



# Oman budget 2021

**Analysis of Oman's Tenth-Five  
Year Plan and Budget 2021 -  
KPMG insights**

January 2021

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# Tenth Five-Year Plan summary

| Statement   | 2021           | 2022            | 2023            | 2024            | 2025            | FYP annual average | % of total |
|---|----------------|-----------------|-----------------|-----------------|-----------------|--------------------|------------|
| RO (million)  |                |                 |                 |                 |                 |                    |            |
| <b>Revenue</b>  |                |                 |                 |                 |                 |                    |            |
|  Net Oil Revenues                                  | 3,550          | 3,895           | 4,650           | 4,770           | 4,750           | 4,323              | 42         |
|  Gas   | 1,870          | 1,955           | 2,140           | 2,275           | 2,300           | 2,108              | 20         |
|  Current and capital revenues and recoveries       | 3,220          | 3,640           | 4,025           | 4,270           | 4,450           | 3,921              | 38         |
| <b>Total revenue</b>  | <b>8,640</b>   | <b>9,490</b>    | <b>10,815</b>   | <b>11,315</b>   | <b>11,500</b>   | <b>10,352</b>      | <b>100</b> |
| <b>Expenditure</b>  |                |                 |                 |                 |                 |                    |            |
|  Defense and security                            | (2,965)        | (2,980)         | (3,000)         | (3,020)         | (3,030)         | (2,999)            | 27         |
|  Gas procurement and transport expenditures      | (780)          | (850)           | (870)           | (890)           | (915)           | (861)              | 8          |
|  Civil Ministries expenditures                   | (4,075)        | (3,960)         | (3,990)         | (4,020)         | (4,015)         | (4,012)            | 35         |
|  Development expenditures for Civil Ministries   | (900)          | (900)           | (900)           | (900)           | (900)           | (900)              | 8          |
|  Subsidies                                       | (800)          | (735)           | (490)           | (430)           | (295)           | (550)              | 5          |
|  Servicing public debt                           | (1,200)        | (1,415)         | (1,560)         | (1,610)         | (1,670)         | (1,491)            | 13         |
|  Others including provision for debts settlement | (160)          | (310)           | (610)           | (610)           | (610)           | (460)              | 4          |
| <b>Total expenditure</b>  | <b>10,880</b>  | <b>(11,150)</b> | <b>(11,420)</b> | <b>(11,480)</b> | <b>(11,435)</b> | <b>(11,273)</b>    | <b>100</b> |
| <b>Deficit</b>  | <b>(2,240)</b> | <b>(1,660)</b>  | <b>(605)</b>    | <b>(165)</b>    | <b>65</b>       | <b>(921)</b>       |            |
|  <b>Deficit (% of total revenue)</b>             | 26%            | 17%             | 6%              | 1%              | -               | 9%                 | -          |
|  <b>Average Daily Oil Production ('000 bbl)</b>  | 960            | 1,107           | 1,133           | 1,140           | 1,140           | 1,096              | -          |
|  <b>Average Price (\$/bbl.)</b>                  | 45             | 45              | 50              | 50              | 50              | -                  | -          |

# Key highlights of the tenth five year plan

|   |   |
|---|---|
| <b>Main objectives of FYP10</b>   | <ul style="list-style-type: none"> <li>– Enhancing sustainable human resources development and preserve human capital;</li> <li>– Stimulating economic activity in partnership with the private sector and supporting the role of SMEs;</li> <li>– Expanding the economic diversification base;</li> <li>– Developing the macro-economic environment and achieving financial sustainability;</li> <li>– Achieving a balanced development of the governorates and increasing the per capita income of citizens.</li> </ul> |
| <b>Major sectors that will continue to be a priority in FYP10</b>                   | <ul style="list-style-type: none"> <li>– Agriculture and fisheries;</li> <li>– Mining and mining products;</li> <li>– Manufacturing industries;</li> <li>– Transport, logistics and e-commerce activities;</li> <li>– Education;</li> <li>– Tourism.</li> </ul>   |
| <b>Key financial framework and strategic directions of FYP10</b>                    | <ul style="list-style-type: none"> <li>– Improve credit rating for the Sultanate;</li> <li>– Providing financial and investment incentives to achieve sustainable development, promote trade and create jobs for citizens;</li> <li>– Issuing required laws to improve the legislative environment for investments;</li> <li>– Optimizing exports and enhancing the market share of domestic products in international markets;</li> <li>– Opening new markets and activating free trade agreements.</li> </ul>           |
| <b>3.5% annual average GDP growth</b>   | – FYP10 targets an average GDP growth of not less than 3.5% per annum compared to 3% in the ninth five-year plan (FYP9).  |
| <b>Contribution of non-oil to GDP</b>   | – FYP10 projects an average annual GDP growth rate of 3.2% for non-oil activities.  |
| <b>Average budget deficit is 9% of total revenue</b>                                | – FYP10 projects an average annual deficit of RO 921 million. Significantly, it targets a surplus of RO 65 million in 2025 – the last year of the Plan.   |
| <b>Plan based on oil price of US\$ 45 to US\$ 50 per barrel</b>                     | – FYP10 is based on an average oil price of US\$ 45 - US\$ 50 per barrel (FYP9: US\$ 45 - US\$ 60 per barrel).  |
| <b>Average oil production expected to be 1,096,000 barrels a day</b>                | – Average oil production over FYP10 is expected to rise once the production cut pursuant to OPEC plus deal ends in April 2022. (FYP9: 990,000 barrels a day).   |
| <b>Transfer of sale proceeds of 20,000 barrels per day to pay loan installments</b> | – FYP10 commits to transfer the proceeds of sale of 20,000 barrels per day of oil through the years of the plan to be used to pay off part of the loan installments.  |
| <b>Contribution of foreign direct investment to GDP</b>                             | – FYP10 targets foreign direct investment in the oil and non-oil sectors to reach 10% of GDP by the end of the plan.  |
| <b>Contribution of private sector in investment</b>                                 | – FYP10 projects the contribution of the private sector in investment to reach 60% on an average during the plan period.  |

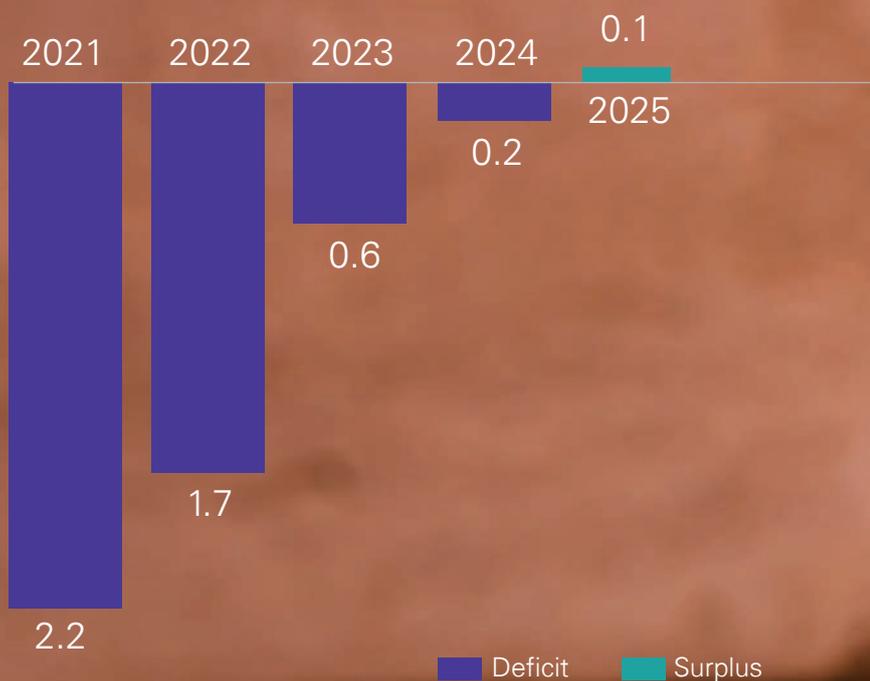
## History of deficit up to 2020

(Billion OMR)



## Tenth-five year plan – The financial framework: Projections of deficit to surplus

(Billion OMR)



# KPMG Comment



The Tenth Five-Year Plan (2021 to 2025) is significant as it is the first executive financial plan of Oman Vision 2040. It will serve as the cornerstone and springboard to achieve fiscal balance and sustainability, economic diversification and growth. It re-emphasises the government's intention to engage the private sector in achieving sustainable economic and social development. The plan continues to focus at enhancing non-oil revenues and rationalize public spending leading to fiscal sustainability. If the government succeeds in improving the investment climate and enhancing the role of the private sector, thereby achieving fiscal sustainability as outlined in the plan, there is every reason to hope that Oman will emerge successfully from the current challenging global and regional economic environment.

Through the Oman Vision 2040, the government has demonstrated its commitment to bring the country at par with developed nations in terms of economic, social and political indicators over the next two decades. The Vision defines national priorities ranging from high quality education, health and well-being of its people to economic prosperity, diversification and legislative reforms. Some of the Vision targets are particularly noteworthy.

Oman currently ranks 36 out of 140 countries in the skills and global competitiveness index. Oman Vision 2040 aims to bring Oman within the top 10 nations. It also targets at keeping the Debt to GDP ratio to 60% (2020: 79%), doubling the contribution of non-oil revenues to GDP from 9% in 2020 to 18% in 2040, maintaining real GDP growth at 5% per annum and keeping net foreign direct investment at 10% of GDP.



# Oman's 2021 budget at a glance

| Particulars  | 2021 Budget     |            |                             | 2020 Budget     |            | 2020 Actuals*   |                             |
|--|-----------------|------------|-----------------------------|-----------------|------------|-----------------|-----------------------------|
|  | OMR (m)         | % of total | Change (%) from 2020 budget | OMR (m)         | % of total | OMR (m)         | Change (%) from 2020 budget |
| <b>Revenue</b>   |                 |            |                             |                 |            |                 |                             |
|  Oil  | 3,550           | 41         | (35)                        | 5,500           | 51         | 4,364           | (21)                        |
|  Gas   | 1,870           | 22         | (15)                        | 2,200           | 21         | 1,700           | (23)                        |
|  Other revenues  | 3,220           | 37         | 7                           | 3,000           | 28         | 2,400           | (20)                        |
| <b>Total revenue</b>   | <b>8,640</b>    | <b>100</b> | <b>(19)</b>                 | <b>10,700</b>   | <b>100</b> | <b>8,464</b>    | <b>(21)</b>                 |
| <b>Expenditure</b>   |                 |            |                             |                 |            |                 |                             |
|  Defense and security   | (2,965)         | 27         | (14)                        | (3,450)         | 26         | (3,125)         | (9)                         |
|  Oil and Gas production (refer note)                               | (780)           | 7          | (65)                        | (2,230)         | 17         | (2,400)         | 8                           |
|  Civil ministries   | (4,075)         | 38         | (11)                        | (4,590)         | 35         | (4,350)         | (5)                         |
|  Development  | (900)           | 8          | (31)                        | (1,300)         | 10         | (1,130)         | (13)                        |
|  Subsidies  | (800)           | 7          | 6                           | (755)           | 6          | (795)           | 6                           |
|  Servicing public debt  | (1,200)         | 11         | 40                          | (860)           | 7          | (860)           | -                           |
|  Provision for debt settlement                                    | (150)           | 1          | -                           | -               | -          | -               | -                           |
|  Participations in Local, Regional and International Institutions | (10)            | -          | 33                          | (15)            | -          | -               | -                           |
| <b>Total expenditure</b>   | <b>(10,880)</b> | <b>100</b> | <b>(18)</b>                 | <b>(13,200)</b> | <b>100</b> | <b>(12,660)</b> | <b>(4)</b>                  |
| <b>Deficit</b>   | <b>(2,240)</b>  |            | <b>(10)</b>                 | <b>(2,500)</b>  | <b>-</b>   | <b>(4,196)</b>  | <b>68</b>                   |
| <b>Deficit (% of total revenue)</b>  | <b>26%</b>      |            | <b>11</b>                   | <b>23%</b>      |            | <b>49%</b>      |                             |
| Financing of deficit   |                 |            |                             |                 |            |                 |                             |
| Net borrowings   | 1,640           | 73         | -                           | 1,500           | 80         | -               | -                           |
| Financing from reserves  | 600             | 27         | -                           | 500             | 20         | -               | -                           |
| <b>Average price per barrel (USD)</b>  | <b>45</b>       |            |                             | <b>58</b>       |            | <b>48</b>       |                             |

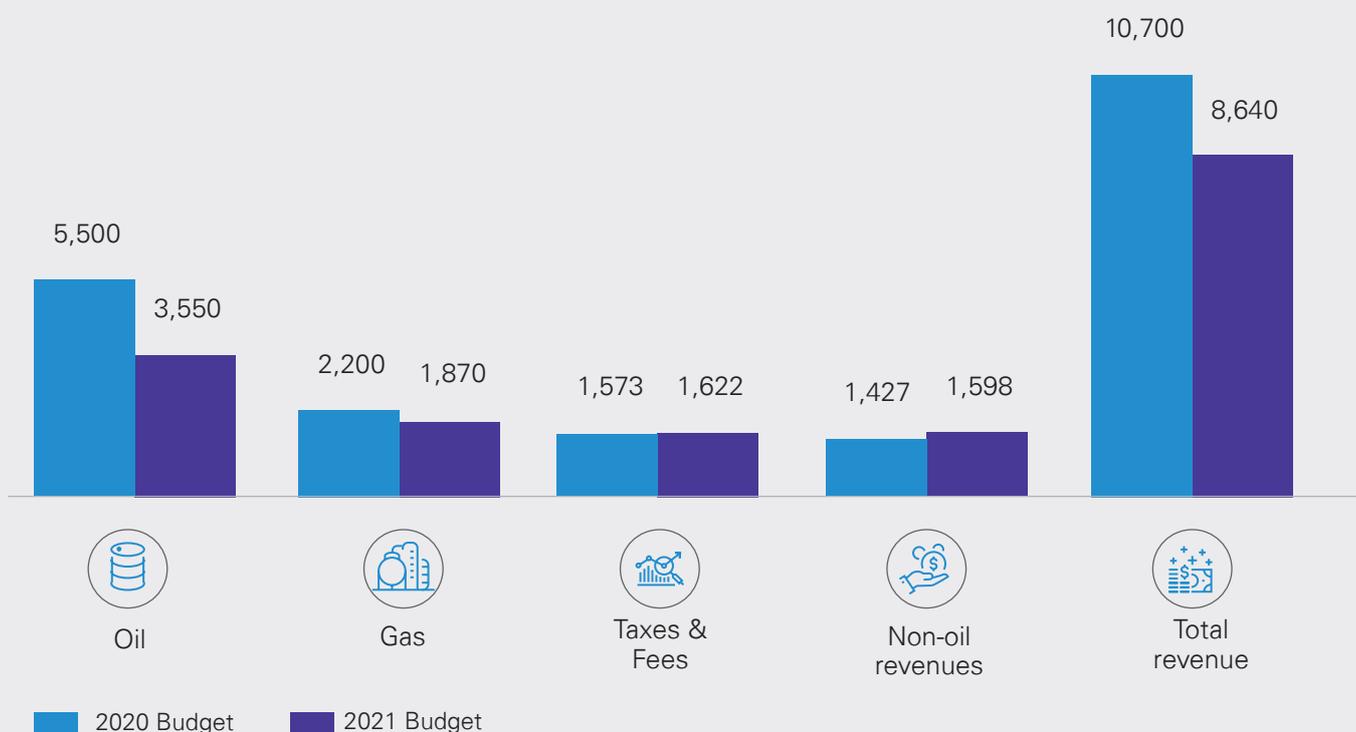
Note: Oil and Gas production expenditure has been removed from the Budget 2021 after the establishment of Energy Development Oman SAOC. The RO 780 million expenses in Budget 2021 represents "Gas procurement and transport expenditure".

\*Provisional Numbers as issued by the Ministry of Finance

Source: Royal Decrees 1/2021 and 2/2021, A guide to State's General Budget for Fiscal Year 2021 issued by the Ministry of Finance and Oman Observer press reports

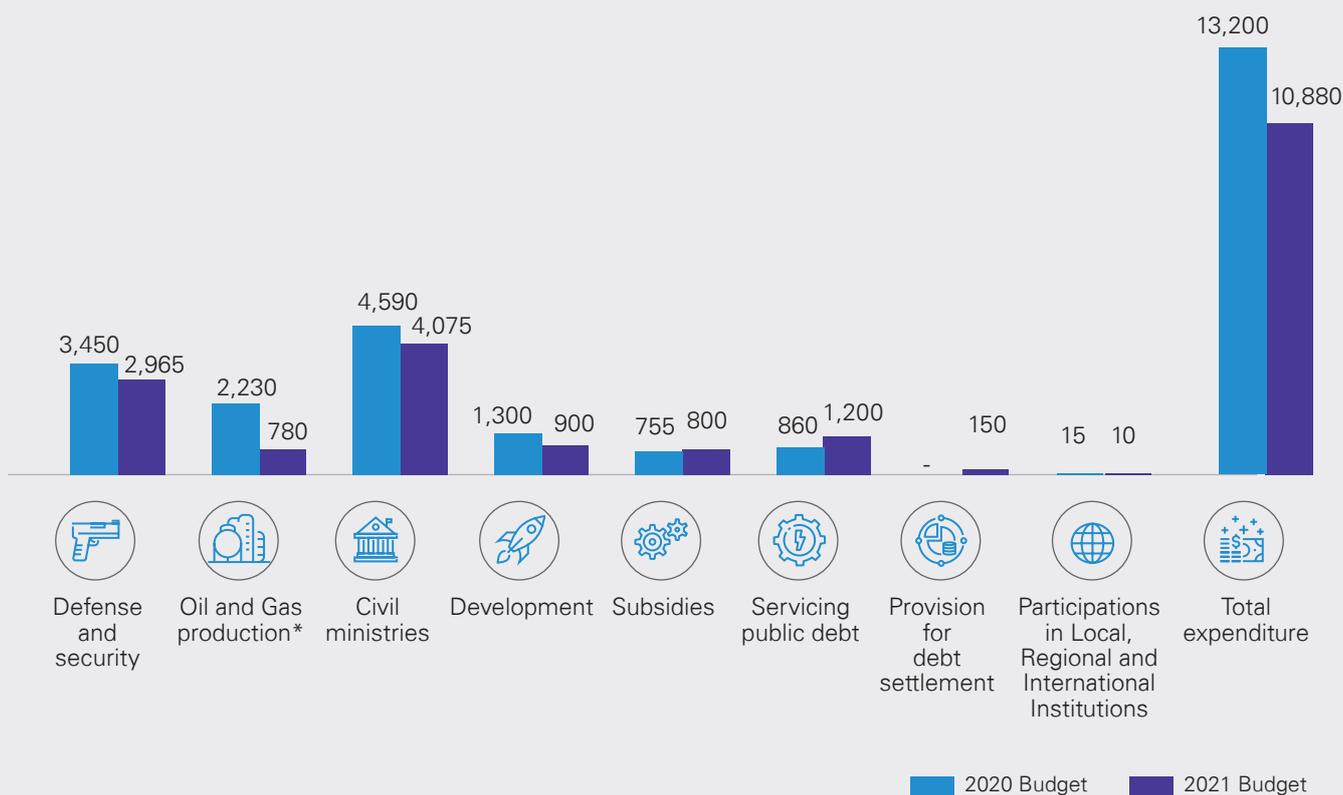
## Revenue Comparison: Budget 2021 Vs Budget 2020

(Million OMR)



## Expenditure Comparison: Budget 2021 Vs Budget 2020

(Million OMR)



# Highlights of Oman's 2021 budget

## Summary

The 2021 budget is the first budget for the Tenth Five-Year Plan (2021-2025), paving the way for implementing Oman 'Vision 2040' finalized under the leadership of His Majesty Sultan Haitham Bin Tarik. It also incorporates the objectives of the Medium Term Fiscal Plan (2020-2024), also referred to as the Fiscal Balance Plan, which has been endorsed by His Majesty the Sultan. The Government endeavors, through the Fiscal Balance Plan, to implement a number of measures and initiatives with the aim to reduce the deficit and to firstly avoid deterioration in credit rating and then help improve it.

The 2021 budget targets a more efficient system of fiscal and financial management, which prioritises fiscal balance, economic diversification and sustainability of national income. Its objectives include targeted rates of domestic and foreign direct investment (FDI). Furthermore, it seeks to enable the private sector to play a greater role in accelerating economic growth and creating more job opportunities.

The 2021 budget's top priority is to reduce the deficit, which is expected to fall by 47% from the 2020 projected actual deficit of RO 4.2 billion. The deficit, as a percentage of GDP, is expected to be around 8% of GDP in 2021. The Budget further paves the way for Program Based Budget (PBB), and explores innovative means for funding some government projects and services. One of the significant changes in Budget 2021 which helps to reduce government spending is the removal of all Oil and Gas expenditure of Petroleum Development Oman (PDO), pursuant to the incorporation of Energy Development Oman (EDO). The objective is for EDO to finance its share of PDO's Oil and Gas expenditure on its own without support from the Government.

## Revenue to increase by 2%

### Oil and Gas revenues represent 63% of total government revenues

Oil and Gas revenues are budgeted at RO 5.4 billion – 35% lower than the 2020 budget of RO 7.7 billion and 11% lower than the 2020 projected actual revenues of RO 6 billion. Oil and Gas revenues are declining on account of the slump in international oil prices and drop in oil production to comply with the OPEC Plus deal, but remain the major driver of the economy. The government continues to take a realistic approach by assuming an

oil price of USD 45/bbl in 2021 compared to the average realized price of USD 48/bbl in 2020 and the Budget 2020 oil price of USD 58/barrel.

### Non-Oil and Gas revenues represent 37% of total government revenues

Non-Oil and Gas revenues are budgeted at RO 3.2 billion – an increase of 7% on the 2020 budget of RO 3 billion and 34% increase to the 2020 projected actual revenues of RO 2.4 billion. Such a significant increase in non-Oil and Gas revenues is in line with the Government's objective of reducing its dependence on oil revenues. The 2021 budget estimates Excise Tax and VAT revenues to increase threefold in 2021 i.e. to RO 413 million compared with the budgeted figure of RO 100 million in 2020. The corporate income tax revenues are estimated to decrease by 27% at RO 400 in 2021, when compared with the 2020 Budget. This decline is mainly due to the consequences of the coronavirus pandemic on the performance of businesses during 2020. However, in line with the Medium Term Fiscal Plan, the government's intention is to develop comprehensive tax administration reforms to improve the efficiency of the tax system by measures such as improving corporate income tax compliance, enforcing statutory penalties and fines for non-compliant companies, integrating the tax management system with other government systems and reviewing the withholding tax regime and compliance. Another significant source of revenue (RO 800 million) for the Government is from the newly established Oman Investment Authority (OIA) which now owns all government investments barring PDO.

## Expenditure to decline by 18% approx.

### Defence and security spending cut by 14%

Defence spending is budgeted at RO 2.9 billion –14% lower than the 2020 budget of RO 3.5 billion and 5% lower than actual expenditure projected for 2020. This reduction is in line with the Government's objective to rationalize public spending and enhance its efficiency.

### Oil and Gas expenditure reduces by 65%

The significant decline in Oil and Gas expenditure is due to the fact that the Government's share of the expenditure of PDO has been removed from the Budget 2021, pursuant to the incorporation of EDO. The 2021 budget now includes only expenses of purchasing and transporting gas estimated at RO 780 million.

### **Development expenditure cut by 31%**

Development expenditure is budgeted to fall by 31% to RO 900 million compared to the 2020 budget of RO 1.3 billion and 20% less than the 2020 actual projection of RO 1.1 billion. This represents the estimated amount to be paid during the year as per the actual work in progress for the development projects, which have been re-prioritized in terms of urgency, cost and economic and social returns

### **Subsidy reform in electricity and water sectors**

Subsidies for electricity, oil products and housing and development loans have reduced in line with the Government's objective to reform subsidy measures in a phased manner beginning 2021.

Government subsidies are budgeted at RO 800 million – an increase of 1% to the 2020 projected subsidies of RO 795 million and 6% on the 2020 budget of RO 755 million. The overall expenditure on subsidies has increased in Budget 2021 on account of the addition of subsidies for water, sewage and waste sectors.

### **Budget deficit amounts to 26% of revenues and 8% of GDP**

The 2021 budget deficit is estimated to be RO 2.2 billion – 47% lower compared to the actual deficit of RO 4.2 billion projected for 2020. The 2021 deficit is proposed to be financed through external and domestic borrowing (73%) and reserves (27%).

### **GDP to grow by 2.3% and inflation to increase by 3.8%**

Oman's GDP is targeted to grow by 2.3% in 2021. It is expected to have shrunk by 4.3% in 2020.

The inflation rate is estimated to be 3.8% in 2021 – probably reflecting the one-off effect of VAT that will be effective from 16 April 2021. Inflation is anticipated to have declined by 0.8% in 2020.



# Analysis of the 2020 preliminary financial accounts

Considering the consequences triggered by the pandemic and continued low oil prices which have severely affected economic growth and public finances in 2020, the preliminary results for 2020 show a decline in total revenue that has led to higher deficit than that estimated in the 2020 budget.

## Revenue

Actual aggregate revenue for 2020 decreased by 21%, reaching OMR 8.5 billion compared to the budgeted revenue of OMR 10.8 billion. This is attributable to a fall in oil and gas revenues of RO 1.6 billion (21%) and in non-oil revenues of RO 600 million (i.e. 20%). The downfall has been attributed to the following:

- Lower realized oil price of USD 48/bbl compared to the budgeted oil price of USD 58/bbl.
- Reduction in gas revenue as a result of decline in natural gas price as well as lower sales.
- Decline in non-oil revenues as the government waived several fees and taxes such as tourism tax, municipality fees and tax, industrial rents, commercial register renewal fee, shipping and handling fees) to mitigate the effects of the coronavirus pandemic on the economic activity.

## Expenditure

Actual public spending for 2020 declined by 4% (RO 540 million) reaching RO 12.7 billion. This is primarily on account of significant fiscal measures taken during 2020, such as the 10% cut in the approved budgets of government units, reducing operating and capital expenses of State Owned Enterprises (SOEs) by 10%, reducing approved allocations of development projects by 10% and suspending most projects carried out by SOEs.

## Deficit

The 2020 Budget deficit rose up by RO 1.7 billion to reach RO 4.2 billion – 68% more than the budgeted deficit of RO 2.5 billion for 2020.

## GDP

As per the estimates of the Ministry of Economy, Oman's GDP is expected to have shrunk by 4.3% in 2020 to RO 24.7 billion (USD 64.22 billion), with inflation rate anticipated to have declined by 0.8%.



# Other performance indicators

- Foreign direct investment reached OMR 15.1 billion by end of first quarter.
- Foreign exchange reserves grew by 8.1% reaching OMR 6.8 billion by the end of October 2020, compared to the previous corresponding period.
- As per the Central Bank of Oman, lending increased by 2.2% by the end of October 2020 compared to the previous corresponding period; deposits increased by 3.4%.
- Oman's trade balance showed a surplus of RO 2.7 billion by the end of third quarter of 2020, down by 38% as compared to the previous corresponding period mainly on account of the decline in commodity (oil) exports.

## Key Government measures and initiatives in 2020

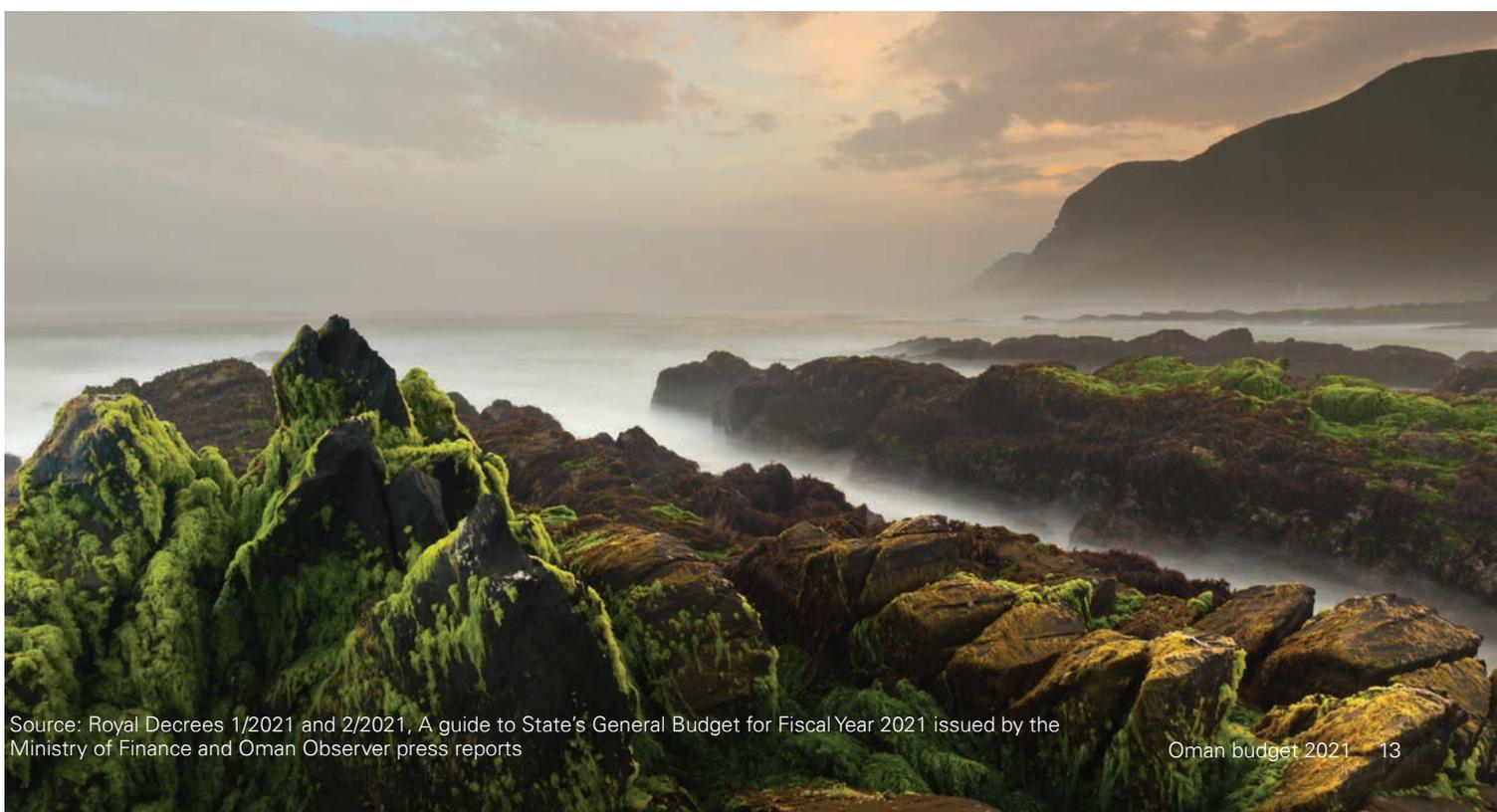
In 2020, the government undertook a number of measures and initiatives to stimulate the economy and sustain public finance in alignment with the Oman Vision 2040 and the Medium Term Fiscal Plan (2020-2024) endorsed by His Majesty, the Sultan. The Medium Term Fiscal Plan stresses the importance to adopt key fiscal measures so as to ensure that debt-to-GDP ratio remains at level of 80% by end of the plan, which, otherwise will reach 128%. It includes a proposal to introduce personal income tax on high income earners in 2022 and several other measures to increase non-oil revenues. The key measures and initiatives taken during 2020 are highlighted hereunder.

- **Formation of a Taskforce** – Ministry of Economy has formed a taskforce to develop policies and programs to help stimulate the national economy.
- **Restructuring the State's Administrative Apparatus** – Several ministries and government units have been merged to improve government performance and efficiency, service delivery, and to eliminate duplication of functions,
- **New Retirement Policy and early retirement** - In line with the government's efforts to achieve efficiency and financial sustainability for pension funds, the government decided to establish two pension funds, namely one for civil units and the private sector and the other one for defense and security units. The minimum years of service has been raised to 30 years. During 2020, the government required 70% of employees who exceeded 30 years of service to retire by end of 2020. Moreover, a new unified approach to retirement will be placed for those employed in the Government units and private sector.
- **Subsidy reform in electricity and water sectors** - New increased tariff will apply in a phased manner from early 2021; government subsidy will be limited to those registered in the government's National Subsidy System (NSS).
- **EDO** – In December 2020, EDO has been established as an Omani joint stock company to invest in conventional as well as renewable energy resources within and outside the Sultanate. With the establishment of EDO, the Government's share in Block 6 has been transferred. EDO will also be entrusted with the collection of oil and gas revenue, payment of CAPEX and OPEX of annual production, and development of the oil and gas sector. Consequently, in Budget 2021, all oil and gas expenditure of PDO has been removed from the State's General Budget.
- **OIA** – The ownership of SOEs and government investments have been transferred to the newly established OIA, with the exception of PDO. OIA will be responsible to transfer the dividends to the public treasury on an annual basis. OIA has during 2020 launched "Rawabet"; a special program, to link SOEs' policies and corporate governance systems with Oman Vision 2040, which focuses on economic diversification, enhancing non-oil revenues, and attracting more foreign direct investment.
- **Job Security System** – A new Job Security System was launched with the objective of providing social protection to those Omanis who have lost jobs; it will also provide temporary relief to those who are seeking jobs for the first time. Funding will be through the initial grant of RO 10m by HM, employers and insured contributing 1% of the insured's monthly salary and employers paying a 5% levy on the expatriate license fees.

# Key government measures and initiatives to look out for in 2021

**The government is determined to enhance the efficiency of public finance management through a number of initiatives. These are in line with the pillars laid down under Medium Term Fiscal Plan (2020-2024) to achieve sustainable level of financial resources and thus, strike fiscal balance over the long term.**

- **Public Debt Law** – This law to be enacted will help manage and effectively monitor the borrowings of the government.
- **Single Treasury Account** - This single bank account created with the Ministry of Finance during 2020 will optimize the use of government's cash resources.
- **Program Based Budget** – In order to rationalize the public spending, an advanced approach of fiscal planning is being implemented that would identify public spending priorities and link spending to objectives and activities serving the society.
- **Government Financial Management Information Systems (GFMIS)** – The government is targeting to develop a financial system that presents financial data in a systematic manner and helps improve public spending management efficiency.
- **Labour Sector incentive** – In order to support economic growth, the Ministry of Labor is undergoing a comprehensive review of the Labour Laws and legislations which will help to upskill the Omani workforce.
- **Partnership for Development (PFD) Programme** – PFD, known as Offset worldwide, is an economic tool applied in many countries for purposes such as economic development, implementation of economic and industrial projects, and transfer of state-of-the-art technologies and knowledge. The Ministry of Finance will continue to focus on PFD in order to enhance and support three main sectors viz. Defence and Security Capability, Human Resources Development including Knowledge Transfer and Private Sector Development.
- **Public-Private Partnership ('PPP') Projects** – In order to encourage private sector to invest in the infrastructure and public services and to reduce the burden on public spending, the Public Private Partnership Law enacted in 2019 shall be enforced by the Ministry of Finance. The sectors that are being looked at for PPP projects include Seaports, Education, Environment, Transport, Health Care, Municipalities and Government Services.



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