Central Bank of Oman
Continuous Enhancement & Prosperity

MACROECONOMIC STABILITY REPORT

2024

His Majesty Sultan Haitham bin Tariq


البنك المركزي العُماني

FOREWORD

It is a great pleasure to present the Macroeconomic Stability Report for the year 2024, mainly covering the period from January 2023 to September 2024.

This report reflects Oman's unwavering commitment to navigating a rapidly evolving global economic landscape with resilience and foresight.

Oman's economic strategy remains focused on achieving fiscal sustainability, fostering economic diversification, and maintaining a robust external position. The continued emphasis on structural reforms and prudent financial management underscores the nation's dedication to sustainable development and macroeconomic stability. In the first half of 2024, Oman's real GDP grew by 1.9 percent on a year-on-year basis, a material improvement over the 1.2 percent growth rate recorded for 2023. The recent projections show that the outlook for the Omani economy is solid over the medium term and will continue to recover and grow in the coming years, aligning with both national priorities and global economic opportunities.

The nation's fiscal outlook is supported by ongoing reforms, including the Social Safety Net program and the rationalization of public spending. These measures strike a careful balance between social welfare needs and long-term fiscal sustainability. The ongoing efforts to reduce public debt and diversify government revenue sources further highlight Oman's proactive approach to strengthening its economic foundation. Recent series of upgrades in the country's credit rating reflects growing confidence in its economic policies and fiscal reforms. Despite lower average prices of Oman crude oil in 2023 and 2024, relative to 2022, Oman's diversification efforts continue to mitigate risks associated with oil price volatility, underscoring the importance of accelerating investments in non-hydrocarbon sectors.

The broader economic forecast reflects optimism. Growth in non-oil sectors, driven by strategic investments and diversification initiatives, underscores the importance of expanding the economic base.

Amid global challenges including geopolitical tensions, Oman continues to demonstrate stability through prudent fiscal and monetary policies, maintaining inflation at manageable levels while safeguarding economic well-being.

Looking ahead, this report provides valuable insights into Oman's macroeconomic performance and strategic direction. It serves as a key resource for understanding the progress and challenges of our economic journey, reaffirming our dedication to sustainable growth and long-term stability.

Ahmed Jaffer Al Musalmi
Governor
Central Bank of Oman

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LIST OF SELECT ABBREVIATIONS

AEs	Advanced Economies
BBL	Barrel
BIS	Bank for International Settlements
bps	Basis Points
CA	Current account
CAB	Current account balance
CBO	Central Bank of Oman
CiC	Currency in Circulation
CPI	Consumer Price Index
DMO	Debt Management Office
ECB	The European Central Bank
EDO	Energy Development Oman
EIA	The U.S. Energy Information Administration
EMDEs	Emerging Market and Developing Economies
FB	Fiscal Balance
FRED	Federal Reserve Economic Data
FX	Foreign Currency / Foreign Exchange
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GFCF	Gross Fixed Capital Formation
HC	Hydrocarbon
IMF	International Monetary Fund
IP	Industrial Production
LHS	Left-Hand Side
M0	Reserve Money
M1	Narrow Money Supply
M2	Broad Money Supply
mbpd	Million Barrels Per Day
MoF	Ministry of Finance
MPEP	Monetary Policy Enhancement Project
MTFP	Medium-Term Fiscal Plan
NCSI	National Centre for Statistics & Information
NHC	Non-Hydrocarbon
NHPFB	Non-Hydrocarbon Primary Fiscal Balance
OIA	Oman Investment Authority
OPEC	Organization of Petroleum Exporting Countries
RHS	Right-Hand Side
RO; OMR	Omani Rial
SCF	Standard Cubic Feet
SOEs	State-Owned Enterprises
tbpd	Thousand Barrels Per Day
TFFR	Target Federal Funds Rate
U.S.; USA	United States of America
USD	United States Dollar
VAT	Value-added tax
WAM	Weighted Average Maturity
WEO	World Economic Outlook
WTI	West Texas Intermediate
YoY	Year on Year
YTM	Yield to Maturity

GLOBAL DEVELOPMENTS AND OIL MARKET

Global Economy Slowed Down in 2023, with Further Slight Deceleration Projected in 2024

The global economic growth decelerated to 3.3 percent in 2023 from 3.6 percent in 2022. This slowdown in 2023 is attributable to an array of challenges on both supply and demand sides, including bottlenecks in energy supply, persistent higher-than-usual inflation and soaring cost of living, and the subsequent interest rate hikes. These conditions adversely impacted private consumption and investment, especially during the first half of the year. Their effects, however, are expected to extend beyond 2023, coupled with rising global uncertainty and heightened geopolitical tensions. According to the International Monetary Fund (IMF), global growth is expected to further decelerate to 3.2 percent per year in 2024 and 2025 .

GDP growth rates varied across major economics during 2023. China registered the highest growth rate of 5.2 percent, followed by the USA (2.9 percent), and Japan (1.7 percent), while the Euro area and the UK witnessed weak GDP growth of 0.4 percent and 0.3 percent, respectively during the year.[1]

The year 2023 witnessed a continued deceleration of both global industrial production (IP) and merchandise trade. This deceleration can be attributed to reduced export demand in major economies, driven by factors such as burgeoning inflation and rising borrowing costs. The annual growth rate of global trade volume, encompassing both goods and services, reached 0.8 percent in 2023, a marked decline from the robust 5.6 percent in 2022. It is, however, projected to rebound to 3.1 percent and 3.4 percent in 2024 and 2025, respectively[1].

[1] The IMF World Economic Outlook (WEO), October 2024.

[2] CPB World Trade Monitor, March 2024.

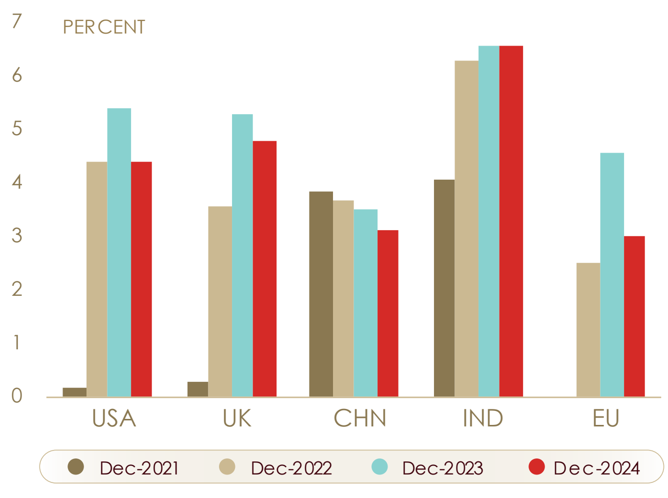
Global IP volumes followed a similar trajectory, recording an average growth rate of 1.0 percent in 2023 compared to 3.1 percent in 2022 . During Jan- Sep 2024, however, it registered a year-on-year (YoY) growth of 1.6 percent.

Markets Are Poised for a Gradual Recovery as Inflation Slowly Normalizes

Headline inflation fell rapidly in most economies during 2023, driven down by restrictive monetary policies, lower energy prices, and continued easing of supply chain pressures. Food prices decreased sharply in most countries due to good harvests for key cereals such as wheat and corn, leading to a rapid fall in prices from the peaks reached after the onset of the war in Ukraine. Despite the challenges of monetary tightening and supply-side issues, inflation is decreasing at a pace surpassing expectations in various regions.

As inflation is gradually approaching its pre-2022 levels, the U.S. Federal Reserve (the Fed) lowered its policy rate by 50 basis points (bps) in September 2024, followed by two additional rate cuts by 25 bps each in November and December 2024. Similarly, the European Central Bank (ECB) cut its policy rate in June, September, October, and December 2024, each by 25 bps. Along the same lines, the Bank of England reduced its policy rate in August and November 2024, by 25 bps each as well, in line with global trends of easing monetary policy as inflation pressures subside (Graph1).

GRAPH 1
POLICY RATE IN KEY CENTRAL BANKS



sourse: BIS

According to the IMF, the average global inflation in consumer prices is expected to decline from 6.7 percent in 2023 to 5.8 percent in 2024, then further to 4.3 percent in 2025. This normalization is expected across both Advanced Economies (AEs) and Emerging Market and Developing Economies (EMDEs), in which consumer inflation is projected to drop from 4.6 percent and 8.1 percent, respectively, in 2023 to 2.6 percent and 7.9 percent, respectively, in 2024, then to 2.0 percent and 5.9 percent, respectively, in 2025.

Lower and Less Volatile Oil Prices in 2023 and 2024, Compared to 2022, Partly Caused by Slowing Global Demand and OPEC+ Production Cuts

During 2022 and 2023, oil prices demonstrated considerable volatility due to evolving geopolitical tensions and economic uncertainties. After reaching over $100 per barrel in mid-2022, Brent crude oil prices averaged around $82 per barrel in 2023, marking a significant decline from the previous year's average of around $99 per barrel. This decrease was largely attributed to shifts in global trade dynamics, including Russian crude oil finding new markets beyond the European Union and weaker-than-expected global demand for crude oil, which counteracted the impacts of OPEC+ production restrictions.

In 2023, global oil demand grew by 2.55 million barrels per day (mbpd) YoY, reaching an average of 102.2 mbpd, exceeding pre-pandemic levels for the first time. On the other hand, world oil supply increased by 1.82 mbpd, averaging 102.0 mbpd. This increase in oil supply was driven by non-OPEC+ oil production, which rose by 2.68 mbpd compared to the previous year. In contrast, OPEC+ crude production dropped by about 0.86 mbpd during 2023, due to multiple production cuts by OPEC+ members[3]. During Jan-Sep 2024, on average, global oil demand jumped to 104.5 mbpd, while global oil supply remained at 102.0 mbpd. The increase in oil supply by non-OPEC+ members was matched by additional production cuts by OPEC+, whose average production dropped by 1.4 mbpd relative to 2023 level, to maintain total world supply stable, as will be discussed below.

A key development in 2023 and 2024 was the extension, and enlargement, of OPEC+ production cuts that started in Q4-2022. In October 22, OPEC+ decided to curtail crude oil production by a substantial 2.0 mbpd during November 2022[4], a cut that has later been extended until the end of 2023. In April 2023, OPEC+ announced a new voluntary production cut of about 1.7 mbpd, starting May 2023, until the end of 2023. Subsequently, OPEC+ decided to prolong the combined production cut of 3.7 mbpd three times, the most recent of which was in December 2024[5] when it has been prolonged until the end of 2026.

In addition, in November 2023, eight OPEC+ members announced additional voluntary production cuts totaling 2.2 mbpd[6] during Q1-2024, later extended multiple times until the end of 2024. In December 2024, this group of countries decided to extend these voluntary contributions until the end of March 2025, and then to phase them out gradually until September 2026. Accordingly, During Sep-Dec 2026, OPEC+ members should return to their production levels agreed on in April 2023[7].

Accordingly, as of December 2024, OPEC+ has been withholding from global markets a total of 5.8 mbpd of potential crude oil supply for 12 consecutive months, representing 5.6 percent of global demand for crude oil in 2024 according to OPEC estimates.

Although OPEC+ production cuts are limiting the growth in global oil supply, production growth outside of OPEC+ members remained solid, while growth in global oil demand remained subdued, which placed downward pressures on oil prices.

During 2023, average monthly oil prices per barrel were $82.00 for DME Oman crude, $82.2 for Brent crude, and $77.6 for WTI crude, compared to $96.3, 98.9, and 94.3 per barrel, respectively, in 2022. During January-November 2024, average oil prices for these three crudes slightly declined to $80.2, $80.5, and $76.32 per barrel (Graph2)[8].

[3] OPEC, Annual Report (2023) & Monthly Oil Market Report (November 2024).

[4] Prior to this production cut, OPEC+ announced in September 2022 its first reduction in output targets in 22 months, with a mild reduction in members' quotas by a total of 100 thousand barrels per day (tbpd) during October.

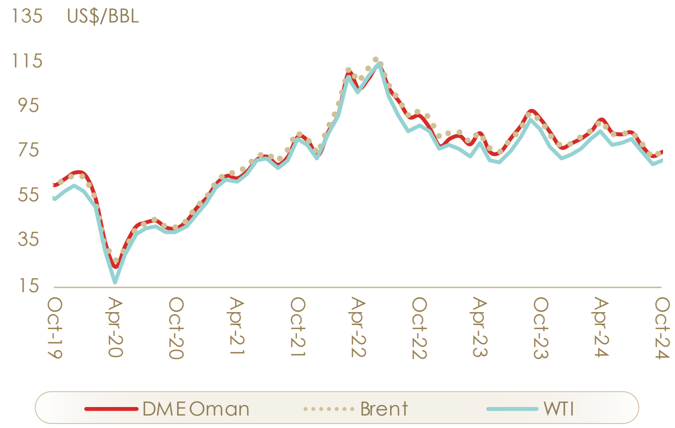
[5] OPEC Secretariat Press Release No. 21/2024 on December 5, 2024.

[6] These countries (their voluntary contributions) are: Saudi Arabia (1000 tbpd), Russia (500 tbpd), Iraq (223 tbpd), the United Arab Emirates (163 tbpd), Kuwait (135 tbpd), Kazakhstan (82 tbpd), Algeria (51 tbpd), and Oman (42 tbpd). Source: OPEC Secretariat Press Release No. 24/2023 on November 30, 2023.

[7] OPEC Secretariat Press Release No. 22/2024 on December 5, 2024.

[8] Source: Bloomberg.

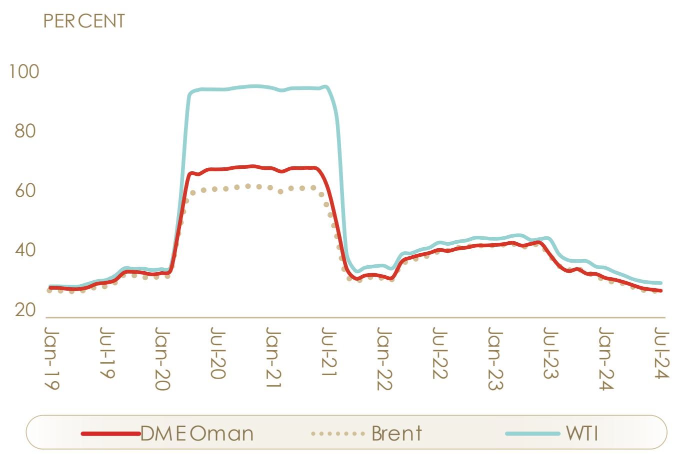
GRAPH 2
AVERAGE CRUDE OIL PRICES



sourse: Bloomberg

On the other hand, oil prices were relatively less volatile during 2023 and 2024 as compared to their dramatic fluctuations observed in 2022 (Graph3)[9]. Looking ahead, despite the decline in oil prices in late October 2024, expectations are that ongoing withdrawals from global oil inventories resulting from OPEC+ production cuts, along with the potential for further geopolitical risks, will place upward pressure on oil prices through the first quarter of 2025 .

GRAPH 3
VOLATILITY OF CRUDE OIL PRICES



sourse: Bloomberg

DOMESTIC DEVELOPMENTS

THE REAL SECTOR

Nominal GDP Declined in 2023 After a Tremendous Increase in 2022

Oman's nominal gross domestic product (GDP) experienced a moderate decline by 3.6 percent during 2023, following a sizable growth by 25.8 percent in 2022. This nominal contraction was chiefly driven by lower value of crude petroleum output, but it was deepened by a setback in manufacturing activities following the overshooting in 2022 induced by the release of pandemic-related restrictions.

In 2023, nominal hydrocarbon (HC) GDP[11] contracted by 13.2 percent, compared to a remarkable growth by 58.6 percent in 2022. Within the HC sector, crude petroleum dropped by 14.1 percent, contributing the most of the nominal contraction in HC GDP, largely due to lower oil prices relative to the previous year. The annual average price of Oman crude oil lessened to $82.3 per barrel in 2023, from $95.4 per barrel in 2022, a material 13.7 percent decline.

The adverse impact of this oil-price drop has been augmented by a 1.5 percent decline in Oman's oil production volume as a result of Oman's commitment to the OPEC+ deals. As a member of OPEC+, Oman agreed to cut its crude oil production by 40 tbpd starting November 2022, and by another 40 tbpd in May 2023. These production cuts has been extended several times until December 2026. In November 2023, Oman volunteered an additional cut of 42 tbpd, recently extended until March 2025 and will then

[9] Source: Bloomberg database.
[10] Short-Term Energy Outlook (EIA), November 2024
[11] HC GDP is the sum of the output of crude petroleum, natural gas, and manufacturing refined petroleum products. Accordingly, non-hydrocarbon (NHC) GDP is calculated by excluding manufacturing refined petroleum products from total non-petroleum activities.

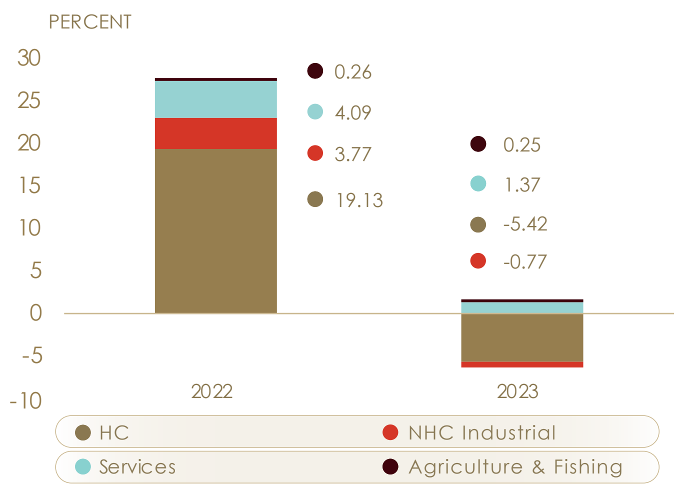
be phased out gradually until September 2026. Accordingly, as of December 2024, Oman's OPEC+ (voluntary) quota for crude oil production is 122 tbpd less than its quota in October 2022, and will remain so until the end of March 2025.[12] These OPEC+ production cuts reduced Oman's crude oil production by 3.9 percent relative to its 2022 level. Nevertheless, the drop in crude oil production was partially offset by an 8.3 percent increase in condensate production.

The drop in crude petroleum nominal output was intensified by manufacturing of refined petroleum products, which dropped in nominal terms during 2023 by a significant 42 percent, contributing about 11 percent of the nominal contraction in HC GDP. Conversely, the value added from natural gas slightly grew by 1.9 percent during 2023, mitigating the impact of lower value added from crude petroleum and refineries. This nominal growth was mainly caused by higher natural gas production volume, by 3.7 percent, to reach 1.91 trillion standard cubic feet (SCF) in 2023.

Sectoral contributions to Oman's nominal GDP growth are elaborated in (Graph 4) and Table 1. Notably, in 2023, the HC sector alone would have reduced nominal GDP by 5.4 percent, instead of the realized 3.6 percent. The growth in non-hydrocarbon (NHC) activities, however, tapered the nominal GDP contraction by about 0.8 percentage points. This underlines the crucial role the HC sector still plays in the Omani economy, but it also indicates the positive impacts of delinking the NHC activities from oil price fluctuations, which mitigated the adverse impacts of lower oil prices on nominal GDP. A simple attribution analysis (Table 2) sheds more light on the significant impact of oil price fluctuations on nominal growth. It shows that the change in oil prices alone, assuming all other factors are held constant, could have reduced Oman's nominal GDP by 4.7 percent in 2023, while the decline in oil production alone has contributed 0.5 percentage point of the realized nominal contraction in GDP. Table 2 also shows that 90.4 percent of the change, i.e. decrease, in the value of oil production in 2023 is attributable to oil price fluctuations, compared to only 77.3 percent in 2022.

On the other hand, nominal NHC GDP grew by 1.3 percent in 2023, compared to 11.5 percent in 2022. This slowdown in NHC activities was propelled by the NHC industrial sector, which shrank in nominal terms by 4.2 percent, following a sizeable growth of 19.6 percent in 2022. The nominal growth in industrial activities was more than offset by solid growth in both the service sector and agricultural and fishing sector by 3.2 percent and 11.9 percent, respectively, in 2023, compared to 8.3 percent and 10.9 percent, respectively, in 2022.

GRAPH 4
CONTRIBUTIONS TO NOMINAL GDP GROWTH



sourse: NCSI

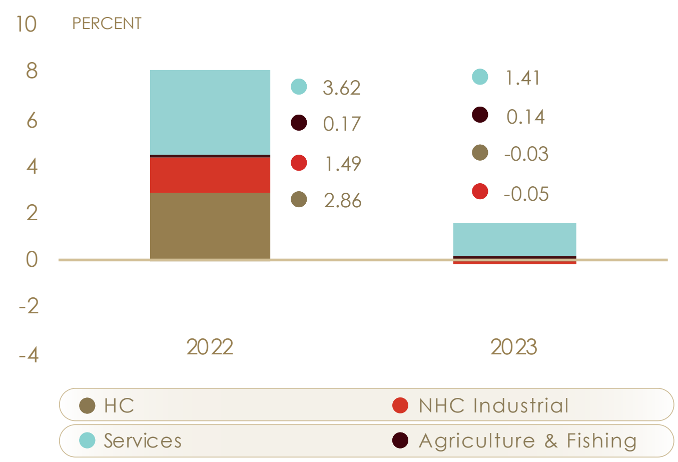
[9] Is worth noting that Oman has been highly committed to its OPEC+ production cuts, both agreed-on and voluntary, since the COVID-19 pandemic. Over the period from May 2020 to October 2024, Oman made an average actual production cuts of 101.3 tbpd, relative to its OPEC+ reference production level of 883 tbpd, compared to an average of 98.2 tbpd of production cuts needed to commit to its announced quotas, with an average compliance rate of 103%.

Moderated Real GDP Growth in 2023; Amid Continued Recovery in Services and Agricultural & Fishing Activities.

GDP at constant 2018 prices, hereinafter referred to as *Real GDP*, measured at market prices, exhibited a 1.2 percent growth in 2023, an expected deceleration from the extraordinary 8.0 percent real growth in 2022. The real growth in 2023 was solely driven by the NHC sectors, especially the services and agricultural and fishing activities that experienced continued recovery.

Real HC activities slightly declined by 0.1 percent in 2023 (Graph 5), reflecting the fact that the adverse impacts of OPEC+ production cuts, implemented since November 2022, have been nearly counterbalanced by real growth in natural gas output. During 2023, real outputs of crude petroleum and refineries declined by 0.5 percent and 3.0 percent, respectively (compared to real growth increase of 8.6 percent, 11.5 percent, respectively, in 2022), while real natural gas output increased by a solid 2.9 percent (compared to 5.0 percent, in 2022).

GRAPH 5
CONTRIBUTIONS TO REAL GDP GROWTH



sourse:NCSI

As depicted in Table 3, if all other components of GDP remain unchanged in real terms, real growth in the services sector alone would have made the overall real GDP growth rate 1.4 percent in 2023, instead of the realized 1.2 percent. Other than the services sector, only natural gas and the agricultural and fishing activities contributed positively to real GDP growth rate. Both the services sector and agricultural and fishing sector grew at 3.0 percent and 5.9 percent, respectively, in 2023, compared to 7.7 percent and 6.8 percent, respectively, in 2022. On the contrary, NHC industrial activities contracted by 0.3 percent, following a solid 7-percent growth in 2022.

Moderate GDP Growth, in both Nominal and Real Terms, during the First Half of 2024, Driven Mainly by NHC Activities

During H1-2024, Oman's nominal GDP grew by 2.6 percent on a YoY basis, i.e. relative to H1-2023, recovering from the nominal contraction during 2023. This nominal growth was mostly driven by NHC activities, which grew by 3.7 percent YoY, with a mild contribution from HC activities, growing by 1.4 percent YoY.

The nominal expansion in the HC sector was predominantly attributed to an enormous 56.1 percent increase in the value added from manufacturing of refined petroleum products, which strongly rebounded from its sharp drop during 2023. In addition, natural gas nominal output grew by 4.5 percent YoY during H1-2024. The growth in nominal outputs from refineries and natural gas was more than needed to offset the 2.4 percent decline in nominal value added from crude petroleum.

Given the slightly higher prices of Oman crude during H1-2024, which averaged $82.2 per barrel compared to $81.4 per barrel during H1-2023, the drop in crude petroleum nominal output could be solely attributed to the additional OPEC+ voluntary cuts (by 42 tbpd) implemented since January 2024, on the top of the additional 40 tbpd implemented around mid-2023. In fact, Oman's total production volume has dropped by 5.3 percent during H1-2024 compared to H1-2023, from an average of 1051 tbpd to 995 tbpd.

On the other hand, nominal NHC GDP recorded a growth rate of 3.7 percent YoY during H1-2024. This growth was across the board, with all of NHC industrial activities, services activities, and agriculture and fishing activities growing in nominal terms at 2.5 percent, 3.7 percent, and 7.4 percent, respectively, relative to their levels during H1-2023.

In real terms, Oman's GDP grew by 1.9 percent YoY during H1-2024, driven primarily by NHC activities which recorded a solid YoY real growth of 3.6 percent. The services sector, followed by the NHC Industrial sector, were the main contributors to this NHC growth, recording YoY growth rates of 3.3 percent and 4.7 percent, respectively. The agriculture and fishing sector also grew by a solid 6.6 percent, but its contribution to NHC GDP growth was significantly less given its small share in the Omani economy.

The recent developments in GDP growth and its sectoral composition during 2023 and H1-2024 reveal that the HC sector continues to be a major contributor to Oman's economic activities, representing around 37 percent of nominal GDP and 32.5 percent of real GDP in both 2023 and H1-2024. This implies that the Omani economy is still sensitive to external shocks, both positive or negative, from the global oil and natural gas markets. This sensitivity, combined with the past experiences from episodes of sharp declines in oil prices, underscores the need for effective emergency response plans. These plans should not only manage severe external disruptions, but also strategically capitalize on positive developments. They should balance fiscal responsibility with financial stability while addressing growth, employment, and social issues through targeted support programs for the most affected businesses and vulnerable segments of the population.

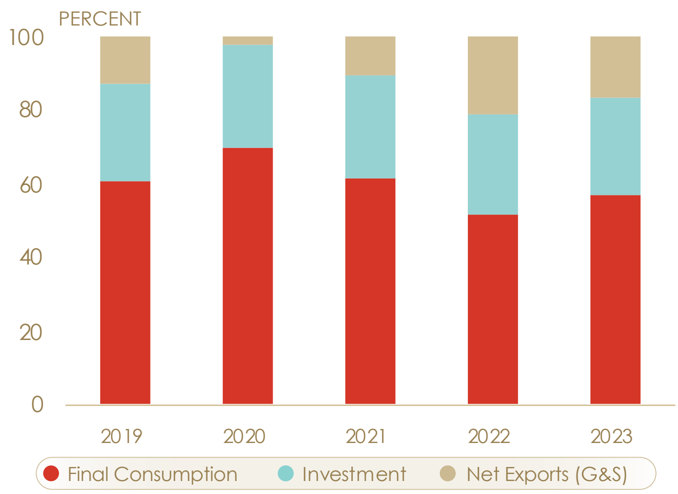
Furthermore, projections of the Central Bank of Oman (CBO) show that the outlook for the Omani economy is solid over the medium term (Box 1: The Medium-Term Outlook for Oman).

Consumption Expenditure Dominates Oman's GDP, with Stable Growth, While Investment and Net Exports Show More Volatility Post-pandemic

Consumption expenditure, particularly that of the household sector, is the dominant component of aggregate demand in Oman. Over the period 2021-2023, aggregate consumption expenditure contributed approximately 57 (58) percent of nominal (real) GDP, compared to 25 (26) percent contribution to nominal (real) GDP from total investment expenditure[13] and 16 (15) percent from net exports (Graph 6).

[13] Total investment expenditure is the sum of gross fixed capital formation (GFCF) and the change in inventories.

GRAPH 6
EXPENDITURE COMPONENTS OF NOMINAL GDP

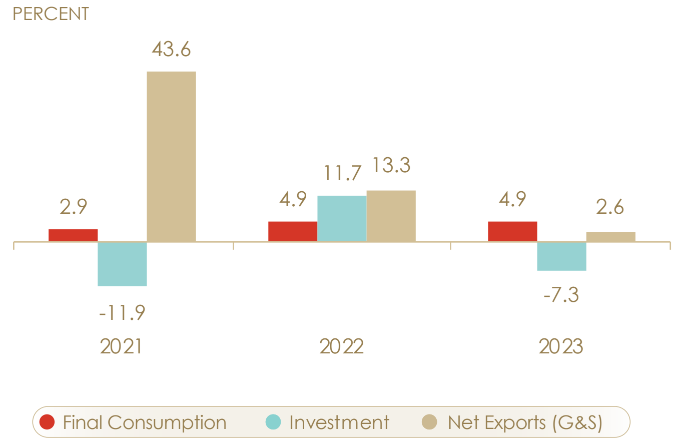


sourse:NCSI

In real terms, the share of consumption expenditure in GDP has been highly stable over the past few years, ranging between 56 and 59 percent since 2017. In contrast, the share of total investment has been generally declining, from 34.9 percent in 2017 to 25.4 percent in 2023, while the share of net exports has been generally rising, from 8.9 in 2017 to 15.6 percent in 2023. Net exports has been strongly recovering since the pandemic, when its share in real GDP dropped to only 10.5 percent of real GDP.

Since the pandemic, consumption expenditure growth has remained relatively stable, as it is less sensitive to changes in global conditions and interest rate fluctuations than total investment and net exports (Graph 7). As mentioned earlier, net export strongly rebounded after the pandemic, growing at an astonishing rate of 43.6 percent in 2021, but its growth has been declining in 2022 and 2023. Growth in total investment expenditure, however, was highly volatile, oscillating between positive and negative values, during this period, mainly due to the high volatility of its "change in inventories" component. Gross fixed capital formation dropped significantly in 2021, as expected after the hit of the pandemic, but it grew at 1.8 percent and 2.2 percent in 2022 and 2023, respectively.

GRAPH 7
REAL GROWTH IN CONSUMPTION & INVESTMENT (%)



sourse:NCSI

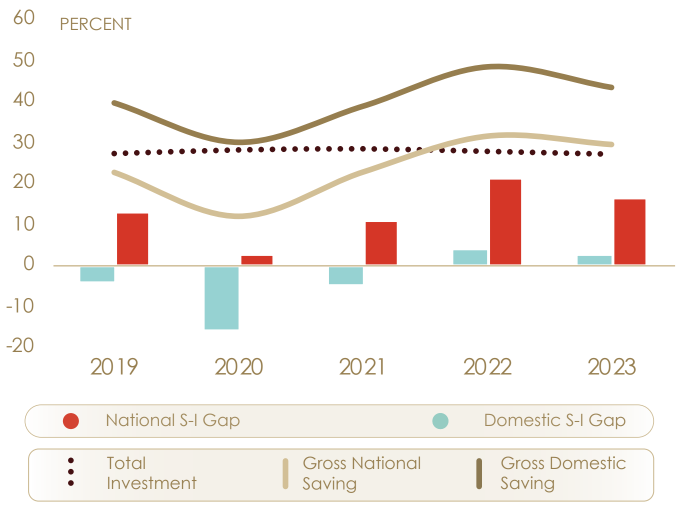
Gross Savings Declined in 2023 Following Two Years of Massive Growth; The Saving-Investment Gap Remained Positive

Gross savings, both domestic and national, declined in nominal terms by 13.6 percent and 10.0 percent, respectively, in 2023. This deceleration came after substantial growth in the past two years, by 48.6 percent in 2021 and 56.8 percent in 2022 (domestic) and 125.6 percent in 2021 and 75.9 percent in 2022 (national). As percentages of GDP, domestic and national savings were 43.1 percent and 29.2 percent, respectively, in 2023, compared to 48.1 percent and 31.3 percent in 2022 (Graph 8). The decline in aggregate savings, both domestic and national, was primarily driven by a 3.6 percent drop in nominal GDP and a 5.6 percent increase in final consumption during 2023. The improvement in net factor income from abroad, by 20.3 percent during 2023, downscaled the drop in national savings relative to domestic savings.

The positive current account balance, i.e. the external surplus, in 2022 and 2023 has been mirrored in sizeable positive saving-investment (S-I) gaps, both domestic and national. During 2023, the domestic S-I gap, which equals the balance of goods and services in the current account, reached 16.4 percent of GDP, down from 20.8 percent in 2022. Similarly, the national S-I gap, which equals the reached 2.5 percent of GDP, down from 4.0 percent in 2022 (Graph 8).

GRAPH 8

INVESTMENT AND SAVINGS (% OF NOMINAL GDP)



Notably, the domestic S-I gap has always been positive since 2000, except in 2016 when it was marginally negative. The national S-I gap, on the other hand, has been negative from 2015 to 2021, reflecting persistent external deficits and the need for foreign financing of domestic investments. However, this gap turned positive since 2022, aligned with current account surpluses, and is forecasted to remain positive over the medium term.

Looking ahead, minimizing external imbalances on a sustainable basis is crucial. This can be achieved through fiscal sustainability, fostering a favorable domestic investment environment, further economic diversification, and promoting NHC exports in promising sectors.

THE MONETARY SECTOR

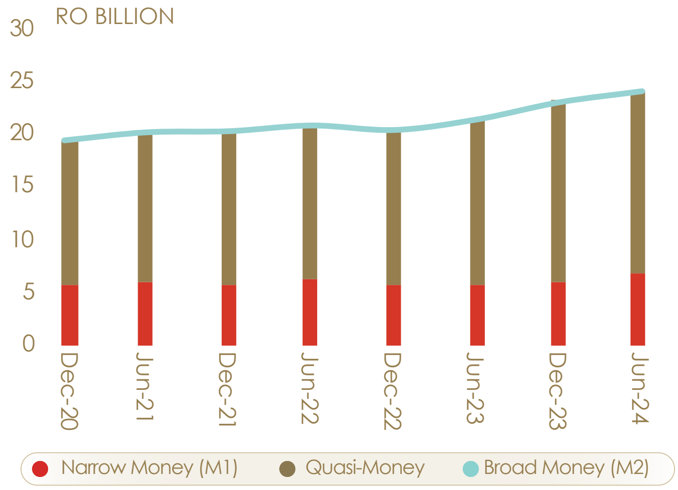
CBO is in Line with the Fed in Tightening Monetary Policy

In a continuation of its effort to bring inflation down closer to the 2-percent target, the Fed raised its target federal funds rate (TFFR) 11 times from March 2022 to July 2023, by a total of 525 bps, to reach the range 5.25-5.50 percent by the end of July 2023. The Fed maintained its policy rate fixed for more than a year, until it started its policy rate cuts in September 2024 with a 50-bps cut, followed by 25-bps cuts each in November and December 2024, lowering the range for its TFFR to 4.25-4.50 percent as of end-December 2024.

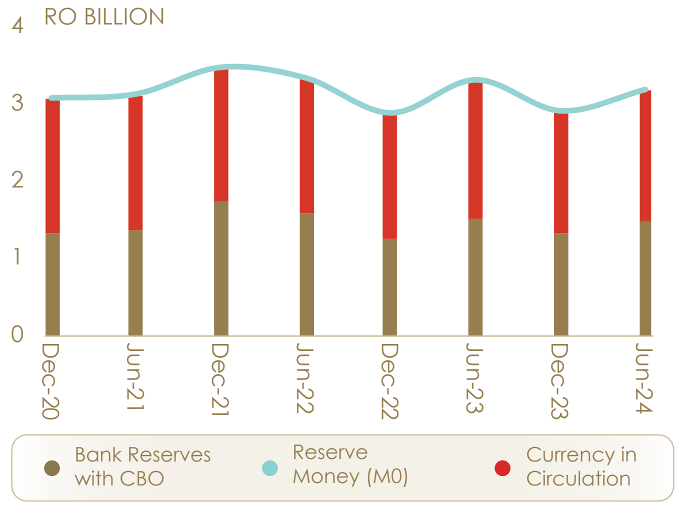
To maintain the stability of the fixed-peg of the Omani Rial (OMR) to the U.S. dollar (USD), these rate changes were immediately mirrored in the CBO's policy rate, raising it to 6.0 percent since late July 2023, before it has been reduced by 100 bps during September-December 2024 to reach 5.00 percent in December 2024.

By the end of December 2023, broad money supply (M2) registered a significant YoY growth rate of 13.1 percent, relative to its level in December 2022, compared to a marginal YoY growth of 0.6 percent in December 2022. The rapid growth in M2 was shaped by an accelerated growth in quasi-money, reaching 15.5 percent YoY in December 2023 (December 2022: 1.8 percent), coupled with a more moderate growth in narrow money supply (M1) by 6.7 percent during the same period (2022: -2.4 percent) (Graph 9). The asymmetric growth in M1 and quasi-money is justifiable. The high interest rate environment in 2023 reduced the incentive to hold cash and demand deposits, included in M1, while increased the incentive to hold interest-bearing deposits included in quasi-money.

GRAPH 9
MONETARY AGGREGATES



GRAPH 10
RESERVE MONEY AND ITS COMPONENTS



During H1-2024, M2 maintained its upward trajectory. As of June 2024, it increased by 4.6 percent relative to its December 2023 level. In addition, the asymmetry of the pace of growth in M1 and quasi-money observed in 2023 has been reversed, with M1 growing at a significantly faster rate than quasi-money. As of June 2024, M1 increased by a solid 12.6 percent, while quasi-money increased by a mere 1.8 percent, relative to their December 2023 levels. The solid growth in M1 during H1-2024 was mainly supported by strong growth in demand deposits in OMR, whose level in June 2024 was higher than that in December 2023 by 15.4 percent, compared to an annual growth of 9.4 percent during 2023.

On the other hand, reserve money (M0)[14] marginally increased by 0.9 percent by December 2023, relative to its level in December 2022. Nevertheless, growth in M0 accelerated during H1-2024. By end-June 2024, its was 9.3 percent higher than its level in December 2023 (Graph 10).

The oscillating behavior of M0 since 2022 could be tracked down to the varying trends in its two components: currency in circulation (CiC) and bank reserves with CBO. Throughout 2022, both CiC and bank reserves with CBO declined, by 6.1 percent and 27.4 percent[15], respectively, mainly reflecting the impact of monetary tightening and the higher opportunity cost of holding excess reserves in an elevated interest rate environment.

During H1-2023, they both strongly recovered with the slowing pace of interest rate cuts. By June 2023, they were 9.6 percent and 21.1 percent, respectively, higher than their December 2022 levels, making M0 14.6 percent higher than its level at the end of 2022. During H2-2023, with the prevailing high interest rates, both CiC and bank reserves at CBO dropped significantly by 10.0 percent and 14.2 percent, respectively, leading M0 to drop by 11.9 percent, relative to their respective mid-year levels.

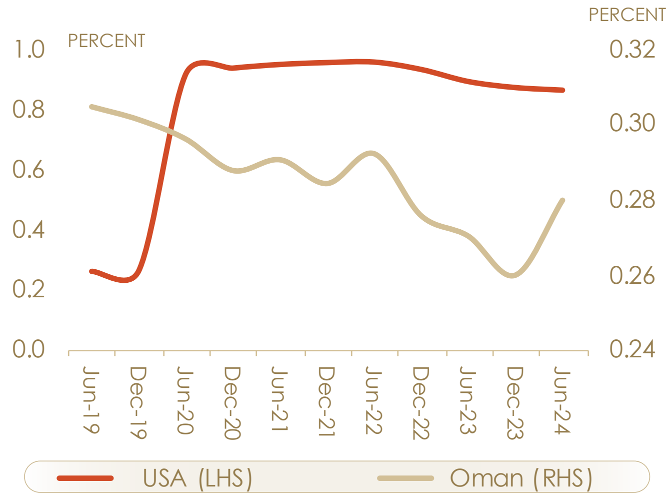
[14] Reserve money or monetary base (M0) is the sum of currency in circulation and banks' cash reserves with CBO. In this report, currency in circulation is the sum of currency outside banks (cash held by the public) and cash held with banks.
[15] The decline in bank reserves is entirely in excess reserves, as banks kept meeting their regulatory reserve requirement. During periods of rapidly rising interest rates to seek high returns, banks tend to reduce their excess reserves holdings at CBO, as the opportunity cost of holding idle cash increases.

These declines were recovered during H1-2024. By June 2024, CiC, bank reserves with CBO, and M0 increased by 7.5 percent, 11.6 percent, and 9.3 percent, respectively, relative to their respective levels in December 2023. Despite its oscillating behavior during 2023 and H1-2024, M0 and each of its two components have been generally increasing. By June 2024, M0 was 10.3 percent higher than its level at the end of 2022, supported by a solid 15.9 percent increases in bank reserves and a moderate 6 percent increase in CiC over the 18-month period.

Despite rising policy rates, both M1 and M2 have increased in Oman over the period from December 2022 to June 2024, indicating strong credit demand and liquidity in the banking system. However, the M1/M2 ratio (Graph 11) has been declining in Oman during 2022 and 2023, but its trend has reversed during H1-2024. The changing trends of this ratio reflects depositors' increased preference towards interest-bearing deposits, included in M2 but not in M1, during periods of rising interest rates.

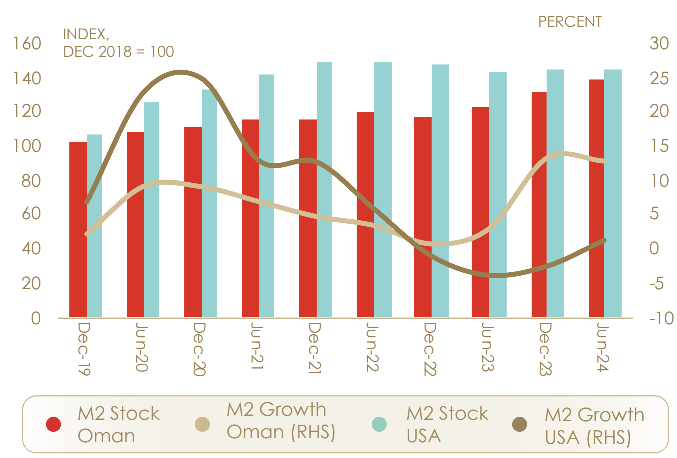
In comparison, the U.S. economy has observed a gradual decline in the M1/M2 ratio since 2022 for obviously the same reasons. This gradual decline, however, came about two years after an enormous jump in the M1/M2 ratio during Q2-2020 (from 0.3 in March to 0.91 in June) as a result of the massive liquidity injection by the Fed in response to the pandemic. Since the Omani economy did not witness such a massive liquidity injection, it is normal that the gradual decline in the M12/M2 ratio following the interest rate hikes is significantly faster in the U.S. than in Oman, and that this decline is still ongoing in the U.S. in 2024. The differing trends between Oman and the U.S. highlight how monetary interventions and domestic economic conditions influence liquidity conditions and the composition of money supply in each of the two economies.

GRAPH 11
M1/M2 IN OMAN AND USA



The open capital account and fixed exchange rate system in Oman necessitate aligning of Oman's monetary policy with that of the U.S. Consequently, it is anticipated that Oman's money supply movement would closely resemble that of the U.S. Even though overall similarities exist between the two nations' money supply trends, instances of significant divergence in economic cycle phases or monetary interventions could lead to varying growth trajectories in the money supply between the two nations (Graph 12).

GRAPH 12
Change in M1/M2 IN OMAN AND USA



sourse: CBO & FRED

For instance, when confronted with a substantial increase in inflation, the U.S. Fed adopted a contractionary monetary policy, resulting in a decline (negative growth) in M2, contrary to the conditions in Oman. Given that CBO's key interest rate is tied to the U.S. TFFR, this divergence could potentially make domestic liquidity management in Oman more complex.

Moreover, the size of monetary aggregates continues to maintain a secure proportion to the CBO's foreign currency (FX) reserves—an essential aspect for upholding the stability of the fixed exchange rate system. Notably, macroeconomic vulnerabilities do not seem to arise from Oman's patterns of monetary aggregates.

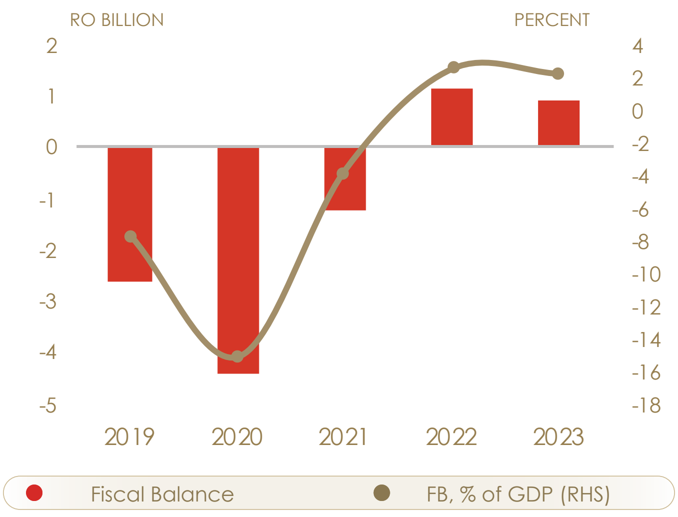
Finally, it is worth mentioning that despite the alignment of Oman's monetary policy with that of the U.S, weak monetary policy transmission mechanism mechanism in Oman makes retail lending and deposit rates less responsive to changes in CBO's policy rate, weakening the transmission of actual tightening/easing of the U.S. monetary policy to the Omani economy. Enhancing monetary policy transmission in Oman is one of the issues currently being addressed as part of CBO's Monetary Policy Enhancement Project (MPEP).

FISCAL BALANCE AND FISCAL PERFORMANCE

Continued Fiscal Surplus and Lower NHC Fiscal Deficit in 2023, Supported by Reasonably-High Oil Prices, Stronger NHC Revenues, and Lower Expenditures

The combination of relatively high oil prices and continued fiscal discipline has led to fiscal results in 2023 that significantly outperformed the initial estimates in the approved budget. The overall fiscal balance remained in surplus, recording about RO 936 million (2.3 percent of GDP) in 2023 compared to about RO 1.1 billion (2.7 percent of GDP) in 2022 (Graph 13). The "conservative" approved budget for 2023, however, estimated a fiscal deficit of RO 1.3 billion (3.2 percent of GDP), based on an assumed average oil price of $55 per barrel. Moreover, the overall primary fiscal balance also recorded a surplus of about RO 2.0 billion (4.9 percent of GDP) in 2023.

GRAPH 13
FISCAL BALANCE (FB)

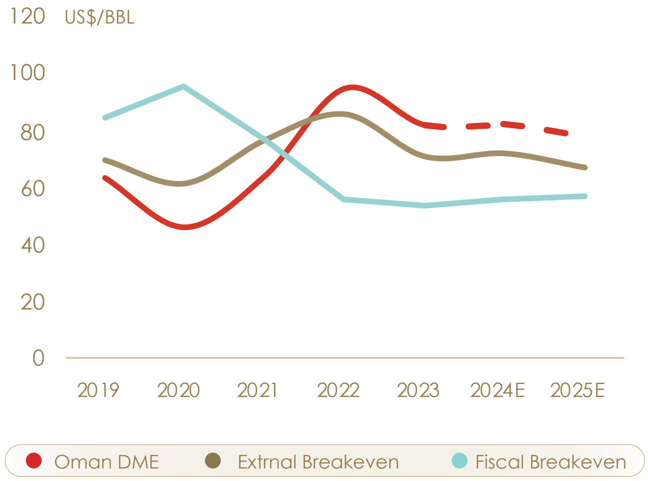


sourse: Ministry of Finance

In addition, oil prices continued to be higher than the fiscal (2024: $55.4/barrel) and the external (2024: $71.8/barrel) breakeven oil prices[16], indicating the expectation of fiscal and current account surpluses in 2024. The projected oil price in 2025 is also higher the breakeven prices, reflecting the expectations that fiscal and external surpluses are likely to continue into 2025[17] (Graph 14).

[16] The IMF Regional Economic Outlook for the Middle East and Central Asia, October 2024.
[17] The U.S. Energy Information Administration (EIA) projects the Brent crude oil spot price to average $82 per barrel in Q4 2024 and $84 per barrel in 2025 (EIA Short-Term Energy Outlook, September 2024). In its most recent macroeconomic forecasts, CBO uses oil price assumptions for Oman DME of $82.1 and $77.9 per barrel in 2024 and 2025, respectively, which are the oil prices used in Graph 14.

GRAPH 14
BREAKEVEN OIL PRICES



sourse: IMF

On the revenue side, total fiscal revenues declined by 13.3 percent during 2023, compared to noteworthy growth of 29.3 percent in 2022. Nevertheless, the realized revenue is still 24.8 percent higher than the approved figure. The HC sector was solely responsible for the drop in total revenue during 2023, relative to 2022. Both oil and gas fiscal revenues declined by 6.2 percent and 47.4 percent, respectively, relative to their 2022 value, leading net HC revenue to drop by a significant 19.3 percent during the year. Despite this drop, the realized net HC revenue in 2023 is still 34.2 percent higher than the approved figure, reflecting the higher realized oil prices than the budget assumption.

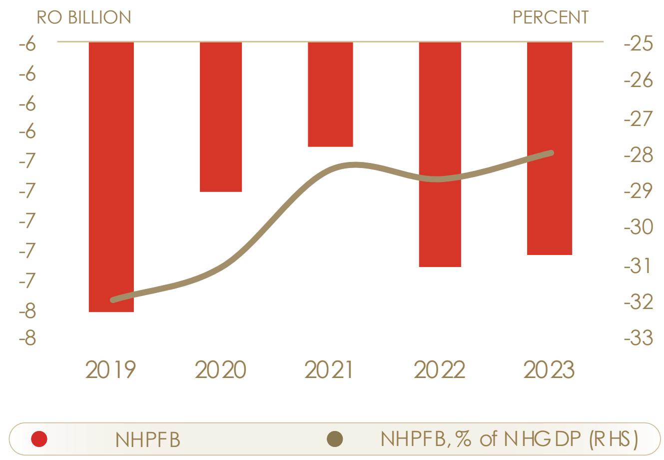
Unlike HC revenues, NHC revenues continued to grow in 2023, recording a growth rate of 6.8 percent, compared to 11.8 percent in 2022, and exceeding their estimated value in the approved budget by 5.8 percent. Notably, NHC revenues represented 28.1 percent of total public revenue in 2023, a significant enhancement over its 22.8 percent share in 2022. This partly reflects lower oil revenues in 2023, but it also indicates the ongoing improvement in NHC revenues, especially taxes.

On the other hand, total government expenditure declined by 12.9 percent during 2023, but it slightly exceeded the approved budget by 2.3 percent. This significant drop in fiscal spending was mainly driven by the completion of shifting the oil and gas production and purchases expenses, i.e. the HC expenditures, to other entities, mainly Energy Development Oman (EDO) and the Oman Investment Authority (OIA) as the owner of OQ. As a result, NHC expenditures dropped from about RO 1.64 billion in 2022 to zero in 2023.

Among NHC expenditures, current expenditures, followed by “contributions & other expenses”, contributed the most to the decline in fiscal spending in 2023, as they dropped by 15.9 percent and 12.5 percent, respectively, relative to their 2022 levels. In contrast, the central government’s investment expenditures increased by 4.4 percent, following a sharp drop by 33.8 percent in 2022, contributing the most to the slightly higher value of fiscal expenditures compared to the approved budget.

In contrast to the overall and primary fiscal balances, which marginally decreased in 2023 relative to 2022, the NHC fiscal balances improved during 2023. As a percent of NHC GDP, the NHC deficit declined to 31.3 percent in 2023, compared to 32.9 percent in 2022. Similarly, the NHC primary deficit declined to 27.2 percent in 2023, compared to 28.7 percent in 2022. The improvement in NHC fiscal deficits during 2023 mainly reflects the growth in NHC revenues, relative to 2022, supported by a marginal 0.7 percent decline in NHC expenditures (Graph 15). Despite their improvement, both NHC fiscal deficit measures remain elevated from a fiscal sustainability standpoint, underscoring the necessity for continued dedication to fiscal discipline.

GRAPH 15
NON-HYDROCARBON PRIMARY FISCAL BALANCE



sourse: MoF

Fiscal Balance Remained in Surplus During H1-2024, with Improved NHC Fiscal Balances

During H1-2024, total government revenues recorded RO 6.2 billion, 2.3 percent lower than its value during the same period in 2023, despite the 3.2 percent increase in net oil revenue. The decline in total public revenue resulted mainly from a sharp decline in gas revenues by 15.4 percent as well as a 4.0 percent drop in NHC revenues, mainly from corporate income tax (by 4.5 percent), custom tax (by 6.2 percent), and taxes on goods and services, i.e. the value-added tax (VAT) and the excise tax (by 4.4 percent). On the other hand, total government expenditure increased by 2.1 percent during H1-2024, on a YoY basis, mainly driven by higher investment expenditures and "contributions and other expenses".

Despite lower revenues and higher expenditures, the fiscal budget remained in surplus during H1-2024. The overall surplus, however, declined relative to the same period in 2023, recording RO 391 million (1.9 percent of GDP) compared to RO 656 million (3.2 percent of GDP) during Jan-June 2023. Similarly, the primary fiscal surplus dropped to 4.0 percent from 5.6 percent of GDP during H1-2023.

Nevertheless, the NHC budget showed some improvement during H1-2024 compared to 2023. As a percent of NHC GDP, both the NHC deficit and the NHC primary deficit dropped to 28.2 percent and 24.9 percent, respectively. These metrics, however, were higher than their values recorded during H1-2023 (25.4 percent and 21.5 percent of NHC GDP, respectively).

The Omani Government has Considered the Past Fiscal Challenges in Preparing the General Budget for 2024, Reaffirming Its Commitment to Fiscal Sustainability

Since 2015, the Omani economy has encountered a series of difficulties due to external shocks. These included extended periods of low oil prices, rising fiscal needs leading to increased public debt, and the additional strain of the COVID-19 pandemic. To tackle these challenges, the Omani government has prioritized fiscal discipline and sustainability. This effort began with the introduction of the Medium-Term Fiscal Plan (MTFP) for 2020-2024 in November 2020 and has continued alongside the Tenth Five-Year Development Plan (2021-2025).

Going forward, the Omani government is credibly committed to fiscal discipline. In January 2023, the National Programme for Fiscal Sustainability and Financial Sector Development (Estidamah) was launched, for the period 2023-2025, to continue the implementation of fiscal balance measures and to accelerate the development of the financial sector, along the lines of the current and subsequent MTFPs. In addition, the government is taking successful steps in deleveraging of state-owned enterprises (SOEs), and the progress in this area is moving quicker - than - anticipated.

The 2024 general budget has been designed with these ongoing challenges in mind, adhering to the MTFP and the goals of the Tenth Five-Year Development Plan. The government has adopted a conservative approach by assuming an oil price of $60 per barrel for the 2024 Budget, despite the fact that oil prices surpassed $80 per barrel in 2023. This cautious stance aims to ensure fiscal discipline and sustainability, while fostering economic growth. The objective is to support economic activity and maintain a solid budgetary framework and manageable public debt levels.

The approved 2024 budget estimates a deficit of RO 640 million, which represents 1.5 percent of forecasted GDP.[18] Nevertheless, CBO macroeconomic forecasts predict a fiscal surplus, for the third consecutive year, of about RO 650 million (2.2 percent of forecasted GDP) during 2024 (Box 1).

To ensure fiscal sustainability, it is essential to focus on the NHC budget and aim for a sustainable NHC primary fiscal deficit that is significantly lower than the prevailing levels. This approach will help mitigate the impact of fluctuations in hydrocarbon revenues on fiscal performance. Additionally, accelerating economic diversification efforts as outlined in Oman's "Vision 2040" will support medium- and long-term macro-financial stability.

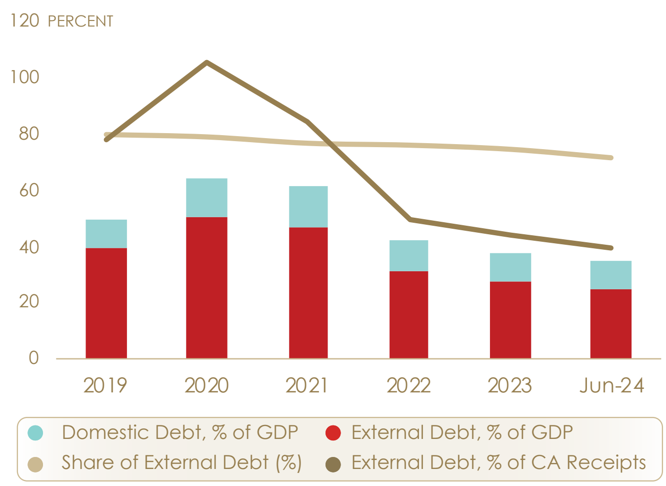
Public Debt Declined with Continued Fiscal Surpluses, Improved Economic Prospects, and Intensive Debt Repayment

Oman's public debt was on a downward trajectory during 2023 and H1-2024. The realized fiscal surpluses and improved economic prospects sharply lowered the government's financing needs. In addition, since 2022, the government utilized a part of its realized fiscal surpluses to pay off a portion of its external debt prior to its maturity (Box 2: Analysis of the Market for Omani Sovereign Eurobonds and International Sukuk).

During 2023, total public debt sharply dropped by 13.2 percent, to reach around RO 15.3 billion (37.5 percent of GDP) in December 2023, compared to RO 17.6 billion (41.7 percent of GDP) in December 2022. By June 2024, it further declined to RO 14.4 billion (33.8 percent of forecasted GDP in 2024), recording a 5.7 percent decline on a YoY basis (Graph 16).

Both domestic and external public debt dropped during 2023 and H1-2024. During 2023, they dropped significantly by 8.0 percent and 15.0 percent, respectively, relative to their respective levels in December 2022. By June 2024, external debt declined further by 9.6 percent, while domestic debt inched up by 5.4 percent, relative to their levels in December 2023. By end-June 2024, external and domestic public debt reached about RO 10.2 billion (24.0 percent of GDP) and 4.2 RO billion (9.8 percent of GDP), respectively (Graph 16).

GRAPH 16
PUBLIC DEBT (DOMESTIC AND EXTERNAL)



Moreover, external debt continues to dominate public debt, but its share in total public debt significantly declined to 70.9 percent in June 2024 (December 2023: 74.0 percent; December 2022: 75.5 percent).

[18] According to CBO's macroeconomic forecasting model.

Another positive development is the improvement in the capacity of the Omani government to repay its external debt relying on current account (CA) receipts. The ratio of external debt to total CA receipts continued its downward trajectory during 2023 and H1-2024, to reach 44.3 percent in December 2023 and 39.2 percent in June 2024, compared to 49.0 percent in December 2022 and 83.8 percent in December 2021 (Graph 16).

In 2023, the government's efforts to reduce public debt continued, albeit at a slower pace compared to 2022. During 2023, principal repayments of public debt amounted to about RO 2.68 billion, representing 15.2 percent of the stock of public debt at the beginning of the year (2022: RO 4.1 billion; 20.0 percent). The notable reduction in public debt during 2022 and 2023 is largely attributable to the government's strategy to use oil windfalls to buy back a portion of its outstanding external debt, in addition to paying off maturing issues of sovereign Eurobonds and International Sukuk while temporarily holding off on issuing new international debt securities. This will be discussed in more detail in Box 2. Nevertheless, rising interest rates on new domestic debt issues eroded most of the potential positive impact of this public debt reduction on interest payments, which dropped by only 3 percent during the year relative to their value in 2022.

The declining debt-to-GDP ratio has provided the government with more fiscal flexibility, both internally and externally. Recent improvements in Oman's fiscal and economic indicators have enhanced the country's sovereign ratings and lowered the cost of external borrowing, thereby expanding Oman's external fiscal space. However, the government's ability to borrow remains closely linked to oil prices and the performance of the hydrocarbon sector, which exposes the country to external shocks.

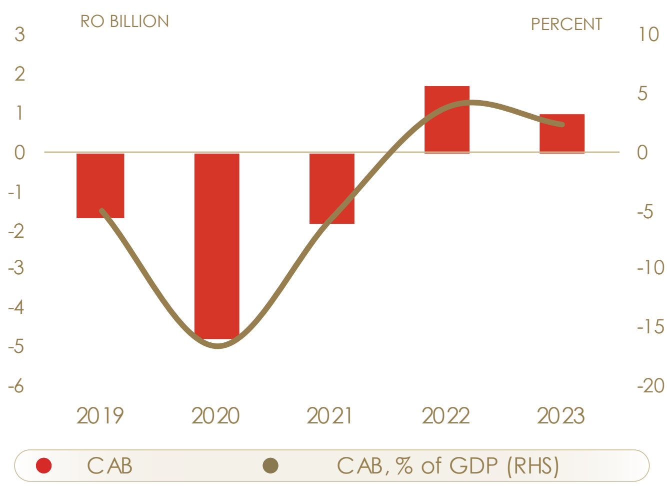
EXTERNAL BALANCE

The Current Account Remained in Surplus in 2023, Despite the Large Drop in Merchandise Trade Balance

Oman's current account balance (CAB) realized a surplus of RO 1.01 billion (2.5 percent of GDP) in 2023, compared to a surplus of RO 1.68 billion (4.0 percent of GDP) in 2022 (Graph 17).

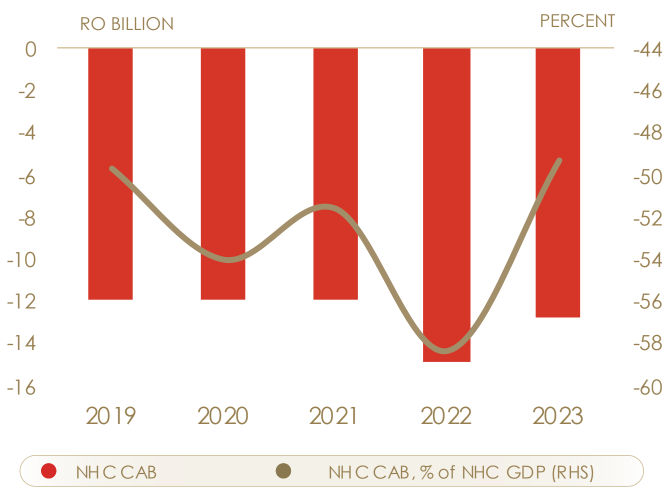
The CAB surplus was mainly supported by the improvement in the services balance and net primary income, which increased substantially by 23.6 percent and 44.0 percent in 2023, respectively, compared to their 2022 values. The merchandise trade balance, however, declined by around RO 2.9 billion (23.9 percent) during 2023, mainly due to the 16.9 percent decline in HC exports, while the secondary income account, i.e. workers remittances, increased by 4.0 percent during the year.

GRAPH 17
CURRENT ACCOUNT BALANCE (CAB)



In contrast to the CAB, the NHC current account balance[19] The NHC current account balance (NHC CAB) is calculated by excluding oil and gas exports from the current account balance materially improved during 2023. It experienced a deficit of R.O 12.8 billion, declining by 14.3 percent from its record-high level of RO 14.9 recorded in 2022 (Graph 18). As mentioned earlier, the substantial improvement in the balance of services and the primary income account are the chief contributors to this improvement in NHC CAB. In fact, the NHC trade balance slightly worsened by 1.7 percent during 2023.

GRAPH 18
NON-HYDROCARBON CURRENT ACCOUNT BALANCE



Notwithstanding the overall surplus in the current account, the continued significant NHC current account deficit demonstrates a persistent external imbalance in Oman, which underscores the urgency of intensifying ongoing initiatives to strengthen NHC exports from the promising sectors. Furthermore, enhancing the business climate to attract both domestic and foreign investments aimed at substituting imported goods with domestically produced ones is of utmost importance. These endeavors are pivotal for strengthening CBO's FX reserves, upholding the stability of the fixed exchange rate system, and mitigating Oman's external balance vulnerability to fluctuations in oil prices.

EXTERNAL BUFFERS AND THE STABILITY OF THE FIXED PEG

CBO's FX Reserves Remained Relatively Stable in 2023, but Were Rising During Jan-Sep 2024

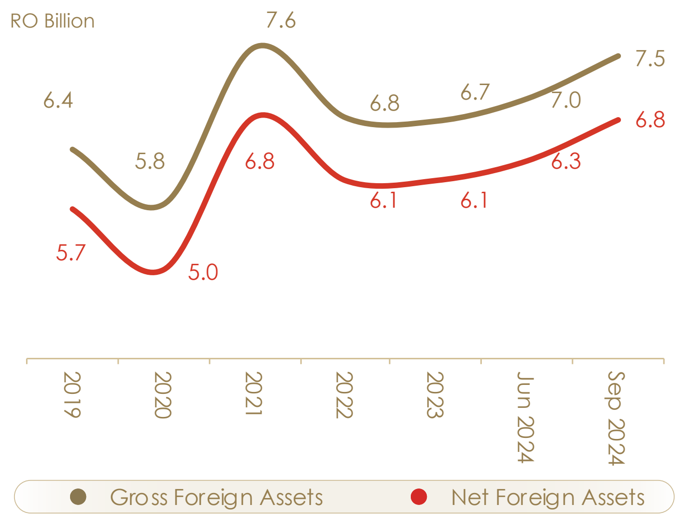
CBO's FX reserves, along with the liquid foreign assets held by the Oman Investment Authority (OIA), play a vital role as external buffers for the country, guarding against potential external shocks. Given Oman's reliance on oil exports, its pegged exchange rate system, and its open capital account, maintaining adequate FX reserves is crucial to ensuring the stability of the fixed peg. These reserves also ensure the countr's ability to cover import costs in case its regular FX inflows face disruptions.

Despite the relatively high oil prices and the current account surplus, CBO's gross foreign assets slightly dropped by 0.6 percent during 2023, to reach about RO 6.7 billion at the end of the year from about RO 6.8 billion at the end of 2022. CBO's net foreign assets[20], however, stood at about RO 6.1 billion by the end of 2023, about the same level a year earlier. This stability in CBO's FX reserves despite the current account surplus is explained by the government prioritization, in collaboration with CBO, of reducing the debt burden ratio during 2022 and 2023 through external debt repayments (Graph 19).

[20] Net foreign assets at CBO are calculated by excluding foreign liabilities to non-residents from CBO's gross foreign assets.

During 2024, however, CBO's FX reserves were on an upward trajectory. By June 2024, gross (net) FX reserves reached about RO 7.0 (6.3) billion, about 3.9 (3.8) percent higher than their December 2023 levels. By September, they further increased to about RO 7.5 (6.8) billion, about 11.2 (11.7) percent above their respective levels at the end of 2023 (Graph 19).

GRAPH 19
CBO'S FOREIGN ASSETS



As percent of GDP, CBO's gross (net) FX reserves accounted for 16.5 (14.9) percent of GDP, higher than the 16.0 (14.3) percent of GDP recorded in December 2022. This ratio has been inching up during 2024, reaching 17.6 (15.9) at the end of September, as a ratio to forecasted GDP.

CBO Holds Adequate FX Reserves by International Benchmarks

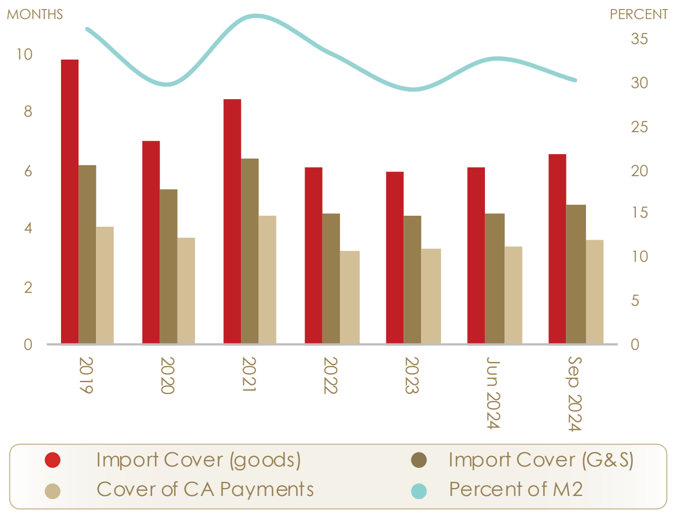
To assess the adequacy of CBO's FX reserves, two commonly used measures, along with their variants, have been employed. The first measure is the import cover[21], with a global benchmark of three months. The second metric is the ratio of FX reserves to M2[22] , with an international benchmark of 20 percent[23] . Two variants of the first metric have been analyzed: (i) merchandise import cover and (ii) current account payments cover. Similarly, two variants of the second metric have been considered: (i) the ratio of FX reserves to currency in circulation and (ii) the ratio of FX reserves to reserve money (M0)[24] .

The results of import cover and its variants affirm that CBO maintains sufficient foreign exchange reserves both in gross and net terms (Graphs 20 & 21). Even with the decline in their values during 2023, gross (net) FX reserves at the end of 2023 remained adequate to cover 4.4 (4.0) months of total imports of goods and services, significantly higher than the global benchmark of 3 months, compared to 4.5 (4.0) months in December 2022. Along the same lines, CBO's gross (net) FX reserves merchandise import cover did not materially change during 2023. It recorded 6.0 (5.4) months in December 2023, compared to 6.1 (5.4) months in December 2022.

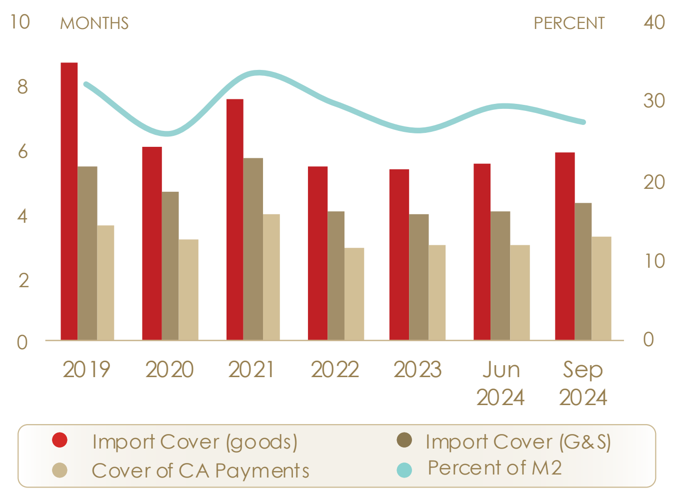
Unlike import cover metrics, CBO's gross (net) FX reserves cover for current account payments increased slightly to 3.3 (3.0) months in December 2023, compared to 3.2 (2.9) months in December 2022.

[21] Import cover equals the number of months FX reserves can buy imports of goods and services, reflecting the ability to handle the unlikely risk of a sudden stop of all current account inflows.
[22] This metric reflects the ability of reserves to safeguard the economy against the risk of intensive capital flight in case of a deep economic crisis.
[23] According to the IMF guidelines on Assessing Reserve Adequacy, reserve adequacy is a "gross" concept. Nevertheless, gross and net FX reserves have been used to calculate all metrics.
[24] The rationale is that under a fixed exchange rate regime with virtually no restrictions on FX transactions, OMR cash balances (other than banks' required reserves deposited at CBO) could be freely converted into foreign currency and hence should be sufficiently covered by FX reserves.

GRAPH 20
CBO GROSS FX RESERVES: ADEQUACY INDICATORS



GRAPH 21
CBO NET FX RESERVES: ADEQUACY INDICATORS

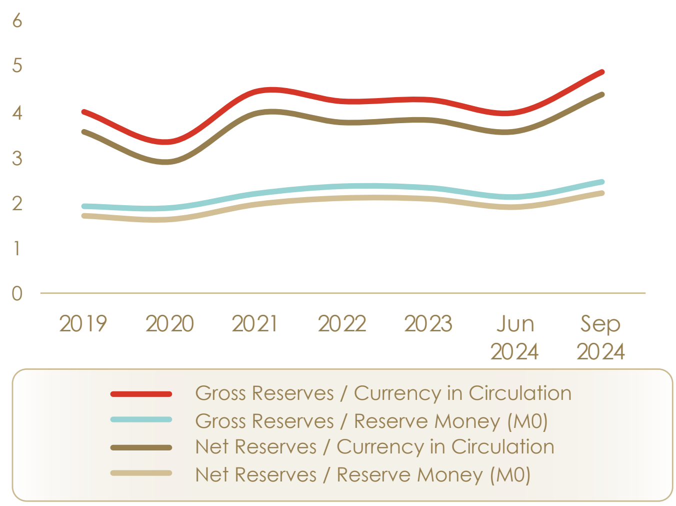


Import cover of CBO's gross (net) FX reserves materially improved over Jan-Sep 2024, supported by the rise in FX reserves. By end-September 2024, the estimated import cover[25] of gross (net) reserves increased to 4.8 (4.3) months of imports of goods and services, and to 6.6 (5.9) months of merchandise imports. Similarly, during the same period, gross (net) FX reserves cover for current account payments inched up to reach 3.6 (3.2) months in September 2024.

On the other hand, the combined impact of the slight decline in CBO's FX reserves and the rapid growth in M2 caused the ratio of CBO's gross (net) FX reserves to M2 to drop from 33.3 (29.8) percent in December 2022 to 29.3 (26.3) percent in December 2023. However, this ratio rebounded during H1-2024, reaching 32.8 (29.4) percent by June, before it slightly lessened to 30.3 (37.4) percent by end-Sep 2024. Despite these subtle fluctuations, this ratio remained around 30 percent since 2021, significantly above the 20-percent global benchmark, confirming the adequacy of CBO's FX reserves to safeguard the Omani economy.

Moreover, CBO's FX reserves remained adequate with respect to Omani Rial (OMR) cash balances, thereby supporting the stability of the fixed peg. Over the period 2018-2023, the CBO's gross (net) FX reserves were, on average, 4.1 (3.6) times CiC and 2.2 (1.9) times M0. By end-Sep 2024, these multiples improved to 4.8 (4.4) times and 2.5 (2.2) times, respectively (Graph 22).

GRAPH 22
CBO FX RESERVES: RATIO TO OMR CASH BALANCES



[25] Projections of import cover in June 2024 are based on actual values of FX reserves in June 2024.

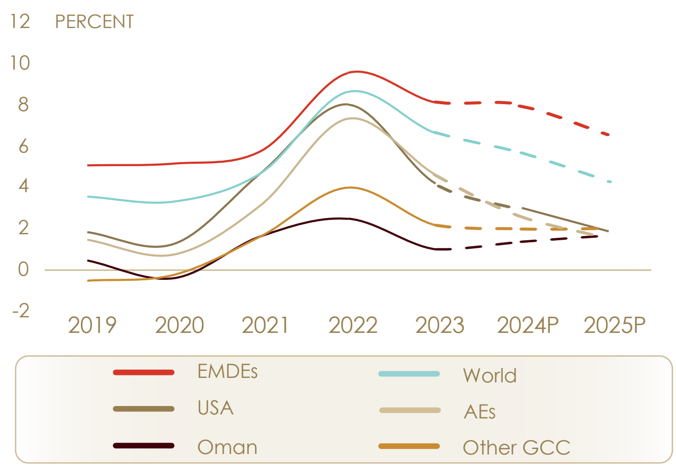
PRICE STABILITY AND INFLATION RISK

Consumer Inflation Declined in Oman in 2023, Remained Well Below Inflation in the U.S. and Major Trade Partners

Since 2018, Oman's headline consumer (CPI) inflation rate remained well below its value in the USA, by one percentage point or more, as well as its global average and the average in each of AEs and EMDEs. It also remained in line with its average in the other GCC countries, which marks the success of the fixed-peg regime adopted by GCC countries in preserving price stability (Graph 23)[26].

The OMR-USD fixed peg serves as a credible nominal anchor that supports price stability by weakening the pass-through of imported inflation, which is a significant determinant of inflation in Oman due to the country's heavy reliance on imports. In the absence of bottlenecks in local markets and adverse policy shocks, this would keep Oman's inflation in line with inflation levels in the USA and Oman's major trading partners.

GRAPH 23
CONSUMER INFLATION (ANNUAL AVERAGES)



sourse: NCSI & IMF!

As expected, the CPI headline inflation in Oman declined to average 1.0 percent in 2023, compared to an average of 2.5 percent in 2022 and 1.7 percent in 2021. This decline is in line with the global drop in inflation rates during the year, driven by restrictive monetary policies, lower energy prices, and continued easing of supply chain pressures.

The average CPI YoY inflation in Oman recorded 0.4 percent during H1-2024, compared to 1.4 percent during H1-2023. As shown in Graph 23, CPI inflation in Oman is expected to be moderate over 2024 and 2025, even below its average in the other GCC countries.

Several factors have contributed to the low inflation in Oman in 2023 and H1-2024. Primarily, the declining global inflation (from 8.6 percent in 2022 to 6.7 percent in 2023, then to an estimated 5.7 percent in 2024) reduced imported inflation. With the support of the fixed-peg regime, it contributed largely to low inflation in domestic consumer prices. In addition, continued subsidies on some essential goods and services, and the exclusion of most food items from the VAT, played a role in containing inflation in Oman. Moreover, the ceiling on domestic fuel prices announced in November 2021 blocked the domestic inflationary impact of the surge in global fuel prices, which had a significant contribution to price stability in 2023. Finally, the multiple rises in CBO policy rates since March 2022, following the Fed's monetary tightening, had a marginal disinflationary effect in Oman, as the lending rates rose only marginally during the period reflecting the relatively weak monetary policy transmission in Oman.

[25] Data used in this paragraph and in Graph 23 is from the IMF WEO database, October 2024.

SOVEREIGN RATINGS AND PERCEIVED COUNTRY RISK

Sovereign Upgrades in 2023 and 2024, Reflecting a Substantial Scaling Down of Perceived Systemic Risks

During 2023 and 2024, all three major credit rating agencies took multiple positive rating actions regarding Oman's sovereign debt (Graph 24).

In 2023, S&P Global Ratings upgraded the Omani government foreign-currency debt from "BB" to "BB+", with a "stable" outlook in September, after improving the outlook from "stable" to "positive" in March. In 2024, the same rating agency changed the outlook to "positive" in March, then in September 2024 it upgraded Oman's sovereign debt to "BBB-" with a "stable" outlook. This marked the return of Oman's sovereign rating to the "Investment Grade" territory for the first time since May 2017 by S&P, and since March 2019 by any of the three major rating agencies.

On the other hand, Moody's upgraded Oman's sovereign debt rating twice in 2023, from "Ba3" to "Ba2" in May and then to "Ba1" in December, with a "stable" outlook. In September 2024, they affirmed the "Ba1" rating and changed the outlook to "positive". Similarly, Fitch upgraded Oman's sovereign debt from "BB" to "BB+", with a "stable" outlook, in September 2023, after improving the outlook to "positive" in April. In 2024, however, they affirmed Oman's rating at "BB+" with a "stable" outlook in May, then changed the outlook to "positive" in December.

These favorable sovereign rating actions highlight the strengthening of Oman's fiscal framework and the successful economic reforms implemented by the Omani government. They represent a testament to the notable enhancements in Oman's fiscal and external balances and other macroeconomic metrics. Following several years in which the country experienced a series of sovereign rating downgrades, particularly between 2015 and 2020, which elevated its perceived country risk, the recent rating upgrades have substantially lowered the perceived country risk, which has been reflected in the spreads of Omani Eurobonds relative to comparable US treasury securities in the global financial markets (Box 2).

Nevertheless, these recent remarkable improvements in sovereign ratings shall be regarded by Omani policymakers carefully and objectively. The relatively high oil prices since 2021, supported by the expectations that oil prices will remain sufficiently high over the medium term, has played a predominant role in these positive rating actions. A sharp drop, or even a gradual downward trend, in oil prices could reverse those expectations and therefore result in sovereign rating downgrades.

Over the long term, maintaining sustainable fiscal discipline and undertaking a significant restructuring of Oman's economy away from its heavy reliance on the hydrocarbon sector, in alignment with the "Oman Vision 2040," are pivotal to avoiding any potential rating downgrades.

GRAPH 24
CONSUMER INFLATION (ANNUAL AVERAGES)

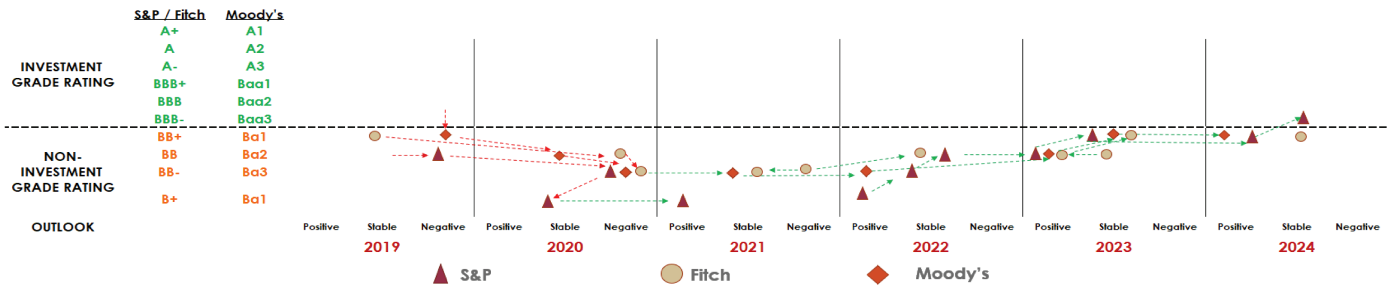


TABLE 1 : Sectoral Contributions to Nominal GDP Growth*

	Share in GDP (Relative Importance) (1)			Growth Rate (%)		Contribution to GDP Growth (%) (1) (2)	
	2021	2022	2023	2022	2023	2022	2023
HC GDP	0.33	0.41	0.37	58.60	-13.20	19.13	-5.42
Crude Petroleum	0.27	0.35	0.31	61.40	-14.10	16.65	-4.90
Natural Gas	0.05	0.05	0.05	35.40	1.90	1.63	0.10
Manuf. Refined Petroleum Products	0.01	0.01	0.01	87.96	-41.98	0.85	-0.61
NHC GDP	0.71	0.63	0.66	11.50	1.30	8.13	0.83
Industrial Activities	0.20	0.19	0.18	19.60	-4.20	3.98	-0.81
Agriculture & Fishing	0.02	0.02	0.02	10.90	11.90	0.26	0.25
Services	0.49	0.42	0.45	8.30	3.20	4.09	1.37
Nominal GDP at Market Prices	**1.00**	**1.00**	**1.00**	**25.80**	**-3.60**	**25.80**	**-3.60**

[1] Sectoral shares may add up to more than 100% and the sum of sectoral contributions to GDP growth may slightly differ from the bottom-line GDP growth rate due to the negative values of "financial intermediation services indirectly measured" and "indirect taxes less subsidies on products" (not reported in the table).
[2] Calculated as the sector's growth rate during the year multiplied by its previous year's share in GDP.

TABLE 2 : Sources of the Change in the Value of Oil Production and their Contribution to GDP Growth

RO million, unless otherwise specified)	2021	2022	2023
(1) Oil Production Volume (millions of barrels per year)	354.50	388.43	382.77
Annual percentage change	1.9	9.6	*-1.5*
(2) Weighted Average Price of Oman Crude (US$/BBL)	64.54	95.70	82.33
Annual percentage change	38.4	*48.3*	*-14.0*
3) Value of Oil Production (RO million) [a]	8,798	14,293	12,118
Annual percentage change	41.0	*62.5*	*-15.2*
(4) Change in the Value of Oil Production (RO million)	2,560	5,495	-2,175
Of which, attributable to			
(4.1) Change in oil prices (RO million) [b]	2,397	4,246	-1,967
In Percentage Terms	(93.7)	*(77.3)*	*(90.4)*
Nominal GDP Growth Rate attributable to Changes in Oil Prices (d)	8.2	12.6	-4.7
(4.2) Change in oil production volume (RO million) [c]	162.5	*1,248.7*	*-208.4*
In Percentage Terms	(6.3)	*(22.7)*	*(9.6)*
Nominal GDP Growth attributable to Changes in Oil Production Volume (%) [d]	0.6	*3.7*	*-0.5*
Memorandum Items:			
(5) Nominal GDP (RO million)	33,576	42,238	40,717
(6) Change in Nominal GDP (RO million)	4,389	8,662	-1,521
(7) Nominal GDP Growth rate (%)	15.0	25.8	-3.6

[a] Equals the sum of the product of monthly production volumes and monthly average oil prices.
[b] Equals the change in the weighted average oil price, converted into OMR at OMR 0.3845 per USD, multiplied by the smaller of the year's and the previous year's production volumes.
[c] (4.2) = (4) – (4.1).
[d] Calculated, for simplicity, by dividing (4.1) or (4.2) by the previous year's nominal GDP.

TABLE 3 : Sectoral Contributions to Real GDP Growth*

	Share in GDP (Relative Importance) [1]			Growth Rate (%)		Contribution to GDP Growth (%) [1] [2]	
	2021	2022	2023	2022	2023	2022	2023
HC GDP	0.33	0.33	0.32	8.66	-0.09	2.86	-0.03
Crude Petroleum	0.28	0.28	0.28	9.25	-0.54	2.58	-0.15
Natural Gas	0.05	0.05	0.05	4.96	2.92	0.24	0.14
Manuf. of Refined Petroleum Products	0.004	0.005	0.004	11.52	-2.93	0.05	-0.01
NHC GDP	0.68	0.68	0.68	7.49	2.14	5.23	1.49
Industrial Activities	0.21	0.21	0.21	7.01	-0.26	1.48	-0.05
Agriculture & Fishing	0.03	0.02	0.03	6.78	5.94	0.16	0.15
Services	0.47	0.47	0.48	7.75	3.03	3.58	1.42
Gross Domestic Product at 2018 Constant Prices	**1.00**	**1.00**	**1.00**	**8.00**	**1.20**	**8.00**	**1.20**

[1] Sectoral shares may add up to more than 100% and the sum of sectoral contributions to GDP growth may slightly differ from the bottom-line GDP growth rate due to the negative values of "financial intermediation services indirectly measured" and "indirect taxes less subsidies on products" (not reported in the table).
[2] Calculated as the sector's growth rate during the year multiplied by its last year's share in GDP.

Box 1
Macroeconomic Forecast

Despite an evolving landscape of global risks and uncertainties, the Omani economy has demonstrated resilience and remains committed to achieving sustainable growth in the coming years. Ongoing efforts to diversify the economy away from hydrocarbon dependence continue to yield positive results, mitigating the impact of adverse fluctuations in commodity markets and strengthening domestic economic prospects. Based on data available as of November 2024 and grounded on a set of forward-looking assumptions aligned with Oman's economic strategies, this Macroeconomic Forecast projects key economic indicators across the real, fiscal, monetary, and external sectors. The forecasts are built on the assumption crude oil prices will hover around $77 per barrel through the end of 2028, whilst Oman remains committed to the voluntary production quotas through 2025 as agreed to during the 37th OPEC and non-OPEC Ministerial Meeting (ONOMM).

While Oman's commitment to OPEC+ oil production cuts may limit hydrocarbon contributions to GDP growth, mostly in the early years of the forecast period, this year's forecasts anticipate a gradual recovery of the economy reflected by the increase of capital formation and fueled by the government's continued efforts to attract sizeable investments into key sectors, including agriculture, industry, and logistics.

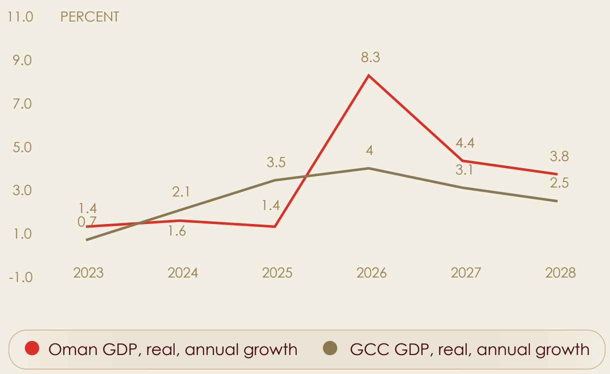
Real Sector

Oman's real GDP growth is projected to increase to 1.6 percent in 2024, up from 1.2 percent in 2023 (Graph 1.1). This growth is driven by ongoing diversification efforts and supported by key projects in to enhance nonhydrocarbon activities. The services sector, particularly tourism and trade, is also expected to expand, with growth projected at 2.9 percent in 2024, bolstered by key logistical infrastructure developments.

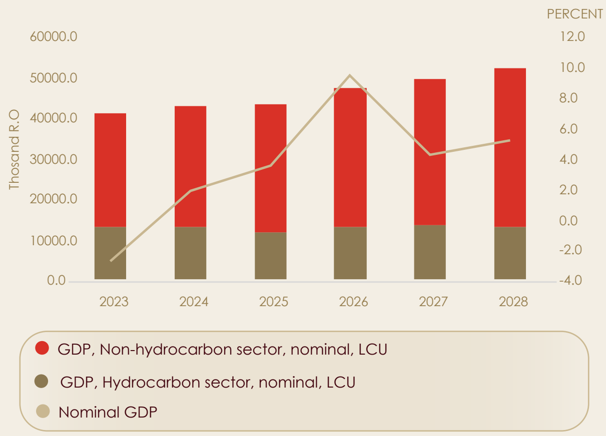
Following an anticipated contraction of 1.9 percent in 2024 due to ongoing OPEC+ production cuts, the hydrocarbon sector is projected to shrink further, declining by 1.7 percent in 2025, albeit softened by the surge in gas and condensate production. Nonetheless, a robust rebound is expected as OPEC+ supply cuts are phased out, with hydrocarbon sector growth accelerating to 16.3 percent in 2026.

Despite global inflationary pressures, Oman's inflation is forecasted to remain subdued at 0.8 percent in 2024, supported by government efforts to regulate prices and maintain subsidies on utilities and transportation. Nevertheless, as the US Federal Reserve embarks on a cycle of easing interest rates, inflation is expected to rise to 1.9 percent by 2025.

GRAPH 1.1
Real GDP Growth



GRAPH 1.2
Nominal GDP

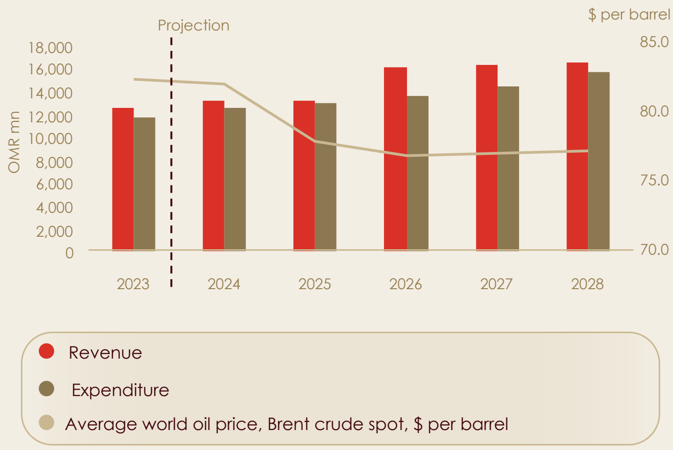


Fiscal Sector

Throughout the forecast horizon, the Sultanate of Oman is projected to maintain budget surpluses; however, the government balance is expected to decrease from 1.5 percent of GDP in 2024 to 0.8 percent in 2025 due to declining hydrocarbon revenues and a moderate increase in expenditures (Graph 1.3). The government balance is projected to rebound to 5.1 percent in 2026, supported by rising hydrocarbon revenues as OPEC+ supply commitments are phased out.

Oman remains focused on managing sovereign debt and lowering the debt-to-GDP ratio, which is expected to decrease from 33.8 percent in 2024 to 32.6 percent by 2025, ultimately falling to 30.1 percent by the end of the forecast horizon in 2028. Efforts to enforce responsible fiscal management have led to multiple credit rating upgrades. In September 2024, Standard & Poor's upgraded Oman's sovereign rating to an investment grade of BBB- with a stable outlook. Fitch Ratings followed suit, affirming its BB+ rating with a positive outlook in its latest assessment, reflecting heightened confidence in the government's fiscal consolidation plans.

GRAPH 1.3
Government Balance



	2023	2024	2025	2026	2027	2028
Government balance, % of GDP	2.24	1.53	0.76	5.08	3.79	1.72
Gross government debt (as a % of GDP)	36.48	33.82	32.60	31.89	31.20	30.13

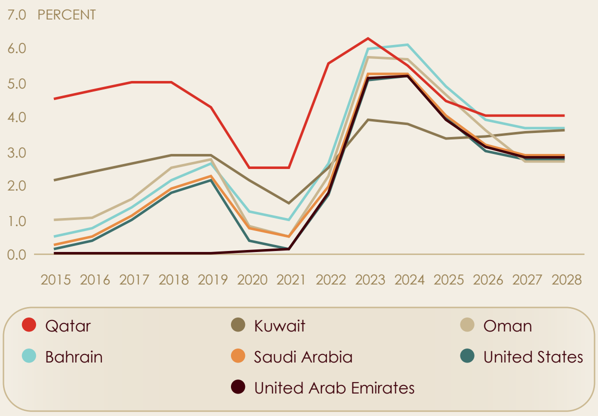
Monetary and External Sector

In line with the Federal Reserve's Open Market Committee (FOMC) decisions, the Central Bank of Oman cut its key policy rate by a total of 100 basis points throughout 2024, averaging 5.7 percent for 2024 (Graph 1.4). Additional cuts totaling 100 basis points in 2025 are projected to lower the repurchase rate to average near 4.5 percent, presuming sustained declines in inflation and a stronger labor market in the United States will enable the Federal Reserve to continue the policy easing cycle.

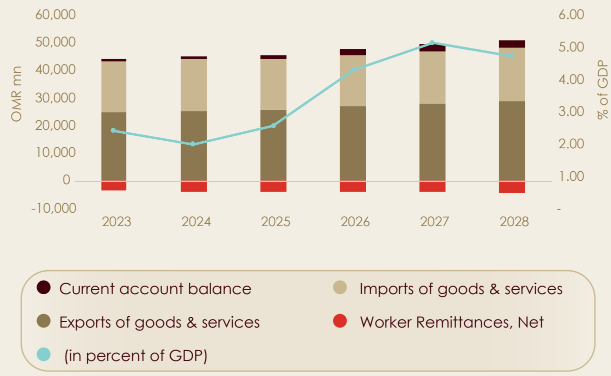
Overall, credit growth in Oman remains positive, driven by increasing demand from both businesses and households, with commercial bank loans expected to continue their steady rise amid easing interest rates. Meanwhile, money supply has experienced moderate growth, ensuring adequate liquidity within the financial system.

Oman's non-oil exports are anticipated to play a crucial role in maintaining a favorable trade balance, even with the projected decreases in hydrocarbon exports. As a result, the current account balance is expected to reach 2.0 percent of GDP in 2024, with anticipated surpluses throughout the forecast horizon (Graph 1.5). FDI surged by R.O 560 million in the first half of 2024, primarily in the oil, gas, and manufacturing sectors. Meanwhile, central bank reserves are projected to remain robust, covering 4.74 months of imports of goods and services, thus supporting the OMR/USD peg and maintaining overall exchange rate stability.

GRAPH 1.4
GCC rates and Fed Policy



GRAPH 1.5
Current Account Balance



Box 2
Analysis of the Market for Omani Sovereign Eurobonds and International Sukuk (January 2023 – September 2024)

As of end-September 2024, Oman had thirteen distinct outstanding issues of sovereign international debt securities: eleven issues of Eurobonds and two issues of international sukuk (Table 2.1), all denominated in USD and trading in the global bond market. From January 2023 to September 2024, the Omani government did not issue any new international sovereign debt securities, but redeemed its sixth Eurobond issue in January 2023 and its second issue of international sukuk in June 2024, with a total redemption value of about $3,068 million[1] . Moreover, in 2023, the Omani government continued the early partial repayment of its sovereign external debt, the process that started in 2022. Utilizing a part of its oil revenue windfalls, the Omani government announced in June 2022 its decision to buyback $701 million worth of eight Eurobond issues, maturing between February 2025 and 2032, representing the amount of accepted tender offers from bondholders. The second round of such buyback transactions was announced in September 2023, when the government repurchased $546 million worth of two Eurobond issues (maturing in February 2025 and March 2027) and $182 worth of its second international sukuk issue (maturing in June 2024), with a total value of $728 million (Table 2.1). These recent developments reduced the face value of outstanding Omani Eurobonds and international sukuk (hereinafter OEBIS) by 14.4 percent during the period, from $26.3 billion at the end of 2022 to about $22.5 billion at the end of September 2024, where Eurobonds accounted for 85.6 percent of this total (up from 80 percent in December 2022).

Table 2.1: Omani Eurobond and International Sukuk Issues Outstanding (As of September 30, 2023)

	Date of Issuance	Date of Maturity	Face Value (USD Million)		Maturity (Years)		Coupon Rate (%)	Price (% of FV)	Yield (%)	Spread over U.S. Treasuries (bps)
			Original	Sep 2024	Original	Remaining				
Eurobonds	Jul-19	Aug-29	2,250	2,172	10.0	4.8	6.000	104.93	4.84	128.2
	Oct-20	Oct-27	1,450	1,369	7.0	3.1	6.750	105.69	4.74	116.7
	Oct-20	Oct-32	1,050	1,022	12.0	8.1	7.375	114.92	5.10	152.7
	Jan-21	Jan-31	1,750	1,637	10.0	6.3	6.250	106.82	4.98	140.8
	Jan-21	Jan-51	1,000	1,000	30.0	26.3	7.000	112.16	6.07	182.4
	Jun-16	Jun-26	2,500	2,387	10.0	1.7	4.750	99.80	4.87	115.0
	Mar-17	Mar-27	2,000	1,627	10.0	2.4	5.375	101.18	4.85	125.0
	Mar-17	Mar-47	2000	2,000	30.0	22.4	6.500	105.56	6.04	179.3
	Jan-18	Jan-28	2500	2,384	10.0	3.3	5.625	102.46	4.81	123.4
	Jan-18	Jan-48	2,750	2,750	30.0	23.3	6.750	108.51	6.06	180.7
	Jul-19	Feb-25	1,250	905	5.5	0.3	4.875	99.87	5.24	87.9
Sukuk	Oct-18	Oct-25	1,500	1,500	7.0	1.1	5.932	101.30	4.68	70.2
	Jun-21	Jun-30	1,750	1,750	9.0	5.7	4.875	101.35	4.60	101.4

[1] The original face (redemption) value of these two issues was $3.25 billion, $1.25 billion for the Jan-23 Eurobond and $2.0 billion for the Jun-24 International Sukuk issue. In September 2023, however, about $182 million worth of the international sukuk issue was pre-purchased by the Omani government, leaving an outstanding amount of this issue of about $1,818 million.

On the other hand, maturing two issues of OEBIS without introducing new issues, combined with the natural impact of the passage of time, has shortened the weighted average maturity (WAM)[2] of outstanding OEBIS during 2023 and Jan-Sep 2024. At the end of 2022, the WAM for all outstanding OEBIS recorded 9.1 years (10.5 years for Eurobonds only). By the end of September 2024, it dropped to 8.7 years (10.4 years for Eurobonds only). The drop in WAM was only marginal for Eurobonds due to the continued existence of three Eurobond issues maturing between 2047 and 2051 (Table 2.1), whose combined weight in the total face value of OEBIS increased from 21.9 percent in December 2022 to 25.6 percent in September 2024[3] . On the other hand, the weighted average coupon rate on OEBIS inched up by 22 basis points (bps) (63 bps for Eurobonds only) during the same period, to reach 5.95 percent (6.54 percent for Eurobonds only) as of end-September 2024, compared to 5.73 percent (5.91 percent) at the end of 2022. This rise in weighted average interest rate paid on OEBIS is mainly attributable to the change in the composition of OEIBS outstanding after the redemption of two low-cost OEIBS issues and the buyback transactions. The average coupon rate of the two OEBIS issues matured in 2023 and 2024 was only 4.3 percent, significantly lower than the average cost of the issues still outstanding (5.95 percent). Moreover, the redemption of four different OEIBS issues during 2022-2024, without any new issues, caused a substantial increase in the weight of higher-cost OEBIS, i.e. those issued during the Covid-19 pandemic and/or issued in 30-year original maturity, from 41.2 percent in December 2021 to 48.8 percent in September 2024.

At the end of September 2024, the combined market value of outstanding OEBIS stood at about $23.5 billion, of which about $20.2 billion are Eurobonds, compared to about $25.9 billion and $20.7 billion, respectively, at the end of 2022. This implies that OEBIS were trading at a significant premium of about 4.6 percent (5.1 percent for Eurobonds alone), on average, above their combined face value in September 2024, compared to an average discount of 1.6 percent (1.6 percent for Eurobonds alone) from their combined face value at the end of 2022. Consequently, the weighted average[4] yield to maturity (YTM) on OEBIS substantially dropped from 5.93 percent in December 2021 to 5.17 percent in September 2024 (from 6.05 percent to 5.25 percent for Eurobonds only). Except for two issues that were trading at a slight discount (0.1-0.2 percent) from their face value, the other eleven outstanding OEBIS issues were trading at a premium, ranging from 1.2 percent to 14.9 percent, above their respective face values at the end of September 2024, generating YTMs that are significantly lower than their stated coupon rates (Table 2.1). This average premium and lower yields on OEBIS imply that the positive impact of declining OEBIS spreads during 2023 and Jan-Sep 2024 outweighed the adverse impact of gradually rising U.S. interest rates during February-July 2023, before the Fed began its policy rate cut cycle in September 2024, as discussed in the following section.

[2] The WAM is calculated as the weighted average of the remaining maturities of all OEBIS outstanding, using their face values as weights.

[3] These three 30-year maturity issues were not included in the government's buyback transactions, which focused on repurchasing sovereign debt issues maturing within the next 10 years or so. More specifically, the OEBIS issues partially repurchased in 2022 and 2023 were maturing between 8 months and 10.3 years.

[4] Using market values to calculate weights.

Yields on OEBIS and Their Spreads over Comparable U.S. Treasuries

The outlook for the Omani economy has significantly improved since 2021 and remained strong during 2023 and 2024. Backed by relatively high oil prices, the combination of continued commitment to fiscal discipline, reasonable real growth, fiscal and external surpluses, progress in economic diversification, and contained consumer inflation have boosted the performance of the Omani economy during this period. Under assumed oil prices averaging $70-75 over the period 2025-2028, this sound macroeconomic performance is expected to continue over the coming few years, shaping a positive outlook for the Omani economy over the medium term. This positive outlook has resulted in multiple sovereign rating upgrades and favorable changes in the "outlook" by all three major rating agencies in 2023 and 2024[5] .

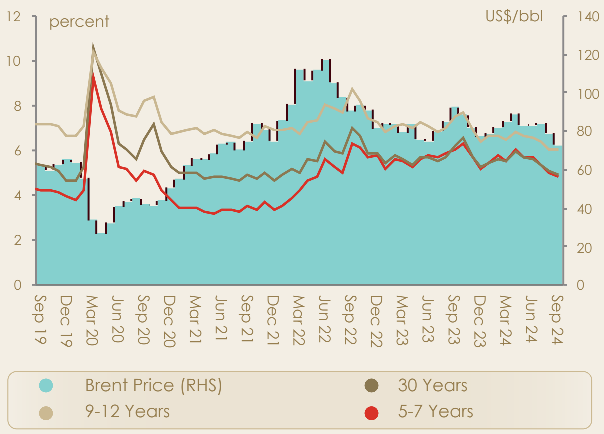
As a result, the average spreads on OEBIS over their comparable U.S. Treasuries continued their downward trajectory since their peak in March 2020 and sharply declined during the period. By September 2024, they have dropped, on average, by 135 bps (43 percent) for issues with 20-30 years of remaining maturity, 58 bps (31 percent) for issues with more than 5 years and up to 12 years of remaining maturity, and 37 bps (25 percent) for issues whose remaining maturity is up to 5 years, relative to their respective values in December 2022 (Table 2.1& Graph 2.2). This clearly reflects the sizeable drop in Oman's country risk premium as priced in global debt markets.

Table 2.2: OEBIS' Average Yields and Spreads over U.S. Treasuries

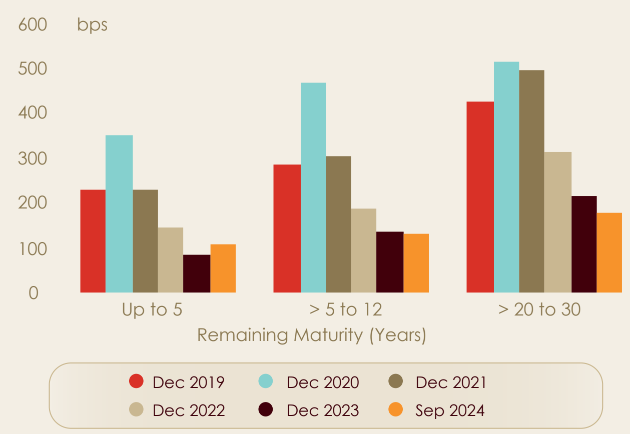
End of	Average Yield (%) Remaining Maturity (Years)			Average Spread over U.S. Treasuries (bps) Remaining Maturity (Years)		
	30 Years	09-12 Years	5-7 Years	30 Years	09-12 Years	5-7 Years
December 2019	3.99	4.67	6.64	231	286	426
December 2020	3.77	5.29	6.71	351	467	514
December 2021	3.34	4.65	6.88	229	305	495
December 2022	5.75	5.89	7.28	147	190	316
December 2023	5.20	5.25	6.35	88	139	216
September 2024	4.86	4.89	6.06	109	132	181

[5] Sovereign rating actions for the Omani government's long-term debt by the three major rating agencies during 2023 and 2024 are as follows: (i) Two notches by S&P (September 2023 & September 2024) from "BB" to "BBB-" (Investment Grade), with two favorable changes in the outlook from "Stable" to "Positive" (March 2023 & March 2024); (ii) two notches by Moody's (May & December 2023) from "Ba3" to "Ba1", with one favorable change in the outlook from "Stable" to "Positive" (September 2024); and (iii) One notch by Fitch (September 2023) from "BB" to "BB+" (Investment Grade), with two favorable changes in the outlook from "Stable" to "Positive" (April 2023 & December 2024).

Graph 2.1
Average Yield on OEBIS versus Oil Prices



Graph 2.2
Average Spreads of OEBIS over U.S. Treasuries



In addition, the gradual rise in the U.S. target federal funds rate (TFFR) during February-July 2023, by a total of 100 bps, had a mild impact on the yields on OEBIS. Moreover, most of this impact has been reversed due to the Fed's decisions to keep its TFFR fixed for about 14 months since July 2023, before cutting it by 50 bps in September 2024. Consequently, the declining spreads over U.S. treasuries had the dominant impact during this period, and was reinforced by the interest rate cuts in September 2024, leading to noticeable deceleration of the average yields on OEBIS. Between December 2022 and September 2024, the average yields on OEBIS dropped by 122 bps (17 percent) for issues with 20-30 years of remaining maturity, 100 bps (17 percent) for issues with more than 5 years and up to 12 years of remaining maturity, and 89 bps (15 percent) for issues whose remaining maturity is up to 5 years (Table 2.2 & Graph 2.1).

Graph 2.1 also shows that the strong negative relationship between oil prices and the average yields on OEBIS that existed up to 2021 is no longer apparent during 2023 and January-September 2024, mainly due to the relative stability of oil prices in these two years[6] . Multiple sovereign rating upgrades and changes in the U.S. interest rates stand out as the chief factors driving the changes in OEBIS yields during this period.

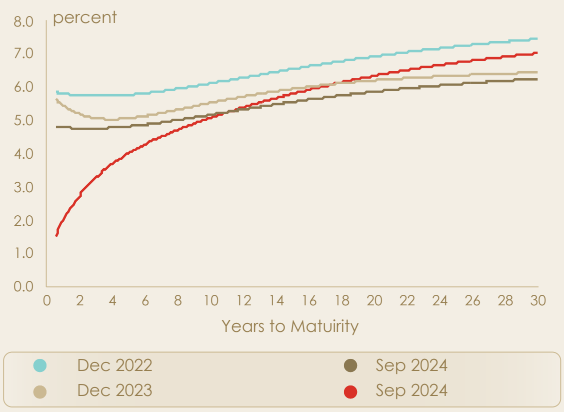
The Yield Curve for Omani Sovereign Eurobonds and International Sukuk

The Yield Curve for Omani Sovereign Eurobonds and International Sukuk
The yield curve of OEBIS tends to be normal, i.e. upward sloping, indicating higher yields for longer remaining maturities. Only a very few exceptions to this pattern could be observed in the past few years. Probably the most obvious case of inverted, i.e. downward sloping, yield curve occurred in March 2020. The yield curve for

[6] The average price of Brent Crude during the period from January 2023 to September 2024 recorded about \$82.1/bbl, about the same as its average in December 2022 (\$81.5/bbl).

December 2023, however, was partially inverted for relatively short maturities, i.e. remaining maturities of up to four years, but normal for all longer maturities. Similarly, the OEBIS yield curve for September 2024 also exhibits a smaller partially-inverted segment for remaining maturities of up to 2.5 years, but it turns normal for all longer maturities (Graph 2.3)[7]. This small downward-sloping segment of OEBIS' yield curve reflects the lower investors' demand for issues that are approaching maturity and redemption of face value, which decreases their prices and increases their yields, relative to securities with longer maturities. The focus of the government's buyback transactions on securities maturing in the medium term, in addition to the higher short-term interest rates during 2022-2024 relative to 2021, could have contributed to this sentiment. Notably, the higher short-term interest rates since 2022 clearly have reduced the maturity premiums and made OEBIS yield curves significantly flatter than those in 2021 and earlier (Graph 2.3).

Graph 2.3
Omani Eurobond Yield Curve (NSS Method)



The Nelson-Siegel-Svensson (NSS)[8] model is used to construct full-range smooth yield curves for Omani sovereign Eurobonds (Graph 2.3). Following a sizeable upward shift in OEBIS' yield curve from December 2021 to December 2022, mainly due to higher global interest rates, the yield curve for OEBIS shifted downward in December 2023 and September 2024, reflecting the continued improvement in Oman's economic outlook, supported by stable oil prices, and the series of favorable sovereign rating actions. In addition, the beginning of interest-rate-cuts cycle by the Fed in September 2024 has contributed to the downward shift in September 2024's yield curve. The additional cuts in the U.S. TFFR during Q4-2024[9] would shift the OEBIS yield curve further downward in December 2024.

[7] The average price of Brent Crude during the period from January 2023 to September 2024 recorded about $82.1/bbl, about the same as its average in December 2022 ($81.5/bbl).
[8] The NSS model is a well-known model of term structure of interest rates that is typically used to build a full-range yield curve by interpolating and extrapolating around the actual data points on the curve. The number of actual data points used to construct each yield curve in Graph 1.3 is 17 for December 2021, 15 for December 2022, 14 for December 2023, and 13 for September 2024
[9] The Fed decided to cut its TFFR by an additional 25 bps in each of November and December 2024, reducing its policy rate by a total of 100 bps during the last four months of 2024 and returning its TFFR range to its level at the end of 2022.

Appendix 1

Variable	Unit	2021	2022	2023
Gross Domestic Product [(a)] [(b)]				
Nominal GDP at Market Prices	RO Million	33,576	42,238	40,717
Nominal GDP at Producer Prices	RO Million	33,859	42,913	40,950
Nominal Hydrocarbon GDP	RO Million	10,969	17,392	15,104
Nominal Non-Hydrocarbon GDP	RO Million	23,774	26,502	26,860
Real GDP at Constant Market Prices	RO Million	34,479	37,232	37,675
Real GDP at Constant Producer Prices	RO Million	34,809	37,553	38,073
Real Hydrocarbon GDP	RO Million	11,399	12,386	12,375
Real Non-Hydrocarbon GDP	RO Million	24,290	26,110	26,668
Nominal GDP at Market Prices, annual growth rate	percent	15.0	25.8	-3.6
Nominal GDP at Producer Prices, annual growth rate	percent	13.9	26.7	-4.6
Nominal Hydrocarbon GDP, annual growth rate	percent	40.1	58.6	-13.2
Nominal Non-Hydrocarbon GDP, annual growth rate	percent	4.7	11.5	1.3
Real GDP at Market Prices, annual growth rate	percent	2.6	8.0	1.2
Real GDP at Producer Prices, annual growth rate	percent	2.7	7.9	1.4
Real Hydrocarbon GDP, annual growth rate	percent	3.2	8.7	-0.1
Real Non-Hydrocarbon GDP, annual growth rate	percent	3.0	7.5	2.1
Money and Inflation				
Consumer Inflation, monthly average [(c)]	percent	1.7	2.5	0.9
Money Supply (M2), annual % change	percent	4.6	0.6	13.1
Narrow Money (M1), annual % change	percent	3.3	-2.4	6.7
Quasi-Money, annual % change	percent	5.1	1.8	15.6
Monetary Base (M0), annual % change	percent	12.7	-16.8	0.9
Currency in Circulation, annual % change	percent	-1.2	-6.1	-1.4
Fiscal Budget				
Total Revenues	RO Million	11,195	14473	12542
Total Expenditures	RO Million	12,417	13329	11606
Total Current Exp, of which	RO Million	9,400	10092	8554
Interest Paid on Loans	RO Million	1,054	1072	1044
Total Development Expenditures	RO Million	1,972	1306	1363
Total Participation & Other Exp	RO Million	1,046	1931	1689
Fiscal Balance: Surplus (+) Deficit (-)	RO Million	-1,222	1144	936
% of GDP	percent	-3.6	2.7	2.2
Primary Fiscal Balance: Surplus (+) Deficit (-)	RO Million	-168	2220	1980
% of GDP	percent	-0.5	5.3	4.7
Non-Hydrocarbon (NHC) Fiscal Budget				
Total NHC Revenue	RO Million	2,953	3300	3524
Total NHC Expenditures	RO Million	10,505	11690	11791
NHC Current Expenditures	RO Million	8,267	8453	8554
NHC Development Expenditures	RO Million	1,192	1306	1306
Total Participation & Other Expenditures	RO Million	1,046	1931	1689
NHC Surplus/Deficit	RO Million	-7,552	-8390	-8267
% of NHC GDP	percent	-31.8	-31.7	-31.2
NHC Primary Surplus/Deficit	RO Million	-6,498	-7314	-7223
% of NHC GDP	percent	-27.3	-27.6	-27.3

[(a)] Base year is 2018 for real GDP.
[(b)] In this report, hydrocarbon GDP includes oil, natural gas, and manufacturing refined petroleum products.
[(c)] Base period is Jan-Dec 2012 for Consumer Price Index.

Appendix 1

Variable	Unit	2021	2022	2023
Public Debt				
Total Public Debt	RO Million	20,474	17602	15264
% of GDP	percent	61.0	41.7	37.5
External Public Debt	RO Million	15,592	13284	11293
% of GDP	percent	46.4	31.4	27.7
External Sector				
Current Account Balance	RO Million	-1859	1677	1014
% of GDP	percent	-5.5	4.0	2.5
Trade Balance	RO Million	6273	12041	9168
Balance of Goods and Services	RO Million	3598	8767	6666
Non-Hydrocarbon Current Account Balance	RO Million	-7637	-5847	-6428
% of NHC GDP	percent	-32.1	-22.1	-23.9
Non-Hydrocarbon Trade Balance	RO Million	496	4517	1726
Balance of NHC Goods and Services	RO Million	858	1315	2205
CBO FX Reserves and Their Adequacy				
Gross Foreign Assets (Reserves)	RO Million	7,587	6775	6734
% of GDP	percent	22.6	16.0	16.5
Net Foreign Assets (Reserves)	RO Million	6796	6055	6055
% of GDP	percent	20.2	14.3	14.9
Gross Reserves Import Cover (Goods & Services)	months	6.4	4.5	4.4
Net Reserves Import Cover (Goods & Services)	months	5.7	4.0	4.0
Gross Reserves Merchandise Import Cover	months	8.4	6.1	6.0
Net Reserves Merchandise Import Cover	months	7.6	5.4	5.4
Gross Reserves Cover of Current Account Payments	months	4.4	3.2	3.3
Net Reserves Cover of Current Account Payments	months	4.0	2.9	3.0
Gross Reserves as a percentage of M2	percent	37.5	33.3	29.3
Net Reserves as a percentage of M2	percent	33.6	29.8	26.3
Gross Reserves / Monetary Base (M0)	-	2.2	2.4	2.3
Net Reserves / monetary Base (M0)	-	2.0	2.1	2.1
Gross Reserves / Currency in Circulation	-	4.4	4.2	4.2
Net Reserves / Currency in Circulation	-	4.0	3.8	3.8

[a] Base year is 2018 for real GDP.
[b] In this report, hydrocarbon GDP includes oil, natural gas, and manufacturing refined petroleum products.
[c] Base period is Jan-Dec 2012 for Consumer Price Index.

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