Economic and Social Commission for Western Asia (ESCWA)

CHANGES IN PUBLIC EXPENDITURE ON SOCIAL PROTECTION IN ARAB COUNTRIES

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Acknowledgements

This report presents the results of a pilot research on changes in public social spending after the Arab uprisings. It mainly follows two questions: (i) how has public expenditure on social protection and services developed after the initial surge in 2011 and (ii) have the savings generated by the decrease in the oil prices and the reforms of energy subsidies stayed in the social realm? The research is based on IMF and / national data as far as both are available.

The report was written as a background document for the Arab Development Outlook 2017. It was authored by Mr. Thomas Hegarthy, Associate Social Affairs Officer, under the supervision and guidance of Ms. Gisela Nauk, Chief, Inclusive Social Development Section, Social Development Division, ESCWA. The study benefited from the advice and support of Mr. Niranjan Saranji, First Economic Affairs officer and Mr. Johannes von Bonin in the Economic Development and Integration Division.

Feedback from readers would be welcomed, and comments and suggestions may be sent to sps-escwa@un.org.
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<td>ESCWA</td>
<td>United Nations Economic and Social Commission for Western Asia</td>
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<td>GASC</td>
<td>General Authority for Supply Commodities, the body administering food subsidies in Egypt</td>
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<td>GDP</td>
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Introduction

UN member states have repeatedly committed to improving social protection systems and other social policies in their countries. Articles 22 and 25 of the Universal Declaration of Human Rights identify social security as a universal human right. Paragraphs 1 and 16 of the 2014 Tunis Declaration on Social Justice in the Arab region committed Arab Governments to achieving equality and equity as a prerequisite for security, peace and social cohesion. And implementation of social protection systems is a key part of the 2030 Agenda for Sustainable Development. Sustainable Development Goal 1.3 identifies the implementation of “nationally appropriate social protection systems and measures for all, including floors” and the achievement of “substantial coverage of the poor and the vulnerable” by 2030 as key actions in order to end poverty.

Many countries in the Arab region have engaged in reforms of their social protection systems since the start of the decade, including reductions in subsidies for fuel and other commodities. The uprisings of 2011 led some Governments to engage in reform of their social support systems in order to consolidate popular support, meet protesters’ demands and forestall conflict. Other countries changed governance structures to increase accountability, which may also have prompted social spending reforms.

This paper seeks to document changes in spending patterns since the Arab Spring and assess whether these have been sustained or further reformed. Spending data can allow us to assess the extent to which Arab states have prioritized social protection against other areas of spending, to understand the evolution of social policies in the Arab countries and the extent to which the governments have taken on the lessons from the Arab Spring in forming their longer-term policies.

The second area of investigation is the impact of fuel and food subsidy reforms on the poor. Such subsidies, together with public employment, historically formed the backbone of Arab countries’ social support systems. However, the benefits of such programmes are often captured by wealthier members of society. High oil prices in the first half of the decade increased the pressure on state budgets from subsidies. Many countries embarked on subsidy reform programmes to reduce these expenditures. In many cases, this was accompanied by reforms to support the poor. This paper examines how governments across the region used the budgetary savings from subsidy reform: whether they were used to augment other sources of support for the vulnerable to replace the lost subsidies, used for other government priorities, or simply used to reduce the pace of debt accumulation.

The analysis focuses on data on government spending from the IMF and from governments themselves since the start of the decade. The scope of the work is limited by lack of up to date data broken down with sufficient granularity to identify social spending. Confounding factors like changes in the oil price and fiscal consolidation in many countries further cloud the picture. Reported policy changes are therefore used to supplement the data in order to build a more coherent story.

There is some evidence of an increase in social spending at the start of the decade, though this is not always maintained. However, there is evidence of a shift away from universal subsidies towards more targeted support across the region.
I. SOCIAL SPENDING

This paper looks at how social spending in Arab countries has evolved since the start of the decade. This first section describes the analytical framework and gives an overview of the characteristics of social spending in the region.

ANALYTICAL APPROACH

Social protection

The focus of this paper is government social spending. For the purposes of this paper, this encompasses all spending on social protection, as well as spending on education and housing. Social protection is defined as social insurance and social assistance, including healthcare provision.

This follows the International Labour Organization’s ideal social protection floor model. This models the social protection system as a staircase, where basic social protection and healthcare services are available to the whole population regardless of ability to pay. On top of this, those in work make mandatory contributions to a social insurance system with additional benefits. And finally, some people may also choose to take out further insurance voluntarily.¹

The paper defines social insurance as the set of public programmes designed to help individuals manage risk. These take the form of compulsory contributions during employment and provide income during retirement or unemployment and help with the cost of healthcare. Social assistance consists of non-contributory benefits and subsidies that are intended to help alleviate poverty.

This paper then goes beyond simple insurance to the provision of services to ensure basic welfare. It looks at changes in spending on other public services such as education and housing, where these might be considered beneficial to the poor. This allows a more holistic approach to considering whether spending has become more pro-poor than focusing just on social protection.

Spending on social protection and analytical approach

Changes in the amount of money spent on social protection is a useful way to understand the extent to which governments have prioritized social protection compared to other policy objectives. It can also help to understand the extent to which policy changes improve the breadth and depth of social protection coverage in a summary measure.

However, fully applying this approach in the region is limited by the availability, granularity and comparability of data. Much of the information is not available for all years, or is not sufficiently broken down to isolate spending on social protection. Furthermore, not all social spending appears directly as government spending, such as if fuel subsidies are implemented through a state oil company selling fuel domestically below the international price.

Where data are available, it is not always clear whether spending will be beneficial to the poor. For example, we may observe an increase in education spending, but we do not know if this is beneficial to the poorest if we cannot break this down by region or level of education. It may be that the increase in

¹ (ESCWA, 2014, p. 14)
education spending is focused on tertiary education in urban centres, which may primarily benefit the middle classes, rather than the primary education in rural areas needed by the poor.

Further problems occur if data are only for central government operations, but responsibility for services lies with regional governments or spending is handled by autonomous social security funds outside the central government’s direct budget. Wherever possible, the paper uses general government spending measures – the broadest definition – in order to capture as much of government spending as possible and give the most complete picture. Data according to this definition are frequently unavailable, so the analysis often relies solely on central government budgetary operations, which exclude regional and local government activities as well as any other activity not budgeted for.

A further challenge is using expenditure data to analyse subsidy reform, particularly separating the effect of policy changes from changes in the market price. If the oil price falls, this reduces the need for subsidies. This means that if we observe that a fall in subsidy expenditure is not associated with an increase in other social expenditure, it may not be the case that this is a permanent decline in support for the poor. It may simply mean that the need for subsidies declined: the money may return if oil prices rise again. To deal with these challenges, we complement the data with records of announced policy changes to try to build a narrative around countries’ reforms.

BACKGROUND

The state of social spending in Arab countries

Figure 1: Population change in the Arab region

The social safety net in Arab countries has historically been characterized by high levels of public sector employment, as well as subsidies for fuel and food products. Formal social insurance is provided to those in formal employment, but high levels of informality and low female labour force participation limit its effectiveness at helping the general population manage risks.

The collapse of the oil price in the 1980s prompted Arab Government to turn to international agencies for funding and advice. This led to a series of structural reforms in order to raise revenue and cut spending, including some unwinding of this traditional safety net and the sale of state owned enterprises.

The challenges of maintaining the safety net were exacerbated by rapid population growth.

Figure 1 shows population changes around the world since 1950. Population in the ESCWA region has grown faster than the global average and than the individual averages for high income, middle income and low income countries, increasing more than fivefold. This increased the demand jobs, while public
sector employment was restrained. Increased informality followed, with the associated decline in the reach of the traditional safety net.

**Public sector employment is high in the region**

Figure 2 shows spending on compensation of employees, a measure of spending on public sector employment. Panels A and B show general government spending for a small sample, and panels C and D budgetary central government spending for a larger sample.

*Figure 2: Government spending on compensation of employees*

Sources: (IMF, 2016a; IMF, 2016g).
The charts show that the Arab countries generally spend large shares of GDP on compensation of employees compared to countries of similar levels of development. The fitted line for the ESCWA countries in panels A and B is below the line for other countries for much of the range shown, but this appears to be driven by the inclusion of the United Arab Emirates as the lone high income country with available data. The lower income countries in these panels show relatively high levels of spending. Panels C and D have a larger sample and show this conclusion more clearly, though there is clearly significant variation between the countries.

Reading the charts from left to right, we can see an increase in spending on compensation of employees as a share of GDP over the period in panels A and B, though this appears to be mostly driven by changes in Egypt, Tunisia and Yemen.

There is a less obvious change at the budgetary central government level (panels C and D). This could suggest either that increases in spending were mostly confined to the few countries that have reported general government spending or that much of the increase in spending on public employment happened in the public sector outside the central government budgetary sector such as in local government. In either case, spending on public sector employment appears to have remained high by international standards.

**Subsidies are an expensive form of social protection**

Governments in the Arab region have historically sought to bridge the gap between those covered by public sector employment and social insurance from formal employment and those outside the formal sector through subsidy schemes for fuel, food and housing. These schemes aim to reduce poverty by improving access to these goods by stabilizing their price. However, they are often poorly targeted, as the rich are more likely to consume more of the subsidized good, capturing a large share of overall subsidy spending.²

Figure 3 shows government spending on subsidies as a share of current expenditure in 2011. It demonstrates the importance subsidies had in the government budget: in several countries, over a quarter of government current expenditure went on subsidies.

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² (ESCWA, 2014, pp. 17-20; ESCWA, 2013, pp. 6-7)
Figure 4 shows further data on how government spending on subsidies varies with the oil price. Panels A to C show spending on all subsidies, not just for fuel, with subsidies defined as any payment to enterprises on the basis of the level of production, sales, exports or imports.\(^3\) Panel D shows the results disaggregating spending in a different way, showing all spending on fuel and energy. This encompasses grants, loans and subsidies to support the fuel and energy industry, as well as administration of policy and development of statistics on energy.\(^4\)

**Figure 4: Government spending on subsidies**

**Panel A: General government**

**Panel B: Budgetary central government**

**Panel C: Budgetary central government**

**Panel D: Budgetary central government**

Sources: (IMF, 2016a; World Bank, 2016; US EIA, 2016)

\(^3\) (IMF, 2014a, p. 131)

\(^4\) (IMF, 2014a, pp. 153-154)
Panel A shows general government spending. Panels B, C and D show budgetary central government with a larger sample. The data in these panels therefore excludes the activities of regional governments and agencies outside the central budget.

The charts show that the rising oil price led to higher subsidy expenditures in most countries. In some countries, these high costs then declined, possibly as a result of reforms, while in others they remained persistently high as the oil price stayed at a high level through to 2014. The pattern of spending on fuel and energy in panel D is similar, with spending on fuel and energy rising after the oil price rise, and Kuwait showing a gradual decline thereafter, mirroring the pattern for the country in panel B.

**Responses to uprisings and changes in oil prices increased budget deficits**

Following the uprisings at the start of the decade, many countries engaged in reforms to try to manage the crises. Many Governments increased social handouts, alongside political reforms. The social policy measures followed the existing spending pattern with increases in public salaries and employment, tax cuts and increases in pensions, subsidies and cash transfers. However, many of these policies simply reinforced existing gaps, as they focus on providing additional support to those already benefiting.\(^5\)

In many countries, this increased generosity proved unsustainable. Figure 5 shows the evolution of budget deficits in the ESCWA countries in the first half of the decade.\(^6\) Deficits (negative numbers) and surpluses (positive) are normalized by GDP to support comparability. Panel A shows non-oil producers, and panel B shows oil producers.

**Figure 5: Budget deficits in ESCWA countries**

![Graph showing budget deficits in ESCWA countries](image)

Source: (IMF, 2016g)

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6 Libya is excluded, as its deficits were much larger and more volatile than the other countries, distorting the charts. The Syrian Arab Republic and Palestine are excluded for lack of data.
Almost all the non-oil producers in Panel A experienced rising budget deficits in the first few years of the decade. This will, at least in part, be due to measures implemented in response to the uprisings, but also due to the rising cost of energy subsidies as the oil price increased from USD 62 per barrel in 2009 to USD 112 per barrel in 2012.\(^7\) Many of these countries instigated subsidy reforms to offset this impact.

Panel B of Figure 5 shows that the oil producers had the opposite experience. The rising oil price meant increasing revenues and rising surpluses in the first few of the decade, but when the oil price started to decline, falling back to USD 52 per barrel in 2015\(^8\), budget surpluses also fell, inducing pressure for subsidy reforms in these countries.

**The make-up of social spending varies across the region**

Despite this overall picture of high public sector employment and subsidies, there is variation across the region. Figure 6 shows ESCWA countries’ spending on more typical social protection measures than public sector employment and subsidies: social security, social assistance and employment-related social benefits. In the data, these three aspects of social protection encompass all current transfers to households intended to provide for needs arising from social risks, where social risks are events or circumstances that may adversely affect the welfare of households either by imposing additional demands on their resources or by reducing their income. Such benefits include medical services,

\(^7\) (US EIA, 2016)  
\(^8\) (US EIA, 2016)
unemployment compensation and social security pensions. They exclude goods and services produced by directly government and pensions provided through public sector employment-related schemes.

The transfers are broken down into social security, social assistance and employment-related social benefits. Social security benefits are benefits payable to households by social security schemes such as sickness and disability benefits, maternity allowances, unemployment benefits and pensions, as well as in-kind benefits such as medical treatments purchased from the market by the government on the individual’s behalf.

Social assistance here consists of transfers to households of the same type as social security benefits, but outside the framework of a social insurance scheme: eligibility is not dependent on having made contributions.
Employment-related social benefits are social benefits paid in cash or in kind from government or public sector employers to their employees, including payments for absence as a result of ill health, family allowances and severance pay, paid directly from the government’s resources rather than through an autonomous social insurance fund.\(^9\)

Panel A shows the broad general government spending measure, while panels B, C and D show the much narrower budgetary central government measure. For ease of interpretation, the countries with budgetary central government data are divided between panels B, C and D based on the level of spending as a share of GDP. Where available, the chart shows data from 2005 to 2014, but in most cases, the time range is restricted as only some years are available.

Panel A shows increases in spending on social benefits in Egypt and Jordan at the start of the decade, reversing a declining trend seen in the years running up to 2010. There is also an uptick in spending in Tunisia in 2011 and 2012, though there is insufficient data to see if this is sustained; and it may just be a continuation of the existing trend.

Panels B to D, with the narrower definition of spending, show less evidence of any change. Of the countries with data spanning both before and after the turn of the decade, only Egypt shows any evidence of accelerating increases in spending. Spending on social benefits in Lebanon and Jordan appears broadly flat – in Jordan’s case, this is contrast to the broader definition of spending in Panel A, as the additional spending appears to be entirely driven by spending on benefits for state-employees. Spending in Bahrain and Palestine appears to decline, with some reversal for Palestine later in the decade.

The chart also shows the variety of approaches among the ESCWA countries. Morocco and Tunisia rely heavily on social security arrangements, while the UAE and Yemen have relatively larger social assistance programmes. Lebanon and Jordan have larger employment-related social benefits.

However, there are clear problems with the data. Panel A shows Jordan spending around 2 per cent of GDP on social security through the general government, the broadest measure. But the narrower budgetary central government classification of spending shows Jordan spending over 4 per cent of GDP in panel B. Further evidence for the importance of the definition of spending can be seen for the United Arab Emirates. Using the narrow definition, there appears to be very little spending on social protection and that it has been static. But using the broader definition, spending is much higher and increasing over the period. Similarly, panel D shows a 1.5 percentage point of GDP increase in social benefits spending in Egypt from 2005 to 2014, whereas panel A shows an increase of just 0.5 percentage points. The profile of spending for Kuwait in panel B and the breakdown for Palestine in panel C seem quite erratic.

Figure 7 shows an alternative breakdown of social spending based on the function of government the money is spent on rather than the economic classification. The charts again show general government spending for a small sample (panel A) with just the central government budget for a larger sample (panels B to D). Again, where available, the chart shows data for 2005 to 2014, but in most cases, the time range is restricted as only some years are available. The budgetary central government sample is split into three groups to help interpretation of the charts. These charts capture only current spending:

\(^9\) (IMF, 2014a, pp. 135-7)
they exclude capital investment. This means that increases in school building, for example, would not be captured, but hiring more teachers would be.

For the purposes of this breakdown, housing and community assets encompasses administration of housing development affairs and services, housing development activities, slum clearance, land acquisition for housing, housing construction or purchase and renovation, and grants, loans and subsidies for expansion, improvement and maintenance of the housing stock. It excludes transfers to households to help with the cost of housing.

Health spending covers expenditure on health services provided to individuals, as well as spending on collective health activities like policy design and regulation of the medical professions. Similarly, education spending covers provision of services to pupils and students, as well as collective education activities like education policy and regulation.

Social protection spending covers all government expenditure on services and transfers provided to individuals or households and services provided on a collective basis, not including healthcare. This includes transfers to cover lost earnings a result of sickness or disability, payments during retirement, survivor benefits, payments to families with children, unemployment benefits, help with the cost of housing and support to overcome social exclusion, as well as research and development and administration of social protection. It excludes fuel and food subsidies.10

10 (IMF, 2014a, pp. 142-170)
There is generally a mixed picture across countries. Panels A and D shows a decline in spending on social protection in Egypt in the first half of this decade relative to the latter half of the preceding decade. This is in contrast to the increases in spending on social benefits seen in Figure 6. Panel A also shows education spending in Egypt continuing its gradual decline as a share of GDP and static health spending, but this appears to be a result of insufficient data: Panel D, with a narrower definition of spending, but more data up to 2014 shows increasing education and health spending, with the increase starting after 2013. Panel D also shows a slight reversal of the decline in housing spending.

Yemen shows a short increase in spending on social protection after 2011 and a small increase in health spending, while spending on housing declined (panel A). Spending on social protection in Lebanon in panel B appears to be declining fairly consistently, while health and education spending began to reverse
their previous decline at the turn of the decade. Palestine saw declining spending across all categories at
the end of the last decade, reversing somewhat this decade (panel B).

In panel C, Bahrain shows an increase in social protection spending from 2011, with a possible small
increase in health spending. Education spending appears to be static, however, and the previous
increasing trend in housing spending has ended. Oman has seen some increases in education spending
since 2011, reversing the previously declining pattern. Housing spending has been declining from a high
level at the start of the decade; health spending has been static. An increase in social protection spending
in 2011 has not been maintained. Tunisia saw rapid increases in spending on social protection in 2011
and 2012, while health spending increased only slightly, education spending was static and housing
spending declined.

Panel D shows an increase in social protection spending in Jordan in 2011, but that this has not been
maintained. Education and health spending were fairly static, while housing spending has declined.
Spending on social protection in Kuwait appears to be highly volatile, but has been declining as a share
of GDP since 2011. Housing and health spending appear to have declined since the start of the decade,
and education spending has been static, following a small uptick in all three categories in 2010.

Overall, most countries seem to have cut housing expenditure, with some increases in health and
education spending. The picture for social protection spending is quite varied across countries, with
increases in Yemen, Palestine and Bahrain, but declines, volatility or no little change in Egypt, Lebanon,
Oman, Jordan and Tunisia.

These charts again highlight the importance of the definition of spending. Panel A shows increasing
social protection spending in the United Arab Emirates, while panel B shows it declining.

[CONCLUSION]

Arab countries have historically relied on subsidies and public sector employment as the bedrock of the
social protection system. We can see increases in social benefits in many countries at the start of the
decade, but this was accompanied by rising oil prices, which increased the cost of maintaining the
existing subsidy system in oil-importing countries. Spending pressures in the non-oil producing
countries declined as governments instituted reforms, while the fall in the oil price in 2015 was
associated with rising deficits in the oil producing countries, also spurring reforms there.

There is an uptick in spending on social benefits in many countries at the start of the decade, but it is not
clear that all countries have maintained this, and gaps in the data make interpretation difficult. There
appear to have been increases in health and education spending in most countries, but spending on
housing has declined almost universally since the start of the decade as a share of GDP. Nevertheless,
limited data preclude strong conclusions about changes. The following sections examine announced
policy changes to try to identify more concrete patterns.
II. DEVELOPMENTS IN SOCIAL SPENDING SINCE 2010

The data in Section I show that social spending has increased in many ESCWA countries since the start of the decade. This may have been prompted by increased popular pressure at the start of the decade. Many countries announced measures including higher public salaries, lower taxes and higher public employment. This occurred even in countries that did not experience serious unrest. Appendix A outlines some of the reforms instituted.

Many countries also instituted political reforms including constitutional changes, restructuring of government and security apparatus, improving judicial and audit systems, creating instruments to fight corruption and legislative reforms. If such reforms have increased the links between the population and governments, then you might expect to see spending increasingly reflecting the population’s needs over the period. Alternatively, if the political reforms do not have a meaningful impact on political accountability then in the absence of further large scale protests, you might expect the initial responses to be reversed or at least to see no further changes. However, it is very difficult to identify such impacts, as there are many other forces at work, notably the changes in the oil price affecting state expenditures and revenues as discussed in section I.

Table 1 attempts a qualitative analysis of whether governments have continued to shift spending towards social policies since the initial response to unrest at the start of the decade. Based on the detailed information presented in Appendix A, the table shows whether policy announcements have tended to increase spending on each category of social policy or to reduce it. Green cells indicate an increase, red cells a decrease and yellow cells a mix.

The table shows a clear pattern of cuts to subsidies and increases in social transfers, as well as other initiatives. Other initiatives include policies like increases in infrastructure spending to try to promote inclusive growth (for example in Oman), investment in housing, as in Bahrain and Saudi Arabia, and regional development plans, as in Morocco.

This pattern is in contrast to the initial reactions to the uprising. Almost all countries initially responded to the uprising with increased public sector salaries, expansion of public sector employment and increases in subsidies and cash transfers, with some also increasing pensions. Once the initial desire for a quick response was met, countries were able to introduce reforms to move towards more targeted, sustainable and efficient forms of social assistance.

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12 (ESCWA, 2013, p. 47; ESCWA, 2014, pp. 106-110)
13 (ESCWA, 2013, p. 47; ESCWA, 2014, pp. 106-110)
### Table 1: Social policy measures from 2012 onwards

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### Governments’ own budgets

Detailed expenditure data are needed in order to analyse these changes in more detail. As discussed in the first section, the internationally comparable data are not sufficient to draw definitive conclusions about changes in spending. Published government budgets are an alternative source for assessing changes in social spending. Such sources present a number of challenges. First, organizational differences mean they are unlikely to be comparable internationally. Secondly, governments may change the distribution of responsibilities between ministries over time, such that it may be difficult to identify changes in spending on specific functions from year to year. Thirdly, responsibilities for a specific functions may be split between several different government bodies, again making it difficult to identify total spending on a specific function. Finally, it may not be clear which government activities are captured by the central budget and which are not, as with the budgetary central government classification above. Nevertheless, they may offer more up to date and detailed information that may allow analysis of how social spending has evolved in these countries over the period.
Case study: Egypt

Figure 8 shows data for spending in Egypt extracted from reports from the Ministry of Finance. Panels A and B show the economic classification of spending, and panels C and D show spending by function. Panels A and C show spending in constant prices terms, calculated using the IMF’s GDP deflator, while panels B and D show spending as a share of GDP. The underlying data coincide closely with the figures from the GFS database, and provide more recent data up to 2015/16.

Figure 8: General state budget of Egypt

The main numbers of interest in the economic classification are subsidies, grants and social benefits, and compensation of employees. The former includes all regular transfers to the production sector with the aim of reducing prices for consumers (i.e. subsidies), transfers to other tiers of government and international organizations (grants), as well as social benefits as discussed above.

Panel B shows that subsidies, grants and social benefits grew in the first few years of the decade, but then declined in 2014/15 and 2015/16. Looking at spending on individual subsidies (not shown), this decline appears to be driven by reductions in spending on petroleum subsidies, which fell from 7 per cent of GDP in 2013/14 to 3 per cent in 2015/16. As discussed, this is likely to be the result of a combination of the fall in the oil price and subsidy policy reforms announced in 2014. These reforms included price rises for petrol, diesel and electricity, as well as rationing of subsidized bread.

Spending on compensation of employees increased in the early years of the decade as a share of GDP from 32 per cent in 2010/11 to 38 per cent in 2013/14, this reversed a decline in the latter years of the previous decade. This category of spending has again declined as a share of GDP in more recent years, falling back to 34 per cent in 2015/16. The initial increases in spending may reflect the permanent hiring of temporary workers and increases in the public sector minimum wage to EGP 700 per month in 2011/12 and EGP 1,200 in 2013/15. The Government has since sought to address this rising wage bill by cutting public servants’ tax exemptions and bonuses, which may partly explain, the decline in spending.

Panels C and D show spending by function. Spending on health as a share of GDP has risen slightly since the start of the decade from 1.6 per cent of GDP in 2010/11 to 1.9 per cent in 2015/16, more than reversing a decline in the latter half of the preceding decade. Education spending had also been declining as a share of GDP – though increasing in constant price terms - and rose in the first few years of this decade from 3.7 per cent of GDP in 2010/11 to 4.6 per cent in 2013/14, but has since fallen back to 4.0 per cent in 2015/16. The new constitution commits the Government to increase health expenditure to 3 per cent of GDP and education to 6 per cent by 2016/17, so we should expect spending increases in the coming year – though this may not be visible in the data, as the central government budget may not capture all spending.

Spending on social protection declined sharply in the previous decade from 11.8 per cent of GDP in 2005/06 to 5.8 per cent in 2009/10. This decade, spending increased again to 11.9 per cent in 2013/14, but has fallen back to 8.2 per cent in 2015/16. This may in part reflect changes in unemployment rather than actual policy changes to the extent that the social protection system offers insurance against unemployment. Unemployment fell from 11.5 per cent in 2005 to 9.2 per cent in 2010, before rising to 13.4 per cent in 2014 and falling again to an estimated 12.9 per cent in 2015.

In August 2016, the Egyptian Government agreed a USD 12 billion three-year extended fund facility with the IMF. The conditions on this funding included the complete removal of fuel subsidies within three years. The Government also committed to “preserve or increase support for insurance and

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14 (Ministry of Finance of Egypt, 2016, p. 70; IMF, 2016g)
15 (Rizk, 2014; Government of Egypt, 2015, pp. 15, 29; Ahram Online, 2014; Kalin, 2014)
16 USD 1 = EGP 5.8058 on 1 January 2011 (Exchange Rates UK, 2016)
17 (Government of Egypt, 2015, p. 16; Beinin, 2012, pp. 10-11)
18 (Government of Egypt, 2015, p. 30)
19 (IMF, 2016g)
medicine for the poor, subsidies for infant milk and medicine for children, health insurance for young children and female-headed households, and vocational training for youth” and to “develop a plan to enhance the school meals program.” In November, the Government devalued the currency by 32 per cent and raised prices for fuel products by between 35 and 47 per cent.\(^{20}\)

Overall, we can see an initial increase in social spending in Egypt, but has been hard to maintain this in the face of a need for fiscal consolidation. The study is also clouded by the declining oil price and variation in the general economic environment.

**Case study: Jordan**

Figure 9 shows the Jordanian Government’s spending data. Panels A and B show general government expenditure in constant prices – calculated using the IMF’s GDP deflator – and as a share of GDP. Panels C and D show budgetary central government expenditure, also in constant prices and as a share of GDP. These allow a more detailed breakdown and more recent figures than the general government statistics, but exclude government agencies with independent budgets, municipalities and the social security corporation. Panels E and F show budgetary central government spending by government function, again in constant prices and as a share of GDP. There is a clear increase in social spending in 2011, but the evidence of whether this was maintained in the face of fiscal consolidation is unclear.

The data show an overall decline in spending as a share of GDP over the last 10 years, though most of this decline occurred before 2010, even as real spending grew up to 2009. There is a clear jump in spending in 2011 – though this does not return spending to its 2009 level. This jump most likely reflects the Government’s response to uprisings in other countries in the region, as well as more limited protests in Jordan itself.\(^{21}\) These measures included:

- increases in spending on public sector salaries and pensions;
- one-off payments of JOD 100\(^{22}\) to members of the armed forces, security services and civil service and retirees;
- a USD 550 million increase in food subsidies, and increases in energy subsidies, as well as tax cuts on food and fuel, freezes in fuel prices, and a further JOD 584 million increase in social welfare payments and food subsidies in August 2011;
- a social security law with increased unemployment insurance, maternity cover and health insurance for the poor;
- a temporary law extending social security to informal workers;
- a minimum wage increase from USD 115 to USD 211;
- a funding increase for the National Aid Fund of USD 28 million; and
- a reversal of earlier reform to adjust petrol prices according to a formula.\(^{23}\)

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\(^{20}\) (IMF, 2016e; Farouk, Adel, & Alsharif, 2016; Wardani, Murray Brown, Moore, & Reuters, 2016)

\(^{21}\) (Sandels, 2011)

\(^{22}\) USD 1 = JOD 0.7079 on 1 January 2011 (Exchange Rates UK, 2016)

Figure 9: Public spending in Jordan

Panel A: General government, 2010 prices

Panel B: General government, share of GDP

Panel C: Budgetary central government, 2010 prices

Panel D: Budgetary central government, share of GDP

Panel E: Budgetary central government, 2010 prices

Panel F: Budgetary central government, share of GDP

These measures are reflected in the data. Compensation of employees by the general government rose from 6.2 per cent of GDP in 2010 to 6.6 per cent of GDP in 2011. Food and oil subsidies from the budgetary central government rose from 1 per cent of GDP in 2010 to 3.9 per cent of GDP in 2011.

The Government sought to maintain the higher subsidies in 2012, but as oil prices rose, this became unsustainable, and energy subsidy reforms started in May 2012, but were only fully implemented in 2013. This was accompanied by USD 141 million in cash to compensate poor households. The Government also announced a JOD 150 million fund in 2012 to promote inclusive growth and capped public sector wages in 2014.\(^{24}\)

This can be seen in the data. Budgetary central government fuel and oil subsidies fell from around 4 per cent of GDP in 2011 and 2012 to a budgeted 0.8 per cent of GDP in 2016, helped by the lower oil price. Spending by the Social Security Corporation rose by 0.3 percentage points of GDP from 2011 to 2014. However, more recent data on spending by central government on social assistance followed a different pattern. This increased from 1.2 per cent of GDP in 2011 to 1.4 per cent in 2014, but then declined to 1 per cent of GDP in 2015 and 2016, also declining in constant price terms in both years. This could suggest that increases have not been sustained, but it could equally be the case that organizations outside the central budget have increased spending to compensate for reductions in central government spending (though grants to other levels of government have also fallen).

Looking at the central government budget by function shows a decline in spending on social protection, including subsidies, from 10 per cent of GDP in 2012 to 6 per cent budgeted in 2016. This suggests that the cuts to subsidies have been bigger than any increase in spending on social protection, though these data exclude spending by the Social Security Corporation. Education and health spending have been broadly flat. This means it is difficult to draw strong conclusions.

Overall, Jordan has also struggled to maintain the increases in social protection spending implemented at the start of the decade, as a desire to reduce overall spending as a share of GDP has made budgets tight. Nevertheless, education and health spending have been relatively protected.

**Case study: Tunisia**

The Tunisian Ministry of Finance publishes budgets by ministry back to 2011. Spending by the Ministries of Social Affairs, Education and Health are shown in Figure 10.

Panels A and B show the Ministry of Social Affairs’ budget. This ministry is responsible for social security, work and industrial relations, health and safety at work, advancement of vulnerable groups and those with specific needs, adult education, the Tunisian community abroad and social housing.\(^{25}\) *Social advancement* in the charts refers to social transfers to the poor, work to improve coverage of programmes, support for those with special needs and orphans and adult education.\(^{26}\)

The chart shows that the Ministry’s budget has increased since 2011, both in constant price terms and as a share of GDP. A lack of breakdown in earlier years does not allow much analysis of how social policy


\(^{25}\) République Tunisienne, Ministère des Affaires Sociales: [www.social.tn/index.php?id=51&L=0](http://www.social.tn/index.php?id=51&L=0)

\(^{26}\) (Ministry of Finance of Tunisia, 2014a, p. 20)
has evolved, but the increase in spending on social security from 2014 to 2016 more than accounts for the overall increase in the Ministry’s spending.

The budget of the Ministry of Education has been fairly static over the period, showing a slight decline as a share of GDP from 2011 to 2014, before recovering again, though always increasing in constant price terms. Primary education has increased its share in education spending slightly over the period from 33.3 per cent in 2011 to a budgeted 34.2 per cent in 2016. The Ministry of Health’s budget has increased over the period, rising from 1.7 per cent of GDP in 2011 to 1.9 per cent in 2016.
Figure 10: Public spending in Tunisia

Panel A: Ministry of Social Affairs budget, 2010 prices

Panel B: Ministry of Social Affairs budget, share of GDP

Panel C: Ministry of Education budget, 2010 prices

Panel D: Ministry of Education budget, share of GDP

Panel E: Ministry of Health budget, 2010 prices

Panel F: Ministry of Health budget, share of GDP

Sources: Author’s calculations, (IMF, 2016g) (Ministry of Finance of Tunisia, 2012a, p. 1; Ministry of Finance of Tunisia, 2012b, p. 1; Ministry of Finance of Tunisia, 2012c, p. 6) (Ministry of Finance of Tunisia, 2013a, p. 8; Ministry of Finance of Tunisia, 2013b, p. 1; Ministry of Finance of Tunisia, 2013c, p. 7) (Ministry of Finance of Tunisia, 2014a, pp. 3, 30; Ministry of Finance of Tunisia, 2014b, p. 6; Ministry of Finance of Tunisia, 2014c, pp. 8, 226, 335) (Ministry of Finance of Tunisia, 2015a, p. 1; Ministry of Finance of Tunisia, 2015b, pp. 3, 30)
Case study: Oman

Figure 11 shows government spending data for Oman. Data for 2005 to 2012 are actual spending data, and 2013 to 2015 are from state budget estimates. Panels A to C are from Omani Government reports, whereas panel D shows IMF data. Panel A shows total spending as a share of GDP. Panel B shows the distribution of spending between ministries, normalizing by total spending. Panel C shows the same data in constant 2010 prices, deflated using the IMF’s GDP deflator. Panel D shows current spending by the economic classification from the IMF’s Government Financial Statistics database as a share of GDP.

Figure 11: Oman government spending

Panel A: Budgets as share of GDP

Panel B: Distribution of spending

Panel C: Budget in 2010 prices

Panel D: Economic classification, share of GDP (IMF data)

Sources: Author’s calculations, (Ministry of Finance of Oman, 2006, pp. 1, 4.1, 4.4, 5.1; Ministry of Finance of Oman, 2007, pp. 1, 4.1, 5.1, 6.1; Ministry of Finance of Oman, 2008, pp. 1, 4.1, 5.1, 6.1) (Ministry of Finance of Oman, 2009, pp. 1, 4.1, 5.1, 6.1; Ministry of Finance of Oman, 2010, pp. 1, 4.1, 5.1, 6.1; Ministry of Finance of Oman, 2011, pp. 1, 4.1, 5.1, 6.1) (Ministry of Finance of Oman, 2012, pp. 1, 4.1, 5.1, 6.1; Ministry of Finance of Oman, 2013, pp. 9, 10, 22-25; Ministry of Finance of Oman, 2014, pp. 9, 10, 23-26) (Ministry of Finance of Oman, 2015, pp. 17, 18, 31-34; IMF, 2016g, IMF, 2016a)
The charts show a general tendency for spending to increase both in cash and as a share of GDP since the start of the decade. This likely reflects policy decisions by the Omani Government largely in response to protests. In February 2011, the Government announced increases in the monthly student allowances from OMR 25 to OMR 90, reduced pension contributions for civil servants, 50,000 new jobs and unemployment benefits of USD 390 per month. It also increased state pension and social security payments and announced plans for a marriage fund to help couples with the cost of establishing a household.

These announcements were followed by 36,000 new public sector workers from 2011 to 2013, with 100,000 in the civil and defence sectors as a whole; OMR 54 billion for a five year plan to create jobs and improve living standards; USD 1 billion for job creation in 2012; an increase in the unemployment grant to OMR 150 in 2012; a 10 per cent increase in infrastructure spending for 2013; a 45 per cent increase in spending on housing in 2013 to build 4,000 units for low income families.

However, these spending increases became increasingly difficult to sustain as the oil price fell, and the Government announced gradual food and fuel subsidy reforms from 2013, cuts to defence spending and government workers’ fringe benefits and increased fees for government services in 2016.

It is difficult to identify these measures in the data, however. The Social Security and Welfare Ministry’s budget rose from 1.3 per cent of GDP in 2010 to 2.4 per cent in 2011. However, it subsequently declined, reaching 1.5 per cent of GDP by 2014 before returning to 2.3 per cent of GDP in 2015. This increase in 2015 appears to be due to the fall in GDP in that year as a result of the declining oil price. In constant 2010 prices, the ministry’s budget jumped from OMR 290 million in 2010 to 730 million in 2011, but then declined to 530 million in 2015. And as a share of spending, although the ministry’s share increased from 3.6 per cent of spending in 2010 to 6 per cent in 2011, it since declined back to 4 per cent in 2015.

The Education Ministry’s budget – where you might expect the student allowances to appear - actually fell as a share of GDP in 2011 relative to 2010, it then rose slightly again in 2013 and 2014, jumping sharply to 7.3 per cent of GDP in 2015. However, this again appears to be driven by the decline in GDP in 2015 as a result of the falling oil price. Looking at the constant price data, the Education Ministry current budget does increase consistently up to 2014 in real terms, but then declined in 2015. Considering current education spending as a share of total spending, the relative importance of the education budget declined from 13.2 per cent of spending in 2010 to 10.3 per cent in 2012, before recovering slightly to 12.8 per cent in 2015. This is again not obviously linked with any of the identified policy measures. It may be that the cost of the student allowances announced in 2011 is too small to be captured.

The Housing Ministry’s budget also shows little evidence of the 2013 housing announcements. Its budget increased from 1.6 per cent of GDP in 2013 to 2.3 per cent in 2015. However that increase again appears to be entirely drive by the decline in GDP: looking at constant price data, while the ministry’s

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27 USD 1 = OMR 0.3847 on 1 January 2011 (Exchange Rates UK, 2016)
29 (Reuters, 2012; Al-Shaibany, 2012a; Al-Shaibany, 2012b; Torchia A., 2013; Dickinson, 2013)
30 (Fineren, 2013; Al Araimi, Dokoupil, & Torchia, 2014; Dokoupil, 2014; Bhatia, 2015; Alarimi F., 2015) (Alarimi & Torchia, 2016; Sommer, et al., 2016, pp. 18, 44; Al Arabiya, 2016; Walker & Kovessy, 2016) (Dokoupil, 2013b)
budget received a small boost in 2014, by 2015, it was less than half its 2011 level in real terms. Its budget as a share of total spending declined from 12 per cent in 2010 to 4 per cent in 2015.

Compensation of employees in panel D also does not show much movement. It was 8.1 per cent of GDP in 2009, down to 7.6 per cent in 2010 and back at 8.2 per cent of GDP in 2013.

Overall, the main jump in spending in 2011 appears to be linked to food and energy subsidies, which increased more than six times over in real terms and have since declined by just 0.7 percentage points of GDP. Breaking this down further suggests this is driven by increases in petroleum subsidies, which went from 0 in 2010 to 3.7 per cent of GDP in 2011, declining to 2.4 per cent of GDP in 2015. However, this does not match the announcements identified, and given the rise from zero, could simply represent a reclassification of spending. Other current expenditure also increased sharply to 18.2 per cent of GDP in 2012 from 11.2 per cent in 2011. No breakdown of this is available, so it is difficult to see whether this is driven by social spending.
**Case study: Palestine**

Figure 12 shows public spending in Palestine. Panels A and B show spending according to the economic classification in USD and as a share of GDP. Panels C and D show the functional classification, again in USD and as a share of GDP.

There was a sharp fall in spending as a share of GDP in 2011, even though spending increased slightly in USD cash terms. This is largely due to rapid growth in GDP in that year 7.8 per cent in real terms. Spending as a share of GDP has since partially recovered slowly.

Within this overall picture, spending on social benefits (encompassing social security, social assistance and employer social benefits) grew over the period from USD 487 million in 2010 to USD 802 million in 2015. As a share of GDP, there was a small drop in spending in 2011 from 5.5 to 4.7 per cent, but this then rose to 6.3 per cent of GDP by 2015. Most of this growth came from increasing spending on social assistance benefits, which rose from 3.0 per cent of GDP in 2010 to 4.0 per cent of GDP in 2015, while spending on social security benefits declined very slightly as a share of GDP over the period. Spending

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**Figure 12: Public spending in Palestine**

Panel A: General government budget, economic classification, USD

Panel B: General government budget, economic classification, share of GDP

Panel C: General government budget, functional classification, USD

Panel D: General government budget, functional classification, share of GDP

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Sources: Author’s calculations, (World Bank, 2016; Ministry of Finance of the State of Palestine, 2010, p. 4; Ministry of Finance of the State of Palestine, 2011, pp. 3, 5; Ministry of Finance of the State of Palestine, 2013, pp. 1, 7; Ministry of Finance of the State of Palestine, 2014, pp. 4, 8; Ministry of Finance of the State of Palestine 2015 no 5 9)
on subsidies was close to zero throughout the period. Panels C and D show small increases in education and health spending as a share of GDP over the period.

CONCLUSION

Qualitatively, there appears to have been a shift away from subsidies and towards more targeted forms of social protection since the start of the decade. Many of the measures announced at the start of the decade are visible in the data, but changing oil prices, fiscal consolidation and incomplete data prevent firm conclusions about whether this has been sustained.
III. SUBSIDY REFORMS AND SOCIAL PROTECTION

As outlined in section I, Arab countries have historically used fuel and food subsidies as a form of social assistance to support those without public sector employment.

Subsidies are ineffective as form of social protection, however. The primary beneficiaries tend to be the rich, who may be more able to manage risks independently.

This is because those who consume the largest amount of the subsidized good receive the largest subsidy. If the rich have the largest cars and drive the most, then they will consume the most petrol and so receive the largest share of the subsidy. The World Bank estimates that, before the recent reforms, the poorest quintile of households in Tunisia received just 1 per cent of petrol and diesel subsidies, while the richest quintile of households collected 67 per cent of petrol subsidies and 60 per cent of diesel subsidies. Electricity subsidies were less regressive, with the poorest households getting 13 per cent of subsidies while the richest received 29 per cent. In Lebanon, 6 per cent of transport subsidies are received by the poorest quartile, while the richest quartile received 55 per cent. Similarly, the poorest quartile received 16.5 per cent the subsidies to the power sector, while the richest quartile received 38 per cent.

Targeting can be improved by selecting the goods for subsidies to encourage people to self-select or through rationing. This is particularly the case for food subsidies. Egypt and Iraq issue ration cards, Tunisia packages subsidized milk and oil in less attractive ways, and Egypt and Tunisia subsidize products of less attractive quality. However, given the large share of subsidies that go to the rich, removing subsidies and compensating the poor through directly targeted programmes should still generate significant savings. Nevertheless, care needs to be taken that transfers keep pace with inflation to make sure that the poor remain compensated, even as food or fuel prices rise.

Subsidies increased following the unrest at the start of the decade

Some countries increased subsidies following the unrest at the start of the decade. The existence of subsidy programmes already made this a measure that could be implemented quickly, despite the disadvantages of poor targeting. For example:

- Iraq reformed its electricity tariff in February 2011 to make the first 1000 kWh free, partially reversing price increases from October 2010;

- Jordan announced a USD 550 million increase in food subsidies, increases in energy subsidies and tax cuts on fuel and food in 2010; further food subsidies, a freeze in fuel prices and a reverse in an earlier reform to adjust petrol prices according to a formula were announced in August 2011; and

32 (Elgazzar, et al., 2013, p. 12)
33 (Ministry of Environment of Lebanon, 2015, p. i)
34 (Levin, Morgandi, & Silva, 2013, pp. 135-140)
35 (Rasheed, 2011)
Morocco almost doubled its 2011 subsidies budget from MAD 15 billion\(^{37}\) to MAD 32 billion.\(^{38}\)

As shown in Figure 4, decisions to increase the rate of subsidization following the unrest in 2011, combined with a rising oil price, led to increases in overall spending on subsidies. In the oil-importing countries, this was not matched by higher revenues, pushing many of these countries to initiate reforms. When the oil price later fell, the oil-exporting countries saw a decline in their revenue base and looked for savings from their budgets. Fuel subsidies have seen cuts in many of these countries. The removal of subsidies when the oil price is high tends to lead to immediate price increase. This decreases the population’s purchasing power, and can hit the poor hardest if they spend a higher proportion of their income on subsidized goods – albeit a lower level of spending in absolute terms than the rich.

However, the small proportion of subsidy expenditure going to the poor should mean that the poor can be more than compensated for the removal of subsidies while still generating significant savings for the government. In Sudan, the IMF estimated that only 26 per cent of fuel subsidy expenditure accrued to the poorest 60 per cent of the population, or 0.3 per cent of GDP.\(^{39}\)

**Subsidy reforms helped to address deficits by reducing public spending**

Figure 13 shows the size of energy subsidies in the Arab region in 2013 and 2015. The estimates in Panel A are the opportunity cost of selling fuel below the cost of supply. They exclude the externalities associated with the overconsumption of the products induced by the low prices. Such additional costs include the additional pollution, global warming, congestion, road damage, road accidents and foregone tax revenue associated with the extra use compared to the amount that would be used if they were supplied at cost.

**Figure 13: Cost of energy subsidies in the Arab region**

![Panel A: Direct cost of energy subsidies](image1)

![Panel B: Cost including externalities](image2)

Source: (IMF, 2015c)

\(^{37}\) USD 1 = MAD 8.4145 on 1 January 2011 (Exchange Rates UK, 2016)

\(^{38}\) (Karam, 2011)

\(^{39}\) (IMF, 2014f, p. 14)
Panel A shows that in many countries, fuel subsidies were substantial in 2013: they cost over a tenth of GDP in Egypt and Libya, and around 5 per cent in many other countries. Even these countries with relatively low subsidies are above the global average of 2 per cent of GDP in 2013: 12 of the 16 countries shown have subsidies more costly than the global average.

The cost of subsidies declined substantially between 2013 and 2015 in almost all countries. Part of this fall will have been due to the decline in the oil price by over half over this period. This reduces the need to provide subsidies to keep prices low. Countries also engaged in substantial reforms over the period, which will have also reduced the cost. These are discussed further in section III.

Panel B shows the cost of subsidies including an estimate of the size of the externalities. The ESCWA countries remained well above the global average in 2013, with an average cost of almost 10 per cent of GDP, relative to a global average of less than 7 per cent. In Egypt, Libya and Saudi Arabia, the total economic cost of subsidies was approaching a fifth of GDP. The sharp reductions in cost shown in Panel A are much less apparent in Panel B once the externalities are taken into account. This could suggest that the decline in the oil price largely offset the reduction in subsidies so the consumer price did not change much and therefore nor did consumption, or that fuel consumption in these countries is price inelastic, resulting in little change in fuel consumption. If consumption is unchanged than so will be the size of many of the externalities such as pollution and congestion.

Many countries have redirected some spending from subsidy reforms into new social protection programmes or other forms of social spending in order to compensate the poor. For example, Bahrain and Jordan announced cash transfers for citizens following subsidy reforms in 2015 and 2012 respectively. Egypt has redirected around half the savings from the 2014 subsidy reforms into education, health care, R&D and social transfers. Sudan expanded its spending on social benefits, increasing the size of payments and the coverage. And Mauritania developed new programmes with the IMF and World Food Programme. Appendix B outlines the subsidy reforms and offsetting measures in the ESCWA countries in more detail.

Subsidy reform in Egypt

Some of this recycling is visible in the spending data. Figure 14 shows how spending on social benefits in Egypt has changed, based on data from the Government budgets. Panel A shows spending as a share of GDP, and panel B shows spending as a share of current expenditure.

The first bar in panel A shows total spending on subsidies, grants and social benefits in 2013/14, before the main subsidy reforms came in. The following bar shows the call in subsidy expenditure between 2013/14 and 2015/16. It shows that most of the savings came from petroleum subsidies. The third bar shows how a proportion of this money was recycled into other forms of social protection: electricity subsidies and social benefits. The fourth bar shows the net loss to social protection spending and the fifth bar the final level so subsidies, grants and social benefits in 2015/16. Overall, the chart shows that around 10 per cent of the savings from subsidies were recycled into increased social benefits.

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40 The Europe Brent spot price declined from USD 109 per barrel in 2013 to USD 52 per barrel in 2015 (US EIA, 2016).
The Egyptian Government initiated a fiscal consolidation starting in the 2014 budget, so a proportion of the money identified as “lost” to social benefits in panel A may be a result of the overall fiscal consolidation.

Panel B shows the changes as a share of total spending. This allows analysis of changes in prioritization within the spending envelope. The first column again shows spending on subsidies, grants and social benefits in 2013/14, but now as a share of general expenditure. The following three columns show the fall in subsidies’ share in spending from 2013/14 to 2015/16, followed by the increase in electricity subsidies and social benefits’ shares. This chart shows that around a fifth of the spending deprioritized from subsidies made its way into social benefits.

The relatively low share recycled into social protection may not reflect a deterioration in the positions of the poor in Egypt. Firstly, only a small proportion of total spending on subsidies may have accrued to the poor. And by 2015, the oil price had fallen sharply. This means that some of the fall in spending on subsidies is a result a decline in need for subsidies. It may be that this money could return to the system should oil prices rise again.

Furthermore, there may be timing effects and data problems masking efforts to compensate the poor. The Government has announced plans to offset the impact of subsidy reforms with increased spending on education, health and research and development (2 per cent of GDP), an increase in social transfers of 0.3 per cent of GDP and a gradual increase in transfers to the social security fund by 0.8 per cent of GDP from 2014/15 to 2018/19. Overall, about 2.4 percentage points of the 4.4 per cent cut in fuel subsidies is expected to be recycled into social spending by 2018/19.42 Education, health and research

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42 (IMF, 2015a, p. 30)
and development spending would not be visible in this budget breakdown, being subsumed into another category, and in any case the impacts would not yet be visible in the data.

On the other hand, the rate of recycling of funds shown in the charts may overstate the long term position. The increase in electricity subsidies is explicitly a temporary measure to cover the cost of addressing power shortages in the short term. The Government plans to reduce these subsidies from 2016/17. This would tend to reduce the rate of recycling into social protection.

**Subsidy reform in Jordan**

Figure 15 performs a similar exercise using Jordanian government data from 2012 to 2016: subsidy reforms in Jordan began tentatively in 2012 and picked up from 2013. Panel A shows spending as a share of GDP, and panel B shows the data as a share of current spending.

*Figure 15: Subsidy reform in Jordan*

![Graph showing subsidy reform in Jordan](image)

Panel A shows a small fall in spending on social assistance and pensions as a share of GDP between 2012 and 2016, which, combined with a large fall in the cost of subsidies, resulted in an overall loss to these categories of social protection of around 3 percentage points of GDP.

Panel B shows the same analysis taking account of the decline in overall spending over the period, as a result of fiscal consolidation. This shows that around 11 per cent of spending was reprioritized away from subsidies, and around 1 percentage points of this was recycled into social assistance and pensions.

**CONCLUSION**

In all, the region has initiated significant reforms to the subsidy systems in place at the start of the decade. It is difficult to identify exactly how the savings from these reforms have been spent due to the number of confounding factors, such as a changing oil price and overall fiscal consolidation, and the lack of detailed, up to date data. However, the low rates of recycling into social protection identified in

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43 (Government of Egypt, 2015, p. 15)
Egypt and Jordan do not necessarily mean a fall in the wellbeing of the poor. Some of the falls in spending on subsidies will be due to the falling oil price, and those savings might return to the social protection system should the oil price rise again.
IV. CONCLUSION

This paper has sought to describe the developments in spending on social protection in the Arab region since the start of the decade. It focuses on social protection, but also considers spending on other social services such as education and housing.

There were clear increases in spending at the start of the decade in many countries. This partly reflects responses to the unrest, but also rising oil prices pushing up the cost of subsidies. The initial response largely followed the existing pattern of social spending, focusing on subsidies and public sector employment, as this was easy to implement quickly.

However, this higher level of spending did not prove sustainable. Deficits for the oil-importing countries rose with the oil price, and many countries were pushed to reform. When the oil price then fell, oil-exporting countries felt similar pressures.

The aim of the analysis in this paper was to see if the initial increases in social expenditure were sustained and if money saved from subsidy reform was recycled into other forms of social protection. Qualitative evidence based on announced policy changes points to a shift towards more targeted social protection policies. However, it is difficult to draw strong conclusions from the spending data. There was some evidence of the increase persisting, but not in its entirety, and not in all countries. Similarly, there is not much evidence of an increase in social spending corresponding to the fall in subsidy expense.

These weak conclusions are a result of the poor availability of data. For most countries, data are only available for a limited number of years, for a limited subset of total government spending and insufficiently broken down to draw strong conclusions about where money has been spent. The lack of granular data on general government spending is especially worrisome for social policy as a range of obligations, especially for the provision of social services rest with local governments. Furthermore, changes in the oil price and the exigencies of fiscal consolidation cloud the picture, making it harder to discern cuts to social protection from overall reductions in spending.

Governments may wish to improve the quantity, quality and timeliness of statistical information on public expenditures in order to provide timely information to decision makers.

Ideally, the budget data analysed in this paper would have been complemented by an analysis of relevant household surveys in order to trace the impact of macro-level budget shifts on the budgets of households. This would be especially relevant for tracing the impact of the policy change from general subsidies to targeted assistance. Apart from the fact that household surveys are not necessarily available over the same time periods and for the countries with the best budget data, such analysis would have been beyond the scope of the current research. However, Governments may wish to perform exactly such juxtaposition of macro and microlevel data in order to trace the translation of policies on changes on the ground.
Appendix A: Were responses to unrest sustained? Did constitutional changes promote more social policies?

<table>
<thead>
<tr>
<th>Country</th>
<th>Initial responses in 2011</th>
<th>Later reforms</th>
</tr>
</thead>
</table>
| Bahrain | • BHD 1,000\(^{44}\) for each Bahraini family  
• Increased public sector minimum wage from BHD 300 to BHD 402 at an annual cost of BHD 200 million announced July 2011; total BHD 97 million for 2011 and BHD 291.6 million for 2012 approved by King in September 2011 for public sector wages and pensions  
• 15 per cent pay rises for all civilian and military employees registered with the Civil Service Bureau and new Standard of Living Improvement Allowance for low income employees  
• Increased minimum public and private pension from BHD 180 to BHD 200 per month and additional BHD 75 monthly payments  
• Increased spending on housing and infrastructure  
• 19 per cent increase in 2012 spending plans announced in September 2011\(^{45}\) | • USD 511 million for 4,000 affordable housing announced in January 2012  
• Planned 6 per cent cut in spending in 2013 countered with additional BHD 174.2 million spending voted by Parliament for public and private sector pensions and food subsidies  
• Fuel and food subsidy reforms from October 2015, with cash compensation for Bahraini citizens  
• Increases in fees and charges for government services, including healthcare\(^{46}\) |
| Egypt | • 15 per cent increase in public sector pay and pensions, expected to cost EGP 6.5 billion, announced February 2011  
• Commitment to no change in subsidies\(^{47}\) | • Increase in public sector monthly minimum wage to EGP 700 from 1 July 2011 (interim government)  
• 14.7 per cent increase in spending in 2011/12 compared to 2010/11 with boost for social programmes  
• Decline in public sector employment in 2011/12  
• Permanent hiring of temporary public sector workers  
• Increase in public sector monthly minimum wage to EGP 1,200 in 2013/14  
• Staged fuel and food subsidy reforms  
• Over EGP 50 billion for education, health, pensions and higher wages by 2014/15  
• Expansion of social solidarity, Takaful and Karama cash transfer schemes  
• Cuts to public sector bonuses and tax exemptions from 2014\(^{48}\) |
| Iraq | • Electricity tariff reformed to make first 1,000 kWh free, announced in February 2011, partially reversing price increases from October 2010  
• USD 2 billion for low cost housing announced in May 2011\(^{49}\) | • 2013 budget included increased spending on pensions and public sector wages, and the Government also approved a two-thirds wage increase for Shawa fighters, which would increase 41,000 people’s monthly pay from IQD 300,000 to IQD 500,000\(^{50}\) |

\(^{44}\) USD 1 = BHD 0.3771 on 1 January 2011 (Exchange Rates UK, 2016)  
\(^{45}\) (Richter, 2011; Menon P., 2012; Dokoupil, 2013a; Alwasat, 2014; Coles, 2011; Mohammed, 2011)  
\(^{46}\) (Dokoupil, 2013a; Dokoupil, 2013c; Bouyamourn, 2015a; Sommer, et al., 2016, pp. 18, 44; Izzak & Agencies, 2016; Naar, 2016; Saeed, Aboudi, & Tochia, 2015) (Walker & Kovessy, 2016; IMF, 2016c; Rahman, 2012)  
\(^{47}\) (BBC, 2011; Telegraph, 2011b)  
\(^{48}\) (Beinin, 2012, p. 11; Government of Egypt, 2015, pp. 15-16, 28; Ahram Online, 2014; Kern & Reed, 2012; Winckler, 2013; Rizk, 2014; Abdel Halim, 2014; Kalin, 2014); (Farouk, Adel, & Alsharif, 2016; Hussein, 2011; Ahram Online, 2012; El Deeb, 2011)  
\(^{49}\) (Rasheed, 2011; Iraq Daily Times, 2011)  
\(^{50}\) USD 1 = IQD 1,245.3555 on 1 January 2011 (Exchange Rates UK, 2016)
<table>
<thead>
<tr>
<th>Country</th>
<th>Measures</th>
<th>Details</th>
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</thead>
<tbody>
<tr>
<td>Jordan</td>
<td>• Increase in spending on public sector salaries and pensions</td>
<td>• Initial attempt to maintain subsidies, followed by reforms, offset by cash transfers</td>
</tr>
<tr>
<td></td>
<td>• One-off payment of JOD 100 for members of the armed forces, security services and civil service and retirees</td>
<td>• JOD 150 million fund to promote inclusive growth announced in 2012</td>
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<td></td>
<td>• Initial USD 550 million increase in food subsidies, and increases in energy subsidies</td>
<td>• Cap on public sector wages in 2014</td>
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<td></td>
<td>• Tax cuts on food and fuel</td>
<td>• 30 per cent real cut in non-oil primary expenditure in 2015 following the fall in the oil price, including cuts to wages (IQD 3 trillion relative to the previous budget), savings from pensions (IQD 1.8 trillion target) and reductions in food subsidies and transfers (IQD 2.4 trillion)</td>
</tr>
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<td></td>
<td>• 2010 social security law with increased unemployment insurance, maternity cover and health insurance for the poor</td>
<td>• Cuts to electricity subsidies to save IQD 2.5 trillion in 2015 and 5 to 7 trillion in the longer term</td>
</tr>
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<td></td>
<td>• Temporary law extending social security to informal workers</td>
<td>• Merging public and private pension schemes, introducing non-contributory pensions and improving targeting of existing programmes</td>
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<td></td>
<td>• Minimum wage increased from USD 115 to USD 211</td>
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<td></td>
<td>• Funding for the National Aid Fund rose by USD 28 million</td>
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<td></td>
<td>• JOD 584 million increase in social welfare payments and food subsidies in August 2011; freeze in fuel prices; reversal of earlier reform to adjust petrol prices according to a formula</td>
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| Kuwait   | • One-off transfer of KWD 1,000 to each Kuwaiti citizen, with a total cost of KWD 1.12 billion in 2010/11 | • Gradual reductions in subsidies from 2015, though with inconsistent progress |
|          | • Four-year development plan launched in 2010 with an estimated total cost of USD 55 billion and an emphasis on investment in health, education and infrastructure | • Plan to limit public sector wage growth announced |
| Lebanon  | • Bread subsidy reintroduced in 2010 having been abolished in 2008       | • Fiscal cost to Lebanon of Syria conflict as a result of sudden and large increase in demand for public services from refugees estimated in 2012 at USD 2.6 billion, with an additional |

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52 (Taghdisi-Rad, 2012, pp. 6, 21; Sharp, 2011, p. 8; EBRD, 2012, p. 15; El-Khalili, 2011a; El-Khalili, 2011b) (Bloomberg, 2011a)
53 USD 1 = JOD 0.7079 on 1 January 2011 (Exchange Rates UK, 2016)
54 (Petra, 2012; EBRD, 2012, p. 15; Winckler, 2013; QNB, 2015, p. 6)
55 USD 1 = KWD 0.2817 on 1 January 2011 (Exchange Rates UK, 2016)
56 (IMF, 2015f, p. 33; IMF, 2011a, p. 3)
57 (Izzak & Agencies, 2016; IMF, 2015f, p. 15; Sommer, et al., 2016, p. 44; IMF, 2014e, pp. 13-14; Browning, Maclean, & Hegagy, 2016; Boersma & Griffiths, 2016, p. 6); (Mirza, 2015; Körner, 2015)
<table>
<thead>
<tr>
<th>Country</th>
<th>Policy Measures</th>
<th>Financial Impact</th>
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<tbody>
<tr>
<td>Lebanon</td>
<td>• Increase in wheat flour subsidies, reducing the price of one ton of wheat from LBP 580,000(^{58}) to LBP 530,000</td>
<td>USD 2.5 billion needed to stabilize the quality of services to the pre-conflict level</td>
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<td>• Monthly fuel subsidy for transport workers of LBP 470,000 introduced, for three months with possible renewal for a further three months</td>
<td>• Increase in public sector salaries, expected to cost $1.6 billion a year announced in 2012</td>
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<td>• Announced increase in minimum wage to LBP 700,000 per month, from LBP 500,000</td>
<td>• Introduction of National Poverty Targeting Programme, a means-tested social assistance programme; by May 2014, the programme was reaching around 67 per cent of the extreme poor; needs USD 107 million to cover all the extreme poor by 2016/17.(^{60})</td>
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<td>• Halving of excise taxes on gasoline.(^{59})</td>
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<td>Mauritania</td>
<td>• 2011: The Government introduced a MRO 40 billion(^{61}) (3.4 per cent of GDP) relief package to offset high fuel prices; this mostly consisted of temporary, reversible measures – opening more subsidized food shops (&quot;EMEL&quot;) – with the intention to introduce a more permanent targeted social safety net</td>
<td>• Public investment focused on areas with a pro-poor impact</td>
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<td>• The Government worked with the World Food Programme to develop a cash transfer programme, targeting 10,000 vulnerable households in Nouakchott, each receiving MRO 15,000 a month (half the minimum wage), extended to 15,000 households in four rural areas in June 2012.(^{62})</td>
<td>• The Government has developed a broader social protection strategy with UNICEF adopted in June 2013.(^{63})</td>
</tr>
<tr>
<td>Morocco</td>
<td>• Near doubling of 2011 budget for food and fuel subsidies from MAD 15 billion to MAD 32 billion(^{64,65})</td>
<td>• Progressive reforms to reduce subsidies spending from 6.5 per cent of GDP in 2012 to 1.7 per cent in 2015</td>
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<td></td>
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<td>• Expansion of the Tayssir programme and Regime for Medical Assistance to the Most Deprived and introduction of Direct Assistance to Widows in Precarious Situations with Dependent Children in February 2014</td>
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<tr>
<td></td>
<td></td>
<td>• 10 per cent increase in private sector minimum wage in 2015 and 2016 and 29 per cent increase in the public sector minimum wage at a cost of between MAD 14 and 19 billion</td>
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<td>• Transfers to the electricity company to offset cuts to fuel oil subsidies, costing 0.5 per cent of GDP in 2015/16</td>
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<td>• Multi-year rural development plan worth MAD 50 billion announced in 2015</td>
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<tr>
<td></td>
<td></td>
<td>• Decentralization of social protection programmes to be implemented in 2016 to improve targeting</td>
</tr>
</tbody>
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\(^{58}\) USD 1 = LBP 1494.4266 on 1 January 2011 (Exchange Rates UK, 2016)

\(^{59}\) (Khraiche, 2011; Qiblawi, 2011; Bloomberg, 2011b; El-Ganainy & Nakhle, 2012, pp. 40, 41)

\(^{60}\) (Kawas & Dakrouh, 2012; World Bank, 2013, p. 14; World Bank, 2014, pp. 15, 20, 22)

\(^{61}\) USD 1 = MRO 276.7457 on 1 January 2011 (Exchange Rates UK, 2016)

\(^{62}\) (Clements, et al., 2013, pp. 34, 35; IMF, 2013b, p. 13; Sdralevich, Sab, Zouhar, & Albertin, 2014, p. 60)

\(^{63}\) (IMF, 2013b, p. 11; Sdralevich, Sab, Zouhar, & Albertin, 2014, p. 103)

\(^{64}\) USD 1 = MAD 8.4145 on 1 January 2011 (Exchange Rates UK, 2016)

\(^{65}\) (Karam, 2011)
<table>
<thead>
<tr>
<th>Country</th>
<th>Measures</th>
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</table>
| **Oman** | • Announced in February 2011: 43 per cent minimum wage rise from OMR 140\(^{67}\) to OMR 200 per month; increased monthly student allowance from OMR 25 to OMR 90; reduced pension contributions for civil servants from 8 to 7 per cent of their basic salaries plus 75 per cent of housing, electricity and water allowances; 50,000 jobs (44,000 created) and unemployment benefits of USD 390 per month  
• Increased state pension and social security payments  
• Announced plans for marriage fund to help couples with the cost of establishing a household\(^{68}\) | • Bill approved in parliament in 2016 to raise pension age from 60 to 63 by 2022 and to increase workers’ contributions\(^{66}\)  
• 36,000 new public sector workers from 2011 to 2013, with 100,000 in the civil and defence sectors as a whole  
• OMR 54 billion (26 per cent) boost to spending for five year plan to create jobs and improve living standards  
• Announced USD 1 billion for job creation in 2012  
Unemployment grant increased to OMR 150 in 2012  
• 10 per cent increase in infrastructure spending announced for 2013  
• 45 per cent increase in spending on housing in 2013 to build 4,000 units for low income families  
• Increase in minimum wage to OMR 325 announced in 2013 raising the pay of 122,000 employees  
• Gradual food and fuel subsidy reforms from 2013  
• Reduced defence spending. Increased fees for government services and reduced government workers’ fringe benefits in 2016\(^{69}\) |
| **Palestine** | • Merger of several cash assistance schemes into one programme  
• Indexation of pensions, rising retirement age from 60-62, elimination of lump sum\(^{70}\) | • Continued work to improve targeting of social transfers  
• Electricity subsidy reforms from 2011, with new lifeline tariff for poor households  
• Public sector hiring and promotion restraint from 2011 onwards  
• 2014 budget: planned 1ppt GDP cut to fuel subsidies only partially implemented, 0.5ppt GDP cut to wages\(^{71}\) |
| **Qatar** | • Subsidy reforms starting in 2011  
• 60 per cent increase in public sector salaries for Qatar nationals and 120 per cent for military personnel, as well as increases in pensions and social allowances, announced in September 2011 at a cost of USD 8.2 billion  
From July 2013, the authorities began the roll out of universal health coverage for Qatari citizens, but this was suspended due to financial pressures in December 2015 | |

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\(^{66}\) (IMF, 2015b, p. 18; IMF, 2015h, pp. 27, 60; EIU, 2014; El Yaakoubi, 2014; Dieseldorff, 2015; El Yaakoubi, 2016)  
\(^{67}\) 1 USD = OMR 0.3847 on 1 January 2011 (Exchange Rates UK, 2016)  
\(^{71}\) (IMF, 2011b, pp. 25-26; IMF, 2012c, pp. 17, 22; IMF, 2014c, p. 14; IMF, 2016b, p. 5)
<table>
<thead>
<tr>
<th>Country</th>
<th>Measures</th>
<th>References</th>
</tr>
</thead>
</table>
| Saudi Arabia            | • SAR 400 billion package over several years, with around SAR 117 billion to be spent in 2011[^3], including:  
  o USD 11 billion for new housing loans  
  o 15 per cent pay rise for state employees  
  o Movement of 180,000 temporary government employees to permanent contracts  
  o Funding to help young unemployed people (including a stipend conditional on job search and training) and Saudis studying abroad  
  • There was also a set of measures to improve private sector opportunities for Saudis  
    o De facto minimum wage of SAR 3,000  
    o SAR 2,000 a month for up to a year for unemployed Saudis along with an unemployment assistance scheme[^4]  | (Bahrom, 2015, p. 6; Doha News, 2011; Doha News, 2013b; Doha News, 2013a; Walker, 2016a) (Menon A., 2014; Windrum, 2014; Khatri, 2015; Kovessy, 2015b) (Walker, 2016b) |
|                         | • 2.7 per cent reduction in the public sector wage bill in 2014/15  
  • Postal prices increased for the first time in eight years in 2016; layoffs from public sector organizations[^2]  | (Menon A., 2014; Windrum, 2014; Khatri, 2015; Kovessy, 2015b) |
|                         | • Capital spending announced in 2014, including a metro and expansions to Mecca and Medina; expected to increase capital spending to 16 per cent of GDP in 2018 from 11 per cent in 2012  
  • Five year plan to cut subsidies from December 2015, with initial measures saving 1¾ per cent of GDP; reports that the Government was working on a package to compensate the less well off  
  • Cuts to public sector salaries to cut the wage bill from 45 per cent to 40 per cent of spending by 2030, including wage freezes, caps on overtime payments and annual leave, a switch from the Hijri to Gregorian calendar for salary payments, saving 11 days’ wages; increased charges for visas, increased traffic fines, cuts to subsidies for a number of government administrative services, 20 per cent cuts to ministers’ salaries and a reduction in their annual leave from 42 to 36 days, 15 per cent cuts to housing and car allowances for members of the Shura Council, removal of public sector workers’ holiday transport allowance[^5]  | (IMF, 2014g, p. 31; VOA News, 2011; Humaidan & Rasooldeen, 2011; Aljazeera, 2011; Shbaikat, 2015, p. 75) |
|                         | • Five year plan to cut subsidies from December 2015, with initial measures saving 1¾ per cent of GDP; reports that the Government was working on a package to compensate the less well off  
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|                         | • Fuel and food subsidy reforms started in 2011, along with cuts to public sector employment and tax rises  
  • Offsetting measures included increases in public sector salaries by SDG 100 per month[^6]; more than doubling of spending on social benefits, though in practice delivery of these benefits was intermittent[^7]  | (IMF, 2014g, p. 31; VOA News, 2011; Humaidan & Rasooldeen, 2011; Aljazeera, 2011; Shbaikat, 2015, p. 75) |
|                         | Several measures were announced, though many were never implemented:  
  • Increased public sector salaries  
  • Reductions to tax and customs duties  
  • 50,000 new public sector jobs for young people  
  • Boosts to cash transfers and fuel subsidies  | (IMF, 2014b, p. 11; Walker & Kovessy, 2016; Bouyamoun, 2015b; Kerr, 2015; Al Hatlani, 2016; Sims, 2016; Saudi Gazette, 2016) (Taha, 2016; BBC, 2016; Toumi, 2016) |
| Sudan                   | • Fuel and food subsidy reforms started in 2011, along with cuts to public sector employment and tax rises  
  • Offsetting measures included increases in public sector salaries by SDG 100 per month[^6]; more than doubling of spending on social benefits, though in practice delivery of these benefits was intermittent[^7]  | (IMF, 2014g, p. 31; VOA News, 2011; Humaidan & Rasooldeen, 2011; Aljazeera, 2011; Shbaikat, 2015, p. 75) |
| Syrian Arab Republic    | Several measures were announced, though many were never implemented:  
  • Increased public sector salaries  
  • Reductions to tax and customs duties  
  • 50,000 new public sector jobs for young people  

[^2]: USD 1 = SAR 3.7511 on 1 January 2011 (Exchange Rates UK, 2016)  
[^3]: SAR 400 billion package over several years, with around SAR 117 billion to be spent in 2011  
[^4]: USD 1 = SAR 3.7511 on 1 January 2011 (Exchange Rates UK, 2016)  
[^5]: IMF, 2014g, p. 31; VOA News, 2011; Humaidan & Rasooldeen, 2011; Aljazeera, 2011; Shbaikat, 2015, p. 75)  
[^6]: IMF, 2014g, p. 31; VOA News, 2011; Humaidan & Rasooldeen, 2011; Aljazeera, 2011; Shbaikat, 2015, p. 75)  
[^7]: IMF, 2014g, p. 31; VOA News, 2011; Humaidan & Rasooldeen, 2011; Aljazeera, 2011; Shbaikat, 2015, p. 75)
<table>
<thead>
<tr>
<th>Country</th>
<th>Measures Taken</th>
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<tbody>
<tr>
<td>Tunisia</td>
<td>• New support for rural and agricultural communities&lt;sup&gt;78&lt;/sup&gt;</td>
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<tr>
<td></td>
<td>• Creation of 300,000 new jobs</td>
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<tr>
<td></td>
<td>• USD 15 million aid for Sidi Bouzid, the town where the uprising began&lt;sup&gt;79&lt;/sup&gt;</td>
</tr>
<tr>
<td></td>
<td>• Food subsidies extended to new products like milk and sugar after the revolution</td>
</tr>
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<td></td>
<td>• Energy subsidy reforms from September 2012, reducing the cost to the central government</td>
</tr>
<tr>
<td></td>
<td>• To offset the energy price rises, in 2014, the Government introduced new social housing</td>
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<td>UAE</td>
<td>A number of measures were announced in 2011, but there is debate about whether these were</td>
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<tr>
<td></td>
<td>• 6,000 new public sector jobs in Abu Dhabi</td>
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<td>• AED 5.7 billion&lt;sup&gt;81&lt;/sup&gt; infrastructure investment in the northern emirates</td>
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<td>• Increased salaries for federal employees&lt;sup&gt;82&lt;/sup&gt;</td>
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<td>• Gradual reduction in energy subsidies starting in 2010&lt;sup&gt;83&lt;/sup&gt;</td>
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<tr>
<td>Yemen</td>
<td>• An increase in civil service and military salaries by USD 25 per month;</td>
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<td>• A tuition fee waiver for university students for the remainder of the academic year;</td>
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<td>• Increase social security for 500,000 poor families;</td>
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<td>• Income tax cuts; and</td>
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<td>• The creation of a fund to employ university graduates&lt;sup&gt;84&lt;/sup&gt;</td>
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<td>• Reduced electricity tariff for those consuming less than 100 kWh&lt;sup&gt;80&lt;/sup&gt;</td>
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<sup>78</sup> (ESCWA, 2013, p. 50; Syrian Arab News Agency, 2011a; Syrian Arab News Agency, 2011c; IRIN, 2011; Syrian Arab News Agency, 2011b)  
<sup>79</sup> (Telegraph, 2011a; Whitaker, 2010)  
<sup>80</sup> (OECD, 2015, pp. 52-3; Cuesta Leiva, El Lahga, & Lara Ibarra, 2015, p. 5; IMF, 2015e, p. 41)  
<sup>81</sup> USD 1 = AED 3.6699 on 1 January 2011 (Exchange Rates UK, 2016)  
<sup>82</sup> (Gulf News, 2011; Emirates 24|7, 2011; IMF, 2013c; Forstenlechner, Rutledge, & Alnuami, 2012)  
<sup>83</sup> (Whitley & van der Burg, 2015, p. 68; Boersma & Griffiths, 2016, pp. 2, 10, 12; IMF, 2015g, p. 11; Sommer, et al., 2016, p. 44; Reuters, 2015)  
<sup>84</sup> (Greenblatt, 2011; Finn & Al-Harazi, 2011)  
<sup>85</sup> (IMF, 2014d, pp. 5, 17; Salisbury, 2014; Guardian, 2014; Wilson, 2014; Al Qalisi, 2015; Al-Shamahi, 2015)
Appendix B: Subsidy reforms and compensation measures for the poor

<table>
<thead>
<tr>
<th>Country</th>
<th>Subsidy reforms</th>
<th>Compensation measures</th>
</tr>
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</table>
| Bahrain | • December 2013: Announced plan to cut fuel subsidies. Not implemented.  
• January 2016: Announced plan to increase petrol prices from BHD 0.080 to BHD 0.125 per litre and super petrol from BHD 0.100 to BHD 0.160 | • May 2015: Cash transfers for Bahraini citizens announced  
| Egypt | Limited reforms under the Morsi Government:  
• October 2012: Rationing of subsidized butane cooking gas;  
• November 2012: Price of octane 95 petrol liberalized;  
• December 2012: Announced increase in price of Mazut for cement companies by 130 per cent; increase reduced to 50 per cent following protests.  
Election of President Sisi in June 2014 led to more determined subsidy reforms, reducing energy subsidies to a projected 0.5 per cent of GDP by 2018/19 from 6.3 per cent of GDP in 2013/15:  
• 80 octane petrol rose from EGP 0.7 to EGP 1.6 per litre;  
• Diesel prices rose from EGP 0.7 to EGP 1.6 per litre;  
• 92 octane petrol prices rose from EGP 0.75 to EGP 2.6 per litre;  
• Electricity subsidies to be cut by 67 per cent over five years to reach EGP 9 billion, down from EGP 27.4 billion in 2014/15;  
• Subsidized bread was rationed.  
November 2016: Further subsidy reforms implemented as part of a three-year loan agreement with the IMF:  
• Price of 92 octane petrol rose from EGP 2.6 per litre to EGP 3.5  
• 80 octane petrol rose from EGP 1.6 per litre to EGP 2.35;  
• Diesel rose from EGP 1.8 per litre to EGP 2.35;  
• Natural gas rose from EGP 1.1 per cubic metre to EGP 1.6 | • 2014: A new food ration card was issued to families worth EGP 15 per person per month to buy goods that had been purchased in bulk by the Ministry of Supply  
• July 2014: Prime Minister announces, that the subsidy cuts will free EGP 51 billion for education, health care and higher wages; IMF estimates that the reforms would save 4.5 per cent of GDP, with 2 per cent of GDP going to education, health and R&D, 0.3 per cent of GDP going to increased spending on social transfers, 0.8 per cent of GDP going to the Social Insurance Fund;  
• August 2016: Government recommits to spend a part of savings from subsidy reforms on targeted social transfers, to preserve or increase support for insurance and medicine for the poor, subsidies for infant milk and medicine for children, health insurance for young children and female primary providers, and vocational training for youth. The government will also develop a plan to enhance the school meals program.  

Iraq | Electricity price increases expected to save IQD 2.5 trillion in 2015 and between IQD 5 and 7 trillion by the time subsidies were completely | To balance full austerity programme, of which the electricity price increases were only a part, the Government initiated reforms to the social safety net. These reforms included the tightening of |

86 (El Gamal, 2014; Bouyamourn, 2015a; Torchia A. , 2015; Saeed, Aboudi, & Tochia, 2015; Izzak & Agencies, 2016)  
87 (Bouyamourn, 2015a)  
88 (Ahram Online, 2014; Goudineau, 2013; Adel, 2012; Kern & Reed, 2012)  
89 (Government of Egypt, 2015, p. 15; Ahram Online, 2014; Rizk, 2014; Kalin, 2014; Wardani, Murray Brown, Moore, & Reuters, 2016)  
90 (Government of Egypt, 2015, p. 29; Rizk, 2014; IMF, 2015a, p. 30; IMF, 2016e)
<table>
<thead>
<tr>
<th>Country</th>
<th>Events</th>
</tr>
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</table>
| **Jordan** | January 2012: Government commits to maintaining subsidies on basic food, gas and electricity;  
May 2012: Subsidy cuts for premium fuels, diesel, kerosene, fuel oil and electricity for business and households consuming over 600 kWh, leading to an increase in the price of octane 95 petrol from JOD 0.775 to JOD 1 per litre and for octane 90 petrol from JOD 0.62 to JOD 0.7 per litre;  
September 2012: Protests lead to the suspension of the price increases for octane 90 petrol and diesel  
Petrol prices eventually rose in 2013  
Electricity prices rose further in 2013, as the energy company was brought towards full cost recovery; electricity price increases were planned up to 2017 | November 2012: The Prime Minister announced that families earning less than JOD 800 per month would qualify for monthly cash payments; this was then implemented when petrol prices rose in 2013, helping around 3.3 million Jordanians and costing around USD 141 million |
| **Kuwait** | December 2014: Cabinet decided to increase diesel and kerosene prices from KWD 0.055 to KWD 0.170 per litre  
January 2015: Government announced the implementation of the increases, but swiftly reversed theme in the face of opposition;  
September 2016: Ultra-grade petrol increased from KWD 0.095 to KWD 165 per litre; super-grade petrol increased from KWD 0.65 to KWD 105 per litre and premium grade rose from KWD 0.060 to KWD 0.085 per litre, with an expected saving of KWD 2.6 billion over three years | |
| **Lebanon** | Replaced subsidies for diesel with a VAT exemption from March 2012 and a reduced excise rate from February 2011  
New temporary subsidy for petrol for public transport, costing LBP 41 billion for 2011-12 | |
| **Mauritania** | May 2012: The Government introduced a new diesel price formula, leading to a price increase of more than 20 per cent since January 2011, reaching international levels by June 2012 | 2011: The Government introduced a MRO 40 billion (3.4 per cent of GDP) relief package to offset high fuel prices; this mostly consisted of temporary, reversible measures with the |

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91 (IMF, 2015d, p. 16; Hegazy, 2015, pp. 25, 27)  
92 (Alkhoja, 2016)  
94 (Tayseer & El Baltaji, 2012; Winckler, 2013)  
95 (Browning, Maclean, & Hegagy, 2016; Izzak & Agencies, 2016; IMF, 2014e, p. 13; Boersma & Griffiths, 2016, p. 6; Körner, 2015; Mirza, 2015)  
96 (Ministry of Environment of Lebanon, 2015, p. 4)
The electricity company SOMELEC was recapitalized and electricity rates for the service sector were aligned with rates for medium-voltage electricity starting at the beginning of 2012.\(^{97}\)  

### Morocco

To meet the requirements of an IMF Precautionary Liquidity Line, the Government initiated a programme of subsidy reforms:

- **June 2012:** Retail price of diesel, gasoline, and fuel oil increased by 14 per cent, 20 per cent, and 27 per cent respectively, yielding estimated savings of 0.7 per cent of GDP for the year.
- **September 2013:** Partial Indexation of the domestic prices of diesel, gasoline, and industrial fuel oil to world prices.
- **February 2014:** Removal of subsidies on the domestic prices of gasoline and industrial fuel oil (excluding fuel used for electricity generation).
- **April 2014:** Second reduction of the per unit subsidy on diesel.
- **June 2014:** Removal of subsidies on industrial fuel oil used in electricity generation.
- **July 2014:** Third reduction of the per unit subsidy on diesel.
- **January 2015:** Elimination of the subsidy on diesel

Consequently, spending on subsidies fell to 4.6 per cent of GDP in 2013, 3.5 per cent in 2014, and 1.7 per cent in 2015.

Authorities plan to continue reductions of the Food and Butane Gas Subsidies Programme, with gradual reductions of food subsidies set to begin in 2016 and the timing of butane subsidies reduction still under discussion. The IMF estimates spending on subsidies will fall to 1.5 per cent of GDP in 2016, 0.9 per cent in 2017, and 0.8 per cent from 2018 until 2020.\(^{99}\)

### Oman

- **2013:** Announcement of doubling in industrial gas price to USD 3 per million Btu by 2015
- **June 2014:** Price controls scrapped for all but 23 basic products, but no change in subsidies;
- **December 2015:** Reports the cabinet has approved cuts to fuel subsidies

### Notes

97 (Clements, et al., 2013, pp. 32, 34)  
98 (Clements, et al., 2013, pp. 34, 35)  
99 (IMF, 2015b, p. 18; IMF, 2015h, pp. 12, 27)  
100 (IMF, 2015h, p. 27; IMF, 2015b, p. 18; EIU, 2014; El Yaakoubi, 2014)
<table>
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<tr>
<th>Palestine</th>
<th>Qatar</th>
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<tr>
<td>• 2010: Electricity subsidy reform, transferring two-thirds of electricity distribution in the West Bank to the private sector and installing prepaid meters to reduce non-payment;</td>
<td>• January 2011: Petrol prices were increased by 25 per cent and diesel prices by 30 per cent;</td>
</tr>
<tr>
<td>• 2014: Reduce fuel subsidies by 1 percentage point of GDP, though this was implemented more slowly than planned, as the authorities increased subsidies in Gaza</td>
<td>• May 2014: Qatar Fuel announced a 50 per cent increase in the price of diesel. The cost of one liter rose to 1.5 QR for local companies and 1.8 QR for joint ventures. Companies that were not based in Qatar were unaffected by the price increases;</td>
</tr>
<tr>
<td>• 2011: Electricity tariff reform to introduce a lifeline tariff from 1 July 2011 for households covered by the new social safety net, where a limited amount of electricity is billed only at cost.</td>
<td>• September 2015: Qatar General Electricity and Water Corporation changed the water tariff from a flat QAR 4.4 per cubic metre to a slab system, with rates increasing with consumption; electricity tariff saw a similar reform; however, these increased prices applied only to expats</td>
</tr>
<tr>
<td>• January 2016: 90 octane petrol prices increase from OMR 0.16 per litre to OMR 0.14.</td>
<td>• January 2016: Qatar Fuel announced a 30 per cent increase in petrol prices: the price of super 97 octane rose to QAR 1.3 per litre, premium petrol rose to QAR 1.15 per litre and gold petrol rose to QAR 1.25 per litre;</td>
</tr>
<tr>
<td>• 2011: Electricity tariff reform to introduce a lifeline tariff from 1 July 2011 for households covered by the new social safety net, where a limited amount of electricity is billed only at cost.</td>
<td>• April 2016: the Government announced that fuel prices would be allowed to fluctuate according to a formula taking into account global fuel prices, production and distribution costs within Qatar; this would be implemented from 1 May 2016, though the petrol prices was expected to stay the same and the diesel price was expected to fall slightly to QAR 1.4 per litre</td>
</tr>
<tr>
<td>• 2010: Electricity subsidy reform, transferring two-thirds of electricity distribution in the West Bank to the private sector and installing prepaid meters to reduce non-payment;</td>
<td>• June 2016: Petrol prices remained almost the same but were of a new, lower octane. 91 octane premium petrol cost QAR 1.2 per litre, 95 octane super gasoline cost QAR 1.3 per litre, and the price of diesel remained unchanged at QAR 1.4 per litre; this was in contrast to the previous month’s prices of 1.15 QR per litre for 90 octane premium and 1.3 QR per litre for 97 octane super.</td>
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</tbody>
</table>
| • 2014: Reduce fuel subsidies by 1 percentage point of GDP, though this was implemented more slowly than planned, as the authorities increased subsidies in Gaza | **Notes:**

101 (Fineren, 2013; Al Araimi, Dokoupil, & Torchia, 2014; Alarimi F., 2015; Alarimi & Torchia, 2016; Walker & Kovessy, 2016)

102 (IMF, 2011b, p. 25; IMF, 2014c, p. 14; IMF, 2016b, p. 5)

103 (IMF, 2011b, p. 25)

104 USD 1 = QAR 3.6414 on 1 January 2011 (Exchange Rates UK, 2016)

105 (Shukurov, 2015, p. 6; Khatri, 2014; Gulf Times, 2015; Kahramaa, 2015; Kovessy, 2015a; Walker & Kovessy, 2016) (Cafiero, 2016; Gulf Times, 2016; Reuters, 2016)
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<tr>
<th>Country</th>
<th>Event(s)</th>
<th>Notes</th>
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<tr>
<td>Saudi Arabia</td>
<td>December 2015: the Government announced a five-year subsidy reform plan. This started with measures expected to save around 1¼ per cent of GDP: an increase in the price of 95 octane petrol by 50 per cent to SAR 0.90 per litre and a two-thirds increase in the price of 91 octane petrol to SAR 0.75 per litre; electricity, water and gas tariffs also increased, with water bills rising by between 400 and 500 per cent.</td>
<td>April 2016: Reports the Government was looking at potential measures to compensate low and middle-income Saudi households.</td>
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<td>Sudan</td>
<td>2011: 44 per cent rise in the price of diesel, 40 per cent rise in the price of jet oil, 31 per cent rise in the price of petrol and an 8 per cent rise in the price of LPG, as part of the preparations for South Sudan’s secession;</td>
<td>In June 2012, the Government increased public sector salaries by SDG 100 per month and more than doubled spending on social benefits. This included an increase in the monthly transfer from 100 SDG per month to 150, though funding was only committed to 2014 and at one point the programme was suspended for lack of funds, restarting in October 2013.</td>
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<td>June 2012: further 47 per cent increase in petrol prices, 23 per cent increase in the price of diesel (up SDG 2.2), 15 per cent increase in the price of LPG (up SDG 2); the price of jet fuel was fully liberalized</td>
<td>Following the September 2013 price increases, the scope of the cash transfer programme was extended further, increasing coverage from 100,000 families to 350,000. However, other reports suggest that the payment following September 2013 was simply a one-off payment of 150 SDG to 500,000 households. The States also implemented some of their own measures to try to protect the poor. For example, Khartoum State sought to control the prices of bread and public transport.</td>
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<td>September 2013: further 65 per cent increase in diesel prices and a 68 per cent increase in the cooking gas price</td>
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<td>These first three rounds of reforms amounted to an average weighed price increase of 162 per cent, but still left substantial subsidies in place.</td>
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<td>September 2015: Wheat subsidies eliminated through changing special exchange rate for wheat imports;</td>
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<td>January 2016: Removal of all cooking gas, fuel oil and jet fuel subsidies, resulting in a 300 per cent increase in the price of cooking gas</td>
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<tr>
<td>Tunisia</td>
<td>September 2012: 7 per cent increase in prices of petrol, diesel and electricity, followed by similar increases in March 2013.</td>
<td>The Government sought to offset the impact of these subsidy reforms on the poor by introducing a new social housing programme and increasing income tax deductions for poor households. It committed to create a unified database of social programme beneficiaries to improve efficiency and targeting. It is also planned to expand its cash transfer programme (PFAN) to 250,000 beneficiaries.</td>
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<td></td>
<td>2014: Energy subsidies for cement companies halved in January and removed entirely in June. Electricity tariffs for low and medium voltage users increased by 10 per cent in January and May. New formula to bring petrol prices in line with the international price introduced in January.</td>
<td>The Government introduced a targeted electricity tariff for households consuming less than 100 kWh.</td>
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<tr>
<td>UAE</td>
<td>2010: 26 per cent increase in petrol prices to USD 0.47 per litre</td>
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106 (Bouyamoun, 2015b; Kerr, 2015; Walker & Kovessy, 2016; Al Hatlani, 2016; Sommer, et al., 2016, p. 44)  
107 (Nerim, 2016)  
109 (IMF, 2012b, pp. 13-14; Kjellgren, Jones-Pauly, El-Tayeb Alyn, Tadesse, & Vermehren, 2014, pp. 9, 26, 35; James, 2014, p. 6)  
110 (Cuesta Leiva, El Lahga, & Lara Ibarra, 2015, p. 5)  
111 (Cuesta Leiva, El Lahga, & Lara Ibarra, 2015, p. 5; OECD, 2015, p. 53)
• 2011: Dubai increased electricity and water tariffs for expatriates, industry and government, with modest electricity tariffs for citizens and water tariffs for very heavy users
• 2014: Sharjah increased electricity and water tariffs for commercial and industrial consumers
• 2015: Abu Dhabi increased electricity and water tariffs for expatriates by 40 and 170 per cent, shortly followed by 15 per cent increases in Dubai and increases the northern emirates
• July 2015: Federal Government announces that gasoline and diesel prices will be deregulated from 1 August, with prices set monthly based on global levels and applying equally to citizens and expatriates. This led to an increase in the price of Special 95 from AED 1.72 to AED 2.14 per litre, but a fall in the price of diesel from AED 2.90 to AED 2.05 per litre. By January 2016, the price of Special 95 had fallen back to 1.58 AED per litre, and diesel to 1.61 AED per litre.112

Yemen

• 3 July 2014: The Yemeni authorities agree to subsidy reforms as a condition of an IMF loan to support growth, as Yemen now faced a fuel shortage and black market diesel made subsidies irrelevant. The reforms were to be introduced in October 2014, with the aim of reducing the subsidy bill by around 50 per cent. They would increase the price of petrol, kerosene and diesel by YER 50 per litre113 and the price of a gas cylinder by YER 800, halving the gap with international prices. Prices would be set by an automatic adjustment mechanism to reflect movements in international fuel prices. The IMF expected this to cause a real reduction in household income of about 10 per cent for the poorest 40 per cent of households.
• 29 July 2014: The fuel shortage caused the government to go further and faster than agreed with the IMF. The government raised the official price of petrol from YER 125 to 200 per litre and diesel from YER 100 to 190.
• September 2014: Fuel subsidy partially reinstated.
• Conflict expanded in 2015, but the Houthi rebels were in practice unable to maintain fuel subsidies. Prices in Sanaa had tripled with a 20 litre barrel of petrol costing YER 10,000 in September 2015, up from YER 3,000 a year earlier.114

To offset the impact on poor households of subsidy reform, the social assistance system was also due to be improved. In 2014, the Social Welfare Fund (SWF) covered around 40 per cent of the population, but much of its funding was lost to inefficiency, leaving little for the poor. Subsidy reform was expected to release more funding to increase transfers by 50 per cent from October that year. This would increase the average monthly transfer from USD 18 to USD 27 per family. The World Bank was also due to provide support to increase coverage and improve targeting.

When the Government increased prices, the SWF was not prepared to provide the compensating transfers: lack of funds meant it had not been authorized to make any payments since January.

In response to protests, the Government committed in mid-August to increase the SWF’s coverage by 250,000, taking total coverage to 1.75 million people to receive quarterly payments of up to YER 12,000. And it authorized the SWF to make its first payment of the year, which had been due in January.115

113 USD 1 = YER 213.4895 on 1 January 2011 (Exchange Rates UK, 2016)
114 (IMF, 2014d, pp. 5, 6, 20; Salisbury, 2014; Al Qalisi, 2015; Al-Shamahi, 2015)
Appendix C: List of ESCWA countries

Bahrain
Egypt
Iraq
Jordan
Kuwait
Lebanon
Libya
Mauritania
Morocco
Oman
Palestine
Qatar
Saudi Arabia
Sudan
Syrian Arab Republic
Tunisia
United Arab Emirates
Yemen
Bibliography


