Current State of Oman’s Economy

February 2025

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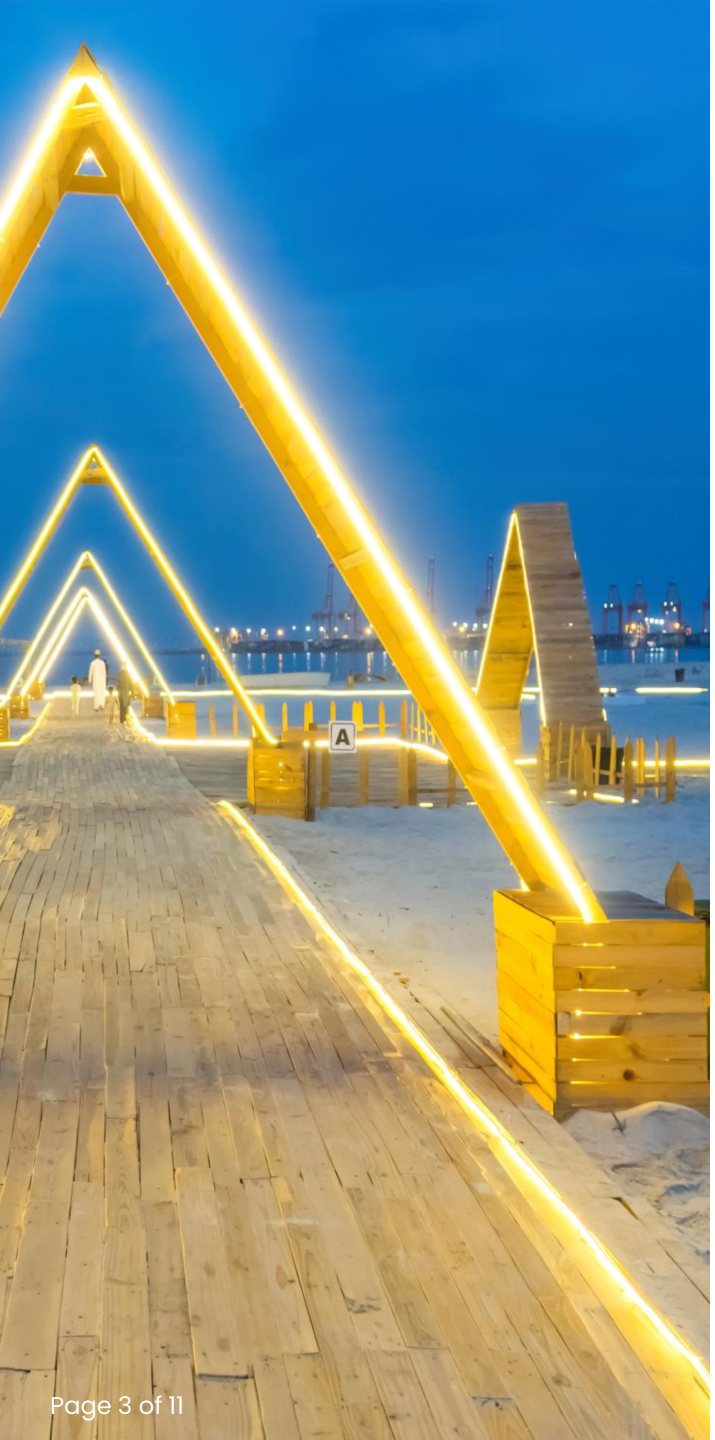


Executive Summary

Steady Economic Growth

Latest data from the National Center for Statistics and Information (NCSI) through Q3-2024 shows real GDP grew by 1.9%*, driven by a 4.2% increase in non-hydrocarbon activities, while hydrocarbon GDP contracted by 2.8%.

Full-year real GDP growth is expected to align with the Ministry of Finance’s estimate of 1.9%, bringing real GDP to RO 38.39 bn, up from RO 37.67 bn in 2023. Nominal GDP is projected to remain above $100 billion (RO 38.5 bn), in line with IMF forecasts.

Improved Fiscal Position

Oman recorded a fiscal surplus of RO 540 mn in 2024, marking the third consecutive year of twin surpluses. The 2020–2024 Medium-Term Fiscal Plan (MTFP) concluded with strong results, notably reducing public debt-to-GDP from 68% in 2020 to 34% in 2024. However, non-oil fiscal revenue and non-oil GDP share remain below targets, highlighting the need to enhance fiscal resilience through continued economic and revenue diversification.

With a new MTFP expected in January 2026, strengthening fiscal revenues will remain a priority. The potential introduction of Personal Income Tax (PIT) remains a key consideration for long-term fiscal sustainability.

Credit Rating and Investor Confidence

Oman’s fiscal progress led to the restoration of its investment-grade rating (BBB-) from S&P in September 2024, marking a significant milestone in rebuilding investor confidence. Barring external shocks, further upgrades are expected in 2025, with Moody’s potentially upgrading from February and Fitch by mid-year. S&P’s March review is likely to affirm BBB-, with a best-case scenario of an outlook upgrade to positive, paving the way for another upgrade within a year.

A second rating upgrade to investment-grade would reinforce Oman’s creditworthiness and reinstate its eligibility for inclusion in global investment-grade bond indices, potentially attracting up to $3 billion in passive inflows while boosting demand for government bonds, sukuk, and corporate debt.

Banking Sector Strength and Reforms

Oman’s banking sector remains resilient, with steady growth in deposits and credit, while profitability rose 15%. Asset quality remains stable despite high interest rates and a decline in hydrocarbon GDP due to oil price weakness, while capital ratios remain strong and liquidity conditions accommodative.

Recent leadership changes at the Central Bank of Oman, and the new banking law effective January 2025, are set to enhance governance, improve efficiency, increase competitiveness, and support broader economic growth.

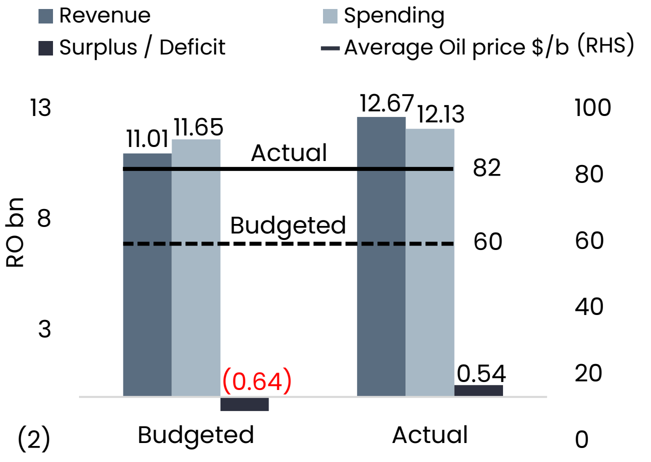
Economic Outlook

Oman shares a favorable economic outlook with its GCC peers, supported by fiscal strength and sustained non-hydrocarbon growth. The IMF projects 2.5% GDP growth for Oman in 2025, though oil price volatility, geopolitical risks, and global economic headwinds present challenges. To ensure fiscal stability, the 2025 budget adopts a conservative oil price assumption of $60 per barrel.

* All growth figures in this report are year-on-year unless stated otherwise.

2024 Preliminary Data Confirms Strong Fiscal Progress as MFTP (2020-2024) Concludes Successfully

Higher oil prices led to a fiscal surplus despite lower production and higher subsidies



Sources: Ministry of Finance

Preliminary 2024 results show oil prices exceeded projections, while production was slightly below target due to OPEC+ commitments. Revenues increased, driven by higher oil prices, while spending rose, mainly due to higher subsidies and development expenditures exceeding the budgeted RO 900 mn to reach RO 1.16 bn.

The government recorded a fiscal surplus, reversing the expected deficit, marking a third consecutive surplus, though narrowing. Excess revenues were allocated to social spending, economic growth, and debt reduction to support fiscal stability.

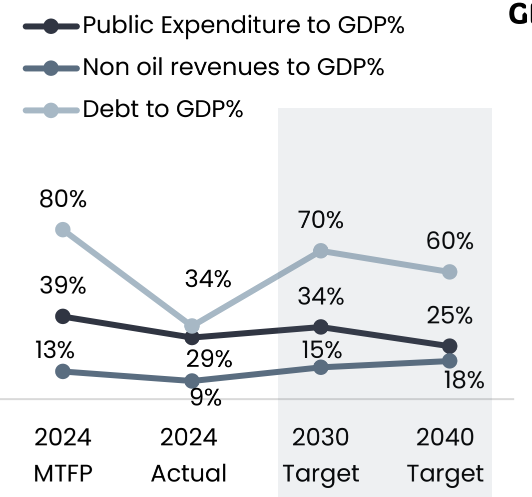
Assessment of the 2020-24 Medium-Term Fiscal Plan (MTFP)

- The MFTP was introduced to restore fiscal balance by addressing challenges from the 2014 oil price shock and the COVID-19 crisis, which led to elevated debt levels and a deterioration in the sovereign credit rating.
- It prioritized revenue diversification and expenditure reduction, while maintaining a social safety net to mitigate socioeconomic impacts.
- The plan delivered strong results, including higher-than-expected revenues, controlled spending, and successive fiscal surpluses since 2022.
- These fiscal improvements contributed to the outperformance of debt-to-GDP and public expenditure-to-GDP targets.
- However, non-oil fiscal revenue and non-oil GDP share remain below targets, highlighting the need to enhance fiscal resilience through continued economic and revenue diversification.
- The MTFP's success was driven by clear fiscal targets, controlled spending, and accelerated debt repayments.

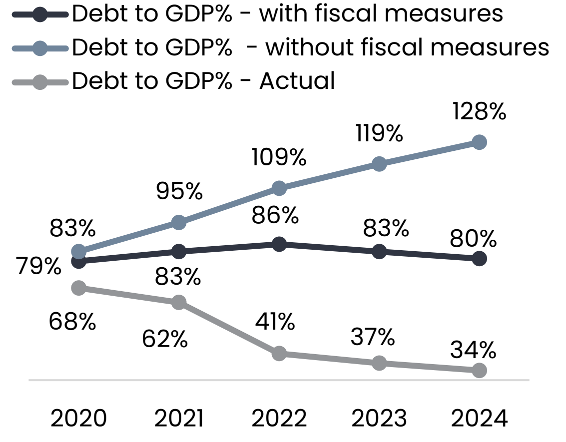
The table below compares the financial framework of the Medium-Term Fiscal Plan (MTFP) with the actual financial performance:

Amounts in RO bn	2020 MTFP	2020 Actual	2021 MTFP	2021 Actual	2022 MTFP	2022 Actual	2023 MTFP	2023 Actual	2024 MTFP	2024 Actual
Government Revenues	8.60	8.50	9.28	11.20	10.21	14.47	11.54	12.54	12.10	12.67
Government Expenditure	12.66	12.93	12.48	12.42	12.80	13.33	12.64	11.61	12.63	12.13
Fiscal Balance	(4.06)	(4.42)	(3.20)	(1.22)	(2.59)	1.14	(1.10)	0.93	(0.54)	0.54
Fiscal Balance to GDP %	(15.8%)	(15.2%)	(11.5%)	(3.6%)	(8.8%)	2.7%	(3.6%)	2.2%	(1.7%)	1.3%
Share of Non-Oil Fiscal Revenue	28%	32%	35%	26%	36%	23%	35%	28%	35%	28%

MTFP 2020 – 2024 actual performance versus targets



If fiscal measures were not undertaken in 2020, the MTFP had assumed the debt to GDP levels would have surpassed 100%



Sources: Ministry of Finance, 2020 -2024 Official MTFP Document

Oman's 2025 budget maintains fiscal discipline while supporting growth

	2025 Budget	2024 Budget
Average Oil Price	$60/barrel	$60/barrel
Average Oil Production	1,001k barrel/d	1,031k barrel/d
Revenue (RO bn)	11.18	11.01
Expenditure (RO bn)	11.80	11.65
Deficit (RO bn)	(0.62)	(0.64)

2025 Budget Highlights

> **Maintaining fiscal discipline**
Oman's 2025 budget balances fiscal discipline with the need to sustain economic growth and social stability in an environment of oil price fluctuations and heightened geopolitical uncertainty.

The Ministry of Finance has adopted a prudent approach, setting an oil price assumption of $60 per barrel—after evaluating a range of $50 to $70—to uphold fiscal flexibility and address financing needs. This reinforces Oman's commitment to fiscal prudence, with hydrocarbon revenue assumptions remaining conservative, despite historically outperforming projections due to stronger-than-expected oil prices.

> **Investment expenditure aimed at driving economic growth**
With public debt-to-GDP levels remaining within safe thresholds, the budget allocates RO 0.9 bn for investment spending. This is complemented by RO 1.8 bn in expected investments from Oman Investment Authority (OIA) and its subsidiaries, along with RO 1.5 bn from Energy Development Oman (EDO), reinforcing overall investment efforts to support economic growth.

> **Financing strategy to bridge the deficit**
To be financed through a net of external and local borrowings of about RO 0.22 bn and withdrawals of RO 0.40 bn from reserves.

Sources: Ministry of Finance

Oman's economy remains strong, driven by robust non-hydrocarbon activities and record FDI inflows

Steady Economic Growth

Latest data from the National Center for Statistics and Information (NCSI) through Q3 2024 shows real GDP grew by 1.9%, driven by a 4.2% increase in non-hydrocarbon activities, particularly in industry and services, while hydrocarbon GDP contracted by 2.8%.

Full-year real GDP growth is expected to align with the Ministry of Finance's estimate of 1.9%, bringing real GDP to RO 38.39 bn, up from RO 37.67 bn in 2023. Nominal GDP is projected to remain above $100 bn (RO 38.5 bn), in line with IMF forecasts.

Economic Sectoral Performance and FDI Trends

The manufacturing sector led the expansion, growing 9%, supported by OQ8's operational launch. The services sector remained resilient, with wholesale and retail trade up 7.1%, while logistics continued steady growth.

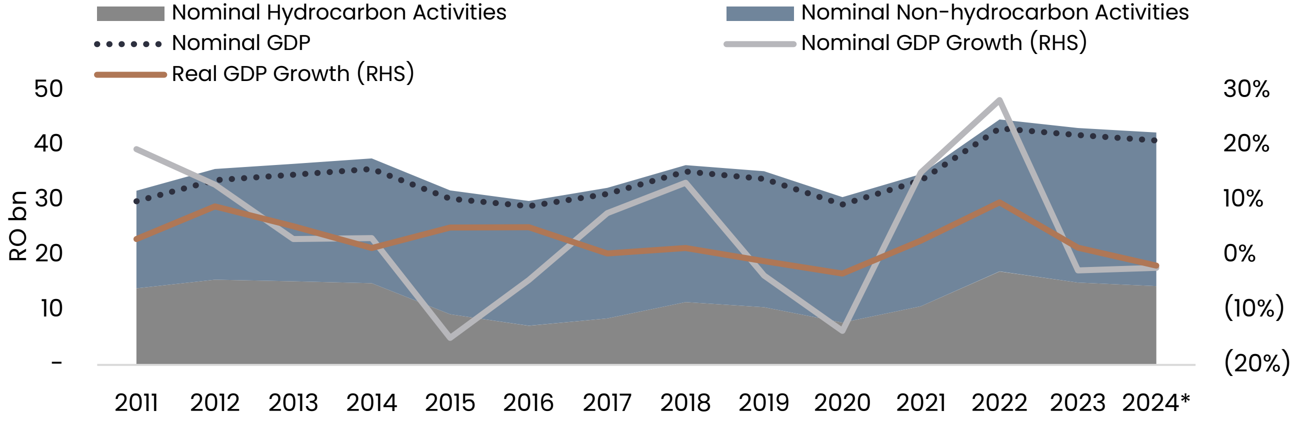
Oman also witnessed record FDI inflows, with manufacturing experiencing the highest percentage increase—up 51.9% in the first three quarters of 2024—while oil and gas remained the largest recipient.

The country now leads the GCC in net FDI inflows as a percentage of GDP, a trend the IMF expects to continue, citing structural reforms and government initiatives as key drivers of investment in non-hydrocarbon sectors.

Well-Insulated from Potential Regional Trade Disruptions

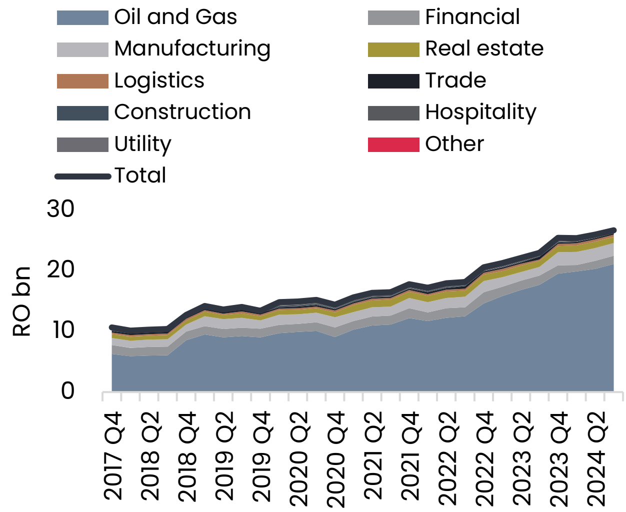
Despite heightened regional geopolitical tensions, Oman remains largely insulated, with only 10% of its trade passing through Bab el-Mandeb. This limits supply chain disruptions and helps mitigate trade risks, ensuring economic stability.

Despite oil price fluctuations impacting nominal GDP, real GDP growth is increasingly driven by the non-hydrocarbon sector

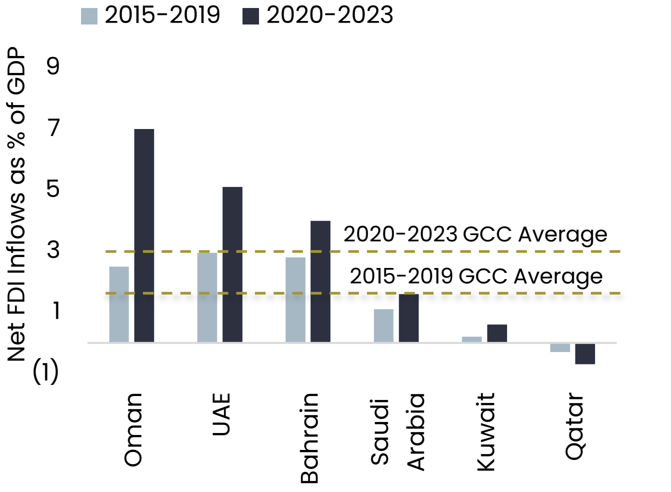


* Cumulative January to September GDP figures were annualized to estimate the 2024 GDP

FDI continues to flow at a record pace, yet most of it remains concentrated in energy



Oman has the highest net FDI inflows relative to GDP among GCC peers



Sources: Ministry of Finance, NCSI, IMF

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Sustained reforms have strengthened Oman's fiscal position, cutting debt to 34% of GDP, lowering costs and boosting confidence

Improved Fiscal Position

Since 2022, Oman has maintained successive twin surpluses, with the IMF projecting continued surpluses this year.

Public debt has declined from 68% of GDP in 2020 to 34% in 2024, reducing debt servicing costs by over 12% from peak levels to RO 940 mn, the lowest since 2020.

Oman has also made notable progress in lowering its fiscal breakeven oil price, which has dropped from $101 per barrel in 2014 to $57 in 2025—a 44% improvement, according to IMF estimates.

Strengthening Fiscal Revenues

The IMF estimates tax revenue contribution could reach 20% of non-hydrocarbon GDP, up from 6.9% currently.

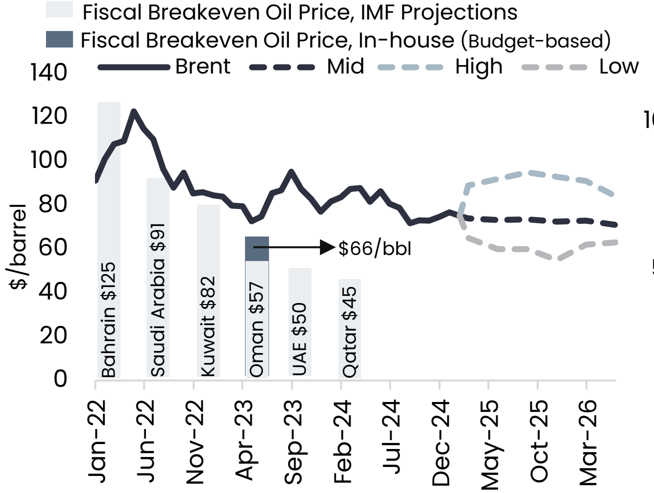
The Tax Authority is enhancing revenue collection, aiming to halve the tax compliance gap within four years and expand revenue sources through the potential introduction of Personal Income Tax (PIT). A clearer timeline is expected in the next MTFP, due in January 2026.

Credit Rating & Investor Confidence

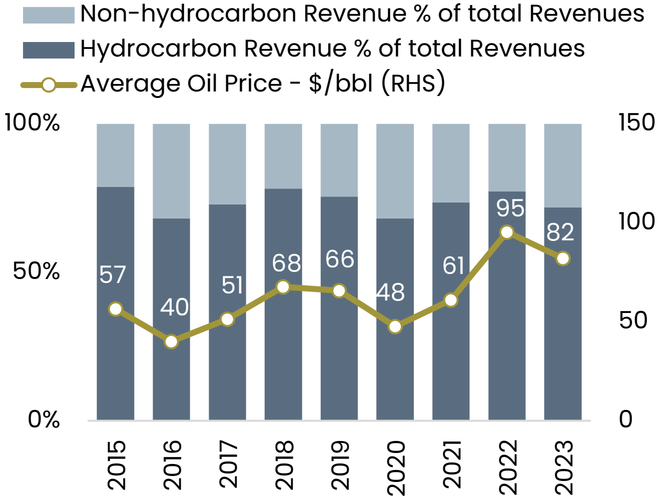
Oman's fiscal progress led to the restoration of its investment-grade rating (BBB-) from S&P in September 2024, marking a significant milestone in rebuilding investor confidence.

Barring external shocks, further upgrades are expected in 2025, with Moody's potentially upgrading from February and Fitch by mid-year. S&P's March review is likely to affirm BBB-, with a best-case scenario of an outlook upgrade to positive, paving the way for another upgrade within a year.

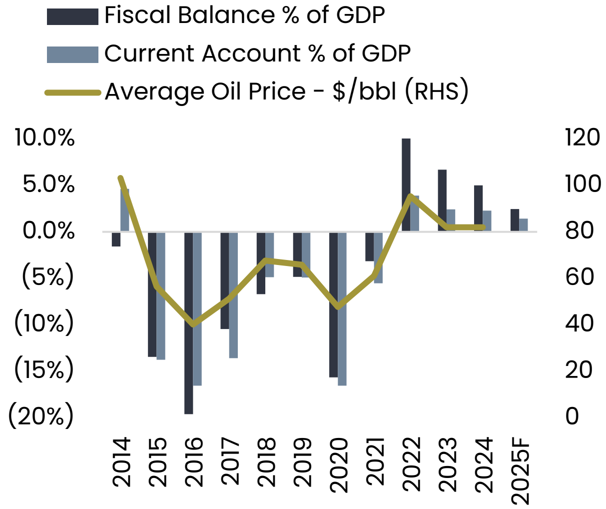
Fiscal resilience strengthened by lowering the fiscal breakeven oil price



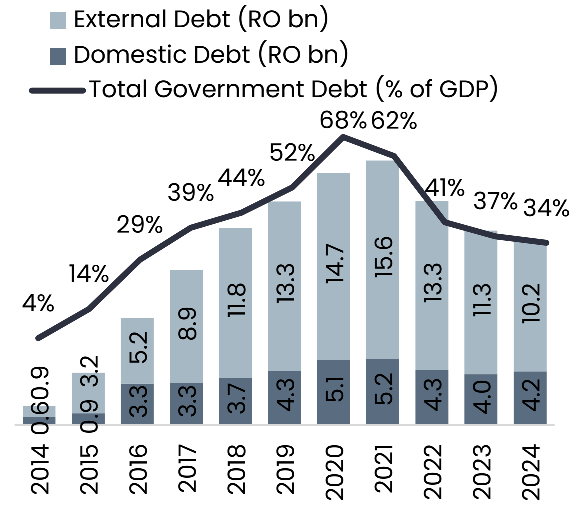
Revenue diversification is making progress, yet further potential remains



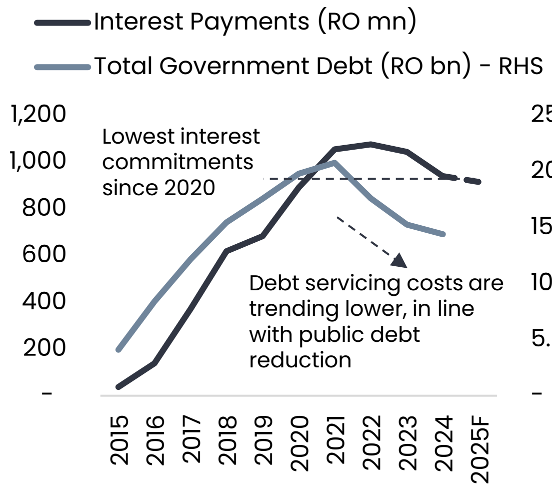
The twin surplus continues for 3rd successive year albeit narrowing



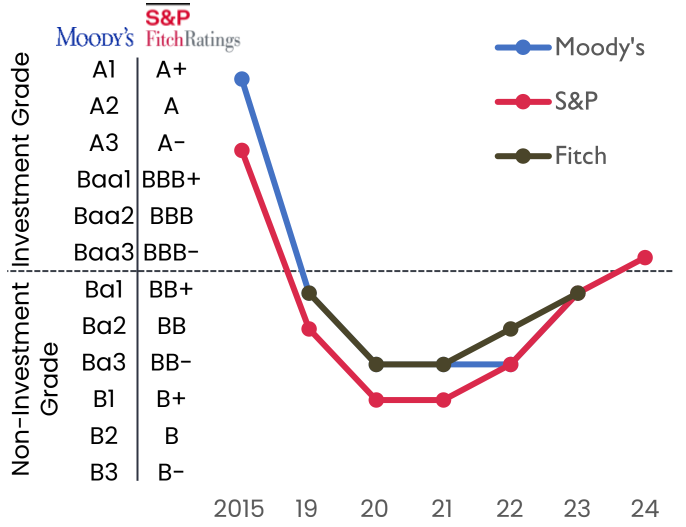
Significant debt reduction achieved from 2020/21 peak levels



Cost of debt servicing declines to lowest since 2020



Credit ratings continue to improve



Sources: Ministry of Finance, IMF, NCIS, Bloomberg

Oman's banking sector remains resilient, with steady growth in deposits and credit, rising profitability, and stable asset quality despite high interest rates and oil price challenges

Banking Sector Performance & Resilience

Oman's banking sector remains strong and resilient, with capital and liquidity ratios well above regulatory thresholds. Asset quality is stable despite high interest rates and oil price volatility. Private sector credit grew 5.5% to RO 32.2 bn, supported by an 8.2% rise in deposits to RO 31.5 bn as of November. Net profits surged 15% to RO 522.6 mn ($1.36 bn) in 2024, up from RO 453.5 mn in 2023, reflecting sustained financial strength.

Liquidity Conditions Set to Improve

The overnight Rial Omani interbank lending rate eased to 4.6% in November 2024, down from 5.6% a year earlier, reflecting the Central Bank of Oman's (CBO) policy alignment with the US Federal Reserve. The lower interbank rate signals improving liquidity conditions and is expected to further support credit growth in 2025.

Financial Stability & Regulatory Strength

The CBO's 2024 Financial Stability Report reaffirms that Omani banks remain resilient to credit and liquidity shocks, supported by strong balance sheets and robust capital and liquidity buffers.

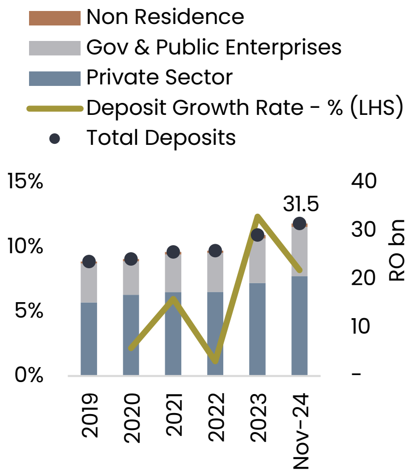
Financial Sector Development & Digital Expansion

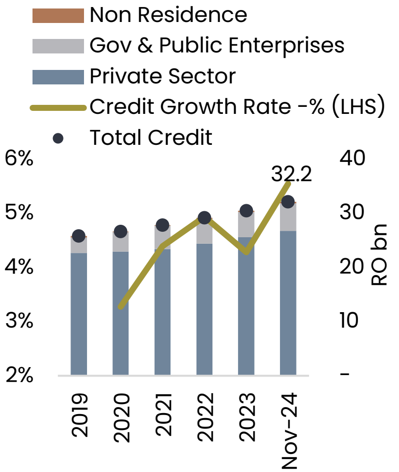
To enhance financial services, the CBO has licensed three new foreign banks and one domestic bank. Efforts to expand digital financial services and implement open banking are progressing. Meanwhile, the credit bureau, Mala'a, is undergoing a revamp to improve customer identity verification and business data access.

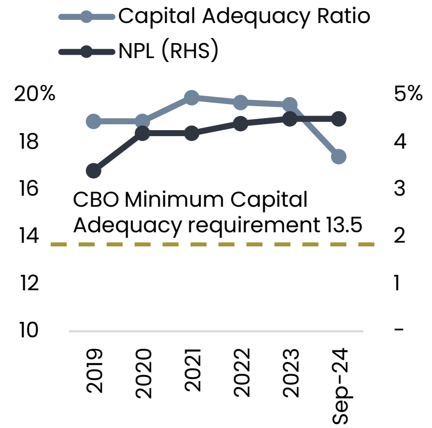
Foreign Reserves & External Stability

While foreign reserves have seen limited growth due to external debt repayments, CBO gross reserves provide import cover well above the IMF-recommended three-month threshold. This excludes liquid external assets held by the Oman Investment Authority, which also qualify as reserves under international standards.

Banking sector metrics remain sound, supported by private sector growth, strong liquidity, and prudent regulatory oversight

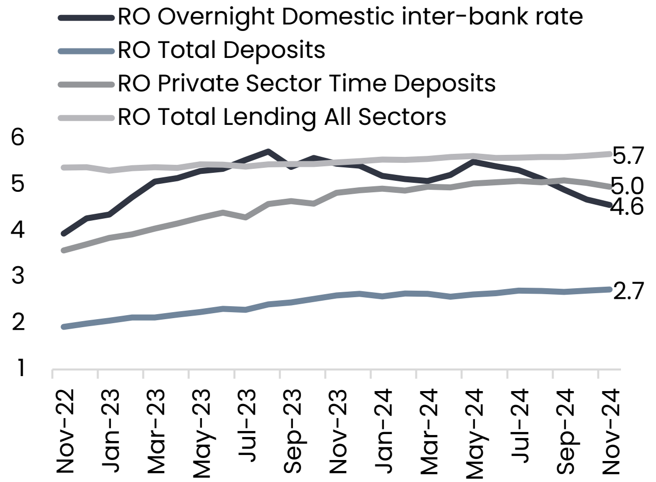




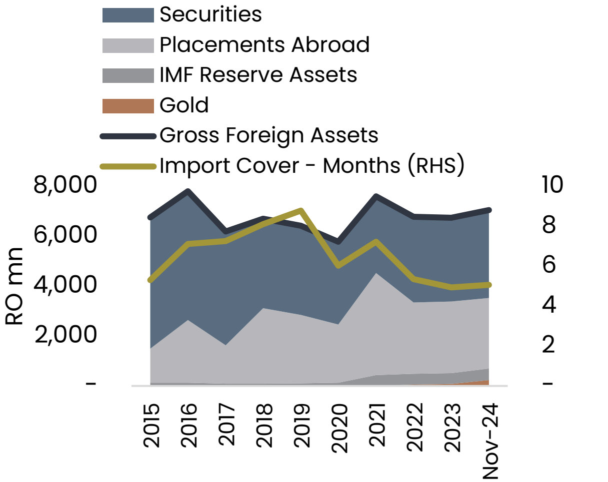


Includes Conventional Banks and Islamic Banks and Windows

Oman Banking Sector Interest Rates (%)



CBO continues to rebuild its reserves



Sources: CBO, IMF, Ministry of Finance

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Recent leadership changes at the Central Bank of Oman, and the new banking law effective January 2025, are set to enhance governance, improve efficiency, increase competitiveness, and support broader economic growth

Chairman

His Highness Sayyid Taimur Al Said

Initially appointed as Chairman in August 2020, a position traditionally held by the Sultan of Oman, his role has evolved over time. While key policy decisions previously required approval from His Majesty the Sultan, the introduction of the new banking framework in January 2025 has expanded his mandate, providing greater autonomy and a broader scope for policy implementation within the CBO

Minister of Economy
HE Dr. Said Al Saqri, Minister of Economy (Deputy Chair)

CBO Governor
HE Ahmed Al Musalmi

Undersecretary of Ministry of Finance
HE Abdullah Al Harthy

President of the Financial Services Authority
HE Abdullah Salim Al Salmi

Sayyida Rawan Al Busaidiya
Former CEO of Takaful Oman
(New)

Dr Said Al Maharrami
State Council member and SQU Economics Professor
(New)

Dr Khalfan Al Barwani
Recently retired as EVP of Investment, Treasury, and Market Operations at CBO
(New)

Dr Jamil Al-Shaqsi
Assistant Professor and Head of Information Systems at SQU
(New)

Strengthening Central Bank Authority & Expertise

The elevation of the CBO Governor to a ministerial position enhances policy independence, regulatory authority, and decision-making. With extensive leadership experience in Oman's banking sector, the Governor is well-positioned to contribute to initiatives aimed at enhancing competitiveness, improving efficiency, strengthening resilience, and fostering innovation.

A key gap where Oman’s banking sector lags its GCC peers is in digital banking and fintech adoption. Advancing open banking and fostering fintech growth will modernize financial services, accelerate growth, and reinforce sector competitiveness.

Enhancing Central Bank Governance & Autonomy

Granting the CBO board greater authority over policy decisions marks a significant governance evolution, enabling more agile decision-making and enhanced policy responsiveness. A diverse board composition ensures balanced oversight and supports strategic policymaking.

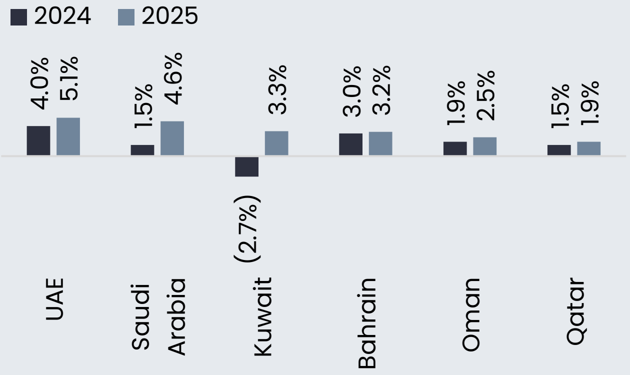
Oman shares a favorable economic outlook with its GCC peers, supported by fiscal strength and sustained non-hydrocarbon growth

Oman's Growth Outlook

The IMF, in its January 2025 Article IV consultation paper on Oman, projects real GDP growth of 2.5% for 2025, supported by expansion in construction, manufacturing, and services. However, achieving this target may be challenging given recent economic trends and oil price volatility.

While OPEC+ production cuts have led to a slight decline in oil output, Oman stands to benefit from higher gas revenues, which could help offset some of the impact. Although the petroleum sector remains a key pillar of the economy, non-hydrocarbon growth, particularly in manufacturing, is expected to drive broader economic expansion.

GDP Growth Forecasts for GCC



The GCC's outlook remains positive, supported by ongoing reforms and non-hydrocarbon sector expansion, though oil prices continue to shape fiscal and economic conditions. While regional trends align in many areas, key differences persist:

UAE: Leading with 5.1% GDP growth in 2025, supported by tourism, construction, and financial services. Strong reforms, FDI inflows, and reserves ensure resilience.

Saudi Arabia: Growth at 4.6%, backed by diversification and mega-projects. High breakeven oil price makes it sensitive to price declines, with the outlook dependent on reversing production cuts.

Qatar: Modest growth, primarily driven by LNG expansion, leveraging low-cost advantages and strong fiscal buffers.

Kuwait: Growth prospects have improved since the parliament's suspension in May 2024, though stalled reforms remain a concern. A rebound depends on reversing oil production cuts, while the Future Generations Fund (400% of GDP) provides a strong buffer.

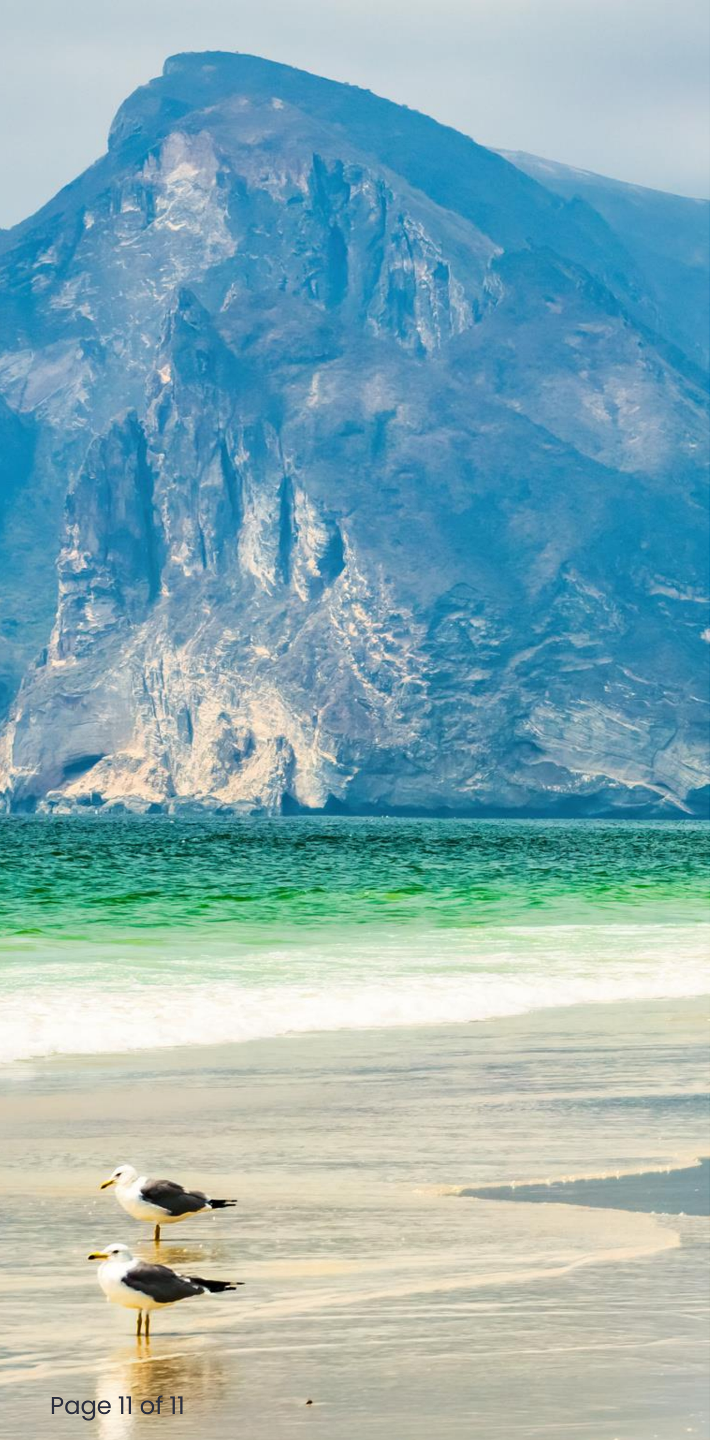
Bahrain: Projected to grow 3.2%, driven by tourism and a petroleum sector rebound linked to Abu Safah field production. Faces competition from Saudi Arabia's expanding tourism sector.

Key Risks to Outlook:

- **Oil Price Volatility:** A Trump presidency could pressure oil prices through higher US production and weaker demand, forcing OPEC+ to maintain cuts. However, prices are likely to stay within the $65–$90/bbl range.
- **Monetary Policy:** High interest rates remain a challenge, with limited Fed rate cuts expected if Trump's policies fuel inflation.
- **Trade Risks:** Trade wars could disrupt global supply chains and trade flows, with potential spillover effects on GCC trade and imports.

Despite these risks, the region remains well-positioned with stronger fiscal buffers and non-hydrocarbon sector growth, mitigating external pressures.

Sources: IMF, NCSI



Key events to watch for in 2025

- **Credit Rating Reviews:** Oman's fiscal progress led to the restoration of its investment-grade rating (BBB-) from S&P in September 2024, marking a significant milestone in rebuilding investor confidence. Barring external shocks, further upgrades are expected in 2025, with Moody's potentially upgrading from February and Fitch by mid-year. S&P's March review is likely to affirm BBB-, with a best-case scenario of an outlook upgrade to positive, paving the way for another upgrade within a year.

- **Muscat Stock Exchange (MSX):** MSX aims for MSCI Emerging Markets watchlist inclusion by June 2026, with efforts to accelerate this to June 2025 ongoing. For the reclassification to happen, MSX must meet key criteria on market accessibility, which is already fulfilled, and size and liquidity thresholds. While market cap and, in some cases, the free-float requirements are met (OQEP, Bank Muscat, Sohar International, and Omantel), the Annualized Traded Value Ratio (ATVR) remains a hurdle, potentially delaying reclassification. Even if the reclassification proceeds, MSX would first be placed on the watchlist, as direct index inclusion isn't immediate, that said, historically, exchanges placed on the watchlist have experienced improved performance, reflecting positive investor sentiment and increased market activity.

- **Medium-Term Fiscal Plan (MFTP) 2.0:** With 2024 marking the conclusion of Oman's first MTFP, which delivered strong fiscal results as discussed previously, efforts are now underway to draft the next plan. While the official release is expected in January 2026 to align with the budget and the Eleventh Five-Year Plan (2026-2030), an earlier launch in the second half of 2025 remains a possibility.

- **Single Treasury Account (STA):** As part of ongoing fiscal reforms, the Ministry of Finance is advancing efforts towards implementing STA to enhance the efficiency of public financial management. The STA is expected to centralize government cash holdings, improve liquidity management, and increase transparency, ultimately strengthening fiscal discipline, aligning with broader government strategies.

- **Personal Income Tax (PIT) Proposal:** Alongside the new fiscal plan, further clarity is anticipated on the PIT proposal, particularly regarding its implementation timeline. With discussions concluded in both the Shura and State Councils, the next step will be either a Royal Decree or a directive, which may approve the law in its original or amended format or request further studies.

- **Central Bank of Oman (CBO):** Meanwhile, regulatory developments in the banking sector are expected to continue, following recent reforms aimed at fostering a more flexible and progressive financial environment. These changes are likely to enhance competition, drive efficiency, and improve overall sector performance, benefiting both financial institutions and the broader economy.