

Opportunities and Challenges for the Economy of Sultanate of Oman, Beyond Petroleum Sector

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1. Petroleum
2. Oman
3. Opportunities
4. Challenges
5. Economy

Abstract

The huge reduction in prices of crude oil has posed a major challenge in front of Oil producing countries. Oman is one of such countries whose revenue from Oil sector contributes to the extent of 84% of the total revenue. Due to the change in the oil prices it is expected that there would be increase in the annual deficit of the country's financial budget in the years to come.

The paper discusses the need to diversify and explore the new avenues for revenue generation. The paper also identifies the major industries or sectors which have potential to grow. However though the sectors have potential, it not easy to make it productive and generate revenue overnight. Therefore the paper tries to analyse the challenges which may lay ahead and the probable solutions to overcome it and generate income from non oil sectors as well.

INTRODUCTION :

Since 2008, the Petroleum industry is witnessing major changes. OPEC (Organisation for Petroleum Export Countries) who coordinates and unifies the petroleum policies, sets production targets for its member nations. Generally, when OPEC production targets are reduced, oil prices increase. Since 2008, USA has increased its oil production by over 70 percent which resulted into its reduction in the demand for oil from OPEC and allied countries almost by 50%. In July 2014 the production from the countries other than OPEC members was predicted at 1.7 million barrels per day (270,000 m3/d). Out of this US and Canada were supposed to be producing 1.6 million barrels per day (250,000 m3/d).

Crude oil prices peaked on 17 June 2014 at more than US\$115 per barrel. From 2011 until mid-June 2014 the annual average price of oil was about US\$110 per barrel. Since June 2014 however, the price of oil slid to \$US80. OPEC argued that this drop in the price of oil was due to ample supply, moderate demand, a stronger US dollar and uncertainties about global economic growth" In spite of global oversupply, on 27 November 2014 in Vienna, Saudi

Oil Minister Ali al-Naimi, blocked the appeals from the poorer OPEC member states, such as Venezuela, Iran and Algeria, for production cuts. Benchmark crude, Brent oil plunged to US\$71.25, a four-year low.

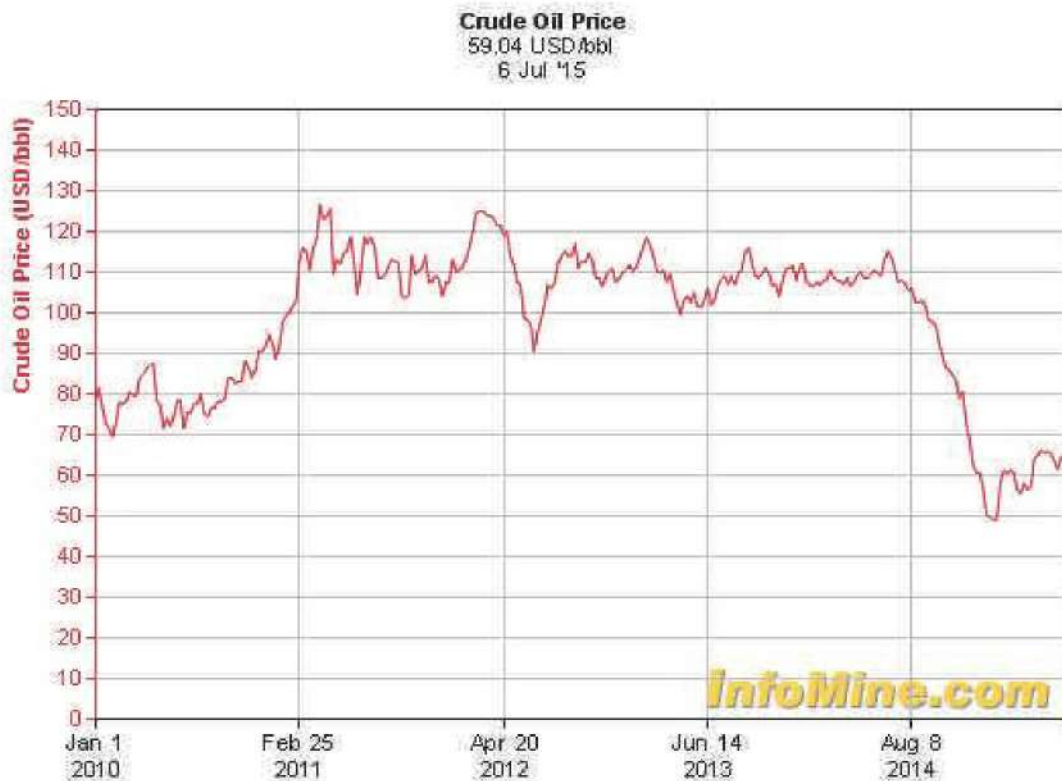
Oman is not part of OPEC though its prices are affected by the policy of OPEC. The over all prices of the crude in last 5 years would unfold the drastic changes which have taken place in the crude oil pricing in last year.

One would notice that the oil price which were in the range of 100US\$/BBL to 125US\$/BBL have started sliding down from June 2104 and have gone down deep to reach 46USD\$/BBL. In fact the 52 week high as on 26th Feb 2015 was 114US\$/BBL whereas 52 week low was 46.55US\$/BBL.

The changing pattern of prices, increase in the supply of oil due to additional production facilities available at USA, less dependence of US economy on other countries for oil are the factors which are forcing the countries like oman to think beyond petroleum and explore the new avenues for the revenue generation to sustain growth. Therefore the current research paper addresses the following issues

1. The impact of reduction of oil prices on the economy of Oman
2. Current demographic profile of Oman in terms of Education, Omanisation and Employment

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3. The industries / sectors other than petroleum, having high potential for revenue generation

4. Probable Challenges in development of the potential high growth industries

5. Conclusions and Recommendations

RESEARCH METHODOLOGY

Objectives of the paper are

1. to find out the impact of the reduction of oil prices, on the revenue and economy of sultanate of Oman.
2. to identify the other areas which have a potential for growth
3. to assess the challenges in the growth of the potential areas

The researcher has referred to various articles in the newspaper, periodicals, internet to understand the severity of the problem. The research is supported by the factual data from the various annual publications of National Center for Statistics and Information, which is a government body providing statistics for the economy of sultanate of Oman. In addition to the data, the researcher has also conducted a survey by taking the sample from the various sectors of the society to understand the views of the stakeholders in general, on the various issues related to the proposed

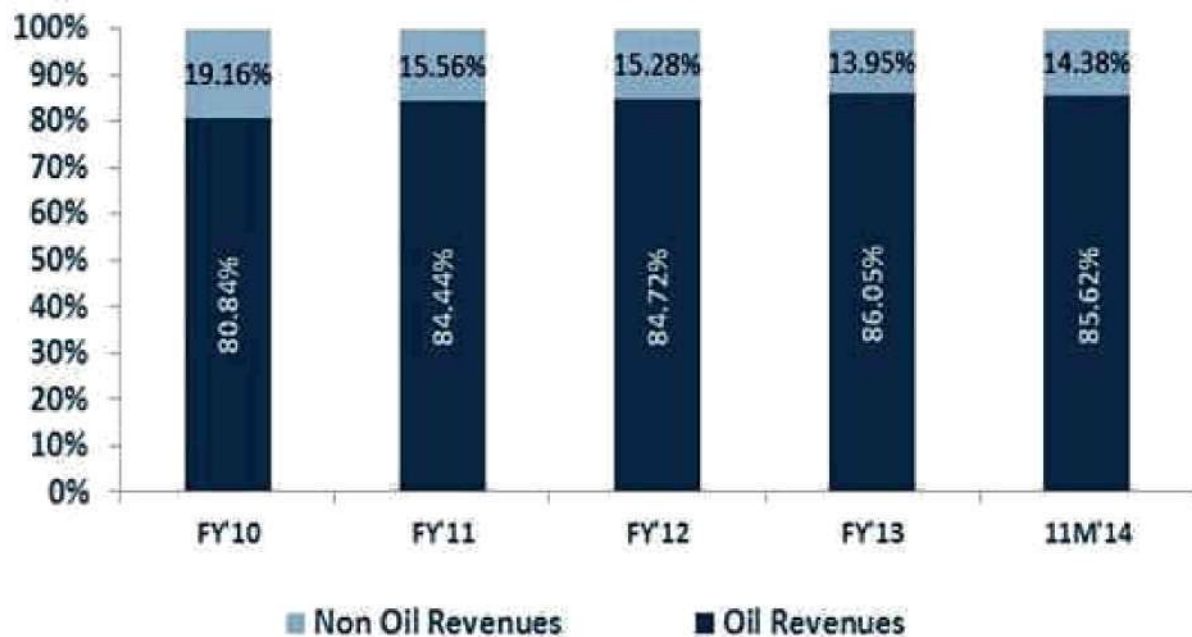
growth of the economy, challenges and opportunities. The respondents were diverse – coming from different age groups, from various nationalities and from various sectors. The results of the survey are given at appropriate places.

1. Impact Of The Oil Prices On The Economy Of Oman

According to the latest survey conducted by You Gov and Bayt.com for Middle East and North Africa (MENA) region, even today, Oil and Gas is the most preferred industry to work with, in Sultanate of Oman.

Last few months, it is observed that the evil effects of the decrease in oil prices are actually being felt by sultanate of Oman. While addressing in a conference held in Kuwait in January 2015, Oman's minister of Oil and Gas, H E Dr. Mohammad bin Hamad Al Ruhmi has raised a concern about decision of OPEC of not reducing the output, in spite of such a low reduction in oil prices. As an effect the standard and Poor lowered the country's outlook to negative from stable on December 5. . However OPEC has maintained its stand of not cutting the production on the plea that "if we reduce our production then some other countries will fill the gap." Soudi prince Al Waleed bin Talal Al Saud said. . The H E Salim bin Nasser bin Said al Aufi, undersecretary in the ministry of Oil and Gas has indicated that Oman may shelve some of projects in the Oil and gas sector if Oil prices continue to fall in the long run. . According to the IMF mission chief

The actual contribution of oil and gas and non oil and gas revenues to the total revenues



Ananthkrishnan Prasad, the oil price decline has made undertaking of reforms more urgent for Oman. The country has recorded a budget deficit of RO600mn last year, according to ministry of Finance. It estimated that the deficit will widen to eight per cent of gross domestic product this year, assuming an oil price of US\$75 per barrel. Even if prices go up, they are going to run the deficit and the deficit is going to stay. So they have to do something.

The results of survey indicate that 88% of the respondents strongly agree that the reduction in oil prices are going to create challenges for the economy of Oman.

However on the positive note, 92% of the respondents are optimistic about the other opportunities available to fill in the gap in revenue, that would be caused by the reduction in oil prices.

Trend Of The Revenue Structure Of Oman

From the year 2010 to 2014 one would observe that the contribution from non oil revenue is minimal and that too decreasing every year. This is due to mainly increase in the prices of the Oil. However in 2015 it is expected that the contribution from non oil sector revenues will be more, which is going up to 21 % from 14% reported in FY 2014.

2015 Budget is a real challenging budget as it is estimated that the revenue will decrease but the expenses would go up, resulting into 38% increase in the deficit as compared to

last Year. Last years estimated deficit was RO1,800mn which, in FY 2015m is estimated to be RO2,500 mn.

In view of this it is necessary to see, where the focus of the government lies, to ensure that more revenue can be generated from non oil sources.

According to the budget statement, the estimates regarding the real growth rate of the national economy indicate a rise from 4% in 2013 to 4.4% in 2014. In 2015, the targeted rate of growth is 5%. The government expects non-oil activities will grow at a rate of 5.5% in 2015 and the concentration will mainly be on the construction, electricity, water, trade activities and services of public administration, defence and transfer industries.

2. Demographic Profile Of Oman As Per The Annual Report 2014

2A. Composition Of Population

The total population of Oman as per the records of 2013, remain at 3.85 million which is comprised of 1.68 millions expats and 2.17million of Omani Nationals. If one considered the working age group of the population (20-60), one finds that it is dominated by Expats. However the biggest opportunity lies in terms of the young population of Oman. The Current statistics says that the youth in the age group of 20-24 is to the tune of 250 thousand whereas expats in this age group are only 170 thousand. This clearly outlines the opportunities available to the young population

The revenue structure in last two years and projections for 2015 are given below, in terms of RO millions.Revenue	2013	2014	2015
Oil	9355	9650	9160
Non Oil	1800	2050	2440
Total	11155	11700	11600
In %			
Oil	83.86%	82.48%	78.96%
Non Oil	16.14%	17.52%	21.04%

in oman. They would be the future of the country and need to assume major role in shaping the economy of the country.

2B.Education In Oman

It is observed that there is a remarkable change in the outlook of the Omani national towards education. The number of universities, college of applied sciences and Technical colleges remains unchanged over the period of last 5 years (2011-14), it is observed that the number of private schools, colleges and universities are increasing day by day. Omani nationals are also preferring to put their children in private schools than the government schools which is visible from the following table. One can see that the number of students studying under general education from government schools is decreasing every year whereas the students studying from the colleges is increasing year after year.

As far as the education system is concerned, respondents from the survey have varied opinions. 46% of respondents feel that the education system in Oman is adequate to shoulder the current global needs whereas 43% of them feeling contradictory. 11% of the respondents were indecisive about the statement. However, the respondents were very grateful to the government for providing full support for higher education. 92% of the respondents have mentioned that they agree that the government support the Omani nationals for the higher education.

2C. Omanisation – A Major Support From The Government

Through Omanisation, the governments is constantly and consistently supporting the young and mid aged Omani nationals to undertake more and more responsibilities. It provides a guaranteed opportunity for the omani national to work in government as well as private sector. It also

explores them top the global business arena which in turn helps them to be more efficient, productive. The soft advantage of taking higher responsibilities is understanding the value of education, globalization and liberisation. Once the role of education is realized, automatically the current generation tries to offer better opportunities for their younger ones. Thus the over all education sytem becomes more robust and demanding, making the future generations more and more able for higher responsibilities.

The analysis of the survey, shows that 79 % of the respondents are of the opinion that omanisation is of a great help for providing better opportunities to Omani nationals. 21% of the respondents were not sure about the fact. But the interesting part was that not a single percentage of respondents felt that Omanisation is not playing a positive role in the development of Omani Nationals.

2D. Employment Opportunities In Public Sector And Private Sector

It is observed that Omani national prefer to work in Public Sector. The survey also highlighted the same fact, by 88% of the respondents agreeing to the statement that generally the Omani nationals prefer government jobs than the private sector jobs. Public sector is highly dominated by the omani nationals. The number of Omani nationals working in public sector is increasing steadily every year. In 2004, 160 thousand omani nationals were working in Public sectors which has gone up to 211 thousand in 2014.

On this background it would interesting to review what opportunities are available to oman, which would go beyond petroleum and still offer lucrative business proposals.

According to the annual book of 2014, published by National Center of Statistics and information, the major factors that contribute to the GDP of Oman are give below



Indicator	2011	2012	2013
Total Petroleum activities	53.2	52.3	50.6
Total Non-Petroleum Activities	54.0	54.6	57.2
a. Agriculture and Fishing	1.3	1.2	1.2
b. Industry Activities	18.5	18.1	18.3
c. Service Activities	34.3	35.4	37.7

From the above table it is clear that in last three years the contribution of service sector is increasing gradually under non petroleum activities. The contribution from Petroleum activities is fading out. Under the industrial activities manufacturing of chemicals, non metallic minerals and building and construction form the major contributors. Under the service industry, wholesale and retail trade, transport storage and communication, financial intermediation and Real estate and Business activities are the influential contributors of the economy.

3. The Probable High Growth Potential Industries

The probable industries which can generate the revenue for Oman economy and contribute to making up of the gap that would occur due to reduction in the petroleum prices are given below

3A. Building And Construction

According to the classic theories of economics, the investment in the construction provides an impetus for the growth of the economy as it generates employment and turnover for basic industries. Following the same philosophy, one finds that the major thrust is put on the mega projects for building and construction.

Unveiling the strategy of year 2015, H E Dr. Ahmed bin Mohammed bin Salim al Futaisi, Minister of Transport and Communication said that 2015 will see number of important projects.

- First Line of Oman Railway Network
- Sharqiyah (Bidbid – Sur) and Batinah (Muscat – Barka) Express way
- Public Transport plan for Muscat
- Sohar Port Evaluation
- Salalah Port – Terminal for Liquid Cargo

f.Completing Muscat International Airport Work

3B. Fisheries Industry.

Revenue from fisheries is one of the major source of income generation for oman. Oman is blessed with 1700km of coastal line. The production and turnover of Fisheries is increasing every year. Oman is one of the leading exporters for fisheries to the outside world, mainly Saudi Arabia. The percentage and value of exports is also increasing every year. Currently the major portion of fisheries come from the traditional way of fishing.

As per the His excellency of Agriculture and Fisheries, New aquaculture projects in Oman to take seafood production to 7,330tonnes. The ministry of Housing has signed three projects valued at RO66mn, are expected to produce 7,330 tonnes of seafood such as shrimps, grouper fish and abalone. The project will provide 800 job opportunities to citizens. This would be a huge increase as compared to 353 tonnes as in 2013.

In addition to that there are dedicated institutes catering to the training of breeding, production, storage of fish products as well which can enhance the life of the fish caught.

The survey has echoed the preference for fisheries, by 92% of the respondents strongly agreeing that fisheries have major potential for growth.

3C. Tourism

Oman is gifted by abundant natural resources plus well preserved historical monuments. It provides an opportunity to the travellers, to get exposed to beautiful white beaches, golden sand dunes, vast mountains, and every green wadis. The astonishing complex structures of old castles and forts add value to already existing beautiful natural resources.



Indicators	2009	2010	2011	2012	2013
Number of branches	451	466	483	504	524
Bank Lending (Mn, R.O.)	9834	10724	12515	14320	15177
Loans approves by Housing Bank (Mn. RO)	40000	42000	56100	41000	80000
Loans approved by Oman Developmental Bank (mn. RO)	36622	36854	26790	41847	51302

The well build and maintained infrastructure makes it convenient for a traveller to travel across the country without any hassle.

In last few years, the government is making dedicated efforts for projecting oman as the preferred destination for the tourists. As a result, one could see the number of tourist which are visiting Oman are increasing day by day gradually.

If one can have look of some of the news that appear repeatedly in the newspapers regarding the promotion and growth of Tourism, one can have a fair idea about the scope of tourism industry.

Visitors from Australia, New Zealand outnumbering those from Europe. Oman being the best kept secret of Arabia. But clients say Oman unique natural beauty, heritage and culture combined with the renowned warmth and hospitality of Omani people makes Oman the best kept tourism secret on the planet.

The respondents from the survey are also very optimistic about the growth in tourism. 92% of the respondents felt that Oman has tremendous potential to explore, brand the tourism sector and attract the tourists from all over the world.

3D. Mines And Minerals

Oman is blessed with the abundant supply of various metals, minerals and mines. Oman's 700km long and 150km wide mountains contain the best exposed ophiolite suite of rocks, which are favorable for copper, Gold, silver, chromite, lead, nickel, maganese and zinc. Significant growth is expected over the next five years to help diversify the Sultanate's economy and create jobs for Omani nationals.

The survey conducted by the researcher, pointed out that like fisheries, mines and minerals will also have tremendous potential for growth. 92% of the respondents strongly agree that this sector is still unexplored and can have a

great potential.

3E. Financial Services

The growth in the financial sector is quite impressive in last few years. There are 20 licensed commercial banks operating in Oman. Out of these 20 banks 7 are nationalized banks, 9 are foreign banks, 2 are specialized banks and 2 are Islamic banks.

Its evident from the data that the banking sector in Oman is growing by leaps and bounds. Housing Bank and Oman Development Banks are the special purpose banks catering to the mega housing projects and development projects. The role which is played by these banks is quite substantial. In capital markets there was a substantial increase in the number of shares and bonds that were transacted on the markets from 2012 to 2013. In 2012 the number of transactions was 4 million which has rose to 8 million in 2013. In Insurance sector there are 22 companies operating in Oman as of 2013, with 127 branches all over oman. Motor vehicle insurance contributes to 89 % of the total revenue from insurance whereas Life insurance is only to the tune of 2,3%. Life insurance has a tremendous potential for growth as means of risk cover as well as investment opportunities.

The respondents from the c\survey were skeptical about the growth of financial sector. 50% were of the opinion that this sectors has a growth potential however 50% were of the opinion that it may not.

3F. Foreign Trade

Bilateral trade between the two countries (Iran and Oman) in the last two years has reached US\$1bn compared to about US\$200mn previously. Iranian investment in the Sultanate of Oman, especially in Sohar and Duqm industrial zones is close to about US\$4bn. .

3G. Direct And Indirect Taxes

Oman should conduct as extensive study before deciding to



levy taxes on various sectors to cover revenue decline and higher spending in 2015. People are bound to react when oil prices bounce back. Therefore there needs to be a clear foundation of thought on as why is it being done. Only temporary reduction in oil prices can not be the reason for imposing taxes. It needs educating people as well as a philosophy in terms of what type of taxes, how much, what impact will it have etc. Mr. Ananthakrishnan Prasad suggested that it is necessary to further diversify the economy and increase non oil revenue through direct and indirect taxation.

When the respondents were asked whether Oman should impose the taxes to fill up the gap that would occur due to reduction in Oil prices, 54% of the respondents felt the need for taxes. However 46% of the respondents were either indecisive or of the opinion that the taxes should not be imposed.

4. Challenges In Growing Beyond Petroleum

4A. Major Revenue Comes From Petroleum

Currently the percentage of revenue which comes from petroleum is to the extent of 84% of the total income. This percentage is based upon the calculation of average prices of \$100 per barrel and daily production 941.9 (,000 Bbl per day) If the global scenario is forcing countries like Oman to reduce the prices as well as the demand for production also decreases it will reduce the contribution in value as well as volume. Therefore one needs to analyse whether the remaining sources are enough to take care of the gap which would be created due to change in the price and production of the petroleum. At the same time one would understand that the demand for petroleum will not diminish to zero in any case. Therefore the focus would be finding out what would be the exact deficit and how to fill up that gap.

During the survey also, many respondents have spoken about the imbalanced dependence on Oil industries. Respondents were of the opinion that the risk of the economy is not diversified. If Oil and sector will collapse either due to reduction in selling prices or reduction in production, then there is no alternate strong sector to bank upon. This would be the biggest challenge in front of the economy that sultanate will be facing.

4B. Fisheries

Currently the fisheries industry is mainly driven by traditional fishing techniques. The percentage of fishing that is done by commercial way of production is only to the extent 15% of the total production. Thus one need to think how one can convert the traditional ways of fishing into commercial one so that productivity can be increased.

The 2015 budget is the last one in the eighth five-year plan, thus, theoretically should speed up execution of planned projects for the whole plan. A notable increase is seen in Current Revenues possibly indicating more government actions in the coming period.

The key areas which are considered to be important are

- üThe start of a railway project (Sohar-Al Buraimi phase).

- üAttention to stimulate the local financial markets through a privatization program of the next three years (2015 - 2017) or through issuing Islamic Sukuk / bonds.

- üFocus on the diversification of revenues sources as a sole tool to reduce the impact of fluctuations in oil prices.

- üThe economic growth depends on the growth of the non-oil activities, strong local demand and higher oil production.

- üThe investment expenditure will be used to cover development projects, oil and gas production capital expenses in addition to projects done by government entities.

4C. Omanisation

The objective of Omanisation is indeed very supportive and encouraging. However changing the mindset of the people is a gradual process. It can not happen overnight. Therefore we find that still many graduates prefer to work with government sector as they feel that private sector is very demanding in terms of working hours, meeting deadlines, professional commitments.

Therefore the employee turnover is very high in private sector which need to be stabilized. The constant training and orientation may help to inculcate the right business attitude required for developing the professional commitment.

In fact, it was found in some cases of small and medium sector that following the rules of Omanisation in the initial years is becoming a challenging task due to higher turnover, and high salaries. Therefore H E of commerce and Industries has taken a decision to take a soft stand on the Omanisation rules for SMEs.

- 1.Existing SMEs get four years to gradually meet the Omanisation Rate
- 2.SMEs allowed to include temporary employees in their Omanisation rate calculation
- 3.Ministries who contract with SMEs must make the payment within 28 days
- 4.Classifying the Riyada privilege card for entrepreneurs as a document that gives the holder priority in purchases and contracts



5. Each Ministry to set up a special department to ensure that 10% of its purchases / tenders are awarded to SMEs in the first half of 2015.

In view of this, it seems that making the new generation mentally ready for the greater responsibilities will be a major task in front of the government.

4D. Education

Many respondents are of the opinion that, the education system in Oman needs to undergo a change. The education at primary level is not very robust. The lack of knowledge of English at the childhood also creates major hindrance for higher education

4E. Attitude Towards Work

40% of the respondents were of the opinion that there is a need to develop more professional attitude amongst the Omani nationals if they need to undertake the higher responsibilities. Long working hours, following the deadlines, longevity of the service, willingness to work in private sector, willingness to work in various sectors, willingness to have trench for knowledge and learning were few of the concerns expressed by the respondents about the attitude toward work

4F. Human Resource Development

33% of the respondents were of the opinion that, Oman has substantial human resource. What is needed is the proper channelisation of the human resource for the better productivity of the economy. This could be done by training in entrepreneurship, supporting the Small and Medium sector businesses in a more focused way. Respondents also underlined the need for development of specialists in all the areas from Omani nationals only.

5. Conclusion

After reviewing the various articles, the facts for last few years, and the recent developments that are taking place in the OPEC and USA, it is evident that the oil prices are going to pose a major challenge for the economy of Oman. There are quite a good number of substitutes available for growth like Fisheries, Mines and Mineral and Tourism. However the path is not bed of roses. There are many challenges that the government and people of Oman need to tackle to shoulder the additional responsibilities. The major challenges would be

1. Making the education system robust

2. Including English right from childhood, so that the new generations can work in global environment comfortably and confidently

3. Attracting foreign investments in mines and minerals sector for the rapid growth

4. Branding the tourism outside Oman and make the country tourist friendly. Develop the infrastructure and facilities which would have ease of operations for tourists.

5. Making fisheries business more automated and foster the exports through proper storage mechanism

To conclude, one can say that Oman is undergoing the phase of change. How quickly it adapts to the change will be decided by the coming time. Till then, it would be interesting to follow the economy diligently and observe the changes which are on their way, in near future.

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