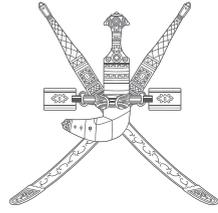
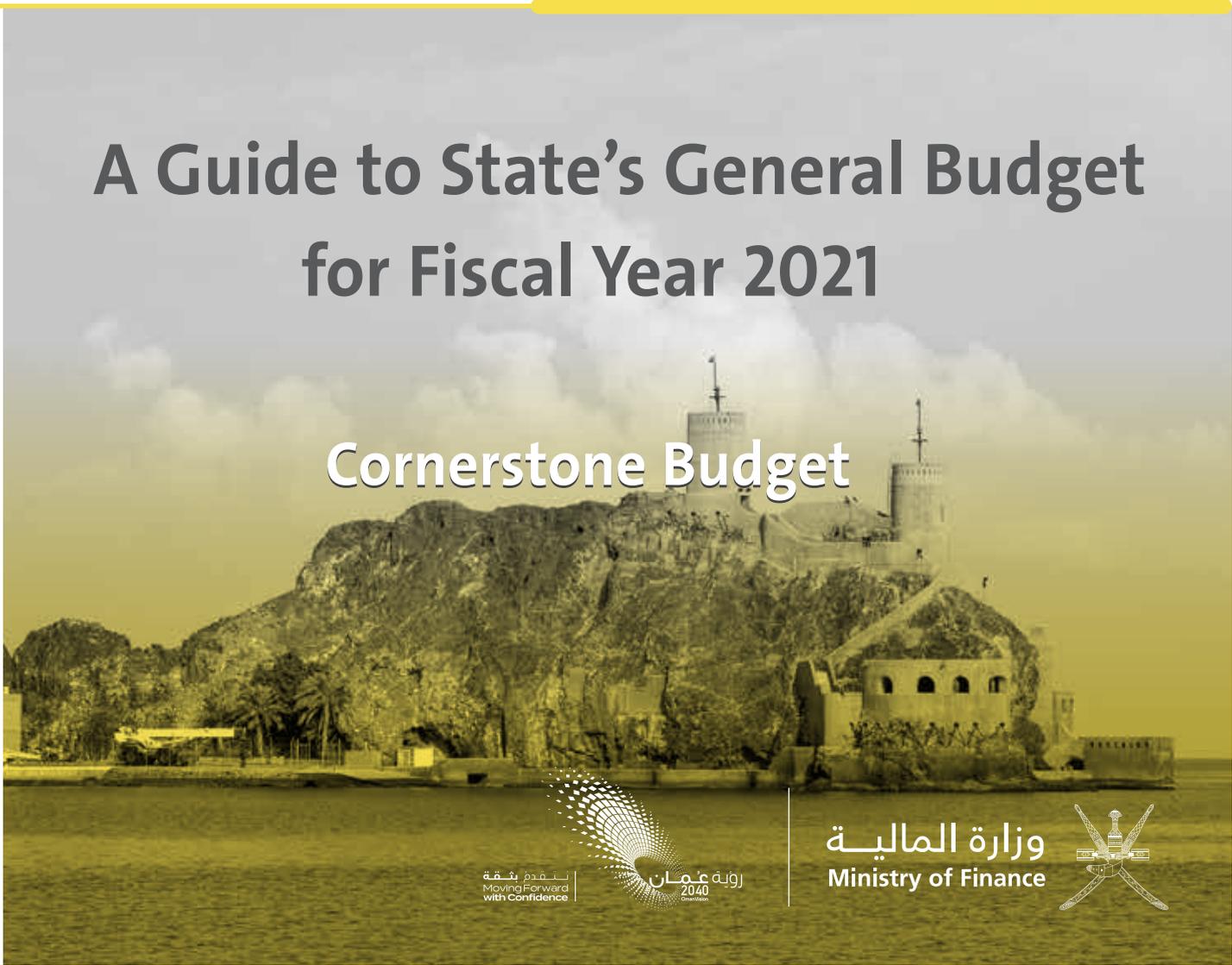


2021
BUDGET



A Guide to State's General Budget for Fiscal Year 2021

Cornerstone Budget



نتقدم بثقة
Moving Forward
with Confidence



رؤية عمان
2040
Oman Vision

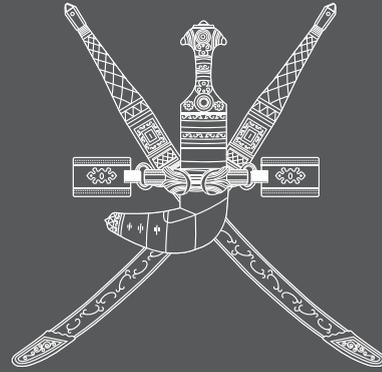
وزارة المالية
Ministry of Finance



2021

BUDGET

Cornerstone Budget



“We will also be committed to directing our financial resources in the most ideal manner which will ensure the reduction of debt and the increase of income. We will direct the government, with all its sectors, to implement a more efficient system of management which places, on top of its priorities, financial balance, economic diversification, the sustainability of the national economy...”

His Majesty Sultan Haitham Bin Tarik
Sultan of Oman





CONTENT

Introduction	09
Foreword	10
Glossary	12
Executive Summary	14
Economic Developments in 2020	17
• Global Developments	18
• National Developments	21
Tenth Five-Year Plan: Financial Framework	42
Government Measures & Initiatives in 2021	46
State's General Budget for FY 2021	54
Conclusion	66



Introduction

In light of the Royal Decree no. (2021/2) ratifying the State's General Budget for the Fiscal Year (FY) 2021, the guide to State's General Budget for FY 2021 presents the preliminary results of FY 2020, and key financial indicators for FY 2021.

2021 Budget has been prepared amid several challenges arising from the consequences of the COVID19- pandemic and persistent low oil prices. In addition to oil production cut in compliance with OPEC-plus deal and other geopolitical challenges. The

implications of these challenges reflected by the decline in public revenue, higher deficit, and payment imbalances.

Therefore, the Government has taken a set of measures to mitigate economic impacts, notably those caused by COVID19- pandemic, and to stimulate the economic activity. In addition to measures taken to bring spending under control and maintain liquidity.

Foreword



The State's General Budget for Fiscal Year 2021 is the initial budget for the Tenth Five-Year Plan (2021-2025), and it paves the way for implementing Oman Vision 2040 under the leadership of His Majesty the Sultan Haitham bin Tarik. The budget has been prepared in consistency with the fiscal framework of Tenth Five-Year Plan and in a way that leads to achieve national priorities and fiscal sustainability. A sustainability that is based on higher non-oil revenues and an optimal level of public spending. The 2021 Budget also seeks to enable the national economy in achieving economic growth targets, a diversified economy, and increasing domestic and foreign investments. In addition to enable the private sector to play its main role in advancing economic growth

and create job opportunities.

In order to achieve fiscal balance, the Government has changed its strategies in dealing with the current situations. Therefore, the Government has undertaken a set of measures, including issuing various financial circulars and instructions to Government units with aim to reduce public spending and enhance its efficiency. In addition to enhance non-oil revenues, implementation of governance, control employment process, and strengthen internal controls.

Moreover, the Government launched Medium Term Fiscal Plan (2020-2024), which has been endorsed by His Majesty the Sultan, in order to set up potential

fiscal scenarios that will allow bringing financial position under control. The financial position is facing challenges posed by lower oil price, higher deficit and public debt. The plan would suggest action plans to manage potential risks and overcome the challenges. In addition to address the twin deficit issue. In order to realize this, the plan has been developed based on five pillars. These pillars are reflected in supporting economic growth, revitalizing and diversifying sources of government revenues. In addition to improving public spending efficiency, enhancing social security net, and enhancing the efficiency of public financial management.

The aforesaid pillars also include a number of initiatives announced by the Government in 2020, and more initiatives which will be made public over the coming period. It is anticipated that the plan will help to gradually narrow budget deficit to 1.7% of GDP in 2024.

2021 Budget outlines a ceiling for all Government units that the budget of each unit should not exceed the revised budget of FY 2020. The budget continues to rationalize public spending and enhance its efficiency. It also seeks to contain deficit and maintain its downward trend. The 2021 Budget paves the way for Program Based Budget (PBB), and explores innovative means for funding some Government projects and services.

We truly value the efforts exerted towards the State's General Budget for FY 2021. We also affirm the significance of combined efforts of all concerned entities, along with the participation of the society and private sector, to uplift our national economy towards the achievement of Oman Vision 2040.

Sultan Salim Said Al Habsi
Minister of Finance

Glossary

Oman Vision 2040: acts as a national reference for social and economic planning of Oman during the period (2021-2040).

Tenth Five-Year Plan: is a national medium term action plan, which is an integrated and comprehensive plan, developed by the Government in order to be implemented over the next five years within the framework of Oman Vision 2040. The Government seeks, through the plan, to engage the private sector and society towards the achievement of comprehensive and sustainable economic and social development.

Fiscal Balance Plan: is a Medium-Term Fiscal Plan (2021 - 2024) that includes a set of measures and initiatives aiming at achieving fiscal sustainability while maintaining attractive investment climate.

Spending: refers to all expenses incurred by the Government units for the public interests and service delivery.

Capital Expenditure: is an amount spent to acquire or significantly improve the capacity or capabilities of a long-term asset.

Current Expenditure: is consumed within the current year and would have to be renewed if needed in the following year.

Development Expenditure: refers to the expenditure of the Government to establish approved development projects.

Revenue: is the money received by government from various sources in order to cover public spending and achieve economic and social balance.

Public Debt: represents the total outstanding debt (bonds, Sukuk, direct loans ...etc.) borrowed by the government.

Bonds: a fixed income instrument that represents a loan made by an investor to a borrower.

Sukuk: sharia-compliant bonds that provide an investor with a temporary ownership in an underlying asset, wherein the investor gets profits within a specific time.

Budget Deficit: is the difference between revenue and spending, occurs when spending exceeds revenue.

Budget Surplus: is the difference between revenue and spending, occurs when revenue exceeds spending

Final Account: is a financial statement on the actual revenue and spending for the previous fiscal year.

The Balance of Trade (BOT): is the difference between the monetary value of a country's imports and exports over a given time period.

Foreign Direct Investment (FDI): according to the IMF and OECD definitions, direct investment reflects the aim of obtaining a lasting interest by a resident entity of one economy (direct investor) in an enterprise that is resident in another economy. A direct investment enterprise is an incorporated or unincorporated enterprise in which a foreign investor owns 10% or more of the ordinary shares or voting power of an incorporated enterprise or the equivalent of an unincorporated enterprise.

Inflation: a statistical indicator that measures changes in the prices of goods and services that falls within the household consumer spending basket in the "comparison period" vis-à-vis the "base period".

Value Added Tax (VAT): is an indirect tax on most goods and is levied on the value-added of business operations, which is the difference between the final price of a commodity and the cost of materials and services.

Excise Tax: is imposed on specific goods at different rates which are typically harmful to human health or the environment.

Credit Rating: is an opinion of a particular credit agency regarding the ability and willingness of an entity (government, business, or individual) to fulfill its financial obligations in completeness and within the established due dates.

Executive Summary

The 2021 Budget has been prepared in a way that goes in line with the objectives of Oman Vision 2040 and Tenth Five-Year Plan (2021-2025). In addition to, the measures, endorsed by His Majesty the Sultan, aiming at enhancing non-oil revenue and reducing spending on government units, leading to fiscal sustainability. The 2021 Budget also seeks to achieve a set of objectives, notably fiscal sustainability so as to continue achieving economic growth targets, a diversified economy, and targeted rates of domestic investment and foreign direct investment (FDI). Furthermore, the 2021 Budget endeavors to enable the private sector to play a greater role in accelerating economic growth, and to create more job opportunities.

The Government has undertaken a set of fiscal and economic measures with the aim to alleviate the consequences of the COVID-19 pandemic and a sharp decline in oil prices, so as to minimize the burden on public spending. Therefore, the Government has cut 10% from the approved allocations of Government units and development budget. In addition to reduce capital expenditures

(CapEx) and operating expenditures (OPEX) of State-owned Enterprises (SOEs) by no less than 10%. Moreover, widen the tax base such as excise tax.

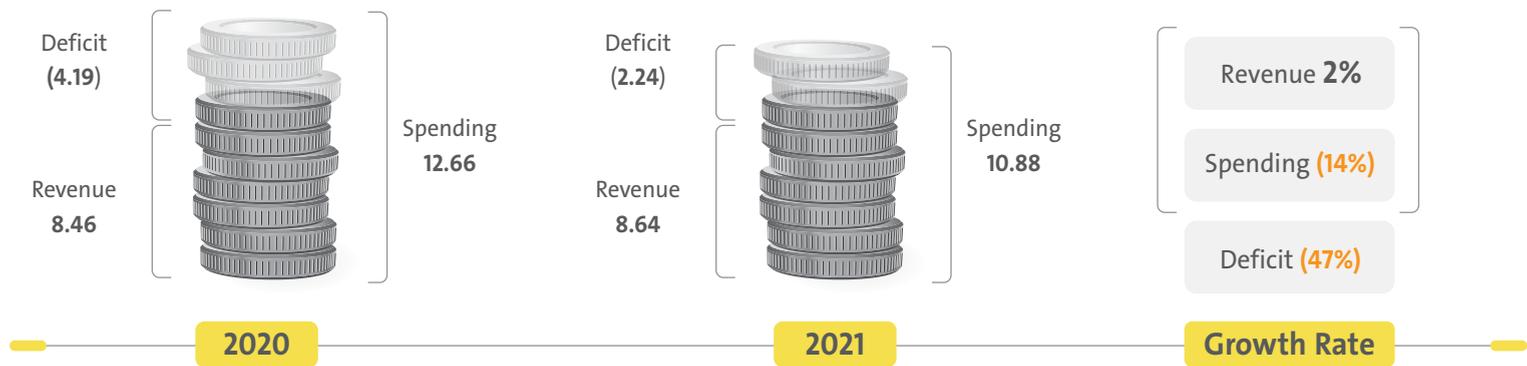
As a result of fiscal and economic measures implemented in 2020 and economic diversification efforts including subsidy reforms to be implemented in 2021, public spending is estimated to be as low as RO 10.88 billion in 2021, decreased by 14% as compared with the expected spending of RO 12.66 billion in 2020. Aggregate public revenue is also projected to increase to RO 8.6 billion in 2021, based on assumed oil price of US\$ 45 per barrel, up by 2% as compared with the preliminary results of 2020.

2021 Budget deficit is estimated at about RO 2.2 billion i.e. 8% of gross domestic production (GDP). A 73-percent of this deficit will be financed through external and domestic borrowing i.e. RO 1.6 billion, while the rest of the deficit, estimated to nearly RO 600 million, will be covered by drawing on reserves.

Public debt is projected to reach RO 21.7 billion by the end of 2021, and external borrowing represents 76% of overall public debt.

The Government will continue building the infrastructure required to spur economic growth, and giving priority to the highly needed projects that serve economic and social objectives. In addition to expanding the participation of private sector by enhancing its role in implementing and managing some projects and services.

Preliminary results of 2020 vs Estimates of 2021 Budget



Investment spending in 2021





Economic Developments in 2020

Global Developments

According to the International Monetary Fund's (IMF) World Economic Outlook (October, 2020), the global economy is projected to shrink by 4.4 percent in 2020 due to a decline in GDP of advanced economies by 5.8% and the US economy by 4.3%. The economic growth in emerging markets and developing economies (EMDEs) dropped by 3.3%, while Middle East and North Africa (MENA) region has seen a contraction of 5%. However, the IMF predicts a rebound to global growth of 5.2% in 2021.

1- Global Economic Growth Prospects

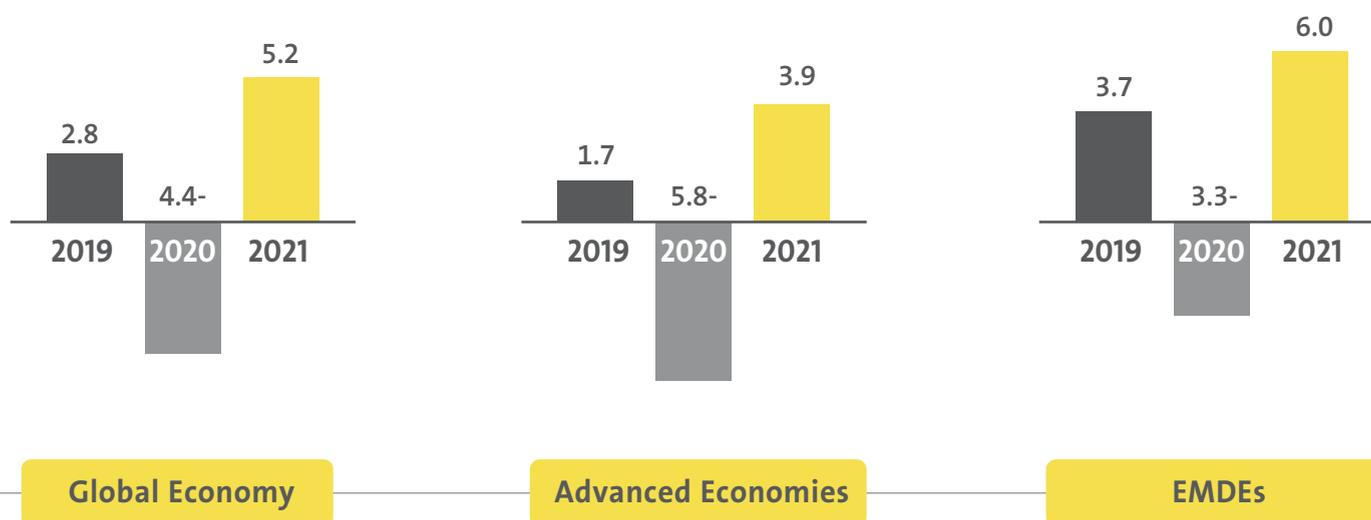
Institution	2020	2021
IMF	4.4-	5.2
World Bank	5.2-	4.2
UN	3.2-	4.2
OECD	4.2-	4.2

2- MENA Region Growth Prospects

Institution	2020	2021
IMF	5.0-	3.2
World Bank	4.2-	2.3

In addition, the IMF report also indicated that the global economy has lost US\$ 3.7 trillion as a result of COVID-19, wherein global GDP dropped from US\$ 87.6 trillion in 2019 to US\$ 83.8 trillion in 2020. Current expectations suggest that the global GDP is expected to rise to US\$ 91 trillion in 2021, thus compensating the aforesaid loss.

The below chart illustrates IMF projections (World Economic Outlook, October 2020) on global economy, advanced economies, and EMDEs:



The IMF projects an inflation rate of 0.8% in advanced economies during 2020, compared to 1.4% in 2019, and 1.6% in 2021. The inflation rate in EMDEs is expected to plunge to 5% by year-end of 2020, and will trend downward up to 4.7% in 2021.

Oil prices have experienced a decline in 2020 due to lower oil demand as a result of lockdowns and health measures being taken worldwide to control the spread of COVID-19 pandemic. The world's economic activity is anticipated to recover gradually in 2021, leading to improved global oil demand and better oil prices.

3- Oil Price Outlook (Brent Crude Oil)

Institution	Forecast Date	Projected Price	
		2020	2021
IMF	October 2020	41.7	46.7
Fitch	September 2020	41.0	45.0
World Bank	October 2020	41	44
Energy Information Administration	December 2020	41.43	48.53
Energy Aspects	October 2020	44.0	58.0
Reuters Oil Poll	October 2020	42.45	49.76
Futures Markets	November 2020	40.1	49.6

National Developments

The COVID-19 pandemic, in a low-oil price environment, has triggered tremendous challenges for national economy, which have prompted the Government to undertake a set of precautionary measures to contain the spread of the coronavirus, such as:



Border closures.



Partial lockdown and closure of all public places and some of the commercial stores.



Reduction in workplace attendance.

Such measures have reflected negatively on the economic activity and public finance. By the end of the second quarter of 2020, the country's GDP experienced a decline by 13.4% at current prices, recording RO 12.3 billion compared to RO 14.1 billion over the same period in 2019, according to National Centre for Statistics and Information (NCSI). This decline is driven by a reduction in the value added of oil activities by 20%, registering RO 4.1 billion by the end of second quarter of 2020. In addition to a decline in the value added of non-oil activities by 9.9%, recording RO 8.7 billion. Moreover, the Ministry of Economy estimates the GDP at current prices to stand at RO 24.7 billion by the end of 2020.

Below table shows the contribution of diversified economic sectors to (Oil/Non-oil) GDP at constant prices (According to the Ministry of Economy data):

Statement	2019	2020	2021
GDP growth rate at constant prices (%)	0.8-	4.3-	2.3
Oil GDP growth rate (%)	0.2	1.7-	1.1
Non-oil GDP growth rate (%)	0.4	5.6-	2.9
Average Oil Price (\$/Barrel)	65	47.6	45

In last October, the Institute of International Finance (IIF) affirmed that Oman is making progress on fiscal adjustments and structural reforms that will reduce the impact of the COVID-19 pandemic on the economy. IIF also pointed out that Oman has shown a strong financial response to maintain the resilience of the economy during the current crisis.

The World Bank pointed out in Global Economic Prospects (June, 2020) that Oman's GDP is expected to shrink by 4% in 2020, but will grow by 2% in 2021, the highest percentage over the last five years. During the past three years, Oman has recorded growth rates of 0.3%, 1.8% and 0.5% in 2017, 2018 and 2019, respectively.

On the other hand, according to IMF's World Economic Outlook (October, 2020), Oman's real GDP growth continues to decline by 10% in 2020, and it is projected to decline by 0.5% in 2021. However, the Ministry of Economy predicts the GDP to rise by 2.3% in 2021. The variation in the projections is attributed to different assumptions about the oil GDP.

Oman continues to pursue further efforts to improve investment climate and attract more domestic and foreign investments, especially after the recent development of relevant legislative infrastructures. According to the NCSI data, the FDI totaled RO 15.1 billion by the end of the first quarter of 2020.

The inflation rate is anticipated to decline by 0.8% in 2020, while it is expected to rise by 3.8% in 2021, according to the Ministry of Economy data.

As for the banking sector, the financial statements issued by the Central Bank of Oman (CBO) showed a rise in foreign exchange reserves by 8.1%, reaching RO 6.8 billion by the end of October 2020 as compared to RO 6.3 billion during the same period in 2019. The rates of loans and deposits increased by 2.2% reaching RO 26.4 billion, and 3.4% reaching RO 24 billion, respectively, by the end of October 2020 as compared with the same period of 2019.

Oman trade balance showed a surplus of RO 2.7 billion by the end of third quarter of 2020, down by 38% as compared with the same period of 2019. This decline is mainly attributed to a sharp decrease in the value of commodity exports, which totaled RO 8.7 billion, dropped by 21.5% as compared with the same period of 2019. The value of commodity imports decreased by 11% by the end of third quarter of 2020, reaching RO 6.0 billion as against RO 6.8 billion recorded during the same period in 2019.

By the end of November of 2020, Muscat Securities Market (MSM) index closed at 3643.5 points, while the market value amounted to RO 20.42 billion.

Oman's credit ratings

Moody's, Standard & Poor's and Fitch have downgraded Oman's credit rating from a safe investment category in 2014 to a high-risk level of investment category in October 2020. The downgrade comes after a sharp fall in oil revenue, which has led to persistent deficit over the past six years and high level of public debt. In addition to the expected continued effects of the COVID-19 pandemic on the Oman's economy.

Credit Rating Grade (2014- October 2020):

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

However, the Government is putting efforts to improve Oman's credit rating by reducing public debt and containing the deficit within sustainable levels.

Government Measures and Initiatives in 2020

The Government has undertaken a number of measures and initiatives to stimulate the economy, sustain public finance in alignment with Oman Vision 2040 and Tenth Five-Year Plan.

Moreover, the Ministry of Economic issued a Ministerial decision No. (148/2020) on the formation of a working group that aim to suggest policies and initiatives required to stimulate national economy in light of the consequences caused by the COVID-19 pandemic.

1- Restructuring the State's Administrative Apparatus

In line with the standards outlined by Oman Vision 2040 to improve Government performance and efficiency, service delivery, and to eliminate duplication of functions, the State's administrative apparatus has been restructured. This will help to streamline and integrate government procedures, which would lead to enhanced performance and efficiency, and accelerate development process.

The restructure of the State's administrative apparatus represents a paradigm shift towards a change for the future of Oman. It came in tandem with the standards outlined by Oman Vision 2040 as several ministries and government units have been merged.

Ten ministries have been merged with each other, whereas six ministries have been renamed. Furthermore, five councils have been cancelled and transferred its tasks to the Council of Ministers. Also, one council has been established, namely Governorates Affairs Council.

2- Medium-Term Fiscal Plan (2020-2024)

The Medium-Term Fiscal Plan (2020-2024), which has been endorsed by His Majesty the Sultan Haitham Bin Tarik, aims at achieving fiscal sustainability and striking a balance between revenue and expenditures by the end of 2024. The plan also seeks to create favorable conditions for Oman Vision 2040. Moreover, the Government endeavors, through the plan, to implement a set of measures and initiatives with the aim to bring the deficit under control and to avoid the deterioration of the credit rating. In addition to, achieve sustainable levels and create favorable investment climate.

The plan was developed based on the priorities of Oman Vision 2040, which is closely linked to Oman's fiscal strategy. These include:



Economic diversification and fiscal sustainability



Private sector, investment and international cooperation



Governance of the state's administrative bodies, resources, and projects



Social protection and well-being

The Medium-Term Fiscal Plan is based on five pillars, namely:



These pillars include a number of initiatives that will help to achieve fiscal sustainability over the medium term. The initiatives will be implemented during the period from 2020 to 2024 with the aim to gradually reduce budget deficit to less than 1.7% of GDP in 2024.

Some of the aforesaid initiatives have already been under implementation stage. The remaining initiatives will be phased based on priority and readiness, taking into account any economic or social effects that may arise from such initiatives. The plan seeks to develop a comprehensive social safety net geared towards vulnerable people.

The financial impact of the measures and initiatives undertaken during 2020 generated around a total of RO 1.4 billion. Such measures and initiatives contributed to public revenue by RO 486 million, generated from the privatization of Oman Electricity Transmission Company (OETC) by RO 478 million and from expanding the excise tax that recorded an amount of RO 8 million. The same measures and initiatives helped to reduce public spending by RO 870 million, by reducing the approved allocations of Government units by 10%. In addition, development expenditures reduced by RO 170 million, and SOEs subsidy was cut by around RO 135 million.

- **New Retirement Policy**

In line with the Government's efforts to achieve efficiency and financial sustainability for pension funds, and to overcome challenges faced by these funds, the Government has decided to establish two pension funds. One fund for civil units and private sector while the other one for defense and security units. The minimum years of service have been raised to 30 years. Moreover, a new unified approach to retirement will be placed for those employed in Government units and private sector.

- **Early Retirement**

In accordance with the initiatives of Medium-Term Fiscal Plan, the Government required 70% of employees who exceeded 30 years of service to retire in 2020. This is in addition to those who worked as advisors, experts and competent directors in all government units and SOEs.

- **Redirecting subsidy of electricity and water sectors**

Subsidy reform in electricity and water sectors aims at sustaining and enhancing the efficiency of these two sectors. The subsidy will then be redirected to the vulnerable households. The increase in tariff will be phased, while government subsidy will be kept for those registered in the National Subsidy System (NSS) as per the rules. Thus, new tariff will be applied gradually starting from 2021.

3- Energy Development Oman

Energy Development Oman (EDO) company has been established in pursuant to the Royal Decree No. (128/2020), whereby Government's share in Block 6 has been transferred to EDO. Such share would be managed by EDO in accordance with the best international practices in energy assets management. EDO will

also be entrusted with the collection of oil and gas revenue, payment of CAPEX and OPEX of annual production, and development of oil and gas sector. In addition to injection of more investments into this sector, in order to enhance financial and economic returns.

After the establishment of EDO, expenses of PDO have been removed from the State's General Budget and this would result in the following:

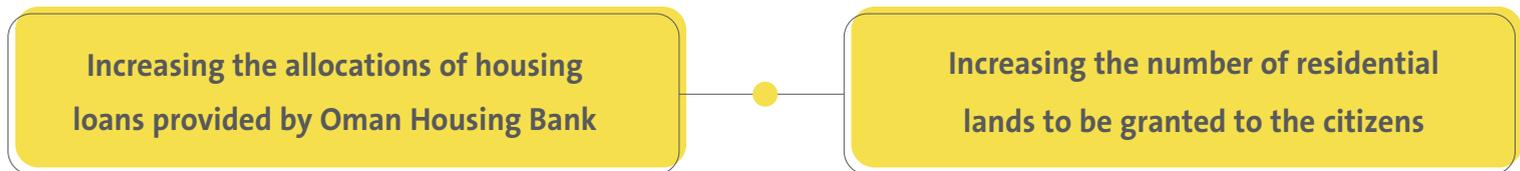
- 1** Self-dependence for PDO in terms of financing its development projects
- 2** Reducing deficit
- 3** Improving Oman's financial performance indicator and sovereign credit rating
- 4** Raising economic activities and value added of oil activities
- 5** Reflecting the real value of oil and gas sector

4- Oman Investment Authority

Pursuant to the Royal Decree No. (61/2020) on the establishment of Oman Investment Authority (OIA), the ownership of SOEs and investments has been transferred from Ministry of Finance (MOF) to OIA, with the exception of Petroleum Development Oman (PDO). Therefore, OIA will be responsible to transfer the dividends to the public treasury on annual basis.

deficit. On the other hand, OIA launched “Rawabet”, a special program, to link SOEs’ policies and systems with corporate governance in line with Oman Vision 2040, which focuses on economic diversification, enhancing non-oil revenues, and attract more FDI.

5- Housing sector



6- Private Sector



Removing interests of loans, for one year, offered by Oman Development Bank and Small and Medium Enterprises Development Authority.



Removing license fees of SMEs owned by Omani citizens (holders of Riyada Card) within the first three years of setting up their businesses (specific activities).

7- Real-estate Sector

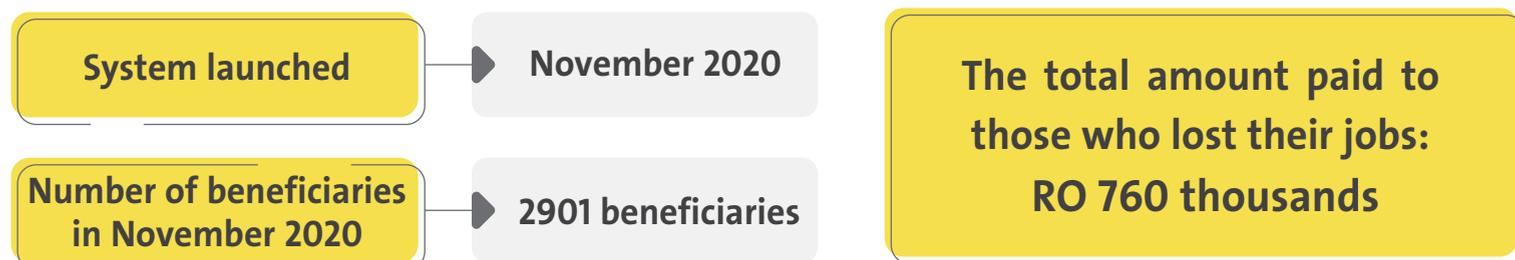


Reducing rental contract fee from 5% to 3%.

8- Job Security System

The Job Security System (JSS) is a national initiative stems from social solidarity, with the aim to provide social protection for the Omanis who lost their jobs against their will. The JSS will provide aid to those people until they get other job opportunities, and it will assist them in getting new jobs. Moreover, the JSS will also provide temporary aid to those seeking jobs for the first time.

His Majesty the Sultan has generously financed the Job Security Fund, which has been established under the JSS, with an amount of RO 10 million. The fund will be financed by the following:



9- Excise Tax

In the framework of the Common Excise Tax Agreement of the Gulf Cooperation Council (GCC) and in light of its application by some GCC countries, the Government has introduced the excise tax in mid-2019. The excise tax is imposed on specific consumer products that are harmful to human health, society or the environment. The excise tax is classified as an indirect tax that are imposed once at one of the stages of the supply chain (import or production), and it is borne by the final consumer. This tax aims at promoting a healthy life and addressing negative practices by modifying the consumption pattern of individuals. The tax is imposed on tobacco and its derivatives, energy drinks, alcoholic beverages and pork at 100%, and carbonated drinks at 50%. In 2020, the excise tax was applied to alcoholic beverages at a rate of 100%. The tax base of the excise tax was expanded to include sweetened drinks at a rate of 50%, as of the beginning of October 2020.

10- Value-Added Tax

The Value Added Tax (VAT) is an indirect tax on consumption so that the final consumers will ultimately bear the cost of VAT. The tax will be imposed on goods and services in Oman starting from April 2021, with exception of the education and health sectors and some basic commodities. According to the Royal Decree No. (121/2020), a 6 months grace period granted for the taxpayer to register, and prepare their internal system to implement the VAT. The value-added tax rate of 5 % to be applied in Oman is among the lowest rates at the international level. Therefore, it is expected that the impact of VAT on the cost of living in Oman will be minimal. The VAT will have a positive impact on the economic and social development and the international competitiveness of Oman. The financial resources obtained from this tax will contribute to building a sustainable economy for future generations, and it will also contribute to improving public services and continuing the development of infrastructure in future.

11- Annual Allowance

The annual allowance for 2021 has been approved for all employees in the Government units and SOEs, in accordance with the following:

- 100%** For those whose total salary less than RO 900
- 50%** For those whose total salary equal to or more than RO 900

12- Allowances and Benefits



Equalizing non-basic allowances and benefits in the State's Administrative Apparatus, with exceptions to jobs with specific functions.

2020 Budget Performance:

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

The total revenue is projected to reach RO 8.5 billion as compared with the budgeted figure of RO 10.7 billion. Public spending has declined to nearly RO 12.7 billion, down by 4% as compared with 2020 Budget. However, the primary deficit rose by RO 1.7 billion i.e. 68%, reaching to RO 4.2 billion, as against the budget

The preliminary results of 2020 Budget: (RO Million)

Statement	Approved Budget	Preliminary Results	The change between approved budget & preliminary results
Average Oil Price (\$)	58	48	(%17)
Average of Daily Oil production (000 bbl)	970	974	%0.4
Public Revenue			
Oil Revenue	5500	4364	(%21)
Gas Revenue	2200	1700	(%23)
Non-oil Revenue	3000	2400	(%20)
Tax & Fees Revenue	2450	1800	(%27)
Capital Revenue & Repayments	550	600	%9
Total Public Revenue	10700	8464	(%21)
Expenditure			
Civil Ministries Expenditure	4590	4350	(%5)
Defense & Security Expenditure	3450	3125	(%9)
Oil & Gas production Expenditure	2230	2400	%8
Development Expenditure	1300	1130	(%13)
Electricity Subsidy	500	610	(%22)
Debt Service (Interests)	860	860	-
Other Expenditure	270	185	(%31)
Total Expenditure	13200	12660	(%4)
Surplus / Deficit	(2500)	(4196)	%68

A) Public Revenue

2020 Budget faced dual challenges of lower oil prices than the assumed oil price, and economic and financial implications triggered by COVID-19 pandemic. The preliminary results show a decline in aggregate revenue to lower levels as compared with the budgeted figure, as follow:

A decline in oil revenue

Oil revenue declined by RO 1.1 billion due to average oil price being lower than the assumed price in the budget by US\$ 10 per barrel.

A decline in gas revenue

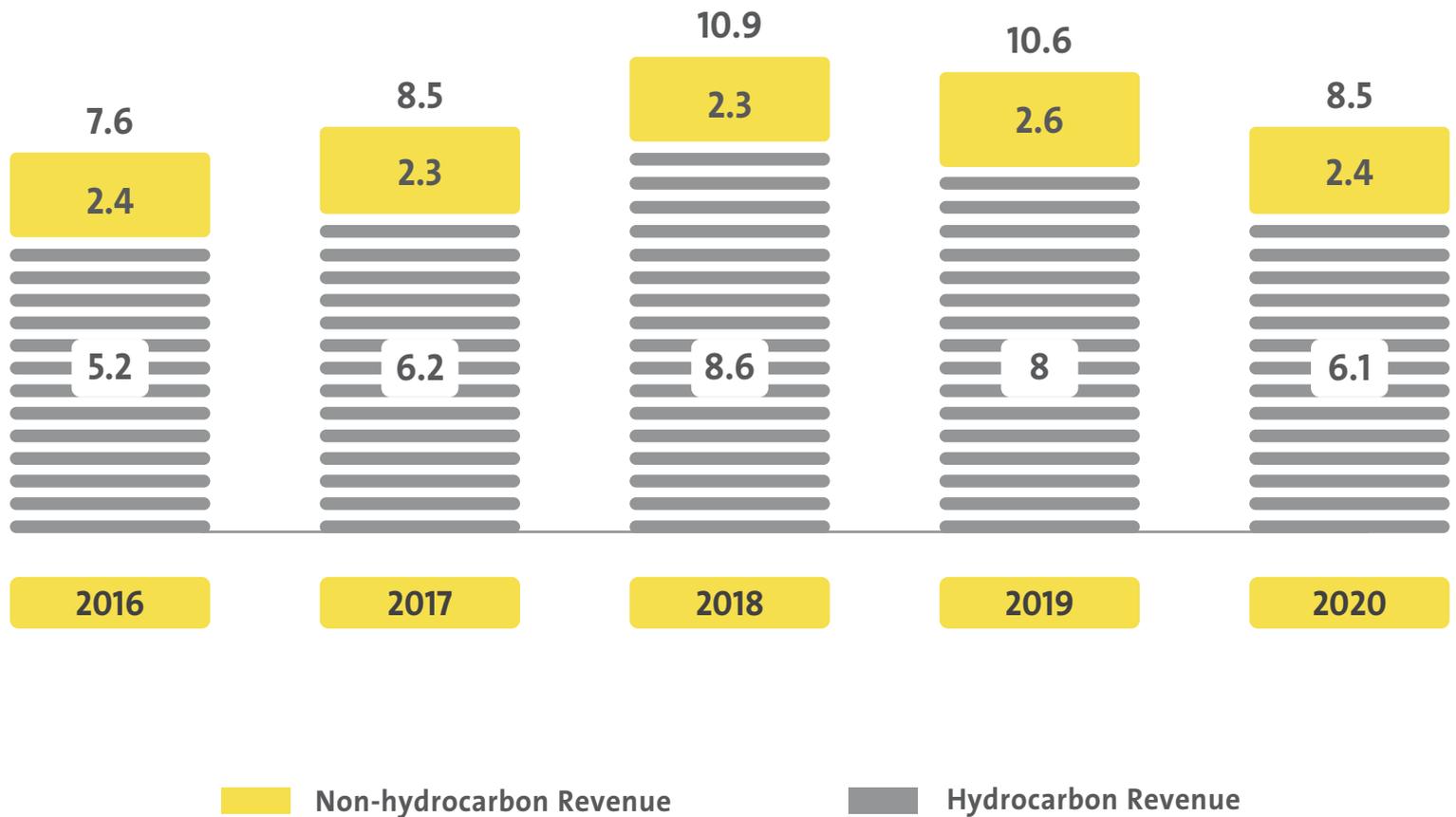
Gas revenue dropped by RO 500 million as a result of a decline in natural gas price as well as lower sales.

A decline in non-oil revenue

According to the preliminary results, non-oil revenue declined by RO 600 million due to the impacts of the COVID-19 pandemic. To mitigate the effects on economic activity, the Government waived several fees and taxes (**such as tourism tax, municipality fees and tax, industrial areas rents, commercial register renewal fee, shipping and handling fees and others**), which helped fuel the decline in non-oil revenue.

Therefore, total revenue reached nearly RO 8.5 billion by the end of 2020, down by 21% as compared with the budgeted figure of RO 10.7 billion.

Public Revenue Trends (2016 – 2020): (RO Billion)



B) Public Spending

As per the preliminary results, public spending declined to about RO 12.7 billion as compared with budgeted figure of RO 13.2 billion, down by RO 540 million. Such reduction is mainly attributed to several fiscal measures taken during 2020, which include the followings:

1

Cut 10% from the approved budgets of Government units

2

Reducing operating and administrative expenses of SOEs by 10%

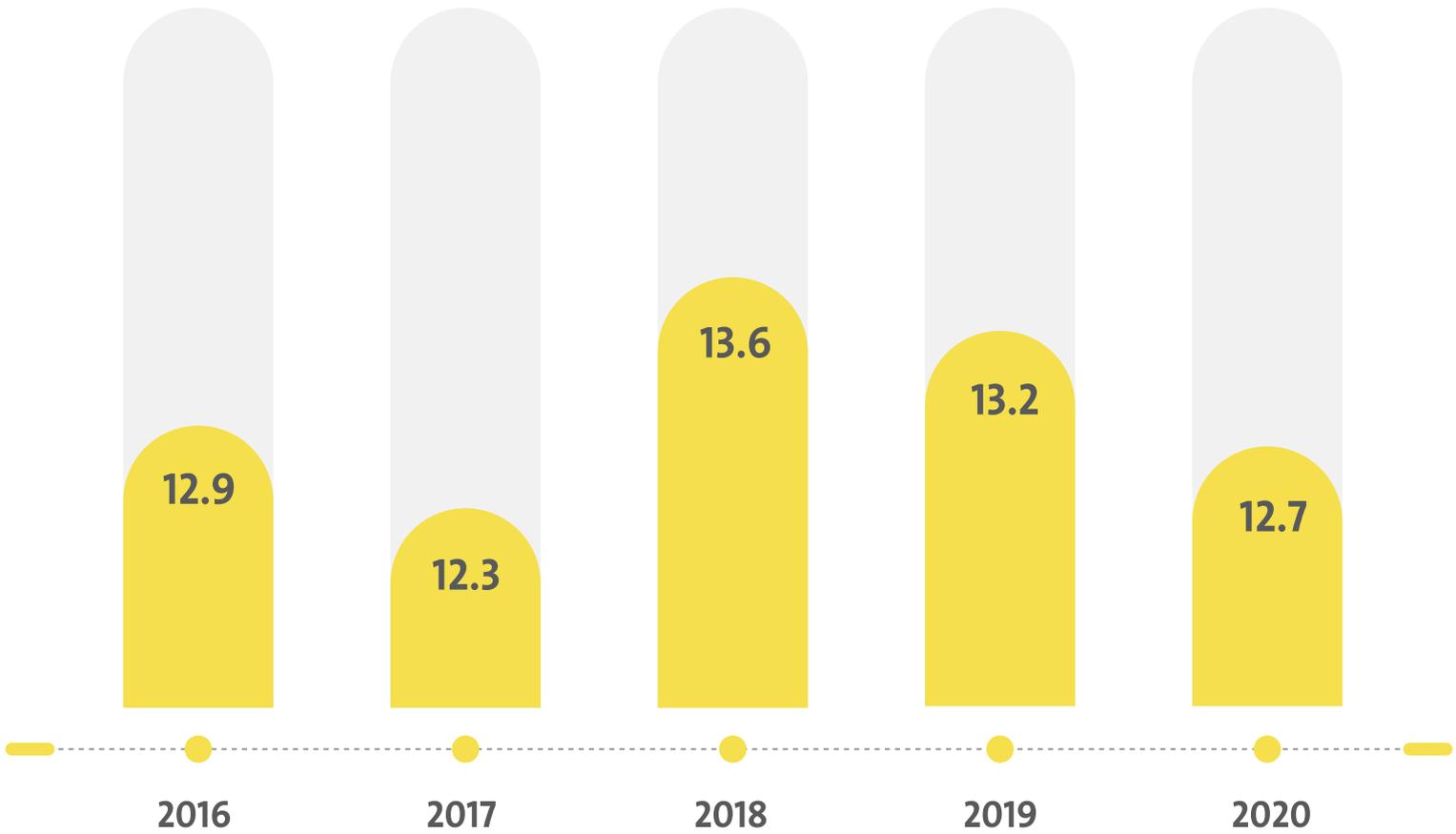
3

Reducing approved allocations of development projects by 10%

4

Suspending most projects carried out by SOEs

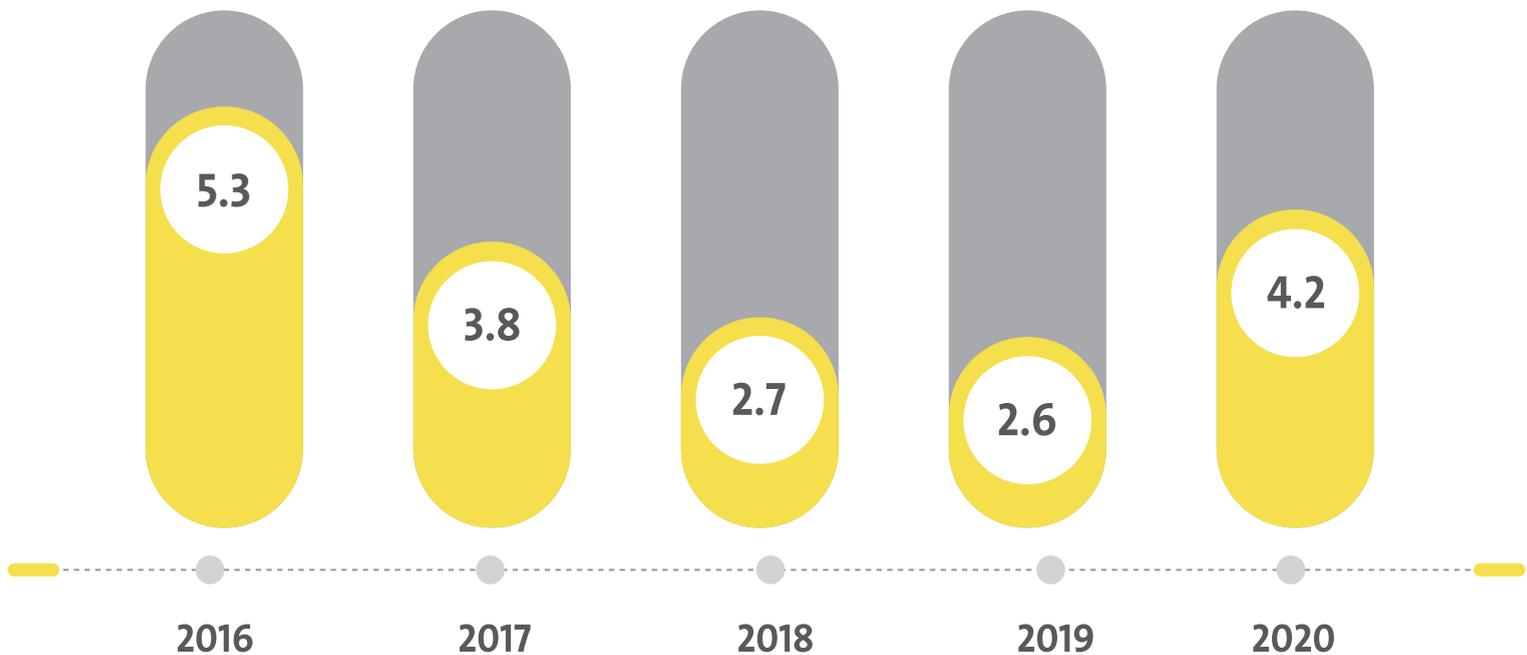
Public Spending Trends (2016 -2020): (RO Billion)



C) Deficit

The 2020 Budget deficit is projected to reach nearly RO 4.2 billion, up by RO 1.7 billion than the estimated deficit of RO 2.5 billion in 2020 Budget. This is attributed to the implications of COVID-19 and sharp drop in oil prices.

Trends in Deficit (2016 - 2020): (RO Billion)





Tenth Five-Year Plan: Financial Framework

Tenth Five-Year Plan: Financial Framework

The Tenth Five-Year Plan has a significance importance as it is the first executive financial program of Oman Vision 2040. It is also considered as the cornerstone and springboard to achieve fiscal sustainability and economic growth. Therefore, the plan has prioritized spending in accordance with the changes in the local and global economic environment, in order to achieve higher economic growth.

Tenth Five-Year Plan: Financial Framework (2021-2025): (RO Million)

Statement	2021	2022	2023	2024	2025
Average Daily Oil Production (000 b/d)	960	1107	1133	1140	1140
Average Price (\$/bbl.)	45	45	50	50	50
Total Revenue	8640	9490	10815	11315	11500
Total Public Expenditure	10880	11150	11420	11480	11435
Surplus/Deficit	(2240)	(1660)	(605)	(165)	65

In accordance with the financial framework, the fiscal measures would achieve positive results by the end of the Tenth Five-Year Plan, wherein a surplus of RO 65 million is projected to be achieved.





Government Measures and Initiatives in 2021

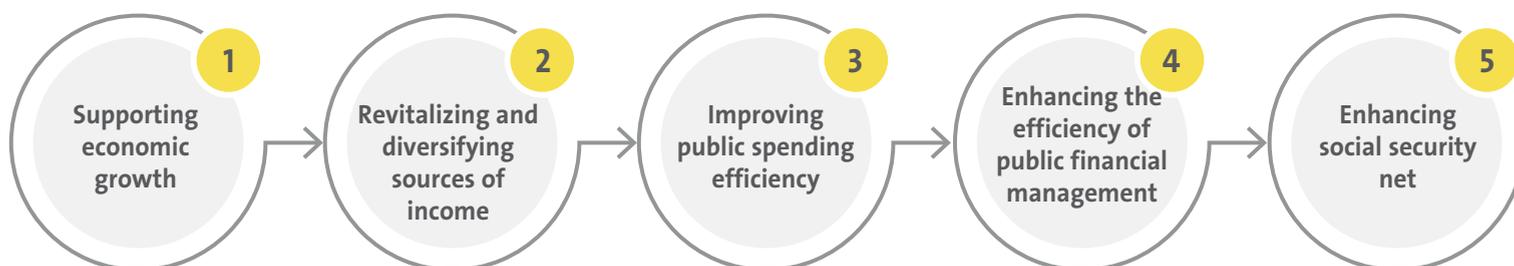
Government Measures and Initiatives in 2021

In the current unfavorable economic and fiscal conditions, the Government is keen on enhancing the efficiency of public finance management through a set of initiatives. Such initiatives aim at improving and sustaining fiscal position, and advancing economic growth in consistency with Government objectives and priorities pertaining to economic and fiscal policies. These initiatives will help to strike fiscal balance over the long term.

- **Fiscal sustainability initiatives**

- **Medium Term Fiscal Plan (2020-2024)**

This plan will implement a number of initiatives, seeking to achieve sustainable levels of financial resources. Such initiatives fall under the following:

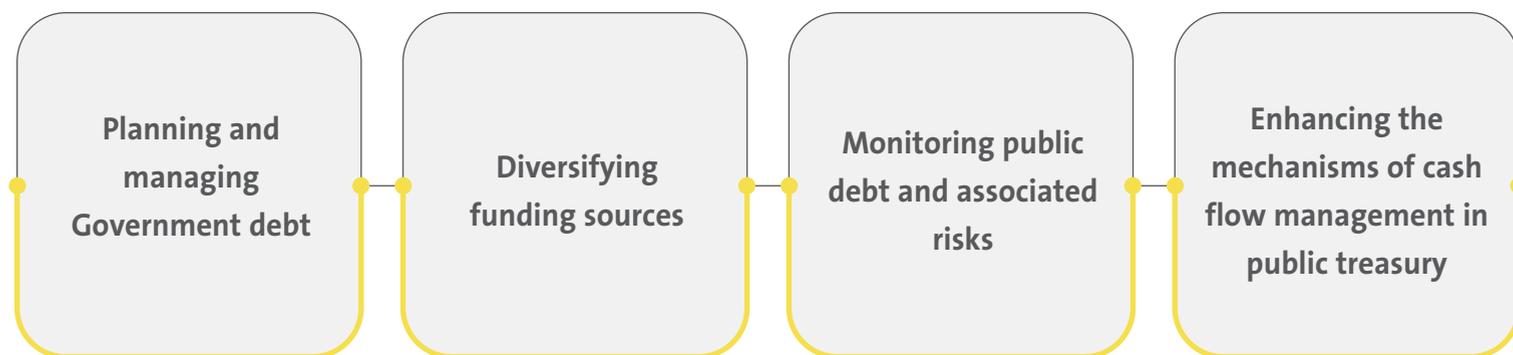


The financial impact of measures and initiatives taken under the Medium Term Fiscal Plan has been estimated at RO 3.5 billion in 2021, with an increase in revenue by RO 565 million resulting from VAT which is expected to generate RO 300 million, Government investments to yield up to RO 195 million, excise tax RO 20 million, and taxes RO 50 million.

On the other hand, the adopted measures will help to reduce public spending by RO 2.9 billion, through 5% cut in all Government units which will generate savings of around RO 1.1 billion, a reduction in development spending of civil units by RO 300 million, and subsidy reforms in the electricity and water sector that will save around RO 215 million. In addition to a reduction in investment expenditures of oil and gas sector by RO 1.3 billion.

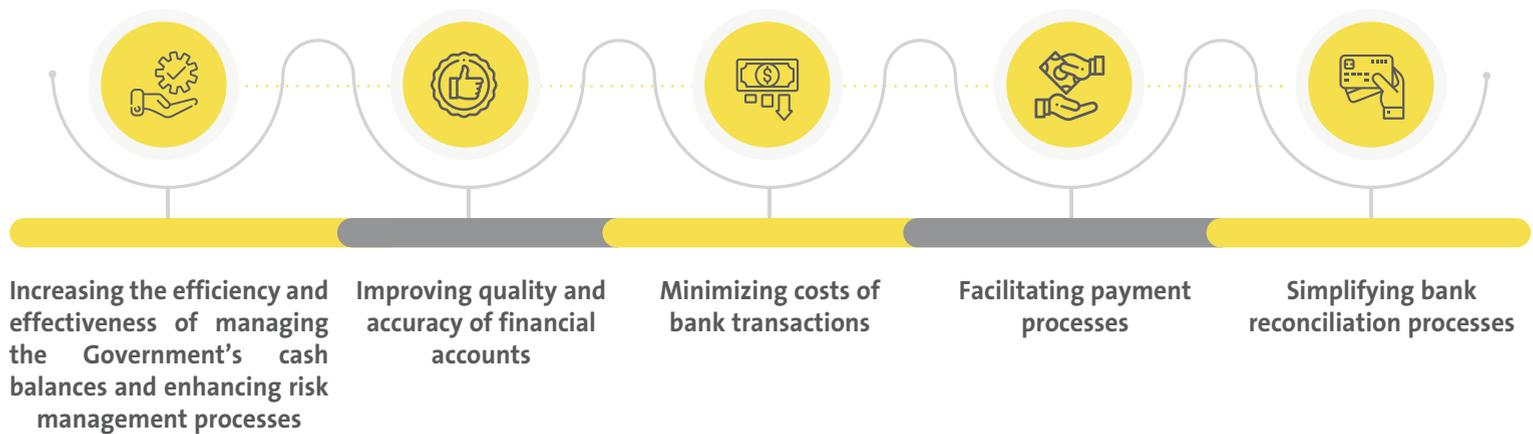
■ Public Debt Law

The Public Debt Law was enacted to manage the funds borrowed by the Government from individuals or institutions to finance public spending. This Law aims at:



■ Single Treasury Account:

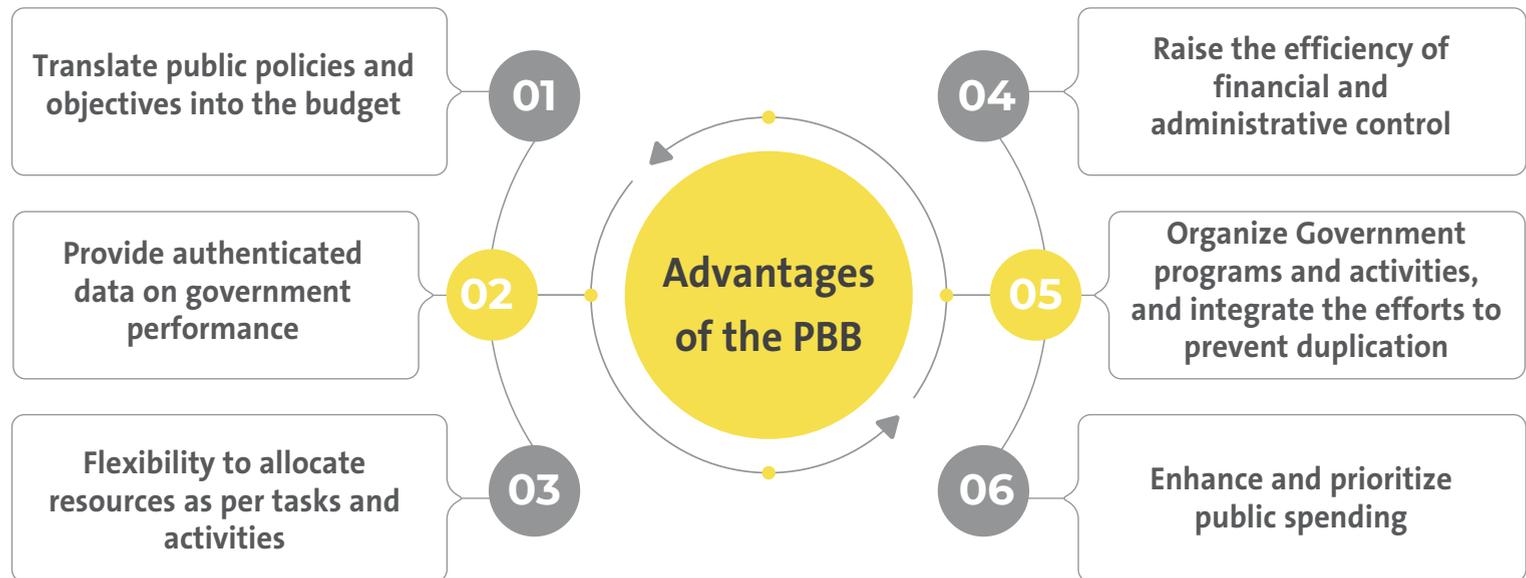
A bank account which includes the government liquidity fund in order to optimize the use of Government cash resources. The account aims at:



■ Program Based Budget (PBB)

An advanced approach of fiscal planning that identify public spending priorities and link spending to objectives and activities serving the society.

Advantages of the PBB:



■ Government Financial Management Information Systems (GFMIS)

GFMIS is a financial system that presents financial data in a systematic manner and helps improve public spending management efficiency.

Objectives:

-  Provide accurate financial data and information to enhance financial planning and control
-  Develop and integrate financial systems and processes of all Government units
-  Adopt the best international practices in public finance management
-  Facilitate data exchange and reduce paperwork

■ Labour sector

Issuance of Labour Law and Civil Service during 2021

Provide training linked to jobs, and training for entrepreneurs

Provide training courses aiming at developing youths' skills, which required by the labour market

Issue a number of rules that regulate the labour market

■ Restructuring SOEs and revising the payroll





**State's General
Budget for FY 2021**

State's General Budget for FY 2021

2021 Budget has been prepared in alignment with the priorities of Oman Vision 2040, and in tandem with the Tenth Five-Year Plan (2021-2025). The 2021 Budget seeks to achieve fiscal sustainability, a stable economic growth, and to reduce public debt to GDP. In addition to further strengthen the role of private sector in the development process.

2021 Budget builds on the following pillars:



Setting a ceiling for all Government units that the budget of each unit should not exceed the 2020 revised budget.



To continue to rationalize public spending while enhancing its efficiency



Implementing the first phase of fiscal measures geared towards fiscal sustainability



Controlling the deficit and maintaining its downward trend



Completion of shifting process to PBB by increasing the number of Government units applying PBB



Identifying innovative means for funding some of Government projects and services

2021 Budget Estimates:

Aggregate revenue is estimated to amount to RO 8.64 billion in 2021, while public spending is projected to stand at 10.88 in 2021. This will lead the budget deficit to stand at RO 2.24 billion.

Public revenue, spending and estimated deficit of 2021 Budget, are illustrated as follow: (RO Million)

Statement	2021 Budget
Public Revenue	8640
Oil Revenue	3550
Gas Revenue	1870
Non-oil Revenue	3220
Tax & Fees Revenue	3000
Capital Revenue & Repayments	220
Total Public Revenue	10880
Civil Ministries Expenditure	4075
Defense & Security Expenditure	2965
Debt Service (Interests)	1200
Gas Purchase & Transportation Expenditure	780
Development Expenditure	900
Electricity Subsidy	500
Water Subsidy	90
Sewage Subsidy	86
Waste Subsidy	64
Oil Products Subsidy	35
Subsidy for the Interest on Development and Housing Loans	25
Participation in Domestic & International institution	10
Debt Repayment	150
Surplus / Deficit	(2240)

Public Revenue:

Aggregate revenue is estimated at RO 8.6 billion in 2021, increased by 2% as compared with the preliminary results of 2020, representing 33% of GDP at current prices. Such revenue consists of oil and gas revenue of RO 5.4 billion, accounting for 63% of total revenue. Non-hydrocarbon revenue is estimated at RO 3.2 billion i.e. 37% of total revenue.

Revenue estimates are based on the following considerations:

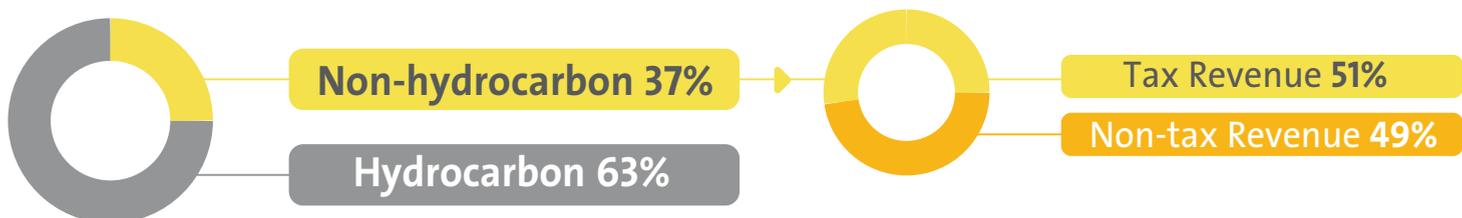
2020 Budget assumes oil price of US\$ 45 per barrel.

Transferring proceeds from selling 20000 oil barrels per day to the Oil Reserve Fund so as to repay partial of the loans due over the upcoming years.

Oil production is projected to be 960000 barrels per day, taking into accounts Oman's commitment to cut oil production in compliance with OPEC plus deal, for a period from May 2020 to April 2022.

Revenue generated from Gas.

The below chart shows the structure of public revenue in 2021 Budget:



Hydrocarbon Revenue

- **Oil Revenue**

Oil revenue is projected to amount to RO 3.6 billion i.e. 41% of total revenue, down by 19% as compared with the preliminary results of 2020.

- **Gas Revenue**

Gas revenue estimated to stand at RO 1.8 billion i.e. 22% of total revenue, decreased by 6% as compared with the preliminary results of 2020.

Non-hydrocarbon revenue

The non-hydrocarbon revenue is projected to reach RO 3.2 billion, up by 33% as compared with the preliminary results of 2020. This is in light of the actual results of 2018 and 2019, and preliminary results of 2020 which have been affected by the consequences of the COVID-19 pandemic.

- **Current Revenue**

The current revenue is anticipated to amount to RO 3 billion in 2021. Excise tax and VAT revenue are expected to stand at RO 413 million in 2021, increased by threefold when compared with budgeted figure of RO 100 million in 2020.

Corporate income tax revenue is estimated at RO 400 in 2021, decreased by 27% as compared with 2020 Budget. This decline is mainly due to consequences of the COVID-19 pandemic.

Government revenue from Oman Investment Authority, estimated at about RO 800 million. The remaining current revenue is projected to be around RO 1.4 billion in 2021.

- **Capital revenue and repayments**

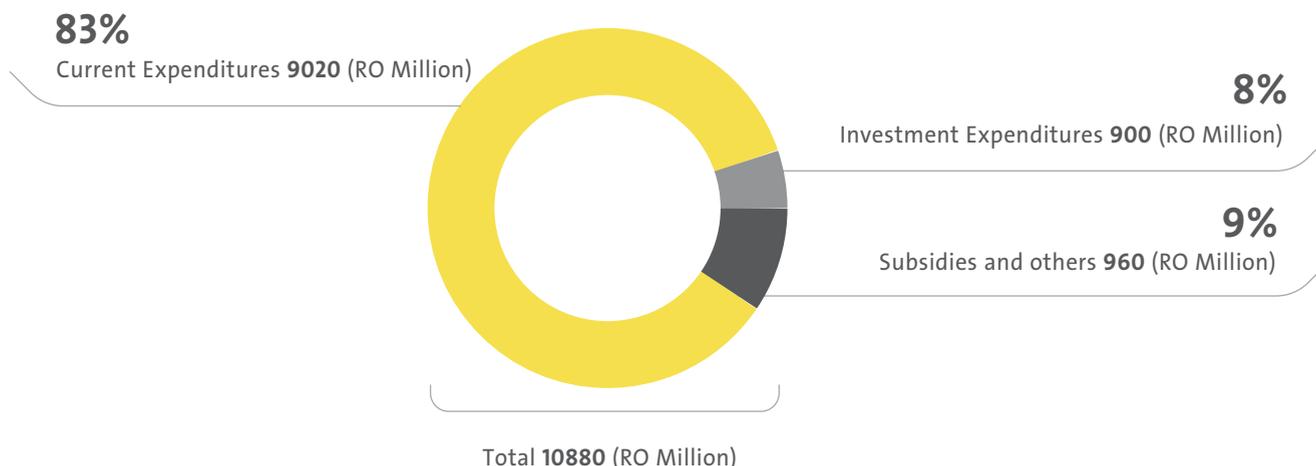
Capital revenue is expected to amount to RO 200 million in 2021, while capital repayments are anticipated to be around RO 20 million in 2021.

Public Spending:

In light of the policies adopted by the Government to enhance spending efficiency and in line with the initiatives undertaken in 2020, public spending for 2021 Budget was estimated based on the following considerations:

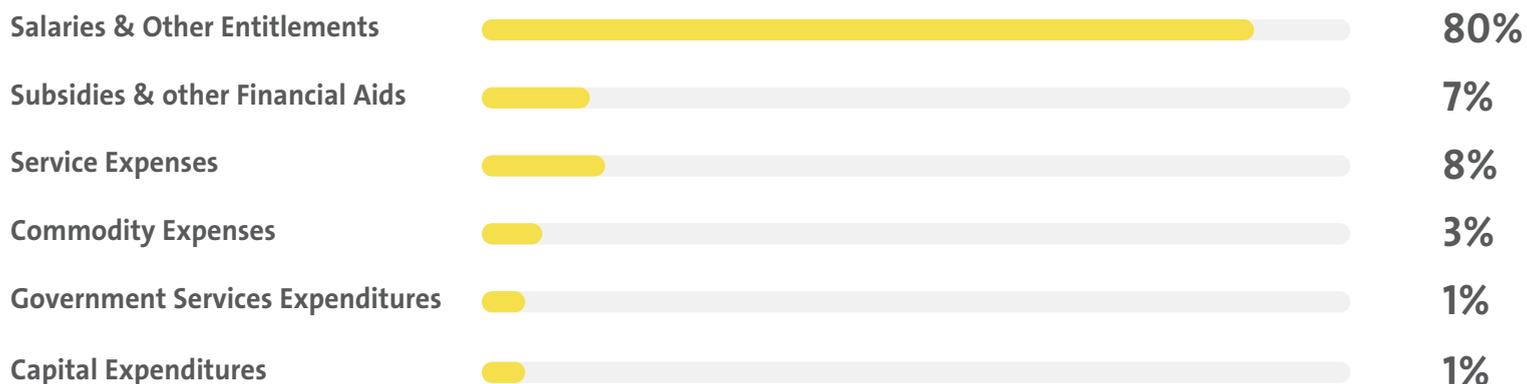
- Reducing current expenditures of Government units in 2021 Budget by 5%, taking into account the financial impact of fiscal measures, such as retirement order, restructure of State's administrative apparatus, and revision of the financial grades of new employees. In addition to the Government contribution to Job Security Fund by 1%.**
- Removal of oil and gas production expenditures of PDO from the budget after the establishment of EDO.**
- Allocations for gas expenditures will be in accordance with the expected cost.**
- Allocations of electricity subsidy, taking into account the subsidy reform outcomes.**
- Allocating subsidies for water sector, sewage, and waste sector as per the estimates made by the relevant entities.**
- Cost of public debt service in accordance to the existing loans and the planned ones.**

Therefore, total public spending is budgeted at about RO 10.8 billion in 2021 Budget, decreased by RO 1.8 billion i.e. 14% as compared with the preliminary results of 2020, as follow:



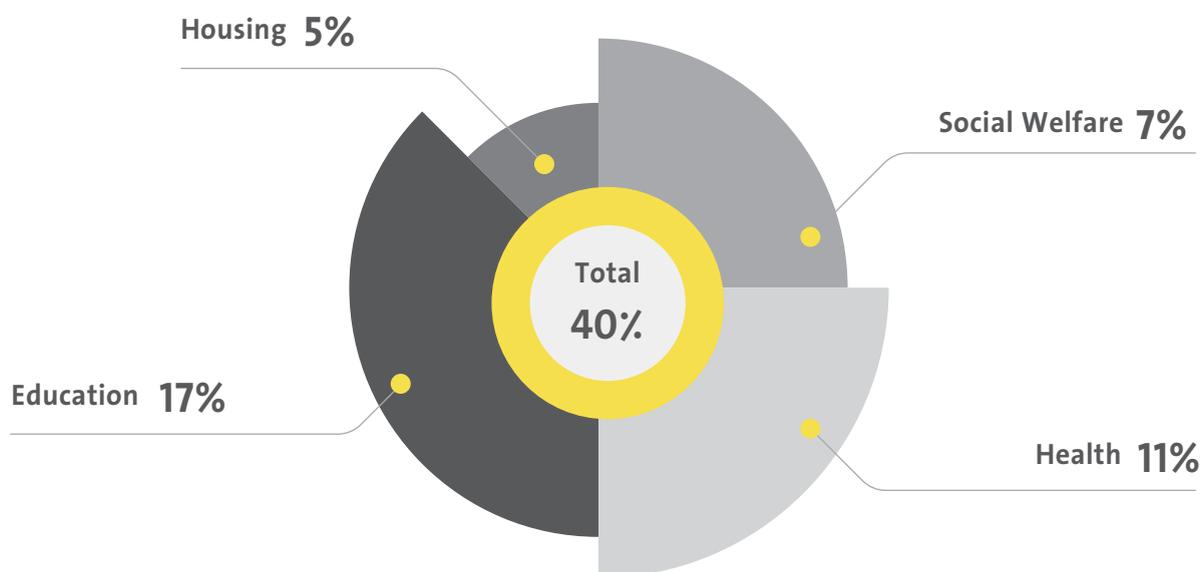
• Current Expenditures of Ministries and Government Units

These expenditures are estimated at RO 4.1 billion. The salaries and entitlements account for 80% of total current expenditures of ministries and government units, with an amount of RO 3.3 billion.



Spending on basic services such as education, health care, housing and social welfare will be maintained. The spending on such basic services represents about 40% of current spending, which is the largest in the budget. The following table illustrates appropriations allocated for the social services:

The following chart illustrates appropriations allocated for the social services:



- **Development Expenditures**

Spending on development projects is estimated at RO 900 million in 2021 Budget, representing the estimated amount to be paid during the year as per the actual work in progress for the projects. The development projects have been reprioritized in terms of its urgency, cost, and economic and social return.

- **Gas Purchase and Transport**

The expense of purchasing and transporting gas estimated at RO 780 million in 2021 Budget, accounting for 8% of total current expenditures.

- **Subsidies**

The appropriations allocated for subsidies are estimated at RO 800 million, including subsidies for electricity, water, sewage and waste sectors. In addition to subsidies for oil products, housing and development loans.

- **Housing Aid, Social Housing Scheme and Housing Loans**

Oman Housing Bank will continue providing housing loans, with a total allocated amount of RO 100 million.

- **Oil Products Subsidy**

The total appropriations allocated for oil products subsidy are estimated at about RO 35 million.

- **Public Debt Service**

Expenses of servicing public debt are estimated to reach RO 1.2 billion in 2021, due to higher public debt and interests. Moreover, an amount of RO 150 million has been allocated in the budget to partially repay future loans.

- Deficit:

According to budget estimates, the fiscal deficit for 2021 Budget is projected to be around RO 2.2 billion i.e. 8% of GDP, lower than the preliminary results of 2020 by 47%.

The deficit will be financed through external and domestic borrowing by 73% i.e. RO 1.6 billion. The remaining deficit, estimated to nearly RO 600 million, will be covered by drawing on reserves.

Projects being financed outside 2021 Budget

The Private sector, side by side the investments, is among the priorities of Oman Vision 2040. This vision seeks to place Oman into the ranks of advanced nations, by creating competitive business environment that is attractive to investment. In addition to enable the private sector to play a greater role in accelerating economic growth.

- **Oman Investment Authority**

Local investments, carried out by OIA, are expected to total RO 2.9 billion in 2021. These investments will be put on a track that goes in line with the wider governance and priorities of Oman Vision 2040.

- **Energy Development Oman**

The EDO will contribute by RO 1.3 billion to the investment projects related to oil and gas production in 2021. This will help to raise net revenue collected from oil and gas sector, and narrow the deficit.

- **Partnership for Development Programme**

Partnership for Development (PFD) Programme, known as Offset worldwide, is an economic tool applied over more than 100 countries for various purposes, including economic development, implementation of economic and industrial projects, and transfer state-of-the-art technologies and knowledge. The MOF focuses on PFD in order to enhance and support three main sectors, as follow:

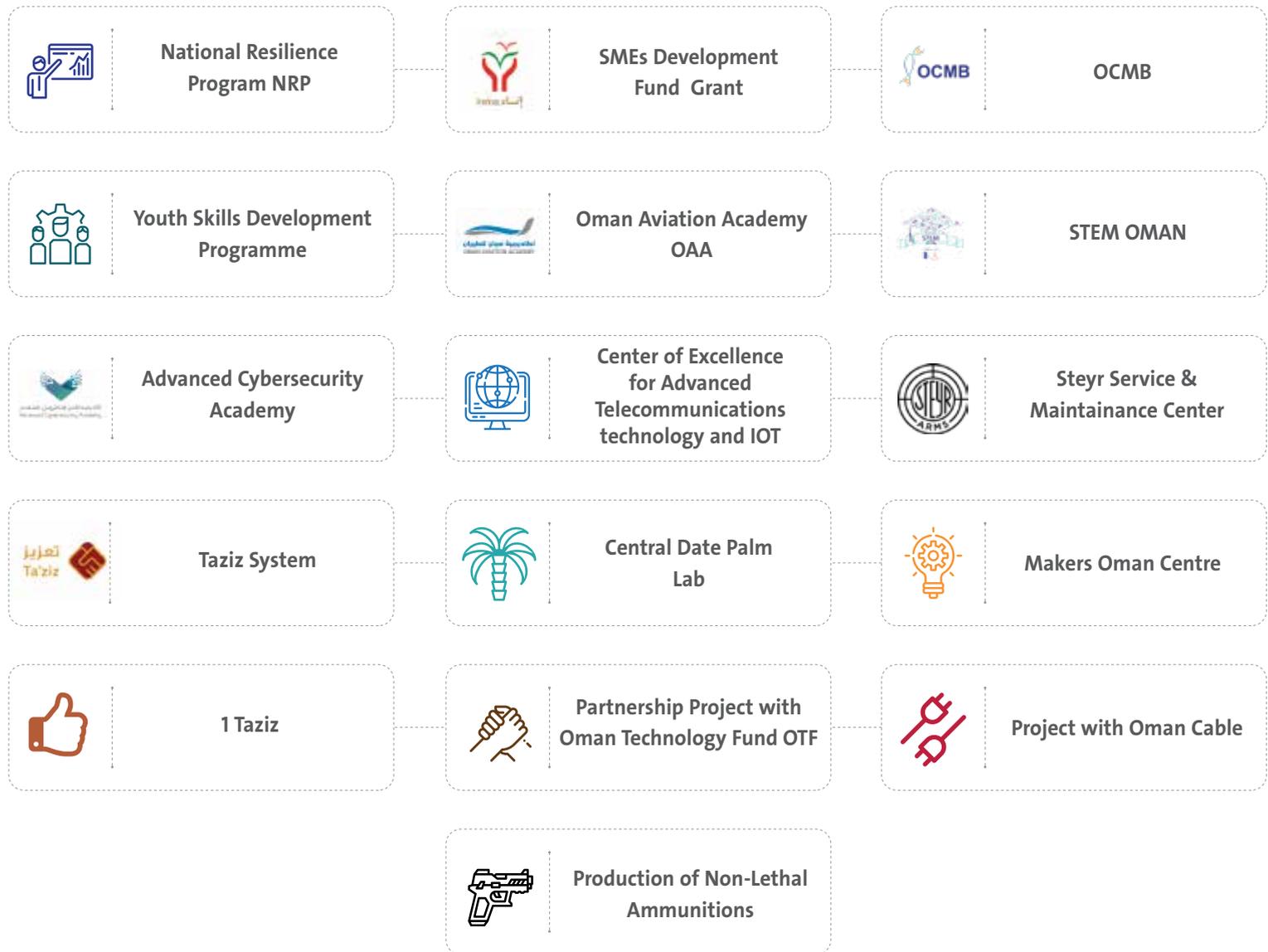


The MOF has launched until now 17 projects including Oman Aviation Academy, in collaboration with Airbus, CAE and other Government and private funds. In addition to Advanced Cybersecurity Academy, youth skills development program, STEM Oman, and others.

Moreover, the MOF is conducting a feasibility study for 14 proposed projects. Currently, 7 projects are underway out of which 5 projects are expected to be launched during 2021, including Leaders Development Center in collaboration with Arizona State University.

The MOF is also setting out a strategic plan to implement the projects, which fall within the Partnership for Development Programme, in industry sector and knowledge transfer area in alignment with Oman Vision 2040 and Tenth Five-Year Plan.

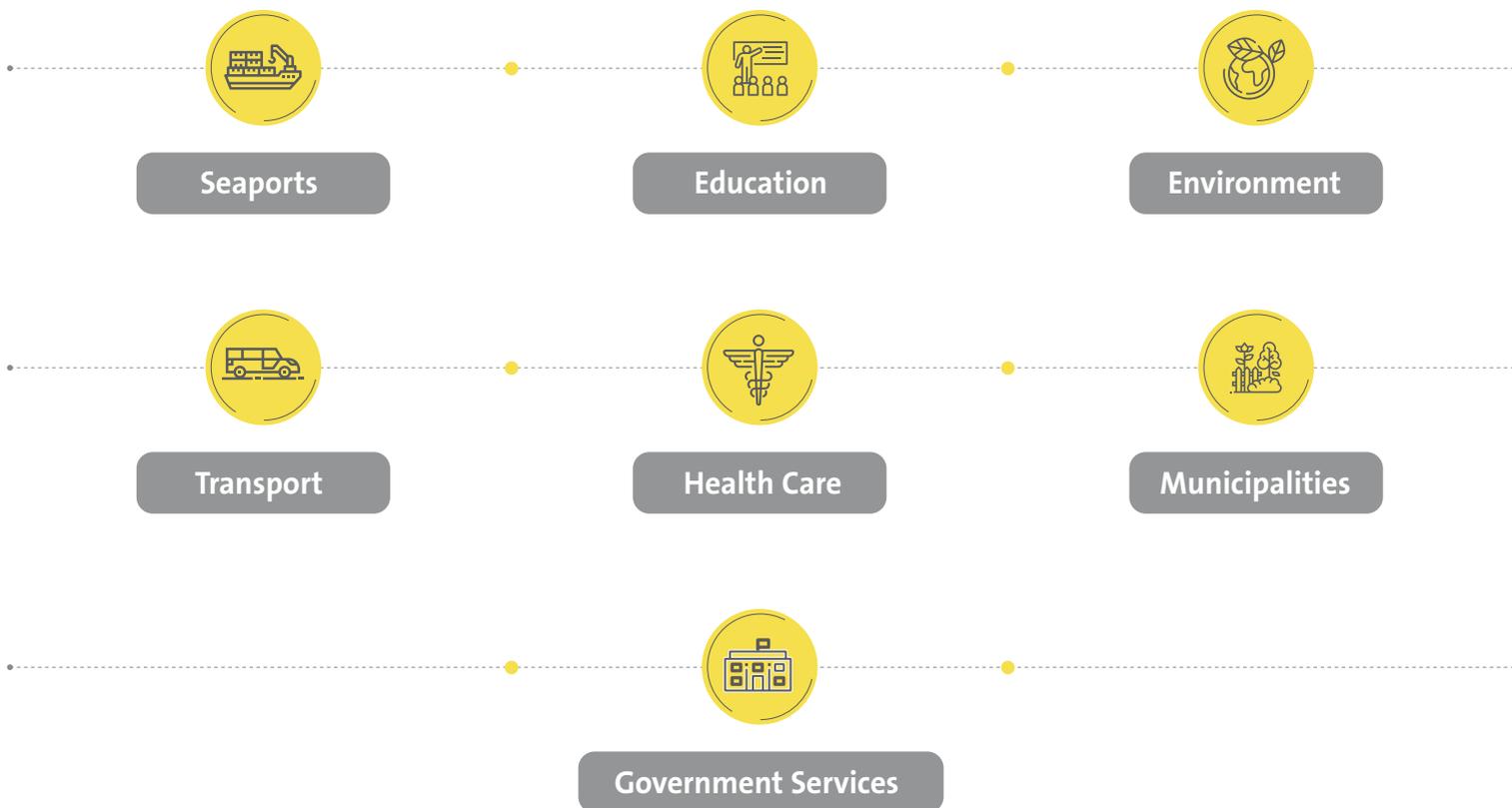
Some of the projects under Partnership for Development Programme:



- **Public-Private Partnership Projects**

The Public-Private Partnership (PPP) is considered as one of the economic policies that aim at developing national economy and diversifying sources of income. The MOF is responsible for the enforcement of PPP Law in order to encourage private sector to invest in the infrastructure and public services, in order to reduce the burden on public spending.

Key sectors of PPP projects:



Conclusion:

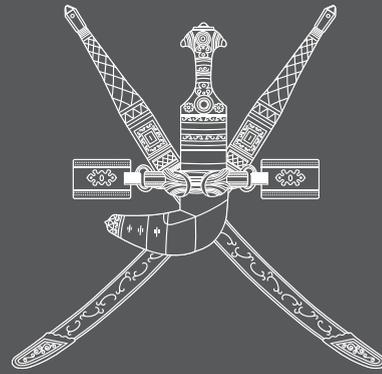
In light of unfavorable global economic conditions, comprehensive development plans can only be achieved through concerted efforts, and building on best practices and responses to realities. It is also important to identify the means that will help to improve the current situation for a better future.

Lastly, we pray to Almighty Allah to give success to our country under the leadership of His Majesty the Sultan Haitham Bin Tarik.

2021

BUDGET

Cornerstone Budget



MOF 2021 ©

www.mof.gov.om