HIGHLIGHTS from Special Focus 1:

Price Controls: Good Intentions, Bad Outcomes

Key Points

- *The use of price controls is widespread in emerging markets and developing economies (EMDEs), including for food, energy and key imported and exported commodities.*
- *While sometimes used as tool for social policy, price controls can dampen growth, worsen poverty, incur heavy fiscal burdens, and complicate monetary policy.*
- *Replacing price controls with expanded and better-targeted social safety nets, coupled with reforms to encourage competition and a sound regulatory environment, can be both pro-poor and pro-growth.*
- *Where they exist, price controls should be transparent and supported by well-capitalized stabilization funds to ensure fiscal sustainability.*

Widespread price controls in Low-Income Countries (LICs). Price controls are a widely used type of product market regulation. They are most often imposed on energy products such as petroleum and electricity, and food such as sugar and cereal products (Figure 1.A). Across EMDEs more broadly, administered prices are most prevalent in Sub-Saharan Africa and the Middle East, and least prevalent in South Asia (Figure 1.B). LICs use administered prices more extensively than other EMDEs (Figure 1.C). The share of imports and exports potentially covered by administered prices is considerably higher in LICs than in other EMDEs (Figures 1.D-E). Given the elevated share of food in LIC consumption baskets, a large portion of household spending is subject to administered prices (Figure 1.F).

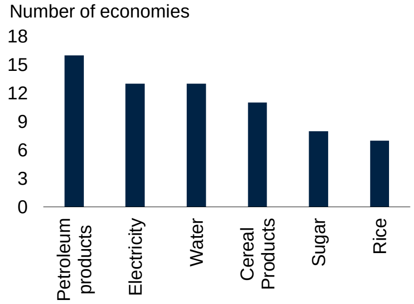
Fiscal and development implications. In conjunction with distortive subsidies, price controls can have adverse consequences for growth by discouraging competition, hindering investment and productivity, increasing informality, and distorting financial markets. These policies also tend to be inequitable, as wealthier segments of the population benefit disproportionately given their greater consumption of the price-controlled good. Moreover, implementation of these policies—often in conjunction with other distortive policies such as market entry barriers—can create sizeable fiscal burdens. Lastly, price controls can pose a challenge to monetary policy, in part by obscuring underlying inflation pressures.

Policy implications: Balance trade-offs. Replacing price controls with expanded and better-targeted social safety nets, coupled with structural reforms to encourage competition and a sound regulatory environment, can be both pro-poor and pro-growth. Complementary reform initiatives need to be carefully sequenced and communicated. Where they continue to exist, price control regimes should be transparent and supported by well-capitalized stabilization funds to ensure fiscal sustainability.

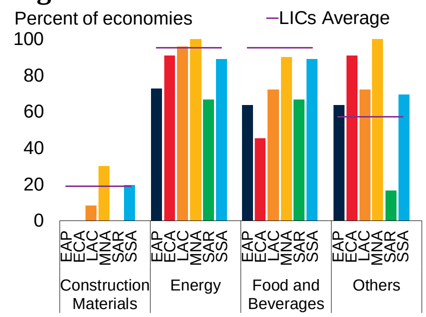
Figure 1. Price Controls in LICs

Across EMDEs more broadly, administered prices are most prevalent in Sub-Saharan Africa and the Middle East, and least prevalent in South Asia. LICs use administered prices more extensively than other EMDEs. The share of imports and exports potentially covered by administered prices is slightly higher in LICs than in other EMDEs. A large portion of the LICs consumption basket is potentially subject to administered prices given the elevated share of food.

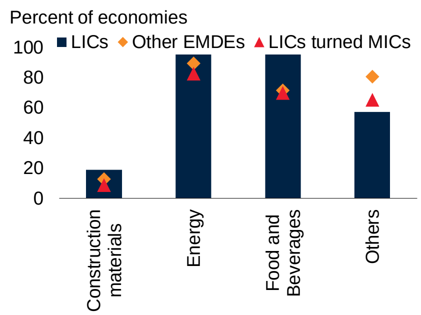
A. Goods most frequently subject to price controls in LICs



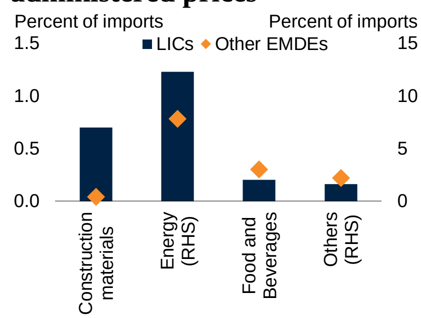
B. Economies with administered prices by sub-region



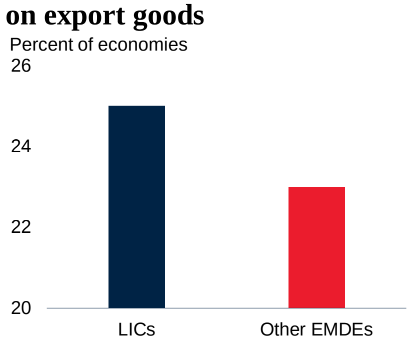
C. Economies with price controls



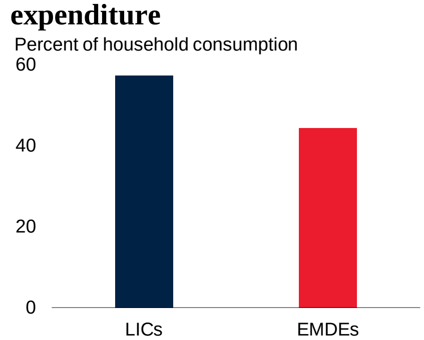
D. Share of total imports potentially subject to administered prices



E. Share of countries with administered prices on export goods



F. Share of food in total consumption expenditure



Source: World Trade Organization; World Bank.
Note: EMDEs = emerging markets and developing economies; LICs = low-income countries.
A.-E. Listed price control policies are retrieved from the latest (2003-19) country Trade Policy Review publication.
B. C. F. Unweighted averages.
D. E. 2017 data.
A. Sample includes 21 low-income countries.
B. Sample includes 21 low-income countries and 79 other EMDEs. EAP = East Asia and Pacific, ECA = Europe and Central Asia, LAC = Latin America and the Caribbean, MNA = Middle East and North Africa, SAR = South Asia, SSA = Sub-Saharan Africa.
C. Sample includes 21 low-income countries, 23 LICs turned middle-income countries (MICs) since 2001, and 56 other EMDEs.
E. Countries that rely heavily on a single export defined as a country in which exports of one or more 4-digit HS category represents 10 percent or more of its total exports in 2017. Chart shows the share of all LICs and other EMDEs that relying heavily on a single export whose price is subject to price controls. Sample includes 12 low-income countries and 61 other EMDEs.
F. Sample includes 23 low-income countries and 67 other EMDEs.