Oman

The economic outlook has improved thanks to fading pandemic pressures, higher energy prices, increased oil and gas output and implementation of the government's broad-based structural reform program. Non-oil growth could average 3% in the medium term on a slew of initiatives tied to the Vision 2040 plan, while the fiscal balance will return to surplus this year. Sensitivity to volatile energy prices, potential slippage in the fiscal adjustment process, rising inflation and monetary policy tightening are risks to growth.

Growth to pick-up on surging energy prices

Expanding oil and gas production, surging energy prices and the government's wide-ranging structural reform program, are bolstering the economic outlook. GDP growth is estimated to have increased by 3.0% in 2021, and should accelerate by 4.0% on average in 2022-23. (Chart 1.)

In the energy sector, crude oil production is expected to rise by 14% to about 1.1 mb/d in 2022 (0.97 mb/d in 2021), the highest in over a decade, as Oman, in tandem with other OPEC+ members fully unwinds its pandemic-era production cuts this year. Natural gas output is also increasing, boosted by new volumes from BP Oman's Block 61 project (where production has increased by 0.5 bcf/d to 1.5 bcf/d) and the Mabrouk project in central Oman. Hydrocarbon GDP should rise by 8.6%.

Non-oil sector activity, meanwhile, is improving and is expected to average almost 3% over 2022-2023, supported by the government's structural reforms and diversification initiatives as per the new five-year plan (2021-25), that is under the auspices of the Vision 2040 strategy. The plan calls for boosting labor market flexibility, private sector employment and improving the investment climate. The Oman Investment Authority identified tourism and logistics, manufacturing, transport, agriculture and hi-tech industrials (with a special focus on green technologies) as sectors ripe for investment. In addition, the Muscat Stock Exchange has recently moved to raise foreign ownership limits to 100%. The authorities are targeting non-oil growth rates of 2.5% per annum over the long term, with the sector's share of GDP to rise from the current 61% of GDP to 90% by 2040.

Demand and supply factors pushing inflation higher

Meanwhile, consumer prices rose by 1.5% y/y in 2021, still low but the fastest pace since 2017, on rebounding domestic demand, supply chain constraints and VAT, which was implemented in April 2021 at 5%. Inflation is likely to accelerate further in 2022, to 3.0%, on higher global food and commodity prices as well as strong domestic consumption.

The fiscal balance should shift into surplus in 2022

The public finances are improving thanks to higher oil and gas revenues as well as non-oil revenues, such as VAT. Following last year's estimated fiscal deficit of 5% of GDP (down from 15.5% in 2020), we project that the Sultanate could record its first fiscal surplus since 2008 this year, at 8.4% of GDP. A cumulative surplus of $927 million was recorded at the end of 1Q22, a marked improvement on the deficit of $2.0 billion in the same period last year. While expenditures were up 3.8% y/y year-to-date, we do expect the authorities to exercise some spending restraint and try to only match 2021 realized spending (although this still implies an increase on 2022 budget allocations of OR12.1 billion). The 2022 budget penciled in a 20% increase in development spending to OR1.1 billion ($2.9 billion), some of which will be allocated on high profile projects such as the Yeti Sustainable City and Port Sultan Qaboos Waterfront project in Muttrah. The authorities intend to use any surpluses generated to bring down public debt levels to just under 50% of GDP by 2023 (from 80% of GDP in 2020).

The government recently received its first sovereign credit rating upgrade in eleven years, by rating agency S&P, which cited the improving fiscal and macroeconomic picture. This bodes well for the Sultanate's borrowing capacity, and indeed the government is reported to have raised $4 billion in debt from regional and international lenders in April to be used for general sovereign financing and refinancing. The Ministry of Finance also expects to pay back some OR2.9 billion ($7.4 billion) in loans by the end of April 2022 as part of its public debt management strategy.

External and foreign reserves positions improving

The external current account balance should benefit from the improvement in terms of trade made possible by higher energy prices and move from a deficit of 2.8% of GDP in 2021 to a surplus of 9.6% of GDP in 2022. The external account will likely remain in surplus over the medium term. This will help Oman rebuild its foreign reserves, which, as of February 2022, stood at almost $20 billion (19% of GDP) – a near five-year high.

Economic outlook encouraging, despite risks

Against a background of elevated energy prices, the economic outlook is encouraging—and more so if Oman pushes through with its ambitious program of structural reforms. That said, there are risks to the outlook. The recent improvement in Oman's fiscal position could slow the pace of reforms, causing vulnerabilities if oil prices fall back. The authorities will also need to improve the flexibility of the labor market and promote greater employment of nationals in the private sector (where expatriates outnumber Omanis five to one). In common with other oil and gas exporters, Oman's economy is still tied to volatile energy prices and the private sector is in need of broadening and deepening through reform and investment. Rising inflationary pressures – which could squeeze consumer incomes and raise business costs – and likely monetary tightening by the Central Bank of Oman are also potential headwinds that will need to be managed.

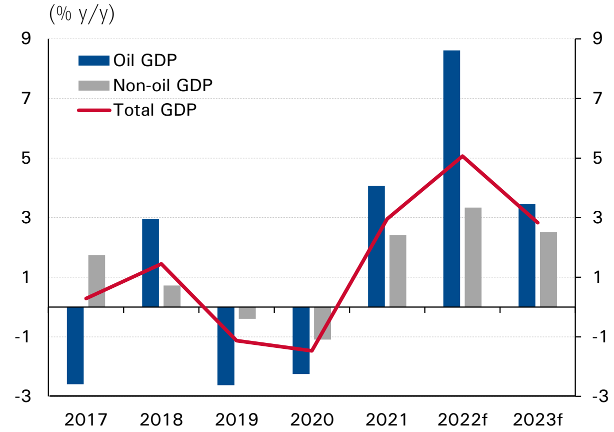
Table 1: Key economic indicators

		2020	2021e	2022f	2023f
Nominal GDP	$ bn	73.9	85.8	102.5	100
Real GDP	% y/y	-2.8	3.0	5.1	2.8
- Oil	% y/y	-2.3	4.1	8.6	3.5
- Non-oil	% y/y	-3.2	2.4	3.3	2.5
Inflation (avg.)	% y/y	-0.9	1.5	3.0	2.0
Fiscal balance	% of GDP	-15.5	-5.2	8.4	5.0
Current account	% of GDP	-11.7	-2.8	9.6	5.7
Public debt	% of GDP	78.4	64.8	51.7	49.0

Source: Official sources, Haver, NBK estimates

Chart 1: Real GDP

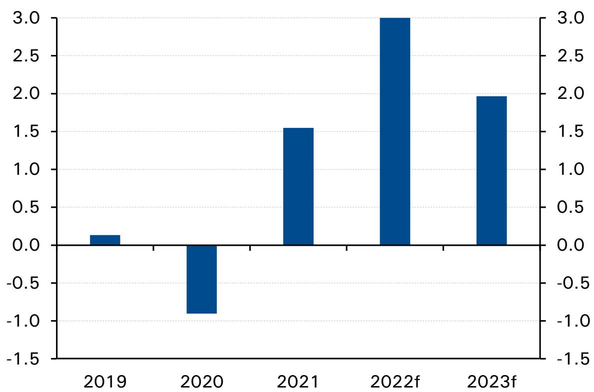
(% y/y)



Source: Haver / NBK estimates

Chart 2: Inflation

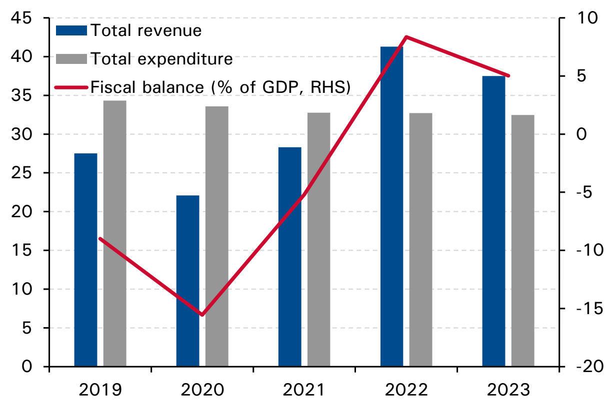
(% y/y, average)



Source: Haver / NBK estimates

Chart 3: Fiscal balance

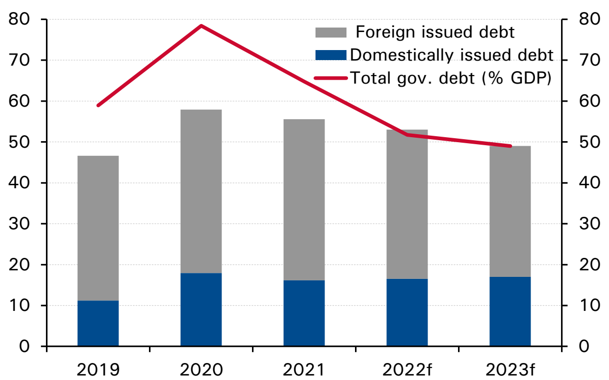
($ billion, % of GDP)



Source: Haver / NBK estimates

Chart 4: Central government debt

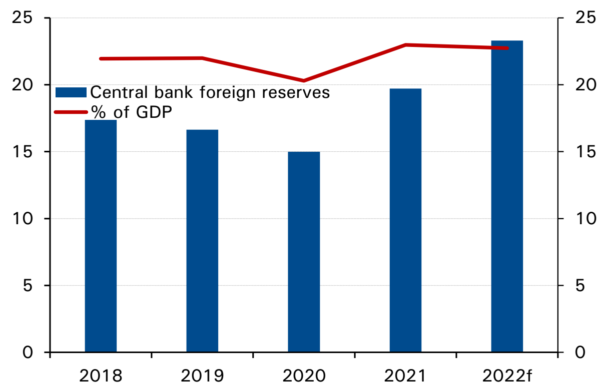
($ billion)



Source: IIF/ NBK estimates

Chart 5: Central bank foreign reserves

($ billion)



Source: Refinitiv