INTERNATIONAL MONETARY FUND

IMF Country Report No. 24/31

OMAN

January 2024

2023 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 2023 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 January 19, 2024 consideration of the staff report that concluded the Article IV consultation with Oman.
- The **Staff Report** prepared by the staff team of the IMF for the Executive Board's consideration, following discussions that ended on January 19, 2024, 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 December 15, 2023.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Oman.

The document listed below has been separately released.

- **Selected Issues**

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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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2023 Article IV Consultation with Oman

FOR IMMEDIATE RELEASE

Washington, DC – **January 23, 2024:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Oman.

Supported by favorable oil prices and sustained reform momentum, Oman's economic recovery continues while inflation remains contained. The economy grew by 4.3 percent in 2022, primarily driven by the hydrocarbon sector, before slowing down to 2.1 percent (year on year) in the first half of 2023 on the back of OPEC+-related oil production cuts. Non-hydrocarbon growth accelerated from 1.2 percent in 2022 to 2.7 percent in the first half of 2023, driven by recovering agricultural and construction activities and robust services sector. Subsidies on basic food items, caps on domestic petroleum prices, and the peg to a strong US dollar helped contain inflation, which receded from 2.8 percent in 2022 to 1.2 percent during January-September 2023.

Prudent fiscal management and high oil prices have helped turn fiscal and external balances into surpluses since 2022, with the overall fiscal balance estimated at 5.5 percent of GDP and the current account balance at 2.8 percent of GDP in 2023. Notwithstanding the hydrocarbon windfall, the non-hydrocarbon primary deficit remained on a downward trajectory, attesting to the authorities' commitment to fiscal discipline. Central government debt as a share of GDP declined from about 68 percent in 2020 to 38 percent in 2023. Oman's sovereign credit rating has been upgraded to one notch below investment grade and its sovereign spreads have become broadly at par with the average for Gulf Cooperation Council countries and well below that of emerging markets.

The banking sector remains resilient. Profitability has recovered to pre-pandemic levels, capital and liquidity ratios are well above regulatory requirements, and non-performing loans remain low and sufficiently provisioned. Stress tests suggest that banks are resilient to credit and liquidity shocks.

Risks to the economic outlook are balanced. On the upside, growth would be supported by higher oil prices—that could be triggered by supply and demand imbalances—and an acceleration of Vision 2040 reform plans and investments from regional partners. A faster global disinflation process resulting in global monetary policy easing could also support domestic growth by strengthening external demand. On the downside, a sharp decline in oil prices, including from a deeper-than-expected economic deceleration in China, would depress growth and have an adverse effect on fiscal and external accounts. A slowdown in the implementation of the reform agenda also represents a key risk to the outlook. The uncertainty

[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.

around the outlook is exacerbated by potential indirect spillovers from the ongoing conflict in Gaza and Israel.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities' macroeconomic management and broad reform efforts, supported by favorable oil prices, that contributed to further strengthening of the fiscal and external positions, preserving financial stability, and lowering public debt amid heightened global uncertainty and recurrent shocks. While noting that the outlook remains favorable and risks are balanced, Directors emphasized the importance of continuing the implementation of reforms to entrench fiscal sustainability and ensure intergenerational equity, while safeguarding financial stability and accelerating economic diversification.

Directors welcomed the authorities' continued commitment to prudent fiscal management while strengthening the social safety net, including through the new social protection law. They underscored the importance of pursuing the ongoing tax administration reform program and phasing out untargeted subsidies as critical measures to further enhance fiscal sustainability. Directors also highlighted the importance of strengthening and institutionalizing the medium-term fiscal framework. Enhancing the transparency of fiscal accounts, expanding their coverage, and disclosing fiscal risks while developing a sovereign asset liability management framework would be key actions to take going forward.

Directors agreed that the exchange rate peg continues to serve Oman well as a monetary anchor. They stressed that measures to strengthen the monetary transmission mechanism should continue to ensure that institutions are in place to support a more independent monetary policy regime in the future. In this context, Directors emphasized the importance of sustaining the progress under the Monetary Policy Enhancement Project.

Directors welcomed the continued resilience of the banking sector, while indicating that further efforts are needed to strengthen the regulatory framework to cement financial stability. They encouraged the authorities to return the capital conservation buffer to pre-pandemic levels, re-assess the list of domestic systemically important institutions, and further enhance the AML/CFT framework. They also underscored the importance of further developing the financial sector to enhance access to finance and support economic diversification, including through enhanced digitalization while being mindful of associated risks.

Directors welcomed the progress on the ambitious structural reform agenda under Oman Vision 2040 and its goals to promote sustained, diversified, inclusive, and private sector-led growth. They commended the authorities for the passage of the new labor law and encouraged them to continue enhancing labor market flexibility and empowering women. Pressing ahead with improving institutional quality, reducing the state footprint, enhancing the business environment, while maintaining the commitment to the ambitious climate agenda and investing in renewable energy would foster economic diversification and facilitate a smooth energy transition.

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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.

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

Table 1. Oman: Selected Economic Indicators, 2020–28

				Proj.					
	2020	2021	2022	2023	2024	2025	2026	2027	2028
Oil and Gas Sector									
Average crude oil export price (US$/barrel)	46.0	64.3	95.4	80.0	79.9	76.0	72.7	69.9	67.5
Crude and condensates oil production (in millions of barrels/day)	0.951	0.971	1.064	1.048	1.021	1.050	1.088	1.110	1.132
of which: Crude Oil (in millions of barrels/day)	0.760	0.782	0.848	0.814	0.791	0.819	0.849	0.866	0.883
Natural gas production (in millions of cubic meters per day)	121.9	132.2	137.2	146.4	155.9	159.2	162.2	167.1	168.1
National Accounts	(Annual percentage change, unless otherwise indicated)								
Nominal GDP (US$ billions)	75.9	88.2	114.7	108.2	111.1	113.6	117.1	120.7	124.9
Nominal GDP (in billions of Omani rials)	29.2	33.9	44.1	41.6	42.7	43.7	45.0	46.4	48.0
Real GDP	-3.4	3.1	4.3	1.3	1.4	2.9	3.5	3.2	3.1
Real hydrocarbon GDP 1/	-3.6	5.2	9.6	0.0	-0.5	2.5	3.0	2.0	1.6
Real nonhydrocarbon GDP	-3.3	1.9	1.2	2.1	2.5	3.2	3.9	4.0	4.0
Consumer prices (average)	-0.9	1.5	2.8	1.2	1.7	2.0	2.0	2.0	2.0
GDP Deflator	-10.8	12.7	24.6	-6.8	1.3	-0.7	-0.4	-0.1	0.3
Investment and Saving	(Percent of GDP)								
Gross capital formation	27.6	22.4	23.2	24.4	24.5	25.3	25.5	26.3	26.9
Public	12.3	7.5	7.0	6.6	6.7	6.5	6.0	5.9	5.9
Private	19.3	18.2	16.2	17.8	17.8	18.8	19.5	20.4	21.0
Gross national savings	11.5	17.0	28.2	27.2	27.3	27.7	27.8	28.1	28.7
Public	-0.1	6.8	19.8	14.3	13.6	13.0	12.4	11.5	10.8
Private	11.6	10.2	8.4	12.9	13.7	14.7	15.4	16.5	17.9
Central Government Finances	(Percent of GDP)								
Revenue and grants	28.9	33.0	39.7	31.8	30.9	30.4	29.6	28.5	27.4
Hydrocarbon	21.7	25.9	32.3	23.6	22.6	22.0	21.1	20.0	18.9
Nonhydrocarbon and grants	7.2	7.1	7.4	8.2	8.3	8.3	8.5	8.5	8.4
Expenditure	44.5	36.1	29.6	26.2	27.2	26.2	25.2	24.6	24.0
Current	36.3	32.7	26.7	23.6	24.5	23.7	23.2	22.7	22.2
Capital	8.3	3.5	3.0	2.6	2.7	2.5	2.0	1.9	1.9
Overall balance (Net lending/borrowing)	-15.7	-3.1	10.1	5.5	3.7	4.1	4.4	3.8	3.3
Overall balance (adjusted) 2/	-9.6	-0.8	10.1	5.5	3.7	4.1	4.4	3.8	3.3
Non-hydrocarbon primary balance (percent of non-hydrocarbon GDP)	-37.3	-32.4	-31.6	-28.2	-29.0	-26.8	-24.3	-23.1	-21.8
Central government debt, *of which:*	67.9	61.3	39.9	37.7	35.7	33.7	31.9	30.5	29.4
External debt	50.4	46.0	30.1	28.0	25.5	23.3	21.6	20.8	20.1
Public debt, *of which:*	108.1	102.0	69.8						
SOEs debt	40.2	40.7	29.9						
Net financial assets	-27.7	-24.9	-10.3	-5.0	-2.3	-0.4	1.5	2.9	3.9
Monetary Sector	(Annual percentage change, unless otherwise indicated)								
Net foreign assets	-28.4	31.2	-0.8	-2.0	6.1	19.8	9.9	13.7	11.7
Net domestic assets	23.4	-1.4	1.0	11.1	3.6	-0.3	2.4	1.0	1.7
Credit to the private sector	1.1	2.3	4.2	6.3	3.4	3.7	4.3	4.9	5.1
Broad money	8.9	4.6	0.6	8.2	4.1	3.9	4.2	4.2	4.5
External Sector	(In billions of U.S. dollars, unless otherwise indicated)								
Exports of goods	33.4	44.3	66.1	60.2	64.3	64.6	65.6	66.4	67.5
Oil and gas	18.2	25.9	43.1	36.5	39.1	37.9	37.4	36.5	35.8
Other	15.3	18.5	23.0	23.7	25.2	26.7	28.2	29.9	31.8
Imports of goods	-25.4	-28.0	-34.7	-35.0	-38.8	-39.4	-39.9	-40.7	-41.6
Current account balance	-12.3	-4.8	5.8	3.1	3.1	2.7	2.7	2.1	2.2
Percent of GDP	-16.2	-5.4	5.0	2.8	2.8	2.4	2.3	1.8	1.8
Central Bank gross reserves	15.0	19.7	17.6	17.5	18.4	21.1	22.8	25.3	27.8
In months of next year's imports of goods and services	4.8	5.1	4.5	4.1	4.2	4.8	5.1	5.5	6.0
Total external debt	72.8	79.8	70.0	66.6	63.5	63.1	61.5	61.6	61.6
Percent of GDP	95.9	90.5	61.0	61.5	57.2	55.5	52.5	51.0	49.3

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

1/ Includes crude oil, refining, natural gas, and LNG production.
2/ Data prior to 2022 were adjusted by taking out expenditures on gas and oil that were hived off to Energy Development Oman in 2021.

INTERNATIONAL MONETARY FUND

OMAN

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

December 13, 2023

KEY ISSUES

Context: Economic activity has recovered, supported by favorable oil prices and sustained reform momentum. Inflation remains low. After years in deficit, fiscal and current account balances have turned into surpluses on the back of high energy prices and prudent fiscal management. Public sector debt has been reduced markedly as windfall savings were deployed to prepay debt. The authorities have made substantial progress in implementing Oman Vision 2040, but more remains to be done to reduce Oman's reliance on hydrocarbons and bolster prospects for non-hydrocarbon growth.

Fiscal policy. Entrenching fiscal sustainability and ensuring intergenerational equity entail further fiscal efforts. Tax administration reform and passage of the personal income tax law should reduce the tax gap and expand the tax base. The phase-out of untargeted subsidies should be accelerated while leveraging the revamped social safety net to protect the vulnerable. The wage bill should be further rationalized supported by the forthcoming public employment law. Strengthening the medium-term fiscal framework, advancing SOE reforms, and establishing a sovereign asset and liability management framework would be key to reinforce fiscal credibility and sustainability.

Monetary and financial sector policies. The exchange rate peg continues to serve Oman well. Liquidity management needs to be strengthened to improve monetary policy transmission. Returning the capital conservation buffer to pre-pandemic levels and re-assessing the list of domestic systemically important institutions would help in sustaining banking sector resilience. The financial development agenda should initially focus on developing the local currency government bond and money markets.

Structural policies. Sustaining the reform momentum under Oman Vision 2040 will be key to building resilience and boosting prospects for more inclusive, diversified, and sustainable private sector-led non-hydrocarbon growth. This requires further efforts to improve institutional quality, reduce the state footprint, and enhance the business environment, which in turn would help amplify productivity gains from labor market and financial development reforms. It also calls for the steadfast implementation of the new social protection and labor laws, leveraging digitalization, and accelerating green investments and advancing policies to meet climate commitments.

Approved By
Zeine Zeidane (MCD) and Stefania Fabrizio (SPR)

Discussions were held in Muscat during November 1–15, 2023. The team comprised Cesar Serra (head), Mohamed Belkhir, Muayad Ismail, Thomas Kroen, and Haytem Troug (all MCD). Abdullah AlHassan and Dalia Aita (MCD) contributed to the Selected Issues Papers. Dalia Aita and Esther George (all MCD) provided support from headquarters. Zeine Zeidane (MCD) participated in the concluding meetings. Advisor to the Executive Director, Mr. Al Kohlany, accompanied the mission. The team met with Executive President of the Central Bank Al Amri, Secretary General of the Ministry of Finance Al-Jashmi, Executive President of Capital Market Authority Al Salmi, other senior public sector and central bank officials, members of the civil society, and private sector representatives.

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TABLES

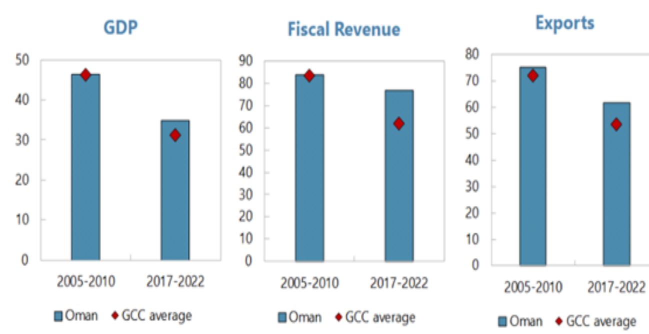
ANNEXES

BACKGROUND

1. **Oman has made substantial progress in strengthening its fiscal and external positions and implementing Oman Vision 2040.** Launched in 2020, the Medium-Term Fiscal Plan (MTFP), aimed at achieving fiscal sustainability through the diversification of fiscal revenues, expenditure control, and prudent management of hydrocarbon windfall savings, has served Oman well. Fiscal discipline has ensured that windfall savings have been deployed to rebuild policy space. Underpinned by Oman Vision 2040, efforts to strengthen the social safety net and dynamize labor markets, build fiscal frameworks, overhaul the state-owned enterprise (SOE) sector, enhance the monetary policy framework, and further develop the financial sector are ongoing. The authorities are moving decisively with a multi-pronged diversification agenda and a national strategy for an orderly transition to net zero emissions. The improved outlook has earned the country upgrades of its sovereign credit rating to one notch below investment grade.

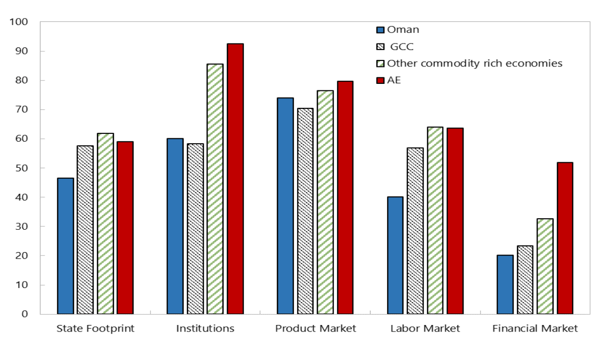
2. **Sustaining the reform momentum will be key to building resilience and boosting prospects for more inclusive, diversified, and sustainable growth.** Oman has made progress in diversifying its economy, though non-hydrocarbon growth has remained subdued weighed down by declining total factor productivity. Steadfast progress on reforms aimed at enhancing the quality of institutions, reducing the state footprint in the economy, and improving the business environment would, as envisioned in Oman Vision 2040, strengthen the country's resilience to oil price volatility, empower the private sector, and increase foreign investment, which are necessary to enhance productivity and diversify the economy. The strong take-up of 2022 Article IV recommendations is indicative of the authorities' commitment to sound policies and reforms (Annex I).

Hydrocarbon Dependence
(in percent of relevant indicator)

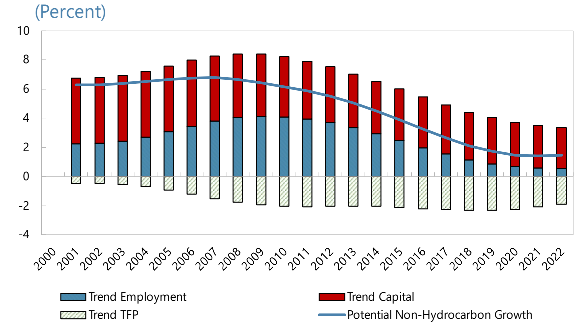


Sources: National authorities; and IMF staff calculations.

Performance of Structural Reform Areas
(Index=100, 2020 or latest available data)



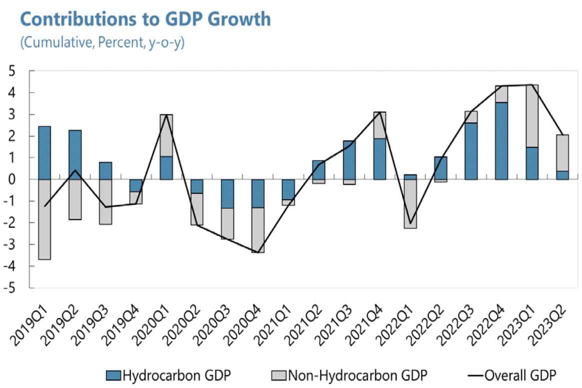
Contribution to Potential Non-Hydrocarbon Growth
(Percent)

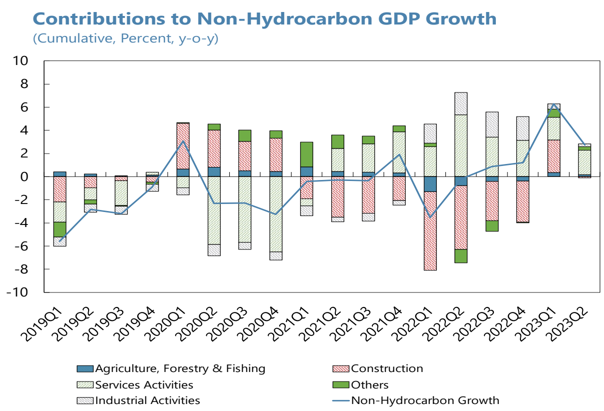


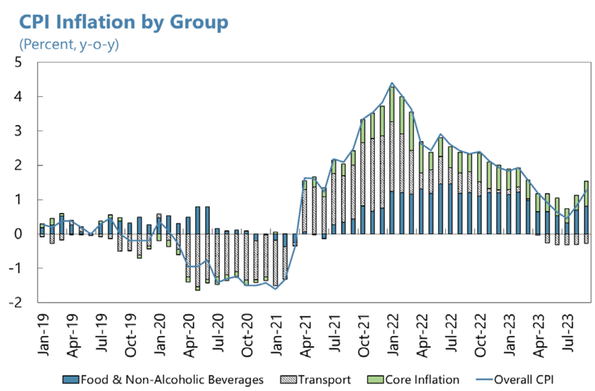
Sources: Fraser Institute, Global Financial Development Database, World Governance Indicators, WEO, and IMF staff calculations.

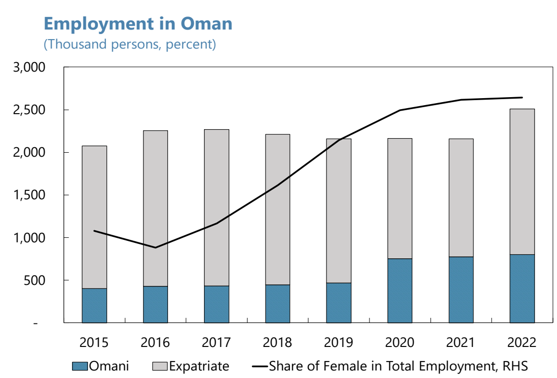
RECENT ECONOMIC DEVELOPMENTS

3. **Oman's economic recovery has progressed.** Output grew by 4.3 percent in 2022 from 3.1 percent in 2021, primarily driven by a strong expansion of the hydrocarbon sector. Non-hydrocarbon growth slowed to 1.2 percent in 2022 from 1.9 percent in 2021, reflecting a large contraction in the construction sector.[1] Nevertheless, it accelerated to 2.7 percent (y-o-y) in 2023H1, supported by recovering agricultural and construction activities and robust services sector. Real GDP growth moderated to 2.1 percent in 2023H1, primarily reflecting OPEC+-related oil production cuts.









Sources: Country authorities, Haver Analytics, and IMF staff calculations.

Notes:

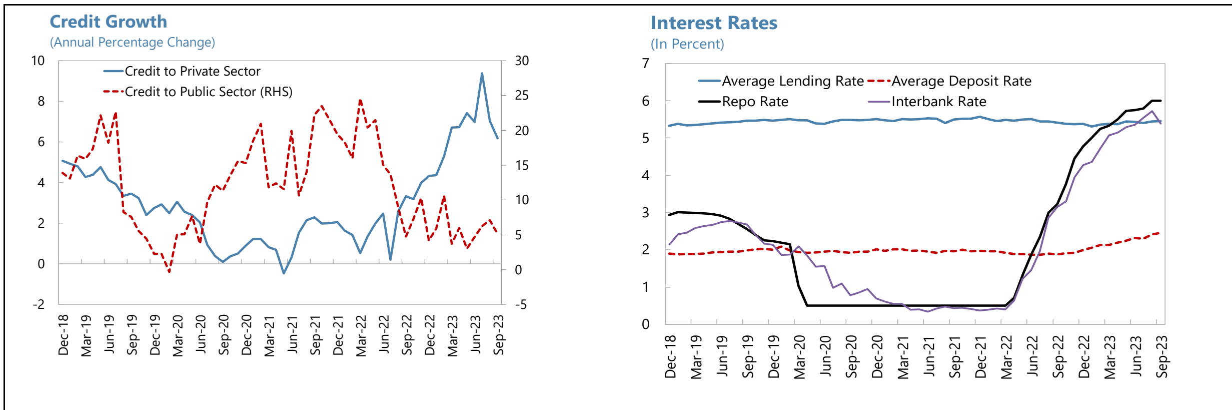
1. GDP growth and contributions are reported on cumulative basis throughout each calendar year. Services activities include wholesale and retail trade, transport, accommodation and food, financial, real estate, public administration and defense, and other services.
2. The coverage of Omani workers in labor surveys was expanded in 2020.

[1] The construction sector contracted since early 2021 as construction companies faced a transition period to recalibrate their business models from public investment-led to private investment-led growth.

4. Employment has exceeded pre-pandemic levels. Supported by economic recovery, employment grew by 16.2 percent in 2022, primarily driven by the recovery of expatriate employment to pre-pandemic levels. Omani employment grew at a modest 3.6 percent in 2022. Recent data indicates continued increase in expatriate employment but waning Omani employment in 2023H1.

5. Inflation has been contained. Average inflation picked up to 2.8 percent in 2022 from 1.5 percent in 2021 on the back of higher global food and energy prices, following the breakout of the war in Ukraine. A stronger U.S. dollar and a cap on fuel prices helped contain inflation. Inflation receded to 1.2 percent (y-o-y) during January-September 2023, primarily reflecting lower transport and food inflation.

6. The Central Bank of Oman (CBO) continued to increase its policy rate in line with the Fed. The repo rate has been raised by 550 bps since 2022. Nevertheless, credit to the economy increased by 4.3 percent in 2022 and 6.0 percent by end-September 2023 (from 4.1 percent in 2021), reflecting a low passthrough of the policy rate into domestic credit conditions. Supported by recovering economic activity, private sector credit growth picked up in 2022 (end-September 2023) reaching 4.3 percent (6.2 percent). Credit to the public sector slowed down to 4.2 percent (5.2 percent) in 2022 (end-September 2023) from 19.4 percent in 2021.

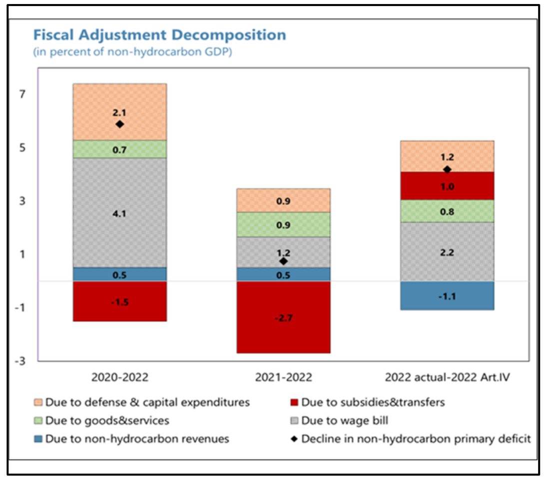


Sources: Central Bank of Oman and IMF staff estimates.

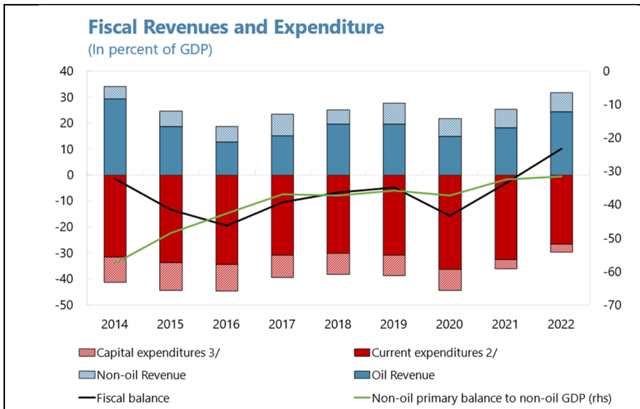
7. Favorable oil prices and fiscal discipline have turned the fiscal balance into a large surplus. Following years in deficit, the overall fiscal balance turned to a surplus of 10.1 percent of GDP in 2022 (from a deficit of 3.1 percent of GDP in 2021) on the back of higher hydrocarbon revenues, larger tax yields, and lower expenditures.[2] Notwithstanding a sizable increase in fuel subsidies

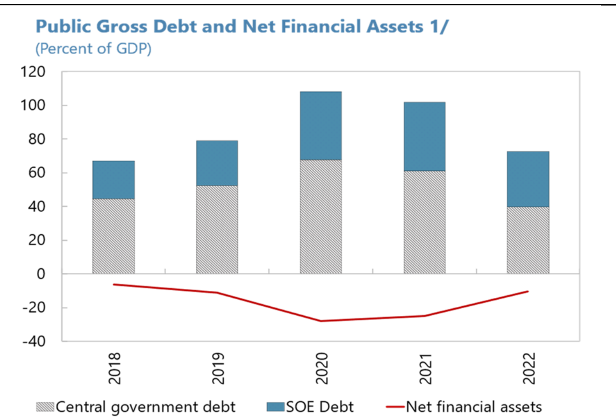
[2] Hydrocarbon revenues are measured on gross basis, including revenues channeled to dedicated funds (oil fund and infrastructure development fund, amounting to 4 percent of GDP in 2022) and revenues lent to Energy Development Oman (EDO) through a Shareholding Bridge Facility (3 percent of GDP in 2022).

(2.9 percent of non-hydrocarbon GDP in 2022 from 0.2 percent in 2021), the non-hydrocarbon primary deficit as a share of non-hydrocarbon GDP continued its downward path to 31.6 percent in 2022 from 32.4 percent in 2021, driven by broad-based expenditure compression. During 2021-2022, the authorities secured a non-hydrocarbon primary adjustment of nearly 6 percentage points of non-hydrocarbon GDP.



8. Public sector debt was reduced markedly. Central government debt as a share of GDP declined significantly from 61.3 percent in 2021 to 39.9 percent in 2022, as the authorities used the hydrocarbon windfall to prepay government debt. Alongside, SOE debt was brought down from 40.7 percent of GDP in 2021 to 29.9 percent of GDP in 2022, on the back of improved performance, asset divestments, and deleveraging initiatives, underpinned by the ongoing reforms under Oman Investment Authority (OIA) (see Selected Issues Paper I). As a result, the government's net financial assets-to-GDP ratio increased considerably from –24.9 percent in 2021 to –10.3 percent in 2022.

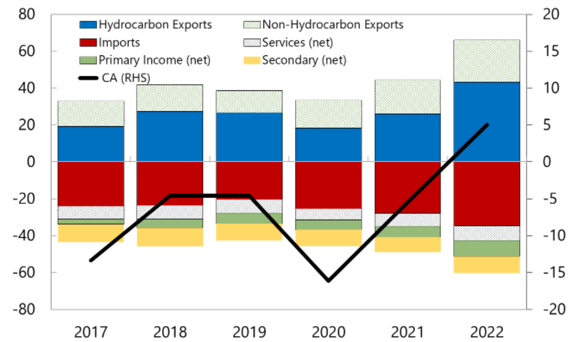




Sources: Country authorities and IMF staff estimates.
1/ Net Financial Assets are defined as central government deposits at depository corporations and central bank plus OIA's liquid assets less central government debt.
2/ Current expenditures exclude PDO operations and upstream gas outlays.
3/ Capital expenditures exclude PDO operations and upstream gas projects.

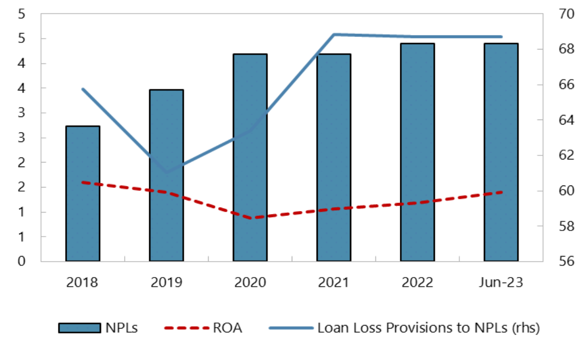
9. The external position substantially improved in 2022. The current account reached its first surplus (5.0 percent of GDP) since 2014. Non-hydrocarbon exports have more than doubled from their 2019 levels and represented about one-third of total exports in 2022. CBO reserves, however, declined to $17.6 billion (covering 4.5 months of imports and 64 percent of the ARA metric), reflecting large debt repayments by the public sector. Oman still holds substantial external buffers when also accounting for OIA's liquid foreign assets (overall reserves amount to $35.7 billion and 106 percent of the ARA metric in 2022). Staff assess Oman's external position as broadly in line with the level implied by fundamentals and desirable policies (Annex II).

Current Account Balance
(US$ Billion and percent of GDP for CA)



Sources: Authorities and IMF staff calculations.

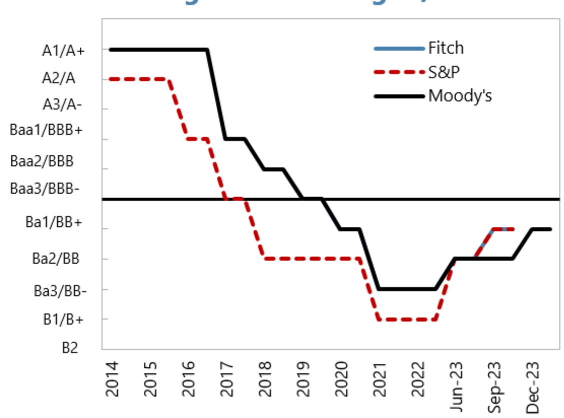
NPLs and Profitability Indicators
(Percent)



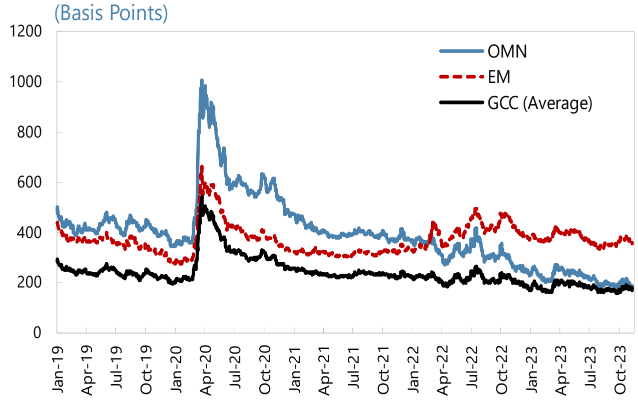
10. The banking sector has remained resilient. Profitability has recovered to pre-pandemic levels and capital and liquidity ratios remain well above regulatory requirements. NPLs remained contained at 4.4 percent in June 2023, with loan-loss provisioning around 69 percent. Banks were not affected by the global banking turmoil in early 2023 due to CBO's prudent oversight and banks' domestic oriented business model. On aggregate, banks' foreign liabilities represented around 10 percent of total liabilities at end-June 2023, with the net FX open position to capital ratio around 13 percent.

11. Markets' appraisal of Oman's credit has improved. Oman's sovereign spreads have remained on a downward trajectory, becoming nearly at par with the GCC average and well below the emerging market average. Oman's sovereign credit ratings have been upgraded to one notch below investment grade with stable outlook.

Sovereign Credit Ratings 1/



Emerging Market Sovereign Bond Spreads
(Basis Points)



Sources: Bloomberg and IMF staff calculations.

1/ Fitch and Moody's credit rating tended to coincide for Oman. Investment grade corresponds to credit ratings above the horizontal line.

OUTLOOK AND RISKS

12. The economic outlook remains favorable. Real GDP growth is estimated to have slowed to 1.3 percent in 2023 (from 4.3 percent in 2022) reflecting OPEC+-related oil production cuts. It is projected to slightly expand to 1.4 percent in 2024, weighed down by the extension of oil production cuts until end of 2024 but supported by increased gas production, the coming on stream of the Duqm refinery,[3] and higher non-hydrocarbon growth (2.5 percent) reflecting sustained recovery in construction, manufacturing, and services. Non-hydrocarbon growth is set to gradually increase to 4 percent over the medium term, supported by global demand recovery, continued reforms, and robust private investment amid a shift in composition towards investments in non-hydrocarbon sectors. Inflation declined to 1.2 percent in 2023 due to lower transport and food inflation and is projected to converge to 2 percent over the medium term in line with the currency peg to the U.S. dollar.

Oman: Selected Economic Indicators, 2022-2028

			Proj.				
	2022	2023	2024	2025	2026	2027	2028
Real GDP growth (percent)	4.3	1.3	1.4	2.9	3.5	3.2	3.1
Non-hydrocarbon GDP growth (percent)	1.2	2.1	2.5	3.2	3.9	4.0	4.0
Inflation (percent)	2.8	1.2	1.7	2.0	2.0	2.0	2.0
Fiscal balance (percent of GDP)	10.1	5.5	3.7	4.1	4.4	3.8	3.3
Non-hydrocarbon primary balance	-31.6	-28.2	-29.0	-26.8	-24.3	-23.1	-21.8
(percent of non-hydrocarbon GDP)							
Central government debt (percent of GDP)	39.9	37.7	35.7	33.7	31.9	30.5	29.4
Central government net financial assets (percent of GDP)	-10.3	-5.0	-2.3	-0.4	1.5	2.9	3.9
CA Balance (percent of GDP)	5.0	2.8	2.8	2.4	2.3	1.8	1.8
CBO Reserves (in $USD billion)	17.6	17.5	18.4	21.1	22.8	25.4	27.8
In months of next year's imports of goods and services	4.5	4.1	4.2	4.8	5.1	5.5	5.9
Memorandum items:							
Average crude oil export price (US$/barrel)	95.4	80.0	79.9	76.0	72.7	69.9	67.5
Crude and Condensates oil production (in millions of barrels/day)	1.06	1.05	1.02	1.05	1.09	1.11	1.13
Natural gas production (in millions of cubic meters per day)	137.2	146.4	155.9	159.2	162.2	167.1	168.1

Sources: Country authorities and IMF staff estimates.

13. Favorable energy prices and sustained reforms will maintain fiscal and external balances in surplus. The overall fiscal balance is estimated at a surplus of 5.5 percent of GDP in 2023 on the back of favorable oil prices and continued fiscal discipline. It is projected to decline to

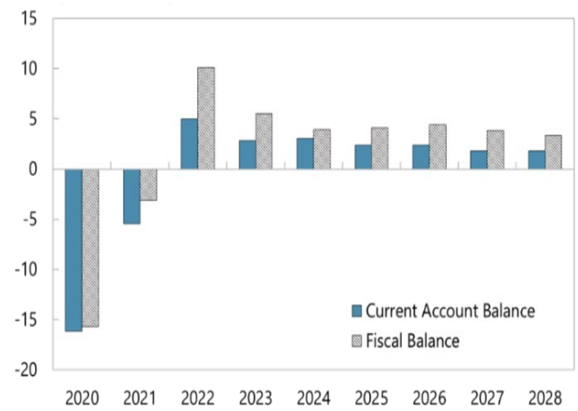
[3] The Duqm refinery is a joint venture at the Special Economic Zone at Duqm, with its ownership equally shared between Oman and Kuwait. Production commenced on trial basis during 2023H2, and is expected to reach full capacity in 2024 (230 thousand barrels per day) and contribute 0.3 percentage point to GDP growth in 2024.

3.7 percent of GDP in 2024, primarily driven by higher social spending as the new social protection law becomes effective. Over the medium term,

- the overall fiscal balance is set to remain in a comfortable surplus, declining to 3.3 percent of GDP by 2028 along with oil prices. Central government debt is estimated to have declined to 37.7 percent of GDP in 2023 and is projected at around 30 percent of GDP by 2028, supported by favorable debt dynamics and continued net repayments. Oman is assessed to have a low risk of sovereign debt stress underpinned by the extent of liquid financial assets available to the government that helps mitigate solvency and liquidity risks. Despite sizable buffers, the government debt trajectory remains vulnerable to risks, particularly from oil market developments (Annex III).

Fiscal and Current Account Balance

(Percent of GDP)



Sources: Country authorities; and IMF staff estimates.

- The current account balance is projected at 2.8 percent of GDP in 2023-2024, supported by hydrocarbon and non-hydrocarbon export revenues. It is expected to remain in surplus throughout the projection period, albeit trending down to 1.8 percent of GDP by 2028. CBO reserves are projected to increase to about $28 billion by 2028 (covering 6 months of imports).

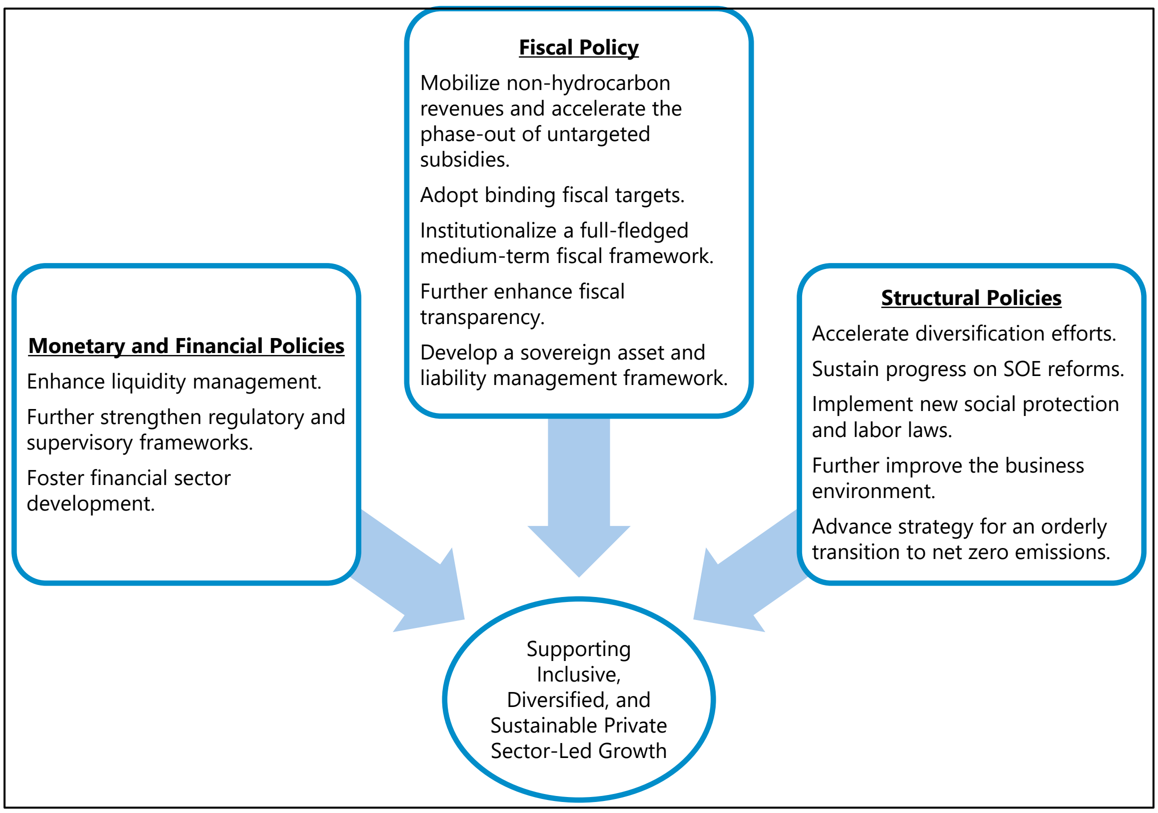
14. Sustained reforms will help further diversify the economy. By the end of the projection period, ongoing diversification efforts are expected to raise the share of non-hydrocarbon GDP by 13 percentage points (57 percent in 2022), the share of non-hydrocarbon fiscal revenues by 12 percentage points (19 percent in 2022), and the share of non-hydrocarbon exports by 12 percentage points (35 percent in 2022).

15. Risks to the outlook are balanced (Annex IV). On the **upside**, growth and fiscal and external positions would be spurred by higher oil prices—that could be triggered by supply and demand imbalances—and an acceleration of Oman Vision 2040 reform plans and investments from regional partners. A faster global disinflation process leading major global central banks to ease monetary policy could also support domestic growth by strengthening external demand. On the **downside**, a sharp decline in oil prices, including from a deeper-than-expected economic deceleration in China, would depress growth and have an adverse effect on fiscal and external accounts (see Selected Issues Paper I). A slowdown in the implementation of the reform agenda—because of social pressures to spend the hydrocarbon windfall—also represents a key risk to the outlook. The uncertainty around the outlook is exacerbated by potential indirect spillovers from the ongoing conflict in Gaza and Israel.

16. Authorities' Views. The authorities broadly agreed with staff's assessment of the economic outlook and risks. They are committed to sustaining the reform momentum to mitigate risks, enhance resilience to shocks, and further diversify the economy.

POLICY DISCUSSIONS

The policy discussions focused on: (i) maintaining fiscal discipline and institutionalizing fiscal frameworks; (ii) strengthening monetary policy frameworks; (iii) enhancing financial sector development while safeguarding financial stability; and (iv) boosting prospects for non-hydrocarbon private sector-led growth.



A. Maintaining Fiscal Discipline while Institutionalizing Fiscal Frameworks

17. Fiscal performance in 2023 preserved fiscal discipline. The non-hydrocarbon fiscal outturn in 2023 is estimated to be broadly in line with the 2023 budget. Despite robust hydrocarbon revenues, the non-hydrocarbon primary deficit improved by 3.4 percent of non-hydrocarbon GDP, driven primarily by a reduction in subsidies (1.8 percent of non-hydrocarbon GDP) and a decline in capital expenditures (1 percent of non-hydrocarbon GDP). The overall fiscal surplus is estimated at 5.5 percent of GDP. In this context, the authorities further reduced central government debt by about $5 billion to 37.7 percent of GDP—including through a successful buyback of Eurobonds and one sukuk and prepayment of syndicated loans in 2023H2—and increased the government's net financial assets to -5.0 percent of GDP (from -10.3 percent of GDP in 2022), attesting to their commitment to entrench debt sustainability and further build buffers.

18. The 2024 budget continues rationalizing expenditures while strengthening social safety nets. The new social protection law has become effective in January 2024 and is expected to add 1.6 percent of non-hydrocarbon GDP to the social spending envelope. Despite this, primary expenditures are projected to increase by only 0.9 percent of non-hydrocarbon GDP relative to 2023, reflecting efforts to contain the wage bill. Compressed expenditures together with a slight projected improvement in non-hydrocarbon revenues are poised to limit the increase in the non-hydrocarbon primary deficit to 29 percent of non-hydrocarbon GDP in 2024 from 28.2 percent in 2023. Supported by still favorable oil prices, the 2024 overall fiscal balance is expected at 3.7 percent of GDP. Oman is assessed as having some fiscal space that could be employed to provide temporary support to the economy if adverse shocks were to materialize.

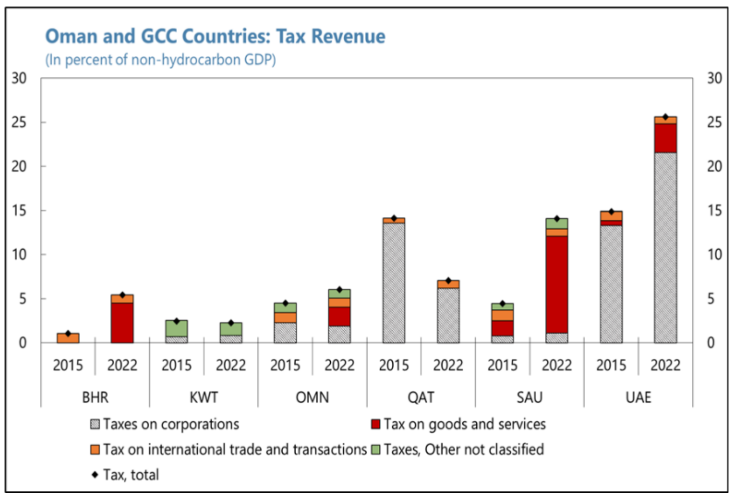
Oman: Non-Hydrocarbon Primary Balance and Composition
(Percent of non-hydrocarbon GDP, unless otherwise indicated)

	2022	2023		2024	
	Final	Budget	Preliminary	Budget	IMF proj.
Non-hydrocarbon primary balance	-31.6	-28.2	-28.2	-28.0	-29.0
Non-hydrocarbon revenues	9.8	9.7	10.1	10.0	10.2
Tax revenues	6.5	6.3	6.8	6.5	6.8
Non-tax revenues 1/	3.3	3.4	3.3	3.5	3.5
Primary expenditure	41.4	37.9	38.3	38.0	39.3
Wage bill	13.6	13.3	13.7	13.2	13.2
Goods and services	3.1	2.9	2.8	2.9	2.9
Subsidies and transfers	7.7	5.8	5.9	6.2	7.5
o/w: energy subsidies	5.1	2.0	3.3	1.9	3.2
o/w: social safety net	0.9	2.3	0.9	2.4	2.4
Defense	11.7	11.7	11.7	11.5	11.5
Capital expenditures	5.2	4.3	4.3	4.3	4.3
Memorandum items					
Hydrocarbon revenues (percent of GDP)	32.3	16.5	23.6	17.9	22.6
o/w: oil revenues	24.2	13.2	18.8	14.2	18.0
o/w: gas revenues	8.0	3.4	4.8	3.7	4.6
Overall fiscal balance (percent of GDP)	10.1	-1.9	5.5	-0.2	3.7
Central Government Debt (percent of GDP)	39.9	39.0	37.7	36.0	35.7
Oil price	95.4	55.0	80.0	60.0	79.9

Sources: Country authorities; and IMF staff estimates.
1/ Non-tax revenues exclude investment income (received from OIA).

19. The medium-term fiscal stance should be consistent with building sufficient buffers to respond to adverse shocks and intergenerational equity. Staff estimates that a central government debt-to-GDP ratio of 30 percent would provide sufficient buffers so that the authorities' debt ceiling (60 percent of GDP) is not breached under large shocks over the medium term.[4] In addition, staff's analysis based on the Permanent Income Hypothesis (PIH) suggests that to ensure intergenerational equity (keeping sovereign wealth constant in real per capita terms), the non-hydrocarbon primary deficit should decline to 19 percent of non-hydrocarbon GDP (see Oman Selected Issues Paper I, 2022 Article IV). Together, these fiscal anchors will help delink spending decisions from oil price volatility, ensure intergenerational equity, and entrench fiscal sustainability. Under current plans, the non-hydrocarbon primary deficit is expected to decline to 21.8 percent of non-hydrocarbon GDP by 2028 (a 7-percentage-point improvement between 2024 and 2028), on the back of further rationalizing the wage bill underpinned by the forthcoming public employment law (savings of 1.6 percent of non-hydrocarbon GDP); phasing out energy subsidies through 2030 (savings of 1.8 percent of non-hydrocarbon GDP); and limiting other public spending growth in real terms (savings of 4 percent of non-hydrocarbon GDP). Reaching the PIH anchor would require additional measures of 2.8 percent of non-hydrocarbon GDP, which can be secured primarily by reducing the tax gap and accelerating the phase-out of subsidies.

- **Non-hydrocarbon revenues.** Despite ongoing efforts, tax revenues only increased by 2 percent of non-hydrocarbon GDP between 2015 and 2022 and remain well below those of top tax collectors in the GCC. The low VAT C-efficiency ratio (about 40 percent) points to a large tax gap, requiring measures to enhance tax administration but also rein in tax expenditures.[5]



(I) **Tax administration reform.** The authorities are embarking on a reform plan to reduce the tax gap over a four-year period. Initial steps are focused on improving filing and payment compliance of registered taxpayers, supported by the adoption of VAT e-invoicing. Efforts will continue to expand the taxpayer registry for all taxes, including by detecting unregistered businesses and reducing compliance costs by simplifying reporting and record

[4] Based on a fanchart analysis, the debt-to-GDP ratio path converging to 30 percent by 2028 would prevent breaching the authorities' debt ceiling (60 percent of GDP) under adverse shocks driving debt up to the upper quartile of its distribution. Nevertheless, the central government debt trajectory remains vulnerable to risks, particularly from oil market developments, and shocks driving debt above the upper quartile of its distribution would breach the authorities' debt ceiling, highlighting the importance of further building liquid financial buffers (Annex III).

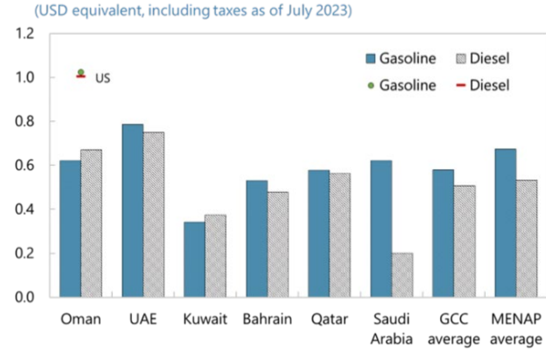
[5] VAT C-efficiency is measured as the ratio of actual VAT revenues to the product of the standard VAT rate and final consumption.

keeping for SMEs. Staff underscored the need to assess and monitor tax expenditures, including the fiscal costs associated with tax incentives provided in special economic zones, and to conduct a TADAT assessment to help further identify tax administration gaps.

(II) **Personal income tax.** Enacting the PIT law on high-income earners would generate additional tax revenues of about 0.4 percent of non-hydrocarbon GDP, help mitigate tax arbitrage opportunities of entrepreneurial income, and further enhance the authorities' credibility to fiscal reforms. The tax authority foresees to start testing the related IT system in the near future.

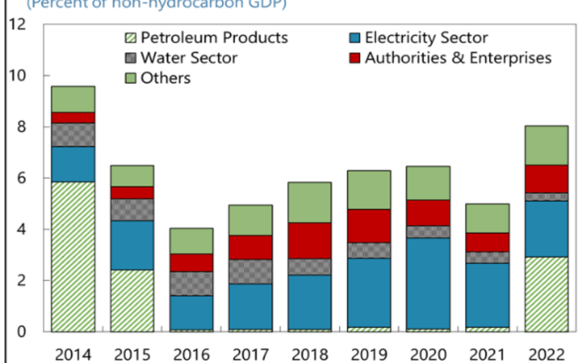
- **Subsidy reform.** Electricity subsidies are estimated at 2 percent of non-hydrocarbon GDP in 2023 and are set to be phased out by 2030. Petroleum subsidies add 1.4 percent of non-hydrocarbon GDP, and other subsidies, in support of SOEs and the water sector, add about 1 percent of non-hydrocarbon GDP. Lifting the price cap on petroleum products and accelerating the withdrawal of untargeted electricity subsidies, supported by the strengthened social safety net to ensure vulnerable groups are protected, should be a priority.

Retail Sales Prices of Gasoline and Diesel
(USD equivalent, including taxes as of July 2023)



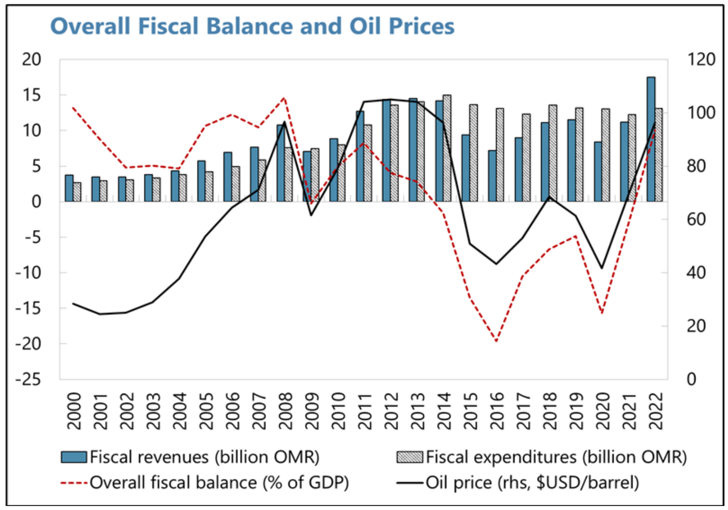
Sources: globalpetrolprices.com, IMF staff estimates

Subsidies and Transfers
(Percent of non-hydrocarbon GDP)



- **Social spending.** Staff's analysis suggests potential pockets of inefficiency in education and health spending, as performance outcomes remain below peers with similar levels of spending (Annex V). The authorities have identified several areas for reform aimed at enhancing operational efficiency in support of performance outcomes in the Ministries of Health, Education, and Higher Education, Research and Innovation, including tackling redundancies in medical procedures and harmonizing prescription practices, enhancing operations management and financing of the school system, and restructuring of the scholarship and vocational training programs, while rolling out digital systems to enhance spending efficiency.

20. Institutionalizing a medium-term fiscal framework (MTFF) and ultimately adopting a fiscal rule will entrench fiscal sustainability.



- **Medium-term fiscal and budget frameworks.** Building on the significant progress made under the MTFP, staff recommended further strengthening the MTFF and integrating it with budget preparation and execution to enhance fiscal discipline and credibility. Based on recent Fund technical assistance, the MTFF would benefit from: (i) including clear fiscal targets and the measures and reforms to achieve them; (ii) producing realistic revenue projections; (iii) using the fiscal targets as the basis for setting near- and medium-term aggregate expenditure ceilings; (iv) ensuring that the aggregate expenditure ceiling is used to determine the line ministry expenditure ceilings; and (v) establishing a legally-mandated MTFF, with a transparent process for its preparation and approval at the highest level (i.e., Council of Ministers). Staff called for strengthening and institutionalizing the MTFF through the upcoming revisions to the Finance Law.

- **Fiscal rule.** Staff emphasized the importance of an institutionalized MTFF to adopting an effective fiscal rule, encompassing a strengthened budget preparation process, enhanced fiscal transparency, management and disclosure of fiscal risks (including the publication of a fiscal risk statement), and expanded fiscal coverage to the broader public sector. Once these pre-requisites are established, and sufficient technical capacity for its implementation built, adopting a rule based on the non-hydrocarbon primary balance supplemented by a central government debt anchor would support the authorities' efforts to preserve fiscal sustainability, safeguard macroeconomic stability, and ensure intergenerational equity.

21. The authorities continue making strides to strengthen public financial management, transparency, and governance and risk mitigation.

- **PFM reforms.** Establishing a Treasury Single Account (TSA) remains essential to ensure centralization of public revenue and improve cash management. The authorities have completed the inventory of government bank accounts, the design of the TSA structure, and the rollout of pilot implementation involving the largest units (Ministries of Education, Health, and Labor, and Tax Authority). As the authorities proceed with expanding TSA coverage, coordination with the CBO will be key, including through sharing of treasury cash flows projections to support liquidity forecasting. The authorities have made important progress with PFM and procurement digitalization, including the adoption of e-tendering of all government procurement processes and extending participation to SMEs, helping reduce transaction costs and potential expenditure leakages while supporting SME growth.

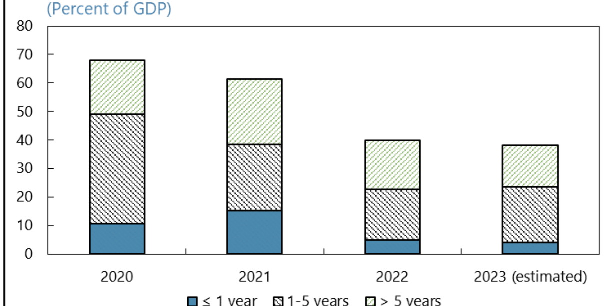
- **Transparency.** With the increasing role of the rest of the public sector in undertaking public investment, estimated at about 8 percent of GDP in 2023 for SOEs under OIA's management and EDO, disclosing their operations is essential to assess Oman's underlying fiscal stance and potential fiscal risks. Staff welcomed OIA's and EDO's disclosure of their operations last year, including on performance, assets under management, debt, and reforms. Still, more remains to be done, including publishing audited financial statements of all SOEs and disclosing more granular reporting of revenues, expenditure, and financial assets and liabilities in the Ministry of Finance's monthly fiscal performance bulletin, in line with international standards.

- **Governance and risk mitigation.** OIA's Rawabet program has been instrumental to improving SOE governance, performance, and risk management. It has established a robust Code of Governance for SOEs, management accountability through audited performance assessments, and risk mitigation through risk assessments of business plans and submission of risk registries containing detailed assessments and mitigation plans of SOEs corporate risks (see Selected Issues Paper I). Accelerating and strengthening the adoption of digital solutions in the public sector as envisioned in the Roadmap for Government Digital Transformation (2021-2025) will further strengthen governance, accountability, and government effectiveness.

22. Efforts to develop a sovereign asset-liability management framework (SALM) are progressing. A SALM framework is critical to monitor sovereign balance sheet exposures and mitigate risks in an integrated manner, thus enabling the authorities to assess future commitments and their funding in a comprehensive manner and implement a more cost-effective and coordinated (across public sector institutions) management of sovereign assets and liabilities. Several initiatives are ongoing, including an expanded mandate of the Debt Management Committee to sovereign asset and liability oversight, Debt Management Office's coordination and approval of SOE borrowing, establishing the National Asset Registry, and OIA's oversight of SOE asset and liability management.

23. Continued sound debt management is key to building buffers, mitigating refinancing risks and reducing borrowing costs, while developing the local currency government bond market (LCBM). The authorities' debt management strategy is set to remain agile to lengthen debt maturities, lower borrowing costs and refinancing risks, and develop LCBM while preserving presence in international capital markets. Staff welcomed the passage of the public debt law and encouraged the authorities to publish its Medium-term Debt Management Strategy, annual borrowing plans, and quarterly debt bulletins. These, together with actions to enhance bond market liquidity (concentrating offers in few issues and key tenors to establish

Government Debt by Maturity
(Percent of GDP)



benchmarks) and identify market makers to establish a primary dealer system, are prerequisites to further develop the LCBM.

24. Authorities' Views. The authorities reiterated their balanced approach to fiscal management, ensuring fiscal discipline while strengthening social protection. They indicated that to increase non-hydrocarbon revenues, their efforts are currently focused on tackling tax administration challenges through a comprehensive reform plan while developing the IT system for personal income tax. To reduce energy subsidies, the authorities are assessing options to improving the targeting of petroleum subsidies and are implementing several initiatives to reduce electricity subsidies, including lowering operational costs (e.g., interconnection of the north, middle, and south grids and the recently completed restructuring of the distribution and supply companies), enhancing energy efficiency through smart metering, and accelerating the procurement of electricity from renewable energy. The authorities agreed to strengthen the MTFF, including by adopting fiscal targets, binding aggregate expenditure ceilings, and its endorsement at the highest level for the 2025 budget. On public financial management, they indicated progress is ongoing to develop an asset liability management framework (supported by Fund technical assistance), gradually roll out a Treasury Single Account, and further enhance fiscal transparency.

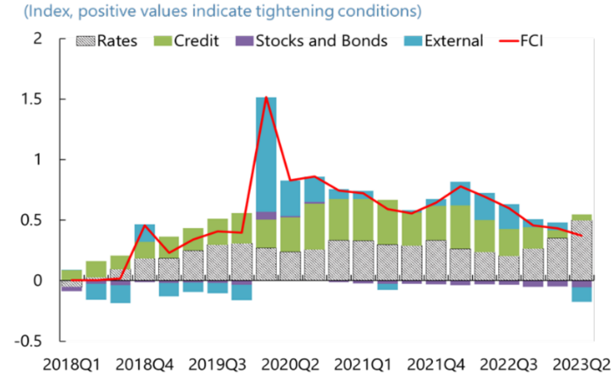
B. Strengthening Monetary Policy Frameworks

25. The exchange rate peg remains a credible monetary anchor for Oman. Monetary policy should continue to follow the Fed to support the peg. Efforts to deepen money and capital markets and strengthen the monetary policy framework should continue to ensure that institutions are in place to support a more independent monetary policy regime in the future.

26. The CBO continues to develop its monetary toolkit through the Monetary Policy Enhancement Project (MPEP). Passthrough from policy rates to effective lending rates remains very limited because of persistent excess liquidity, sizable unremunerated deposits, and an interest rate cap on personal loans (see Selected Issues Paper II). As current tools to control inflation, in particular energy subsidies, will be scaled back as part of ongoing reforms, steadfast implementation of the MPEP to enhance the CBO's liquidity management framework and improve the transmission of monetary policy is critical to control inflation in the future with market-based tools. In this regard, ongoing plans to develop an interest rate corridor, prepare the initiation of open market operations (OMOs), and build capacity at the CBO to strengthen liquidity forecasting are welcome. Staff recommended to gradually remove

Financial Conditions in Oman

(Index, positive values indicate tightening conditions)



Sources: Bloomberg, CBO, FRED, and IMF staff calculations.
Notes: Interest rates include domestic deposit rates and lending rates. Credit measures private sector credit.

the eligibility of government bonds for reserve requirements and consider the renewed issuance of certificates of deposits to support OMOs.

27. The rollout of the Treasury Single Account (TSA) should be well calibrated to safeguard financial stability. Ongoing efforts to mop up excess liquidity in the banking system require coordination with the Ministry of Finance to ensure that banking system liquidity remains adequate while policy initiatives, including full TSA rollout, are implemented. A gradual approach in adopting the TSA is recommended to allow banks to adjust to the expected change in their deposit base.

28. Authorities' Views. The authorities are committed to steadfast progress to strengthen the monetary policy framework. They are reviewing the reserve requirement framework aimed at managing liquidity conditions more effectively while assessing the merits of resuming the issuance of certificates of deposit. The authorities foresee a slow decline in government deposits following the full implementation of the TSA, which could be compensated by additional liquidity provision through OMOs or increased interbank market activity.

C. Enhancing Financial Development While Safeguarding Financial Stability

29. The authorities remain committed to strengthening their supervisory and regulatory frameworks.

- **Stress testing.** Supported by Fund technical assistance in 2023, the CBO has revamped its stress testing framework to a multi-year forward-looking framework. Results, reported in CBO's 2023 Financial Stability Report, suggest that Omani banks are resilient to individual credit and liquidity shocks.[6] Staff's own analysis is broadly in line with CBO's assessment, but highlights the importance of further strengthening CBO's stress testing framework by simulating scenarios with simultaneous liquidity and solvency stress (Annex VI).

- **Regulatory enhancements.** Against the backdrop of recent bank merger activity,[7] re-assessing the list of domestic systemically important institutions is needed as the banking sector is becoming more concentrated and new banks are becoming systemic. Expanding the existing residential real estate index to include commercial real estate prices is required to better monitor risks from high construction-related NPLs. Moreover, the temporary reduction in the capital conservation buffer during the pandemic (from 2.5 to 1.25 percent) should be removed

[6] The report shows that under the most severe stress scenario of NPLs rising to 14.4 percent of gross loans by end-2025, only one bank would become undercapitalized (since 2006, NPLs have not exceeded 7 percent). Moreover, under a system-wide liquidity shock, the Omani banking system would be able to withstand an overall cash outflow amounting to 17 percent of its total liabilities over six months.

[7] A merger between HSBC Bank Oman (6.5 percent market share) and Sohar International Bank (12 percent market share) was completed in August 2023, creating the second largest bank in Oman.

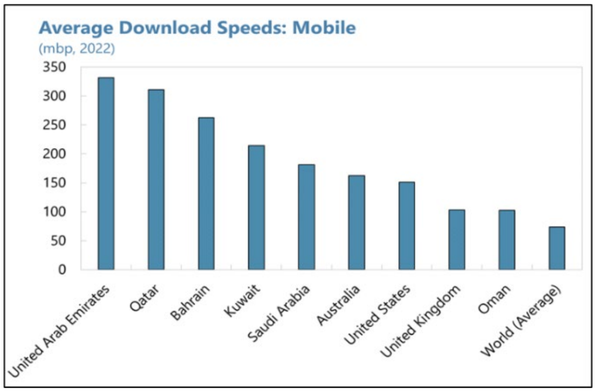
while considering activating the countercyclical capital buffer if credit growth continues and the credit gap turns positive.

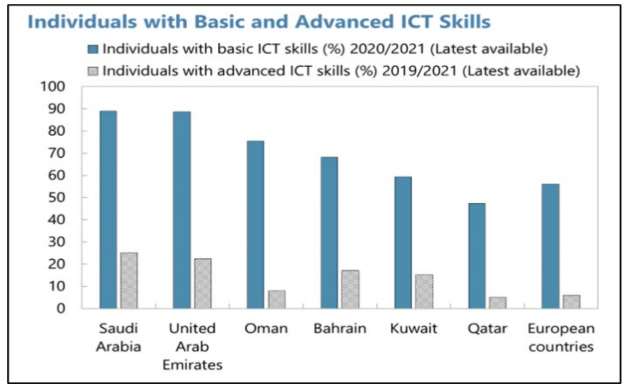
- **Emergency response framework.** An ongoing Fund technical assistance is supporting the CBO to finalize its Emergency Liquidity Assistance (ELA) framework. Plans to issue the CBO's Emergency Readiness, Management and Response Framework should ensure consistency with other frameworks (ELA in particular) and include clear and proper transparency arrangements to maintain credibility.

30. The CBO should consider lifting the interest rate cap on personal loans. Lending rates on personal loans are currently capped at 6 percent, incidentally the current policy rate. Relaxing the cap would ensure banks can adequately reflect related credit risk, broaden access to credit, and maintain margins in the face of elevated funding costs. Banks might resort to increasing lending margins for other sectors if the lending rate cap for personal loans is sustained. This will exacerbate pockets of vulnerabilities in other sectors and could translate into higher NPLs and hamper credit growth in more productive sectors.

31. Further developing the financial sector will enhance financing opportunities. This will complement ongoing efforts under the "Estidamah" program, aimed at increasing SME access to finance, targeted sector finance, sustainable financing, domestic capital formation, and foreign investment participation. In the first phase of capital market development, the government bond and money markets should be developed to establish the yield curve and provide a benchmark for the pricing of riskier assets. In the second phase, the corporate bond market and equity markets can be developed, which requires improving liquidity and broadening the investor base. In addition to capital market development, growing the FinTech sector, and increasing usage of the credit registry (Mala'a) would further support access to credit on favorable terms for a broader range of economic players, particularly SMEs (see Selected Issues Paper III). Easier capital market access for large firms can facilitate the reallocation of bank funding towards SMEs, further supporting ongoing SME funding initiatives through Oman Development Bank and OIA's Future Fund. Plans to develop the financial sector need to be mindful of potential financial stability implications arising from introducing new financing tools.

32. Leveraging digitalization while managing its risks is key to promote financial development and inclusion. Staff welcomed the CBO's recent efforts to improve the payment system by launching the new advanced national Real Time Gross Settlement System (RTGS), which facilitates broader integration and digitalization of payment systems. The CBO is also advancing its FinTech regulatory sandbox, which has already graduated three cohorts in digital wallets, blockchain technology for trade finance, and alternative financing methods. However, more efforts are required to step up investments in digital infrastructure, including cybersecurity and human capital, while monitoring risks, including to financial stability and financial integrity, arising from new technologies and innovative FinTech business models.





Sources: SpeedTest, World Bank; and ITU.

33. Oman continues to strengthen its AML/CFT framework. Through the 2023-2025 enhanced AML/CFT national strategy, the authorities aim to further develop its AML/CFT rules and regulations in line with the FATF standards, including those associated with digitalization and FinTech. Recent efforts by the CBO to develop the recently established AML/CFT department through staffing and training are welcomed. Oman is currently undergoing the mutual evaluation process by the Middle East and North Africa Financial Action Task Force (MENAFATF) in 2023-2024. The Fund has assisted the authorities with their preparation on topics such as beneficial ownership transparency, use of financial intelligence, and implementation of targeted financial sanctions.

34. Authorities' Views. The authorities noted that the interest rate cap facilitates affordable financing by preventing excessive hikes in lending rates that could occur in the absence of a fully operative credit registry. They indicated that consideration for a gradual lifting of the interest rate cap would depend on a more effective use of the credit registry, which they are currently working on, to allow financial institutions to monitor credit risk. They underscored their commitment to continue to improve the CBO's stress testing framework and maintain adequate supervision, including reviewing the DSIB list. The authorities do not consider raising the countercyclical capital buffer above its current level (0 percent) before the capital conservation buffer is returned to its pre-pandemic level, which they are considering implementing in 2024. The authorities reiterated their commitment to financial sector development to expand financing opportunities, particularly for SMEs and non-hydrocarbon activities.

D. Boosting Prospects for Non-Hydrocarbon Private Sector-Led Growth

35. Sustained efforts to implement Oman Vision 2040 are progressing. Oman's diversification strategy is multi-pronged, encompassing extensive initiatives, including catalyzing private investment through OIA's investments (including the recently created Oman's Future Fund) and ongoing SOE divestments; leveraging Oman's distinctive natural advantages for renewable generation; attracting foreign direct investment in strategic industrial clusters in special economic zones facilitated by a multimodal logistics system; and enhancing funding diversification through the financial development program under "Estidamah" (Annex VII). Moreover, increased cooperation with international and regional partners is expected to promote investments across non-hydrocarbon sectors, particularly those prioritized by Oman Vision 2040. The strategic bundling of structural reforms focused on improving institutional quality, reducing the state footprint, and enhancing the business environment would amplify productivity gains from ongoing labor market and financial sector development reforms (see Selected Issues Paper IV). Given the extensive initiatives, cooperation and coordination among different government agencies responsible for the diversification agenda should be strengthened to enhance the effectiveness of the government's diversification efforts.

36. The business environment continues to be enhanced. The recent launch of Invest Oman and the Investment Services Center will help streamline procedures and promote investment opportunities. Nevertheless, there is scope to further improve the business environment by enhancing coordination among government agencies and leveraging digitalization to expedite government procedures.[8] While OIA's ongoing SOE reforms are expected to contribute to improve the business environment, reducing the still large state footprint in the economy is key to create a more enabling business environment and promote private sector-led growth.

37. The authorities enacted a comprehensive social protection law, which will strengthen social safety nets, enhance flexibility and inclusiveness of the labor market, and reinforce the sustainability of the pension fund. Under the new law, the government will provide non-contributory benefits, including universal child, disability, and senior citizen benefits as well as family support for low-income households (Annex VIII). It also provides job-seeker allowances and maternity benefits that will further enhance overall and female labor force participation. These benefits will help alleviate the impact of ongoing fiscal reforms on the vulnerable. At the same time, the new law transforms the current pension system from 11 fragmented pension funds into a single unified pension scheme. This has broader implications on the flexibility of the labor market and sustainability of the pension fund. Specifically, equalizing pension benefits and entitlements across all sectors will allow for greater labor mobility between the public and private sectors. Reducing and aligning early retirement and adopting dynamic pension adjustment mechanisms that adapt to changing demographic and economic conditions, as stipulated in the new law, will help enhance labor market participation and strengthen the sustainability of the pension fund. The pension system is projected to be sustainable at current contribution rates for a period of 100 years without government financing.

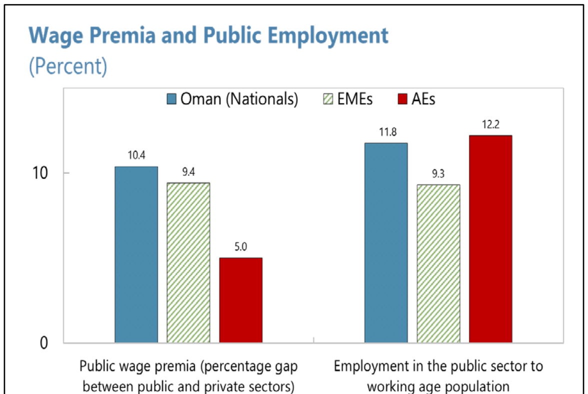
38. The authorities also enacted a new labor law aimed at modernizing regulations and improving working conditions and flexibility in the labor market. Alongside, the authorities launched several initiatives to support employment of nationals in the private sector, including the Wage Protection System and provision of wage support to private sector employers for hiring

[8] For example, by digitizing government procedures, including expediting the issuance of work permits.

nationals.[9] In this context, staff welcomed the authorities' ongoing reform efforts and emphasized the need for continued reforms to facilitate the transition to a more flexible and inclusive labor market. These reforms should focus on the following areas:

- **Further enhancing labor market flexibility.** The new labor law supports flexibility by introducing a remote work model. It also allows for terminating non-productive workers for the first time in Oman. While welcoming this step that helps address rigidities associated with hiring and firing practices in Oman, staff underscored the need for ensuring its transparent and objective implementation. Notwithstanding, there is room to enhance labor market flexibility, including by further relaxing restrictions on foreign workers' mobility, which would be key to facilitating efficient sectoral reallocation. This would also activate market incentives, such as promotions and higher wages across the labor market, with positive spillovers from knowledge transfers and higher competition. Similarly, addressing labor market rigidities would also incentivize upskilling, attract more mid- to high-skilled expatriate workers, and ultimately lead to productivity gains (see Selected Issues Paper IV).

- **Containing public sector wages is important to make private jobs more attractive and address market segmentation**. The new labor law introduces measures to support the Omanization agenda, including requiring employers to put in place annual plans for hiring and replacement of expatriate workers as well as increasing penalties for non-compliance with Omanization requirements. Staff emphasized that increasing employment of nationals in the private sector should continue to be driven by market-based incentives, reducing the public-private sector wage premium, and grounding hiring and promotion practices in the public sector on needs and performance, supported by the forthcoming public employment law.



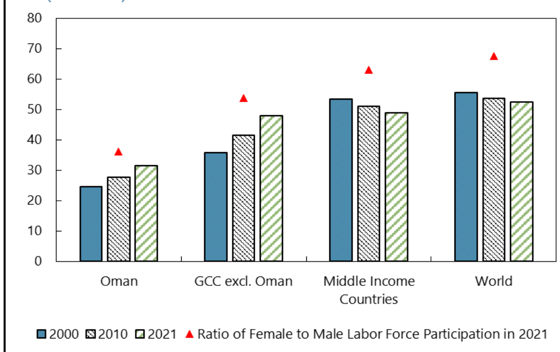
Sources: Oman National Central for Statistics and Information, IMF FAD Expenditure Assessment Tool (EAT). Latest annual data: 2022 for Oman and 2021 for EMEs and AEs.
Notes: The wage premia are calculated for Omani workers only due to data availability.

- **Further improving the quality of education would support bridging the skills gap in the labor force**. Adopting a dual education system that combines education with onsite training would help address skills mismatches and magnify educational outcomes. At the same time, upskilling and reskilling Omani workers would enable them to transition to more competitive and productive sectors and support efficient resource allocation in the labor market. Expanding vocational training while enhancing its responsiveness to evolving needs of the market would help generate higher educational returns and support efforts to improve productivity.

[9] The Wage Protection System (WPS), which became effective in July 2023, is a joint electronic system between the Ministry of Labor and CBO. It provides a monitoring platform to enforce the requirement of private sector employers to transfer workers' wages to domestic licensed banks within a maximum of 7 days from their due date. The launch of the WPS will ensure better protection of workers' rights in the private sector, making private sector jobs more attractive to nationals.

- **Expanding the contribution of women in the economy.** The new labor law aligns maternity leave to international standards. It also requires employers to provide dedicated areas for nursing breaks for women. Staff welcomed these policies that will help improve female labor force participation from the current low level relative to regional peers and world levels. Nevertheless, institutionalizing more inclusive and flexible work arrangements, such as allowing more flexibility in work schedules and locations, while promoting more women to senior positions and supporting female entrepreneurs would generate positive demonstration effects to increase female labor participation.

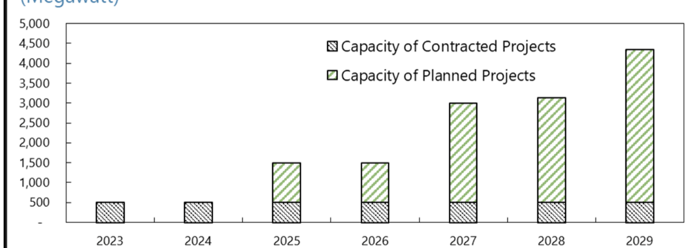
Female Labor Force Participation Rate
(Percent)



Sources: World Bank and IMF staff calculations.

39. The authorities continue advancing their climate agenda. The National Strategy for Adaptation and Mitigation to Climate Change (2020-2040) has laid out strategic actions. Oman has committed to achieving net zero emissions by 2050 through the implementation of a National Strategy for an Orderly Transition to Net Zero and launching several initiatives, including the Carbon Neutrality Program and the Sustainability Center mandated with facilitating follow up and coordination among stakeholders.[10] They have also scaled up investments in renewable energy to secure 20 percent of total energy generation from renewable sources by 2030 in line with the National Energy Strategy, with initial efforts having increased the share of renewables in power generation from null in 2015 to 4 percent in 2022. Moreover, to cement its potential as a global leader on green hydrogen—leveraging availability of high-quality renewable resources and existing infrastructure—EDO has established a subsidiary (Hydrom) to facilitate private sector-led investments in green hydrogen production, expected to kick in starting from 2030. Hydrom has already signed 5 contracts with international partners, with committed investments at $30 billion (33 percent of GDP).[11] Staff underscored the

Contracted and Planned Projects for Producing Energy from Renewable Sources in Oman
(Megawatt)



Source: Ministry of Energy and Minerals
Note: Renewable sources include solar and wind.

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[10] To achieve net zero emissions by 2050 as delineated in the National Strategy for an Orderly Transition to Net Zero, the authorities foresee an emissions reduction pathway for the oil and gas sector of 94 percent by 2050 relative to the 2021 baseline. Measures to achieve this reduction include efficiency improvements, lower-cost electrification of upstream production, leveraging carbon capture technologies, and producing green hydrogen.

[11] These green investment projects will be entirely financed by developers and international partners. Hydrom will grant the land and, in turn, collect land fees, at discounted rates during the development phase and paid in full

(continued)

need to accelerate reforms aimed to phase out fossil fuel energy subsidies and replace them with targeted support to vulnerable households while continuing to promote green investments.

40. There have been improvements in the compilation and dissemination of economic data, but further efforts are needed. The current data coverage, while broadly adequate for surveillance, does exhibit areas of refinements. While the NCSI publishes quarterly real GDP data by economic sectors, quarterly real GDP from the expenditure side is not yet produced and the coverage and consistency between annual and high frequency labor market data need to be improved. In addition, more efforts are required to improve the timelines and sectoral coverage of inward and outward FDI surveys. There is room to extend the granularity of reported central government data and coverage of fiscal data to the broader public sector, including public sector assets and liabilities. The CBO has made notable progress to enhance the quality of external sector statistics and further efforts should be made to improve the classification of trade activity in free trade zones and publish quarterly BOP and IIP data, in addition to improving the quality of non-financial sector international transactions. Data on financial soundness indicators and real estate price indices should be published.

41. Authorities' Views. The authorities reiterated their commitment to accelerating structural reforms to boost non-hydrocarbon private sector-led growth in line with Oman Vision 2040. They have stepped up economic diversification efforts, including by further improving the business environment, enhancing the role of SMEs in the economy, and developing clusters and interlinkages within and between economic sectors. They emphasized that the implementation of the new social protection and labor laws will enhance labor market flexibility and inclusiveness, support pension sustainability, and boost female labor force participation. They are committed to advancing their climate agenda, with decisive efforts to date on scaling up investments in renewable energy.

STAFF APPRAISAL

42. Supported by favorable oil prices and sustained reforms, Oman's economic outlook remains favorable. Non-hydrocarbon growth is set to continue strengthening over the medium term supported by global demand recovery, continued structural reforms, and robust private investment amid a shift in composition towards investments in non-hydrocarbon sectors. Fiscal and external balances are expected to remain in comfortable positions, supported by hydrocarbon revenues and fiscal discipline. Risks to the outlook are balanced, but the uncertainty around it is exacerbated by potential indirect spillovers from the ongoing conflict in Gaza and Israel.

43. The authorities remain committed to prudent fiscal management while strengthening the social safety net. The 2024 budget preserves fiscal discipline while providing the space to roll out the new social protection law that will strengthen the resilience of vulnerable groups and reinforce the sustainability of the unified pension fund. Entrenching fiscal sustainability and ensuring

during production as well as a royalty, in kind or cash, and windfall profit fee if applicable. The government will collect income taxes in accordance with Omani law.

intergenerational equity, however, requires sustaining fiscal reforms. A comprehensive tax administration reform and passage of the personal income tax law on high-income earners are key to reduce the tax gap and expand the tax base. The phase-out of untargeted subsidies should be accelerated while leveraging the revamped social safety net to protect the vulnerable.

44. **Institutionalizing the medium-term fiscal framework (MTFF) would entrench fiscal discipline and credibility.** Building on the substantial progress to date, the Medium-term Fiscal Plan should adopt clear fiscal targets—as well as the measures and reforms to achieve them—as the basis for setting binding aggregate expenditure ceilings, anchored in a legally mandated and transparent process for its preparation and approval at the highest level. A strengthened MTFF would lay the foundation for adopting a fiscal rule in the future. Steps taken toward establishing the Treasury Single Account (TSA) and the National Asset Registry are welcome. OIA's Rawabet program has been instrumental to improving SOE governance, performance, and risk management. Further actions to enhance the transparency of fiscal accounts, expand their coverage, and disclose fiscal risks while developing a sovereign asset liability management framework would support sound fiscal management going forward.

45. **The exchange rate peg continues to serve Oman well.** The peg has provided a credible monetary anchor, helping to deliver low and stable inflation. Measures to strengthen the monetary transmission mechanism, including by deepening the money and capital markets, should continue to ensure that institutions are in place to support a more independent monetary policy regime in the future. In this regard, ongoing progress to develop an interest rate corridor, open market operations, and build capacity at the CBO to strengthen liquidity forecasting under the Monetary Policy Enhancement Project should be sustained.

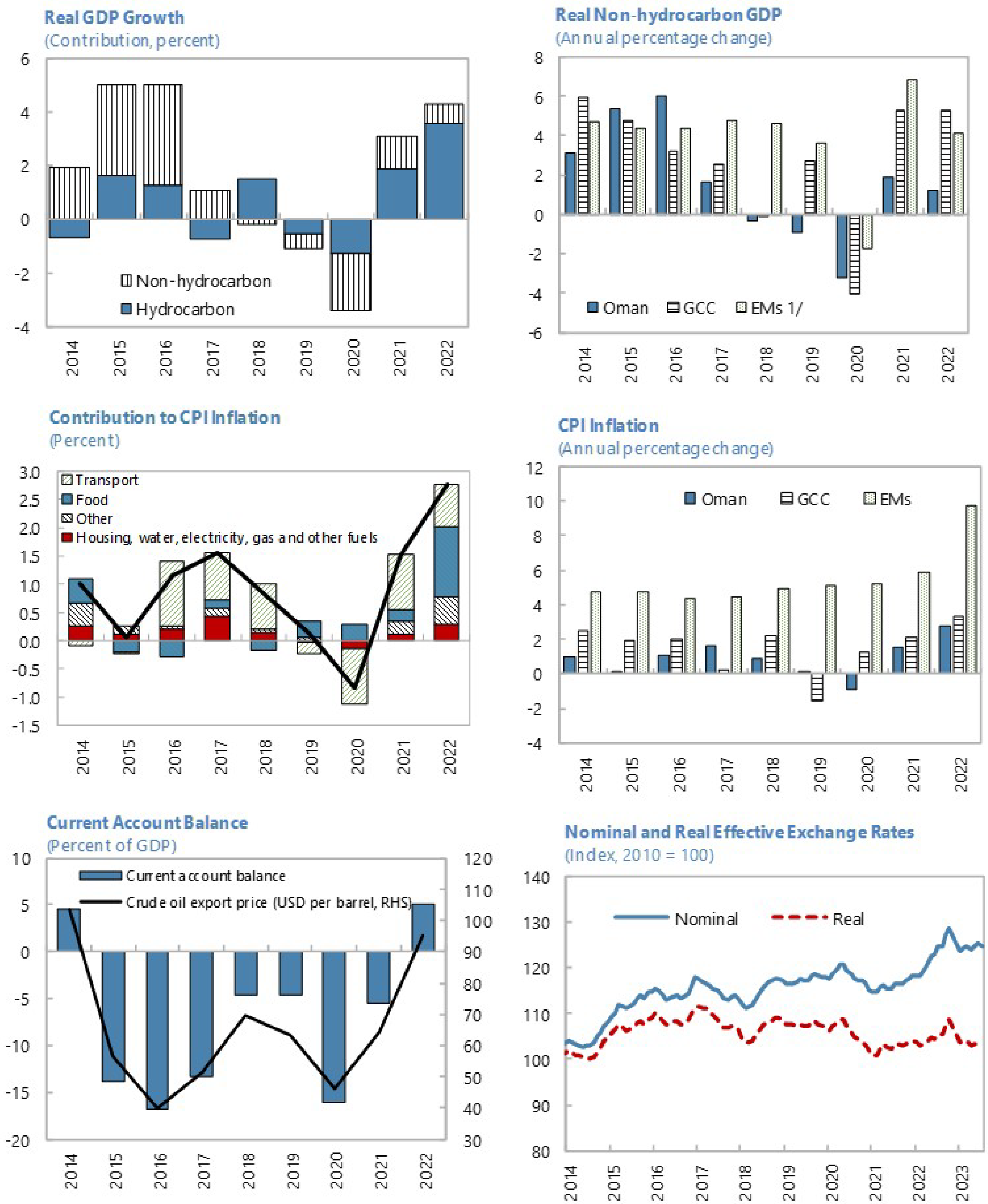
46. **The banking sector remains resilient, but efforts should continue to strengthen the regulatory framework to cement financial stability.** Returning the capital conservation buffer to pre-pandemic levels and re-assessing the list of domestic systemically important institutions would help in sustaining banking sector resilience. A gradual approach in adopting the TSA is recommended to allow banks to adjust to the expected change in their deposit base. Relaxing the interest rate cap on personal loans while operationalizing the credit registry would ensure banks can adequately reflect related credit risk and maintain margins in the face of elevated funding costs.

47. **Further developing the financial sector is critical to enhance access to finance and support economic diversification.** The ongoing efforts under the "Estidamah" program are welcome. Prioritizing the development of government bond and money markets to establish a yield curve and provide a benchmark for the pricing of riskier assets would in turn support expanding the corporate bond and equity markets. Diversifying the breadth of financing products, leveraging digitalization, growing the FinTech sector, and increasing usage of the credit registry would support financial inclusion. At the same time, the authorities should monitor financial stability and financial integrity risks that could arise from such developments.

48. Sustained efforts to implement Oman Vision 2040 are progressing. The new labor law is a commendable step forward, but more remains to be done to enhance flexibility and inclusiveness of the labor market, including further relaxing restrictions on foreign workers' mobility, reducing the public-private wage premium, and expanding the contribution of women in the economy. The strategic bundling of structural reforms focused on further improving institutional quality, reducing the state footprint, and enhancing the business environment would amplify productivity gains from ongoing labor market and financial sector development reforms and promote private sector-led growth. The authorities are moving decisively with a multi-pronged diversification agenda, including ample investments in renewable energy and green hydrogen, and a national strategy for an orderly transition to net zero emissions.

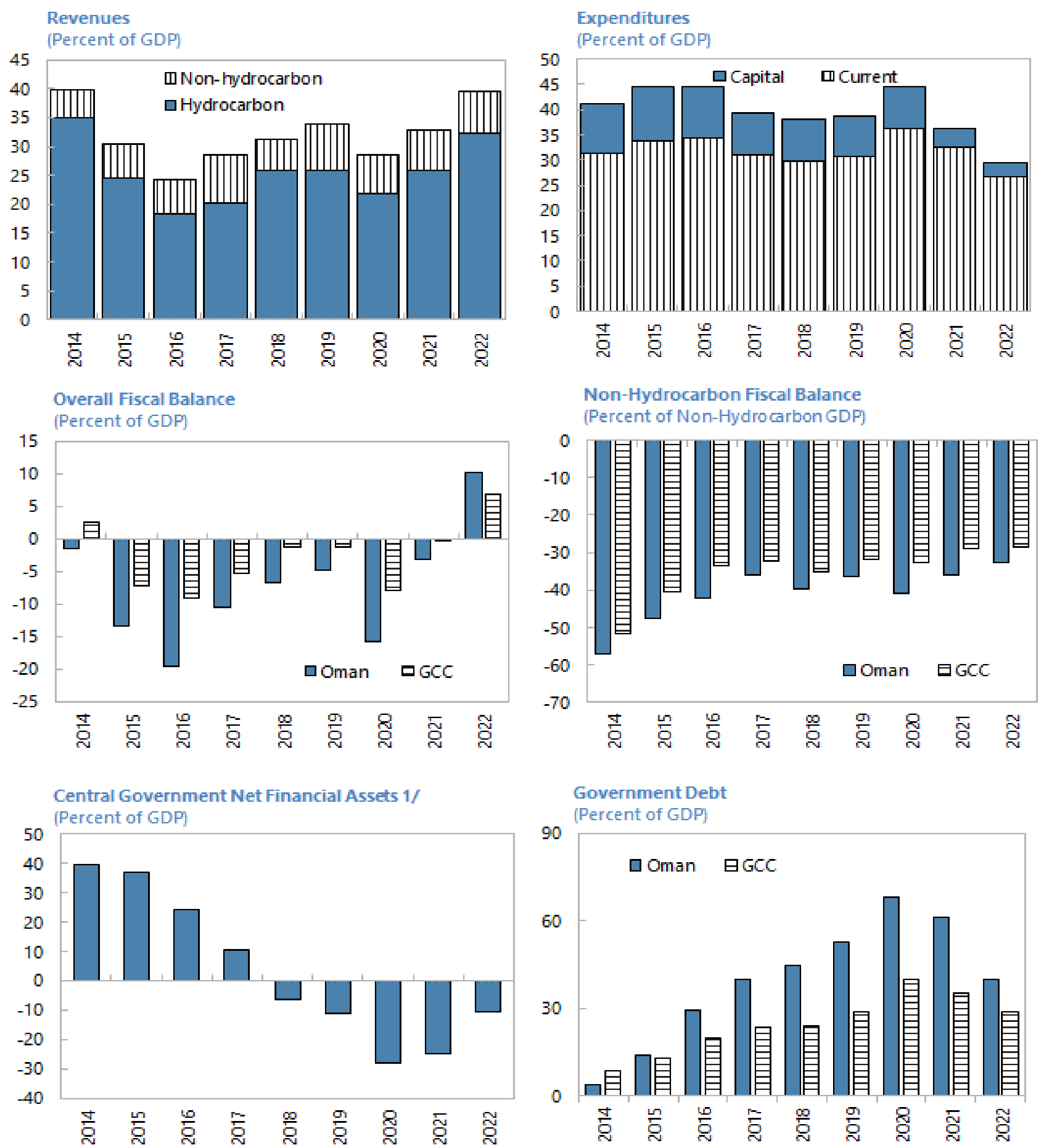
49. Staff proposes that the next Article IV consultation with Oman follow the standard 12-month cycle.

Figure 1. Oman: Recent Economic Developments



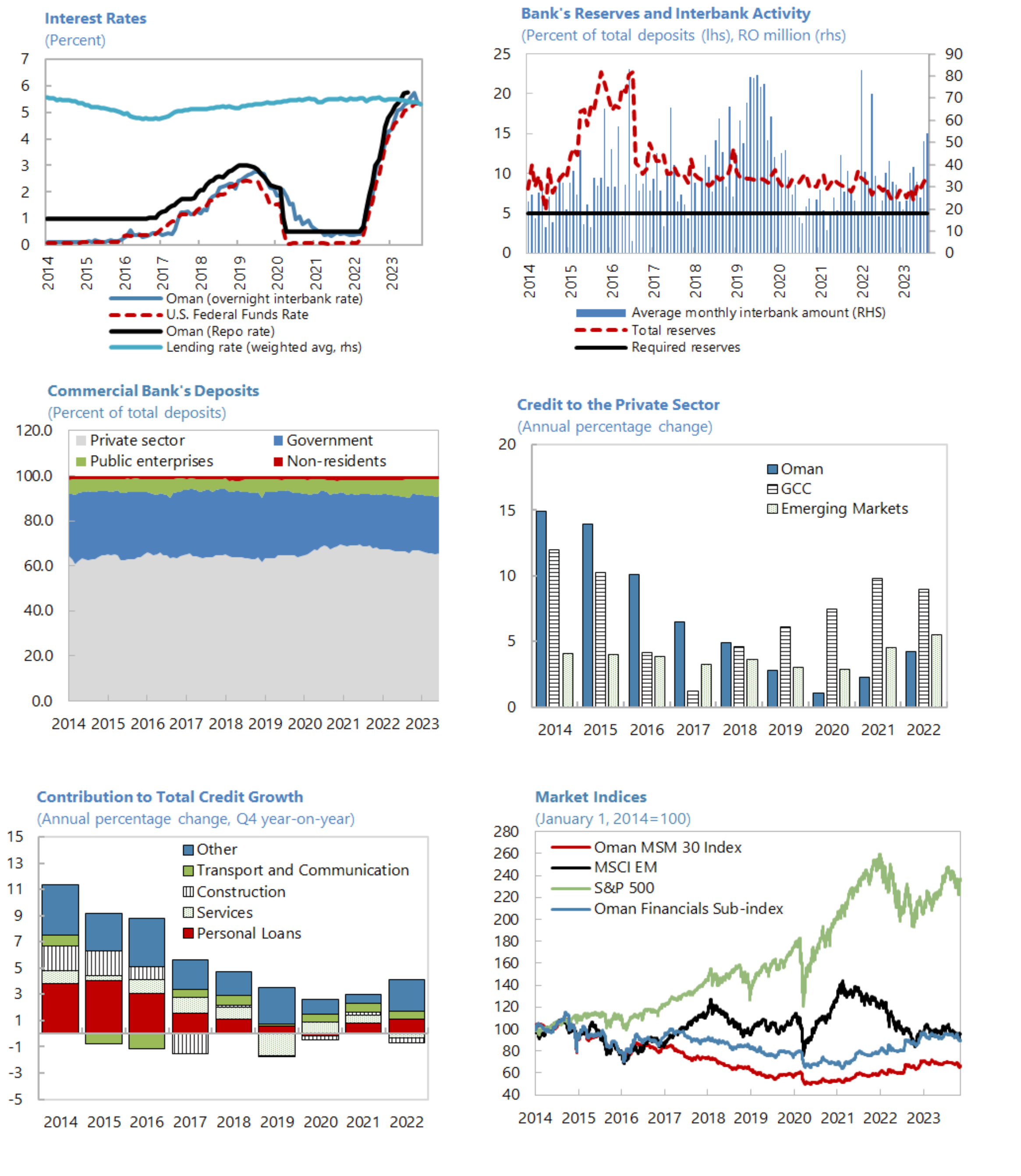
Sources: Country authorities and IMF staff calculations.
1/ For EMs, total GDP.

Figure 2. Oman: Fiscal Sector Developments



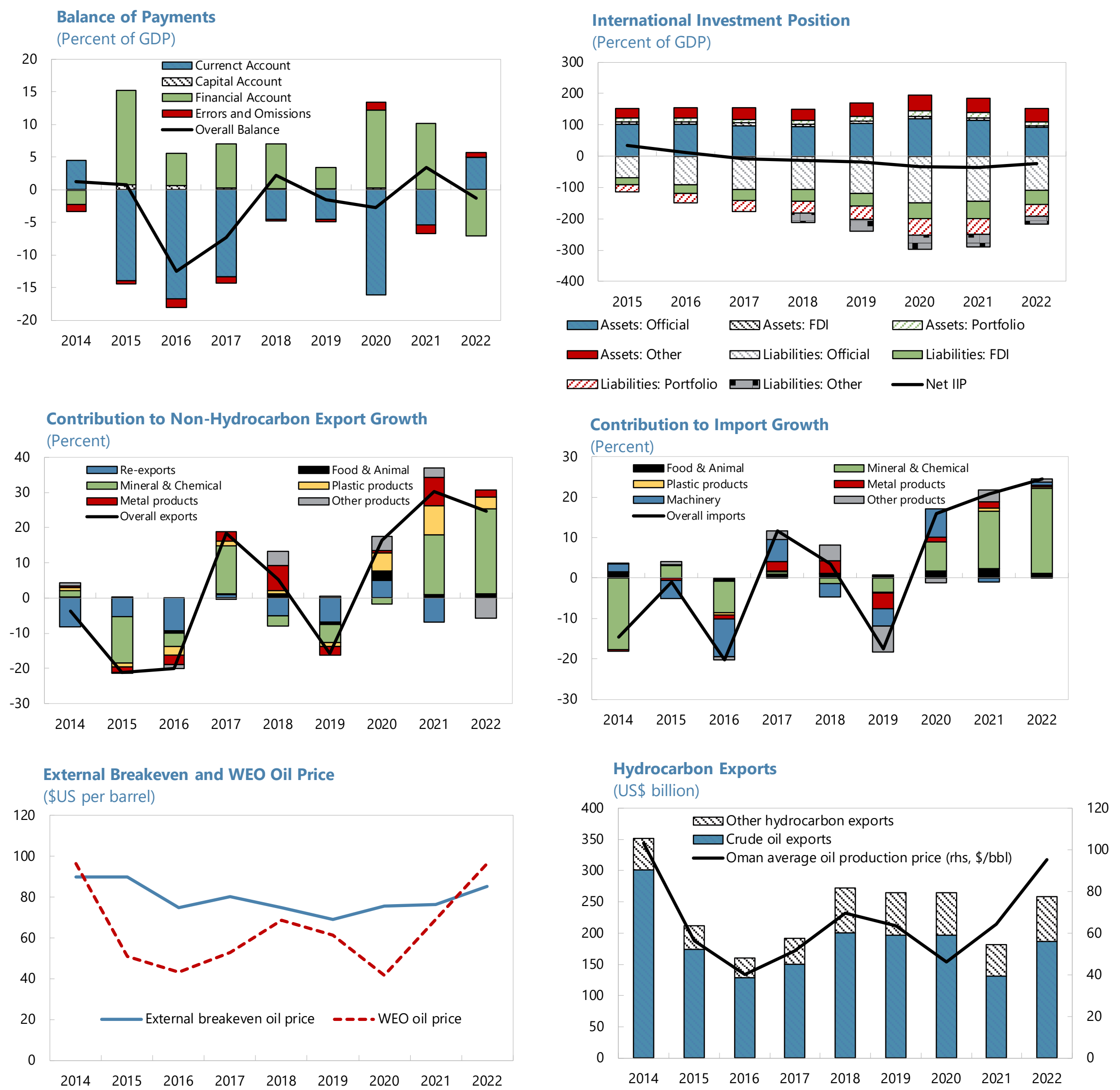
Sources: Country authorities and IMF staff calculations.
1/ Central government deposits at depository corporations and Oman Investment Authority's liquid assets less central government debt.

Figure 3. Oman: Monetary and Financial Developments



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

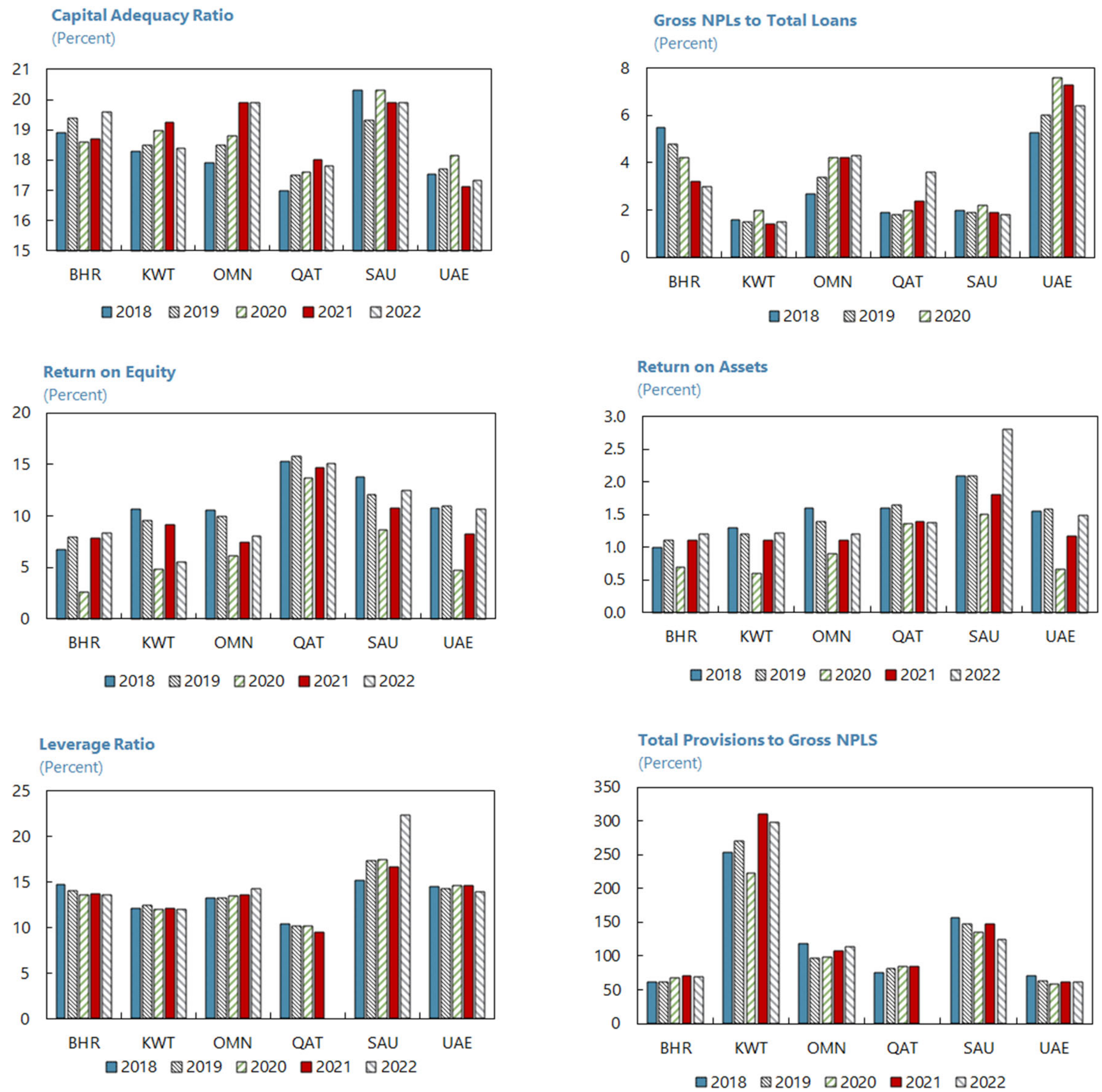
Figure 4. Oman: External Sector Developments 1/



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

1/ The coverage of non-hydrocarbon trade data has been expanded in 2020 to include international transactions in free-trade zones. Therefore, data from 2020 and beyond is not comparable with non-hydrocarbon trade data from previous years.

Figure 5. Oman: Banking Sector Soundness Indicators



Sources: Country authorities, Haver Analytics, and IMF staff calculations.

Table 1. Oman: Selected Economic Indicators, 2020–28

	2020	2021	2022	2023 (Proj.)	2024 (Proj.)	2025 (Proj.)	2026 (Proj.)	2027 (Proj.)	2028 (Proj.)
Oil and Gas Sector									
Average crude oil export price (US$/barrel)	46.0	64.3	95.4	80.0	79.9	76.0	72.7	69.9	67.5
Crude and condensates oil production (in millions of barrels/day)	0.951	0.971	1.064	1.048	1.021	1.050	1.088	1.110	1.132
of which: Crude Oil (in millions of barrels/day)	0.760	0.782	0.848	0.814	0.791	0.819	0.849	0.866	0.883
Natural gas production (in millions of cubic meters per day)	121.9	132.2	137.2	146.4	155.9	159.2	162.2	167.1	168.1
National Accounts	(Annual percentage change, unless otherwise indicated)								
Nominal GDP (US$ billions)	75.9	88.2	114.7	108.2	111.1	113.6	117.1	120.7	124.9
Nominal GDP (in billions of Omani rials)	29.2	33.9	44.1	41.6	42.7	43.7	45.0	46.4	48.0
Real GDP	-3.4	3.1	4.3	1.3	1.4	2.9	3.5	3.2	3.1
Real hydrocarbon GDP 1/	-3.6	5.2	9.6	0.0	-0.5	2.5	3.0	2.0	1.6
Real nonhydrocarbon GDP	-3.3	1.9	1.2	2.1	2.5	3.2	3.9	4.0	4.0
Consumer prices (average)	-0.9	1.5	2.8	1.2	1.7	2.0	2.0	2.0	2.0
GDP Deflator	-10.8	12.7	24.6	-6.8	1.3	-0.7	-0.4	-0.1	0.3
Investment and Saving	(Percent of GDP)								
Gross capital formation	27.6	22.4	23.2	24.4	24.5	25.3	25.5	26.3	26.9
Public	12.3	7.5	7.0	6.6	6.7	6.5	6.0	5.9	5.9
Private	19.3	18.2	16.2	17.8	17.8	18.8	19.5	20.4	21.0
Gross national savings	11.5	17.0	28.2	27.2	27.3	27.7	27.8	28.1	28.7
Public	-0.1	6.8	19.8	14.3	13.6	13.0	12.4	11.5	10.8
Private	11.6	10.2	8.4	12.9	13.8	14.7	15.4	16.5	17.9
Central Government Finances	(Percent of GDP)								
Revenue and grants	28.9	33.0	39.7	31.8	30.9	30.4	29.6	28.5	27.4
Hydrocarbon	21.7	25.9	32.3	23.6	22.6	22.0	21.1	20.0	18.9
Nonhydrocarbon and grants	7.2	7.1	7.4	8.2	8.3	8.3	8.5	8.5	8.4
Expenditure	44.5	36.1	29.6	26.2	27.2	26.2	25.2	24.6	24.0
Current	36.3	32.7	26.7	23.6	24.5	23.7	23.2	22.7	22.2
Capital	8.3	3.5	3.0	2.6	2.7	2.5	2.0	1.9	1.9
Overall balance (Net lending/borrowing)	-15.7	-3.1	10.1	5.5	3.7	4.1	4.4	3.8	3.3
Overall balance (adjusted) 2/	-9.6	-0.8	10.1	5.5	3.7	4.1	4.4	3.8	3.3
Non-hydrocarbon primary balance (percent of non-hydrocarbon GDP)	-37.3	-32.4	-31.6	-28.2	-29.0	-26.8	-24.3	-23.1	-21.8
Central government debt, *of which:*	67.9	61.3	39.9	37.7	35.7	33.7	31.9	30.5	29.4
External debt	50.4	46.0	30.1	28.0	25.5	23.3	21.6	20.8	20.1
Public debt, *of which:*	108.1	102.0	69.8						
SOEs debt	40.2	40.7	29.9						
Net financial assets	-27.7	-24.9	-10.3	-5.0	-2.3	-0.4	1.5	2.9	3.9
Monetary Sector	(Annual percentage change, unless otherwise indicated)								
Net foreign assets	-28.4	31.2	-0.8	-2.0	6.2	19.9	9.9	13.7	11.6
Net domestic assets	23.4	-1.4	1.0	11.1	3.5	-0.3	2.4	1.0	1.7
Credit to the private sector	1.1	2.3	4.2	6.3	3.4	3.7	4.3	4.9	5.1
Broad money	8.9	4.6	0.6	8.2	4.1	3.9	4.2	4.2	4.5
External Sector	(In billions of U.S. dollars, unless otherwise indicated)								
Exports of goods	33.4	44.3	66.1	60.2	64.3	64.6	65.6	66.4	67.5
Oil and gas	18.2	25.9	43.1	36.5	39.1	37.9	37.4	36.5	35.8
Other	15.3	18.5	23.0	23.7	25.2	26.7	28.2	29.9	31.8
Imports of goods	-25.4	-28.0	-34.7	-35.0	-38.8	-39.4	-39.9	-40.7	-41.6
Current account balance	-12.3	-4.8	5.8	3.1	3.1	2.7	2.7	2.1	2.2
Percent of GDP	-16.2	-5.4	5.0	2.8	2.8	2.4	2.3	1.8	1.8
Central Bank gross reserves	15.0	19.7	17.6	17.5	18.4	21.1	22.8	25.4	27.8
In months of next year's imports of goods and services	4.8	5.1	4.5	4.1	4.2	4.8	5.1	5.5	5.9
Total external debt	72.8	79.8	70.0	66.6	63.5	63.1	61.5	61.6	61.6
Percent of GDP	95.9	90.5	61.0	61.5	57.2	55.5	52.5	51.0	49.3

Sources: Omani authorities; and IMF staff estimates and projections.
1/ Includes crude oil, refining, natural gas, and LNG production.
2/ Data prior to 2022 were adjusted by taking out expenditures on gas and oil that were hived off to Energy Development Oman in 2021.

Table 2a. Oman: Government Finances, 2020–28 1/

(Millions of Omani Rials, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	Proj. 2026	2027	2028
Revenue and Grants	8,425	11,190	17,503	13,219	13,186	13,263	13,337	13,209	13,143
Taxes	928	1,286	1,631	1,747	1,801	1,846	1,999	2,050	2,118
Grants	80	24	14	20	20	20	20	20	21
Property income and others	7,417	9,880	15,858	11,452	11,365	11,398	11,318	11,139	11,005
Oil	4,344	6,161	10,684	7,808	7,645	7,478	7,419	7,275	7,162
LNG and natural gas 2/	1,988	2,629	3,548	2,000	1,988	2,144	2,079	1,999	1,929
Public services and utilities	22	15	1	1	1	1	1	1	1
Investment income	110	312	813	800	800	800	800	800	800
Others	953	763	812	842	930	975	1,018	1,064	1,112
Expenditure	12,999	12,253	13,058	10,920	11,599	11,460	11,344	11,433	11,538
Expense	10,591	11,081	11,752	9,820	10,457	10,360	10,444	10,533	10,638
Compensation of employees	3,631	3,284	3,403	3,514	3,524	3,672	3,759	3,816	3,861
Use of goods and services	1,493	2,018	2,413	723	782	813	845	879	909
Interest payments	892	1,054	1,076	1,060	1,096	1,107	1,090	1,041	1,036
Subsidies and social benefits	1,304	1,152	1,922	1,522	1,989	1,672	1,639	1,652	1,666
o/w: energy subsidies	748	595	1,276	859	841	518	507	477	447
o/w: social transfers	179	196	221	221	653	698	731	765	800
Grants to other countries	11	8	10	0	0	0	0	0	0
Other expense	3,259	3,565	2,928	3,000	3,066	3,096	3,111	3,145	3,166
PDO operations	424	780	0	0	0	0	0	0	0
Defense	2,835	2,785	2,928	3,000	3,066	3,096	3,111	3,145	3,166
Net Acquisition of Nonfinancial Assets	1,925	1,172	1,306	1,100	1,141	1,100	900	900	900
Acquisitions of nonfinancial assets	2,408	1,172	1,306	1,100	1,141	1,100	900	900	900
PDO operations	906	0	0	0	0	0	0	0	0
Upstream gas project	431	0	0	0	0	0	0	0	0
Civil	1,072	1,172	1,306	1,100	1,141	1,100	900	900	900
Disposals (sales) of nonfinancial assets	483	0	0	0	0	0	0	0	0
Gross Operating Balance	-2,166	109	5,750	3,399	2,729	2,904	2,893	2,677	2,506
Net Lending (+)/Borrowing (–) (Overall Balance) 3/	-4,575	-1,063	4,444	2,299	1,587	1,804	1,993	1,777	1,606
Net Acquisition of Financial Assets 4/	-2,520	-107	1,272	375	1,159	1,259	1,630	1,604	1,549
Net Incurrence of Liabilities	2,055	956	-3,173	-1,924	-428	-545	-363	-172	-56
Domestic debt	658	74	-864	-296	332	174	82	-98	-55
External debt	1,397	882	-2,308	-1,629	-760	-719	-445	-75	-1
Memorandum Items:									
Total government debt, *of which*	19,819	20,775	17,602	15,678	15,250	14,704	14,342	14,170	14,113
External debt	14,710	15,592	13,284	11,655	10,895	10,175	9,731	9,656	9,655

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

1/ Table covers central government operations. Hydrocarbon revenues are measured on gross basis, including revenues channeled to dedicated funds (oil fund and infrastructure development fund) and lent to Energy Development Oman through the Shareholding Bridge Facility. Starting 2023, gas-relateed revenues are reported net of the cost of gas purchase and transporation (previously included under the use of goods and services) as gas-related operations were hived off to Inegrated Gas Company after its creation at the beginning of 2023.

2/ Includes the dividend fromOman Liquified Natural Gas Company (OLNG).

3/ Excludes ‘net lending and equity’.

4/ Includes ‘net lending and equity’.

Table 2b. Oman: Government Finances, 2020–28 1/

(Percent of GDP)

	2020	2021	2022	2023	2024	2025	2026	2027	2028
							Proj.		
Revenue and Grants	28.9	33.0	39.7	31.8	30.9	30.4	29.6	28.5	27.4
Taxes	3.2	3.8	3.7	4.2	4.2	4.2	4.4	4.4	4.4
Grants	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Property income and others	25.4	29.1	36.0	27.5	26.6	26.1	25.1	24.0	22.9
Oil	14.9	18.2	24.2	18.8	17.9	17.1	16.5	15.7	14.9
LNG and natural gas 2/	6.8	7.8	8.0	4.8	4.7	4.9	4.6	4.3	4.0
Public services and utilities	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment income	0.4	0.9	1.8	1.9	1.9	1.8	1.8	1.7	1.7
Others	3.3	2.3	1.8	2.0	2.2	2.2	2.3	2.3	2.3
Expenditure	44.5	36.1	29.6	26.2	27.2	26.2	25.2	24.6	24.0
Expense	36.3	32.7	26.7	23.6	24.5	23.7	23.2	22.7	22.2
Compensation of employees	12.4	9.7	7.7	8.4	8.2	8.4	8.3	8.2	8.0
Use of goods and services	5.1	6.0	5.5	1.7	1.8	1.9	1.9	1.9	1.9
Interest payments	3.1	3.1	2.4	2.5	2.6	2.5	2.4	2.2	2.2
Subsidies and social benefits	4.5	3.4	4.4	3.7	4.7	3.8	3.6	3.6	3.5
o/w: energy subsidies	2.6	1.8	2.9	2.1	2.0	1.2	1.1	1.0	0.9
o/w: social transfers	0.6	0.6	0.5	0.5	1.5	1.6	1.6	1.6	1.7
Grants to other countries	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other expense	11.2	10.5	6.6	7.2	7.2	7.1	6.9	6.8	6.6
PDO operations	1.5	2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Defense	9.7	8.2	6.6	7.2	7.2	7.1	6.9	6.8	6.6
Net Acquisition of Nonfinancial Assets	6.6	3.5	3.0	2.6	2.7	2.5	2.0	1.9	1.9
Acquisitions of nonfinancial assets	8.3	3.5	3.0	2.6	2.7	2.5	2.0	1.9	1.9
PDO operations	3.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Upstream gas project	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Civil	3.7	3.5	3.0	2.6	2.7	2.5	2.0	1.9	1.9
Disposals (sales) of nonfinancial assets	1.7	-	-	-	-	-	-	-	-
Gross Operating Balance	-7.4	0.3	13.0	8.2	6.4	6.6	6.4	5.8	5.2
Net Lending (+)/Borrowing (–) (Overall Balance) 3/	-15.7	-3.1	10.1	5.5	3.7	4.1	4.4	3.8	3.3
Net Acquisition of Financial Assets 4/	-8.6	-0.3	2.9	0.9	2.7	2.9	3.6	3.5	3.2
Net Incurrence of Liabilities	7.0	2.8	-7.2	-4.6	-1.0	-1.2	-0.8	-0.4	-0.1
Domestic debt	2.3	0.2	-2.0	-0.7	0.8	0.4	0.2	-0.2	-0.1
External debt	4.8	2.6	-5.2	-3.9	-1.8	-1.6	-1.0	-0.2	0.0
Memorandum Items:									
Total government debt, *of which*	67.9	61.3	39.9	37.7	35.7	33.7	31.9	30.5	29.4
External debt	50.4	46.0	30.1	28.0	25.5	23.3	21.6	20.8	20.1
Non-hydrocarbon revenue (percent of nonhydrocarbon GDP)	9.8	10.7	13.0	13.2	13.2	12.9	12.9	12.5	12.1
Break-even oil price (fiscal, U.S. dollars)	86.4	76.7	55.8	56.6	63.2	58.1	53.6	53.3	52.8

Sources: Ministry of Finance; and IMF staff estimates and projects.
1/ Table covers central government operations. Hydrocarbon revenues are measured on gross basis, including revenues channeled to dedicated funds (oil fund and infrastructure development fund) and lent to Energy Development Oman through the Shareholding Bridge Facility. Starting 2023, gas-relateed revenues are reported net of the cost of gas purchase and transporation (previously included under the use of goods and services) as gas-related operations were hived off to Inegrated Gas Company after its creation at the beginning of 2023.
2/ Includes the dividend fromOman Liquified Natural Gas Company (OLNG).
3/ Excludes 'net lending and equity'.
4/ Includes 'net lending and equity'.

Table 3. Oman: Monetary Survey, 2020–28
(Millions of rial Omani, unless otherwise indicated, end of period)

				Proj.					
	2020	2021	2022	2023	2024	2025	2026	2027	2028
Foreign Assets (Net)	3,545	4,651	4,615	4,523	4,800	5,751	6,319	7,183	8,023
Central Bank	5,010	6,796	6,055	6,011	6,350	7,381	8,045	9,013	9,962
Commercial banks	-1,465	-2,145	-1,440	-1,487	-1,550	-1,630	-1,726	-1,830	-1,940
Domestic Assets (Net)	15,792	15,570	15,720	17,471	18,093	18,035	18,473	18,658	18,982
Claims on government (net)	-2,061	-2,884	-3,624	-3,951	-3,605	-3,417	-3,321	-3,405	-3,446
Central Bank	-147	-1494	-1536	-1536	-1536	-1536	-1536	-1536	-1536
Claims	871	112	0	0	0	0	0	0	0
Deposits 1/	1,018	1,606	1,536	1,536	1,536	1,536	1,536	1,536	1,536
Commercial banks	-1,913	-1,390	-2,088	-2,415	-2,069	-1,881	-1,785	-1,869	-1,910
Claims	3,688	4,716	4,278	3,951	4,297	4,485	4,581	4,497	4,456
Loans	478	620	845	845	845	845	845	845	845
Bills and bonds	3,210	4,095	3,434	3,106	3,453	3,641	3,737	3,653	3,612
Deposits	5,602	6,106	6,366	6,366	6,366	6,366	6,366	6,366	6,366
Claims on Public Enterprises	3,142	3,752	3,910	4,512	4,714	4,977	5,290	5,627	5,986
Claims on Private Sector	23,156	23,634	24,656	26,209	27,099	28,088	29,310	30,759	32,328
Credit to the private sector	22,913	23,436	24,423	25,962	26,843	27,823	29,033	30,468	32,022
Other Items (Net)	-8,444	-8,932	-9,221	-9,299	-10,114	-11,614	-12,805	-14,323	-15,885
Central Bank	-3,484	-3,995	-3,276	-3,232	-3,571	-4,602	-5,266	-6,234	-7,183
Commercial banks	-4960	-4938	-5946	-6068	-6543	-7012	-7539	-8089	-8702
Broad Money	19337	20221	20335	21994	22894	23786	24792	25841	27005
Money	5,562	5,747	5,606	6,063	6,312	6,557	6,835	7,124	7,445
Currency outside banks	1,379	1,307	1,243	1,243	1,243	1,243	1,243	1,243	1,243
Demand deposits	4,183	4,439	4,363	4,820	5,069	5,314	5,592	5,881	6,202
Quasi-money 2/	13,775	14,474	14,729	15,931	16,582	17,228	17,957	18,717	19,560
Of which: Foreign currency deposits	1,897	1,924	1,843	1,993	2,074	2,155	2,246	2,341	2,447
Memorandum Items:									
Broad money multiplier (ratio)	5.9	5.3	6.5	6.9	7.0	7.2	7.3	7.5	7.6
				(Annual percentage change, unless otherwise indicated)					
Broad Money	8.9	4.6	0.6	8.2	4.1	3.9	4.2	4.2	4.5
Net Foreign Assets	-28.4	31.2	-0.8	-2.0	6.1	19.8	9.9	13.7	11.7
Domestic Assets	23.4	-1.4	1.0	11.1	3.6	-0.3	2.4	1.0	1.7
Of which: Credits to the private sector	1.1	2.3	4.2	6.3	3.4	3.7	4.3	4.9	5.1
Claims on Private Sector / GDP	79.3	69.7	55.9	63.0	63.4	64.3	65.1	66.3	67.3
Claims on Private Sector / Nonhydrocarbon GDP	113.0	106.5	98.8	102.1	101.5	100.1	98.8	97.9	97.0

Sources: Country authorities, 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, 2020–28 1/

(Millions of $USD)

				Proj.					
	2020 1/	2021	2022	2023	2024	2025	2026	2027	2028
Trade Balance	8,084	16,316	31,317	25,185	25,456	25,226	25,660	25,714	25,938
Exports	33,448	44,340	66,064	60,194	64,289	64,579	65,592	66,435	67,521
Hydrocarbons, *of which* :	18,193	25,884	43,068	36,533	39,126	37,915	37,356	36,520	35,770
Crude oil	13,143	18,686	30,316	24,502	22,475	21,979	21,822	21,377	21,023
LNG	3,407	4,325	7,951	6,485	6,446	6,131	5,944	5,715	5,515
Other exports	10,644	15,027	19,568	20,106	21,467	22,800	24,212	25,723	27,354
Re-exports	4,611	3,430	3,428	3,555	3,696	3,864	4,024	4,192	4,397
Imports, f.o.b.	-25,364	-28,024	-34,747	-35,008	-38,833	-39,353	-39,932	-40,721	-41,583
Services (Net)	-6,220	-6,959	-7,941	-7,889	-8,490	-8,609	-8,370	-8,631	-8,913
Income (Net)	-5,308	-5,975	-8,507	-4,871	-4,101	-4,211	-4,264	-4,055	-3,819
Official payments	-1,763	-2,127	-1,737	-1,934	-2,093	-2,048	-1,951	-1,882	-1,901
Current Transfers, including Official Grants (Net)	-8,819	-8,165	-9,116	-9,374	-9,748	-9,731	-10,290	-10,901	-10,979
Current Account Balance	-12,263	-4,783	5,752	3,052	3,117	2,675	2,737	2,127	2,226
Capital Account	180	40	10	52	52	52	52	52	55
Financial Account	9,120	8,900	-8,086	-3,218	-2,286	-45	-1,062	338	188
Foreign direct investment	2,753	7,615	4,535	6,133	3,832	4,115	4,435	4,777	5,138
Portfolio investment	1,803	3,700	-986	-4,451	-4,099	-1,572	-2,742	-1,076	-1,366
Other investment	4,564	-2,415	-11,635	-4,900	-2,019	-2,589	-2,755	-3,363	-3,583
Errors and Omissions	875	-1,196	788	0	0	0	0	0	0
Overall Balance	-2,089	2,960	-1,535	-115	883	2,682	1,727	2,517	2,469
Change in Official Reserves (- = increase) 2/	2,088	-3,090	2,081	115	-883	-2,682	-1,727	-2,517	-2,469
Memorandum Items:									
Current account balance (in percent of GDP)	-16.2	-5.4	5.0	2.8	2.8	2.4	2.3	1.8	1.8
Central Bank gross reserves (in million of USD)	15,008	19,731	17,621	17,506	18,389	21,071	22,798	25,315	27,784
In months of next year's imports of goods and services	4.8	5.1	4.5	4.1	4.2	4.8	5.1	5.5	6.0
Total external debt (in million of USD)	72,804	79,838	69,950	66,552	63,533	63,066	61,462	61,619	61,592
Percent of GDP	95.9	90.5	61.0	61.5	57.2	55.5	52.5	51.0	49.3

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

1/ The coverage of non-hydrocarbon trade data has been extended in 2020 to include international transactions in free trade zones. Therefore, data from 2020 and beyond is not comparable with non-hydrocarbon trade data prior to that.

2/ Historical flows include CBO and SGRF reserve accumulation.

Table 5. Oman: Financial Soundness Indicators of the Banking Sector, 2016-June–2023

(Percent)

	2016	2017	2018	2019	2020	2021	2022	Jun-23
Capital Adequacy								
BIS Capital 1/	16.5	17.4	17.9	18.5	18.8	19.4	19.7	19.2
Core capital 2/	14.6	15.8	16.6	17.4	17.7	18.5	18.9	18.5
Bank Capital to Assets	15.3	16.3	15.8	15.9	15.8	15.6	16.0	15.0
Loan Quality								
NPLs	1.8	1.9	2.7	3.5	4.2	4.2	4.4	4.4
Net NPLs 3/	0.6	0.7	1.0	1.4	1.6	1.3	1.4	1.4
Restructured/ rescheduled loans to total loans	1.2	1.6	2.3	3.8	4.3	5.8	12.1	12.0
Loan loss provisions to NPLs	66.8	62.5	65.8	61.0	63.4	68.8	68.7	68.7
Related party loans to total capital	6.2	7.1	10.9	7.8	7.4	8.0	9.4	8.3
Profitability								
Return on Assets 4/	1.5	1.5	1.6	1.4	0.9	1.1	1.2	1.4
Return on Equity 5/	11.2	9.8	10.6	9.4	5.7	6.8	7.9	8.9
Liquidity								
Lending Ratio	79.7	80.2	77.7	79.8	79.7	77.5	80.7	80.4
Customer Deposits to Total Assets	45.1	45.2	54.6	45.8	50.0	47.8	47.8	47.0
Net Stable Funding Ratio	110.6	116.2	114.6	116.3	116.7	118.6	115.1	117.5
Liquidity Coverage Ratio	259.4	215.9	253.6	220.1	196.3	212.1	190.2	232.1
Market Risk								
Foreign Currency Assets to Foreign Currency Liabilities	108.8	115.6	112.9	116.9	120.3	123.9	118.9	110.5
Foreign Currency Loans to Foreign Currency Deposits	120.3	142.0	119.6	147.6	160.5	184.6	161.6	120.1
Net Forex Open Position to Capital	11.3	16.0	12.2	9.4	15.3	13.9	10.8	13.2

Sources: 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 provisions.
4/ Return on Assets = Net profit before taxes/ Total assets.
5/ Return on Equity = Net profit before taxes/ Total equity.

Annex I. Status of Staff Recommendations Made during the 2022 Article IV Consultation

Recommendation	Status
Fiscal	
Additional revenue and expenditure measures to successfully achieve the medium-term objectives under the MTFP.	Fiscal adjustment of about 1 percentage point of non-hydrocarbon GDP in the non-hydrocarbon structural primary balance was achieved in 2022, despite a sizable increase in fuel subsidies, reflecting primarily expenditure rationalization. Efforts to strengthen tax administration continue, including through opening regional branches and increasing the number of VAT taxpayers; a five-year tax administration reform plan has been initiated.
Establishing a MTFF with clear fiscal objectives and a long-term fiscal anchor.	The MTFP was updated to guide the 2023 budget process, but it was not published. The authorities received an FAD TA mission this year to strengthen the MTFF, and budget preparation and execution. Currently, the authorities are receiving support from the UK on designing a fiscal rule.
Strengthen public financial management and transparency.	The Ministry of Health and Education were included in the rollout of the TSA. The 2023 budget outlined key potential fiscal and economic risks for the first time. The recently published OIA's 2022 annual report and EDO's 2023 Global Medium Term Note Program disclose information regarding their performance, assets under management, debt, and ongoing as well as planned reforms.
Develop a robust and integrated asset-liability management framework.	Oversight of Debt Management Committee expanded to cover asset-liability management. The public debt law was issued in 2023. The Medium-Term Debt Strategy is set to be released following the update of the MTFP.
Monetary and Financial	
Advance Monetary Policy Enhancement Project	Progress is being made on liquidity forecasting and the formulation of the Collaterals and the Emergency Liquidity Assistance frameworks.
Coordinating with MoF in the establishment of TSA	The CBO is continuing to collaborate with the MoF on the gradual transition towards the TSA.
Gradually exiting from pandemic financial policy support measures	The loan deferral program was allowed to expire at end-September 2022. However, the remaining relaxation of prudential measures are still in place.

Recommendation	Status
Structural	
Accelerate labor market and social safety net reforms	The authorities enacted a new labor law, which modernizes labor market regulations. They also issued a new social protection law that complements the labor law by strengthening social safety nets and allowing greater labor mobility while further supporting female labor force participation.
Improve the business environment	The authorities launched Invest Oman and the Investment Services Center to help streamline investment procedures and promote investment opportunities.
Advance SOE reforms	The authorities continue making good progress on reforming the SOE sector, including the development of a unified governance framework for SOEs and continued privatization/divestment efforts to open-up more room for the private sector to participate in sectors previously dominated by SOEs.

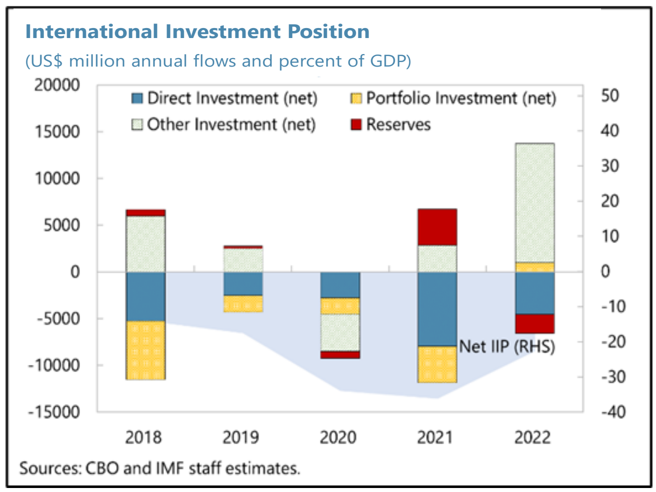
Annex II. External Sector Assessment

Overall Assessment: *Oman's external position in 2022 was assessed to be broadly in line with the level implied by medium-term fundamentals and desirable policies. High hydrocarbon prices, expansion of non-hydrocarbon activities, and continued fiscal consolidation efforts were the principal drivers of improvement in Oman's external position.*

Potential Policy Responses: Continuing with the fiscal adjustment and structural reform measures, along with the current outlook for energy prices, will continue to support building FX buffers in Oman. Expanding the non-hydrocarbon revenue base and avoiding a procyclical fiscal policy stance are expected to keep the current account in line with desired policies and fundamentals. Steadfast implementation of structural reforms will also help attract more FDI inflows to non-hydrocarbon sectors, boost the role of the private sector, and enhance economic diversification, thereby maintaining the country's external position at balance over the medium and long term.

Foreign Assets and Liabilities: Position and Trajectory

Background. Oman's Net International Investment Position (NIIP) showed significant improvement at end-2022, reaching an estimated -22.6 percent of GDP from -36.2 percent of GDP at end-2021. This improvement reflects large repayments of external government debt and higher nominal GDP. A significant increase in net other investments has offset the decline in net direct investments and reserve assets. External assets grew by 2.8 percent at end-2022 reaching $98.6 billion, versus $95.5 billion at end-2021. External liabilities contracted by 2 percent at end-2022 reaching $124.5 billion, versus $127.9 billion at end-2021.



Assessment. The 2022 reversal of the NIIP's downward path is projected to sustain as the government continues its prudential stance and as non-hydrocarbon exports start playing a more prominent role. Thus, the country's external balance sheet is expected to further strengthen in 2023 and over the medium term.

2022 (% GDP)	NIIP: -22.6	Gross Assets: 86.0	CBO Res. Assets: 15.4	Gross Liab.: 108.6	Debt Liab.: 63.0

Current Account

Background. The CA posted a 5.0 percent of GDP surplus, substantially improving from a 5.4 deficit in 2021, and registering its first surplus since 2014. This was mainly driven by higher commodity (oil, gas, and minerals) prices, and non-hydrocarbon exports. The CA outlook is favorable and is expected to remain at a comfortable position, albeit on a declining trend, throughout the forecast horizon, consistent with the current oil price assumptions and expansion of non-hydrocarbon exports. Nevertheless, CA baseline projections are subject to uncertainty stemming from commodity price volatility.

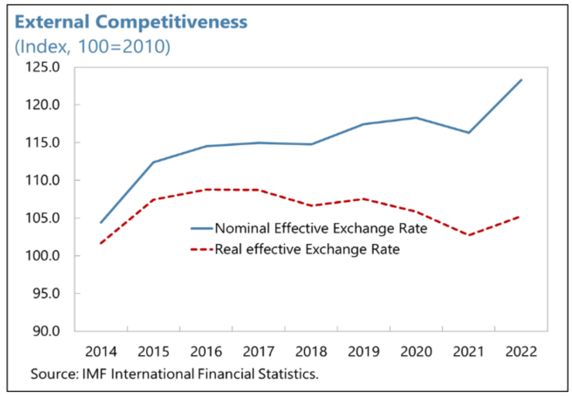
Assessment. The EBA-lite CA model estimates a 2022 CA gap of -0.6 percent of GDP, significantly improving from the 2021 assessment of -4.0 percent of GDP. Anchoring the assessment on the EBA-lite CA model, staff assess Oman's external position to be broadly in line with the level implied by medium-term fundamentals and desired policies. The fiscal surplus in 2022 was the main policy contributor to the reduction of the CA gap, highlighting the impact of the fiscal retrenchment efforts conducted by the authorities on the country's external position. In this regard, the cyclically adjusted fiscal balance for Oman was 2.1 percent of GDP higher than the level implied by the desired policy. The low level and growth of private credit to GDP have also contributed to the improvement of the CA gap. Using the estimated -0.3 elasticity for Oman, the results point to an overvaluation of Oman's real effective exchange rate (REER) of approximately 1.7 percent, indicating that the external position for the country in 2022 is in line with the level implied by fundamentals and desired policy. The two real annuity consumption model approaches, which are used to estimate the sustainability of the CA for commodity exporters, are also used to evaluate the CA gap. These approaches are based on allocation of resource wealth for consumption across periods and based on the permanent income hypothesis (PIH) approach. The results of the models suggest a current account gap of -0.8 percent of GDP under the constant annuity approach and -4.8 percent under the constant real per capita annuity approach, indicating the need for more fiscal savings of hydrocarbon revenues. Results of the constant annuity model are consistent with the EBA-lite CA model and show that Oman's external position is in line with fundamentals and desired policy. The current account is estimated to have registered a 2.8 percent of GDP surplus in 2023, mainly supported by hydrocarbon and non-hydrocarbon export revenues.

Oman: EBA-lite Results, 2022

	CA model 1/	**REER model** 1/	**Constant Annuity**	**Constant Annuity per Capita**
		(in percent of GDP)		
CA-Actual	**5.0**	**5.0**	**5.0**	**5.0**
Cyclical contributions (from model) (-)	1.4			
Natural disasters and conflicts (-)	-1.4			
Adjusted CA	**5.0**		**5.0**	**5.0**
CA Norm (from model) 2/	**5.6**		**6.1**	**10.1**
Adjusted CA Norm	**5.6**			
CA Gap	**-0.6**	**2.5**	**-0.8**	**-4.8**
o/w Relative policy gap	3.8			
Elasticity	-0.3	-0.3	-0.3	-0.3
REER Gap (in percent)	**1.7**	**-7.3**	**2.3**	**16.0**

1/ Based on the EBA-lite 3.0 methodology
2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate



Background. The current Omani rial peg to the US dollar (at a rate of 0.3845) has been maintained since 1986. Given the peg, Oman's external competitiveness deteriorated in 2022 due to the strong US dollar. The Real Effective Exchange Rate (REER) appreciated by 2.5 percent, while the Nominal Effective Exchange Rate (NEER) appreciated by 6.0 percent. Despite the REER appreciation in 2022, it is still only 0.9 percent over the 10-year average. Moreover, the tamed increase in the REER, relative to the NEER, reflects energy subsidies and tax exemptions on basic food items, which cause relatively low inflation in Oman to partly offset NEER appreciation. The slowdown in inflation in 2023 contributed to REER depreciation, bringing it in line with its 10-year average.

Assessment. Staff assess the REER gap to be -2.4 percent, based on the EBA-lite CA model. The REER gap estimated by the EBA-lite REER model is 2.5 percent (undervaluation). Nevertheless, these results are sensitive to parameter values. The estimated REER gap ranges from -7.3 percent to 16 percent, averaging around 3.0 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. The financial account registered its highest net acquisition of foreign assets, despite large FDI inflows to the hydrocarbon sector in 2022. The increase was mainly driven by a significant decline in the acquisition of liabilities (both for portfolio and other investments), due to the sizable repayment of government bonds and loans. The decline in foreign liabilities of commercial banks has also contributed to the decline in acquisition of liabilities. Net acquisition of FDI liabilities increased by $5.5 billion mainly owing to continued FDI inflows to the hydrocarbon sector.

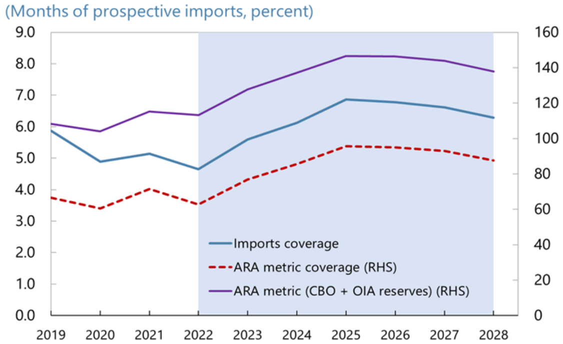
Assessment. Continued repayment of public external debt, as envisaged by the authorities, is projected to further improve Oman's external position and reduce vulnerabilities. This will also reduce interest pressure on the primary account in light of tight global financial conditions. More structural reforms would encourage inward FDIs to the non-hydrocarbon sector. Staff project an increase in net acquisition of liabilities over the medium term as global financial conditions normalize and with the ongoing structural reform efforts and ongoing regional integration.

FX Intervention and Reserves Level

Background. International reserves declined by $2.1 billion in 2022, despite the CA surplus and increase in FDI inflows. The decline in reserves was mainly driven by repayments of external public debt, in addition to the decline in commercial banks' foreign liabilities. Reserves declined to $17.6 billion (4.5 months of prospective imports and 33 percent of broad money) at end-2022. Reserves stood at 64.4 percent of the Fund's Assessing Reserve Adequacy (ARA) metric, deteriorating from 71.4 percent at end-2021 and remaining well below the suggested adequate range of 100-150 percent. Continued repayments of external public debt in 2023 are estimated to have reduced CBO reserves to $17.5 billion. However, fiscal and external surpluses are projected to boost reserves' coverage to around 6 months of prospective imports over the medium term.

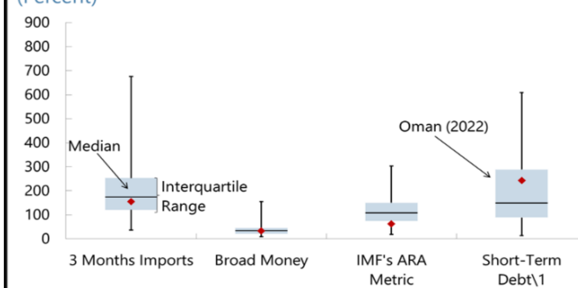
Assessment. While CBO reserves remain well below the IMF's ARA metric, including OIA's liquid external assets, which meet the definition of reserve assets, to CBO official reserve puts reserves above the adequate range in 2022 and in the medium term in case additional FX reserves are required (105.8 percent of the IMF's ARA metric).[1] Under the current trajectory of commodity prices, the expansion of non-hydrocarbon exports and envisaged fiscal reform measures, CBO foreign reserves are expected to significantly improve and reach 98.8 percent of the ARA metric in 2028. However, these projections are subject to uncertainty and holding additional reserves in line with the ARA metric thresholds would support the economy against any possible shocks in the medium term.

Reserves Adequacy
(Months of prospective imports, percent)



Sources: Country authorities and IMF staff estimates.

Comparison of Reserve Coverage With EMs
(Percent)



Source: IMF staff estimates.
Note: Emerging markets include 62 countries.
1/ Excludes top five values.

1/ OIA's liquid assets—cash deposits and marketable securities—were used during the 2015-19 period for stabilization purposes to finance government deficits.

Annex III. Sovereign Risk and Debt Sustainability Analysis

Table 1. Oman: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Low	The overall risk of sovereign stress is low, reflecting a low level of vulnerability in the near-term and low levels of vulnerability in the medium-, and long-term horizons.
Near term 1/			
Medium term	Moderate	Low	Medium-term risks are assessed as low against a mechanical moderate signal as liquid financial buffers mitigate debt solvency risks. In addition, the medium-term risk is assessed as low on the basis of political and institutional stability, the depth of the investor pool, and relatively low debt levels.
Fanchart	High	...	
GFN	Low	...	
Stress test	...	...	
Long term	...	Low	Long-term risks are assessed as low. One source of long-term debt risk for Oman is from declining hydrocarbon revenues that could occur due to exhaustion or faster-than-expected energy transition. The ongoing reforms aimed at entrenching fiscal discipline and diversifying away from hydrocarbon activities should mitigate fiscal risks that may arise from a decline in hydrocarbon revenues. Using the oil windfall to accumulate buffers will also help in mitigating debt-related risks.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			No

DSA summary assessment

Commentary: Oman's overall risk of sovereign stress is assessed as low. Government debt is projected to be around 38 percent of GDP in 2023 and gradually decline to about 30 percent of GDP by 2028. Staff judgment was applied to arrive to a final assessment of low risk in the medium term (as opposed to a mechanical moderate signal), underpinned by the extent of liquid financial assets available to the government that help mitigates solvency and liquidity risks. In addition to the international reserves at the Central Bank of Oman, the government holds liquid and unencumbered financial assets that amount to 30 percent of GDP, composed of 20 percent of GDP in deposits held at commercial banks and 10 percent of GDP in liquid assets held by the sovereign wealth fund (OIA). These assets account for around 79 percent of gross debt and 103 percent of foreign-currency debt owed by the general government. Despite sizable financial buffers, the central government debt trajectory remains vulnerable to risks, particularly from oil market developments and pressures to spend hydrocarbon windfalls. Medium-term liquidity risks as analyzed by the GFN Financeability Module are assessed as low.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Table 2. Oman: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	
2. Subsectors included in the chosen coverage in (1) above:						

CPS	NFPS	GG: expected	CG		Subsectors captured in the baseline	Inclusion	Comments
				1	Budgetary central government	Yes	
				2	Extra budgetary funds (EBFs)	No	Not applicable
				3	Social security funds (SSFs)	No	
				4	State governments	Yes	
				5	Local governments	Yes	
				6	Public nonfinancial corporations	No	
				7	Central bank	No	
				8	Other public financial corporations	No	

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:	Consolidated	Non-consolidated

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on intra-government debt holdings

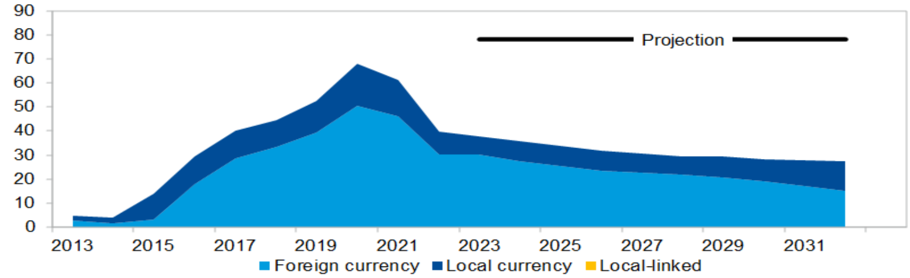
CPS	NFPS	GG: expected	CG		Issuer \ Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
				1	Budget. central govt									0
				2	Extra-budget. funds									0
				3	Social security funds									0
				4	State govt.									0
				5	Local govt.									0
				6	Nonfin pub. corp.									0
				7	Central bank									0
				8	Oth. pub. fin. corp									0
					Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: State and local governments in Oman operate under the umbrella of the central government, and do not have authority to issue their own debt. Oman currently does not report extra-budgetary funds (staff are not aware that any exists) and social security funds in either the fiscal accounts or the debt stock. The team is making efforts to get estimates from the authorities. While the pension funds cannot issue debt on their own, they may still present contingent liabilities to the government, which are mitigated by the recent pension fund reform that is expected to strengthen the unified pension fund's financial position. Currently, there is no evidence that the uncovered entities constitute a material risk. Staff continues to work together with the authorities to expand fiscal data coverage to the broader public sector.

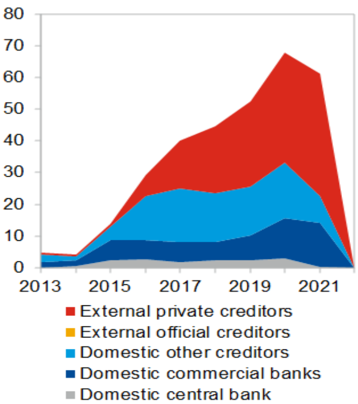
Figure 1. Oman: Public Debt Structure Indicators

(Debt by currency, percent of GDP)



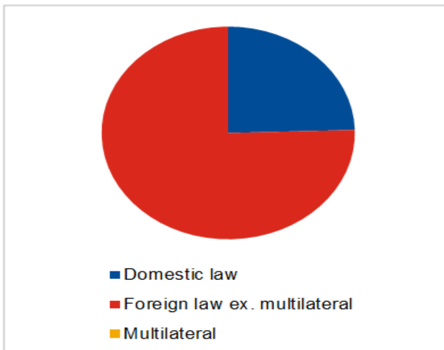
Note: The perimeter shown is general government.

Public Debt by Holder (percent of GDP)



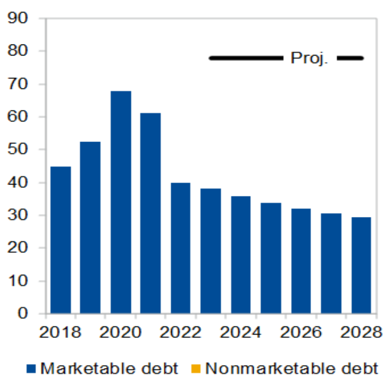
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2022 (percent)



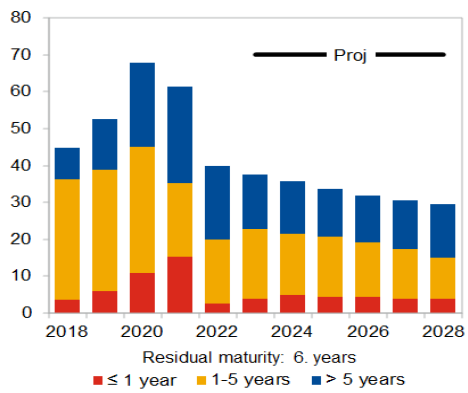
Note: The perimeter shown is general government.

Debt by Instruments (percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (percent of GDP)



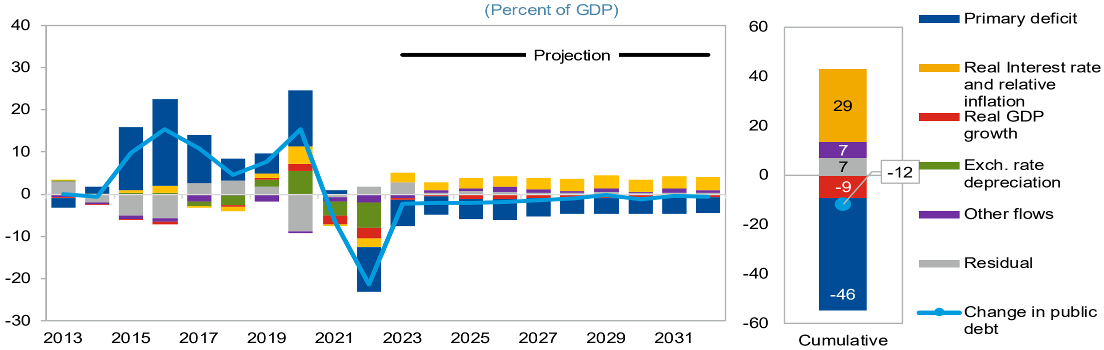
Note: The perimeter shown is general government.

Commentary: Oman continues to have market access. The share of domestic currency debt is projected to increase slightly as Oman progresses on developing its local currency bond market. Short-term debt (on residual maturity basis) declined significantly in 2022, reflecting the government's repayment of maturing domestic (including treasury bills) and external debt (including through a debt buy back).The time to maturity is also projected to slightly increase in line with the country's debt management strategy.

Table 3. Oman: Baseline Scenario
(Percent of GDP unless indicated otherwise)

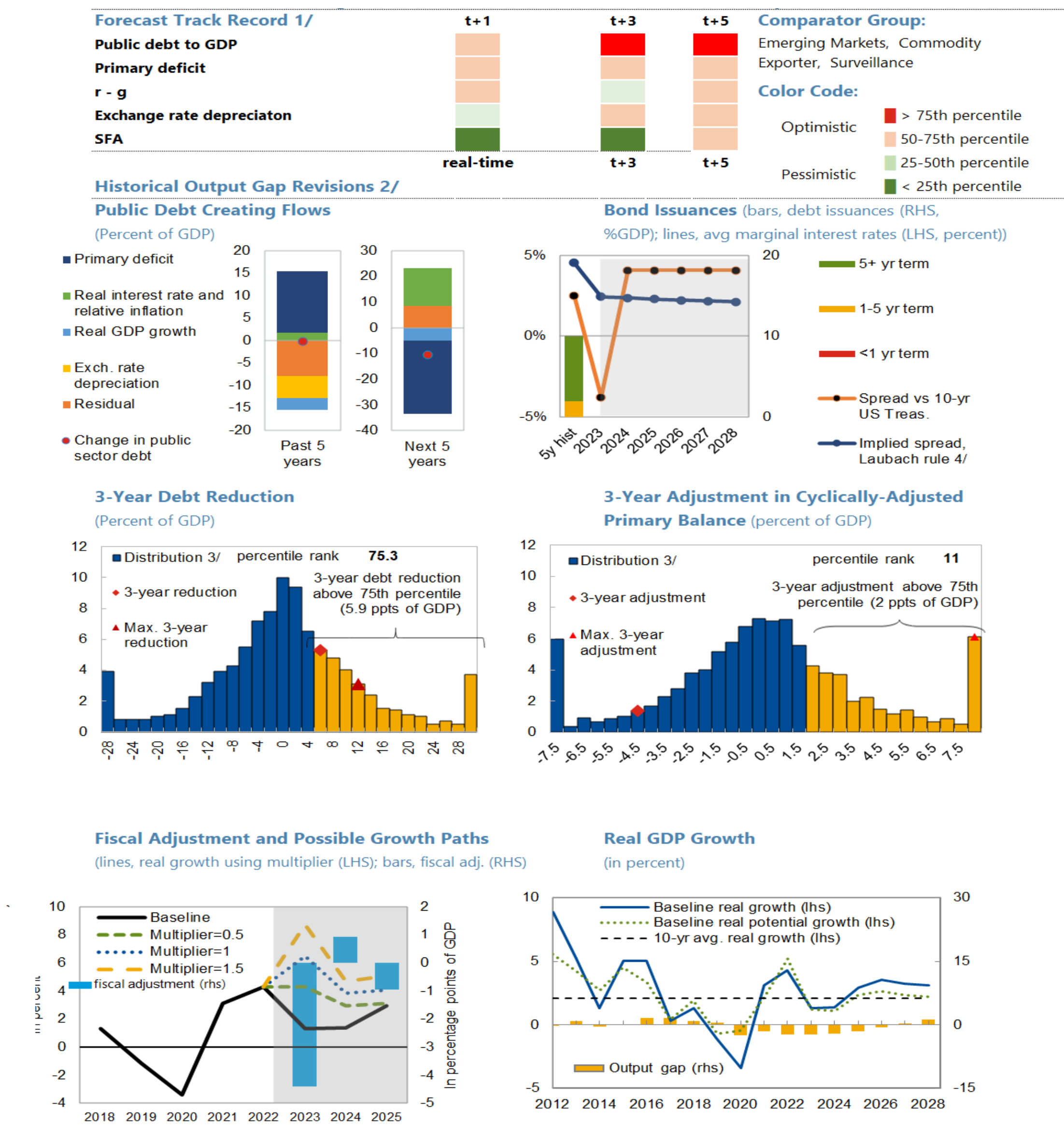
	Actual	Medium-term projection						Extended projection			
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Public debt	39.9	37.7	35.7	33.7	31.9	30.5	29.4	29.3	28.1	27.8	27.3
Change in public debt	-21.3	-2.2	-2.0	-2.0	-1.8	-1.4	-1.0	-0.2	-1.2	-0.3	-0.5
Contribution of identified flows	-23.1	-5.1	-2.3	-2.8	-2.4	-1.8	-1.4	-0.6	-1.5	-0.6	-0.8
Primary deficit	-10.7	-6.1	-4.4	-4.8	-5.0	-4.3	-3.8	-3.7	-3.8	-3.8	-3.7
Noninterest revenues	37.8	29.8	29.0	28.5	27.8	26.7	25.7	25.6	25.2	24.9	24.5
Noninterest expenditures	27.2	23.7	24.6	23.7	22.8	22.4	21.9	21.8	21.4	21.0	20.8
Automatic debt dynamics	-10.6	1.8	1.4	1.3	1.4	1.7	1.9	2.1	2.1	2.2	2.2
Real interest rate and relative inflation	-2.0	2.3	1.9	2.4	2.5	2.7	2.8	3.0	2.9	3.0	3.0
Real interest rate	-9.6	5.2	2.2	3.1	3.1	3.1	3.2	3.4	3.3	3.3	3.3
Relative inflation	7.5	-2.9	-0.3	-0.7	-0.6	-0.4	-0.3	-0.5	-0.4	-0.3	-0.3
Real growth rate	-2.5	-0.5	-0.5	-1.0	-1.2	-1.0	-0.9	-0.9	-0.8	-0.8	-0.8
Real exchange rate	-6.1	…	…	…	…	…	…	…	…	…	…
Other identified flows	-1.8	-0.8	0.7	0.7	1.2	0.8	0.5	1.0	0.2	1.0	0.7
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	-1.8	-1.9	-1.9	-1.8	-1.8	-1.7	-1.7	-1.6	-1.6	-1.5	-1.5
Other transactions	0.0	1.1	2.6	2.5	3.0	2.5	2.2	2.6	1.7	2.5	2.2
Contribution of residual	1.8	2.9	0.3	0.7	0.6	0.4	0.3	0.5	0.4	0.3	0.3
Gross financing needs	1.2	-2.8	0.2	0.7	0.2	1.0	1.2	1.5	1.3	0.7	0.6
of which: debt service	13.7	5.2	6.5	7.3	7.0	7.0	6.6	6.8	6.7	6.1	5.8
Local currency	3.1	1.6	2.2	2.4	2.3	1.9	1.8	2.4	2.6	2.0	1.8
Foreign currency	10.7	3.6	4.3	4.9	4.7	5.2	4.8	4.5	4.1	4.1	4.0
Memo:											
Real GDP growth (percent)	4.3	1.3	1.4	2.9	3.5	3.2	3.1	3.2	2.8	2.8	2.8
Inflation (GDP deflator; percent)	24.6	-6.8	1.3	-0.7	-0.4	-0.1	0.3	-0.4	0.0	0.0	0.0
Nominal GDP growth (percent)	30.0	-5.6	2.6	2.2	3.1	3.1	3.4	2.8	2.8	2.8	2.9
Effective interest rate (percent)	4.4	5.5	7.3	8.2	9.2	9.9	11.0	11.6	11.5	12.1	12.2

Contribution to Change in Public Debt
(Percent of GDP)



Commentary: Public debt is projected to be on a downward trajectory before stabilizing in the long-run, reflecting projected primary surplus, stable macroeconomic conditions, and an active policy of debt repymants over the medium term.

Figure 2. Oman: Realism of Baseline Assumptions



Commentary: The realism analysis does not point to major concerns. Past forecast errors do not reveal any systematic biases and the projected fiscal adjustment and debt reduction are well within norms. The forecast of public debt to GDP in the past few years appeared optimistic, reflecting the impact of the 2020 pandemic shock on the debt trajectory.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates and final estimates in the latest October WEO) in the total distribution of revisions across the data sample.

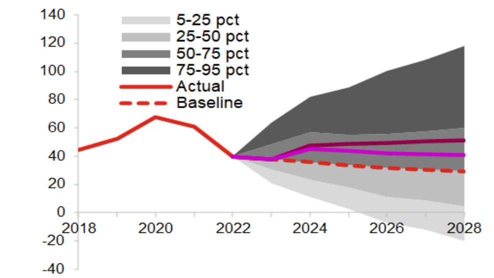
3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

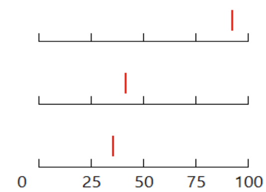
4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Figure 3. Oman: Meditum-Term Risk Assessment

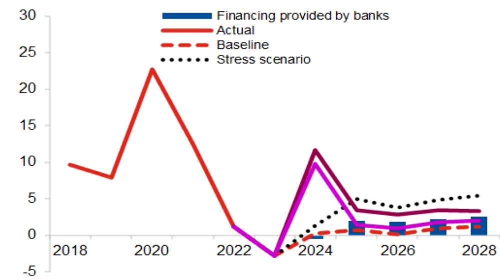
	Value	Contrib 1/	Percentile in peer group 2/
Debt Fanchart Module			
Fanchart width *(percent of GDP)*	138.3	2.0	
Probability of debt non-stabilizaiton *(percent)*	27.0	0.2	
Terminal debt-to-GDP x institutions index	16.8	0.4	
Debt Fanchart Index (DFI)		2.6	
Risk Signal: 3/		**High**	
Gross Financing Needs (GFN) Module			
Average baseline GFN *(percent of GDP)*	0.1	0.0	
Banks' claims on the gen govt *(pct bank assets)*	10.9	3.5	
Chg. In banks' claims in stress *(pct banks' assets)*	1.8	0.6	
GFN financeability index (GFI)		4.2	
Risk Signal: 4/		**Low**	

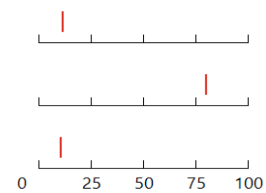
Final Fanchart (pct of GDP)





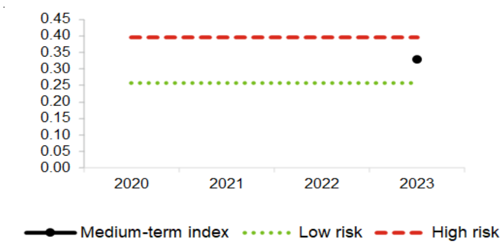
Gross Financing Needs (pct of GDP)





Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-Term Index (index number)



Medium-term risk analysis

	Value	Norm. Value	Weight	Contribution
Debt fanchart index	2.60	0.58	0.50	0.29
GFN finaceability index	4.16	0.08	0.50	0.04
Medium-Term Index		0.3		
Risk Signal: 5/		**Moderate**		
Final Assessment:		**Low**		

Prob. of missed crisis, 2023-2028, if stress not predicted: 18.2 pct.

Prob. of false alarms, 2023-2028, if stress predicted: 21.6 pct.

Commentary: Medium-term risks are assessed as low against a mechanical moderate signal as liquid and unencumbered large financial asset buffers mitigate solvency and liquidity risks. In addition, the medium-term risk is assessed as low on the basis of political and institutional stability, the depth of the investor pool, and relatively low debt levels. The relatively wide fanchart reflects historical high oil price volatility, which increases uncertainty around the debt-to-GDP baseline. The commodity prices stress test is automatically triggered, as Oman is classified in the latest WEO as having hydrocarbon primary products as its main source of export earnings. The shock is calibrated as a 30 percent drop in the price of oil in the second year of projection (relative to the baseline). The contingent liability shock consists in a one-time contingent liability materialization in the second year of the forecast horizon due to a call of SOEs guaranteed debt amounting to 10 percent of banking sector assets. Results of both stress tests point to a moderate increase in gross financing needs and debt-to-GDP relative to baseline projections.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

2/ The comparison group is emerging markets, commodity exporter, surveillance.

3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Figure 4. Oman: Long-Term Risk Assessment

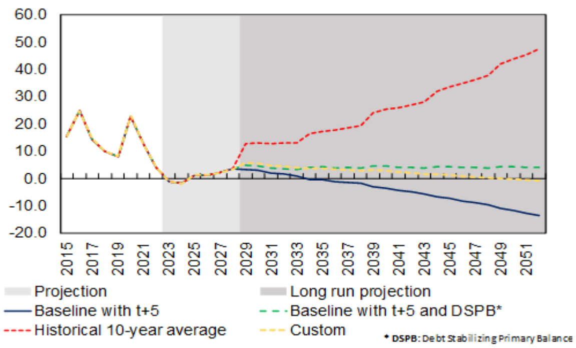
Large Amortization

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Medium-term extrapolation with debt stabilizing	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Historical average assumptions	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Overall Risk Indication		

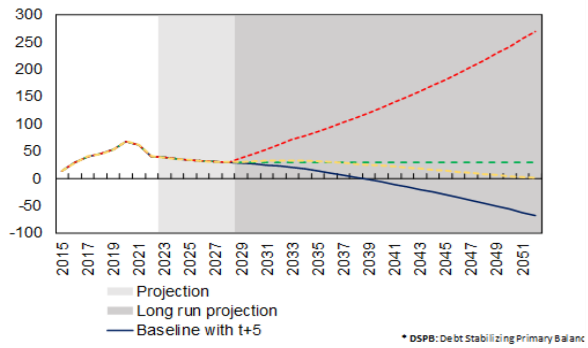
Alternative Baseline Long-term Projections (including Custom scenario)

	Baseline extension of fifth projection year	Custom baseline
Real GDP growth	3.1%	2.8%
Primary Balance-to-GDP	3.2%	0.8%
Real depreciation	-0.3%	-0.1%
Inflation (GDP deflator)	0.3%	0.1%

GFN-to-GDP ratio



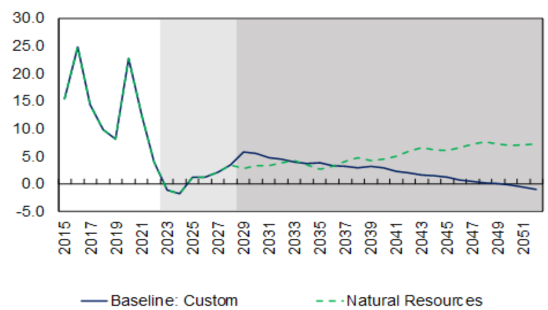
Total public debt-to-GDP ratio



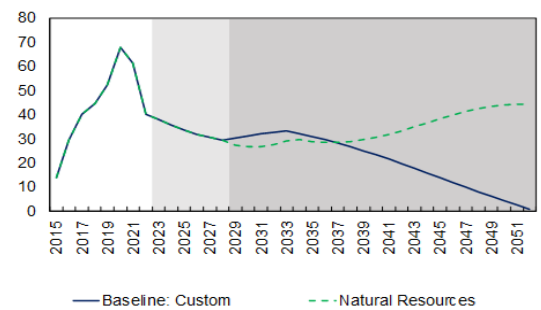
Commentary: The long-term risk related to large amortization scenarios is overall low. The custom scenario assumes that the authorities continue issuing debt to maintain access to international debt markets and develop the domestic bond market. The historical average scenario points to a large debt risk reflecting a historically large gross financing needs due to unfavorable macro-fiscal conditions that prevailed over the past ten years, including the COVID-19 shock and the 2014-15 oil price slump.

Natural Resources

GFN-to-GDP ratio



Total public debt-to-GDP ratio



Commentary: One source of risk for Oman is from declining hydrocarbon revenues that could occur due to exhaustion or faster-than-expected energy transition. Over the long-term if hydrocarbon revenues start to decline, the baseline scenario may be too optimistic. The ongoing reforms aimed at entrenching fiscal discipline and diversifying away from hydrocarbon activities should mitigate fiscal risks that may arise from a decline in hydrocarbon revenues. Using the oil windfall to accumulate buffers will also help in mitigating debt-related risks.

Annex IV. Risk Assessment Matrix[1]

Nature/ Source of Main Risks	Likeli-hood	Expected Impact on the Economy if Risk is Realized	Policy Response
Global Risks (Conjunctural)			
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts, uncertainty, and export restrictions) and demand fluctuations cause recurrent commodity price volatility, external and fiscal pressures in EMDEs, contagion effects, and social and economic instability.	**High**	**Medium** A decrease in the global price of oil and gas would reduce export revenues and put a drag on fiscal and external accounts and growth. A prolonged period of low oil and gas prices could deplete the fiscal and external buffers that have recently been rebuilt and result in another cycle of indebtedness.	Accelerate the momentum of fiscal reforms to mobilize non-hydrocarbon revenues and rationalize non-priority spending—particularly advancing energy price reforms—underpinned by a credible medium-term fiscal strategy and framework. Accelerate structural reforms to enhance competitiveness, diversify the economy, and reduce the impact of oil price fluctuations.
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation causing sudden stops in EMDEs. In China, a sharper-than-expected slowdown in the property sector, unexpected fiscal tightening due to local government financing stress and decline in investment, and/or rising geopolitical tensions could disrupt economic activity.	**Medium**	**Medium** The main impact would be through lower global prices of oil and gas and reduced demand for Oman exports. A deeper than expected deceleration in China, in particular, would severely weigh on Oman's economic performance, as it is Oman's largest crude oil importer. Non-hydrocarbon exports, such as tourism, would also be adversely affected. This would put a dent in growth and a drag on fiscal and external accounts.	Existing buffers together with external borrowing could be used to smooth the fiscal adjustment in the short term in the event of a large shock, such as an abrupt growth slowdown that would significantly affect oil and gas prices and China's demand for Oman's oil exports. There should also be close monitoring of disruptions to banking system liquidity and signs of banking stress. Structural reforms should be accelerated to diversify the economy and reduce its sensitivity to hydrocarbon prices.
Systemic financial instability. Sharp swings in real interest rates and risk premia, and asset repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks or non-bank financial institutions, causing market dislocations and adverse cross-border spillovers.	**Medium**	**Low** The main channel would be through higher external borrowing costs. However, Oman has a relatively comfortable debt position and recently improved credit ratings, which would limit the increase in its external sovereign spreads. Banks' balance sheets are strong, which together with prudent oversight of the CBO and banks' domestic oriented business model, reduces vulnerabilities to increases in global interest rates.	Continue with prudent financial oversight and closely monitor developments in the banking sector and financial markets. Continue with sound public finance and debt management to strengthen the sovereign credit ratings, to further reduce borrowing costs.
Global Risks (Structural)			
Deepening geoeconomic fragmentation. Broader and deeper conflict(s) and weakened international cooperation result in a more rapid reconfiguration of trade and FDI, supply disruptions, protectionism, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	**High**	**Medium** Supply chain disruptions and rising input costs would lead to higher domestic inflation. Foreign direct investment could slow down, impairing economic diversification and growth.	Accelerate structural reforms to foster potential non-hydrocarbon growth, including by expanding the non-hydrocarbon export base. Further strengthen fundamentals and enhance the business environment to attract more FDI. Diversify Oman's export market base. Provide targeted support to shield the most vulnerable in case of rising domestic inflation.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. 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.

Nature/ Source of Main Risks	Likeli-hood	Expected Impact on the Economy if Risk is Realized	Policy Response
Disorderly energy transition. Disorderly shift to net-zero emissions (e.g., owing to shortages in critical metals) and climate policy uncertainty cause supply disruptions, stranded assets, market volatility, and subdued investment and growth.	**Medium**	**High** An acceleration of the global energy transition due to technological breakthroughs or stronger commitment to reducing carbon emissions would dampen international oil prices and lower demand for Oman's oil and gas exports. This would have a negative impact on growth and cause a structural decline in hydrocarbon export and fiscal revenues, with adverse implications for the external and fiscal positions.	Expedite the pace of fiscal reforms, including strengthening fiscal frameworks to entrench fiscal discipline and sustainability. Accelerate the pace of structural reforms that would support economic diversification and unlock the growth potential of the non-hydrocarbon economy. Scale up investments in the production of green energy.
Domestic Risks			
Slowdown in the reform agenda. While the authorities have so far shown strong commitment to their reform agenda, the oil windfall resulting in a comfortable fiscal position could lead to a slowdown in the reform process, particularly if pressures for more government spending mount and the sense of urgency about reform dissipates.	**Medium**	**Medium** The slowdown or reversal on the sustained reform momentum seen thus far would adversely affect growth and employment prospects. Fiscal and external vulnerabilities would re-emerge, which would be exacerbated if oil prices recede, and investor confidence could deteriorate, resulting in rising external borrowing costs. The failure to turn reforms into jobs for Omanis in the private sector will lead to pressures to increase public employment, with negative implications for fiscal sustainability.	Adopt a fiscal strategy anchored by a credible and binding medium-term fiscal framework, endorsed at the highest level of policymaking. Sustain reform implementation to boost non-oil growth and labor market reforms to increase the competitiveness of Omani nationals in the private sector.
Extreme climate events. Extreme climate events driven by rising temperatures could cause loss of human lives, severe damage to infrastructure, and supply disruptions in Oman, leading to lower growth and potentially financial instability.	**Medium**	**Low** While extreme climate events, such as cyclones, flooding, and dust-storms, have become more frequent in Oman, their impact on the economy remains limited and manageable. Yet, adaptation costs are likely to increase rapidly, adding to government spending.	Make progress with the climate agenda, particularly by rolling out the adaptation actions of the National Strategy for Adaptation and Mitigation to Climate Change (2020-2040).

Annex V. Assessing Oman's Government Expenditures[1]

Oman has made sustained progress in rationalizing government expenditures, but there remains scope for further fiscal savings, particularly by reducing primary current expenditures which remain relatively large. Further reducing primary current expenditures by 3-4 percent of non-hydrocarbon GDP would generate savings of 750 million-1 billion OMR. These savings could be secured by further rationalizing compensation of employees—supported by the forthcoming public employment law—phasing out untargeted energy subsidies, and recouping VAT tax expenditures. Enhancing spending efficiency in education and health care is key to free up resources for better educational and health outcomes.

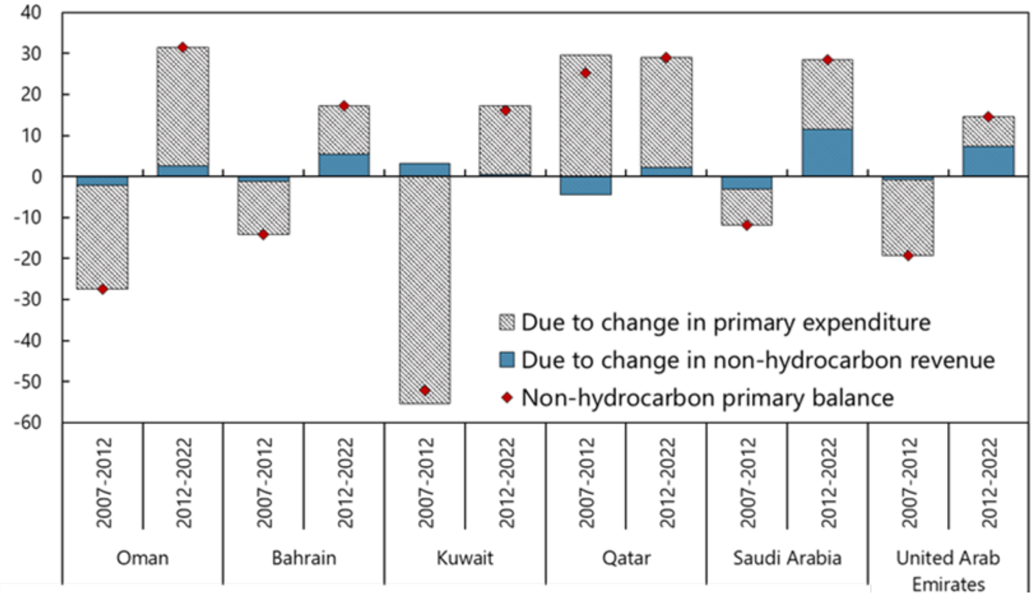
1. Over the past decade, Oman has achieved a sizable adjustment to its non-hydrocarbon primary fiscal position, yet more needs to be done to reduce the budget sensitivity to oil price volatility, entrench fiscal sustainability, and enhance intergenerational equity. The aftermath of the global financial crisis was characterized by a rapid widening of the non-hydrocarbon primary deficit, which increased by nearly 30 percent of non-hydrocarbon GDP within five years (2007-2012). Since then, the authorities have embarked on a fiscal consolidation program, which has helped in bringing the non-hydrocarbon primary deficit to non-hydrocarbon GDP back to its 2007 level by 2022 (31.7 percent). Despite these efforts, the non-hydrocarbon primary deficit remains well above the level that would help reduce the budget's sensitivity to oil price volatility, entrench fiscal sustainability, and ensure intergenerational equity. Estimates based on the Permanent Income Hypothesis indicate that intergenerational equity (keeping real per capita wealth constant across generations) would be secured at a non-hydrocarbon primary deficit ratio of 19 percent (Oman, Selected Issues Paper I, 2022).

2. Fiscal consolidation efforts have been primarily underpinned by expenditure compression. While there has been a modest increase in non-hydrocarbon revenues, the bulk of fiscal adjustment during the past decade was driven by a substantial decline in non-hydrocarbon primary expenditures (Figure 1). Following a significant increase in 2011, Oman's non-hydrocarbon primary expenditures as a share of non-hydrocarbon GDP have taken a steady and deep downward path, declining by nearly 30 percentage points over a decade, in line with regional trends. Yet, at about 42 percent of non-hydrocarbon GDP, Oman's non-hydrocarbon primary spending remains high even relative to some GCC peers. At this level, it is also above the average ratio of primary expenditures to GDP in emerging markets and advanced economies (Figure 2).

[1] Prepared by Mohamed Belkhir and Dalia Aita.

Figure 1. Oman: Oman and GCC Peers: Non-Hydrocarbon Primary Balance

(Percent of non-hydrocarbon GDP)

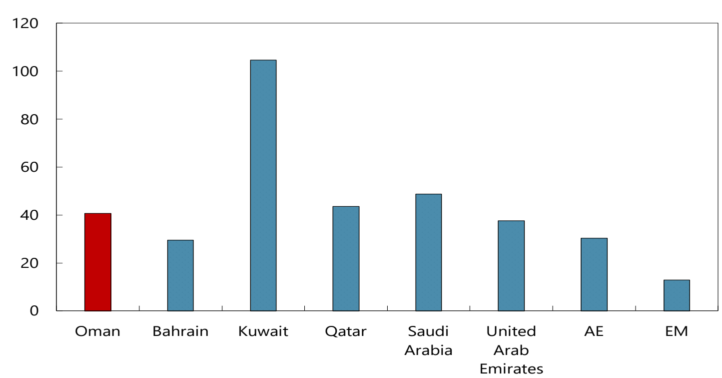


Sources: Country authorities; and IMF staff calculations.

Note: For Oman, primary expenditures are net of hydrocarbon-related spending. A positive (negative) change in non-hydrocarbon revenues or in the non-hydrocarbon primary deficit indicates an increase (decrease) in the represented item. A positive (negative) change in primary expenditures indicates a decrease (increase) in this time.

Figure 2. Oman: Primary Expenditures, 2022

(Percent of non-hydrocarbon GDP and total GDP as applicable)

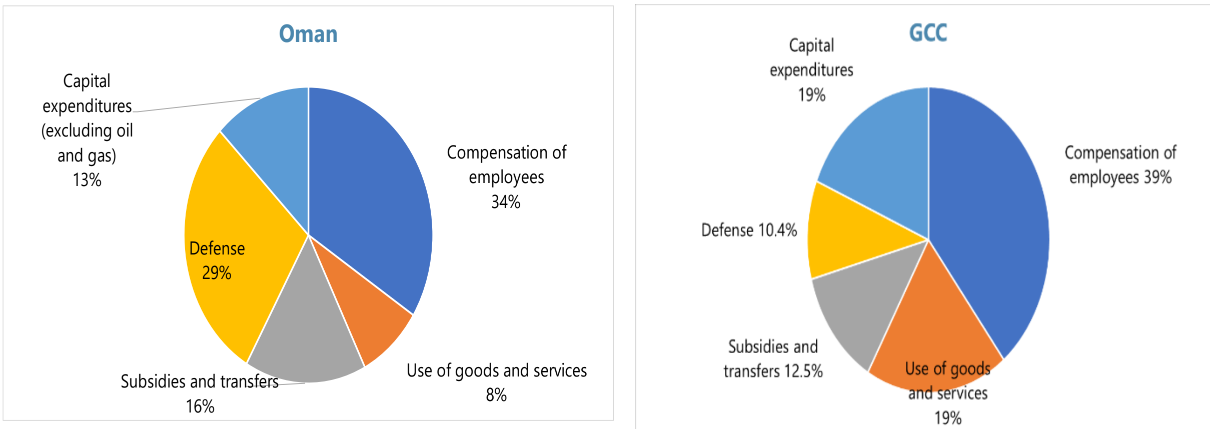


Sources: Country authorities; and IMF staff estimates.

3. **Compensation of employees and defense spending dominate primary expenditures in Oman.** At 34 percent of the total budget envelope for primary expenditures, spending on compensation of employees in Oman represents the largest expenditure item, albeit slightly lower than the GCC average (Figure 3). Defense spending eats up nearly a third of the primary budget envelope and is well above the average for GCC countries. Oman's spending on subsidies and transfers, at about 16 percent of total primary expenditures, is also large relative to the GCC average.

Figure 3. Oman and GCC: Composition of Primary Expenditures

(Percent of total, average during 2021-22)

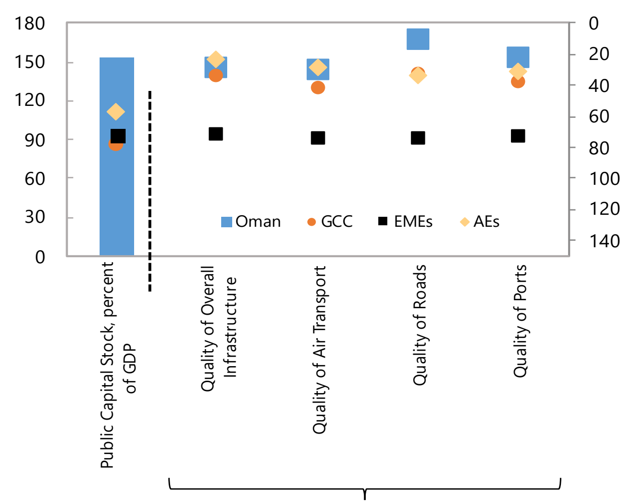


Sources: Country authorities; and IMF staff estimates.

4. **Oman's capital stock and quality of infrastructure are at par with GCC peers and advanced economies.** While capital spending at the central government level appears to be low—3 percent (5.3 percent) of GDP (non-hydrocarbon GDP) on average per year in 2021-22—, broader public sector investment is large. Together, Oman Investment Authority-affiliated SOEs and Energy Development Oman have invested an average of 12 percent of GDP over the same period. These levels of public investment are in line with those seen in other GCC countries and advanced economies. The high level of public investment is estimated to have resulted in a large capital stock and high-quality infrastructure (Figure 4). In particular, Oman's public capital stock-to-GDP ratio stands at 150 percent, well above the average for EMs, GCC, and advanced economies. Likewise, Oman scores much better than other EMs and equally well or slightly better than GCC and AEs averages on the quality of overall infrastructure,

Figure 4. Oman: Capital Stock and Infrastructure Quality

(Latest value available, percent of GDP and ranking)



Sources: Country authorities; IMF FAD Expenditure Assessment Tool (EAT); and IMF staff estimates.

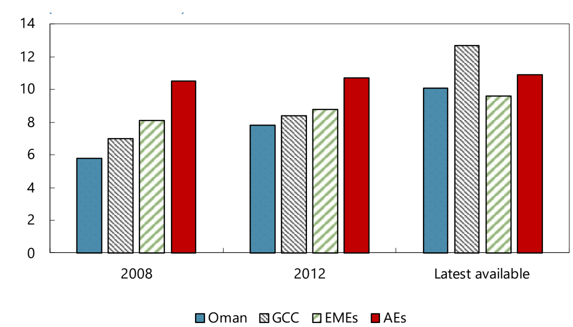
air transport, roads, and ports, suggesting that public investments are conducted with a high level of efficiency (IMF 2015).

5. There is scope to further rationalize some expenditure items.

Compensation of employees. After expanding to about 17 percent of non-hydrocarbon GDP in 2014-15, compensation of employees was reduced to 14 percent of non-hydrocarbon GDP in 2022. However, at this level, it remains at about 4 percent of non-hydrocarbon GDP larger than its historical low. As the country's private sector expands, it is expected that more and better-quality jobs will be available in the private sector for Omanis, which will facilitate reducing the public sector workforce through natural attrition. Provisions in the forthcoming public employment law will also play a role in containing the government's wage bill.

Figure 5. Oman: Public Wages and Employment

(Percent of GDP)

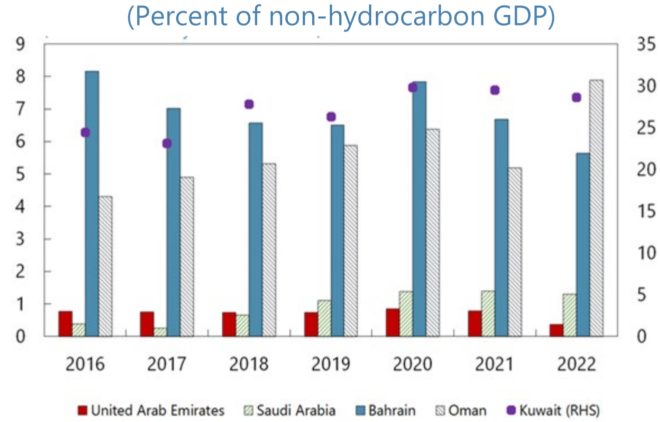


Sources: Country authorities, Oman National Center for Statistics and Information, IMF FAD Expenditure Assessment Tool (EAT); and IMF staff estimates. RHS chart: Latest annual data: 2022 for Oman and 2021 for EMEs and AEs.
The wage premia are calculated for Omani workers only due to data availability.

6. Energy subsidies. Subsidies and transfers, which used to represent less than 3 percent of non-hydrocarbon GDP before the global financial crisis, increased sharply to an average of about 12 percent of non-hydrocarbon GDP during 2011-14. Since then, they were rationalized to 5 percent of non-hydrocarbon GDP by 2021 before increasing again to 8 percent in 2022 in response to the cost-of-living crisis. Energy subsidies as a share of non-hydrocarbon GDP particularly picked up from 2.7 percent in 2021 to 5 percent in 2022. Besides explicit energy subsidies recorded on the central government budget, there are also fiscal revenues foregone because of tax expenditures due to zero-rated VAT on energy products. Rationalizing energy subsidies remains a priority, not only to free up fiscal space that can be reallocated to priority spending, but also to help provide the incentives needed

Figure 6. Oman: Subsidies and Transfers

(Percent of non-hydrocarbon GDP)



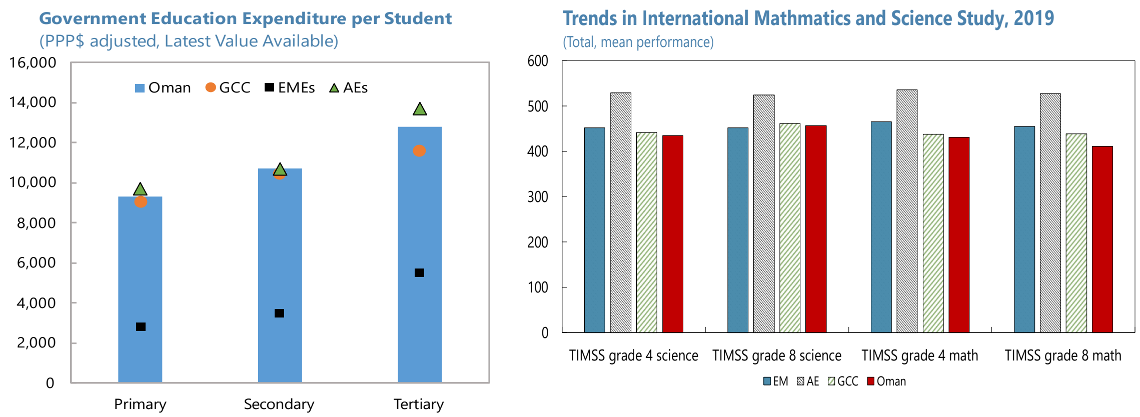
Sources: Country authorities, and IMF staff estimates.

for Oman's swift development of renewable energy production. In this regard, the authorities should move decisively to lift the petroleum price cap and accelerate the phasing out of untargeted electricity subsidies while leveraging the revamped social safety net to protect the most vulnerable.

7. Education and health spending.

- Education spending is at par with GCC peers and advanced economies. However, 90 percent of the education envelope is allocated to salaries. Emphasis is primarily on primary and secondary education and capital spending is limited. Oman's educational system has excellent enrollment outcomes (about 100 percent). Nevertheless, students' performance in international standardized tests is below comparator countries. Enhancing efficiency and reallocating resources to early childhood education may help achieve better outcomes.

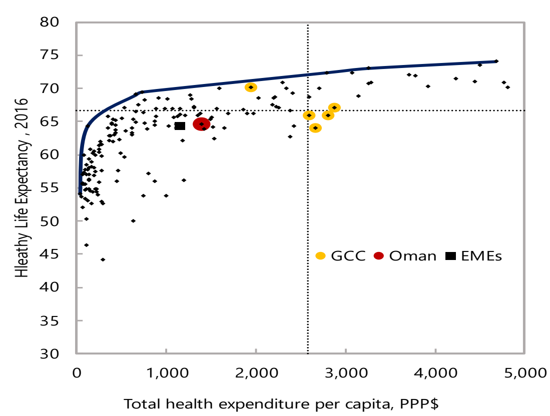
Figure 7. Oman: Education Spending and Outcomes



Sources: Country authorities, IMF FAD Expenditure Assessment Tool (EAT); and IMF staff estimates.

- In contrast to education, the public health care envelope remains below GCC peers and advanced economies. There appears to be space for enhancing health spending efficiency, as Oman lies below the health efficiency frontier. Gradually scaling up the level—supported by rationalizing non-priority spending—and efficiency of health spending will be key to improve health outcomes, which would help limit fiscal costs over the medium- to long-term given expected demographic shift towards older adults.

Figure 8. Oman: Health Efficiency Frontier
(Latest value available, 0-5,000 PPP$)



Sources: Country authorities, IMF FAD Expenditure Assessment Tool (EAT); and IMF staff estimates.

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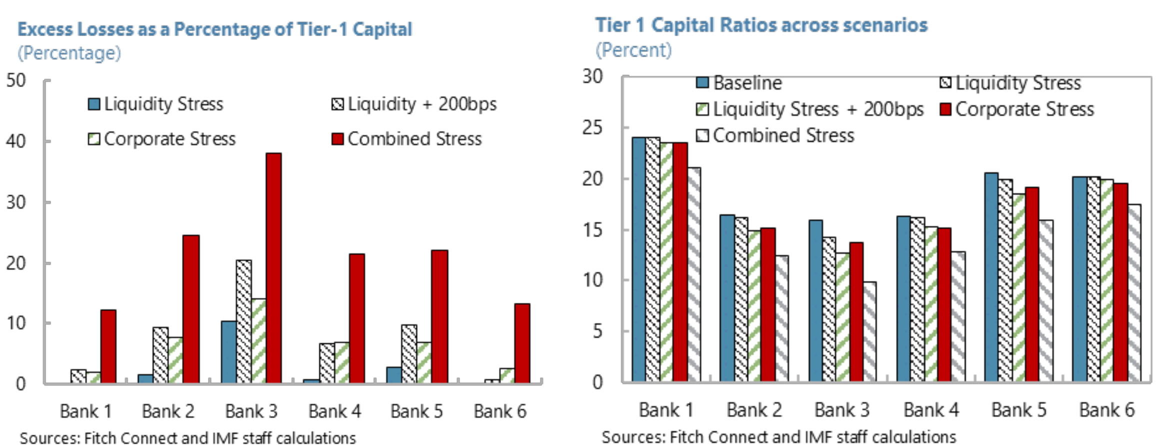
Annex VI. Stress Testing, Financial Stability, and Macroprudential Policies[1]

1. **The CBO conducts annual solvency and liquidity stress tests which are published in its Financial Stability Report.** As of end of 2022 (Central Bank of Oman, 2023), authorities estimated that banks could absorb an 8.5 percent deterioration of current performing loans before breaching regulatory capital requirements, with some heterogeneity across banks. In an LCR-based liquidity stress test, up to 4 domestic banks would fall below an LCR of 1 under severe liquidity stress.

2. **To complement the analysis, staff estimated a stress test including joint stress scenarios.** Four banking sector stress scenarios are simulated amid a higher-for-longer interest rate environment using the methodology from IMF (2023). The first scenario considers a liquidity shock through deposit outflows that could force some banks to realize capital losses on hold-to-maturity securities. The second scenario adds a 200-basis-point increase in interest rates to the first scenario. The third scenario simulates corporate sector stress, through a shock to profitability, amid higher-for-longer interest rates. Corporate sector stress spills over into the banking sector through higher provisioning requirements as corporate probabilities of default rise. Finally, the fourth "combined" scenario features a confluence of shocks with higher interest rates, corporate sector stress, and a liquidity shock.

3. **Staff estimates are broadly in line with CBO results but highlight the greater vulnerability of Omani banks to joint liquidity and corporate sector stress.** In the individual liquidity and corporate sector stress scenarios, Omani banks can largely absorb losses with their profits (Figure 1). Excess losses are below 10 percent of capital (with one exception) and Tier-1 regulatory capital ratios would decline by less than 2 percentage points, with one exception.

Figure 1. Oman: Stress Test Results



[1] Prepared by Thomas Kroen.

However, a combined corporate and liquidity stress scenario amidst higher interest rates would cause losses that could range up to 40 percent of regulatory capital. One bank, bank 3, would breach the CBO's minimum capital requirements, with its Tier-1 capital ratio dropping to below 10 percent. Throughout, the more vulnerable banks are those with weak ex-ante profitability (bank 3) and with relatively low holdings of liquid assets, proxied by cash and bonds (banks 2 and 4).

4. **Building on recent MCM TA, further progress can be made on stress testing**. The CBO may consider replacing economy-wide default rate estimation (CBO, 2023) with sector and loan class specific satellite models. This would allow capturing heterogeneity in the cyclical sensitivities of default rates across sectors. Moreover, the models to estimate the sensitivity of default rates to macroeconomic variables could be more flexibly parameterized using techniques from IMF (2022), including the method developed by Gross and Población (2019) for flexible model selection.

5. **The CBO should also consider richer scenarios in its stress testing exercises, including joint liquidity, market, and solvency stress.** The current published stress test results in CBO's Financial Stability Report consider solvency and liquidity risks in isolation. Copestake and others (2023) show how liquidity and market risks may interact when liquidity shocks force banks to realize previously unrealized capital losses on fixed income securities during times of rising interest rates. Moreover, in Figure 1, some Omani banks that appear to have ample buffers to weather isolated liquidity or corporate sector stress may be tested by a confluence of shocks. Finally, authorities may consider including scenarios of higher interest rates in their stress testing frameworks as rapid interest rate increases may lead to capital losses on fixed income securities while increasing borrower defaults. This is particularly important given the growing share of Islamic banks, which are often more vulnerable to a higher nominal cost of capital than conventional banks (Jobst and Sole, 2020).

6. **Additional reform areas include implementing an emergency liquidity assistance (ELA) framework and reviewing the current domestic systemically important banks (DSIB) framework.** The CBO lacks explicit authority to provide ELA. Authorities should prioritize establishing a clear framework for dealing with liquidity distress in the banking system as to stand prepared to deal with financial instability, should it occur. Broadening the set of liquidity tools available to Islamic banks would further contribute to improve financial sector liquidity management and reduce liquidity risks in that market segment. Banking sector consolidation with one approved merger and two that are being discussed is likely to increase sectoral concentration. Against this backdrop, authorities should consider whether further DSIBs in addition to Bank Muscat should be designated. Finally, authorities should consider activating the countercyclical capital buffer that was introduced in 2014 when warranted by the credit cycle.

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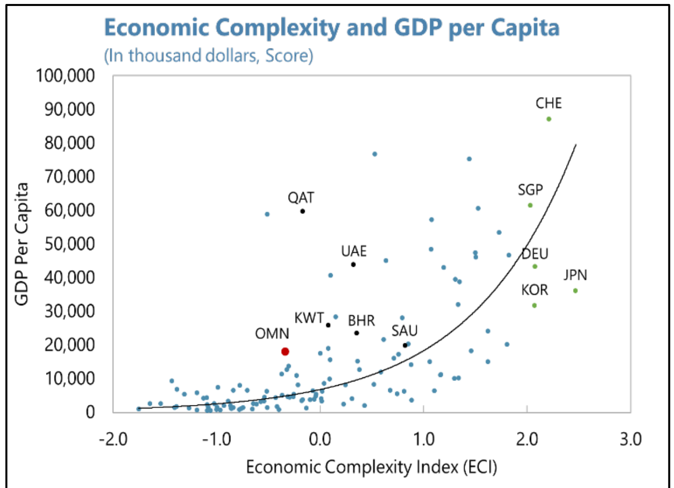
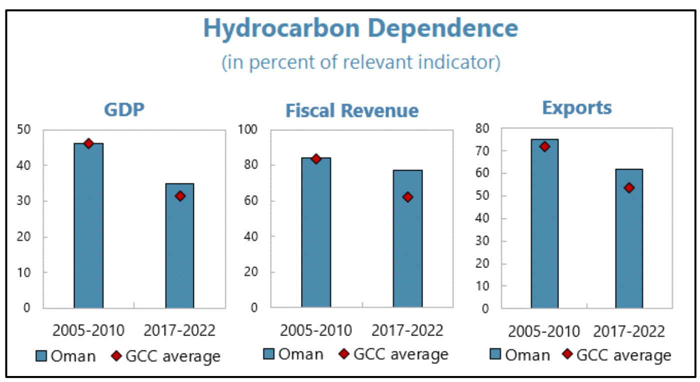
Annex VII. Accelerating Economic Diversification in Oman[1]

Oman's diversification efforts have achieved important results over the past two decades. However, diversification towards less productive sectors has shown its limitations in enhancing productivity and lifting non-hydrocarbon growth. Moving up the quality ladder in sectors of comparative advantage is a must to accelerating Oman's economic diversification. Its multi-pronged and ambitious diversification strategy is set to move in this direction, but it requires strengthened cooperation and coordination among the several government agencies responsible for its implementation to enhance its effectiveness.



Sources: National authorities; and IMF staff estimates.

1. **Economic diversification and structural transformation play a critical role in the process of economic development.** Higher levels of GDP per capita are associated with transformation of production and export structures that allow economies to expand in product spaces while enhancing the quality of existing ones. Cherif and Hasanov (2018) show that export sophistication is a robust growth factor. They also indicate that institutions, financial development, and human capital help improve export sophistication. While Oman's non-hydrocarbon export base has been expanding over the past two decades, there is still significant room to improve its value added.

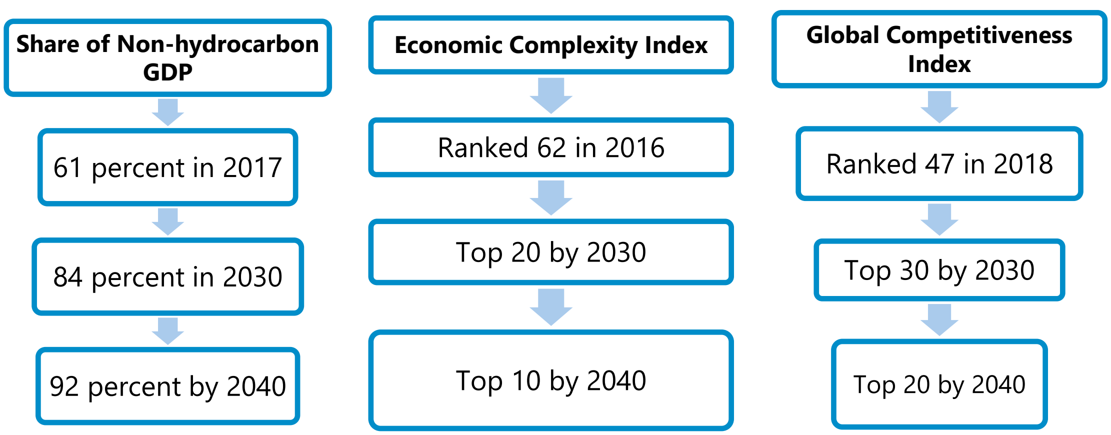


2. **Oman's diversification efforts have achieved important results over the past two decades.** Despite progress, diversification metrics in Oman are lagging those of other GCC countries. Further widening the production base and the size of non-hydrocarbon activities are key objectives of Oman's Vision 2040. The authorities aim to expand the share of non-hydrocarbon activity to 84 percent of GDP in 2030 and 92 percent of GDP by 2040 (from 61 percent of GDP in 2017), driven by rising FDI inflows up to 10 percent of GDP by 2040 (from the 10-year historical average of 2.5 percent of GDP).

[1] Prepared by Haytem Troug.

3. Oman's Vision 2040 has identified key strategic sectors to prioritize investments. The vision aims to diversify the economy by boosting Oman's manufacturing and services sectors with a focus on industries such as pharmaceuticals, solar and wind energy, food, electromechanical, metals, and minerals, and services such as tourism and logistics. Through a multi-pronged approach, the Ministry of Commerce, Industry, and Investment Promotion, the Ministry of Economy, Oman Investment Authority (OIA), the National Program for Fiscal Sustainability and Financial Sector Development (Estidamah), the Public Authority for Special Economic Zones And Free Zones (OPAZ), the Public Authority for Small and Medium Enterprises Development (Ryada), Energy Development Oman, among other government agencies, are taking an array of measures to attract investments in these sectors by streamlining business regulations and enhancing the governance and regulatory environment of Special Economic Zones (SEZs) while developing interlinkages between and within sectors, fostering economic clusters, and integrating SMEs into the industrial value chains around OPAZ-affiliated zones.

Oman Vision 2040 Key Peformance Indicators [1]

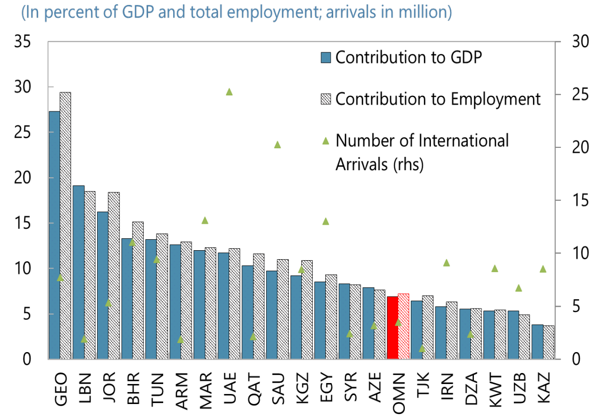


[1] The economic complexity index reflects the diversity and sophistication of a country's exports. The Global Competitiveness Index (GCI) is an average of 11 priority areas covering the regulatory environment, governance, structure of different markets, and enabling environment for future markets.

4. Tourism could potentially become an important driver of non-hydrocarbon growth in Oman once longstanding bottlenecks are addressed. The contribution of tourism to output in Oman was only 6.9 percent of GDP in 2019, while the sector contributed 7.2 percent of total employment and 4.2 percent of total exports of goods and services, all among the lowest in the MENA region. The underperformance is mainly explained by relatively low flight connectivity, limited stock of hotel rooms, moderate quality of tourism services, and skills and mobility gaps in the labor market. Stepping up initiatives to expand the sector's infrastructure capacity by "Omran" (an OIA sbsidary) through joint ventures with international investors, strengthen intra-regional collaboration, and enhance marketing and branding (including digital marketing) are therefore crucial to promoting growth in the tourism sector. Moreover, improving the quality and flexibility of the sector's labor force, in addition to scaling up investment to further diversify the sector, would help enhance the sector's contribution to output, productivity, and attractiveness to citizens. The newly issued tourism law is expected to facilitate the establishment of new tourism sites, help enhance competition in the sector and attract FDIs to promote regional development in the country and improve the sector's competitiveness.

Contribution of Tourism & International Arrivals in 2019

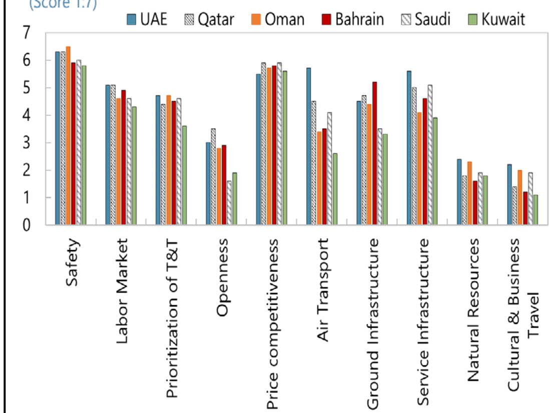
(In percent of GDP and total employment; arrivals in million)



Sources: World Travel & Tourism Council, World Bank and IMF staff calculations.

Travel and Tourism Performance in GCC countries

(Score 1:7)

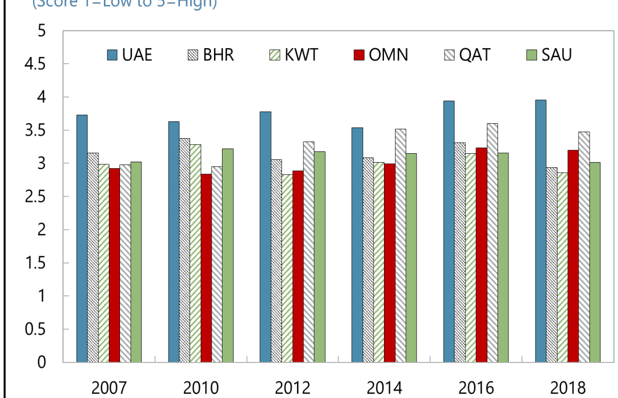


Sources: Travel and Tourism Competitiveness Report.

5. The logistics sector could yield substantial direct and indirect growth gains in Oman. While the contribution of the logistics sector to economic activity is directly measured through activities in transportation and storage (5.3 percent of GDP in 2022), its strong interlinkages with other sectors render logistics a key pillar of inclusive economic growth and a source of employment in Oman. Oman Vision 2040 seeks to utilize the logistics sector as a key enabler of economic diversification and regional integration by expanding storage activities in free trade. Through Asyad, the country's sovereign logistics investment arm, Oman is targeting to become among the top 10 global integrated logistics service providers. While achieving this target is supported by the country's strategic location, Oman faces fierce international competition and there is a need to step up efforts to address bottlenecks in the sector to achieve its targets. For instance, there is room to further improve the efficiency of the customs clearance processes, the quality of trade- and transport-related infrastructure, ease of arranging competitively priced international shipments, and the quality of logistics services. Paving the way for a higher role for the private sector would help enhance the efficiency of the logistics sector and improve its positive spillovers to the rest of the economy.

Logistics Performance Score

(Score 1=Low to 5=High)



Sources: World Bank Logistics Performance Index Surveys

6. Efforts to diversify the economy have accelerated in recent years. Realizing the urgent need for Oman to diversify its sources of income as the energy transition unfolds, several policy actions have taken place since 2019 to expand non-hydrocarbon activities and develop hydrocarbon downstream activities. Recent efforts include:

- **Enhancing the regulatory environment:** The authorities revamped the regulatory framework by issuing the Commercial Companies Law (CCL), Privatization Law, Public-Private Partnership Law, Foreign Capital Investment Law (FCIL), and Bankruptcy Law, all in 2019, in addition to the Security Law in 2022, the Social Protection Law and Labor Law in 2023. Oman's Capital Market Authority (CMA) also issued regulations on shareholders and board directors in 2019 to enhance transparency and improve corporate governance. Similarly, OIA's Rawabet reform program has been instrumental in instilling improved performance, governance, and management in state-owned enterprises. The executive regulations of the CCL were issued in 2021 to enhance the regulatory framework of commercial companies. Also, under the FCIL, full ownership of non-citizens and single-shareholder companies are also allowed for most sectors.

- **Setting up key supporting institutions and initiatives:**

  - **Oman Investment Authority:** Established in June 2020, OIA is entrusted with the country's national and international assets. OIA is structured into three sub-funds. The Future Generation Fund (FGF), the international investment arm of the country; The National Development Fund (NDF),[2] which manages domestic investment; and the newly established Oman Future Fund (OFF), focused on brownfield and greenfield projects, targeting SME participation. OIA's role in the diversification agenda is to attract FDI and joint ventures through regional and international partners, improve the performance and governance of SOEs to lift their contribution to growth and facilitate strategic divestments, and support the development of SMEs and the venture capital ecosystem in Oman.

  - **The Public Authority for Special Economic Zones and Free Zones (OPAZ):** Recent policy initiatives target revamping the role of SEZs to utilize them as key enablers of economic diversification and development (see Box 1).
  - **Ministry of Commerce, Industry, and Investment Promotion (MOCIIP):** The ministry was restructured in August 2020 to incorporate investment promotion into its mandate, previously managed by the Public Authority for Investment Promotion and Export Development. The restructuring aims to enable MOCIIP to support business formation and private sector development, in addition to attracting foreign investment to Oman's targeted sectors. MOCIIP is the implementing government entity of the National Program for Investment and Export Development (Nazdaher) and has recently launched Invest Oman and

[2] NDF's portfolio comprises 10 holding companies covering the energy, mining and minerals, transportation, infrastructure and utility, logistics and services, tourism, agriculture and fisheries sectors, with total activity of the fund representing around 24 percent of GDP in 2021.

the Investment Services Center to help streamline procedures and promote investment opportunities.

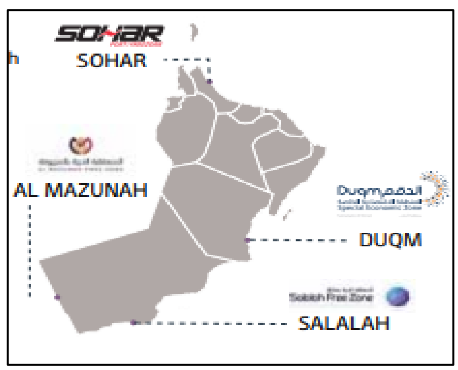
- **Ministry of Finance.** The Ministry of Finance is the implementing government entity of the National Program for Fiscal Sustainability and Financial Sector Development (Estidamah). The program was launched in January 2023 to build on the Fiscal Balance Program (Tawazun). In addition to entrenching fiscal sustainability, the program aims to develop financial technology, the legal and judicial system of the financial sector, and human capital in the sector to improve its role in supporting funding opportunities for economic diversification, particularly for SMEs.

- **Hydrom.** Established by Energy Development Oman (EDO) and regulated by the Ministry of Energy and Mineral (MEM), Hydrom is mandated to facilitate green hydrogen investment in Oman by outlining and allocating government-owned lands, in addition to structuring large scale projects and overseeing their execution. With a target to start hydrogen production in 2030, 5 contracts have already been signed with international investors, with a committed investment of $30 billion.

Box 1. Special Economic Zones in Oman

Special Economic Zones (SEZs) are geographically delimited lands subject to differentiated legal and regulatory requirements from the rest of the economy. Aiming to attract foreign investment, SEZs are employed by governments to overcome government and market failures in the border economy. For instance, governments establish SEZs to overcome market-inhibiting deficiencies in the quality of infrastructure, a cumbersome regulatory environment, and tendencies towards non-tradable activities.

Oman's SEZs are key enablers of its economic diversification agenda under Oman Vision 2040. Oman's experience with SEZs dates to 1993, when Al Mazunah Free Trade Zone was established to catalyze regional development. This was followed by the establishment of Salalah and Sohar Free Trade Zones, and the Special Economic Zone at Duqm (SEZAD), which were established in 2006, 2010 and 2011, respectively, as part of the government's continuous efforts to wane the Omani economy away from upstream oil activity and lift growth. SEZs offer incentives beyond those in the broad economy (Box Table 1). However, each SEZ in Oman is regulated by its own founding legislation.



Sectoral targeted investments in Oman are enabled through the development of industrial clusters in SEZs. Such clusters include medical supplies and pharmaceutical industry in Salalah; petrochemical and plastic products in Sohar and Duqm; fishery and food industry in Duqm; and renewable energy, green hydrogen, green ammonia and green steel sectors in Duqm and Salalah.

Efforts are progressing towards unifying the regulatory framework of SEZs through The Public Authority for Special Economic Zones and Free Zones (OPAZ). Established in 2020, OPAZ's portfolio includes all 4 SEZs and 9 Industrial Zones (Madayn). OPAZ is mandated to streamline, standardize, and enhance the regulatory environment to increase the efficiency of the business environment in SEZs and contribute to enhancing their overall competitiveness. For instance, work on standardizing regulations and investor services, such as the One

Box 1. Special Economic Zones in Oman (concluded)

Stop Shop (OSS) portal project, is progressing to standardize and streamline investor services for firms, in addition to reducing registration fees to all firms from OMR 1,500 to OMR 250. Plans to link the broad economy to SEZs include allocating 10 percent of contract values to SMEs, developing the local suppliers' capabilities to enhance backward linkages of SEZs—particularly integrating SMEs into the industrial value chains around OPAZ-affiliated zones—, and imposing an Omanization quota to lift the employment of citizens in SEZs.

Logistics-focused FTZs are still expanding, with the aim to further develop regional integration. The authorities have recently established the Khazaen economic city, which contains two new FTZs within the city. The new city and its FTZs will be supervised by OPAZ. Similar to Salalah and Sohar FTZs, Oman Logistics Company (Asyad) will be the operating entity of Khazaen Economic City and its two free zones. In addition to Khazaen, 3 FTZs were established in the country's main airports (Muscat, Sohar, and Salalah). Incentives in these FTZs will be similar to those granted by other FTZs in Oman for all firms with the exception of financial companies who are not eligible for tax incentives. Through FTZs, Oman is continuing to expand its regional integration channels with larger neighboring economies. For instance, a $3-billion agreement was signed with the UAE to build a railway network connecting Sohar FTZ with the UAE. Also, a 320-million-dollar infrastructure project was signed with the Saudi Fund for Development.

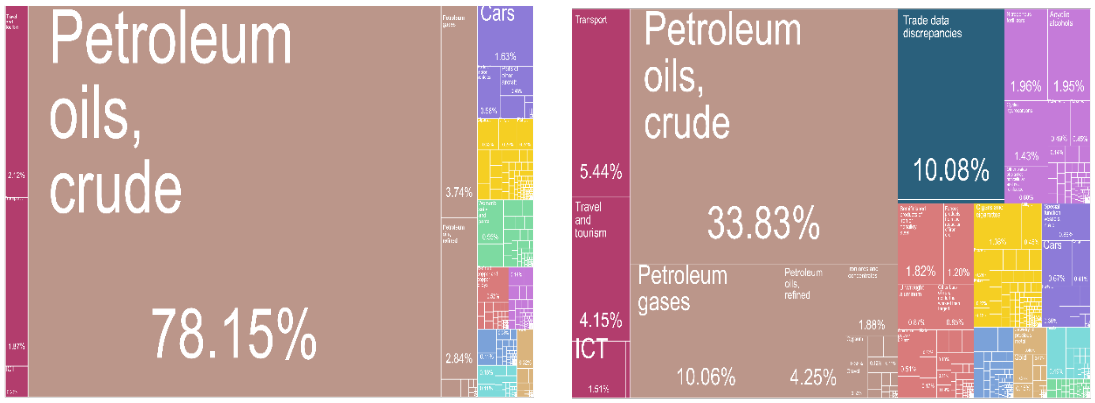
Incentives Summary

Instrument/Policy	
Tax and customs rate	Tax and customs exemptions for up to 30 years
Profit repatriation	100 percent repatriation of capital and profits are permitted
Customs duties	0 percent deferral for goods coming into the SEZs
Omanization	10 to 20 percent, with a review of the quotas every 3 to 5 years.
Foreign ownership	100 percent foreign ownership is allowed inside SEZs
Work Permits	Expedited process conducted through a single entity
Capital requirement	No/small capital requirements
Market incentives	Access to the wider GCC market with the GCC customs union and access to US markets through the 2009 USFTA
Business registration	Single window registration

7. **Oman's export base has expanded but there is still significant room for improvement.** The share of crude oil (hydrocarbon) exports to total exports contracted from about 78 (80) percent in 2000 to about 45 (61) percent in 2019. The decline of the share of crude oil exports in total exports was partly offset by an expansion of the share of petroleum and natural gas products exports (from 6 percent in 2000 to 16 percent in 2019). Oman's progress towards export diversification has been driven, in order of importance, by the expansion of chemicals, minerals, metals, logistics, tourism, financial services, agricultural products, and vehicles. However, the small share of knowledge-intensive exports in Oman suggests ample scope for moving up the quality

ladder and an opportunity to integrate into the global value chains.[3] The expansion of the export base constitutes an important initial step in the journey towards an advanced stage of development as countries become producers of more specialized products once resources are reallocated to more productive sectors (Lian and others, 2021) and government and market deficiencies are addressed, such as the regulatory burden,[4] high state-footprint in particular sectors, underdeveloped infrastructure, low human capital, and weak integration to global value chains.

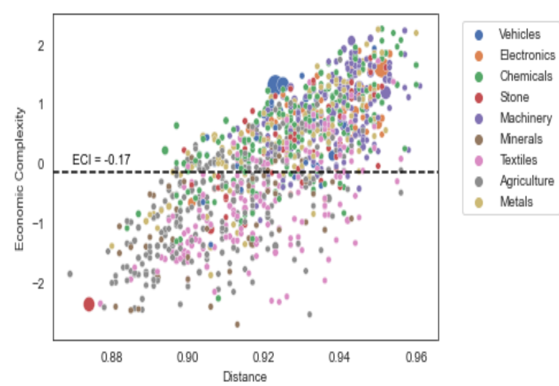
Oman's Export Structure (2000 versus 2019)



Source: Atlas and IMF staff illustration.

8. Oman's diversification efforts should target the production of more complex products. Introducing new goods and jobs would boost active learning and the quality ladder, making investment and labor more productive and thereby increasing overall productivity. As Oman maps its diversification agenda, focus should be oriented towards branching out into more complex products in the global value chains. According to the product space diagnostic tool,[5] substantial effort is required for Oman to lift the economy's potential toward exporting more complex products. The chart maps various potential export products with different complexity levels. The size of each dot represents the product's global trade value. The y-axis represents the product's degree of complexity (advanced level of knowhow and resources), while the x-axis represents the distance between Oman's current production capabilities and resources and the required resources and capabilities to produce each product. The dotted horizontal line

Potential New Exports for Oman



Source: Atlas and IMF staff illustration.

[3] Knowledge-intensive exports include ICT, research and development, financial services, transportation, and electronics.

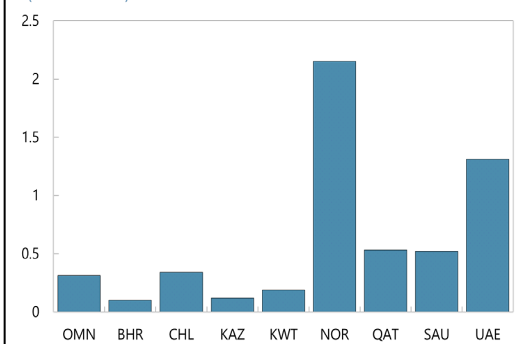
[4] For instance, non-tariff barriers in Oman are among the highest in the GCC.

[5] Harvard Kennedy School's Growth Lab's Atlas of Economic Complexity.

represents Oman's current production complexity level (an economic complexity index of -0.17). Products that are above this line will yield complexity and productivity gains to Oman. Products that are below the line will contribute negatively to Oman's complexity level. Sectors that have the potential to yield higher complexity and productivity and growth gains for Oman are vehicles, pharmaceuticals, machinery, agriculture, and manufacturing. While Oman has made substantial progress in diversifying its export base in these sectors, the country's value-added contribution to supply chains is still limited and knowhow, including further boosting human capital, and resource gaps are substantial. Further building capacity, enhancing the regulatory environment, attracting talent, and incentivizing more investment in research and development would boost innovation and set the ground for a more productive, diversified economy.

9. Broad-based reforms and targeted policy measures are needed to diversify and sustain growth in Oman. Policy measures should aim to address bottlenecks within a comprehensive framework that oversees the interaction of different policies, monitors market signals from the export market, and conducts broad consultations with all stakeholders to secure public support for policy measures. Sectoral targeted policies should also be complemented with other inputs and policies to attract higher levels of FDI and realize its full benefits. Such complementary policies include macroeconomic stability, boosting human capital to serve the needs of the evolving economic landscape, high-quality infrastructure and logistics, and developed financial markets (IMF 2015). Strengthening cooperation and coordination among different government agencies responsible for the diversification agenda would enhance the effectiveness of the government's diversification efforts. Also, further enforcing competition and leveling the playing field across different sectors would encourage more private sector participation. Lifting support for research and development in new technologies is key to spur innovation, develop technologies, and lift productivity. This would require massive collaboration efforts by different stakeholders, particularly government entities and international investors. Moreover, financial support for domestic firms, such as the one envisaged by the "Estidamah" program, should be based on viability and complement diversification efforts of other agencies. Lastly, unifying the regulatory framework of SEZs would eliminate uncertainties and encourage more FDI investment and competition across SEZs. Strengthening backward and forward linkages of SEZs—particularly with SMEs—through clustering of domestic and international industries, facilitating support to domestic suppliers and enhancing human capital, would help in integrating the broad Omani economy into global value chains, further enhance diversification, and hence could possibly offset potential fiscal revenue losses from tax and custom exemptions in free trade zones.

Research and Development Expenditure
(Percent of GDP)



Sources: World Bank

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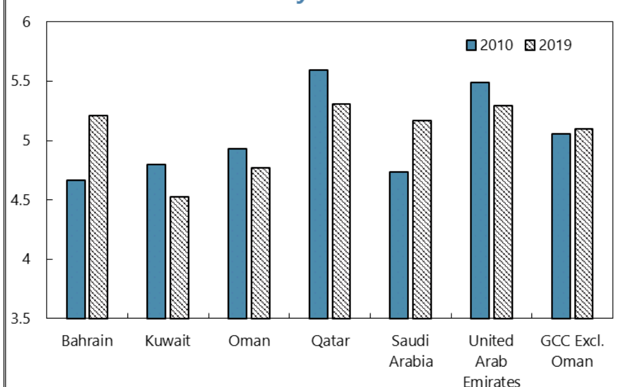
Lian, Weicheng, Fei Liu, Katsiaryna Svirydzenka, Biying Zhang. "A Diversification Strategy for South Asia." IMF Working Paper WP/21/202.

Annex VIII. New Social Protection and Labor Laws[1]

1. **Oman has made significant strides in strengthening social protection and modernizing labor regulations, paving the way for a more inclusive and socially protected labor market**. On July 19, 2023, the Sultanate issued a royal decree promulgating the social protection law, which comprehensively reshapes the social protection system by integrating government-financed social protection schemes with a social insurance system while streamlining the administration of social protection and insurance under a single institution. These include providing non-contributory benefits such as family support for low-income households and universal child, disability, and senior citizen benefits. One week later, a royal decree enacted a revamped labor law that introduces a more transparent and modern labor framework and promotes more opportunities for Omanis in the private sector.

2. **There is scope for leveraging synergies between the new labor and social protection laws to enhance labor market flexibility**. The new social protection law introduces a harmonized social insurance framework that equalizes pension entitlements for workers across public and private sectors. This will help address fragmentation of the pension system and eliminates distortionary labor market incentives that have undermined labor mobility across sectors in Oman. At the same time, the new labor law includes provisions that support greater labor market flexibility by introducing remote work modalities and prohibiting passport confiscation by employers. The new labor law also grants employers greater flexibility in firing non-productive workers, which will further support productivity and address rigidities in the labor market.[2] The combined effects of the new measures enshrined in the labor and social protection laws, therefore, will allow greater labor market flexibility while ensuring broader protection of workers' rights.

Labor Market Flexibility in GCC Countries



Sources: World Economic Forum and IMF staff calculations.
Notes: Labor market flexibility is a composite index, calculated as a simple average of the indices of hiring and firing prcatices and flexibility of wage determination. Higher values indicate higher labor market flexibility.

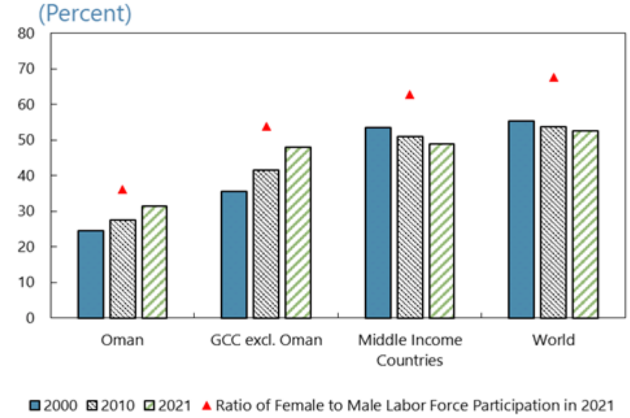
3. **The new social protection and labor laws will contribute to fiscal sustainability and intergenerational equity.** Under the social protection law, 11 pension funds will be integrated into a single scheme managed by the newly established Social Protection Fund. This process will help

[1] Prepared by Muayad Ismail.

[2] Employers are required to notify non-productive workers with the factors driving such an assessment and give them a period of at least six months to address their underperformance.

streamline administration, management, and costs of the social insurance system while ensuring greater efficiency and sustainability gains. At the same time, the costly pension formula that depends on final salary has been replaced with a full career average-based formula, which will ensure that the pension system is more financially sustainable and equitable. This is coupled with the introduction of an actuarially fair reduction for early retirement in an effort to tighten the generous qualifying criteria for early retirement that have hampered labor market participation. In addition, the new pension scheme introduces adjustment mechanisms that are more dynamic and adaptable to changing demographic and economic conditions.[3] Overall, these new measures will help ensure greater medium- to long-term sustainability of the pension system as they will help arrest the potential fiscal burden that could have emerged in the long term had the existing fragmented pension schemes continued. Hence, the pension system is projected to be sustainable at current contribution rates for a period of 100 years without government financing. In addition, the envisaged expansion of government-financed social programs under the new law will help support the public buy-in of ongoing fiscal reforms, such as the phasing out of subsidies, by alleviating the impact of these reforms on the vulnerable, which will further support fiscal sustainability. On the other hand, the new labor law introduces stricter Omanization measures, including requiring employers to put in place annual plans for hiring and replacement of expatriate workers as well as increasing penalties for non-compliance with Omanization requirements. As a result, private sector employment among nationals is expected to increase, which will help contain the public wage bill, ease budgetary pressures, and support fiscal sustainability.

Female Labor Force Participation Rate
(Percent)



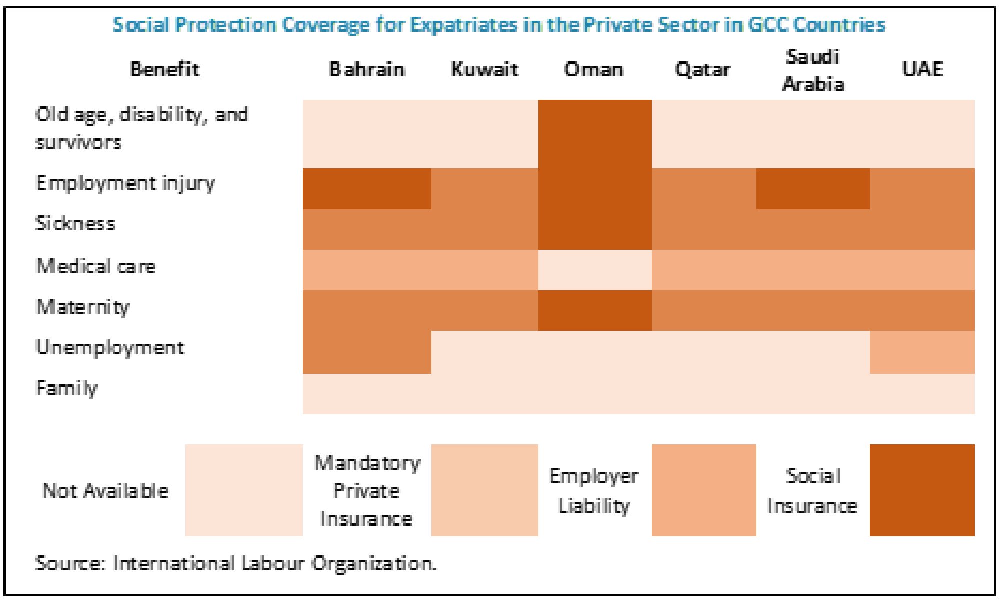
Sources: World Bank and IMF staff calculations.

4. Stronger protection of women under the new labor and social protection laws will support efforts to improve female labor force participation (FLFP). Specifically, the new labor law extends maternity leave from 50 days to 98 days, aligning it to international standards while introducing a 7-day paid paternity leave. It also requires employers to provide women-dedicated nursing areas in establishments with a significant female workforce and grants female workers, upon request, leave without pay for up to a year to take care of their children. At the same time, the new social protection law introduces benefits that support greater gender equality and social protection for women. These include survivors' benefits for widows and orphans as well as benefits for children and people with disabilities, which support women who mostly bear the burden of care at home. The

[3] For example, the social protection law grants the Board of Directors of the Social Protection Fund the flexibility to make amendments to the existing categories of social insurance based on actuarial cost studies. It also allows for increasing the ceiling on the maximum monthly wage used to calculate contributions for the branches of elderly, disability, and death insurance based on the average wage growth.

new law also guarantees a universal old-age pension for all Omanis independent of their previous employment status. Delinking old-age pension from previous employment-based contributions would help address structural inequalities associated with the low FLFP in Oman. Overall, the measures included in the new social protection and labor law will help promote a more inclusive work environment that unlocks greater opportunities for women to participate in the labor market, thereby improving FLFP from the current low level relative to regional peers and the world.

5. The reforms to the social insurance system and labor markets mark an important milestone toward strengthening benefits for expatriates in Oman. The new social protection law extends the coverage of the social insurance schemes to foreign workers, providing them with access to several benefits, including maternity and paternity leave, sickness leave, and employment injury insurance benefits on terms comparable to national workers. Furthermore, the current system of end-of-service indemnities will be replaced by a national provident fund managed by the new national social protection institution, with its coverage being extended to collect contributions and administer benefits to foreign workers in the case of retirement, disability, death, and upon returning to their home country. At the same time, under the new labor law, the gratuity and end-of-service benefits for expatriates will be improved by increasing end-of-service entitled benefits from 15 days salary for each of the first 3 years to a full month's salary for each year. Against the background of these comprehensive reforms, Oman will be designated among the most progressive countries in the region in advancing social insurance for expatriates.



6. Implementation risks associated to the new social protection and labor market reforms could be significant. Specifically, the relatively large universal benefits of some non-contributory programs enshrined in the new social protection law could entail an increased fiscal burden that should be carefully managed, including over the transition period where the government would grandfather benefits from the old system. In addition, the process of integrating the existing 11 fragmented social insurance schemes into one unified system managed by a single new institution could be challenging and would require close coordination among many stakeholders. In this connection, integrating the databases of the different pension schemes and identifying targeted beneficiaries could also pose additional logistical challenges during the transition. On the other hand, the stricter Omanization measures mandated in the new labor law would pose higher compliance and operational risks on private sector employers. These include higher operational costs to cope with the increased training requirements. Wage pressures could also rise on the back of elevated demand for high-skilled nationals to meet requirements on workforce nationalization.

INTERNATIONAL MONETARY FUND

OMAN

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

December 13, 2023

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

CONTENTS

FUND RELATIONS

(As of October 31, 2023)

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

General Resources Account:	**SDR Million**	**% Quota**
Quota	544.40	100.00
IMF's holdings of currency	404.74	74.35
Reserve tranche position	139.70	25.66

SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	700.60	100.00
Holdings	700.78	100.03

Outstanding Purchases and Loans: None

Latest Financial Commitments: None

Projected Payments to the Fund

(SDR Million; based on existing use of resources and present holdings of SDRs)

	Forthcoming			
	2024	2025	2026	2027
Principal				
Charges/interest	0.01	0.01	0.01	0.01
Total	0.01	0.01	0.01	0.01

Lending to the Fund and Grants:

- **RST.** Oman made a contribution of $52 million (about SDR 39 million) to the RST, which became effective on April 20, 2023.
- **PRGT subsidy resources.** In 2023, Oman pledged to provide a subsidy contribution of SDR 18 million (in end-2020 NPV terms) from net investment earnings to be generated by an investment in the amount of SDR 29 million with the PRGT's Long-Term Investment Strategy.
- **PRGT loan resources.** Oman was not requested to provide loan resources to the PRGT.

Implementation of HIPC Initiative: Not applicable.

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

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

Exchange Rate Arrangements

The *de jure* and *de facto* exchange rate arrangements in Oman are classified as a conventional peg, The Omani rial is pegged to the U.S. dollar 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 accepted the obligations under Article VIII, Section 2(a), 3, and 4 of the IMF's Articles of Agreement and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions other than restrictions notified to the Fund in accordance with Decision No. 144(52/51).

Article IV Consultations

Oman is on the standard annual consultation cycle. The previous Article IV consultation was held during September 20-October 4, 2022. The staff report was considered and published by the Executive Board on November 15, 2022 (Country Report/22/343).

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	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	Government Debt Management	June 2021
FAD	Strengthening the Macro-Fiscal Unit	June 2021
MCM	Debt Management Strategy	February 2022
STA	External Sector Statistics	March 2022

FAD	Tax Administration	May 2022
ICD	Macroeconomic Forecasting	October 2022
MCM	Macroprudential Stress Testing	February 2023
ICD	Macroeconomic Framework	March 2023
MCM	Debt Management	May 2023
FAD	Medium-Term Fiscal Frameworks	July 2023
LEG	AML/CFT Framework	September and October 2023
MCM	Asset Liability Management	December 2023

Resident Representative: No resident representative is stationed in Oman.

RELATIONS WITH THE WORLD BANK GROUP

(As of November 15, 2023)

World Bank Country Page:

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

STATISTICAL ISSUES

(As of November 15, 2023)

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: Oman's national accounts have a base year of 2018. Quarterly estimates of nominal GDP allow comparison of calendar year to date with calendar year to date for the previous period. Quarterly estimates of real GDP by production have been compiled and published since 2022. Coherent quarterly data require implementation of standard international techniques. A 2017 TA mission was conducted to assist with improving the compilation of national account data, including 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. **Price statistics:** Consumer and producer price indexes (CPI/PPI) are published on a monthly basis. The PPI, which includes separate indexes, should be updated as the current weight reference period is 2007. A real estate property price index was developed and published by NCSI.
Government finance statistics: High level monthly fiscal performance is published with a short lag. Data published in the Government Finance Statistics Yearbook only cover the budgetary central government through 2013. The published data do not provide comprehensive coverage of the public sector, not covering state-owned enterprises (SOEs), pension funds, the Oman Investment Authority (OIA), Energy Development Oman (EDO), and the newly created Integrated Gas Company (IGC). The authorities provide the Article IV consultation missions with a more comprehensive analytical presentation of the budget and fiscal performance as well as information on government debt, OIA assets, and SOEs performance and 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 Article IV 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. Following the recommendations of previous IMF TA missions, the CBO continues to map International Transactions Reporting System (ITRS) data to BoP data to enhance collection of external transactions of residents. The main priorities are to enhance the quality of BoP data, improve the timeliness and coverage of quarterly foreign investment surveys, enhance the coverage of data for non-financial institutions and further develop cooperation with other government and non-government entities. The 2022 TA mission worked with external sector compilers to improve the compilation and dissemination of external sector statistics (ESS) and adapt to the Balance of Payments and International Investment Position Manual (BPM6). The authorities do not currently publish the Reserve Template, external debt, and do not participate in the Coordinated Direct Investment Survey. Data are being provided to the Article IV consultation missions. 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 November 15, 2023)

	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]	Sep 2023	Nov 2023	M	M	M
Reserve/base money	Sep 2023	Nov 2023	M	M	M
Broad money	Sep 2023	Nov 2023	M	M	M
Central bank balance sheet	Sep 2023	Nov 2023	M	M	M
Consolidated balance sheet of the banking system	Sep 2023	Nov 2023	M	M	M
Interest rates[2]	Sep 2023	Nov 2023	M	M	M
Consumer price index	Sep 2023	Oct 2023	M	M	M
Revenue, expenditure, balance and composition of financing[3]– central government	2023Q3	Oct 2023	Q	Q	Q
Stocks of central government and central government-guaranteed debt[4]	2023Q3	Oct 2023	Q	Q	Q
External current account balance	2022	Oct 2023	A	A	A
Exports and imports of goods and services	2022	Oct 2023	M	M	M
GDP/GNP	2023Q2	Oct 2023	Q	Q	Q
Gross external debt	2022	Oct 2023	A	I	NA
International investment position[5]	2022	Oct 2023	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] Domestic and foreign.
[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).

Statement by Mr. Mohieldin, Mr. Alhosani, and Mr. Al-Kohlany on Oman
Executive Board Meeting
January 19, 2024

On behalf of the Omani authorities, we extend our sincere appreciation to Mr. Serra and his team for the constructive policy discussions during the Article IV mission and the insightful Article IV Consultation report. The authorities broadly concur with the report's findings, which provide a candid assessment of Oman's recent economic and financial developments.

Oman has demonstrated commendable resilience and adaptability in the face of global economic challenges, largely attributable to the reforms and initiatives guided by Oman Vision 2040. In this regard, the Medium-Term Fiscal Plan, initiated in 2020, has been instrumental in strengthening fiscal sustainability through diversified revenue mobilization, expenditure restraint, and prudent management of hydrocarbon windfall savings. These measures have effectively rebuilt Oman's policy space and have led to successive upgrades in the country's sovereign credit rating.

Oman's economic recovery has been robust, with a significant real growth rate of 4.3 percent in 2022, fueled by the expansion of both hydrocarbon and non-hydrocarbon sectors. Non-hydrocarbon growth is projected to have accelerated to 2.1 percent in 2023, supported by recovering agricultural and construction activities and a robust services sector. Over the medium-term, non-hydrocarbon growth is projected at 4 percent, an indication of a gradual shift towards a more diversified economic structure. Despite global economic headwinds, including inflationary pressures, Oman has successfully contained inflation and maintained monetary stability. The Central Bank of Oman's (CBO) alignment with international monetary trends and its skillful management of the banking sector's liquidity have been crucial in this regard.

The transformation of Oman's fiscal balance into a surplus of 10.1 percent of GDP in 2022, and securing a non-hydrocarbon primary adjustment of nearly 6 percentage points of non-hydrocarbon GDP during 2021-2022 have been significant and commendable achievements. This remarkable turnaround from previous years of deficit reflects the country's disciplined fiscal management and strategic resource allocation. Furthermore, the reduction of central government debt from about 67.9 percent of GDP in 2020 to 39.9 percent in 2022, alongside a decrease in SOE debt, underscores the authorities’ commitment to sustainable fiscal practices and long-term economic resilience.

Oman's external position has also shown considerable improvement, achieving the first current account surplus of 5.0 percent of GDP since 2014. Notably, non-hydrocarbon exports have more than doubled since 2019, now constituting about one-third of total exports. Oman maintains strong external buffers, including liquid foreign assets, totaling $35.7 billion, and covering 106 percent of the ARA metric.

Looking ahead, the Omani authorities remain steadfast in their pursuit of Oman Vision 2040's objectives. The focus of the vision on diversifying the economy and building buffers to respond to potential adverse shocks is aligned with the goal of ensuring sustainable and inclusive growth. Continuous efforts to enhance non-hydrocarbon revenues, institutionalize fiscal frameworks, and foster a conducive business environment are integral to this journey.

Fiscal Policy

Oman's impressive fiscal performance demonstrates a steadfast adherence to fiscal discipline, with the non-hydrocarbon fiscal outturn aligning closely with the 2023 budget. This achievement is primarily driven by a reduction in subsidies and rationalization of capital expenditures, resulting improved 2023 non-hydrocarbon primary deficit and overall fiscal surplus estimated at 5.5 percent of GDP. The further reduction of central government debt to 36.7 percent of GDP in 2023, following several proactive debt management operations during the year, including the prepayment of USD 1.01 billion of a syndicate loan in December, pushing net debt reduction to USD 6.1 billion by the end of 2023, and the increase in the government's net financial assets highlights the Omani authorities' unwavering commitment to debt sustainability and the fortification of economic buffers.

In line with the directives of His Majesty Sultan Haitham bin Tariq to prioritize reducing public debt, the State's General Budget for the Fiscal Year 2024 aims to continue placing debt on a downward trajectory, while maintaining the level of spending on essential services like education, health, and housing. Social welfare will be enhanced by further bolstering the Social Protection Fund to provide better insurance coverage and social protection for citizens. In this regard, while the authorities continue to focus on rationalizing expenditures, the implementation of the new social protection law, effective from January 2024, will substantially boost social spending. Despite increased social and development expenditures, the primary expenditures are projected to increase by only 0.9 percent of non-hydrocarbon GDP relative to 2023, reflecting the authority's commitment to effectively manage the wage bill and contain non-priority current spending. The anticipated overall fiscal balance for 2024 stands at a surplus of 3.7 percent of GDP, supported by the authorities' stronger fiscal efforts and favorable oil prices.

Over the medium term, the fiscal stance is strategically aimed at building sufficient buffers to effectively respond to potential adverse shocks and ensure intergenerational equity. The authorities concur with staff that a central government debt-to-GDP ratio of 30 percent would provide a robust safety net against significant economic fluctuations and prevent a breach against their 60 percent of GDP debt ceiling target. Alignment with the Permanent Income Hypothesis is evident in the efforts to decrease the non-hydrocarbon primary deficit to ensure the preservation of sovereign wealth for future generations. The authorities recognize that there is scope to boost non-hydrocarbon revenues. In this regard, they are taking concrete actions to enhance tax administration aimed at reducing the tax gap by improving taxpayer compliance, including through the adoption of VAT e-invoicing. This comprehensive and ambitious reform plan is a testament to their commitment to fiscal reforms.

The institutionalization of a Medium-Term Fiscal Framework (MTFF) and the adoption of a fiscal rule are integral to the strategy for entrenching fiscal sustainability. The authorities are putting in place the building blocks and required technical capacity to adopt a fiscal rule based on the non-hydrocarbon primary balance and a central government debt anchor, representing a critical step towards maintaining fiscal sustainability and macroeconomic stability. In this regard, they are committed to strengthening the MTFF, making it a cornerstone of the budget preparation and execution process with clear fiscal targets, realistic revenue projections, and aggregate expenditure ceilings.

The Omani authorities have made significant progress in strengthening public financial management, transparency, and governance. The ongoing establishment of a Treasury Single Account (TSA) is a focal point of the strategy aimed at centralizing public revenue and enhancing cash management. Progress in digitalizing financial management and procurement processes is also noteworthy, as it supports SME growth and reduces potential expenditure leakages. The development of a sovereign asset-liability management framework is progressing well. This framework is crucial for an integrated approach to managing sovereign balance sheet exposures and mitigating risks. The authorities’ sound and agile debt management strategy, focused on lengthening debt maturities, reducing borrowing costs, and developing the local currency government bond market, underscores their commitment to building buffers and mitigating financial risks. In this regard, the recent passage of the public debt law is an important milestone.

Monetary and Financial Policy

Oman's monetary and financial policies continue to play a pivotal role in underpinning economic stability and fostering the nation's ongoing economic transformation. The pegged exchange rate regime, closely aligned with the Federal Reserve's policy actions, continue to serve the country well and functions as a robust monetary anchor, ensuring stability and facilitating economic progress.

While developing a robust monetary policy toolkit supported by the Monetary Policy Enhancement Project (MPEP), the Central Bank of Oman continues to diligently monitor the banking system's liquidity, ensuring alignment with the policy rate. In this context, the CBO employs a suite of market-based liquidity management instruments to maintain monetary stability. The MPEP is critical in enhancing the CBO’s liquidity management framework and improving the transmission of monetary policy, ensuring effective control of inflation in the future with market-based tools. Key initiatives are currently underway to develop an interest rate corridor, prepare the groundwork for open market operations, while strengthening liquidity forecasting capacity.

To further strengthen the monetary policy architecture, the CBO is in the final stages of developing the Oman Lending Rate Reference (OLRR) for corporate loans. This initiative is expected to enhance transparency in loan pricing, reflect interest rate movement more accurately, and further improve credit conditions. The OLRR will also play a crucial role in reinforcing the pass-through of the policy rates to retail rates and is a step forward in strengthening banks' risk management capabilities.

The Omani banking sector remains resilient, buoyed by strong regulatory and supervisory frameworks. Banks exhibit robust capital and liquidity positions, healthy profit margins, and well-provisioned expected credit losses. Notably, the sector's resilience is evident through its stable performance amidst monetary policy tightening and external financial disturbances. However, vigilance is maintained to monitor potential risks, including those from the real estate sector and the increasing digitization of finance. The CBO continues to refine its regulatory frameworks, enhancing risk-based supervisory capacity and implementing international standards like Basel III reforms and IFRS 9, thus bolstering the banking sector's resilience.

The CBO is focused on advancing its digital capabilities, particularly in payment systems. The recent launch of the new and improved Real-Time Gross Settlement System (RTGS), enhances the efficiency of national payment services as it supports continuous settlement for retail payments as well as the arrangements for the TSA and marks a significant step towards the digitalization of Oman's payment infrastructure. Key initiatives under the Financial Sector Development Program, aimed at reinforcing Oman as a hub for financial technology and innovation, are advancing. This strategy aligns well with Oman's broader vision for economic diversification and growth.

Significant strides have been made in enhancing the fintech ecosystem, marked by the successful operation of the regulatory sandbox, which has incubated digital wallets, blockchain applications, and alternative financing methods. This growth in fintech is instrumental in improving financial inclusion, with a notable expansion in credit registry usage and increased access to finance for small and medium-sized enterprises. CBO recently issued a comprehensive regulatory framework for cybersecurity and resilience. This framework aims to enhance the resilience of licensed institutions against cybersecurity risks, with a focus on governance, compliance, audit, technology and operations, third-party supply chain management, online financial services, and risk management. Continued investments in digital infrastructure, including cybersecurity and human capital development, are essential to manage the risks associated with new technologies and innovative business models.

Oman remains steadfast in its commitment to strengthen its Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) framework. The 2023-2025 enhanced AML/CFT strategy aligns with global standards set by the Financial Action Task Force, particularly in addressing challenges posed by digitalization and fintech. The CBO's dedicated efforts in staffing and training its AML/CFT department and the ongoing mutual evaluation process by the MENAFATF underscore Oman's commitment to maintaining a robust AML/CFT regime.

Structural Policy

Oman's commitment to Oman Vision 2040 is unwavering, with a focus on building resilience and fostering inclusive, diversified, and sustainable non-hydrocarbon growth. The cornerstone of these efforts lies in enhancing the business environment, improving institutional quality, and reducing the state footprint. These structural reforms, notably the new labor and social protection laws, are pivotal in amplifying productivity gains from labor market and financial development reforms. Additionally, efforts to promote investment in non-hydrocarbon sectors will prioritize private sector engagement and cooperation with international and regional partners, as well as enhance coordination among different government agencies tasked with promoting economic diversification.

Oman's progressive implementation of a comprehensive social protection law, which came into effect on January 1, 2024, signifies a landmark advancement in strengthening Oman’s social safety nets. This social protection scheme introduces a range of non-contributory social benefits, underscoring Oman's commitment to supporting its vulnerable population. The Child Benefit program extends monthly financial support to Omani children up to 18 years, fostering their welfare during crucial developmental years. The Old Age Benefit offers monthly assistance to Omanis aged 60 and above, recognizing the reduced earning capacity in their senior years. For Omanis with disabilities, the Disability Benefit provides monthly support, addressing their unique care and support needs. The scheme also includes family support for low-income households. These measures are an important component of the national reform program, mitigating the adverse impact on vulnerable groups. The transformation of Oman's pension system into a unified scheme enhances its sustainability and flexibility. This reform aligns pension benefits across sectors, promoting greater labor mobility and ensuring the long-term sustainability of the pension fund, projected to remain viable for a century, without government financing.

The enactment of the new labor law in Oman marks a significant step forward in labor market reform and represents a key component of Oman's broader strategic efforts to enhance labor market dynamics. The law aims to increase flexibility and inclusivity, including the relaxation of restrictions on foreign workers' mobility and reducing the public-private wage premium. The law also emphasizes improving female labor force participation, aligning maternity leave with international standards, and introducing measures like dedicated nursing areas for women. Educational reforms and expanding vocational training are integral to this agenda, addressing skills mismatches and aligning workforce skills with the demands of a diversifying economy.

The Omani authorities are actively enhancing the business environment as a key driver of private sector-led growth. The focus remains on improving inter-agency coordination and leveraging digitalization. Efforts are underway to reduce the state's footprint in the economy. Underpinning these efforts is Oman's strategic SOE divestment drive, orchestrated by the Oman Investment Authority (OIA). Since 2020, 16 state-owned enterprises have been privatized and 5 partially divested, with the 2023 divestment involving 8 companies through 3 IPOs and 5 trade sales. To further encourage private sector involvement, OIA’s participation in new projects is capped at 40 percent.

The government has implemented the Code of Governance for SOEs to ensure efficient utilization of resources and assets and to promote financial transparency by disclosing key financial performance metrics of SOEs. This approach, along with ongoing efforts to attract domestic and foreign private investment, is expected to diminish the public sector's footprint in the economy and enhance overall productivity. Moreover, these reforms include strengthening the role of the Competition Protection and Monopoly Prevention Centre and gradually confining SOEs to strategic industries, facilitating a more competitive and dynamic business environment. The government has also adopted a strategic shift in the mining sector, transitioning from issuing short-term licenses to granting longer-term mining concession areas. This new approach is designed to optimize resource exploitation and significantly enhance the sector's contribution to Oman's broader economic diversification objectives.

Initiatives such as the launch of Invest Oman and the Investment Services Center are streamlining procedures to boost investment opportunities. These efforts are bolstered by recent legislative changes aimed at strengthening the country's business climate. Notable among these are the Foreign Capital Investment Law, which facilitates 100 percent foreign-owned and single shareholder companies, and the Commercial Companies Law, both tailored to optimize the business environment. The government's commitment to unlocking Oman’s private sector potential, especially in empowering SMEs, is yielding tangible results as evidenced by an increase in private sector employment.

Oman is firmly committed to advancing its climate agenda, as outlined in the National Strategy for Adaptation and Mitigation to Climate Change (2020-2040). The commitment to achieving net-zero emissions by 2050 is underpinned by substantial investments in renewable energy and the establishment of Hydrom (Hydrogen Oman SPC), a fully-owned subsidiary of Energy Development Oman. Hydrom is the master planner and orchestrator for the green hydrogen sector, setting the overall strategy, managing large-scale project developments, conducting public auctions for land allocation, and fostering partnerships for investment. Its significant efforts, including securing $30 billion in MOUs and targeting the production of 1 million tons of green hydrogen annually by 2030, position Oman as a potential global hub for green hydrogen production and a leader in sustainable energy solutions. These initiatives, alongside the Carbon Neutrality Program and the Sustainability Center, illustrate Oman's dedication to a sustainable future, aligning with global efforts in climate change mitigation.

Conclusion

The Omani authorities, by enacting their comprehensive and well-planned reforms, have effectively navigated the challenges of the global economic environment, achieving significant milestones in fiscal sustainability, economic diversification, and monetary and financial stability. The ongoing reforms in fiscal policy, monetary policy, and structural policy are commendable, positioning Oman for sustainable, diversified, and inclusive growth. The establishment of strong social safety nets, advancements in digital, and dedication to environmental sustainability reflects a balanced approach to development, ensuring long-term prosperity for all citizens.

The authorities remain firmly committed to continuing their reform agenda aimed at bolstering the medium-term economic outlook. They value the policy and capacity development support provided by the Fund and look forward to continuing the close and strong engagement.