

# Oman

*The economy should recover this year after a difficult 2020. Oil and non-oil growth are projected to rebound with the latter averaging 2.4% over the forecast period. The fiscal balance will remain in deficit, but narrow over the medium term, and public debt is likely to remain elevated at just above 80% of GDP in 2023. Weak fiscal and external positions will remain vulnerabilities amid high exposure to oil price volatility.*

## Pro-growth reforms to support economy

Despite the authorities' rapid response, the spread of COVID-19 took a heavy toll on Oman's economy in 2020, especially when coupled with sharp declines in oil prices. Real GDP growth is expected to have contracted around 6% in 2020, and to rebound to above 2% in 2021. Over 2022-23, growth will average around 3% supported by the government's development and diversification drive. (Chart 1.)

Oman's oil output will remain capped under the OPEC+ production cut deal, but the ongoing expansion in gas production capacity will more than compensate. Hydrocarbon GDP may have fallen 2.5% in 2020, a softer contraction than in the non-oil sector, due to robust condensate production, not covered by the OPEC+ agreement. Looking ahead, oil GDP is expected to increase 2.0% in 2021 and average 4.6% in 2022-23. The government's firm commitment to its diversification strategy is likely to support non-oil growth going forward, especially in the tourism and manufacturing sectors. The non-oil economy will likely recover from 2020's drop of around 8%, to expand by 2.2% in 2021, and to average 2.5% in the next couple of years.

Structural reforms are underway to promote economic diversification and job creation for Omanis. Oman has rolled out several mandates in line with the Vision 2040, including restructuring public administration, when last year ten ministries were merged into five and five councils were abolished. Additionally, there have been steps to improve the labor market through the Omanisation scheme, which, according to the Ministry of Labor is aiming to employ 85% of Omani job seekers (unemployed) by 2022. Some 232,000 expats (12%) left the country in 2020 and expat employment fell 16%.

## Inflation to gather pace on Value Added Tax (VAT)

Consumer price inflation was slightly negative in 2020, reaching -0.8% on the back of easing demand conditions. Inflation is expected to pick up in 2021, reflecting the introduction of a 5% VAT in April 2021, partial economic recovery, and the rise in international food prices. The initial impact of domestic factors will likely subside, however, a year later. Nonetheless, inflation should hold steady (albeit muted) averaging 2.3% through 2022-23, supported by increased economic activity. (Chart 2.)

## Fiscal deficit to be financed partly by more debt issuance

Faced with mounting deficits and rising public debt, exacerbated lately by the dual shocks of the pandemic and falling oil prices, Oman has taken on a re-invigorated push towards reinforcing fiscal stability with its implementation of the Medium-Term

Fiscal Plan (MTF) to address rising fiscal vulnerabilities. The goals outlined in the MTF contain key revenue generating measures, including VAT (April 16 2021) and a possible personal income tax on high-income earners (2022). Oman's budget deficit is estimated to have widened to 15% of GDP in 2020 from 5.4% in 2019, but is expected to narrow this year to around 11% of GDP due to the accelerated pace of reforms.

Persistently high deficits caused public debt to rise to an estimated 80% of GDP in 2020 from 60% in 2019, not least because of the pandemic. (Chart 3.) Oman returned to the debt market in January, selling \$3.25 billion in a three-part offering. The increasing debt level is forecast to push up debt servicing costs to 4.4% of GDP in 2021 from 3.6% in 2020, offsetting part of the additional non-oil revenue and adding pressures on the fiscal position. At the same time however, higher debt helps slow down the withdrawal from the sovereign wealth fund, whose assets are estimated at \$18 billion, around 25% of GDP.

The current account deficit is likely to widen to around 9% of GDP in 2020 due to lower oil exports and then average 6% over the forecast period. Central bank foreign reserves reached their lowest level since 2018 in December at \$14.9 billion but rebounded in January to \$18 billion due to sovereign bond issuances earlier this year, providing around eleven months of import cover.

## Banks perform well, although liquidity remains tight

The banking sector continued to perform well, thanks to the authorities' measures to encourage lending during the pandemic, by including interest-free emergency loans to assist entrepreneurs in certain sectors. Credit growth edged higher to 3.4% y/y in January, reflecting mainly an increase in public sector borrowing (+28% y/y), the need for which was boosted by lower oil revenues. Lending growth is expected to remain reasonable, although could decelerate as the boost from the government borrowing and recent credit measures fade.

## Economic outlook encouraging despite downside risks

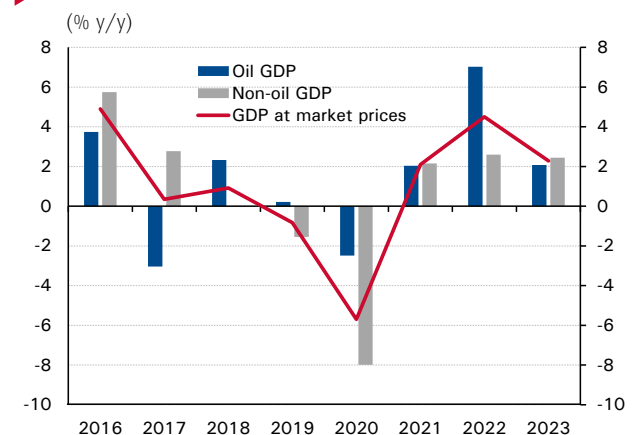
Downside risks to Oman's outlook stem mainly from continued budget deficits and the accumulation of public debt, which could further affect its credit standing and investor sentiment. Additionally, a recently re-imposed partial curfew and the uncertain roll out of vaccinations will be worth watching. However, the recent introduction of fiscal measures, including the VAT this year, reflects the government's commitment to proceed with reforms that will move Oman closer to fiscal sustainability.

**Table 1: Key economic indicators**

		2019	2020e	2021f	2022f	2023f
Nominal GDP	\$ bn	76.2	61.5	71.4	74.5	77.8
Real GDP	% y/y	-0.9	-5.7	2.1	4.5	2.3
- Oil	% y/y	0.2	-2.5	2.0	7.0	2.1
- Non-oil	% y/y	-1.7	-8.0	2.2	2.6	2.4
Inflation	% y/y	0.1	-0.8	2.8	2.1	2.5
Budget balance	% of GDP	-9.0	-15.1	-11.0	-7.9	-6.4
Current account	% of GDP	-5.4	-9.3	-7.2	-6.0	-5.3
Public debt	% of GDP	61.2	86.6	84.4	82.3	80.2

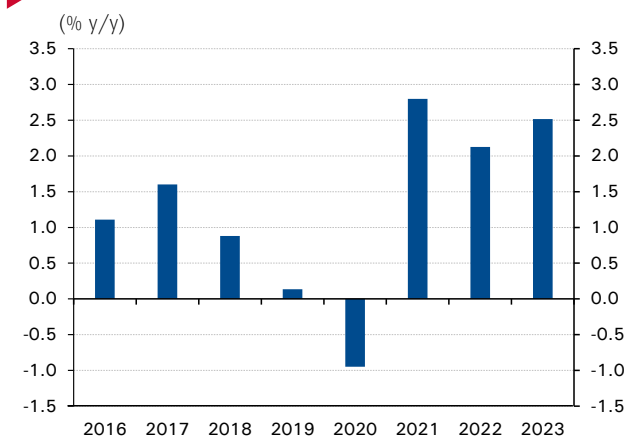
Source : Official sources, NBK estimates

**Chart 1: Real GDP**



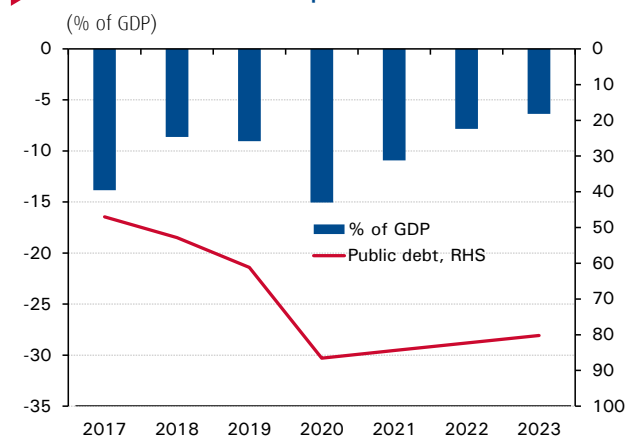
Source: Refinitiv / NBK estimates

**Chart 2: Inflation**



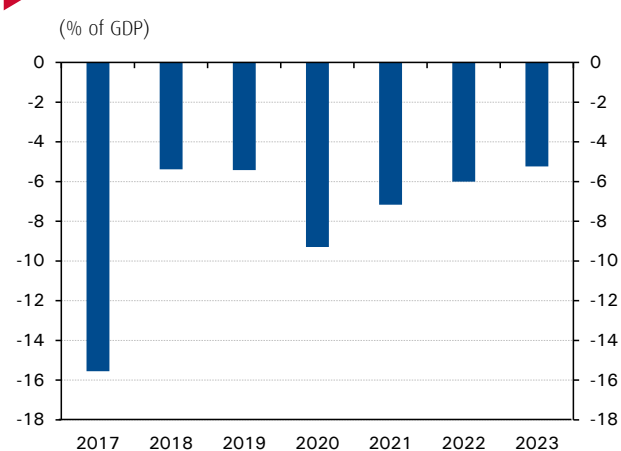
Source: Refinitiv / NBK estimates

**Chart 3: Fiscal balance & public debt**



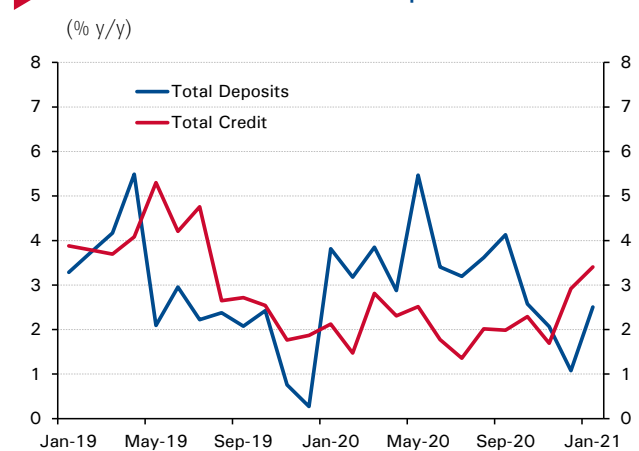
Source: Refinitiv / NBK estimates

**Chart 4: Current account balance**



Source: Refinitiv / NBK estimates

**Chart 5: Private bank credit and deposits**



Source: Central Bank of Oman