



Oman Budget 2009

The government's budget for the 2009 fiscal year was endorsed by Royal decree on 1st Jan 2009. It was drawn up during a period of extreme financial turbulence that has seen the global economy slip in to recession and oil prices fall by 74% from the highs. Nonetheless, the government has increased spending compared with the budgeted total for 2008 in order to push ahead with its investment program.

A deficit of RO 810 million is projected, based on revenues of RO 5,614 million and spending of RO 6,424 million. Education, health, defense and social security remain the major focus areas of government spending. The government hinted that this budget could be a flexible one in that it may entail adjustments if oil prices fall below \$45 per bbl.

Revenues: RO 5,614 mn

Expenditure: RO 6,424 mn

Deficit: RO 810 mn

The major highlights of the budget are:

- Oil revenue estimated at \$45 a barrel with 805,000 bpd production
- Enhanced spending on seventh five year plan
- RO 665m allocated for new development projects
- Substantial allocations for roads, infrastructure, housing
- Revenues, expenditure at RO 5,614m and RO 6,424m
- Current, capital revenues estimated to reach RO 1,422m

The increase in budgeted spending reaffirms the government's commitment to proceed with its investment program. Given the lower project costs and raw material prices are supporting this move. This shows the underlying health of the economy and the strength of government finances.



Highlights of 2008

Increase in nominal GDP

Nominal GDP was expected to have increased by 26.3% to RO 19,595 million as against RO 15,512 million during 2007. The high nominal growth last year can be attributed to the sharp rise in oil prices during first half of the year, strong domestic demand, better investment climate and improved exports

Increase in total oil activities

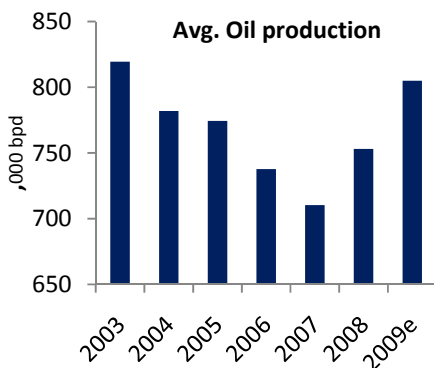
Total oil activities are expected to have increased by 45% while total non oil activities to have increased by 35%. Higher oil prices have helped boosting the Sultanate's upstream oil activities as well. Oil production for the first 9 months of the year increased by 6.1% to 750,000 bpd as against 707,100 bpd during the corresponding period in 2007.

The surge in oil prices also sharply boosted the country's external account position, with the current account recording a surplus of around RO 1 billion in 2008 and the trade surplus peaking at RO 5.3 billion.

Record budget surplus

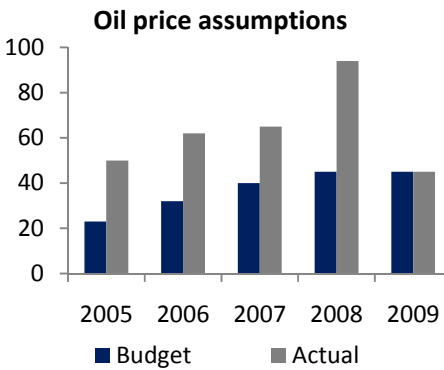
A record budget surplus of RO 1,979 million was recorded during January–November 2008 with revenues of RO 7,746 million versus expenditure of RO 5,767 million. This is well in excess of the RO 400 million deficits projected in the 2008 budget because oil revenues were far greater than budgeted.

Budget 2009 details



Oil production and price assumptions: The government expects total oil production to reach an average of 805,000 barrels per day, which is 7.3% higher than current production of 753,000 barrels a day. Average daily oil production has been on a declining path during the period from 2003 to 2007. But during the first 9 months of 2008, oil production increased by 6 percent over 2007 average. Continuing with this momentum, we feel that achieving the targeted production for 2009 would not be overly optimistic.

Oil revenues are estimated on the assumption of an average price of \$45 per barrel. Based on these assumptions, net oil revenues are



estimated to be RO 3,522 million, accounting for a contribution of 67 per cent of the total revenues. This revenue is 2.5% less than that was expected in the budget for 2008. Revenues from gas are estimated at RO 620 million, unchanged from 2008 estimates, and accounts for 12 per cent of the total revenues.

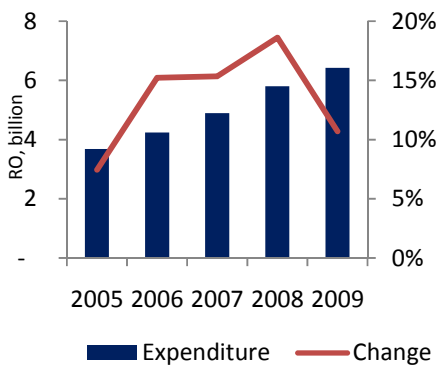
Current and capital revenues are estimated to reach RO 1,422 million, showing an increase of 22 per cent over the 2008 budget

Total government revenues of RO 5,614 million are expected to increase by 4% as compared with the revenue estimates of 2008. Oil and gas revenues estimated for 2009 represent 75 per cent of the total while current and capital revenues constitute 25 per cent.

Diversification measures

When the oil revenue prediction is highly uncertain during the modern times, government is expecting more revenue from non oil sectors. Revenue from gas is estimated to be unchanged while the non oil revenue is expected to grow by 16.9% to RO 2,092 million. Non oil revenues contribution in the budget is poised to increase by 412 percentage points to 37.26% of total revenue.

Expenditure



Total expenditure for 2009 is budgeted at RO 6,424million. This is up 11 percent on the amount budgeted for 2008. It represents a 17 percent decline on actual spending this year. Total spending projected indicates an increase of RO 624 million or 11 per cent during 2009 in total expenditure compared to 2008. We estimate that capital spending is budgeted to rise by RO 600 million to RO 2,600 million, up by 39% on the level budgeted for 2008.

The current expenditures of the government civil ministries and units stand at RO 2,170 million, showing an increase of 13 per cent over estimates of the 2008 financial year.

The excess of planned aggregate expenditure of RO 6,424 million over budgeted revenue receipts of RO 5,614 million is estimated to leave a budget deficit of RO 810 million in 2009 which is 14.4% of revenues and 4.1 percent of 2008e GDP.



Financing deficits

We don't think that financing this budget deficit would be a problem as it can be done by withdrawal from State General Reserve Fund or by drawing down the stock of foreign assets built up in recent years. At the end of November net foreign assets at CBO stood at RO 4,330 million. This stock of assets the government can call on gives Oman an advantage of easing the impact of extreme financing pressures while many of the advanced economies are facing problems.

Inflation

The government expects the prices of commodities and basic materials to continue at softened levels during 2009 in view of the anticipated recession of the global economy. Therefore, inflation rate in the Sultanate is expected to come down below 10 per cent in 2009.

Strong corporate tax numbers

The economy continues to be on a strong footing as apparent from corporate tax collections, which grew by 32 percent for nine months indicating optimism in corporate earnings. The corporate income tax rose to RO 225.8 million as against RO 187.1 million for the whole of 2007. For the year 2009 government expects revenue of RO 225 million from corporate taxes, which is 35 percent above that was budgeted for 2008. This is a clear indication that the government is not anticipating a downturn in corporate profitability.

We expect budget surplus for 2009

The budget addresses all segments of the economy like oil and gas, infrastructure development and social welfare, and stresses on economic diversification. We believe that the oil prices would rise again during the second half of the year on account of escalating tensions in the Middle East and OPEC supply cut and would average around \$60 for the year 2009. If this turns out to be a reality, we estimate the fiscal balance to show a surplus towards the end of 2009.

Overspending to be cut down

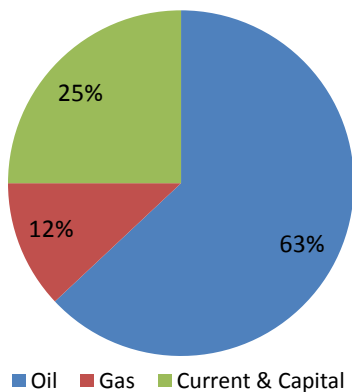
Actual spending by the government tends to be almost 15 percent higher than the budgeted level. Given the fact that the oil prices are trading at levels very close to the assumed average price, we expect overspending to come down during the year. Supporting this fact is the hinting by the government that if oil prices continue to remain lower than expected, it might consider revising the budget and cut down a number of projects.



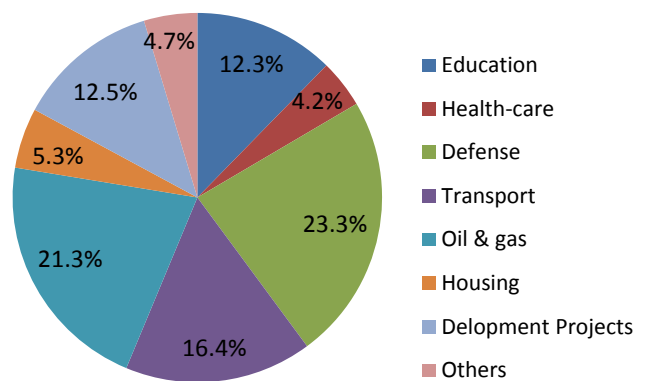
Positive on the economy

We continue to be positive about Oman’s economy in the long term as the government moves ahead with its investment expenditures even at lower oil prices. We believe that despite relatively lower levels of oil production, ongoing investments in infrastructure related projects are sustainable and this would spur the economy over the long term. This is supported by the government’s willingness to move ahead with its spending plan unless oil averages lower than \$40 per bbl.

Where each rial comes from



Where each rial goes to



Sector allocations in 2009 budget

New projects

RO 665 million for new development projects

A total of RO 665 million has been allocated for new development projects to be implemented during 2009.

RO 140 million has been earmarked for consultancy studies, designing and supervision with regard to development and renovation of Muscat international and Salalah airports. Another RO 46 million has been allocated for consultancy studies for designing and supervision for constructing six regional airports at Sohar, Al Duqm, Ras Al Had, Adam, Haima and Shaleem.

Development of ongoing projects

10% Increase in allocation for current developmental projects

Allocations for the development budget stand at RO 800 million, showing an increase of 10 per cent over the 2008 budget. These allocations are set to cover the ongoing as well as new projects listed in the Seventh Five-Year Plan (2006–2010) under the different



sectors. This sends a strong signal that the government is determined in its plan of going forward with developmental projects. We see this as a major positive boost for contracting companies operating in the Sultanate.

Defense

Allocations for defense and security have been raised to RO 1,545 million as against RO 1360 allocated in the budget for 2008.

Civil Ministries and Units

The current expenditures allocated for civil ministries and units were estimated at about RO 2,149 million, an increase of RO 245 million, or 13 per cent over the estimates of 2008 budget. The current expenditures represent 34 per cent of the total general expenditures. These appropriations include coverage of the basic government services, the operational expenses of the government ministries and units, expansion of the educational and health services, expenses of operating the new projects and the cost of promoting the employees of the civil ministries who had been entitled to such promotion by the years 2003 and 2004.

Education and health care

Educational and health sectors had been given top most priority in the latest budget. The allocation to these sectors amounted to 49 per cent of the total current expenditures. Of this, the educational sector accounts for 36 per cent at RO 791 million. Similarly, the health sector accounts for 12 per cent or RO 271 million of the total civil ministries' expenditure, showing an increase by RO 43 million (19 per cent) over the 2008 allocations.

Participation and Subsidy

Estimates of the budget allocated for participations and subsidy amount to about RO 485 million, with an increase by RO 100 million, 26 per cent over the approved estimates for the year 2008.

RO 355 million has been allocated to finance the projects executed by Oman Waste Water Company, Salalah Sanitary Drainage Services Company, Oman Oil Company, Oman Tourism Development Company and Oman Dry Dock Company.

**Highest allocation for education
and health care**



ADDITIONAL PROJECTS

Transport & Tourism

NAME OF THE PROJECT	RO million
Hasik-Al Shuaymiya road	70
Al Amerat-Qurayat road	66
Salalah-Thumrait road	48
Traffic renovation in Muscat Governorate	50
Nizwa-Thumrait road Pahse-3	51
Bausher-Al Amerat road	25
Khasab-Al Khalydia road —first phase	8
Internal roads	278
Wadi Adai-Al Amerat Road	268
Other roads	189
TOTAL FOR ROADS	1,053

Port Development

RO 697 million has been allocated in 2009 for the development of Al Duqm port. A total of RO 922 million has been earmarked in 2009 for development of various ports in the Sultanate.

Oil & gas

Estimates for the expenses of the production of oil and gas amount to Ro 1,370 million, which represent 21 per cent of the total general expenditures, an increase by 1 per cent over the year 2008.

Development of existing Natural Gas projects

An amount of RO 262 million has been earmarked for the gas sector to implement projects for supply that includes purchase of compressors, construction of gas pumping stations, laying networks for gas distribution and replacing gas lines.

Housing

RO 339 million has been set aside for the housing sector projects that include construction of 2,200 housing units for owners of affected properties along the coastal road at Al Batinah as first phase, building of 718 housing units at Qurayat for those affected



by the climatic conditions and building of 184 houses for social security and limited income families totally affected by the climatic conditions in a number of wilayats.

Social Security

Allocations for town planning and municipal services sector projects include proposed compensations as first phase for owners of properties affected by the Al Batinah coastal road (RO 200 million), removal of residues, pumping water and opening the main and internal roads affected by the exceptional climatic conditions in Muscat (RO 15 million), repair of parks and afforestation in the aftermath of the climatic conditions in Muscat (RO 10 million) and several similar projects.

Sector	Our view	Remarks
Banking	Neutral	Higher cost of funds to put pressure on margins
Leasing	Neutral	New private sector investment in equipments to slowdown
Industry	Positive	Project spending to support industrial activities
Cement	Positive	Infrastructure projects to boost demand for cement
Oil marketing	Positive	Throughput volumes for commercial and aviation segment to increase
Port services	Positive	Capacity driven expansions to smoothen vessel traffic and cargo movement
Engg & Contracting	Positive	Increased project activity to help in acquiring better orders
Investment Holding	Negative	Moves in tandem with general market performance; given the market conditions, investor sentiments seems to be shaky



Research team	Tel	E mail
Joice Mathew	+968 2476 3311	joice@usoman.com
Ghadeer Hassan	+968 2476 3320	ghadeer@usoman.com
Partha Sarathi Swain	+968 2476 3318	partha@usoman.com
Said Hassan Al Lawati	+968 2476 3318	said@usoman.com
United Securities LLC P.O Box 2566 PC 112 Ruwi, Sultanate of Oman	+968 2476 3300	info@usoman.com

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