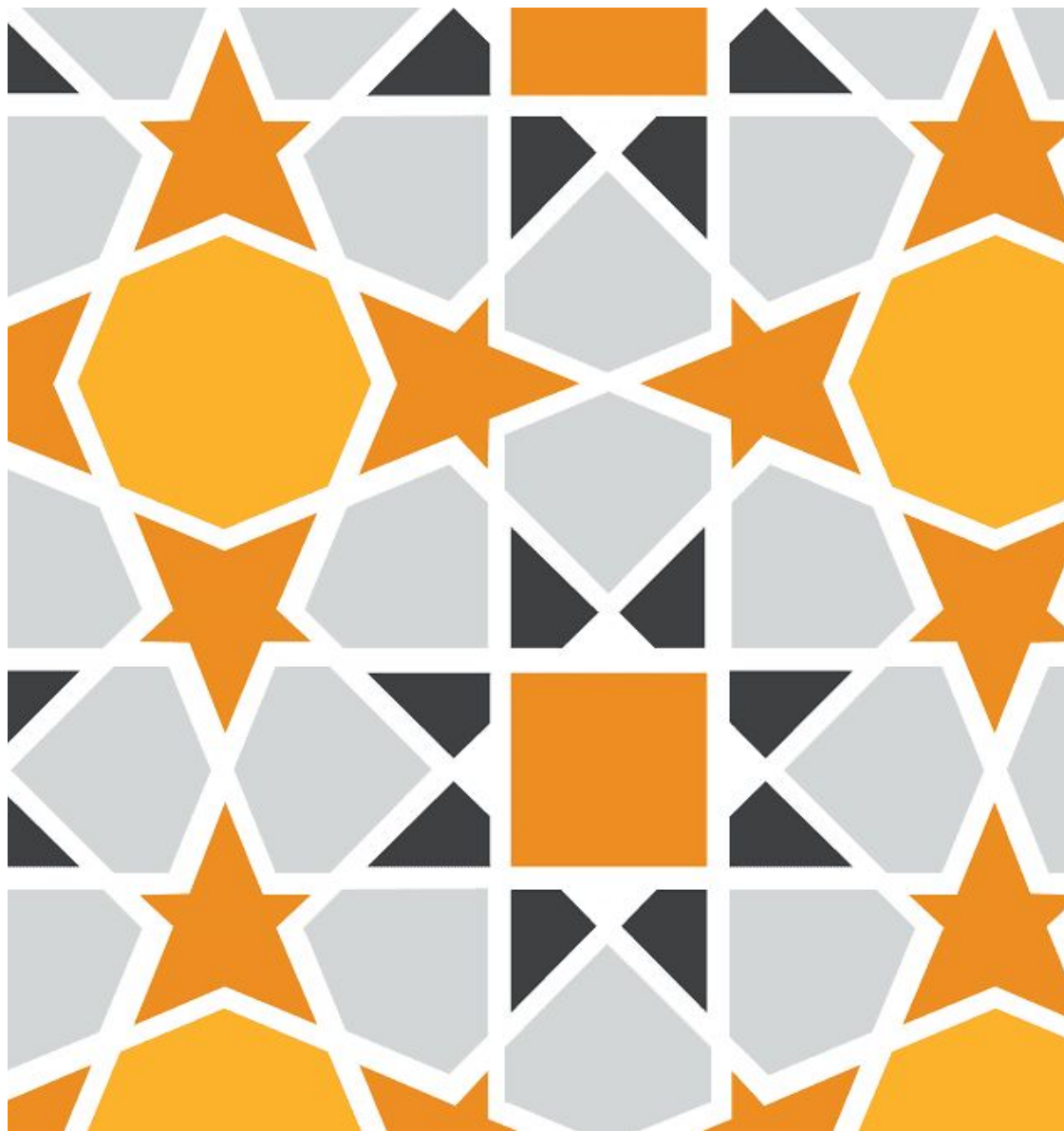


Oman Budget 2023: Key Highlights

January 2023



His Majesty Sultan Haitham bin Tarik issued a Royal Decree (“RD”) on 1 January 2023, published in the Official Gazette on 2 January 2023, promulgating the 2023 State Budget (RD 1/2023). In this News Alert, we are setting out the key features of the 2023 State Budget.

Snapshot of the key features

Oman budget 2023

Royal Decree No. 1/2023 was issued on 1 January 2023, and published in the Official Gazette dated 2 January 2023, promulgating the State’s Budget for the year 2023. Below are the key features of the 2023 budget :

Projected Revenue	OMR 10.1 billion
Projected Expenditure	OMR 11.4 billion
Projected Deficit	OMR 1.3 billion
Projected income from the Oman Investment Authority (“OIA”)	OMR 0.8 billion
Projected investments by the OIA	OMR 1.9 billion
Projected investments by Energy Development Oman (“EDO”)	OMR 1.5 billion
Projected average oil price	\$55

Oman is projecting a fiscal deficit of OMR 1.3 billion in 2023, down by 16% on year-on-year budgeting, as growth in state spending is outpaced by a stronger growth in revenues on the back of projected higher oil and gas receipts. This is despite achieving a budget surplus of OMR 1.1 billion in 2022, which suggests that the Government remains conservative in its approach to growth and spending in the upcoming years.

Revenues and expenditures were estimated in line with Oman Vision 2040 and taking into account the medium-term fiscal plan (the 10th Five-Year Development Plan (2021-2025)). The budget was prepared taking into account various factors such as the uncertainty facing global oil markets, global inflation and the establishment of the Oman Energy Development Company and Integrated Gas Company. The latter has seemingly resulted in the transfer of spending on oil and gas production and transportation from Government spending to the private sector, as this line item has been removed from the spending budget for 2023.

Also important in determining the budget, was a set of economic and social objectives which aim to maintain financial and economic stability similar to the previous year, such as improving Oman’s credit rating, providing employment opportunities, economic growth of not less than 3% during 2023, maintaining an inflation rate of no more than 3%, continuity of economic diversification policies etc.

Oil and gas revenues are forecasted at around OMR 6.7 billion, or 67% of overall receipts, down from OMR 7.2 billion from 2022, when it made up 68% of the total. Oman’s projected revenue figures are based on an assumed oil price of \$55 per barrel, up from an expectation of \$50 per barrel in the 2022 budget. Again, the projected average oil price seems to be on a conservative basis considering that the current oil prices are relatively higher and the actual average oil price per barrel for Oman Crude of \$94 per barrel in 2022.

The reduction of 5% in total revenue in 2023 compared to the 2022 estimates is due to an expected reduction in oil and gas revenues, as well as in taxes and fees, and capital repayments. This is largely as a result of the restructuring of assets from the Government to the private sector, as well as the continuation of reliefs from the Economic Stimulus Plan incentives, and a revision of government fees.

Economic developments in Oman
Middle East

Summary of State Budget released in Royal Decree 1/2023

	2023 Budget			2022 Budget		2022 actuals*	
	Target oil prices at \$55/bbl			Target oil prices at \$50/bbl		Average oil prices at \$94/bbl	
	OMR (m)	% of total	% change from 2021	OMR (m)	% of total	OMR (m)	% change from 2021 budget
Revenues							
Oil	5,320	53%	18%	4,490	42%	7,457	66%
Gas	1,400	14%	(49%)	2,750	26%	3,557	29%
Total Oil and Gas	6,720	67%	(7%)	7,240	68%	11,014	52%
Taxes and Fees	1,150	11%	(35%)	1,759	17%		
Non Tax revenue	2,130	21%	52%	1,401	13%		
Others	50	0%	(72%)	180	2%		
Total Non Oil and Gas	3,330	33%	(0.30%)	3,340	32%	3,220	(4%)
Total Revenues	10,050	100%	(5%)	10,580	100%	14,234	35%
Expenditures							
Defense and Security	3,000	26%	1%	2,965	24%		
Oil and Gas and transportation		0%	(100%)	1,600	13%		
Civil Ministries	4,420	39%	3%	4,300	35%	4,400	2%
Servicing public debt	1,200	11%	(7%)	1,294	11%		
Civil ministries development	900	8%	0%	900	7%	1,100	22%
Subsidies	1,430	13%	64%	871	7%		
Provision for debt repayment	400	4%	100%	200	2%	1,898	77%
Total Expenditures	11,350	100%	(6%)	12,130	100%	13,088	8%
Surplus/ (Deficit)	(1,300)		(16%)	(1,550)		1,146	(174%)

Deficit funded by:

Foreign Borrowing	913	70%		305	20%
Local Borrowing	(13)	(1)%		845	55%
Reserves	400	31%		400	26%

*Source of information: Royal Decree 1/2023 and Ministry of Finance press release

Economic developments in Oman Middle East

Overview

Oman Budget 2023 (RD 1/2023)

The FY 2023 Oman budget represents the third year of the Tenth Five-Year Development Plan (2021-2025) (“the 10th FDP”), which paves the way to implement Oman Vision 2040 development objectives.

The Sultanate had good reason to be cautiously optimistic in preparing the 2023 budget, as 2022 afforded a number of positives that would have factored into the budget, such as:

- Due to a slowdown in global economies in the aftermath of the global pandemic, the IMF is projecting a medium-term global economic growth slowdown from 6% in 2021 to 3.2% and 2.7% in 2022 and 2023 respectively. Oman’s GDP is forecasted to grow around 4.5% in 2022 from about 3% in 2021;
- Oman’s actual 2022 revenues significantly exceeding budget due to higher oil prices which resulted in a surplus at the end of 2022, and therefore strengthening the Sultanate’s efforts to meet its Medium-Term Fiscal Plan (2020-2024) of reducing its deficit;
- The Sultanate’s credit outlook having improved across the three main agencies.

2023 Budget Objectives

The State’s General Budget for 2023 is consistent with the objectives of the 10th FDP, as the general budget aims to achieve the following set of economic and social development goals:

- 1) Financial and economic stability
- 2) Economic growth of not less than 3% during 2023
- 3) Maintaining inflation rates at no more than 3%
- 4) Maintaining the level of spending on basic services
- 5) Continuity of economic diversification policies
- 6) Employment of job-seekers as per the National Employment Programme
- 7) Improving Oman’s credit rating
- 8) Supporting Governorates Development Programmes, and development of income-generating sources for the governorates
- 9) Digital Transformation

Oman’s 2023 budget was build on the basis of \$55 per barrel with average oil production projected to be 1,175 thousand barrels per day and the Ministry of Finance confirmed that a cautious approach against price volatility was taken once again in this regard. This price was assumed after taking into consideration several factors such as uncertainty facing global oil markets, global inflation, projected recession and a real estate sector crisis in China. This is despite the estimates of the International Energy Agency, the International Monetary Fund and credit rating agencies (Fitch, Moody’s, Standard & Poor’s, and other global agencies) that put the average price during 2023 at US\$ 85.52 per barrel in 2023.

Revenue is budgeted to reduce by 5% to OMR 10.1 billion (FY22 OMR 10.6 billion), with oil and gas revenue representing 67% (FY22 OMR 7.2 billion).

Economic developments in Oman Middle East

Overview (continued)

Oman Budget 2023 (RD 1/2023)

The Sultanate also foresees a slight decline in non-oil revenue to around OMR 3.33 billion in 2023 from around OMR 3.34 billion in 2022 budget.

The budget included lower revenues from local taxes & fees at OMR 1,150 million (FY22 OMR 1,759 million). VAT and Excise Tax are expected to contribute OMR 500 million and OMR 90 million respectively and customs duty is expected to contribute OMR 220 million of these revenues.

The forecasted revenue from corporate tax is estimated at OMR 560 million (FY21 OMR 465 million) with an increase of 20.4% in comparison to taxes budgeted to be collected in year 2022.

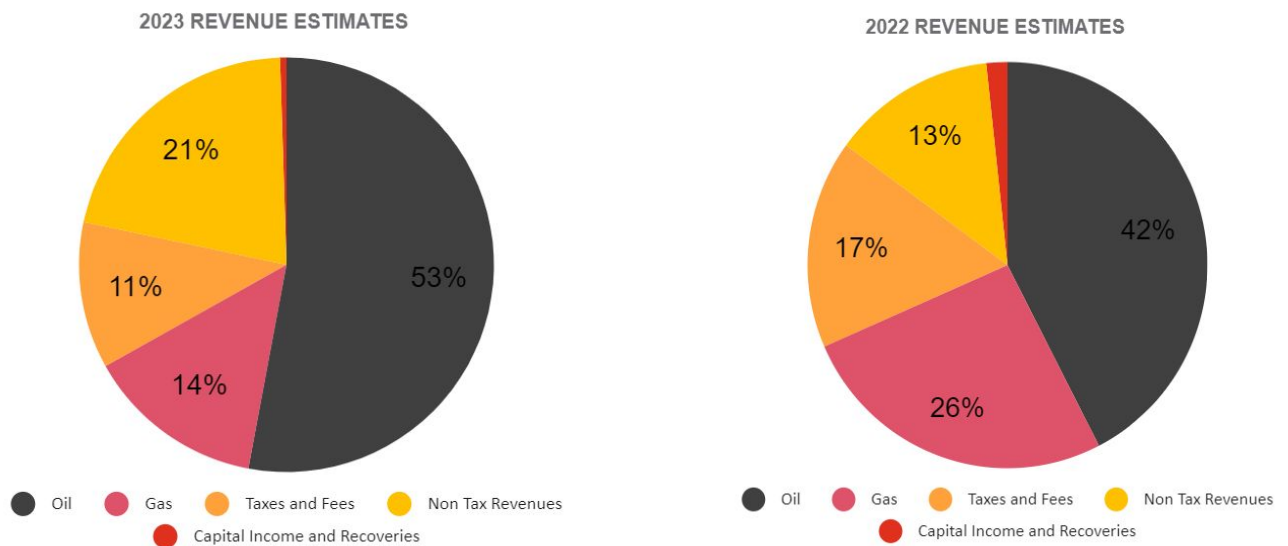
One of the most important pillars of the Sultanate's general budget for 2023 is sustaining the state's ability to meet its financial obligations with the aim in maintaining sustainable levels of public spending, reducing public debt and improving its credit rating while continuing to raise non-oil revenue contributions, and giving priority to the implementation of projects related to the productive sectors and others. The Sultanate's general budget 2023 allocated 4.3 billion of the total current spending on basic services, which will be distributed as follows: 44% on education, 22% on social welfare, 22% on health and 12% on housing.

Government expenditure, on the other hand is dropped to an estimate of OMR 11.3 billion in the 2023 budget, down by 6.4% when compared to the budget figures of 2022. Current expenditures in the budget is estimated to be OMR 8.6 billion and distributed as follows: 35% as defence and security expenditures, 51% as expenditures of civil ministries and 14% as public debt service. Notably, Government spending on oil and gas production and transportation is no longer part of the budget, seemingly now part of the spending budget of the oil and gas companies set up to participate in the private sector. In addition, the Government has incorporated new-budget items in the 2023 budget guide, namely projects with developmental impact (200 million) and social protection scheme budget (384 million).

Further insights Oman Budget 2023

Revenue

Oman's 2023 budget estimates total revenues at OMR 10.1 billion which is 5% less compared to the budgeted revenues in 2022. Oil and gas revenues comprise 67% of this figure at OMR 6.7 billion, and the remaining OMR 3.3 billion is estimated from non-oil and gas revenues.



Revenue estimates are based on the following considerations:

- Oil price assumed at \$55 per barrel.
- Revenue generated from the estimated sale of gas as per consumption expected for the year 2023.

Actual revenue in 2022

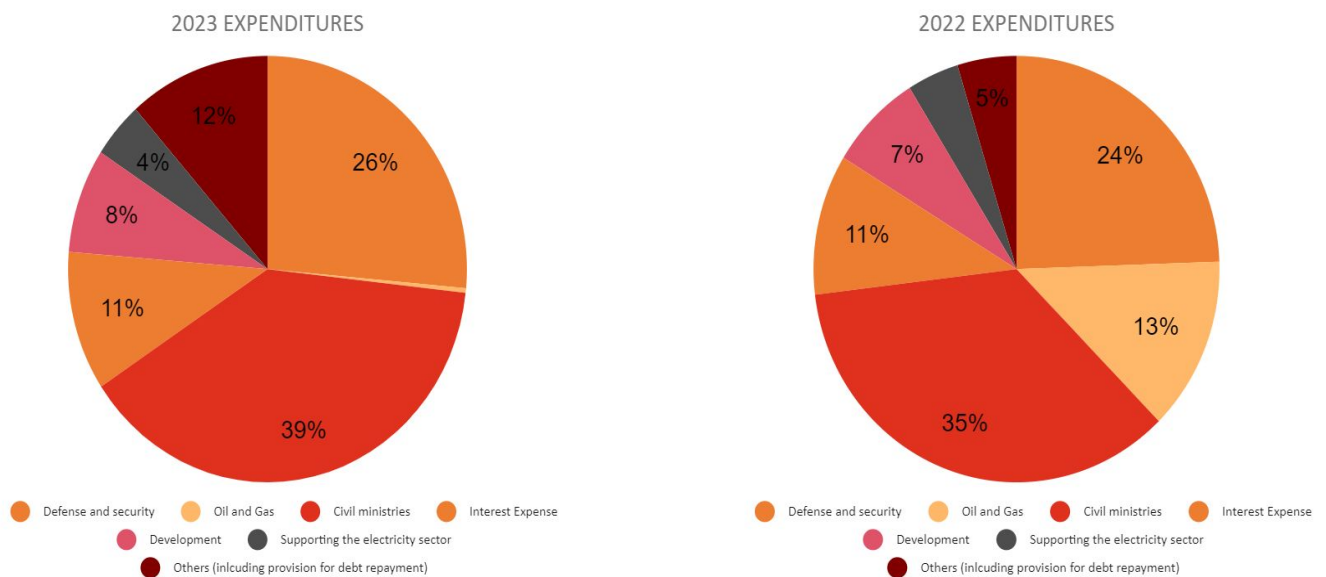
The actual revenue realised in 2022 was OMR 14.2 billion, which represents a 34.5% increase (OMR 4.1 billion) compared to the 2022 budget estimates of OMR 10.6 billion. This revenue increase can mainly be attributed to the following factors:

- **Oil Revenues:** The significant increase in oil revenues as a result of both higher oil prices and higher oil production where oil prices averages \$94 per barrel against an assumed price of \$50 per barrel.
- **Gas Revenues:** An increase in gas revenues to 3.6 billion up by 29% from the 2022 budget of projected 2.8 billion.

Economic developments in Oman Middle East

Expenditure

Total expenditure in FY23 is estimated at OMR 11.4 billion, a decrease of OMR 0.8 billion (6.4% less) as compared to total expenditure projected in the 2022 budget. This decrease in expenditure can be mainly attributed to transferring the costs of purchasing and transporting gas to the newly established Integrated Gas Company (IGC).



Actual expenditure in 2022

The actual expenditure in FY 2022 was OMR 13.1 billion, a 7.9% increase compared to the 2022 projection. This increase can mainly be attributed to the following:

- An increase in development budget allocations to OMR 1.1 billion compared OMR 0.9 billion allocated in the 2022 budget.
- An increase in Civil ministries' current expenditure by 2.3%, i.e. OMR 4.4 billion compared to OMR 4.3 billion estimated in the 2022 budget.
- An increase in total contributions and other expenses to OMR 1.9, up by 77.2% when compared to OMR 1.1 billion estimated in the 2022 budget. This rise is due to an increase in oil products subsidy by 0.73 billion, after the implementation of fuel cap.

Economic developments in Oman Middle East

Deficit

The 2023 budget estimates the deficit at OMR 1.3 billion. The table below illustrates the results of Oman's efforts to gradually decrease its deficit since the 2016 peak.

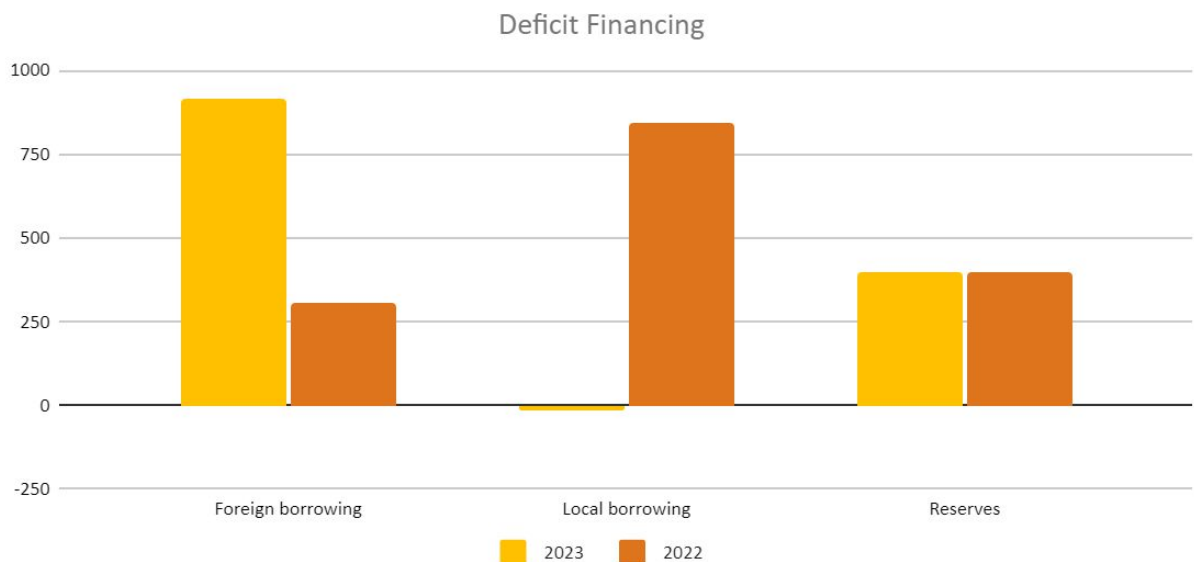
All amounts in OMR (millions)

	2016 (actual)	2017 (actual)	2018 (actual)	2019 (actual)	2020 (actual)	2021 (actual)	2022 (actual)	2023 (budget)
Revenue	7,600	8,500	10,900	11,100	8,464	10,944	14,234	10,050
Expenditure	12,900	12,300	13,600	13,700	12,660	12,167	13,088	11,350
Deficit	(5,300)	(3,800)	(2,700)	(2,600)	(4,196)	(1,223)	1,146	(1,300)

Deficit financing

70% of the 2023 budget deficit is expected to be covered by external and domestic borrowing while the remaining 30% will be covered by drawing on the reserves. The government does not intend to borrow to finance the 2023 budgeted deficit in the scenario of an increase in public revenue, resulting in a fiscal surplus. Nevertheless, the Government may borrow to replace high-cost loans with lower-cost loans.

All amounts in OMR (millions)



Economic developments in Oman Middle East

Credit Rating

In 2022, the key credit ratings agencies upgraded Oman's credit rating and revised its outlook upward as a result of ongoing fiscal consolidations and higher oil prices. S&P Global Ratings and Fitch Ratings upgraded Oman's credit rating from BB- to BB with a stable outlook while Moody's revised Oman's outlook from "stable" to "positive" and affirmed its rating at BA3.

It is expected that Oman will be able to improve its credit rating further through implementation of its fiscal consolidation plan.

The following statement shows the development of the credit rating of the Sultanate issued by international rating agencies from 2014 to 2022:

Credit Agency	2014	2015	2016	2017	2018	2019	2020	2021	2022
Moody's	A1	A1	BAA1	BAA2	BAA3	BA1	BA3	BA3	BA3
S&P	A	BBB+	BBB-	BB	BB	BB	B+	B+	BB
Fitch	-	-	-	BBB-	BB+	BB+	BB-	BB-	BB

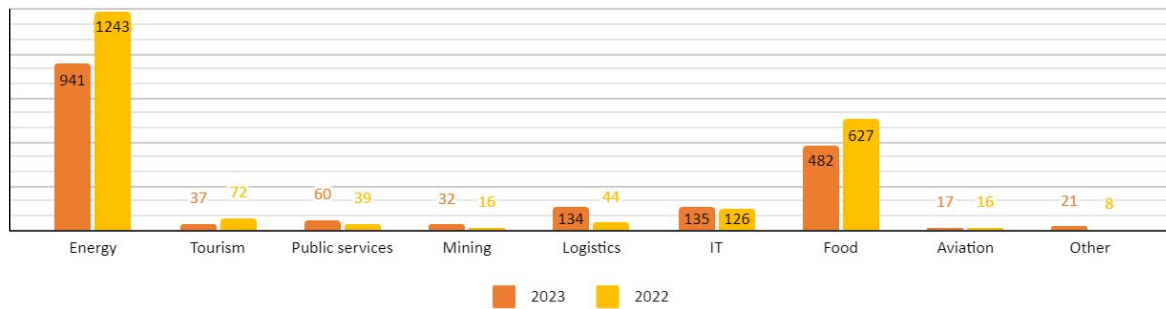
Factors that prompted credit rating agencies to positively adjust their outlook for the rating of the Sultanate of Oman:

- Improvement in the financial position
- Decrease in public debt risks
- Reduction in external maturities as part of Oman's liability management
- Oil price hike
- Expectations of a non-oil sectors growth
- Decrease in the public debt-to-GDP ratio

Economic developments in Oman Middle East

OIA investments in 2023

Investment expenses of the OIA
All amounts in OMR (millions)



The Oman Investment Authority plans to work on local projects in 6 sectors next year, namely the tourism sector, diverse sectors, aviation, energy sector, logistics, communications and information technology, food and fisheries, public services and mining with a total planned investment expenditure of OMR 1.9 billion.

Energy Sector

The investments of OIA in the energy sector varies between downstream projects and renewable energy projects with a budget of about OMR 0.94 billion.

Public Services Sector

The sector with the second highest share of investments is the public services sector, including electricity, water and waste management, with investments of OMR 481 million in 2023. This sector will focus on building electricity, water and sanitation networks as a new project, in addition to developing the infrastructure for waste management, landfills and transfer stations. They will also cover the ongoing cost of power generation under power purchase agreements.

Communications and Information Technology Sector

As for the IT sector, Oman Broadband Company, which is affiliated with OIA, will direct some of the funds allocated to the IT sector into fiber optic network expansion projects. In addition, there will also be projects to promote investment in the technologies of the fourth industrial revolution and emerging technologies.

Other allocations within the framework of the investment plan of the OIA for the year 2023 include financing projects with the aim of diversifying the country's income, raise the level of food security in the areas of fishery, commercial and local added value and expansion of ports and construction operations in free zones at Muscat and Salalah airports.

Economic developments in Oman Middle East

Key developments during FY 2022

Despite the economic downturn caused by the health crisis of Covid-19 alongside fluctuations in oil prices during the previous year 2021, the Sultanate managed to gain a healthy recovery and witnessed significant improvements during 2022. The revival of the hydrocarbon sector and the lift of Covid-19 restrictions contributed to the overall economic growth, whereas the preliminary results indicate that the fiscal performance of the budget improved by registering an increase in public revenue by 34.5% when compared to the budgeted figures of 2022.

In addition, the year was also accompanied with massive changes to the business, legal, and tax frameworks in the country, forming a continuation of development steps, set forth in the previous years, with the aim of achieving, among other objectives, fiscal sustainability & economy diversification.

Below is a summary of the key economic, tax and other development that unfolded during the year.

Reforms aimed at improving the business environment and investment climate

Amendments to the Executive Regulations of the Foreign Capital Investment Law (FCIL)

In March 2022, a new Ministerial Decision (“MD”) was issued in 2022 by the Ministry of Commerce, Industry, and Investment Promotion, (“MOCIIP”) to amend certain Articles of the Executive Regulations of the Foreign Capital Investment Law (“FCIL ER”), which became effective from 4 April 2022.

The aim of these amendments were to:

- Signify the role of individuals, establishments, and companies, in promoting and attracting foreign investments in Oman;
- Channelise certain rules related to foreign investment license and permits application.

Furthermore, these amendments to the FCIL ER replaced the full text of Article 5, which forms part of general rules section, and Article 7, which forms part of procedures and conditions related to investment license section.

Please refer to below link for our detailed news alert in this regard.

[Amendments to the Executive Regulations of FCIL](#)

Controls and Conditions of the tax exemption for economic diversification sectors

The Oman Tax Authority announced that companies in certain sectors who started operations during the period from 1 January 2021 to 30 December 2022 are to be exempt from Corporate Income Tax. These include companies operating in the industry, tourism, logistics, fisheries agriculture wealth and mining.

The exemption will be valid for a period of 5 years from the date of operation or commencement of production and there are certain rules and conditions that the companies must abide with in order to receive this exemption.

Please refer to below link for our detailed news alert in this regard.

[Controls and Conditions of the tax exemption for economic diversification sectors](#)

Economic developments in Oman Middle East

Reforms aimed at improving the business environment and investment climate (continued)

Indirect Tax

Value Added Tax (“VAT”) Taxpayer Guides

Oil & Gas

On 6 January 2022, the Oman Tax Authority released the oil and gas guide to clarify the application of the Oman VAT law in this sector.

Through this guide, the Oman Tax Authority clarified the interpretation of Article 93 of the Oman VAT Executive Regulations, which prescribes the conditions for zero rating of supplies; the extent of zero rating in the supply chain; and also specified certain additional requirements for applying zero rating in upstream and midstream transactions.

Please refer to below link for our detailed news alert in this regard.

[VAT Taxpayer Guide on Oil and Gas Sector](#)

Financial Services Sector

On 26 April 2022, the Oman Tax Authority released a guide on the application of VAT to the financial services sector.

The guide confirmed VAT implications on certain transactions such as extent of VAT exemption to the supply of financial services, transactions between branch and head office, compensatory or punitive charges, waiver of customer fees, clarifications specific to Islamic finance etc.

Please refer to below link for our detailed news alert in this regard.

[VAT Taxpayer Guide on Financial Services Sector](#)

Exports and Imports

The Oman Tax Authority issued another guide in June 2022 on the application of VAT on exports and imports.

The guide clarified the provisions related to exports and imports prescribed under the Oman VAT law and the Executive Regulations. It also addressed certain procedural aspects that may ease doing business in Oman.

Some of the key clarifications and procedural aspects covered include:

1. Amendment of the customs declaration (Bayan);
2. Applicability of VAT on sale of goods in the course of import/export;
3. Supply of goods in departure areas at airports and ports;
4. Determination of the actual customer in case of export of services; and
5. Exports to and imports from the GCC member states

Please refer to below link for our detailed news alert in this regard.

[VAT Taxpayer on Imports and Exports](#)

Economic developments in Oman Middle East

Reforms aimed at improving the business environment and investment climate (continued)

Indirect Tax

E-commerce

On 25 August 2022, the Oman Tax Authority published a VAT guide on e-commerce to provide guidance on how VAT affects businesses that operate within the e-commerce sector.

It contained guidance on the VAT treatment of supplies of goods and services through electronic means, supplies made through agents and indicators for electronic suppliers to determine the customer's place of residence.

The guide also covered VAT registration requirements, place of supply rules for goods and services, reverse charge mechanism ('RCM'), input tax recovery and record keeping requirements.

In addition to the general VAT provisions, specific e-commerce related VAT considerations were addressed in detail, such as indicators for determining the place of actual use and enjoyment and the supplies made through agents acting as disclosed or undisclosed agents.

Please refer to below link for our detailed news alert in this regard.

[VAT guide on E-Commerce](#)

Commercial Agencies

On 28 September 2022, a guide was published by the Oman Tax Authorities to provide guidance on the VAT treatment of supplies of goods and services made through and by agents.

In addition to general aspects of VAT applicable to most businesses (such as registration requirements, place of supply rules for goods and services, input tax recovery/apportionment, date of supply, disbursements, reimbursements and record keeping requirement, etc), the guide further clarified the concept of agency whilst recognising that the concept is not defined in the VAT Law and Regulations. It also elaborates on the types of agency relationship (i.e. disclosed and undisclosed agent) and associated VAT considerations.

Please refer to below link for our detailed news alert in this regard.

[VAT guide on commercial agencies](#)

Amendments to the VAT Executive Regulations

On 16 October 2022, the Oman Tax Authority issued Ministerial Decision No. 456/2022 (MD 456/2022) amending certain provisions of the Oman VAT Executive Regulations (issued under MD 53/2021). The amendments came into effect on 17 October 2022.

The major amendments to the Oman VAT Executive Regulations were in 6 main areas:

- Place of supply rule for telecommunication services
- Extent of VAT exemption for supply of financial services
- Time limit for issuing VAT invoice
- Refund of tax paid by foreign governments, diplomatics, consular bodies etc
- Introduction of a new definition of 'electronic tax invoice'
- Penalty in case of failure to issue VAT invoice

Please refer to below link for our detailed news alert in this regard.

[Amendments to the VAT Executive Regulations](#)

Economic developments in Oman Middle East

Oman Tax initiative to improve its tax framework

Oman and Qatar's Ratification of the Double Tax Avoidance Agreement with Qatar (DTAA)

A Royal Decree (RD 4/2022) was issued in January 2022 by His Majesty the Sultan of Oman, ratifying the DTT between Oman and Qatar. The DTT was ratified in Qatar as well through Emiri Decree No. 45 of 2022, which was published in the official gazette on 9 November 2022.

The DTT provisions were effective as of 1 January 2023. Please refer to below link for our detailed news alert in this regard.

[Oman's ratification of the DTAA with Qatar](#)

Economic developments in Oman Middle East

The takeaway

Over the past few years, the national economy passed through a succession of financial hurdles such as the recession of international oil prices due to the decline of global demand, the rise of general debt to record levels, and the hike in the cost of borrowing which all caused a collective negative impact on the Sultanate of Oman's creditworthiness. Despite this, Oman's economic good-news stories throughout 2022 demonstrate that the country is on track to achieving the 10th FDP deficit reduction objective. The 10th FDP's budget objective is to achieve a budget surplus by 2025. As it stands, the preliminary results of 2022 budget have come in ahead of the 10th FDP budget projection and show a surplus of OMR 1.2 billion against a deficit of 1.7 billion budgeted in the plan. This is the first surplus the country has witnessed in a decade as a result of continued fiscal consolidation and higher oil prices.

Given that the 2023 General Budget was drafted with the 10th FDP and Oman Vision 2040 in mind, we can expect to see Government spending and fiscal policy that consistently align with the objectives of the two medium and long-term plans. Maintaining spending on basic services like education, health, and social welfare figure high on the agenda of Budget 2023, noting that, in case oil prices rise higher than the endorsed rate, priority will be given to the use of financial returns to cut down the deficit and repay loans.

In addition, enhancing the contribution of recently introduced taxes will also be an area of focus for the Government, as implementation of these have created several tangible non-oil revenue streams. The government have advanced preparations to implement the personal income tax ("PIT"), and while the initial plan was to implement PIT in 2023, the Minister of Finance, His Excellency Dr. Sultan bin Salem Al Habsi, confirmed that this will not be the case. The exact year PIT will come to effect is not yet disclosed.

Lastly, we also expect to see a lot of movement in the public sector and amongst SMEs, as the Government has published a number of national projects it intends to undertake during the year as part of its economic diversification plan, digital transformation programmes, fiscal performance improvement measures and the development program for investments and exports.

Let's talk

For a deeper discussion of how the 2023 Oman budget might affect your business, please contact:

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