2016 Oman State Budget- austerity measures and focus on non-oil and gas revenues

January 2016

In brief

Oman's 2016 budget reacts to continuing low oil prices, with the government cutting expenditure and seeking to maximise non-oil and gas revenues. A planned decrease in non-essential contract expenditure may impact businesses seeking government contracts within Oman, whilst planned privatisation of certain government activities may result in increased business opportunities in numerous sectors including education and training, healthcare and public transportation.

A proposed increase of the corporate income tax rate from 12% to 15%, as well as the removal of the tax exemption for the first OMR 30,000 of a taxpayer's taxable earnings, has been approved by the Shura Council. These changes are expected to be implemented in the near future.

Government subsidy spending is reduced by 64% in 2016, and includes the deregulation of petrol prices from 15 January 2016. Fuel prices will be set monthly.

(Amounts in OMR million)	2016 Budget	2015 Budget	% change
Revenues			
Oil & Gas	**6150**	**9160**	**(33)**
Taxes & fees	1,329	1,335	(0.4)
Others	1,111	1,105	0.5
Total non oil & gas	**2440**	**2440**	**0**
Total revenues	**8,600**	**11,600**	**(26)**
Expenditure			
Defence & security	3,500	3,800	(8)
Civil ministries	4,600	5,166	(11)
Oil & Gas	490	560	(13)
Loan interest	90	50	80
Investment expenditure	2,670	3,214	(17)
Other expenditure	550	1,310	(58)
Total expenditure	**11,900**	**14,100**	**(16)**
Deficit	**(3,300)**	**(2,500)**	**32**

(Source: Royal Decrees Nos 1/2015, 2/2016 and the Minister responsible for Financial Affairs' press statement 03/01/16.)

In detail

Revenues

Budgeted oil and gas revenues have reduced by 33% from 2015. Whilst budgeted non-oil and gas revenues remain at the same level in 2015 and 2016, in order to maximise non-oil and gas revenues the government has announced an increase in real estate transfer fees and municipality fees on rents, as well as an increase in electricity and water tariffs for commercial, industrial and government usage, which may impact business owners and create inflationary pressures.

Expenditure

The total budgeted expenditure for 2016 is OMR 11,900m, down 11% from the estimated actual 2015 spending of OMR 13,400m, itself a drop from the 2015 budgeted OMR 14,100m. The trend in decreasing spending is, of course, due to uncertainty surrounding falling oil prices. Even at this expenditure level, the anticipated 2016 deficit is 38% of projected revenues.

Taxation system changes

The state budget proposes a future increase in the rate of corporate income tax (currently 12%) to 15%, as well as the abolition of the current OMR 30,000 tax free band. Any increase in tax rates will increase tax revenues in the subsequent year, so a 2016 change will increase revenues from 2017. The awarding of tax exemptions for companies will be limited, and the government will target efficient collection of taxes including faster completion of pending tax assessments.

2016 deficit

The 2016 budget includes a OMR 3.3 billion deficit, of which OMR 1.5 billion will be financed from reserves. The remainder will be funded through a mix of grants and domestic and international borrowing, resulting in a budgeted 80% rise in loan payments in 2016.

	2016 budget	2015 actual	% change
Total revenue	8,600	8,900	(3)
Total expend-iture	11,900	13,400	(11)
Deficit	(3,300)	(4,500)	(27)

(Source: Royal Decree 2/2016 and the Minister responsible for Financial Affairs' press statement 03/01/16.)

38%

deficit as a proportion of budgeted revenues

Fuel subsidies

An area of government spending that has long been anticipated to receive a major budget cut is the government subsidies on housing loans, basic food items, utilities and petroleum products. The budgeted subsidies total OMR 0.4 billion, a drop of 64% from the 2015 approved budget of OMR 1.1 billion.

Details of subsidy reductions have only been announced for petroleum products. Consumer fuel prices are to be deregulated and will instead be set monthly from 15 January 2016.

Postponing unnecessary projects

As part of its drive to minimise expenditure, the government, will postpone the awarding of unnecessary or unimportant contracts. Companies may also experience changes in the financing of contracts, with the government less willing to provide large capital injections.

Privatisation of state owned companies

The 2016-2020 Five-Year Plan encourages growth and development in the private sector, as well as greater collaboration between public and private sectors. It is anticipated that water and electricity sector support services contracts will be given to the private sector via tender, as well as privatisation being used as a cost-cutting government strategy over the coming years, particularly in education and training, capacity building, healthcare services and public transportation.

64%

Drop in subsidies spending

Government cost saving

The government will implement far reaching cost-saving measures, including a review of vehicles and travel expenses provided to ministerial employees, cuts in hospitality and entertainment expenses, encouraging energy saving measures at government buildings and the use of more efficient communication methods such as e-mail and Oman Post.

Let's talk

For a deeper discussion of how the 2016 Oman budget might affect your business, please contact:

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