OMAN

Table 1	2020
Population, million	5.1
GDP, current US$ billion	63.3
GDP per capita, current US$	12389.1
School enrollment, primary (% gross)[a]	102.9
Life expectancy at birth, years[a]	77.6

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) WDI for School enrollment (2019); Life expectancy (2018).

Rapid and well-coordinated measures have limited the spread of COVOD-19, but lockdown restrictions weighed heavily on economic activity in 2020. The slump in oil prices and exports have significantly widened fiscal and external deficits and resulted in higher public debt and financing risks. The outlook assumes containing the pandemic, avoidance of another oil price plunge, and successful implementation of fiscal consolidation plans. Materialization of downside scenarios would heighten external financing pressures.

Key conditions and challenges

The twin shocks of Covid-19 and lower oil prices are placing significant and adverse impact on Oman's hydrocarbon-dependent economy. These events pose a new risk to the fiscal and external positions, which have been fragile since the 2014 oil price shock. Despite past efforts to diversify the economy away from oil into sectors such as logistics and tourism and restrain public spending, the hydrocarbon sector continues to account over 34 percent of GDP (2019) and because of the complex nature of Oman's oil and gas resources, the hydrocarbon sector has large investment financing needs. Persistent large fiscal and current account deficits have resulted in further debt build up, a series of credit rating downgrades, and sizable financing needs.

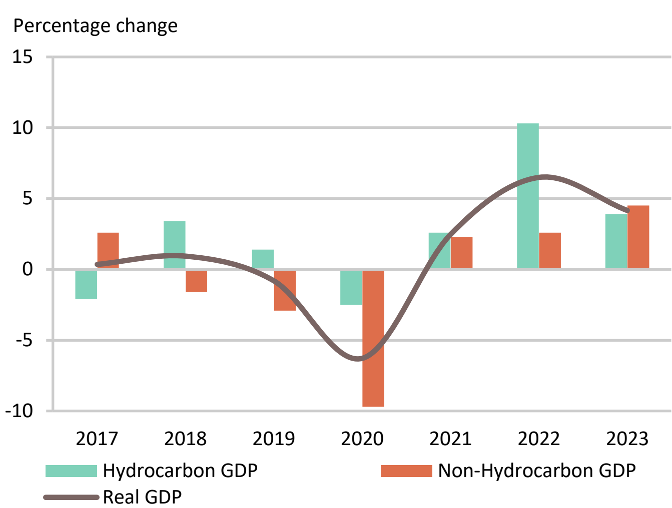
Reflecting the aggravation of the pre-existing fiscal challenge, the government announced the Medium-Term Fiscal Balance Plan (MTFP) 2020-24 at end-2020 with several fiscal adjustment reforms aiming to delink the economy from spending of oil revenues and put public debt on a sustainable path. However, challenges remain. Containing the virus, providing support to vulnerable households and overcoming vaccine-rollout challenges are key immediate priorities. While ambitious reforms are needed to rekindle job growth for nationals, the typical model of services-led growth was already facing pandemic-related risks and oil market volatility. While Oman has had some notable success in reducing and targeting subsidies, such as with petroleum products, there are still expectations of the state as a job provider in a context where young Omanis were already facing high unemployment rates.

Recent developments

Overall growth is estimated to have contracted by 6 percent in 2020. This is mainly driven by more than 9 percent contraction in non-oil GDP as the subsequent lockdown measures weighed heavily on domestic demand where tourism and services sectors have suffered the most. A significant increase in the production of condensates that is not subject to OPEC+ cut deal, has helped the oil sector to adapt to the crisis, at least in volume terms, with oil GDP has seen only 2 percent contraction. Inflation turned negative at -1.0 percent (y/y) in 2020 reflecting weak domestic demand.

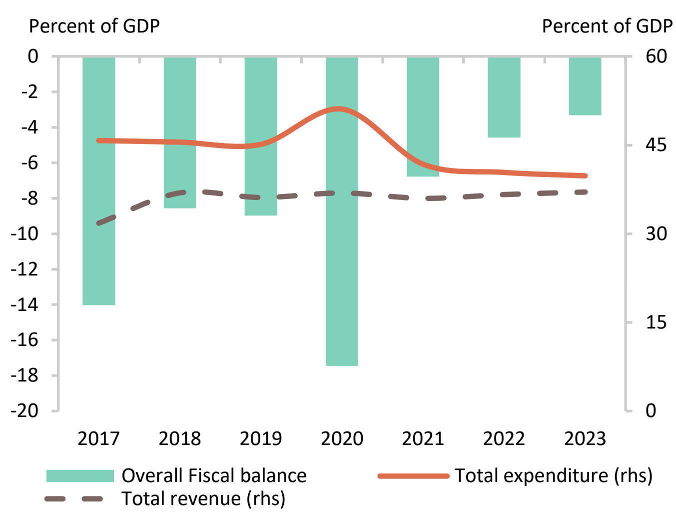
Despite attempts to restrain spending, fiscal stimulus and relief measures in response to COVID and the sharp shortfall in hydrocarbon revenues have widened the fiscal deficit to over 17 percent of GDP in 2020, primarily financed by withdrawal of reserves and external bond issuance and other external loans. The latest imbalance on top of post-2014 deficits pushed the public debt-to-GDP ratio to an estimated 81 percent in 2020.

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.

Lower exports and increased income payments have almost doubled the current account deficit to 10.4 percent of GDP in 2020, up from 5.5 percent in 2019. International reserves witnessed a modest decline of US$15 billion in 2020 (or 6.5 months of imports) helped by Eurobond issuance and stable FDI inflows, according to IMF latest estimates.

Latest official data from the National Centre for Statistics and Information shows that the unemployment rate in Oman was 3.0 percent in January of 2021, slightly up from 2.9 percent in December of 2020. However, the unemployment rate was significantly higher among the young population (aged 15 to 24), where it reached 15.6 percent, and among women whose unemployment rate was 10.2 percent. The gender gap in unemployment was especially large among the age group 25 to 29 years old, where female unemployment rate (26.2 percent) was far higher than the male rate (1.8 percent). Pandemic impacts fell heavily on migrant labor: between January of 2020 and 2021, the number of Omanis employed in the private sector fell in 3.1 percent. In contrast, the number of expatriates working in the private sector decreased 14 percent from January 2020 to January 2021.

Outlook

Overall growth is projected to post a tepid recovery of 2.5 percent in 2021 supported by the vaccine roll-out and the ease in lockdown restrictions. A backloaded rebound will see growth peak at 6.5 percent in 2022 lifted by rising oil prices, and further development of the hydrocarbon sector, before declining to 4 percent in 2023 in view of fiscal austerity measures. Inflation is projected to pick up to 3 percent in 2021, reflecting the recovery of domestic demand and the April 2021 introduction of VAT, but to decline in the years to come as VAT-driven impact on inflation dissipates.

A substantial increase in fiscal revenues (mainly driven by introducing 5% VAT in April 2021) and a reduction in spending, are expected to narrow the fiscal deficit to less than 7 percent of GDP in 2021. This positive trend could be also supported by the removal from the budget of expenses related to Petroleum Development Oman (PDO) with the restructuring of the state role in the oil and gas sector in the new entity Energy Development Oman. The fiscal deficit is projected to keep declining to an average of 4 percent over 2022-23 aided by increased gas production and steady implementation of the fiscal reforms outlined in the medium-term plan. Large financing needs estimated at 14 percent of GDP in 2021 will keep the debt-to-GDP ratio elevated over 70 percent in the forecast period.

The current account deficit is projected to show a modest decline of 8 percent of GDP in 2021, before starting to narrow down further reflecting more favorable terms of trade.

Downside risks may include the possibility of pandemic flare-ups, which would imply further strict lockdown measures and severely curtailed private sector activity. Further plunges in oil prices or delays in fiscal adjustment will worsen fiscal and debt positions, leading to higher external financing needs at a time when emerging market debt appetite might be lower than it is today. If this led to procyclical fiscal policy (e.g., further fiscal austerity measures), there would be additional drag to the recovery.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	0.9	-0.8	-6.3	2.5	6.5	4.2
Private Consumption	2.1	0.9	-5.4	3.4	3.8	3.5
Government Consumption	2.7	0.3	-8.0	-4.6	-4.2	-2.3
Gross Fixed Capital Investment	-5.3	-3.8	-7.8	2.6	4.2	3.7
Exports, Goods and Services	2.7	4.8	-8.2	5.5	6.2	5.7
Imports, Goods and Services	-4.4	-0.4	-10.2	4.5	5.4	5.0
Real GDP growth, at constant factor prices	0.9	-0.8	-6.3	2.5	6.5	4.2
Agriculture	27.9	2.0	3.3	3.4	3.4	3.5
Industry	2.2	1.2	-4.9	2.2	4.8	4.0
Services	-2.3	-4.1	-9.4	2.8	9.6	4.5
Inflation (Consumer Price Index)	0.9	0.1	-1.0	3.0	2.5	2.6
Current Account Balance (% of GDP)	-5.6	-5.5	-10.4	-8.1	-5.2	-4.3
Fiscal Balance (% of GDP)	-8.6	-9.0	-17.4	-6.8	-4.6	-3.3
Primary Balance (% of GDP)	-6.4	-6.7	-14.7	-3.7	-2.0	-1.1

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