OMAN

Table 1	2021
Population, million	5.2
GDP, current US$ billion	83.6
GDP per capita, current US$	16076.9
School enrollment, primary (% gross)[a]	104.5
Life expectancy at birth, years[a]	77.9
Total GHG Emissions (mtCO2e)	102.0

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2020); Life expectancy (2019).

After a difficult 2020, Oman's economy is on a solid recovery path amid easing pandemic pressures, higher hydrocarbon outputs, and wide-ranging government reforms. Frontloaded fiscal reforms including VAT and cuts in spending are expected to turn the fiscal and current account deficits into surpluses starting from 2022. Downside risks include resurgent pandemic pressures, volatility of oil prices, and slower implementation of the government's reform program. On the upside, rising hydrocarbon production, improved non-oil revenues, and expenditures rationalization would further strengthen fiscal and external positions.

Key conditions and challenges

Oman's economy was hit hard in 2020 by COVID-19 and its impact on hydrocarbon prices. Despite past diversification efforts, public finances and the external sector remain dependent on hydrocarbon and thus vulnerable to volatility of hydrocarbon prices. To address the persistent twin deficits that have resulted in a debt build-up, in 2020 the government embarked on an ambitious reform program. These include the Medium-Term Fiscal Balance Plan (MTFP) 2020-24, a fiscal consolidation program, which aims at putting public debt on a sustainable path through increased non-hydrocarbon revenues, expenditure rationalization and SOE reforms. Other measures to boost the non-hydrocarbon tradeable sector would further support a stronger external position over the long term. The implementation of the MTFP, coupled with ongoing structural reforms, are expected to facilitate private sector growth and job creation.

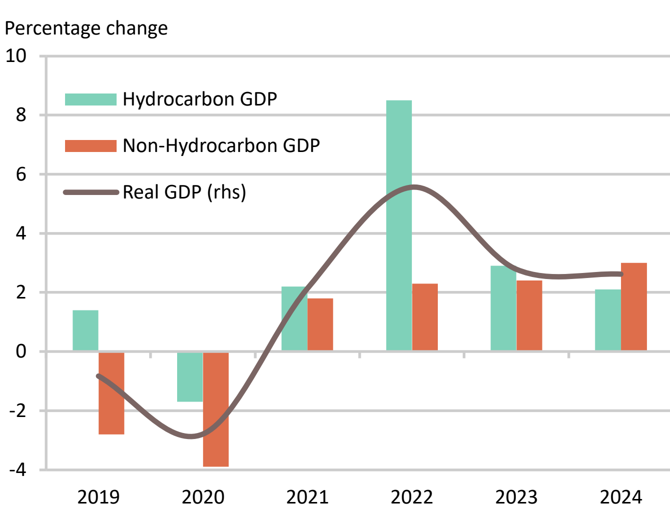
However, key challenges remain. These include renewed pandemic pressures and volatility of energy prices, which could increase gross financing needs and disrupt the government's reform program. Medium-term challenges relate to the ongoing global transition from fossil to greener energy sources, and its impact on Oman's fiscal and external sustainability. Fiscal consolidation could potentially give rise to social tensions, which could potentially undermine the reform momentum. Moreover, Oman is among the top Arab countries in terms of wheat imports from Russia, therefore, the ongoing conflict could cause a higher wheat import bill, which will likely be compensated by increased hydrocarbon exports receipts induced by the conflict.

Recent developments

Oman's economy is recovering gradually from the dual impact of the pandemic and the collapse in oil prices. Estimates suggest that overall growth reached 2.1 percent in 2021. Hydrocarbon GDP grew by an estimated 2.2 percent, driven by higher oil production due to the easing of OPEC+ cuts since mid-2021 and the coming on stream of a new liquified gas plant in mid-2021. Non-oil GDP is estimated to have rebounded by almost 2 percent in 2021, supported by the recovery of domestic and external demand aided by increased vaccine penetration, which boosted the most impacted sectors by the pandemic (tourism, hospitality, and retails). Annual inflation switched from the 2020 negative territory and picked up to an average 1.5 percent in 2021, due to the introduction of the VAT last April and improved domestic demand.

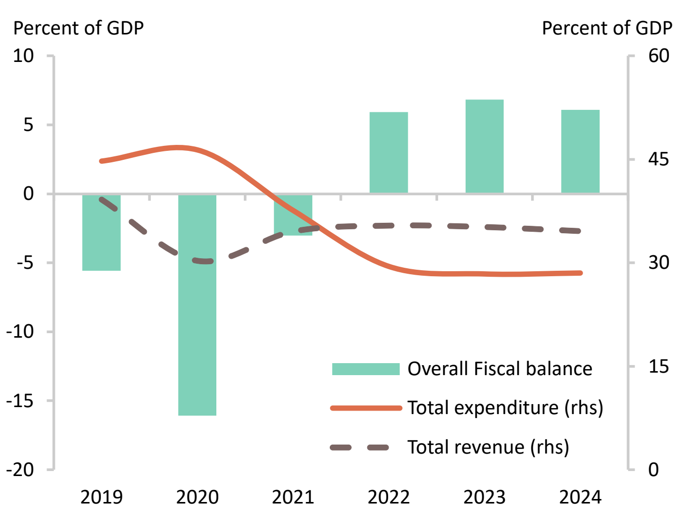
Public finances improved substantially in 2021. Higher hydrocarbon revenues together with fiscal adjustment measures, such as the streamlining of public expenditures primarily reflecting lower wage bill mainly from mandatory retirement, cuts to

FIGURE 1 Oman / Real annual GDP growth



Sources: Oman authorities; World Bank staff projections; and IMF.

FIGURE 2 Oman / General government operations



Sources: Oman authorities and World Bank staff projections.

utility subsidies and the introduction of VAT in April 2021, significantly lowered the deficit to an estimated 3 percent of GDP, compared with 16 percent in 2020. The favorable fiscal outcome is estimated to lead to a decline in the debt-to-GDP ratio to 65 percent in 2021 from over 71 percent in 2020.

Higher hydrocarbon exports, reduction in public investment expenditure, and Omanization efforts that led to lower outward remittances all contributed to the marked decline in the current account deficit estimated to reach less than 4 percent of GDP in 2021, compared with 12 percent in 2020. As a result, the central bank gross reserves bolstered to US$19 billion (6 months of imports of goods and services) in 2021, a US$5 billion increase from 2020.

The unemployment rate dropped to 1.9 percent in December 2021, below the pre-pandemic rate (2.8 percent in December 2019). Unemployment remains higher among youth (aged 15-24), and particularly among young women (25.6 percent). The private sector continues to be the largest contributor to Omanis employment. After a decline in 2020, the number of Omanis employed in the private sector has bounced back, and as of December 2021 it is estimated at about 267,000 compared to an average of about 262,300 in 2019. By contrast, the number of expatriates employed in the private sector has declined considerably, most notably in manufacturing and construction.

Outlook

Oman's economy is expected to improve gradually and strengthen over the medium-term, supported by higher oil and gas production and the ongoing structural reforms. Growth is projected to pass 5 percent in 2022 underpinned by more than 8 percent growth in the hydrocarbon sector, boosted by increased production of liquified natural gas in the key Ghazeer and Khazzan fields. The non-oil economy will continue to grow, exceeding 2 percent in 2022, as fast vaccine rollout strengthens domestic activity. Over the medium term, growth will decelerate to an average of 2.7 percent per year in 2023-24, while the hydrocarbon sector will remain the main driver of growth. If the war in Ukraine escalates, Oman, like other GCC producers, may ramp up hydrocarbon output to satisfy the oil market, thereby providing upside risk to GDP growth. Inflation is forecast to pick up to over 3 percent in 2022 as the recovery in demand and the VAT impact continue to feed into prices, before declining to an average of 2 percent in 2023-24.

The fiscal outturn is expected to switch into a surplus of nearly 6 percent of GDP in 2022 and to continue improving in 2023-24, due to higher hydrocarbon revenues and steady implementation of fiscal adjustment measures. The public debt-to-GDP ratio is forecast to gradually decline to an average of 38 percent over 2022-24.

Higher oil prices and export diversification are expected to improve the current account balance to a surplus above 5 percent of GDP in 2022 and remain in positive territory over 2023-24, allowing the accumulation of gross foreign reserves to over US$28 billion on average in 2022-24 (or 8 months of imports of goods and services). Higher hydrocarbon prices and continued implementation of structural reforms would considerably improve the outlook.

TABLE 2 Oman / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	-0.8	-2.8	2.1	5.6	2.8	2.6
Private Consumption	0.9	-2.0	2.2	4.1	3.0	2.5
Government Consumption	0.3	-3.0	-2.0	-1.4	-1.7	-1.6
Gross Fixed Capital Investment	-3.8	-4.3	2.7	4.4	3.8	4.2
Exports, Goods and Services	4.8	-8.0	5.7	8.3	6.0	5.5
Imports, Goods and Services	-0.4	-10.5	5.5	6.5	5.9	5.4
Real GDP growth, at constant factor prices	-0.8	-2.8	2.1	5.6	2.8	2.6
Agriculture	2.0	3.5	2.4	3.6	3.7	3.7
Industry	1.2	-4.7	1.8	5.8	3.5	1.7
Services	-4.2	-0.1	2.5	5.5	1.7	4.0
Inflation (Consumer Price Index)	0.1	-0.9	1.5	3.4	2.1	2.0
Current Account Balance (% of GDP)	-5.5	-11.9	-3.7	5.6	5.3	3.4
Fiscal Balance (% of GDP)	-5.6	-16.1	-3.0	5.9	6.8	6.1
Debt (% of GDP)	60.5	71.1	65.3	47.0	37.2	30.8
GHG emissions growth (mtCO2e)	2.7	-0.3	21.1	12.9	10.1	-18.1
Energy related GHG emissions (% of total)	84.1	84.0	85.3	86.1	86.5	83.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.