OMAN

Table 1

<table>
<thead>
<tr>
<th>2021</th>
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</thead>
<tbody>
<tr>
<td>Population, million</td>
<td>5.2</td>
</tr>
<tr>
<td>GDP, current US$ billion</td>
<td>85.9</td>
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<tr>
<td>GDP per capita, current US$</td>
<td>16,440.5</td>
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<tr>
<td>School enrollment, primary (% gross)</td>
<td>104.5</td>
</tr>
<tr>
<td>Life expectancy at birth, years</td>
<td>78.1</td>
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<tr>
<td>Total GHG emissions (mtCO2e)</td>
<td>102.0</td>
</tr>
</tbody>
</table>

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

a/ Most recent WDI value (2020).

Key conditions and challenges

Oman’s economy remains highly dependent on oil and natural gas. Despite diversification efforts, hydrocarbon revenues continue to account for about 80 percent of total budget revenues. As such, the Sultanate suffered from the pandemic-induced recession and the collapse of oil prices, which amplified fiscal and external vulnerabilities. These have added to the pre-existing upward trend of debt accumulation. Recognizing the severity of the crisis, the government announced the Medium-Term Fiscal Balance Plan (MTFP) 2020-24 in 2020 with several fiscal adjustment reforms aiming at boosting non-hydrocarbon revenues, rationalizing expenditures, and placing public debt on a sustainable path. A new economic stimulus plan was later announced in March 2021 to address the continued economic decline and promote diversification, including the strengthening of the business and investment environment.

Higher oil and gas production, the lifting of all pandemic restrictions, and ongoing efforts to diversify the economy away from the hydrocarbon sector will strengthen growth potential. Diversification efforts include, but are not limited to, streamlining the wage bill, targeting subsidies, and fostering a friendly business environment. The windfall from higher hydrocarbon prices supported by fiscal adjustment measures is expected to significantly improve fiscal and external balances, turning them into surpluses from 2022 through the forecast horizon and leading to a sharp fall in the debt-to-GDP ratio.

While Oman’s economic outlook is encouraging, challenges remain. These include uncertainties surrounding new COVID-19 variants, intensification of climate change shocks, and macroeconomic volatility. Downside risks stem from unfavorable oil prices, tightening of global financial conditions, and increased inflationary pressures from higher global commodities prices, which could reintroduce financing challenges. On the upside, longer-than-forecast high oil prices accompanied with steadfast implementation of the MTFP would materially improve the outlook and support advancing climate change agenda, digitalization, and spur a strong, inclusive, and green recovery.

Recent developments

Oman’s economy is gradually strengthening largely driven by the buoyant hydrocarbon sector and continued recovery in non-hydrocarbon activities. Official data reveals that the real economy grew by 2.1 percent in the Q1 2022 supported by strong performance in the hydrocarbon sector, which grew by 8 percent. In contrast, the non-hydrocarbon economy contracted by 0.4 percent due to a sharp drop in the agricultural sector (driven by droughts) and the contraction in non-oil industry, (mainly in the construction sector as a result of higher input prices).
Inflation picked up to an average of 3.2 percent in the first 7 months of 2022 reflecting the recovery of domestic demand and rising global food and commodities prices. Public finance data reveals a substantial increase in budgetary revenues (almost 54 percent) during the first seven months of 2022 (7M-22) mainly driven by higher hydrocarbon receipts and higher non-hydrocarbon revenues. On the expenditures side, the government continued the implementation of fiscal discipline measures by introducing public wage bill reforms and rationalizing subsidies and transfers. As a result, Oman’s fiscal position shifted to a US$2.7 billion surplus (nearly 2.4 percent of GDP) during 7M-22, against a US$3.1 billion deficit (3.7 percent of GDP) in 7M-21.

The trade balance surplus widened in the first 5 months of 2022 to US$10 billion (9 percent of GDP) compared to US$3.4 billion (4 percent of GDP) during the same period of last year. The surplus is driven by higher merchandised exports, of which 78 percent is hydrocarbon-based. This significantly pushed foreign reserves up (to US$17 billion in June 2022).

The performance of the labor market is mixed. While the unemployment rate in Oman improved sharply (1.9 percent in July 2022 compared to 3.2 percent in July 2021), unemployment is significantly higher among the young population (aged 15 to 24: 10.8 percent) and among women, (5.8 percent). The number of Omanis employed in the private sector increased by 9.7 percent between July 2021 and July 2022. This is considerably below the increase in the number of expatriates working in the private and family sectors, which increased by 15 percent and 14 percent, respectively. By contrast, expatriates working in government dropped by 24.3 percent.

The new labor law, under discussion, is expected to increase female labor force participation, encourage private sector jobs for Omani nationals, and raise competitiveness.

## Outlook

The economy is projected to continue its recovery and strengthen over the medium-term driven by robust energy prices, expansion of oil and gas production, and wide-ranging structural reforms. The hydrocarbon sector will remain the driving force of the economy, which is projected to grow by over 8 percent in 2022 and to remain strong during 2023-24. The non-oil economy is anticipated to continue its recovery trajectory and grow by 3 percent annually during the period 2022-24 supported by stronger exports and logistics sectors, increased industrial capacity from renewable energy, and the resurgence in tourism. Against this background, GDP growth is forecast to exceed 4 percent in 2022 before moderating to an average of 3 percent in 2023-24. Inflation is forecast to pick up to 3.2 percent in 2022 to reflect domestic demand recovery and higher prices of imports but to moderate in the following years. Public finances are forecast to gradually improve supported by higher hydrocarbon receipts and the implementation of fiscal consolidation measures under the MTFP. As a result, the overall fiscal deficit is expected to turn into a surplus of nearly 6 percent of GDP in 2022—the first surplus in almost a decade—reducing gross financing needs. The budget surplus is forecast to average almost 3 percent in the medium term supported by continued fiscal reforms. Accordingly, the public debt-to-GDP ratio is anticipated to significantly decline to an average of 44 percent in 2022-24 from 63 percent in 2021.

The external balance is swinging back into surplus (6 of GDP in 2022)—the first surplus in 7 years—on the back of higher oil receipts and recovery in non-oil exports. Gross foreign reserves are estimated to surge to over US$24 billion (over 6 months of imports) in 2022 and to remain elevated over the medium-term supported by more favorable terms of trade.