Oman

Oman Budget FY2009

Aiming development and growth…

Key Highlights

- General revenues for 2009 estimated to increase by 4% to RO 5.614 billion against the Budget of 2008.
- Oil price assumed at $45 per barrel and Oil production is estimated to increase to 805,000 bpd
- Total expenditure projected to increase by 11% YoY to RO 6.424 billion
- 2009 budget deficit will amount to about RO 810 million, about 5% of the GDP
- Expects to achieve a financial surplus of about RO 3.5 billion in FY2008 as against the budgeted deficit of RO 400 million
- GDP growth rate at constant prices is expected to exceed 10% in 2008; The same is expected to register a growth of 1% in 2009
- Preliminary estimates indicate FY2008 GDP growth rate at current prices at about 40%
- Current account balance surplus for FY2008 estimated to have increased to RO 1.1 billion, an increase of 44.8% as compared with 2007

An Introduction

This document highlights Oman's Budget for year 2009. In the current macro-economic scenario, wherein the focus is on triggers for growth, we believe that government spending is well in line with its vision of economic diversification and sustainable growth.

Fiscal year 2008 was an extraordinary year marked by global liquidity crisis and economic turmoil. The global economic crisis had started off with the US housing credit bubble in late 2007 after which the pain swiftly spread across the financial sector and further to the real economy in FY2008 leading to global slowdown trickling down to concerns of recession. The year also saw the sharp price corrections in the commodity markets with a shift from growth led inflationary scenario to concerns on general demand conditions. As per IMF estimates, the global economic growth is likely to have slowed down to 3.7% in 2008. The global situation is expected to remain self-doubting over the current fiscal year which in turn could lead to further fall in global economic growth rates at around 2.2% levels. A recovery is projected to begin late in 2009.

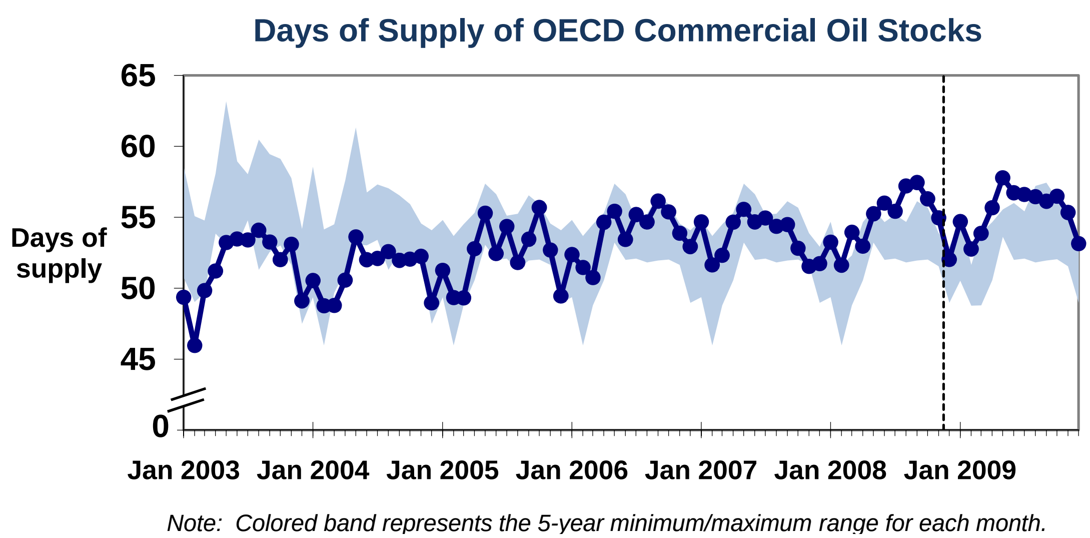
The developed economies will shrink by 0.3% in 2009 as compared to projected growth of 1.4% in 2008. The growth rates of developing and emerging countries could fall up to 5.1% in 2009 as compared to projected growth of 6.6% in 2008. For Middle East, IMF has projected GDP growth of 6.1% in 2008 and 5.3% in 2009.

These challenging situations have called in for introspection on Government spending in the region, as it forms key trigger for growth.

Oil price outlook

Towards second half of 2008, the oil prices had dropped around 70% from the peak prices in mid year. The global slowdown has led to weakened Oil demand and also the appreciation of US dollars as compared with other currencies. Since September 2008, OPEC has cut its production by 4.2 million barrels per day (5% of global oil supply) which would help in stabilizing the oil prices at the current levels and also counterbalance the lowering oil demand. EIA expects the average price of West Texas Intermediate crude oil to be at $51 per barrel for FY2009. Based on IMF estimations (November 2008), the average oil price is expected to be at about $68 per barrel in the current year. However, the crude prices would be under pressure depending upon the global economic situation and rational production cut by OPEC. Taking these factors into consideration, Oman has assumed an average crude oil price of $45 per barrel for 2009 budget. Only time would say if these assumptions are realistic as the global economic situation has dramatically changed. With the consumption declining and inventory piling up the chances of the oil price movement upwards to the $75+ levels opined by the OPEC leaders looks remote at this point.

As per the latest statistics by EIA, U.S. has around 701.8 million barrels of crude oil in its Strategic Petroleum (SPR) Inventory. This is equivalent to 34 days of supply to the domestic (US) markets. As of December 2008, U.S. commercial crude oil inventories (excluding SPR) stood at 318.7 million barrels, which is 10.4% higher as compared with Dec 2007. The graph below depicts that the current U.S. crude oil inventories are near to the upper limit of the average range.



Source: EIA Short-term Energy Outlook, December 2008

Budget 2009 – An Outline

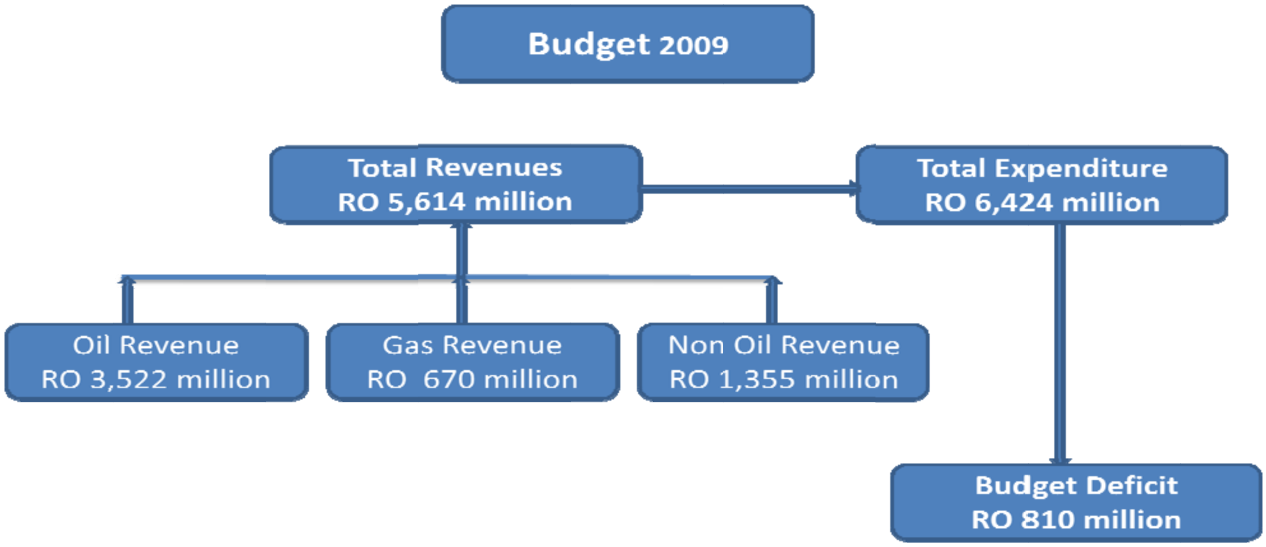


Table: Budget Allocations

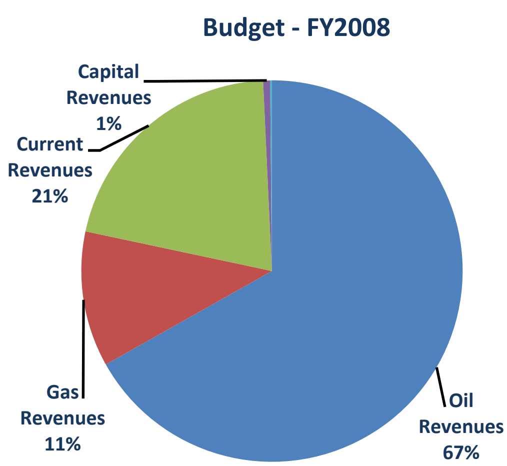
Public Finance (In RO Millions)	2008 - Budgeted	2009 - Budgeted	Change (%)
Revenues	**5,400**	**5,614**	**4.0%**
Net Oil revenues	3,610	3,522	-2.4%
Natural Gas Revenues	620	670	8.1%
Other current revenues	1,130	1,355	19.9%
Capital revenues	32	54	68.8%
Capital repayments	8	13	62.5%
Total expenditure	**5,800**	**6,424**	**10.8%**
Current expenditure	3,550	4,020	13.2%
Defense and National security	1,360	1,545	13.6%
Civil ministry	1,905	2,149	12.8%
Interest paid on loans	55	54	-1.8%
Gas Production expenses	50	76	52.0%
Oil Production expenses	180	196	8.9%
Investment Expenditure	1,865	1,919	2.9%
Civil development expenditure	725	800	10.3%
Civil capital expenditure	20	21	5.0%
Share of PDO capital expenditure	670	679	1.3%
LNG & Oil condensates expenditure	450	419	-6.9%
Participation and Subsidy to Private Sector	**385**	**485**	**26.0%**
Surplus / (Deficit)	**(400)**	**(810)**	**102.5%**

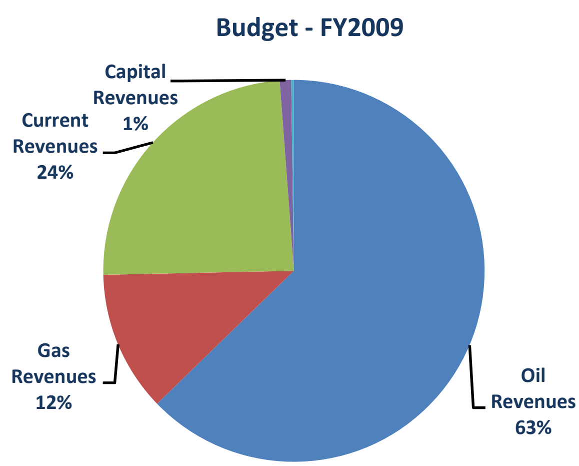
Source: Press Statement Ministry of Economy, Ministry of Finance, GBCM Research

Budgeted Revenues

For FY2009, the general revenues of Oman is estimated to be about RO 5.614 billion as against RO 5.400 billion in the FY2008, an increase of 4% against FY2008 budgeted figures. Of this, Oil and gas revenues expect to form 75% of the total revenues whereas the current and capital revenues constitute the balance 25%. On the basis of assuming an average oil price of $45 per barrel and daily oil production of 805k barrels (as against 790K barrel assumed for 2008), the oil – **net** revenues are anticipated to be about RO 3.522 billion. Oil production is expected to increase by 6.9% as compared to Oct 2008 production levels. However, the contribution from gas revenues would be about RO 0.620 billion. The current and capital revenues were projected to increase by 22% YoY to around RO 1.422 billion.

Break up of Revenue…



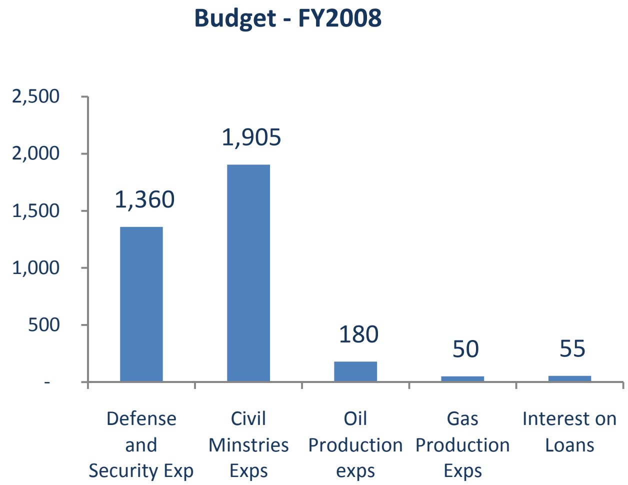


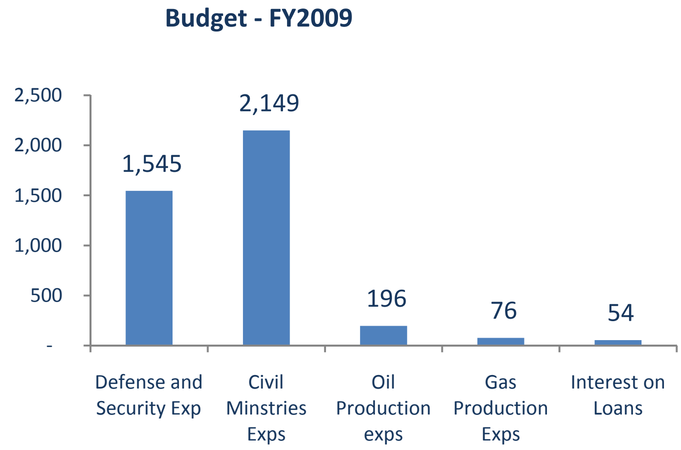
Source: Press Statement Ministry of Economy, Ministry of Finance, GBCM Research

Planned Expenditures

The budgeted total expenditure for FY2009 was around RO 6.424 billion as against RO 5.800 billion in FY2008, showing an increase of 10.8%,YoY. Total current expenditures which forms 62.6% of total expenditure has seen an increase of 13.2% to RO 4.020 Billion. For the current year, the allotment for the educational sector is around RO 791 million as against RO 710 million in the last year. The allocation for the health sector has been increased by 18.9% to RO 271 million over the FY2008 budgeted figures.

Break up of Current Expenditure

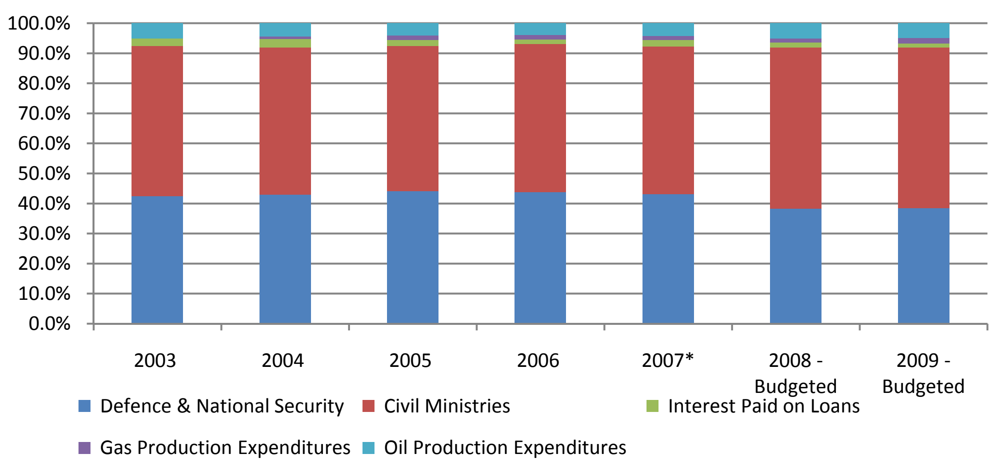




Source: Press Statement Ministry of Economy, Ministry of Finance, GBCM Research

Current Expenditure - A Trend Analysis

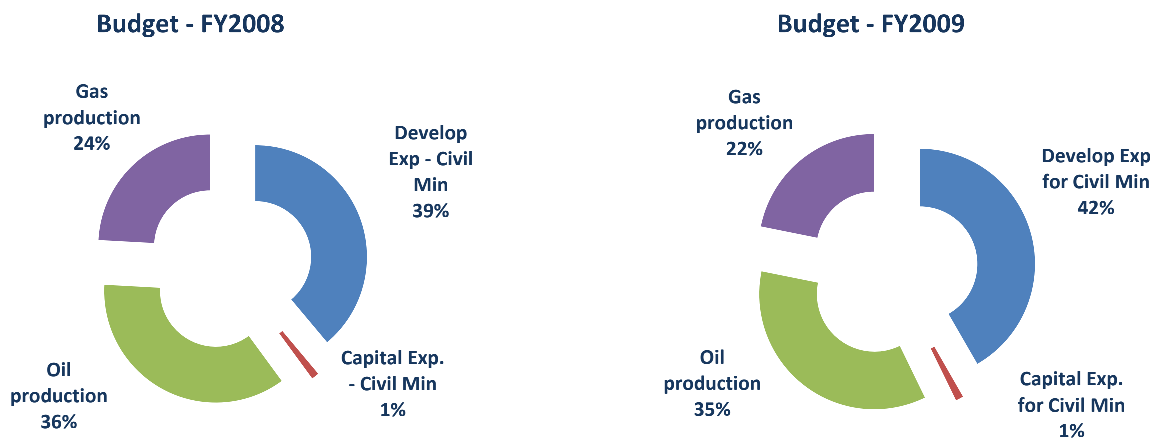
Over the last two years which falls in seventh five year plan, the Government has increased its allocation towards civil ministries expenditure which thereby increased by over 4% of the total current expenditures. The higher allocation was done mainly for supporting the basic government services, operational expenses of the Government Ministries and expansion of health and educational sectors.



Source: Ministry of Finance, GBCM Research

The Government has budgeted 2.9% increase in Investment Expenditure to RO 1.919 Billion over previous year budgeted amount of RO 1.865 Billion. This forms 29.8% of total expenditure. To continue on its existing and new development projects in alignment with its seventh five-year plan (2006-10), the Government has planned to allocate RO 800 million towards development budget, reporting an increase of 10% over the last year budgeted figures. Towards new project allocations, the Government would be spending around RO 665 million covering the major development projects along with the completion of the ongoing activities. A total of RO 36 million would be allocated under the social security system. To finance the projects executed by Oman Wastewater Company, Salalah Sanitary Drainage Services Company, Oman Oil Company, Oman Tourism Development Company and Oman Dry Dock Company, the Government has also allocated around RO 355 million.

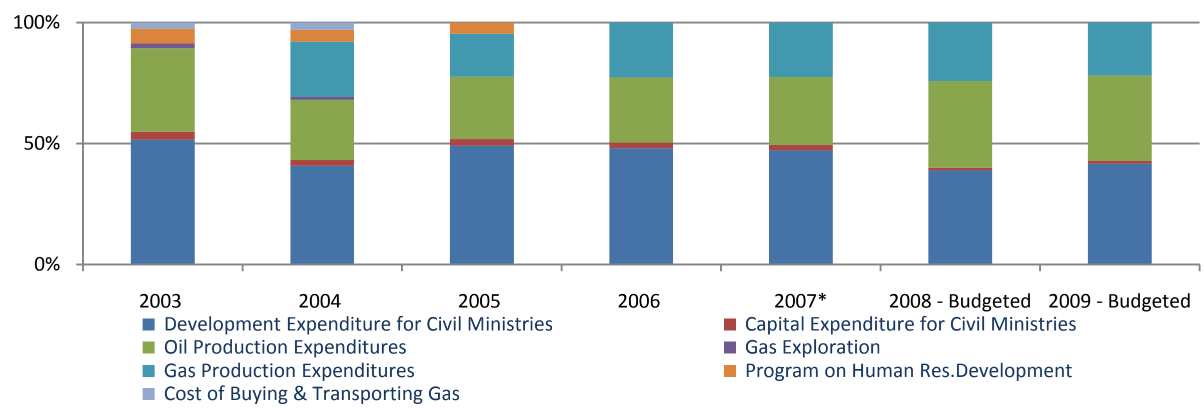
Break up of Capital Expenditure



Source: Press Statement Ministry of Economy, Ministry of Finance, GBCM Research

Investment Expenditure - A Trend Analysis

Since 2006, the Government has increased its allocations to the development projects which would mainly go towards the spending on the existing and new projects in various sectors as per the seventh five-year plan (2006-2010).

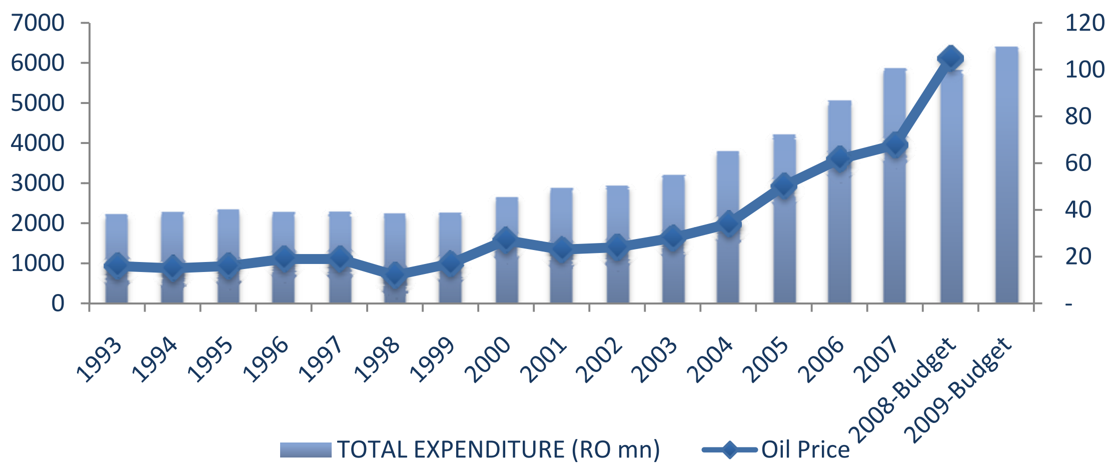


Source: Ministry of Finance, GBCM Research

The estimated expenditure (Current & Capital) towards oil and gas production, which forms around 21% of the total expenses, would be increased by 1% to RO 1.370 billion.

Oil Price Movement Vs Total Expenditure

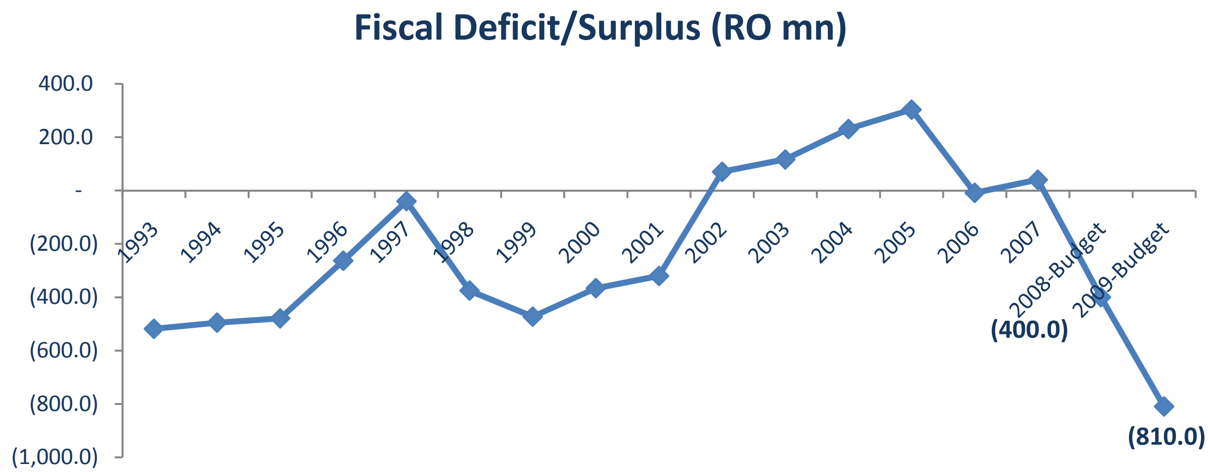
A trend analysis of Oil price movement statistics and the allocation of budget expenditure had shown increased correlation between the two. In FY1998, when the oil price fell by over 35%, the budget expenditure has dropped by marginal 3.7%. During the period 2002-2007, there had been a steep increase in the Oil prices which helped in higher allocation towards current and investment expenditures. This shows the commitment of the Government towards meeting the expenditure for the existing and new development projects.



Source: Ministry of Finance, GBCM Research

Budget Deficit

Based on the revenue and expenditure estimates, the Government has estimated budget deficit to amount to about RO 810 million, representing around 5% of the GDP. The Government has also stated that the deficit may be covered by means of withdrawal from the contingencies reserves.



Subsidies

A total of RO 112 million has been allocated towards subsidy to the electricity sector to cover the difference between the amount of purchasing power and the anticipated returns from the electricity sales. Towards the water sector, the Government has allocated RO 30 million to cover the value of the water purchase from Al Ghubra, Barka, Sohar, Sur plants and others. In the development and housing loans given by the Development Bank, the Commercial banks and Oman Housing bank to the beneficiaries, the budget has allocated RO 18 million in subsidies.

Sector-Wise Budget allocation

Tourism Sector - In a growth avenue

- Government has ensured its economic diversification strategy by means of developing the Tourism sector, which thereby increased the relative participation of the sector in GDP to around 2.9% in 2007.

- Expected to realize a growth rate of 22.3% by means of increase in lodging capacities and efforts taken to promote the country as a tourist hub.

Educational Sector – More thrust

- The current appropriations for the educational sector amount to RO 791 million representing 36% of the total current expenditures of the civil ministries, i.e. an increase by RO 81 million or 11% over the approved budget for the year 2008.

- Additional appropriations to the extent of RO 104 million have been allotted to the education sector. This will be used for the establishment of various facilities in schools across the region amounting to

RO 86 million. The Government has allotted RO 18 million towards the setting up of the central library, Omani studies centre and housing units at Sultan Qaboos University.

Health Care Sector – Increasing allocation

- The share of the health sector amounts to RO 271 million, which represents 12% of the total current expenditures of the civil ministries, i.e. an increase by RO 43 million or by 19% over the 2008 approved budget. The government has allocated RO 168 million during the period for new projects in the health sector.

Additional appropriations

During the previous year, the government approved an additional appropriation for a number of projects in the field of roads, ports, gas, housing, airports, health, and services sectors which reached about RO 4.702 billion raising the appropriations for the development program at 156% to amount to about RO 7.718 billion as compared with the approved RO 3.016 billion at the start of the plan.

Construction Sector

- This sector has received the bulk of the additional appropriations to an extent of RO 1,053 million which includes the construction, dualization and rehabilitation of roads and bridges in the region.

Port Sector

- This sector has received additional appropriations to an extent of RO 922 million towards the construction, development and expansion of A'Duqm port and marine works project. The Government would also be spending in consultancy services and supervision, construction of quays for the third phase of Sohar industrial port.

Housing Sector

- A total of RO 339 million has been allocated for the development of projects in housing sector. This would include constructing (2200) housing units at the Al Batinah and Quriyat. The Government will also spend money in building of houses for social security and limited income families which are totally affected by the exceptional climatic conditions in a number of Wilayats.

Town planning and municipality services sector

- Towards town planning and municipality services sector an amount of around RO 344 million has been allocated. In which, the major part would be allocated to the owners of properties affected by Gonu in Al Batinah coastal road to an extent of RO 200 million. This will also fund money towards the removal of residues, pumping water and opening the main and internal roads, repair of parks and afforestation in the aftermath of the climatic conditions in Muscat and several similar projects

Gas Sector

- This sector was allocated with an additional amount of RO 262 million for the implementation of projects for gas supply, construction of gas pumping stations & networks for gas distribution and replacing gas lines.

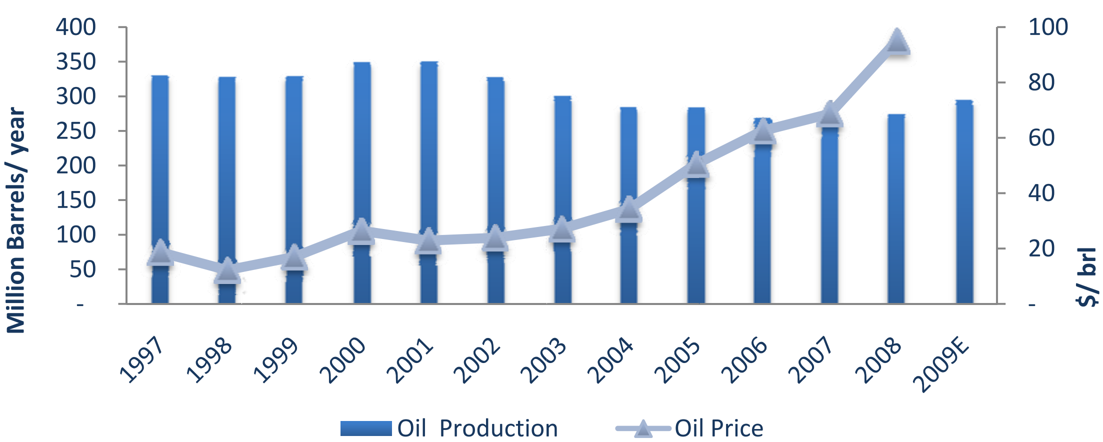
Aviation Sector

- The Government has reserved RO 186 million for the new projects such as consultancy studies, designing and supervision with regard to development and renovation of Muscat international and Salalah airports. This would also comprise of consultancy studies for designing and supervision for constructing six regional airports at Sohar, Al Duqm, Ras Al Had, Adam, Haima and Shaleem.

Economic Scenario

National Economy - FY2008

On the back of higher oil prices, robust domestic demand, increased non-oil exports and investment climate, the preliminary estimates of the national accounts indicate a FY2008 GDP growth rate at current prices at about 40%. This could result in a nominal GDP of RO 22.4 billion. This is achieved amidst the global financial and economic crisis and the national economy showed steady growth in FY2008. The Government expects the GDP at constant prices to grow by more than 10% in FY2008.The oil revenues for 2008 is expected to be higher by 55.7% YoY backed by 51.4% increase in oil prices along with 6.6% increase in production. In addition to this, the non-oil activities is expected to show 26.7% YoY growth with the presence of strong domestic demand and increased exports. According to Ministry of Economy October 2008 statistics, the daily average oil production stood at 753,000 barrels per day which is an increase of 6% as compared to the Dec ‘07 figures.

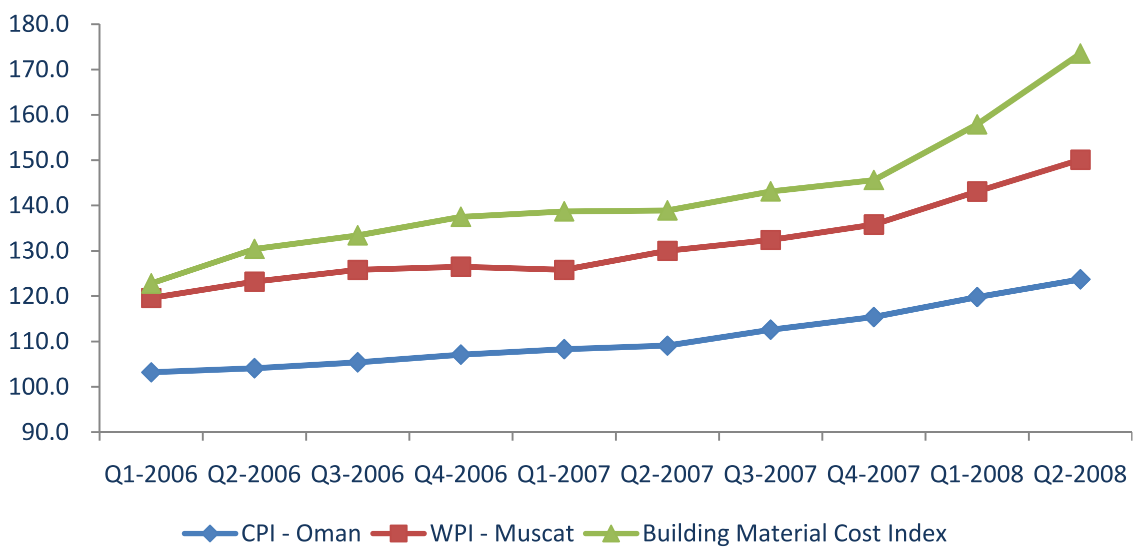


Source: Ministry of Finance, GBCM Research

Based on preliminary estimates, the balance of payments has shown a noticeable improvement in 2008 with the overall export revenues increasing by 41% YoY as compared with FY2007. The proceeds from oil exports is estimated to increase by 39.0% while other exports of Omani origin have jumped by 37.2% and re-exports by 57.3%. However with the presence of robust domestic demand and depreciation of US dollars against other main currencies, the merchandise imports increased by 46.9%. With this, the Government is expecting the balance of trade surplus to increase to about RO 5.3 billion, showing an increase of 32.1% YoY. The overseas net payments related to services, income and current transfers increased at 29.1% compared with 2007. The current account balance surplus increased to RO 1.1 billion i.e. an increase of 49% from RO 737 million earlier reported for 2007. Hence its ratio to GDP is estimated to have increased to about 5% compared with 4.8% in previous fiscal year.

Inflation to cool off

The inflation rates were on the rise, with the rate for the period (January-October 2008) amounted to about 12.4% compared with about 5.3% for the same period of 2007 (Source: Ministry of National Economy). The major factors like higher prices of foodstuffs & other commodities, depreciation of US dollar exchange rate relative to other main currencies and strong domestic demand has pushed up the inflation to double digits. On the back of expected slowdown and recession of global economy, the prices of commodities and basic materials has shown a declining trend over the last three months and also we expect this to continue in 2009. Hence, it is expected that the inflation rates would be in single digit in 2009.



Source: Ministry of Finance, GBCM Research

Government Debt

S.No	Particulars	2003	2004	2005	2006	2007	2008#
1	Stock of Debt (RO mn.)	1304.9	1319.1	1018	1127.6	1000.9	986.2
2	Principal Repayment (RO mn)	388.5	373.3	538.6	105.6	324.8	NA
3	Interest Payments (RO mn.)	59.9	74.4	66.8	55.6	77.7	NA
4	Debt Indicators						
	(a) Debt to GDP ratio (%)	15.6	13.8	8.6	8.2	6.5	4.4
	(b) Debt Services Ratio (%)	4.9	3.4	4.9	0.6	2.3	NA

Source: # Khaleej times dated 4th Jan 2009, Ministry of Finance, GBCM Research

The Government debt declined marginally by RO 14.7 million, from RO 1,001 million in 2007 to RO 986.2 million in 2008. This reduction was facilitated by increase in public revenues, augmented by higher oil prices. The indicator of debt to GDP ratio has been improving consistently in the last five years from 15.6% in 2003 to 6.5% in 2007 and further down to estd. 4.4% in 2008, reflecting the overall strong fiscal position realized over this period. This comfort would enable the Government to pursue its expenditure throughout this plan period that ends in 2010.

Privatisation

It was one of the missed opportunities by the Government to have not capitalized the trend for privatization during the boom period that the capital market witnessed until 2007. Though the previous two budget statements mentioned about divestment of Government stakes in some listed stocks like Oman Flour, Oman Chromite, and Oman Cement and also unlisted stocks like Oman National Transport and Golden Tulip Hotel, this time it lost its significance owing to market conditions. The complacency during the oil boom period could have led to providing low priority to this segment of revenues. However the revenue generated out of these divestments comes handy during times of distress. The divestment also leads to the development of the market through increased float and bring in quality companies on board. The presence of such companies could restrict the flow of foreign money outward.

Outlook

In the current economic conditions, we believe Oman government has continued with its policy framework in the right direction to achieve sustainable growth. The aim towards developing a diversified economy will benefit the young population mix with job creations in the longer term. We believe Budget 2009 is well in line with seventh five year plan in addition to appropriations towards building the domestic infrastructure.

Although 2008 has been exceptional with high level of private participation, funding pressure along with weaker global outlook is likely to affect the same during the year 2009. This along with the given budget expenditure will keep higher proportion of government support in overall gross capital formation for the year 2009. Through these difficult times, the Government expects the national economy to register a real positive growth of around 1% in this fiscal year.

In the current economic scenario, concerted policy actions are required from both fiscal and monetary side. In anticipation of the fall in inflation the interest rates should be declining well in advance so as to keep the demand intact. From the Fiscal end the implementation of planned projects, be it infrastructure, downstream projects, tourism related need to be carried out in a strict time frame so as to prop the dependent industries and absorb the capacities. Any delay in the implementation would not achieve the benefit that is aimed for.

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