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**Covid-19 in the Gulf
Special Coverage**

**COVID-19 and Plummeting Oil Prices;
a Time of Reckoning for Oman
Ahmed Ali M. al Mukhaini**

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Introduction

As Oman braces itself to embark on the 'Oman 2040 Vision', the year 2020 comes as a year of reckoning in several regards. The death of Sultan Qaboos on 10th January, marked the beginning of an era where state institutions were put to test. Though the power transition was remarkably smooth, and Qaboos' legacy seems to be lending itself well to Sultan Haitham, the new Sultan, in his 60s, is facing unprecedented financial and fiscal challenges. He has in front of him several 'socially intolerable' options, which, as the clock ticks away, are morphing into inevitabilities. If he manages to steer the country to safety through this perilous situation, he will certainly create a legacy parallel to that of Sultan Qaboos when he assumed power in 1970. Plummeting oil prices, successive credit rating downgrades, and COVID-19 economic impacts are mere compounding factors.

Oman, like other countries, has been hit by COVID-19. The pandemic is proving to be a challenge, even to the most advanced health and governance systems in the world. On 2nd March, the [OECD Interim Economic Assessment](#) estimated the "annual global GDP growth ... to drop to 2.4% in 2020 as a whole, from an already weak 2.9% in 2019, with growth possibly even being negative in the first quarter of 2020". The report went further to say that "[a] longer lasting and more intensive coronavirus outbreak, spreading widely throughout the Asia-Pacific region, Europe and North America, would weaken prospects considerably. In this event, global growth could drop to 1.5% in 2020". Other [estimates](#) reduced the

expected global growth rate to 1.6% in 2020.

Consequently, there will be calls and global pressure to keep oil prices down or push them further down to facilitate a rapid turnaround of the global economy. Though the USA policy makers, driven by a [strong oil lobby](#), [failing U.S. firms](#), and well stocked-up strategic oil reserves, are pushing now for higher oil prices, it is improbable that rebounding prices will be higher than USD 45. This is quite short from the USD 58 tag upon which the Omani FY 2020 budget was based.

Financial and Fiscal Realities and Austerity Measures

Recent [official Omani statistics](#) show that total petroleum revenues made around 60% of total government revenues in 2018 and 2019. While this is an improvement from 74%, which was the average for the pre-2014 years, it still renders Oman highly vulnerable and its fiscal space unstable. With public debt reaching 60% of the GDP, and budget deficit around 9% of the GDP, coupled with an average of 5% gap between approved and actual spending over the period (2015-2019), Oman is in desperate need for higher oil prices, healthy global economy, and above all structural reforms.

Being cognizant of Oman's financial and fiscal constraints, Sultan Haitham addressed the nation on 23rd February, alerting them to the challenges ahead and the 'sacrifices' to come, alluding to potential austerity measures and reforms. Setting an example, he reduced the palace staff and royal expenses. Next, he retired 51 advisors of cabinet and sub-cabinet levels who held honorary positions.

Then, he moved to personally oversee a number of important files, such as the restructuring of the government and state administrative apparatus, sanctioning operational cuts, and disciplining compliance with budget targets. Future austerity measures might include revising the pension system benefits as well as members subscription fees, and laying off civil servants according to set criteria. Long awaited structural reforms include privatisation, and outsourcing delivery of national services through Public-Private-Partnership¹.

COVID-19 Compounding Impacts

COVID-19 is impacting Oman in three significant aspects. The **first** is the reality check of the level of preparedness, or perception of preparedness. The **second** is the budgetary impact of the economic easing measures taken by the government as of 19th March. The **third** is post-COVID-19 economic impacts caused by the slow lifting of restrictions on movement, which will affect large portions of activities in the Omani economy.

The healthcare system in Oman has improved considerably over the last five decades. In 2019, the [Global Health Index](#) ranked Oman's health system as the second best out of the 151 nations evaluated. Oman was flanked by Canada, the first, and Iceland, the third. However, while the above-mentioned index evaluates countries and health systems in terms of health outcomes and achievements, as well as spending, it does not measure, however, preparedness to respond to public health crises such as epidemics or emergency situations.

Omani government officials believe that the Omani healthcare and governance systems have the capacity to contain or perhaps adequately address this epidemic. [Some external observers](#) share this confidence. Perhaps, this confidence is derived from the Omani authorities ability to 'successfully' responded to the SARS, H1N1 and Mers epidemics in the year 2002-2012, as well as apparent health and wellbeing outcomes.

The COVID-19 demonstrated that a different set of skills and competency levels is required. Until 10th March, the Ministry of Health led the efforts to contain the spread of the epidemic. Alarmed by a growing number of cases in domestic quarantine, it was clear that the situation might spin out of control and strain the healthcare system in the country. In response, Sultan Haitham formed on 10th March a High Committee tasked with dealing and responding to local and international developments resulting from the outbreak. The Committee, resembling a [war-cabinet](#), is empowered to mobilise all civilian and military sectors and agencies, and invoke the [Law on the Control of Communicable Diseases](#), which is a quasi-emergency law. Interestingly enough, on 11th March, the WHO declared the coronavirus outbreak a pandemic.

The World Health Organization [2017 JEE report on Oman](#)² showed that while Oman had very high scores in 35 of the assessment sub-categories, scoring 4 and 5 (the maximum score is 5), there were 13 key sub-categories where Oman scored 2 and 3, warranting further attention and investment into these sub-categories. Most noteworthy of them were: Biosafety and Biosecurity; National

¹ Collaboration between a government agency and a private-sector company that can be used to finance, build, and operate projects.

² The WHO Joint External Evaluation (the "JEE") of the International Health Regulations.

Laboratory System –with a particular focus on the quality of laboratories-; Real Time Surveillance –with a particular focus on interoperable and interconnected electronic real time reporting system-; Workforce Development –with a particular focus on the provision of field epidemiology training or acquisition of field epidemiology skills-; and Preparedness.

COVID-19 is impacting economies worldwide. Restrictions on movement and exchange of goods and services have reduced demands and restructured value chains. Governments across the world are providing huge recovery packages and making tremendous concessions and exemptions. Oman is no different. On 18th March, the Central Bank of Oman issued a number of directives to all licensed banks and financing leasing companies to provide additional available liquidity in the range of OMR 8 billion (around USD 20.8 billion), to overcome the prevailing economic conditions.

Further measures were taken on 19th March. They included exempting restaurants from tourism and municipality taxes as well commercial entities from municipal fees until August-end. Commercial bank-loan instalments for small and medium companies³ have been deferred for 6 months. Rents in industrial estates for the next 3 months have also been forfeited. Handling and administration charges at ports have been reduced as well as air cargo fees for food and pharmaceutical products.

Since COVID-19 is ongoing and the challenges it poses continue to unfold, it is not possible to provide a comprehensive study or reasonably accurate estimates of the financial or

socio-economic impacts of the epidemic in Oman.

Concluding remarks

The post-COVID-19 era will be a period of great testing. The above government emergency measures to minimise the impacts of COVID-19 on the economy will cause the treasury significant deficits, compounding the ramifications of plummeting oil prices. Two factors would aggravate the COVID-19 impact on Oman's economic situation, as follows:

1 Oman imports most of its needs of goods. This makes Oman more vulnerable to disruptions due to restrictions on movement of goods and services imposed by COVID-19, and expected re-emerging endemics.

2 Oman's economy is labour intensive. COVID-19 hits manual services hardest. This applies more specifically to two sets of economic activities that can uplift the performance of the Omani GDP: (1) industrial activities (18% of the GDP), and (2) service activities (47% of the GDP). While the government has no control over oil price fluctuations, it does have great influence over the performance of these economic activities through traditional and non-traditional stimulus packages, as well as mainstreaming ICT.

One of the greatest lessons learnt so far is that technology is the best investment for now and the future. ICT mainstreaming efforts in the public and private sectors, albeit limited, have paid off. They have not only allowed for timely adaptation to restrictions on movement, but it is also creating opportunities for youth and innovation. This will help transform the rentier economy into a more productive

³ Referring to companies benefiting from a national initiative for Small and Medium Enterprises Development.

knowledge based economy, and gear it towards fulfilling the Omani 2040 vision.

About the author:

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