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How Can The Pricing Mechanism for Petroleum Products in Egypt Be Improved In Light of Best Practices?



Why this topic now?

Given the successive crises facing the world, most recently the war on Iran and the closure of the Strait of Hormuz, energy has once again become a crucial strategic issue on the agenda of all nations, due to the current instability in both prices and supply. Transparency and predictability in energy pricing are vital, not only because of their impact on activities related to the energy sector, but also because of their far-reaching effects on all economic activities and indeed on society as a whole.

Egypt, as a net energy importer, has become more sensitive than ever to fluctuations in global energy prices and supply disruptions, especially with the decline in domestic production of oil and natural gas and the weak contribution of renewable energy, which is expected to burden the State's general budget once again and negatively affect development.

In this regard, this issue focuses on the pricing mechanism for petroleum products and natural gas in Egypt, which together constitute approximately 96 percent of the country's energy mix. The issue is particularly relevant due to the ambiguity surrounding it and its negative repercussions on investment, and the increasing uncertainty among all stakeholders in the energy sector. Moreover, pricing ambiguity exacerbates hedging incentives, thus fueling further inflationary pressures. This issue aims to present proposals for improving the pricing mechanism in Egypt, drawing on best practices.

1. What are the mechanisms for pricing petroleum products and natural gas globally?

Energy pricing mechanisms vary by country depending on economic and social conditions, as well as the nature of each country's energy market. Generally, energy pricing policies are based on two main mechanisms: free pricing based on market forces; and pricing based on government intervention.

A) Free pricing mechanism

The prices of petroleum products are left to market forces to be determined by supply and demand through non-governmental distributors. This model is prevalent in most developed countries, particularly in North America and Europe, and has also been adopted by many developing and emerging countries such as China, Türkiye, India, Brazil, the Philippines, and Morocco, where it has been implemented gradually according to announced timetables. This mechanism is viewed as a tool to enhance economic efficiency and attract investment, while reducing the financial burden on governments.

B) Pricing mechanism through government intervention

This mechanism relies on government intervention in setting prices to protect against global market volatility and mitigate the economic and social repercussions of rising energy prices. This pricing model remains the most prevalent in many developing countries, particularly in the Middle East, which is a net importer of petroleum products.

Two forms of government intervention in energy pricing can be distinguished: (1) Ad hoc pricing (AHP), which involves direct government intervention without relying on a clear pricing mechanism or a specific formula that reflects market developments; and (2) intervention through the Automatic Fuel Pricing Mechanism (AFPM), which is one of the most prominent modern tools for government intervention in energy pricing. AFPM relies on a clear pricing formula that takes into account a range of factors, including production, transportation, and distribution costs, established profit margins, and taxes. This mechanism represents an important reform step to enhance transparency in energy pricing by contributing to the gradual and organized transmission of international changes to the local market through linking local retail prices to global fuel prices. This helps reduce the accumulation of energy subsidy burdens and alleviate the financial pressures on the State's general budget.

In countries that have implemented the automatic pricing mechanism, the components of the pricing equation are subject to regular periodic reviews, and the frequency of these reviews varies from country to country. It may be reviewed weekly in countries such as China and Vietnam, or monthly as in South Africa, Jordan, Indonesia and Bangladesh.

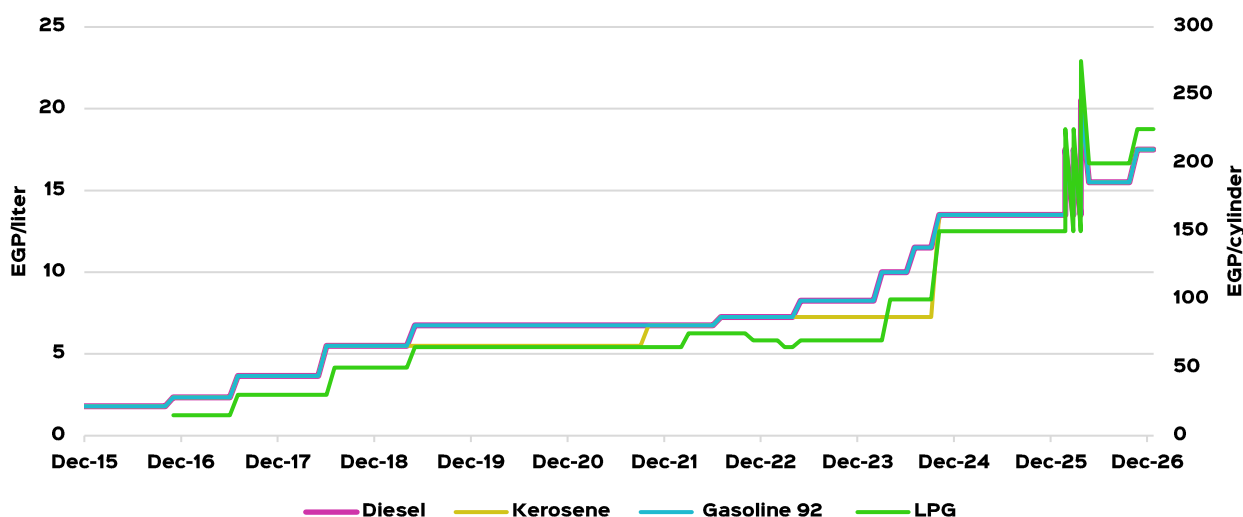
2. What is the current situation for pricing petroleum products and natural gas in Egypt?

- Prior to 2014, petroleum product prices were set administratively by the Ministry of Petroleum. In 2014, with the decline in global prices and improved political stability, the Government began implementing energy subsidy reforms by raising the prices of petroleum products and natural gas. This was followed by the launch of an economic reform program with the International Monetary Fund in 2016, which included Egypt's commitment to completely eliminate energy subsidies during the program's implementation period.
- Since 2019, Egypt has moved towards the gradual liberalization of energy prices by implementing an automatic pricing mechanism for certain petroleum products, reflecting global price developments and the actual cost of production and imports. The prices of these products are determined according to a specific pricing formula. This formula is based on three main components: global oil prices, the exchange rate of the Egyptian pound against the US dollar, and production and distribution costs.
- A committee was formed, comprising representatives from the Ministry of Petroleum, the Ministry of Finance, and the Egyptian General Petroleum Corporation. This committee is responsible for reviewing the components of the pricing formula every three months. This mechanism excludes LPG cylinders and petroleum products allocated to the electricity and bakery sectors. A maximum limit was also set for changes in consumer prices, stipulating that they should not exceed 10 percent above or below the prevailing domestic market price.
- Natural gas pricing in Egypt differs from the Automatic Pricing Mechanism (APM) for petroleum products, as gas prices are determined without disclosing clear pricing bases or formulas, by decision of the Prime Minister based on recommendations of the committee tasked with monitoring global price trends and local economic and social developments every six months.
- Gas pricing also varies by sector, with distinctions made between gas used for electricity generation, industrial consumption, and residential use (three tiers), in addition to gas for refueling vehicles. Gas used for electricity generation is the least expensive, at \$4 per million British thermal units (BTUs).

Assessing the situation in Egypt: Mechanism exists, but it does not operate regularly.

A review of the evolution of petroleum product prices in Egypt since the start of energy subsidy reforms reveals inconsistent adherence to the automatic pricing mechanism, which is often frozen for periods exceeding three months, thus limiting its ability to absorb price shocks Figure (1).

Figure (1): Evolution of petroleum product prices in Egypt during the period 2015–March 2026



Source: Ministry of Petroleum and Mineral Resources.

Comparing pricing mechanisms in Egypt and the world

The following section presents a comparison between the pricing mechanisms for petroleum products and natural gas in Egypt and global counterparts, in terms of pricing mechanism, degree of transparency, and extent of commitment to implementing an integrated national strategy for sustainable energy.

In terms of pricing mechanism and transparency:

The situation in Egypt	The situation in the world
Petroleum products: - Government-regulated pricing based on a pricing formula. - This formula is not consistently adhered to, as prices are frozen for periods that may exceed three months. Consequently, its ability to reflect changes in global prices is limited, thus losing its fundamental purpose.	Petroleum products: The prevailing trend is a transparent pricing mechanism based on market forces without government intervention. This is the case in North America and Europe, as well as in many developing and emerging countries such as Morocco, Türkiye, India, Brazil, and the Philippines, where petroleum product markets have been gradually liberalized within a defined timeframe.

The pricing formula itself is not officially published, which reduces transparency and limits the ability of market participants to form stable expectations.	- A pricing system that covers all types of energy and is characterized by transparency and predictability. - The components of the pricing formula are reviewed weekly in countries like China and Vietnam, or monthly as in South Africa, Jordan, and Indonesia.
Natural gas: - A pricing mechanism lacking transparency; natural gas is priced administratively without any clear pricing basis or formula, based on decisions issued by the Prime Minister upon the recommendation of the ministerial committee established by Prime Ministerial Decree No. 1884 of 2019. This committee is tasked with monitoring global price trends and local economic and social developments every six months. - Egypt follows a pricing model now used by only about 30 percent of the world, employing two mechanisms: pricing governed by political and social considerations, or pricing based solely on cost during periods of abundant natural gas production (2014-2018). This pricing model is prevalent in developing countries and was dominant in Asian countries for a long period before their markets were gradually liberalized.	Natural gas: - Two-thirds of the world's countries follow a transparent pricing mechanism, where gas is priced according to supply and demand. This is the case in North America, most of the European Union, and Türkiye, in light of mature, competitive, and regulated markets as ensured by the Governments. - Since the beginning of the 2000s, most Asian countries have begun moving towards liberalizing their gas markets (the prevailing model is Oil-Price Escalation (OPE)), including India, China, Malaysia, and Vietnam.

In terms of the extent of commitment to implementing an integrated national strategy for sustainable energy:

The situation in Egypt	The situation in the world
- The increase in oil and natural gas prices in Egypt reflects a gradual trend toward partial market liberalization. However, this path is often implemented abruptly, without a clear and publicly announced reform plan. Furthermore, the financial aspect dominates the energy pricing reform process, given the weak link between pricing policies and other developmental, economic, social, and environmental priorities. - So far, subsidies are being lifted in an unclear manner, and the scientific basis upon which the reduction rates and their deadlines are determined is unknown. Therefore, pricing reforms have been partial and at widely spaced intervals, and thus have not contributed to creating a predictable pricing system that is conducive to investment.	- According to best practices, including the experience of many Asian countries, comprehensive pricing reforms should cover all types of energy, even if the timing of the reform differs for each type. - Adopting a transparent and predictable pricing system. Some countries, such as India, have even established a gas exchange where trading and pricing are transparent, although they still deal with a small percentage of total gas transactions. - Reforms to eliminate energy subsidies and liberalize energy markets are linked to the existence of a comprehensive and integrated energy strategy with a clear implementation framework.

• The lack of comprehensiveness in reforming the energy pricing structure leads to distortions and hinders any serious reform process. While the automatic pricing mechanism covers some types of fuel, the pricing of electricity and gas remains subject to administrative decisions, which results in the continuation of gaps between the fair price and the actual cost, and thus the renewal of burdens on the State's general budget. • The absence of a comprehensive energy strategy in Egypt; the energy sector is managed and planned by several entities, including the Ministry of Petroleum and Mineral Resources and its affiliated bodies, the Ministry of Electricity and Renewable Energy and its affiliated bodies, the Ministry of Industry and other ministries representing the demand side, the Natural Gas Regulatory Authority, and foreign investors in the extraction sector. This results in a multiplicity of energy-related strategies. Consequently, planning and demand-side management are separated from supply-side planning, and supply-side management is fragmented, with each energy source being planned separately. • Weak representation of stakeholders in government decisions and in the reform process, and a lack of disclosure of how subsidy savings will be directed and regarding policies for dealing with affected sectors in order to strike a balance between ensuring social protection and promoting the competitiveness of companies from various economic activities during the reform process.	• The integrated energy strategy achieves a balance between economic, social, and environmental priorities. This is reflected in profound institutional reforms that facilitate the integration of energy pricing reform efforts into national development plans, with the participation of all stakeholders. It also includes the adoption of incentive policies for investment in energy efficiency and renewable energy, thereby maintaining the competitiveness of economic activities, and clear policies to support social safety nets. • Energy pricing reforms in several Asian countries have spurred investment in upstream and downstream activities, while simultaneously encouraging consumers to switch to gas and lower-emission alternatives. Numerous international reports indicate that the reforms adopted by these countries, particularly India and China, will transform them into a hub for natural gas and refining industries, in addition to their leading position globally in renewable energy and energy efficiency investments, thus ensuring their future development trajectory.
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The analysis concludes that there is a clear gap between the pricing mechanisms for petroleum products and natural gas in Egypt and globally, including in other middle-income countries. This gap has resulted in a lack of transparency in the pricing system, hindering investment in the oil and natural gas sectors, and leading to a decline in their growth rates in recent years. Furthermore, this gap has contributed to increased financial pressures on the public budget. The ambiguity surrounding pricing exacerbates hedging incentives, thus fueling further inflationary pressures and their negative impact on both supply and demand. While prioritizing financial considerations in energy pricing reforms without a comprehensive energy strategy in Egypt that balances economic, social, and environmental priorities may lead to short-term savings, it risks triggering inflationary waves that could lead to an economic recession, further straining the budget.

3. How can energy pricing mechanisms in Egypt be improved in light of best practices?

Addressing the weaknesses in Egypt's petroleum and gas pricing system by leveraging best practices requires adopting a set of reforms, most notably:

- A transparent and predictable energy pricing system that stimulates investment in energy production from its various sources, and enables users from all sectors to make informed decisions.
- Commitment to updating the components of the pricing formula for petroleum products on a regular and periodic basis and announcing clear controls for pricing natural gas, especially for the industrial sector, as it is one of the determinants of its competitiveness.
- Dealing with the energy pricing mechanism from a comprehensive perspective that covers all energy sources, including oil, gas, renewable energy and electricity, and does not deal with each source individually, within the framework of an integrated energy strategy that ensures the sustainability of development.
- An integrated energy strategy to address the fragmentation of strategic planning in the sector and to cover all energy sources with the participation of all stakeholders. This requires institutional integration between all ministries to ensure unity and consistency of objectives and ease of implementation, with the necessity of follow-up and evaluation by independent bodies.
- A clear plan with a timeframe for comprehensive energy pricing reforms as one of the pillars of the integrated strategy, taking into account:
 - Cost-benefit analysis of the impacts of energy pricing reforms on different sectors
 - Scientific study of reduction rates and their deadlines, and scenarios for the impact on various economic sectors and activities, and how to address them
 - Adopting a gradual approach with transitional periods to allow for adaptation to these reforms
 - Maintaining a balance between the financial dimension and other economic, social, and environmental dimensions