OXFORD BUSINESS GROUP

OMAN

Covid-19 Recovery Roadmap

July 2021

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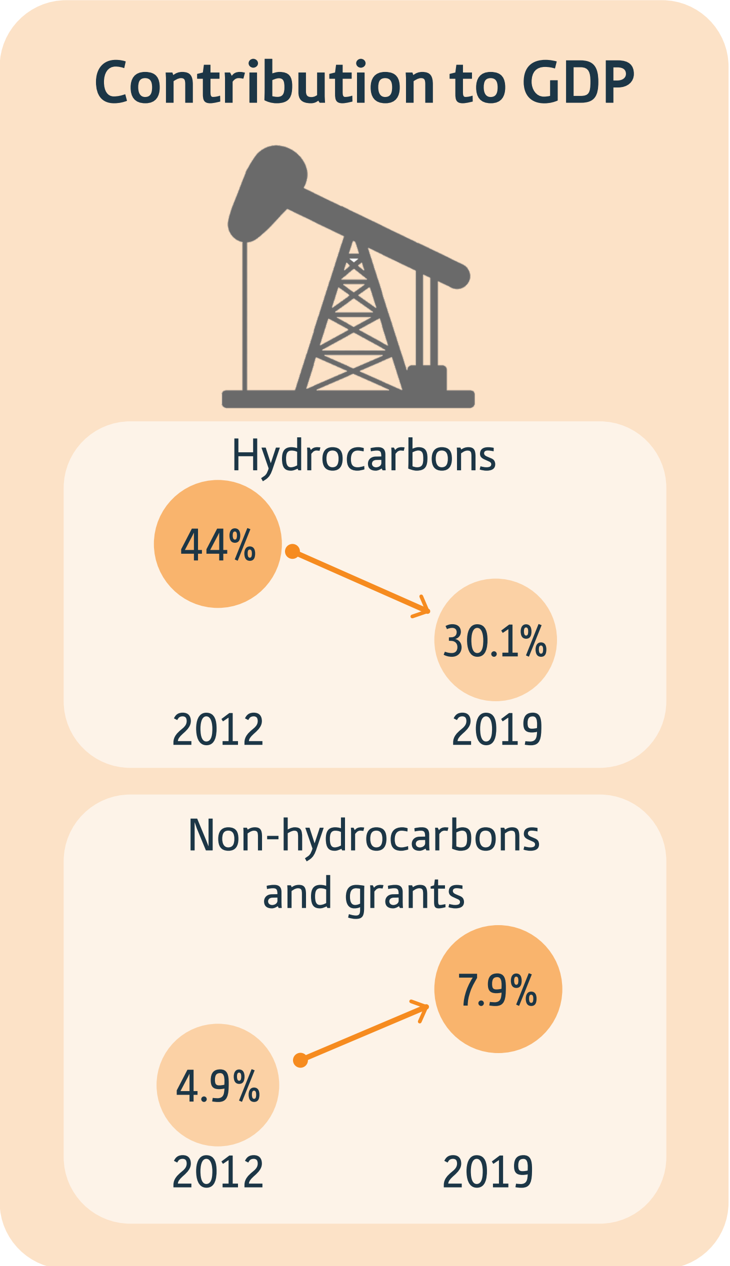
Macroeconomic Foundations

Oman took steps to lower its reliance on oil revenue

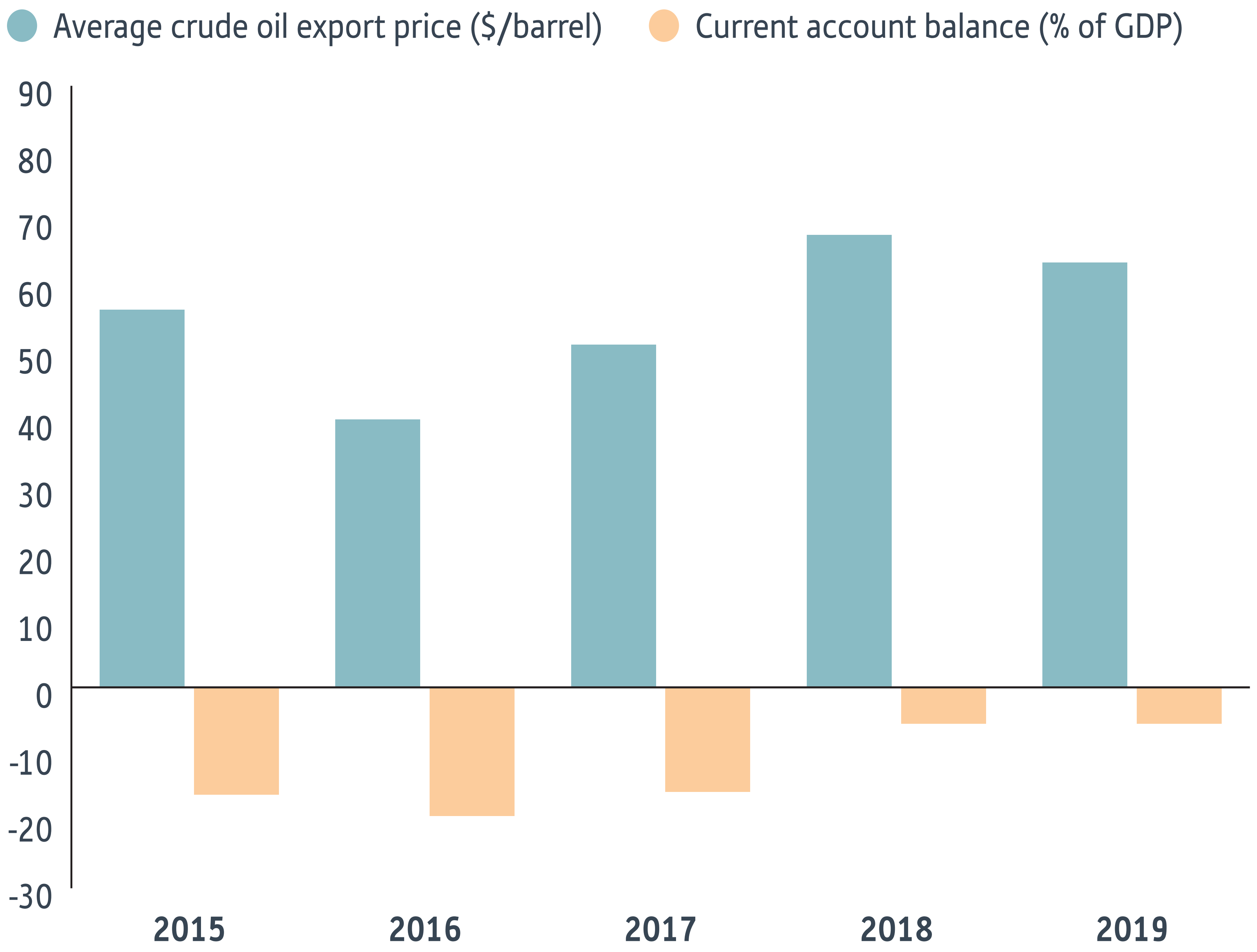


Oman averaged real GDP growth of 3.5% between 2000 and 2018, the majority of which was driven by the non-oil sector. However, in the years directly preceding the Covid-19 pandemic, expansion slowed on the back of lower global oil prices and reduced government spending. Overall, real GDP growth in 2017 and 2018 was 0.3% and 1.8%, respectively, according to the National Centre for Statistics and Information.

Oman was experiencing economic challenges prior to the pandemic, including a fiscal deficit. The country's fiscal surplus, which measured around 3% of GDP in 2013, was eroded by the drop in oil prices that began the following year. By 2016 the sultanate had offset the deficit without issuing debt, primarily by tapping its sovereign wealth funds. The pre-pandemic deficit peaked at 18% of GDP in 2016 due to the implementation of large infrastructure and hydrocarbons projects, as well as lower oil prices. Oman subsequently turned to local and international debt markets to achieve fiscal balance. A series of reforms starting in 2015 – including the lowering of subsidies and the introduction of so-called sin taxes – helped to narrow the deficit to 13% of GDP in 2017, 9% in 2018 and 6.7% in 2019.

Oman's long- and medium-term development strategies seek to diversify the country's economy and reduce its reliance on hydrocarbons. For example, diversification efforts in the years leading up to the pandemic were driven by the ninth five-year plan covering 2016 to 2020, which targeted the development of small and medium-sized enterprises (SMEs), the promotion of public-private partnerships and the improvement of the investment climate. The roadmap was one of Oman's wider policy initiatives aimed at diversifying its economic base, which helped the country retain resilience during the pandemic and oil price drop of 2020.

Oil price fluctuations, 2015-19



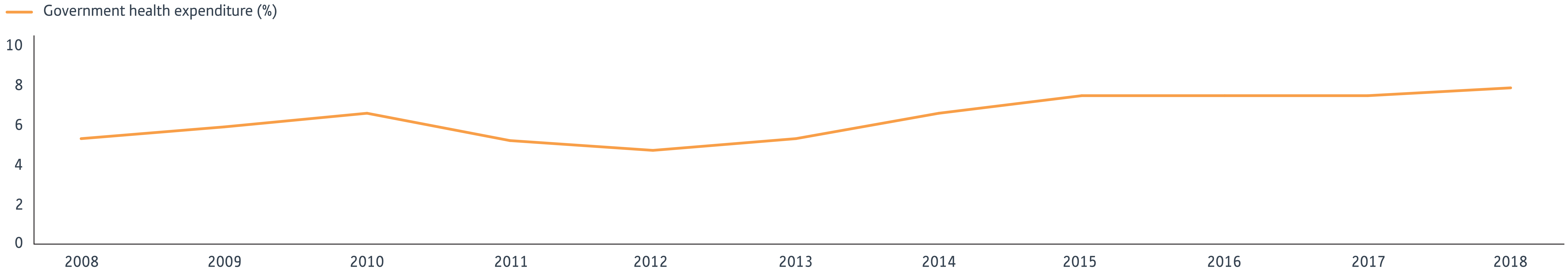
Graph and infographic source: *IMF*

Health Sector

Oman has made notable gains in the provision of health care, with life expectancy increasing by 5.5 years between 2000 and 2018. This improvement reflects a continued focus on the development of service delivery and specialised care, which were priorities before the pandemic. Even as overall government spending fell in line with oil prices in recent years, spending on health care as a percentage of overall government expenditure increased steadily, from 6% in 2015 to 11% in 2019. Furthermore, Oman's Health Vision 2050 – its long-term health strategy launched in 2012 – outlined a number of priorities, including the provision of quality services with a focus on measurable outcomes, targeted disease prevention, and strategies to keep pace with emerging and innovative technologies.

Improved health care provision has remained a dominant focus of the sultanate's long- and medium-term economic development plans, the most recent of which include Vision 2040 and the 10th five-year economic development plan covering 2021 to 2025. These sustained efforts have resulted in enhanced health care infrastructure, which helped equip Oman with the tools needed to respond to the pandemic. For example, between 2016 and 2019 the number of hospitals in the sultanate rose by 12%, from 74 to 83. This facilitated an increase in hospital beds and lowered the bed occupancy rate from 63.3% to 60.9%, ultimately freeing up additional capacity to meet increased demand during the pandemic. At the same time, 96% of Oman's population is below 60 years of age, leaving a small proportion of the population within the most at-risk age group. This also helped to mitigate the health impact of the pandemic.

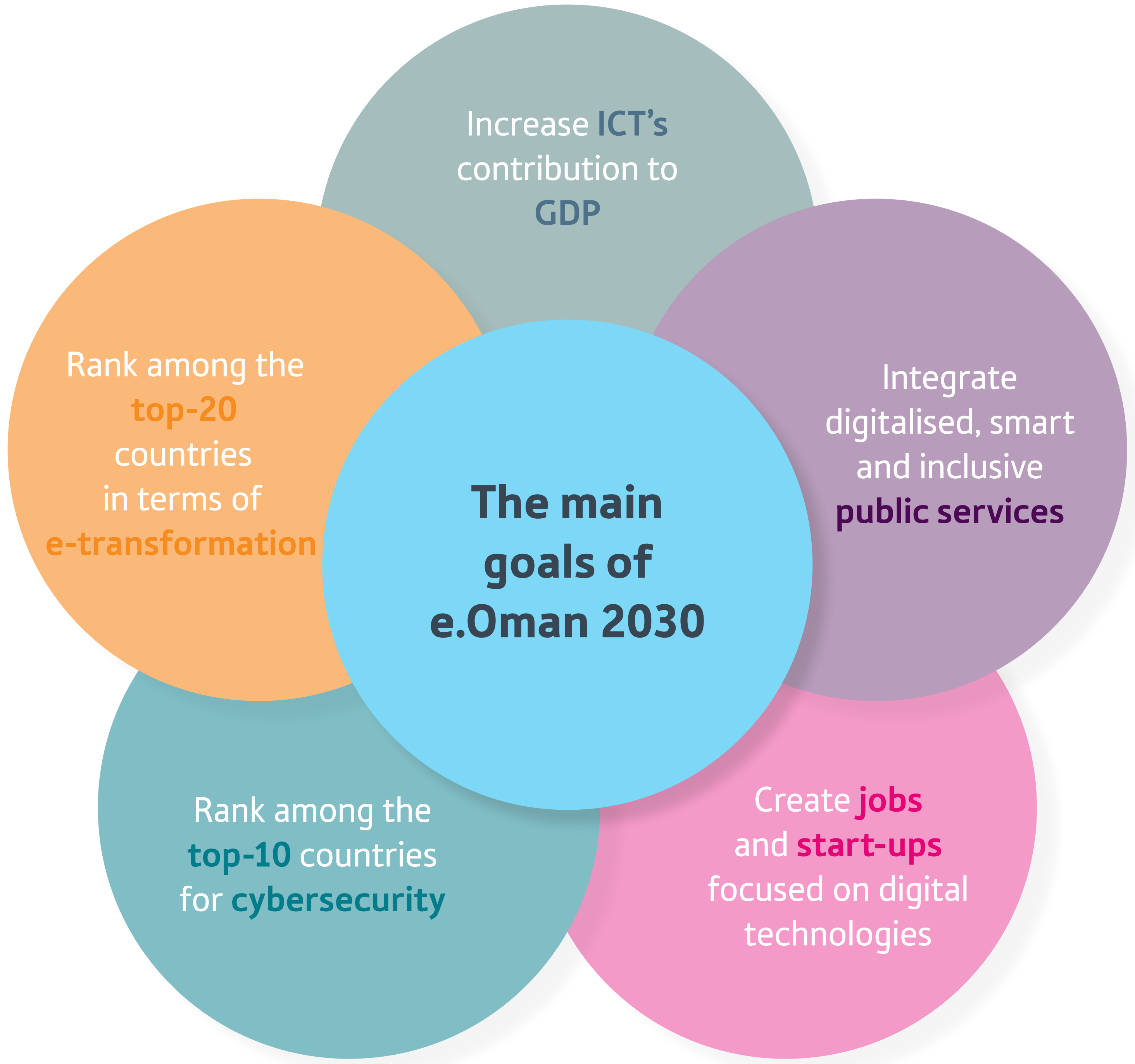
Health care's share of the national budget, 2008-18



Graph source: *World Bank*

Digital Roadmap: e.Oman 2030

The sultanate is prioritising digital transformation and innovation to create sustainable, equitable economic growth



Digitalisation was identified as key to economic diversification in Vision 2040, a strategy that targets improved technical capabilities, the construction of vital ICT infrastructure and enhanced governance through e-services. Institutional support has included the 2019 founding of the Oman ICT Group (OICT Group), an organisation overseen by the State General Reserve Fund. The OICT Group works with the public and private sectors to create an ecosystem conducive to the development of cloud and data services, cybersecurity, smart applications and next-generation technologies. In addition, an October 2020 ministerial reorganisation resulted in the creation of a dedicated Ministry of Technology and Communications (MTC).

These efforts have helped the sultanate to meet the goals of e.Oman 2030, a national digital roadmap that aims to prepare communities, workers, businesses and the government for the greater use of technologies that are aligned with the Fourth Industrial Revolution. The programme – initially released in 2003 and revised in 2010 – highlighted Oman's commitment to leveraging these emerging technologies, preparing its workforce for evolving market demands and realising the benefits of a digitalised economy.

While the pandemic highlighted the importance of a strong digital economy, development efforts predate the health crisis. The government has prioritised ICT training and workforce development, e-government services and the wider integration of emerging technologies in everyday operations. To that end, in June 2019 the OICT Group announced it would open a centre of excellence focused on SME mentoring, and in August of that year the government announced plans to digitalise 59 departments by 2022. In a similar vein, in March 2020 the MTC and partner organisations launched a smart-city project to train Omanis in artificial intelligence, blockchain and internet-of-things technologies.

Cybersecurity is also a priority, with the sultanate launching a strategy in 2019 to build an industry specialised in cybercrime analysis, security incident management and consultancy. This came one year after Oman was ranked 16th out of 194 countries in the International Telecommunications Union's Global Cybersecurity Index. Signalling the continued impact of these efforts, the US International Trade Administration named ICT as Oman's best-prospect sector in a report published in September 2020.

Infographic source: *MTC*

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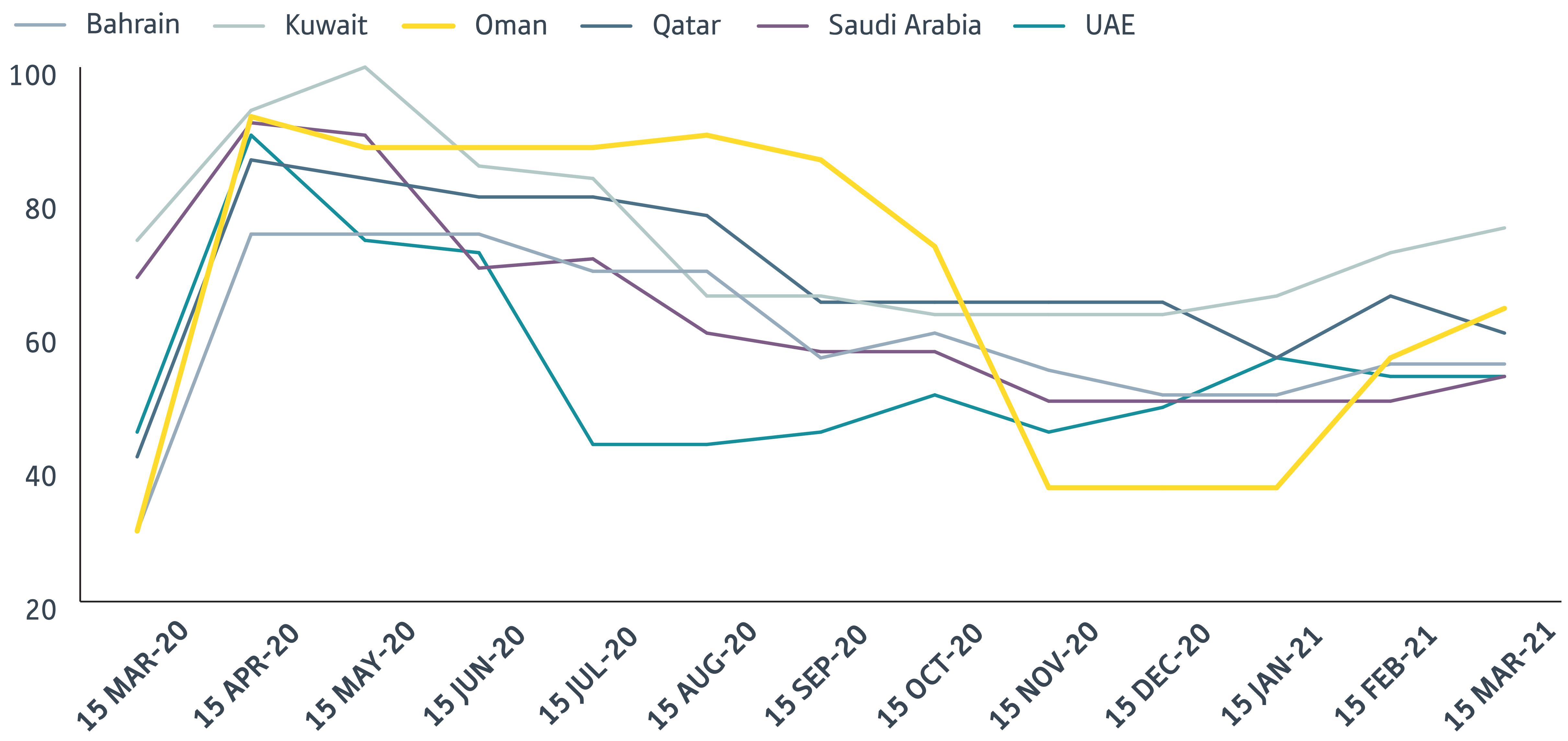
Stringency

Oman's early measures were among the most stringent in the GCC



Oxford Covid-19 Government Response Tracker collects publicly available information on 17 indicators of government responses. Eight of the policy indicators record information on containment and closure policies. Four of the indicators record economic policies, and five indicators record health system policies. The Stringency Index is shown from the week the WHO declared a pandemic.

Initial response

The authorities were quick to implement travel restrictions in response to the pandemic. The Ministry of Foreign Affairs banned the entry of visitors from countries with a prevalence of Covid-19 starting on March 2, 2020. On March 17 borders were closed to all non-GCC citizens, and international and domestic flights were suspended on March 24. On April 8 – one week after the sultanate reported its first Covid-19-related fatality – lockdown measures were implemented in Muscat, including the closure of businesses and offices. Throughout the pandemic restrictions of varying degrees were introduced at the local level according to transmission rates.

International travel

Starting on October 1, 2020 citizens and holders of residence and work visas were permitted to enter the country via airports, and in December of that year Oman announced visa-free, 10-day entry to nationals of 103 countries in a bid to boost tourism. However, officials again closed land borders on January 18, 2021. The closure was extended indefinitely on February 8.

Local activities

A ban on gatherings was announced ahead of Ramadan in April 2020 to mitigate the spread of the virus. The government gradually eased restrictions, and Muscat's lockdown was lifted on May 29. A curfew was implemented on July 25 and lifted on August 15 after a week of gradually eased restrictions, with the exception of Dhofar Governorate. A lockdown was implemented from October 13 to October 24 after cumulative cases and fatalities surpassed 100,000 and 1000, respectively. Shops, cafes, restaurants and malls were closed on March 4, 2021 – a directive that was extended indefinitely on March 21. Pharmacies, health institutions and petrol stations were exempt from closure.

Graph source: *Oxford Covid-19 Government Response Tracker*

Economic Initiatives

As the impact of the pandemic became clear, the Central Bank of Oman (CBO) released its first pandemic-related stimulus in March 2020. The package delivered OM8bn of liquidity and enabled banks to provide financing to vulnerable individuals and businesses. The stimulus lowered capital conservation buffers by 50%, from 2.5% to 1.25%; increased the lending-to-financing ratio by five percentage points, from 87.5% to 92.5%; and reduced benchmark policy rates. Scope was reserved for further adjustments for key sectors. In addition, the measures allowed for a six-month deferral of loan instalments for borrowers.

March 2020 also saw the introduction of tax relief measures, including the deferral of tax return filings and payments by up to three months. The programme outlined flexible payment procedures and prioritised relief for vulnerable firms. Moreover, commercial establishments were given an exemption from municipality taxes through August 31, 2020.

The loan deferment scheme was extended to March 31, 2021 as part of the CBO's second stimulus implemented in September 2020. Allowances to boost liquidity included halving the loan-to-value margin for housing loans for first-time homeowners, from 20% to 10%; permitting banks with CBO approval to temporarily operate at a lower liquidity ratio of 75%, rather than 100%; and increasing the maximum on the CBO's foreign exchange swap facility scheme for one year, from 25% of a bank's net worth to 100%.

Another stimulus released in March 2021 aimed to encourage local and international businesses to expand or maintain operations in Oman. Incentives included a five-year income tax exemption for new businesses in sectors key to economic diversification, a reduced income tax for small and medium-sized enterprises, long-term residency permits for foreign investors, flexibility to negotiate wage cuts and an emphasis on Omanisation.

Stimulus measures introduced in March 2021

Doing business	Companies permitted to operate with temporary preliminary licence until final licence is granted
Investment	Incentives related to commercial registration fees offered, both for locally owned firms and those under Foreign Capital Investment Law
Small and medium-sized enterprises	Income tax rate reduction from 15% to 12% for tax years 2020 and 2021
Workforce	Permit for companies with foreign investment to hire three expatriate workers immediately upon establishment
Labour market	OR20m allocated in 2021 budget for training of Omani jobseekers
Free zones	Reduced rents in Duqm Special Economic Zone and industrial zones through the end of 2022

Infographic source: *KPMG*

Health Care Measures

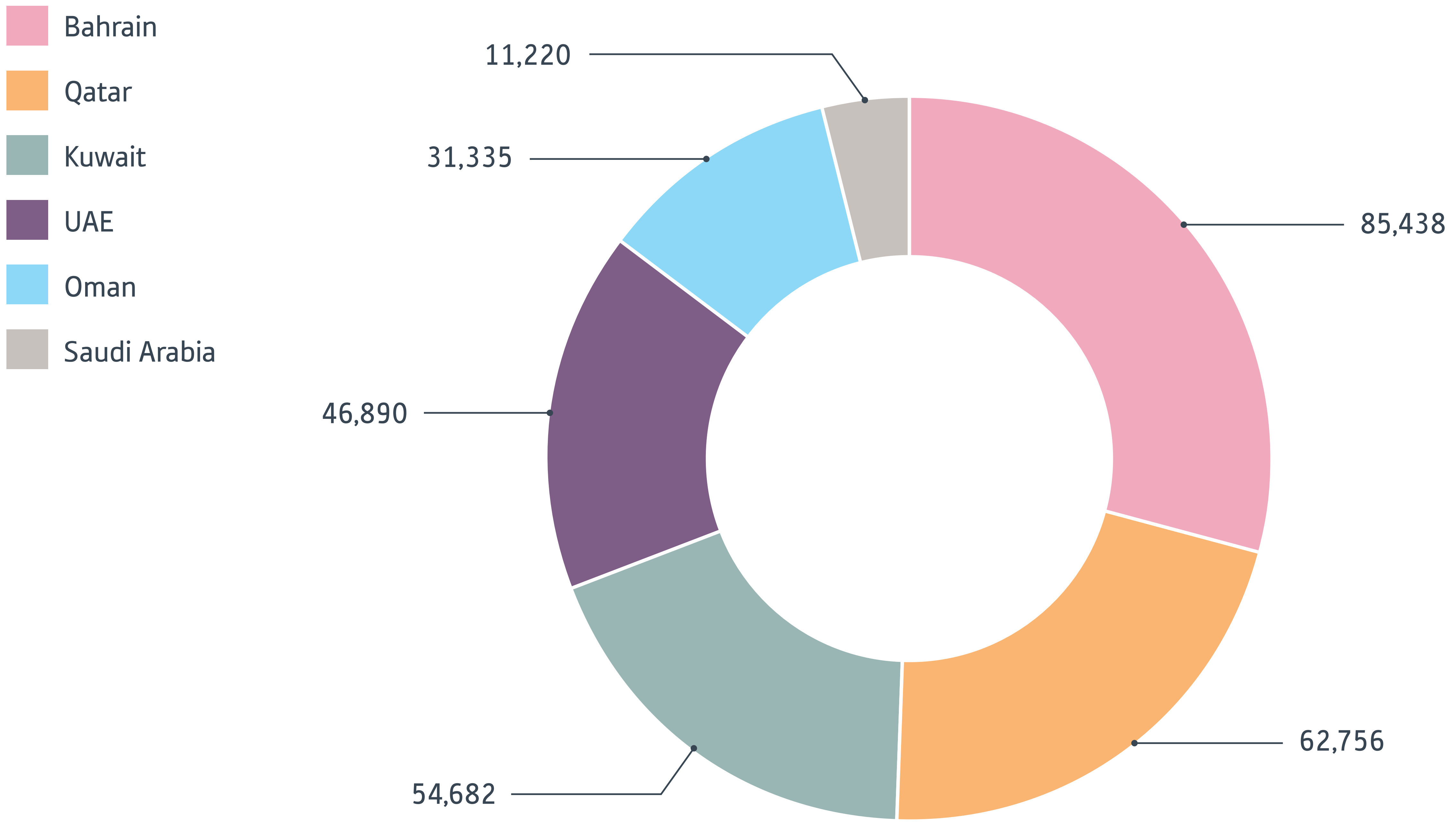
Oman's efforts to boost health care provision in the years leading to the pandemic helped its medical personnel and facilities meet heightened demand for consultation and treatment during the health crisis.

Mass testing began on April 11, 2020, with over 100,000 tests conducted by the end of the following month. Starting in late July tests at public hospitals were limited to medical staff and hospitalised patients to ensure resources would be available to those most in need; those exhibiting mild symptoms were advised to quarantine at home or test at a private facility. Over 50,000 Covid-19 cases had been confirmed in Oman by July 8, a figure that rose to around 100,000 in October and exceeded 150,000 in March 2021. The fatality count, meanwhile, surpassed 100 in mid-June, 1000 in early October and 1500 in January 2021.

The government implemented several measures to enhance health care capacity,

Oman had the GCC's second-lowest case count

Cumulative confirmed Covid-19 cases as of April 1, 2021 (per 1m population)



including the construction of a 6100-sq-metre field hospital in Muscat designed to accommodate over 300 patients. The first phase of 100 beds was launched in October 2020. Digital tools were also deployed, including the Tarassud+ app. Developed by the Ministry of Health, the app uses artificial intelligence to track the spread of the virus, and provides users with statistics, guidelines, medical advice and best practices in several languages.

Oman's vaccination drive will further support the health response. The first batch of Pfizer-BioNTech vaccinations – which was estimated to cover 20% of the population – was received on December 23, 2020, and the inoculation of priority groups such as frontline health workers and vulnerable citizens began four days later. In February 2021 Oman began administering the Oxford-AstraZeneca vaccine to individuals aged 65 and above after receiving 100,000 doses from India. Over 171,000 doses of the vaccine had been administered as of April 5.

Graph source: *Our World in Data*

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Macroeconomic Outlook

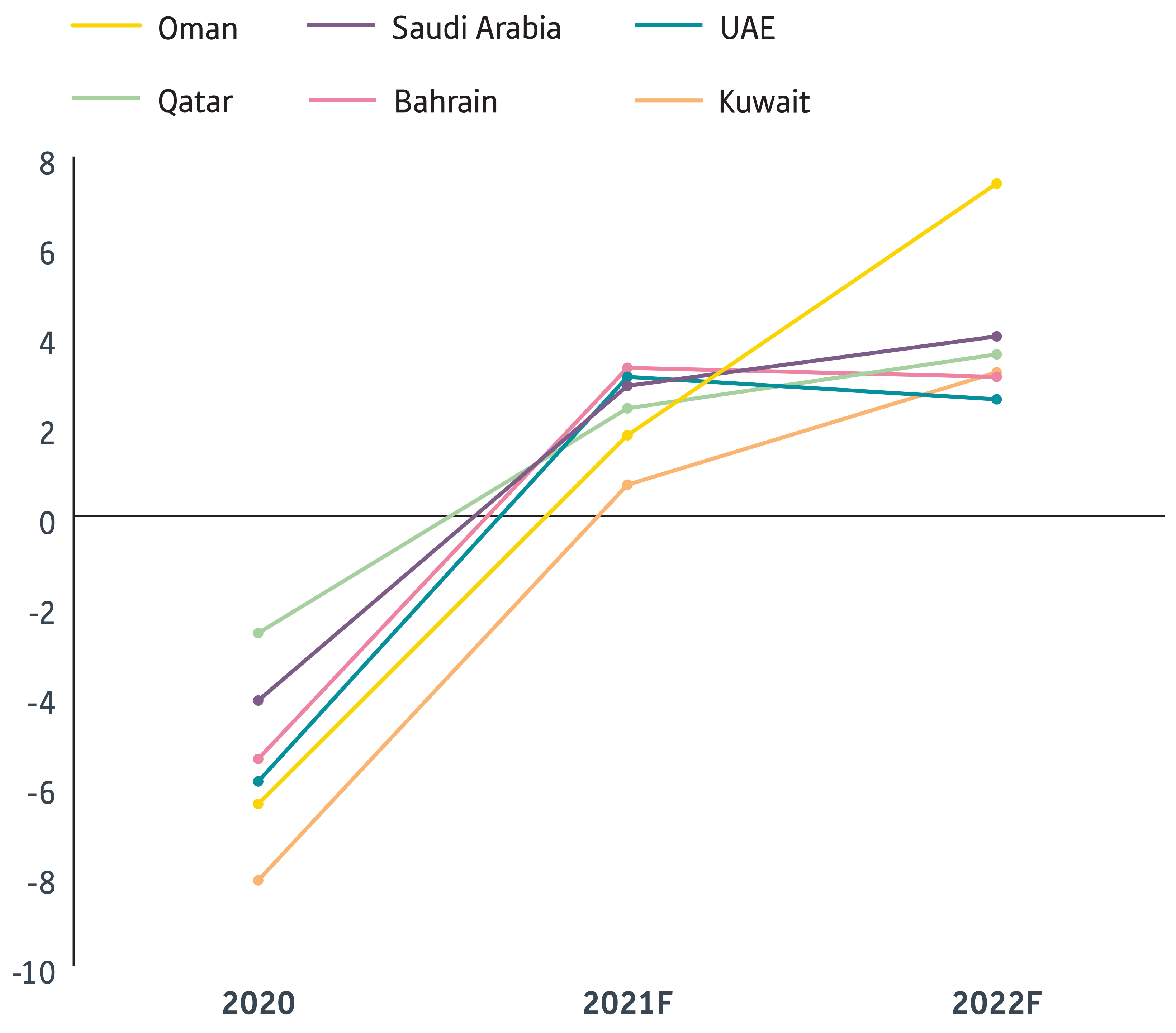
With Oman's economy affected by the decline in demand for and the price of hydrocarbons in 2020, an uptick in oil prices and the easing of restrictions on mobility and business operations should help the sultanate's economy stabilise in 2021. Indeed, in the April 2021 edition of its World Economic Outlook database, the IMF forecast that the economy would expand by 1.8% that year and 7.4% in 2022 – the latter being the highest rate of growth in the GCC. Oman's recovery is supported by reforms and strategies intended to improve the business environment and address longstanding fiscal challenges. With the sultanate already facing fiscal pressures prior to the pandemic due to a prolonged slump in oil prices and a reliance on external borrowing to finance deficit spending, the shock of the crisis and subsequent downgrading of Oman's sovereign debt rating have spurred policymakers into accelerating plans for improving public finances and stimulating private sector development.

Oman's strategy is underpinned by the Medium-Term Fiscal Plan (MTFP) 2020-24, which is crucial to meeting the goals of Vision 2040, the sultanate's overarching blueprint for long-term economic competitiveness and societal well-being. The MTFP was crafted around five pillars: supporting economic growth; diversifying and enhancing government revenues; rationalising government expenditures and driving efficiency; enhancing the social safety net; and strengthening public financial management. Headline targets of the MTFP include reducing the deficit-to-GDP ratio from -15.8% in 2020 to -1.7% in 2024, expanding the share of non-oil revenue in total revenue from 28% to 35%, and increasing total government revenue by 40.6% over the same period. The measures are expected to maintain Oman's debt-to-GDP ratio at around 80% through to 2024, compared to an estimated 128% if the plan was not adopted.

Among the notable reforms implemented under the umbrella of the MTFP was the introduction of a 5% value-added tax in April 2021, a move that made Oman the fourth GCC member to levy the tax after Saudi Arabia, Bahrain and the UAE. However, Oman is looking to go a step further than its GCC peers by introducing an income tax on high-income earners in 2022. This would make it the first Gulf country to directly tax the earnings of individuals.

In tandem with the new revenue-raising measures, Oman is working to stimulate more local and foreign investment as part of its private sector development agenda. Towards this end, the country's investment framework has been enhanced by a series of laws passed in 2019 related to foreign investment, privatisation, public-private partnerships and bankruptcy – all of which now have their implementation regulations approved.

Real GDP growth across the GCC, 2020-22F (%)



Graph source: *IMF*

Banking Buffers

Oman's banking sector entered the pandemic in a relatively resilient position underpinned by strong capital buffers and liquidity, but came under pressure as the sharp drop in oil prices and subdued operating environment strained asset quality and earnings. However, the Central Bank of Oman (CBO) regularly conducts stress tests to ensure the system can withstand unexpected shocks. In December 2019 the regulator found that under a moderate scenario, all domestic banks could absorb losses from credit, and handle interest rate and foreign exchange shocks without breaching Basel III regulatory requirements, while only one bank would breach the CBO's minimum capital-to-risk-weighted assets ratio of 13.5%.

As the economic situation deteriorated in early 2020 the sector's performance slipped, but never reached crisis levels. Analysis from consultancy firm KPMG in October 2020 showed that the average profits of Oman's top banks declined by 34.2% year-on-year (y-o-y) in the first half of 2020 due to reduced credit flows, revenue compression and an uptick in non-performing loans (NPLs). By the end of the year indicators remained sound when considered against market pressures. For example, the NPL ratio stood at 4.2% in December 2020 compared to 3.4% a year earlier, while the capital-to-risk-weighted assets ratio improved over the same period, from 18.9% to 19.1% – far above the Basel III minimum requirement of 10.5%.

Meanwhile, support from the CBO allowed banks to ease pressure on corporate and retail borrowers. To boost liquidity and expand credit, capital conservation buffers were lowered from 2.5% of risk-weighted assets to 1.25%, the lending ratio was increased from 87.5% to 92.5%, and the repo rate was cut from 75% to 50%. In turn, banks were instructed to defer loan collections from stressed borrowers until September 2020, which was later extended to March 31, 2021.

	2019	2020
Gross NPL ratio	3.5%	4.2%
Capital-to-risk-weighted assets ratio	18.9%	19.1%
Lending ratio	79.6%	79.7%

Case Study

Founded in 1994, Al Anwar Investments has been listed on the Muscat Securities Market since 1995. Almost entirely owned by Omani investors, the firm targets and manages private equity investments across several sectors, including industry, construction, financial services, insurance and hospitality. Its geographic footprint has varied over the years, extending from Oman and other GCC countries to as far afield as India. Currently, the company focuses on domestic investment opportunities.

Since the beginning of the Covid-19 pandemic, Al Anwar Investments has adopted a cautious approach guided by risk minimisation, the suspension of borrowing and sound cash management with the goal of building a liquidity buffer to face an extended period of uncertainty. To this end, it froze further development of its project in the hospitality sector: a four-star business hotel close to Muscat International Airport. The firm also refrained from new commitments requiring short-term down payments and created ad hoc monitoring procedures to anticipate downward market movements. This gave it greater room to capitalise on government measures introduced to safeguard the economy, including temporary tax and fees exemptions, as well as loan deferrals mandated by the Central Bank of Oman.

As the world economy recovers, the company plans to leverage its market knowledge and networks to tap into efficiency-generating mergers and acquisitions in prioritised sectors such as manufacturing, financial services and education. "We aim to identify companies which, despite being in financial distress, have solid business fundamentals and are open to restructuring or consolidating with other entities in order to build synergies and integrate new technologies," Khalid Ansari, CEO of Al Anwar Investments, told OBG.

Infographic source: *CBO*

Case Study

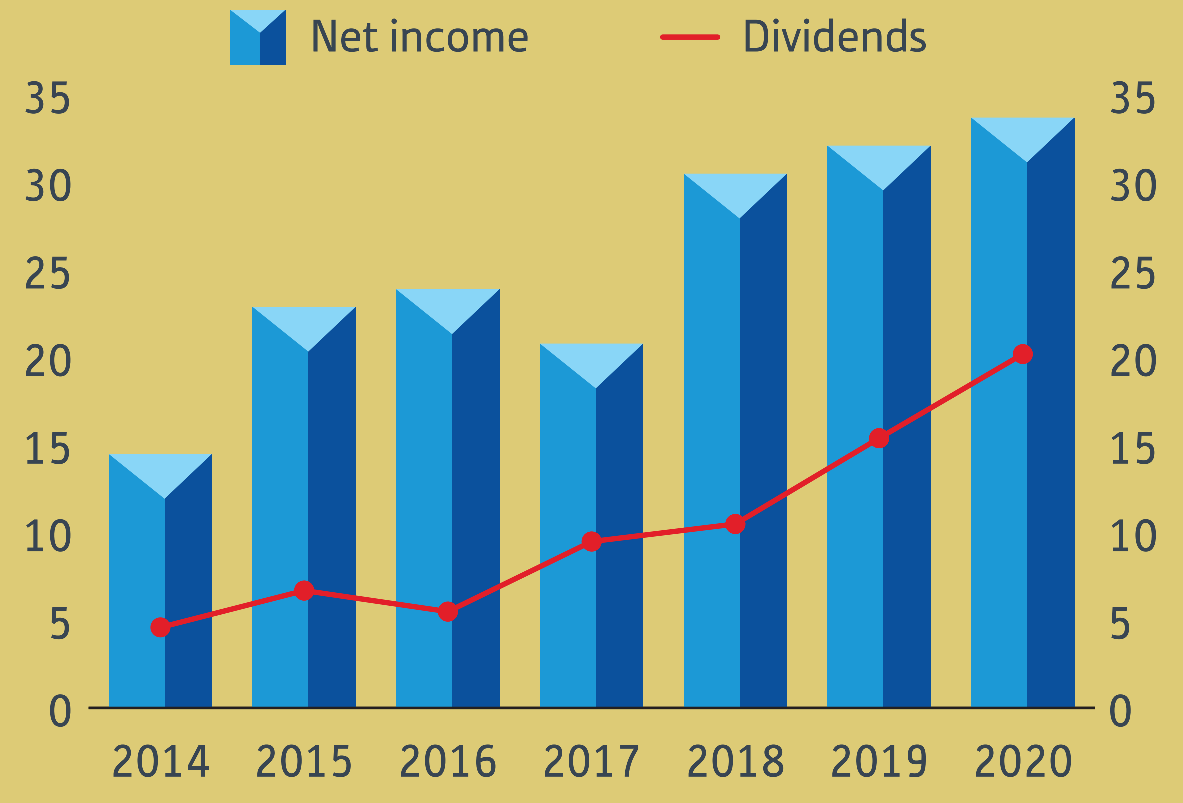
Founded in Oman in 1983, Oman International Development and Investment Company (OMINVEST) is a leading investment holding group in the GCC. Listed on the Muscat Stock Exchange (MSX), OMINVEST focuses on long-term value investment opportunities, and is diversifying into new geographies, growth markets and sectors.

While the firm operates largely in the Gulf’s banking, insurance and leasing segments, it is eyeing opportunities further afield in high-growth industries such as IT, health care, logistics and consumer products. In addition to making scalable investments and carrying out innovative transactions, the company is committed to environmental, social and governance (ESG) best practices. It also takes a conservative financial stance by maintaining prudent leverage and preserving liquidity buffers. Furthermore, through subsidiaries such as Jabreen Capital, OMINVEST is gaining a foothold in private equity and investment banking. This will allow the company to derive additional revenue from short- and medium-term investments, as well as from fee-based businesses.

In response to the economic challenges arising from the Covid-19 pandemic, OMINVEST strengthened its position in high-performing businesses and executed several strategic transactions that resulted in a healthy performance in an otherwise difficult environment. One such move was made in mid-2020, when OMINVEST divested 11.76% of its stake in its subsidiary Oman Arab Bank (OAB) to Jordan-headquartered Arab Bank for OR45.93m, generating a profit of OR12m. Concurrently, a merger between OAB and Alizz Islamic Bank took place. In accordance with the consolidation, OAB was then listed on the MSX. The same year, Jabreen Capital sold 6.7% of its treasury shares at an attractive price, earning OR20.3m, which further enhanced its liquidity position. OMINVEST’s regional subsidiary in the insurance sector, National Life and General Insurance Company, grew its profit by 111% in 2020, while its reinsurance associate, International General Insurance (IGI), was listed on NASDAQ. OMINVEST received $6.25m towards its cash exit of 1% stake at double IGI’s carrying value. In the same year, the group acquired a 40% stake in a leading regional educational group. Throughout 2020 the company has facilitated efficiency gains across its subsidiaries through digitalisation initiatives.

As a result, OMINVEST’s net income in 2020 amounted to OR33.7m, up 5% over 2019. This allowed the company to propose a cash dividend of OR20.2m for the year – more than the OR15.4m distributed in 2019. This was achieved while maintaining a debt-to-equity ratio below 1. Indeed, OMINVEST closed 2020 with a strong cash balance that translated to a net debt-to-equity ratio of a little over 0.7. “We are prudently deploying available cash into new investment opportunities to strengthen growth prospects, diversify our profile and enhance earnings quality,” AbdulAziz Al Balushi, Group CEO of OMINVEST, told OBG. “At the same time, we are implementing strategic initiatives such as business diversification, optimising existing portfolios and realising synergies between platforms to lift return on capital to higher and more sustainable levels.”

Select financial metrics of OMINVEST, 2014-20 (OR m)



Bank Consolidation

Banks across the GCC weathered the Covid-19 pandemic with generally strong balance sheets. However, there is scope for consolidation as smaller institutions seek to enhance their resilience against future crises. Oman is a market that is broadly considered to be overbanked, with 20 banks serving a population of around 5m – compared to neighbouring Saudi Arabia, where 30 banks serve a population of 34m.

Oman's banks were in a positive position overall at the beginning of 2021. During the first quarter of the year, total assets rose by 3.1% quarter-on-quarter (q-o-q) and by 4.1% year-on-year (y-o-y), according to asset management firm Kamco Invest. Customer deposits also increased by 2.8% q-o-q and by 3.2% y-o-y. Credit growth remained subdued, however, measuring in at 1.5% during the first quarter of 2021 – down from 2.1% the previous quarter. This is notable since although Oman's banks continue to perform well across a range of risk indicators, profitability can be difficult to achieve in a congested market unless loan growth accelerates.

In 2020 the Islamic banking segment accounted for **14.5%** of total banking assets, and registered credit and asset growth of **9.5%** and **6.3%**, respectively.

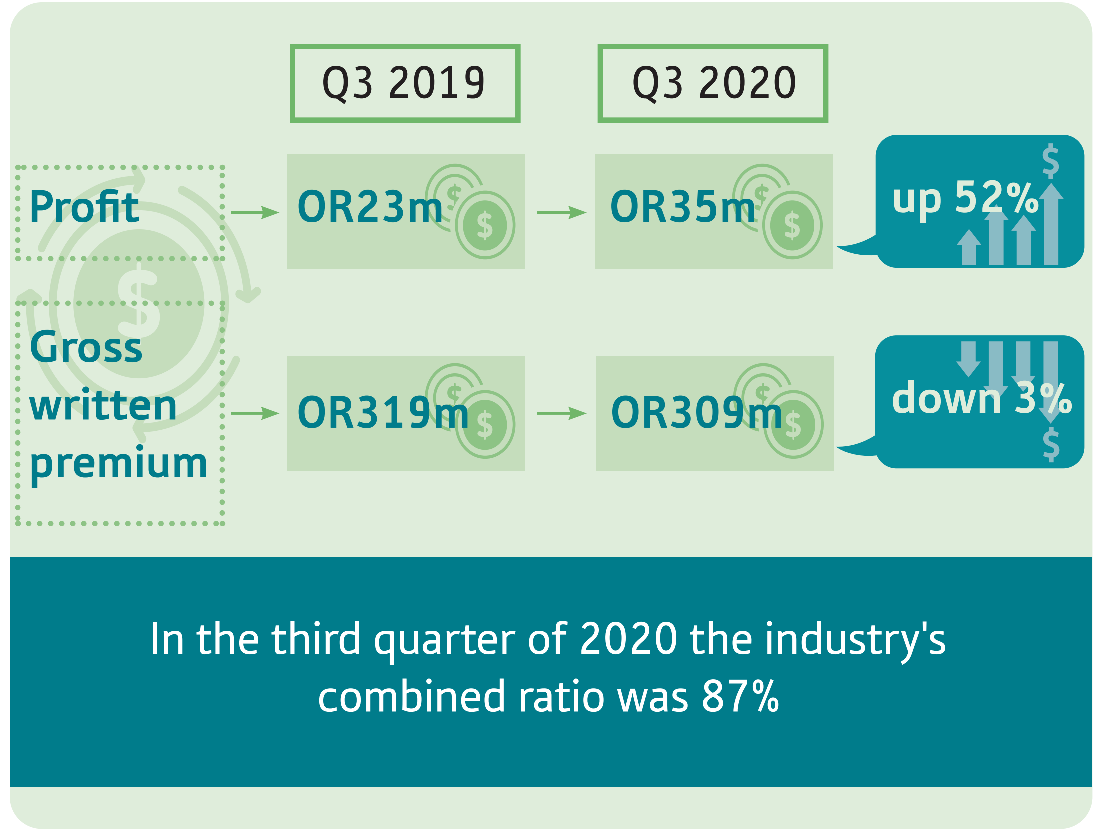
Alongside projections of a wider economic rebound in 2021-22, consolidation is likely needed in the banking sector to improve economies of scale, reduce operating and funding costs, and enhance profitability and efficiency. Regulators in Oman have long supported the need for consolidation, and a notable success was achieved with the merger of Oman Arab Bank (OAB) and Alizz Islamic Bank in July 2020 during challenging pandemic conditions. Under the terms of the merger, OAB became the parent entity and transformed into a public joint stock company listed on the Muscat Stock Exchange, while Alizz became a wholly owned Islamic subsidiary of OAB, operating as a closed joint stock entity. The goal of the merger was to create a stronger bank with a conventional banking licence and a fully fledged Islamic banking arm. OAB will thus be able to play a key role in the future consolidation of the sector. OAB injected capital into Alizz and transferred its Islamic window – Al Yusr – to the new subsidiary to scale-up its Islamic banking business. This put Alizz Islamic Bank in an advantageous position to capitalise on the ongoing expansion of Oman's Islamic banking industry. In 2020 the Islamic banking segment accounted for 14.5% of total banking assets, and registered credit and asset growth of 9.5% and 6.3%, respectively. This occurred despite the downward pressure on the economy as a whole. The segment also enjoyed a positive first quarter of 2021, with credit growth of 3.8% q-o-q and 11% y-o-y, and asset growth of 4.7% and 12.2%, respectively.

Meanwhile, Oman International Development and Investment Company (OMINVEST), which held a 51% stake in OAB prior to the merger, sold 11.76% of its stake to Jordan-headquartered Arab Bank. With Arab Bank currently holding 49% of OAB and OMINVEST holding 31.6%, the shareholders committed additional capital and resources to enhance competitiveness across the bank's main operations and subsidiaries.

"The main reason behind the sale of part of OMINVEST's stake in OAB was to facilitate the merger and honour our long-standing partner's interest in maintaining its 49% stake in OAB. With such a stake, Arab Bank would gain control and commit significant foreign investment in our banking sector with operational expertise and technology transfer," AbdulAziz Al Balushi, Group CEO of OMINVEST, told OBG. "This transaction would not have been possible without the valuable advice and support of the regulators, namely the Central Bank of Oman and the Capital Market Authority. Their pragmatic approach to this merger amid very difficult business conditions was pivotal to the success of one of the landmark deals in Oman's banking sector," he added.

Insurance Snapshot

Regulated by the Capital Markets Authority, Oman's insurance sector is home to 20 licensed providers. Half are listed on the Muscat Securities Market, while the unlisted companies are branches of foreign firms. The sector recorded enhanced profitability in 2020, with the 10 listed insurers generating net profits of OR35m, up 43% from OR24.6m in 2019. This can partly be attributed to a decline in claims from the motor and health segments as mobility restrictions reduced vehicle use and residents refrained from seeking non-urgent medical care amid the pandemic.



With the decline in insurance claims coming at a time of heightened risk awareness, operators in Oman have been looking to capitalise on their strengthened balance sheets to accelerate digitalisation, upskill the workforce and diversify investments – with a view to enhance long-term competitiveness. In terms of the latter, total insurance sector investments reached OR669m at the end of 2020, up from OR634.8m in 2019.

Credit ratings agency Standard and Poor's expects profitability to normalise in 2021 as claims pick up in line with economic recovery, while a decline in the expatriate population due to business disruptions during the pandemic could continue to place downward pressure on gross written premium, which dropped by 4-5% in 2020 amid the economic slump and concurrent decline in discretionary spending power. The introduction of compulsory health insurance in 2019, however, should provide a sustainable avenue for growth.

Case Study

Dhofar Insurance has provided all classes of insurance coverage in Oman since 1989. The firm designed protocols and systems to adopt remote working and services ahead of lockdown measures as part of broader efforts to contain the Covid-19 pandemic. As a result of this pre-emptive planning, the company ensured the safety of employees and experienced minimal disruption to customer service and business volume. Dhofar Insurance's nationwide network of 42 branches and seven regional offices has helped it engage with customers in the new environment. It has also utilised channels such as SMS, mobile messenger apps, social media, newspapers and a reinforced in-house call centre.

From an insurance industry standpoint, the repercussions of the Covid-19 pandemic vary depending on the segment. The nonlife insurance business is under pressure as a result of the economic slowdown and mobility restrictions, with motor and property insurance particularly impacted. However, life and medical insurance offer positive growth potential given the growing public awareness of their benefits. Overall, the insurance sector in Oman has responded well to the challenge; many insurers have call centres, informative websites and mobile apps, while smaller players joined digital aggregator platforms to provide service continuity amid the disruption.

Furthermore, insurance companies in Oman have moved forwards with plans to digitalise more systems and processes. "Our digital footprint increased during the Covid-19 pandemic as digitalisation efforts accelerated," Sunil Kohli, CEO of Dhofar Insurance, told OBG. "Many corporations already had digitalisation strategies, but the lockdown measures induced the sector to achieve targets at a faster pace."

Infographic source: *Badri Consultancy*

Power and Utilities

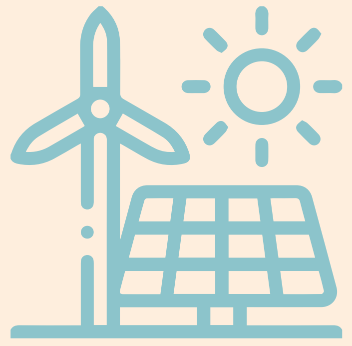
Amid widespread disruption stemming from the Covid-19 pandemic, in 2020 electricity consumption fell for the first time since the sector was restructured in 2005. Consumption was 33,156 GWh in 2020, 1.9% lower than the previous year. This helped reduce government subsidies for the power sector, from OR624.7m in 2019 to OR615m in 2020.

Subsidies generally account for around half of the cost of electricity generation, supply and distribution, and reforms have been implemented in line with broader efforts to place public finances on a more sustainable trajectory. Starting in 2021 electricity subsidies will gradually shrink as part of a phased march towards elimination in five years, although some consumers deemed vulnerable will still be entitled to some assistance.

With the sector facing excess capacity, policymakers have signalled their intent to overhaul capacity planning and procurement strategies – including the planned development of a spot market. To that end, the Authority for Public Services Regulation issued a request for proposal in early February 2021 for a roadmap of long-term solutions aimed at effective capacity utilisation, along with an implementation plan. The bidding closed later that month.

Meanwhile, the Oman Power and Water Procurement Company – the sole purchaser of electricity produced in the country – announced in May 2021 that the planned Manah Solar 1 and 2 independent power projects would have operations delayed by a year. Up to nine international consortia pre-qualified to participate in the tenders for the major solar-powered energy plants. The projects will support Oman in meeting its target of renewables comprising at least a 20% share of the energy mix by 2030.

Oman aims to boost renewables' share of the energy mix to



20% by 2030

and

35-39% by 2040

Case Study

Energoprojekt Entel (EPE) is a member of Energoprojekt Group, which was founded in Serbia and has operations in over 70 countries. The company specialises in design, consulting and project development, as well as the management of water, power generation, transmission and distribution systems. EPE has operated in Oman since 1996, and also has activities in Qatar and the UAE.

The Covid-19 pandemic caused a slowdown in business activity due to the movement and other health-related restrictions implemented in the sultanate to contain the spread of the virus. The onset of the health crisis also coincided with a number of EPE's projects entering their final phase, a period that is traditionally characterised by tighter short-term finances for players in the sector.

To address the challenges brought on by the pandemic, the company focused on accelerating the delivery of high-profile projects. One such project was the design of a 400-KW connection to provide electricity to the new Duqm Refinery and Petrochemicals Complex and connect Petroleum Development Oman – the country's main oil exploration and production company – to the network. This required considerable technical expertise in a desert environment, as such an area poses unique challenges for the development of supportive infrastructure. The design phase was delivered ahead of schedule, and the company also provides supervision services in the construction phase of the project.

"Because projects such as Duqm generate a steady monthly income, the pipeline of receivables becomes reinforced," Milan Maksimovic, resident manager in Oman for EPE, told OBG. "In the medium term it is expected that the firm will maintain a stable position and focus on contract acquisition."

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Retail and E-commerce

As restrictions were imposed on social interactions and mobility in an effort to curb the spread of Covid-19, retail and hospitality were among the sectors most negatively impacted. Like its Gulf neighbours, much of Oman's retail space is focused on malls, with multi-purpose, air-conditioned complexes serving as places for shopping, social gatherings and entertainment. Since the early days of the pandemic, malls and non-essential retail outlets have faced varying restrictions that have adversely impacted operations, including a full closure from mid-March to late June 2020. The conditions caused some developers to postpone projects: for example, Majid Al Futtaim, the region's largest mall operator, delayed the launch of the 145,000-sq-metre Mall of Oman – its fifth and largest centre in the sultanate – from 2020 to September 2021, as some tenants did not have the funds to outfit their stores.

While the overall impact of the pandemic on the retail market has been negative, it also helped retailers accelerate their digitalisation strategies to meet rising demand for e-commerce. The

Oman e-commerce projections, 2019-24

CAGR of 9.7%	Revenue growth
\$508.8m to \$809.9m	Total revenue increase
42.6% to 50.7%	Consumer penetration

number of total internet users in the country grew by 5.6% in 2020, while the number of active social media users increased by 10.7%, providing an expanding consumer pool for retailers. The government is supporting retailers in their drive to implement e-commerce solutions via a newly created e-commerce department in the Ministry of Commerce and Industry. The ministry promoted the use of e-commerce at the height of the pandemic through its Shop From Your Home social media campaign, which enabled retailers to highlight their delivery offerings to a broad audience. Growing consumer interest in online shopping is being met by investments in related logistics infrastructure, with Abu Dhabi-based supermarket chain Lulu opening its first ever e-commerce fulfilment centre in Oman in 2020.

Viewpoint

ASHA ENTERPRISES LLC

Rishi Khimji, Managing Director, Asha Enterprises

The lockdown measures introduced to contain the Covid-19 pandemic triggered several business changes and accelerated some processes that companies had planned in the past but were not implementing as fast as they could have. From a business perspective, the uncertain scenario has helped firms to concentrate efforts and resources on core activities. Banks and landlords have followed the government's request to be lenient with loans and rent payments where possible, although they will have to recover losses once the disruption subsides. Nevertheless, the crisis has made it easier to identify corporate priorities and invest in core operations.

There has also been a mindset change in terms of technology adoption. Today, everyone is open to new ideas, so it is the right time for technology companies to enter Oman. During the lockdown the Central Bank of Oman granted the first financial technology licence to a payment service provider, while before the pandemic we did not have an online payment gateway. Businesses have accelerated their digitalisation programmes and accomplished objectives in a month that were expected to take years. Remote working tools were also successfully adopted. In fact, the effectiveness of remote meetings has changed business habits, and executives will not travel as often as they used to when the pandemic subsides.

There is also a new trend of supporting local businesses. Before the pandemic consumers used to source products and materials from the cheapest provider regardless of their location. During the lockdown there was a growing awareness of our dependence on external sources, and now consumers are willing to pay 3-5% more for Omani-made products. The government's decision to allow 100% foreign ownership of businesses in the country should further boost domestic production.

Infographic source: *Statista*

Digital Acceleration

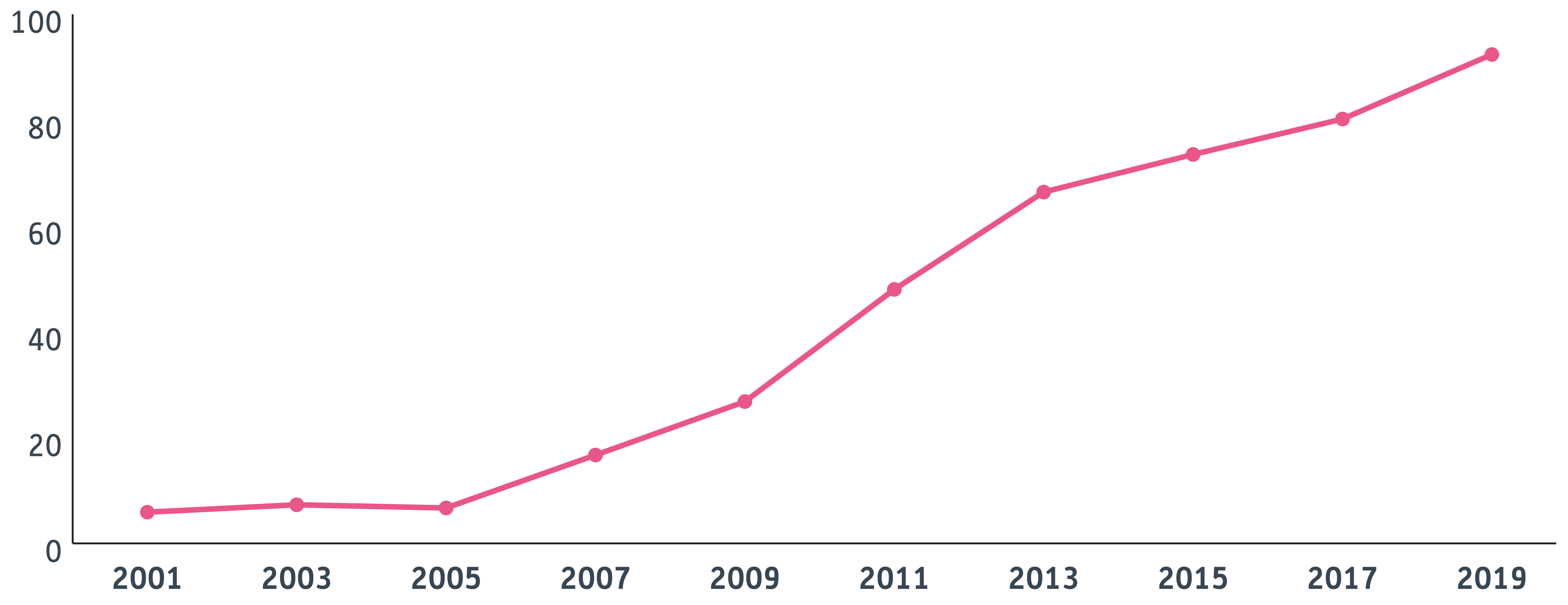
The adoption of digital solutions during the pandemic has helped to accelerate the growth of Oman's digital economy, which was previously lagging behind regional counterparts. The contribution of the digital economy to GDP in 2018 stood at 2.1%, below the average of 4% in Arab countries – illustrating room for expansion.

Vision 2040 includes a focus on building vital ICT infrastructure, introducing e-government services and strengthening national technical capabilities. In line with this, in early 2019 the Oman ICT Group (OICT Group) was created to foster the development of cloud and data services, smart applications and cybersecurity in the country. To advance Vision 2040, in July 2020 the OICT Group selected Oracle as its partner to speed up the digitalisation process across 120 government and government-affiliated entities through an integrated cloud platform, therefore addressing the deficit in cloud capabilities. However, low levels of fixed-broadband penetration diminished the capabilities of individuals and businesses to fully leverage this technology. Broadband accessibility and affordability is an ongoing challenge – high-speed broadband tariffs for businesses in Oman are the highest in the GCC.

The launch of 5G opened up new opportunities to introduce ICT services designed to boost productivity and growth across a range of industries. The Telecommunications Regulatory Authority announced the 5G Roadmap at the end of 2019, granting two telecoms operators – Ooredoo and Omantel – rights in the spectrum. The companies plan to install a combined 4400 stations to operate 5G networks by 2025. 5G home services were rolled out in 2020, with Omantel taking the lead in extending mobile 5G services by the end of that year.

Central to fostering the digital economy is supporting innovative start-ups. In the first half of 2020 Omani start-ups captured 12% of investment deals among MENA-based start-ups, a notable improvement from 1% in 2019. This translated into a 35% expansion in the capital received by the country's start-ups. It also reflected the impact of Oman Technology Fund's mobilisation of OR1m to spur the growth of digital solutions to help curb the spread of Covid-19, particularly those related to marketplace and teaching platforms.

Internet penetration in Oman, 2001-19 (%)



As policymakers seek to create high-value employment opportunities for young citizens, more engineering and technology-focused universities and research centres could help to ensure the workforce is fully equipped with the skills needed for the economy of the future. One high-potential research area is cybersecurity, and Oman Data Park's cybersecurity centre – the first of its kind in the country, rebranded in 2020 as Cyber Security Park – has successfully provided protection against more than 8000 cyberattacks faced by various institutions. Established by the OICT Group, it paves the way for similar initiatives, which could benefit from Oman having one of the highest proportions of IT university graduates in the world.

Graph source: *World Bank*

Case Study

Since 2012 and in line with global trends favouring the software-as-a-service (SaaS) business model, Oman Data Park (ODP) offers fee-based service packages enabling clients to access advanced digital functionalities in a variety of developer-defined environments, including Microsoft Azure and Virtual Oracle Compute, as well as open source.

The SaaS model has proven popular because clients can remotely access IT architecture assembled and managed by a cloud solutions provider. This grants them a large degree of flexibility by removing the need to commit to large capital investments and maintenance costs. In this way, ODP can support the country's economic recovery by efficiently harnessing digitalisation for its clients, from government and large corporations, to small and medium-sized enterprises and start-ups. ODP also acts as a catalyst for competition-driven innovation in the nascent cloud segment.

> ODP can support the country's economic recovery from the pandemic by offering clients of all sizes an efficient way to invest in digitalisation

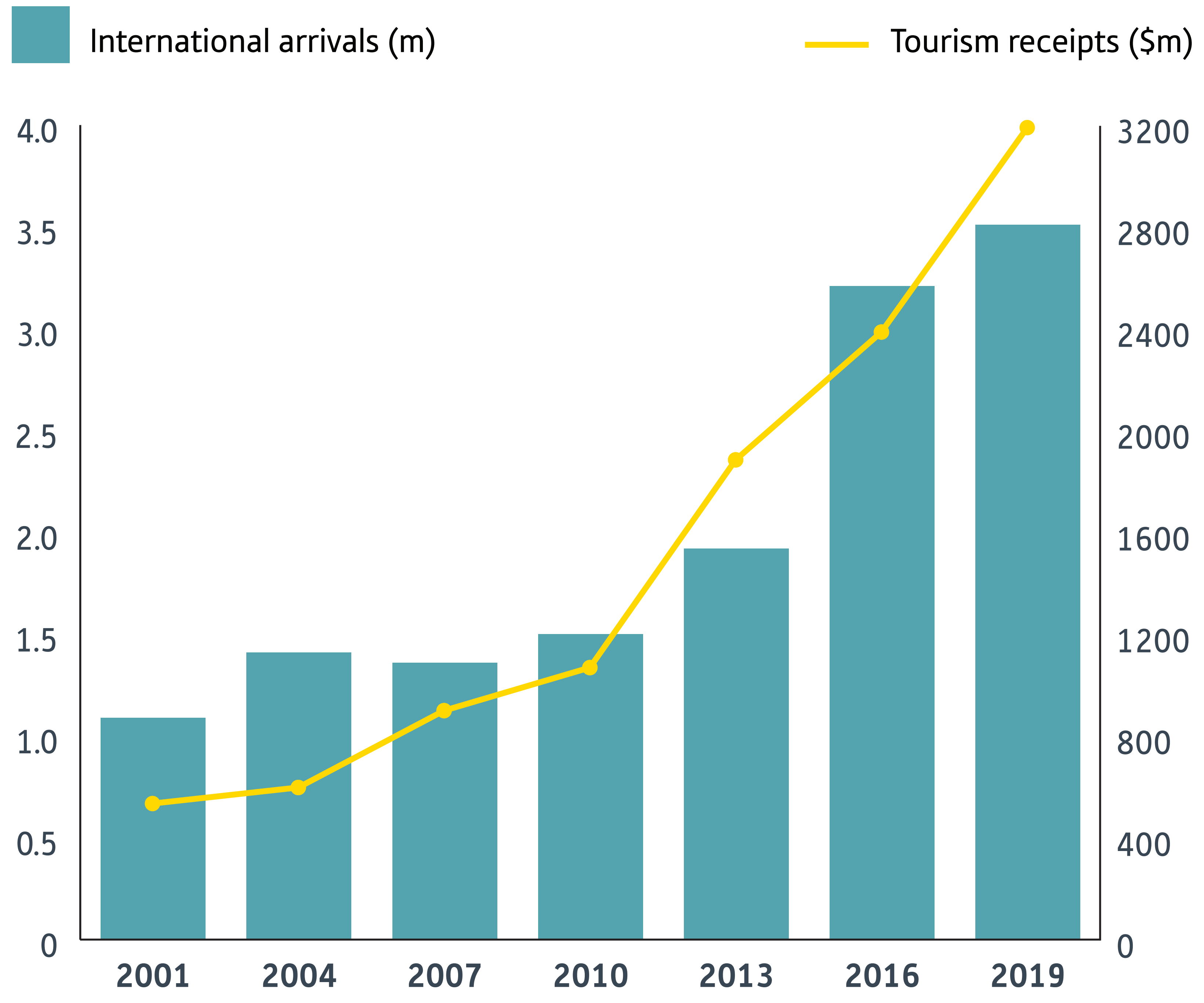
While ODP continues to offer cross-industry applications – such as those used for procurement, enterprise resource planning and office productivity – it is expanding its range of services within sector-specific verticals including financial services, energy, education, health care and government. Building on its expertise, ODP is introducing advanced artificial intelligence tools, as well as powerful processing and graphic capabilities in partnership with Nvidia. This allows clients to perform technically complex processes such as seismic analysis and simulation in the hydrocarbons industry; remote graphic processing for gamification in the video game industry; electronic know-your-customer checks; and big data analysis. Additionally, the company is strengthening security through its dedicated business unit, Cyber Security Park.

ODP's growth strategy is based on the fast-developing digital landscape in the GCC region. The deployment of 5G networks will help realise the potential of the internet of things in sectors like industry, transport and logistics. While most of the company's cloud services only require 4G connectivity, the merging of cloud computing and the internet of things is expected to be a driver of growth if telecoms companies manage to provide large-scale 5G connectivity in a financially sustainable way. From a regional expansion perspective, ODP is penetrating markets such as Saudi Arabia and Kuwait through stack colocation services that are fully compliant with established data sovereignty regulations in those markets.

Looking forwards, ODP aims to deepen its partnerships with international giants like Microsoft and Amazon in order to help Oman keep pace with digital innovation and address the scarcity of Omani experts who are specialised in cloud technology. "ODP heavily invests in training new employees, but more could be achieved if large multinationals and their partners are incentivised to upskill local talent," Maqbool Al Wahaibi, CEO of ODP, told OBG.

Spotlight on Tourism

Tourism indicators, 2001-19



Although the pandemic created significant disruption for tourism, sector expansion remains key to Oman's long-term diversification efforts. The number of tourists visiting the sultanate rose by an annual average of 7.8% between 2016 and 2019, thus Oman is well positioned to return to this level of growth once global travel normalises.

A fall in the volume of tourists from GCC countries from its 2016 peak was offset by significant increases in visitors from Asia and Europe. Given that European tourists spend almost four times more on average than GCC tourists during their time in the country, increasing exposure to this market is a major opportunity for Oman's tourism sector. Helping to drive this growth has been the more than 50% increase in business-related tourism from Europe to the sultanate between 2015 and 2019, driven in large part by major improvements to the country's infrastructure. These include the $1.8bn investment in Muscat International Airport's new terminal, which opened in 2018, and the Oman Convention and Exhibition Centre (OCEC), which completed second-phase construction work in October 2019.

These initiatives constitute part of the Oman Tourism Strategy, which aims to boost the tourism sector's contribution to GDP from 2.5% in 2019 to 6% in 2040. Split into three phases – preparation (2016-20), growth (2021-30) and stability (2031-40) – the strategy seeks to create over 535,000 jobs through a total of OR20bn in investment. It also targets the development of 80,000 rooms in hotels, vacation homes and integrated tourism complexes. Nature tourism was identified as a segment of potential, with the plan identifying mountains, *wadis* (valleys), deserts and coasts as venues for tourism. The Oman Tourism Development Company (Omran) is taking a leading role in diversifying the sultanate's tourism offerings, namely through the OCEC and its Mina al Sultan Qaboos multi-use marine development.

Despite a 56% reduction in room occupancy in 2020, the pandemic opened up Oman's tourism sector to a new source of growth: domestic tourism. Through its "#DoubleYourDelight" and "Within Oman" campaigns, the government sought to promote staycations as a source of revenue in the face of global travel restrictions. Several policies were announced in support of this, such as income and tourism tax exemptions for hotels that are helping to reduce costs until international revenue returns.

Graph source: *World Bank*

Business and Investment Forecast

In the energy sector, which remains the cornerstone of Oman's economy, the government established a new government-owned entity called Energy Development Oman (EDO) in December 2020 to improving revenue management and maximise returns on the country's hydrocarbons wealth. EDO acquired a 60% stake in Block 6 – the sultanate's largest oil and gas operation that has the capacity to produce 650,000 barrels of oil equivalent per day – from Petroleum Development Oman, a publicly owned exploration and production (E&P) company. With the ability to raise debt independently and a mandate for E&P and renewable energy development, it is hoped the new firm will improve efficiency in the sector. Downstream, in July 2020 investment firm Canada Business Holdings announced its intention to move ahead with a $1.5bn low-sulphur fuel oil refinery in Oman under a public-private partnership. This signalled a major vote of confidence in the country amid a broader global slowdown in the downstream project pipeline due to the pandemic.

Government measures enacted in early 2021

- Temporary cuts in income tax for small and medium-sized enterprises
- Reduced rental costs at industrial areas until the end of 2022
- Long-term residence permits for foreign investors

At the same time, policymakers are increasingly looking beyond hydrocarbons for sustainable economic development – with foreign investment envisioned to play a key role. In addition to the wide-ranging investment reforms enacted in 2019 and the fiscal improvement measures announced in 2020 (see slide 12), the government introduced further measures to attract investment in the first quarter of 2021 as the global investment community sought opportunities in the post-pandemic environment. The latest measures included temporary cuts in income tax for small and medium-sized enterprises; reduced rental costs at the Duqm Special Economic Zone and other industrial areas until the end of 2022; and long-term residence permits for foreign investors. While significant challenges remain, the positive momentum in the reform agenda bodes well for sustained, broad-based economic recovery.

Viewpoint

Ahmed Al Barwani,
Head of Oman Office, Al Tamimi & Company

The pandemic is leading to the modernisation of Omani courts to some extent. The digitalisation of proceedings is catching up to other GCC jurisdictions, which already allow some court cases to be heard online. Oman is following suit by introducing a platform for online case filing. This, together with the 2020 Law on Simplification of Certain Judicial Procedures in Specific Matters, should speed up cases related to rents, construction projects, employment and debt, which have increased during the pandemic.

Moving forwards, there are two areas relevant to economic recovery that merit legal consideration: mergers and acquisitions (M&A), and foreign direct investment (FDI). The 2021 adoption of executive regulations related to the Competition Law adds more clarity – specifying, among other things, the data and materials to be submitted upon request by the Competition Authority. This includes information on market share, key competitors, effect on the market and justification. However, it should be noted that the authority has been relatively flexible when determining whether M&A activity risks creating a dominant player in the market, particularly in the food and telecommunications industries. Looking ahead, this flexibility is set to continue, since M&A will likely be commonplace during post-pandemic market consolidation.

Regarding FDI, a new Foreign Capital Investment Law was introduced in early 2020, with executive regulations following in June of that year. Under the key aspect of the law, foreign investors can now own 100% of a company in Oman, instead of the 70% limit that was in place before. With very few exceptions where this is not possible, this law, together with the 2020 regulations for the 2019 Public-Private Partnership Law, should boost FDI inflows. However, obstacles remain in the form of rising fees for trade licences and other permits, as well as cumbersome administrative procedures to obtain them.

6 Key Takeaways

1

Oman was already making efforts to diversify its economy prior to Covid-19, but the pandemic-induced disruption to the oil and gas sector further underlined the need to develop a broader economic base to better absorb the impacts created by downturns in the commodities cycle. Medium- and long-term policy initiatives have been articulated to spur private sector development and nurture new growth engines.

2

Sustained investment in health care infrastructure and service delivery helped to strengthen the sultanate's resilience against the severe medical challenges of the pandemic: the number of hospitals rose by 12% and the bed occupancy rate fell by 2.4% between 2016 and 2019. Oman's relatively young population was less pre-disposed to contracting severe cases of Covid-19 compared to most developed markets, which helped hospitals from becoming overwhelmed.

3

The government moved swiftly to impose restrictions on mobility and large gatherings at the start of the pandemic in an effort to curb transmission, and has maintained vigilance in the face of new variants emerging in different parts of the world. Despite facing budgetary pressures, policymakers have also effectively used a wide range of fiscal and monetary tools to ease the burden on struggling households and businesses.

4

Although the sharp drop in oil prices and subdued operating environment strained asset quality and earnings among banks, the well-capitalised and regulated financial services sector maintained stability throughout the crisis and continued to support corporate and retail clients. There may be increased appetite for consolidation in the sector during the recovery phase, with a view to improving economies of scale, reducing costs and enhancing profitability.

5

The government's Medium-Term Fiscal Plan 2020-24 should help to stabilise public finances and generate diversified sources of revenue through new taxation policies and the stimulation of private sector activity. Reforms to the legal framework should help to attract higher levels of foreign direct investment into strategic industries and generate more private employment opportunities for the country's young workforce – easing the burden on the public payroll in the process.

6

While the pandemic was a severe test for Oman's macroeconomic stability, the crisis spurred policymakers into enacting or accelerating much-needed reforms that should help the country on the path to long-term sustainable development. The disruption forced businesses to adopt or expedite digital transformation strategies to strengthen their competitiveness, which could see some firms emerge from the pandemic in a better position to capitalise on new opportunities.

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