

Oman

Economic & Strategic Outlook

Capitalizing on diversification initiatives August 2007

Global Investment House KSCC

Economic Research

Souk Al-Safat Bldg., 2nd Floor

P.O. Box 28807 Safat

13149 Kuwait

Tel: (965) 240 0551

Fax: (965) 240 0661

Email: research@global.com.kw

<http://www.globalinv.net>

Global Investment House stock market indices can be accessed
from the Bloomberg page GLOH
and from Reuters Page GLOB

Omar M. El-Quqa, CFA

Executive Vice President

omar@global.com.kw

Phone No: (965) 2400551 Ext.104

Faisal Hasan, CFA

Head of Research

fhasan@global.com.kw

Phone No: (965) 2400551 Ext.304

Abeer Gouda

Financial Analyst

agouda@global.com.kw

Phone No: (965) 2400551 Ext.501

Abdelkarim Joubaili

Assistant Financial Analyst

aaljoubaili@global.com.kw

Phone No: (965) 2400551 Ext.741

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Summary

Oman's economy continued its impressive growth in 2006. This was mainly driven by fiscal and balance of payments surpluses, monetary and financial stability, robust growth in employment, as well as accelerated momentum on diversification initiatives. The Omani government embarked on a program that focuses on diversifying the economic base away from oil. The nominal GDP grew at a rate of 15.6% in 2006, albeit slower than the rate of growth of 24.6% exhibited in 2005, nevertheless, the Omani GDP growth rate in 2006 is still considered relatively high. Diversification played an important role in the growth of the economy, as non-petroleum activities grew at a rate of 34.9% from a growth rate of 18.4% in 2005, while petroleum activities declined to reach a growth rate of 14.8% from a high of 43.9% in 2005. To that end, non-oil exports climbed 46.3% in 2006, while oil exports retracted to a mere 8.1% from 45.2% in 2005. Moreover, the growth rate of natural gas exports slumped to 28.9% from its growth level of 40.1% in 2005, although at a lower rate than oil exports.

The balance of payments position remained strong in 2006 with a current account surplus of RO1,683mn, which increased by a modest 4.8% given the previous year's growth rate of 421.4%, and represented 12.3% of GDP. The growth in the current account surplus was a result of an increase in the balance of goods and services which registered a growth rate of 6.1% in 2006, coupled with the growth in the income balance which grew at a rate of 15.2%. Capital account, on the other hand, declined by 107.4% as a result of an increase in paid grants. The financial account grew by 8.7% driven by an increase by foreign direct investments, high returns on the government's investment portfolio, and a surge in other investments.

The economy of Oman in 2006 was highly expansionary with total expenditures growing at a rate of 17.3% as opposed to the growth rate of 10.4% in the previous year, while government revenues increased in 2006 by 11.5% which equates to the same rate of growth in 2005. The Omani government increased its investment expenditure by 24.1% in 2006 driven mainly by oil and gas production expenditure, while revenue growth was mainly driven by gas revenues and capital revenues. The Omani budget, although still at a surplus in 2006, it dropped by 69.9% to reach RO91.1mn on a y-o-y basis, and its level of contribution to GDP in the same year declined to a modest 0.7%.

The monetary policy adopted by the Central Bank of Oman in 2006 was also on the expansionary side where the domestic liquidity increased by 24.9% to reach RO4,461.3mn from RO3,573.1mn in 2005. This increase in liquidity was driven primarily by an increase in the money supply aggregates (M1) which increased by 9%, and the quasi money which increased by 32.2%. Foreign assets with the central bank composed mainly of foreign exchange reserves increased by 15.1% to reach RO1,927.6mn in 2006 due to an increase in oil and gas exports, and to the surge in prices of oil and gas worldwide. These reserves represent a cover for the government borrowings which increased in 2006 by 42.7% to reach RO652.1mn from its level of RO457.0mn in 2005. The reserves are also used to maintain the peg of the Omani Rial to the US Dollar at its current rate of 0.385 RO/US\$. The expansionary fiscal and

monetary policies aided the increase in inflationary pressures where the general price index increased to 105 points in 2006 from 101.7 in 2005, driven by an increase in the price index of all sectors except the textiles, clothing and footwear which exhibited a decline in its price level. The domestic inflation of about 3.2% partly reflected the effects of high growth in the face of capacity constraints, in addition to the sustained influence of imported inflation as a result of the pegged system that the central bank has adopted to the domestic currency.

Trade in 2006 maintained its surplus balance, albeit at a lower growth rate compared to 2005 growth figures, to reach RO4,048.3mn, a growth of 8.3% over 2005 figures. Imports increased at a rate of 23.2% to reach RO4251.2mn in 2006, a much higher growth rate than exports which increased by 15.5% caused by an increase in the non-oil sector exports, mainly the “Products, Chemicals and Allied Industries”. Trade balance contributed a total of 29% to GDP compared to its contribution of 31.5% in 2005.

The oil sector which is the mainstay of Oman’s economy accounted for 65% of government revenues in 2006. Following the market trend in world oil prices, the average price of crude oil in Oman increased from US\$50.26 in 2005 to US\$61.69 in 2006. Oman’s total oil production declined by 5% in 2006 from 283 million barrel in 2005 to 269 million barrel in 2006. Total crude oil exports totaled 233.1mn bbl/day in 2006, a decline of 11% from the previous year. Although oil remains the single most important source of revenue, Oman has made natural gas the cornerstone of its diversification and economic growth strategy through export of LNG and implementation of several gas based projects. The LNG sector is the main economic growth driver with an actual growth rate of 60.7%. Oman’s natural gas production in 2006 reached 1,052 bn cu ft, an increase of 14% from the previous year.

The services sector recorded a marked growth of 11.7% in 2006 as compared to 8.5% in 2005. However, its share in GDP declined by 1.3%, from 39% in 2005 to 37.7% in 2006. Expansion of communication and transport infrastructure led the growth in the services sector in 2006. These activities grew by 25.4% in 2006 as compared to 3.4% in 2005. Next to communication and transport came the financial intermediation which witnessed an increase of 20.5% in 2006 as compared to 12.5% in 2005. “Wholesale and retail”, and “Hotels and restaurants” also recorded notable growth with the former growing by 19.2% in 2005 against 8.3% in 2006, and the latter by 18.3% as compared to 19.1% during the two corresponding years.

The banking sector in the Sultanate performed tremendously well in 2006. The growing strength and soundness of the banking system was reflected in their stronger capital levels, further improvement in asset quality in the face of large expansion in banking assets, and remarkable growth in profits. Total assets of the banks in Oman increased by 28.8% to reach RO7,252mn in 2006 from RO5,629.9mn in the previous year as a result of an increase in total credits to private, public, and government sectors, but mainly it was due to the increase in cash and deposits with the Central Bank of Oman which increased by 77.4% to reach an aggregate of RO248.9mn. Banks’ liabilities, on the other hand, grew at a rate of 28.8% driven by an increase in total deposits to reach RO4,684.9mn,

an increase of 24.5% from the 2005 figure of RO3,761.5mn. Total deposits increase was a result of an increase in deposits by the government, public enterprises, and the private sector.

During the first four years of the 5-year plan period (2001-2005), average annual manufacturing growth turned out to be 18.9%, which is much higher than the 11.7% growth target set in the plan. The remarkable growth in non-petroleum sector was driven by manufacturing which grew by 44.6% in 2006 against 22.6% in 2005. With regard to share of non-petroleum industrial activities, manufacturing accounted for 68.1% in 2005, as compared to 73.1% in 2006, and in terms of its contribution to total GDP, it stood at 8.3% and 10.4% during the two respective years. The most notable growth in 2006 was in the manufacturing of basic chemicals which posted a remarkable growth of 74% in 2006, driven by production of the fertilizer plant that had become operational recently. The construction sector registered a high growth of 19.7% in 2006 as compared to 7.1% in 2005, even though its share in GDP remained unchanged at 2.5% in both years.

Despite the downward trend in the region, the Muscat Securities Market performed remarkably in 2006 as the benchmark MSM Index ended the year at 5,581.6 points, registering yearly gain of 14.5% in 2006. The market capitalization of MSM at the end of 2006 reached RO6,220mn. Trading volume witnessed a y-o-y gain of a huge 115.9% to reach 1,113mn shares, while trading values declined by 19.8% during 2006 to reach RO1,128mn. The growth was evident in all the sectors, with the Industrial sector y-o-y gains of 34.4%, to close 5,072.8 points in 2006. The Services sector index increased by 17.6%, to end the year 2006 at 2,323.9 points. Banking and investment companies index jumped by a very modest 4.8% to finish at 7,179.3 points in the said year. Market capitalization of MSM also improved by 5.8% in 2006 to reach RO6,220.8mn. This positive performance in the securities market was due to factors such as improvements in the macroeconomic scenario on the back of high average oil prices leading to improved liquidity situation, good corporate performance during the past couple of years and increased confidence in the economy and the market. Also, increased government expenditure on large infrastructure and industrial projects to drive the non-oil GDP growth has led to increased investment opportunities and also buoyed the investor confidence and interest to participate in the country's growth.

Main Economic Indicators

		2002	2003	2004	2005	2006
Economic Performance						
Nominal GDP	(ROmn)	7,815	8,376	9,516	11,856	13,710
Nominal GDP	(US\$m)	20,299	21,756	24,717	30,794	35,610
Nominal GDP Growth	(%)	1.9%	7.2%	13.6%	24.6%	15.6%
Real GDP (1988 Constant Prices)	(ROmn)	6,230	6,355	6,696	7,081	N/A
Real GDP (1988 Constant Prices)	(US\$m)	16,181	16,505	17,392	18,393	N/A
Real GDP Growth	(%)	2.6%	2.0%	5.4%	5.8%	N/A
Per Capita GDP	(US\$)	7,998	9,293	10,230	12,273	13,696
Oil Activities / GDP	(%)	41.8%	40.9%	42.2%	48.8%	48.4%
Industries and Mining / GDP	(%)	11.2%	12.4%	12.8%	12.2%	14.2%
Agriculture / GDP	(%)	2.0%	2.0%	1.8%	1.4%	1.3%
Services / GDP	(%)	47.1%	46.7%	44.8%	39.0%	37.7%
Population at mid year	('000)	2,538	2,341	2,416	2,509	2,600
Consumer Price Index	(1997=100)	96.5	99.1	99.8	101.7	105.0
Exchange Rate	(RO/US\$)	0.385	0.385	0.385	0.385	0.385
Oil Sector						
Crude Oil Production	(mn bpd)	328	299	285	283	269
Oil Exports	(mn bpd)	306	279	264	262	233
Oil Export Price	(US\$/bbl)	24.3	27.8	34.4	50.3	61.7
Government Finance						
Revenue	(US\$m)	7,816.9	8,585.2	10,494.0	11,715.6	13,057.7
Expenditure	(US\$m)	7,635.1	8,282.9	9,895.8	10,928.8	12,821.0
Surplus / Deficit	(US\$m)	181.8	302.3	598.2	786.8	236.6
Money Supply						
M1	(US\$m)	769.2	804.1	907.4	1,128.1	1,229.6
% change year-on-year	(%)	10.7%	4.5%	12.8%	6.3%	1.5%
M2	(US\$m)	2,763.0	2,831.3	2,944.3	3,573.1	4,461.3
% change year-on-year	(%)	5.2%	2.5%	4.0%	8.4%	2.2%
Foreign Trade						
Exports	(US\$m)	11,158.4	11,654.5	13,363.6	18,667.5	21,558.4
Imports	(US\$m)	(5,628.6)	(6,077.9)	(7,862.3)	(8,018.2)	(9,883.1)
Current Account Balance	(US\$m)	1,696.1	2,039.7	4,035.6	5,307.8	1,596.4
Current Account Balance / GDP	(%)	8.36%	9.38%	16.33%	17.24%	4.48%
Capital Markets						
General Share Price Index	(Points)	191.9	272.7	3,375.1*	4,875.1*	5,581.6*
Market Capitalisation	(ROmn)	1,984.0	2,790.0	3,587.0	5,878.0	6,220.0
Number of Shares Traded	(mn)	191.8	315.2	345.4	515.4	1,113.0
Value of Trading	(ROmn)	231.0	593.0	759.0	1,407.0	1,128.0

Source: Central Bank of Oman Annual Report 2006

* The base to calculate the MSM indices were changed from 100 points to 1000 points with effect from June 1, 2004

Economic Newsflows

- Standard & Poor’s Ratings Services raised its long-term foreign currency sovereign credit rating on the Sultanate of Oman to ‘A-’ from ‘BBB+’. At the same time, the ‘A-’ long-term local currency and ‘A-2’ short-term foreign and local currency sovereign credit ratings were affirmed. The outlook on both the foreign and local currency ratings is stable. (Source: Oman Daily Observer, Sep 06)
- An ambitious free zone project in Oman’s southern Dhofar region bordering Yemen has evoked considerable interest among local and foreign investors. This is due to the new amendments to visa rules and legislation governing foreign ownership of real estate, A new visa system was in place and a number of changes had been made in the law governing land ownership by foreigners, pointing out that non-Omanis could now own real estate in certain tourist projects. The Capital Investment Law now permitted up to 70% ownership by foreigners in projects and the tax law had been revised to promote investor confidence. The project covers an area of 2,000 hectares. Phase 1, currently being developed, encompasses 200 hectares. The entire cost of the infrastructure development is borne by the government of Oman. (Source: Khaleej Times, Sep 2006)
- Oman and South Africa expect bilateral trade to significantly rise following an agreement they signed in Pretoria on economic and commercial cooperation. The two countries held a round of talks focusing on joint ventures and cooperation in tourism, fisheries, shipping, ports and trade. Their discussions also covered possibilities of joint projects in infrastructure development. The two ministers discussed a proposal to form a joint trade committee, set up investment centres to explore possibilities of participating in gas-based projects and how South Africa could benefit from the Oman-US free trade agreement. (Source: Khaleej Times, Nov06)
- The Sultanate of Oman’s Ministry of Finance (MoF) reached an agreement with the Dubai Mercantile Exchange Limited (DME) to acquire a 30 % equity stake in the exchange. Oman has acquired the stake in DME through the government backed Oman Investment Fund. Oman will join the exchange as a strategic partner and key stakeholder adding further support to the existing partnership between the New York Mercantile Exchange and Tatweer, a member of Dubai Holding. (Source: Khaleej Times, Nov06)
- Mubadala Development Company, the wholly owned investment and development vehicle of the government of the Emirate of Abu Dhabi confirmed that the Government of Sultanate of Oman has selected Mubadala Development, consortium leader Suez Energy International and National Trading Company of Oman to build a new power and desalination plant to be installed at Barka, as well as acquire Al-Rusail Power Company, an existing power plant. The project, which is part of a comprehensive privatization program of the country’s power sector, consists of the development, construction and operation of Barka Phase II, a 678 MW and 26.4 MIGD (million imperial gallons per day) independent power and water project (‘IWPP’) to be located

in the Sultanate of Oman, as well as for the acquisition of a 100% participation interest in Al-Rusail Power Company, a 665 MW power plant currently owned by the Government of Oman (Source: Oman Daily Observer, Dec 06)

- The UK-based energy giant British Petroleum (BP) has won a concession to develop two large natural gas fields in Central Oman. The development of Khazan and Makrem — spread in an area of 2,500 kms close to the existing gas fields of Saih Nihayda — is part of a government strategy to enhance gas production with the help of multinational firms. The combined gas initially in place (GIIP) of these two fields could run over 10tn cu ft of tight gas located at depths of up to 4,650 metres. The company's initial output is expected around 20mn cu ft (mcf) per day, which will go up to 50 mcf within few weeks. It will also produce 2,000 cubic feet of condensates per day from the field. (Source: Oman Daily Observer, Dec06)
- All power generation and water desalination companies in Oman are set to be privatized by 2009. An agreement for a project that includes the first privatization of Omans electricity and related water sector restructuring process under a Share Purchase Agreement, signaled the start of the privatization process in earnest. The Omani government has early 2008 timeframe for privatizing all transmission operations and the distribution and supply companies within the next three years. The now privatised AI-Rusail Power Company is a natural gas fired 668MW open cycle plant consisting of eight Fram 9E units. It is located approximately 40km west of Muscat and is connected to the main interconnected transmission system at 132 kV. It has now been just over a year since the Ministry of National Economy transferred the electricity and water related assets, responsibilities and staff of the Ministry of Housing Electricity and Water to ten successor companies. (Source: Gulfnews.com, Dec06)
- BP signed a deal giving it access to a pair of Middle East fields that could yield 20-30 trillion cubic feet of natural gas. The petrochemical giant is working with the government of Oman to access the fields in the country's central region. The deal will give the company access to an area of more than 2,800sqkm, including the Khazzan and Makarem gas fields which were discovered in 1993. They have remained undeveloped because of access problems where the rock layers are very dense and the gas does not flow easily. BP is confident its technology and expertise will allow it to unlock the reserves. (Source: Gulf Daily News, Jan07)
- The government has awarded the country's first independent water project (IWP), that will come up in the eastern Sharqiya district of Sur, to the Al Sharqiyah Desalination Company (ASDC), a consortium comprising Compagnie Generales (Veolia Water) of France and National Power and Water Company. The concession deal for the RO65 million project was signed, and the work on the 17.6 million gallons per day (MGD) plant will be completed by January 2009. Macki said the company would own and operate the existing desalination plant in Sur, in addition to the new facility. The project will be entirely financed by the private sector, and according to the terms of the agreement, ASDC will offer 35 per cent of its shares for public subscription through the Muscat Securities Market within four years of the company's formation.

The government will buy water from the company for a period of 22 years under a separate procurement pact concluded between the two sides. Also on the occasion, a land utilization right agreement was signed by the company with the ministry of housing, electricity and water. Two other power supply deals were also signed between ASDC and Mazoon Electricity Company and Rural Area Electricity Company. (Source: Khaleej Times. Jan07)

- Oman is not going to revalue its currency rial against the US dollar, despite certain Gulf central banks pointing to the prospects of a region-wide currency revaluation. “As long as the Omani Rial is concerned, there is no plan to change the pegging (policy)... We will continue our pegging policy with the US dollar with the same value as it is now,” according to Hamoud Sangour al Zadjali, Executive President of the Central Bank of Oman. (Source: Oman Daily Observer, Feb 07)
- The first phase of an RO23 million expansion of Muscat City Centre (MCC), a part of the UAE-based Majid Al Futtaim (MAF) Group has been completed and was opened to the public. The Phase 1 extension covered two levels over 15,773 square metres of gross leasable area (GLA), taking the total to 48,809 sqm., and a multi-level parking that can accommodate 750 cars. Work began on the project in May last year. Work on the second phase, that will see GLA expanding to 60,484 sqm, will be completed in September, 2007 when the number of outlets will reach 144 and the multi-storey car park accommodate 2,250 cars on its three levels. (Source: Khaleej Times, Feb07)
- Sohar Refinery built at a cost exceeding US\$750mn, commenced operating at its full capacity of up to 116,000 barrels per day. All the refinery’s output would be exported for now, saying local demand would be covered by Oman Oil Company. According to sources, the two refineries, Oman Oil and Sohar, will be merged to work under one management May onwards after studies on this were completed. (Source: Kuwait News Agency, Mar 07)
- The Central Bank of Oman decided to double the minimum capital requirement of new commercial banks to 100 million from 50 million Omani riyals. The CBOs board also decided to enhance the minimum capital requirement of new branches of foreign banks to 20 million from 10 million riyals. However, according to Hamoud Bin Sangour Al Zadjali, Executive President of the CBO, the new capital requirement is not applicable to existing banks. The board also adopted regulations that control foreign banks opening branches in the country. The new stipulation is seen as a move to place barriers on new players planning to enter the banking sector in the country, which already has five banks. (Source: Gulfnews.com, Mar07)
- The ministry has initiated a number of housing assistance programs, helping the families with limited income and backward families. The amount of assistance to those families was increased to RO15,000 from RO10,000 this year. The other scheme is interest-free soft loan to the limited-income families whose income is below RO130 per month at the time of their submission of applications. In the water sector, the ministry is striving to implement a number of mega projects, which

include Sohar Water Network, which is being undertaken at a cost of RO65.7mn. The other water network projects underway are in the wilayats of Ibra, Al Qabil and Bidiya in the Sharqiah region, at a cost of RO20mn; the water supply networks in the interior region which involves the construction of five key transmission lines linking various wilayats; the water networks project to supply water to some alienated areas in Bousher and Ma'abela. (Source: Times of Oman, July2007)

- Yenkit Tourism Development LLC has announced plans to develop a \$2bn luxury Integrated Tourist Resort Complex at Yenkit in Muscat Governorate. The project will be an 'Integrated Tourism Complex' as designated by the Ministry of Tourism, and will consist of four 5-star hotels with approximately 900 rooms, an 18-hole international golf course; a wide range of tourist facilities, including sports and leisure facilities, a resort village, nature reserve and visitors centre, beach club, heritage and craft centre and major open spaces; 1,400 residential villas and up to 1,900 residential apartments and townhouses. The Yenkit project will be a flagship development for potential investors, tourists, Omanis and international visitors. The project responds to a major initiative of the Omani government to create a world-class tourism corridor, stretching down the scenic coast between Muscat and Sur to the south. The location has been identified as an international destination within which significant tourism facilities and attractions will create a world-class development. (Source: Oman Daily Observer, July 2007)

Macroeconomic Profile

Economic growth has been consistent for the past three years in the Sultanate. Policymakers in Oman have initiated reforms that aim for economic diversification and structural reforms. The robust performance of the economy is partly a reflection of the government's sound macroeconomic policy towards creating an increasingly market-friendly economic environment. Examples of this conducive approach include the passing of the new Tax Law in September 2003 and a new Privatization Law in July 2004. The government also opened key economic sectors such as Telecommunications, Power, Utilities and Tourism for private sector participation. The strength of the Omani economy, measured by a brisk expansion of GDP, rising per capita income, widening budget surplus, low inflation, rising public and private sector investment and an active capital market signifies that Oman is now poised for a more aggressive pace of structural reforms.

The remarkable growth of the Omani GDP in 2006 has been a product of high international oil prices in general and specifically the increase in the average prices of Omani crude which increased by 22.7% to reach an average price of 61.69US\$/bbl. This has provided liquidity which improved the Sultanate fiscal position. To take advantage of this opportunity, the Omani government has introduced a wide range of structural reforms. Such efforts over the past few years have strengthened competition in many sectors of the economy and has fostered above average growth trends in the vital non-oil sector. In addition, an economic diversification program aimed at the development of its gas resources is well under way with massive investments in key projects. Citing the government's healthy fiscal position and the prospects for gas-led industrial growth, Standard & Poor's (S&P), in 2007, has given Oman a stable rating of "A" on sovereign risk, currency risk, banking sector risk, and economic structure risk.

Oman's Gross Domestic Product (GDP) registered a double digit growth of 15.6% in 2006, as opposed to a much higher 24.6% in 2005. This has reflected buoyant world oil prices and the government's firm commitment to diversify the economy away from oil. Hence progress has been made mainly with large gas-based industrial projects, which has included new liquefied natural gas facilities. Growth is expected to accelerate in 2007 as the liquefied natural gas export capacity increases and high oil prices boost revenues. Domestic demand should remain fairly robust due to firm growth in government spending, which should, in turn, encourage private consumption.

Net government revenues for 2006 were at RO5.02bn, an y-o-y increase of 11.5% over the previous year. Net oil revenues for 2006 were at RO3.2bn and continued to be the major source of government revenues. On the expenditure side, there was increased spending on investment and infrastructure projects in recognition of the government's role as the major employer and the initiator of capital projects in the country. Total public expenditure during 2006 amounted to RO4.9bn as compared to RO4.2bn during 2005. Current expenditure constituted 71.5% of the total expenditure and investment expenditure constituted 24.3% of the total expenditure. The budget surplus declined by 70% in 2006 to reach RO91.1mn, mainly due to an increase in government subsidies to the private sector.

The emphasis on foreign direct investment has subtly come into the spotlight in Oman due to the realization of its important role in strengthening the domestic economy. Tentative steps towards privatization have been taken as part of the structural reform program to support

the country's development strategy and to make the Omani economy more attractive to investors. These include lifting impediments to foreign direct investment in most sectors, streamlining business regulations and adopting a one-stop investment center policy. The main thrust of privatization efforts is evident in telecommunications, power and transport sectors. The privatization objective received a significant boost with the issuance of the Royal Decree No. (77/2005) ratifying the privatization policies and regulations of the country. There has been a number of mega projects at different stages of implementation that have already been planned. These projects involve large investments from the private sector and they range from fertilizer, power, petrochemical, aluminum, iron, steel, and tourism among other sectors. Oman's recent economic openness is evident by its commitments under the WTO through the bilateral relations it is pursuing with a number of countries like the USA. This will pave the way for Oman to further improve its economic efficiency and establish itself as an investment hub for local, regional and international investors.

The monetary agency in Oman had to juggle the sustained surplus liquidity and ensuring a better alignment of the domestic interest rate structure with the USA interest rates due to the fixed peg of the RO to the US\$. Effective liquidity management in the face of what has preceded has been a challenge for the CBO. The inter-bank rate, while should have been constrained by the limits set forth by the CBO CD rates at which surplus liquidity is absorbed, and the ceiling rates on repos with the CBO at which liquidity is injected, has remained generally lower than CBO CD rates. This has constrained the ability of the CBO to transmit its policy rates into the market. The weighted average RO deposit rates increased by 0.6% to reach 1.85% in 2006. CBO'S CD rates increased by as high as 3% in to reach 3.6% in 2006 reflecting an alignment with the Fed Funds Rates. Expansion in money supply remained strong in 2006, consistent with the robust growth in GDP. Broad money (M2) expanded by about 24.9% in 2006, and narrow money M(1) expanded by 9%. Quasi money achieved a y-o-y growth 32.2% on the back of an increase in the foreign currency deposits which increased by 58.6% in 2006. The share of foreign currency deposits in total deposits is an indicator to the extent of the dollarisation in the banking system. It more than doubled from 13.4% in 2002 to 28.8% in 2006, highlighting a better alignment of RO deposit interest rates with the USD deposit rates in order to be able to contain and reverse the dollarisation trend.

Muscat Securities Market achieved good returns in the year 2006, with the MSM general index growing by 14.4%. Most GCC securities markets witnessed a sharp mid-year correction in 2006 following a rise of share prices in the previous two years. Despite the downward trend in the region, the MSM ended the year with notable recovery to higher levels. This was due to the significant performance of Oman's economy, high oil prices, enhanced disclosure and transparency norms, improvement in the profitability of listed companies and increased investor confidence in the market.

Recent data indicates that Oman market continued the rise in 2007 where MSM 30 ended the month of July 07 at 6,426.7 points. With this rise, the market has registered YTD gain of 845.1 points or 15.1% at the end of Jul-07. The market capitalization of the exchange reached to US\$15.1bn, recording a monthly gain of 2.8% in Jul-07.

The Omani economy is expected to continue its growth in 2007, but at a slower pace. The budget for 2007 is a growth oriented budget that is expected to boost investments and create more jobs in line with the growth sustainability target of the Seventh Five Year Plan (2006-2010). The 2007 Omani budget stressed on enhancing the economic and financial fundamentals of the country to stay abreast of the global economic advancements. It targets infrastructure projects, increase in gas production, and other diversification steps that lead to growth. Oil activities are expected to witness negative growth due to an expected decline in oil production. Government revenue is estimated to be about RO4,490mn in 2007 as compared to RO3,587mn for fiscal 2006. The overall public expenditure, on the other hand, for the fiscal 2007 is estimated to be about RO4,890mn relative to RO4,237mn for fiscal 2006.

The outlook for Omani economy looks bright in the short-to-medium term underpinned by healthy international oil prices, higher Liquefied Natural Gas (LNG) exports, investments in new petrochemicals, power, telecom and tourism infrastructure projects and ongoing efforts to encourage foreign direct investment. A number of projects are in the pipeline involving large investments, which could change the structure of Oman's economy once these projects come fully into operation. The vast potential of tourism as a major source of diversification is also being tapped in addition to the existing infrastructure. Oman has made the most judicious use of oil revenue for expanding the non-oil sector, which is expected to make the growth and development process in Oman more sustainable in the long run.

Gross Domestic Product

For the third consecutive year, the Omani economy continued its upward momentum in 2006 by registering an increase of 15.6% in its nominal GDP to reach RO13.7bn for the year 2006. This positive growth in GDP can be attributed to a number of factors, the most important of which was the substantial improvement in average oil prices which increased by 22.7% to over US\$61 during 2006. The petroleum sector activities in 2006 maintained its 2005 level of contribution to GDP which stood at 48.4%. The natural gas sector, on the other hand registered a growth of 16% in 2006 compared to its growth rate of 70% in the previous year. Oil and natural gas sectors increased by 14.8% in 2006 as opposed to the increase of 44% in 2005.

Table 01: GDP by Economic Sector

<i>(At Current Market Prices) ROmn</i>	2003	2004	2005	2006
Petroleum and Non-petroleum Industrial Activities (1= 1.1 + 1.2)	4,458.9	5,237.5	7,227.8	8,584.9
Petroleum Activities (1.1)	3,424.1	4,018.9	5,784.6	6,638.7
Extraction of crude petroleum	3,211.7	3,771.0	5,362.8	6,149.3
Extraction of natural gas	212.4	247.9	421.8	489.4
Non-Petroleum Industrial Activities (1.2)	1,034.8	1,218.6	1,443.2	1,946.2
Mining and Quarrying	13.7	21.1	24.4	23.7
Manufacturing	719.9	802.2	983.1	1,421.7
Electricity and Water Supply	107.6	122.5	143.6	151.3
Construction	193.6	272.8	292.1	349.5
Agriculture and Fishing (2)	165.3	167.7	168.8	171.9
Services (3)	3,912.4	4,260.5	4,623.3	5,164.8
Wholesale and Retail Trade	994.9	1,145.9	1,240.9	1,478.9
Hotels and Restaurants	61.3	73.3	86.7	103.2
Transport, Storage & Communication	578.9	661.5	684.0	857.8
Financial Intermediation	336.9	333.3	374.8	451.6
Real Estate Services	446.6	338.0	343.1	349.7
Public Administration and Defence	817.5	848.2	907.8	858.9
Other Services (Education, Health, Community/ personal services, and private household)	676.3	860.3	986.0	1,064.7
Total Non-petroleum activities (4 = 1.2 + 2 + 3)	5,112.5	5,646.8	6,235.3	7,282.9
Financial Intermediation services indirectly measured (5)	(225.8)	(220.6)	(252.7)	(316.4)
GDP at producers prices (6 = 1.1 + 4 - 5)	8,310.8	9,445.1	11,767.2	13,605.2
Imports taxes (7)	65.0	71.0	88.5	104.5
GDP at market prices (8 = 6 + 7)	8,375.8	9,516.1	11,855.7	13,709.7

Source: Ministry of National Economy

The non-petroleum industrial activity, driven by strong growth in manufacturing sector, rose by 34.9% in 2006, as a result of the diversification efforts that has characterized the economy in 2006. Its percentage share of overall GDP composition has also increased to 14.2% in 2006 relative to its level of 12.2% in 2005, a marginal increase of 2%. Manufacturing activities were the main contributors to the growth in the non-petroleum activities in the Sultanate, where they grew by 44.6% in 2006 compared to their growth rate of 22.6% in 2005. Their percentage contribution to GDP was 10.4%, the highest amongst non-petroleum industrial activities. The contribution from manufacturing is expected to grow substantially after the completion of several ongoing projects in oil and gas sector. Construction in the Sultanate saw its share to GDP grow to 2.5% in 2006, driven by the continued expansion of physical infrastructure in 2006, together with major tourism, commercial, as well as residential real estate projects. Electricity and water supply also registered a growth of 5.4% and is expected to grow further going forward as the projects in power and desalination plants gets on stream.

It is worth mentioning that the year 2006 was the first year of the Sultanate's seventh Five Year Development Plan (2006-2010). This development plan adopts diversification as a pillar in driving the Omani economy forward. The growth in manufacturing stood at 44.6%, and exceeded that of the petroleum sector at 14.8%, which indicates that the economy is being diversified away from oil and gas.

Other non-petroleum activities in Oman include the agriculture and fisheries which grew by 1.8% in 2006 y-o-y to reach RO171.9mn, and contributed 1.3% of total GDP. The services sector is another non-petroleum sector which achieved an 11.7% y-o-y growth to reach RO5.1bn in 2006 and contributed 37.7% to GDP.

Table 02: Economic Activities as % of total GDP

	2003	2004	2005	2006
Petroleum Activities	40.88%	42.23%	48.79%	48.42%
Non-Petroleum Industrial Activities	12.35%	12.81%	12.17%	14.20%
Agriculture and Fishing	1.97%	1.76%	1.42%	1.25%
Services	46.71%	44.77%	39.00%	37.67%

Source: Ministry of National Economy

Total petroleum activities decreased its share in GDP from 48.8% in 2005 to 48.5% in 2006. The contribution from "Natural Gas" activities to GDP has been increasing at a CAGR of 32.1% during the period of 2003 to 2006, and contributed 3.6% to GDP in 2006.

The services sector recorded a marked growth of 11.7% in 2006 as compared to 8.5% in 2005. However its share of GDP declined by 1.3% from 39% in 2005 to 37.7% in 2006, nonetheless, GDP growth continued to boost the income per capita and subsequent increase in demand for services. Given that Oman operates in an open economy environment, a more competitive domestic services sector would gradually curtail the outflow of domestic income that would otherwise be spent on imported services.

Table 03: GDP by Type of Expenditure

ROmn	2001	2002	2003	2004	2005
Consumption Expenditures	5,078.9	5,230.8	5,512.3	6,221.0	6,466.4
Households	3,366.8	3,430.4	3,659.2	4,189.2	4,163.9
Government	1,712.1	1,800.4	1,853.1	2,031.8	2,302.5
Gross Fixed Capital Formation	969.5	977.2	1,306.6	1,958.2	2,147.2
Building Construction	361.4	383.5	450.7	675.2	711.7
Plant, Machinery, Vehicles	384.2	322.1	537.6	949.2	1,102.0
Intangible Fixed Capital	226.6	264.9	304.4	324.0	323.9
Change in Inventories	(2.7)	6.7	13.9	9.8	9.6
Net Exports of Goods & Services	1,622.0	1,607.1	1,557.1	1,336.9	3,242.0
GDP at Market Prices	7,670.4	7,815.1	8,376.0	9,516.1	11,855.6

Source: Ministry of National Economy

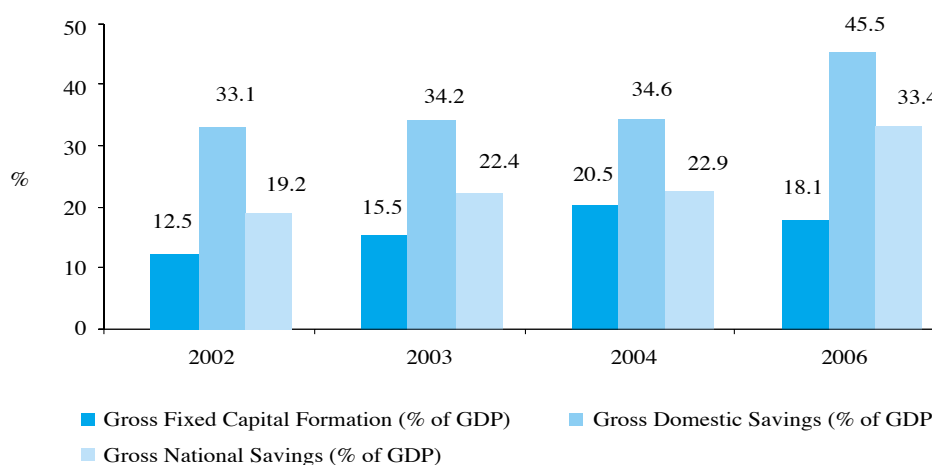
Analysis of the consumption pattern reveals that the total final consumption, which includes the household and government sectors, followed the increasing trend of nominal GDP. Gross capital formation, which include contributions from building & construction, plant & machinery and intangible fixed capital, was at RO2,147.2mn in 2006 or 18.1% of the GDP and grew by 9.7% in 2006. The growth in capital formation in 2006 was attributable to 16.1% expansion in “Plant, machinery and vehicles” reflecting increased investments in various oil and non-oil related projects in the country.

Table 04: Contribution to GDP

ROmn	2001	2002	2003	2004	2005
Consumption Expenditures	66.21%	66.93%	65.81%	65.37%	54.54%
Gross Fixed Capital Formation	12.64%	12.50%	15.60%	20.58%	18.11%
Net Exports of Goods and Services	21.15%	20.56%	18.59%	14.05%	27.35%

Source: Central Bank of Oman

The seventh 5-year development plan (2006-10) targets raising the investment rate in the country from 16% to about 24% so as to use domestic savings to increase capital formation in the country. In 2005, gross capital formation at current prices grew by only 9.7% as compared to 33.7% in 2003 and 49.9% in 2004. Capital formation contribution to GDP declined in 2005 by 2.5% in 2005 to reach 18.1% from its 2004 level of 20.58%, driven by modest absolute decline in “intangible fund assets”.

Figure 01: Capital Formation and Savings as Percentages of GDP

Source: Oman Central Bank

The two main sources of funding for domestic investments are domestic saving and foreign capital. Oman has been witnessing continuous improvement in its BOP performance with remarkable surpluses being recorded under current account. Hence, Oman, like many other oil exporting countries, is a net exporter of capital, and its investment rate lags behind its saving rate. Oman's gross domestic savings as a percentage of GDP was at 45.5% in 2005 and its gross national savings was at 33.4% signifying a leakage of 12.1% of GDP in the form of current transfers (i.e. remittances by expatriates and interest and dividends paid on external liabilities). Despite this leakage from the economy, the national savings rate of 33.4% of GDP exceeded the domestic investment rate of 18.1% of GDP. This implies to the fact that Oman is not capital constrained and can very well allocate sufficient capital for domestic investment from its national savings.

Public Finance

The Sultanate's economy continues to be driven by the public sector, with the private sector role gradually growing over time. Hence, fiscal policy remains instrumental in promoting various economic development projects and accelerating overall economic growth. Given the dominance of the oil sector in the country's economy, sustained high oil prices in recent years have contributed to the improved fiscal position in 2006. Accordingly, the Sultanate continued to witness significant increase in public expenditure, notable build up in financial assets of the government, and further decline in government debt as percentage of GDP.

Table 05: Public Finance

<i>ROmn</i>	2002	2003	2004	2005	2006
Revenues (1)	3,009.5	3,305.3	4,040.2	4,510.5	5,027.2
Net Oil Revenues	2,200.5	2,316.4	2,904.9	3,161.9	3,225.9
Gas Revenues	76.6	87.0	250.9	393.6	613.5
Other Current Revenues	675.2	875.4	850.0	888.3	1,120.7
Capital Revenues	15.9	10.2	16.6	35.0	49.0
Capital Repayments	41.3	16.3	17.8	31.7	18.1
Total Expenditure (2) = (3+4+5)	2,939.5	3,188.9	3,809.9	4,207.6	4,936.1
Current Expenditure (3)	2,273.9	2,373.1	2,661.2	3,179.4	3,531.0
Defence and National Security	957.9	1,009.6	1,143.6	1,404.2	1,549.6
Civil Ministries	1,148.9	1,184.3	1,304.4	1,531.9	1,735.0
Interest Paid on Loans	69.8	59.9	74.4	66.8	55.6
Gas Production Expenditures	-	-	22.2	46.4	51.1
Oil Production Expenditures	97.3	119.3	116.6	130.1	139.7
Investment Expenditure (4)	586.7	700.0	1,034.8	966.5	1,199.5
Development Expenditure for Civil Ministries	307.2	360.9	422.3	475.1	576.4
Capital Expenditure for Civil Ministries	25.1	23.0	24.8	26.0	28.4
Oil Production Expenditures	201.3	242.0	257.4	249.5	322.5
Gas Exploration	13.5	13.6	12.4	-	-
Gas Production Expenditures	-	-	235.7	171.2	272.2
Program on Human Resources Development	34.3	42.7	51.2	44.7	-
Cost of Buying & Transporting Gas	5.3	17.8	31.0	-	-
Participation and Subsidy to Private Sector (5)	78.9	115.8	113.9	61.7	205.6
Surplus/Deficit (6) =(1-2)	70.0	116.4	230.3	302.9	91.1
Financing (7)	(70.0)	(105.0)	23.3	(164.7)	78.7
Net Grants Received	1.8	3.8	8.3	(5.6)	(36.8)
Drawing from Reserves	124.0	-	-	-	-
Net Loans Received	(229.2)	(159.2)	(84.9)	(151.1)	195.5
Development Bonds (Net)	33.4	174.4	88.5	(8.0)	(80.0)
Remaining Deficit from 2002	-	(124.0)	-	-	-
Remaining Surplus Brought from 2003	-	-	11.4	-	-

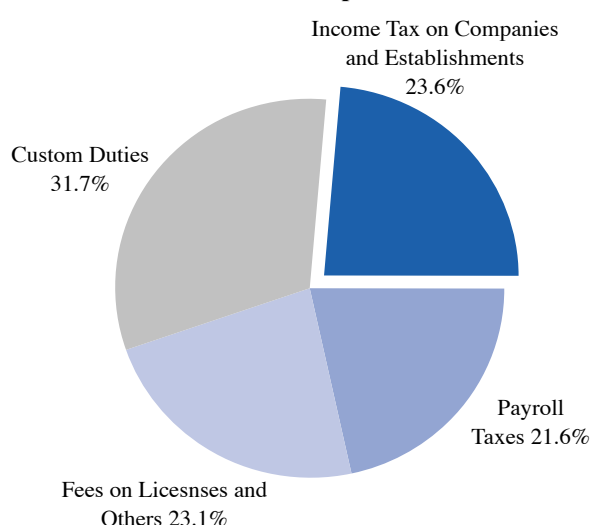
Source: Central Bank of Oman

Owing to the over dependence on oil as the major source of government revenues, revenue generation is critically dependent on developments in the oil sector. Net government revenues for 2006 were at RO5,027.2mn, a y-o-y increase of 11.5% over the previous year. Net oil revenues for 2006 were at RO3.22bn and continued to be the major source

of government revenues contributing over 64.1% to the total revenues of the Sultanate. Another growing source of government revenues has been from sales of gas which contributed RO613.5mn in 2006, representing a marked increase of RO219.9mn, or an increase of 55.9% over 2005. The share of gas revenue in total revenues amounted to 12.2% in 2006.

Other current revenues increased by 26.2% from RO883.3mn in 2005 to RO1,120.7mn in 2006. This increase was due to increase in customs duties, fees on licenses, taxes, airport revenues, income from government investments, and interest on bank deposits and lending. Overall, the contribution from other current revenues accounted for 22.3% of total revenues in 2006 against 19.7% in 2005.

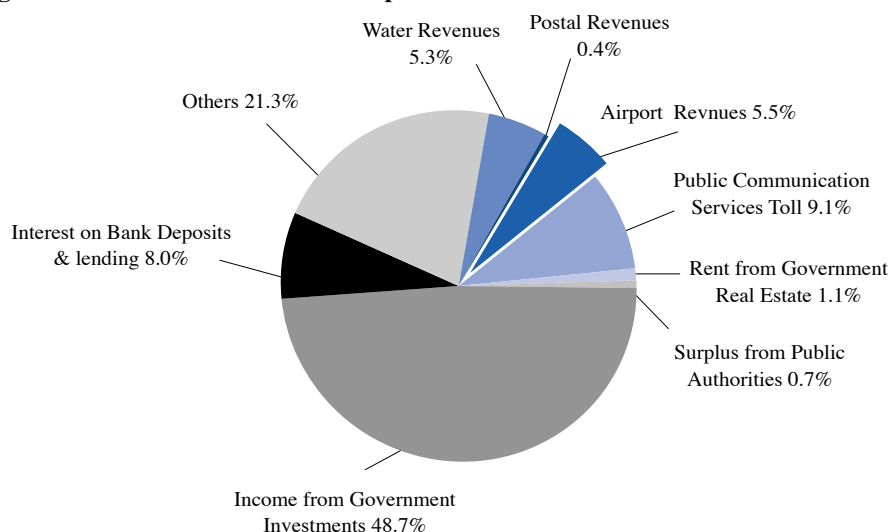
Figure 02: Taxes and Fees Revenues Components



Source: Central Bank of Oman

The main two components under other current revenues are taxes and fees revenues, and non-tax revenues. Revenues from taxes and fees increased from RO337.2mn in 2005 to RO361.6mn in 2006, representing an increase of 7.2%. Receipts on all the items under taxes and fees revenues increased in 2006, except for licenses fees on communication services which were non-existent during the year. The largest item under taxes and fees revenues in 2006 was that of custom duties which stood at RO114.6mn, a notable increase of 26.1mn from RO88.5mn in 2005. Income tax on companies and establishments as well as in payroll tax which increased by 8.1% to reach RO85.4mn in 2006, and contributes 23.6% of total taxes and fees revenues Fees on licenses and others increased by 41.5% in 2006 to reach RO83.4mn and contributes 23.1% of total taxes and fees revenues. Overall, the increase in taxes and fees revenues in 2006 reflects some expansion in tax base associated with economic diversification.

Components under non-tax revenues witnessed some significant variations in 2006, with a number of them recording large increases over the previous year.

Figure 03: Non-tax Revenues Components

Source: Central Bank of Oman

On aggregate, these revenues grew from RO551.1mn in 2005 to RO759.1mn in 2006, amounting to an increase of RO208mn or by 37.7%. Airport revenues increased from a mere RO1.3mn in 2005 to RO41.5mn in 2006. This is a reflection of an increase in both domestic and international passenger traffic through domestic airports. Revenues from public communication services toll grew from RO24mn in 2005 to RO68.8mn in 2006 representing an increase of RO44.8mn. Another significant source of increase in revenues was on account of income from government investment, from RO302mn in 2005 to RO369.6mn in 2006, representing an increase of RO67.6mn or by 22.4%. Revenues from interest on bank deposits and lending grew also markedly from RO118.3mn in 2005 to RO161.4mn in 2006, representing a growth of RO 43.1mn or by 36.4%.

Government expenditure in Oman has a significant impact on the output and employment generation in the country. On the expenditure side there was increased spending on investment and infrastructure projects in recognition of the government's role as the major employer and the initiator of capital projects in the country. Total public expenditure during 2006 amounted to RO4.9bn as compared to RO4.2bn during 2005. Current expenditure constituted 71.5% and investment expenditure constituted 24.3% of the total expenditure. The actual data for expenditure in 2006 indicate that about 49% of current expenditure was spent on activities related to Civil ministries and about 48% of investment expenditure was made on defense and national security purposes.

Table 06: Breakdown of Civil Current Expenditure by Function

<i>ROmn</i>	2002	2003	2004	2005	2006
General Public Services Sector	171.8	167.5	199.2	223.2	249
Public Order Safety	36.3	36.9	38.7	40.3	43.7
Education Affairs and Services	353.8	382	418.1	489.5	559.9
Health	149.9	152.5	160.2	183.4	199.4
Social Security and Welfare	92.9	98.4	91.7	262.5	335.1
Housing	107.2	117.3	124.7	168.9	217.8
Cultural and Religious Affairs	41.5	38.9	43.5	50.1	56
Fuel and Energy	146.8	143.3	180.9	62	6.2
Agriculture, Forestry and Fishing	16.4	16.6	16.7	18.8	20.7
Transport and Communication	17.5	17.3	17.7	0	0.8
Other Economic Affairs	14.8	13.6	13	33.2	46.4
Total Civil Current Expenditure	1,148.9	1,184.3	1,304.4	1,531.9	1,735

Source: Central Bank of Oman

Expenditure of general public services sector had been increasing since 2002 and grew by RO25.8mn in 2006. Other expenditure items, such as public order and safety, health, agriculture and forestry, housing, social security, transport and communication, and other economic related activities witnessed some increase between 2005 and 2006. Expenditure on social security had sharply increased between 2004 and 2005, from RO91.7mn to RO262.5mn, and increased by 27.7% in 2006 to reach RO72.6mn. Expenditure on education and services also witnessed an increase of 14.4% in 2006 to reach RO559.9mn. Overall, civil current expenditure witnessed some re-prioritization in 2006 with spending shifting in favor of long term investment such as education and overall public welfare.

Investment expenditure has been witnessing a steady increase in absolute terms in the last five years, except for the marginal decrease experienced in 2005. Investment expenditure grew by 24.7% in 2006 to reach RO233mn.

Table 07: Breakdown of Civil Development Expenditure by Function

<i>ROmn</i>	2002	2003	2004	2005	2006
General Public Services Sector	28.4	36.7	44.6	59.3	58.9
Public Order Safety	0.8	1.6	2.1	5.4	8.9
Education Affairs and Services	34	34.7	42.4	47.4	83.3
Health	10	17.6	20.3	14.6	8
Social Security and Welfare	2.1	1.5	1.5	1.1	1.9
Housing	76.4	94	108.3	126.7	151.7
Cultural and Religious Affairs	4.9	7.4	7.4	11.7	11.8
Fuel and Energy	75.8	79.8	68.5	36.7	48.7
Agriculture, Forestry and Fishing	6.8	8.2	13.7	11.2	5.1
Mining, Manufacturing and Construction	2.4	3.3	2.8	1.6	2.3
Transport and Communication	55.3	59.8	88.4	139.5	170.2
Other Economic Affairs	10.4	16.3	22.3	19.8	25.6
Total Civil Current Expenditure	307.3	360.9	422.3	475.1	576.4

Source: Central Bank of Oman

Civil expenditure was the largest under investment expenditure and rose by 21.3%, from RO475.1mn in 2005 to RO576.4mn in 2006. As a share of total investment expenditure, civil development expenditure was slightly higher in 2005 at 49.2% as compared to 48.1% in 2006. A number of items fall under this category, of which the leading item is transport, and communication, followed by housing, education affairs services, general public services sector, fuel and energy, etc.

In 2006, the fiscal surplus as percentage of GDP fell to 0.7% from 2.5% in 2005. Total revenues as percentage of GDP, which stood at 36.7% in 2006, declined to 38% in 2005. In absolute terms though, there was an overall increase of RO516.7mn in revenues, or by 11.5%. With regard to aggregate expenditure, it increased by 17.3% in 2006 while its share of GDP stood at 36% in 2006 against 35.5% in 2005. It is important to note that overall fiscal surplus, except for the year 2006 in which significant transfers took place, had been growing since 2002, primarily due to sustained increase in oil prices and growing revenues from gas.

The 2007 Omani budget stressed on enhancing the economic and financial fundamentals of the country to stay abreast of the global economic advancements. It targets infrastructure projects, increase in gas production, and other diversification steps that lead to growth. Oil activities are expected to witness a negative growth due to expected decline in oil production. Government revenue is estimated to be about RO4,490mn in 2007 as compared to RO3,587mn for fiscal 2006. The overall public expenditure, on the other hand, for the fiscal 2007 is estimated to be about RO4,890mn relative to RO4,237mn for fiscal 2006.

Current Account

Current account witnessed a major surplus of RO1.7bn in 2006 which is equivalent to 12.3% of GDP. The surplus position in the current account has been declining consistently until 2004 as a percentage of GDP, however, it has improved considerably in the last two years. During the last 4-year period 2003-06, the current account surplus increased at a CAGR of 26.7%. Oman has been a net importer of services. The shares of services in GDP was close to 37.7% in 2006, and the services sector value addition recorded a growth of 11.7% in 2006. As per capita income grows over time, the share of income spent on services is expected to rise. As the economy continues to grow with diversification, payments relating to “other services” such as construction services, business services, information services, professional and technical services will also continue to increase. This was evident from the 40.4% increase in other services payments in 2006.

Table 08: Current Account

<i>ROmn</i>	2002	2003	2004	2005	2006 (Prel)
Goods (1)	2,129.0	2,147.0	2,118.0	4,100.0	4,495.0
Exports	4,296.0	4,487.0	5,145.0	7,187.0	8,300.0
Oil	2,897.0	3,046.0	3,553.0	5,160.0	5,576.0
Natural Gas	411.0	536.0	634.0	888.0	1,145.0
Other exports	261.0	304.0	420.0	555.0	812.0
Re-exports	727.0	601.0	538.0	584.0	767.0
Imports	(2,167.0)	(2,340.0)	(3,027.0)	(3,087.0)	(3,805.0)
Services (2)	(489.0)	(590.0)	(781.0)	(888.0)	(1,087.0)
Services (Credit)	233.0	248.0	279.0	285.0	351.0
Travel	151.0	148.0	159.0	154.0	207.0
Transportation	73.0	92.0	111.0	115.0	122.0
Insurance	1.0	1.0	1.0	2.0	2.0
Communication	8.0	7.0	8.0	14.0	20.0
Other services	-	-	-	-	-
Services (Debit)	(722.0)	(838.0)	(1,060.0)	(1,173.0)	(1,438.0)
Travel	(204.0)	(222.0)	(237.0)	(247.0)	(264.0)
Transportation	(296.0)	(315.0)	(391.0)	(404.0)	(476.0)
Insurance	(66.0)	(85.0)	(99.0)	(115.0)	(132.0)
Communication	(12.0)	(11.0)	(13.0)	(16.0)	(17.0)
Other services	(144.0)	(205.0)	(320.0)	(391.0)	(549.0)
Balance on Goods & Services (4) =(1+2)	1,640.0	1,557.0	1,337.0	3,212.0	3,408.0
Income (5)	(371.0)	(428.0)	(327.0)	(738.0)	(653.0)
Income (Credit)	93.0	94.0	253.0	260.0	462.0
Compensation of employees	15.0	15.0	15.0	15.0	15.0
Other investment income	78.0	79.0	238.0	245.0	447.0
Income (Debit)	(464.0)	(522.0)	(580.0)	(998.0)	(1,115.0)
Direct Investment Income	(400.0)	(481.0)	(525.0)	(923.0)	(1,008.0)
Other investment income	(64.0)	(41.0)	(55.0)	(75.0)	(107.0)
Balance on Goods, services & income (6) =(4+5)	1,269.0	1,129.0	1,010.0	2,474.0	2,755.0
Current transfers (7)	(616.0)	(643.0)	(702.0)	(868.0)	(1,072.0)
Current transfers (Credit)	-	-	-	-	-
Current transfers (Debit)	(616.0)	(643.0)	(702.0)	(868.0)	(1,072.0)
Workers Remittances	(616.0)	(643.0)	(702.0)	(868.0)	(1,072.0)
Current Account (8) = (6+7)	653.0	486.0	308.0	1,606.0	1,683.0

Source: Central Bank of Oman

Oman's trade performance is driven by export earnings from crude oil, refined oil and Liquefied Natural Gas (LNG). For the last several years it has been recording trade surplus with the major share in export earnings coming from oil and gas. The contribution from the oil and gas sector (crude oil, refined oil and LNG) was over 80% of the total export revenues for the period, mostly due to higher oil prices prevailing in the world markets. The impact of strong growth in exports in both oil and non-oil sectors was offset to a large extent by an increase in imports reflecting the import needs catering to the large-scale investment projects in the country. The trade surplus for 2006 stood at RO1.68bn, forming 12.3% of the GDP at the market prices. This trade surplus has increased at a CAGR of 26.7% during 2002-2006 period. As a percentage of GDP, the trade surplus declined from a high of 31.1% in 2000 to 12.3% in 2006.

Total exports increased at a CAGR of 17.9% during the period 2002-2006, and 15.5% y-o-y to reach RO8.3bn in 2006. Despite the fact that oil production in Oman declined by 4.8% to reach 269.2mn barrels in 2006, and quantity of oil exports also declined from 306.2mn barrels in 2002 to 233.2mn barrels in 2006, oil export earnings displayed a growth of 9% in 2006 on the back of high oil prices.

Natural gas export earnings has been increasing at a CAGR of 29.2% over 2002-2006 and witnessed a 28.9% y-o-y increase to reach RO1.1bn in 2006. This increase was backed by higher volumes as well as higher realized prices for the Omani LNG. About 50% of the natural gas produced in Oman is used by Oman LNG which operates a 6.6mn ton liquefaction facility. The third train of 3.3mn ton liquefaction facility will significantly improve the export performance of the LNG sector in the near term.

Table 09: Value of Non-Oil Exports

<i>ROmn</i>	2002	2003	2004	2005	2006
Live animals and animal products	54	61.6	91.9	90.6	74.5
Vegetable products	18.1	14.4	15.2	16.1	12.9
Animal or vegetable fats and oil	8.3	12.4	17.9	28.5	28.8
Mineral products	16.2	20.5	26	35.5	32.1
Products & chemicals & allied industries	29.3	34.7	42.7	50.5	216.1
Foodstuffs, beverages, tobacco, & related products	21.8	25.6	28	89.2	138.7
Plastic, rubber, and articles thereof	13.2	18.8	31	33	31.9
Textiles and articles thereof	25.8	26	23.9	14.2	10.9
Base metals and articles thereof	32.8	40	72.6	95.8	123.7
others	42	50.1	71.1	101.9	142.7
Total	261.5	304.1	420.3	555.3	812.3

Source: Central Bank of Oman

Non-oil exports increased at a CAGR of 32.8% during 2002-2006 and witnessed a 46.3% y-o-y increase to reach a projected RO812mn in 2006 indicating a move towards non-oil sources of export incomes. As a percentage of total exports, the share of non-oil exports increased from 6% in 2002 to 9% in 2006. The increase in non-oil exports in 2006 was due to a huge increase of chemical products and allied industries exports of 328% to reach RO216.1mn from RO50.5mn in 2005.

Table 10: Major Re-exported Goods

<i>ROmn</i>	2002	2003	2004	2005	2006
Live animals and animal products	29.4	22.9	19	8.8	17.9
Beverages and tobacco	144.7	82.8	24.5	13.8	9.6
Crude minerals inedible except fuels	2.3	2.5	2.2	5.2	6.5
Minerals, fuels, lubricants, & related materials	6.9	9.9	0.1	0.9	0.1
Animal and vegetable oil and fats	0.2	0.2	0	0.1	0
Chemicals	13.1	11.3	7.8	7.8	6.8
Manufactured goods	73.1	61.8	17.6	15.4	13.5
Machinery and transport equipment	405.2	338.1	398.8	502.4	663
Miscellaneous manufactured articles	24.5	33.3	30.5	19.9	36.2
Commodities not classified elsewhere	27.4	38	37.7	9.3	13.1
Total	726.8	600.8	538.2	583.6	766.7

Source: Central Bank of Oman

Re-exports increased by 31.3% in 2006 compared to 8.6% increase in 2005 to reach RO767mn. The factors which contributed to this jump include an increase of 103% in re-exports of live animals and animal products, and 82% increase in manufactured articles.

Total imports of Oman have been increasing at a CAGR of 15.1% during 2003-2006 and witnessed an y-o-y increase of 23.3% to reach RO4.2bn in 2006.

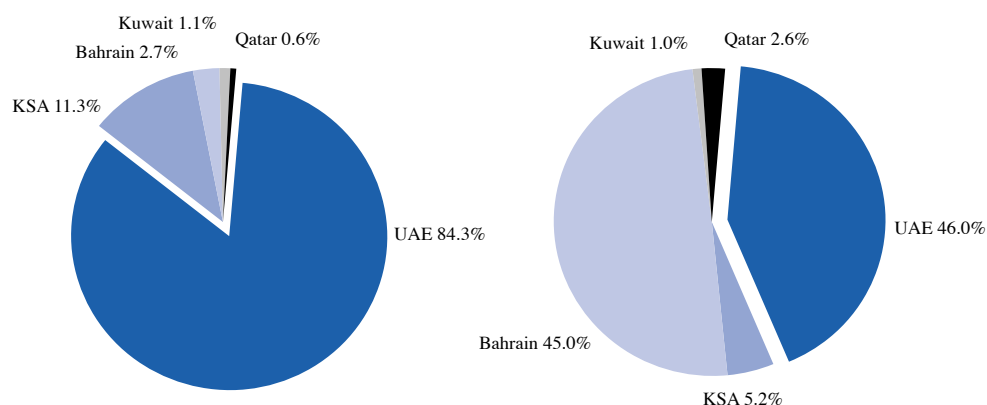
Table 11: Composition of Imports

<i>ROmn</i>	2003	2004	2005	2006
Food and Live animals	288.1	369.1	340.3	382.1
Beverages and tobacco	117.8	43.5	31.2	32.9
Crude materials, inedible except fuels	112.3	105.0	88.5	123.0
Minerals, fuels, lubricants, & related materials	83.2	83.8	141.0	139.2
Animal and vegetable oil and fats	20.3	26.0	25.0	28.2
Chemicals	189.7	246.1	284.6	280.6
Manufactured goods	390.4	587.3	569.1	799.4
Machinery and transport equipment	1,087.0	1,565.0	1,637.4	2,085.0
Miscellaneous manufactured articles	157.6	183.2	198.3	239.4
Commodities not classified elsewhere	80.6	105.0	78.8	87.1
Total	2,527.0	3,314.0	3,394.2	4,196.9

Source: Central Bank of Oman

In terms of components of total imports, manufactured goods increased by 40% in 2006 to reach RO799.5mn, a CAGR of 27% during the period 2003 to 2006. Crude materials imports increased in 2006 by 39% with a CAGR of 3% during the same period. Minerals, fuels, lubricants, and related materials, in addition to chemicals were the only imports of Oman that retracted in 2006 by 1% from their 2005 levels.

Geographically, Omani imports were distributed across many countries with UAE being the major source at 25.8% of total imports, Japan 17.3%, Germany 5.1%, USA 5.2% and India 5.3% in 2006.

Figure 04: Trade with GCC in 2006

Imports from other GCC Countries

Non-Oil Exports to other GCC Countries

Source: Central Bank of Oman

Oman's trade with other GCC member countries accounted for about 52% of non-oil exports and 30% of imports in 2006. Exports to UAE and Saudi Arabia accounted for over 75.7% of Oman's exports to the GCC while imports from these countries stood at RO1.2bn, or about 95.6% of the total imports from GCC countries.

Growing foreign assets have led to rising inflows in the income account. Income increased from RO245mn in 2005 to RO447mn in 2006. Income account outflows, however, clearly exceeded the inflows on account of high and rising dividend and profit repatriation by FDI enterprises as well as increase in their share in retained earnings. Direct investment income related payments have emerged as a major drain on the country's foreign exchange income in recent years, with such payments rising from RO525mn in 2004 to RO923mn in 2005, and further to RO1,008mn in 2006.

In the current transfers account, the persistent deficit position, due to growing remittances, continued to widen by 23.6% increase in remittances from RO702mn in 2004 to RO868mn in 2005, and further by 23.5% in 2006 to RO1,072mn. Despite the sharp increase in absolute magnitude of remittances in the last few years, as percentage of total export earnings, the share of remittances continued to decline up to 2005, with some modest increase in 2006.

Table 12: Capital and Financial Account

<i>ROmn</i>	2002	2003	2004	2005	2006 (Prel)
Capital Account (1)	2	4	8	-6	-37
Grants (Credit)	2	4	8	0	0
Grants (Debit)	0	0	0	-6	-37
Financial Account (2)	-276	54	389	-288	-386
Foreign Direct Investment	47	131	-8	302	271
Assets (FDI abroad)	0	-59	-96	-44	-95
Liabilities (FDI in Oman)	47	190	88	346	366
Portfolio Investment	-30	-31	36	18	181
Assets	9	-36	-26	-65	-211
Liabilities	-39	5	62	83	392
Other Investment	-293	-46	361	-608	-838
Assets	-114	-19	-319	-972	-2,127
Trade credit and other receivables	34	20	-6	-50	-128
Currency and deposits	-97	-34	-221	-208	-631
Other assets	-51	-5	-92	-714	-1,368
Liabilities	-179	-27	680	364	1,289
Trade credit and other receivables	24	133	166	177	331
Currency and deposits	-51	-87	11	-105	395
Loans	-152	-73	503	292	563
General government (net)	-230	-162	75	-169	196
Other sectors	78	89	428	461	367
Capital account and Financial Account (3) = (1+2)	-274	58	397	-294	-423
Net errors and omissions (4)	-258	-287	-372	-235	-411
Overall balance (5) = (Current Account+3+4)	121.0	257.0	333.0	1,077.0	849.0
Reserves assets	-371	-369	-310	-1,407	-1,073
Foreign exchange	-121	-257	-333	-1,077	-849
Central bank	-250	-112	23	-330	-224
Government reserves	129	-145	-356	-747	-625

Source: Central Bank of Oman

The capital and financial accounts both witnessed deficits in 2006. The capital inflows in the form of FDI at RO271mn and debt capital (loans) at RO563mn in 2006 were entirely overshadowed by the decline in other investments of RO838mn in the same year.

As the money supply process is directly affected by the overall supply or deficit in the overall balance, the final position of this account is important from the monetary management perspectives for Oman which operates with a fixed exchange rate. The overall balance position revealed a net surplus of RO849mn in 2006, as against RO1,077mn observed in the previous year.

Table 13: Overall Balance of Payments

<i>RO mn</i>	2002	2003	2004	2005	2006 (Prel)
Current Account (1)	653	486	308	1,606	1,683
Capital Account (2)	2	4	8	(6)	(37)
Financial Account (3)	(276)	54	389	(288)	(386)
Net errors and omissions (4)	(258)	(287)	(372)	(235)	(411)
Overall Balance (5)=(1+2+3)	121	257	333	1,077	849
Reserves assets	(371)	(369)	(310)	(1,407)	(1,073)
Foreign exchange	(121)	(257)	(333)	(1,077)	(849)
Central bank	(250)	(112)	23	(330)	(224)
Government reserves	129	(145)	(356)	(747)	(625)

Source: Central Bank of Oman

The impact of overall surplus or deficit position is shared between the foreign exchange reserves of CBO and the State General Reserve Fund (SGRF) in sterilizing the monetary impacts of a surplus or a deficit. In case of a surplus, the SGRF absorbs a portion and the balance leads to a corresponding increase in the foreign exchange reserves of CBO which in turn leads to creation of equivalent liabilities by the CBO. In 2006, the overall projected surplus balance of RO849mn relative to the overall balance in 2005 of RO1,077mn, led to a decrease of RO224mn of foreign exchange reserves and RO625mn decrease in government reserves (SGRF).

Monetary Policy

The Central Bank of Oman regulates the monetary policy of the country and maintains the RO peg to the US dollar to maintain price stability with the medium term objective of having a monetary union with the other Gulf Cooperation Council (GCC) countries. The pegging of local currencies to the US dollar by most GCC countries is a move towards the formation of a common currency. This fixed exchange rate arrangement would also lead to the interest rates in Oman tracking US interest rates with close correlation in the medium to long run. However, some differences in the interest rates are inevitable in the short term because of factors such as the rate of return to capital in the domestic economy, level and state of bank liquidity levels, transaction costs and risk premium etc.

Recent data from the Central Bank of Oman indicate the narrow measure of money (M1), which comprises of the aggregate of currency with the public and local currency, increased in 2006. In the same year, M1 level was at RO1,229.6mn, higher by 9% as compared to the end 2005, however the rate of growth of M1 for 2006 was lower than that of 2005 whereby M1 grew at 24.3%. Demand deposits grew at a CAGR of 12.2% during 2002-2006, while that of “currency with public” grew at a similar CAGR of 12.9% within the same period.

Table 14: Money Supply

<i>RO mn</i>	2002	2003	2004	2005	2006
Domestic Liquidity (M2) (1) =(2+3)	2,763.0	2,831.3	2,944.3	3,573.1	4,461.3
Money (M1) (2)	769.2	804.1	907.4	1,128.1	1,229.6
Currency with public	289.7	303.7	329.1	383.2	470.9
Demand deposits in RO	479.5	500.4	578.3	744.9	758.7
Quasi Money (3)	1,993.8	2,027.2	2,036.9	2,445.0	3,231.7
Savings deposits in local currency	567.6	646.5	734.0	851.3	1,008.6
Time deposits in local currency	1,076.9	952.8	850.4	791.2	962.6
Deposits in foreign currency	324.7	399.7	421.1	764.8	1,213.1
Margins	24.6	28.2	31.4	37.7	47.4
(of which foreign currency deposits)	(324.7)	(399.7)	(421.1)	(764.8)	(1,213.1)
Foreign Assets	1,156.2	1,421.6	1,639.4	2,259.8	2,745.3
Central Bank	1,219.8	1,381.8	1,382.8	1,674.9	1,927.6
Commercial Banks	(63.6)	39.8	256.6	584.9	817.7
Domestic Assets (4) = (5+6+7-8)	1,606.8	1,409.7	1,304.9	1,313.3	1,716.0
Claims on Government (net) (5)	90.4	53.6	(83.8)	(457.0)	(652.1)
Government Borrowings	382.9	422.1	443.5	254.9	228.9
Government Deposits	(292.5)	(368.5)	(527.3)	(711.9)	(881.0)
Domestic Claims on Private Sector (6)	3,012.7	3,058.4	3,258.8	3,666.8	4,405.6
Claims on Public Enterprises (7)	46.0	69.0	87.3	111.8	195.8
Other items (net) (8)	1,542.3	1,771.3	1,957.4	2,008.3	2,233.3
Monetary authorities	939.6	1,013.8	971.3	1,124.1	1,252.4
Commercial Banks	602.7	757.5	986.1	884.2	980.9

Source: Central Bank of Oman

The Quasi money which is comprised of savings in RO time deposits, margins and foreign currency deposits, registered a growth of 32.2% in 2006 over the previous year. The overall Quasi Money levels in 2006 further increased to RO 3,231.7mn. Savings deposits increased by 18.5% in 2006 to reach RO1,008.6mn, which translates into a CAGR of 15.5% during 2002-2006. Time deposits in local currency also increased by 21.7% in 2006 to reach RO962.6mn as opposed to a decline of 7% in 2005. Deposits in foreign currency registered the highest growth amongst components of Quasi Money in 2006 to reach RO47.4mn, a growth of 58.6% which translates into a CAGR of 39% during the period 2002 to 2006.

Overall, the broad measure of money (M2) which includes M1 and “Quasi Money” increased by 25% in 2006 over the previous year to reach RO4,461mn. Interestingly, M1 displayed major bouts of volatility during the period as a result of movements in Omani Rial demand deposits associated with the interest rate environment whereas the growth rate of M2 remained fairly stable.

Table 15: Weighted Average Interest Rates

%	Deposits			Lending		
	Private Sector	Total RO Deposits	Total Deposits (RO+FCY)	Private Sector	Total RO Lending	Total Lending (RO+FCY)
	RO Time deposits			RO Time Lending		
Mar-04	2.253	1.144	1.184	8.423	8.125	6.852
Jun-04	2.255	1.114	1.17	8.253	8.011	6.711
Sep-04	2.324	1.096	1.169	8.029	7.814	6.589
Dec-04	2.35	1.131	1.296	7.778	7.571	6.448
Mar-05	2.59	1.135	1.407	7.611	7.382	6.345
Jun-05	2.675	1.176	1.489	7.434	7.273	6.319
Sep-05	2.94	1.357	1.72	7.289	7.145	6.389
Dec-05	3.205	1.409	1.906	7.209	7.066	6.566
Mar-06	3.414	1.477	1.961	7.111	7.068	6.689
Jun-06	3.567	1.531	2.065	7.405	7.351	7.068
Sep-06	3.891	1.811	2.535	7.545	7.465	7.165
Dec-06	3.938	1.855	2.633	7.526	7.404	7.122

Source: Central Bank of Oman

The peg of the RO against the US\$ imposes US interest rates movements on the Omani monetary authority in order to maintain the peg of the local currency. In line with the increasing interest rates in global markets since 2004 in general, and the US in particular, the interests earned on RO time deposits grew gradually. As per the latest data available for the month of Dec 2006, interest rates on the private sector RO time deposits moved in tandem with the US interest rates to reach 3.9%. Interest rates on total RO deposits also increased by 72 basis points since Mar 2004 to reach 1.8%. Total deposits also increased by 145 basis points to reach 2.6% from its low levels of 1.1% in Mar 2005.

Consumer Price and Inflation

The Sultanate has been witnessing some inflationary pressure (as measured by Consumer Price Index) in the last two years. After a period of relatively low inflation at less than 1% between 2000 and 2004, 2005 started witnessing some pressure, registering 1.9% inflation rate during the year and moved up to 3.2% in 2006.

The uptrend in inflation that started in 2004 emanates from multiple sources. High growth in public expenditure that has been driven by the favorable surplus revenues appears to be the major source of rise in inflation as it generates high aggregate demand, and in particular when this increase in demand takes place under tight domestic supply capacity. Another source of inflationary pressure for an open economy such as Oman is imported inflation. The Consumer Price Index (measured by a basket of general goods and services in Oman) increased by 3.2% in end-May 2006 as compared to the modest increase of 1.9% at the end of 2005.

Table 16: Consumer Price Index for Oman

Index	2003	2004	2005	2006
Food, beverages and Tobacco	100.4	101.6	105.7	111.4
Textile, Clothing & Footwear	96.1	96.4	97.0	96.8
Housing Material & Furniture	93.3	93.1	93.5	94.4
Medical Care	89.4	90.2	90.3	91.0
Transport & Communication	98.8	99.8	101.3	103.1
Recreation & Entertainment	94	92.6	89.9	91.2
Educational Services	103.7	104.3	106.3	107.6
Personal Care and other services	105.7	109.1	113.0	125.2
Rent, Maintenance, Electricity, Water & Fuel	98.7	98.4	98.4	99.7
General Price Index	99.1	99.8	101.7	105.0

Source: Central Bank of Oman

This modest increase in CPI in 2005 was relatively broad-based with majority of groups registering marginal increase in their prices. Transport & communications which account for close 23.5% of the total index weight have seen their prices registering modest rises in 2006. The overall general price index has increased by 3% in 2006, compared to a fluctuation within a band of 1% in the previous two years, between 99.8 and 101.7 levels. The highest rate of inflation in terms of the CPI index for the Sultanate was the category of "Food, beverages and tobacco", with 34% weight and growing by 5.4% in 2006 as compared to 4% in 2005.

The rise in CPI during 2006 can be explained by the weakening US dollar (and hence a relatively weak Oman riyal which is pegged to the US dollar) against the currencies of Oman's main suppliers, which has increased the local-currency cost of imported goods. In fact, Oman's Real Effective Exchange Rate (REER) has experienced a cumulative depreciation of 13% since the end of 2002, although the pass through effects of this depreciation on Oman's domestic inflation remains modest. Moreover, inflationary pressure has been on the rise among many of Oman's trading partners on the import side, including some of the GCC countries. Also, on the back of a strong aggregate demand growth resulting out of a 15.6% rise in nominal GDP could have been a factor in contributing to the price increase in terms of higher profitability and other mark-ups for the intermediaries.

Population and Labor Force

The total population of Oman rose from 2.4bn in 2001 to 2.5mn at the end of 2005, growing at a CAGR of 0.3%. Omani population declined by 4.7% and expatriate population declined by 16.3%. Omani population increased by a y-o-y growth rate of 2.2% in 2005, and the expatriate population increased by a much higher rate of 8.6% in the same year. During the period of 2001 to 2005 omani population increased at CAGR of 0.2% and expatriate population increased by a CAGR of 0.5%.

Table 17: Total Population of Oman

	2001	2002	2003	2004	2005
Total Population in the Sultanate	2,478	2,538	2,341	2,416	2,509
Omani	1,826	1,870	1,782	1,803	1,843
Expatriate	652	668	559	613	666
Muscat Governate	686	709	632	665	696
Omani	378	388	382	390	401
Expatriate	308	321	250	275	295
Al Batinah region	686	700	654	667	688
Omani	573	586	564	570	581
Expatriate	113	114	90	97	107
Musandam Governate	35	36	28	29	31
Omani	27	28	20	20	21
Expatriate	8	8	8	9	10
Adh-Dhahirah Region	222	226	207	214	224
Omani	166	169	148	149	153
Expatriate	56	57	59	65	71
Ad-Dakhliyah Region	280	285	267	273	281
Omani	243	248	235	238	242
Expatriate	37	37	32	35	39
Ash-Sharqiyah Region	316	322	313	320	331
Omani	268	274	264	266	271
Expatriate	48	48	49	54	60
Al-Wusta Region	21	21	23	24	25
Omani	17	17	17	17	17
Expatriate	4	4	6	7	8
Dhofar Governate	232	238	216	224	235
Omani	155	159	151	153	157
Expatriate	77	79	65	71	78

Source: Ministry of National Economy

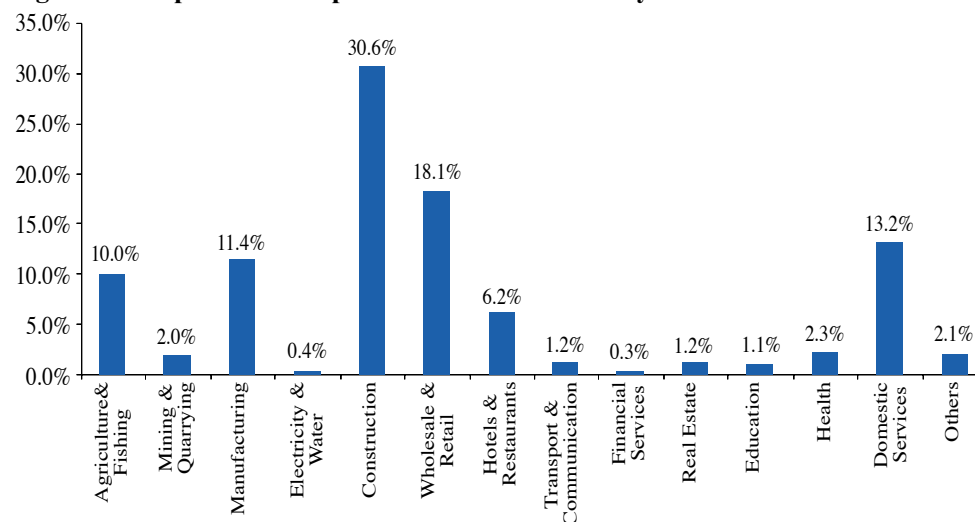
In line with other rapidly developing Gulf economies, Oman has a relatively young population with a 66.7% below the age of 24. While elder population (above the age of 64) represent only 2.2% of total population. This presents an ever-increasing demand on infrastructure needs such as housing, utilities and sources of financing. In addition to that, the government has less liabilities for the elderly which in turn free up resources for the Omani government to deploy funds into infrastructure projects, and other sectors of the economy.

Table 18: Total Population by Age Group

Age Group	Omani			%
	Males	Females	Total	
0 to 4	110,502	108,093	218,595	11.9%
5 to 9	117,611	113,132	230,743	12.5%
10 to 14	135,832	131,270	267,102	14.5%
15 to 19	139,132	133,591	272,723	14.8%
20 to 24	121,125	118,720	239,845	13.0%
25 to 29	89,531	90,337	179,868	9.8%
30 to 34	57,653	56,159	113,812	6.2%
35 to 39	40,655	40,609	81,264	4.4%
40 to 44	28,532	31,619	60,151	3.3%
45 to 49	21,777	24,610	46,387	2.5%
50 to 54	17,536	17,975	35,511	1.9%
55 to 59	17,242	15,417	32,659	1.8%
60 to 64	13,127	10,642	23,769	1.3%
65 to 69	9,289	7,905	17,194	0.9%
70 to 74	5,504	5,108	10,612	0.6%
74 to 79	2,606	2,740	5,346	0.3%
80+	3,353	3,750	7,103	0.4%
Total			1,842,684	100.0%

Source: Ministry of National Economy

The total labour force increased from 0.3mn in 1980 to 0.66mn in 2005, and we expect this number to reach 0.8mn by 2010. The average annual growth rate of the labour force stood at 3.3% for the period 1980-2000, however it is expected to slow down to 2.7% between 2000-2010.

Figure 05: Expatriate Manpower in Private Sector by Economic Sector

Source: Central Bank of Oman

The information released by the Ministry of National Economy revealed that the expatriate manpower increased by 85,925 in the private sector so far in 2006, thus witnessing a 7% increase over 2005 to reach 455,014. The expatriate workforce was concentrated in four economic sectors, namely, construction, wholesale & retail, domestic services and agricultural activities and represented 21% of the total expatriate workforce as of 2005. The increase in the number of expatriate workers in the country, which has been growing at a CAGR of 7.8% over 2003-2006, resulted in an increased revenue for the Ministry of Manpower from the issuance of labour permits.

Table 19: Total Population by Age Group in 2005

	2002	2003	2004	2005
Public Sector Employees	118,637	110,833	115,231	120,026
Omanis	93,227	89,992	95,025	99,465
Expatriates	25,410	20,841	20,206	20,561
Civil Service	91,237	95,158	99,386	103,707
Omanis	73,766	79,099	83,883	87,891
Expatriates	17,471	16,059	15,503	15,816
Diwan of Royal Court	16,334	7,424	7,654	7,919
Omanis	13,324	4,573	4,764	5,010
Expatriates	3,010	2,851	2,890	2,909
Public Corporation	8,066	8,251	8,191	8,400
Omanis	6,137	6,320	6,378	6,564
Expatriates	1,929	1,931	1,813	1,836

Source: Central Bank of Oman

In contrast the labour force employed by the Omani civil service clearly emphasizes a trend towards “Omanisation” of the work force. About 83% of the work force in civil service are Omani and the remaining 17% were expatriates as of end 2005. The number of expatriate workers has been dwindling down since 2002 where it stood at 25,410 workers, to reach 20,561 expatriate workers in 2005.

Sector Trends

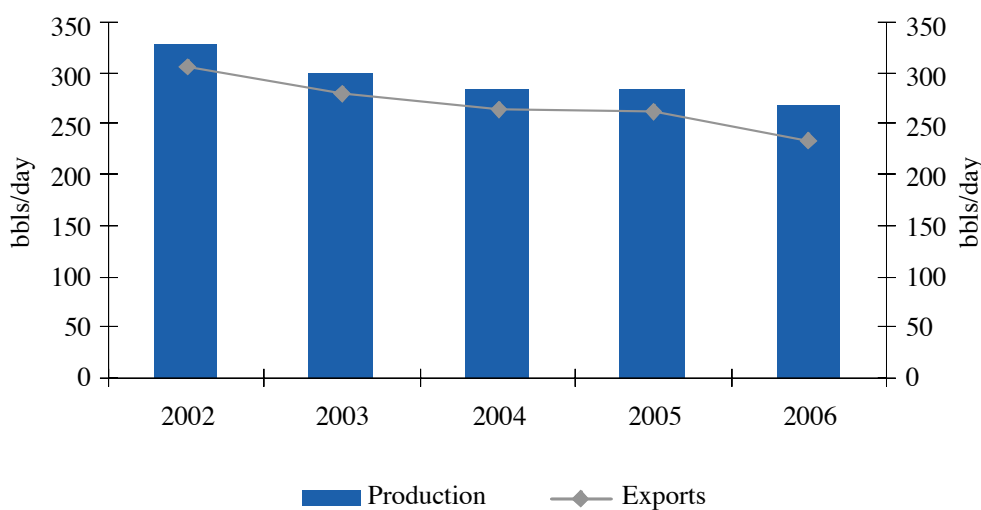
Oil

Oman's oil fields are generally smaller, more widely scattered, less productive, and more costly per barrel than in other Persian Gulf countries. The average well in Oman produces only around 400 bbl/d, about one-tenth the volume per well of those in neighboring countries. To compensate, Oman uses a variety of enhanced oil recovery (EOR) techniques. While these methods raise production levels, they increase the cost.

The oil sector which is the mainstay of Oman's economy and it accounted for 65% of government revenues in 2006. Following the market trend in world oil prices, the average price of crude oil in Oman increased from US\$50.26 in 2005 to US\$61.69 in 2006.

Oman's total oil production declined by 5% in 2006 from 283 million barrels in 2005 to 269 million barrel in 2006. The daily production at the end of January 2007 averaged at 716.4 thousand barrel per day that is a 7 % y-o-y decline from 770.5 thousand barrels per day.

Figure 06: Oman's Total Oil Production and Exports

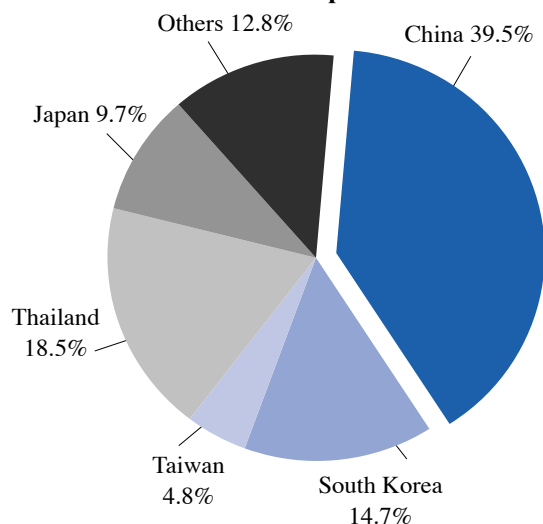


Source: Ministry of National Economy

Petroleum Development Oman Co. (PDO), the country's second largest employer after the government, holds over 90% of the country's reserves and accounts for about 95% of crude-oil production and nearly all of its natural gas supply. Out of a total 124 oil producing wells, PDO owned 106 of these wells. PDO, together with other oil producing companies (e.g. Occidental Oman, Daleel Petroleum, Novus Oman and Petrogas) combined produced 269.2mn barrels of oil in 2006, compared to 283.0mn barrels in 2005, 285.0 mn barrels in 2004, 299mn barrels in 2003 and 328mn barrels in 2002. To reverse this decline in oil production, PDO has planned for major investments in technology and infrastructure investments such as enhanced oil recovery technologies in the coming years. Owing to these increased investments in oil development activities, Oman's oil

and reserves stood at 4.917bn barrels in 2006, an increase of 84.7mn barrels over the previous year. Also, PDO, its partners e.g. Shell, Total, Partex and the government has agreed to extend the partnership contracts by another 40 years.

Figure 07: Direction of Omani Crude Oil Exports



Source: Ministry of National Economy

Total crude oil exports totald 233.1mn bbl/day in 2006, a decline of 11% from the previous year. The majority of Omani oil exports were directed to the east. China, Japan, Korea and Thailand captured about 82% of total oil exports in 2006.

Although oil remains the single most important source of revenue, Oman has made natural gas the cornerstone of its diversification and economic growth strategy through export of LNG and implementation of several gas based projects. According to the ministry of national economy the LNG sector is the main economic growth driver with an actual growth rate of 60.7%.Oman's natural gas production in 2006 reached 1,052 bn cu ft, an increase of 14% from the previous year. A major contributor to this boost is the start-up of Oman's third LNG train, Qalhat.

Table 20: Production and Uses of Natural Gases

Million cubic feet	2005	2006
Production	917,746	1,051,755
Associated	270,562	233,746
Non Associated	647,184	818,009
Uses	917,404	1,051,755
Government Gas System	172,381	240,737
OLNG	395,065	359,107
QLNG	5,435	121,855
Exported (UAE)	40,910	46,534
Oil Fields	148,110	163,969
Fuel	62,458	68,891
Re-injection	85,652	95,078
Flared	50,885	50,612
Other	104,618	68,941

Source: Ministry of National Economy

The proven natural gas reserves (associated and non-associated) increased to 134bn cu ft in 2006. In 2006, the total production of natural gas was at 1.1tn cu ft, an increase of 15% from 2005 levels (233.7 tn cu ft associated and 818tn cu ft cubic feet non-associated). The number of producing non-associated gas fields during 2005 was 10, out of which 4 fields belonged to PDO, 1 to Novus company and 5 to Occidental company. At present, gas is largely utilized for re-injection into oil reservoirs to sustain oil production. It is also used as a fuel for power generation activities in desalination units, cements, textile and other industrial projects in the country. Going forward, the utilization of gas will increase in gas-based industrial projects such as fertilizers, cement, aluminum and petrochemicals. Gas revenues showed an improvement in Oman with a reported revenue contribution of RO613mn or 13% of the total revenues generated in 2006, up from 9% in 2005. This was as a result of continued exploration and better exploitation of existing wells.

Oman's Ministry of Finance announced that it had reached a consensus for agreement with the Dubai Mercantile Exchange Limited (DME) to acquire a 30% equity stake in the DME, the Middle East's first energy futures exchange. With the conclusion of the equity investment in the DME, through the government backed Oman Investment Fund, Oman will join the exchange as a strategic partner and key stakeholder adding further support to an already powerful partnership between the New York Mercantile Exchange, Inc. (NYMEX) and Tatweer, a member of Dubai Holding.

Services

The services sector recorded a marked growth of 11.7% in 2006 as compared to 8.5% in 2005. However, its share in GDP declined by 1.3%, from 39% in 2005 to 37.7% in 2006. Nonetheless, the GDP growth of 15.6% in 2006 continued to boost the income per capita and subsequent increase in demand for services. The remarkable growth in wholesale and retail trading, transport and communication, hotels and restaurants in 2006, all testified to the growing competitiveness and efficiency of the domestic service sector.

Table 21: Service Sector Indicators

	Indicators of Hotel Activities			Communication				Transport			
	Guests (Units)	Employees (Units)	Revenues (RO 000)	Post Offices (Units)	Fixed Lines (000')	Mobile Phones (000')	Internet (000')	Aircraft Take-off (Units)	Aircraft Landing (Units)	Passenger Arrivals (000')	Passenger Departures (000')
2003	886,776	4,739	48,369	94	236	236	52	21,162	21,163	1,334	1,306
2004	1,201,926	5,168	59,349	94	239	257	49	21,805	21,817	1,572	1,559
2005	1,407,672	5,366	78,609	94	265	253	76	26,384	26,397	1,842	1,839

Source: Ministry of National Economy

Expansion of communication and transport infrastructure led the growth in the services sector in 2006. These combined activities grew by 25.4% in 2006 as compared to 3.4% in 2005. Following communication and transport came the financial intermediation which witnessed an increase of 20.5% in 2006 as compared to 12.5% in 2005. The 2006 growth in financial intermediation which includes banking and insurance sector has been the highest since 1997. Wholesale and retail and hotels and restaurants also recorded notable growth with the former growing by 19.2% in 2005 against 8.3% in 2006, and the latter by 18.3% as compared to 19.1% during the two corresponding years.

Telecommunications

The first tangible signs of progress in the telecom sector liberalization was seen in February 2004 when Omantel was split by a royal decree into two government-owned companies: Omantel, which is now in charge of running Oman's fixed lines, and the Oman Mobile Telecommunications Company (OMTC), which controls the GSM network. In June 2004, Qatar Telecom (Qtel) with its consortium partner Tele Denmark Communications (TDC) of Denmark won the license to operate the second GSM network in the Sultanate of Oman. The consortia partners led by Qtel, TDC and private Omani partners have formed a company called "Nawras Telecom" for the Omani GSM operations.

Mobile penetration rate in Oman was close to 69.9% levels as of 2006. In line with other GCC countries, subscriber segmentation in Oman is skewed in favor of the prepaid segment, which was at 60% in 2003 and grew to 68% in 2004 and over 85% in 2005 to reach 86.2% in 2006.

With such mobile penetration rates, Oman has the lowest penetration rates in the GCC, as penetration levels in most Gulf countries have crossed 80%. Internet demand growth

has not seen the pick-up the market was expecting during 2005. The gain in mobile services is mainly due to the increase in subscription of the pre-paid phone service.

Insurance

Though the premium growth in Oman was good in the recent past, there has been a perceptible slowdown since 2003. Total premiums received increased by about 7% in 2003 and remained flat in 2004 to reach RO102.8mn. Further, the geopolitical conflicts concerning Iraq had an effect on the pace of acquisition of new business by insurance companies. Slowdown since 2003 has not been a phenomenon across the GCC region and the growth was sustained in Bahrain and UAE markets which grew at 16.1% and 8.6% respectively.

Few of the factors that drove the demand growth for Insurance sector in Oman can be summarized as below.

- Privatization of state assets resulting in previously uninsured risks requiring insurance cover for the first time
- Favorable demographics
- Introduction of insurance for medical and third party motor vehicle insurance liability
- Takaful products contributing to the growth and helping to overcome social and religious concerns.

Table 22: Premiums received and Claims paid by Insurance Companies

	2003		2004		2005	
	%	Number	%	Number	%	Number
Life	3.15	14,137	3.3	15,996	2.9	17,472
Motor Vehicles	86.33	387,127	88.7	432,066	82.4	505,224
Property	1.98	8,889	1.7	8,264	1.3	7,770
Transport	3.31	14,845	2.9	14,259	2.1	13,041
Others	5.23	23,449	3.4	16,322	11.3	69,490
Total	100	448,447	100	486,907	100	612,997

Source: Ministry of National Economy

According to recent data published by the Ministry of National Economy, Insurance of Motor Vehicles constituted about 82% of all the insurance policies registered in 2005 where as Life Insurance captured a meager 3%, which indicates the level of awareness as far as life insurance is concerned. This also represents the potential for future growth.

Insurance companies in Oman are in for a better time ahead, mainly due to the potential of the primary insurance in the country and the scope of gaining market share from reinsurance companies abroad. Insurance penetration in Oman is abysmally low compared to that in other developed countries. This signifies the growth potential for the sector, which would further be boosted by economy related factors such as higher growth rates in the next couple of years owing to the high oil prices and increased government and private sector spending, favorable demographics, changing structure of the social security systems in the region which are bound to be more dependent on individual savings and

life insurance. This growth will also be augmented by non-life insurance helped by the massive project opportunities in a number of sectors like oil and gas, power generation, telecommunications and transportation, in consequence to privatization and the opening up of economies. GCC states also enjoy free trade agreements among member states, which increases the trade related insurance opportunities. This would be augmented in the future by the further opening up of the economies, post WTO compliance.

Industry

The industrial sector is another segment witnessing a huge transformation giving that the manufacturing sector constitutes the core of the diversification plan of Oman. The Five Year Plan (2001-05) aimed at achieving an average output growth of 11.7% for this sector, and Vision 2020 for Oman is planning to raise the contribution of manufacturing to the GDP from 6.8% in 2000 to 15% by 2020. During the first four years of the 5-year plan period, average annual manufacturing growth turned out to be 18.9%, which is much higher than the 11.7% growth target set in the plan. In 2004, the share of manufacturing in GDP was about 8.1%, increasing from 7.2% in 2003.

As has been the case for 2005, the remarkable growth in non-petroleum sector was driven by manufacturing which grew by 44.6% in 2006 against 22.6% in 2005. With regard to share of non-petroleum industrial activities, manufacturing accounted for 68.1% in 2005, as compared to 73.1% in 2006, and in terms of its contribution to total GDP, it stood at 8.3% and 10.4% during the two respective years. The most notable growth in 2006 was in the manufacturing of basic chemicals which posted a remarkable growth of 74% in 2006 driven by production of the fertilizer plant that had become operational recently.

The government has been trying to position the Sohar Port as an industrial hub. Sohar is undergoing a huge transformation with around US\$12bn worth of developments in the pipeline. The government has been very supportive to new developments, giving out land to big developers under long term leases at very low annual rental rates of RO0.75/sqm. Five major projects have been already announced namely Sohar Refinery Project, Sohar Methanol Project, Oman-India Fertilizer Project, Ferro-Chrome Project, and Sohar Fertilizer Project. Of these, work has already progressed in respect of Sohar Refinery Project and the Oman-India Fertilizer Project. We anticipate continued activity in the industrial sector in tandem with the government's commitment to its long term target of diversifying away from the oil sector.

Electricity and Water

Electricity production in Oman, which is largely dependent on the economic and industrial activity in the country, has been growing at a CAGR of 6.8% over the period 2001-2005. This is much higher than the MENA sector growth rate of around 5-6% and the world average of 2.7%. The growth in electricity production and consumption has been substantially higher than the overall population growth in Oman. This rapid growth in the power sector may be attributed to a high population growth, industrialization in the economy, especially in energy intensive industries such as petrochemicals, steel, aluminum, cement, etc, liberalization of power sector and attracting private sector investments in the sector.

Table 23: Electricity Production, Distribution, and Connection

(GW/H)	2001	2002	2003	2004	2005
Production	9,737	10,331	10,714	11,499	12,648
Distribution	9,178	9,851	10,303	10,959	12,023
Connection (000)	447	474	491	511	588

Source: Ministry of Economy

This growth in demand for electricity and water has necessitated continuous addition in capacity for utilities in Oman. The government is actively encouraging private sector participation for the development of this additional generating capacity. This policy has resulted in the completion of two “fast track” projects, Al Kamil and AES Barka which are located in Northern Oman. In Southern Oman, the privatization of the integrated power generation and distribution system has been completed which is now being managed by the Dhofar power company, United Power Company (UPC). UPC became the first IPP in GCC to develop a gas based power generating station in Manah on a Build Own Operate Transfer (BOOT) mode. The Ministry of Electricity & Water has an agreement with the company whereby the government would take its entire off take at a predetermined tariff structure such that the return on the project would be at 12% on an annualized basis for the shareholders over the life of the project (30 years commencing from 1995). The tariff rates would usually be higher in the initial years of its operation so as to repay its creditors and later they are expected to come down.

To meet the utilities needs of the Sohar Industrial projects, the Ministry of Housing, Water and Electricity (MHEW) awarded the project in July 2004 to Tractebel EGI, a division of Suez, to design, build, own, operate and maintain the green-field Sohar independent water and power project. The US\$620mn project consists of a 585 MW combined cycle gas turbines plant and a 33mn imperial gallons a day (6,250cu.m. per hour) water desalination plant. The plant will be owned by Sohar Power Co (SPC) and will be located in the Sohar Industrial Area, north of Muscat on the Gulf of Oman. SPC will float 35% of its shares on the Muscat Securities Market within four years of its incorporation, in line with contractual commitment made by the promoters to the government. The project will sell electricity and water to the Oman Power and Water Procurement Company SAOC under a 15-years power and water purchase agreement commencing in 2007.

The government of Oman has recently moved towards privatization of the electricity sector and the transmission grid. Currently there are 4 independent power producers (IPPs): Al Manah (commissioned 1996), Al Kamil, Barka and Dhofar (all of which came on stream in 2003). In due course the three main government owned generating stations at Wadi Al Jizzi, Al Ghurbrah and Rusayl would be privatized. The total power generation in the country stood at 12,649MW at the end of 2005. With the emphasis on Natural Gas, the future power projects are expected to use Gas Turbine technology which currently account for over three quarters of the total power generated from the government owned power stations.

Most of the additional capacity is likely to be funded and operated by the private sector, with foreign investors playing the role of part financiers and leading technology and service providers. At present, the MHEW takes care of transmission and distribution network of the country, with the exception of the Salalah region which has been transferred to the private sector. However, the law which envisages a comprehensive program for the restructuring, regulating and privatizing the utilities sector in Oman shall see the unbundling of MHEW and its eventual corporatization. Under the revamped system, a number of new entities will be created which shall take over the assets, liabilities and personnel of the current integrated functions of electricity generation, transmission, distribution and supply from the MHEW. Also an independent electricity transmission and dispatch operator and an independent regulatory authority to administer the new regulatory framework will be established under the new sector law.

The Ministry of Regional Municipalities, Environment and Water Resources estimated that about 70-80% of Muscat's water supply comes from desalinated water. Water production has been growing at a CAGR of 7.7% over 2001-2005 with Muscat region contributing about 63% of the total. Ground water still remains a major source of water supply in the country. The ministry foresees desalination as one of the most feasible alternatives to meet the growing water needs of the sultanate in terms of economic viability and environmental protection and hence desalination projects loom large in the government's infrastructure plans.

Table 24: Water Production, Distribution, and Connection

(Mn Gallons)	2001	2002	2003	2004	2005
Production	21,538	22,724	23,978	26,639	28,959
Distribution	21,529	22,855	23,951	26,431	28,802
Connection (000)	128	134	143	154	162

Source: Ministry of Economy

Interestingly, domestic consumption accounts for just 5% of all water demand in Oman. Industrial demand for water is less than 5 percent. Therefore, the greatest consumer of water in Oman is agriculture which consumes over 90% of renewable freshwater resources and contributes about 2% to GDP at current prices according to the Ministry of National Economy data. As most of the water needs in the country are met through ground water and it is expensive to transfer the treated water to the consumer, the government plans to build over 25 smaller desalination units in a Build, Operate and Own (BOO) basis.

Banking Sector

The banking sector in Oman consists of 18 banks, divided into 6 local commercial banks, 9 foreign commercial banks and 3 specialized local banks. All Omani banks operate under the supervision of the CBO, which is the sole regulator of the banking industry in the Sultanate. The industry in Oman enjoyed an outstanding year in 2005, and continued its positive momentum in 2006. Total deposits of commercial banks expanded by 24.5% from RO3.8bn at the end of FY05 to reach RO4.7bn at the end of FY06, while total bank credit increased by 20.7% from RO3.9bn at the end of FY05 to reach RO4.7bn at the end of FY06.

Table 25: Licensed Banks in Oman.

	Local Banks	Date of Establishment	Branch Network
1	National Bank of Oman	1973	50
2	Oman Arab Bank	1973	39
3	Oman International Bank	1975	82
4	Bank Muscat	1981	97
5	Bank Dhofar	1990	48
6	Bank Sohar	2006	1
	Foreign Banks		
7	HSBC Bank Middle East	1948	6
8	Standard Chartered Bank	1968	1
9	Habib Bank Ltd.	1972	9
10	Bank Melli Iran	1974	1
11	National Bank of Abu Dhabi	1976	2
12	Bank Saderat Iran	1976	1
13	Bank of Baroda	1976	3
14	State Bank of India	2004	1
15	Bank of Beirut	2006	1
	Specialized Banks		
16	Oman Housing Bank	1977	9
17	Oman Development Bank	1977	10
18	Alliance Housing Bank	1997	7

Source: Central Bank of Oman

The attractiveness of the Omani banking industry was also evident as more and more foreign banks are getting banking licenses into the Sultanate. Three foreign banks have recently applied for a commercial banking license in Oman. Bank of Beirut started operation in 2006. Qatar National Bank recently received the approval from the Central Bank of Oman (CBO) to open a full services branch in Muscat. Gulf Merchant Group, a leading UK investment banking and asset management firm, has received initial approval for a full banking license from the CBO to establish a new retail and commercial bank and is expected to launch its operations by the end of 2007. In addition, a local bank, Bank Sohar launched its operations in 2007.

In addition, Alliance Housing Bank, one of the oldest and established specialized housing banks in Oman, has recently been given “in principle” approval to convert into a full fledged commercial bank. The bank has conducted a study through an external

consultant, and the board will take a decision shortly on whether to convert or expand the existing business model. On May 9, 2007, Bank Muscat submitted an offer to merge with Alliance Housing Bank. The offer price was RO0.375 per share. However, on May 10, 2007, Alliance Housing Bank declined the offer and announced that it is currently evaluating its strategic options and offers.

On March 25th, 2007, the CBO decided to double the minimum capital requirement of new commercial banks to RO100mn from RO50mn, and to increase the minimum capital requirement of new branches of foreign banks to RO20mn from RO10mn.

Minimum capital adequacy norms were recently reduced to 10% from 12%, which is above the BIS norm of 8%. Other regulations mandated by the CBO include:

- The cap imposed on personal loans was recently reduced from 42.5% to 40% of a bank's total lending, in addition to a new cap of 5% for housing loans which were formerly included in the 42.5% cap. Accordingly, the total cap on personal loan portfolio has been increased to 45% (40% for personal loans and 5% for housing loans).
- Lending ratio is capped at 87.5% of total funding base comprising customer deposits, subordinated loans, net borrowings from banks abroad as well as capital and reserves.
- The aggregate lending by banks to a person and/or corporation shall not exceed 15% of the net worth of the bank.
- The percentage of investments in bonds and equities was raised from 10% to 20% of net worth.
- Banks are not allowed to own more than 49% of any bank abroad, however they are allowed to operate branches abroad.
- Interest rates on personal loans are capped at 9%.

The cumulative assets of Omani commercial banks grew at a CAGR of 17% during the period from 2003 to 2006. The majority of assets, was concentrated in credit to the private sector constituting around 61% of the system's total assets in 2006, and grew at a CAGR of 12.4% during the period from 2003 to 2006. During the same period, the growth of credit to the private sector was the highest in 2006, growing by 20% y-o-y compared to a growth rate of 11.6% in 2005. The increased pace of growth in credit to the private sector reflects the active participation of the private sector in the economy and the government's commitment to open up the economy for privatization which is expected to continue gaining momentum going forward.

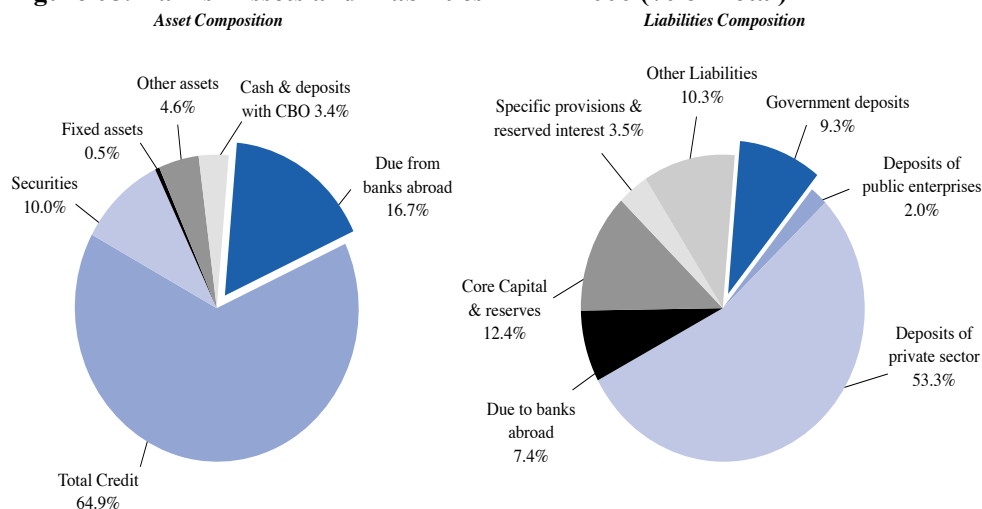
Table 26: Consolidated Balance Sheet of Commercial Banks

<i>RO mn</i>	2002	2003	2004	2005	2006
Cash and deposits with CBO	166.7	133.7	167.8	140.3	248.9
Due from banks abroad	322.3	350.5	545.6	741.3	1,209.6
Total Credit	3,270.3	3,308.3	3,505.7	3,896.4	4,703.0
Credit to private sector	3,054.6	3,089.9	3,274.1	3,658.6	4,397.0
Credit to public enterprises	46.0	69.0	87.3	111.8	195.8
Credit to government	169.7	149.4	144.3	126.0	110.2
Securities	416.4	544.0	503.1	597.5	723.1
Treasury bills	69.0	138.0	149.0	6.0	-
Government bonds	118.4	130.4	146.5	122.1	118.4
Other domestic securities	24.1	25.1	30.9	44.4	51.6
Foreign securities	85.9	83.4	121.7	154.8	302.5
Others	119.0	167.1	55.0	270.2	250.6
Fixed assets	36.9	36.6	35.4	37.4	36.5
Other assets	150.1	117.5	131.1	217.0	330.9
Total Assets / Liabilities	4,362.7	4,490.6	4,888.7	5,629.9	7,252.0
Total Deposits	2,777.2	2,852.6	3,078.3	3,761.5	4,684.9
Government deposits	276.4	299.9	441.4	543.5	676.5
Deposits of public enterprises	229.2	166.4	136.8	137.9	144.4
Deposits of private sector	2,271.6	2,386.3	2,500.1	3,080.1	3,864.0
Demand	523.2	594.4	625.8	854.1	894.3
Savings	588.6	667.4	757.5	876.7	1,035.4
Time	1,159.8	1,124.5	1,116.8	1,349.3	1,934.3
(of which in foreign currency)	(321.0)	(404.1)	(433.2)	(748.9)	(1,191.4)
Due to banks abroad	486.8	398.9	313.5	194.7	539.7
Core Capital and Reserves	432.8	548.7	587.3	781.7	900.0
Supplementary Capital	97.9	110.1	100.3	119.2	122.8
(of which general provisions)	(5.0)	(5.4)	(22.7)	(46.9)	(60.5)
Specific provisions & reserved interest	297.4	371.2	357.0	278.1	255.9
Other liabilities	270.6	209.1	452.3	494.7	748.6

Source: Central Bank of Oman

On the liabilities side, private sector deposits constituted the bulk of commercial banks' liabilities, constituting 54% of the total liabilities of commercial banks in 2006, and grew at a CAGR of 17% during the period from 2003 to 2006. Private sector deposits recorded the highest growth rate in 2006, growing by 25% y-o-y compared to a growth rate of 23% in 2005 on the back of the increase in interest rates on deposits during the year.

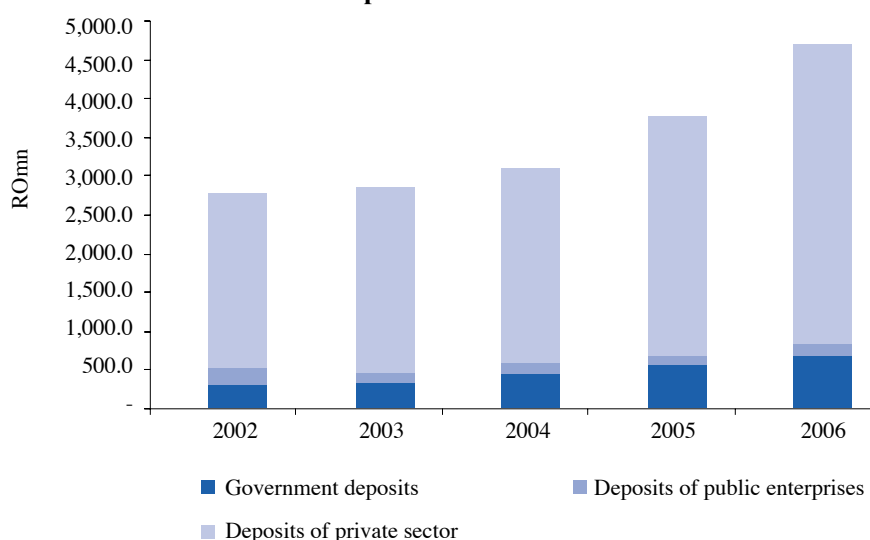
Figure 08: Banks' Assets and Liabilities Mix in 2006 (% of Total)



Source: Central Bank of Oman.

On the back of strong liquidity and higher interest rates, total deposits expanded by 24.5% in 2006, to reach RO4,684mn. It grew at a CAGR of 14.2% from 2002 to 2006, with private sector deposits constituting the majority of total deposits of commercial banks, around 83%, and growing at a CAGR of 14% during the same period. Private sector deposits grew by 25.5% y-o-y to reach RO3,864mn in 2006. Time deposits constituted 50% of private sector deposits in 2006, while saving deposits accounted for 27% and demand deposits accounting for the remaining 23%. During 2006, time deposits witnessed the highest y-o-y increase growing by 43.4% y-o-y and. Its share of private sector deposits also increased from 44% in 2005 to 50% in 2006.

Figure 09: Commercial Banks' Deposits



Source: Central Bank of Oman

Reflecting the healthy macroeconomic conditions in the Sultanate, credit off-take in Oman has expanded rapidly especially in the past couple of years, growing by 11% in 2005, and 21% in 2006. It grew at a CAGR of 15.8% during 2004-06.

Table 27: Distribution of Commercial Bank Credit by Economic Sectors

<i>(RO mn)</i>	2004	2005	2006
Import Trade	386.4	394.6	416.4
Export Trade	5.3	9.8	14.0
Wholesale and Retail Trade	146.2	193.5	202.4
Mining and Quarrying	99.7	109.0	188.1
Construction	222.8	256.0	274.5
Manufacturing	270.8	309.0	366.4
Electricity, Gas, and Water	115.6	160.5	172.4
Transport and Communication	45.4	44.9	65.5
Financial Institutions	164.3	201.9	234.0
Services	225.8	237.0	313.1
Personal Loans	1,344.4	1,482.7	1,824.6
Agriculture and Allied Activities	31.4	40.2	38.6
Government	144.3	126.0	110.2
Non-Resident Lending	50.2	43.1	49.6
All Others	253.1	288.2	433.2
Total Credit	3,505.7	3,896.4	4,703.0

Source: Central Bank of Oman

The distribution of commercial credit facilities by the banking sector at the end of 2006 indicates that personal loans constituted around 39% of total credit facilities, followed by import trade (9%), manufacturing (8%), services (7%) and construction sector (6%).

With the outlook of Oman's economy looking bright, the banking industry in Oman will be one of the main beneficiaries through increased lending opportunities and improved asset quality. Oman's economy is set for another growth phase, and the potential for increased lending opportunities are reasonably bright in the face of the government's commitment to the long term goal of economic diversification, and the increasing liquidity levels and fiscal surplus arising from high oil prices in the region.

We believe that the conditions underlying the remarkable performance in the past few years are likely to prevail in 2007 as well. The government is aggressive in privatizing state-owned industries and wants an active private sector participation in financing and operating new projects, and banks in Oman are now active participants in the economic development of the Sultanate.

We believe that growth prospects are high for both corporate and consumer lending. With enhanced per capita income, strong population growth, and around 33% of the Omani population between the ages 15 to 29 years, the outlook for consumer lending is very bright. Booming real estate market and the relaxation of ownership regulations encouraged banks to increase their exposure to home financing such as National Bank of Oman launching "Al Manzel" housing loan and Bank Muscat launching "Baituna", which are offered to both locals and expatriates.

Though the CBO has placed a new capital requirement that might limit the number of new licenses, new players which have recently joined the market will force existing ones to improve and diversify their products and services. Rising competition from new banks joining the market such as Bank Sohar, Bank of Beirut, Qatar National Bank, and Gulf Merchant Group who recently applied for a banking license, will force banks to defend their market shares through improving their customer services, improving their technology infrastructure and diversifying their revenue base.

We believe that the growth prospects for the banking industry in Oman are positive given the bright economic outlook, the government's commitment to diversification, and buoyant consumer lending market.

For a detailed discussion on Oman Banking Sector, please refer to our "Oman Banking Sector Report "

Real Estate

The recent surge in oil prices and the resulting increase in liquidity, has resulted in mega real estate projects boom throughout the GCC in general and Oman specifically. Other factors contributing to this real estate boom are as follows:

- Oman's total population stood at 2.5mn in 2005 increasing by 3.8% from 2.4mn in 2004. Oman has also a young demography, around 66.7% of the Omani total population are below the age of 24, which translates into an increasing demand for housing.
- A strong economy and the increase in liquidity has been one of the main drivers of the buoyant real estate sector. With higher yields, property remains one of the best investment avenues in Oman. Last but not the least, the domestic liquidity situation in Oman has been influenced considerably by the developments in the oil front. Higher oil revenues and higher overall surplus in the balance of payments also contributed to excess liquidity conditions in the market.
- The expansion in Oman's economy and the flow of expatriate workers, have boded well for both the commercial and residential segments of the real estate market. The employment of expatriates in the private sector has been increasing in absolute numbers. It stood at 510,713 employees in 2006 compared to 424,788 employees in 2005. Also, demand for high quality commercial space has grown in tandem with improving economic situation creating a shortage of office space, and inducing an increase in commercial rents.
- Until recently only GCC nationals were the only foreigners allowed to buy land in Oman according to Royal Decree 21/2004 which extend land ownership rights to GCC national and GCC corporate entities (wholly owned by GCC nationals). However, the Royal decree 12/2006 expanded foreign ownership rights to include non-GCC nationals as well.
- The government has been promoting tourism as a catalyst to economic diversification, undertaking lot of measures to revive the sector, starting with the establishment of Ministry of Tourism in 2004. The freehold ownership law which allows foreigners to own real estate in designated integrated tourism-related areas on a freehold basis is another sign of the government's commitment to revive the sector. The government is also granting subsidized land to major developers for tourism projects. This has encouraged the establishment of mega developments such as the Wave, Blue City, Muscat Golf & Country Club, and Yitti.

“The Wave”, a US\$800mn investment is being established along a beachfront of 7.3 km west of the capital Muscat, is a joint venture comprising Oman's Waterfront Investments, representing the government of Oman, the National Investment Funds Company, and the UAE's Majid Al Futtaim Investments. The project is scheduled to be developed in two phases; the first phase of the project will involve reclamation of land, infrastructure

development and site improvement, which will include an 18-hole PGA Golf Course and Marina. The second phase will feature the development of hotels, villas, condominium towers and upscale apartment complexes, as well as retail and restaurant outlets.

The US\$10bn “Blue City” project in Barka will be developed over several phases in the next 10-15 years. The Blue City will include several hotels and tourism attractions, as well as other developments related to education, healthcare, sports and marine sectors. The Blue City is anticipated to become home to more than 200,000 people.

Another agreement was signed recently between the government and Dubai International Real Estates Co. to set up an integrated tourism project in Yitti in the governorate of Muscat. The project with its various components represents a complete tourism project to be set over a 2.6mn sqm area. It will include a beach hotel, a health resort and a mountain resort, a golf ground, yacht harbor, residential villas and tourism utilities.

“Muscat Golf & Country Club” is a five-star leisure and residential destination. The international construction giant, Laing O’Rourke, is the project leader, and is overseeing the total project construction and the course preparation. Endorsed by the Ministry of Tourism, Muscat Golf and Country club includes two bedroom apartments, three bedroom penthouses and the three, four and five bedroom villas, the gulf course, clubhouse as well as the exclusive five star hotel, spa and shopping facilities. The site is close to Seeb International Airport, allowing easy access to international travelers. The project is expected to be completed by 2009.

The real estate in Oman is continuing its strong growth. The latest available data from the ministry of national economy indicate that the total number of total plots have increased from 35,414 in 2004 to 71,263 in 2005, an whopping increase of 101%. The residential sector still captured the biggest share, registering 83.2% of the total number of plots in 2005, and the capital city “Muscat” having around 42% of the total plots in 2005.

Table 28: No of plots by Governorate Region & Type of Use

Governorate	Residential		Commercial		Res/Com			Other		Total	
	2004	2005	2004	2005	2003	2004	2005	2004	2005	2004	2005
Muscat	11,758	25,161	1,439	9	162	0	3,901	364	1,175	13,561	30,246
Al Batibnah	5,248	9,345	144	24	30	168	114	652	305	6,212	9,788
Musandam	142	902	8	4	5	0	0	10	70	160	976
Adh Dhahirah	6,913	7,371	509	400	27	130	781	180	338	7,732	8,890
Ad Dakhliyah	1,057	6,655	115	47	0	23	257	200	196	1,395	7,155
Ash Sharqiyah	3,772	7,642	281	173	0	31	2	412	154	4,496	7,971
Al Wusta	88	277	28	16	0	33	2	38	72	187	367
Dhofar	1,406	5,097	169	138	0	14	603	82	32	1,671	5,870
Total	30,384	62,450	2,693	811	224	399	5,660	1,938	2,342	35,414	71,263

Source: Oman Ministry of Economy

The outlook for the Omani real estate market is very promising with healthy macroeconomic environment, and most importantly, steady progress towards economic diversification. High oil prices provided significant boost to the economy which has been boosted by higher liquidity levels. Being the most politically stable country in the region is another big plus for Oman. This gives it the potential to attract foreign investments.

The Royal Decree allowing foreigners' freehold ownership in tourism designated areas is expected to be another significant driver of the real estate sector in Oman. With the Royal Decree, the future for big projects like the Wave, Blue City, Yitti and the Muscat Golf and Country Club looks bright as the demand for property is expected to go up.

Another big plus for the Omani real estate market is that despite the upsurge in property prices, Oman still remains a competitive market in terms of prices as compared to other GCC countries. Omani land is cheaper than the other GCC countries. Land prices in Oman is estimated to be roughly 50% less than that in Dubai, and 35% less than Bahrain. This gives the country an advantage in attracting investments from other appreciating GCC countries.

We expect the demand for industrial space to pick up as the government continues to open up for foreign investments, which will in turn create demand for the residential sector coming from the inflow of expatriates. The government has been trying to position the Sohar Port as an industrial hub. The port is undergoing a huge transformation with around US\$12bn worth of developments in the pipeline. The government has been very supportive to new developments, giving out land to big developers under long term leases at very low annual rental rates of RO0.75/sqm. Five major projects have been already announced namely Sohar Refinery Project, Sohar Methanol Project, Oman-India Fertilizer Project, Ferro-Chrome Project, and Sohar Fertilizer Project. Of these, work has already progressed in respect of Sohar Refinery Project and the Oman-India Fertilizer Project. We anticipate continued activity in the industrial sector in tandem with the government's commitment to its long term target of diversifying away from the oil sector.

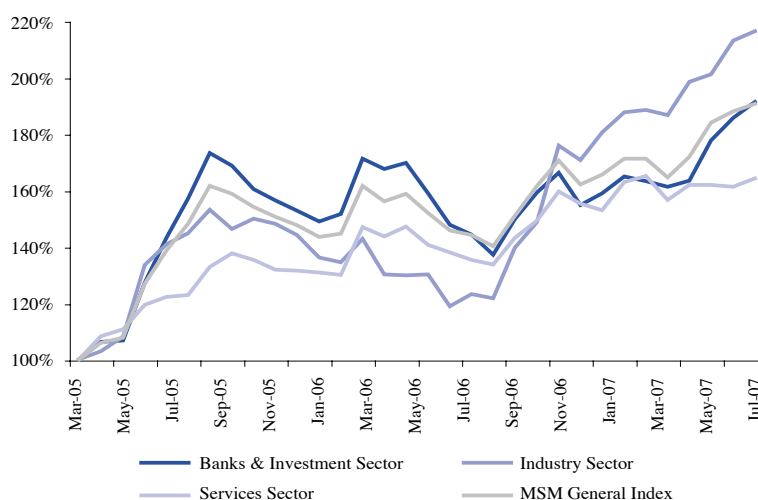
Supported by a growing economy, favorable government measures regarding foreign investments, and foreign ownership laws, the real estate market in Oman has changed rapidly over the last year, and is expected to gain further momentum in the short to medium term. While the retail segment is not very promising, a young demography, flourishing business environment and an influx of expatriates will bode well for the residential and commercial sectors. Further, with the government's commitment to its diversification plan, and mega projects underway, the industrial and tourism sectors are likely to be other winners in the Omani real estate sector.

For a detailed discussion on the real estate sector, please refer to our Research report on "Oman Real Estate Sector".

Stock Market Performance

Most GCC securities markets witnessed a sharp mid-year correction in 2006 following the record rise of share prices during the previous two years. Oman market finally managed the distinction of being the only market in the GCC region to report an yearly growth in 2006 as the benchmark MSM General Index ended the year at 5,581.6 points, registering yearly gain of 14.5% in 2006. The market capitalization of MSM at the end of 2006 reached RO6,220.0mn.

Figure 10: MSM Indices Relative Performance



Source: MSM & Global Research

In terms of annual numbers, the aggregate volume of shares traded reached 1,113mn shares in 2006 as compared to 515.4mn shares reported in 2005 but it was mainly due to the stock splits undertaken by corporates which increased aggregate volumes of shares traded in 2006. However, value of shares traded declined by 19.8% in 2006 to reach RO1,128mn.

Table 29: MSM Historical Performance Snapshot

	2002	2003	2004	2005	2006
Number of issues in primary market	26	35	45	66	61
Value of listed issues (ROmn)	210	385	339	679	377
Secondary market activity					
Value of Trading (ROmn)	231	593	759	1,407	1,128
Number of shares traded	191.8	315.2	345.4	515.4	1,113
Average value of trading per day (ROmn)	0.921	2.381	3.056	5.517	5.437
Market capitalization (ROmn)	1,984	2,790	3,587	5,878	6,220
General share price index	1,918.6	2,726.7	3,375.1	4,875.1	5,581.6

Source: MSM Statistics and Global Research

In terms of sectoral indices, it was the Industry index that stole the limelight in 2006 as it reported a yearly growth of 34.3% followed by services and insurance sector index that reported growth of 17.6% in 2006. Banking and investment sector index showed lackluster performance in 2006 as it increased by only 4.8%. YTD performance of the MSM has continued its upward trend, where the general index ended the month of July-07 at 6,426.7 points, which translates into an increase of 15.1%. The Banks and Investment Sector led the growth in 2007 by registering an increase of 20.4% YTD to reach 8,641.7 points, followed by the Industry Sector which increased by 19.8% to reach 6,079.0, and the Services Sector which increased by 7.4% to reach 2,495.5 points.

Regular market continued to account for the bulk of trading in 2006, accounting for 98% of the total volume of shares traded on the bourse indicating investors' preference for liquid stocks. In terms of annual trading activity, Bank Muscat led the market with 116.4mn shares changing hands followed by Oman Telecommunications (95.8mn) and Alliance Housing Bank (81.8mn).

Table 30: MSM Historical Performance Snapshot

Index	2004	2005	2006	Jul-07	YTD Growth
Banks and Investment Sector	4,520.6	6,847.7	7,179.3	8,641.7	20.4%
Industry Sector	2,811.9	3,778.5	5,072.8	6,079.0	19.8%
Services Sector	1,520.5	1,975.7	2,323.9	2,495.5	7.4%
General Index	3,375.1	4,875.1	5,581.6	6,426.7	15.1%

Source: MSM

The year 2006 saw a subdued primary market activity as the only high profile IPO that hit the market came in December was of Sohar Bank. The bank is floating an IPO of 40 million shares to raise RO20mn between December 9, 2006 and January 7, 2007 year. This was the first IPO after Oman Telecommunications mobilized RO288mn in the biggest ever share offer on the MSM in July 2005.

Table 31: MSM – Last 12 months data

	Total Volume Traded	Total Value Traded (US\$)	Market Cap (US\$)	No. of Transactions
Jul-07	230,704,291	314,846,125	15,135,000,000	39,727
Jun-07	133,497,538	270,324,974	14,725,000,000	31,027
May-07	212,183,935	355,572,808	14,981,818,182	47,663
Apr-07	181,207,576	369,578,855	13,574,025,974	39,841
Mar-07	114,153,298	189,548,862	12,864,935,065	39,405
Feb-07	87,703,258	152,123,787	13,236,363,636	21,759
Jan-07	112,979,664	198,791,831	13,267,532,468	26,067
Dec-06	100,396,882	156,858,571	12,901,298,701	17,858
Nov-06	58,285,699	128,102,870	12,696,103,896	20,387
Oct-06	112,075,075	212,802,218	13,361,038,961	33,384
Sep-06	149,198,552	246,473,613	12,761,038,961	36,967
Aug-06	69,954,759	120,816,647	12,036,363,636	23,478
Jul-06	50,792,100	96,797,706	11,332,467,532	16,054

Source: MSM

This positive performance in the securities market was due to factors such as improvements in the macroeconomic scenario on the back of high average oil prices leading to improved liquidity situation, good corporate performance during the past couple of years and increased confidence in the economy and the market. Also, increased government expenditure on large infrastructure and industrial projects to drive the non-oil GDP growth has led to increased investment opportunities and also buoyed the investor confidence and interest to participate in the country's growth. One of the concerns of Omani market has been the liquidity which the regulators tried to address by allowing stock split to encourage retail investors' participation.

Compared to other markets in GCC, MSM is more stable in terms of attractive valuations where the market is trading at a trailing P/E multiple of 12.0. Also MSM has displayed lesser volatility, and is known for transparency and good regulatory environment. The Omani stock market, though lacking in liquidity, has proved resilient to the downward trend being experienced in the GCC region and we believe that the improvement in the macroeconomic profile will soon trickle down to the corporate performance and capital markets. We remain positive on the MSM and expect superior performance in the stock markets with a medium to long term perspective.

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Global Investment House
Tel: (965) 2400551, ext 132 - Fax: (965) 2400661
research@global.com.kw
www.globalinv.net