

Oman and Yemen Business Forecast Report Q2 2014

<https://marketpublishers.com/r/O2B10475293EN.html>

Date: January 2014

Pages: 63

Price: US\$ 1,195.00 (Single User License)

ID: O2B10475293EN

Abstracts

Core Views

Oman's economic performance will remain robust over the coming quarters, on the back of healthy growth in oil and gas production and expanding non-hydrocarbon business activity. Rising public expenditure and a promising fixed investment picture should further support economic growth in 2014. We forecast real GDP growth of 3.5% in 2014, moderating slightly from an estimated 4.7% in 2013.

We continue to expect limited inflationary pressures in Oman over the near term, and have scaled down our average inflation forecasts to 2.1% and 1.7% for 2014 and 2013 respectively, from 3.1% and 2.8% previously.

Oman's fiscal outlook is becoming increasingly precarious, and we have made downward adjustments to our medium-term forecasts as a result of recent developments. We project a budget deficit of 1.6% of GDP in 2014, widening to 4.6% of GDP by 2017. Fiscal reform will need to be accelerated in our view, either through curbs to subsidies and military expenditure, or the establishment of new non-hydrocarbon revenue streams.

Key Risk To Outlook

We stress that, for the foreseeable future, Oman's economy will remain highly reliant on oil revenue. 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 from the market.

Core Views

Yemen's political crisis remains in full swing. Although the national reconciliation conference begun on 18 March, a development which is certainly encouraging, we remain pessimistic about the prospects for political stability over the coming quarters.

The economic outlook is modestly improving, with real GDP set to increase by 4.3% in 2014, compared to our estimate of 3.4% growth in 2013, largely as a result of low base effects. Our core scenario sees business activity continuing to be negatively impacted by civil unrest, while persistent attacks on the country's hydrocarbon infrastructure will weigh on exports.

Over the long term, we expect Yemen to become a significantly more decentralised state, which will provide different tribal groups with a greater say over policy. Hydrocarbon-revenue sharing will most likely be a central feature in any future state.

Key Risk To Outlook

Any further disruption by southern-based Islamists to oil or gas exports would weigh heavily on the external position. Yemen's current account dynamics remain precarious; with minimal inflows of capital on the financial account, another series of attacks on the country's hydrocarbon infrastructure could see the rial come under sustained depreciatory pressure.

We expect the international community to significantly step up its financial support for Yemen in the years ahead. Large inflows of aid would leave the government in a better position to protect the country's all-important oil export infrastructure. In addition, there would be room for a ramping up of public spending on wages and infrastructure, helping to facilitate a more rapid economic recovery.

Contents

BMI Methodology
BMI Risk Ratings – Oman
BMI Risk Ratings – Yemen
Middle East – Ratings League Tables
Executive Summary – Oman
Middle East – Ratings League Tables
Core Views
Key Risk To Outlook

CHAPTER 1.1: POLITICAL OUTLOOK – OMAN

SWOT Analysis
Foreign Policy
Omani Opposition Highlights 'Gulf Union's' Weak Prospects
Oman's categorical opposition to a regional political union has exposed internal differences among the six countries of the Gulf Cooperation Council (GCC).
Table: Political Overview
Long-Term Political Outlook
Royal Succession: Who Is Next In Line?
Royal succession is the major question regarding Oman's political future, although demographic change and regional instability also pose challenges.

CHAPTER 1.2: ECONOMIC OUTLOOK – OMAN

SWOT Analysis
Economic Activity
Economic Diversification: Strong Potential Ahead
The coming years are set to be a turning point for Oman, with oil production expected to peak in 2015.
Table: ECONOMIC ACTIVITY
Table: OMAN – GAS PRICES FOR INDUSTRIAL CONSUMERS
Table: OMAN – SECTORS' CONTRIBUTION TO OVERALL GDP, CURRENT PRICES
Trade Outlook
Opportunities From Iran Sanctions Relief
The moderate easing of international sanctions against Iran seen thus far poses several implications for Oman's economy. We expect the Omani re-export sector to see gains

over the coming quarters, albeit to a more limited extent than Dubai's.

Table: CURRENT ACCOUNT

Banking Sector

Moderate Lending Growth Over 2014

Table: OMAN – BANKING SECTOR OVERVIEW

Regional Economic Outlook

Key Themes Of 2014

Table: Oman Commercial Banking Sector – A Changing Regulatory Environment

CHAPTER 1.3: 10-YEAR FORECAST – OMAN

The Oman Economy to 2023

The Next Episode: Shifting Away From Oil

Declining oil production will weigh on growth over the coming decade. Although Oman is diversifying its economy, it needs to do more to reduce its energy dependence and develop self-sustaining growth outside of the hydrocarbons and energy-intensive sectors.

Table: Long-Term Macroeconomic Forecasts

CHAPTER 1.4: BUSINESS ENVIRONMENT – OMAN

SWOT Analysis

Business Environment Outlook

Institutions

Table: BMI BUSINESS AND OPERATION RISK RATINGS

Table: BMI LEGAL FRAMEWORK RATING

Infrastructure

Table: LABOUR FORCE QUALITY

Market Orientation

Table: MENA – ANNUAL FDI INFLOWS

Table: TRADE AND INVESTMENT RATINGS

Operational Risk

Table: TOP EXPORT DESTINATIONS, 2000-2008

Executive Summary – Yemen

Core Views

Key Risk To Outlook

CHAPTER 2.1: POLITICAL OUTLOOK – YEMEN

SWOT Analysis

Domestic Politics

Political Uncertainty Exacerbating Security Risks

Although Yemeni political parties signed a document on December 23 stipulating the federal nature of a future state, we believe that a resolution to the Southern issue will remain elusive. General elections will be delayed, which will only exacerbate the tenuous security situation in 2014.

Table: Yemen political overview

Long-Term Political Outlook

Turbulent Decade Ahead: Scenarios For Change

CHAPTER 2.2: ECONOMIC OUTLOOK – YEMEN

SWOT Analysis

Economic Activity

Growth Remaining Modest In 2014

Table: ECONOMIC ACTIVITY

Monetary Policy

Interest Rates To Stay Unchanged In 2014

Table: Consumer price INFLATION

CHAPTER 2.3: 10-YEAR FORECAST – YEMEN

The Yemeni Economy to 2023

Oil And Water: Not Enough Of Either

On top of its political troubles, over the next 10 years Yemen must face slowing oil production and the ongoing depletion of its water resources. Under these circumstances, its economic outlook is far from positive.

Table: Long-Term Macroeconomic Forecasts

CHAPTER 2.4: BUSINESS ENVIRONMENT – YEMEN

SWOT Analysis

CHAPTER 3: BMI GLOBAL ASSUMPTIONS

Global Outlook

Momentum To Continue In H114

Table: Global Assumptions

Table: Developed States, Real GDP Growth, %

Table: BMI VERSUS BLOOMBERG CONSENSUS REAL GDP GROWTH
FORECASTS, %

Table: Emerging Markets, Real GDP Growth, %

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