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Strengthening the Revenue Mobilization Strategy

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Algeria: Strengthening the Revenue Mobilization Strategy
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ABSTRACT: This Selected Issue Paper analyzes Algeria's revenue mobilization challenges and outlines reform options to enhance non-hydrocarbon tax collection. With hydrocarbon revenues dominating public finances and exhibiting high volatility, Algeria's non-hydrocarbon tax revenues remain low and stagnant. Using regression benchmarking, the study identifies a significant non-hydrocarbon tax gap of 2–4 percent of GDP, underscoring substantial untapped potential. Key constraints include weak value-added tax (VAT) and corporate income tax (CIT) performance, a narrow property tax base, and a large informal sector. The paper recommends tax reforms centered on base broadening, simplification of rates and exemptions, further strengthening of the tax administration, and the adoption of a Medium-Term Revenue Strategy (MTRS) to anchor efforts.

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SELECTED ISSUES PAPERS

Algeria: Strengthening the Revenue Mobilization Strategy

Prepared by Charles Vellutini[1]

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STRENGTHENING THE REVENUE MOBILIZATION STRATEGY

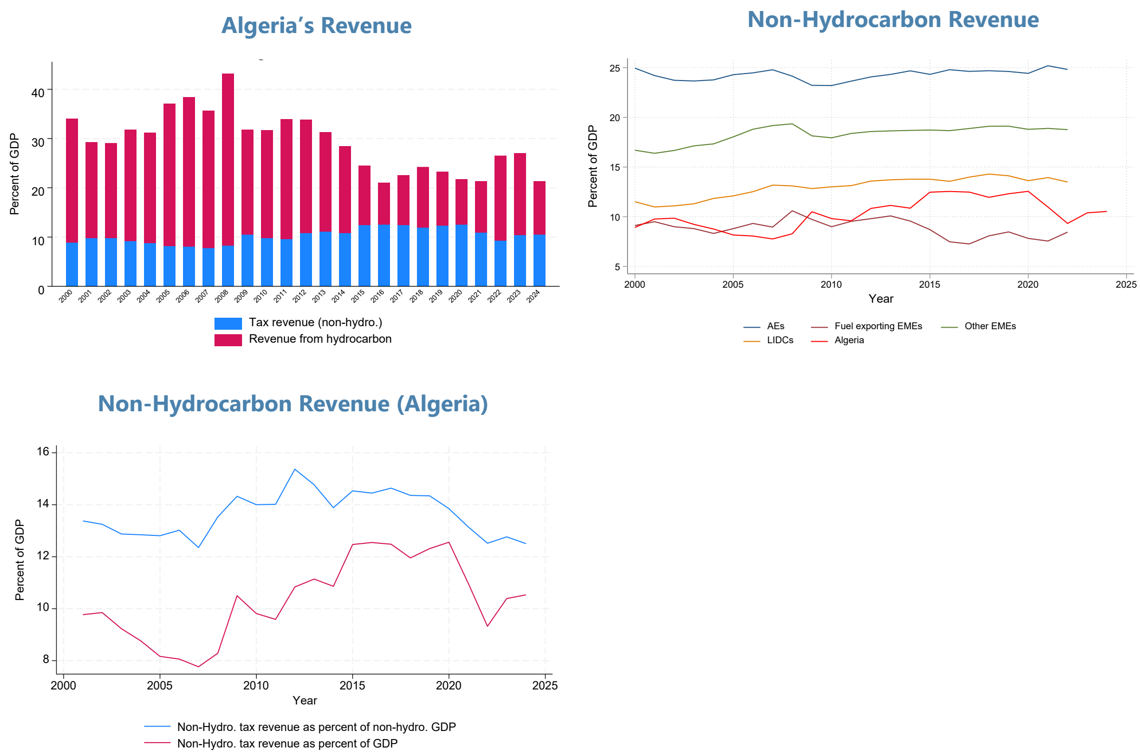
This paper analyzes Algeria's revenue mobilization challenges and outlines reform options to enhance non-hydrocarbon tax collection. With hydrocarbon revenues dominating public finances and exhibiting high volatility, Algeria's non-hydrocarbon tax revenues remain low and stagnant. Using regression benchmarking, the study identifies a significant non-hydrocarbon tax gap of 2–4 percent of GDP, underscoring substantial untapped potential. Key constraints include weak value-added tax (VAT) and corporate income tax (CIT) performance, a narrow property tax base, and a large informal sector. The paper recommends tax reforms centered on base broadening, simplification of rates and exemptions, further strengthening of the tax administration, and the adoption of a Medium-Term Revenue Strategy (MTRS) to anchor efforts. These reforms would strengthen revenue resilience and support sustainable fiscal consolidation.

A. Introduction

1. **Since 2020, the hydrocarbon sector has remained the dominant source of government revenue in Algeria** (Figure 1, upper-left panel). Oil and gas have generated both tax revenue (corporate income tax) and non-tax revenue (notably royalties and dividends from state-owned enterprises), averaging 67 percent of total revenue over the period. However, a key fiscal challenge, as illustrated in the figure, lies in the high volatility of these revenues, which are directly tied to international commodity prices.

2. **In contrast, non-hydrocarbon tax revenues have remained stagnant over the past two decades consistently hovering around 10 percent of GDP** (Figure 1, upper-left panel). In the recent period, these revenues have yet to rebound from the COVID-19 crisis: in 2019, they stood at 12.3 percent of GDP, compared to just 10.6 percent in 2024. As shown in Figure 1, upper right panel, while this is slightly above the average for other fuel-exporting emerging market economies (EMEs), it remains significantly lower than in non-fuel EMEs. As shown in the lower-left panel, non-hydrocarbon revenues—particularly when expressed as a share of non-hydrocarbon GDP—are significantly more stable than hydrocarbon revenues.

Figure 1. Share of Oil and Gas in Revenue and International Comparisons



Sources: World Revenue Longitudinal Database; and IMF staff computations

3. **Strengthening non-hydrocarbon revenue mobilization is essential.** The broader macroeconomic context highlights the urgent need to boost domestic non-hydrocarbon revenues. The non-hydrocarbon primary balance has steadily deteriorated (from -6.9 percent of NHGDP in 2018 to -15.3 percent in 2024) while public spending needs continue to grow. This reinforces the case for consolidating domestic tax revenues—particularly if Algeria is to limit its reliance on external borrowing.

B. Estimating Algeria's Tax Potential and the Scope for Additional Tax Revenues

Algeria's Tax Potential from the Non-Hydrocarbon Sector

4. **We estimate Algeria's tax potential using a regression benchmarking approach.** The approach builds on Benitez et al (2023)[1] who provide a similar analysis for countries around the world. The methodology analyzes differences in tax collection between countries and relates them

[1] For a detailed exposition of the methodology, see Benitez et al. (2023), Annex 1.

to explanatory factors, including, in the baseline model (Model 1), GDP per capita, GDP shares of agricultural value added and trade, and government effectiveness.[2] The tax potential (or the tax frontier) of individual countries is then established by fitting a regression of tax revenues with the explanatory variables, with the fit designed to capture the highest observed levels of tax revenues for given levels of the explanatory variables. The estimated size of the tax gap is calculated by comparing the estimated tax potential to current tax collections.

5. **As a robustness check, the model is next extended to include the share of GDP from the extractive sector[3] in its explanatory factors (Model 2).** Model 2, because it will tend to compare Algeria more with other fuel-exporting EMEs, which have faced similar relatively lower performance in non-hydrocarbon revenue, will tend to suggest a less "ambitious" tax frontier. It can therefore be seen as a lower, minimum tax frontier. On the other hand, Model 1 can be interpreted as suggesting a more ambitious, aspirational goal.

6. **The analysis focuses on non-hydrocarbon tax revenue.** Since revenues from the hydrocarbon sector are highly sensitive to fluctuations in international oil and gas prices, the concept of a structural tax potential is less meaningful for this component. Additionally, as noted, the key policy goal for Algeria is to specifically expand non-hydrocarbon taxation. Following standard practice (Benitez et al. 2023; Verdier et al. 2022), our analysis therefore concentrates on these revenues. Data on revenue are taken from IMF's World Longitudinal Revenue Database for 163 countries over the period 1990–2022.[4]

7. **Results from the baseline model (Model 1) suggest that Algeria's non-hydrocarbon estimated tax gap is significant, ranging from 2.0 to 4.1 percent of GDP (Figure 2).** This implies a non-hydrocarbon tax potential of 13.5 percent of GDP for these years, on average (or 15.9 percent of non-hydrocarbon GDP). In this baseline model, Algeria's remaining tax gap is lower than that of other fuel-exporting countries (for example, in 2022, 4.1 percent of GDP vs 5 percent), but this is largely explained by the fact that the current tax revenue in Algeria is higher—in other words that Algeria is closer to its tax frontier. In fact, Algeria's tax effort is typical of other oil-exporting EMEs, which is marked by a strong dependence on hydrocarbon revenues.[5]

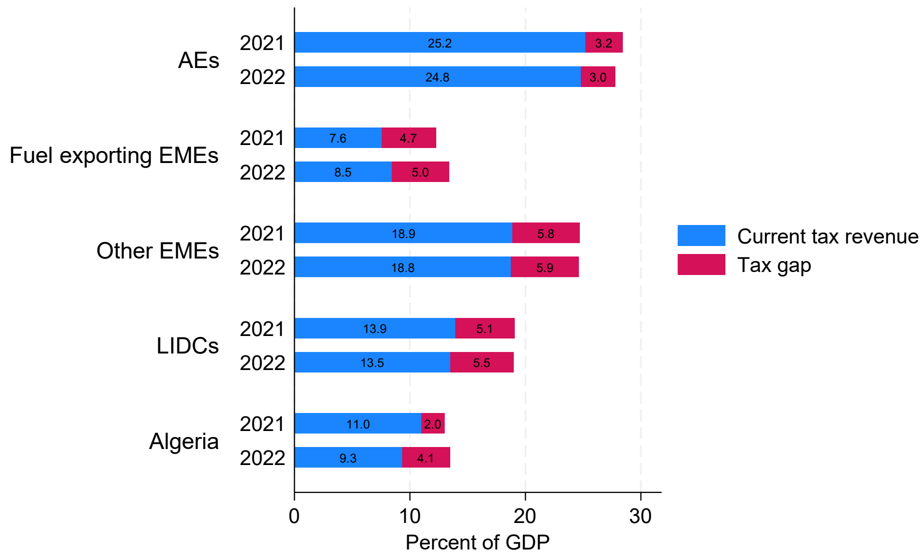
[2] World Bank Worldwide Governance Indicators dataset.

[3] Total natural resources rents (% of GDP), World Development Indicators.

[4] Following Benitez et al (2023), Social Security Contributions are excluded from the estimation of tax potential as some countries earmark them to fund pension and other social transfers more strongly than others. This weakens their interpretation as a tax in comparative analysis since a tax is a compulsory payment for which no direct benefit is expected.

[5] See Verdier et al. (2022) and Figure 4 below.

Figure 2. Algeria's Non-Hydrocarbon Tax Potential (2021-2022), Model 1

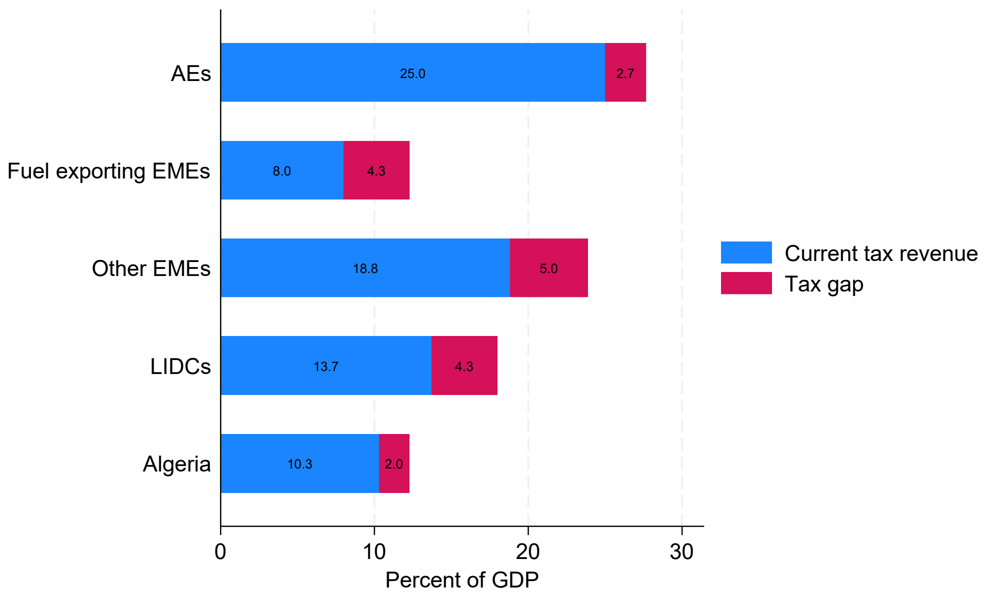


Sources: World Revenue Longitudinal Database, World Economic Outlook, World Development Indicators, and IMF staff computations.

Note: Explanatory variables are GDP per capita, GDP share of agricultural value-added trade, and government effectiveness.

8. Under Model 2, the tax gap remains sizable at about 2 percent of GDP, even after we explicitly control for the share of the hydrocarbon economy in GDP. This version of the model allows for the possibility that the size of the fuel-exporting sector affects a country's non-hydrocarbon tax potential. Since oil-exporting EMEs raise significantly less non-hydrocarbon revenues than other EMEs (see Figure 4), the estimated non-hydrocarbon potential would likely be lower if this structural characteristic were taken into consideration. While Algeria's estimated tax gap is indeed slightly lower under this specification, it remains significant—around 2 percent of GDP, or 2.35 percent of non-hydrocarbon GDP (Figure 3). One way to interpret this result is that even if the hydrocarbon sector continues to dominate Algeria's economy, with diversification remaining limited, the estimated potential for non-hydrocarbon tax revenue is still significant—at around 2 percent of GDP. This can therefore be seen as a lower-bound estimate.

Figure 3. Algeria's Non-Hydrocarbon Tax Potential (2021), Model 2



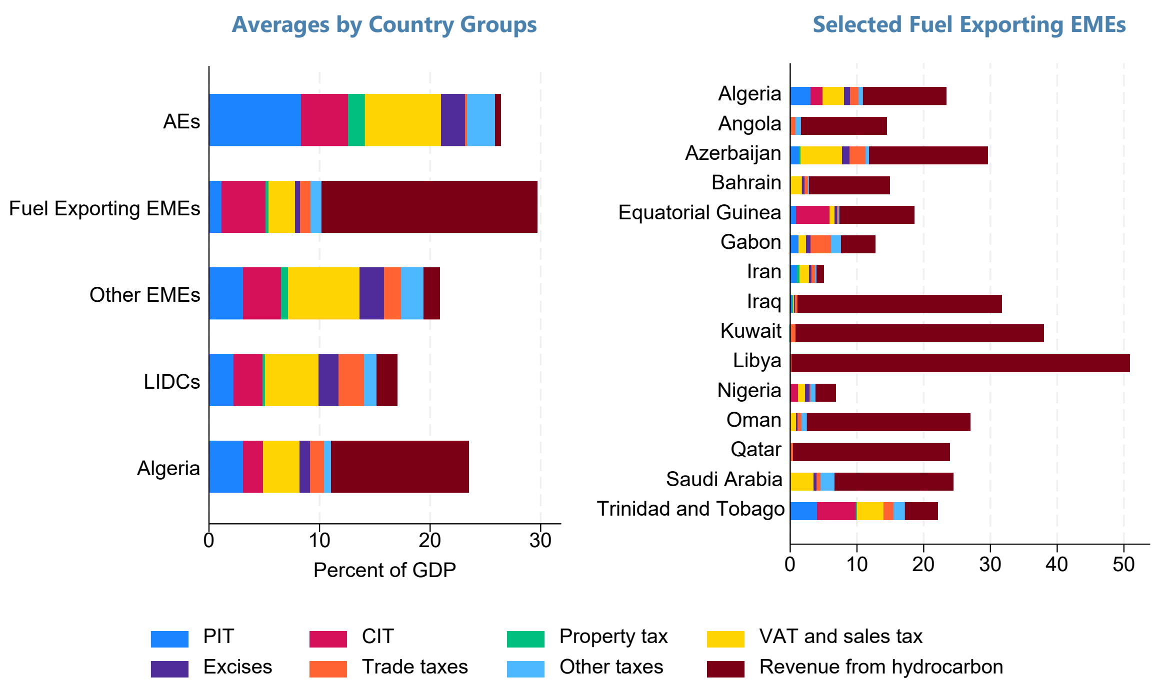
Source: World Revenue Longitudinal Database, World Economic Outlook, World Development Indicators, and IMF staff computations.

Note: Explanatory variables are GDP per capita, GDP share of agricultural value added, trade, government effectiveness, and share of GDP from the extractive sector.

Where is the Scope for Additional Revenue?

9. Algeria's revenue composition indicates potential for revenue growth in key core domestic taxes. Consistent with the tax gap estimates discussed above, the revenue composition in Figure 4 (left panel) shows that overall tax revenue, as a share of GDP, is below the average for both non-fuel exporting EMEs and even LIDCs. In this respect, Algeria resembles most fuel-exporting EMEs, where, again, extractive revenues dominate total collections (Verdier et al., 2022). Furthermore, individual core taxes such as the VAT and the CIT—typically key non-oil revenue sources—are significantly lower in Algeria compared to all peer country groups, except for fuel-exporting EMEs. Figure 4 (right panel) shows that most oil-exporting countries (Trinidad and Tobago being an exception) face similar challenges in diversifying their revenue base.

Figure 4. Revenue Composition (Averages over 2018-2024)



Sources: World Revenue Longitudinal Database; and IMF staff computations.

Note: Averages over the period 2018-2024.

10. The VAT and CIT are both performing below their potential in Algeria. VAT revenues averaged just 3.3 percent of GDP over 2018–2024, reflecting the broader challenge of raising non-oil revenues in hydrocarbon-exporting countries. By comparison, VAT revenues in non-fuel exporting EMEs reached 6.5 percent of GDP during the same period. Similarly, the CIT yielded only 1.8 percent of GDP in Algeria, compared to 3.4 percent in non-fuel exporting EMEs—again pointing to significant room for improvement.

11. Tax expenditures—which reflect the tax policy gap—are generally significant in Algeria. VAT tax expenditures alone are estimated at about 1.5 percent of GDP in 2023, while those related to CIT at 0.24 percent of GDP. Altogether, tax expenditures on these instruments amounts to approximately 1.7 of GDP, highlighting the substantial size of the policy gap

12. The compliance gap has compounded the policy gap, mainly driven by the informal economy. The informal economy—particularly in sectors such as agriculture, commerce, and construction—has contributed significantly to overall tax shortfalls. Recent studies estimate that the undeclared Algeria's economy accounts for approximately 32 percent of total GDP.[6] In terms of tax

[6] See Cardarelli et al. (2022) and https://www.worldbank.org/en/research/brief/informal-economy-database.

revenue, this substantial compliance gap further exacerbates the policy gap, and is likely to be especially pronounced in CIT collections.

C. Looking Forward: Reform Options

13. Algeria's tax system offers revenue-generating opportunities through base-broadening and simplification. The current system is marked by complexity, multiple rates, and widespread exemptions that erode the tax base and weaken compliance. Streamlining VAT rates and exemption, rationalizing CIT incentives, and updating property valuations and related property tax collections could significantly enhance revenue. Similarly, better use of excise taxes would boost collections. This section reviews opportunities for each major tax.

Indirect Taxation

14. VAT performance has been weakened by multiple exemptions and reduced rates. A dynamic of accumulating exemptions and zero-rating, combined with the widespread application of the reduced VAT rate (9 percent; standard rate of 19 percent), has undermined the efficiency of the tax. This has resulted in:

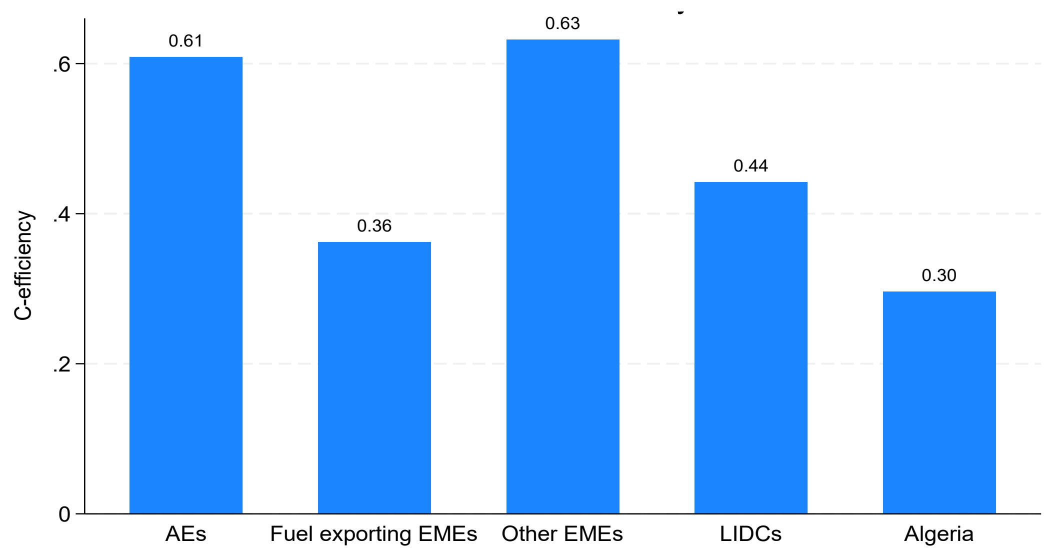
- Erosion of the tax base, with declining C-efficiency (the ratio of actual to potential revenue): averaging 30 percent over 2018–2024, compared to 42 percent in fuel-exporting EMEs and 59 percent in other EMEs (Figure 5). In addition, the trend is clearly downward, with C-efficiency falling to just 27 percent in 2024 (Figure 6).

- Administrative complexity, as 70 percent of VAT credit refund requests originate from exemptions that permit input tax deductions (i.e., zero-rating).

- Loss of VAT neutrality, typically one of its key strengths, due to wide variation in effective tax rates across product categories. This also implies reduced ability to indirectly tax the informal sector, normally a major strength of the VAT.

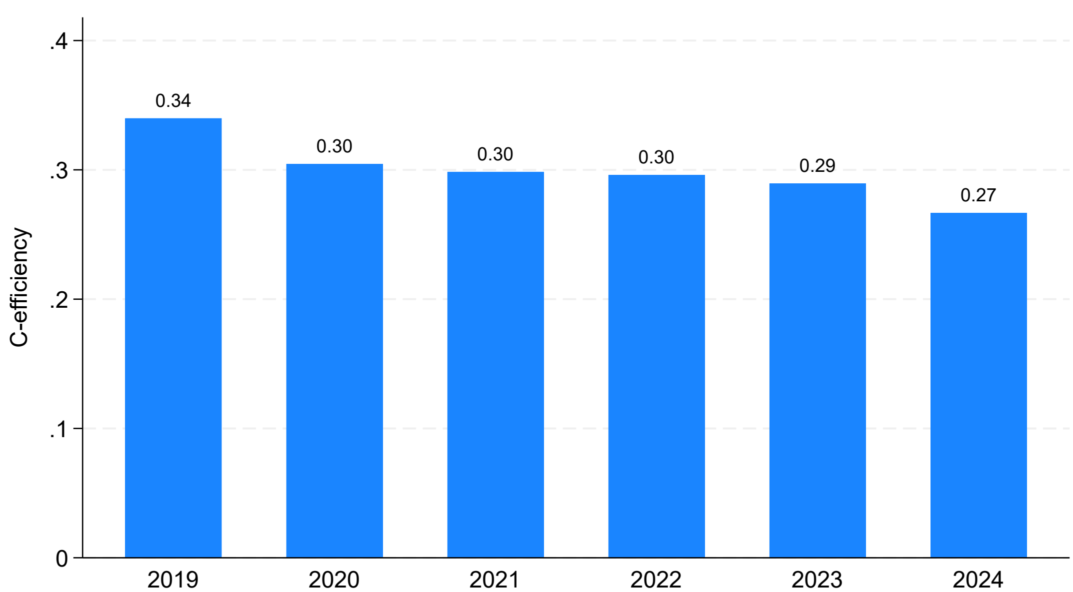
- Increased regressivity, with VAT-related tax expenditures disproportionately benefiting higher-income households.

Figure 5. VAT – International Comparisons of C-Efficiency



Sources: World Revenue Longitudinal Database, World Economic Outlook, and IMF staff computations.
Notes: (1) Averages over 2018-2024; (2) C-efficiency is the ratio of observed VAT collections over its theorical potential calculated by applying the standard VAT rate to aggregate private consumption.

Figure 6. VAT – Evolution of C-Efficiency (Algeria)



Sources: World Revenue Longitudinal Database, World Economic Outlook, and IMF staff computations.

15. VAT reform would include addressing excessive exemptions and zero ratings, as well as improving its refund mechanism. Considering these weaknesses, a reform of the VAT system is advisable. Key actions include rationalizing exemptions and zero ratings and restricting the reduced rate to basic necessities[7] and agricultural inputs. To restore VAT neutrality and improve compliance, reforms should also address legal and administrative obstacles to timely credit refunds and phase out exemptions and zero ratings in the oil & gas and real estate sectors. The total revenue gain from these reforms is estimated at approximately 0.75 percent of GDP, about half of the estimated VAT tax expenditures.[8]

16. There is potential to expand excise taxation, including from fuels and tobacco. Tobacco products, alcohol, and selected luxury goods are appropriately taxed through the Domestic Tax on Consumption,[9] while fossil fuels fall under the Tax on Petroleum Products (TPP). Algeria's excise system includes specific (ad quantum) taxes, which are well suited to address negative health and environmental externalities—an encouraging feature (see Table 1). However, as shown in Figure 4, excise revenues averaged only 0.9 percent of GDP between 2018 and 2024, compared to 2.2 percent in non-fuel-exporting countries. This points to scope for expanding excise taxation, with the added advantage—relative to many other tax reforms—of generating additional revenue in the short term. Tobacco excise taxes (on cigarettes) increased in 2025 from 37 to 50 dinars per pack, marking a step in the right direction.

Table 1. Excises Rates (Selection)

Product	Fixed Rate/Proportional Rate
Cigarettes/Tobacco	10–15% (additional), 5% (from 2022), DZD 50/pack (from 2024)
Electronic Cigarettes	40%
Matches/Lighters	20%
Beer	3,971 DZD/hl (fixed), 10% (proportional)
Coffee	10%
Luxury Goods	Up to 30%
Fuel (Normal)	800 DZD/hl
Fuel (Super/Unleaded)	900 DZD/hl
Diesel	1 DZD/hl

Sources: MoF, and IBFD.

[7] This reform should be coordinated with the reform of subsidies and related price regulations, which often apply to the same commodities.

[8] IMF-FAD tools (especially RA-GAP for VAT) for precise tax gap measurement could be mobilized to refine this estimate, provided there is coordination with the World Bank, which has supported VAT gap modeling. See https://www.imf.org/en/Capacity-Development/Training/ICDTC/Courses/VGAPx.

[9] *Taxe intérieure de consommation.*

Direct Taxation

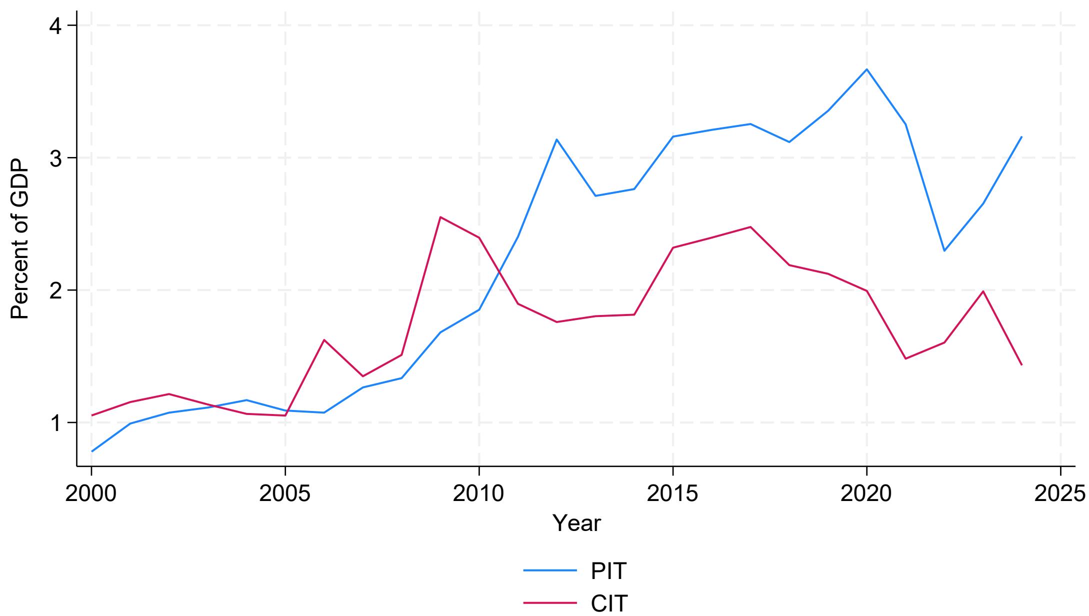
17. The CIT features multiple rates and includes numerous exemptions and incentives.[10] The CIT applies at three distinct rates depending on the nature of the business activity. A reduced rate of 19 percent is applied to manufacturing activities, while a 23 percent rate applies to firms operating in construction, public works, hydraulics, tourism, and thermal activities (excluding travel agencies). All other activities are taxed at the standard rate of 26 percent. Additionally, manufacturing companies benefit from a reduced 10 percent corporate income tax rate when profits are reinvested, while expenses related to in-house R&D or innovation partnerships with certified start-ups are deductible up to 30 percent of taxable profits. In parallel, the 2022 Investment Code provides additional incentives under three regimes—sectoral, regional, and large-scale structural projects—offering generous tax holidays for up to ten years, depending on the nature and location of the investment.

18. This complexity undermines the neutrality, transparency and revenue potential of the CIT. Multiple rates and exemptions increase compliance costs for both businesses and tax administration, while also facilitating non-compliance. For instance, applying a different rate to reinvested profits is notoriously difficult to monitor and administer, given that investment is usually financed from fungible sources. Moreover, multiple rates weaken sectoral neutrality. Ultimately, such complexity is likely to erode CIT revenue, which is significantly below that of peer countries, as noted above. As shown in Figure 7, CIT revenues have remained stagnant over the past decade and have been overtaken by PIT as a source of revenue.

19. The simplified tax regime for SMEs (*Impôt Forfaitaire Unique* – IFU) covers about 80 percent of all businesses and plays a key role in promoting formalization. The IFU is a turnover-based tax applied to SMEs with annual revenue below 8 million dinars (approximately USD 61,000). Rates range from 5 to 12 percent, and the minimum annual payment was increased from 10,000 to 30,000 dinars in 2025 in an effort to strengthen collections. Alongside the auto-entrepreneur regime, which targets self-employed individuals, the IFU supports small business integration into the formal economy. A key challenge to is, however, to encourage SMEs, as they grow, to switch to the standard regime – which also strengthens the case for simplifying the standard CIT.

[10] *Impôt sur le bénéfice des sociétés.*

Figure 7. PIT and CIT Revenue



Source: World Revenue Longitudinal Database.

20. Options for a CIT reform include streamlining of the rate structure and investment incentives. Rate uniformization and rationalization of tax incentives are promising directions for CIT reform. In addition, the ongoing international corporate tax reform under Pillar Two[11] offers an opportunity for Algeria to align its investment incentives with the global minimum tax framework, and to improve its minimum business taxation[12]. However, it is acknowledged that, since the changes to investment incentives are relatively recent (2022), significant reforms are probably not advisable in that area in the near term.

21. Improving the fiscal regime for the mining industry. With significant reserves of phosphates, iron, zinc, lead, and other minerals, the mining sector has strong potential to support both economic diversification and increased tax revenues. Introducing a more progressive, profit-based fiscal regime could make the sector more attractive to private investors, while also ensuring that the government captures a fair share of revenues during periods of high commodity prices.

[11] Pillar Two is a global tax reform initiative that introduces a minimum effective corporate tax rate of 15 percent for large multinational companies to reduce profit shifting and tax competition. See https://www.oecd.org/en/topics/sub-issues/global-minimum-tax/global-anti-base-erosion-model-rules-pillar-two.html.

[12] Regardless of profitability, every company must currently pay a minimum annual corporate tax of DZD 10,000 (around US $70).

Given the currently low revenue from the mining sector (around 0.02 percent of GDP), a profit-based progressive royalty system could likely generate additional revenue.[13]

22. The PIT has performed better, especially recently.[14] As shown in Figure 7, PIT revenues have been on an upward trend and broadly align with peers, as noted above. A revision in 2022 led to lower PIT rates, with many private sector workers falling below the exemption threshold. This reform improved the progressivity of the PIT, with no noticeable effect on overall PIT revenue so far (Figure 7) —possibly because the increase in public sector wages in 2022, 2023, and 2024 offset potential revenue losses. Table 2 shows that the redistributive capacity of the PIT (the difference between the pre- and post-Gini coefficient for the income distribution) is 4.78, comparable to that of selected comparator countries such as Egypt, South Africa, Tunisia, and Morocco. This is also visible in Figure 8, which reports the marginal and average rates of the PIT in these countries.

Table 2. PIT Indicators and Comparators

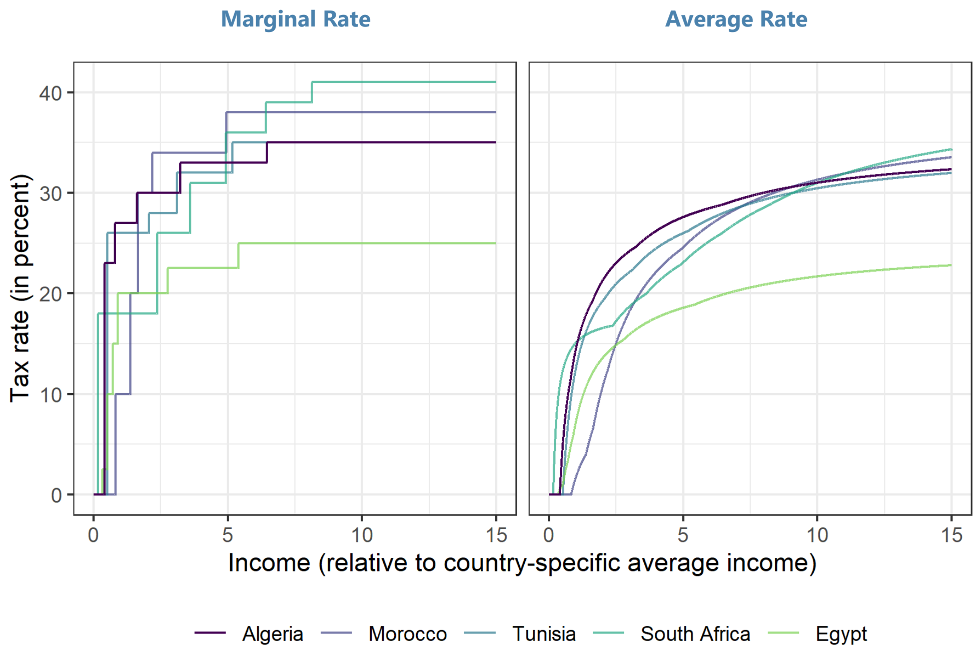
		Comparators			
	Algeria	Egypt	South Africa	Tunisia	Morocco
Basic tax parameters					
Basic deduction (LCU)	240,000	24,000	16,425	5,000	30,000
Marginal rate above deduction	23.00	2.50	18.00	26.00	10.00
Top PIT rate	35.00	25.00	45.00	35.00	38.00
Tax system characteristics					
Revenue (in percent of GDP)	3.14	1.64	9.11	7.58	3.62
Share outside of tax net	17.49	19.54	34.27	39.25	70.10
Aggregate tax rate	19.10	11.87	25.32	16.44	13.73
Aggregate tax rate, above threshold	19.50	12.17	25.96	18.35	18.79
Redistribution					
Pre-tax Gini coefficient	48.70	57.19	76.88	53.05	60.04
Post-tax Gini coefficient	43.92	53.17	72.23	47.76	54.52
Redistributive capacity	4.78	4.02	4.65	5.29	5.52
Average tax rates					
Quintile 1	1.75	0.00	0.00	0.00	0.00
Quintile 2	9.45	0.82	3.05	0.17	0.00
Quintile 3	13.96	2.84	10.16	8.58	0.00
Quintile 4	18.31	7.89	14.37	15.01	2.39
Quintile 5	31.43	22.78	39.64	30.92	33.61

Source: PIT Tool Assessment, IMF.
Note: All values in percent except otherwise indicated. Latest years available.

[13] While energy and commodity prices are both influenced by common global demand trends, commodity prices—such as those of phosphates, iron, and zinc—respond more directly to sector-specific demand from agriculture and construction. As a result, increased revenue from the mining sector would not necessarily add to overall revenue volatility.

[14] *Impôt sur le revenu global.*

Figure 8. PIT Rates in Algeria and Comparator Countries



Source: World Inequality Database, IBFD, PIT Tool Assessment, IMF.

23. Nevertheless, there is scope for PIT simplification. The PIT includes a multiplicity of brackets and a complex system of deductions and credits, contributing to compliance difficulties for both taxpayers and the administration. In fact, the PIT is characterized by a high degree of fragmentation due to a wide array of deductions, abatements, and tax credits, many of which are sectoral, categorical, or conditional. While some aim to ensure progressivity or protect low-income earners, the overall result is a system that is difficult to navigate for taxpayers and burdensome to administer. Simplifying the PIT structure—by consolidating deductions, limiting exemptions, and reviewing special regimes—would enhance fairness, improve compliance, and support stronger revenue mobilization.

24. Algeria's property tax is a critical component of local government finance but faces significant structural challenges.[15] While it represents an important share of local tax revenues, the overall tax base remains narrow, and collection rates are low. As shown in Figure 4, its contribution to total revenue is minimal, despite estimates suggesting a potential of over 1 percent of GDP. One key factor behind this underperformance is that the administrative property values used to calculate the tax base are significantly out of step with actual market values. This undermines the ability of local governments—particularly in rural and smaller municipalities—to mobilize sufficient revenue to meet local needs. The development of a functional property tax system should therefore be an integral part of the broader tax reform agenda.

[15] *Taxe foncière*.

25. Addressing small and inefficient taxes. Finally, Algeria's tax system includes numerous small taxes that generate limited revenue while imposing fixed administrative costs.[16] A comprehensive reform should reassess these taxes, weighing their individual revenue potential against the complexity they add to the system.

Tax Administration

26. Strengthening the tax administration. Algeria's tax administration has made significant efforts to digitalize operations and improve information systems. Among further key potential improvements, introducing a comprehensive risk management framework for major sectors[17], including oil and gas, could significantly further enhance compliance and contribute to revenue stabilization.

27. Tax arrears recovery is a key revenue issue. The tax administration has rightly allocated substantial resources to recovering outstanding tax debts, of which an estimated 1,500 billion dinars (around 4.4 percent of 2024 GDP) are considered recoverable. Potential annual recoveries are estimated at about 200 billion dinars, or 0.6 percent of GDP – a very significant amount.

28. Conducting a tax administration diagnostic assessment tool (TADAT) would help identify priorities in tax administration reform. TADAT is an internationally recognized framework developed by the IMF to assess the strengths and weaknesses of a country's tax administration.[18] TADAT uses a standardized methodology to evaluate key areas such as tax registration, filing, payment, compliance, and dispute resolution, covering major taxes like income tax and VAT. The assessment is structured around nine performance outcome areas, with results scored from A (good practice) to D (weak performance). TADAT provides governments and development partners with an objective basis for identifying reform priorities, tracking progress, and aligning technical assistance, thereby supporting more effective and transparent tax systems. Notably, Tunisia and Morocco have already conducted TADAT assessments in recent years.

D. Conclusion: Towards a Domestic Resource Mobilization Strategy

29. Significant additional domestic resources could be mobilized through further tax reform. Algeria has the potential to increase non-hydrocarbon tax revenues by an estimated 2 to 4 percent of GDP. Key reform priorities include broadening the tax base by streamlining exemptions and rates for core taxes, and strengthening under-utilized taxes such as excise duties, the property tax, and mining royalties.

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[16] Including the *Droits de timbre*, the *Taxe de domiciliation bancaire*, the *Taxe pour usage des appareils récepteurs de radiodiffusion et de la télévision*, and the *Taxe de publicité.* The *Loi de finance* 2025 alone created three new taxes : the *Taxe perçue au titre des autorisations de production audiovisuelle*, the *Taxe perçue sur la carte nationale du journalisme professionnel*, and the *Taxe perçue au titre de l'accréditation des correspondants permanents des médias de droit étranger*.

[17] See Betts (2022).

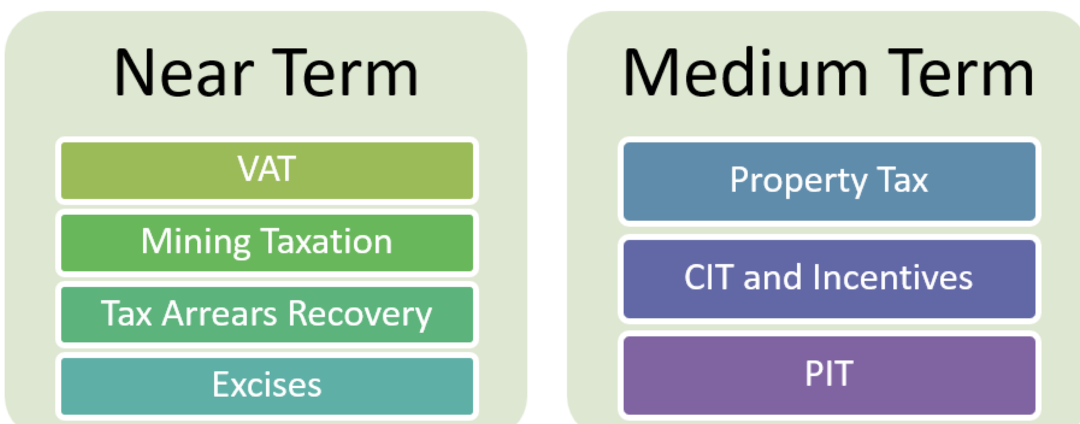
[18] See https://www.tadat.org/

30. Improving the tax system design. Focusing on core domestic taxes reform priorities could involve:

- Streamlining tax rates, particularly in VAT and CIT, to reduce distortions and improve neutrality.
- Rationalizing tax exemptions and incentives for VAT, CIT and PIT, with clear criteria and limited use.
- Enhancing the design and performance of excise taxes, the property tax, and the fiscal regime for the mining sector.

31. However, the stability of the tax system also matters, and careful consideration should be given to reform sequencing and prioritization. For example, as mentioned above, investment incentives were relatively recently modified (2022) and it would not be opportune to reform them again in the short term. Similarly, the PIT was recently reformed and does not present a priority either for the near term. Improvements in VAT, mining taxation and excise taxes could happen sooner, as illustrated in Figure 9. Tax arrears recovery, already well under way, remains a near-term priority.

Figure 9. Prioritization of Reforms



32. Towards a revenue mobilization strategy. A medium-term revenue strategy (MTRS) could be useful to implement a comprehensive tax reform, including tax administration and compliance management. The MTRS is a framework typically spanning 4 to 6 years used to give visibility of the tax reform while ensuring the adequate coordination between tax policy changes, tax administration reforms and tax law codification. The MTRS has been used in 24 countries, including in Egypt.[19] A MTRS frames tax system reform holistically over the medium term with four interdependent components:

[19] See PCT (2023).

- A sustained political commitment from formulation to implementation.
- A coordinated support among capacity development partners to align with government leadership and priorities.
- A quantified revenue target to support economic and social development.
- A comprehensive approach addressing policy, administration, and legal framework interlinkages.

33. Structural reforms would critically support a tax reform. Broadening financial inclusion and limiting the use of cash in transactions, fighting corruption in tax administration and improving transparency and efforts to reduce the size of the informal sector would support the revenue mobilization objective.

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