Oman
CRT-4
August 22, 2019
Region: Middle East & North Africa
Country Risk Criteria Procedures
Guide to Best’s Country Risk Tiers

• The Country Risk Tier (CRT) reflects AM Best’s assessment of three categories of risk: Economic, Political, and Financial System Risk.

• Oman is a CRT-4 country with high levels of economic and financial system risk and moderate levels of political risk.

• Its oil-based economy exposes the country to shifts in global demand and volatility in oil prices. Oman is not a member of the Organization of Petroleum Exporting Countries and is the largest non-OPEC oil producer in the Middle East. GDP growth was 2.1% in 2018 and is expected to slow to 1.1% in 2019.

• The map depicts countries in the region that AM Best evaluates for country risk. The region contains countries with risk levels ranging from CRT-3 to CRT-5.

Regional Summary: Middle East & North Africa

• The slowdown in global growth will weigh on the region, dampening the prospects for the region’s oil exporters. Volatility in oil pricing (spurred in part by the re-imposition of US sanctions against Iran), combined with increased geopolitical tensions, has resulted in a soft outlook.

• Protests in Sudan and Algeria led to leadership changes in both countries in 2019. Rising instances of social unrest throughout the region highlight the need for inclusive structural reforms that diversify the region’s economies and address its high unemployment, especially among its youth.

• Growing debt may limit the ability of the region’s governments to insulate their economies from unfavorable financial conditions through pro-cyclical policies and spending. The IMF reports that two thirds of the region’s countries had debt levels amounting to at least 70% of GDP in 2018.

• To the extent they can, countries in the region are likely to pursue supportive monetary policy, but several operate with a pegged currency, limiting their maneuverability.
Economic Risk: High

- The economy is undiversified and is dominated by the hydrocarbon sector, making the country vulnerable to global demand conditions. Hydrocarbon revenues currently make up approximately 70% of government revenues.
- The government is trying to diversify the economy by implementing various pro-business reforms and trying to attract foreign direct investment.
- The government is greatly involved in industry, with a large number of state-owned enterprises. These enterprises need to submit plans to the Ministry of Finance on how they are to be privatized.
- Economic growth is set to slow in 2019, due to declines in oil production and a volatile commodity price environment. However, production of natural gas output is expected to increase, helping to mitigate the slowdown in oil production.
- Economic growth is set to slow in 2019, due to declines in oil production and a volatile commodity price environment. However, production of natural gas output is expected to increase, helping to mitigate the slowdown in oil production.
- Inflation is expected to remain below 2.0% in 2019. However, there is some upside risk for 2020, when the value-added tax is scheduled to be implemented.

Political Risk: Moderate

- The Sultanate of Oman is an absolute monarchy. Qaboos bin Said al Said has been sultan since 1970, and rules by decree. A Council of Ministers is selected by the sultan.
- Power is concentrated with the sultanate. In addition to being the head of state, he is also the prime minister, and minister of foreign affairs, defense, and finance.
- The sultan remains a very popular leader, which has raised succession concerns, as he has no clear heir. In March 2017, Qaboos elevated his cousin to the post of deputy prime minister, which lessened succession-related instability and potential infighting over succession.
- Debt levels have increased in recent years owing to a decline in commodity prices, as well as a rise in borrowing to maintain generous social programs. Borrowing costs have increased recently due to sovereign rating downgrades, as the country’s vulnerabilities have increased.
- One of the government’s main priorities will include “Omanisation”—a policy requiring companies to hire more Omani citizens rather than foreign expatriates and expanding its private sector.

Financial System Risk: High

- The Capital Market Authority is responsible for supervising the insurance industry.
- The currency is pegged to the US dollar, which has helped with macro stability but diminishes monetary policy options.
- The IMF notes that Oman’s banks benefit from low levels of non-performing loans, strong liquidity buffers, and high capitalization levels.