INTERNATIONAL MONETARY FUND

IMF Country Report No. 21/206

OMAN

September 2021

2021 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR OMAN

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2021 Article IV consultation with Oman, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its August 25 consideration of the staff report that concluded the Article IV consultation with Oman.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on August 25, 2021, following discussions that ended on June 7, 2021, with the officials of Oman on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 22, 2021.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Oman.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR21/259

IMF Executive Board Concludes 2021 Article IV Consultation with Oman

FOR IMMEDIATE RELEASE

Washington, DC – **September 12, 2021:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Oman.

The Omani economy was hit by a dual shock of the pandemic and a collapse in oil prices in 2020. Overall and non-hydrocarbon GDP are estimated to have contracted by 2.8 percent, and 3.9 percent, respectively. Labor market adjustment was facilitated by temporary wage cuts and a reduction in expatriate employment. The economy is set to recover in 2021, with non-hydrocarbon GDP growth of 1.5 percent as vaccine rollout gradually restores domestic activity along with the recovery of external demand. Oil production is projected to increase after the current OPEC+ agreement expires in April 2022. Inflation has been subdued.

The fiscal deficit and government debt rose sharply in 2020 but are projected to improve considerably over the medium term with the implementation of the authorities' Medium-Term Fiscal Balance Plan. The fiscal deficit widened to 19.3 percent of GDP in 2020, partly reflecting non-policy factors (notably the contraction in nominal GDP). It is projected to decline to -2.4 percent in 2021 and a surplus in 2022. Central government debt rose to 81.2 percent of GDP, with financing needs covered by domestic and external borrowing and asset drawdown, but is expected to decline sharply over the medium term. Fiscal consolidation and higher oil prices are projected to narrow the current account deficit to -6.2 percent in 2021 and -0.6 percent in 2026.

There are substantial uncertainties around the outlook, with downside risks dominating. On the downside, COVID-19 variants would prolong the impact of the pandemic. Tighter global financial conditions could worsen the fiscal and external positions. Public debt remains vulnerable to risks, particularly from oil market developments and shocks to GDP growth, the exchange rate, primary balance, and interest rates. A substantial decline in oil prices would increase gross financing needs and have negative spillovers in the non-hydrocarbon sector. On the upside, a strong roll-out of vaccination, higher oil prices, and continued implementation of structural reforms would considerably improve the outlook.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They commended the Omani authorities' swift and well-coordinated policy actions to address the health and economic effects of the COVID-19 pandemic. Looking ahead, Directors emphasized that macroeconomic policies should remain supportive until the recovery is fully entrenched and underscored providing additional time-bound and targeted policy measures for hard-hit sectors and households if needed.

Incomplete adjustment to the lower oil prices since 2015, and the twin shocks of the pandemic and the collapse in oil prices in 2020 amplified fiscal and external vulnerabilities. In this context, Directors welcomed the authorities' strong commitment to implementing the Medium-Term Fiscal Balance Program to contain expenditure, reduce the dependency of revenue on hydrocarbon prices, and put debt on a firm downward path. They encouraged the authorities to sustain outreach to bolster public support for reforms. Establishing a clear fiscal anchor would help achieve fiscal consolidation. Directors supported strengthening overall public sector governance and called for expanding fiscal coverage beyond the budgetary central government and providing more detailed budget and debt data. A robust sovereign asset and liability management framework is essential to identify and mitigate risk exposures and secure the sovereign balance sheet. Directors welcomed ongoing efforts to strengthen the capacity of the debt management office.

Directors agreed that the exchange rate peg remains an appropriate policy anchor for Oman, helping to deliver low and stable inflation. As regards the financial sector, Directors welcomed the continued resilience of the sector and ongoing capital market reforms. At the same time, while the banking system remains sound, continued vigilance is required to contain financial stability risks given the substantial uncertainties in the outlook. Directors also called for a careful management of the sovereign-bank nexus over time to support banking system resilience. They welcomed the AML/CFT mutual evaluation in 2021 and Oman's ongoing strengthening of the framework.

Directors welcomed recent progress in structural reforms aiming at boosting non-hydrocarbon sector growth and supporting external sustainability. Priority should be given to improving flexibility in the labor market, promoting employment in the private sector, and further encouraging female labor participation. Directors welcomed efforts to strengthen the social safety net and commended the authorities for accelerating SOE reforms to enhance competition and efficiently manage public resources.

Directors welcomed the authorities' decision to publish the staff report for the consultation.

It is expected that the next Article IV consultation with Oman will be held on the standard 12-month cycle.

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Table 1. Oman: Selected Economic Indicators, 2016-26

					Prel.	Proj.					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Oil and gas sector											
Total production of oil and gas (US$ billions)	16.0	18.7	27.7	26.6	17.8	23.6	27.5	26.9	26.4	26.1	26.0
Average crude oil export price (US$/barrel)	40.1	51.3	69.7	63.6	46.0	60.4	63.0	59.8	57.7	56.4	55.7
Crude oil production (in millions of barrels/day)	1.00	0.97	0.98	0.97	0.95	0.96	1.01	1.07	1.10	1.14	1.14
National accounts					(Annual percentage change, unless otherwise indicated)						
Nominal GDP (US$ billions)	65.5	70.6	79.8	76.3	63.4	77.7	82.3	84.3	87.0	90.0	93.9
Nominal GDP (in billions of Omani rials)	25.2	27.1	30.7	29.3	24.4	29.9	31.7	32.4	33.4	34.6	36.1
Real GDP	4.9	0.3	0.9	-0.8	-2.8	2.5	2.9	4.2	2.9	3.3	2.6
Real hydrocarbon GDP 1/	3.4	-2.1	4.0	1.4	-1.7	3.5	3.6	6.0	2.8	3.3	1.2
Real nonhydrocarbon GDP	6.2	2.4	-1.6	-2.8	-3.9	1.5	2.3	2.4	3.0	3.4	4.0
Consumer prices (average)	1.1	1.6	0.9	0.1	-0.9	3.0	2.7	2.5	2.5	2.4	2.4
GDP Deflator	-9.4	7.4	12.0	-3.5	-14.6	19.7	2.9	-1.7	0.2	0.2	1.6
Investment and saving						(Percent of GDP)					
Gross capital formation	28.9	27.5	24.4	20.5	19.0	20.5	21.2	21.5	21.7	22.0	22.1
Public	15.6	13.7	13.4	13.1	13.6	11.0	10.9	10.9	10.9	10.9	10.8
Private	13.3	13.8	11.0	7.4	5.4	9.5	10.3	10.6	10.8	11.1	11.3
Gross national savings	9.7	12.0	19.0	14.8	5.3	14.3	19.5	20.4	20.9	21.2	21.5
Public	-7.5	2.6	7.4	10.2	-0.7	6.8	9.9	9.8	9.7	9.1	8.9
Private	17.3	9.3	11.5	4.6	6.1	7.5	9.7	10.6	11.2	12.1	12.6
Central government finances						(Percent of GDP)					
Revenue and grants	28.7	33.2	36.2	39.2	34.6	32.9	35.3	34.8	34.6	33.7	33.1
Hydrocarbon	21.1	23.3	29.6	29.8	26.0	23.3	25.2	24.3	23.6	22.6	21.9
Nonhydrocarbon and grants	7.6	9.9	6.6	9.4	8.6	9.6	10.1	10.4	11.0	11.1	11.1
Expenditure	51.2	45.2	44.0	44.2	53.5	35.4	34.4	33.4	32.8	31.9	30.8
Current	39.6	35.4	34.6	35.7	43.3	32.4	31.5	30.5	30.0	29.1	28.0
Capital	11.6	9.7	9.4	8.5	9.9	3.0	2.9	2.9	2.9	2.9	2.8
Overall balance (Net lending/borrowing)	-24.1	-12.6	-8.4	-6.0	-19.3	-2.4	0.9	1.4	1.8	1.8	2.3
Overall balance (adjusted) 2/	-16.5	-6.5	-1.7	0.0	-12.1	-2.4	0.9	1.4	1.8	1.8	2.3
Non-hydrocarbon primary balance (% of non-hydrocarbon GDP)	-54.1	-46.2	-48.4	-46.7	-47.8	-39.1	-36.1	-33.3	-30.8	-28.7	-26.7
Total government debt, *of which:*	33.7	45.9	51.3	60.5	81.2	70.7	64.5	60.5	56.3	51.9	46.9
External debt	20.5	32.7	38.4	45.4	60.2	51.0	43.0	37.7	32.4	27.9	26.4
Monetary sector					(Annual percentage change, unless otherwise indicated)						
Net foreign assets	-0.9	-5.4	18.9	-3.6	-28.3	-1.1	0.0	1.7	5.8	6.7	6.4
Net domestic assets	3.0	8.2	4.4	4.4	23.2	6.5	7.3	6.4	5.6	4.6	1.0
Credit to the private sector	10.1	6.5	4.9	2.8	1.1	2.5	3.6	4.4	4.7	4.9	4.9
Broad money	1.8	4.2	8.3	2.0	8.9	5.1	6.0	5.6	5.6	4.9	1.9
External sector					(In billions of U.S. dollars, unless otherwise indicated)						
Exports of goods	27.5	32.9	41.7	38.7	30.5	37.5	42.4	42.4	42.6	43.3	44.3
Oil and gas	16.0	19.2	27.3	26.5	18.2	24.7	29.1	28.3	27.7	27.4	27.3
Other	11.6	13.7	14.5	12.2	12.3	12.8	13.3	14.1	14.9	15.9	17.0
Imports of goods	-21.3	-24.1	-23.6	-20.5	-18.9	-19.9	-21.3	-22.2	-23.3	-24.4	-25.4
Current account balance	-12.5	-11.0	-4.3	-4.2	-8.7	-4.8	-1.4	-0.9	-0.7	-0.7	-0.6
Percent of GDP	-19.1	-15.6	-5.4	-5.5	-13.7	-6.2	-1.7	-1.1	-0.8	-0.8	-0.6
Central Bank gross reserves	20.3	16.1	17.4	16.7	15.0	15.8	16.0	16.4	17.2	18.1	19.1
In months of next year's imports of goods and services	7.0	5.5	6.4	7.3	6.3	5.9	5.7	5.6	5.6	5.6	5.6
Total external debt	41.9	58.2	66.7	72.0	72.7	78.6	78.2	78.3	78.9	80.0	79.9
Percent of GDP	63.9	82.5	83.6	94.3	114.7	101.1	95.0	92.9	90.8	88.9	85.0
Memorandum Items:											
Non-hydrocarbon structural primary balance 3/	-31.5	-28.3	-30.5	-29.1	-25.6	-21.3	-19.8	-18.7	-17.7	-16.9	-16.2
Non-hydrocarbon structural primary balance (percent of non-hydrocarbon GDP) 3/	-53.5	-47.4	-48.5	-46.7	-46.4	-40.0	-37.8	-35.2	-33.0	-31.2	-29.7
Real effective exchange rate (2010 = 100)	107.7	107.7	105.6	106.7	105.1	...	...	...	...	...	...
Exchange rate (rial per dollar; period average)	0.38	0.38	0.38	0.38	0.38	...	...	...	...	...	...

Sources: Omani authorities; and IMF staff estimates and projections.

1/ Includes crude oil, refining, natural gas, and LNG production.

2/ Data prior to 2021 were adjusted by taking out expenditures on gas and oil that were hived off to Energy Development Oman in 2021.

3/ Adjusted by the economic cycle.

OMAN

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

July 22, 2021

KEY ISSUES

Context: Sultan Haitham ascended to the throne in January 2020 and has committed to implementing strong fiscal and structural reforms to address longstanding vulnerabilities. In addition to persistent fiscal deficits arising from incomplete adjustment to lower oil prices since 2015, Oman faced twin shocks from the COVID-19 pandemic and a collapse in oil prices in 2020 that amplified fiscal and external vulnerabilities. The authorities moved rapidly to contain the spread of COVID-19 infections and provided broad-based policy measures to limit its impact on the economy. In addition, frontloaded fiscal consolidation has been implemented in the 2021 budget as part of the authorities' Medium-Term Fiscal Plan (MTFP) which aims to eliminate the fiscal deficit over the medium term. Banks have high capital buffers and liquidity, but credit risk is a concern going forward. Structural reforms have been accelerated under Oman Vision 2040 to boost non-oil private sector growth and facilitate job creation.

Focus of the discussions: The policy discussions focused on: (i) supporting economic recovery; (ii) reinforcing fiscal and external sustainability; (iii) safeguarding financial stability; and (iv) managing the transition toward stronger growth.

Key Policy Recommendations:

Near-term policies: mitigating the impact of COVID-19 should remain a priority until the recovery is firmly underway. Provide additional temporary and targeted policy support for affected sectors and households if needed without jeopardizing medium-term fiscal consolidation objectives. Be vigilant about potential deterioration in asset quality and increasingly target support to distressed but viable borrowers.

Fiscal policy: steadfast implementation of the MTFP would put debt on a firm downward path and support intergenerational equity. Sustain outreach to bolster public support for reforms. Establish a clear fiscal anchor. Strengthen overall public sector transparency and governance. Develop a sovereign asset and liability management framework.

Monetary and financial policies: the peg to the U.S. dollar continues to serve Oman well given the oil dependent structure of the economy. Careful management of the sovereign-bank nexus over time would support banking system resilience.

Structural policy: enhance competitiveness in the private sector by improving flexibility in the labor market, reforming state-owned enterprises, creating an enabling business environment, and investing in a greener economy.

Approved By
Zeine Zeidane (MCD) and Uma Ramakrishnan (SPR)

Discussions were held virtually during May 24-June 7, 2021. The team comprised Daniel Kanda (head), Abdullah AlHassan, Fei Liu, and Agustin Velasquez (all MCD). Ms. Esther George and Mr. Hatim Bukhari (both MCD) provided support and contributed to the report. Executive Director Mr. Mohieldin and Alternative Executive Director Mr. Alhosani joined the opening and concluding meetings. Senior Advisor to the Executive Director Ms. Choueiri and Advisor to the Executive Director Mr. Al-Kohlany accompanied the mission. The mission met with Executive President of the Central Bank Al Amri, Secretary General of the Ministry of Finance Al-Jashmi, Minister of Commerce, Industry, and Investment Promotion Al Yousef, Executive President of Capital Market Authority Al Salmi, Chairman of Vision 2040 Implementation Unit Al-Jabri, Chairman for Public Service Regulation Al Hinai, Economic and Financial Committee at Shuraa Council, other senior public sector and central bank officials, members of the civil society, and private sector representatives.

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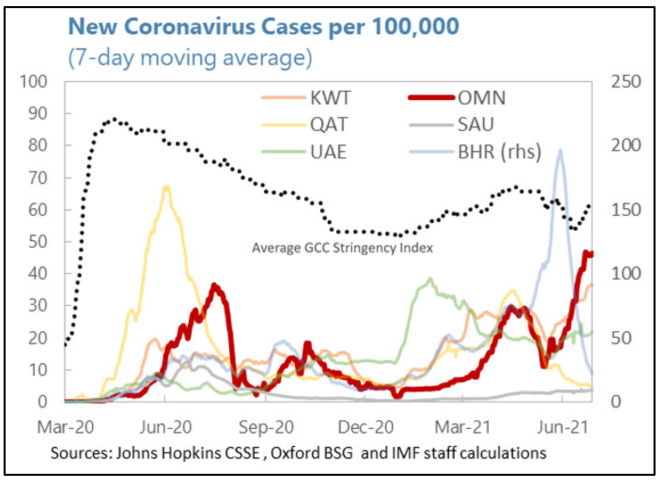
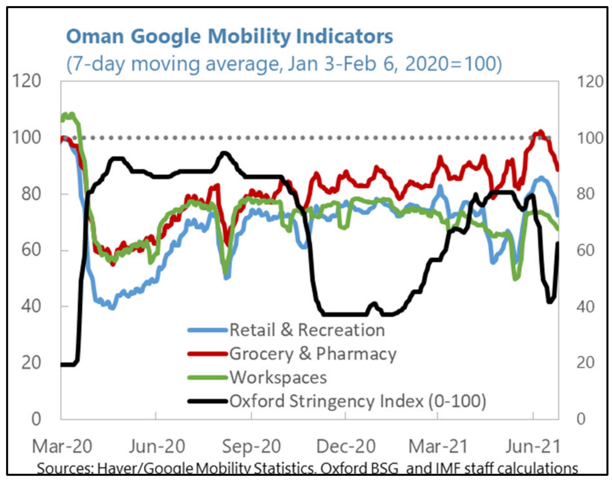
CONTEXT

1. **Sultan Haitham ascended to the throne through an orderly political transition in January 2020.** He is committed to improving and streamlining policy making, reorganizing ministries and naming foreign and finance ministers for the first time. Oman has also embarked on the implementation of its "Oman Vision 2040", focusing on, among others, restructuring public administration, strengthening governance of state-owned enterprises (SOEs), improving labor market flexibility, strengthening corporate restructuring mechanisms, and preserving the environment.

2. **Oman moved rapidly to contain the COVID-19 crisis.** The early creation of the Supreme Committee for Combating Coronavirus in March 2020 was central in implementing preventive measures to curb the pandemic. Measures included closure of non-essential businesses, social distancing requirements, and border restrictions, while increasing health support to the population. A gradual reopening took place in latter half of 2020, but restrictions were extended in early 2021 in response to a rise in new cases. About 23.5 (6.6) percent of the targeted population has been partially or (fully) vaccinated as of July 5. Oman plans to immunize 70 percent of the population by end-2021.





3. **The authorities also undertook decisive measures to limit the impact of the pandemic on the economy**. Fiscal, monetary, and financial measures were deployed to ease the burden on households, firms, and banks (Annex I). Fiscal measures, amounting to 0.1 percent of GDP in 2020 (0.5 percent in 2021), included interest-free emergency loans, waiving or reducing selected taxes and fees, paying taxes in installments, and establishing the Job Security Fund to support citizens who lost their jobs. The Central Bank of Oman (CBO) eased financial conditions through lower interest rates and liquidity injections, loan payment deferral, and relaxed macroprudential requirements on capital buffers and liquidity ratios with potential utilization of 39.9 percent of GDP in 2020 (28.5 percent in 2021). Other reform initiatives have continued through the crisis. The Economic Stimulus Plan (ESP) was adopted in March 2021 to mitigate the impact of the new wave of COVID-19 cases and promote economic diversification through: temporary cuts to taxes and fees for selected sectors; strengthening the business and investment environment; supporting SMEs; and

promoting employment of nationals in the private sector. Also, until the completion of a social protection system planned for 2022, temporary social protection measures were announced in April 2021 targeted to the most vulnerable households and SMEs.

Text Table 1. COVID-19 Policy Support Measures

	2020		2021	
	OMR (millions)	Percent GDP	OMR (millions)	Percent GDP
Fiscal Measures				
Measures targeting households	-	-	129.9	0.4
Measures targeting businesses	23.8	0.1	16.5	0.1
Monetary Measures 1\	2632	10.8	1113	3.7
Regulatory Measures				
Measures targeting banks 2\	5700	23.4	5700	19.1
Measures targeting borrowers	1400	5.7	1700	5.7
Total	9755.8	40.0	8659.4	29.0

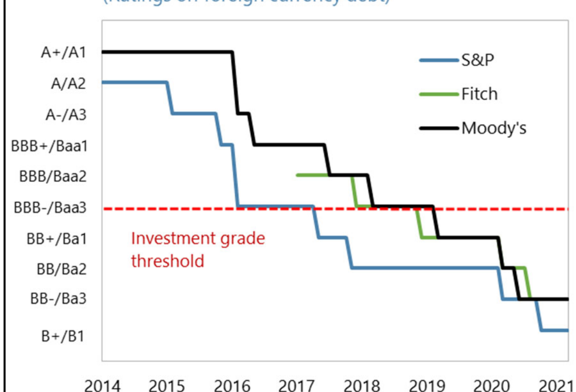
Source: MoF, CBO, and IMF calculations

1\ Repo and FX swap facilities.

2\ Potential utilization of capital conservation buffer (OMR 4200 million) and the increase in lending ratio (OMR 1500 million)

4. **Despite the pandemic and oil price shocks, financial markets have remained supportive.** Major credit rating agencies downgraded Oman's credit risk assessment by two notches in 2020. However, after an initial spike in April 2020, Oman's borrowing spreads have since declined, with two international bond issuances in 2021, including at long-dated maturities, benefitting from the retreat in spreads and investors' search for yield.

Evolution of Sovereign Credit Ratings
(Ratings on foreign currency debt)



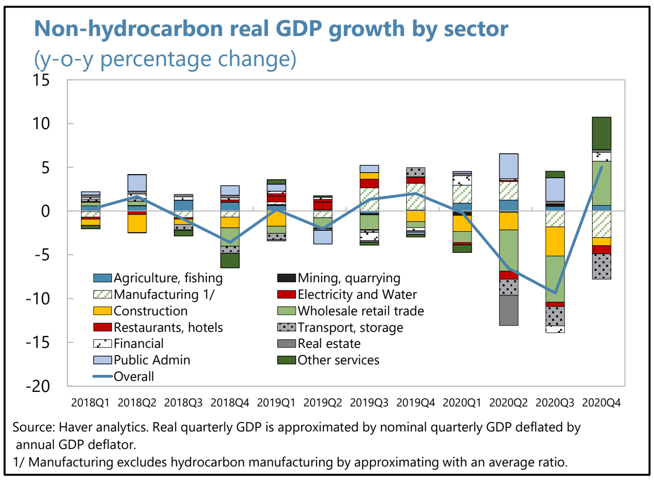
Sources: Moody's, S&P, Fitch and IMF staff calculations.

Sovereign Spreads
(In basis points)

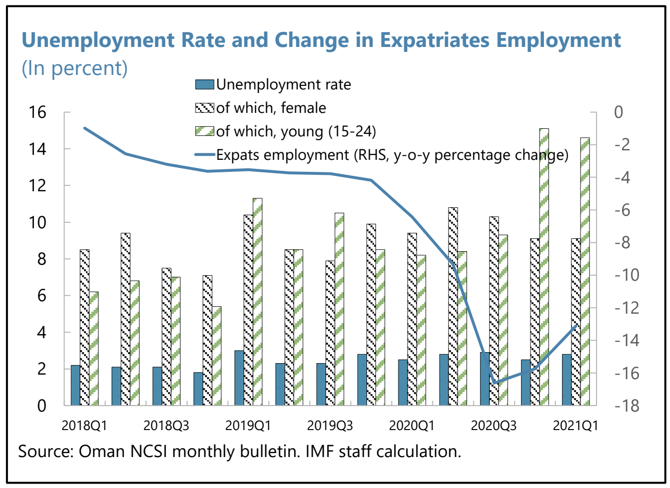
Source: Bloomberg L.P.

RECENT ECONOMIC DEVELOPMENTS

5. **The economic toll of the pandemic and oil sector shocks has been significant.** Besides the direct impact of COVID-19 on economic activity, sharp declines in oil prices and cuts to oil production under the OPEC+ agreement weighed on the oil sector. Overall GDP is estimated to have contracted by 2.8 percent in 2020, with real non-hydrocarbon growth at -3.9 percent and a shallower decline in hydrocarbon GDP due to strong oil condensate production not covered by the OPEC+ agreement. Construction, hospitality, and wholesale and retail trade sectors were particularly hard-hit. Inflation turned slightly negative at -0.9 percent in 2020 owing to subdued demand, but increased to 1.9 percent (y-o-y) in April mostly due to the launch of VAT. Labor market adjustment was facilitated by temporary wage cuts and a 13 percent reduction in expatriates by end March (y-o-y) . However, unemployment rates are high for female and young workers, despite the overall stable and low unemployment rate.

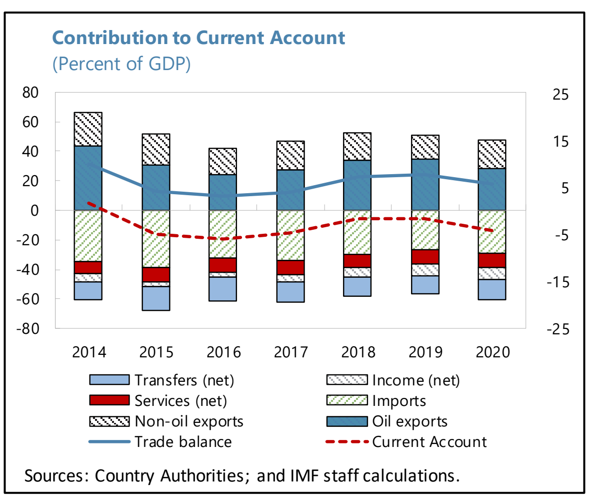


Source: Haver analytics. Real quarterly GDP is approximated by nominal quarterly GDP deflated by annual GDP deflator.
1/ Manufacturing excludes hydrocarbon manufacturing by approximating with an average ratio.

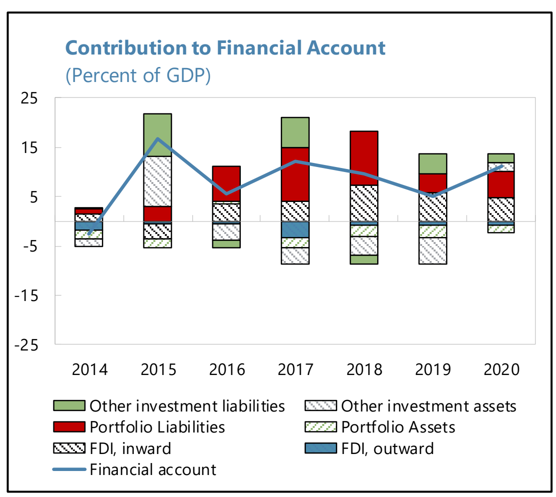


Source: Oman NCSI monthly bulletin. IMF staff calculation.

6. **The external position has weakened.** The current account deficit is estimated to have widened to -13.7 percent of GDP in 2020 (-5.5 percent in 2019), mostly owing to lower hydrocarbon exports. Official reserves declined slightly to US$15 billion (84.4 percent of ARA metric), reflecting stable FDI inflows and international bonds issuance. Including liquid assets of the Oman Investment



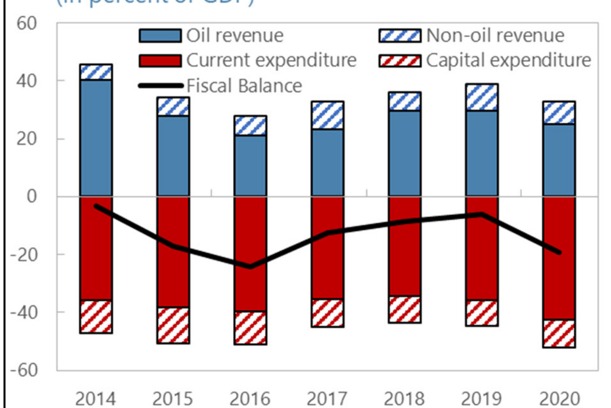
Sources: Country Authorities; and IMF staff calculations.



Authority (OIA) would raise reserves to 157.6 percent of the ARA metric. Staff assesses Oman's external position as substantially weaker in 2020 than the level implied by fundamentals and desirable policies (Annex III).

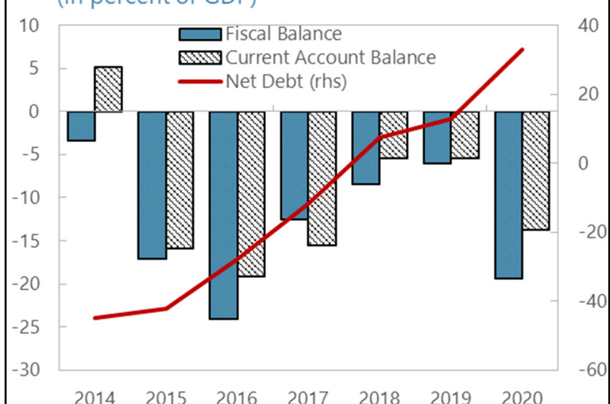
7. The fiscal deficit and government debt rose sharply in 2020, adding to the pre-existing upward trend of debt accumulation. Hydrocarbon and non-hydrocarbon revenue fell by 4.9 percent of GDP and 0.9 percent of GDP, respectively, reflecting lower oil prices and slump in economic activity. Despite attempts to constrain the wage bill, other current expenditure, and capital expenditure, the fiscal deficit widened to 19.3 percent of GDP, partly reflecting non-policy factors (the contraction in nominal GDP). Gross financing need reached 23.2 percent of GDP and was covered by domestic and external borrowing and non-debt creating financing (from drawdown of deposits and sovereign funds, and privatization proceeds). Central government debt rose to 81.2 percent of GDP (60.5 percent at end-2019), and net financial assets ratio—central government debt less deposits at depository corporations and OIA's liquid assets—declined to -33 percent of GDP (-13 percent at end-2019).

Fiscal Revenues and Expenditure
(In percent of GDP)



Sources: Country authorities and IMF staff calculations.

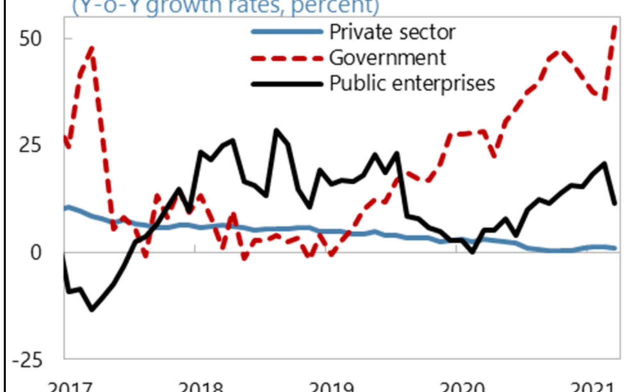
Fiscal and External Balances and Net Debt
(In percent of GDP)



Sources: Country authorities and IMF staff calculations.

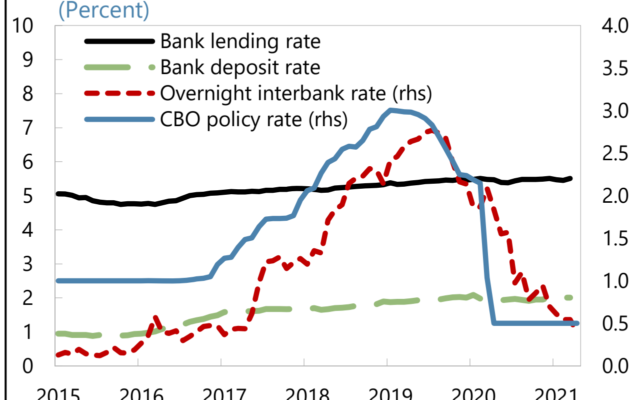
8. Private sector credit growth has slowed sharply, while claims on government and SOEs have increased. Credit growth to the private sector slowed to 1 percent (y/y) in March 2021, while

Banks' Claims by Sector
(Y-o-Y growth rates, percent)



Sources: Country authorities; Haver; and IMF staff calculations.

Interest rates
(Percent)

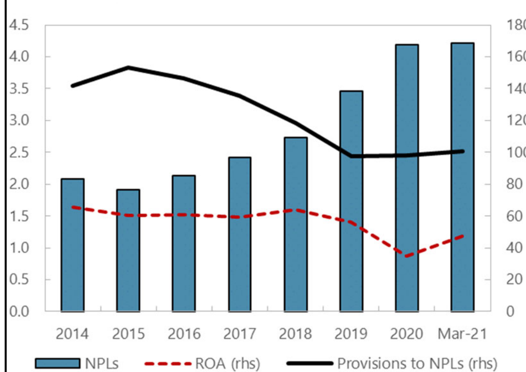


Sources: Country authorities; Haver; and IMF staff calculations.

private sector deposit growth was at 7.3 percent. However, claims on the government and SOEs increased by 52.8 percent and 11.5 percent, while their deposits decreased by 7.2 percent and 11.8 percent, respectively. The CBO policy rate and interbank rate fell sharply, with no pass through to deposit and lending rates.

9. Banks have ample capital and liquidity buffers. Banks' capital adequacy ratios averaged 18.5 percent and the Liquidity Coverage Ratio was 199 percent at end-March 2021, comfortably above regulatory minima. The NPL ratio increased to 4.2 percent (3.5 percent in 2019), with loan loss provision coverage of 65 percent and provisions to NPLs at 100 percent. Loan moratoria limited the impact on NPLs, with deferred payments amounting to 6.2 percent of bank credit outstanding at end-March 2021. Profitability declined slightly, with banks' ROA falling to 0.9 percent in 2020 (1.4 percent in 2019), reflecting weaker economic activity, lower oil prices, loan deferment, and provision charges. The authorities' stress tests indicate sufficient capital buffers to withstand severe scenarios.[1]

NPLs and Profitability Indicators
(Percent)

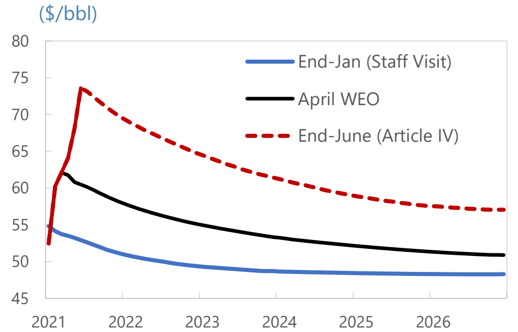


Source: CBO and IMF staff calculations.

OUTLOOK AND RISKS

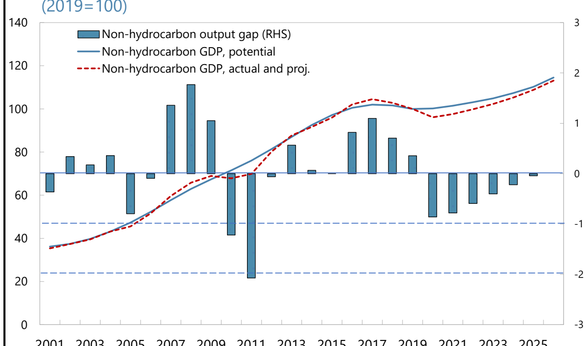
10. The economy is expected to recover gradually from the pandemic and strengthen over the medium term. Non-hydrocarbon GDP growth of 1.5 percent is projected for 2021, as vaccine rollout gradually restores domestic activity along with the recovery of external demand. Thereafter, it increases gradually to 4 percent in 2026, closing the negative output gap as the impact of fiscal adjustment subsides. Benefiting from the projected modest increase of hydrocarbon production, overall GDP is projected to grow around 2.5 percent in 2021. Oil production is projected to increase after the current OPEC+ agreement expires in April 2022. Nominal non-hydrocarbon GDP is

Average Oil Price Futures 1/
($/bbl)



Sources: Bloomberg L.P.; and IMF staff calculations.
1/ Average of Brent, WTI, and Dubai Fateh crude oil.

Potential Non-hydrocarbon Output and Output Gap
(2019=100)



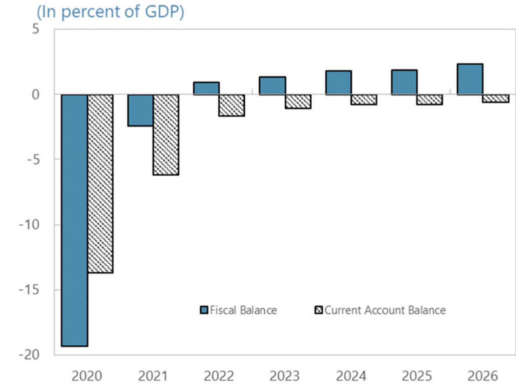
Source: country authorities and IMF staff calculation. Each dotted line represents one standard deviation.

[1] Based on March 2021 data.

projected to return to 2019 levels in 2022. Inflation is expected to increase to 3 percent in 2021 given the introduction of VAT and recovery in demand, before eventually declining to around 2.5 percent over the medium term.

11. Fiscal and external balances are projected to improve considerably. The overall adjusted fiscal balance is projected to strengthen from a deficit of 12.1 percent of GDP in 2020 to a surplus in 2022 due to recovery of hydrocarbon revenue and fiscal adjustment measures, curtailing gross financing needs. Fiscal deficits will be financed largely through external debt issuances, with some increased reliance on domestic debt issuance and drawdown of assets. Government debt is expected to decline to about 47 percent of GDP by 2026. Fiscal consolidation and higher oil prices are projected to narrow the current account deficit to 0.6 percent of GDP in 2026.

Fiscal and External Balances 1/
(In percent of GDP)



Sources: Country authorities and IMF staff calculations.
1/ Adjusted fiscal balance takes out expenditures on oil and gas that were hived to Energy Development Oman in 2021.

Text Table 2. Oman: Selected Macroeconomic Projections, 2019-26

		Prel.	Proj.					
	2019	2020	2021	2022	2023	2024	2025	2026
Real GDP Growth (percent)	-0.8	-2.8	2.5	2.9	4.2	2.9	3.3	2.6
Non-hydrocarbon GDP Growth (percent)	-2.8	-3.9	1.5	2.3	2.4	3.0	3.4	4.0
Inflation (percent)	0.1	-0.9	3.0	2.7	2.5	2.5	2.4	2.4
CA Balance (% of GDP)	-5.5	-13.7	-6.2	-1.7	-1.1	-0.8	-0.8	-0.6
Fiscal balance (adj., % of GDP)	0.0	-12.1	-2.4	0.9	1.4	1.8	1.8	2.3
Non-hydrocarbon primary balance (% of non-hydrocarbon GDP)	-46.7	-47.8	-39.1	-36.1	-33.3	-30.8	-28.7	-26.7
Government debt (% of GDP)	60.5	81.2	70.7	64.5	60.5	56.3	51.9	46.9
External government debt (% of GDP)	45.4	60.2	51.0	43.0	37.7	32.4	27.9	26.4

Sources: Country authorities; and IMF staff calculations

12. There are substantial uncertainties around the outlook, with downside risks dominating (Annex IV).

- On the *downside*, the emergence of COVID-19 variants would prolong the impact of the pandemic on the global outlook and intensify economic scarring of the most affected sectors. Tighter global financial conditions could worsen the fiscal and external positions. Public debt remains vulnerable to risks, particularly from oil market developments and shocks to GDP growth, the exchange rate, primary balance, and interest rates (Annex V). Social pressures could create headwinds for reforms. A substantial decline in oil prices would increase gross financing needs, impact liquidity in the banking system, and have negative spillovers in the non-hydrocarbon sector.

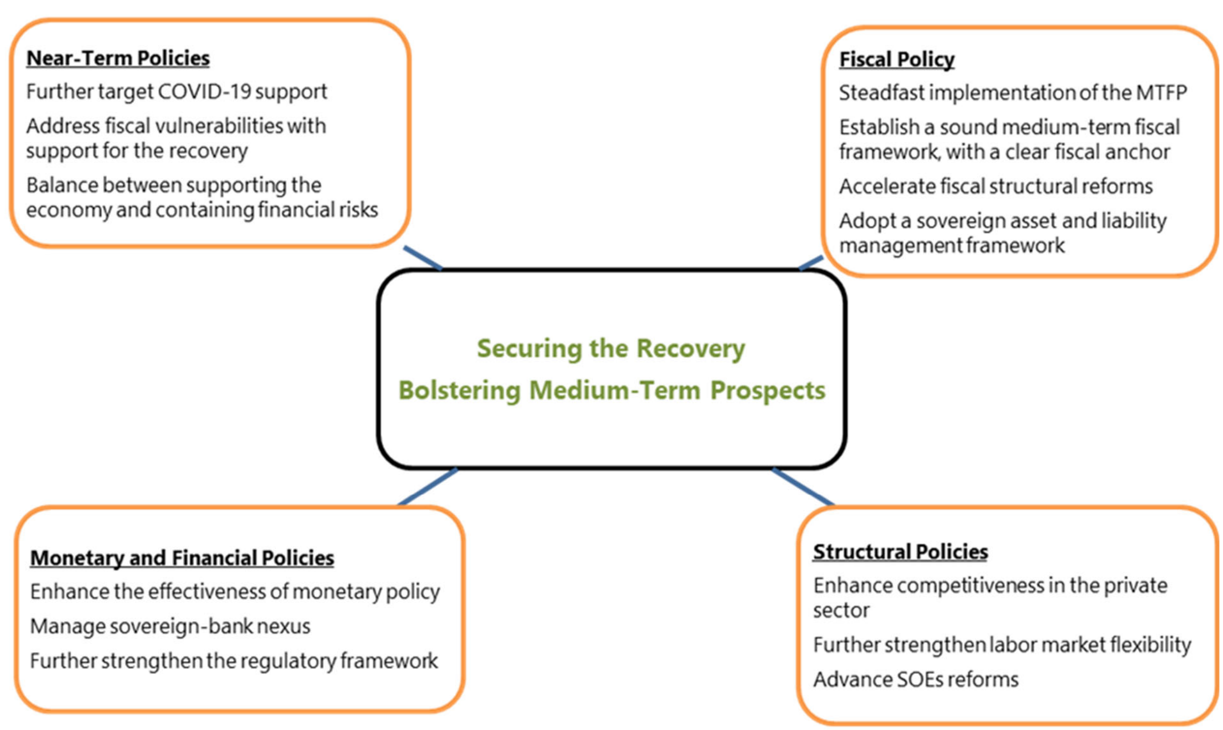
- On the *upside*, the outlook would be strengthened by a strong roll-out of vaccination, the ending of international travel restrictions, and a stronger rebound in global activity than anticipated. Higher oil prices and continued implementation of structural reforms would considerably improve the outlook.

13. Authorities' views. The authorities broadly agreed with staff's assessment of the outlook and risks. They emphasized that the expected acceleration of vaccination in the second half of the year and the likely subsequent easing of lockdown and travel restrictions will help entrench the economic recovery. They will continue to respond swiftly to COVID-19 and its impact on the economy, while maintaining macroeconomic sustainability and addressing societal concerns.

POLICY DISCUSSIONS

The policy discussions focused on: (i) supporting economic recovery in the near term; (ii) reinforcing fiscal and external sustainability by implementing the authorities' MTFP; (iii) safeguarding financial stability post COVID-19; and (iv) accelerating structural reforms to transition toward stronger growth.

Oman: Policies to Secure the Recovery and Bolster Medium-Term Prospects



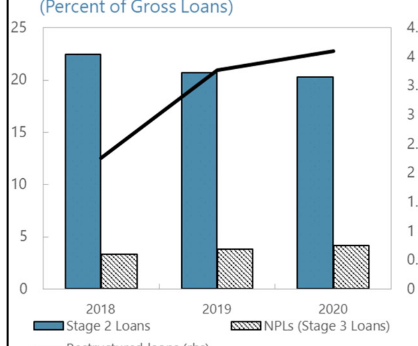
A. Near-Term Policies: Supporting Economic Recovery

14. Mitigating the impact of COVID-19 remains a priority until the recovery is firmly underway. The authorities and staff agreed that near-term policies should continue to address the health crisis (including vaccine rollout), support the recovery, mitigate risks to financial stability, and minimize economic scarring. Withdrawal of policy support measures would be carefully coordinated and calibrated to support hard-hit but viable sectors and avoid undermining the recovery. Staff encouraged the authorities to publish a detailed assessment of policy support measures to strengthen transparency.

15. To address rising fiscal vulnerabilities, the authorities announced the Medium-Term Fiscal Plan (MTFP) and broad public-sector reforms. The MTFP targets the elimination of the fiscal deficit over the medium term by boosting non-hydrocarbon revenue while restraining fiscal expenditure by improving its efficiency and targeting. The government established the OIA to assume ownership of all government companies and investments that were earlier overseen by the MoF. Also, Energy Development Oman (EDO) was created to manage government investments in oil, gas, and renewables. Revenue of EDO will be shared with the government through royalty taxation, and dividend, after deducting operational spending and debt service.

16. The 2021 fiscal stance, implementing the first year of the MTFP, supports the economy while frontloading consolidation to address vulnerabilities. Adjustment of 4.3 percent of GDP in the non-hydrocarbon structural primary balance is envisaged, primarily reflecting lower wage bill largely from mandatory retirement, reduction in water and electricity subsidies, introduction of VAT, and modest cuts in capital spending. Headline deficit reduction is considerable larger (by 9.7 percentage points to 2.4 percent of GDP), mainly reflecting a 22.7 percent rebound in nominal GDP (due to higher oil prices and economic recovery) and fiscal consolidation. Adjustment impact is mitigated by various policy support measures including social spending, loans, and temporary reductions/waivers of taxes and fees. With oil prices higher than budgeted (US$50/bbl), there is scope for additional temporary and targeted policy support for affected sectors and households if needed without jeopardizing medium-term consolidation objectives. Staff noted that temporary social protection may be helpful to provide income support to jobseekers not covered by the Job Security Scheme, particularly given the elevated female and youth unemployment rates.

Loans and NPLs
(Percent of Gross Loans)



Sources: Fitch Connect, and IMF staff calculations.

17. Financial policy responses should continue to strike a balance between supporting hard-hit sectors and containing financial stability risks. Along with rising restructured loans prior to the pandemic, loan moratoria and associated risk classification could obscure deterioration in asset quality. Given the gradual and uncertain recovery, credit risk is a concern going forward, requiring close monitoring. Thus, the CBO continues to have a forward-looking assessment of banks' asset quality and has taken measures, including continuing constraints on dividend distribution, to ensure that banks' buffers are adequate to withstand any future materialization of credit risks. Staff recommended that extending loan moratoria beyond September 2021 should be data-dependent and increasingly targeted to distressed but viable borrowers, taking into account the availability of other policy tools to support households and businesses. Systemic risk monitoring should be enhanced, including expanding thematic stress tests to pandemic-affected sectors.

18. **Economic scarring appears modest thus far, though this could change if the pandemic is prolonged.** The policy support measures have helped contain bankruptcies in hard-hid sectors. The authorities are supporting job search and training to facilitate reallocation of labor. Exit of expatriates appears reversible with the economic recovery. Further, loss of learning due to school closures has been mitigated by e-learning, offering new options to broaden the scope and quality of education and vocational training. Finally, coordinating COVID-19 policy support measures and structural reforms, announced as part of the ESP, would help minimize the long-term scars on the economy. However, the pandemic and collapsing oil prices in 2020 have exacerbated vulnerabilities, including intensifying corporate-bank-sovereign interlinkages. Moreover, the financial performance of non-financial corporates has deteriorated in recent years (Annex VII), with declining profitability, increasing leverage, and rising debt service for selected sectors. Staff acknowledged the updated Bankruptcy Law and stressed exploring the scope for further strengthening insolvency and debt restructuring tools to facilitate smooth resource reallocation.

19. **Authorities' views.** The authorities emphasized that near-term policies will be guided by the ESP. They expressed their cautious approach to phasing out policy measures, while supporting vulnerable households and affected sectors. To mitigate risks from the withdrawal of support measures, timing and calibration of exit measures are being carefully coordinated among government entities. The CBO will remain vigilant and agile in calibrating its policies, detecting early signs of potential deterioration in asset quality, and ensuring adequate buffers. A governmental committee was established to assess the impact on corporates and limit long-term economic scarring.

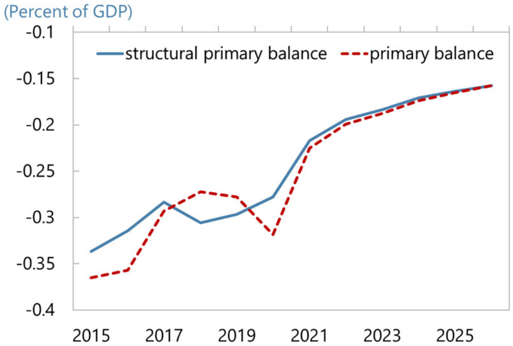
B. Fiscal Policy: Reinforcing Fiscal and External Sustainability

20. **Given upfront fiscal consolidation, the medium-term focus should be on building buffers and strengthening overall management of the public sector.** The debt stabilizing primary balance is projected to be achieved in 2021 and additional fiscal adjustment measures would help to reduce debt more decisively. Moreover, a clear fiscal anchor, fiscal structural reforms, and a holistic sovereign asset and liability management framework would strengthen fiscal resilience.

21. **Steadfast implementation of the MTFP is essential to reinforce fiscal and external sustainability**. The authorities expressed their strong

Non-hydrocarbon primary balance

(Percent of GDP)



Sources: Country authorities; and IMF staff calculations.

commitment to implementing the MTFP and avoiding procyclical fiscal policy. Frontloaded consolidation measures in the 2021 budget have been smoothly implemented, bolstering confidence. The non-hydrocarbon structural primary balance is estimated to improve by an additional 5.1 percentage points of GDP over 2022-2026.

Text Table 3. Decomposition of Fiscal Adjustment

(Percent of GDP, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026
Nominal GDP (in billions of Omani Rials)	29.3	24.4	29.9	31.7	32.4	33.4	34.6	36.1
Nominal potential GDP (in billions of Omani Rials)	27.8	27.9	30.7	32.2	32.9	33.8	34.8	36.1
Output gap	1.05	0.87	0.97	0.98	0.99	0.99	0.99	1.00
Overall fiscal balance (adj.)	0.0	-12.1	-2.4	0.9	1.4	1.8	1.8	2.3
Gross financing needs	6.5	23.2	8.7	7.4	4.5	2.6	3.6	6.6
Nonhydrocarbon fiscal balance	-29.6	-36.7	-25.8	-24.3	-23.0	-21.8	-20.8	-19.6
Non-hydrocarbon structural primary balance 1/	-29.1	-25.6	-21.3	-19.8	-18.7	-17.7	-16.9	-16.2
Structural non-hydrocarbon primary revenue 2/	7.3	8.0	7.4	8.1	8.4	9.0	9.3	9.3
Value added tax	0.0	0.0	0.9	1.3	1.6	1.8	1.8	1.9
Personal income tax	0.0	0.0	0.0	0.3	0.8	1.0	1.2	1.3
Excises	0.1	0.3	0.3	0.2	0.3	0.3	0.3	0.3
Expatriate license fees	0.9	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Others 3/	6.3	7.1	5.6	5.6	5.2	5.4	5.3	5.3
Structural primary expenditure 2/	36.4	33.6	28.7	27.9	27.2	26.8	26.2	25.5
Wage bill	12.1	12.9	10.5	10.4	10.6	10.7	10.9	10.9
Goods and services	2.7	2.4	2.2	2.0	2.0	1.9	1.9	1.9
Subsidies	4.7	4.6	3.5	3.4	2.6	2.3	1.9	1.5
Other current expenditure	12.1	10.0	9.7	9.3	9.1	8.9	8.7	8.4
Capital (excluding oil and gas)	4.8	3.6	2.9	2.9	2.9	2.9	2.9	2.8
Others	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items								
Primary expenditure (adj., in billions of Omani Rials)	10.8	10.2	9.6	9.8	9.8	9.9	10.0	10.1

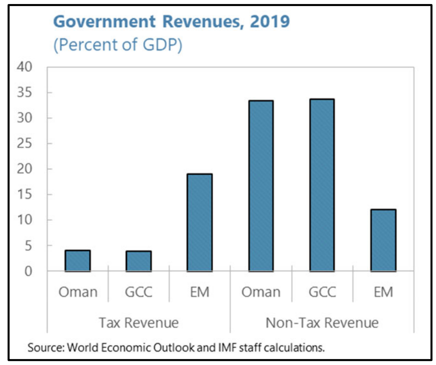
Sources: MoF; and staff estimates.

1/ Adjusted by the economic cycle, assuming revenue elasticity of one and expenditure elasticity of zero.

2/ Percent of nominal potential GDP.

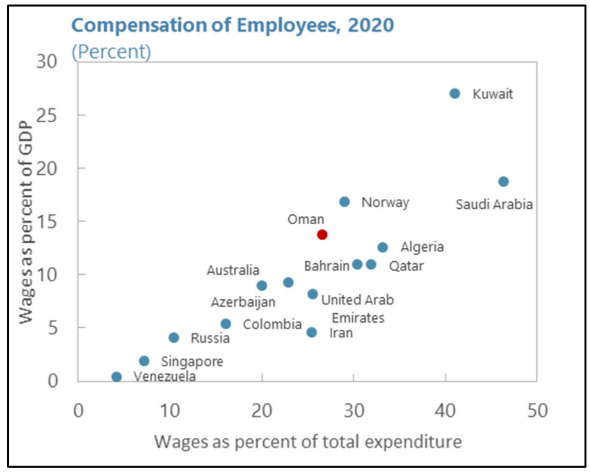
3/ Mainly non-tax revenue and largely reflecting dividend income from OIA, which is constant in nominal term.

- *Raising non-hydrocarbon revenue:* tax revenue is low (4 percent of GDP in 2019) compared to other emerging economies (20 percent of GDP). The introduction of the VAT is a milestone achievement in strengthening the tax culture and tax administration, with exemptions limited to basic food items, health and education services, and oil derivatives. Preparations to launch personal income tax on high-income earners in late 2022 are progressing, with careful consideration of social and economic aspects. Staff welcomed the establishment of Oman Tax Authority to support revenue mobilization, and encouraged the authorities to avoid tax exemptions.



Government Revenues, 2019
(Percent of GDP)
Source: World Economic Outlook and IMF staff calculations.

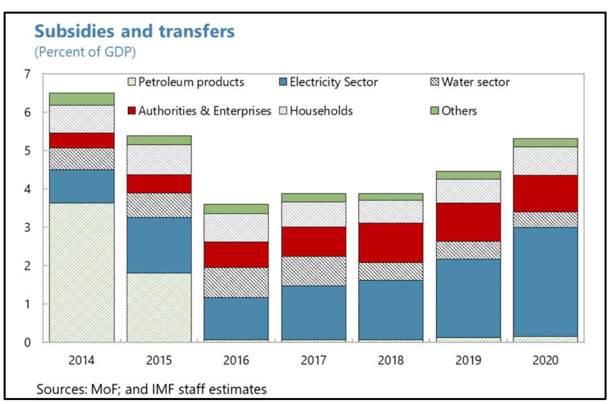
- *Wage bill*: wages and benefits account for 25 percent of spending, which is high in a global context.[2] Net employment in the civil service has flattened in recent years and wage bill spending was largely stabilized. In 2021, measures to streamline the wage bill included mandatory retirement for long serving employees, lower wage grid for new recruits, increasing the minimum years of service required for early retirement, and rationalizing allowances, which would reduce the wage bill by 2.4 percent of GDP in structural terms. Going forward, it will be important to keep the wage bill from rising as a share of GDP.



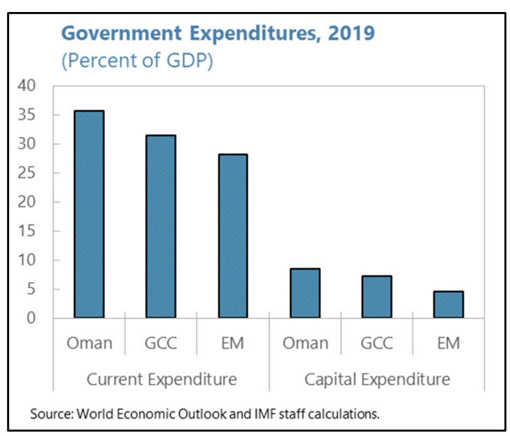
Compensation of Employees, 2020
(Percent)

- *Targeting subsidies*: While fuel subsidies have declined by 3.5 percent of GDP since 2014, electricity subsidies increased by 2 percent of GDP. New electricity and water tariffs were implemented in January 2021, which improve targeting to the most vulnerable groups, and subsidies on non-vulnerable groups are to be phased out by 2025. The National Subsidy System, established in 2016 when the fuel subsidies were removed, aims to ensure vulnerable groups are protected from the removal of tariffs.

- *Streamlining capital expenditure*: consistent with internationally accepted practice, hydrocarbon capital expenditure—about 7.2 percent of GDP—has been shifted from the budget to EDO.



Subsidies and transfers
(Percent of GDP)
Sources: MoF; and IMF staff estimates



Government Expenditures, 2019
(Percent of GDP)
Source: World Economic Outlook and IMF staff calculations.

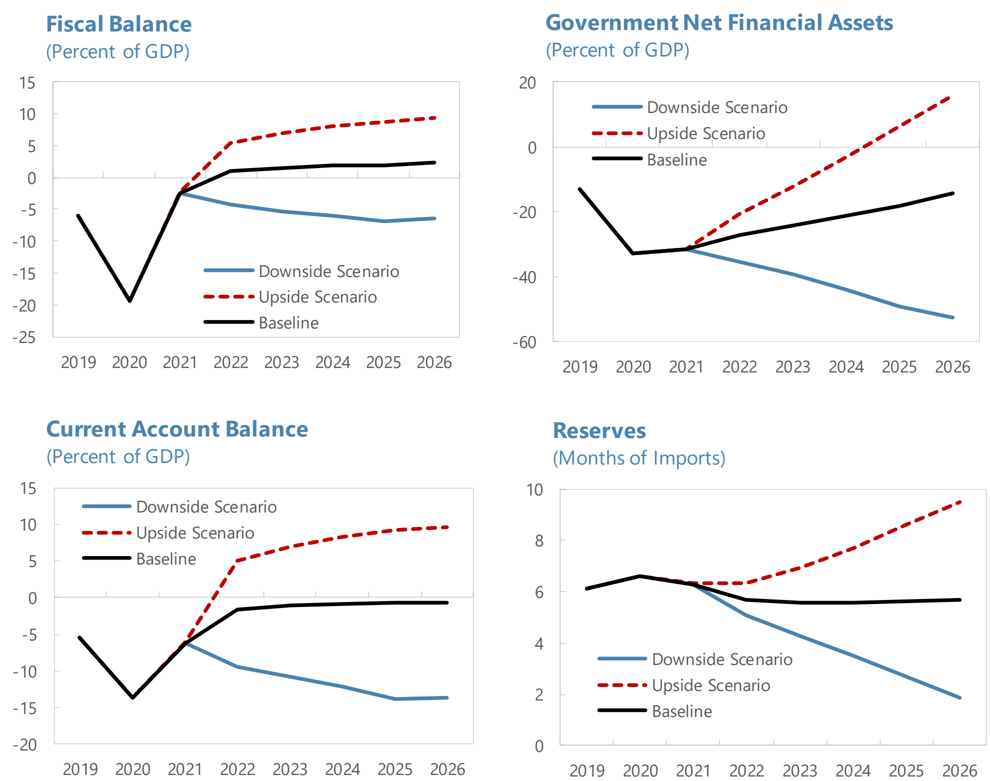
[2] The authorities conducted a Public Expenditure Review, carried by the World Bank.

Non-hydrocarbon capital expenditure will also be streamlined by prioritizing and rationalizing new projects.

22. Key risks to the MTFP stem from prolonged pandemic, oil price volatility, and potential social pressures. Prolonged pandemic could intensify pressure for policy relaxation or delay withdrawal of policy support measures. Higher than anticipated oil prices could increase the procyclicality of fiscal policy. On the other hand, a one standard deviation adverse oil price shock would reduce net financial assets to -52.8 percent of GDP by 2026, underscoring the need to keep the momentum of fiscal adjustment.[3] The authorities considered that upside risks to oil prices were dominant, but they have prepared a contingency plan based on streamlining expenditure while protecting policy priorities, and drawdown of assets if needed. In this context, intensive outreach to the general public and continued efforts to further strengthen the social safety net are essential to sustain public support for the MTFP.

Upside/Downside Oil Price Scenarios 1/

(Percent of GDP)

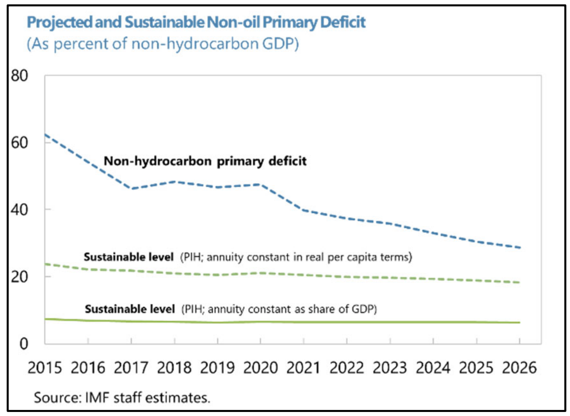


Source: IMF Staff Calculations

1/ The low oil price scenario assumes the oil price is one standard deviation below the WEO oil price from 2022 to 2026. The high oil price scenario assumes the oil price is one standard deviation above the WEO oil price for the same time period. Both scenarios assume no change in government spending, non-oil revenue collections, or external borrowing relative to baseline.

[3] An oil price of US$33.1 and US$78.2 is assumed for downside and upside scenarios, respectively, compared to US$55.7 in the baseline scenario in 2026.

23. Establishing a clear fiscal anchor would help in achieving the fiscal consolidation.



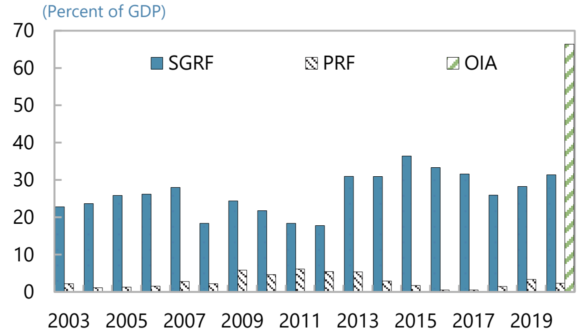
- Given the sensitivity of the headline fiscal balance to oil prices, a target for the non-hydrocarbon structural primary balance—which would be robust to oil price and cyclical volatility while supporting the MTFP's consolidation goals—could be an appropriate fiscal anchor, supplemented by a floor on government net financial assets. Beyond the medium term, staff emphasized intergenerational equity and long-term sustainability, given the weak long run outlook for hydrocarbon markets if climate actions accelerate. Implementation of the MTFP would narrow the fiscal sustainability gap, with the non-hydrocarbon primary deficit projected to decline from 48 percent of non-hydrocarbon GDP in 2020 to about 27 percent by 2026, which would reduce the net financial assets ratio to -14.4 percent of GDP. Staff also recommended adopting a fiscal strategy that incorporates the MTFP and contains fiscal risk analysis, including the sensitivity of fiscal plans to varying economic scenarios. In this context, the authorities welcomed recent IMF TA to strengthen the macro-fiscal function in the MoF.

- The authorities aim to make fiscal policy more countercyclical. To this end, they plan to establish a counter-cyclical account for economic and social stability to help strengthen fiscal policy support under adverse scenarios and to support economic diversification efforts more broadly. Staff welcomed the intention to make fiscal policy more countercyclical, while pointing to significant considerations in designing the Account, including tradeoffs between accumulating highly liquid assets, servicing high levels of debt, and supporting the economy. There is also a need to align the OIA to the fiscal framework through inflow and outflow rules that are consistent with a fiscal anchor.

24. Enhancing public financial management and fiscal governance would improve accountability and effectiveness of policy. The authorities have established a Strategic Procurement Unit, mandated to procure mainly operational expenditure, to improve the government procurement process and enhance spending efficiency. They are also developing a treasury single account to improve cash management. With reallocation of hydrocarbon capital expenditure to EDO and OIA oversight of SOEs, staff recommended expanding fiscal coverage beyond the budgetary central government to give a more comprehensive picture on the sustainability of the broader public sector. While the authorities publish monthly fiscal performance, more disclosure on revenue, expenditure, and financing (including a periodic debt bulletin) would be helpful.

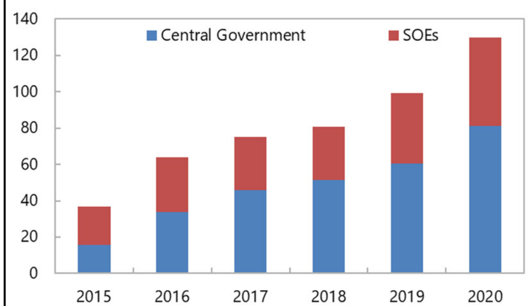
25. A sovereign asset and liability management (SALM) framework is being developed given eroding financial buffers and the growing role of SOEs. The establishment of Debt Management Committee—comprising MoF, CBO, Capital Market Authority (CMA), and OIA—to coordinate sovereign debt issuance and manage financial exposures is welcome. The authorities agreed with staff's recommendation on expanding the mandate of the Committee to cover sovereign assets and liabilities, identify and mitigate sovereign risk exposures, decide on borrowing versus asset drawdown given the cost of carry, and assess sustainability of the sovereign balance sheet (Annex VI). The Counter-Cyclical Account for Economic & Social Stability should be embedded within a SALM framework, be fully integrated with the government budget process, and have a clear role in comparison to other funds. Regular reporting on sovereign assets and liabilities should be further enhanced. The debt management office (DMO) has continued to strengthen its human and analytical capacity, including through IMF TA. The authorities are expected to finalize their medium-term debt strategy by end-2021 to guide the government's borrowing program and provide more predictability to the financial system.

Oman SWFs
(Percent of GDP)



Sources: MoF and OIA; and IMF staff estimates

Sovereign Debt
(Percent of GDP)



Sources: MoF; and IMF estimates.

Text Table 4. Oman's Sovereign Balance Sheet 1/
(2020 or latest available, percent of GDP)

	Budgetary Central Government	OIA	SOEs	PRF	Other 4/	Public Sector
Assets	**695.6**	**54.1**		**10.9**	**36.4**	**797.0**
Non-Financial Assets	668.4					668.4
Fixed assets 2/	201.7					
Hydrocarbon 3/	466.7					
Financial Assets	27.2	54.1		10.9	36.4	128.7
liquid assets	27.2	17.1		10.9	36.4	91.6
illiquid assets		37.0				37.0
Liabilities	**81.1**		**39.1**			**120.2**
Domestic	20.9		14.4			35.4
External	60.2		24.7			84.8
Net Assets	**614.5**	**54.1**	**-39.1**		**36.4**	**676.8**
Net financial assets	**-53.9**	**54.1**	**-39.1**	**10.9**	**36.4**	**8.5**
Net liquid financial assets	**-53.9**	**17.1**	**-39.1**	**10.9**	**36.4**	**-28.6**

Sources: Country authorities; and IMF staff calculations and estimates.

1/ A simplified balance sheet. It can be extended to include public pension funds and contingent liabilities.
2/ IMF staff estimate using the perpetual inventory method.
3/ Net present value of government hydrocarbon revenue.
4/ Government ownership in the banking system and CBO net assets.

26. Authorities' views. The MTFP, alongside other economic policies, will reduce dependency on oil revenue, ensure debt sustainability, enhance the social safety net, and strengthen public financial management. The government has taken important steps in developing the fiscal framework and is committed to continuing reforms building on the IMF TA. Top-down budgeting, consistent with the objectives of Vision 2040, will be utilized in preparing the 2022 budget. Strengthening tax administration is a priority. The DMO is drafting the Debt Law and working closely with the CBO and the CMA on developing the domestic market.

C. Monetary and Financial Policies: Safeguarding Financial Stability

27. The authorities and staff agreed that the exchange rate peg remains an appropriate policy anchor, delivering low and stable inflation. A more flexible exchange rate could support the development of the non-hydrocarbon tradable sectors over time. However, a move away from the peg would have limited benefits for competitiveness in the near term and remove an effective nominal anchor. The authorities expressed an open attitude toward moving to a more flexible exchange rate regime in the long run as the importance of the non-hydrocarbon tradable sector increases. The MTFP and structural reforms are critical to support the peg.

28. Staff supported progress in enhancing the effectiveness of monetary policy. The CBO launched the Monetary Policy Enhancement Project (MPEP) in January 2020, within the boundaries of the fixed exchange rate regime. In line with IMF TA, the MPEP aims to: smooth monetary policy transmission mechanism; improve the efficiency of the interbank money and FX markets; develop liquidity assessment and forecasting, including for Islamic banking entities; enhance the operational and regulatory framework for emergency liquidity assistance; and advance CBO's macroeconomic forecasting capabilities.

29. Careful management of the sovereign-bank nexus over time would support banking system resilience. Deposits from government and SOEs constituted around 30 percent of total deposits. Banks' claims on government and SOEs increased rapidly from 10 percent to 19 percent of total assets during 2014-2020. Counting government securities toward a portion of banks' reserve requirement has also increased interlinkages.[4] Sovereign's ownership in the banking system accounted for 35 percent of banks' equity in 2020. Staff recommended managing these increasing interlinkages, including by strengthening the public sector balance sheet that may otherwise crowd out private sector lending and implementation of envisaged privatization of SOEs.

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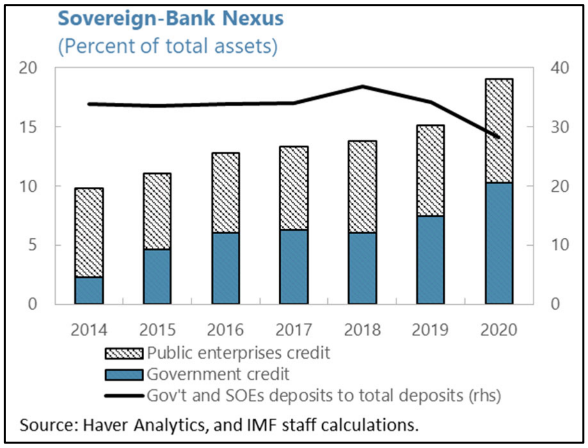
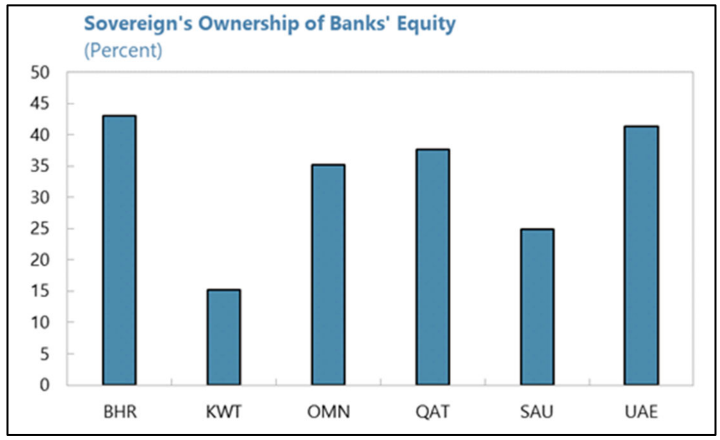
[4] Reserve requirement is 5 percent, with banks allowed to include investments in government securities up to 2 percent of reserve requirement.





30. The financial sector continues to be well regulated and supervised, and the regulatory frameworks could be strengthened further:

- **Credit exposure:** to reduce credit exposures to non-residents, the CBO tightened the limit on banks' foreign assets from 75 to 50 percent of banks' net worth. Staff recommended replacing the limit with non-discriminatory prudential measures (e.g., country credit risk weighting) that address underlying risks without limiting capital flows and affecting domestic systemic risk. Additionally, though sectoral lending exposures are broad, risks relating to lending to the commercial real estate sector, which has been negatively impacted by the pandemic, should be carefully monitored.[5]

- **Resolution framework:** the Bank Resolution Framework issued in 2019 is to be grounded in the Banking Law to provide legal certainty—in areas relating to dissolution, liquidation, and termination of banks—while addressing the outstanding gaps vis-à-vis good practices and supporting effective resolution implementation. The Banking Law is under revision by the Ministry of Justice and Legal Affairs.

- **Capital markets:** the CMA has continued with the equity and debt market reforms, including enacting the Commercial Companies Law and developing the Securities Law. While government debt securities are listed in Oman, secondary market activities remain limited. The authorities intend to publish an annual borrowing plan, alongside an auction calendar, to facilitate the development of the government debt market.

- **Fintech:** staff noted ongoing efforts to promote Fintech to enhance financial inclusion, especially for women, youth, and SMEs (with loans below a 5-percent target in banks' loan portfolio), while containing risks accumulating outside the traditional financial sector.

[5] Mortgages are the largest components in real estate financing, accounting for 15 percent of total loans, but secured by salary assignment.

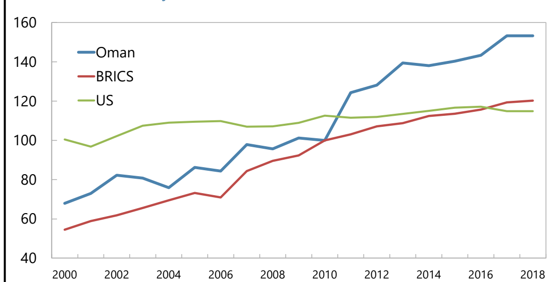
- **AML/CFT:** the authorities approved the National AML/CFT Strategy for 2020-2022 that outlines the measures to be implemented based on the findings of the National Risk Assessment. Oman is expected to undergo its AML/CFT mutual evaluation in 2021.

31. Authorities' views. The authorities acknowledged the sovereign-bank nexus, but they indicated it is less likely to pose any challenge given high capital and liquidity ratios. They are promoting green financing for energy projects.

D. Structural Policy: Managing the Transition toward Stronger Growth

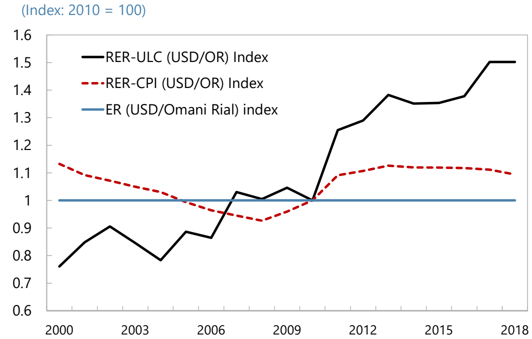
32. The authorities have started implementing the planned structural reforms under Oman Vision 2040 to boost non-oil private sector growth and support external sustainability. These reforms focus on, among others, enhancing labor market flexibility (Annex VIII), promoting private investment and efficient use of public resources, and improving business environment. They have also set up an Implementation Follow-Up Unit to coordinate and strengthen the implementation of these structural reforms. Staff welcomed these efforts, noting that the unit labor cost based real exchange rate indicates declining competitiveness, underscoring the importance of productivity enhancing policies and internal price adjustment.

Unit Labor Cost
(index 2010=100, adjusted for CPI)



Source: UNIDO INSTAT database and IMF staff calculations. UNIDO INSTAT data cover manufacturing industry only. Brazil is excluded due to periods of high infaliton. Simple average for indexed unit labor cost for BRICS.

Real Exchange Rates
(Index: 2010 = 100)



Sources: country authorities and IMF staff calculations.

33. Labor market reforms are important to raise competitiveness and foster the creation of private sector jobs. To facilitate reallocation of workers from hard-hit sectors and help mitigate the impact of the pandemic and fiscal consolidation on the vulnerable, the authorities have taken several measures, including: simplifying the multiple minimum wages linked to qualification levels to a single minimum wage of OMR 325/month; a time-bound wage subsidy of OMR 200/month for first time Omani jobseekers to facilitate private sector employment of Omanis, initially expected to cover about 15,000 persons; and hiring of 15,000 jobseekers in the public sector. The update to Oman labor law is ongoing and is expected to improve the flexibility of the labor market. The authorities and staff agreed on the following key aspects of the labor market reforms:

- **Promoting employment in the private sector.** To incentivize Omanis to take private sector jobs, clear expectations about the limited prospects for future public-sector employment is helpful. The growth of public sector wages and benefits should not outpace that of the private sector.

- **Adopting more flexible expatriate labor policies.** The recent removal of regulations that require employer consent before expatriates switch employers is a welcome step. More comparable wage and compensation between the private and public sectors would reduce risks of skills mismatch or labor shortages in rapidly expanding sectors. Plans to further reduce the wage gap between Omanis and expatriates by increasing fees for hiring expatriates should be implemented with caution to avoid undermining competitiveness. Further improving social protection, notably pension scheme for expatriates, would help attract more talents from abroad.

- **Encouraging female labor force participation**. Measures that further improve working environment for women such as extending maternity benefits, improving the provision of childcare, and facilitating job searching would help better utilize the skills of the female and promote inclusive growth. Encouraging female entrepreneurs under SME initiatives could generate positive effects to increase female labor participation.

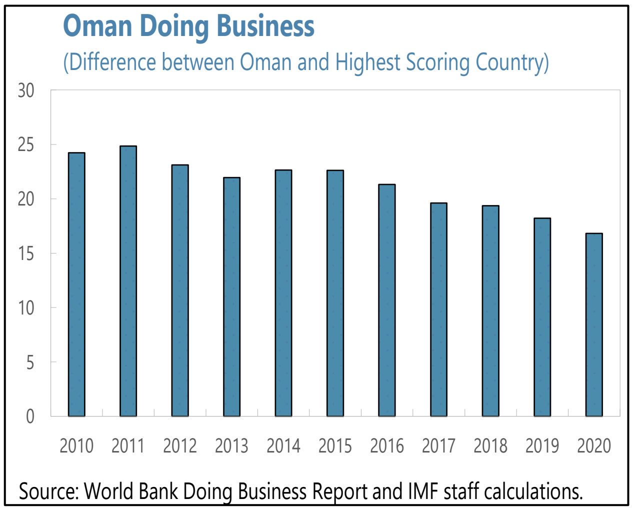
- **Increasing the efficiency of public spending on education and vocational training.** Efforts to improve the quality of education and the vocational training to afford jobseekers with necessary skills to enter the labor market and raise their productivity are important. The government's ongoing efforts to promote training and employment programs in partnership with the private sector are welcome.

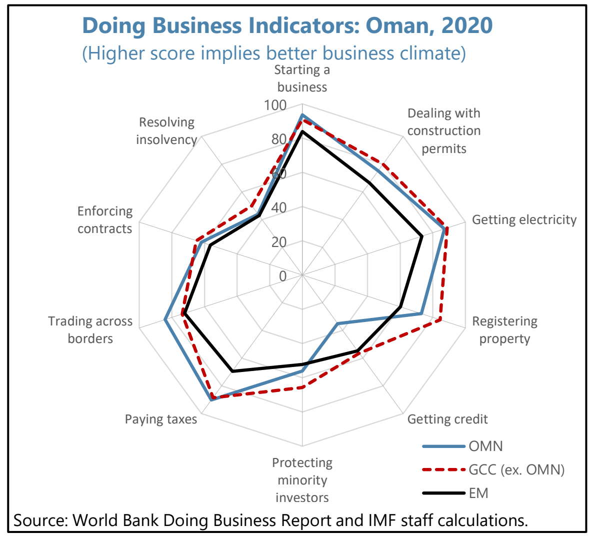
34. Ongoing efforts to strengthen the social safety net are necessary to facilitate labor market flexibility and increase social support for reforms. The Job Security Fund was established in November 2020 to provide unemployment benefit and facilitate the reallocation of the unemployed. The coverage period has been extended temporarily from six months to one year to mitigate the adverse impact of the pandemic on the vulnerable. The authorities have started simplifying the pension system and preparing a comprehensive social safety net reform to strengthen efficiency and adequacy of the social safety nets.

35. SOE reforms are welcome and would enhance competition and efficiently manage public resources. The OIA's plan to enhance the efficiency and governance of SOEs and privatize some is progressing well. The near-term priorities continue to be on strengthening corporate governance by publishing audited financial statements, assessing each entity's business strategy and public policy considerations, and mitigating financial exposures including intra-public sector assets and liabilities. OIA and CMA are working together to develop a Code of Governance for SOEs—based on the OECD guidelines on Corporate Governance of SOEs—to strengthen corporate governance, making it easier for SOEs to go through initial public offerings and meet the required transparency.

36. Creating a business-enabling environment is crucial for private sector development and higher productivity. Oman has made substantial improvements to the business environment in the past decade. In this context, several laws have been modernized in the past two years, including: Privatization and Public Private Partnership Laws, which refined the legal framework to incentivize private sector investment; the Bankruptcy Law that introduced restructuring procedures and filled gaps in the legal infrastructure; and Foreign Capital Investment Law that relaxed

restrictions on foreign investment, streamlined the registration and licensing procedures for foreign investors and aligned foreign investors' rights and incentives to those given to local investors. Special Economic zones have attracted substantial foreign investment, though there is scope to further stimulate spillover effects from these economic zones to the local economy.





37. Actions are being taken to develop a greener Omani economy. Adaptation and mitigation to climate change will be guided by the updated national strategy. The government has been working on strengthening infrastructure and resilience of the areas affected most by climate change including agriculture, fishery, and human health. On climate change mitigation, strategic actions to reduce greenhouse gas emissions include: promoting solar and wind power generation; increasing the adoption of low carbon technologies in industry; promoting carbon emission management in new industrial projects; and improving industrial energy efficiency through the implementation of waste heat recovery systems. Such measures have potential to attract domestic and foreign investors and eventually contribute to growth and job creation.

38. Authorities' views. The authorities emphasized that the time-bound wage subsidy to the first-time jobseekers will remain temporary and promoting Omanis' employment in the private sector will continue to be the top policy priority. Social safety net reforms are ongoing, with support from ILO and UNICEF, aiming at ensuring programs adequacy and sustainability to targeted vulnerable groups. The authorities are committed to reforming SOEs, including privatization after addressing efficiency and profitability issues, and achieving greater transparency by publishing financial balances.

STAFF APPRAISAL

39. The authorities' swift response helped to contain the COVID-19 crisis and its impact on the economy. The multi-pronged fiscal, monetary, and financial measures have eased the burden on households, firms, and banks. The economy is expected to recover gradually from the pandemic and strengthen over the medium term, though there are substantial uncertainties to the outlook. Volatility in oil prices and implementation of fiscal and structural reforms would have a significant impact on the outlook.

40. Supporting economic recovery until it is firmly entrenched should remain a priority. Policies should be calibrated to support households and hard-hit sectors. Fiscal policy should continue to balance supporting the recovery and addressing fiscal vulnerabilities. Additional time-bound and targeted policy support should be deployed if needed, without jeopardizing medium-term macroeconomic sustainability objectives. Banks are well-capitalized and liquid, though loan deferral program will likely have masked some financial vulnerabilities. Striking a balance between supporting the hard-hit sectors and containing risks to financial stability is necessary, while taking into account the availability of other policy tools to support households and businesses. Supporting jobseekers and distressed but viable borrowers would facilitate resource reallocation.

41. Steadfast implementation of the MTFP is essential to put debt on a firm downward path and rebuild fiscal buffers. The authorities' policies to raise non-hydrocarbon revenue and contain expenditure would help achieving the MTFP. The introduction of the VAT is welcome. Prolonged pandemic, oil price volatility, and potential social pressures are key risks to the implementation of the MTFP. Further strengthening the social safety net, sustained outreach, and broader consultation with stakeholders are necessary to ensure continued public support for the MTFP and structural reforms. A clear fiscal anchor, robust to oil price and cyclical volatility should be established to support the implementation of the MTFP. Expanding fiscal risk analysis, including the sensitivity of fiscal plans to varying economic scenarios, would strengthen contingency plans to respond to future adverse shocks.

42. Enhancing public financial management and fiscal governance would improve accountability and effectiveness of policy. Fiscal coverage should be expanded beyond the budgetary central government to give a more comprehensive picture on the sustainability of the broader public sector. Greater disclosure in monthly fiscal reports is needed, including on revenue, expenditure, and financing. A sovereign asset liability management framework should be developed given eroding financial buffers and growing role of SOEs to mitigate potential sovereign risk exposures and ensure sustainability of the sovereign balance sheet.

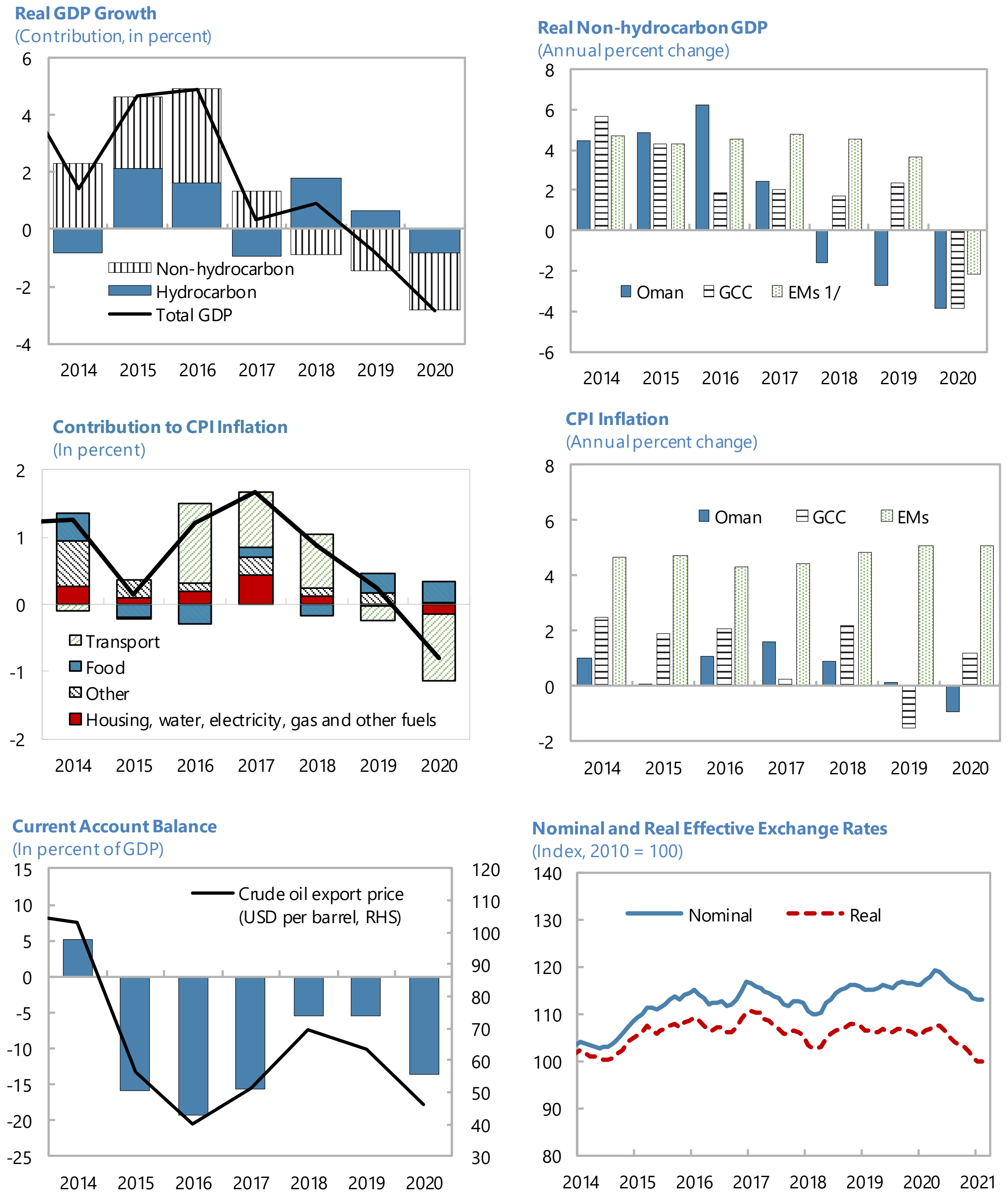
43. The exchange rate peg remains an appropriate policy anchor, delivering low and stable inflation. While a more flexible exchange rate could support the development of the non-hydrocarbon tradable sectors over time, a move away from the peg would have limited benefits for competitiveness in the near term and remove an effective nominal anchor. The team assesses that the external position in 2020 was substantially weaker than the level implied by fundamentals and desirable policies. The MTFP and structural reforms therefore are critical to support the peg. The launch of the MPEP would enhance the effectiveness of monetary policy.

44. The financial sector continues to be well regulated and supervised, and the regulatory frameworks could be strengthened further. Sovereign-bank nexus should be carefully managed to avoid crowding out lending to the private sector. A limit on banks' credit exposures to non-residents can be replaced with non-discriminatory prudential measures. The resolution framework should have legal certainty, grounded in the Banking Law, in supporting effective resolution implementation. Capital market reforms are welcome. Promoting Fintech would enhance financial inclusion, especially for women, youth, and SMEs.

45. Structural reforms are needed to boost non-oil private sector growth and supporting fiscal and external sustainability. Labor market reforms are important to facilitate resource reallocation, raise competitiveness, and foster the creation of private sector jobs. The planned reforms to social safety net would also supplement the labor market reform. These efforts, together with other reforms that strengthens public resource management and improve business environment, would help attract private investment and support non-oil private sector growth. The actions taken to develop a greener Omani economy are welcome and would support long-term economic sustainability.

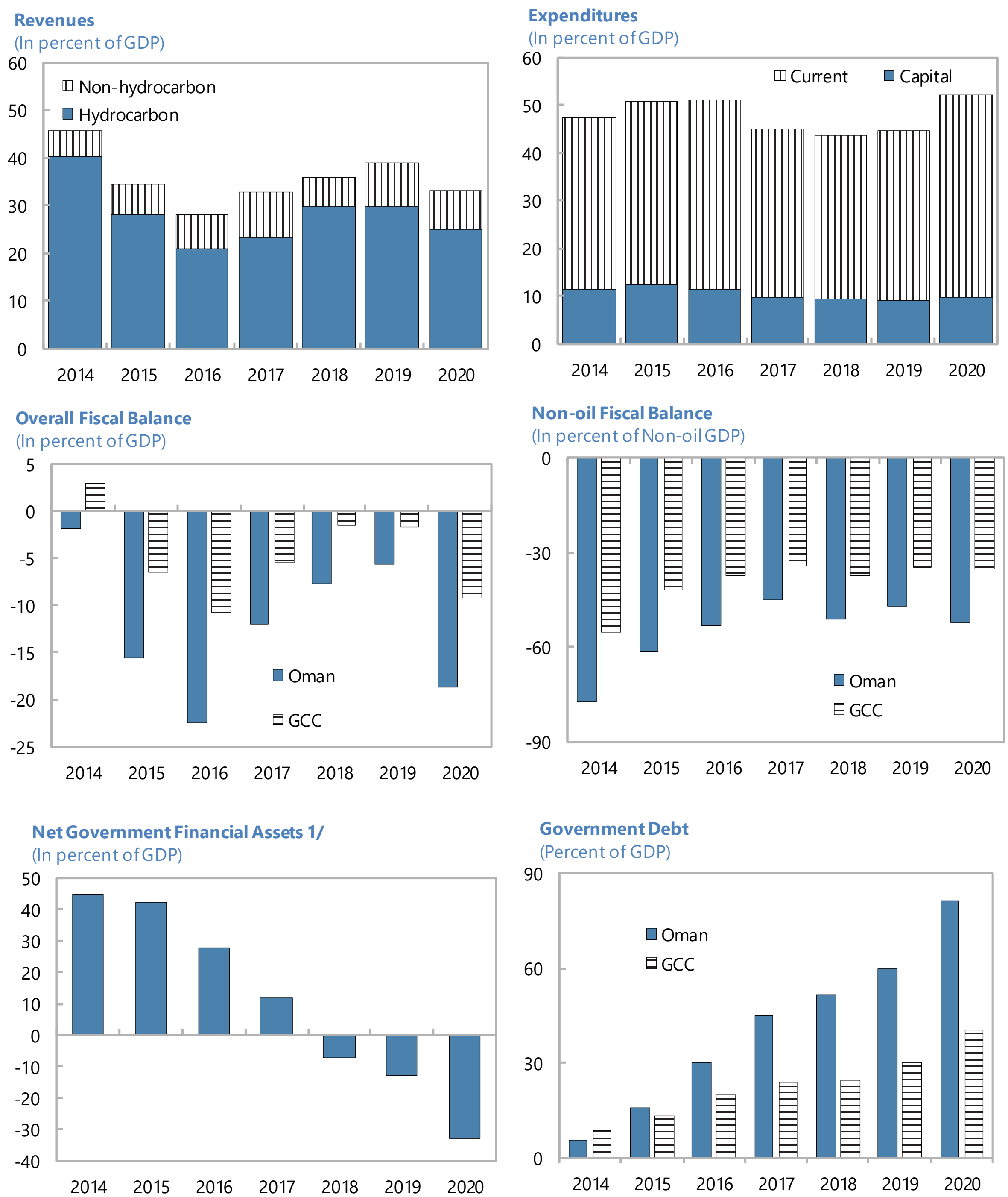
46. Staff proposes that the next Article IV consultation with Oman follow the standard 12-month cycle.

Figure 1. Oman: Recent Economic Developments



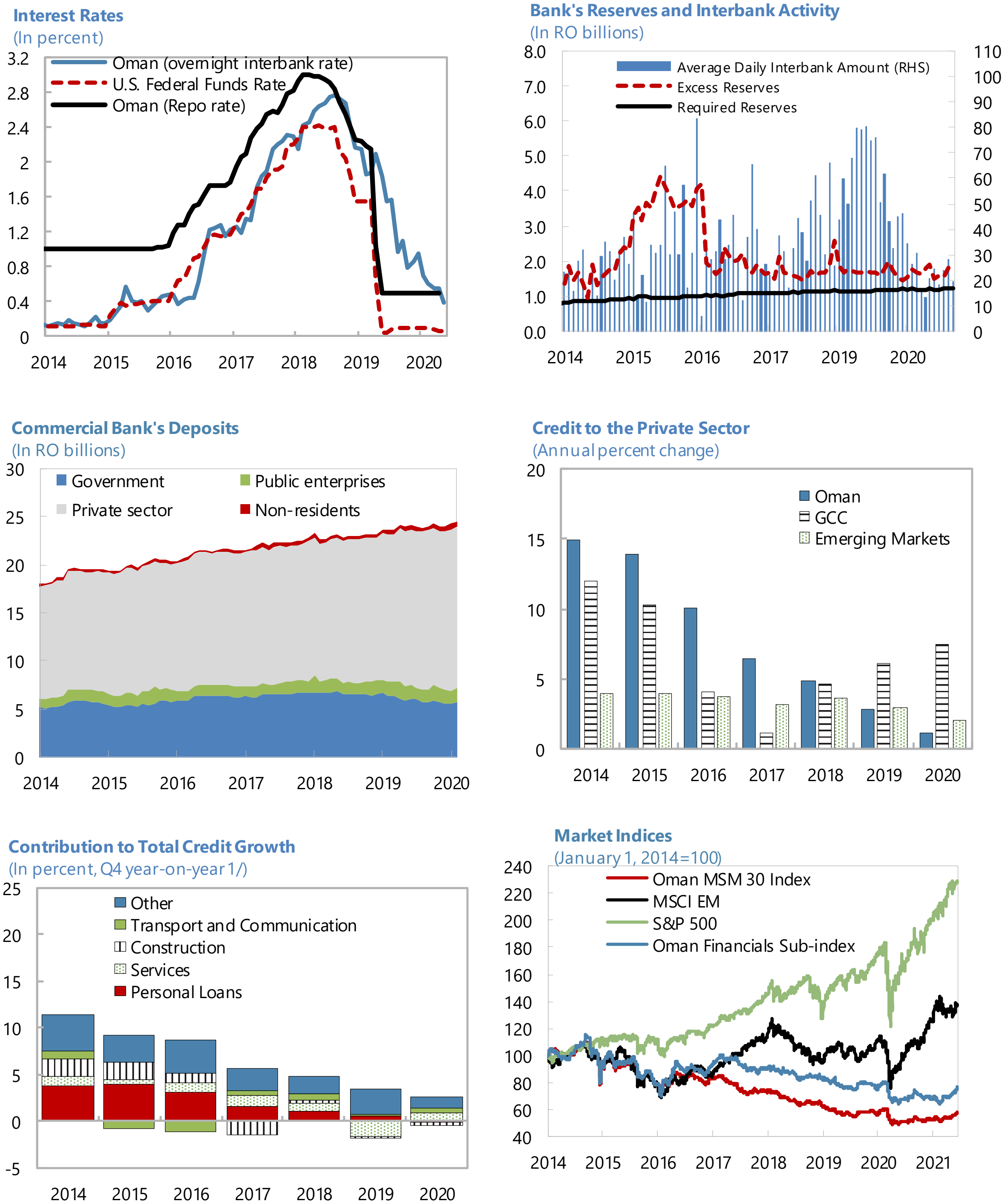
Sources: Country authorities; and IMF staff calculations.
1/ For EMs, Total GDP.

Figure 2. Oman: Fiscal Sector Developments



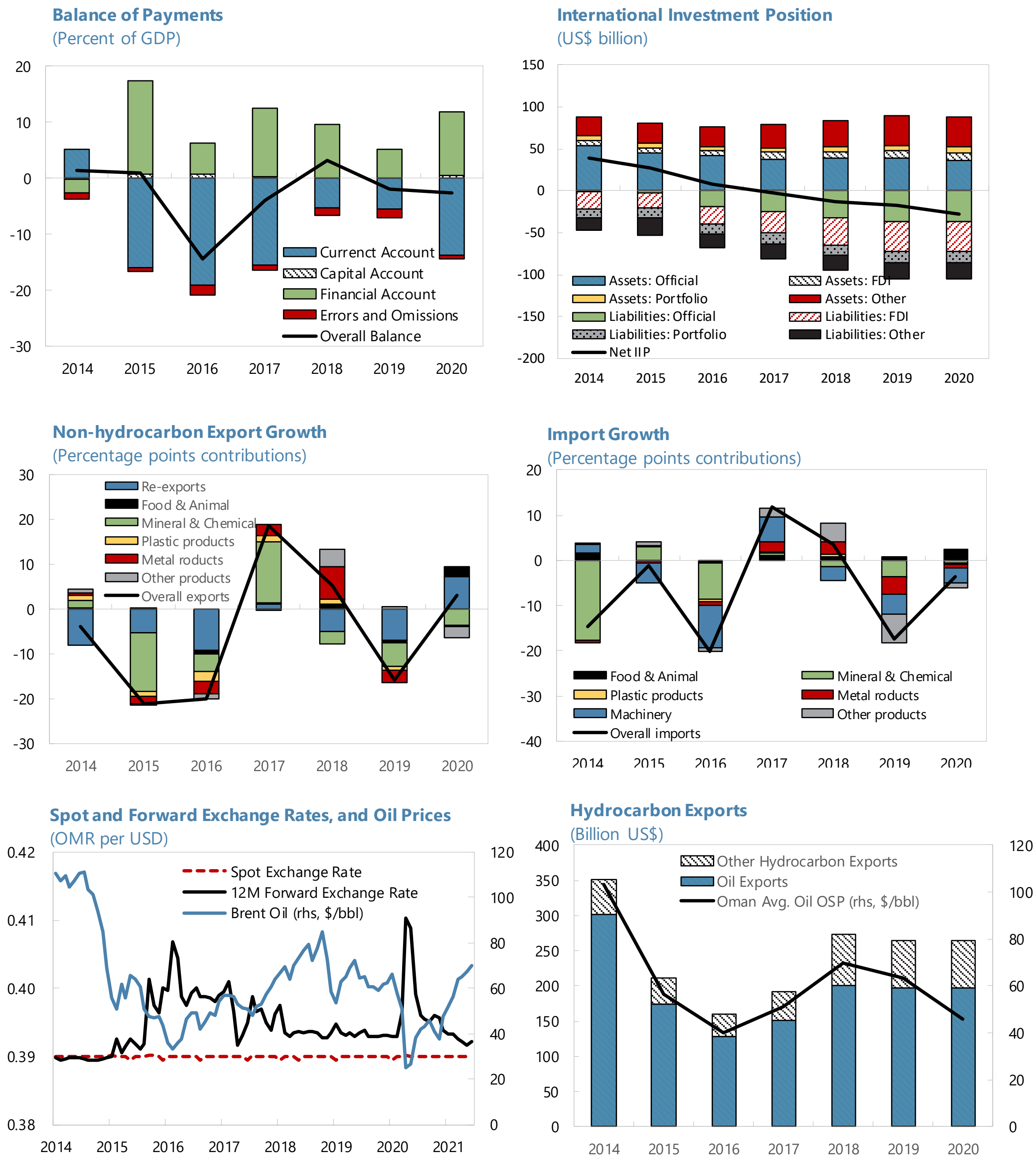
Sources: Country authorities; and IMF staff calculations.
1/ Government deposits with CBO and banks, SGRF and Oil Fund assets, less central government debt.

Figure 3. Oman: Monetary and Financial Developments



Sources: Country authorities; Bloomberg L.P., and IMF staff calculations.

Figure 4. Oman: External Sector Developments



Sources: Country authorities; Bloomberg L.P., Haver Analytics; and IMF staff calculations.

Figure 5. Oman: Banking Sector Soundness Indicators

Sources: Country authorities; Haver Analytics, and IMF staff calculations.
1/ Total (General + Specific) Provisions.

Table 1. Oman: Selected Economic Indicators, 2016-26

					Prel.	Proj.					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Oil and gas sector											
Total production of oil and gas (US$ billions)	16.0	18.7	27.7	26.6	17.8	23.6	27.5	26.9	26.4	26.1	26.0
Average crude oil export price (US$/barrel)	40.1	51.3	69.7	63.6	46.0	60.4	63.0	59.8	57.7	56.4	55.7
Crude oil production (in millions of barrels/day)	1.00	0.97	0.98	0.97	0.95	0.96	1.01	1.07	1.10	1.14	1.14
National accounts	(Annual percentage change, unless otherwise indicated)										
Nominal GDP (US$ billions)	65.5	70.6	79.8	76.3	63.4	77.7	82.3	84.3	87.0	90.0	93.9
Nominal GDP (in billions of Omani rials)	25.2	27.1	30.7	29.3	24.4	29.9	31.7	32.4	33.4	34.6	36.1
Real GDP	4.9	0.3	0.9	-0.8	-2.8	2.5	2.9	4.2	2.9	3.3	2.6
Real hydrocarbon GDP 1/	3.4	-2.1	4.0	1.4	-1.7	3.5	3.6	6.0	2.8	3.3	1.2
Real nonhydrocarbon GDP	6.2	2.4	-1.6	-2.8	-3.9	1.5	2.3	2.4	3.0	3.4	4.0
Consumer prices (average)	1.1	1.6	0.9	0.1	-0.9	3.0	2.7	2.5	2.5	2.4	2.4
GDP Deflator	-9.4	7.4	12.0	-3.5	-14.6	19.7	2.9	-1.7	0.2	0.2	1.6
Investment and saving	(Percent of GDP)										
Gross capital formation	28.9	27.5	24.4	20.5	19.0	20.5	21.2	21.5	21.7	22.0	22.1
Public	15.6	13.7	13.4	13.1	13.6	11.0	10.9	10.9	10.9	10.9	10.8
Private	13.3	13.8	11.0	7.4	5.4	9.5	10.3	10.6	10.8	11.1	11.3
Gross national savings	9.7	12.0	19.0	14.8	5.3	14.3	19.5	20.4	20.9	21.2	21.5
Public	-7.5	2.6	7.4	10.2	-0.7	6.8	9.9	9.8	9.7	9.1	8.9
Private	17.3	9.3	11.5	4.6	6.1	7.5	9.7	10.6	11.2	12.1	12.6
Central government finances	(Percent of GDP)										
Revenue and grants	28.7	33.2	36.2	39.2	33.3	32.9	35.3	34.8	34.6	33.7	33.1
Hydrocarbon	21.1	23.3	29.6	29.8	24.9	23.3	25.2	24.3	23.6	22.6	21.9
Nonhydrocarbon and grants	7.6	9.9	6.6	9.4	8.4	9.6	10.1	10.4	11.0	11.1	11.1
Expenditure	51.2	45.2	44.0	44.2	52.4	35.4	34.4	33.4	32.8	31.9	30.8
Current	39.6	35.4	34.6	35.7	42.4	32.4	31.5	30.5	30.0	29.1	28.0
Capital	11.6	9.7	9.4	8.5	9.6	3.0	2.9	2.9	2.9	2.9	2.8
Overall balance (Net lending/borrowing)	-24.1	-12.6	-8.4	-6.0	-19.3	-2.4	0.9	1.4	1.8	1.8	2.3
Overall balance (adjusted) 2/	-16.5	-6.5	-1.7	0.0	-12.1	-2.4	0.9	1.4	1.8	1.8	2.3
Non-hydrocarbon primary balance (% of non-hydrocarbon GDP)	-54.1	-46.2	-48.4	-46.7	-47.8	-39.1	-36.1	-33.3	-30.8	-28.7	-26.7
Total government debt, *of which:*	33.7	45.9	51.3	60.5	81.2	70.7	64.5	60.5	56.3	51.9	46.9
External debt	20.5	32.7	38.4	45.4	60.2	51.0	43.0	37.7	32.4	27.9	26.4
Monetary sector	(Annual percentage change, unless otherwise indicated)										
Net foreign assets	-0.9	-5.4	18.9	-3.6	-28.3	-1.1	0.0	1.7	5.8	6.7	6.4
Net domestic assets	3.0	8.2	4.4	4.4	23.2	6.5	7.3	6.4	5.6	4.6	1.0
Credit to the private sector	10.1	6.5	4.9	2.8	1.1	2.5	3.6	4.4	4.7	4.9	4.9
Broad money	1.8	4.2	8.3	2.0	8.9	5.1	6.0	5.6	5.6	4.9	1.9
External sector	(In billions of U.S. dollars, unless otherwise indicated)										
Exports of goods	27.5	32.9	41.7	38.7	30.5	37.5	42.4	42.4	42.6	43.3	44.3
Oil and gas	16.0	19.2	27.3	26.5	18.2	24.7	29.1	28.3	27.7	27.4	27.3
Other	11.6	13.7	14.5	12.2	12.3	12.8	13.3	14.1	14.9	15.9	17.0
Imports of goods	-21.3	-24.1	-23.6	-20.5	-18.9	-19.9	-21.3	-22.2	-23.3	-24.4	-25.4
Current account balance	-12.5	-11.0	-4.3	-4.2	-8.7	-4.8	-1.4	-0.9	-0.7	-0.7	-0.6
Percent of GDP	-19.1	-15.6	-5.4	-5.5	-13.7	-6.2	-1.7	-1.1	-0.8	-0.8	-0.6
Central Bank gross reserves	20.3	16.1	17.4	16.7	15.0	15.1	15.3	15.6	16.4	17.3	18.3
In months of next year's imports of goods and services	7.0	5.5	6.4	7.3	6.3	5.6	5.5	5.3	5.3	5.4	5.4
Total external debt	41.9	58.2	66.7	72.0	72.7	78.6	78.2	78.3	78.9	80.0	79.9
Percent of GDP	63.9	82.5	83.6	94.3	114.7	101.1	95.0	92.9	90.8	88.9	85.0
Memorandum Items:											
Non-hydrocarbon structural primary balance 3/	-31.5	-28.3	-30.5	-29.1	-25.6	-21.3	-19.8	-18.7	-17.7	-16.9	-16.2
Non-hydrocarbon structural primary balance (percent of non-hydrocarbon GDP) 3/	-53.5	-47.4	-48.5	-46.7	-46.4	-40.0	-37.8	-35.2	-33.0	-31.2	-29.7
Real effective exchange rate (2010 = 100)	107.7	107.7	105.6	106.7	105.1	…	…	…	…	…	…
Exchange rate (rial per dollar; period average)	0.38	0.38	0.38	0.38	0.38	…	…	…	…	…	…

Sources: Omani authorities; and IMF staff estimates and projections.

1/ Includes crude oil, refining, natural gas, and LNG production.
2/ Data prior to 2021 were adjusted by taking out expenditures on gas and oil that were hived off to Energy Development Oman in 2021.
3/ Adjusted by the economic cycle.

Table 2a. Oman: Government Finances, 2016-26 1/
(Millions of rials Omani, unless otherwise indicated)

					Prel.	Proj.					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Revenue and grants	7,221	9,006	11,119	11,309	8,118	9,845	11,174	11,266	11,564	11,679	11,942
Taxes	946	934	1,046	1,184	925	1,209	1,482	1,794	2,010	2,178	2,328
Grants	208	111	116	55	80	170	220	80	140	140	140
Property income and others	6,066	7,961	9,957	10,070	7,112	8,466	9,472	9,392	9,414	9,361	9,475
Oil	3,654	4,685	6,866	6,621	4,073	5,003	5,908	5,741	5,615	5,524	5,451
LNG and natural gas 2/	1,648	1,639	2,228	2,117	1,988	1,974	2,064	2,140	2,275	2,300	2,469
Public services and utilities	88	98	55	51	22	13	14	15	15	16	17
Investment income	253	567	89	617	110	650	650	650	650	650	651
Others	424	972	720	663	920	826	836	847	859	871	887
Expenditure	12,889	12,259	13,484	12,965	12,204	10,588	10,896	10,848	10,986	11,061	11,122
Expense	9,978	9,615	10,607	10,468	10,339	9,688	9,972	9,901	10,015	10,067	10,105
Compensation of employees	3,470	3,434	3,214	3,358	3,606	3,228	3,343	3,471	3,626	3,780	3,938
Use of goods and services	995	928	1,253	1,330	1,392	1,441	1,509	1,526	1,545	1,581	1,619
Interest payments	138	371	618	684	819	984	1,058	1,046	1,048	1,030	968
Subsidies and social benefits	908	1,054	1,190	1,312	1,296	1,061	1,080	860	785	654	549
Grants to other countries	20	12	76	19	11	10	0	0	0	0	0
Other expense	4,448	3,816	4,256	3,766	3,215	2,965	2,983	2,998	3,012	3,021	3,030
PDO operations	379	329	377	407	424	0	0	0	0	0	0
Others	4,068	3,488	3,879	3,359	2,790	2,965	2,983	2,998	3,012	3,021	3,030
Net acquisition of nonfinancial assets	2,910	2,644	2,877	2,498	1,866	900	924	947	971	994	1,018
Acquisitions of nonfinancial assets	2,910	2,644	2,877	2,665	2,348	900	924	947	971	994	1,018
PDO operations	843	750	921	886	906	0	0	0	0	0	0
Upstream gas project	684	560	756	454	431	0	0	0	0	0	0
Civil	1,384	1,334	1,200	1,325	1,011	900	924	947	971	994	1,018
Disposals (sales) of nonfinancial assets	287	-	9	167	482	-	-	-	-	-	-
Gross operating balance	-2,758	-609	511	841	-2,221	157	1,202	1,365	1,549	1,612	1,838
Net lending (+)/borrowing (–) (overall balance) 3/	-6,067	-3,411	-2,583	-1,753	-4,710	-723	298	438	597	638	840
Net acquisition of financial assets 4/	-2,170	967	673	287	-2,700	641	-427	-355	-200	-200	-200
Net incurrence of liabilities	3,897	4,378	3,255	2,040	2,010	1,364	-725	-793	-797	-838	-1,040
Domestic debt	21	280	336	521	658	800	875	630	580	322	-891
External debt	3,876	4,098	2,919	1,519	1,352	564	-1,600	-1,423	-1,377	-1,160	-150
Memorandum Items:											
Total government debt, *of which*	8,475	12,469	15,724	17,764	19,774	21,137	20,412	19,619	18,822	17,983	16,943
External debt	5,161	8,875	11,794	13,313	14,665	15,229	13,629	12,206	10,829	9,668	9,519

Sources: Ministry of Finance; and IMF staff estimates and projections.

1/ Table covers central government operations.
2/ Includes the dividend from Oman Liquefied Natural Gas Company (OLNG).
3/ Excludes 'net lending and equity' .
4/ Includes 'net lending and equity'.

Table 2b. Oman: Government Finances, 2016-26 1/

(Percent of GDP)

	2016	2017	2018	2019	Prel. 2020	Proj. 2021	2022	2023	2024	2025	2026
Revenue and grants	28.7	33.2	36.2	38.6	31.3	32.9	35.3	34.8	34.6	33.7	33.1
Taxes	3.8	3.4	3.4	4.0	3.8	4.0	4.7	5.5	6.0	6.3	6.4
Grants	0.8	0.4	0.4	0.2	0.3	0.6	0.7	0.2	0.4	0.4	0.4
Property income and others	24.1	29.3	32.5	34.4	27.2	28.3	29.9	29.0	28.2	27.0	26.2
Oil	14.5	17.3	22.4	22.6	16.7	16.7	18.7	17.7	16.8	16.0	15.1
LNG and natural gas 2/	6.5	6.0	7.3	7.2	8.2	6.6	6.5	6.6	6.8	6.6	6.8
Public services and utilities	0.3	0.4	0.2	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Investment income	1.0	2.1	0.3	2.1	0.4	2.2	2.1	2.0	1.9	1.9	1.8
Others	1.7	3.6	2.3	2.3	1.8	2.8	2.6	2.6	2.6	2.5	2.5
Expenditure	51.2	45.2	44.0	44.2	52.1	35.4	34.4	33.5	32.9	32.0	30.8
Expense	39.6	35.4	34.6	35.7	42.4	32.4	31.5	30.5	30.0	29.1	28.0
Compensation of employees	13.8	12.6	10.5	11.4	14.8	10.8	10.6	10.7	10.8	10.9	10.9
Use of goods and services	4.0	3.4	4.1	4.5	5.7	4.8	4.8	4.7	4.6	4.6	4.5
Interest payments	0.5	1.4	2.0	2.3	3.4	3.3	3.3	3.2	3.1	3.0	2.7
Subsidies and social benefits	3.6	3.9	3.9	4.5	5.3	3.6	3.4	2.7	2.3	1.9	1.5
Grants to other countries	0.1	0.0	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other expense	17.7	14.1	13.9	12.8	13.2	9.9	9.4	9.2	9.0	8.7	8.4
PDO operations	1.5	1.2	1.2	1.4	1.7	0.0	0.0	0.0	0.0	0.0	0.0
Others	16.2	12.8	12.6	11.4	11.5	9.9	9.4	9.2	9.0	8.7	8.4
Net acquisition of nonfinancial assets	11.6	9.7	9.4	8.5	9.6	3.0	2.9	2.9	2.9	2.9	2.8
Acquisitions of nonfinancial assets	11.6	9.7	9.4	9.1	9.6	3.0	2.9	2.9	2.9	2.9	2.8
PDO operations	3.3	2.8	3.0	3.0	3.7	0.0	0.0	0.0	0.0	0.0	0.0
Upstream gas project	2.7	2.1	2.5	1.5	1.8	0.0	0.0	0.0	0.0	0.0	0.0
Civil	5.5	4.9	3.9	4.5	4.1	3.0	2.9	2.9	2.9	2.9	2.8
Disposals (sales) of nonfinancial assets	-	-	-	0.6	2.0	-	-	-	-	-	-
Gross operating balance	-11.0	-2.2	1.7	2.9	-11.1	0.5	3.8	4.2	4.6	4.7	5.1
Net lending (+)/borrowing (–) (overall balance) 3/	-24.1	-12.6	-8.4	-6.0	-19.3	-2.4	0.9	1.4	1.8	1.8	2.3
Net acquisition of financial assets 4/	-8.6	3.6	2.2	1.0	-11.1	2.1	-1.3	-1.1	-0.6	-0.6	-0.6
Net incurrence of liabilities	15.5	16.1	10.6	7.0	8.2	4.6	-2.3	-2.4	-2.4	-2.4	-2.9
Domestic debt	0.1	1.0	1.1	1.8	2.7	2.7	2.8	1.9	1.7	0.9	-2.5
External debt	15.4	15.1	9.5	5.2	5.5	1.9	-5.1	-4.4	-4.1	-3.4	-0.4
Memorandum Items:											
Total government debt, *of which*	33.7	45.9	51.3	60.5	81.2	70.7	64.5	60.5	56.3	51.9	46.9
External debt	20.5	32.7	38.4	45.4	60.2	51.0	43.0	37.7	32.4	27.9	26.4
Non-hydrocarbon revenue (percent of nonhydrocarbon GDP)	9.9	14.6	10.8	15.6	12.5	16.0	16.8	17.8	18.1	18.1	17.8
Break-even oil price (fiscal, U.S. dollars)	103.8	86.4	80.3	67.9	90.8	69.3	59.9	55.4	51.7	50.0	47.2

Sources: Ministry of Finance; and IMF staff estimates and projections.

1/ Table covers central government operations.

2/ Includes the dividend from Oman Liquefied Natural Gas Company (OLNG).

3/ Excludes 'net lending and equity' .

4/ Includes 'net lending and equity'.

Table 3. Oman: Monetary Survey, 2016-26

(Millions of rials Omani, unless otherwise indicated, end of period)

					Prel.	Proj.					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Foreign assets (net)	4,567	4,320	5,135	4,951	3,550	3,509	3,508	3,568	3,776	4,030	4,288
Central Bank	5,664	5,264	6,004	5,721	5,010	5,036	5,109	5,249	5,549	5,904	6,282
Commercial banks	-1,097	-944	-870	-770	-1,460	-1,527	-1,602	-1,681	-1,773	-1,875	-1,994
Domestic assets (net)	10,857	11,749	12,266	12,800	15,776	16,795	18,013	19,163	20,231	21,166	21,382
Claims on government (net)	-4,548	-4,595	-5,047	-4,647	-2,072	-1,272	-397	233	813	1,135	244
Central Bank	-435	-210	-462	-624	-147	-147	-147	-147	-147	-147	-147
Claims	727	566	776	779	871	871	871	871	871	871	871
Deposits 1/	1,162	776	1,237	1,403	1,018	1,018	1,018	1,018	1,018	1,018	1,018
Commercial banks	-4,113	-4,385	-4,585	-4,024	-1,925	-1,125	-250	380	960	1,282	392
Claims	1,811	1,979	2,057	2,623	3,688	4,488	5,363	5,993	6,573	6,895	6,005
Loans	107	35	40	137	478	478	478	478	478	478	478
Bills and bonds	1,703	1,944	2,018	2,486	3,210	4,010	4,885	5,515	6,095	6,417	5,527
Deposits	5,924	6,364	6,642	6,646	5,613	5,613	5,613	5,613	5,613	5,613	5,613
Claims on public enterprises	2,098	2,339	2,664	2,725	3,142	3,914	4,133	4,346	4,600	4,879	5,209
Claims on private sector	19,986	21,255	22,336	22,951	23,167	23,744	24,599	25,682	26,893	28,206	29,588
Credit to the private sector	19,736	21,018	22,050	22,673	22,925	23,496	24,342	25,413	26,612	27,911	29,278
Other items (net)	-6,679	-7,251	-7,691	-8,228	-8,461	-9,591	-10,322	-11,098	-12,074	-13,054	-13,660
Central Bank	-3,929	-3,788	-4,301	-3,852	-3,484	-3,510	-3,583	-3,723	-4,023	-4,378	-4,756
Commercial banks	-2750	-3463	-3391	-4376	-4977	-6082	-6738	-7376	-8051	-8676	-8904
Broad money	15424	16069	17400	17752	19326	20304	21521	22730	24007	25196	25669
Money	4,979	4,941	4,930	5,344	5,561	5,842	6,192	6,540	6,907	7,249	7,386
Currency outside banks	1,299	1,266	1,242	1,245	1,379	1,379	1,379	1,379	1,379	1,379	1,379
Demand deposits	3,679	3,674	3,688	4,099	4,182	4,463	4,813	5,161	5,529	5,871	6,007
Quasi-money 2/	10,445	11,128	12,470	12,408	13,766	14,462	15,329	16,190	17,100	17,946	18,284
Of which: Foreign currency deposits	1,073	1,181	2,142	1,765	1,897	1,993	2,112	2,231	2,356	2,473	2,519
Memorandum items:											
Broad money multiplier (ratio)	3.8	4.3	4.1	4.9	5.9	6.1	6.4	6.6	6.8	7.0	7.0
	(Annual percentage change, unless otherwise indicated)										
Broad money	1.8	4.2	8.3	2.0	8.9	5.1	6.0	5.6	5.6	4.9	1.9
Net Foreign assets	-0.9	-5.4	18.9	-3.6	-28.3	-1.1	0.0	1.7	5.8	6.7	6.4
Domestic assets	3.0	8.2	4.4	4.4	23.2	6.5	7.3	6.4	5.6	4.6	1.0
Of which: Credits to the private sector	10.1	6.5	4.9	2.8	1.1	2.5	3.6	4.4	4.7	4.9	4.9
Claims on private sector / GDP	79.4	78.3	72.8	78.2	95.1	79.5	77.7	79.2	80.4	81.5	82.0
Claims on private sector / non-oil GDP	115.3	121.0	126.1	132.2	146.3	141.1	138.5	138.6	138.0	137.2	135.7

Sources: Central Bank of Oman; and IMF staff estimates and projections.

1/ Includes mainly Ministry of Finance Deposits.

2/ Includes foreign currency deposits and deposits relating to letters of credit.

Table 4. Oman: Balance of Payments Summary, 2016-26

(Millions of USD)

					Prel.			Proj.			
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Trade balance	6,259	8,764	18,084	18,229	11,615	17,649	21,147	20,189	19,338	18,903	18,815
Exports	27,546	32,886	41,730	38,686	30,506	37,522	42,433	42,409	42,648	43,340	44,254
Hydrocarbons, *of which*:	15,959	19,158	27,274	26,516	18,206	24,736	29,091	28,283	27,702	27,445	27,298
Crude oil	12,839	15,072	20,099	19,651	13,141	17,824	21,642	21,029	20,424	19,954	19,689
LNG	2,634	3,033	4,464	4,448	3,421	3,928	3,610	3,783	3,871	3,998	4,170
Other exports	6,238	8,261	9,693	8,402	7,881	8,225	8,538	8,892	9,287	9,738	10,245
Re-exports	5,348	5,467	4,763	3,768	4,420	4,562	4,803	5,234	5,659	6,156	6,711
Imports, f.o.b.	-21,287	-24,121	-23,646	-20,457	-18,891	-19,874	-21,286	-22,220	-23,311	-24,437	-25,439
Services (net)	-6,420	-6,761	-7,138	-7,111	-6,111	-6,398	-6,934	-6,350	-6,208	-6,300	-6,383
Income (net)	-2,067	-3,168	-5,276	-6,143	-5,392	-7,365	-7,243	-6,728	-6,096	-5,790	-5,611
Official payments	-101	-789	-1,257	-1,428	-1,763	-1,840	-1,954	-1,814	-1,683	-1,518	-1,353
Current transfers, including official grants (net)	-10,312	-9,815	-9,958	-9,135	-8,772	-8,685	-8,342	-8,004	-7,742	-7,508	-7,396
Current account balance	-12,540	-10,980	-4,287	-4,160	-8,660	-4,800	-1,372	-893	-708	-695	-576
Capital account	515	259	102	114	260	442	572	208	364	364	364
Financial account	3,683	8,601	7,664	3,909	7,236	4,424	991	1,047	1,126	1,254	1,193
Foreign direct investment	1,909	494	5,225	3,749	2,664	3,342	3,616	3,843	3,963	4,104	4,280
Portfolio investment	5,000	6,286	6,800	1,179	2,278	2,279	-58	153	522	546	663
Other investment	-3,226	1,822	-4,361	-1,019	2,294	-1,196	-2,567	-2,949	-3,359	-3,396	-3,750
Errors and omissions	-1,061	-653	-904	-1,268	-490	0	0	0	0	0	0
Overall balance	-9,403	-2,773	2,575	-1,405	-1,654	67	192	362	782	923	981
Change in official reserves (- = increase) 1/	9,403	2,773	-2,575	1,405	1,654	-67	-192	-362	-782	-923	-981
Memorandum Items:											
Current account balance (in percent of GDP)	-19.1	-15.6	-5.4	-5.5	-13.7	-6.2	-1.7	-1.1	-0.8	-0.8	-0.6
Central Bank gross reserves (in million of USD)	20,262	16,089	17,389	16,662	15,008	15,075	15,266	15,628	16,410	17,334	18,315
In months of next year's imports of goods and services	7.0	5.5	6.4	7.3	6.3	5.6	5.5	5.3	5.3	5.4	5.4
Total external debt (in million of USD)	41,873	58,241	66,704	72,004	72,673	78,558	78,235	78,349	78,945	80,002	79,852
Percent of GDP	63.9	82.5	83.6	94.3	114.7	101.1	95.0	92.9	90.8	88.9	85.0

Sources: Central Bank of Oman; Ministry of Finance; and IMF staff estimates and projections.

1/ Historical flows include CBO and SGRF reserve accumulation.

Table 5. Oman: Financial Soundness Indicators of the Banking Sector, 2016-21

(Percent)

	2016	2017	2018	2019	2020	Mar-21
Capital adequacy						
BIS Capital 1/	16.5	18.0	17.9	18.5	18.8	18.5
Core capital 2/	14.6	16.3	16.6	17.4	17.7	17.5
Bank Capital to Assets	15.0	16.5	16.2	15.9	15.9	15.3
Loan quality						
NPLs	2.1	2.4	2.7	3.5	4.2	4.2
Net NPLs 3/	0.6	0.9	1.0	1.4	1.6	1.5
Restructured/ rescheduled loans to total loans	1.2	1.9	2.3	3.8	4.3	4.7
Loan loss provisions to NPLs	66.8	62.6	65.8	61.0	63.4	64.9
Related party loans to total capital	6.2	6.6	10.9	7.8	7.4	10.0
Profitability						
Return on Assets 4/	1.5	1.5	1.6	1.4	0.9	1.2
Return on Equity 5/	9.8	9.3	10.6	9.4	5.7	7.8
Liquidity						
Lending Ratio	80.2	80.5	79.5	80.3	80.3	79.9
Customer Deposits to Total Assets	45.1	45.0	54.6	45.8	50.0	49.4
Net Stable Funding Ratio	...	116.2	114.6	116.3	116.7	118.9
Liquidity Coverage Ratio	...	215.9	253.6	220.1	196.3	199.0
Market risk						
Foreign Currency Assets to Foreign Currency Liabilities	108.8	115.3	112.9	116.9	120.3	117.0
Foreign Currency Loans to Foreign Currency Deposits	120.3	142.6	119.6	147.6	160.5	163.3
Net Forex Open Position to Capital	11.3	15.7	12.2	9.4	15.3	8.5

Source: Central Bank of Oman

1/ BIS Capital Ratio = (Tier 1+Tier 2 capital)/ Total risk weighted assets.

2/ Core Capital Ratio = Tier 1 capital/ Total risk weighted assets.

3/ Net NPLs = Ratio of Gross NPLs net of Reserve Interest & specific provision to Gross advances net of Reserve Interest & specific provision.

4/ Return on Assets = Net profit before taxes/Total assets.

5/ Return on Equity = Net profit before taxes/Total equity.

Annex I. COVID-19 Policy Support Measures

Key Actions by Ministries (Ministry of Finance, Tax Authorities, Ministry of Social Development, Ministry of Housing and Urban Planning, and Ministry of Commerce, Industry, and Investment)		Size (OMR, millions)	Budgetary impact 2020 (OMR, millions)	Budgetary impact 2021 (OMR, millions)
Supporting households	▪ Increase amount of subsidized fuel for fuel subsidy card holders from 200 liters to 400 liters per month. VAT on these amounts are also exempted so that the price will remain 180 bz/ltr.		0	30
	▪ Established the Job Security Fund to support citizens who lost their jobs (announced August 2020).		0	20
	▪ Allocation in the 2021 Budget for training job seekers and qualifying them to join the labor market (announced March 2021).		0	20
	▪ Reduction of fees for expatriate recruitment: 50% for firm achieving the required Omanization target; and 25% for those not achieving the target (announced March 2021).		0	0
	▪ Exempted citizens whose salary is below RO 350 from repaying housing loans provided by the Ministry of Housing and Urban Planning. (RO 10m in 2021, RO 5m in 2022).		0	10
	▪ Exempt citizens enrolled as beneficiaries of Sanad and Mawareed Alriezq programs from repaying the outstanding amounts.		0	3.9
	▪ Maximize the subsidy allocated for the schemes provided by the Ministry of Social Development for vulnerable cases.		0	0
	▪ Avail financial facilities with no interests or fees through Oman development Bank for self-employed persons.		0	6
	▪ Exemption of VAT on electricity & water for Omanis with <=2 accounts.		0	13
	▪ Increase exempted products from VAT from 93 to 488 essential food products.		0	27
Supporting firms	*Taxes:*			
	▪ Reducing the rate of income tax for SMEs from 15 percent to 12 through the two tax years of 2020 and 2021 (announced March 2021). (impact is RO 2m in 2021 and RO 4m in 2022).		0	2
	▪ Waived fines and penalties for late tax disclosures, allowed deduction of donations made to combat the coronavirus (announced 2020).		n.a.	n.a.
	▪ Exemption from the income tax to firms operating within the Economic Diversification		n.a.	n.a.

	Sectors for five years, for activities initiated during January 2021 to end-2022.			
	▪ Exemption of hotel establishments from the Income Tax due for the two tax years of 2020 and 2021 (announced 2021).		0	0.5
	▪ Waived the additional income tax (for 2021) ensuing from paying by installments (announced 2021).		n.a.	n.a.
	▪ Deduction of 1% of the value of the due tax, to a maximum of RO 10,000 (announced 2021).		0	1.5
	▪ Suspension of withholding tax related to the distribution of dividends on shares and interests for five years starting from 2020 (announced 2020, and then extended in 2021).		0.5	0.5
	▪ Deferring of the loss incurred by firms, as of the year 2020, to the next year and deducting the same from taxable income in the year 2021 and the subsequent years until such a time that the loss is zeroed (announced 2021).		0	0
	▪ Exemption from the Tourism Tax (4%) and the Municipality Tax (5%) payable by tourism establishments until the end of 2021 (announced 2020, and then extended for 2021).		0	7
	Fees:			
	▪ Suspended municipal taxes and some government fees (March to August 2020). No impact, as changes only within the year.		0	0
	▪ Suspended rent payments for factories in industrial zones for three months (announced 2020). No impact, as changes only within the year.		0	0
	▪ Exempted companies from fees for renewing active commercial registration (announced 2020).		n.a.	n.a.
	▪ Reduced port and air freight charges (March to June 2020).		n.a.	n.a.
	▪ Postponed electricity and water fees (March to June 2020). No impact, as changes only within the year.		0	0
	▪ Exemption from fees and fines resulting from permits to conduct work for non-Omani manpower, if they permanently left Oman (announced 2020).		n.a.	n.a.
	▪ Reduced environmental permit fees that are rewarded in 2021 by 50 percent, and exemption from fines if renewed within three months (announced 2021).		0	1

	▪ Discounted land lease value by 25 percent for 2020-2021.		4	4
	▪ Exemption from licensing fees for SMEs for the first three years of incorporation for licenses issued only during 2021.		n.a.	n.a.
	Others:			
	▪ Interest-free emergency loans to assist some segments of entrepreneurs whose businesses took the brunt of the pandemic, as well as beneficiaries of loans of Oman Development Bank and Al Raffd Fund (announced June 2020).		19.26	0.215
	▪ Postponed loan servicing for borrowers (SMEs) of Oman Development Bank and Al Raffd Fund (March to December 2020, and then extended to December 2021).		n.a.	n.a.
	▪ Provided free government warehouses for the private sector to temporarily store goods and food for six months (announced 2020).		0	0
Key Actions by the Central Bank of Oman			**Size 2020** (OMR, millions)	**Size 2021**
Monetary measures	▪ Reduced the repo rate from 125 bps to 50 bps, and extended the tenor of repo operations to three months (announced March 2020), and then extended the tenor of the repo operations to six months (announced March 2021).		1619	983 (as of March 2021)
	▪ Reduced the interest rate on rediscounting T-bills from 2 percent to 1 percent (March 2020), and then to 0.75 percent (announced March 2021).	Not utilized.		
	▪ Reduced the interest rate on FX swaps by 50 bps and extended swap operations to one year (announced March 2020) and increased the limit of the facility to 100 percent of a bank's net worth (announced September 2020). The rate was further reduced by 50 bps in March 2021.		1013	130 (as of January 2021)
	▪ Reduced interest rates on rediscounting of commercial papers by 100-125 (March 2020) and reduced the rates further by 50 bps (March 2021). New rates are between 2.5% and 3%.	Not utilized.		
Regulatory measures	*To banks:*			
	▪ Reduced capital conservation buffer by 50 percent from 2.5 percent to 1.25 percent (announced March 2020).	4200		
	▪ Increasing the lending ratio from 87.5 percent to 92.5 (announced March 2020).	1500		

	▪ Allowed tolerance up to 25 percentage points in the Liquidity Coverage Ratio (LCR) in case of genuine liquidity stress (September 2020 until March 2021).	Banks have ample liquidity. Banking sector average as of March 31, 2021 at 199 percent and lowest LCR reported at same period at 140 percent.
	▪ Allowed banks to defer the risk classification of loans related to government project (March to September 2020, then extended to September 2021).	1264 (total amount of all outstanding loans availing deferment related to government projects, March 2021).
	To borrowers:	
	▪ Suspending loan payment for laid-off citizens till further notice, and citizens whose salaries are slashed by their employers/companies till the end of September 2021.	947 (total amount of all outstanding loans availing deferment to affected retail customers, March 2021).
	▪ Deferred loan installments (March to September 2020, extended to March 2021, and now to September 2021), and asked lenders not to change risk classification of borrowers only because the loan deferment scheme. The extension for principal and interest, with no additional interest or profit (announced March 2021).	1726 (total amount of all outstanding loans availing deferment, March 31, 2021).
	▪ Reduced the margin of loan-to-value ratios from 20 percent to 10 percent on housing loans for first-time home buyers (announced September 2020).	n.a.
	▪ The CBO will work closely with banks as they re-schedule loans to alleviate pressures on borrowers without imposing additional fees.	n.a.
	▪ Advised banks to restore the revolving short-terms loans to finance and leasing companies (FLCs) falling due until September 2021 (announced March 2021).	n.a.
	▪ Advised banks to reduce fees related to various banking services and not to introduce any new fee new/fee charge until December 31, 2021.	n.a.

Annex II. Status of Recommendations of 2019 Article IV Consultation

Recommendation	Status
Fiscal:	
▪ Anchor the fiscal consolidation on a medium-term fiscal framework to strengthen the fiscal and external positions	▪ **Implemented.** Adopted the Medium-Term Fiscal Balance Plan to reinforce fiscal sustainability and alleviate financing pressures.
▪ Reduce current spending rigidities—particularly on the wage bill and subsidies, streamline public investment and raise non-hydrocarbon revenue	▪ **Ongoing.** Key revenue and expenditure measures are grounded in the Medium-Term Fiscal Balance Plan to mitigate structural weaknesses in public finances, notably heavy reliance on hydrocarbon revenue and rigidities in expenditure. VAT has been introduced. Fuel subsidies have been targeted to only unemployed, retired, students, and low-income group. Mandatory retirement for long serving employees would lower wage bill. Electricity and water subsidies are being phased out over the span of 5- years and targeted to vulnerable households. Reduced annual allowance for a segment of civil servants. Excise taxes are being imposed on selected consumer products. Personal income tax is being considered.
Financial Sector:	
▪ Bolster financial sector resilience to strengthen crisis management and preparedness.	▪ **Ongoing.** After adopting the Bank Resolution Framework, integrating the Framework in the Banking Law is being considered.
▪ Avoid discriminatory measures that may limit capital flows.	▪ **Not implemented.** The limit on banks' exposures to non-residents was tightened.
Structural Reforms:	
▪ Accelerate reforms aimed at improving the business environment, human capital, and the functioning of the labor market, and fast-tracking the government's diversification program.	▪ **Implemented**. The new Foreign Capital Investment Law, which has relaxed the rules and restrictions and streamlined the procedures, became effective from January 1, 2020. An updated Bankruptcy Law framework went to effective in July 2020 to establish a comprehensive framework for the regulation of bankruptcies and liquidations. ▪ **Ongoing**. Update to the Labor Law is ongoing.

Annex III. External Sector Assessment

Overall Assessment: The external position of Oman in 2020 was substantially weaker than the level implied by fundamentals and desirable policies. The estimated current account deficit widened in 2020, mainly due to the oil price decline and economic activity interrupted by the pandemic. The exchange rate peg remains an appropriate policy anchor and provides stability to monetary policy, given the limited role for the exchange rate in adjusting the external imbalance, as hydrocarbon exports play a dominant role in Oman's exports and domestic production has a high import content including labor input.

Potential Policy Responses: In the near-term, fiscal consolidation should proceed with continued targeted support to defeat the pandemic and support the nascent recovery. The introduction of VAT and the reduction in capital spending in 2021 are expected to narrow the current account deficit. Over the medium term, on the back of the oil price recovery and fiscal adjustment in the context of Oman medium-term fiscal balance plan, the external position is expected to strengthen. Structural reforms that help diversify the economy and boost the non-hydrocarbon tradeable sector would further support a stronger external position over the long term.

Foreign Assets and Liabilities: Position and Trajectory

Background. By the end of 2020, Oman's external assets stood at US$87.5 billion, of which about 17.2 percent are reserve assets and 24.5 percent are government foreign assets. The remaining are financial, non-financial and household sectors assets. External liabilities reached US$114.9 billion, of which 33.3 percent were central government debt liabilities. The NIIP declined by US$10 billion in 2020, reflecting mostly increase of foreign liabilities. As a share of GDP, the NIIP declined from -22.7 to -43.3 percent in 2020, reflecting also the large decline in nominal GDP in 2020.

Assessment. Oman's NIIP is projected to improve, which reflects factors including fiscal adjustments that would reduce external debt liabilities, recovery in hydrocarbon exports, and stronger sovereign asset management that is expected to materially improve asset accumulation.

2020 (% GDP)	NIIP: -43.3	Gross Assets: 138.1	Res. Assets: 23.7	Gross Liab.: 181.3	Debt Liab.: 114.7

Current Account

Background. The current account was improving until 2019 before the economy was hit by the twin shock of the oil prices and the pandemic in 2020. The current account deficit is estimated to have increased from 5.5 percent of GDP in 2019 to 13.7 percent in 2020. It is projected to narrow in 2021 due to recovery of oil price and the fiscal consolidation that is being implemented. As the government continues to push ahead with diversification and Omanisation efforts, non-hydrocarbon exports are projected to improve while outward remittances are expected to decline. The current account balance is projected to remain in the negative territory over the medium term given the domestic production has a large import content.

Assessment. The EBA-lite current account approach estimates a current account gap of about -8.8 percent of GDP. The current account norm is estimated to be -2.0 percent of GDP, based on the desired level of policy settings. The policy gap explains -0.3 percentage points of the estimated gap, while the remaining is residual. The Consumption Allocation Rules model for assessing the current account among exporters of exhaustible commodities suggests a current account gap of -7.6 percent of GDP under the constant annuity approach and -1.1 percent under the constant real per capita annuity approach. This approach is based on allocation of resource wealth for consumption across periods. The negative CA gap implies that the CA deficits are too large to provide equitable consumption for future generations and suggests the need for larger fiscal savings of hydrocarbon revenues. Staff assesses a CA gap of -8.8 percent of GDP with a range from -3.1 to -9.6 percent of GDP in 2020.

Oman: Model Estimates for 2020

(in percent of GDP)

	CA model	REER model	Constant annuity	Constant annuity per capita
CA-Actual	**-13.7**	**-13.7**	**-13.7**	**-13.7**
Cyclical contributions (from model) (-)	-1.1			
COVID-19 adjustor (+) 1/	1.7			
Natural disasters and conflicts (-)	-0.1			
Adjusted CA	**-10.7**		**-10.7**	**-10.7**
CA Norm (from model) 2/	**-2.0**		**-7.6**	**-1.1**
CA Gap	**-8.8**	**-5.3**	**-3.1**	**-9.6**
o/w Relative policy gap	-0.3			
Elasticity	-0.37	-0.37	-0.37	-0.37
REER Gap (in percent)	**24.0**	**14.5**	**8.6**	**26.3**

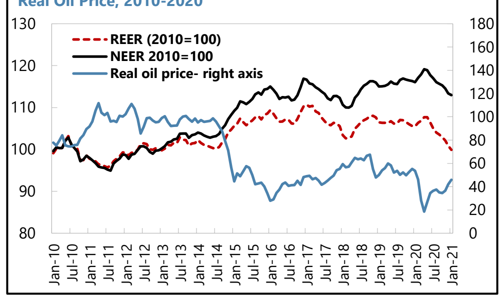
1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on oil trade balances (1.03 percent of GDP), on tourism (0.09 percent of GDP), and on remittances (0.58 percent of GDP).

2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. The Omani Rial is pegged to the U.S. dollar at a rate of US$2.6 per Rial. The real effective exchange rate (REER) depreciated 4.4 percent in 2020, mainly driven by the depreciation of US dollar in 2020. Average REER was 1 percent above its 10-year average. The nominal effective exchange rate (NEER) depreciated by 2.5 percent in 2020.

Oman: Nominal and Real Effective Exchange Rates, and Real Oil Price, 2010-2020



Assessment. Staff assesses the 2020 REER gap to be around 22 percent with a range of 6.9 to 24.6 percent. In the short term, exchange rate movement has limited impact on competitiveness given the large share of hydrocarbon exports and limited substitutability between imports and domestically produced products, which have significant imported labor and intermediate material.

Capital and Financial Accounts: Flows and Policy Measures

Background. The capital and financial account balance has in recent years broadly mirrored the current account path. The decline in oil exports and related government revenues during 2015-2020 have resulted in financial inflows to finance the current account deficits, as the government has issued external debt and drawn down assets. At the same time, banks and SOEs have also tapped international markets. In 2020, FDI inflows are estimated at US$3.2 billion, and the government issued Eurobonds of US$2.5 billion. Capital and financial accounts net inflows, including government external borrowing, FDI and increase in banks' foreign liabilities have resulted in estimated net inflows of about US$7.5 billion in 2020.

Assessment. As the government presses ahead with the planned fiscal consolidation and structural reforms to improve economic diversification, risks stemming from sudden capital outflows are expected to diminish as external financing needs decline, and FDI would likely account for a stable share of external liabilities. As part of the measures to combat the impact of the COVID-19, the CBO tightened the limit on banks' foreign assets (a CFM/MPM measure) from 75 to 50 percent of banks' local net worth. As the recovery takes hold and becomes more entrenched, staff recommended the CBO to replace it with non-discriminatory micro- and/or macroprudential measures that address underlying risks without limiting capital flows.

FX Intervention and Reserves Level

Oman: Foreign Reserve Adequacy Assessment

		Est.	Proj.					
	2019	2020	2021	2022	2023	2024	2025	2026
CBO foreign reserves (US$, bil.)	16.7	15.0	15.1	15.3	15.6	16.4	17.3	18.3
In percent of external short-term debt, remaining maturity	82.1	58.1	61.4	57.5	75.9	81.7	96.2	92.2
In percent of other liabilities	97.5	172.2	104.6	93.9	60.1	53.4	47.1	52.0
In percent of broad money	36.1	29.9	28.5	27.8	27.0	26.8	27.0	28.0
In percent of ARA metric	90.1	84.4	77.2	71.5	71.3	71.0	71.8	74.3
In percent of adjusted ARA metric 1/	…	…	74.9	68.4	67.9	67.3	…	…
In months of prospective imports of G & S	7.3	6.3	5.6	5.5	5.3	5.3	5.4	5.4
Memo items:								
OIA liquid external assets (SWF, US$, bil.)	13.1	13.0	13.0	12.3	11.8	11.6	11.5	11.4
CBO reserves and SWF in percent of ARA metric	160.8	157.6	144	129	125	121	119	121
CBO reserves and SWF in percent of adjusted ARA metric	…	…	140	124	119	115	…	…

1/ Adjusted for additional buffer in case of lower-than-expected oil price in 2021-24, which is the lower bound of the 68% confidence interval price as in April 2021 WEO.

Background. While the CBO's gross reserves decreased by US$1.7 billion in 2020, mostly driven by deteriorated trade balance, they stood at US$15 billion (6.2 months of imports, 30 percent of broad money) at end-2020. These reserves correspond to 84 percent of the Fund's Assessing Reserve Adequacy (ARA) metric, deteriorating from 90 percent in 2019 and below the suggested adequate range of 100-150 percent.

Assessment. Foreign reserves are expected to remain broadly stable in nominal terms and decline in terms of metrics such as the import coverage ratio and the IMF's ARA metric. Reserves are broadly adequate for covering prospective imports but inadequate in terms of IMF's ARA metric. Fiscal adjustments over the medium term would help strengthen the CA and increase savings for future generations. The reserve adequacy gap becomes larger if the additional buffers Oman may want to hold to insure against oil price decline is included in the ARA metric. Nonetheless, the OIA holds substantial liquid external assets which can be used in case of an exchange rate shock. With these assets included, Oman's overall reserves adequacy reaches over 100 percent over the medium term, within the adequate range.

Annex IV. Risk Assessment Matrix

Source of Risk and Relative Likelihood	Expected Impact	Policy Responses
Medium **Global resurgence of the Covid-19 pandemic.** Local outbreaks lead to a global resurgence of the pandemic (possibly due to vaccine-resistant variants), which requires costly containment efforts and prompts persistent behavioral changes rendering many activities unviable.	**High** Asynchronous progress in addressing the pandemic and vaccinating populations would increase risks (lower growth, tighter financial conditions). Post-pandemic scarring has a prolonged impact on the oil and hospitality sectors, thereby reducing long-term potential non-oil GDP growth. Weak growth dynamics cause a deterioration in debt sustainability and force a larger fiscal adjustment, which could feedback in weaker growth.	Accelerate the pace of vaccination and continue providing support to the health system. Provide additional and targeted policy support if needed. Strike a balance between supporting the economy and containing risks to financial stability. Withdrawal of fiscal, monetary, and financial sector support measures should be carefully coordinated and calibrated until the recovery is firmly underway.
Medium **Rising commodity prices amid bouts of volatility.** Commodity prices increase by more than expected against a weaker U.S. dollar, post-pandemic pent-up demand and supply disruptions, and for some materials, accelerated plans for renewable energy adoption. Uncertainty surrounding each of these factors leads to bouts of volatility, especially in oil prices.	**High** A higher oil price would lead to strong fiscal and external positions. However, if accompanied by a procyclical fiscal policy, fiscal and debt vulnerabilities would rise. A substantial decline in oil prices would affect fiscal and external oil revenue; increasing gross financing needs. Additionally, lower hydrocarbon prices may affect liquidity within the banking system and, over time, have a negative impact on credit growth and asset quality. Lower oil prices would lead to negative spillovers in the non-hydrocarbon sector prompting lower consumption, investment, and employment.	Adopt revenue measures to reduce the volatility of fiscal revenue due to oil prices. Fiscal policy needs to be anchored in a medium-term framework to reduce the risks of procyclical fiscal policies. Develop a sovereign asset and liability management framework to safeguard financial buffers and manage financial risks. Accelerate structural reforms to enhance competitiveness, diversify the economy, and reduce the impact of oil price fluctuations.
Medium **De-anchoring of inflation expectations in the U.S. leads to rising core yields and risk premia.** A fast recovery in demand, combined with Covid-19-related supply constraints, leads to sustained above-target inflation readings and a de-anchoring of expectations. The Fed reacts by signaling a need to tighten earlier than expected. The resulting repositioning by market participants leads to a front-loaded tightening of financial conditions and higher risk premia.	**High** Increases in cost of borrowing due to higher perceived sovereign risk or sovereign downgrades could worsen the fiscal and external positions. Corporate' liquidity problems translate into insolvencies, leading to deterioration in banks' asset quality and further adverse implication to economic growth.	Steadfast implementation of fiscal consolidation to reduce borrowing spreads. Target the CBO's policy support measures, and extend support to viable firms in hard hit sectors. Continue monitoring financial stability risks and ensure banks provisions reflect increases in borrowers' riskiness.
Medium **Widespread social discontent and political instability.** Social tensions erupt as a withdrawal of pandemic-related policy support results in unemployment and, amid increasing prices of essentials, hurts vulnerable groups (often exacerbating pre-existing inequities).	**Medium** Social tensions could cause economic disruptions and erode trusts in policy makers. This may cause socio-economic and political disruption, and lower confidence. Domestic social unrest, especially related to fiscal adjustment could affect consumer and investor sentiment, thus depressing private-sector non-oil growth and perhaps prompting private sector capital outflows, putting further pressure on foreign reserves.	Ensure social safety nets for the most vulnerable. Reduce the risk of sudden policy support withdrawal or disorderly adjustment by ensuring fiscal and external sustainability are preserved.
Medium **Disorderly transformations.** Covid-19 triggers structural transformations, but the reallocation of resources is impeded by labor market rigidities, debt overhangs, and inadequate bankruptcy resolution frameworks. This, coupled with a withdrawal of Covid-19-related policy support, undermines growth prospects and increases unemployment, with adverse social/political consequences. Adjustments in global value chains and reshoring shift production activities across countries.	**Medium** Disruption to supply chains, including for medical supplies to national protectionist policies, increases production costs and inflation.	Facilitate a speedy reallocation of labor and capital towards domestic sectors. Explore the scope for further strengthening insolvency and debt restructuring tools to facilitate smooth resource reallocation. Raise competitiveness and foster the creation of private sector jobs
Medium **Insufficient fiscal adjustment.** Delayed implementation of the fiscal adjustment plan could trigger a negative shift in investor sentiment, heightening financing risks.	**High** Delays in implementing the Medium-Term Fiscal Balance Plan following the pandemic and lower oil revenue imply higher financing needs and debt. Higher recourse to domestic financing could lead to crowding out of private sector credit, depleting official reserves, and depressing investment and growth.	Steady implementation of fiscal adjustment plans would strengthen fiscal and external balances substantially over the medium term. Establish a sound medium term fiscal framework and a clear fiscal anchor to help in achieving the targeted fiscal consolidation.

Note. The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Annex V. Debt Sustainability Analysis

Public debt (central government) sustainability risks increased significantly in 2020 due to the twin shocks from the COVID-19 pandemic and a collapse in oil prices. Under the baseline scenario, the authorities' ongoing fiscal consolidation is expected to reduce public debt to 47 percent of GDP while gross financing needs are forecasted to be 6.6 percent of GDP in 2026. Despite sizable financial buffers, the public debt trajectory remains vulnerable to risks, particularly from inadequate implementation of the authorities' fiscal consolidation plan, oil markets developments, and shocks to GDP growth, the exchange rate, and interest rates. Oman's external debt has increased substantially in recent years and remains sensitive to exchange rate and current account shocks.

A. Public Debt Sustainability Analysis

Developments and Baseline Scenario

1. Debt profile. After surging from 4.6 percent of GDP in 2014 to 60.5 percent in 2019, public debt rose further to 81.2 percent in 2020 on account of the impact the pandemic and a collapse in oil prices. Domestically-held debt increased from 15.2 to 21 percent of GDP between 2019-2020, while externally-held debt increased from 45.4 to 60.2 percent of GDP for the similar period. Oman's debt is dominated by medium and long-term maturities, with bonds and sukuk accounting for 69 percent and 65 percent of domestic and external debt at end-2020, respectively. Further, net debt—central government debt less deposits at banks, OIA's liquid assets, and Oil Fund—moved from minus 27.8 percent of GDP at end-2016 to 33 percent of GDP at end-2020, driven by the large increase in financial liabilities.

2. Macroeconomic assumptions. Non-hydrocarbon growth is projected to gradually recover from the effects of the COVID-19 pandemic and reach about 4 percent by 2026, while overall growth is expected at 2.6 percent reflecting slower growth of hydrocarbon production. The implementation of the authorities' fiscal consolidation, under the Medium-Term Fiscal Plan (MTFP), will improve the overall fiscal balance from a deficit of 19.3 percent of GDP in 2020 to a surplus in 2022. The non-hydrocarbon structural primary balance, which excludes hydrocarbon revenue and expenditure, would increase from -25.6 percent of GDP to -16.2 percent over the same period. Gross financing needs (GFNs) are projected to decrease over the medium term.[1] GFNs amounted to about 22.8 percent of GDP in 2020. They are expected to decline to 8.9 percent of GDP in 2021—due to fiscal consolidation, higher oil prices, the economic recovery, the shift of oil and gas expenditure to EDO, and OIA income—and to around 7.8 percent of GDP by 2026. GFNs are assumed to be financed mainly through issuance of long-term external debt, and modest drawdowns of fiscal buffers. Therefore, improvements in the primary balance and declining recourse to debt financing are projected to reduce gross (net) public debt to about 47 (14.5) percent of GDP by 2026. It is

[1] At end-2020, the stock of T-bills stood at 2 percent of GDP and is assumed to be rolled over the projection period.

assumed financing needs over the medium term will be predominantly financed through debt issuance.

3. The government debt trajectory is sensitive to shocks:

- **Heatmap.** The heat map indicators are above high-risk DSA benchmarks, where the debt profile aspect of the assessment is breached for most indicators under the baseline scenario. Among the standard stress tests, the negative GDP growth shock has the largest impact, highlighting the importance for fiscal consolidation to reinforce fiscal and external sustainability.

- ***Growth shock.*** The impact on the debt-to-GDP ratio of the 1 standard deviation shock to real GDP growth, equivalent to about 3.4 percentage points in each year 2022 and 2023, would increase central government debt over the medium term. In this scenario, debt dynamics are worse than the baseline, with debt being 63 percent of GDP by 2026.

- ***Primary balance shock.*** This shock deteriorates the primary balance by 5.7 percentage points of GDP in years 2022 and 23 and increases public debt to about 63 percent of GDP by 2026 (16 percentage points higher than the baseline).[2] Gross financing needs increase by 3.5 percentage points of GDP to 12.3 percent in 2022, and to about 10 percent of GDP in 2023 compared to 4.6 percent of GDP in the baseline scenario.

- ***Interest rate shock.*** The 2020 downgrades in Oman's sovereign rating by credit rating agencies have impacted financing costs. While sovereign spreads have markedly declined since late 2020, a tighter financial condition is a risk over the projection period. The debt projections are quite sensitive to real interest rate shocks—the result of the sensitivity of the GDP deflator, and hence the real interest rate, to volatile energy prices. Unlike in the other shocks, the debt trajectory in this scenario does not stabilize and becomes explosive.[3] As a result, higher interest payments increase public debt to 68.4 percent of GDP by 2026.

- ***Combined macro-fiscal shock.*** The macro-fiscal shock combines the growth and interest rate shock and a primary balance shock as in the standard examples above, together with the exchange rate shock. The effect of these shocks on central government debt and gross financing needs is large, reaching about 116 percent and 25.5 percent of GDP in 2026, respectively.

- ***Contingent liability shock.*** This contingent liability is calibrated as 10 percent of banks' assets (excluding claims on government). Oman's debt is exposed to explicit contingent liabilities arising from SOEs, amounting 11 percent of GDP. This shock generates gross debt of 91.6 percent of GDP and gross financing needs of 11.6 percent of GDP by 2026.

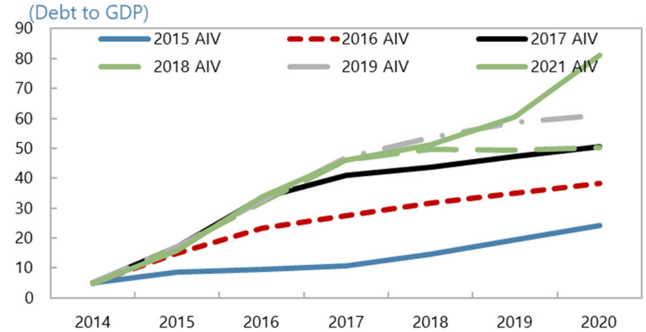
[2] The primary shock is equal to half of the 10-year historical standard deviation.

[3] The large share of Oman's energy sector and recent large swings in energy prices have resulted in very volatile path for the GDP deflator, contributing to the sharp increase in real effective interest rate.

4. Though the rise in debt was largely due to 2014-2015 oil price shock and weak economic activity, steadfast implementation of the MTFP will be essential in reinforcing fiscal and external sustainability. Beside the sharp increase in debt from the 2014-15 decline in oil prices, debt had been on slightly upward trend during 2017-2018, but then increased sharply in 2019 (due to contraction in the oil sector) and amplified in 2020 (due to a dual shock from the pandemic and a collapse in oil prices). Public debt remains vulnerable to risks, particularly from oil markets developments and shocks to GDP growth, the exchange rate, primary balance, and interest rates. Fiscal consolidation (underpinned by the MTFP), higher oil prices, and ongoing structural reforms are projected to considerably narrow the debt over the medium term.

Debt forecasts

(Debt to GDP)



Sources: IMF staff calculations

B. External Debt Sustainability Analysis

5. Oman's external debt has increased substantially in recent years. It increased from about 64 to 114.7 percent of GDP during 2016-2020, which was largely driven by the increase in central government external debt, from 20.5 percent of GDP to 60.2 percent during the same period. The rest of the increase was due to the non-financial private sector, mainly SOEs, as they also ramped up external borrowing over the period. Total external debt is projected to decrease with ongoing fiscal consolidation.

6. Stress tests confirm that external debt dynamics are sensitive to several macroeconomic shocks, especially exchange rate and current account shocks. A one-time real exchange rate depreciation of 30 percent in 2021 would make external debt peak at 127 percent of GDP in 2026. An increase in the current account deficit (excluding interest payments) by half a standard deviation in each year from 2021 onwards, would make external debt peak at about 113 percent of GDP in 2026. A combined permanent shock of a one-fourth standard deviation applied simultaneously to the interest rate, growth rate, and non-interest current account balance would raise the external debt to 104 percent of GDP by 2026.

Figure 1. Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

(In percent of GDP unless otherwise indicated)

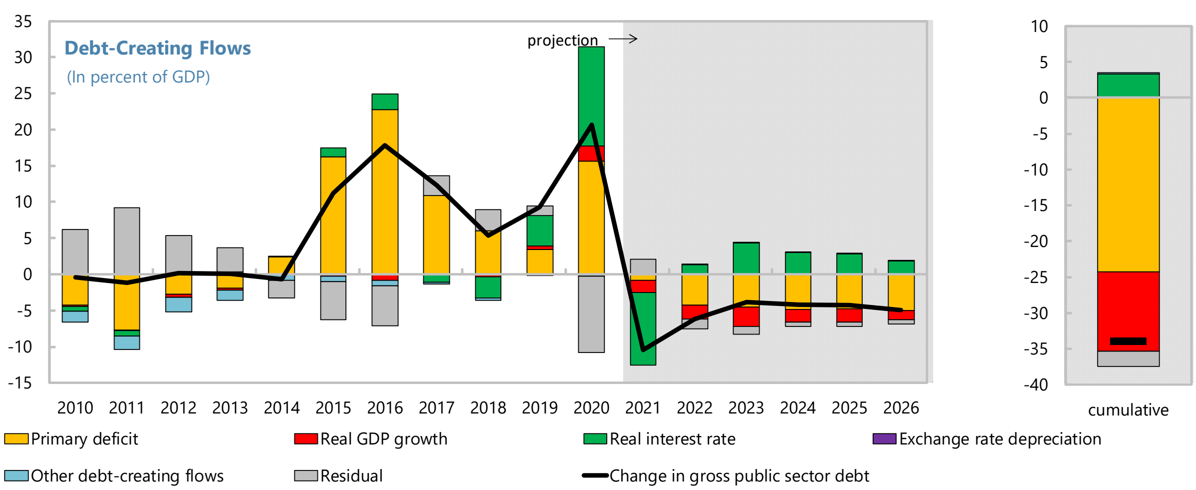
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2010-2018 [2/]	2019	2020	2021	2022	2023	2024	2025	2026
Nominal gross public debt	19.2	60.5	81.2	70.7	64.5	60.5	56.3	51.9	46.9
Public gross financing needs	8.4	11.3	29.5	8.8	7.4	4.6	2.7	3.6	6.6
Net public debt	-28.2	12.9	33.0	31.5	27.5	24.4	21.4	18.3	14.4
Public debt (in percent of potential GDP)	19.3	63.8	70.8	68.9	63.4	59.8	55.9	51.9	47.2
Real GDP growth (in percent)	3.4	-0.8	-2.8	2.5	2.9	4.2	2.9	3.3	2.6
Inflation (GDP deflator, in percent)	2.9	-3.5	-14.6	19.7	2.9	-1.7	0.2	0.2	1.6
Nominal GDP growth (in percent)	6.3	-4.3	-17.0	22.7	5.9	2.4	3.1	3.5	4.3
Effective interest rate (in percent) [4/]	3.5	4.3	4.6	5.0	5.0	5.1	5.3	5.5	5.4

As of May 10, 2021		
Sovereign Spreads		
EMBIG (bp) 3/		388
5Y CDS (bp)		252
Ratings	Foreign	Local
Moody's	Ba3	Ba3
S&Ps	B+	B+
Fitch	BB-	BB-

Contribution to Changes in Public Debt

	Actual			Projections							
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	5.0	9.3	20.6	-10.4	-6.2	-3.9	-4.2	-4.3	-5.0	-33.9	
Identified debt-creating flows	3.1	7.9	31.1	-12.5	-4.8	-2.8	-3.6	-3.7	-4.4	-31.8	
Primary deficit	4.6	3.4	15.7	-0.8	-4.3	-4.5	-4.9	-4.8	-5.0	-24.3	0.6
Primary (noninterest) revenue and gran	40.5	39.2	33.3	32.9	35.3	34.8	34.6	33.7	33.1	204.4	
Primary (noninterest) expenditure	45.2	42.6	49.0	32.1	31.0	30.2	29.7	28.9	28.1	180.1	
Automatic debt dynamics [5/]	-0.5	4.7	15.7	-11.7	-0.6	1.7	1.3	1.0	0.5	-7.7	
Interest rate/growth differential [6/]	-0.5	4.7	15.7	-11.7	-0.6	1.7	1.3	1.0	0.5	-7.7	
Of which: real interest rate	-0.2	4.2	13.7	-10.1	1.3	4.4	3.0	2.9	1.8	3.3	
Of which: real GDP growth	-0.3	0.4	2.1	-1.6	-2.0	-2.6	-1.7	-1.8	-1.3	-11.1	
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	-1.1	-0.2	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.2	
GG: Net Lending (negative)	-1.1	-0.2	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.2	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., ESM and Euroa	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	1.9	1.4	-10.5	2.1	-1.3	-1.1	-0.6	-0.6	-0.6	-2.1	



Source: IMF staff.

1/ Public sector is defined as central government.

2/ Based on available data.

3/ EMBIG.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi (1+g)$ and the real growth contribution as $-g$.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

8/ Includes asset changes and interest revenues by SGRF. For projections, includes exchange rate changes during the projection period.

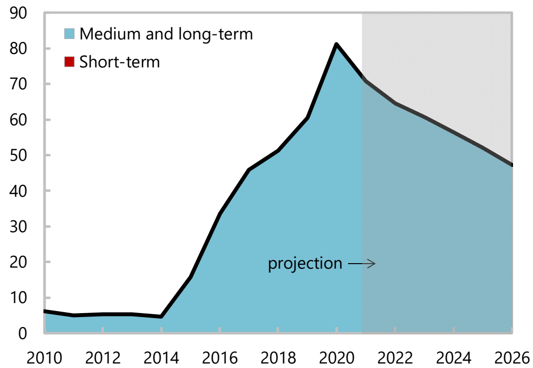
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 2. Public DSA–Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

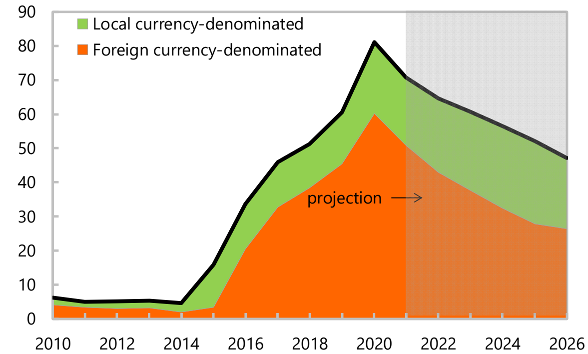
By Maturity

(In percent of GDP)



By Currency

(In percent of GDP)

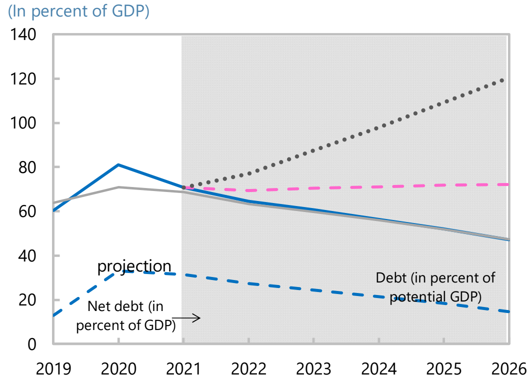


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

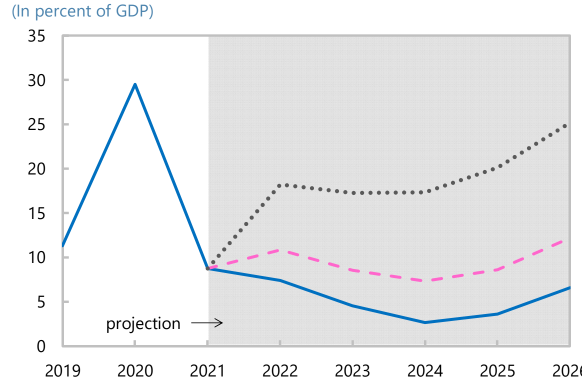
Gross Nominal Public Debt

(In percent of GDP)



Public Gross Financing Needs

(In percent of GDP)



Underlying Assumptions

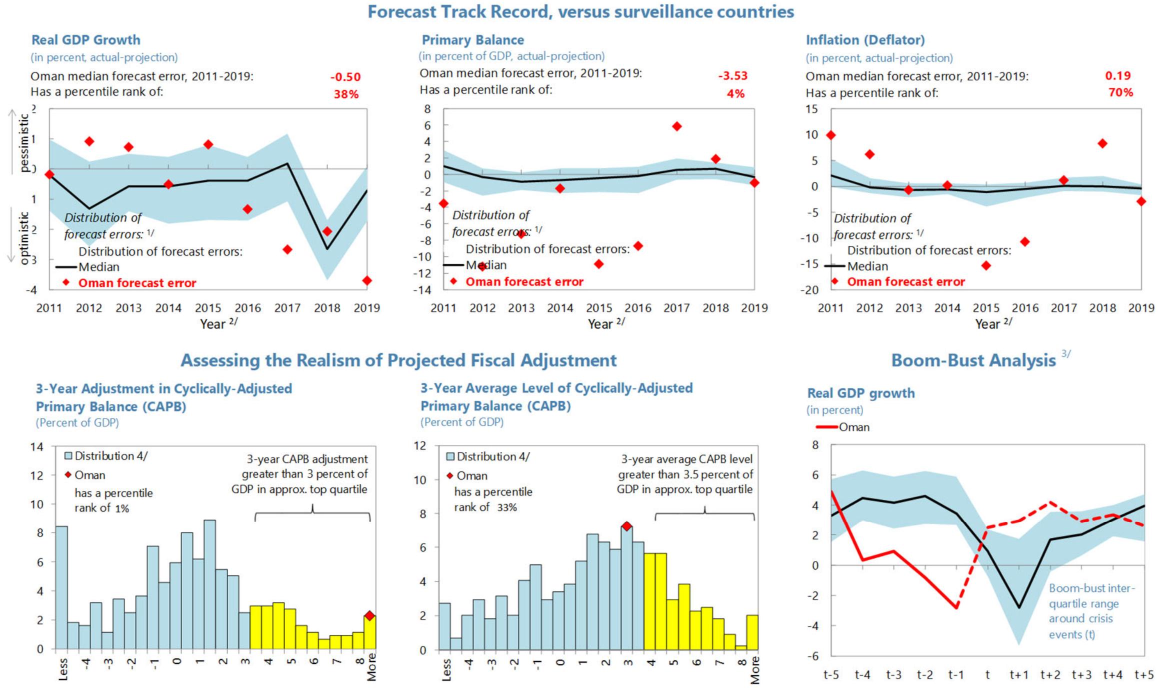
(In percent)

Baseline Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	2.5	2.9	4.2	2.9	3.3	2.6
Inflation	19.7	2.9	-1.7	0.2	0.2	1.6
Primary Balance	0.8	4.3	4.5	4.9	4.8	5.0
Effective interest rate	5.0	5.0	5.1	5.3	5.5	5.4
Constant Primary Balance Scenario						
Real GDP growth	2.5	2.9	4.2	2.9	3.3	2.6
Inflation	19.7	2.9	-1.7	0.2	0.2	1.6
Primary Balance	0.8	0.8	0.8	0.8	0.8	0.8
Effective interest rate	5.0	5.0	5.1	5.4	5.7	5.9

Historical Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	2.5	2.5	2.5	2.5	2.5	2.5
Inflation	19.7	2.9	-1.7	0.2	0.2	1.6
Primary Balance	0.8	-6.5	-6.5	-6.5	-6.5	-6.5
Effective interest rate	5.0	5.0	6.1	7.1	8.0	8.7

Source: IMF staff.

Figure 3. Public DSA–Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes surveillance countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Oman has had a cumulative increase in private sector credit of 17 percent of GDP, 2017-2020. For Oman, t corresponds to 2021; for the distribution, t corresponds to the first year of the crisis.

4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

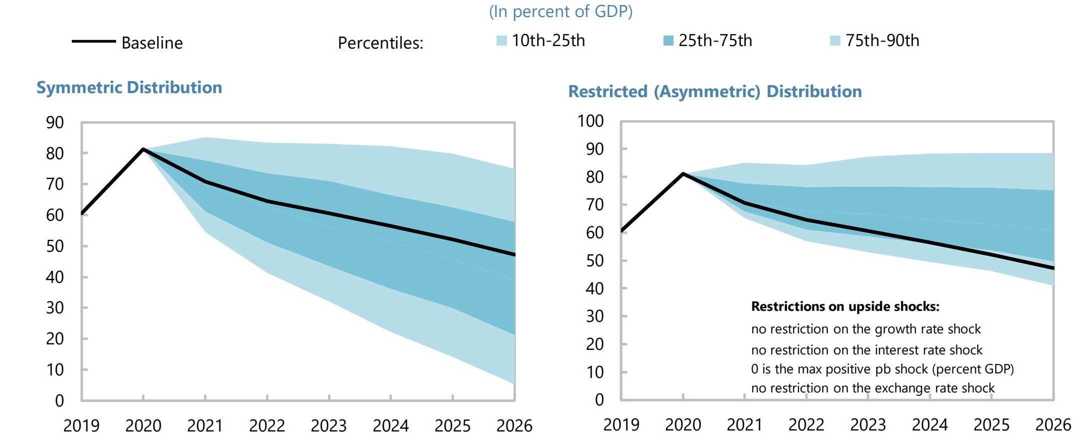
Figure 4. Public DSA Risk Assessment

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

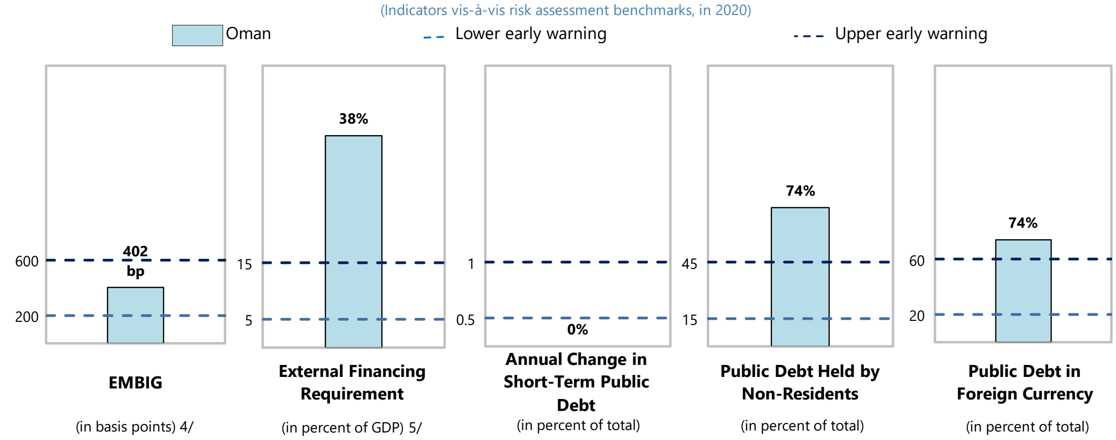
Evolution of Predictive Densities of Gross Nominal Public Debt

(In percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2020)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

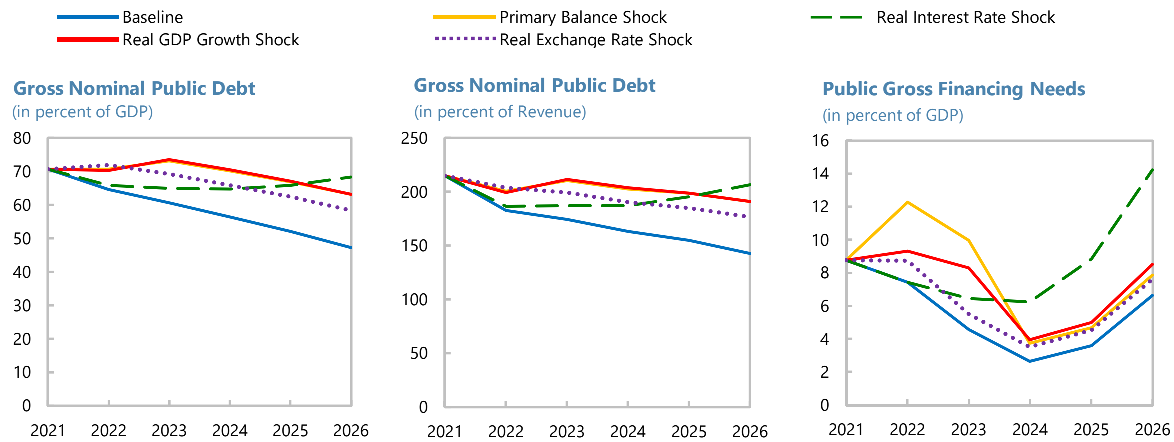
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, 09-Feb-21 through 10-May-21.

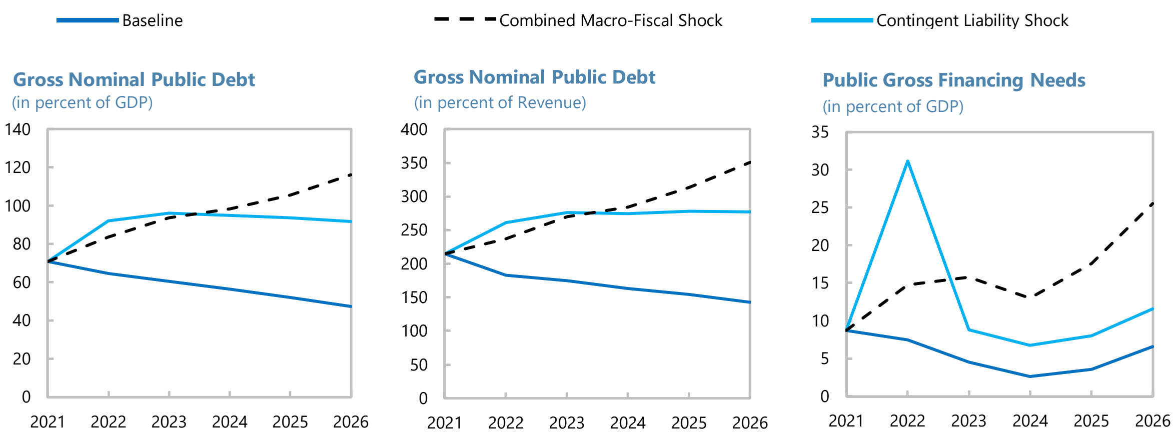
5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure 5. Public DSA–Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(In percent)

Primary Balance Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	2.5	2.9	4.2	2.9	3.3	2.6
Inflation	19.7	2.9	-1.7	0.2	0.2	1.6
Primary balance	0.8	-0.6	-0.3	4.9	4.8	5.0
Effective interest rate	5.0	5.0	5.4	5.8	5.9	6.1
Real Interest Rate Shock						
Real GDP growth	2.5	2.9	4.2	2.9	3.3	2.6
Inflation	19.7	2.9	-1.7	0.2	0.2	1.6
Primary balance	0.8	4.3	4.5	4.9	4.8	5.0
Effective interest rate	5.0	5.0	7.9	10.6	13.0	16.1
Combined Shock						
Real GDP growth	2.5	-0.5	0.7	2.9	3.3	2.6
Inflation	19.7	2.1	-2.6	0.2	0.2	1.6
Primary balance	0.8	-0.6	-0.3	4.9	4.8	5.0
Effective interest rate	5.0	5.7	9.5	13.5	16.4	19.6

Real GDP Growth Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	2.5	-0.5	0.7	2.9	3.3	2.6
Inflation	19.7	2.1	-2.6	0.2	0.2	1.6
Primary balance	0.8	2.9	1.8	4.9	4.8	5.0
Effective interest rate	5.0	5.0	5.2	5.5	5.7	5.8
Real Exchange Rate Shock						
Real GDP growth	2.5	2.9	4.2	2.9	3.3	2.6
Inflation	19.7	7.6	-1.7	0.2	0.2	1.6
Primary balance	0.8	4.3	4.5	4.9	4.8	5.0
Effective interest rate	5.0	5.7	5.1	5.4	5.5	5.7
Contingent Liability Shock						
Real GDP growth	2.5	-0.5	0.7	2.9	3.3	2.6
Inflation	19.7	2.1	-2.6	0.2	0.2	1.6
Primary balance	0.8	-18.6	4.5	4.9	4.8	5.0
Effective interest rate	5.0	5.4	7.1	7.3	7.4	7.5

Source: IMF staff.

Figure 6. External Debt Sustainability Framework, 2016-2026

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2016	2017	2018	2019	2020	10-Year Historical Average	10-Year Standard Deviation	2021	2022	2023	2024	2025	2026	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	63.9	82.5	83.6	94.3	114.7			**101.1**	**95.0**	**92.9**	**90.8**	**88.9**	**85.0**	**-4.0**
Change in external debt	14.4	18.6	1.1	10.7	20.4			-13.6	-6.1	-2.1	-2.1	-1.9	-3.8	
Identified external debt-creating flows (4+8+9)	18.8	10.2	-10.7	5.6	24.4			-0.5	-1.4	-5.9	-4.6	-5.6	-5.0	
Current account deficit, excluding interest payments	17.6	12.7	1.8	1.8	5.8			2.6	2.2	-1.2	-1.4	-2.4	-2.4	
Deficit in balance of goods and services	0.2	-2.8	-13.7	-14.6	-14.3			-13.8	-7.6	-13.1	-12.9	-12.3	-11.3	
Exports	47.4	52.4	58.1	57.2	51.9			48.2	45.5	52.1	52.4	52.3	51.6	
Imports	47.7	49.5	44.3	42.6	37.7			34.5	37.9	39.0	39.4	40.0	40.3	
Net non-debt creating capital inflows (negative)	-2.9	-0.7	-6.5	-3.7	-4.9			-4.3	-4.4	-4.6	-4.5	-4.5	-4.4	
Automatic debt dynamics 1/	4.1	-1.8	-6.0	7.4	23.5			1.1	0.8	-0.2	1.3	1.3	1.9	
Contribution from nominal interest rate	1.5	2.8	3.5	3.6	4.2			3.4	3.6	3.7	3.9	4.2	4.1	
Contribution from real GDP growth	-2.6	-0.2	-0.7	0.7	3.2			-2.3	-2.8	-3.9	-2.6	-2.9	-2.2	
Contribution from price and exchange rate changes 2/	5.2	-4.4	-8.8	3.1	16.1			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-4.4	8.3	11.8	5.2	-4.0			-13.1	-4.6	3.8	2.5	3.6	1.2	
External debt-to-exports ratio (in percent)	134.9	157.6	144.0	164.8	220.9			209.6	208.7	178.4	173.4	170.0	164.9	
Gross external financing need (in billions of US dollars) 4/	27.8	22.0	16.9	18.5	24.0			24.2	25.4	19.0	17.6	18.1	17.7	
in percent of GDP	42.5	31.1	21.2	24.3	37.9			31.2	30.9	22.6	20.2	20.1	18.9	
Scenario with key variables at their historical averages 5/								**101.1**	**101.0**	**105.0**	**109.7**	**115.8**	**120.7**	**0.4**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	4.9	0.3	0.9	-0.8	-2.8	2.5	3.5	2.5	2.9	4.2	2.9	3.3	2.6	
GDP deflator in US dollars (change in percent)	-9.4	7.4	12.0	-3.5	-14.6	-0.8	11.3	19.7	2.9	-1.7	0.2	0.2	1.6	
Nominal external interest rate (in percent)	2.9	4.8	4.9	4.2	3.7	3.5	0.8	3.7	3.8	4.0	4.3	4.8	4.8	
Growth of exports (US dollar terms, in percent)	-20.5	19.1	25.3	-5.7	-24.7	0.6	21.2	13.9	0.0	17.2	3.6	3.4	2.9	
Growth of imports (US dollar terms, in percent)	-15.1	12.0	1.2	-8.0	-26.7	1.1	16.5	12.3	16.4	5.4	4.3	5.0	5.0	
Current account balance, excluding interest payments	-17.6	-12.7	-1.8	-1.8	-5.8	-1.7	11.1	-2.6	-2.2	1.2	1.4	2.4	2.4	
Net non-debt creating capital inflows	2.9	0.7	6.5	3.7	4.9	1.7	2.9	4.3	4.4	4.6	4.5	4.5	4.4	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of oil price changes.

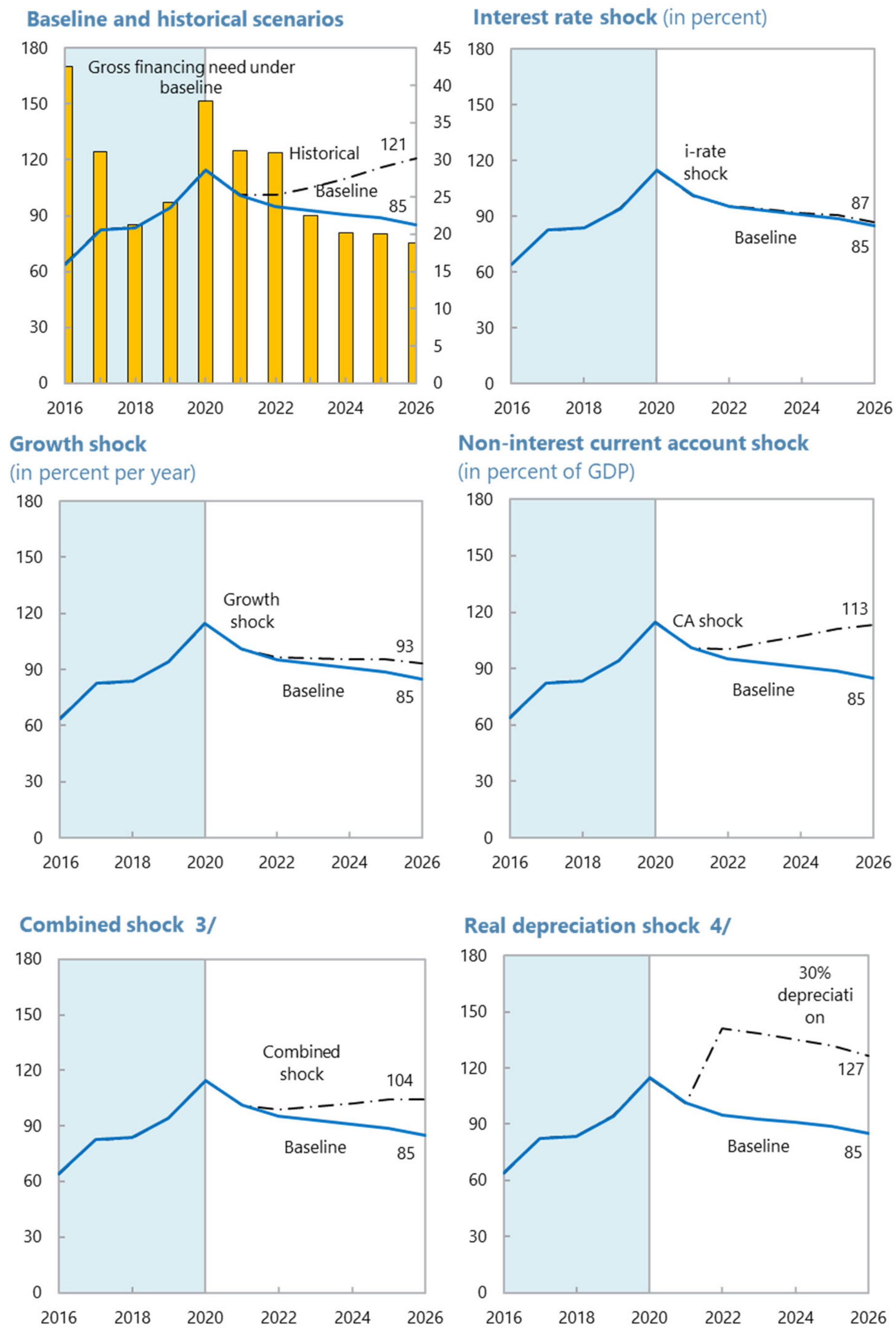
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 7. External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2010.

Annex VI. Topography of Sovereign Asset and Liability Management[1]

Oman has sizable sovereign assets while sovereign liabilities have increased significantly over the last few years. The authorities have embarked on reforms to improve institutions entrusted with managing sovereign assets and liabilities. Adopting a sovereign asset and liability management (SALM) framework would have significant advantages over separate management of assets and liabilities and inform the macroeconomic and financial stability policy design. A comprehensive understanding of the sovereign's assets and liabilities will require strengthening public communication on their strategy and financial performance. Accelerating SOEs reforms should enhance competition and efficient management of public resources.

A. Context

1. Oman is endowed with oil and gas reserves, while its debt to GDP remains high. Oman's economy and budget rely on revenue from the hydrocarbon sector. During 2010-2019, the hydrocarbon sector accounted for 50 percent of GDP, 65 percent of exports, and 80 percent of government revenue. At the same time, government debt increased from 6.2 to 81.2 percent of GDP. The low oil prices since mid-2014 have had a considerable impact on the size and rate of accumulation of sovereign assets and has created fiscal shortfalls. To close financing gaps, Oman has utilized a mix of debt issuance, asset drawdowns, and privatization.

2. The government has taken steps to improve the organizational structures and governance of public entities, entrusted with managing sovereign assets and liabilities. To improve public asset management, the government established the Oman Investment Authority in 2020 as the main investment arm in investing the financial surplus from the hydrocarbon sector and managing efficiently public enterprises. A new holding company—Energy Development of Oman (EDO)—was created in 2020 to manage and finance government investments in oil, gas, and renewables.

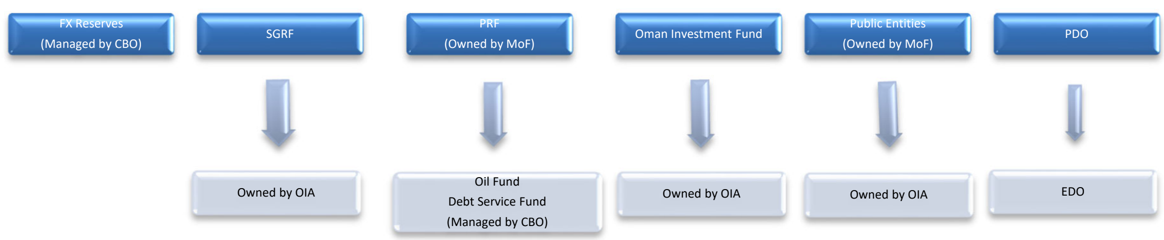
B. Overview of Sovereign Asset and Liability Management

Sovereign Assets

3. Oman has multiple pools of sovereign assets. These include the foreign exchange (FX) reserves, sovereign wealth funds, and public enterprises.

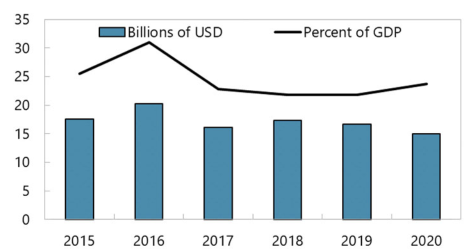
[1] Prepared by Abdullah AlHassan

Evolving Institutional Arrangements and Ownership of Sovereign Assets



4. Oman's FX reserves were about 24 percent of GDP (US$15 billion) at end-2020. The CBO manages the FX reserves, aiming to fulfill the objectives of capital preservation, the sustainability of the currency peg, and optimal mix of return and risk. The reserves are divided into: (i) liquidity tranche to meet the commercial banks liquidity needs; (ii) bridge tranche to provide a cushion to the liquidity tranche; and (iii) income tranche to ensure capital preservation and enhance return. The decline in FX reserves since 2016 is due to the high twin deficits.

CBO Official Reserves



Sources: CBO; and IMF staff estimates

5. The Oman Investment Authority (OIA) was created in 2020 to manage SWFs and public enterprises. As of March 2021, the total assets of OIA amounted to US$42 billion, amounting to around 66 percent of GDP, with a third of total assets invested in public markets and the rest in public enterprises and private markets. Assets of the State General Reserve Fund (SGRF), the Oman Investment Fund (OIF), and public enterprises were transferred to OIA.[2]

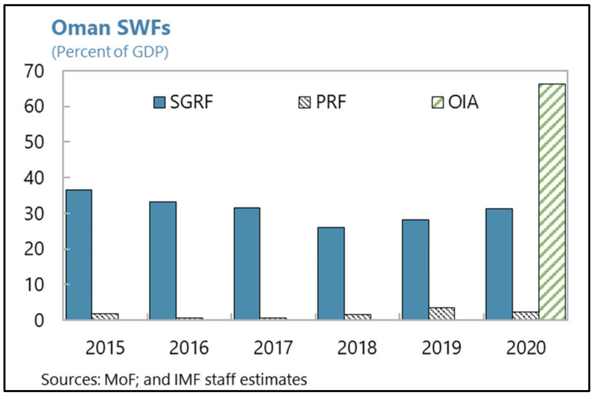
- ***The SGRF***, founded in 1980, managed and invested the fiscal surplus achieved from hydrocarbon revenue above the budgeted hydrocarbon prices. The SGRF invested mainly abroad and in public markets, with assets amounting to about 31 percent of GDP (about US$20 billion).[3]

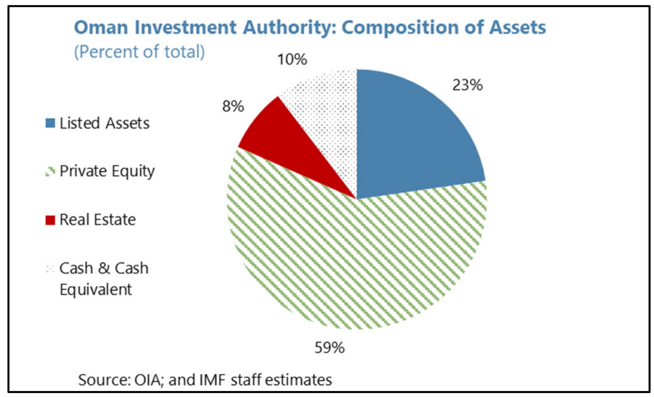
- ***The OIF*** established in 2006, funded from fiscal surpluses, to invest in medium- and long-term projects in industrial and service sectors both domestically and globally.

[2] OIA is the legal entity responsible for managing these assets, with the name of the SGRF and OIF were modified to OIA.

[3] During 1990-2002, the SGRF assets were managed by the CBO.

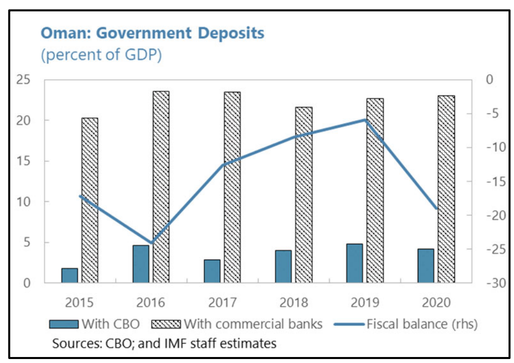
- The ownership of all government investments and ***public enterprises*** (excluding Petroleum Development Oman) overseen by the Ministry of Finance transferred to OIA, accounting for approximately 28 percent of GDP (about US$18.2 billion). There are 139 SOEs in 11 sectors and with 36,000 staff. The aim of OIA with respect of SOEs is to enhance their efficiency and improve the governance, and eventually privatize them in the future. OIA launched "Rawabet," a special program, to enhance the governance of SOEs, realize synergies and align their strategies with Vision 2040, which focuses on economic diversification, enhancing non-oil revenue, and attracting more FDI. Furthermore, OIA is responsible to pay dividends to the public treasury on an annual basis.



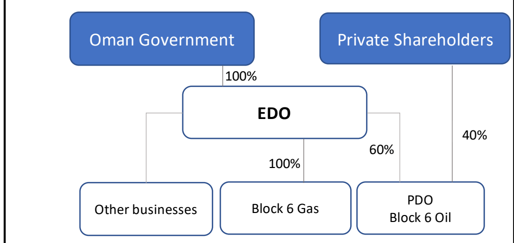


6. The Petroleum Reserve Fund (PRF) was established in 1993 with resources earmarked for hydrocarbon investment inside and outside Oman. Oil revenues equivalent to the value of 20,000 barrels per day, on average, are transferred to the PRF on an annual basis. The PRF's assets are managed by the CBO. As of May 2021, the total assets of the PRF amounted to 2.8 percent of GDP (approximately US$2.4 billion).

7. The government has sizable deposits with the CBO and domestic commercial banks. While government deposits with banks increased significantly with improvement in the overall fiscal balance during 2007-2014, such deposits remained stable over the last few years, amounting to 22 percent of GDP despite the increase in the fiscal balance 2016-2019. At the same, government deposits with CBO are more sensitive to changes in the fiscal balance, averaging around 4 percent of GDP.



8. The Government created Energy Development Oman to manage its stake in the oil and gas sector. The Government owns 60 percent of Petroleum Development Oman (PDO), which accounts for 70 percent of Oman's crude oil production and nearly all natural gas supply. The key objectives of EDO are to enhance the efficiency and governance of Oman's oil and gas sector and alleviate government funding requirements of PDO. From 2021, the EDO is responsible to fund 60 percent of operational and capital expenditure of PDO and 100 percent of the gas sector, while previously such expenditure was covered by the state budget. EDO would ensure at least the same amount of cash flows to Government as expected from PDO, in the form of royalties, taxes and dividends

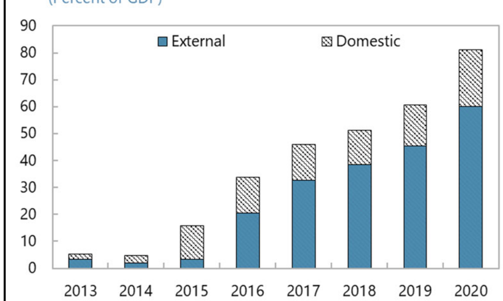


Sources: Ministry of Energy and Minerals

Sovereign Liabilities

9. Government debt has rapidly increased. Since the 2014 oil price shock, sizable primary fiscal deficits led to a rapid build-up of debt. Gross public debt rose from 4.6 percent of GDP in 2014 to 60.5 percent in 2019. Recently, COVID-19 and lower oil prices have further heightened debt vulnerabilities. Reduced oil and tax revenues widened the fiscal deficit and raised its financing need. Recourse to debt financing and significant contraction in nominal GDP pushed gross nominal government debt to 81.2 percent of GDP in 2020. External debt account for 75 percent of total debt, with Eurobonds representing 55 percent of total external debt, followed by syndicated loans (25 percent), sukuk (10 percent), and others (10 percent). Domestic development bonds and sukuk represent the bulk of domestic debt (55 percent), overdraft with CBO (15 percent), sukuk (10), and T-bills (10 percent).

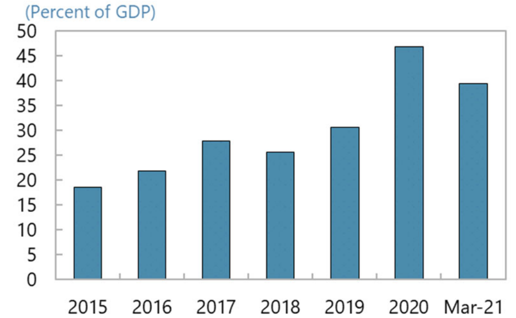
Government Debt
(Percent of GDP)



Sources: MoF; and IMF estimates.

10. State-owned enterprise (SOE) debt has also increased. SOE debt (excluding Petroleum Development Oman) increased from 19 percent in 2015 to 39 percent of GDP in March 2021, which was largely attributed to increases in debt of OQ (Oman Oil Company), Electricity Holding Company, and Oman Air. The explicit government guarantees to SOEs amounted to 11 percent of GDP.

SOEs Debt
(Percent of GDP)



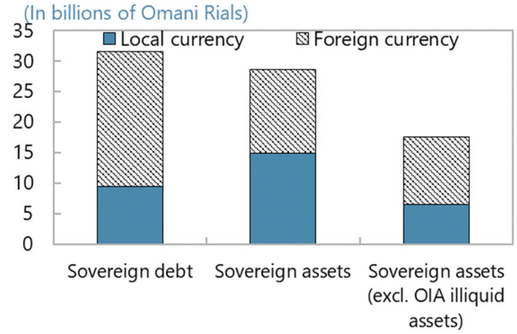
Sources: MoF; and IMF staff estimates

C. Policy Considerations

11. In developing a SALM framework, the authorities can define the sovereign balance sheet in terms of financial assets and liabilities, including contingent liabilities. This definition should ideally include all sovereign financial assets and liabilities, particularly CBO's foreign exchange reserves, sovereign wealth funds, public sector debt, and contingent liabilities from SOEs, with the present value of nonfinancial assets excluded given the difficulty in measuring them.

12. A SALM framework would have significant advantages over separate management of assets and liabilities. Although separate asset-liability objectives and strategies might be optimal for each institution (e.g., the MoF, OIA, CBO) in terms of local risk-return profiles, it may not be the case from the sovereign balance sheet perspective. From a consolidated public sector portfolio perspective, the SALM approach would help to detect sovereign risk exposures by analyzing the financial characteristics of the balance sheet including commodity prices, identifying sources of costs and risks, and quantifying the correlations among these sources. By analyzing Oman's sovereign balance sheet, there is a higher exposure to foreign currency in sovereign debt compared to foreign currency holdings.[4] Therefore, a financial risk management strategy can effectively manage such exposures.

Sovereign Assets and Liabilities
(In billions of Omani Rials)



Sources: MoF; CBO; and IMF staff estimates

13. The SALM approach requires a comprehensive framework of coordination among the various sovereign entities involved, including MoF, CBO, OIA, and EDO. Close coordination among institutions involved in the management of sovereign assets and liabilities is desirable to better manage a wide range of sovereign risks. A joint analysis of the characteristics of financial assets and liabilities on the sovereign balance sheet would allow the authorities to take into account more fully the interrelationships and correlations among sources of risks when formulating strategies and policies. In addition, establishing a high-level SALM committee would provide a formal structure to monitor the implementation of the asset and debt management strategies, based on their mandates and risk constraints, while maintaining autonomy of relevant public entities. For instance, the authorities may implement debt management or reserve management strategies by matching the currency mix and duration for at least some part of these portfolios to reduce currency and interest rate risks across the sovereign balance sheet.[5]

[4] Sovereign assets include OIA, MoF's deposits in CBO and commercial banks, and CBO FX reserves. Sovereign liabilities cover government and SOEs debt.

[5] Many countries (e.g., Canada, Mexico, and New Zealand) implement a partial SALM to manage financial risks when considering investment and borrowing decisions.

14. There is a need to align the management of the OIA to the fiscal framework through inflow and outflow rules. The authorities' strategy over the past few years—which has entailed covering the bulk of financing needs through external borrowing (hence preserving external buffers and supporting the peg) and limited SGRF asset drawdown/sales—has been successful. While the Medium-Term Fiscal Plan (MTFP) aims to achieve zero overall balance by 2025, ideally, a fiscal framework should target a sustainable longer-term trajectory for the non-hydrocarbon budget deficit.[6] Changes in this deficit is an important indicator of the fiscal stance, so a commitment to a smooth and sustainable trajectory for it would imply a significantly reduced risk of procyclical and unsustainable fiscal policy in the future. Therefore, inflow and outflow rules for OIA should be linked to the non-hydrocarbon structural primary balance.[7]

15. Accelerating SOEs reforms should be a key priority. Unlike assets invested in public financial markets, the scope and mandate of SOEs vary widely across many sectors in the economy. Therefore, the priority areas should continue to be on assessing each entity's business strategy and public policy considerations, strengthening corporate governance, and mitigating financial exposures including intra-public sector assets and liabilities, and creating synergies among SOEs. While the aim is to restructure SOEs over the short-term, some SOEs could eventually be privatized over the medium- to long-term. Drafting a Code of Governance for SOEs based on the OECD guidelines on Corporate Governance of SOEs is welcome, which it will enhance an institutional framework to effectively manage SOEs. The framework should ensure oversight and reporting mechanisms, strong coordination between entities and a clear SOE ownership policy that guides the mandate of these SOEs. The SOE ownership policy is particularly important because it should guide the oversight and corporate governance of these entities.

16. Regular reporting on sovereign assets and liabilities should be further enhanced and made public. Despite the significant size of assets and liabilities, there is very limited and high-level information in the public domain. A comprehensive understanding of the sovereign's assets and liabilities will require publishing strategy, financial performance, financial positions, and audits (where applicable) on OIA, public enterprises, and government debt. This would improve transparency and provide a better and broader basis for an informed public debate on important strategic decisions.

[6] The initial MTFP aims to achieve a deficit of 3% of GDP or lower; as well as reverse the trend of public debt as a percentage of GDP from an increasing trend to a decreasing one.

[7] For example, Norway has a "spending rule" where the non-oil budget deficit should be on average 3 percent of the Norwegian SWF over time (corresponding to the estimated real return on the fund).

Annex VII. Impact of Pandemic and Oil shocks on Non-Financial Corporates[1]

Corporate performance measured by profitability, leverage, and debt service has deteriorated over time. The dual shocks from the pandemic and a collapse in oil prices have exacerbated these corporate vulnerabilities, including potentially intensifying corporate-bank-sovereign interlinkages. While policy support measures should continue to be in place or even scaled up until recovery firmly takes hold, measures should be targeted and time-bound to viable firms.

A. Context

1. Even before the COVID-19 pandemic, non-financial corporates in Oman were exhibiting a trend of increasing vulnerabilities. The analysis is based on a firm-level data published in financial statements of 68 Omani, 409 GCC, and 657 emerging market (EM) corporates over the 15-year period of 2006-2020.[2,3] In the case of Oman, total assets of these firms accounted for 105 percent of non-hydrocarbon GDP in 2019. The analysis focused on the evolution of performance metrics as Oman, the GCC region, and EMs weathered the global financial crisis of 2008, the oil price decline of 2014, and the dual shocks from the COVID-19 pandemic and the sharp decline in oil prices in 2020. The data suggests that Omani corporates' performance suffered significantly after each successive crisis and exhibited a trend towards declining revenue growth, returns on equity, and liquidity, and increasing leverage, debt, and interest rate burdens.

2. Policy support measures implemented by the government targeted firms belonging to sectors affected by the pandemic. Policy measures included interest-free emergency loans, exemption from the income tax due for 2020-2021, waiving or reducing selected taxes and fees, paying taxes in installments, bank loan moratoria, and encouraging banks to increase credit ceiling to hard-hit sectors. Support specific to SMEs included reducing income tax rate and postponing loans servicing for borrowers of Oman Development Bank and Al Raffd Fund.

B. Corporate Sector Performance

3. Performance of Omani corporates mirrors that of peers in the GCC region, but Omani corporates have exhibited accelerating stresses in some financial indicators. Similar trends were observed in both Oman and the wider GCC region, indicating similarities in the economic structures between the countries. However, though vulnerabilities in the GCC region have risen, those in Oman have increased at a faster pace in recent years especially when compared to EMs. In particular:

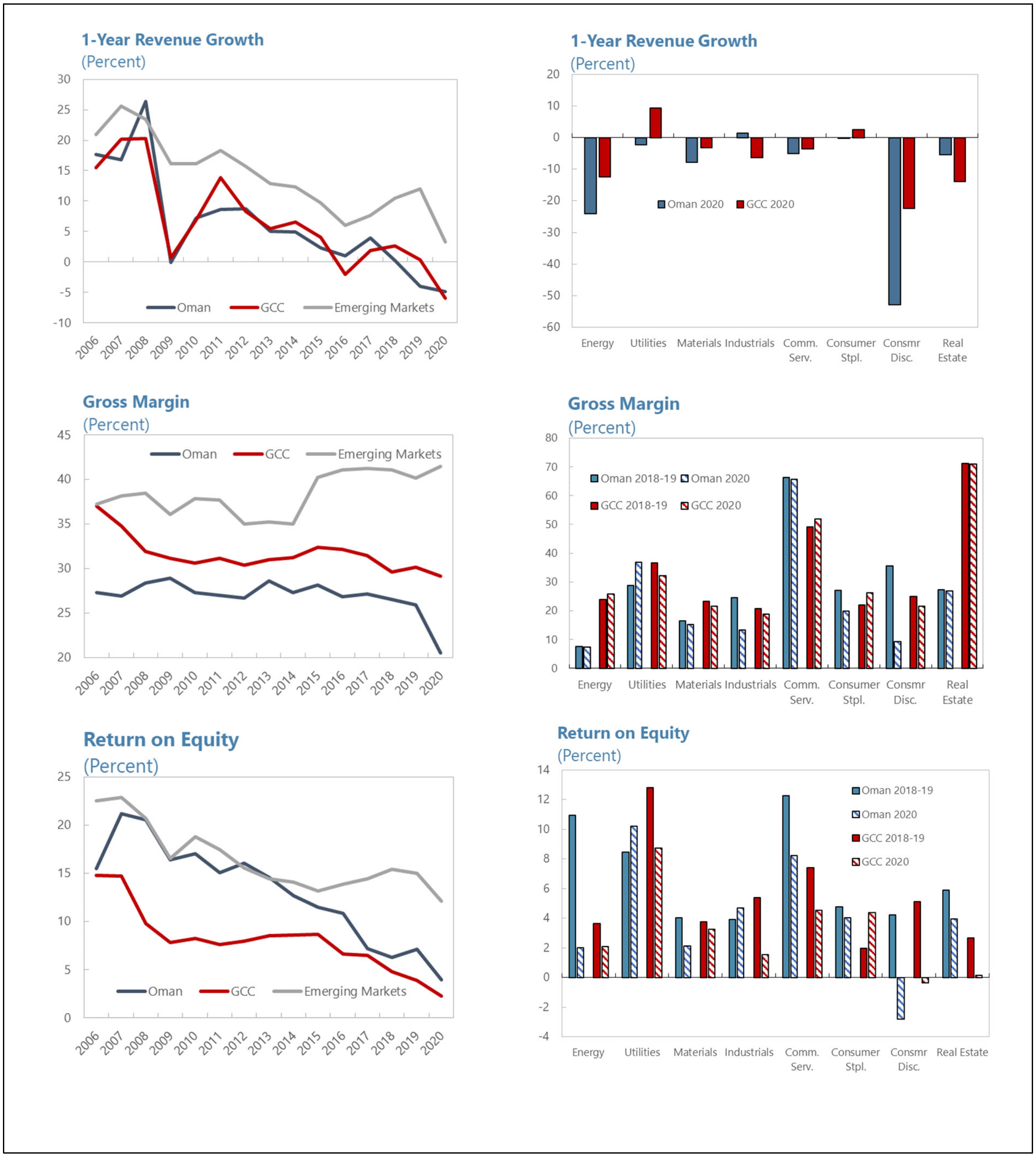
- **Revenue and profitability have been deteriorating since 2008.** After peaking before the global financial crisis in 2008-2009, the median revenue growth was 4.5 percent during 2010-2017

[1] Prepared by Abdullah AlHassan and Hatim Bukhari.

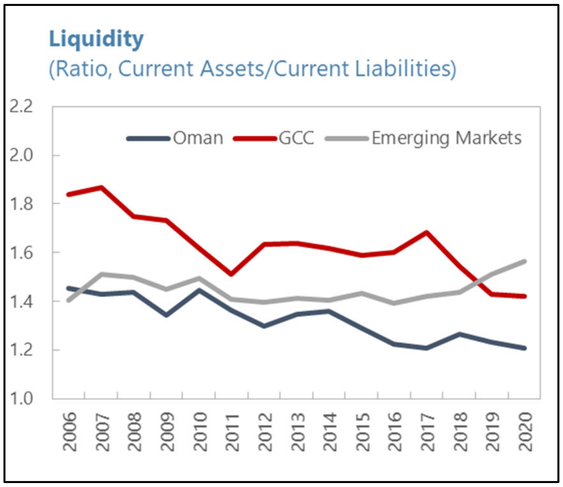
[2] Firm-level data provided by S&P Global Market Intelligence. IMF aggregated data is not S&P information.

[3] EM sample refers to firms from Brazil, Russia, India, and South Africa included in S&P Global Broad Market Index.

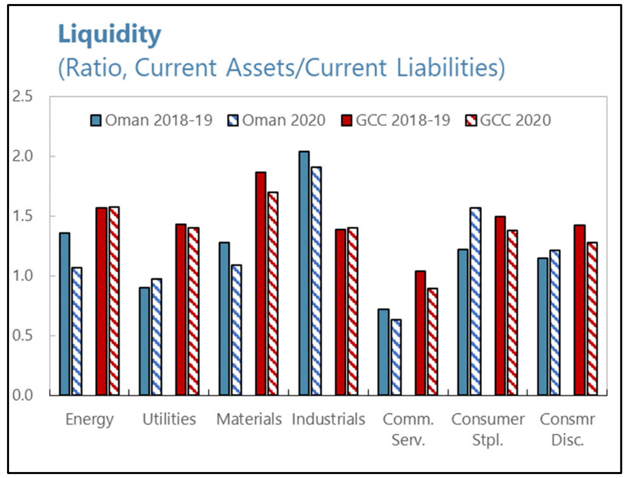
and then turned negative since 2018. The decline in revenue and gross margin have translated into lower profitability with the median return on equity (ROE) standing at about 4 percent as of end-2020 compared to 21 percent in 2007. Revenue and profitability declines were most widespread in the consumer discretionary, communication services, materials, real estate, and energy sectors during the pandemic compared to their performance during 2018-2019. On the other hand, consumer staples and utilities demonstrated resiliency in their returns.



▪ **The liquidity situation remains stable.** Though lower than in other GCC countries or EMs, the median liquidity ratio, defined as current assets divided by current liabilities, was about 1.2 with high liquidity ratios across most sectors.

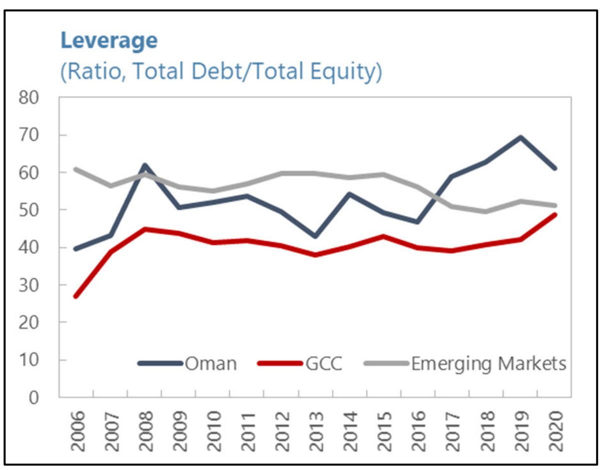


Liquidity
(Ratio, Current Assets/Current Liabilities)

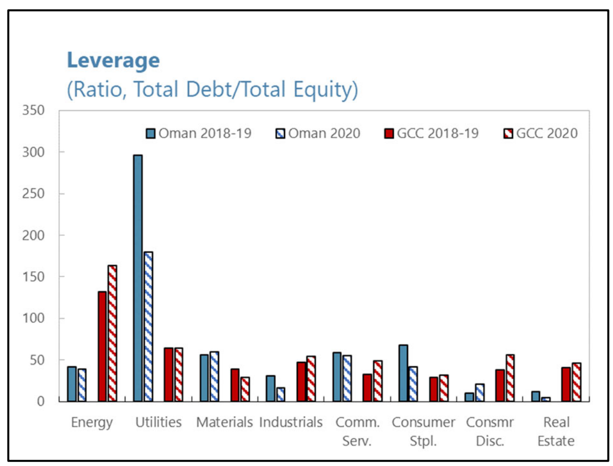


Liquidity
(Ratio, Current Assets/Current Liabilities)

▪ **Corporate leverage has increased sharply since 2016.** As of end-2020, the median debt-to-equity ratio of Omani firms increased from 43 in 2013 to 61 percent in 2020. On the other hand, during the same period leverage in the median firm in the GCC region increased only from 38 to 49 percent and declined in EMs from 60 to 51 percent. There was a significant increase in leverage, with the utility sector being the most leveraged. This has resulted in increase in debt from 15 percent of non-hydrocarbon GDP in 2016 to 46 percent in 2020, partly attributed to the contraction in nominal GDP.

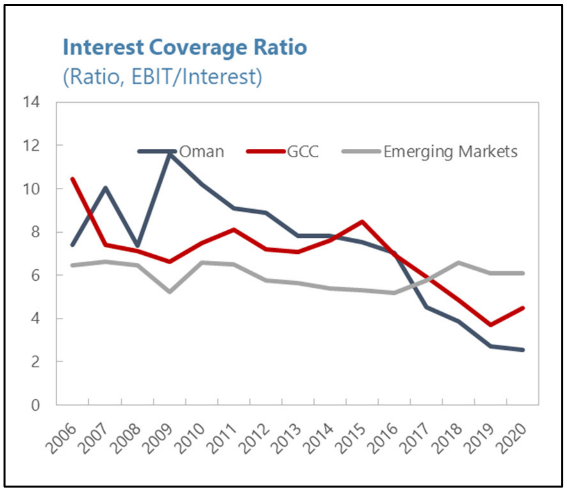


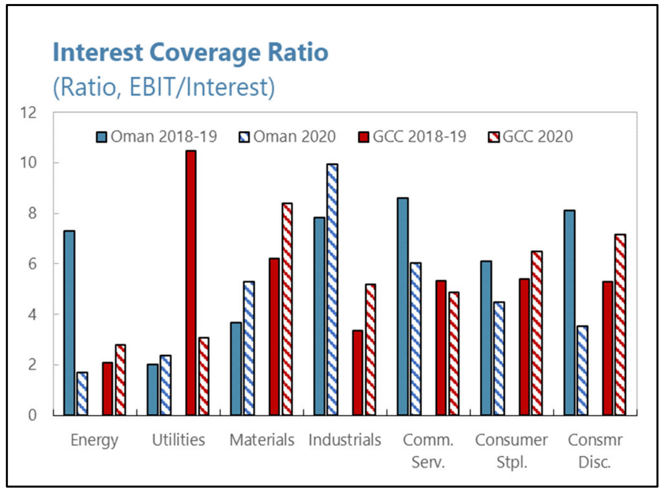
Leverage
(Ratio, Total Debt/Total Equity)

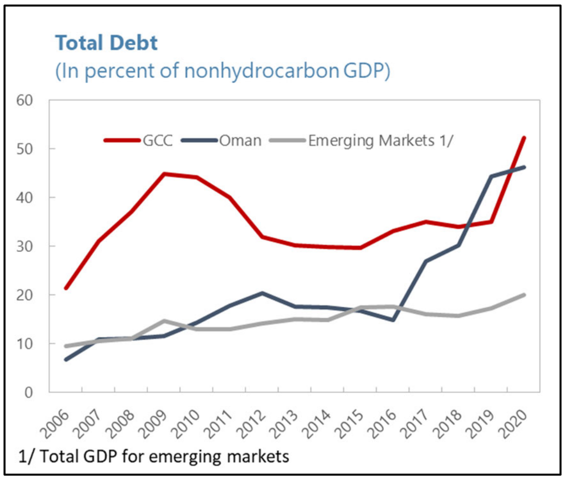


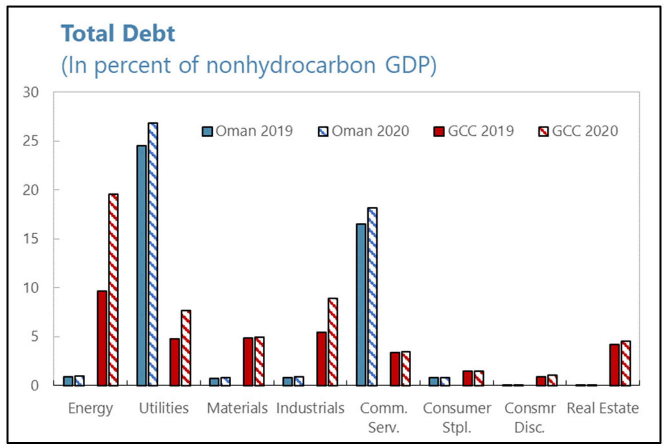
Leverage
(Ratio, Total Debt/Total Equity)

▪ **Debt service sustainability has been strong over the years, but pressures are emerging.** The interest coverage ratio (ICR) defined as the ratio of earnings before interest and taxes (EBIT) over interest payments, is above the commonly assumed sustainability threshold of 1.5, though significantly lower than its historical average of 8 in Oman and 6 in EMs. In 2020, the ICR deteriorated across all sectors in Oman except utilities, materials, and industrials.









C. Policy Considerations

4. Further deterioration in profitability outlook and leverage are likely to weigh on the banking system and fiscal sustainability. Deterioration in asset quality and surges in bankruptcies could further intensify corporate-bank-sovereign interlinkages through increase in non-performing loans and contingent liabilities. The authorities should be vigilant of the financial stability risks stemming from high leverage in the post COVID-19 environment and potential challenges to the public finances.

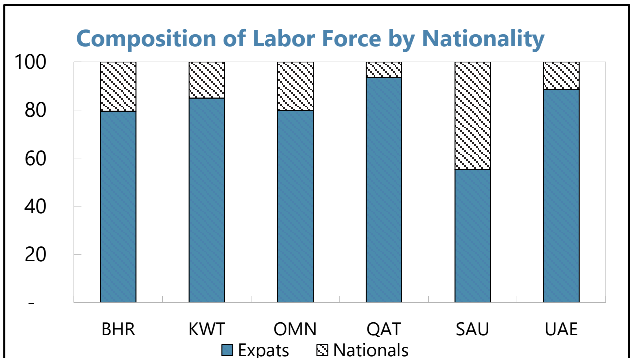
5. Therefore, policy support measures should continue to be in place until recovery firmly takes hold. Given the magnitude and persistence of the COVID-19 crisis, a prolonged period of low growth would further increase corporate distress. Therefore, policy support measures should be sustained or even scaled up as needed, but be targeted and time-bound to viable firms. At the same time, coordinating COVID-19 policy support measures and structural reforms, announced as part of the Economic Stimulus Plan, would help minimize the long-term scars on the economy.

Annex VIII. Labor Market Reforms[1]

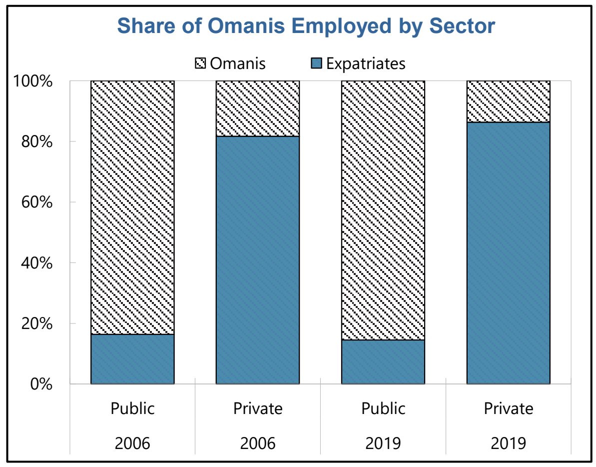
Oman's strong economic growth in the past decades has supported strong job creation. Employment of nationals is concentrated in the public sector, while expatriates are mostly employed in the private sector. The government has been implementing policies to promote employment of nationals more widely. Going forward, a comprehensive set of policies is needed to foster job creation for nationals, by improving labor market flexibility, encouraging female labor force participation, creating conducive environment to incentivize nationals to take private sector jobs, and strengthening education and vocational training to increase productivity.

A. Background

1. Rapid economic growth in the past several decades has supported strong job creation. Nationals accounted for 85 percent public sector employment as of 2019, while their shares in the private sector have declined since 2006. As in other GCC countries, the private sector employs a large share of expatriate workers. There were about 1.7 million expatriate workers in Oman by the end of 2019, accounting for 86 percent of total private sector employment and slightly higher than the 82 percent observed in 2006. Among the expatriate workers in the public sector in 2019, about two thirds were in civil service and one third were with municipalities, state-owned enterprises, and others.



Source: country authorities, IMF staff estimates and calculation. Data as of end-2019. Due to unavailability of labor force data, employment data are used for Bahrain, Oman, and UAE.



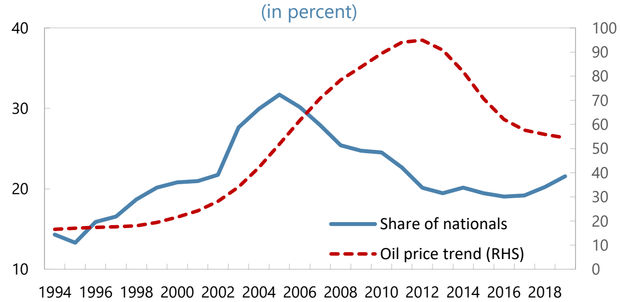
2. The government has been implementing policies to promote employment of nationals. The Omanisation Policy was introduced since late 1980s to encourage Omanis to work in the private sector. It also aims to maximize the use of national human resources and enhance the return of investments from the rapidly expanding educational attainment of Omanis as part of a wider agenda for a more diversified economy. The share of national workers had been increasing until 2005 and then declined. However, since 2016, the share started to increase again,

[1] Prepared by Fei Liu.

reflecting more vigorous implementation of the Omanisation initiatives. In 2020, the COVID-19 pandemic has accelerated the departure of expatriate workers.

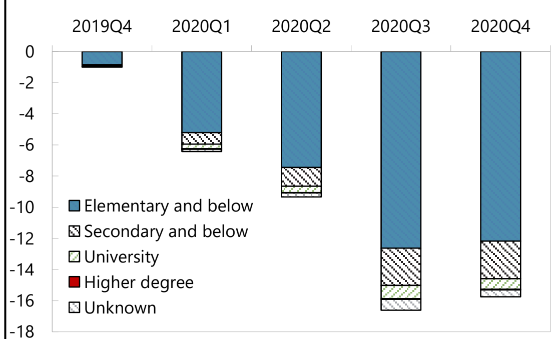
3. Oman's Vision 2040, launched in early 2021, sets out the goal for a knowledge-based society and competitive national talents via inclusive education, lifelong learning, and scientific research. The Vision emphasizes enhancing the educational and vocational training system, supporting applied scientific research, and promoting innovation. These reforms, if fully implemented, are expected to improve human resources in Oman and help improve labor productivity over the medium term.

Share of nationals in total employment
(in percent)



Source: country authorities, IMF staff calculation.
Oil price trend is calculated by HP filter.

Departure of Expats by Education Level
(y-o-y percent chage)



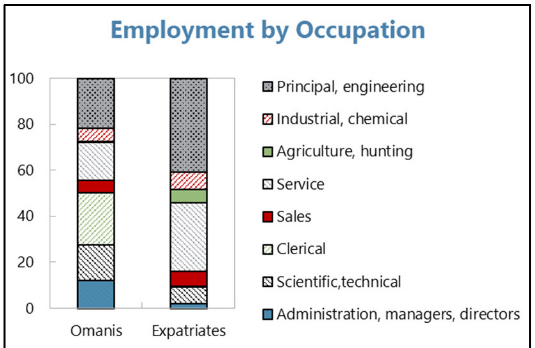
Source: country authorities and IMF staff calculation.

B. Characteristics of the Omani Labor Market

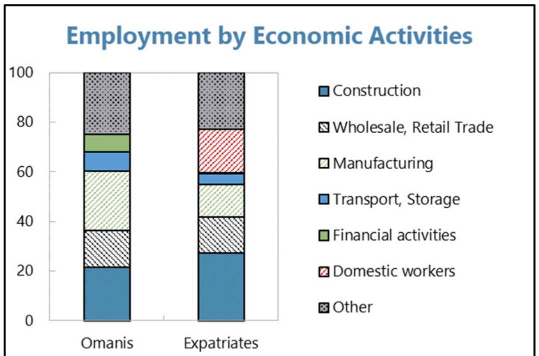
4. Oman's labor market can be characterized by the following key features.

- **Omani employment concentrates in the public sector while the private sector heavily depends on expatriate labor.** During 2014-2019, about 0.22 million jobs were created,[2] among which 95 percent were in the private sector. Of the 0.21 million private-sector jobs created, nearly 70 percent were filled by foreign workers. By occupation, the most common job for expatriates is principal and auxiliary engineers, followed by some type of service workers, while Omanis occupation is more diversified with relatively higher shares of managerial and clerical positions. By economic activities, expatriate employment concentrates in sectors including construction and household employment, while majority of the employment in the financial sector is filled by Omanis.

[2] Proxied by the number of employed persons.

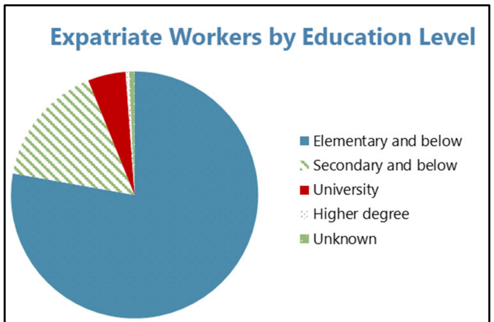


Source: country authorities and IMF staff calculation.



Source: country authorities and IMF staff calculation.

- **Foreign labor has been an important pillar of Omani economy**. Much of this labor is low-wage and low-skilled, as proxied by education levels, and with less than 10 percent identified as high-skilled. The use of foreign labor has helped overcome periods of local labor shortages and contain overheating pressures during periods of high oil prices, but it has also created segmentation in the labor market, increased the reliance of expatriates on private employment, and affected productivity growth. This segmentation also reflects a relatively more labor-intensive business models, influenced by the availability of a large pool of relatively low-cost labor from abroad. These outcomes have now become a constraint on absorbing the rapidly growing and increasingly well-educated national workforce in the private sector as job creation continues to disproportionately absorb expatriates.



Source: country authorities and IMF staff calculation.

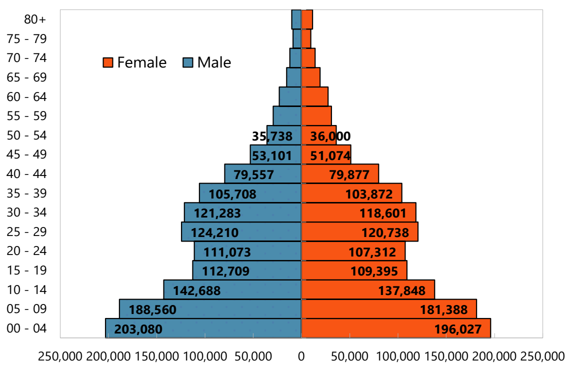
- **Oman has a young population, which presents potential for labor dividends in future if used properly.** The population structure with a large share of young people will lead to a large number of new labor force entrants in the coming years that cannot primarily be absorbed by the public sector. This offers an opportunity to benefit from a growing and increasingly well-educated labor force, but will need to be accompanied by measures to strengthen the private sector employment of nationals. Moreover, there is room to promote female labor force participation. Mansour et al. (2020) found that education level is significantly positively associated with higher female labor participation, and that women living in urban areas are more likely to join the labor market because of the diversity of economic structure and favorable work conditions. Women in Oman in general have good access to education—as shown by similar net enrollment ratios for secondary education with male and higher net enrollment ratios for tertiary education.[3] The Basic Law of the Sultanate

[3] In 1970, Sultan Qaboos introduced the universal education policy for both men and women, increasing female attendance in schools from nearly 0 percent in 1970 to 49 percent in 2009 (Goveas et al., 2011). Based on

(continued)

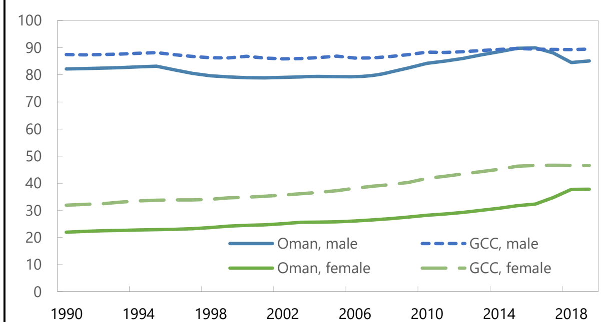
of Oman confirms the equality between men and women in Oman and the National Strategy for Advancement of Omani Women (2007-2020) aims to promote full participation and involvement of women in economic and social development process,[4] efforts to further improve working environment for women such as extending maternity benefits, improving the provision of childcare, and facilitating job searching will help promote women's participation in economic development.[5] Further female labor force participation can be achieved along with economic diversification and urbanization. In addition, providing a more conducive environment for female entrepreneurs and encouraging female entrepreneurship under the SME initiatives could generate positive effects to increase female labor participation.[6]

Omani Population by Age Group and Gender, 2020



Source: Oman National Center for Statistics and Information; IMF staff calculation.

Labor Force Participation Ratio



Source: World Development Indicator. GCC numbers are simple average of non-Oman GCC countries.

- **Significant wage gaps skew the supply of Omani labor toward the public sector and the demand for labor in the private sector toward expatriates.** Omani workers are better educated on average than non-Omani workers, and are primarily employed in the public sector, where they are generally paid higher wages, enjoy more benefits, and have greater job security. Wage gaps between the public sector and the private sector are significant in a

UNESCO data, net secondary education enrollment ratios were 93 percent for female and nearly 100 for male in 2019 and net tertiary education enrollment ratios were 55 percent for female and 30 percent for male. See http://uis.unesco.org/en/country/om.

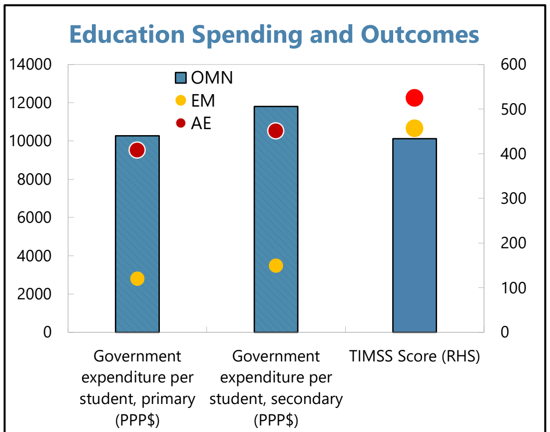
[4] Plank (2011).

[5] Women generally face barriers to entry to labor force in Middle Eastern countries (Marike Bontenbal 2011). These barriers can be wide ranging, from the pace of economic growth and availability of employment opportunities for women, to societal. Psacharopopulos and Tzannatos (1989) also list fertility as factors that influence behavior of female participation. Fertility has an ambiguous effect as childcare and paid employment make simultaneous demands and women are likely to choose the former. On the other hand, raising children means substantive costs and there is a need for a second family income.

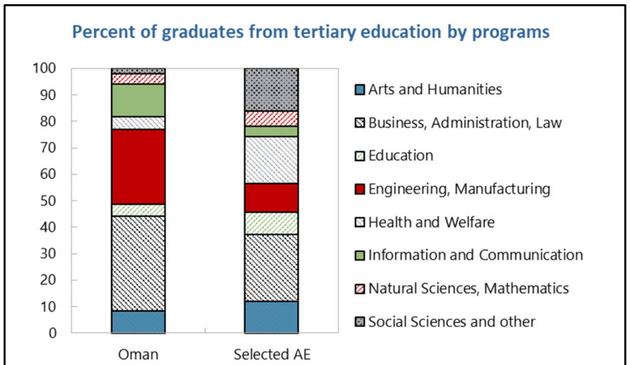
[6] In addition to common factors that affects development of SMEs such as funds, knowledge management, technical support, women's participation as entrepreneurs is also affected by traditional customs and cultural values (Mansour et al., 2020).

range of GCC and middle east countries (IMF, 2017a). It should be noted that the ratio of average public sector wage over the average private sector wage for Omanis has declined substantially from about 3.8 in 2011 to about 2 in 2014 when the latest data was available (Rouis et al. 2018).[7]

5. Oman has made big strides in achieving educational attainment, but there is scope to improve efficiency of public spending on education. The share of adults without education has been dropping for both men and women and Oman is close to attaining universal literacy. Nonetheless, while Oman's public spending on education is, on average, similar to the level in Advanced Economies (AE), the outcomes, as proxied by TIMSS scores, are lower than averages in AEs. Emerging Market economies (EM), on average, have similar level of TIMSS scores as Oman, but spend much less. Given the need to diversify the economy going forward, there is scope to diversify areas of specialization of college graduates—from business administration, law, engineering and manufacturing to other areas that are potentially in demand in future, such as health and welfare, natural science, mathematics, and education.



Source: World Development Indicator and IMF staff calculation.



Source: UNESCO data and IMF staff calculation. Selected AEs include high-income oil exporter (U.S., Canada, Australia, Norway and Denmark). Most recent available data are used: Oman (2019), Australia, Canada, Denmark (2018), Norway (2017) and U.S. (2016).

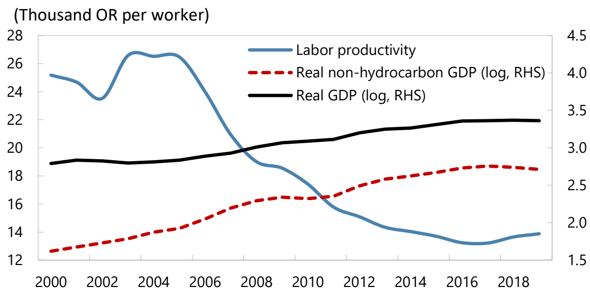
6. Labor productivity has generally been declining or stagnating. The credibility of the exchange rate peg has contributed to stable inflation. Nonetheless the falling productivity has resulted in declining external competitiveness as proxied by real exchange rate measured by unit labor cost, which contributed to lower external demand for tradable goods and services and also limited progress in economic diversification.[8] The COVID-19 shock has further affected labor productivity, measured by the ratio of sectoral output to employment, adversely across all sectors. The decline due to the shock of COVID-19 may be temporary in nature, but it could exert longer term impact on productivity if human capital and skills are lost due to prolonged unemployment or if labor shortage occurs due to rapid decline of expatriate workers.

[7] The basic salaries comprise roughly half of the government wage bill, with the other half falling on non-salary components such as allowances and other entitlements including housing, transportation, and cost of living allowances.

[8] This is partly attributed to low-wage and low-skilled labor force.

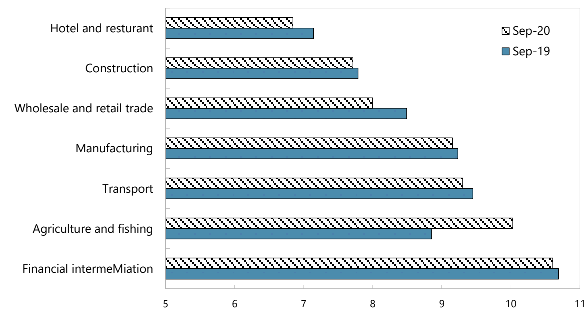
C. Labor Market Policies and Potential Impact on the Economy

Real Output per Worker



Source: country authorities, IMF staff calculation.

Oman Labor Producitivity: September 2020 and September 2019



Source: country authorities and IMF staff calculation. Labor productivity is calculated as sectoral output divided by number of employees, and then take logarithm.

Recent Labor Market Policies

7. **Labor market policies have been introduced in recent years to increase employment of Omanis in the private sector while enhancing flexibility in the labor market.** The government has been working to create employment opportunities for its citizens to help shore-up an economy weakened by low oil prices and the coronavirus crisis. The Ministry of Manpower has announced plans to allocate more jobs, including administration, finance, student affairs and career guidance at higher education establishments, to citizens. It has also been working to strengthen partnership and cooperation on job creation with private sector establishments.

8. **National policies are forming on the education reform and vocational training.** Establishing a high-quality educational system has been set as one of the national priorities in Oman's Vision 2040. The authorities' reform aims to establish a stimulating educational and vocational training system to afford individuals with high-level skills to enter the labor market, strengthen the performance-based qualification system, and promote scientific research and development by providing diverse and sustainable sources of funding and strengthening partnership between the academic and the private sector.

9. **Establishment of the Job Security Scheme and labor dispute resolution mechanism will improve flexibility of the labor market.** The unemployment assistance program, Job Security Scheme, was established in late 2020 to protect Omani nationals in the face of the significant challenges currently being faced from the pandemic. The scheme provides temporary income and financial aid for Omani nationals as they seek new roles when their jobs are terminated for reasons beyond their control. The introduction of this scheme provides important protection and incentives for Omanis to look for jobs in the private sector, which may have greater risk of job loss than in the public sector. In 2019, the government set up the labor dispute resolution center to fast track labor grievances.

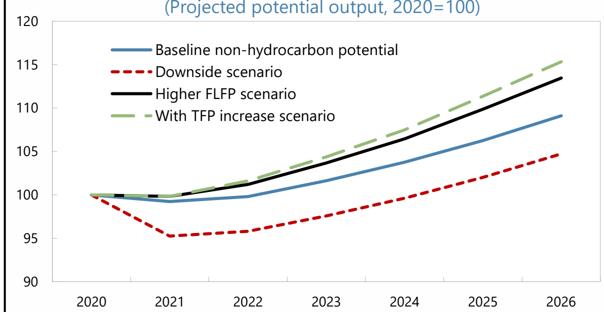
10. The recruitment requirement for expatriate workers has also been relaxed. Effective from January 2021, the transfer of expatriate employees from one employer to another in Oman will be allowed without the requirement of obtaining a "no-objection-certificate" from employer. This would facilitate labor reallocation by allowing expatriates to move across jobs more easily and firms to adjust the size and composition of their employees more swiftly in response to evolving needs. The new labor law, under discussion, is expected to improve the functioning of the labor market by strengthening the dispute resolution mechanisms, increasing female labor force participation, and facilitating collective bargaining agreements.

Potential Impact of the Labor Policies on the Economy

11. Labor market reforms have been found to enhance productivity. Product and labor market deregulation in non-tradable sectors can enhance labor productivity in the medium term through both higher total factor productivity (TFP) and capital intensity (IMF 2017b). Easing employment protection legislation for regular workers can lift TFP by improving allocation of labor across firms and sectors.

12. To illustrate the varying impacts of different labor market scenarios on potential non-hydrocarbon GDP, scenario analysis is conducted. These analyses can provide references on the direction and magnitude of the impact of the labor market policies. The potential non-hydrocarbon GDP is estimated and projected using the Cobb Douglas production function approach, where potential output is decomposed into capital, labor, and TFP. Given the high uncertainty around the effect of the labor policies on economic activities, multiple alternative scenarios are considered to illustrate the possible output path under the upside and downside scenarios:

Potential non-oil output: scenario analysis
(Projected potential output, 2020=100)



Source: country authorities, and IMF staff calculation.

- The first scenario assumes an increase in female labor force participation (FLFP) from the current 38 percent to the world average of about 50 percent in the next five years, bringing additional labor which is fully absorbed and employed. The increase assumes that current hurdles to female labor force participation are gradually removed and female workers are equally skilled relative to male workers on average. Capital-labor ratio and TFP growth are assumed unchanged in this scenario.
- The economic gains from gender inclusion is further considered in the second scenario. Bringing women into the labor force has benefits over and above the benefit resulting from simply having more workers. Research has found that male and female labor are complementary in production (IMF 2018). Women bring new skills to the workplace, which may reflect social norms and their impact on upbringing, social interactions, as well as differences in risk preference and response to incentives. The second scenario therefore

assumes that, TFP also increases when there is greater female labor force participation. The growth contribution from TFP is assumed to be about half of growth contribution from higher FLFP.[9]

- To illustrate the possible adverse effect when labor supply shrinks relative to the baseline, a downside scenario assumes the number of expatriate workers is about 5 percent lower than the baseline over medium term. One can also think of this scenario as the one where expatriate workers leave the country at such a pace that the job vacancies could not be fully filled by nationals, likely due to skills mismatch. Similar to previous scenarios, capital-labor ratio is kept constant. TFP growth is assumed to remain unchanged relative to the baseline.

13. Different combinations of labor market policies will affect potential non-hydrocarbon output differently. Under the two upside scenarios, potential output will remain 4-7 percent higher than the baseline projection, showing the benefit of adding workers to the labor force and the potential lift to productivity. Under the downside scenario, potential output will remain below the baseline projection throughout the medium term. It is worth emphasizing the large uncertainty around these estimates, stemming from the underlying assumptions as well as other omitted factors. For example, the positive impact of labor and product market deregulation could be bigger than expected in emerging and developing economies, as services account for a growing share of resources and GDP in emerging and developing economies and regulation remains much stricter than in advanced economies (Dabla-Norris et al. 2013). Fiscal structural reforms, aimed at improving efficiency in tax system, can also boost firm-level productivity by reducing resource misallocation (IMF 2017b; and Banerji et al. 2017).

D. Conclusion and Policy Recommendations

14. Labor market reforms are important to encourage the creation of private sector jobs for Omani nationals and raise competitiveness. These should create incentives for Omani nationals to seek private sector jobs, including by highlighting the limited scope for public sector jobs going forward and by better aligning public sector wages and benefits with those in the private sector. The labor market reforms will involve adjustments for the private sector that rely heavily on expatriate labor. This calls for a gradual and coordinated approach to implementing such reforms.

- **Promote employment in the private sector.** The private sector should be the main engine of job creation. Supported by flexible labor policies, the private sector development will reinforce the role of the private sector in job creation for qualified Omanis. Policies that promote private sector development, such as fostering investment partnerships between the

[9] Jaumotte, Koloskova, and Saxena (2016) estimate that a 1 percentage point increase in the share of migrants in the working-age population can raise GDP per capita over the long term by up to 2 percent by increasing labor productivity and to a lesser extent boosting investment. Given limited information on the impact of female labor on productivity, a conservative assumption is utilized where 1 percent increase in labor (due to higher female workers) increases TFP by about 0.5 percent.

Omani private sector and the international business community, would help create jobs in the private sector. In the meantime, the government needs to set clear expectations about the limited prospects for future public-sector employment to incentivize nationals to take private sector jobs. To foster sustained private sector job creation public sector wage (and benefits) growth should not outpace that of the private sector.

- **Provide more conducive environment for female labor force participation.** Measures can be deployed to further encourage women to participate in the workforce, including by improving the provision of childcare, extending maternity benefits, and providing flexibility in work schedules. Promoting more women to senior positions and encouraging female entrepreneurs under SME initiatives could generate positive demonstration effects to encourage further female labor participation.

- **Adopt more flexible expatriate labor policies.** Expatriate workers will be needed not only in the immediate aftermath of the crisis to secure the needed economic recovery, but also over the medium term as the economy grows and develops. Greater mobility of workers could reduce the wage differential between expatriates and nationals and facilitate more efficient human resource reallocation. Reforms such as further improving social protection of the expatriates would improve mobility of the expatriates and attract more talents from abroad. Flexible labor policies and more comparable wage and compensation between the private and public sectors would enable nationals and expatriates to move more freely between declining and expanding sectors of the economy, and thus reduce risks that labor shortages occur in rapidly expanding industries while excess labor occurs in declining industries. Plans to further reduce the labor cost gap between Omanis and expatriates by increasing fees for hiring expatriates should be implemented with caution to avoid undermining the price competitiveness of the private sector.

- **Increase the efficiency of public spending on education and improve vocational training.** The effectiveness of spending on education could be improved to achieve high quality education. Reforms to increasing the quality of basic and higher education so that graduates are acquainted with competitive qualifications and employability skills to enter the local and international labor market are all welcome steps. These can be accompanied by a diagnosis of the cost-benefit of education spending to identify the specific weakness and ways to improve. Efforts to improve the vocational training system to afford individuals with high-level skills to enter the labor market, reduce skills mismatch, and raise their productivity are also important.

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INTERNATIONAL MONETARY FUND

OMAN

July 22, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By	Middle East and Central Asia Department with inputs from other departments and the World Bank

CONTENTS

FUND RELATIONS

(As of June 27, 2021)

I. Membership Status: Joined: December 23, 1971; Article VIII

II. General Resources Account:	**SDR Million**	**%Quota**
Quota	544.40	100.00
IMF's Holdings of Currency (Holdings Rate)	413.74	76.00
Reserve Tranche Position	130.70	24.01

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	178.82	100.00
Holdings	98.78	55.24

IV. Outstanding Purchases and Loans: None

V. Latest Financial Commitments: None

VI. Overdue Obligations and Projected Payments to Fund[1]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2021	2022	2023	2024	2025
Principal					
Charges/Interest	0.02	0.04	0.04	0.04	0.04
Total	0.02	0.04	0.04	0.04	0.04

VII. Implementation of HIPC Initiative: Not Applicable

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

IX. Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Exchange Rate Arrangements

The Omani rial has been pegged to the U.S. dollar since January 1986 at a rate of RO 1 = $2.6008. The central bank maintains fixed buying/selling rates (RO 1 = $2.5974/2.6042) for the U.S. dollar. Oman has accepted the obligations of Article VIII, Sections 2, 3, and 4(a) and maintains an exchange system that is free of restrictions and multiple currency practices. Oman maintains exchange restrictions for security reasons that have been notified to the Fund for approval under Decision No. 144(52/51) (EBD/05/106, 9/27/05).

Article IV Consultations

Oman is on the annual consultation cycle. The previous consultation discussions were held during March 26 to April 8, 2019. The 2019 Article IV consultation was concluded by the Executive Board on June 7, 2019 (SM/19/115).

FSAP Participation, ROSCs, and OFC Assessments

FSAP missions visited Oman in February and May 2003. An FSAP update mission visited Oman in October 2010, and was concluded on February 23, 2011 (SM/11/26). A Data ROSC was conducted by STA in February 2004, and a ROSC reassessment mission took place in November 2014.

Fund Technical Assistance (since 2015)

LEG	AML/CFT Framework	January 2015
STA	National Accounts Statistics	March 2015
STA	Import Price Index	November 2015
STA	Balance of Payments Statistics	December 2015
LEG	AML/CFT Framework	January 2016
STA	National Accounts Statistics	April 2016
FAD	Medium-Term Fiscal Framework	August 2016
LEG	AML/CFT Framework	December 2016
FAD	Tax Administration	March 2017
STA	National Accounts Statistics	April-May 2017
LEG	AML/CFT Framework	July 2017
MCM	Monetary Policy Operations	April 2018
STA	e-GDDS	April 2018
FAD	Tax Administration	April 2018
LEG	AML/CFT Framework	January 2019
MCM	Medium-Term Debt Strategy	June 2021
FAD	Medium-Term Fiscal Framework	June 2021

Resident Representative:

No resident representative is stationed in Oman.

RELATIONS WITH THE WORLD BANK GROUP

(As of June 27, 2021)

World Bank Country Page:

https://www.worldbank.org/en/country/gcc/brief/oman-country-program

STATISTICAL ISSUES

(As of June 27, 2021)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings due to capacity constraints, but is broadly adequate for surveillance.
National Accounts: The accuracy and reliability of the data are broadly adequate. Oman's national accounts have a base year of 2010. The November 2014 Review of Standards and Codes (ROSC) identified several shortcomings in annual estimates. These include volume estimates of net taxes on products used to construct annual real GDP and lack of revision analysis. Quarterly estimates of nominal GDP allow comparison of calendar year to date with calendar year to date for the previous period, but the current benchmarking technique creates discontinuities (the "step problem") between the last quarter of one year and first quarter of the following year. Volume quarterly estimates are being compiled but not yet released due to quality concerns. Coherent quarterly data require implementation of standard international techniques. A 2017 TA mission was conducted to assist with these issues as well as calculation of volume estimates of taxes less subsidies on products. The National Centre for Statistics and Information (NCSI) improved the methodology to estimate the volume measures of taxes less subsidies on products in 2018. National accounts are published on the website of NCSI, often with a significant time lag. **Price statistics:** Consumer and producer price indexes (CPI/PPI) are published monthly on the NCSI website. The PPI, which includes separate indexes for exports, should be updated as the current weight reference period is outdated (2007). A Residential Property Price Index (RPPI) was developed using data on property transactions, provided to the NCSI on an ongoing basis by the Ministry of Housing. NCSI is working to improve the quality of RPPI, with a view to disseminate publicly.
Government finance statistics: High level monthly fiscal performance is published with a short lag. Data published in the Government Finance Statistics Yearbok only cover the budgetary central government through 2013. The published data do not provide comprehensive coverage of the public sector as it excludes state-owned enterprises (SOEs), pension funds, and the Oman Investment Authority (OIA). The authorities provide the Article IV consultation missions with a more comprehensive analytical presentation of the budget as well as information on government assets, domestic and external debts of the government, OIA, and SOEs debt.
Monetary and financial statistics: The central bank of Oman (CBO) reports monetary and financial statistics for the CBO and other depository corporations (ODCs) using standardized report forms (SRFs) which comply with the methodology of the IMF's *Monetary and Financial Statistics Manual and Compilation Guide (MFSMCG)*. These are published in the International Financial Statistics (IFS). It submits data on some basic indicators and series to the Financial Access Survey (FAS), including the two indicators adopted by the UN to monitor Target 8.10.1 of the Sustainable Development Goals (SDGs).
Financial Sector Surveillance: Financial soundness indicators (FSIs) are communicated to AIV consultation missions, but not yet disseminated to STA. The CBO is working on a system to do so.
Balance of payments: Data for most balance of payment entries are adequate and the CBO publishes balance of payments statistics following the fifth edition of the *Balance of Payments Manual* (BPM5). The main priority is to start disseminating the quarterly BOP (currently only compiled for internal purposes). BPM6 conversion is slow due to limited ability of the CBO to collect data from the private sector and ineffective data sharing procedures with government institutions, including NCSI. The 2015 TA mission worked with BOP compilers to set up a basis for more timely banking collection (International Transactions Reporting System) subject to resolving institutional issues, and reiterated the recommendation that treatment of transactions and positions of sovereign wealth funds is clarified and included in external sector statistics. Overall data availability allows a reasonable calculation of IIP and external debt. The authorities do not currently publish IIP, Reserve Template, external debt, and do not participate in the Coordinated Direct Investment Survey. Data are being provided to the Article IV consultation missions. Efforts are being made to remedy data issues on cross-border positions, including by preparing more comprehensive IIP estimates. The treatment of free economic zones, remittances, and transactions related to production sharing agreements and direct investment assets, also needs updating, as well as a breakdown accounting on financial flows.
II. Data Standards and Quality
In August 2018, Oman fully implemented the e-GDDS by launching a National Summary Data Page. Metadata for most data categories were updated in May 2018.

Table of Common Indicators Required for Surveillance
(As of June 27, 2021)

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange rates	Real time	Real time	D	D	D
International reserve assets and reserve liabilities of the monetary authorities[1]	May 2021	May 2021	M	M	M
Reserve/base money	Apr. 2021	Jun. 2021	M	M	M
Broad money	Apr. 2021	Jun. 2021	M	M	M
Central bank balance sheet	Apr. 2021	Jun. 2021	M	M	M
Consolidated balance sheet of the banking system	Apr. 2021	Jun. 2021	M	M	M
Interest rates[2]	Apr. 2021	Jun. 2021	M	M	M
Consumer price index	Apr. 2021	May 2021	M	M	M
Revenue, expenditure, balance and composition of financing[3]– central government	2020	May 2021	A	A	A
Stocks of central government and central government-guaranteed debt[4]	2020	May 2021	A	A	A
External current account balance	2020	May 2021	A	A	A
Exports and imports of goods and services	Feb. 2021	May 2021	M	M	M
GDP/GNP	2020	Jun. 2021	Q	Q	Q
Gross external debt	2020	May 2021	A	I	NA
International investment position[5]	2020	May 2021	A	I	NA

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by means as well as the notional values of derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially determined, including discount rates, money market rates, and rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] Including currency and maturity composition.
[5] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).

INTERNATIONAL MONETARY FUND

OMAN

August 19, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

Prepared By Middle East and Central Asia Department

1. This statement provides information that has become available since the issuance of the staff report on July 22, 2021. The staff appraisal is unchanged.

2. Gross international reserves in 2021 have increased with the SDR allocation of US$0.74 billion. The authorities intend to save the new SDR allocation as international reserves, and the macroframework has been updated accordingly (Table 1).

3. The authorities released updated fiscal data for 2020 and H1 2021.

- The fiscal deficit for 2020 remains largely unchanged, with higher government spending offset by higher hydrocarbon revenue.
- Data for H1 2021 indicate a more gradual decline in electricity subsidies than projected, reflecting increased electricity consumption during COVID-19 lockdowns and a reduced pace of subsidy removal to ensure that vulnerable groups remain protected, which could lower the projected fiscal balance for 2021 by about 0.3 percent of GDP. However, higher oil prices provide an upside risk to the fiscal outturn for 2021.

Comparison of Fiscal Indicators: Updated versus Staff Report, 2020
(Percent of GDP)

	2020		
	Updated	SR	Difference
Revenue and grants	34.6	33.3	1.3
Hydrocarbon	26.0	24.9	1.1
Nonhydrocarbon and grants	8.6	8.4	0.1
Expenditure	53.5	52.4	1.2
Current	43.3	42.4	0.9
Capital	9.9	9.6	0.2
Overall balance (Net lending/borrowing)	-19.3	-19.3	0.1

Sources: Country authorities; and IMF staff calculations

Table 1. Oman: Selected Economic Indicators, 2016-26

					Prel.	Proj.					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Oil and gas sector											
Total production of oil and gas (US$ billions)	16.0	18.7	27.7	26.6	17.8	23.6	27.5	26.9	26.4	26.1	26.0
Average crude oil export price (US$/barrel)	40.1	51.3	69.7	63.6	46.0	60.4	63.0	59.8	57.7	56.4	55.7
Crude oil production (in millions of barrels/day)	1.00	0.97	0.98	0.97	0.95	0.96	1.01	1.07	1.10	1.14	1.14
National accounts	(Annual percentage change, unless otherwise indicated)										
Nominal GDP (US$ billions)	65.5	70.6	79.8	76.3	63.4	77.7	82.3	84.3	87.0	90.0	93.9
Nominal GDP (in billions of Omani rials)	25.2	27.1	30.7	29.3	24.4	29.9	31.7	32.4	33.4	34.6	36.1
Real GDP	4.9	0.3	0.9	-0.8	-2.8	2.5	2.9	4.2	2.9	3.3	2.6
Real hydrocarbon GDP 1/	3.4	-2.1	4.0	1.4	-1.7	3.5	3.6	6.0	2.8	3.3	1.2
Real nonhydrocarbon GDP	6.2	2.4	-1.6	-2.8	-3.9	1.5	2.3	2.4	3.0	3.4	4.0
Consumer prices (average)	1.1	1.6	0.9	0.1	-0.9	3.0	2.7	2.5	2.5	2.4	2.4
GDP Deflator	-9.4	7.4	12.0	-3.5	-14.6	19.7	2.9	-1.7	0.2	0.2	1.6
Investment and saving	(Percent of GDP)										
Gross capital formation	28.9	27.5	24.4	20.5	19.0	20.5	21.2	21.5	21.7	22.0	22.1
Public	15.6	13.7	13.4	13.1	13.6	11.0	10.9	10.9	10.9	10.9	10.8
Private	13.3	13.8	11.0	7.4	5.4	9.5	10.3	10.6	10.8	11.1	11.3
Gross national savings	9.7	12.0	19.0	14.8	5.3	14.3	19.5	20.4	20.9	21.2	21.5
Public	-7.5	2.6	7.4	10.2	-0.7	6.8	9.9	9.8	9.7	9.1	8.9
Private	17.3	9.3	11.5	4.6	6.1	7.5	9.7	10.6	11.2	12.1	12.6
Central government finances	(Percent of GDP)										
Revenue and grants	28.7	33.2	36.2	39.2	34.6	32.9	35.3	34.8	34.6	33.7	33.1
Hydrocarbon	21.1	23.3	29.6	29.8	26.0	23.3	25.2	24.3	23.6	22.6	21.9
Nonhydrocarbon and grants	7.6	9.9	6.6	9.4	8.6	9.6	10.1	10.4	11.0	11.1	11.1
Expenditure	51.2	45.2	44.0	44.2	53.5	35.4	34.4	33.4	32.8	31.9	30.8
Current	39.6	35.4	34.6	35.7	43.3	32.4	31.5	30.5	30.0	29.1	28.0
Capital	11.6	9.7	9.4	8.5	9.9	3.0	2.9	2.9	2.9	2.9	2.8
Overall balance (Net lending/borrowing)	-24.1	-12.6	-8.4	-6.0	-19.3	-2.4	0.9	1.4	1.8	1.8	2.3
Overall balance (adjusted) 2/	-16.5	-6.5	-1.7	0.0	-12.1	-2.4	0.9	1.4	1.8	1.8	2.3
Non-hydrocarbon primary balance (% of non-hydrocarbon GDP)	-54.1	-46.2	-48.4	-46.7	-47.8	-39.1	-36.1	-33.3	-30.8	-28.7	-26.7
Total government debt, *of which:*	33.7	45.9	51.3	60.5	81.2	70.7	64.5	60.5	56.3	51.9	46.9
External debt	20.5	32.7	38.4	45.4	60.2	51.0	43.0	37.7	32.4	27.9	26.4
Monetary sector	(Annual percentage change, unless otherwise indicated)										
Net foreign assets	-0.9	-5.4	18.9	-3.6	-28.3	-1.1	0.0	1.7	5.8	6.7	6.4
Net domestic assets	3.0	8.2	4.4	4.4	23.2	6.5	7.3	6.4	5.6	4.6	1.0
Credit to the private sector	10.1	6.5	4.9	2.8	1.1	2.5	3.6	4.4	4.7	4.9	4.9
Broad money	1.8	4.2	8.3	2.0	8.9	5.1	6.0	5.6	5.6	4.9	1.9
External sector	(In billions of U.S. dollars, unless otherwise indicated)										
Exports of goods	27.5	32.9	41.7	38.7	30.5	37.5	42.4	42.4	42.6	43.3	44.3
Oil and gas	16.0	19.2	27.3	26.5	18.2	24.7	29.1	28.3	27.7	27.4	27.3
Other	11.6	13.7	14.5	12.2	12.3	12.8	13.3	14.1	14.9	15.9	17.0
Imports of goods	-21.3	-24.1	-23.6	-20.5	-18.9	-19.9	-21.3	-22.2	-23.3	-24.4	-25.4
Current account balance	-12.5	-11.0	-4.3	-4.2	-8.7	-4.8	-1.4	-0.9	-0.7	-0.7	-0.6
Percent of GDP	-19.1	-15.6	-5.4	-5.5	-13.7	-6.2	-1.7	-1.1	-0.8	-0.8	-0.6
Central Bank gross reserves	20.3	16.1	17.4	16.7	15.0	15.8	16.0	16.4	17.2	18.1	19.1
In months of next year's imports of goods and services	7.0	5.5	6.4	7.3	6.3	5.9	5.7	5.6	5.6	5.6	5.6
Total external debt	41.9	58.2	66.7	72.0	72.7	78.6	78.2	78.3	78.9	80.0	79.9
Percent of GDP	63.9	82.5	83.6	94.3	114.7	101.1	95.0	92.9	90.8	88.9	85.0
Memorandum Items:											
Non-hydrocarbon structural primary balance 3/	-31.5	-28.3	-30.5	-29.1	-25.6	-21.3	-19.8	-18.7	-17.7	-16.9	-16.2
Non-hydrocarbon structural primary balance (percent of non-hydrocarbon GDP) 3/	-53.5	-47.4	-48.5	-46.7	-46.4	-40.0	-37.8	-35.2	-33.0	-31.2	-29.7
Real effective exchange rate (2010 = 100)	107.7	107.7	105.6	106.7	105.1	...	...	...	...	...	...
Exchange rate (rial per dollar; period average)	0.38	0.38	0.38	0.38	0.38	...	...	...	...	...	...

Sources: Omani authorities; and IMF staff estimates and projections.

1/ Includes crude oil, refining, natural gas, and LNG production.
2/ Data prior to 2021 were adjusted by taking out expenditures on gas and oil that were hived off to Energy Development Oman in 2021.
3/ Adjusted by the economic cycle.

Statement by Mahmoud Mohieldin, Executive Director of Oman;
Ali Alhosani, Alternate Executive Director of Oman; and Fouad Al-Kohlany, Advisor
August 25, 2021

On behalf of the Omani authorities, we would like to thank Mr. Kanda and his team for a constructive and effective mission as well as the candid, and constructive policy discussions. The authorities found the discussions valuable and broadly share staff's analysis and recommendations. The authorities remain committed to implementing strong fiscal and structural reforms to address the challenges facing the Omani economy. The authorities' immediate policy agenda is to support the economic recovery, including through an accelerated vaccines rollout and targeted support for vulnerable households and firms. At the same time the authorities are striving to protect fiscal and debt sustainability through front-loaded fiscal consolidation and continued implementation of the medium-term fiscal plan, while supporting the economy; to safeguard financial stability; and to advance the structural reform agenda in line with Oman's vision 2040 plan. They look forward to continuing their close engagement with the Fund.

The response to the COVID-19 pandemic

The Sultanate of Oman undertook early measures to contain the COVID-19 virus and mitigate its impact. A high-level committee was established in March 2020 to oversee a nationwide and coordinated response to the pandemic. The government's swift response to contain the spread of the virus included instituting masks, testing, lockdown measures, and border closures when needed, and the utilization of information and communications technology, along with other innovative measures. The Ministry of Health launched Tarassud Plus, a widely used platform to monitor COVID-19 cases and provide the latest information on COVID developments in Oman. The WHO described Tarassud as one of the most powerful technological solutions deployed in the Middle East to track the spread of COVID-19 and ensure patient compliance with isolation measures.[1] The rapid support measures provided to the population have contributed to limiting the human and economic costs of the health crisis.

Oman's national COVID-19 vaccination rollout strategy aims to have 70 percent of the targeted population inoculated by the end of this year. Initially, the vaccination effort prioritized medical staff and the elderly, and the vaccination rate has been ramped up as the availability of vaccines improved. About 58 percent of the targeted population have been fully or partially inoculated as of August 8, 2021. Vaccines are available to both Omani nationals and expatriates and vaccinations centers are available across the Sultanate. In early August of 2021, Oman launched a sultanate-wide vaccination campaign targeting 320,000 students aged 12 and older from public and private schools, in preparation for the resumption of the new school year.

1 WHO EMRO | Using technology to contain COVID-19 in Oman | COVID-19 | Health topics

Oman also moved decisively to contain the impact of the COVID-19 crisis on the economy. A set of fiscal, monetary, and financial support measures were deployed since March 2020 to ease the burden on individuals, business entities, and the financial sector. The economic response package is estimated at 40 percent of GDP in 2020 and included interest-free emergency loans, temporary waivers or reduction of selected taxes, suspension of government fees and charges, and establishment of the Job Security Fund to provide unemployment benefits to Omanis for a period of 12 consecutive or intermittent months. The Central Bank of Oman (CBO) eased financial conditions through lower interest rates and took measures to maintain adequate liquidity in the banking system and reduced the capital conservation buffer. The CBO also allowed deferment of loan installment for affected borrowers, which proved vital to mitigate income losses and sustain economic activity.

As the crisis progressed, support has become increasingly targeted and, at the same time, tailored to support the recovery phase. The government allowed some of the measures deployed in early 2020 to expire while targeting additional support toward those who need it most, with a focus on small and medium size enterprises (SMEs) and households. The government announced the Economic Stimulus Plan (ESP) in March 2021, which contained a mix of policy support measures relating to the pandemic and structural reforms to promote economic diversification. The ESP policy mix includes incentives pertaining to taxes and fees, measures to improve the business and investment environment and support SMEs, as well promoting employment of Omanis in the private sector.

The containment measures together with the comprehensive and swift policy packages enabled the gradual resumption of economic activity while protecting livelihoods and minimizing scarring in the economy.

Economic Outlook

The medium-term outlook remains positive. The government expects the recovery to gain momentum, buttressed by the rapid vaccine deployment, the continuation of the reform measures, and aided by a more favorable global environment outlook. The slowdown in domestic demand in 2020 and the impact of the lockdowns, together with the drop in oil production, resulted in an output contraction of 2.8 percent of GDP. However, the drop in real hydrocarbon GDP growth experienced was comparatively mild due to Oman's strong oil condensate production, which is not covered by the OPEC+ agreement. The non-hydrocarbon sector contracted by about 3.9 percent, with the construction, hospitality, and wholesale and retail trade sectors particularly hard-hit, while growth was on the upside for the agriculture and fisheries sector.

Economic activity is projected to rebound to 2.5 percent in 2021 on account of improved hydrocarbon production and improved performance in non-hydrocarbon sectors as vaccine rollout gradually restores domestic economic activity. The tourism sector is gradually recovering, aided by the positive vaccination progress in source countries, as indicated by the steady increase in the number of guests in 3-5-star hotels. The government, however, is mindful of the downside risks and will remain vigilant amid the uncertainties surrounding the pandemic and price of oil. Inflation is expected to remain moderate at 3 percent on average in 2021 before returning to 2.5 over the medium term. The government views staff's projections for non-hydrocarbon GDP growth of 4 percent by 2026 to be in line with their Tenth Development Plan (2021-2025). The strong economic growth projection is underpinned by Oman's sound economic fundamentals and the authorities demonstrated commitment to the ESP and to Tenth Development Plan, which provide the foundations for recovery in the near- and medium-terms.

Fiscal policy and reforms

With the advent of the new Sultan in January 2020, Oman embarked on an ambitious public policy and fiscal reforms path. In terms of public policy, in August 2020, Royal Decrees cut down the number of government ministries from 26 to 19 and several agencies and units were eliminated or merged to streamline Oman's public institutions, improve their efficiency, and reduce their cost. The government established the Oman Investment Authority (OIA) to assume ownership of all government companies and investments that were earlier overseen by the Ministry of Finance. The new state energy company, Energy Development Oman (EDO), was created to manage Petroleum Development Oman's investments in oil, gas, and renewables. EDO's revenue will be shared with the government through royalty, taxation, and dividend, after deducting operating and financing costs.

The central piece of fiscal reforms is the homegrown plan for fiscal sustainability, the Medium-Term Fiscal Plan (MTFP). The MTFP is built on extensive consultations with other ministries and stakeholders with the aim to address the fiscal challenges and to ensure a strong foundation for Oman's Vision 2040. The MTFP aims to reduce the primary and overall fiscal deficits as a percentage of GDP in the medium term, with a target of achieving a primary fiscal surplus over the medium term.

Despite considerable challenges, the authorities remained committed to achieving the MTFP's key objectives. To ensure fiscal sustainability, they undertook important reforms to increase non-oil revenues, further curtail current spending, and improve the effectiveness and efficiency of government spending.

In line with the MTFP, the authorities are sustaining their efforts toward mobilizing non-hydrocarbon revenues to reduce the budget's dependency on volatile oil revenue. In October 2020, a Royal Decree approved the Value Added Tax (VAT) law effective in April 2021.

The VAT law imposes a value-added tax of 5 percent on goods and services. The authorities exempted basic food and essentials from the VAT in order to mitigate any adverse impact on vulnerable groups and to ensure a wide support for the reform. The VAT marked an important step toward modernizing Oman's tax system and raising additional non-hydrocarbon revenue. In October 2020, an excise tax of 50 percent also came into effect on sugary and sweetened beverages; this is in addition to the 2019 excises tax on tobacco and tobacco derivatives and other selected products. Over the medium term, additional revenue measures will also help underpin medium-term adjustment, while placing more of the adjustment burden on those who can best shoulder it.

Expenditures are also being streamlined, including through lowering the wage bill primarily through mandatory retirement, reducing water and electricity subsidies, and rationalizing other current spending while increasing social- and health-related spending.

The outcome for 2020 and the budget for 2021 clearly indicate that the country is firmly on the fiscal consolidation path laid out in the multi-year MTFP. Following a sharp deterioration in 2020 due to the lower oil revenue and a COVID-19 related slump in economic activity, the fiscal balance is projected to register a substantial improvement in 2021. An adjustment in the non-hydrocarbon structural primary balance of 4.3 percent is projected in 2021, reflecting the significant fiscal adjustment measures. The improved fiscal outlook also reflects the rebound in global oil prices and the recovery of hydrocarbon revenues. The baseline projection of Oman's fiscal position remains conservative, as the oil price set for staff assessment in the Article IV report is based on a 2021 price of oil at $60.4 while the 2021 budget adopted the oil price of $45, below the current and projected oil price in recent WEO projections.

The authorities share staff assessment that debt stabilizing primary balance is projected to be achieved in 2021. The planned fiscal adjustment measures in the context of the medium-term fiscal framework would decisively improve Oman's debt sustainability, as government debt is expected to decline to about 47 percent of GDP by 2026. The government financing needs for 2021 have been met, and Oman took steps to diversify their financing sources, as part of the debt management strategy, between domestic and foreign markets and non-debt creating financing from drawdown of assets. Further improvements to Oman's debt management capacity are ongoing. The authorities established the Debt Management Committee to coordinate debt issuance and expect to finalize their medium-term debt strategy (MTDS) to guide the government's borrowing program. They are currently in the process of drafting the Public Debt Law for Oman, while the Debt Management Office continues to strengthen its human and analytical capacity. In this regard, they appreciate Fund technical assistance to further enhance its capacity and support which will help advance their debt management reforms.

Monetary and Financial Sector Policies

The exchange rate peg has been an effective nominal anchor. The authorities remain fully committed to the peg and will accordingly implement fiscal policies and structural reforms to support it. They agree that the weakness in the external position relative to medium-term fundamentals largely reflects the impact of the double shock. Foreign exchange reserves are at a comfortable level, with CBO gross reserves at 6.3 months of imports. The OIA's external assets bring the reserves level up to 158 percent of the ARA metric. The SDR allocations has also further bolstered Oman's reserves.

Oman's banking system remains well-capitalized, liquid and profitable, notwithstanding the challenging environment. The CBO skillfully maintained orderly market conditions while ensuring ample liquidity amidst heightened volatility throughout the shocks in 2020. The monetary and financial measures taken by the CBO to mitigate the effects of the pandemic balanced between supporting the impacted sectors and containing risks to financial stability. The authorities continue to be vigilant regarding risks related to credit as the loan deferral program expires. The CBO is also pursuing its efforts to strengthen the regulatory and supervisory framework to bolster financial stability. The Banking Law is currently under review, with the objective to strengthen the Bank Resolution Framework and to address outstanding gaps.

The CBO is encouraging digital transformation and the adoption of innovative technologies with the aim of creating a more efficient financial services sector, and achieving higher financial inclusion, especially for women, youth, and SMEs. To promote capital market development, Oman's Capital Market Authority has continued with the equity and debt market reforms, including enacting the Commercial Companies Law and developing the Securities Law.

On AML/CFT, the authorities remain committed to strengthening the AML/CFT framework. They approved the National AML/CFT Strategy for 2020-2022 and the associated work plan which included measures to address the risks and gaps identified in the National Risk Assessment. Oman also took steps to align with international best practices to fight cross-border tax evasion including the implementation of the Common Reporting Standard and KYC procedures.

Structural Reforms

In the context of Oman's Vision 2040, the government is accelerating the implementation of structural reforms to facilitate job creation and boost non-oil private sector growth and economic diversification. The unemployment rate remained low. Nonetheless, the authorities continue to give special attention to increasing youth employment and female labor force participation. The government enacted several labor-market reforms to raise the participation of nationals in the private sector, including simplifying the multiple minimum wages and introducing a time-bound wage subsidy for first-time Omani jobseekers. Efforts are also ongoing to improve the quality of education and vocational training to afford job seekers the necessary skills to enter the labor market and raise their productivity, including through the Khebrat program. The labor law is currently being reviewed with the objective of improving the flexibility of the labor market.

The authorities continue to strengthen the social safety net in order to facilitate labor market flexibility, increase social support, and sustain public support for the MTFP. They are preparing a comprehensive social safety net reform to expand and strengthen the efficiency and adequacy of the social protection network, with technical support from the ILO, UNICEF, and other partners. Until the social protection system is completed in 2022, temporary social protection measures were enacted targeting the most vulnerable households and SMEs. The authorities established the Job Security Fund to provide unemployment benefits and facilitate the reallocation of the unemployed. They have also started simplifying the pension system.

To further improve the business environment and support SMEs, the government is streamlining processes and removing obstacles faced by the private sector. It eliminated the requirement for minimum capital to start a business and established a one-stop shop as a single point of access to all government e-services related to starting a business. The authorities are also working on automating and simplifying all business licensing processes. Exporting and importing was facilitated by creating an online single-window system and reducing the time required for documentary compliance, which has helped reducing the burden of customs and other administrative procedures and improving revenue collection and transparency.

The government is fully aware that economic diversification is vital to reinforce fiscal sustainability, reduce procyclicality, and mitigate expenditure volatility. Oman's Tenth Development Plan identified the following sectors as promising sources of non-hydrocarbon growth and job creation in the years ahead: manufacturing industries with high technological content, agriculture and fisheries, mining and mineral products, logistics and transport, as well as tourism. Moreover, the government's longer-term objective is to strengthen the basis for renewed, sustainable growth and help shape the transition towards a digital and knowledge economy, in line with the country's Vision 2040.

Conclusion

The Omani authorities are committed to maintaining macroeconomic stability and addressing the additional challenges associated with the pandemic by well-targeted and effective measures to protect the health and employment of the citizens, as well as support the economic recovery. The authorities remain firmly committed to continuing their reform agenda aimed at bolstering medium-term economic outlook. They very much value the policy and capacity development support provided by the Fund and look forward to continued close engagement with the institution.