Country Report

Oman

February 2009

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26 Red Lion Square
London WC1R 4HQ
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The Economist Intelligence Unit

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London
The Economist Intelligence Unit
26 Red Lion Square
London
WC1R 4HQ
United Kingdom
Tel: (44.20) 7576 8000
Fax: (44.20) 7576 8500
E-mail: london@eiu.com

New York
The Economist Intelligence Unit
The Economist Building
111 West 57th Street
New York
NY 10019, US
Tel: (1.212) 554 0600
Fax: (1.212) 586 0248
E-mail: newyork@eiu.com

Hong Kong
The Economist Intelligence Unit
60/F, Central Plaza
18 Harbour Road
Wanchai
Hong Kong
Tel: (852) 2585 3888
Fax: (852) 2802 7638
E-mail: hongkong@eiu.com

Website: **www.eiu.com**

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Editors: Mohammed Shakeel (editor); David Butter (consulting editor)
Editorial closing date: February 3rd 2009
All queries: Tel: (44.20) 7576 8000 E-mail: london@eiu.com
Next report: To request the latest schedule, e-mail schedule@eiu.com

Executive summary

Highlights

February 2009

Outlook for 2009-10

- The long-established political structures will remain stable under the rule of the sultan, Qaboos bin Said al-Said, over the outlook period. The greatest political risk is likely to be uncertainty over who will succeed him.
- Oman will maintain its support for a peaceful solution to the Iranian nuclear dispute—the Gulf region's biggest geopolitical concern—having warned of regionwide instability if the US or Israel were to resort to military action.
- Economic policy will focus on diversifying the economy away from its reliance on the hydrocarbons sector and on meeting the employment needs of a young and expanding population.
- Oman will not join the Gulf Co-operation Council (GCC) single currency. Instead, it will retain its currency peg to the US dollar.
- The Economist Intelligence Unit forecasts that Oman's real GDP growth will slow to 4.9% in 2009, owing to a slowdown in the world economy. Real GDP will expand by 5.2% in 2010, as export volumes strengthen.
- We forecast that average consumer price inflation in Oman will drop sharply over the outlook period, to 7.5% in 2009 and 5.1% in 2010, as oil and non-oil commodity prices decline as a result of weakening global demand.
- The decline in global oil prices in 2009 will have a considerable impact on Oman's current-account balance, which we expect will fall into deficit in 2009, before returning to a modest surplus of 1.3% of GDP in 2010.

Monthly review

- Travel operators and hotels will now be held responsible for repatriating any expatriates from the UAE who become stranded in Oman because, under new UAE regulations, they cannot return to the UAE for at least a month.
- Like other members of the GCC, Oman condemned Israel's assault on the Gaza Strip, which ended in January. Omanis held rare protests in support of the Palestinians.
- Oman has completed a brand-marketing exercise by launching a new national logo. A number of sectors, including tourism and education, have been earmarked for development to help strengthen national identity.
- Ties with India have been bolstered by a series of visits by Omani and Indian officials to each other's countries.
- A pilot phase of an "e-Purse" project has begun, which will enable Oman's citizens and expatriate residents to use their national identity and residency cards as a means of payment.
- Two water supply projects have been launched in central and eastern Oman.

Outlook for 2009-10

Political outlook

Domestic politics

The long-established structures of political power in Oman are expected to remain stable over the outlook period. The sultan, Qaboos bin Said al-Said, continues to command wide popular support, shored up by the loyalty of the security services and the strength of Oman's traditional social structures. The government is appointed by the sultan, who is also the prime minister, defence minister, finance minister and foreign affairs minister. In late 2007 the government was reshuffled for the first time in almost three and a half years, but this has had little effect on policy, and any future reshuffle would be expected to have a similarly limited impact. The biggest political risk in 2009-10 is likely to be uncertainty over who will succeed the long-serving sultan.

The Majlis al-Shura (Consultative Council) is elected by universal suffrage, but has no legislative powers. An election to the Majlis was held in October 2007, and despite concerns that the chamber's lack of political power would deter voters, an impressive 60% or so of the electorate voted. The Majlis is unlikely to acquire any legislative powers in the near term. Although it can make recommendations on legislation, it is not permitted to discuss foreign policy or defence matters. Further progress on political reform is unlikely over the outlook period, but the announcement in May 2008 that Oman has officially joined the Inter-Parliamentary Union, a global parliamentary forum, raised expectations of tentative steps towards democratic openness in the sultanate.

The principal political uncertainty arises from questions over the succession. The 68-year-old sultan, who has ruled since 1970 and exercises his authority from within a highly personalised power structure, has no children, and none of the three first cousins widely viewed as the leading candidates to succeed him has yet been trusted with substantial executive power. (The most prominent among these is Assad bin Tariq al-Said, who is currently a special representative of the sultan.) As a result, little is known of their political views or personal qualities, and their lack of experience could constrain their ability to manage effectively the institutions and networks developed over almost four decades by Sultan Qaboos.

The final decision on who will succeed Sultan Qaboos will not be made until after his death, when family members will have three days to choose a successor. Should they prove unable to agree, a letter left by the sultan naming his choice of successor will be opened, and that person will become the new leader. The system is untested and unusual—Arab monarchies tend to have named crown princes. However, with the Defence Council (a powerful extra-parliamentary body tasked with co-ordinating the actions of the country's various security forces) responsible for ensuring that the sultan's wishes are obeyed, and given that the ruling family has a clear incentive to manage the transition with the minimum of disruption, it is likely that the immediate transfer of power will be effected without dispute. The main risks are likely to arise in the longer term, if the sultan's successor proves unable to contain the latent divisions within Omani society—for example, between the better-off urban Omanis, who tend to support economic and political reform, and the more conservative rural Omanis.

International relations

Oman's ties with its most important international allies—the US and the UK—remain strong. The US military continues to have access to at least four Omani bases and the UK has traditionally provided advisers to Omani government departments, although such support has now been reduced. The government also has good relations with its nearer neighbours, including Iran, and will therefore continue to watch developments in the ongoing dispute over Iran's nuclear programme with some discomfort. Oman will retain strong foreign relations with the Gulf Co-operation Council (GCC), whose annual summit in December 2008 was hosted by the sultanate. Oman also advocates a strong diplomatic approach to the Middle East's other political issues, including the conflicts in Iraq and Lebanon and the Israeli-Palestinian crisis. However, given the political, economic and military importance of Oman's historical links to the West, the Economist Intelligence Unit expects no change in the sultanate's pro-Western foreign policy during the outlook period.

Economic policy outlook

Policy trends

Oman's economic reform programme will face difficult challenges in 2009-10 and may suffer setbacks, as falling international oil prices (particularly in 2009) lead to a sharp decline in government revenue. The reform programme is intended to diversify the economy away from its reliance on hydrocarbons and to create employment opportunities for the rapidly growing young population. However, the decline in revenue may hinder the government's efforts to expand the non-hydrocarbons sectors over the outlook period (in part because Oman's natural gas reserves are insufficient to support a wholly gas-based industrial sector). Attention will nevertheless continue to be focused on tourism and real estate projects. An overhaul of tourism development plans was undertaken after a devastating cyclone in June 2007, and the revised plans concentrate on reconstructing coastal areas, many of which may be susceptible to future extreme weather conditions. The government has also announced plans to develop better flood protection in and around the capital, Muscat. Efforts to increase the role of the private sector will continue, especially in electricity, water and telecommunications. However, the impact of the global financial crisis may force the government to rethink the pace of its privatisation programme.

In a deteriorating economic environment, "Omanisation" (the replacement of expatriate workers with local staff) may be relaxed, although the government will continue to fund higher education and training in order to develop local professional and technical expertise. It will also press the private sector to meet targets for providing more employment opportunities for Omani citizens. Despite changes to the labour law, however, supply-side problems—in particular, the greater cost of employing locals and the additional rights they enjoy once in a post—are likely to continue to slow progress on Omanisation. The policy will also come under pressure following the launch of the GCC common market in 2008, which should eventually allow Omani nationals to seek employment freely within the six-member bloc. The attractions that neighbouring countries may offer to highly skilled Omanis, such as better wages, could have an impact on the availability of sufficiently well-trained local staff.

Fiscal policy

We estimate that the official budget recorded a surplus of OR654m (US$1.7bn), or 3.7% of GDP, in 2008, and that the unofficial budget surplus (which includes oil revenue paid directly into the State General Reserve Fund) was much higher, at about OR3.5bn, or 19% of GDP. We expect a sharp fall in international oil prices to push the official budget into deficit in 2009, by OR630m, or 4.1% of GDP. In 2010 a rise in oil production, made possible by the adoption of enhanced oil recovery techniques, and higher oil prices will help to nudge the budget back into surplus, by OR95m (0.5% of GDP).

Monetary policy

Monetary policy will be largely unchanged in 2009-10, and there will be little pressure on the Omani riyal's peg to the US dollar. Confidence in the peg is underpinned by the government's decision, announced by the executive president of the Central Bank of Oman (CBO), Hamood Sangour al-Zadjali, not to join the proposed GCC single currency. This represents a shift from Oman's original position, which was to delay joining the currency until after 2010. The authorities have resisted pressure to revalue the riyal, insisting that the peg will remain in place for the foreseeable future. We estimate that average Omani lending rates fell in 2008, to 6.8%, and we expect them to decline further in 2009-10 in line with US rates, because of the currency peg. They will stay below their long-term historical average, owing to the pressure applied by the CBO on commercial banks to reduce their spreads on consumer loans.

Economic forecast

International assumptions

International assumptions summary

(% unless otherwise indicated)

	2007	2008	2009	2010
Real GDP growth				
World	5.0	3.3	0.2	2.4
OECD	2.7	1.1	-1.9	0.5
EU27	2.8	1.0	-2.0	0.2
Exchange rates				
¥:US$	117.8	103.4	93.0	92.0
US$:€	1.369	1.470	1.345	1.385
SDR:US$	0.651	0.629	0.655	0.644
Financial indicators				
€ 3-month interbank rate	4.27	4.65	1.93	1.90
US$ 3-month Libor	5.30	2.41	0.54	0.94
Commodity prices				
Oil (Brent; US$/b)	72.7	97.0	35.0	50.0
Food, feedstuffs & beverages (% change in US$ terms)	30.9	29.1	-26.6	1.3
Industrial raw materials (% change in US$ terms)	11.2	-5.3	-41.1	11.7

Note. Regional GDP growth rates weighted using purchasing power parity exchange rates.

We estimate that world GDP growth (measured using purchasing power parity weights) declined in 2008, to 3.3%, and forecast that it will slow sharply in 2009 to a mere 0.2%, as the majority of the OECD economies fall into recession. There is little prospect of recovery until late 2010. International oil prices will fall in 2009, with the benchmark dated Brent Blend averaging around US$35/barrel, down from US$97/b in 2008, as demand falls on the back of a weakening global economy. Prices are, however, forecast to rise slightly in 2010. Geopolitical concerns—notably the stand-off between the US and Iran over the latter's nuclear programme—could cause prices to climb sharply in the event of a rise in tensions.

Economic growth

We estimate that real GDP growth rose to 6.4% in 2008, owing to stronger export volumes on the back of slightly higher crude oil output. We assume that the effects of the current series of enhanced oil recovery projects will begin to be felt from early 2009. Liquefied natural gas (LNG) production will rise only modestly over the outlook period, and the limited nature of available gas reserves means that there are no plans for a fourth LNG train. Export revenue is forecast to decline by over 50% in 2009 as international oil prices fall. This will have a negative impact on government consumption and investment, and, by extension, on private consumption, leading to a slowdown in GDP growth, to around 4.9%. In 2010 the upturn in the global economy, together with rising oil prices and higher Omani oil output, should push GDP growth up to 5.2%.

Given the importance of hydrocarbons to the Omani economy, despite efforts to encourage growth in other sectors, there are concerns that any downturn in oil production will inevitably cause problems for Oman. Any further drop in oil earnings, owing to a yet steeper fall in international oil prices for instance, would worsen the government's fiscal position. The importance of economic diversification will become more apparent as GDP growth begins to plateau.

Inflation

Oman has historically had extremely low or negative inflation. However, price growth has recently been on an upward trend, partly because of the weakness of the dollar (and, by extension, the riyal) against the currencies of Oman's main import suppliers, particularly the EU. We estimate that consumer price inflation rose to an average of 12.6% in 2008, up from 5.9% in 2007. The rising cost of imports had a significant impact on local food prices. Inflation woes were also exacerbated by wage pressures, particularly as the government continued its policy of raising public-sector salaries and the minimum wage for Omanis employed in the private sector. However, with oil and non-oil commodity prices expected to fall sharply this year, we forecast that inflation will drop to an annual average of 7.5% in 2009 and 5.1% in 2010. Inflation will also remain constrained by the government's extensive subsidy system, which holds in check the prices of a range of core goods and services.

Exchange rates

Oman's fixed exchange rate of OR0.3845:US$1 is unlikely to come under pressure over the outlook period. The CBO remains firmly committed to the peg, which it has maintained since 1986. The outlook for Oman's external accounts and foreign-exchange asset levels is still sufficiently robust to help the CBO defend the peg. The announcement that Oman will not join the planned

GCC currency union also means that the peg is less likely to be adjusted in response to any revaluations of the currencies of the other Gulf states.

External sector

Export revenue is forecast to fall by a massive 53% in 2009, having risen by an estimated 28% in 2008, before picking up again, by 45%, in 2010, broadly in line with movements in global oil prices. Owing to a fall in government revenue, the import bill will also fall in 2009, to US$13.3bn, from US$16.7bn in 2008. However, because of a recovery in demand for consumption goods in 2010, imports are forecast to rise by around 2.5%. Nevertheless, the trade surplus, which is expected to narrow significantly in 2009, is forecast to widen to US$7.9bn in 2010.

The current account is likely to move into deficit in 2009, for the first time since 1999, reflecting the worsening international economic outlook and a still wide non-merchandise deficit. Debits on the services account will remain high, leading to a services deficit of US$3.4bn in 2010, although this is lower than the estimate of US$5.6bn in 2008. The current transfers deficit is expected to narrow slightly in 2009 as remittances from foreigners working in Oman, particularly in the construction sector, decline as Omani growth slows in response to worsening global conditions. The deficit will barely change in 2010. The income-account position, which is forecast to improve greatly in 2009, will worsen in 2010, in part because of a rise in interest payments on Oman's external debt. Overall, the current account, which we estimate recorded a surplus of US$3.5bn (7.4% of GDP) in 2008, is forecast to plunge into deficit in 2009, by US$4.9bn (12.4% of GDP), before returning to surplus in 2010, to the tune of around US$660m (1.3% of GDP).

Forecast summary
(% unless otherwise indicated)

	2007[a]	2008[b]	2009[c]	2010[c]
Real GDP growth	5.8[b]	6.4	4.9	5.2
Oil production ('000 b/d)	711	720[a]	722	725
Crude oil exports (US$ m)	14,443	20,337	6,216	9,496
Consumer price inflation (av)	5.9	12.6	7.5	5.1
Lending rate	7.3	6.8	6.7	6.6
Official net budget balance (% of GDP)[d]	0.3[b]	3.7	-4.1	0.5
Unofficial gross budget balance (% of GDP)[e]	8.2	19.4	-16.6	-4.5
Exports of goods fob (US$ bn)	24.7	31.7	14.8	21.5
Imports of goods fob (US$ bn)	14.3	16.7	13.3	13.7
Current-account balance (US$ bn)	1.9	3.5	-4.9	0.7
Current-account balance (% of GDP)	5.2[b]	7.4	-12.4	1.3
External debt (year-end; US$ bn)	6.0[b]	6.9	6.5	6.8
Exchange rate OR:US$ (av)	0.385	0.385[a]	0.385	0.385
Exchange rate OR:€ (av)	0.526	0.565[a]	0.517	0.533
Exchange rate OR:¥100 (av)	0.326	0.372[a]	0.413	0.418
Exchange rate OR:SDR (av)	0.590	0.611[a]	0.587	0.597

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts. [d] Excludes State General Reserve Fund operations. [e] Includes State General Reserve Fund operations.

Monthly review: February 2009

The political scene

Action is taken to end "visa runs" from Oman

Oman has taken action to deal with the problem of large numbers of stranded expatriate workers from the UAE who crossed the border into Oman to have their UAE visas renewed. The Ministry of Foreign Affairs introduced a new ruling in January making travel operators and hoteliers responsible for repatriating expatriates who become stranded in Oman while they attempt to have their visas renewed.

Problems have arisen since the UAE changed its regulations for visitor visa renewals in July 2008. For many years it has been common practice for Asian expatriates living in the UAE to cross into Oman and then immediately re-enter the UAE on a new visa issued at the border. Buraimi, on Oman's main border with the UAE, and Khasab, in Oman's Musandam governorate, are favourite destinations for these so-called "visa runs". The new regulations require individuals who enter the UAE on a visitor visa to return to their home country for at least a month before they can be issued with a new visa. The move is an attempt by the UAE authorities to cut down on the large numbers of expatriates who work illegally in the UAE while staying in the country on successive visitor visas. The regulations apply to Indian, Pakistani, Russian and Filipino citizens; most Western nationalities are exempt.

Despite the new ruling, large numbers of expatriates, particularly those from the Philippines, have continued to cross into Oman, only to find themselves stranded while the UAE takes a month to issue them with new visas, or refuses them re-entry altogether. Many are running up large bills that they can ill-afford while waiting. By the third quarter of 2008 over 2,000 Filipinos were stuck in Buraimi in Oman, with between ten to 12 workers sharing a single hotel room. In late January the Philippine embassy in the Omani capital, Muscat, sent staff to establish a help desk in Buraimi to assist its nationals. Many Arabs, Africans, Indians and Pakistanis are similarly affected. Many of those whose visas are not renewed will not have the funds for the air fare back to their home country and are therefore likely to become illegal immigrants in Oman.

Oman's existing visa regulations have already acted as a deterrent to some extent. The OR10 (US$26) daily fine for overstaying an Omani visa compares unfavourably with the equivalent OR8 fine imposed by Iran for visitors to Kish island, the alternative visa-run destination. The differential has resulted in a steady decline in Oman's popularity with those who need to renew their visas, so that by January the number of Filipinos in Buraimi had dropped to around 700. However, the Omani government is clearly sufficiently concerned to have introduced the new regulation, which has echoes of Oman's no objection certificate (NOC) visa system of the 1970s and 80s. Airlines were made liable for the repatriation of individuals who arrived in the country without an NOC, a highly effective system of policing arrivals. However, it is harder to see how such a system will work with a land crossing.

Oman responds to Israel's assault on the Gaza Strip

The first three weeks of January saw a flurry of diplomatic activity, public demonstrations, official condemnations and expressions of sorrow in response to the Israeli military assault on the Gaza Strip. Earlier in the month, the official Oman News Agency reported on a public rally held to demonstrate solidarity with the Palestinians. The report was vague, giving no indication of the number of people involved in the protest or of its location. Demonstrations in Oman tend to be relatively low key, orderly affairs. The big issue in this instance was the fact that the government tolerated the demonstration at all, something that would not have been possible until only recently. The government has traditionally maintained tight control through its internal security mechanisms. However, since the early 2000s occasional small-scale public demonstrations have been allowed as a safety valve to release public frustration and anger about external political matters, notably the plight of the Palestinians. This is but one illustration of the careful path the government has to tread with regard to the Palestinian situation, over which public feelings run high.

Shortly after the demonstration, the Omani minister responsible for foreign affairs, Youssef bin Alawi bin Abdullah, convened a meeting—in his capacity as chairman of the Ministerial Council of the six-member Gulf Co-operation Council (GCC)—with the ambassadors of the five permanent members of the UN Security Council, together with those of Libya, Austria, Turkey and Japan—four of the ten current non-permanent members. Mr Abdullah called for an immediate end to Israeli military operations, and deplored Israel's use of excessive force against civilians. In mid-January the sultan, Qaboos bin Said al-Said, took the opportunity of a meeting of the Council of Ministers (the cabinet) to express publicly his personal sorrow both at the situation and at its implications for peace and security in the region. Following this the deputy prime minister for cabinet affairs, Fahd bin Mahmoud al-Said, and Mr Abdullah embarked on a whirlwind regional tour to canvas local opinion on the crisis. However, despite the inevitable condemnation of Israeli action, these regional meetings exposed fundamental disagreements between the participants over the best course of action to end the conflict.

Economic policy

A new national brand campaign is launched

Oman launched a new national logo in late January. The creation of the national brand has clearly been regarded as an important project for the sultanate. The Oman Brand Management Unit (OBMU) was established three years ago under the leadership of Faisal bin Turki al-Said, a cousin of the sultan. The launch itself was a high-profile occasion presided over by the heritage and culture minister, Haithem bin Tariq al-Said, and attended by a large number of high-ranking individuals.

The OBMU has spent two years finding out how Oman is perceived both internationally and locally, and what Oman has to offer outsiders. According to Mr Faisal, the unit hopes to encourage the development of a stronger national brand, particularly in tourism, business, information and communications technology, and education. He explained that local approval for the logo was essential for the campaign to be successful.

The launch of the logo is the latest stage in the creation of a new national identity that began as soon as the sultan assumed power in 1970 and gave Oman a new name and flag. The flag features what became the Omani symbol, crossed swords overlain with a *khanjar* (the traditional Omani curved dagger). Although this will remain unchanged, the new logo is intended primarily for commercial use, to boost recognition of Oman as a brand in an increasingly globalised world. For this reason, despite the *khanjar* being such a readily identifiable symbol of Oman, the incorporation of a weapon into the national logo was deemed inappropriate. This is understandable when the government is pinning so much emphasis on the tourism sector in its efforts to diversify the sultanate's economy away from its long-term dependence on oil. The new logo will presumably replace the somewhat indifferent one (featuring a sun) that has been used by the Ministry of Tourism since shortly after the ministry's creation in the early 2000s.

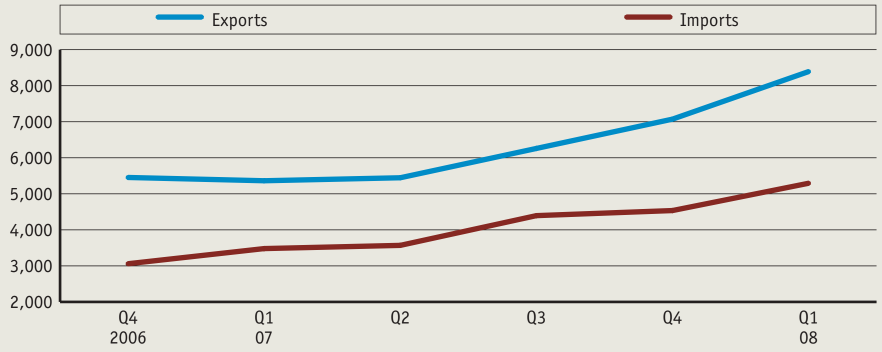
Oman strengthens its economic ties with India

Oman has continued to work hard at improving its economic ties with old trading partners. In the third week of January the sultan's economic planning adviser, Mohammed al-Zubair, travelled to India for the inaugural meeting of the Higher Committee for Promotion of Economic Relations between Oman and India. The committee was established following meetings between Sultan Qaboos and the Indian prime minister, Manmohan Singh, when the latter visited Oman in November 2008.

In late January India's ambassador to Oman, Anil Wadhwa, told reporters that the India-Oman Joint Investment Fund, for which a Memorandum of Understanding (MoU) was signed during the November visit, should be operational by March 2009 with initial capital of US$100m. The MoU has provision for the fund's capital to be increased to up to US$1.5bn. According to Mr Wadhwa, this is the first fund of its kind that India has set up, reflecting its close relationship with Oman. The fund will focus on real estate and core infrastructure sectors, but, most importantly, it is expected that it will help attract further, private-sector investment. Furthermore, there are hopes that discussions on a proposed free-trade agreement between India and the GCC will make substantial progress during 2009, while the GCC is under Oman's chairmanship. Two rounds of talks have already taken place, in March 2006 and September 2008.

Oman's economic ties with India go back hundreds of years. Recently, one of the most significant aspects of the relationship has been the very large Indian expatriate labour force working in Oman without which the sultanate's economy would arguably grind to a halt. About half a million Indians are currently legally working in Oman. This figure does not include their dependents and those working illegally. Indians, therefore, make up a very substantial proportion of the total estimated population in 2008 of 2.9m people.

Quarterly trade data
(US$ m)



Source: IMF, *Direction of Trade Statistics*.

Oman's trade with India grew substantially during 2008, with Omani non-oil exports to India, for the first eight months of the year, increasing by an impressive 76%, to OR182m (US$473m), compared with the same period of 2007. Indian imports to Oman between January-August 2008 totalled nearly OR760m, a 5% year-on-year increase. The Oman India Fertiliser Company, a US$1bn joint venture between the two countries, greatly contributed to Omani exports to India when its ammonia and urea trains were commissioned in 2005. India is interested in expanding the production capacity of the plant. According to the Indian Ministry of External Affairs, the Omanis have said that they will consider an expansion "as soon as the appropriate amounts of inputs are available", presumably a reference to the forecast shortage of gas supplies.

Economic performance

Progress on IT schemes is continuing

The government's information technology (IT) aspirations took another step forward during January with the launch of a number of initiatives that will facilitate payment for government services. Early in the month the Information Technology Authority (ITA) commissioned Bank Muscat to run the pilot phase of an "e-Purse", or "cash on card", scheme. The scheme, which allows participants to electronically load money onto their national identity and residency cards, which can then be used to pay for goods and services, is aimed particularly at the many residents of Oman who do not have bank accounts. The aim of the ePurse project is to enable government organisations to collect payment for their services, such as visa renewals and driving licences. The scheme was originally proposed by the Royal Oman Police (ROP). A pilot phase of seven months will be run by Bank Muscat. Once complete, the cash machines of all local banks will be adapted to operate the scheme. Further phases are envisaged that will enable Omani nationals to use their identity cards for other purposes such as storing medical records and voting. The agreements were signed by the ITA, ROP, Bank Muscat and Gemalto, a Netherlands-based digital security firm.

In mid-January the Ministry of Social Affairs Development launched the government's official online donations portal in association with the ITA. The portal will enable donors with accounts in Omani banks to make payments to local charities supported by the ministry. Similarly, in late January the Ministry of Commerce and Industry signed agreements with the ITA when it joined the government's e-payment gateway, which was formally launched at the end of August 2008 (October 2008, Economic policy). The agreements will enable traders to complete and pay for a large number of procedures online, including the registration of companies and commercial trade names, and applications for commercial licences. If the systems are successful in easing the process of company registration and administration they will be a significant boost to Oman's commercial sector, particularly small and medium-sized enterprises, which the government is aiming to encourage.

The ITA and Singapore's Info-communications Development Authority (IDA) have also signed an MoU, the purpose of which is to promote collaboration on extending the use of IT to various public- and private-sector areas, including education, law, trade and customs. The authorities hope that these exchanges will enhance trade and technology partnerships between the IT industries of Oman and Singapore. All of these developments are part of Oman's wider Digital Oman strategy, which was launched in 2003 and which in turn was in line with the sultanate's 25-year development plan, Vision 2020, which listed the use of advanced technology as one of its core objectives when it was unveiled in 1995.

The authorities launch water supply projects for the interior

The initial phases of two ambitious projects to guarantee water supplies to different regions of inland Oman were completed during January. Early in the month the first phase of the Al Dhakhliyah water supply project was opened by the agriculture minister, Salim bin Hilal al-Khalili. When completed, the project is intended to transport water from the Barka desalination plant on the coast to the rapidly growing towns in the Al Dhakhliyah region, including Nizwa, the most important of Oman's inland settlements. Phase 1 of the project, which cost an estimated OR21m (US$55m), supplies water to the districts of Bidbid and Sumail and entailed the construction of three pumping stations at Al Khoud, Fanja and Sumail, as well as six underground storage tanks.

According to the chairman of the Public Authority for Electricity and Water (PAEW), Mohammed bin Abdullah al-Mahrouqi, the authority is currently studying ways of supplying water to Jabal al-Akhdar (the Green Mountain), the 2,000-metre high limestone plateau in the Al Dhakhliyah region. The tourism ministry has plans for developing the area (September 2008, Economic policy), which has suffered from water shortages for many years. The task of pumping water to a height of 2,000 metres is likely to be more technically challenging, as well as more expensive, than the relatively straightforward task of piping water inland.

Towards the end of January the PAEW launched another supply project, this time in the eastern region of Sharqiyah. This scheme, which also cost OR21m, supplies the districts of Ibra, Al Qabil and Bidiyah. It includes a 260-km pipeline, seven underground storage tanks and 16 tanker filling stations. The project will be especially welcomed in Ibra where there have been public demonstrations over water shortages during the past two years. The pipeline network currently links to the Sharqiyah Sands groundwater supply project, which was built in the mid-2000s. However, according to Mr Mahrouqi, by mid-2011 the network will be connected to the desalination plant in Sur (in north-eastern Oman), which is currently under construction and should be operational within the next few months.

Following years of concern over falling groundwater levels owing to over extraction, Sultan Qaboos instructed the government to make desalinated water more widely available and to preserve groundwater as a strategic resource. As Oman's population grows and domestic water demand soars, this is vital if Oman's ancient *falaj* (water supply) systems and the associated agriculture are to survive. However, the question remains as to how Oman will power and pay for the expensive process of desalination when its natural gas supplies are already so stretched.

Data and charts

Annual data and forecast

	2004[a]	2005[a]	2006[a]	2007[b]	2008[b]	2009[c]	2010[c]
GDP							
Nominal GDP (US$ m)	24,772	30,923	35,730	37,114	46,368	39,891	50,369
Nominal GDP (OR m)	9,525	11,890	13,738	14,270	17,828	15,338	19,367
Real GDP growth (%)	5.4	5.8	7.5	5.8	6.4	4.9	5.2
Expenditure on GDP (% real change)							
Private consumption	14.9	7.3	21.0	7.5	7.8	4.0	5.6
Government consumption	9.0	10.5	4.2	6.0	6.3	4.5	6.0
Gross fixed investment	41.9	9.4	10.0	7.0	7.2	4.8	5.2
Exports of goods & services	-5.7	-4.3	-0.9	-0.5	1.0	-1.5	1.3
Imports of goods & services	22.0	3.8	16.3	4.5	5.3	-0.1	4.0
Origin of GDP (% real change)							
Agriculture	1.8	-0.2	-1.0	2.5	1.5	1.5	1.6
Industry	2.8	4.0	4.6	3.3	3.5	3.4	3.9
Services	7.4	4.0	13.2	7.6	8.3	5.8	6.1
Population and income							
Population (m)	2.42	2.51	2.58	2.74	2.87	2.99	3.11
GDP per head (US$ at PPP)	19,408	20,409	22,039	22,556	23,654	24,238	24,651
Fiscal indicators (% of GDP)							
Public-sector revenue[d]	42.4	37.9	36.2	41.5	37.7	35.4	33.1
Public-sector expenditure	40.0	35.9	32.5	41.2	34.1	39.5	32.7
Public-sector balance[d]	2.4	2.0	3.7	0.3	3.7	-4.1	0.5
Net public debt	9.6	4.9	4.0	3.5	3.1	3.8	3.1
Prices and financial indicators							
Exchange rate OR:US$ (end-period)	0.385	0.385	0.385	0.385[a]	0.385[a]	0.385	0.385
Exchange rate €:OR (end-period)	0.478	0.479	0.483	0.526[a]	0.565[a]	0.517	0.533
Stock of money M1 (% change)	12.8	25.4	8.9	45.5[a]	15.4	9.5	12.0
Stock of money M2 (% change)	4.1	21.7	24.5	34.7[a]	28.0	13.4	17.8
Lending interest rate (end-period; %)	7.6	7.1	7.4	7.3[a]	6.8	6.7	6.6
Current account (US$ m)							
Trade balance	5,523	10,703	11,722	10,395[a]	15,029	1,473	7,898
Goods: exports fob	13,381	18,692	21,587	24,723[a]	31,657	14,850	21,511
Goods: imports fob	-7,873	-8,029	-9,880	-14,343[a]	-16,656	-13,323	-13,658
Services balance	-2,384	-2,501	-2,916	-3,833[a]	-5,563	-3,007	-3,388
Income balance	-391	-971	-915	-959[a]	-2,199	213	-214
Current transfers balance	-1,826	-2,257	-2,788	-3,670[a]	-3,816	-3,626	-3,633
Current-account balance	922	4,974	5,103	1,933[a]	3,451	-4,946	663
External debt (US$ m)							
Debt stock	3,887	4,028	4,819	5,962	6,864	6,497	6,841
Debt service paid	1,005	1,512	310	626	608	596	624
Principal repayments	807	1,308	139	406	355	348	360
Interest	199	205	171	220	253	248	264
Debt service due	1,005	1,512	310	626	608	596	624
International reserves (US$ m)							
Total international reserves	3,598	4,358	5,014	9,524[a]	11,507	8,957	9,532

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts. [d] Excludes State General Reserve Fund operations.

Source: IMF, *International Financial Statistics*.

Quarterly data

	2007				2008			
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
Government finance (OR m)								
Revenue	1,550	1,748	1,276	1,241	2,116	1,993	2,096	n/a
Expenditure	1,086	1,280	1,242	1,764	1,247	1,824	1,659	n/a
Balance	464	468	35	-523	869	169	436	n/a
Prices								
Consumer prices (2000=100)	108	109	112	115	120	124	127	n/a
Consumer prices (% change, year on year)	4.6	4.9	6.5	7.8	11.0	13.1	13.5	n/a
Wholesale prices (2000=100)	126.8	130.3	132.4	135.8	143.1	150.1	155.3	n/a
Wholesale prices (% change, year on year)	6.0	5.8	5.2	7.4	12.8	15.2	17.3	n/a
Financial indicators								
Exchange rate OR:US$ (av)	0.385	0.385	0.385	0.385	0.385	0.385	0.385	0.385
Exchange rate OR:US$ (end-period)	0.385	0.385	0.385	0.385	0.385	0.385	0.385	0.385
Deposit rate (av; %)	4.1	4.2	4.3	4.1	3.9	3.7	3.9	n/a
Lending rate (av; %)	7.4	7.4	7.3	7.3	6.9	6.7	6.7	n/a
M1 (end-period; OR m)	1,420	1,568	1,649	1,917	2,323	2,242	2,170	n/a
M1 (% change, year on year)	5.9	11.6	29.9	45.5	63.5	43.0	31.6	n/a
M2 (end-period; OR m)	4,871	5,241	5,465	6,111	6,714	7,024	7,119	n/a
M2 (% change, year on year)	26.1	29.6	27.6	34.7	37.8	34.0	30.3	n/a
Share price index, MSM (end-period; Jan 1st 1995=1,000)	5,733	5,984	6,597	8,500	9,879	11,363	9,631	5,926
Share price index, MSM (% change, year on year)	8.3	18.8	33.0	53.4	72.3	89.9	46.0	-30.3
Sectoral trends								
Crude oil production (m barrels/day)	0.72	0.71	0.71	0.71	0.73	0.72	0.72	0.71
Omani average oil price (US$/barrel)	54.7	64.3	68.5	73.1	87.4	97.4	126.8	n/a
Electricity production (kwh m)	2,119	4,286	4,744	2,708	2,251	5,053	4,758	n/a
Foreign trade (OR m)								
Exports fob	2,062	2,094	2,633	2,718	3,226	3,475	n/a	n/a
Oil & LNG	1,523	1,611	2,057	2,020	2,356	2,603	n/a	n/a
Imports cif	1,338	1,372	1,696	1,737	2,035	2,193	n/a	n/a
Trade balance	723	721	936	981	1,191	1,282	n/a	n/a
Foreign reserves								
Reserves excl gold (end-period; US$ m)	5,767	6,917	7,543	9,523	10,407	10,050	10,322	n/a

Sources: Ministry of National Economy, *Monthly Statistical Bulletin*; International Energy Agency, *Oil Market Report*; IMF, *International Financial Statistics*.

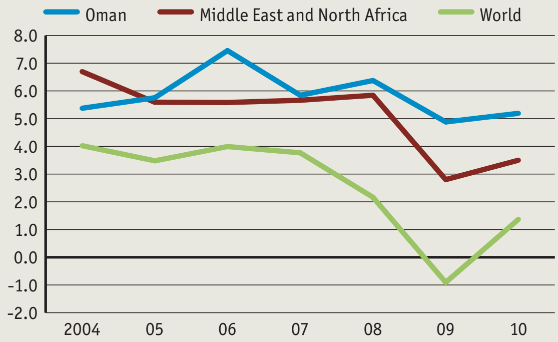
Monthly data

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate OR:US$ (av)												
2006	0.385	0.385	0.385	0.385	0.385	0.385	0.385	0.385	0.385	0.385	0.385	0.385
2007	0.385	0.385	0.385	0.385	0.385	0.385	0.385	0.385	0.385	0.385	0.385	0.385
2008	0.385	0.385	0.385	0.385	0.385	0.385	0.385	0.385	0.385	0.385	0.385	0.385
M1 (% change, year on year)												
2006	17.1	12.9	21.8	26.4	23.2	19.5	13.8	13.4	12.5	11.6	9.8	8.9
2007	9.9	1.4	5.9	5.5	7.0	11.6	16.4	23.2	29.9	30.3	37.2	45.5
2008	53.7	65.8	63.5	53.7	48.8	43.0	38.5	37.9	31.6	27.6	17.5	n/a
M2 (% change, year on year)												
2006	17.2	15.9	20.2	24.4	19.5	19.9	21.5	26.8	27.7	28.2	26.3	24.5
2007	25.3	24.5	26.1	26.2	28.6	29.6	28.9	26.0	27.6	27.9	30.7	34.7
2008	40.0	40.5	37.8	38.8	36.7	34.0	31.2	33.9	30.3	31.9	31.3	n/a
Lending rate (av; %)												
2006	7.09	7.01	7.07	7.19	7.26	7.35	7.39	7.44	7.47	7.43	7.42	7.40
2007	7.43	7.42	7.39	7.41	7.40	7.39	7.39	7.36	7.34	7.32	7.30	7.29
2008	7.19	6.94	6.92	6.83	6.79	6.66	6.59	6.54	6.66	n/a	n/a	n/a
Deposit rate (av; %)												
2006	3.45	3.51	3.56	3.62	3.66	3.71	3.89	3.98	4.03	4.03	4.01	4.00
2007	4.07	4.10	4.10	4.14	4.16	4.17	4.22	4.18	4.28	4.33	4.30	4.14
2008	4.04	3.94	3.85	3.67	3.65	3.67	3.66	3.70	3.86	n/a	n/a	n/a
Stockmarket index (MSM 30; June 1990=1000)												
2006	5,248	5,365	5,264	5,234	4,955	4,927	4,780	4,824	5,276	5,551	5,553	5,514
2007	5,812	5,736	5,652	5,725	5,970	6,257	6,408	6,630	6,752	8,021	8,443	9,036
2008	9,172	10,363	10,103	11,211	11,555	11,323	10,677	9,721	8,494	6,210	6,126	5,441
Consumer prices (% change, year on year)												
2006	2.1	2.0	2.9	3.3	3.2	2.2	3.0	2.7	3.0	4.0	3.8	4.3
2007	4.2	4.9	4.6	4.6	4.3	5.3	5.7	6.5	7.6	7.4	7.8	8.3
2008	10.1	11.1	11.7	12.5	13.2	14.0	13.7	13.7	12.9	12.6	12.7	n/a
Foreign-exchange reserves excl gold (US$ m)												
2006	4,285	4,507	4,640	4,474	4,924	4,795	4,852	4,750	4,820	4,855	4,492	5,014
2007	5,167	4,990	5,767	5,830	5,938	6,917	6,556	6,762	7,543	7,899	8,948	9,523
2008	9,912	9,815	10,407	10,220	10,326	10,050	10,325	9,730	10,322	10,517	11,299	n/a

Sources: IMF, *International Financial Statistics*; Haver Analytics.

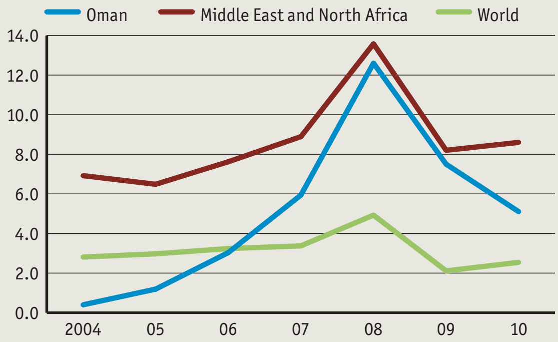
Annual trends charts

Real GDP growth
(% change)



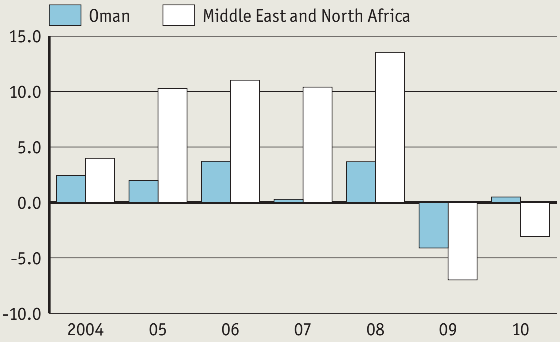
Source: Economist Intelligence Unit.

Consumer price inflation
(av; %)



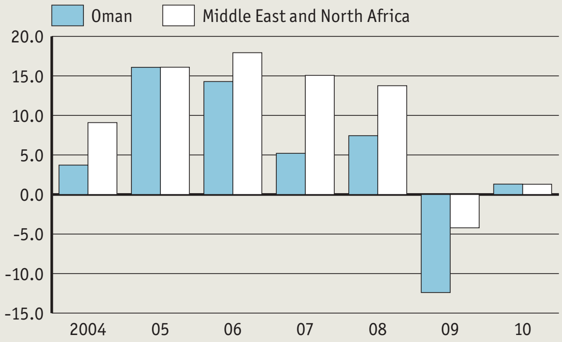
Source: Economist Intelligence Unit.

Budget balance
(% of GDP)



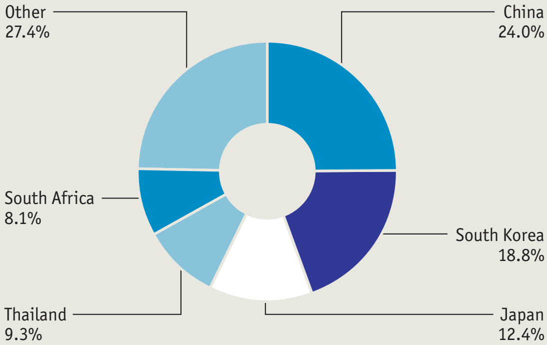
Source: Economist Intelligence Unit.

Current-account balance
(% of GDP)



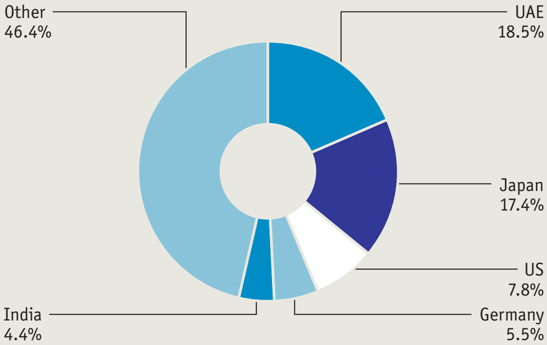
Source: Economist Intelligence Unit.

Destination of exports, 2007
(share of total)



Source: Economist Intelligence Unit.

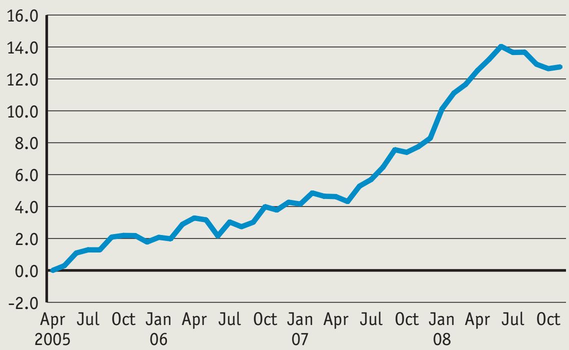
Origin of imports, 2007
(share of total)



Source: Economist Intelligence Unit.

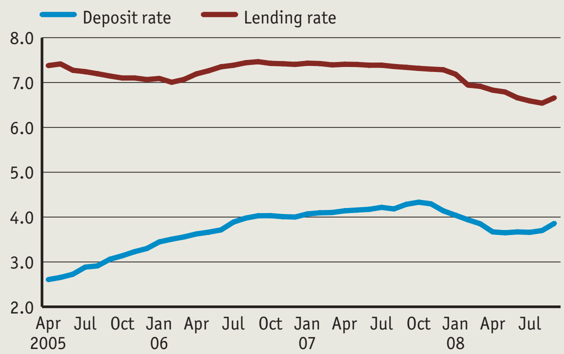
Monthly trends charts

Consumer price inflation
(% change, year on year)



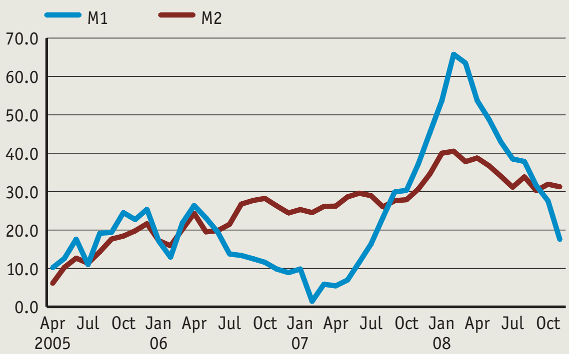
Source: Economist Intelligence Unit.

Interest rates
(av; %)



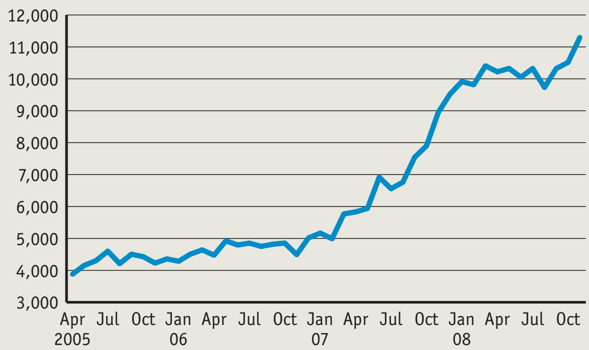
Source: Economist Intelligence Unit.

Monetary aggregates
(% change, year on year)



Source: Economist Intelligence Unit.

Foreign-exchange reserves
(US$ m)



Source: Economist Intelligence Unit.

Country snapshot

Political structure

Official name	Sultanate of Oman
Form of state	Monarchy
Legislature	There is no national legislature. The Council of Oman debates policy but does not legislate. It comprises the 84-member Majlis al-Shura (Consultative Council), which was elected by universal suffrage in 2007—the next election is in October 2011—and the Majlis al-Dawla (State Council), whose members were appointed in November 2007
Head of state	Qaboos bin Said al-Said assumed power in July 1970
Executive	The sultan rules by decree, assisted by the Council of Ministers (cabinet). The most recent cabinet reshuffle was in September 2007
Main political parties	Political parties are not permitted
Adviser of the sultan	Shihab bin Tariq al-Said
Personal representative of the sultan	Assad bin Tariq al-Said

The government

Prime minister, minister of defence, finance & foreign affairs	Qaboos bin Said al-Said
Deputy prime minister for cabinet affairs	Fahd bin Mahmoud al-Said

Key ministers

Agriculture	Salim bin Hilal al-Khalili
***Awqaf* & religious affairs**	Abdullah bin Mohammed al-Salimi
Commerce & industry	Maqbool Ali Sultan
Defence affairs	Badr bin Saud bin Hareb al-Busaidi
***Diwan* of the Royal Court**	Ali bin Hamoud al-Busaidi
Education	Yahya bin Saud bin Mansour al-Salaimi
Environment & climate affairs	Hamoud bin Faisal al-Busaidi
Fisheries	Mohammed bin Ali al-Qatabi
Foreign affairs	Youssef bin Alawi bin Abdullah
Health	Ali bin Mohammed bin Moussa
Heritage & culture	Haithem bin Tariq al-Said
Higher education	Rawya bint Saud al-Busaidi
Information	Hamed bin Mohammed al-Rashdi
Interior	Saud bin Ibrahim bin Saud al-Busaidi
Justice	Mohammed bin Abdullah al-Hinai
Legal affairs	Mohammed bin Ali bin Nasser al-Alawi
Manpower	Abdullah bin Nasir al-Bakri
National economy	Ahmed bin Abdulnabi Macki
Oil & gas	Mohammed bin Hamad al-Rumhi
Regional municipalities & water resources	Abdullah bin Salim bin A'amir al-Rowas
Social affairs development	Sharifa bint Khalfan al-Yahyaeea
Tourism	Rajha bint Abdulameer
Transport & communications	Khamis bin Mubarak al-Alawi

Central Bank executive president Hamood Sangour al-Zadjali

