

**وزارة المالية**  
**Ministry of Finance**

# MEDIUM-TERM FISCAL PLAN

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2020 - 2024



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<b>INTRODUCON</b> .....	<b>5</b>
<b>ECONOMIC AND FISCAL PERFORMANCE</b> .....	<b>6</b>
1.ECONOMIC AND FISCAL PERFORMANCE UNTIL 2019.....	<b>7</b>
A. ECONOMIC PERFORMANCE.....	<b>7</b>
B. FISCAL PERFORMANCE.....	<b>9</b>
2. ECONOMIC AND FISCAL DEVELOPMENTS IN 2020.....	<b>11</b>
<b>OMAN’S FISCAL STRATEGY: AN ENABLER FOR OMAN VISION 2040</b> .....	<b>16</b>
<b>MEDIUM-TERM FISCAL PLAN (2020 - 2024)</b> .....	<b>21</b>
PILLAR (1):SUPPORTING ECONOMIC GROWTH.....	<b>21</b>
PILLAR (2):REVENUE ENHANCEMENT & DIVERSIFICATION.....	<b>24</b>
PILLAR (3):EXPENDITURE RATIONALIZATION AND EFFICIENCY.....	<b>27</b>
PILLAR (4):SOCIAL SAFETY NET.....	<b>30</b>
PILLAR (5):PUBLIC FINANCIAL MANAGEMENT AND GOVERNANCE	<b>31</b>



“ We will 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...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, besides developing all relevant laws and regulations...”

**His Majesty Sultan Haitham Bin Tarik**  
2020

## INTRODUCON

The last half-century has seen a period of unprecedented economic and social development across all sectors in the Sultanate. Yet the sharp fall of oil prices since 2014 has been a burden on government finances, directly increasing the gap between government revenues and expenditures. The government has undertaken various measures to address this challenge through increasing non-oil revenues and reducing government expenditures, and avoided any measures with direct social impacts. Yet the prolonged fall of oil prices weakened the government's ability to continue funding its operations, especially given the inflexible nature of the remaining expenditures, leading to large annual deficits.

To fund these deficits, the government heavily relied on borrowing, particularly from international markets, in addition to reducing its reserves. This has significantly increased debt levels and debt servicing costs to unsustainable ones. Moreover, the dual shock of the COVID-19 pandemic and oil market disruptions have placed an urgent spotlight on the country's fiscal situation. This has facilitated an increased perception of credit risk and hence consecutive reductions in Oman's sovereign credit ratings from international credit rating agencies to reach almost junk levels. The reductions in ratings are expected to continue in case no additional fiscal consolidation measures are taken, which will make borrowing become more difficult and costlier.

In light of these fiscal challenges, and given the uncertainty in the future of oil prices, a Medium Term Fiscal Plan (MTFP) for the years 2020-2024 was developed with an overarching objective of achieving fiscal balance in the medium term.

The implementation of this plan will be alongside the implementation of several economic programs and measures aiming to improve the business environment and stimulate investments, in addition to the launch of a social safety net that will reduce the impacts of the fiscal measures on selected groups of society.

**Medium Term Fiscal Plan (MTFP) for the years 2020-2024 was developed with an overarching objective of achieving fiscal balance in the medium term.**

**MEDIUM-TERM FISCAL PLAN  
2020 - 2024**

**I  
ECONOMIC AND FISCAL  
PERFORMANCE**

## 1. ECONOMIC AND FISCAL PERFORMANCE UP TO 2019

### A) Economic Performance

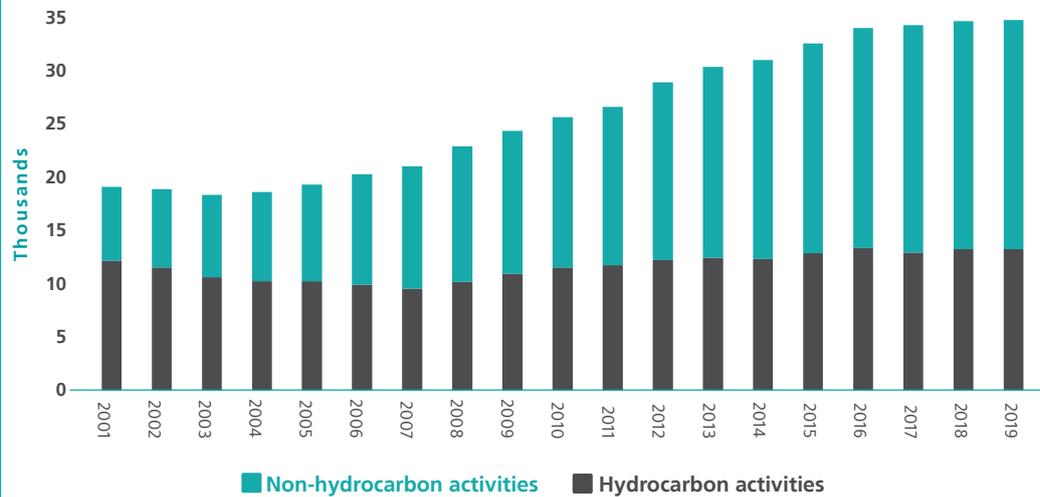
The discovery of oil and gas served as an engine for Oman's remarkable progress during the past five decades. Oman has long recognized the need to diversify its economy and was the first country among the Gulf Cooperation Council (GCC) countries to launch a long-term strategy – Vision 2020 – that focused on economic diversification as a way of reducing its dependency on the oil sector.

Vision 2020 focused on diversifying the economic production base by encouraging investment in non-oil activities. Thanks to these efforts, the Sultanate has grown significantly during this period, and non-hydrocarbon activities have supported this growth increasingly. Real gross domestic product (GDP) has almost doubled from OMR 15B in 1998 to OMR 29B in 2019. The contribution of the non-hydrocarbon sector has more than tripled from OMR 5B to OMR 19B, in constant prices, over the same period. Non-hydrocarbons accounted for nearly 63% of Oman's real GDP in 2019 compared to 34% in 1998.

Through Vision 2020's period of economic expansion, the Sultanate has maintained price stability through prudent monetary policy. Inflation rates (measured by the Consumer Price Index) have averaged less than 2 percent during the execution of Vision 2020. Furthermore, the domestic banking sector in the Sultanate has shown resilience and is well positioned to deal with any economic shocks that may arise due to global trends while continuing to support economic activities, especially in the non-oil sector.

**The contribution of the non-hydrocarbon sector has more than tripled from OMR 5B in 1998 to OMR 19B in 2019**

### The growth of Oman's economic activity through Vision 2020: Real gross value added (GVA) by sector (constant 2010 prices)



Source: National Center for Statistics and Information; Gross Value Added (GVA) differs slightly from Gross Domestic Product (GDP) as it excludes indirect financial intermediation activities and taxes/subsidies on products

**Prior to the COVID-19 pandemic, Oman's real GDP was expected to grow by 3.7% in 2020 and 4.3% in 2021.**

Despite the sharp drop in oil prices in 2014, the government continued the implementation of economic projects and services. During this period the new Muscat International Airport building, and a number of other regional airports, were launched. The Al Batinah Expressway, the first phase of the Bidbid-Sur road, and the Duqm Economic Zone development were also completed. In addition, a number of economic diversification projects such as the expansion of Sohar Refinery, Khazzan gas field, and tourism projects such as the Oman Conference and Exhibition Centre, resorts, hotels, and other projects were implemented during this period. Prior to the COVID-19 pandemic, economic growth was set to return in 2020 as major non-hydrocarbon projects and Ghazeer gas project were due to become operational. According to the IMF's October 2019 World Economic Outlook, Oman's real GDP was expected to grow by 3.7% in 2020 and 4.3% in 2021.

## B) Fiscal Performance

The Government has made substantial fiscal adjustments since the decline in oil prices in mid-2014. These efforts have resulted in a much lower fiscal than would have been achieved without taking action. Approximately 20% of fiscal consolidation efforts have come from non-oil revenues while approximately 80% has come from expenditure reductions. Key fiscal reforms over the 2014-2019 period undertaken to support this fiscal consolidation helped in achieving the following:

Approximately  
20% of fiscal  
consolidation  
efforts have  
come from  
non-oil  
revenues

- » **Increasing non-hydrocarbon sources of revenue:** by 17% primarily driven by the introduction of excise taxes, the expansion of the corporate income tax, and some reforms in government service fees.
- » **Reducing civil ministry spend:** by 13% thanks to efficiency gains on government operations.
- » **Reducing the investment budget:** by more than 20% driven by efforts to prioritize and rationalize new projects prior to their inclusion in annual spending plans.
- » **Subsidy reforms:** expenditures on subsidies have fallen by almost 50% primarily due to fuel subsidy reforms.

### Key Fiscal Reforms Over The 2014-2019



17% 

Increasing non-  
hydrocarbon sources  
of revenue



13% 

Reducing civil  
ministry spend



+20% 

Reducing the  
investment budget



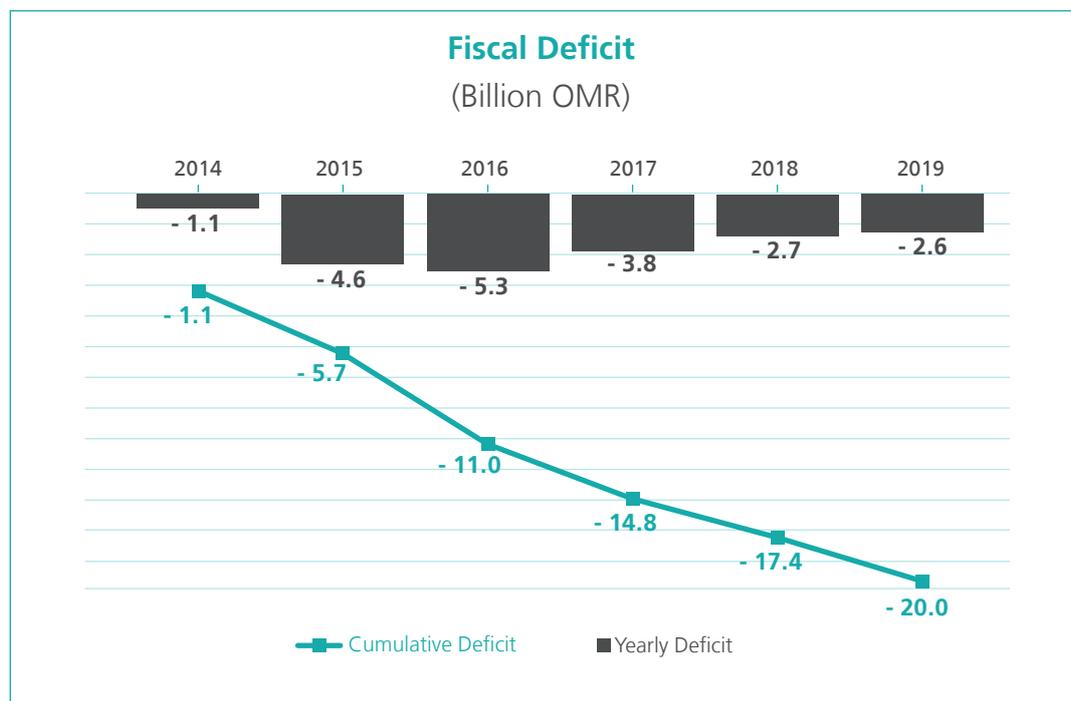
50% 

Subsidy Reforms

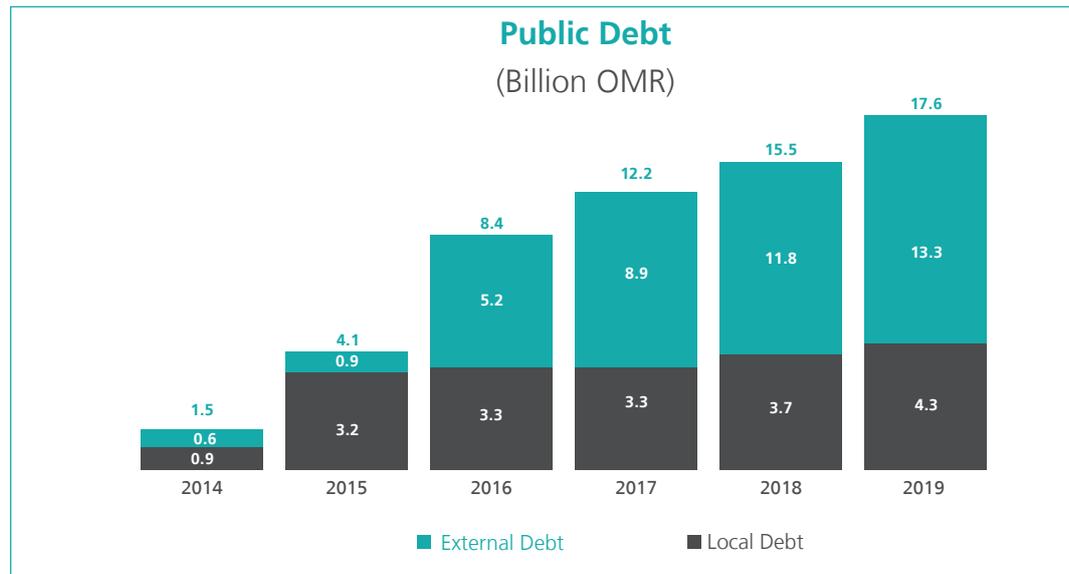
At the same time, The Implementation Support and Follow Up Unit (previously), and the relevant government entities have pushed business environment reforms under the 9th Five-Year Development Plan. These reforms addressed legal, administrative, and financial challenges that companies may face and helped improve the Sultanate's ranking in a number of international competitiveness indicators.

Despite the Sultanate's fiscal consolidation efforts, the general state budget continued incurring fiscal deficits at an average of 3.3 billion OMR and a cumulative deficit reaching 20 billion OMR by the end of 2019.

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To finance the fiscal deficit, the Government relied on borrowing, largely from the external market. As a result, the total debt increased from OMR 1.5B in 2014 (about 5 percent of GDP) to OMR 17.6B in 2019 (60 percent of GDP), while interest payments increased from approximately OMR 35m to reach OMR 684m in 2019 and nearly OMR 1bn in 2020.



## 2. ECONOMIC AND FISCAL DEVELOPMENTS IN 2020

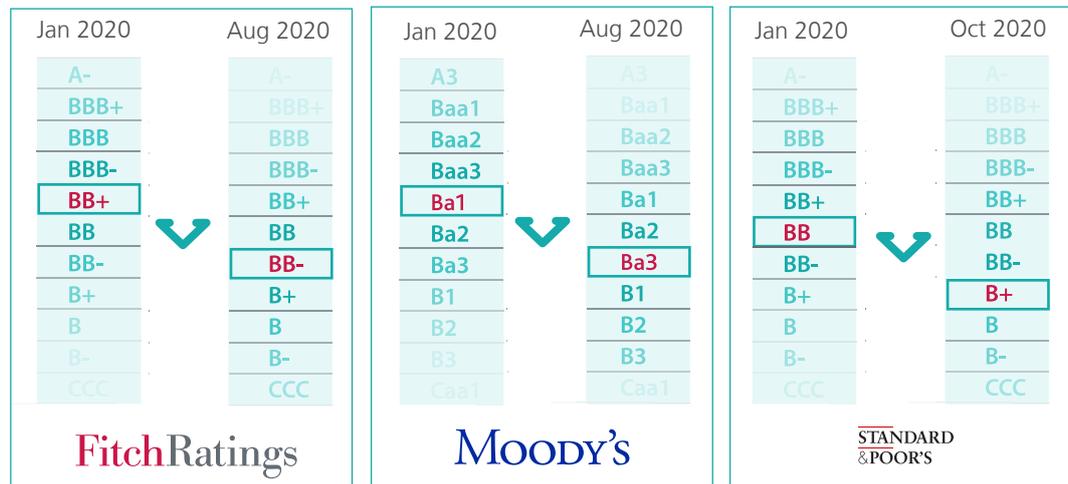
The adopted 2020 State General Budget targeted a deficit of OMR 2.5m in 2020, a reduction of 7.9% compared to the previous year's budget using an oil price assumption of \$58 per barrel.

However, the spread of COVID-19 significantly impacted economic activity both locally and across the globe in 2020. The oil market faced severe disruptions, and the price of oil dropped by over 30% in one week, due to the global reduction in oil demand. Oman's average oil price for the year is now expected to reach \$48 per barrel. Many forecasts, including those of the IMF and the World Bank, expect to see a contraction in global GDP of around 5% in 2020 - the largest contraction in decades.

As for Oman, the forecasts indicate that the pandemic will lead to a reduction in government revenues over the medium term, increasing annual deficits to an average of not less than OMR 5bn if no additional measures are taken.

The forecasts indicate that the pandemic will lead to a reduction in government revenues over the medium term, increasing annual deficits to an average of not less than OMR 5bn if no additional measures are taken.

The deteriorating revenue situation due to the drop in oil prices and the impact of COVID-19 has impacted Oman's perceived credit risk, leading international credit rating agencies to downgrade the Sultanate's credit rating by several notches during this year alone as shown in the figure below:



The Sultanate's credit rating

The speed of the recent downgrades highlights the severity of the fiscal downturn while the continuing negative outlook suggests additional downgrades are likely over the next 6-12 months without additional fiscal reforms.

Sovereign credit ratings impact the ability of a sovereign to access the international debt markets, guide on expected interest rates, and determine the type of issuance options available. With the accelerated credit rating downgrades, the Sultanate's ability to access international credit markets has become more limited, and the borrowing options more difficult and costly.

In light of these challenges, and given the uncertainty in future oil price expectations, this MTFP seeks to avoid undertaking measures that could have more severe socioeconomic implications and to avoid reducing the Sultanate's attractiveness as an investment destination.

The continuing negative outlook suggests additional downgrades are likely over the next 6-12 months without additional fiscal reforms.

The implementation of the fiscal consolidation measures and policies included in the plan will result in some temporary socioeconomic impact. However, the plan will help improve the Sultanate's financial position and reduce the public debt and this improving the overall credit environment in the Sultanate. The long term effects of the plan will allow for a competitive environment for investments and projects that will lead to jobs and greater domestic and international investment. Moreover, this plan will help to support the objectives of long term economic growth and improve the living standards for the population of the Sultanate.

MEDIUM-TERM FISCAL PLAN  
2020 - 2024

2

**OMAN'S FISCAL STRATEGY:  
AN ENABLER FOR VISION 2040**

## 2. FISCAL SUSTAINABILITY: AN ENABLER FOR OMAN VISION 2040 —

**The Sultanate's fiscal sustainability is considered an enabler for Oman Vision 2040**

The Sultanate's fiscal sustainability is considered an enabler for Oman Vision 2040, and an immediate priority to allow the Vision's implementation to begin on a strong standing. Fiscal sustainability aims to improve the ability to withstand financial circumstances and absorb any economic or social challenges that may arise in the future, as well as ensure financial efficiency for the government and the ability to fund the Vision's development plans.

The Vision's objectives are articulated in twelve national priorities, of which , four (4) priorities have particularly shaped the Sultanate's medium term fiscal strategy. These include:

- » Economic diversification and fiscal sustainability
- » The private sector and the global investment value-chain
- » Governance of the state's administrative bodies, resources, and projects
- » Social Protection and well-being

### National Priorities of "Oman Vision 2040"

Health	Education, Learning, Scientific Research and National Talents	Governance of the state's administrative bodies, resources, and projects	Legislative, Judicial and Audit System	Citizenship, Identity, National Heritage and Culture	Social Protection and well-being
Natural Resources and Environmental Sustainability	Sustainable Development in Governorates and Cities	Economic Leadership and Management	Economic diversification and fiscal sustainability	Labor Market and Employment	The private sector and the global investment value-chain

**MEDIUM-TERM FISCAL PLAN  
2020 - 2024**

**3**

**THE MEDIUM-TERM FISCAL  
PLAN (MTFP) 2020-2024**

### 3. THE MEDIUM-TERM FISCAL PLAN (MTFP) 2020-2024

The Medium-Term Fiscal Plan (MTFP) 2020-2024 has been developed to reduce the primary and overall fiscal deficits to sustainable levels in the medium-term. The MTFP has developed a holistic framework based on the following pillars:



#### SUPPORTING ECONOMIC GROWTH

To ensure fiscal consolidation efforts are sustainable, economic growth is essential. This plan focused on improving the business environment and stimulating investments to support economic growth in the medium term.



#### DIVERSIFYING AND ENHANCING GOVERNMENT REVENUES

Actively pursuing to increase non-oil revenues as a share of GDP to protect against oil price volatility and utilize local resources more efficiently



#### RATIONALIZING GOVERNMENT EXPENDITURES AND DRIVING EFFICIENCY

Putting expenditures on a sustainable path through prioritization, increased efficiency, and larger involvement of the private sector in line with the Vision's "private sector and global investment" priority



#### ENHANCING THE SOCIAL SAFETY NET

In line with Vision 2040's "well-being and social protection" priority, the fiscal strategy aims to increase societal cohesion and solidarity through an improved social safety net



#### STRENGTHENING PUBLIC FINANCIAL MANAGEMENT

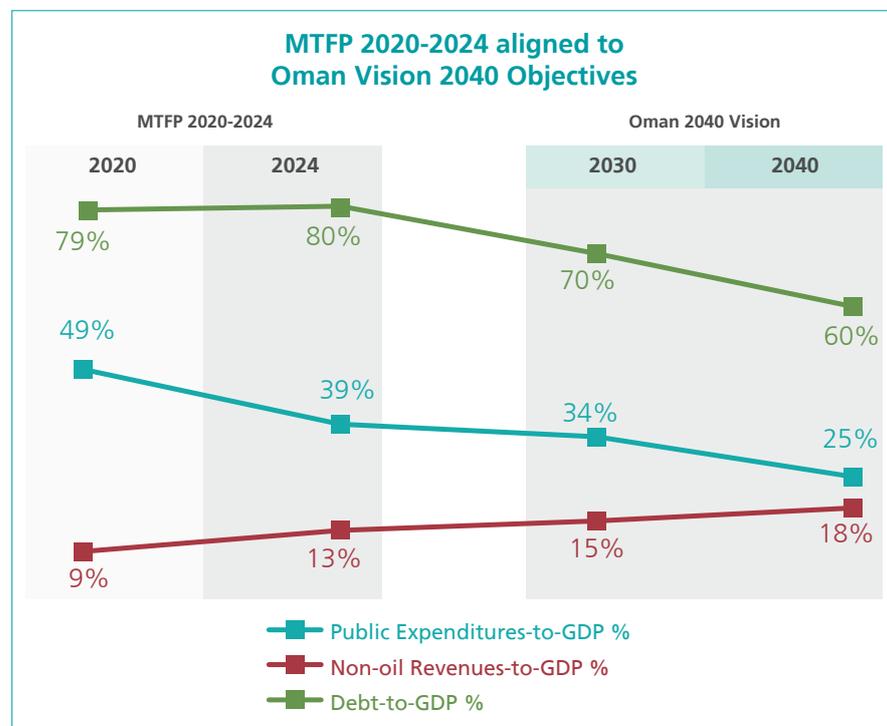
This objective supports Vision 2040's "governance of state's administrative bodies, resources, and projects" priority. The fiscal reforms envisioned are accompanied by meaningful public finance management reforms and enhanced capacity building

These pillars include a number of measures consolidated into an MTFP reform package to reach fiscal sustainability over the medium term. The MTFP will be implemented over the 2020 to 2024 period and projects the budget deficit gradually narrowing to 1.7% of GDP in 2024 which is considered a sustainable level. The details are shown in the following table:.

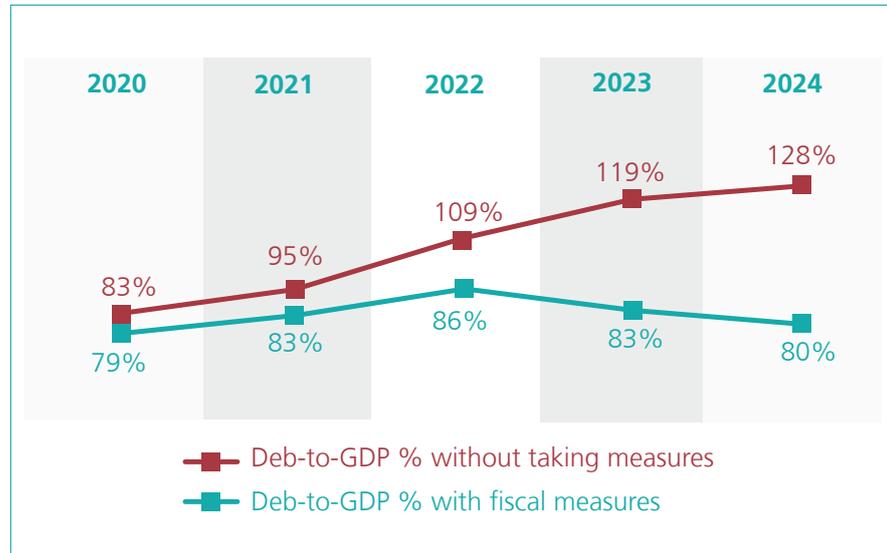
(OMR Million)	2020 (Initial estimates)	2021	2022	2023	2024
Targeted Government revenues	8,600	9,280	10,211	11,538	12,095
Targeted Government expenditures	12,660	12,482	12,798	12,639	12,632
<b>Fiscal Balance</b>	<b>- 4,060*</b>	<b>- 3,202</b>	<b>- 2,587</b>	<b>- 1,101</b>	<b>- 537</b>
Fiscal deficit to GDP %	<b>-15.8%</b>	<b>-11.5%</b>	<b>-8.8%</b>	<b>-3.6%</b>	<b>-1.7%</b>
Non-oil revenues to total revenues %	<b>28%</b>	<b>35%</b>	<b>36%</b>	<b>35%</b>	<b>35%</b>

\* Including transfer to reserves

The MTFP also sees the development of several indicators in line with Vision 2040's objectives and the fiscal strategy:



Although debt-to-GDP ratio remains at level of 80% by the end of the MTFP, the following chart sheds light on the debt-to-GDP ratio in case no measures are undertaken. Under the MTFP, debt-to-GDP will plateau and start to decline after 2022.



The government recognizes that medium-term planning efforts are a continuously evolving and changing area; as such, the Sultanate will be periodically updating the MTFP based on changing macroeconomic and fiscal conditions and progress made on the reform package outlined. While the MTFP will be updated to reflect these conditions, achieving fiscal sustainability and reducing the debt burden in the medium term will remain an utmost priority.

## MTFP 2020 -2024 Pillars



### SUPPORTING ECONOMIC GROWTH

Improving the business environment

Stimulate domestic and foreign investment



### DIVERSIFYING AND ENHANCING GOVERNMENT REVENUES

#### INITIATIVE (1)

Enhancing the returns from Government Investments

#### INITIATIVE (2)

Strengthening tax administration and collection efficiency

#### INITIATIVE (3)

Value added tax

#### INITIATIVE (4)

Income tax on high earners



### RATIONALIZING GOVERNMENT EXPENDITURES AND DRIVING EFFICIENCY

#### INITIATIVE (1)

Strategic government procurement

#### INITIATIVE (2)

Development Expenditures

#### INITIATIVE (3)

Reviewing current expenditures and spend control

#### INITIATIVE (4)

Public Services Subsidy reforms



### ENHANCING THE SOCIAL SAFETY NET

Social safety net will be activated during the implementation of MTFP's initiatives



### STRENGTHENING PUBLIC FINANCIAL MANAGEMENT

#### INITIATIVE (1)

Development of the Government Financial Management Information System (GFMIS)

#### INITIATIVE (2)

Debt Management Office (DMO) and Macro Fiscal Unit (MFU) capacity building

#### INITIATIVE (3)

Implementation of a treasury single account (TSA) program

#### INITIATIVE (4)

Implement a National Asset Register

## PILLAR (1): SUPPORTING ECONOMIC GROWTH

This pillar seeks to improve the pace of economic growth through improving the business environment, restructuring of the labor market, and stimulating the economy through both domestic and foreign direct investment.

### 1) IMPROVING THE BUSINESS ENVIRONMENT

Improving and developing the business environment is one of the most important factors supporting the empowerment of the private sector, which in turn helps to stimulate economic growth and increases job opportunities. The plan aims to support this growth through the following initiatives:

#### ELECTRONIC TRANSFORMATION INITIATIVES

Achieving a comprehensive electronic transformation in the procedures for registering companies and issuing commercial licenses through the «Invest Easy» initiative, so that the initiative represents for the business community in the Sultanate a single access point to all electronic government services. Significant progress has been made in the integration of government agencies to the Invest Easy system, thus far; 26 entities have been linked. This year the initiative has accomplished the following:

- » Integrating several municipalities to the Invest Easy has reduced the time required to start a business from several weeks to only a number of days
- » The time period for obtaining labour permits for foreign workers has been reduced from several weeks to 3 days
- » Completing the integration of the municipalities of Muscat, Sohar and Dhofar with each other

The current pandemic has shown that the government needs to adapt and move to an e-government in order to best to continue to provide services to both citizens and residents and to ensure business conditions necessary to foster economic growth.

Achieving a comprehensive electronic transformation in the procedures for registering companies and issuing commercial licenses through the «Invest Easy»

## INITIATIVES TO REVITALIZE THE REAL ESTATE MARKET

The Ministry of Housing and Urban Planning is adopting a package of measures that will work to revive the real estate market in the Sultanate through:

- » Reducing housing fees from 5% to 3%
- » Licensing of rent-to-own / instalment sales
- » Allowing the addition of floors in buildings (the antenna meter) provided that an annual fee is paid on them
- » Opening the door to non-Omanis to own residential real estate units in multi-story commercial residential buildings in specific areas.

## GOVERNMENT FEES REVIEW INITIATIVE

The National Program for Fiscal Balance is currently overseeing a systematic review of government fees for services. The initiative aims to build an initial database of government services and create a unified regulatory framework for their pricing. Work is currently underway to build a guide for pricing government services. The government is concerned with enabling the business environment in the Sultanate and enhancing the attractiveness of the Omani economy, and among goals of the review:

- » Reducing barriers and the obstacles that would limit the practice of economic activity and the practice of business.
- » Improving the competitiveness of the Sultanate compared to the rest of the region and the world, by comparing the cost of doing business in the Sultanate with the countries of the region and the world when reviewing government service fees
- » Creating a holistic view when setting fees through designing and studying the customer's journey for each service provided, in order to reach the total fees imposed, the number of steps, and the parties involved in providing each service
- » Taking advice from the private sector with regard to modifying, imposing or cancelling fees, by involving the Oman Chamber of Commerce and Industry and pioneering when reviewing fees that affect the business environment sector
- » Emphasizing the importance of easy access to data for services provided by the government
- » Taking into account the balance between the service fee provided and the quality of service provided

**Government fees review initiative aims to build an initial database of government services and create a unified regulatory framework for their pricing**

## **LABOR MARKET PROCEDURES**

The Ministry of Labor is undergoing a comprehensive review of the labor: 1) focusing on the laws and regulations governing the labor market; and 2) tracking significant changes in labor market conditions. As part of the country's development, it is necessary to take stock of changes in the labor market and structure. In order to be able to compete globally, Oman has to increase flexibility in the labor market to adapt to changes in supply and demand. A review of the laws and legislation will help to raise the living standards of Omanis and ensure that companies will employ Omanis. As part of the process, the Ministry of Labor is reviewing the policies and rates Omanization has imposed on various sectors by making Omanization targets more flexible. These policies will help to increase employment opportunities for Omanis and help to attract businesses by reducing structural labor rigidity.

## **2) STIMULATE DOMESTIC AND FOREIGN INVESTMENT**

Oman is working on initiatives in local and foreign investment in order to achieve the following: 1) provide more job opportunities; 2) diversify sources of income; 3) attract capital and expertise; 4) facilitate the transfer of knowledge; 5) bridge the gap between the rates of savings and domestic investment; 6) help local companies to integrate Omani firms into global value chains.

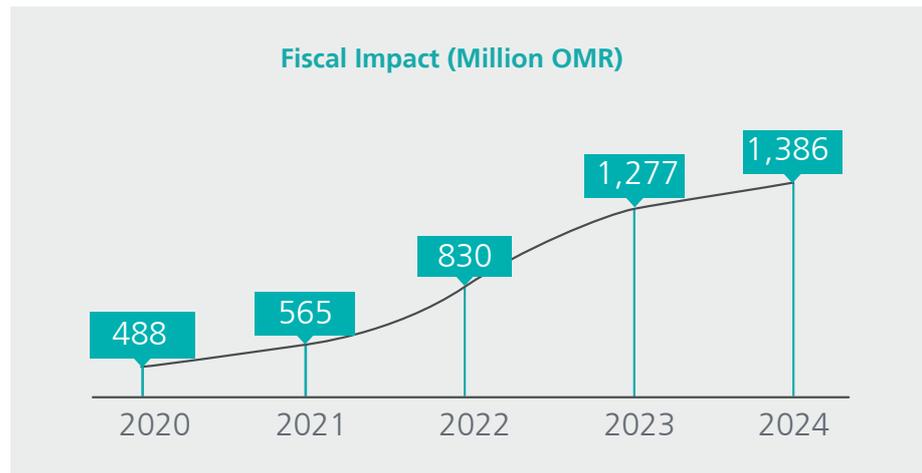
An integrated framework was created for the investment system in the Sultanate through a set of laws that were issued in June 2019, which included foreign capital investment laws, privatization, partnership between the public and private sectors, and bankruptcy. With the completion of the implementation regulations of the aforementioned laws, an effective legal framework has been secured to pave the way for a vital role for the private sector and stimulate all the various investment initiatives, whether local or foreign.

## **FACILITATE ENTRY TO THE SULTANATE**

To support tourism and attract foreign tourists to the Sultanate, citizens of more than 100 countries will get visa-exemption. This will encourage more tourists to visit Oman, enhance the tourism sector and raise its contribution to the national economy.

## PILLAR (2): REVENUE DIVERSIFICATION INITIATIVES

The Government recognizes the need to strengthen the Sultanate's revenue-raising framework by decreasing its reliance on hydrocarbon revenues. Initiatives related to increasing non-oil revenues will have an impact of almost 1.4 billion OMR as follows:



### INITIATIVE (1): ENHANCING THE RETURNS FROM GOVERNMENT INVESTMENTS

The Oman Investment Authority (OIA) was established in June 2020 by merging the State General Reserve Fund, Oman Investment Fund, and the Government's ownership in all state-owned enterprises.

The merging of these entities eliminates duplication of functions, creates economies of scale, and helps to realize operational efficiencies and improved governance.

The OIA is actively leveraging the management expertise that existed within SGRF and OIF to enhance the governance and financial efficiency of the SOEs. Dividend targets have been formally expressed as part of on-going conversations for the out-years. These will consist of annual recurrent revenues to the government based on expected returns from the newly acquired assets under the OIA.



The OIA is actively leveraging the management expertise that existed within SGRF and OIF to enhance the governance and financial efficiency of the SOEs

## INITIATIVE (2): STRENGTHENING TAX ADMINISTRATION AND COLLECTION EFFICIENCY

The government is currently engaged in ongoing efforts to strengthen taxation administration and collection efficiency to ensure all companies are adequately addressing their tax obligations under the law. The issuance of Royal Decree No. 66/2019 established the Oman Tax Authority



(TA). This move is intended to provide increased focus on capacity building and tax administrative efficiency. Royal Decree No 103/2020 further supported the Sultanate's fiscal policy efforts by ensuring a clear linkage of policy from the Ministry of Finance and implementation of that policy by the Tax Authority.

The Oman Tax Authority has developed a comprehensive set of tax administration reforms and has been executing on these throughout 2020. Further efforts are planned, and the benefits of these efforts are expected to accrue over the medium term. These reforms include, but are not limited to:

- » Improving corporate income tax registration compliance for statutorily liable companies and increasing the rate of compliance through a mix of communication plans, enforcement tactics, system improvements, and other such reforms
- » Enforcing the statutory penalties and fines for non-registered companies and late filers
- » Increasing the human resources and capabilities of the Taxation Authority
- » Integrating the tax management system with other government systems to improve excise tax and corporate income tax compliance
- » Reviewing the withholding tax regime and identifying opportunities to increase collections
- » Developing a risk-based audit framework and procedures

Oman will join 160 other countries in the world that impose the VAT

### **INITIATIVE (3): VALUE ADDED TAX**

In line with the GCC VAT Treaty, The Sultanate introduced VAT by the issuance of Royal Decree No 121/2020 on October 12<sup>th</sup> 2020. The Value Added Tax (VAT) will be imposed within 180 days from the date of publication of Royal Decree in the Official Gazette. Oman will join 160 other countries in the world that impose the VAT. The introduction of VAT will serve as the foundation for the Sultanate's revenue raising framework by introducing a broad-based indirect tax.

A socioeconomic impact assessment has been carried out by an independent, third-party to assess the fiscal, social, and economic impact of VAT in Oman. This assessment has allowed the Government to carefully design a VAT regime that takes into account the unique social context of the Sultanate. Over 90 basic goods have been zero-rated to ensure Omani households do not see higher prices in basic food-stuffs and other household essentials. Oman has also chosen to exempt healthcare, education, and residential rents from the VAT system - meaning these critical services will not see the VAT increment added. Additional refund mechanisms are also being considered where appropriate to achieve other social objectives.

### **INITIATIVE (4): INCOME TAX ON HIGH EARNERS**

The government is actively looking at all sources of revenue in order to plug the gap in the deficit. This includes looking at personal income tax.

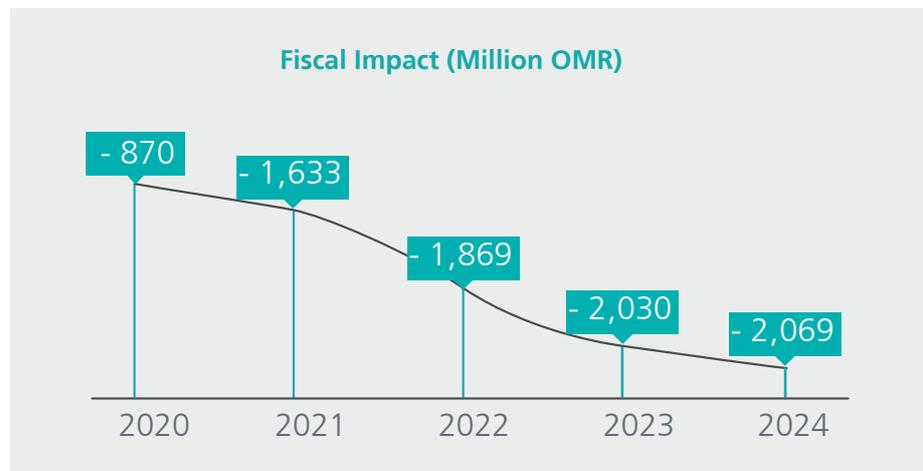
The use of personal income tax is a widely used tool to diversify governments' revenues. The proceeds from personal income tax is usually directed towards public services and social programs, as it is used as a tool to redistribute the income within a society.

Currently, the government is evaluating the tax and how it can best be implemented. The government will evaluate the tax from all aspects including, societal impacts, economic impacts, and fiscal impacts. In order to ensure the most efficient and equitable tax for all.

## PILLAR (3): EXPENDITURE RATIONALIZATION AND EFFICIENCY

During 2020, the government adopted a policy position to reduce the operational and development expenditures of government agencies by 10% from the 2020 State General Budget

Current, or operational, expenditures by civil, security, and defense agencies represents the majority of government expenditures. During 2020, the government adopted a policy position to reduce the operational and development expenditures of government agencies by 10% from the 2020 State General Budget. The government is committed to further recognizing efficiencies in 2021 by reducing recurring spending compared to the levels achieved in 2020. Cost optimization and reductions are not across-the-board cuts, but rather rationalized in order to ensure the least disruption to government operations. Some of the initiatives being pursued in this area are highlighted below. The government restructuring undertaken in August 2020 is just one of the many efforts underway to increase operational efficiency, unlock synergies, and realize real savings on a structural basis. Expenditure rationalization and efficiency initiatives will target to achieve the below fiscal impact:

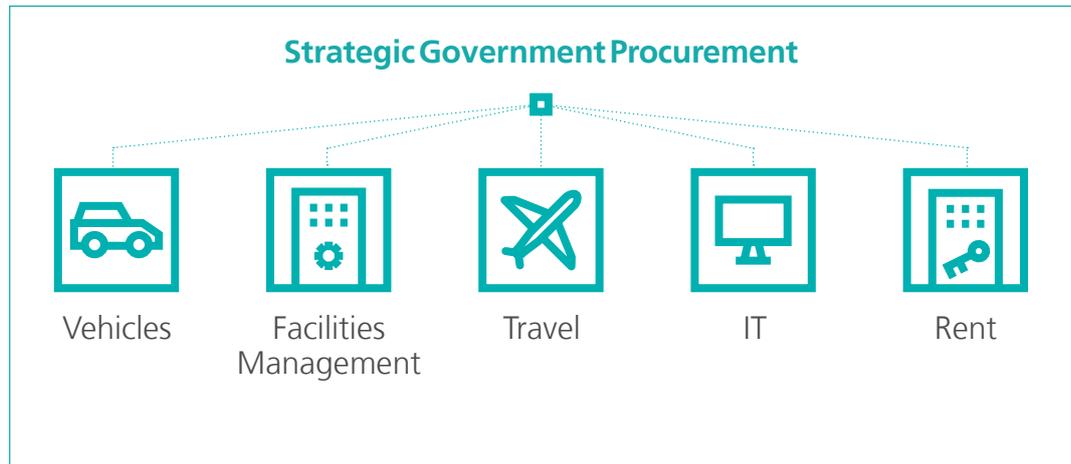


The following are the initiatives that will contribute to achieving the target:

### INITIATIVE (1): STRATEGIC GOVERNMENT PROCUREMENT

Procurement of goods and services is the largest operational expenditure after salaries and wages. While the past years has seen many entities reduce their procurement spend, additional efficiencies exist by strategic sourcing, strengthening procurement controls, developing standardized pricing catalogues, and developing strong procurement expertise.

This initiative aims to reduce the cost of operating expenses for civil ministries by strategic sourcing for the biggest spend category, leveraging and benefiting from the economy of scale, better suppliers management standardizing and optimizing procurement practices across government.



## **INITIATIVE (2): DEVELOPMENT EXPENDITURES**

The investment budget serves as the Sultanate's main investment vehicle to stimulate economic development. As Oman's infrastructure has begun to meet demand requirements, focus will now shift towards maintaining critical infrastructure and prioritizing new projects that are in-line with the country's development objectives. This presents cost saving opportunities for the Government and the ability for the private sector to play a larger role in the provision of competitive goods.

The initiative has been designed around the following pillars:

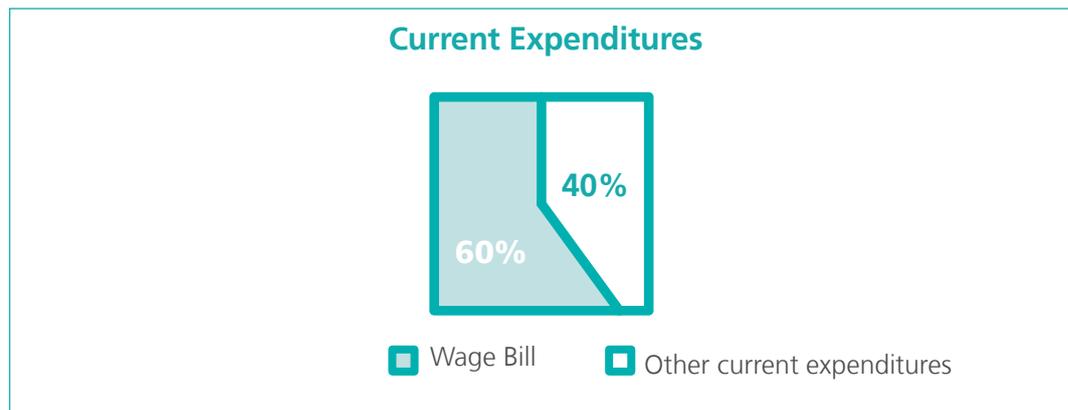
- » Review and optimize existing commitments,
- » Rationalize new spend, and
- » Strengthen capex spending governance and oversight.

The longer-term goal of these efforts is to strengthen the governance, policies, procedures and supporting guidelines that support the delivery of the development budget.

### INITIATIVE (3): REVIEWING CURRENT EXPENDITURES AND SPEND CONTROL

This initiative will target further reviews on the current expenditures in order to control the spend. Currently, salaries and wages is the single most significant cost in the state budget, accounting for more than 60% of total operational expenditures for the government entities. Work is undergoing to introduce individual and entity performance management system and linking this system to the wage bill. Oman has undertaken several reforms over the past five years to contain the growth of the public wage bill – including hiring freeze except for critical public services such as health and education. Additional areas of focus are underway to help not only contain growth but bend the current expenditures cost-curve downwards in the medium-term.

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### INITIATIVE (4): PUBLIC SERVICES SUBSIDY REFORMS

Government subsidies to public services account to approximately OMR 1 billion. The current system allows everyone to benefit from these subsidies, whether they're companies or families, citizens or expats, well-off or not so. The Sultanate recognizes adjustments to the revenue-raising framework alone are not enough; as such, the Government is also pursuing a range of cost containment and expenditure optimization initiatives. Redesigning subsidies and the social safety net are critical components to helping contain future expenditure growth and capture savings opportunities. This initiative intends to reallocate the subsidy to the vulnerable and people who deserve it by gradually increasing the electricity and water tariffs and ensuring that support is provided for vulnerable populations.

## **PILLAR (4): SOCIAL SAFETY NET**

Redesigning subsidies and the social safety net are critical components to allow the country to move away from universal support to targeted support for vulnerable families. The reform package should work to ensure social protection for vulnerable populations and promote intergenerational fairness so future generations of Omanis can benefit from the country's natural and financial wealth. It should also be noted that ensuring social protection is not just the responsibility of initiatives focused on reforming the social safety net; rather, all initiatives have this obligation. May it be zero-rating essential food-stuffs and households good in the value-added tax (VAT) or structuring electricity tariffs in a way that gives preference to the primary households of Omani families, all initiatives must do their part to promote social equity and ensure support for Oman's most vulnerable.

The work is ongoing to develop a holistic social safety net to address its current situation. The plan aims to better define what constitutes a vulnerable population in order to improve program coverage, strengthen the targeting of benefits to vulnerable populations, and increase the adequacy of the financial benefits provided. A particular focus has been placed on ensuring that short-term support mechanisms are developed to offset water and electricity subsidy reforms while also developing a longer-term strategy to holistically rationalize and strengthen the entire social safety net system.

## **PILLAR (5): PUBLIC FINANCIAL MANAGEMENT AND GOVERNANCE**

The Sultanate's fiscal strategy, in line with Vision 2040, aims to increase the efficiency of the state administrative apparatus and foster a business environment that supports private sector growth. The Government acknowledges that in order to carry out the fiscal reform package as presented, several additional improvements to public finance management activities in the Sultanate are necessary. Given the importance of this, the Ministry of Finance will implement and monitor several initiatives in this area. This section provides a non-exhaustive summary of some of these enabling initiatives.

- » Development of the Government Financial Management Information System (GFMIS): The information that the GFMIS makes available for decision makers would help facilitate fiscal policy decisions, provide increased transparency and accountability, improve the quality of cash and debt management, increase the coverage of the budget, and support medium-term fiscal planning efforts.
- » Debt Management Office (DMO) and Macro Fiscal Unit (MFU) capacity building
- » Implementation of a treasury single account (TSA) program
- » Implement a National Asset Register
- » Enhancing Endowments management

**THE SUCCESSFUL IMPLEMENTATION OF THE MTFP WILL ENSURE THE GOVERNMENT ACHIEVES A FISCAL BALANCE IN THE MEDIUM TERM IN ORDER TO ESTABLISH A STRONG FOUNDATION FOR OMAN VISION 2040.**

