Central Bank of Oman

Mid-Year Review
of the
Omani Economy

2016

January 2017

Contents

Foreword

Economic activity in Oman weakened further in 2016 in the wake of low oil prices, slowdown in world growth and lackluster global trade. The authorities have been taking policy measures to move ahead on the path of fiscal sustainability in the medium-term. Reining in public expenditure, augmenting non-oil revenue, pursuing economic diversification are the key facets of the State General Budget, 2017. In order to preserve fiscal buffers and taking advantage of relatively low cost of funds in international financial markets, the Government has resorted mainly to external commercial borrowings which elicited positive investor appetite and partly to borrowings from the domestic market which would facilitate financial deepening. The CBO on its part continued its accommodative monetary policy stance, continuously monitoring the liquidity situation and ensuring availability of adequate credit for productive activities. The CBO has also taken regulatory and supervisory measures so that banks remain well-capitalized and healthy in the face of incipient delinquency due to economic slowdown. Inflationary condition in the Sultanate remained benign in 2016 despite revision in energy prices, user fees and firming up of global commodity prices. Against this backdrop, the Mid-Year Review of the Omani Economy for 2016 analyses developments related to the global economy, output growth, price situation, fiscal position, monetary and banking conditions, financial markets, foreign trade and balance of payments and macroeconomic outlook during the year so far.

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Mid-Year Review of the Omani Economy 2016

Overview and Macroeconomic Outlook

Overview

The slowdown in global economic activity continued in 2016 on account of slackened growth in the advanced economies (AEs) notwithstanding a modest improvement in the growth of the Emerging Market and Developing Economies (EMDEs). The decelerating global growth was driven by weak investment, stalling world trade and amplified policy uncertainty. The International Monetary Fund (IMF) in its January 2017 update of World Economic Outlook (WEO), projects global growth at 3.1 percent in 2016, lower than 3.2 percent growth recorded in 2015. For 2017, the forecast for global growth is at 3.4 percent, lower by 0.1 percent than projected in April 2016. The AEs are projected to grow at 1.6 percent in 2016 as compared with 2.1 percent in 2015. GDP growth for EMDEs is projected at 4.1 percent in 2016, the same rate as in 2015, but expected to firm up to 4.5 percent in 2017. The growth rate of countries in the Gulf Cooperation Council (GCC) is expected to edge down from 3.4 percent in 2015 to 1.7 percent in 2016 and thereafter rise to 2.3 percent in 2017. Inflation in the GCC countries firmed up at around 3.6 percent in 2016 and is expected to slip marginally to 2.6 percent in 2017.

With oil prices continuing to remain relatively low in 2016, economic activity in the Sultanate is projected to be subdued despite sustained expansion in hydrocarbon output. Preliminary national accounts data for the Sultanate of Oman pointed to a 9.0 percent drop in nominal Gross Domestic Product (GDP) contracting to RO 17.9 billion over the period January-September 2016 as compared to a more pronounced decrease of 16.0 percent over the same period in 2015. The GDP component emanating from the petroleum sector registered a decline of 29.4 percent while the non-petroleum sector GDP decreased by 0.2 percent. Omani crude oil average price declined to US $ 38.3 per barrel during the period January -September 2016 from US $ 59.8 over the same period a year ago. The daily average production increased by 2.6 percent to 1003.2 thousand barrels with the cumulative oil production during January-September 2016, reaching 274.9 million barrels as against 267.1 million barrels over the same period in 2015. The crude petroleum activities continued to remain the major contributor to the overall hydrocarbon sector with 23.1 percent of value addition to the nominal GDP compared to a modest 5.2 percent value addition from the natural gas sector.

Inflation in the Sultanate of Oman which had softened in 2015 reflecting the decline in international commodity prices, reduced government spending and significant appreciation of US Dollar in real effective terms during the year, registered a modest rise in January-September 2016 due to revision in energy prices, user fees and turnaround in global commodity prices. Reflecting the global trend, the average inflation based on CPI for the Sultanate (base 2012) which weakened to 0.1 percent in 2015 increased modestly to 0.9 percent in Jan.-Sept. 2016. When measured in terms of point to point rather than based on average, the CPI for the Sultanate pointed to inflation of 1.3 percent at end-September 2016.

Due to weaknesses in average oil prices in the first nine months of 2016, Oman experienced a larger revenue gap in January-September 2016. The sharp drop in fiscal revenue, outstripping the modest reduction in fiscal expenditure led to widening of fiscal deficit under the period under review. Oman registered a budget deficit of RO 4,427.2 million during January-September 2016 compared to a deficit RO 2,934.3 million over the same period a year ago. During the first nine months of 2016, government revenues decreased by 25.8 percent to RO 4,977.5 million, while government expenditure declined by 2.5 percent to RO 9,404.7 million. The aggregate Government debt of the Sultanate expanded to RO 6,681 million as at the end of September 2016 from RO 3,444 million at the end of December 2015.

Substantial reduction in government revenues and widening of fiscal deficits necessitated adoption of a path of fiscal consolidation in the medium term. Ongoing efforts to pursue economic diversification are becoming more critical in the lower oil price environment. In this context it has become imperative to focus on preserving fiscal space for growth-enhancing spending while maintaining fiscal sustainability. The Sultanate’s annual State General Budget for the year 2017 has been formulated as a policy response to attain expenditure restraint, broadening of non-oil revenue and greater economic diversification. The 2017 budget reflects fiscal prudence induced by economic downturn and the projections based on a conservative assumption of oil at USD 45 per barrel and reliance upon external borrowings to finance the deficit are noteworthy features.

The monetary aggregates in Oman continued to expand during 2016, albeit with some moderation, but still ended with a broad money growth of 5.6 percent on a year-on-year basis as at the end of September 2016. Given the low inflationary environment and the slowdown in economic activities, the CBO continued with its accommodative monetary policy stance. Broad money stock M2 stood at RO 15.5 billion at the end of September 2016, up from RO 14.7 billion a year ago, registering an increase of 5.6 percent during the period which fully supported non-oil economic activities in the real sector.

Despite the drop in crude oil prices and a general slowdown in economic activities, the balance sheet of other depository corporations (includes all conventional banks as well as Islamic banks and windows banks) continued on the growth path with increased accretion to deposits and credit. The total outstanding credit extended by the other depository corporations stood at RO 21.8 billion as at the end of September 2016, a rise of 11.0 percent over the level witnessed a year ago. Total deposits registered a growth of 4.9 percent to RO 20.4 billion as at the end of September 2016.

The weighted average interest rate on Rial Omani deposits which stood at 0.894 percent in September 2015, edged up to 0.936 percent in December 2015 and further to 1.349 percent in September 2016, while the weighted average RO lending rate increased from 4.790 percent in September 2015 to 5.030 percent in September 2016. The overnight domestic call money rates have been firming up in recent period from 0.189 percent in December 2015 to 0.412 percent in June 2016, before dipping slightly to 0.403 percent in the month of September 2016. The lending rate in foreign currency, which was 2.511 percent in September 2015, rose to 3.091 percent by September 2016.

Merchandise exports of the Sultanate declined sharply by 27.1 percent to RO 7,731 million in January-September 2016 while the value of merchandise imports (on c.i.f. basis) dropped by 21.4 percent to RO 6,563 million. Consequently, merchandise trade balance registered a smaller surplus of RO 1,168 million in January- September 2016 - a decrease of 48.1 percent over the same period a year ago. The recent trend in merchandise trade indicates that current account deficit in 2016 would widen further. It is anticipated that the current account deficit would be financed partly by draw-down of Government reserves and partly by increase in net loans of the general Government under the financial account. Reflecting the country's overall balance of payments position, the gross foreign assets of the CBO during the first three quarters of 2016 increased by 12.4 percent to RO 7,583.0 million from RO 6,745.8 million at the end of December 2015.

Outlook

World growth is projected to accelerate to 3.4 percent in 2017 as per the IMF’s January 2017 update of World Economic Outlook (WEO). It is anticipated that economic growth would gain traction in AEs in 2017. This projection is somewhat uncertain in view of the uncertainty surrounding the policy stance of the incoming administration in the US. It is expected that fiscal push in the US would lead to higher outturn. The key determinant of the better global outlook, however, is the projected upturn in EMDEs' growth. A number of large economies currently experiencing macroeconomic stress are expected to witness gradual normalization of conditions. The average price of oil (U.K. Brent, Dubai Fateh and West Texas Intermediate crude) has declined markedly to US$ 42.7 per barrel in 2016 from US$ 50.79 per barrel in 2015. Key factors such as weaker global growth, increasing crude oil supply, a strong US dollar, receding geopolitical risks and OPEC's agreement to cut output have imparted a lot of volatility to oil prices in 2016. In its January 2017 update of World economic Outlook, the IMF indicates that the assumed price of oil is US$ 51.2 per barrel for 2017, based on future markets.

As the international oil prices firm up pending implementation of the production cut by both OPEC as well as non-OPEC sources in the coming six months, there would be some degree of relief for the GCC countries. However, with present level of oil price falling short of break-even price for fiscal sustainability in the medium-term, the wide gap in oil revenues in GCC countries would continue to lead to further erosion of the fiscal buffers, expansion of external debt and partial privatization of public assets. It is also anticipated that the current account balance would continue to be negative for some of these countries. The GCC countries would have to undertake several policy measures to mitigate the risks associated with the twin deficits.

The hydrocarbon sector remains the dominant sector of the Omani economy. The share of petroleum sector as a percentage of GDP stood around 34 percent in 2015, while oil and gas revenues accounted for around 79 percent of government revenues and about 59 percent of total merchandise exports in 2015. The high reliance on oil revenues implies that the economy is subjected to the vicissitudes of the global oil market. In order to insulate the Omani economy from the volatility of hydrocarbon prices, which can be a key source of macroeconomic instability, diversification of the economy is essential.

The decline in oil price has enhanced the urgency for Oman to undertake fiscal adjustments and reform measures. The State General Budget 2017 envisages meaningful fiscal reforms based on efficient and effective resources allocation. On the revenues side, the government would improve its tax collection from higher corporate taxes and customs revenues through effective infrastructure. On the expenditure side, measures have been initiated to bring about better targeting of subsidies. Another important objective has been to rein current expenditure, which is mainly in the form of current consumption and at the same time allocate adequate investment for the infrastructure projects of strategic importance. The objective is to contain the fiscal deficit with relevant policies on the revenue as well as the expenditure side.

The government plans to finance potential fiscal deficits by expanding its long term borrowing in the domestic market through government bonds/Sukuk and by raising external borrowings. Borrowing domestically would also facilitate financial deepening as well as developing a yield curve. While raising resources by the government from the domestic sources, there is close coordination between the government and the CBO to tap the market at appropriate time and to closely monitor any impact such borrowings would have on liquidity condition of banks to ensure that required credit to the productive sector is met. Taking advantage of country's international credit rating and low interest rate prevailing abroad, it is important to rely primarily on international borrowing to finance government deficits rather than drawing from reserves.

Mid-Year Review of the Omani Economy 2016

I. Global Economic Situation

Global economic activity stagnated in 2016 on account of subdued growth in the advanced economies (AEs) notwithstanding pick-up in growth in emerging market economies (EMEs). The slowdown in global growth was characterized by weak private investment, slowdown in public investment and plummeting global trade. Economic activity in the advanced economies (AEs) lost traction weighed down by weak demand, persistently low inflation, remaining crisis legacy issues, and setback following the UK vote to leave the European Union. Growth in the emerging market and developing economies, which portrayed a diverse picture, showed improvement. The International Monetary Fund (IMF) in its January 2017 update of World Economic Outlook (WEO), projected global growth at 3.1 percent in 2016, a shade lower than 3.2 percent growth recorded in 2015. For 2017, global outturn is expected to strengthen at 3.4 percent. The AEs' growth is projected to decelerate to 1.6 percent in 2016 as compared with 2.1 percent in 2015. GDP growth for Emerging Market and Developing Economies (EMDEs) are projected at 4.2 percent in 2016, marginally higher than 4.0 percent in 2015. The growth rate of countries in the Gulf Cooperation Council (GCC) is expected to edge down from 3.4 percent in 2015 to 1.7 percent in 2016 and thereafter rise to 2.3 percent in 2017. Inflation in the GCC countries firmed up at around 3.6 percent in 2016 and is expected to slip marginally to 2.6 percent in 2017 (Table 1).

Economic activity in the United States has been expanding at a moderate pace since the mid-2015, supported by upturn in residential and nonresidential fixed investment, acceleration in private inventory investment and rise in state and local government spending. The US dollar appreciation together with the weakening external demand, however, led to subdued exports, an acceleration in imports and softening of personal consumption expenditure. Real GDP increased at a healthy rate of 3.5 percent in the third quarter of 2016 and moderated subsequently to 1.9 percent in the fourth quarter. The labor market continued to strengthen, while inflation too increased during 2016, although remaining still below the 2 percent longer term objective, partly reflecting previous decline in energy prices and in prices of non-energy imports. Consequently, the US Federal Reserve has raised the target range for the Federal funds rate on December 14, 2016 to 0.5 percent to 0.75 percent. The US monetary policy stance remains accommodative characterized by gradual tightening of monetary and financial conditions.

Table 1: Global Economic: Key Indicators

(Percent)

	2014	2015	2016 *	2017*
1. World Output (Growth Rate)	**3.4**	**3.2**	**3.1**	**3.4**
Advanced Economies	**1.9**	**2.1**	**1.6**	**1.9**
• United States	2.4	2.6	1.6	2.3
• Euro Area	1.1	2.0	1.7	1.7
• Japan	0.0	1.2	0.9	0.8
• United Kingdom	3.1	2.2	2.0	1.5
Emerging and Developing Economies	**4.6**	**4.1**	**4.1**	**4.5**
• Emerging and Developing Asia	6.8	6.7	6.3	6.4
• China	7.3	6.9	6.7	6.5
• India	7.2	7.6	6.6	7.2
Latin America and the Caribbean	1.3	0.1	-0.7	1.2
Middle East and North Africa	2.8	2.5	3.8	3.1
• GCC Countries	3.3	3.4	1.7	2.3
2. World Trade Volume (goods and services)	**3.4**	**2.7**	**1.9**	**3.8**
3. Consumer Prices				
Advanced Economies	1.4	0.3	0.7	1.7
Emerging and Developing Economies	5.1	4.7	4.5	4.5
• GCC Countries	2.6	2.5	3.6	2.6

* Projection

Source: World Economic Outlook, October 2016 and January 2017 Update, IMF and Regional Economic Outlook, Middle East and Central Asia, October, 2016.

In the Euro area, the economic recovery continued, albeit moderately, aided mainly by resilient domestic demand, accommodative monetary policy stance, expected global recovery, past improvement made in deleveraging across sectors and strengthened job market. Inflation is expected to rise sharply gaining support in the short term from the turnaround in oil prices. In Japan, economic recovery has taken hold, firmly supported by pick-up in exports, industrial production and improvement in private consumption. As business fixed investment and private consumption continue to improve due to yen's depreciation and wealth effect emanating from rise in equity prices, economic growth may gain momentum in 2017 aided by Japanese government's large-scale stimulus measures. Preliminary data on third quarter for the United Kingdom indicate stronger-than-expected growth rates where domestic demand continued to hold steady than expected in the aftermath of the Brexit vote. In China, there is gradual slowdown and rebalancing of economic activity away from investment and manufacturing toward consumptions and services. China's GDP is projected to decline marginally from 6.9 percent in 2015 to 6.7 percent in 2016. Strong growth in consumption and further shift from activity from industry to services on policy stimulus and robust credit growth indicated rebalancing was progressing in the intended path. India's economic outturn which continued to grow robustly till second quarter of 2016 fiscal year due to large improvement in terms of trade and meaningful policy actions has been revised downwards by one percentage point in 2016 and 0.4 percentage point in 2017 essentially due to negative consumption shock on account of withdrawal of legal tender characteristics of high denomination currency. In Latin America and the Caribbean, the GDP growth is projected to contract in 2016 reflecting the recession in Argentina and Brazil and economic distress in other countries. The growth for the GCC countries is projected lower at 1.7 percent in 2016 as relatively lower energy prices, geopolitical tensions and domestic strife continued to pose challenges.

World Trade Organization, in its Press Release issued in September 2016, has lowered its forecast for world merchandise trade volume growth to 1.7 per cent in 2016 (from 2.8 percent forecast made in April 2016) and further reduced its estimate for 2017 to a range between 1.8 percent and 3.1 percent (from 3.6 percent projected in April 2016). Growth in volume of world trade is hovering below the growth of world GDP in 2016, for the fifth consecutive year, rather than being twice as fast in the 1990s and early 2000s. In its January 2017 Update of World Economic Outlook, the IMF predicts that the growth in world trade volume in goods and services would be at 1.9 percent in 2016 and 3.8 percent in 2017.

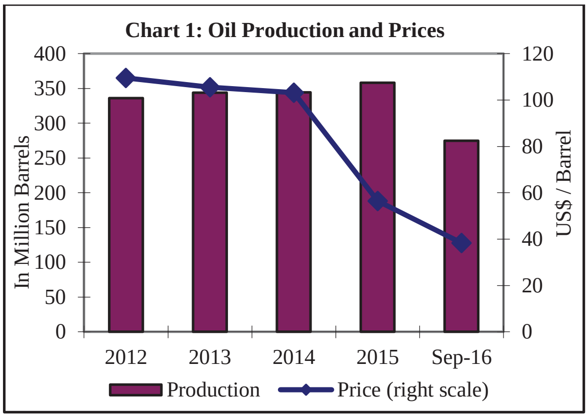
International financial markets have been characterized by abatement of short-term risks since April 2016, assisted by firming-up of commodity prices, easing of concern regarding China’s near-term prospects and expectation of lower interest rates in advanced countries. The Brexit vote took the global financial markets by surprise. However, the initial turbulence was absorbed by markets despite large adjustment in asset prices subsequently with contingency plans and central banks’ communication. European Central Banks’ asset purchase program and other measures smoothened the market realignment and prevented contagion. Long-term nominal and real interest rates have risen since August 2016, particularly in the UK and in the US since the November election. Medium-term risks, on the other hand, are on the ascendance in the milieu of increased political uncertainty. Pursuits of more expansionary US fiscal policy and protectionist trade policy would have significant but contrasting impact on the global economic activity which is marred by weak growth and decreasing global trade. The US Federal Reserve has increased the short-term interest rates in December 2016, but the accommodative monetary policy stance pursued by other advanced economies continues with challenges of low interest rates to the banks, insurance and pension funds. The US dollar has witnessed appreciation in real effective terms since August, whereas currencies of advanced commodity exporters have also strengthened reflecting upturn in commodity prices. On the other hand, the euro and the Japanese Yen have depreciated and several emerging market currencies also weakened substantially.

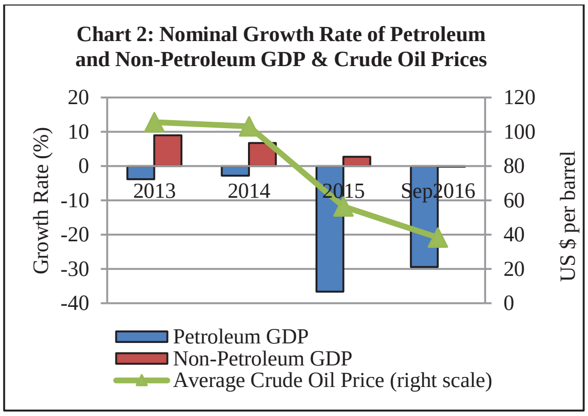
The international oil market witnessed unfolding of events in 2016 ranging from oil-price touching below USD 30 per barrel in January to OPEC agreement on output cut in November – a first since 2008 and securing a reduction in output from non-OPEC exporters too. The decline in international oil prices touched the level of around USD 28 per barrel in January 2016 on account of strong supply from members of OPEC and Russia, anticipation of augmented supply from Iran, concerns about the resilience of global demand and medium term growth prospects. The International Energy Agency (IEA), in its November 2016 Oil Market Report, has projected global oil demand for 2016 reaching at 96.3 million barrels a day (mb/d). On the other hand, global supply has eased from 96.6 mb/d in 2016 Q1 to 96.0 mb/d in 2016 Q2 and thereafter rising sharply to 97.2 mb/d in 2016 Q3. The Organization of the Petroleum Exporting Countries (OPEC) agreed on November 30, 2016 to a historic production cut of 1.2 million barrels per day (bpd) which included coordinated action with non-OPEC member Russia. The OPEC output cut is likely to give a positive support to oil price in the short term while in the long term, it will depend on the response from non-OPEC producers. In its January 2017 update of World Economic Outlook, the IMF indicates that the average crude oil price was US$ 50.79 per barrel in 2015 and based on future markets, the assumed price for 2016 is US$ 42.7per barrel and for 2017 is US$ 51.2 per barrel.

II. Domestic Output Growth

Notwithstanding the recent upturn, oil prices - the crucial driver of the outlook for the oil exporting economy like Oman - remained relatively low in 2016. Economic activity in the Sultanate is projected to be subdued despite sustained expansion in hydrocarbon output. Preliminary national accounts data for the Sultanate of Oman pointed to a 9.0 percent drop in nominal Gross Domestic Product (GDP), contracting to RO 17.9 billion over the period January-September 2016 as compared to a more pronounced decrease of 16.0 percent over the same period in 2015.

The GDP component emanating from the petroleum sector registered a decline of 29.4 percent while the non-petroleum sector GDP decreased by 0.2 percent. The 29.4 percent fall in the petroleum sector GDP primarily reflected a 36.0 percent decline in average Omani crude oil price between the two periods under review. Consequently, the contribution of the hydrocarbon sector to the nominal GDP dropped to 28.2 percent or RO 5.0 billion over the period January- September 2016 (Appendix Table 1 and Charts 1 and 2).





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

While the average Omani crude oil price declined sharply to US$ 38.3 per barrel over the period January-September of the current year from US$ 59.8 over similar period last year, daily average production increased by 2.6 percent to 1,003.2 thousand barrels. The cumulative oil production during January- September 2016 reached 274.9 million barrels against 267.1 million barrels over the same period in 2015. The crude petroleum sector remained highly dominant in terms of contribution to the petroleum sector with 23.1 percent of value addition to the nominal GDP in contrast to 5.2 percent value addition from the natural gas sector.

Table 2: Oil Prices, Production & Exports

Year	**Oil Prices** (US$ per Barrel)	**% Change**	**Oil Production** (Million Barrels)	**% Change**	**Oil Exports** (Million Barrels)	**% Change**
2008	101.1	55.1	277.0	6.8	216.7	-2.4
2009	56.7	-43.9	296.6	7.1	242.9	12.1
2010	76.6	35.1	315.6	6.4	268.7	10.6
2011	103.0	34.5	323.0	2.3	266.4	-0.9
2012	109.6	6.4	336.2	4.1	279.8	5.0
2013	105.5	-3.7	343.8	2.3	304.2	8.7
2014	103.2	-2.2	344.4	0.2	292.2	-3.9
2015	56.5	-45.3	358.1	4.0	308.1	5.5
2016						
Jan-Mar	34.8	-43.9	90.9	4.6	83.9	7.1
Jan-June	35.0	-41.0	182.1	3.6	164.6	6.3
Jan-Sep	38.3	-36.0	274.9	2.9	241.4	3.8

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

Analyzing the extent of the economic diversification process, in nominal terms, the non-petroleum industrial sector fell slightly by 4.3 percent during the period January-September 2016. Among the non-petroleum industrial activities, manufacturing sector pointed to a decline of 18.9 percent, more pronounced than a trend witnessed over similar period last year that saw a slight decline of 1.6 percent. In contrast, other major non-petroleum industrial sectors such as ‘construction’, ‘electricity and water supply’ and ‘mining and quarrying’ grew by 10.9 percent, 5.5 percent, and 3.2 percent, respectively.

Regarding the service sector, the period January- September 2016 witnessed about 1.0 percent upturn where major activities such as wholesale and retail trade fell by 18.4 percent, transport and communications declined by 7.2 percent, while public administration and defense registered growth at 13.8 percent, real estate services at 6.3 percent, and financial intermediaries at 4.0 percent.

Lower oil prices resulted in lower growth in countries that are highly reliant on hydrocarbon exports mainly through reduction in government spending. Faced with lower revenues, government tends to cut back expenditure and in anticipation of these cuts, households and corporates are likely to hold back consumption and investments. Oman’s real GDP growth is projected to rise at 3.3 percent in 2015, 1.8 percent in 2016, and 2.6 percent in 2017 (IMF, World Economic Outlook, October 2016).

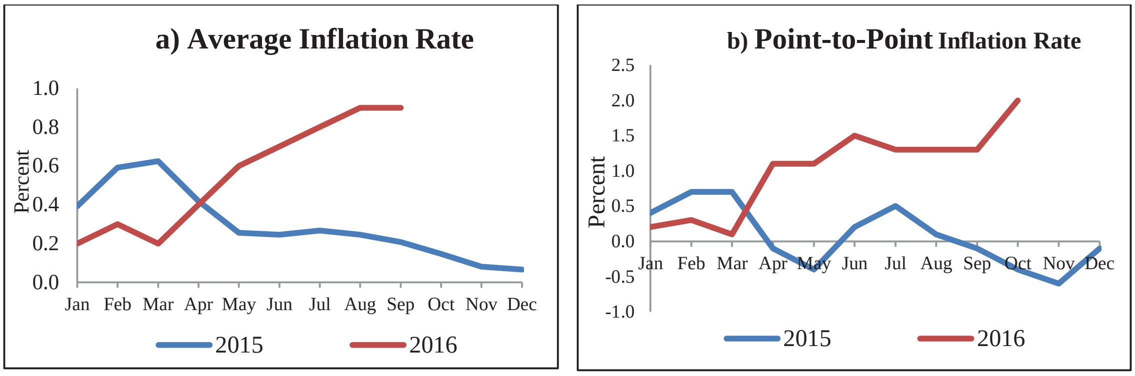
III. Price Situation

The muted growth prospects have kept the underlying inflation low in the Omani economy. However, energy price reforms and imposition of higher user fees are expected to induce headline inflation to edge up to around 1-1.5 percent in 2016.

From a global perspective, inflation is projected to rise to 0.7 percent in 2016, higher than 0.3 percent in 2015 in advanced economies, mainly due to modest recovery in economic activities and continuation of accommodative monetary policy stance. In emerging market and developing economies, the inflation rate is estimated to drop marginally to 4.5 percent in 2016, from 4.7 percent in 2015 (IMF, World Economic Outlook Update, January 2017). Consumer inflation in Oman compare favorably with that of Gulf Cooperation Council (GCC) countries which is projected to rise to 3.6 percent in 2016 from 2.5 percent in 2015. As imported inflation is a key determinant in Oman's headline inflation rate, the overall increase in inflation rates in case of its trading partners is expected to affect the price situation in the Sultanate.

Inflation in the Sultanate of Oman had softened in 2015 due to the decline in international commodity prices, reduced government spending and notable appreciation of US Dollar in real effective terms. During the period between January-September 2016, it registered a modest rise due to revision in energy prices, user fees and turnaround in global commodity prices. Annual inflation rate measured by the movement in the average CPI for the Sultanate was benign at 1.0 percent in 2014, a shade lower than 1.1 percent in 2013. Reflecting the global trend, the average inflation based on CPI for the Sultanate (base 2012) which has weakened to 0.1 percent in 2015 increased modestly to 0.9 percent in Jan.-Sept. 2016. When measured in terms of point to point rather than based on average, the CPI for the Sultanate pointed to inflation of 1.3 percent at end-September 2016.

Chart 3: Inflation Rate (CPI for the Sultanate)



Source: National Center for Statistics and Information.

Commodity-wise, inflation rate remained subdued for most of the commodities during January-September 2016 except in case of 'education' (3.0 percent), 'health' (1.3 percent), 'housing, water, electricity, gas & other fuels' (0.8 percent) and 'tobacco' (0.5 percent) (Appendix Table 2 and Table 3). On the other hand, there were decline in prices of certain classifications such as 'Food & non-alcoholic beverages', 'recreation and culture', 'communication' and 'Clothing & Footwear' which was partly offset by 4.9 percent increase in 'transport' due to removal of fuel subsidies.

In the first three quarters of 2016 (January-September), though the overall inflation remained low, the contribution of 'transport' to overall inflation had been high and explained around 104.4 percent of increase in prices during the period January-September 2016. The contribution of the two classifications 'Housing, water, electricity, gas and other fuels' and 'Education' has also aided to overall inflation by 23.5 percent and 4.6 percent, respectively, during January-September 2016. Overall, these three commodities have contributed 132.5 percent of increase in inflation during the first three quarters of 2016 (Table 4). On the other hand, contribution to inflation from 'Foods & non-alcoholic beverages', 'communication' and 'Clothing & Footwear' were negative during January-September 2016, offsetting the increase in prices of other commodities.

Table 3: Sultanate Consumer Price Index: Annual Percent Change
(Base 2012=100)

(Percent)

Items of Consumption	Weights	2005	2010	2013	2014	2015	2016@
1 Food,& non- alcoholic beverages	23.903	4.4	1.8	2.8	1.7	-0.8	-1.1
2 Tobacco	0.125	-0.1	0.9	1.5	0.8	3.6	0.5
3 Clothing & Footwear	5.961	0.7	0.0	1.8	-0.3	-0.9	-0.1
4 Housing, Water, Electricity, Gas and Other Fuels	26.477	0.0	4.4	0.5	1.0	0.4	0.8
5 Furnishings, household equipment & routing household maintenance	3.787	0.3	0.6	2.2	5.5	1.5	0.6
6 Health	1.161	0.1	0.6	1.5	5.0	3.4	1.3
7 Transport	19.167	4.3	3.5	0.5	-0.6	-0.1	4.9
8 Communication	5.633	-9.7	0.3	-2.3	0.1	0.5	-0.2
9 Recreation and Culture	1.135	-0.7	1.7	-1.1	1.0	-0.1	-0.3
10 Education	1.368	1.9	4.7	4.2	5.9	4.1	3.0
11 Restaurants and Hotels	6.098	0.1	4.3	1.1	1.1	0.3	0.2
12 Miscellaneous goods and services	5.185	4.0	14.6	0.3	0.0	-0.1	0.2
GENERAL PRICE INDEX	**100.0**	**1.9**	**3.3**	**1.1**	**1.0**	**0.1**	**0.9**

@: Data pertain to January-September, 2016.
Source: National Center for Statistics and Information.

Global commodity prices after recording sizeable decreases in 2014 and 2015, have turned around in 2016. There have been notable price improvements in case of fuels, especially for oil and coal. Metal prices, however, continued to decline on account of a rebalancing of Chinese economy from commodity-intensive investment to consumption-led growth. Policy stimulus by China has provided some support to prices in recent period. According to the IMF latest estimates, metal prices are projected to decline by 23.1 percent in 2015 and by 7.5 percent in 2016, before rising 1.7 percent in 2017. Food prices showed some improvement in most items, except few items like corn and wheat during 2016. The IMF projections indicate that food prices declined by 15.7 percent in 2015 and would rise by 1.3 percent in 2016, 0.2 percent in 2017. The larger weight of food items in the consumer price index of the Sultanate is expected to keep inflation low in 2017.

Table 4: CPI Sultanate (Base 2012=100): Weighted Contribution in Percent

(Percent)

Items of Consumption	Weights	2010	2012	2013	2014	2015	2016*
1 Foods & non-alcoholic beverages	23.903	13.5	17.9	60.8	40.6	-183.0	-29.2
2 Tobacco	0.125	0.0	0.3	0.2	0.1	4.5	0.1
3 Clothing & Footwear	5.961	0.0	5.5	9.8	-1.8	-53.6	-0.7
4 Housing, water, electricity, gas and other fuels	26.477	35.3	19.9	12.0	26.5	105.9	23.5
5 Furnishings, household equipment & routine household maintenance	3.787	0.8	5.7	7.6	20.8	56.8	2.5
6 Health	1.161	0.2	1.0	1.6	5.8	39.5	1.7
7 Transport	19.167	20.4	17.8	8.7	-11.5	-19.2	104.4
8 Communication	5.633	0.6	-8.0	-11.8	0.6	28.2	-1.3
9 Recreation & Culture	1.135	0.6	1.0	-1.1	-0.1	-1.1	-0.4
10 Education	1.368	1.7	7.2	5.2	8.1	56.1	4.6
11 Restaurants and Hotels	6.098	8.1	2.4	6.1	6.7	18.3	1.4
12 Miscellaneous and Services	5.185	18.0	9.6	1.4	0.0	-5.2	1.2
General Index	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

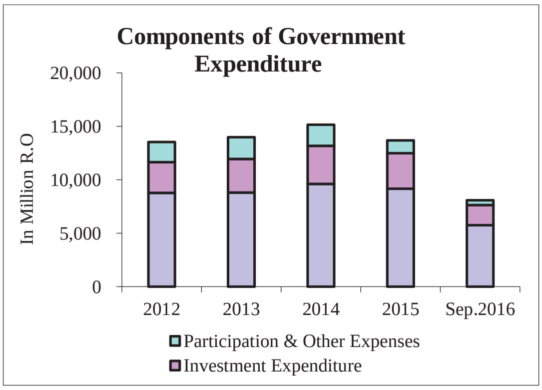
@: Data pertains to January-September, 2016.
Source: National Center for Statistics and Information.

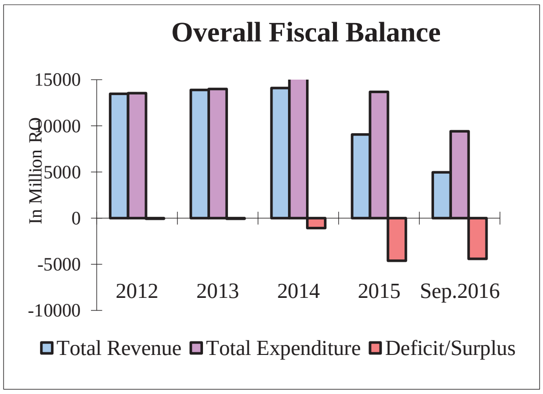
IV. Fiscal Position

Due to weaknesses in average oil prices in the first nine months of 2016, Oman experienced a larger government revenue gap in January-September 2016. The sharp drop in fiscal revenue, outstripping the modest reduction in fiscal expenditure led to widening of fiscal deficit under the period under review. Oman registered a budget deficit of RO 4,427.2 million during January-September 2016 compared to a deficit RO 2,934.3 million over the same period a year ago (Table 5). During the first nine months of 2016, government revenues decreased by 25.8 percent to RO 4,977.5 million, while government expenditure declined by 2.5 percent to RO 9,404.7 million (Chart 4 and Appendix Table 3).

Net oil revenue (gross oil revenue less transfers to reserve funds) declined by 42.4 percent while gas revenues recorded a decrease of 6.2 percent between the two periods under review. Other current revenues which consist of taxes and fees, as well as other forms of non-tax revenues, however, pointed to a rise of 9.9 percent reflecting the revision in user fees for government services. The notable contraction in oil and gas revenues in the first nine months of the current year is indicative of the fiscal challenges that the Sultanate is expected to face in the immediate future as oil prices are projected to remain below the assumed prices at US$ 45 in the State Budget, 2016. Omani crude oil price averaged US$ 38.3 per barrel in the first nine months of 2016 compared to US$ 59.8 over similar period last year, representing a decrease of about 36 percent.

Chart 4: Government Expenditure and Overall Fiscal Balance



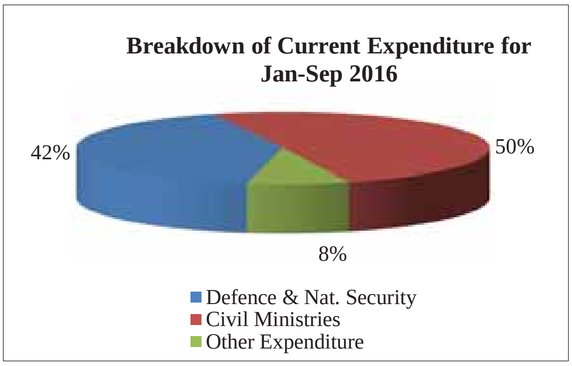


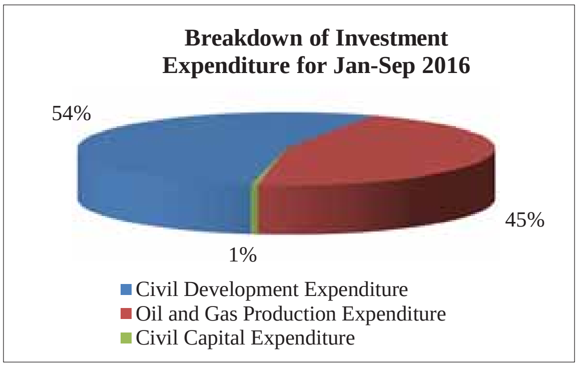
Source: Ministry of Finance.

The modest 2.5 percent drop in total government expenditure registered in the first nine months of the current year was essentially a result of decrease in capital expenditure and participation and other expenses coupled with a marginal fall in current expenditure (Table 6). Current expenditure declined by 1.3 percent due to 3.2 percent decrease in expenditure on civil ministries given its share of 50.3 percent in current expenditure and about 31 percent of total government expenditure. In the attempt to offset some of the losses in government revenues due to low prices in hydrocarbons through production boost, current expenditure on gas production increased by 21.4 percent between the two periods under review. Current expenditure on defense and national security, however, increased by 2.6 percent. Together, current expenditure on defense and national security and similar expenditure on civil ministries accounted for 92.1 percent of current expenditure and about 56 percent of total government expenditure in the first nine months of the current year.

Capital expenditure recorded a sharp decrease of 14.5 percent owing to 24.5 percent decline in civil ministries expenditure and 0.7 percent fall in gas production expenditure partly mitigated by a 3.4 percent rise in oil production expenditure. Capital expenditure on civil ministries accounted for about 55 percent of total capital expenditure in January-September 2016. Implementation of subsidy reforms by linking energy and retail petrol prices to international prices translated into overall lower expenditure on participation and other expenses.

Chart 5: Pattern of Government Expenditure





Source: Ministry of Finance.

Table 5 : Fiscal Balance in Oman

(Rial Omani Million)

	2011	2012	2013	2014	2015*	Jan-Sep 2015	Jan-Sep 2016
I. REVENUES	**10624.7**	**13474.5**	**13907.6**	**14107.5**	**9067.5**	**6711.6**	**4977.5**
(i) Oil and Gas Revenues	8971.3	11415.0	11924.8	11892.8	7140.6	5326.7	3455.4
(ii) Other Revenues	1653.4	2059.5	1982.8	2214.7	1926.9	1384.9	1522.1
II. TOTAL EXPENDITURE	**10737.9**	**13555.1**	**13990.2**	**15171.8**	**13698.9**	**9645.9**	**9404.7**
1. Current Expenditure	**6103.8**	**8772.7**	**8822.0**	**9606.2**	**9164.0**	**5826.5**	**5750.7**
(i) Defence & Nat. Security	2563.7	4742.5	4494.2	4210.8	3862.2	2343.0	2403.9
(ii) Civil Ministries	3186.9	3503.3	3848.5	4762.7	4722.6	2987.5	2890.5
(iii) Other Expenditure	353.2	526.9	479.3	632.7	579.2	496.0	456.3
2. Investment Expenditure	**2959.5**	**2886.5**	**3120.0**	**3584.2**	**3315.2**	**2214.5**	**1892.8**
(i) Civil Ministries	1925.8	1708.5	1805.0	2165.6	1870.2	1366.3	1031.5
(ii) Oil Production	624.3	659.9	752.7	748.1	774.3	467.3	483.2
(iii) Gas Production	409.4	518.1	562.3	670.5	670.7	380.9	378.1
3. Participation & Other Expenses	**1674.6**	**1895.9**	**2048.2**	**1981.4**	**1219.7**	**754.9**	**461.2**
III. SURPLUS/DEFICIT (I-II)	**-113.2**	**-80.6**	**-82.6**	**-1064.3**	**-4631.4**	**-2934.3**	**-4427.2**

Note: For January-September 2016, total expenditure includes RO 1300.0 million as actual expenditure under settlement, while for 2015 actual expenditure under settlement was RO 850 million.

* Provisional.

Source: Ministry of Finance.

The aggregate Government debt of the Sultanate stood at RO 6,681 million as at the end of September 2016, or 94.0 percent higher than the aggregate debt at the end of December 2015. The fiscal deficit is being mostly financed by external borrowings taking advantage of the low interest rates prevailing abroad and partly by domestic borrowing. While total external debt stood at RO 4,074 million at the end of September 2016, a rise from RO 906 million at the end of December 2015, total domestic debt increased slightly by 2.7 percent mainly on account of rise in

Government Development Bonds. The external debt is expected to rise further in near future as the government opts for external financing of the widening fiscal deficit.

Table 6 : Growth in Revenue and Expenditure

(Percent)

	2011	2012	2013	2014	2015*	Jan-Sep 2016/2015
I. REVENUES	**34.2**	**26.8**	**3.2**	**1.4**	**-35.7**	**-25.8**
(i) Oil and Gas Revenues	40.2	27.2	4.5	-0.3	40.0	-35.1
(ii) Other Revenues	9.0	24.6	-3.7	11.7	-13.0	9.9
II. TOTAL EXPENDITURE	**34.8**	**26.2**	**3.2**	**8.4**	**-9.7**	**-2.5**
1.Current Expenditure	**27.4**	**43.7**	**0.6**	**8.9**	**-4.6**	**-1.3**
(i) Defense & Nat. Security	35.8	85.0	-5.2	-6.3	-8.3	2.6
(ii) Civil Ministries	21.9	9.9	9.9	23.8	-0.8	-3.2
(iii) Other Expenditure	22.0	49.2	-9.0	32.0	-8.5	-8.0
2.Investment Expenditure	**14.0**	**-2.5**	**8.1**	**14.9**	**-7.5**	**-14.5**
(i) Civil Ministries	13.5	-11.3	5.6	20.0	-13.6	-24.5
(ii) Oil Production	1.8	5.7	14.1	-0.6	3.5	3.4
(iii) Gas Production	42.5	26.6	8.5	19.2	0.0	-0.7
3.Participation & Other Expenses	**190.1**	**13.2**	**8.0**	**-3.3**	**-38.4**	**-38.9**
Memo Item						
Crude Oil Prices (US$ per barrel)	**103.0**	**109.6**	**105.5**	**103.2**	**56.5**	**-36.0**

* Provisional

Source: Ministry of Finance.

While Oman's current level of debt to GDP ratio indicates that there is considerable head room available to increase government debt to sustain the growth momentum, the challenge, however, is the capacity to generate non-hydrocarbon related revenues with implications for debt sustainability.

State General Budget 2017

The current low oil prices, notwithstanding the recent upturn, has significantly exacerbated the fiscal challenges faced by the Omani economy. In this context, it has become imperative to focus on preserving fiscal space for growth-enhancing spending while maintaining fiscal sustainability. The Sultanate's annual State General Budget for the year 2017 (Table 7), approved in the first week of January, has been formulated as a policy response to attain expenditure restraint, broadening of non-oil revenue and greater economic diversification.

With Oman's hydrocarbon sector as the dominant sector of the economy, the low oil prices on a sustained basis has led to substantial reduction in government revenues and widening of fiscal deficits necessitating adoption of a path of fiscal consolidation in the medium term. Ongoing efforts to pursue economic diversification are becoming more critical in the lower oil price environment. The 2017 budget reflects fiscal prudence induced by economic downturn and the projections based on a conservative assumption of oil at USD 45 per barrel and reliance upon external borrowings to finance the deficit are noteworthy features.

Notable measures envisaged to augment non-oil revenues are : (i) Limiting tax exemptions granted for companies and establishments (ii) Introducing taxes on certain commodities such as alcohol and tobacco, (iii) Increasing fees on companies which employ foreign workers, (iv) Increasing fees of civil services provided by Royal Oman Police, (v) Implementing revised tariffs for large consumers of electricity for commercial, industrial and government use, (vi) Implementing standardized fees of municipal services, (vii) Amending rules and regulations pertaining to exemptions of customs duties (viii) Raising of royalty paid by telecommunication service providers from 7 per cent to 12 per cent of revenues in 2017.

The State General Budget for 2017 projects the total revenue of the State for the year at RO 8.7 billion, a slight increase of 1.2 percent over the total revenue of RO 8.6 billion estimated for 2016 Budget. According to the State General Budget 2017, the projected actual public revenue for the fiscal year 2016 is estimated at RO 7.4 billion compared with budgeted amount of RO 8.6 billion, which reflects a decrease of around 14 percent. The projected oil revenue for 2017 is RO 4.45 billion, which constitutes around 51 percent of total revenue. The projected gas revenue at around RO 1.7 billion for 2017 represents 19.5 percent of total revenue. The non-oil revenue is projected at around RO 2.6 billion; registering a 5.7 percent rise over the 2016 budgeted amount demonstrating authorities' attempt to enhance non-oil revenue in the form higher taxes and user fees for the public services.

Total Government expenditure has been projected at RO 11.7 billion during 2017, a decline of 1.7 percent over budgeted expenditure of RO 11.9 billion during 2016. According to the State General Budget, the projected actual expenditure during 2016 was around RO 12.65 billion, an increase of around 6.3 percent over the budgeted amount for 2016. Current expenditure projected at RO 8.5 billion for 2017 represents around 73 percent of total expenditure. The current expenditure of civil ministries are projected at RO 4.4 billion and that of defense and national security at RO 3.3 billion, recording a reduction of 4.7 percent and 4.6 percent, respectively from the 2016 budgeted estimates.

Investment expenditure at RO 2.7 billion comprises 22.8 percent of total expenditure. Investment expenditure mainly covers spending on development projects and capital expenses for the production of oil and gas. The investment expenditure is projected to decline marginally by 0.2 percent during 2017. The expenditure category "participation and other expenses" includes all government subsidies to housing loans, public sector companies and subsidies relating to food, electricity and petroleum products. The expenditure on participation and other expenses at RO 0.5 billion is projected to decline by 2.7 percent on top of a drop of 58.0 percent in 2016. The reforms to reduce fuel and power subsidies by targeting large users would have brought about significant budgetary savings.

Table 7: Budget Estimates

(Rial Omani Million)

ITEMS	2015 Budget	2016 Budget	2017 Budget	% change Budget 2016/ Budget 2015	% change Budget 2017/ Budget 2016
TOTAL REVENUES	**11600.0**	**8600.0**	**8700.0**	**-25.9**	**1.2**
(i) Oil and Gas Revenues	9160.0	6150.0	6110.0	-32.9	-0.7
(ii) Other Revenues	2440.0	2450.0	2590.0	0.4	5.7
TOTAL EXPENDITURE (1+2+3)	**14100.0**	**11900.0**	**11700.0**	**-15.6**	**-1.7**
1. Current Expenditure	**9576.0**	**8680.0**	**8500.0**	**-9.4**	**-2.1**
(i) Defence & National Security	3800.0	3500.0	3340.0	-7.9	-4.6
(ii) Civil Ministries	5166.0	4600.0	4385.0	-11.0	-4.7
(iii) Other Expenditures	610.0	580.0	775.0	-4.9	33.6
2. Investment Expenditure	**3214.0**	**2670.0**	**2665.0**	**-16.9**	**-0.2**
(i) Civil Ministries	1694.0	1370.0	1355.0	-19.1	-1.1
(ii) Oil Production	780.0	700.0	750.0	-10.3	7.1
(iii) Gas Production	740.0	600.0	560.0	-18.9	-6.7
3. Participation & Other Expenses	**1310.0**	**550.0**	**535.0**	**-58.0**	**-2.7**
SURPLUS/DEFICIT	**-2500.0**	**-3300.0**	**-3000.0**	**32.0**	**-9.1**

Source: Ministry of Finance

In the State Budget for 2017, the projected allocations for social sectors have been pruned. The allocations include RO 1.58 billion for education, RO 613 million for health, RO 487 million for social welfare. The State General Budget 2017 will, however, strive to continue vital projects which are deemed essential for diversifications.

Based on total revenue and expenditure, the projected budget deficit for the year 2017 is RO 3.0 billion as compared to RO 3.3 billion estimated in the 2016 Budget. The financing of budget deficit is envisaged in the form of external borrowings of RO 2.1 billion, net domestic borrowing of RO 400 million and drawdown from reserves of RO 500 million.

V. Monetary and Banking Conditions

Monetary policy in the recent period was formulated against the backdrop of economic slowdown, lower inflation, firming-up Rial Omani interest rates on deposits and deficits in fiscal and current accounts. The evolution of monetary aggregates in Oman has been consistent with the accommodative policy stance of the Central Bank of Oman (CBO) aimed at ensuring adequate liquidity in the system, maintaining orderly conditions in the markets and supporting growth. The CBO uses both direct and indirect instruments for liquidity management and thereby tries to achieve monetary stability. As regards direct instruments, the CBO uses the cash reserve requirement and the lending ratio from time to time depending on the circumstances. Indirect instruments include sale of CBO CDs to absorb excess liquidity, which have been essentially suspended and replaced with auctions of Treasury Bills, repo operation to inject liquidity in domestic currency and swap and reverse swap operation for lending in foreign currency to the domestic commercial banks in case of need. Besides the above, the CBO can provide discounting facility to the commercial banks against eligible securities.

The monetary aggregates in Oman continued to expand during 2016, albeit with some moderation, but still ended with a broad money growth of 5.6 percent on a year-on-year basis as at the end of September 2016. Given the low inflationary environment and the slowdown in economic activities, the CBO continued with its accommodative monetary policy stance. As at the end of September 2016, narrow money stock (M1) when measured on a year-on-year basis, registered a marginal fall of 1.7 percent to RO 5.2 billion mainly due to the decrease in demand deposits (3.1 percent) (Table 4). On the other hand, Quasi-money (RO savings and time deposits, certificates of deposit issued by commercial banks, margin deposits and foreign currency denominated deposits) witnessed an appreciable growth of 9.6 percent during the period. Broad money stock M2 (M1 plus quasi-money) stood at RO 15.5 billion at the end of September 2016, up from RO 14.7 billion a year ago, registering an increase of 5.6 percent during the period (Table 8 and Chart 6).

The primary source of monetary expansion during the period under review was the increase in bank's domestic claims on the private sector by RO 2.2 billion (12.9 percent) which was partly offset by decrease in net claims on the Government by RO 473 million. While Government borrowings from the banking system increased by RO 245.8 million as at the end of September 2016 over its level a year ago, the Government deposits reflected a rise of RO 718.7 million. Monetary expansion was mitigated to some extent by the drop in net foreign assets of the banking system mainly arising on account of the decline in the net foreign assets of the CBO. Net foreign assets of the other depository corporations, however, indicated a rise of RO 1154 million over the year (Appendix Table 5).

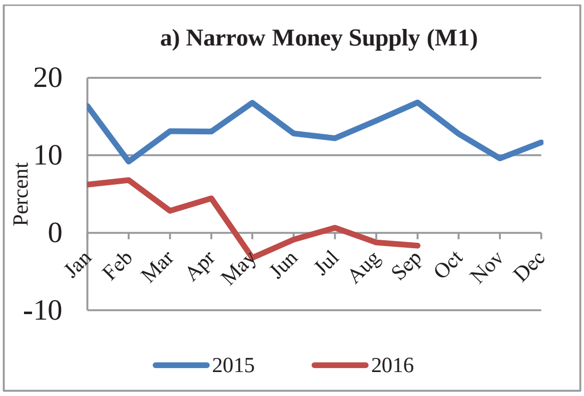
Table 8: Select Monetary Indicators

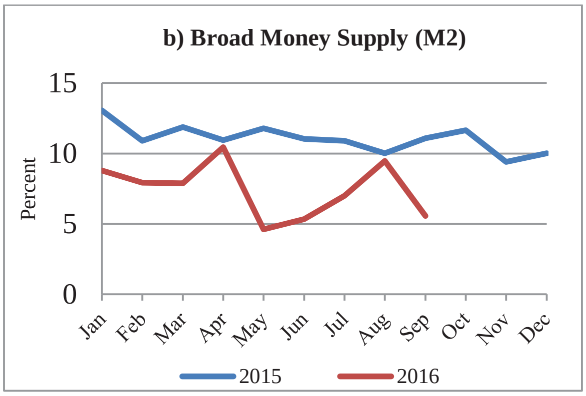
				September	
Monetary Indicators	**2013**	**2014**	**2015**	**2015**	**2016**
1. Reserve Money					
In RO million	2,652.2	3,302.1	5612.4	5789.6	3493.1
Annual Growth Rate	6.4	24.5	70.0	81.2	-39.7
2. Narrow Money M1					
In RO million	3994.9	4,808.0	5368.3	5241.6	5154.0
Annual Growth Rate	14.4	20.4	11.7	16.8	-1.7
3. Broad Money M2					
In RO million	11,937.5	13,766.9	15145.7	14720.1	15539.7
Annual Growth Rate	9.4	15.3	10.0	11.1	5.6
4. CBO's Foreign Assets					
In RO million	6,133.3	6,276.9	6745.8	7221.1	7583.0
Annual Growth Rate	11.2	2.3	7.5	11.6	5.0

Note: Includes Conventional Banks and Islamic Banks and Windows from 2013.

Source: Central Bank of Oman

Chart 6: Monetary Indicators (Y-o-Y Growth in percent)





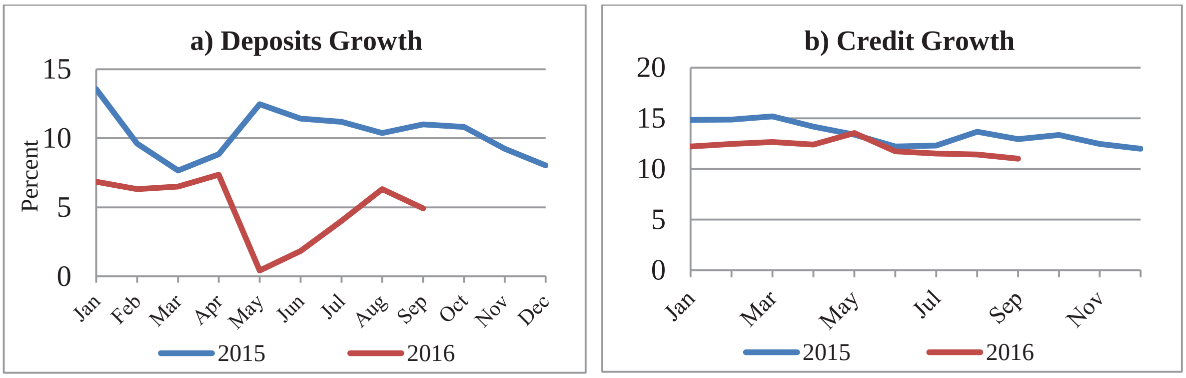
Source: Central Bank of Oman.

Other Depository Corporations (Conventional Banks and Islamic Banks and Windows combined)

Depository corporations refer collectively to the Central Bank and other depository corporations. The other depository corporations consist of financial corporations (except the Central Bank) that issue liabilities included in the national definition of broad money. The other depository corporations combined balance sheet (Appendix Table 7) includes the balance sheet data of all conventional banks as well as Islamic banks and windows. Taken together, it provides a broader overview of the financial intermediation taking place in the banking system in Oman. The total outstanding credit extended by the other depository corporations stood at RO 21.8 billion as at the end of September 2016, a rise of 11.0 percent over the level witnessed a year ago (Chart 7). Credit to the private sector increased by 13.2 percent to RO 19.7 billion as at the end of September 2016. Of the total credit to the private sector, the household sector (mainly under personal loans) and the non-financial corporate sector got an equal share of 45.8 percent each, financial corporations at 5.1 percent and other sectors the remaining 3.3 percent. Total deposits registered a growth of 4.9 percent to RO 20.4 billion as at the end of September 2016. Private sector deposits of the banking system registered a higher growth of 6.5 percent to RO 13.0 billion as at the end of September 2016. Sector-wise, the share of households was 49.0 percent of the total private sector deposit base, followed by non-financial corporations at 28.1 percent, financial corporations at 19.6 percent and the other sectors at 3.3 percent.

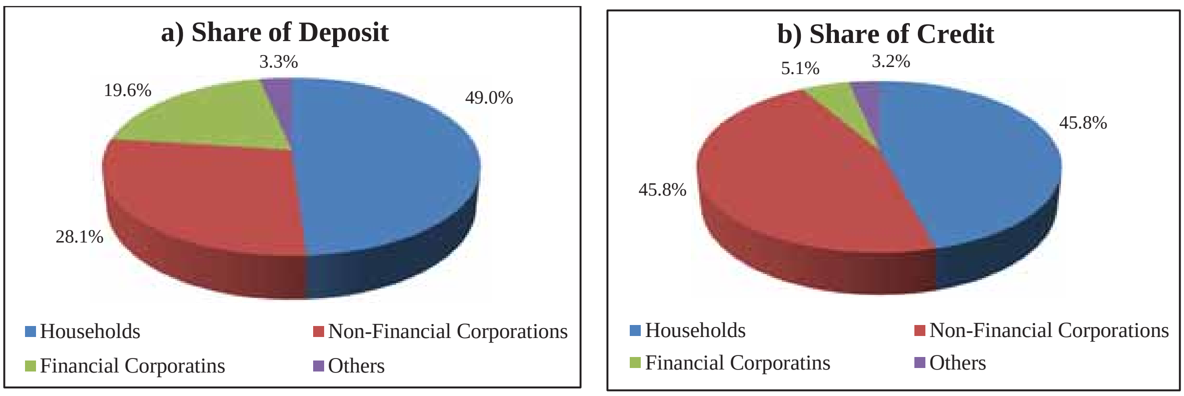
A sectoral flow of funds review indicates that while the household sector held 49.0 percent of the private sector bank deposits at the end of September 2016, their availment of credit stood at 45.8 percent. In absolute terms, however, while the household sector held RO 6.4 billion of deposits with the other depository corporations, their availment of credit stood at RO 9.0 billion. Non-financial corporations while holding 28.1 percent (RO 3.7 billion) of the private sector deposits availed 45.8 percent (RO 9.0 billion) of credit. Financial corporations, on the other hand, held 19.6 percent (RO 2.6 billion) of the deposits while availing just 5.1 percent (RO 1.0 billion) of bank credit (Chart 8).

Chart 7: Growth in Deposits and Credit of Other Depository Corporations (Y-o-Y Growth in percent)



Source: Central Bank of Oman.

Chart 8: Share of Private Sector Deposit & Credit (September 2016)



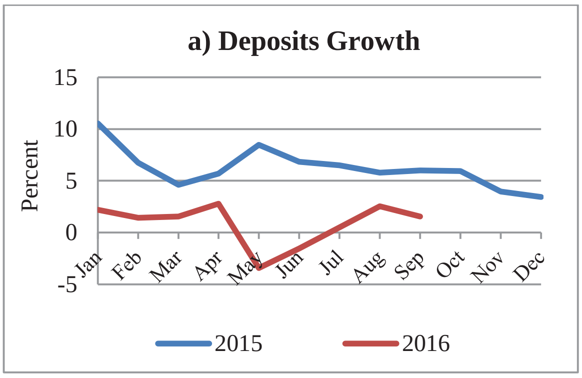
Source: Central Bank of Oman.

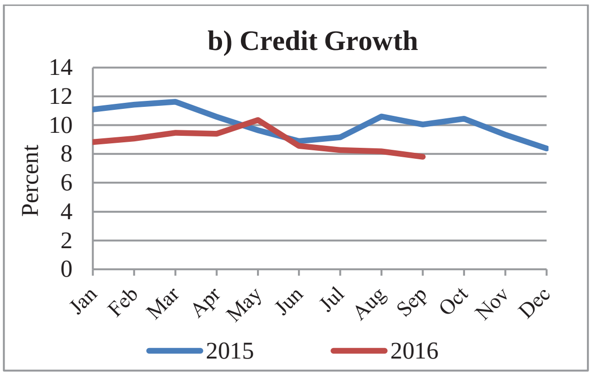
Conventional Banks' Operations

Notwithstanding the challenges facing the economy, the banking sector remained resilient supporting economic diversification initiatives and credit needs thus far. The total assets of conventional banks, however, decreased modestly by 2.8 percent to RO 27.2 billion in September 2016 from RO 27.9 billion a year ago (Appendix Table 6). Of the total assets, credit disbursement accounted for 72.1 percent and increased by 7.8 percent as at end September 2016 to RO 19.6 billion. Credit to the private sector increased by 10.0 percent to reach RO 17.5 billion as at the end of September 2016 (Chart 9). Of the total credit to the private sector, the share of the non-financial corporate sector stood at 46.8 percent, closely followed by the household sector (mainly comprising personal loans) at 44.7 percent, financial corporations at 5.7 percent and other sectors the remaining 2.8 percent. Conventional banks' overall investments in securities stood at RO 2.7 billion as at the end of September 2016. Investment in Government Development Bonds and Government Sukuk increased by 22.8 percent over the year to RO 921.2 million at the end of September 2016. Banks also invested RO 386.7 million in Government Treasury Bills as at the end of September 2016. Conventional banks' investments in foreign securities stood at RO 708.6 million in September 2016.

Aggregate deposits held with conventional banks registered a slight rise of 1.5 percent to RO 18.4 billion in September 2016 from RO 18.1 billion a year ago. Government deposits with conventional banks declined by 4.6 percent to RO 5.0 billion. Deposits of public enterprises increased by 4.0 percent to RO 1.1 billion during the same period. Private sector deposits, which constituted 65.3 percent of total deposits with conventional banks, increased by 3.9 percent to RO 12 billion in September 2016 from RO 11.6 billion a year ago. The core capital and reserves of conventional banks stood at RO 3.7 billion as at the end of the September 2016, a rise of 12.1 percent over the previous year.

Chart 9: Growth in Deposits and Credit of Conventional Banks (Y-o-Y Growth in percent)





Source: Central Bank of Oman.

Islamic Banking

Introduction of Islamic banking since December 2012 is an important milestone in the banking sector in Oman in the recent period. The Government and the CBO have since then vigorously pursued to promote Islamic banking in the Sultanate. Within a short span, two full-fledged Islamic banks were established and six local banks have formed Windows for practicing Islamic banking. Islamic banks have opened up new segments and players and thus added to the competitive environment not only in terms of efficiency and innovation, but by also providing customers the benefit of choosing between both conventional and Islamic banking products. Islamic banking entities provided financing to the extent of RO 2.2 billion as at the end of September 2016 when compared to RO 1.5 billion a year ago. Major part of the credit extended came from the Islamic Windows of conventional banks and the remaining from the two full-fledged Islamic banks which are in the process of gaining greater market share. Total deposits held with Islamic banks and windows also registered a significant increase to RO 2.0 billion in September 2016 from RO 1.3 billion outstanding as at the end of September 2015. The total assets of Islamic banks and Windows combined, amounted to RO 2.8 billion as at the end of September 2016 which constituted about 9.4 percent of the banking system assets.

Regulatory and Supervisory Developments

A well calibrated and gradual approach to banking sector reforms by the CBO such as adoption of risk-based supervision of banks, implementation of Basel accords and the development of modern payment and settlement system has led to the emergence of a strong and resilient banking system over the years. The CBO has mandated minimum regulatory capital for banks at 12 percent of risk-weighted assets and additional capital conservation buffer of 0.625 percent which is higher than that prescribed under Basel norms. Banks in Oman are adequately capitalized with the Basel capital adequacy ratio averaging around 16 percent in June 2016 as against the 12 percent plus the 0.625 percent conservation buffer mandated. The Core Equity Tier 1 (CET1) stood at 13 percent in June 2016. The NPLs edged up modestly to 1.9 percent in June 2016 from 1.8 percent in March 2016. Net NPLs also moved up to 0.7 percent in June 2016 from 0.5 percent in March 2016. Going forward, it is expected that restructured loans may increase slightly. The share of restructured loans to total loans increased to 1.8 percent in June 2016 from 1.5 percent in March 2016. However, there is no discernable deterioration in credit quality on account of economic slowdown due to low oil price. With a view to ease the challenges faced by borrowers due to weakened economic activity and to ensure flow of credit to productive sectors, the specific provisions on restructured loans have been moderated from 15 percent to 5 percent for the year 2016, 10 percent for the year 2017 and 15 percent for the year 2018, with effect from October 20, 2016.

The Basel Committee on Banking Supervision developed the Liquidity Coverage Ratio (LCR) to promote the short-term resilience of the liquidity risk profile of banks by ensuring that they have sufficient high quality liquid assets to survive a significant stress scenario. Omani banks have started implementing the LCR and associated disclosure requirements. Another ratio, called Net Stable Funding Ratio (NSFR) has been developed by the Basel Committee to provide a measure of sustainable maturity structure of assets and liabilities. NSFR will be implemented in 2018 as a minimum standard of 100%, as per Basel Committee’s timeline and guidelines have been issued recently. The CBO will also continuously refine and strengthen the regulatory and supervisory framework in accordance with evolving conditions to foster the march towards sustainable growth and development.

In order to partially offset the weakness in economic activity, there have been intensified efforts related to developing the financial sector, financing the private sector, improving investment climate, and promoting Small and Medium Enterprises (SMEs). With regard to the development of the SME several policy initiatives have been taken including formal targets for credit delivery to this sector. In this context, the CBO advised banks to formulate liberal lending policies for the SME segment and mandated that they should allocate at least 5 percent of their total credit to SMEs.

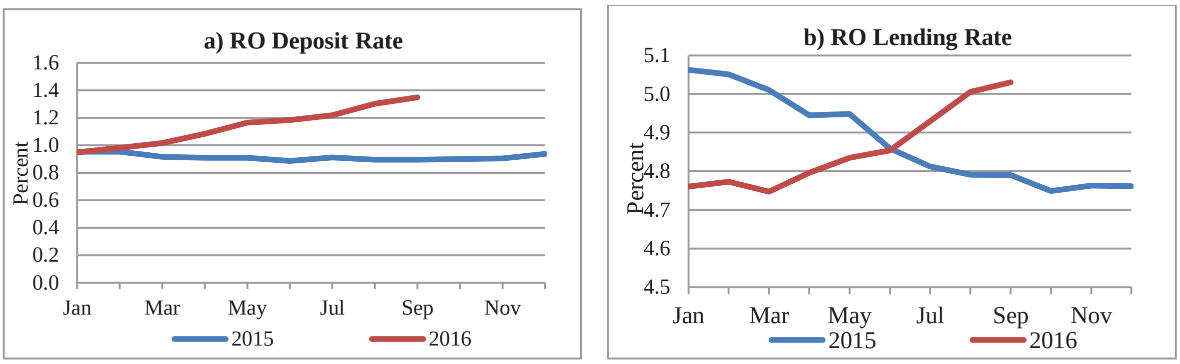
With a view to augment liquidity with banks and to ensure that credit requirements are met, the CBO permitted banks' investments in unencumbered Treasury bills, Government Development Bonds and Oman Government Sukuk to be a part of eligible reserves up to maximum of 2 percent of deposits effective April 1, 2016. However, the reserve requirements remains unchanged at 5 percent. By this action, banks were freed with liquid funds approximately to the tune of RO 400 million increasing the lendable resources of the banks in Oman. The holding of such government securities would also increase the amount of instruments available with banks to obtain liquidity from the Central Bank, in case of need, through discounting or repos of such instruments.

Interest Rate Developments

Interest rates in Oman are generally expected to be closely aligned to the rates prevailing in the US in view of the fixed exchange rate peg. The policy rate such as the CBO CD rates and the repo rate have been in line with the corresponding LIBOR rates. Commencing September 2015, there was no issue of CBO CDs and absorption of bank liquidity has been through the avenue of Government treasury bills. The repo rate that is used to inject liquidity remained constant at 1 percent since March 2012.

The average repo rate stood at 1.025 percent during the month of September 2016. During 2015, with liquidity condition relatively comfortable, both deposits and lending rates in Oman softened. However, some tightening of liquidity conditions is observed in the recent months of 2016, with increased competition among banks for deposit mobilization leading to marginal increase in the level of interest rates. There were two issuances of Government Development Bonds of RO 100 million each with tenor of 5-year and 7-year and average yield of 4.32 percent and 5.25 percent, respectively during the period Jan.- Sept. 2016. The weighted average interest rate on Rial Omani deposits which stood at 0.894 percent in September 2015, edged up to 0.936 percent in December 2015 and further to 1.349 percent in September 2016, while the weighted average RO lending rate increased from 4.790 percent in September 2015 to 5.030 percent in September 2016 (Chart 10 and Appendix Table 8). The overnight domestic call money rates have been firming up in recent period from 0.189 percent in December 2015 to 0.412 percent in June 2016, before dipping slightly to 0.403 percent in the month of September 2016.

Chart 10: Weighted Average Rial Omani Deposit and Lending Rates (%)



Source: Central Bank of Oman.

Since December 2008, banks have been offering lower interest rate on foreign currency deposits compared to Rial Omani deposits. Interest rate on foreign currency deposits moved up to 0.965 percent in September 2016 from 0.847 percent in September 2015. The lending rate in foreign currency, which was 2.511 percent in September 2015, rose modestly to 3.091 percent by September 2016. Commercial banks' spread in foreign currency lending over the foreign currency deposit rate firmed up to 2.126 in September 2016 from 1.664 in September 2015. Interest rates on foreign currency deposit and lending were mostly governed by those prevailing in the international markets, while domestic deposit and lending rates were influenced by domestic demand and supply conditions.

Liquidity conditions in the banking sector so far have continued to remain comfortable with no upward pressure seen with regard to Rial Omani interest rates. However, CBO is closely monitoring the liquidity situation of banks in the light of Government's curtailment of expenditure.

VI. Financial Markets

Well-developed financial markets enable the Central Bank to effectively conduct monetary policy and improve the allocative efficiency of resources. In recognition of the critical role played by the financial sector, Oman has been focusing on developing deeper, liquid, vibrant and integrated banking system and financial markets. It is well recognized that domestic financial system is important to support the growth momentum and diversification of the Omani economy. This also allows risks to be shared more broadly and facilitates the flow of capital to the productive sectors.

Typically, for a small open economy like Oman, financial development is measured by a small set of quantitative variables, such as the ratio of broad money to GDP and the ratio of private sector credit to GDP. The ratio of broad money to GDP is conventionally used as a measure of financial sector deepening, however, such indicators may not be comprehensive enough. When we look at the level of financial deepening based on the simple indicators like ratio of broad money to GDP and ratio of credit to GDP, we find that these ratios have been increasing gradually in Oman. The ratio of broad money to GDP stood at 56.4 percent during 2015. Similarly, the ratio of bank credit to GDP stood at 74.8 percent in 2015, while the ratio of bank deposits to GDP stood at 72.3 percent during the same period. Another indicator that is quite often looked at is the ratio of market capitalization to GDP. With respect to the Omani stock market, this ratio has come down in the last few years in line with other markets of GCC countries and it stood at 58.8 percent in 2015. Looking at these ratios indicate that there is a scope for further financial deepening in Oman.

In Oman, the money market and the foreign exchange market fall within the jurisdiction of the CBO, while the capital market, corporate debt market and the insurance market are regulated by Capital Market Authority (CMA). It is recognized in Oman that the development of vibrant Government securities market and the corporate bond market are important to raise resources from the market in a cost effective manner. The Government, the Central Bank of Oman (CBO), and the Capital

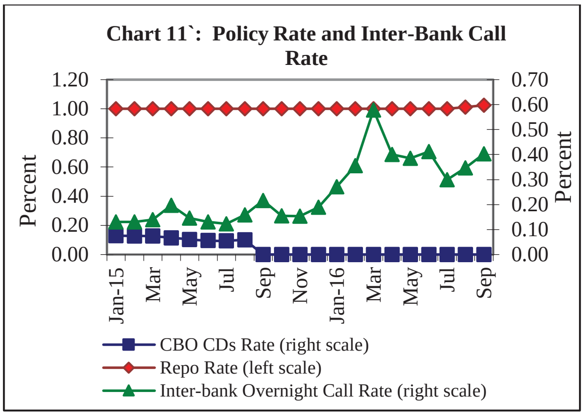
Market Authority (CMA) have been laying emphasis to develop a deep and liquid domestic Government securities and corporate debt markets. The existence of an efficient government securities market is seen as an essential precursor, in particular, for development of the corporate debt market. Reforms in these markets are focusing on the development of appropriate market infrastructure, elongation of maturity profile, increasing the width and depth of the market, improving risk management practices, efficient payments and settlements mechanism and increasing transparency.

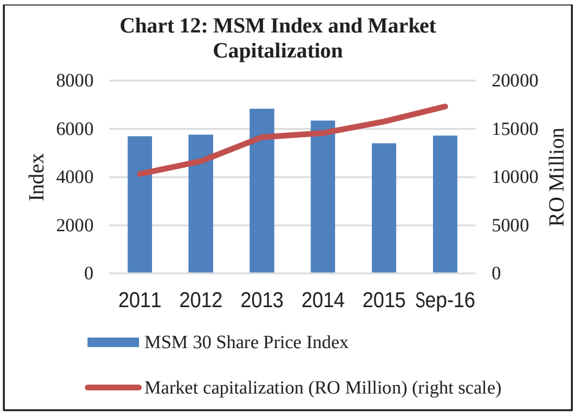
The primary aim of CBO's operations in the money market is to ensure that the liquidity and short-term interest rates are maintained at levels consistent with its monetary policy objectives. CBO influences liquidity and interest rates through the cash reserve ratio for banks, operations in CBO CDs, repo transactions and at times through foreign exchange swap operations. The CBO undertakes liquidity management operations to smooth out short-term fluctuations in bank liquidity to avoid excessive adjustment cost to the banking system. For absorption of liquidity from the banking system, CBO issues on weekly basis its certificates of deposit (CDs) while injection of liquidity is mainly done through repurchase agreements (Repos) in government securities and CDs of the CBO. An intra-day liquidity facility by way of Repos is also provided to banks. After several years of non-issuance of treasury bills, commencing March 2015 CBO began issuing 91 days and less frequently 364 days Government Treasury bills to banks which have increased the options available for liquidity management. The total amount of CBO CD's issued remained high in the beginning of the year but has gradually been declining and stood at NIL since the month of September 2015.

The domestic inter-bank call money market continued to lack sufficient depth with transactions mostly confined to overnight tenors. In the over-night call money market in Oman, the average daily turnover during the first nine months of 2016 was lower at RO 28.5 million compared to RO 30.6 million during the same period in the previous year. In the background of tightened liquidity, the overnight domestic inter-bank call money rates edged up to 0.403 percent per annum in September 2016 from

0. 217 percent a year ago. They however remained higher than the CBO CD rates ruling out any possibility of interest rate arbitrage (Chart 11). While structural excess liquidity has been mopped up by weekly auction of the CBO CDs, frictional liquidity found its equilibrium among banks in the overnight call money market at a modest premium over the CBO CD rate.

With regard to the capital market, there were two issuances of Government Development Bonds during Jan.-Sep. 2016 mobilizing a total of RO 200 million, and the Ijara Sukuk by private placement amounting to USD 500 million. With the diversification of the economy, the corporate sector in Oman is also expected to raise resources from the market by issuing debt securities. The Muscat Securities Market Index (MSM-30) closed at 5,726.20 points at the end of September 2016 compared to 5,787.69 points recorded in the corresponding period of the previous year, registering a fall of 1.1 percent. The market capitalization increased by around 18.8 percent to reach RO 17.3 billion in the three quarters (January-September) of 2016 from RO 14.6 billion during the same period of 2015. The turnover dropped by 22.0 percent to reach RO 0.74 billion during January-September 2016 from RO 0.95 billion during the same period of the previous year. The total number of securities traded during January-September 2016 rose by 2.5 percent to 3,664.1 million as compared to 3,575.3 million shares traded during the first nine months in 2015. The financial sector was the most active sector with a share in total turnover at 50.1 percent during January-September 2016, followed by services sector with a share in total turnover of around 30.8 percent and industrial sector with a share in total turnover at 17.3 percent during the same period (Chart 12).





Source: Central Bank of Oman.

The foreign exchange market is predominantly dollar based as it acts as the main intervention currency for international trade and is the anchor currency under the fixed exchange rate regime. Foreign exchange market by and large worked smoothly during the first three quarters of 2016 despite turbulence in the international financial markets. The government continued to remain the main supplier of foreign exchange due to its dollar denominated oil revenues which it sells to the CBO for its local currency requirements. Commercial banks, on the other hand, purchased foreign exchange from the CBO to meet the customers' demand for foreign exchange arising from transactions related to imports, workers' remittances and other capital account transactions. Commercial banks also accept foreign currency deposits, bulk of which is denominated in the US dollar. While foreign currency deposits mostly finance foreign currency lending, commercial banks can borrow from the overseas markets within the aggregate gap limit prescribed by the CBO.

NOMINAL EFFECTIVE EXCHANGE RATE (NEER)

The Rial Omani NEER index surged to 104.6 in March 2015 from 101.6 in December 2014 dropping thereafter to 103.9 in June, rising again to 104.5 in September 2015 and further to 105.2 in December 2015, pointing to an overall appreciating trend of the Rial Omani in 2015 against a basket of currencies of the Sultanate's importing partners. Subsequently, the NEER index decreased to 103.1, 102.7 and 102.2 in March 2016, June 2016 and September 2016, respectively (Table 9). The appreciation in

Omani NEER index witnessed in the year 2015 is compatible with the trend of US dollar as the US economy pointed to better improvement in 2015 when compared to other major advanced economies. In contrast, the depreciation in Omani NEER index in 2016 so far is reflective of weakened economic growth in the US economy over the past few quarters.

TABLE 9

EFFECTIVE EXCHANGE RATE INDEX OF RIAL OMANI

(1999 = 100)

End of Period	Weighted Average
2013	
March	95.2
June	96.6
September	95.5
December	96.2
2014	
March	95.7
June	95.1
September	98.4
December	101.6
2015	
March	104.6
June	103.9
September	104.5
December	105.2
2016	
March	103.1
June	102.7
September	102.2

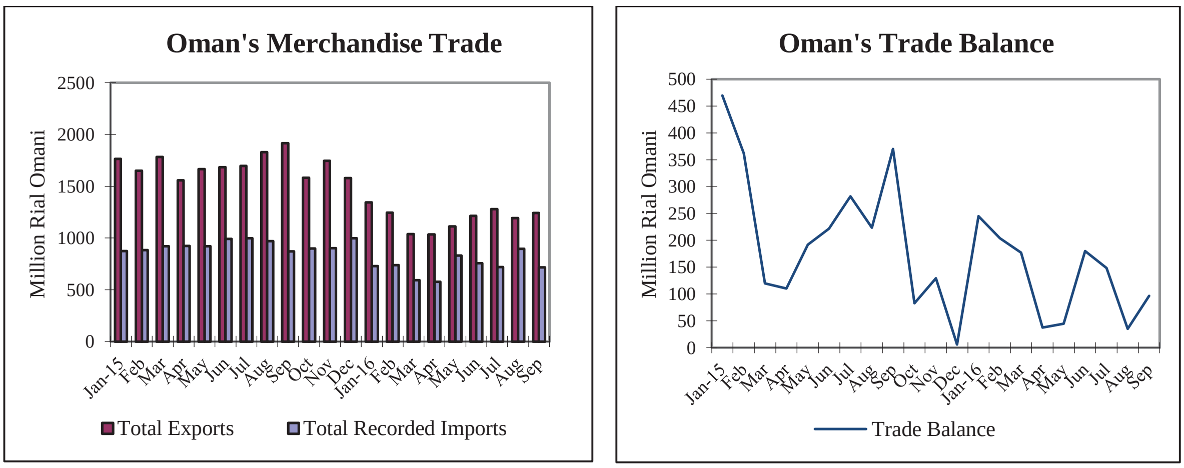
Note: It may be noted that when the index of Rial Omani NEER rises, it indicates an appreciation of NEER and when the index falls, it indicates a depreciation of NEER. The index of Rial Omani NEER rises when the US dollar appreciates against the major currencies. Similarly, the index of Rial Omani falls when the US dollar depreciates against the major currencies.

Source: Central Bank of Oman.

VII. Foreign Trade and Balance of Payments

Oman’s merchandise exports amounted to RO 7.7 billion, registering sharp decline of 27.1 percent during January-September 2016 as compared to RO 10.7 billion in the corresponding period a year ago mainly on account of marked drop in oil prices, subdued global trade and economic growth. The preliminary data on Oman’s balance of payments (BoP) statistics for the first three quarters of 2016 presented in Table 10 indicate that other exports as well as re-exports declined during the period under review. Crude oil prices witnessed a decrease of 38.3 percent in January-September 2016 compared to the average prices that prevailed in January-September 2015. Other exports consisting primarily of mineral, plastic and rubber products as well as base metals and articles declined by 24.1 percent. Imports too registered a fall of 21.4 percent in the first nine months of 2016 mainly attributed to sizeable reduction in import of transport equipment, chemical products, electrical machinery, mechanical equipment & parts, and base metals and articles. The net effect of merchandise exports and imports resulted in 48.1 percent decrease in trade balance in the period under review to record a surplus of RO 1,168 million as compared to a larger surplus of RO 2,251 million recorded in the corresponding period of the previous year (Chart 13).

Chart 13: Oman’s Merchandise Trade and Trade Balance



Source: Directorate General of Customs; Ministry of Oil and Gas.

Table 10: Oman's Foreign Trade
(Rial Omani Million)

Merchandise Trade	2014	2015	January- September 2015	January- September 2016 *	% Change
Total Merchandise Exports	**20,596**	**13,710**	**10,605**	**7,731**	**-27.1**
Oil Exports	11,901	6,865	5,463	3,642	-33.3
Natural Gas	1,626	1,280	886	747	-15.7
Other Exports	4,126	3,004	2,371	1,800	-24.1
Re-Exports	2,944	2,572	1,885	1,542	-18.2
Imports (c.i.f)	**11,268**	**11,153**	**8,354**	**6,563**	**-21.4**
Trade Balance	**9,328**	**2,557**	**2,251**	**1,168**	**-48.1**

* Provisional
Source: Directorate General of Customs; Ministry of Oil and Gas.

Although quarterly Balance of Payments data are not available in the public domain, the recent trend in merchandise trade indicates that current account deficit in the January-September 2016 would widen further. The services, income and current transfers would also continue to be in a deficit mode, given the nature of the Omani economy.

It is anticipated that the current account deficit would be financed partly by draw-down of Government reserves and partly by increase in net loans of the general Government under the financial account.

With the compressed surplus in trade balance and deficits in services, income and transfers account, it is expected that the overall balance of payments will register a deficit in January- September 2016.

During the first three quarters of 2016, the gross foreign assets of the CBO increased by 12.4 percent to RO 7,583.0 million from RO 6,745.8 million at the end of December 2015.

Foreign Investment in Oman

Oman is committed to a policy of open market economy based on free competition in which the private sector is encouraged and facilitated to play a leading role. The policy is to encourage foreign capital that will enhance the overall development of the country. In recent years, with very favorable investment climate, the Sultanate of Oman continues to be an attractive destination for foreign direct investment due to its free market system, stable macroeconomic environment and political stability.

The Sultanate offers an investor-friendly legislative environment and transparent corporate governance. In order to attract higher foreign investment flows for sustaining economic growth in the milieu of low oil prices, Oman's Foreign Capital Investment Law is being revised comprehensively. The new law will address major concerns and short-comings in the current law. Foreign investors' rights and obligations will be clearly set out in the new Law. The proposed investment law provides dispute resolution and includes international arbitration. Given the fact that Oman is a free economy, there is no restriction on remittances abroad of equity, debt, capital, interest, dividends, profits and personal savings. Moreover, the fixed exchange rate of Omani Rial provides certainty of returns to the foreign investors in the absence of exchange rate risk.

Appendix Tables

Appendix Table 1
Gross Domestic Product at Current Market Prices
(Rial Omani Million)

Activities	2013	2014	2015*	Jan – Sep		% change (2016/15)
				2015*	2016**	
1. Industry (1.1 + 1.2)	**20501.5**	**19941.5**	**14483.9**	**11038.3**	**8769.8**	**-20.6**
1.1 Petroleum Activities	**14874.4**	**14450.2**	**9157.3**	**7152.8**	**5049.4**	**-29.4**
- Crude Petroleum	13826.0	13448.2	7999.0	6261.1	4124.2	-34.1
- Natural Gas	1048.4	1002.0	1158.3	891.7	925.2	3.8
1.2 Non-Petroleum Industrial Activities	**5627.1**	**5491.3**	**5326.6**	**3885.5**	**3720.4**	**-4.3**
- Mining and Quarrying	110.6	120.0	132.4	105.8	109.1	3.2
- Manufacturing	3279.5	3011.5	2607.0	1874.8	1520.7	-18.9
- Electricity & Water Supply	434.5	455.6	520.2	397.9	419.7	5.5
- Construction	1802.5	1904.2	2067.1	1507.0	1670.8	10.9
2. Agriculture & Fishing	**395.0**	**396.6**	**435.2**	**323.0**	**372.3**	**15.3**
3. Services	**11461.7**	**12773.7**	**13408.9**	**9244.2**	**9336.4**	**1.0**
- Wholesale & Retail Trade	2168.3	2262.5	2291.8	1723.2	1406.8	-18.4
- Hotels & Restaurants	219.1	238.0	249.8	199.4	200.4	0.5
- Transport, Storage & Communication	1516.2	1485.0	1548.7	1199.5	1113.7	-7.2
- Financial Intermediation	1331.5	1428.2	1503.6	1125.4	1170.1	4.0
- Real Estate & Business Activities	1143.0	1202.5	1274.2	893.9	950.5	6.3
- Public Administration & Defence	2834.1	3198.2	3408.2	1982.8	2256.5	13.8
- Other Services (Education, Health, Community/Personal Services, and Private Household)	2249.7	2959.0	3132.7	2120.0	2238.3	5.6
4. Total Non-Petroleum Activities (1.2 + 2 +3)	**17483.8**	**18661.6**	**19170.7**	**13452.7**	**13429.1**	**-0.2**
5. Less Financial Intermediation Services Indirectly Measured	591.1	629.3	676.3	497.6	539.3	8.4
6. Gross Domestic Product at Producers Prices (1.1+4-5)	**31767.2**	**32482.5**	**27651.7**	**20108.0**	**17939.2**	**-10.8**
7. Plus :Taxes Less Subsidies on Products	-1415.3	-1324.8	-801.4	-457.1	-56.6	87.6
8. Gross Domestic Product at Market Prices (6+7)	**30351.9**	**31157.7**	**26850.3**	**19650.9**	**17882.6**	**-9.0**

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

Appendix Table 2
Sultanate Consumer Price Index (2012 = 100)

Items of Consumption	Weights	2014	2015	Jan - Sep		% change (2016/15)
				2015	2016	
1 Food & non-alcoholic Beverages	**23.903**	**104.5**	**103.7**	**92.2**	**102.4**	**11.1**
Bread & Cereals	3.020	102.3	101.3	101.5	99.4	-2.1
Meat	6.103	103.1	103.1	103.1	103.1	0.0
Fish & Seafood	2.208	115.4	105.3	108.1	101.1	-6.5
Milk , Cheese & Eggs	2.865	101.8	101.5	101.5	100.8	-0.7
Oil & Fats	0.715	100.2	100.0	100.1	99.5	-0.6
Fruits	2.815	107.2	107.8	107.1	105.9	-1.1
Vegetables	2.493	106.8	108.2	105.0	104.6	-0.4
Sugar,Jam,Honey & Confectionary	1.135	99.6	100.3	100.2	100.6	0.4
Food Products n.e.c.	0.521	100.8	101.3	101.2	101.3	0.1
Non – Alchoholic Beverages	2.028	103.3	103.2	103.3	103.5	0.2
2 Tobacco	**0.125**	**102.3**	**106.1**	**106.0**	**106.6**	**0.6**
3 Clothing & Footwear	**5.961**	**101.6**	**100.6**	**100.6**	**100.5**	**-0.1**
4 Housing , Water, electricity, gas and other fuels	**26.477**	**101.5**	**102.0**	**101.9**	**102.7**	**0.8**
5 Furnishings, household equipment & routing household maintenance	**3.787**	**107.8**	**109.5**	**109.5**	**110.1**	**0.6**
6 Health	**1.161**	**106.6**	**110.2**	**110.1**	**111.5**	**1.3**
7 Transport	**19.167**	**99.9**	**99.9**	**100.1**	**105.0**	**4.9**
8 Communication	**5.633**	**97.8**	**98.3**	**98.8**	**98.6**	**-0.2**
9 Recreation & Entertainment	**1.135**	**98.8**	**98.7**	**98.8**	**98.4**	**-0.4**
10 Education	**1.368**	**110.3**	**114.8**	**113.9**	**117.4**	**3.1**
11 Restaurant and Hotels	**6.098**	**102.2**	**102.5**	**102.6**	**102.7**	**0.1**
12 Miscellaneous goods and Services	**5.185**	**100.3**	**100.2**	**100.2**	**100.4**	**0.2**
General Price Index	**100.0**	**102.1**	**102.2**	**102.2**	**103.1**	**0.9**

Note:1. The weights produced from the Household Expenditure and Income Survey, 2008-2010.

2. Data collected from all regions of the Sultanate excluding (Musandam Governorate and AL Wustta Region).

3. The collection is based on 28168 items of goods and services from 1721 selected sources, while rent is collected from a sample of 1150 rented units.

Source: National Center For Statistics & Information-Directorate General of Economic Statistic Monthly Surveys of Consumption Goods.

Appendix Table 3
Public Finance
(Rial Omani Million)

Items	2013	2014	2015	Estimated Budget 2017	Jan - Sep		% change (2016/ 2015)
					2015	2016	
REVENUES	**13907.6**	**14107.5**	**9067.5**	**8700.0**	**6711.6**	**4977.5**	**-25.8**
Net Oil Revenues	10429.5	10205.2	5656.2	4450.0	4257.1	2452.6	-42.4
Gas Revenues	1495.3	1687.6	1484.4	1660.0	1069.6	1002.8	-6.2
Other Current Revenues	1931.0	1983.7	1865.1	2550.0	1372.5	1508.5	9.9
Capital Revenues	30.2	15.8	14.0	20.0	9.3	11.0	18.3
Capital Repayments	21.6	215.2	47.8	20.0	3.1	2.6	-16.1
TOTAL EXPENDITURE	**13990.2**	**15171.8**	**13698.9**	**11700.0**	**9645.9**	**9404.7**	**-2.5**
Current Expenditure	**8822.0**	**9606.2**	**9164.0**	**8500.0**	**5826.5**	**5750.7**	**-1.3**
Defence & National Security	4494.2	4210.8	3862.2	3340.0	2343.0	2403.9	2.6
Civil Ministries	3848.5	4762.7	4722.6	4385.0	2987.5	2890.5	-3.2
Interest Paid on Loans	53.6	52.9	37.3	265.0	32.1	51.2	59.5
Gas Production Expenditures	81.8	95.3	166.4	180.0	117.5	142.6	21.4
Oil Production Expenditures	343.9	484.5	375.5	330.0	346.4	262.5	-24.2
Investment Expenditure	**3120.0**	**3584.2**	**3315.2**	**2665.0**	**2214.5**	**1892.8**	**-14.5**
Development Expenditure for Civil Ministries	1744.3	2093.6	1822.5	1200.0	1343.5	1020.9	**-24.0**
Development Expenditure for Gov Companies.	-	-	-	140.0	-	-	-
Capital Expenditure for Civil Ministries	60.7	72.0	47.7	15.0	22.8	10.6	-53.5
Civil State-Owned Companies	-	-	-	-	-	-	-
Oil Production Expenditures	752.7	748.1	774.3	750.0	467.3	483.2	3.4
Gas Production Expenditures	562.3	670.5	670.7	560.0	380.9	378.1	-0.7
Participation & Other Expenses	**2048.2**	**1981.4**	**1219.7**	**535.0**	**754.9**	**461.2**	**-38.9**
Actual Expenses under Settlement**	**0.0**	**0.0**	**0.0**	**0.0**	**850.0**	**1300.0**	**52.9**
SURPLUS/DEFICIT	**-82.6**	**-1064.3**	**-4631.4**	**-3000.0**	**- 2934.3**	**-4427.2**	
FINANCING	**82.6**	**1064.3**	**4631.4**	**3000.0**	**2934.3**	**4427.2**	
Net Grants Received	-43.4	-50.2	208.8	0.0	176.2	0.0	
Drawing from Reserves	0.0	0.0	0.0	500.0	0.0	1500.0	
Net loans Received	-74.0	-60.3	305.2	2100.0	-75.3	2788.1	
Net Domestic Borrowing	200.0	100.0	650.0	400.0	400.0	392.2	
Remaining Surplus Brought from Previous Years.	0.0	1074.8	234.6	0.0	0.0	0.0	
Change in Government Accounts	0.0	0.0	3232.8	0.0	2433.4	-253.1	

* *Provisional.*

** Amount already allocated but not yet disbursed.

Source: Ministry of Finance.

Appendix Table 4

Money Supply

(Rial Omani Million)

End of Period	Currency with Public (1)	Demand Deposits (2)	Money Supply (M1) (3) =(1+2)	% Change in M1 over Previous Year (4)	Quasi-Money* (5)	Money Supply (M2) (6) = (3+5)	% Change in M2 over Previous Year (7)
2011							
Mar.	759.4	2344.4	3103.8	19.2	5616.4	8720.2	5.4
June	795.8	2269.2	3065.0	18.3	5943.5	9008.5	9.7
Sept.	807.1	2457.5	3264.6	22.4	6228.4	9493.0	13.9
Dec.	843.1	2221.8	3064.9	6.6	6790.0	9854.9	12.2
2012							
March	912.0	2557.9	3469.9	11.8	6745.0	10214.9	17.1
June	914.7	2490.9	3405.6	11.1	7110.8	10516.4	16.7
Sept.	910.6	2656.5	3567.1	9.3	7175.0	10742.1	13.2
Dec.	925.9	2566.4	3492.3	13.9	7419.7	10912.0	10.7
2013							
March	978.3	2713.8	3692.1	6.4	7524.4	11216.5	9.8
June	975.5	2640.5	3616.0	6.2	7719.3	11335.3	7.8
Sept.	997.8	2762.9	3760.7	5.4	7546.6	11307.3	5.3
Dec.	1039.2	2955.7	3994.9	14.4	7942.6	11937.5	9.4
2014							
March	1111.5	3553.1	4664.6	26.3	8200.0	12864.6	14.7
June	1136.3	3651.8	4788.1	32.4	8500.7	13288.8	17.2
Sept.	1228.7	3258.7	4487.4	19.3	8763.5	13250.9	17.2
Dec.	1188.2	3619.8	4808	20.4	8958.9	13766.9	15.3
2015							
Mar.	1216.2	4058.8	5275	13.1	9116.7	14391.7	11.9
June	1261.6	4139.9	5401.5	12.8	9354.4	14755.9	11.0
Sep.	1282.3	3959.3	5241.6	16.8	9478.5	14720.1	11.1
Dec.	1395.3	3973.0	5368.3	11.7	9777.4	15145.7	10.0
2016							
Mar.	1314.7	4109.3	5424.0	2.8	10103.0	15526.9	7.9
June	1369.3	3985.5	5354.8	-0.9	10190.6	15545.4	5.4
Sep.	1316.0	3837.9	5154.0	-1.7	10385.7	15539.7	5.6

**Quasi Money = Resident Time and Savings Deposits, Margins & Foreign Currency Deposits.*

Source: *Central Bank of Oman.*

Appendix Table 5
Factors Affecting Broad Money (M2)
(Rial Omani Million)

	Sep. 2015	Sep. 2016	Absolute Change Sep.2016/2015	% Change Sep. 2016/2015
1. Broad Money (A+B)	**14720.1**	**15539.7**	**819.6**	**5.6**
A. Money (M1)	5241.6	5154.0	-87.6	-1.7
a) Currency with public	1282.3	1316.0	33.7	2.6
b) Demand Deposits	3959.3	3837.9	-121.4	-3.1
B. Quasi Money	9478.5	10385.7	907.2	9.6
(Of which foreign cy. deposits)	*1154.0*	*1222.4*	68.4	*5.9*
2. Foreign Assets (Net)	**5533.1**	**4917.8**	**-615.3**	**-11.1**
Central Bank	7124.1	5354.9	-1769.2	-24.8
Commercial Banks	-1591.0	-437.1	1153.9	-72.5
3. Domestic Assets	**9187.0**	**10621.9**	**1434.9**	**15.6**
A) Claims on Government (net) (i-ii)	-4130.6	-4603.5	-472.9	**11.4**
i) Government borrowings	2126.7	2372.5	245.8	11.6
ii) Government Deposits (-)	6257.3	6976.0	718.7	11.5
b) Claims on Pvt. Sector	17668.4	19940.1	2271.7	12.9
c) Claims on Public Enterprises	2094.8	1957.2	-137.6	-6.6
d) Other items (net) (-)	6445.6	6671.9	226.3	3.5

Source: Central Bank of Oman.

Appendix Table 6

Combined Balance Sheet of Conventional Banks

(Rial Omani Million)

	2014	2015	Sep. 2015	Sep. 2016	% Change Sep.2016/15
Cash and deposits with CBO	1,979.0	4,057.1	4,235.0	1,978.9	-53.3
Due from H/O, branches and affiliates abroad	390.9	426.2	404.5	506.9	25.3
Due from other banks abroad	1,436.2	1,291.6	1,447.1	1,309.5	-9.5
Total Credit	**16,898.4**	**18,315.7**	**18,168.9**	**19,587.8**	**7.8**
a) Credit to Government	21.7	12.1	6.3	11.6	84.3
b) Credit to public enterprises	1,973.1	1,903.7	2,057.7	1,830.0	-11.1
c) Credit to private sector	14,704.0	16,207.4	15,891.0	17,488.1	10.0
(Of which in foreign currency)	*1,581.7*	*1,553.0*	*1,524.1*	*1,747.5*	*14.7*
d) Credit to non-residents	199.6	192.5	213.9	258.2	20.7
Securities	**2,912.9**	**3,046.8**	**2,681.1**	**2,653.8**	**-1.1**
a) Treasury Bills	0.0	464.2	408.4	386.7	-5.3
b) Government Development Bonds	564.0	828.6	750.0	921.2	22.8
c) CBO CDs	1,323.0	0.0	0.0	0.0	-
d) Domestic Shares	156.9	133.7	150.9	131.6	-12.7
e) Other domestic securities	160.3	699.9	723.9	505.7	-30.2
f) Foreign securities	708.6	920.5	647.9	708.6	9.3
Net fixed assets	209.7	216.6	206.6	216.1	4.6
Other assets	994.2	835.2	804.8	922.8	14.7
TOTAL ASSETS / LIABILITIES	**24,821.3**	**28,189.2**	**27,948.0**	**27,175.8**	**-2.8**
Total Deposits	**17,278.9**	**17,873.0**	**18,140.7**	**18,418.8**	**1.5**
a) Government deposits	4,959.4	4,789.5	5,257.9	5,018.0	-4.6
b) Deposits of public enterprises	879.7	950.2	1,056.3	1,098.9	4.0
c) Deposits of Private Sector	11,184.3	11,868.9	11,575.6	12,025.8	3.9
i) Demand	3,740.9	3,853.6	3,849.2	3,632.6	-5.6
ii) Savings	3,992.6	4,392.7	4,273.7	4,432.6	3.7
iii) Time	3,306.6	3,362.7	3,178.4	3,621.8	13.9
iv) Commercial prepayments	144.2	259.9	274.3	338.7	23.5
(Of which in foreign currency)	*860.6*	*909.0*	*863.3*	*959.5*	*11.2*
d) Deposits of non-residents	255.5	264.3	250.9	276.1	10.1
Due to H/O, branches and affiliates abroad	426.1	420.2	280.7	305.8	8.9
Due to other banks abroad	1,121.7	3,388.8	3,242.4	1,567.7	-51.7
Core capital and reserves	3,244.2	3,765.7	3,276.9	3,672.7	12.1
Supplementary capital elements	651.4	707.6	705.3	638.1	-9.5
Specific provisions and reserved interest	597.0	644.3	631.4	678.2	7.4
(Of which general provisions)	*218.7*	*236.2*	*235.1*	*252.3*	*7.3*
Other Liabilities	1,502.0	1,389.7	1,670.6	1,894.5	13.4

Source: Central Bank of Oman.

Appendix Table 7

Combined Balance Sheet of Other Depository Corporations

(Rial Omani Million)

	2014	2015	Sep. 2015	Sep. 2016	% Change Sep.2016/15
Cash and deposits with CBO	2,110.5	4,206.5	4,495.1	2,180.3	-51.5
Due from H/O, branches and affiliates abroad	390.3	426.3	404.6	507.9	25.5
Due from other banks abroad	1,492.3	1,329.1	1,466.6	1,346.8	-8.2
Total Credit	**17,948.0**	**20,097.0**	**19,669.4**	**21,834.7**	**11.0**
a) Credit to Government	21.7	12.1	6.3	11.6	84.3
b) Credit to public enterprises	1,973.1	1,952.6	2,057.7	1,876.4	-8.8
c) Credit to private sector	15,735.8	17,927.0	17,377.2	19,677.4	13.2
(Of which in foreign currency)	*1,587.3*	*1,633.0*	*1,528.9*	*1,886.9*	*23.3*
d) Credit to non-residents	217.3	205.3	228.2	269.4	18.0
Securities	**2,957.8**	**3,192.1**	**2,733.5**	**2,811.4**	**2.7**
a) Treasury Bills	0.0	464.2	408.4	386.7	-5.3
b) Government Development Bonds	564.0	917.1	750.0	1,013.5	35.1
c) CBO CDs	1,323.0	0.0	0.0	0.0	-
d) Domestic Shares	158.4	138.8	155.5	135.5	-12.8
e) Other domestic securities	190.8	732.5	754.9	543.6	-28.1
f) Foreign securities	721.5	939.4	664.8	732.2	10.0
Net fixed assets	243.8	251.6	240.0	250.9	4.5
Other assets	862.6	746.6	726.1	770.1	6.1
TOTAL ASSETS / LIABILITIES	**26,005.2**	**30,249.1**	**29,735.4**	**29,702.0**	**-0.1**
Total Deposits	**17,967.8**	**19,412.8**	**19,472.6**	**20,429.9**	**4.9**
a) Government deposits	5,133.4	5,379.1	5,783.6	5,805.9	0.4
b) Deposits of public enterprises	948.4	1,130.7	1,180.4	1,298.8	10.0
c) Deposits of Private Sector	11,630.4	12,638.5	12,257.4	13,048.6	6.5
i) Demand	3,865.4	4,107.3	4,072.7	3,877.2	-4.8
ii) Savings	4,090.0	4,570.2	4,430.9	4,708.5	6.3
iii) Time	3,523.0	3,671.0	3,452.0	4,104.9	18.9
iv) Commercial prepayments	152.0	290.0	301.7	358.0	18.6
(Of which in foreign currency)	*862.9*	*928.9*	*877.0*	*976.8*	*11.4*
d) Deposits of non-residents	255.6	264.5	251.1	276.6	10.1
Due to H/O, branches and affiliates abroad	514.4	516.6	340.6	383.0	12.4
Due to other banks abroad	1,190.6	3,446.5	3,289.0	1,692.5	-48.5
Core capital and reserves	3,479.3	3,515.0	3,512.0	3,907.5	11.3
Supplementary capital elements	651.5	821.3	705.3	638.3	-9.5
Specific provisions and reserved interest	612.9	668.1	654.3	712.0	8.8
(Of which general provisions)	*233.3*	*259.8*	*255.3*	*281.4*	*10.2*
Other Liabilities	1,588.8	1,868.7	1,761.7	1,938.9	10.1

Source: Central Bank of Oman.

Appendix Table 8
Weighted Average Interest Rates

(Percent per annum)

	Deposits			Lending		
	Total RO Deposits	**Total FCY Deposits**	**Total Deposits (RO+Fcy)**	**Total RO Lending**	**Total FCY Lending**	**Total Lending (RO+Fcy)**
Jan-2014	1.141	0.836	1.106	5.397	2.259	4.935
Feb-2014	1.116	0.906	1.091	5.353	2.290	4.900
Mar-2014	1.100	0.951	1.084	5.326	2.305	4.874
Apr-2014	1.081	0.953	1.068	5.281	2.351	4.852
May-2014	1.049	0.911	1.035	5.250	2.366	4.827
June-2014	1.041	0.933	1.030	5.207	2.363	4.756
July-2014	1.046	0.942	1.035	5.181	2.456	4.778
August-2014	1.047	0.868	1.028	5.204	2.445	4.785
September-2014	1.030	0.908	1.017	5.163	2.441	4.752
October-2014	1.009	0.886	0.995	5.138	2.404	4.728
November-2014	1.006	0.830	0.986	5.118	2.406	4.711
December-2014	0.986	0.870	0.972	5.080	2.378	4.672
January-2015	0.953	0.860	0.942	5.062	2.386	4.655
February-2015	0.952	0.841	0.940	5.051	2.405	4.649
March-2015	0.915	0.826	0.905	5.010	2.398	4.606
April-2015	0.908	0.842	0.901	4.945	2.434	4.569
May-2015	0.908	0.889	0.905	4.948	2.407	4.570
June-2015	0.885	0.857	0.882	4.859	2.410	4.495
July-2015	0.910	0.851	0.903	4.812	2.463	4.469
Aug-2015	0.895	0.863	0.891	4.791	2.487	4.464
September-2015	0.894	0.847	0.888	4.790	2.511	4.471
October-2015	0.898	0.832	0.890	4.749	2.534	4.443
November-2015	0.904	0.835	0.895	4.763	2.550	4.453
December-2015	0.936	0.894	0.931	4.762	2.592	4.471
Jan-2016	0.948	0.812	0.931	4.760	2.670	4.489
Feb-2016	0.980	0.855	0.964	4.772	2.668	4.489
Mar-2016	1.016	0.857	0.997	4.747	2.665	4.468
April-2016	1.083	0.931	1.063	4.796	2.666	4.503
May-2016	1.163	0.968	1.140	4.835	2.773	4.551
June-2016	1.182	0.969	1.158	4.854	2.851	4.584
July-2016	1.219	0.937	1.183	4.929	2.874	4.645
August-2016	1.300	0.961	1.253	5.005	2.980	4.729
September-2016	1.349	0.965	1.301	5.030	3.091	4.760