

OMAN

Table 1 **2023**

Population, million	4.6
GDP, current US\$ billion	108.8
GDP per capita, current US\$	23428.5
School enrollment, primary (% gross) ^a	90.1
Life expectancy at birth, years ^a	73.9
Total GHG emissions (mtCO ₂ e)	114.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent WDI value (2022).

Economic activity continues to perform well despite OPEC+ oil production cuts, driven by the expansion of nonhydrocarbon activities, notably in construction, manufacturing, and services, but fiscal revenues and exports proceeds remain tied to oil market developments. However, a commitment to economic diversification continues to shore up fiscal and external positions, keeping them in surplus over the medium term. Employment growth is driven by female employment, which is estimated to increase twice the rate observed among men. Downside risks to the outlook include oil market volatility, climate change risks, and potential spillovers from the escalating of conflict in the Middle East.

Key conditions and challenges

Under its Vision 2040 development plan, Oman is determined to diversify its income sources and achieve sustainable development. The expansion of nonhydrocarbon activities has helped supporting economic activity despite OPEC+ oil production cuts, notably in construction, manufacturing, and services.

The utilization of windfall savings to reduce public debt in 2023 was an important step to bring it down by almost a half of its peak of nearly 68 percent of GDP in 2020, thereby improving Oman's credit rating, but more efforts are needed to decouple fiscal revenue from oil proceeds. In January 2024, Oman Investment Authority (OIA) launched the "Future Fund Oman", worth of US\$5.2 billion, to invest in a wide range of industries, attract foreign investments, and support the private sector over the next five years, mainly in tourism, manufacturing, green energy, and logistics, among other.

The new social protection law, which has become effective in January 2024, introduced a range of non-contributory social benefits, underscoring Oman's commitment to supporting its vulnerable population despite its increased fiscal burden. In addition, a series of new measures were announced in July 2024 to regulate the labor market and boost private-sector employment among nationals. Key measures include adding 30 new professions to the

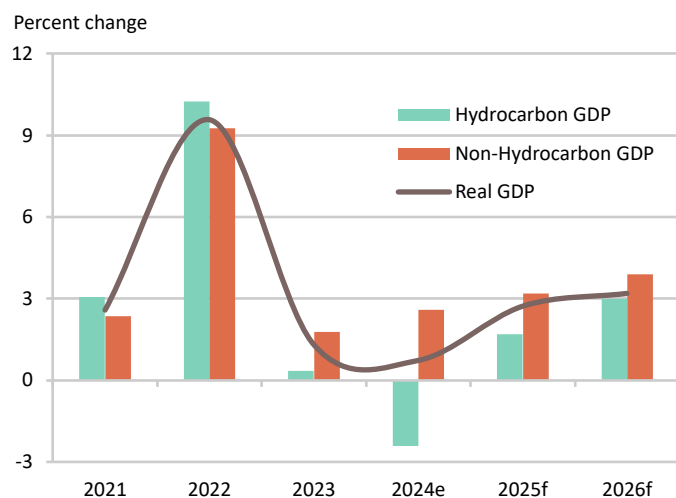
list of jobs reserved for Omani citizens and providing financial incentives to companies hiring Omanis, with potential government contributions to salaries. This is expected to help contain the public wage bill, alleviate budgetary pressures, and address the high youth unemployment challenge.

Recent developments

Real GDP growth reached 1.7 percent y-o-y during Q1 2024 supported by non-oil activities, which grew by 4.5 percent, reflecting strong performance of agriculture, refined petroleum products, and services sector (particularly transportation and storage). However, oil activity contracted by 3.3 percent reflecting the adjustment to OPEC+ quotas. Average headline inflation slightly inched up by an average of 1.6 percent y-o-y during the first seven months of 2024, signaling higher prices of food and non-alcoholic beverages groups and miscellaneous goods and services, up by 3 and 3.2 percent y-o-y, respectively.

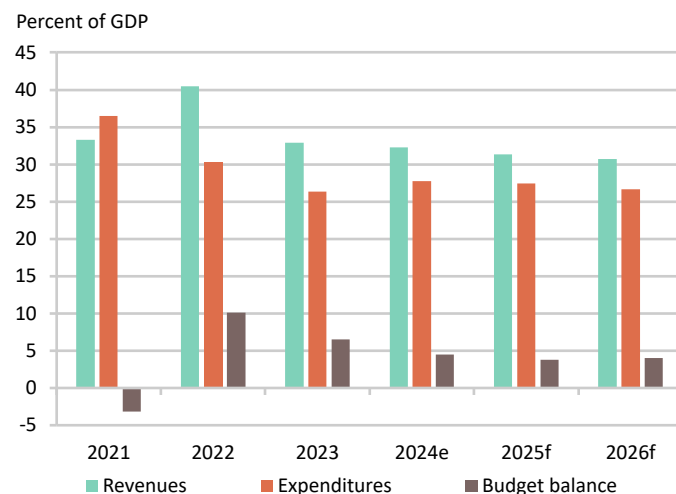
Fiscal revenues declined by 0.4 percent in July-2024 y-o-y, largely attributed to the decline in gas revenue (down by 18 percent). The latter is due to the adopted for collecting gas revenue starting from 2023. It is now reported net of the cost of gas purchase and transportation, as gas-related operations were hived off to Integrated Gas Company. This contraction in gas activity was partially offset by a 9 percent rise in oil revenues. On the other hand, public spending increased by

FIGURE 1 Oman / Real annual GDP growth



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

FIGURE 2 Oman / General government operations



Sources: Oman authorities and World Bank staff projections.

4.3 percent during the same period, reflecting a 33 percent and 46 percent y-o-y increase in development expenditures and other expenses, respectively. Accordingly, Oman's overall fiscal surplus narrowed to 0.9 percent of GDP in July-2024, down from 1.7 percent of GDP during the same period of 2023. Public debt stood at RO14.4 billion (US\$37.5 billion) by end of June-2024, declining from 36.5 percent of GDP by end 2023 to 33.9 percent of GDP during the first half of 2024, and underscoring the authorities' commitment to containing public debt.

The trade balance recorded a surplus of US\$9.5 billion (8.6 percent of GDP) during H1-24, as hydrocarbon and non-hydrocarbon exports increased by 5.3 and 8.1 percent y-o-y, respectively. Gross foreign assets remain sizable at US\$18.2 billion by end-June 2024 (up by US\$1.1 billion y-o-y). Overall, employment increased by about 2.5 percent in 2023 y-o-y, and is projected to increase at about the same rate (2.4 percent) in 2024. Past and projected employment growth is driven by female employment that is estimated to increase at twice the rate observed among men. The National Strategy for the Advancement of Omani Women aims to support women in the workforce and includes measures to promote women's education, skills training, and career development, as well as initiatives to support women entrepreneurs and business owners. The rate of job seekers is estimated at 3.1 percent in May 2024, down from 3.6 percent

in May 2023. Although the rate among women ages 25-29 was the highest at 22.2 percent in May 2024, it posted a reduction of almost 4 percentage points relative to the same month of 2023.

Outlook

Oman's economic growth is expected to decelerate in the short-term but later accelerate. More specifically, real GDP growth is projected to reach 0.7 percent in 2024, impacted by the extension of oil production cuts. Nonhydrocarbon growth will remain robust expanding at an estimated 2.6 percent on continued reforms and investment projects but remains insufficient to drive an overall acceleration in GDP growth. Growth is however expected to accelerate during 2025-26 (to 2.7 and 3.2 percent, respectively), driven by a recovery in oil and gas production as Duqm refinery reaches its full capacity, and supported by a rebound in agricultural and construction activities and a robust services sector. Inflation will remain contained at an average of 1.3 percent over 2024-26, reflecting the peg to a strong U.S. dollar, and the cap on fuel prices.

Comfortable hydrocarbon revenues, increased nonhydrocarbon revenues, and prudent fiscal discipline are expected to keep fiscal balance in surplus in the medium-term. Overall fiscal balance is expected to record a surplus of 4.5 percent of

GDP in 2024, marking a decline from the previous year due to higher social spending. The fiscal surplus will remain around 4 percent of GDP during 2025-26, in line with oil prices projections. Accordingly, public debt is expected to continue its downward trajectory over the medium term with continued net repayments.

Similarly, the current account is estimated to register a surplus of 1.7 percent of GDP in 2024, mainly supported by non-hydrocarbon export revenues. It is expected to remain in surplus in 2025-26 supported by solid nonhydrocarbon exports. This will help Oman rebuild its foreign reserves and improve the country's resilience against external shocks.

Downside risks for Oman stem from the volatility of oil prices, and global energy transition which could pose significant challenges to fiscal and external balances, increase gross financing needs, and disrupt the government's reform program. The implementation of the new social protection law which includes large benefits of some programs, will entail a fiscal burden on the budget in 2024. Geopolitical risks associated with a potential escalation of the conflict in the Middle East add new uncertainties related to oil price volatility and disruptions in supply chains. On the upside, additional fiscal and diversification measures, accelerating production at the Duqm refinery project, and increased foreign direct investments from regional partners, would spur growth and strengthen fiscal and external positions.

TABLE 2 Oman / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	2.6	9.6	1.3	0.7	2.7	3.2
Private consumption	1.7	9.0	2.8	2.4	3.3	3.1
Government consumption	5.3	4.0	1.7	2.1	2.3	2.1
Gross fixed capital investment	-15.7	2.5	3.1	3.7	4.2	4.4
Exports, goods and services	12.2	16.5	1.1	0.7	3.3	3.0
Imports, goods and services	13.3	19.6	3.8	3.3	3.7	3.3
Real GDP growth, at constant factor prices	2.7	9.6	1.7	0.7	2.7	3.2
Agriculture	9.5	-8.5	6.9	-4.5	1.5	1.4
Industry	1.2	9.4	0.1	-2.3	2.1	2.3
Services	4.2	10.8	3.4	4.5	3.5	4.2
Inflation (consumer price index)	1.7	2.5	0.9	1.0	1.4	1.6
Current account balance (% of GDP)	-5.5	5.1	1.4	1.7	2.7	2.3
Net foreign direct investment inflow (% of GDP)	4.2	3.9	5.6	3.5	3.6	3.8
Fiscal balance (% of GDP)	-3.2	10.1	6.6	4.5	3.8	4.0
Revenues (% of GDP)	33.3	40.5	32.9	32.3	31.3	30.7
Debt (% of GDP)	61.3	40.1	36.5	35.6	35.0	34.7
Primary balance (% of GDP)	0.0	12.6	9.1	7.1	6.4	6.6
GHG emissions growth (mtCO2e)	6.6	6.3	4.7	3.4	4.3	0.5
Energy related GHG emissions (% of total)	68.1	69.3	70.2	70.7	71.5	71.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.