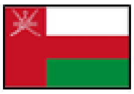
Euler Hermes Economic Research

Country Report

Oman

Low oil prices, weakened state revenues, twin deficits

General Information



GDP	USD81.8bn (World ranking 65, World Bank 2014)
Population	3.93mn (World ranking 129, World Bank 2014)
Form of state	Monarchy
Head of government	His Majesty Sultan QABOOS bin Said
Next elections	2019, Consultative Assembly (shura)

Strengths

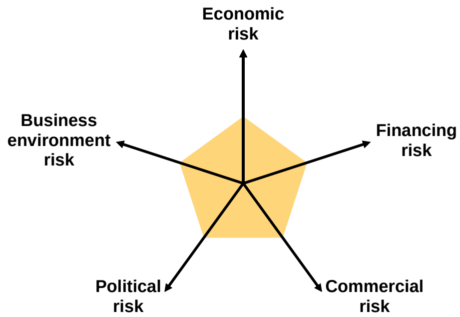
- Energy (oil and gas) resources.
- Substantial foreign asset base contributes to a net creditor position and largely mitigates transfer risk.
- Economic data are usually strong, although can turn negative during times of low oil prices.
- Low external debt levels and repayment commitments.
- Strong import cover.
- Despite some demonstrations early in the Arab Spring, the political leadership remains generally popular.
- Good international and regional relations.

Weaknesses

- Sultan Qaboos does not have an heir and the succession process is opaque.
- Social and political reforms have been limited and pressures for change could mount.
- Dependence on oil and gas (over 70% of export earnings).
- Proven oil reserves have a limited time horizon at current rates of extraction (15 years).
- Strategic importance (overlooking the Straits of Hormuz) entails risks of potential involvement in regional conflict (closeness to Iran).
- Expenditure on the military is one of the highest in the world.

Country Rating

BB2



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports
China	31%	1	25%	United Arab Emirates
Japan	12%	2	10%	Japan
United Arab Emirates	10%	3	8%	India
Korea, Republic of	10%	4	6%	China
China, Taiwan Province of	5%	5	6%	United States

By product (% of total)

Exports		Rank		Imports
Petroleum, petroleum products etc.	56%	1	13%	Road vehicles
Gas, natural and manufactured	15%	2	11%	Petroleum, petroleum products etc.
Organic chemicals	5%	3	8%	Iron and steel
Metalliferous ores and metal scrap	3%	4	6%	Other industrial machinery and parts
Fertilizers	3%	5	4%	Metalliferous ores and metal scrap

Source: UNCTAD

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Economic Overview

Political Overview

His Majesty Sultan Qaboos bin Said has been head of state since 1970, providing continuity and consistency. However, his recent health record is not good and the succession procedure results in some uncertainties. Despite a track record of domestic stability, anti-government demonstrations calling largely for socio-economic reforms were evident in the early stages of the Arab Spring. However, increased state spending and greater devolved powers to the majlis have limited protests since then. Despite generally good regional relations, Oman has a strategic importance because of its proximity to the Straits of Hormuz, through which a significant proportion of the seaborne trade in crude oil is conducted.

Economic Overview

Oman is a high income country. Dependence on oil and gas and associated vulnerability to volatile global energy markets remain key risks. Oil accounts for around 50% of GDP directly and over 70% of government receipts and export earnings. Although not a member of OPEC, Oman's policies generally track those of its neighbours and fellow-members of the GCC. Unlike key producers in the GCC, crude oil reserves have a limited time horizon (15 years), although natural gas reserves provide a further 24 years at current rates of extraction. Excess oil and gas revenues are transferred into an oil stabilisation account and the country also possesses FX reserves that provide import cover markedly above the international 'comfort' benchmark of three months.

State spending will underpin economic activity but rates of GDP growth will dip

Demonstrations and protests (largely peaceful) in 2011 as part of the Arab Spring spurred the government to increase its policy of Omanisation (see Business Environment) as a means of boosting job prospects for the local workforce. A key driver of growth in recent years has been government investment in the non-hydrocarbon sector and, in particular, large infrastructure projects. Despite markedly reduced hard currency earnings because of current low oil prices, the government appears disposed to maintain high spending patterns, wherever possible. As a result, debt levels will rise but GDP growth will remain supportive of income growth, although it will dip below the long-term annual average of around +4.6%. EH expects GDP growth of +4% in 2015 and +3.5% in 2016.

Fiscal deficits and public debt will increase as state revenues are squeezed

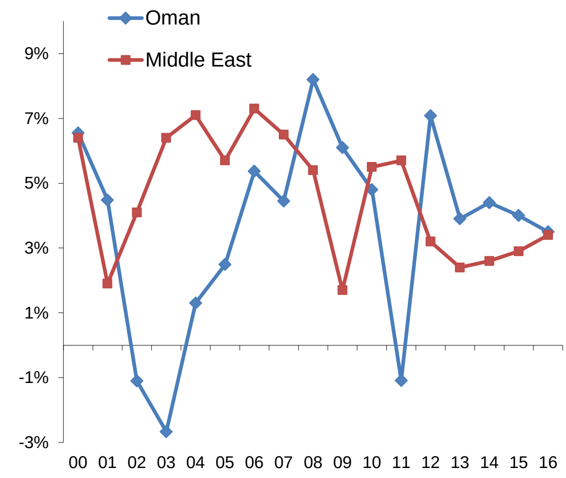
Budgets traditionally adopt a conservative oil price assumption and official fiscal projections should therefore be an approximate guide only. Annual fiscal surpluses or small deficits were recorded in the period 2010-13 but a combination of high state spending (partly to maintain social stability) and reduced revenues because of weak oil prices will lead to markedly higher budget shortfalls. EH expects fiscal deficits of -15% and -10% of GDP in 2015 and 2016, respectively. The general government debt-GDP ratio was 25% in 2000 but during the recent period of high oil prices in 2010 to September 2014, the deficit was reduced to around 5% (2013). EH expects government debt will rise to around 16% in 2015 and will return towards the level registered in 2000, at around 22% of GDP in 2016.

Key economic forecasts

	2014	2015f	2016f	2017f
GDP growth (% change)	4.4	4.0	3.5	4.0
Inflation (%, end-year)	0.8	0.0	1.5	2.0
Fiscal balance (% of GDP)	-3.4	-15.0	-10.0	-5.0
Public debt (% of GDP)	6.8	16.0	22.0	22.0
Current account (% of GDP)	5.0	-12.0	-10.0	-6.0
External debt (% of GDP)	14.0	19.0	17.0	16.0

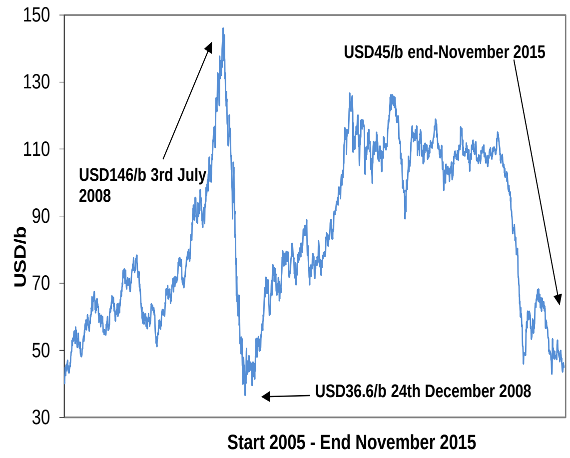
Sources: National sources, IHS, Euler Hermes

GDP growth (%)



Sources: National sources, IHS, Euler Hermes

Oil prices (Brent, USD/barrel)



Sources: FT, IHS, Euler Hermes

Current account now in deficit

The key risk in relation to the external sector is a steep and protracted fall in internationally-determined oil prices. During the period 2010 to September 2014 benchmark oil prices (Brent) were over USD100/barrel and Oman's average annual current account surplus was over +8% of GDP (with +13% in 2011). The corresponding oil price at the beginning of December 2015 (USD44.3/barrel) was down -38% y/y and -61% on the high of 2014. As a result, Oman's current account deficits will deteriorate significantly; EH expects -12% and -10% of GDP in 2015 and 2016, respectively.

An associated risk is a further decline in demand for Omani exports in the country's main trading partners, particularly Asia (China accounts for over 30% of exports and Japan, South Korea and Taiwan for a further 27%).

External debt is low and FX reserves support a healthy import cover

External debt stock, ratios and servicing of existing and additional obligations are relatively low. The debt to GDP and debt to export earnings ratios will remain in ranges of 15-20% and 25-30%, respectively, and debt servicing of external obligations will be equivalent to only around 2-3% of total export earnings.

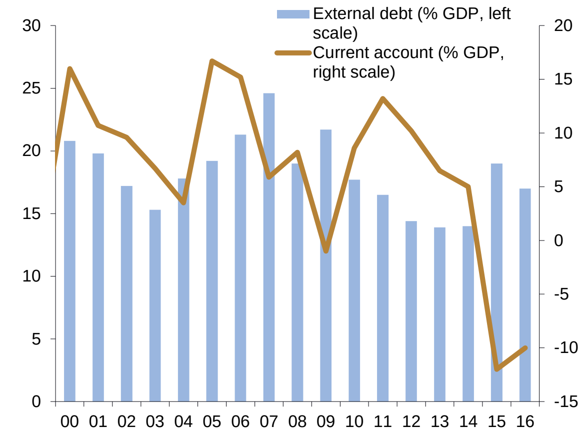
Official foreign exchange reserves (excluding gold) at around USD17bn provide import cover of over five months. Moreover, the country has an oil stabilisation fund and a sovereign wealth fund to call on, in need.

Business environment

A policy of Omanisation is followed; this aims to boost job prospects for the local workforce at the expense of expatriate labour. However, such a strategy can lead to an increase in business costs, weakening in labour productivity and act as a deterrent to some inward investment, although not to a marked degree. Oman Vision 2020 is the country's programme for diversification away from hydrocarbons and it focuses on privatisation and industrialisation. The programme's aim is to increase non-oil GDP to 81% of GDP by 2020.

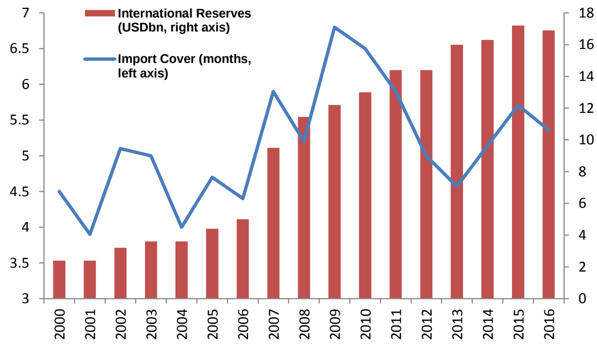
Oman ranks 70 out of 189 countries rated by the World Bank's Ease of Doing Business 2016 survey, above Tunisia and Morocco but below Bahrain and Qatar. Positive aspects include registration of property, the tax system from a business perspective and trading across borders. Economic freedoms are constrained by continuing state involvement in the private sector and the energy sector remains largely state-owned.

Current account and external debt (% of GDP)



Sources: National sources, IHS, Euler Hermes

Foreign exchange reserves and import cover



Sources: National sources, IHS, Euler Hermes

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