Oman budget 2019 KPMG Insights

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Comparing the 2019 budget with the Ninth Five-Year Plan (FYP9)

	2019 budget			Ninth Five-Year Plan - 2019	
	ROm	**% of total**	**Change (%) from FYP9**	**ROm**	**% of total**
Revenue					
Oil	5,465	54	(9)	6,020	54
Gas	1,980	20	2	1,950	18
Other revenues	2,655	26	(15)	3,130	28
Total revenue	10,100	100	(9)	11,100	100
Expenditure					
Defense and security	(3,450)	27	(9)	(3,800)	27
Oil and gas production	(2,230)	17	(13)	(2,570)	19
Civil ministries	(4,490)	35	(10)	(4,970)	36
Development	(1,325)	10	(28)	(1,850)	13
Others	(1,405)	11	98	(710)	5
Total expenditure	(12,900)	100	(7)	(13,900)	100
Deficit	(2,800)			(2,800)	
Deficit (% of total revenue)	28%			25%	
Average price per barrel (US$)	58			60	

Key differences between the 2019 budget and FYP9

Oil revenue budget reduced by 9%
Oil revenue is budgeted to decline by 9%, from the RO 6.02b planned in FYP9 to RO 5.47b in 2019. FYP9 had assumed a price of US$60/bbl versus US$58/bbl considered in the 2019 budget.

Gas revenue budgeted to rise by 2%
Gas revenue is budgeted to increase by 2%, from RO 1.95b planned in FYP9 to RO 1.98b in 2019.

Other revenues budgeted to decline by 15%
Other revenues are budgeted to reduce 15%, from RO 3.13b planned in FYP9 to RO 2.66b in 2019.

Overall expenditure budget cut by 7%
Total expenditure is set to decline by RO 1b from the planned spending of RO 13.9b in FYP9 to RO 12.9b in 2019. This is, however, RO 400m higher compared to the 2018 budget of RO 12.5b. The adjustment is in line with the government's approach of rationalizing expenditures to limit the fiscal deficit consistent with FYP9.

Oil and gas expenditure budget cut by 13%
Oil and gas expenditure is set to decrease from RO 2.57b planned in FYP9 to RO 2.23b in 2019. However, the expenditure is up by 6% as compared to the 2018 budget.

Development expenditure cut by 28%
Budget for development expenditure is reduced by 28%, from the RO 1.85b planned in FYP9 to RO 1.32b in 2019 (2018 Budget: RO 1.36b).

Other expenses increased by 98%
Other expenses are budgeted to increase from RO 0.71b in FYP9 to RO 1.41b in the 2019 budget. Other expenses largely include subsidies and interest on loans.

Overall budget deficit is 28% of total revenues
The 2019 budget projects a deficit of RO 2.8b (9% of GDP) which is in step with the FYP9. The 9% decline in revenue, as compared to FYP9, has been compensated for with a 7% cut in overall expenditures.

KPMG comment

Prudent fiscal management continues to be a priority as the Sultanate of Oman seeks to keep the budgeted deficit below 10% of GDP. The budget is based on an oil price of US$ 58/bbl (FYP9 - US$ 60/bbl); the price for Omani crude was US$ 53/bbl at the end of 2018. The average realized price at the end of November 2018 was US$68/bbl. If the average price of Omani crude does not rise above US$60/bbl during 2019, the government may need to consider taking further action to control the deficit. Given volatile oil prices, success of the government's diversification agenda is key in order to achieve growth, increase employment and maintain public debt at reasonable levels in relation to GDP.

Oman's 2019 budget compared to 2018 budget

	2019 budget			2018 budget	
	ROm	% of total	Change (%) from 2018 budget	ROm	% of total
Revenue					
Oil	5,465	54	12	4,870	51
Gas	1,980	20	4	1,910	20
Oil and Gas revenue	7,445	74	10	6,780	71
Taxes and fees	1,450	14	3	1,413	15
Other non-tax revenues	850	8	(26)	1,147	12
Capital revenues and repayments	355	4	122	160	2
Non-oil and gas revenue	2,655	26	(2)	2,720	29
Total revenue	10,100	100	6	9,500	100
Expenditure					
Defense and security	(3,450)	27	0.3	(3,440)	28
Oil and gas production	(2,230)	17	6	(2,100)	17
Civil ministries	(4,490)	35	3	(4,350)	34
Development	(1,325)	10	(3)	(1,365)	11
Subsidies	(745)	6	3	(725)	6
Interest on loans	(630)	4.9	31	(480)	3.8
Others	(30)	0.1	(25)	(40)	0.2
Total expenditure	(12,900)	100	3	(12,500)	100
Deficit	(2,800)			(3,000)	
Deficit (% of total revenue)	28%			32%	

Analysis of 2018 preliminary financial accounts (PFA)

Revenue

Actual revenues for 2018 are up by 8% (RO 800m) compared to the budgeted figures for 2018. This is in line with FYP9 at RO 10.3b. The alignment is mainly on account of an increase in realized oil price to USD 68/bbl (as of November 2018), versus the budgeted price of USD 50/bbl.

Expenditure

Actual government spending for 2018 surpassed the budgeted figures by 6% (RO 700m), reaching RO 13.2b. The increase is mainly attributed to excess spending on development projects, expenses for some government units, electricity subsidies and debt servicing.

Deficit and financing

Actual deficit for 2018 stood at RO 2.9b—22% of actual revenue. The government financed 86% of the total actual deficit by domestic (17%) and foreign (69%) borrowing. The balance (14%) of the deficit was covered by withdrawals from reserves.

GDP

The GDP, at current prices, continued to grow and reached RO14.7b in the first half of 2018. This is a 15.1% increase compared to the same period in 2017 (RO 12.8b). GDP from crude petroleum and natural gas grew by 25% and 98%, respectively, during the first half of 2018.
In addition, non-hydrocarbon activities grew by 5.1% mainly due to growth in manufacturing and mining sectors.

Highlights of the 2019 budget

Tight budget amidst volatile oil prices

Volatility in oil prices has led the government to walk a tight rope, carefully balancing expenditures within anticipated revenues and keeping the deficit at a sustainable level. The 2019 budget aims to allocate sufficient funds to strategic infrastructure projects, as well as maintain infrastructure and continue to push for economic diversification by enhancing participation of the private sector.

The focus is to improve the investment climate, promote public private partnership and offer support to the small and medium enterprises by assigning a share of government projects to such entities.

Revenue

Oil and gas revenue represents 74% of total government revenue

Oil and gas revenues are expected to increase by 10% compared to the 2018 budget. Considering the recovery of oil prices in international market during 2018, the 2019 budget is based on an oil price of US$58/bbl, which is 16% higher than the 2018 budgeted oil prices of US $50/bbl. Hydrocarbon revenue estimates are based on Oman's commitment to cut oil production (in line with OPEC's decision to reduce volumes) and revenue from the Khazzan gas project.

Non-oil and gas revenue represents 26% of total government revenue

Non-oil and gas revenue is projected to be RO2.65b, reflecting a 2% decline compared to 2018's budgeted revenue. Corporate tax revenue is projected at RO 500m in 2019—identical to the 2018 budget. A new 'local tax' revenue line item is now included under taxes and fees, with a budgeted revenue of RO 100m. This is likely related to the proposed excise tax on selective commodities. Airport revenues are budgeted to increase by 24% (from RO 60m in 2018's budget to RO 75m in 2019) due to the opening of the much awaited new international airport. Revenue from water sales is projected to decrease by 40%, from RO140m in 2018 to RO 84m in 2019. Income from government investments is projected to increase by RO 60m from RO160m in 2018's budget to RO 220m in 2019.

Expenditure

Whilst the total expenditure is projected to increase by RO 400m to RO 12.9b compared to the 2018 budget, this is in fact RO 300m (2.2%) lower than actual spending of RO 13.2b in 2018. Allocations for development expenditures to civil ministries (RO 1.2b) and defense and security expenditure (RO 3.5b) is retained at the same level as the 2018 budget. The government continues to focus on citizen welfare, allocating a significant portion of its spending to education, health, housing and social welfare. The spending on these basic social services as a percentage of overall public spending has, according to the budget statement issued by the Ministry of Finance, increased over the years from 32% in 2016 to 39% percent in 2019.

Civil ministries' current expenditures are estimated at RO 4.5b, of which RO 3.5b (76%) will be spent on salaries, allowances, entitlements and promotion increments for employees of the ministries and government units. The government has also allocated resources to hire an additional 5,000 Omani citizens in certain ministries.

Interest on loans is projected to increase by 31% from RO 480m budgeted in 2018 to RO 630m in 2019, which indicates increased borrowings to finance the fiscal deficit. Allocation to subsidies stands at RO 745m in 2019, which is 6% higher than the 2018 budgeted amount of RO 725m.

Budget deficit reduced by 7%

The 2019 budget deficit is projected to be RO 2.8b, which is RO 200m lower than the 2018 budget and RO 100m lower than the 2018 actual deficit. The 2019 deficit is expected to be financed from borrowings (86%) and reserves (14%), similar to financing of the 2018 actual deficit.

GDP and inflation to increase

It is expected that the GDP will grow 3% in real terms in 2019 to RO 31b and, accordingly, the budget deficit will be approximately 9% of the GDP. The inflation rate is expected to be 3% in 2019.

Key things to look out for

Investments

Investment spending in 2019's budget is estimated at RO 3.7b,which includes RO 1.2b allocated for infrastructure projects. Projects include construction of hospitals, water networks, airport facilities, schools, housing, expressways and roads. The balance of RO 2.5b is planned to be utilized by state-owned enterprises for the implementation industrial and service sector projects. As part of the government's efforts to achieve economic diversification, 2019's budget approves allocations for the five sectors targeted by the National Program for Enhancing Economic Diversification ('Tanfeedh'), namely manufacturing, logistics, tourism, fisheries and mining sectors.

Private sector participation

In this year's budget statement, the government has signified the importance of the private sector for providing finance and investing in the Tanfeedh projects and initiatives. The government plans to continue with policies focused on economic diversification by enhancing private sector participation, outsourcing some government services and enhancing public-private partnership. The government is also looking at reforming legislations to improve the business environment and attract domestic and foreign investments. The 2019 budget also includes revenue of RO 120m from the sale of investments in government-owned entitites, which indicates the government's plans to go ahead with privatization of some entities.

Recruitment

The 2019 budget includes creation of 5,000 job opportunities in the public sector that will be filled based on need—particularly in the education and health sectors. However, the government also expects the private sector to play a greater role in job creation. The Sultanate will also continue with various measures geared toward enhancing Omani job-seekers' abilities, including plans to upskill 6,170 trainees through the National Training Fund.

Excise Tax

Oman is on the brink of introducing 'excise tax,' primarily aimed at taxing certain goods considered harmful to human health and environment, as well as certain luxury goods. According to recent media reports, the Majlis A'Shura and State Council have approved the draft law on excise tax, and representatives of the Ministry of Finance have announced that excise tax will be implemented in early 2019. According to a representative of the Ministry of Finance, the tax is expected to be levied on alcohol, tobacco products, carbonated drinks, energy drinks, pork products and certain luxury goods.Considering the GCC excise framework, the rate of excise tax will be 50% or 100% based on the nature of the goods. To date, Saudi Arabia, the United Arab Emirates, Bahrain and Qatar have introduced excise tax. Businesses in these countries have had approximately two to six days to prepare for implementation from the time the regulations. In Qatar, the tax was imposed while regulations are still pending.

Value added tax (VAT)

The 2019 budget does not make any reference to VAT, which is now in force in three of the GCC states: the United Arab Emirates, Saudi Arabia and Bahrain. Originally scheduled to be introduced in conjunction with other GCC states, according to recent media reports and statements by representatives of the Ministry of Finance, Oman is now preparing for implementation after September 2019. It is, however, more likely that implementation will occur on 1 January 2020.

The budget statement refers to revenues from excise tax and capacity building for other tax reforms, which is a step towards implementation.

KPMG comment

For organizations in the region, preparing for the implementation of both excise tax and VAT has been a race against time. This is evident from the limited time organizations have had between the publication of the law and tax being imposed. From our experience in other markets in the region, these taxes often have an immediate impact on consumer behavior. Unless organizations start planning early, they may not have sufficient time to prepare for the proposed levies. If unprepared, the immediate and most evident consequence is business disruption, tax leakage and administrative penalties.

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