KPMG

Analysis of Oman's ninth five year plan and 2016 budget

7 January 2016

KPMG Oman

Ninth five year plan highlights

	2016	2017	2018	2019	2020	FYP annual average	% of total	%Growth (compounded per annum) over 2015 budget
	RO (m)							
Revenue								
Oil	4,560	5,490	5,480	6,020	6,010	5,512	54	(5)
Gas	1,590	1,675	1,840	1,950	2,050	1,821	18	7
Current and capital revenues and recoveries	2,450	2,635	2,980	3,130	3,240	2,887	28	6
Total revenue	**8,600**	**9,800**	**10,300**	**11,100**	**11,300**	**10,220**	**100**	**(1)**
Expenditure								
Defense and security	(3,500)	(3,600)	(3,700)	(3,800)	(3,900)	(3,700)	28	1
Oil and gas production	(1,790)	(2,190)	(2,460)	(2,570)	(2,380)	(2,278)	17	3
Civil ministries	(4,620)	(4,670)	(4,820)	(4,970)	(5,170)	(4,850)	37	(0.15)
Development	(1,350)	(1,550)	(1,650)	(1,850)	(1,900)	(1,660)	13	3
Others	(640)	(690)	(670)	(710)	(750)	(692)	5	(11)
Total expenditure	**(11,900)**	**(12,700)**	**(13,300)**	**(13,900)**	**(14,100)**	**(13,180)**	**100**	**0**
Deficit	**(3,300)**	**(2,900)**	**(3,000)**	**(2,800)**	**(2,800)**	**(2,960)**		
Deficit (as % of total revenue)	38%	30%	29%	25%	25%	29%		
Daily average oil production (k bbl)	**990**	**990**	**990**	**990**	**990**			
Average price per barrel (US$)	**45**	**55**	**55**	**60**	**60**			

Source of the newsletter: Royal Decree 1/2016, 2/2016, 1/2015 and press statements issued by the Secretariat General of the Supreme Council for Planning and the Ministry of Finance

Highlights of Oman's ninth five year plan

The ninth five year plan (FYP9), covering 2016 to 2020, is the final component of Vision 2020, the government's long term development strategy for 1996 to 2020. Vision 2020 focuses on sustainable development of the Omani economy with particular emphasis on social and regional development and economic diversification.

3% annual average GDP growth	FYP9 targets growth of not less than 3% per annum (pa), the same as in the eighth five year plan (FYP8). FYP9 estimates an average annual GDP of RO 28 b (US$ 73 b) (at constant prices) (FYP8: RO 24 b). Inflation is targeted at 2.9% per annum for FYP9 (FYP8: 4% pa).
Average budget deficit is 29% of total revenue	FYP9 projects an average annual deficit of RO 2.96 b. As a percentage of total revenue, the deficit will gradually reduce from 38% in 2016 to 25% in 2020.
Plan based on oil price of US$ 45 to US$ 60 per barrel	FYP9 is based on an average oil price of US$ 45 - US$ 60 per barrel (FYP8: US$ 58 - US$ 60 per barrel).
Average oil production expected to be 990,000 barrels a day	Average oil production over FYP9 is expected to be stable at 990,000 barrels a day (FYP8: 900,000 barrels a day).
Transfer of sale proceeds of 15,000 barrels per day to the oil reserve fund	FYP9 transfers the equivalent of 15,000 barrels per day to the oil reserve fund starting from the second year. FYP9 also provides for the transfer of further oil revenues to other funds if the budget is in surplus.
Contribution of oil to GDP	FYP9 projects that 26% of GDP will come from oil (FYP8: 44%).
Planned investments of RO 41 b	FYP9 projects an annual investment of RO 8.2 b with an average annual growth rate of 5%.
Diversification to non-oil based sectors	Apart from economic diversification through vertical expansion in activities dependent on oil, FYP9 focuses on the development of non-oil sectors such as manufacturing, transportation and logistics, tourism, fisheries and mining. The government has announced the setting up of Mining Development Oman (MDO) with a capital of RO 100 m to be owned initially by government investment vehicles with a public offering of 40% later in the year. MDO will carry out both upstream and downstream activities related to mining as well as collaborate with the private sector. The Public Authority for Mining is formulating a mineral strategy and a new mining law is likely to be issued to help attract investment.
Role of the private sector enhanced	FYP9 underlines the need of the private sector role to drive economic growth. This will be achieved through privatization programs, developing small and medium enterprises (SMEs), public-private partnerships and improving the investment climate. The government's privatization program envisages expanding the role of the private sector in acquiring, financing and managing government projects. Certain government assets are being identified for privatization during 2016 immediately upon completion of a study being currently conducted.
Job opportunities for Omani nationals critical	FYP9 highlights the need to create productive job opportunities for Omani nationals and improve their capabilities and skills.
Periodic evaluation by the Supreme Council for Planning (SCP)	The royal decree promulgating FYP9 requires the SCP to periodically evaluate FYP9 in the light of global, regional and local developments.

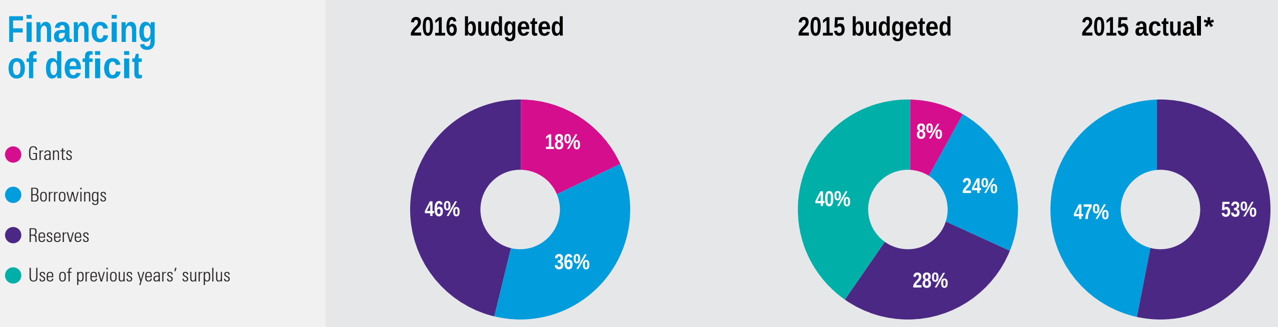
KPMG comments

The FYP9 appropriately reflects the challenging oil market and is prudently based on a price of US$ 45 to US$ 60 for the next five years. Non essential expenditure has been curtailed with greater focus on investment spending and support to the non oil based sectors. The significant fall in commodity prices should also help in reducing expenditure. If the government succeeds in improving the investment climate and in enhancing the role of the private sector, as outlined in the plan and as successfully achieved in the past particularly in the power, water and port sectors, there is every reason to hope that Oman will yet again emerge successfully from the challenging global and regional economic environment.

Oman's 2016 budget at a glance

	2016 budget			2015 budget		2015 actuals*	
Revenue	RO (m)	% of total	change (%) from 2015 budget	RO (m)	% of total	RO (m)	change (%) from 2015 budget
Oil	4,560	53	(41)	7,700	66		
Gas	1,590	18	9	1,460	13		
Oil and gas revenue	6,150	72	(33)	9,160	79	6,942	(24)
Taxes and fees	1,329	15	(0.4)	1,334	12		
Other non-tax current revenues	1,071	12	2	1,046	8		
Capital revenues and repayments	50	1	(17)	60	1		
Other current & capital revenues	2,450	28	(15)	2,440	21	1,958	(20)
Total revenues	**8,600**	**100**	**(26)**	**11,600**	**100**	**8,900**	**(23)**
Expenditure							
Defense and security	(3,500)	29	(7.89)	(3,800)	27	(3,700)	(3)
Oil and gas production	(1,790)	15	(13.94)	(2,080)	15	(2,100)	1
Development	(1,350)	11	(18)	(1,650)	12	(1,800)	9
Current and capital expenditure for civil ministries							
Education	(1,645)	14	(9)	(1,806)	13		
Health	(633)	5	(7)	(684)	5		
Social security & welfare	(511)	4	(9)	(564)	4		
Housing	(527)	4	(7)	(568)	4		
Public services	(543)	5	(8)	(592)	4		
Others	(761)	6	(24)	(996)	7		
	(4,620)	39	(11)	(5,210)	37	(4,700)	(10)
Subsidies	(400)	3	(64)	(1,110)	8	(900)	(19)
Others	(240)	2	(4)	(250)	1	(200)	(20)
Total expenditure	**(11,900)**	**100**	**(16)**	**(14,100)**	**100**	**(13,400)**	**(5)**
Deficit	**(3,300)**		**(32)**	**(2,500)**		**(4,500)**	**80**
Deficit (as % of total revenue)	**38%**			**22%**		**51%**	

Financing of deficit



* Provisional numbers as issued by the Ministry of Finance

Highlights of Oman's 2016 budget

Budget for sustainable growth and development – expenditure cut restricted to 16% despite revenue declining by 26%

The budget is based on an average oil price of US$ 45 per barrel - significantly lower than the US$ 75 per barrel benchmark used in the 2015 budget. Overall revenues are projected to decline by 25.9% from the RO 11.6 b budgeted in 2015 to RO 8.6 b in 2016. Actual revenues projected for 2015 are now RO 8.9 b. Despite the significant decline in budgeted revenues, expenditure has only been reduced by 16% to RO 11.9 b (2015 budget: RO 14.1 b and 2015 actual projected: RO 13.4 b). The deficit has been limited to RO 3.3 b against a projected deficit for 2015 of RO 4.5 b.

The 2016 budget focuses on rationalizing costs, curtailing non-essential expenditure and reducing subsidies to ensure that critical developmental projects aimed at diversifying the economy and stimulating economic growth continue. Cuts in important sectors supporting the welfare of nationals, such as health, education, housing and social security, have been limited.

Oil and gas revenues represent 72% of total revenues

Oil and gas revenues are budgeted at RO 6.15 b - a 33% decline on the 2015 budget of RO 9.16 b and less than the 2015 projected actual revenues of RO 6.9 b.

Non-oil and gas revenues represent 28% of total revenues

Non-oil and gas revenues are fairly constant with the 2015 budget and 25% higher than the actual revenues projected for 2015. The Ministry of Finance (MoF) has indicated that measures to enhance non-oil revenues could include raising corporate taxes, limiting tax exemptions, regulating customs duty exemptions and enhancing tax collection procedures, including strengthening their audit and control mechanisms. The income tax law is to be amended shortly, and may include specific measures to raise corporate taxes, possibly by increasing the income tax rate (this would only effect tax collections in 2017) and by widening the scope of withholding taxes (which would take effect from the date of the amendment). Raising corporate taxes would only help maintain the tax revenues at the level of 2015 as corporate profits for 2015 are expected to decline. MoF has also indicated other measures to raise revenues such as amending the electricity and water tariffs, visa and labour card fees, fees for real estate transactions, municipality fees for lease registrations, fees for car registrations and driver licenses, and other fees for official transactions.

Defense and security spending cut by 8%

Defense spending is budgeted at RO 3.5 b - 8% lower than the 2015 budget of RO 3.8 b and 9.5% lower than the actual expenditure projected for 2015.

Oil and gas expenditure cut by 14%

Expenditure on oil and gas production is budgeted to fall by 14% to RO 1.79 b from the RO 2.08 b budgeted for 2015 - 15% lower than projected actual 2015 expenditure of RO 2.1 b. This suggests a reduction in the cost of producing a barrel of oil or unit of gas.

Development spending cut by 18%

Development expenditure is budgeted to fall by 18% to RO 1.35 b compared to the 2015 budget of RO 1.65 b - 25% less than the 2015 actual projection of RO 1.8 b.

Subsidies reduced by 64%

Government subsidies are budgeted at RO 400 m, significantly lower than the RO 1.11 b budgeted for 2015. This reflects both the fall in the oil price and the government's decision to deregulate the prices of petrol and diesel with effect from 15 January 2016. Higher electricity and water tariffs for industrial and commercial consumers will be phased in.

Budget deficit amounts to 38% of revenues and 13% of GDP

The 2016 budget deficit is projected to be RO 3.3 b compared to the actual deficit of RO 4.5 b projected for 2015. The 2016 deficit is expected to be financed from reserves (46%), borrowings (36%) and grants (18%). The projected deficit for 2015 of RO 4.5 b (51% of the actual projected revenue of RO 8.9 b) is an 80% increase over the budgeted 2015 deficit of RO 2.5 b. The 2015 actual deficit was financed from reserves (53%) and borrowings (47%).

Mid-year review

The Royal Decree promulgating the 2016 budget requires the Council of Financial Affairs and Energy Reserves to review and assess the state budget halfway through the year and take any necessary measures to sustain the Sultanate's financial position.

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