OMAN

Table 1	2018
Population, million	4.8
GDP, current US$ billion	79.3
GDP per capita, current US$	16424
School enrollment, primary (% gross)[a]	107.2
Life expectancy at birth, years[a]	77.3

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2017).

Growth is expected to increase over 2020-21, driven in part by a large increase in gas production from the new Khazzan gas project, and infrastructure spending plans in both oil and non-oil sectors. Elevated spending, however, will keep the fiscal deficit high, averaging over 8 percent of GDP over the forecast period, and raise public debt to 66 percent of GDP. High fiscal and current account deficits and rising public debt indicate that Oman's financing needs will be high in the coming years. Plans to boost non-oil revenues and additional fiscal consolidation measures are needed to reduce macroeconomic risks in the medium term.

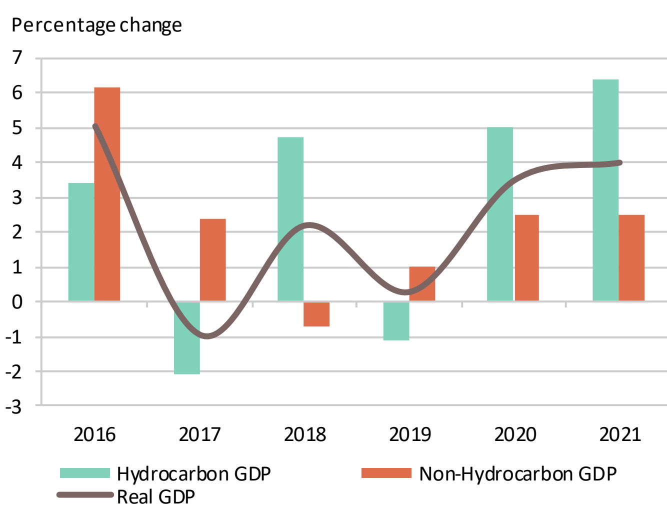
Recent developments

Following a recovery of 2.2 percent in 2018, Oman's real GDP growth is estimated to decelerate to 0.3 percent in 2019 as oil production remains capped by the OPEC+ production cut agreement. Lower hydrocarbon production is estimated to weigh on the contribution of the sector to GDP growth this year, contracting it to an estimated 1.1 percent, from a growth of 3.1 percent in 2018. The non-oil economy is estimated to grow by 1.5 percent, partly supported by the ongoing diversification through the Tanfeedh program aimed at supporting activities in key sectors, namely logistics, tourism, transport, mining, manufacturing, and fisheries. Inflation is estimated to remain subdued at 0.8 percent in 2019, reflecting weak domestic demand. Although the authorities implemented an excise tax in mid-June, they revised down the rate of tax on alcohol from 100 to 50 percent only a few days later.

Fiscal rigidities have made fiscal consolidation difficult. While narrowing compared to 2018, Oman's fiscal deficit is expected to remain large at an estimated 7.2 percent of GDP in 2019. So far, fiscal consolidation has been achieved by a reduction in spending, one-off revenue increases, and the recent adoption of the new excise tax decree on selected products. As a result, non-oil revenues are likely to see added momentum in 2019, increasing by 1.5 percentage points of GDP. In July 2019, Oman's statistics center published monthly data showing that the fiscal deficit for the first five months fell by 67 percent (y-o-y) and a modest decline in the overall expenditures (mainly capital spending) by 4.3 percent same period. The published data also reveals a 15.3 percent increase in total revenue drive by corporate income tax and undefined other revenue. However, with oil accounting for over 53 percent of the income and given the projected lower oil prices, the fiscal deficit will remain high, indicating the need to undertaking fundamental fiscal reforms. In July 2019, MoF sold US$3 billion of US dollar-denominated bonds to finance the widening deficit, which should be sufficient to meet financing needs for 2019.

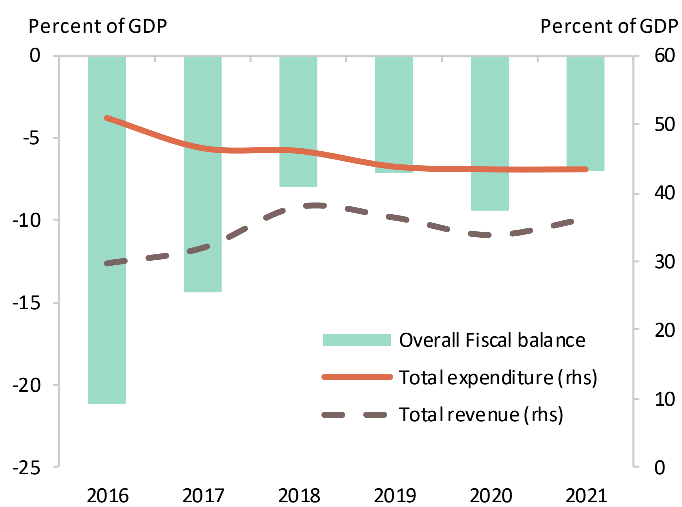
The current account deficit is estimated to increase to 7.7 percent of GDP in 2019 driven by the drop-in oil prices. The extensive investment program in the public and private sectors is contributing to the current account deficit. Reflecting the current account deficit, foreign reserves are estimated to drop to an estimated US$16 billion (or 5 months of imports), from US$17.4 billion in 2018 (or 5.8 months of imports), despite the recent bond issuance; the standard three-month threshold for emerging markets is somewhat alleviated by liquid assets in other funds and SOEs. Persistent large fiscal and external deficits have contributed to sharply rising debt levels. Public debt-to-GDP is estimated to increase to 60 percent in 2019 from 53 percent in 2018. External debt is estimated to remain high at 106 percent of GDP in 2019, a 12.8 percent

FIGURE 1 Oman / Real annual GDP growth



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

FIGURE 2 Oman / General government operations



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

increase compared to 2018. These high vulnerabilities have led to a series of sovereign credit rating downgrades and an increase in funding costs.

A lack of jobs remains a key concern amongst young Omanis. Latest data from Oman's statistical center reveals that the unemployment rate for Omani youth aged (15-24) stood at 8.5 percent as of June 2019 (versus a 2.3 percent national unemployment rate) but is more than twice higher (19 percent) among females in the same ages group.

Oman has long used selective expat visa bans across various private sector industries to reduce the number of unemployed locals. The ban has been extended many times with the latest extension came into force in July 2019 to include four more professions in the private sector. According to official figures, the number of legally employed expats fell by over 5 percent between January 2018 and July 2019, and currently stands at 1.75 million, down from 1.85 million in January 2018 (100,000 expats less). The government's long-term strategic Vision 2040 and the 2021–25 development plan, which are currently being formulated, give more prominence to spur economic diversification and job creation.

Outlook

Growth is expected to accelerate to 3.7 percent in 2020 driven largely by the rise in natural gas output as production from new fields comes on stream. The potential boost of the government's diversification efforts would continue to facilitate an increase in non-hydrocarbon growth to about 4 percent annually in the medium-term. Inflation is expected to increase to almost 2 percent in 2020, and to further accelerate to nearly 4 percent in 2021, reflecting the possible introduction of VAT.

In the absence of further significant fiscal reform, the budget deficit is projected to remain high at an average of over 8 percent of GDP in 2020-2021. The current account deficit is also projected to increase to an average of 8 percent of GDP mainly due to higher imports. Gross reserves are forecast to remain stable at US$16 billion in 2020 and the medium term, reflecting the current account deficit and possible increase in international government bond issuance, but to cover less than 5 months of imports in 2020 and beyond. Although narrowing, the persistently high fiscal deficit is expected to raise the public debt-to-GDP ratio to an average of 66 percent over 2020-2021. External debt is projected to further increase to 116 percent of GDP by 2021 largely driven by the high level of private external debt.

Risks and challenges

Although Oman's policy efforts have aimed to strengthen the fiscal position, enhance private sector-led growth and employment, and encourage diversification since the 2014 oil price shock, major concerns remain. Continued worsening of the fiscal and debt positions could result in higher financing costs and further sovereign rating downgrades. Difficulties in accessing external financing could lead to greater reliance on domestic bank financing, squeezing private sector credit and affecting growth. Additional consolidation based on a balanced approach combining measures to tackle current spending rigidities (wage bill and subsidies) and streamline capital outlays, would help alleviate some of these concerns. Providing more job opportunities remain an important challenge given higher unemployment rates among youth Omanis.

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

	2016	2017	2018	2019 e	2020 f	2021 f
Real GDP growth, at constant market prices	5.0	-0.9	2.2	0.3	3.5	4.0
Private Consumption	5.2	0.9	1.3	1.2	1.0	2.7
Government Consumption	-9.7	-0.7	0.3	0.4	0.5	1.3
Gross Fixed Capital Investment	16.5	-3.9	0.6	3.3	3.4	3.8
Exports, Goods and Services	-2.8	12.9	4.4	5.4	4.8	5.0
Imports, Goods and Services	-12.0	10.2	4.1	4.5	4.0	4.9
Real GDP growth, at constant factor prices	5.0	-0.9	2.2	0.3	3.5	4.0
Agriculture	8.3	9.0	9.1	9.5	9.7	8.6
Industry	4.6	-2.5	-0.9	2.8	3.5	3.1
Services[a]	5.5	1.0	6.4	-3.5	3.2	5.0
Inflation (Consumer Price Index)	1.1	1.6	0.9	0.8	1.8	3.8
Current Account Balance (% of GDP)	-18.7	-15.3	-5.5	-7.7	-9.0	-7.0
Fiscal Balance (% of GDP)	-21.2	-14.4	-7.9	-7.2	-9.4	-7.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Service is recalculated as the residual of GDP at Factor Cost minus Agriculture and Industry, and therefore might be different from official sources.