



Oman budget 2022

**Analysis of Oman's State Budget 2022:
KPMG review and insights**

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Oman's 2022 budget at a glance and performance in 2021

Particulars	10th FYP - Year 2022	2022 budget			2021 budget		2021 actuals*	
	OMR (m)	OMR (m)	% of Total	Change (%) from 2021 budget	OMR (m)	% of Total	OMR (m)	Change (%) from 2021 budget
Revenue								
 Oil	3,895	4,490	42	26	3,550	41	5,555	56
 Gas	1,955	2,750	26	47	1,870	22	2,628	41
 Other revenues	3,640	3,340	32	4	3,220	37	2,761	(14)
Total revenue	9,490	10,580	100	22	8,640	100	10,944	27
Expenditure								
 Defense and security	(2,980)	(2,965)	25	-	(2,965)	27	(2,885)	(3)
 Gas procurement and transport expenditures	(850)	(1,600)	13	105	(780)	7	(1,767) ¹	127
 Civil ministries	(3,960)	(4,300)	35	6	(4,075)	38	(4,320)	6
 Development	(900)	(900)	7	-	(900)	8	(1,100)	22
 Servicing public debt	(1,415)	(1,294)	11	8	(1,200)	11	(1,070)	(11)
 Electricity subsidies	(470)	(500)	4	-	(500)	5	(550)	10
 Other subsidies	(265)	(361)	3	20	(300)	3	(475)	3
 Provision for debt settlement	(300)	(200)	2	33	(150)	1		
 Participation in local, regional and international institutions	(10)	(10)	-	-	(10)	-		
Total expenditure	(11,150)	(12,130)	100	11	(10,880)	100	(12,167)	12
Deficit	(1,660)	(1,550)		(31)	(2,240)		(1,223)	(45)
Deficit (% of total revenue)	17%	15%	-	-	26%	-	11%	-
Financing of deficit								
Net borrowings	-	1,150	74	-	1,640	73	823	(50)
Financing from reserves	-	400	26	-	600	27	400	(33)
Average daily oil production ('000 bbl)	1,107	1,055	-	-	960	-	957	-
Average price per barrel (USD)	45	50	-	-	45	-	61	-

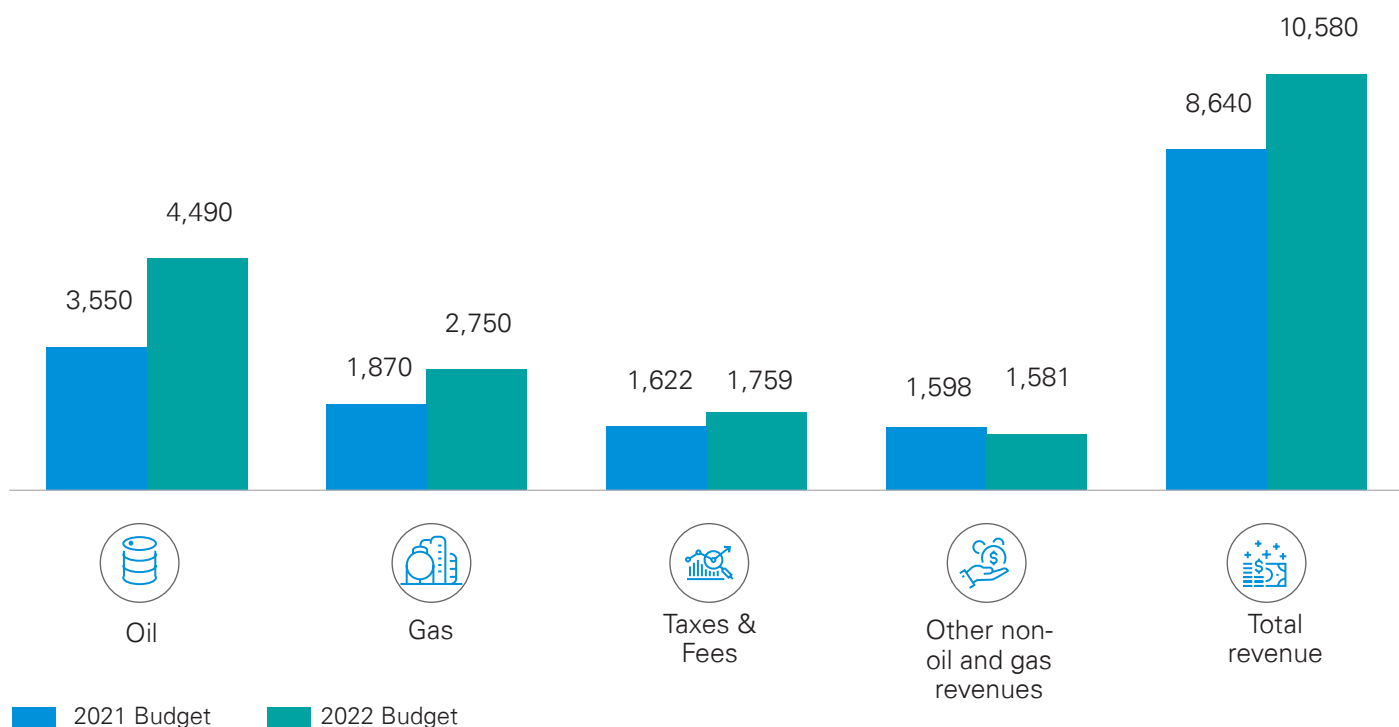
*Preliminary results for 2021 as issued by the Ministry of Finance

¹Includes oil expenditure

Source: Royal Decree 1/2022 and A guide to State's General Budget for Fiscal Year 2022 issued by the Ministry of Finance.

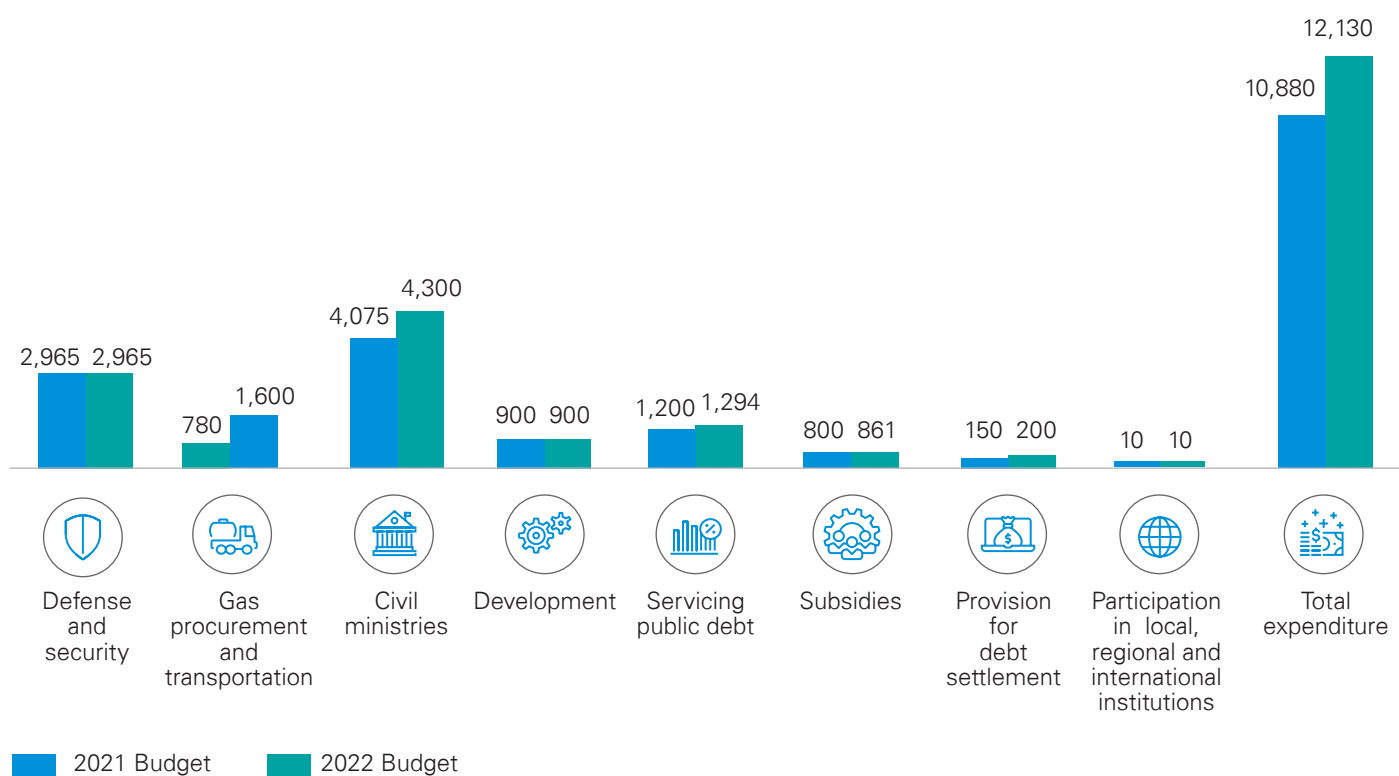
Revenue Comparison: Budget 2022 Vs Budget 2021

(Million RO)



Expenditure Comparison: Budget 2022 Vs Budget 2021

(Million RO)





Highlights of Oman's 2022 budget

Summary

The 2022 budget is prepared in accordance with the objectives of the Tenth-Five Year Development Plan (2021-2025). This represents the first plan of Oman Vision 2040, which aims to achieve financial sustainability while stimulating economic sector diversification.

The 2022 budget reflects all government measures, endorsed by His Majesty Sultan Haitham bin Tarik, that are aimed at increasing non-oil revenues and reducing public spending on government units to achieve fiscal sustainability. The 2022 budget seeks to attract more investment, enable the private sector to play a greater role in accelerating economic growth, and create more job opportunities.

Public revenues and expenditures estimates for 2022 have also considered the Medium Term Fiscal Plan (2020 to 2024). The focus is to maintain spending on essentials like education, health care, housing and social welfare. In addition, the 2022 budget aims to improve the business environment and expand public-private partnership (PPP) projects.

Revenue to decline by 3.3% compared to preliminary results of 2021

Oil and Gas revenues represent 68% of total government revenues

Oil and Gas revenues are budgeted at RO 7.2 billion – representing a 34% increase compared to the 2021 budget of RO 5.4 billion, although these are 12% lower than the revenue as per 2021 preliminary results of RO 8.2 billion. However, gas revenues are budgeted at RO 2.7 billion – a 5% increase from the 2021 preliminary results of RO 2.6 billion. Oil revenues are declining as the 2022 budget assumes an oil price of US\$ 50/bbl which is less than the average price of US\$ 61/bbl in 2021. This reflects a precautionary position taken in the 2022 budget, as the oil prices are uncertain due to the Covid-19 pandemic and other factors. While the global economy and demand recovers, energy markets are still experiencing fluctuation due to the latest variant of the Covid-19 pandemic “Omicron”. In case, the oil price exceeds the budget estimate, the additional revenue will be utilized to reduce the deficit and repay loans.

Non-Oil and Gas revenues represent 32% of total government revenues

Non-Oil and Gas revenues are budgeted at RO 3.3 billion – representing an increase of 4% compared to the 2021 budget of RO 3.2 billion, and a 21% increase compared to the revenue as per 2021 preliminary results of RO 2.76 billion. The significant increase in non-Oil and Gas revenues reflect the government's objective of reducing its dependence on oil revenues. The 2022 budget estimates VAT and Excise Tax revenues will increase by 29.5% in 2022 i.e. to RO 535 million compared with the budgeted figure of RO 413 million in 2021. The corporate income tax revenues are also estimated to increase by 16% to RO 465 million in 2022, when compared with the 2021 budget. Another significant source of revenue (RO 800 million) for the government is from the Oman Investment Authority (OIA), which owns all government investments excluding Petroleum Development Oman (PDO).

Expenditure to decline by 0.3% compared to the preliminary results of 2021

Gas purchase and transport expenditure cut by 9%

The cost of purchasing and transporting gas is estimated at RO 1.6 billion, an increase of RO 820 million compared to the 2021 budget, but this is 9% lower than the cost as per the 2021 preliminary results of RO 1.8 billion. The significant increase in the cost vis-à-vis the 2021 budget is mainly due to the fact that after the establishment of Energy Development Oman (EDO), the methodology of purchasing gas from PDO Block 6 has changed. Accordingly, gas purchasing cost has risen significantly - RO 1.4 billion as per 2022 budget vis-à-vis RO 650 million in the 2021 budget. However, this has also led to an incremental increase in gas revenue compared to the 2021 budget.

Development expenditure cut by 18%

Development expenditure is budgeted at RO 900 million - in line with the 2021 budget, but 18% less than actual expenditure as per 2021 preliminary results of RO 1,100 million. This represents the amount estimated to be paid during the year as per the actual work in progress for the development projects, which have been re-prioritized in terms of urgency, cost and economic and social returns using a Matrix of Projects methodology, as developed by the Ministry of Economy.

Expenses for servicing public debt increase by 21%

Expenses for servicing public debt are budgeted at RO 1,294 million – an 8% increase compared to the 2021 budget of RO 1,200 million and a 21% increase from the 2021 preliminary results of RO 1,070 million.

Budget deficit amounts to 15% of revenues and 5% of GDP

The 2022 budget deficit is estimated to be RO 1.55 billion – a 27% increase from the actual deficit of RO 1.2 billion as per 2021 preliminary results. The 2022 deficit is proposed to be financed through external and domestic borrowing (74%) and drawing on reserves (26%).

Budget 2022 vis-à-vis 2022 projections in the tenth five year plan

The oil and gas revenues in the budget 2022 are estimated higher than the tenth five year plan as the oil prices are assumed at US\$ 50 per barrel owing to an increase in oil prices as compared to US\$ 45 per

barrel in the tenth five year plan. With regards to the expenditure, there is only a significant change in the gas procurement expenditure, on account of the change in the methodology of purchasing gas from PDO Block 6, after the establishment of EDO and gas transportation expenditure due to increase in the volume of gas. The 2022 budget deficit of RO 1.55 billion is broadly in line with the deficit of RO 1.66 billion in the Tenth Five-Year Plan.

GDP to grow by 13.8% by end of 2021

According to the preliminary estimates by National Centre for Statistical Information (NCSI), Oman's GDP is targeted to grow by 13.8% at current prices, reaching RO 32 billion by the end of 2021. The government seeks to achieve a growth rate of 2.5% at constant prices in 2022.

The IMF projects that emerging markets are expected to witness inflation rates as high as 6.8% in 2021. However, this is expected to decline and average 4% from 2022 onwards.

Source: Royal Decree 1/2022 and A guide to State's General Budget for Fiscal Year 2022 issued by the Ministry of Finance.





Analysis of the 2021 preliminary financial accounts

Despite the ongoing uncertainties caused by the Covid-19 pandemic and fluctuation in oil prices, the preliminary results of 2021 indicate that the 2021 budget registered the lowest deficit since 2014. Preliminary results of 2021 shows a significant increase in total revenues that caused the deficit to drop by 45% to RO 1.2 billion compared to the 2021 budget.

Revenue

Actual aggregate revenue for 2021 as per the preliminary results increased by 27%, reaching RO 10.9 billion compared to the budgeted revenue of RO 8.6 billion. This is attributable to a significant increase (51%) in Oil and Gas revenues by RO 2.8 billion, despite a reduction of RO 459 million (14%) in non-oil revenues. The increase has been attributed to the following:

- Net oil revenue increased by 56% due to the average oil price of USD 61/bbl being higher than the assumed price of USD 45/bbl in the 2021 budget.
- Gas revenue increased by 40%, as a result of higher oil prices which pushed gas prices upward and a rise in volume of LNG exports.
- However, non-oil revenues declined by 14% due to persistent implications of the Covid-19 pandemic on business activities, despite the measures taken by the government to stimulate the private sector.

Expenditure

Actual public spending as per the preliminary results for 2021 increased by 12% (i.e. by RO 1.3 billion), reaching RO 12.2 billion. This increase is mainly due to the following reasons:

- The continued support of the government in covering expenses related to the oil and gas sector (RO 987 million) until EDO completed the required legal procedures and commenced funding its operations.

- Increase in development spending by RO 200 million which inter alia includes settlement of payments deferred from previous years and expenses required to address the damages caused by cyclone Shaheen.
- An increase in current expenditure of civil ministries and defence and security units
- An increase in contributions and other expenses as a result of settling the water subsidy for previous years.
- Additional expenditure incurred for the pandemic.

However, it is noteworthy that despite the increase in expenditure of 12% (i.e. RO 1.3 billion) vis-à-vis budgeted numbers, Oman reported its lowest expenditures in the year 2021 as compared to the last 5 years starting from year 2017.

Deficit

The 2021 budget deficit declined by RO 1 billion to reach RO 1.2 billion, which is 45% less than the budgeted deficit of RO 2.2 billion for 2021. Consequently, the annual deficit has declined to 3.8% of GDP in 2021 as compared to 17.8%² in 2020.

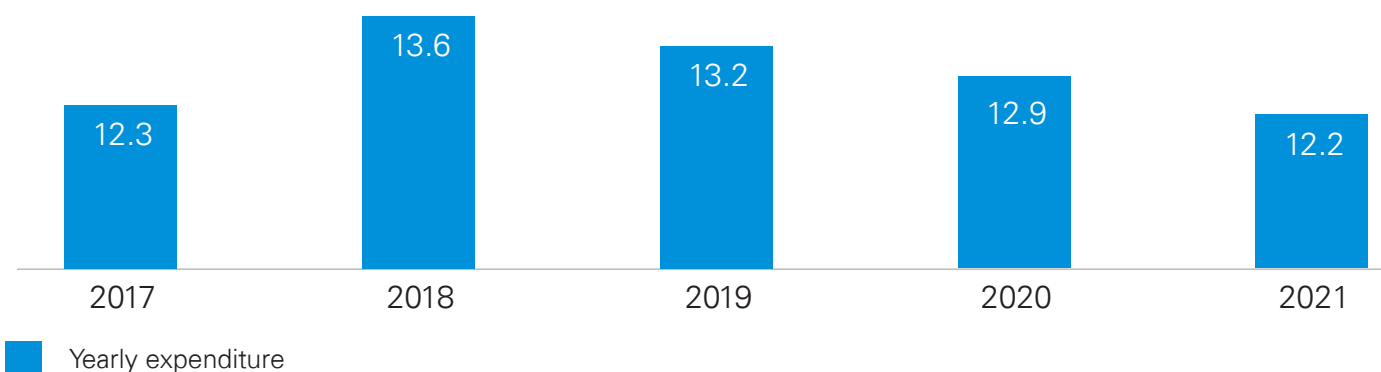
GDP

The preliminary estimates of NCSI indicate that GDP is to grow by 13.8% at current prices, reaching RO 32 billion by the end of 2021. In addition, public debt is estimated to decline to 68% of the GDP versus previous estimates of 83% in 2021.

² State's Final Account for Fiscal Year 2020 published by Ministry of Finance

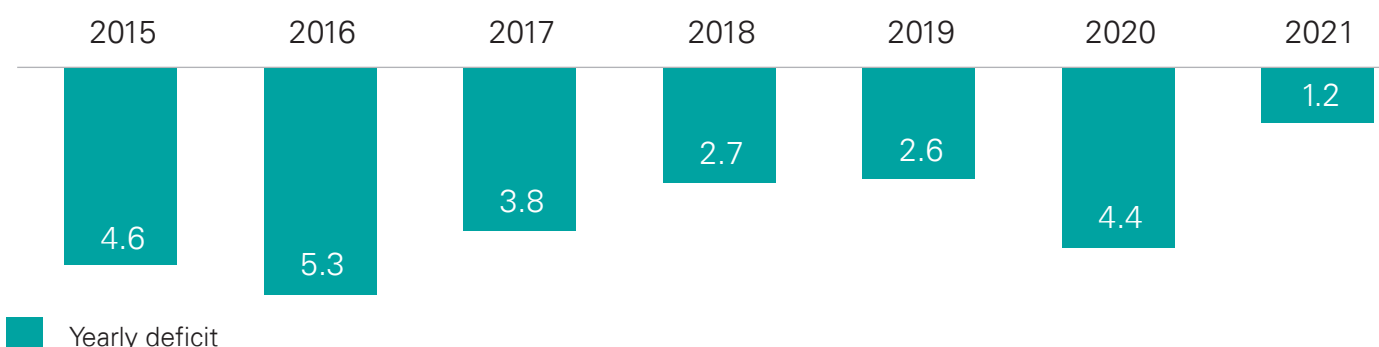
History of expenditure up to 2021

(Billion RO)



History of deficit up to 2021

(Billion RO)



Other performance indicators

- The foreign reserves at the Central Bank of Oman (CBO) increased to US\$ 18 billion in December 2021 from US\$ 14 billion in December 2020, up by 31%.
- Deposits in the banking sector increased to RO 25.2 billion i.e. 5.3% as of the end of October 2021.
- The total credit granted by conventional commercial banks grew by 5%, reaching RO 27.8 billion by the end of October 2021.
- Oman's trade balance showed a surplus of RO 3.3 billion by the end of third quarter of 2021.
- Upgrading of Oman's Credit Ratings by key credit rating agencies to stable and positive in 2021. As per Moody's, the change in outlook reflects the significant easing of government liquidity and external financing pressures, mainly as a result of the ongoing implementation of the Medium Term Fiscal Plan (MTFP) and significantly higher oil prices since the middle of 2020. This will further underpin a steady decline in direct government debt burden to around 60% of GDP by 2024.

Government measures and initiatives in 2021

The government launched a number of initiatives and measures during 2021 to stimulate the national economy, promote social protection and maintain fiscal sustainability in alignment with the Oman Vision 2040. The key measures and initiatives undertaken by the government are highlighted hereunder.

- **Economic Stimulus Plan (ESP):** The ESP was introduced on 9th March 2021 to mitigate the implications of the pandemic on the national economy. The ESP addresses five key areas: the banking sector, labour market and employment, small and medium enterprises (SMEs), business environment and investment climate and tax incentives (lower tax rate, tax rebates, etc.) with the aim to support economic recovery efforts, enhance economic performance and attract more foreign investment.
- **Digital Transformation Program:** This program aims to create an innovative e-government that provides smart services through setting out a comprehensive plan for digital transformation; this includes 53 government units. The program seeks to make 80% of the main government processes/action online.
- **Initiatives for development of SMEs:** Key measures undertaken by the Authority for Small & Medium Enterprises Development include easing the advancement and repayment of credit and waiver of repayment of loans. Other initiatives include: launching specialized and qualitative incubators in creative industries, on-the-job training and consultation programs for SMEs and a special program for entrepreneur readiness to promote a culture of entrepreneurship.
- **Social Protection Initiatives:** These initiatives were launched on 8th April 2021 to enhance the efficiency of public finance and stabilize the labour market, encouraging effective participation of the private sector in contributing to the economy's growth in line with Oman Vision 2040. Initiatives include providing financial facilities and granting exemption for some individuals and SMEs in repaying loans, expanding the food items list which is subject to VAT at 0%, extending the duration of benefits offered by Job Security System and bearing the cost of VAT imposed on electricity and water services.
- **Government Companies Performance Enhancement:** OIA has launched a number of initiatives and programs to develop and enhance the performance of government companies, which includes:
 - **Rawabet program:** A program to ensure consistent policies and corporate governance systems of OIA affiliated companies (i.e. all government companies except EDO/PDO) in line with Oman Vision 2040.
 - **Governance charter:** Aims to regulate the activities of companies associated with OIA and link their strategies with sustainable development plans.
 - **In-Country Value Program:** Contributes towards promoting the development of domestic industry, thereby stimulating the economy.
- **National Fund for Emergency:** Aims to deal with the aftermath of the tropical cyclone Shaheen, and to be prepared for other natural disasters that may occur in the future.
- **Investor Residency Program** – This program allows interested investors to stay in Oman for a period ranging from five to ten years, which is extendable.



Key government measures and initiatives to look out for in 2022

The government seeks to achieve its economic and social development objectives as detailed in the Tenth Five year Plan (2021-2025) and Oman Vision 2040 through a number of measures.

- **Ejadah** – To be implemented in January 2022. This aims to develop human resources by linking incentives and rewards with the level of productivity.
- **Digital transformation projects** – A number of digital projects are anticipated to be launched, including a unified guide for government services, initiatives, activities for space exploration and a national platform for suggestions and complaints.
- **Growth of SMEs** – Measures to boost the SME sector include drafting SMEs law, introducing funding regulations, introducing Riyada Card regulations, announcing incubators-related regulations and Sanad centers regulations, launching group financing platforms, and supporting the craft industry and one-person industry.
- **Government Financial System (Maliyah)** – This will act as an information technology platform for the application of the rules, policies, procedures, and operations of public finance management.
- **National Register of Government Assets** - The register is an integrated central system that seeks to take full account of government assets and draft a strategy to maximize returns.
- **Fee Setting Policy Handbook** – It comes as a unified framework to standardize the pricing of government services, which would serve as a reference for government units.
- **Merger of Pension Funds:** Pursuant to the Royal Decree no 2021/33 on systems of retirement and social security, a civil pension fund for public and private sectors shall be established under the name “Social Security Fund”. This is in addition to the establishment of a fund for military and security under the name “Military and Security Services Retirement Fund”. Key objectives are to create a comprehensive social protection coverage, a unified methodology for investment management and enhancing investment capacity and efficiency.
- **Central Government Procurement** - This initiative seeks to identify a central unit with the aim of integrating government procurement and contracts for all government units.
- **Supply Chain Financing (SCF) scheme** - The Ministry of Finance is working with a group of banks, primarily based in Oman, to provide a simple and effective financing solution to the suppliers under contract with various government units. The objective is to offer suppliers an alternative option of getting their invoices settled in a timely manner without signing any financing agreement with banks. The bank will transfer the funds directly to the bank account of the supplier, following which the Ministry of Finance will repay the funds to the same bank.
- **Tafakur platform** - An e-platform that aims to promote community participation between the government and society by receiving ideas, suggestions and solutions that will help improve public financial management and achieve fiscal sustainability.

Contact us

Partners

Stuart Cioccarelli

Head of Tax
KPMG Lower Gulf
E: scioccarelli@kpmg.Com

Ashok Hariharan

Senior Tax Advisor
KPMG LLC
E: ahariharan@kpmg.com

Kenneth Macfarlane

Partner-in-charge
KPMG LLC
E: kmacfarlane@kpmg.com

Aqeel Al Lawati

Partner
KPMG LLC
E: aqeelallawati@kpmg.com

Mobeen Chaudhri

Partner - Audit
KPMG LLC
E: mobeenchaudhri@kpmg.com

Aabha Lekhak

Partner - Indirect Tax
KPMG LLC
E: alekhak2@kpmg.com

Ravikanth Petluri

Partner - Audit
KPMG LLC
E: rpetluri@kpmg.com

Directors

Rakesh Jain

Director | Tax
KPMG LLC
E: rakeshjain1@kpmg.com

Sandeep Kumar

Director | Tax
KPMG LLC
E: sandeepkumar10@kpmg.com

Moynul Islam

Director | Tax
KPMG LLC
E: moynulislam@Kpmg.com

Anuradha Venkatkrishnan

Director | Audit
KPMG LLC
E: anuradhavenkat@kpmg.com

Waseem Khan Yousafzai

Director | Audit
KPMG LLC
E: wkhan11@kpmg.com

Rhonica Raj

Director | Advisory
KPMG LLC
E: rhonicaraj@kpmg.com

Harris Matin

Director | Advisory
KPMG LLC
E: hmatin1@kpmg.com

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