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Policy Options and Low International Oil Prices: An Assessment for Commonwealth Countries

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This discussion paper was written by Travis Mitchell, Economic Adviser in the Economic Policy Division, (Email: t.mitchell@commonwealth.int) and Sanjana Zaman, Research Officer in the Economic Policy Division, (Email: s.zaman@commonwealth.int)

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Publications Section
Commonwealth Secretariat
Marlborough House, Pall Mall
London SW1Y 5HX
United Kingdom

Introduction

This paper briefly discusses the macroeconomic effects of low international oil prices and places particular emphasis on the policy implications for Commonwealth countries. It draws on recent studies by the International Monetary Fund (IMF) and World Bank that discuss available policy options, and uses this to assess the efficacy of Commonwealth oil price-policy responses.

At the time of first drafting, international oil prices had registered an annual decline of 59.3 per cent – from US\$108.4 per barrel in June 2014 to US\$44 per barrel in August 2015. Since then, oil prices have fallen by a further 28.5 per cent to US\$31.5 per barrel (between August 2015 and end January 2016), marking the lowest oil price on record since 2009. Supply-driven factors linked to the Organization of the Petroleum Exporting Countries' (OPEC) shift from price targeting; greater than expected oil supply from non-traditional markets (USA and Canada); limited spill-over effects from various geopolitical factors; a significant appreciation of the US dollar; and demand-driven factors such as slowdowns in major emerging economies (e.g. in China and India), have all been named as contributors to the recent decline in international crude prices (World Bank 2015; IMF 2015; Baffes et al. 2015).

The World Bank predicts that oil prices should recover in 2016, but expects that prices will remain below US\$80 per barrel, at least over the next five to seven years (World Bank 2015).¹ Such a sustained trend in low oil prices is anticipated to have a mix of macroeconomic effects, dependent on whether countries are net importers or net exporters of oil, and on their chosen policy responses. The macroeconomic effects also depend on the nature of the price change, its permanence and the various price transmission mechanisms.

In the following sections, the paper briefly discusses: the likely macroeconomic effects; IMF recommendations for optimal policy responses; current Commonwealth policy responses; and Commonwealth perspectives. The paper concludes with a brief reflection on key points.

Macroeconomic effects of low international oil prices Transmission mechanisms

Both the IMF and World Bank assert that the majority of the crude price decline has been supply driven. In this case, price movements are expected to last at least into the medium term, while actual feed-through effects will be determined by the length of time oil price changes take to impact prices

¹ Continued slowdown in China, the world's second largest oil consumer, may continue to depress oil prices.

at the pump. Countries with subsidies or other administrative controls on energy prices usually have a limited pass-through to fuel prices in such cases, meaning that windfalls from lower oil prices in these countries accrue to government rather than to households. Here the effect on the economy would depend on government actions.

Where there is a high share of oil imports, low oil prices can improve the current account balance

In this situation, the government has to decide whether it is more advantageous to save windfalls in order to create fiscal buffers, or spend them to boost economic current activity. When there is full pass-through, on the other hand, windfalls accrue to households; research here suggests that households, mainly in advanced economies, normally save increases in income, especially when the price change is temporary. However, when the price change is permanent, households tend to undertake an adjustment in spending patterns. For both oil-importing and oil-exporting countries, the impact on the economy will also be a function of the level of a country's energy intensity.

Impact on the real economy

Oil importers

In general, low oil prices lead to lower inflation, and propel increases in real income and consumption in oil-importing countries. They also lower the cost of production in oil-intensive industries and, through confidence effects, unlock increases in capital investment. According to the World Bank, a 10 per cent decrease in oil prices could raise growth in oil-importing economies by some 0.1 to 0.5 percentage points, depending on the country's share of oil imports in gross domestic product

(GDP; World Bank 2015; World Bank 2013a; Rasmussen and Roitman 2011).

Additionally, where there is a high share of oil imports, low oil prices can improve the current account balance. And for many countries that subsidise energy, lower prices for oil can create necessary fiscal space, which can either be saved or channelled towards priority areas. More indirectly, lower oil prices can boost trade through terms of trade effects. For example, they can boost the demand for tourism services as travel costs decline.

Nonetheless, the effects of low oil prices can also be negative, especially if lower oil prices lead to a currency appreciation, and if depressed export earnings in oil-exporting countries trigger a fall in demand for oil importers' goods and services or reduced remittances and aid. While presenting opportunities to move towards a low carbon economy, low oil prices can also reduce the incentive to become more energy efficient and to increase the share of renewables in the energy mix.

Oil exporters

The immediate impact of lower international oil prices is a loss of oil revenue for oil-exporting countries. The macroeconomic effects are particularly severe when government finances rely heavily on taxes from the oil sector. For net oil exporters, lower oil prices will also generally have adverse balance-of-payment effects and could precipitate a currency depreciation. The World Bank reports that a reassessment of growth prospects of oil-exporting countries has already contributed to capital outflows, reserve losses, sharp depreciations and/or rising sovereign credit default swap (CDS) spreads.

Investment, particularly in energy projects, could also decline. The Bank of Canada (2015) estimates that if oil prices are sustained at US\$50 to US\$70 per barrel, investment in Canada's oil and gas sector could swiftly drop by about 30 per cent. Overall, this could depress real GDP by 1 per cent in 2015 and by an additional 0.4 per cent in 2016.

Through second-round effects, depressed growth in oil-exporting countries can put strain on the balance sheets of corporates, and those of banks, by way of increased non-performing loans. Moreover, contagion can take place in the event that oil exporters' 'petro-dollar' investments in foreign assets are repatriated to support fiscal spending, creating capital outflows and financial strain for other economies. Lower oil prices can also translate into reduced non-commodity prices – for example, for natural gas and for fertiliser (where natural gas is a key input) and, in turn, for agricultural commodities.

Optimal oil price-policy response Optimal short-run policy responses

The IMF recommendations for oil price-policy adjustment are taken here as signifying potential 'optimal policy responses', recognising of course that country views may differ considerably. The employment of the IMF's recommendations in this paper has the main purpose of allowing for an assessment of current oil price-policy responses by countries in the Commonwealth.

Oil importers

The main policy decision faced by oil importers during periods of low international oil prices is whether to save or spend oil windfalls (that is, where there are limited pass-through effects). The IMF suggests that policy choices should be dictated by countries' existing vulnerabilities (fiscal, external and inflation risks), and their position in the business cycle. In general, the IMF recommends that the higher the level of vulnerabilities, and the more advanced countries are in the business cycle, the more they should save, particularly to rebuild policy buffers and to slow the impact on aggregate demand.

For example, for those countries with:

- **No vulnerabilities** and which are operating below potential output: Here, the IMF recommends that country policies allow domestic demand to

rise by the full amount of the windfall. It also recommends that countries consider increasing energy taxation, while reducing other distortionary taxes or raising priority spending.

- **Fiscal and external vulnerabilities:** In this case, countries should put fiscal and external positions on a more sustainable path by lowering energy subsidies and saving the fiscal windfall; and reducing public debt levels and using the improved current account position to increase international reserves. Countries should also consider raising energy taxation.
- **Deflationary risks:** Here, countries should not save the windfall, but spend to ensure that inflation expectations are anchored, accompanied by accommodative monetary policy if necessary.

Oil exporters

For oil exporters, the IMF suggests that policy choices should take into account the permanence of the oil price fall, existing vulnerabilities and the exchange rate regime. The general recommendation is that should oil exporters focus on fiscal adjustment, supported by stronger medium-term fiscal frameworks.

For example, for those countries with:

- **No vulnerabilities** with fiscal and external buffers and limited policy risks: In this case, countries can consider adjusting to lower oil prices gradually, and use their policy buffers to smooth the transition.
- **Fiscal vulnerabilities, external vulnerabilities and inflation risks:** Here, countries should adjust quickly to mitigate the external and fiscal impact through flexible exchange rate adjustment, in cases of free floating regimes, and where there are no major balance sheet mismatches (e.g. high dollarisation). For those with fixed regimes, countries should tighten macro policies, particularly fiscal policy, or change the nominal anchor to reduce internal adjustment costs.

Optimal medium-term policy responses

In the medium term, the IMF recommends that countries consider a number of structural reforms, particularly in the case of oil exporters. The advice from the IMF is that, in the medium term, fiscal policies should be adjusted to the new norm of low oil prices and that the speed of adjustment to this new regime should be determined by the extent of vulnerabilities, growth considerations, equity considerations and the need to develop the non-commodity sector. Additionally, oil exporters should undertake: diversification;² financial sector reform; exchange rate reform (considering a more flexible regime if possible); and reform of energy prices and taxation. The latter is relevant to both exporters and importers, and would involve better targeting and/or removal of fuel subsidies,³ increasing energy prices/taxes for increased fiscal space, and broadening access to reliable and renewable energy sources. See Table 1 in the appendix for the full array of IMF recommendations.

Commonwealth oil price-policy responses Transmission mechanisms in Commonwealth countries

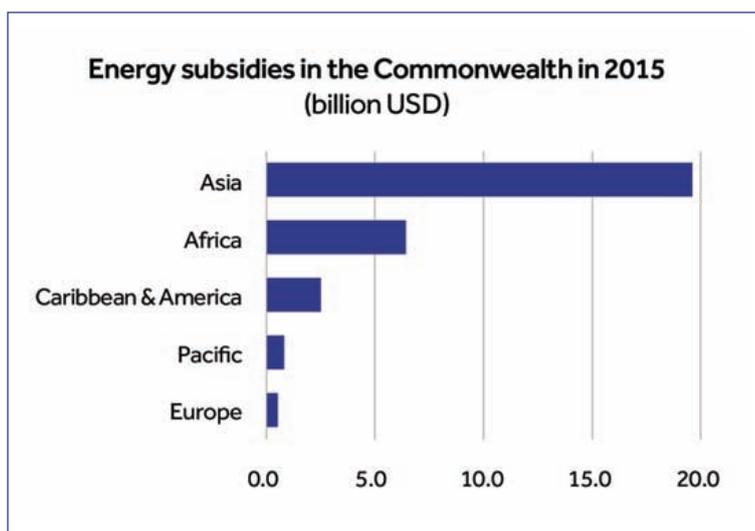
Subsidies

In 2015, energy subsidies (subsidies for oil, natural gas etc.) stood at US\$330 billion globally (Coady et al. 2015), of which Commonwealth energy subsidies accounted for approximately US\$30 billion. In the Commonwealth, Zambia and Mozambique's expenditures on energy subsidies are the highest, estimated at 7.1 per cent and 5.6 per cent of GDP, respectively. However, Asia's subsidisation of energy ranks highest among the regions, with subsidies in that area accounting for around 65 per cent of total Commonwealth energy subsidies.

With specific reference to the subsidisation of fossil-fuel consumption, on average, expenditure by Commonwealth governments appears to be low. According to 2013 figures, taken as a percentage of total cost, the highest levels of fossil-fuel subsidisation were: 33.6 per cent (Bangladesh), 28.8 per cent (Nigeria) and 23.3 per cent (Pakistan).

Fuel imports

Commonwealth fuel imports are high on average. As a percentage of total merchandise imports, fuel imports in the Commonwealth averaged 22.3 per cent in 2014, underpinned by a rise of more than 160 per cent, calculated over the period beginning 1995. During this period, fuel imports have risen in small states by more than 190 per cent. Conversely, in the Commonwealth, oil constitutes a lesser share of electricity production. Electricity production from oil sources, measured as a percentage of total electricity production, declined from 34 per cent in 1973 to around 20 per cent in 2012.



² When resource prices go down, in addition to minimising the direct negative impact, the diversified export basket can counteract the effect through an increase in manufacturing exports thanks to the weaker exchange rate. The successful diversification experiences of a few oil exporters (e.g. Malaysia, Mexico and Indonesia) suggest that diversification usually takes place amid falling oil revenues.

³ Fuel subsidies are often poorly targeted and disproportionately benefit the wealthy and the middle class (World Bank 2013b).

Fuel exports

As a percentage of total merchandise exports, fuel exports in the Commonwealth increased from 14 per cent to 23 per cent between 1970 and 1985, and then fell steadily to just above 5 per cent ten years later. The ratio to merchandise exports since rose to an average of 14.5 per cent in 2014.

Oil revenues

On average, oil revenue as a ratio to GDP for Commonwealth oil exporters is less than 10 per cent. Only in Brunei Darussalam and Trinidad and Tobago are oil revenues a significant portion of national income. In Brunei Darussalam, oil revenues contribute roughly 50 per cent of GDP and in Trinidad and Tobago, 15 per cent of GDP is generated through revenues from oil. The contribution of oil revenue to Commonwealth oil exporters' total tax collections, however, is much more pronounced, reflecting a disproportionate reliance on the oil sector for tax revenue. Based on figures for 2014, tax revenues from oil were estimated at around 50 per cent, 60 per cent and 90 per cent of total revenue in Trinidad and Tobago, Nigeria, and Brunei Darussalam, respectively.

Commonwealth policy actions

So far, most Commonwealth countries, both oil importing and oil exporting, have taken little policy action in response to the low oil price environment. Only 40 per cent (17/42) of Commonwealth oil importers and 55 per cent (6/11) of Commonwealth oil exporters have implemented corrective policies since the observed oil price decline. The majority of these countries' policy responses have been via fiscal measures (17 actions by oil importers and six by oil exporters), with minimal policy actions implemented through monetary (three actions) and external adjustments (one action) (see Table 2 in the appendix).

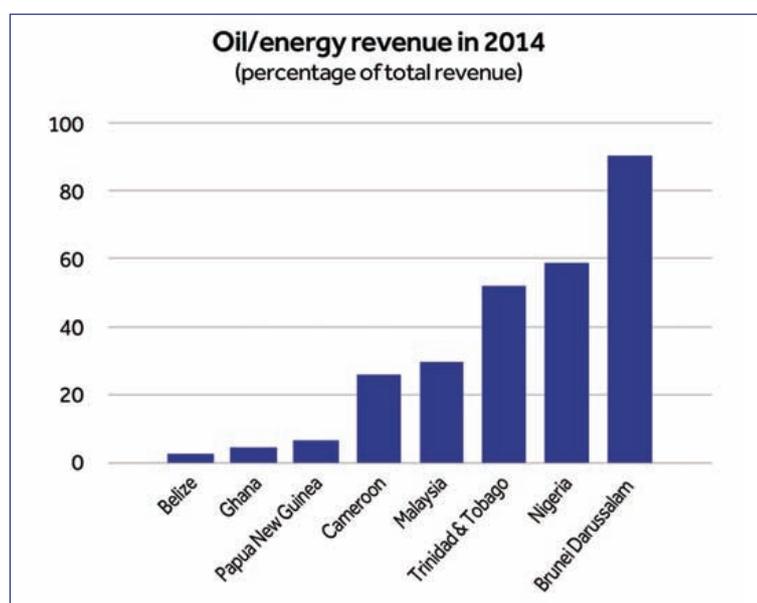
Fiscal policy measures

The fiscal response has been mixed, but the majority of actions by Commonwealth oil importers signal a desire by governments to capitalise on savings. Nine oil importers (Zambia, India, Maldives, Bangladesh, Pakistan, Rwanda, Singapore, The Bahamas and Mauritius) increased prices at the pump, reduced subsidies, levied new energy taxes or implemented new fiscal consolidation measures in response to the low oil price environment. Only Antigua and Barbuda, Belize, Ghana, Seychelles, Sierra Leone and Sri Lanka have allowed a full pass-through to households, primarily through reduced fuel prices.

With the exception of Belize, a country that is both an exporter and importer of oil, Commonwealth oil exporters taking fiscal actions focussed on adjusting their fiscal regime to the new trend in oil prices. Malaysia removed all fuel subsidies, introduced a monthly oil price adjustment mechanism and revised its budget in line with the lower oil price. Nigeria also revised its medium-term expenditure framework in line with the lower oil price, partially removed subsidies on petrol, and introduced some short- and medium-term revenue and expenditure measures.

Monetary policy measures

The limited monetary policy actions by Commonwealth countries in response to the oil



price decline are probably reflective of the fact that the majority of countries in the membership are oil importers, and have either fixed or managed exchange rates. India and Kenya, both countries with flexible exchange rate regimes, were the only oil-importing countries to undertake monetary policy measures. India loosened its monetary policy stance by lowering its repo rate, while Kenya did the opposite and tightened its monetary policy by raising the Central Bank rate by two percentage points to 10 per cent. Nigeria also tightened its monetary policy.

External policy measures

Nigeria and Zambia were the two countries to introduce external policy measures. Nigeria allowed a devaluation of its exchange rate, with the main goal of diversifying into the non-oil economy, and Zambia responded by intervening in the foreign exchange market.

Fixed or flexible exchange rate regimes require different policy responses

Assessment of the Commonwealth oil price-policy response

Whether Commonwealth countries are maximising the benefits of lower oil prices and insulating their economies adequately against negative price effects is, in fact, a relative question. However, the approach taken in this paper is to assess current actions against recommended policy responses. The IMF's policy recommendations are used as a proxy for the 'optimal policy response', and deviations from optimality are deemed, for the purpose of this analysis, as suggesting that there is room for improvement.

The first step is to determine individual countries' optimal policy responses. This, according

to the IMF, should be a function of their existing vulnerabilities, as well as their place in the business cycle. The two Venn diagrams in Figures 1 and 2 of the appendix illustrate an attempt to identify Commonwealth countries' optimal policy responses. In these Venn diagrams, countries are placed into different intersections depending on an assessment of their vulnerabilities (categorised in Table 3 of the appendix), where each section of the Venn diagram corresponds to a separate IMF policy recommendation. For example, in Figure 1, Malta is deemed to have only fiscal vulnerabilities and is thus positioned in that intersection. The IMF's policy recommendation in this case is that Malta should save some of its windfall and seek to anchor inflation expectations.

To determine whether Commonwealth actions have been optimal, it is simply a task of comparing their actual responses to those recommended by the IMF, which are – as mentioned – conditioned by their vulnerabilities. Using this method of assessment, Malta's decision not to respond would be considered sub-optimal, as judged against the IMF's recommendations. In the case of oil exporters, as illustrated in Figure 2, the recommended policy response also depends on the country's exchange rate regime: fixed or flexible exchange rate regimes require different policy responses.

In general, based on the information collected, 30 of 53 Commonwealth members have not responded to the reduction in energy prices, and as such the broad assessment is that members are currently not implementing an optimal policy framework. For those countries that have introduced remedial measures, there is only one country, Nigeria, which seems to have operated in line with all of the IMF's recommended policy responses.

Most countries (Singapore, Antigua and Barbuda, The Bahamas, Malaysia, India, Pakistan, Tonga, Malaysia and Belize) that have taken action have mainly implemented the fiscal recommendations, but have largely refrained from actions related to

monetary and/or external adjustments. Again, this may be the result of countries' fixed parities.

Countries such as Sri Lanka, Seychelles, Sierra Leone, Fiji Islands, Mauritius and Trinidad and Tobago, on the other hand, have implemented policies outside of the IMF's recommendations.

Commonwealth perspectives

Commonwealth oil importers might find it useful, depending on their specific circumstances, to build fiscal buffers in order to guard against future oil price shocks. Oil prices are asymmetric in nature – rising like rockets and falling like feathers (Bacon 1990) – and therefore the end of this oil price cycle could have tumultuous effects, should countries not build in a medium-term response.

Countries should consider using the opportunity at hand to gradually transition towards low-carbon economies.

One such way would be to reduce dependence on fossil-fuel consumption. Countries should consider using the opportunity at hand to gradually transition towards low-carbon economies. Falling costs, less price volatility, and environmental benefits make investment in low-carbon and renewable energy a more viable option compared to many high-cost, unconventional fossil-fuel extraction projects.

Small states, for which fuel imports are a significant strategic input, should capitalise on the opportunity of lower oil prices to build resilience, invest in renewables and reduce debt levels. In 2012, public debt-to-GDP in the Caribbean averaged around 84.2 per cent, with four countries registering average public debt-to-GDP ratios of more than 90 per cent. Such countries can use the fiscal 'windfall' as a starting point towards putting

their debt levels back on a sustainable path.

As urged by the IMF, oil producers should adjust their medium-term macroeconomic frameworks to factor in the lower oil price forecast, so as to avoid running into large fiscal deficits. The new entrants in particular, like Kenya and Uganda, which are expected to go into production within the next five years, should also re-evaluate the commercial viability of extraction, especially in the case of a prolonged price slump, and may consider deferring production, if necessary. These countries should also avoid borrowing against future oil revenue.

Lastly, Commonwealth oil-exporting countries can additionally consider setting up sovereign wealth funds, as has been done successfully by a number of countries, to act as a buffer during periods of depressed oil prices.

Conclusion

This paper attempted to assess the policy implications of low international oil prices for Commonwealth countries. The approach taken was to assess Commonwealth countries' current policy actions against IMF policy recommendations, which are termed the 'optimal policy response'. Based on the analysis, the conclusion is that Commonwealth countries, both oil exporting and oil importing, are not currently implementing an optimal policy framework. Hence there is significant room to take better advantage of the low oil price environment, as well as to respond more adequately to safeguard against negative price effects. Furthermore, in the absence of a price signal to support transformation to a low-emission development pathway, countries will need to give individual and collective consideration to policy frameworks that support this change. This is keeping in mind that countries face different constraints, and that these constraints will determine their policy choices.

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Table 1 Policy recommendations for oil exporters (continued on pages 10 and 11)

No vulnerabilities	Neutral monetary policy, adjust fiscal policy gradually, and intervene in the exchange rate to smooth disruptive market conditions			
Flexible exchange rate regime				
		Fiscal vulnerabilities	External vulnerabilities	Inflation risks/ advanced cycle
Fiscal vulnerabilities	Monetary policy	Neutral/looser	Tighten	Neutral, avoid disruptive market conditions
	Fiscal policy	Adjust fast or gradually, depending on vulnerabilities	Tighten	Tighten
	Ex. rate policy	Intervene to smooth disruptive market conditions		
External vulnerabilities	Monetary policy		Neutral/tighten	Tighten
	Fiscal policy		Adjust gradually	Adjust gradually
	Ex. rate policy		Allow adjustment (no disruptive market conditions)	Adjust
Inflation risks/ advanced cycle	Monetary policy			Anchor inflation expectations
	Fiscal policy			Adjust gradually
	Ex. rate policy			Intervene to smooth disruptive market conditions

Fixed/managed exchange rate regime				
		Fiscal vulnerabilities	External vulnerabilities	Inflation risks/ advanced cycle
Fiscal vulnerabilities	Monetary policy			
	Fiscal policy	Tighten	Tighten	Tighten
	Ex. rate policy		Consider exchange rate action	
External vulnerabilities	Monetary policy		Tighten	
	Fiscal policy		Adjust fast	Tighten
	Ex. rate policy		Consider depreciation and/ or greater flexibility	Consider exchange rate action
Inflation risks/ advanced cycle	Monetary policy			
	Fiscal policy			Adjust gradually
	Ex. rate policy			

Policy recommendations for oil importers				
No vulnerabilities	Do not save the fiscal windfall, anchor inflation expectations			
		Fiscal vulnerabilities	External vulnerabilities	Inflation risks/ advanced cycle
Fiscal vulnerabilities	Monetary policy	Anchor inflation expectations	Anchor inflation expectations	Inflation risk: tighten moneyl
	Fiscal policy	Save some of the fiscal windfall	Save most of the fiscal windfall	Inflation risk: save most of the fiscal windfall
	Ex. rate policy		Rebuild reserves	
External vulnerabilities	Monetary policy		Anchor inflation expectations	Inflation risk: tighten Deflation risk: anchor inflation expectations
	Fiscal policy		Save some of the fiscal windfall	Inflation risk: save all Deflation risk: save some
	Ex. rate policy		Rebuild reserves	Rebuild reserves
Inflation risks/ advanced cycle	Monetary policy			Inflation risk: tighten Deflation risk: loosen
	Fiscal policy			Inflation risk: save some Deflation risk: save none
	Ex. rate policy			

Table 2 Commonwealth oil price-policy responses

Countries	Policy measures			Category
	Monetary	Fiscal	External	
Antigua and Barbuda		Fuel pump prices reduced in Feb 2015; electricity price lowered in Jan 2015		Oil importer
Australia				Oil exporter
Bangladesh		Savings from fuel subsidy to be used in priority sectors (not specified)		Oil importer
Barbados				Oil importer
Belize		Fuel pump prices reduced/declined		Produces and exports oil, imports fuel
Botswana				Oil importer
Brunei Darussalam				Oil exporter
Cameroon		Tightened fiscal policy		Oil exporter
Canada				Oil exporter
Cyprus				Oil importer
Dominica				Oil importer
Fiji Islands		Increased electricity subsidy from 75MW to 85MW (\$5.7m budget)		Oil importer
Ghana		Tightened fiscal policy and liberalised petroleum prices in July 2015		Oil exporter
Grenada				Fuel importer
Guyana				Oil importer
India	Policy repo rate lowered by 25 basis points (Jan 2015); adopted flexible inflation targeting	Diesel price deregulated, LPG subsidies capped (Oct 2014), excise duty on diesel and petrol increased on 4 occasions (latest Jan 2015); raised gas prices		Oil importer
Jamaica				Oil importer
Kenya	Tightened monetary policy by raising the Central Bank Rate to 10.0% from 8.5%			Net fuel importer, potential to export given new discoveries
Kiribati				Oil importer
Lesotho				Oil importer
Malawi				Oil importer

Malaysia		Fuel subsidies removed, monthly oil price adjustment introduced in Dec 2014; 2015 budget revised with lower oil price; Goods and Services Tax (GST) introduced in April 2015		Net exporter of crude oil
Maldives		Planned cut in fuel and electricity subsidies		Oil importer
Malta				Oil importer
Mauritius		MID levy removed for all petroleum products to be re-exported		Oil importer
Mozambique				Oil importer
Namibia				Net oil importer
Nauru				
New Zealand				Net oil importer
Nigeria	The November 24–25 Monetary Policy Committee (MPC) tightened the monetary policy stance	Revised 2015 Medium-Term Expenditure Framework (MTEF) in December, with a benchmark oil price of US\$65 per barrel (pb) compared to the US\$78 pb; will take further measure if falls below this price; introduced some short-to-medium-term revenue and expenditure measures; partial removal of subsidy on petrol; tightened fiscal policy	Adjusted (devalued) the exchange rate; aims to diversify to become non-oil economy (not specified)	Oil exporter
Pakistan		In May 2015 imposed regulatory duty of 2.5% on high-speed diesel, 2% on crude oil, motor spirit oil and furnace oil, and increased the General Sales Tax (GST) rate on high-speed diesel from 32 to 34% and on motor spirit oil from 18 to 20% power tariff increased		Oil importer
Papua New Guinea				Oil exporter
Rwanda		Increased levy on fuel for Road Maintenance Fund: RWF 5.2 billion; Introduction of a levy on fuel for Strategic Oil Reserves: RWF 8.6 billion		Oil importer
Saint Lucia				Oil importer
Samoa				Net fuel importer
Seychelles		Reduced fuel price in April 2015		Oil importer and re-exporter
Sierra Leone		Reduced retail fuel prices in January 2015; going forward, pump prices will be adjusted periodically to reflect movements in the landed cost of plus/minus 5%		Oil importer
Singapore		The duty rates for premium grade petrol increased by US\$0.20 per litre, and intermediate grade petrol by US\$0.15 per litre		Oil importer
Solomon Islands				Oil importer

Countries	Policy measures			Category
	Monetary	Fiscal	External	
South Africa		A temporary increase in the electricity levy, from 3.5c/kWh to 5.5c/kWh; this additional 2c/kWh will be withdrawn when the electricity shortage is over. An increase is proposed in the energy-efficiency savings incentive from 45 c/kWh to 95 c/kWh; introduced carbon tax		Oil importer
Sri Lanka		Lowered prices of petrol by 5 Sri Lankan rupees per litre, diesel by SLRs3 per litre and kerosene by SLRs20 per litre		Oil importer
Saint Kitts and Nevis				Oil importer
Saint Vincent and The Grenadines				Oil importer
Swaziland				Oil importer
Tanzania		Rationalised and harmonised policies on fuel exemption- proposal to amend the Road and Fuel Tolls Act to remove exemption; removed exemption on excise duty on petroleum products		Oil importer
The Bahamas		A surcharge of 1 cent per gallon on imported fuel, excluding aviation fuel, is levied		Oil importer
Tonga		No fuel subsidy, so marginal saving from low oil price		Net oil importer
Trinidad and Tobago		Move towards compressed natural gas to ease energy subsidy burden; Petroleum Pricing Committee resuscitated		Net oil exporter
Tuvalu				Oil importer
Uganda				Potential oil producer (2020/2021)
United Kingdom				Net oil exporter
Vanuatu				Oil importer
Zambia		Fuel price increased in May 2015; removed the 5 per cent customs duty on aviation fuel; tightened fiscal policy	Foreign exchange market intervention	Oil importer

Source: IMF Article IV Staff Reports and Budget Statement of respective countries, Global Economic Prospects June 2015

Note I: Updated Article IV Report/Other IMF Staff Report was not available for: Australia, Barbados, Brunei Darussalam, Dominica, Guyana, Mauritius, Namibia, Nauru, New Zealand, Saint Lucia, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Tanzania, The Bahamas

Note II: 2015/2016 Budget Statement was not available for: Cameroon, Cyprus, Guyana, Maldives, Mozambique, Nauru, Vanuatu

Note III: Information on oil price-related policy actions not available from above sources for: Australia, Barbados, Botswana, Brunei Darussalam, Canada, Cyprus, Dominica, Grenada, Jamaica, Kiribati, Lesotho, Malawi, Malta, Mozambique, Namibia, New Zealand, Papua New Guinea, Saint Lucia, Samoa, Solomon Islands, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Swaziland, Tuvalu, Uganda, UK, Vanuatu

Table 3 Vulnerabilities in Commonwealth countries

	Exchange rate regime		Vulnerabilities		
	Flexible	Fixed/managed	Fiscal	External	Inflation risks
Antigua and Barbuda		√	√	√	
Australia	√				
Bahamas, The		√	√	√	
Bangladesh		√			√
Barbados		√	√	√	
Belize		√	√		
Botswana		√			√
Brunei Darussalam		√		√	√
Cameroon		√			
Canada	√				
Cyprus	√		√		√
Dominica		√	√	√	
Fiji		√		√	
Ghana	√		√	√	√
Grenada		√	√	√	√
Guyana		√	√	√	
India	√		√		√
Jamaica		√	√	√	√
Kenya	√			√	√
Kiribati		√		√	
Lesotho		√		√	√
Malawi	√			√	√
Malaysia		√		√	
Maldives		√	√	√	
Malta	√		√		
Mauritius	√			√	
Mozambique	√			√	
Namibia		√		√	√

	Exchange rate regime		Vulnerabilities		
	Flexible	Fixed/managed	Fiscal	External	Inflation risks
Nauru					
New Zealand	√		√		
Nigeria		√			√
Pakistan		√	√		√
Papua New Guinea	√				√
Rwanda		√		√	
Saint Lucia		√		√	
Samoa		√		√	
Seychelles	√		√	√	√
Sierra Leone	√			√	√
Singapore		√	√		
Solomon Islands		√		√	√
South Africa	√				√
Sri Lanka		√	√		
Saint Kitts and Nevis		√		√	
Saint Vincent and the Grenadines		√	√	√	
Swaziland		√			√
Tanzania	√			√	√
Tonga		√		√	
Trinidad and Tobago		√			√
Tuvalu		√		√	
Uganda	√			√	√
United Kingdom	√		√	√	
Vanuatu		√	√	√	
Zambia	√				√

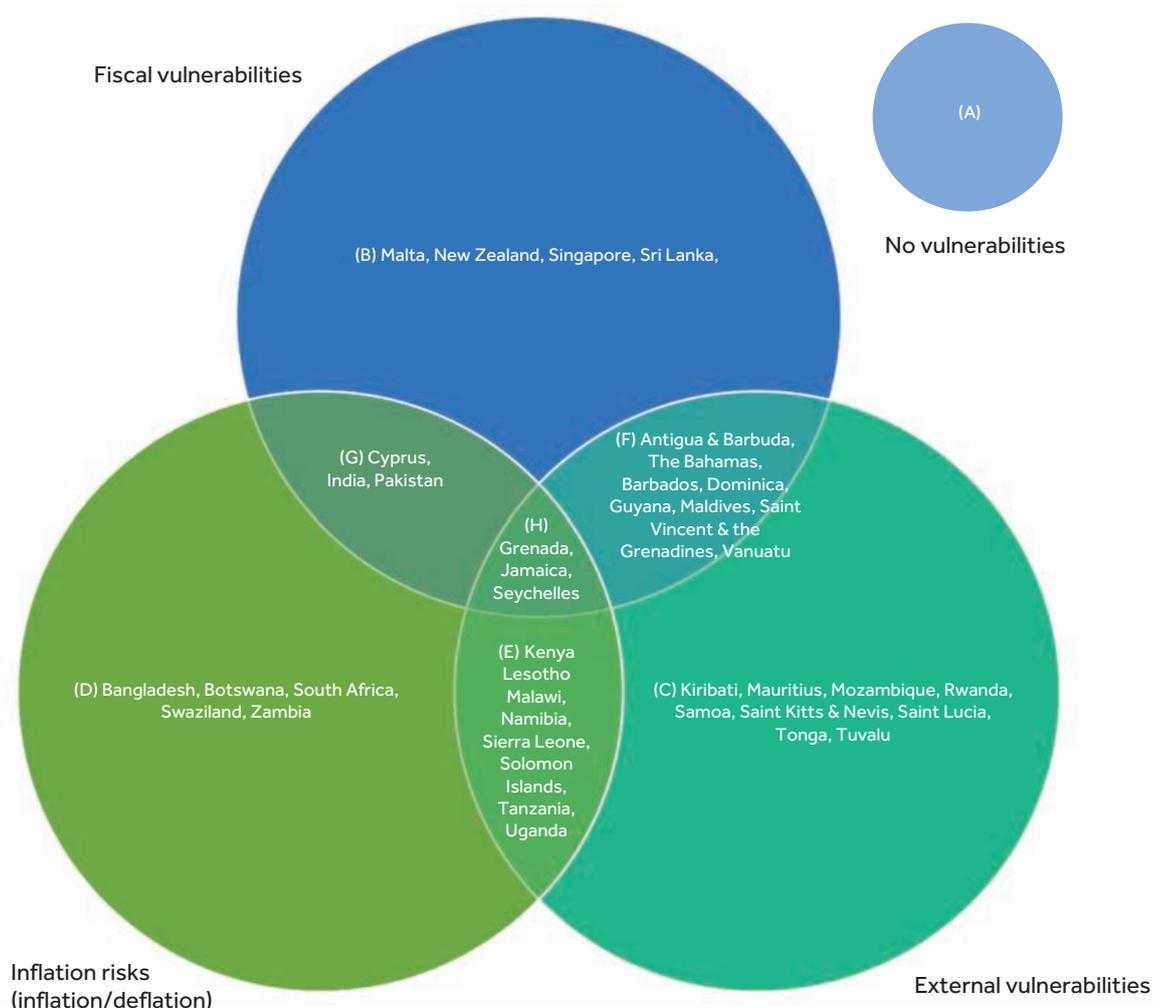
Source: Exchange rate regime: Annual Report on Exchange Arrangements and Exchange Restrictions, 2014, IMF

Inflation risks: Based on the World Bank and IMF inflation data, at risk if inflation > 3% or inflation <= 0 (deflation risk)

Fiscal vulnerabilities: Based on the World Bank Central Govt. Debt and IMF General Govt. Debt data, vulnerable if debt-to-GDP ratio > 60

External vulnerabilities: Based on the World Bank and IMF Current Account Balance data, vulnerable if current account deficit > 5% of GDP

Figure 1 Policy recommendations: The Commonwealth oil-importing countries



(A) FP: Save none of the fiscal windfalls
MP: Anchor inflation expectations

(B) FP: Save some
MP: Anchor inflation expectations

(C) FP: Save some of the fiscal windfalls
MP: Anchor inflation expectations
ER: Rebuild reserves

(D) FP: Inflation risk - Save some; Deflation risk - Save none
MP: Inflation risk - tighten;
Deflation risk - Loosen

(E) FP: Inflation risk - Save all; Deflation risk - Save some
MP: Inflation risk - tighten; Deflation risk - Anchor inflation expectations
ER: Rebuild reserves

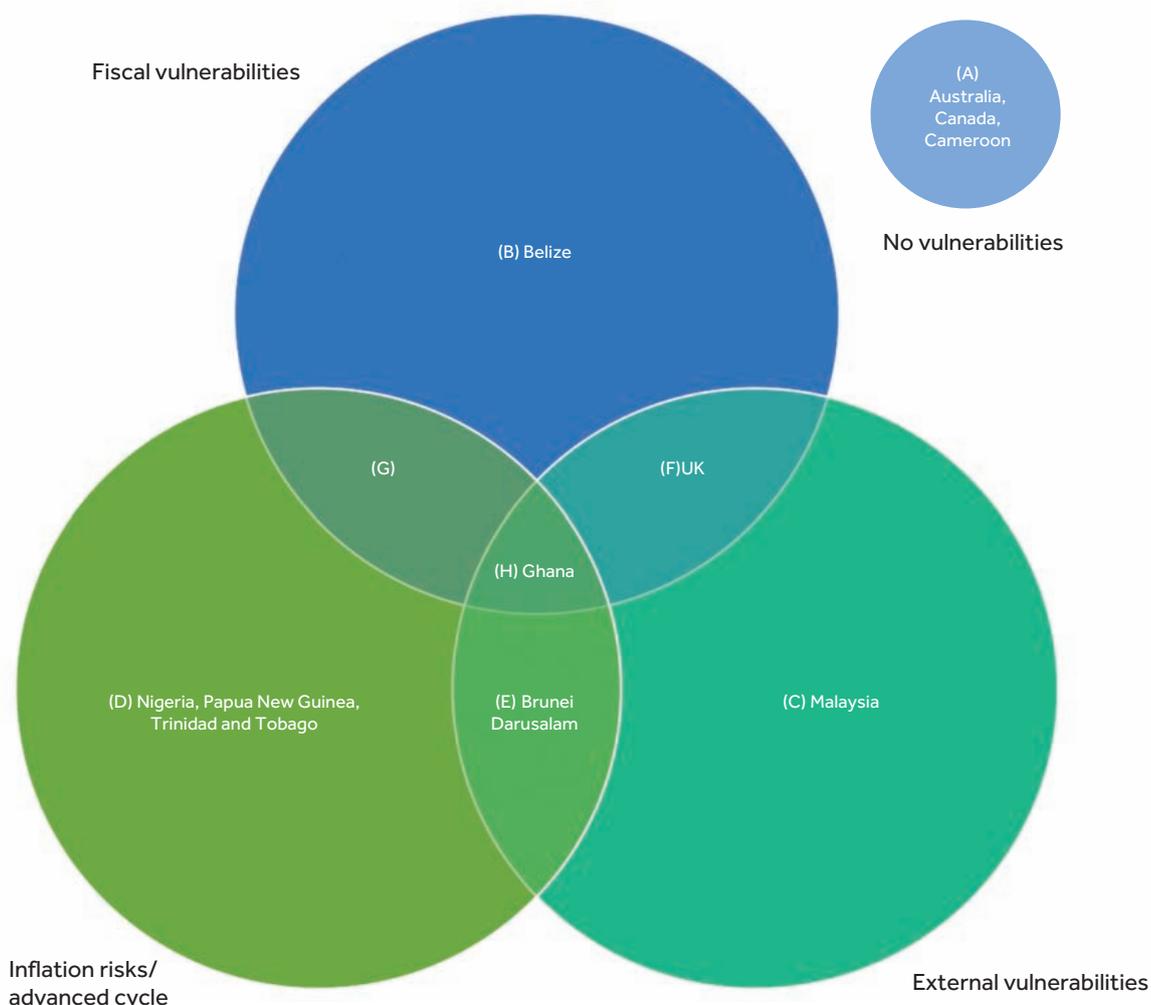
(F) P: Save most
MP: Anchor inflation expectations
ER: Rebuild reserves

(G) FP: Inflation risk - Save most
MP: Inflation risk - Tighten

(H) FP: Inflation risk - Save all
MP: Inflation risk - Tighten
ER: Rebuild reserves

FP = Fiscal Policy; MP = Monetary Policy; ER = Exchange Rate Policy
Source: IMF and Commonwealth Secretariat staff calculations

Figure 2 Policy recommendations: The Commonwealth oil-exporting countries



(A) FP: Adjust gradually; MP: Neutral; ER: Intervene to smooth DMC

(B) **Flexible ER** – FP: Adjust fast or gradually; MP: Neutral/looser; ER: Intervene to smooth DMC
Fixed ER – FP: Tighten

(C) **Flexible ER** – FP: Adjust gradually; MP: Neutral/tighten; ER: Allow adjustment, no DMC
Fixed ER – FP: Adjust fast; MP: Tighten; ER: Consider depreciation and/or greater flexibility

(D) **Flexible ER** – FP: Adjust gradually; MP: Anchor inflation expectations; ER: Intervene to smooth DMC
Fixed ER – FP: Adjust gradually

(E) **Flexible ER** – FP: Adjust gradually; MP: Tighten; ER: Adjust ER;
Fixed ER – FP: Tighten; ER: Consider action

(F) **Flexible ER** – FP: Tighten; MP: Tighten
Fixed ER – FP: Tighten; ER: Consider action

(G) **Flexible ER** – FP: Tighten; MP: Neutral, avoid DMC
Fixed ER – FP: Tighten

(H) Adjust fast

DMC = Disruptive Market Conditions; FP = Fiscal Policy; MP = Monetary Policy; ER = Exchange Rate Policy
Source: IMF and Commonwealth Secretariat staff calculations



The Commonwealth