

Oman Business Forecast Report Q1 2012

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Abstracts

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Core Views – Oman

Elevated oil revenues and robust government spending will be the primary drivers of Oman's growth momentum over the medium term. Given our expectation of declining oil prices, we project real GDP growth declining from 5.4% y-o-y in 2012 to 4.0% in 2013.

While greater economic opportunities have been created in response to public protests, political concessions have come much more slowly. The lack of reform momentum on political matters will keep a degree of political tension present despite the creation of tens of thousands of jobs.

Major Forecast Changes

Elevated international energy prices and a very healthy budget position have prompted us to revise up our real GDP forecasts to 5.4% and 4.0% y-o-y in 2012 and 2013 respectively, from 4.5% and 3.4% previously. Expansionary fiscal policy will feed through to private consumption and fixed investment.

Key Risk To Outlook

We stress that, for the foreseeable future, Oman's economy will remain highly reliant on oil revenue, and caution that should prices record a more pronounced drop before the economy has been sufficiently diversified away from the energy sector, our positive outlook might prove overly optimistic.

The autocratic nature of the political regime in Oman (and elsewhere in the Gulf) will ensure that risks of an uptick in protest activity by pro-democracy demonstrators remain elevated; such activity would generate uncertainty and deter investors away from the market.

Core Views – Yemen

The decision on November 23 by Yemeni President Ali Abdullah Saleh to sign an agreement to resign is unlikely to bring the nine-month old political conflict in the country to an end. While the deal brings the crisis into a new phase, we caution that the president's motivations for signing remain unclear and - in any case - that the agreement may have come too late to prevent further outbreaks of violence between the government and defected elements of the army. We leave our short-term political risk rating unchanged for now, at 41.7 out of 100.

As a result of continuing disruption to the country's oil export infrastructure, we expect the current account to have fallen further into the red in 2011. We are projecting a current account deficit of 3.5% of GDP in 2011, compared with a deficit of 2.3% of GDP in 2010. While production is likely to increase in 2012, we expect moderating global energy prices to limit the effect of this improvements on the country's external position, and expect the current account deficit to shrink only moderately, to 3.3% of GDP.

Major Forecast Changes

The ongoing political crisis in the country has forced us to make changes to our economic growth projections for both 2011 and 2012. Having previously pencilled in a real GDP contraction of 5.1% in 2011, the escalating conflict has since led us to revise down this projection further. We now expect the economy to contract by 13.1% in real terms in 2011, and grow only slightly - by 4.4% - in 2012.

Key Risk To Outlook

The central risk to our outlook for Yemen is political. With the political conflict in the capital dragging on into 2012, there is a significant risk that any political solution to the conflict will come too late for the government to reassert any level of control over the country's northern and southern regions. With an Islamist insurgency in full swing in the south, and reports of renewed unrest in the north, there is a serious possibility that the security situation in Yemen could deteriorate further. The implications that persisting in Yemen could have over the entire Gulf Co-operation Council (GCC) region could drive

the wealthy oil exporters to contribute with aid and alleviate some of these problems; indeed, Saudi Arabia has already sent 3mn bbl of oil to Yemen to address fuel shortages. The GCC has pledged US \$10bn each to Bahrain and Kuwait, and has announced plans to fund five-year development aid programmes for both Morocco and Jordan. Such moves could set the stage for similar donations to Yemen. A successful political transition in Sana'a would likely be met with large inflows of aid, and cause us to raise our growth, balance of payments and budget forecasts.

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