FitchRatings

11 APR 2023

Fitch Revises Outlook on Oman to Positive; Affirms at 'BB'

Fitch Ratings - Hong Kong - 11 Apr 2023: Fitch Ratings has revised the Outlook on Oman's Long-Term Foreign-Currency Issuer Default Rating (IDR) to Positive, from Stable, and has affirmed the rating at 'BB'.

A full list of rating actions is in the table below.

Key Rating Drivers

Public Finances Drive Positive Outlook: The Positive Outlook reflects lower government debt/GDP, with high oil prices and spending restraint reducing external liquidity risk. The Outlook also incorporates our expectation that the government remains committed to fiscal consolidation. Fiscal reform should be sufficient to limit a deterioration of Oman's budget, debt/GDP ratio and external position under our assumption of lower oil prices this year and next. Government debt/GDP fell to 40% in 2022, from 61% at end-2021, and we expect it to reach 37% by end-2024, from 48% at our last review in August 2022.

Oil Underpins Budget Surplus: We project a government budget surplus of 2.3% of GDP in 2023, against 4.9% in 2022, Oman's first surplus since 2013. We assume the average Brent oil price will fall to USD85 a barrel in 2023, while production will be limited by OPEC+ production caps agreed in April 2023, leading to a 9% drop in total revenue. This is despite higher tax revenue on stronger tax enforcement and economic activity. Our fiscal balance metric differs from the government, as we exclude some dividends, liquidity and debt management items from revenue and spending.

We forecast a budget surplus of 0.1% of GDP in 2024, as a small rise in oil production is likely to be insufficient to counter the effect of lower oil prices of USD75/barrel Brent on budget revenue. Non-oil tax revenue should rise to 5.6% of non-oil GDP, from 5.2% in 2022; a modest increase as we do not factor in a mooted value added tax (VAT) hike at this stage.

Pause of Fiscal Reform Drive: High oil prices and global inflationary pressures have led the government to pause some measures included in its medium-term fiscal plan, including a rise in the VAT rate and the introduction of personal income tax. On the spending side, the timeframe for the elimination of the electricity subsidy, accounting for 1.2% of GDP in 2022, has been extended to 10 years, from five. The government also put in place a fuel-price cap in 2022 that is to remain until at least end-2023 at a cost of about 1.1% of GDP during the year under our oil price assumption.

Nonetheless, we expect continued restraint on current spending and the partial implementation of the fiscal plan to allow Oman's fiscal breakeven price to decline to USD67/barrel in 2025, a significant improvement from USD77/barrel in 2022. Public finances would remain dependent on hydrocarbon revenue and vulnerable to hydrocarbon prices shocks. Potential social pressure from the low employment rate of young Omanis remains a risk to public finances.

Falling Debt: We project general government debt to fall to 37% of GDP in 2023 and be broadly stable in 2024, below the 'BB' peer median of 54%. Oman's domestic debt fell by OMR0.9 billion in 2022 and external debt by OMR2.3 billion on strong hydrocarbon revenue. The government repaid a maturing USD1.25 billion eurobond in January 2023 and prepaid USD1.5 billion of a USD4.0 billion facility in March. The Petroleum Reserve Fund was not used for those repayments and stood at over USD2.2 billion in March 2023.

Improving External Balance Sheet: Lower external debt has eased external liquidity risk, although debt repayments prevented accumulation of foreign assets. We project sovereign net foreign assets to return to a positive position in 2023, after falling to -9% of GDP in 2020, from 53% in 2014. Foreign-exchange reserves will rise only modestly in 2023 as debt repayments continue, to cover 3.3 months of current account payments, below the 'BB' median of 4.2 months. Oman Investment Authority's (OIA) foreign assets are stable, at close to USD17 billion. Total net external debt, at 34% of GDP, is double the 'BB' median.

External Vulnerabilities Remain: We forecast sovereign external maturities to average at USD3.3 billion in 2024-2026. In addition, state-owned entities (SOEs) under the purview of the OIA have USD1.8 billion in average annual external debt payments in 2023-2025. These external commitments are less burdensome than in recent years, but remain significant, especially in a scenario of lower oil prices and continued tight global financing conditions. SOE debt will remain at close to 30% of GDP, although the smaller SOE capex project pipeline could lead to further debt reduction in the medium term.

Growth to Slow: We project GDP growth of 1.1% in 2023, slowing from 4.3% in 2022. Oil production will contract as Oman plans to cut production by 40,000 barrels per day from May 2023 as part of OPEC+'s cuts, while liquefied natural gas export facilities will be at full capacity. We project non-oil sector growth of 2.3%, as the construction sector starts to recover from a 23% contraction in 2022, and other sectors (+5.5% in 2022) slow as the pandemic recovery fades. Investment in renewables and the hydrogen sector, part of Oman's target to produce 1 million tonnes by 2030, should support growth from 2024.

ESG - Governance: Oman has an ESG Relevance Score (RS) of '5[+]' for both Political Stability and Rights and for the Rule of Law, Institutional and Regulatory Quality and Control of Corruption. Theses scores reflect the high weight that the World Bank Governance Indicators (WBGI) have in our proprietary Sovereign Rating Model. Oman has a medium WBGI ranking at the 52nd percentile, reflecting strong scores for rule of law and regulatory quality, but a low score for voice and accountability

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/

downgrade:

- Public Finances: A persistent upward trend in government debt/GDP; for example, stemming from a loosening of the fiscal stance, a materialisation of large contingent liabilities or lower-than-expected oil prices.

- External Finances: Substantial deterioration of Oman's external balance sheet and liquidity conditions; for example, in the form of a large decline in central bank reserves and OIA assets.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Public Finances: Greater confidence in medium-term stabilisation of government debt/GDP and sovereign net foreign assets/GDP; for example, through the introduction of new fiscal consolidation measures or a sustained period of high oil revenue.

- External Finances: A continued decline in net external debt/GDP, reflecting lower SOE external debt or an accumulation of foreign assets.

Sovereign Rating Model (SRM) and Qualitative Overlay (QO)

Fitch's proprietary SRM assigns Oman a score equivalent to a rating of 'BBB' on the Long-Term Foreign-Currency IDR scale.

Fitch's sovereign rating committee adjusted the output from the SRM score to arrive at the Long-Term Foreign-Currency IDR by applying its QO, relative to SRM data and output, as follows:

- Structural: -1 notch to adjust for the significant improvement in the SRM score, which in part relates to cyclically high oil prices that are boosting many of the model inputs based on nominal GDP.

- Public Finances: -1 notch to reflect risks to government finances from contingent liabilities, high dependence on hydrocarbon revenue and other fiscal rigidities related, for example, to subsidies and wages.

- External Finances: -1 notch to reflect Oman's large net external debtor position, which is double the 'BB' median and a vulnerability to renewed oil moves that the model may not fully capture.

Fitch's SRM is the agency's proprietary multiple regression rating model that employs 18 variables based on three-year centred averages, including one year of forecasts, to produce a score equivalent to a Long-Term Foreign-Currency IDR. Fitch's QO is a forward-looking qualitative framework designed to allow for adjustment to the SRM output to assign the final rating, reflecting factors within our criteria that are not fully quantifiable and/or not fully reflected in the SRM.

Best/Worst Case Rating Scenario

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

Oman has an ESG Relevance Score of '5[+]' for Political Stability and Rights as WBGIs have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and a key rating driver with a high weight. As Oman has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

Oman has an ESG Relevance Score of '5[+]' for Rule of Law, Institutional & Regulatory Quality and Control of Corruption, as the WBGIs have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and are a key rating driver with a high weight. As Oman has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

Oman has an ESG Relevance Score of '4' for Human Rights and Political Freedoms, as the Voice and Accountability pillar of the WBGIs is relevant to the rating and a rating driver. As Oman has a percentile rank below 50 for the respective Governance Indicator, this has a negative impact on the credit profile.

Oman has an ESG Relevance Score of '4[+]' for Creditor Rights, as willingness to service and repay debt is relevant to the rating and is a rating driver for Oman, as for all sovereigns. Oman has a 20-plus year record without a restructuring of public debt. This is captured in our SRM variable and has a positive impact on the credit profile.

Except for the matters discussed above, the highest level of ESG credit relevance, if present, is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Oman	LT IDR	BB ⊕	Affirmed		BB ◘
	ST IDR	B	Affirmed		B
	LC LT IDR	BB ⊕	Affirmed		BB ◘
	LC ST IDR	B	Affirmed		B
	Country Ceiling	BB+	Affirmed		BB+
• senior unsecured	LT	BB	Affirmed		BB
Oman					

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Sovereign Sukuk S.A.O.C.					
• senior unsecured	LT	BB	Affirmed		BB

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	⬘
NEGATIVE	⊖	⬙
EVOLVING	⭘	◆
STABLE	⭘	

Applicable Criteria

Country Ceilings Criteria (pub.01 Jul 2020)

Sovereign Rating Criteria (pub.06 Apr 2023) (including rating assumption sensitivity)

Sukuk Rating Criteria (pub.13 Jun 2022)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Country Ceiling Model, v1.7.3 (1)

Debt Dynamics Model, v1.3.2 (1)

Macro-Prudential Indicator Model, v1.5.0 (1)

Sovereign Rating Model, v3.13.3 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

Oman	EU Endorsed, UK Endorsed
Oman Sovereign Sukuk S.A.O.C.	EU Endorsed, UK Endorsed

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Endorsement policy

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