Oman's 2017 budget: An analysis

5 January 2017

Comparing the 2017 budget with the ninth five year plan (FYP9)

	2017 budget			Ninth five year plan - 2017	
	ROm	% of total	Δ (%) from FYP9	ROm	% of total
Revenue					
Oil	4,450	51	(19)	5,490	56
Gas	1,660	19	(1)	1,675	17
Non-oil and gas	2,590	30	(2)	2,635	27
Total revenue	8,700	100	(11)	9,800	100
Expenditure					
Defense and security	(3,340)	29	(7)	(3,600)	28
Oil and gas production	(1,820)	16	(17)	(2,190)	17
Civil ministries	(4,400)	38	(6)	(4,670)	37
Development	(1,340)	11	(14)	(1,550)	12
Others	(800)	6	16	(690)	6
Total expenditure	(11,700)	100	(8)	12,700	100
Deficit	(3,000)		3	(2,900)	
Deficit (as % to total revenue)	35%		17	30%	
Average price per barrel (US$)	45		(18)	55	

Oil revenue projection reduced by 19%
Oil revenue is projected to decline from the RO5.49b planned in FYP9, which assumed a price of US$55 per barrel of oil (US$55/bbl) in 2017, to RO4.45b. The decline in oil revenues also reflects a reduction in oil production to match the OPEC-Russia production agreement.

Non-oil and gas revenue reduced by 2%
The government has projected non-oil and gas revenue to reduce from the RO2.64b planned in FYP9 to RO2.59b in 2017. This is primarily due to a significant reduction in projected corporate tax revenues, which should be partly offset by significant increases in other tax and fee revenues, including non-Omani labor license fees and customs duties.

Overall expenditure cut by 8%
Expenditure is set to decline by RO1b from the RO12.7b planned in FYP9 to RO11.7b in 2017.

Budgeted deficit is 35% of revenue
The 2017 budget projects a deficit of RO3b (12 percent of GDP) compared to the FYP9 deficit of RO2.9b. Although overall expenditure is eight percent lower than envisaged in FYP9, revenues are expected to decline by 11 percent, resulting in the deficit increasing by RO100m.

GDP projected to grow by 2%
In FYP9, the government targeted average GDP growth of three percent per annum. The reduction in oil revenue will reduce this slightly, although GDP is still projected to grow to RO25b in 2017.

KPMG comment:
The fact that within a year of FYP9 being issued, the government has revised its revenue and expenditure estimates downwards, basing its budget on a lower oil price of US$45/bbl, suggests prudent fiscal management. GDP growth of 2% is achievable despite strong economic headwinds and shrinking government expenditure if the government expeditiously implements its Tanfeedh and privatization programs (*see page 4*).

Oman’s 2017 budget at a glance

	2017 budget				2016 budget		2016 actual	
	ROm	% of total	Δ (%) 2016 budget	Δ (%) 2016 actual	ROm	% of total	ROm	Δ (%) 2016 budget
Revenue								
Oil	4,450	51	(2)		4,560	53		
Gas	1,660	19	4		1,590	19		
Oil and gas revenue	6,110	70	(1)	21	6,150	72	5,038	(18)
Taxes and fees	1,423	16	7		1,329	15		
Other non-tax current revenues	1,127	13	5		1,071	12		
Capital revenues and repayments	40	1	(20)		50	1		
Non-oil and gas revenue	2,590	30	6	12	2,450	28	2,312	(6)
Total revenue	8,700	100	1	18	8,600	100	7,350	(15)
Expenditure								
Defense and security	(3,340)	29	(5)		(3,500)	29		
Oil and gas production	(1,820)	16	2		(1,790)	15		
Development	(1,340)	11	(1)		(1,350)	11		
Current and capital expenditure for civil ministries								
Education	(1,585)	14	(4)		(1,645)	14		
Health	(612)	5	(3)		(633)	5		
Social security and welfare	(487)	4	(5)		(511)	4		
Housing	(504)	4	(4)		(527)	4		
Public services	(525)	5	(3)		(543)	5		
Others	(687)	6	(10)		(761)	6		
	(4,400)	38	(5)		(4,620)	39		
Subsidies	(395)	3	(1)		(400)	3		
Interest on loans	(265)	2	194		(90)	1		
Others	(140)	1	69		(150)	2		
Total expenditure	**(11,700)**	**100**	**(2)**	**(8)**	**(11,900)**	**100**	**(12,650)**	**6**
Deficit	**(3,000)**		**(9)**	**(43)**	**(3,300)**		**(5,300)**	**61**
Deficit (as % of total revenue)	35%		(8)	(51)	38%		72%	89

Analysis of 2016 initial final accounts (IFA)

Revenue

Actual oil and gas revenues declined in 2016 to RO5.04b according to IFA, 18 percent lower than budgeted. This is primarily because the realized price of oil during 2016 was around US$39/bbl, rather than the budgeted price of US$45/bbl.

Expenditure

Actual public spending for 2016 increased by RO0.75b to RO12.65b against budgeted expenditure of RO11.9b. While actual expenditure was six percent higher than budgeted expenditure, it was eight percent lower than 2015 actual expenditure as the government reduced spending on subsidies, security and defense and cut expenditure by ministries and government units.

Deficit

The 15 percent reduction in total revenue and six percent increase in total expenditure resulted in an actual deficit for 2016 of RO5.3b, which is a 61 percent increase on the budgeted deficit of RO3.3b. The deficit was predominantly (72 percent) financed from external borrowings and the issuance of Islamic bonds, with the remainder (28 percent) covered from reserves.

As a result, public debt more than doubled to RO7.4b (29 percent of GDP) at the end of 2016, compared to RO3.4b in 2015.

Inflation

The government kept inflation down to 1.8 percent in 2016, beating its FYP9 target of less than three percent.

Highlights of the 2017 budget

A realistic budget in challenging conditions

The 2017 budget comes against a backdrop of continued subdued oil prices and focuses on revitalizing non-oil revenues and rationalizing public spending. The budget has maintained development spending levels while limiting public spending in other areas including recruitment in the public sector and postponing the purchase and replacement of government vehicles and equipment. The government has announced plans to sell government assets through a privatization scheme which will be formalized by enacting a public-private partnership (PPP) law.

Revenue

Oil and gas revenues represent 70% of total government revenues

Oil and gas revenues are fairly consistent, budgeted at RO6.11b in 2017 compared to RO6.15b in the 2016 budget, although up by 21 percent on actual 2016 revenues. The 2016 budget was based on an oil price of USD$45/bbl when the oil price had in fact fallen to below US$30/bbl. The 2017 budget is again based on the same oil price of US$45/bbl, at a time when the price of oil has rallied to over US$50/bbl. Revenue estimates also reflect reduced production pledged by the government in line with the OPEC-Russia agreement and production from the Khazzan-Makarem gas field, scheduled to start by the fourth quarter of 2017.

Non-oil and gas revenues represent 30% of total government revenues

Non-oil and gas revenues are also fairly consistent with the 2016 budget, estimated at RO2.59b compared to RO2.45b in the 2016 budget and up by 12 percent on actual 2016 revenues. Revenue from taxes and fees are projected to increase by seven percent. Further analysis suggests a significant decline in budgeted corporate tax revenues for 2017 to RO400m (from the RO520m budgeted in 2016), almost equal to 2016 actual collections. This significant drop was primarily due to companies reporting lower profits and tax rates remaining unchanged at 12 percent. While amendments to corporate income tax laws are expected in 2017, including increasing the corporate tax rate to 15 percent, revenues are unlikely to increase until 2018 when companies start paying taxes for the 2017 tax year. Other tax and fees revenues are expected to increase significantly, including non-Omani labor license fees (up by 22 percent) and customs duties (up by 18 percent). The government is likely to benefit from introducing an excise tax on specific commodities in 2017 in conjunction with the other five GCC countries. Commodities like tobacco and alcohol are likely to be taxed at 100 percent and soft drinks at 50 percent.

Revenue other than tax revenues

Non-tax revenues are budgeted at RO1.13b in 2017, compared to RO1.07b in 2016. A significant component of this is income from government investments which is budgeted to decline to RO200m from the RO500m budgeted in 2016. This decline is alleviated by a significant increase in miscellaneous revenue (RO298m in 2017 compared to RO37m in 2016), revenue from airports (RO65m in 2017 compared to RO38m in 2016) and miscellaneous administrative fees and charges (RO 56m in 2017 compared to RO 39m in 2016).

Expenditure

The government has estimated total expenditure at RO11.7b, a decrease of RO200m or two percent from the 2016 budget and eight percent lower than actual projected spending in 2016. The government is hoping to cut spending by between three percent and five percent on defense and security, education, healthcare, social security and welfare, housing and public services. Nevertheless, overall spending allocated for the education, health and social welfare sectors remains unchanged at 23 percent of total expenditure.

Expenditure on development projects, including by government-related entities, is estimated at RO1.34b, unchanged from the 2016 budget.

Interest on loans is budgeted at RO265m, an increase of 194 percent on the budgeted amount for 2016. This reflects higher interest rates and increased borrowings.

Budget deficit

Budget deficit is 35% of revenues and 12% of GDP

The 2017 budget deficit is projected to be RO3b compared to an actual 2016 deficit of RO5.30b. The 2017 deficit is expected to be financed from borrowings (84 percent) and reserves (16 percent).

Key developments

National program for enhancing economic diversification (Tanfeedh)

The Tanfeedh program was introduced during 2016 to improve the investment climate and make it easier to do business, and so attract domestic and foreign investment. The first stage is focused on the manufacturing, tourism and logistics sectors, and has identified 121 initiatives to be implemented from 2017. Outcomes should boost GDP by more than RO1.7b and create an additional 30,000 jobs for Omani nationals.

Privatization

The government believes privatization will drive economic growth. A holding company has been set up for each sector, and government shares transferred to the relevant holding company. Some government companies have been transferred to sovereign funds, in preparation for privatization. The necessary financial and legal advisory studies to privatize the Muscat Electricity Distribution Company (MEDC) have been completed. These developments suggest that the government is looking to maintain good levels of private investment to spur economic growth. To achieve its growth objectives, the government will have to accelerate the privatization process during 2017 by transferring its interests in government assets to the private sector.

Enhanced reporting requirements for the private sector

The Ministry of Commerce and Industry (MOCI) now requires all Omani companies to submit an annual report online, summarizing the financial position of the company, including profits, losses and assets. The report must be submitted through the MOCI website (www.business.gov.om) within six months of the end of the financial year. Non-compliance could trigger penalties in the form of fines or the cancellation of the company's commercial registration.

Higher fees when hiring expatriates

On 7 November 2016, ministerial decision 340/2016 came into force, increasing the fees payable by employers to obtain or renew visas for expatriate workers coming to Oman by 50 percent from RO201 to RO301.

Amendments to tax legislation

Although tax legislation is likely to change during 2017, the 2017 budget does not anticipate any changes in government revenues. The rate of corporate income tax is likely to rise from 12 percent to 15 percent, the tax free limit of RO30,000 is likely to be removed, the scope of tax exemptions is likely to be reduced and the scope of withholding taxes is likely to be widened.

VAT

The GCC VAT agreement has reportedly been finalized and is expected to be released soon, paving the way for national legislation. According to a recent announcement from the Saudi Government, VAT in Saudi Arabia will be introduced by the end of the first quarter of 2018 and the standard rate will be five percent.

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Source of the newsletter: Royal Decree 1/2017 and press releases issued by the Ministry of Finance

Publication name: Oman's 2017 budget: An analysis
Publication date: 5 January 2017