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A New GCC Fiscal Era – A Look At the Macro And Firm-Level Impact of Tax Reforms

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ABSTRACT: In 2014, the collapse of global oil prices and the resulting increase in fiscal deficits and debt triggered a wave of spending cuts, tax policy and subsidy reforms. The introduction of excises and VAT, broadening of CIT, and subsidy reform have changed the GCC fiscal landscape. Little is known on how those recent changes have been impacting the economy. This paper first highlights the fiscal history and current fiscal landscape across the GCC. It then utilizes both macroeconomic and firm-level financial data to analyze the impact of tax policy reforms on economic and firm-level outcomes using panel data techniques. The paper finds that the different reforms have had a minor impact on GDP growth, inflation, and other economic variables, while the impact on firms is more nuanced. VAT is not found to impact firm financials, suggesting well-functioning VAT refund systems. Changes to CIT, however, have some impact especially on smaller companies, while the impact of excises depends on analyzed subgroups. The emerging picture suggests that tax policy reforms have had an overall rather small impact on the GCC economies, but care should be taken in exact policy design.

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WORKING PAPERS

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Contents

I. Introduction

Over much of the past century, the six GCC states heavily relied on oil revenues to finance generous welfare benefits and low domestic energy prices. Up to 2015, the average ratio of oil and gas revenue to total revenue was 83 percent on average across the GCC.[1] Public consumption and investment represented close to 30 percent of GDP (2014) on average, and almost 40 percent for Oman and Saudi Arabia (2015). A low tax burden and low input prices amid stable political systems and good infrastructure have long provided an advantage to the private sector compared to other emerging markets and high-income economies. For example, compared to BRICS countries (Brazil, Russia, India, South Africa), GCC firms have consistently maintained low debt levels but sustained high levels of profitability since 2007.

Figure 1. Return on Equity (Ratio)

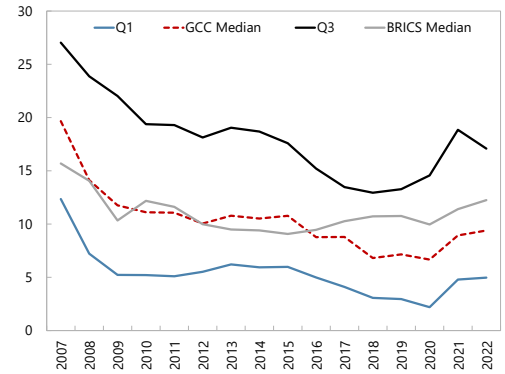
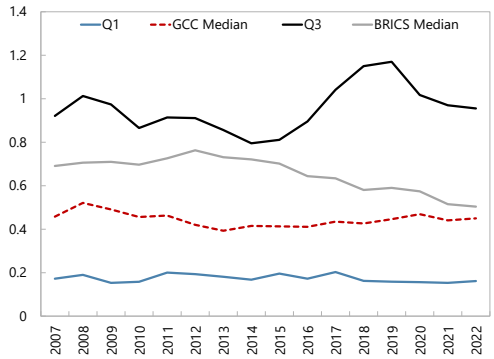


Figure 2. Leverage: Total Debt/Total Equity (Ratio)



Sources: S&P Capital IQ and IMF staff calculations.

In 2014, the collapse of global oil prices and the resulting rapidly increasing fiscal deficits and debt triggered a wave of spending cuts, tax policy and subsidy reforms. GCC-wide excise and VAT tax treaties of 2016 led the way to rapidly broadening GCC tax systems. More recently, broadening the corporate income taxation (CIT) base is equally gaining steam.[2]

Given the only recently changing tax policy and energy price landscape across the GCC, the reforms' impact has received little attention. To the best of our knowledge, this is the first paper that estimates the impact of GCC tax policy reforms on economic activity as well as firm level financials across the GCC. Previously, several regional papers focused on fiscal consolidation policies based primarily on public spending cuts. Most of the existing literature shows a positive and strong relationship between public spending and overall or non-oil growth and other variables, as well as a high fiscal dependence on oil prices (see, e.g., Al-Jarrah (2005), Al-Obaid (2004), Al-Yousif (2000), Alshahrani and Alsadiq (2014), Aschauer (1989), Ayadi et al., (2000), Callen et al., (2012); Al-Mazrouei and Nejmeh (2012). Espinoza and Senhadji (2011), and Cerisola et al. (2015). Fiscal multipliers were also shown to be both short-lived and to have declined more recently (Espinoza and others,

[1] The GCC currencies have been pegged against the U.S. dollar for decades, with only Kuwait relying on a peg to an undisclosed basket of currencies since 2007.

[2] At the same time, having long been almost constant until then, pump prices jumped in all GCCs in 2015. Yet only the UAE deregulated prices for gasoline and diesel entirely in 2015, while fossil fuel prices remained below international ones in the other GCC, still resulting in significant subsidies. Ad-hoc adjustments remain standard for both fuel and gas in most GCC, with domestic prices well below international ones.

2011, Cerisola and others, 2015, Fouejieu and others, 2018). More recently, Mgammal and others (2023) have shown based on firm-level data that increases in VAT had a negative short-term impact on firm profitability, on average, across industries, but a longer-term positive impact is expected.

Figure 3. International Oil Price Developments (US/bl)

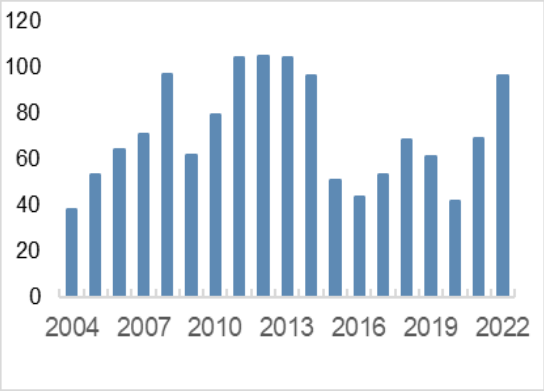
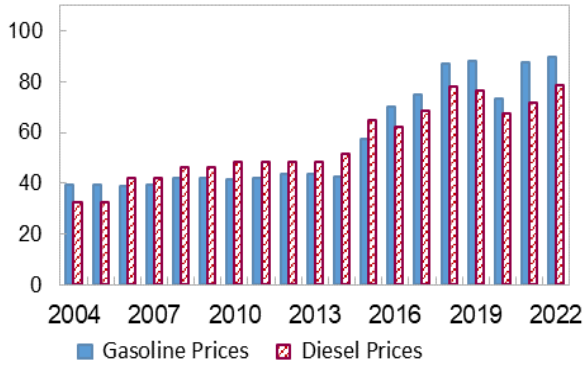


Figure 4. GCC. Domestic Fuel Price Developments (US/bl)



Sources: IMF WEO; IMF FAD fuel subsidies template & The World Bank Development Indicators and staff estimates.

Using fixed effects panel data estimation techniques and the local projection method by Jordà (2005), this paper is the first to focus specifically on tax policy changes across the GCC region. We show that recent tax policy changes have had a small impact on economic activity. Both macro-economic variables and firm-level financials are analyzed. Overall, VAT pushes inflation up, but the impact is short-lived, while the impact on GDP is positive and firms are not impacted, a sign that VAT refund systems for those GCC countries that implemented VAT are functioning. Excises impact firms subject to them and might cause a temporary increase in smuggling. Increased harmonization of tax rates across the GCC would therefore be helpful. Finally, CIT changes are found to impact especially small and medium-sized companies (SMEs), calling for a differentiated treatment of SMEs when introducing broad-based CIT.

The paper is structured as follows. Section II outlines historic and recent fiscal developments and reforms across the GCC. Section III briefly describes the data, and the empirical strategy used. Section IV presents the estimation results, and section V concludes.

II. Fiscal Developments and Reforms

II.a. Tax reforms before 2015

GCC tax reforms are not new, but previous reforms did not last in most GCC (see Annex I for details on tax reforms before 2015)**.** Saudi Arabia led the way to broader taxation in 1950, when it introduced personal and corporate income taxes and capital gains on both nationals and non-nationals. All taxes were later reformed to exclude nationals and were eventually suspended for non-nationals in 1975 due to the objective to attract

foreign investment (IMF 2016) and high oil prices supporting revenue. In the 1980s, the government of Saudi Arabia reintroduced corporate income tax (CIT) on foreign companies at a rate of 45 percent, which was reduced to 30 and then 20 percent in 2000 and 2004, respectively, to encourage foreign investment. Other GCC members embarked on similar journeys, with tax introductions either unsuccessful or later amended with the aim of attracting and retaining foreign investment. For example, a 20 percent tax applicable to foreign banks was introduced in the UAE in 1960 but plans to introduce a broad CIT did not materialize. Kuwait and Qatar introduced a CIT on foreign companies in 1955, initially set at rates of 55 and 50 percent, respectively, which were reduced to 15 percent in 2007 in Kuwait, and 10 percent in 2010 in Qatar. Bahrain twice unsuccessfully tried to introduce CIT on foreign companies in 1985 and 2009. To date, Bahrain is the only country in the GCC region without any form of CIT on companies except a 46 percent rate for oil and gas companies.

Oman is the only GCC to establish a broad CIT prior to 2015. In 1971, it introduced its first income tax law, which was replaced by the corporate income tax law for both domestic and foreign companies in 1981. The actual implementation of CIT in Oman occurred in 1994 when the tax law was amended to cover only industrial and commercial companies. In 2001, professional establishments were added, and the CIT rate was reduced from 50 percent to a flat rate of 12 percent. A 2010 new integrated corporate income tax law raised CIT rates to 15 percent for both foreign and domestic companies, and to 55 percent for hydrocarbon companies.

GCC countries distinguish between corporate taxes on oil and non-oil companies, reflecting the role that the hydrocarbon sector plays in the region. Taxes on companies engaged in petroleum and natural gas extraction date back to the 1950s and range from 15 percent in Kuwait to up to 85 percent in Saudi Arabia (irrespective of nationality). However, those rates tend to vary depending on several elements, including size of activity and the oil price (e.g., Saudi Arabia) or are applied to only a small number of companies (e.g., Bahrain).

While personal income taxes (PIT) remain absent across the GCC, Saudi Arabia has a long history of levying Zakat, an optional religious (and in principle voluntary) wealth tax based on an individual's net worth, which was first introduced in the GCC as early as 600 AD. Implementation and collection of Zakat received renewed focus in Saudi Arabia in the 1930s, and by the early 1950s, Saudi Arabia had established the Department for Zakat and Income Tax (ZATCA) with the aim of collecting Zakat from both individuals and companies (see for example AlLami, 2009).

Customs duties were unified among the GCC in 2003. After implementation of the new Common External Tariff (CET) framework on January 1, 2003, all non-GCC products, except for those exempted, became subject to 5 percent customs duty. Exempted products include medicines, most food products, most capital goods and raw materials for industries (IMF, 2015). Products from within the GCC are entering into each other's markets free of charge.

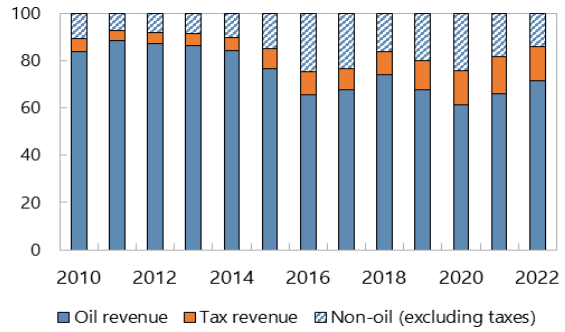
Overall, efforts to raise substantial non-oil tax revenue were affected by both the governments' focus to attract foreign direct investment and foreign expatriates, and by abundant oil revenue that supported the GCC's welfare states. Efforts to attract foreign investment also resulted in the introduction of significant tax holidays and the establishment of free zones, which reduced effective tax rates on foreign corporations (see Annex II for a list of current incentives).

In the absence of a broad fiscal regime, non-oil tax revenue in the region remained low, standing at about 4 percent of total revenue (1.6 percent of GDP) between 2010 and 2014. Total non-oil revenue hovered at

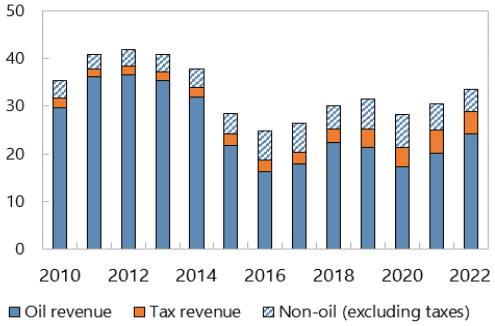
around 5 to 7 percent of GDP during the same period, significantly lower than other oil exporting countries of other regions (Figure 5, second row).

Figure 5. GCC – Public Oil and Non-oil Revenue

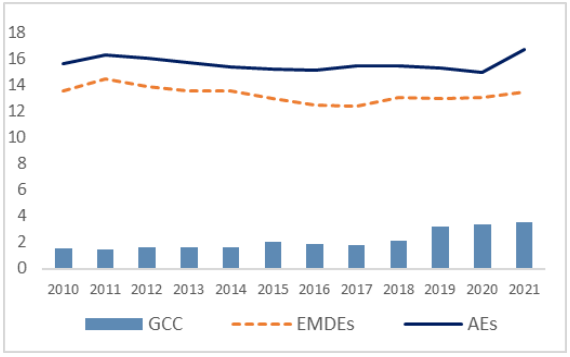
A. GCC. Government Revenue-Percent of Revenue



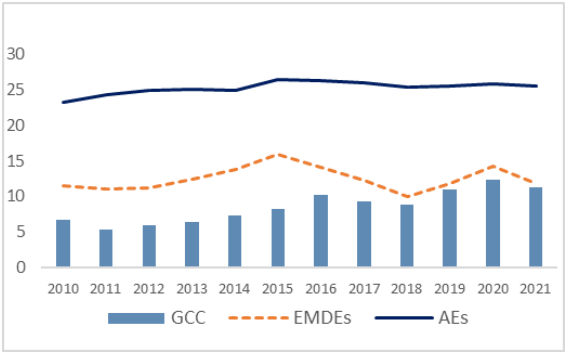
B. GCC. Government Revenues-Percent of total GDP



C. Non-Oil Tax Revenue to GDP in Percent: GCC vs Other Oil Exporters



D. Non-Oil Revenue to GDP in Percent: GCC vs Other Oil Exporters



Sources: IMF WEO, country authorities, World Development Indicators and IMF staff calculations.
Notes: Oil exporting Emerging Markets & Developing Economies (EMDEs) for which data is available include exporters include Albania, Angola, Azerbaijan, Brazil, Ghana, Kazakhstan, Mexico, and Uzbekistan. Oil exporting Advanced Economies include Canada, Norway, and USA.

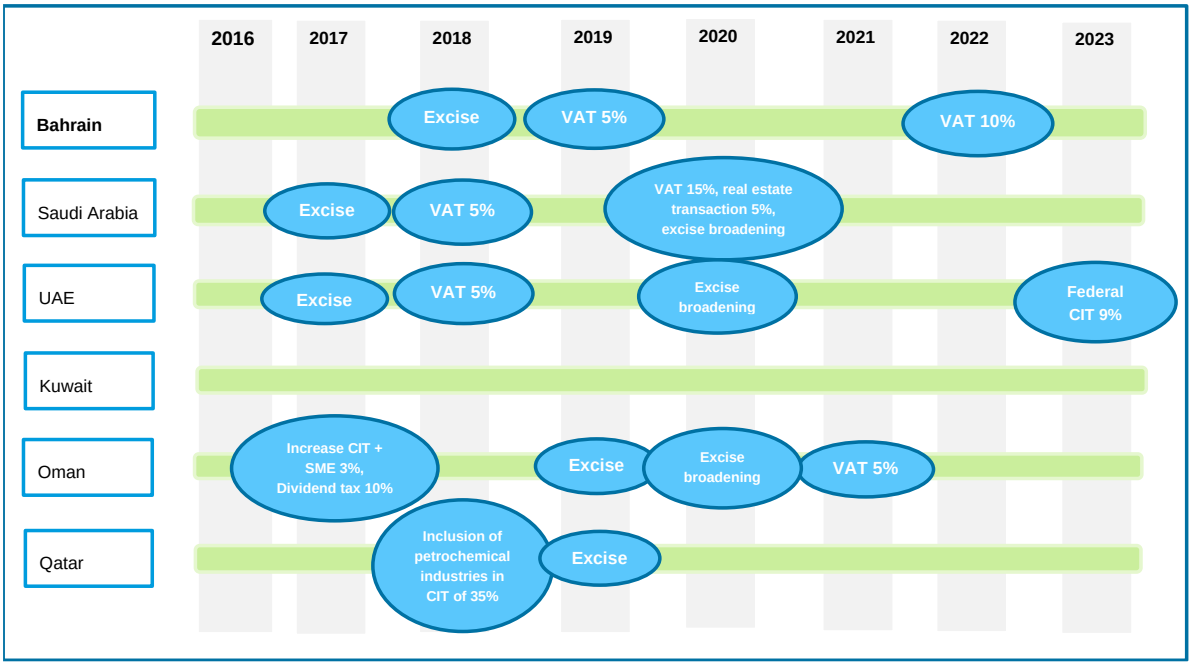
II.b. Tax reforms as of 2015[3]

The sharp decline in oil prices that started in mid-2014 resulted in large fiscal deficits (IMF, 2015) and prompted a wave of tax reforms to balance strained fiscal positions and diversify revenue sources across the GCC. A GCC excise tax treaty introduced in 2016 harmonized excises on products deemed harmful to human health

[3] Tax reforms are only described until implementation during 2023. Recent announcements (such as CIT implementation in Bahrain), and not included. With firm-level data ending at end-2022, later policy reforms are not included in the empirical analysis.

(energy and soft drinks, and tobacco) as of 2017. The 2016 VAT tax treaty set the stage for a uniform imposition by the GCC of a 5 percent VAT. All countries, except for Kuwait and Qatar (the latter having introduced excises), implemented both treaties at different speeds, with both UAE and Saudi Arabia being first movers (Figure 6). One of the main characteristics of tax systems in the GCC remains that there is no PIT. However, Saudi Arabia continues to enforce a 2.5 percent Zakat on national companies and individuals alike (although it is not mandatory for individuals).

Figure 6. GCC—Tax Reforms Since 2016



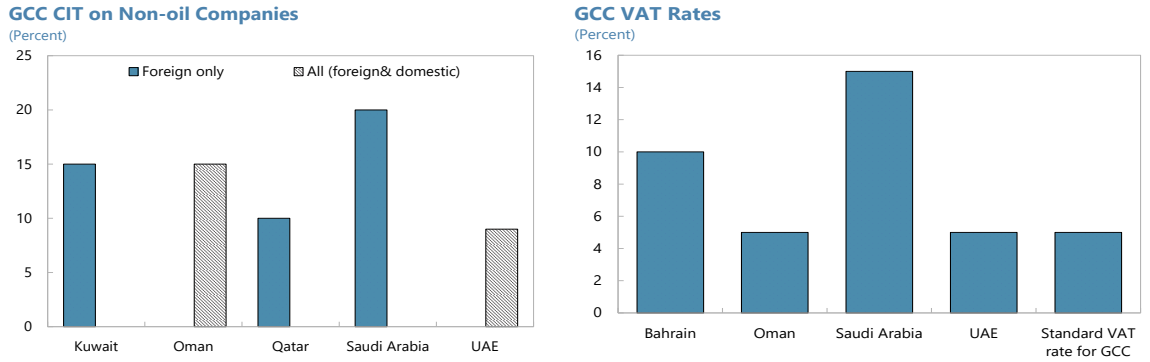
Sources: Tax documents (such as PWC), country authorities.

Broadening of the GCC tax systems is continuing. VAT rates in Bahrain and Saudi Arabia were recently increased to 10 and 15 percent, respectively, and excise regimes in the UAE, Saudi Arabia and Oman were broadened to include electronic smoking devices, other sugary products, alcohol and pork.[4] All excises are levied at a rate of either 50 or 100 percent. As of today, Bahrain remains the only GCC without any form of corporate taxation outside the oil and gas sector (Figure 7). Oman has a broad CIT of 15 percent (increased from 12 percent in 2017). Kuwait, Qatar and Saudi Arabia tax foreign companies (from outside the GCC) only. In addition, Saudi Arabia's Zakat, levied on all domestic companies, can, depending on the sector, equal a tax burden equivalent to a general CIT. The UAE introduced a federal CIT in June 2023, with a 9 percent standard rate for taxable income exceeding 375,000 UAE dirhams ($102,000), although a variety of exemptions apply.[5] The country has also concluded a public consultation on Pillar 2 and is considering policy options regarding its implementation. Discussions about expanding or introducing CIT are progressing also in other GCC.

[4] Alcohol and pork are prohibited in Saudi Arabia and are not taxed in the UAE, but both are taxed in Oman and Qatar.

[5] A free zone company in the UAE may be able to qualify for a 0% CIT rate if it meets all conditions required to be considered a Qualifying Free Zone Person.

Figure 7. GCC – CIT and VAT Rates



Sources: Tax documents (such as PWC), country authorities, IMF staff calculations.

The pandemic temporarily slowed the tax reform momentum. During the pandemic, broad-based tax deferrals, exemptions and targeted service fee reductions were implemented across the GCC. For instance, Oman increased exempted products from VAT from 93 to 488 essential food products, implemented VAT exemptions on electricity and water for Omanis with less than 2 accounts, reduced recruitment fees for expatriates by 50 percent for firms achieving the required Omanisation target and 25 percent for those not achieving the target, among other measures. The UAE issued a decision implementing a temporary application of VAT at 0% on certain supplies and imports of medical equipment. Saudi Arabia introduced expat levy exemptions as well as temporary tax deferrals. Kuwait removed government fees on selected sectors provided that the savings from these fees were passed on to customers.[6] Most of these relief measures were reversed following a strong economic recovery across the GCC, and by the end of 2022, most countries had phased-out all COVID-19-related fiscal measures and resumed the implementation of tax reforms.

III. Empirical Strategy and Data

This paper uses fixed effects panel regressions to study the impact of tax policy changes on both the macro-economy and firm financials. Fiscal reform data is collected from authorities' tax documents, news, PWC, and other public information, and all tax series are specified as tax rates. Global macroeconomic variables are collected from the IMF World Economic Outlook data. VAT and CIT rates are used in levels. A composite excise tax rate index is constructed as a simple average over the main 7 excise categories (soft drinks, energy drinks, tobacco, electronic smoking and related components, other sugary products, alcohol and pork). Given most CIT is levied on foreign firms only, while it is equivalent for domestic and foreign firms in Oman, CIT on foreign firms is used as a proxy for overall CIT. Even so, CIT changes were few and far between, therefore CIT is not used in the macro analysis given insufficient observations. It is included in the firm-level analysis.

To analyze the impact of tax policy changes on macro-economic activity and inflation, we estimate the following fixed effects panel equation for data spanning 2002 to 2022:

$$Y_{i,t} = \beta_0 + \Gamma_1 Y_{i,t-1} + \gamma_1 X_{i,t-1} + \delta_1 Z_{c,t} + \epsilon_{i,t} + \alpha_{j,c}$$

[6] See 2021 and 2022 IMF Staff Reports for Oman, Saudi Arabia and Kuwait for more details. In addition, Bahrain's National Bureau for Revenue introduced some non-published initiatives, such as pausing the suspension of Commercial Registrations activities due to unpaid VAT and allowing input recovery of cleaning and sterilization for the prevention of COVID-19 for financial purposes.

Where Y is either total or non-oil real GDP growth, growth of private consumption or investment in real terms, inflation, export or imports of country i at time t. X is a set of control variables including lagged country-specific real GDP growth, world real GDP growth as a proxy for external demand, the average federal reserve interest rate as a proxy for financial tightness, international oil prices to account for the large oil-dependency across the GCC, and a COVID stringency index to control for different responses during COVID across the GCC. The stringency index (OxCGRT) is calculated using nine metrics: school closure, workplace closure, cancellation of public events, restrictions on public gatherings, closure of public transport, stay-at-home requirements, public information campaigns, restrictions on internal movement, and international travel controls.[7] A higher score indicates a stricter response (i.e., 100=strictest response).[8] Z are the respective fiscal policy variables, α are the country fixed effects, and $\in$ is the error term.

To analyze the impact of tax policy changes on firm financials, we employ the S&P's Capital IQ (Compustat) dataset spanning the years 2007 to 2022 in an unbalanced panel to collect firm-level data. To ensure the reliability of the firm-level dataset, an extensive series of cleaning and filtering exercises was conducted.[9] To address outliers, a 90% winsorization (trimming) technique was applied, which sets observations beyond the 95th percentile to the value of the 95th percentile and those below the 5th percentile to the value of the 5th percentile. The resulting dataset includes on average 308 firms per year across the GCC, with a minimum of 203 companies reporting in 2007. Numbers also vary substantially across countries in the unbalanced panel, with as little as 4 Bahraini firms in 2010 and 2011, and 181 firms for Saudi Arabia in 2022.

Table 1. Number of Observations
(Firms times years data is available)

Country	Total Number of Observations
Bahrain	157
Kuwait	1,098
Oman	899
Qatar	371
Saudi Arabia	1,413
United Arab Emirates	988

Source: S&P Capital IQ and IMF staff calculations

The following equation is estimated:

$$Y_{i,j,c,t} = \beta_0 + \Gamma_1 Y_{i,j,c,t-1} + \gamma_1 X_{c,t-1} + \delta_1 Z_{c,t} + \in_{i,j,c,t} + \alpha_{j,c}$$

Where Y is either ROA or ROE of firm i, in industry j, country c, and at year t, and Y(t-1) is a set of lagged firm-level controls, including ROA, ROE, total assets, current ratio, asset turnover, and debt to equity ratio. X is a set of country/world level control variables in line with the macroeconomic analysis.[10] The model accounts for fixed effects by industry and country, and clusters standard errors by industry groups. Multiple iterations of the regression are carried out, iteratively adding, or excluding firm-specific variables to observe their impacts on the results.

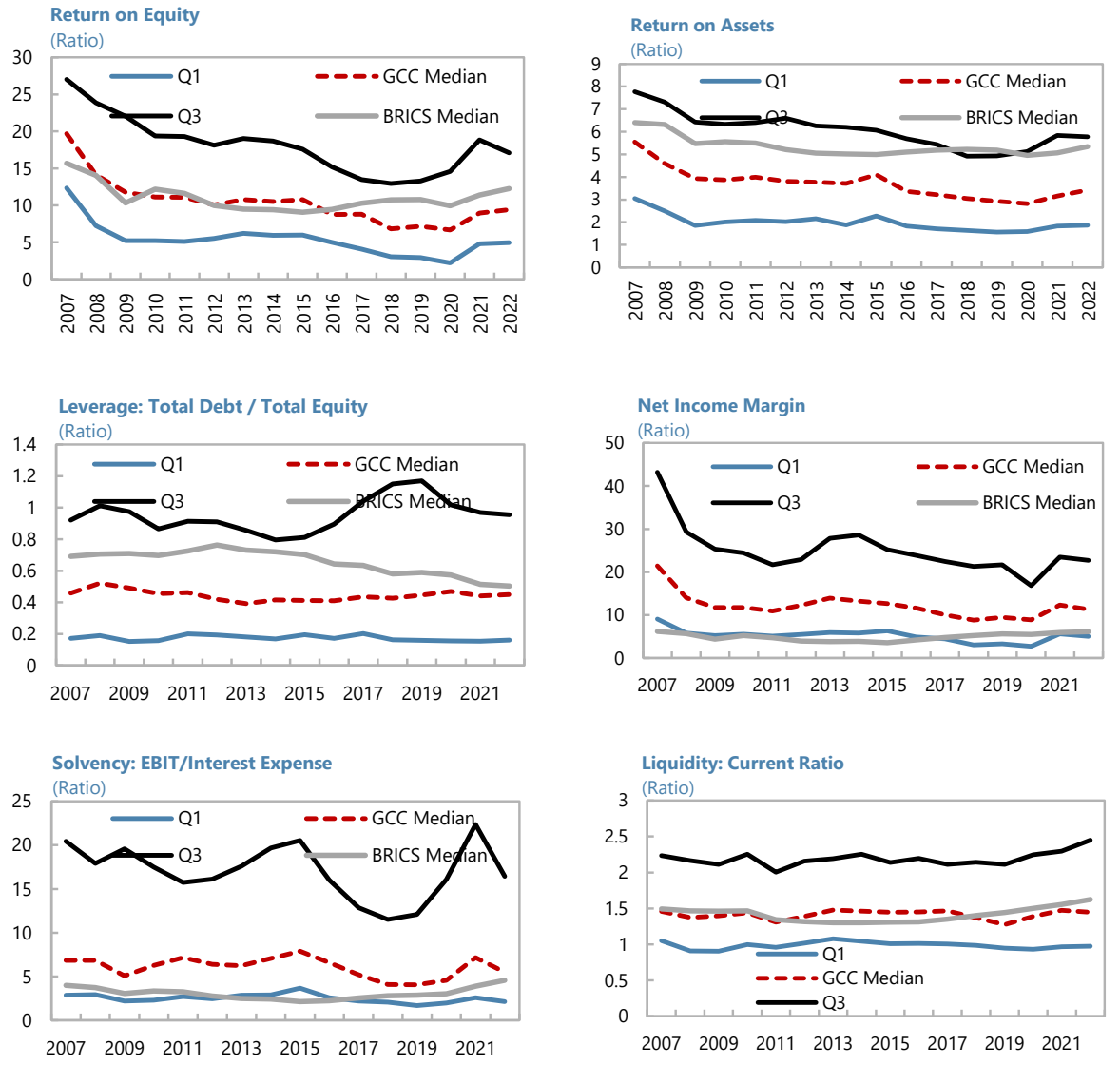
Table 2. ROA and ROE Summary

	ROA	ROE
Mean	4.7	12.8
YoY Change	-2%	-1%
Standard Deviation	4.4	22.7
Min.	-0.5	-21.5
Max.	40.9	173.0
IQR	3.26	10.18

Source: S&P Capital IQ and IMF staff calculations

[7] As a caveat, the regression analysis does not consider central bank interventions during the COVID period due to data limitations, which eased liquidity conditions in certain GCC countries.
[8] See the author's full description.
[9] The data collection approach involved gathering information for each year separately and subsequently merging the data to accommodate changes due to firm entry and exit. Due to limitations within the Capital IQ platform, data for state-owned enterprises was constrained, leading to their exclusion from the analysis.
[10] The firm-level equation uses overall GDP growth rather than non-oil growth as a control, as the former is found to be more significant and capturing better the importance of oil-sector developments and its impact on the wider economy.

Figure 8. Developments of the Main Dependent and Independent Variables



Source: S&P Capital IQ and IMF staff calculations.

We also employ the local projection method developed by Jordà (2005) to gauge the medium-term impact of reforms on firm-financials, using the following specification:

$$Y_{i,j,c,t+k} - Y_{i,j,c,t-1} = \beta_0 + \Gamma_1 Y_{i,j,c,t-1} + \gamma_1 X_{j,c,t-1} + \delta_1 Z_{c,t} + \epsilon_{i,j,c,t} + \alpha_{j,c}$$

Both ROA and ROE are used as dependent variables as they offer different degrees of volatility (Table 2). Examining the interquartile ranges of ROA and ROE highlights that ROE is more volatile than ROA. The interquartile range for both expands as we move from Q1 to Q3 implying increased volatility in the data over the years 2007 to 2022. IQR values for ROE, however, exhibit more pronounced fluctuations over the years examined.

Liquidity data reveals that GCC corporations tend to have lower short-term liquidity compared to BRICS during this period (Figure 8), indicating a potential area for improvement in managing short-term obligations. Overall, these trends reflect the GCC region's prudence in managing its capital structure, emphasizing profitability, debt management, and ensuring adequate coverage of interest expenses, albeit with room for enhancing short-term liquidity management.

IV. Results

IV.a. The impact of tax policy changes on the macro economy

The impact of VAT on economic activity and inflation is small, and broadly positive. VAT is found to impact GDP and non-oil GDP positively, especially in the year following its implementation or rate increase (Table 3).[11] This effect can partly be explained by a rebound in private consumption (Table 3, column 4), which also pushes imports upwards. The impact of VAT on private investment (column 5) is found to be insignificant, although volatility in oil-invesments might mask underlying vulnerabilities.[12] The results point to a functioning VAT refund system and are consistent with the literature. For example, Simionescu and Albu (2016) and Hakim and others (2016) find a positive impact of VAT on economic growth in five Central and Eastern European countries as well as higher income countries more broadly, while Benzarti and Tashitdinova (2021) find small elasticities of trade flows with respect to VAT, even when VAT changes are large. It is possible that the implementation of VAT at a time of increasing fiscal deficits created fiscal space for public investment and development/social programs, stimulating economic activity. An example is the Citizen account of KSA, which was a compensation scheme that was scaled up in response to the VAT increase from 5 to 15 percent of GDP to help mitigate the financial impact on low and middle income families. In addition, VAT implementation might have positively impacted GDP growth through a confidence boost in light of hightened international scrutiny on fiscal sustainability at a time of high oil price volatility. Finally, Korniyenko, Tohamy and Xin (2025) show that VAT reforms in some Gulf states reduce noncompetitive behavior of firms, aiding policymakers in reducing welfare losses through lower market power and decreased markups.

Inflation increases in the year of the VAT rate increase, by 0.4 percent for each 1 percent rate increase, but reverses in the following year to the same magnitude (column 3). The inflationary impact is thus short-lived. This result is in line with observations on the ground – The July 2020 tripling of VAT in Saudi Arabia increased inflation sharply to above 6 percent, however, the effect was temporary, with inflation droping to just 0.4 percent by July 2021. In other GCC introducing or increasing VAT recently, inflation seems to have been impacted more strongly by international price developments, driven by food and transport. The rebound in private consumption in the year following VAT introduction might equally be impacted by the temporary inflation increase, with a return of consumption once inflation stabilizes in the year following introduction, and possibly as a result of increased confidence and social sector support. Declining firm markups in response to increasing taxes might also explain an overall lower impact on inflation (Korniyenko, Tohamy and Xin, 2025). Coefficients on other independent variables show the expected signs or are insignificant.

[11] There is thus no evidence of a negative VAT multiplier effect, although it should be noted that the initial VAT rates were one of the lowest worldwide.

[12] Unfortunately, data on non-oil private investment was not available. Consistent results for non-oil GDP provide some confidence. We also exclude the energy sector from the firm-level analysis in a robustness test below, without noticeable changes to the results.

Table 3. The Impact of VAT on Economic Activity

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	GDP	Non-oil GDP	Inflation	Private consumption	Private investment	Exports	Imports
VAT	0.208	-0.035	0.403***	-0.915	-1.708	-0.766	-0.749*
	(0.14)	(0.15)	(0.10)	(0.65)	(0.95)	(0.50)	(0.34)
L.VAT	0.273*	0.515**	-0.424**	1.152***	1.168	1.678*	1.455**
	(0.12)	(0.16)	(0.11)	(0.28)	(0.81)	(0.78)	(0.40)
L.GDP	0.307***		0.006	0.281	0.489	0.386*	0.227
	(0.08)		(0.05)	(0.18)	(0.99)	(0.14)	(0.25)
World GDP	0.007***	0.007***	0.003**	0.009***	0.028*	0.010*	0.016**
	0.00	0.00	0.00	0.00	(0.01)	0.00	(0.01)
Fed. Rate EOP	0.194	0.559	0.657*	0.711	1.413	0.308	2.490*
	(0.26)	(0.36)	(0.23)	(0.41)	(1.85)	(0.56)	(0.89)
Global oil price	0.007	-0.015	0.031	-0.006	-0.234	0.052	0.088
	(0.02)	(0.02)	(0.02)	(0.03)	(0.12)	(0.05)	(0.07)
Domestic gasoline price	-0.131*	-0.185**	-0.061	-0.124	-0.001	-0.182*	-0.302***
	(0.06)	(0.06)	(0.03)	(0.10)	(0.26)	(0.07)	(0.08)
Covid String	-0.031	-0.027	0.035	0.022	0.148	-0.021	0.073
	(0.02)	(0.02)	(0.02)	(0.05)	(0.16)	(0.05)	(0.06)
L.non-oil GDP		0.288*					
		(0.11)					
L.inflation			0.437*				
			(0.16)				
L.private consumption				-0.058			
				(0.06)			
L.private investment					0.582*		
					(0.22)		
L.exports						-0.087	
						(0.08)	
L.imports							0.094
							(0.07)
Constant	3.091	7.046*	-1.006	4.423	6.852	0.985	-1.813
	(2.88)	(2.75)	(1.30)	(5.07)	(8.18)	(5.03)	(6.41)
R2	0.40	0.49	0.49	0.17	0.49	0.27	0.37
# of observations	130	130	130	130	110	130	130

Sources: IMF staff calculations.

Notes: * p<0.05, ** p<0.01, *** p<0.001. All dependent variables are specified in growth rates.

The impact of excise tax increases is similarly small. Excise tax increases are found to impact GDP, non-oil GDP, private consumption and import growth negatively in the year of implementation (Table 4). However, in all cases this effect reverses in the following year. In fact, and as was the case with the impact of VAT, the sum of the contemporaneous and lagged excise coefficients is significantly positive for GDP and non-oil GDP (insignificant for private consumption and imports).[13] The impact of excises on inflation, private investment and export growth is found to be insignificant, highlighting an overall small impact of excise taxes.

[13] In a regression without the lag of excises included (table not shown), the only coefficients on excise taxation remaining significant are for GDP and non-oil GDP regressions. Reasons for the small but positive impact on economic growth from the narrow base of excise taxes are likely complex. One possibility might be a consumption shift towards consumer goods not impacted by excises, creating growth in those businesses outweighing the growth reduction in sectors targeted by excises. This is supported by the firm-level findings below, which show no immediate impact across all firms, while those targeted by excises see declining returns.

Table 4. The Impact of Excise Taxation on Economic Activity

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	GDP	Non-oil GDP	Inflation	Private consumption	Private investment	Exports	Imports
Excises	-0.048**	-0.040*	-0.015	-0.081*	-0.281	-0.034	-0.101**
	(0.02)	(0.02)	(0.01)	(0.03)	(0.16)	(0.02)	(0.03)
L.excises	0.098**	0.078**	0.007	0.058	0.155	0.124	0.131*
	(0.03)	(0.02)	(0.02)	(0.06)	(0.12)	(0.06)	(0.05)
L.GDP	0.330***		0.009	0.304	0.495	0.459**	0.263
	(0.08)		(0.05)	(0.18)	(0.97)	(0.15)	(0.24)
World GDP	0.007***	0.007***	0.003*	0.009***	0.027*	0.010*	0.016**
	0.00	0.00	0.00	0.00	(0.01)	0.00	(0.01)
Fed. Rate EOP	0.185	0.555	0.686**	0.73	1.365	0.244	2.511*
	(0.26)	(0.36)	(0.23)	(0.41)	(1.93)	(0.54)	(0.90)
Global oil price	0.006	-0.015	0.032	-0.006	-0.241	0.051	0.088
	(0.02)	(0.02)	(0.02)	(0.03)	(0.12)	(0.05)	(0.07)
Domestic gasoline price	-0.111	-0.164*	-0.043	-0.092	0.043	-0.185*	-0.264**
	(0.06)	(0.07)	(0.03)	(0.13)	(0.33)	(0.09)	(0.09)
Covid String	-0.04	-0.032	0.044	0.028	0.149	-0.049	0.067
	(0.03)	(0.02)	(0.02)	(0.06)	(0.18)	(0.07)	(0.07)
L.non-oil GDP		0.303*					
		(0.11)					
L.inflation			0.419*				
			(0.16)				
L.private consumption				-0.081			
				(0.06)			
L.private investment					0.582*		
					(0.22)		
L.exports						-0.113	
						(0.09)	
L.imports							0.08
							(0.08)
Constant	2.65	6.454*	-1.415	3.558	6.571	0.759	-2.908
	(3.19)	(2.93)	(1.24)	(5.24)	(10.54)	(5.76)	(6.92)
R2	0.40	0.47	0.47	0.16	0.49	0.24	0.37
# of observations	130	130	130	130	110	130	130

Sources: IMF staff calculations.

Notes: * p<0.05, ** p<0.01, *** p<0.001. All dependent variables are specified in growth rates.

IV.b. The impact of tax policy changes on firm financials

Firm financials do not seem impacted by changes in indirect taxation in the year of implementation (Table 5). The impact of both excise and VAT increases on ROA and ROE is found to be insignificant. However, subsets of firms could be impacted more strongly than others, particularly by excise taxes that target certain industries. For example, governments often use excises as a policy tool to discourage the consumption of certain products (e.g., tobacco, alcohol) to reduce health-related costs and promote healthier lifestyles. In addition, increased prices can create incentives for illegal activities, such as smuggling, as consumers seek lower-priced alternatives. To demonstrate this point, Table (6) separates the impact on food and tobacco firms (Columns 7-12). While the impact of indirect taxes on ROA remains insignificant, we find a significant reduction in ROE following an increase in excise tax rates.

The impact of changes to foreign CIT rates is more nuanced. Given the accounting reality between CIT and ROA (post-tax profits decline with rising tax expenses), increasing CIT should lower companies' ROA by default. Contemporaneous changes to CIT levied on foreign companies are indeed shown to significantly

impact ROA negatively – a one-percent increase in foreign CIT is associated with a reduction of 0.03 percent in ROA. The impact on ROE is consistent with this finding.[14]

Table 5. GCC – The Impact of Tax Changes on Firm Financials

	All Firms					
	(1)	(2)	(3)	(4)	(5)	(6)
VARIABLES	ROA	ROA	ROA	ROE	ROE	ROE
VAT	0.001			0.037		
	(0.017)			(0.074)		
EX_composite		-0.000			-0.004	
		(0.002)			(0.016)	
CIT_foreign			-0.034***			-0.027*
			(0.011)			(0.081)
Lagged ROA	0.692***	0.692***	0.693***	1.507***	1.507***	1.508***
	(0.032)	(0.032)	(0.032)	(0.268)	(0.269)	(0.269)
Lagged ROE	0.001	0.001	0.000	0.056	0.056	0.056
	(0.004)	(0.004)	(0.004)	(0.088)	(0.088)	(0.088)
Lagged Total Assets	0.000***	0.000***	0.000***	-0.000*	-0.000*	-0.000*
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Lagged Current Ratio	0.022	0.022	0.022	0.060	0.060	0.060
	(0.018)	(0.018)	(0.018)	(0.234)	(0.233)	(0.235)
Lagged Asset Turnover	0.267	0.267	0.265	4.288***	4.288***	4.286***
	(0.182)	(0.182)	(0.180)	(1.121)	(1.120)	(1.119)
Lagged Debt to Equity	0.013	0.013	0.012	2.394***	2.393***	2.393***
	(0.011)	(0.011)	(0.011)	(0.160)	(0.162)	(0.160)
Fed. Rate EOP	-0.177**	-0.176**	-0.162*	-0.582	-0.511	-0.527
	(0.077)	(0.084)	(0.085)	(0.399)	(0.432)	(0.462)
World GDP	0.005	0.005	0.003	-0.007	-0.005	-0.007
	(0.008)	(0.008)	(0.007)	(0.043)	(0.044)	(0.045)
Country GDP	0.066***	0.066***	0.072***	0.218***	0.220***	0.227***
	(0.017)	(0.017)	(0.017)	(0.041)	(0.042)	(0.049)
Global Oil Price	0.005*	0.005*	0.004*	0.047***	0.047***	0.046***
	(0.002)	(0.002)	(0.002)	(0.014)	(0.014)	(0.015)
Covid String	0.003	0.003	0.004	0.013	0.021	0.019
	(0.005)	(0.004)	(0.005)	(0.024)	(0.025)	(0.030)
Constant	-0.097	-0.102	0.700	-3.266	-3.603	-2.742
	(1.195)	(1.218)	(1.172)	(6.787)	(6.744)	(8.181)
Observations	3,838	3,838	3,838	3,838	3,838	3,838
R-squared	0.635	0.635	0.635	0.383	0.383	0.383
Number of country_id	6	6	6	6	6	6

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Sources: CompStat and IMF staff calculations.

The size of firms matters for the impact of CIT. We split firms into four quartiles based on total assets, each containing 25 percent of the data. Table 6 presents the results for the smallest and largest firms (bottom and top quartile). For small firms, a one-unit increase in foreign CIT is associated with a notable reduction of 0.3 percent in ROA and 0.5 percent in ROE, respectively. In contrast, large firms experience a much smaller impact – a reduction of 0.05 percent in ROA and no significant impact on ROE. This result holds true when splitting firms into quartiles by total revenue instead of assets (Table not shown).

The imbalance between large and small firms could be a sign that CIT exemptions benefit primarily larger firms, with smaller firms bearing the brunt of CIT increases.[15] It could also be attributed to larger firms' ability to

[14] When we exclude the energy sector from our analysis (not shown), the relationship between foreign CIT and ROA remains broadly similar. A split into foreign and domestic firms was not possible due to data constraints.

[15] In the UAE, the new federal CIT regime treats businesses qualifying for small business relief as not having any taxable income. They are subject to simplified reporting requirements (i.e., those businesses with income of less than AED3m in a tax period).

leverage economies of scale, i.e., spreading fixed costs, including compliance and operational costs, over a greater volume of output (Dabla-Norris and others, 2017).

Next, we use the local projection method by Jordà (2005) to also analyze the medium-term impact of tax changes on firms, which could evolve after the year of the initial tax increase due to changes in financial decisions and incentive structures (Figure 9). As most tax changes have been recent, we limit the impulse responses to 3 years following the initial tax change in year 1. Confidence bands are shown at a 95% significance level, solid lines indicate significance at the 95% level, and dashed lines indicate no significance. We find the impact of VAT to remain insignificant in the medium term for ROA (top panels), but a positive impact on ROE seems to emerge as of 2 years following the shock, consistent with the macro analysis above showing a positive impact of VAT on non-oil GDP growth. Excise tax increases remain insignificant for all firms except for those in the food and tobacco sectors, for which the cumulative negative impact continues to increase in the subsequent year and then stabilizes (rows 2 and 3). CIT weighs on both small and large firms in the medium term when looking at ROA. However, smaller firms are affected disproportionally, also in the medium-term. These findings underscore the nuanced and sector-specific impacts of tax policy changes on medium-term firm performance.

Table 6. GCC – The Impact of Tax Changes on Subsets of GCC Firms

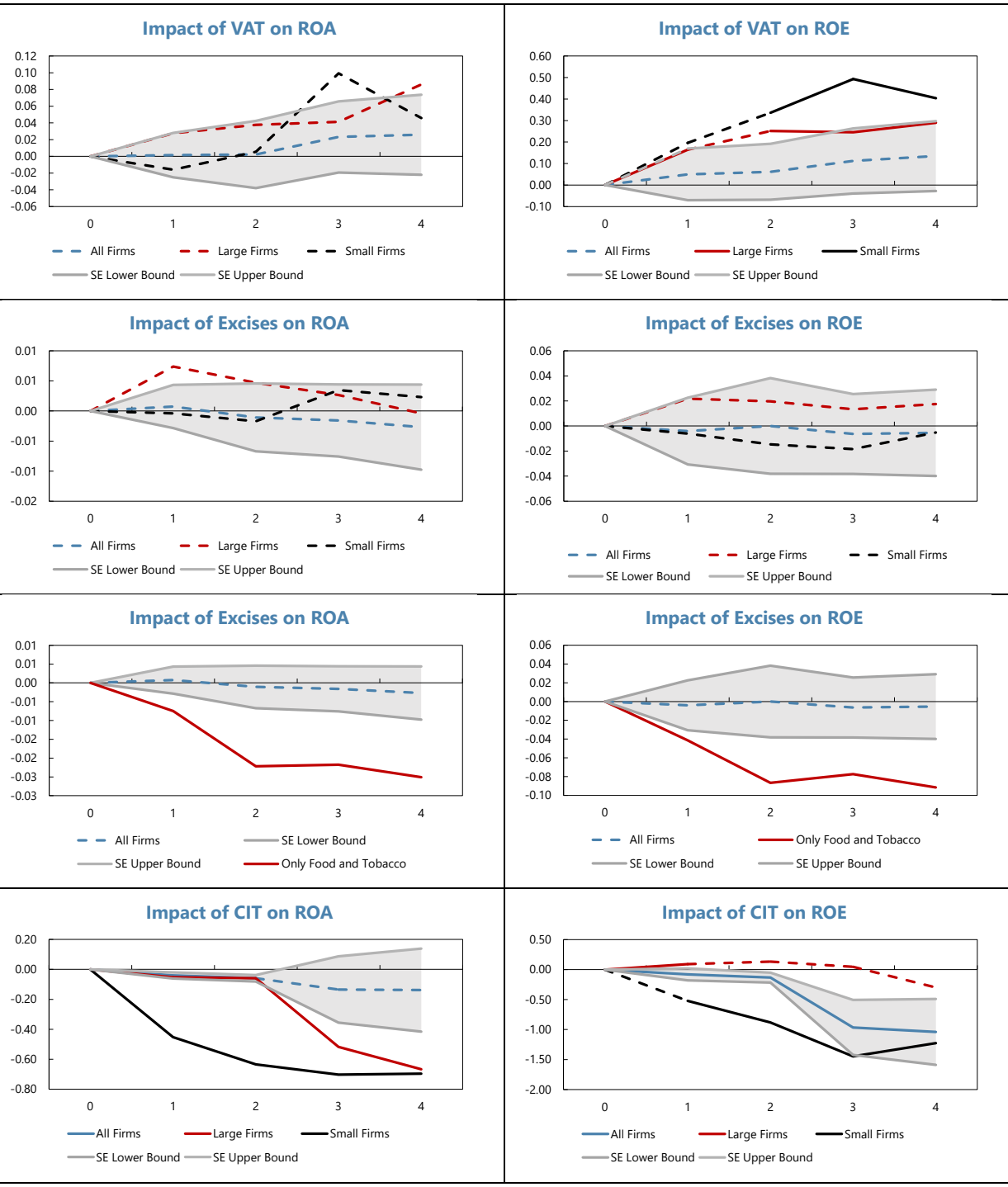
	Only Food and Tobacco						Small Firms						Large Firms					
	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)
VARIABLES	ROA	ROA	ROA	ROE	ROE	ROE	ROA	ROA	ROA	ROE	ROE	ROE	ROA	ROA	ROA	ROE	ROE	ROE
VAT	0.087			0.245			-0.011			0.184			0.028			0.165		
	(0.000)			(0.000)			(0.044)			(0.179)			(0.033)			(0.126)		
EX_composite		-0.005			-0.019**			0.002			-0.003			0.007			0.022	
		(0.000)			(0.000)			(0.004)			(0.016)			(0.008)			(0.040)	
CIT_foreign			0.019**			-0.388			-0.322**			-0.486**			-0.053**			0.090
			(0.000)			(0.000)			(0.039)			(0.191)			(0.019)			(0.102)
Lagged ROA	0.607	0.609	0.610	0.740	0.747	0.737	0.642***	0.642***	0.641***	1.001***	1.004***	0.994***	0.671***	0.672***	0.674***	0.914***	0.917***	0.912***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.051)	(0.051)	(0.051)	(0.206)	(0.203)	(0.202)	(0.047)	(0.047)	(0.048)	(0.183)	(0.183)	(0.182)
Lagged ROE	-0.003	-0.003	-0.003	0.111	0.111	0.111	0.002	0.002	0.002	0.154***	0.154***	0.154***	0.011***	0.011***	0.011***	0.287***	0.288***	0.288***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.003)	(0.003)	(0.003)	(0.032)	(0.032)	(0.032)	(0.004)	(0.004)	(0.004)	(0.043)	(0.044)	(0.044)
Lagged Total Assets	-0.000	-0.000	-0.000	0.000	0.000	0.000	-0.000	-0.000	-0.000	-0.000	-0.000	-0.000	0.000**	0.000**	0.000**	-0.000	-0.000	-0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Lagged Current Ratio	0.319	0.312	0.316	0.531	0.509	0.467	-0.002	-0.001	-0.001	-0.347**	-0.358**	-0.356**	0.053	0.054	0.051	0.568***	0.569***	0.569***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.040)	(0.038)	(0.038)	(0.136)	(0.135)	(0.134)	(0.040)	(0.039)	(0.042)	(0.111)	(0.111)	(0.109)
Lagged Asset Turnover	0.790	0.807	0.831	5.160	5.193	5.073	0.381	0.381	0.383	4.423***	4.423***	4.442***	0.256	0.237	0.251	7.197**	7.179**	7.299**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.285)	(0.287)	(0.284)	(1.221)	(1.216)	(1.194)	(0.421)	(0.429)	(0.429)	(2.764)	(2.753)	(2.804)
Lagged Debt to Equity	0.725	0.714	0.717	4.258	4.227	4.159	0.106	0.106	0.103	1.542**	1.550**	1.516**	0.017	0.019	0.016	1.331	1.337	1.332
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.090)	(0.091)	(0.091)	(0.573)	(0.575)	(0.566)	(0.019)	(0.019)	(0.019)	(0.857)	(0.846)	(0.858)
Fed. Rate EOP	-0.184	-0.038	-0.079	-0.267	0.178	0.129	-0.096	-0.119	-0.102	-0.990*	-0.790	-0.736	-0.389**	-0.414**	-0.316*	-0.979	-0.978	-0.917
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.098)	(0.094)	(0.098)	(0.522)	(0.538)	(0.542)	(0.157)	(0.149)	(0.160)	(0.678)	(0.617)	(0.719)
World GDP	-0.018	-0.016	-0.017	-0.158	-0.150	-0.158	-0.013	-0.014	-0.013	-0.028	-0.026	-0.021	0.022	0.020	0.017	0.038	0.035	0.053
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.010)	(0.010)	(0.011)	(0.044)	(0.047)	(0.047)	(0.015)	(0.016)	(0.015)	(0.055)	(0.060)	(0.061)
Country GDP	0.009	0.025	0.025	0.158	0.199	0.230	0.075***	0.074***	0.072***	0.084	0.109	0.096	0.110**	0.116**	0.133***	0.324***	0.348***	0.303**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.022)	(0.017)	(0.017)	(0.112)	(0.096)	(0.096)	(0.039)	(0.041)	(0.043)	(0.093)	(0.082)	(0.111)
Global Oil Price	-0.004	-0.003	-0.003	-0.006	-0.001	-0.006	-0.005	-0.005	-0.005	0.009	0.012	0.011	0.009**	0.009*	0.006	0.075***	0.075***	0.081**
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.004)	(0.004)	(0.004)	(0.015)	(0.016)	(0.017)	(0.004)	(0.004)	(0.005)	(0.024)	(0.024)	(0.029)
Covid String	-0.014	0.004	-0.001	0.021	0.075	0.066	0.007	0.004	0.006	-0.035	-0.008	-0.009	0.003	0.001	0.008	0.026	0.028*	0.036
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.010)	(0.008)	(0.009)	(0.031)	(0.028)	(0.035)	(0.006)	(0.005)	(0.008)	(0.025)	(0.015)	(0.033)
Constant	2.973	2.522	2.395	20.951	19.487	27.195	3.380**	3.505**	3.803**	5.806	5.298	11.544*	-3.236	-3.008	-1.496	-12.110	-11.869	-16.178
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(1.371)	(1.368)	(1.382)	(6.305)	(6.684)	(6.111)	(2.377)	(2.560)	(2.634)	(8.042)	(8.604)	(10.619)
Observations	272	272	272	272	272	272	855	855	855	855	855	855	1,061	1,061	1,061	1,061	1,061	1,061
R-squared	0.463	0.460	0.460	0.404	0.402	0.404	0.617	0.617	0.617	0.433	0.432	0.434	0.611	0.611	0.611	0.394	0.394	0.394
Number of country_id	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

*Small firms represent the bottom quartile; large firms represent the upper quartile when firm size is split by total assets.

Figure 9. GCC Firms – Medium-term Impact of Tax Changes on ROA and ROE



Sources: IMF staff calculations.
*SE denotes standard error. Solid lines indicate significance at the 95% level, while dashed lines indicate no significance.

V. Conclusion

GCC countries have made noticeable strides on broadening tax systems, with excises, VAT and CIT expanding in most countries. Still, effective rates remain low, exemptions and incentives are many, and some countries (Kuwait, Bahrain) lag behind others. With international pressure to implement CIT increasing and in light of uncertainty around future oil prices and demand, revenue diversification remains crucial going forward.

So far, the impact of recent fiscal reforms seems to be muted, especially with respect to VAT reforms, for which we find a small positive impact on both GDP and non-oil GDP growth and on firm profitability, while the impact on inflation is found to be short-lived. Scaled up social support and investment, declining market concentration, or increased confidence in public finances might explain this result. Excises are primarily impacting firms in the targeted sectors without significant economic implications for the wider economy. CIT increases, in contrast, have the potential to impact the economy negatively through a negative impact on firm-level activity.

The impact of CIT tax reforms on firms varies, depending on firm size, with smaller firms impacted more strongly than larger ones. Given the stronger negative impact of CIT on smaller companies, reforms should be designed to avoid penalizing small firms and be broad without too many exemptions and regimes to ensure evenhandedness between large and small firms. To further support smaller firms, any fees that target business activity could be streamlined to reduce administrative and financial burdens that tend to hit SMEs particularly hard. Tax rates are not the only determinants of competitiveness, and reforms to the labor and product market structure would likely have an even greater impact and thus should continue.

Finally, the expansion of the GCC countries' tax system should be done in line with international best practices without impacting foreign direct investment. This is particularly the case for a tax on profits that is applied to all businesses and not only foreign companies. This issue is increasingly relevant in the light of ongoing work on the international Minimum Corporate Tax, and the pressure on countries with no taxes to introduce some minimum level of profit taxation. In addition, while important communalities exist, the economic and fiscal structures differ across the GCC, and any policy changes will need to be tailored to country-specific circumstances.

Annex I. Tax Reforms before 2015

GCC: Tax Reforms before 2015	
1932	▪ Saudi Arabia renewed efforts to implement Zakat.
1950 1951	▪ Saudi Arabia introduced personal income, capital gains, and corporate taxes, including income tax on hydrocarbon companies. Income taxes were reformed later in the year to exclude nationals. ▪ Saudi Arabia established the Department for Zakat and Income Tax. ▪ Saudi Arabia introduced a 2.5 percent Zakat on the net worth of both individuals and companies of nationals and resident citizens of GCC countries.
1955	▪ Kuwait introduced a 55 percent CIT on both foreign and hydrocarbon companies. ▪ Qatar introduced a 50 percent CIT on both foreign and hydrocarbon companies.
1960	▪ UAE introduced a 55 percent and 20 percent CIT on hydrocarbon companies & foreign banks, respectively.
1971	▪ Oman introduced its first CIT law for both foreigner & domestic companies, as well as hydrocarbon companies.
1975	▪ Saudi Arabia suspended personal income taxes for non-nationals due to the need to attract foreign investment.
1979	▪ Bahrain introduced a 46 percent CIT on hydrocarbon companies.
1985	▪ Bahrain proposed a CIT on foreign companies but was not implemented.
1988	▪ Saudi Arabia reintroduced a 45 percent CIT on foreign companies.
1990	▪ Saudi Arabia reduced CIT rate to 30 percent on foreign companies.
1993	▪ Qatar reduced CIT to 35 percent [this also applied to hydrocarbon companies].
1994	▪ Oman amended CIT to include only industrial and commercial companies at a rate of 50 percent [incl. hydrocarbon companies].
2001	▪ Oman added professional enterprises to the CIT coverage and reduced the rate to 12 percent.
2007	▪ Kuwait reduced the CIT rate to 15 percent [incl. hydrocarbon companies]. ▪ Kuwait introduced Zakat at a rate of 1 percent on net profits of Kuwaiti companies. ▪ Saudi Arabia reduced the CIT on foreign investors from 30 to 20 percent.
2009	▪ Bahrain proposed a CIT on foreigners (excl. hydrocarbon companies), but this wasn't implemented.
2010	▪ Qatar reduced CIT for foreign companies from 35 percent to 10 percent. ▪ Oman increased CIT on hydrocarbon companies to 55 percent. ▪ Oman implemented at 10 percent withholding tax on companies that do not have a permanent establishment.

Annex II. GCC Tax Incentives and Exemption

Bahrain	• No tax incentives and exemptions.
Kuwait	• 5-year tax holiday on non-Kuwait investment & leasing companies in Kuwait under the leasing & investment law No.12 of 1998. • Expedited process for foreign investment through the Kuwait Direct Investment Promotion Authority. • Foreign companies with 100 percent foreign ownership. • Total or partial exemption of custom duties for imports. • Tax credits including foreign tax credits for countries with treaty agreements with Kuwait.
Oman	• Foreign tax credits and 5- year tax exemptions for industry (manufacturing) activities. • 25–30-year exemptions to companies operating under Special Economic and Free zones in Oman.
Qatar	• Foreign tax credits. • Entities under the Qatar Science and Technology Park are fully exempt from tax. • A 20-year tax holiday (including corporate tax, customs tax, and personal income tax) for companies operating in the free zones with 100 percent foreign ownership. • Interest and returns on public debt securities and Islamic financial securities, and bonds of public bodies and corporations. • Gross income of companies working in agriculture, fisheries and foreign air and sea navigation companies.
Saudi Arabia	• Foreign tax credits. • 10-year tax incentives including no custom duties on strategic imports for projects invested in less developed regions. • Transactions between entities in/between special economic zones (SEZs). • Tax discount for a period of 20 years within SEZs.
UAE	• A free zone company in the UAE may be able to qualify for a 0% CIT rate, if it meets all the conditions to be considered as a Qualifying Free Zone Person. This includes certain exemptions of customs duties and VAT for some UAE Free Zones. Exemptions related to the recently introduced corporate tax: • Businesses engaged in the extraction of natural resources, as these businesses will remain subject to the current Emirate level corporate taxation. • Dividends and capital gains earned by a UAE business from its qualifying shareholdings. • Individuals are not subject to CIT on their personal investment or real estate income and gains. • Businesses qualifying for small business relief will be treated as not having any taxable income and will be subject to simplified reporting requirements (i.e., those businesses with income of less than AED3m in a tax period). • 0% withholding taxes on cross-boarder payments.

	Other incentives include: • Targeted incentives for certain entities e.g., investment funds, pension funds and public benefit entities, etc. • Tax-free business restructuring transactions and transfers within a qualifying group • Transitional relief which exempts pre-corporate tax gains on certain assets • No Corporate Tax for small businesses with revenues not exceeding AED 3,000,000 (USD 800,000) • Foreign tax credits • Foreign branch exemption • Tax grouping for UAE businesses • Ability to utilize tax losses in future periods without a time limitation as well as transfer tax losses between group companies. • Tax transparency for personal wealth management and succession planning vehicles, with no Corporate Tax on the individual beneficiaries

Annex III. Data Appendix

Data Collection Process

Data collection from the S&P Capital IQ (Compustat) database involves gathering information for each year separately, spanning the period from 2007 to 2022. This step-by-step approach is necessary to accurately capture changes in the composition of firms over time, ensuring the reliability of the dataset. After collecting data for each year, the separate datasets are combined into comprehensive time series datasets for individual firms. Furthermore, these time series datasets are aggregated into a single panel dataset, which allows for a holistic analysis of firm-level trends and interactions over the entire period. This method provides insights into both individual firm dynamics and broader patterns across the dataset.

Data Cleaning and Filtering

Following data collection, the dataset undergoes a thorough cleaning and filtering process to address potential outliers and ensure data integrity. An essential aspect of this process is the application of a 90% winsorization (trimming) methodology, which systematically adjusts extreme observations to minimize their impact on the analysis. This technique systematically adjusts observations surpassing the 95th percentile to the value of the 95th percentile, and those falling beneath the 5th percentile to the value of the 5th percentile.

Additionally, we systematically identify, and flag problematic data points based on specific criteria, such as inconsistencies in financial metrics. Flagged data points include those where the sum of equity and total debt is greater than total assets; where cash is greater than total assets; where total assets are negative; and where net income exceeds sales. Each flagged data point receives a unique flag value indicating the type of issue found. Finally, data points with non-zero flag values are removed from the dataset. Any duplicate observations are also removed. Any observations which excessive missing data were excluded from the analysis to prevent bias in the results. No regression-based imputation techniques were employed to fill small missing values. This process helps ensure that the dataset used for analysis is free from data errors and outliers.

Upon completion of the cleaning and filtering process, the resulting dataset exhibited robustness and reliability for subsequent analysis. The final number of firms per country per year retained after the cleaning and filtering process is denoted below.

Annex Table III.1. Number of Firms

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Bahrain	7	9	7	4	4	8	9	8	8	11	11	13	16	15	13	14
Kuwait	49	51	46	75	83	84	88	85	74	76	64	67	71	53	63	69
Oman	50	56	61	59	53	62	61	57	62	60	56	50	58	54	47	53
Qatar	17	20	20	18	20	21	22	22	24	23	24	23	29	30	28	30
Saudi Arabia	26	30	37	45	67	79	82	83	85	94	95	96	126	139	148	181
United Arab Emirates	54	53	50	47	51	62	66	60	58	64	68	65	78	70	69	73
Total	203	219	221	248	278	316	328	315	311	328	318	314	378	361	368	420

Source: S&P Capital IQ and IMF staff calculations

Assumptions and Limitations

S&P Capital IQ data primarily cover publicly traded companies, potentially leading to a bias towards larger, more established firms. This may limit the generalizability of findings to smaller or privately held companies. While S&P Capital IQ aims to provide up-to-date financial information, there may be lags in reporting, resulting in delays in the availability of certain data points. Lastly, S&P Capital IQ data may suffer from survivorship bias, as it primarily includes active companies that have not gone bankrupt or delisted. While we try to mitigate this by collected data separately for each year, it is possible that, on occasion, the omission of failed or defunct firms can skew analyses of industry dynamics, market performance, and risk assessments.

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