

Oman 3.0: Challenges of a new era

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- The transition of power in Oman from the late Sultan Qaboos bin Said al Said to his cousin, Sultan Haitham bin Tariq, has been smooth and welcomed by Omanis and foreign investors.
- While we expect the new sultan to continue his predecessor's legacy of acting as a neutral negotiator in times of heightened regional tensions, we are on watch for a potential decentralisation of power.
- Haitham has the difficult task of shoring up the economy, including fixing the fiscal balance, reducing Oman's high debt profile and refinancing risks, cutting unemployment and forging ahead with Omanisation.

Continuity is king

A smooth succession has already taken place since the death on 10 January of Qaboos, an autocrat who was the longest serving ruler in the Middle East. Haitham, the former culture minister, was elevated to sultan after a sealed envelope nominating him was opened hours following Qaboos's death.

- The speed and swiftness of the transition showed a sense of unity among the ruling elite in Oman and provided some rare stability in a volatile region.
- Haitham, who has inherited Qaboos's power over decisions, has announced that he will continue to uphold his predecessor's policies.
 - Qaboos was known for acting as a regional mediator. He helped facilitate the dialogue between the US and Iran that led to the formalisation of the nuclear deal in 2015. His neutral position was also showcased when he chose not to take sides in the Saudi-led embargo of Qatar.
 - Haitham's first public remarks emphasised his desire to pursue the same kind of foreign policy.
 - This continuity will help attract foreign investment to Oman while it attempts to achieve economic diversification.
- Oman's dollar-denominated bond prices rose slightly as investors welcomed the smooth transition of power.
- The sultan is Oman's paramount decision maker, and also holds the positions of prime minister, supreme commander of the armed forces, minister of defence, finance and foreign affairs.
- Haitham's priorities are now likely to include establishing his own relationships with Oman's core foreign allies, notably Britain, the US and, increasingly, China.

	2016	2017	2018	2019e	2020f
Real GDP Growth (%)	4.9	0.3	1.8	0.0	3.7
Crude Oil Production (M Bpd)	1.0	0.9	0.9	0.9	1.0
Oil GDP Growth (%)	3.4	-2.1	4.7	-1.1	5.0
Non-Oil GDP Growth (%)	6.2	2.4	-0.7	1.0	2.5
CPI Inflation (%)	1.1	1.6	0.9	0.8	1.8
Fiscal Balance (% of GDP)	-21.3	-14.0	-7.9	-6.7	-8.4
C/A Balance (% of GDP)	-19.1	-15.6	-5.5	-7.2	-8.0
Total Gov't. Gross Debt (% of GDP)	32.7	46.4	53.4	59.9	63.9
Total Gross Extn'l Debt (% of GDP)	67.8	91.0	94.0	105.6	112.4
Gross Official Reserves (Mos. of Imports)	7.0	5.5	5.8	5.3	5.0
Nominal GDP (USD B)	65.5	70.6	79.3	76.6	78.7
Population (Millions)	4.4	4.6	4.8	4.9	5.1

- The new sultan has already met foreign dignitaries including British Prime Minister Boris Johnson, Saudi King Salman bin Abdulaziz Al Saud, Kuwait's Emir Sabah Al-Ahmad Al-Sabah, Qatar's Emir Tamim bin Hamad Al Thani and Iranian Foreign Minister Javad Zarif.
- For now, it appears that most Omanis are behind the new leader.
 - The fact that he was Qaboos's own choice gives him a degree of legitimacy and space to build support through performance.
- Haitham may choose to delegate some of his roles, but even should he do so, under Oman's current system responsibility would ultimately fall on him to deliver.

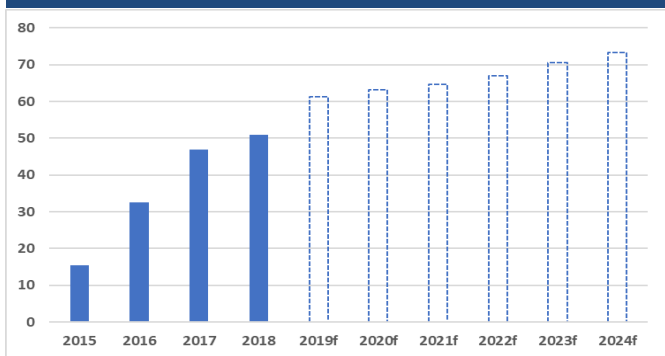
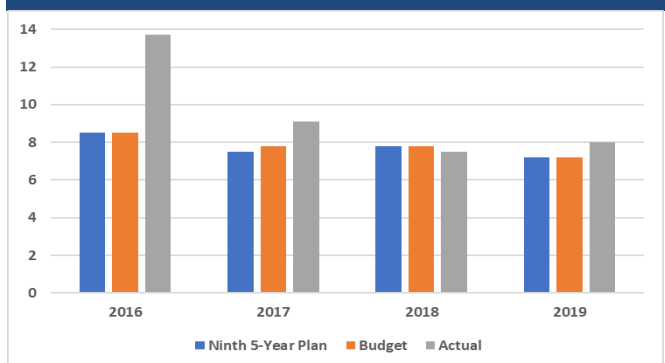
Fiscal & debt challenges remain post succession

The new sultan inherits a host of economic challenges as Oman struggles to wean itself from its traditional dependence on oil-fueled public spending and faces entrenched expectations that the state will provide jobs and services for the young.

- Haitham's former role as chairman of the Oman Vision 2040 committee provides him with expertise that should be extremely useful in the years ahead.
 - The Vision aims to have 93% of economic activity based on non-oil sectors, with 42% of Omanis employed in the private sector.
 - We expect a continuation of the Omanisation policies that Muscat had been pursuing, especially in the last two years.
 - Unemployment is an important issue for the sultanate, where 17% of nationals are unemployed -- and more than 30% for young people.
- According to the government, Oman's fiscal deficit will remain almost unchanged from actual 2019 levels at 8% of GDP in 2020 and on par with IMF estimates. Total spending is budgeted at USD 34.3B, an increase of 2% on 2019.

¹ Arabia Monitor; IMF.

- Revenues are estimated to grow by 6% to USD 27.8B, with the government seeking to overcome declining oil revenues by enhancing those from gas, taxes and other non-oil sectors.
- This year's budget is based on growth of 3% (2% in 2019) and an oil price of USD 58 per barrel, the same as budgeted for 2019 when the average realised price of oil was USD 64 per barrel.
 - o The IMF forecasts Oman's economic growth at 3.7% in 2020, a major jump from around zero in 2019 thanks to government plans to increase investment significantly in the Khazzan gas field, southwest of Muscat.
 - o Inflation is forecast at 1.8% in 2020 from 0.8% in 2019, driven by higher prices from petrol (raised in December 2019), food, clothing and restaurants and hotels.
- Oil and gas revenues still constitute a significant portion of government revenues (72%), although the proportion is slowly declining.
- Expenditure is kept under control with a budgeted increase of only 2%, attributable to an increase in interest costs on borrowings. Welfare expenditure continues to receive the largest allocation of government spending.
- The importance of achieving a balanced budget is underscored by the government's "Tawazun" (or "balance") initiative, which seeks to enhance revenues, optimise costs and reduce debt. The private sector is expected to play a greater role in development projects and job creation.
- Although narrowing, the persistently high fiscal deficit is expected to raise the public debt-to-GDP ratio to 63.9% in 2020 from 59.9% in 2019. Although not out of control, rising debt levels since 2016 remain a concern for ratings agencies.
 - The 2020 budget deficit is expected to be covered by external and domestic borrowing (80%), while the balance will be covered by drawing on the government's general reserve account.
 - Further crucial fiscal reforms and diversification efforts are needed, especially given current global risks and increasing debt.
- We expect pressure on Oman's credit ratings to continue, despite the smooth transition of power.
 - After the transition, ratings agency Standard & Poor's highlighted that the new sultan has a narrowing window to address the country's fiscal and economic challenges and suggested that some major policy changes were needed.
- Key policies we are monitoring include:
 - Stimulating foreign investment: The Foreign Capital Investment Law, effective this month, allows 100% foreign ownership in all sectors barring those which are to be specified in regulations due in the next six months.

Figure 1 – Oman Gross Government Debt²Figure 2 – Oman Deficit against 9th Five-Year Plan (USD, B)³

- o This, together with the Commercial Companies Law, the Bankruptcy Law, the Privatisation Law and the Public Private Partnership (PPP) Law, all issued in 2019, are expected to assist in achieving targeted rates of foreign and domestic investment.
- Investment in infrastructure projects: The government has budgeted development expenditures at about USD 14B. This includes spending by state-owned enterprises.
 - o Spending primarily targets completion of infrastructure projects across healthcare, transport, utilities and agriculture.
 - o The government expects the private sector to play a more significant role and has identified various strategic projects which would require participation by the private sector.
 - o We expect that the newly formed authority for PPP will play a pivotal role in identifying other key projects and implementing PPP policies for them accordingly.
- Introducing VAT: The 2020 budget does not reflect any revenues from the introduction of VAT, although preparations continue to get a VAT law approved and published. A formal announcement regarding the effective date of VAT implementation is expected to be made this year.

² Arabia Monitor; IMF.³ Arabia Monitor; Ministry of Finance, Oman.

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