

Subject : Macroeconomic Profile
Oman Economic & Strategic Outlook

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- **Global** : Economy witnessing a period of accumulative growth

Global Investment House – Kuwait – Oman Economic & Strategic Outlook- Macroeconomic profile- April 2008- Riding the wave of high oil and natural gas prices, the Omani economy continued its vigorous growth and maintained its high growth profile in 2007. Oman recorded a real GDP growth of 5.7% in 2006 and has attracted interests amongst foreign investments and foreign & private investors in the local market simultaneously.

During the second year of the plan period 2006-2010, the Omani economy registered a y-o-y growth of 13.1% in its nominal GDP reaching RO15.5bn in 2007. The structural reforms envisioned in relaxation of tax laws in Sep-03 and Privatization initiatives by means of Royal Decree 77/2004 to cover reforms in tourism and infrastructure sectors have started showing the results in the last couple of years. Omani economy posted budgetary surpluses and the modest population growth with an expansionary economy resulted in a CAGR of 13.7% in per capita income during 2002-07. The per capita income almost doubled from US\$7,998 in 2002 to US\$15,180 in 2007. The resultant fiscal stability has earned the Sultanate an ‘A’ rating by S&P with an outlook “Stable” in Jan-07 and an ‘A2’ rating with a Stable outlook from Moody’s in Jul-07.

The Sultanate’s efforts to diversify the economy away from the major source of revenue, the oil are bearing fruit in the current plan period. For the Oman economy, increased gas supplies are an essential component of the government’s strategy to diversify and industrialize the economy through downstream oil and gas industries such as petrochemicals. Also additional gas supplies are needed to fire power and desalination plants as well as to allow Oman’s LNG projects to run at capacity, while providing sufficient gas for Petroleum Development Oman (PDO) to pursue its gas-intensive enhanced oil recovery program and it is being realized through natural gas which is playing a pivotal role in diversification.

On the investment front, projects that are attracting major investments to the tune of US\$10bn to US\$12bn in the form of “The Wave”, “Blue City”, “Yitti” and “Muscat Golf & Country club” are driving the demand. Also, the privatization program was on track in 2007 with regard to the electricity and water sectors, where restructuring will facilitate investment by the private sector. In view of its diversification plans the Omani government has considered tourism as another means to achieve their objective. It was keen on developing the tourism sector, which in 2007 is estimated to have contributed only 1% of GDP, but has a greater potential to develop. The current development plan had allocated funds for tourist projects which were expected to be completed in 2008.

Though, the total annual oil production declined by 3.7% in 2007 to reach 259mn barrels; the efforts of the Omani policy makers to incur a US\$10bn expenditure to retrieve more oil from the existing wells using enhanced oil recovery techniques is underway aimed at increasing the production from the current approximately 710,000bpd to 1mn bpd by 2012. To maintain the increasing infrastructure requirements arising out of more than 5% annual real GDP growth rate, the government has held the forte for major capital projects and encouraging private participation as well. Also, the natural disaster Gonu had caused certain damage to the economy in 2007. The Ministry of National Economy assesses the damage to the infrastructure to the tune of US\$2.5bn and US\$200mn in lost export revenues.

Oman's strategy currently is not to delink the Omani riyal from the US dollar peg. It has also decided that it would not join the GCC single currency in 2010. The rocketing oil prices had favored the economy ending in a surplus in 2007; however the peg of Omani Riyal against the US Dollar fuelled the inflation considerably as a result of mirroring Fed rate cuts. Also, increased money supply, rentals and increasing prices of imported articles further added up to the inflationary pressures. According to the Ministry of National Economy, Oman's annual inflation for Feb-08 reached 11.1%, up from 8.3% in Dec-07. Major rises were in food, beverages and tobacco and rents that rose 19.6% and 14.1% respectively in Feb-08.

The Omani Banking sector was hardly affected by US credit meltdown that surfaced in mid 2007. The broad money (M2) comprising of narrow money and quasi money increased by 37% in 2007 to reach RO6,111.4mn from 4,461.3mn recorded in 2006. Within the broad money, the narrow money (M1) representing the aggregate currency with public and demand deposits in RO increased 55.9% in 2007 to reach RO1,916.9mn from RO1,229.6mn recorded in the previous year. The total lending during 2007 was up by 38.5% to reach RO6.51bn from RO4.7bn in 2006.

The superior overall economic performance as reflected in the bourses indicated increased liquidity and participation in the market as a result of higher profitability of the listed entities. The Omani stock market Index namely the Muscat Securities Market (MSM-30) clocked a value of 9035.5 points at the end of 2007, up by 62% from 5,581.6 in 2006. The MSM-30 index closed at 10,102.6 points as at the end of Mar-08 representing a year to date growth of 11.8%. This was the highest growth registered amongst the markets in the GCC region during the same period. The increasing emphasis on privatization should attract higher foreign participation in the diversification projects of the Sultanate. We believe this trend of increasing surpluses, sound monetary and fiscal policies, double digit growth in GDP and young demography of Oman should equip the economy to scale newer heights.