INTERNATIONAL MONETARY FUND

IMF Country Report No. 22/343

OMAN

2022 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

November 2022

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 2022 Article IV consultation with Oman, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by the staff team of the IMF for the Executive Board's consideration on Lapse of Time basis, following discussions that ended on October 4, 2022, 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 October 24, 2022.
- An **Informational Annex** prepared by the IMF staff.

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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PRESS RELEASE

PR22/386

IMF Executive Board Concludes 2022 Article IV Consultation with Oman

FOR IMMEDIATE RELEASE

Washington, DC – **November 15, 2021:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Oman and considered and endorsed the staff appraisal without a meeting.[2]

Strong vaccination efforts have allowed for the relaxation of all social distancing restrictions, and the economic recovery is gaining traction. Overall GDP growth rebounded from -3.2 percent in 2020 to 3.0 percent in 2021, and is projected at 4.3 percent in 2022, supported by increased hydrocarbon production and continued recovery of non-hydrocarbon economic activity. Rebounding economic activity and elevated global inflationary pressures are expected to push up average inflation to 3 percent in 2022. Direct spillovers on the Omani economy from the war in Ukraine have been limited.

High oil prices and fiscal consolidation under the authorities' Medium-Term Fiscal Plan (MTFP), have improved fiscal and external balances considerably. The overall central government balance improved by 12.8 percentage points of GDP to a deficit of 3.2 percent in 2021, largely due to higher hydrocarbon revenue, expenditure restraint, and the introduction of VAT. Fiscal and external surpluses are expected in 2022 and over the medium term. Central government debt declined to 62.9 percent of GDP in 2021 and it is expected to decline to about 44 percent of GDP in 2022.

The banking system has weathered the recent shocks relatively well. Financial soundness indicators appear healthy, benefiting from prudent oversight of the Central Bank of Oman and the strong buffers before entering the crisis. However, private sector credit growth has remained subdued.

Uncertainties continue to cloud the outlook, with downside risks dominating in the short run. On the upside, the outlook could be bolstered by higher-than-expected hydrocarbon windfalls, accelerated implementation of structural reforms under Vision 2040, and the realization of investment projects from regional partners. On the downside, risks stem particularly from uncertainty about the war in Ukraine and its impact on the global economy and oil prices, a renewed flare-up of COVID-19 infections, tighter-than-expected global financial conditions, increased inflationary pressures from higher global food and energy prices, more persistent disruption in global supply chains, pressures to spend the hydrocarbon windfalls, and climate-related events.

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[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.

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

Executive Board Assessment[3]

In concluding the 2022 Article IV consultation with Oman, Executive Directors endorsed the staff's appraisal, as follows:

The economic recovery is gaining traction. Strong measures helped mitigate the health and socioeconomic impacts of the pandemic. Non-hydrocarbon growth is expected to strengthen over the medium term, supported by the oil price outlook, planned investments, and structural reforms. Fiscal and external buffers have increased, supported by increased hydrocarbon revenues and substantial fiscal consolidation. Nevertheless, downside risks, notably from global sources, dominate in the short run.

The authorities remain committed to fiscal consolidation notwithstanding oil revenue windfalls and social pressures. Significant fiscal adjustment is being implemented in 2022, which has allowed for increased social spending while still generating a substantial surplus due to the oil windfall. However, reinforcing fiscal sustainability over the medium term, as envisaged under the MTFP, and creating space for social safety net reforms and higher capital expenditure require additional measures. Thus, efforts to strengthen tax administration and implement a PIT are welcome. The phased withdrawal of untargeted energy and water subsidies should be a priority. Intensive public outreach is essential to sustain support for fiscal consolidation amid rising oil windfalls.

Establishing strong fiscal frameworks with clear objectives and a long-term anchor would help achieve fiscal sustainability. Fiscal frameworks would lay the foundation for adopting a fiscal rule. A rule based on the non-hydrocarbon structural primary balance, which is robust to hydrocarbon price volatility and economic fluctuations, could be appropriate. Ongoing reforms to improve public financial management and transparency are welcome and developing a sovereign asset and liability management framework should be a priority.

The exchange rate peg remains appropriate. The peg has provided a credible monetary anchor, helping to deliver low and stable inflation. Official foreign reserves, fiscal prudence, and structural reforms would continue to reinforce the peg. Better coordination between fiscal and monetary authorities, improved liquidity management, and deeper financial markets would improve the capacity for a more independent monetary policy.

Financial system risks are low, but the CBO should continue its close monitoring of bank asset quality and its efforts to strengthen regulatory frameworks. Restoring prudential rules to pre-pandemic levels should be a priority. Enacting the new Banking Law would align the legislation with international best practices. Careful coordination is needed to ensure that banking system liquidity remains adequate as plans to enhance the liquidity management framework and establish the TSA are implemented. Progress in developing capital markets is welcome.

Steadfast implementation of structural reforms under Vision 2040 is paramount to secure more inclusive, diversified, and sustainable growth. Strengthening the social safety net would help facilitate reforms to improve labor market flexibility. Advancing SOE reforms should also be prioritized to promote competition, strengthen governance, and stimulate private sector

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[3] 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.

participation in the economy. To facilitate the digital economy transformation, worker skills will need to be upgraded. Pressing ahead with addressing climate challenges should be a priority.

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

			Prel.	Proj.					
	2019	2020	2021	2022	2023	2024	2025	2026	2027
Oil and Gas Sector									
Total production of oil and gas (US$ billions)	27.1	18.0	24.3	42.1	37.0	35.1	33.6	32.5	31.6
Average crude oil export price (US$/barrel)	63.6	46.0	64.3	95.0	85.5	80.2	76.2	73.3	71.0
Crude oil production (in millions of barrels/day)	0.97	0.95	0.97	1.06	1.13	1.13	1.13	1.14	1.14
National Accounts									
Nominal GDP (US$ billions)	88.1	74.0	85.9	108.9	111.0	110.7	111.4	113.4	116.2
Nominal GDP (in billions of Omani rials)	33.9	28.4	33.0	41.9	42.7	42.6	42.8	43.6	44.7
Real GDP	-1.1	-3.2	3.0	4.3	4.1	1.9	2.3	2.5	2.7
Real hydrocarbon GDP 1/	-1.5	-0.9	3.7	8.5	6.4	0.5	0.5	0.4	0.4
Real nonhydrocarbon GDP	-0.9	-4.5	1.8	2.6	2.6	2.9	3.4	3.9	4.0
Consumer prices (average)	0.1	-0.9	1.5	3.0	2.5	2.2	2.0	2.0	2.0
GDP Deflator	-2.7	-13.2	12.7	21.6	-2.1	-2.1	-1.6	-0.8	-0.2
Investment and Saving									
Gross capital formation	26.9	28.3	23.0	23.2	23.5	23.8	24.0	24.1	24.2
Public	11.9	12.5	7.5	10.7	10.6	10.6	10.6	10.6	10.5
Private	17.1	19.9	18.8	12.5	12.9	13.2	13.4	13.5	13.7
Gross national savings	22.4	3.9	15.3	27.3	26.0	25.5	25.3	25.3	25.4
Public	8.8	-0.1	7.0	15.5	11.7	12.0	10.9	9.9	9.3
Private	13.5	4.0	8.4	11.8	14.2	13.5	14.4	15.4	16.1
Central Government Finances									
Revenue and grants	33.9	29.6	33.9	36.9	33.6	34.1	33.4	32.4	31.8
Hydrocarbon	25.8	22.3	26.6	30.5	27.1	26.8	25.8	24.5	23.8
Nonhydrocarbon and grants	8.1	7.4	7.3	6.5	6.6	7.3	7.6	7.9	8.0
Expenditure	38.8	45.7	37.1	31.7	32.0	31.6	31.8	31.3	30.8
Current	30.9	37.2	33.6	29.0	29.4	29.0	29.2	28.7	28.2

Capital	7.9	8.5	3.5	2.7	2.6	2.6	2.6	2.6	2.5
Overall balance (Net lending/borrowing)	-4.8	-16.1	-3.2	5.3	1.6	2.5	1.6	1.1	1.0
Overall balance (adjusted) 2/	0.3	-9.9	-0.9	5.3	1.6	2.5	1.6	1.1	1.0
Non-hydrocarbon primary balance (% of non-hydrocarbon GDP)	-35.9	-38.3	-34.3	-35.9	-34.7	-31.4	-29.6	-27.5	-25.8
Central government debt, *of which:*	52.5	69.7	62.9	43.7	42.5	41.7	40.2	38.5	36.8
External debt	39.3	51.7	47.2	31.3	30.3	29.7	28.6	27.4	25.8
Public debt, *of which:*	79.1	111.0	107.6						
SOEs debt	26.7	41.3	41.8						
Net financial assets	-11.2	-28.5	-25.5	-13.7	-12.5	-10.9	-9.0	-7.3	-5.6
Monetary Sector									
Net foreign assets	-3.6	-28.4	31.2	13.1	25.8	-3.8	-10.9	1.0	2.8
Net domestic assets	4.4	23.4	-1.4	2.8	-4.1	6.0	8.9	4.6	4.6
Credit to the private sector	2.8	1.1	2.4	3.0	3.5	3.7	4.1	4.3	4.4
Broad money	2.0	8.9	4.6	5.2	3.3	3.0	3.3	3.7	4.2
External Sector									
Exports of goods	38.7	33.5	44.6	64.0	59.3	58.2	57.6	57.5	57.7
Oil and gas	26.5	18.2	26.1	44.5	39.2	37.2	35.6	34.5	33.5
Other	12.2	15.3	18.5	19.5	20.0	21.0	22.0	23.0	24.2
Imports of goods	-20.5	-25.8	-28.0	-32.8	-32.3	-32.9	-33.6	-34.6	-36.0
Current account balance	-4.0	-12.3	-4.3	4.5	2.7	1.9	1.5	1.3	1.4
Percent of GDP	-4.6	-16.6	-5.0	4.1	2.5	1.7	1.3	1.2	1.2
Central Bank gross reserves	16.7	15.0	19.7	21.6	25.5	25.1	23.7	24.2	25.1
In months of next year's imports of goods and services	5.9	4.9	5.3	5.8	6.6	6.4	5.9	5.9	6.0
Total external debt	72.0	72.8	79.8	76.9	79.8	80.3	80.5	80.3	80.9
Percent of GDP	81.8	98.4	93.0	70.6	71.9	72.5	72.2	70.9	69.7
Memorandum Items:									
Non-hydrocarbon structural primary balance 3/	-24.6	-22.4	-20.2	-17.7	-18.8	-18.0	-17.8	-17.2	-16.7
Non-hydrocarbon structural primary balance (percent of non-hydrocarbon GDP) 3/	-36.3	-35.9	-32.6	-32.6	-34.1	-31.2	-29.6	-27.5	-25.8
Nominal effective exchange rate (2010=100)	115.9	116.6	119.5	…	…	…	…	…	…
Real effective exchange rate (2010 = 100)	106.7	105.1	107.8	…	…	…	…	…	…

Exchange rate (rial per dollar; period average)	0.38	0.38	0.38	…	…	…	…	…	…

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

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

2/ Data prior to 2022 were adjusted by taking out expenditures on gas and oil that were hived off to Energy Development Oman in 2021.

3/ Adjusted by the economic cycle.

INTERNATIONAL MONETARY FUND

OMAN

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION

October 24, 2022

KEY ISSUES

Context: Strong policy actions helped mitigate the fallout from the COVID-19 pandemic, and the economic recovery is gaining traction, supported by revival in the hydrocarbon sector and the relaxation of social restrictions. CPI inflation has been contained thus far, partly reflecting administered prices and caps on selected fuel prices. Fiscal and external buffers have increased, supported by higher hydrocarbon revenues and substantial fiscal adjustment under the authorities' Medium-Term Fiscal Plan (MTFP). The authorities remain committed to fiscal consolidation notwithstanding oil revenue windfalls and social pressures. Financial soundness indicators appear healthy, benefiting from the strong buffers before entering the crisis and prudent central bank oversight. A broad range of structural reforms are being implemented under Oman Vision 2040. However, downside risks, notably from global sources, dominate in the short run.

Focus of the discussions: (i) strengthening fiscal frameworks; (ii) safeguarding financial stability; and (iii) securing more inclusive, diversified, and sustainable economic growth.

Key Policy Recommendations:

Fiscal policy: Reinforcing fiscal sustainability over the medium term, as envisaged under the MTFP, requires further revenue and expenditure measures. Tax administration should be strengthened; there is scope to increase VAT revenue over time; and the untargeted energy and water subsidies should be phased out while strengthening the social safety net. Establishing strong fiscal frameworks with clear objectives and a long-term anchor would support fiscal consolidation. Reforms to strengthen public financial management and transparency, and to develop a sovereign asset and liability management framework, should continue.

Monetary and financial policies: The exchange rate peg continues to serve Oman well. Efforts to strengthen the monetary transmission mechanism and establish the treasury single account should be carefully coordinated to maintain adequate banking system liquidity. Prudential rules should be restored to pre-pandemic levels as the impact of the pandemic declines. Close monitoring of banks' asset quality remains essential.

Structural policy: Steadfast implementation of reforms under Vision 2040 is needed to foster strong, job-rich, private sector-led growth. This would require enhancing labor market flexibility, improving the business environment, advancing SOE reforms, leveraging digitalization, and tackling climate challenges.

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

Discussions were held in Muscat during September 20 to October 4, 2022. The team comprised Daniel Kanda (head), Abdullah AlHassan, Haytem Troug, and Muayad Ismail (all MCD). Ms. Fei Liu (MCD) contributed to the report and the selected issues paper. Mmes. Dalia Aita and Esther George (all MCD) provided support from headquarters. Executive Director Mr. Mohieldin joined the concluding meetings. Advisor to the Executive Director Ms. Hamzah accompanied the mission. The mission 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, Members of the Economic and Financial Committee at Shuraa Council, other senior public sector and central bank officials, members of the civil society, and private sector representatives.

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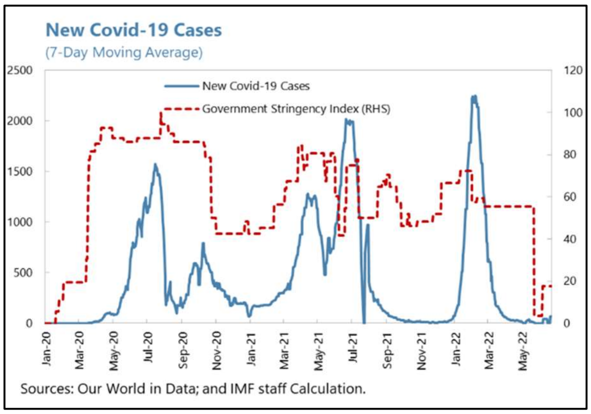
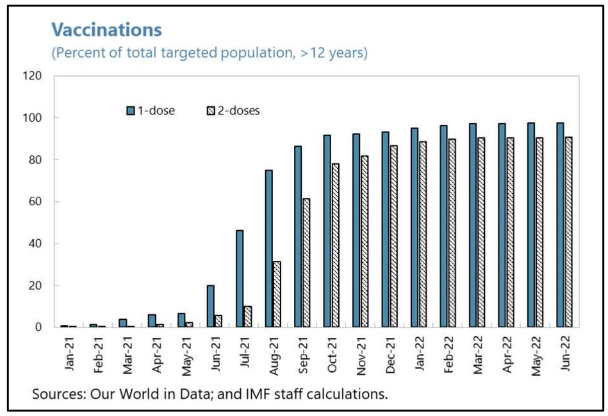
TABLES

ANNEXES

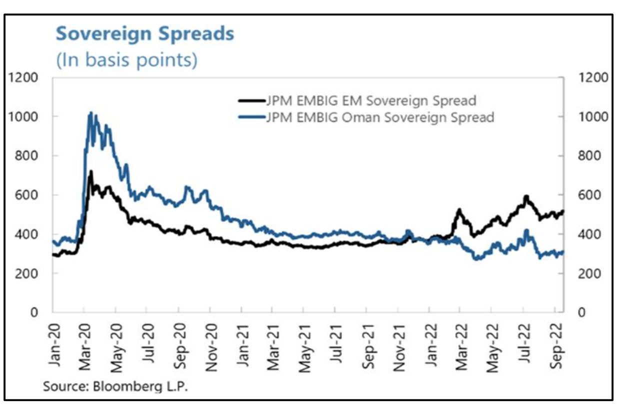
BACKGROUND

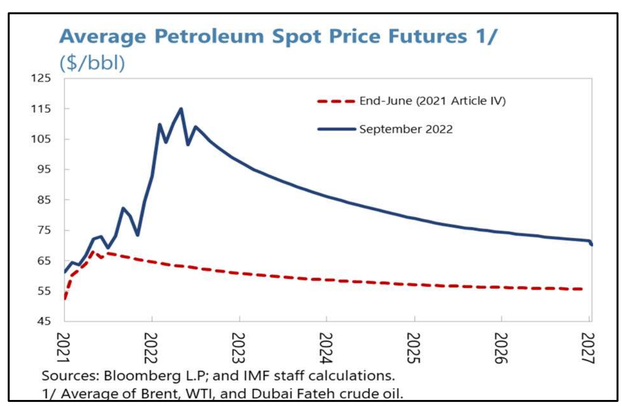
1. The authorities undertook substantial vaccination efforts and policy actions to mitigate the fallout from the COVID-19 pandemic and foster the recovery. Nearly all persons 12 years and older had been at least partially vaccinated and about 90 percent were fully vaccinated as of end-May 2022. With a high vaccination rate and declining infections, all COVID-19 social restrictions have been removed. In 2020-2021, targeted fiscal, monetary, and financial measures provided relief to households, firms, and banks supporting the recovery in non-hydrocarbon sector.





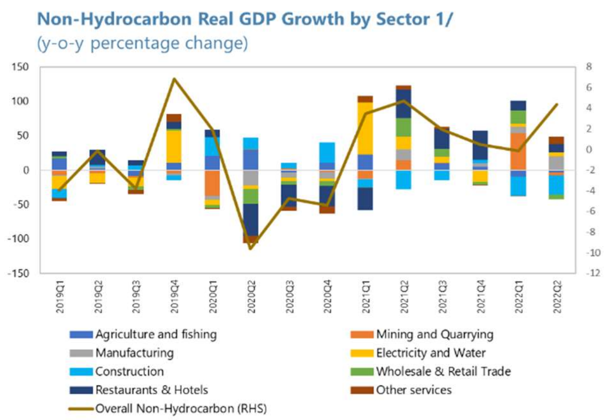
2. The government is continuing to implement reforms under "Oman Vision 2040". These reforms focus, among others, on reinforcing fiscal sustainability, strengthening governance of state-owned enterprises (SOEs), boosting non-oil private sector growth, facilitating job creation, and investing in cleaner sources of energy. Financial markets have remained supportive, with narrowing borrowing spreads (reaching below emerging markets spreads for the first time since end-2018). The government has implemented many of the recommendations from the 2021 Article IV (Annex I). The Fund has provided technical assistance in key reform areas such as fiscal frameworks, tax administration, public debt management, and external sector statistics. Oil prices have risen to a multi-year high and are projected to remain high over the medium term, strengthening fiscal and external buffers.

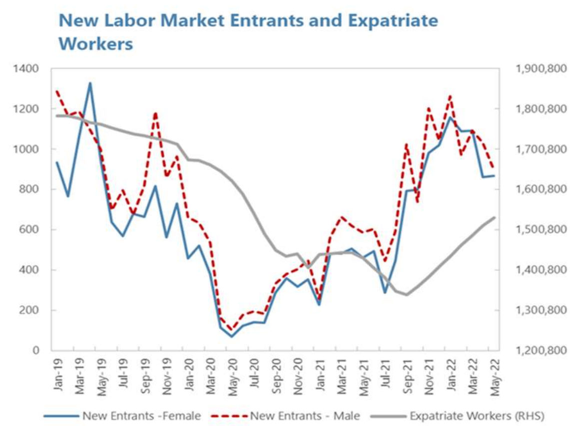




RECENT ECONOMIC DEVELOPMENTS

3. The economic recovery is gaining traction, supported by revival in the hydrocarbon sector and the relaxation of social restrictions. Overall GDP growth rebounded from -3.2 percent in 2020 to 3.0 percent in 2021, with real hydrocarbon GDP growing by 3.7 percent mainly due to strong oil condensate production not covered by the OPEC+ agreement, and non-hydrocarbon GDP growing by 1.8 percent supported by the gradual reopening and recovery of the economy. Nevertheless, hard hit sectors, specifically construction and services, remain below pre-pandemic levels. At the same time, the labor market has gradually normalized since 2021, with increased labor force participation of nationals offsetting the reduction in expatriate workers. Recent data indicates continued recovery in expatriate workers and new labor market entrants in 2022 H1, supported by the overall economic recovery.

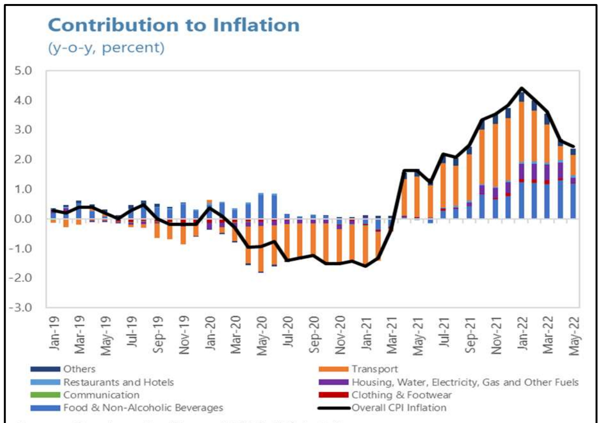




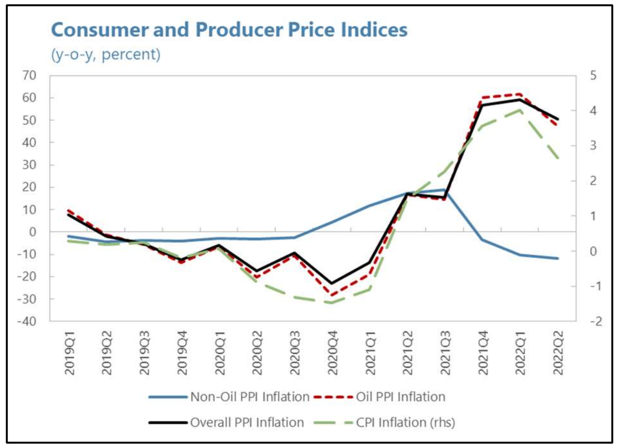
Sources: Haver Analytics; country authorities; and IMF staff calculations.

1/ Other services include transport, storage, financial, real estate, public administration, and others.

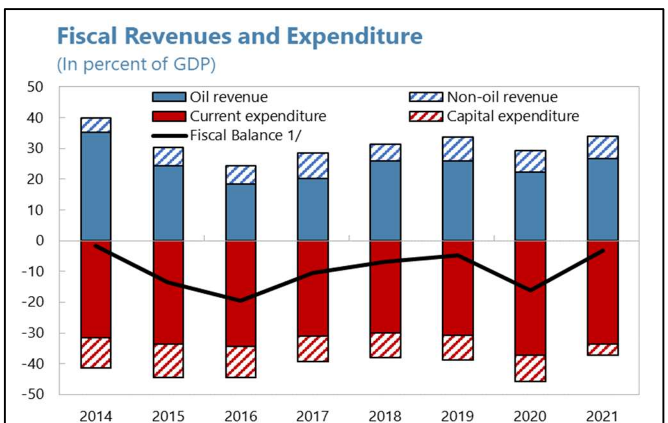
4. Headline consumer price inflation has been contained thus far. Headline inflation turned positive to 1.5 percent (y-o-y) in 2021, following the introduction of VAT. On the back of domestic economic recovery, continued global supply chain disruptions, and higher global energy and food prices, it edged up to 4.4 percent (y-o-y) in January 2022 but subsequently decelerated to 2.4 percent in August 2022, largely due to higher base from the introduction of the VAT, price caps on selected fuels, wheat, and flour, and a stronger U.S. dollar. Since 2021Q1, Producer Price Index (PPI) inflation has been significantly higher than CPI inflation largely reflecting the larger weight of hydrocarbon products in the PPI, which has amplified the impact of higher international oil prices, as well as the prevalence of consumer-related administrative prices and cap on selected fuels.



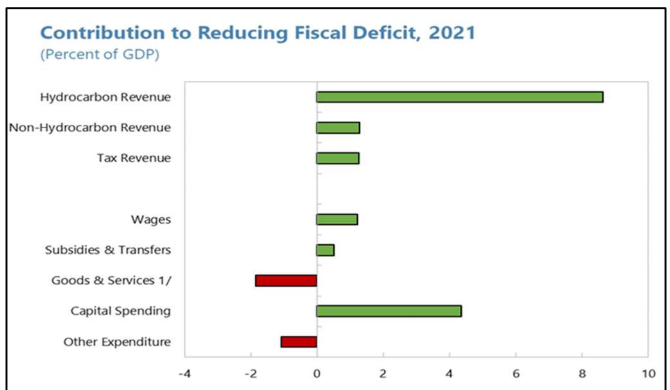
Sources: Country authorities; and IMF Staff Calculations.



5. High oil prices and fiscal consolidation improved the fiscal position considerably in 2021. The overall central government balance improved by 12.8 percentage points of GDP to a deficit of 3.2 percent, largely due to higher hydrocarbon revenue, expenditure restraint, and the introduction of VAT. While the 2021 budget anticipated that Energy Development Oman (EDO) would be hived off from central government from the beginning of the year, this was significantly delayed, and the government covered EDO operational expenses, amounting to 2.4 percent of GDP, until it was fully established and commenced its funding operations. Central government debt declined to 62.9 percent of GDP (69.7 percent at end-2020). State-owned enterprise (SOE) debt stood at 41.8 percent of GDP in 2021, though risks are mitigated by considerable assets in Oman Investment Authority (OIA). Net financial assets ratio—central government deposits at depository corporations and OIA's liquid assets less central government debt—increased to -25.5 percent of GDP (-28.5 percent at end-2020).



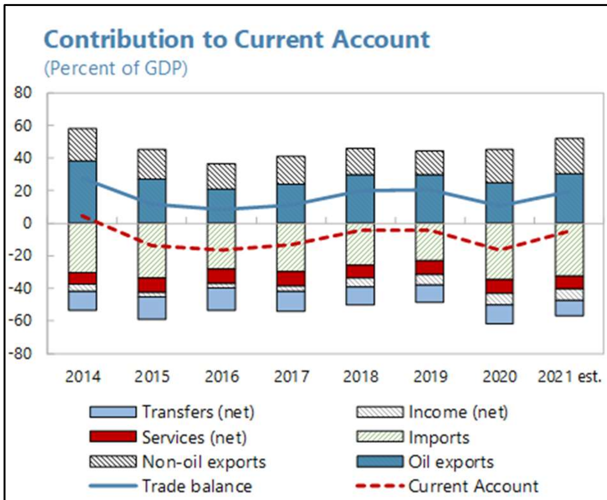
Sources: Country authorities; and IMF staff calculations.

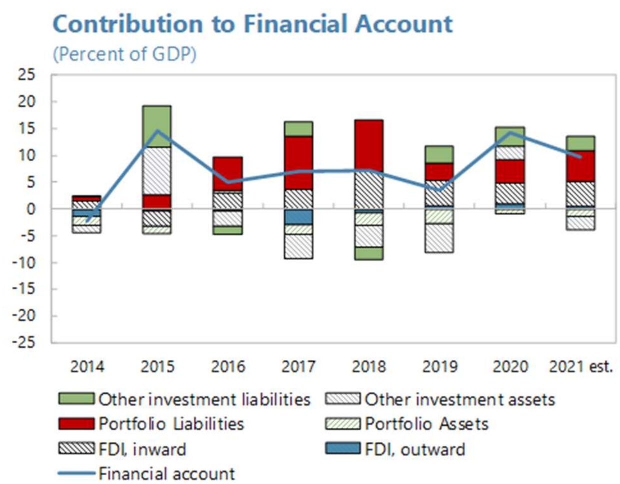


Sources: Country authorities; and IMF staff calculations.
1/ Due to the establishment of EDO, the gas purchasing agreement with PDO has changed resulting in higher gas cost, but also higher gas revenue.

6. The external position has strengthened substantially. Buoyed by hydrocarbon exports and fiscal adjustment, the current account (CA) deficit narrowed to 5.0 percent of GDP in 2021 (16.6 percent in 2020). The improvement was also bolstered by increased non-hydrocarbon exports and lower remittance outflows due to reduction in expatriates amid COVID-19. International reserves held at the Central Bank of Oman (CBO) increased by US$4.7 billion in 2021, including due to the

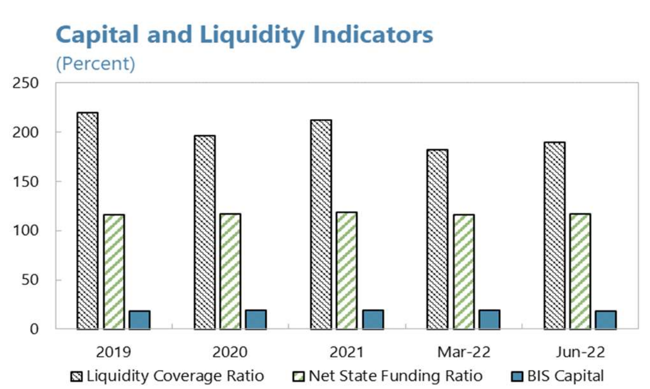
August 2021 SDR allocation (US$733 million) that the authorities intend to keep as part of reserves, to US$19.7 billion (5.3 months of prospective imports and 71.4 percent of the IMF ARA metric). Including liquid assets of the OIA would raise reserves above the ARA threshold. Staff assess Oman's external position as moderately weaker than the level implied by fundamentals and desirable policies (Annex II).



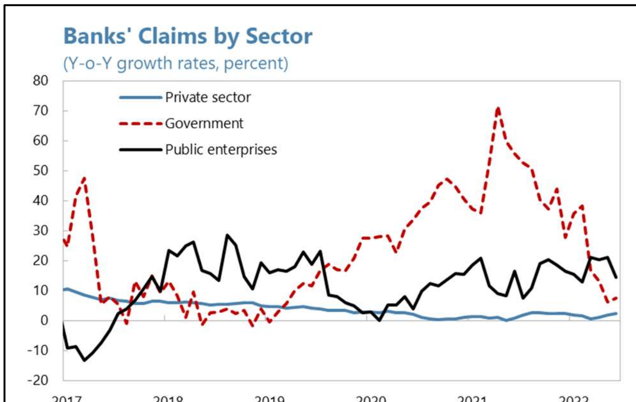


Sources: Country authorities; and IMF staff calculations.

7. The banking system has weathered the recent shocks relatively well, but private sector credit growth has remained subdued. Financial soundness indicators appear healthy, benefiting from the strong buffers before entering the crisis. Banks' capital and liquidity ratios are well above regulatory requirements. As of end-June 2022, the NPL ratio was around 4.0 percent, with provisioning exceeding 113 percent, while profitability improved slightly, with return on assets increasing to 1.3 percent (1.1 percent at end-2021). Private sector credit growth remained anemic at 2.3 percent (y/y), reflecting weaker credit demand in the hard-hit sectors. However, claims on the government and SOEs increased by 7.6 percent and 14.4 percent, while their deposits increased by 13.2 percent and 32.6 percent, respectively.



Sources: Country authorities; and IMF staff calculations.



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

OUTLOOK AND RISKS

8. **The economic outlook remains favorable supported by cyclical and structural factors.** Overall GDP growth is projected at 4.3 percent in 2022, supported by increased hydrocarbon production due to the recent relaxation in OPEC+ quotas and stepped-up condensate production, and continued recovery of non-hydrocarbon economic activity. Benefiting from planned investments and structural reforms (Section C), non-hydrocarbon growth is projected to strengthen gradually to 4.0 percent over the medium term, and overall GDP growth is projected at 2.7 percent over the same horizon as hydrocarbon production stabilizes. Rebounding economic activity and rising global inflationary pressures are expected to push up inflation to 3.0 percent in 2022 given the relatively high dependence on imports and large weight of tradable items in the CPI basket.

Text Table. Oman: Selected Macroeconomic Projections, 2019-27 1/

			Prel.	Proj.					
	2019	2020	2021	2022	2023	2024	2025	2026	2027
Real GDP Growth (percent)	-1.1	-3.2	3.0	4.3	4.1	1.9	2.3	2.5	2.7
Non-hydrocarbon GDP Growth (percent)	-0.9	-4.5	1.8	2.6	2.6	2.9	3.4	3.9	4.0
Inflation (percent)	0.1	-0.9	1.5	3	2.5	2.2	2	2	2.0
CA Balance (% of GDP)	-4.6	-16.6	-5.0	4.1	2.5	1.7	1.3	1.2	1.2
Fiscal balance (adj., % of GDP)	0.3	-9.9	-0.9	5.3	1.6	2.5	1.6	1.1	1.0
Non-hydrocarbon primary balance (% of non-hydrocarbon GDP)	-35.9	-38.3	-34.3	-35.9	-34.7	-31.4	-29.6	-27.5	-25.8
Government debt (% of GDP)	52.5	69.7	62.9	43.7	42.5	41.7	40.2	38.5	36.8
External government debt (% of GDP)	39.3	51.7	47.2	31.3	30.3	29.7	28.6	27.4	25.8

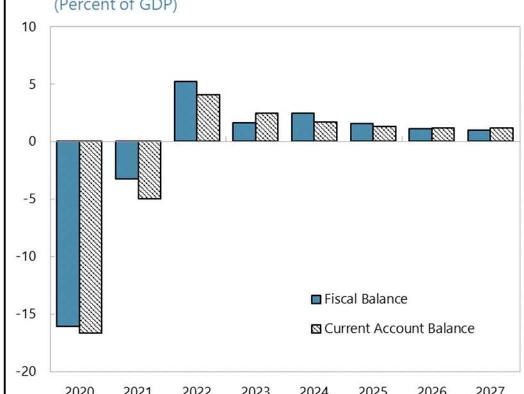
Sources: Country authorities; and IMF staff calculations

1/ The coverage of non-oil 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-oil trade data from previous years.

9. **Fiscal and external balances will improve considerably in the near-term but moderate over the medium term.** The twin balance will be driven by high oil prices and implementation of measures under the authorities' Medium-Term Fiscal Plan (MTFP), which targets the durable elimination of fiscal deficits. A substantial fiscal surplus is expected in 2022, thereafter gradually diminishing to 1.0 percent of GDP by 2027 as oil price decline. Central government debt is expected to decline to 36.8 percent of GDP by 2027. While central government debt sustainability improved due to high oil prices and fiscal adjustment, the debt remains vulnerable to shocks to primary balance, GDP growth, the exchange rate, and interest rates (Annex III).

Fiscal and External Balances

(Percent of GDP)

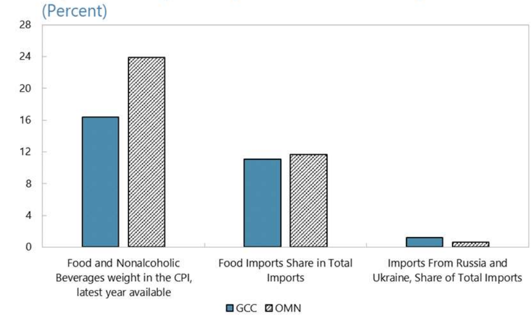


Sources: Country authorities; and IMF staff calculations.

Following the trajectory of oil prices and fiscal consolidation, external current account surpluses are expected over the medium term, causing official reserves held at the CBO to rise to 80.7 percent of the ARA metric by 2027.

10. Direct spillovers on the Omani economy from the war in Ukraine have been small. With negligible direct trade or financial links to Russia and Ukraine, the direct impact of the war in Ukraine has been positive thus far, mostly via higher oil prices (Annex IV). Oman is dependent on both Russia and Ukraine for about 60 percent of its total wheat imports, but has stockpiled food items and begun to tap new markets to ensure food security. Nevertheless, the war could potentially imply adverse spillovers to Oman, including through slower global economic activity affecting demand for oil in the short term, inflation from rising and volatile international prices for food and energy, and additional supply chain disruptions.

Food CPI Weight, Food Imports Share of Total Imports and Dependancy on Russia-Ukraine Imports
(Percent)



Sources: Comtrade; and IMF staff calculations.

11. Uncertainties continue to cloud the outlook, with downside risks dominating in the short run (Annex V).

- On the *upside*, the outlook could be bolstered by higher-than-expected hydrocarbon windfall, accelerated implementation of structural reforms under Vision 2040, and the realization of investment projects from regional partners.

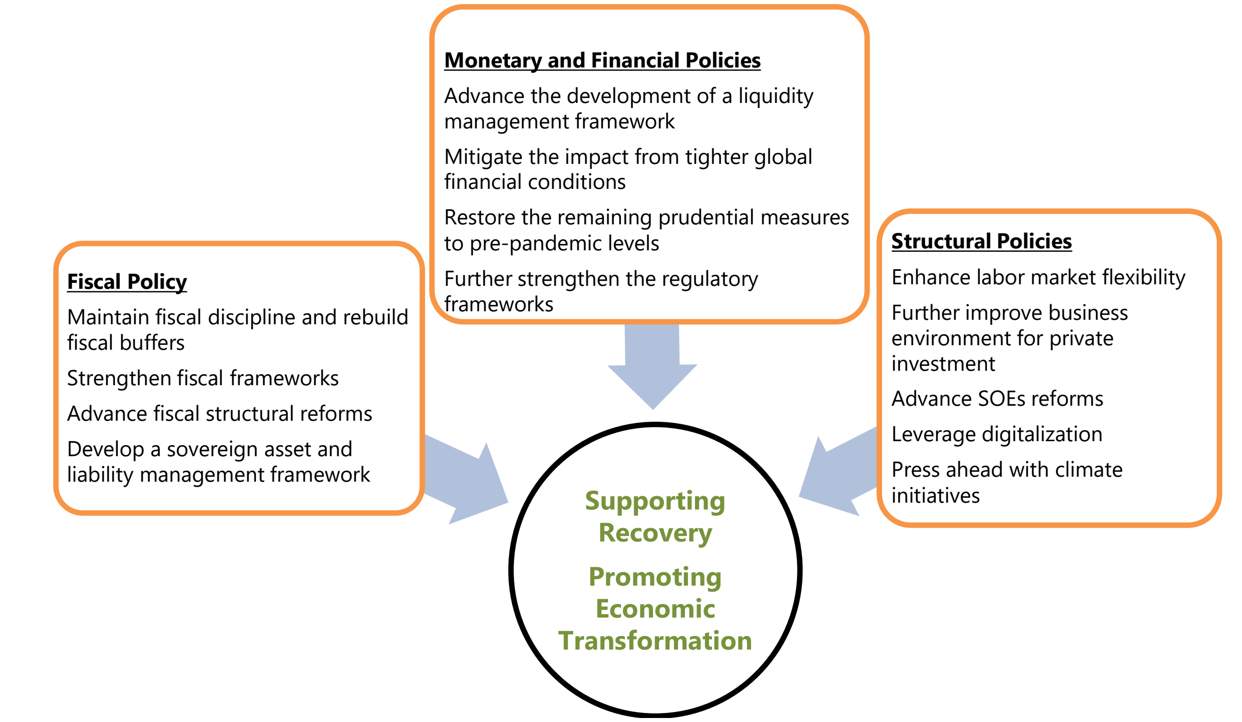
- On the *downside*, risks stem particularly from uncertainty about the war in Ukraine and its impact on the global economy and oil prices, a renewed flare-up of COVID-19 infections, tighter-than-expected global financial conditions, increased inflationary pressures from higher global food and energy prices, more persistent disruption in global supply chains, pressures to spend the hydrocarbon windfalls, and climate-related events.

12. Authorities' Views. The authorities broadly agreed with the staff's assessment of the economic outlook and risks. They are pressing ahead with fiscal and structural reforms to mitigate risks and improve the resilience of the economy.

POLICY DISCUSSIONS

The policy discussions focused on: (i) strengthening fiscal frameworks; (ii) safeguarding financial stability; and (iii) securing more inclusive, diversified, and sustainable economic growth.

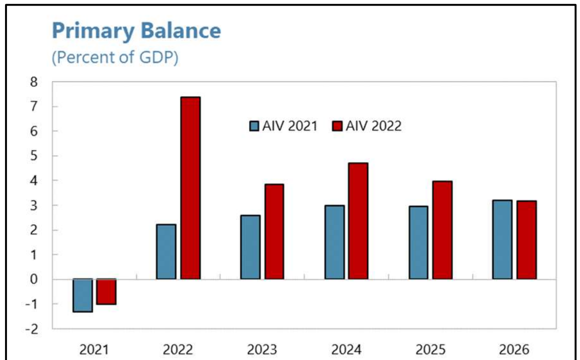
Text Figure. Oman: Policies to Support Recovery and Promote Economic Transformation



A. Fiscal Policy: Strengthening Fiscal Frameworks

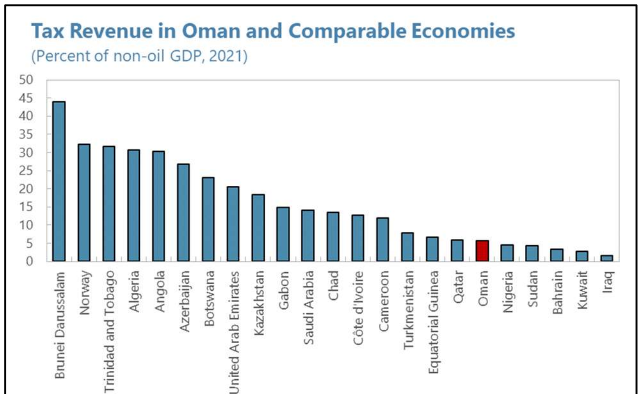
13. The authorities continue to be committed to fiscal consolidation notwithstanding oil revenue windfalls in 2022. The 2022 budget maintains fiscal prudence by containing wages and goods & services expenditure while moderately increasing capital expenditure (0.5 percent of GDP) and social outlays to mitigate inflationary pressures, support economic recovery, and maintain social cohesion (1.9 percent of GDP, primarily in fuel subsidies). Strengthening the economic recovery, rebuilding buffers, and gradually reducing government debt are key priorities. Building on fiscal adjustment of 4.3 percent of GDP in the non-hydrocarbon structural primary balance during 2020-21, additional adjustment of about 2.5 percent of GDP is being undertaken in 2022 largely through containing the wage bill and other current expenditure. Given the oil revenue windfall, the fiscal balance is expected to improve to a surplus of 5.3 percent of GDP in 2022 (first time since 2013), considerably higher than budget projections. In this context, there is scope for additional temporary targeted support to the most affected households and sectors, if needed, without jeopardizing medium-term fiscal consolidation objectives. The government utilized some of the hydrocarbon windfalls to repay, prepay, and buyback part of central government debt to improve its maturity profile, and therefore the debt is expected to decline to 43.7 percent of GDP in 2022, partly reflecting non-policy factors (the increase in nominal GDP due to higher oil prices).

14. Successfully achieving the medium-term objectives under the MTFP would require additional revenue and expenditure measures. To strengthen social cohesion and public support for reforms, the authorities are finalizing a comprehensive social safety net reform to ensure adequate and efficient safety net programs, covering social security reform, subsidies, and social programs (increasing spending by about 1.0 percent of GDP from 2023). Additional capital expenditure during 2023-2025, including green infrastructure, will be about 0.4 percent of GDP yearly. A delay in phasing out electricity subsidies will increase subsidies by 0.5 percent yearly over 2023-2025. Against this background, mobilizing non-hydrocarbon revenue and containing expenditure would be necessary to achieve MTFP objectives.

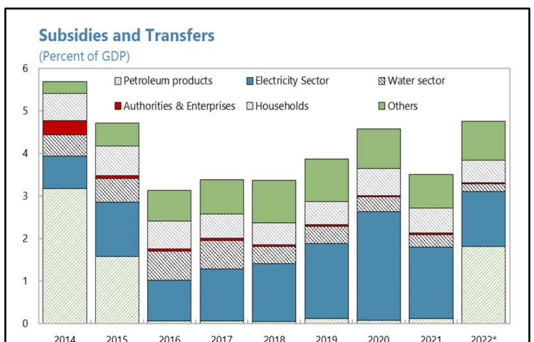


Sources: Country authorities; and IMF staff calculations.

- *Mobilizing non-hydrocarbon revenue:* Despite the introduction of VAT in 2021, tax revenue remains low (averaging 3.3 percent of GDP over 2017-2021). There is scope to mobilize more revenue by broadening the VAT tax base through removing exemptions, except for basic food items, and revisiting the VAT rate over time. To strengthen tax administration, challenges relating to taxpayer registration, compliance, staffing, and IT systems are being gradually addressed, including with support from IMF TA. The authorities have advanced preparations to implement the personal income tax (PIT) on high-income earners, estimated to yield 0.2 percent of GDP, which is now expected to be implemented in 2024.



- *Rationalizing expenditure:* savings from the mandatory retirement scheme along with the revised salary scales for new hiring would amount to 1.2 percent of GDP in structural terms in 2022 and then remain constant in real terms. Ministries have started submitting monthly reports to ensure spending is in line with the Budget.



Sources: Country authorities; and IMF staff estimates
*Projected.

- *Targeting subsidies:* reforms reduced petroleum subsidies from 3.2 to 0.1 percent of GDP between 2014 and 2021 but these would rise in 2022 due to recent price caps. Staff emphasized that the phased withdrawal of untargeted energy and water subsidies should be a priority, including lifting the cap and resuming the reforms through the authorities' targeted National Subsidy System.

Text Table. Oman: Decomposition of Fiscal Adjustment

(Percent of GDP, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027
Nominal GDP (in billions of Omani Rials)	33.9	28.4	33.0	41.9	42.7	42.6	42.8	43.6	44.7
Nominal potential GDP (in billions of Omani Rials)	32.8	32.7	35.0	42.8	43.0	42.7	42.8	43.6	44.6
Output gap	1.03	0.87	0.94	0.98	0.99	1.00	1.00	1.00	1.00
Overall fiscal balance (adj.)	0.2	-10.1	-0.8	5.2	1.7	2.5	1.6	1.1	1.0
Gross financing needs	9.9	25.1	8.6	5.2	1.0	1.3	3.1	2.9	3.9
Nonhydrocarbon fiscal balance	-25.5	-32.2	-27.5	-25.2	-25.4	-24.3	-24.2	-23.4	-22.8
Non-hydrocarbon structural primary balance 1/	-24.6	-22.4	-20.2	-17.7	-18.8	-18.0	-17.8	-17.2	-16.7
Structural non-hydrocarbon primary revenue 2/	6.3	7.0	6.3	5.8	5.9	6.7	6.9	7.3	7.4
Value added tax	0.0	0.0	0.9	1.0	1.1	1.5	1.6	1.9	1.9
Personal income tax	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.2	0.2
Excises	0.1	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Expatriate license fees	0.7	0.5	0.6	0.5	0.5	0.5	0.5	0.5	0.5
Others 3/	5.5	6.2	4.5	4.0	4.1	4.2	4.3	4.4	4.5
Structural primary expenditure 2/	30.9	29.4	26.6	23.5	24.7	24.6	24.7	24.5	24.1
Wage bill	10.2	11.1	9.4	8.2	8.5	8.7	9.0	9.1	9.1
Goods and services	2.3	2.3	2.5	2.0	2.1	2.1	2.2	2.2	2.2
Subsidies	4.0	4.0	3.3	3.8	4.6	4.0	3.7	3.5	3.3
Other current expenditure	10.2	8.7	8.0	6.8	6.9	7.1	7.2	7.1	7.0
Capital (excluding oil and gas)	4.0	3.3	3.3	2.7	2.6	2.6	2.6	2.6	2.5
Others	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items									
Primary expenditure (adj., in billions of Omani Rials)	10.8	10.4	10.4	12.1	12.4	12.2	12.3	12.5	12.6

Sources: Country authorities; and staff estimates.

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

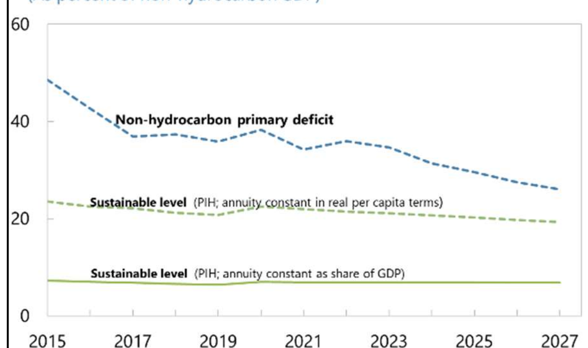
2/ Percent of nominal potential GDP.

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

15. **Steadfast implementation of MTFP will significantly reduce the gap with the fiscal position consistent with intergenerational equity**. The nonhydrocarbon primary deficit would decline to 26.0 percent of nonhydrocarbon GDP, compared with the Permanent Income Hypothesis (PIH) norm of 19 percent (computed as an annuity constant in real per capita terms). Additional measures beyond the medium term would therefore be needed to achieve full fiscal sustainability with an equitable distribution of the oil wealth across generations.

Projected and Sustainable Non-Hydrocarbon Primary Deficit

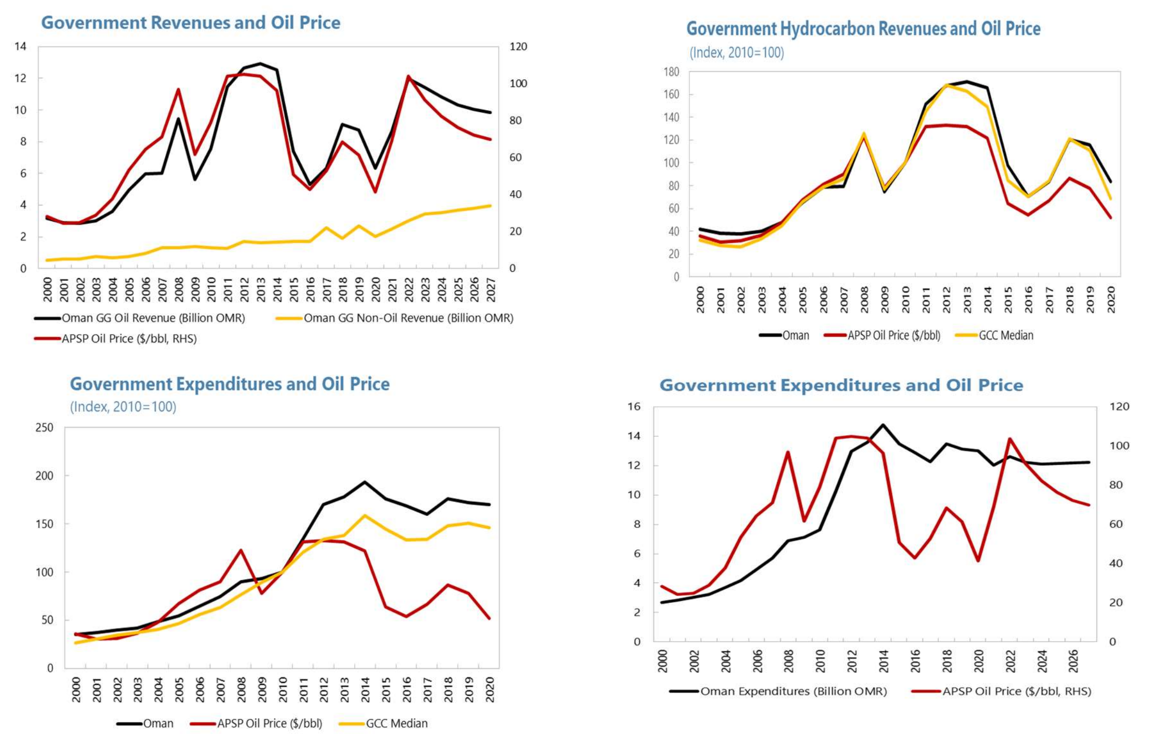
(As percent of non-hydrocarbon GDP)



Source: IMF staff estimates.

16. There was agreement that establishing strong fiscal frameworks with clear fiscal objectives and a long-term fiscal anchor would help achieve fiscal consolidation. Further developing institutional capacity and enhancing data quality will be essential. Building on the significant progress made under the MTFP, reforms would best be situated within a broader framework for fiscal policy making, including strengthening the medium-term macroeconomic framework, publishing a fiscal risk statement, developing a medium-term expenditure framework, and expanding fiscal coverage, which are prerequisites for adopting an effective fiscal rule. In the meantime, complementing the implicit deficit ceiling of 3 percent of GDP with a rule on the non-hydrocarbon primary balance to non-hydrocarbon GDP would delink expenditure decisions from commodity price volatility and more accurately assess the fiscal stance. A fiscal rule based on the non-hydrocarbon structural primary balance, which disconnects spending from the volatility of oil and gas prices and economic fluctuations, could be appropriate for Oman in achieving fiscal sustainability and macroeconomic stabilization objectives (see Selected Issues Paper I).

Text Figure. Oman: Revenues, Expenditures, and Oil Price



Sources: Country authorities; and IMF staff calculations.

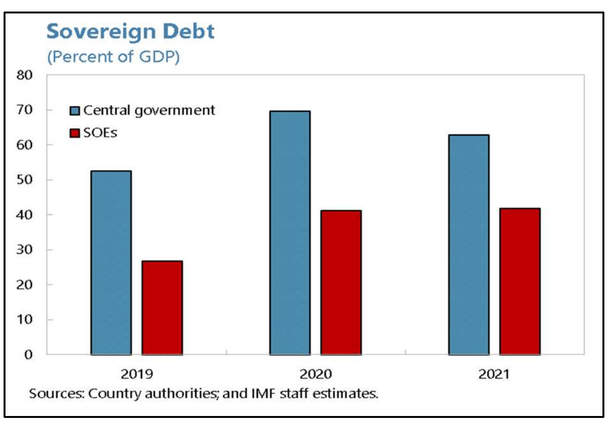
17. The authorities continue to advance reforms to strengthen public financial management and transparency.

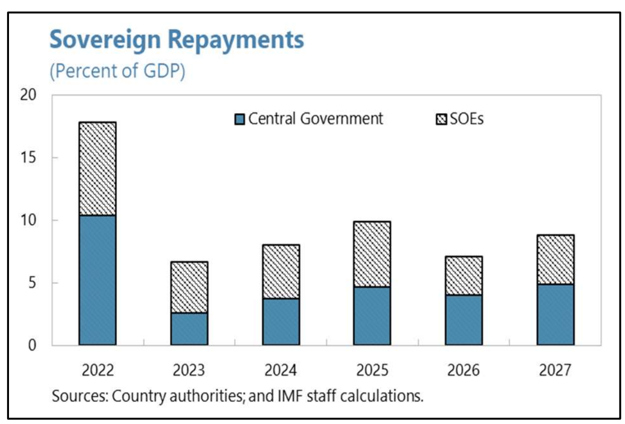
- *Transparency*. Fiscal transparency is increasing including publishing the first-ever pre-budget statement in 2021 and announcing OIA investment spending as part of the 2022 Budget. The authorities emphasized their commitment to fiscal transparency and aim to provide more disclosure on revenue, expenditure, and financing in the monthly fiscal performance bulletin. With the increasing role of the rest of the public sector in undertaking investment, amounting to 9.6 percent of GDP for OIA-affiliated entities and EDO in 2022, broadening fiscal coverage beyond the central government is essential in assessing Oman's true fiscal stance and position.

- *Public financial management reforms. A* treasury single account (TSA) will be gradually rolled out starting in 2022H2 to centralize public revenue and improve cash management. A joint committee was formed between the MoF and the State Audit Institution to improve financial performance and strengthen governance and efficiency.

- *Fiscal risks.* Fiscal risks are multifaceted in Oman and their potential impact on the fiscal position could be significant (Annex VI). The authorities identified several risks to the implementation of the MTFP. While fiscal adjustment under the MTFP is paramount, managing and mitigating fiscal risks would reinforce fiscal sustainability. Staff recommended publishing a fiscal risk statement to underpin fiscal policy credibility. Furthermore, explicitly taking risks into account in setting the fiscal anchor would strengthen robustness to the materialization of such risks.

18. Efforts to develop a robust and integrated asset-liability management framework are ongoing. The authorities are developing a public debt law to regulate and manage debt operations and a national register of government assets to centralize asset management and enhance its efficiency. The OIA has split its assets into the National Development Portfolio (SOE assets) and the Future Generations Portfolio (largely foreign assets), with the former aiming to contribute to the development of the economy and support the Budget through dividends and privatization proceeds. Expanding the scope of the Debt Management Committee (DMC) to coordinate the various sovereign entities involved in managing assets and liabilities would facilitate identifying and mitigating risks in the public sector balance sheet. Efforts continue to enhance public debt management, including drafting an inaugural Medium Term Debt Strategy (MTDS) to guide the government borrowing program, improve the debt profile, deepen domestic debt markets, develop a yield curve, and maintain access to the international capital markets.





Text Table. Oman: Sovereign Balance Sheet 1/

(2021 or latest available, percent of GDP)

	General Government		Public Non-Financial Corporations	Public Financial Corporations		
	Budgetary Central Government	Social Security Funds	EDO	OIA	Other 4/	Public Sector
Assets	**221.6**	**n.a.**	**477.5**	**49.2**	**39.1**	**787.5**
Non-Financial Assets	198.3		477.5			675.8
Fixed assets 2/	198.3					
Hydrocarbon 3/			477.5			
Financial Assets	23.4			49.2	39.1	111.7
liquid assets	23.4			14.0	39.1	76.5
illiquid assets				35.2		35.2
Liabilities	**62.9**	**n.a.**	**2.9**	**38.9**		**104.7**
Domestic	15.7			15.2		30.9
External	47.2		2.9	23.7		73.8
Net Assets	**158.7**		**474.6**	**10.3**	**39.1**	**682.8**
Net financial assets	**-39.6**		**-2.9**	**10.3**	**39.1**	**7.0**
Net liquid financial assets	**-39.6**		**-2.9**	**-24.9**	**39.1**	**-28.2**

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

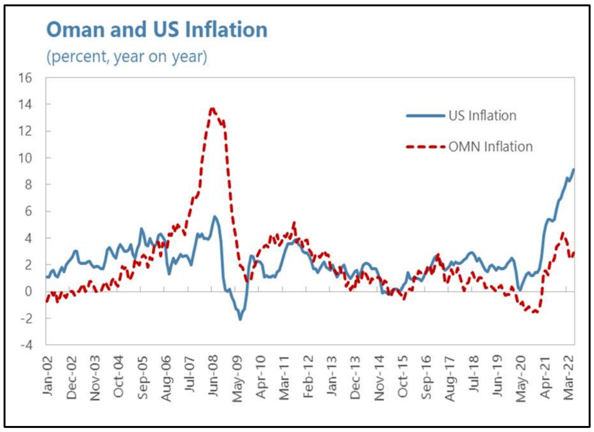
1/ A simplified balance sheet. It can be extended to include public pension funds and contingent liabilities.
2/ IMF staff estimate using the perpetual inventory method.
3/ Net present value of government hydrocarbon revenue.
4/ Government ownership in the banking system and CBO net assets.

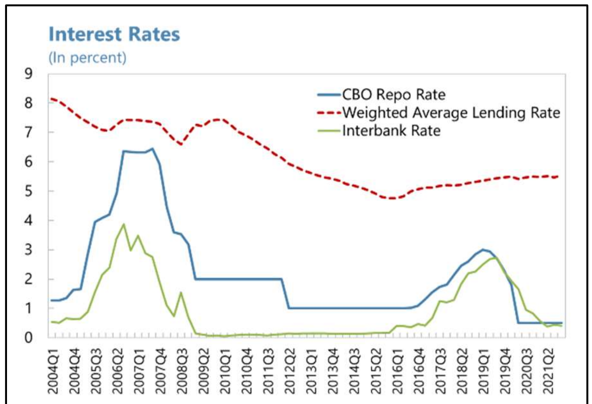
19. Authorities' Views. The authorities underscored their commitment to fiscal prudence and a growth-friendly consolidation. Social safety net reform would strengthen household resilience. The authorities stressed their commitment to improving the targeting of the petroleum subsidies starting from 2023. They are examining options for reforming water subsidies. They intend to update the MTFP regularly and align it with the respective five-year Development Plan under Vision 2040. They intend to expand the mandate of the DMC to oversee sovereign assets in addition to liabilities.

B. Monetary and Financial Policies: Safeguarding Financial Sector Stability

20. The exchange rate peg continues to serve Oman well. The peg has provided a credible monetary anchor, helping to deliver low and stable inflation. A more flexible exchange rate could over time support the development of the non-hydrocarbon tradable sector and enable CBO to follow a more independent interest rate policy. However, a move away from the peg would remove a credible monetary anchor, increase uncertainty, and have limited benefits for competitiveness in the near term. Official foreign reserves, fiscal prudence, and structural reforms would continue to reinforce the peg. The peg should be reviewed regularly to ensure it remains appropriate. Further hikes in the CBO's policy rate are expected in line with US monetary policy tightening.

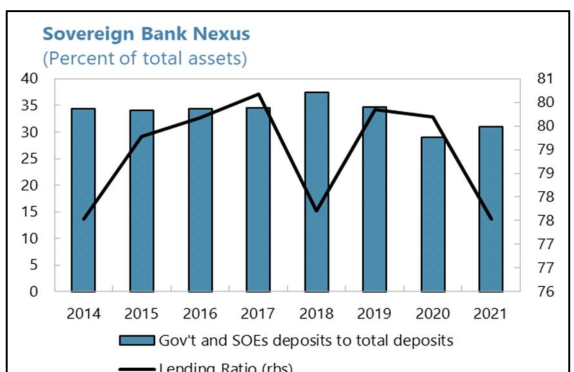
21. Plans to phase out subsidies and strengthen the efficiency of the economy would necessitate enhancing monetary policy transmission channels to manage inflation. Weak monetary transmission is driven by structural excess liquidity in the banking sector, hindering interbank market activity and limiting the response of lending rates and bank credit to changes in the policy rate. As a result, control of inflation—which has been below that of the US in recent years—has relied significantly on administered pricing and subsidies (Annex VII). As these tools become less available with the progression of structural reforms it would be important to take steps to strengthen liquidity management tools and the monetary transmission mechanism to manage inflation.





Sources: Haver, CBO and IMF staff calculations.

22. Efforts to develop a liquidity management framework are advancing. The CBO's Monetary Policy Enhancement Project (MPEP) is working to upgrade the liquidity management framework and improve the transmission mechanism channels of monetary policy. Building capacity at the CBO is central to effectively monitor and forecast liquidity in the banking sector. Absorbing structural excess liquidity would require, among others, developing shariah-compliant instruments for Islamic banking entities, reversing existing criteria for reserve requirement eligibility to only include non-security assets, and reintroducing CBO certificates of deposit with maturities that do not overlap with T-bills.[1] Paving the way for a more effective monetary policy framework requires better coordination between fiscal and monetary authorities, deepening financial markets, and strengthening liquidity management.



Sources: Haver Analytics; and IMF staff calculations.

23. Policy trade-offs between enhancing the liquidity management framework, establishing the TSA, and supporting credit require careful coordination. A substantial sovereign-bank nexus exists where 30.4 percent of bank deposits are from the sovereign (government and SOEs), while banks' claims on the sovereign have increased to 21.7 percent of total assets at end-2021. With the establishment of the TSA, the authorities and staff agreed that careful coordination would be needed to

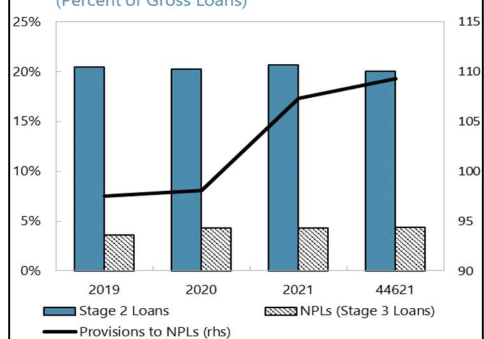
[1] Banks are allowed to meet up to 2 percent of reserve requirements through government securities.

ensure that banking system liquidity remains adequate to support credit provision as these policy initiatives are implemented.

24. The impact of tighter global financial conditions is expected to be limited, but continued vigilance remains needed (Annex VIII). Tighter financial conditions would increase interest payments on external debt, but fiscal consolidation is expected to alleviate this pressure on fiscal and CA balances. Despite the negative NFA position in the banking sector, ample liquidity and the high share of non-interest-bearing deposits (36 percent of total deposits at end-June 2022) make banks less sensitive to changes in global financing conditions. Continuing fiscal consolidation efforts, rebuilding FX buffers, and deepening domestic financial markets would help in increasing the resilience of the Omani economy against shifts in global risk appetite.

25. The gradual approach in exiting from pandemic financial policy support measures is appropriate, but close monitoring of banks' credit quality remains essential. The loan moratorium scheme was phased out at end-December 2021, with a transition strategy for banks that allowed all affected borrowers to restructure or reschedule loans based on their revised cashflows until end-September 2022, while ensuring asset-impairment recognition and corresponding provisions. The amount subject to deferment stood at 3.4 percent of gross loans at end-July 2022. The CBO intends to restore the remaining prudential measures (capital conservation buffers, liquidity ratio, and lending ratio) to pre-pandemic levels as the impact of the pandemic declines, given comfortable banking system liquidity and capital buffers. CBO stress tests, based on June 2022 data, indicate sufficient capital buffers to withstand severe scenarios. Uncertainties to the outlook and tighter-than-expected financial conditions may pressure bank asset quality, especially to vulnerable sectors, hence asset classifications and loan-loss provisions would continue to reflect credit risk and losses.

Loans, NPLs, and Provisions
(Percent of Gross Loans)



Sources: CBO; and IMF staff calculations.

26. The authorities are continuing to strengthen regulatory and supervisory frameworks.

- **Banking system.** With Islamic banking entities accounting for about 16 percent of the banking sector assets, the CBO is finalizing a medium-term strategy for the sector, including a lender of last resort facility and a sharia-compliant deposit insurance scheme. Enacting the new Banking Law would, among others, align the legislation with the Core Principles for Effective Banking Supervision, and provide legal certainty for actions published in the Bank Resolution Framework. The CBO aims to expand its capabilities to incorporate climate risks in its assessment of financial stability and promote green financing.

- **Capital markets.** The Securities Law was enacted in 2022 to regulate the securities sector. The Capital Market Authority raised foreign ownership limits in joint stock companies to 100 percent to catalyze capital inflows and participation of expatriates in the domestic stock market. It is also finalizing a draft Regulation for Bonds and Sukuk, which includes requirements for sustainable and responsible investment. The authorities plan to list some SOEs in the stock market.

- **Digitalization of the financial system.** Digitalization is moving forward but carefully. The CBO continues to develop the Fintech ecosystem by launching the Fintech Regulatory Sandbox Framework and testing the use of blockchain technology for trade finance. It is also developing an open banking strategy and exploring adopting a CBDC, which are currently at early stages. Keeping pace and monitoring risks, including AML/CFT risks, of digital initiatives should continue to be a priority.

- **AML/CFT.** The authorities continue to strengthen their AML/CFT framework by issuing the revised supervisory instructions in April 2022 to improve compliance and enhance risk-based supervision, including onsite and offsite supervision. The National AML/CFT Strategy aims to further improve the effectiveness of AML/CFT policy and operations, and the authorities have made progress on a number of the goals outlined in the Strategy.

27. Authorities' Views. The authorities acknowledged the need to strengthen the monetary transmission mechanism and stressed that the CBO is taking steps to enhance the monetary policy framework. They would continue to implement the MPEP and the TSA in coordination with stakeholders to ensure that banking system liquidity remains adequate. They highlighted steps to further develop the capital markets, including developing a framework for local currency bond markets.

C. Structural Reforms: Boosting Growth and Employment

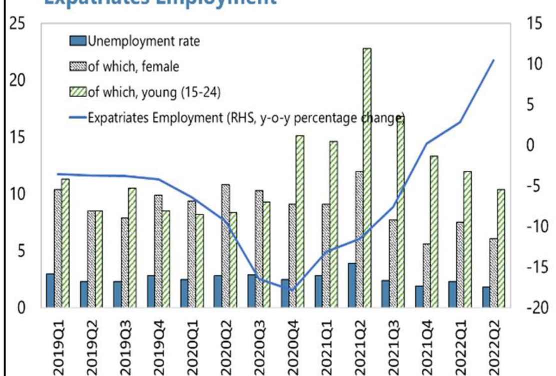
28. Strong, job-rich, and sustainable private sector-led growth is needed to offer opportunities to job seekers and ensure higher living standards for future generations. Steadfast implementation of the authorities' reform agenda under Vision 2040 is essential to achieving this goal. To this end, the Vision 2040 Implementation Follow-up Unit is actively developing and updating reform plans and following up on existing initiatives with relevant government agencies. A broad-based reform that tackles multifaceted challenges within a coherent framework would be paramount to achieving the authorities' ambitious structural reform agenda. Well-sequenced reform measures and steadfast implementation, accompanied by sustained broad consultation with all stakeholders, is crucial to secure broad social support for the reform agenda. The key priorities include enhancing labor market flexibility, improving the business environment for private investment, advancing SOE reforms, leveraging digitalization, and continuing the implementation of green initiatives.

29. Labor market reforms are key to raise competitiveness, inclusive growth, and private sector employment. Vision 2040 aims to promote new investments based on knowledge-economy, develop the education system, and increase the participation of women in the labor market. The government has made progress to improve labor market functioning and flexibility—including by relaxing restrictions on job transfers for expatriates, reducing hiring fees for expatriates, and launching government sponsored training and habilitation initiatives to facilitate job seeking in the public and private sectors. The Job Security Fund established in November 2020 has provided unemployment benefits to facilitate the reallocation of workers. Work on updating the labor law is ongoing. Deeper reforms to support the transition to a harmonized market-based labor market would include:

- Gradually eliminating factors that may hinder market efficiency and segment the private and public labor markets, including flexibility in hiring and firing workers, and differential policies for nationals versus expatriates. The current minimum wage of OMR325 per month can be revisited to better reflect labor productivity and there is merit to extend minimum wage requirement to cover expatriates. Wage growth in the public sector should not outpace that of the private sector to help secure the gains from reforms and keep incentives aligned between public sector and private sector jobs. Strengthening public sector performance metrics and linking them to pay scale and promotion can help foster creativity and better job performance.

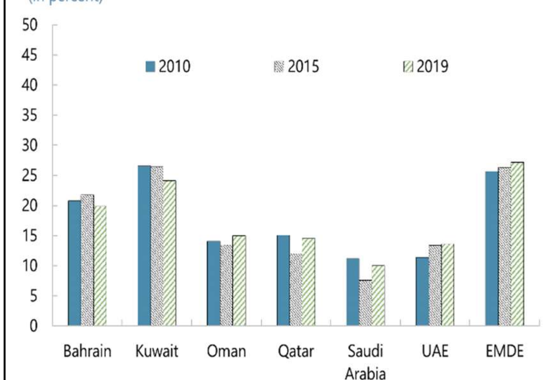
- Further increasing female employment to promote inclusive and sustainable growth, including by continuing to improve the working environment for women and providing flexibility in work schedules and locations (Box 1). Promoting more women to senior positions and encouraging female entrepreneurs under SME initiatives could generate positive demonstration effects to encourage further female labor participation.

Unemployment Rate and Change in Expatriates Employment



Source: Oman NCSI, Haver analytics, and IMF staff calculations

Estimated Share of Women in Managerial Positions
(In percent)



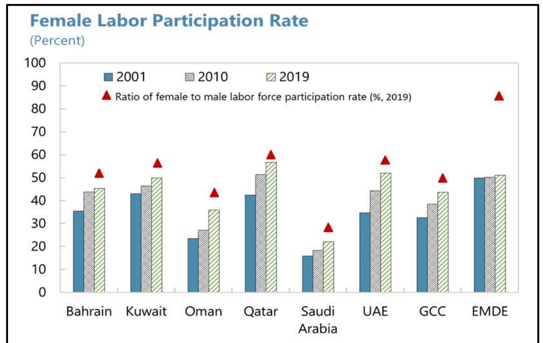
Sources: ILO; and IMF staff calculations.

- Further improving the policy framework for expatriates and adopting more flexible expatriate labor policies to facilitate resource reallocation and attract more high-skilled labor, thereby increasing productivity and harnessing the positive spillovers from expatriates to the wider economy—including transfer of skills and boosting consumption and investment. The government decision to reduce fees for renewal and issue of expatriate work permits would help reduce burdens on commercial activities and support the recovery. Also, the decision to allow expatriates to invest in real estate would encourage consumption and investment of expatriates and thus support domestic demand. The authorities launched the Investment Residency Program that offers self-sponsored residence permits, which will help generate more job opportunities while attracting and retaining investment.

- Leveraging synergies between planned social safety net and labor market reforms. The social safety net reforms—which would simplify the various social assistance programs and tackle potential weaknesses in social safety nets—provide an opportunity to press ahead with labor market reforms by strengthening social protection for nationals during the transition period.

Box 1. Empowering Omani Women in the Labor Market

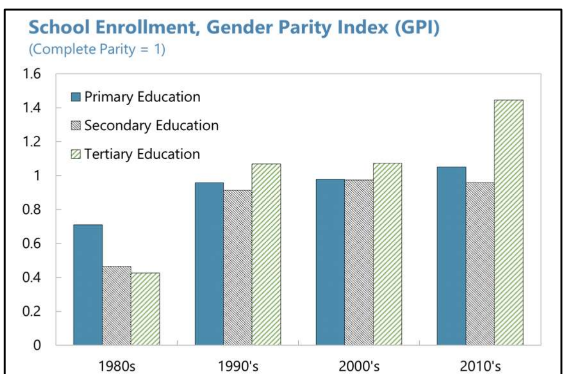
Oman has made significant strides in improving female participation in the labor market. Over the last two decades, female labor force participation rate (FLFP) grew from 23 percent to 35 percent in 2021, owing mainly to improvement in educational attainment among Omani women, demographic changes including migration to urban agglomerations, expansion in the services sector, and government initiatives, including under the National Strategy for Advancement of Omani Women (2007-2020).



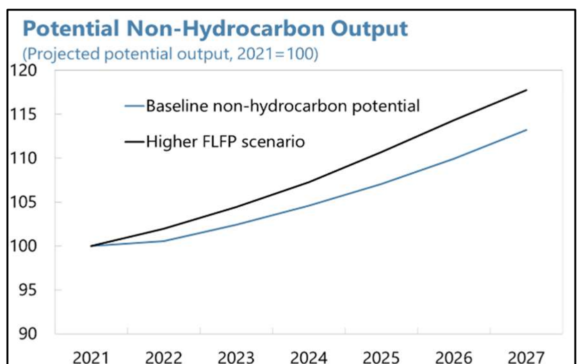
Sources: ILO, World Bank; and IMF staff calculations.

However, female participation remains low compared to most GCC countries and EMDEs and at less than half of that of men. The low female labor participation is in contrast with the higher educational attainment of women compared to men, indicating misallocation of resources in the economy. At the same time, the share of Omani women in managerial positions has remained almost flat over the last two decades.

While there appear to be no legal restrictions on female participation, further efforts to support women's participation in the labor force should be continued. To this effect, there is scope to further improve working environment for women, including by providing flexibility in work schedules and locations, extending maternity benefits, improving the provision of childcare, and facilitating job searching. Advancing private sector development would also facilitate forming a virtuous cycle between urbanization progress and greater economic empowerment of women. Staff estimates indicate that increasing female participation from the current 35 percent to the world average of about 50 percent would lift non-hydrocarbon potential GDP by more than 3 percent over the medium term.



Sources: World Bank and IMF staff calculations.



Source: country authorities, and IMF staff calculation.

30. Oman has been making efforts to improve the business environment. The government has promulgated a range of laws such as the Foreign Capital Investment Law (FCIL), which allows for 100 percent foreign-owned company and single shareholder companies, and the Commercial Companies Law (CCL) to improve the business environment. In October 2021, the Executive

Regulations of the CCL was issued to improve the regulatory framework of commercial companies. In this regard, the recent launch of the electronic licensing service via its Invest-Easy Portal, governed by the FCIL, is welcome.

31. Advancing SOE reforms would be essential in enhancing efficiency of public resource management and promoting competition. Guided by the Rawabet program, with the main goals of enhancing governance and setting the strategic priorities and the evaluation framework across OIA-related entities, the OIA issued the Code of Governance of State-Owned Enterprises (SOEs) in February 2022 to ensure the efficient utilization of human and financial resources and assets. To promote financial transparency, OIA plans to disclose key financial performance metrics of SOEs. To stimulate private sector participation in the economy, OIA's share in new projects is limited to 40 percent. While these reforms are welcome, it would be important to promote market competition by strengthening the role of the Competition Protection and Monopoly Prevention Centre, and gradually limiting SOEs to strategic industries as the economy diversifies.

32. Leveraging digitalization and managing its risks is key to promoting potential growth. Oman's National Digital Economy Program (ONDEP) envisions an increase in the contribution of the digital economy from 2 percent of GDP to 10 precent of GDP by 2040. To this effect, the authorities are embarking on a set of Intitiatives under the ONDEP including, among others, the Roadmap for Government Digital Transformation (2021-2025) which aims at digitizing 80 percent of government services by 2025. In this respect, reskilling workers remains crucial to ensure their effective participation in the digital economy. The authorities' plans to institute strategic partnerships with the private sector to support the implementation of ONDEP's programs are welcome.

33. Pressing ahead with climate adaptation, mitigation, and transition management is essential to foster greener growth and address climate risks. Oman exhibits vulnerablities to climate change (Figure 6). To this end, the authorities have established the National Fund for Emergency to address climate challenges from natural disasters, and have committed under the Nationally Determined Contributions to reducing greenhouse gas emission by 7 percent by 2030. The National Energy Strategy has set an ambitious target to derive 20 percent of electricity from renewables by 2027. In this context, the recent authorities' decisions to freeze new gas-based power projects and meet any additional demand for electricity from renewable sources only are commendable. Ongoing investment in cleaner energy sources, including in solar, wind, and green hydrogen, will lay the foundation for greater use of renewable energy sources. There is also the need to ensure full integration of climate-related priorities into the macroeconomic policy frameworks and the development of green financing as Oman transition to a low-carbon economy.

34. There have been improvements in the compilation and dissemination of economic data, but further efforts are needed. Data coverage is broadly adequate for surveillance. The National Center for Statistics and Information (NCSI) has updated the national accounts data based on the System of National Accounts 2008 and adopted 2018 as a new base year for national accounts data instead of 2010. The NCSI has started publishing quarterly real GDP data. There is a scope to improve coverage of fiscal data from central government to general government, and assets and liabilities of SOEs. The CBO made considerable progress to improve the quality of external sector statistics, while there is room to improve the quality of non-financial sector international transactions and historical data for non-oil trade activity. More could also be done to publish financial soundness indicators of the banking system and real estate price indices and provide disaggregate labor market data.

35. Authorities' Views. The authorities stressed their commitment to accelerating structural reforms in line with Vision 2040. They have established offices in government entities to ensure better coordination in implementing these reforms. Labor market flexibility is being improved by relaxing restrictions on part-time jobs and movements between the private and public sectors and drafting new labor and civil service laws. They have stepped up efforts to address climate risks and manage the transition to a low carbon economy, including finalizing a Carbon-Neutral Initiative and a draft climate law.

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36. The economic recovery is gaining traction. Strong measures helped mitigate the health and socioeconomic impacts of the pandemic. Non-hydrocarbon growth is expected to strengthen over the medium term, supported by the oil price outlook, planned investments, and structural reforms. Fiscal and external buffers have increased, supported by increased hydrocarbon revenues and substantial fiscal consolidation. Nevertheless, downside risks, notably from global sources, dominate in the short run.

37. The authorities remain committed to fiscal consolidation notwithstanding oil revenue windfalls and social pressures. Significant fiscal adjustment is being implemented in 2022, which has allowed for increased social spending while still generating a substantial surplus due to the oil windfall. However, reinforcing fiscal sustainability over the medium term, as envisaged under the MTFP, and creating space for social safety net reforms and higher capital expenditure require additional measures. Thus, efforts to strengthen tax administration and implement a PIT are welcome. The phased withdrawal of untargeted energy and water subsidies should be a priority. Intensive public outreach is essential to sustain support for fiscal consolidation amid rising oil windfalls.

38. Establishing strong fiscal frameworks with clear objectives and a long-term anchor would help achieve fiscal sustainability. Fiscal frameworks would lay the foundation for adopting a fiscal rule. A rule based on the non-hydrocarbon structural primary balance, which is robust to hydrocarbon price volatility and economic fluctuations, could be appropriate. Ongoing reforms to improve public financial management and transparency are welcome and developing a sovereign asset and liability management framework should be a priority.

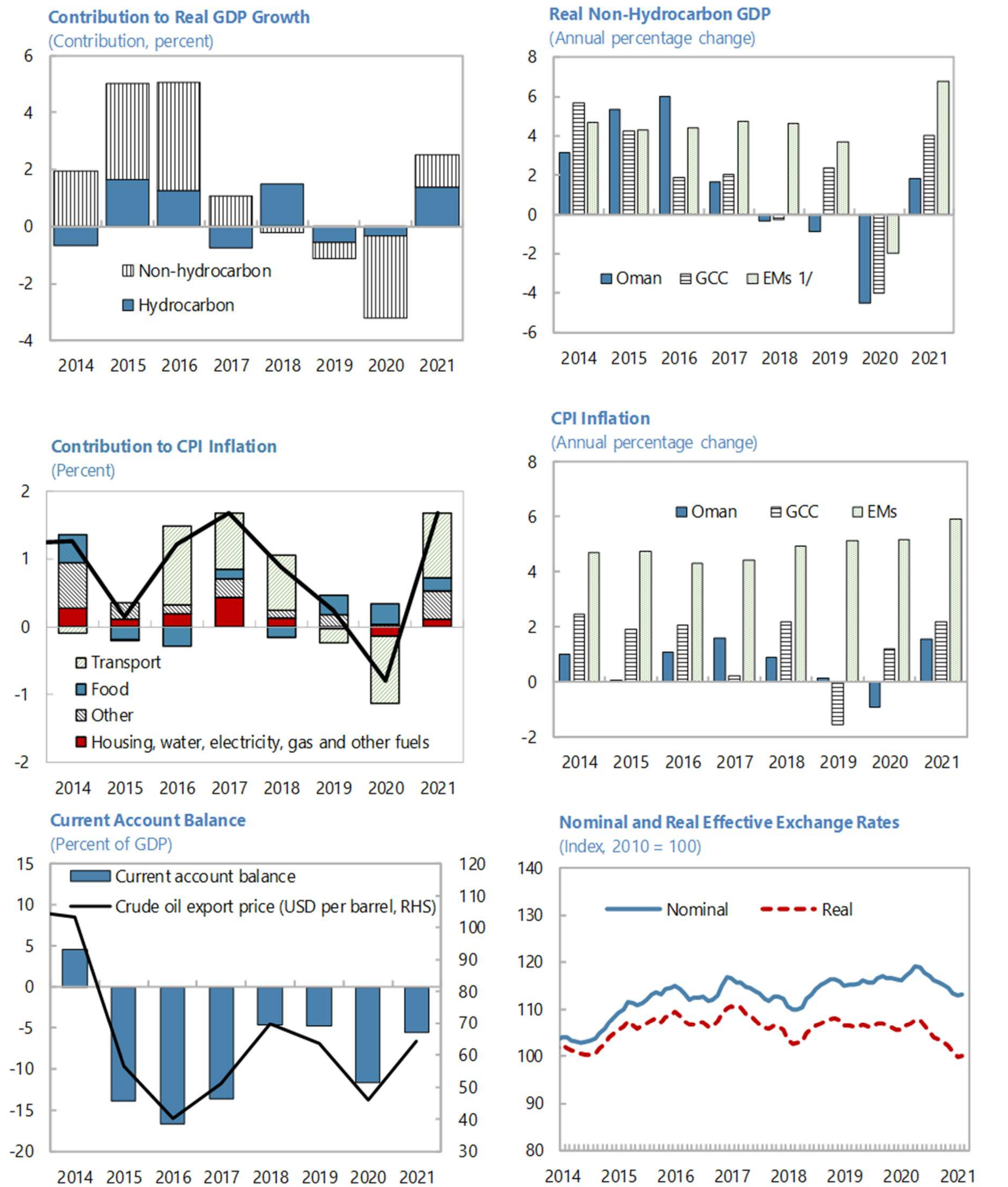
39. The exchange rate peg remains appropriate. The peg has provided a credible monetary anchor, helping to deliver low and stable inflation. Official foreign reserves, fiscal prudence, and structural reforms would continue to reinforce the peg. Better coordination between fiscal and monetary authorities, improved liquidity management, and deeper financial markets would improve the capacity for a more independent monetary policy.

40. Financial system risks are low, but the CBO should continue its close monitoring of bank asset quality and its efforts to strengthen regulatory frameworks. Restoring prudential rules to pre-pandemic levels should be a priority. Enacting the new Banking Law would align the legislation with international best practices. Careful coordination is needed to ensure that banking system liquidity remains adequate as plans to enhance the liquidity management framework and establish the TSA are implemented. Progress in developing capital markets is welcome.

41. Steadfast implementation of structural reforms under Vision 2040 is paramount to secure more inclusive, diversified, and sustainable growth. Strengthening the social safety net would help facilitate reforms to improve labor market flexibility. Advancing SOE reforms should also be prioritized to promote competition, strengthen governance, and stimulate private sector participation in the economy. To facilitate the digital economy transformation, worker skills will need to be upgraded. Pressing ahead with addressing climate challenges should be a priority.

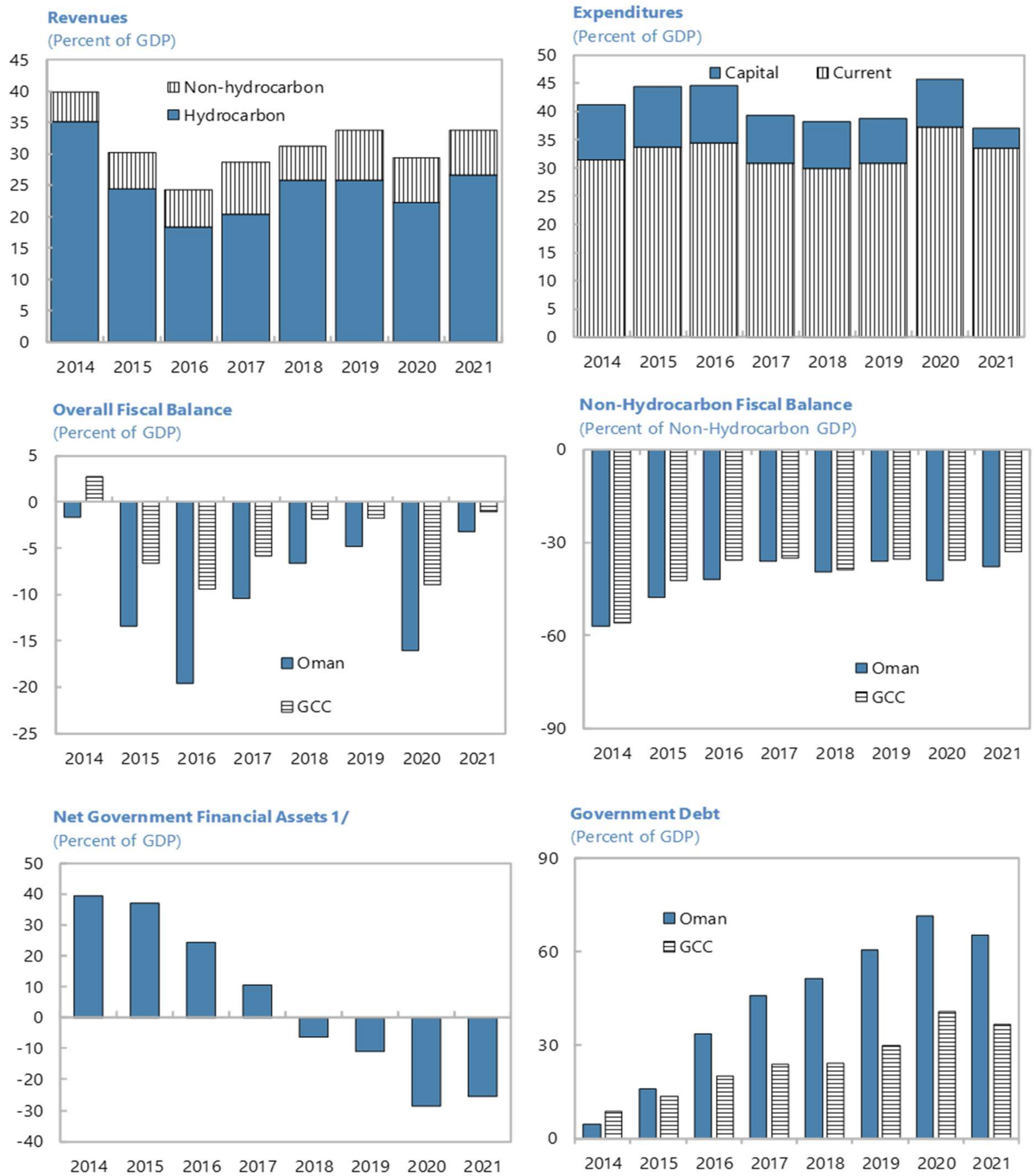
42. Staff proposes that the next Article IV consultation with Oman follow the standard 12-month cycle.

Figure 1. Oman: Recent Economic Developments



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

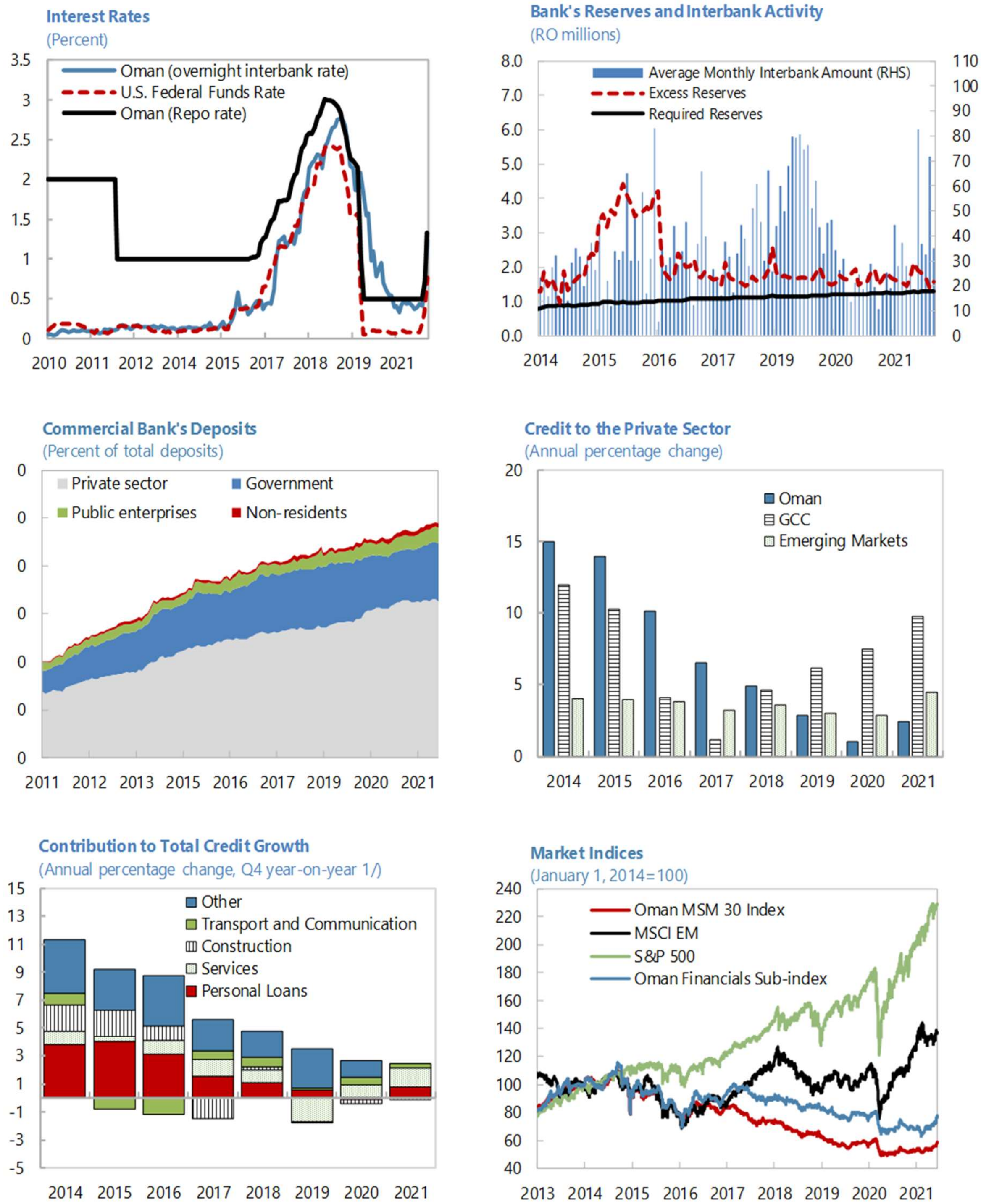
Figure 2. Oman: Fiscal Sector Developments



Sources: Country authorities; and IMF staff calculations.

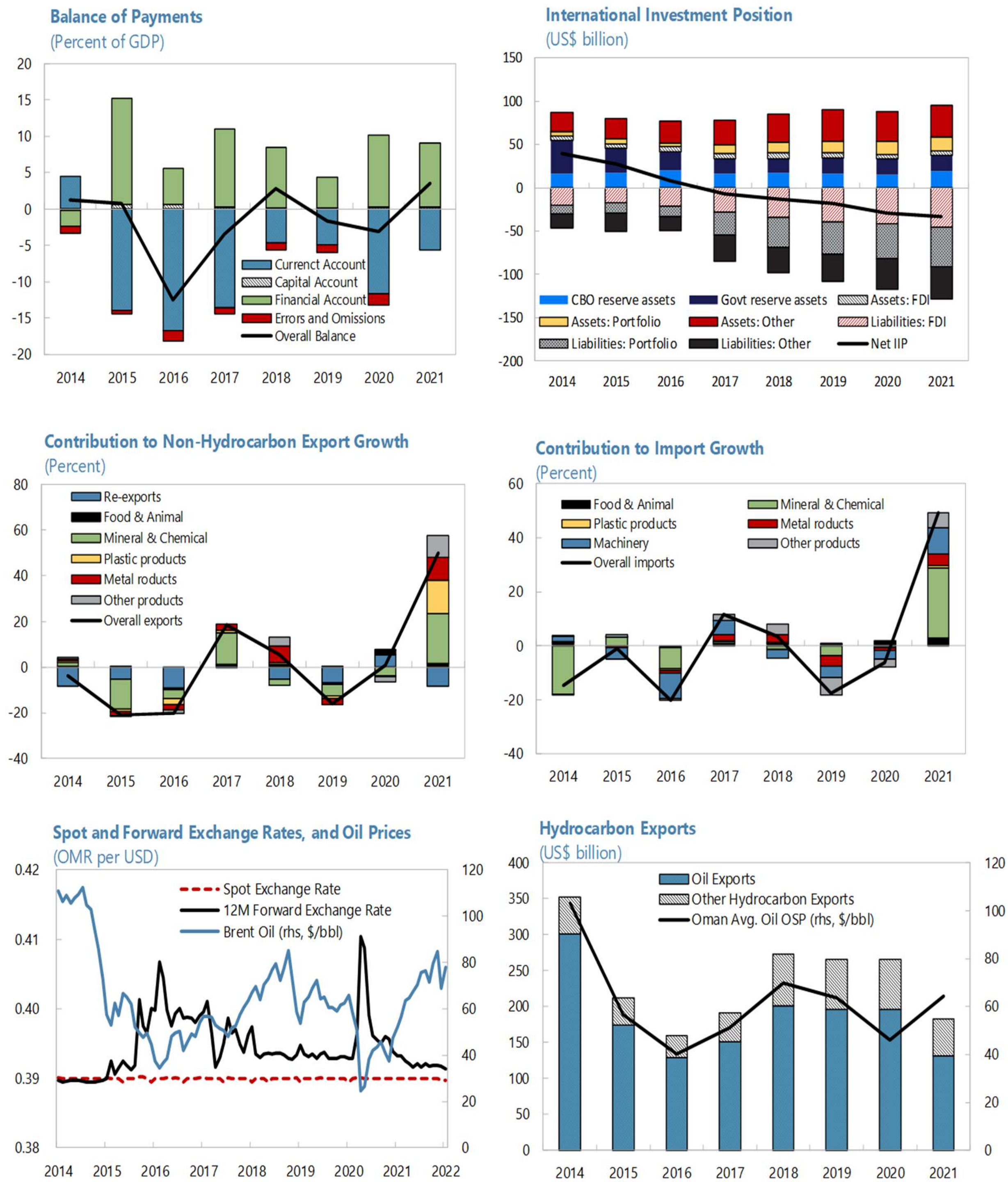
1/ Central government deposits at depository corporations and Oman Investment Authority's liquid assets less central government debt

Figure 3. Oman: Monetary and Financial Developments



Sources: Country authorities; Bloomberg L.P., Haver Analytics; and IMF staff calculations.
1/The coverage of non-oil trade data has been expanded in 2021 to include international transactions in free-trade zones. Therefore, data from 2021 and beyond is not comparable with non-oil trade data from previous years

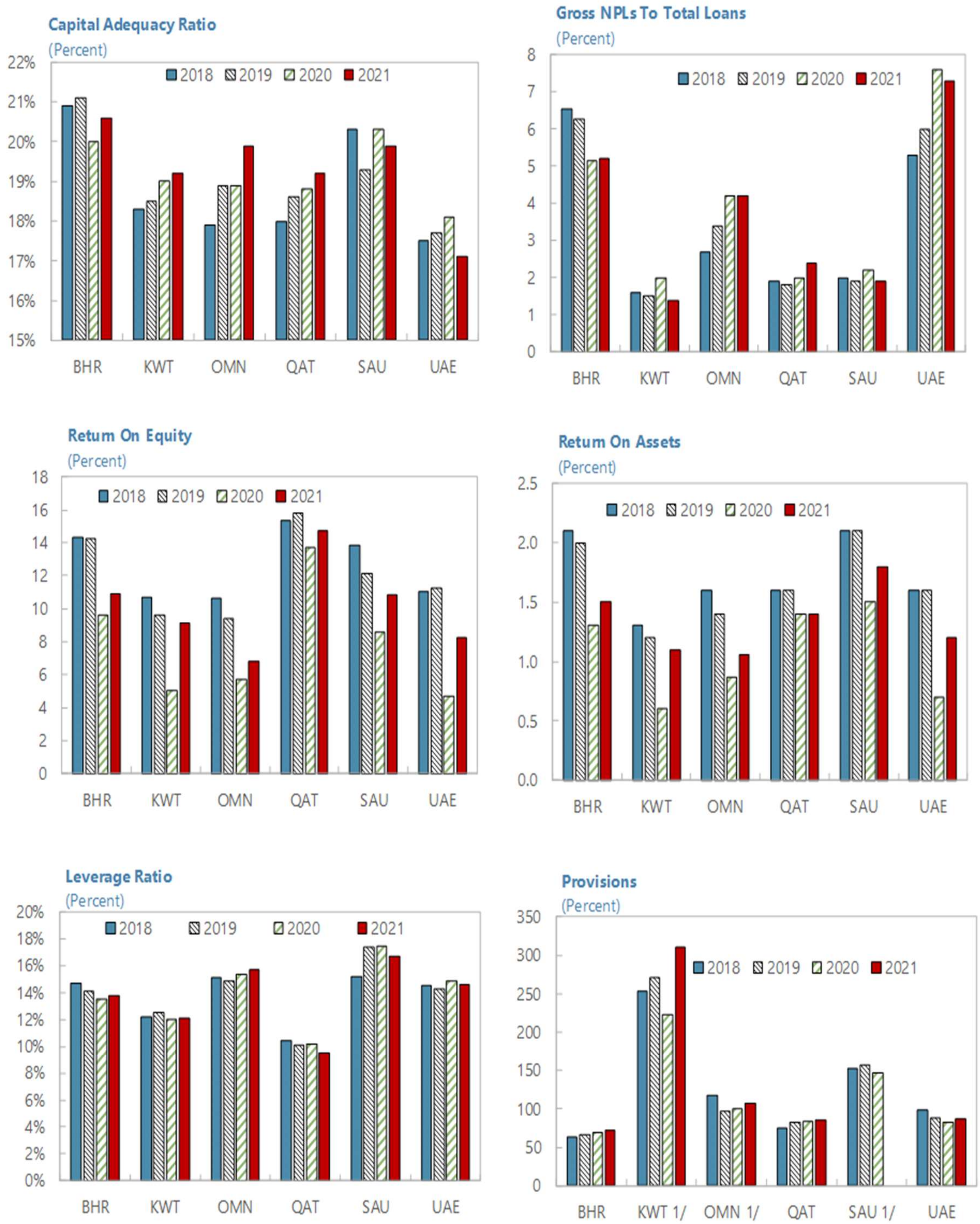
Figure 4. Oman: External Sector Developments 1/



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

1/ The coverage of non-oil 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-oil data from previous years.

Figure 5. Oman: Banking Sector Soundness Indicators

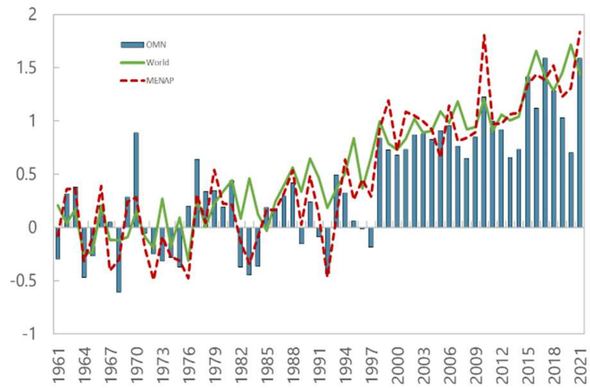


Sources: Country authorities; Haver Analytics, and IMF staff calculations.
1/ Total (General +Specific) Provisions.

Figure 6. Oman: Climate Change

Temperature Change With Respect to a Baseline Climatology

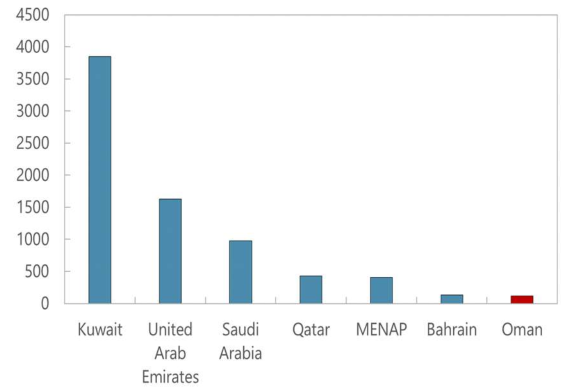
(corresponding to the period 1951-1980, Degree Celsius)



Sources: FAOSTAT; and IMF Staff Calculations.

Level of Water-Stress, 2019

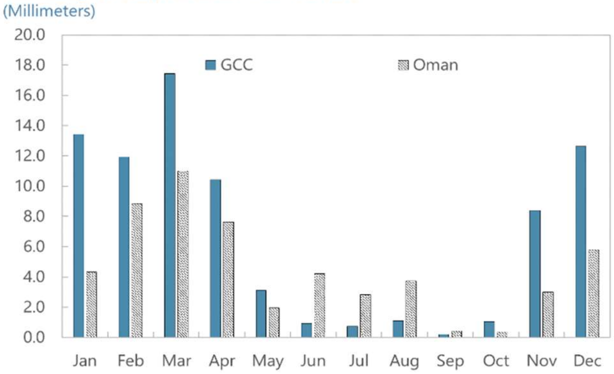
(Percent, freshwater withdrawn as a share of renewable freshwater)



Sources: FAOSTAT; and IMF staff calculations.

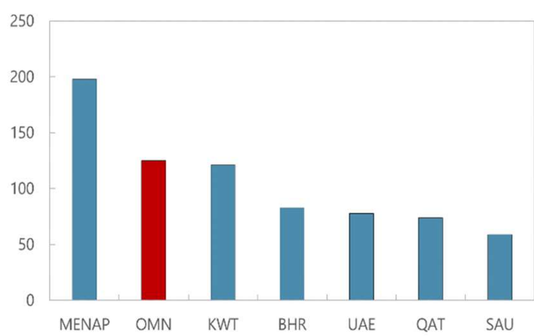
Monthly Precipitation, 1991-2020

(Millimeters)



Sources: World Bank; and IMF staff calculations.

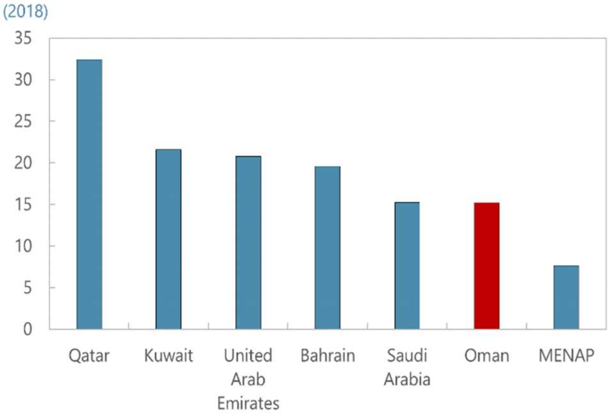
Long-Term Average Annual Precipitation in Depth, 2018



Sources: AQUASTAT; and IMF staff calculations.

Greenhouse Gas Emissions Per Capita

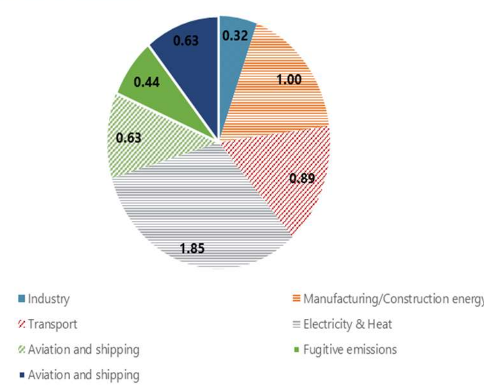
(2018)



Sources: Our World in Data; and IMF staff calculations.

Oman: Total Greenhouse Gas Emissions, 2018

(percent of total GHG emissions)



Sources: CAIT Climate Data Explorer, Our World in Data; and IMF staff calculations

Table 1. Oman: Selected Economic Indicators, 2019-27

			Prel.	Proj.					
	2019	2020	2021	2022	2023	2024	2025	2026	2027
Oil and Gas Sector									
Total production of oil and gas (US$ billions)	27.1	18.0	24.3	42.1	37.0	35.1	33.6	32.5	31.6
Average crude oil export price (US$/barrel)	63.6	46.0	64.3	95.0	85.5	80.2	76.2	73.3	71.0
Crude oil production (in millions of barrels/day)	0.97	0.95	0.97	1.06	1.13	1.13	1.13	1.14	1.14
National Accounts			(Annual percentage change, unless otherwise indicated)						
Nominal GDP (US$ billions)	88.1	74.0	85.9	108.9	111.0	110.7	111.4	113.4	116.2
Nominal GDP (in billions of Omani rials)	33.9	28.4	33.0	41.9	42.7	42.6	42.8	43.6	44.7
Real GDP	-1.1	-3.2	3.0	4.3	4.1	1.9	2.3	2.5	2.7
Real hydrocarbon GDP 1/	-1.5	-0.9	3.7	8.5	6.4	0.5	0.5	0.4	0.4
Real nonhydrocarbon GDP	-0.9	-4.5	1.8	2.6	2.6	2.9	3.4	3.9	4.0
Consumer prices (average)	0.1	-0.9	1.5	3.0	2.5	2.2	2.0	2.0	2.0
GDP Deflator	-2.7	-13.2	12.7	21.6	-2.1	-2.1	-1.6	-0.8	-0.2
Investment and Saving				(Percent of GDP)					
Gross capital formation	26.9	28.3	23.0	23.2	23.5	23.8	24.0	24.1	24.2
Public	11.9	12.5	7.5	10.7	10.6	10.6	10.6	10.6	10.5
Private	17.1	19.9	18.8	12.5	12.9	13.2	13.4	13.5	13.7
Gross national savings	22.4	3.9	15.3	27.3	26.0	25.5	25.3	25.3	25.4
Public	8.8	-0.1	7.0	15.5	11.7	12.0	10.9	9.9	9.3
Private	13.5	4.0	8.4	11.8	14.2	13.5	14.4	15.4	16.1
Central Government Finances					(Percent of GDP)				
Revenue and grants	33.9	29.6	33.9	36.9	33.6	34.1	33.4	32.4	31.8
Hydrocarbon	25.8	22.3	26.6	30.5	27.1	26.8	25.8	24.5	23.8
Nonhydrocarbon and grants	8.1	7.4	7.3	6.5	6.6	7.3	7.6	7.9	8.0
Expenditure	38.8	45.7	37.1	31.7	32.0	31.6	31.8	31.3	30.8
Current	30.9	37.2	33.6	29.0	29.4	29.0	29.2	28.7	28.2
Capital	7.9	8.5	3.5	2.7	2.6	2.6	2.6	2.6	2.5
Overall balance (Net lending/borrowing)	-4.8	-16.1	-3.2	5.3	1.6	2.5	1.6	1.1	1.0
Overall balance (adjusted) 2/	0.3	-9.9	-0.9	5.3	1.6	2.5	1.6	1.1	1.0
Non-hydrocarbon primary balance (% of non-hydrocarbon GDP)	-35.9	-38.3	-34.3	-35.9	-34.7	-31.4	-29.6	-27.5	-25.8
Central government debt, *of which:*	52.5	69.7	62.9	43.7	42.5	41.7	40.2	38.5	36.8
External debt	39.3	51.7	47.2	31.3	30.3	29.7	28.6	27.4	25.8
Public debt, *of which:*	79.1	111.0	107.6						
SOEs debt	26.7	41.3	41.8						
Net financial assets	-11.2	-28.5	-25.5	-13.7	-12.5	-10.9	-9.0	-7.3	-5.6
Monetary Sector			(Annual percentage change, unless otherwise indicated)						
Net foreign assets	-3.6	-28.4	31.2	13.1	25.8	-3.8	-10.9	1.0	2.8
Net domestic assets	4.4	23.4	-1.4	2.8	-4.1	6.0	8.9	4.6	4.6
Credit to the private sector	2.8	1.1	2.4	3.0	3.5	3.7	4.1	4.3	4.4
Broad money	2.0	8.9	4.6	5.2	3.3	3.0	3.3	3.7	4.2
External Sector			(In billions of U.S. dollars, unless otherwise indicated)						
Exports of goods	38.7	33.5	44.6	64.0	59.3	58.2	57.6	57.5	57.7
Oil and gas	26.5	18.2	26.1	44.5	39.2	37.2	35.6	34.5	33.5
Other	12.2	15.3	18.5	19.5	20.0	21.0	22.0	23.0	24.2
Imports of goods	-20.5	-25.8	-28.0	-32.8	-32.3	-32.9	-33.6	-34.6	-36.0
Current account balance	-4.0	-12.3	-4.3	4.5	2.7	1.9	1.5	1.3	1.4
Percent of GDP	-4.6	-16.6	-5.0	4.1	2.5	1.7	1.3	1.2	1.2
Central Bank gross reserves	16.7	15.0	19.7	21.6	25.5	25.1	23.7	24.2	25.1
In months of next year's imports of goods and services	5.9	4.9	5.3	5.8	6.6	6.4	5.9	5.9	6.0
Total external debt	72.0	72.8	79.8	76.9	79.8	80.3	80.5	80.3	80.9
Percent of GDP	81.8	98.4	93.0	70.6	71.9	72.5	72.2	70.9	69.7
Memorandum Items:									
Non-hydrocarbon structural primary balance 3/	-24.6	-22.4	-20.2	-17.7	-18.8	-18.0	-17.8	-17.2	-16.7
Non-hydrocarbon structural primary balance (percent of non-hydrocarbon GDP) 3/	-36.3	-35.9	-32.6	-32.6	-34.1	-31.2	-29.6	-27.5	-25.8
Nominal effective exchange rate (2010=100)	115.9	116.6	119.5	...	...	...	...	...	...
Real effective exchange rate (2010 = 100)	106.7	105.1	107.8	...	...	...	...	...	...
Exchange rate (rial per dollar; period average)	0.38	0.38	0.38	...	...	...	...	...	...

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

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

Table 2a. Oman: Government Finances, 2019-27 1/
(Millions of rials Omani, unless otherwise indicated)

				Proj.					
	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenue and Grants	11,495	8,425	11,190	15,470	14,362	14,517	14,292	14,116	14,185
Taxes	1,184	928	1,286	1,539	1,595	1,884	1,973	2,146	2,241
Grants	55	80	24	20	20	20	20	20	20
Property income and others	10,256	7,417	9,880	13,910	12,747	12,613	12,300	11,950	11,924
Oil	6,621	4,344	6,161	9,198	8,530	8,245	7,933	7,643	7,367
LNG and natural gas 2/	2,117	1,988	2,629	3,557	3,027	3,148	3,117	3,027	3,245
Public services and utilities	51	22	15	1	1	1	1	1	1
Investment income	617	110	312	275	275	275	275	275	275
Others	849	953	763	879	915	944	974	1,004	1,036
Expenditure	13,130	12,999	12,260	13,271	13,660	13,465	13,613	13,640	13,740
Expense	10,466	10,591	11,088	12,135	12,543	12,343	12,488	12,513	12,610
Compensation of employees	3,358	3,631	3,284	3,521	3,633	3,737	3,840	3,961	4,075
Use of goods and services	1,330	1,493	2,018	2,554	2,728	2,620	2,660	2,748	2,807
Interest payments	684	892	1,054	1,159	1,218	1,223	1,296	1,175	1,138
Subsidies and social benefits	1,309	1,304	1,159	1,994	1,995	1,730	1,597	1,535	1,482
Grants to other countries	19	11	8	10	0	0	0	0	0
Other expense	3,766	3,259	3,565	2,897	2,969	3,034	3,095	3,094	3,109
PDO operations	407	424	780	0	0	0	0	0	0
Others	3,359	2,835	2,785	2,897	2,969	3,034	3,095	3,094	3,109
Net Acquisition of Nonfinancial Assets	2,498	1,925	1,172	1,136	1,117	1,122	1,125	1,127	1,130
Acquisitions of nonfinancial assets	2,665	2,408	1,172	1,136	1,117	1,122	1,125	1,127	1,130
PDO operations	886	906	0	0	0	0	0	0	0
Upstream gas project	454	431	0	0	0	0	0	0	0
Civil	1,325	1,072	1,172	1,136	1,117	1,122	1,125	1,127	1,130
Disposals (sales) of nonfinancial assets	167	483	0	0	0	0	0	0	0
Gross Operating Balance	1,029	-2,166	102	3,334	1,820	2,173	1,804	1,603	1,574
Net Lending (+)/Borrowing (–) (Overall Balance) 3/	-1,635	-4,575	-1,070	2,199	702	1,052	679	476	445
Net Acquisition of Financial Assets 4/	404	-2,520	-114	-275	542	646	155	62	64
Net Incurrence of Liabilities	2,040	2,055	956	-2,474	-160	-406	-524	-415	-381
Domestic debt	521	658	74	0	36	-114	-158	-88	49
External debt	1,519	1,397	882	-2,474	-196	-292	-367	-327	-429
Memorandum Items:									
Total government debt, *of which*	17,764	19,819	20,775	18,301	18,141	17,735	17,211	16,796	16,415
External debt	13,313	14,710	15,592	13,118	12,922	12,630	12,264	11,937	11,507

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

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

Table 2b. Oman: Government Finances, 2019-27 1/
(Percent of GDP)

				Proj.					
	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenue and Grants	33.9	29.6	33.9	36.9	33.6	34.1	33.4	32.4	31.8
Taxes	3.5	3.3	3.9	3.7	3.7	4.4	4.6	4.9	5.0
Grants	0.2	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Property income and others	30.3	26.1	29.9	33.2	29.9	29.6	28.7	27.4	26.7
Oil	19.6	15.3	18.7	22.0	20.0	19.4	18.5	17.5	16.5
LNG and natural gas 2/	6.3	7.0	8.0	8.5	7.1	7.4	7.3	6.9	7.3
Public services and utilities	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment income	1.8	0.4	0.9	0.7	0.6	0.6	0.6	0.6	0.6
Others	2.5	3.4	2.3	2.1	2.1	2.2	2.3	2.3	2.3
Expenditure	38.8	45.7	37.1	31.7	32.0	31.6	31.8	31.3	30.8
Expense	30.9	37.2	33.6	29.0	29.4	29.0	29.2	28.7	28.2
Compensation of employees	9.9	12.8	9.9	8.4	8.5	8.8	9.0	9.1	9.1
Use of goods and services	3.9	5.3	6.1	6.1	6.4	6.2	6.2	6.3	6.3
Interest payments	2.0	3.1	3.2	2.8	2.9	2.9	3.0	2.7	2.5
Subsidies and social benefits	3.9	4.6	3.5	4.8	4.7	4.1	3.7	3.5	3.3
Grants to other countries	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other expense	11.1	11.5	10.8	6.9	7.0	7.1	7.2	7.1	7.0
PDO operations	1.2	1.5	2.4	0.0	0.0	0.0	0.0	0.0	0.0
Others	9.9	10.0	8.4	6.9	7.0	7.1	7.2	7.1	7.0
Net Acquisition of Nonfinancial Assets	7.4	6.8	3.5	2.7	2.6	2.6	2.6	2.6	2.5
Acquisitions of nonfinancial assets	7.9	8.5	3.5	2.7	2.6	2.6	2.6	2.6	2.5
PDO operations	2.6	3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Upstream gas project	1.3	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Civil	3.9	3.8	3.5	2.7	2.6	2.6	2.6	2.6	2.5
Disposals (sales) of nonfinancial assets	0.5	1.7	-	-	-	-	-	-	-
Gross Operating Balance	3.0	-7.6	0.3	8.0	4.3	5.1	4.2	3.7	3.5
Net Lending (+)/Borrowing (–) (Overall Balance) 3/	-4.8	-16.1	-3.2	5.3	1.6	2.5	1.6	1.1	1.0
Net Acquisition of Financial Assets 4/	1.2	-8.9	-0.3	-0.7	1.3	1.5	0.4	0.1	0.1
Net Incurrence of Liabilities	6.0	7.2	2.9	-5.9	-0.4	-1.0	-1.2	-1.0	-0.9
Domestic debt	1.5	2.3	0.2	0.0	0.1	-0.3	-0.4	-0.2	0.1
External debt	4.5	4.9	2.7	-5.9	-0.5	-0.7	-0.9	-0.8	-1.0
Memorandum Items:									
Total government debt, *of which*	52.5	69.7	62.9	43.7	42.5	41.7	40.2	38.5	36.8
External debt	39.3	51.7	47.2	31.3	30.3	29.7	28.6	27.4	25.8
Non-hydrocarbon revenue (percent of nonhydrocarbon GDP)	12.1	10.1	11.3	12.1	12.0	12.7	12.5	12.6	12.3
Break-even oil price (fiscal, U.S. dollars)	64.7	86.4	76.7	75.2	78.5	70.7	68.4	66.7	66.9

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

1/ Table covers central government operations.

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

3/ Excludes 'net lending and equity' .

4/ Includes 'net lending and equity'.

Table 3. Oman: Monetary Survey, 2019-27
(Millions of rials Omani, unless otherwise indicated, end of period)

	2019	2020	2021	2022	2023	2024	2025	2026	2027
				Proj.					
Foreign Assets (Net)	4,951	3,545	4,651	5,262	6,619	6,369	5,673	5,729	5,892
Central Bank	5,721	5,010	6,796	7,526	8,999	8,869	8,310	8,520	8,851
Commercial banks	-770	-1,465	-2,145	-2,264	-2,380	-2,500	-2,636	-2,791	-2,959
Domestic Assets (Net)	12,800	15,792	15,570	16,013	15,362	16,279	17,723	18,542	19,402
Claims on government (net)	-4,647	-2,061	-2,884	-2,989	-2,939	-3,040	-3,184	-3,258	-3,196
Central Bank	-624	-147	-1494	-1606	-1606	-1606	-1606	-1606	-1606
Claims	779	871	112	0	0	0	0	0	0
Deposits 1/	1,403	1,018	1,606	1,606	1,606	1,606	1,606	1,606	1,606
Commercial banks	-4,024	-1,913	-1,390	-1,383	-1,334	-1,434	-1,579	-1,653	-1,590
Claims	2,623	3,688	4,716	4,723	4,772	4,672	4,527	4,453	4,516
Loans	137	478	620	620	620	620	620	620	620
Bills and bonds	2,486	3,210	4,095	4,102	4,152	4,051	3,907	3,833	3,895
Deposits	6,646	5,602	6,106	6,106	6,106	6,106	6,106	6,106	6,106
Claims on Public Enterprises	2,725	3,142	3,752	4,665	4,918	5,186	5,488	5,833	6,206
Claims on Private Sector	22,951	23,156	23,659	24,369	25,222	26,155	27,236	28,407	29,652
Credit to the private sector	22,673	22,913	23,461	24,165	25,010	25,936	27,007	28,169	29,404
Other Items (Net)	-8,228	-8,444	-8,957	-10,032	-11,839	-12,023	-11,816	-12,439	-13,260
Central Bank	-3,852	-3,484	-3,995	-4,613	-6,086	-5,956	-5,397	-5,608	-5,938
Commercial banks	-4376	-4960	-4962	-5419	-5752	-6066	-6419	-6832	-7321
Broad Money	17752	19337	20221	21275	21981	22648	23397	24271	25294
Money	5,344	5,562	5,747	6,046	6,247	6,436	6,649	6,897	7,188
Currency outside banks	1,245	1,379	1,307	1,307	1,307	1,307	1,307	1,307	1,307
Demand deposits	4,099	4,183	4,439	4,739	4,940	5,129	5,342	5,590	5,881
Quasi-money 2/	12,408	13,775	14,474	15,229	15,735	16,211	16,748	17,373	18,106
Of which: Foreign currency deposits	1,765	1,897	1,924	2,024	2,091	2,155	2,226	2,309	2,407
Memorandum Items:									
Broad money multiplier (ratio)	4.9	5.9	5.3	5.5	5.6	5.7	5.8	5.9	6.0
	(Annual percentage change, unless otherwise indicated)								
Broad Money	2.0	8.9	4.6	5.2	3.3	3.0	3.3	3.7	4.2
Net Foreign Assets	-3.6	-28.4	31.2	13.1	25.8	-3.8	-10.9	1.0	2.8
Domestic Assets	4.4	23.4	-1.4	2.8	-4.1	6.0	8.9	4.6	4.6
Of which: Credits to the private sector	2.8	1.1	2.4	3.0	3.5	3.7	4.1	4.3	4.4
Claims on Private Sector / GDP	67.8	81.4	71.7	58.2	59.1	61.4	63.6	65.2	66.4
Claims on Private Sector / Non-Oil GDP	103.1	116.0	112.5	109.6	108.3	106.9	105.7	104.1	102.6

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

1/ Includes mainly Ministry of Finance Deposits.

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

Table 4. Oman: Balance of Payments Summary, 2019-27
(Millions of USD)

			Prel.			Proj.			
	2019	2020 1/	2021	2022	2023	2024	2025	2026	2027
Trade Balance	18,229	7,638	16,542	31,200	26,928	25,335	24,044	22,843	21,743
Exports	38,685	33,483	44,591	64,023	59,256	58,218	57,642	57,490	57,704
Hydrocarbons, *of which* :	26,515	18,200	26,090	44,475	39,216	37,234	35,614	34,462	33,536
Crude oil	19,651	13,143	18,686	32,637	30,060	28,366	26,969	25,917	25,111
LNG	4,448	3,413	4,329	5,823	3,776	3,823	3,784	3,787	3,705
Other exports	8,402	10,654	15,063	15,794	15,963	16,579	17,245	17,809	18,463
Re-exports	3,768	4,629	3,438	3,754	4,077	4,406	4,783	5,219	5,705
Imports, f.o.b.	-20,457	-25,845	-28,049	-32,823	-32,328	-32,884	-33,598	-34,647	-35,961
Services (Net)	-7,214	-5,941	-6,720	-10,090	-9,227	-9,135	-9,026	-8,628	-8,248
Income (Net)	-5,900	-5,232	-5,993	-6,633	-4,606	-4,290	-4,818	-4,798	-4,531
Official payments	-1,394	-1,763	-2,127	-2,254	-2,319	-2,321	-2,465	-2,222	-2,162
Current Transfers, including Official Grants (Net)	-9,134	-8,772	-8,118	-10,027	-10,374	-10,041	-8,745	-8,089	-7,573
Current Account Balance	-4,019	-12,307	-4,289	4,450	2,721	1,868	1,455	1,329	1,390
Capital Account	94	180	40	52	52	52	52	52	52
Financial Account	3,088	10,487	8,249	-2,605	1,059	-2,259	-2,962	-833	-582
Foreign direct investment	4,703	3,585	4,416	2,105	1,076	595	174	235	297
Portfolio investment	334	2,435	3,694	-4,898	800	-1,180	-1,483	-1,655	-968
Other investment	-1,950	4,467	138	188	-817	-1,674	-1,653	587	89
Errors and Omissions	-557	-447	-909	0	0	0	0	0	0
Overall Balance	-1,395	-2,086	3,090	1,898	3,832	-339	-1,455	548	860
Change in Official Reserves (- = increase) 2/	1,394	2,088	-3,090	-1,898	-3,832	339	1,455	-548	-860
Memorandum Items:									
Current account balance (in percent of GDP)	-4.6	-16.6	-5.0	4.1	2.5	1.7	1.3	1.2	1.2
Central Bank gross reserves (in million of USD)	16,662	15,008	19,731	21,629	25,461	25,123	23,668	24,216	25,076
In months of next year's imports of goods and services	5.9	4.9	5.3	5.8	6.6	6.4	5.9	5.9	6.0
Total external debt (in million of USD)	72,004	72,804	79,838	76,893	79,799	80,277	80,452	80,322	80,917
Percent of GDP	81.8	98.4	93.0	70.6	71.9	72.5	72.2	70.9	69.7

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

1/ The coverage of non-oil 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-oil trade data from previous years

2/ Historical flows include CBO and SGRF reserve accumulation.

Table 5. Oman: Financial Soundness Indicators of the Banking Sector, 2016-22
(Percent)

	2016	2017	2018	2019	2020	2021	Mar-22	Jun-22
Capital Adequacy								
BIS Capital 1/	16.7	17.4	17.9	18.5	18.8	19.4	18.9	18.6
Core capital 2/	14.9	15.8	16.6	17.4	17.8	18.5	18.1	17.8
Bank Capital to Assets	15.0	16.5	16.2	15.9	15.9	15.6	15.1	15.0
Loan Quality								
NPLs	2.1	2.4	2.7	3.5	4.2	4.2	4.3	4.3
Net NPLs 3/	0.6	0.9	1.0	1.4	1.6	1.3	1.4	1.3
Restructured/ rescheduled loans to total loans	1.2	1.9	2.3	3.8	4.3	5.8	6.8	9.3
Loan loss provisions to NPLs	66.8	62.6	65.8	61.0	63.4	68.8	69.2	70.0
Related party loans to total capital	6.2	7.1	10.9	7.8	7.4	8.0	7.4	8.7
Profitability								
Return on Assets 4/	1.4	1.5	1.6	1.4	0.9	1.1	1.2	1.3
Return on Equity 5/	10.5	9.3	10.6	9.4	5.7	6.8	7.7	8.2
Liquidity								
Lending Ratio	79.7	80.2	77.7	79.8	79.7	77.5	78.5	78.9
Customer Deposits to Total Assets	45.1	45.2	54.6	45.8	50.0	47.8	48.1	48.2
Net Stable Funding Ratio	110.6	116.2	114.6	116.3	116.7	118.6	116.3	117.2
Liquidity Coverage Ratio	259.4	215.9	253.6	220.1	196.3	212.1	182.2	189.6
Market Risk								
Foreign Currency Assets to Foreign Currency Liabilities	108.8	115.6	112.9	116.9	120.3	123.9	125.0	123.7
Foreign Currency Loans to Foreign Currency Deposits	120.3	142.0	119.6	147.6	160.5	184.6	176.3	172.1
Net Forex Open Position to Capital	11.3	16.0	12.2	9.4	15.3	13.9	16.1	12.0

Source: Central Bank of Oman
1/ BIS Capital Ratio = (Tier 1+Tier 2 capital)/ Total risk weighted assets.
2/ Core Capital Ratio = Tier 1 capital/ Total risk weighted assets.
3/ Net NPLs = Ratio of Gross NPLs net of Reserve Interest & specific provision to Gross advances net of Reserve Interest & specific
4/ Return on Assets = Net profit before taxes/Total assets.
5/ Return on Equity = Net profit before taxes/Total equity.

Annex I. Status of Recommendations of 2021 Article IV Consultation

Recommendation	Status
Fiscal:	
• Steadfast implementation of the MTFP is essential to reinforce fiscal and external sustainability.	• Fiscal adjustment of about 4.3 percent of GDP in the structural non-hydrocarbon primary balance had been implemented in 2020-21, primarily reflecting expenditure rationalization including lower wage bill, streamlining capital expenditure, subsidy reforms, and the introduction of VAT.
• Establish a clear fiscal anchor would help in achieving the fiscal anchor.	• The government has an implicit target of a deficit-to-GDP of 3.0 percent, but this is not legislated.
• Enhance public financial management and fiscal governance.	• Published a first-ever pre-budget statement. Developed a treasury single account. A central government procurement is being established.
• Develop a sovereign asset and liability management framework.	• A public debt law, a centralized asset management registry, and a medium-term debt strategy are being developed.
Monetary and Financial Sector:	
• Advance progress in enhancing the effectiveness of monetary policy.	• The CBO is developing a framework for liquidity forecasting and management and continuing to develop model-building capacity.
• Careful management of the sovereign-bank nexus.	• The development of a treasury single account would gradually reduce sovereign-bank interlinkages.
• Continue to strengthen regulatory frameworks.	• Enacted Securities Law. A medium-term strategy for the Islamic banking and a draft regulation for Bonds and Sukuk (including requirements for Sustainable and Responsible Investment) are being developed. The CBO is developing initiatives to enable open banking and CBDC.
Structural Reforms:	
• Accelerate labor market reforms.	• The authorities reduced hiring fees for expatriates and launched government sponsored training and habilitation initiatives to facilitate job seeking in the public and private sectors. The working on updating the labor law is ongoing.
• Strengthen social safety net.	• The work on strengthening social safety net via a comprehensive reform is ongoing.
• Advance SOEs reforms.	• The OIA issued the Code of Governance of SOEs to ensure the efficient utilization of human and financial resources and assets and approved to disclose key financial performance metrics of SOEs.

Annex II. External Sector Assessment

Overall Assessment: Oman's external position in 2021 was moderately weaker than the level implied by medium-term fundamentals and desirable policies. The estimated current account deficit narrowed considerably in 2021, mainly due to the oil price increase, fiscal consolidation under the authorities' Medium-Term Fiscal Plan (MTFP), and the resumption of economic activity that was interrupted by the pandemic in 2020.

Potential Policy Responses: Forcefully continuing the ambitious medium-term fiscal adjustment and structural reform measures, along with the current favorable outlook for oil prices, will support building FX buffers in Oman. Mobilizing non-oil revenue and avoiding procyclical fiscal policy is expected to bring current account (CA) in line with desired policies and fundamentals. Structural reforms that help enhance competitiveness, diversify the economy and boost non-hydrocarbon tradeable sectors would further support a more robust external position over the medium term.

Foreign Assets and Liabilities: Position and Trajectory

Background. Oman's Net International Investment Position (NIIP) further deteriorated at end-2021 to reach a negative US$33.3 billion balance against a negative US$28.8 billion balance at end-2020. Large increases in FX reserves and acquisition of external assets were more than offset by external borrowing and portfolio inflows. External assets grew by 8.0 percent at end-2021 to reach US$ 95.1 billion. CBO reserve assets constituted 20.7 percent of total foreign assets, while 18.3 percent are government reserve assets. The remaining are public, financial, non-financial, and household sectors assets. External liabilities reached US$128.4 billion at end-2021, against US$117.1 billion at end-2020.

Assessment. Oman's NIIP is projected to improve in the medium-term, supported by current account surpluses, envisaged fiscal adjustments under the MTFP, and structural reforms that aim to diversify non-hydrocarbon exports and attract FDI inflows. Moreover, adjusting the CA in line with fundamentals and desirable policy levels will support improving Oman's NIIP and revert it back to a firm positive path.

2021 (% GDP)	NIIP: -38.8	Gross Assets: 110.8	Res. Assets: 22.9	Gross Liab.: 149.5	Debt Liab.: 96.7

Current Account

Background. The current account deficit significantly improved to 5.0 percent of GDP in 2021 against a 16.6 percent deficit in 2020. Higher hydrocarbon prices and fiscal adjustments mainly drove the improvement in the CA deficit, in addition to strong growth in non-hydrocarbon exports and a decline in net remittances. The CA balance is projected to record a surplus in 2022 and over medium-term for the first time since 2014 due to current oil price forecast, continuation of fiscal consolidation efforts, and projected growth in non-hydrocarbon exports. Uncertainties to the CA outlook revolve around volatility of oil prices, relaxation of fiscal consolidation efforts, and geopolitical risks.

Assessment. The EBA-lite assessment for the current account gap in 2021 was -1.5 percent of GDP, significantly improving from -8.8 percent of GDP in 2020. The reduction of the gap was partly driven by fiscal consolidation efforts, and contributed to a positive policy gap of 1.6 percent of GDP, highlighting the need to continue fiscal consolidation efforts to sustain a favorable external sector position. Under the CA approach, staff estimates show that the real effective exchange rate is overvalued by 4.0 percent. The assessment of the CA has also considered non-model adjustment factors, such as the effect of the Shaheen cyclone, the lingering effect of the pandemic on tourism, and one-off government support measures. Adjustment factors accounted for 1.8 percent of GDP. To further assess the current account balance, staff used the two real annuity consumption model approaches, which are used to estimate the sustainability of the CA for commodity exporters. These approaches are based on allocation of resource wealth for consumption across periods and is based on the permanent income hypothesis (PIH) approach. The results of the models suggest a current account gap of -2.0 percent of GDP under the constant annuity approach and –3.9 percent under the constant real per capita annuity approach, suggesting the need for larger fiscal savings of hydrocarbon revenues. Under these two approaches, real effective exchange rate is estimated to be overvalued by about 8.0 percent on average.

Oman: EBA-lite Model Results, 2021

	CA model 1/	REER model 1/	Constant annuity	Constant annuity per
		(in percent of GDP)		
CA-Actual	**-5.0**	**-5.0**	**-5.0**	**-5.0**
Cyclical contributions (from model) (-)	-0.3			
COVID-19 adjustor (-) 2/	0.0			
Natural disasters and conflicts (-)	-1.5			
Adjusted CA	**-3.3**		**-3.3**	**-3.3**
CA Norm (from model) 3/	**-1.8**		**-1.3**	**0.6**
CA Gap	**-1.5**	**0.9**	**-2.0**	**-3.9**
o/w Relative policy gap	1.6			
Elasticity	-0.37	-0.37	-0.37	-0.37
REER Gap (in percent)	**4.0**	**-2.5**	**5.4**	**10.6**

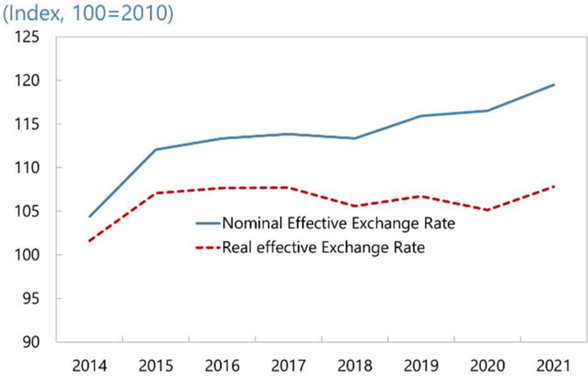
1/ Based on the EBA-lite 3.0 methodology
2/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism (- 0.14 percent of GDP).
3/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. Driven by appreciation in the US dollar, the real and nominal effective exchange rates (REER and NEER) both appreciated by 2.7 percent in 2021. Both the REER and NEER were 1 percent above their 10-year average. However, Oman's terms of trade improved in 2021 due to increased hydrocarbon prices.

Assessment. EBA-lite REER model shows that the REER gap is -2.5 percent. Overall, based on the CA model, staff assesses the 2021 REER to be overvalued by 4 percent.

External Competitiveness
(Index, 100=2010)



Source: IMF International Financial Statistics.

Capital and Financial Accounts: Flows and Policy Measures

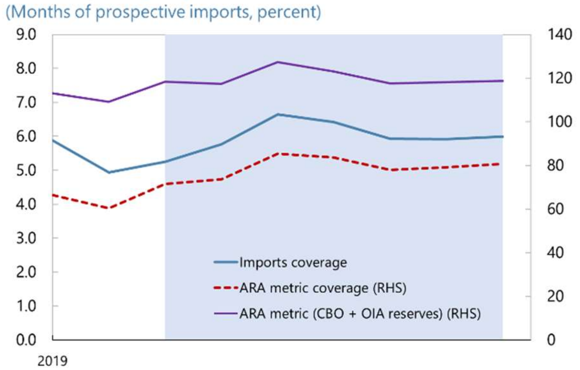
Background. Oman's net financial flows declined to US$8.27 billion in 2021 from US$10.5 billion in 2020. Net flows were mainly driven by the return of FDI inflows to their pre-pandemic levels, the issuance of debt bonds, and the US$733 million SDR allocation. Sovereign borrowing more than doubled to US$ 5.5 billion in 2021, while net FDI inflows increased to US$4.4 billion, mainly driven by US$4.0 billion inflows. Most of these inflows were concentrated in the hydrocarbon sector.

Assessment. While external government borrowing in overall inflows increased in 2021, continued fiscal consolidation efforts and high oil windfalls contributed to repayment of large amounts of existing debt. This will help in reducing interest pressure on the primary income account of the CA, especially in the current environment of tightening global financial conditions. With continued non-hydrocarbon revenue mobilization efforts and structural reforms to improve economic diversification, risks stemming from sudden capital outflows are expected to diminish as external financing needs decline. Moreover, establishing an enabling business environment with a level playing field will encourage more FDI inflows to non-hydrocarbon sectors in Oman, which would further support economic diversification plans and reduce the concentration of FDI inflows in the oil sector.

FX Intervention and Reserves Level

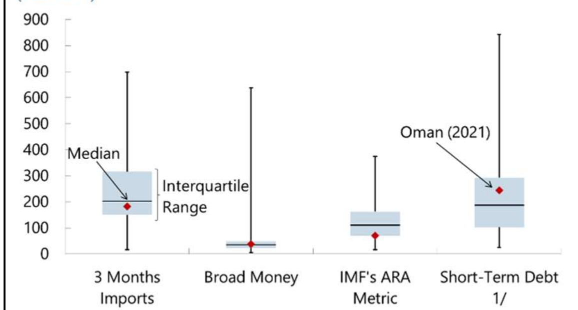
Background. CBO reserves increased by US$4.7 billion in 2021, driven by a narrowed CA deficit, increase in FDI net inflows, and issuance of debt bonds, in addition to a US$743 million SDR allocation in August 2021. Reserves stood at US$19.7 billion (5.3 months of imports, 37.5 percent of broad money) at end-2021, corresponding to 71.4 percent of the Fund's Assessing Reserve Adequacy (ARA) metric, improving from 61 percent in 2020, but still below the suggested adequate range of 100-150 percent.

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 72 countries.
1/ Excludes top five values.

Assessment. While official reserves are below the IMF's ARA metric, including OIA liquid external assets to CBO official reserve puts reserves above the adequacy ratio in 2021 and beyond in case additional FX reserves are needed. With a favorable medium-term outlook for energy prices and fiscal reform measures, CBO foreign reserves are expected to significantly improve and reach 80.7 percent of the ARA metric in 2027. Nonetheless, the volatility of oil prices necessitates holding additional reserves above the ARA metric which can be used in case of an exchange rate shock.

Annex III. Debt Sustainability Analysis

Public debt (central government) sustainability risks improved due to high oil prices and fiscal adjustment under the authorities' the Medium-Term Fiscal Plan (MTFP). Under the baseline scenario, the authorities' ongoing fiscal consolidation is expected to reduce public debt to about 37 percent of GDP while gross financing needs are forecasted to be 3.9 percent of GDP in 2027. Despite sizable financial buffers, the public debt trajectory remains vulnerable to risks, particularly from oil markets developments, pressures to spend oil windfalls, and shocks to primary balance, GDP growth, the exchange rate, and interest rates. Oman's external debt has increased substantially in recent years and remains sensitive to exchange rate and current account shocks.

A. Public Debt Sustainability Analysis

Developments and Baseline Scenario

1. Debt profile. After surging from 4 percent of GDP in 2014 to about 70 percent in 2020, public debt improved in 2021 on account of high oil prices and the implementation of the MTFP. Domestically-held debt decreased from 18 to 15.7 percent of GDP between 2020-2021, while externally-held debt decreased from 51.7 to 47.2 percent of GDP for the similar period. Oman's debt is dominated by medium and long-term maturities, with bonds and sukuk accounting for about 75 percent and 70 percent of domestic and external debt at end-2021, respectively. Further, net debt— central government deposits at depository corporations and OIA's liquid assets less central government debt—moved from minus 24.2 percent of GDP at end-2016 to 25.5 percent of GDP at end-2021, driven by the large increase in financial liabilities.

2. Macroeconomic assumptions. Non-hydrocarbon growth is projected to gradually recover from the effects of the COVID-19 pandemic and reach about 4 percent by 2027, while overall growth is expected at 2.7 percent reflecting slower growth of hydrocarbon production. The implementation of the authorities' fiscal consolidation, under the Medium-Term Fiscal Plan (MTFP), will improve the overall fiscal balance from a deficit of 3.2 percent of GDP in 2021 to a surplus in 2022. The non-hydrocarbon structural primary balance, which excludes hydrocarbon revenue and expenditure, would increase from -20.2 percent of GDP to -17.7 percent over the same period. Gross financing needs (GFNs) are projected to decrease over the medium term. GFNs amounted to about 23.5 percent of GDP in 2021. [1] They are expected to decline to 3.8 percent of GDP in 2022—due to high oil prices, fiscal consolidation, the economic recovery, the shift of oil and gas expenditure to EDO—and to around 3.5 percent of GDP by 2023. GFNs are assumed to be financed mainly through issuance of medium to long-term domestic and external debt, and modest drawdowns of fiscal buffers. Therefore, improvements in the primary balance and declining recourse to debt financing are projected to reduce gross (net) public debt to about 37 (-5.6) percent of GDP by 2027. It is

[1] Repayments of T-bills accounted for 15 percent of GDP. At end-2021, the stock of T-bills, which are issued largely for monetary operations, stood at 3.2 percent of GDP and is assumed to be rolled over the projection period.

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

3. The government debt trajectory is sensitive to shocks:

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

- ***Growth shock.*** The impact on the debt-to-GDP ratio of the 1 standard deviation shock to real GDP growth, equivalent to 3.6 percentage points in each year 2023 and 2024, would increase central government debt over the medium term. In this scenario, debt dynamics are worse than the baseline, with debt being 53.9 percent of GDP by 2027 (about 17 percentage points higher than the baseline).

- ***Primary balance shock.*** This shock deteriorates the primary balance by 3.9 percentage points of GDP in years 2023 and 2024 and increases public debt to 48.3 percent of GDP by 2027 (about 11.5 percentage points higher than the baseline).[2] Gross financing needs would increase 5.7 percent of GDP in 2023, and to about 5.8 percent of GDP in 2024 (4.5 percentage points higher than the baseline).

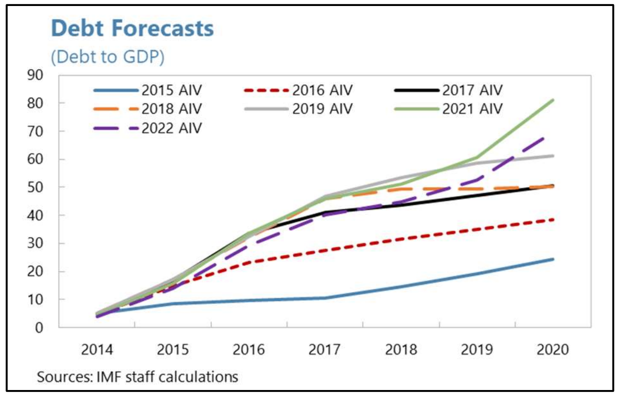
- ***Interest rate shock.*** While sovereign spreads have markedly declined since late 2020, a tighter financial condition is a risk over the projection period. The debt projections are quite sensitive to real interest rate shocks—the result of the sensitivity of the GDP deflator, and hence the real interest rate, to volatile energy prices.[3] The debt trajectory in this scenario does stabilize around 51.7 percent of GDP by 2027.

- ***Combined macro-fiscal shock.*** The macro-fiscal shock combines the growth and interest rate shock and a primary balance shock as in the standard examples above, together with the exchange rate shock. The effect of these shocks on central government debt and gross financing needs is large, reaching about 69 percent and 11.2 percent of GDP in 2027, respectively.

- ***Contingent liability shock.*** This contingent liability is calibrated as 10 percent of banks' assets (excluding claims on government). Oman's debt is exposed to explicit contingent liabilities arising from SOEs, amounting to about 10 percent of GDP at end-2021. This shock generates gross debt of 54.1 percent of GDP and gross financing needs of 7.4 percent of GDP by 2027.

[2] The primary shock is equal to half of the 10-year historical standard deviation.
[3] The large share of Oman's energy sector and recent large swings in energy prices have resulted in very volatile path for the GDP deflator, contributing to the sharp increase in real effective interest rate.

4. Maintaining fiscal discipline and rebuilding fiscal buffers will be paramount in reinforcing fiscal and external sustainability. Beside the sharp increase in debt from the 2014-15 decline in oil prices, debt had been on slightly upward trend during 2017-2018 due to insufficient fiscal adjustments, but then increased sharply in 2019 (due to contraction in the oil sector) and amplified in 2020 (due to a dual shock from the pandemic and a collapse in oil prices). Public debt remains vulnerable to risks, particularly from oil markets developments and shocks to GDP growth, the exchange rate, primary balance, and interest rates. Fiscal consolidation (underpinned by the MTFP), higher oil prices, and ongoing structural reforms are projected to considerably narrow the debt over the medium term.[4]



B. External Debt Sustainability Analysis

5. Oman's external debt has increased substantially in recent years. It increased from about 72 to 93 percent of GDP during 2017-2021, which was largely driven by the increase in central government external debt, from about 28.5 percent of GDP to 47.2 percent during the same period. The rest of the increase was due to the non-financial private sector, mainly SOEs, as they also ramped up external borrowing over the period. Total external debt is projected to decrease with ongoing fiscal consolidation.

6. Stress tests confirm that external debt dynamics are sensitive to several macroeconomic shocks, especially exchange rate and current account shocks. A one-time real exchange rate depreciation of 30 percent in 2022 would make external debt peak at 96 percent of GDP in 2027. An increase in the current account deficit (excluding interest payments) by half a standard deviation in each year from 2022 onwards, would make external debt peak at 94 percent of GDP in 2027. A combined permanent shock of a one-fourth standard deviation applied simultaneously to the interest rate, growth rate, and non-interest current account balance would raise the external debt to 87 percent of GDP by 2027.

[4] High current oil price enables a large 3-year adjustment in cyclically adjusted primary balance (Figure 3).

Figure 1. Public Sector Debt Sustainability Analysis – Baseline Scenario

(In percent of GDP unless otherwise indicated)

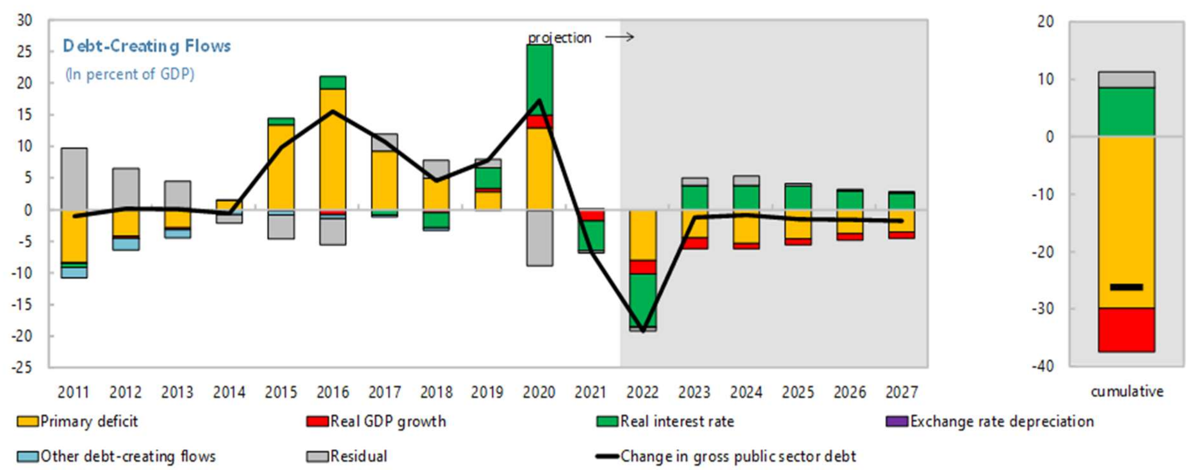
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2011-2019 [2/]	2020	2021	2022	2023	2024	2025	2026	2027
Nominal gross public debt	22.0	69.7	62.9	43.7	42.5	41.7	40.2	38.5	36.8
Public gross financing needs	7.9	24.9	23.5	5.2	1.0	1.3	3.1	2.9	3.9
Net public debt	-20.5	28.5	25.5	13.7	12.5	10.9	9.0	7.3	5.6
Public debt (in percent of potential GDP)	22.3	60.6	59.4	42.8	42.2	41.5	40.2	38.6	36.8
Real GDP growth (in percent)	3.2	-3.2	3.0	4.3	4.1	1.9	2.3	2.5	2.7
Inflation (GDP deflator, in percent)	0.8	-13.2	12.7	21.6	-2.1	-2.1	-1.6	-0.8	-0.2
Nominal GDP growth (in percent)	3.9	-16.0	16.1	26.8	1.9	-0.2	0.6	1.7	2.5
Effective interest rate (in percent) [4/]	3.6	5.0	5.3	5.6	6.7	6.7	7.3	6.8	6.8

As of September 17, 2022		
Sovereign Spreads		
EMBIG (bp) 3/		292
5Y CDS (bp)		250
Ratings	Foreign	Local
Moody's	Ba3	Ba3
S&Ps	BB-	BB-
Fitch	BB	BB

Contribution to Changes in Public Debt

	Actual			Projections							
	2011-2019	2020	2021	2022	2023	2024	2025	2026	2027	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	5.2	17.2	-6.8	-19.2	-1.2	-0.8	-1.5	-1.6	-1.8	-26.2	
Identified debt-creating flows	3.2	25.8	-6.3	-18.6	-2.5	-2.3	-1.8	-1.8	-1.9	-28.9	
Primary deficit	3.9	12.9	0.0	-8.0	-4.5	-5.3	-4.6	-3.8	-3.5	-29.8	1.6
Primary (noninterest) revenue and grants	35.3	29.6	33.9	36.9	33.6	34.1	33.4	32.4	31.8	202.2	
Primary (noninterest) expenditure	39.3	42.6	33.9	28.9	29.1	28.8	28.8	28.6	28.2	172.4	
Automatic debt dynamics [5/]	0.1	13.1	-6.5	-10.5	2.0	3.0	2.8	2.0	1.6	0.9	
Interest rate/growth differential [6/]	0.1	13.1	-6.5	-10.5	2.0	3.0	2.8	2.0	1.6	0.9	
Of which: real interest rate	0.3	11.1	-4.7	-8.4	3.8	3.8	3.7	3.0	2.6	8.5	
Of which: real GDP growth	-0.2	2.0	-1.8	-2.1	-1.8	-0.8	-0.9	-1.0	-1.0	-7.7	
Exchange rate depreciation [7/]	0.0	0.0	0.0	...	...	...	...	...	...	...	
Other identified debt-creating flows	-0.8	-0.2	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	
GG: Net Lending (negative)	-0.8	-0.2	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., ESM and Euroarea loans)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	2.0	-8.6	-0.4	-0.6	1.2	1.5	0.3	0.1	0.1	2.7	



Source: IMF staff.

1/ Public sector is defined as central government.

2/ Based on available data.

3/ Long-term bond spread over U.S. bonds.

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

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

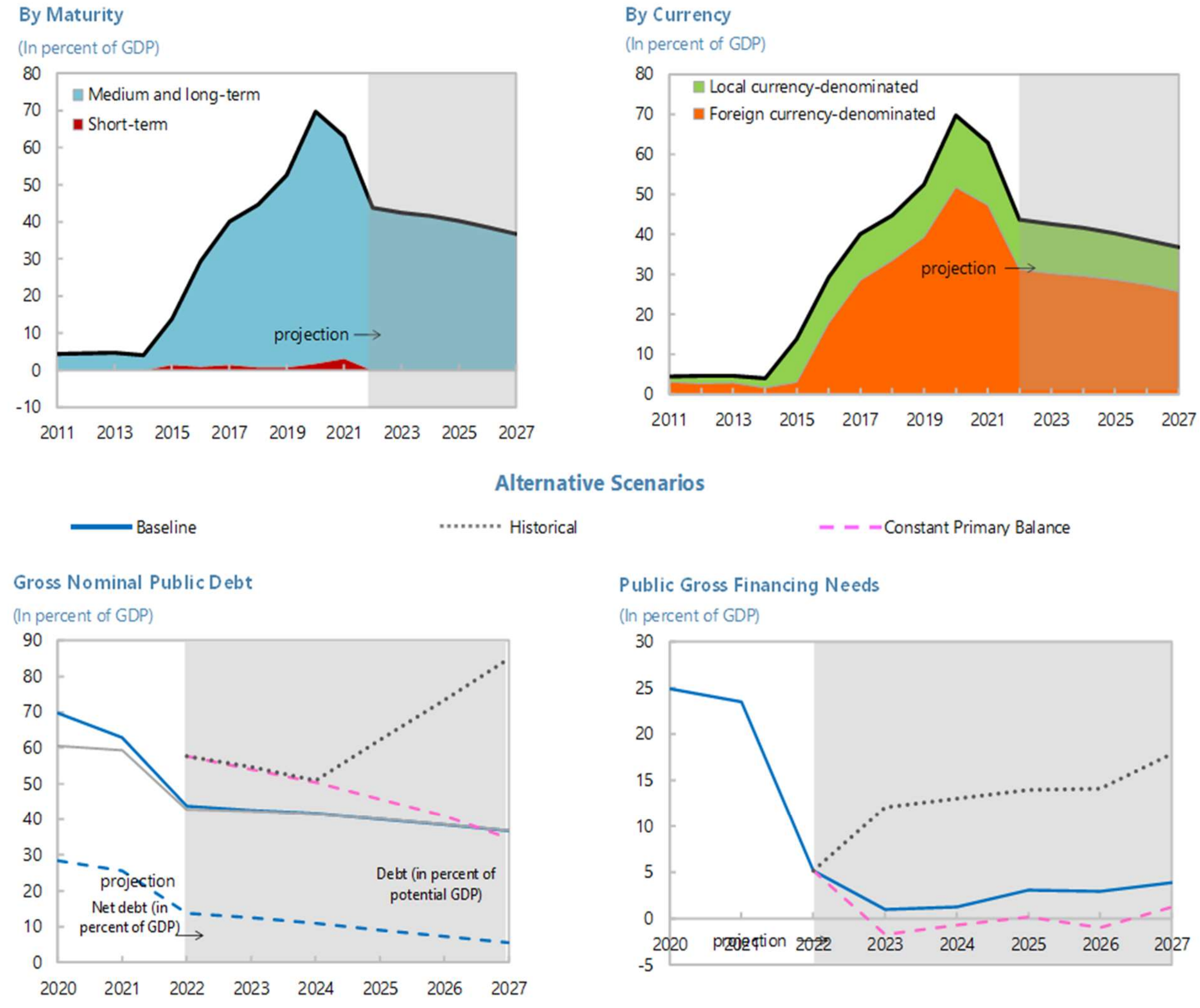
6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

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

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

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

Figure 2. Public Sector Debt Sustainability Analysis – Composition of Public Debt and Alternative Scenarios



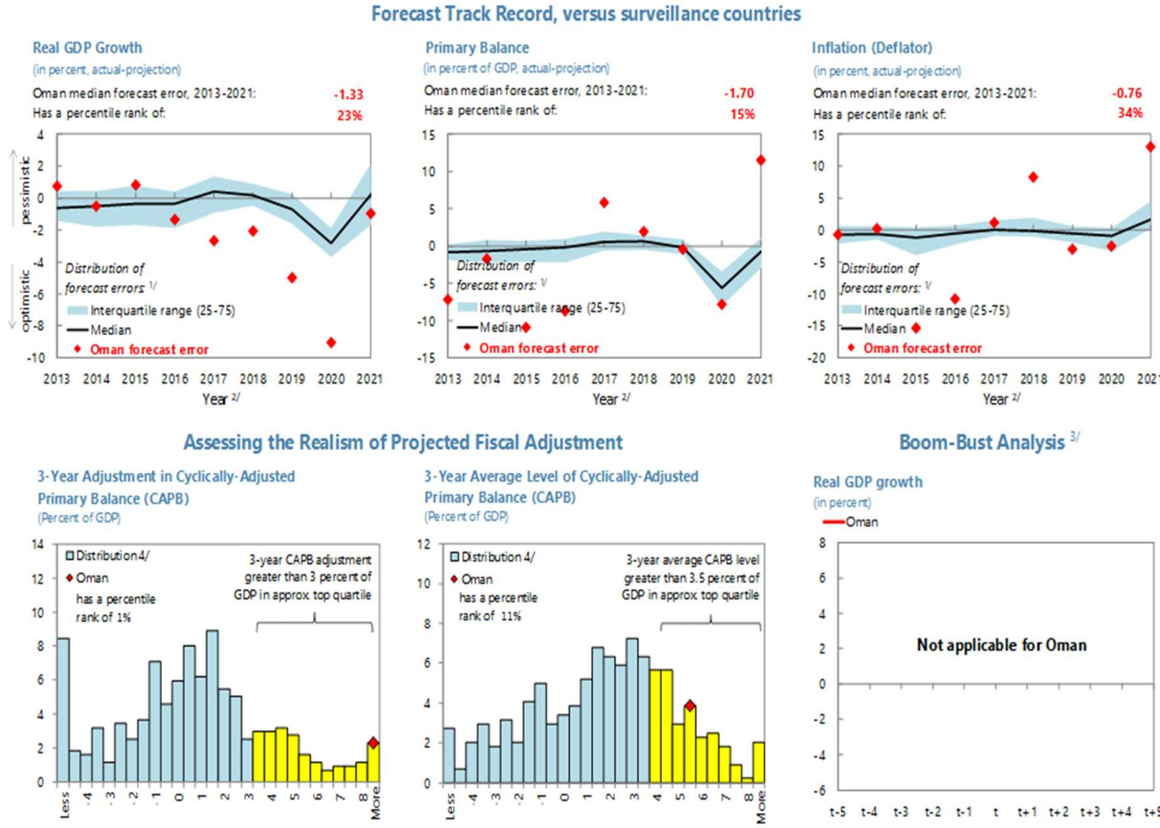
Underlying Assumptions
(In percent)

Baseline Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	4.3	4.1	1.9	2.3	2.5	2.7
Inflation	21.6	-2.1	-2.1	-1.6	-0.8	-0.2
Primary Balance	8.0	4.5	5.3	4.6	3.8	3.5
Effective interest rate	5.6	6.7	6.7	7.3	6.8	6.8
Constant Primary Balance Scenario						
Real GDP growth	4.3	4.1	1.9	2.3	2.5	2.7
Inflation	21.6	-2.1	-2.1	-1.6	-0.8	-0.2
Primary Balance	8.0	8.0	8.0	8.0	8.0	8.0
Effective interest rate	5.6	6.5	6.6	7.1	6.7	6.6

Historical Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	4.3	2.6	2.6	2.6	2.6	2.6
Inflation	21.6	-2.1	-2.1	-1.6	-0.8	-0.2
Primary Balance	8.0	-5.7	-5.7	-5.7	-5.7	-5.7
Effective interest rate	5.6	6.5	6.6	7.1	7.1	7.7

Source: IMF staff.

Figure 3. Public Sector Debt Sustainability Analysis – Realism of Baseline Assumptions



Source: IMF Staff.

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

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

3/ Not applicable for Oman, as it meets neither the positive output gap criterion nor the private credit growth criterion.

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

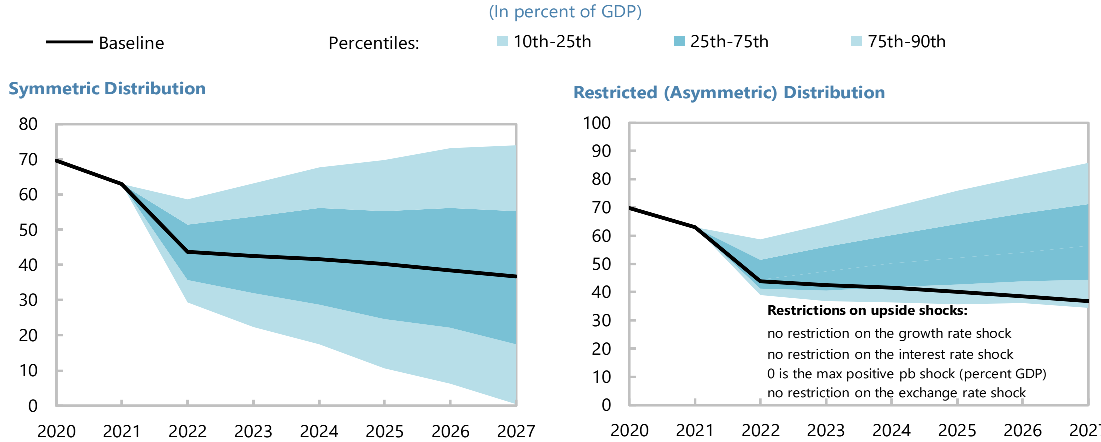
Figure 4. Public Sector Debt Sustainability Analysis – Risk Assessment

Heat Map

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

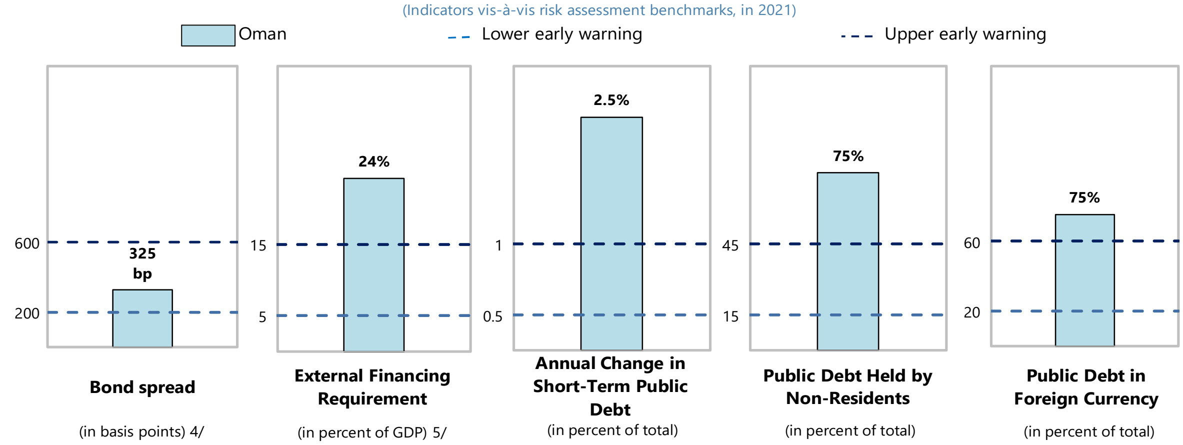
Evolution of Predictive Densities of Gross Nominal Public Debt

(In percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2021)



Source: IMF staff.

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

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

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

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

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 19-Jun-22 through 17-Sep-22.

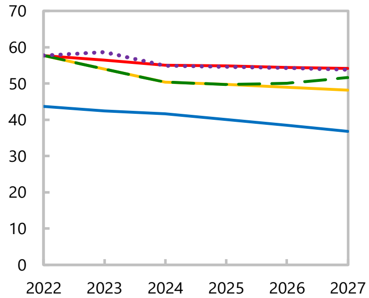
5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure 5. Public Sector Debt Sustainability Analysis – Stress Tests

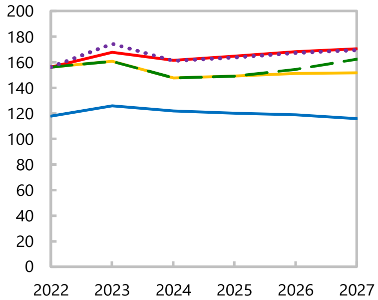
Macro-Fiscal Stress Tests

Baseline
Real GDP Growth Shock
Primary Balance Shock
Real Exchange Rate Shock
Real Interest Rate Shock

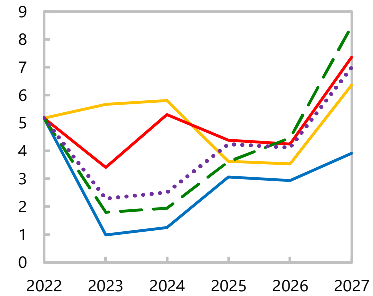
Gross Nominal Public Debt
(in percent of GDP)



Gross Nominal Public Debt
(in percent of Revenue)



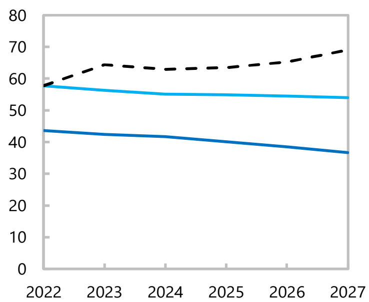
Public Gross Financing Needs
(in percent of GDP)



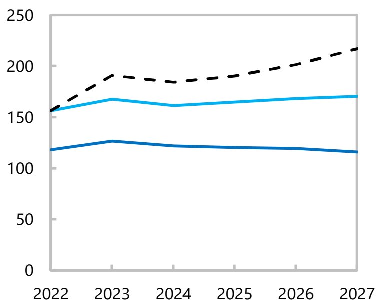
Additional Stress Tests

Baseline
Combined Macro-Fiscal Shock
Contingent Liability Shock

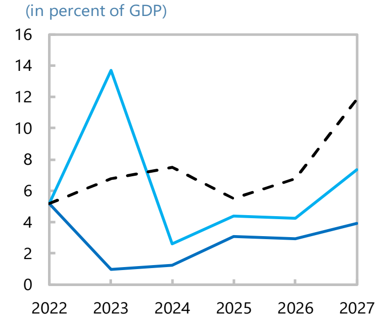
Gross Nominal Public Debt
(in percent of GDP)



Gross Nominal Public Debt
(in percent of Revenue)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(In percent)

Primary Balance Shock	2022	2023	2024	2025	2026	2027
Real GDP growth	4.3	4.1	1.9	2.3	2.5	2.7
Inflation	21.6	-2.1	-2.1	-1.6	-0.8	-0.2
Primary balance	8.0	0.6	1.5	4.6	3.8	3.5
Effective interest rate	5.6	6.5	6.6	7.1	6.7	6.8
Real Interest Rate Shock						
Real GDP growth	4.3	4.1	1.9	2.3	2.5	2.7
Inflation	21.6	-2.1	-2.1	-1.6	-0.8	-0.2
Primary balance	8.0	4.5	5.3	4.6	3.8	3.5
Effective interest rate	5.6	6.5	6.6	7.1	8.7	11.0
Combined Shock						
Real GDP growth	4.3	0.5	-1.6	2.3	2.5	2.7
Inflation	21.6	-2.9	-3.0	-1.6	-0.8	-0.2
Primary balance	8.0	0.6	1.5	4.6	3.8	3.5
Effective interest rate	5.6	7.4	6.6	7.1	9.0	11.7

Real GDP Growth Shock	2022	2023	2024	2025	2026	2027
Real GDP growth	4.3	0.5	-1.6	2.3	2.5	2.7
Inflation	21.6	-2.9	-3.0	-1.6	-0.8	-0.2
Primary balance	8.0	3.2	2.7	4.6	3.8	3.5
Effective interest rate	5.6	6.5	6.6	7.1	6.7	6.8
Real Exchange Rate Shock						
Real GDP growth	4.3	4.1	1.9	2.3	2.5	2.7
Inflation	21.6	2.6	-2.1	-1.6	-0.8	-0.2
Primary balance	8.0	4.5	5.3	4.6	3.8	3.5
Effective interest rate	5.6	7.4	6.6	7.1	6.7	6.8
Contingent Liability Shock						
Real GDP growth	4.3	0.5	-1.6	2.3	2.5	2.7
Inflation	21.6	-2.9	-3.0	-1.6	-0.8	-0.2
Primary balance	8.0	-6.8	5.3	4.6	3.8	3.5
Effective interest rate	5.6	7.1	6.6	7.1	6.7	6.8

Source: IMF staff.

Figure 6. External Debt Sustainability Framework, 2017-2027

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2017	2018	2019	2020	2021			2022	2023	2024	2025	2026	2027	Debt-stabilizing non-interest current account 6/
Baseline: External Debt	72.0	72.9	81.8	98.4	93.0			**70.6**	**71.9**	**72.5**	**72.2**	**70.9**	**69.7**	**2.8**
Change in external debt	16.3	0.9	8.9	16.7	-5.4			-22.4	1.3	0.6	-0.3	-1.3	-1.2	
Identified external debt-creating flows (4+8+9)	8.8	-10.4	2.0	28.0	-12.7			-10.5	-7.4	-4.3	-3.4	-2.9	-2.7	
Current account deficit, excluding interest payments	10.9	1.1	1.4	13.4	2.6			-10.0	-8.5	-7.5	-6.5	-5.5	-5.4	
Deficit in balance of goods and services	-2.3	-12.1	-12.6	-2.2	-10.4			-21.2	-17.0	-15.4	-13.7	-12.8	-11.4	
Exports	45.6	50.7	49.6	48.3	53.6			60.7	56.4	55.8	55.1	54.2	53.4	
Imports	43.2	38.5	37.0	46.0	43.3			39.5	39.5	40.4	41.4	41.4	41.9	
Net non-debt creating capital inflows (negative)	-0.7	-6.3	-5.3	-4.6	-5.1			-1.2	-1.0	-0.4	0.1	0.4	0.6	
Automatic debt dynamics 1/	-1.4	-5.3	6.0	19.2	-10.2			0.6	2.1	3.5	3.0	2.2	2.1	
Contribution from nominal interest rate	2.5	3.1	3.1	3.6	3.4			3.8	4.9	4.9	4.6	4.0	3.9	
Contribution from real GDP growth	-0.2	-0.8	0.9	3.1	-2.5			-3.2	-2.8	-1.4	-1.6	-1.8	-1.8	
Contribution from price and exchange rate changes 2/	-3.8	-7.6	2.0	12.5	-11.1			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	7.5	11.3	6.9	-11.3	7.2			-11.8	8.7	5.0	3.1	1.6	1.5	
External debt-to-exports ratio (in percent)	158.0	143.9	165.0	203.9	173.4			116.3	127.4	130.0	131.0	130.6	130.5	
Gross External Financing Need (in Billions of US Dollars) 4/	21.5	16.1	18.5	29.3	23.6			18.7	12.5	14.9	16.9	15.8	18.1	
in percent of GDP	26.5	17.6	21.0	39.6	27.4	10-Year	10-Year	17.2	11.3	13.4	15.2	13.9	15.6	
Scenario with Key Variables at their Historical Averages 5/								**70.6**	**80.7**	**87.0**	**92.0**	**96.3**	**100.9**	**-0.2**
						Historical	Standard							
Key Macroeconomic Assumptions Underlying Baseline						Average	Deviation							
Real GDP growth (in percent)	0.3	1.3	-1.1	-3.2	3.0	2.6	3.6	4.3	4.1	1.9	2.3	2.5	2.7	
GDP deflator in US dollars (change in percent)	7.3	11.7	-2.7	-13.2	12.7	-0.9	10.5	21.6	-2.1	-2.1	-1.6	-0.8	-0.2	
Nominal external interest rate (in percent)	4.9	4.8	4.1	3.7	4.0	3.7	0.8	5.2	7.1	6.8	6.4	5.7	5.7	
Growth of exports (US dollar terms, in percent)	18.7	25.8	-5.8	-18.2	29.0	1.3	20.6	43.6	-5.3	-1.4	-0.6	0.1	0.8	
Growth of imports (US dollar terms, in percent)	12.0	0.9	-7.6	4.5	9.1	3.1	12.1	15.8	1.8	2.2	3.0	1.8	3.7	
Current account balance, excluding interest payments	-10.9	-1.1	-1.4	-13.4	-2.6	-3.7	9.0	10.0	8.5	7.5	6.5	5.5	5.4	
Net non-debt creating capital inflows	0.7	6.3	5.3	4.6	5.1	2.3	3.0	1.2	1.0	0.4	-0.1	-0.4	-0.6	

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

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

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

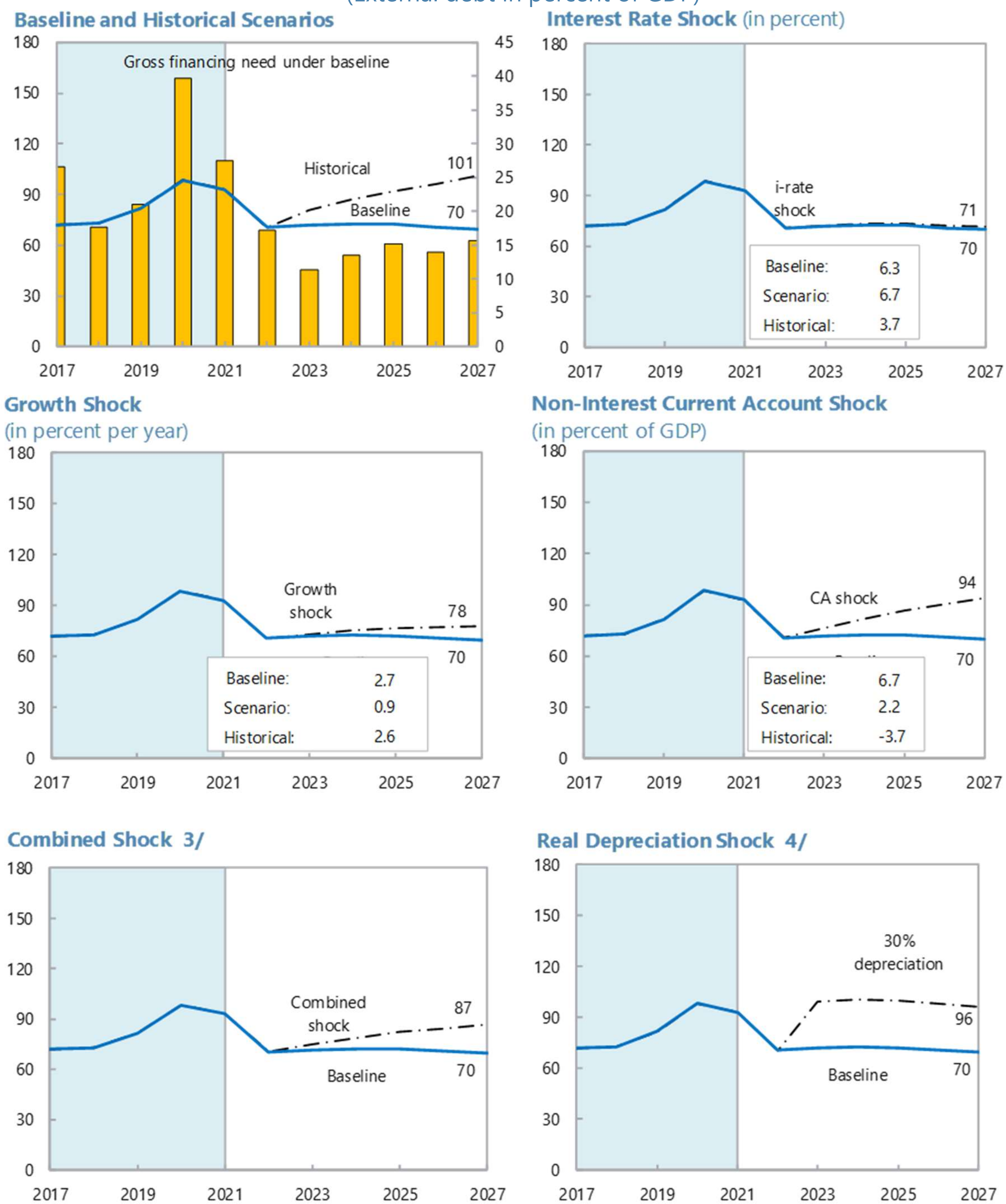
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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

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

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

(External debt in percent of GDP)



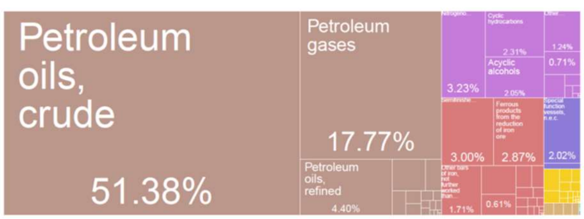
Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented.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

Annex IV. Impact of the War in Ukraine[1]

Direct adverse spillovers on the Omani economy from the war in Ukraine are small. Overall, the windfall from higher oil prices is expected to improve fiscal and external balances considerably. Higher global energy and food prices could have limited impact on Oman's price developments via the import channel, given its exposure to Russia and Ukraine through wheat imports. Financial and trade linkages are limited.

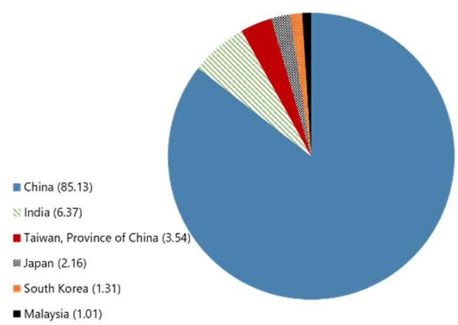
1. The main direct impact on Oman is a positive spillover, mostly via higher oil prices. Oman has about 10 percent estimated spare oil production capacity (approximately 100,000 bpd), with a current level of production of almost 1 million barrels per day. Production of natural gas accounts for a smaller share, about 17 percent of hydrocarbon GDP in 2022, and it is around full capacity. Second round affects could adversely affect demand for oil in case of a deeper slowdown in the global economy activity, especially in China which imports about 80 percent of Oman's total oil exports. High oil prices could increase energy transition risks to Oman as the world moves gradually to cleaner energy sources over the medium term. In mitigating such risks, Oman has been investing in green energy, including solar and green hydrogen.

Exports to Oman, 2019



Source: Atlas of Economic Complexity.

Crude Petroleum Export Destination, 2020
(Percent of total)

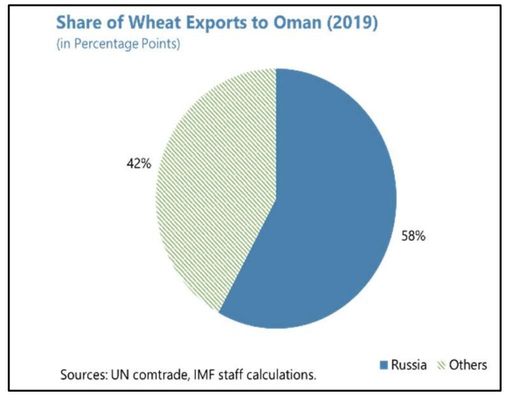


Sources: The Observatory of Economic Complexity; and IMF staff calculations.

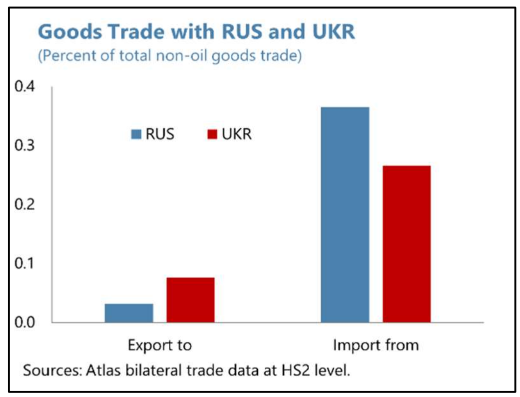
2. Food and energy inflationary pressures have been contained thus far. Since early 2022, inflation dynamics have been dominated by the higher base from the introduction of the VAT in April 2021, price caps on selected food items (wheat and flour) and selected fuels (M91, M95, and diesel since November 2021), and a stronger U.S. dollar. Bread and cereal account only for 3 percent of the CPI basket. The cap on domestic fuel prices will remain until oil prices decline below US$75 per barrel. Oman is not completely sheltered from global price developments. If inflation in major economies increases due to factors such as higher global oil and food prices and thus production

[1] Prepared by Abdullah AlHassan (MCD).

costs, these higher prices could have bigger impact on Oman's price developments via the import channel.



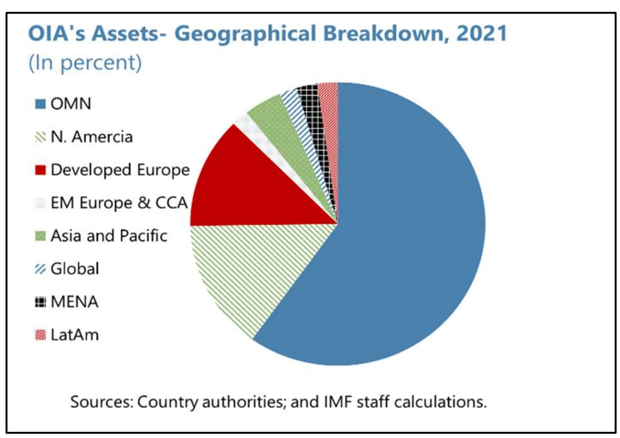
3. Fiscal and external balances will improve considerably in the near term through higher oil prices. Even prior to the war, Oman has already been benefiting from higher than budgeted (assumed oil price of $50 per barrel) inflows of hydrocarbon revenue. Every $1 increase in the oil price will add about OMR100 million to fiscal revenue annually. The fiscal balance is expected to turn to a surplus of 5.5 percent of GDP in 2022 (first time since 2013), thereby significantly reducing gross financing needs to 3.7 percent of GDP. Similarly, the external current account is projected at 6.8 percent of GDP in 2022 (-5.6 percent of GDP in 2021).



4. From a direct trade perspective, Russia and Ukraine are not important trading partners for Oman. Imports from Russia and Ukraine constituted less than 1 percent of Oman's total imports. Oman is dependent on both Russia and Ukraine for about 60 percent of its total wheat imports; however, it has stockpiled food items and begun to tap new markets to ensure food security. On Oman's non-oil exports, it remains less than 0.1 percent of total non-oil goods trade. Overall, at the end of 2021, Russia was the 92nd export destination of Oman and Ukraine the 71st.

5. Oman does not rely on significant tourism receipts from either Russia or Ukraine. Though data is unavailable on the exact share of tourists from Russia and Ukraine, among the 0.65 million tourist arrivals in 2021, about three-fourths came from GCC, India, Yemen, Pakistan, and Egypt. Tourism sector is also small, accounting for less than 3 percent of GDP.

6. There appears to be no financial linkages. There is no cross ownership in the banking system between Oman and Russia and Ukraine. Links through foreign direct investment are non-existence (though the Coordinated Direct Investment Survey offers limited information) nor financial exposure through the FDI channel. As of end-Dec 2021, OIA assets (US$42.3 billion) are mainly invested in Oman (60 percent), North America (18 percent), Developed Europe (10 percent), and Asia and Pacific (5 percent). EM Europe and Central Asia region accounts for about 1.5 percent of the OIA's investments (approximately $676 million).



Annex V. Risk Assessment Matrix

Source of Risk and Relative Likelihood	Expected Impact	Policy Responses
High **Intensifying spillovers from Russia's war on Ukraine.** Further sanctions resulting from the war and related uncertainties exacerbate trade and financial disruptions and commodity price volatility, with Europe, LICs, and commodity-importing EMs among the worst hit.	**Low** Direct spillovers on the Omani economy are limited. With negligible direct trade or financial links to Russia and Ukraine, the initial direct impact has been positive thus far, mostly via higher oil prices. Food security remains an issue, with Oman is dependent on both Russia and Ukraine for about 60 percent of its total wheat imports.	Continue to ensure food security by supporting the agriculture sector and tapping new markets. Target energy and food subsidies to the most vulnerable groups. Monitor and mitigate the impact of tighter global financial conditions on the government debt and the financial sector.
High **Commodity price shocks.** A combination of continuing supply disruptions (e.g., due to conflicts and export restrictions) and negative demand shocks causes recurrent commodity price volatility and social and economic instability.	**High** A higher oil price would improve fiscal and external positions considerably. Additionally, higher hydrocarbon prices may affect liquidity within the banking system. However, lower oil prices would lead to negative spillovers in the non-hydrocarbon sector. Higher energy prices would add increase energy subsidies. Food prices have been contained so far through advance stocks of wheat and administrated prices.	Mobilize non-hydrocarbon revenue to reduce reliance on oil revenue. Establish a clear fiscal anchor to reduce the risks of procyclical fiscal policies. Resume energy price reforms. Monitor closely the liquidity in the banking system and its impact on asset quality. Accelerate structural reforms to enhance competitiveness, diversify the economy, and reduce the impact of oil price fluctuations.
Medium **Local Covid-19 outbreaks.** Outbreaks in slow-to-vaccinate countries or emergence of more contagious vaccine-resistant variants force new lockdowns or inhibit commerce. This results in extended supply chain disruptions, slower growth, capital outflows, and debt distress in some EMDEs.	**Medium** While Oman has a high vaccination rate, a renewed flare-up of COVID-19 infections would likely affect Oman through the global oil market (demand) and through the domestic economy. Lower oil prices will deteriorate fiscal and external positions, prolonging impact on and private sector activity. Reintroducing containment measures would delay the recovery and decrease economic growth as consumption and investment will be withheld. Weak growth dynamics would cause a deterioration in debt sustainability and force a larger fiscal adjustment, which could feedback in weaker growth.	Continue providing support to the health system, including for including large-scale testing and vaccination. Use existing buffers to provide additional and targeted policy support, if needed.
Medium **De-anchoring of inflation expectations and stagflation.** Supply shocks to food and energy prices sharply increase headline inflation and pass through to core inflation, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor markets. Central banks tighten monetary policy more than envisaged leading to weaker global demand, currency depreciations in EMDEs, and sovereign defaults. Together, this could lead to the onset of stagflation.	**Medium** Capital outflows put pressure on liquidity conditions and possibly on FX reserve. Higher debt service and increase fiscal and corporate rollover risks. Weaker global growth would lead to a decline in oil prices and ultimately a deterioration in fiscal and external positions, with adverse effects for growth, employment, and the financial sector.	Continue to tighten monetary policy in line with the Fed and closely monitor FX and financial market developments. Steadfast implementation of fiscal consolidation to reduce borrowing spreads and rebuild buffers. Target support to viable firms in hard hit sectors.
Medium **Pressures to spend the oil windfalls.** Delayed implementation of the Medium-Term Fiscal Plan (MTFP) due to domestic social pressures, leading to insufficient fiscal adjustment.	**Medium** Delayed implementation would increase fiscal and external vulnerabilities, triggering a negative shift in investor sentiment and heightening financing risks.	Steady implementation of the MTFP would reinforce fiscal and external sustainability over the medium term. Establish a clear fiscal anchor to reduce the risks of procyclical fiscal policies.
Medium **Natural disasters related to climate change.** Higher frequency of natural disasters cause severe economic damage to smaller vulnerable economies and accelerate emigration. Severe events in large economies hitting key infrastructure reduce global GDP and cause further supply chain disruptions and inflationary pressures.	**Low** Natural disasters such as cyclones would damage infrastructure, disrupt trade, and reduce demand and employment, adding to fiscal burden through additional capital expenditure and transfers.	Rebuild fiscal and external buffers to counter effects of future demand shortfalls particularly on vulnerable groups. Continue improving the business environment to boost productivity and competitiveness, and to foster diversification to dampen negative effects.

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

Annex VI. Fiscal Risks[1]

Fiscal risks are multifaceted in Oman and their potential impact on the overall fiscal balance and public debt could be significant. While ongoing fiscal adjustment under the authorities' medium-term fiscal plan (MTFP) is paramount, identifying, managing, and mitigating fiscal risks would reinforce fiscal sustainability.

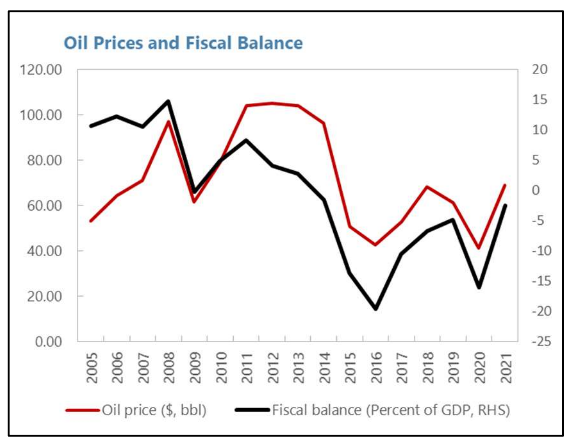
A. Context

1. The oil and gas (hydrocarbon) wealth and the large public sector play an important role in the economy. Oil and gas are the major sources of export income and fiscal revenues, and this income impacts the rest of the economy through government spending. As of end-2021, Oman's economy remains particularly dependent on hydrocarbons, representing about 35 percent of GDP, 75 percent of total fiscal revenue, and 58 percent of total export of goods. Beside the central government, the public sector includes close to 170 state-owned enterprises (SOEs), operating across most economic sectors. Among others, macroeconomic uncertainty, especially shocks stemming from volatility in oil prices, realization of contingent liabilities from SOEs, and subsidies could have an even more pronounced effect on the fiscal balance and public debt.

B. Sources of Fiscal Risk

2. Fiscal risks are multifaceted in Oman. Fiscal risks can arise, among others, from:[2]

- **Macroeconomic uncertainty**, especially from the volatility of oil prices, are relatively frequent and have large impact on the overall fiscal balance and public debt. Volatility and unpredictability of oil prices have increased in recent years, posing significant fiscal challenges. With the high degree of oil dependency, shocks stemming from the sharp fall oil price had resulted, for example, in fiscal deficit reaching 19 percent of GDP and 16 percent of GDP in 2020. Stress scenario—of a one standard deviation adverse oil price shock—would result in a stronger budget and central government net financial asset position in case of higher oil prices, and weaker fiscal positions and financial buffers if oil prices fall sharply. Similarly, while the authorities have an implicit target of containing central government debt below 60 percent



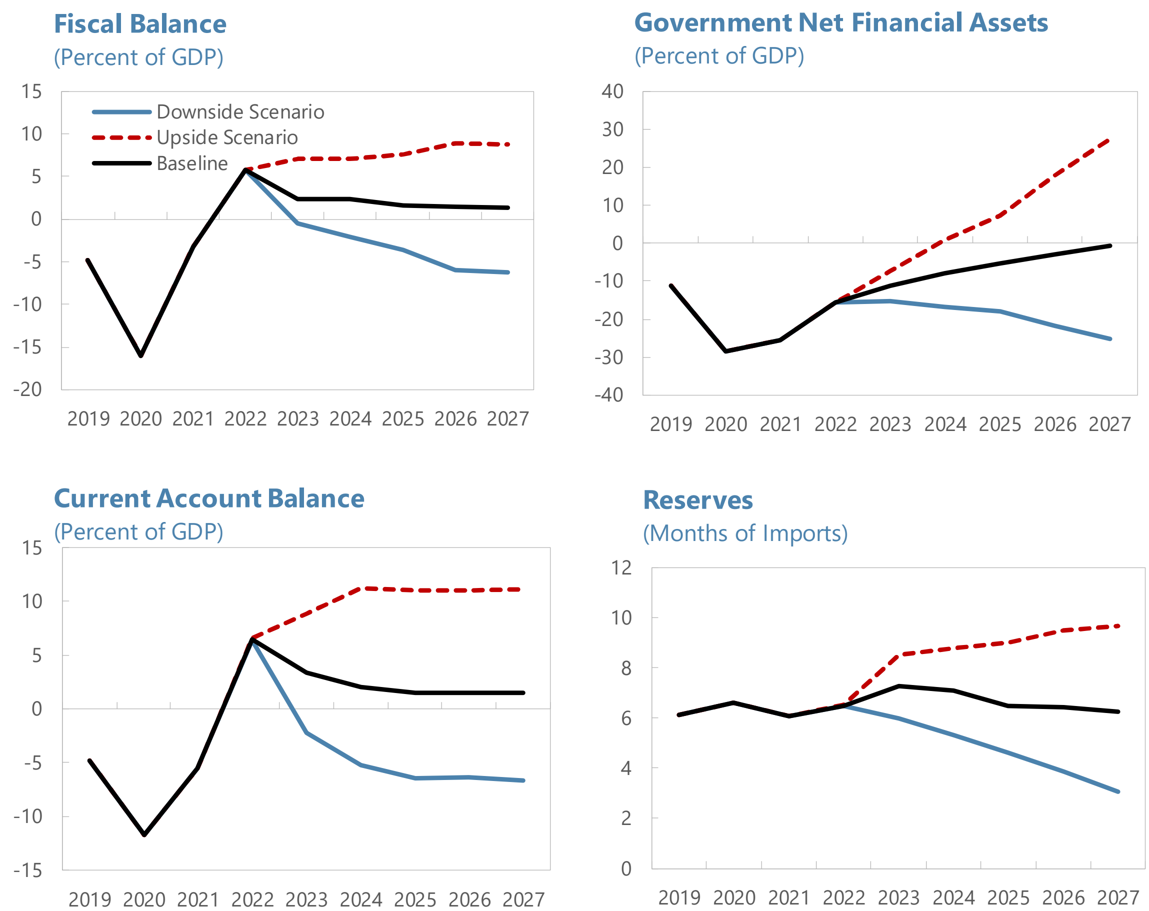
[1] Prepared by Abdullah AlHassan (MCD).

[2] Fiscal shocks can be large, adverse, and nonlinear. Cross-country analysis shows that governments experienced on average an adverse fiscal shock of 6 percent of GDP once every 12 years (IMF 2016).

of GDP over the medium term as part of their MTFP, it is essential to assess the potential impact on public debt in case of fiscal risks materialize.

Text Figure. Oman: Upside/Downside Oil Price Scenarios 1/

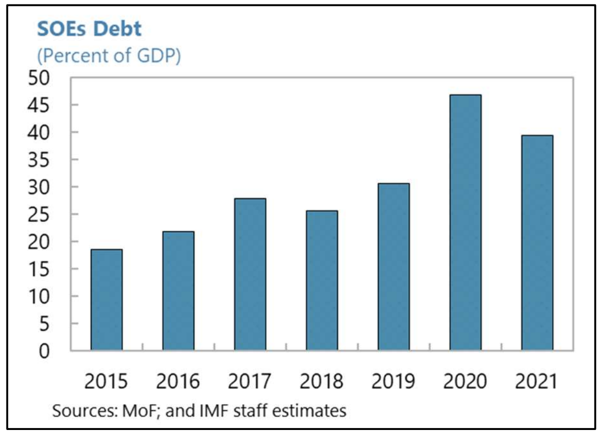
(Percent of GDP)



Source: IMF Staff Calculations

1/ The low oil price scenario assumes the oil price is one standard deviation below the WEO oil price from 2023 to 2027. The high oil price scenario assumes the oil price is one standard deviation above the WEO oil price for the same time period. Both scenarios assume no change in government spending, non-oil revenue collections, or external borrowing relative to baseline.

- **Realization of contingent liabilities from SOEs** can be a source of a fiscal risk either explicit (e.g., government loan guarantees) or implicit (e.g., support during slowdown in economic activity). SOE debt increased from 16 percent in 2015 to about 42 percent of GDP in 2021. The explicit government guarantees to SOEs amounted to 10 percent of GDP. A deterioration of the financial performance of an SOE could trigger the explicit guarantee or impose fiscal costs from direct budget subsidies to compensate loss-making activities. Beside SOEs debt, there are limited financial data on SOEs in Oman, and the size of the sector is largely unknown. Oman Investment Authority (OIA) plans to disclose key financial performance metrics of SOEs to strengthen corporate governance, making it easier for SOEs to go through initial public offerings and meet the required transparency.



- **Public private partnerships (PPPs)** are at incipient stage in Oman, with the Public Private Partnership Law adopted in 2019. The authorities aim to undertake certain projects to be carried out under PPPs in the education, health, transport, and logistic sector. While PPPs could improve the efficiency of government spending, they often have complex financial structures and create fiscal risks due to the underlying contractual arrangements.

- **Climate change-related risks** to Oman have increased in recent years, as evident by changes in the number and intensity of tropical cyclones. Natural disasters have modest fiscal risks so far. The fiscal cost of cyclone Shaheen in 2021 was about 0.6 percent of GDP. To address climate challenges from natural disasters, the authorities established of the National Fund for Emergency with an initial contribution of 0.3 percent of GDP.

- **Pension funds** can pose fiscal risks, which may result in budget transfers from the State budget to the pension funds. In 2021, as part of public sector reforms, the authorities merged 11 different pension plans merged into two funds: (i) the "Social Security Fund" is a civil pension fund for public and private sectors; and (ii) the "Military and Security Service Retirement Fund".

C. Conclusion

3. Comprehensive analysis and management of fiscal risks would reinforce fiscal sustainability and promote macroeconomic stability. A comprehensive and timely fiscal data, including extending coverage beyond the central government, are necessary in identifying, managing, and mitigating fiscal risks. At the same time, it is essential to strike a balance between the benefits from reducing exposure to risks against the probability of these risks occurring and costs of risk mitigation (e.g., using buffers and budget contingencies). Better understanding of fiscal risks, greater transparency including through publishing a "Fiscal Risk Statement" that highlight specific fiscal risks and their impact on GDP growth and the fiscal balance, and effective risk management practices can help underpin fiscal policy credibility and market confidence (IMF, 2012). Furthermore, explicitly taking fiscal risks into account in setting the fiscal anchor (and thereby an operational fiscal rule) needs to be robust to the materialization of such risks.

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Annex VII. Inflation Dynamics in Oman[1]

The recent increases in international food and oil prices have exerted upward pressures on inflation in Oman. This reflects the relative sensitivity of domestic inflation to volatility in international prices due to the high dependence on imports and greater role of tradable items in the *basket of consumer goods. Inflation expectations, excess demand pressures, and population dynamics are also found to have significant effects on domestic inflation.*

A. Context

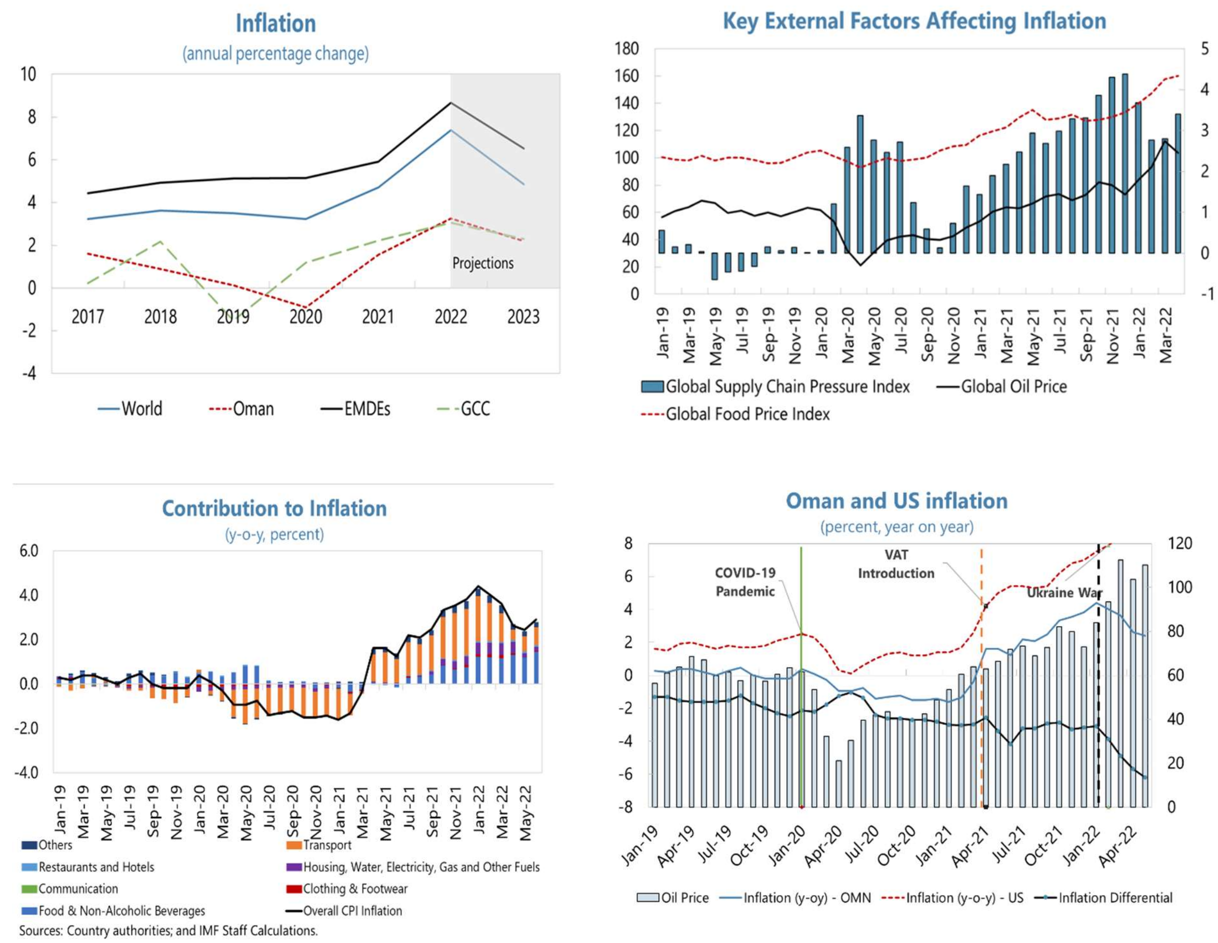
1. Headline inflation increased in 2022Q1 driven by higher international food and oil prices, before decelerating in 2022Q2 largely due to a higher base effect and a stronger U.S. dollar. While the overall inflation rate has been relatively contained thus far, rising global inflation on the back of higher international energy and food prices and renewed global supply chain bottlenecks could exert further upward pressures on domestic inflation.

2. The exchange rate peg has played an important role in containing inflationary pressures and effectively anchoring inflation expectations. Nevertheless, under a fixed exchange rate regime, the nominal exchange rate cannot move freely to correct for an inflation-induced overvaluation of the real exchange rate. In this context, the recent uptick in global oil and food prices underscores the need for containing inflationary pressures to avoid appreciation of the real exchange rate and subsequent erosion of Oman's competitiveness. This calls for a closer look into inflation dynamics to inform policies aimed at maintaining macroeconomic stability and protecting the exchange rate peg.

B. Recent Inflation Developments

3. Oman's headline inflation peaked at 4.4 percent (y-o-y) in January 2022 and subsequently declined. After months of deflation, headline inflation turned positive in April 2021, following the introduction of the value added tax (VAT). The initial inflationary impact of the VAT imposition was amplified by increases in domestic transportation and food prices on the back of higher international food and oil prices and continued global supply chain disruptions, which contributed about 70 percent to the total increase in inflation in March 2022 (y-o-y). However, inflation rates in Oman have been relatively lower than those seen in EMDEs and rest of the world in recent months due to the base effect from the VAT introduced in 2021and caps imposed on prices of selected fuels and food items, as well as a stronger U.S. dollar. Inflation has recently decelerated reaching 2.4 percent in May 2022 (y-o-y).

[1] Prepared by Muayad Ismail (MCD).



Sources: Haver, country authorities; and IMF staff calculations

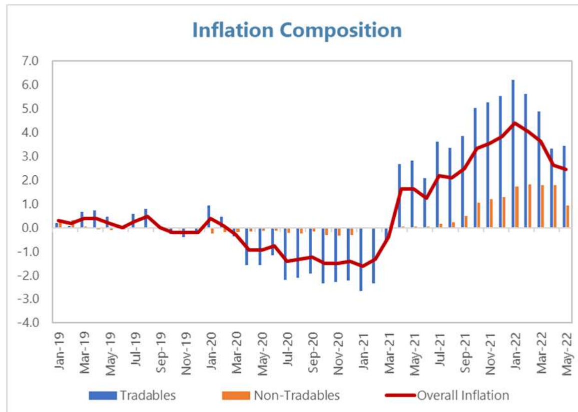
4. **Inflation differential between Oman and the United States is largely driven by domestic policies and cyclical factors.** While headline inflation rates in Oman and the US have demonstrated a broad co-movement over the past years, Oman's inflation (y-o-y) remains below the U.S. despite the peg to the US dollar. This negative inflation differential largely mirrors the prevalence of administered prices and subsidies on selected basic food and fuel items in Oman. Nevertheless, the inflation differential significantly narrowed from March – May 2020 in conjunction with the collapse in oil prices due to the COVID-19 pandemic, reflecting the sensitivity of inflation differential to the oil cycle (Mohaddes and Williams, 2013). Since then, the inflation differential has widened during periods of higher oil prices, which reflects capping of selected prices that contributes to limiting pass-through effects of global inflationary pressures. Inflation differentials widened further in 2022 due to the high base effect of the VAT introduced in 2021.

5. **Inflation has been largely driven by tradable items, reflecting high dependence on imports and susceptibility to volatility in international prices.** The share of tradable items in the CPI basket remains high at about 60 percent of CPI components. Historically, tradable items have

experienced higher inflation and volatility relative to non-tradable items due to the large shares of food and transport items that are more exposed to volatility in international prices. Tradable inflation has played a major role in the recent surge in headline inflation (y-oy). This notwithstanding, tradable inflation moderated in April 2022 (y-o-y), largely driven by the decline in transport inflation, before increasing again in May due to higher transport inflation. The overall inflation (y-o-y), however, continued to decelerate in April and May 2022, reflecting the high base effect and declining non-tradable inflation.

Text Figure. Oman: CPI Weights

Weight	CPI Groups
58.128	**Tradables**
23.903	Food & Non-Alcoholic Beverages
0.125	Tobacco
5.961	Clothing & Footwear
3.787	Furnishings, Household Equipment & Routine Maintenance
19.167	Transport
5.185	Miscellaneous Goods and Services
41.872	**Non-Tradables**
26.477	Housing, Water, Electricity, Gas and Other Fuels
1.161	Health
5.633	Communication
1.135	Recreation and Culture
1.368	Education
6.098	Restaurants and Hotels



Sources: Haver, country authorities; and IMF staff calculations.

C. Pass-through of External Factors into Domestic Inflation

6. **International food and oil prices and global supply chain bottlenecks have played an important role in driving domestic inflation dynamics in Oman over the past years.** However, the pass-through effects of international food and oil prices into domestic inflation are relatively short-lived, unlike the impact of global supply chain pressures, which appears more persistent. Particularly, based on the local projection method (Jordà, 2005) using monthly inflation data for Oman, a one-percent increase in the international food price could translate into about 0.2 percent increase in the CPI within 11 months of the initial shock, with the initial impact of the shock disappearing after 13 months.[2] Similarly, a one-percent rise in the international oil price culminates

[2] To assess the pass-through effects of external factors into domestic inflation, the following equation is estimated:

$$\pi_{t+k} = \alpha^k + \sum_{j=1}^{l} \delta \pi_{t-j} + \beta_k x_t + \sum_{j=1}^{l} \gamma_j x_{t-j} + \theta z_t + \varepsilon_t$$

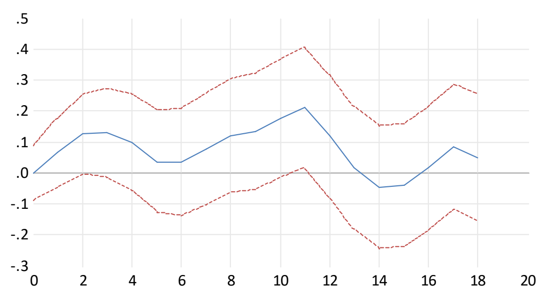
π is the monthly headline inflation (y-o-y), which is seasonality adjusted to account for seasonality in inflation. x is a set of external global factors that are shocked in isolation of each other. These global factors. These global factors include the change in international food price based on the IMF Primary Commodities Food Price Index, change in average spot oil prices, and change in Global Supply Chain Pressure Index (GSCPI) from the Applied Macroeconomics

(continued)

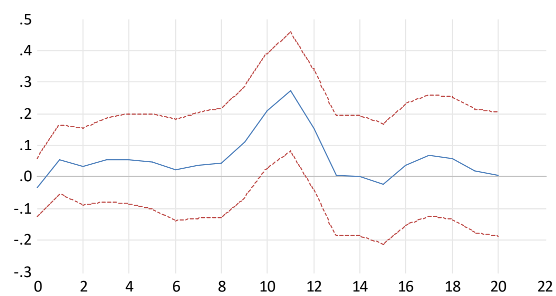
in about 0.25 percent increase in domestic CPI within 11 months. The pass-through effects of a shock in the international oil price are expected to vanish 13 months after the initial shock. The strong positive correlation between domestic inflation and international food and oil prices supports the above results. The caps and subsidies on selected fuel and food items contribute to limiting the pass-through effects from changes in international oil and food prices (Regional Economic Outlook, April 2022). In addition, a one-percent shock in the global supply chain pressure, proxied by Global Supply Chain Pressure (GSCP) index, translates into about 0.2 increase in domestic CPI within 12 months, taking up to 22 months to vanish.

Text Figure. Oman: Impulse Responses of Domestic Inflation to Shocks in External Factors

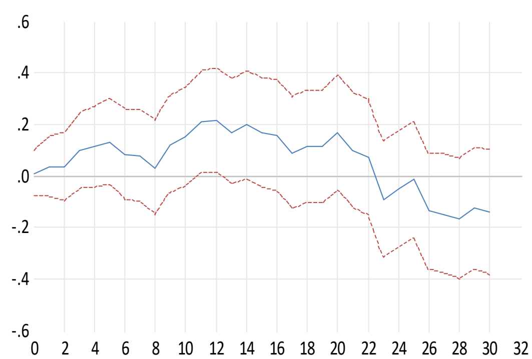
Response of CPI to A Shock in International Food Price



Response of CPI to A Shock in International Oil Price



Response of CPI to A Shock in Global Supply Chain Pressure



Correlation Matrix

	International Food Price	International Oil Price	**Domestic Inflation**	GSCPI
International Food Price	1.00	0.73	**0.62**	0.34
International Oil Price	0.73	1.00	**0.54**	-0.18
Domestic Inflation	**0.62**	**0.54**	**1.00**	**0.14**
GSCPI	0.34	-0.18	**0.14**	1.00

Sources: Haver and IMF staff calculations

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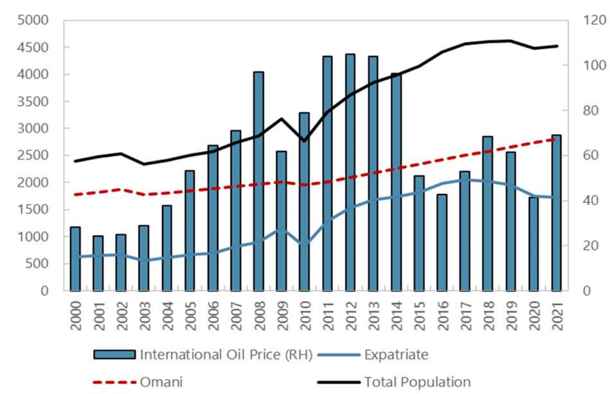
and Econometrics Center (AMEC) of the New York Fed. z_t is a set of control variables, specifically the nominal effective exchange rate, and the two remaining global factors that are not endogenously included in x_t. β measures the pass-through effects of external factors into domestic inflation and δ captures the persistence of headline inflation in Oman. The number of lags in are selected based on Schwarz information criterion.

D. Key Drivers of Inflation in Oman

7. In the short run, domestic inflation is driven by inflation expectations, demand pressures, international food and oil prices, and global supply chain pressures. An autoregressive distributed lag (ARDL) model was estimated to identify factors driving domestic inflation, while disentangling long-run inflation relationships from short-term dynamics.[3] Based on the ARDL model results (Text Table), inflation expectations, proxied by the lagged inflation (y-o-y), are found to play a key role in driving domestic inflation. The relatively large and positive coefficient of the first lagged inflation points to a high price stickiness in the near term, while the negative and significant coefficient of the fourth lagged inflation indicates that inflation is expected to be contained in about a year. In addition, excess demand, proxied by the output gap, is found to exert upward pressures on domestic inflation. Global factors, including international food and oil prices and global supply chain pressures are found to have positive and significant effects on short-term inflation, reflecting a strong pass-through of global factors into domestic inflation.

8. Population dynamics, demand pressures, international oil price, and global supply chain pressures are key drivers of domestic inflation over the long term. On one hand, population growth is largely driven by the net flow of expatriate workers who constitute about 38 percent of total population and play an important role in dampening wage-push inflation. On the other hand, the expatriate population is largely influenced by the oil price cycle. That said, the positive and significant coefficient of the population growth in the ARDL long-run equation indicates that the inflationary pressures resulting from higher population growth exceed wage containment effects stemming from increased supply of expatriate workers. Demand pressures, international oil price, and global supply chain pressures are also found to affect inflation in the long run.

Population Dynamics in Oman



[3] The ARDL model estimated using quarterly data for the period 201Q3-2021Q4, where the dependent variable inflation (y-o-y) was regressed on a number of explanatory variables, including lagged inflation as a proxy of expectation; population growth extrapolated assuming that quarterly population follows the general trend of annual population; excess demand pressure proxied by the output gap calculated using HP filter; change in nominal effective exchange rate, change in average spot oil price, change in international food price based on the IMF Primary Commodities Food Price Index; and change in Global Supply Chain Pressure Index (GSCPI) from the Applied Macroeconomics and Econometrics Center (AMEC) of the New York Fed. The Long Run Form and Bounds Test was used to assess long-run inflation relationships in the ARDL model.

Text Table. Oman: Results of the Autoregressive Distributed Lag Model

Variable	Short Term	Long Term
Constant	0.274*** [0.068]	0.269*** [0.066]
Inflation (L1)	0.448*** [0.147]	-
Inflation (L4)	-0.543*** [0.105]	-
Population Growth	-	0.168*** [0.012]
Population Growth (L1)	0.146** [0.059]	-
Output Gap	0.052** [0.019]	0.103*** [0.027]
Output Gap (L3)	0.057** [0.020]	-
Output Gap (L4)	-	-
Δ NEER	-	-
Δ Food Price	0.042** [0.019]	0.041 [0.020]
Δ Oil Price	-	0.037*** [0.011]
Δ Oil Price (L2)	0.011** [0.005]	-
Δ Oil Price (L3)	-	-
Δ Oil Price (L4)	-	-
Δ GSCPI	0.0004** [0.0002]	0.001*** [0.0003]
Δ GSCPI (L1)	0.0005*** [0.0001]	-
Δ GSCPI (L2)	0.0005*** [0.0001]	-
Observations	44	44
R-squared	0.979	-
Long-run Bounds Test Statistic	-	12.384***
Breusch-Godfrey Serial Correlation LM Test (p-value)	0.502	-
Breusch-Pagan-Godfrey Heteroskedasticity Test (p-value)	0.216	-

Robust standard errors in square brackets [ ]; *** p<0.01, ** p<0.05.

E. Conclusions

9. Inflation in Oman is sensitive to external factors due to the high dependence on imports and larger weight of tradable items in the CPI basket. This culminates in relatively strong pass-through effects from international oil and food prices and global supply chain pressures into domestic inflation. Inflation expectations, population dynamics, and excess demand pressures are also found to have significant impact on domestic inflation.

References

International Monetary Fund. (April 2022). Regional Economic Outlook - Middle East and Central Asia. Washington D.C.: International Monetary Fund.

Jordà, Ò., 2005. Estimation and Inference of Impulse Responses by Local Projections. American Economic Review, 95(1), pp.161-182.

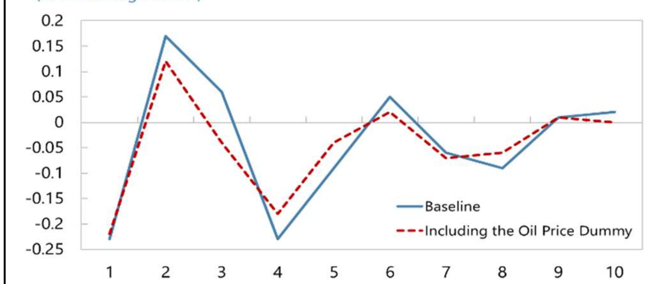
Mohaddes, K. and Williams, O.H., 2013. Inflation differentials in the GCC: Does the oil cycle matter? Middle East Development Journal, 5(2), pp.1350012-1.

Annex VIII. The Impact of U.S. Monetary Policy Tightening on Oman[1]

1. **Monetary policy rates in Oman tend to move in line with the federal funds rate.** The CBO has raised its policy rate by 375 basis points since January 2022 in response to the U.S. monetary policy tightening cycle, raising repo rates from 0.5 percent in Dec-2021 to 3.75 percent in end-September 2022.

2. **Fed tightening has limited effect on non-oil economic activity.** Staff VAR estimates suggest that a 75 basis points hike in the Fed rate negatively reduces non-oil GDP in Oman by 0.2percent on impact and the effect gradually dissipates after one year. This effect becomes negligible once controlled for periods of high oil price (70 dollars per barrel and above) and credit to the economy. Periods of high oil prices in Oman are normally associated with expansion in public projects and ample liquidity in the banking sector and elevated banks' lending, which more than offset any possible adverse spillover from global financial conditions.

The Effect of Fed Tightening on Non-Oil Growth in Oman
(In Percentage Terms)

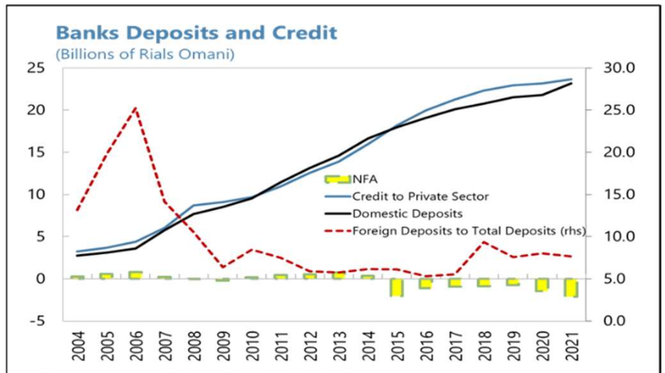


Sources: NCSI, FRED and IMF staff calculations.
Note: The results show IRF responses of Non-Oil GDP to a Fed rate tightening of 75 basis points. The impulse responses were generated using a VAR regression with Cholesky ordering (Fed rate, Repo rate, lending rate, non-oil GDP). The second model controled for oil prices. All data is in quarterly frequency and covers the period 2012Q1-2022Q1.

3. **Fiscal consolidation efforts over the last couple of years have improved the resilience of the Omani economy.** While recent and anticipated Fed rate tightening are expected to increase the cost of funding in Oman and other emerging markets, Oman's recent fiscal reform measures are expected to alleviate the fed tightening effect on the economy. Beside fiscal adjustments under the MTFP, the authorities utilized current oil price windfalls by reducing public debt by US$5.4 billion during the first seven months of 2022, saving more than US$330 million in future interest payments, and lowering public debt to US$48.4 billion by end-July 2022 against US$54.1 billion at end-2020. Such measures, coupled with favorable oil prices outlook, have narrowed Omani spreads to below emerging markets spreads since February 2021, partly alleviating expected increases in cost of external borrowing. Nonetheless, the government debt is exposed to refinancing and interest rate risks, with debt maturing (refixing) in 1 year representing 18.8 percent (28.8 percent) of the total debt as of end-2021.

4. **Ample liquidity, large shares of non-interest-bearing deposits and limited reliance on foreign funding would to some extent insulate Oman's financial sector from turbulence in the global market.** The financial sector is mainly dominated by banks, which assets grew from 62 percent of GDP in 2011 to 117 percent in 2021. Despite having a negative net foreign assets

[1] Prepared by Haytem Troug (MCD).



Sources: Haver, CBO; and IMF staff calculatons.

position since 2015, the share of foreign liabilities ranged between 5 to 10 percent of total deposits. Banks rely heavily on non-interest-bearing deposits (36 percent of total deposits at end-June 2022), mainly due to large sovereign deposits and a significant share of Islamic banking in the banking sector. Banks performance has been insulated from previous Fed tightening episodes as banks maintained a constant interest rate margins over the past two decades. Given the peg to the dollar, the CBO policy rates closely followed Fed rates. Nevertheless, there is limited pass-through from Fed rates to lending rates in Oman. Credit to the economy is primarily driven by growth of domestic deposits and liquidity in the system.

5. While Fed tightening is not expected to adversely affect the Omani economy, more vigilance and further improving fundamentals are warranted. Sovereign, financial, and real economic activity in Oman appear to have limited exposure to current Fed tightening, particularly during periods of elevated oil prices. The authorities should alleviate any potential impact by reinforcing fiscal sustainability, accommodating any possible domestic liquidity needs in the system, and supporting hard-hit sector if needed. Beyond these immediate measures, rebuilding FX buffers, and deepening domestic financial markets would help in improving the resilience of the Omani economy against shifts in global risk appetite.

INTERNATIONAL MONETARY FUND

OMAN

October 24, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

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

CONTENTS

FUND RELATIONS

(As of July 11, 2022)

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

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

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	700.60	100.00
Holdings	709.08	101.21

IV. Outstanding Purchases and Loans: None

V. Latest Financial Commitments: None

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

	Forthcoming				
	2022	2023	2024	2025	2026
Principal					
Charges/Interest		0.01	0.01	0.01	0.01
Total		0.01	0.01	0.01	0.01

VII. Implementation of HIPC Initiative: Not Applicable

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

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

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

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

Exchange Arrangements

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

Article IV Consultations

Oman is on the annual consultation cycle. The previous consultation discussions were held during May 24 to June 7, 2021. The 2021 Article IV consultation was concluded by the Executive Board on August 25, 2021 (SM/21/143).

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

Resident Representative:

No resident representative is stationed in Oman.

RELATIONS WITH THE WORLD BANK GROUP

(As of July 11, 2022)

World Bank Country Page:

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

STATISTICAL ISSUES

(As of June 27, 2021)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings due to capacity constraints, but is broadly adequate for surveillance.
National Accounts: 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. Volume quarterly estimates are being compiled but not yet released. 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 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 but it was kept for the authorities' internal use and was not published.
Government finance statistics: High level monthly fiscal performance is published with a short lag. Data published in the Government Finance Statistics Yearbok only cover the budgetary central government through 2013. The published data do not provide comprehensive coverage of the public sector, not covering state-owned enterprises (SOEs), pension funds, the Oman Investment Authority (OIA), and Energy Development Oman (EDO). The authorities provide the Article IV consultation missions with a more comprehensive analytical presentation of the budget as well as information on government debt, OIA assets, and SOEs debt.
Monetary and financial statistics: The Central Bank of Oman (CBO) reports monetary and financial statistics for the CBO and other depository corporations (ODCs) using standardized report forms (SRFs) which comply with the methodology of the IMF's *Monetary and Financial Statistics Manual and Compilation Guide (MFSMCG)*. These are published in the International Financial Statistics (IFS). It submits data on some basic indicators and series to the Financial Access Survey (FAS), including the two indicators adopted by the UN to monitor Target 8.10.1 of the Sustainable Development Goals (SDGs).
Financial Sector Surveillance: Financial soundness indicators (FSIs) are communicated to AIV consultation missions, but not yet disseminated to STA. The CBO is working on a system to do so.
Balance of payments: Data for most balance of payment entries are adequate. Following the recommendations of previous IMF TA missions, the CBO has implemented an International Transactions Reporting System (ITRS) to collect additional information on external transactions of Omani residents. The main priorities are to enhance the quality of quarterly 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 the Balance of Payments and International Investment Position Manual (BPM6). The authorities do not currently publish 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 September 20, 2022)

	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]	Jun 2022	Jul. 2022	M	M	M
Reserve/base money	Jun. 2022	Jul. 2022	M	M	M
Broad money	Jun. 2022	Jun. 2022	M	M	M
Central bank balance sheet	Jun. 2022	Jul. 2022	M	M	M
Consolidated balance sheet of the banking system	June. 2022	Jul. 2022	M	M	M
Interest rates[2]	Jun. 2022	Jul. 2022	M	M	M
Consumer price index	Jun. 2022	Jul 2022	M	M	M
Revenue, expenditure, balance and composition of financing[3]– central government	2021	Jun. 2022	A	A	A
Stocks of central government and central government-guaranteed debt[4]	2021	Jun. 2022	A	A	A
External current account balance	2021	Jun. 2022	A	A	A
Exports and imports of goods	Mar. 2022	Jun. 2022	M	M	M
GDP/GNP	Jun. 2022	Jul. 2022	Q	Q	Q
Gross external debt	2021	Jun. 2022	A	I	NA
International investment position[5]	2021	Sep. 2022	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).