

Comments on Oman's fiscal stance in Times of Oman, 8 Oct 2016

The original article titled "[Over a barrel: \\$73 is break-even target for Oman](#)" was published on 8th October 2016 in Times of Oman; comments highlighted below.

Over a barrel: \$73 is break-even target for Oman

Oman needs more cost-cutting, taxes and foreign direct investment if it is to pull through the oil slump, experts say.

The International Monetary Fund (IMF) has reported that the country's "break-even" price for a barrel of oil this year is \$73.

Despite the price of a barrel of crude rising to over \$50 for the first time since August, the IMF experts reckon another \$23 per barrel is required just to balance the country's books.

One of the region's most respected analysts has said that an "open skies" policy on 100 per cent foreign direct investment – especially in tourism – coupled with new tax regimes are just two of the measures required to pull Oman out of a downward economic spiral caused by the turbulence in the oil price.

In terms of FDI, the government is already making moves. James Wilson, CEO of Omran, the umbrella government appointed body overseeing tourism investment in Oman, confirmed that attracting foreign money is high on their list.

"Omran is currently in discussions with foreign and local investors for joint ventures on its projects," he said.

More taxes and subsidy cuts would also throw Oman a lifeline in the current climate, according to Dr Nasser Saidi, a member of the IMF's Regional Advisory Group for MENA and Co-Chair of

the Organisation of Economic Cooperation and Development's (OECD) MENA Corporate Governance Working Group.

Dr Saidi believes Oman is on the right track but more needs to be done.

He said: "Oman's government needs to be commended for rapidly taking action following the dip in oil prices."

"The IMF estimates fiscal break-even oil price for Oman at a high of \$73.1 this year and a higher \$76.7 next year – one of the highest among the GCC nations.

"This should only be taken as an incentive to introduce more economic reforms to increase diversification: new tax regimes, further expenditure reducing policies like removal of further subsidies, efficient pricing of public utilities and liberalising the FDI regime.

"I would favour going for 100 per cent foreign ownership on a selective basis and in hi-tech, knowledge-based sectors that would create jobs and attract foreign investment. The continued emphasis on tourism, transport and logistics is another sector that can be opened to foreign investment, through liberalising access to Oman through an open skies policy."

Dr Saidi added that a number of measures were implemented to address the deterioration in Oman's fiscal balance – including lower expenditure on wages and benefits, subsidies, defence, and capital investment by civil ministries, estimated to have reduced expenditures by some 8 per cent of GDP this year.

"While it is true that the fiscal deficit still remains high, in spite of these reforms, given even lower oil revenues, in the medium-to long-run will provide ample support to the fiscal stance, especially once the VAT and proposed corporate incomes tax revenues begin to come in. The introduction of excise duties on specific goods could be another measure towards greater revenue diversification," he said.

Private sector engagement

"The government also needs to encourage greater private sector engagement through PPP, and introduce expenditure switching policies (away from subsidies) and re-orient spending towards

sectors like health & education and infrastructure to benefit the country in the long-run.

His views were echoed by politicians and industrialists across the country.

“Global oil price should be \$75 or above this year, only then can Oman overcome the current crisis. We don’t have a clue where we are heading with this current price range. Tomorrow, if oil prices go back to January levels, then we will be in a big mess,” Tawfiq Al Lawati, a member of the economic panel in Majlis Al Shura, told Times of Oman.

On Friday, Oman crude was traded at \$50.12 per barrel for the first time this year.

Last Monday, oil rose more than 1 per cent, with Brent settling above \$50 a barrel for the first time since August and US crude hitting a three-month high.

According to Al Lawati, the projected budget deficit of OMR3.3 billion will widen and touch at least \$5 billion if the oil prices do not rise. “The crisis is already affecting the education and health sectors,” he added.

In the 2015 budget, the government allocated OMR4.6 billion for both health and education. In the 2016 budget, that dropped to OMR3.8 billion. Oman’s budget deficit has increased by 68 per cent to OMR 4.02b from OMR2.39b. Omani crude oil was sold at an average price of \$35 per barrel during Q1 of 2016 compared to \$59.3 per barrel during Q1 2015.

“The government should make sure that the austerity measures adopted are followed strictly. Then we will be able to cushion the effect,” Al Lawati said.

Forced to cut expenses

An Omani industrialist said the government was able to fund big projects only when the oil price was \$105 per barrel and when it came down to \$60 per barrel it was forced to cut its expenses to save money. “The current oil price is a challenge for Oman,” he added.

In August, the World Bank said Oman’s subsidy bill is expected to fall by 64 per cent this year as the government seeks to reform its finances.

Anchan C K, an international business advisor, said that the weakness in the oil market in 2016 would suggest that the current account deficit will deepen further in 2016. "Household confidence has declined and any reform of the system of subsidies will reduce purchasing power," Anchan said, adding that inflation will continue at around 2 per cent in 2016.

According to the NCSI, Oman's inflation registered a 1.3 per cent rise in July 2016 compared to the same month in 2015.

Manjot Singh Chug, executive director at Business Tax Advisory Services in Ernst and Young, said that several western economies operate under huge budget deficits and it is not the deficit itself but its management which is critical.

"It is going to be a long journey, no doubt, but it is happening. People need to embrace the new reality and work around that. Nobody can pre-empt when the cycle will turn, but it will eventually," Manjot added.

Mubeen Khan, chairman of the Institute of Chartered Accountants of India (ICAI) Muscat Chapter, said that he is confident that the government will finally manage to contain the deficit to the projected level or further reduce the deficit as 2016 draws to a close.

"I agree the economy is walking a tight-rope now but not hit so hard as its GCC peers," Mubeen said.