

I. COUNTRY REFORM PROGRESS

Authorities are exploring reforms to strengthen non-hydrocarbon tax revenues. Value added tax (VAT)—currently the largest source of non-hydrocarbon revenue—remains well below its potential, largely due to numerous and costly exemptions. In parallel, the fiscal regime for the mining sector requires a comprehensive overhaul, both to secure a fairer share of revenue for the state and to provide a more predictable and attractive framework for investors. On both fronts, the authorities have sought capacity development (CD) support from the IMF's Fiscal Affairs Department (FAD): VAT was the subject of a 2023 engagement, followed by additional work in 2024, while mining taxation was reviewed during a dedicated engagement in 2024. In 2025, progress was achieved in VAT reform implementation, particularly territoriality rules and VAT refunds. In FY26 (April 2026), support was provided on small business taxation and, again, on VAT rules for territoriality, VAT in the real estate sector, and rules for VAT exemptions.

A possible next step would be to formalize a medium-term revenue strategy (MTRS) to anchor and sequence these reforms.

II. PROJECT DELIVERY HIGHLIGHTS

RM I: Revenue Module I – Tax Policy

Key Progress in FY26: On VAT, legal drafting was proposed on territoriality rules and VAT refunds through specific assistance delivered in March 2025. In FY26 (April), more assistance was requested and delivered on VAT rules (territoriality, exemptions, real estate) and taxing small and medium enterprises (SMEs). On territoriality, as authorities are taking steps to collect VAT on cross-border services and e-commerce (a specific portal for VAT registration is being developed), these adaptations of the tax system are deemed important to clarify VAT taxing rights and collection mechanisms.

Previous Progress: CD support was provided on VAT and mining taxation, respectively, in November and December 2024. On mining, The FARI model was extensively utilized to simulate various policy options. The main recommendation of the mission, the introduction of a progressive profit-based royalty, was extensively discussed with the DGI and was well received on a technical level – but was still under review as of April 2026, as authorities seem inclined to prioritize the stability of the tax system at this point. SME taxation, and its implications on VAT could lead to a significant reform of the main taxation system for micro-enterprises (Impôt Forfaitaire Unique), although it is too early to conclude on effective impact.

Next Steps: More assistance could be requested on VAT legal drafting (which would then be coordinated with the IMF's Legal Department), and possibly on an MTRS – although that is still being reviewed by the authorities.

III. LOGICAL FRAMEWORK

Country – Algeria		
RM I: Objective – Improve Tax Policy Design - TPD		Rating - 2
Outcome	Rating	Narrative
Increased economic efficiency by minimizing economic distortions or addressing externalities or market failures	2 Partially Achieved	CD support was provided on VAT and mining taxation, respectively, in November and December 2024. Follow-up on VAT delivered in March 2025 (territoriality rules and VAT refunds). On VAT, follow-up assistance has been requested, indicating interest in implementation reform. This follow-up was delivered in April 2026, together with new assistance on SME taxation reforms.

IV. RISK ASSESSMENT

Description	Rating	Mitigation Measures
External Climate/Conditions		
Moderate risk for this tax policy project.	Low	Not applicable.
Political Support		
General Political instability may slow down and even stop implementation of reforms.	Low	Focus on strategic advice and hands-on capacity building to have a more permanent impact. Close consultation with the IMF country team and the authorities.
Reform proposals to reduce tax expenditures may trigger opposition from beneficiaries.	Medium	Consultation with relevant internal and external stakeholders to help ensure reflect broad consensus across government.
Management and Technical Staff Support and Commitment		
Close coordination across senior level staff in relevant counterpart agencies (ministry of finance, ministry of economy, tax administration, mining regulators) is critical for delivery.	Low	Coordination with World Bank and commitment by the government should help to mitigate this risk.

V. PROJECT MANAGER: CONTACT INFORMATION

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