

## 2018 Oman State Budget: Continued focus on economic diversification and fiscal management

January 2018

### Summary of budget released in Royal Decree 1/2018

OMR (millions)	2018 budget			2017 budget		2017 projected actual*	
	(\$50/barrel)	% of total	% change from 2017	(\$45/barrel)	% of total	(\$50/barrel)	% change from 2017
<b>Revenues</b>							
Oil	4,870	51	9	4,450	51		
Gas	1,910	20	15	1,660	19		
<b>Total oil &amp; gas</b>	<b>6,780</b>	<b>71</b>	<b>11</b>	<b>6,110</b>	<b>70</b>	<b>6,760</b>	<b>11</b>
Taxes & fees	1,413	15	-	1,423	16		
Others	1,307	14	11	1,168	14		
<b>Total non-oil &amp; gas</b>	<b>2,720</b>	<b>29</b>	<b>5</b>	<b>2,590</b>	<b>30</b>	<b>2,440</b>	<b>6</b>
<b>Total revenues</b>	<b>9,500</b>	<b>100</b>	<b>9</b>	<b>8,700</b>	<b>100</b>	<b>9,200</b>	<b>6</b>
<b>Expenditures</b>							
Defence & security	3,440	28	3	3,340	29		
Oil	340	3	3	330	3		
Gas	380	3	111	180	2		
Civil Ministries:							
Education	1,587	13	-	1,585	13		
Health	654	5	7	612	5		
Social security	126	1	(74)	487	4		
Public sector	539	4	3	525	4		
Other	1444	11	21	1,191	10		
Loan interest	480	4	81	265	2		
Investments	2,745	22	3	2,665	23		
Other expenditures	765	6	47	520	5		
<b>Total expenditures</b>	<b>12,500</b>	<b>100</b>	<b>7</b>	<b>11,700</b>	<b>100</b>	<b>12,700</b>	<b>9</b>
<b>Deficit</b>	<b>(3,000)</b>		<b>(-)</b>	<b>(3,000)</b>		<b>(3,500)</b>	<b>17</b>
<b>Deficit funded by:</b>							
Foreign borrowing	2,100	70	(-)	2,100	70		
Local borrowing	400	13	(-)	400	13		
Reserves	500	17	(-)	500	17		
Grant	(-)	(-)	(-)	(-)	(-)		

\* Source of information: Royal decree 1/2018 and Ministry of Finance press release

## In brief

Oman's 2018 budget continues to focus on economic diversification with a projected 11% increase in other revenues as compared to the 2017 budget. In addition, the budget focuses on fiscal management by curtailing the increase in total expenditures to 7% compared to projected revenue increases of 9%. The hope is to contain the deficit to no more than OMR 3 billion (10 percent of GDP).

The actual deficit for FY17 (OMR 3.5 billion) has exceeded the budgeted deficit (OMR 3 billion) by 17% mainly due to higher than forecast expenditures compared to the actual revenues. This has resulted in higher than estimated borrowings in 2017 and is reflected in an 81% increase in interest payments.

The 2018 budget is based on an average oil price of \$50 per barrel (FY17 actual average of \$50) compared to \$45 for the 2017 budget estimate. Currently, the international oil price is trading around \$65 and with OPEC pledges to reduce oil production it is possible the oil price will continue at current levels or move higher. However, this is subject to keeping the production at least close to the budgeted levels to maintain fiscal discipline. Many international institutions and organizations have estimated oil prices in Oman to be \$55 to \$60 per barrel in 2018.

The budget further supports other government initiatives such as the Tanfeeth programme and the development of public-private partnership projects, to stimulate economic growth and sustain employment.

## In detail

### Reduced budget deficit

The budgeted deficit for 2018 is 3 billion, or, not more than 10% of GDP. As in the 2017 budget, the Government has revealed that 2.5 billion (83%) of the estimated budget deficit will be financed through domestic and foreign borrowing, whilst the remaining OMR 500 million (17%) will be funded through withdrawals from reserves.

The government has set aside OMR 1.2 billion to ensure that development projects currently ongoing are implemented promptly without delay.

The 2018 budget deficit is estimated to be 17% less than the 2017 deficit.

### Revenues

Actual 2017 oil and gas revenue increased by almost 6% compared to the budgeted amount due to increased oil prices. The non-oil and gas actual projected revenues also witnessed a similar increase compared to the 2017 budget.

Overall, the 2018 budget estimates a 9% increase in total revenues for the year, as compared to the 2017 budget.

### Expenditures

The total budgeted expenditures for 2018 are OMR 12.5 billion. Estimated expenditures are reduced by almost 2% in comparison to the 2017 projected actual amounts.

2017 actual expenditures increased by 8% compared to the projected budget in 2017. Therefore, it will be very important for the government to make sure that the actual expenditures for 2018 are substantially in line with budgeted amounts.

### Privatization and Public-Private Partnership (PPP)

The 2018 State Budget also supports the Ninth Five-Year Development plan. The targets set out are linked with aims to increase Oman's growth rates through stimulation of the private sector and creation of more jobs for citizens of the Country.

The Government is currently working toward revamping certain critically important laws, including the Commercial Companies Law and the Foreign Capital Investment Law. The aim is to facilitate private sector investment and increase the ease of doing business.

### Value added tax

The value added tax (VAT), which was initially expected to be implemented by the middle of 2018, has now been postponed until the beginning of 2019. Nonetheless, businesses should begin preparations for VAT implementation in early 2018.

It is expected the excise tax changes will be implemented by mid-2018 in line with KSA, UAE and Bahrain, who have implemented selective tax of 100% on tobacco and alcohol products and 50% on energy drinks.

When VAT is enacted in Oman, as per the International Monetary Fund estimates, it could account for 1.5 to 2 per cent of GDP (or 2.5 to 3.5 per cent of non-oil revenues).

### Corporate Tax reforms

With major tax reforms introduced in February 2017, there is no anticipation of any additional corporate tax reforms this year. However Executive Regulations are eagerly awaited by the business community as these are expected to provide

much needed clarity on certain elements of the February 2017 reforms.

### **Base Erosion & Profit Shifting**

Recently Oman became the 103<sup>rd</sup> country to join 'Inclusive framework on BEPS'. The commitment means that Oman will:

- a) adopt provisions to prevent tax treaty shopping
- b) implement country-by-country reporting and exchange country by country reports
- c) limit benefits of any intellectual property or other preferential tax regimes established in Oman, and

- d) fully implement the mutual agreement procedure in its tax treaties with other countries to aid resolution of tax disputes.

In return, Oman will be permitted to work alongside other BEPS inclusive framework countries on an equal footing to ensure widespread adoption of the BEPS minimum standards.

### ***The takeaway***

Oman's 2018 state budget estimates higher revenues in the oil sector as oil prices increase. However, the country is still keen to focus on maximising non-oil

and gas revenues, in order to foster an environment that encourages investment in the private sector, creating job opportunities and making the country more suitable for economic growth.

The budget predicts that net foreign borrowings will remain the main financing tool, in covering the 3 billion estimated deficit for 2018 as this is expected to aid private sector's financing needs in addition to enhancing foreign currency cash flows and reserves.

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

For a deeper discussion of how the 2018 Oman budget might affect your business, please contact:

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