy subsidies across the world, saying they were expected to reach \$5.3 trillion in 2015, more than government health spending.

"These estimates are shocking," the IMF said in a report, noting the

figures were among the largest negative factors for economic growth it had ever estimated, piling up [adverse effects](#) on efficiency, growth and inequality.

The report estimated that this year's energy subsidies represent 6.5 percent of the global economy, likely exceeding government health spending across the world.

Long an opponent of energy subsidies, the IMF defines them as the difference between the amount of money consumers pay for energy and its "true costs", plus a country's normal value-added or sales tax rate.

In addition to what is required to produce and distribute energy, the "true costs" include environmental effects like carbon emissions that lead to global warming and the health effects of air pollution.

According to the Fund, China is by far the largest spender on energy subsidies, at \$2.3 trillion a year, followed by the United States at \$699 billion and Russia at \$335 billion.

The report said that overall energy subsidies had more than doubled since 2011, the year covered by a similar IMF report in 2013.

The IMF explained that more than half of the increase was due to more precise evidence of the damaging effects of [energy consumption](#) on air quality and health, such as premature deaths.



Chimneys spew emissions at a power station in Shanghai on November 28, 2013

"The IMF has long argued that getting energy prices right can help national governments achieve their goals not only for the environment but also for inclusive growth and sound public finances," the report said.

The 188-nation Fund recommended countries increase energy prices gradually to reflect their true costs, an action it estimated would yield fiscal gains of about 3.5 percent of [gross domestic product](#).

The additional gains would give governments room to reduce some taxes, raise growth-spurring public spending on infrastructure, health and education, and finance cash transfers for the poor, it said.

The IMF in March conditioned its \$40 billion bailout program for Ukraine in part on the government undertaking energy sector reforms,

including reductions in energy subsidies.

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