



Oman's State Budget 2023

KPMG analysis

January 2023
KPMG Lower Gulf



Summary

The 2023 budget is prepared in accordance with Oman Vision 2040 and the Tenth Five-Year Development Plan (2021-2025), which aims to ensure financial, economic and social stability. It reflects government measures, endorsed by His Majesty Sultan Haitham bin Tarik, that are aimed at increasing non-oil and gas revenues and reducing public spending on government units to achieve financial efficiency and foster economic growth.

The 2023 budget has been prepared based on a set of economic and social objectives such as economic growth of not less than 3%, maintaining an inflation rate of no more than 3%, continuity of economic diversification policies, creating employment, improving Oman's credit rating, developing income-generating sources for governorates, digital transformation and maintaining spending on basic services.

Oman's 2023 budget at a glance and performance in 2022

Particulars	10th Five Year Plan - 2023	2023 Budget			2022 Budget		2022 preliminary results*	
	OMR (m)	OMR (m)	% of total	Change (%) from 2022 budget	OMR (m)	% of total	OMR (m)	Change (%) from 2022 budget
Revenue								
 Oil	4,650	5,320	53	18	4,490	42	7,457	66
 Gas	2,140	1,400	14	(49)	2,750	26	3,557	29
 Other revenues	4,025	3,330	33	0	3,340	32	3,220	(4)
Total revenue	10,815	10,050	100	(5)	10,580	100	14,234	35

Particulars	10th Five Year Plan - 2023	2023 Budget			2022 Budget		2022 preliminary results*	
	OMR (m)	OMR (m)	% of total	Change (%) from 2022 budget	OMR (m)	% of total	OMR (m)	Change (%) from 2022 budget
Expenditure								
 Defense and security	(3,000)	(3,000)	26	1	(2,965)	25	**	**
 Gas procurement and transport expenditure	(870)	-	0	(100)	(1,600)	13	**	**
 Civil ministries	(3,990)	(4,420)	39	3	(4,300)	35	(4,400)	2
 Development expenditure for civil ministries	(900)	(900)	8	0	(900)	7	(1,100)	22
 Servicing public debt	(1,560)	(1,200)	11	(7)	(1,294)	11	**	**
 Electricity subsidies	(280)	(485)	4	(3)	(500)	4	**	**
 Social protection subsidies	-	(384)	3	-	-	-	**	**
 Other subsidies	(210)	(351)	3	104	(361)	3		
 Provision for debt settlement	(600)	(400)	4	100	(200)	2		
 Projects of development impact	-	(200)	2	-	-	-	**	**
 Participation in local, regional and international institutions	(10)	(10)	0	0	(10)	0		
Total expenditure	(11,420)	(11,350)	100	(6)	(12,130)	100	(13,088)	8
Deficit/surplus	(605)	(1,300)		(16)	(1,550)		1,146	(174)
Deficit/surplus (% of total revenue)	(6%)	(13%)			(15%)		8%	
Financing of deficit								
Net borrowings	-	900	69	-	1,150	74	**	**
Financing from reserves	-	400	31	-	400	26	**	**
Average daily oil production ('000 bbl)	1,133	1,175			1,055		1,051	
Average price per barrel (USD)	50	55			50		94	

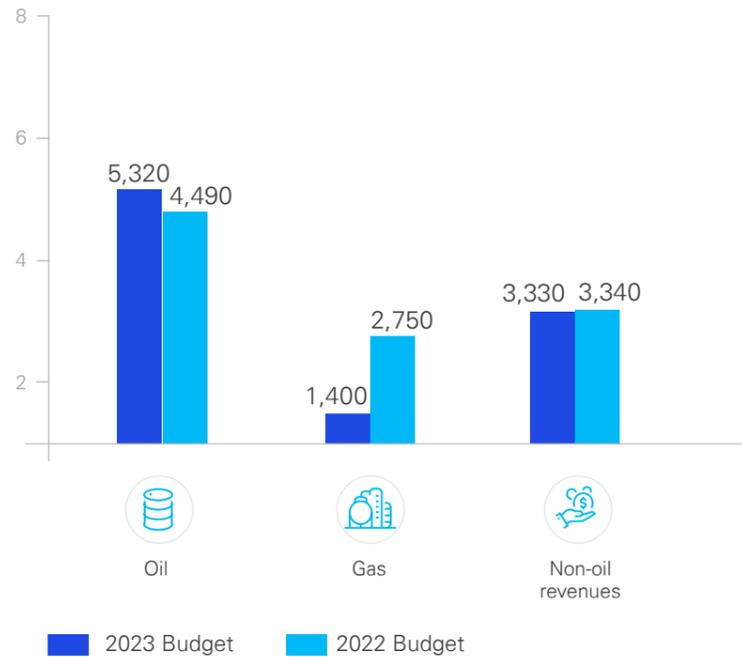
*Preliminary results for 2022 as issued by the Ministry of Finance

** Data not available

Source: Royal Decree 1/2023 and A guide to State's General Budget for Fiscal Year 2023 issued by the Ministry of Finance.

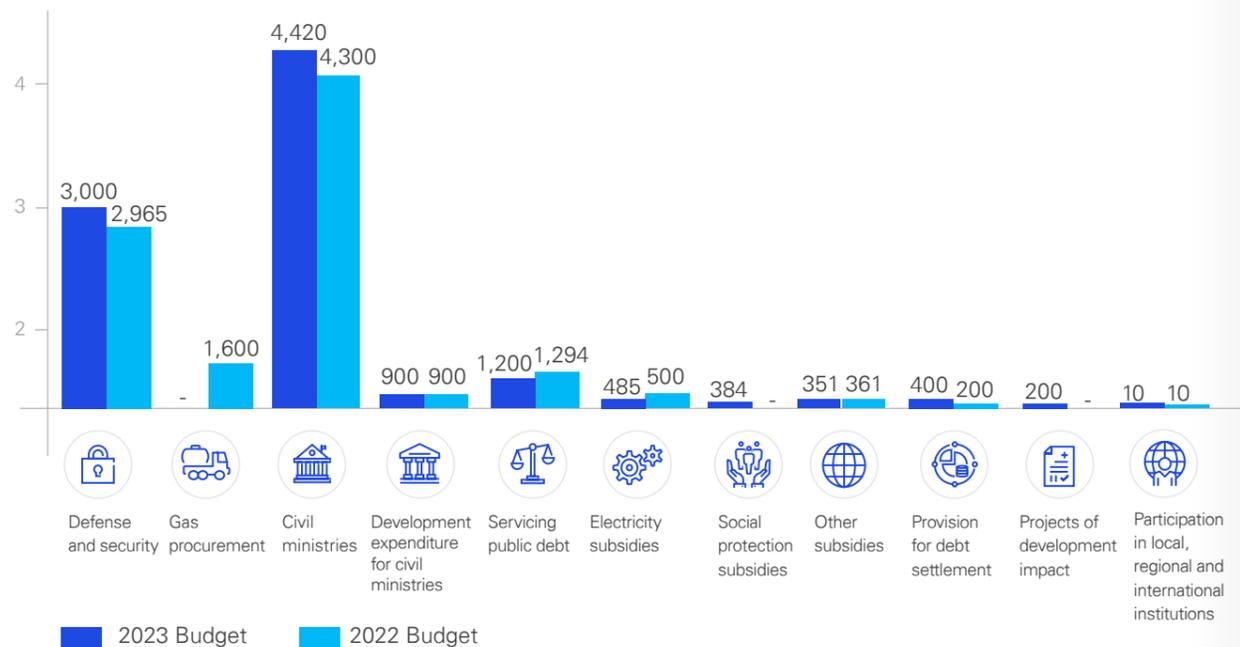
Revenue Comparison: Budget 2023 Vs Budget 2022

(Million OMR)



Expenditure Comparison: Budget 2023 Vs Budget 2022

(Million OMR)



Source: Royal Decree 1/2023 and A guide to State's General Budget for Fiscal Year 2023 issued by the Ministry of Finance.



Highlights of Oman's 2023 budget

Revenue to decline by 29.4% compared to preliminary results of 2022 and 5% compared to the 2022 budget

Oil and gas revenues represent 67% of total government revenues

Oil and gas revenues are budgeted at RO 6.7 billion, representing a 7.2% decrease compared to the 2022 budget of RO 7.2 billion. The decline is due to gas revenues being budgeted at RO 1.4 billion, representing a significant 49% decrease compared to the 2022 budget of RO 2.8 billion. The decline in gas revenues is due to the establishment of the Integrated Gas Company (IGC) which will transfer natural gas revenues to the Ministry of Finance net of the expenses of purchasing and transporting the gas. While gas revenues have decreased, the expenses of purchasing and transporting the gas have also been removed from the 2023 budget.

The budgeted oil revenue has increased by 18% to reach RO 5.3 billion as compared to the 2022 budget of RO 4.5 billion. This is because the 2023 budget assumes an average oil price of USD 55/bbl which is 10% higher compared to the 2022 budget of USD 50/bbl, and average oil production of 1,175 thousand barrels per day which is 11% higher compared to the 2022 budget of 1,055 thousand barrels per day. The assumed average oil price of USD 55/bbl is conservative compared to the global average as a precaution against oil price volatility and factors pertaining to global oil markets, global inflation, projected recession and the real estate sector crisis in China.

The oil and gas revenues budgeted at RO 6.7 billion for 2023 are 39% lower than the 2022 preliminary results of RO 11 billion. Oil revenues are lower because the 2023 budget assumes a conservative average oil price of USD 55/bbl which is significantly lower than the average oil price realized in the 2022 preliminary results (USD 94/bbl). Gas revenues are lower because of the establishment of the IGC.

Like 2022, if the actual oil and gas revenues exceed the budget estimate, the additional revenue will be used to reduce the deficit and repay loans.

Non-oil and gas revenues represent 33% of total government revenues

Non-oil and gas revenues are budgeted at RO 3.33 billion, representing a marginal 0.3% decrease compared to the 2022 budget of RO 3.34 billion, and a 3% increase compared to the 2022 preliminary results of RO 3.22 billion. The contribution of oil and gas revenues (67%) and non-oil and gas revenues (33%) in the 2023 budget reflects the government's continued focus of economic diversification.

The 2023 budget estimates that VAT and Excise Tax revenues will increase by 10% to RO 590 million compared to the 2022 budget of RO 535 million and Corporate Income Tax revenues will increase by 20% to RO 560 million compared to the 2022 budget of RO 465 million. The 2023 budget does not envisage any revenues from Personal Income Tax which was identified as a source of economic diversification in the Medium-Term Fiscal Plan.

Oman Investment Authority (OIA), which owns all government investments excluding Petroleum Development Oman (PDO), continues to be another significant source of non-oil and gas revenues (RO 800 million) for the government.

Expenditure to decline by 13.3% compared to the preliminary results of 2022 and 6.4% compared to the 2022 budget

Expenditure related to gas purchase and transport removed

Gas procurement and transport expenditures are removed from the 2023 budget because of the establishment of the IGC. In the 2022 budget, at RO 1.6 billion, such expenditure constituted 13% of the total expenditure.

Development expenditure cut by 18% compared to 2022 preliminary results

The 2023 budget estimates development expenditure for civil ministries at RO 900 million. It is the same as the 2022 budget, but 18% lower compared to the 2022 preliminary results of RO 1,100 million.

Expenses for servicing public debt cut by 7% compared to the 2022 budget

The 2023 budget estimates expenses for servicing public debt at RO 1.2 billion, representing a 7% decrease compared to the 2022 budget of RO 1.3 billion.

Provision for debt settlement increases by 100% compared to the 2022 budget

The 2023 budget provides RO 400 million for settlement of debts, representing a 100% increase compared to the 2022 budget of RO 200 million.

New expense items included in the 2023 budget

The 2023 budget also provides for some new expenses like projects with development impact estimated at RO 200 million and social protection subsidies estimated at RO 384 million.

Budget deficit estimated at 13% of revenue and 3% of GDP

The 2023 budget deficit is estimated at RO 1.3 billion representing a 16% decline compared to the 2022 budget of RO 1.6 billion. This is RO 2.4 billion lower compared to the actual surplus of RO 1.1 billion as per the 2022 preliminary results. The 2023 deficit is proposed to be financed through external and domestic borrowing (69%) and drawing on reserves (31%). The government may borrow to replace high cost loans with lower cost loans.

2023 budget vis-à-vis 2023 projections in the Tenth-Five Year Development Plan

Oil and gas revenues estimated in the 2023 budget are 1% lower compared to the Tenth-Five Year Development Plan. The increase in the oil revenue assuming higher oil prices (USD 55/bbl) and higher oil production (1,175 barrels per day) is compensated with the decline in gas revenues due to the establishment of the IGC.

Non-oil and gas revenue in the 2023 budget is 17% lower compared to the Tenth-Five Year Development Plan.

On expenditure, the removal of gas procurement expenditure is offset by the increase in subsidies and inclusion of new expenses.

Decline in revenue coupled with an increase in expenditure has resulted in the deficit of RO 1.3 billion, which is double the deficit of RO 0.605 billion budgeted in the Tenth-Five Year Development Plan.

GDP to grow by 5% by the end of 2022

According to the forecast prepared by a joint team of specialists from various government bodies to monitor economic development and outlook in Oman, real GDP is projected to grow by 5% at the end of 2022 driven by an increase in hydrocarbon activities. During 2023, this is estimated to grow by 5.5% because of an increase in oil and gas production.



03

Key government measures and initiatives to look out for in 2023 and beyond

The government envisages various potential fiscal and economic risks such as oil price volatility, higher interest rates, geopolitical tensions, global inflationary pressures, climate changes and natural disasters. To address these risks and achieve the objectives set out in the Tenth Five-Year Development Plan and Oman Vision 2040, the government has planned various measures in addition to implementing the national programs (as discussed in the subsequent section).

Public Private Partnership Programme (PPP)

The Ministry of Finance, with other government units, seeks to engage the private sector in implementing PPP projects to encourage the private sector to invest in infrastructure projects and public services. There are various ongoing projects as well as those planned to be implemented in 2023 in sectors such as education, health, transport and logistic, communication and information technology, agriculture, fisheries, etc.

Progress on projects previously initiated

The government continues to make progress on projects previously initiated such as:

- Including additional ministries in the Fee Setting Policy Handbook
- Issuance of the Social Protection Law to cover schemes such as social welfare and retirement benefits social security and establish integrated and comprehensive social protection for vulnerable people
- Developing the Supply Chain Financing Scheme to accelerate payment of government contractors and suppliers
- Revision/drafting of laws such as Public Debt Law, Financial Law and Executive Bylaws
- Including additional government entities to the Program Based Budget initiative to apply an advanced approach of fiscal planning that identifies public spending priorities and links expenditure to objectives and activities
- Development of Tafakur platform, an e-platform to promote participation between Ministry of Finance and society by adopting new ideas and initiatives to enhance public revenue and spending efficiency

Systems to improve fiscal performance

The government proposes to implement two systems:

- Government Financial System ('Maliyah') – a modern IT system for managing the public finance of Oman
- Debt Management System ('DMS') – a system for effective and proactive management of public debt

In addition, the government also intends to expand the following systems to include additional ministries/ government units:

- Treasury Single Account – a unified structure of government bank accounts where all government account balances are accumulated to show the movement of net revenue and expenses
- National Assets Register – an integrated central system that takes full account of government assets and helps draft a strategy to ensure a centralized management of assets to maximize efficiency and returns

Source: Royal Decree 1/2023 and A guide to State's General Budget for Fiscal Year 2023 issued by the Ministry of Finance.

Analysis of the 2022 preliminary results

Revenue

Actual revenues at RO 14.2 billion increased by 35% compared to the budgeted revenue of RO 10.6 billion due to:

- Increase in oil revenues by 66% at RO 7.5 billion because the average oil price realized was USD 94/bbl compared to the budgeted price of USD 50/bbl
- Increase in gas revenue by 29% at RO 3.6 billion
- Decline in non-oil revenues by 4%

Expenditure

Public spending at RO 13.1 billion increased by 8% (RO 958 million) compared to the budgeted expenses of RO 12.1 billion due to:

- Increase in development spending by RO 200 million at RO 1,100 million compared to the budgeted RO 900 million
- Increase in civil ministries expenditure by 2.3% at RO 4.4 billion compared to the budgeted RO 4.3 billion
- Increase in oil products subsidy by RO 725 million after implementing fuel cap until December 2022
- Overall increase in total contributions and other expenses by 77.2% to RO 1.9 billion compared to the budgeted RO 1.1 billion including subsidies

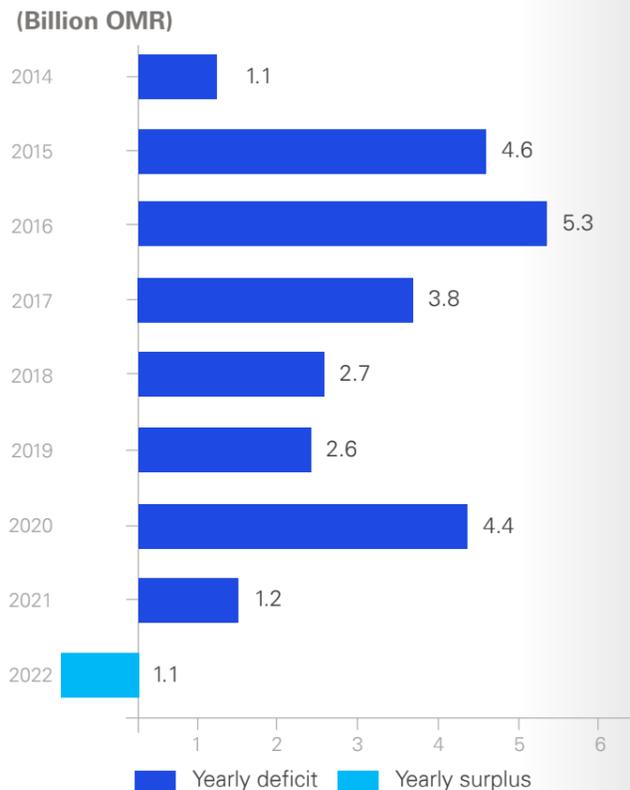
Surplus

Owing to the increase in oil prices, at the end of 2022 Oman is expected to record a surplus of RO 1.15 billion compared to a budgeted deficit of RO 1.55 billion. This is the first time Oman is expected to record a fiscal surplus since 2013. This has helped avoid borrowing externally or drawing on reserves to finance the deficit.

Public debt

Oil and gas revenues generated in excess of the 2022 budget due to high global oil prices were used to repay loans. As a result, the public debt decreased from RO 20.8 billion at the end of 2021 to RO 17.7 billion at the end of 2022. The debt to GDP ratio is estimated to decline to 43% compared to previous estimates of 83% in 2022.

History of surplus/deficit upto 2022

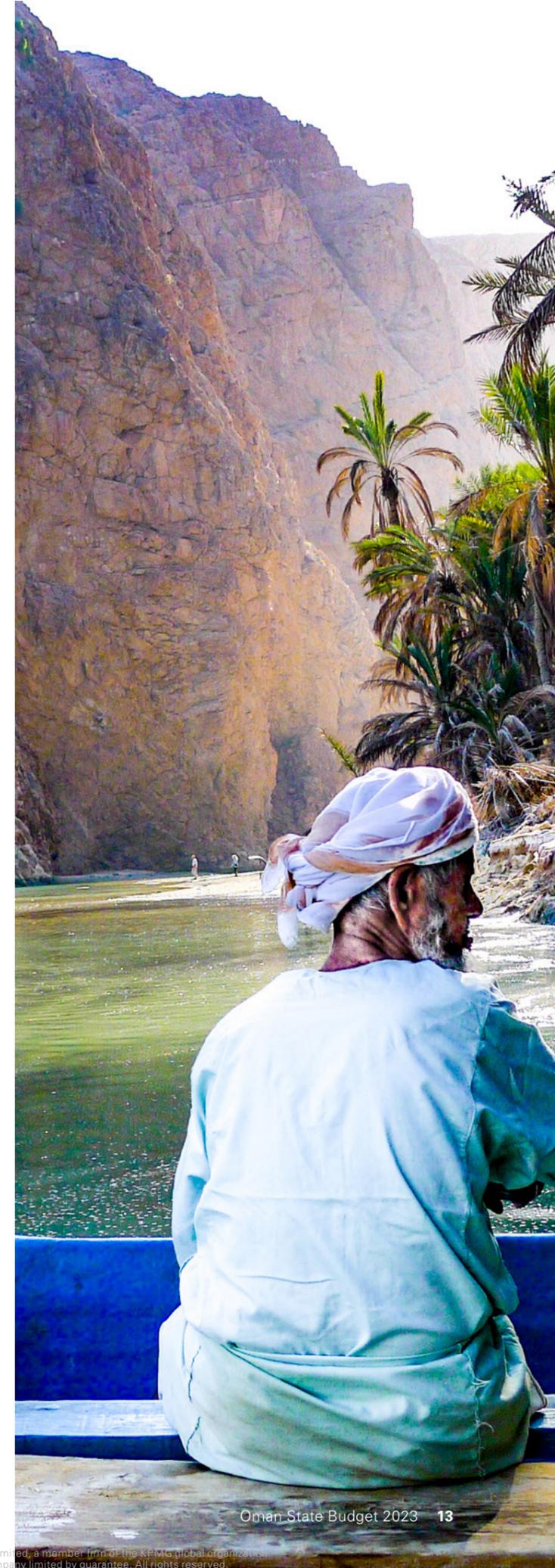


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Other performance indicators

- Improvements in Oman's credit ratings/outlook by credit rating agencies:
 - S&P revised Oman's credit rating from "B+" to "BB-" in April 2022 and from "BB-" to "BB" in November 2022 affirming a stable outlook
 - Moody's affirmed Oman's credit rating at "Ba3" and revised the outlook from stable to positive in October 2022
 - Fitch revised Oman's credit rating from "BB-" to "BB" and affirmed a stable outlook in August 2022
- GDP at current prices increased to RO 32 billion at the end of September 2022
- GDP at current prices is projected to increase to RO 44.9 billion at the end of 2022 - up by 32.4% compared to 2021
- Inflation in Oman averaged at 2.06% at the end of September 2022 (according to the National Centre for Statistics and Information) compared to the global inflation rate of 8.8% in 2022 (according to the International Monetary Fund)
- Deposits in the banking sector increased to RO 25.6 billion at the end of October 2022
- Total credit granted by conventional commercial banks grew by 4%, reaching RO 28.9 billion at the end of October 2022
- Trade balance increased to RO 7.7 billion at the end of September 2022 compared to RO 2.9 billion registered over the same period in 2021

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05

Government measures and initiatives in 2022

The government undertook several initiatives during 2022 to stimulate the national economy, promote social protection and maintain fiscal sustainability in line with the Oman Vision 2040. Key measures and initiatives undertaken by the government include:

- **IGC**

IGC was established under the supervision of the Ministry of Finance and entrusted with the management of all assets, rights and obligations of purchasing, selling, importing, exporting and transporting natural gas and related products. The advantages of establishing IGC include improving fiscal performance of Oman (by presenting the net gas revenue in the budget), enhancing the efficiency of the gas sector, ensuring adherence to contracts in the gas sector by parties involved, ease in implementation of policies in relation to gas prices and quantity, and an increase in economic activity and in-country value of the gas sector and related activities.

- **Enhanced social spending**

To promote social spending the government increased the allocation for several subsidies. The most significant one was the oil product subsidy by implementing fuel cap (RO 725 million). This was supplemented by electricity and other sectors subsidy (RO 42 million), basic food items subsidy (RO 25 million), allocation of housing bank loans (RO 25 million), allocation of social security for low-income families (RO 17 million), and exempting borrowers of emergency loans provided by the Oman Development Bank (RO 19 million).

- **Continued support to small and medium scale enterprises (SMEs) and entrepreneurs**

The government exempted SMEs from paying late fees arising from defaults on loans offered by the Al Rafad Fund until the end of 2022 and Riyada card holders from repaying emergency loans. It also paid liabilities of some entrepreneurs and SMEs who were under arrest or received penal punishment.

- **Fee Setting Policy Handbook**

The second phase of the Fee Setting Policy Handbook aims to revisit government fees and set a clear methodology that strikes a balance between service fee and its cost. So far, around 845 fees have been reduced, cancelled or merged.

- **National programs**

The government continues to implement several national programs under the Tenth Five-Year Development Plan to meet the objectives of the Oman Vision 2040. These national programs are focused on identifying sustainable solutions for priorities like financial and economic stability, employment, global competitiveness and digital transformation.

Key national programs include:

- National Program for Fiscal Sustainability and Development Financial Sector – focused on developing the financial sector by promoting the banking sector, developing financial solutions and enhancing the role of capital markets in finance and investment
- National Program for Economic Diversification (Tanwea'a) - focused on addressing economic challenges facing the diversification-oriented sectors and identifying solutions to accelerate the objectives outlined by the Tenth Five-Year Development Plan and Oman Vision 2040
- Government Digital Transformation Program – focused on improving efficiency of government entities and developing innovative solutions with the help of technology
- The National Program for Investment and Exports Development (Nazdaher) – focused on attracting private investments by promoting and enabling the role of the private sector in developing the economy by creating an attractive investment environment
- The National Employment Program (Tashgheel) - focused on creating a sustainable employment solutions and creating job opportunities for nationals

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Contact us

Partners

Emilio Pera

CEO | Senior Partner
KPMG Lower Gulf
+971 44030323
emiliopera@kpmg.com

Kenneth Macfarlane

Partner-in-charge | Oman
KPMG LLC
+968 24749649
kmacfarlane@kpmg.com

Aqeel Al Lawati

Partner | Advisory
KPMG LLC
+968 24749243
aqeelallawati@kpmg.com

Aabhak Lekhak

Partner | Head of Tax, Oman
KPMG LLC
+968 24749266
alekhak2@kpmg.com

Mobeen Chaudhri

Partner | Audit
KPMG LLC
+968 24749681
mobeenchaudhri@kpmg.com

Ravikanth Petluri

Partner | Audit
KPMG LLC
+968 24749290
rpetluri@kpmg.com

Harris Matin

Partner | Advisory
KPMG LLC
+968 24749244
hmatin1@kpmg.com

Directors

Rakesh Jain

Director | Tax
KPMG LLC
+968 24749263
rakeshjain1@kpmg.com

Sandeep Kumar

Director | Tax
KPMG LLC
+968 24749296
sandeepkumar10@kpmg.Com

Moynul Islam

Director | Tax
KPMG LLC
+968 24749662
moynulislam@kpmg.com

Sumit Bansal

Director | Tax
KPMG LLC
+968 24749253
sbansal9@kpmg.com

Anuradha Venkatkrishnan

Director | Audit
KPMG LLC
+968 24749630
anuradhavenkat@kpmg.com

Waseem Khan Yousafzai

Director | Audit
KPMG LLC
+968 24749233
wkhan11@kpmg.com

Irshard Marikar

Director | Audit
KPMG LLC
+968 24749237
imarikar1@kpmg.com

www.kpmg.com/om

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Publication name: Oman state budget 2023

Publication number: 4506

Publication date: January 2023