

OMAN BUDGET 2021

Introduction

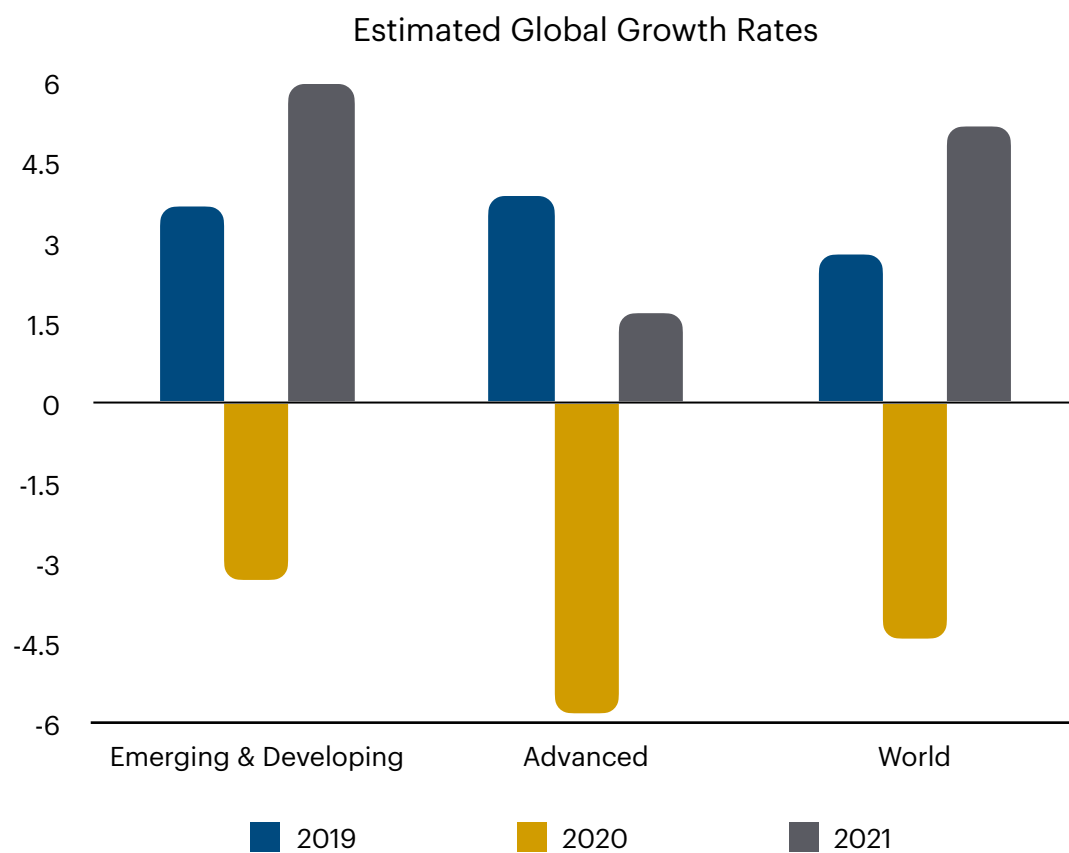
2020 PANDEMICS AND DISRUPTIONS

An extraordinary year by any measure for Oman, 2020 proved to be a truly fundamental challenge. January 10th marked the passing of the late Sultan Qaboos bin Said, and the peaceful transition and ascension of His Majesty Sultan Haithem bin Tariq to the throne. The transition ushered in a new era with optimistic aspirations towards the future. This is particularly relevant, as 2020 marks the pre-launch of Oman Vision 2040. His Majesty Sultan Haithem bin Tariq has set a clear strategic mandate for the country to achieve its long-term targets.

However, 2020 also marked the most devastating pandemic in recent history. The COVID-19 pandemic has changed the world in numerous ways. Health and economic systems have been stressed across the global, causing wide-spread lockdowns, border closures, and other precautionary measures have crippled economies across the global. Global growth estimates for 2020 by the World Bank were -5.2%.¹ In its October 2020 World Economic Outlook, the IMF updated its projections to -4.4% slowdown in global economic activity due to improved recoveries in the second half of the year. However, the downside risks are very present in terms of sectoral shocks, disruptions to economic activities where physical distancing is difficult. Cross border spillovers due to disruptions in trade and remittances remain a concern until treatment and vaccine efficacy can play a vital role in the recovery.²

¹ *Global Economic Prospects*, June 2020, The World Bank Group

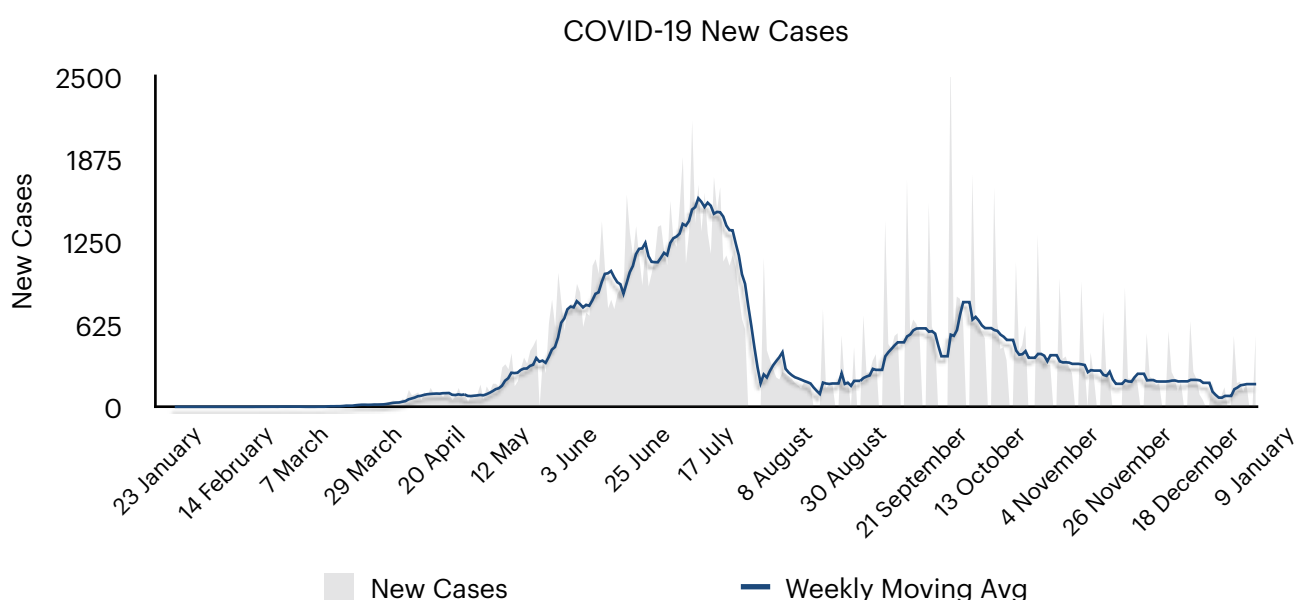
² *World Economic Outlook*, October 2020, The International Monetary Fund



Source: Ministry of Finance Budget

OMAN 2020

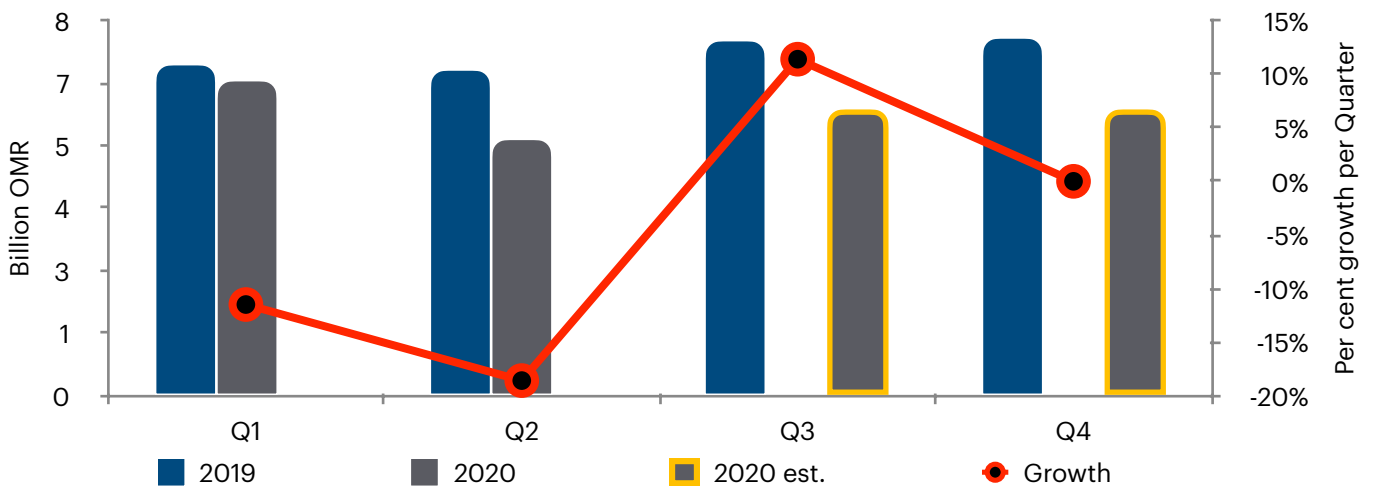
Oman's recent economic growth performance has been largely effected by collapse in oil prices and diminishing fiscal strength. 2020 marked a worsening of these factors due to the pandemic effects and strict measures adopted by the country to mitigate against infections. Oman has done commendably well in terms of providing the necessary public health services during the different stages of the pandemic. Despite a temporary increase in new cases during the summer, new cases remained relatively low on average (shown below).



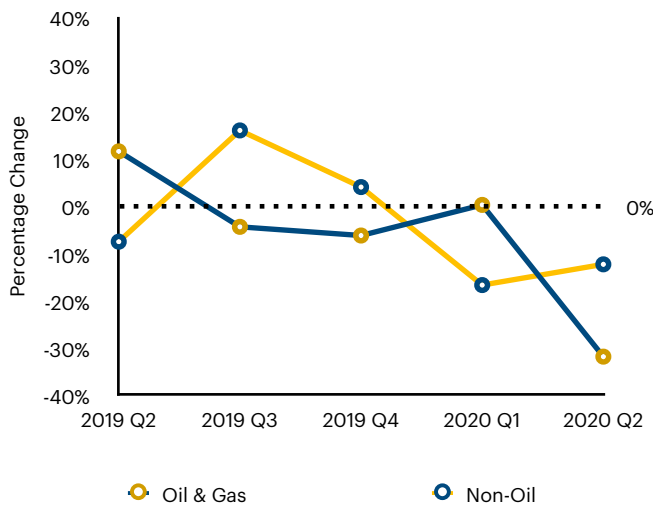
Source: OurWorldInData.org

December marks a welcomed transition as the first stage of COVID-19 vaccination commenced. The continued relaxation of lockdowns and economic activity restrictions in late 2020 is expected to revive the economy. Year-on-year growth estimates show a sharp decline in GDP during the first two quarters of 2020 compared to those in 2019. (See charts) The economic contraction was visible across all economic sectors in the economy affected by the restrictions and economic lockdown in the first half of 2020. A particular challenge for Oman in 2020 was the decline in the non-oil sector which is the foundation of the country's long-term economic diversification strategy.

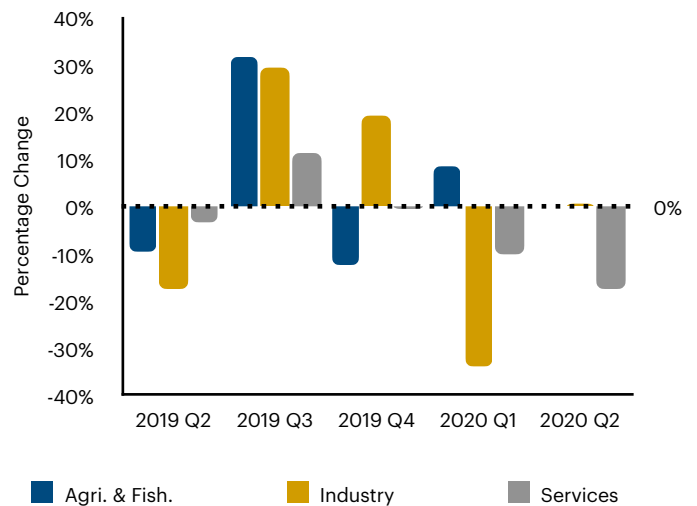
GDP Growth (Quarterly, Y-o-Y)



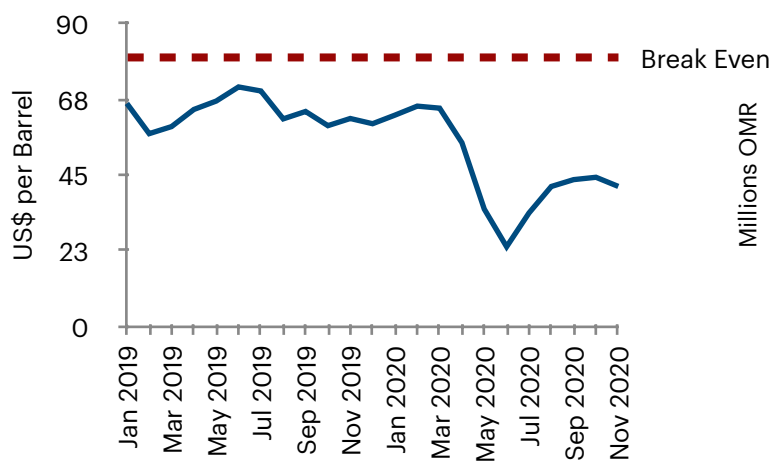
Oil GDP vs. Non-Oil GDP Growth (Quarterly)



Growth Rates by Economic Activity (Quarterly)

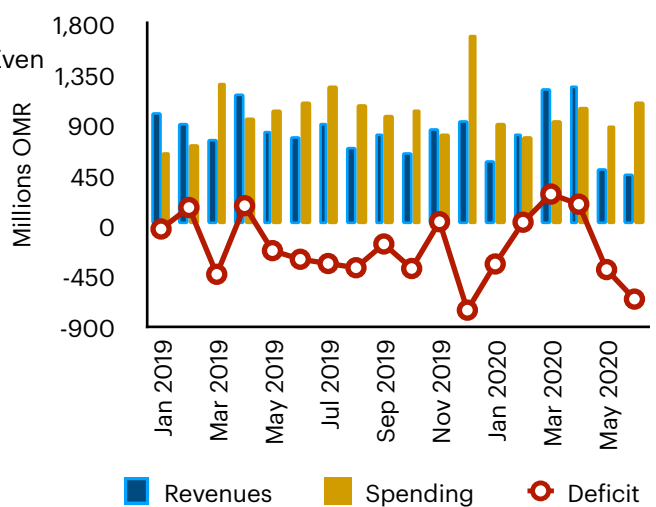


Average Oil Prices*



* Average oil price as reported by Ministry of Energy & Minerals

Public Finance



Sectors such as tourism and non-trading sectors were the hardest hit. The traded sectors such as manufacturing also experience large declines in output during the first half of the year during lockdown and due to the collapse in global trade.

The sharp decline in oil prices marked a critical challenge for Oman's economy overall and its fiscal stance in particular. In mid-2020, average prices fell to lows of \$23 per barrel. This has put tremendous pressure on government finances to meet its obligations. The challenges of 2020 have continued pressure on Oman's credit rating that first showed signs of weakness with the fall in oil prices in 2014. (See table below)

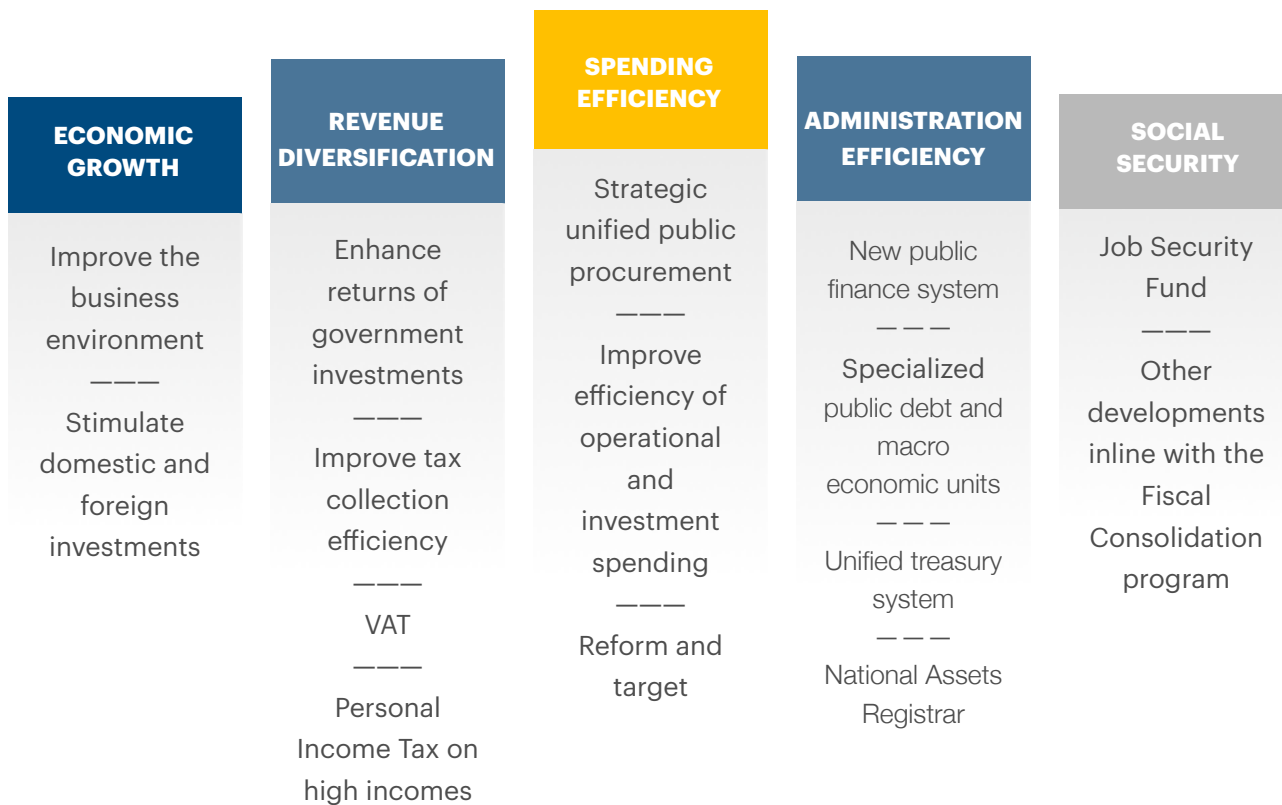
	2014	2015	2016	2017	2018	2019	2020
Moody's	A1	A1	BAA1	BAA2	BAA3	BA1	BA3
Standard & Poor	A	BBB+	BBB-	BB	BB	BB	B+
Fitch				BBB-	BB+	BB+	BB-

KEY DEVELOPMENTS IN 2021

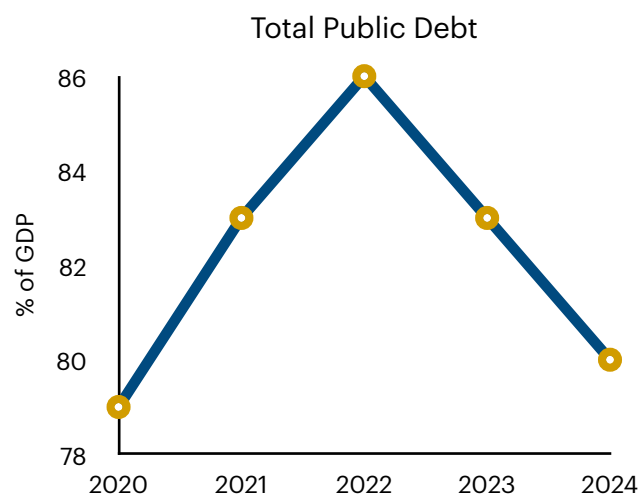
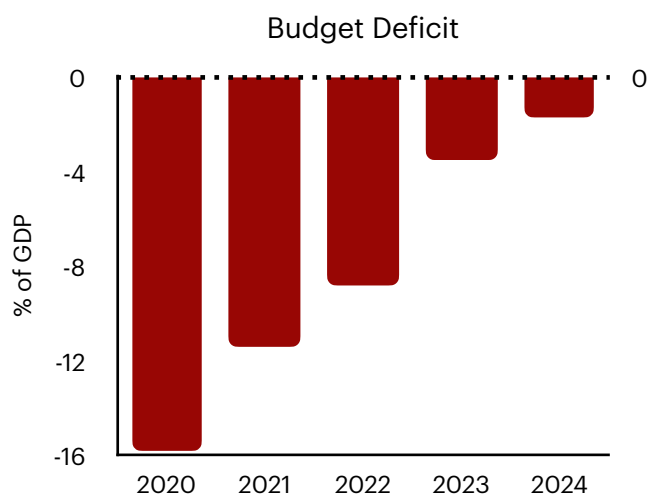
Oman's 2021 budget is constrained by the limited fiscal space for economic spending and investment. There are a number of factors affecting the Budget 2021. The COVID-19 pandemic is still a risk and thus, the budget will need to address the economic stimulus options. Given the little space for direct injections in the economy, reforms will be used to control the budget deficits. The other factor at play would be the recent government restructuring. In 2020 His Majesty implemented some important changes to the government structure. This involved streamlining the government sector to remove duplication of authorities to improve efficiencies. A number of government ministries and authorities were abolished and others either merged or reformed according to new mandates.

Going forward Oman is implementing a number of important reforms to improve the outlook of the economy under the leadership of His Majesty Sultan Haithem. The 2021 budget is guided by Omans recently developed medium term plan "*Tawazun*" (2020-2024) which is also in line with Oman's Vision 2040. The program aims to control the rapid increase in government public debt due to high deficits over the past few years through fiscal consolidation. The aim is to steadily reduce the budget deficit to 1.7% of GDP by the end of the *Tawazun* program in 2024. The program includes key initiatives, some of which have been implemented in 2020 and the remainder will be introduced in phases based on government priorities over the next 4 years. The gradual introduction of these initiatives is necessary to balance the social and economic impacts they may have on the country. The initiatives have been developed based on the 5 key drivers of the *Tawazun* program are shown below.

Tawazun Key Initiatives



Tawazun Deficit and Debt Projection

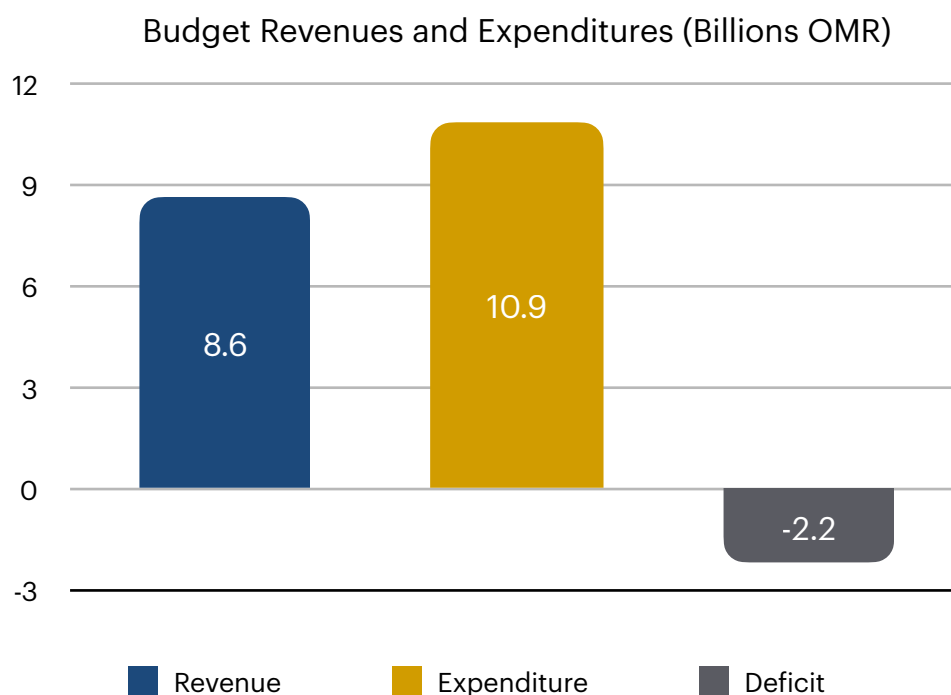


DOWNSIDE RISKS

Oman's medium term fiscal consolidation plan has several downside risks. Economic growth in the medium term is still dependent on government spending which is restricted by oil prices volatility. Economic diversification is below the required critical mass to allow for sectoral shock absorbers due to further fluctuations in the global economy. Budget deficits remain sensitive to oil prices, spending control, and the tax collection efficiency. This implies that deficit projections based on program outcomes may vary substantially due to unforeseen shocks in the medium term. Finally, public debt management is the most critical component. Improving credit ratings and diversifying debt structure are pertinent to ensure sustainable debt levels moving forward.

BUDGET 2021

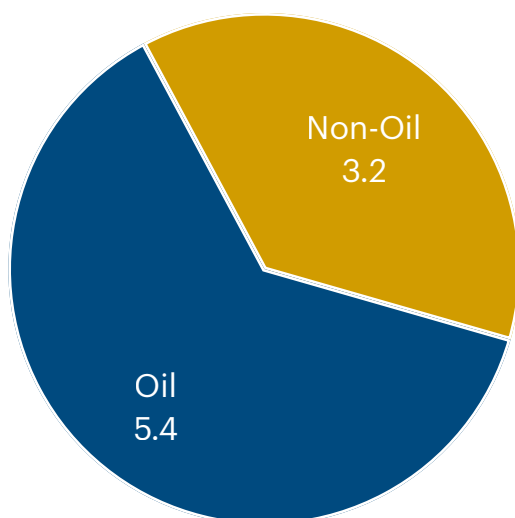
The 2021 budget is based on a number of important assumptions regarding government revenues. The primary assumption is the projection of average oil prices at \$45 per barrel. The budget also takes into account the introduction of VAT in April 2021 and subsidy reforms in January 2021.



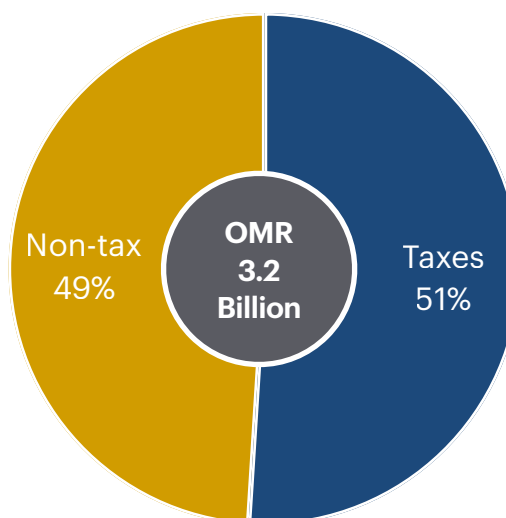
REVENUES

2021 Budget revenues are estimated at OMR 8.64 billion, 2% higher than 2020. Expenditure in the 2021 budget is estimated at OMR 10.88 billion, approximately 14% lower than 2020. Revenue sources remain heavily dependent on hydrocarbons despite efforts to diversify them. The distribution of revenues budgeted for 2021 are OMR 5.46 billion or 63% are sourced from hydrocarbons and OMR 3.22 billion or 37% from non-hydrocarbon revenues. It is also projected that 48% of non-oil revenue will be realized from taxes and 52% from non-tax sources. Further breakdown is shown in the table below.

Revenue Sources (Billion OMR)



Non-Oil Revenues



2021 Budget Revenues (Millions OMR)

		TOTAL
Oil & Gas		5400
Oil	3600	
Gas	1800	
Non-Oil		3220
VAT & Excise	413	
Corporate Income Tax	400	
Labor Permits	230	
Customs	265	
Investment Returns (SOEs)	800	
Capital Revenues	200	
Capital Returns	20	
Other	892	
Total Revenues		8620

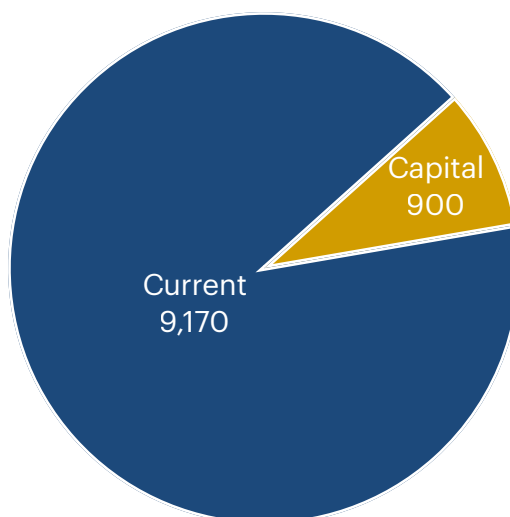
EXPENDITURES

The structure of the expenditures has changed in 2021 compared to 2020 in two main respects. First, oil and gas investments made by the government are moved to the newly established Energy Development Oman company. The company is fully owned by the government and is mandated to manage its stake holding in Petroleum Development Oman (PDO). The company is also responsible for sourcing its investment needs separately from the government budget. Therefore, the traditional value of government investment in maintaining oil and gas production do not appear on the budget.

Second, the Ministry of Finance has introduced a new account in the budget, debt repayment. In doing so, the budget allocates a value of OMR 150 million towards principle repayments of outstanding debt. This account is in addition to the existing debt service budget item observed in previous budgets. This approach is a reflection of the “*Tawazun*” program initiatives to manage public debt more effectively.

The expenditure break-down in terms of Current spending and Capital spending is illustrated below. Capital spending is estimated to be OMR 900 million or 9% of total spending. In comparison Current spending is estimated to be OMR 9.1 billion or 91% of total spending. Social spending on education, health, housing and social welfare represents 40% of total current spending.

Spending Breakdown (Million OMR)



BREAK DOWN OF KEY SPENDING CATEGORIES

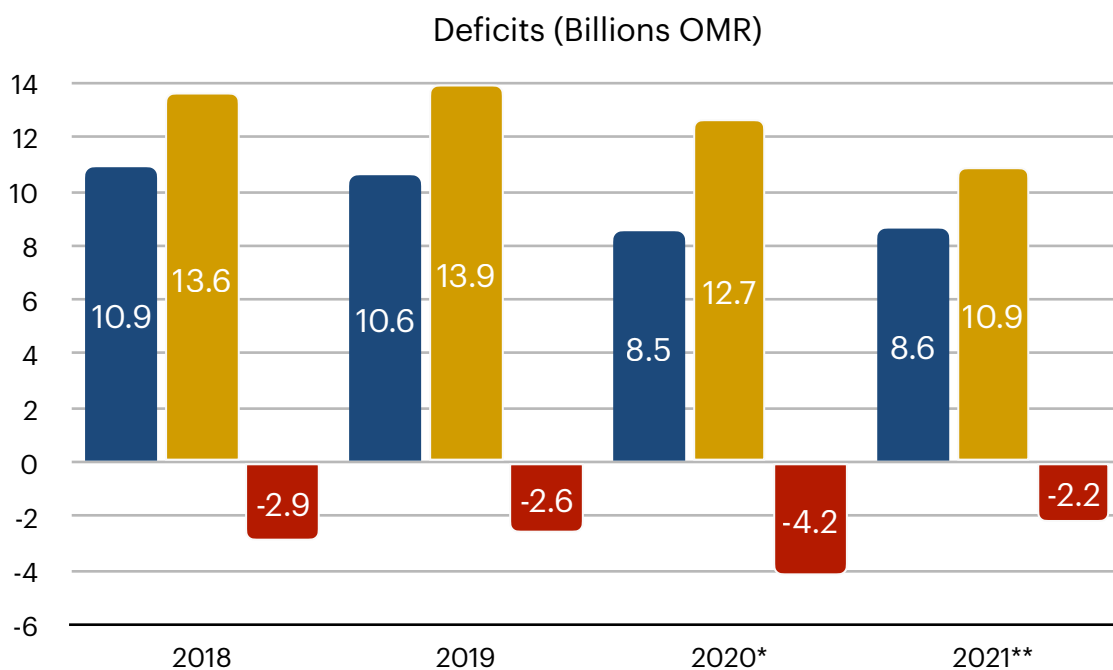
The table below breaks down expenditures further in functional details based on Current Expenditures, Subsidies and Support and Development spending.

2021 Spending Budget (Millions OMR)

		TOTAL
Development		900
Current		9170
Civil Ministries	4075	
Defense	2965	
Gas Purchase and Distribution	780	
Debt Service	1200	
Debt Repayment*	150	
Support and Subsidies		810
Electricity	500	
Water	90	
Sanitation	86	
Waste Disposal	64	
Fuel	35	
Housing Loans	25	
International Contributions	10	
Total Expenditures		10880

DEFICIT AND DEBT

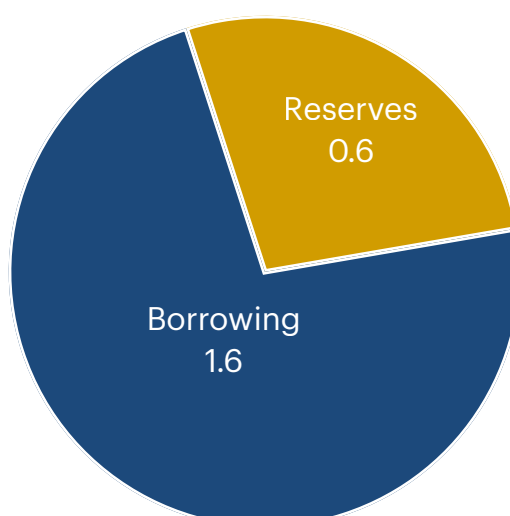
Not surprisingly, 2020's estimated deficit stands at OMR 4.2 billion. The budget deficit in 2021 is expected to reach OMR 2.2 billion. Debt financing will be distributed between domestic and international borrowing (shown below).



*Preliminary

** Budgeted

Deficit Financing (Billions OMR)*





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