Fiscal Policy Review of Arab States 2019

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Acknowledgement

The “Fiscal policy review of Arab States 2019” is the result of meticulous work of a research team at Economic and Social Commission for Western Asia (ESCWA), led by Niranjan Sarangi, Economic Affairs Officer, Economic Development and Integration Division (EDID), with Khalid Abu-Ismail, Chief of Economic Development and Poverty Section, Economic Development and Integration Division.

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The fiscal policy review in the Arab region 2019 provides important insights about overall domestic public resources in the region with a focus on fiscal policy reforms on taxation, and assessment of debt and external debt, foreign direct investments, and overseas development assistance, as an important means of implementation of Agenda 2030. A major focus of this fiscal policy review 2019 is to create a baseline database on tax reforms undertaken by Arab States during 2010 and 2018, covering personal income tax, corporate income tax, capital gains and dividends, property tax, value added tax and general sales tax. The role of tax expenditure provisions and recent subsidy reforms across the region, as part of fiscal consolidation efforts, are discussed briefly in this review as well. The main objective of the review is to assess the efficiency and progressivity of fiscal policy reforms initiated by the Arab States toward expanding their fiscal space. This fiscal review is first in the series following the ESCWA 2017 flagship report “Rethinking Fiscal Policy for the Arab Region”.

The findings of the review suggest some important fiscal space trends across the region, taking into account the diversity of the country clusters by main source of public revenues: first, oil-rich countries who rely mainly on hydrocarbon base revenues; second, oil-poor middle income countries who rely mainly on taxes; and third, the low income countries who have lower economic base and rely heavily on development assistance. The Arab region has witnessed significant economic and political shocks and falling oil prices that have a continuous downside effect on economic growth and buoyancy of revenues starting with global economic downturn in 2008 till 2018. It is a decade of losses across the three clusters of countries albeit there are differences among countries within each cluster.

In oil-rich countries, fiscal policy reforms have targeted to diversify revenue base, whereas in the oil-poor middle income countries, the focus of reforms have been to expand the tax base and undertake fiscal consolidation through subsidy reforms. Questions remain, however, regarding the effectiveness and distributional consequences of these fiscal policy reforms as major reforms have targeted indirect taxes rather than through income or wealth tax reforms. The trends in vulnerabilities to debt and external debt, reduced concessional borrowing, and subdued inflow of foreign direct investments to several reforms remain worrisome in terms of expanding fiscal space. Furthermore, low share of development assistance to sectors that impact the achievement of SDGs the most, such as to health, education, water supply and sanitation, and productive sectors, risk economic progress and progress of SDGs in the region, especially in the low income countries.
Contents

1. Introduction........................................................................................................................................6
2. Trends in total revenues: Arab region vs. global regions.................................................................7
4. Tax reforms in oil-rich countries: Diversifying revenues is a key goal ........................................13
5. Tax reforms in oil-poor middle-income countries: Improving progressivity remain a challenge .....15
6. Growing debt vulnerabilities in the Arab region.............................................................................23
7. Investment promotion efforts: How efficient to attract FDIs?.......................................................28
8. Conclusions.......................................................................................................................................33

References.........................................................................................................................................36
Annex 1 .............................................................................................................................................38

List of Tables

Table 1: Status of energy reform in the Arab region ............................................................................12
Table 2: Types of tax expenditures in the middle income Arab countries: Some examples ...............22
Table 3: Foreign Direct Investment Inflow .........................................................................................31

List of Figures

Figure 1: Total revenue (% GDP) across regions in the world...............................................................8
Figure 2: Public revenues dried up as economic growth declined continuously across the oil-rich or oil-
poor countries in the region (2008-2018) .........................................................................................9
Figure 3: Buoyancy of tax revenues .....................................................................................................10
Figure 4: The expenditure-revenue gap widened across the region ....................................................11
Figure 5: Fiscal balances (percent of GDP) declined across the region .............................................11
Figure 6: Subsidy expenditure, as a share of GDP, reduced across countries .....................................13
Figure 7: Taxes and total revenues in Arab ‘oil-rich’ countries ............................................................14
Figure 8: Corporate tax rates in GCC countries have remained unchanged in most cases ...............15
Figure 9: Tax revenues in ‘oil-poor’ countries .....................................................................................16
Figure 10: Composition of tax revenue in selected ‘oil-poor’ countries (percent share) .....................17
Figure 11: Reforms in individual income tax ..........................................................................................18
Figure 12: Corporate tax rates in oil-poor middle income countries of the region ..............................19
Figure 13: Changes in tax collections – Tax on income and goods and services ...............................20
Figure 14: Mobilization of goods and services tax ............................................................................20
Figure 15: Share of tax expenditures by type of taxes, Morocco 2014 ..............................................22
Figure 16: Public debt...........................................................................................................................23
Figure 17: External debt profile (% of GDP) .........................................................................................25
Figure 18: Federal Funds Rate (in %) ....................................................................................................26
Figure 19: FDI inflow (million USD) .....................................................................................................30
Figure 20: Percent of Total FDI inflows ...............................................................................................31
Figure 21: Humanitarian aid as percentage of total ODA disbursed (Largest 10 Arab recipients from all
donors) ................................................................................................................................................32
Figure 22: ODA disbursements (percentage distribution) from all donors to Arab countries, by sectors 33
List of Boxes

Box 1: Tax expenditures in Morocco is as high as 17 percent of total tax revenues .......................... 22
Box 2: Lebanon must consider a course correction in fiscal policy response to public debt ...................... 25
Box 3: Tax buoyancy improves with higher social investments, more than that of growth ....................... 35
1. Introduction

ESCWA’s 2017 report on “Rethinking fiscal policy for the Arab region” highlighted the important role of fiscal policy to connect to development aims of achieving the sustainable development goals (SDGs). It advocated for a course correction in fiscal policy in making choices in mobilising and spending resources, as mobilizing domestic resources is central to build sustainable fiscal space to implement the SDGs.

The fiscal policy review of Arab States 2019 is first in the annual series\(^1\) to provide important insights about overall domestic public resources (SDG 17) in the region with a focus on fiscal policy reforms on taxations, assessment of debt and external debt, foreign direct investments, and overseas development assistance, as an important means of implementation of Agenda 2030. A major focus of the fiscal policy review 2019 is to create a baseline database on tax reforms undertaken by Arab States during 2010 and 2018. The Annex 1 provides country-wise tax reforms for various types of taxes, covering personal income tax, corporate income tax, capital gains and dividends, property tax, value added tax and general sales tax. Tax expenditures that are often not estimated but they have a strong impact on fiscal space. There are significant tax expenditure provisions across the region for which data are not adequate to assess the magnitude. We made a synthesis on tax expenditure provisions to briefly discuss the broad types of tax expenditures present in the region, and presented an estimate for one country. Fiscal reforms across the region have targeted subsidies reforms in recent years, mainly as part of fiscal consolidation efforts, which is discussed briefly in the review as well. The main objective is to assess the efficiency and progressivity of fiscal policy reforms initiated by the Arab States toward expanding their fiscal space.

The review paper uses national tax laws and budget statements (Ministry of Finance), investment laws (relevant ministries/investment authorities) as well as IMF World Revenue Longitudinal Data (IMF WoRLD), World Economic Outlook, World Bank’s World Development Indicators, International Debt Statistics, and OECD DAC databases in assessing various indicators that contribute to an in-depth analysis of role of fiscal policy in harnessing domestic public resources in the Arab region. Cross-border issues such as illicit financing flows, trade and technology transfer or public-private partnerships are other important aspects of domestic public resources, but not solely determined by fiscal policy, hence are beyond the scope of this paper.

The review paper took into consideration the period between 2005 to the latest year of data availability. The mid 2000s were the years of high and relatively stable growth in the Arab region (on average 7.7 per cent during 2004-06) and the oil price was at an increasing trend during the 2000s until the global economic crises in 2008. The proposition is to examine the revenues trends from the good years of growth until the latest year, where several parts of the region are amidst conflicts and crises situations. The tax laws, budget statements and investment laws were reviewed and timeline of reforms were created from the year 2010 till latest available information (Annex 1). Fiscal reforms took centre stage after 2010, hence the year 2010 is considered as a baseline.

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\(^1\) A baseline assessment of domestic public resources in the Arab region was presented to the Inter Agency Taskforce on Financing for Development in 2016 (Sarangi, 2017).
Countries across the region share some common concerns and achievements. However, the region is diverse by source of domestic public revenues, which is the basis for classification of cluster of countries, as noted in the 2017 report “Rethinking fiscal policy for the Arab region”. The first cluster of countries, the oil-rich high and middle-income countries, referred as oil-rich countries, in short, draw their major source of revenue from oil and gas, although there are wide variations in fiscal space within this group. These countries include: Algeria, Bahrain, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia and the United Arab Emirates. Bahrain and Oman have much larger fiscal constraints than Qatar or the United Arab Emirates. The cluster has one common element from a fiscal perspective, however, which is reliance on revenues from oil and gas. Iraq and Libya have additional concerns as conflict-affected countries.

The second cluster of countries, the oil-poor middle-income countries, referred as oil-poor countries, in short, includes Egypt, Jordan, Lebanon, Morocco, the State of Palestine, the Syrian Arab Republic and Tunisia. They rely on a mixture of revenue sources, mainly from taxation, and face more constraints on fiscal space than the oil-rich countries as well as growing public debt burdens in some cases. They host the region’s largest share of middle-income people, so meeting their aspirations, including through opportunities for decent work, is a key concern. Other development challenges in recent years comprise high unemployment, increasing poverty and lack of adequate social protection. The Syrian Arab Republic and the State of Palestine have additional concerns as conflict-affected countries.

The third cluster of countries, the low-income countries, comprises Comoros, Djibouti, Mauritania, Somalia, the Sudan and Yemen. They have high levels of poverty and significant development challenges as well as severely constrained fiscal space. As least developed countries, they depend on grants, particularly ODA, and external debt as their major sources of finance. They require significant support to develop institutional capacity, including to implement the SDGs. Somalia, the Sudan and Yemen are conflict-affected, and face additional concerns.

2. Trends in total revenues: Arab region vs. global regions

Total revenues of the Arab region, as share of GDP on average, is 28 per cent in 2017, as compared to 36 percent in advanced economies and 44 percent in the European Union (Figure 1). The share of revenues to GDP declined from nearly 42 percent in 2012 to 28 percent in 2017. Over the past decade, the trend of for the region shows large swings than that of the advanced economies or any other region in the world. The swings are mainly influenced by the fluctuations in revenues of the

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2 ESCWA, 2017.
3 The Syrian Arab Republic has a relatively large oil sector, but its contribution to gross domestic product (GDP) is not large enough to qualify the country as oil-rich. Further, its oil revenues are not sustainable in the long term. Lebanon’s findings of oil mines can make it potentially oil-rich in the near future, but at present the country does not report any revenue from oil and gas.
4 The major source of revenue of Yemen is currently the oil sector. However, the country faces severe development challenges, which supersede the available fiscal space that can be derived from oil. Oil reserves also may be exhausted in the short or near medium term.
5 The regional categorization in this graph follows that of the IMF World Economic Outlook regions. The Arab region and sub-regions are author’s categorization as mentioned in the text.
‘oil-rich’ countries, which is strongly associated with international oil prices. The 2014 plunge in oil prices and its slow recovery has led to significant reduction in oil-revenues, which is reflected in the decline in revenues to GDP share for the ‘oil-rich’ countries, and for the whole region. Therefore, the volatility in revenues in the Arab region is quite apparent as compared to the other regions of the world.

The region is quite diverse in terms of mobilizing revenues, as noted earlier. The disparities in average revenue to GDP between ‘oil-rich’ and the ‘oil-poor’ middle income and low income countries are stark. For the oil-poor middle income countries (MICs), the share of revenues to GDP is about 23.3 per cent in 2017, up from 21.8 percent reported in 2016 (Figure 1). For the low income countries (LICs), the share of revenues to GDP is only 8 percent in 2017, which is on a declining trend over time largely due to decline in revenues in Sudan and Yemen in recent years. As noted, the share of revenues mobilization to GDP is low in the MICs and LICs than most regions in the world.

![Figure 1: Total revenue (% GDP) across regions in the world](image)

Source: Author’s calculation, based on IMF, 2019a and IMF, 2019b.
Note: Regional and sub-regional aggregates are weighted averages. Revenues also include grants in case of low and middle income countries. The MICs do not include Syrian Arab Republic due to lack of data.

There is, however, variation across the countries within any of the three cluster of countries in the region. We discuss the variations in revenues and their composition for each cluster of countries separately later in the paper.

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6 In fact, considering 20 observations from the period 1994 to 2014, the correlation coefficient between international oil price (Europe Brent Spot Price FOB US Dollars per Barrel) and the ratio of total revenue (excluding grants) to GDP is 0.82, showing high association between their movements.

Starting with global economic slowdown in 2008, the Arab region has witnessed significant economic and political shocks in many parts of the region that has a continuous downside effect on economic growth. The figure 2 tracks economic growth and revenues trends across the three country clusters in the region. In the oil-rich countries, the oil price plunge in 2009, had a significant negative effect on growth and revenues. The impact was for a short duration at that point. Growth revived with rise in oil prices in 2010. Since 2014, the downside effect of oil price plunge on growth and revenues is much longer, and yet to recover. There are some signs of improvement in oil prices during 2017 and 2018, following OPEC decision on production cuts, but the recovery in prices is slow and unpredictable.⁷

The oil-poor middle income countries have continuously faced decline in economic growth since the global economic slowdown in 2008, followed by crisis in several parts of the region, including Tunisia, Syrian Arab Republic and Egypt. Other countries in the region also got adversely affected due to regional conflicts and population displacement and migration. As the figure 2 shows, nominal growth of GDP declined from the peak of 19 percent in 2008 to -16 percent in 2017. Economic growth in low income countries fluctuated with an overall declining trend as well. Overall, the region has not been able to recover from a declining trend of growth during 2008-2018. Consequently, it lost significant revenues, whether in the form of oil revenues in the oil-rich countries, or tax revenues that would have been generated following the pre-2008 trends.

Figure 2: Public revenues dried up as economic growth declined continuously across the oil-rich or oil-poor countries in the region (2008-2018)

Source: Authors’ calculation, based on IMF, 2019a.

⁷ ESCWA, 2019.
A simple analysis of buoyancy of tax revenues for the oil-poor middle income countries show that most countries in the region have tax buoyancy amounting to less than one.\(^8\) It essentially implies that growth in GDP will not appropriate growth in revenues proportionately. Morocco, Lebanon and Tunisia have a greater than one tax buoyancy, indicating better response of revenues to economic growth. For these countries, the low performance of economic growth has a major impact in harnessing revenues.

A comparison of tax buoyancy estimates across regions of the world, based on panel data of 49 countries spanning the years from 1990 to 2018, indicates lower performance of Arab region as against most other regions (Figure 3). Tax buoyancy is slightly above one for all countries, on average, in the sample. East and South Asian countries, Latin American, and Europe and Central Asia countries have tax buoyancy of one or greater than one.\(^9\) For the middle income Arab countries, the tax buoyancy is less than one, so as for Africa. Lower than one tax buoyancy shows that tax revenue collection is not proportionate with economic growth. This is a typical phenomenon of countries where parts of the economy are informal in nature. The large informal nature of economies in the Arab region are well known, and therefore the less than one tax buoyancy is not a surprise.

![Figure 3: Buoyancy of tax revenues](image)

*Source:* Authors’ calculation.

With low performance of growth and revenues, the gap between expenditure and revenues, as share of GDP, increased over time. Figure 4, shows the widening gap between expenditure and revenues across oil-rich, oil-poor middle income and low income countries. The oil-rich countries used to have surplus revenues up until 2014. Thereafter, they started running deficits as revenues became less than expenditures (Figure 5). The middle countries used to run deficits, which widened over time, especially between 2008 and 2016. While they improved fiscal balances slightly during 2017 and 2018, on average it is still at -7 percent in 2018. The deficits in low income countries have widened as well, particularly due to Sudan, which is running a high and increasing fiscal deficit and public debt reached above 212 percent in 2018.

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\(^8\) ESCWA, 2017; Sarangi and El-Ahmadieh, 2017.

\(^9\) The tax buoyancies are calculated using nominal values in this sample. There is evidence from other studies that tax elasticity estimates are often neutral to changes in inflation rates (Deli et al, 2018). We have also tried the estimates, for individual countries in the region, by using inflation deflators, and we found similar results. The changes in the coefficients are not significant.
Figure 4: The expenditure-revenue gap widened across the region

Source: Authors’ calculation, based on IMF, 2019a.

Figure 5: Fiscal balances (percent of GDP) declined across the region

Source: Authors’ calculation, based on IMF, 2019a.

Subsidies reforms in the Arab region as part of fiscal consolidation effort

As fiscal deficit remains high, many countries in the region have started cutting expenditure, particularly subsidies, as part of reforms for fiscal consolidation. Since 2015, prices of energy products increased in GCC to reduce the subsidies. For some GCC countries such as United Arab Emirates, prices raised to the extent that fuel price gaps are totally eliminated. For other GCC countries, i.e. Bahrein, Kuwait, Oman, Qatar and Saudi Arabia, the price gaps were reduced. Similarly, higher electricity tariffs were also implemented in most oil-rich countries, including GCC and Iraq, to reduce potential decrease in consumption or increase cost recovery.
Algeria introduced higher taxes on gasoline and diesel and a higher VAT rate by 2 percentage points (VAT increased for both electricity and gas).\textsuperscript{10}

Oil poor middle income countries have undertaken substantial adjustments in their energy prices as well. Morocco and Jordan resorted to the use of local price adjustments, thus eliminating all fuel subsidies, while others, i.e. Egypt, Sudan and Tunisia did adopt some ad hoc discretionary reforms in local prices without full indexation to international prices. Regarding electricity and natural gas subsidies, Jordan is the only country which eliminated them totally—although it only kept subsidies for the most vulnerable groups by a small 0.1 percent of GDP, while the other oil importers undertook more gradual medium-term reforms (with the exception of Lebanon). In fact, Egypt undertook gradual adjustments from 2013 and 2015 and plans more increases in tariffs throughout the next five years, while Tunisia implemented one-time tariff increases in both 2012 and 2013. The Tunisian authorities, aiming to reduce energy subsidies to shield the budget from oil price increases, implemented an ad-hoc price increase of 3 percent on average for the three main fuel categories in December 2017 and aim to apply four more price adjustments in 2018.

Table 1: Status of energy reform in the Arab region

<table>
<thead>
<tr>
<th></th>
<th>Petroleum</th>
<th>Natural Gas</th>
<th>Electricity</th>
<th>Measure to protect the Poor?</th>
<th>Mid-term plan?</th>
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<tr>
<td>Oil-rich countries</td>
<td></td>
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<td>(Y/N)</td>
<td>(Y/N)</td>
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<tr>
<td>Algeria</td>
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<td>Yes</td>
<td>No</td>
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<td>Bahrain</td>
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<td>Iraq</td>
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<td>Kuwait</td>
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<td>Oman</td>
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<td>Qatar</td>
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<td>Saudi Arabia</td>
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<td>Yes</td>
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<tr>
<td>United Arab Emirates</td>
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<tr>
<td>Oil-poor countries</td>
<td></td>
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<td>(Y/N)</td>
<td>(Y/N)</td>
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<tr>
<td>Djibouti</td>
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<td>Egypt</td>
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<td>Morocco</td>
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<td>Tunisia</td>
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</tbody>
</table>

\textit{Source: Authors compilation, 2019 and IMF, 2017.}

Figure 6 presents the subsidies expenditure, as a share of GDP, over the past years between 2012 and 2018. For the oil-rich countries in the sample, subsidies expenditure, as share of GDP, remained stagnant or reduced since 2015, following the fall of oil revenues. For the middle income countries, the subsidies expenditures in 2018 is much lower than in 2012 in all countries in the sample, including Egypt, Jordan, Morocco and Tunisia. There are challenges in comparability of data on subsidies for Tunisia, where the subsidies expenditure data includes subsidies and transfers. Transfers include several social protection measures for Tunisia.

\textsuperscript{10} ESCWA, 2019; IMF, 2017 Article IV Consultation with Tunisia, Country Report No. 18/120, March 2018a.
Figure 6: Subsidy expenditure, as a share of GDP, reduced across countries

Source: Authors compilation, based on data from IMF Article IV, respective countries, respective years.

4. Tax reforms in oil-rich countries: Diversifying revenues is a key goal

The oil-rich countries heavily rely on hydrocarbon sector for public revenues. The tax component of total revenue, as a share of GDP, is negligible in most ‘oil-rich’ countries, which varies from 1 per cent in Bahrain to 4.6 per cent in Qatar in 2017 (Figure 7A). United Arab Emirates and Algeria are exceptions that show relatively high percentage of taxes to GDP, but most taxes are collected from hydrocarbon based industries. Since major source of revenue is oil and gas exports in the oil-rich countries, their revenues is affected by fluctuations in international oil prices or sales affected by global demand situations at times of economic crises such as the global economic slowdown of 2008 or due to productions being affected by political conflicts and crises situations.

Recently, the low oil prices since 2014 has hit fiscal balance in all the oil-exporting countries negatively. They have incurred budget deficits since 2015, as revenues fall short of expenditures (Figure 7B). Prior to 2014, the oil-rich countries used to have balance or surplus budgets. With increasing fiscal deficit in several oil-rich countries, these countries are increasingly considering borrowing by issuing sovereign bonds in international capital markets in order to meet the public expenditure needs, in addition to introduction of new policy measures such as introduction of excises and value-added taxes (VAT), reduction of energy subsidies and cut in capital expenditures. Reducing reliance on hydrocarbon sector is the prime objective of most oil-rich countries, particularly after 2014.

A well strategized revenue diversifying framework is thus a priority for these countries in order to sustain fiscal spending levels in the medium and long term. For instance, the GCC member states have signed a Common Excise Tax Agreement of the States of the Gulf Cooperation Council to implement excise taxes as a part of revenue diversification reform plan. Excise tax shall be imposed on goods that are harmful to human health and to the environment, as well as on luxury goods. Excise tax was introduced as of 2017 in United Arab Emirates, Saudi Arabia and Bahrain followed by Qatar and Oman in 2019. Carbonated drinks will be subject to 50 per cent levy and tobacco products and energy drinks to a 100 per cent levy. In 2019, United Arab Emirates and

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Saudi Arabia expanded excise taxes whereby a 100 per cent levy will also be imposed on electronic smoking devices and tools along with their liquids, and a 50 per cent levy on any product with added sugar or other sweeteners.

Figure 7: Taxes and total revenues in Arab ‘oil-rich’ countries

A. Tax revenue (% of GDP)

B. Total Revenue (% of total expenditure)

Source: IMF, 2019b; national data from ministry of finance of respective countries, respective years.

Another agreement signed by GCC member states is the Unified VAT Agreement to implement Value Added Tax (VAT). In January 2018, United Arab Emirates and Saudi Arabia were the first to implement a VAT rate followed by Bahrain in January 2019. Unless the supply of goods and services falls within a category that is specifically exempt or is subject to the zero rate, VAT will apply at the standard rate of 5%. As for Kuwait, Qatar and Oman, VAT introduction is still under review and the implementation has not taken place yet.

In GCC countries, employed individuals’ wages, salaries and allowance are not subject to tax. Reform of Corporate Income Tax (CIT) is considered in few countries, such as Oman and Qatar. In 2017, Oman suspended exemptions in businesses with net income less than 30,000 Omani Riyal (OR), and imposed a new flat CIT rate of 15 per cent instead of 12 per cent applied on net profits of businesses (except petroleum sector) (Figure 8). Similarly, in 2018, Qatar imposed a higher CIT rate of 35 per cent on petrochemical industries, which makes it at par with the tax rate of extraction of natural resources sector. The effectiveness of these measures in mobilizing tax revenues are yet to be assessed as data are available. At present, the tax basket of revenues doesn’t show any significant improvement for the oil-rich countries, except for United Arab Emirates that introduced VAT in 2018.
Figure 8: Corporate tax rates in GCC countries have remained unchanged in most cases

Source: Authors compilation from Ministry of Finance, Official Gazettes and relevant tax authorities of respective countries, Saudi Arabia, United Arab Emirates, Kuwait, Qatar, Bahrain, and Oman with respective years (see tax reforms timeline in Annex 1).

5. Tax reforms in oil-poor middle-income countries: Improving progressivity remain a challenge

The ‘oil-poor’ countries mainly rely on taxes for public revenues. The mobilization of taxes, share of GDP, are lower in most of these countries than the world average. For instance, the median taxes to GDP for the oil-poor MICs and LICs is 15 percent in 2017 (Figure 9A), as against 25 percent for Europe or 18 percent for all MICs in the world. In Sudan, the share of tax to GDP is less than 6 percent in 2017. It used to be similar in Yemen, but Yemen being affected by conflict, taxes to GDP declined to 1.6 percent in 2017. Morocco and Tunisia are good performers in the region, where tax to GDP is around 22 percent. In other MICs, tax to GDP is around 15 percent. During 2016 to 2019, several countries in the region have noted increase in tax revenue due to the series of reforms undertaken by these countries. The Annex 1 presents these reforms in greater detail and we will be discussing it in following paragraphs.

Taxes, as share of total expenditure, varies widely across the countries. Tax revenues constitute about 84 percent of total expenditure in Tunisia, or about 70 percent in Morocco in 2018. For Egypt, Jordan, Lebanon, taxes constitute only about half of the total expenditure (Figure 9B). Therefore, public budgets continue to be in deficit in the middle income countries.
Disaggregation of total taxes into its components indicates that indirect tax constituted the main source of tax in all the tax systems of ‘oil-poor’ middle income countries.\textsuperscript{12} In some cases, such as in Jordan, indirect taxes constitute around 70 percent of total tax revenue in 2018 (Figure 10). Further, most countries show increasing share of indirect taxes in the total tax revenue during the period 2010 to 2018. The share of income tax in total tax revenue remained low in Jordan (4.5\%), and Lebanon (6.2\%) in 2018 although these improve slightly over time. In Egypt, it remained around 11 percent. Morocco and Tunisia show some increase in share of income tax, which reached 20.5 percent and 25.3 percent respectively in 2018. The high and increasing share of taxes being mobilized from goods and services indicates to the regressive in nature of taxes in most countries rather than reforms being more progressive. A recent study on tax incidence analysis in Jordan shows that the lower 40 per cent of the population end up paying a larger share of budget in terms of indirect taxes as compared to the higher decile groups.\textsuperscript{13} Further, evidence on implementation of value-added tax (VAT) across the countries suggests that multiple tax exemptions and rates often reduce equity in the administration of VAT and burdens the poor and the middle class more than the richest sections of population.\textsuperscript{14}

\textsuperscript{12} Data on disaggregation of taxes for low income countries is not available.

\textsuperscript{13} Sarangi, Bhanumurthy and Abu-Ismail, 2015.

\textsuperscript{14} ESCWA, 2017.
In addition to low significance of income tax in most countries that rely on taxes, wealth tax constitutes a negligible share of total tax revenue. Among the three countries in the Figure 10, Egypt and Lebanon have relatively higher share of earnings from property tax, which is about 8 percent of the total tax revenues in 2018. Studies indicate that the region has a high concentration of wealth among the top 1 percent of people (Assouad et al, 2018), and the share of middle class population is shrinking (ECWA, 2014). These evidences do suggest that property tax can be considered as a useful tool of correcting imbalances in Arab societies, and it can be a major potential source of revenue. Globally, taxes on property form around 7 per cent of total tax revenue, which is much higher than the average in Arab countries.

**Figure 10: Composition of tax revenue in selected ‘oil-poor’ countries (percent share)**

![Figure 10: Composition of tax revenue in selected ‘oil-poor’ countries (percent share)](image)

*Source: Author’s calculation, based on data from ministry of finance of respective countries.
Note: Property tax in Morocco and Tunisia were not available. Part of others tax is property tax.*

**Recent tax reforms: Improving progressivity remain a challenge**

Arab countries have systematically low tax collection rates relative to the size of their economies, and little attention is paid to ways of improving taxation systems to raise more revenue or to ways of improving fairness in tax systems.15 Historically, the oil-rich countries largely rely on oil revenues and the oil-poor countries rely on tax revenues as major sources of their revenue. On average, taxes in GDP in the oil-rich countries of the region are 7.3 percent in 2017 while that in the oil-poor countries of the region is 13.7 percent in 2017. The median tax revenue as a share of GDP is 15.8 percent in 2017, which is lower than the median for the middle-income countries and much below the median of the developed countries in the world. In the Arab region, the exceptions are Morocco and Tunisia, where the share of taxes in GDP is about 22 percent in 2017.16

Amid low oil prices, high debt and rising expenditure needs for meeting aspirations of people during the recent years, public budgets across the Arab region came under heavy pressure. Therefore, several Arab governments have undertaken tax reforms during the past five years, mostly focusing on income tax and taxes on goods and services such as VAT, toward raising

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15 ESCWA, 2017.
16 Based on data from IMF, 2019b.
revenues. We analyse these reforms in the perspective of their progressivity and revenue raising potential.

Figure 11: Reforms in individual income tax

A. Top tier tax rates and changes (%) over time

B. Lowest and highest individual income tax thresholds as a ratio of per capita income

Note: The arrow for Egypt show the top tier tax threshold to GDP per capita ratio in 2011; the arrow for Jordan shows the top tier tax threshold to GDP per capita ratio in 2018. Source: Authors compilation from Ministry of Finance, Official Gazettes and relevant tax authorities of respective countries: Egypt, Jordan, Lebanon, Morocco and Tunisia, respective years.

Over the years since 2010, the top tier tax rates have not changed for most middle-income countries of the region that rely most on tax resources, except for Jordan and Egypt. In Jordan, the top tier tax rate increased from 20 to 30 per cent during 2015 and 2018. In Egypt, there was a decline in top tier tax rate during 2011 (25 per cent) and 2015 (22.5 per cent) and the rate remained unchanged after that (figure 11a). However, there has been efforts to expand the tax base to harness more revenues from individual income tax. It can be noted from the declining ratio of top tier tax thresholds to per capita income between 2011 and 2018 (figure 11b). The ratio declined for most countries, except for Jordan where a new upper threshold is introduced during 2018. The new threshold went up to 1,000,000 JD instead of the previous 20,000 JD and the tax rate for the top tier went up to 30 per cent. Interestingly, the bottom threshold also reduced during the same period, from 12,000 JD in 2011 to 5,000 JD in 2018, in Jordan. In terms of the ratio of bottom threshold to per capita income, most countries show a declining trend, except for Tunisia.\(^7\) The declining ratio is indicative that more people at the lower end of income, who were exempted previously, would have come to the tax bracket. The impact of these changes on expenditure and poverty is yet to be assessed as detail records of tax are available. In general, the significant reductions in the ratio of top tier tax threshold to per capita income tend to show that more people at relatively

\(^7\) In Tunisia, the ratio was lowest among all countries and the ratio of bottom threshold to per capita income went up between 2015 and 2018. This is due to upward revision of the bottom threshold, giving tax exemptions to individual incomes at the lower end of income distribution.
higher end of income are in the top tier tax bracket. However, there are significant differences across countries. For instance, this ratio is 1.65 times the per capita income in Jordan, while it is 0.17 in Egypt.

Furthermore, there are also reforms in corporate tax rates in several countries. General corporate tax rate increased in Egypt, Jordan and Lebanon, while top tier corporate tax rate increased in Jordan, Morocco and Tunisia (Figure 12). Overall, there are efforts to improve tax revenues from corporate tax reforms.

**Figure 12: Corporate tax rates in oil-poor middle income countries of the region**

![Graph showing corporate tax rates in oil-poor middle income countries of the region]

*Source: Authors compilation from Ministry of Finance, Official Gazettes and relevant tax authorities in respective countries: Egypt, Jordan, Lebanon, Morocco and Tunisia, respective years. (See Annex 1 for country wise tax reforms).*

Furthermore, the question remains how effective these changes have been in improving tax collections. The share of income tax to total tax revenues increased in case of Lebanon and Tunisia, although there is a big gap in income tax share itself between the two countries (Figure 13a). Jordan and Egypt, who introduced several changes in top tier tax rate and bracket during 2015 to 2018, didn’t notice any significant change in the share of tax collections from individual income. For Morocco, updated data on individual income tax is not yet available, but there seems to be an upward trend share of personal income tax to total tax revenues from data until 2016.

Several of these middle-income countries have also introduced reforms in goods and services tax, including introduction of value-added tax (VAT) or upward revision of VAT. Until 2015, Egypt had a goods and services tax rate (GST) of 10%. In 2016, Egypt implemented a VAT system instead of a GST. The general VAT rate was 13% in 2016 and it increased to 14% in 2017. Tunisia increased VAT rate by 1 percentage point for all VAT slabs in 2018. Lebanon increased VAT in 2017 from 10 to 11 per cent and it was implemented in 2018. The introduction of VAT in Egypt

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18 The VAT rates increased from 6 to 7 per cent, 13 to 14 per cent, and 17 to 18 per cent for the classification of goods and services.
has led to significant increase in share of goods and services tax in total revenues since 2016. In Tunisia too, the continuous increase in the share is reflected upon the rising VAT (figure 13b).

**Figure 13: Changes in tax collections – Tax on income and goods and services**

<table>
<thead>
<tr>
<th>A: Share of personal income tax in total tax revenue</th>
<th>B: Share of goods and services tax in total tax revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image_a.png" alt="Graph A" /></td>
<td><img src="image_b.png" alt="Graph B" /></td>
</tr>
</tbody>
</table>


**Figure 14: Mobilization of goods and services tax**

<table>
<thead>
<tr>
<th>A. Goods and services tax as a share of private consumption</th>
<th>B. Response of goods and services tax to changes in tax rates</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image_c.png" alt="Graph A" /></td>
<td><img src="image_d.png" alt="Graph B" /></td>
</tr>
</tbody>
</table>

Source: Ministry of Finance, Official Gazettes and Tax Authorities of respective countries Egypt, Jordan, Lebanon, Morocco and Tunisia respective years.
In Lebanon, the share of goods and services tax declined in 2018 as compared to 2017, despite increase in VAT rate, mainly due to reduction in economic activities. However, the share of goods and services in total private consumption shows an increase, which would be mainly due to increased VAT and excise (Figure 14). The share of goods and services tax as a share of private consumption is low in Lebanon and Egypt as compared to that of Jordan, Morocco and Tunisia. In the later, taxes constitute about 12 to 14 percent of private consumption, while it is only 5 percent in Lebanon (having a 11 percent VAT) and 7.7 percent in Egypt (having a 14% VAT) in 2018. Tax exemptions in VAT and tax evasions need to be examined to better understand the lower collections of taxes in such cases. In Jordan, the share of goods and services tax constitute about 12.6 percent of private consumption and 70 percent of total tax revenue. High reliance of tax revenue on goods and services is indicative of a regressive tax system, as the burden lies more on the poor and middle class. Therefore, there is scope to improve fairness and equity in tax systems.19

*Tax exemptions distort expected revenue collections*

Tax expenditures have been a major aspect of fiscal policy and budgeting, which are usually implemented with the goal of reducing tax burdens, to encourage economic development, growth and prosperity. The major definition of a tax expenditure is the tax revenues lost due to provisions by a government which allows an individual or corporation subject to tax, to pay a significantly smaller amount of taxes or in some cases none. The OECD provide a definition which is the costs in revenues produced by the preferential treatment to certain economic activities (Council on Economic Policies, 2018). It is often not easy to have a common definition of tax expenditures due to complexity of provisions introduced by various national budgets.

There are several different types of tax expenditure provisions, with each having a different impact on the economic groups affected by it. One form of a tax expenditure is an exemption. Taxpayers exempted from tax means that no tax is levied on them and they do not have to pay a tax that would usually have been paid if not for the exemption. *Deductions and exclusions* are another two forms of tax expenditure. As stated by the Tax Policy Center20 in 2018, an example of each would be the deduction of mortgage income on homes, and the exclusion of interest on bonds. *Reduced rates* are a form of tax expenditure where the taxpayer would pay a decreased tax rate instead of the full rate. *Incentives* are also tax expenditures to encourage and promote economic activity and production in certain industries; such incentives would involve reduced tax rates or deductions for corporations involved in these industries. *Special economic zones* are also a form of tax expenditures used to promote economic development within a specific area or region of a country. Corporations that operate in these zones could benefit from tax exemptions and deductions which would prove to be less costly than operating in areas subject to taxes.

Several OECD countries report tax expenditures on a regular basis either annually or in their budgets (CEP, 2018). However, there is no specific international standard reporting that can compare tax expenditure across countries. Improving tax expenditures reports and standardizing their measurements is important to better understand the costs associated with it. For Arab states, none of them report costs of tax expenditure in budget or in annual reports. Several countries do use tax expenditure provisions (Table 2). A study of tax expenditures in Morocco suggest that the

19 ESCWA, 2017.
20 [https://www.taxpolicycenter.org/](https://www.taxpolicycenter.org/)
total cost of tax expenditures were about 34.6 billion dirham or 3.8 percent of total output in 2014 (Box 1). These are significant costs, which could be estimated at the time of setting the provisions. Without an assessment of tax expenditure, mere provisions of exemptions or incentive or any form of tax expenditure, often it becomes difficult to assess the total expected tax revenues. Assessing tax expenditures by various types of taxes also informs the distributional consequences of tax expenditures.

Table 2: Types of tax expenditures in the middle income Arab countries: Some examples

<table>
<thead>
<tr>
<th>Type of tax expenditures</th>
<th>Country (Type of tax)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exemptions</td>
<td>Egypt (PIT, Property); Jordan (PIT); Lebanon (CIT); Morocco (PIT and VAT); Tunisia (PIT)</td>
</tr>
<tr>
<td>Deductions and exclusions</td>
<td>Egypt (PIT); Lebanon (CIT); Morocco (PIT); Tunisia (PIT)</td>
</tr>
<tr>
<td>Reduced rates</td>
<td>Egypt (VAT); Jordan (GST); Lebanon (VAT for several products); Morocco (VAT); Tunisia (CIT)</td>
</tr>
<tr>
<td>Incentives</td>
<td>Egypt (CIT); Lebanon (CIT); Morocco (CIT); Tunisia (PIT, Property)</td>
</tr>
<tr>
<td>Special economic zones</td>
<td>Jordan (CIT); Morocco (CIT)</td>
</tr>
</tbody>
</table>

Note: PIT - Personal income tax; CIT – Corporate income tax; VAT – Value added tax

Box 1: Tax expenditures in Morocco is as high as 17 percent of total tax revenues

Tax expenditures constitute a significant share of revenues in Morocco. According to an estimate by Kassim and Mansour (2017), the total tax expenditures in Morocco were about 34.6 billion dirham or 3.8 percent of total output in 2014. The tax expenditure report of Morocco is fairly detailed and each tax expenditure is explained, together with its legal provision, beneficiary, objective and the sectoral decomposition. For the year 2014, 74.6 percent of the total number of identified tax provisions were evaluated – 300 out of a total of 402. The definition of the benchmark tax system contains the tax rates and tax bases for each category of taxes but it does not include the tax unit and tax period. The chart shows that more tax expenditures are related to the VAT than any other type of tax while the real estate sector benefits the most from tax expenditures.

Figure 15: Share of tax expenditures by type of taxes, Morocco 2014

Source: Kassim and Mansour, 2017.
6. Growing debt vulnerabilities in the Arab region

*Rising debt constrains fiscal space for development financing*

The ability to manage public budgets to support economic and social investments varies significantly across the oil-rich and oil-poor countries in the Arab Region. Public debt to GDP ratio is low in the oil-rich countries but in some cases like Bahrain, public debt, as a share of GDP, is touching 95 percent. Oman, Libya, Iraq have accumulated significant amount of public debt. However, they are relatively better off than the oil poor middle income countries in the region. The average debt to GDP ratio is 91 percent for the MICs as compared to 26 percent of the oil-rich countries.

**Figure 16: Public debt**

A. General government gross debt (%GDP)  
B. External debt stock, PPG (%GDP)

![Graph showing public debt trends from 2005 to 2018 for different categories of countries.]

Source: Authors calculation, based on World Bank, 2019 and ESCWA, 2017.

In the oil-poor middle-income countries\(^{21}\), debt, as a share of GDP, has risen continuously since the global economic crisis in 2008 (Figure 16). Debt-to-GDP has reached 157 percent in Lebanon and 94 percent in Jordan in 2018, while it reduced slowly in Egypt to reach at 92 percent in 2018. A lax approach to fiscal policy rules and discretionary increases in government expenditures are major drivers to rising fiscal deficits and debt in the region.\(^{22}\) Fiscal deficits and current account deficits increased, as discussed in the paper in the first section, financed through borrowing in foreign currency. On average, the current account deficit of oil-poor middle-income countries stands at 6.5 percent of GDP in 2018. This situation has forced middle-income countries such as Egypt, Jordan, Morocco and Tunisia to borrow from the IMF under the Special Borrowing Arrangement, and thereafter the Extended Fund Facility in 2016. Lebanon has become highly

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\(^{21}\) They include Egypt, Jordan, Lebanon, Morocco and Tunisia.  
\(^{22}\) Sarangi and El-Ahmadieh, 2017; ESCWA, 2017.
vulnerable to public debt and facing a economic recession, while tackling public protests that are calling for change of government (See box 2).

The average debt to GDP ratio is increasing to 180 percent of GDP in the LICs. It is mainly pulled by skyrocketing debt in Sudan, reaching 212% in 2018, which is also due to significant depreciation of Sudanese currency (36%). Except Sudan, Mauritania’s debt to GDP ratio is about 85 percent.

In addition to high and rising general government gross debt, the external borrowing part of the debt stock and associated debt servicing, poses further challenges for most Arab countries. For the oil-poor middle-income countries, the weighted average of total external debt23-to-GDP has increased from about 28 percent in 2011 to 34 percent in 2017, as per the latest available data. The total external debt for the MICs reached 56 percent in 2017, as against 38 percent in 2015, which shows that private external debt has increased rapidly during this period. The share of public and publicly guaranteed external debt has come down from about 72 percent of the total external debt in 2015 to 61 percent in 2017 in the oil-poor MICs. The increasing external debt share of GDP has consequently led to an increasing share of debt services to GDP in recent years, especially for the MICs who have to spare nearly 25 percent of their export earnings as external debt service in 2017.

For the low-income countries, external debt (PPG) increased to 51 percent of GDP in 2017, and private external debt is negligible. About 99 percent of the total external debt stock in 2017 was in the form of PPG debt. The average share of PPG external debt to GDP increased to 36 percent in 2017 from about 25 percent in 2013. The debt relief to Comoros had brought its external debt down from 40.5 percent of GDP in 2012 to 18.5 percent in 2013. Since then, no other country in recent years has received debt relief, although Sudan is eligible for it.24 The public external debt is closely associated with financing the current liabilities and implicit subsidies incurred by large public sector and state-trading enterprises. The high share of external debt in PPG also indicates that the capacity of the private sector in leveraging external financing is limited or negligible.

Rising non-concessional external debt

The concessional25 part of external debt is minimal for middle-income countries (Figure 17). The MICs have reported a consistent decline in concessional external debts as a share of total public and publicly guaranteed external debt. For instance, in Jordan concessional loans as a share of PPG external debt declined from 70 percent in 2008 to less than 29 percent in 2017. A similar stark decline occurred in Egypt. It implies that rate of interest of borrowing is going up. Since concessional funds are not easily available to middle-income countries anymore, governments have relied on non-concessional external loans. Between 2012 and 2017, long-term public and

23 External debt total refers to debt owed to non-residents repayable in currency, goods, or services. Total external debt is the sum of public, publicly guaranteed, and private nonguaranteed long-term debt, use of IMF credit, and short-term debt.

24 Sudan is eligible for the Highly Indebted Poor Countries (HIPC) Initiative assistance, but still has to meet certain requirements to reach the Decision Point.

25 Concessional debt is defined as loans with an original grant element of 25 per cent or more. Concessional external debt conveys information about the borrower's receipt of aid from official lenders at concessional terms as defined by the Development Assistance Committee (DAC) of the OECD (World Bank, 2017a).
publicly guaranteed external debt as a share of GDP increased in Egypt, Jordan, Morocco and Tunisia.26

Figure 17: External debt profile (% of GDP)

Source: Authors calculation updating data, based on ESCWA, 2017.

Box 2: Lebanon must consider a course correction in fiscal policy response to public debt

Reducing public debt is a major challenge to bring macroeconomic stability in Lebanon. With an economy of about $56.6 billion, gross public debt stands around $85 billion. The debt-to-GDP ratio is persisting in an unsustainable path, at 157% of GDP in 2018. Total foreign debt amounted to $33.7 billion in 2018, most of which belongs to Eurobond ($31.5 billion). Historically, the government has a high level of dependency on external debt of which 90% consist of Eurobonds.

The electricity sector is a major component of the country’s public debt. One of the main challenges is largely subsidized electricity tariffs, while the power prices have remained unchanged over the past few years despite higher fuel prices. Electricity subsidies accumulate to more than 50 percent of the accumulated Lebanese debt since 1992. About 15 percent of government’s budget are electricity subsidies (Bouri & El Assad, 2016); half of fiscal deficit in 2014 are losses of Electricite du Liban (World Bank, 2014).

In 2018, budget deficit increased to 11 per cent of GDP, up from 8.6 per cent in 2017. The increased deficits posed pressure on the government to undertake significant fiscal reforms to reduce budget deficits, which is a precondition for accessing $11 billion from international donors, committed in the CEDRE conference in 2018. The 2019 budget promised reducing

26 Long-term external debt is defined as debt that has an original or extended maturity of more than one year and that is owed to non-residents and repayable in currency, goods or services.
deficits to 7.6 per cent of GDP, despite the increase in the costs of servicing the public debt, as interest payments constitute almost half of the government expenditures and almost 9% of GDP. The decrease in budget deficit was proposed by significantly decreasing capital expenditures and with newly implemented tax provisions in 2018, such as raising VAT rate from 10 to 11 percent. Furthermore, pressure of improving revenues was so much that in mid-2019, there were additional new tax measures proposed, which led to significant resentment among the people and consequently led to massive public protests in end October 2019.

Tight monetary policy conditions, high savings rate, coupled with laxity in fiscal rules have weakened growth and public finance. During the past year, interest rates on 1-year deposits increased to reach 12% on LL deposits and 8% (and even higher for large deposits) on USD deposit. The interbank interest rate, or the federal funds rate, has been on an increasing trend since the past three years and after public protests in Lebanon in October 2019, the interbank rate has jumped to 25 per cent by end November 2019 (Figure 18). The interest rate and growth differential (IRGD) has remained positive, up to 5 percent in recent years, implies that the cost of serving the debt is much higher than the earnings being weakened by slow growth. Addressing public debt becomes unsustainable and leads to further accumulation of debt.

**Figure 18: Federal Funds Rate (in %)**

![Federal Funds Rate Graph](image)

During the last quarter of year 2019, and after the massive protests in Lebanon demanding better fiscal, monetary and social policies, as well as fighting corruption, the country has been passing through harsh economic conditions and liquidity problems. Although central bank did not impose capital controls, banks introduced capital control on their foreign currency reserves, specially the USD. In a country where, imports reached 19.9 million USD in 2018 while exports were 2.9 billion USD, liquidity problems in USD negatively affect businesses (through imports) and consumers (higher prices) as well threatening food security in the country. Consequently, Lebanon is facing: Weakened dollar to lira peg in a parallel market; Loss of revenues and closure of businesses; Loss of public confidence in economic prospects, downgrade of credit ratings; Decrease in the amounts sent by remittances; and Pressure of liquidity in Lebanese banks.

In December 2019, Central Bank issued a circular ordering banks to lower interest rates to a maximum of 5% on U.S. dollar and 8.5% on Lebanese pound on new deposits as a form of intervention in the market. However, some serious fiscal reforms along with harmony with the monetary policy should be adopted in Lebanon in order to build public confidence and improve transparency in public finance management.
**Improve tax progressivity, not more taxes on goods and services:** Increasing tax revenues is essential but that doesn’t essentially mean higher taxes on goods and services in which the middle class and the poor bear a higher burden than that of the rich. Instead, the focus should be to introduce more progressivity in taxation and improve tax compliance, as argued by ESCWA’s Rethinking Fiscal Policies Report (ESCWA, 2017). In the past, Lebanon has not been successful in strongly improving the share of income tax in total revenues, rather the share has remained largely sluggish and low, at around 7 percent in 2018. Mobilizing higher revenues has mainly been realized through raising taxes on goods and services, such as raising VAT. At this juncture, there is a strong need to improve progressivity in income tax rather than resorting to further rise in goods and services tax. For instance, the top tier tax rate in Lebanon is about 20 per cent as compared to 35 per cent in Tunisia, 38 percent in Morocco.

**Improve tax compliance, ensure tax filing by all citizens:** Even with existing tax rates, there is scope to improve tax resources by improving tax compliance. It is noted that the burden of tax on the top rich is lower than that of the middle class in Lebanon (ESCWA, 2017). One such measure of improving compliance is to ensure that all citizens fill tax returns even though they may not have to necessarily pay taxes. It would help improving transparency albeit there are some costs to be borne in the beginning to reform processes for tax filing.

**Implement CEDRE by channeling resources to productive investments:** Show seriousness in governance reforms beginning with access to information law that would allow open access to data as well as more regular surveys to assess the social impact of economic policies. CEDRE implementation overlooked by a group of independent technocratic experts with no political affiliations who will ensure funds are diverted to strategic projects to resolve priority issues such as infrastructure bottlenecks.

**Implement financial sector reforms:** Banking sector needs to enhance corporate governance by implementing BASEL Committee guidelines, taking into consideration specificities of Lebanese economy. The monetary regime needs to be revisited to support macroeconomic stability. 

**Gradually shift to debt stabilizing fiscal policies:** Lebanon’s debt has skyrocketed over the years, and the economy has not been able to ensure enough primary balances to stabilize debt. The required debt-stabilizing primary balance ratio has remained much higher than the actual primary balance ratio to GDP, suggesting that interest rates have remained below economic growth rates (Sarangi and El-Ahmadi, 2017). While the economy is continuing with such a situation, further debt (bond issue) with promise of higher interest rates would increase vulnerabilities to external debt.

**Assess expenditure switching policies:** Abolish/reduce all unnecessary governmental expenditures to reduce costs and divert public expenditures to productive and social investments. This would require a monitor of social expenditures linked with the macroeconomic strategies and reforms discussed above. ESCWA’s new tool on “Social Expenditure Monitor for Arab States” is supporting member States in the area of budget and fiscal policy reform, which can be useful to Lebanon as well (ESCWA, 2019).
7. Investment promotion efforts: How efficient to attract FDIs?

Inflow of foreign direct investment (FDI) to productive sectors is an important means of implementation to accelerate the SDGs targets, especially in improving access to energy for all (target 7.B.1), improving resilient infrastructure (target 9.A.1, 11.C.1) and to improve productive capacity of countries that helps reducing inequality among countries (target 10.B.1).

Countries in the Arab region have undertaken several policy reforms in order to achieve higher integration with the global economy and attract more foreign direct investments (FDI). Reducing trade barriers by making free trade agreements, adopting standards of treatment and international practices, and making bilateral investment treaties, are part of investment and trade promotion measures. Here we focus on reforms in investment laws that contribute to attracting FDI. In the past ten years, these reforms were mainly aiming at lowering the cost of starting a business.\(^{27}\) For instance, many Arab countries eliminated or reduced the minimum capital requirements for investments such as Algeria, GCC countries, Jordan and Morocco. Others facilitated registration processes such as Egypt, and the United Arab Emirates. Several countries modernized their registrations and payment methods such as Kuwait, Morocco, Saudi Arabia, while others implemented one-stop shops such as Egypt, Oman and Qatar.

Fiscal incentives, including tax holidays have been introduced in different Arab countries (such as United Arab Emirates, Kuwait, Egypt, Lebanon Morocco, Libya, Jordan, Algeria, and State of Palestine) during the 2010s. The tax holidays vary between 5 and 20 years, specific to industries.\(^{28}\) Exemptions of indirect taxes in specific economic sectors like in the cases of Bahrain and Lebanon or in specific economic zones like in Egypt or Jordan were permitted. Some other countries such as Tunisia have been allowing exemption of reinvested profits from corporate taxation while others like Jordan are offering exemption of foreign personnel from income taxes and social security contribution.

Investment reforms were also enacted to boost the business environment. Firstly, all GCC countries updated their investment and corporate laws where they are now allowing up to 100% foreign ownership in several sectors of their economy (PWC, 2018). In fact, Saudi Arabia, UAE, Qatar, Bahrain, Oman and Kuwait have enacted new investment laws that permit foreigners to own companies in several industries such as manufacturing, renewable energy, administrative services as well as information and communication. Several countries have also amended or created new laws to attract and retain FDI. According to OECD (2018), Egypt carried out multiple reforms over the past few years. It presented a new industrial licensing law, bankruptcy law, amendments to companies’ law, and established a movable collateral registry. Egypt also amended its investment law which reestablished the private free zone and provided tax exemptions, a unified customs rate as well as free lands (PWC, 2019). In Jordan, reforms were enacted to support small and medium enterprises. In fact, a new credit bureau was established as well as a new insolvency law. Also, access to finance was eased through the creation of a secured transactions law. Jordan also revised its investment law in 2014 and reviewed its list of investment restrictions. Morocco, created the National Committee for the Business Environment in 2009, has seen the introduction of multiple horizontal reforms aimed at improving the business and investment climate in the

\(^{27}\) OECD, 2018.

\(^{28}\) IEMS, 2013.
country. It also introduced a new finance law in 2019 which includes a number of tax developments such as changes to income tax for corporations and self-employed individuals, real estate investment. Given these reforms, we analyse the trends and patterns of FDI into the region as an important means of achieving the SDGs, as mentioned above.

FDIs inflow declined sharply

Foreign direct investment inflows to the Arab region have witnessed a decline in their total value as well as in their share of GDP and GFCF for most Arab States over the last ten years (Table 3). FDI inflow witnessed a strong decline since global economic slowdown in 2008, followed by political instabilities in parts of the region (Figure 19). In 2008, FDI inflow was $88 billion, which went down to $25 billion in 2015, and thereafter it has slowly gone up to $31 billion in 2018. The inflow of FDI between 2008 and 2018 increased for Morocco and Oman, while it declined for all other countries. For instance, Saudi Arabia witnessed a sharp decline in its FDI inflow from $39 billion in 2008 to merely $3.2 billion in 2018. Its FDI, as a share of GDP, reduced from 7.59% to only 0.41% between 2008 and 2018. Also, its FDI shares of GFCF dropped from 33% to only 1% in 2017. Among the middle income countries in the region, Lebanon witnessed a sharp decline in FDI inflow, which reduced from $4 billion in 2008 to $2.9 billion in 2018. FDI, as a share of GDP or as a share of GFCF, dropped by more than half that of 2008. In Jordan, FDI inflow dropped from $2.8 billion to $0.9 billion. Its FDI share of GDP declined by 80% and its FDI, as a share of GFCF, declined to half that of 2008. Overall there is a sharp declining trend in FDI inflow until 2016 for most countries in the region. Thereafter, it is slowly picking up, but it is way far from recovery of its peak in 2008.

FDIs inflow remain skewed toward specific countries as well as sectors

Moreover, foreign direct investment has been skewed toward specific countries as well as sectors. GCC countries attracted almost half of the FDI inflows over the 2000s and these investments have been highly concentrated in extractive industries (Figure 20). The natural resource processing attracted a big share of FDIs in West Asia as well as North Africa. According to UNCTAD’s 2019 World Investment Report in Saudi Arabia, Total signed a contract with Saudi Aramco to develop a petrochemical complex in Jubail in a project worth $9 billion and in Egypt, Foreign direct investment was skewed towards the oil and gas industry, as significant discoveries of offshore gas reserves attracted investments from Multinational Enterprises, and the country became a net exporter of gas in January 2019.

FDIs remain concentrated into extractive industries, which are highly capital intensive, and have less employment generating effects

FDIs into the GCC has been mainly concentrated in the oil sectors as well as real estate. Also, Figure 2 reveals that from 2010 till 2018, FDI in the GCC has been mainly concentrated in the oil sectors as well as real estate. This is different than previous years where the majority of flows were focused in services and tourism sectors. Hence, foreign direct investments in the past decade reaching the tradable sectors have been very limited since they are being captured by capital
intensive extractive industries. Since most FDI are going to extractive industries, which are highly capital intensive, these FDIs would have less employment generating effect.

*There are only few projects in non-extractive sector that attracted FDI.* For instance, Algeria received significant investment in the automotive industry in 2018. Automobile industry, BAIC International, opened a manufacturing plant in Algeria, with an investment of more than $100 million. The Algerian Investment Council has also approved to set up manufacturing plants for Hyundai and Ford. In the United Arab Emirates, investments were directed to a wide range of sectors such as digital technologies. In Bahrain, manufacturing companies such as American company International and Ariston Thermo Group established new facilities in the Bahrain International Investment Park (UNCTAD, 2019). The region requires such investments to accelerate diversification and employment generation.

In summary, despite efforts that have been made to encourage foreign direct investment in Arab countries, more reforms are needed in order to further catalyze investment in the region and create an investment friendly environment. This FDI should be directed towards non-oil tradable sectors. This would allow further economic diversification and employment generation in the region.

*Figure 19: FDI inflow (million USD)*

*Source: Calculations based on, data from World Bank WGI, 2019, for political stability and UNCTAD, 2019, for FDI inflow.*
**Figure 20: Percent of Total FDI inflows in 2018**

![Pie chart showing the percent of total FDI inflows in 2018 for various countries.]

### Table 3: Foreign Direct Investment Inflow

<table>
<thead>
<tr>
<th>Country</th>
<th>Total (current million USD)</th>
<th>% of GDP</th>
<th>% of GDP</th>
<th>% of GDP</th>
<th>% of GDP</th>
<th>% of GDP</th>
<th>% of GDP</th>
<th>% of GDP</th>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>2631.71</td>
<td>1499.45</td>
<td>1506.32</td>
<td>1.54</td>
<td>0.72</td>
<td>0.84</td>
<td>5.26</td>
<td>2.33</td>
<td>1.78</td>
</tr>
<tr>
<td>Bahrain</td>
<td>2638.30</td>
<td>1545.21</td>
<td>1515.16</td>
<td>10.26</td>
<td>5.03</td>
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**Source:** UNCTAD, 2019

7. ODA is essential for SDGs sectors and for the low income countries

ODA is a critical means of implementation for several SDGs targets, including SDG 2.A.2, 3.b.2, 4.B.1, 6.A.1, 9.A.1, 11.C.1, 15.A.1, 15.B.1. Total ODA provided to Arab countries (excluding Arab donors), has steadily increased since 2011, following years of sharp decline during 2008-2010. In 2017, total ODA in the Arab region was $33.95 billion, which is the peak within the past
decade. The total ODA received by Arab countries from all sources is 17.7 percent of total ODA extended to developing countries in 2017.

**ODA increased to conflict affected countries**

However, the increasing trend of ODA to the region is largely influenced by in-country “refugee” costs and humanitarian aid channeled to the countries affected by conflicts (Figure 21). For instance, about 90 percent of ODA to Syria was humanitarian aid. Among the LDCs, Somalia and Yemen received a higher inflow of ODA in the past five years, a large part of which was humanitarian aid. In contrast, ODA to Sudan has declined significantly during the past decade. ODA to the middle-income countries of the region, including Egypt, Jordan, Morocco and Tunisia, appears to have increased during the past five years compared to the period 2010-2011, but aid flow remained volatile, fluctuating from one year to another. The inconsistency in the flow of ODA remains a major concern, in addition to the fact that developed countries need to keep their commitment of 0.7 percent of GNI to disburse as ODA to developing countries.

**Figure 21: Humanitarian aid as percentage of total ODA disbursed (Largest 10 Arab recipients from all donors)**

![Graph showing humanitarian aid as percentage of total ODA disbursed](image)

*Source: OECD, 2019.*

**ODA is essential means in sectors that impact the SDGs**

In the region, the share of ODA to education sector has declined over the years, currently only about 3% in 2017. The share of ODA to health sector, water supply and sanitation remain negligent, declining to 3 percent and 4 percent, respectively, in 2017. Together water supply and sanitation, education, health and commodity aid accounted for only 22 percent of total ODA in 2017 (Figure 22). ODA share to the production sector declined over the years as well. These trends are worrisome and can hamper the progress of several SDGs of the region, considering that significant resources are needed in these sectors to improve the quality of public services and improve access to the poor in order to make the societies more inclusive and sustainable.29

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8. Conclusions

The fiscal policy review in the Arab region 2019 provides important insights about overall domestic public resources in the region with a focus on fiscal policy reforms on taxation, assessment of debt and external debt, foreign direct investments, and overseas development assistance, as an important means of implementation of Agenda 2030. A major focus of this fiscal policy review 2019 is to create a baseline database on tax reforms undertaken by Arab States during 2010 and 2018. The Annex 1 provides country-wise tax reforms for various types of taxes, covering personal income tax, corporate income tax, capital gains and dividends, property tax, value added tax and general sales tax. The role of tax expenditure provisions and recent subsidy reforms across the region, as part of fiscal consolidation efforts, are discussed briefly in this review as well. The main objective is to assess the efficiency and progressivity of fiscal policy reforms initiated by the Arab States toward expanding their fiscal space. This fiscal review is first in the series following the ESCWA 2017 flagship report “Rethinking Fiscal Policy for the Arab Region”.

The region is diverse by main source of public revenues, which distinctly makes three clusters of countries: first, oil-rich countries who rely mainly on hydrocarbon based revenues; second, oil-poor middle income countries who rely mainly on taxes; and third, the low income countries who have lower economic base and rely heavily on development assistance. All countries within the clusters are not homogenous; within each cluster there exists differences among countries.

The findings of the review suggests that starting with global economic slowdown in 2008 the Arab region has witnessed significant economic and political shocks that has a continuous downside effect on economic growth and buoyancy of revenues till 2018. It is a decade of losses in growth and public revenues, the drivers be long episodes of falling oil prices or crisis in several parts of the region. Fiscal space across the countries has been eroded, which urged significant reforms in mobilizing revenues and in tailoring expenditures. The budgets of oil-rich countries, that used to have higher revenues than expenditures in pre-2014 period, have turned into deficits. Hence reliance on oil revenues will no longer earn sustainable fiscal space. Reforms in the oil-rich countries are guided by the key goal of diversifying the sources of revenues.
Tax buoyancy of middle income countries in the region, who rely heavily on taxes, is low, on average, as compared to other middle and high income regions of the world. High debt and widening deficits in these countries have urged for deepening tax reforms. Efforts in mobilizing revenues have largely relied on increasing taxes on goods and services through increased VAT or GST. The other important and recent reforms have focused on broadening the tax base through reducing the top tier income tax thresholds and also the bottom exemption level incomes. There are also corporate tax reforms. Most of these tax reforms across countries tend to burden the poor and the middle class population more than that of the richest sections of population. Assessing wealth of top rich and potential of wealth tax is still unexplored.

Furthermore, the effectiveness of the tax reforms on improving tax collections is not clear. Most of the major reforms were undertaken during the past two to three years and data are not yet clear to establish any significant trend change. However, we do see that many countries in the region have improved tax revenues as a share of GDP, including in Egypt, Jordan, Lebanon, Morocco and Mauritania. Reforms in income tax area has improved income tax share in total tax revenues in case of Lebanon, Morocco and Tunisia. Reforms in VAT certainly improved tax collections as a share of private consumption, but prevailing tax exemptions and tax evasions tend to undermine the overall tax collections. There is a much greater need to improve tax compliance in both direct and indirect taxes. Improving tax buoyancy is also possible by channeling higher social investments into quality public services, which brings more buy-in of middle class (Box 3).

Inflow of foreign direct investment (FDI) to productive sectors is an important means of implementation to accelerate the SDGs targets. Several investment and regulatory reforms have been undertaken to attract FDI inflow into the region. In 2008, FDI inflow was $88 billion, which went down to $25 billion in 2015, and thereafter it has slowly gone up to $31 billion in 2018. However, it remain skewed toward specific countries as well as sectors. FDIs remain concentrated into extractive industries, which are highly capital intensive, and have less employment generating effects. There are only few projects in non-extractive sector that attracted FDI. More reforms are needed in order to further catalyze investment in the region and create an investment friendly environment, build resilient infrastructure, improve productive capacities, economic diversification and employment generation in the region.

ODA is essential means in sectors that impact the SDGs and for low income countries that have a narrow fiscal space. The share of ODA to sectors such as water supply and sanitation, education, health and commodity aid accounted for only 22 percent of total ODA in 2017. ODA share to the production sector declined over the years as well. Furthermore, in recent years most of the ODAs are channeled to humanitarian aid. These trends are worrisome and can hamper the progress of several SDGs of the region, especially in the low income countries that have a low productive base, considering that significant resources are needed in the sectors such as health, education, water supply and sanitation.
Box 3: Tax buoyancy improves with higher social investments, more than that of growth

Based on panel data of 49 countries, spanning over 1990 to 2018, we observed the following estimates of tax buoyancy. In finalizing the fixed effect estimates, we carried out robustness checks and controlled for performance score on control of corruption (as a measure of economic governance), different fiscal rules (binary) including an expenditure rule, revenue rule, debt rule, and budget balance rule, and interacted the binary variables with social investments. We refer “social investment” to public expenditure in health, education and housing, which are essentially for building human capital.

The fixed effect estimates in the table 4 shows that higher social investments tend to increase tax revenues mobilization. The coefficient is higher for social investment than that of economic growth indicating that tax collections tend to be higher in countries that have higher social investments even if they have same economic growth.

Another interesting points is that a revenue rule combined with higher social investment tend to increase tax revenues. A revenue rule alone doesn’t improve revenues, rather it tends to reduce tax revenues. A budget balance rule and a debt rule doesn’t tend to have any significant impact on tax revenues. These results intuitively make sense. Only focus on revenues will lead to resentment or tax evasion, unless accompanied by expenditures on quality public services. Importantly, an expenditure rule tends to have no significant effect on improving tax revenues. Expenditure rules on cutting expenditures will not help growth nor generate more revenues. Therefore setting medium term frameworks for revenues along with monitoring social expenditures are essential to mobilize fiscal space as well as efficient budget decisions. ESCWA’s social expenditure monitor (SEM) is forwarding this agenda to support its member States in the area of budgeting and fiscal policy reform that supports growth, revenues and effectiveness of social expenditures (ESCWA, 2019).

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<th>Ln (tax revenues)</th>
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<td>Ln (GDP)</td>
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<td>Ln (social investment)</td>
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<td>Interaction of social investment and fiscal rule on expenditure</td>
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* p<0.05; ** p<0.01; t-statistics in parenthesis.
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ANNEX 1
Tax reforms timeline in Arab States (2010-2018): Country-wise illustration

Cluster 1. Oil Rich Countries – GCC and Iraq

Figure 1: Major tax reforms in PIT, CIT and property tax in GCC Countries

2010

In all GCC countries:
Employed individuals’ wages, salaries and allowance are not subject to PIT.

Saudi Arabia:
- CIT of 20% is levied on businesses of non-Saudi citizens. Citizens of GCC countries are treated as Saudi.
  - Zakat is levied on corporations traded in Saudi stock exchange including Saudi’s share as well.
  - Zakat is an Islamic assessment of 2.5%.
  - Income from oil and hydrocarbon production and natural gas investment are subject to higher tax rate rates.
  - 2.5% land tax is applied on undeveloped land within urban boundaries

Kuwait:
- Standard flat CIT rate at 15% levied only on net profits of foreign corporate bodies.
- Zakat is imposed on all publicly traded and closed Kuwaiti shareholding companies at a rate of 1% of the companies’ net profits.
- Property tax exempt

United Arab Emirates:
- CIT is imposed on oil companies and foreign banks only. Oil companies pay taxes ranging from 55% to 83%.
  - No CIT tax but property tax is exempt

Oman:
- Income up to 30,000 OMR is no longer exempted from CIT and a flat rate of 15% applies on all net profits.
- Certain entities which meet the definition of a SME will be charged tax at the rate of 3% on their taxable income.
- Introduction of dividends taxes at 10% in Oman
  - 2017

Bahrain:
- CIT is only levied on net profits of businesses (local and foreign) that operate in the oil and gas sector or derive profits for the extraction or refinement of fossil fuels of standard rate 46%
- No Property Tax in Bahrain

Oman:
- Oman proprietorships, Oman companies and permanent establishments (PES) in Oman are subject to CIT as follows:
  - Exemption of net profits up to 30,000 Omani Riyal (OMR)
  - 12% on net income exceeding 30,000 OMR
  - 55% on petroleum exploration

Qatar:
- CIT rate of 10% is levied only on net profits of foreign companies working in Qatar or on the share of foreign partners in joint ventures.
- CIT rate of less than 35% on net profits from petroleum operations
- Property and dividend are tax-exempt

Figure 2: Introduction of Value added and excise taxes in some GCC countries

2010

In all GCC Countries:
- No Value added tax
- No Excise Tax

2018

- Saudi Arabia, and UAE imposed VAT on January 1, 2018 at a standard rate of 5%.
  - Of the goods and services exempted or zero-rated: educational and health services (except plastic surgeries), medicines, passenger transport services, a list of basic food items and financial services.

- UAE, Bahrain and Saudi Arabia introduced the excise taxes with rates as follow: 50% for soft drinks, 100% for tobacco products and energy drinks.

- Bahrain applied a 5% VAT in January 2019
- Qatar and Oman implemented the excise taxes as follow: 100% on tobacco and energy drinks, 50% on soft drinks and alcohol.
- UAE introduced excise tax rates on electronic smoking devices and tools and liquids used in the tools (100%), and 50% on any product with added sugar or other sweeteners
Iraq

Figure 1 - Major PIT reforms in Iraq

2010

- In Iraq, several allowances shall be granted to resident individuals whether a bachelor, a widower, a divorced man, a married man whose wife is a housewife, as well as depending on the number of children.
- Tax shall be imposed on net income according to the following:
  1st bracket: 3% for net income (up to 500,000 IQD)
  2nd bracket: 5% for net income (500,001 up to 1,000,000 IQD)
  3rd bracket: 10% for net income (greater than 1,000,000 up to 2M IQD)
  4th bracket: 15% for net income (greater than 2M IQD)

[Amendments for income tax law no 113 1982]

2013

- Tax shall be imposed on net income according to the following:
  1st bracket: 3% for net income (up to 500,000 IQD)
  2nd bracket: 5% for net income (500,001 up to 1,000,000 IQD)
  3rd bracket: 10% for net income (greater than 1,000,000 up to 2M IQD)
  4th bracket: 15% for net income (greater than 2M IQD)

[Amendments for income tax law no 113 1982]

Figure 2 - Major CIT, property, and VAT reforms and tax incentives in Iraq

2010

- Flat CIT rate 15% on net profits applicable to all companies (except oil and gas production and extraction activities and related industries)
- CIT of 35% for oil and gas industry of taxable income
- Dividends are tax exempt
- Capital gains realized are taxed at the corporate tax rate corresponding to the sector.
[Amendments for income tax law no 113 1982]
- Tax incentives: exemptions from taxes and fees for a period of 10 years for investments in development areas including transfer of modern technologies to diversify Iraq’s economy and contribute to its development.
[Investment law no 13 of 2006]
- A basic property tax of 10% is assessed on the annual revenue for all real estate.
[Law no 161 of 1959 and its amendments the “law of real estate tax”]
- No Value added taxes in Iraq

2017

- Tax incentives: exemption on taxes and customs fees on raw materials and input to produce medicine and in construction on condition of being environmentally friendly.
[Investment law no 50 of 2017]
- Property tax: the real estate tax rate increased to 12% of the annual real estate income.
[Amendments of Real Estate Tax Law No. 162 of 1939]
Cluster 2. Oil-Poor Middle Income Countries

Egypt

Figure 1: Major PIT reforms in Egypt

2010
- Taxation base extension to up to 5,000 Egyptian Pounds (EGP)
  - 1st bracket: 10% on the first 5,000 EGP
  - 2nd bracket: 15% on income between 5,001 and 20,000 EGP
  - 3rd bracket: 20% on income between 20,001 and 40,000 EGP
  - 4th bracket: 25% on income above 40,000 EGP
  [Income Tax Law no 91 of 2013]

2012
- Taxation base extension to up to 5,000 EGP
  - 1st bracket: 10% on the first 5,000 EGP
  - 2nd bracket: 15% on income between 5,001 and 30,000 EGP
  - 3rd bracket: 20% on income between 30,001 and 60,000 EGP
  - 4th bracket: 25% on income above 60,000 EGP
  [Income Tax Law no 91 of 2013]

2014
- For 3 years, a temporary extra tax of 5% is imposed on those earning a net income exceeding 1.5 million EGP
- The tax payer has the opportunity to use this tax to finance projects issued by the MoF in the fields of education, health, housing, infrastructure or other services sectors
  [Law no 4 for year 2014 to amend income tax law no 91 of 2013]

2017
- 1st bracket: Exemption for net income up to 7,500 EGP
  - 2nd bracket: 10% for net income (7,501 up to 10,000 EGP) with Tax Credit: 8%
  - 3rd bracket: 15% from net income (10,001 up to 40,000 EGP) with Tax Credit: 6.5%
  - 4th bracket: 20% from net income (40,001 up to 100,000 EGP) with Tax Credit: 5.5%
  - 5th bracket: 25% net income above 100,000 EGP
  [Law no 8 in 2017 to amend income tax law no 91 of 2013]

2018

Figure 2: Major CIT reforms and Tax incentives in Egypt

2010
- Flat CIT rate 20% on net profits
- Oil prospecting and production companies are subject to CIT of 40.55% on net profits
- The Suez Canal Company, Egyptian General Petroleum Company (EGPC) and Central Bank of Egypt are subject to CIT of 40% on net profits
- Profits of projects established in free zones shall not be subject to the provisions of Egyptian tax and regulations.
  [Income Tax Law no 91 of 2013]

2013
- Flat CIT rate 25% on net profits
  [Starting May 2013]

2015
- Investment projects established are granted a deduction equal to 15% of the “investment costs”
- Projects incorporation contracts and facility agreements are exempted from stamp tax for 5 years from the date of the commercial register.
- A fixed custom rate (2%) will be collected on all imported equipment necessary for establishing the project.
- Lands for the projects are exempted from registration fees and stamp tax.
  [Starting June 2017]

[Investment Law No. 72 of 2017]
Figure 3: Major capital gain, dividend, property tax, VAT and GST reforms in Egypt

2010
- Capital gains and dividends are tax-exempt
- GST System of a standard GST rate of 10%

2014
- Capital gains realized from the sale of listed Egyptian shares are taxed at 10%.
- Capital gains realized from the sale of unlisted Egyptian shares are taxed at 22.5%.
- Tax on dividends was introduced in Egypt and are subject to 10% tax, however, such rate could be reduced to 5% in special cases.

2016
- New VAT law abolished General Sales Tax (GST) law
- VAT is imposed at a rate of 13% on goods and services
- VAT exempts a number of basic goods and services (baby’s milk, tea, sugar, bread, vegetables, health services…)

2013
- Starting 2013, annual tax rate on property of 15%

2015
- The application of capital gains tax had been suspended for two years as of May 2015

2017
- Increasing VAT to 14% on goods and services
- 1% of the tax on consumption is devoted for social justice programs
- Suspension of the capital gain tax was extended
- Capital gains realized from the sale of listed Egyptian shares shall not be collected or withheld before May 17, 2020

Jordan

Figure 1: Major PIT reforms in Jordan

2010
Exemption up to 12000 Jordanian Dinar (JOD) for taxpayer and additional 12,000 JOD for dependents irrespective their number.

1st bracket: 7% on first 12000 JOD
2nd bracket: 14% on each dinar above 12,000 JOD
(Effective from 1st January 2010)

[Income Tax Law No 29 of 2009]

2019
Exemption up to 10,000 JOD for taxpayer and additional 10,000 JOD for dependents irrespective of their number
1st bracket: 5% on the first 5,000 JOD
2nd bracket: 10% on the second 5,000 JOD
3rd bracket: 15% on the third 5,000 JOD
4th bracket: 20% on the fourth 5,000 JOD
5th bracket: 25% on amounts exceeding 20,000 JOD and up to 1 million JOD
6th bracket: 30% on net income exceeding million JOD
(Effective from 1st January 2019)
[Income Tax Law no. 58 for the year 2018]

Exemption up to 12000 JOD for taxpayer and additional 12,000 JOD for dependents irrespective of their number
1st bracket: 7% on first 12000 JOD
2nd bracket: 14% on the second 12000 JOD
3rd bracket: 20% on each dinar above
(Effective from 1st January 2015)

[Income Tax Law No. 34 of 2014]
Figure 2: Major CIT reforms in Jordan

2010
- Standard CIT rate 14% on net profits except for those listed below
- CIT rate of 24% on net profits for the main telecommunication companies, electricity distribution/generation, mining, raw material, insurance and re-insurance companies, financial intermediaries, and legal persons, carrying out financial leasing activities.
- CIT rate of 10% on net profits for banks
- Only dividends received by banks, primary telecommunication, financial sector are subject to dividend tax equal to the corporate income tax rate for respective sector.
- Capital gains generated inside the Kingdom are tax exempt, except for the profits generated from assets covered by the depreciation provisions in this Law

(Source: Tax Law No 25 of 2008)

2019
- Standard CIT rate 30% on net profits except for those listed below
- CIT rate of 24% on each share of main telecommunication companies, electricity distribution and generation companies, basic mining material companies, insurance companies, reinsurance companies, financial intermediaries, financial companies, and legal persons undertaking financial leasing activities.
- CIT rate of 25% for industrial activities (except pharmaceutical and clothing)
- CIT rate of 35% on each share for banks
- Capital gains generated inside the Kingdom are tax exempt, except for the profits generated from assets covered by the depreciation provisions in this law, sales of shares in legal entities, sale of stocks or shares of information technology companies and institutions that deal with information technology

(Source: Tax Law No 18 of 2018)

2015
- Standard CIT rate 20% on net profits except for those listed below
- CIT rate of 14% on net profits for the industrial sector.
- CIT rate of 24% on net profits for the main telecommunication companies, electricity distribution and generation companies, mining, raw material companies, insurance and re-insurance companies, financial intermediaries, financial companies, and legal persons, carrying out financial leasing activities.
- CIT rate of 35% on net profits for banks

(Source: Tax Law No 14 of 2014)

Figure 3: Major GST and ST reforms in Jordan

2010
General Services Tax (GST) System:
- Standard GST rate: 10%
- Zero Rated: 102 items
- GST Exempted: 73 items (bread, milk, dairy products, edible meats, processed foods for infants or handicapped, tea, dates, vegetables, olive oil, grains, fruits, pharmaceutical, crude oil.)
- 4% reduced GST rate: 90 items
- 8% reduced GST rate: 5 items
- Special Taxes (ST):
  - Mobile phones and radio subscription service (24%), New mobile subscription (0 JOD), Soft Drinks (9%)

(Law No 29 for the year 2009 amending GST law no. 6 of 1994)

2018
General Services Tax System:
- New reduced tables subject to 5% and 10%
- Introducing the transfer of certain goods and services previously included in the zero, exempt, and 4% GST tables to the newly incorporated 5% and 10% tables
- Special Taxes (ST):
  - Increase in the ST rate imposed on smoke at different rates;
  - Increase in the ST rate on octane gasoline 93 and 98;
  - Increase the ST rate imposed on soft drinks to 10%
- A new ST has been imposed on cars that operate in whole or in part with gasoline, at rates ranging from JOD350 to JOD1,500

(Annexed Regulation No. 3 of year 2018)

2017
General Services Tax System:
- Standard GST rate: 15%
- GST Exempted: 79 items
- 4% reduced GST rate: 161 items
- 8% reduced GST rate: no 8% rate anymore
- Special Taxes (ST):
  - Increase in mobile phones and radio subscription service to 26%.
  - Increase in new mobile subscription to 2.6 JOD.
  - Increase in the ST rate on Soft Drinks to 10%.

(Amendment of GST law 6 of 1994 in 2017)

Note:
The main difference between zero-rated and exempted items is that the suppliers of zero-rated items can still reclaim all their input VAT, but the suppliers of exempt items are either not registered for VAT or if they are, cannot reclaim their input VAT.
Lebanon

Figure 1: Major PIT reforms in Lebanon

- **2010**
  - 1st Bracket: (2%) 1 to 6,000,000 Lebanese pound (LBP)
  - 2nd Bracket: (4%) 6,000,001 to 15,000,000 LBP
  - 3rd Bracket: (7%) 15,000,001 to 30,000,000 LBP
  - 4th Bracket: (11%) 30,000,001 to 60,000,000 LBP
  - 5th Bracket: (15%) 60,000,001 to 120,000,000 LBP
  - 6th Bracket: (20%) More than 120,000,000 LBP

[Income tax law]

Starting August 2019
[Ammendment of article no 58 in income tax law]

Figure 2 - Major CIT reforms and Tax incentives in Lebanon

- **2010**
  - CIT on business income (sole partnerships, general partnership) is based on net profit or profits in the following way:
    - 4% for net income less than 9,000,000 LL
    - 7% for net income between 9,000,001 and 24 million LL
    - 12% for net income between 24,000,001 and 54 million LL
    - 16% for net income between 54,000,001 and 104 million LL
    - 21% for net income exceeding 104 million LL
  - Flat CIT rate of 17% on limited partnerships
  - 1% capital gain tax
  - 5% tax on dividends

[Amendment of Income tax law no 144 [1998]]

- **2019**
  - CIT on business income (sole partnerships, general partnership) is based on net profit or profits in the following way:
    - 4% for net income less than 9,000,000 LL
    - 7% for net income between 9,000,001 and 24 million LL
    - 12% for net income between 24,000,001 and 54 million LL
    - 16% for net income between 54,000,001 and 104 million LL
    - 21% for net income exceeding 104 million LL
    - 25% for net income exceeding 225 million LL

[Amendment of Income tax law]

**Note:** The Lebanese tax system exempts permanently certain activities from CIT taxes such as educational establishments, agricultural investors, sea and air transport companies.
Figure 3 – Major VAT and Excise Tax reforms in Lebanon

2010
- Standard VAT rate: 10%
  - Of the goods and services exempted from VAT are: livestock and poultry sold at raw state, bread, flour, milk, yogurts, rice and other basic foods, books, medicines, seeds, fertilizers, banking and financial services, education, insurance
  - Excise Taxes:
    - Alcohol Type A (Beer): 60 LBP/Liter
    - Alcohol Type B (Wine): 200 LBP/Liter
    - Alcohol Type C (Whiskey): 400 LBP/Liter

[VAT law 2001]

2018
- Standard VAT rate: 11%. Unless specifically exempt, VAT is levied on all commercial transactions undertaken by business entities

[Amendment of VAT law 2001]

- Excise Taxes:
  - Alcohol Type A (Beer): 180 LBP/Liter
  - Alcohol Type B (Wine): 600 LBP/Liter
  - Alcohol Type C (Whiskey): 1,200 LBP/Liter

- New taxes on: cement production (6000 LBP/ton), on imported cigarettes (250 LBP/pack), on imported tobacco and tobacco (2500 LBP/kg), on imported cigars (10% per cigar per price).

(Starting October 27, 2017)

Morocco

Figure 1- PIT in Morocco

2010
- Exemption for 0 to 30,000 MAD/year
- 1st bracket: 10% for 30,001 to 50,000 MAD/year
- 2nd bracket: 20% for 50,001 and 60,000 MAD/year
- 3rd bracket: 30% for 60,001 and 80,000 MAD/year
- 4th bracket: 34% for 80,001 and 180,000 MAD/year
- 5th bracket: 38% above 180,000 MAD/year

[Finance Law]
Figure 2 - Major CIT reforms in Morocco

2016
- Introduction of a new corporate tax rate system:
  1st Bracket: 10% for net profit up to 300,000 MAD
  2nd Bracket: 20% for net profit (300,001 and 1M MAD)
  3rd Bracket: 30% for net profit (between 1,000,001 and 5M MAD)
  4th Bracket: 35% for net profit greater than 5M MAD
- Special CIT rates: (37%) for credit institutions, leasing companies and insurance companies, (8.75%) for companies that operate in free zones, export (10%) for organizations with regional or international status “Casablanca City Finance”, (17.5%) for companies operating in some northern and southern regions

2019
- To support business, the following CIT rates are followed:
  1st bracket: 10% for net profit less than or equal to 300,000 MAD
  2nd bracket: 20% for net profit between 300,001 and 1M MAD
  3rd bracket: 31% for net profit exceeding 1,000,001 MAD

Figure 3 - Tax incentives in Morocco

2011
- Companies reporting annual turnover ≤ 3,000,000 MAD benefit from a reduced Corporate Income Tax rate of 15%.
- "Casablanca Finance City" companies are exempted from the tax for a period of 5 years then a reduced rate of 8.75% for all export sales and all movable and capital gains issued from foreign sources.

2015
- Representative offices of non-resident companies with Casablanca Finance City (CFC) benefit from a reduced corporate tax of 10%, starting from the first year of the status issuance.

2016
- Companies of new entities that are licensed from 200 MAD to 100 MAD can benefit from investment goods exempted from VAT from 24 to 36 months.

2018
- Exemption of OPCUs from corporate tax rates, for all their activities and operations.
- Companies subject to corporate tax benefit from a tax reduction equal to the amount of tax corresponding to the amount of their equity participation in the capital of young innovative companies in new technologies.

2019
- Tax rate reduced from 15% to 10% for firms with a taxable profit of less than 300,000 MAD (to support SMEs)
- Exporting enterprises and to enterprises operating in export processing zones: exemptions for the first five years, followed by a reduced rate of 17.5%.
- Exemption for the first five years for newly created industrial enterprises.
- After the introduction of OPCUs (Organismes de Placement Collectif en Finance), regulated investment vehicles, tax benefits were introduced, with certain conditions.
- Permanent tax exemptions are available to agricultural enterprises.
- Permanent reductions: Mining companies, benefit from a maximum progressive corporate income tax rate of 17.5%.
- Temporary reduction: Handicraft companies, private schools and educational institutes benefit from a maximum progressive corporate income tax rate of 17.5% for their first five years of operation.

[Finance Law]
Figure 4 - Major VAT and property tax reforms in Morocco

2010
- The standard rate of VAT is 20%.
- A reduced rate of 10% applies to specific items such as
  Sales of water, electricity and pharmaceutical products (7%),
  Petroleum products, banking
  transactions, and hotels' and restaurants' operations (10%), and transport services (14%).
- Property tax at 10% of assessed rental value

2013
- Exemption from VAT
  - on shipments and
equipment acquired by micro-
credit associations

2015
- 10% reduced rate on
- import of solar water
  heaters, nets, materials
  and products used to
  attract and capture fish,
  import of artworks

2019
- Exemption without deduction
  rights on solar water
  pumps
- Exemption with deduction
  rights on import of medicine
dedicated to treatment of
meningitis and certain
medicine which factory price
before tax, exceeds 588 MAD

2012
- Exemption from VAT for
  import of equipment
  and materials to be used exclusively
  by micro-credit association.
  Goods acquired by Foundation
  Mohamed VI

Tunisia
Figure 1 - Major PIT reforms in Tunisia

2010
1st bracket: 0% up to 1500 Tunisian Dinar (TND)
2nd bracket: 15% of net income (1501 up to 5000 TND)
(Effective rate on upper limit: 10.5%)  
3rd bracket: 20% of net income (5001 up to 10,000 TND)
(Effective rate on upper limit: 15.25%)  
4th bracket: 25% of net income (10,001 up to 20,000 TND)
(Effective rate: 20.12%)  
5th bracket: 30% of net income (20,001 up to 50,000 TND)
(Effective rate: 26.05%)  
6th bracket: 35% of net income above 50,000 TND

2017
1st bracket: 0% up to 5000 Tunisian Dinar (TND)
2nd bracket: 20% of net income (5001 up to 20000 TND)
(Effective rate on upper limit: 19.5%)  
3rd bracket: 28% of net income (20001 up to 30,000 TND)
(Effective rate on upper limit: 23.5%)  
4th bracket: 32% of net income (30,001 up to 50,000 TND)
(Effective rate: 26.29%)  
5th bracket: 35% of net income above 50,000 TND

2018
- An extra 1% on 2017’s tax rates as a social security
  contribution tax to become:
  1st bracket: 0% up to 5000 Tunisian Dinar (TND)
  2nd bracket: 27% of net income (5001 up to 20,000 TND)
  3rd bracket: 29% of net income (20,001 up to 30,000 TND)
  4th bracket: 33% of net income (30,001 up to 50,000 TND)
  5th bracket: 36% of net income above 50,000 TND

[Finance Law]
Figure 2 – Major CIT reforms in Tunisia

- **2010**
  - Standard CIT rate of 30% for all legal persons.
  - Reduced CIT rate of 10% for a number of companies and legal entities operating in handicraft activities, agriculture and fishing.
  - CIT of 35% on companies operating in sectors of banks, insurance, production and services linked to petroleum, telecommunications.
  - Collected dividends are tax-exempt.

- **2015**
  - Collected dividends exceeding 10,000 TND/year are subject to withholding tax on dividends of 5%.

- **2014**
  - Reduced CIT rate of 25%.
  - Reduced rate of 10% for a number of companies and legal entities operating in handicraft activities, agriculture and fishing.
  - 35% on companies operating in sectors of banks, insurance, production and services linked to petroleum, telecommunications.
  - Exporting companies are liable to income tax at 10% since 2014.

- **2018**
  - Standard CIT rate of 25%.
  - Discounted CIT rate at 10% applied to profits derived from traditional industries, farming, fishing and handicrafts activities.
  - Discounted CIT of 20% for companies whose annual transaction number less than 1M TND and less than 500 thousand dinars for the activities of non-commercial services and occupations.
  - CIT of 35% for financial sector, telecommunications, insurance, reinsurance, fuel sector in the level of production, refining.
  - Increasing with holding tax on dividends to 10%.

Figure 3 - Tax incentives to support investment in Tunisia

- **2013**
  - Tax exemption for 3 year for SMEs established in 2013, whereby its annual transactions do not exceed 800k TND for services sector and non-business occupations, and 600k TND for trade, industry and consumption companies.

- **2016**
  - Tax exemptions for 5 years for companies established in 2016 for services sector and non-business occupations whose transactions don’t exceed 300 thousand TND, founded by individuals who were unemployed holding college degrees or technical certificates for a period not exceeding 7 years and for industrial companies developed whose annual transaction don’t exceed 600k TND.

- **2019**
  - Extension of the 4-year income tax holiday for companies setting up in 2020 also.

- **2014**
  - Increasing the duration of tax exemption to become 5 years for SMEs established in 2013.
  - Establishing a program to support SMEs with financial troubles in industry sector and related services.

- **2018**
  - Reduction of the corporate tax rate to 20% for small and medium sized companies.
  - Support for the recruitment of young graduates through contributions to the National Social Security Fund, which will now be provided by the State for three years following the date of recruitment.
  - Reduction of the conditions required to benefit from the reinvestment tax advantages.
  - Raising the age limit for young promoters from 30 to 40 years which may allow young promoters to benefit from many incentives dedicated to them.
Cluster 3. Low-income countries

Mauritania

Figure 1 – Major PIT reforms in Mauritania

2010

1st bracket: 5% for net income (250,000 Mauritanian Ouguiya (MRO) to 750,000 MRO)
2nd bracket: 15% for net income (750,001 MRO to 1.5M MRO)
3rd bracket: 25% for (1,500,000MRO to 2,500,000 MRO)
4th bracket: 33% for (2,500,001 MRO and above)

2013

1st bracket: 15% for net income (0 MRO up to 90,0000MRO)
2nd bracket: 25% for net income (90,001 MRO up to 210,000MRO)
3rd bracket: 40% for net income (210,000MRO and above)
Figure 2 – Major CIT reforms and tax incentives in Mauritania

2010
- The standard corporate income tax rate is 25%
- Capital gains from performance of professional, commercial, and agriculture activities are taxed as ordinary income.
- Capital gains realized from the transfer of commercial business assets are tax free if proceeds are reinvested in a business in Mauritania.

2019
- The regular corporate income tax rate is 25% (regular and hydrocarbon activities)
- Dividends tax: 10%
- Preferential tax regime for Small Sized Companies and Free Export Companies is provided

Figure 3 – Major VAT reforms in Mauritania

2010
- A standard VAT rate at 14%
  - Rental income is subjected to proportional tax rate of 10%

2013
- The standard rate of VAT is 14%
- A higher VAT rate of 18% applies to petroleum products and telecommunications services

2016
- The standard rate of VAT is 16%

2017
- The standard VAT rate has been increased to 20% for telecommunication services.
- For petroleum products, the applicable VAT rate is 16%