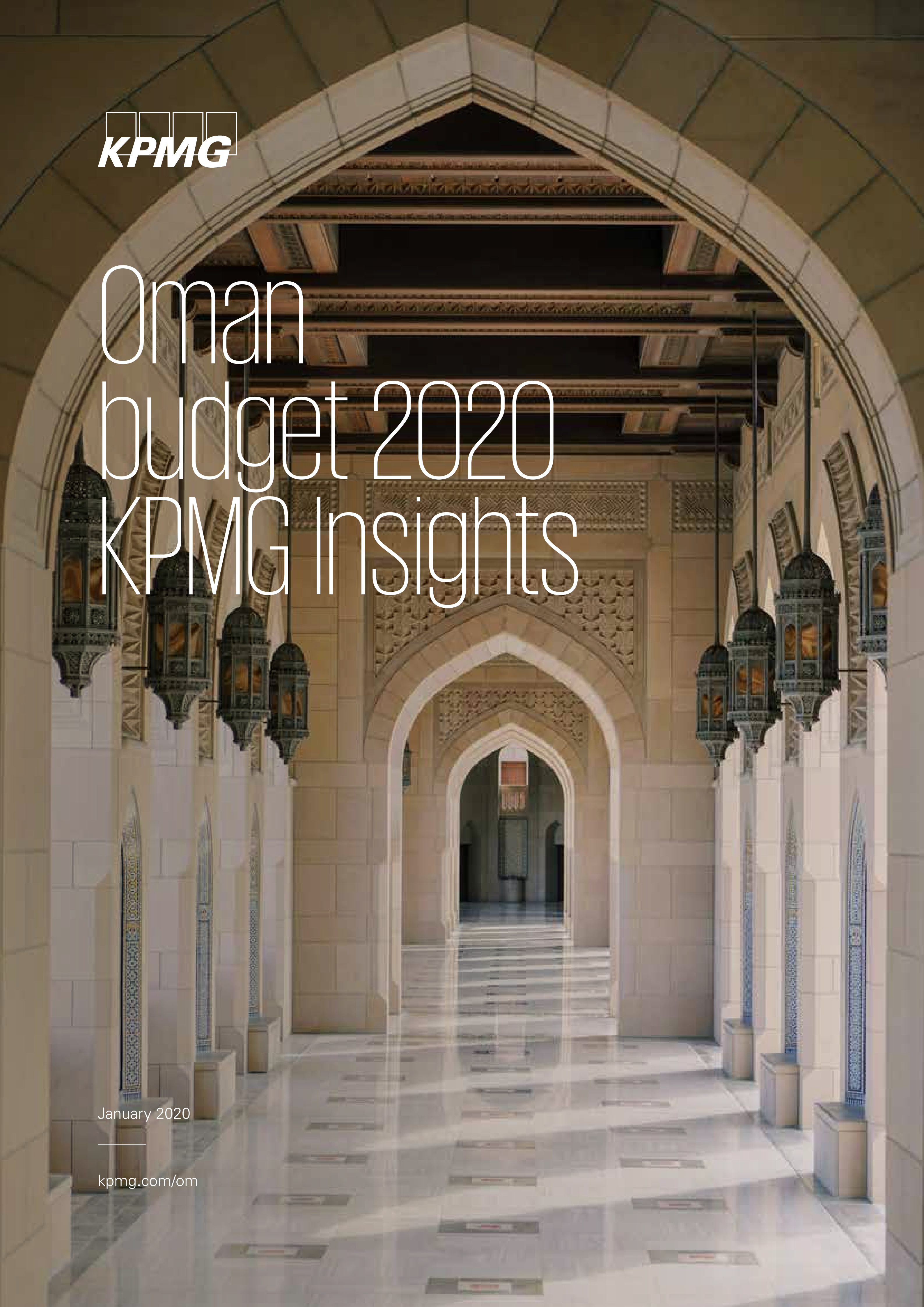

KPMG

Oman budget 2020 KPMG Insights

January 2020

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

	2020 budget				2019 budget	FYP9 – 2020
	OMRm	% of total	Change (%) from 2019 Budget	Change (%) from FYP9	OMRm	OMRm
Revenue						
Oil	5,500	51	0.6	(8)	5,465	6,010
Gas	2,200	21	11	7	1,980	2,050
Other revenues	3,000	28	13	(7)	2,655	3,240
Total revenue	10,700	100	6	(5)	10,100	11,300
Expenditure						
Defense and security	(3,450)	26	-	(12)	(3,450)	(3,900)
Oil and gas production	(2,230)	17	-	(6)	(2,230)	(2,380)
Civil ministries	(4,590)	35	2	(11)	(4,490)	(5,170)
Development	(1,300)	10	(2)	(32)	(1,325)	(1,900)
Others	(1,630)	12	16	117	(1,405)	(750)
Total expenditure	(13,200)	100	2	(6)	(12,900)	(14,100)
Deficit	(2,500)		(11)	(11)	(2,800)	(2,800)
Deficit (% of total revenue)	23%		(16)	(6)	28%	25%
Average price per barrel (US$)	58				58	60

Highlights of the 2020 budget

Summary

The 2020 budget represents the final year of the ninth five year development plan and also of Oman Vision 2020, paving the way for the tenth five year development plan and Oman Vision 2040.

The 2020 budget demonstrates the government's continued focus on controlling deficit which is expected to reduce by 11% from OMR 2.8 billion budgeted in 2019 to OMR 2.5 billion in 2020. The deficit, as a percentage of GDP, is expected to decline from 9% in 2019 to 8% in 2020. The government is seeking to achieve this in an era of declining oil revenues by enhancing revenues from gas, taxes and other non-oil revenues. Government spending aims to be kept under control with a budgeted increase of only 2% compared to the 2019 budget, which is also attributable to an increase in interest cost on borrowings.

The importance of achieving a fiscal balance is underlined by the government's "Tawazun" (or "balance") initiative, which seeks to enhance revenues, optimize costs and reduce debt. The private sector is expected to play a greater role in development projects and job creation. The new Foreign Capital Investment Law, the Commercial Companies Law, the Bankruptcy Law, the Privatisation Law and the Public Private Partnership Law, all issued in 2019, are expected to assist in achieving targeted rates of foreign and domestic investment.

Employment generation continues to be a key objective of the 2020 budget. The National Center for Employment, established in 2019 with a view to employ national manpower, commenced operations on 1 January 2020 and will focus on key job-generating sectors. The National Training Fund, established in 2017 with a view to bridge the skills gap, is expected to train 10,000 Omanis during the next two years. Development spending of OMR 5.3 billion is also expected to generate employment opportunities.

Revenue to increase by 6%

Oil and gas revenues represent 72% of total government revenues

Oil and gas revenues, as a proportion of total revenues, is slowly declining but remain the major driver of the economy. They are expected to increase by 3% compared to the 2019 budget. Overall, contribution from oil revenues is expected to be on par with last year. The government continues to take a realistic approach by assuming an oil price of USD 58/bbl in 2020 compared to the average realised price of USD 65/bbl in 2019. Significantly, gas revenues are budgeted to increase by 11% compared to the 2019 budget.

Non-oil and gas revenues represent 28% of total government revenues

Non-oil and gas revenues are projected to be OMR 3 billion, reflecting an increase of 13% compared to 2019 budgeted revenue. The following provides an analysis of non-oil and gas revenues:

	2020 Budget OMRm	Change (%) from 2019 Budget	2019 Budget OMRm
Taxes & Fees Revenues			
Corporate Taxes	550	10	500
Other taxes administered by the Tax Authority	100	-	100
Custom duties	280	12	250
Fees on expatriate permits	280	(2)	287
Telecommunication services license fees	75	New	-
Others	288	(8)	313
Total	1,573	9	1,450
Other than Taxes & Fees Revenues			
Income from Government investments	200	(9)	220
Fines and penalties	118	3	114
Others	509	(1)	516
Total	827	(3)	850
Capital Revenues			
Sale of investments in State owned enterprises	380	217	120
Others	220	(6)	235
Total	600	69	355
Total non-oil and gas revenues	3,000	13	2,655

Contribution from taxes and fees continues to grow rapidly. The government's focus on privatization is reflected in the planned income from sale of investments in state owned enterprises.

Expenditure to rise by 2%

Total expenditure is expected to increase by OMR 300 million compared to the 2019 budget. The major contributor to increased expenditure is increased interest payments on borrowings. These have increased by OMR 230 million compared to the 2019 budget and are now budgeted at OMR 860 million. The government continues to focus on welfare expenditure, allocating a significant portion to education, housing, health and social welfare. The allocation has increased by OMR 100 million compared to last year.

Development spending is budgeted at OMR 5.3 billion for 2020 including OMR 2.7 billion budgeted by state-owned enterprises. This is expected to spur economic growth and generate employment opportunities.

Budget deficit to decline by 11%

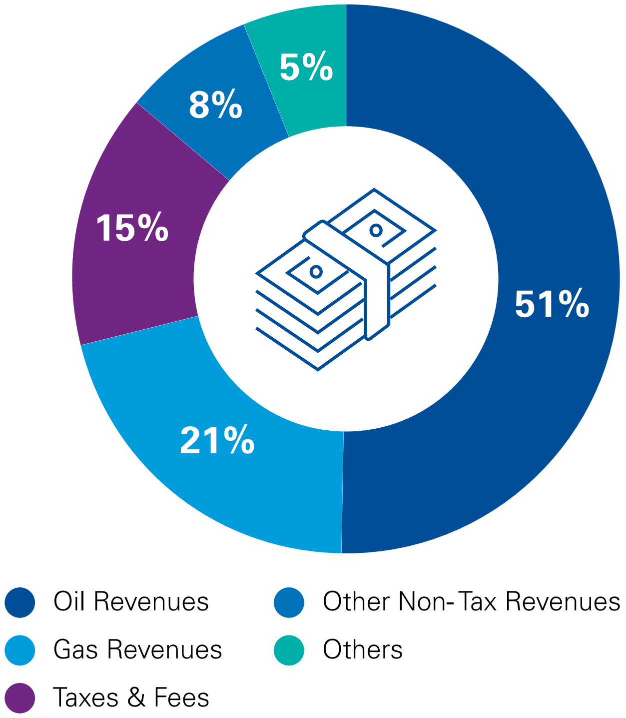
The 2020 budget deficit is anticipated to be OMR 2.5 billion – OMR 300 million less than the 2019 budget, reflecting the Sultanate's continued focus on tight fiscal management. The 2020 deficit is expected to be financed from foreign borrowings (60%), local borrowings (20%) and reserves (20%). The debt to GDP ratio is expected to rise but remain below 60%.

GDP to grow by 3% and inflation to remain low

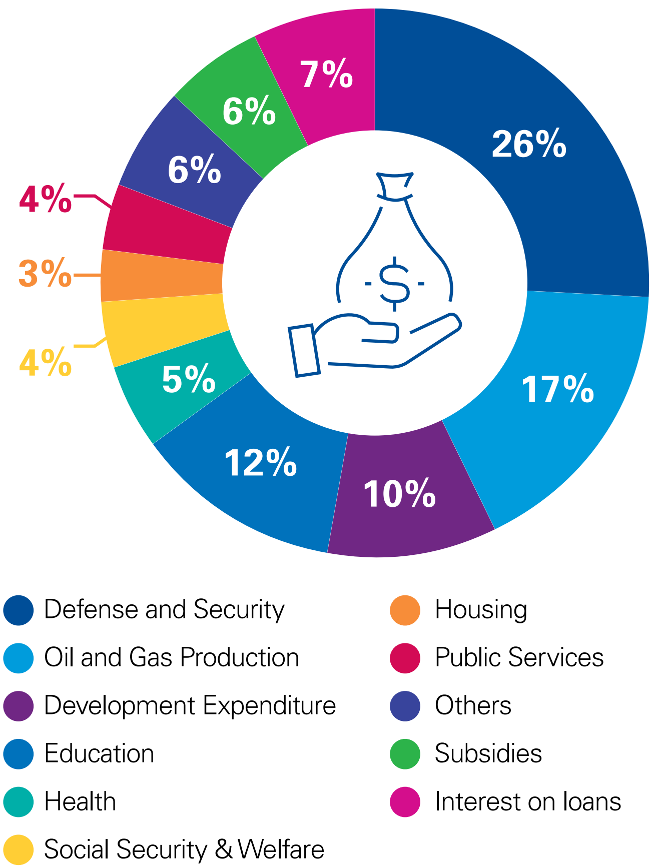
The GDP is expected to grow at least 2% in 2019, and is targeted to grow by 3% in 2020.

The inflation rate stands at 0.2% over the period from January to November 2019 and is projected to remain low during 2020.

Revenue breakdown 2020



Expenditure breakdown 2020



Analysis of the 2019 performance

Revenue

Actual revenue for 2019 increased by 10%, reaching OMR 11.1 billion, compared to the budgeted revenue of OMR 10.1 billion. This is attributable to a 12% increase (OMR 635 million) in oil revenue and a 13% increase (OMR 345 million) in non-oil revenue. The increase in oil revenue is mainly due to the fact that the realized oil price of USD 65/bbl was higher than the budgeted oil price of USD 58/bbl.

Expenditure

Actual spending for 2019 surpassed the budget by 6% (OMR 800 million) reaching OMR 13.7 billion. This is primarily on account of the increased cost of oil and gas production (9%), development spending (13%), electricity subsidies (28%) and interest costs (16%). Government spending rose by only OMR 100 million compared to 2018.

Deficit

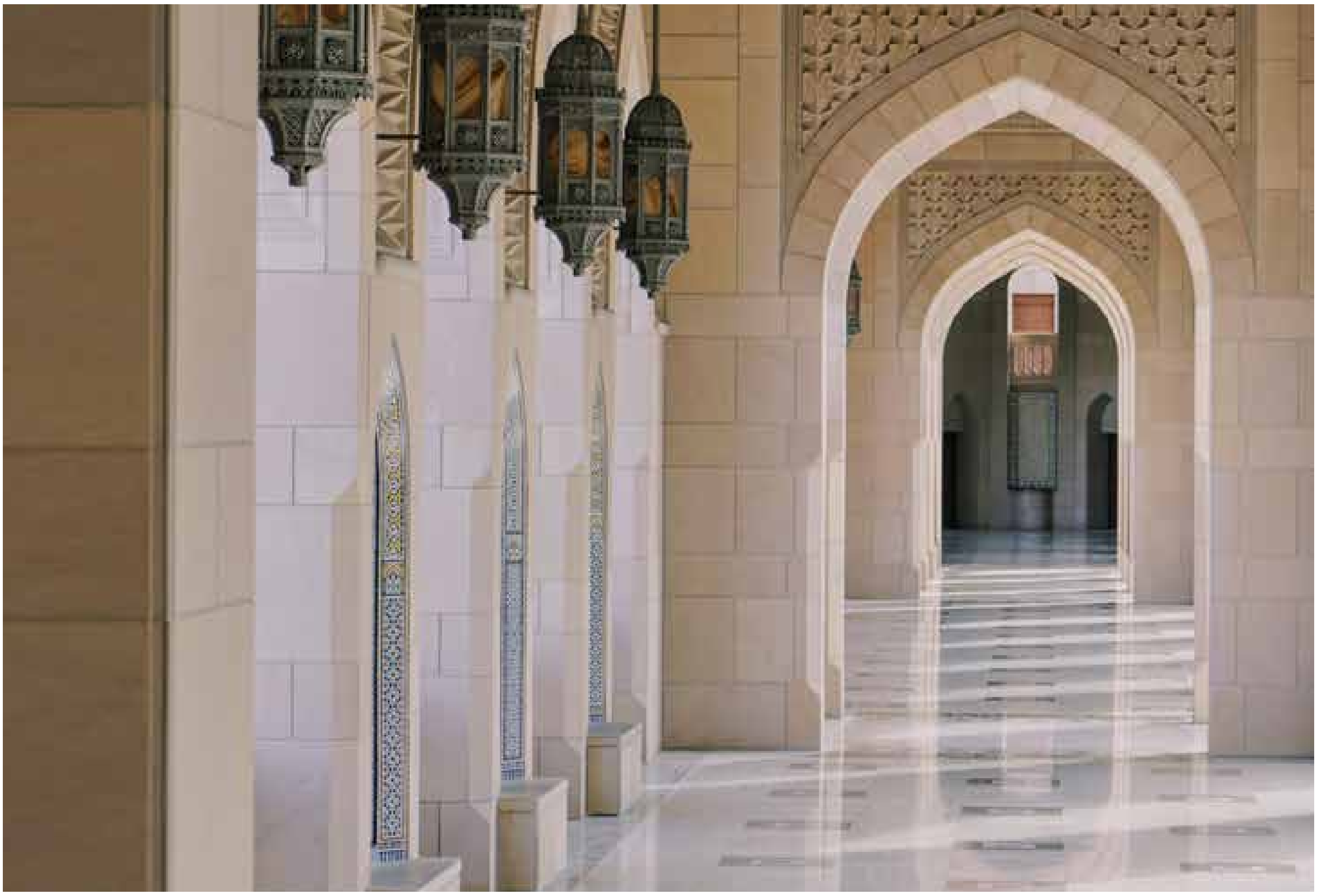
Close monitoring of fiscal accounts and spending were some aspects that helped reduce the budget deficit by 7% to OMR 2.6 billion compared to the budgeted deficit of OMR 2.8 billion. The current deficit reflects a reduction of more than 50% compared to its peak level in 2016 (OMR 5.3 billion).

GDP

GDP during 2019 is expected to grow at least 2%, with inflation remaining at a negligible 0.2%. Five strategic sectors (manufacturing, transport and logistics, tourism, fisheries and mining) have been identified as key to diversification, moving the economy away from oil and gas. The total contribution to the GDP during 2019 from these sectors was 20.6% -- close to what was previously planned for 2020.

Other indicators

- Foreign direct investment, as of June 2019, reached OMR 11.7 billion; oil and gas extraction activity accounted for 57%.
- Foreign exchange reserves grew by 2.8% compared to the previous corresponding period, reaching OMR 6.8 billion by the end of October 2019.
- Lending increased by 3.9% compared to the previous corresponding period reaching, OMR 25.9 billion by the end of October 2019.
- Oman's trade surplus grew by 5% compared to the previous corresponding period and reached OMR 4.3 billion at the end of September 2019.
- The market value of securities listed on the Muscat Securities market grew by 3.3% compared to 2018 and reached OMR 18.8 billion at the end of 2019.



Key things to look out for

Stimulating foreign investment

The Foreign Capital Investment Law (Royal Decree 50/2019) (FCIL), effective this month, allows 100% foreign ownership in all sectors barring those which are to be specified in the Executive Regulations expected to be issued in the next six months. This, together with the new Commercial Companies Law, the Privatisation Law, the Public Private Partnership Law and the Bankruptcy Law, is expected to spur investment, drive economic growth and generate employment.

Investment in infrastructure projects

The government has budgeted development expenditures at OMR 5.3 billion. This includes spending by state-owned enterprises. Spending primarily targets completion of infrastructure projects across sectors such as healthcare, transport, utilities and agriculture. Rightfully, the government expects the private sector to play a more significant role in nation building. The government has identified various strategic projects which would require participation by the private sector. We expect that the newly formed authority for public-private-partnership (PPP) will play a pivotal role in identification of other key projects and in implementation of PPP policies.

Job creation and employment

The National Centre for Employment, established with the aim to employ national manpower, has commenced its operations this month. It will focus on the main job-generating sectors to meet its objectives. Similarly, the National Training Fund which was established for human capacity building and up-skilling of national job seekers, is expected to train 10,000 individuals during 2020 and 2021 with an anticipated training budget of OMR 26.8 million. These policies, coupled with the development spending and major regulatory reforms to attract foreign and domestic investment should benefit the local community.

Makeover of international tax policies

In November 2019, Oman signed the Multilateral Convention, referred to as Multilateral Instrument or MLI to implement tax treaty related measures to prevent base erosion and profit shifting (BEPS). In addition, Oman also signed the Multilateral Convention on Mutual Administrative Assistance in Tax Matters and the Multilateral Competent Authority Agreement on Automatic Exchange of Information Agreement (MCAA). This will enable the automatic exchange of financial information on a reciprocal basis with other jurisdictions. With this in place, Oman is expected to legislate country-by-country reporting (CbCR) norms soon. This will require specified large multi-national enterprises operating across jurisdictions to report aggregate data on the global allocation of income, profit, taxes paid and economic activity among tax jurisdictions in which they operate. Such information will be automatically shared with tax authorities across the concerned jurisdictions. Similarly, Oman's double tax avoidance treaties (currently effective with 35 jurisdictions) will stand automatically modified in future to support tax treaty related measures to implement BEPS upon completion of certain legislative actions. In addition, one could also expect elaborate transfer pricing regulations within the Oman tax law which will require taxpayers to undertake additional compliances to demonstrate that their related party transactions are at arms' length.

Similarly, Oman also signed the international agreement to enable automatic exchange of financial information on a reciprocal basis with other jurisdictions – Common Reporting Standards (CRS). The first set of exchange by Oman is expected by September 2020. As a prelude to this, banks and other financial institutions have started collecting such information for new account holders from 1 July 2019.

Indirect tax

The successful implementation of excise tax on alcohol, carbonated drinks, energy drinks, pork and pork products and tobacco and tobacco products in June 2019 is expected to continue generating revenues for the government. Similar to the United Arab Emirates (UAE) and Kingdom of Saudi Arabia (KSA), Oman is now expected to expand the scope of excise tax to sweetened drinks during 2020.

The UAE and KSA introduced VAT on 1 January 2018 and Bahrain on 1 January 2019. Each of these countries have since recognized the significant contribution VAT has made to their non-oil revenues and GDP. The 2020 budget does not reflect any revenues from the introduction of VAT in Oman. The Tax Authority and the Ministry of Finance in Oman, however, remain committed to the introduction of VAT and preparations continue to get the VAT Law approved and published during 2020 with a formal announcement regarding the effective date of implementation to be made during 2020.

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