

COUNTRY REPORT – SULTANATE OF OMAN

Economy and Outlook:

The year 2009 has been an exceptionally challenging year for the global economy and the financial sector. Oman, while fundamentally in a much stronger position, has also experienced the impact of the sub-prime crisis. It is presumed that the Sultanate's prudent fiscal policies, economy's robust fundamentals and domestic growth drivers will impart it resilience to emerge stronger from this period.

The economic conditions in the year 2009 remained "subdued" resulting in a fall in the demand for automobiles, earth moving equipments and consequently financing opportunities for NBFCs. Retail liquidity continued to remain strained and interest rates increased substantially. Banks, however, continued to remain liquid in view of their cautious approach and reduced lending opportunities domestically. The combined effects of all these factors resulted in the GDP growing modestly as against a substantial growth in the previous year. Oil prices continued to remain above budgeted level for most part of the year, enabling the government to post fiscal surpluses and continue substantial expenditure on infrastructure development.

Leasing Industry:

The leasing industry in Oman is two decades old and started with the incorporation of Muscat Finance Company and Capital Leasing (which subsequently became Oman Leasing and then National Finance) in 1987. Since then four more leasing companies have been formed at various times, mainly by local promoters though three companies now have varying degrees of shareholding from overseas investors.

The industry is characterized by six NBFCs who are well capitalised and financially strong. In addition, few local commercial banks as well as major automobile distributors continue to finance customers "in-house" in the retail and SME segment which is primary target market of NBFCs. The industry shrunk the assets in 2009 by 11% (growth of 40% in 2008) with a combined asset base of USD 1.3 billion. Consequently, the bottom line also declined close to USD 36 mill (USD 50 mill in 2008). The Apex Bank has mandated that the capital be doubled from the present USD 25 Mill to USD 50 Mill progressively by 2012. The transactions are almost exclusively full pay-out finance leases with the business distributed almost equally between personal financing for automobiles and "corporate" financing by way of equipment leases, mainly for the construction, equipment hiring and transportation sectors. Project financing, working capital financing and debt factoring constitute a small part of some NBFCs' portfolios. The main clientele for the "corporate" finance business is the SME sector.

Basic drivers for the leasing industry:

- Leasing companies primarily cater to the SME and retail sectors with major exposure to vehicle loans – both private as well as commercial. The basic drivers are lack of public transport, population growth (mainly expatriate inflow), rising construction activities and general economic expansion, which have made the leasing sector as one of the preferred sectors over the last few years which saw increase in balance sheet build-up and bottom-line profits.
- These key drivers took a U-turn post the downturn and sliding oil prices in the west. This has affected the performance of the industry and is likely to continue in a subdued manner in 2010 also.

Constraints:

- Excessive supply through professionally managed NBFCs, Banks and suppliers of equipments and automobiles.
- Restrictive license from regulatory authority and close monitoring.
- The high indebtedness of the Oman families and the resource deprived SME sector.
- The aggressive in-house financing by major automobile dealers, launching of flexible schemes by Banks.
- Unfavorable regulatory framework with reference to collection of receivables, repossession and disposal of assets.

Opportunities:

- Projected growth in the economy through infrastructure development resulting in demand for equipment financing
- Diversification of economy to non-oil sector (transportation, trading and tourism sector) creates demand for financing
- Government's effort at developing a national work force, increasing employment of young Omani Nationals thereby creating opportunities for retail financing programmes.

Others:

- Fairly insulated economy may be well positioned to recover early from the Global financial crises
- Economy still predominantly dependent on oil and gas revenues (75%)
- Government committed to new projects in addition to those ongoing under Seventh Plan.

Economic outlook for 2010:

- The economy is expected to grow by 6.1 per cent at constant prices and 18.4 per cent at current prices in 2010.
- Oman's budget for 2010 is based on an oil price of USD 50 per barrel.
- Total revenues are estimated at USD 16.5 billion, reflecting an increase of 14 per cent over the 2009 budget.
- Total expenditure is estimated at USD 18.6 billion, reflecting an increase of 12 per cent over the previous year.
- The inflation rate is set to stabilize at 3.5 per cent.
- USD 2.4 billion has been allocated for development projects to be implemented in 2010. This includes the completion of ongoing projects listed in the Seventh Five Year Development Plan (2006-2010).

With the relative stability of petroleum prices and reasonable levels of government expenditure, particularly in the infrastructure sector, the outlook seems positive for year 2010.

- *Ajit Engineer, Chief Executive Officer Muscat Finance Co Ltd (SAOG).*