Oman's Economic Outlook- Spring 2016

The latest MENA Economic Monitor Report - Spring 2016, expects Oman's real GDP growth is 1.6 % in 2016, lower than in 2015, reflecting lower oil prices and reduced spending and domestic demand.

Real GDP growth rate is estimated at 3.3 % in 2015. New oil recovery techniques and greater efficiency led to record production levels in 2015, peaking at 0.98 million barrels per day. Hydrocarbon GDP grew by 4 % in 2015, compared to a contraction of 0.8 % in 2014. Non-hydrocarbon GDP is estimated to have grown by 3 % in 2015. The central bank enacted expansionary monetary policy by reducing lending rates to support economic growth. The current account balance recorded a deficit in the first half of 2015. Consumer price inflation averaged 0.1 % in 2015.

A record high fiscal deficit is estimated for 2015, at 17.7 % of GDP. Hydrocarbon revenue fell by 45 % in 2015, which stymied government spending hindering potential economic growth and decreasing tax receipts. Approximately half of the deficit in 2015 was financed by drawing on reserves, and the remainder by borrowing from domestic and external sources. Oman issued its first sovereign Islamic bond (sukuk) for $519.5 million, and $1 billion through syndicated loan. Standard & Poor's downgraded the country's debt to BBB-/A-3 in February. The central bank is currently marketing an OR100 million five-year bond, and announcing plans to raise between $5 and $10 billion from the international market, to avoid squeezing the domestic banking liquidity further.

The government reduced spending in 2015, avoiding an even larger deficit, and has laid out an extensive austerity plan for 2016. Reforms included the doubling of gas prices for industrial users, amending labor laws and designating an office for speeding up the process for issuing licenses. The 2016 budget indicates further reforms; with subsidy spending expected to fall by 64 % in 2016 and diesel and petrol prices increasing by up to 33 %. Revenue is expected to increase through a higher corporate income tax (from 12 % to 15 %), the removal of some tax exemptions, and the implementation of a GCC-wide VAT. Other measures envisaged to enhance revenue include: revising electricity and water tariffs and increasing fees for government services.

The macroeconomic outlook is highly vulnerable to the behavior of oil prices and hinges on the success of the government's efforts to capitalize on non-hydrocarbon revenues. Real GDP growth is projected at 1.6 % in 2016, lower than in 2015, reflecting lower oil revenue and the associated dampening of spending and domestic demand. Growth is projected to pick up again starting 2017, as the non-oil sector expands, despite lower levels of investment spending, which will constrain growth in the oil sector. Non-urgent projects are expected to be postponed. The government will continue to prioritize infrastructure investment, including in tourism, airports, railways and ports. A new mining law is expected to streamline and centralize licensing processes, to improve the industry's efficiency. Since Oman has maintained consistently good relations with Iran, new trade and investment opportunities are expected including a gas pipeline between the two countries. However, in light of the projected level of oil prices, the fiscal and current account are estimated to be in deficit at 16.8 and 14.1 % of GDP respectively in 2016. Oman is expected to maintain its peg to the US dollar despite pressures, and raise interest rates later in 2016.

Key Economic Indicators

	2014	2015e	2016p	2017p
Real GDP Growth (%)	2.9	3.3	1.6	1.9
Inflation Rate (%)	1.0	0.1	2.3	3.0
Fiscal Balance (% of GDP)	-3.4	-17.7	-16.8	-11.0
Current Account Balance (% of GDP)	5.0	-13.1	-14.1	-6.7