Oman

EDC Economics

Economic

Credit Agencies

Moody's: A2

S&P: A

Fitch: n/a

Nominal GDP (2006)

US$ 36.1bn

Population (2006):

2.6 million

Total Trade / GDP (2006):

86.2%

Currency:

Omani Riyal

Exchange regime:

Fixed Peg

Merchandise imports from Canada: (2006)

CAD$ 50.2 mn

Main sources of Foreign Exchange (excl. FDI):

Oil exports

Largest Merchandise Trading Partners:

UAE; Japan; China

Main imports:

Machinery (49%); manufactured goods (17%)

Risks to the Outlook

Higher than anticipated oil prices

Rapid growth in non-hydrocarbon sector

Low oil prices

Deterioration in political environment

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Market Spotlight: In spite of aging oil fields and declining reserves, Oman recorded a strong performance in 2006 due to high oil prices. Significant fiscal and current account balance surpluses have been maintained since 2005. Likewise, the outlook for 2007 is favourable with strong energy prices, higher exports, an expansionary fiscal stance, and increased investment in the upstream and downstream hydrocarbon sector. The country's structural policy is focused on diversifying the economy.

Macroeconomic performance: GDP growth has been accelerating over the past few years. This has reflected buoyant world oil prices and the government's firm commitment to diversify the economy away from oil. Hence, progress has been made mainly with large gas-based industrial projects, which has included a new liquefied natural gas (LNG) facility. This has brightened Oman's prospects and reflects further progress with the diversification program. Many of these new industrial ventures are funded by foreign investors. Real GDP growth in 2007 is expected to remain healthy, albeit slower, averaging 5.3%. Driven by firm government spending, domestic demand remains robust and is expected to persist as public spending encourages private consumption. This should ameliorate Oman's relatively high unemployment rate, which currently stands at an estimated 12-13%. Meanwhile, no rebound in crude output is in sight as production has fallen 5.4% y/y over the first six months of the year and is expected to sustain this trajectory into 2008. Conversely, natural gas output looks relatively strong and should remains as such over the outlook period.

Monetary Policy: Oman's currency has been fixed to the US dollar at the rate of OR0.385:US$1 since 1986. Therefore, domestic interest rates tend to track those in the United States. Counter to rumors, the authorities have clarified that there are no plans to adjust the peg. A statement has been issued, however, that the Omani Riyal will withdraw from the proposed GCC monetary union. Alternatively, inflation has been kept under control by an extensive subsidy system. Reserves have continued to rise this year, and by the end of June had reached 6.9 billion, despite attempts to curtail rapid liquidity growth. Attempts to surmount this major policy challenge have thus far been ineffectual as robust broad money growth persists. In the 12 months to June 2007, M2 was up 31.7%, having risen nearly 25% last year.

Fiscal Policy: Fiscal policy has been prudent over recent years, resulting in budgetary surpluses. However, the budget for 2007 envisages an overall deficit for the year as government expenditure is envisaged to pick-up. According to the Seventh Five-Year Development Plan, the authorities intend to spend around US$13 billion over a time horizon of five years to boost the recovery rate at aging oil fields and develop new gas fields. The authorities have invested some of their currency reserves into the State General Reserve Fund (SGRF), which acts partly as a stabilization fund as well as a means of saving excess oil export revenues for future generations.

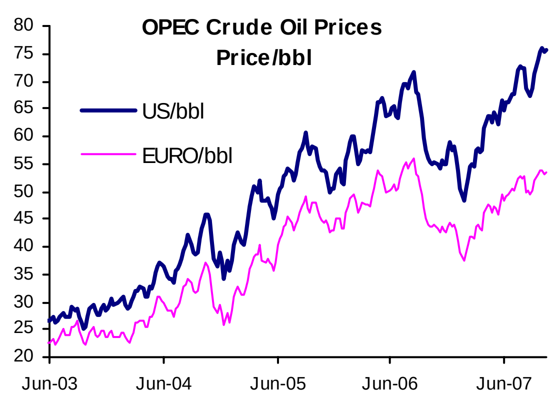
External Accounts and Foreign Debt: Both oil and non-oil exports have been doing well and should continue to do so with projected strong world oil prices over the medium term. Oman continues to sustain a current account surplus, following a record setting level of 4.4bn in 2006. Although export sales are to remain robust, this surplus is expected to narrow as imports advance due to increased government expenditure and strong demand for investment and consumption goods. Reserves, however, should keep rising as gains in FDI inflows will likely more than compensate the pick-up in imports. Accordingly, import cover should rise to 4 months by end-2007. The external debt is equivalent to only 8.8% of GDP.

Outlook: *The short-term outlook for Oman is positive. However, as the oil stock is further depleted, pressures may arise in the medium-long term if non-oil opportunities have not been further developed.*

Economic Indicators

	01-05 avg.	2006	2007(f)	2008(f)
GDP (% growth, real)	4.6	6.6	5.3	5.1
Inflation (%, year-end)	0.3	3.2	4.0	4.0
Fiscal Balance (% of GDP)	0.5	4.0	0.4	-0.6
Exports (US$ billions)	10.6	13.4	6.1	-3.5
Imports (US$ billions)	11.8	23.7	11.1	5.1
Current Account (% of GDP)	8.9	12.2	9.3	4.3
Reserves (month of imports)	3.4	3.3	3.8	3.7
External Debt (% of GDP)	19.7	9.6	8.8	8.0
Debt Service ratio	10.6	5.0	4.1	4.2
Currency (per USD, year-end)	0.4	0.4	0.4	0.4

Source: EIU, EDC Economics



Source: Bloomberg, EDC Economics