

OMAN

Table 1 **2017**

Population, million	4.6
GDP, current US\$ billion	712
GDP per capita, current US\$	15360
School enrollment, primary (% gross) ^a	108.6
Life expectancy at birth, years ^a	77.0

Source: WDI, Macro Poverty Outlook, and official data.
Notes:

(a) Most recent WDI value (2016)

Growth contracted in 2017 due to oil production cuts under the OPEC+ agreement. Fiscal and current accounts registered double-digit deficits, leading to rising debt and sovereign credit rating downgrades. Real GDP growth is projected to recover to 2.8 percent by 2020 as the OPEC+ agreement unwinds and the government's diversification plan materializes. The main risk to the economic outlook relates to a delay in fiscal adjustment, which could worsen debt sustainability and negatively affect business confidence and external financing costs in an adverse global environment.

Recent developments

According to latest official figures, Oman's real GDP contracted by 0.9 percent in 2017, down from 5.0 percent growth in 2016. The high growth performance in 2016 was driven by record oil production levels and a significant drop in real net taxes (in terms of GDP at factor prices growth was only 1.8 percent in 2016). In 2017, as Oman complied with the OPEC+ agreement, a 2.7 percent contraction in the hydrocarbon sector was only partially offset by 0.4 percent growth in the non-hydrocarbon sector, driven by fisheries. On the expenditure side, the overall contraction is driven by weak public consumption and investment. Inflation increased slightly to 1.6 percent in 2017, up from 1.1 percent in 2016, reflecting higher fuel and housing prices.

Oman continues to post double-digit fiscal and current account deficits due to lagging adjustment to lower oil prices, leading to mounting debt. Financing needs were met through withdrawals from SWFs. In 2017, the government managed to reduce the fiscal deficit from 20.9 percent of GDP in 2016 to 13.7 percent. This was achieved by reducing current and capital expenditures, from 50.9 percent of GDP in 2016 to 44.8 percent in 2017, and higher fiscal revenues from higher oil prices. Nevertheless, Oman's sovereign credit rating was downgraded by Moody's in March 2018. The 2017 fiscal deficit was financed mainly through US\$6.5 billion in international bonds and

US\$1.3 billion drawdown on reserves. Total government debt increased to 46 percent of GDP in 2017 from 32.1 percent in 2016. On the other hand, total external debt reached 83 percent of GDP in 2017.

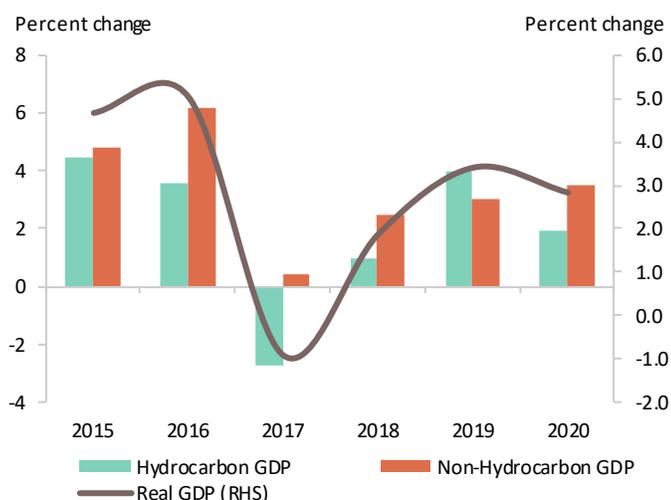
The current account deficit fell to 15.1 percent of GDP in 2017, from 18.7 percent of GDP in 2016, due to an improvement in the trade balance related to higher oil prices and non-hydrocarbon exports. Central Bank gross reserves fell to US\$16.1 billion in 2017 from US\$20.3 billion in 2016.

Monetary policy remains tight reflecting higher U.S. rates (CBO's policy rate increased by 80 bp). Private sector credit grew by 6.5 percent in 2017 down from 10 percent in 2016. The banking sector remains sound, with a low (2.4 percent) non-performing loan ratio.

Fuel subsidy reform has provided the basis for strengthening of the social safety nets. Under the registration-based National Subsidy System, eligible households receive 200 liters of petrol per month at a subsidized rate, currently around US\$0.47 per liter, a discount of 17 percent from the formula-based retail price. As of August, the monthly income threshold was raised from OR 600 to OR 950 (around US\$2500), covering close to two-thirds of Omani households. Eligibility for the program is based on ownership of a car or boat, so the program does not of itself cover the very poor.

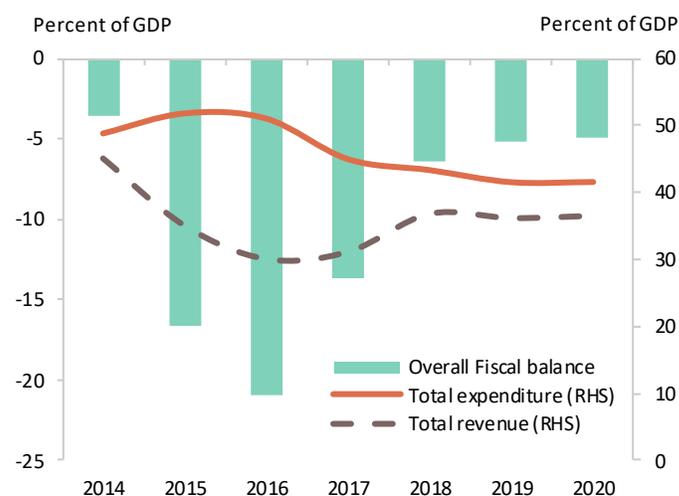
A primary concern amongst young Omanis is the lack of jobs. The most recent ILO estimate of unemployment was 17 percent in 2017, while youth unemployment is approximately 49 percent—a pressing challenge in Oman where over 40 percent

FIGURE 1 Oman / Real annual GDP growth



Sources: Omani Authorities, World Bank Staff estimates.

FIGURE 2 Oman / General government operations



Sources: Omani Authorities, World Bank Staff estimates.

of the population is under the age of 25. In the past the government resorted to public sector absorption of labor, which contributed to today's high wage bill (13 percent of GDP in 2016). In January 2018 the authorities also launched an initiative to provide 25,000 new jobs in the private sector and stopped issuing visas to expats for certain professions. Since December, 13,000 Omanis have been employed. Although the lack of jobs remains a significant problem, estimates suggest that private expenditure is set to increase in the second half of 2018, due to a rebound in the economy.

Outlook

Real GDP growth is projected to recover to 2.8 percent over the medium term in line with higher hydrocarbon production from Khazzan gas field and the unwinding of OPEC+, and the potential boost from diversification investments. Inflation is projected to accelerate to 3.2 percent by 2020 indirect taxes are introduced. Oman's main objectives include fiscal reform and diversification. The 2018 budget maintains a fiscal deficit reduction to 10

percent of GDP. Hydrocarbon revenue is budgeted to increase by 9 percent assuming oil price of US\$50, and non-hydrocarbon revenue by 5 percent from corporate income taxes. However, preliminary actuals indicate the 2018 fiscal deficit will likely be lower than budgeted, creating room for a "windfall" expansionary fiscal policy—first 5 months of 2018 show a y-o-y deficit reduction of 46.2 percent.

Oman's fiscal deficit is projected to narrow to 4.9 percent of GDP by 2020 with the firming of oil prices, and the introduction of excises and VAT. Although falling, persistent deficits mean government debt is projected to reach 50.6 percent of GDP by 2020, as the government seeks to finance infrastructure development (e.g. US\$1 billion for the Duqm SEZ). The current account deficit is forecast to gradually improve to 7.6 percent of GDP by 2020 as refined petroleum exports grow following the Sohar project, as gas production increases and as nonoil exports increase with the push towards diversification.

Diversification efforts are focused on facilitating growth in tourism, manufacturing, logistics and renewable energy; Oman Air is undergoing an expansion, visa requirements were relaxed, new urban zones are

being developed, and renewable energy projects are underway. The logistics sector is expected to see a boost as Qatari companies switch their shipping hubs from Dubai to Sohar. The National Program for Enhancing Diversification (or "Tanfeedh") established in 2016 includes initiatives to deepen business environment and labor market reforms that will be critical for successful diversification.

Risks and challenges

Macroeconomic and structural reforms to restore fiscal and external sustainability, maintain policy predictability, and support job creation, are the main policy challenges. In addition to the planned revenue-enhancing measures, expenditure reduction through wage bill and subsidy reform, along with more efficient public service delivery is critical.

The main risk to the economic outlook relates to a delay in adequate fiscal adjustment, which, in an adverse global environment of emerging market volatility and lower oil prices could worsen debt sustainability and negatively affect business confidence and cost of external financing.

TABLE 2 Oman / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2015	2016	2017	2018 e	2019 f	2020 f
Real GDP growth, at constant market prices	4.7	5.0	-0.9	1.9	3.4	2.8
Private Consumption	1.8	0.1	2.0	2.4	3.0	3.2
Government Consumption	-4.0	-1.5	-5.1	0.8	1.7	2.3
Gross Fixed Capital Investment	1.1	-0.7	-1.0	2.4	2.9	3.2
Exports, Goods and Services	-1.3	-10.2	-0.4	2.5	3.6	3.2
Imports, Goods and Services	-0.3	-16.0	-2.3	1.8	3.2	3.7
Inflation (Consumer Price Index)	0.1	1.1	1.6	2.1	3.0	3.2
Current Account Balance (% of GDP)	-15.9	-18.7	-15.1	-9.8	-8.8	-7.6
Fiscal Balance (% of GDP)	-16.7	-20.9	-13.7	-6.4	-5.2	-4.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.