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# Oman Newsletter

TAX

## 2008 budget focuses on development projects

The key features of the 2008 budget issued by the Government of the Sultanate of Oman on 1 January 2008 (Royal Decree no. 1/2008) are highlighted in this newsletter

### Deficit budgeted at 3 percent of GDP

The 2008 budget estimates a 20 percent increase in revenues and a 19 percent increase in expenditure. Deficit as a percentage of GDP is approximately 3 percent and as a percentage of revenue is approximately 7 percent.

	2008 RO (million)	2007 RO (million)
Revenue	5,400	4,890
Expenditure	5,800	4,490
Deficit	400	400

(Source: Royal Decrees no. 1/2008 & 1/2007)

The deficit is proposed to be funded from Government reserves. The seventh five year plan (2006 to 2010) projects an overall deficit of 3.9 percent of GDP during the plan period. Although the budgets project a deficit, in reality the Government has been generating surpluses on account of oil price realisations significantly exceeding the budgeted price (see 2007 performance).

### Oil revenues based on a price of US\$ 45 per barrel which represents a 12 percent increase on the 2007 budgeted oil price of US\$ 40

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 2007 is US\$ 65 per barrel (2006: US\$ 62 per barrel).

### Oil production budget to increase for the first time in recent years

Oil production, which in the recent years had been steadily declining, is budgeted to increase to 790,000 bpd in 2008 (2007 budget: 730,000 bpd). The seventh five year plan is based on an average daily oil production of 827,000 bpd. This confirms that the Government's efforts to improve oil production are finally paying off. Oil revenues account for approximately 67 percent of total revenue.

### Gas revenues budgeted to increase by 13 percent

The significant investments made in the gas sector over the last few years have started yielding results with the Government projecting the gas revenues at RO 620 million (2007 budget: RO 550 million). Gas revenues now constitute approximately 11 percent of the total Government revenues.

### Oil and Gas production expenditure to go up by 12 percent

The Government has proposed to increase the Oil and Gas production expenditure from RO 1,205 million in 2007 to RO 1,350 million in 2008. Most of the increase is towards investment in oil production, demonstrating the Government's continuing efforts to improve oil production.

**Development expenditure increased by 45 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 500 million in 2007 to RO 725 million in 2008. Significant allocations are for infrastructure development. The seventh five year plan provided for a total allocation for development programs for civil ministries of RO 3,016 million. Since the start of the plan, additional projects were approved resulting in allocations increasing by 78 percent to touch RO 5,373 million.

**Budget allocation for education, health, social security and welfare sectors is increased by 17 percent**

In line with the Government's commitment to development of human resources, the 2008 budget proposes an allocation of RO 710 million for the education sector, RO 228 million for health and RO 142 million for social security and welfare.

**Allocation for defence and security increased by 10 percent**

The Government has budgeted RO 1,360 million for defence and security which accounts for 23 percent of the total expenditure. This has increased by approximately 10 percent as compared to 2007.

**Participation and subsidies to the private sector increased by 51 percent from 2007 levels**

The Government has allocated RO 385 million for participation and subsidies to the private sector which includes a subsidy of RO 118 million for the electricity sector. The Government's allocation of RO 249 million for participations in domestic, regional and international institutions include financing projects implemented by Oman Wastewater Company, Salalah Sanitary Drainage Service Company, Oman Oil Company, Oman Tourism Development Company, Majis Industrial Services Company and Salalah Free Zone Company.

**Revenues from taxes and fees projected to increase by nearly 21 percent**

The Government has budgeted RO 435 million as revenues from taxes and fees. Revenue from income taxes are projected to go up by 26 percent from RO 132 million in 2007 to RO 166 million in 2008. Revenue from customs duty is budgeted at RO 100 million and fees from issue of non-Omani work permits are budgeted at RO 86 million. The Government has budgeted a 35 percent increase in both fees on real estate transactions and fees for hotels and other facilities.



## Some key information on 2007 performance

- The preliminary estimates for 2007 indicate that nominal GDP might have increased by 11.6 percent (2006 estimate: 16.8 percent);
- The Government expects a surplus of RO 1.72 billion in 2007 (2006 estimate: RO 2.4 billion)
- The oil sector is expected to have grown in 2007 by 5.5 percent and the non-oil sector by 17 percent. The leading contributors of the non-oil sector were refined oil products, mining & quarries and retail & wholesale trade. Tourism sector is expected to have grown by 8 percent in 2007;
- The value of imports is estimated to have increased in 2007 by 46 percent contributed by high commodity prices and declining dollar. Exports are estimated to have grown by 4 percent;
- Inflation based on January to October consumer price indices is estimated at 5.3 percent (2006 estimates: 3.1 percent); and
- In 2007, the Muscat Securities Market (MSM) index rose by an impressive 61.89 percent.

# Budget at a glance

(Source: Royal Decree no. 1/2008)

Revenues	2008		2007	
	RO (million)	Percentage	RO (million)	Percentage
Oil revenues	3,610	67	3,015	67
Gas revenues	620	11	550	12
Taxes and fees	435	8	360	8
Income from Government investments	397	8	244	6
Others	339	6	321	7
	<b>5,400</b>	<b>100</b>	<b>4,490</b>	<b>100</b>
Defence and security	1,360	23	1,235	25
Oil and gas production	1,350	23	1,205	25
Other development expenditure	725	13	500	10
Other current expenditure	1,960	34	1,678	35
Participation and subsidies to the private sector	385	7	255	5
Others	20	–	17	–
	<b>5,800</b>	<b>100</b>	<b>4,890</b>	<b>100</b>
<b>Deficit</b>	<b>400</b>		<b>400</b>	
Deficit financed by:				
Borrowings	(90)		100	
Government bonds re-payments (net of new issues)	–		(100)	
Reserves	490		400	
	<b>400</b>		<b>400</b>	
<b>Deficit as a percentage of GDP</b>		<b>3</b>		<b>3</b>

## GCC Common Market becomes effective from 1 January 2008

In a major initiative, which had been approved by the heads of the six member Gulf Co-operation Council (GCC) States (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates) at their summit in Doha in December 2007, the GCC common market was launched with effect from 1 January 2008. This is a major step ahead in economic integration and is expected to benefit all member states with the free flow of capital and labour. The creation of a common market constitutes the second stage of the ambitious regional integration plan which started in 2003 with the establishment of the customs union. The third stage will be the GCC monetary union.

The common market would achieve equality among the GCC citizens in terms of movement of capital & labour, residency, employment, entitlement to pension & social security, real estate & stock ownership, formation of companies, conduct of economic, professional & service activities, investment, education, health & social services and taxation.

The common market is expected to increase investment and trade between member countries and also strengthen the position of member states in free-trade talks with other countries and common markets.

There currently exists a Grand Arab free trade agreement covering 18 countries. The United States of America has a free trade agreement with Bahrain and Oman and there are free trade agreements proposed between the GCC & the European Union, India and China.





**If you require further information, please contact:**

#### Partners

Michael G. W. Armstrong  
marmstrong@kpmg.com

Khalid Ansari  
kansari@kpmg.com

Ashok Hariharan  
ahariharan@kpmg.com

#### Director & Managers

##### Audit

Paul Callaghan  
pcallaghan@kpmg.com

Shakaib Mahmood  
shakaibmahmood@kpmg.com

Ali Ebeid  
aebeid@kpmg.com

Adam Salih  
asalih@kpmg.com

Ahmed Tufail  
Ahmedtufail@kpmg.com

Mohamed Derbel  
dmohamed@kpmg.com

Jaffer Zulfiqar  
jzulfiqar@kpmg.com

Mrisho Yassin  
myassin@kpmg.com

##### Tax

Pavithra Balaji  
pbalaji@kpmg.com

Amit Bhatnagar  
amitbhatnagar@kpmg.com

Harish Kandpal  
hkandpal@kpmg.com

Ganesh Ramanath  
gramanath@kpmg.com

##### Advisory

Sudip Gupta  
sudipgupta@kpmg.com

Nader Al Rawahy  
nrawahy@kpmg.com

Juzer Gain  
jgain@kpmg.com

#### Address

##### KPMG

4th Floor, HSBC Building  
Muttrah Business District  
P. O. Box 641, Ruwi 112  
Sultanate of Oman  
Telephone: (968) 24709181  
Telefax: (968) 24700839

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