Euler Hermes Economic Research

Country Report

Oman

Recovery will be delayed

General Information

GDP	USD69.8bn (World ranking 67, World Bank 2015)
Population	4.49mn (World ranking 125, World Bank 2015)
Form of state	Monarchy
Head of government	His Majesty Sultan QABOOS bin Said
Next elections	2019, Consultative Assembly (shura)

Strengths

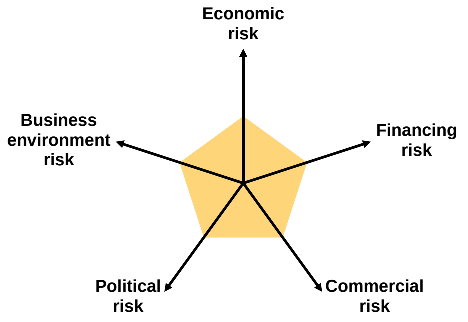
- Abundant energy (oil and gas) resources
- Strategic location on the Straits of Ormuz and closeness to Gulf, Asian and African markets
- Comfortable foreign exchange reserves (import cover of 8 months) as well as assets in the sovereign wealth fund
- State commitment to industrialization, economic diversification and development
- Modern infrastructures (roads, airports, sea ports, telecommunications)

Weaknesses

- Sultan Qaboos does not have an heir and the succession process is opaque
- Energy dependence (oil and gas represent almost two thirds of export earnings) while proven reserves have a limited time horizon (15 years)
- Closeness to regional conflict (Iran, Yemen)
- Twin deficits
- Export dependence on China which accounts for 39% of total Omani exports (a rebalancing in China could have adverse effects on Oman's trade balance)

Country Rating

BB2



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports
China	39%	1	44%	United Arab Emirates
United Arab Emirates	16%	2	6%	Japan
Korea, Republic of	6%	3	5%	India
Saudi Arabia	6%	4	5%	China
China, Taiwan Province of	5%	5	5%	United States

By product (% of total)

Exports		Rank		Imports
Petroleum & products thereof	56%	1	11%	Petroleum & products thereof
Gas, natural and manufactured	8%	2	9%	Road vehicles
Organic chemicals	3%	3	7%	Other industrial machinery & parts
Iron and steel	3%	4	6%	Iron and steel
Non-ferrous metals	3%	5	4%	Electrical machinery, apparatus etc.

Source: Unctad (2015)

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Economic Overview

Depressed growth outlook

The collapse in global oil prices has significantly impaired Oman's economy in 2016, with GDP growth losing -1.7pp to +2.5% (Figures 1 and 2). Sluggish nonhydrocarbon activity is forecast to further pull down growth to a six-year low of +1.5% in 2017. Mounting fiscal strains will indeed bear a considerable weight on households' purchasing power and corporate earnings, as private consumption is usually a key growth driver. Moreover, the extension of the OPEC deal to limit oil production until March 2018, announced in May 2017, will impede oil-related growth.

Tax changes to restore fiscal balance

The Omani government raised the corporate tax rate to 15% from 12%, removed various tax exemptions and extended the withholding tax to dividends and interests in February 2017. These austerity measures aim to cope with the steep contraction in fiscal revenues on the back of the oil price crisis. The fiscal account shifted from an average annual surplus of +6% of GDP into deficit in 2014. The shortfall bottomed out at -20% of GDP in 2016 (Figures 1 and 3). The modest recovery in oil prices in 2017 (average USD54/bbl YTD, compared to USD45 in 2016) should help to improve state revenues and to narrow the fiscal deficit to about -9% of GDP. Still, public debt will rise further to 35% of GDP or so in 2017 (up from just 5% in 2014).

Inflation returns, peg is here to stay

After four years without price pressures, inflation is forecast to increase to an average +2.5% in 2017, the highest level since 2012, mainly reflecting energy price rises. The authorities are likely to maintain the peg of the Omani rial to the US dollar, even though US Fed rate hikes will intensify speculations about a potential unpegging.

International bond issue to restore current account balance

Oman's current account balance moved from a large surplus (+5.8% in 2014) to an even larger deficit (-18% in 2016) because oil export revenues plummeted as oil accounts for 56% of total exports. The situation will gradually improve in 2017-2018 in line with the moderate recovery in oil prices.

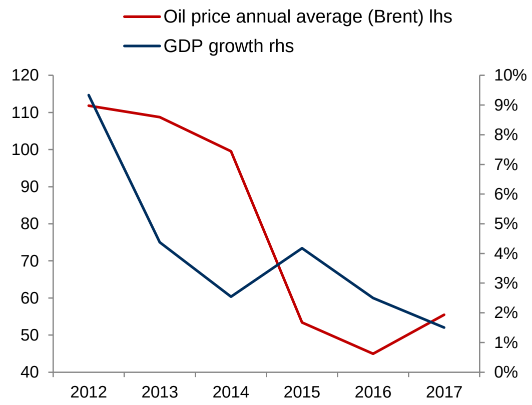
Despite a few years of high external deficits, external liquidity and financial stability risks will be contained, thanks to comfortable FX reserves held by the Central Bank (USD20bn, providing 8 months import cover) and the SWF (USD24bn). Moreover, the Omani government was able to almost complete its foreign borrowing plan for this year by issuing USD5bn of international bonds in March 2017.

Figure 1: Key economic forecasts

	2015	2016	2017f	2018f
GDP growth (% change)	4.2	2.5	1.5	2.5
Inflation (%, end-year)	0.1	1.1	2.5	3.0
Fiscal balance (% of GDP)	-15.1	-20.0	-9.0	-7.0
Public debt (% of GDP)	15.3	30.0	35.0	39.0
Current account (% of GDP)	-15.5	-18.0	-12.0	-11.0
External debt (% of GDP)	21.7	34.0	38.0	40.0

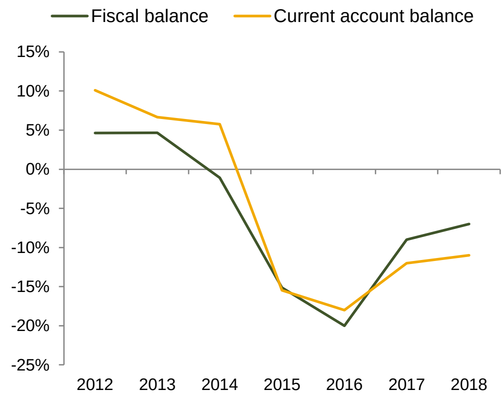
Sources: National statistics, IHS, Euler Hermes

Figure 2: Oil price (USD/bbl) and GDP growth (%)



Sources: National statistics, IHS, Euler Hermes

Figure 3: Fiscal balance and current account balance (% of GDP)



Sources: National statistics, IHS, Euler Hermes

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