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Country Outlook: Sultanate of Oman

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In a nutshell

- Oman is likely to achieve trend growth over the medium term at a minimum of 5% per annum. The country's 8th Five-year Plan envisages non-oil gross domestic product (GDP) to increase at a 6% rate, supported by public investments worth OMR12.6 billion from 2011-2015, of which two thirds will be on infrastructure such as roads, water and energy supply. With increasing diversification both in terms of output and export content, as well as a substantial commitment on the part of the government towards providing a moderninfrastructure foundation, Oman has solid growth prospects.

- Oman's policy rate has fallen in tandem with the United States (US) Federal Reserve's, from over 6.3% in 2007 to just 2.0% at the end of 2008. The rate was further cut in March 2012 to 1.0%, although the overnight interbank has stood below 0.2% since February 2009. Broad money supply growth accelerated in 2012 as could be expected, but peaked at 17.3% in August 2012 and decelerated to 10.1% by October. Bank lending also accelerated in 2012, averaging nearly 19% over the first three quarters of the year, but this is well below the increases seen in 2007-2008, when loan growth peaked at over 50% per annum in the middle of 2008. Despite the substantial monetary stimulus implied, inflation in Oman has been relatively sedate, averaging a little over 4.0% in 2011 and below 3.0% for 2012. Much of this inflation has been driven by increases in food, education and personal services prices.

- Oman has persistently registered strong current account surplus in the past few years. That allowed the country to accumulate official foreign exchange reserves, which grew from USD5.0 billion in 2006 to USD14.4 billion in 2011, or 154.8% of outstanding external debt. However, the country registered deficits in the services and income segments of the current account – the former driven by transport costs and the latter boosted by the presence of a substantial foreign labour force, particularly in low wage occupations like in retail or construction. Oman is also running a deficit on the capital and financial account, although the former is rather small and indicative of low net foreign direct investment (FDI) in Oman. In any case, the overall average deficit on both capital and financial accounts point to substantial outflows of capital, which amounted to almost OMR3.0 billion in 2011.

- As a result of their conservative fiscal management, Oman's government has considerable fiscal space to proceed with developing and restructuring the economy. The government debt-to-GDP ratio has fallen from 19.9% in 2001 to just 4.5% in 2011. On the external front, debt has risen from USD4.8 billion in 2006 to about USD9.3 billion in 2011, or about 15% of GDP. In any case, the external debt to GDP ratio is on the low side, and external liabilities aremore than fully covered by Oman's official foreign exchange reserves.

- The official sector forms a large part of the sultanate's economy. In Oman's case, government revenue averaged 36.9% of GDP from 2001-2010, and 40.9% of GDP for 2011, with almost similar numbers for government expenditure. With economic diversification and higher oil prices in the 2000s, Oman runs a persistent small fiscal surplus, with the exception being during the Great Recession, where a revenue drop of 11.7% in 2009 resulted in a deficit of about 3.7% of GDP. After balancing the books again in 2010, the government showed a strong surplus of 3.2% of GDP in 2011 and 2.9% in 2012.For 2013, the government is again pencilling in a deficit of 5% of GDP, or around OMR1.7 billion, though the revenue assumptions appear very modest and conservative based on an average oil price of about USD85 per barrel. MARC notes that with global economic prospects appearing rather brighter for 2013 than for 2012, these revenue assumptions are likely to severely understate actual receipts, and the more likely scenario would be revenue numbers at or above 2012's.

- In the macroeconomic matrices, Oman compares favourably to its peers with respect to its fiscal and debt positions, as well as in terms of income level and population growth. Oman's position is less favourable in the growth and inflation matrix, where it is around the average, and in its twin surplus position, which indicates deficient domestic demand. Taken together, we believe that Oman continues to have considerable untapped growth potential. With respect to institutional stability, perception of corruption in Oman has deteriorated in recent years, although in this regard the 2011 reforms may presage a turnaround.

Introduction

The Sultanate of Oman is strategically located on the southeast coast of the Arabian peninsula right on the mouth of the Persian Gulf. The country is bordered on the north by the United Arab Emirates (UAE), to the northwest by Saudi Arabia and by Yemen on the southwest.

Oman has been an independent nation since the 17th century, when local tribes drove out the Portuguese from Muscat, save for an 80 year period as a British protectorate (1891-1971) although the British never colonised Oman. The present ruling Al-Said dynasty has been in control since 1749, and the country is considered an absolute monarchy.

Oil was discovered in Oman in the 1950s, and since then the country’s economy has been dependent on oil extraction and exports, either directly or through ancillary services, although substantive and successful efforts have been made to diversify the economy into other sectors in the past decade. These sectors include manufacturing, construction, wholesale and retail trade, and transport and communications.

Figure 1: The map of Oman

Source: CIA – The World Factbook

The government and legal system

The system of governance is outlined under the “Basic Statute of the State” (1996), which sets out the roles and responsibilities of the organs of government. The head of state is the hereditary Sultan of Oman who functions as the Prime Minister and is responsible for introducing legislation, with input and advice from the Council of Oman, which functions as Oman’s parliament and is comprised of the appointed State Council and the elected Shura Council. The Council of Ministers, presided over by the Sultan, is responsible for the implementation of policy, and the Basic Statute also guarantees the independence of the judiciary. Judges are appointed by the head of state.

The current sultan, Sultan Qaboos bin Said Al Said, has been on the throne since 23 July 1970 when a palace coup overthrew his father, Sultan Said bin Taimur. The present Sultan has been instrumental in the modernisation of Oman, using revenues from oil to invest in infrastructure, industry and social welfare such as health and education. He also successfully dealt with a communist insurgency that predated his rule. Divorced, childless and currently aged 72, the Sultan has not named an official heir, which presents some political risk. The succession plan currently calls for members of the Royal family to decide on a candidate upon the death of the present Sultan; if one is not selected within three days, succession will be decided by a letter left behind by the Sultan that names his preferred successor. Few members of the Royal family have any official government role, which limits the pool of potential viable candidates to choose from.

The Council of Oman is the legislative body, comprising 83 members of the State Council who are appointed by the head of state, and an 84 member Shura (Consultative) Council of which 83 are elected. The formation of political parties is not allowed in Oman. All members of both councils serve for four year terms and currently about 9% of the members are women. The last elections for the Shura Council were held on 15 October 2011.

One major reform that has occurred in Oman's governance arrangements occurred in the wake of the 2011 "Arab Spring" movement, which saw protests erupting across the Middle East early that year. In Oman, protestors demanded jobs, measures to address the cost of living, wage hikes and an end to corruption. The measures eventually adopted by the Sultan were met with general approval – an increase in the minimum wage for the private sector, the sacking of a third of the Council of Ministers, an amendment to the Basic Statute giving legislative and oversight powers to the Council of Oman, and an increase in welfare transfers. The government also moved to establish a second public university and the country's first Islamic bank. These reforms have thus far proven successful in quieting public unrest and meeting citizens' needs. Historically Oman has been one of the most politically and socially stable nations in the gulf, so the Arab Spring protests could be considered an aberration.

Oman's legal system is a mix of Islamic law and Anglo-Saxon law, with the Supreme Court the highest court in Oman. The Elementary Court handles most cases with disputes then passed up to the Court of Appeals. An additional Administrative Court functions to handle cases against the government. Judges are appointed by the head of state.

Oman's military is fairly large on a per capita basis, with about 120,000 men under arms relative to a population base of about 2.8 million. An average of 23.5% of government expenditure is spent on defense and security, and Oman boasts one of the world's largest stockpiles of Scud missiles. Other military hardware is fairly modern and close ties exist with the United Kingdom's (UK) military.While internal conflict has been non-existent since the resolution of the communist insurgency in 1975, Oman lies at the mouth of the Gulf of Hormuz and is thus strategically important to both oil exporters in the gulf and oil consumers like Europe and the US.

Economic background and structure

Economic growth has also been driven to a large extent by global oil prices, and this has been reflected in Oman's growth record, which averaged almost 8.5% in the 1980s, but averaged almost half of that in the 1990s and early 2000s. The run-up in oil prices from 2005 onwards as well as increasing diversification has helped boost the economy, with growth peaking at 13.1% in 2008, before moderating to a still respectable 5.4% (estimated) in 2011 and a forecast 5.0% in 2012 (by the IMF).

As might be expected, Oman is categorised as a high income economy, with per capita GDP on par with Saudi Arabia's,albeit about 40% below that of Kuwait and the UAE. Economic activity and population density is concentrated on Oman's coasts, with oil making up about a quarter of GDP and the overall services sector about half, with manufacturing (10.4%) and construction (8.9%) making up the other major sectors.

Oman has traditionally depended on oil, although that has changed through the government's diversification efforts over the past decade. Oil however remains the linchpin of Oman's economic prosperity, and this is reflected in the numbers – as of 2010, petroleum and natural gas extraction comprise 28.1% of the economy, down from half the economy in 2000 but a still hefty portion of GDP.

Oman's proven oil reserves are the 25th largest in the world at an estimated 5.5 billion barrels, about a fifth the size of Qatar's and a little over 5% of the UAE's. Nevertheless Oman's reserves are the largest for a non-Organization of the Petroleum Exporting Countries (OPEC) regional producer. Production levels were about 889k barrels per day (bbl/d) in 2011, an improvement from a low of about 714k bbl/d in 2007. This was achieved despite the difficulties and expenses involved (the highest in the region) due to the geographical location and dispersion of Oman's oil fields, requiring the involvementof the most sophisticated extraction techniques currently available. The government expects extraction to increase to an average 915k bbl/d for 2012, which would allow production to continue for another 15-16 years.

Proven natural gas reserves on the other hand are at 30 trillion cubic feet (tcf), good for 27th largest in the world. Production levels were at about 2.75 billion cubic feet (bcf) a day in 2011, at which level current reserves are sufficient for 30 more years of production. Given Oman's rapid industrialisation however, current gas production has proven insufficient to meet both domestic demand and existing export contracts, which has led to shortages recently for electricity generation. The government is planning to expand production and exploration, aiming to add 1.0 tcf a year in reserves and 1.0 bcf a day in production by 2015-16.

Nevertheless, direct contribution to growth from oil & gas has been negligible over the past decade. The biggest changes have occurred in the secondary and tertiary sectors, with the construction sector's share of the economy rising four-fold and manufacturing output taking nearly double its previous share, from 5.7% to 10.4% in 2010. The services sector, on the hand, advanced a further 10% points to 49.7%. Both construction and manufacturing sectors posted average growth of over 16% in the past decade, while service sector growth averaged 6.9%. The biggest contributions to the service sector growth came from wholesale and retail trade; transport, storage and communications; and finance.

In essence, Oman's strategy could be likened to a less ambitious (and less excessive) version of Dubai's efforts at development, with a focus on building the tourism industry and communications links. One significant difference with Dubai and the other Gulf nations is the emphasis on export-led manufacturing and industrial products, with export volumes orders of magnitudes higher than in the past. For example, exports of chemicals posted a compound annual growth rate (CAGR) of 38.7% between 2000 and 2010, with most of the growth coming after 2005 (CAGR of 52.1%). Growth in this export category nearly doubled every year during that period.

Oman has also built substantial capacity in processing and refining, as evidenced by sharply higher exports of refined petroleum and gas products, and to a lesser extent coal. Exports of fuels and lubricants grew at a CAGR of 103.6% from 2005 to 2010. This was achieved through capacity expansion at the old Mina Al-Fahal refinery in 2007 and the opening of the Sohar refinery in 2006 with a combined capacity of 222k bbl/d, or about a quarter of Oman's crude oil output.

Exports as a whole posted aCAGR of 11.9% between 2010 and 2000, and 12.1% in the half decade to 2010, with non-oil exports taking a steadily higher portion. Imports growth meanwhile saw a CAGR of 15.6% in the same period (2006-2010: 19.5%). The changing structure of the economy and efforts at diversification have thus borne fruit, as evidenced by the sharply higher trade surplus which averaged USD7.7 billion in 2001-2010, compared to USD2.1 billion in 1991-2000, or an increase of more than 3.5 times. The trade surplus for 2011 was an even larger USD19.2 billion.

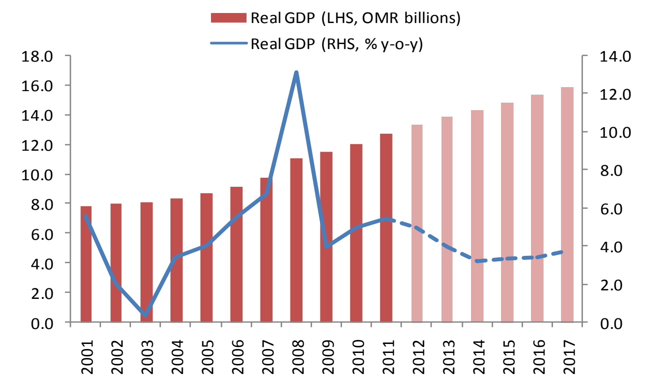
Economic growth has also been given a boost by exports and diversification, as growth has accelerated in the past decade, averaging nearly 5.0% in 2001-2010 compared to an average 4.5% in 1991-2000. Much of this growth was driven on the expenditure side by strong investment activities, particularly in buildings, rising as a share of real GDP from around 10% in 2000 to 18.1% in 2010. Consumption expenditure has also been robust, with real household expenditure growth averaging 8.9% in 2001-2010.

Production and expenditure

Growth on trend

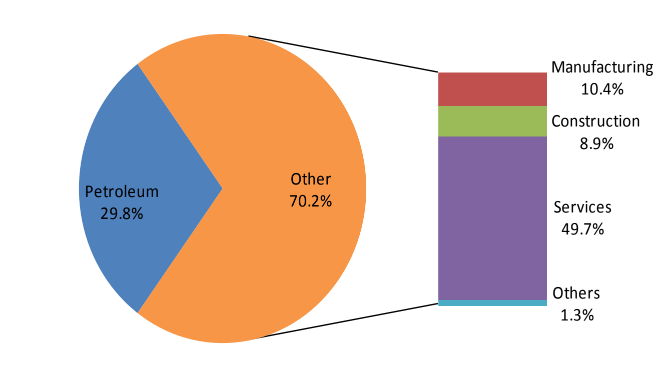
Oman is likely to achieve trend growth over the medium term at a minimum of 5% per annum. The country's 8th Five-year Plan envisages non-oil GDP to increase at a 6% rate, supported by public investments worth OMR12.6 billion from 2011-2015, of which two thirds will be on infrastructure such as roads, water and energy supply. With increasing diversification both in terms of output and export content, as well as a substantial commitment on the part of the government towards providing a moderninfrastructure foundation, Oman has solid growth prospects. The unknown variable here is volatility in global crude oil and natural gas prices, which would impact GDP directly as well as government finances. However, the fundamentals behind the rise in crude oil prices are still intact, and MARC thinks that there will be no sufficient grounds to expect any significant drop over the near to medium term.

Chart 1: Real GDP



Source: IMF World Economic Outlook
Note: 2012-16 GDP are estimated/forecast figures

Chart 2: Oman economic structure (2010)

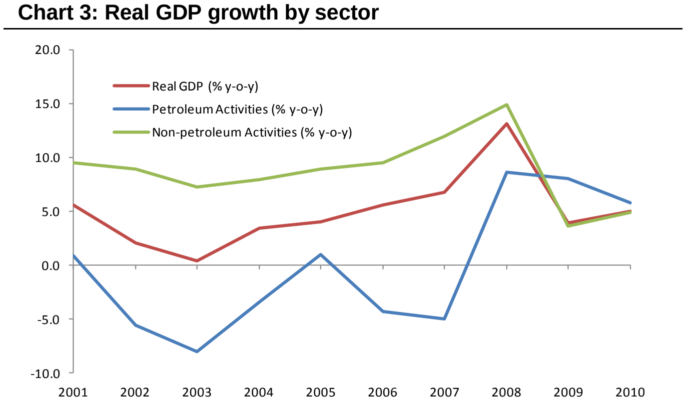


Source: CEIC

The latest GDP data available suggests that growth over 2012 will not match that of 2011. Thenominal growth in 2Q2012 of 13.7% was half the pace of the same quarter last year (26.8%). Some of that may be due to a slowing increase in crude oil prices, which have continued to soften towards the end of the year. High frequency data are reinforcing the notion that growth for Oman will undergo a short term pullback, with trade growth slowing as well.

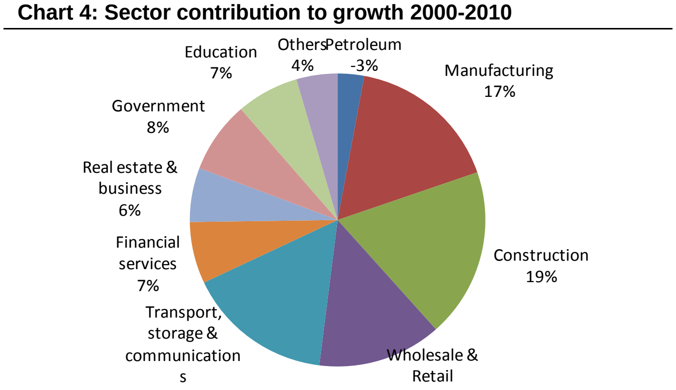
Oman's trade growth has been very strong over the past two years, with increases in exports running at an average 37.1% for 2010-2011 [based on IMF data]. The latest data from 2012 indicates growth coming off, but likely to still be in the teens. Import growth, on the other hand, has not been quite so strong but is still registering growth in the double-digits. As a result, the balance on merchandise trade has more than doubled in 2011 from 2009.

Chart 3: Real GDP growth by sector



Source: CEIC

Chart 4: Sector contribution to growth 2000-2010



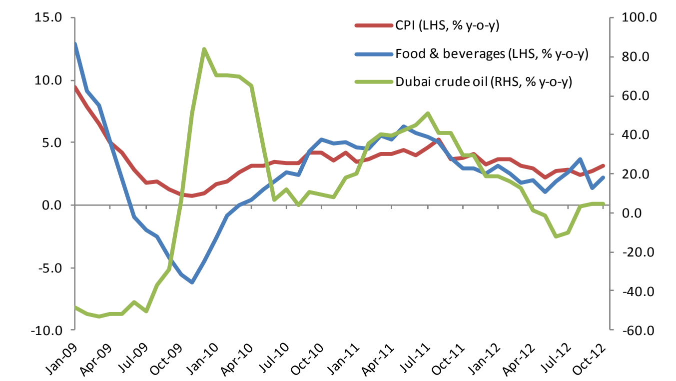
Source: CEIC, MARC Economic Research

Monetary Policy and Prices

Oman's currency, the Rial, has been pegged to the US dollar since 1973, and the current rate has been set at OMR0.3845 to the USD, with the last adjustment occurring in 1986. One implication of this is that Oman effectively does not conduct an independent monetary policy and that US monetary policy is directly transmitted into the Omani banking system. As the US Federal Reserve responded to the Great Recession with steep cuts in their policy rate and the use of unconventional monetary tools such as quantitative easing, Oman's policy rate fell in tandem from over 6.3% in 2007 to just 2.0% at the end of 2008. The rate was further cut in March 2012 to 1.0%, although the overnight interbank has stood below 0.2% since February 2009.

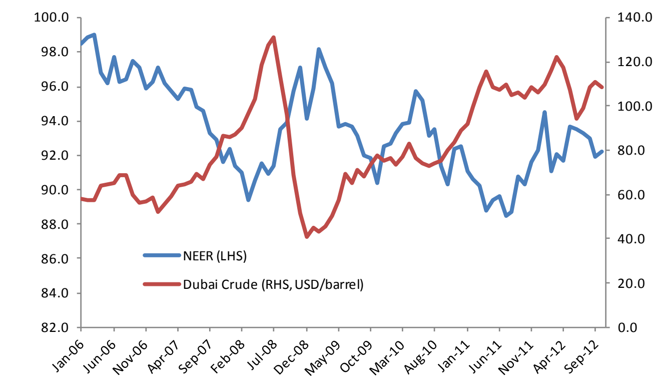
Despite the substantial monetary stimulus implied, inflation in Oman has been relatively sedate, averaging a little over 4.0% in 2011 and under 3.0% for 2012. Much of this inflation has been driven by increases in food, education and personal services prices. One reason for the moderate level of inflation is that although policy and interbank rates are low, lending margins remain fairly high which means that the monetary transmission mechanism from policy rates to long-term borrowing rates is fairly weak. This is fairly common in underdeveloped banking systems, but in this case provides an additional buffer against asset price and credit bubbles.

Chart 5: Consumer price index and oil prices (% y-o-y)



Source: CEIC, IMF

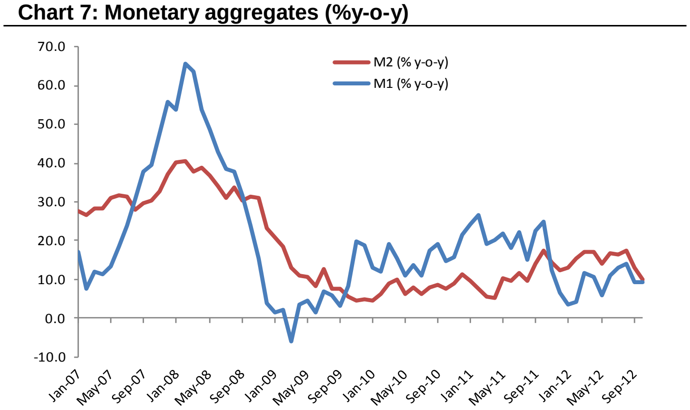
Chart 6: Nominal effective exchange rate and oil prices



Source: CEIC, IMF

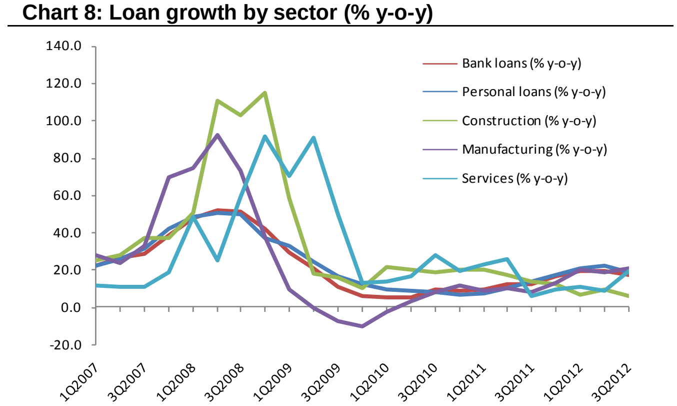
From the last 100 basis points (bps) cut in policy rates in February 2012, weighted average lending rates have fallen by just 40bps – in developed economy financial systems, 60%-80% transmission rates are more common. Broad money supply growth accelerated in 2012 as could be expected, but peaked at 17.3% in August 2012 and decelerated to 10.1% by October. Bank lending also accelerated in 2012, averaging nearly 19% over the first three quarters of the year, but this is well below the increases seen in 2007-2008, when loan growth peaked at over 50% per annum in the middle of 2008.

Chart 7: Monetary aggregates (%y-o-y)



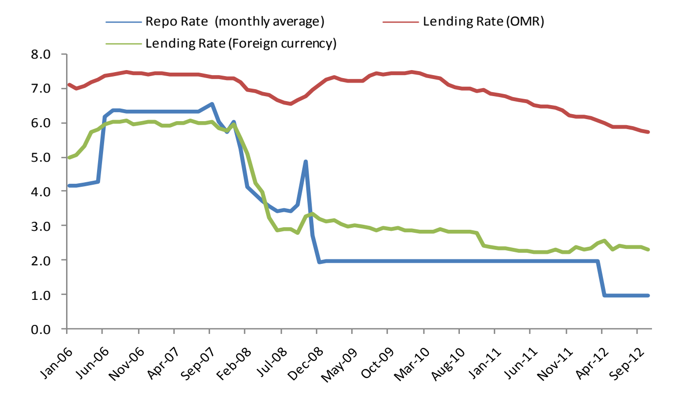
Source: CEIC

Chart 8: Loan growth by sector (% y-o-y)



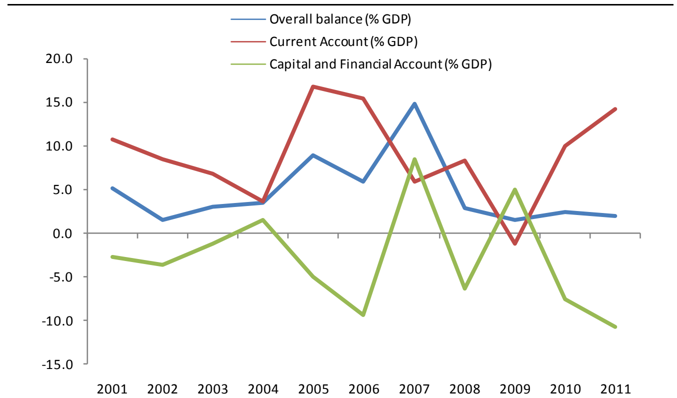
Source: CEIC

Chart 9: Interest rates (%)



Source: CEIC

Chart 10: Balance of payments



Source: CEIC

Balance of payments and official reserves

For 2011, Oman ranks 57th in the world in merchandise exports and 70th in imports, but 96th in services exports and 64th in imported services. While oil & gas dominates exports, machinery and manufactures comprise the majority of imports. Based on International Monetary Fund (IMF) data, exports are concentrated towards major Asian economies with China alone accounting for 28.7%, and China, Korea, Japan and India accounting for 57.8%, and the UAE another 10%. Imports are just as concentrated, with nearly a quarter of Omani imports sourced from the UAE, and another 17.1% from the European Union (EU).

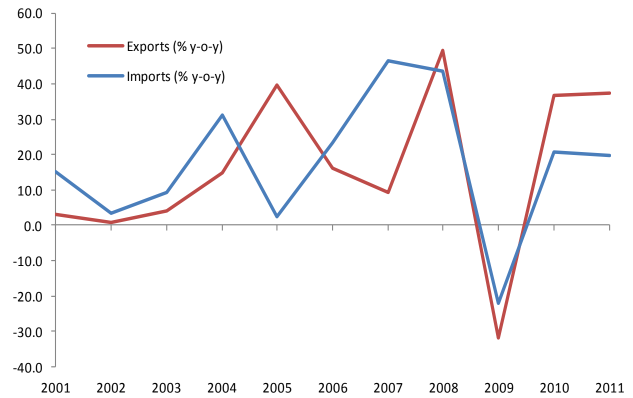
Oman has persistently registered strong current account surplus in the past years. That allowed the country to accumulate official foreign exchange reserves, which grew from USD5.0 billion in 2006 to USD14.4 billion in 2011, or about 154.8% of outstanding external debt. However, the country registered deficits in the services and income segments of the current account – the former driven by transport costs and the latter boosted by the presence of a substantial foreign labour force, particularly in low-wage occupations like in retail or construction.

Oman is also running a deficit on the capital and financial account, although the former is rather small and indicative of low net FDI in Oman. The peak was at a net OMR1.3 billion in 2007, but this has since fallen to OMR84 million in 2011. While diversification of the economy continues apace, it has been largely through domestic rather than foreign firms.

The gross FDI level is a bit more illuminating, showing gross FDI levels have actually been on an increasing trend, reaching OMR5.1 billion in 2009 from OMR2.2 billion in 2006 and beating the record of many regional economies. About half of the investment was in the oil & gas sector, with another 16.0% in manufacturing and 13.9% in finance. The divergence between net FDI and gross FDI indicates an increasing propensity for repatriation of retained earnings and dividends. As of 2009, the largest investment flows originated from the UK with about a third of the share, 19.6% from the US and another 14.7% from the UAE.

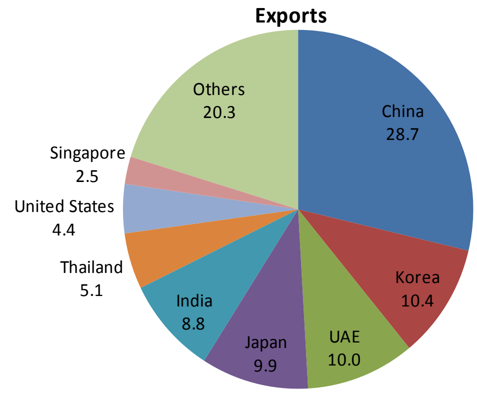
Flows in the financial account dwarf that of the capital account, but has only been a real factor since 2005. In any case, the overall average deficit on both capital and financial accounts point to substantial outflows of capital, which amounted to almost OMR3.0 billion in 2011.

Chart 11: Exports and imports (% y-o-y)



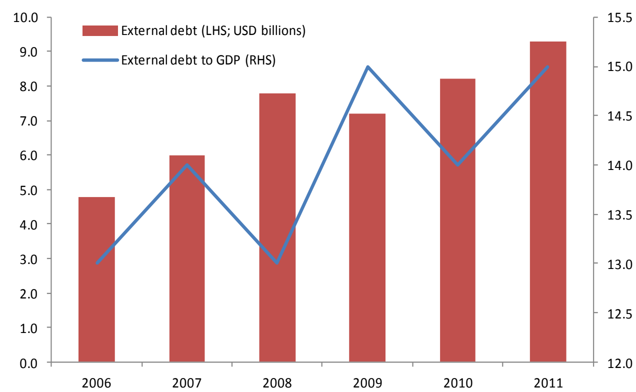
Source: CEIC,IMF.

Chart 12: Oman major export markets (% total exports)



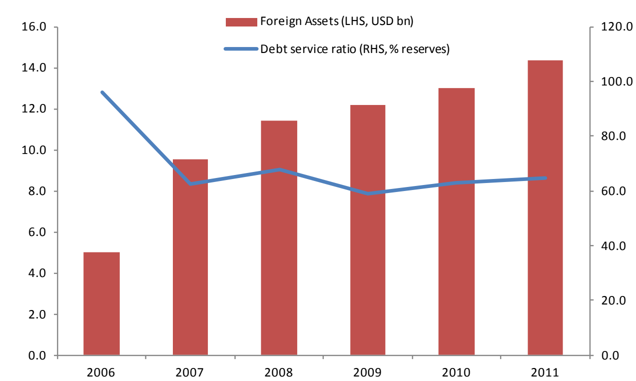
Source: CEIC, IMF.

Chart 13: Gross external debt and ratio to GDP



Source: CEIC, Rabobank, MARC Economic Research

Chart 14: International reserves and debt service ratio (% reserves)



Source: CEIC, Rabobank, MARC Economic Research

As a result of their conservative fiscal management, Oman's government has considerable fiscal space to proceed with developing and restructuring the economy. It has also done considerably well in reducing its official debt burden, with overall outstanding debt staying largely stagnant over the past decade. Combined with a rapidly growing economy, the government debt-to-GDP ratio has fallen from 19.9% in 2001 to just 4.5% in 2011.

On the external front, debt has risen from USD4.8 billion in 2006 to about USD9.3 billion in 2011, or about 15% of GDP. There is unfortunately no breakdown by public and private sector, or by long-term and short-term debt as the government does not disclose this data. However, based on banking data and the overall government debt position, much of it appears to be private sector-related.

In any case, the external debt-to-GDP ratio is on the low side, and external liabilities aremore than fully covered by Oman's official foreign exchange reserves. The debt service ratio as a percentage of reserves which stands at 64.6% (2011) and a double digit current account surplus (2011: 14.1%) imply a more than reasonable margin of comfort regarding Oman's ability to cover its external liabilities. This is not even taking into account whatever overseas investments that the Oman government has made, which in keeping with the practice in the rest of the region are again not disclosed.

Table 1: Balance of payments

OMR millions	2006	2007	2008	2009	2010	2011
Current Account	2,178	947	1,927	-230	2,257	3,948
Goods	4,501	3,979	6,541	4,460	7,200	9,841
Services	-995	-1,312	-1,561	-1,486	-1,689	-1,890
Income	-256	-309	-1,061	-1,160	-1,061	-1,230
Capital and Financial Account	-1,326	1,376	-1,467	948	-1,707	-2,984
Capital Account	-37	318	-20	21	-25	-56
Financial Account	-1,289	1,058	-1,447	927	-1,682	-2,929
Net Errors and Omissions	-3	81	242	-421	25.7	-389.7
Overall Balance	849	2,404	702	297	576	574

Source: CEIC

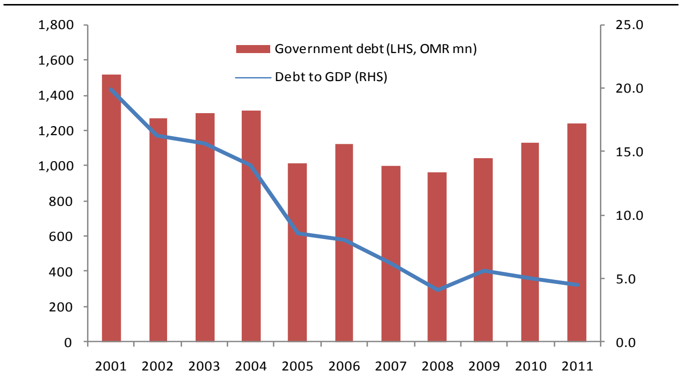
Government operations and debt

In common with the rest of the region, the official sector forms a large part of the sultanate's economy. In Oman's case, government revenue averaged 36.9% of GDP from 2001-2010, and 40.9% of GDP for 2011, with almost similar numbers for government expenditure. For most of the 1990s, Oman's government ran a fiscal deficit, partly caused by lower oil prices and high defense spending in the aftermath of the First Gulf War. Defense spending took almost a third of government expenditure during that decade.

With economic diversification and higher oil prices in the 2000s, this situation has changed to a persistent small surplus, with the exception being during the Great Recession, where a revenue drop of 11.7% in 2009 resulted in a deficit of about 3.7% of GDP.

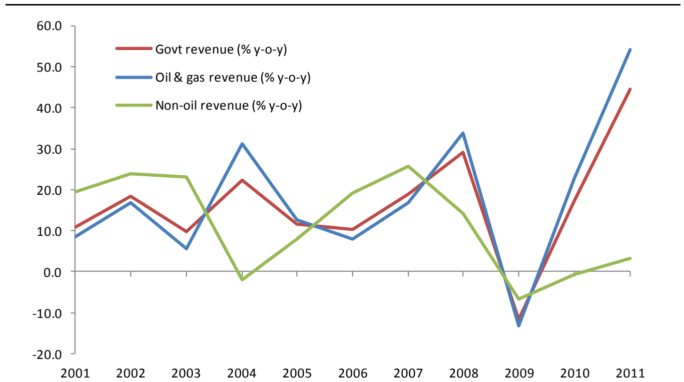
After balancing the books again in 2010, the government showed strong surpluses in 2011 (3.2% of GDP) and 2012 (2.9% of GDP) despite budgeting a deficit of approximately 5% of GDP in 2012. This was largely due to substantially stronger-than-expected oil prices, which resulted in the government posting a surplus of OMR898.5 million in 2012.

Chart 15: General government debt and debt-to-GDP ratio



Source: CEIC

Chart 16: Government revenue growth (% y-o-y)



Source: CEIC, MARC Economic Research

For 2013, the government is again penciling in a deficit of 5% of GDP, or around OMR1.7 billion, though the revenue assumptions appear very modest and conservative based on an average oil price of about USD85 per barrel. Expenditure proposals are more or less flat relative to the 2012 level, while revenue is forecast to drop over 20% to OMR11.1 billion. MARC notes that with global economic prospects appearing brighter for 2013 than for 2012, these revenue assumptions are likely to severely understate actual receipts, and the more likely scenario would be revenue numbers at or above 2012's. In any case, the expectations are that the 2013 deficit will be financed through the surpluses accumulated in 2012 and before, which means that the implications on government debt would be minimal at worst.

Going forward, however, the government's reliance on oil & gas revenues to fund expenditure is a key source of vulnerability, especially as oil reserves will run out in 15-16 years based on present levels of extraction. Oil price volatility would thus have an immediate impact on the government's revenue collection, making fiscal policy highly pro-cyclical – higher booms and deeper busts – than a more conventional revenue base would have.

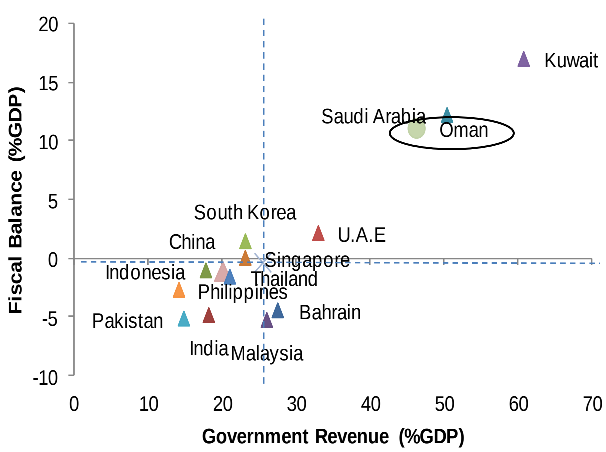
Table 2: Government finances

OMR millions	2006	2007	2008	2009	2010	2011
Total Revenue	4979.9	5920.6	7638.7	6748.4	7915.4	11,435
Oil revenue	3839.4	4489.1	6003.0	5211.5	6400.0	9,870
Non-oil revenue	1137.5	1431.5	1635.7	1526.6	1516.5	1,565
Total expenditure and lending	4936.1	5880.4	7560.3	7428.7	7963.8	10,537
Defense	1549.6	1663.4	1775.1	1726.4	1888.2	n/a
Civilian	1981.4	2194.1	2645.3	2492.1	2902.0	n/a
Investment	1199.5	1697.3	2280.9	2690.9	2596.6	n/a
Private sector support	205.6	325.6	859.0	519.3	577.0	n/a
Overall balance	43.8	40.2	78.4	-680.3	-48.4	898.5
Overall balance (% GDP)	0.3	0.2	0.3	-3.7	-0.2	3.2
Government debt (% GDP)	8.0	6.2	4.1	5.6	5.0	5

Source: CEIC (figures may not sum due to rounding)

Comparison of five-year median macroeconomic matrices

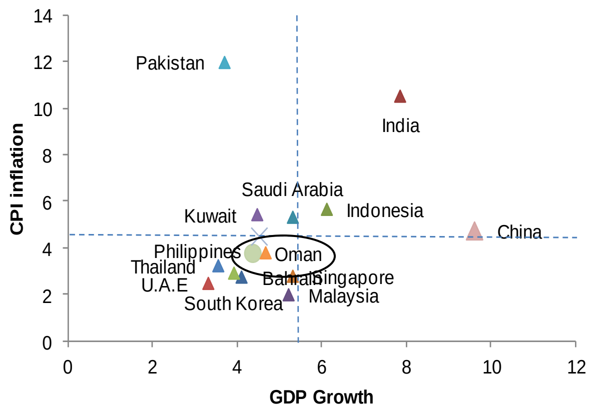
Chart 17: Government revenue % of GDP vs. fiscal balance % of GDP



Sources: IMF & MARC Economic Research

- In the revenue against fiscal balance matrix, Oman is in the most favourable matrix, with high revenue relative to GDP and a strong average fiscal surplus. With average oil prices likely to be above USD 80/bbl in the next few years, government revenue is expected to remain favourable
- The government has considerable fiscal space from revenue collection and low debt.

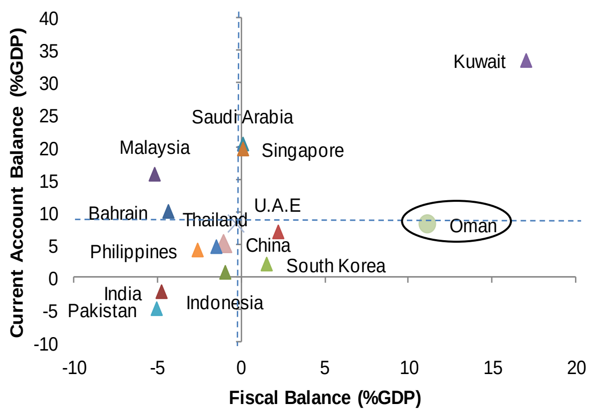
Chart 18: CPI & GDP growth



Sources: IMF & MARC Economic Research

- Oman's growth record on this matrix is just a little below median level, somewhat counterbalanced by lower median inflation.
- One thing that may be influencing Oman's position here is the crash in oil prices in 2008-2009, when WTI prices fell over 70% in a matter of six months, which substantially halted a potentially overheating situation.

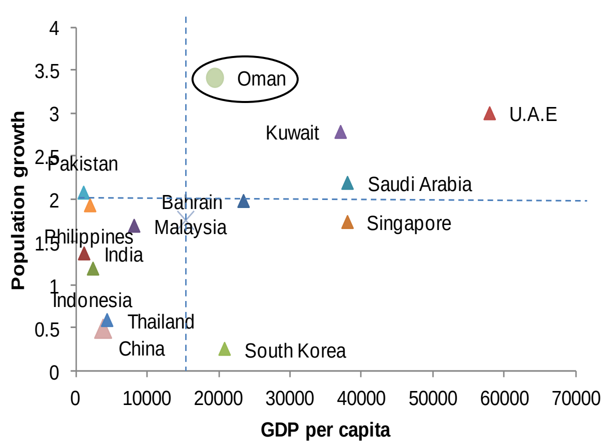
Chart 19: Current account % of GDP vs. fiscal balance % of GDP



Sources: IMF & MARC Economic Research

- In the current account and fiscal balance matrix, Oman is well into the "safe" quadrant, showing both a fiscal surplus and a positive current account balance.
- This suggests that more could be done to boost domestic consumption and investment, particularly the latter, if Oman is to achieve its full growth potential.

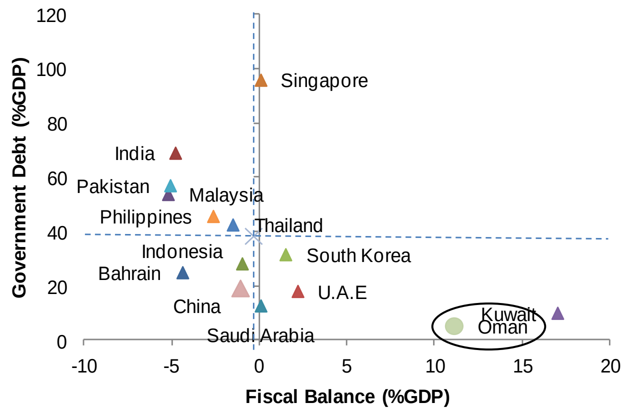
Chart 20: Population growth vs. GDP per capita



Sources: IMF & MARC Economic Research

- Oman ranks highly in both axes of this matrix, with high population growth and high GDP per capita.
- This is true even if one were to segregate the local from the expatriate population, indicating that relatively high growth is pulling in foreign labour, while not necessarily impeding income gains.

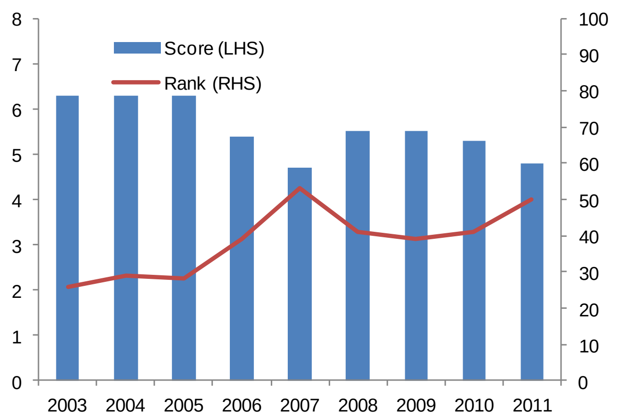
Chart21: Govt. debt % of GDP vs. fiscal balance % of GDP



Sources: IMF & MARC Economic Research

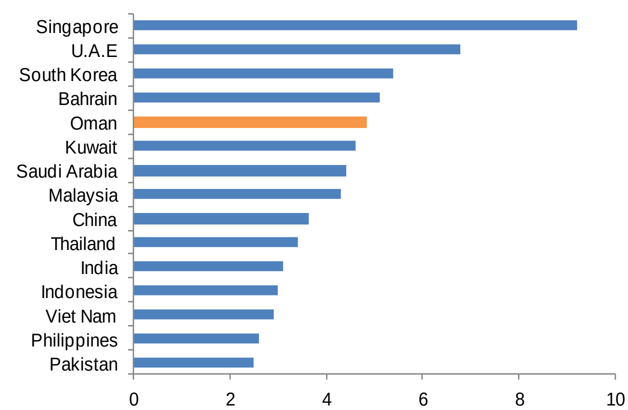
- In the debt and fiscal balance matrix, Oman is in the most favourable matrix, with a fiscal surplus against very low government debt.
- Government expenditure is relatively conservative, despite high growth numbers, as excess expenditures over budget are only conducted if actual revenue exceeds budgeted revenue. Oman can also draw upon external resources that may not be captured in the data.

Chart 22: Corruption Perception Index



Source: Transparency International

Chart 23: Corruption perception index (the higher the better)



Source: Transparency International

Oman's track record on corruption has taken a hit in recent years, as perceptions of corruption have risen. Based on the Corruption Perception Index by Transparency International, the overall perception score of corruption in Omandropped from 6.3 points in 2005 to 4.8 in 2011(the higher the better). However, the country's ranking in 2011 is still in the top half at 50th out of 183 countries. Reforms conducted since 2011, including changes in governance arrangements and the sacking of a third of the Council of Ministers, suggest that the corruption index may turn for the better in the future.

Table 3: Summary of Macro Matrices

Matrix	Explanation
Government revenue and fiscal balance	Oman is in the most favourable matrix with high revenue-to-GDP and a fiscal surplus.
CPI and real GDP growth	Inflation and growth in Oman are around the sample median.
Current account and fiscal balance	Oman’s position in this matrix suggests some growth has been left on the table.
GDP per capita and population growth	High incomes and population growth imply strong future growth potential.
Fiscal balance and government debt	Government debt in Oman is well below the average, and with a fiscal surplus the government has plenty of fiscal space over the medium term.
Control of corruption	Perception of corruption has deteriorated in recent years, but reforms since 2011 are harbingers of future improvement.

Appendix

Vital statistics - Oman

	2006	2007	2008	2009	2010	2011	2012F
National accounts							
Growth (%)							
GDP	**5.5%**	**6.7%**	**13.1%**	**3.9%**	**5.0%**	**5.4%**	**5.0%**
Supply side							
Petroleum activities	-4.4%	-5.0%	8.6%	0.0%	0.0%	n.a.	n.a.
Agriculture & fishing	-4.6%	4.6%	7.2%	5.0%	4.2%	n.a.	n.a.
Mining & quarrying	-8.7%	35.1%	37.2%	32.7%	-0.2%	n.a.	n.a.
Manufacturing	10.2%	12.8%	10.0%	11.8%	3.9%	n.a.	n.a.
Building & construction	18.8%	35.3%	30.1%	16.5%	0.0%	n.a.	n.a.
Services	12.2%	9.3%	14.2%	-0.5%	5.7%	n.a.	n.a.
Demand side							
Total final consumption expenditure	7.7%	16.4%	20.8%	0.0%	2.4%	n.a.	n.a.
-Private final consumption expenditure	9.7%	23.5%	26.3%	0.0%	2.8%	n.a.	n.a.
-Government final consumption expenditure	5.0%	5.8%	11.2%	0.0%	1.8%	n.a.	n.a.
Gross fixed capital formation	14.0%	36.9%	24.6%	0.0%	-4.1%	n.a.	n.a.
Exports	-1.0%	6.2%	5.2%	-8.6%	3.5%	n.a.	n.a.
Imports	12.4%	35.5%	21.6%	-24.6%	13.3%	n.a.	n.a.
Public finance (% of GDP) - Central government							
Total receipts	**35.2%**	**36.7%**	**32.7%**	**36.4%**	**34.8%**	**40.9%**	n.a.
-Oil revenue	27.1%	27.9%	25.7%	28.1%	28.1%	35.3%	n.a.
-Non-Oil revenue	8.0%	8.9%	7.0%	8.2%	6.7%	5.6%	n.a.
Total expenditure	**34.9%**	**36.5%**	**32.4%**	**40.0%**	**35.0%**	**37.7%**	n.a.
Fiscal balance	**0.3%**	**0.2%**	**0.3%**	**-3.7%**	**-0.2%**	**3.2%**	n.a.
Government debt	**8.0%**	**6.2%**	**4.1%**	**5.6%**	**5.0%**	**4.5%**	n.a.
Inflation rate							
Wholesale Price Index (WPI)	4.9%	13.8%	-2.1%	4.8%	7.5%	n.a.	n.a.
Consumer Price Index (CPI)	3.2%	6.0%	12.5%	3.5%	3.3%	4.0%	3.2%
Money, banking and policy rates							
M1 growth	9.0%	55.9%	4.0%	18.7%	21.6%	6.6%	n.a.
M2 growth	24.9%	37.0%	23.2%	4.8%	11.3%	12.2%	n.a.
Bank credit growth (commercial banks)	20.7%	38.3%	42.3%	6.2%	9.0%	16.7%	n.a.
loan-to-deposit ratio (commercial banks)	100.5%	100.4%	108.0%	108.2%	102.0%	99.5%	n.a.
NPL Ratio (commercial banks)	n.a.	n.a.	0.3%	0.5%	0.5%	0.4%	n.a.
Base Rate	6.33%	5.87%	2.00%	2.00%	2.00%	2.00%	n.a.
Balance of payments (% of GDP)							
Current account	15.4%	5.9%	8.3%	-1.2%	9.9%	14.1%	14.0%
Capital account & financial account	-9.4%	8.5%	-6.3%	5.1%	-7.5%	-10.7%	n.a.
Overall balance	6.0%	14.9%	3.0%	1.6%	2.5%	2.1%	n.a.
International reserves (USD bn)	5.0	9.5	11.4	12.2	13.0	14.4	n.a.
External debt - USD bn	4.8	6.0	7.8	7.2	8.2	9.3	n.a.
External debt - % of GDP	13.0%	14.0%	13.0%	15.0%	14.0%	15.0%	n.a.
Debt service ratio (% Reserves)	96.1%	62.6%	68.0%	58.7%	63.0%	64.6%	n.a.
Development indicators							
Population (in mn)	2.6	2.7	2.9	3.2	2.8	n.a.	n.a.
Population (growth)	2.7%	6.5%	4.5%	10.7%	-12.6%	n.a.	n.a.
Human Development Index (HDI) - High human dev.	0.695	0.697	0.702	0.703	n.a.	0.705	n.a.

Sources: CEIC, IMF, MARC Economic Research

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