

## 2017 Oman State Budget: Continued reduction in government spending as oil price stabilises

January 2017

Summary of budget released in Royal Decree 1/2017

	2017 budget			2016 budget		2016 projected actuals*	
	OMR (m) (\$45/barrel)	% of total	% change from 2016 budget	OMR (m) (\$45/barrel)	% of total	OMR (m) (\$39/barrel)	% change from 2016 budget
<b>Revenues</b>							
Oil	4,450	52	(2)	4,560	53		
Gas	1,660	19	4	1,590	19		
<b>Total oil &amp; gas</b>	<b>6,110</b>	<b>71</b>	<b>(1)</b>	<b>6,150</b>	<b>72</b>	<b>5,050</b>	<b>(18)</b>
Taxes & fees	1,422	16	7	1,329	15		
Others	1,168	13	4	1,121	13		
<b>Total non-oil &amp; gas</b>	<b>2,590</b>	<b>29</b>	<b>6</b>	<b>2,450</b>	<b>28</b>	<b>2,300</b>	<b>(6)</b>
<b>Total revenues</b>	<b>8,700</b>		<b>1</b>	<b>8,600</b>		<b>7,350</b>	<b>(14)</b>
<b>Expenditure</b>							
Defence & security	3,340	29	(5)	3,500	29		
Oil	330	3	10	300	4		
Gas	180	2	(5)	190	1		
Civil Ministries:							
Education	1,585	13	(4)	1,645	14		
Health	612	5	(3)	633	5		
Social security	487	4	(4)	511	4		
Public sector	525	4	(1)	543	5		
Others	1,191	10	(8)	1,288	11		
Loan interest	265	2	194	90	1		
Investments	2,665	23	(0.2)	2,670	22		
Other expenditure	520	5	(3)	530	4		
<b>Total expenditure</b>	<b>11,700</b>		<b>(2)</b>	<b>11,900</b>		<b>12,650</b>	<b>6</b>
<b>Deficit</b>	<b>(3,000)</b>		<b>(9)</b>	<b>(3,300)</b>		<b>(5,300)</b>	<b>(61)</b>
<b>Deficit funded by:</b>							
Foreign borrowing	2,100	70	133	900	27		
Local borrowing	400	13	33	300	9		
Reserves	500	17	(67)	1,500	46		
Grant	(-)	(-)	(100)	600	18		

\* Source of information: Royal decree 1/2017 and Ministry of Finance press release

## **In brief**

Although oil prices have rallied from their lows of \$24/barrel in January 2016, the 2017 budget continues to focus on reducing expenditure and maximising non-oil and gas revenues.

The budget supports Government initiatives such as the Tanfeedh programme and the development of public-private partnership projects, in order to stimulate growth and sustain employment.

Amongst the measures to diversify non-oil and gas revenues, the budget also refers to the proposed changes to the income tax law, referring to the expected increase in the income tax rate to 15%. The amendment is (per the budget) expected to be issued this year, meaning that any extra revenues are unlikely to be realised in the current year, but only in later years.

Further tax amendments have included the introduction of selective excise duties on certain items, such as tobacco and alcohol, the revenue benefits of which should be realised this year.

The budget predicts net foreign borrowings to rise by 133%, making this the main financing tool, in covering the OMR 3 bn estimated deficit for 2017.

## **In detail**

### **Reduced budget deficit**

The 2017 budget sets out an increase in revenue, and decrease in expenditure, compared to the 2016 initial final accounts. This results in a 2017 budget deficit of OMR 3bn (2016 initial final accounts: OMR 5.3bn deficit).

Whilst budgeted 2017 revenue and expenditure levels are similar to 2016 budget figures, this represents an 18% increase in revenue and 7.5% decrease in

expenditure compared to the 2016 initial final accounts.

Budgeted 2017 oil and gas revenues reflect Oman's commitment to cut oil production, in line with OPEC's decision to cut volumes. Revenues also reflect the commencement of production at Khazzan-Makarem gas field, expected by Q4 2017.

### **Revenue**

Actual 2016 oil and gas revenue fell by 18% against 2016 budget figures due to a global fall in oil prices.

2016 non-oil and gas revenue also fell by 6% against the 2016 budget.

The government has based the 2017 budget on the lower oil price of \$45/bbl, against 9th Five Year Plan 2017 budget price of \$55/bbl, a 2016 budget price of \$45/bbl and actual average price for 2016 of \$39/bbl.

### **Expenditure**

Total government expenditure in the 2017 budget is reduced by 1% in comparison to the 2016 budget expenditure, with reductions in most sectors, particularly in defence and security, and civil ministries.

Budgeted oil and gas expenditure increases slightly to OMR 510m, whilst loan interest expenditure is OMR 265m; an increase of 194% against the 2016 budget amount.

The government has expressed its commitment to existing development projects, and to the National Programme for Enhancing Economic Development, and the initiatives that have been identified through the Tanfeedh programme, to improve the investment climate, and ease of doing business.

### **Financing the deficit**

84% (OMR 2.5b) of the projected 2017 deficit will be financed by

external and domestic borrowing. External US-dollar borrowing will include issuance of international bonds, Islamic bonds (Sukuk), and syndicated loans. The remaining OMR 500m deficit will be covered by drawing on reserves, compared to OMR 1.5b of reserves budgeted to be used against the 2016 deficit.

The government has also formed a specialist unit, within the Ministry of Finance, entrusted with the management of public debt, and the monitoring of international debt markets.

A specialist Macro Fiscal Unit will also monitor government financial statistics, and develop fiscal modelling.

### **Income tax, value added tax and other fiscal reforms**

Budgeted revenue from tax collection and fees is expected to increase by 7% in 2017.

This reflects expected revenues from the newly-introduced excise duties on tobacco, alcohol and certain other products.

The budget does not reflect any increase in income tax collections arising from the proposed increase in the income tax rate, or other income tax reforms, as these will be collected or realised only in later years.

We understand that the income tax reforms will increase the rate of income tax from 12% to 15%.

While full details of the proposed income tax reform are still awaited, the budget also anticipates the limitation of income tax exemptions, currently available to certain, qualifying companies and establishments, as well as limiting certain customs duty exemptions.

The budget also acknowledges steps to improve the efficiency of the tax collection mechanism, and the monitoring of the general compliance process.

It is currently expected that Value Added Tax will be introduced across the GCC with effect from 1 January 2018 (with certain countries expected to adopt from 1 January 2019).

We understand that the GCC VAT Framework has been finalised and is expected to be published soon, and that the legislation for Value Added Tax in Oman has been prepared, and is awaiting review and approval.

### ***Privatisation and Public-Private Partnership (PPP)***

In order to manage the country's reliance on borrowing, the government is continuing its plan to sell-off or privatise certain assets, with initial steps being taken to rationalise the holding of target assets, by transferring investments to a number of newly-formed, sector-specific holding companies, or by transferring them to the ownership of the sovereign wealth funds.

The scheme of privatisation is expected to run for a number of years. A plan for the privatisation

of Muscat Electricity Distribution Company is expected to be finalised during H1 2017.

The government has expressed an interest in making greater use of public-private partnering, as a means to use private-sector investment in the development of public projects, and intends to enact PPP Law, as a mechanism to help facilitate this.

### ***Tanfeedh***

"Tanfeedh", literally translating to 'execution', is a government initiative launched in 2016 aimed at creating and implementing initiatives to diversify the Oman economy.

The focus sectors include tourism, manufacturing, and logistics, and the aims of the program are to improve the investment climate in Oman, and the ease of doing business, in order to attract local and foreign investment into the country.

The 8-phase initiative includes various phases such as brainstorming labs, implementation, and audit.

The first phase of this has created 121 initiatives, which the government intends to further explore. Initial estimates are that these initiatives could increase GDP by more than OMR 1.7bn, and could create more than 30,000 jobs for Omani nationals.

The budget acknowledges the government's commitment to the Tanfeedh project, which will be effected through the Implementation and Follow-up Support Unit, formed with this purpose.

### ***The takeaway***

Oman's 2017 state budget continues to focus on reducing expenditure and maximising non-oil and gas revenues

The budget predicts net foreign borrowings to rise by 133%, making this the main financing tool, in covering the OMR 3 bn estimated deficit for 2017.

## ***Let's talk***

For a deeper discussion of how the 2017 Oman budget might affect your business, please contact:

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