

January 12, 2010

Oman Budget 2010

Theme: Continuing Growth and Employment generation



الخليجية بادر للأسواق المالية
GULF BADER CAPITAL MARKETS S.A.O.C.

Oman Budget FY2010 - Key Highlights

Fiscal year 2010 is the last year of Seventh Five-Year development Plan (2006-2010).

Oil Price assumed at USD 50 per barrel as compared USD 45 per barrel in 2009 budget.

Estimated total revenues of RO 6.380 billion, an increase of 13.4% over 2009 budget.

Estimated expenditure for 2010 at RO 7.180 billion, rise of 11.8% YoY.

Budget deficit of RO 800 million forming about 3.48% of FY08 GDP.

Total appropriations for development program (seventh plan period) reaches RO 9.681 billion, compared to approved RO 3.016 billion at start of the plan.

Economy estimated to report real GDP growth of 6.1% and nominal GDP growth of 18.4%.

Oman FY2009 – Resilient Economic Performance

FY2009 average oil price at \$56.7 per barrel, the Government expects covering most of the estimated fiscal deficit of RO 810 million

Latest Public finance data reveals fiscal deficit of RO 139.7 million for the period Jan-Nov 09

Economy expected to report 3.7% growth in real GDP and decline in nominal GDP.

Daily production increased to 810,000 barrels in 2009, an increase of 7% YoY. The average oil production stood at 809,600 barrels per day for the period Jan-Nov 09

Non-Oil real GDP growth at 2.9% during 2009

CPI-Oman declined to about 3.6% in 2009 as compared to 12.4% in 2008. The latest data on Inflation (Oman-CPI) for the period Jan-Nov 09 is at 3.7%

Global Economy – Is it the end of Recession!!

The latest IMF's World Economic Report released in October 09 projects a World Output growth rate of 3.1% in 2010 as compared to 1.1% contraction in 2009. This is on the back of concerted efforts by various economies through Fiscal Stimulus and the central banks support that enabled the recovery which is expected to continue in 2010. The global economy shows early signal of expansion in the current fiscal year on the back of strong performance from the emerging economies and a modest recovery in the other advanced economies.

The real GDP growth of emerging economies is forecasted to grow by 5% in 2010 as compared to 1.75% growth in 2009. The strong rebound is driven by China, India and other emerging economies supported by policy stimulus, improving global trade activities and financial situations. The advanced economies are expected to report positive growth in 2010 at about 1.3% as compared to 3.4% contraction in 2009. The re-stocking followed by production cuts and drawdown of existing inventory enabled the turnaround situation in economy. However we believe that improvement in demand situation in 2010 would provide healthy sustainable growth over the medium term.

Economic Growth Projections

IMF-WER (Oct 2009)	2007	2008	2009P	2010P
World Output	5.2	3	-1.1	3.1
Advanced Economies	2.7	0.6	-3.4	1.3
Emerging and Developing Economies	8.3	6	1.7	5.1
Developing Asia	10.6	7.6	6.2	7.3
Middle East	6.2	5.4	2	4.2

Source: World Economic Outlook – October 2009

GCC Region – Impact of the crisis & Government intervention

GCC region was affected during the crisis with sharp decline in oil prices, contraction of global economy and sudden drying up of capital inflows. The crisis impacted the banking sector due to sharp decline in the growth of the deposits, banks limited ability to raise capital and withdrawal of foreign financing. Excess leveraging and inappropriate capital structuring had affected the corporate sector. Low oil prices and subdued capital flow led to shrinkage of current account across the GCC region. GCC countries mitigated the crisis through pumping liquidity in the system in the form of commercial bank deposits and increasing the line of facility for banks to replace the international funding. All the regional governments continue to increase the spending in infrastructure year after year.

GCC Region – Poised for Recovery

The potential economic recovery in 2010 is likely to augur well for the Oil economies as the oil demand is likely to improve the utilization rate of the spare capacity that prevails in the region. According to World economic report, the region is likely to see a growth of 4.4% in Oil and 3.9% in non-oil GDP for the year 2010. The current account balance for the region is expected to bulge again as oil price recovers with increased demand. The increased avenues of banks funding sources should enable more credit; prolonged low interest rate scenario should lift the asset valuation and allow borrowers to seek for additional funds. In the GCC region, Qatar is expected to witness highest growth in nominal terms for the current fiscal year.

As per IMF Projections, the real GDP growth of the Middle East region is projected at 2% in 2009 and is expected to double to almost 4.25% in 2010. For the region, the inflation is expected to decline from 15% in 2008 to 8.3% in 2009. Due to the huge drop in oil prices, the current account surplus of the region is expected to be around 15.75% of the total GDP in 2009.

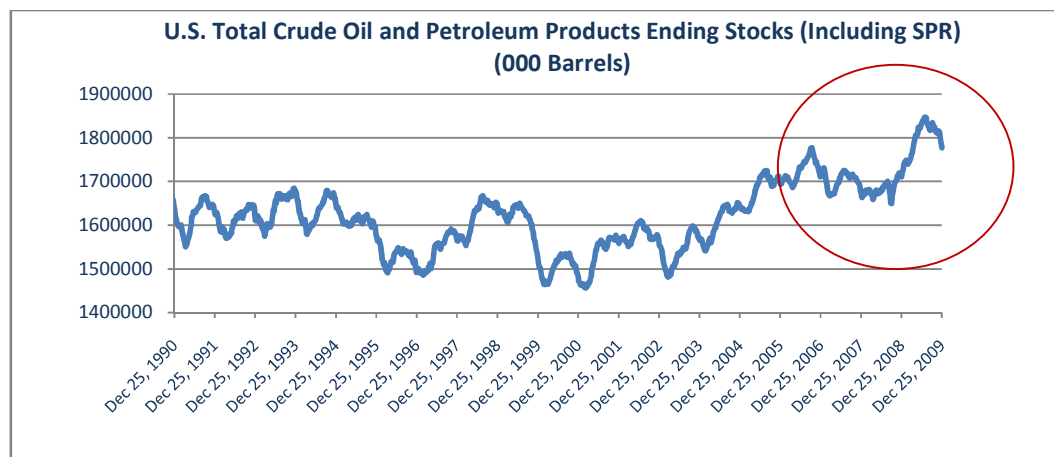
GCC Region - Nominal GDP						
(US \$ bln)	2005	2006	2007	2008	2009P	2010P
Oman	30.9	36.8	41.6	59.9	52.3	59.7
YoY (% Chg)		19.10%	13.00%	44.00%	-12.70%	14.10%
Qatar	42.5	56.9	71	102.3	92.5	128.2
YoY (% Chg)		33.90%	24.80%	44.10%	-9.60%	38.60%
KSA	316	356.6	384.4	469.4	379.5	442.8
YoY (% Chg)		12.90%	7.80%	22.10%	-19.20%	16.70%
UAE	135	164.2	180.2	262.1	228.6	256.2
YoY (% Chg)		21.40%	9.70%	45.40%	-12.80%	12.10%
Kuwait	80.8	101.6	111.8	158.1	114.9	135.4
YoY (% Chg)		25.70%	10.00%	41.40%	-27.30%	17.80%
Bahrain	13.5	15.8	18.4	21.2	19.4	21.6
YoY (% Chg)		17.00%	16.50%	15.20%	-8.50%	11.30%
Total	619	732	807	1,073	887	1,044
YoY (% Chg)		18.30%	10.20%	33.00%	-17.30%	17.70%

Source: IMF Outlook

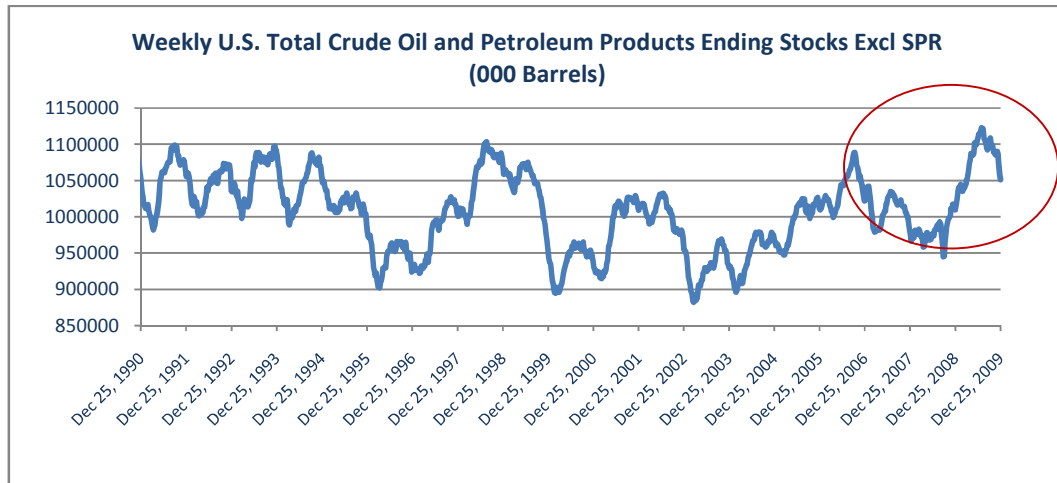
Oil Prices – End of recession to improve global demand

The global commodity prices got stabilized during early part of 2009 and marked a strong rally during second and third quarters of last fiscal year on the back of global economic recovery and improved demand scenario from the emerging economies like China, India etc. During 2009, the Oil prices after reaching low of \$36 a barrel in Feb 2009 made a bounce back to \$70 per barrel during mid of 2009. As per latest EIA reports (Dec 09), the price of West Texas Intermediate (WTI) crude oil is expected to average \$76 per barrel this winter (Oct 09-March 10). With the assumption that the United States (US) and the world economic conditions continue to improve in FY2010, EIA has forecasted the monthly average WTI price to drop to \$75 a barrel early this year and then increase to \$82 per barrel by December 2010.

EI forecast assumes that the US real GDP grows by 1.9% in 2010 and world oil-consumption-weighted real GDP grows by 2.6%. Non-OECD countries primarily India and China have been responsible for increase in the consumption and the trend is likely to continue in 2010. With this, Global demand is expected to increase by 1.4 million barrels per day (mb/d) in 2010 from the current year average of 84.9 mb/d. OPEC supplies 28.7mb/d in 2009 and has ample spare capacity to meet the increased demand. The pace of recovery of global economy and the production cuts adopted by the OPEC countries would be the key for oil prices in this fiscal year.

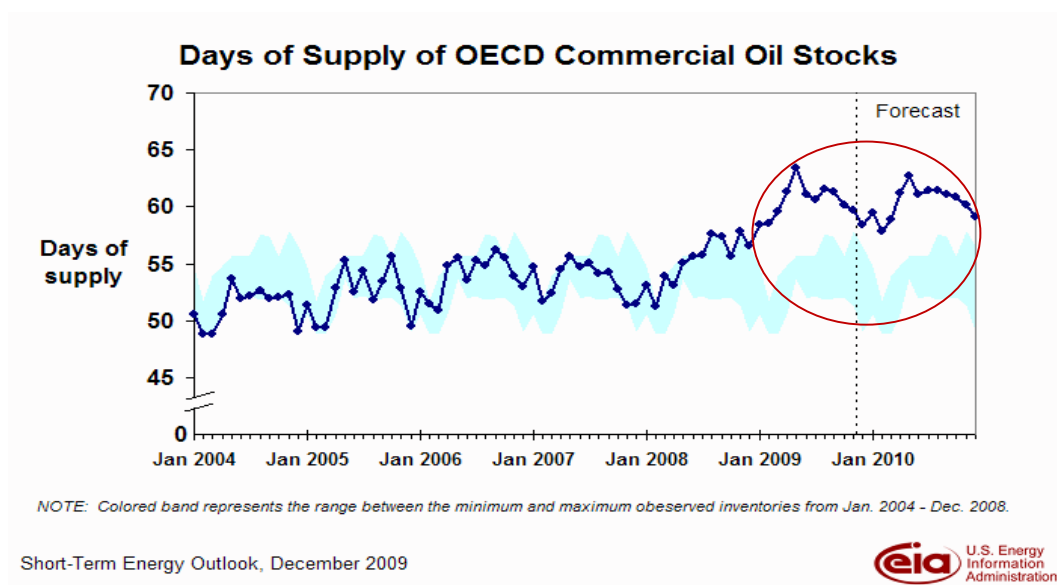


Source: EIA, GBCM Research



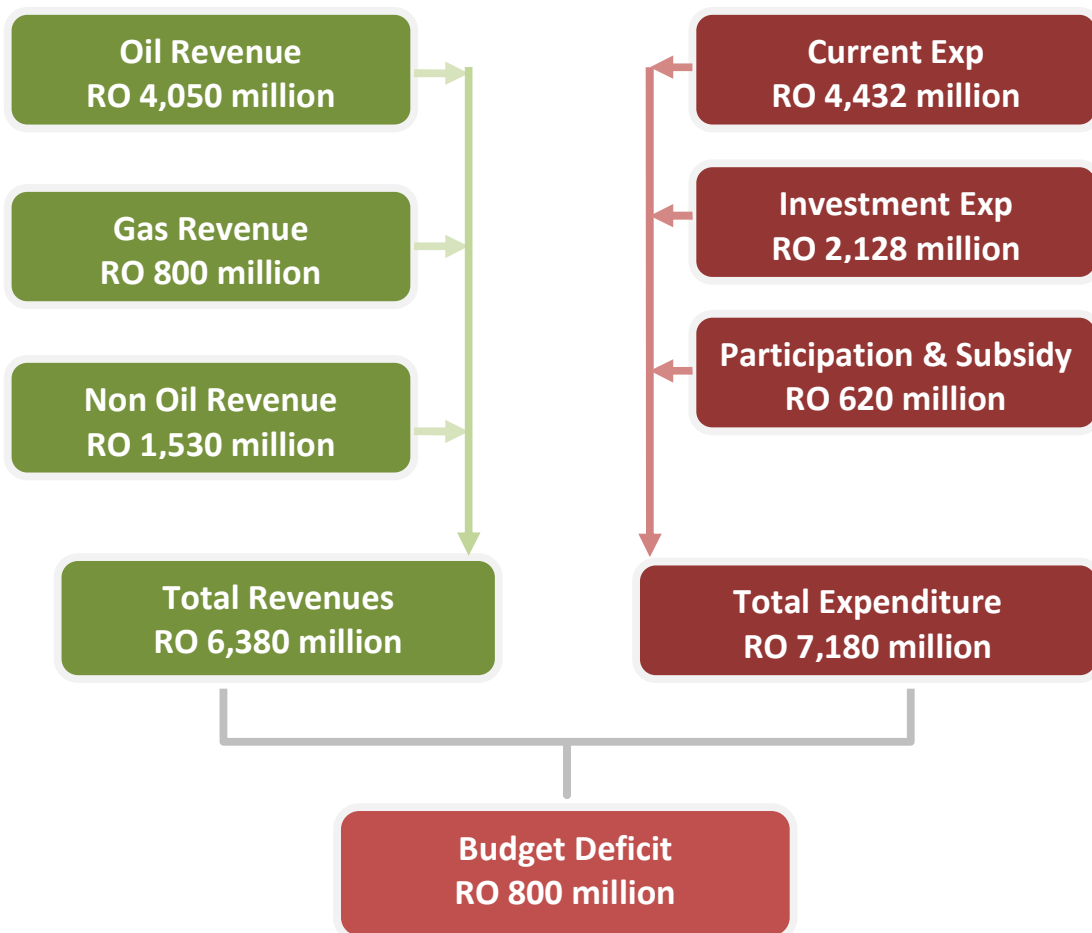
Source: EIA, GBCM Research

With regards to crude oil production, OPEC production is expected to average 29.1 million barrels per day (bbl/d) in 2009, down more than 2 million bbl/d in 2008. OPEC crude oil production is projected to increase to an average of 29.6 million bbl/d in 2010 on the back of expected rebound in global oil demand. As at end of Q3FY09, the total OECD commercial oil inventories stood at 2.77 billion barrels, which is 115 million barrels more than the 5-year average. Inventories are estimated to be around 58 days of forward cover at the end of 2009, which is around 5 days above the 5-year average. EIA estimates OECD oil inventories to remain above average historical levels throughout the forecast period. With regards to US crude oil inventories, the total inventories showed declining trend over the last two months on the back of improved demand for end products.



Source: EIA, GBCM Research

Oman Budget 2010



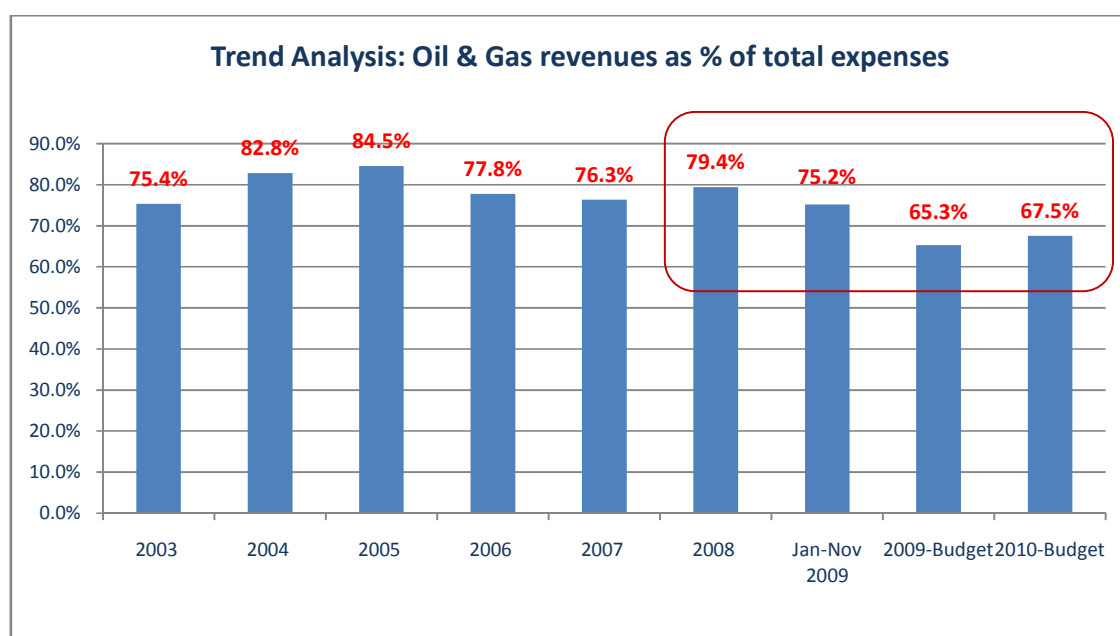
Oman General Budget – 2010

In RO millions	FY2008 Actual	Jan-Nov 09 Actual	FY2009 Budget	FY2010 Budget	YoY (% Chg)
Oil Price assumption (USD)	101	55	45	50	11.1%
Daily average Oil Production (In barrels)	756,800	809,600	805,000		
Revenues					
Oil Revenues	5,093	3,987	3,522	4,050	15.0%
Gas Revenues	910	643	670	800	19.4%
Current Revenues	1,554	1,369	1,355	1,477	9.0%
Capital Revenues	68	21	54	40	-25.9%
Capital Repayments	14	-	13	13	0.0%
Total General Revenues	7,639	6,020	5,614	6,380	13.6%
Public Expenditure					
Defense and Security Exps	1,775	1,526	1,545	1,615	4.5%
Civil Ministries Exps	2,348	1,805	2,149	2,480	15.4%
Oil Production Exps	182	160	196	212	8.2%
Gas Production Exps	64	62	76	80	5.3%
Interest on Loans	51	38	54	45	-16.7%
Total Current Exps	4,420	3,591	4,020	4,432	10.2%
Investment Expenditure					
Development Expenditure for Civil Ministries	1,188	1,203	800	950	18.8%
Capital Expenditure for Civil Ministries	47	24	21	20	-4.8%
Oil production Exps	649	649	679	725	6.8%
Gas production Exps	397	292	419	433	3.3%
Total Investment Exps	2,281	2,167	1,919	2,128	10.9%
Total Current & Investment Exps	6,701	5,758	5,939	6,560	10.5%
Participation and Subsidies to the Private Sector					
Subsidy for the Interest on Development and Housing Loans			18	20	11.1%
Participation in Domestic, Regional and International Institutions			355	460	29.6%
Subsidy to the Electricity Sector			112	140	25.0%
Total Subsidy	859	401	485	620	27.8%
Total Expenditures and Subsidy	7,560	6,159	6,424	7,180	11.8%
Surplus/ (Deficit)	78	(140)	(810)	(800)	-1.2%

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

Revenues - Efforts towards diversification

As per Oman General Budget 2010, the country's general revenues for the year is estimated at about RO 6.380 billion as compared to RO 5.614 billion in FY2009 budget, an increase of 14% YoY. On segmental basis, the Oil and gas revenues contribute around 76% of the total revenues, whereas the current and capital revenues amount to 24% of total revenues. The budget has assumed an average oil price of \$ 50 per barrel during the current fiscal year as compared to \$ 45 a barrel in the budget of last year. Taking into account of the oil prices forecast of above \$70 per barrel in 2010 by several leading international agencies like EIA, IMF etc, we believe that the Government has followed a conservative approach in the oil price assumption for the budget.



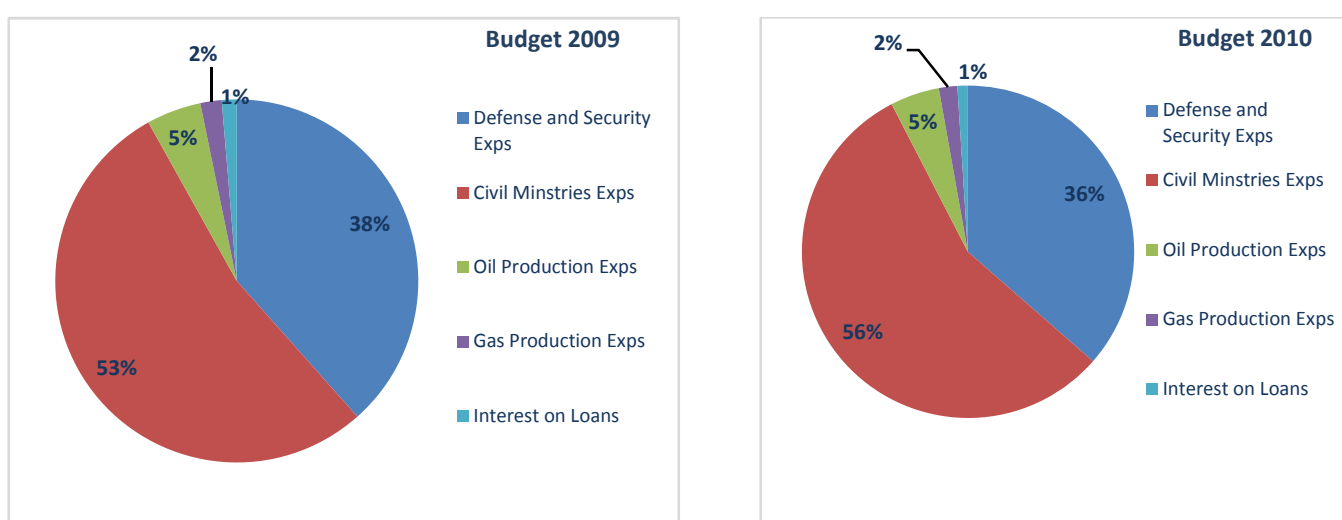
Source: Press Statement Ministry of Economy, Ministry of Finance, Ministry of National Economy, GBCM Research

FY2010 oil revenues were estimated to be RO 4.050 billion, forming 63% of the overall revenues. In the same period, the Gas revenues is estimated at RO 800 million, forming 13% of the total revenues. The current and capital revenue for 2010 is estimated to be RO 1.530 billion, an increase of 8% over the budgeted levels in 2009. The total oil & gas income caters to around 68% of the total public expenditure as compared to 83% during the beginning of seventh five year plan (FY2004 end). This is achieved on the back of Government's considerable efforts taken towards diversification of economy. During the same period the contribution from non-oil revenues as percent of total expenditure has increased to 21% levels in FY2010 as compared to 17% levels in FY2004.

Expenditure – Trust on Infrastructure development

The total expenditure for 2010 has been estimated at about RO 7.180 billion as against RO 6.424 billion in 2009, an increase of 12% YoY. Of this, the total current expenditure for the year is forecasted to be RO 4.432 billion, forming around 62% of the total expenses. The current expenditure allocation has been increased by 10.2% YoY as compared to the 2009 budgeted figures.

Current Expenditure – Sectoral allocations

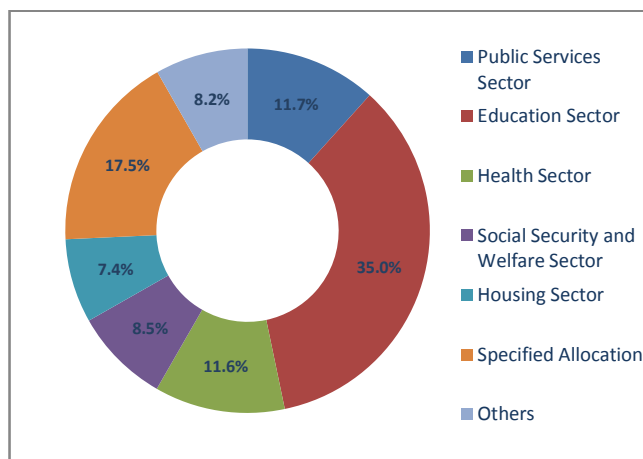


Source: Press Statement Ministry of Economy, Ministry of Finance, GBCM Research

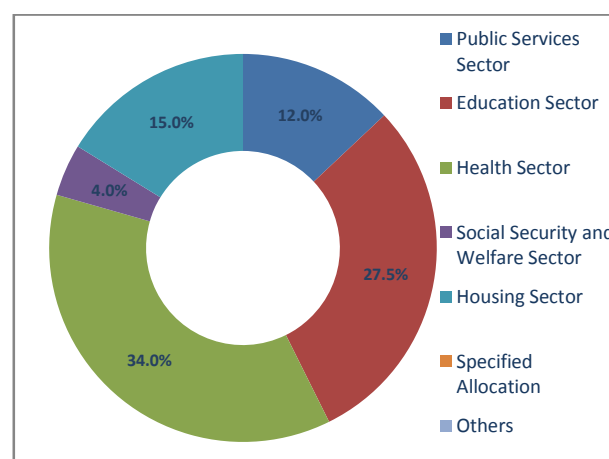
Defense and security current expenses is estimated to be at RO 1.615 billion, an increase of 4.5% YoY forming around 22.5% of the total expenditures. Overall Oil & Gas production current expenditure is expected to increase by 4.1% YoY to RO 292 million as compared to RO 272 million in the last fiscal year. Education sector has garnered major share in the current year allocation of around RO 868.9 million which forms 35% of the total current expenditure. While the public services and health sector stands next with each getting allocated ~12% of the total current expenditure of RO 289.5 million and RO 287.0 million respectively.

For the third consecutive year, the allocation towards civil ministries expenditure has been increased to 15.4% of the total current expenditures, forming around 35% of total general expenditures. The higher allocation was done mainly towards supporting the basic government services, operational expenses of Ministries and expansion of health and educational services and expenses of new projects. This includes allocation of RO 43 million to be made in Jan 2010 towards the promotion of employees entitled since 2005. An additional amount of RO 36 million has been allocated towards issue of social security to 50,250 cases.

2010 -Current Expenditure



2010- Capital Expenditure

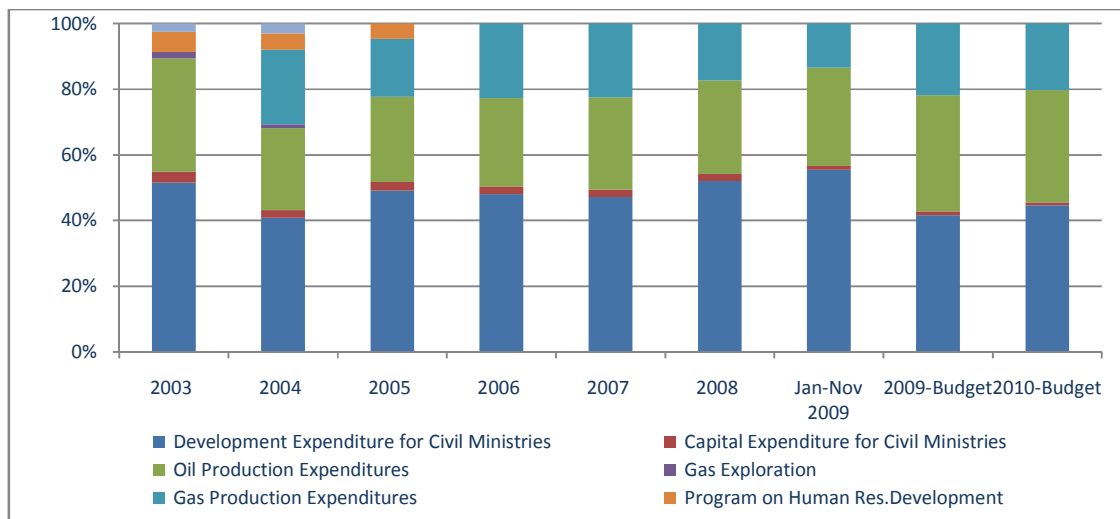


Source: Press Statement Ministry of Economy, Ministry of Finance, GBCM Research

Investment Expenditure – Thrust on Employment Generation Revenues

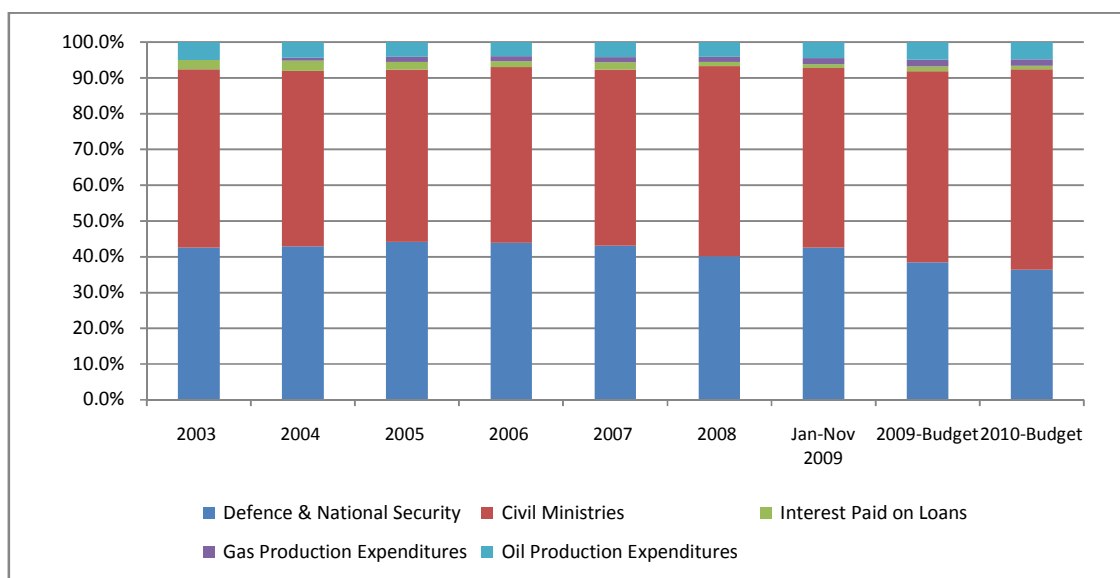
The Government has budgeted 10.9% increase in Investment Expenditure for 2010 to RO 2.128 billion over previous year budgeted amount of RO 1.919 billion. The government has allotted RO 30 million to cover the operational expenses of the new projects intended to be operated for ministries during the year 2010. This would result in the creation of new job opportunities opening around 4,000 opportunities in the labour market. We believe that the Government's trust on employment generation would in turn help local consumption growth thereby aiding economic growth going forward. Adding up to this, the project investments would help in increasing the private sector investments. The Government has allotted RO 937 million towards the development of new projects, which includes the construction of new schools, health centres and Operation & maintenance of Al Ghubra desalination plant.

Investment Expenditure - A Trend Analysis



Source: Ministry of Finance, MoNE, GBCM Research

Current Expenditure - A Trend Analysis



Source: Ministry of Finance, MoNE, GBCM Research

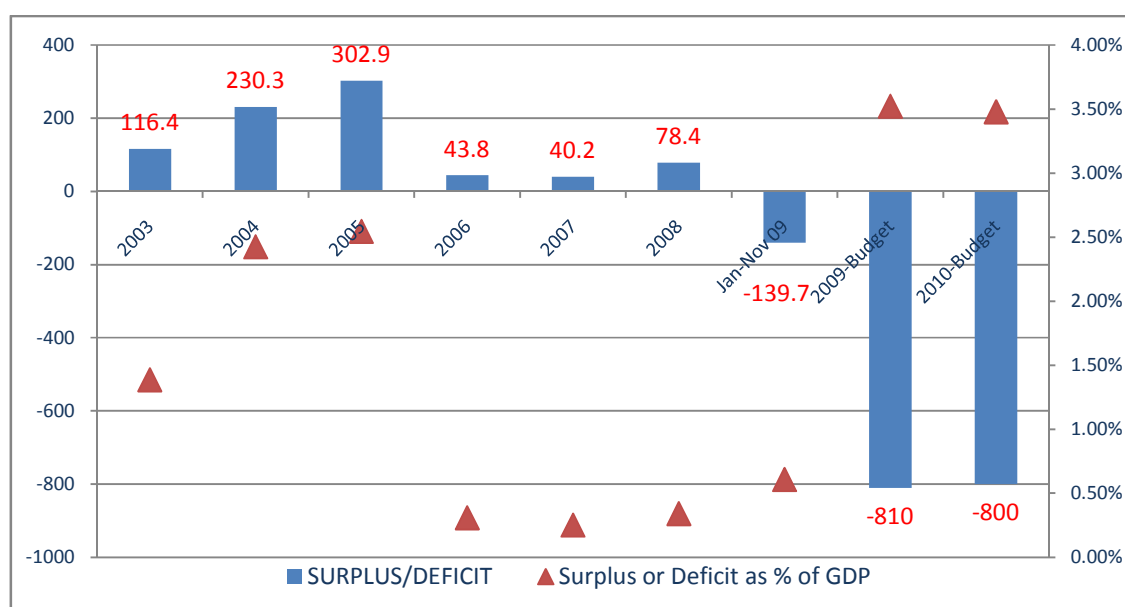
Public Expenditure Analysis

Current Expenditure - Trend	2003	2004	2005	2006	2007	2008	Jan-Nov 2009	2009-Budget	2010-Budget
Defence & National Security	42.5%	43.0%	44.2%	43.9%	43.1%	40.2%	42.5%	38.4%	36.4%
Civil Ministries	49.9%	49.0%	48.2%	49.1%	49.2%	53.1%	50.3%	53.5%	56.0%
Interest Paid on Loans	2.5%	2.8%	2.1%	1.6%	2.0%	1.1%	1.1%	1.3%	1.0%
Gas Production Expenditures	0.0%	0.8%	1.5%	1.4%	1.4%	1.5%	1.7%	1.9%	1.8%
Oil Production Expenditures	5.0%	4.4%	4.1%	4.0%	4.2%	4.1%	4.5%	4.9%	4.8%
Current Expenditure	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Investment Expenditure - Trend	2003	2004	2005	2006	2007	2008	Jan-Nov 2009	2009-Budget	2010-Budget
Development Expenditure for Civil Ministries	51.6%	40.8%	49.2%	48.1%	47.1%	52.1%	55.5%	41.7%	44.6%
Capital Expenditure for Civil Ministries	3.3%	2.4%	2.7%	2.4%	2.3%	2.1%	1.1%	1.1%	0.9%
Oil Production Expenditures	34.6%	24.9%	25.8%	26.9%	28.1%	28.5%	29.9%	35.4%	34.1%
Gas Exploration	1.9%	1.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Gas Production Expenditures	0.0%	22.8%	17.7%	22.7%	22.5%	17.4%	13.5%	21.8%	20.3%
Program on Human Res. Development	6.1%	4.9%	4.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of Buying & Transporting Gas	2.5%	3.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Investment Expenditure	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Ministry of Finance, MoNE, GBCM Research

Fiscal Deficit – within acceptable levels

On the back of conservative assumption of oil price at \$50 per barrel along with continuing thrust of infrastructure development led by 11.8% increase in total public expenditure, the estimated fiscal deficit for 2010 is about RO 800 million, forming 12.5% of 2010 estimates total revenues. The anticipated deficit forms around 3.48% of FY08 GDP which is within the safe and acceptable levels. If in case of no excess over the budgeted revenues, the Government has also stated that the deficit may be covered through state general reserves. As per latest data from Ministry of National Economy (MoNE), the public finance showed a fiscal deficit of RO 139.7 million for the first eleven months (Jan-Nov) of FY2009.



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

Subsidies

During the current year budget, the government has allocated RO 620 million towards subsidies to the Private sector, an increase of 27.8% over the budgeted levels in FY2009. The subsidies come in the form of participation in the form of capitals of companies, interests towards development and housing loans and for the electricity sector.

Participation and Subsidies to the Private Sector	2009-Budget	2010-Budget	YoY (%)
Towards Interest on Development and Housing Loans	18	20	11.1%
Domestic, Regional and International Institutions	355	460	29.6%
Subsidy to the Electricity Sector	112	140	25.0%
Total Subsidy	485	620	27.8%

Source: Press Statements, Ministry of Finance

Additional Appropriations towards Infrastructure development

During the previous year, the Government has 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 6,665 million raising the appropriations of the development programme at 221% to amount to about RO 9,681 million as compared to the approved RO 3,016 million at the start of the Plan.

Education Sector – Towards building institutions

Education has been the center of the social reforms and the Government has appropriated RO 874 million for the education sector representing 35% of the total current expenditures of the civil ministries, i.e., an increase of RO 83 million or 10% over the approved budget for the year 2009. These appropriations are apart from the appropriations allocated for this sector in the development budget estimated by about RO 62 million in the year 2010.

Education Sector - Major Projects	(In RO Million)
Ministry of Education building	9
Additional class rooms, educational facilities etc	26
New schools and strengthening the established ones	19

Source: Press Statements, Ministry of Finance

Health Care Sector

Although not a lion's share, the Healthcare sector gets a reasonable allocation in the current budget and it stands next to the education sector and the total allocation to the sector amounts to RO 294 million, which represents 12% of the total current expenditures of the civil ministries, i.e., an increase by RO 23 million or by 8% over the approved budget for the year 2009. The Government has allocated RO 247 million during the period for new projects in the health sector.

Health Care Sector - Major Projects	(In RO Million)
Heart-diseases unit at Royal Hospital	26
Reconstruction of Saham hospital	10
Rehabilitation of Samayil hospital	6
Rehabilitation of Jaalan Bani Bu Hassan hospital	5
Maintenance and purchasing of medical equipment	6
Rehabilitation of Sultan Qaboos Hospital at Salalah	3
High-pressure oxygen unit at Khoula hospital	3

Source: Press Statements, Ministry of Finance

Construction Sector (Road)

The Government has allocated additional appropriations to an extent of RO 1,777 million towards the Road sector. This is an increase of RO 724 million as compared to allocations done in 2009. The thrust on infrastructure development is the key area for the economic development, which we believe is clearly seen on the back of increased allocations in the budget.

Road Sector - Major Projects	(In RO Million)
I & II phase of Al Batinah coastal road	274
Roads paving projects - 1,256 Kms	195
Road Construction - Master plan at Al Duqm	43
Al Zroob roundabout double-carriage road	23
Construction of Arjuut -- Ashkhareet -- Srfiet	23
Dual-carriage ring road Arzat-roundabout to Rissaut	20

Source: Press Statements, Ministry of Finance

Port Sector

The Port sector has received additional appropriations to an extent of RO 1,025 million for construction, development and expanding of Al Duqm Port. This clearly shows the commitment from the Government in the development of basic infrastructure towards achieving its long term objective of diversified economic growth. An additional amount of RO 788 million has been allotted towards expanding the Port infrastructure, marine works, construction of the dry dock and other related facilities in Al Duqm.

Town planning and municipality services sector

A total of RO 344 million has been allotted towards town planning and municipality services sector.

Town planning and municipality services sector	RO Mn
Proposed compensations - Affected by Al Batinah coastal road	120
Lighting poles and developing internal roads	8
Fence around Oryx protectorate and administrative control centres	5
Rehabilitation of parks and afforestation	10
First phase of Khasab sewerage project	9
Lighting and developing internal roads in wilayats	21
Al Hafa area (Salalah) project	11

Source: Press Statements, Ministry of Finance

Housing Sector

Additional amount to an extent of RO 406 million has been allocated towards the Housing sector. This is estimated to spent towards the construction of 2,200 housing units for owners of affected properties along the coastal road at Al Batinah as first phase, Construction of 806 housing units at the Wilayats, building of 718 housing units at Quriyat, building of 184 house for social security and limited income families and construction of 400 housing units with annexes at Khor Suuli (Salalah).

Aviation Sector

The Government has reserved RO 882 million towards the development of Aviation Sector.

Aviation Sector Projects	RO Mn
First main phase of the civil works at Muscat International Airport	450
Drainage channels to reclaim Muscat International Airport soil	63
Consultancy studies for designing and supervision at Sohar, Al Duqm, Ras Al Hadd and Adam	121

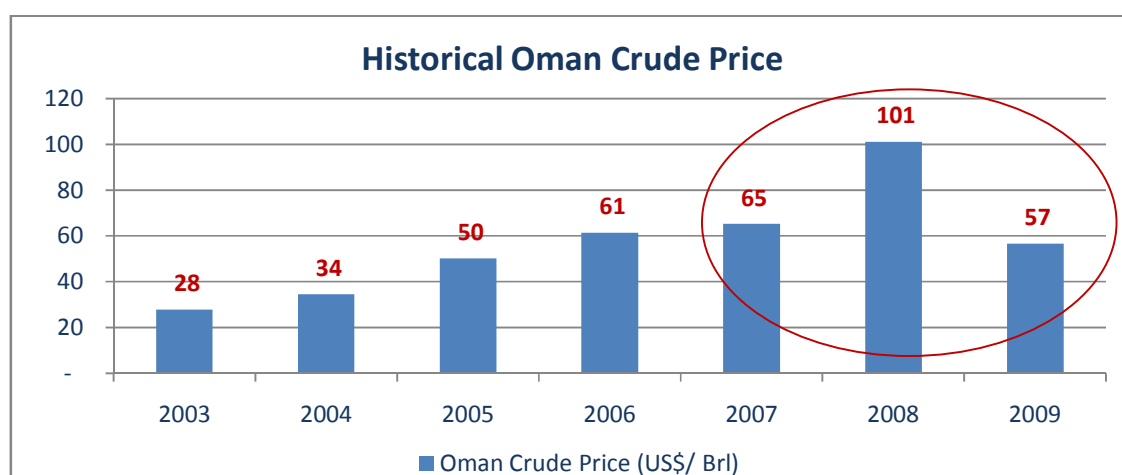
Source: Press Statements, Ministry of Finance

Economic Performance – FY2009

The General Budget for 2009 had estimated total revenues of RO 5.614 billion and expenditure of RO 6.424 million, leading to a fiscal deficit of RO 810 million. The oil price was assumed at \$ 45 per barrel for FY2009 budget. As per statement from the Government, the actual average oil price for 2009 stood at \$ 56.7 per barrel, which is well above the budgeted levels. Despite increased project allocations and the incremental additions in project expenditure, the Government expects the higher oil prices to cover the estimated budget 2009 deficit of RO 810 million. As at end of Nov 2009, the overall fiscal deficit position of Oman stood at RO 139.7 million (latest report from MoNE).

Positive Real GDP Growth

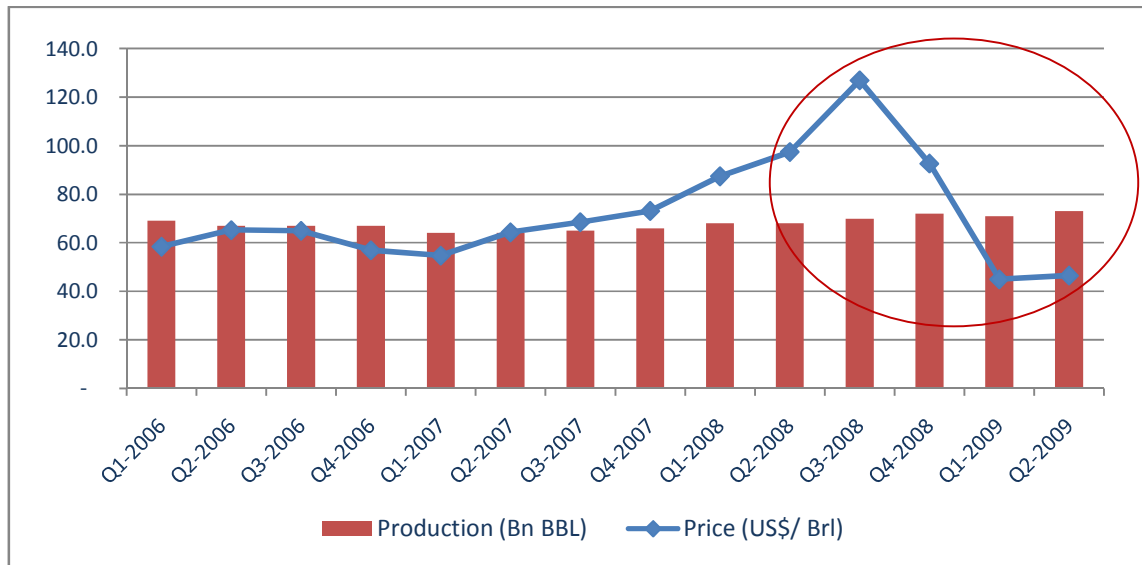
Despite the presence of lower oil prices during 1HFY09 and the slowdown of global economy, the national economy is expected to report a positive growth of 3.7% at constant prices (Real GDP) in 2009. However the contraction rate of 2009 nominal GDP (at current prices) is expected to be above 20%. As per the latest data of MoNE, the nominal GDP has declined by 27.2% to RO 12.760 billion as at end of September 09 (Q3FY09). The aftermaths of global financial crisis and lower oil demand led to Oman oil prices dropping to \$56.7 in 2009 from \$101.1 per barrel in 2008, a decline of 44% YoY.



Source: Ministry of National Economy, GBCM Research

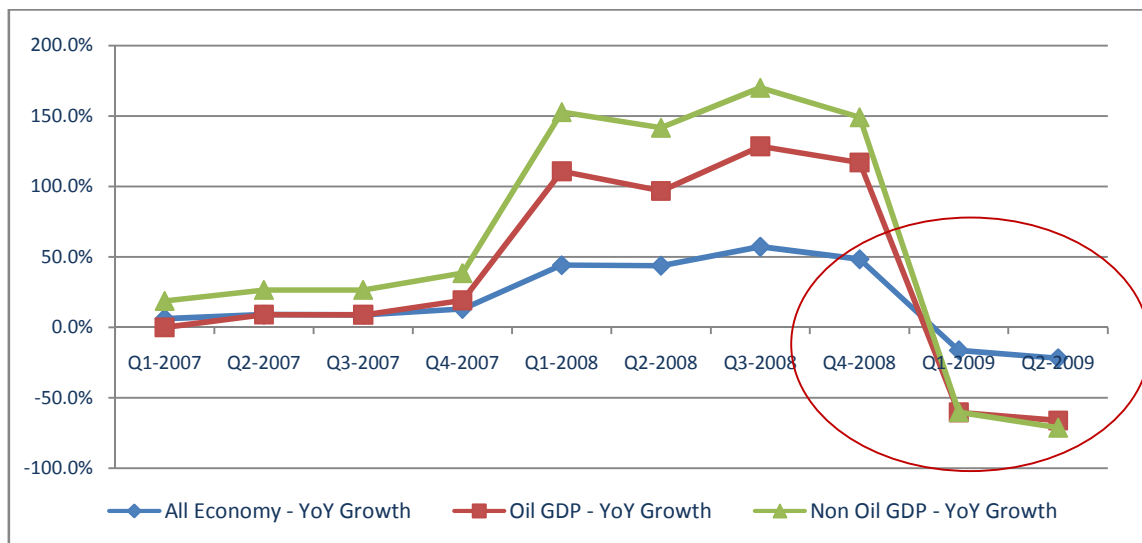
With the Government efforts taken to enhance oil production rates, the daily average production increased to 810K barrels in 2009, an increase of 7% YoY as compared to 2008 levels. As per the latest MoNE statistics (Dec 09), the daily average oil production is at 809,600 barrels a day during Jan-Nov 2009 as compared to 756,800 barrels a day in FY2008.

Oil Production & Oil Price - Quarterly Statistics



Source: Ministry of National Economy, GBCM Research

GDP Growth – Quarterly Performance



Source: Ministry of National Economy, GBCM Research

Balance of Payments

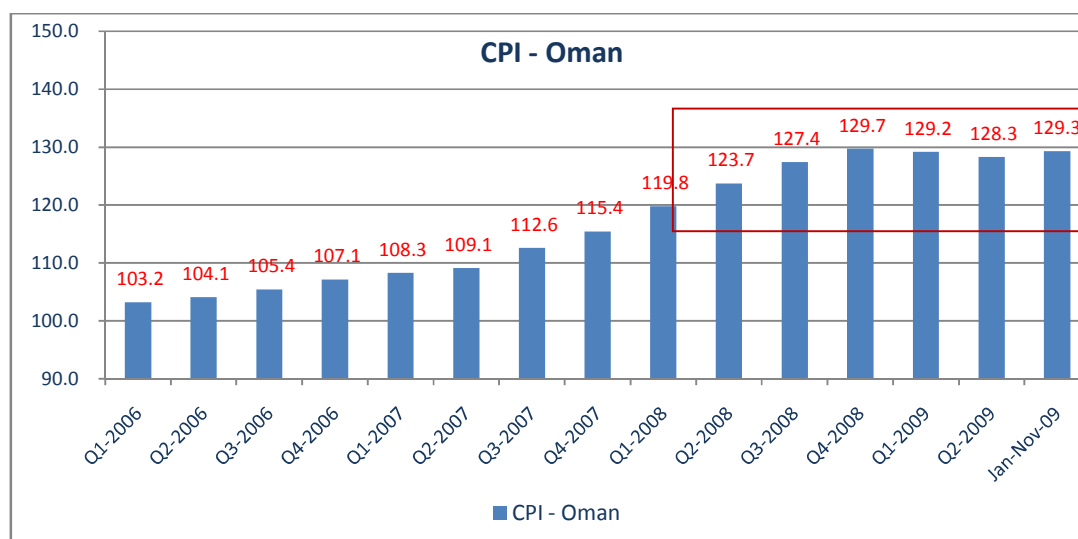
The global financial crisis had a significant impact to the balance of payments due to lowered exports. As per Government preliminary estimates, the total income from the hydrocarbon exports has decreased by 41% in 2009 mainly on the back of lower oil prices. In the same period, the non-oil exports have increased by 16% YoY. The re-exports continued to report strong growth of 14% YoY in 2009 due to the increasing role of the country as a centre for transit trade.

On the back of lower commodity prices along with reduced domestic demand, the overall value of Imports in 2009 declined by 23% YoY. Thereby, the balance of trade surplus decreased to RO 4.4 billion for the last fiscal year, a decline of over 32% as compared to 2008. FY2009 current account surplus has dropped considerably to RO 212 million as compared to RO 2.1 billion in 2008. The overall ratio of current account surplus to nominal GDP stood at 1.1% for 2009 as compared to 9.1% levels in 2008

Inflation downtrend

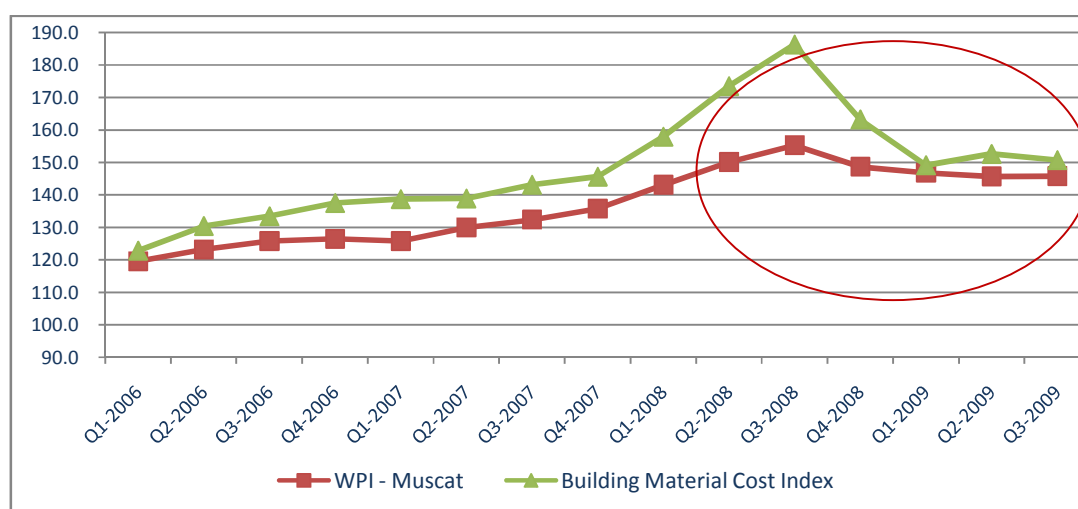
As per the Government announcement, the consumer price index (CPI) in Oman has declined to 3.6% levels in 2009 as compared to 12.4% in 2008. The fall in inflation is mainly due to the global crisis which leads to decline of commodity prices in FY2009. The lower commodity prices along with the monetary (reduction of reserve requirements) and fiscal policies of the Government aided in lower inflation for the last fiscal year. As per latest data from MoNE, the inflation (Oman – CPI) during the period of Jan-Nov 09 was at 3.7% levels.

Inflationary Trend – Quarterly



Source: Ministry of National Economy, GBCM Research

WPI – Muscat and Building Material Cost Index (Quarterly Trend)



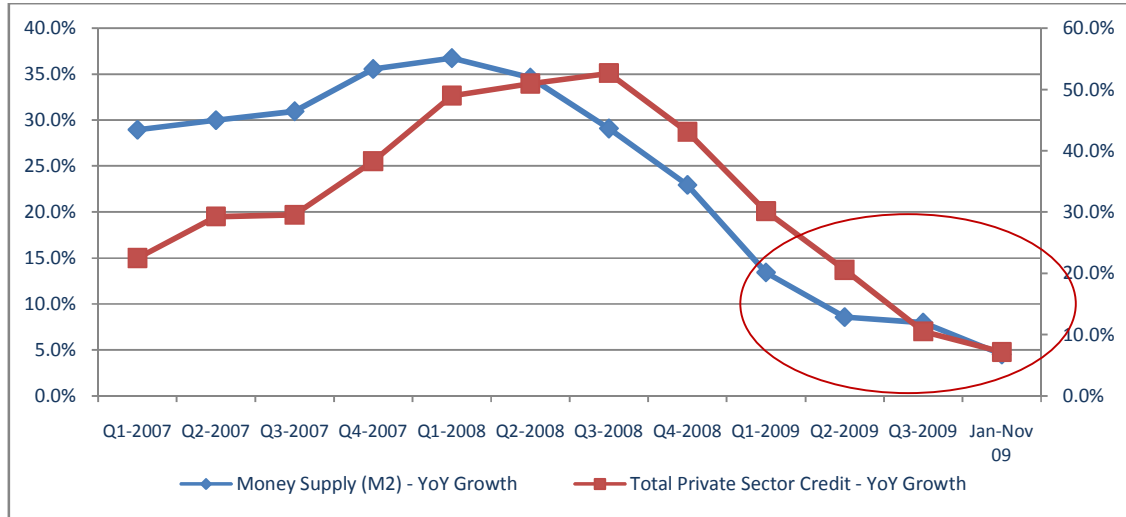
Source: Ministry of National Economy, GBCM Research

Credit and Money supply

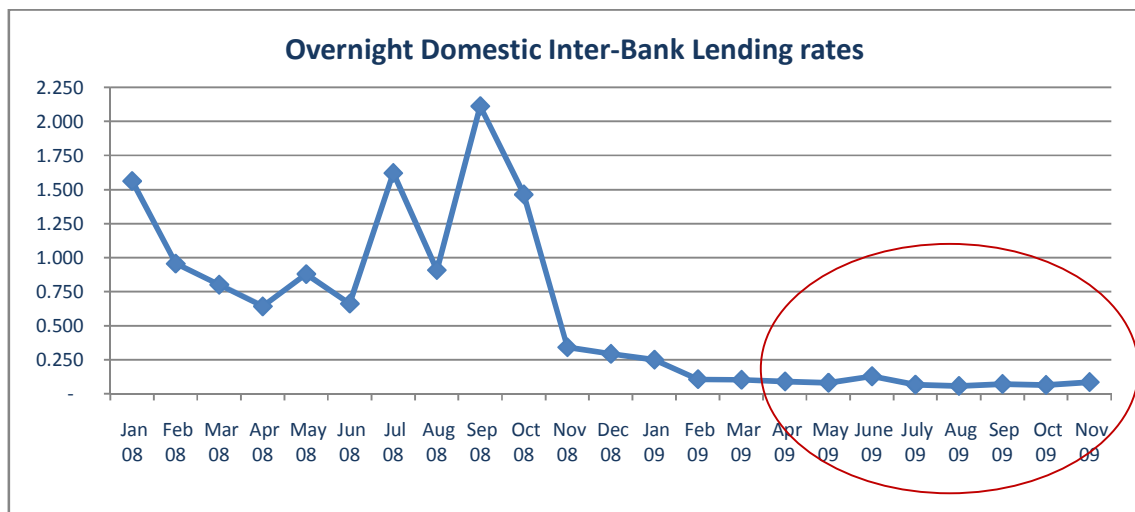
Oman's banking system despite being resilient towards the repercussions of the global financial crisis, witnessed a lower credit off-take during the whole of 2009. CBO's decision to bring down reserve requirement to 5% and to increase permitted lending to 87.5% during start of 2009 eased liquidity in the banking sector. The Total Banking sector credit addition stood at RO 555 million during Jan-Nov 09, an increase of 6.0% year to date (YTD). Overall credit growth slows down on back of increased risk aversion and focus on credit quality.

As at end of Nov 09, the total Credit of Oman commercial Banks stood at RO 9.812 billion. Deposit growth also remained subdued with an addition of RO 486 million during Jan-Nov 09, an increase of 5.7% YTD. The total deposits of the Oman commercial banking sector is at RO 9.065 billion (end of Nov 09). As per latest data from MoNE, the broad money supply growth for the period Jan-Nov 09 stood at 4.52% YoY as compared to 8% at the end of Q3FY09. Interbank rates peaked out in Q3FY08 at around 2.1% levels, while the rates have got settled at the lowest levels of 0.085% during Nov 2009.

Money Supply and Total Private Sector Credit Growth (YoY %)



Source: Ministry of National Economy, GBCM Research



Source: Ministry of National Economy, GBCM Research

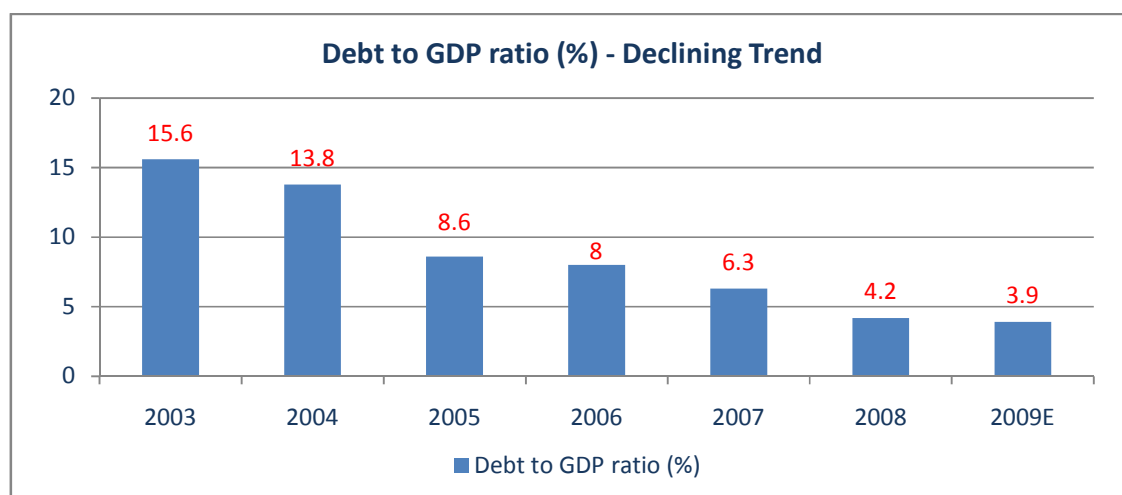
Government Debt

The presence of strong fiscal position in Oman during the financial year 2008 was reflected in government debt indicators during the last year (Source: CBO, Annual Report 2008). Based on the interest payment of RO 37.9 million made by the government during the period Jan-Nov 2009 (Monthly data from MoNE), a decrease of 5.5% YoY, it is assumed that the total public debt to decrease to c. RO 900 million in 2009 as compared to RO 964.8 million in 2008.

Particulars	2003	2004	2005	2006	2007	2008	2009#
Stock of Debt (RO mn.)	1,304.9	1,319.1	1,018.0	1,127.6	1,000.9	964.8	900.0
Principal Repayment (RO mn)	388.5	373.3	538.6	105.6	324.8	303.5	NA
Interest Payments (RO mn)	59.9	74.4	66.8	55.6	77.7	50.8	47.7
Debt Indicators							
Debt to GDP ratio (%)	15.6	13.8	8.6	8.0	6.3	4.2	3.9
Debt Services Ratio (%)	4.9	3.4	4.9	0.6	2.2	1.1	NA

Source: Central Bank of Oman, GBCM Research; # Estimates

The debt to GDP ratio has improved over the last five years from 15.6% in 2003 to 4.2% in 2008 and further down to estimated 3.9% in 2009, reflecting the overall strong fiscal position realized over this period. The overall decrease in debt to GDP ratio on a yearly basis and the debt services ratio during 2004 and 2008 is on the back of proper restructuring of public debt which is in line with excess revenue generated through higher oil income. The overall level of debt to GDP ratio and debt service ratio in the last few years are considered to be on the lower side by international standards.



Source: Central Bank of Oman, GBCM Research Estimates

Economic Outlook for 2010 – Stability to offer strength

Oman Government has taken right steps in offering a development oriented budget 2010 by maintaining its fiscal spending and focus on job creation, which is beneficial for the economic growth in the longer run. Taking into consideration of consensus oil price estimates of above USD 70 per barrel in FY2010 along with the continuing support from the Government towards increased fiscal spending and economic policies it is likely to step-up the pace of the growth going forward. As per preliminary Government statistics, Oman's economy is expected to report a constructive growth rate of 6.1% at constant prices (Real GDP) and at about 18.4% in current prices (Nominal GDP). The local consumption story remained strong during the last fiscal year on the back of robust Government spending towards economic diversification which in turn leads to increased private sector investments in the country.

Oman Economy remained resilient during FY2009 on the back of increased infrastructure spending along with the presence of favorable monetary policies and the support to the local banking system by means of availability of liquidity. The continuance of Government Public spending towards achieving its objectives of seventh five-year plan is expected to create more new jobs which in turn would increase local consumption, forming cornerstone for economic growth. The efforts taken towards the completion of projects along with the additional approbations done in the development program would in turn be the key hauler for the private sector investments in the country. We believe the Government's role in maintaining the stability in economy would in turn provide continued growth offering strength to the economy in the current situation.

Sector Outlook

Sectors	Outlook	Comments
Banking	Positive ↑↑	Economic recovery to aid in improved credit addition Higher fiscal spending to enhance Private sector investments Employment Generation to benefit personal segment
Leasing	Neutral ↕	Developmental Projects to help in increased lease book growth Looking for alternative funding sources like Bonds
Cement	Positive ↑↑	New Project allocations to enhance demand Increased appropriations to the Town planning/ Construction/ Housing sector Development of Transport infrastructure and Economic Diversification efforts Concern is in the form of lower realizations
Engineering/ Contracting	Positive ↑↑	Infrastructure spending to aid in improved order addition Thrust and Government commitment towards Project investments
Telecom	Positive ↑↑	Higher Local consumption to aid in increased telecom penetration Data Services segment to continue its strong growth Allocation to Education sector to help increase in internet and data usage
Oil Marketing	Positive ↑↑	Investment in new Projects to aid in incremental commercial segment volume Spending towards Airport infrastructure to augment Aviation segment Job Creation to help in retail segment growth
Power Utilities	Positive ↑↑	Incremental efforts taken in development of transmission network Power demand continues to remain strong
Hotels	Positive ↑↑	Economic Diversification efforts in generating increased non-oil income Development of Tourism Projects
Industry Sector	Positive ↑↑	Local demand situation remains strong Capacity utilization is expected to improve on healthy economic situation
Port Sector	Positive ↑↑	Economic revival and Improved trade activities Thrust on infrastructure development
Other Services	Positive ↑↑	Signs of economic recovery to improve trade activities Increased Investments in Education and Health care sector

Oman - Public Finance Statistics

Public Finance (In RO Million)	2003	2004	2005	2006	2007	2008	Jan-Nov 09	2009-Budget	2010-Budget
REVENUES	3,305	4,040	4,511	4,980	5,921	7,639	6,020	5,614	6,380
YoY (% Chg)		22.2%	11.6%	10.4%	18.9%	29.0%			13.6%
Oil & Gas Revenues	2,403	3,156	3,556	3,839	4,489	6,003	4,630	4,192	4,850
Net Oil Revenues	2,316	2,905	3,162	3,226	3,678	5,093	3,987	3,522	4,050
YoY (% Chg)		25.4%	8.8%	2.0%	14.0%	38.5%			15.0%
Gas Revenues	87	251	394	614	811	910	643	670	800
YoY (% Chg)		188.4%	56.9%	55.9%	32.2%	12.2%			19.4%
Non Oil Revenues	902	884	955	1,141	1,432	1,636	1,390	1,422	1,530
YoY (% Chg)		-1.9%	8.0%	19.4%	25.5%	14.3%			7.6%
Other Current Revenues	875	850	888	1,073	1,345	1,554	1,369	1,355	1,477
YoY (% Chg)		-2.9%	4.5%	20.8%	25.3%	15.5%			9.0%
Capital Revenues	10	17	35	49	66	68	21	54	40
YoY (% Chg)		62.7%	110.8%	40.0%	35.1%	3.2%			-25.9%
Capital Repayments	16	18	32	18	20	14		13	13
YoY (% Chg)		9.2%	78.1%	-42.9%	12.7%	-33.3%			0.0%
TOTAL EXPENDITURE & SUBSIDY	3,189	3,810	4,208	4,936	5,880	7,560	6,159	6,424	7,180
YoY (% Chg)		19.5%	10.4%	17.3%	19.1%	28.6%			11.8%
Current Expenditure	2,373	2,661	3,179	3,531	3,858	4,420	3,591	4,020	4,432
YoY (% Chg)		12.1%	19.5%	11.1%	9.2%	14.6%			10.2%
Defence & National Security	1,010	1,144	1,404	1,550	1,663	1,775	1,526	1,545	1,615
YoY (% Chg)		13.3%	22.8%	10.4%	7.3%	6.7%			4.5%
Civil Ministries	1,184	1,304	1,532	1,735	1,899	2,348	1,805	2,149	2,480
YoY (% Chg)		10.1%	17.4%	13.3%	9.4%	23.7%			15.4%
Interest Paid on Loans	60	74	67	56	78	51	38	54	45
YoY (% Chg)		24.2%	-10.2%	-16.8%	39.7%	-34.6%			-16.7%
Gas Production Expenditures	-	22	46	51	55	64	62	76	80
YoY (% Chg)			109.0%	10.1%	7.4%	17.1%			5.3%
Oil Production Expenditures	119	117	130	140	163	182	160	196	212
YoY (% Chg)		-2.3%	11.6%	7.4%	16.5%	11.7%			8.2%
Investment Expenditure	700	1,035	967	1,200	1,697	2,281	2,167	1,919	2,128
YoY (% Chg)		47.8%	-6.6%	24.1%	41.5%	34.4%			10.9%
Development Expenditure for Civil Ministries	361	422	475	576	800	1,188	1,203	800	950
YoY (% Chg)		17.0%	12.5%	21.3%	38.8%	48.5%			18.8%
Capital Expenditure for Civil Ministries	23	25	26	28	38	47	24	21	20
YoY (% Chg)		7.8%	4.8%	9.2%	34.9%	23.2%			-4.8%
Oil Production Expenditures	242	257	250	323	477	649	649	679	725
YoY (% Chg)		6.4%	-3.1%	29.3%	47.9%	36.1%			6.8%
Gas Exploration	14	12	-	-	-	-		-	-
Gas Production Expenditures	-	236	171	272	382	397	292	419	433
YoY (% Chg)			-27.4%	59.0%	40.3%	3.8%			3.3%
PARTICIPATION & SUBSIDY TO PRIVATE SECTOR	116	114	62	206	326	859	401	485	620
Subsidies to Dev. & Housing loans Interests				15	14	14		18	20
International, Regional and Local organization				63	188	740		355	460
Electricity Sector				128	124	105		112	140
SURPLUS/DEFICIT	116	230	303	44	40	78	(140)	(810)	(800)
YoY (% Chg)		97.9%	31.5%	-85.5%	-8.2%	95.0%			-1.2%

Source: Ministry of National Economy, GBCM Research



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