Date: 7[rd] January, 2018

Oman Budget 2018

- **Budgeted revenues up by 9.2% YoY to OMR9.5bn**
- **Net oil revenues constitute 51.3% of total revenues against a budgeted average of 56.9% over the past three years.**
- **Oil revenue budgeted at a price of USD50/bbl. for 2018**
- **Fiscal and External breakeven oil price estimated by IMF as per their October 2017 report for 2018 stand at USD76.3/bbl. and USD75.1/bbl., respectively**
- **Non-oil revenues budgeted 5.0% higher than the 2017 budgeted number**
- **Total expenditure at OMR12.5bn, up considerably by 6.84% YoY, with current expenditure constituting 72% at OMR8.9bn which is approximately 95% of the budgeted revenues**
- **Subsidies have been increased by OMR330mn to OMR725mn**

After 2017 a year in which austerity was exercised, Oman this year came out with an expansionary budget giving the economy much needed stimulus and a push towards sustainable growth. The expansionary budget announcement met our expectation as we believed the sustainable recovery in oil price would energize the Sultanate in coming out with a budget which meets the anticipation of all the segments of the society. Sectors which witnessed increased allocation for the year included; subsidy (43%), health (6.7%) and public services (2.7%). We believe maintaining the same amount of deficit despite increase in expenditure, would serve both the purpose of increasing the economic activity and also appeasing the credit rating agencies.

Revenue

Oman government expects to earn revenue of OMR9.5bn in 2018 which is 9.2% higher than the budgeted revenue last year, on account of 11% increase in the oil and gas revenue and 5.0% increase in the non-oil revenue. In terms of breakup, oil & gas constitutes majority of the earnings at 71.4% followed by revenue from non-oil sources at 28.6%.

Methods of Increasing Revenue:

- Revenue from higher budged oil price.
- Gas revenues from Khazzan-Makarem gas field.
- Selling government assets, within privatization scheme, notably those entail higher operating or maintenance costs.
- Expansion in the provision of preferential services.
- Sin tax: Introducing tax on certain commodities such as beverages and tobacco
- Amendments in the income tax law
- Enhancing tax collections efficiency and activating monitoring and follow-up measures
- Amending fees of licenses of bringing foreign workers
- Amending some fees of civil services
- Amending rules and regulations pertaining to exemptions of tax and customs duties
- Amending the regulations of lands allocation
- Adjusting the fees of municipal services.

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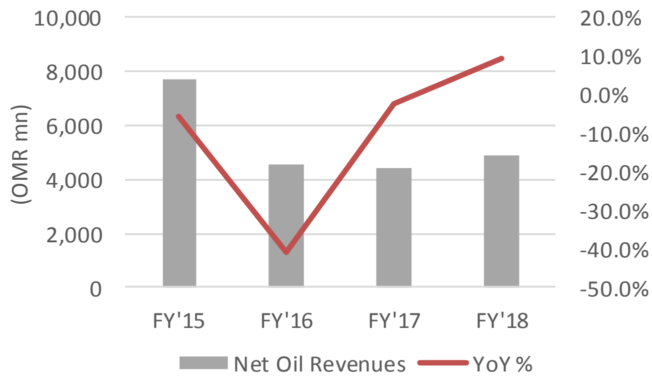
Oil Revenue

Budgeted oil revenue for 2018 is OMR4.87bn, higher by 9.4% compared to the budgeted amount of OMR4.45bn in 2017. The budgeted amount is higher despite Oman continuing with the output cut (agreed between OPEC and Non-OPEC members which was further extended to 2018). The growth in the budgeted revenue comes from the higher budgeted oil price which for 2018 stands at USD 50/bbl. compared to USD 45/bbl. in 2017. We believe, the government was very prudent as it assumed a very conservative oil price compared to what it is trading and is being expected by various economic experts and agencies. According to most of the international institutions and organizations, oil price is expected to range between USD 55-60 per barrel, in 2018.

Net Oil Revenue

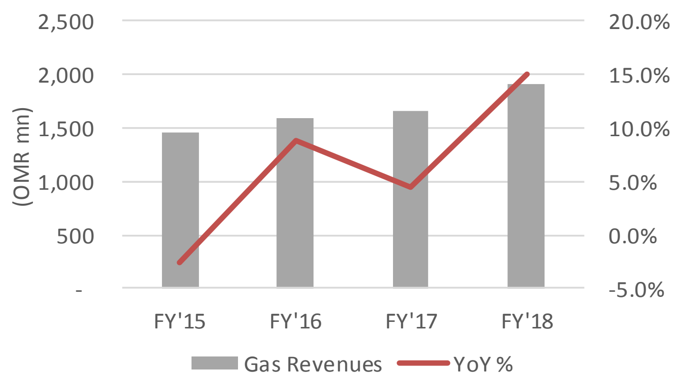


Source: Budget Document & Media

Gas Revenue

Gas revenue for the year 2018 has been budgeted higher by 15% to OMR1.91bn compared to OMR1.66bn in 2017. This is the highest ever budgeted gas revenue and major thrust to it has come because of the Khazzan Gas project. The tight gas project began in 2014 and is expected to eventually contribute about 33% of Oman's gas supply. BP Oman operates Block 61 with about 60% interest. Oman Oil Company exploration & production holds the remaining interest. Khazzan's Phase-1 is expected to produce 1bcfd. The combined plateau production from Phases 1 and 2 is expected to be 1.5bcfd. The project will also include construction of a new central processing facility with a designed processing capacity of 1,050 cubic feet of gas, 100km of export pipelines, 600km of flow lines, and other gathering systems.

Gas Revenue

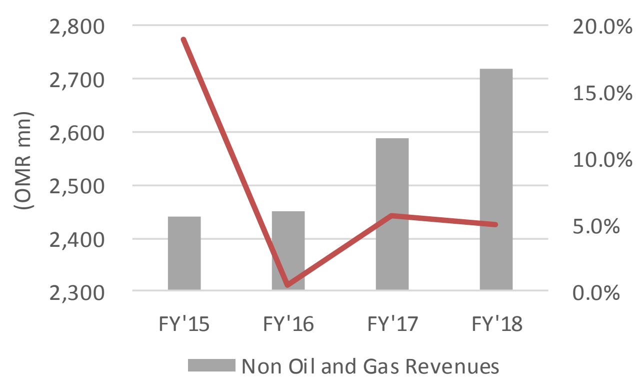


Source: Budget Document & Media

Non-Oil Revenue

Non-oil revenue budgeted for the year 2018 stands at OMR2.72bn compared to budgeted 2017 number of OMR2.59bn, higher by 5%. Over the years, Sultanate has been giving increasing importance to the non-oil sector, so as to cut its reliance on the petrodollars. The finance ministry said the government planned a string of steps this year to boost non-oil revenues, including: amending Income Tax Law, enhancing tax collections efficiency and activating monitoring and follow-up measures, introducing selective tax on certain commodities, amending fees of licenses of bringing foreign workers, amending some fees of civil services, amending rules and regulations pertaining to exemptions of tax and customs duties, amending the regulations of lands allocation and adjusting the fees of municipal services.

Non-Oil Revenue



Source: Budget Document & Media

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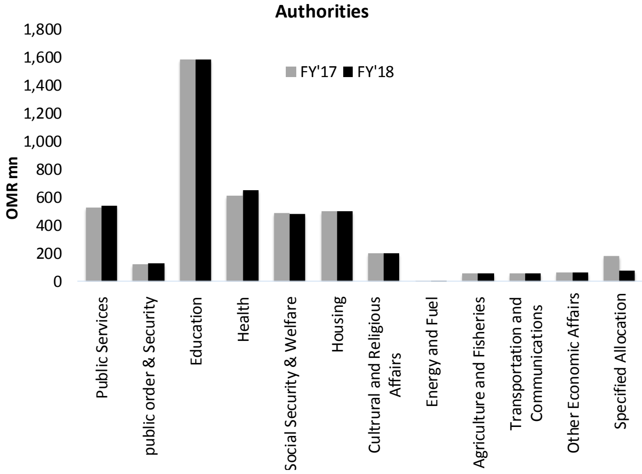
Expenditure

Oman government has budgeted spending of OMR12.5bn in 2018 which is 6.8% higher than the budgeted spending of last year and 2% lower than the actual expenditure of OMR12.7bn in 2017. According to the (preliminary) actual estimates, overall public spending totaled OMR12.7bn in 2017 compared to OMR11.7bn estimated in the budget, up by 9%. This was attributed to the rise in investment spending over development projects, oil and gas sector projects and electricity sector subsidy; as well as funding a number of budget items to meet necessary and urgent needs. In addition to high cost of public debt service as a result of increased borrowing. Despite the fact that the actual spending is higher than the estimated spending, the actual spending is, however, lower than actual spending recorded in 2016, by OMR208mn.

With a monitored check on spending, government nevertheless is pushing for proposals of Tanfeedh. The country is committed to "providing subsidy required to achieve the anticipated results of recommendations, provided by National Program for Enhancing Economic Diversification (Tanfeedh), in order to improve investment climate.

The expenditure is divided into current expenditure (71.9%), investment expenditure (22%), participation, and other expenses (6.1%). Budgeted current expenditure is approximately close to the budgeted revenues at 95% compared to 98% last year. Unlike last year, government this time gave full breakdown of the subsidies which have been budgeted to almost double. Overall the amount of subsidy has been raised to OMR725mn compared to OMR 395mn in 2017. Operational support for government companies and subsidy on the electricity sector form the major chunk of the subsidy segment at 93%. Because of the rise in the debt of the country in last couple of years, government in 2018 has budgeted an additional expense of OMR 215mn, taking the total of interest on loans to OMR 480mn in 2018 compared to OMR 265mn in 2017. Because of the commissioning of various gas fields, the current expenditure on gas sector for the first time in history would cross the expenditure on the oil sector. Gas sector expenditure is budgeted at OMR 380mn compared to OMR 340mn on the oil sector. However, overall expenditure on oil (current and investment) is budgeted higher than the gas. Overall, oil and gas production expense is budgeted 15% higher than 2017 at OMR 2.1bn compared to OMR 1.82bn in 2017.

Estimated distribution of current and capital expenditures function wise for Civil Ministries, Government Units and Public Authorities



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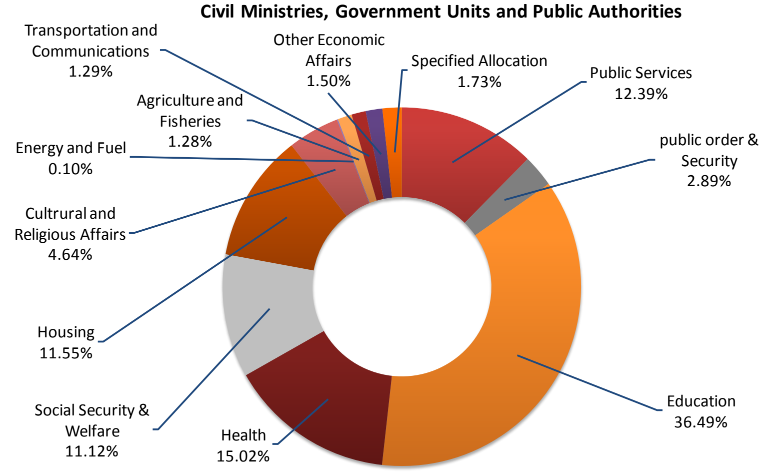

Source: Press Release, Budget tables

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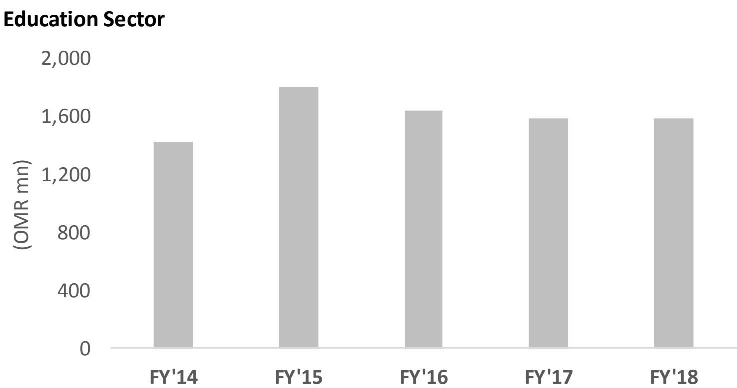
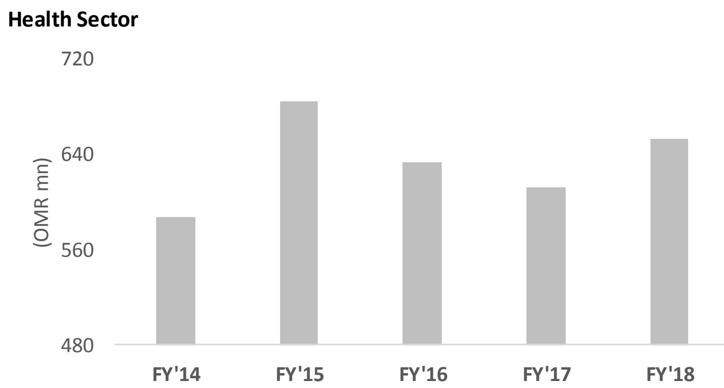
Expenditure Breakdown Sector Wise

Health & Education Sector

Government has been pretty focused on both the education and health sector over last couple of years. The amount on both dropped during the period of austerity but the composition remained the same. This year, government has budgeted to spend OMR 654mn on the health sector compared to OMR 612mn in 2017, an increase of 6.74%. In partnership with private sector, agreements have been signed to construct three new hospitals, namely Sultan Qaboos Hospital at Salalah, Al Suwaiq Hospital, and Khasab Hospital.



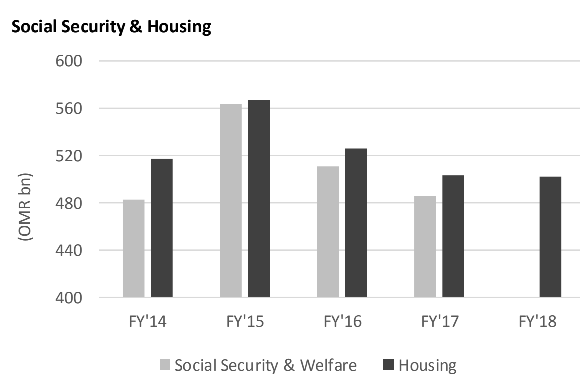


Source: Budget Document

In terms of education sector government has allotted OMR 1.58bn compared to almost same amount last year. The Government has given special emphasis to the training of Omani job-seekers in order to enhance their skills and capacities so that they can join labor market. In this respect, the National Training Fund has been established, and an amount of OMR62mn has been allocated to cover the cost of training programs. These training programs are to adopt the latest global approaches for on-job training. The fund currently trains the first batch consisting of 4,300 trainees; and various companies have been coordinated with to employ these trainees once they finish the training.

Social Security & Welfare and Housing Sector comprise 27.3% of the total budgeted spending

Alike GCC, Oman is also very keen on continuing to support to social security and housing needs of its citizens. Almost same amount has been budgeted this year to the tune of OMR 986mn as well. An amount of OMR80mn has been allocated to continue to implement the Social Housing Scheme and Housing Aid Program for eligible citizens, as well as housing loans provided by Oman Housing Bank. Moreover, the appropriations of housing and development loans amount to about OMR30mn. In the implementation of the decision made by the Council of Ministers with respect to fuel subsidy for eligible citizens, the required appropriations shall be allocated to cover the subsidy in accordance with the approved mechanisms.



Source: Budget Document

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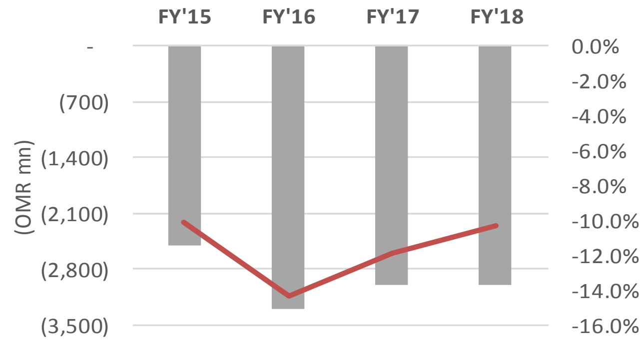
Deficit

According to the preliminary final accounts, the actual fiscal deficit for FY17 is projected to be around OMR3.5bn. While the budget deficit for 2018 is estimated at OMR3bn i.e. 10% of GDP. Almost same set of arrangements have been planned as in 2017 to fund the deficit. Foreign borrowing of OMR 2.1bn would be arranged along with OMR 0.4bn borrowing from domestic sources and OMR 0.5bn would be taken from reserves. Government was pretty practical in taking up more than required borrowings in 2017 as it took into account the expected increase in the rate as signaled by Fed. As of October 2017 i.e. in 10m-2017, government stands at surplus after means of financing at OMR 1.75bn.

Deficit



Source: Budget Document & Media

Goals Outlined in the long run

- Achieve economic growth by no less than 3%, and control inflation rate so as to maintain per-capita income level.
- To continue bring down breakeven point/price over the coming years. Currently IMF estimates, fiscal and external breakeven oil price of Oman for 2018 stand at USD76.3/bbl and USD75.1/bbl, respectively.
- Revitalizing non-oil revenues and enhancing their contributions to overall government revenues by no less than 30% of total revenues.
- Limiting the growth of public debt, and reduce it over the coming years. IMF estimates, gross debt to GDP of Oman to rise to 50.7% in 2018 compared to 44.5% in 2017.
- Maintain adequate level of public investment, with the aim to enhance economic diversification, increase employment rates, and strengthen social development.
- Enhance public-private partnership (PPP) in order to accelerate implementing more investment projects and private sector initiatives.
- Support Small and Medium Enterprises (SMEs) by allocating some of the government projects to SMEs.
- Promotion of Oman in tourism and logistic sector

Conclusion

Oman 2018 budgeted has been prudently constructed. We expect that GDP and revenue growth would take off much better from the start of the year as the current oil price is way higher than the budgeted one. On the inflation front, IMF expects Oman to record inflation of 3.2% in 2018 which is almost the same they estimated for 2017. Delay in introduction of VAT would aid in containing the inflation. While, exchange rate is expected to remain stable as long as the Government manages its balance of payment through successful sourcing of funding and adequate level of foreign reserves.

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State's General Budget *OMR mn*	**FY'15 Budgeted**	**FY'16 Budgeted**	**FY'17 Budgeted**	**FY'18 Budgeted**
Net Oil Revenues	7,700	4,560	4,450	4,870
y-o-y %	-5.52%	-40.78%	-2.41%	9.44%
% of Total Revenue	66.38%	53.02%	51.15%	51.26%
Gas Revenues	1,460	1,590	1,660	1,910
y-o-y %	-2.67%	8.90%	4.40%	15.06%
% of Total Revenue	12.59%	18.49%	19.08%	20.11%
Net Oil and Gas Revenues	**9,160**	**6,150**	**6,110**	**6,780**
y-o-y %	-5.08%	-32.86%	-0.65%	11.0%
% of Total Revenue	78.97%	71.51%	70.23%	71.37%
Current Revenues	2,380	2,400	2,550	2,560
Capital Revenues	25	20	20	20
Capital Repayments	35	30	20	140
Non Oil and Gas Revenues	**2,440**	**2,450**	**2,590**	**2,720**
y-o-y %	19.02%	0.41%	5.71%	5.02%
% of Total Revenue	21.03%	28.49%	29.77%	28.63%
Total Revenues	**11,600**	**8,600**	**8,700**	**9,500**
y-o-y %	-0.85%	-25.86%	1.16%	9.20%
% of Total Public Expenditure	82.27%	72.27%	74.36%	76.00%
Defense and Security Expenditures	3,800	3,500	3,340	3,440
Civil Ministries Expenditures	5,166	4,600	4,385	4,350
Oil Production Expenditures	350	300	330	340
Gas Production Expenditures	210	190	180	380
Interest on loans	50	90	265	480
Total Current Expenditures	**9,576**	**8,680**	**8,500**	**8,990**
y-o-y %	10.53%	-9.36%	-2.07%	5.76%
% of Total Public Expenditure	67.91%	72.94%	72.65%	71.9%
Development Expenditures (Includes govt cos)	1,650	1,350	1,340	1,365
y-o-y %	-8.33%	-18.18%	-0.74%	1.87%
% of Total Public Expenditure	11.70%	11.34%	11.45%	10.9%
Capital Expenditures for civil ministries	44	20	15	0
Oil Production Expenditures	780	700	750	800
y-o-y %	13.04%	-10.26%	7.14%	6.67%
Gas Production Expenditures	740	600	560	580
y-o-y %	5.71%	-18.92%	-6.67%	3.57%
Total Investment Expenditures	**3,214**	**2,670**	**2,665**	**2,745**
y-o-y %	-0.43%	-16.93%	-0.19%	3.00%
% of Total Public Expenditure	22.79%	22.44%	22.78%	22.0%
Participation in Domestic, Regional and International Institutions	200	150	140	40
Subsidy for the Interest on Development and Housing Loans	35			30
Subsidy for the electricity sector	280			450
The Operational Support for the Government Companies	180	400	395	225
Subsidy for the Basic Food Stuff Commodities	35			0
Subsidy for the Petroleum Products	580			20
Participation and Other Expenses	**1,310**	**550**	**535**	**765**
y-o-y %	-18.53%	-58.02%	-2.73%	42.99%
% of Total Public Expenditure	9.29%	4.62%	4.57%	6.1%
Total Public Expenditures	**14,100**	**11,900**	**11,700**	**12,500**
y-o-y %	4.44%	-15.60%	-1.68%	6.84%
Actual expenditures under settlement				
(Deficit)	**(2,500)**	**(3,300)**	**(3,000)**	**(3,000)**
y-o-y %	38.89%	32.00%	-9.09%	0.00%
% of Total Revenue	21.55%	38.37%	34.48%	31.58%

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