Oman budget 2018 KPMG Insights

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Comparing the 2018 budget with the ninth five year plan (FYP9)

	2018 budget			Ninth five year plan - 2018	
	ROm	% of total	Δ (%) from FYP9	ROm	% of total
Revenue					
Oil	4,870	51	(11)	5,480	53
Gas	1,910	20	4	1,840	18
Other revenues	2,720	29	(9)	2,980	29
Total revenue	9,500	100	(8)	10,300	100
Expenditure					
Defense and security	(3,440)	28	(7)	(3,700)	28
Oil and gas production	(2,100)	17	(15)	(2,460)	19
Civil ministries	(4,350)	34	(10)	(4,820)	36
Development	(1,365)	11	(17)	(1,650)	12
Others	(1,245)	10	86	(670)	5
Total expenditure	(12,500)	100	(6)	(13,300)	100
Deficit	(3,000)			(3,000)	
Deficit (% of total revenue)	32%		10	29%	
Average price per barrel (US$)	50		(9)	55	

Key differences between the 2018 budget and FYP9

Oil revenue budget reduced by 11%
Oil revenue is budgeted to decline by 11 percent from the RO 5.48b planned in FYP9 to RO 4.87b in 2018. FYP9 had assumed a price of US$55/ bbl versus US$50/bbl considered in Budget 2018. The decline in oil revenue is due to the steep decline in oil price in late 2014 and the relatively slow price recovery coupled with Oman's commitment to cut oil production in line with the OPEC production agreement.

Gas revenue budgeted to rise by 4%
Gas revenue is budgeted to increase by 4% from RO 1.84b planned in FYP9 to RO 1.91b in 2018. This is due to the expected increase in gas production from the Khazzan gas project.

Overall expenditure budget cut by 6%
Expenditure is set to decline by RO 800m from the planned RO 13.3b in FYP9 to RO 12.5b in 2018 but higher compared to the 2017 budget of RO 11.7b. This is in line with the approach of rationalizing expenditure to contain the fiscal deficit.

Oil and gas expenditure budget cut by 15%
Oil and gas expenditure is to decrease from RO 2.46b planned in FYP9 to RO 2.1b in 2018. However, the expenditure is up by 15% as compared to the 2017 budget.

Development expenditure cut by 17%
Budget for development expenditure is reduced by 17% from the RO 1.65b planned in FYP9 to RO 1.37b in 2018. The reduction is expected to be offset by increasing investment from private sector.

Other expenses increased significantly by 86%
Other expenses include subsidies and interest on loans. Increase in subsidies is primarily towards electricity. Subsidies also cover cooking gas, housing and development loans and support to state owned enterprises.

Overall budget deficit is 32% of total revenues
The 2018 budget projects a deficit of RO 3b (10 percent of GDP) which is as envisaged by the FYP9. The 8% decline in revenue as compared to FYP9 has been compensated by a 6% cut in overall expenditure.

GDP projected to grow by 3%
The projected GDP growth of 3% is in line with FYP9 estimates.

KPMG comment
Prudent fiscal management continues in 2018 as the budgeted deficit is kept on track as planned in FYP9. The budget is based on a conservative oil price of US$ 50/bbl, which is the average realized price in 2017. Government's continued rationalization of government expenditure and focus on increasing non oil revenues is helping bring down the break even price of oil (now less than US$ 75/ bbl) required to have a zero deficit. Despite the continued economic challenges posed by geo-economic factors, GDP growth of 3% is achievable if the Government accelerates the reform process including issuing the new public private partnership (PPP), foreign capital investment and bankruptcy laws to foster private sector participation.

Oman's 2018 budget compared with 2017 budget and actuals

	2018 budget				2017 budget		2017 actual	
	ROm	% of total	Δ (%) from 2017 budget	Δ (%) from 2017 actual	ROm	% of total	ROm	Δ (%) from 2017 budget
Revenue								
Oil	4,870	51	9		4,450	51		
Gas	1,910	20	15		1,660	19		
Oil & Gas revenue	6,780	71	11	-	6,110	70	6,760	11
Taxes and fees	1,413	15	-		1,423	16		
Other non-tax revenues	1,147	12	-		1,127	13		
Capital revenues and repayments	160	2	400		40	1		
Non-oil & Gas revenue	2,720	29	5	11	2,590	30	2,440	(6)
Total revenue	9,500	100	9	3	8,700	100	9,200	6
Expenditure								
Defense and security	(3,440)	28	3		(3,340)	29		
Oil and gas production	(2,100)	17	15		(1,820)	16		
Civil ministries	(4,350)	34	(1)		(4,400)	38		
Development	(1,365)	11	2		(1,340)	11		
Subsidies	(725)	6	84		(395)	3		
Interest on loans	(480)	3	81		(265)	2		
Others	(40)	1	(71)		(140)	1		
Total expenditure	(12,500)	100	7	(2)	(11,700)	100	(12,700)	9
Deficit	(3,000)			(14)	(3,000)		(3,500)	17
Deficit (% of total revenue)	32%		(6)	(16)	34%		38%	12

Analysis of 2017 preliminary financial accounts (PFA)

Revenue

Actual oil and gas revenues for 2017 are up by 11% as compared to the budgeted figures for 2017. This is on account of increase in realized oil price to USD 50/bbl as compared to the budgeted price of USD 45/bbl.

Non oil and gas revenues have declined by 6% as compared to the budget due to lower tax and non tax revenues including investment income.

Expenditure

Actual public spending surpassed the budgeted figures by RO 1b and reached RO 12.7b.

The 9% excess spending is attributed to rise in investment spending on development projects and oil and gas sector projects, electricity sector subsidy and public debt servicing costs.

Deficit

Actual deficit for 2017 stood at RO 3.5b being 38% of actual revenue. The increase in expenditure of RO 1b is off-set with the increased revenue of RO 500m, which resulted in an excess deficit of RO 500m as compared to budgeted deficit of RO 3b.

Deficit Financing

The Government financed 90% of the deficit by domestic and foreign borrowings. The balance 10% of the deficit was covered by drawing on reserves. The Government relied primarily upon borrowings from external sources to reduce the pressure on the private sector's financing needs as well as to enhance foreign currency cash flows and reserves.

Highlights of the 2018 budget

Focus on controlling public spending and increasing non oil revenues continues

The recent recovery in oil prices has not changed the Government's resolve to continue with its prudent fiscal management, including controlling public and in particular current spending. It also realizes that diversification away from oil has to be pursued vigorously with the help of the private sector investment to contain the budget deficit and the rising public debt. In this backdrop, the budget has tried to maintain balance by cutting public expenditure without compromising on funding of key development projects. Given that the private sector is expected to play a pivotal role in capital formation, the focus of the government is not only to improve the investment climate and promote public private partnership but also to give significant support to the small and medium enterprises by allocating some of the government projects to this sector and to ensure the swift implementation of the National Program for Enhancing Economic Diversification ('Tanfeedh') initiatives.

Revenue

Oil and gas revenue represents 71% of total government revenue

Oil and gas revenue is expected to increase by 9% compared to the 2017 budget. The 2018 budget is based on a oil price of US$50/bbl compared to US $45/bbl used in the 2017 budget. The budgeted oil price of US$50/bbl for 2018 corresponds to the the average price actually realized during 2017. Revenue estimates also reflect reduced production pledged by the government in line with the OPEC production agreement and anticipated production from the Khazzan-Makarem gas field.

Non-oil and gas revenue represents 29% of total government revenue

Non-oil and gas revenue is projected to be RO2.7b amounting to an increase of 5% from the 2017 budgeted revenue. Corporate tax revenue is projected to increase by 25% to RO500m in 2018 compared to RO400m budgeted in 2017. The increase is due to raise in corporate tax rate from 12% to 15% and abolition of the exemption limit of RO 30,000. Increase to the scope of withholding taxes is also expected to contribute in higher tax collections.

The substantial increase in corporate taxes is offset by a 23% decrease projected in customs revenue to RO 286m in 2018 from RO 370m budgeted for 2017.Municipality fees on property rentals is anticipated to reduce by RO 12.8m i.e. by 17.8% compared to 2017 budget which may imply slowdown in renting of real estates due to the overall economic downturn.

The Government has also indicated its intention to introduce Excise taxes during 2018 on selective goods in line with the other Gulf Cooperation Council (GCC) countries. Saudi Arabia, UAE and Bahrain introduced Excise tax of 100% on tobacco, and alcohol and 50% on energy drinks. On the other hand, VAT implementation has been delayed to 2019 although Saudi Arabia and the UAE implemented VAT from 1 January 2018.

Income from government investments is projected to reduce by RO 40m.

Expenditure

Whilst the total expenditure is projected to increase by RO 800m to RO 12.5b compared to the 2017 budget, this is infact 2% lower than the actual projected spending of RO 12.7b in 2017. The Government has committed to limit the total public spending to not more than 40% to 45% of the GDP.

Defense and security expenditure is marginally increased by 3%. Expenditure on development projects is estimated at RO1.365b, almost unchanged from the 2017 budget. Allocations have been made for several infrastructure projects in Oman and development projects in Duqm. Expenditure on education, health, housing and social welfare is reported to be at 38% of the total public spending and reflects continued increased allocation compared to previous years.

Interest on loans is projected to increase by 81% to RO 480m in 2018 from RO 265m budgeted in 2017 which indicates increased debt servicing to manage the fiscal deficit.

Budget deficit is 10% of GDP

The 2018 budget deficit is projected to be RO 3b compared to an actual 2017 deficit of RO 3.5b. The 2018 deficit is expected to be financed from borrowings (84 percent) and reserves (16 percent).

Key developments

Tanfeedh

The Tanfeedh program continues to be the key focus area on the manufacturing, logistics and tourism sectors being assigned priority during the first phase. An Implementation Support and Follow-up Unit (ISFU) was formed during 2017 to ensure the implementation of the initiatives on a timely basis. The government allocated RO 86.2 m for implementing the initiatives/projects of Tanfeedh during 2017.

Privatisation

Six state owned enterprises are being planned for privatization during 2018. PPP projects like Khazzan natural gas project (US$ 16b project operated by BP in partnership with Oman Oil Company Exploration and Production) and Duqm Refinery, (50:50 joint venture between Oman Oil Company and Kuwait Petroleum) are progressing well.

Private sector contribution to the implementation of investment projects was 60% in 2017. The government plans to attract further private investment by improving the investment climate and enacting new PPP, foreign capital investment and bankruptcy laws.

Projects selected within the Tanfeedh framework are proposed to be financed in partnership with the private sector.

Investments

A number of strategic projects are ongoing with an intent of the government not to cut development spending. Projects such as the new international airport, expressways, water networks, hospitals and renewable energy generation would continue to get government funding. Proposals to set up free zones in Buraimi, Musandam are under discussion.

Taxation

With the amendment to the tax legislation in February 2017, no significant amendments are anticipated to the corporate tax regime. It is expected that Executive Regulations to implement the recent amendments to the Tax Law may be issued which could clarify uncertainties in applicability of withholding taxes on payments such as service fees, interest and dividends.

Oman has recently joined the Base Erosion and Profit Shifting (BEPS) Inclusive Framework of OECD. In the GCC region, Saudi Arabia and Qatar are the other countries who have joined the BEPS Inclusive Framework. By joining the BEPS Inclusive Framework, Oman has committed to implement the four minimum standards of the BEPS Package. Furthermore, members of the Inclusive Framework agree to work together on an equal footing to develop further the BEPS measures, commit to participate in peer reviews on BEPS measures' consistent implementation.

The European Union has put Oman in the grey list of non co-operative tax jurisdictions. As it is not black listed it would not face any sanctions. However, with proper implementation of BEPS measures, Oman should be able to get out of the grey list.

Contact us

Partners

Ashok Hariharan
T: +968 24 7492 31
E: ahariharan@kpmg.com

Paul Callaghan
T: +968 24 749 234
E: pcallaghan@kpmg.com

Michael Collinson
T: +968 24 749 631
E: mcollinson1@kpmg.com

Mobeen Chaudhri
T: +968 24 749 681
E: mobeenchaudhri@kpmg.com

Directors

Meenakshi Sundaram
T: +968 24 749 215
E: msundaram@kpmg.com

Nimai Vijay
T: +968 24 749 202
E: nvijay1@kpmg.com

Manvinder Singh
T: +968 24 749 276
E: manvindersingh@kpmg.com

Rick Selby
T: +968 24 749 242
E: rickselby@kpmg.com

Nader Al Rawahy
T: +968 24 749 652
E: nalrawahy@kpmg.com

KPMG

Level 4 | HSBC Building | Muttrah Business District | PO Box 641 | Ruwi 112 | Sultanate of Oman
T: +968 2470 9181 F: +968 2470 0839

www.kpmg.com/ae
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