

Why Did Domestic Gasoline Prices Fall in Saudi Arabia?

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Instant Insight

June 2, 2020

KS--2020-II18

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What is behind the dramatic fall in gasoline prices?

On May 11, 2020, Saudi Arabia slashed its domestic gasoline prices. The price of 91-octane gasoline fell from 1.31 to 0.67 Saudi Arabian riyals (SAR) per liter, while the price of 95-octane gasoline fell from 1.47 to 0.82 SAR per liter. As a result of these price reductions, domestic gasoline prices today are very close to those that prevailed before the gasoline price reform in 2018. As a result, some mistakenly believe that Saudi Arabia has introduced gasoline subsidies.

Instead, as part of the Saudi Vision 2030 Fiscal Balance Program (FBP), domestic gasoline prices in Saudi Arabia are now linked to international prices (and revised monthly). In early 2020, there was a downturn in global economic activity due to the spread of COVID-19 and the protective measures imposed by governments around the world. As a consequence of this downturn, the global appetite for petroleum products declined dramatically, causing international gasoline prices to fall sharply (IEA 2020).

Thus, the reduction in domestic gasoline prices in May 2020 simply reflects the current linkage between Saudi domestic prices and international prices (Figure 1). The global spot price for regular gasoline in New York Harbor fell to the equivalent of 0.65 SAR per liter in the first week of May 2020 – almost equal to the Saudi domestic price for 91-octane gasoline (0.67 SAR per liter), as set on May 11, 2020. When global demand for petroleum products recovers, international gasoline prices will likely rise, as will Saudi Arabia's domestic gasoline prices.

The Fiscal Balance Program and energy price reform

The Fiscal Balance Program (FBP) is one of the key elements of Saudi Vision 2030. It aims to maximize and diversify government revenue while making government spending more efficient. The FBP encompasses several initiatives, including a value-added tax (VAT) and energy price reform. Energy price reform involves raising domestic energy prices to those of international benchmarks.

Under the FBP's energy price reform, the Saudi government increased domestic gasoline prices in January 2018 (see Figure 1). This brought domestic gasoline prices in line with international prices. Figure 1 shows domestic gasoline prices in Saudi Arabia relative to the spot price for regular gasoline in New York Harbor (EIA 2020). Gasoline with a 91-octane rating in Saudi Arabia is almost identical to 'regular' gasoline in the United States.

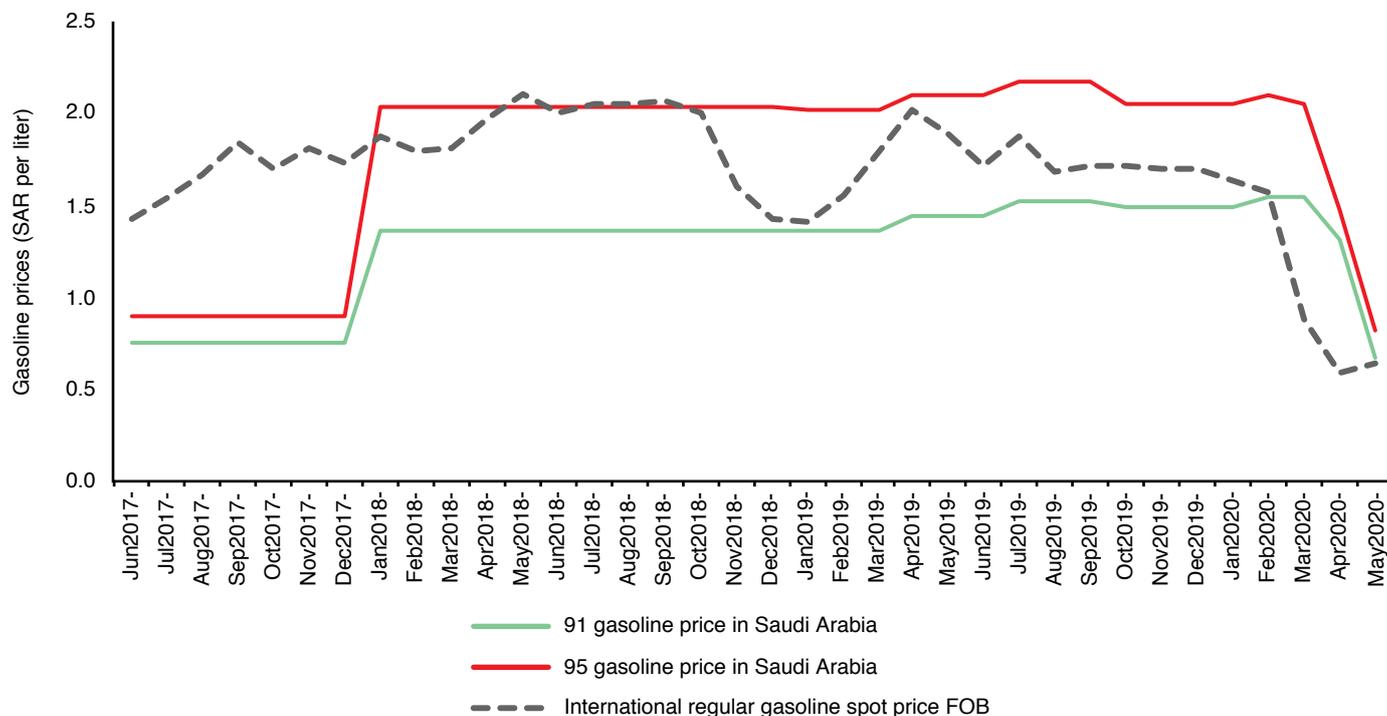
The transition to quarterly and monthly gasoline price revisions

Throughout 2018, Saudi Arabia did not revise its domestic gasoline prices in line with variations in international prices. This changed in January 2019, as it began revising gasoline prices on a quarterly basis. Figure 1 shows the changes in domestic and international gasoline prices in 2019 and highlights their positive correlation.

For example, in April 2019, domestic gasoline prices rose alongside international prices. However, the correlation was not perfect, with some lag between changes in international prices and the implementation of quarterly domestic price revisions. To tighten the link between domestic and international gasoline prices,

Saudi Arabia began revising domestic gasoline prices on a monthly basis from February 2020. Going forward, we would expect domestic gasoline prices in Saudi Arabia to continue to follow international prices more closely.

Figure 1. Monthly domestic gasoline prices in Saudi Arabia and the international spot price for gasoline in New York Harbor.



Sources: KAPSARC analysis and EIA.

Note: FOB = free on board.

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