OMAN

Table 1	2018
Population, million	4.8
GDP, current US$ billion	82.2
GDP per capita, current US$	17017
School enrollment, primary (% gross)[a]	108.6
Life expectancy at birth, years[a]	77.0

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

(a) Most recent WDI value (2016)

Growth is estimated to have recovered to 2.1 percent in 2018, supported by rising non-hydrocarbon activity and higher oil output. However, the December 2018 OPEC+ agreement to cut oil production will dampen this recovery in 2019, as growth is projected to slow to 1.2 percent. While narrowing, fiscal and current account deficits remain high, and debt ratios continue to worsen. The main risks to the economic outlook arise from a delay in fiscal adjustment, which will impede debt reduction and negatively affect business confidence and external financing costs in an adverse global environment.

Recent developments

Oman's real GDP growth is estimated to have recovered to 2.1 percent in 2018, from a contraction of 0.9 percent in 2017, as oil prices and strong non-oil growth helped offset the impact of fiscal consolidation. The non-oil economy is supported by the ongoing diversification efforts and rising activity in key sectors including tourism, transport and manufacturing. Inflation slowed to an average of 0.9 percent in 2018, from 1.6 percent in 2017, due to lower food prices.

While narrowing, Oman fiscal deficit remained high in 2018 despite the oil price recovery. The fiscal deficit is estimated to have improved from 13 percent of GDP in 2017 to 7.7 percent of GDP in 2018, as higher oil prices boosted oil revenues and a corporate tax brought in new non-oil revenues. Despite higher than expected oil revenue, the budget was overspent by 6 percent due to increased investment in development projects, high electricity subsidies and debt servicing costs.

While the current account deficit improved in 2018, it remains high at an estimated 6 percent of GDP. Increased private and public investments contributed to the increase in the CA deficit. Foreign reserves continued to decline (and were used to finance the BOP deficit); from US$20 billion in 2016 (or 7 months of imports) to an estimated US$17 billion in 2018 (or 5.7 months of imports).

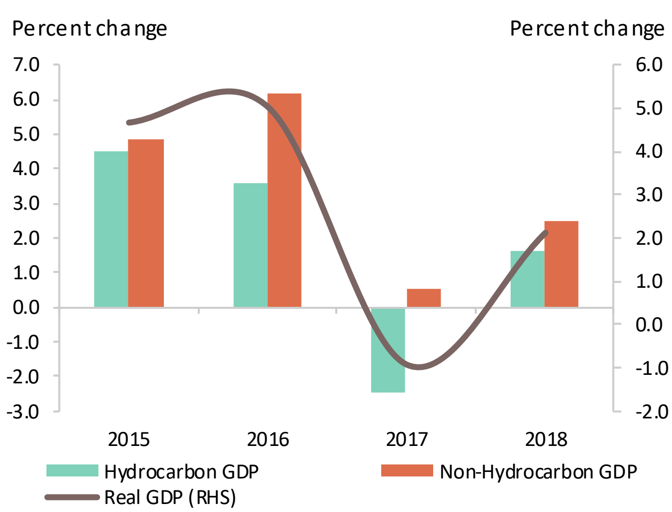
Oman's persistently large fiscal and current account deficits have resulted in higher debt levels. Public debt-to-GDP rose to an estimated 51 percent in 2018, from 47 percent in 2017. External debt is estimated to remain high at 88 percent of GDP in 2018. This has led to a series of credit rating downgrades.

Lack of jobs remains the primary concern amongst young Omanis. The country has a fast-growing population and over 40 percent of the population is under the age of 25. Oman's cabinet made a pledge in October 2017 to create 25,000 jobs for Omanis, the most recent example of such pledges. However, only 13,000 nationals have been employed since then, reflecting absorption constraints in the public and large corporate sectors. In January 2018, the government also banned the recruitment of expatriate employees by the private sector in ten sectors, contributing to the reduction in the number of expatriates in Oman by 3.4 percent between October 2017 and 2018. This mirrors trends seen in other GCC countries.

Outlook

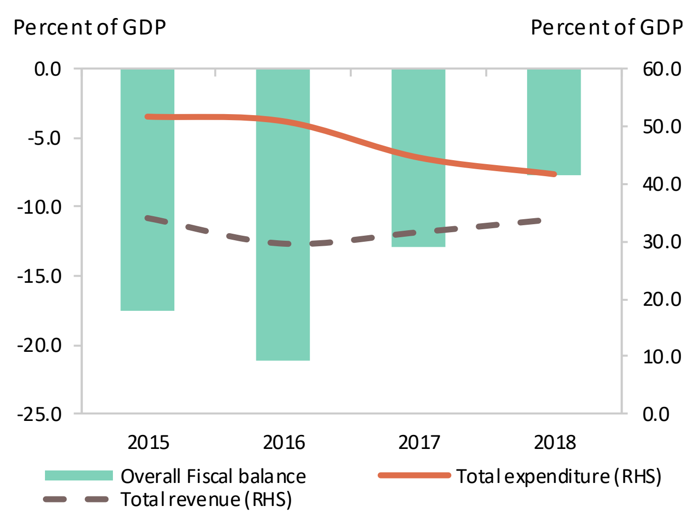
Growth is projected to slow to 1.2 percent in 2019 as Oman's commitment to the December 2018 OPEC+ output cut constrains oil production. There will be a once-off spike in growth to 6 percent in 2020 as the government plans to significantly increase investment in the Khazzan gas field. The potential boost from the diversification investment spending would continue supporting growth in 2021 and the medium term. Inflation is expected to pick up to 1.5 percent in 2019 reflecting higher consumer spending,

FIGURE 1 Oman / Real annual GDP growth



Sources: Government of Oman and World Bank staff estimates.

FIGURE 2 Oman / General government operations



Sources: Oman authorities; World Bank; and IMF staff projections.

and to further accelerate to an average of about 3 percent in the period 2020-2021 reflecting the possible introduction of indirect taxes beyond 2019. The budget deficit is projected to rise to 12 percent of GDP in 2019 due to high public spending amid lower oil prices. The 2019 budget assumes a 3 percent increase in total expenditure compared to 2018. The introduction of excise and VAT taxes has been delayed to 2020 or beyond. Further spending restraints and VAT implementation combined with a build-up of revenues from the Khazzan gas field would bring the fiscal deficit down to projected 8.6 and 6.4 percent of GDP in 2020 and 2021, respectively. The planned introduction of the VAT and excise taxes should raise non-oil revenues to an average of 8 percent of GDP in 2019-2020. The current account deficit is forecasted to increase to 10 percent of GDP in 2019 due to lower oil prices and export volumes. External financing needs will put more pressure on reserves, which are forecasted to reach less than 5 months of imports.

Although narrowing, persistent high fiscal deficits would raise the public debt-to-GDP ratio to 67 percent by 2020. External debt is projected to further increase to 100 percent of GDP from 2019 and beyond. External debt issuance and the State General Reserve Fund drawdowns will remain key to fiscal financing, notwithstanding progress on privatization and asset sales.

Risks and challenges

A key risk facing Oman is that the pace of fiscal and structural reforms may slow, hurting investor confidence and prospects for debt sustainability. To mitigate this risk, the government needs to press ahead with planned reforms on revenue mobilization (namely the introduction of VAT), deeper fiscal adjustment through wage bill and subsidy reform, and more efficient public sector delivery. Fiscal slippages and lower oil prices would result in higher fiscal and current account deficits, a deterioration in government and external debt trajectories and increase the cost of external financing. A larger drain on external buffers could also reduce investor confidence and result in further sovereign rating downgrades and higher financing costs. Job creation is an important challenge, given the 49 percent youth unemployment rate.

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

	2016	2017	2018 e	2019 f	2020 f	2021 f
Real GDP growth, at constant market prices	5.0	-0.9	2.1	1.2	6.0	2.8
Private Consumption	5.2	0.9	1.3	1.2	1.0	2.7
Government Consumption	-9.7	-0.7	0.3	0.4	0.5	1.3
Gross Fixed Capital Investment	16.5	-3.9	0.6	3.3	3.4	3.8
Exports, Goods and Services	-2.8	12.9	4.4	5.4	4.8	5.0
Imports, Goods and Services	-12.0	10.2	4.1	4.5	4.0	4.9
Real GDP growth, at constant factor prices	5.0	-0.9	2.1	1.2	6.0	2.8
Agriculture	8.3	9.0	9.1	9.5	7.0	8.2
Industry	4.6	-2.5	-0.9	2.8	2.7	3.1
Services	5.5	1.0	6.2	-1.3	10.5	2.1
Inflation (Consumer Price Index)	1.1	1.6	0.9	1.5	1.8	3.8
Current Account Balance (% of GDP)	-18.7	-15.3	-5.7	-10.3	-6.1	-4.9
Fiscal Balance (% of GDP)	-21.2	-12.9	-7.7	-12.2	-8.6	-6.4

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