ANNUAL REPORT 2018

Central Bank of Oman

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Central Bank of Oman

Annual Report

2018

July 2019

His Majesty Sultan Qaboos bin Said

CENTRAL BANK OF OMAN
Board of Governors

H.E. Sultan bin Salim bin Said Al Habsi
Deputy Chairman

H.E. Nasser bin Khamis bin Ali Al Jashmi
Member

H.E. Tahir bin Salim bin Abdullah Al-Amri
Member

H.E. Abdullah bin Salem Al Salmi
Member

Shaikh Mohammed bin Saud bin Salim Bahwan Al Mukhaini
Member

Dr. Saif bin Abdullah bin Saif Al Sheidi
Member

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FOREWORD

The Central Bank of Oman takes immense pleasure and privilege to submit its Annual Report for the year 2018 to His Majesty, Sultan Qaboos bin Said, Sultan of Oman.

The Annual Report 2018 contains an analysis and review of the global economic developments, domestic output growth, employment situation, inflationary conditions, public finance, monetary & banking developments, financial markets, balance of payments, and the macroeconomic outlook.

The Omani economy witnessed robust nominal growth for the second year in a row during 2018, after coming out of a contractionary phase. Although the expansion was recorded across all major economic activities, the petroleum activities contributed majorly to the growth due to a significant surge in oil prices. Nominal GDP grew by 12.0 percent in 2018 with the petroleum and non-petroleum activities expanding at 37.1 percent and 2.9 percent, respectively. The diversification efforts continued to nurture non-petroleum activities and private sector-led growth in order to reduce the dependence of the economy on the oil sector for development and employment.

The fiscal position also improved during 2018 mainly because of a reasonable recovery in oil prices. The hydrocarbon revenues enlarged substantially, while the non-hydrocarbon revenue also witnessed some incremental growth. The expenditure rationalization, however, was constrained by socio-economic priorities and increasing committed expenditure. Notwithstanding a considerable mark-up in expenditure, the fiscal deficit dropped to about RO 2.6 billion in 2018 from about RO 3.8 billion in 2017. The fiscal deficit was funded largely through external borrowings to avoid crowding out of private investment. However, a small portion of the fiscal deficit was also financed through domestic market borrowings with an intended objective of domestic debt market development and financial deepening.

A large upsurge in hydrocarbon exports and non-oil exports, and moderation in imports led to an improvement in the external sector with the current account deficit declining to about RO 1.7 billion in 2018 from around RO 4.2 billion in the previous year. The workers' remittances, another major item under the current account, increased marginally, despite robust growth in the economy. The overall balance of payments was in surplus, leading to an accretion of RO 990 million in the country's foreign assets. The inflationary conditions, which are conditioned largely by imported inflation, remained benign in the Sultanate. Notwithstanding improvement, the twin deficits continue to pose a macroeconomic challenge and hence, require a concerted and sustained policy response. The policy measures undertaken recently would boost the non-oil economic activities and private sector-led growth and help in addressing the above challenge.

The Central Bank of Oman (CBO) continued to pursue policies and implement measures that support growth in the economy. Adequate liquidity was ensured in the banking system so that credit availability remains supportive of productive activities. The CBO also relaxed some regulatory requirements to create additional space for credit with banks. The banking sector remained resilient and healthy with adequate capital, low delinquency rate, and sufficient liquid assets, supporting financial stability on a sustainable basis.

It is acknowledged with great appreciation that the CBO received unstinted cooperation and support from the government, commercial banks, and other institutions in discharging various responsibilities efficiently. The high level of commitment and quality output from the management and staff of the Bank, which facilitated smooth and efficient functioning of the CBO, also deserve deep appreciation.

Tahir Salim Al Amri

Executive President

2018: Macroeconomic Indicators at a Glance

4.7%	Reserve Money (M0)	2.4%	NEER
8.3%	Money Supply (M2)	12.0%	Nominal GDP
6.4%	Total Credit Growth	37.1%	Hydrocarbon GDP
7.8%	Total Deposit Growth	2.9%	Non-Hydrocarbon GDP
1.899%	Weighted Avg RO Deposit Rate	35.8%	Oil Price (US$/BBL)
5.329%	Weighted Avg RO Lending Rate	0.8%	Oil production
RO 1.7 bn.	Current Account Deficit	28.6%	Total Revenues
7.4 months	Net Imports Cover of the Foreign Exchange Reserve	10.8%	Total Expenditures
8.1%	CBO's Foreign Assets	RO 2.6 bn.	Fiscal Deficit
17.3%	Non-Oil Exports	47.5%	Debt to GDP Ratio

Current Assessment and Macroeconomic Outlook

Current Assessment and Macroeconomic Outlook

Amidst tight financial conditions and growing trade tensions, the world economic activities witnessed some moderation since the second half of 2018. However, the economic activities in the Sultanate, backed by a surge in oil prices and expansion in the non-hydrocarbon sector gained further momentum in 2018. Although financial conditions eased somewhat in 2019 with a pause in the interest rate hike by the Federal Reserve and a return to more accommodative monetary policy stance by other major central banks, a resolution to the trade tensions continues to be elusive. Fears of the global slowdown and persisting trade tensions continue to be a major source of volatility for oil prices that have seen large swings since late 2018. Opec+ countries entered into another agreement to cut production until June 2019, which has now been extended until the first quarter of 2020, to restore oil prices and reduce volatility. The trajectory of oil prices coupled with policy efforts to improve the business environment and foster private sector-led growth would condition the economic prospects of Oman during 2019. In the above settings, this chapter provides an assessment of the economic developments that took place in the Sultanate during the year 2018, and building on them further, an outlook is drawn for 2019.

Global Developments in 2018

After witnessing a strong cyclical upturn for two consecutive years, global economic activities moderated in 2018, especially in the second half, reflecting a decline in business confidence and weak investment sentiments on the back of heightened policy uncertainties, tightening international financial conditions, and increasing trade tensions. The growth in advanced economies (AEs), especially in the Euro area, weakened more than expected in 2018, albeit with the notable exception of USA where fiscal stimulus and strong consumption kept the momentum going. The country-specific factors also contributed to a moderation in economic activities among AEs. On the other hand, financial conditions tightened in emerging market and developing economies (EMDEs), reflecting trade tensions, normalization of monetary policy in USA, and amplified country-specific factors. The global growth is estimated to decelerate to 3.6 percent in 2018 from 3.8 percent during 2017, reflecting moderation in economic activities across a large number of advanced and emerging market economies (IMF, WEO, April 2019). The increasing trade tensions amidst slowing global economic activities impacted the cross-border trade and the growth in world trade volume dropped sharply from 5.4 percent in 2017 to 3.8 percent in 2018. The retail inflation in advanced economies (AEs), however, remained subdued at 2.0 percent in 2018 due to muted increase in non-fuel commodity prices.

Domestic Developments in 2018

In the setting of moderating global growth, tightening financial conditions and decelerating world trade volume, it is notable that Omani economy gained further impetus with a surge in oil prices and expansion in non-oil economic activities. The Omani crude oil price averaged at US$ 69.7 a barrel in 2018 as compared to US$ 51.3 per barrel during 2017. The recovery in oil prices also contributed to growth in non-oil economic activities, reflecting inter-linkages, although the dependency of non-oil activities on oil activities has somewhat weakened in the last few years. The nominal Gross Domestic Product (GDP) recorded a growth of 12.0 percent in 2018, higher as compared to 7.3 percent in 2017. The petroleum and non-petroleum sectors grew in nominal terms by 37.1 percent and 2.9 percent, respectively, in 2018. As non-petroleum activities witnessed some deceleration in growth, the petroleum sector was the main driver of an accelerated growth in the Omani economy during 2018. Notably, with Khazzan phase-I becoming operational, the natural gas under the petroleum sector is also emerging as a significant contributor to the Omani economy. Notwithstanding some deceleration in growth across several non-petroleum activities, the non-petroleum sector is gradually evolving as the key force for ensuring sustainable growth in the Sultanate. The dedicated programs under the diversification plan “Tanfeedh” along with other initiatives to improve the business environment are yielding encouraging results and fostering traction in the non-hydrocarbon sector. The Ninth and final 5-year Development Plan under Vision 2020 continues to emphasize more diversified economic activities to insulate the economy from external shocks. The government also undertook some important policy measures during 2018, viz. establishment of a commercial arbitration center, the adoption of a new commercial companies’ law, and a further streamlining of licensing processes through Invest Easy in order to improve the business and investment climate and promote private sector-led growth in the Sultanate.

With regard to the inflationary situation, the headline inflation eased to 0.9 percent during 2018 from 1.6 percent in 2017. Although imported inflation remains the major determinant of inflation, domestic factors also played a role in affecting inflationary conditions in the Sultanate. Headline Inflation in Oman during 2018 followed a contrary trend to global inflation as consumer inflation in both AEs and EMDEs is estimated to have increased. The subdued rise in non-fuel international commodity prices, appreciation in US$ exchange rate, and muted domestic demand led to benign inflation in the Sultanate.

On the fiscal front, the surge in oil prices provided required support to government revenues, while fiscal measures that were undertaken last year also continued to support the growth of non-oil revenue of the government. However, at the same time, government expenditure also increased noticeably in 2018 due to higher spending on oil & gas production, defence, subsidies and elevated interest payments. The buoyant government revenues, however, led to a decline in overall fiscal deficit by about 30 percent to RO 2,649 million during 2018. In terms of budget outcome, the actual fiscal deficit over-performed the budget estimate by 11.7 percent, with much higher overshooting in the government revenue vis-à-vis the government expenditure. The estimated fiscal deficit of RO 2,800 million in the 2019 budget assumes an average oil price at US$ 58 per barrel. The government debt also increased to RO 14,492 in 2018 (a jump of about 30 percent) – the debt to GDP ratio increased to 47.5 percent. The burgeoning government debt level not only constraints the fiscal space but also raises sustainability concerns.

Turning to monetary conditions, the Federal Reserve raised the policy rate four times during 2018, each by 25 basis points, which were automatically transmitted to Omani monetary conditions due to the currency peg arrangement. Consequently, interest rates on both deposits and lending increased in Oman. Nonetheless, both credit and deposits maintained reasonable growth of 6.4 percent and 7.8 percent, respectively during the year, consistent with expanding non-oil economic activities. The broad money supply expanded by 8.3 percent– the quasi money expanded by 12.1 percent while narrow money (M1) declined marginally by 0.2 percent. Although local currency deposits also increased, a steep jump in quasi-money during 2018 was attributed mainly to a large increase in foreign currency deposits. As the monetary base shrank, the money multiplier improved to 5.7 in 2018 from 5.0 during the previous year.

With regard to the health of banking sector and quality of assets, the position remained resilient and strong, despite early signs of some vulnerability on the back of slowing real sector. The CBO continued with the gradual implementation of Basel III norms including capital conservation buffer to strengthen the banking sector. Consequently, the banks remained adequately capitalized as their Capital Adequacy Ratio (CAR) stood at 17.9 percent by the end of December 2018, significantly higher than mandated by CBO at 12.875 percent. The banks in the GCC region generally maintain sufficiently higher CAR to deal with ramifications of volatile oil prices. The quality of loans did not deteriorate much as the gross non-performing loans (NPLs) of conventional banks stood at 2.7 percent in December 2018 (net NPLs stood at 0.9 percent).

The financial markets functioned smoothly during the year, albeit sluggish activities in some segments. The short-term interest rates in the money market remained aligned and some improvement was noticed in the volume of domestic inter-bank call money market partly reflecting easing of regulation pertaining to lending ratio. The activities in equity markets were subdued and the Muscat Securities Market Index (MSM-30) closed lower by about 15 percent at the end of 2018. The liquidity in both equity and bonds segments of the capital market also dropped during 2018. As the surge in oil prices improved foreign currency liquidity, the foreign exchange market functioned without any pressure during 2018.

Oman's external account also witnessed a significant improvement during 2018 backed by a steep recovery in oil prices, buoyant non-oil exports, and decline in merchandise imports. The current account deficit (CAD) narrowed to RO 1,671 million during 2018 from RO 4,222 million in 2017. The net financial & capital inflows were higher than CAD, resulting in an overall balance of payments surplus. Consequently, total net foreign assets (CBO and SGRF together) increased by RO

990 million, alleviating pressure on the adequacy of external buffers. Imports cover of CBO's net foreign assets increased to 7.4 months from 6.3 months a year ago.

Macroeconomic Outlook for 2019

Global growth is projected to decelerate to 3.3 percent for 2019 with moderation coming from both AEs and EMDEs (IMF, WEO, April 2019). Global economic activities, however, are expected to improve somewhat in the second half of 2019 and provide necessary demand support to oil prices. Although the production cut announced by Opec+ for the first half of 2019 restored some stability, the geopolitical tensions, coupled with policy uncertainty and trade-related frictions, continue to entrench volatility in oil prices. During the remainder of 2019 and beyond, a production cut by Opec+ extended until the first quarter of 2020 and resolution of trade frictions would be pivotal to shape up the trajectory of oil prices. Nonetheless, the current assessment is that oil prices would be range bound, albeit large swings cannot be ruled out with changing sentiments. Omani oil prices averaged at US$ 61 a barrel during the first three months of 2019 as against US$ 62.9 per barrel during the same period last year. In the above backdrop, the petroleum activities in nominal terms are likely to be moderate during 2019. On the other hand, the non-oil economic activities are gaining continuous traction with unstinted policy efforts and an improving business climate. The recent promulgation of several impending laws, viz. Foreign Capital Investment, Privatization, Public Private Partnership, Bankruptcy, Establishing the Public Authority for Privatization and Partnership would act as catalysts to improve further the business and investment environment, giving a much-needed impetus to the diversification and private sector-led growth in the Sultanate. Non-oil exports, witnessing robust growth in the last few years, are likely to keep the momentum going with demand emanating from GCC and other major trading partners. In view of the above, the non-petroleum activities offer promising prospects in 2019. Considering the prospects of petroleum and non-petroleum activities, the macroeconomic outlook for 2019 appears reasonable but fraught with challenges, especially on the back of expected range-bound oil prices and uncertainty surrounding them. The outlook, however, looks to be robust over the medium-term with expected recovery in oil prices and accelerated traction in non-oil economic activities.

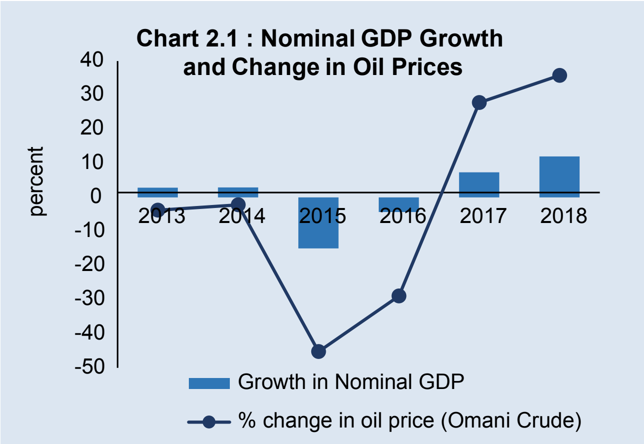
Output, Employment and Prices

OUTPUT, EMPLOYMENT AND PRICES

In the backdrop of weakening global economic activities, the momentum in Oman's economy further strengthened during 2018 and helped in improving macroeconomic balance. The surge in oil prices and progress in diversification shaped the broad-based expansion in nominal terms. Continuous policy efforts to improve the business environment and private sector-led growth gave the necessary impetus to the diversification, giving a fillip to the non-hydrocarbon sector. Increase in the hydrocarbon production coupled with traction in the non-hydrocarbon sector also appears to have led to positive real growth during 2018. Some progress was achieved in fiscal consolidation, despite fiscal policy being constrained by the evolving socio-economic priorities and a large share of committed expenditure. The external sector also recorded improvement with narrowing down of current account deficit reflecting a recovery in oil prices, buoyant non-oil exports, and moderation in merchandise imports. Notwithstanding improvement, the twin deficits (i.e. deficit in fiscal and current accounts) persist as a challenge for the economy. The public policy, however, is on a firm course to reinstate sustainable macroeconomic balance with requisite reform measures coupled with policies that further encourage participation of foreign investors and private sector in the economy. Against the above backdrop, the chapter contains in-depth analysis on output, employment and prices in Oman during 2018.

Output

The Omani economy witnessed an accelerated growth during 2018 mainly due to rapid strides made by the hydrocarbon sector. The non-hydrocarbon sector also witnessed a reasonable growth, reflecting the progress of unstinted diversification efforts. As per the preliminary national accounts data, the nominal Gross Domestic Product (GDP) increased by 12.0 percent during 2018 as against 7.3 percent in the previous year (Table 2.1). The Omani oil price averaged at US$ 69.7 a barrel, significantly higher by about 36 percent over that in 2017 (Chart 2.1). The average daily oil production also increased by 0.8 percent in 2018. Consequently, the nominal growth in petroleum sector jumped sharply by about 19 percentage points. Among petroleum activities, the natural gas is also emerging as a significant player with Khazzan-I becoming fully operational. On the other hand, the non-petroleum sector recorded a marginal deceleration in growth during 2018, which may be attributed to subdued domestic demand and some deceleration in the external demand (Chart 2.2). Government's pursuit of fiscal consolidation also acted as a dragger on domestic demand, albeit it was necessitated for reinstating macroeconomic balance. The growth in non-oil exports remained robust, but a significant deceleration resulted in reduced support from external demand. On the supply side, all major groups, viz. industry, services, and agriculture contributed to the moderation in the growth of non-petroleum sector.



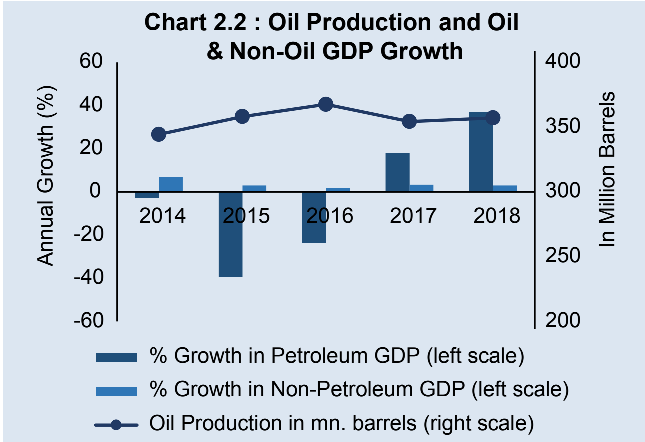


Table 2.1
Output Indicators

Items	2014	2015	2016	2017*	2018**
GDP at current market price (R.O. Million)	31174.0	26500.3	25354.5	27216.4	30488.9
Annual Growth (%)	2.9	-15.0	-4.3	7.3	12.0
GDP at constant 2010 prices (R.O. Million)	26165.9	27384.6	28748.5	28481.6	NA
Annual Growth (%)	1.4	4.7	5.0	-0.9	NA
GDP Deflator	119.1	96.8	88.2	95.6	NA
Annual Growth (%)	1.7	-18.8	-8.9	8.3	NA
Share in GDP at Current Market Price (in per cent)1					
1. Petroleum Activities	46.4	33.2	26.4	29.0	35.5
1.1 Crude Petroleum	43.1	28.6	21.6	24.1	30.3
1.2 Natural Gas	3.2	4.5	4.8	4.9	5.3
2. Non-Petroleum activities	59.9	72.5	77.3	74.4	68.4
2.1 Agrl. and Fishing	1.3	2.0	2.3	2.3	2.2
2.2 Industry	17.8	20.7	21.4	20.5	18.8
2.3 Services Activities	40.9	49.8	53.6	51.6	47.4
Components of GDP (in per cent)					
a. Private Consumption	30.8	38.2	41.0	39.9	NA
b. Government Consumption	24.7	28.1	29.8	25.9	NA
c. Capital Formation (investment)	24.1	27.9	32.8	27.7	NA
d. Exports-Imports (goods and services)	23.6	3.3	-0.3	2.8	NA

* Provisional ** Preliminary NA:Not Available

1 Shares may not add up to 100 because two items are not considered here, i.e. net import taxes and financial intermediation services indirectly measured.

Source: National Center for Statistics and Information.

The importance of hydrocarbon sector in the economy remained critical, despite increasing strategic focus on non-oil economic activities to promote diversification in the economy. It constituted about 36 percent of the nominal GDP and 78.2 percent of the government revenues during 2018. The hydrocarbon sector also contributed to the growth of non-oil economic activities due to inter-linkages and spillovers. Furthermore, despite a substantial upturn in non-oil exports, the hydrocarbon exports witnessed a jump of 7.1 percentage points in its share in total merchandise exports to 65.4 percent during 2018.

Turning to demand side, although data on investment is not available, several related indicators do not exhibit a picture reflective of buoyant investment activities during 2018. The credit growth persisted to be moderate at 6.4 percent, the same as in the previous year, suggesting sluggish recovery in investment activities. The stock market performance also remained subdued with MSM30 index declining by 15 percent in 2018. At the same time, the growth in imports of capital goods, particularly electrical machinery & mechanical equipment & parts remained modest 6.0 percent in 2018. Although improving macroeconomic balance eliminated the business uncertainty to some extent, volatility in oil prices, uncertainty surrounding the global economic activity and geopolitical tensions continue to weigh down investor sentiments. Interest rates have also increased, following the monetary policy normalization in USA, resulting in higher cost of capital for investment. The higher interest rates also affected the consumption demand to some extent, despite a significant upturn in the economy. As alluded to earlier, the contribution of external demand to non-hydrocarbon sector also declined during 2018 in comparison with 2017. Besides other policy initiatives, the conditions that would give a sustained impetus to investment and consumption demand need to be created to accelerate growth in the non-hydrocarbon sector.

The government authorities very well recognize the paramount importance of the non-hydrocarbon sector attaining a critical mass to reduce the economy’s dependence on the hydrocarbon sector and ensure sustainable development over the medium to long run. Accordingly, the creation of an economic structure with diversified economic activities has been accorded priority with dedicated programs and initiatives under the Ninth and last 5-year Development Plan of Vision 2020. The National Program for Enhancing Economic Diversification “Tanfeedh”, which stemmed from the Ninth Five Year Development Plan, covers five sectors, viz. manufacturing, tourism, mining, logistics and fishing for implementing dedicated programs. Additionally, the government authorities are fostering non-hydrocarbon economic activities through improving the business climate, boosting public-private partnership (PPP) and foreign direct investment (FDI), and privatization of public sector entities. Towards this objective, the government undertook certain measures in 2018, viz. establishing a commercial arbitration center, promulgating a new commercial companies’ law, simplifying the licensing processes through ‘Invest Easy’, enhancing online single-window system for exports and imports, and easing processes related to obtaining construction permits, etc. for improving business climate. Oman’s Global Competitiveness Index (GCI) improved to 47th place in 2018 from 62nd place in 2017 among

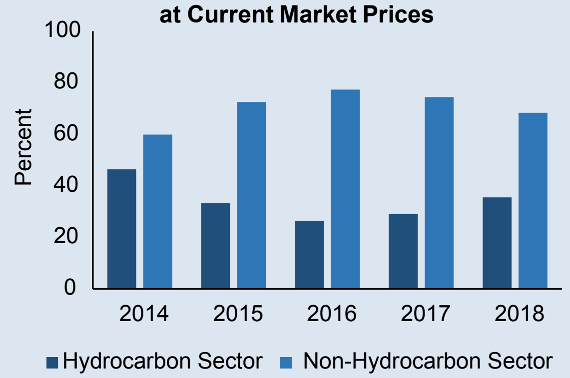
140 countries, reflecting the improved business environment in the Sultanate. Going forward, the 'Vision 2040' also emphasizes on the non-oil economic activities and private sector-led growth to diversify away from the hydrocarbon sector and ensure sustainable development.

Petroleum Sector

Petroleum sector contributed significantly to economic activities directly and indirectly and remained as the mainstay of the economy in the Sultanate. Since government spending has a major influence on private sector activities, the petroleum sector being a major source of government revenue also becomes important for growth in the private sector. Accordingly, international oil prices have a strong bearing on the business cycle as well as on the macroeconomic balance (fiscal and external positions). A deeper analysis of the hydrocarbon sector in Oman in the backdrop of developments in the world oil market is undertaken in the last section of the Chapter.

International oil prices generally continued on the recovery path during the year, albeit with intermittent volatility, and peaked in the first week of October 2018 before collapsing subsequently due to global oversupply on the back of an increase in production by OPEC and non-OPEC oil producers and exemption granted by USA to major oil importers of Iran. However, the new production cut announced by OPEC+ for the first half of 2019 and subsequently extended until the first quarter of 2020 along with reduced uncertainty regarding global demand helped to restore oil prices considerably. Omani oil price averaged US$ 69.7 per barrel in 2018 as compared to US$ 51.3 per barrel during 2017, recording an upsurge of 35.8 percent. The daily average oil production also witnessed an upturn during 2018, while the production of gas from Khazzan-I gas field gained full traction during the year and contributed to 12.3 percent increase in total gas production. The surge in oil prices coupled with an upturn in hydrocarbon production conditioned the accelerated growth in the petroleum sector during the year (Table 2.2). The value addition emanating from petroleum sector witnessed an accelerated growth of 37.1 percent in 2018, as compared to 18.1 percent during 2017, and contributed considerably to a surge in overall growth. The share of petroleum activities in GDP rose to about 36 percent during 2018 as compared to about 29 percent in 2017 (Chart 2.3). However, the 3 years moving average share of petroleum activities in nominal GDP witnessed a decline during recent years, suggesting a modest decoupling of overall GDP from petroleum activities.

Chart 2.3 : Share of Hydrocarbon and Non-Hydrocarbon Sector in GDP at Current Market Prices



The upsurge in petroleum sector also supported the activities in related industries, such as fertilizer, petrochemicals, aluminum, power generation, and water desalination, and contributed directly to the economic diversification in the economy.

Table 2.2
Gross Domestic Product at Current Market Prices
(Rial Omani Million)

Activities	2014	2015	2016	2017*	2018**	% Change (2017/16)	% Change (2018/17)
1. Industry (1.1 + 1.2)	**19989.7**	**14266.2**	**12117.0**	**13483.6**	**16565.7**	**11.3**	**22.9**
1.1 Petroleum Activities	**14450.2**	**8770.7**	**6689.4**	**7901.7**	**10830.5**	**18.1**	**37.1**
- Crude Petroleum	13448.2	7587.5	5480.3	6567.4	9226.0	19.8	40.5
- Natural Gas	1002.0	1183.2	1209.0	1334.3	1604.5	10.4	20.3
1.2 Non-Petroleum Industrial Activities	**5539.5**	**5495.5**	**5427.6**	**5581.9**	**5735.2**	**2.8**	**2.7**
- Mining and Quarrying	120.0	122.8	128.1	147.4	171.0	15.1	16.0
- Manufacturing	3059.7	2794.5	2496.4	2778.7	3011.0	11.3	8.4
- Electricity & Water Supply	455.6	511.0	511.9	540.9	567.0	5.7	4.8
- Construction	1904.2	2067.1	2291.2	2114.9	1986.1	-7.7	-6.1
2. Agriculture & Fishing	**396.6**	**523.5**	**573.5**	**627.0**	**670.2**	**9.3**	**6.9**
3. Services	**12741.7**	**13206.9**	**13593.6**	**14038.6**	**14437.5**	**3.3**	**2.8**
- Wholesale & Retail Trade	2234.5	2264.3	2192.0	2213.1	2247.0	1.0	1.5
- Hotels & Restaurants	238.0	255.8	268.9	268.6	291.2	-0.1	8.4
- Transport, Storage & Communication	1485.0	1593.3	1516.7	1623.7	1649.2	7.1	1.6
- Financial Intermediation	1427.8	1487.5	1628.0	1710.1	1858.3	5.0	8.7
- Real Estate & Business Activities	1202.5	1249.5	1295.2	1377.7	1469.1	6.4	6.6
- Public Administration & Defence	3192.7	3296.5	3580.7	3528.7	3575.8	-1.5	1.3
- Other Services (Education, Health, Community/Personal Services, and Private Household)	2961.0	3060.1	3112.0	3316.8	3346.8	6.6	0.9
4. Total Non-Petroleum Activities (1.2 + 2 +3)	**18677.8**	**19225.9**	**19594.6**	**20247.6**	**20842.9**	**3.3**	**2.9**
5. Less Financial Intermediation Services Indirectly Measured	629.3	693.2	741.1	719.9	780.3	-2.9	8.4
6. Gross Domestic Product at Producers Prices (1.1+4-5)	**32498.7**	**27303.4**	**25542.9**	**27429.4**	**30893.1**	**7.4**	**12.6**
7. Plus :Taxes Less Subsidies on Products	-1324.8	-803.1	-188.4	-213.0	-404.2	13.0	89.8
8. Gross Domestic Product at Market Prices (6+7)	**31174.0**	**26500.3**	**25354.5**	**27216.4**	**30488.9**	**7.3**	**12.0**

* Provisional ** Preliminary
Source: National Center for Statistics and Information.

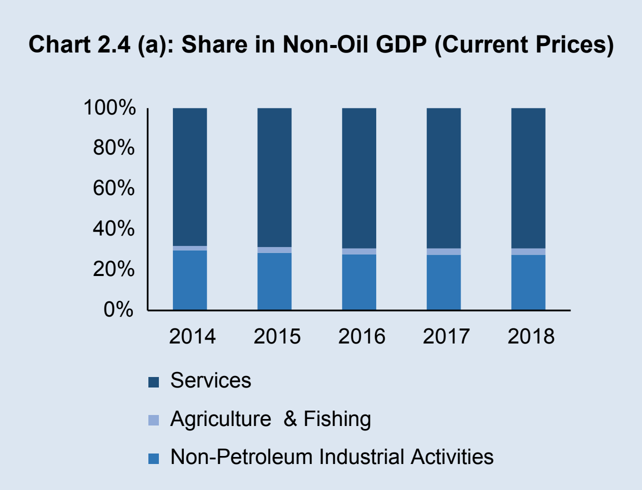
Indirect support to diversification in the economy also emanated through positive spillovers from the petroleum activities during the year. The expanding non-oil economic activities led to a jump also in domestic consumption of oil and gas products in the Sultanate. Out of total crude oil production, the share of exports dropped from 87.6 percent in 2016, through 83.0 percent in 2017, to 81.0 percent during 2018, partly because of increased domestic consumption. The usage of crude oil for export of refined oil also increased over the years, reflecting expanding refining capacity in the economy. Oman Oil Refineries and Petrochemicals Company (ORPIC) managed to increase its refinery production by 25 percent in 2018. Meanwhile, petroleum industries produced 1,080K metric ton in 2018 as compared to 1,056K metric ton produced in 2017. Out of total natural gas production, a large part was used domestically in gas-based industries, oil fields, and power generation.

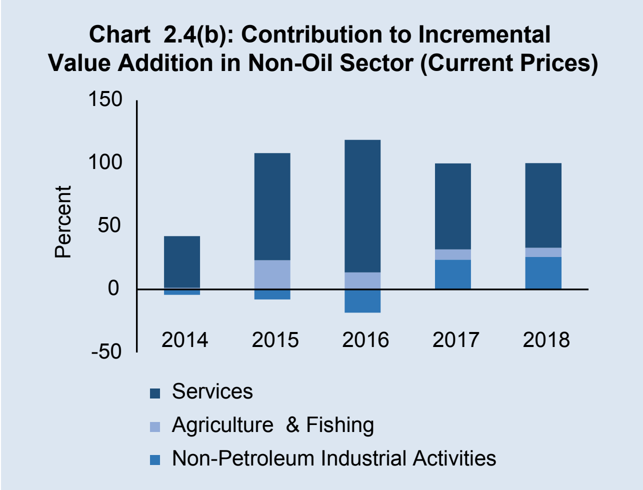
Non-Petroleum Sector

The non-petroleum sector is becoming paramount for sustainable development and generating adequate employment opportunities. Accordingly, concerted policy efforts are underway to promote activities in the non-petroleum sector. As mentioned earlier, a dedicated diversification program “Tanfeedh” focuses on implementing the special initiative in select five sectors. The Vision 2020 and 9th Five Year Plan also concentrate on creating a more diversified and stable economy led by private sector growth. Several policy initiatives were undertaken in 2018 to improve the business climate and encourage the participation of private sector. The Government is also trying to reorient the expenditure to the extent possible to give a necessary boost to non-oil economic activities alongside ensuring the quality of basic public services and human resource development.

Non-petroleum sector continued to perform well over the last few years reflecting consistent policy efforts. Non-petroleum activities expanded in nominal terms by 2.9 percent in 2018, albeit somewhat lower as compared to 3.3 percent in 2017, with a large contribution still coming from the services activities (Chart 2.4a & b). The share of services activities in the non-petroleum sector remained largest, however, its contribution to growth in value addition declined. On the other hand, the contribution of non-petroleum industrial activities increased in 2018, mainly due to higher expansion in mining and decelerated contraction in construction activities.

Considering its importance, there is a need to elevate the growth trajectory of non-petroleum activities, which would require increased participation of private sector and foreign investment. Various laws, viz. Foreign Capital Investment, Privatization, Public Private Partnership, Bankruptcy, Establishing the Public Authority for Privatization and Partnership promulgated recently would give a much-needed impetus to private and foreign investment. The regulatory framework for introduction and trading of real estate investment trusts (REITs) on the Muscat Securities Market, issued by the Capital Market Authority (CMA) would boost private investment in the real state sector. Small and Medium Enterprises (SMEs) play a critical role in the growth of non-petroleum activities. Therefore, the government and other stakeholders have





been continuously endeavoring to nurture a strong SMEs sector in the Sultanate. As financing often hampers the activities of SMEs, addressing this constraint would pave the way for an accelerated contribution of SMEs to non-petroleum sector. The CBO has prescribed a minimum floor of 5 percent out of total bank credit to be disbursed to the SME sector. Various other constraints, such as lack of capacity, inadequate credit information, higher riskiness, lack of collaterals, etc., which are hampering the banks to fully achieve the target, are being addressed by the government and other agencies.

Non-Petroleum Industrial Activities

Non-petroleum industry maintained almost the same nominal growth for two consecutive years, after experiencing a downturn during the contractionary phase (2015-2016). Industrial activities made up about 19 percent of aggregate GDP and 28 percent of GDP from non-petroleum activities. The contribution of non-petroleum industry to the growth of non-petroleum sector also increased to 25.8 percent in 2018 from 23.6 percent during the preceding year. The non-oil exports continued to support the growth in non-petroleum industry, despite sluggish domestic demand conditions as reflected by decelerating final consumption during 2014-2017. In addition, the moderation in average growth of gross capital formation during 2014-2017 also suggests subdued domestic demand. The disaggregated analysis indicates that 'mining & quarrying' recorded the highest growth of 16.0 percent during 2018, but it accounted for only about 4 percent of the value addition emanating from the non-petroleum industry. On the other hand, although the growth in 'manufacturing' decelerated to 8.4 percent in 2018, it contributed more than half to GDP stemming from the non-petroleum industry. The manufacturing activities were supported by higher activities in the chemical industries amidst higher oil prices. In aggregate GDP, the manufacturing sector contributed 9.9 percent share in 2018, marginally lower than the annual average of 10.2 percent during the preceding three years and the target of 10 percent by 2020 envisaged in the 9th Development Plan. Following manufacturing activities, 'electricity & water supply' also recorded moderation in growth at 4.8 percent in line with an overall deceleration in non-petroleum activities. The construction activities witnessed yet again a pronounced contraction of 6.1 percent, which can be attributed to a sharp decline in returns due to excess capacity and reduced demand with declining expat workers.

Non-petroleum industries feature prominently under the private sector-led growth strategy to foster diversification in the economy. Two of the five sectors (manufacturing and mining) from the non-petroleum industry are covered under "Tanfeedh". The government's initiatives to encourage domestic and foreign investment would also boost the growth in non-petroleum industrial activities. The development of industrial clusters, industrial estates, and special economic zones would foster higher investment in the manufacturing sector. The Duqm Special Economic Zone, which is an integrated development project, has already commenced contributing to the non-petroleum activities. The world-class infrastructure developed over the last few years makes the Sultanate an attractive destination for investment and would give a boost to private investment. Furthermore, the completion of major road projects (such as the Batinah Expressway and the Saudi-Oman road) turned Oman as a logistics hub in the Middle East region. The six solar and wind projects planned for execution would produce renewable energy up to 2.65 GW by 2024 and also contribute to other non-petroleum activities. The production of renewable energy would also save hydrocarbon resources for exports.

Agriculture and Fishing

Agriculture has a very limited scope in the Sultanate due to natural constraints, such as scanty rainfall and very limited underground water. Hence, Oman has to depend largely on imports for consumption of food grains and other agricultural products. Consequently, the price situation in Oman is influenced often by international commodity prices. On the other hand, the fishing sector has immense potential with large marine endowments of over 3,000 KM coastline and accordingly, the fishing has been included under the diversification program (Tanfeedh). The ninth five-year plan (2016-2020) has set a target of an average annual growth rate at 6.5 percent for fishing activities that would increase its share in GDP to 0.6 percent by 2020.

Meanwhile, agriculture and fishing activities grew at a decelerated rate of 6.9 percent in 2018 in comparison with an average of 9.3 percent during the preceding two years (2016-2017). The higher production of fisheries, which witnessed a rapid jump of 59 percent, supported the growth in the agriculture and fishing sector. The sector contributed 7.3 percent to the growth of GDP emanating from non-petroleum activities during 2018, lower than an average of 15 percent in the previous two years. The relative share of agriculture and fishing in the overall GDP, however, continued to hover around 2 percent, despite the noticeable growth in the last few years.

Services

A healthy and competitive services sector is desirable to meet the increasing demand for various services by citizens efficiently, reducing dependence on outside sources. The diversification move in the economy is also helping the growth of services through direct and indirect channels. "Tanfeedh" covered logistics and tourism from the services sector and considering their large potential, these sectors would not only contribute significantly to the growth of services sector but also boost other non-petroleum activities. Besides policy efforts, an excellent physical infrastructure created over the last few years would give a requisite push to activities in logistics and tourism sectors in the Sultanate.

The services sector recorded a decelerated growth of 2.8 percent during 2018, although it continued to account for the largest share of overall GDP. The share of services sector in overall GDP declined to 47.4 percent in 2018 from an average of 52.6 percent during the previous two years, whereas its share in GDP of non-petroleum sector remained almost same at 69.3 percent. Its contribution to the growth of overall GDP also dropped considerably to 12.2 percent in 2018 from 23.9 percent during the preceding year. The disaggregated analysis reveals that subdued expansion in the major components, viz. ‘wholesale & retail trade’, ‘public administration & defence’ and ‘other services’ shaped a moderated growth in the services sector. However, ‘hotels & restaurants’, ‘financial intermediation’, and ‘real estate & business activities’ experienced healthy growth. Notably, the activities in ‘hotels & restaurants’ recovered from contraction and recorded a robust growth of 8.4 percent, reflecting the positive outcome of various policy initiatives implemented to promote tourism in the Sultanate. On the contrary, the growth in ‘transport, storage & communication’ dropped considerably to 1.6 percent in 2018 from 7.1 percent during 2017, despite the logistic sector given priority under the diversification program. The “hotels & restaurant” and “transport, storage & communication” together contributed 6.4 percent to overall GDP and 13.4 percent to the GDP emanating from the services sector during the year, which is much lower given the significant improvement in transport and communication infrastructure. The ‘public administration & defence’ and ‘other services’ together still constituted the largest share in the services sector at about 48 percent.

Services act as a crucial input to most other business activities and thus, this sector could have a noticeable impact on the overall business climate. Additionally, the progress of services sector could help public policy in achieving social development goals, especially by providing large employment as well as lowering the pressure on current account by reducing dependence on imports for services. As alluded to earlier, tourism and logistics sectors have immense potential and accordingly, they have been identified as an important contributor to the diversification. The Implementation Support and Follow-up Unit is carrying out at least 14 Key Performance Indicators (KPIs) regarding the enhancement of tourism sector for promoting eco-tourism, adventure tourism, privatisation of heritage site management, development of iconic projects, etc. A target of annual average growth at 5.3 percent and contribution to GDP at 3.3 percent has been envisaged for the tourism sector under Vision 2020. In order to achieve the above targets, a total investment of RO 1.6 billion is planned in the tourism sector during the Ninth Five-Year Development Plan (2016-2020).

GDP at Constant Prices

Globally, the economic performance of an economy is evaluated through real GDP (constant prices), as the nominal GDP (current prices) contains pricing element and could cloud the real activities completely at times. Furthermore, the large fluctuations in crude oil prices could turn nominal GDP in an oil-exporting country highly volatile. On the other hand, in an oil exporting economy, the nominal GDP is more relevant to gauge the overall economic activities (including employment and purchasing power) than real GDP. Against the above backdrop, both nominal and real GDP become important for macroeconomic analysis and policy purpose in an oil exporting economy like Oman.

As per the latest available data, Oman's real GDP at constant prices (Base year: 2010) declined by 0.9 percent during 2017 as against an upturn of 5.0 percent in 2016 (Table 2.3). The drop in oil production coupled with a sharp contraction in building and construction activities led to a decline in real GDP during 2017. The voluntary implementation of OPEC and Non-OPEC oil producers' agreement resulted in a decline in oil production. The real output originating from all other major sectors, including natural gas, recorded an expansion in 2017, albeit largely subdued as compared to the previous year. The real value addition from natural gas inched up by 1.5 percent, while the hydrocarbon real GDP contracted by 3.0 percent during 2017. The growth in real GDP originating from the non-hydrocarbon sector also decelerated considerably to 0.9 percent in 2017, with non-petroleum industrial output dropping by 1.5 percent during the year. The share of hydrocarbon sector in the real GDP also moderated to 40.9 percent in 2017 from 41.7 percent during 2016, while the share of non-hydrocarbon sector rose to 65.8 percent from 64.6 percent during this period.

Among the non-petroleum activities, the real value addition stemming from agriculture and fishing sector rose highest by 9.0 percent, followed by the services sector with 1.7 percent in 2017. The real output in non-petroleum industrial activities declined by 1.5 percent during the year mainly because of a steep fall in 'building and construction' activities. Notwithstanding the focus on manufacturing under diversification program, the real GDP of this sector witnessed a decelerated growth of 0.8 percent. On the other hand, 'mining and quarrying' and 'electricity and water supply' recorded higher growth of 11.0 percent and 5.5 percent, respectively (8.9 percent and 5.2 percent, respectively, in 2016). Among the services, the 'private households with employed person' experienced the highest growth, followed by 'transport, storage & communication', 'real estate and business activities', and 'hotels and restaurants'. The real activities in 'public administration & defence' and 'other community, social & personal services' contracted during the year. The uncertainty surrounding the business environment, despite rapid gains made by oil prices, drove overall deceleration in real growth of the services sector.

Capital Formation and Savings

As per the latest available data, the investment activities remained sluggish during 2017, reflecting macroeconomic uncertainty on the back of volatile oil prices and elevated fiscal and current account deficits. The gross capital formation declined by 9.3 percent during 2017 as against a sharp upturn of 12.3 percent in the preceding year. The related indicators, such as modest credit growth at the level of the previous year and sharp deceleration in imports of capital goods, suggest subdued

Table 2.3
Gross Domestic Product at Constant (2010) Prices
(Rial Omani Million)

Activities	2014	2015	2016	2017*	% Change (2016/15)	% Change (2017/16)
1. Industry (1.1 + 1.2)	**16025.8**	**16846.0**	**17623.4**	**17180.2**	**4.6**	**-2.5**
1.1 Petroleum Activities	**11097.5**	**11588.1**	**12000.5**	**11642.0**	**3.6**	**-3.0**
- Crude Petroleum	10230.5	10701.0	11079.4	10706.9	3.5	-3.4
- Natural Gas	867.0	887.1	921.0	935.1	3.8	1.5
1.2 Non-Petroleum Industrial Activities	**4928.3**	**5257.9**	**5622.9**	**5538.2**	**6.9**	**-1.5**
- Mining and Quarrying	100.0	110.5	120.3	133.6	8.9	11.0
- Manufacturing	2501.4	2602.7	2679.1	2701.4	2.9	0.8
- Electricity & Water supply	478.4	532.7	560.6	591.4	5.2	5.5
- Building and Construction	1848.5	2012.1	2262.9	2111.8	12.5	-6.7
2. Agriculture & Fishing	**371.0**	**492.0**	**532.8**	**580.9**	**8.3**	**9.0**
- Agriculture	229.3	319.6	345.4	349.1	8.0	1.1
- Fishing	141.7	172.4	187.4	231.8	8.7	23.7
3. Services	**11469.8**	**11960.3**	**12427.6**	**12635.5**	**3.9**	**1.7**
- Wholesale & Retail Trade	2122.2	2241.8	2328.4	2344.6	3.9	0.7
- Hotels & Restaurants	234.2	259.7	293.9	306.5	13.2	4.3
- Transport, Storage & Communication	1651.5	1738.6	1728.0	1808.8	-0.6	4.7
- Financial Intermediation	1377.1	1460.3	1568.4	1631.7	7.4	4.0
- Real Estate & Business Activities	1121.4	1165.5	1195.0	1249.0	2.5	4.5
- Public Administration & Defence	2653.5	2732.6	2907.1	2861.6	6.4	-1.6
-Education	1320.1	1356.1	1363.9	1371.8	0.6	0.6
-Health	537.9	546.9	563.8	576.3	3.1	2.2
-Other Community, Social and Personal Services	346.1	342.2	351.3	351.0	2.7	-0.1
-Private Household with Employed Persons	105.7	116.6	127.9	134.1	9.6	4.9
4. Total Non-Petroleum Activities (1.2 + 2 +3)	**16769.0**	**17710.3**	**18583.4**	**18754.6**	**4.9**	**0.9**
5. Less Financial Intermediation Services Indirectly Measured	648.4	720.6	709.6	670.1	-1.5	-5.6
6. Gross Domestic Product at Producers Prices (1.1+4-5)	**27218.2**	**28577.8**	**29874.3**	**29726.5**	**4.5**	**-0.5**
7. Plus :Taxes Less Subsidies on Products	-1072.7	-1193.2	-1125.8	-1244.8	-5.7	10.6
8. Gross Domestic Product at Market Prices (6+7)	**26145.4**	**27384.6**	**28748.5**	**28481.6**	**5.0**	**-0.9**

* Provisional

Source: National Center for Statistics and Information.

investment activities for 2018 also. Although the reduction in gross capital formation during 2017 was spread across the categories, the "building and construction" experienced biggest nominal decline that may be attributed to subdued demand in real estate and rationalization of government expenditure pursuing fiscal consolidation. The gross capital formation to GDP ratio also dropped from 32.8 percent in 2016 to 27.7 percent during 2017.

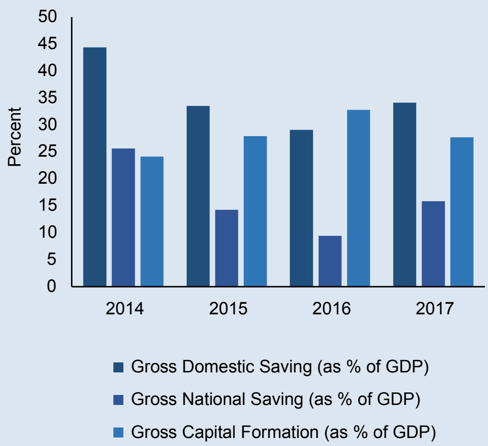
Gross domestic savings increased by about 26 percent, while gross national savings jumped by about 80 percent in 2017. The higher growth in gross national savings vis-à-vis gross domestic savings suggests an increased share of savings available for domestic investment (Chart 2.5). This inference is also corroborated by a jump of 6.4 percentage points in gross national savings to GDP ratio, higher as compared to an increase of 5.0 percentage points in gross domestic savings to GDP ratio (Table 2.4). The leakage of savings in the form of remittances abroad (on account of net primary income, private transfers, etc.) as a percentage of GDP also declined to 18.2 percent in 2017 from 19.6 percent during 2016 (the difference between gross domestic savings and gross national savings). The outflow of savings on account of net primary income increased from RO 753 million in 2016 to RO 1118 million during 2017, reflecting burgeoning external debt due to high fiscal deficit financing needs. On the other hand, the current transfers abroad, which mainly represent workers' remittances, decreased by about 4.6 percent from RO 4,062 million to RO 3,875 during this period and contributed about 78 percent to the leakage of savings out of the country. Notwithstanding reduced leakage, the investment-savings gap remained significant, thus indicating a continued requirement of external savings to finance domestic investment.

Table 2.4
Gross Capital Formation and Saving
(Rial Omani Million)

Items	2014	2015	2016	2017*
A. Gross Capital Formation at Current Prices	**7522.9**	**7396.7**	**8309.2**	**7538.1**
(i) Building and Construction	4850.3	5265.3	5836.2	5386.8
(ii) Machinery & Equipment	1699.8	1073.9	1433.5	1179.1
(iii) Intangible Fixed Assets	972.8	1057.4	1039.4	972.1
Change in Inventories 1	-796.5	597.4	-869.5	993.8
B. Gross Capital Formation as % of GDP	**24.1**	**27.9**	**32.8**	**27.7**
C. Gross Domestic Saving	**13836.5**	**8879.8**	**7374.7**	**9287.1**
D. Net primary Income from abroad	-1648.2	-869.8	-752.5	-1118.1
E. Net current transfers from abroad	-4052.4	-4320.4	-4062.0	-3875.1
F. Gross National Saving (C+D+E)	**7989.7**	**3784.0**	**2396.3**	**4319.5**
G. Gross Domestic Saving as % of GDP	**44.4**	**33.5**	**29.1**	**34.1**
H. Gross National Saving as % of GDP	**25.6**	**14.3**	**9.5**	**15.9**

* Provisional
1 Not included in Gross Capital Formation.
Source: National Center for Statistics and Information.

Chart 2.5: Oman's Saving & Investment Rates



Employment

Omani economy has made rapid strides over the last years and provided gainful employment to Omani nationals and expatriates. The hydrocarbon sector has remained the main driver of employment opportunities traditionally in the Sultanate. However, the non-hydrocarbon sector has also emerged as a force in the reckoning, especially for the creation of sustainable employment opportunities for young Omanis in the structurally evolving domestic economy. Recognizing the importance of non-hydrocarbon sector, the public policy has been giving top priority to economic diversification with a focus on the newly developing economic sectors. The economic diversification is also creating demand for workforce with certain types of skills, which the labour market is not often able to fulfill domestically. Therefore, the imbalance in the domestic labour market (excess demand over supply) is met generally from the external sources (Table 2.5). The government, however, is trying to mitigate this imbalance in the domestic labour market by imparting requisite training and skills and encouraging Omani nationals to take up all kinds of jobs. With youth constituting a large share in total population and increasing number of new entrants in the workforce annually, a “dynamic labor market that is attractive to talent and responsive to demographic, economic, knowledge and technical changes” has become a national priority under Vision 2040.

The public sector, which employs the larger number of Omanis as compared to the private sector, had implemented a quasi-freeze on its employment since the collapse of oil prices in 2015. However, in order to address the growing unemployment, the Omani Council of Ministers announced in November 2017 to provide jobs for 25,000 Omanis in public sector and private sector with a higher contribution expected from the latter due to a limited scope available in the former. The visa restrictions imposed by the government on a large number of professions is also increasing the share of Omani nationals in workforce, especially in the private sector.

Public Sector

The public sector employed a large share of Omanis in the workforce historically due to limited activities and capacity in the private sector. However, with the structural transformation that the Omani economy is undergoing, the private sector has been making singnificant progress and becoming the main recipient of workforce entrants. The employment in the public sector remained largely stagnant over the past few years with intermittent marginal increases and reductions. As per the latest available information, the overall employment in the public sector increased by 3.3 percent in 2017. The Omanis employed in the public sector continued to far exceed that

Table 2.5
Sector Wise Employment in Oman

Items	2014	2015	2016	2017	2018
A. Public Sector Employees (A1+A2+A3+A4)*	**252505**	**249021**	**253044**	**261314**	**-**
Omanis	213148	210306	212250	217766	-
Expatriates	39357	38715	40794	43548	-
A.1 Civil Service	**178965**	**180386**	**182138**	**179299**	**-**
Omanis	154977	155761	155672	153827	-
Expatriates	23988	24625	26466	25472	-
A.2 Diwan of Royal Court	**38874**	**33404**	**33898**	**33961**	**-**
Omanis	29622	25345	25894	26374	-
Expatriates	9252	8059	8004	7587	-
A.3 Royal Court Affairs	**19525**	**19552**	**19483**	**20129**	**-**
Omanis	16229	16339	16313	16860	-
Expatriates	3296	3213	3170	3269	-
A.4 Public Corporations	**15141**	**15679**	**17525**	**27925**	**-**
Omanis	12320	12861	14371	20705	-
Expatriates	2821	2818	3154	7220	-
B. Private Sector Employees	**1707903**	**1845658**	**2011062**	**2034377**	**1981845**
Omanis**	197510	209620	223083	238688	252132
Expatriates	1510393	1636038	1787979	1795689	1729713

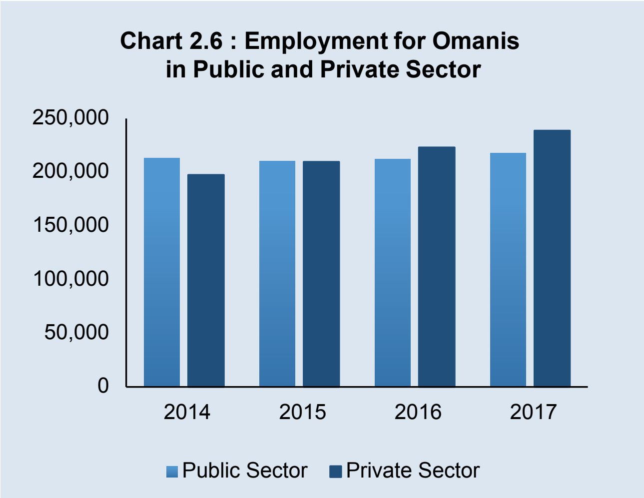
* Excluding security and defense personnel.
** Registered with Public Authority for Social Insurance (PASI).
Source: National Center for Statistics and Information.

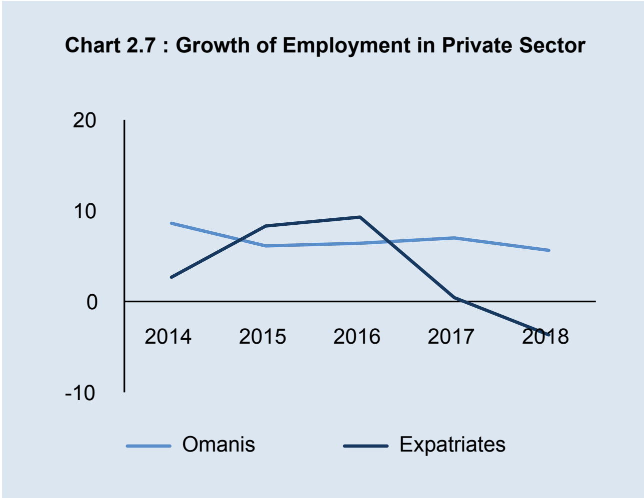
of expatriates (Table 2.5). However, the largest numbers of expatriates were employed in civil services.

Private Sector

As discussed earlier, the non-hydrocarbon sector has emerged a new engine of employment in the Sultanate with diversification obtaining a requisite push from the government and other stakeholders. Since the private sector is the main driver of the non-hydrocarbon economic activities, an increasing number of employment opportunities, including for Omani nationals, are provided in this sector. The government's Omanization policy applicable to the private sector is also facilitating higher employment to Omanis in this sector during the past few years. During 2018, the private sector employment largely followed the macroeconomic developments. The visa restrictions in a large number of professions stipulated by the government in November 2017 also conditioned the employment dynamics in the private sector. The sector increased focus on In-Country Value (ICV) strategies and efforts to provide higher employment opportunities to Omanis and develop local vendors and contractors. Additionally, as part of Corporate Social Responsibility (CSR) initiative, the private sector is targeting training and upskilling of the Omani youths for potential direct employment as well as the development of SMEs.

The number of Omanis employed by the private sector, which has been growing steadily over the last few years, increased by 5.6 percent during 2018 (Chart 2.6). On the other hand, with a ban on the hiring of expatriates in certain occupations, the employment to expatriates in the private sector dropped first time in the last few years, with





a decline of 3.7 percent during 2018 (Chart 2.7). Notably, Omanis employed in the private sector exceeded that employed in the public sector since 2016. Although the expatriate workers constitute the majority in the private sector workforce, the share of Omanis in total employment in private sector inched up to 12.7 percent in 2018 from 11.7 percent a year ago. Occupations included in such ban are across numerous fields and include both junior and senior positions. It is worth noting that the government is aiming at Omanization of more leadership positions in the private sector. Additionally, the Ministry of Manpower has launched the National Leadership Development Programme "Itimad" under which 500 mid-level Omani employees from the private sector will undergo tailored leadership training.

The sectoral composition of the employment in the private sector shows that the construction sector employed the largest number of both Omani and expatriate workforce in 2018 with a share of 23.6 percent and 32.5 percent, respectively. The wholesale, retail trade & repair of motor vehicles sector employed the second largest Omani and expatriate workforce in the private sector with a share of 15 percent and 13.6 percent, respectively. The mining and quarrying sector employed the third largest share of Omanis in the private sector at 12 percent, while for the expatriate workforce it was the manufacturing sector with the same percentage share.

Inflationary Conditions

Price stability has remained a priority for the Government and the CBO for ensuring sustainable and balanced growth in the economy. The imported inflation affects the inflationary conditions considerably in the Sultanate due to the currency peg, open capital account and high dependence on imports of goods & services. Accordingly, the inflationary conditions in Oman tend to follow the trends in global inflation, especially in advanced countries. However, the domestic demand conditions and government policies, including administrative measures, also affect domestic inflation. The average retail inflation in advanced countries is estimated to inch up marginally to 2.0 percent in 2018 from 1.7 percent during 2017 (IMF, WEO, April 2019). However, the average consumer inflation in Oman decelerated to 0.9 percent in 2018 from 1.6 percent in the preceding year, in contrast with the trends prevailing in

Chart 2.8 : Annual Consumer Inflation in Oman

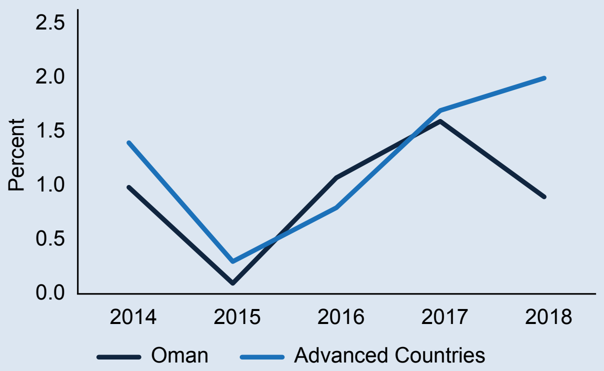
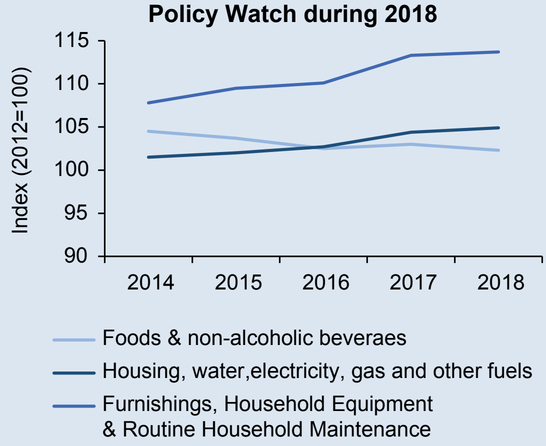


Chart 2.9 : Sultanate CPI: Key Items for Policy Watch during 2018



advanced countries (Chart 2.8).

In terms of demand and supply conditions analysis, a combination of subdued domestic demand and lower pressure from the supply side appears to have shaped the benign inflationary conditions in the Sultanate during 2018 (Table 2.6). Although the government expenditure grew considerably during 2018, the hardening of interest rates and uncertain business environment restrained the consumer and investment demand. Asset prices channel also appears to have had a dampening effect on demand as prices across almost all asset classes have fallen – MSM 30 Share Price Index declined

Table 2.6
Broad Sources of Inflation

(Percent)

Items	2014	2015	2016	2017	2018
Demand Condition					
(a) GDP Growth	2.9	-15.0	-4.3	7.3	12.0
(b) Increase in Govt Expenditure	8.5	-9.7	-5.8	-4.9	10.8
Monetary Expansion					
(a) Broad Money (M2) growth	15.3	10.0	1.8	4.2	8.3
(b) Credit growth	15.0	12.0	10.1	6.4	6.4
Supply Constraints/External Shocks					
(a) World Food Prices[1]	-1.4	-16.8	0.0	3.9	-0.6
(b) World Metal Prices [2]	-12.2	-27.3	-5.3	22.1	6.2
(c) Housing, Water, Electricity, Gas and Other Fuels (Oman)[3]	1.0	0.5	0.7	1.6	0.5
(d) Regional Inflation (Middle East & North Africa)[4]	6.7	5.4	4.7	6.4	10.4
(e) NEER* Variation	5.6	3.5	2.0	-5.1	2.4
(f) Change in Import Price[5]	9.6	-35.5	32.2	38.5	7.7
(g) Foreign Labour in Pvt. Sector (Annual absolute increase)	39257	125645	151941	7710	-65976.0

* Nominal Effective Exchange Rate of RO (import weighted); minus indicates depreciation.
Source: 1,2&4: IMF., 3: National Center for Statistics and Information (Rent component in the CPI for the Sultanate).
5: Derived from NCSI data on value of imports and quantity of imports.

by 15.2 percent, and drop in construction activities and rentals on both residential and commercial properties suggest downward pressure on real estate prices. On the supply side, the non-fuel international commodity prices rose by 1.6 percent during 2018, significantly lower as compared to 6.4 percent in 2017. In fact, world food prices declined marginally during the year. The nominal effective exchange rate (NEER) of Oman appreciated by 2.4 percent during 2018, containing inflationary pressure through imports. On the other hand, import prices index, encompassing the impact of relative inflation, international commodity prices and changes in the NEER, exerted upward inflationary pressure, albeit much lower in comparison with the previous year. In terms of administrative measures, there was no further increase in taxation and introduction of new taxes such as the Value Added Tax and the Excise Tax have been delayed to 2019. On a balance, the demand and supply factors supported subdued inflationary conditions in the Sultanate during 2018 (Tables 2.7 & 2.8).

Turning to component-wise analysis, it is found that transportation and education experienced the highest increase of 4.2 percent each during 2018. The prices of other categories such as “housing, water, electricity, gas, and other fuels” also increased but modestly. The prices of “health” witnessed the largest slump, whereas the prices of “food & non-alcoholic beverages” decreased slightly following a marginal drop in world food prices, reflecting high dependence of Oman on imports for food. Other sub-groups, viz. “clothing & footwear”, “communication”, and “recreation & culture” also witnessed marginal deflation during the year. The cost of basic items remained more or less the same as in the pervious year (Chart 2.9)

Although the retail inflation remained benign, the producer prices increased considerably during 2018, reflecting rise in production cost in the Sultanate (Table 2.9). Besides oil and gas, metal products, machinery & equipment were the main drivers of a significant uptern in producer prices.

Table 2.7
Sultanate Consumer Price Index (2012 = 100)

Items of Consumption	Weights	2016	2017	2018	% change 2017/16	% change 2018/17
1. Food & Non-Alcoholic Beverages	**23.9**	**102.5**	**103.0**	**102.3**	**0.5**	**-0.7**
Cereals & Breads	3.020	99.5	99.1	99.3	-0.5	0.3
Meat	6.1	103.2	103.6	104.1	0.4	0.4
Fish & Sea food	2.21	101.3	103.8	100.9	2.4	-2.8
Milk , Cheese & Eggs	2.87	100.4	99.8	100.9	-0.7	1.1
Oil & Fats	0.72	99.4	99.3	99.9	-0.1	0.6
Fruits	2.82	106.3	107.5	106.0	1.2	-1.4
Vegetables	2.49	104.6	106.3	99.1	1.7	-6.8
Sugar, Jam,Honey, Chocolate & Confectionary	1.14	100.6	101.1	101.9	0.4	0.8
Food Products n.e.c.	0.52	101.2	100.8	100.5	-0.4	-0.3
Non- Alcoholic Beverages	2.03	103.6	103.9	105.6	0.3	1.7
2. Tobacco	**0.13**	**112.3**	**131.9**	**132.0**	**17.4**	**0.1**
3. Clothing & Footwear	**5.96**	**100.4**	**100.4**	**99.8**	**-0.1**	**-0.5**
4. Housing,Water,Electricity, Gas & Other Fuels	**26.48**	**102.7**	**104.4**	**104.9**	**1.6**	**0.5**
5. Furnishings,Household Equipment & Routine Household Maintenance	**3.79**	**110.1**	**113.3**	**113.7**	**2.9**	**0.4**
6. Health	**1.16**	**111.5**	**111.8**	**108.8**	**0.3**	**-2.7**
7. Transport	**19.17**	**105.9**	**110.6**	**115.2**	**4.4**	**4.2**
8. Communication	**5.63**	**97.9**	**95.6**	**95.4**	**-2.3**	**-0.2**
9. Recreation and Culture	**1.14**	**98.4**	**98.7**	**98.4**	**0.4**	**-0.3**
10. Education	**1.37**	**118.2**	**122.2**	**127.3**	**3.4**	**4.2**
11. Restaurants and Hotels	**6.1**	**102.8**	**103.0**	**103.3**	**0.2**	**0.3**
12. Miscellaneous goods and Services	**5.19**	**100.4**	**102.0**	**102.9**	**1.6**	**0.9**
General Price Index	**100.0**	**103.3**	**104.9**	**105.9**	**1.6**	**0.9**

Note: 1. The weights are based on Household Expenditure and Income survey by taking average for the years 2008,2009 and 2010.
2. Data collected from all Governorates of the Sultanate Excluding Musandam and AL Wustta Governorates.
3. Data are compiled on the basis of 28,168 priced items of goods and services from 1721 selected sources.
4. Data on Rent are collected from a sample of 1150 rented units.

Source: National Center for Statistics and Information.

Table 2.8
Consumer Price Index for Muscat (2012 = 100)

Items of Consumption	Weights	2016	2017	2018	% change 2017/16	% change 2018/17
1. Food and Non-Alcoholic Beverages	**16.822**	**102.2**	**103.0**	**102.9**	**0.7**	**-0.1**
Cereals & Breads	2.170	98.6	98.9	98.5	0.2	-0.4
Meat	3.962	99.5	99.8	101.0	0.3	1.2
Fish & Sea food	1.243	106.7	108.1	106.7	1.4	-1.3
Milk, Cheese & Eggs	2.054	100.6	101.3	102.7	0.7	1.4
Oils and Fats	0.511	99.1	99.6	100.0	0.5	0.4
Fruits	1.901	107.2	108.3	109.8	1.1	1.3
Vegetables	1.962	102.7	104.6	98.6	1.9	-5.7
Sugar,Jam,Honey,Chocolate& Confectionary	0.895	102.1	102.5	103.4	0.4	0.9
Food Products n.e.c.	0.415	105.8	105.4	105.5	-0.4	0.1
Non-Alcoholic Beverages	1.709	105.8	106.5	107.6	0.6	1.1
2. Tobacco	**0.078**	**113.3**	**133.9**	**133.9**	**18.2**	**0.0**
3. Clothing & Footwear	**5.366**	**98.2**	**98.4**	**96.5**	**0.2**	**-2.0**
4. Housing,Water, Electricity ,Gas & Other Fuels	**34.703**	**103.4**	**104.0**	**103.9**	**0.6**	**-0.1**
5. Furnishings, Household Equipment & Routine Household Maintenance	**4.056**	**110.4**	**117.9**	**118.7**	**6.8**	**0.7**
6. Health	**1.329**	**104.2**	**104.2**	**101.1**	**0.0**	**-3.0**
7. Transport	**19.268**	**106.3**	**110.5**	**113.7**	**4.0**	**2.9**
8. Communication	**5.372**	**97.5**	**95.3**	**95.0**	**-2.2**	**-0.4**
9. Recreation and Culture	**1.475**	**97.1**	**96.9**	**96.8**	**-0.2**	**-0.2**
10. Education	**1.843**	**125.5**	**130.6**	**138.9**	**4.0**	**6.4**
11. Restaurants and Hotels	**4.721**	**100.3**	**100.3**	**101.0**	**0.0**	**0.6**
12. Miscellaneous Goods and Services	**4.967**	**100.0**	**101.4**	**102.1**	**1.4**	**0.6**
General Price Index	**100.0**	**103.5**	**105.0**	**105.6**	**1.5**	**0.6**

Note: 1. The weights are based on Household Expenditure and Income Survey by taking average for the years 2008, 2009 and 2010.
2. Data collected from all Willayats of Muscat Governorate.
3. Data are compiled on the basis of 7,920 priced items of goods and services from 266 selected sources.
4. Data on rent is collected from a sample of 600 rented units

Source: National Center for Statistics and Information.

Table 2.9
Producer Price Index (2007=100)

	Items of Consumption	Weights	2016	2017	2018	% change 2017/16	% change 2018/17
	Oil & Gas Products	**79.534**	**90.6**	**106.0**	**134.2**	**17.0**	**26.7**
-	Crude Oil & Natural Gas	68.002	91.1	105.8	133.9	16.1	26.6
-	Refined Oil Products	11.533	87.5	107.2	136.2	22.5	27.0
	Non-Oil Products	**20.466**	**98.7**	**100.1**	**103.4**	**1.5**	**3.3**
1-	**Mining, Electricity & Water**	**4.964**	**104.1**	**100.1**	**98.8**	**-3.9**	**-1.2**
-	Minerals, Stones & Sands	0.381	134.5	136.8	128.5	1.7	-6.0
-	Electrical Energy & Water	4.583	101.6	97.0	96.4	-4.5	-0.7
2-	Manufacturing	15.502	96.9	100.1	104.8	3.3	4.7
A-	**Food, Beverages & Textiles Products**	**3.104**	**111.9**	**112.5**	**112.2**	**0.6**	**-0.3**
-	Fish, Fruit, Vegetables & Oils	0.974	104.1	107.8	100.3	3.5	-6.9
	-Prepared & Preserved Fish	0.273	103.2	106.3	105.7	2.9	-0.5
	-Prepared & Preserved Vegetables	0.071	122.4	122.5	122.3	0.1	-0.2
-	Dairy Products	0.538	94.2	102.5	101.9	8.8	-0.6
-	Bakery Products & Other Food Products	1.116	116.0	110.8	111.9	-4.5	1.0
	- Bakery Products	0.456	111.5	111.4	110.4	-0.1	-0.9
	- Other Food Products	0.146	109.9	101.9	94.0	-7.2	-7.8
-	Beverages	0.420	140.3	140.0	152.6	-0.2	8.9
	- Non-Alcoholic Beverages	0.420	140.3	140.0	152.6	-0.2	8.9
-	Clothing, Textiles & Footwear	0.056	120.2	119.6	118.9	-0.4	-0.6
B-	**Transportable Goods**	**7.294**	**106.5**	**110.4**	**114.1**	**3.7**	**3.3**
-	Wood & Paper Products	0.475	129.6	128.9	131.6	-0.5	2.1
	- Paper Products	0.206	128.8	128.3	128.5	-0.4	0.1
	- Books, Brochures & Leaflets	0.063	136.9	139.3	146.5	1.7	5.2
	- Stamps & Other Printed Matter	0.016	134.1	97.0	95.9	-27.6	-1.2
	- Articles of Stationery of Paper	0.008	141.8	141.9	141.9	0.1	-0.0
-	Chemicals Products	2.889	94.8	107.5	117.6	13.4	9.4

-	Organic Acids & Gas Used for Cooking	0.860	96.0	128.1	147.5	33.5	15.1
	- Salts, Acids & Inorganic Gases	0.108	99.1	99.1	96.3	0.0	-2.8
	- Polypropylene Products	0.918	75.9	82.3	87.4	8.5	6.2
-	Paints & Pharmaceutical Products	0.656	121.1	115.0	111.9	-5.0	-2.7
	- Paints	0.221	145.7	144.8	140.0	-0.6	-3.3
	- Pharmaceutical Products	0.257	88.3	75.4	72.2	-14.6	-4.3
-	Rubber & Plastics Products	0.751	95.7	94.9	98.3	-0.9	3.7
	- Semi-Manufactures of Plastics	0.545	94.3	93.5	97.0	-0.8	3.8
	- Packaging Products of Plastics	0.107	96.1	94.8	94.2	-1.3	-0.7
	Glass, Cement & Marble Products	2.012	114.6	112.5	110.4	-1.8	-1.9
	- Cement, Lime & Plaster	1.011	103.5	100.5	97.5	-2.9	-3.0
	- Articles of Concrete, Cement & Plaster	0.247	129.4	129.0	129.0	-0.3	0.0
	- Paving or Building Stone	0.314	129.8	127.3	129.4	-1.9	1.7
-	Furniture, Jewelry Manufacturing & Anti-Melted Metal Waste	0.511	116.6	118.5	118.1	1.6	-0.3
	- Furniture	0.384	115.1	115.4	115.7	0.3	0.2
C-	**Metal Products, Machinery & Equipment**	**5.103**	**74.0**	**77.8**	**87.2**	**5.1**	**12.1**
-	Raw & Products of Steel or Aluminum	1.897	71.3	82.3	94.3	15.5	14.6
-	Fabricated Products of Steel or Aluminum	0.758	77.5	79.6	81.1	2.7	1.9
	- Construction Products of Steel or Aluminum	0.602	68.4	69.4	71.0	1.5	2.3
	- Other Finished Products of Steel or Aluminum	0.130	115.3	122.6	123.6	6.3	0.8
-	Conditioning, Heating & Pumping Water, & Drilling of Oil Wells Apparatus, & Cars Oils Filters	0.240	107.9	107.8	107.8	-0.1	0.0
-	Distribution & Delivery of Electricity Apparatus, And Recording Tapes & CDs	2.208	71.6	70.1	81.0	-2.0	15.6
	General Price Index	**100.000**	**92.2**	**104.8**	**127.9**	**13.6**	**22.1**

Note: 1. PPI are based on the relative share of the various industries outputs produced in the Sultanate whether sold in local market or exported to other countries, using Industrial Survey data 2007.
2. Data are compiled on the basis of 564 items of commodity entering the local market and 329 items of export commodity.
Source: National Center for Statistics and Information.

Oil & Gas Production

Developments in World Oil Markets

The crude oil prices witnessed higher volatility while traversing on the recovery path due to both demand and supply factors. Global economic activity lost some momentum in the second half of 2018, adversely affecting the demand for crude oil. Global real growth decelerated to 3.6 percent in 2018 from 3.8 percent during 2017. The momentum in global economic activity is expected to decelerate further in 2019. Additionally, the ongoing trade related frictions have created a lot of uncertainty for the global economic activity and crude oil demand. On the other hand, the global supply of crude oil, especially from OPEC, responded to the evolving conditions in the international oil market. OPEC+ countries continued with their efforts to balance the global oil supply and agreed to cut production until the later part of 2018. However, as oil prices shot up during the first week of October 2018 in the wake of the anticipated drop in oil exports from Iran due to USA sanctions and collapse in Venezuela's production, OPEC+ ramped up their production cooling down the oil prices. As USA granted a temporary exemption to major oil importers from Iran, oil prices crashed and touched the lowest of the season in December 2018 (Brent crude at US$ 52.2 a barrel). OPEC+ entered into another agreement to cut production during the first half of 2019 for supporting recovery in oil prices. Consequently, the oil market stabilized to an extent and prices recovered, albeit with entrenched volatility. The agreement to cut production has since been extended until the end of March 2020. Notwithstanding a production cut, the uncertainty surrounding the demand on the back of decelerating momentum in global economic activity and ongoing trade tensions between USA and China would condition the trajectory of oil prices during the remaining period of 2019 and beyond. As per IMF, the global growth is projected to slow further to 3.3 percent in 2019, exerting downward pressure on oil demand. Additionally, the geopolitical tensions in the Middle East region would have a bearing on the oil prices.

Economics of Oil and Gas in Oman

Oman's oil and gas industry continues to play a major role in the country's economy, despite the government's continuous efforts to promote diversification in the economy. The average Omani oil price jumped by 35.8 percent to US$ 69.7 per barrel in 2018 and ranged from the lowest of $60.79 in January to the highest of US$ 80.20 in December (Table 2.10). Oil and gas constituted about 36 percent of nominal GDP, about 6 percentage points higher than the previous year, and accounted for 78.2 percent of government revenues.

Crude Oil

Production & Exploration

The average daily oil production increased by 0.8 percent to 978.4 thousand barrels during 2018, while the aggregate oil production rose to 357.1 million barrels (Table 2.11 and Chart 2.10). The production of natural gas also inched up considerably by 12.5 percent to 43,750 million cubic meters during 2018 with Khazzan-I coming into full steam. Petroleum Development Oman (PDO) announced the discovery of Mabrouk

Table 2.10
Oman's Oil Prices
(US $/ Barrel)

Month	2014	2015	2016	2017	2018
January	105.97	78.24	42.28	44.54	60.79
February	107.88	61.01	34.59	52.72	61.60
March	104.04	46.73	27.40	53.93	66.32
April	105.04	56.21	30.23	55.12	63.01
May	104.36	55.09	36.34	51.71	63.31
June	104.99	58.68	39.40	52.82	68.31
July	105.65	63.62	44.33	50.55	74.41
August	108.08	61.84	46.60	46.52	73.61
September	106.24	56.33	43.40	47.63	73.17
October	102.23	47.88	44.02	50.39	72.64
November	97.26	45.76	43.92	54.02	78.72
December	86.96	46.03	49.18	55.59	80.20
Average (Jan-Dec)	**103.23**	**56.45**	**40.14**	**51.30**	**69.67**

Source: Ministry of Oil and Gas and National Center for Statistics and Information.

North East field, one of the biggest gas finds in the world, at the beginning of 2018. The Ministry of Oil & Gas signed three production-sharing agreements – the first agreement with Petrolb LLC to develop oil block 57, the second with Occidental Oman for concession block 51 and the third with a joint venture between Occidental and Oman Oil Company Exploration and Production (OOCEP) for concession area number 65.

Oil Exports

The share of exports in total production declined over the last few years due to increased utilization of crude in domestic refineries to meet the rising consumption of petroleum products as well as for exporting refined products (Chart 2.11). Nevertheless, the exports of crude oil accounted for more than 80 percent of crude oil production in 2018. The direction of oil exports reveals that the largest demand for Oman's oil persisted to emanate from Asian markets in 2018 also (Chart 2.12 & Table 2.12). China topped the list of countries, importing about 83 percent of Omani crude oil, followed by India with about 8 percent and Japan with around 6 percent. The rest of the countries

Chart 2.10 : Oil Production and Prices

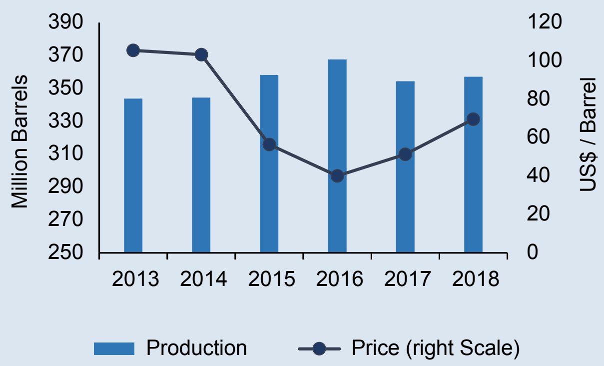


Chart 2.11 : Omani Crude Oil Production and Exports

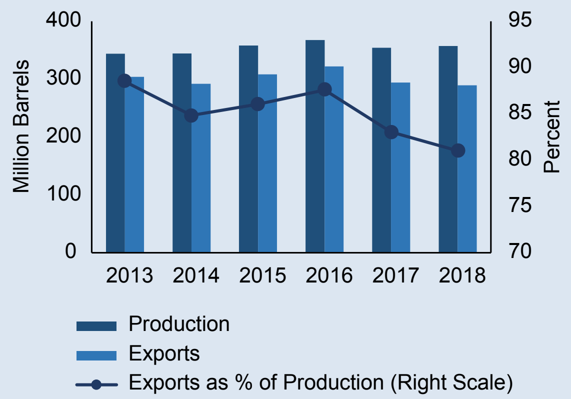
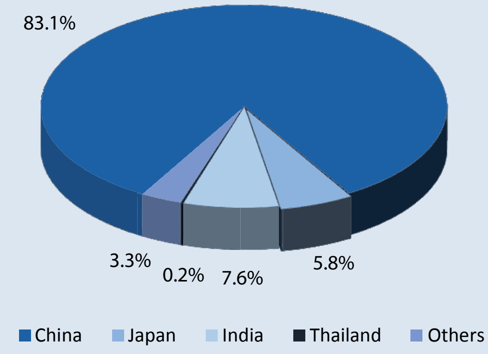


Chart 2.12 : Direction of Oil Exports 2018



constituted the remaining about 3 percent of the total export of crude oil and condensates. Since China and India, two Asian giants, are expected to grow at a robust pace over the next few years, they would continue to support demand for Omani crude oil.

Natural Gas

Natural gas is emerging as a significant player in the economy, especially with Khazzan-I coming into full steam. Oman's natural gas production jumped considerably by 12.5 percent to 43,750 million cubic meters in 2018, the associated gas constituting about 18 percent and non-associated gas about 82 percent (Table 2.13). In addition, Dolphin Energy Company contributed to gas availability by importing 5.4 million cubic meters per day. The total reserve of natural gas is estimated to be 25 trillion cubic feet (with 22 gas production fields) in the Sultanate. Out of total estimated reserves, the highest of about 54 percent is with PDO, followed by BP Khazzan and Ghazeer with about 41 percent and the remaining of 5 percent with other companies.

Total exports of LNG also recorded a massive jump of about 19 percent to 10.2 million metric tons during 2018 from 8.6 million metric tons in 2017. Oman LNG Company exported 6.9 million metric tons, while 3.3 million metric tons were

Table 2.12
Direction of Oil Exports
(In Million Barrels)

Country of Destination	2014	2015	2016	2017	2018
China	210.5	237.6	251.1	226.3	240.4
Taiwan	33.9	27.8	18.8	0.0	0.0
Japan	13.8	9.6	14.2	10.6	16.9
United State of America	0.0	0.0	12.9	4.7	0.0
Korea, South	6.1	5.9	10.6	8.8	1.0
India	4.9	0.0	0.0	28.2	21.9
Thailand	15.1	9.4	0.4	0.0	0.5
Singapore	3.3	10.0	3.6	1.5	0.0
Others	4.6	7.8	10.3	14.1	8.6
Total	**292.2**	**308.1**	**321.9**	**294.2**	**289.3**

Source: Ministry of Oil and Gas.

Table 2.11
Oil Production & Exports
(Million Barrels)

Year	Production	% Change	Exports	% Change
2013	343.8	2.3	304.2	8.7
2014	344.4	0.2	292.2	-3.9
2015	358.1	4.0	308.1	5.4
2016	367.6	2.7	321.9	4.5
2017	354.3	-3.6	294.2	-8.6
2018	357.1	0.8	289.3	-1.7

Source: Ministry of Oil and Gas and National Center for Statistics and Information.

Table 2.13 Production & Uses of Natural Gas (Million Cubic Meter)	2017	2018*	% Changes 2018/17
Production	38,900	43,750	12.5
Associated	6,875	8,037	16.9
Non Associated**	32,025	35,713	10.7
Uses	40,907	45,721	11.8
A- Power Generations	8,240	8,312	0.9
B- Industrial Areas	655	157	-76.0
C- Industrial Projects	23,242	27,741	19.4
D- Oil Fields	8,771	9,511	8.4
Imports	2,008	1,971	-1.8

*Provisional
** Non-Associated Gas includes imports
Source: National Center for Statistics and Information.

exported by Qalhat LNG Company. The export of gas condensate stood at 0.239 million metric tons.

New Projects

The new projects in the oil and gas industry remain critical even for maintaining the current production level, given the higher attrition rate in this sector. Therefore, Oman has been investing and collaborating with companies/ operators for new projects in the oil & gas sector. The new projects made rapid progress during the period under review. PDO's two mega projects, viz. Rabab Harweel Integrated and Yibal Khuff Project attained considerable progress. The second phase of Saih Nihayda and Kauther projects came on stream in 2018, while Occidental Oman signed a new exploration and production sharing agreement in block 72. Oman Oil Company signed a partnership agreement with Gulf Energy Development to develop the Duqm Independent Power & Water plant project. The second phase of the giant Khazzan field also made good progress and is expected to go on stream in 2021, delivering an additional 0.5 billion cubic feet of gas per day. CC Energy Development completed engineering, procurement, construction and startup of the Ulfa phase 2 central processing facility with capacity of 11,000 barrels per day. Ulfa phase 3 will expand the central processing facility to a capacity of 20,000 barrels of oil per day. Oman LNG has started a new power project that will deliver increased energy efficient electricity needed for LNG facility. In addition, Oman LNG is growing capacity through a debottlenecking project currently at the design stage.

Mining and Quarrying

The mining sector has great potential to contribute to the economy with large mineral reservoirs. The mineral resources that are available in the Sultanate include chromite, dolomite, zinc, limestone, gypsum, silica, copper, gold, cobalt, iron, etc. As a significant contribution is expected from the mining, this sector has been covered under the diversification program. Public Authority for Mining, the nodal agency to promote this sector in the Sultanate, issued 291 licenses by the end of 2018 for conducting mineral exploration operations. The various projects being implemented include gypsum and limestone ore in Dhofar, chrome in northern Oman and gypsum in Shuweimiah. In order to explore the potential, the participation of the private sector and foreign direct investment (FDI) is encouraged in the mining sector.

In March 2018, the Mining Sector Laboratory, run by the General Authority for Mining with the support of Tanfeedh, produced more than 43 initiatives

Table 2.14
Oman's Mining and Quarrying Production
(Thousand Metric Ton)

Description	2017	2018	% Changes 2018/17
Marble	1,354.7	1,235.9	-0.1
Limestone	19,010.1	13,932.6	-0.3
Gypsum	8,664.7	9,085.6	0.0
Salt	18.0	11.5	-0.4
Chromite	631.6	687.7	0.1
Iron (Laterite)	588.8	536.7	-0.1
Building Materials	47,371.6	40,192.4	-0.2
Clay	538.1	459.6	-0.1
Sand	9.7	23.9	1.5
Quartz	314.4	265.1	-0.2
Copper	0.0	0.0	0.0
Magnesium	33.9	36.1	0.1
Kaolinite	218.6	101.1	-0.5
Silica	34.0	21.0	-0.4

Source: Public Authority for Mining.

and projects valued at RO 813 million, with major contribution emanating from the private sector. The initiatives and projects are expected to increase the sector's contribution to GDP by three times of the current contribution, provide more than 1,600 direct jobs to Omanis, and increase the country's mineral production to 147 million tons in 2023. In term of regulations and enablers, the authority in collaboration with Tanfeedh has embarked on nine initiatives to unlock potential, regulate and facilitate exploration in the mining sector. These initiatives include the following: i) the establishment of mining blocks system; (ii) simplification of exploration and mining licensing procedures; (iii) creation of a central and integrated database; (iv) activation of the financial independence of the Public Authority for Mining; (v) outsourcing of monitoring and inspection services and the laboratory of the Public Authority for Mining; (vi) specialized training for the employees of the Public Authority for Mining; (vii) quality management system; (viii) development of flexible framework for royalties; and (ix) mechanism to regulate corporate social responsibility.

The building material still constituted the highest share of about 60 percent in total mineral productions during 2018, followed by limestone, marble, and gypsum. Oman is the largest producer of gypsum in the world (Table 2.14). The latest data show that the total number of quarries in the Sultanate reached 291 – the largest number of 66 quarries in Al Batinah North governorate, followed by Dakhiliyah with 47 quarries and Dhahirah with 39 quarries.

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The fiscal policy has been steering the economy efficiently along the evolving business cycle. The large fiscal deficit was necessitated by a steep decline in oil revenues and counter-cyclical measures to contain the impact of a downturn in the business cycle. The fiscal policy, however, reverted to the consolidation path with reform measures targeted at rationalization of expenditure and augmentation of non-oil revenues. The economic recovery shaped largely by a surge in oil prices also helped in containing fiscal deficit over the last two years. The oil prices, however, remained lower than the fiscal break-even price of Oman. Consequently, the fiscal deficit stayed elevated, which along with current account deficit continued to pose a macroeconomic challenge. The fiscal policy, however, is committed to downsizing the fiscal deficit to a sustainable level by overcoming various policy and structural constraints. Additionally, entrenched focus on diversification would also support fiscal consolidation through nurturing higher growth in non-oil economic activities and non-hydrocarbon revenues. The reduction in fiscal deficit would also help in bringing down the current account deficit. In the above backdrop, this chapter analyzes the fiscal developments during 2018.

Overall Fiscal Assessment

The fiscal position in the Sultanate improved over the last two years, although it continued to reflect some macroeconomic vulnerability. The elevated fiscal deficit, persisting in the last few years, resulted in a burgeoning debt level, which along with hardening interest rates led to higher debt servicing pressure. At the same time, the high level of committed expenditure coupled with the need for counter-cyclical measures to revive sagging economic activities limited the scope for expenditure rationalization. On the revenues front, although non-hydrocarbon revenues have been expanding in line with non-oil economic growth, they are yet to assume a critical mass to become the major source. The government, however, is constantly striving and undertaking reform measures to significantly improve the non-hydrocarbon revenues. The government's unrelenting focus on promoting diversification through implementing programs under "Tanfeedh" and improving business and investment environment would also enhance the non-hydrocarbon revenues, especially tax collections. Nonetheless, the fiscal performance must be assessed in the milieu of above-mentioned structural constraints.

The improvement in the fiscal position was recorded during 2018 mainly because of the sharp upturn in hydrocarbon revenues. Non-hydrocarbon revenues also increased in line with non-oil economic activities, however, their contribution to aggregate revenues remained very low. The tax buoyancy, estimated with growth in other current receipts as numerator and growth in non-oil GDP as denominator, improved marginally from 0.85 in 2017 to 0.93 during 2018. Introduction of excise tax in 2019 and future tax reforms, including implementation of Value Added Tax (VAT), in conjunction with improved tax compliance, would enhance the tax buoyancy, paving the way for increased reliance on non-hydrocarbon revenue. The government's focus on promoting diversification would also increase the hydrocarbon sector's contribution to government revenues. The government revenue outperformed the budget estimates by 15.3 percent and as a percentage of GDP increased by 4.6 percentage points to 35.9 percent in 2018 (Table 3.1 and Chart 3.1). The non-hydrocarbon revenues as a

Table 3.1 Indicators of Fiscal Management					
Items	**2014**	**2015**	**2016**	**2017**	**2018***
Fiscal Balance as % of GDP	-3.4	-17.5	-20.9	-13.8	-8.7
Total Revenues as % of GDP	45.3	34.2	30.0	31.3	35.9
Net Oil Revenues as % of GDP	32.7	21.3	14.4	17.2	21.4
Total Expenditure as % of GDP	48.7	51.7	50.9	45.1	44.6
Current Expenditure as % of GDP	30.8	34.6	36.8	32.8	32.1
Investment Expenditure as % of GDP	11.5	12.5	11.6	9.8	9.5
Participation & Other Expenses as % of GDP	6.4	4.6	2.6	2.6	3.1
Share of Oil Revenues in Total Revenues	72.3	62.4	48.0	55.0	59.7
Share of Current Expenditure in Total Expenditure	63.3	66.9	72.2	72.7	71.9

* Provisional

Source: Ministry of Finance and National Center for Statistics and Information.

percentage of non-petroleum GDP at 11.4 percent remained the same as in the previous year. The hydrocarbon revenues accounted for the majority share of about 97 percent in incremental total revenue, reflecting the significant rise in oil prices along with higher production of both oil and natural gas. The completion of second phase of Khazzan "Ghazeer" by 2021, which has successfully reached 45 percent completion by 2018, would further increase the natural gas production and boost hydrocarbon revenue.

Total government expenditure also increased on all accounts, i.e. current, capital, and participation and other expenses (Table 3.2). However, the expenditure on oil & gas production, which is critical to maintain the current level of production and expand the capacity, contributed more than half to the incremental total expenditure during 2018. The higher spending on defence & national security and interest payments also accounted for a substantial upturn in total expenditure. In terms of composition, the current expenditure persisted to constitute the largest share in total expenditure, albeit its share dropped marginally during 2018. The share of investment expenditure also declined marginally, while that of participation & other expense increased commensurately. The total government expenditure as a percentage of GDP dropped marginally to 44.6 percent

Chart 3.1 : Ratio of Revenue to GDP

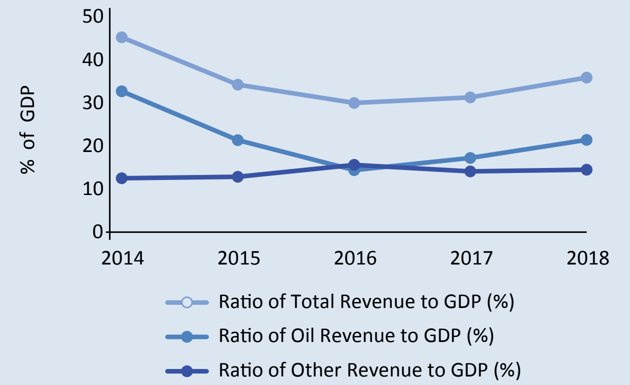


Chart 3.2 : Overall Fiscal Balance

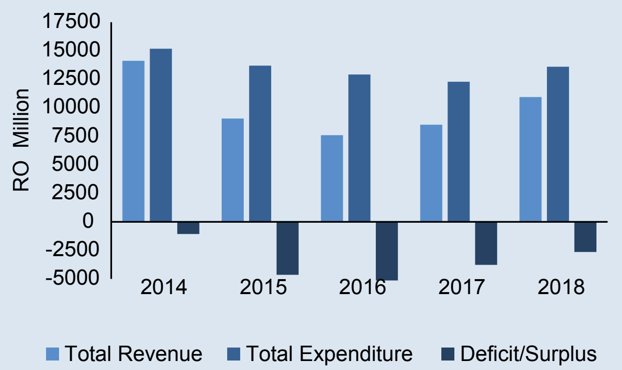


Table 3.2
Public Finance
(Rial Omani Million)

Items	2014	2015	2016	2017	2018*	% change 2017/16	% change 2018/17
REVENUES	**14107.5**	**9067.5**	**7608.2**	**8514.1**	**10949.6**	**11.9**	**28.6**
Net Oil Revenues	10205.2	5656.2	3651.2	4681.8	6536.4	28.2	39.6
Gas Revenues	1687.6	1484.4	1536.6	1524.3	2030.8	-0.8	33.2
Other Current Revenues	1983.7	1865.1	2113.6	2173.7	2233.3	2.8	2.7
Capital Revenues	15.8	14.0	15.8	130.4	133.4	725.3	2.3
Capital Repayments	215.2	47.8	291.0	3.9	15.7	-98.7	302.6
TOTAL EXPENDITURE	**15171.8**	**13698.9**	**12908.2**	**12273.7**	**13599.2**	**-4.9**	**10.8**
Current Expenditure	**9606.2**	**9164.0**	**9319.9**	**8918.0**	**9773.2**	**-4.3**	**9.6**
Defence & National Security	4210.8	3862.2	4068.5	3487.5	3878.5	-14.3	11.2
Civil Ministries	4762.7	4722.6	4539.3	4550.1	4373.7	0.2	-3.9
Interest Paid on Loans	52.9	37.3	138.4	371.4	618.3	168.4	66.5
Oil Production Expenditures	484.5	375.5	379.1	329.0	377.1	-13.2	14.6
Gas Production Expenditures	95.3	166.4	194.6	180.0	525.6	-7.5	192.0
Investment Expenditure	**3584.2**	**3315.2**	**2928.6**	**2655.4**	**2888.1**	**-9.3**	**8.8**
Development Expenditure for Civil Ministries	2093.6	1822.5	1384.0	1334.1	1199.9	-3.6	-10.1
Capital Expenditure for Civil Ministries	72.0	47.7	18.1	11.3	11.2	-37.6	-0.9
Oil Production Expenditures	748.1	774.3	842.6	750.0	921.3	-11.0	22.8
Gas Production Expenditures	670.5	670.7	683.9	560.0	755.7	-18.1	34.9
Participation & Other Expenses	**1981.4**	**1219.7**	**659.7**	**700.3**	**937.9**	**6.2**	**33.9**
SURPLUS/DEFICIT	**-1064.3**	**-4631.4**	**-5300.0**	**-3759.6**	**-2649.6**	**-29.1**	**-29.5**
FINANCING	**1064.3**	**4631.4**	**5300.0**	**3759.6**	**2649.6**	**-**	**-**
Net Grants Received	-50.2	208.8	-	-	-	-	-
Drawing from Reserves	-	-	1500.0	500.0	300.0	-	-
Net loans Received	-60.3	305.2	3875.9	4093.3	2941.1	-	-
Development Bonds(Net)	100.0	650.0	300.0	400.0	400.0	-	-
Surpluses Brought from Previous Years	1074.8	234.6	-	-	-	-	-
Net Change in Government Accounts	-	3232.8	-375.9	-1233.7	-991.5	-	-

* Provisional
Source: Ministry of Finance.

in 2018. On the other hand, the ratio of non-hydrocarbon expenditure to the non-hydrocarbon GDP, after a steady and steep decline over the last few years, rose by 1.2 percentage points to 52.9 percent in 2018, suggesting pressure on expenditure rationalization. Despite a large upturn in expenditure, the overall fiscal balance improved with deficit lowering by RO 1,110 million to RO 2,650 million in 2018 (Chart 3.2). The fiscal deficit as a percentage of GDP at 8.7 percent in 2018 also declined by 5.1 percentage points over the preceding year. Nonetheless, the non-oil fiscal deficit remained elevated and increased by RO 490 million to RO 8,637 million during 2018, reflecting a higher jump in non-hydrocarbon expenditure vis-à-vis non-hydrocarbon revenues. The elevated non-oil fiscal deficit also suggests the fiscal break-even oil price persisting at a higher level, as hydrocarbon production has not increased to the extent that it could reduce the break-even price considerably. In the above backdrop, it is imperative that fiscal policy targets reducing non-oil fiscal deficit, which largely resonates to the structural deficit in the Sultanate, over the medium term through containing non-development expenditure and augmenting tax revenues. The reduction in fiscal deficit would also facilitate lowering the current account deficit, and help in reinstating macroeconomic balance.

Government Revenues

The government revenues recorded a considerable growth of 28.6 percent during 2018 mainly due to an upsurge in oil and gas revenues. With rapid gains in oil prices, net oil revenues grew by 39.6 percent and constituted 60 percent of total revenues. In addition, net oil revenues contributed about 76 percent to the incremental total revenues during 2018. At the same time, the gas revenues also witnessed a large growth of 33.2 percent on the back of a surge in prices and higher production enabled by Khazzan-I gas field reaching its peak during the second quarter of 2018. The gas revenues accounted for about 19 percent of total revenues and contributed about 21 percent to the incremental total revenues. Accordingly, the hydrocarbon sector, with a contribution of about 78 percent, remained the main driver of government revenues. Hence, any shock to hydrocarbon sector revenues would have immense implications for the fiscal position of the country. However, the government is continuously working to boost diversification in the economy for turning non-hydrocarbon sector as the main driver of economic activities and government revenues. The non-hydrocarbon revenues witnessed an accelerated growth of 3.2 percent in 2018 as against the contraction of 4.6 percent in 2017, with a contribution of about 22 percent in total government revenues. Other current receipts and capital receipts shaped the accelerated growth in non-hydrocarbon revenues.

Other Current Revenues

Other current revenues constitute taxes and fees revenues, non-tax revenues and net grants (Table 3.3). The favorable economic environment and the government policy measures pursued during 2018 augmented other current revenues by 2.7 percent. The taxes and fees revenues grew by 10.7 percent and contributed more than half of other current revenues (about 57 percent) during 2018. The strong growth in income tax on companies and establishments was the main driver of growth in taxes and fees revenues, reflecting robust activities in the private sector. The “fees on licenses and others” and “customs duties” witnessed a growth of 1.9 percent and 5.8 percent, respectively, in 2018. Even though merchandise imports moderated, customs duties grew due to the reversal of exemptions on some imports and introduction of Bayan clearing system that efficiently facilitated the administration and collection of customs duties.

On the other hand, non-tax revenues declined by 6.0 percent during 2018, despite a noticeable growth in income from government investments,

Table 3.3
Breakdown of Other Current Revenues
(Rial Omani Million)

Items	2014	2015	2016	2017	2018*	% change 2018/17
A. Taxes and Fees Revenues	**1082.9**	**1099.1**	**1141.0**	**1142.0**	**1263.9**	**10.7**
Income Tax on Companies and Establishments	448.0	451.7	388.6	366.5	463.1	26.4
Company Participation in Technical/Training Projects	156.0	0.0	0.0	0.0	0.0	0.0
Fees on Licences and Others	199.7	412.0	449.5	513.5	523.5	1.9
Custom Duties	279.2	235.4	302.9	262.0	277.3	5.8
B. Non-Tax Revenues	**900.8**	**766.0**	**774.3**	**1031.7**	**969.4**	**-6.0**
Water Revenues	63.1	61.7	86.7	97.0	53.9	-44.4
Airport Revenues	23.4	51.2	49.1	69.7	68.8	-1.3
Port Revenues	-	-	0.8	1.1	0.9	-18.2
Public Communication Services Toll	48.0	4.2	106.8	78.2	0.2	-99.7
Surplus from Public Authorities	8.0	6.8	8.9	11.4	15.3	34.2
Rent from Government Real Estate	11.6	14.4	16.3	21.1	19.3	-8.5
Income from Government Investments	474.1	337.3	193.5	186.1	428.4	130.2
Interest on Bank Deposits and Lending	20.5	32.4	9.8	29.4	49.1	67.0
Passport and Immigration Fees	22.2	32.5	58.5	59.4	62.7	5.6
Miscellaneous Administrative Fees & Charges	37.7	38.7	39.1	58.6	75.8	29.4
Compensations, Fines & Forfeltures	79.4	98.9	119.8	113.8	103.9	-8.7
Mining Revenues	8.6	10.0	12.2	15.3	13.4	-12.4
Miscellaneous Revenues	73.8	49.4	50.4	117.9	47.5	-59.7
Others	30.4	28.5	22.4	172.7	30.2	-82.5
C. Net Grants	**-**	**-**	**198.3**	**-**	**-**	**-**
Total	**1983.7**	**1865.1**	**2113.6**	**2173.7**	**2233.3**	**2.7**

* Provisional
Source: Ministry of Finance.

resulting in a drop of their contribution to other current revenues by 4 percentage points to 43 percent. Income from government investments constituted the highest share of 44.2 percent in non-tax revenues, followed by compensation, fines & forfeitures (10.7 percent), and miscellaneous administrative fees & charges (7.8 percent). Income from government investments, reversing the declining trend of 2016 and 2017, witnessed a considerable growth amidst the improving overall macroeconomic environment that resulted in improved assets valuation in the Sultanate. The hardening interest rates and increase in government deposits conditioned a sizable upturn in interest on bank deposits and lending. Furthermore, the receipts from passport and immigration fees registered robust growth, reflecting an upward revision in passport and visa fees. Nonetheless, revenues from several items, including water revenues, airport revenues, public communication services toll, and miscellaneous revenues and others, declined.

The government efforts aimed at diversifying the sources of government revenues are yet to attain the desired results, as other current receipts realized a compounded annual growth rate of 2.4 percent for the last 5 years. A major boost to private sector-led growth would be critical to enable other current receipts buoyant, contributing significantly to government revenues. The introduction of exercise tax during the second half of 2019 and likely implementation of VAT would also boost other current receipts.

Government Expenditure

After containing expenditure during the preceding three years, the government expenditure upturned during 2018, reflecting the evolving socio-economic priorities and increasing committed expenditure (Chart 3.3). The surge in oil revenues reinforced socio-economic priorities, resulting in higher government expenditure. The government expenditure increased by 10.8 percent in 2018, after witnessing an annual average decline of 6.8 percent during the previous three years (2015-2017), with contribution emanating from all three main heads (current, investment, and participation & others). In terms of qualitative composition, the capital expenditure outweighs the current expenditure, as the former is more growth-inducing (Box 3.1). Accordingly, the increase in capital expenditure would potentially boost economic growth and fiscal returns. The fiscal reforms, especially with regard to subsidies, supported the consolidation efforts by reducing government participation and other expenditure substantially during 2015 and 2016. However, with improving fiscal space due to recovery in oil prices, the expenditure under this head again inched up considerably during 2018. Nonetheless, the government is aiming at sustainable spending in the medium to long term by rationalizing non-development expenditure. For example, the current civil ministries expenditure declined by an annual average of 2.5 percent during the last three years (2016-2018).

Current Expenditure

The current expenditure increased by 9.6 percent during 2018, after witnessing an annual average decline of 2.4 percent in the preceding three years, and constituted the largest share of about 72 percent in total expenditure (Chart 3.4). The civil ministries share in total current expenditure stood at 44.8 percent in 2018, down from 51 percent in 2017. The defence & national security coupled with oil & gas production received higher current expenditure, while the current expenditure on civil ministries declined during 2018. The current expenditure on defence & national security constituted about 40 percent of total current expenditure in 2018 (marginally higher than the previous year). The current spending on oil & gas production, which is dependent on exploration activities, also received an enlarged share of total current expenditure at

Chart 3.3 : Components of Fiscal Expenditure

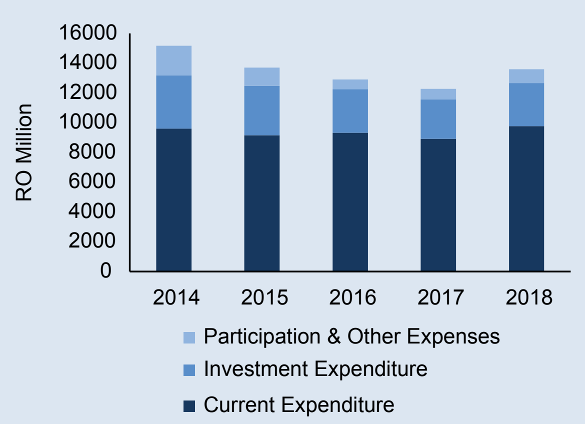
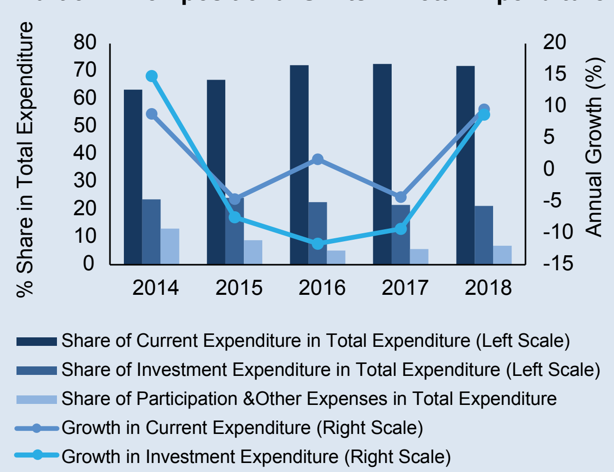


Chart 3.4 : Compositional Shifts in Total Expenditure



Box 3.1: Government Expenditure Multiplier in Oman

The fiscal policy generally reacts proactively and adopts a stance that could contain the adverse impact as well as revive the economic activities during the downward spiral of business cycle. However, the debate on whether government spending promotes economic growth is still ongoing. Some researchers have argued that different types of government spending could have a different impact on economic growth by contributing to aggregate demand, creating capacity, and/or both. For example, Nurudeen and Usman (2010) argue that the impact on real economic growth depends on the nature of expenditure, e.g. an increase in socio-economic and physical infrastructure encourages economic growth. The Omani economy witnessed a sharp downturn after a collapse in oil prices during 2015-2016. Although Oman has recovered from the downturn, it remained susceptible to fluctuations in oil prices. The fiscal policy coupled with rapid gains in oil prices has been supporting the recovery by adopting a counter-cyclical stance. The fiscal policy is also supporting expansion in non-oil economic activities to ensure sustainable growth over the medium to long run. In this milieu, the empirical investigation of the impact of government expenditure on growth becomes imperative to gauge the effectiveness of expenditure strategy in Oman.

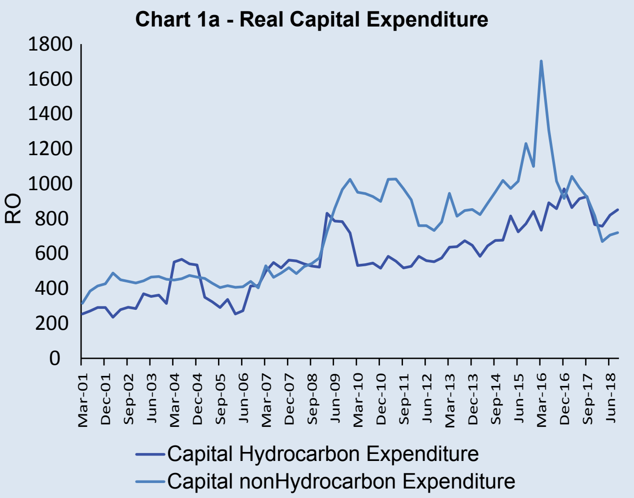
The quarterly and seasonally adjusted data in log form is used for the period 2001:Q1-2018:Q3 in the empirical investigation. The dataset includes real GDP, real current hydrocarbon expenditure, real current non-hydrocarbon expenditure, real capital hydrocarbon expenditure, and real capital non-hydrocarbon expenditure. Since quarterly real GDP is not available, the same has been calculated by deflating quarterly nominal GDP by annual GDP deflator. The government expenditure is also deflated by annual GDP deflator to estimate real variables. Oil prices are used as an exogenous variable to control for the prices affect in an oil-based economy. Since nominal values are better at representing the economic conditions in an oil exporting economy, the investigation is also undertaken in nominal terms. The modelling approach largely follows David (2017) and Jain & Kumar (2013). Since all the variables are integrated of first order, i.e. I(1), the relationship is estimated using Johansen's Maximum Likelihood Cointegration. The elasticity and multiplier results, estimated from long-run equation, are furnished in Table below.

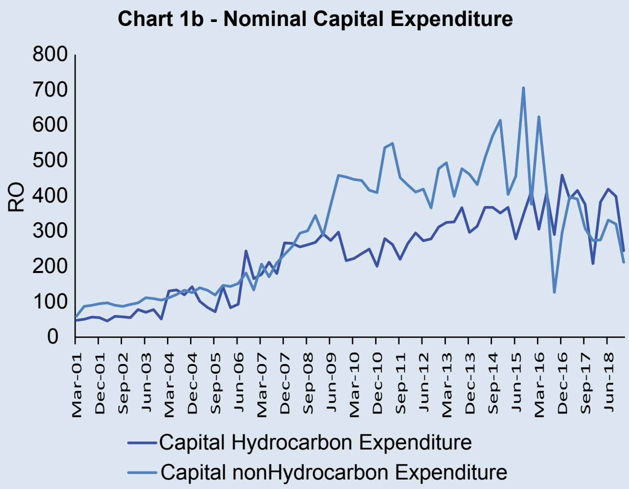
Estimation of Expenditure Multiplier

Sector	Elasticity	Impact Multiplier	Elasticity	Impact Multiplier
	Real Current Expenditure		***Nominal Current Expenditure***	
Hydrocarbon	0.333***	1.31	0.163**	0.64
non Hydrocarbon	-0.004	-0.27	0.113	7.89
	Real Capital Expenditure		***Nominal Capital Expenditure***	
Hydrocarbon	0.167***	1.70	0.317***	3.26
non Hydrocarbon	0.142***	1.83	0.138***	1.80

Note: ***, **, and * denotes significance level at 1 percent , 5 percent, and 10 percent, respectively.

The results establish that the real government expenditure in the hydrocarbon sector (both current and capital) have a statistically significant positive impact on real growth with a multiplier of more than one. Nevertheless, the multiplier impact of capital expenditure is significantly higher than that of current expenditure. Furthermore, it is notable that the multiplier impact of the capital expenditure in the non-hydrocarbon sector is also positive, statistically significant and more than one, whereas such impact of current expenditure is negative but statistically insignificant. In fact, the multiplier impact of non-hydrocarbon capital expenditure is found to be the highest. The multiplier impact in nominal terms is also found akin to the real impact, except for capital expenditure in the hydrocarbon sector having the largest impact. The largest nominal multiplier impact of hydrocarbon capital expenditure could be explained through positive spillovers to non-hydrocarbon economic activities, reflecting strong inter-linkages.





Note: Data is seasonally adjusted

The empirical investigation on the size of expenditure multiplier shows an affirmative result. The higher multiplier impact of capital expenditure is found stimulating growth and development significantly. Hence, it may be appropriate to infer that the government expenditure strategy should accord increased priority to capital expenditure for ensuring sustainable higher growth in the economy. Current expenditure in non-hydrocarbon sector with a negative impact on output growth, albeit statistically insignificant, suggests for reducing this spending. Capital expenditure in the non-hydrocarbon sector would also crowd in private investment and support non-oil growth. It is noteworthy that the non-hydrocarbon sector has been already receiving higher capital expenditure both in real and nominal terms (Chart 1a&b).

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9.2 percent. On the other hand, the moderation in current civil ministries expenditure was the result of spending rationalization under almost all heads, viz. "total wages, salaries, allowances and others", "expenditure on goods and services", and "subsidies and other current transfers", reflecting the government's consistent approach towards fiscal consolidation (Table 3.4). The employees related expentiture remained the largest contributor to the current civil ministries expenditure with a share of about 73.5 percent. The salaries and wages accounted for almost half of the total expenditure related to employees (Chart 3.5). In terms of functional composition, about 63 percent of the current civil ministries expenditure was incurred on education, health, and housing, indicating the government's sustained priority to improve the quality of life and human resources development in the Sultanate (Table 3.5). The social security and welfare also received a considerable share of the current civil ministries expenditure as part of the commitment to provide a safety net to all segments of the society. The current expenditure on goods and services steadily declined over the last few years as the government is increasingly outsourcing certain services to improve efficiency, reduce cost and provide further opportunities to the private sector. Furthermore, with the continuation of reform measures and better allocation of resources to reduce distortions, the share of subsidies and other current transfers in the current civil ministries expenditure continued to decline.

Investment Expenditure

Growth enhancing investment expenditure increased by 8.8 percent during 2018. Higher spending on oil & gas production necessary to sustain and increase the production mainly drove the increase in investment expenditure (Chart 3.6). The share of oil and gas production together in the investment expenditure accelerated by 8.7 percentage points to 58.1 percent in 2018, with the latter contributing somewhat higher jump with completion of Khazzan phase-I and considerable progress achieved so far by Khazzan phase-II. On the other hand, civil ministries development expenditure decreased considerably mainly due to a sharp cut in spending on transport and communication (Table 3.6). The general public services, education affairs and services, and housing, which together constituted about 54 percent of the civil ministries development expenditure, incurred considerable higher development expenditure. Social security and welfare development expenditure, however, declined following the trend of the last few years. The

Chart 3.5 : Breakdown of Total Salaries, Wages, Allowances and Others for the Year 2018

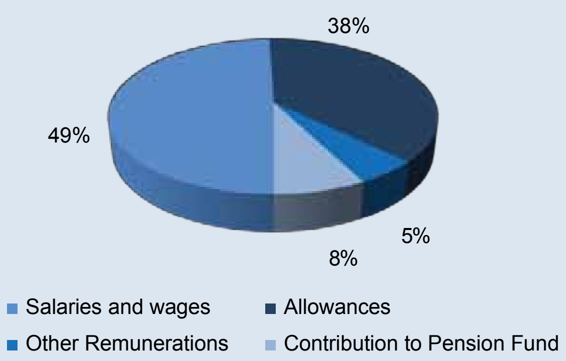


Chart 3.6 : Share of Oil & Gas Production in Total Investment Expenditure

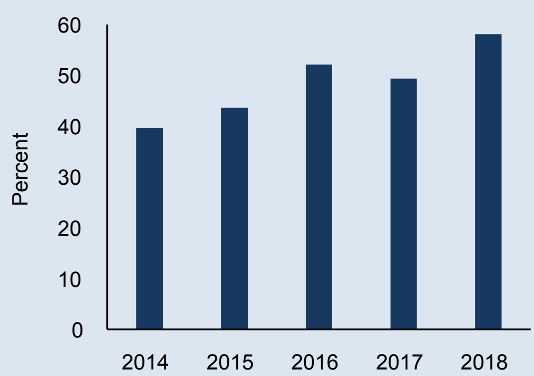


Table 3.4
Breakdown of Civil Current Expenditure by Type of Expenses
(Rial Omani Million)

Items	2014	2015	2016	2017	2018*	% change 2018/17
A. Total Wages, Salaries, Allowances and Others	**3345.3**	**3410.1**	**3305.9**	**3366.2**	**3214.4**	**-4.5**
Salaries and Wages	1510.9	1614.1	1658.4	1652.2	1593.5	-3.6
Allowances	1310.4	1311.0	1304.8	1292.4	1208.3	-6.5
Other Remuneration	225.7	195.9	191.1	174.7	167.1	-4.4
Contribution to Pension Fund	298.3	289.1	151.6	246.9	245.5	-0.6
B. Expenditure on Goods and Services	**903.0**	**855.3**	**781.9**	**742.1**	**715.9**	**-3.5**
Purchase of Goods	221.3	200.0	189.4	210.4	189.2	-10.1
Purchase of Services	578.7	562.2	473.4	419.2	413.9	-1.3
Expenses of Government Services	103.0	93.1	119.1	112.5	112.8	0.3
C. Subsidies and Other Current Transfers	**514.4**	**456.8**	**451.5**	**447.4**	**443.4**	**-0.9**
Total Civil Current Expenditure	**4762.7**	**4722.2**	**4539.3**	**4555.7**	**4373.7**	**-4.0**

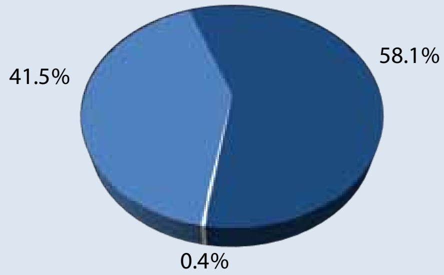
* Provisional
Source: Ministry of Finance.

Table 3.5
Breakdown of Civil Current Expenditure by Function
(Rial Omani Million)

Items	2014	2015	2016	2017	2018*	% change 2018/17
General Public Services Sector	614.3	632.6	569.5	570.3	558.6	-2.1
Public Order and Safety	141.8	130.6	135.4	130.0	125.0	-3.8
Education Affairs and Services	1717.7	1678.0	1702.4	1664.1	1584.8	-4.8
Health	691.7	755.7	725.0	742.7	660.8	-11.0
Social Security and Welfare	593.0	554.4	431.6	479.4	471.6	-1.6
Housing	581.4	542.8	557.6	560.3	494.9	-11.7
Cultural and Religious Affairs	231.3	229.7	221.5	220.5	218.8	-0.8
Fuel and Energy	4.8	4.8	4.6	4.4	4.5	2.3
Agriculture, Forestry & Fishing	62.3	62.6	60.9	57.8	56.2	-2.8
Mining, Manufacturing and Construction	0.0	0.0	0.0	0.0	0.0	0.0
Transport and Communication	63.7	61.0	61.4	56.9	59.0	3.7
Other Economic Affairs	60.7	70.4	69.4	60.6	63.1	4.1
Others	-	-	-	11.7	76.4	553.0
Total Civil Current Expenditure	**4762.7**	**4722.6**	**4539.3**	**4558.7**	**4373.7**	**-4.1**

* Provisional
Source: Ministry of Finance.

Chart 3.7: Breakdown of Investment Expenditure for the Year 2018



development expenditure on "agriculture, forestry, and fishing" and "mining, manufacturing, and construction" also dropped significantly, although their share in total civil development expenditure remained low historically, which appears not to be in sync with the emphasis given on most of these activities under the diversification program. The civil development expenditure, however, accounted for second largest of 42 percent in total investment expenditure during 2018, although lower as compared to about 50 percent in 2017 (Chart 3.7). The capital expenditure of civil ministries also declined marginally in 2018.

Government Participation and Other Expenses

The share of government participation and other expenses in total expenditure, after falling from a high of 13.1 percent in 2014 to 5.1 percent in 2016, increased subsequently and stood at 6.9 percent during 2018. The increase in spending under this head during 2018 was mainly attributed to considerably enlarged government support to the electricity sector, operational support to government organizations, investment

Table 3.6
Breakdown of Civil Development Expenditure by Function
(Rial Omani Million)

Items	2014	2015	2016	2017	2018*	% change 2018/17
General Public Services Sector	147.2	138.8	95.9	99.1	119.3	20.4
Public Order and Safety	11.6	8.6	3.9	6.0	4.8	-20.0
Education Affairs & Services	244.0	257.9	253.1	167.8	190.9	13.8
Health	27.8	32.9	35.1	20.6	25.5	23.8
Social Security and Welfare	6.3	8.9	5.2	4.4	3.4	-22.7
Housing	656.9	475.0	385.7	318.2	338.0	6.2
Cultural and Religious Affairs	82.5	45.0	15.2	15.1	25.5	68.9
Fuel and Energy	0.3	0.6	0.1	0.1	0.1	0.0
Agriculture, Forestry and Fishing	31.1	37.5	38.1	29.3	25.0	-14.7
Mining, Manufacturing and Construction	1.0	8.8	2.3	2.5	0.1	-96.0
Transport and Communication	859.3	769.2	532.3	503.3	395.9	-21.3
Other Economic Affairs	25.6	39.3	17.1	167.7	71.4	-57.4
Total Development Expenditure	**2093.6**	**1822.5**	**1384.0**	**1334.1**	**1199.9**	**-10.1**

* Provisional
Source: Ministry of Finance.

Table 3.7
Government Participation and Other Expenses
(Rial Omani Million)

Items	2014	2015	2016	2017	2018*	% change 2018/17
Participation in Domestic, Regional and International Interests	465.4	248.1	203.4	82.7	115.7	39.9
Subsidy on Soft Loans to Private Sector and Housing	32.4	24.5	25.3	25.2	25.9	2.8
Government Support to Electricity Sector	270.6	386.4	278.8	380.0	476.6	25.4
Support Basic Foods	19.3	6.8	3.8	3.9	4.8	23.1
Operational support to Gov Organisations	59.1	44.2	41.0	72.8	142.8	96.2
Support Petroleum Products	1134.6	479.3	17.1	21.0	20.0	-4.8
Investment Exp for Gov Compaines	-	30.4	90.3	114.7	152.1	32.6
Total Participation & Other Expenses	**1981.4**	**1219.7**	**659.7**	**700.3**	**937.9**	**33.9**

* Provisional
Source : Ministry of Finance.

expenditure in government companies, and spending on participation in domestic, regional and international interests (Table 3.7). The jump in electricity demand on the back of high growth in commercial and residential customers led to enlarged government support to electricity sector, accounting for over 50 percent share in total government participation and other expenses. The operational support to government organizations almost doubled, constituting over 15 percent of the total expenditure. The expenditure on “participation in domestic, regional and international Interests”, reversing a steady declining trend, upturned during 2018 to protect the country’s interest. A steep contraction in total expenditure under this head since 2015 was necessitated by overall expenditure rationalization, but upturn during 2018 facilitated by improved oil revenues also aimed at supporting growth through higher support to government companies and organizations.

Government Debt

Government debt inched up further by about 30 percent during 2018 due to fiscal deficit remaining at elevated level despite considerable moderation in the last two years (Table 3.8). The recourse to external borrowings to finance a large part of

Chart 3.8 : Government Debt to GDP Ratio and Debt Service Ratio

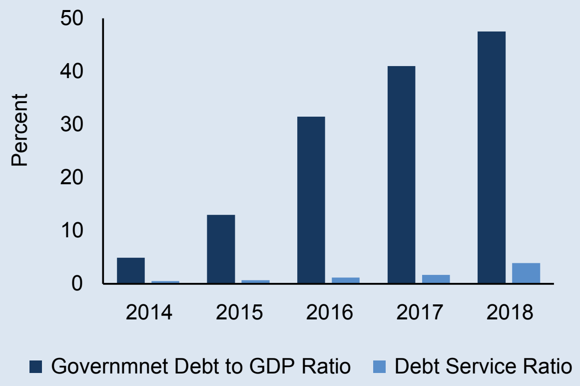


Table 3.8
Government Debt Indicators
(Rial Omani Million)

Items	2014	2015	2016	2017	2018*	% change 2018/17
1.Stock of Debt (R.O.Million)	1526.3	3444.0	7991.2	11150.6	14491.6	30.0
2. Principal Repayments (R.O.Million)	89.4	85.0	87.2	107.2	259.5	142.1
3. Interest Payments (R.O.Million)	52.9	37.3	138.4	371.5	618.4	66.5
4. Debt Indicators* *						
(a) Debt to GDP ratio (%)	4.9	13.0	31.5	41.0	47.5	-
(b) Debt Services Ratio (%)***	0.5	0.7	1.2	1.7	3.9	-

* Provisional
** Since non-government debt is not included in deriving these indicators, they do not reflect the debt of Oman as a whole, and hence, they are strictly not comparable with standard published debt indicators for other countries.
*** Relating to external debt of the Government Only. Debt- service ratio implies (principal repayments plus interest payments) as percentage of export of goods and services.
Source : Ministry of Finance.

the fiscal deficit continued as part of the strategy to provide ample scope for domestic private investments. Accordingly, the stock of government external debt also burgeoned by around 32.9 percent to RO 11.8 billion at the end of 2018. The government debt to GDP ratio rose by 6.5 percentage points to 47.5 percent at the end of 2018. The debt service ratio more than doubled, reflecting burgeoning external debt level and hardening global interest rates, albeit it remained benign as per global benchmark. The principal repayments more than doubled, while interest payments rose substantially by 66.5 percent (Chart 3.8). Although a steep jump in government debt stock may suggest building up some debt sustainability concerns, especially given the structure of the economy, it still remained moderate by global standards. The government, however, is undertaking structural fiscal reforms aimed at fiscal consolidation, which would reduce the fiscal deficit and contain debt levels within a sustainable path.

2018 General Budget vis-à-vis Outcome

Notwithstanding rapid gains in oil revenues, the government continued to pursue fiscal consolidation to reinstate macroeconomic balance. The budget formulation has significantly improved over the years with enhanced transparency and efficiency. However, actual revenues and expenditure often differ from the budget estimates due to fast changing macroeconomic environment and evolving socio-economic priorities. As per the preliminary estimates, actual total revenues exceeded the budget estimates by 15 percent mainly due to a surge in hydrocarbon revenues (Table 3.9). The non-hydrocarbon revenue, however, fell short of the budget estimates by about 12 percent - other current receipts underperformed by 13 percent. On the other hand, the actual government expenditure overshot the budget estimates by 9 percent with higher expenditure under all heads. Since the government revenues overshot the budget estimates higher than that by the government expenditure, the actual fiscal deficit turned out to be lower by 12 percent as compared to the budget estimate (Chart 3.9).

2019 General Budget

In spite of improvements, the state's general budget is still facing challenges posed by oil price fluctuations as oil revenues remain the dominant source of government revenues. Therefore, any sharp decline in oil price will adversely impact the performance of the 2019 budget. Besides volatile oil prices, the 2019 budget is formulated in the backdrop of an elevated share of committed expenditure and hardening interest rates. The 2019 budget, however, seeks to continue on fiscal consolidation path and achieves fiscal sustainability by enhancing the contribution of non-oil revenues, reducing the deficit, and containing public debt to GDP ratio. Furthermore, the 2019 budget also aims at stimulating the national economy through investment expenditure and supporting economic diversification by augmenting the private sector participation. Notwithstanding the challenges, the 2019 budget has also given due consideration to maintaining the level of basic social services.

The 2019 budget has assumed an average oil price of US$58 per barrel, which is 35.9 percent lower than the realized average oil price of US$ 69.7 a barrel in 2018. Accordingly, total government revenues for 2019 are estimated lower by 7.8 percent over actual in 2018, mainly driven by an estimated decline in hydrocarbon revenues by 13.1 percent (Chart 3.10). Among hydrocarbon revenues, projected net oil revenues have declined considerably by 16.7 percent in the 2019 budget over the actual in 2018, while gas revenues are estimated to drop by 2.5 percent. On the other hand, the non-hydrocarbon revenues are budgeted to grow robustly in 2019, considering buoyant non-oil economic activities (Table 3.9). Other current revenues for 2019, estimated to grow by 5.2 percent, accounted for about 43 percent share in the budgeted incremental non-hydrocarbon revenues. Pursuing expenditure rationalization, total government expenditure is budgeted lower by 5.1 percent in 2019 over actual in 2018. The expenditure consolidation is mainly projected to emanate from the decline budgeted in investment expenditure and participation & other expenses. The higher civil ministries expenditure drove the increase in current expenditure in the 2019 budget, which constituted the largest share of total government expenditure (Chart 3.11). Notwithstanding an estimated slump in total expenditure, the fiscal deficit for the 2019 budget is projected higher by 5.7 percent at RO 2,800 million, reflecting a considerable plunge in total revenues.

The financing to fiscal deficit is provided in the 2019 budget through a mix of external borrowings,

Chart 3.9: 2018 Budget vis-a-vis Outcome

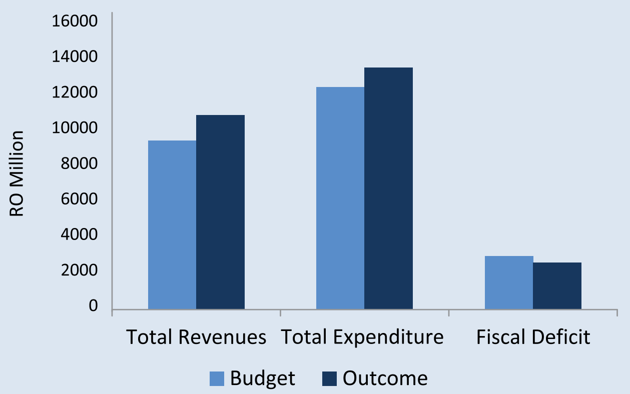


Chart 3.10 :
Breakdown of Government Revenues - 2019 Budget

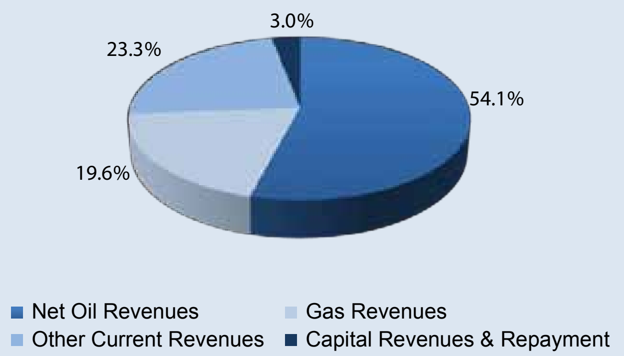
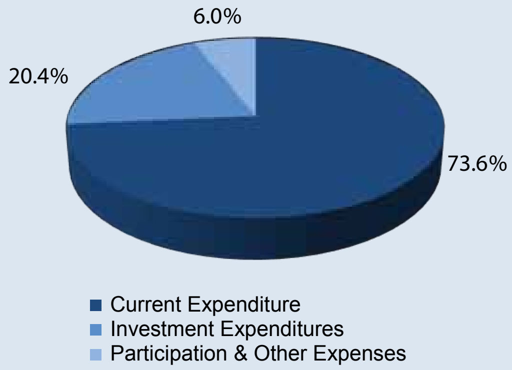


Table 3.9
Budget Estimates & Actuals
(Rial Omani Million)

ITEMS	2018 Budget	2018 Actual	% change actual 2018/ budget 2018	2019 Budget	% Change 2019 budget/ 2018 actual
TOTAL REVENUES	**9500.0**	**10949.6**	**15.3**	**10100.0**	**-7.8**
Net Oil Revenues	4870.0	6536.4	34.2	5465.0	-16.4
Gas Revenues	1910.0	2030.8	6.3	1980.0	-2.5
Other Current Revenues	2560.0	2233.3	-12.8	2350.0	5.2
Capital Revenues	20.0	133.4	567.0	165.0	23.7
Capital Repayments	140.0	15.7	-88.8	140.0	791.7
TOTAL EXPENDITURE	**12500.0**	**13599.2**	**8.8**	**12900.0**	**-5.1**
Current Expenditure	**8990.0**	**9773.2**	**8.7**	**9500.0**	**-2.8**
Defence & National Security	3440.0	3878.5	12.7	3450.0	-11.0
Civil Ministries	4350.0	4373.7	0.5	4490.0	2.7
Oil production Expenditures	340.0	377.1	10.9	360.0	-4.5
Gas production Expenditures	380.0	525.6	38.3	190.0	-63.9
Gas Purchase Expenditures	-	-	-	380.0	-
Interest Paid on Loans	480.0	618.3	28.8	630.0	1.9
Investment Expenditure	**2745.0**	**2888.1**	**5.2**	**2625.0**	**-9.1**
Development Expenditure for Civil Ministries	1200.0	1199.9	0.0	1200.0	0.0
Development Expenditure for Gov companies	165.0	0.0	-100.0	125.0	-
Capital Expenditure for Civil Ministries	0.0	11.2	0.0	0.0	-
Oil Production Expenditures	800.0	921.3	15.2	800.0	-13.2
Gas Production Expenditures	580.0	755.7	30.3	500.0	-33.8
Participation & Other Expenses	**765.0**	**937.9**	**22.6**	**775.0**	**-17.4**
SURPLUS/DEFICIT	**-3000.0**	**-2649.6**	**-**	**-2800.0**	**-**
FINANCING	**3000.0**	**2649.6**	**-**	**2800.0**	**-**
Drawing from Reserves	500.0	300.0	-	400.0	-
Net loans Received	2100.0	2941.1	-	2000.0	-
Development Bonds (Net)	400.0	400.0	-	400.0	-
Net Change in Government Accounts	-	-991.5	-	-	-

Source: Ministry of Finance.

Chart 3.11 : Breakdown of Public Expenditure - 2019 Approved Budget



domestic borrowings, and drawdown on reserves. Persisting with the strategy, the net external borrowings are budgeted to finance a large part of the fiscal deficit at 71.4 percent in 2019. Net domestic borrowings (GDBs) and drawdown of reserves are budgeted to finance 14.3 percent each of the fiscal deficit in 2019 budget.

In conclusion, Oman's fiscal position is still venerable to oil price fluctuations, and any major drop could pose a challenge in terms of financing. The government has made considerable progress in reducing the deficit over the last few years. Nevertheless, further crucial fiscal reforms and elevated diversification efforts are needed to contain fiscal risks.

Money, Banking and Financial Institutions

MONEY, BANKING AND FINANCIAL INSTITUTIONS

The banking and financial institutions continued to support economic activities, especially in the non-oil sector, and contributed to a surge in growth during 2018. Monetary policy in Oman remained anchored to that in USA due to the currency peg and consequently, interest rates hardened following continued normalization of monetary policy by the Federal Reserve. The Central Bank of Oman (CBO) calibrated its operations efficiently to meet the evolving requirements in various spheres of the banking and financial sector. Accordingly, The CBO's balance sheet expanded with an upturn in foreign assets on the assets side and banks deposits on the liabilities side. Monetary aggregates expanded at a reasonable pace in line with non-oil economic activities. A pick-up in deposits mobilization eased liquidity pressure and banks were able to meet credit requirements without any difficulty during 2018. Furthermore, banks continued to display resilience with adequate capital and low delinquency rate. There were 16 conventional commercial banks with a network of 449 branches, two Government-owned specialized credit institutions with a network of 26 branches, and two full-fledged locally incorporated Islamic banks (the Islamic banks and conventional banks' Islamic Windows together operated with 81 branches) at the end of 2018. Financial markets generally functioned smoothly, albeit with varying performance across the segments, and supported economic recovery. Notably, some upturn was witnessed in the volume of overnight inter-bank market partly reflecting regulatory measures undertaken during the year. Overall, the banking and financial sector performed satisfactorily, supporting growth in the economy while persevering financial stability. The detailed analysis of activities pertaining to monetary, banking and financial institutions is undertaken in the following sections.

Monetary and Banking Indicators

The banking sector supported growth in the economy and maintained resilience, while the CBO's policies extended requisite support by ensuring adequate liquidity and undertaking measures to facilitate additional scope for credit. The regulatory and supervisory practices pursued by CBO, including risk-based supervision, implementation of Basel accords, and development of payment and settlement systems, nurtured a strong and resilient banking system over the years. At the same time, such practices in conjunction with supportive monetary policy fostered growth with low inflation and financial stability. The nominal GDP grew by 12 percent, while that emanating from non-petroleum sector expanded by 2.9 percent during 2018. The monetary and banking indicators expanded in line with growth in economic activities, especially from non-petroleum sector. Broad money (M2) registered a growth of 8.3 percent in 2018 as compared to 4.2 percent during 2017. The CBO's foreign assets increased by 8.1 percent during the year reflecting higher oil prices, whereas the ratio of CBO's net foreign assets to broad money remained more or less constant. As reserve money declined while the broad money recorded robust growth, the money multiplier improved to 5.7 in 2018 from 5.0 in the previous year (Chart 4.1(a)). At the same time, the income velocity of money that did not change during 2017 also enhanced marginally in 2018, suggesting improved turnover of money. Banking sector's balance sheet (total assets/liabilities) recorded a growth of 7.8 percent with total credit and deposits inching up by 6.4 percent and 7.8 percent, respectively. The capital adequacy ratio (CAR) of the banking sector also improved by 0.5 percentage points, indicating adequate capital to support stability, resilience and future growth.

Chart 4.1 (a): Income Velocity & Money multiplier

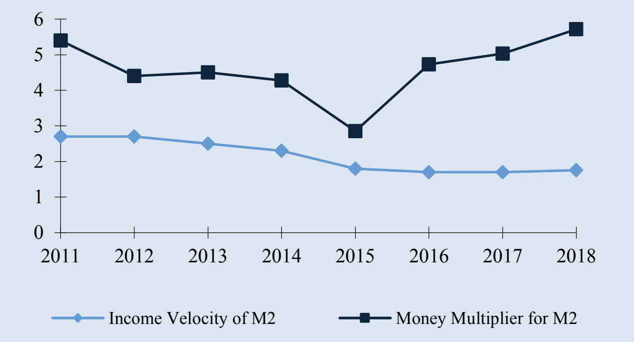


Chart 4.1(b): Broad Money & Bank Credit to Non-Oil GDP Ratio

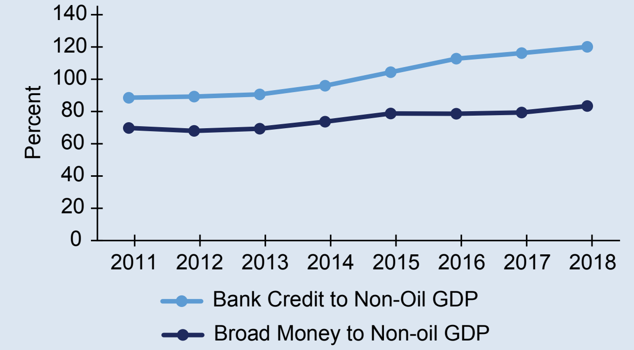
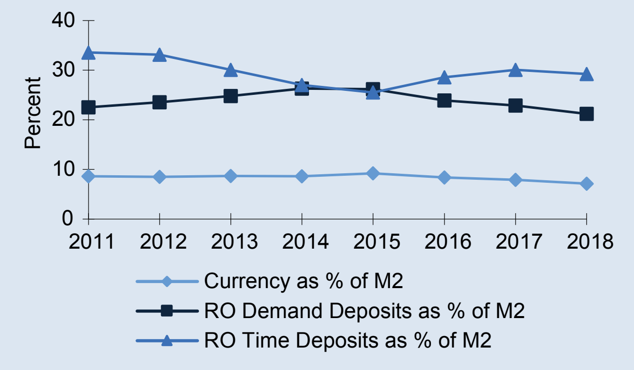


Chart 4.1 (c): Currency & Deposit Ratios



Furthermore, the majority of indicators exhibited improvement in financial deepening and inclusion while reinforcing financial stability (Chart 4.1(b) & Table 4.1). The ratio of broad money to non-petroleum GDP rose by 4.1 percentage points during 2018, while the ratio of banks credit and deposits to non-petroleum GDP jumped by about 4 percentage points and 5 percentage points, respectively, suggesting progress in financial deepening. Nonetheless, stock market capitalization to non-oil GDP ratio dropped by 1.5 percentage points, reflecting subdued activities in the stock market.

Monetary Aggregates

The monetary aggregates generally indicated noteworthy improvement in liquidity conditions during 2018. The reserve money, which reflects stylized facts of CBO's balance sheet, declined for the third consecutive year during 2018 on account of both lower demand for currency and drop in banks deposits with CBO (Table 4.2). The currency in circulation (CiC) contracted by about 2.0 percent in 2018 as against a marginal drop of 0.6 percent in 2017. Consequently, CiC to GDP ratio declined from 6.0 percent in 2017 to 5.3 percent in 2018 (CiC to non-oil GDP ratio also dropped from 8.1 percent to 7.7 percent during this period), which may be attributed to increased digitalization in the economy. Nonetheless, CiC constituted more than 50 percent of the monetary base. The bank deposits with CBO, which declined by 7.6 percent in 2018, despite robust growth in banking sector deposits, suggest moderating demand for excess reserves due to pick-up in credit. The average daily excess banks' reserves with CBO as a percentage of deposits declined to 2.1 percent during 2018 from 2.9 percent in 2017. The broad money (M2) expanded by 8.3 percent during 2018, higher as compared to an average of 5.3 percent during the preceding three years, in line with the evolving macroeconomic environment. The overall economic activities, especially those emanating from the non-oil sector, along with the interest rate environment conditioned the growth in broad money (Box 4.1). The disaggregated analysis indicates that growth in money supply was propelled by quasi money as narrow money (M1) contracted (Table 4.3). The quasi money increased considerably by 12.1 percent in 2018, on top of an increase of 6.5 percent in the previous year. The massive jump of 81.4 percent in foreign currency deposits in 2018 (as against an average of 3.1 percent in the previous three years) contributed

Table 4.1
Select Monetary and Banking Indicators

	2014	2015	2016	2017	2018
Monetary Indicators					
Reserve money (R.O. Million)	3,219	5,312	3,264	3,197	3,045
Currency with public (R.O. Million)	1,188	1,395	1,299	1,266	1,242
Narrow money M1 (R.O. Million)	4,808	5,368	4,979	4,941	4,930
Broad money M2 (R.O. Million)	13,767	15,146	15,424	16,069	17,400
CBO's foreign assets (R.O. Million)	6,277	6,746	7,791	6,186	6,686
Ratio of NFA of CBO to Reserve money	1.9	1.3	1.7	1.6	2.0
Ratio of NFA of banking system to M2	0.5	0.3	0.3	0.3	0.3
Banking Indicators					
Number of conventional commercial banks	16	16	16	16	16
Number of branches of conventional commercial banks	469	468	470	436	449
Number of branches of Islamic banking entities	46	60	70	76	81
Conventional commercial Bank ATMs	1053	1088	1109	1288	1239
Islamic banking entities ATMs	43	50	72	79	80
Other depository corporations total assets (R.O. Million)	26,005	30,250	29,886	31,489	33,959
Other depository corporations total deposits (R.O. Million)	17,968	19,412	20,424	21,570	23,255
Other depository corporations total credit (R.O. Million)	17,948	20,097	22,130	23,544	25,058
Capital Adequacy ratio	15.4	16.1	16.5	17.4	17.9
Financial deepening indicators					
Bank credit to GDP (%)	57.1	75.8	87.3	86.5	82.2
Bank credit to non-oil GDP (%)	96.1	104.5	112.9	116.3	120.2
Bank deposits to GDP (%)	57.1	73.3	80.6	79.3	76.3
Bank deposits to non-oil GDP (%)	96.2	101.0	104.2	106.5	111.6
Quasi-money to GDP (%)	28.5	36.9	40.7	39.8	40.9
Broad money to GDP (%)	43.8	57.2	60.0	57.5	57.1
Broad money to non-oil GDP (%)	73.7	78.8	78.7	79.4	83.5
Currency with public to GDP (%)	3.8	5.3	5.1	4.5	4.1
Currency with public to reserve money (%)	36.9	26.3	39.8	39.6	40.8
Currency with public to broad money (%)	8.6	9.2	8.4	7.9	7.1
Income velocity of broad money	2.3	1.8	1.7	1.7	1.8
Money multiplier (M2 over reserve money)	4.2	2.9	4.7	5.0	5.7
Stock market capitalization to GDP ratio (%)	46.3	59.6	67.3	66.0	59.6
Stock market capitalization to non-oil GDP ratio (%)	78.0	82.1	88.2	88.7	87.2

Note: Other depository corporations include conventional banks and Islamic banks and windows.
Source: Central Bank of Oman

Box 4.1: Estimation of Demand for Money Function for Oman

The demand for money has received a great deal of attention in both empirical and theoretical research since the seminal work by Friedman (1956). In fact, the demand for money dominated the discourse on monetary policy formulation until the Central Banks increasingly shifted away from monetary aggregates to the interest rate as the target of monetary policy after Taylor (1979)'s seminal work. Subsequently, New-Keynesian macroeconomics further de-emphasized the role of monetary aggregates in monetary policy. Nonetheless, some macroeconomists have expressed concern about the disappearance of money from monetary theory and policy (Beck and Wieland, 2008). Accordingly, money demand function has found extensive space in empirical research across countries. The demand for money, which is derived from liquidity preference theory (Keynes, 1936) and the quantity theory of money, mainly responds to income, interest rate, and inflation. The money demand for the purpose of the transactions generally responds to the income level with a positive relationship. On the other hand, the speculative demand for money responds to interest rate/ returns which is an opportunity cost of holding money. However, other factors, such as credit availability, financial innovations, digitalization, etc. could also affect the demand for money.

As the demand for money still holds a significant analytical value especially given its relationship with output and inflation, this study attempts to estimate the money demand function for Oman and contribute to the existing literature. Quarterly data has been used from Q1 of 2001 to Q4 of 2018 for estimating the demand function. Based on the existing theoretical and empirical literature, the real output (income) and nominal interest rates are considered as the main determinants for real demand for money in the model. The real output (RY) is a scale variable, while the nominal interest rate (LR) represents the opportunity cost of holding money. The quarterly real GDP, which has been computed by deflating the quarterly nominal GDP with annual GDP deflator, is used for real output. The real demand for money (RM) is also computed by applying the deflator used for real GDP. Nominal Effective Exchange Rate (NEER) is used as a control variable. Since real output (RY) and NEER are used in the log form, their coefficients would represent elasticity. On the other hand, the coefficient of interest rate (LR) would be semi-elasticity as it is in percent form. Fully Modified Least Square (FMOS) model is mainly used to estimate the demand for money function and the results are furnished below.z

Results of Model

Variable	Model 1 (FMOS)		Model 2(CCR@)	
	Coefficient	Prob.	Coefficient	Prob.
Log(RY)	1.533***	0.000	1.476***	0.000
LR	-0.129***	0.000	-0.142***	0.000
Log(NEER)	-0.853**	0.034	-0.841**	0.041
Adj. R-Squared	0.944		0.945	

****, **, and * denote confidence level of 99 percent, 95 percent and 90 percent. @Canonical Cointegrating Regression*

Hansen Parameter Stability Test

Model 1 (FMOS)		Model 2(CCR@)	
Lc Statistics	Prob	Lc Statistics	Prob
0.318	>0.2	0.335	>0.2

The results of FMOS model establish that an increase in income creates more demand for money, while interest rates reduce demand for money. Appreciation in exchange rate reduces the demand for money through investment substitution. The Hansen Stability Test concludes the stability of the money demand function of Oman. Considering the above results, it may be inferred that money demand has some relevance for the macroeconomic condition in Oman.

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significantly to the growth in quasi money. Local currency deposits, viz. saving deposits and time deposits also witnessed a growth of 3.6 percent and 5.2 percent, respectively. The foreign currency deposits constituted 17.2 percent of quasi money and 12.3 percent of broad money, while local currency deposits accounted for 80.7 percent of quasi money and 57.8 percent of broad money during 2018. The persistent drop in currency with the public, which declined by 1.9 percent, resulted in a marginal contraction in narrow money. The demand deposits, another component of narrow money, however, witnessed marginal growth during the year reflecting improved economic activities. The share of narrow money in broad money declined by 2.4 percentage points, while that of quasi money inched up commensurately. A steep jump in growth of foreign currency deposits under quasi money was an outlier as compared to the previous years, but adjusting for the outlier, the monetary expansion would have been moderate.

Monetary Survey

The monetary survey contains further details of monetary expansion in terms of its sources, i.e. the banking sectors' foreign assets and domestic assets (credit and investments) (Table 4.4). The break-up of sources reveals that both foreign assets and domestic assets contributed to growth in money supply, with the former accounting for a higher share. The growth in net foreign assets contributed 61.2 percent to the overall monetary expansion. Net foreign assets, which were on the downturn over the preceding three years, upturned by 18.9 percent during 2018 due to easing foreign currency liquidity with a surge in oil prices, and contributed a share of 29.5 percent to the broad money. Further disaggregated analysis exhibits that the CBO's net foreign assets mainly led to the growth in overall net foreign assets as those owned by Other Depository Corporations (ODCs) improved marginally during the year. Turning to domestic assets, the overall growth of 4.4 percent was driven by the credit to private sector and public enterprises. A significant jump of 10.4 percent in government deposits more than offset the increase in credit to government, resulting in a considerable rise of 9.8 percent in net liabilities to the government.

CBO's Monetary Policy

The monetary policy of CBO aims at supporting economic growth by ensuring adequate credit availability to various sectors while maintaining

Table 4.2
Monetary Base and its Sources
(Rial Omani Million)

	2015	2016	2017	2018	Absolute Change 2017/16	Absolute Change 2018/17
Currency Issued	1,788.2	1,647.1	1,637.5	1,605.3	-9.6	-32.2
Banks deposits with CBO*	3,523.6	1,617.4	1,559.0	1,439.9	-58.3	-119.2
Monetary Base (M0)	**5,311.7**	**3,264.5**	**3,196.6**	**3,045.2**	**-67.9**	**-151.4**
Central Bank Assets						
Foreign assets	6,745.8	7,791.0	6,186.3	6,686.0	-1,604.7	499.7
Claims on Government	658.2	727.3	565.9	775.7	-161.4	209.8
Fixed and other assets	184.9	348.0	426.3	369.3	78.2	-56.9
Less:						
Central Bank Liabilities						
Net Worth (capital and reserves)	1,304.8	1,293.1	1,432.7	1,440.0	139.6	7.3
Government deposits	473.8	1,162.5	775.6	1,237.4	-386.9	461.8
Foreign liabilities	96.0	2,127.1	922.8	681.7	-1,204.3	-241.1
Other liabilities	402.5	1,019.1	850.8	1,426.7	-168.4	575.9

* Excludes CDs issued by CBO which are shown under other liabilities
Source: Central Bank of Oman.

Table 4.3
Components of Broad Money
A. (Rial Omani Million)

End of the Period	2014	2015	2016	2017	2018
Money Supply (M1)	**4,808.0**	**5,368.3**	**4,978.8**	**4,940.5**	**4,930.2**
Currency with public	1,188.2	1,395.3	1,299.4	1,266.2	1,241.9
Demand deposits in local currency	3,619.8	3,973.0	3,679.4	3,674.3	3,688.3
Quasi Money	**8,958.9**	**9,777.4**	**10,444.9**	**11,128.2**	**12,470.2**
Savings deposits in local currency	4,006.4	4,463.2	4,624.5	4,807.8	4,979.6
Time deposits in local currency	3,712.3	3,854.5	4,415.8	4,834.1	5,084.6
Deposits in foreign currency	1,088.1	1,169.7	1,072.5	1,181.1	2,142.0
Margins	152.1	290.0	332.1	305.2	264.0
Broad Money (M2)	**13,766.9**	**15,145.7**	**15,423.7**	**16,068.7**	**17,400.3**

B. (Percentage To Total)

End of the Period	2014	2015	2016	2017	2018
Money Supply (M1)	**34.9**	**35.4**	**32.3**	**30.7**	**28.3**
Currency with public	8.6	9.2	8.4	7.9	7.1
Demand deposits in local currency	26.3	26.2	23.9	22.9	21.2
Quasi Money	**65.1**	**64.6**	**67.7**	**69.3**	**71.7**
Savings deposits in local currency	29.1	29.5	30.0	29.9	28.6
Time deposits in local currency	27.0	25.5	28.6	30.1	29.2
Deposits in foreign currency	7.9	7.7	7.0	7.4	12.3
Margins	1.1	1.9	2.1	1.9	1.5
Broad Money (M2)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Central Bank of Oman.

Table 4.4
Monetary Survey *

End of Period	(Rial Omani Million)					Change in RO million 2018/17	% Change 2018/17
	2014	2015	2016	2017	2018		
1. Broad money (A+B)	**13,766.9**	**15,145.7**	**15,423.7**	**16,068.7**	**17,400.3**	**1,331.7**	**8.3**
A. Money	4,808.0	5,368.3	4,978.8	4,940.5	4,930.2	-10.3	-0.2
a) Currency with public	1,188.2	1,395.3	1,299.4	1,266.2	1,241.9	-24.3	-1.9
b) Demand deposits in RO	3,619.8	3,973.0	3,679.4	3,674.3	3,688.3	14.0	0.4
B. Quasi Money	8,958.9	9,777.4	10,444.9	11,128.2	12,470.2	1,342.0	12.1
(of which foreign cy. deposits)	1,088.1	1,169.7	1,072.5	1,181.1	2,142.0	960.9	81.4
2. Foreign Assets (net)	**6,546.4**	**4,608.4**	**4,567.0**	**4,319.6**	**5,134.8**	**815.2**	**18.9**
Central Bank	6,176.9	6,649.9	5,663.8	5,263.5	6,004.3	740.8	14.1
Other Depository Corporations	369.5	-2,041.5	-1,096.8	-943.9	-869.5	74.4	-7.9
3. Domestic Assets	**7,220.5**	**10,537.3**	**10,856.7**	**11,749.1**	**12,265.6**	**516.5**	**4.4**
a) Claims on Government (net)(i-ii)	-4,810.8	-3,224.5	-4,548.0	-4,594.6	-5,046.6	-452.1	9.8
i) Government borrowings	835.0	2,628.8	2,538.0	2,544.9	2,833.1	288.2	11.3
ii) Government deposits (-)	5,645.8	5,853.3	7,086.0	7,139.5	7,879.7	740.3	10.4
b) Domestic claims on Pvt. Sector	15,966.1	18,185.8	19,985.6	21,255.4	22,337.4	1,082.1	5.1
c) Claims on Public enterprises	2,016.1	1,982.3	2,098.3	2,338.9	2,663.6	324.7	13.9
d) Other items (net) (-)	5,950.9	6,406.3	6,679.2	7,250.6	7,688.8	438.2	6.0
i) Central Bank	4,649.4	5,438.8	3,929.2	3,787.7	4,300.7	513.0	13.5
ii) Other Depository Corporations	1,301.4	967.5	2,750.0	3,462.9	3,388.1	-74.8	-2.2

** Monetary survey aggregates include that of conventional banks and Islamic banks and windows.*

Source : Central Bank of Oman.

financial stability and monitoring inflation.The CBO follows a fixed exchange rate regime while maintaining an open capital account. Consequently, the monetary conditions prevailing in USA are transmitted automatically to Oman. the CBO's policy rate (repo rate) is defined as one month US dollar LIBOR plus a spread of 50 basis points or 1.0 percent, whichever is higher. Though this leaves CBO with limited scope for an independent monetary policy, it can still utilize direct and indirect tools to manage domestic liquidity. Since the economic slowdown in 2015, the CBO has been implementing the monetary policy with a mix of indirect and direct instruments including macroprudential regulatory measures to support economic activities. Monetary policy during 2018 was executed in the backdrop of strengthening economic recovery, benign inflationary conditions, hardening interest rates, and persisting macroeconomic imbalance (i.e. elevated fiscal and current account deficits). The average monthly liquidity injected through repo operations was RO 47.1 million during 2018 (at an average repo rate of 2.510 percent) during 2018, higher as compared to RO 37 million in 2017 (at an average repo rate of 1.602 percent) (Table 4.5). The demand for higher liquidity

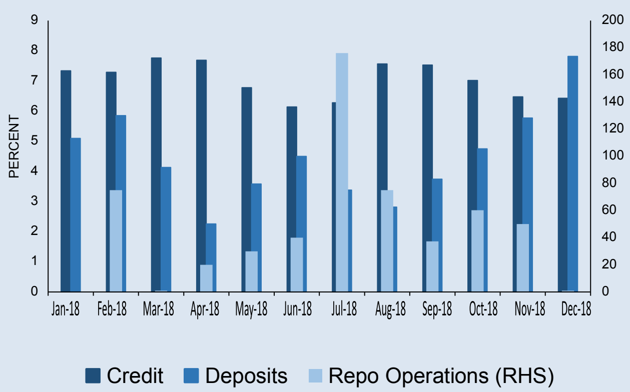
Table 4.5
Absorption and Injection of Liquidity by CBO during 2018

Month	Liquidity Absorption (Treasury Bills)		Liquidity Injection (Repos With CBO)*		
	Amount Issued During the Month (RO Million)	Outstanding TBs at the end of the Month (RO Million)	Amount Repoed During The Month (RO Million)	Outsatnding Repo Amount (RO Million)	Repo Rate (% p.a)
January	209.5	535.1	0.0	0.0	2.060
February	186.0	535.6	75.0	0.0	2.089
March	117.5	428.1	1.0	0.0	2.267
April	124.0	344.1	20.0	0.0	2.392
May	226.8	333.1	30.0	0.0	2.437
June	197.8	328.6	40.0	0.0	2.548
July	111.0	255.6	176.0	0.0	2.582
August	141.0	270.6	75.0	0.0	2.572
September	81.9	259.5	37.3	0.0	2.648
October	156.5	264.6	60.3	0.0	2.781
November	170.0	274.3	50.0	0.0	2.811
December	175.1	279.6	1.0	0.0	2.934

* Includes repos in instruments such as GDBs, T.Bs, and excludes intra-day repos.
Source : Central Bank of Oman.

injection through repos was mainly driven by year-on-year higher growth in credit vis-à-vis that in deposits until November of 2018 (Chart 4.2). Increase in the average cost of liquidity injection, however, reflects the transmission of four interest rate hikes by the Federal Reserve during 2018. The regulatory relaxations implemented in 2018, included reducing the minimum Capital Adequacy Ratio (CAR) by 1 percentage point and allowing banks to reckon their net domestic inter-bank borrowings for net lending ratio purpose to create additional scope for lending.

Chart 4.2: Liquidty Injection and Growth in Credit and Deposits



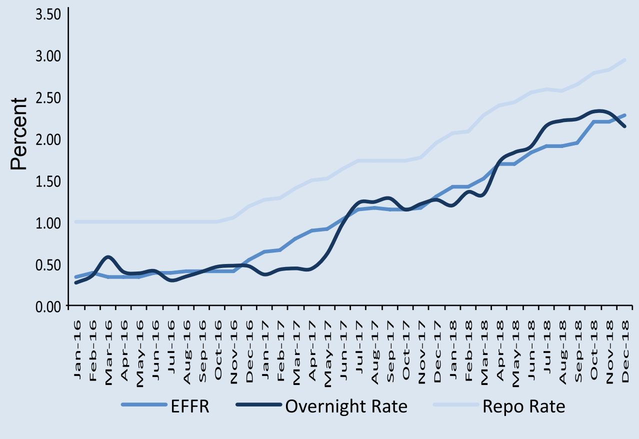
Financial Markets

Developed financial markets are crucial for the transmission of monetary policy to the economy and promoting efficient allocation of financial resources to growing economic activities. Therefore, various stakeholders (including regulators) in the financial market are continuously making concerted policy efforts for their development. The creation and enhancement of financial sector infrastructure along with developing appropriate instruments of financing, trading and risk sharing creates scope for financial depth, allowing market participants to access financial markets. Although domestic economic developments drive the activities in the financial markets, the global factors also play a role because of an open economy framework and currency peg arrangement. The activities in the financial markets improved during 2018 in line with strengthening of momentum in the economy, while tightening of global financial conditions, especially in the second half, entrenched somewhat and acted as a dragger. Nonetheless, the performance across financial markets varied, with money market witnessing a higher growth while the equity market experiencing a moderation in activities. Foreign exchange market functioned smoothly during 2018 on the back of a surge in oil revenues, albeit inter-bank counter-party transactions remained minimal. The detailed analysis of each market segment is delineated below.

Money Market

The money market, being the inception point for the transmission of monetary policy, assumes a great significance. The CBO influences liquidity in the market largely by employing indirect instruments such as certificates of deposit, which have been currently discontinued and replaced with auctions of treasury bills, for liquidity absorption (although treasury bills do not replicate exactly the role of CBO's certificates of deposit in liquidity absorption) and repurchase agreements (repos) for liquidity injection. The CBO thus manages the supply and demand for short-term funds and affects interest rates as per its monetary policy stance. As alluded to earlier, domestic monetary conditions almost mirror those prevailing in USA due to currency peg with the US dollar and open capital account. The liquidity through repo operations is injected at repo rate, which is also linked to Fed Fund rate through LIBOR. Therefore, money market interest rates in Oman largely move in tandem with those prevailing in USA. The Federal Reserve hiked interest rates four times, each by 25 basis points, during 2018 and the current Fed Fund target Rate is 2.25-2.50 percent. Accordingly, money market rates in Oman also further hardened during 2018 and the overnight inter-bank rate rose from 1.263 percent in December 2017, through 1.896 percent in June 2018, to 2.141 percent during December 2018. Intra-year movements in overnight inter-bank rate depict that it remained closely aligned to effective federal fund rate (EFFR) during 2018 with a high correlation coefficient at 0.92, albeit it moved up and down over EFFR depending on transitory domestic liquidity conditions (Chart 4.3).

Chart 4.3: Overnight Inter-bank rate and Effective Federal Fund Rate (EFFR) TITLE



The banks are expected to meet their funding mismatch firstly in the money market. The pick-up in economic activities during 2018 was supposed to lead to higher funding mismatch and increased volume in the money market. Accordingly, the monthly average volume of the conventional inter-bank market jumped from RO 35.5 million in 2017 to RO 50.5 million in 2018. Of that, the monthly average volume of overnight tenure rose from RO 32.3 million to RO 39.4 million, while that of other tenors increased from RO 3.2 million to RO 11.1 million during this period. Even inter-bank lending and borrowings by Islamic banking entities experienced further activation with monthly average volume reaching to RO 12.7 million in 2018. Furthermore, as residual liquidity requirements could be availed from CBO, the total value of repos with CBO rose to RO 565.5 million in 2018 from RO 444 million in 2017. On the other hand, total value of treasury bills issued fell to RO 1,897 million in 2018 from RO 2,880 million in 2017, reflecting improved liquidity position of the government (Table 4.5). Notably, interbank money market operations gained further traction in terms of both larger volumes and longer tenures, which can be partly attributed to the policy change allowing banks to reckon their net domestic inter-bank borrowings for lending ratio purpose, besides pick-up in economic activities.

Capital market

In the initial stages of economic development, banks play a bigger role in financing investments. However, as the economy develops further, the capital market have to play a bigger role in financing activities and efficient allocation of resources. The capital market provides an alternative avenue of financial intermediation where direct interface among capital providers and seekers allows the availability of debt and equity capital at a lower cost. Considering its importance, the Capital Market Authority (regulator) and the government are making efforts to further develop and broaden the capital market in the Sultanate. Currently, the equity segment is fairly developed, while the debt segment also made some progress in the last few years with the issuance of government development bonds (GDBs) to finance the fiscal deficit. The regular issuance of GDBs would help further development of the debt market by providing a risk-free yield curve for benchmarking and pricing. Furthermore, the progress of diversification in the economy would create more demand for financing from the capital market and reinforce the development of the latter.

During 2018, there were four GDBs issuances with differing maturities (ranging from five to ten years), amounting to RO 500 million. The total outstanding amount of GDB stood at RO 2,430 million at the end of 2018, of which RO 1,238.5 million were held with commercial and specialized banks. The holding pattern of GDB's (based on primary issuance) as on end-2018 shows that banks held highest share of 52 percent, followed by pension funds with 37.5 percent (Table 4.6 (a)). The activities in the corporate bonds market also increased during 2018, with nine primary issuances amounting to RO 285 million in comparison with four such issuances amounting to RO 197 million in 2017. Turning to the equity market, indicators in table 4.6 (b) exhibit that the performance of Muscat Securities Market (MSM)

Table 4.6 (a)
Holding Pattern of Outstanding Government Development Bonds*
(End 2018)

	Local (R.O. Million)	Abroad (R.O. Million)	Total Holdings (R.O. Million)	Percentage to Total
Banks	1238.49	25.97	1264.46	52.04
Govt Entities	3.30	0.00	3.30	0.14
Pension Funds	911.21	0.00	911.21	37.50
Other Financial Institutions	232.59	0.00	232.59	9.57
Non- Financial Institutions	8.94	0.00	8.94	0.37
Individuals	9.44	0.05	9.49	0.39
Total	**2403.98**	**26.02**	**2430.00**	**100.0**

* Excludes Investments in Government Sukuk
Note: Holding pattern based on primary issuance
Source: Central Bank of Oman

Table 4.6 (b)
Stock Market Indicators

	2014	2015	2016	2017	2018
1) MSM 30 Share Price Index	6343.22	5406.22	5782.71	5099.28	4323.74
2) Number of shares traded (Million)	6620.0	5642.5	4541.0	4264.0	4015.0
3) Number of bonds traded (Million)	86.6	91.4	92.4	11.6	6.2
4) Total turnover of trading (RO Million)	2269	1390	959	993	763
a) Turnover of trading in shares (RO Million)	2235	1366	946	917	739
b) Turnover of trading in bonds (RO Million)	34	24	13	76	24
5) Number of trading days	244	248	246	247	247
6) Average value of trading per day in shares & bonds (RO Million)	9.30	5.60	3.90	4.02	3.09
7) Market capitalization (RO Million)	14565	15779	17288	17951	18176

Source: Muscat Securities Market

deteriorated as the MSM-30 index declined by 15 percent in 2018. The secondary market turnover in both shares and bonds also dropped by 19.4 percent and 68.2 percent, respectively, suggesting subdued sentiments and decline in liquidity. Nonetheless, the market capitalization increased marginally by 1.3 percent, which may be attributed to the increased number of listed companies. Intra-year movements during 2018 reveal that MSM-30 index peaked at 5,123 points while it touched lowest at 4,313 points. The performance of the MSM Sharia index also remained subdued as it fell by about 17 percent from 713.6 points at the end of 2017 to 591.9 points as on end-2018.

Foreign exchange market

Oman has an open economy that is heavily dependent on oil exports, which are denominated in the US dollar. Therefore, a fixed exchange rate with the US dollar has been working as the ideal exchange rate system for the country. As the currency peg to the US dollar acts as a credible nominal anchor for attaining all intended objectives including macroeconomic stability, protecting and sustaining its credibility becomes an overriding objective of the Central Bank. The government remains as the main supplier of foreign currency to the Central Bank, whilst the main buyers of foreign currency from the Central Bank persist to be commercial banks. During the year 2018, the CBO purchased a total of US$ 18 billion from the Ministry of Finance and other government entities, while its sale of US dollars to banks amounted to US$ 18.5 billion. The commercial banks also used deposits in foreign currency (largely denominated in USD) to finance lending in foreign currency. As at the end of 2018, the deposits in foreign currency accounted for 15 percent of total deposits, while credit in foreign currency constituted 16 percent of total credit in line with the former. Foreign exchange market functioned smoothly during the year without any pressure.

Interest rate structure and developments

Interest rates in Oman closely follow the trends prevailing in USA, owing to the fixed exchange rate system and an open capital account. Nonetheless, the interest rate spread between the Omani Rial and US Dollar indicates the premium (either positive or negative) that investors demand on the Omani Rial. The central bank has limited ability in terms of implementing an independent monetary policy; however, it conducts liquidity management operations, using tools such as repurchase agreements (repos), aimed at ensuring adequate liquidity in the system and alignment of the overnight inter-bank rate to the Fed Fund rate. The average CBO policy rate stood at 2.510 percent in 2018, higher as compared to 1.602 percent in 2017, reflecting interest rate hikes in USA (Chart 4.4). The Rial Omani overnight domestic inter-bank lending rate also inched up steeply to 2.141 percent in December 2018 from 1.263 percent a year ago, maintaining alignment with the Fed Fund rate (Table 4.7a). The Federal Reserve, however, has recently announced a pause in further normalization of monetary policy and consequently, added upward pressure on money market rates in Oman will ease.

The weighted average interest rates on both RO deposits and lending increased during 2018, while the upturn in the weighted average interest rates on foreign currency (FCY) deposits and lending was significant (Table 4.7b). The higher upturn in deposits rate vis-à-vis lending rate led to lowering of interest rate spread of RO during 2018, whereas the interest rate spread of FCY increased due to a significantly higher jump in lending rate (Chart 4.5). The weighted average interest rate on FCY lending jumped sharply (113 basis points), inching very close to the weighted average RO lending rate. Consequently, the spread of the weighted average RO lending rate over that on FCY lending rate also reduced considerably and stood at just about 8 basis points in December 2018 (217 basis point in December 2015) due to a steep rise in the latter reflecting re-pricing of country risks.

There was a noticeable shift in the interest rate-wise distribution of RO deposits (Table 4.7c & d). At the end of December 2018, the share of 0-2.0 percent bracket in total deposits fell by 4.9 percentage points to 55.5 percent, whereas the share of 4.0-5.0 percent bracket increased by 6.6 percentage points to 17.7 percent. The share of other interest rate brackets in total deposits also changed but not to any significant extent. On the contrary, the interest rate-wise distribution of RO lending exhibited a major change only in case of 5.0-7.0 percent bracket whose share in total lending increased by 5.1 percentage points (Table 4.7e). This bracket mainly constitutes personal loans whose interest rate is subject to a ceiling of 6.0 percent prescribed by CBO.

Chart 4.4 : Short-Term Interest Rates

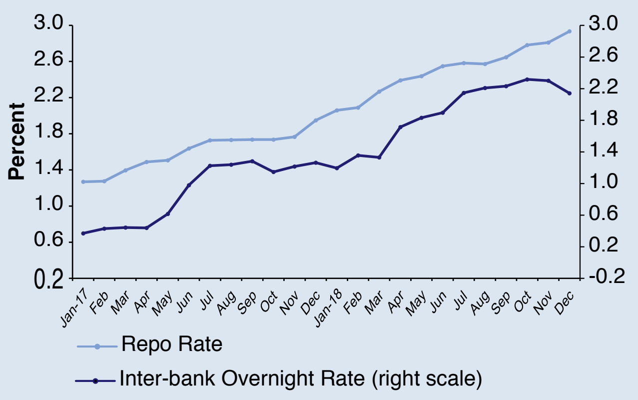


Chart 4.5 : Weighted Average Interest Rates

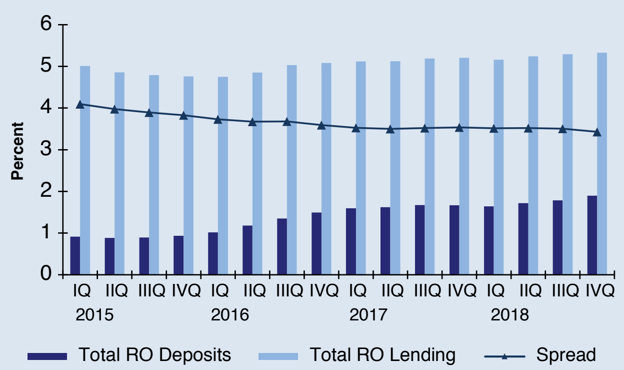


Table 4.7 (a)
Domestic Inter-Bank Overnight Lending Rates (Conventional Banks)

Period	2017		2018	
	Daily Average Amount in RO Million	Monthly Weighted Average Interest rate* (percent)	Daily Average Amount in RO Million	Monthly Weighted Average Interest rate* (percent)
Jan	33.8	0.370	31.6	1.195
Feb	45.4	0.430	17.4	1.356
March	28.3	0.443	32.9	1.330
IQ Avg	**35.8**	**0.414**	**27.3**	**1.294**
April	12.3	0.438	44.2	1.714
May	36.9	0.616	38.8	1.831
June	65.7	0.978	27.7	1.896
IIQ Avg	**38.3**	**0.677**	**36.9**	**1.814**
July	39.9	1.225	51.2	2.147
August	23.3	1.237	60.9	2.209
September	26.7	1.281	45.5	2.230
IIIQ Avg	**30.0**	**1.248**	**52.5**	**2.195**
October	22.1	1.146	30.1	2.317
November	16.0	1.214	66.4	2.301
December	37.5	1.263	25.7	2.141
IVQ Avg	**25.2**	**1.208**	**40.8**	**2.253**

* Weighted by individual transaction amounts.
Source : Central Bank of Oman.

Table 4.7 (b)
Weighted Average Interest Rates*
(percent per annum)

End of Period	Deposit Rate			Lending Rate			Spread		
	Total RO Deposits	Total Fcy Deposits	Total Deposits (RO+Fcy)	Total RO Lending	Total Fcy Lending	Total Lending (RO+Fcy)	RO	Fcy	Total (RO+Fcy)
	(1)	(2)	(3)	(4)	(5)	(6)	(4)-(1)	(5)-(2)	(6)-(3)
Dec-2015	0.936	0.894	0.931	4.762	2.592	4.471	3.826	1.698	3.540
Mar-2016	1.016	0.857	0.997	4.747	2.665	4.468	3.731	1.808	3.471
June-2016	1.182	0.969	1.158	4.854	2.851	4.584	3.672	1.881	3.427
Sep-2016	1.349	0.965	1.301	5.030	3.091	4.760	3.681	2.126	3.459
Dec-2016	1.493	0.895	1.423	5.084	3.267	4.827	3.591	2.372	3.404
Mar-2017	1.595	0.884	1.519	5.118	3.651	4.917	3.524	2.767	3.398
Jun-2017	1.621	1.018	1.551	5.123	3.690	4.926	3.502	2.672	3.375
Sep-2017	1.672	0.993	1.587	5.190	3.831	5.004	3.519	2.838	3.417
Dec-2017	1.667	1.005	1.594	5.203	4.116	5.038	3.536	3.111	3.444
Mar-2018	1.644	1.186	1.591	5.161	4.417	5.048	3.518	3.232	3.458
Jun-2018	1.717	1.272	1.665	5.240	4.858	5.185	3.523	3.586	3.520
Sep-2018	1.786	1.326	1.728	5.294	5.038	5.254	3.507	3.712	3.526
Dec-2018	1.899	1.475	1.835	5.329	5.250	5.317	3.430	3.775	3.482

*Conventional banks Only.

Table 4.7 (c)
Interest Rate-wise Distribution of Rial Omani Total Deposits

Rate of Interest (% per annum)	Dec 2016		Dec 2017		Dec 2018	
	Amount in RO Million	% Share	Amount in RO Million	% Share	Amount in RO Million	% Share
Upto 2%	10,380.1	64.4	9,991.9	60.4	9,421.6	55.5
Over 2% TO 3%	1,614.5	10.0	1,129.0	6.8	793.9	4.7
Over 3% TO 4%	2,227.1	13.8	3,127.0	18.9	3,242.8	19.1
Over 4% TO 5%	1,444.8	9.0	1,837.1	11.1	3,008.8	17.7
Over 5% TO 6%	440.1	2.7	448.9	2.7	504.4	3.0
Over 6% TO 7%	9.3	0.1	9.5	0.1	4.5	0.0
Over 7% TO 8%	0.0	0.0	0.4	0.0	0.5	0.0
Over 8% TO 9%	0.0	0.0	0.0	0.0	0.0	0.0
Over 9% TO 10%	0.0	0.0	0.0	0.0	0.0	0.0
Over 10%	0.0	0.0	0.0	0.0	0.0	0.0
Total	**16,115.9**	**100.0**	**16,543.9**	**100.0**	**16,976.5**	**100.0**
Weighted average interest rate (%)	**1.493**		**1.667**		**1.899**	

Table 4.7 (d)
Interest Rate-wise Distribution of Rial Omani Time Deposits

Rate of Interest (% per annum)	Dec 2016		Dec 2017		Dec 2018	
	Amount in RO Million	% Share	Amount in RO Million	% Share	Amount in RO Million	% Share
Upto 2%	1,057.9	15.9	689.9	9.9	629.3	8.3
Over 2% TO 3%	1,504.3	22.6	928.8	13.3	473.1	6.2
Over 3% TO 4%	2,220.6	33.3	3,068.7	44.1	3,010.3	39.5
Over 4% TO 5%	1,434.8	21.5	1,822.1	26.2	2,997.5	39.4
Over 5% TO 6%	438.0	6.6	446.2	6.4	501.5	6.6
Over 6% TO 7%	9.3	0.1	9.5	0.1	4.5	0.1
Over 7% TO 8%	0.0	0.0	0.0	0.0	0.0	0.0
Over 8% TO 9%	0.0	0.0	0.0	0.0	0.0	0.0
Over 9% TO 10%	0.0	0.0	0.0	0.0	0.0	0.0
Over 10%	0.0	0.0	0.0	0.0	0.0	0.0
Total	**6,664.9**	**100.0**	**6,965.2**	**100.0**	**7,616.1**	**100.0**
Weighted average interest rate (%)	**3.188**		**3.477**		**3.731**	

Table 4.7 (e)
Interest Rate-wise Distribution of Rial Omani Total Lending

Rate of Interest (% per annum)	Dec 2016		Dec 2017		Dec 2018	
	Amount in RO Million	% Share	Amount in RO Million	% Share	Amount in RO Million	% Share
Upto 2%	508.0	3.0	672.6	3.9	503.6	2.8
Over 2% TO 4%	3,637.9	21.5	2,921.5	16.8	2,768.7	15.3
Over 4% TO 5%	4,203.6	24.8	4,185.1	24.1	3,915.5	21.7
Over 5% TO 7%	6,829.0	40.4	7,799.4	44.8	9,004.0	49.9
Over 7% TO 8%	1,278.9	7.6	1,328.4	7.6	1,392.0	7.7
Over 8% TO 9%	212.9	1.3	172.0	1.0	157.6	0.9
Over 9% TO 10%	49.0	0.3	51.4	0.3	49.9	0.3
Over 10% TO 11%	48.8	0.3	64.0	0.4	44.6	0.2
Over 11% TO 12%	38.8	0.2	98.2	0.6	98.7	0.5
Over 12% TO 13%	9.7	0.1	8.1	0.0	8.5	0.0
Over 13%	104.3	0.6	99.9	0.6	108.5	0.6
Total	**16,920.9**	**100.0**	**17,400.6**	**100.0**	**18,051.6**	**100.0**
Weighted average interest rate (%)	**5.084**		**5.203**		**5.329**	

Regulatory and Supervisory Developments

The CBO constantly reviews its prudential regulations and supervisory policies/ practices to ensure that the banks fulfill their role of efficient financial intermediation and support growth in the economy without undermining financial stability. Towards this objective, the CBO has implemented gradually almost all international best practices including Basel guidelines on capital requirements, risks, assets classifications, liquidity measure, etc. The CBO undertook several policy measures in 2018, enabling additional space for lending and effective liquidity management of banks.

The banks were allowed to reckon their net domestic inter-bank borrowings as part of the deposit base for the lending ratio purpose, creating more space for credit expansion and further encouraging the inter-bank lending for optimal utilization of liquidity. Additionally, the minimum requirement of capital adequacy ratio of banks was reduced from 12 percent to 11 percent (13 percent to 12 percent for Domestic Systemically Important Banks) beginning April 1, 2018. This was aimed at enhancing the lending capacity of banks for a boost to credit growth. The banks were permitted to additionally include Stage 2 provisions in Tier 2 capital commencing from 2018, however, a total of Stage 1 and Stage 2 provisions is subject to a ceiling of 1.25 percent of credit risk-weighted assets (RWAs) and it shall not exceed the total general provisions amount taken by banks for tier 2 capital as on December 2017, stage 2 provisions will be phased out over a period of four years. Furthermore, the prudential gap limits for all currencies were revised from negative 15 percent to negative 20 percent for 3-6 months bucket and negative 25 percent for 6-9 months and 9-12 months buckets to facilitate improved asset and liability management (ALM). In addition, the limit of aggregate placements and credit exposure to local net worth was increased from 50 percent to 75 percent to provide flexibility to the banks for managing excess funds, correspondent banking relationships, and diversification of income streams. As per the Basel III guidelines, Leverage Ratio standard has been implemented in Oman with the minimum standard set at 4.5 percent (5.0 percent for DSIB) effective from Dec 31, 2018.

In order to preserve the stability of the financial system, the CBO issued guidelines on Anti-Money Laundering /Combating the Financing of Terrorism (AML/CFT) off-site surveillance framework to identify, understand and assess money laundering and terrorist financing risks in banks as well as in Finance and Leasing Companies (FLCs). The assessment will help the CBO in prioritization and allocation of resources to enhance Oman's AML/CFT regime under a risk-based approach. The roadmap for the formation of Oman Credit Bureau was approved in 2018. This initiative, which is an outcome of the National Program for Economic Diversification (Tanfeedh), would improve the Sultanate's rank in the "Ease of Doing Business" global index as well as enhance financial inclusion through digitally secured channels for credit inquiry services. The CBO issued a framework in 2015 to identify and supervise Domestic Systemically Important Banks (DSIBs) in Oman, which stipulates a capital surcharge, heightened regulatory and supervisory watch, including an upgraded stress-testing suite entailing macro stress tests, periodic meetings with the DSIBs Committee of CBO, improved risk appetite framework, and a board approved Recovery & Resolution Plan. As a further step in this direction, the CBO issued a Bank Resolution Framework for Oman in April 2018, aimed at preparing banks for self-propelled recovery, and if circumstances necessitate, allowing CBO to resolve them in an orderly manner with least disruption and minimal cost to the national exchequer while preserving financial stability. The Framework is applicable on the designated DSIBs, however, the CBO may apply all or parts of this framework to other banks. Once fully operationalized, the Bank Resolution Framework would form an integral part of the crisis management framework and boost the capacity of CBO to handle bank resolutions.

Central Bank Operations

The responsibilities and operations of the Central Bank keep evolving in line with national priorities and changing macroeconomic and financial environment. Hence, the Central Bank should keep endeavoring for functional improvements in terms of both quality and coverage. Towards this objective, the CBO formulated a strategy for 2019-2021, drawing lessons from several Central Banks around the world and factoring in the major central banking trends (Box 4.2).

The financial statement of CBO, furnished in Table 4.8a, contains details of assets and liabilities that reflect the operations conducted during the financial year. All of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee of the IASB, which are relevant to its operations and do not contradict with the Banking Law of 2000, have been adopted by the Bank. Nonetheless, the presentation of the financial position of CBO, shown in Table 4.8a, marginally differs from the presentation of the audited financial statements that appear separately under the "Central Bank Accounts and Regulations" section for analytical purpose as well as making it consistent with the monetary statistics analysis.

Total assets of the CBO exhibited a notable increase of 9.1 percent in 2018 compared to a substantial decline of 19 percent in 2017. The disaggregated analysis indicates that improvement in CBO's asset position was mainly driven by a steep jump of 96.7 percent in placements abroad under foreign assets (which are mainly denominated in US dollars), and a significant increase of 37.1 recorded in credit to the government under domestic assets (Table 4.8b). A sharp rebound in placements aboard reflected a surge in oil revenues, while the government's higher recourse to credit/overdraft

Box 4.2: The Central Bank's Strategy for 2019-2021

The Central Bank of Oman (CBO) has been continuously evolving and upgrading its operations and functions to discharge its mandate efficiently amidst the emerging domestic and global economic environment. In line with that, the CBO, in consultation with the Boston Consulting Group (BCG), unveiled its three-year strategy recently, aimed at spearheading the strategic transformation of the bank. In preparation of the strategy, the operations and outcomes of several Central Banks around the world were benchmarked, while also assessing the relevance of major trends prevailing in the central banking in the current milieu for their relevance for Oman's financial sector in general and the CBO in particular. The strategy is centered on three pillars, focusing on different areas and their enablers for CBO's strategic transformation, as under:

- **First Pillar**: Focuses on improving scope and efficiency with regard to the work/ operations the CBO is undertaking currently. This includes strengthening Oman's monetary policy framework and continuing to be a reliable banker to the government.
- **Second Pillar**: Focuses on enhancing and improving the designated functions within CBO by strengthening macroeconomic research and forecasting capabilities with an aim to deliver more accurate economic advice to the public policy.
- **Third Pillar**: Seeks to develop a vision for the Omani financial sector with the support of other key stakeholders to encourage innovations in this sector, improve financial literacy and play an active role in protecting consumer rights.

Beside the above three pillars, the strategy also contain the following key enablers for its effective implementing:

Efficient operations: Become a lean and efficient organization thereby strengthening core activities.

Open communication: Practice transparency and form strong international alliances.

Fit-for-purpose technologies: Leverage innovative technologies to drive operational efficiency.

Motivated workforce: Maintain a high-performing and committed workforce.

Collaborative organization: Become an organization guided by shared values and collaborative teamwork.

Table 4.8 (a)
Central Bank of Oman Assets and Liabilities
(Rial Omani Million)

	2014	2015	2016	2017	2018	% Change 2018/17
Foreign Assets	**6,276.9**	**6,745.8**	**7,790.9**	**6,186.3**	**6,686.0**	**8.1**
a) Bullion	0.4	0.4	0.4	0.4	0.4	-
b) IMF Reserve assets	144.5	135.4	127.2	97.1	94.8	-2.4
c) Placements abroad	860.4	1,358.0	2,510.7	1,535.8	3,021.2	96.7
d) Securities	5,271.6	5,252.0	5,152.6	4,553.0	3,569.5	-21.6
Due from Government	173.2	658.2	727.3	565.9	775.7	37.1
Due from Banks and other Institutions	0.4	0.3	0.3	0.1	0.1	-42.0
Fixed Assets	40.7	36.4	36.9	43.7	43.9	0.5
Other Assets	147.7	148.1	310.9	382.4	325.4	-14.9
Total Assets / Liabilities	**6,638.9**	**7,588.8**	**8,866.3**	**7,178.4**	**7,831.0**	**9.1**
Currency Issued	1,593.7	1,788.2	1,647.1	1,637.5	1,605.3	-2.0
Net Worth	1,298.8	1,304.8	1,293.1	1,432.7	1,440.0	0.5
a) Capital	700.0	760.0	760.0	1,000.0	1,000.0	0.0
b) General Reserves	396.2	438.7	488.5	323.4	373.8	15.6
c) Others	202.6	106.1	44.6	109.3	66.3	-39.3
Due to Government	512.4	473.8	1,162.5	775.6	1,237.4	59.5
Due to banks and other institutions	1,708.4	3,824.3	2,413.9	2,127.7	2,597.7	22.1
Foreign Liabilities*	100.1	95.9	2,127.1	922.8	681.7	-26.1
Other Liabilities	**1,425.4**	**101.8**	**222.6**	**282.1**	**268.9**	**-4.7**
a) CDs	1,323.0	0.0	0.0	0.0	0.0	-
b) Others	102.4	101.8	222.6	282.1	268.9	-4.7

* Includes SDR allocations
Source: Central Bank of Oman.

Table 4.8 (b)
Central Bank's Own Foreign Assets
(Rial Omani Million)

	Dec 2017	Dec 2018	Absolute Change 2018/2017
1. Gross Foreign Assets	**6,186.3**	**6,686.0**	**499.7**
a) Bullion	0.4	0.4	0.0
b) IMF Reserve Assets	97.1	94.8	-2.3
c) Placements Abroad	1,535.8	3,021.2	1,485.4
d) Securities	4,553.0	3,569.5	-983.4
Less:			
Foreign cy. deposits from Government	774.4	851.9	77.5
Foreign cy. deposits from banks	568.7	1,157.8	589.1
2. Central Bank's Own Foreign Assets	**4,843.2**	**4,676.3**	**-166.9**

Source: Central Bank of Oman.

from CBO was necessitated by short-term cash management requirements. Another important component of foreign assets, CBO's investment in available-for-sale foreign securities continued to be on a downward trajectory and dropped by 21.6 percent during 2018. Total foreign assets increased by 8.1 percent during 2018 as against a large contraction of 20.6 percent in 2017, while total domestic assets expanded by 15.4 percent in comparison with a decline of 7.7 percent during this period. The foreign assets remained as the major component of total assets of CBO, although their share in total assets declined marginally to 85.4 percent in 2018 from 86.2 percent in 2017. On the other hand, the share of domestic assets in total CBO's assets increased commensurately to 14.6 percent during 2018, reflecting its relatively higher growth.

On the liabilities side, the growth during 2018 was attributed mainly to banks' deposits (both RO and FCY) with CBO (due to banks and other institutions) and government deposits, which increased by 22.1 percent and 59.5 percent, respectively. A significant increase in banks' deposits reflected robust foreign currency liquidity, while large gains in oil revenues facilitated a steep upturn in government deposit with CBO during the year. Currency in circulation, another important part of CBO's liabilities, however, remained in downturn phase and declined by 2.0 percent in 2018. A persistent decline in demand for currency, despite robust nominal growth, suggests increasing digitalization of the economy whereby people are increasingly using digital modes of payment. The net worth of the CBO, constituting capital, general reserves, and various other reserves, witnessed a marginal increase during 2018. The capital of the Central Bank remained at the same level, while the general reserves increased by about RO 50 million due to transfers from net profit and amounted to 23.3 percent of the currency in circulation. On the other hand, other reserves declined by RO 43 million during 2018 largely on account of a drop by around 41 million in the currency valuation adjustment account. The bond price fluctuation and the currency fluctuation reserves did not witness any change from the previous year. The financial assets valuation adjustment account on available-for-sale investments, however, improved by about RO 1.9 million during the year.

Commercial Banks Operations

The strengthening of economic activities in Oman provided the banking sector requisite support. Although oil prices remained lower than the break-even level, the banks appear to have adjusted to the new normal with regard to oil prices and performed well and displayed resilience. The sufficient public sector investments in multiple projects aimed at spearheading diversification in the economy also helped banking sector performance. The banks have an optimistic outlook, supported by efficiency gains, high capitalization, and low delinquency rate. The capital adequacy ratio (CAR) stood at 17.9 percent as on end-2018 in comparison to 17.4 percent a year ago and the mandated at 12.875 percent (11.0 percent plus the 1.875 percent capital conservation buffer), while the Core Equity Tier 1 (CET1) stood at 13.8 percent during this period. Liquidity enhancing measures, viz. liquidity coverage ratio (LCR) and net stable funding ratio (NSFR), implemented during the year, stood at 254 percent and 115 percent, respectively, at the end of 2018. Despite facing different business cycles over the last few years, the banks were able to maintain the quality of their assets with a low delinquency rate. The gross non-performing loans (NPLs) stood at 2.7 percent in December 2018, albeit higher than 1.9 percent in December 2017. During this period, net NPLs also inched up marginally to 0.9 percent from 0.7 percent. A change in accounting principle to IFRS9 largely contributed to the rise in NPLs during 2018. The share of restructured loans to total loans also increased marginally to 1.8 percent from 1.7 percent. Further detailed analysis of the performance of the banking sector is provided below.

Other Depository Corporations

Other Depository Corporations (ODCs) consist of conventional banks, Islamic banks, and windows—the combined balance sheet of these entities offers an extensive overview of financial intermediation in the economy. The balance sheet size of ODCs expanded by 7.8 percent in 2018 as against 5.4 percent during 2017 – of which about 61 percent was contributed by credit growth on the assets side (Table 4.9). Total credit extended by ODCs during 2018 registered year-on-year (YoY) growth of 6.4 percent the same as in the previous year, with about 64 percent contribution emanating from conventional banks. The private sector credit, which recorded YoY growth of around 5 percent, persisted to account for the largest share in total credit (88 percent) during 2018. On the liabilities side, the deposits with ODCs grew by 7.8 percent and accounted for the highest share in the growth of the balance sheet, albeit their contribution to growth dropped. A major part of the growth in deposits at about 83 percent was contributed by the conventional banks. Like in credit, private sector deposits constituted the largest share in total deposits at 61.6 percent, followed by government deposits (28.6 percent). In terms of sector-wise distribution, the households sector continued to be the largest recipient of credit as well as a contributor to deposits with ODCs during 2018 (Charts 4.6a & b). Another notable development on the asset sides was the cash position and deposits with CBO, which jumped considerably during the year, reflecting buoyant deposits growth and implementation of liquidity enhancing

Table 4.9
Combined Balance Sheet of Other Depository Corporations
(Rial Omani Million)

	Dec 2015	Dec 2016	Dec 2017	Dec 2018	% Change 2018/2017
Cash on hand and deposits with CBO	4,206.5	2,748.2	2,482.5	2,923.2	17.8
Due from Head Office, affiliates and other banks abroad	1,755.3	1,449.0	1,401.8	1,030.9	-26.5
Total Credit	20,097.0	22,130.5	23,544.5	25,057.6	6.4
Total investments	3,192.1	2,593.5	3,108.5	3,447.5	10.9
Net fixed assets	251.6	259.3	279.3	276.5	-1.0
Other assets	747.1	705.4	672.0	1,222.8	82.0
Total assets/liabilities	**30,249.6**	**29,885.9**	**31,488.6**	**33,958.6**	**7.8**
Total deposits	19,412.3	20,423.5	21,569.9	23,255.3	7.8
Due to Head Office, affiliates and other banks abroad	3,963.1	2,195.6	2,217.5	2,410.9	8.7
Core capital and reserves	3,996.0	4,316.5	4,915.5	5,301.2	7.8
Supplementary capital	708.3	618.4	370.8	183.1	-50.6
Total provisions & reserve interest	671.4	725.2	758.5	868.8	14.5
(of which general provisions)	(260.2)	(286.5)	(299.0)	(360.4)	20.5
Other liabilities	1,498.5	1,606.7	1,656.4	1,939.3	17.1

Note: Other Depository Corporations include conventional commercial banks and Islamic banks and windows.
Source: Central Bank of Oman

international norms. Similarly, another noticeable item on the liabilities sides was provisions and interest reserves, which experienced remarkable upturn. Core capital and reserves of ODCs also expanded considerably and in conjunction with total provisions and interest reserves provided a sufficient cushion and boosted resilience to the balance sheet.

Conventional Banks

Conventional banks' total assets witnessed a robust YoY growth of 7.5 percent during 2018, more than double of that in 2017. The credit extended by conventional banks grew at a somewhat higher rate and accounted for 71.6 percent of total assets during 2018 (Table 4.10a). In terms of contribution to growth in total assets, the share of credit fell down sharply to about 47 percent in 2018 from about 94 percent in 2017, while cash on hand and deposits with CBO recorded a turnaround with their share increasing to about 17 percent from about -44 percent during this period. On the liabilities side, total deposits held with conventional banks registered a sharp increase of 7.5 percent in 2018, much higher as compared to 1.9 percent in the previous year. Intra-year trends, however, reveal a spike in growth of deposits in the later part of 2018, which may be attributed to one-off factor. The deposits constituted about 67 percent of total liabilities in 2018, almost similar to the previous two years. Although growth in deposits exceeded that in credit for the full year suggesting liquidity easing, the intra-year trends indicate otherwise.

An analysis of sources, given in Table 4.10b, exhibits that deposits accounted for the largest share of 67 percent in total incremental funds mobilized in 2018. Furthermore, a major portion at 63 percent in growth of deposits was contributed by public enterprises in 2018, while it was the private sector in 2017 that contributed the highest increase of 92 percent to total deposits. The government's contribution to incremental deposits increased from about 11 percent in 2017 to about 30 percent during 2018. Of the total incremental credit, the private sector availed the highest share of 52 percent, followed by public enterprises with 42 percent during 2018. Private sector's contribution to additional deposits mobilization was miniscule as compared to availing incremental credit during 2018, while public sector enterprises contributed higher to additional deposits than availing additional credit during the year. Furthermore, the details of non-resident assets and liabilities, furnished in Table 4.10c, indicate that banks' investment in foreign securities upturned sharply and contributed 70 percent to the growth in foreign assets. On the other hand, foreign liabilities increased mainly due to the steep increase in borrowings from banks abroad.

Chart 4.6(a): Share of Private Sector Deposits (December 2018)

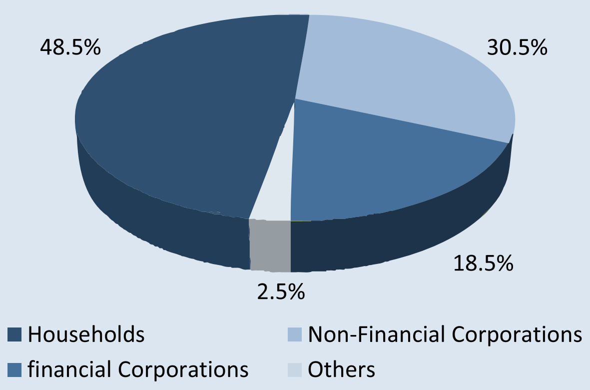


Chart 4.6(b): Share of Private Sector Credit (December 2018)

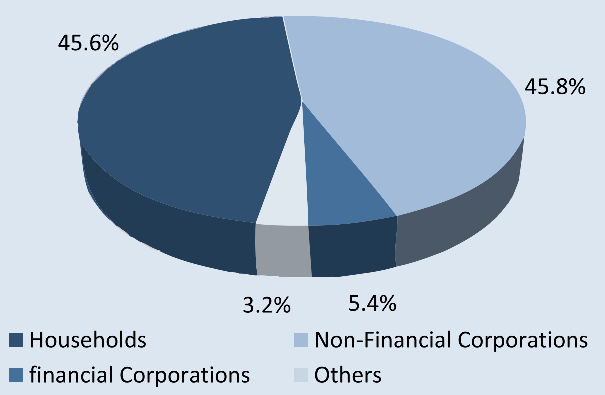


Table 4.10 (a)
Combined Balance Sheet of Conventional Banks
(Rial Omani Million)

End of Period	2014	2015	2016	2017	2018	% Change 2018/2017
Cash and deposits with CBO	1,979.0	4,057.1	2,511.0	2,130.7	2,488.8	16.8
Due from Head Office, affiliates and banks abroad	1,826.5	1,717.9	1,400.4	1,337.4	1,359.0	1.6
Total Credit	**16,898.4**	**18,315.7**	**19,704.6**	**20,511.5**	**21,486.0**	**4.8**
a) Credit to Private Sector	14,704.0	16,207.4	17,539.2	18,207.5	18,718.4	2.8
b) Credit to public enterprises	1,973.1	1,903.7	1,796.3	1,997.2	2,406.2	20.5
c) Credit to Government	21.7	12.1	107.3	34.6	39.5	14.1
d) Credit to Non-Residents	199.6	192.5	261.8	272.3	321.9	18.2
Securities	**2,912.9**	**3,046.8**	**2,433.6**	**2,879.8**	**3,197.4**	**11.0**
a) Treasury Bills	0.0	464.2	305.4	454.9	277.1	-39.1
b) Government Bonds*	564.0	828.6	970.9	1,217.1	1,433.6	17.8
c) CBO CDs	1,323.0	0.0	0.0	0.0	0.0	-
d) Domestic shares	156.9	133.7	117.9	94.7	101.6	7.2
e) Other domestic securities	160.3	699.9	505.0	343.6	308.0	-10.4
f) Foreign securities	708.6	920.5	534.4	769.5	1,077.1	40.0
Fixed assets	209.7	216.6	225.3	247.5	246.8	-0.3
Other assets	994.9	835.1	776.9	806.2	1,216.8	50.9
Total assets / liabilities	**24,821.3**	**28,189.2**	**27,051.8**	**27,913.1**	**29,994.7**	**7.5**
Total Deposits	**17,278.9**	**17,873.0**	**18,253.7**	**18,601.7**	**19,995.8**	**7.5**
a) Government deposits	4,959.4	4,789.5	4,898.8	4,937.5	5,351.9	8.4
b) Deposits of public enterprises	879.7	950.2	901.9	878.1	1,751.5	99.5
c) Deposits of private sector	11,184.3	11,868.9	12,201.1	12,520.4	12,538.4	0.1
i) Demand	3,740.9	3,853.6	3,635.6	3,777.8	3,692.9	-2.2
ii) Savings	3,992.6	4,392.7	4,480.5	4,543.0	4,566.8	0.5
iii) Time	3,306.6	3,362.7	3,766.7	3,911.7	4,031.1	3.1
iv) Commercial prepayments	144.2	259.9	318.3	287.9	247.6	-14.0
(of which in foreign currency)	(860.6)	(909.0)	(927.1)	(1045.3)	(1,124.6)	7.6
d) Deposits of non-residents	255.5	264.3	251.9	265.7	354.1	33.2
Due to Head Office, affiliates and banks abroad	1,547.4	3,809.0	1,935.8	2,080.1	2,246.0	8.0
Core Capital and Reserves	3,244.2	3,765.7	4,068.0	4,651.0	5,000.6	7.5
Supplementary Capital	651.4	707.6	617.7	369.7	190.1	-48.6
Total provisions and reserved interest	597.0	644.3	689.5	713.2	808.3	13.3
(of which general provisions)	(218.7)	(236.2)	(255.6)	(261.5)	(323.3)	23.6
Other liabilities	1,502.4	1,389.6	1,487.1	1,497.4	1,753.9	17.1

** Includes Investments in Government Sukuk*
Source : Central Bank of Oman

Table 4.10 (b)
Sources and Uses of Conventional Bank Funds
(Rial Omani Million)

	Source of Funds	Dec. 2017	Dec. 2018		Uses of Funds	Dec. 2017	Dec. 2018
1.	Increase in Total deposits	348.0	1,394.1	1.	Increase in Total credit disbursement	806.9	974.5
	a) Government deposits	38.7	414.4		a) Credit to Govt.	-72.7	4.9
	b) Deposits of public enterprises	-23.8	873.4		b) Credit to public enterprises	200.8	409.1
	c) Deposits of Private Sector	319.3	18.0		c) Credit to private sector	668.3	510.9
	1. Financial corporations	-66.4	-68.5		1. Financial corporations	6.0	181.4
	2. Non-Financial corporations	332.5	144.1		2. Non-Financial corporations	346.0	155.2
	3. Household sector	81.2	-34.6		3. Household sector	303.6	220.9
	4. Other sectors	-28.0	-22.9		4. Other sectors	12.7	-46.5
	d) Non-resident deposits	13.8	88.3		d) Credit to non-residents	10.5	49.6
2.	Borrowings from banks abroad	144.3	164.4	2.	Investments in securities	446.2	317.6
3.	Increase in Capital, reserves & provisions	358.7	265.2	3.	Placements with banks abroad	-63.0	21.6
4.	Other liabilities	10.3	257.9	4.	Cash and Deposits with CBO	-380.3	358.0
				5.	Fixed assets	22.2	-0.7
				6.	Other assets	29.3	410.6
	Total sources of funds	861.3	2,081.6		Total uses of funds	861.3	2,081.6

Source: Central Bank of Oman

Table 4.10 (c)
Non-Resident Assets and Liabilities of Conventional Banks
(Rial Omani Million)

	Dec. 2016	Dec. 2017	Dec. 2018	Absolute Change
Foreign Assets	2,229.7	2,411.1	2,905.7	494.6
Due from banks abroad	1,400.4	1,337.4	1,418.7	81.3
Credit to Non-Residents	261.8	272.3	327.5	55.2
Investment in foreign securities	534.4	769.5	1,115.7	346.2
Other assets	33.1	31.9	43.8	11.9
Foreign Liabilities	3,149.2	3,302.3	3,544.2	241.9
Deposits of Non-Residents	251.9	265.7	359.9	94.2
Long term bonds	619.1	617.8	696.2	78.4
Due to banks abroad	1,935.8	2,080.1	2,410.9	330.8
Other liabilities	342.4	338.7	77.2	-261.5
Net Foreign Assets	-919.5	-891.2	-638.5	252.7

Source: Central Bank of Oman

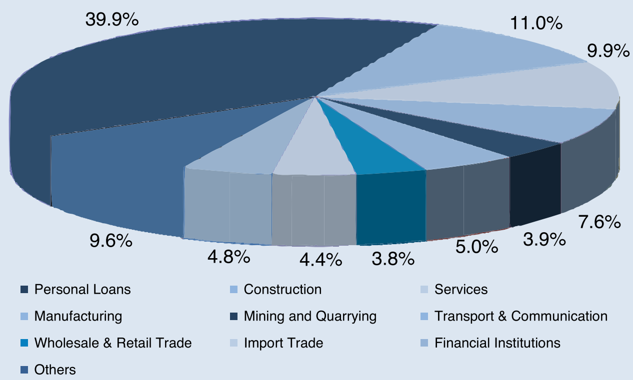
Islamic Banks & Windows

Islamic banking continued to make robust progress and emerged as a major stakeholder by contributing significantly to the financial intermediation in the Sultanate (Table 4.11). Islamic banking has been successful in providing an alternative avenue of financial intermediation. IMF's recent paper titled "Core Principles for Islamic Finance Regulations and Assessment Methodology", also recognized the increasing importance of Islamic banking in Oman. The balance sheet size of Islamic banking entities (two full-fledged Islamic banks and six Islamic windows) expanded considerably by 15.3 percent in 2018, maintaining the momentum, with the major impetus coming from financing. The financing constituted 81.2 percent of total assets, while investments accounted for 5.7 percent during 2018. On the liabilities sides, Islamic banks persisted with their dependence mainly on deposits for funding, although deposits growth decelerated during 2018. Islamic banks constituted about 13 percent of the total banking sector assets in the Sultanate at the end of 2018.

Conventional Banks Profitability

The banking sector sustained robust performance in terms of profitability on the back of expanded top-line and improved efficiency (Table 4.12). Gross income of conventional banks surged by 3.9 percent in 2018, with net interest income and foreign exchange earnings as the main contributors. Net interest income and foreign exchange earnings constituted about 66.6 percent and 7.7 percent of gross income, respectively. Despite a marginal drop in RO interest rate spread, net interest income rose considerably reflecting the expanding business. Although operating costs and other expenses increased at a higher rate, the conventional banks were able to post reasonable growth in gross profit. Net profit also jumped considerably by 9.7 percent in 2018, as provisions for doubtful loans declined to reflect the improved quality of assets.

Chart: 4.7
Sectoral Distribution of Banks Credit
December 2018



Sectoral Flow of Bank Credit

Market forces and progress of economic activities generally condition the flow of bank credit to various sectors of the economy. However, certain regulatory conditions for prudential purpose and/or to meet socio-economic objective also influence the credit flow to certain sectors. The regulatory conditions include a maximum ceiling of 35 percent on the share of personal loans in total credit and an additional 15 percent on the share of housing loans, interest rate ceiling of 6 percent on personal loans, and minimum ceiling of 5 percent of the total credit to SMEs. Although the Central Bank exercises the utmost care in drafting guidelines and their implementation by banks, some misclassifications are inevitable as some borrowers may be engaged in several sectors. Hence, the analysis of the sectoral flow of credit must be undertaken within these limitations in mind (Table 4.13). The top three sectors accounting for the largest shares of total credit included personal loans (40 percent), the construction sector (11 percent) and services sector (10 percent) (Chart 4.7). The credit to the manufacturing sector experienced the highest growth of 19.6 percent, followed by financial institutions (17.8 percent), and the services sector (17.5 percent). Notably, the construction sector received higher credit by 5.0 percent in 2018 as against a large decline in

Table 4.11
Combined Balance Sheet of Islamic Banks/Windows
(Rial Omani Million)

	Dec 2015	Dec 2016	Dec 2017	Dec 2018	% Change 2018/2017
Cash on hand and deposits with CBO	149.4	237.2	351.8	434.5	23.5
Due from Head Office, affiliates and other banks abroad	24.0	48.6	64.4	59.7	-7.3
Total financing	1,781.3	2,425.9	3,033.0	3,571.6	17.8
Total investments	145.3	159.9	228.7	250.1	9.3
Net fixed assets	35.0	34.0	31.8	29.8	-6.4
Other assets	118.7	174.0	103.6	52.9	-49.0
Total assets/liabilities	2,253.8	3,079.6	3,813.3	4,398.5	15.3
Total deposits	1,539.4	2,169.8	2,968.2	3,259.5	9.8
Due to Head Office, affiliates and other banks abroad	154.1	259.8	137.3	166.3	21.1
Core capital and reserves	391.3	433.0	458.0	506.1	10.5
Other liabilities	169.0	217.0	249.8	466.5	86.7

Source: Central Bank of Oman

Table 4.12
Profitability of Conventional Banks
(Rial Omani Million)

	2016	2017	2018	% Change 2017/2016	% Change 2018/2017
1. Interest Income	1,067.3	1,183.8	1,321.8	10.9	11.7
2. (Interest Expenses)	(353.2)	(469.1)	(548.0)	32.8	16.8
3. Net Interest	714.1	714.7	773.8	0.1	8.3
4. Foreign Exchange earnings	64.2	66.7	89.7	4.0	34.4
5. Fees and Commissions	98.0	103.9	104.2	6.0	0.3
6. Other Income	207.8	233.1	194.6	12.2	-16.5
7. Gross Income (3+4+5+6)	1,084.1	1,118.5	1,162.3	3.2	3.9
8. Operating Expenses	472.6	487.2	511.7	3.1	5.0
a) Administrative Costs	441.9	455.0	477.7	3.0	5.0
b) Depreciation	29.5	31.2	32.5	5.9	4.1
c) Others	1.2	1.0	1.6	-20.3	62.8
9. Gross Profits (7-8)	611.5	631.3	650.6	3.2	3.1
10. Provision for doubtful debts *	174.4	185.8	160.6	6.6	-13.6
11. Profits after provisions (9-10)	437.1	445.5	489.9	1.9	10.0
12. Provision for Taxes	57.8	68.6	76.6	18.7	11.7
13. Net Profit after Provisions & Taxes (11-12)	379.3	376.9	413.3	-0.6	9.7

* Gross provisions made during the year. Recoveries on previous loan loss provisions are reflected under other income.
Note: Profits comprise that of conventional banks and their Islamic windows.
Source: Central Bank of Oman

Table 4.13
Distribution of Commercial Banks Credit by Economic Sectors
(Rial Omani Million)

End of Period	2016	2017	2018
Import Trade	1,179.0	1,134.8	1,104.8
Export Trade	19.9	20.5	16.9
Wholesale & Retail Trade	717.1	858.3	949.0
Mining and Quarrying	910.9	1,054.5	984.3
Construction	2,855.7	2,630.3	2,763.0
Manufacturing	1,557.5	1,593.3	1,905.5
Electricity, gas and water	797.5	935.4	1,041.9
Transport and Communication	1,016.3	1,118.9	1,264.7
Financial Institutions	1,007.3	1,019.9	1,201.6
Services	1,765.3	2,102.0	2,470.7
Personal Loans	9,123.0	9,642.6	10,006.9
Agriculture and allied activities	58.4	63.6	55.3
Government	107.3	34.6	39.5
Non-Resident lending	270.0	278.3	327.5
All Others	745.2	1,057.4	926.1
Total Credit	**22,130.5**	**23,544.5**	**25,057.6**

Note: Other Depository Corporations include conventional commercial banks and Islamic banks and windows.
Source: Central Bank of Oman

the previous two years (Table 4.13). The increase in credit to construction sector may signal likely pick-up in construction activities after witnessing sluggishness in the last few years.

Specialized banks

There are currently two specialized banks in the Sultanate owned by the government—namely Oman Housing Bank (OHB) and Oman Development Bank (ODB). Primarily, OHB provides long-term soft housing loans to various segments of the Omani society. Total outstanding mortgage loans, extended by OHB, registered a rise of 13.3 percent during 2018. The share capital of the bank remained at RO 100 million, whilst total shareholder's equity increased by 6.5 percent to RO 266.96 million in 2018 from RO 250.6 million in the previous year. ODB extends projects financing to SMEs and major ventures, promote entrepreneurship, and boost financial inclusion for the development of the country. In fact, ODB corrects for market failure that results from complications in access to finance. In line with development plans, ODB has covered new sectors for finance, such as logistics, supplies and installation, mining, quarries, and light installations. As at the end of December 2018, loans and advances extended by ODB increased by 11 percent to RO 139.15 million. The share capital of the ODB remained at RO 100 million, whilst total shareholder's equity increased marginally to RO 161.6 million at the end of 2018.

Money Exchange Companies

As on the end of December 2018, there were 16 exchange establishments licensed for foreign currency exchange and money transfers with 378 branches and 36 money-changing firms. The exchange establishments are examined every year by CBO to ensure compliance with extant regulations, while money-changing firms are selectively examined by rotation. Total assets of exchange establishments went down by about 7 percent to RO 79.48 million as at the end of 2018. The liquid assets of these establishments at RO 65.67 million (RO 39.80 million as balances maintained with banks and RO 25.87 million as cash on hand) also dropped marginally by about 1 percent over that a year ago. However, the total capital, reserves and retained earnings of these companies at the end of 2018 amounted to RO 62.42 million, higher by 8.9 percent over the level a year ago.

Finance and Leasing Companies

There are currently five Finance and Leasing Companies (FLCs) operating in the Sultanate with a network of 39 branches. The total assets of FLCs increased by 4.4 percent in 2018, whilst total credit/lease (net of provisions) increased marginally by 1.5 percent (Table 4.14). FLCs increased their cash and bank balances sharply by 59.6 percent during 2018. As a matter of concern, the gross non-performing loans

Table 4.14
Finance and Leasing Companies (FLC) Indicators
(Rial Omani Million)

	2014	2015	2016	2017	2018
Total Assets	919.0	1,037.4	1,086.7	1,069.6	1,116.6
Loans/Lease Portfolio*	887.5	990.6	1,028.0	1,020.1	1,035.3
Gross Non-Performing Loans	55.3	49.5	59.2	93.2	133.8
Cash and Bank Balances	16.8	32.3	43.8	35.4	56.5
Borrowings from Banks & Financial Institutions	518.9	640.1	688.7	670.9	692.2
Paid Up Capital	148.2	156.6	163.7	170.5	170.6
Capital & Reserves	232.5	251.2	267.5	283.4	299.5
Loan Loss Provisions and Reserve Interest	55.8	57.9	60.1	67.1	53.3
Net Profit After Provisions and Tax	29.4	32.0	31.3	29.2	22.6
Weighted Average Rate of Interest Charged (% per annum)	9.0	8.9	8.8	8.6	9.1
Number of Branches (Including Head Office)	38.0	40.0	43.0	41.0	39.0

** Loans net of provisions & reserve interest*
Source: FLC Annual Reports

continued their upward trend and increased considerably by 43.6 percent in 2018, with their ratio to total loans/lease portfolio reaching to 12.9 percent from 9.1 percent in the previous year. The borrowings from banks and other financial institutions remained the main source of funding for FLCs, which financed about 62 percent of total assets during 2018. Net profits of FLCs after provisions and taxes fell significantly by 22.6 percent, reflecting deteriorating assets quality. Following the existing trends, the weighted average interest rate charged on loans by FLCs also increased to 9.1 percent in 2018.

Payment and Settlement System

The efficient and secure National Payment Systems (NPS) infrastructure plays a key role in facilitating efficient financial intermediation for economic development and maintaining financial stability. The expansion in both the volume of transactions made through each component of the NPS and their value display the efficient role played to achieve the above goals during 2018 (Table 4.15). The main components of NPS are Real Time Gross Settlement (RTGS), Automated Clearing House (ACH), Electronic Cheque Clearing (ECC) and ATM/POS Switch (Chart 4.8 a&b).

The CBO continued with its efforts of upgrading the existing payment systems with new business and security-related enhancement, publishing directives that enable banks to launch new age payment channels, and paving the way for new payment initiative projects. The National Payment Systems Law (NPSL), which aims to provide legal backing to the payment system activities and fortifies the regulatory and supervisory responsibilities and powers of CBO, was enacted in February 2018.

The CBO is also currently in the process of upgrading RTGS system, which will include new functionalities, such as supporting payments on 24/7 basis, integration with regional RTGS systems, automated credit services, and other business functions. Furthermore, ACH is undergoing developments to implement new functionalities, including direct credit and debit transactions coupled with Mandate Management System (MMS) for direct debit transactions, and the Wages Protection System (WPS) module in collaboration with the Ministry of Manpower (MOMP) and Dispute Management System (DMS). The DMS, which was launched in July 2018, is currently integrated into two payment systems (ACH & MPCSS). The objective of the system is to provide a flexible platform that allows payment system participants to register a dispute/ claim related to financial transactions processed in national payment systems for faster resolution with well-defined rules, process, and procedures.

Chart 4.8 (a): Retail Payment Systems

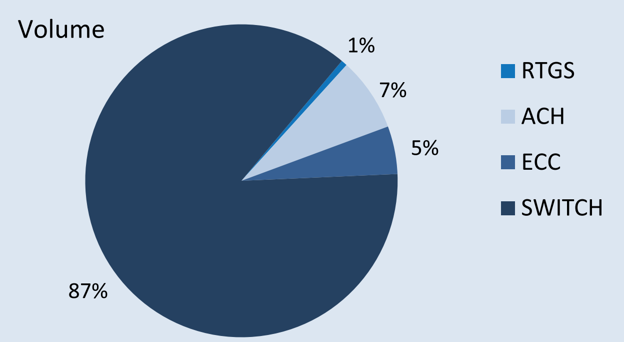
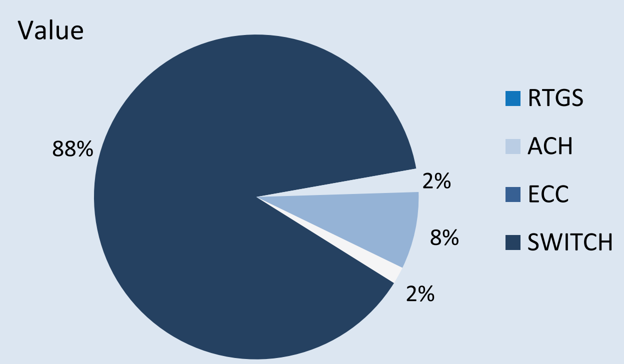


Chart 4.8 (b): Retail Payment Systems



At the regional level, the CBO is engaged in two regional RTGS related initiatives, namely GCC RTGS and Arab Regional Payment system (ARPS), which will enable cross-border payment requirements among countries in the region in order to provide affordable and faster cross-border transactions. Furthermore, in line with the GCC central banks' decision, the CBO's OmanNet Switch is certified and live with POS transactions between Oman, Kuwait, Qatar, and Bahrain. Earlier, such POS transactions were routed using international payment schemes.

Payment and Settlement Systems
Table 4.15 (a)
RTGS Business Trends

Year	No. of Transactions	Value (RO Millions)
2014	466,655	164,862
2015	502,501	165,412
2016	496,433	152,275
2017	578,658	158,811
2018	597,191	178,907

Source: Central Bank of Oman

Table 4.15 (b)
ACH Business Trends

Year	No. of Transactions	Value (RO Millions)
2014	3,238,499	2,224
2015	4,196,530	2,825
2016	4,782,652	3,146
2017	5,179,105	3,358
2018	7,239,687	4,679

Source: Central Bank of Oman

Table 4.15(c)
Electronic Cheque Clearing

Year	No. of Transactions	Value (RO Millions)
2014	3,813,167	17,675
2015	4,081,219	17,508
2016	4,383,035	18,196
2017	4,641,772	16,680
2018	4,697,042	15,548

Source: Central Bank of Oman

Table 4.15 (d)
Oman Net Switch Business Trends

Year	No. of Transactions	Value (RO Millions)
2014	24,554,107	1,813
2015	29,114,093	2,221
2016	45,263,053	2,945
2017	59,201,183	3,323
2018	82,436,666	3,447

Source: Central Bank of Oman

Foreign Trade and Balance of Payments

FOREIGN TRADE AND BALANCE OF PAYMENTS

The macroeconomic balance of Oman improved in 2018 with a significant contribution emanating from the external sector mainly due to rapid gains in oil prices. The second half of 2018 witnessed a significant rise in crude oil prices, reflecting global oil market imbalances and rising geopolitical tensions. The global oil production increased by almost 2.6 million barrels per day in 2018, despite production cut by OPEC+ to restore oil prices. North America recorded the highest increase in production, on the back of shale oil, making the US as mainstream producer with a contribution of about 68 percent to the growth in world production. Although global economic activities weakened in the second half of 2018, the demand conditions for oil remained reasonable. According to IMF, global economic activity expanded by 3.6 percent, somewhat decelerated as compared to almost 3.8 percent in 2017. Moreover, the financial conditions tightened, especially in emerging markets and advanced economies. China and India, Oman's major trading partners, however, recorded reasonably high growth of 6.6 percent and 7.1 percent, respectively, during 2018. The near-term outlook for growth in China and India also appears quite robust, which would be positive for oil and non-oil exports of Oman (IMF, WEO, April 2019). In the above backdrop, an analysis of the balance of payments developments in Oman during 2018 is undertaken in the following sections.

Overall Assessment

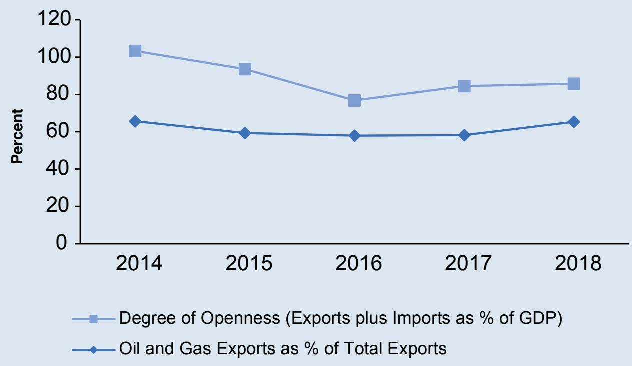
The external sector persisted to pose some macroeconomic challenge, despite a considerable improvement in the last two years. A steep upturn in hydrocarbon exports coupled with buoyant non-oil exports and moderation in merchandise imports resulted in more than doubling of trade surplus during 2018. Notably, the merchandise imports (c.i.f.) declined by about 2.5 percent, reflecting subdued domestic demand and increased sensitivity to import prices (imports price elasticity). On the other hand, the increased demand for services was largely met through imports, leading to higher net outflows by 6.4 percent during 2018. The net income outflows also went up sharply by 66.6 percent with a burgeoning external debt stock, especially government debt, while the current transfers (workers' remittances) inched up marginally by 1.4 percent despite a drop in expatriate workers following Omanization policy. The deficit in services, income, and current transfers together increased by 13.6 percent to RO 8,625 million. Nonetheless, a large jump in trade surplus narrowed down the current account deficit substantially by 60.4 percent to RO 1,671 million during 2018. At the same time, net inflows under capital and financial accounts stayed robust and stood at RO 2,949 million in 2018, exceeding the current account deficit. The main drivers of inflows under the capital and financial accounts were foreign direct investment (FDI) in oil and gas sector and portfolio debt inflows (international Eurobonds) issued to finance the fiscal deficit. Net inflows under the capital and financial accounts in excess of the current account deficit led to a surplus in overall balance of payments (BoP), augmenting foreign exchange reserves by an amount of RO 990 million. Despite the improvement in oil prices during 2018, there are still challenges for the external sector of the Sultanate.

Foreign Trade

In an open economy, foreign trade plays an important role in economic activities through promoting efficient allocation of resources and competitiveness. The ratio of merchandise exports (f.o.b) and imports (c.i.f) together to GDP augmented somewhat and stood at a high level of 85.5 percent in 2018, signifying the elevated degree of openness and significance of international trade in domestic economy. The increase in openness was mainly driven by higher oil and gas export and a surge in non-oil exports (Chart 5.1). The commodity exporting economies generally suffer from "Dutch Disease", however, Omani authorities are assiduously making efforts to promote non-oil economic activities and accordingly, non-oil exports have also made tangible progress in the last few years.

In nominal terms, merchandise exports (f.o.b) grew by 26.9 percent and stood at about 52.6 percent of GDP, denoting importance of the exported domestic production. On the other hand, merchandise imports (c.i.f.) declined but still amounted to 33.2 percent of GDP, corroborating the high level of dependence on foreign sources for consumption and investment products in the

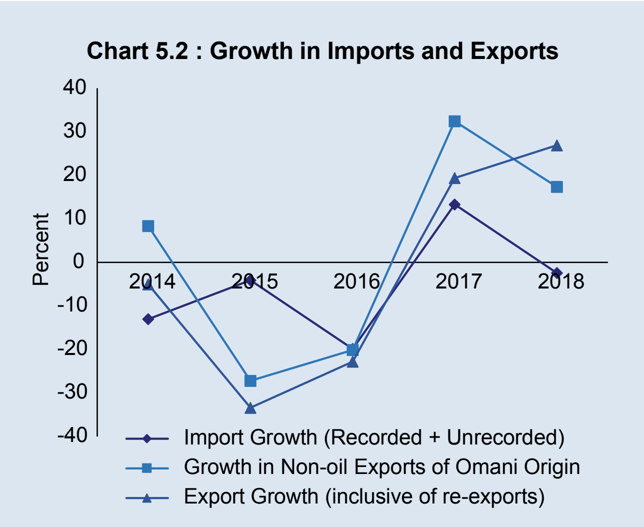
Chart 5.1: Degree of Trade Openness

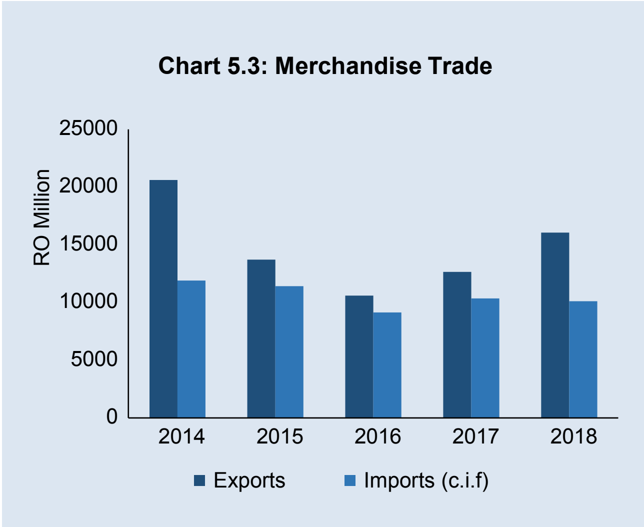


economy. Oil and gas exports together accounted for 65.4 percent of total merchandise exports, reflecting high level of concentration (Chart 5.1). Notwithstanding buoyancy in non-oil exports on the back of diversification efforts, the hydrocarbon sector remained the main driver of improvement in the trade balance during 2018. Therefore, volatility in international oil prices have considerable implications for Oman's international trade and the economy, underscoring the need to reduce dependence on hydrocarbon sector. Although the concerted diversification efforts are progressing well, there is a need to promote a diversified export base in a big way to insulate the economy from external shocks of oil prices.

Merchandise Trade Balance

A steep recovery in oil prices and the buoyancy exhibited by non-oil exports resulted in a higher merchandise trade surplus during 2018. The value of merchandise exports (f.o.b) grew significantly by 26.9 percent in 2018 as compared to a growth of 19.4 percent in 2017. However, contrary to nominal expansion in economic activities, the merchandise imports declined by 2.5 percent in 2018 as against





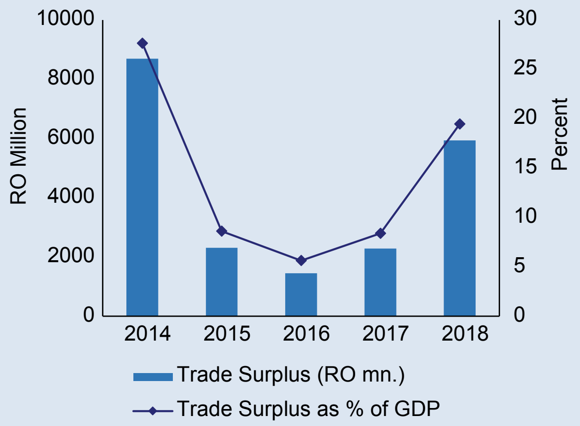
an increase of 13.3 percent during 2017, reflecting subdued consumer and investment sentiment (Chart 5.2). Accordingly, the merchandise trade surplus witnessed a pronounced jump of 160.2

Table 5.1
Trade Transactions
(Rial Omani Million)

Items	2014	2015	2016	2017	2018 Prov.	% Change 2018/17
Imports (c.i.f.)	**11,898.1**	**11,412.1**	**9,144.9**	**10,362.7**	**10,108.1**	**-2.5%**
Exports (f.o.b.)	**20,596.1**	**13,721.4**	**10,591.3**	**12,644.7**	**16,045.2**	**26.9%**
Crude Oil	11,591.3	6,682.4	4,936.7	5,795.3	7,728.2	33.4%
Refined Oil	309.5	183.7	186.7	404.7	1,041.9	157.5%
LNG	1,625.7	1,279.8	1,012.9	1,166.2	1,716.6	47.9%
Non-oil	4,125.5	3,003.9	2,398.7	3,176.4	3,727.0	17.3%
Re-exports	2,944.1	2,571.6	2,056.3	2,102.1	1,831.5	-12.9%
Trade Balance	**8,698.0**	**2,309.3**	**1,446.4**	**2,281.9**	**5,937.1**	**160.2%**
(Exports+Imports) as % of GDP	104.2	94.8	77.8	84.5	85.8	
Trade Balance as % of GDP	27.9	8.7	5.7	8.4	19.5	
Total Non-oil Exports as % of GDP*	22.7	21.0	17.6	19.4	18.2	

**Includes re-exports.*
Note: Import figures in this table include both "recorded" and "unrecorded" imports, and hence, they may not tally with import figures in some other tables which may relate only to recorded imports. Similarly, import figures in this table are on c.i.f. basis, and, therefore, may not tally with import and trade balance figures in other tables where imports could be on f.o.b. basis.
Source: Directorate General of Customs and National Center for Statistics & Information.

Chart 5.4: Merchandise Trade Balance



percent during 2018 as compared to 57.4 percent in 2017 (Table 5.1 and Chart 5.3). The surplus in the merchandise trade as a percentage of nominal GDP increased to 19.5 percent in 2018 from 8.4 percent and 5.7 percent in 2017 and 2016, respectively (Chart 5.4).

Exports

Oman's oil and natural gas exports, and non-oil exports witnessed a rapid growth, while the re-exports declined during 2018. The value of oil exports (including refined oil) grew by 41.5 percent mainly due to steep upturn in oil prices, contributing 75.6 percent to the growth of total merchandise exports during 2018. The buoyant global demand and supply management by OPEC+ producers conditioned further surge in hydrocarbon prices in 2018.The volume of Omani oil exports, however, declined by 1.7 percent mainly because of OPEC+ agreement to cut supply in the international market and increased usage of crude by refineries. The exports of natural gas edged up by 47.2 percent and contributed 16.2 percent to the growth of total merchandise exports during this period, reflecting rapid gains in both prices and production with Khazzan phase-I coming on full stream. The hydrocarbon sector (oil and gas) constituted 65.4 percent of total merchandise exports in 2018, higher than 58.2 percent in 2017. The non-oil exports also continued to expand at a robust pace and recorded a growth of 17.3 percent in 2018, while re-exports declined by 12.9 percent. The non-oil exports contributed 16.2 percent to the growth of total merchandise exports in 2018, and constituted a share of 23.2 percent in total merchandise exports. Non-oil exports and re-exports together made up 34.6 percent of total merchandise exports in 2018 compared to 47.1 percent in 2017. The persistent buoyancy in non-oil exports certainly reflects the progress of diversification in the economy.

Non-oil Exports

Non-oil exports of Omani origin witnessed another year of satisfactory growth in 2018, exemplifying the increasing sport of diversification strategy to the economy. Base metals & articles thereof contributed to the expansion in non-oil exports in 2018 with a significant growth of 60.1 percent and contribution of 26.8 percent to total non-oil exports (Table 5.2). Following the base metals, live animals and animal products witnessed a strong growth of 37.3 percent, propelled by investments in meat production, packaging, and export facilities. Products of chemicals & allied products and mineral products (includes gypsum), respectively, accounted for about 23 percent and 18 percent of total non-oil exports. Oman became the world's largest gypsum exporter in 2018.

The main five trading partners (U.A.E., India, China, Saudi Arabia, and Qatar) received more than half of Oman's non-oil exports during 2018, remaining

Table 5.2
Value of Non-oil Exports of Omani Origin*
(Rial Omani Million)

Classification	2014	2015	2016	2017	2018 Prov.	% Change 2018/17
Live animals and animal products	210.0	211.5	187.6	164.2	225.4	37.3
Vegetable products	59.2	58.5	61.4	63.2	68.3	8.1
Animal or vegetable fats & oil	81.2	82.2	78.1	74.1	68.5	-7.6
Foodstuffs, beverages, tobacco & related products	115.0	120.1	103.2	137.2	141.0	2.8
Mineral products	1,256.4	572.8	482.3	859.6	662.5	-22.9
Products of chemicals & allied industries	945.9	700.2	577.4	807.5	858.6	6.3
Plastic, rubber, & articles thereof	356.3	277.7	141.3	204.9	255.0	24.5
Textiles & articles thereof	9.9	8.1	7.3	6.5	7.8	19.5
Base metals & articles thereof	765.8	650.5	508.2	624.2	999.5	60.1
Others	325.8	322.3	251.9	234.5	440.4	87.5
Total	**4,125.5**	**3,003.9**	**2,398.7**	**3,176.4**	**3,727.0**	**17.3**

*Excludes re-exports.
Source: Directorate General of Customs and National Center for Statistics & Information.

as major importers of Omani products for the last several years (Table 5.3). Although non-oil exports to UAE dropped by 3.3 percent, it remained the biggest destination for Omani non-oil exports with a share of 18.4 percent. The decline in non-oil exports to UAE was driven mainly by a contraction in exports of mineral products (57.9 percent) and live animal products (50.7 percent). On the other hand, non-oil exports to Saudi Arabia inched up by 25.6 percent and maintained the second position with their share in total non-oil exports increasing from 15.3 percent in 2017 to 16.4 percent in 2018. The main non-oil exports to Saudi Arabia included mineral products, base metals and articles thereof, vehicles, aircrafts and vessels (comprising floating, submersible, drilling, and production platforms). A significant jump of 65.9 percent was recorded in the non-oil exports to Qatar during 2018 and consequently, their share in total non-oil exports augmented noticeably. Non-oil exports to USA also shot up considerably by 115.7 percent during the year, mainly due to higher export of base metals and articles thereof. Non-oil exports to India and China, other major recipients, also witnessed a considerable growth and contributed a combined share of 17.4 percent to total non-oil exports.

Re-Exports

Unlike non-oil exports, re-exports recorded a large negative growth of 12.9 percent during 2018 (Table 5.4). Although there was a drop across several re-export items, the decline in total re-exports during 2018 was mainly driven by mineral products and vehicles, aircrafts, vessels and associated transport equipment. The re-exports of mineral products and vehicles, aircrafts, vessels and associated transport equipment declined by 34.5 percent and 19.5 percent, respectively. Nonetheless, both items of re-exports together

Table 5.3
Destination of Non-oil Exports of Omani Origin*
(Rial Omani Million)

Country	2015 Non-Oil Exports	2015 % Share	2016 Non-Oil Exports	2016 % Share	2017 Non-Oil Exports	2017 % Share	2018 Prov. Non-Oil Exports	2018 Prov. % Share
UAE	626.2	20.8	604.6	25.2	711.1	22.4	687.4	18.4
India	274.1	9.1	251.7	10.5	310.7	9.8	381.2	10.2
China	215.6	7.2	197.5	8.2	244.0	7.7	269.3	7.2
Saudi Arabia	375.0	12.5	253.5	10.6	487.2	15.3	611.7	16.4
S.Korea	41.0	1.4	42.7	1.8	44.1	1.4	61.7	1.7
Qatar	94.4	3.1	80.8	3.4	210.3	6.6	348.8	9.4
U.S.A	180.0	6.0	105.1	4.4	101.6	3.2	219.1	5.9
Iraq	47.9	1.6	34.5	1.4	32.1	1.0	34.2	0.9
Pakistan	75.4	2.5	40.2	1.7	41.6	1.3	36.5	1.0
Indonesia	31.8	1.1	15.0	0.6	61.9	1.9	49.4	1.3
Netherlands	51.9	1.7	18.8	0.8	25.8	0.8	77.3	2.1
Somalia	51.6	1.7	38.7	1.6	60.2	1.9	42.9	1.2
Malaysia	98.5	3.3	46.9	2.0	76.6	2.4	76.5	2.1
Kuwait	62.1	2.1	62.7	2.6	118.1	3.7	115.8	3.1
Taiwan	43.3	1.4	31.5	1.3	45.5	1.4	30.1	0.8
Others	735.1	24.5	574.5	24.0	605.6	19.1	684.8	18.4
Total	**3,003.9**	**100.0**	**2,398.7**	**100.0**	**3,176.4**	**100.0**	**3,727.0**	**100.0**

**Excludes re-exports.*
Source: Directorate General of Customs and National Center for Statistics & Information.

Table 5.4
Composition of Re-Exports
(Rial Omani Million)

Classification	2014	2015	2016	2017	2018 Prov.	% Change 2018/17
Live animals and animal products	23.4	24.6	41.8	18.2	42.5	133.5
Vegetable products	7.2	13.6	12.4	18.9	16.1	-14.8
Animal or vegetable fats & oil	0.1	1.3	1.2	3.5	1.7	-51.4
Foodstuffs, beverages, tobacco & related products	78.2	75.9	52.2	158.8	165.6	4.3
Mineral products	516.1	565.5	655.3	694.7	455.1	-34.5
Products of chemicals & allied industries	114.8	72.7	27.9	68.1	58.5	-13.7
Plastic, rubber, & articles thereof	11.3	13.2	13.2	24.5	26.9	9.8
Textiles & articles thereof	8.4	6.6	3.8	31.3	35.1	12.1
Base metals & articles thereof	32.2	31.7	28.9	47.4	52.8	11.4
Vehicles, aircraft, vessels & associated transport equipment	1,886.5	1,615.5	992.6	590.9	475.5	-19.5
Others	265.9	151.0	227.0	445.8	501.7	12.5
Total	**2,944.1**	**2,571.6**	**2056.3**	**2102.1**	**1831.5**	**-12.9**

Source: Directorate General of Customs and National Center for Statistics & Information.

constituted more than half of total re-exports during 2018. Other major items, which contributed to a sharp decline in re-exports, included vegetable oils and products of chemicals & allied industries. At the same time, the re-exports emanating from live animals and animal products; foodstuffs, beverages, tobacco & related products; base metals & articles thereof; and textiles & articles thereof increased during 2018.

Re-exports to UAE, the top destination for Omani re-exports with a share of about 23.4 percent, declined by 21.4 percent during 2018. Iran, another major destination, witnessed a sharp decline of 28.6 percent in re-exports from Oman. A significant drop in demand for vehicles, aircrafts, and vessels (30.7 percent) mainly shaped the overall decline in Omani re-exports to UAE. In case of Iran, vehicles, aircrafts, and vessels coupled with machinery and mechanical appliances conditioned a decline in Omani re-exports. At the same time, re-exports to Qatar continued to be robust and increased by 7.1 percent during 2018, reflecting strong demand. Qatar contributed the second largest share of 18.6 percent to Omani re-exports during 2018. The growth in Omani re-exports to Qatar mainly emanated from live animals and animal products, textiles and textile articles, and machinery and mechanical appliances. Other major destinations for Omani re-exports included Pakistan, Yemen, United Kingdom, Iraq, and Hong Kong, which together accounted for about 21 percent share in total re-exports during 2018 (Table 5.5).

Imports

The merchandise imports declined in terms of both value and quantity in 2018 due to subdued demand partly reflecting increase in import prices (Chart 5.5 & Table 5.6). The unit value indice of imports appreciated by 7.7 percent during 2018. Recorded imports (c.i.f) registered a drop in 2018 mainly on account of reduced demand for vehicles, aircrafts, vessels & associated transport equipment and mineral products, whose imports declined by 41.3 percent and 15.6 percent, respectively (Table 5.7). Nevertheless, imports of live animals and animal products; vegetable products; plastic, rubber, & articles thereof; textiles & articles thereof; base metals & articles thereof; and electrical machinery & mechanical equipment & parts remained buoyant. Electrical machinery & mechanical equipment & parts remained the largest contributor to imports with a share of 25.7 percent, followed by base metals & articles thereof (17.1 percent), and mineral products (9.3 percent) during 2018.

In terms of destinations, there was a drop in imports emanating from a large number of countries in 2018 (Table 5.8). However, a sharp decline in imports from USA, followed by Japan and India mainly led to moderation in total imports. At the same time, imports from UAE, Italy and Belgium witnessed an

Chart 5.5: Unit Value Indices of Exports and Imports

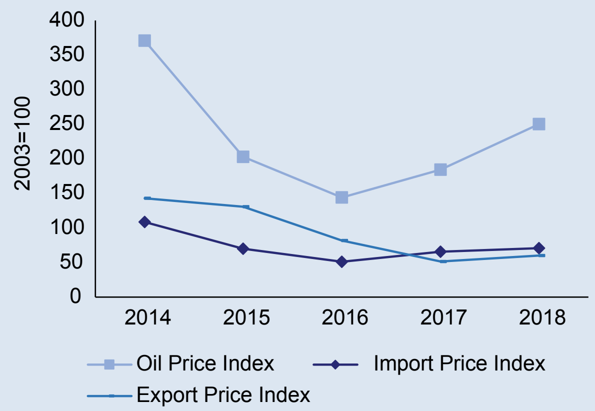


Table 5.5
Destination of Re-Exports
(Rial Omani Million)

Country	2015 Re- Exports	2015 % Share	2016 Re- Exports	2016 % Share	2017 Re- Exports	2017 % Share	2018 Prov. Re- Exports	2018 Prov. % Share
UAE	974.8	37.9	570.3	27.7	544.7	25.9	428.4	23.4
Iran	102.5	4.0	97.7	4.8	223.8	10.6	159.8	8.7
Saudi Arabia	313.3	12.2	158.1	7.7	24.3	1.2	27.1	1.5
U.K.	3.7	0.1	7.7	0.4	27.2	1.3	70.1	3.8
Hong Kong	26.3	1.0	34.3	1.7	42.3	2.0	48.2	2.6
Singapore	38.3	1.5	18.9	0.9	27.2	1.3	37.7	2.1
Belgium	10.7	0.4	11.0	0.5	11.9	0.6	6	0.3
Yemen	77.2	3.0	74.1	3.6	115.7	5.5	101.6	5.5
China	295.6	11.5	189.4	9.2	62.1	3.0	28.3	1.5
Iraq	132.1	5.1	259.9	12.6	32.8	1.6	60.3	3.3
Libya	15.8	0.6	1.8	0.1	1.1	0.1	3.0	0.2
Germany	9.3	0.4	8.8	0.4	19.5	0.9	13.8	0.8
India	54.7	2.1	41.6	2.0	49.5	2.4	32.5	1.8
Qatar	16.2	0.6	16.4	0.8	318.7	15.2	341.3	18.6
Pakistan	92.4	3.6	87.3	4.2	149.0	7.1	100.8	5.5
Others	408.7	15.9	479	23.3	452.3	21.5	3726	20.3
Total	**2,571.6**	**100.0**	**2,056.3**	**100.0**	**2,102.1**	**100.0**	**1,831.5**	**100.0**

Source: Directorate General of Customs and National Center for Statistics & Information .

Table 5.6
Value and Quantity of Non-oil Exports, Re-exports & Imports

Year	Non-oil Exports of Omani Origin* Value in (R.O. Million)	Non-oil Exports of Omani Origin* Weight (000) Tonnes	Re-Exports Value in (R.O. Million)	Re-Exports Weight (000) Tonnes	Recorded Imports Value in (R.O. Million)	Recorded Imports Weight (000) Tonnes	Oil Exports Million Barrels	Oil Exports Avg. Price US$ / Barrel
2010	2,448.2	24,052.9	1,921.7	1,143.7	7,590.1	12,826.9	271.8	76.64
2011	3,033.2	31,775.3	2,247.6	2,129.7	9,081.8	15,651.8	269.4	102.95
2012	3,594.1	15,921.1	2,486.3	2,572.6	10,811.3	17,865.5	279.8	109.61
2013	3,806.9	30,237.6	3,541.4	3,940.6	13,201.0	29,746.6	299.3	105.51
2014	4,125.5	18,731.3	2,944.1	2,887.2	11,267.7	23,175.3	292.2	103.20
2015	3,003.9	14,902.0	2,571.6	2,217.4	11,153.3	35,570.4	308.1	56.45
2016	2,398.7	19,016.1	2,056.3	3,005.7	8,900.2	41,845.0	321.9	40.10
2017	3,176.4	40,013.5	2,102.1	3,183.5	9,937.5	33,724.0	294.2	51.30
2018	3,727.0	40,290.9	1,831.5	1,931.2	9,703.7	30,585.0	289.3	69.70

*Professional.
Source: Directorate General of Customs, National Center for Statistics & Information and Ministry of Oil and Gas.

Table 5.7
Composition of Recorded Imports
(Rial Omani Million)

Classification	2014	2015	2016	2017	2018 Prov.	% Change 2018/17
Live animals and animal products	472.7	450.1	438.8	451.0	500.4	10.9
Vegetable products	409.6	397.2	320.5	369.9	406.2	9.8
Foodstuffs, beverages, tobacco & related products	420.9	444.7	450.9	481.8	485.5	0.0
Mineral products	1,297.9	1,682.7	1,100.3	1,067	900.2	-15.6
Products of chemicals & allied industries	993.2	955.3	673.6	751.6	777.2	3.4
Plastic, rubber, & articles thereof	415.0	442.6	364.0	389.8	421.2	8.1
Textiles & articles thereof	152.0	163.8	137.3	170.5	186.0	9.1
Articles of stone, plaster, cement, asbestos, mica or similar materials, ceramic products, glass & glassware	255.8	168.4	170.9	173.5	159.8	-7.9
Base metals & articles thereof	1,320.7	1,256.6	1,160.7	1,358.8	1,656.9	21.9
Electrical Machinery & Mechanical Equipment & Parts	1,942.5	2,240.7	1,867.5	2,352.6	2,493.8	6.0
Vehicles, aircraft, vessels & associated transport equipment	2,568.4	1,778.0	1,103.2	1101.5	646.2	-41.3
Others	1,019.0	1,173.3	1,112.5	1,269.6	1,070.4	-15.7
Total	**11,267.7**	**11,153.3**	**8,900.2**	**9,937.5**	**9,703.7**	**-2.4**

Note: Import figures presented here include recorded imports only & hence, they may not tally with import figures in Tables 6.1 & 6.11.
Source: Directorate General of Customs and National Center for Statistics & Information.

Table 5.8
Sources of Recorded Imports
(Rial Omani Million)

Country	2015		2016		2017		2018 Prov.	
	Imports	% Share	Imports	% Share	Imports	% Share	Imports	% Share
UAE	4,271.0	38.3	4,343.3	48.8	4,250.1	42.8	4,545.8	46.8
Japan	663.3	5.9	402.0	4.5	372.0	3.7	105.0	1.1
Italy	230.4	2.1	113.0	1.3	184.6	1.9	224.8	2.3
UK	206.4	1.9	149.9	1.7	194.1	2.0	172.2	1.8
Germany	331.8	3.0	195.8	2.2	239.8	2.4	240.7	2.5
USA	561.5	5.0	417.3	4.7	405.3	4.1	317.3	3.3
France	102.9	0.9	70.9	0.8	98.6	1.0	70.6	0.7
India	625.5	5.6	444.3	5.0	538.8	5.4	434.8	4.5
Netherlands	259.1	2.3	51.0	0.6	165.4	1.7	105.0	1.1
South Korea	371.3	3.3	132.2	1.5	225.0	2.3	174.1	1.8
Australia	95.5	0.9	73.7	0.8	94.6	1.0	92.4	1.0
China	583.8	5.2	455.4	5.1	612.7	6.2	584.6	6.0
Saudi Arabia	454.6	4.1	319.9	3.6	356.7	3.6	317.9	3.3
Singapore	90.7	0.8	140.1	1.6	74.2	0.7	60.2	0.6
Belgium	122.6	1.1	144.0	1.6	85.7	0.9	120.9	1.2
Brazil	239.6	2.1	145.1	1.6	282.7	2.8	231.5	2.4
Others	1,943.3	17.4	1,302.4	14.6	1,757.2	17.7	1,906.0	19.6
Total	**11,153.3**	**100.0**	**8,900.2**	**100.0**	**9,937.5**	**100.0**	**9,703.7**	**100.0**

Source: Directorate General of Customs and National Center for Statistics & Information.

increase during 2018. The imports of machinery and mechanical appliances, and base metals and articles thereof, which increased by 19 percent and 25 percent respectively, shaped the growth in total imports from UAE during 2018. UAE continued to be the major source of Omani imports with its share increasing by about 4 percentage points to 46.8 percent during 2018. China and India were placed at second and third position with their contribution to total Omani imports at 6.0 percent and 4.5 percent, respectively. Imports of machinery and mechanical appliances constituted 25.6 percent of total imports from UAE, followed by imports of base metals and articles of base metal with 18.1 percent share. A large part of the imports (about 40 percent) received from China also consisted of machinery and mechanical appliances, while 23.5 percent of imports were base metal, and mineral products. In case of imports from India, vegetable products with a share of 17.7 percent were on the top, followed closely by machinery and mechanical appliances with 17.3 percent share. Notably, machinery and mechanical appliances comprised major part of imports from UAE, China and India.

Trade with GCC Countries

Non-oil exports (including re-exports) to GCC countries posted a reasonable growth of 6.8 percent in 2018 (Table 5.9). UAE maintained the top position among GCC countries in receiving non-oil exports from Oman, although its share in total non-oil exports to GCC countries dropped from 51 percent in 2017 to 42.4 percent during 2018. Qatar attained second position, replacing Saudi Arabia, for the second year in a row during 2018 with a share of 26.2 percent in total non-oil exports to GCC countries. On the other hand, imports from GCC countries also increased considerably by 11 percent during 2018. The imports from UAE increased by 7 percent and constituted major portion of total imports from GCC countries (84.2 percent). Like non-oil exports, the share of imports from Qatar in total imports from GCC countries

Table 5.9
Trade with GCC Countries
(Rial Omani Million)

Country	2016				2017				2018 Prov.			
	Non-Oil Exports*		Recorded Imports		Non-Oil Exports*		Recorded Imports		Non-Oil Exports*		Recorded Imports	
	Value	% Share	Value	% Share	Value	% Share	Value	% Share	Value	% Share	Value	% Share
UAE	1,175.0	65.2	4,343.3	89.8	1,255.8	51.0	4,250.1	87.4	1,115.8	42.5	4,545.8	84.2
Saudi Arabia	411.6	22.9	319.9	6.6	511.5	20.8	356.7	7.3	638.8	24.3	317.9	5.9
Bahrain	27.5	1.5	62.7	1.3	41.2	1.7	115.5	2.4	43.5	1.7	173.1	3.2
Kuwait	90.0	5.0	23.4	0.5	125.0	5.1	10.6	0.2	139.0	5.3	8.7	0.2
Qatar	97.1	5.4	86.1	1.8	529.0	21.5	127.9	2.6	690.1	26.8	350.2	6.5
Total	**1,801.1**	**100.0**	**4,835.4**	**100.0**	**2,462.5**	**100.0**	**4,860.8**	**100**	**2,627.2**	**100.0**	**5,395.7**	**100**

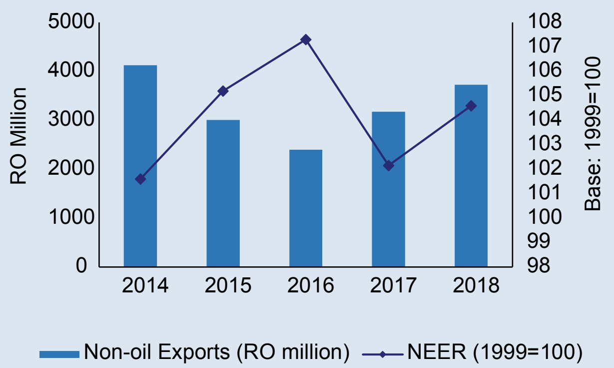
*Includes re-exports.
Source: Directorate General of Customs and National Center for Statistics & Information .

Table 5.10 Nominal Effective Exchange Rate (NEER) (1999=100)		
Period	Import Weighted	Non-Weighted
End of year		
2006	96.3	87.7
2007	92.4	82.3
2008	94.1	90.6
2009	92.5	87.6
2010	92.5	87.6
2011	92.3	89.3
2012	92.9	88.6
2013	96.2	91.1
2014	101.6	97.4
2015	105.2	104.5
2016	107.3	108.4
2017	102.1	100.7
Month-end (2018)		
January	100.4	98.3
February	100.8	99.6
March	100.6	99.8
April	101.7	101.2
May	102.7	102.8
June	103.5	104.5
July	103.7	105.3
August	103.6	104.8
September	104.3	105.2
October	105.6	108.5
November	105.0	107.4
December	104.6	107.8

Note: A rise in the index indicates an appreciation of the Omani Rial.
Source: Central Bank of Oman.

also increased considerably to 6.5 percent in 2018 from 2.6 percent in the preceding year, substituting Saudi Arabia in the second position.

Chart 5.6: NEER and Non-Oil Exports



Nominal Effective Exchange Rate

Nominal effective exchange rate (NEER) index, computed as a weighted average of the nominal exchange rate of the Rial Omani vis-à-vis 18 currencies of the major import trading partners of Oman (base year 1999=100), has been revised for 2017 (Table 5.10). NEER appreciated by 2.4 percent in December 2018 over its level a year ago (Chart 5.6). The appreciation of the US dollar to which the Rial Omani is pegged led to appreciation of NEER, implying lower import costs during the year. Intra-year movements exhibit that NEER index largely remained on an upward trajectory during 2018, increasing from 100.4 as on end-January to 103.5 at the end of June, and further to 104.6 at the end of December (Table 5.10). The rise in NEER suggests that the Rial Omani appreciated against a basket of currencies of the Sultanate's importing partners during 2018. The appreciating behavior of NEER was in line with the appreciation in US dollar conditioned by the return of volatility in financial markets. NEER appreciation had a soothing impact on inflation, as imported inflation remains one of the main drivers of inflationary conditions in Oman.

Balance of Payments

Current Account

The external sector improved during 2018 with further surge in oil prices, buoyant non-oil exports, and moderating imports. Nonetheless, the current account remained in a sizable deficit and continued to pose a challenge, especially in the backdrop of volatile oil prices. The production cut extended by OPEC+ also could not contain volatility significantly. Despite recovery, the oil price remained at much lower level than the external breakeven level for Oman. Nonetheless, the current account deficit more than halved on the back of a sharp improvement in trade balance during 2018. Oil and natural gas exports increased by 41.5 percent and 47.2 percent respectively, while non-oil exports exhibited a robust growth of 17.3 percent refecting traction in diversification. On the other hand, the subdued domestic demand resulted in decline in merchandise imports (f.o.b.) by 2.0 percent during the year. Consequently, the trade surplus more than doubled to RO 6,954 million in 2018 as compared to RO 3,370 million in the previous year. The net outflows under services also surged by 6.4 percent with expanding demand for services in line with expanding non-oil economic activities. Nonetheless, the balance in goods and services accounts together improved more than five-fold to about RO 4,187 million during 2018. On the other hand, the net income outflows jumped significantly by about 67 percent to RO 2,030 million. Net outflows under direct investment income increased by 37 percent to RO 1,519 million reflecting higher repatriation of profits in the oil and gas sector, while net outflows under other investment income jumped by about 94 percent to RO 960 million mainly due to a surge in servicing of increased external debt, especially government external debt. A large part of the fiscal deficit was financed through external debt so that private sector investment is not crowded out. Another major item under current account, the current transfers (workers' remittances) increased moderately by 1.4 percent (as against a declined of 4.8 percent in the previous year), despite robust growth in the economy (Chart 5.7). The balance under services, income and current transfers together remained in deficit and further inched up by 13.6 percent to RO 8,626 million. Consequently, the current account balance remained in deficit for the fourth successive year, albeit the deficit reduced to about RO 1,671 million in 2018 from around RO 4,222 million in the previous year. The ratio of current account deficit to GDP improved considerably with a steep decline to 5.5 percent in 2018 from 15.5 percent during the previous year (Chart 5.8).

Chart 5.7: Outward Remittances

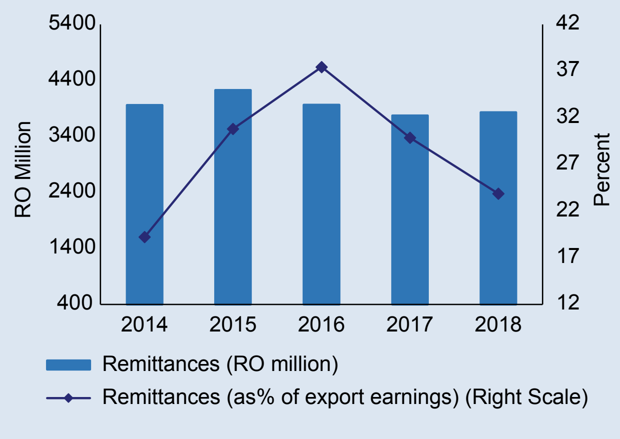
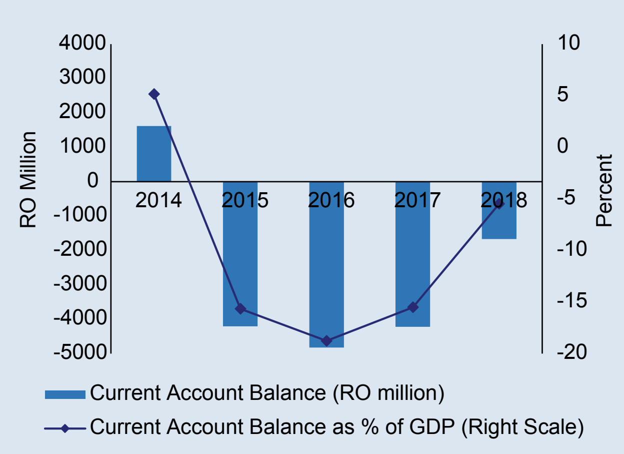


Chart 5.8: Current Account Balances

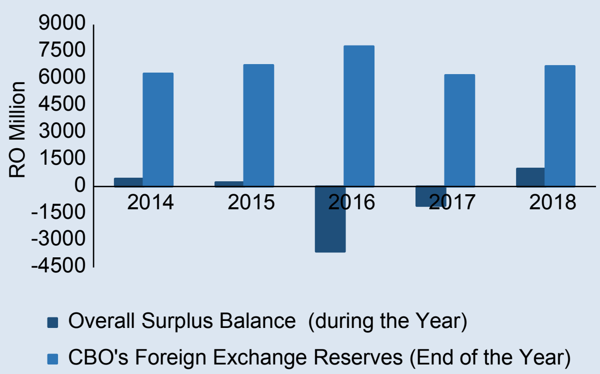


Capital and Financial Account

The saving-investment gap generally mirrors the current account balance (especially trade of goods & services), reflecting the need for external financing through the capital and financial accounts. The current account deficit at RO 1,671 million in 2018 far exceeded the net inflows of RO 2,949 million under the capital and financial accounts, resulting in a buildup of RO 990 million in official international reserves of the country.

The disaggregated analysis of the capital and financial account indicates that both foreign direct investment (FDI) and foreign portfolio investment (FPI) witnessed large net inflows, while other investments had net outflows during 2018 (Table 5.11). The investments in oil & gas sector mainly contributed to robust growth of 117.4 percent in FDI inflows. At the same time, outward FDI flows, which had jumped considerably in the previous year due to the one-off big-ticket acquisition outside, reverted back to normal trajectory in 2018 with a substantial decline of 70.4 percent over the preceding year. Inflows under portfolio investments also increased further by 6.4 percent from an already elevated level in the previous year, largely because of government Euro bond issuances of RO 2,498 million and sovereign Sukuk of RO 577 million. Other investments witnessed a large reversal with net inflows of RO 700 million during 2017 turning into net outflows of RO 1,788 million in 2018 mainly due to repayments of loans by government and corporates. The overall balance of payments position (adjusted for errors and omission), which encompasses net position of all accounts, recorded a surplus of RO 990 million in 2018.

Chart 5.9: Overall BoP Surpluses and CBO's Foreign Exchange Reserve Levels

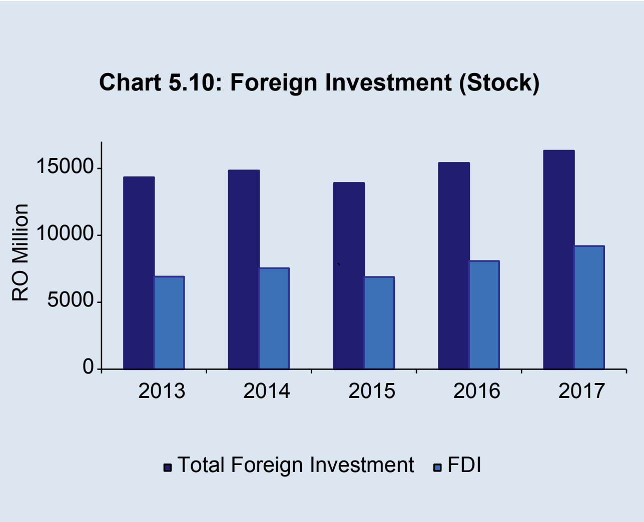


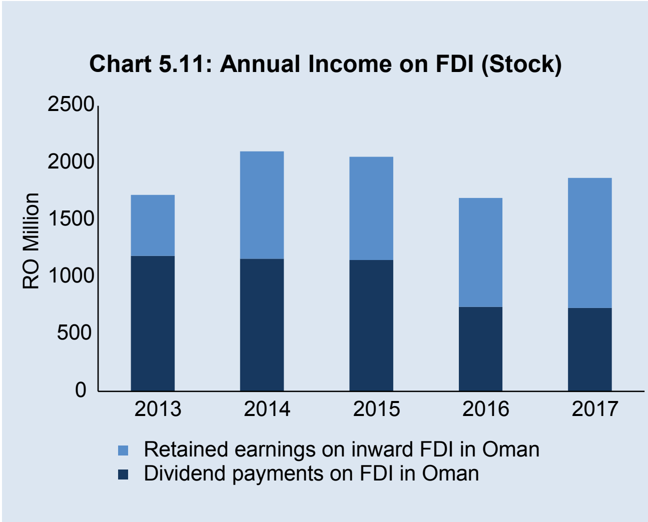
Reserve Assets

The overall balance of payments surplus of RO 990 million in 2018 led to an increase of RO 705 million in net foreign assets (net valuation adjustment) of the CBO and RO 286 million in government reserves (Chart 5.9). The CBO's net foreign assets increased by 15.1 percent to RO 5,968 million at the end of 2018. The merchandise imports (recorded) cover of foreign exchange reserves increased to 7.4 months in 2018 from 6.3 months during 2017, while this cover for current account payments increased to 3.6 months from 3.4 months during the same period.

Foreign Investment

Foreign investment stock shows a growth of 5.9 percent in 2017, as per the provisional figures released by the National Center for Statistics and Information (NCSI), on the top of a considerable increase of 10.7 percent in 2016. The buoyant growth in foreign investment was mainly driven by





the surge in FDI that registered a growth of 13.9 percent in 2017 and contributed 56.4 percent to total foreign investment stock (Chart 5.10). The oil and gas sector received the largest share of 53 percent in FDI stock (an increase of 4 percentage points), followed by financial intermediation with 16 percent. The total return on FDI (dividends plus retained earnings) remained more or less the same at 20.3 percent during 2017 (Chart 5.11). Foreign investment, other than FDI, declined by 3 percent during 2017 and accounted for 43.7 percent in total foreign investment stock (a decline of 3.9 percentage points).

The Government policy continues to focus on promoting non-oil economic activities and private sector-led growth by encouraging foreign investment. Towards this objective, the government undertook some initiatives in 2018 to improve business and investment environment and ease the participation of foreign investors, which included establishment of a commercial arbitration center, adoption of a new commercial companies' law, and a further streamlining of licensing processes through Invest Easy. Furthermore, several important laws, viz. Foreign Capital Investment, Privatization, Public Private Partnership, Bankruptcy, Establishing the Public Authority for Privatization and Partnership, have been promulgated recently to enhance the business and investment environment for attracting private and foreign investment in the Sultanate. All these measures in conjunction with other ongoing initiatives and improving macroeconomic environment would give a boost to private sector-led growth, attracting higher foreign investment in the Sultanate.

Table 5.11
Balance of Payments
(Rial Omani Million)

Items	2014	2015	2016	2017	2018 Prel.
A. Current account	**1,617**	**-4,206**	**-4,821**	**-4,222**	**-1,671**
1. Goods	**9,873**	**3,506**	**2,407**	**3,370**	**6,954**
Exports (f.o.b)	**20,596**	**13,720**	**10,591**	**12,644.6**	**16,045**
Oil	11,901	6,865	5,123	6,200	8,770
Crude	11,591	6,682	4,937	5,795	7,728
Refined Oil	310	182	187	405	1,042
Natural Gas	1,626	1,280	1,013	1,166	1,717
Other exports	4,126	3,004	2,399	3,176	3,727
Re-exports	2,944	2,572	2,056	2,102	1,831
Imports (f.o.b)	**-10,723**	**-10,214**	**-8,185**	**-9,275**	**-9,092**
2. Services	**-2,647**	**-2,622**	**-2,469**	**-2,600**	**-2,767**
Services (Credit)	**1,204**	**1,305**	**1,347**	**1,568**	**1,713**
Travel	529	592	622	672	676
Transportation	446	483	505	670	814
Insurance	19	16	16	15	15
Communication	37	34	42	40	40
Other Services	174	180	163	172	168
Services (Debit)	**-3,850**	**-3,927**	**-3,815**	**-4,168**	**-4,480**
Travel	-636	-679	-822	-898	-977
Transportation	-1,538	-1,517	-1,365	-1,579	-1,740
Insurance	-353	-387	-361	-394	-409
Communication	-44	-44	-47	-47	-47
Other Services	-1,279	-1,300	-1,221	-1,251	-1,307
Balance on goods & services (1+2)	**7,226**	**884**	**-62**	**770**	**4,187**
3. Income	**-1,648**	**-864**	**-795**	**-1,218**	**-2,030**
Income (Credit)	**455**	**258**	**372**	**385**	**449**
Compensation of employees	15	15	15	15	15
Other Investment Income	440	243	357	370	434
Income (Debit)	**-2,103**	**-1,122**	**-1,166**	**-1,603**	**-2,478**
Direct Investment Income	-1,945	-951	-823	-1,108	-1,519
Other Investment Income	-158	-172	-343	-495	-960
Balance on goods, services & income (1+2+3)	**5,578**	**20**	**-856**	**-448**	**2,157**
4. Current Transfers	**-3,961**	**-4,226**	**-3,965**	**-3,774**	**-3,829**
Current Transfers (Credit)	-	-	-	-	-
Current Transfers (Debit)	-3,961	-4,226	-3,965	-3,774	-3,829
Worker Remittances	-3,961	-4,226	-3,965	-3,774	-3,829

Table 5.11 (cont'd.)
Balance of Payments
(Rial Omani Million)

Items	2014	2015	2016	2017	2018 Prel.
B. Capital and Financial Account (5+6)	**-827**	**4,617**	**1,614**	**3,407**	**2,949**
5. Capital Account	**-50**	**209**	**198**	**100**	**107**
Grants (Credit)	0	209	198	111	116
Grants (Debit)	-50	0	0	-12	-8
6. Financial Account (i + ii + iii)	**-777**	**4,408**	**1,416**	**3,307**	**2,841**
(i) Foreign Direct Investment	**-27**	**-964**	**734**	**190**	**2,163**
Assets (FDI abroad)	-522	-129	-137	-932	-275
Liabilities (FDI in Oman)	495	-835	871	1,122	2,439
(ii) Portfolio Investment	**-298**	**329**	**1,922**	**2,417**	**2,466**
Assets	-605	-443	143	-542	-683
Liabilities	307	772	1,780	2,959	3,149
(iii) Other Investment	**-452**	**5,044**	**-1,241**	**700**	**-1,788**
(a) Assets	**-462**	**2,716**	**-816**	**-907**	**-1,187**
Trade Credit & Other Receivables	-118	-33	-129	-145	-188
Currency & Deposits	130	105	292	23	-91
Other Assets	-474	2,645	-979	-785	-907
(b) Liabilities	**10**	**2,327**	**-424**	**1,608**	**-601**
Trade Credit & Other Payables	8	31	-215	-183	-205
Currency & Deposits	437	2,048	-2,110	-107	459
Loans	-420	235	1,859	1,947	-830
General Government (net)	-60	305	1,917	920	-199
Other Sectors	-360	-70	-59	1,027	-632
Other Liabilities	-15	15	41	-49	-25
C. Net Errors & Omissions	**-361**	**-176**	**-408**	**-251**	**-287**
D. Overall Balance	**429**	**235**	**-3,615**	**-1,066**	**990**
E. Reserves Assets	**-429**	**-235**	**3,615**	**1,066**	**-990**
Central Bank	-233	-547	943	481	-705
Government Reserves	-196	312	2,672	585	-286

Note: Based on improved reporting of information through the annual survey, data in respect of foreign direct investment, other investment, and investment income flows have been revised considerably for past years. Since the coverage of the survey increases every year, with new respondents reporting data for past few years as well, this annual revision process may continue till the survey becomes comprehensive with full coverage.

Source: Central Bank of Oman.

Central Bank Accounts and Regulations

Deloitte.

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Independent auditor's report to the Board of Governors of Central Bank of Oman

1

Report on the summary financial statements

Opinion

The summary financial statements of Central Bank of Oman ("the Bank"), which comprise the summary statement of financial position as at 31 December 2018 and the summary income statement for the year then ended are derived from the audited financial statements of the Bank for the year ended 31 December 2018.

In our opinion, the accompanying summary financial statements are consistent, in all material respects, with the audited financial statements of the Bank, in accordance with the minimum disclosure requirements of Banking Law 2000.

Summary financial statements

The summary financial statements do not contain all the disclosures required by accounting policies as set out in note 3 to the audited financial statements of the Bank and the Banking Law 2000. Reading the summary financial statements and the auditor's report thereon, therefore, is not substitute for reading the audited financial statements and the auditor's report thereon. The audited financial statements and the summary financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the audited financial statements of the Bank.

The audited financial statements and our report thereon

We expressed an unmodified audit opinion on the audited financial statements of the Bank in our report dated 21 April 2019.

Other matter

The financial statements of the Bank for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those financial statements dated 19 March 2018.

Management's responsibility for the summary financial statements

Management is responsible for the preparation of a summary of the complete audited financial statements in accordance with the minimum disclosure requirements of Banking Law 2000.

Auditors' responsibility

Our responsibility is to express an opinion on whether the summary financial statements of the Bank are consistent, in all material respects, with the audited financial statements of the Bank based on our procedures, which were conducted in accordance with International standard on Auditing (ISA) 810 (Revised), Engagements to Report on Summary Financial Statements.

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
25 July 2019

Deloitte & Touche (M.E.)

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H.E. Tahir Salim Al-Amri
Executive President
Central Bank of Oman
P O Box 1161, Ruwi
Postal Code 112
Sultanate of Oman

28 July 2019
Our ref: GK/MMR/AAQ

Central Bank of Oman
Report and extract from the financial statements for the year ended 31 December 2018

Your Excellency,

Please find enclosed for your kind attention report and extract from the financial statements for **Central Bank of Oman** for the year ended **31 December 2018** both in English and Arabic duly signed by us.

If you have any questions in connection with the above, please do not hesitate to contact us.

Please accept our best regards.

Yours sincerely,

Ahmed Al Qassabi
Partner

Deloitte & Touche (M.E.)

Central Bank of Oman
Statement of Financial Position at 31 December 2018

	2018 RO'000	2017 RO'000
ASSETS		
Bullion	446	463
Reserve holdings abroad		
Foreign currency placements	3,021,182	1,535,781
Available-for-sale investments	3,569,535	4,552,964
Other assets	852,051	693,431
International Monetary Fund		
Reserve tranche	42,084	43,093
Currency quota	249,039	255,009
	291,123	298,102
Special drawing rights holdings	52,713	53,987
	343,836	352,089
Premises and equipment	43,911	43,691
Total ASSETS	**7,830,961**	**7,178,419**
LIABILITIES		
Currency in circulation	1,605,323	1,637,535
Deposits and current accounts	4,422,988	3,731,431
Other liabilities	17,948	23,758
International Monetary Fund		
Non-interest bearing demand notes	191,876	191,876
Other accounts	57,186	63,156
	249,062	255,032
Special drawing rights allocation	95,624	97,917
	344,686	352,949
Total LIABILITIES	**6,390,945**	**5,745,673**
CAPITAL AND RESERVES		
Capital	1,000,000	1,000,000
General reserve	373,761	323,350
Bond price fluctuation reserve	47,500	47,500
Currency fluctuation reserve	29,000	29,000
Currency valuation adjustment account	36,336	77,547
Financial assets valuation adjustment account on available-for-sale investments	(46,581)	(44,651)
Total capital and reserve	**1,440,016**	**1,432,746**
TOTAL LIABILITIES AND CAPITAL AND RESERVES	**7,830,961**	**7,178,419**

H.E. Tahir bin Salim bin Abdullah Al Amri The Executive President	Bader Khalid Al Aghbari Vice President, FSO (financial Services and Operation)

Central Bank of Oman
Income Statement
For the year ended 31 December 2018

	2018 RO'000	2017 RO'000
Interest income	107,817	90,672
Interest expense	(32,740)	(22,581)
Net interest income	**75,077**	**68,091**
Other income	29,623	58,134
Operating income	**104,700**	**126,225**
Operating expenses		
Staff costs	(32,090)	(31,415)
Currency expenses	(3,774)	(1,220)
Administrative expenses	(13,384)	(12,837)
Depreciation on premises and equipment	(5,041)	(5,936)
Total operating expenses	**(54,289)**	**(51,408)**
Profit for the year	**50,411**	**74,817**

20 March 2018

To: All Licensed Banks in the Sultanate of Oman

After Compliments,

Sub: Capital Adequacy Ratio under Basel III

1. Reference is invited to Circular BM 1114 dated November 17, 2013 on “Regulatory Capital and Composition of Capital Disclosure Requirements under Basel III”, wherein banks were, among others, advised to maintain a minimum Total Capital Adequacy Ratio (CAR) of 12 percent of risk weighted assets together with minimum Common Equity Tier 1 (CET 1) and Tier 1 ratios of 7 percent and 9 percent respectively. It has been decided that the Tier 2 capital will be restricted to 2 percent (as against 3 percent earlier), and accordingly, banks should maintain a Total Capital Adequacy Ratio of 11 percent of risk weighted assets effective from April 1, 2018. However, the CET 1 and Tier 1 ratios remain unchanged.
2. Additional capital buffers such as Capital Conservation Buffer, Counter Cyclical Buffer and enhanced capital surcharge for D-SIB(s) as advised earlier, will continue to be comprised of CET 1, and will be held above the regulatory minimum capital requirements prescribed herein.

Best regards,

Tahir Salim Al Amri
Executive President

20 March 2018

To: All Licensed Banks in the Sultanate of Oman

After Compliments,

Sub: Lending Ratio - Treatment of Local Inter-bank Transactions

1. Reference is invited to Circular BM 1051 dated 23rd December 2008.
2. It has since been decided that local inter-bank positions shall be allowed to be reckoned for lending ratio purposes. Accordingly, commercial banks shall include borrowings/ placements, if any, from other commercial banks in their deposit base and reduce, lendings/ placements, if any, to/with other commercial banks from the depositbase (for lending ratio purposes).
3. The Central Bank adds the following in this connection:
   i. The above dispensation will take effect from 1st April 2018 (attached is revised specimen lending ratio return).
   ii. The decision is in pursuance to requests from some banks and has, among others, the objectives of optimum utilization of domestic liquidity and efficiency of treasury operations as well as activation of domestic inter-bank market.
   iii. Obviously, there should be due care and good faith in diligent availment of the dispensation.

   The principal focus of raising resources, by banks should be customer deposits and broad-based savings promotion, particularly of longer term tenor.

   It is likely that inter-bank transactions will be of short term nature and there will be risks arising from undue dependence on interbank funding in general and of short term in particular. Banks should evolve aoorooriate internal oolicies as a matter of

   operational and liquidity, maturity mismatch and other risk management considerations, capturing inter-bank transactions too under maturity profile.

   The opening up of inter-bank lending under lending ratio reckoning should not lead to distortive postures by lending banks also. They should avoid, for instance, undue overseas bank borrowings or neglect of core customer credit function (in the above context).

   Banks should be sensitive all-the-more as inter-bank interest rates will come under more focus henceforth.

   The Central Bank, in case of observance of undesirable features, may withdraw the dispensation or bring about such other restrictions in terms of tenors (for eligibility of reckoning) or ceiling on eligibility here-under.
4. In modification of circular letter BDD/CBS/CB/2011/616 dated 30th January 2011 and in order to be consistent with reporting

requirements under RD Returns, commercial banks should (from 1st April 2018) treat transactions with specialized banks as customertransactions (both deposits and loans) and not inter-bank (for lending ratio purposes also).

5. All other extant instructions, including prohibition against Islamic Banking Entities providing funds to conventional banks and applicability of present reporting requirements (but for changes hereunder) remain in force.

Best regards,

Tahir Salim Al Amri

Executive President

20 March 2018

To: All Licensed Banks in the Sultanate of Oman

After Compliments,

Sub: Maturity of Assets and Liabilities (MAL)

1. Reference is invited to our Circular BM 955 dated May 7, 2003 regarding guidelines on Risk Management Systems in Banks. As per para 5 of the mentioned circular, the Central Bank has prudently capped the maturity mismatches in all currencies in short term. Maturity mismatches up to one year is critical since these provide early warning signals of impending liquidity problems.

2. However, keeping in view the objective of Central Bank to enable Banks to facilitate economic growth and after implementation of Basel III liquidity framework including I-CR and NSFR standards and various monitoring tools, it has been decided to revise the following limits in order to ensure uninterrupted credit flow to the economy:

3. Banks are required to be extra cautious and should not treat regulatory limits as entitlements and operate with utmost care. Further, this relaxation is a temporary measure to help the banks in the current macroeconomic environment and position can be further reviewed from time to time as and when necessary. These instructions will be effective from April 1, 2018.

<table>
<tr><th>Time Bands</th><th>Existing Limits</th><th>Revised Limits</th></tr>
<tr><td>Upto one month</td><td rowspan="2">Cumulative gap (in Rial Omani «RO», US Dollar «USD» & Other Currencies) should not exceed 15% of the cumulative</td><td rowspan="2">No change in existing</td></tr>
<tr><td>Over one month and upto 3 months (1-3 months)</td></tr>
<tr><td>Over 3 months and upto 6 months (3-6 months)</td><td>As above</td><td>Cumulative gap (in RO, USD & Other Currencies) should not exceed 20% of the cumulative liabilities (outflows).</td></tr>
<tr><td>Over 6 months and upto 9 months (6-9 months)</td><td rowspan="2">As above</td><td rowspan="2">Cumulative gap (in RO, USD & Other Currencies) should not exceed 25% of the cumulative liabilities (outflows).</td></tr>
<tr><td>Over 9 months and upto 1 year (9-12 months)</td></tr>
</table>

Best regards,

Tahir Salim Al Amri

Executive President

20 March 2018

To: All Licensed Banks in the Sultanate of Oman

After Compliments,

Sub: Credit Exposure to Non-residents & Placement of Bank Funds Abroad

1. Reference is invited to Circular BM 1120 dated March 31, 2014 and Circular Letter BSD/2016/BKUP/306 dated March 31, 2016 on the subject.
2. In order to provide greater operational flexibility for efficient Treasury operations, Liquidity management and sound correspondent relationships, the prudential limits for credit exposures and placement of funds abroad as percentage of Local Net Worth (LNW), as mentioned in paragraphs 6.3, 7.1, 7.2, 8 and 10 of Circular BM 1120, are revised effective from April 1, 2018 as under:

Existing Limits	Revised Limits
Aggregate credit (funded & non-funded) exposure to all non-resident borrowers and related parties (both banks and other than banks) — Limit at 50% of LNW (Para 6.3)	75% of I-NW of the bank
Total placement with related parties and total placements with non-related parties — Limit each at 50% of LNW (Para 7.1, 7.2 & 8)	75% of I-NW of the bank
Aggregate placements and credit exposures to all related and non-related parties — Limit at 50% of LNW (Para 10)	75% of I-NW of the bank

3. Banks should note that the above relaxation is not envisaged to raise undue overseas risky credit or placements exposures and dilute domestic focus.
4. Banks should avail the relaxation prudently, based upon genuine needs and subject to compliance with other applicable requirements and norms (including credit to non-residents).

Best regards,

Tahir Salim Al Amri

Executive President

20 March 2018

To: All Licensed Banks in the Sultanate of Oman

After Compliments,

Sub: Country Risk — Revision of Risk Weights

1. Reference is invited to Circular BM 1009 dated September 13, 2006 and BSD Circular Letters BSD/2016/BKUP/Banks & FLCs/1346 dated December 8, 2016 and BSD/2016/BKUP/Banks & FLCs/1461 dated December 29, 2016 regarding Guidelines on Basel II.
2. Keeping in view of the objective of Central Bank of Oman (CBO) to ensure implementation of Basel guidelines in true spirit, it has been decided to withdraw the minimum 100% risk weightage requirements on exposures to other sovereigns and Central Banks. Therefore, revision made in para 35 and 36 of the Circular BM 1009 through above mentioned circular letters stands withdrawn effective from April 1, 2018.
3. However, claims on Government of Sultanate of Oman or CBO either in Rial Omani or in foreign currency will continue to be risk weighted at zero percent.
4. The banks are advised to have appropriate policies and operational controls on country/ sovereign exposures and remain focused on productive deployment of funds domestically. These guidelines will be effective from April 1, 2018.

Best regards,

Tahir Salim Al Amri

Executive President

17 May 2018

To: All Licensed Banks in the Sultanate of Oman

After Compliments,

Sub: Master Circular - Fraud Risk Management

1. Globalization of banking services, innovations in technology and the increasing ease of carrying out financial transactions, while auguring well for the banking industry, have concomitantly thrown up the challenge of protecting the sanctity of the banking system from the nefarious attacks of fraudsters. Frauds, apart from exposing the vulnerability of banks' systems and processes, have other ramifications as well. Importantly, frauds are a threat to public trust in the banking system. Public trust, as will be appreciated, is fundamental to banking and hence has to be zealously guarded.

2. As is well known, frauds have rapidly evolved as a continuous threat. The growing incidence of frauds in banks has now become a matter of significant concern. The fraudsters, as banks are aware, constantly invent techniques to exploit the weaknesses in banks' systems, processes and controls. Banks, therefore, have to be ever on guard to foil their attempts. They have to pro-actively attune their policies, procedures, processes and technologies in line with the emerging trends/developments/ concerns and stay ahead of the adversaries. Banks should unequivocally commit themselves to prevent frauds/dishonesty and actively promote an enterprise-wide anti-fraud culture.

3. While it is the primary responsibility of banks to put in place an effective Fraud Risk Governance Framework, the Central Bank on its part, has been sensitizing banks of the major fraud prone areas as also the modus operandi adopted in certain cases. Besides, the Central Bank has been exhorting banks to regularly review and strengthen their Fraud Risk Management Systems.

4. In the above context, the Central Bank had issued BM Circulars Nos. 1078 and 1136 dated January 18, 2011 and June 16, 2015 on 'Combating Frauds' and 'Security of Electronic Banking Systems' respectively. The instructions contained therein and the various other related instructions/cautionary advices

5. issued from time to time, were expected to be appropriately internalized by banks in their policy prescriptions/operating procedures. These, along with other requirements that have evolved, have been consolidated and comprehensive instructions on 'Fraud Risk Management', are enclosed. While the instructions on 'Reporting to the Central Bank of Oman and Royal Oman Police' contained in Para 10 thereof would be effective from January 1, 2018, the other instructions would come into effect from April 1, 2018. In the meantime, the current instructions on frauds and matters related thereto would continue to be in force. We would like to add that the suggestions received from Oman Banks Association have been duly considered before finalization of the instructions.

6. It is to be noted that while the words ‘should’ and ‘need’ used in the MC are in regard to instructions that are to be mandatorily complied with, the usage of the word ‘may’ is in respect of guidelines, where the discretion whether or not to implement, has been vested with banks. However, the discretion not to implement a guideline, should be exercised at an appropriate level after due consideration and recorded.

7. It may be observed that a greater responsibility has now been cast on the Board and Senior Management of banks to effectively manage fraud risk. The Central Bank expects their focused attention in this regard.

8. Banks are advised to communicate the contact details of a senior official (not less than an Assistant General Manager in the case of local banks), who would be the focal point of contact for the Central Bank on all matters relating to frauds.

Best regards,

Tahir Salim Al Amri
Executive President

Statistical Appendix

LIST OF APPENDIX TABLES

Table 1
Domestic and National Savings
(Rial Omani Million)

Items	2012	2013	2014	2015	2016	2017*
1- GDP at Market Prices	29,458.8	30,292.6	31,174.0	26,500.3	25,354.5	27,216.4
2- Total Final Consumption	14,426.6	15,486.8	17,498.8	17,620.5	17,979.7	17,929.3
3- Domestic Savings (1-2)	**15,032.3**	**14,805.8**	**13,675.2**	**8,879.8**	**7,374.7**	**9,287.1**
4- Net Factor Income (transfer)	-4,909.6	-4,815.3	-5,685.5	-5,095.8	-4,978.5	-4,967.6
5- National Savings (3-4)	**10,122.7**	**9,990.6**	**7,989.7**	**3,784.0**	**2,396.3**	**4,319.5**
6- Percent Of Domestic Savings to GDP (3/1)	**51.0**	**48.9**	**43.9**	**33.5**	**29.1**	**34.1**
7- Percent of National Savings to GDP (5/1)	**34.4**	**33.0**	**25.6**	**14.3**	**9.5**	**15.9**

** Provisional*
Source : National Center for Statistics and Information

Table 2
Expenditure on Gross Domestic Product at Current Market Prices
(Rial Omani Million)

Items	2012	2013	2014	2015	2016	2017*
1. Final Consumption Expenditure	**14,426.6**	**15,486.8**	**17498.8**	**17620.5**	**17979.7**	**17929.3**
Households	8,628.6	8,922.0	9600	10133.2	10406.8	10857.3
Government	5,762.1	6,534.7	7704.4	7456.6	7546.7	7046.8
Non Profit Institutions	35.9	30.1	33.0	30.7	26.2	25.2
2. Gross Capital Formation #	**6,396.0**	**7,403.4**	**7522.9**	**7396.7**	**8309.2**	**7538.1**
Building and Construction	4,449.9	4,591.4	4850.3	5265.3	5836.2	5386.8
Machinery and Equipment	1,012.6	1,782.3	1699.8	1073.9	1433.5	1179.1
Intangible Fixed Assets	933.5	1,029.7	972.8	1057.4	1039.4	972.1
Change in Inventories	**781.4**	**653.2**	**-796.5**	**597.4**	**-869.5**	**993.8**
3.Net Exports of Goods & Services	**7,854.8**	**6,749.3**	**7342.8**	**885.8**	**-64.9**	**755.2**
GDP at Market Prices	**29,458.8**	**30292.6**	**31174.0**	**26500.3**	**25354.5**	**27216.4**

* Provisional
# It does not include change in inventories.
Source: National Center for Statistics and Information

Table 3
Structure of Interest Rates on Conventional Banks Deposits
December 2018
(Rial Omani Thousands)

Rates of Interest (Per Annum)	Total Rial Omani Deposits				Total Foreign Currency Deposits				Total Deposits			
	No of A/Cs	%	Amount	%	No of A/Cs	%	Amount	%	No of A/Cs	%	Amount	%
Nil Interest	3,520,376	93.0	6,865,366	40.4	21,016	80.2	706,801	23.4	3,541,392	92.9	7,572,167	37.9
Over 0% To 2%	252,531	6.7	2,556,225	15.1	4,808	18.4	1,215,953	40.3	257,339	6.7	3,772,178	18.9
Over 2% To 3%	4,120	0.1	793,907	4.7	268	1.0	620,726	20.6	4,388	0.1	1,414,633	7.1
Over 3% To 4%	3,357	0.1	3,242,807	19.1	95	0.4	453,950	15.0	3,452	0.1	3,696,757	18.5
Over 4% To 5%	6,313	0.2	3,008,754	17.7	11	0.0	21,810	0.7	6,324	0.2	3,030,564	15.2
Over 5% To 6%	151	0.0	504,446	3.0	0	0.0	0	0.0	151	0.0	504,446	2.5
Over 6% To 7%	3	0.0	4,495	0.0	0	0.0	0	0.0	3	0.0	4,495	0.0
Over 7% To 8%	25	0.0	542	0.0	0	0.0	0	0.0	25	0.0	542	0.0
Over 8% To 9%	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Over 9% To 10%	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Over 10% To 11%	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Over 11% To 12%	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Over 12%	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Total	**3,786,876**	**100**	**16,976,542**	**100**	**26,198**	**100.00**	**3,019,239**	**100**	**3,813,074**	**100**	**19,995,781**	**100**
Weighted Average Rate of Interest (%)			**1.899**				**1,475**				**1,835**	

Source: Central Bank of Oman.

Table 4
Structure of Private Sector Time Deposits by Rate of Interest and Maturity
December 2018
(Rial Omani Thousands)

Rates of Interest (Per Annum)	7 Days to Less than 6 Months			6 Months to Less than 1 Year			1 Year and Above			Total		
	Rial Omani	Foreign Currency	Total	Rial Omani	Foreign Currency	Total	Rial Omani	Foreign Currency	Total	Rial Omani	Foreign Currency	Total
NIL INTEREST	389	2	391	21	14	35	2,060	138	2,198	2,470	154	2,624
OVER 0% TO 2%	55,610	33,413	89,023	31,583	13,121	44,704	298,233	39,616	337,849	385,426	86,150	471,576
OVER 2% TO 3%	60,204	80,235	140,439	35,933	3,772	39,705	166,099	252,639	418,738	262,236	336,646	598,882
OVER 3% TO 4%	59,004	938	59,942	110,049	28,120	138,169	1,345,041	8,692	1,353,733	1,514,094	37,750	1,551,844
OVER 4% TO 5%	9,324	6,860	16,184	234,450	14,813	249,263	984,939	0	984,939	1,228,713	21,673	1,250,386
OVER 5% TO 6%	0	0	0	0	0	0	396,184	0	396,184	396,184	0	396,184
OVER 6% TO 7%	0	0	0	0	0	0	4,495	0	4,495	4,495	0	4,495
OVER 7% TO 8%	0	0	0	0	0	0	8	0	8	8	0	8
OVER 8% TO 9%	0	0	0	0	0	0	0	0	0	0	0	0
OVER 9% TO 10%	0	0	0	0	0	0	0	0	0	0	0	0
OVER 10% TO 11%	0	0	0	0	0	0	0	0	0	0	0	0
OVER 11% TO 12%	0	0	0	0	0	0	0	0	0	0	0	0
OVER 12%	0	0	0	0	0	0	0	0	0	0	0	0
Total	184,531	121,448	305,980	412,036	59,840	471,876	3,197,059	301,085	3,498,144	3,793,626	482,373	4,276,000
Weighted Average Rate of Interest (%)	2.464	2.208	2.362	3.790	3.136	3.707	3.773	2.330	3.649	3.711	2.399	3.563

Source: Central Bank of Oman.

Table 5
Structure of Interest Rates on Conventional Banks Credit
December 2018
(Rial Omani Thousands)

Rates of Interest (Per Annum)	Total R.O. Lending				Total Foreign Currency Lending				Total Lending (R.O. + Fcy.)			
	No of A/Cs	%	Amount	%	No of A/Cs	%	Amount	%	No of A/Cs	%	No of A/Cs	%
NIL INTEREST	5,588	0.7	79,222	0.4	122	3.6	7,038	0.2	5,710	0.7	86,260	0.4
OVER 0% TO 2%	1,741	0.2	424,369	2.4	367	11.0	29,753	0.9	2,108	0.3	454,122	2.1
OVER 2% TO 4%	32,688	4.2	2,768,708	15.3	238	7.1	252,182	7.3	32,926	4.2	3,020,890	14.1
OVER 4% TO 5%	94,644	12.0	3,915,549	21.7	403	12.0	1,335,164	38.9	95,047	12.0	5,250,713	24.4
OVER 5% TO 7%	353,101	44.8	9,003,995	49.9	486	14.5	1,587,076	46.2	353,587	44.7	10,591,071	49.3
OVER 7% TO 8%	137,895	17.5	1,391,961	7.7	1,628	48.6	184,793	5.4	139,523	17.6	1,576,754	7.3
OVER 8% TO 9%	9,381	1.2	157,628	0.9	27	0.8	37,732	1.1	9,408	1.2	195,360	0.9
OVER 9% TO 10%	710	0.1	49,854	0.3	0	0.0	0	0.0	710	0.1	49,854	0.2
OVER 10% TO 11%	4,516	0.6	44,618	0.2	28	0.8	570	0.0	4,544	0.6	45,188	0.2
OVER 11% TO 12%	5,086	0.6	98,654	0.5	3	0.1	0	0.0	5,089	0.6	98,654	0.5
OVER 12% TO 13%	1,049	0.1	8,491	0.0	8	0.2	0	0.0	1,057	0.1	8,491	0.0
OVER 13% TO 14%	337	0.0	4,562	0.0	2	0.1	0	0.0	339	0.0	4,562	0.0
OVER 14% TO 15%	536	0.1	5,096	0.0	6	0.2	51	0.0	542	0.1	5,147	0.0
OVER 15% TO 16%	1,947	0.2	730	0.0	1	0.0	0	0.0	1,948	0.2	730	0.0
OVER 16% TO 17%	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
OVER 17% TO 18%	126,745	16.1	97,806	0.5	28	0.8	61	0.0	126,773	16.0	97,867	0.5
OVER 18% TO 20%	11,610	1.5	346	0.0	0	0.0	0	0.0	11,610	1.5	346	0.0
OVER 20%	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Total	**787,574**	**100**	**18,051,590**	**100**	**3,347**	**100**	**3,434,420**	**100**	**790,921**	**100**	**21,486,010**	**100**
Weighted Average Rate of Interest (%)			**5.329**				**5.250**				**5.317**	

Source: Central Bank of Oman.

Table 6
Structure of Private Sector Credit by Rate of Interest and Maturity
December 2018
(Rial Omani Thousands)

Rates of Interest (Per Annum)	Overdraft			Credit Cards			Other Loans and Advances						Total	
							Less than 1 Year			1 Year and above				
	Rial Omani	Foreign Currency	Total	Rial Omani	Foreign Currency	Total	Rial Omani	Foreign Currency	Total	Rial Omani	Foreign Currency	Total	Rial Omani	Foreign Currency
NIL INTEREST	55,387	92	55,479	116	0	116	8,124	1,159	9,283	15,520	5,787	21,307	79,147	7,038
OVER 0% TO 2%	180,463	689	181,152	0	0	0	161,649	22,079	183,728	37,515	3,240	40,755	379,627	26,008
OVER 2% TO 4%	68,729	1,263	69,992	970	0	970	711,519	83,103	794,622	1,312,587	143,745	1,456,332	2,093,806	228,111
OVER 4% TO 5%	131,238	162	131,400	0	0	0	705,283	194,414	899,697	2,974,053	352,640	3,326,693	3,810,575	547,216
OVER 5% TO 7%	413,804	3,121	416,925	7,743	0	7,743	761,214	71,844	833,058	7,608,807	930,362	8,539,169	8,791,567	1,005,327
OVER 7% TO 8%	144,986	2,241	147,227	1,325	0	1,325	91,267	10,016	101,283	1,154,150	161,626	1,315,776	1,391,728	173,883
OVER 8% TO 9%	21,135	1,892	23,027	0	0	0	26,222	6,459	32,681	110,272	29,381	139,653	157,629	37,732
OVER 9% TO 10%	6,646	0	6,646	0	0	0	9,474	0	9,474	33,735	0	33,735	49,855	0
OVER 10% TO 11%	28,598	561	29,159	0	0	0	9,487	0	9,487	6,534	0	6,534	44,619	561
OVER 11% TO 12%	67,609	0	67,609	981	0	981	1,173	0	1,173	28,891	0	28,891	98,654	0
OVER 12% TO 13%	2,511	0	2,511	1,150	0	1,150	1,734	0	1,734	3,096	0	3,096	8,491	0
OVER 13% TO 14%	2,899	0	2,899	514	0	514	0	0	0	1,149	0	1,149	4,562	0
OVER 14% TO 15%	5,028	51	5,079	68	0	68	0	0	0	0	0	0	5,096	51
OVER 15% TO 16%	730	0	730	0	0	0	0	0	0	0	0	0	730	0
OVER 16% TO 17%	0	0	0	0	0	0	0	0	0	0	0	0	0	0
OVER 17% TO 18%	0	0	0	97,025	61	97,086	775	0	775	0	0	0	97,800	61
OVER 18% TO 20%	0	0	0	346	0	346	0	0	0	0	0	0	346	0
OVER 20%	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	**1,129,764**	**10,072**	**1,139,836**	**110,239**	**61**	**110,300**	**2,487,921**	**389,074**	**2,876,995**	**13,286,309**	**1,626,781**	**14,913,090**	**17,014,232**	**2,025,988**
Weighted Average Rate of Interest (%)	**5.331**	**6.300**	**5.340**	**16.305**	**17.500**	**16.305**	**4.495**	**4.388**	**4.480**	**5.523**	**5.573**	**5.528**	**5.430**	**5.349**

Source: Central Bank of Oman.

Table 7
Licensed Banks in the Sultanate of Oman
(As at 31 December 2018)

Name of the Banks	Date Of Establishment	Authorised Offices	Operating Offices
Local Banks			
1. National Bank of Oman	1973	61	61
2. Oman Arab Bank	1973	57	57
3. HSBC Bank Oman	1975	48	48
4. Bank Muscat	1981	149	149
5. Bank Dhofar	1990	61	61
6. Bank Sohar	2007	30	30
7. Al Ahli Bank	1997	14	14
Foreign Banks			
1. Standard Chartered Bank	1968	1	1
2. Habib Bank Ltd.	1972	7	7
3. Bank Melli Iran	1974	1	1
4. First Abu Dhabi Bank	1976	7	7
5. Bank Saderat Iran	1976	1	1
6. Bank of Baroda	1976	3	3
7. State Bank of India	2004	1	1
8. Bank of Beirut	2006	5	5
9.Qatar National Bank	2007	5	5
Specialised Banks			
1. Oman Housing Bank	1977	8	8
2. Oman Development Bank	1977	18	18
Islamic Banks & windows			
1. Bank Nizwa	2012	14	14
2. Al Izz Islamic Bank	2013	11	10
3. BM-Meethaq	2013	20	20
4. NBO - Muzn	2013	6	6
5. BD - Misara	2013	10	10
6. OAB - Al yusr	2013	7	7
7. AHB - Al hilal	2013	9	8
8. BS - Sohar Islamic	2013	8	7
Total		**562**	**559**

Source: Central Bank of Oman.

Table 8
Balance Sheet of Oman Housing Bank SAOC
(Rial Omani Thousands)

	December 2018	December 2017
Assets		
Cash and Bank balances	11,561	8,076
Mortgage loan accounts	539,517	476,163
Due from Government of Oman - share capital	7,616	10,675
Other assets	6,162	2,378
Property and equipment	5,383	4,874
Total assets	**570,239**	**502,166**
Liabilities and Equity		
Liabilities		
Due to Banks	41,000	32,004
Customers' deposits	94,508	51,589
Other liabilities	14,815	13,277
Loan from Arab Fund for Economic & Social Development	49,131	50,831
Loans from the Government	103,830	103,830
Total Liabilities	**303,284**	**251,531**
Equity		
Share capital	100,000	100,000
Legal reserve	22,717	21,323
Special reserve	60,515	58,006
Impairment reserve	7,235	-
Revaluation reserve	2,319	2,319
Retained earnings	74,169	68,987
Total liabilities and equity	**570,239**	**502,166**
Mortgage Loan Commitments	**27,670**	**37,646**

Source: Oman Housing Bank SAOC.

Table 9
Balance Sheet of Oman Development Bank SAOC
(Rial Omani Thousands)

	December 2018	December 2017
Assets		
Cash and balances with Central Bank of Oman	1,913	1,077
Balances due from other banks	42,794	33,390
Loans and advances to costomers	139,148	125,358
Investments	16,572	19,086
Staff housing loans	1,310	1,294
Receivable from Government	3,811	1,921
Property and equipment	1,123	1,196
Prepayments and other receivables	1,803	1,629
Total assets	**208,474**	**184,950**
Liabilities and Shareholders' Equity		
Liabilities		
Customer Deposits(Izdihar)	501	539
Payable to Government	182	139
Payable and accruals	7,543	5,872
Borrowings	38,654	19,346
Total liabilities	**46,880**	**25,896**
Shareholders' Equity		
Share capital	100,000	100,000
Legal reserve	7,235	6,989
Investment revaluation reserve	673	955
Special reserve	5,541	5,541
Impairement IFRS 9 Reserve	776	0
Retained earnings	47,369	45,570
Total shareholdres' Equity	**161,594**	**159,055**
Total liabilities and shareholders' Equity	**208,474**	**184,950**
Net assets value per share	**1.616**	**1.591**
Commitments and contingencies	**22409**	**18,152**

Source: Oman Development Bank SAOC.

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