

## Budget 2008

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## Budget 2008: Growth on the forefront.

### Year 2007: An Overview

#### GDP Growth on Track

For the fiscal year 2007, the economy maintained its growth momentum. Based on preliminary estimates, the Gross Domestic Product (at market prices) of the country is expected to grow by 11.6% (y-o-y) to nearly RO. 15.3 billion as opposed to a 16.8% growth witnessed in year 2006. The latest available public data as of June 2007 revealed the GDP level at RO. 7.27 billion.

#### GDP by economic activity at current prices - Oman (RO, millions)

	2004	2005	2006	Jun-07
1. Total Petroleum Activities	4,016.1	5,796.3	6,571.5	3,407.7
1.1 Crude Petroleum	3,768.3	5,374.7	6,082.1	3,145.4
1.2 Natural Gas	247.9	421.6	489.4	262.3
<i>Total as a % of GDP</i>	<i>42.15%</i>	<i>49.05%</i>	<i>47.84%</i>	<i>46.90%</i>
2. Total Non Petroleum Activities	5,671.0	6,190.8	7,368.0	3,983.5
<i>Total as a % of GDP</i>	<i>59.53%</i>	<i>52.39%</i>	<i>53.63%</i>	<i>54.82%</i>
2.1 Agriculture and Fishing	169.5	172.1	195.9	89.2
2.2 Industry	1,243.5	1,464.6	1,946.2	971.2
Mining and Quarrying	16.3	18.3	23.7	18.9
Manufacturing (including LNG)	810.8	1,000.9	1,421.7	703.6
Electricity and Water	136.5	148.3	151.3	67.4
Building & Construction	279.9	297.1	349.5	181.3
2.3 Services	4,258.0	4,554.1	5,225.9	2,923.1
Wholesale and Retail Trade	1,152.0	1,218.4	1,478.9	889
Hotel and Restaurants	69.9	83.2	103.2	50.5
Transport, Storage & Communication	654.3	697.9	847.1	522.7
Financial Intermediation	340.8	378.6	451.6	235.6
Real Estate & Business Activities	466.4	343.3	352.9	186.2
Public administration & Defense	848.2	871.5	922.8	454.2
Other Services	726.4	961.1	1,069.4	584.9
Other**	-160.1	-169.6	-201.8	-124.7
<b>GDP at market prices</b>	<b>9,527.0</b>	<b>11,817.5</b>	<b>13,737.7</b>	<b>7,266.5</b>
<i>GDP Growth Rates (%)</i>	<i>13.74%</i>	<i>24.04%</i>	<i>16.25%</i>	

\*\* Includes adjustment items such as Financial intermediation services and Import taxes

Source: Ministry of National Economy.

#### Petroleum activities hold strong

In Year 2007, the GDP witnessed further value additions from Petroleum activities owing mainly to the high prevailing oil price and good demand for natural gas.

The International Oil scene witnessed some degree of alarm in Year 2007 with the oil prices nearing the unexpected US\$. 100/bbl. Oil prices achieved all time highs of US \$. 99.29 per barrel in 2007 spelling pain for the major consuming nations. In turn it has lead to a steady flow of petrodollars to the major oil exporting nations.

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The strong global demand, congestions in capacities of certain oil exporting nations as well as geopolitical factors have all played a part in the upline.

Based on preliminary estimates, the country witnessed a decline in the production rates of crude oil by nearly 3.7% this year. Production levels for year 2006 closed in at nearly 269.2 mn barrels (around 738K bbl/day). Hence for year 2007, production levels have dipped to nearly 259.2 mn barrels (around 710K bbl/day). This figure compares lower to the 2007 budgeted figure of 730K bbl/day. The average realized oil price as of October 2007 stands at US\$. 63.1/bbl as opposed to budgeted value of US\$. 40/bbl. Demand for natural gas was high in line with the expansion activities carried out.

Petroleum activities have contributed nearly RO. 6.9 billion in value to the GDP in year 2007, a 5.5% increase over 2006. The increase occurred (mainly due to the high oil prices) despite the decrease in overall production activities. Based on this information Petroleum activities have contributed nearly 45.2% to the overall GDP in year 2007, a figure slightly lower to the 47.8% contribution made in year 2006. This does indicate to an extent the positive effect of the Government's diversification strategy.

#### *Non-oil activities gain strength*

As of June 2007, non-oil activities value in at nearly RO. 3.98 bn, a 54.8% contribution to the overall GDP. Preliminary estimates indicate a 17% growth (y-o-y) in value at the end of year 2007 to nearly RO. 8.62 bn indicating a better contribution level to the GDP of 56.2%. In value terms, three activities namely Wholesale & Retail trade, Manufacturing and Transport are expected to have catered to this growth.

#### *Yr 2007 likely to end with RO. 1.7 bn in surplus*

In light of the high prevailing international oil prices, the year 2007 could close with a RO. 1.72 billion surplus. This achievement is after taking into account the appropriations made for public expenditure. The 2007 budgeted oil price was taken at US. 40/bbl, quite a conservative level when compared to the actual average realized price of US \$. 63.1/bbl as of October 2007. The surplus achieved would help to strengthen the reserve position of the government and to pay on actuarial dues.

#### *Inflation on the rise*

The rate of inflation as measured by the Consumer Price Index stands at 5.3% for the current year (upto October 2007). The growing local economy, strong consumption demand and the weakening dollar have all played their part in the rising rate of inflation during the year. The increase during the current year has been attributed mainly to the rise in prices of necessities such as foodstuff & consumer goods. The GCC countries have all addressed the rising rate of inflation as one of their key concerns going into 2008.

## Budget 2008

### Oil revenues projected higher

Total revenues budgeted at **RO. 5.4 billion**, nearly **59%** above the 2007 budgeted number.

The year 2008 budget takes into account an average oil price of US \$. 45/bbl at an average production level of 790K bpd. Both these numbers stand higher to the budgeted 2007 figures indicating the positive expectations from the sector as well as the requirement to reduce dependence on oil revenues in the future.

The projected net oil revenues are at RO. 3.61 billion, 19.7% higher to the budgeted level for year 2007. The projected net oil revenues are at a price of around US \$. 32.5/bbl with the excess possibly being transferred to the reserve funds.

Gas revenues are anticipated to add RO. 620 million in 2008, a level nearly 13% higher to budgeted 2007 numbers.

The combined Oil & Gas revenues are expected to contribute 78.3% of total revenues. This stands about a percent lower to the 79.4% level which was budgeted last year.

Budget 2008: Revenues (RO 'mn)	Budget: 2007	Actual: Upto Sep 2007	Budget: 2008	% chg
Net Oil Revenues	3,015.0	2,923.1	3,610.0	19.7%
Gas Revenues	550.0	621.0	620.0	12.7%
Current/Capital revenues	925.0	1,021.2	1,170.0	26.5%
<b>Total</b>	<b>4,490.0</b>	<b>4,565.3</b>	<b>5,400.0</b>	<b>58.9%</b>

### Expenditure at RO. 5.8 billion

Total budgeted expenses for year 2008 stand at **RO. 5.8 billion**, 19% higher to RO. 4.89 billion budgeted a year ago.

Current expenditures of the civil ministries rank the highest at RO. 1.925 billion or 33% of overall general expenditure. The expenses are meant mainly for providing government services, operational expenses of ministries and expansionary activities. The Budget addresses social causes well with a 16.5% higher expenditure this year for Education at RO. 710 million and 14.5% higher expenditure for Healthcare at RO. 228 million.

Total expenses (current and investment) for the Oil & Gas sector comes in at RO. 1.35 billion, higher by 12% over the budgeted figure of RO. 1.205 billion taken in year 2007. The increase in value terms is RO. 145 million, which is half of the RO. 291 million increase projected in the 2007 Budget exercise.

Budget 2008: Total Expenses	RO mn
Civil Min. (Current Exp.)	1,925
Civil Min. (Inv. Exp.)	725
Oil & Gas (Total Exp.)	1,350
Subsidies	179
Other (incl Defence & Security)	1,621
<b>Total</b>	<b>5,800</b>

### *Deficit stands at 2.6% of GDP*

Based on the planned expenses of RO. 5.8 billion and anticipated revenues of RO. 5.4 billion, we notice a RO. 400 million deficit similar to the deficit noticed in the Year 2007 budget exercise. This expected RO. 400 million deficit stands at 7.4% of overall revenues and around 2.6% of the 2007 GDP achievement. The deficit percentage of total revenues has declined from 9% seen in 2007 (budget). The deficit is generally expected to be financed through withdrawal from contingency reserves.

However, with the oil prices expected to prevail at much higher levels to the budgeted figure of US \$. 45/bbl we anticipate that the economy is expected to see another year of high surplus. The oil price required to maintain a balanced budget continues to increase over the years with the expansionary motives of the government and stands at nearly US \$. 36.2/bbl based on the 2008 Budget exercise.

### *Apportions for Civil Ministry Development Program (7<sup>th</sup> 5-yr plan) amended.*

As part of the Government's 7<sup>th</sup> Five Year Plan, the original appropriations for the civil ministries stood at RO. 3.016 billion. With the bright economic scenario prevalent and in light of the need for development of infrastructure (partly also due to cyclone Gonu), the total appropriations for the ministries has been increased to RO. 5.37 billion.

The extra RO. 2.357 billion in appropriations is targeted toward development in several sectors.

The most sizeable chunk of RO. 730 million was allocated for development of the Road network in the country. The proceeds would be used for paving of major roads planned in the country in the coming years such as the Hasik/Al Shwimiah road, Al Amerat/Quriyat dual carriageway and Salalah/Thumrait dual carriageway.

RO. 285 million was allocated for purposes of repairing infrastructure damaged from the Gonu cyclone that occurred in 2007.

The Gas sector is set to receive RO. 290 million which would fund projects such as the provision of gas supply to Al Duqm Industrial Estate (RO. 55 mn) and compressor purchase & construction of gas pumping stations in Al Buraimi and Fahud for gas supply to Sohar Industrial Area (RO. 76 mn).

A sizeable RO. 365 million would go to developing the ports sector of the country to create the necessary means for future trade. Some developments include the marine works at Al Duqm port (RO. 199 mn) and construction of quays at Sohar Industrial Port (RO. 66 mn).

An allocation of RO. 134 million would be made for development of the 2 main airports in the country.

In addition RO. 17 million would go for developing the regional airports. The government plans to develop six regional airports in areas such as Sohar, Al Duqm, Ras Al Haad, Adam, Haima and Shalem.

RO. 80 million would be invested in the Health sector to add new Polyclinics (Seeb, Sohar, Nizwa), Hospital facilities (Masirah) and Health centers (Sumail, Wadi Bani Khalid, Sur).

### *Budget 2008: Growth on the forefront*

In general the Budget 2008 is aimed at development across the several crucial segments of the economy such as infrastructure and social welfare. The Budget takes into account the Government's long term strategy of economic development and diversification. The continued buoyancy expected in the oil prices and the high investment expenditure planned out by the government will create the necessary scenario of increased employment opportunity as well as higher disposable incomes. Going forward, the amendment made to the development program under the Seventh Five Year plan will give a strong impetus to the local economy in the coming years. One of the major issues to be tackled this year would be the rising level of inflation in the country arising in part from weakness in the US Dollar and increased imports. The transition to a true common market (GCC) would also pose a unique set of challenges.

### *Capital markets to remain moderately bullish*

The impact of the growth oriented Budget is expected to be felt positively over the capital market in the country during 2008. We remain moderately bullish on the prospects of the local equity market for the current year. The high oil price is expected to bring in an abundant flow of liquidity which we believe will be channeled into investments in the equity market. The expected increase in per capita income and the introduction of the GCC common market will play a key role in fostering the increase in investor participation and liquidity levels in the equity market.

Among the sectors to look out for in 2008, the Construction & Building materials sector companies will play a key role bearing in mind the construction projects that are lined up in the country. Demand for the basic materials such as cement, steel is expected to remain high for the current year. This holds promise for both the cement companies operating in the country.

The Banking sector would stand to benefit via its key role in funding the growth of the local economy. This is expected to take place mainly via increased project financing activities and the growth in corporate lending.

The Leasing sector companies are expected to witness growth given the expected increase in demand for vehicle & equipment financing. Consumer credit may also undergo an increase.

The Oil marketing companies such as Al Maha Petroleum are expected to benefit with the higher expected demand for fuel products mainly in the commercial segment which we believe will arise out of the increase in construction activities.

The Ports sector is expected to handle much higher volume levels for the current year owing to the capacity expansions carried out as well as the high expected level of inter-GCC and foreign trade.

Other manufacturing firms operating in the arenas such as power cables, petrochemicals & FMCG are also set to benefit.