



Guide to Reading the State's General Budget

Sultanate of Oman
Ministry of Finance
2015

Preface

It is the Ministry of Finance's pleasure to publish this guide for reading the State's general budget. This has come in response to the clear interest by all segments of the Omani society in understanding the budget with all its various details, since it is considered an important document that affects not only the civil servants but also the entire society due to its economic and social dimensions.

The Ministry believes that communicating with citizens and involving them in tracking the budget's operations and figures, including financial data, is a responsibility which it must undertake in performing its role in promoting transparency and making documented information available to everyone.

The Ministry of Finance is also confident that this effort will yield significant returns, since all writings and analyses relating to financial topics will be based on a reference with correct information. As a result, they will be of higher value and credibility and will represent a strong foundation for managing an effective financial dialogue on the budget for the country and its citizens.

This guide contains a brief history of the State's general budget from 1970 to 2015, in order to explain the evolution of government revenues versus the State's public spending during this period. It also touches upon the objectives for which the 2015 budget is prepared, in addition to readings for the most important items of the budget such as the revenues and expenses of oil and gas production, other revenues, public expenditure of ministries and government units.

Finally, I would like to express my gratitude and appreciation to specialists at all the Ministry's directorates who participated in and contributed to the preparation of this guide, trusting that it will achieve its desired benefits.

We ask Allah the Almighty to grant us success in serving this generous country under the wise leadership of His Majesty Sultan Qaboos Bin Said.

Darwish bin Ismail bin Ali Al Balushi

Minister Responsible for Financial Affairs

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Introduction

In order to accomplish work or establish any project at the level of individuals, groups or governments, there are resources required such as material and human resources, a suitable timeframe and necessary planning. Hence, the term "budget" has come into use. It means a government plan to establish and strike a balance between the required costs of economic and social development, as well as needed expenses for procuring goods, services and technical and administrative competencies, on one hand and financial resources necessary for paying such costs on the other hand. It simply and generally means creating a balance between expenditures and revenues, as well as any resulting surplus or deficit.

The State general budget is the document in which the government registers its annual plan for spending on development and the revenues it expects for covering this cost. Therefore, it is a document that targets the Omani citizen today and tomorrow, and seeks to:

- *Provide funding for delivering important social services and infrastructure necessary for achieving economic growth and improving citizens' income.*
- *Provide incentive packages for raising the rates of employment for Omanis.*
- *Diversify and stimulate revenues so as to provide necessary funding for achieving the targets of public spending and reducing dependence on oil revenues.*
- *Achieve fair distribution of wealth*
- *Achieve financial sustainability*

Since the State's general budget is a financial document of paramount importance, it shall be prepared and implemented within a legal framework governed by:

- Basic Statute of the State (Royal Decree No. 101/96).
- Financial Law (Royal Decree No. 47/98).
- Income Tax Law (Royal Decree No. 28/2009).
- State's Financial and Administrative Audit Law (Royal Decree No. 111/2011).

The **Omani citizen** is the core target by the government's developmental efforts. Therefore, it was important to prepare a guide enabling citizens to read the State's general budget and track expenditures and revenues, in a way making the budget primarily address citizens. It helps present the budget for all in a form far from the accounting style used by government in dealing with its units when distributing budgetary allocations and accounting thereof.

That is why the Ministry prepared this guide and made it available on its website for those who are interested in the issues of expenditure and public resources, a matter of great importance for the Omani society and its bright youth.

Income or expense on which the budget is based are classified as per the nature and type of each item.

As for revenues, they consist of oil and gas revenues, current and capital revenues, and capital repayment. Oil and gas sale proceeds represent the largest share of total revenues.

As for expenditures, they are categorized into three types. Current expenditures recur on a daily, monthly or annual basis such as salaries, wages, electricity and water consumption expenses, maintenance fees and rents. They also include expenses that are paid one time for acquiring production means and operation tools including equipment, machinery, transportation means, land, buildings and furniture. These expenses are called "capital expenditures" because they have a long productive life and are used for periods exceeding one year to achieve different objectives.

Expenses that are allocated and directed to implement a specific capital project and components of infrastructure projects, such as roads, hospitals, schools and houses, are called "developmental expenditures".

This guide consists of three basic parts as follows:

1. Explanations for a set of the most important terms used in preparing and implementing the budget.
2. A historical brief about the State general budget and its evolution over years, concluding with a presentation of the 2015 budget, as well as the major objectives contained therein to achieve the goals of budgetary work for serving Omani citizens.
3. Explanations about how to read the budget:
 - The budget is a specialized work, and each number contained therein has a legislative basis upon which it is calculated as stated in the Financial Law. Therefore, some numbers appear as a net figure and others appear as a total. Some refer to a short period revolving around the year, while others reflect longer periods, each as per the accounting basis applied thereto.
 - The government serves the society through allocations given to ministries and public authorities as shown in the general budget, as well as transfers to public companies, which provide services to citizens or set up projects for this purpose.

For presentation purposes, the estimated numbers of the 2015 proposed budget were used, in addition to the preliminary numbers of the closing account for the year 2014 and the closing accounts of several previous years. For more information about the 2015 budget and previous final accounts, please visit the Ministry's website www.mof.gov.om.

Terms Used in the Budget

What does the word "budget" mean?

- A budget is an accountability framework as it is a statement of account or a financial statement of revenues and expenditures for a fiscal year.
- Each person or entity has a specific source of income. This income is the revenue. At the same time, this income is spent on the various expenses.

How does this budget become a "general budget"?

- The budget may be a "private one" when it relates to a person or a certain entity.
- However, it becomes a "general budget" when it serves all citizens and entities without discrimination or exclusion of any of them.

Therefore, the "State general budget" is:

- The planned financial program prepared for a next fiscal year to achieve specific objectives within the framework of the approved development plan and as per the State's general policy, which is ratified annually pursuant to the law (Article 1 of the Financial Law).
- This means it is a financial statement of government revenues and expenditures.

What is the significance of the State general budget?

- It is the most important financial document issued by the government.
- It is the document that determines the state's economic and social trends. It is also the program of social and economic action set by the government for a next fiscal period.
- It includes social programs and services delivered by the government during a fiscal year. It also includes policies necessary for promoting economic activity.

Given the importance of the budget document, it shall be presented to the State Council of Oman in due time before the start of the fiscal year so that it can be discussed appropriately.

The general budget in any country aims at:

First goal: Enhancing the quality of life for citizens.

Second goal: Promoting economic activity and stimulating growth and employment.

Third goal: Maintaining and sustaining economic stability.

Therefore, the budget shall include two main groups, namely:



Where do the resources of the general budget come from?

The budget resources come from revenues received by the government from society and the proceeds of state-owned assets, such as:

- Revenues from publicly-owned assets such as the revenues of oil, natural resources, public companies and others.

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- Revenues from government services delivered to citizens such as agricultural, health, transportation and other services.
- Taxes and fees of different types such as income taxes, sales taxes (not applicable in the Sultanate), customs duties, vehicle license fees and others.
- Aids and grants received by the State either from the governments of other states or from international organizations.
- Local and foreign loans received to cover the general budget deficit.

Where are these funds spent, or in other words what are the general budget expenditures?

The government uses these resources in spending on the following:

- Paying for government employees.
- Providing health, educational and social services to citizens
- Implementing basic infrastructure projects, including transportation, road pavement, potable water, sanitation and other projects
- Subsidizing some commodities, the most important of which are oil products and basic food items
- Paying pensions and social contributions to the lowest-income and most needy people
- Paying interest and instalments of domestic and foreign debt due on the government.
- Covering the expenditures of maintaining security and protecting the homeland internally and externally.

How are the revenues and expenditures of the general budget divided?

The revenues and expenditures of the general budget are presented under three types of classification as follows:

First: Functional classification of the General Budget

- Classifying public expenditures as per the functions carried out by the government in the fields of education, health and social welfare, as well as other functions.
- This classification answers an important question regarding public expenditure: "what is the purpose of spending?". It is used to measure how the government allocates available resources to carry out specific activities and achieve various goals
- Table (2/1) of the annual budget booklet shows the estimates of revenues, and Table (4/1) shows the estimates of current and capital expenditures that are functionally divided as follows:

Public Services	Defense	Transport and Communications
Education	Health	Housing
Social Safety and Welfare	Culture and Religious Affairs	Energy and Fuel
Agriculture and Fisheries	Security and public order	Other economic affairs

Second: Administrative Classification of the General Budget

- Distributing public expenditures to the State's administrative entities such as ministries and other government authorities. .
- This classification is aimed at showing public expenditures distributed to ministries and authorities which actually carry out spending activities. This is for the purpose of establishing a relation of responsibility between spending and functions carried out by the relevant ministry or authority, through answering an important question: "Who does carry out spending activities?"
- Current and capital expenditures in the State general budget are administratively divided as follows:

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First: Ministries	
Ministry of Housing	
Ministry of Information	Research Council
Ministry of Endowments and Religious Affairs	The Council of State
Ministry of Defense	Shura Council
Ministry of Environment and Climate Affairs	Judiciary Administrative Affairs Council
Ministry of Commerce and Industry	Tender Board
Ministry of Heritage and Culture	Supreme Council for Planning
Ministry of Education	Oman Medical Specialty Board
Ministry of Higher Education	
Ministry of Social Development	Third: Public Authorities and Establishments
Ministry of Foreign Affairs	Duqm Special Economic Zone Authority
Ministry of Civil Service	National Documents and Archives Authority
Ministry of Interior	Information Technology Authority
Ministry of Regional Municipalities and Water Resources	Public Authority for Small and Medium Enterprises Development
Ministry of Agriculture and Fisheries	Public Authority for Consumer Protection
Ministry of Tourism	Public Authority for Manpower Register
Ministry of Sports Affairs	Public Authority for Radio and TV
Ministry of Legal Affairs	Public Authority for Craft Industries
Ministry of Health	Public Authority for Civil Aviation
Ministry of Justice	Public Authority for Electricity and Water
Ministry of Manpower	Public Authority for Stores & Food Reserve
Ministry of Finance	Oman Academic Accreditation Authority
Ministry of Finance (other allocations)	Oman Establishment for Press, Publication and Advertising
Ministry of oil and gas	Other establishments
Ministry of Transport and Communications	
Diwan of Royal Court	Fourth: Other Entities
Sohar Municipality	Royal Office
Muscat Municipality	State's Audit Institution
Royal Court Affairs	Administrative Court
Muscat Governorate	Royal Oman Police
Office of the Deputy Prime Minister for Cabinet Affairs	Royal Guard of Oman
Office of the Minister of State & Governor of Dhofar	Public Prosecution
Supreme Committee for National Day Celebrations	Al Raffd Fund
	Institute of Public Administration
	Sultan Qaboos University
	Oman University Project
	Budget of pensions and end of service benefits
	Contribution to Omani government employees' pensions

Third: Economic Classification of the General Budget

- Dividing public expenditures by the economic nature of a transaction, i.e. whether paid or unpaid for current or capital purposes. This division answers an important question on the expenditure side: what is the purpose of spending?
- This is an important question to know the nature of government operations and their economic impacts. It is recognized that the economic impact of directing public expenditure to the item of wages is different from that when it is directed to the item of spending on building fixed assets such as roads or schools.
- The following table shows the economic division of the State's public expenditures and resources.

Government Expenditures	Government Revenues
Current Expenditures	Current Revenues
(a) Service and Commodity Expenditures	(a) Taxes and Fees Revenues
(b) Commodity and Service Supplies	(b) Non-Tax Revenues
(c) Subsidy and Other Current Transfers	(c) Specified Reserve (Undistributed Revenue)
Capital Expenditures	Capital Revenues and Repayments
(a) Fixed Assets	(a) Capital Revenues
(b) Miscellaneous Fixed Assets	(b) Capital Repayments
Development Expenditures	(c) Sale of Investments

How is the general budget deficit or surplus estimated?

The deficit or surplus shall be estimated by calculating the difference between revenues and public expenditure. If government revenues exceed public expenditure for a fiscal year, such difference shall be defined as a surplus in the general budget. If public expenditure exceeds revenues, then such difference shall be deemed as a fiscal deficit in the budget which shall be financed by several means, such as taking loans or using reserves.

What are the accounting bases for registering expenditure in the general budget?

Public resources and expenditures are registered in the budget in accordance to one of the two following methods:

First: Registration on Cash Basis:

- Through this registration, transactions shall be registered upon payment or collection in cash. This means that the registration of transactions is linked to the exit or entry of money, which is followed in registering all transactions, except those related to the development budget.

Second: Registration on Accrual Basis:

- It depends on registering the due value as a revenue or an expenditure within a certain period, regardless of payment or collection in cash. This is followed in registering the development budget.

What are the phases of the general budget cycle?

- The process of preparing and executing the budget consists of four phases:

First: Preparation Phase:

- The Ministry of Finance issues the circular of the State general budget within the first half of the current year and sends it to ministries and government units.
- Ministries and government units shall submit the proposals of their budgets to the Ministry of Finance in order to be considered and discussed in preparation for developing the draft of the State general budget and presenting it to the Council of Financial Affairs and Energy Resources.
- The draft of the State general budget is presented to the Cabinet Secretariat in preparation for being referred to the State Council of Oman for comments.
- The budget's final proposal is submitted to the Cabinet after the Ministry of Finance prepares its replies to comments and remarks given by the State Council of Oman.

Second: Approval Phase:

- The Cabinet refers the final draft of the State general budget to His Majesty Sultan Qaboos for approval.

Third: Budget Execution Phase:

- Ministries and government units, at the beginning of the fiscal year, start execute various spending programs in light of the amounts allocated thereto.

Fourth: Control and Audit Phase:

- During this phase, audit entities evaluate the results of executing the budgets of different entities and prepare financial reports thereon at the end of the fiscal year.

Are there rules for preparing the general budget?

There are several rules for preparing the general budget, the most important of which are the following:

- The budget shall be issued for a fiscal year with independent resources and expenditures.
- The general budget shall include all revenues and expenditures related to the State's financial operations of various types including loans, aids and any other means of financing government expenditures.
- No earmarked resource is allocated to a specific expenditure, except in cases of necessity to be determined by a royal decree, or in implementation of agreements binding on the State.
- Public expenditures are within the limits of revenues, provided that a deficit therein is financed by other external and internal resources.

What are the most important developments that the Ministry of Finance is seeking to achieve in the way of presenting the general budget?

The Ministry of Finance is doing so through transformation from a line item budget to a program and performance-based budget.

Program and Performance-Based Budget:

- Presents the programs of ministries and government units for a number of years, and not only one year, as well as their expected expenditures.
- It specifies the main programs for each ministry or unit and then divides them into sub-programs which will be divided into specific activities.
- It appropriates necessary funds for implementing main programs, sub-programs and different activities.

The process of applying the program and performance-based budget shall include the following steps:

- Identifying objectives to be achieved
- Designing necessary programs for achieving these objectives
- Estimating required costs and expenditures for these programs
- Setting performance indicators to follow up and analyze the results of implementing such programs and projects

Program and Performance-Based Budget Advantages:

- Linking expected results to the objectives of government units
- Facilitating the provision of data that determines the nature and type of outputs, performance indicators and their financial costs, and linking the same to the benefits which the government is seeking to achieve.
- Adopting the principle of accountability and responsibility in control over public funds.

On the other hand, the Ministry is seeking to move from the cash accounting system into an accrual accounting system, which will enable the registration of all the State's property of all kinds at fair value. The depreciation system will be applied according to accounting rates.

What is the public debt?

- It is the debt on the government or public authorities. The government shall remain burdened with this debt until it is repaid to creditors. This debt does not include the indebtedness of the private sector.
- There is no optimal ratio of public debt to GDP, and it's not simple to control a cap for the stock of this debt to be used as a benchmark for fiscal sustainability.
- States develop a number of rules to fiscally control the budget deficit and public debt in order to ensure financial sustainability.

What is the main objective of developing the rules and bases for preparing the budget?

- The main objective is to ensure the State's financial sustainability.
- This sustainability is achieved when the State can continue to implement the policies set thereby in its

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general budget and funds various public spending programs without exposure to financial distress and payment default.

- This means that the State shall work on not accumulating the budget deficit in order not to be forced to restructure and rearrange the priorities of spending and the mechanisms of financing such deficit in the future, to fund the burdens of debt repayment.

What are the main entities driving general budget actions?

- Council of Ministers
- Council of Financial Affairs and Energy Resources
- Secretariat of the Supreme Council for Planning
- Ministry of Finance
- State Council of Oman
- State's Audit Institution
- Ministries and government units

40 Years of Budgetary Work in the Sultanate (Achievements)

With the commencement the blessed renaissance on July 23, 1970, Oman entered a new stage in its modern history, the stage of planning, construction, development and prosperity. The first budget of the Sultanate was prepared in 1970 and was in the range of 50 million OMR. Today, it exceeds 14 billion OMR. The first annual edition of the State general budget was issued in 1971.

This budgetary work which continued over these decades has been reflected on all aspects of economic and social development in the Sultanate, such as roads, schools and hospitals, in addition to ongoing development in all areas of economic activities.

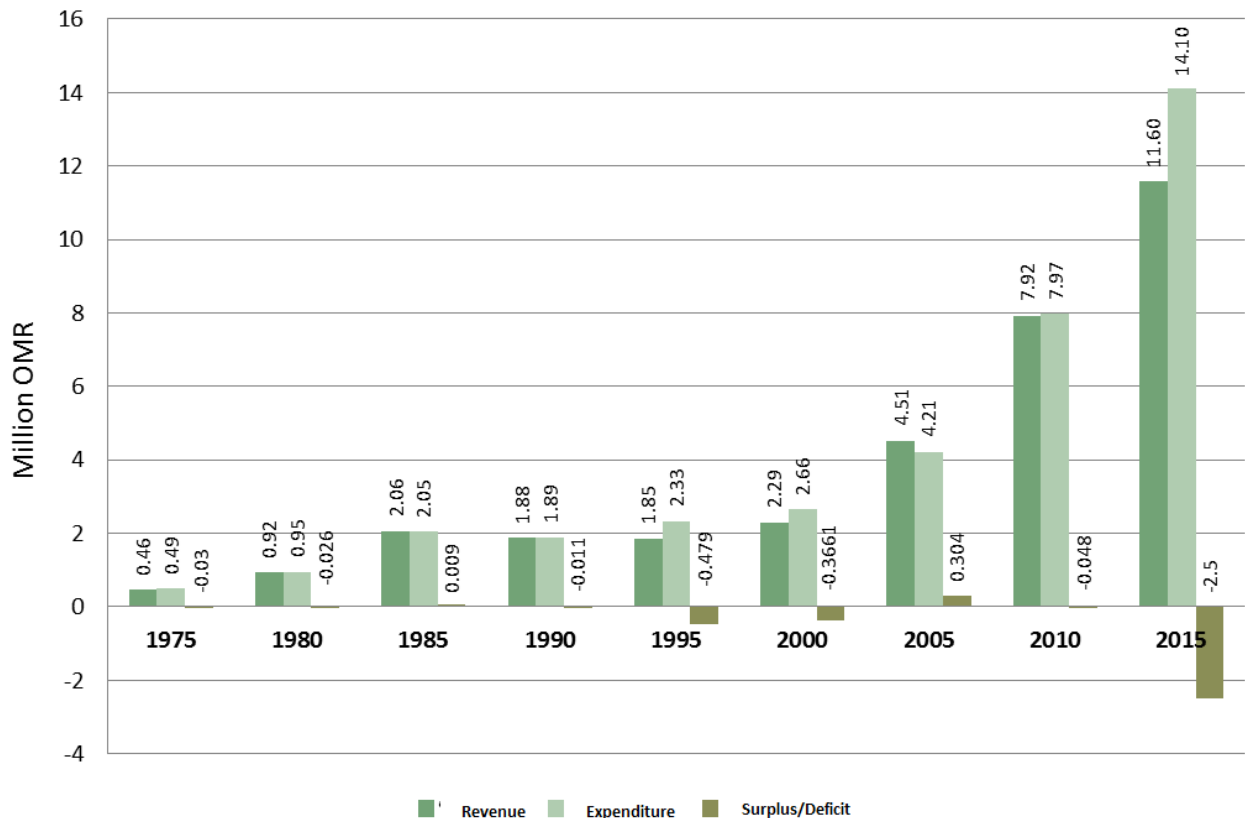
Ministry of Finance and Preparation of the State General Budget:

The Law regulating the administrative apparatus of the State No. 26/75 determined the terms of reference of the Ministry of Finance to include preparation of the budget and follow-up of its execution, maintenance of the State's accounts, investment of government reserves, receipt of the State's revenues and controlling its collection, enforcement of tax and duties laws, proposal of policies, plans and procedures for the Board of Financial Affairs.

Laws Regulating the Work of the Ministry of Finance

- Royal Decree No. 48/76 concerning executing domestic and foreign financial transactions, as amended by the two RDs Nos. 12/80 and 80/94
- Financial Law promulgated by Royal Decree No. 47/98, as amended by Royal Decree No. 74/99
- System for Collecting Taxes, Fees and other amounts payable to the units of the administrative apparatus of the State, promulgated by Royal Decree No. 32/94.1

Government Expenditure and Revenue (1975-2015)



Objectives of the State's General Budget for the Year 2015

In line with the fundamental objectives of the budgetary work, the 2015 budget comes as follows:

1. Continuing investment spending necessary to maintain economic growth rates and stimulate domestic demand. It is expected that the economy would grow by 5% at constant prices and that non-oil sectors will be the driver for this growth, which are expected to achieve a growth rate of 5.5%.
2. Continuing to carry on and complete development projects being implemented in different sectors according to the set schedule. These projects are hospitals, schools, airports, port expansion, road projects, fishing ports, and electricity, water and sanitation projects.
3. Moving forward in implementation of the new priority projects approved for the year 2015, as per the current five-year plan.
4. Continuing to develop and raise the efficiency of public services provided to citizens.
5. Paying attention to social aspects such as health, education, housing, social insurance and various subsidy programs.
6. Continuing the support and stimulation of small and medium-sized enterprises and implementation of development-related programs and raising of their productivity, as well expansion of services and programs of Al Raffd Fund in different governorates of the Sultanate.
7. Continuing to develop and raise the efficiency and productivity of the oil and gas sector to increase production rates.
8. Continuing to improve the efficiency of pre-university and university education, raising the efficiency of spending on these two sectors, providing funding to continue the policy of internal and external higher education scholarships in order to provide more opportunities for Omani students in higher education, and financing training and employment programs.
9. Maintaining the level of public debt, as a percentage of GDP, at a safe rate to support the stability of prices in the domestic market and protect the rights of coming generations.

Important figures of Expenditure in the 2015 Budget:

- *Education Sector: An amount of 3 billion OMR, i.e. 21.3% of the total public expenditure.*

- *Housing Sector: An amount of 2.3 billion OMR, of which 55 million OMR are allocated in 2015 to the Housing Assistance Program (supervised by the Ministry of Housing) and include building houses in different wilayats, 15 million OMR to offer soft housing loans, as well as 15.4 million OMR allocated in 2015 to the Housing Loan Program of the Oman Housing Bank.*

- *Subsidy and Exemptions: An amount of 1.8 billion OMR including the subsidy for interests on housing and development loans, and the subsidy for electricity, water, fuel and some basic food commodities.*

- *Health Sector: An amount of 1.6 billion OMR, i.e. 11.3% of the total public expenditure.*

- *Allocations of Social Insurance and Welfare: An amount of 129 million OMR to cover social security pensions.*

- *Internal and External Training Programs: An amount of 95 million OMR.*

State's General Budget for the Year 2015

The following statement provides a summary of the fiscal totals approved under Royal Decree No. (1/2015)

Schedule No. 1- (State General Budget Booklet)

(Millions OMR)		(Million OMR)	
Particulars	Budget Estimates	Particulars	Budget Estimates
First: Revenues:		Second: Public Expenditure:	
1) Net Oil Revenues	٧٧٠٠	Current Expenditures:	
2) Gas Revenues	١٤٦٠	1) Defense and Security Expenditures	٣٨٠٠
3) Current Revenues	٢٣٨٠	2) Civil Ministries Expenditures	٥١٦٦
4) Capital Revenues	٢٥	3) Oil Production Expenditures	٣٥٠
5) Capital Repayments	٣٥	4) Gas Production Expenditures	٢١٠
Total Revenues	١١٦٠٠	5) Interests on Loans	٥٠
		Total Current Expenditures	٩٥٧٦
		Investment Expenditures	
		6) Development Expenditures	١٦٥٠
		7) Capital Expenditures for Civil Ministries	٤٤
		8) Oil Production Expenditures	٧٨٠
		9) Gas Production Expenditures	٧٤٠
		Total Investment Expenditures	٣٢١٤
		Contributions and Other Expenses:	
		10) Subsidy for interests on development and housing loans	٣٥
		11) Contributions in Domestic, Regional and International Institutions	٢٠٠
		12) Operational Support for Government Companies	١٨٠
		13) Subsidy for Basic Food Commodities	٣٥
		14) Subsidy for Electricity Sector	٢٨٠
		15) Subsidy for Oil Products	٥٨٠
		Total Contributions and Other Expenses	١٣١٠
		Total Public Expenditure	١٤١٠٠
		Deficit (First-Second)	(٢٥٠٠)

Particulars	Budget Estimates
Third: Financing Means:	
6) Net Grants	٢٠٠
7) Net Foreign Borrowing	٢٠٠
- Loans Receivable	٤١٥
- Loans Payable	(٢١٥)
8) Net Domestic Borrowing	٤٠٠
- Loans Receivable	٥٠٠
- Loans Payable	(١٠٠)
9) Financial Surpluses Allocated to Cover the Deficit	١٠٠٠
10) Financing from Reserves	٧٠٠
Total Financing	٢٥٠٠

Particulars	Budget Estimates
Total Revenues + Financing Means	١٤١٠٠

The following part of the Guide provides an explanatory note on how to construct the most important financial items as set out in the table above. It constantly refers to the coding number of each item in the table to make it easy for the reader to track the financial values of items and link them to their explanations.

Reading the Budget's Items

Oil Revenues

(General Budget Booklet, Schedule 1, Item 1)

The government's revenues from crude oil and condensates come from its share in Petroleum Development Oman (PDO), which is considered the largest oil company in the Sultanate, in addition to another group of companies. These revenues are calculated as shown below.

Government's Share in PDO

The company's production is about 68% of the total oil and condensate production expected for the year 2015. The government owns 60% of the company's capital, and foreign partners own the remaining share of 40%.

The government also owns 100% of oil condensates produced from gas fields in central Oman. Such condensates are extracted with gas, but they are similar to oil in composition. Therefore, they are pumped through crude oil pipelines.

The government gets its share of the company's crude oil production at a percentage equal to its contribution (60%), in addition to the production of oil condensates. The government sells this share on its own, and all revenues are delivered to the State's Public Treasury. Then, the following is deducted from these revenues:

- Proceeds from selling 15,000 barrels per day to the Oil Reserve Fund.
- The government's share in production costs to PDO, as shown in Item (8), Schedule (1) of the budget.

Foreign partners market a proportion of production equivalent to their share of the capital (40%). Then, the following is deducted:

- Their share in production costs (current and capital)
- Return on investment which accrues to foreign partners: It is calculated according to a fixed and agreed equation depending on the sale prices of oil. It equals 6.5% when the price per barrel reaches 40 dollars or more. It does not exceed 8% when prices fall to 10 dollars or less. After deducting such dues, the government recovers the remainder of the net sales of foreign partners as taxes thereon.

As per the distribution above, the government shall receive a percentage ranging from 92% to 93.5% of the total revenues. Foreign partners receive the remaining share which ranges between 8% and 6.5% as explained above.

Net oil revenues consist of the sales value of crude oil and condensates produced in the Sultanate by oil companies, after excluding the value of production costs and the fees received by companies under production-sharing agreements signed between them and the government of the Sultanate. This net shall also exclude the amount to be transferred to the Oil Reserve Fund.

Particulars	2015 Budget Estimates
Average Oil Price (In USD)	70
Average Daily Production (Thousand Barrels)	990
Total Revenues of Oil Production (Million OMR)	10,420
Total of Recovered Expenses (Million OMR)	1,960
Government's Net Share of Revenues (Millions OMR)	7,800
Partners' Net Share of Revenues (Million OMR)	760

Government's Share in Other Companies

(The production of all other companies reaches about 32% of the total oil and condensate production expected for the year 2015 in the Sultanate.)

Crude oil and condensate production quotas are divided among the government and other companies according to the quotas stipulated in the oil agreements concluded with these companies separately. Expenses borne by these companies are recovered before delivering the net return to the State's Public Treasury.

Oil Production Expenditures

(General Budget Booklet, schedule 1, Items 8, 13)

They consist of:

As estimated in the General Budget, 62% of gas shall be consumed locally, while 38% shall be exported as liquefied gas during FY 2015.

Operating Expenditures

It represents PDO's current expenses on all operations procedures necessary for oil production, including wages and remunerations of company workers, expenses of operating and maintaining fields and wells, and requirements of other production facilities such as machinery, equipment and processing plants, in addition to costs of technology used for oil production.

Calculating capital and current expenditures

The government covers 60% of the company's capital and current expenditures. That's the amount stipulated in the State General Budget 2015, estimated at 1.130 billion OMR.

Foreign partners cover 40% of the company's capital and current expenditures, an amount not stipulated in the General Budget since partners transfer money directly to the company. Partners retrieve current costs when selling their share of production in the same year, while capital costs are retrieved through asset depreciation over five years, split as 40% in the first year, 30% in the second year, and 10% in each of the next three years.

Investment Expenditures

It represents PDO's investment (capital) expenditures, which cover field development and assessment, well digging, building facilities and processing plants to support and increase production.

Oil production expenditures in 2015 budget	Amount (Million OMR)
60% of oil production expenditures (current)	300
60% of oil production expenditures (investment)	780
Total	1130

The Oil Reserve Fund was established pursuant to the Royal Decree No. 1/96 issued on January 1st 1996 with a view to providing necessary guarantees for long-term loans that finance oil investments abroad made through PDO. Proceeds of 15,000 b/d of crude oil are transferred to the Fund, calculated based on actual set prices of Omani crude oil.

Based on the previously mentioned, Item 1 of the General Budget as shown in schedule 1 is described as "net revenues" from oil after all deductions mentioned above for foreign partners' share of revenues and production

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costs – except for Items 8 & 13 – shown in the General Budget as representing the government share of PDO production costs.

Natural Gas Revenues and Gas Sector Expenditures

(General Budget booklet, schedule 1, Items 2, 9, 14)

Natural Gas Revenues

They are the revenues received by the government from natural and cooking gas sales to different sectors and all consumers. They result from sales of gas owned by the government, in addition to gas purchased by the government from producing companies in order to resell to consumers.

Income taxes in the Sultanate are imposed only on corporates. Unlike most countries of the world, the Sultanate does not tax personal income.

Natural Gas Expenditures

Current (Operating) Expenditures

The government pays them to PDO in exchange for maintaining, operating and managing gas field facilities (upstream) in order to guarantee continuity of gas provision to consumers.

Natural gas revenues and gas sector expenditures estimated for 2015			
Particulars	(Million OMR)		
Natural gas revenues			146.
Natural gas expenditures			
Current			
Gas transportation	40		
Gas production (upstream)	60		
Gas purchase	100		
Total current expenditures		210.	
Investment			
Gas exploration (upstream)	89		
Gas production (upstream)	601		
Total investment expenditures		740.	
Total gas sector expenditures			950.

Gas transportation costs paid by the government to PDO for transporting gas through Oman Gas Company pipelines to consumers.

Gas transportation costs are the value of gas purchased by the government from producing companies after deducting its share pursuant to production sharing agreements signed by the government and such companies (with the exception of PDO whose production is 100% owned by the government), in addition to gas purchased from PDO which imports gas from the Dolphin Project in order to meet the local market's growing demand for gas, then resold by the government, represented by The Ministry of Oil and Gas, to local consumers at varying prices.

Investment Expenditures

Expenses paid by the government to PDO to implement field development projects and establish upstream projects to increase the efficiency of gas sector facilities, including field assessment and development projects and building gas processing plants and other facilities to support and increase production efficiency.

Costs of execute projects of the Government gas exploration program, executed by DPO, including seismic surveys of different dimensions and gas searching and exploration projects with a view to increasing reserves.

Current Revenues

(General Budget booklet, schedule 1, Item 3)

They include **tax revenues**, which cover corporate tax and customs duties, in addition to **non-tax revenues**, which cover license fees, transportation fees, commercial business and property transactions fees, airport and seaport income, immigration and passport fees, and government investment profits.

Tax rate for Omani corporates or Omani based companies is 12% of amounts exceeding 30,000 OMR of taxable income. For companies operating in the field of oil exploration, the rate is 55% of income resulting from oil sales.

Corporate Income Tax

Income tax ranks first among current revenues, representing approximately 20% of the total.

Taxable Persons

(Pursuant to the Income Tax Law issued by Royal Decree No. 28/2009)

- Any individual establishment owned by a natural person, whether an Omani citizen or a foreigner, practicing in the Sultanate a commercial, industrial, or professional independent activity.
- Any Omani company incorporated in the Sultanate according to Omani legislations, whether commercial, civil, or other.
- Any establishment for a foreign person, operating in the Sultanate through a permanent premise, whether personally or through an agent. Including any foreigner providing consultancy or other services in the Sultanate for no less in total than 90 days within a period of 12 months.

Taxable Income

Taxable income is the total income of any taxable person practicing any activity in the Sultanate, including all profits or gains acquired as a result of practicing any kind of activity such as capital or casual profits after deductions for deductible expenses or losses pursuant to the law or other legislations.

Withholding Tax (WHT)

Pursuant to the law, a tax is levied on certain kinds of income acquired in the Sultanate by any foreigner with no locally based establishment, including:

- Patent Royalties.
- Remunerations for research and development (R&D).
- Remunerations for using or the right to use computer software.
- Management fees.

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Any taxable person paying or recording any amount for the above mentioned income types is legally obliged to deduct a WHT at the rate of 10% of total paid or recorded amount and submit it to the General Secretariat, no later than 14 days from the end of the month of payment or recording, using the prescribed form.

Customs Duties

Customs duty revenues contribute represent effectively to total current revenues, ranking second after tax revenues, with a share of 13%.

Customs duties are applied in uniform with those applied in other Gulf Cooperation Council (GCC) countries, in accordance with their Customs Union Agreement. Certain kinds of income, stipulated in Article 115 of the Income Tax Law issued by Royal Decree No 28/2009, are exempted of payment, in addition to the exemption of a number of activities stipulated in Articles 116-119 of that law.

Non-tax Revenues

Non-tax revenues represent another important source of public revenues, most important of which are the following: Profits on government investments in stocks and capital equity, surplus of public entities, revenues from providing communications and airport services, water sales, immigration and passport fees, and financial fines and penalties. Total contribution of these revenues to public revenues almost equals tax revenues.

Capital Revenues

(General Budget booklet, schedule 1, Items 4, 5)

Capital revenues include sales of state owned lands and properties, in addition to state loans and capital transfers.

Primarily, these revenues are achieved through sales of state owned lands and properties through the Ministry of Finance , Diwan of the Royal Court (Municipality of Sohar), and the Ministry of Housing, in addition to revenues collected on sales of social housing units and government buildings, plus revenues on concessional housing loans to low-income people.

Capital Repayments

These revenues represent repayments of installments and interests on state-provided loans to public entities and organizations or others in or out of the country. The total amount of these repayments in the 2015 budget is estimated at 35 million OMR.

Estimated capital revenues and repayments for 2015

Particulars	Estimated Revenues (Thousand OMR)
Capital revenues	
Public Services sector	٥٠٠
Housing sector	٢٤,٥٠٠
Total capital revenues	٢٥,٠٠٠
Capital repayments	٣٥,٠٠٠

Current and Capital Expenditures of Civil Ministries

(General Budget booklet, schedule 1, Items 7, 12)

Total current and capital expenditures for civil ministries in the 2015 budget proposal were about 5.2 billion OMR.

Broken down by economic sector, education and health got the largest share of government expenditure with 47.8%, followed by housing and social insurance with 22% of the total.

They are the expenses paid by the government for salaries, allowances and other compensations to employees, and its contribution in pension funds, and the value of goods and services the ministries need to carry out their duties.

Current and capital expenditures consist of salaries for 7,309 employees, procurement of government goods and services, including, OR 106 million for medical supplies, 49 million OMR for employee training and studying. Other current and capital expenditures include costs of procuring agricultural, educational, office and computer equipment, in addition to government spending on electricity, water, phone, and internet bills to support ministries fulfill their mandates.

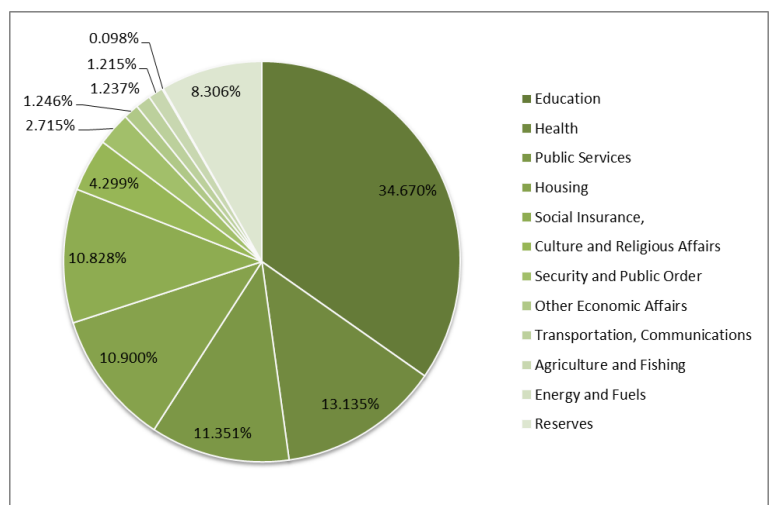
Salaries and allowances represent about 66% of total current and capital expenditures in the 2015 budget proposal. Compared to the end of 2010, the total salary increase during the 8th National Plan is estimated at about 133%,

Salary, allowance, and other remuneration changes during 2011-2015

Year	٢٠١١	٢٠١٢	٢٠١٣	٢٠١٤	٢٠١٥
Salaries, allowances (Million OMR)	3,102	3,992	4,442	5,729	6,014
Annual increase (%)	١٨	٢٩	١١	٢٨	٥

Estimated current and capital expenditures in the 2015 budget by function

Particulars	Thousand OMR
Education	1,806,288
Health	684,354
Public Services	591,374
Housing	567,865
Social Insurance,	564,154
Culture and Religious Affairs	223,999
Security and Public Order	141,468
Other Economic Affairs	64,913
Transportation, Communications	64,434
Agriculture and Fishing	63,304
Energy and Fuels	5,109
Reserves	432,738
Total	5,210,000



Development Expenditures of Civil Ministries

(General Budget Booklet, schedule 1, Item 11)

Project implementation run mostly over several years. Consequently, monitoring their investment expenditure requires reviewing general budgets of these years, in addition to pertinent 5-year development plans.

In this regard, it is worth noting that the 2015 budget is the final budget for the current 5-year plan 2011-2015, of which a summary follows. Then an overview of the 2015 development budget is represented:

Development expenditures of civil ministries are the portion annually allocated in the budget for development projects as shown in the 5 year development plan.

8th 5 year plan (2011-2015)

Expenditure of 5571.6 million OMR were approved for civil ministries' new projects in the 8th 5-year plan (The Investment Program of Civil Ministries). Total costs of gross allocations for civil ministries' investments in the development budget for ongoing and new projects enlisted for implementation in the 8th 5 year development plan (2011-2015) stood at 12056.4 million OMR, compared to the allocations of the previous 7th development plan (2006-2010) of 3016.3 OMR. Thus, the 8th plan is 299.7% larger than the 7th plan, due mainly to the substantial ongoing and carried forward financial allocations from the 7th 5-year plan, as a result of significant additions to the 7th plan's allocations.

Also, the adjusted budget for the 8th 5-year plan during the first quarter of 2015 stood at about 17547.1 million OMR.

Sector	Plan Allocations (Million OMR)	Adjusted Allocations (Million OMR)
Roads, Airports, and Seaports	٥٥٧٦,٥	8520.3
Health, Education, Vocational Training	١٣٨١,٢	2495.9
Other Productive, Service Sectors	١٦٦٢,١	1708.8
Housing and Community Centers	١٠٦٩,١	1705.9
Electricity, Water, Dams	٩١٠,٣	1211.5
Media, Culture, Youth Centers	٤٥٥,٣	795.6
Regional Municipalities, Environment, Sanitation	٤٧٢,٩	619.5
Agriculture and Fishing	٢٢٣,٦	347
Tourism	١٠٥,٤	142.6
Total	١٢٠٥٦,٤	17547.1

Details of projects listed in the 5 year plans can be obtained from the document of Investment Program for Civil Ministries on the Higher Planning Council website.

The 2015 Development Budget

In light of preliminary estimates of both allocations and expenditures of the 2014 development budget by the end of August, total allocations for ongoing and new projects in the 2015 development budget are estimated at about 10,138 million OMR, of which 8,881.6 million OMR are allocated to ongoing projects and 1,256.4 million OMR are allocated to new ones planned for implementation during 2015, that's 643 million OMR less than adjusted allocations for the 2014 budget by the end of August 2014 which totaled 10,781 million OMR.

Preliminary estimated allocations for the 2015 budget (million OMR)

Sector	Project stacks from previous plans	New projects 2011-2014	New projects 2015	Total	Relative Weight
Roads, Airports, and Seaports	1,057,6	3,086,0	471,0	4,614,6	%40,0
Regional Municipalities, Environment, Sanitation	123,0	260,6	21,1	404,7	%4,1
Health, Education, Vocational Training	192,4	1,127,2	303,4	1,623,0	%16,0
Housing and Community Centers	123,0	012,3	133,3	268,6	%7,6
Electricity, Water, Dams	203,9	727,0	00,0	930,9	%9,7
Media, Culture, Youth Centers	177,1	204,9	10,0	392,0	%4,4
Agriculture and Fishing	18,8	109,0	38,1	165,9	%2,1
Tourism	36,4	00,4	10,1	46,9	%1,0
Other Productive and Service Sectors	276,2	479,3	109,0	864,5	%9,0
Total	2,218,9	6,662,6	1,206,4	10,088,0	%100,0

Estimated 2015 Development Allocations

About 1,650 million OMR are allocated as expenditures for the 2015 development budget, representing 16.3% of the 2014 development budget estimated allocations that totaled 10,138.4 million OMR, at an increase rate of 50% over the 2015 plan expected expenditures for 2015, which stands at 1,200 million OMR.

Expenses in the 2014 budget were estimated at 1,800 million OMR, while the actual disbursement by the end of December 2014 was about 1,521 million OMR.

Development allocations for 2012-2014

Particulars	2012	2013	2014
Estimated Expenditures	1,800	1,800	1,800
Actual expenditures	1,600	1,744	1,521

Development expenses of government companies

Some companies have been assigned the task of establishing, managing and operating assets of development nature (basic economic projects supporting the enhancement the productive infrastructure of the Omani economy). Accordingly, 217 million OMR were allocated as development expenditures for some companies to implement, on behalf of the government, State-owned projects, such as sanitation systems and plants & Oman's Convention & Exhibition Centre.

Defense and Security Expenditures

(General Budget Booklet, schedule 1, Item 6)

Defense and security expenses are allocated under one item (unclassified expenditures), including current, capital and construction expenses.

Some expenses of such units involve several aspects of civil or social nature, e.g. hospitals, medical clinics, scientific academies and training institutes, in addition to sport activities.

Expenditures of defense and security units, according to the classification of their budget items, are no different in nature than civil units, since they include salaries, allowances, contracts, government services, supplies, goods and service procurements, and capital & development expenditures.

For example, the Defense Ministry's Engineering Services help provide these units with technical and engineering support and necessary services such as water, power, electricity, sanitation networks and infrastructure facilities, in addition to the design and supervision of construction projects, maintenance works, including infrastructure and other facilities, and designing and building of local roads, as well as paving some dirt roads in different governorates and wilayats of the Sultanate.

Also, the Royal Oman Police (ROP), as part of its patriotic and humanitarian duty, helps provide security, health and social care services. The same applies in the following departments:

Defense, Security Units' Expenditures			
Year	2013	2014	2015
Amount (Million OMR)	٤,٧٠٠	٤,٣٠٠	٣,٨٠٠

- The General Directorate of Civil Affairs, Passports and Residency.
- The General Directorate of traffic.
- The General Directorate of Criminal Investigations.
- The General Authority of Civil Defense and Ambulance.

In addition, defense and security units help provide citizens and residents with aid and assistance in different emergency cases, alongside other civil units.

Loan Interests

(State General Budget booklet, schedule 1, Item 5)

This item represents interests to be paid by the State on long and medium term loans provided from external sources (different financing institutions) and domestic sources (Government Development bonds and Islamic Sukuk) in accordance with loan agreements signed with different financing bodies and regulations of issuing Government Development Bonds and Islamic Sukuk. Interests on external borrowing, which is due after 10-30 years, vary between 2.5% and 5.85% annually, while interests on Government Development Bonds and Islamic Sukuk, which are due after 4-10 years, vary between 2.75% and 5.5% annually. Main currencies used in external borrowing are the Islamic Dinar, Kuwaiti Dinar, UAE dirham, U.S. Dollar and Japanese Yen. Government Development Bonds and Islamic Sukuk are issued in OMR.

Subsidies on Interest for Development and Housing Loans

(State General Budget booklet, schedule 1, Item 10)

This item represents subsidies by the government for development loans given by the Development Bank of Oman and other commercial banks in line with decrees of financial subsidies offered to the private sector in different economic areas. It also covers interest subsidies for housing loans offered to Omani nationals by Oman Housing Bank, ranging between 2% and 5% annually according to income categories of borrowers who bear 1% to 4% of annual interests. As for the Development Bank of Oman, the government subsidizes interests at a rate of 3% while the borrower bears 3% per year.

Subsidies on Basic Food Commodities

(General Budget booklet, schedule 1, Item 13)

This item represents subsidies the government provides for some basic food commodities in line with relevant decisions, e.g. subsidy for rice, sugar, wheat (flour) and ingredients of locally manufactured animal feed. The aim is to stabilize prices of these commodities at a level appropriate to all segments of citizens, in line with specified mechanisms to define subsidies offered for each commodity. Subsidy claims are reviewed before payment by an auditor appointed for this purpose. The position of government subsidies for all basic consumer commodities is submitted each year to the Council of Financial Affairs and Energy Resources for assessment of all aspects and making sure the intended direct impact for citizens is achieved.

Shares in Local, Regional, and International Corporations

(General Budget booklet, schedule 1, item 16)

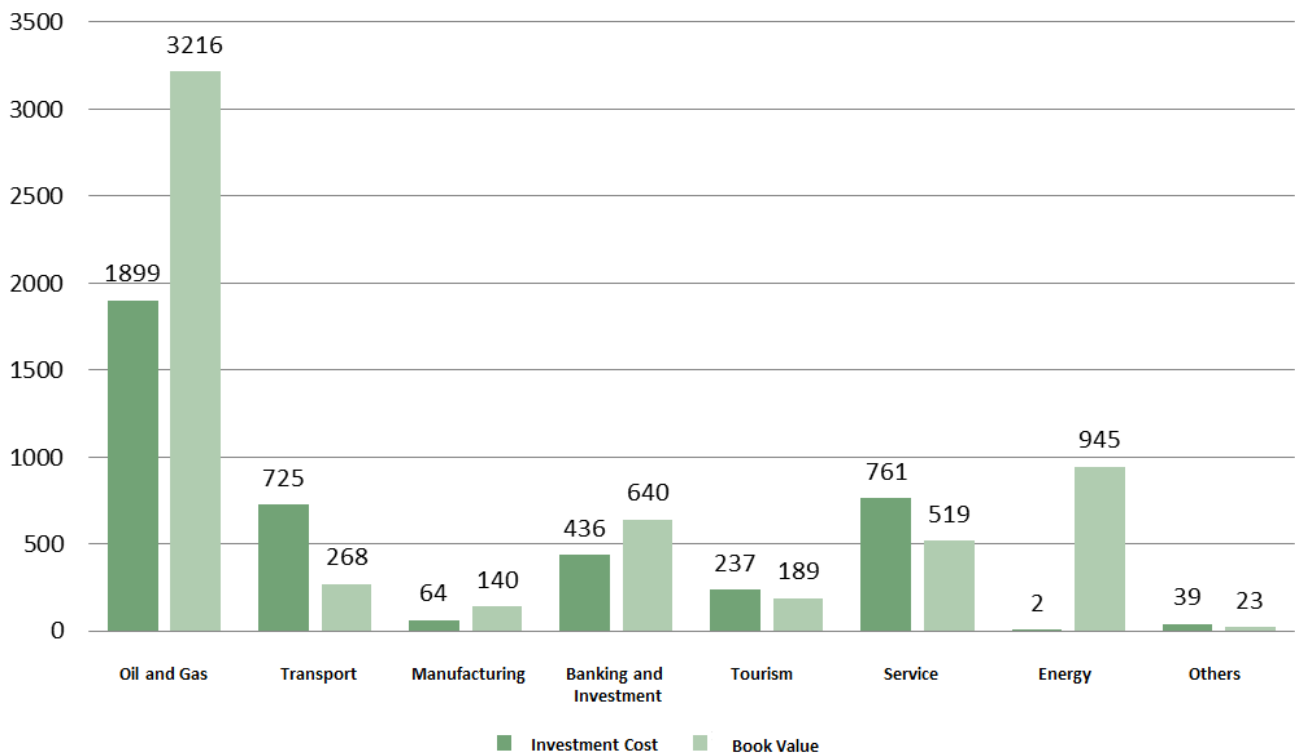
The number of companies owned, totally or partially, by the government is 77 local and abroad companies, some of which operating in commercial activities, such as the Oman Mill Company and Oman Cement. Others implement, manage, and operate service utilities, including the Power Holding Company and its affiliates, Oman Post Company, and the Omani Company for Airport Management.

Investment costs of these companies and enterprises stand at 4.2 billion OMR, while the book value of these investments stands at about 5.9 billion OMR.

It should be noted that some of these companies incur profits; others may not on the short term, but are viewed from a development perspective as achieving economic, social, development, and environmental objectives on the long run.

The State General Budget also includes an amount of OR 180,048 million, listed as development expenses, including additional costs borne by government-owned companies for running and operating government utilities on its behalf for the fiscal year 2015, including the regional sanitation sector, building the Conference and Fair Center on behalf of the Tourism Ministry, providing PDO and Sahar Free Zone with industrial water, funding the establishment of the Free Zone's processed industrial waste network, waste management in the State of Mussandam, and toxic waste landfills in the Industrial Zone in the State of Sohar and Duqm. Amounts recorded as operation subsidies represent coverage of operating losses, which are the difference between the company's revenues and expenses.

Investment/Book Value of Government Companies (Sectors)



Operation Subsidies for State Owned Enterprises (SoE)

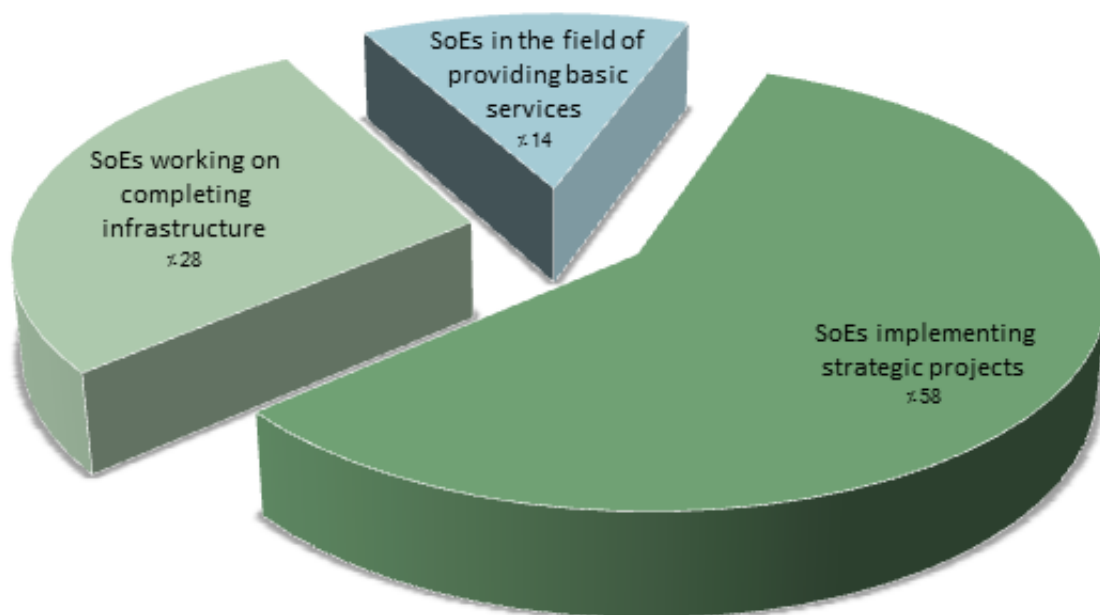
(General Budget booklet, schedule 1, Item 17)

Some SoEs are offered operational subsidy (the difference between revenues and costs) whose annual value is decided after studying applications presented by these enterprises to make sure they are in line with plans and execution schedules prepared by their boards and meet operational and financial requirements and the size of assets assigned to such enterprises the task of managing and operating them. Such companies can be divided into 3 main categories:

Operation subsidies provided for a number of SoEs were estimated at a total of 190 million OMR in the 2015 State General Budget.

1. Enterprises implementing strategic projects (ports, Oman Airlines and free zones).
2. Enterprises working to complete infrastructure of sectors like tourism, sanitation services and waste processing.
3. Enterprises working in the field of providing basic services like public transportation, post, and ferries.

Operation Subsidies to State Owned Enterprises



Subsidies for Electricity

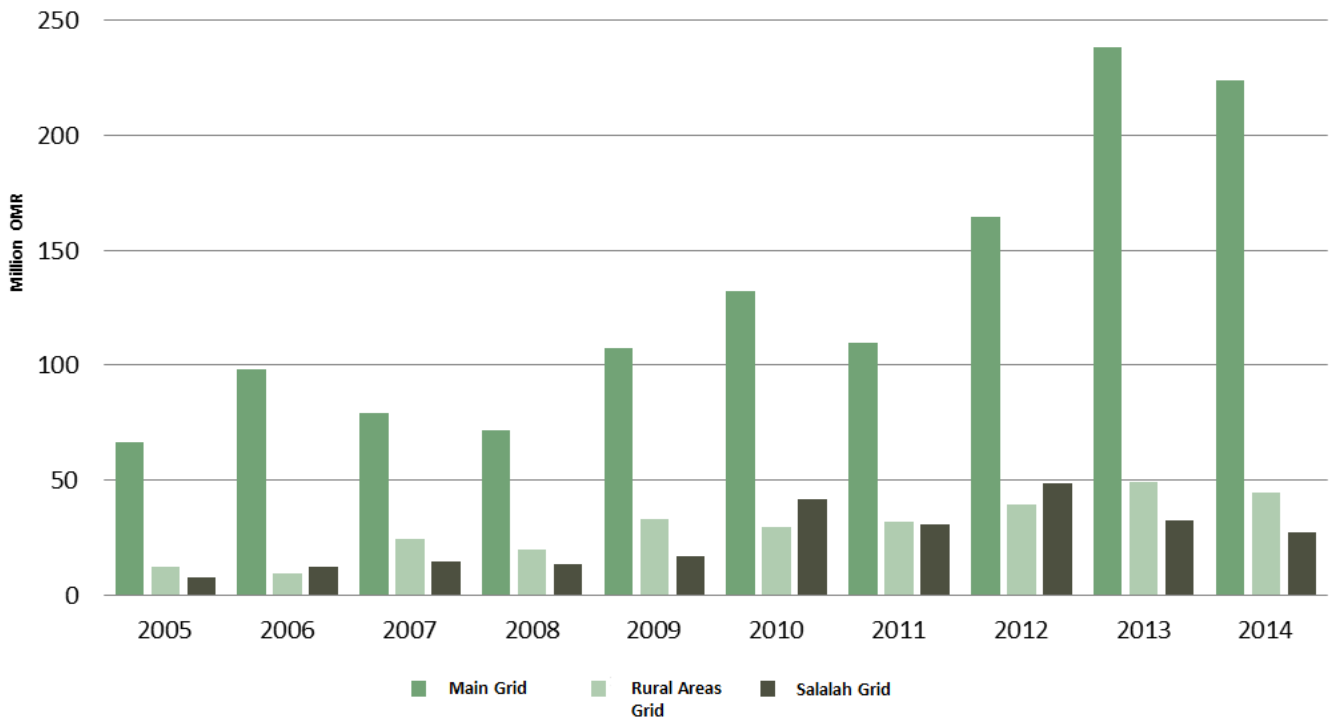
(General Budget booklet, schedule 1, Item 8)

Total financial subsidies required in the 2015 proposed budget stand at OR 339,5 million, at an increase rate of 14.8% compared to 2014, reflecting the increase in economic costs to support rising demand for power. The continued rise of economic costs while fixing tariffs will lead to a future increase in subsidy levels. The main reason for this rise is attributed to the increased total financial subsidies offered to the Rural Areas Electricity Company in 2015, an increase rate of 40.3% compared to 2014. This increase reflects the expected growth of total costs of power provision, connection fees, usage of transmission network, power purchase and the substantial increase in capital spending to build a new transmission network in Mussandam (132 K/V).

Total subsidy amounts		
Year	Total (OR)	State
2012	202,633,209	Actual
2013	320,034,421	Actual
2014	290,749,186	Actual
2015	339,020,000	Est.

*According to initial estimation from Power Regulation Authority

Subsidy for Electricity by Grid 200-2014



Subsidies on Hydrocarbon Products

(State General Budget booklet, schedule 1, Item 20)

FY budget	Subsidies (Million O.R.)
٢٠١٣	٧٤٠
٢٠١٤	٨٦٠
٢٠١٥	٥٨٠

These are the financial contributions provided by the government with a view to reducing prices of oil products sold to final consumers. Subsidized oil products include gasoline, both ordinary and super, diesel, cooking gas and gas used in power generating plants.

Oil products are sold to the final consumer by Oman Refineries and Petroleum Industries Company (ORPIC), at locally fixed prices administrated by the government for each product. In exchange, the government compensates the company for the difference between local refinery prices and world prices of these products. The total financial subsidy amount estimated in the 2015 proposed budget at 580 million OMR.

Fiscal Deficit and Funding Sources

(General Budget booklet, schedule 1, Items 21, 22, 23, 24, 25)

Particulars	Million OMR
Aid	200
Net external borrowing	200
Net domestic borrowing	400
Financial surplus allocated to cover deficit	1,000
Reserve funding	700
Total	2,500

Budget Fiscal deficit is the difference between total expected revenues and expected expenditures in a given fiscal year.

Deficit is covered using various methods, including borrowing, whether external or internal, or withdrawing from reserves accumulated during past years. The Sultanate seeks to maintain an acceptable level of financial deficit as a percentage

of GDP. It also keeps the ceiling of the public debt within safe limits.

Fiscal deficit estimated for the 2015 State General Budget stands at 2.5 billion OMR. It is funded through external borrowing of 415 million OMR, with 215 million OMR to be paid by the Sultanate, in addition to the internal borrowing of 500 million OMR, with 100 million OMR to be repaid during 2015.

The government also seeks to use fiscal surpluses and finance from reserve funds to cover the deficit of 1.7 billion OMR.

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