OMAN

Table 1	2017
Population, million	4.9
GDP, current US$ billion	73.7
GDP per capita, current US$	15121
School enrollment, primary (% gross)[a]	109.3
Life expectancy at birth, years[a]	77.1

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

(a) Most recent WDI value (2015)

Real GDP growth in 2017 remained broadly flat due to Oman's participation in the OPEC+ oil production cuts and fiscal austerity. The current account deficit has narrowed but remains large. Similarly, the fiscal account deficit is estimated to have narrowed in 2017, and partially financed through external borrowing—leading to rapidly rising debt. The outlook is set to improve as growth picks up following a boost in oil and gas and from expected gains in the non-oil sector resulting from the government's economic diversification plan.

Recent developments

Growth in Oman was subdued in 2017 due to lower oil production and weaker consumption and investment. Real GDP growth is estimated to have slowed down to 0.7 percent in 2017, compared with 5.4 percent in 2016, which was driven by record high oil production levels (1 million bd). In 2017, Oman joined most OPEC non-members in oil production cuts, leading to a contraction of the hydrocarbon sector by 3 percent. Private consumption, although dampened due to fiscal austerity, is estimated to be the main driver of growth in 2017. The current account deficit is estimated to have improved to 11.7 percent in 2017 from 18.4 percent of GDP in 2016 on the back of higher oil prices. Oman has also benefitted from the ongoing Gulf sanctions on Qatar through the re-routing of trade by Qatar away from Saudi Arabia and the UAE [to Oman]. Given its peg to the US Dollar the Central Bank of Oman implemented a gradual rate increase to match the US Fed hikes. Inflation increased slightly from 1.1 percent in 2016 to 1.5 percent in 2017 reflecting the ongoing subsidy reform.

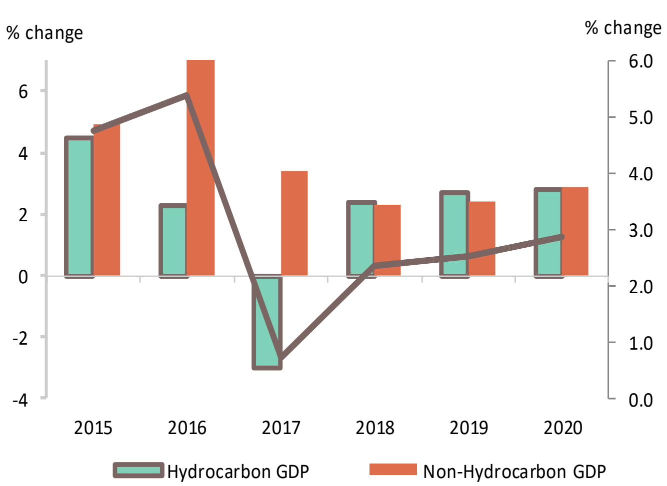
Fiscal outturns indicate that Oman is on course to narrow its fiscal deficit in 2017 on the back of stronger oil revenue and lower expenditure. Savings came from higher utility tariffs on large customers and lower defense spending. Overall, the government, which has had the biggest fiscal deficit in the GCC in the past two years, managed to cut the budget deficit by 30 percent to an estimated 13.3 percent of GDP in 2017 (from 20.6 percent of GDP in 2016). Oman raised US$5 billion from international debt markets and US$2 billion from sukuk to finance its fiscal needs in 2017. Foreign borrowing has been critical in easing the strain on reserves given the structural large negative items on the current account.

The main social concern for Oman is the lack of jobs and the adverse effects of subsidy reform on vulnerable households. The most recent ILO estimate of unemployment was 17 percent in 2017, while youth unemployment is approximately 49 percent—a pressing challenge in Oman where over 40 percent of the population is under the age of 25. In January 2018 the authorities launched an initiative to provide 25,000 new jobs in the private sector and stopped issuing visas to expats for certain professions. The government announced mitigation measures to support the vulnerable population in 2018; (1) it will allocate 100 million rials (US$260 million) to support needy households, (2) a new fuel subsidy scheme where households with an income below 600 rials will receive 200 liters of petrol per month at a subsidized rate.

Outlook

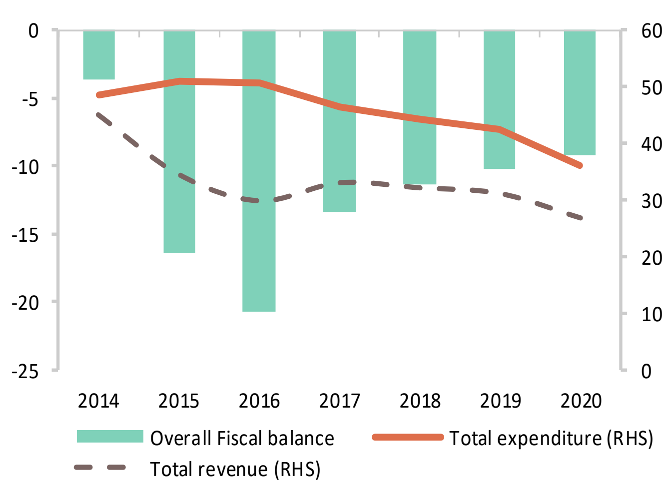
Economic growth is set to modestly recover over the medium term. In 2018, a boost in the hydrocarbon sector is expected to drive the recovery as the Khazzan gas production expands. In the outer years, as

FIGURE 1 Oman / Real Annual GDP growth



Sources: Omani Authorities, World Bank Staff estimates.

FIGURE 2 Oman / General Government Operations (in percent of GDP)



Sources: Omani Authorities, World Bank Staff estimates.

the "OPEC plus" restrictions on oil supply are lifted and as the gradual recovery of oil prices improves confidence and encourages private sector investment, GDP growth is projected to rebound to 2.9 percent by 2020. Over the longer term, pro-business reforms such as foreign ownership, FDI, SME support and PPP laws are expected to increase trade and investment. A further impetus to growth will be provided by rising natural gas exports from the seven-year natural gas supply deal signed between BP and Oman LNG. Monetary policy will remain tight as interest rates continue to rise. Owing to the hike in electricity tariffs and the VAT, inflation is expected to inch up to 3 percent in 2019 before moderating in 2020 as cost push pressures from subsidy reform dissipate.

The approved budget for 2018— deficit of OMR3 billion (US$7.8 billion) and 10 percent of projected GDP— indicates an expansionary fiscal policy. The introduction of the GCC-wide 5 percent VAT has been postponed to 2019, so higher revenues in 2018 will come from, in addition to higher oil revenues, higher corporate income tax, excises and the privatization of public companies. In January 2018, Oman issued US$6.5 billion in a triple-tranche of sovereign bonds, its largest issuance ever, to plug 2018 financing needs. Over the medium term, the recovery in oil prices, VAT and higher corporate income tax, propelled by higher economic growth are expected to narrow the fiscal deficit to 9.1 percent by 2020. Oman's sovereign wealth funds, partially used to finance fiscal deficits since 2014, are estimated at US$24 billion. However greater reliance on foreign borrowing will raise public debt to over 50 percent of GDP by 2020 from 34 percent in 2016. The current account deficit is projected to improve to 8.2 percent by 2020 as oil prices rise, non-oil exports grow, and as both the Miraah solar plant and the construction of a new US$600m oil terminal in Sohar make more crude oil available for export.

Risks and challenges

Inclusive economic growth hinges on the timely implementation of diversification reforms, but fiscal strain continues to delay development spending envisaged under the 9th Development Plan. The government is looking towards increasing PPPs which are currently hampered by falling investor confidence in the region. Moreover, with a rapidly rising population, social pressures will continue to mount if the private sector fails to provide enough jobs and fiscal constraints limit the government's ability to create jobs. The long-term solution needs to be based on a more fluid labor market and improvements in business climate and education system tailored for the needs of the economy.

The overall economic outlook is vulnerable to several risks. If the planned consolidation does not materialize, the government's fiscal policy risks losing credibility with negative consequences for financing. External risks include a collapse in the OPEC deal which could send oil prices back down, and US interest rate hikes. The possible weakening of the US Dollar could raise import costs and deteriorate the external balance. A continued slowdown in China, Oman's main trading partner, would add to downside risks. Financing conditions may become more challenging given the expansion in debt, especially if, with higher U.S. rates, investor sentiment shifts away from emerging markets. These stresses are already evident in several ratings downgrades, most recently by Moody's.

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

	2015	2016	2017 e	2018 f	2019 f	2020 f
Real GDP growth, at constant market prices	4.7	5.4	0.7	2.3	2.5	2.9
Private Consumption	2.9	1.9	1.5	2.5	3.0	3.0
Government Consumption	0.8	-2.2	-3.2	0.9	1.7	2.3
Gross Fixed Capital Investment	-0.4	9.4	4.4	3.0	3.4	3.9
Exports, Goods and Services	-9.4	2.3	-1.6	2.5	3.0	3.2
Imports, Goods and Services	-3.2	-1.5	-1.1	2.3	3.5	3.5
Real GDP growth, at constant factor prices	..	..	..	..	..	..
Agriculture	..	..	..	..	..	..
Industry	..	..	..	..	..	..
Services	..	..	..	..	..	..
Inflation (Consumer Price Index)	0.1	1.1	1.5	2.2	3.0	2.8
Current Account Balance (% of GDP)	-15.5	-18.4	-11.7	-10.4	-9.2	-8.2
Fiscal Balance (% of GDP)	-17.5	-20.6	-13.3	-11.3	-10.1	-9.1

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