

OMAN

Key conditions and challenges

Table 1 **2019**

Population, million	5.0
GDP, current US\$ billion	74.9
GDP per capita, current US\$	14971.7
School enrollment, primary (% gross) ^a	103.4
Life expectancy at birth, years ^a	77.6

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2018).

The economy is expected to contract very sharply in 2020 amid the weakness of oil prices and the disruptions from COVID-19. Fiscal and external deficits will remain under immense strain due to prolonged low oil and gas prices, elevating public and external debt. Key risks to the outlook are prolonged low oil prices, which will induce high external borrowing needs, and lack of impetus for private sector job creation that does not depend on government spending.

Economic disruption from the spread of COVID-19 and the oil price slump is significant. Following the 2014 oil price shock, fiscal and external vulnerabilities have greatly increased with the country experiencing double-digit fiscal and current account deficits since then. Pre-COVID-19, and despite efforts to expand the non-hydrocarbon revenue base, public spending remained heavily susceptible to oil price volatility, and key reforms such as the introduction of VAT taxes had been delayed. Persistently large fiscal and current account deficits since 2014 have resulted in higher debt levels at 64 percent of GDP (2019) and in a series of credit rating downgrades.

The devastating impact of COVID-19 on economic activity indicates that the public finances will remain under increasing pressure over the forecast period reinforced by severely subdued global energy prices. Although the introduced austerity measures will help to slow fiscal deterioration in 2020, the pressure on recurrent expenditure will remain as the government seeks to cushion the economic fallout from the pandemic.

Over the medium to long term, reforms that aim to tackling wage bill rigidities and cutting wasteful distortionary and inefficient budgetary spending are key to rebuilding fiscal space. Moving ahead with VAT reforms and mobilizing more

domestic revenues will be critical for fiscal sustainability. Failure to implement these reforms raises the risk of a more abrupt fiscal adjustment, when there is still an option for gradualism amid somewhat calmer financing conditions for emerging markets.

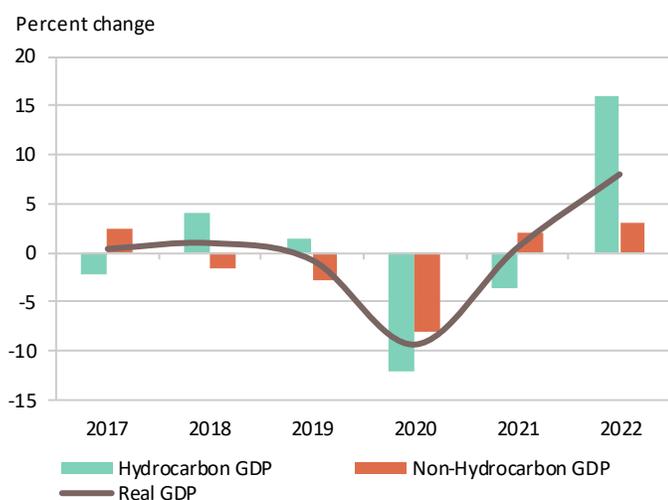
Disruptions related with COVID-19 and the associated measures to contain the virus outbreak had a negative effect on employment, in a context where young Omanis were already facing high unemployment rates and where affected sectors had high non-Omani employment.

Recent economic developments

The drop in oil prices and COVID-19 are placing unprecedented strain on Oman's economy. While no official data are available yet on the economy in 2020, preliminary data issued by the authorities indicate that Oman's nominal GDP has contracted by 3.9 percent in Q1/2020 (y/y); non-oil activities contracted by over 6 percent. Inflation has reached negative territory with -0.4 percent (y/y) in Q2/2020 reflecting weak domestic demand.

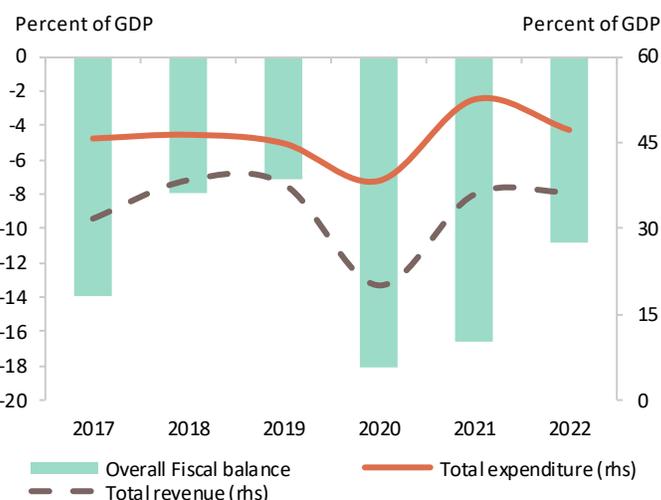
The sharp drop in oil prices in 2020 will take a heavy toll on public finances. Latest data reveals that total revenues declined by 22 percent in Q2/2020 (y/y), of which 20 percent comes from a decline in oil receipts. To compensate for the loss in revenues, the government announced in mid-April austerity measures to cut

FIGURE 1 Oman / Real annual GDP growth



Sources: Oman authorities; and World Bank staff projections.

FIGURE 2 Oman / General government operations



Sources: Oman authorities; and World Bank staff projections.

spending for all government agencies by 10 percent (about 5 percent of GDP). The persistently high fiscal deficit will raise the public debt-to-GDP ratio over 80 percent in 2020. In the emerging market space, Oman is slipping below investment grade due to its large financing needs and diminishing buffers.

Official data show that the trade surplus in Q1/2020 decreased by OR 88.6 million (US\$230 million), compared to the same quarter 2019, driven by a dip in the value of exports of almost 9 percent (y/y). A larger decline is expected in subsequent quarters as Q1 was still relatively unaffected by the pandemic.

Latest official data from the National Center for Statistics and Information shows that the unemployment rate in Oman was 2.5 percent in July of 2020, up from 2.1 percent in June. However, unemployment was significantly higher among the young population (aged 15 to 24), where it reached 8 percent. The gap in unemployment was especially large among the age group 25 to 29 years old, where female unemployment rate (23.7 percent) was far in excess of the male rate (1.7 percent). Between May of 2019 and 2020, the number of Omanis employed in the private sector fell slightly in 0.3 percent. In contrast, the number of expats working in the private sector decreased

11.7 percent from July 2019 to July 2020. To add flexibility in the labor market, the government has recently moved to end the requirement of a No Objection Certificate (NOC) affecting expatriate workers, starting on January 2021, facilitating non-Omanis to transfer to new employers once they complete their contract period.

Outlook

The economy is projected to sharply contract by over 9 percent in 2020, owing to depressed global demand for oil and the pandemic hit to the non-oil sector. The new OPEC+ oil cut agreement is putting significant pressure on the hydrocarbon sector, which is expected to contract by over 12 percent this year. The non-oil economy also faces significant pressure amid ongoing restrictions, with tourism and hotel sectors are among the hardest hit. If conditions ease, growth is projected to gradually pick up to an average of 4 percent in 2021-22, but very backloaded to 2022, partly due to a spike from the second phase of the Khazzan field. Gas field development has been critical to meet growing domestic and global demand, but it is not on a scale that is transformative in

its own right. Inflation will likely pick up to around 3 percent in 2021, reflecting the recovery of domestic demand and the introduction of VAT.

Despite expenditure restraint measures, the revenue shortfall and mitigation measures are estimated to increase the budget deficit to 18 percent of GDP in 2020. The current account is projected to be in deficit of around 14 percent of GDP in 2020, before starting to narrow down by 2022. The very gradual improvement in fiscal and external deficits is entirely dependent on the modest recovery path for oil prices, and in the meantime, debt will accumulate rapidly.

Due to the disruptions from COVID-19 and unfavorable global conditions, impacts in labor incomes are expected, especially in sectors such as tourism and services. Implementing a reform program that safeguards the most vulnerable while creating enough private sector jobs to deflect pressure on the public sector as the employer of last resort is critical to ensure sustained progress and safeguard the welfare of the population. The major institutional reshuffle in August, which delegated increased power from the Sultan to key ministries and consolidated public sector entities, signals a renewed high-level urgency to push forward with economic diversification.

TABLE 2 Oman / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	0.3	0.9	-0.8	-9.4	0.5	7.9
Private Consumption	8.7	2.1	0.9	-5.2	3.0	3.8
Government Consumption	0.8	2.7	0.3	-8.3	-2.8	2.9
Gross Fixed Capital Investment	-4.3	-5.3	-3.8	-7.6	-3.0	6.0
Exports, Goods and Services	-0.7	2.7	4.8	-9.5	4.7	5.7
Imports, Goods and Services	13.8	-4.4	-0.4	-10.3	4.4	6.0
Real GDP growth, at constant factor prices	0.3	0.9	-0.8	-9.4	0.5	7.9
Agriculture	8.7	27.9	2.0	3.8	3.9	4.5
Industry	-1.6	2.2	1.2	-7.6	1.5	7.0
Services	3.0	-2.3	-4.1	-13.3	-1.7	9.9
Inflation (Consumer Price Index)	1.6	0.9	0.1	-0.5	2.6	1.7
Current Account Balance (% of GDP)	-15.6	-5.4	-4.6	-14.4	-12.7	-6.2
Fiscal Balance (% of GDP)	-14.0	-7.9	-7.1	-18.1	-16.6	-10.8
Primary Balance (% of GDP)	-12.6	-5.8	-4.9	-15.1	-12.7	-7.3

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