



# Oman Newsletter

January 2007

## 2007 budget focuses on accelerating development

The Government of the Sultanate of Oman issued its 2007 budget on 1 January 2007. The Minister of National Economy supervising the Ministry of Finance presented the budget and analysed the performance during 2006 of the Omani economy at a press briefing held on 7 January 2007

### Budgeted deficit lowered to 3 percent of GDP

The 2007 budget estimates a 25 percent increase in revenues and a 15 percent increase in expenditure. The higher increase in revenues has helped in lowering the budgeted deficit from 6 percent of GDP in 2006 to 3 percent of GDP in 2007. The seventh five year plan (2006 to 2010) projects an overall deficit of 3.9 percent of GDP during the plan period.

	2007 (RO million)	2006 (RO million)
Revenue	4,490	3,587
Expenditure	4,890	4,237
Deficit	400	650

(Source: Royal Decree no. 1/2007 & 2/2006)

The deficit is proposed to be funded from Government reserves. GDP is budgeted to grow during 2007 by 6 percent at constant prices.

### Oil and Gas production expenditure to go up by 32 percent

The Government has proposed to increase the Oil and Gas production expenditure from RO 914 million in

2006 to RO 1,205 million in 2007. Most of the increase is towards investment in oil production, demonstrating the Government's continuing efforts to improve oil production. Daily oil production for 2007 is budgeted at 730,000 bpd (2006 budget: 746,000 bpd). The seventh five year plan is based on an average daily oil production of 827,000 bpd.

### Development expenditure increased by 33 percent

In order to fulfil the development projects identified in the seventh five year plan, the Government has increased the allocation for development projects from RO 375 million in 2006 to RO 500 million in 2007. Significant allocations are for infrastructure development.

### Budget allocation for education, health, social security and welfare sectors increased by 19 percent

In line with the Government's commitment to development of human resources, the 2007 budget proposes an allocation of RO 609 million for the education sector, RO 199 million for health and RO 117 million for social

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security and welfare.

**Allocation for defence and security marginally reduced**

The Government has budgeted RO 1,235 million for defence and security which accounts for 25 percent of the total expenditure. In 2006, the allocation was 29 percent.

**Participation and subsidies to the private sector marginally increased from 2006 levels**

The Government has allocated RO 255 million for participation and subsidies to the private sector which includes a subsidy of RO 135 million for the electricity sector.

**Oil revenues based on a price of US\$ 40 per barrel which represents a 25 percent increase on the 2006 budgeted oil price of US\$ 32**

Consistent with previous years, the Government has based its budget on an oil price which is approximately two-thirds of the price actually realised in the preceding year. The average oil price that is expected to have been realised during 2006 is US\$ 62 per barrel. During 2005, the average oil price realised was US\$ 50.

**Gas revenues budgeted to increase by 40 percent**

The significant investments in the gas sector over the last few years have started yielding results with the Government projecting the gas revenues at RO 550 million. Gas revenues now constitute 12 percent of the total Government revenues.

**Revenues from taxes and fees projected to increase by nearly 50 percent**

The Government has budgeted RO 360 million as revenues from taxes and fees. Revenue from income taxes are projected to go up by 83 percent from RO 72 million in 2006 to RO 132 million in 2007. This increase in income tax revenues is despite there not being any increase in tax rates. This not only reflects the buoyancy in the economy but also probably takes into account the fact that certain companies which were exempt from tax would commence paying taxes in 2007 on expiry of their tax holiday period. Revenue from customs duty is budgeted at RO 80 million and fees from issue of non-omani work permits are also budgeted at RO 80 million.



**Performance during 2006**

- GDP grew by 16.8 percent at current prices (6 percent at constant prices);
- GDP at current prices has grown by approximately 60 percent over the last three years;
- Oman is expected to post a record surplus during 2006 of RO 2,400 million which is 18 percent of the provisional GDP for 2006. This compares to a budgeted deficit of approximately 6 percent of GDP;
- Non-oil sectors grew by 15.6 percent; LNG and tourism grew by 61 percent and 22 percent respectively; and
- Inflation is estimated at 3.1 percent.

## Budget at a glance

(Source: Royal Decree no. 1/2007 & 2/2006)

Revenues	2007		2006	
	RO (million)	Percentage	RO (million)	Percentage
Oil revenues	3,015	67	2,519	70
Gas revenues	550	12	394	11
Taxes and fees	360	8	247	7
Income from Government investments	244	6	226	6
Others	321	7	201	6
	<b>4,490</b>	<b>100</b>	<b>3,587</b>	<b>100</b>
<b>Expenditure</b>				
Defence and security	1,235	25	1,245	29
Oil and gas production	1,205	25	914	22
Other development expenditure	500	10	375	9
Other current expenditure	1,678	35	1,458	35
Participation and subsidies to the private sector	255	5	228	5
Others	17	-	17	-
	<b>4,890</b>	<b>100</b>	<b>4,237</b>	<b>100</b>
<b>Deficit</b>				
	<b>400</b>		<b>650</b>	
Deficit financed by:				
Borrowings	100		200	
Government bonds re-payments (net of new issues)	(100)		(80)	
Reserves	400		530	
	<b>400</b>		<b>650</b>	
<b>Deficit as a percentage of GDP</b>				
		<b>3</b>		<b>6</b>



### Introduction of value added taxes under consideration

Sources at the Ministry of Finance confirmed that Oman together with the other GCC countries are examining the proposal to introduce value added taxes which will be important for the Gulf countries in view of the expected decline in revenue from customs duties as a result of the free trade agreements currently being concluded by these states. UAE is currently carrying out certain studies and a final decision on introduction of value added taxes would be taken only thereafter.

### Oman not to join the proposed Gulf single currency by 2010

Oman has proposed not to join the Gulf Cooperation Countries ("GCC") states' single currency by 2010. The Minister for National Economy confirmed that Oman will not be ready by 2010 to join the proposed monetary union. Oman would, however, prefer other countries to move ahead with Oman joining at a later date.



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