

Report No. 393a-OM

# Current Economic Position and Prospects of Oman

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Europe, Middle East & North Africa Region

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Currency Equivalents

Currency Unit - Omani Rial (O.R.)

Before August 15th, 1971

O.R. 1 = U.S. \$ 2.40

U.S.\$1 = O.R. 0.417

1972

O.R. 1 = U.S. \$2.60

U.S.\$1 = O.R. 0.385

1973

O.R. 1 = U.S.\$ 2.89

U.S.\$1 = O.R. 0.346

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This report is based on the findings of an economic mission which visited Oman in November 1973. The Mission was composed of Messrs. F.A. Atabani (Chief), B. Al Bustany and S. Rangachar (general economists).



## COUNTRY DATA - OMAN

<u>AREA</u>	<u>POPULATION</u>	<u>DENSITY</u>
260,000 km <sup>2</sup>	0.6 million (mid-1972)	2 per km <sup>2</sup>
	Rate of Growth: 3% (from 1966 to 1972)	600 per km <sup>2</sup> of arable land

POPULATION CHARACTERISTICS 1970

Crude Birth Rate (per 1,000)	50
Crude Death Rate (per 1,000)	21
Infant Mortality (per 1,000 live births)	..

INCOME DISTRIBUTION 1970

% of national income, highest quintile	..
lowest quintile	..

ACCESS TO PIPED WATER 1970

% of population - urban	..
- rural	..

NUTRITION 1970

Calorie intake as % of requirements	..
Per capita protein intake	..

HEALTH 1972

Population per physician	9,677
Population per hospital bed	1,180

DISTRIBUTION OF LAND OWNERSHIP 1972

% owned by top 10% of owners	..
% owned by smallest 10% of owners	..

ACCESS TO ELECTRICITY 1972

% of population - urban	60%
- rural	10%

EDUCATION 1972

Adult literacy rate %	20%
Primary school enrollment %	23.7%

GNP PER CAPITA in 1973<sup>1/</sup>: US \$ 658

GROSS NATIONAL PRODUCT IN 1973

	US \$ Mln. <sup>1/</sup>	%
GNP at Market Prices	395	100.0
Gross Domestic Investment	139	35.2
Gross National Saving	118	29.9
Current Account Balance	-90	..
Exports of Goods, NFS <sup>2/</sup>	330	83.5
Imports of Goods, NFS <sup>2/</sup>	210	60.7

ANNUAL RATE OF GROWTH (% constant prices)

	1960-65	1965-70	1971
GNP at Market Prices	..	..	..
Gross Domestic Investment	..	..	..
Gross National Saving	..	..	..
Current Account Balance	..	..	..
Exports of Goods, NFS <sup>2/</sup>	..	..	..
Imports of Goods, NFS <sup>2/</sup>	..	..	..

OUTPUT, LABOR FORCE AND PRODUCTIVITY IN 1973

	Value Added <sup>1/</sup>		Labor Force <sup>3/</sup>		V. A. Per Worker	
	US \$ Mln.	%	Thous	%	US \$	%
Agriculture, fisheries	50	10	124	83	403	12
Oil	278	55	3	2	92,666	2744
Services (including Govt.)	9	2	5	3	7,739	129
Unallocated	162	33	18	12		
Total/Average	506	100.0	150	100.0	3,373	100.0

GOVERNMENT FINANCE

	General Government <sup>4/</sup>			Central Government <sup>4/</sup>		
	(Mln.)		% of GDP	(US \$ Mln.)		% of GDP
	197	197	196-7	1973	1973	1971-73
Current Receipts	.	.	.	198.7	39.2	35.7
Current Expenditure	.	.	.	177.8	35.1	27.6
Current Surplus	.	.	.	20.9	4.1	8.1
Capital Expenditures	.	.	.	87.6	17.3	16.5
External Assistance (net)	.	.	.	60.0	11.8	3.9

1/ Estimates

2/ National account figures and includes oil company share

3/ Estimates of active population

4/ Central Government's revenues and expenditures equal all Government revenues expenditures

.. not available  
 . not applicable

## COUNTRY DATA - OMAN

<u>MONEY, CREDIT and PRICES</u>	<u>1965</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>
		(Million O.R. outstanding end period)			
Money and Quasi Money	..	29	35.5	45.5	44.8
Bank Credit to Public Sector	..	0	0	0	7.2
Bank Credit to Private Sector	..	2.3	3.7	4.3	6.5

## (Percentages or Index Numbers)

Money and Quasi Money as % of GDP	..	26	31	32	28.3
General Price Index (1963 = 100)	..	..	..	..	..
Annual percentage changes in:					
General Price Index	..	..	..	..	..
Bank credit to Public Sector	..	..	..	..	..
Bank credit to Private Sector	..	100	60.8	16.2	51.2

BALANCE OF PAYMENTS

	<u>1971</u>	<u>1972</u>	<u>1973</u>
	(Millions US \$) Estimates		
Exports of Goods, NFS	129.6	145.8	200.4 <sup>1/</sup>
Imports of Goods, NFS	-96.5	-160.2	-231.5
Resource Gap (deficit = -)	33.1	-14.4	-31.1
Interest Payments (net)	-	-	-
Workers' Remittances	-	-	-
Other Factor Payments (net)	- 1.2	-46.2	-60.7
Net Transfers	-	-	-
Balance on Current Account	31.9	-60.6	-91.8
Direct Foreign Investment	..	..	-43.5
Net MLT Borrowing	..	..	00.0
Disbursements	..	..	(60.0)
Amortization	..	..	(-)
Subtotal	..	..	16.5
Capital Grants	..	..	..
Other Capital (net)	..	..	..
Other items n.e.f	..	19.5	10.4
Increase in Reserves (+)	32	-47.1	-64.9
Gross Reserves	145.0	164.0	84.9
Net Foreign Assets (end year)	49.6	206.0	159.0

MERCHANDISE EXPORTS (AVERAGE 1971-73)

	<u>US \$ Mln</u>	<u>%</u>
Oil (net of Oil Company share)	162	99.4
All other commodities	1	0.6
Total	163	100.0

EXTERNAL DEBT, DECEMBER 31, 1973

	<u>US \$ Mln</u>
Public Debt, incl. guaranteed	60.0
Non-Guaranteed Private Debt	..
Total outstanding & Disbursed	60.0
<u>DEBT SERVICE RATIO for 1973</u>	<u>%</u>
Public Debt, incl. guaranteed	..
Non-Guaranteed Private Debt	..
Total outstanding & Disbursed	..

RATE OF EXCHANGE

Through - 1971  
US \$ 1.00 = O.R. 0.417  
O.R. 1.00 = US \$ 2.40

Through - 1972-73  
US \$ 1.00 = O.R. 3.05  
O.R. 1.00 = US \$ 2.60  
Since 1974

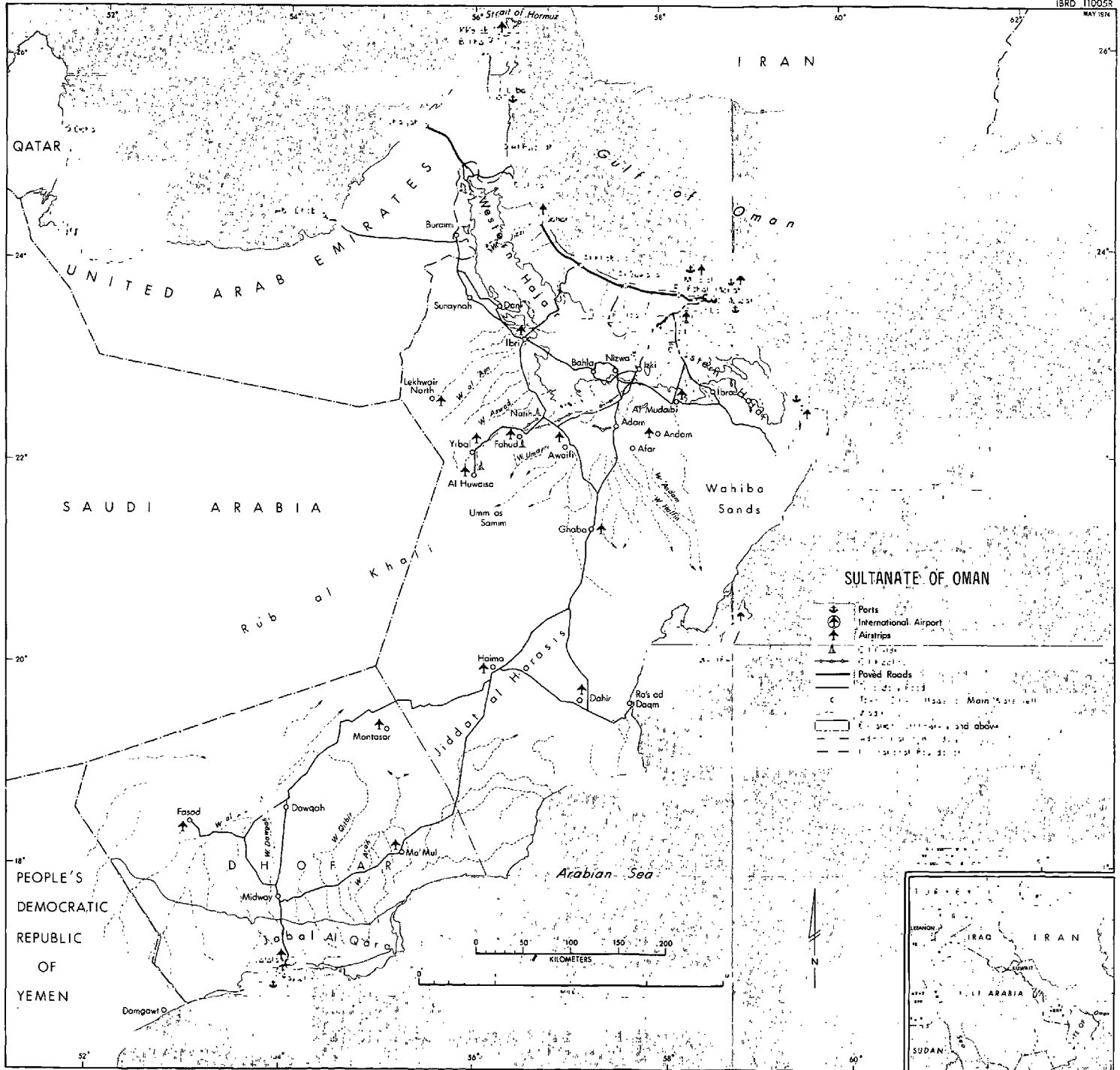
US\$ 1.00 = O.R. 0.346  
O.R. 1.00 = US\$ 2.89

IBRD/IDA LENDING, (latest month) (Million US \$):

	<u>IBRD</u>	<u>IDA</u>
Outstanding & Disbursed	0	0
Undisbursed	0	0
Outstanding incl. Undisbursed	0	0

<sup>1/</sup> Excluding the oil company's share.

.. not available  
. not applicable







## SUMMARY AND CONCLUSIONS

i. The Sultanate of Oman lies in the eastern tip of the Arabian Peninsula and covers an area of almost 260,000 sq. km. With the exception of the narrow fertile coastal plain in the north, a number of oases in the interior and small parts of the plain in Dhofar, the country is mostly desert or mountainous terrain. The Sultanate is an independent state whose opening to the outside world is recent. Since coming to power in 1970 Sultan Qaboos bin Said has proceeded to modernize his country and has brought about a number of social and political reforms. The present Government, however, continues to be engaged in fighting a guerilla movement in the southern province of Dhofar, which had originally started a decade earlier.

ii. Little is known about the size of the population of Oman, its characteristics or geographical distribution. However, the Government estimates total population at 600,000 and growing at an annual rate of about 3 percent. Only the Batinah coast and a few oases in the interior are relatively densely populated. Similarly, little is known about the mineral resources of the country besides oil. Oil in commercial quantities was discovered in 1964 and exports of crude oil started in 1967. Though Oman's crude oil is of good quality with low sulphur and wax, the proven oil reserves are currently estimated at 300 million tons which may be exhausted, depending on the rate exploitation, in about 15 to 20 years. Exploration work is, however, continuing in the interior of Oman and offshore explorations in the Arabian Sea and in the straits of Hormuz are expected to begin in the near future. Exports rose from 20 million barrels in 1967 to a peak of 120 million barrels in 1970, but due to a number of technical problems, declined in 1971 and 1972 and increased only marginally in 1973. Government revenues from oil which reached OR 68.6 million in 1973, increased at an average rate of 12 percent between 1970 and 1973. However, with the discovery of new fields and the adoption of new technologies, oil production is expected to increase to 114 million barrels in 1974 and 139 million barrels in 1975. Barring new discoveries, production is expected to decline thereafter. Besides oil, land and water constitute the main natural resources of the country, and agriculture, with about 90,000 acres currently under cultivation, continues to provide employment for about 80 percent of the population. Outside a few crops, namely dates, limes, lucerne, onion and some tropical fruits which are traditionally the mainstay of Omani agriculture, little is known about other crops or their potential.

iii. Prior to the discovery of oil, Oman's was a subsistence economy dependent on limited agriculture and fishing. The economy probably grew very slowly, if at all. Since 1967 when oil exports began, gross national product grew at an average annual rate of about 22 percent. GNP in 1973 is estimated at OR 136 million (\$395 million) and with a population of 600,000, per capita income is expected to reach OR 226 (\$660) as compared with OR 84 (\$201) in 1967 and less than OR 40 (\$100) in earlier years. But in spite of these relatively high rates of growth in the recent past, Oman still remains extremely underdeveloped and suffers from the consequences of centuries of poverty and neglect.

iv. The substantial increase in income since 1967 brought about a significant increase in expenditure only after 1970 when the Government launched major investment projects aimed at providing the minimum standards of economic and social infrastructure. At the same time, a sustained defense effort designed to cope with the guerilla movement in Dhofar was undertaken. Between 1970 and 1973 gross capital formation increased from 15 to 35 percent of GNP. Most of the investment in these years was undertaken by the public sector mainly for social and economic infrastructure projects as investment in the oil sector declined from about 70 percent to about 30 percent of the total. At the same time, the ratio of defense expenditures to GNP doubled from about 15 to 30 percent over the same period. National savings as a percentage of GNP declined from 59 percent in 1970 to about 30 percent in 1973 primarily as a result of the increased defense expenditures as well as recurrent expenditure brought about by investment, mainly in education, health and housing. Private consumption outside the oil sector increased at an average of 22 percent per year during 1970-1973 but the increase was unequally distributed between regions and income groups.

v. The higher levels of public expenditures since 1970 brought about a marked deterioration in the financial position in the Government. The budget which showed a surplus of OR 25 million in 1970, registered its first deficit of about OR 18.6 million in 1972 and OR 38 million in 1973. This deterioration took place in spite of 50 percent increase in revenue resulting from successive upward revisions in oil prices and the Government's share since 1970. The significant deterioration of the budgetary position resulted from steeply accelerating expenditures as the development effort gained momentum after 1970 and defense expenditures were stepped up. Between 1970 and 1973, development expenditures increased from an estimated OR 0.3 million to OR 30 million in 1973 while defense expenditures rose from an estimated OR 12 million to about OR 42 million in 1973. The overall budgetary deficits in 1972 and 1973 were financed partly by short-term borrowing from banks at home and abroad and partly by drawing down Government reserves. The increased level of economic activity and Government operations brought about a substantial increase in money supply which grew from OR 7.6 million in 1970 to over OR 22 million in 1973, an average rate of increase of about 42 percent. As a result of the expanded Government expenditures and the limited production capacity of the economy, inflationary pressures were exerted on prices, wages, and rents. This occurred despite a sharp increase in imports which rose from OR 14.7 million in 1970 to OR 80 million in 1973.

vi. The balance of payments of Oman experienced similar pressures. Oil exports which are the major component of the balance of payments, stagnated in 1971 and 1972 at about OR 48 million a year (about \$120 million) because of a decline in oil production while Government expenditures were increasing at a substantial rate. As a result, the balance of payments moved from a surplus position of about OR 30 million in 1970 to its first deficit position of around OR 16 million in 1972 and an estimated deficit of about OR 24 million in 1973. The country's foreign exchange reserves declined from OR 60 million in 1971 to about OR 30 million in 1973 equivalent to about 5 months of imports of goods and services at the 1973 level. The Government of Oman has not entered into long-term foreign debt obligations prior to 1973

when it contracted its first two medium term loans, one a Eurodollar loan of \$35 million and a second \$25 million equivalent in Arabian Peninsula currencies. Though both loans were contracted to finance future development projects, they have been fully disbursed in December 1973 and \$45.5 million of which were used to pay for part of a 25 percent equity (participation) share in the Petroleum Development (Oman) Ltd.

vii. The Government's development policy has, since 1970, aimed at the creation of the essential infrastructure, the provision for the needs in education, health and housing, the initiation of resource studies and efforts at institution building, with the first two aims receiving the highest priority. The allocation of development expenditure reflected these aims and the priorities assigned by the Government to each. A reasonably adequate network of roads, a modern port and airport have been built and impressive gains were made in education, health and housing. The heavy investment program undertaken by the Government since 1970 has, however, had a limited spread effect but has taxed both the country's financial reserves and its fragile administrative and institutional set-up. Severe manpower shortages were only marginally relieved by the efforts of the Government to induce educated Omanis to return to the country.

viii. Oman is entering a new and, probably, more difficult phase in its economic development. The developing oil situation has relieved the strain on financial resources of the country (see below), but the country's development efforts in the future are likely to continue to be seriously constrained by manpower shortages, inadequate knowledge about investment opportunities and the weaknesses of institutions in practically all fields. These constraints are likely to prove more difficult and time-consuming than those experienced in first stages of development when the Government addressed itself to the more obvious and readily identifiable needs. In order to cope with these new constraints the Government would need to reorient its development strategy towards manpower training and institution building as a first priority with less emphasis placed on social and economic infrastructure. There are indications that the Government is already reorienting its policies in this direction. In so doing, it has turned to the international community including the World Bank, which has recently approved a loan for a technical assistance project under which teams of experts on economic management and planning, agriculture and transportation will be financed; and to bilateral aid donors for technical assistance in manpower training and institution building.

ix. The financial position and prospects for Oman over the next five years are good mainly as a result of the developments in the oil sector. Oil production is expected to increase by 7 and 22 percent in 1974 and 1975 respectively, and barring any new discoveries, may decline gradually thereafter. Average revenue per barrel accruing to the Government can be assumed to rise from \$1.66 in 1973 to about \$6.20 in 1974 and \$8.50 in 1979. These assumptions reflect a likely price trend as well as benefits from the government's recent equity participation in the oil company. Based on these assumptions, GNP is projected to grow by more than twofold, to \$900 million

by the end of 1974 to \$1,100 million by 1975 and about \$1500 million by 1979. National savings as a proportion of GNP are projected to increase from 29 percent in 1973 to 53 percent in 1974 and 1975 but may, as consumption adjusts with a time-lag drop down to about 30-35 percent of GNP by 1979. Gross investment may then treble in value to \$425 million in 1979 but its share in GNP may decline to about 28, reflecting the short-run limitations in the absorptive capacity of the economy and the shortage of well prepared projects ready for implementation. The current account in the balance of payments would register a surplus of about \$500 million by 1975 but less than \$100 million by 1979, as exports increase by more than fivefold to \$1075 million and imports by more than fourfold to \$990 million. As a result, foreign exchange reserves would increase rapidly at first and may reach some \$1600 million in 1979.

x. Oman's outstanding external debt at the end of 1973 amounted to US\$60 million, all of which has been disbursed. Debt service payments are scheduled to begin in 1974 and would amount to US\$3.1 million, equivalent to 1.6 percent of exports of goods and services at 1973 levels. However, debt service payments on existing debt are projected to grow to US\$21.6 million by 1978 but the debt service ratio, given the rapid growth in oil exports, is not expected to rise above 2 percent. Nevertheless, this should not preclude Oman, which is creditworthy for borrowing on conventional terms, from seeking foreign help, mainly because of the value of the technical assistance and institution building components that can be associated with such borrowing.

## I. INTRODUCTION

1. The Sultanate of Oman lies in the eastern tip of the Arabian Peninsula and covers an area of almost 260,000 sq. km. With the exception of the narrow fertile coastal plain in the north (Batinah), a number of oases in the interior and parts of the plain of Dhofar in the south, the country is mostly desert or mountainous terrain. The Hajar mountains receive about 10 inches of rainfall mostly in the winter, and a considerable portion of this feeds underground water resources that supply the interior oasis and the dry Batinah coast (which receives no more than 4 inches of rainfall a year), with water for irrigation and domestic use throughout the year. The Dhofar province receives about 25 inches of rainfall a year mainly from the summer monsoons.

2. The Sultanate of Oman is an independent state. Sultan Qaboos bin Said, who replaced his father Sultan Said bin Taimur in July 1970, has effected a number of political and social reforms and removed many of the restrictions imposed on the people by the former regime. Such reforms have attracted back a number of Omanis who have hitherto lived abroad. The Sultan, who is also the Prime Minister, rules the country through the Cabinet which is the highest executive body in Oman. No representative bodies, however, exist in the country. The Government is engaged in fighting a guerilla movement in the southern province of Dhofar, that had originally started a decade earlier. More recently, this has grown into a political movement known as the Popular Front for the Liberation of Oman and the Arab Gulf (PFLOAG). Sustaining military operations against this movement continues to constitute a major drain on the resources of Oman.

3. Little is known about the size of the population of Oman, its characteristics or geographical distribution. The Oman Government estimates its total population at 600,000, with an annual rate of growth of 3 percent. It is also believed that the Batinah coast and a few oases in the interior are relatively densely populated. About 80 percent of the population are employed in agriculture and the remainder in fisheries, trade and handicrafts.

4. Besides oil, land and water constitute the main natural resources of the country. It is estimated that about 90,000 acres are at present under cultivation, about 40 percent of which is in the Batinah coast and the rest in the interior of Oman and Dhofar. Little is known about mineral resources other than oil. Small quantities of copper, silver and other minerals have been mined in the past and deposits of manganese, copper and asbestos are known to exist. However, the mineral potential of Oman has yet to be established and the Government has contracted two foreign firms to investigate the mineral wealth of the country. On the other hand, oil in commercial quantities was discovered in 1964 and exports of crude oil started in 1967. The main oil fields are located in Al-Rub-Al-Khali about 250 miles west of Muscat. Omani crude oil is of good quality with a low sulphur and wax content. Exploration work is continuing in the interior of Oman and offshore explorations in the Arabian Sea and the straits of Hormuz are expected to

begin in the near future. Though Oman is not a member of the Organization of Petroleum Exporting Countries (OPEC) or the Organization of Arab Petroleum Exporting Countries (OAPEC), the Petroleum Development (Oman) Limited has, in practice, matched price and other adjustments negotiated with the various oil companies in the area.

## II. ECONOMIC GROWTH AND STRUCTURE

5. Prior to the discovery of oil, Oman's was a subsistence economy entirely dependent on limited agriculture and fishing. The economy probably grew very slowly, if at all. Since 1967 when oil exports began, gross national product at current prices grew at an annual rate of about 22 percent per year. During the period 1967-70 oil was the leading sector responsible for these high rates of growth as oil production and exports increased from some 20 million barrels in 1967 to over 120 million barrels by 1970. However, oil production declined by 11.5 percent in 1971 and by about 4.3 percent in 1972 due to a fall in reservoir pressure as well as other technical problems in the Yibal oil field beginning in 1970. The contribution of the oil sector to GDP did not decline to the same extent because of the rise in crude oil export prices. In 1971, 1972 and 1973 construction and public administration became leading growth sectors (Table 2.1). It is expected, however, that with the anticipated increase in oil production and prices in 1974, oil will again resume its role as the engine of growth. Meanwhile, the production of the traditional sectors has virtually stagnated. Output of agricultural products and fish have increased by about 3 percent per year while non-oil exports in 1973 declined to about half their 1967 value.

Origin of Gross Domestic Production 1970-73  
(Percentage Distribution)

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
Agriculture & fisheries	14.3	11.6	10.7	9.8
Oil	71.5	64.9	58.4	54.9
Construction	7.3	14.5	15.7	16.1
Public Administration (including Defense)	1.9	2.8	6.9	9.1
Others	<u>5.0</u>	<u>6.2</u>	<u>8.3</u>	<u>10.1</u>
Total	100	100	100	100

GNP at market prices in 1973 is estimated at OR 136 million (\$395 million) and with a population estimated at 600,000, per capita income is expected to reach OR 226 (\$660) as compared with a per capita income of OR 84 (\$201) in 1967 and less than OR 40 (\$100) in earlier years (Table 2.2). However, in spite of the relatively high per capita income and the high rates of growth in the recent past Oman remains extremely under-developed reflecting decades of poverty and neglect before Sultan Qaboos came to power in 1970.

6. The relatively high levels of income generated has enabled the economy to sustain high levels of expenditure. This is particularly true in the post 1970 period when the Government launched major investment projects aimed at providing the minimum standard of economic and social infrastructure as well as a substantially increased defense effort designed to cope with guerilla movement in the Dhofar province. Gross capital formation increased from 15 to 35 percent of GNP between 1970 and 1973 while the ratio of defense expenditures to GNP grew from 14.5 to 30.8 percent over the same period. Because of the increase in defense expenditure as well as the recurrent expenditure brought about by investment in social infrastructure (education, health, housing, etc.), the ratio of national savings to gross national product declined from 59 percent in 1970 to 29.6 percent in 1973. Over the same period the ratio of public to total consumption increased from 38 to almost 61 percent. The higher levels of public expenditure resulted in the first budgetary and balance of payments deficits in 1972 and 1973. Private consumption outside the oil sector is estimated to have increased by 22 percent per year between 1970 and 1973. However, this increase was unequally distributed as between regions and income groups.

7. Gross fixed investment which as a percentage of GNP has been declining between 1967 and 1970, increased sharply in 1971, and averaged around 35 percent of GNP between 1971 and 1973. Up to 1970, the oil sector accounted for the bulk of fixed investment. However, the ratio of investment in the oil sector to total investment declined from almost 75 percent in 1970 to about 30 percent in 1973 (Table 2.3). Over the same period, the ratio of public to total investment increased from around 10 to almost 60 percent. Private investment outside the oil sector has remained around 10-14 percent of the total. However, it is not expected that the relatively high rate of investment experienced since 1970 will be maintained in the medium term. Investment in the oil sector will probably increase due to exploration and drilling activities of the Petroleum Development (Oman) as well as offshore activities of other concessionaires. However, the rate of growth of public investment may slowdown in spite of the availability of financial resources brought about by the new oil prices. This is because, in the first place, public investment in the past has been directed to the more obvious and readily identifiable social and infrastructure needs -- primarily schools, hospitals, housing, roads, ports and airports. Future investment needs are also in sectors where project identification and formulation is more difficult and time-consuming, e.g. agriculture, water resources, fisheries, etc. In the second place, the constraint on rapidly expanding future investment is likely to be the shortage of trained manpower and appropriate institutions in practically all fields. Although the Oman Government and foreign aid agencies are aware of these limitations and are orienting their programs to deal with these bottlenecks, both manpower training and institution building take time. A limited absorptive capacity of the public sector is likely to be the main constraining factor for the continued rapid rise of public sector investment in the medium-term.

### III. DOMESTIC FINANCE

#### Public Finance

8. The importance of the public sector to the economy, as measured by the proportion of both revenues and expenditures to GDP (39 and 52 percent, respectively in 1973), is large. Oil revenues dominate total revenues and are the major source of financing expenditures. But unlike taxes, oil revenues augment income rather than reduce it and such revenues, again unlike taxes, develop irrespective of the level of economic activity. In particular, development expenditures with its emphasis on infrastructure projects enhance income and demand while supply of goods and services, given the weak structural base of the economy, lags behind despite the rapid rise in imports. The Government's budget in Oman has been a major factor in generating inflationary pressures on prices, wages and rent.

9. The Government budget <sup>1/</sup> in Oman consists of the accounts of the Central Government, the Post Office, the Power Corporation, the Water Board and the Municipalities of Muscat and Mutrah. Before 1971 there were neither clear procedures for preparing the budget nor separation between the finances of the Sultan and those of the state. Budgetary data pertaining to the pre-1971 years need to be treated with caution. Budget preparation procedures have been initiated in 1971 and were followed since.

10. There has been a marked deterioration in the financial position of the Government since 1970, with the budget moving from a considerable surplus of almost OR 25 million to a deficit of OR 39 million in 1973. This deterioration took place in spite of 38 percent increase in Government revenues resulting from the upward revision of oil prices in line with the provision of the Teheran and Geneva Agreements, as well as those made in October 1973. The significant deterioration of the budgetary position resulted from steeply accelerating expenditures as the development effort gained momentum after 1970, and from increased defense expenditures as the anti-guerilla activities were stepped up in the south (Table 5.1). Total expenditures increased from about OR 20.6 million in 1970 to OR 107 million in 1973. Development expenditure increased from an estimated OR 0.3 million to OR 30.2 million while defense expenditure rose from an estimated OR 12 million to OR 42 million in 1973. The overall budgetary deficits in 1972 and 1973 were financed partly by short- and long-term borrowing from banks at home and abroad and partly by drawing down Government reserves, largely invested in time-deposits abroad.

11. Oil revenues are the dominant component of Government revenues (Table 5.2) with their share in the total declining from an average of 97 percent in 1969 and 1970 to 89 percent in 1973. Between 1969 and 1973, oil revenues increased at a rate of 12 percent per year and non-oil revenues by over 50 percent per year from a very low base. However, with the expected increase

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<sup>1/</sup> Fiscal Year January 1st - December 31st.



in production and prices, oil revenues in 1974 are budgeted to increase by over 300 percent and to account to over 95 percent of the total (Table 5.1).

12. Non-oil revenues increased from about OR 1.4 million in 1969 to OR 7.5 million in 1973. Custom duties are the most important source of non-oil revenues, increasing from about OR 1 million in 1969 to an estimated OR 3.2 million in 1973. This was mainly due to a substantial increase in imports as well as changes in the rate structure. The corporate income tax is the next major source of non-oil revenues, though it contributes less than 2 percent of total Government revenues. However, the yield from the corporate income tax is expected to grow in future as the business sector expands and as the present tax exempt status of some corporations expires. In addition to these two sources of revenue, there are the Zakat (a traditional religious tax) and a host of other minor sources of revenue. Although small in absolute and relative terms, and are expected to remain so, non-oil revenues would continue to grow at a high rate mainly as a result of the growth of imports and the expansion of the commercial sector, the increase in real estate and motor vehicle ownership and the expected improvement in the customs administration and record-keeping. However, there is a need to widen the tax base and diversify tax sources. There is no personal income or property taxes in Oman though both incomes and property values have been increasing rapidly in the recent past. In addition, as land ownership records and the land registration administration improve, a property tax on land and improvements thereon become more attractive as a source of new revenues.

13. Government expenditures have increased by more than fivefold between 1969 and 1973, with the larger part of this increase occurring after 1970 (Table 5.1). Between 1971 and 1973 current expenditures increased from OR 26.4 million to OR 61.3 million. By far the largest part of this increase was due to an almost 50 percent per year increase in defense expenditures. Developing a modern administration (e.g. creation and strengthening of Government departments, embassies abroad, more adequate provision for a civil service, Government buildings), as well as the recurring costs of some completed development projects, particularly schools and hospitals, were also contributing factors to the increase in current expenditures. The draft 1974 budget (Table 5.1) expects current expenditures to continue increasing at about the same rate as in 1973. This trend is expected to continue so long as pursuing the war in the Dhofar province is accorded top priority and as recurring costs of completed development projects continue to increase.

14. Development expenditures by the Government have increased rapidly from less than half a million Omani Rials in 1970 to some OR 30 million in 1973. Development expenditures have reflected the Government's concern for providing the necessary infrastructure, particularly roads, ports and airport and improving the social conditions of the people through the promotion of education, health and housing facilities. It appears that answering these two needs were accorded the highest priority in the Government's development expenditure (Table 5.4). Resource investigations and institution building have so far been accorded a lower priority. However, it is expected that with the completion of a network of roads, the airport and the port, investment in infrastructure which has had a limited spread effect, will progressively be

accorded a lower priority. Resource investigations, institution building in cooperation with aid donors, including the IBRD, and further improvements in the social conditions are expected to gain in importance. Actual investment in income generating activities - particularly in agriculture and fisheries, may be undertaken towards the end of the decade when more is known about the development potential in these areas.

15. After a period of rapid increase between 1970 and 1973, development expenditure has leveled off at OR 30 million in 1973. (Over and above this OR 15.8 million were used in 1973 to acquire equity participation in the Oil Company.) This leveling off of development expenditure may be an indication that the upper limits of the absorptive capacity of the economy, in its present structure, have been approached. It is also an indication that the initial development effort has addressed itself to the more readily identifiable needs, which could be relatively easily satisfied. Future development expenditure would depend on the success of the efforts at increasing the country's capacity to invest through institution building, manpower training, streamlining of the more important Government departments and improving the coordination between the different executing ministries. The level of development expenditure will also depend on the ability of the Government either directly or through the use of expatriate consultants to identify and effectively prepare projects for execution. In view of these factors, the allocation for OR 63 million for development expenditure in the 1974 budget (Tables 5.1 and 5.4) may prove to be optimistic.

#### Money and Credit

16. With continued and substantial expansion in economic activity in general, and Government operations in particular, money supply has increased appreciably, from OR 7.6 million in 1970 to over OR 22 million in September 1973, or at an average rate of about 42 percent per year. However, most of this increase occurred in 1970 and 1971. However, the growth of money supply has slowed down (25 percent between September 1972 and September 1973). Demand deposits constituted a little over one-third of total money supply with currency in circulation making up the remaining two-thirds. The high rate of growth of money supply in relation to domestic output has added to the inflationary pressures of demand on the limited productive capacity of the economy, scarce skilled labor, and on limited housing and transportation facilities. Though a systematic price index is yet to be constructed, it has been estimated that between 1970 and 1972 rents increased by an average 150-300 percent, wages and salaries by between 150-200 percent, and food items (most of which are imported) by between 24-100 percent. These rates of increase have, however, slowed down considerably in 1973 as the growth of money supply ceased and the supply of goods improved with the easing transport bottlenecks as major road networks, Port Qaboos in Mutrah and the airport have been completed. But the basic factors exerting an upward pressure in prices are still in evidence and prices may continue to increase -- but at reduced rates -- in the near future.

17. Between 1969 and 1971 the increase in foreign assets was the most important single factor behind the increase in money supply. However, in 1972 and 1973, the main factor was the Government's recourse to the banking system as the financial position of the public sector deteriorated. In addition, credit to the private sector increased by about OR 2 million in 1972 (51 percent) and by about OR 4 million in 1973 (50 percent).

#### Banking

18. There are at present six commercial banks operating in Oman. With the exception of the National Bank of Oman (with 61 percent Omani participation), all commercial banks are foreign owned. Most of the liabilities of commercial banks are time-deposits whose relative share in the total averaged about 67 percent during the period 1969-72. The share of demand deposits on the other hand, averaged about 5.4 percent of total liabilities for the same period. More recently, however, time-deposits have been losing their dominance in favor of demand deposits and foreign liabilities. Government deposits, which were quite small in magnitude during the previous years, are developing as the most important single item in commercial bank liabilities (Table 6.2).

19. Commercial bank credit to the private sector has been growing rapidly in recent years. It was extended mainly for trade (particularly imports) and construction, while export credits are small. Bank credits to the private sector are normally on short-term (about two years maximum). A minimum interest rate of 8 percent is charged on advances. Interest rates on credits for imports range from 8-1/2 to 11 percent. Commercial banks in Oman set interest rates in line with those prevailing in neighboring states. There are no financial institutions other than the commercial banks, though the Government is considering establishing an Agricultural Credit Bank and a Mortgage Bank to provide medium-term finance in agriculture and real estate.

20. There is no Central Bank in Oman but the Oman Currency Board (established in 1972) has assumed such central banking functions as currency issue (which is backed 100 percent by external assets), managing Central Government accounts and undertaking banking transactions with local commercial banks and international institutions. Foreign assets continue to be managed by the British Bank of the Middle East which is by far the largest and oldest commercial bank in the country. However, the Government, with the help of the International Monetary Fund, is investigating the possibility of establishing a central bank.

#### IV. THE BALANCE OF PAYMENTS

21. The balance of payments of Oman (Table 3.1) is characterized by three elements common to most oil-producing economies with a limited home production base. Firstly, the balance of payments' position is primarily determined by developments on the current account, and more specifically by the growth of oil exports. Secondly, the overall payments' position is largely determined by the outcome of the balance between the net surplus of

the oil sector and the net deficit of the non-oil sector. Thirdly, the net surplus of the oil account accrues to the public sector while the net deficit of the non-oil accounts originate mainly in the private sector, though in Oman the Government has also been a contributing factor. In general, as part of the oil income is injected by the Government into the domestic income stream, boosting aggregate demand, a substantial part of such private demand, given the limited productive capacity of the domestic economy, is translated into demand for foreign goods and services. The public sector also imports goods and factor services directly to meet part of its large development, administrative and defense needs.

22. There has been a marked weakening in the strong balance of payments<sup>1/</sup> position of Oman during 1972 and 1973 due, on the one hand, to a stagnation of oil revenues in 1971 and 1972 brought about by the decline in oil production, and to the substantial increases in Government expenditure on the other. The 1970 surplus on the balance of payments of about OR 30.5 million declined to OR 13.3 million in 1971. The balance of payments registered its first deficits of about OR 16 million in 1972 and an estimated OR 24 million in 1973 despite net increases in foreign liabilities of almost OR 15 million in those years. These deficits were financed by drawing down of the country's foreign exchange reserves which declined from OR 60 million in 1971 to an estimated OR 30 million by the end of 1973 equivalent to about 5 months of imports of goods and services at 1973 level (Table 3.2).

23. Oil exports, which are the dominant component of Oman's balance of payments, increased from OR 48.8 million in 1970 to an estimated OR 68.6 million in 1973, an average rate of increase equivalent to about 12 percent per year (7 percent per year during 1970-72, but over 23 percent in 1973). This increase was achieved in spite of a slight decline in oil production and exports from 121 million barrels in 1970 to an average of 106 million barrels in 1971-73, and were mainly due to the improvement in the price terms agreed with the oil company. The sharp increase in 1973 is mainly due to the sizeable oil price increase negotiated in October 1973. Non-oil exports which are mainly limes and dates, have stagnated around OR 0.4 million per year between 1970-73. Almost the whole of the non-oil exports are marketed in the neighbouring Arabian Gulf countries and India.

24. Imports on the other hand have increased over fivefold from OR 14.7 million in 1970 to an estimated OR 80 million in 1973, mainly as a result of the growth of both private imports (from OR 9.5 million in 1970 to an estimated OR 46.4 million in 1973) as well as Government imports brought about by the growth of Government expenditure, which increased from OR 5.2 million in 1970 to an estimated OR 33.7 million in 1973). Almost 24 percent of the private imports consisted of food products, 40 percent of other consumer goods such

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<sup>1/</sup> There are no official balance of payments statistics for Oman. This discussion as well as Table 3.1 are based on the various IBRD/IMF staff estimates.

as electrical appliances, and textiles. The largest category of Government imports are military equipment. Western Europe, and primarily the United Kingdom, was the major source of these imports.

25. Private transfers representing the remittances of expatriate workers in Oman amounted to OR 7.0 million in 1972 and OR 8.7 million in 1973. There are, however, no comparable figures for earlier years. The overall current account position changed from a surplus of OR 31 million in 1970 to an estimated deficit of about OR 32 million in 1973.

#### The Capital Account

26. Up to 1971 Oman's capital account merely registered the monetary movements and there were no capital inflows. However, in 1972 and 1973 the Government resorted to short-term borrowing abroad to finance part of the deficits on its financial transactions. In addition to these, the Government has in 1973 contracted its first two medium term loans, one a Eurodollar loan of \$35 million, and a second \$25 million equivalent in Arabian Peninsula currencies. Though both loans were contracted to finance future development projects, they have been fully disbursed in December 1973 and used to pay for part of 25 percent participation share in Petroleum Development (Oman) Ltd. At the end of 1973 Oman's outstanding external debt amounted to US\$60 million, all of which has been disbursed. Debt service payments are scheduled to begin in 1974 and would amount to US\$3.1 million, equivalent to about 1.6 percent exports of goods and services of 1973 levels. However, debt service payments on existing debt are projected to grow to \$21.6 million by 1978 (Table 4.1) but the debt service ratio - given the rapid growth in oil exports - is not expected to increase substantially. Oman can service substantial additional borrowing on conventional terms.

### V. MAJOR SECTORS OF THE ECONOMY

#### The Oil Sector

27. Crude oil in commercial quantities was first discovered in Fahud in February 1964. On August 1, 1967, Oman exported the first oil shipment. At present, the Petroleum Development (Oman) Ltd. (PDO) is the only oil producer in the country as well as the major concessionaire. It is owned by Royal Dutch Shell (85 percent), Compagnie Francaise des Petroles (10 percent), and Partex (5 percent). On December 4, 1973, a participation agreement was signed with the (PDO) giving the Sultanate of Oman a 25-percent share in its operations.

28. Exploration activities are proceeding continuously in Oman. At the end of 1972 there were 109 producing wells compared to 79 producing wells in 1971. Oil production increased from about 21 million barrels in 1967 to a peak of over 121 million barrels in 1970. Thereafter, oil production declined by 11.4 percent in 1971 and a further 4.2 percent in 1972. This decline resulted from a blow out in the Yibal field in August 1970

which was not brought under full control before June 1971, as well as a drop in reservoir pressure and other technical problems. However, as a result of the new technologies adopted, oil production in 1973 increased to about 106 barrels, an increase of about 4 percent over 1972, but still 12 percent below the peak reached in 1970. As a result of the discovery of new fields, oil production is expected to increase to 114 million barrels in 1974 and 139 million barrels in 1975. Barring any new discoveries, oil production is expected to start a gradual decline thereafter.

29. Total known reserves are estimated to be about 300 million tons, i.e. between fifteen to twenty years production at present levels. Exploration activities by the (PDO) as well as other concessionaries who hold offshore concessions are, however, continuing or are expected to commence soon. These are Wintershall which holds a concession in the Gulf of Oman, the Elf-Erap group which was granted a concession of the Musandam Peninsula in the straits of Hormuz, and the Oman Sun Oil Company Group which, in 1973, was granted a concession for offshore exploration south of the island of Masira. The long-term prospects of oil production remain uncertain at this stage.

30. Oman's crude oil, which is of good quality (API30-33.9° gravity), low in sulphur and wax content, is all exported. There are at present no refineries or other petrochemical installations and none are planned for the near future. Oil is exported from Mina-al-Fahal, whose terminal has a storage capacity of three million barrels and the loading facility a capacity of 8,000 tons per hour. Main importing countries in 1972 were Japan (42.3 percent), France (13.3 percent), Norway (10.3 percent), Singapore (9.8 percent), Sweden (7.4 percent). Oman did not join in the reduction in oil production started by OAPEC countries in October 1973.

31. Though not a member of OPEC or OAPEC, oil prices in Oman have followed closely those of the Gulf area, thus benefiting from the appreciable increases in posted prices in recent years. On July 1, 1973, posted prices were \$2.9860 per barrel, but were increased by 3.7 percent to \$3.0980 per barrel on August 1, 1973. On November 15, 1973, posted prices reached \$5.787 per barrel, an increase of 86.7 percent. As of January 1, 1974, the posted price was again increased to \$11.65 per barrel, a 100.3 percent increase.

32. Despite the decline in oil production, posted price increases and improvements in the Government's take per barrel kept Government revenues continually rising. In 1968, oil revenues accruing to the Government amounted to OR 25.5 million (an average of \$0.70 per barrel exported); by 1973 oil receipts increased to OR 61.0 million (about \$1.66 per barrel) and are estimated by the Government to treble to OR 187.5 million in 1974, (about \$4.8 per barrel). Government oil receipts are composed of taxes, royalties and other minor dues. Taxes are by far the largest component, amounting to OR 37.4 million or 75 percent of total revenues in 1972 while royalties reached OR 12.2 million or 25 percent. As a result of the participation agreement Oman will get up to 25 percent of oil production to sell either in the open market or back to the company.

## Agriculture

33. Agriculture, including fisheries, was the largest economic sector in Oman prior to the discovery of oil. However, its relative contribution to the total national product has been declining since oil revenues started coming in. But more than 80 percent of the population are presently engaged in agriculture and fisheries. The value of agricultural output and exports have stagnated during the last four years partly because of the labor migration to the towns where better employment opportunities exist and partly because of the lack of facilities necessary for the growth of agricultural output and incomes.

34. Reliable data on areas under cultivation, production and output of various crops are not currently available. According to available information, the total area under cultivation is estimated to be about 90,000 acres. The country can be divided into three main agricultural regions; (i) the Batinah Coast, (ii) Interior Oman, and (iii) Dhofar Province in the South. The Batinah coast covering an area of about 40 percent of the total land under cultivation, is potentially important where dates, limes, lucerne, onions and tropical fruits are grown. These products are also grown in the many oases in the interior. Dhofar Province in the south, with different climatic conditions, produces coconuts, bananas, lucerne and other fruits and vegetables. This area seems to have a good potential for further improvements.

35. The major export crops are dates, limes, tobacco and fresh fruits and vegetables. Omani dates are of excellent quality and large quantities of dates and limes are exported to neighboring countries such as India (dates), Iran, Iraq and U.A.E. (limes). Oman's location and climatic conditions enables an early marketing of these crops. Other agricultural crops are consumed locally but production is barely sufficient to meet domestic requirements. Oman has been importing substantial quantities of food products.

36. Although the crops sector is large in agriculture, livestock plays an important role. Raising livestock is a common feature of the small farm and it is one of the main sources of protein in rural areas. Each farmer has a small number of goats and sheep and most of it is for consumption except in periods of peak production when the surplus is sold for extra income. Livestock is at a low level of output mainly because of the scarcity of feed supplies. Donkeys and camels are widely used in farm work and for transport. In Dhofar Province, cattle are more common, mainly because of the abundant natural vegetation for grazing. Poultry are also kept in small numbers throughout the country.

37. Fishing is carried out along the coast of Oman, from Muscat to Sur. Tuna, marlin, mackerel, parrot fish and sardines are found in this area. The size of catch in 1971 was estimated to be about 60-70,000 tons, of which more than half were used for domestic human consumption and the rest for exports, animal feed and fertilizer. Exports of fish have declined significantly over the last decade. In order to explore the potential and to promote fishing industry, the Government has engaged foreign corporations to undertake preliminary investigations and studies. The results will be known some time by

mid-1974 and, if favorable, a company with 51 percent Government participation will be formed to develop the fishing industry.

38. Government assistance to agriculture is mainly in the field of research and extension services. In 1971 a central Agricultural Research center was constructed at Rumia in the northern part of Batinah coast plain, with soil and water laboratory, office building and storage facilities. Another station for the interior of Oman was also established in 1971 at Wadi Quriyat. Besides there are one or two experimental farms operated by the Directorate of Agriculture. Trials were carried out at these farms to establish suitability of certain crops for Oman. In order to spread the results of these farms, 16 agricultural extension centers have been set up. These centers provide free pesticides and distribute seeds of improved quality at less than 50 percent of cost. With a view to improve the yield of various crops, fertilizers are also being distributed at below cost. Credit facilities do not exist though small advances are made available for the purchase of water pumps.

39. There is a good potential for the development and expansion of agriculture and fisheries. And in view of the limited proven reserves of oil, agricultural development may lead to the diversification of the economy. However, before this can be achieved more knowledge about agricultural resources will have to be acquired. Very little is known about water resources and the condition of the aquifer in view of the past rate of water pumping. More work will be needed on soil classification, research on the different crops that can be grown and on ways of improving the yields of presently grown crops, livestock and fisheries. A number of institutional changes will have to be undertaken to consolidate and improve the efficiency of the Government bodies, particularly the Department of Agriculture, that are responsible for agricultural development and policy. The Government is aware of the requirements in this field and has applied for technical assistance from both the World Bank and the UNDP. It is expected that such technical assistance will be made available to Oman from both organizations in 1974.

#### Transport

40. The discovery of oil and the subsequent rapid growth of the economy have placed new demands on the transport system. The Government's major construction programs have generated imports which stimulated the growth of internal transportation. These growth trends were further accentuated after 1970 when the Government accelerated the pace of the public development program and lifted many of the arbitrary restrictions on imports previously in force.

41. Roads provide the principal means of internal transport in Oman. Because of the dry climate, sparse vegetation and high subsoil, it is possible to travel to almost all parts of the country, with the exception of the mountainous regions, by motor vehicle. The Government has, since 1970, embarked on a program of constructing paved roads to modern standards; and up to the present about 235 km (connecting Mutrah and Sohar) have been completed.



Work on the 90 km Khatmat-Malaha road is in progress and is expected to commence shortly on a further 250 km (mainly from Sohar to Buraimi). Additionally, the Army is undertaking improvements of main route from Buraimi to Dhofar Province in the south of Oman.

43. The existing road system is adequate for the medium-term needs of the economy and road transport is not expected to constitute a bottleneck to the development of Oman over the next few years. However, the Government is presently considering a road construction program in the interior of Oman. The feasibility report of the Nizwa-Ibri regional road project (about 300 km) has been completed by Gibb-Petermuller and Partners; the project is expected to cost about \$30 million. However, the institutional arrangements for planning, constructing and maintaining the road network are still in need of strengthening. The Department of Roads and Transport lacks the trained manpower needed to plan, design and supervise road projects, to improve the network as well as to maintain it. The World Bank will finance, as part of the recently approved technical assistance project for Oman, a team of experts in the field of transportation. The functions of the team would be to increase the effectiveness of the Department of Roads and Transport.

44. Oman's port facilities are generally adequate and comprise Minah Qaboos, now being completed in Mutrah, a lighterage at Minah al Fahal restricted to oil shipments and a general lighterage at Muscat and a small general port at Raysut. Minah Qaboos is the only deep water port, and when completed in 1974 will have eight berths. Up till now, most cargoes for Oman have been handled through Port Rashid (Dubai) and trucked in. When work on Minah Qaboos is completed the port will have a capacity of 1.0 million tons/year and practically all imports will be diverted from Dubai. The port will be controlled by an autonomous port authority which will be aided by a UNDP financed five year technical assistance project. The Petroleum Development (Oman) Ltd. at present operates Minah al Fahl for its own exclusive use. The port of Raysut in Dhofar province has recently been completed. It has five berths which are expected to handle 45,000 tons annually.

45. In addition to Sib International airport, there are a number of primitive airstrips scattered in many parts of the country, including several in otherwise inaccessible locations in the mountains. Only a few of these are served by regular flights.

#### Education

46. The modern education sector in Oman is barely three years old. Prior to 1970 there were only three government primary schools in the country, enrolling 900 students. There were about 4,800 children in 50 Koranic schools, which provided basic religious and literacy training in mosques, private houses or under trees. A trade school was opened in 1967 by the oil company - (PDO) Ltd. - but most of its students were foreigners. There was no secondary education, no vocational agricultural or teacher training of any kind. Wealthy families who wished their children to be educated had to send them abroad, usually illegally, to schools in other countries of the Arabian Gulf or elsewhere.

47. The modernization process in education began after the accession of Sultan Qaboos in 1970. The demand for schools and hospitals was strong and immediate, and capital and recurrent expenditure for social services increased dramatically between 1971 and 1972. In the past three years, primary school enrollment has increased 400 percent. Junior secondary education, covering grades 7 to 9, was introduced in 1972. A Ministry of Education was created in 1971, and broad educational goals devised with the help of expatriate advisors. Bilateral aid from Saudi Arabia, Abu Dhabi, Qatar and Kuwait has been promised for construction of a secondary school, primary schools, technical and vocational schools, and for technical assistance.

48. Despite these developments the education sector in Oman remains among the least developed in the world. Primary education, in the modern sense, began only in 1970. Today, there are about 25,000 students in government primary schools, or about 24 percent of the age group of 6 to 11 years. Junior general secondary education began in 1972, and there are no upper secondary schools. The total secondary school enrollment of 150 represents less than one quarter of one percent of the relevant age group. Technical education consists essentially of a moribund trade school. There are no facilities for teacher training, vocational or agricultural training, literacy or adult education. Because admission to the new schools is unrestricted, almost 90 percent of the students are over-age. A second major problem is the generally low quality of teaching, curriculum and facilities. The sudden increase in enrollment has far outpaced the supply of qualified teachers. Only one-third of the present teaching staff of 735 have teaching qualifications. Almost one-half are expatriates, with variable experience, qualifications and teaching methods. Most local teachers use rote memorization as the basic teaching technique. There are no local textbooks or Omani curricula. Half of the new schools are in tents or rented buildings not suited for school use. Most of the schools lack adequate furniture and equipment.

49. Administration and planning of education is virtually non-existent. The Ministry of Education is itself less than two years old. There are only two university graduates and five secondary school graduates in the Ministry. Expansion of the system has been uncontrolled, and there is still no comprehensive education development strategy.

50. Yet there are encouraging signs. The Government has committed itself to the rapid expansion and modernization of the education system, and is prepared to allocate the necessary financial resources to this effort. It has established broad educational objectives, and is actively seeking external assistance to refine these targets and provide capital and technical assistance for the development program.

51. The financing of education is not expected to be a serious constraint to expansion of the system, unlike many developing countries. Current education expenditures increased from OR 8,000 (about \$20,000) in 1967, to nearly OR 1 million in 1972. This still represents only about 2.5 percent of government recurrent expenditures in 1972. Capital expenditure for education has more than doubled since 1971, and now represents about 6 percent of the

total development budget. The Government is prepared to, and should be able to bear the cost of a significantly expanded system. By 1985, recurrent expenditures are expected to be about OR 19.0 million, or about 17 percent of total government expenditures, at 1973 levels.

53. The most pressing needs of the education sector are to: (a) build up the management and administration of the system, including the Ministry of Education, (b) develop modern, practical curricula, materials, and methods, (c) begin the training of Omani teachers and induce back trained Omanis from abroad, (d) initiate skill training, and (e) eliminate the problems of overcrowding and overage students and (g) resolve the problem of shortage and inadequacy of facilities through a major accelerated construction program of primary school.

53. The Government's general education goals reflect these priorities, and include in addition a commitment to universal primary education by the mid-1980's. Bilateral assistance is expected to help deal with the most pressing quantitative needs -- new primary, secondary and technical training schools. An IBRD financed project will concentrate on the qualitative aspects of the education system, the development of Omani expertise and the introduction of special education facilities designed for the unique circumstances of Oman. The project includes construction of primary teaching training institute, two accelerated primary schools and an agricultural school. It also includes technical assistance for education planning, administration, curriculum development, teaching methods, etc.

#### Health

54. Before 1970, there were only two hospitals in Oman - both foreign-owned and run. The Petroleum Development (Oman) Ltd., had its own hospital for its employees. In addition, there were only eight health centers and seven dispensaries to serve the rest of the population. The Government in 1970 started a new health program to meet the immediate needs of the population for medical services. By the end of 1973 there were 10 hospitals with 508 beds, eight health centers and about 29 dispensaries and clinics.

55. Although the health program will continue to be expanded, a serious shortage of doctors and other trained personnel may slow down the rapid rate of growth of medical facilities. Neighboring countries have so far provided assistance through the secondment of qualified personnel. On the other hand the Government, with the help of the World Health Organization and the British Council, has initiated a training program whereby Omani students are sent abroad for training in the medical sciences.

56. The health program in Oman aims at the eradication of the three major endemic diseases of malaria, tuberculosis and trachoma, as well as the control of such epidemic diseases as cholera. A second objective of the program is to eliminate malnutrition and vitamin deficiencies. These are expected to remain the cornerstones of the health program in Oman for the remainder of this decade.

## VI. ECONOMIC DEVELOPMENT PROSECTS

57. The influx of financial resources in the form of oil revenues, has exerted a substantial impact on every aspect of economic and social life in Oman, particularly after 1970. The Omani Society, traditional and up till recently, suffering from chronic economic stagnation, faces major changes, in practically every facet of life. The Government has since 1970 recognized the challenges as well as the potential that the oil discovery and the ever-increasing oil revenues have brought to the country. In spite of the lack of knowledge of the country's resources and development potential, the extremely underdeveloped nature of the country rendered almost any development expenditure beneficial to the economy.

58. The Government's development policy has so far aimed at the creation of essential infrastructure particularly a network of roads, a modern port and airport, the provision for the needs in education, health and housing, the initiation of resource investigations and efforts at institution building. The allocation of development expenditure reflected these aims and the priorities assigned by the Government to each. A reasonably adequate network of roads, a modern port and airport have been built, and impressive gains were made in education, health and housing. The heavy investment program undertaken by the Government since 1970 has, however, had a limited spread effect and its benefits were distributed unequally as between income groups and regions. Yet the public investment program has taxed both the country's financial resources and its fragile administrative and institutional set up. The Government's financial position and the balance of payments' situation both moved from a comfortable surplus to a sizable deficit in 1972 and 1973. Severe manpower shortages which remain as a serious constraint, were only marginally relieved by the efforts of the Government to induce educated Omanis to return to the country. However, the recent substantial rise in oil prices are expected to quickly relieve the financial strain that the country faced in the recent past and to result in a surplus financial situation that is expected to last throughout this decade. But Oman's known oil reserves are modest by comparison to other countries in the region and would probably last on current estimates for between 15 and 20 years. Also, unlike some of its neighbors, the country has a development potential primarily in agriculture which needs to be exploited to create alternative sources of income and employment.

59. A major development effort that aims at the diversification of sources of income and employment, at a high rate of growth and at avoidance of waste, is likely to continue to be constrained by manpower shortages, inadequate knowledge about investment opportunities in revenue generating activities, and the weakness of institutions in practically all fields. To alleviate these constraints would call for the adoption of a strategy that accords the highest priority to high- and medium-level manpower training, both locally on-the-job and abroad, resource investigations particularly water supply and soil classification, and institution building. Further betterment of the social conditions of the population through the extension of education, health facilities and housing, particularly in rural areas

will continue to command high priority. Investment in infrastructure projects, particularly roads, needs to be slowed down and focused more on efficiently maintaining the existing system, and extending secondary roads to the smaller centers of economic activity. The development tasks for this new phase in Oman are likely to be more difficult and time-consuming than the first stage which tended to address itself to the more obvious needs.

60. The Government is in fact gradually changing the emphasis of its development policy in these directions. In doing so it has turned to the international community and aid donors for help, not so much in financial terms, but more in terms of technical assistance in institution building and manpower training. The World Bank, through its technical assistance loan to finance teams of experts in economic management and planning, agriculture and transportation, the International Monetary Fund in central banking, financial administration and customs, the United National Development Program and other U.N. agencies are already either responding to requests for help or are processing such requests. On the bilateral plain the Overseas Development Administration, as well as a number of Arab countries are also providing assistance. It would seem necessary to ensure that this sizeable infusion of foreign manpower is effectively used in training Omani counterparts who will eventually assume the responsibility of leading and manning these institutions.

61. In terms of economic growth, prospects for Oman over the next five years remain good mainly because of the expected developments in the oil sector (Table 8.1 and paras. 28 and 32). The following table summarizes the main projected macroeconomic variables. The projections assume that oil production will increase by 7 percent and 22 percent in 1974 and 1975 respectively and reach 140 million barrels by the end of 1975. Thereafter, and barring new discoveries, oil production may decline gradually and reach 125 million barrels by 1979. It is further assumed that in view of the recent substantial rise in oil prices as well as the Government's 25 percent equity participation, the Government take per barrel may rise to about \$6.20 in 1974 and to about \$8.50 per barrel by 1979. <sup>1/</sup> Agriculture can be expected to grow by about 10 percent per year mainly as a result of improvements in inputs, water supply and husbandry and better cultivation methods. The assumed growth rate for agriculture is also a reflection of the low base from which the sector is starting. Construction, which has been growing at about 15 percent per year over the past three years and currently accounts for 16 percent of GDP, is assumed to continue to grow at about that rate per year for the next five years. All other sectors are assumed to grow by an average of 25 percent per year (35 percent in oil, gas and minerals, 26 percent in Government services and about 16 percent in other services).

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<sup>1/</sup> The Government take per barrel has been calculated on the basis of 12-1/2 percent of posted price for royalty payments, 55 percent of profits (assuming a sale price of \$8.50 per barrel for Omani crude in 1974 and a total cost of production of \$0.55 per barrel) as well as 25 percent equity participation expected to take full effect at the beginning of the second quarter of 1974. However, revenues in the 1974 draft budget are calculated on the assumption of \$4.75 Government take per barrel.

Macroeconomic Projections for Oman  
(Current Prices)

<u>Indicator</u>	<u>Unit</u>	<u>Current Level</u>	<u>Projected 1979</u>	
		<u>1973</u>	<u>Absolute</u>	<u>Growth Rate</u>
GNP at Market Prices	US\$ Million	395	1500	25%
Population	Thousands	600	717	3%
GNP per capita	US\$ Million	660	2092	21%
Investment	US\$ Million	139	425	20%
National Savings	US\$ Million	118	500	27%
Exports of Goods & NFS	US\$ Million	200	1075	32%
Imports of Goods & NFS	US\$ Million	231	990	27%

62. These projections imply that the contribution of the oil sector to GNP increases from an average 50-55 percent to some 71 percent by 1979. National Savings as a proportion of GNP would increase from 29 percent in 1973 to about 53 percent of GNP in 1974 and 1975, mainly because of the tendency of consumption to adjust with a time-lag to increased income. Thereafter, consumption is expected to adjust more readily to the new levels of income and national savings may drop down to about 30-35 percent of GNP. Gross investment between 1974-1979 is assumed to grow by about 20 percent per year as compared with about 12 percent per year between 1971-1973. Almost half of the future total investment is expected to be in the oil and mining sector. Most of this investment is assumed to be in oil refining, oil exploration - mostly offshore and the exploitation of gas and mineral resources of the country. Gross investment by the public sector which is assumed to decline to about one third of total investment will be mostly in public utilities and the pacification and resettlement efforts in the Dhofar province. Private sector investment is expected to continue its recent growth (an average of 30 percent per year) and to branch out into new fields such as financial and other institutions connected with the port and airport, land transportation and, in association with foreign partners, particularly from neighboring Gulf countries, industry such as cement. However, with the more rapid growth of income, the ratio of gross investment to national product would decline from about 35 percent in 1973 to about 28 percent by 1979.

63. The developments in the oil sector will continue to be the major factor affecting the balance of payments' situation. By 1975 exports of goods and services are projected to increase more than fourfold from about \$200 million (of which about \$199 million in oil exports) to \$895 million (of which \$890 million in oil exports). From 1975 to 1979 the rate of growth of total exports is assumed to slow down to about 3-4 percent per year, as oil production falls. Total exports may thus reach \$1075 (of which \$1060 in oil exports) by 1979. Imports, however, may increase by an average of 25 to 30 percent per year and reach about \$990 by 1979, mainly because of the projected 25 percent per year rate of growth of total consumption. As a result, the current account in the balance of payments is expected to change from a deficit of \$91 million in 1973 to a substantial surplus in the neighborhood of \$500 by 1975. Thereafter, as oil production and exports decline, the surplus on the current account may largely disappear.

The overall balance of payments' position would show similar trends, but foreign exchange reserves may increase rapidly in the early years, possibly reaching \$1600 by the end of 1979.

64. Oman's outstanding external debt at the end of 1973 amounted to US\$60 million, all of which has been disbursed. Debt service payments are scheduled to begin in 1974 and would amount to US\$3.1 million, equivalent to 1.6 percent of exports of goods and services at the 1973 levels. Debt service payments on existing debt are expected to grow to US\$21.6 million by 1978 but the debt service ratio, given the rapid growth in oil exports, is not expected to rise above 2 percent. Nevertheless, this does not preclude Oman, which is creditworthy for borrowing on conventional terms from seeking foreign help mainly because of the technical assistance and institution building components that are built in much of the foreign aid that Oman is likely to receive.





## STATISTICAL APPENDIX

### Table No.

#### 1. Population and Employment

- 1.1 Population by Regions, 1971
- 1.2 Expatriates and Local Labor Employees of the Oil Company and its Contractors, 1967-1972

#### 2. National Accounts

- 2.1 Industrial Origin of Gross Domestic Product at Market Prices, 1970-73
- 2.2 Resources and Uses of Gross Domestic Product at Market Prices, 1970-73
- 2.3 Gross Domestic Fixed Capital Formation, 1970-73

#### 3. Balance of Payments

- 3.1 Balance of Payments Estimates, 1970-1973
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- 3.3 Private Sector Imports in Oman, 1970-1973
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- 7.1 Estimated Area Under Various Crops, 1971
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Table No.

8. Oil Statistics

- 8.1 Oil Production and Exports
- 8.2 Exploration Activities and Crude Oil Production of Petroleum Development (Oman) Limited

9. Social Indicators

- 9.1 Social Indicators, 1969/70-1972/73

Table 1.1: POPULATION BY REGIONS, 1971<sup>1/</sup>

<u>Region</u>	<u>Population</u>
Batinah Coast	250,000
Interior Oases	250,000
Muscat/Matrah Capital Area	30,000
Dhofar	30,000
Desert Area (Nomadic Tribes)	30,000
Musandam Peninsula	<u>10,000</u>
Total	600,000

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1/ In the absence of a census, various sources put the estimates of population within a wide margin of 450,000 to 1,000,000 and more.

Source: Mission Estimates.

Table 1.2: EXPATRIATES AND LOCAL LABOR EMPLOYEES OF THE OIL COMPANY AND ITS CONTRACTORS, 1967-1972

(Numbers)

	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>
<u>Petroleum Development (O)</u>						
Expatriates	420	428	467	486	552	486
Omani	<u>620</u>	<u>630</u>	<u>717</u>	<u>788</u>	<u>1,030</u>	<u>1,004</u>
Total	1,040	1,058	1,184	1,274	1,582	1,490
<u>Contractors Working for</u>						
P.D.(O)						
Expatriates	n.a.	n.a.	489	617	549	326
Omani	<u>n.a.</u>	<u>n.a.</u>	<u>1,366</u>	<u>1,690</u>	<u>2,147</u>	<u>1,300</u>
Total	<u>n.a.</u>	<u>n.a.</u>	<u>1,855</u>	<u>2,307</u>	<u>2,696</u>	<u>1,626</u>

Petroleum Development (Oman) Ltd. (P.D.(O))

Source: Petroleum Development (Oman) Limited

Table 2.1: INDUSTRIAL ORIGIN OF GROSS DOMESTIC PRODUCT AT MARKET PRICES, 1970-1973<sup>1/</sup>

(in millions of current Omani Rials)

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u> <sup>2/</sup>
Agriculture, fishing	16.6	16.8	17.0	17.2
Mining (oil)	82.6	93.9	92.6	96.3
Manufacturing	0.2	0.2	0.2	0.2
Construction	8.5	21.0	25.0	28.2
Transport, communications	0.5	1.0	2.0	3.0
Electricity	0.1	0.2	0.5	0.7
Wholesale and retail trade	1.5	2.6	4.2	5.6
Banking	0.6	0.9	1.0	1.9
Ownership of dwellings	1.5	2.1	2.5	2.8
Public administration and defense	2.3	4.1	11.0	16.1
Services	1.0	1.7	2.5	3.1
GDP at market prices	115.4	144.5	158.5	175.1
Less: Indirect taxes	1.1	1.1	1.8	4.0
GDP at factor cost	114.3	143.4	156.7	171.1

1/ See IBRD Report No. EMA-55a dated September 1972 for assumptions.

2/ Preliminary estimates.

Table 2.2 : RESOURCES AND USES OF GROSS DOMESTIC PRODUCT AT MARKET PRICES, 1970-1973

(in millions of current Omani Rials)

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
Total domestic resource use	48.8	89.1	116.9	144.0
Total consumption expenditures	35.8	50.5	70.0	95.9
Private <sup>1/</sup>	22.0	24.4	28.1	37.5
General government	13.7	26.2	41.9	58.4
Gross domestic fixed capital formation	13.1	38.4	46.9	48.1
Exports of goods and non-factor services <sup>2/</sup>	87.6	99.5	103.2	114.2
Imports of goods and non-factor services <sup>2/</sup>	21.0	44.0	61.6	83.1
GDP at market prices	115.4	144.5	158.5	175.1
Net factor income payments	28.4	33.6	31.2	38.4
GNP at market prices	87.0	110.9	127.3	136.7
Net indirect taxes	1.1	1.1	1.8	4.0
GNP at factor costs	85.9	109.8	125.5	132.7
Gross domestic savings	79.7	93.9	88.5	79.2
Gross national savings	51.3	60.3	57.3	40.8

<sup>1/</sup> Calculated as residual; therefore includes changes of stocks for which no bases at present exist for separate estimates.

<sup>2/</sup> Not comparable to balance of payments figures.

Source: Mission estimates based on information supplied by the various departments and offices of the Government of Oman and Petroleum Development (Oman).

Table 2.3: : GROSS DOMESTIC FIXED CAPITAL FORMATION, 1970-1973

(in millions of current Omani Rials)

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
Oil Industry	9.7	15.7	13.6	15.1
Other Private Sector <u>1/</u>	1.7	2.3	3.4	4.8
Public Sector	1.7	20.4	29.9	28.2
	—	—	—	—
Total Gross Investment	13.1	38.4	46.9	48.1

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1/ It is assumed that there has been some private investment (non-oil) in construction, ship building (dhow), water pumps, other agricultural machinery and diesel engines, trucks and other vehicles used in public transportation.

Source: Mission estimates based on information provided by various departments of the Government and Petroleum Development (Oman).





Table 3.1: BALANCE OF PAYMENTS ESTIMATES, 1970-1973

(In millions Omani Rials)

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>Preliminary Estimates 1973</u>
<u>Oil Sector (net)</u>	<u>48.8</u>	<u>53.6</u>	<u>55.7</u>	<u>68.6</u>
Payments to the Government	44.4	47.7	49.6	61.0
Local expenditures	4.4	5.9	6.1	7.6
<u>Non-Oil Sector</u>	<u>-18.3</u>	<u>-40.3</u>	<u>-79.0</u>	<u>-101.0</u>
Exports (f.o.b.)	.4	.4	.4	.4
Imports (c.i.f.)	-14.7	-40.2	-61.6	-80.1
Private	(-7.6)	(-13.8)	(-18.7)	(-31.1)
Contractors	(-1.9)	(-12.0)	(-17.9)	(-15.3)
Government	(-5.2)	(-14.4)	(-25.0)	(-33.7)
Private transfers	-	-	-7.0	-8.7
Others	-4.4	-5	-10.8	-12.6
<u>Balance on the Current Account</u>	<u>30.5</u>	<u>13.3</u>	<u>-23.4</u>	<u>-32.4</u>
<u>Non Monetary Capital</u>	<u>-</u>	<u>-</u>	<u>7.5</u>	<u>8.6</u>
Government Short-Term Borrowing Abroad	-	-	7.2	3.3
Government Long-Term Borrowing	-	-	-	20.8
Private Investment	-	-	-	-15.8
SDR	-	-	0.3	0.3
<u>Monetary Movements (increase -)</u>	<u>-30.5</u>	<u>-13.3</u>	<u>15.9</u>	<u>23.8</u>
Monetary authorities	-29.5	-6.6	-1.9	33.0
Government foreign exchange holdings	(-26.3)	(-2.5)	(3.0)	(34.5)
Currency Board (net)	(-3.2)	(-4.1)	(-4.9)	(-1.5)
Commercial banks (net)	-1.0	-6.7	17.8	-9.2

Source: Staff estimates based on data supplied by the Omani authorities.

Table 3.2: FOREIGN EXCHANGE RESERVES, 1970-1973

(In millions of **Omani Rials**)

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>Sept.</u> <u>1972</u>	<u>Sept.</u> <u>1973</u>	<u>Estimates</u> <u>Dec.</u> <u>1973</u>
Government holdings	48.4	50.9	47.9	47.8	20.7	13.3
Currency authority	5.2	9.5	15.2	15.2	15.9	16.6
of which:						
Gold	.9	.2	.2	.2	.2	.2
SDR	--	--	.3	.3	.3	.3
Gold tranche position	--	.7	.7	.7	.7	.7
Foreign exchange	4.3	8.5	13.9	13.9	14.6	15.4
<u>Total Gross Reserves</u>	<u>53.6</u>	<u>60.4</u>	<u>63.1</u>	<u>63.3</u>	<u>36.6</u>	<u>29.9</u>
Commercial Banks holdings	<u>29.0</u>	<u>37.0</u>	<u>22.4</u>	<u>28.9</u>	<u>37.7</u>	<u>31.6</u>
Foreign liabilities	.8	2.3	6.3	.3	2.0	5.6
of which:						
Currency Authority	--	.3	1.0	--	--	n.a.
Commercial Banks	.8	2.0	5.3	.3	2.0	n.a.
<u>Net Foreign Assets</u>	<u>81.8</u>	<u>95.1</u>	<u>79.2</u>	<u>91.9</u>	<u>72.3</u>	<u>55.9</u>

Source: Monetary Authorities and Commercial Banks in Oman.

**Table 3.3: PRIVATE SECTOR IMPORTS IN OMAN, 1970-1973<sup>1/</sup>**

(Value in Thousand Omani Rials)

<u>SECTION</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>Jan.-Sept. 1973</u>
0 Food and Live Animals	3,000	4,998	5,645	6,093
1 Beverages and Tobacco	141	420	666	575
2 Crude Materials	2	5	11	400
3 Mineral Fuels and Lubricants	340	955	910	1,153
4 Animal & Vegetable Oils & Fats	-	-	-	51
5 Chemicals	183	641	818	1,239
6 Manufactured Goods by Material	1,813	2,458	3,879	4,933
7 Machinery & Transport Equipment	1,284	3,451	5,223	7,739
8 Miscellaneous Manufactures	450	666	946	1,520
9 Unclassified Articles	<u>379</u>	<u>190</u>	<u>615</u>	<u>520</u>
Total	7,590	13,784	18,713	24,223

<sup>1/</sup> Excluding Oil Company imports.

Source: Custom Department figures reclassified to SITC Sections; mainly private sector but includes some duty free items where value has been declared.

Table 3.4: OMAN - DIRECTION OF OIL EXPORTS, 1967-1973  
(in millions of barrels)

	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>Jan/Sept 1972</u>	<u>Jan/Sept 1973</u>
Japan	9.0	27.0	31.9	36.5	35.9	43.7	32.0	31.7
Malaysia	1.6	23.6	17.3	21.6	14.9	-	-	-
Singapore	-	-	0.8	2.5	5.2	10.2	6.4	4.8
France	1.3	5.2	10.2	11.4	10.7	13.8	10.9	13.4
Netherlands	0.8	6.8	26.0	10.8	12.2	4.7	4.7	9.2
Italy	-	1.2	0.6	-	-	-	-	-
Germany, Federal Republic of	-	-	-	0.8	-	-	-	-
United Kingdom	2.0	9.7	9.2	5.9	5.7	3.7	2.6	1.0
Sweden	3.9	9.7	11.5	14.5	8.7	7.7	6.9	5.4
Norway	-	2.3	5.0	11.2	9.4	10.7	9.0	3.2
Denmark	2.4	2.6	6.7	6.2	3.0	3.5	2.4	-
South Africa	-	-	-	-	0.6	-	-	-
United States	-	-	-	-	-	3.0	2.0	1.5
Canada	-	-	-	-	-	2.2	0.6	9.0
Taiwan	-	-	-	-	-	-	-	1.6
<b>TOTAL</b>	<b>20.9</b>	<b>88.2</b>	<b>119.2</b>	<b>121.3</b>	<b>106.3</b>	<b>103.2</b>	<b>77.5</b>	<b>80.8</b>

Source: Petroleum Development (OMAN) Limited.

Table 4.1: EXTERNAL PUBLIC DEBT AS OF DECEMBER 31, 1973

FOR LOANS ISSUED DURING THE PERIOD JANUARY 1, 1900 - DECEMBER 31, 1973  
DEBT REPAYABLE IN FOREIGN CURRENCY

IN THOUSANDS OF U.S. DOLLARS

TOTAL

YEAR	DEBT OUTSTANDING BEGINNING OF PERIOD		TRANSACTIONS DURING PERIOD					CANCEL- LATIONS, ADJUST- MENTS (8)
	DISBURSED ONLY (1)	INCLUDING UNDISBURSED (2)	COMMIT- MENTS (3)	DISBURSE- MENTS (4)	PRINCIPAL (5)	SERVICE PAYMENTS INTEREST (6)	TOTAL (7)	
1973	-	-	60,000	60,000	-	-	-	-
1974	60,000	60,000	-	-	-	3,138	3,138	-
1975	60,000	60,000	-	-	-	4,275	4,275	-
1976	60,000	60,000	-	-	-	4,275	4,275	-
1977	60,000	60,000	-	-	17,500	4,113	21,613	-
1978	42,500	42,500	-	-	18,750	2,863	21,613	-
1979	23,750	23,750	-	-	18,750	1,513	20,263	-
1980	5,000	5,000	-	-	5,000	163	5,163	-



Table 5.1: SUMMARY OF GOVERNMENT FINANCES, 1969-1974

(In millions of Omani Rials)

	<u>1969<sup>1/</sup></u>	<u>1970<sup>1/</sup></u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
	<u>Actuals</u>			<u>Actuals</u>		<u>Draft Budget</u>
Revenues	<u>39.6</u>	<u>45.4</u>	<u>48.0</u>	<u>53.0</u>	<u>68.5</u>	<u>197.1</u>
Oil	38.6	44.4	45.8	49.6	61.0	187.5
Other	1.0	1.0	2.2	3.4	7.5	9.6
Expenditures	<u>17.9</u>	<u>20.6</u>	<u>44.6</u>	<u>71.6</u>	<u>107.3</u>	<u>153.2</u>
Current	n.a.	n.a.	26.4	41.7	61.3	90.0
Development	n.a.	n.a.	18.2	29.9	30.2	63.2
Other Capital Expenditure	-	-	-	-	15.82/	
Overall Surplus or Deficit(-)	21.7	24.8	3.4	-18.6	-38.8	43.9
Financing						
Changes in net Government Deposits with Banking System(increase -)	-21.7	-24.8	-3.4	12.8	11.8	
Government Short-term Borrowing abroad	-	-	-	7.2	6.2	
Long-Term External Debt	-	-	-	-	20.8	
Discrepancy	<u>-</u>	<u>-</u>	<u>-0.8</u>	<u>-1.4</u>	<u>--</u>	
Total Financing	-21.7	-24.8	-4.1	18.6	38.8	

<sup>1/</sup> Incomplete figures

<sup>2/</sup> Payment to the Oil Company for part of 25 percent equity participation.

Source: Department of Financial Affairs, Oman

Table 5.2: GOVERNMENT REVENUES, 1971-1973

(In thousands of Omani Rials)

	<u>1971</u> <u>Actual</u>	<u>1972</u> <u>Actual</u>	<u>1973</u> <u>Actual</u>
Oil receipts	<u>47,900</u>	<u>49,566</u>	<u>61,000</u>
Oil Royalties	12,100	12,110 )	n.a.
Income Tax		37,150 )	
Oil Installation)	35,500	306	n.a.
Port Dues )			
Other Revenues	<u>2,228</u>	<u>3,428</u>	<u>7,500</u>
Customs	1,066	1,578	n.a.
Corporate Income Tax	323	546	n.a.
Zakat <sup>1/</sup>	38	37	n.a.
Bait al Mal <sup>2/</sup>	10	174	n.a.
Interest	238	84	n.a.
Court fees	14	25	n.a.
Passport & Visa fees	21	55	n.a.
Printing & Stationery			
Sales	18	21	n.a.
Sale of Agriculture			
Produce	8	29	n.a.
Fines	2	10	n.a.
Miscellaneous <sup>3/</sup>	<u>490</u>	<u>869</u>	<u>n.a.</u>
Total	50,128	52,994	68,500

<sup>1/</sup> A traditional religious tax.

<sup>2/</sup> Revenue from sale and rental of government land.

<sup>3/</sup> Includes cash aid received from friendly countries.

Source: Department of Financial Affairs, Oman.



Table 5.3: GOVERNMENT CURRENT EXPENDITURES, 1971-1973

(In millions of Omani Rials)

	<u>1971</u>	<u>1972</u>	<u>1973</u>
	Actual	Actual	Actual
Defense	16.1	27.3	42.0
Privy Purse	2.8	2.8	2.5
Health	1.1	1.8	3.0
Education	0.5	1.0	1.0
Payment to Sheikhs	0.3	0.5	1.5
Agriculture	0.5	0.5	1.0
Public Works Dept.	0.2	0.2	0.1
Transportation	0.3	0.7	1.0
Economic Advisor Office	1.2	1.0	3.0
Local and Regional Govt.	0.6	1.2	1.5
Police	--	0.6	0.5
Foreign Affairs	0.0	0.7	1.0
Dhofar Province	1.3	2.0	2.0
Other	<u>1.1</u>	<u>1.4</u>	<u>1.2</u>
Total	26.0	41.7	61.3

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Source: Department of Financial Affairs

Table 5.4: GOVERNMENT DEVELOPMENT EXPENDITURE, 1971-74

(In millions of Omani Rials)

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>Budgeted 1974</u>
Communications	13.3	14.7	11.8	15.0
Health	1.7	2.3	1.4	8.1
Education	0.8	1.6	.8	2.9
Housing & Public Buildings	1.2	4.9	3.0	6.2
Agriculture	-	-	0.5	-
Others <sup>1/</sup>	<u>1.2</u>	<u>6.4</u>	<u>12.7</u>	<u>31.0</u>
Total	<u>18.2</u>	<u>29.9</u>	<u>30.2</u>	<u>63.2</u>

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1/ Includes Dhofar Province

Source: Department of Financial Affairs

Table 6.1: MONETARY SURVEY

(in thousands of Omani rials)

Period ended	December			September	December	September
	1969	1970	1971	1972		1973
<u>Foreign assets</u>	<u>53,018</u>	<u>82,592</u>	<u>97,407</u>	<u>90,246</u>	<u>85,487</u>	<u>74,244</u>
Currency Authority	2,860	5,204	9,456	13,631	15,160	15,857
Government	21,982	48,381	50,887	47,752	47,911	20,674
Commercial banks	28,176	25,007	37,064	28,863	22,416	37,713
<u>Claims on private sector</u>	<u>2,314</u>	<u>3,697</u>	<u>4,320</u>	<u>8,196</u>	<u>6,515</u>	<u>11,116</u>
<u>Assets = Liabilities</u>	<u>55,332</u>	<u>86,289</u>	<u>101,727</u>	<u>98,442</u>	<u>92,002</u>	<u>85,360</u>
<u>Money</u>	<u>3,470</u>	<u>7,649</u>	<u>13,444</u>	<u>17,458</u>	<u>18,957</u>	<u>22,048</u>
Currency in circulation	2,000	4,809	8,809	12,108	12,295	14,320
Demand deposits	1,470	2,804	4,635	5,350	6,662	7,728
<u>Quasi-money</u>	<u>25,496</u>	<u>27,756</u>	<u>32,092</u>	<u>31,609</u>	<u>25,802</u>	<u>22,331</u>
<u>Government deposits (net)</u>	<u>25,766</u>	<u>50,531</u>	<u>53,875</u>	<u>48,150</u>	<u>41,080</u>	<u>38,749</u>
Foreign currency deposits	21,982	48,381	50,887	47,752	47,911	20,674
Local currency deposits	3,784	2,150	2,988	1,732	383	23,223
Less: credit to government, commercial banks	--	--	--	- 1,334	- 7,214	- 5,148
<u>Foreign liabilities</u>	<u>898</u>	<u>761</u>	<u>2,315</u>	<u>329</u>	<u>6,242</u>	<u>2,023</u>
Currency Authority	--	--	225	2	983	33
Commercial banks	898	761	2,090	327	5,259	1,990
<u>Other items (net)</u>	<u>- 298</u>	<u>- 407</u>	<u>2</u>	<u>896</u>	<u>- 79</u>	<u>209</u>
Other items net, monetary authority	-	99	- 206	621	274	495
Other items net, commercial banks	- 298	- 506	208	275	- 353	- 286
Notes and coins in banks, monetary authorities	860	297	629	900	1,608	1,009
Less: reserves, commercial banks	- 860	- 297	- 629	- 900	- 1,608	- 1,009

Source: Currency Board and Commercial Banks, Oman.

Table 6.2:

## CONSOLIDATED ACCOUNTS OF THE COMMERCIAL BANKS

(in thousands of Omani rials)

Period ended	December			September	December	September
	1969	1970	1971	1972	1972	1973
<b>Assets</b>						
Reserves	860	297	629	900	1,608	1,009
Foreign assets	28,176	29,007	37,064	28,863	22,416	37,713
Claims on Government	-	-	-	1,334	7,214	5,148
Claims on private sector	2,314	3,697	4,320	8,196	6,515	11,116
Other Assets	2,456	4,481	4,807	7,938	10,221	10,455
<b>Total Assets = Total Liabilities</b>	<b>33,806</b>	<b>37,482</b>	<b>46,820</b>	<b>47,231</b>	<b>47,974</b>	<b>65,441</b>
<b>Liabilities</b>						
Demand deposits	1,470	2,840	4,635	5,350	6,662	7,728
Time deposits	25,496	27,756	32,092	31,609	25,802	22,331
Government deposits	3,784	2,150	2,988	1,732	383	23,223
Foreign liabilities	898	761	2,090	327	5,259	1,990
Other liabilities	2,158	3,975	5,015	8,213	9,868	10,169
Government fixed deposits (regarded as government foreign assets and excluded from balance sheet of commercial banks)	21,982	48,381	50,887	47,752	47,911	20,674

Source: Monetary Authorities and Commercial Banks in Oman.

Table 7.1: ESTIMATED AREA UNDER VARIOUS CROPS, 1971

<u>Crops</u>	<u>Area Under Cultivation</u>	
	<u>Acres</u>	<u>Percent</u>
Dates	33,350	37.1
Lucerne	13,900	15.4
Limes	8,900	9.9
Onion	9,200	10.2
Wheat	3,000	3.3
Tobacco	2,500	2.8
Banana	2,200	2.4
Mango	950	1.1
Coconut	500	0.6
Other crops *	3,600	4.2
Uncultivated land	11,800	13.0
Total	90,000	100.0

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\* Includes area under chickpeas, sorghum, sweet potato

Source: Statistical Year Book, OMAN, 1973.

Table 7.2: PRODUCTION AND VALUE OF MAIN CROPS, 1971-1973

Crops	1971 Production	Value (Rial Omani)	1972 Production	Value (Rial Omani)	1973 Production	Value (Rial Omani)
Dates (000 tons)	47.0	1,576,000	50.0	1,600,000	50.0	1,600,000
Limes (000 tons)	1.5	490,000	1.5	500,000	1.6	560,000
Mango (million fruits)	14.0	106,600	14.0	100,000	14.0	105,000
Banana(000 bunches)	666.0	198,000	660.0	200,000	670.0	204,000
Lucerne (000 tons)	114.0	2,850,000	115.0	3,000,000	120.0	3,145,000
Onions (000 tons)	6.0	296,500	6.0	300,000	6.5	350,000
Wheat (000 tons)	2.9	90,000	2.5	100,000	3.0	110,000
Cocoanuts(million nuts)	3.0	n.a.	3.0	n.a.	3.0	n.a.
Other		600,000		700,000		800,000
<u>Total</u>		<u>6,207,100</u>		<u>6,800,000</u>		<u>6,874,000</u>

Source: Department of Agriculture. All figures are rough estimates.

Table 7.3: ANIMAL POPULATION AND VALUE OF PRODUCTION<sup>/1</sup> - 1970-1972  
(Value in thousands of Omani Rials)

<u>Kind</u>	Number	<u>1970</u>		<u>1971</u>		<u>1972</u>	
		Value of Production	Number	Value of Production	Number	Value of Production	
Goats	135,000		150,000		160,000		
Sheep	7,200		8,000		9,000		
Cows	72,000	1,700	80,000	2,000	90,000	22,000	
Donkeys	59,500		65,000		60,000		
Camels	9,000		10,000		6,000		

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1/ Values expressed in current prices and relate to milk and meat production (excluding donkeys and camels).

Source: Department of Agriculture.

Table 7.4: IMPORTS OF AGRICULTURAL INPUTS<sup>1/</sup> 1971-1973

<u>Item</u>	<u>Unit</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
<u>Fertilizers</u>	Tons	<u>332</u>	<u>800</u>	<u>1,750</u>
Ammonium sulphate	tons	160	500	1,000
Compound fertilizer	tons	162	300	750
<u>Pesticides</u>	Liters	<u>43,000</u>	<u>26,000</u>	<u>n.a.</u>
Malathion 50% E.C.	Liters	25,000	15,000	n.a.
Malathion 96% ULV	Liters	18,000	11,000	n.a.
<u>Agricultural machinery</u>		<u>182</u>	<u>42</u>	<u>12</u>
Tractors - 4 wheel type	Pieces	32	32	7
Hand and mechanically operated sprayers	Pieces	150	10	5

1/ Imported by the Department of Agriculture for free distribution/loan to farmers.

Source: Department of Agriculture.



Table 8.1: OIL PRODUCTION AND EXPORTS

(in millions of barrels)

	PRODUCTION	EXPORTS
1967 (August - December)	20.9	20.9
1968	87.9	88.2
1969	119.7	119.2
1970	121.3	121.3
1971	107.4	106.3
1972	102.8	103.2
January/September 1973	79.2	79.2
January/October 1973	88.6	88.6
1973 ( Estimate)	106.0	106.0
1974 (Forecast)	114.0	114.0
1975 (Forecast)	139.0	139.0
1976 (Forecast)	133.0	133.0

Source: Petroleum Development (OMAN) Limited.

Table 8.2: EXPLORATION ACTIVITIES AND CRUDE OIL PRODUCTION  
OF PETROLEUM DEVELOPMENT (OMAN) LIMITED

<u>END OF PERIOD</u>	<u>NUMBER OF WELLS</u>		<u>PRODUCTION</u> (Thousands of Barrels per day)
	<u>DRY</u>	<u>PRODUCING</u>	
1967	50	21	57
1968	75	39	241
1969	80	58	328
1970	104	63	332
1971	146	79	294
1972	134	109	281
Jan./Sept. 1973	n.a.	n.a.	290
Jan./Oct. 1973	n.a.	n.a.	291

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Source: Petroleum Development (OMAN) Limited.

Table 9.1 : SOCIAL INDICATORS, 1969/70-1972/73

	<u>1969/70</u>	<u>1970/71</u>	<u>1971/72</u>	<u>1972/73</u>
<b>1. EDUCATION</b>				
Schools:	3	16	45	69
Boys	3	12	34	54
Girls	-	3	8	13
Co-education	-	1	3	2
Pupils:	900	6,941	15,809	30,969
Boys	900	5,805	13,458	26,047
Girls	-	1,136	2,351	4,922
Teachers:	30	196	439	735
Male	30	166	379	619
Female	-	30	60	116
Teacher/pupil ratio	<u>1:30</u>	<u>1:35</u>	<u>1:36</u>	<u>1:42</u>
<b>2. HEALTH</b>				
Hospitals		2	10	10
Health Centers		8	8	8
Dispensaries and clinics		11	16	29
Beds		39	369	508
Doctors		<u>17</u>	<u>32</u>	<u>62</u>
Male		17	28	53
Female		-	4	9
Average monthly attendance of out-patients				
Average per hospital			7,901	7,706
Average per health centre			3,857	4,499
Average per dispensary			2,586	2,299
Average inpatients			798	1,485

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Source: Ministry of Health in Oman, 1973.