

OMAN

Key conditions and challenges

Table 1 **2020**

Population, million	5.1
GDP, current US\$ billion	63.5
GDP per capita, current US\$	124510
School enrollment, primary (% gross) ^a	102.9
Life expectancy at birth, years ^a	77.9
Total GHG Emissions (mtCO ₂ e)	86.9

Source: WDI, Macro Poverty Outlook, and official data.
(a) Most recent WDI value (2019).

The economy is expected to recover gradually after a difficult 2020. Oil and non-oil growth are projected to rebound as oil production increases and widespread vaccine distribution boosts domestic activity. Fiscal and external deficits are projected to swing into surplus driven by the oil market recovery and the fiscal adjustment, putting the debt on a downward path. Key risks arise from oil price down cycles, protracted economic scarring from a prolonged pandemic and potential social pressures.

Oman faced significant economic disruption from the twin shocks of COVID-19 and oil price collapse, amplifying fiscal and external vulnerabilities. Despite past efforts to expand non-hydrocarbon revenue, public spending remained heavily susceptible to oil price volatility, with hydrocarbon sector accounting for over 41 percent of GDP (2019). Persistent large fiscal and current account deficits have resulted in further debt build up, a series of credit rating downgrades, and sizable financing needs. Structural vulnerabilities arise also from the dominant role of the state in the economy, heavy reliance on hydrocarbon revenue, unviable private sector, and low competitiveness, among other.

Recognizing the severity of the crisis, the government announced the Medium-Term Fiscal Balance Plan (MTFP) 2020-24 at end-2020 with several fiscal adjustment reforms aiming to boost non-hydrocarbon revenues, rationalize expenditures and put public debt on sustainable path. However, the success of these reforms ultimately depends on political will and public support to implement them. For example, the increase of electricity subsidies introduced last August will delay the previously announced subsidy reform under the MTFP, making the goal of austerity measures very challenging. Key challenge is to translate the government reforms

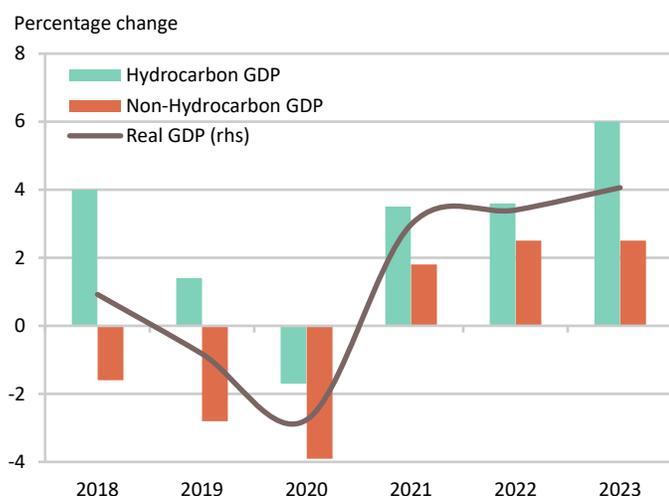
plan into concrete and credible actions to ensure inclusive growth.

Recent developments

Oman's economy is gradually emerging from last year contraction as COVID-19 pandemic battered key sectors such as energy, tourism, and manufacturing. While no official data are available yet on the real economy in 2021, preliminary nominal data indicate that Oman's nominal GDP contracted by 2.5 percent in Q1-2021 (y/y), mainly due to the negative performance of the oil sector which contracted by 20.6 percent (y/y) capped by OPEC+ commitment. Non-hydrocarbon output increased by 5.7 percent driven by swift policy response to the pandemic. Inflation switched from last year negative territory and picked up to an average of 0.2 percent (y/y) in the first half 2021 (H1-2021) due to the introduction of the VAT last April and partial rebounding in domestic demand.

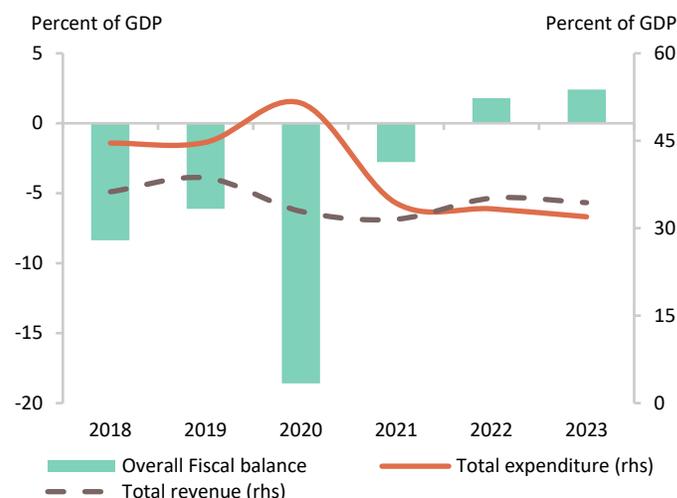
Official data for the first half 2021 (H1-21) reveals a substantial decline in budgetary revenues (down 9.7 percent y/y) as oil revenues dropped by almost 12 percent. As such, the country posted a fiscal deficit of 3.7 percent of GDP (y/y) versus 3.2 percent of GDP same period last year. On the upside, ongoing fiscal reforms to diversify revenue sources along with the above-mentioned VAT introduction, led to 31 percent (y/y) increase in non-oil revenues. Going forward, oil market recovery and fiscal restraints are projected to improve

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.

Oman's public finances, with the public debt-to-GDP ratio expected to decline by over 10 percentage points in 2021.

Available data indicate that the trade balance recorded a surplus of over 6 percent of GDP (y/y) in the first five months 2021 (5M-21), up by 0.8 percentage points of GDP the 5M-20. This is driven by high merchandised exports of US\$2.8 billion, of which US\$2.3 billion is related to the hydrocarbon sector. This is expected to be a key factor behind narrowing the current account deficit by end-2021.

Latest official data from the National Centre for Statistics and Information shows that the unemployment rate in Oman was 3.2 percent in July 2021, down from 3.9 percent in June 2021. However, unemployment among the young population (aged 15 to 24) was significantly higher, reaching 19.6 percent, and among women whose unemployment rate was 10.1 percent. The gender gap in unemployment was especially large among the 25 to 29 years old, where female unemployment rate (27.0 percent) was more than ten times the male rate (2.1 percent). Between July of 2020 and 2021, the number of Omanis employed in the private sector remained virtually constant. In contrast, the number of expatriates working in the private sector decreased by 10 percent in the first 7M-21 (y/y), driven by reduction in

the number of workers in the manufacturing and construction services.

Outlook

The economy is forecast to gradually rebound driven by higher oil prices and development of the hydrocarbon sector. The oil sector will remain the driving force of the economy, which is projected to grow by 3.5 percent in 2021 and accelerate to 6 percent by 2023, driven by higher oil output. The non-oil economy is forecast to post a modest recovery of 1.8 percent in 2021 as the fast-spreading delta variant continues to cause intermittent lockdown, before picking up to an average of 2.5 by 2022-23 supported by lifting the restrictions and the resurgence in tourism. Inflation is projected to pick up to 3 percent in 2021, owing to the recovery of domestic demand and introduction of VAT, but then to decline as the VAT-driven impact on inflation dissipates.

Public finances will gradually improve thanks to higher oil prices and accelerating fiscal consolidation committed under the MTFP. The fiscal deficit is expected to narrow to almost 3 percent of GDP in 2021 as revenues rebound and spending is reduced following the pandemic-related overshoot in 2020. It is then projected to

switch to a surplus averaging 2.1 percent in 2022-23 supported by steady implementation of the fiscal reforms, and removal from the budget of expenses related to Petroleum Development Oman (PDO), with the restructuring of the oil and gas sector in the new entity Energy Development Oman (EDO).

Oil recovery and export diversification are projected to narrow the current account deficit to 5 percent of GDP in 2021, reversing the nearly 14 percent of GDP deficit observed in 2020. The current account balance will significantly improve in 2021-23 driven by the diversification efforts, but to remain in negative territory given large import inputs. Following a US\$1.7 billion decline in 2020, gross foreign reserves are estimated to remain stable at US\$15 billion (over 5 months of imports) in 2021 and beyond supported by more favorable terms of trade. Downside risks stem from the emergence of COVID-19 variants and renewed lockdown measures which could aggravate economic scarring and impede reforms. Oil price volatility and insufficient fiscal adjustment could worsen the twin deficits and increase gross financing needs. Fiscal consolidation could also give rise to social tensions, thus undermining the reform drive. On the upside, a further rise in oil prices accompanied with a successful implementation of the reforms would improve the outlook.

TABLE 2 Oman / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	0.9	-0.8	-2.8	3.0	3.4	4.1
Private Consumption	2.2	0.9	-2.5	3.1	3.0	2.8
Government Consumption	2.7	0.3	-3.6	-1.2	-0.6	-0.6
Gross Fixed Capital Investment	-5.5	-3.8	-4.4	1.5	3.5	3.8
Exports, Goods and Services	2.6	4.8	-8.6	6.3	6.6	6.7
Imports, Goods and Services	-4.4	-0.4	-10.0	5.2	6.1	4.9
Real GDP growth, at constant factor prices	0.9	-0.8	-2.8	3.0	3.4	4.1
Agriculture	28.3	2.0	4.0	1.5	3.5	4.0
Industry	2.2	0.5	-1.1	2.4	2.6	3.7
Services	-2.4	-3.2	-6.1	4.1	4.8	4.6
Inflation (Consumer Price Index)	0.9	0.1	-0.9	3.1	2.8	2.5
Current Account Balance (% of GDP)	-5.4	-5.5	-13.6	-5.0	-1.1	-0.8
Fiscal Balance (% of GDP)	-8.4	-6.1	-18.6	-2.8	1.8	2.4
Primary Balance (% of GDP)	-6.3	-3.9	-15.8	-0.2	4.1	4.4
GHG emissions growth (mtCO2e)	4.8	2.7	2.8	8.8	10.4	11.3
Energy related GHG emissions (% of total)	83.8	84.1	84.5	84.1	84.6	85.2

Source: World Bank, Poverty & Equity and Macro economics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate. f = forecast.