

ANNUAL REPORT 2017



Central Bank of Oman

Central Bank of Oman



Annual Report 2017

June 2018



His Majesty Sultan Qaboos bin Said

CENTRAL BANK OF OMAN

Board of Governors



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FOREWORD

The Central Bank of Oman takes immense pleasure to present its Annual Report for the year 2017. The Annual Report 2017 analyzes and reviews the global economic developments, domestic output growth, employment situation, inflationary conditions, public finance, monetary & banking developments, financial markets, the balance of payments, and macroeconomic outlook.

The oil prices witnessed a sharp upturn since the second half of 2017, after remaining depressed for some time, and provided some support to the economic activities in the Sultanate. Overall economic activities, recovering from the contractionary phase, recorded a nominal growth of 8.7 percent during 2017, reflecting an upturn in oil prices and the positive results of diversification efforts. The hydrocarbon and non-hydrocarbon sectors grew by 20.8 percent and 3.9 percent during 2017, respectively, indicating a broad-based recovery in the Sultanate.

The recovery in oil prices also contributed to fiscal consolidation through augmenting hydrocarbon revenues which surged by 19.6 percent during 2017. The government, however, remained focused on the fiscal measures, aimed at expenditure rationalization and increasing non-oil revenues. Government expenditure declined by 4.9 percent during 2017, which was a drop for the third year in a row. Consequently, the fiscal deficit narrowed to about RO 3.8 billion in 2017 from RO 5.3 billion during 2016. The government mainly financed the fiscal deficit through external borrowings in view of relatively lower funding cost and to avoid crowding out of the domestic private investment. A part of the fiscal deficit was also funded through domestic market borrowing to develop domestic debt market and improve financial deepening.

A notable improvement was also witnessed in the external sector with current account deficit declining to RO 4.1 billion in 2017 from RO 4.7 billion in the previous year mainly on account of improved trade balance. Besides oil exports, the non-oil exports also grew significantly reflecting a surge in external demand. The inflationary conditions remained benign in the Sultanate, despite some uptick in inflation during 2017. Notwithstanding improvement, Oman continued to face macroeconomic challenges with still having a sizable fiscal deficit and current account deficit, which are being dealt with an unstinted attention by the relevant institutions in the country.

The Central Bank of Oman (CBO) continued to pursue accommodative monetary policy stance and other regulatory policies supportive of growth in the economy. It ensured adequate liquidity and credit availability in the system to support productive activities. The CBO recently relaxed certain regulatory requirements, creating more credit space with the banking sector. As a healthy banking system is vital for financial and macroeconomic stability, CBO ensured that banks are resilient and adequately capitalized, despite economic slowdown and its implications in terms of higher delinquency rate.

The sustained cooperation and support received from the government, commercial banks and other institutions, which helped CBO greatly in discharging its various responsibilities efficiently, is acknowledged and highly appreciated. We also appreciate the high level of commitment and excellent contribution by the management and staff of the Bank for the smooth and efficient functioning of the CBO.

Sultan bin Salim Al Habsi
Deputy Chairman

Overview and Outlook

OVERVIEW AND OUTLOOK

Global Economic Developments

The growth in world economy continued on the upswing during 2017 with major contribution emanating from advanced economies (AEs) and emerging market and developing economies (EMDEs). The momentum in global growth was quite broad-based with several advanced economies (USA, China, Canada, Germany, France, Italy, Japan, etc.) along with a number of commodity exporting countries (Brazil, Russia, Nigeria, Saudi Arabia, UAE, etc.) witnessing an accelerated growth during 2017. A sustained pick up in investment and the cyclical upturn in global trade along with pick up in commodity prices (especially oil prices) conditioned the further traction in global growth. The accommodative monetary and financial conditions and strong domestic demand extended investment run in AEs, while the declining investment trend in EMDEs reversed with a major push coming from commodity exporting countries. Strong investment and consumer spending especially in AEs propelled global trade, and EMDEs were the major beneficiary with a more pronounced upsurge. The strong investment spending and an upsurge in global trade led the world economy to grow by 3.8 percent in 2017 as compared to 3.2 percent a year ago (IMF's WEO, April 2018). The growth in advanced countries and emerging market and developing economies edged up to 2.3 percent

and 4.8 percent, respectively, in 2017 from 1.7 percent and 4.4 percent in 2016, respectively (IMF's WEO, April 2018). The economic activities in the US economy gained further strength due to the sustained robust investment and consumer spending, despite the increase in interest rates due to normalization of monetary policy. The growth in the USA is estimated higher at 2.3 percent in 2017 as compared to 1.5 percent in 2016, while Euro area's growth is estimated to increase to 2.3 percent from 1.8 percent during this period (IMF's WEO, April 2018). Meanwhile, the growth in the UK at 1.8 percent in 2017 was marginally lower as compared to 1.9 percent in 2016. Driven by robust demand for high-end goods across the globe, the growth in Japan accelerated to 1.7 percent in 2017 from 0.9 percent in 2016. China and India, Oman's major trading partners, also recorded a good growth of 6.9 percent and 6.7 percent, respectively, during 2017, despite the latter witnessing some moderation due to one-off factors.

Global trade activities picked up strongly during 2017, despite concerns over trade restrictions by the US and China, and witnessed a real growth rate of 4.9 percent as against 2.3 percent in 2016 (IMF's WEO, April 2018). The World Trade Organization (WTO) has also estimated the growth in world merchandise trade volume to increase significantly from 1.8 percent in 2016 to 4.7 percent in 2017 (WTO, May 2018). The growth

in international trade was more distinguished in case of EMDEs, reflecting improved investment activities, especially in commodity exporting countries. Furthermore, the vibrant investment activities along with strong consumption spending in AEs led to the surge in their demand for imports and in turn, also contributed to international trade of EMDEs. The WTO projects strong growth in world merchandise trade volume over the next two year period, albeit with some deceleration, factoring in anticipated robust global growth and governments pursuing appropriate monetary, fiscal and trade policies.

International commodity prices rallied during 2017 due to strong global demand and drop in supply in case of some commodities such as crude oil. The international crude oil prices posted a sharp recovery since the second half of 2017 and increased by about 23.3 percent to an average of US\$ 52.8 per barrel during the year 2017 (IMF's WEO, April 2018). The crude oil prices made further rapid strides in 2018 and Brent oil is trading above US\$ 70 a barrel since April 2018. The IMF has projected the average crude oil prices at US 62.3 per barrel for 2018 and US\$ 58.2 per barrel for 2019 (IMF's WEO, April 2018). The agreement between OPEC and Non-OPEC oil producers to cut production helped in clearing the excess global supply of crude oil. At the same time, the shale production in the USA was not able to fully compensate for the production cut affected by OPEC and Non-OPEC oil producers. Hence, the decline in supply and an increase in demand eventually rebalanced the oil market. As reported by International Energy Agency (IEA), the demand and supply conditions resulted in an average deficit of 0.5 million barrel a day in 2017

from an average surplus of 0.7 million barrel a day in 2016 and 1.5 million barrels a day in 2015. Non-fuel commodity prices also inched up during 2017, albeit much lower as compared to crude oil prices. As per IMF, the non-fuel commodity prices increased by 6.8 percent in 2017 in comparison with a contraction of 1.5 percent registered during 2016. The headline inflation picked up in AEs as a consequence of an increase in commodity prices, especially oil prices and strong domestic demand. The consumer prices inflation in AEs is estimated to edge up to 1.7 percent during 2017 from 0.8 percent in the previous year (IMF's WEO, April 2018). On the other hand, in EMDEs, the consumer prices inflation is estimated to moderate to 4.0 percent from 4.3 percent during this period.

International financial markets remained buoyant, and accommodative financial conditions generally supported the growth momentum during 2017. The equity markets further gained both in AEs and emerging markets (EMs) with sentiments generally remaining upbeat along with some spikes in volatility intermittently. The long-term bond yields hardened in the US, reflecting strengthening of economic activity, historically low level of the unemployment rate and expectations about further rate hikes by the Fed. As part of the monetary policy normalization, the Fed raised the policy target rate three times during 2017 and two times so far during 2018 (each time by 25 basis points). The 10 year US treasury nominal yield went up considerably since the second half of 2017 – from 2.12 percent as on end-August 2017 to 2.41 percent at the end of December 2017 and further to 2.83 percent as on end-June 2018. The long-term yields also went up in case of Germany and United Kingdom,

while remaining almost unchanged in Italy and Spain. The long-term yields, however, continued to remain around zero in Japan. Long-term bond yields also generally hardened in EMs especially in those countries witnessing rapid growth (Emerging Asia and Europe). The performance of currencies remained mixed during 2017 with the US dollar depreciating despite interest rate hikes, and Euro, Pound, and Canadian dollar appreciating. In EMs, almost all major currencies appreciated during 2017, except for Mexican peso and Brazilian real which depreciated.

According to Regional Economic Outlook, published by the IMF in May 2018, the growth in MENAP region during 2017 was the lowest in decades (in real terms). In fact, the real growth in Gulf Cooperation Council (GCC) countries was a small negative of 0.2 percent in 2017 as against a positive of 2.1 percent during 2016. However, the growth in MENAP would start kicking in shortly with economic cycle rebounding due to rapid gains made by oil prices and accentuated focus on non-hydrocarbon activities. In 2017, global oil prices reached an average of \$52.8 and are projected to average around \$62 in 2018 and \$58 in 2019 (IMF's WEO, April 2018). Although oil prices made rapid strides and Brent crossed US\$ 70 a barrel since April 2018, the outlook for oil prices remains uncertain mainly due to supply-side uncertainties. Non-oil activities are projected to register superior growth in 2017, compared to 2015 and 2016. However, there are several risks that might harm the growth in MENAP region, i.e. tightening of global financial conditions and growing trade tensions.

Domestic Economic Developments

Economic Growth

Investment environment, which had deteriorated during the contraction period, appears to have remained subdued as suggested by decelerating credit growth in the economy. Improvement in macroeconomic indicators in conjunction with recovery in oil prices, however, helped in overcoming the uncertainty to some extent, which is critical to bolstering investors' confidence going forward. At the same time, the consumption demand gained some momentum on the back of a general upswing in the economy. The external demand also gained traction reflecting robust growth in global economic activities and merchandise trade.

The Sultanate's economy is witnessing a structural transformation with increased diversification leading to accelerated non-oil economic activities and reduced dependence on hydrocarbon sector over the last few years. The nominal gross domestic product (GDP) grew by 8.7 percent in 2017 as against a contraction of 15.0 percent and 3.0 percent in 2015 and 2016, respectively. The economic recovery in 2017 was fairly broad-based with both hydrocarbon activity and non-hydrocarbon activity growing by 20.8 percent and 3.9 percent, respectively. All three non-hydrocarbon groups viz. industry, services, and agriculture & fishing witnessed growth during 2017. The non-oil external demand also surged and contributed to the growth, suggesting the diversification program gaining traction. The fiscal consolidation through rationalization of expenditure and augmentation of non-oil revenue continued as the focus area, albeit it was a drag on aggregate demand.

Notwithstanding improved performance of non-oil economic activities, the hydrocarbon sector remains the main driver of Omani economy. International oil prices recovered significantly with global inventories finally starting to respond to OPEC and Non-OPEC oil producers' agreement to cap crude production. The extension of the agreement until the end of 2018 gave a further boost to oil prices. With a surge in oil prices, the hydrocarbon sector's contribution to the nominal GDP increased to 30.1 percent in 2017 from 27.1 percent during 2016. The hydrocarbon revenues constituted 72.9 percent of the government revenues in 2017 as against 68.2 percent in 2016. The oil & gas exports also contributed majorly to the merchandise exports with their share edging up to 58.3 percent in 2017 from 57.9 percent in 2016. The value added from crude oil grew by 23.0 percent and contributed about 91 percent to the growth of petroleum activities, while that emanating from natural gas witnessed a growth of 10.5 percent and contributed about 9 percent to the incremental petroleum activities during 2017. The surge in international oil prices helped Oman to recover some portion of its nominal GDP that was lost during the contractionary period. The average Omani crude oil prices increased to US\$ 51.3 per barrel during 2017 as compared to US\$ 40.1 a barrel during 2016. During January-March 2018, the international prices for Omani crude oil averaged US\$ 62.9 per barrel as compared with US\$ 50.4 per barrel during January-March 2017. Despite a significant contribution of the hydrocarbon sector to economic activities, the economy's dependence on this sector is reducing, reflecting the success of the public policy in this regard.

The non-petroleum industrial activities grew by 1.8 percent in 2017 as against an annual average decline of 1.2 percent during the contractionary period 2015-2016. The rebound in non-petroleum industrial activities in 2017 was driven by an upturn in both domestic and external demand. The manufacturing sector registered a robust growth of 9.2 percent, while the mining & quarry witnessed a considerable growth of 15.7 percent in 2017. The electricity & water activities recorded a growth of 5.7 percent in 2017. On the contrary, the value addition emanating from the construction activities experienced a sharp contraction of 7.7 percent in 2017, suggesting a lagged effect of economic slowdown. Accordingly, the share of manufacturing sector in the GDP emanating from non-petroleum industrial activities increased to 48.6 percent in 2017 from 45.3 percent during 2016, while the share of construction activities declined to 38.3 percent from 42.3 percent during this period. At the macro level, the manufacturing sector contributed 9.6 percent to the overall GDP in 2017, a marginal decrease compared to the annual average of 10.2 percent during the period 2015-2016 and also lower in comparison with 15 percent target to be achieved by 2020 under diversification program and Vision 2020. The manufacturing activities are accorded priority in the Ninth Development Plan (2016-2020), aiming at enhancing economic diversification in the economy. The policy initiatives such as public-private partnership, developing industrial clusters, industrial estates and free zones, and removal of impediments to conduct business, etc. are underway for promoting manufacturing activities in the Sultanate.

The agriculture and fishing sector is gaining prominence under the diversification program due to a huge scope especially in fishing as Oman is endowed with a long marine belt. Agriculture and fishing sector witnessed a robust growth of 7.0 percent in 2017, albeit lower as compared to an annual average growth of 11.7 percent during the period 2015-2016, and contributed around 2.0 percent to the overall GDP in 2017. The accentuated public policy's thrust on the economic diversification also considerably helped the growth in services sector. The services sector continued on the upward trajectory and grew by 4.6 percent in nominal terms in 2017 and accounted for 51.6 percent share in the overall GDP. The rebound in domestic demand led by the economic recovery along with resurgent external demand conditioned the growth of various services in the Sultanate. The value addition stemming from 'transport, logistics & communication' registered the highest growth of 9.6 percent, followed by 'wholesale & retail trade' (8.0 percent), 'hotels & restaurants' (7.2 percent), and 'real estate & business activities' (6.5 percent) during 2017. In terms of relative contribution, 'hotels & restaurants' and 'transport, storage & communication' together accounted for 25.5 percent of the growth in value addition of services sector. The lower share of 'hotels & restaurants' and 'transport, storage & communication' services indicates an existence of a large untapped potential in these sectors. The 'financial intermediation' services grew by 4.2 percent and contributed 11.2 percent to the value addition in the services sector in 2017. Notwithstanding a decline in construction activities, the growth of 'real estate & business services' was driven by improving business and investment environment in the country. The government is promoting tourism as an important

contributor to the diversification and sustainable growth, and the "Vision 2020" has set a target of an annual average growth 5.3 percent for the tourism sector with a contribution to GDP at 3.3 percent by 2020.

The non-oil sector continued to attract the attention and accordingly, the policy efforts have been undertaken to improve the overall business and investment environment so that this sector prospers with increased participation of private sector. The non-oil activities are also bolstered through facilitating trade with countries in GCC region and outside and promoting tourism. The public-private partnership (PPP) is being promoted to foster the contribution of the private sector in diversification and growth of the economy. The National Program for Enhancing Economic Diversification, 'Tanfeedh', continues to focus on five sectors, viz. (i) manufacturing, (ii) tourism, (iii) logistics, (iv) fisheries, and (v) mining for implementing various projects and initiatives with a monitorable action plan. Consequently, non-oil activities made good progress in the last few years, reflecting the progress of the policy measures undertaken to nurture the private-sector led growth in the economy. Further, the Government is also contemplating setting up a dedicated PPP authority to accelerate the execution of infrastructure and other civil projects. Additionally, the role of the private sector would be expanded through privatization of government assets, aiming at improving efficiency and productivity, besides helping in generating non-oil non-tax receipts for financing fiscal deficit. The enactment of Foreign Investment Law and Bankruptcy Law, which are under active consideration, would also encourage domestic and foreign investors greatly and

promote private sector-led growth. Furthermore, going beyond 2020, the Vision 2040 also continue to focus on economic diversification to develop a more diversified, dynamic, globally integrated and competitive economy for ensuring sustainable growth over the long-run. The financial sector has also been actively participating in nurturing the non-oil sector in the economy by providing requisite funding and other services, including promoting Small and Medium Enterprises (SMEs).

Employment

Employment scenario has been very challenging, despite economic activity gaining a momentum. The employment provided to Omani nationals by the private sector increased by 7.0 percent during 2017 (an average of 6.3 percent in 2015 and 2016), which is notable given the limited employment capacity available in the public sector. The growth of overall employment in the private sector, however, decelerated to 1.2 percent in 2017 from an average of 8.5 percent in the previous two years, mainly on account of lower incremental employment to the expatriates. The private sector has been creating new and sustainable employment opportunities for Omanis and a further progress in private-sector-led growth would create more such opportunities. The overall employment in the public sector recorded a growth of 1.8 percent in 2016, marginally higher as compared to 1.6 percent in 2015 but much lower compared to the average 7.8 percent during 2013 and 2014. Omanis employed in the public sector grew by 1.0 percent during 2016, while expatriates employed in this sector grew by a more significant of 6.0 percent. However, the number of Omanis working in the public sector exceeds that of

expatriates by more than five times. The share of Omani employees in the public sector continued to diminish while that of expatriate workforce witnessed a steady rise over the last few years, reflecting skills mismatch in the labour market. The share of Omanis employees in public sector dropped marginally to 83.9 percent in 2016 from 84.5 percent during 2015.

Prices

Imported inflation remains the main driver of Oman's headline inflation, reflecting its elevated global integration and the currency peg arrangement. Inflationary conditions remained comfortable and supportive of growth, despite some surge in inflation in the recent past. The average inflation based on consumer price index (CPI) for the Sultanate edged up to 1.6 percent in 2017 from 1.1 percent during 2016 and 0.1 percent in 2015, which was mainly attributed to hardening of international commodity prices including oil & gas, depreciation in US dollar exchange rate, less-than-anticipated reduction in government spending, and reduction in subsidy especially on electricity. The edging up of inflation could be explained in terms of both demand side and supply side factors, which were influenced by domestic and external conditions. A sharp recovery in crude oil prices, improved performance of the non-oil sector, and accelerated growth in money supply reflected strengthening of domestic demand, while a robust growth in non-oil exports exhibited strong external demand. On the supply side, a significant jump in international commodity prices and depreciation in the nominal effective exchange rate (NEER) resulted in inflationary pressure. The change in import price, namely

unit value index of non-oil Omani imports, which encompasses the impact of inflation prevailing in the trading partners, international commodity prices and changes in the NEER, increased in 2017 by 28.6 percent, making imported goods costlier in Oman. The component-wise analysis shows that increase in inflation under the groups 'transport', 'furnishings, household equipment & routine household maintenance', 'education', 'housing, water, electricity, gas & other fuels', and 'food & non-alcoholic beverages' was partly offset by decline in inflation under 'communication'.

Oil and Gas

The hydrocarbon sector continued to remain the major driver of economic activities in the Sultanate, despite diversification making tangible progress in the last few years. The hydrocarbon sector accounted for 30.1 percent of the nominal GDP in 2017, higher as compared with 27.1 percent in 2016, due to a sharp recovery in oil prices. International oil prices made rapid recovery since the second half of 2017, benefiting oil producing countries including Oman. The historic agreement between OPEC and Non-OPEC oil producers to cut production succeeded to a large extent and the global oil market moved towards rebalancing after a long time. Brent oil price increased from US\$ 46.4 a barrel in June 2017 to US\$ 64.4 per barrel in December 2017 and further to US\$ 72.1 in April 2018. The average price for the Omani crude oil increased by 27.8 percent to US\$ 51.3 per barrel in 2017 from US\$ 40.1 per barrel in 2016. During the year 2017, the average price of the Omani crude oil ranged from its lowest level of US\$ 44.54 in January to its peak level of US\$ 55.59 in the month of December. Daily average oil

production, however, declined in 2017, reflecting implementation of OPEC and Non-OPEC oil producers' agreement to cut production. Oil and gas contributed 72.9 percent to total government revenues and 58.3 percent to merchandise exports during 2017. The natural gas industry is becoming important in the Sultanate with its increasing demand for various purposes viz. power generation, industries and industrial projects, and oil projects. The annual production of natural gas inched up marginally by 0.1 percent in 2017. As domestic production fell short of demand, the natural gas was imported during the year. However, the natural gas production from Khazzan project would be able to meet the growing demand for natural gas, reducing country's dependence on imports. Mining is also emerging as a promising sector in the Sultanate, given the availability of mineral resources in abundance. As per the preliminary data issued by the Public Authority for Mining, the mining and quarrying sector produced around 66 million tons of minerals during 2017.

Government Finance

Oman's fiscal position improved due to a sharp recovery in oil prices and reform measures undertaken by the government. The policy measures implemented to mitigate the stress conditions, including expenditure rationalization and augmentation of non-oil revenue, have a salutary impact on the fiscal consolidation and helped in addressing the macroeconomic challenges. The government and other concerned authorities are promoting diversification in the economy to reduce dependence on hydrocarbon sector. The Ninth Five-year Development Plan and Tanfeedh program, both reinforce the

government's vision to reduce dependence on the hydrocarbon sector by promoting non-oil economic activities. The pick-up in diversification would enable higher tax buoyancy, reduce pressure on government expenditure, and pave the way for more fiscal reforms in the Sultanate. The improved tax buoyancy in conjunction with reduced pressure on government expenditure would also facilitate improvement in non-oil fiscal balance, which resonates with the structural fiscal balance to a large extent given the dominance of volatile hydrocarbon revenue.

International oil prices increased rapidly since the second half of 2017 on account of robust global demand and rebalancing in the global oil market. Omani crude oil price averaged at US\$ 51.3 per barrel in 2017, while 2017 budget had assumed average oil prices at US\$ 50 per barrel. Consequently, oil & gas revenues grew by 19.6 percent, increasing their share in total revenues to 72.9 percent in 2017. On the other hand, non-oil & gas revenues dropped by 4.6 percent in 2017 mainly due to a significant decline in capital repayments. On the other hand, the expenditure declined for the third year in a row during 2017, reflecting the government's commitment towards fiscal consolidation. The decline in government expenditure by 4.9 percent during 2017 was contributed by moderation in both current and investment expenditure. The spending norms have been restructured aiming at a reduction in deficit and eventually restoring the fiscal balance. The current expenditure declined by 4.3 percent in 2017 compared to an increase of 1.7 percent in 2016, while the investment expenditure contracted by 9.3 percent in 2017 in comparison with 11.7 percent drop in 2016. Total expenditure

as a percentage of GDP reduced to 43.9 percent as compared to 50.2 percent in 2016. The higher support to electricity sector and government organizations, increase in investment expenditure for government companies and reintroduction of targeted fuel subsidy led to increase in the participation and other expenses by 6.2 percent in 2017 compared to a decline of 45.9 percent in 2016. Overall, the fiscal deficit declined by 29.1 percent to RO 3,760 million in 2017 from RO 5,300 million during 2016. Fiscal balance as a percentage of GDP improved to -13.5 percent in 2017 as compared to -20.6 percent in 2016. The fiscal consolidation plan intends to streamline the spending bill and ensure a sustainable fiscal balance through reducing spending deadweight loss and generating revenue from other sources away from oil. At the same time, the growth stimulating government expenditure is desirable to boost diversification in the economy. The government investment expenditure is required to sustain and expand the hydrocarbon production in the economy acting as a catalyst to stimulate private sector-led growth, as the government is the main stakeholder in the oil and gas sector.

The 2018 budget also continued with reforms agenda and emphasized on diversification, promoting private sector-led growth, and removal of bottlenecks and improving business environment. The budget stressed upon reducing the breakeven price of oil to ensure a sustainable economy. The government revenues are budgeted to grow by 11.6 percent in 2018 over the actual in 2017. The hydrocarbon revenues and non-hydrocarbon revenues are estimated to contribute about 58 percent and 42 percent, respectively, to the budgeted increase in government revenue in 2018.

Total expenditure is estimated to go up at a muted rate of 1.8 percent in 2018 over the actual in 2017, with a growth in investment spending budgeted at 3.4 percent over the actual in 2017. Overall, the fiscal deficit is budgeted at RO 3,000 million in 2018, which will be largely financed through debt. Furthermore, 2018 budget intends to expedite the privatization of government-owned entities or semi-government companies (manufacturing, petrochemical, and electricity industries) to elevate participation of the private sector in the economy and also contribute to government revenues. Other policy reforms that the government undertook include the deregulation of fuel prices, reduction of electricity subsidy, restructuring the capital increasing private sector partnership, and changing the composition between current and capital expenditures.

Monetary Conditions

The Central Bank of Oman (CBO) continued to pursue monetary policy supportive of growth by ensuring appropriate liquidity and credit availability in the system. Consequently, the banking sector in Oman remained on the positive growth trend in 2017, consistent with the overall GDP growth. Broad money (M2) grew by 4.2 percent in 2017, despite the fall in reserve money, responding to the growing money demand associated with economic recovery. The money multiplier increased to 4.3 in 2017 from 3.8 in the previous year. Narrow money supply (M1) declined by 0.8 percent in 2017, while quasi-money registered an appreciable growth of 6.5 percent during the year. The total outstanding credit extended by Other Depository Corporations (ODCs) increased by 6.4 percent with credit to the private sector increasing by 6.5 percent. Despite

an upturn in the economy, the deceleration in the growth of in bank credit during 2017 reflected the lagged impact of contractionary phase. Aggregate deposits held with ODCs registered a growth of 5.6 percent with private sector deposits and Government deposits growing by 5.2 percent and 7.4 percent during 2017, respectively. The ratio of bank credit to GDP dropped to 84.3 percent in 2017 from 86.1 percent during 2016, while the ratio of bank deposits to GDP declined to 77.2 percent from 79.5 percent during this period. The decline in the above ratios was on account of much higher growth in GDP compared to that in bank credit and deposits.

After witnessing some tightening in the previous years, the domestic liquidity conditions eased somewhat in 2017 due to recovery in oil prices and narrowing down of difference between the growth of credit and deposits. Interest rates, however, further hardened during 2017 following an increase in interest rates in the USA. As bank credit growth continues to outweigh growth in bank deposits, the competition among banks to mobile deposits also contributed to some hardening of interest rates. The weighted average interest rate on total RO deposits increased by 0.174 percentage points to 1.667 percent, while the weighted average RO lending rate increased by 0.119 percentage points to 5.203 percent at the end of 2017. The spread between RO lending rate and RO deposits rate dropped modestly to 3.536 percent during 2017 as the increase in the former was higher than that in the latter. The domestic inter-bank Rial Omani call money market continued to remain shallow and largely confined to overnight tenors with very low volumes. The CBO policy rate and the domestic overnight interbank lending rate continued to follow

hikes in the US Fed policy rates. Accordingly, the average CBO policy rate (repo rate) increased to 1.601 percent in 2017 from 1.026 percent in 2016, while the weighted average domestic overnight interbank rate rose to 0.887 percent from 0.405 percent during this period.

Financial System

The CBO continued to monitor developments proactively and undertook policy measures so that banking and financial system in the Sultanate remains resilient while supporting the economic activities by meeting legitimate credit requirements and providing other banking services. Notwithstanding the challenges of twin deficits, the Omani banking sector remains resilient and financially sound. The banks are adequately capitalized with the Basel capital adequacy ratio at 17.4 in December 2017, much higher than the mandated at 13.25 percent (12.0 percent plus the 1.25 percent conservation buffer). The Core Equity Tier 1 (CET1) stood at 13.8 percent in December 2017. Gross NPLs of the commercial banks (excluding specialized and Islamic banks) moved up marginally to 2.4 percent in December 2017 from 2.1 percent in December 2016. The share of restructured loans to total loans increased slightly to 1.7 percent in December 2017 from 1.2 percent in December 2016.

The CBO undertook a number of accommodative policy measures recently, enabling banks to facilitate economic growth and manage their liquidity gaps more efficiently. The minimum capital adequacy ratio for banks has been reduced from 12 percent to 11 percent effective from April 1, 2018, which is expected to enhance the banks'

lending capacity and reflect positively on overall credit growth. The CBO also relaxed the lending ratio, allowing banks to reckon net domestic inter-bank borrowings from other commercial banks as part of their deposit base. The minimum 100 percent risk weight applicable on banks' exposures to other Sovereigns and Central Banks has also been withdrawn, besides increasing the prudential limits for all currencies' liquidity gap based on different maturity time bands. In order to provide greater operational flexibility for efficient treasury operations, liquidity management, and sound correspondent relationships, the prudential limits for credit exposures to non-residents and placement of funds abroad as a percentage of local net worth were raised to 75 percent from 50 percent earlier. In line with the guidelines developed by the Basel Committee on Banking Supervision, the CBO mandated the banks to implement the Liquidity Coverage Ratio (LCR) to ensure that banks have sufficient high-quality liquid assets to survive a stress scenario. Furthermore, the Net Stable Funding Ratio (NSFR), which provides a better assessment of funding risk across all on-and-off balance sheet items is being implemented in 2018 with a minimum ratio of 100 percent. The mandated prudential specific provision of 15 percent on restructured loans, which was phased in starting 2016 keeping in view the difficulties faced by borrowers due to the economic slowdown, is to be achieved fully by 2018. Banks and FLCs engaged in various projects of Government-owned entities, as a special case, were allowed not to treat eligible loans as non-performing assets even if the past due period is 90 days or more, subject to obtaining a specific undertaking from the Government-owned entity to pay the dues for the project. However, banks have been advised to

stop recognizing income on such accounts after they become past due for 180 days or more and also need to hold specific provisions of at least 5 percent on the outstanding amount. The CBO also issued guidelines to banks for implementation of International Financial Reporting Standard IFRS 9 with regard to financial instruments accounting.

Outstanding Government Development Bonds (GDBs) increased to RO 2,030 million at the end of 2017 from RO 1,630 million at the end of 2016 with four new issues amounting to RO 600 million during the year. Conventional banks' overall investment in securities grew by 18.3 percent to RO 2.9 billion as at the end of December 2017, with their investment in Government Development Bonds and Government Sukuk increasing by 25.4 percent to RO 1.2 billion and constituting 4.4 percent of the total assets. Investment in Government Treasury Bills increased to RO 454.9 million (48.9 percent) while their investments in foreign securities rose significantly to RO 769.5 million (44 percent) as at the end of the year.

Balance of Payment

The external sector continued to face challenges despite the sharp recovery witnessed in oil prices since the second half of 2017. The international oil prices recovered significantly and provided necessary support to oil exporting countries such as Oman. Although the balance of payment (BoP) position of Oman remained under stress, the current account deficit dropped to RO 4.1 billion in 2017 from RO 4.7 billion in 2016 and its ratio to GDP moderated to 14.8 percent from 18.5 percent during this period. The decline in current account deficit was mainly attributed

to increase in trade surplus by 40 percent on account of surge in oil prices and a considerable improvement in non-oil exports. On the other hand, the merchandise imports also increased significantly by 13.3 percent during 2017 as against contraction in the previous two years, reflecting economic recovery. Notwithstanding a sharp jump in merchandise imports, trade surplus (f.o.b) improved considerably to around RO 3.4 billion in 2017 as against RO 2.4 billion in the previous year. Services, income, and current transfers, however, continued to remain in deficit mode, given the intrinsic nature of the Omani economy, together resulting in a net outflow of RO 7.5 billion in 2017 as compared to RO 7.1 billion in 2016. The higher outflow under this combined head during 2017 was mainly conditioned by an increase in net outflows under services and income. The ratio of the combined net deficit (services, income, and current transfers) to GDP, however, declined somewhat to 26.9 percent in 2017 from 27.8 percent in the previous year.

The net inflows under capital and financial accounts increased by more than two-fold to RO 3,481 million in 2017 from RO 1,614 million during 2016. The main drivers of net inflows under capital and financial accounts were portfolio investments and loans. The net portfolio investment increased by 29.6 percent to RO 2,492 million mainly due to the government's external borrowing through Euro bonds to finance the fiscal deficit. Since net inflows under capital and financial accounts were lower than the current account deficit, the drawdown of foreign assets amounting to RO 1,066 million was resorted to finance the gap (which was, however, much lower than last year's drawdown of RO 3,615 million).

Macro Outlook

Global Prospects

Global economic activities gained further momentum on the back of strong investment activities and a cyclical upturn in trade activities across both AEs and EMDEs. The accommodative global financial conditions, mainly supported by continued easing of lending conditions in the euro area and the expansionary fiscal policy in advanced economies (especially in the USA) would continue to foster investment and private consumption spending in advanced countries during the near-term. Despite normalization of monetary policy in USA and UK, the global financial markets are expected to remain supportive without experiencing much of volatility. The fiscal stimulus in the USA would, however, run its course over the medium-term when tax incentives on investment begin to expire. The output gap in several advanced countries is closing faster than expected, while potential growth is improving in many advanced countries. At the same time, recovery in commodity prices and a more pronounced uptick in international trade is likely to continue fostering growth in emerging market and developing economies. The IMF's commodity price index is projected to increase by 11.9 percent in 2018, while the average crude oil prices are projected by IMF at US\$ 62.3 a barrel in 2018 before moderating to US\$ 58.2 per barrel in 2019 (IMF's WEO, April 2018). The metal prices are projected to inch up by 13 percent in 2018 on the back of strong global demand.

The outlook for the near-term global growth appears robust, backed by further strengthening

of recovery in EMDEs and sustaining of current momentum in AEs. The IMF has projected the world growth to increase marginally from 3.8 percent in 2017 to 3.9 percent in 2018 and remain at the same level in 2019 (IMF's WEO, April 2018). The growth in AEs is projected to move up from 2.3 percent in 2017 to 2.5 percent in 2018 before decelerating to 2.2 percent during 2019. The USA is expected to grow at an accelerated pace of 2.9 percent in 2018 before moderating somewhat to 2.7 percent in 2019, while growth in the euro area is projected marginally higher at 2.4 percent for 2018 but it is expected to drop to 2.0 percent in 2019. On the other hand, the growth in EMDEs is projected to keep edging up during 2018 and 2019 (4.9 percent and 5.1 percent, respectively). The world growth is, however, expected to moderate beyond 2019 with slowing of economic activities in AEs and the growth in EMDEs stabilizing at the current level. With robust global demand, commodity prices likely to further surge and output gap closing faster in several countries, the headline inflation is expected to pick-up globally. The headline inflation in AEs is expected to edge up to about 2 percent in 2018-19 from 1.7 percent in 2017, while that in EMDEs is projected to increase from 4.0 percent in 2017 to 4.6 percent during 2018 before moderating to 4.3 percent in 2019 (IMF's WEO, April 2018).

Overall, the risks to the global outlook over the short-term appear to be broadly balanced with major support stemming from fiscal stimulus in the USA and continuation of the accommodative monetary policy in the euro area. Strong investment activities would continue to act as a positive factor for the short-term outlook, while trade frictions, especially between USA and China and attendant

volatility in equity and other financial markets, are negative factors. Over the medium-term, the likely challenges emanating from the potential rapid tightening of financial conditions, a reversal in pro-cyclical policies in advanced countries, growing restrictions on international trade, and geopolitical tensions in the Middle East could undermine the growth outlook.

Outlook for Oman

Omani economy recovered from the contractionary run and posted a positive nominal growth of 8.7 percent during 2017, which was attributed to a rapid surge in oil prices and pick up in non-oil activities resulting from focused diversification efforts. As the excess global supply of crude oil has been tackled to a large extent, the global oil market has rebalanced and a strong global demand is keeping an upward pressure on the international oil prices. The agreement to cut oil production between OPEC and non-OPEC oil producers has been extended up to the end of 2018, while some supply shock is anticipated on account of expected drop in oil production from Venezuela (due to political instability and lack of investment) and uncertainty with regard to oil supply from Iran after withdrawal from the nuclear agreement by the USA. At the same time, shale production from the USA has displayed inability to compensate for a drop in oil production by OPEC and non-OPEC oil producing countries. Even OPEC countries would find it difficult to jack up oil production within a short-time as the investment in exploration remained subdued because of protracted low oil prices. On the other hand, global demand for oil is expected to remain robust over the foreseeable future as the world economy has gained further momentum with

fairly broad-based recovery. Oman also continues to invest in exploration of oil and gas to enhance the production level and the Khazzan gas project once developed fully (phase I has already come in full steam and the work on phase II has already commenced), would add considerably to the natural gas production.

The government authorities are also continuously endeavoring to bolster non-oil economic activities to diversify the economy away from hydrocarbon sector. The policy efforts are producing positive results and the non-hydrocarbon sector recorded an accelerated nominal growth of 3.9 percent during 2017 as against 2.6 percent in 2016. Non-oil exports have also witnessed a steady growth over the last few years on the back of strong external demand and diversification efforts producing positive results. The 'Tanfeedh', continues to concentrate on five sectors for implementing specific projects and initiatives with a potential for diversification. Various other policy efforts, such as public-private partnership (PPP), enactment of Foreign Investment Law and Bankruptcy Law, privatization of government companies etc., are underway to propel non-oil economic activities and private sector-led growth. Furthermore, going beyond 2020, the Vision 2040 also focuses on economic diversification to develop a more diversified, dynamic, globally integrated and competitive economy for ensuring sustainable growth over the long-run. The financial sector has also been actively participating in nurturing the non-oil sector in the economy by providing requisite funding and other services, including promoting Small and Medium Enterprises (SMEs). The CBO has also implemented certain policy measures recently, enabling banks to support

higher economic activities in the Sultanate through meeting the requirements for credit and other banking services.

In the above backdrop, the growth outlook for the Omani economy appears to be robust over the short-term. Nonetheless, some downside risks to

the outlook over the medium-term may emanate from tightening of global financial conditions and uncertainty about oil prices, especially on account of progress with regard to the alternative fuels and increase in supply by the countries outside the cartel of OPEC and non-OPEC oil producers.

Output, Employment and Prices

OUTPUT, EMPLOYMENT AND PRICES

The Sultanate's economy is witnessing a structural transformation with diversification leading to accelerated non-oil economic activities and reduced dependence on hydrocarbon sector over the last few years. The economy recovered in 2017 from the contraction witnessed during the last two consecutive years, and the momentum gained by economic activity was primarily driven by a surge in oil prices and economic diversification efforts producing positive results (Table 2.1 and Chart 2.1). The average Omani oil price increased by about 27.8 percent to US\$ 51.3 per barrel in 2017 from US\$ 40.1 a barrel in 2016. The nominal gross domestic product (GDP) grew by 8.7 percent in 2017, as against a contraction of 15.0 percent and 3.0 percent in 2015 and 2016, respectively. The economic recovery in 2017 was fairly broad-based with both hydrocarbon activity and non-hydrocarbon activity growing by 20.8 percent and 3.9 percent, respectively, as against a contraction of 20.7 percent and a growth of 2.6 percent experienced in 2016, respectively (Chart 2.2). Among non hydrocarbon activities, all three groups viz. industry, services, and agriculture & fishing witnessed growth during 2017. The non-oil external demand also contributed to the upturn, as reflected by a substantial growth in non-oil exports. The significant uptick in non-oil exports also suggests the diversification program gaining traction, reflecting the progress of policy efforts to boost diversification. The government continued with a fiscal consolidation through rationalization of expenditure and augmentation of non-oil revenue,

albeit it was a dragger on aggregate demand and in turn, on growth.

The hydrocarbon sector persisted as the main driver of Omani economy, despite diversification program fostering greater non-hydrocarbon activities. Besides direct contribution, this sector supports the economy indirectly through strong interlinkages and spillovers to non-oil activities. The share of hydrocarbon sector in the nominal value addition at market prices increased to 30.1 percent in 2017 from 27.1 percent during 2016, however, it continued to be much lower compared to that in 2012. The contribution of this sector to the government revenue also improved to 72.9 percent in 2017 from 68.2 percent in the preceding year. Although non-oil exports have grown substantially, the oil & gas exports accounted for a major share in total merchandise exports with their share edging up to 58.3 percent in 2017 from 57.9 percent in 2016. Notwithstanding a significant contribution of the hydrocarbon sector to economic activities, the economy's dependence on this sector is reducing, reflecting the success of the public policy in this regard.

Investment environment, which had deteriorated during the contraction period, appears to have remained subdued as suggested by decelerating credit growth in the economy. Improvement in macroeconomic indicators in conjunction with recovery in oil prices, however, helped in overcoming the uncertainty to some extent, which

Chart 2.1: Nominal GDP Growth and Change in Oil Prices

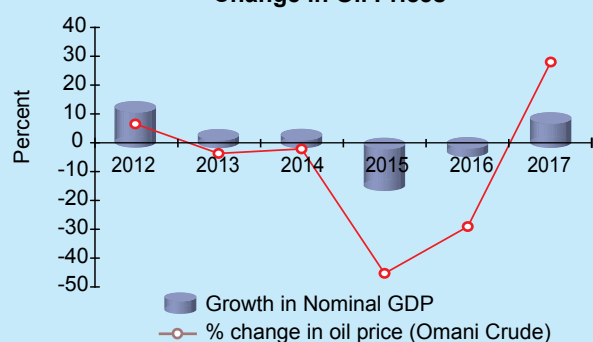
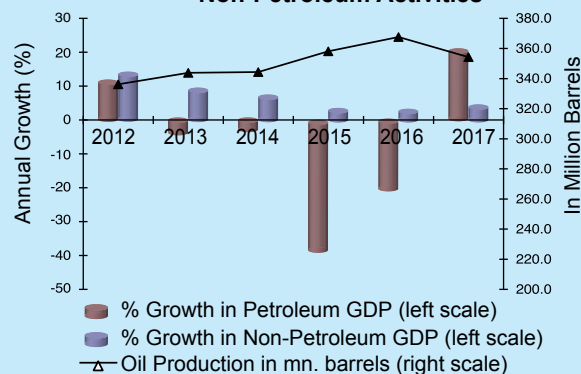


Chart 2.2: Oil Production, Petroleum & Non-Petroleum Activities



**Table 2.1
Output Indicators**

Items	2013	2014	2015	2016*	2017**
GDP at current market price (R.O. Million)	30292.6	31173.9	26494.0	25694.0	27931.1
Annual Growth (%)	2.8	2.9	-15.0	-3.0	8.7
GDP at constant 2010 prices (R.O. Million)	25837.9	26145.4	27384.3	28858.4	NA
Annual Growth (%)	5.3	1.2	4.7	5.4	NA
GDP Deflator	117.2	119.2	96.7	89.0	NA
Annual Growth (%)	-1.4	1.7	-18.9	-8.0	NA
Share in GDP at Current Market Price (in per cent)#					
1. Petroleum Activities	49.1	46.4	33.2	27.1	30.1
1.1 Crude Petroleum	46.7	43.1	28.6	22.3	25.3
1.2 Natural Gas	3.9	3.2	4.5	4.8	4.9
2. Non-Petroleum activities	56.8	59.9	72.5	76.7	73.7
2.1 Agri. and Fishing	1.2	1.3	1.7	1.9	1.9
2.2 Industry	18.1	17.8	21.0	21.0	19.7
2.3 Services Activities	37.4	40.9	49.7	53.7	51.6
Components of GDP (in per cent)					
a. Private Consumption	30.2	30.7	37.5	38.5	NA
b. Government Consumption	21.3	24.7	28.1	29.1	NA
c. Capital Formation (investment)	24.4	24.1	28.5	29.2	NA
d. Exports-Imports (goods and services)	22.3	22.8	2.1	-0.1	NA

* Provisional ** Preliminary NA: Not Available

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

Source: National Center for Statistics and Information.

is critical to bolstering investors' confidence going forward. At the same time, the consumption demand gained some momentum on the back of a general upswing in the economy. The external demand also gained traction reflecting robust growth in global economic activities and merchandise trade.

Employment scenario has been very challenging despite economic activity gaining a momentum, however, the Government and other stakeholders have been endeavoring to address this challenge effectively. The private sector has come forward and provided higher employment to Omani nationals, which is notable given the limited employment capacity available in the public sector (Table 2.5). The employment provided to Omani nationals by the private sector increased by 7.0 percent during 2017 as against 6.4 percent in 2016. The growth of overall employment in private sector, however, decelerated from 9.0 percent in 2016 to 1.2 percent in 2017, which was primarily contributed by a significantly lower incremental employment to the expatriates.

Imported inflation is the main driver of Oman's headline inflation reflecting its elevated global integration and the currency peg arrangement. Increase in inflation rates of its trading partners, fluctuations in global commodity prices, appreciation/depreciation of the US dollar, and domestic monetary conditions generally condition the price situation in the Sultanate. Inflationary conditions remained comfortable and supportive of growth, despite some surge in inflation in the recent past. The average inflation based on consumer price index (CPI) for the Sultanate edged up to 1.6 percent in 2017 from 1.1 percent during 2016 and 0.1 percent in 2015, which was mainly

attributed to hardening of international commodity prices, depreciation in US dollar exchange rate, less-than-anticipated reduction in government spending, and reduction in subsidy especially on electricity.

Public policy continued to focus on structural reforms to enhance the participation of private sector in strengthening and sustaining the growth momentum over medium to long-term. As part of overall reforms agenda, the fiscal policy displayed its commitment towards consolidation through a combination of expenditure rationalization and non-oil revenue augmenting measures to improve fiscal metrics and macroeconomic stability. On the other hand, the monetary policy continued to support growth by ensuring appropriate liquidity in the banking system to meet the legitimate credit needs of all segments. Interest rates, however, hardened in the recent past mainly following the trends in the USA due to the currency peg. Increased involvement of the private sector, including through public-private partnership (PPP) and foreign direct investment (FDI), is also being promoted by the Government and various other stakeholders. Notwithstanding all these policy measures, the real GDP growth is expected to be almost zero in 2017 mainly due to voluntary implementation of OPEC and Non-OPEC agreement to reduce oil production.

The non-oil sector, which has been growing modestly, is becoming increasingly important for generating employment opportunities and ensuring sustainable growth in the economy over the medium to long run. In recent years, the policy efforts are undertaken to improve the overall business and investment environment so

that non-oil sector could prosper with increased participation of private sector. The intensified diversification efforts are fostering the progress of non-oil sector, however, the growth in oil sector on the back of a recovery in oil prices is also contributed to non-oil activities, reflecting inter-linkages. The financial sector has also been actively participating in nurturing the non-oil sector in the economy by providing requisite funding and other services, including promoting Small and Medium Enterprises (SMEs).

The Ninth Five-Year Development Plan, which has been broadly drawn from the Vision 2020, made rapid progress, giving the necessary impetus to economic diversification and resilience. In this regard, National Programme for Enhancing Economic Diversification, 'Tanfeedh' continued to concentrate on five critical sectors. The finance and labour continued to remain enablers for implementing various programs in the identified five sectors. The higher investment in the economy, particularly in the identified areas under "Tanfeedh" through the public-private partnership and improving the business environment by eliminating impediments would strengthen economic diversification and promote

sustainable growth. Furthermore, going beyond 2020, the Vision 2040 also continues to focus on economic diversification to develop a more diversified, dynamic, globally integrated and competitive economy for ensuring sustainable growth over the long-run. The Vision 2040 envisages continuing building world-class infrastructure including a widespread local rail network, information technology, and communication networks, which would enable the Sultanate to develop as a competitive logistics hub and a center for communication between neighboring countries.

Petroleum Activities

Petroleum activities continued to remain critical due to their direct and indirect contribution to the economic activity of the Sultanate, despite the reduction of its share in GDP over the last few years until it improved somewhat in 2017 (Chart 2.3). Chapter III provides an analysis of the economics of the hydrocarbon sector in Oman in the context of recent developments in the world oil market.

International oil prices recovered from their lowest

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

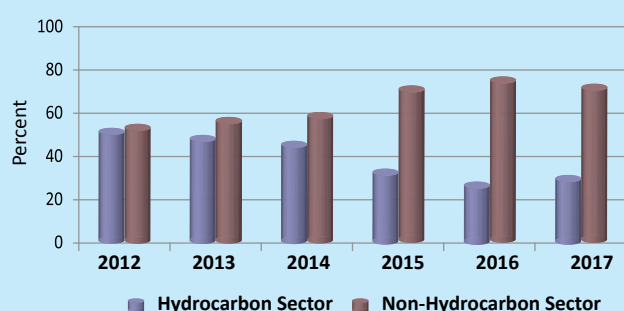
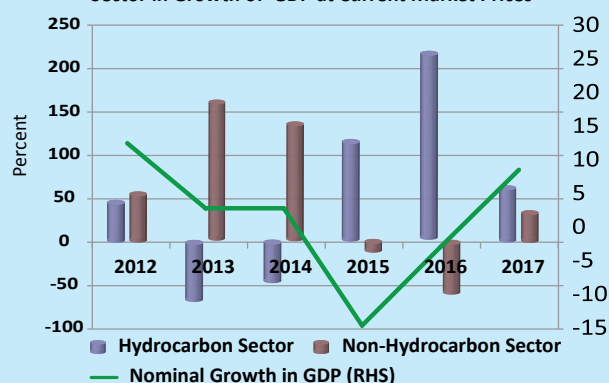


Chart 2.3 (b): Contribution of Hydrocarbon and Non-Hydrocarbon Sector in Growth of GDP at Current Market Prices



level since 2002 with global inventories finally starting to respond to OPEC and Non-OPEC oil producers' agreement to cap crude production to clear excess global supply and an uptick in demand reflecting strong global growth. The extension of the agreement until end of 2018, decided in November 2017, further gave a boost to oil prices. Oman's crude oil production dropped during 2017 by 3.6 percent to reach 354.3 million barrel compared to 367.6 million barrel in 2016 mainly due to implementation of the aforesaid agreement. The daily average production during 2017 was lower at 970.6 thousand barrel compared to 1004.3 thousand in 2016. The crude oil production during January-March 2018 decreased by 0.2 percent to 87.03 million barrels from 87.18 million barrels in January-March 2017. During this period, the daily average production of crude oil dropped to 967.0 thousand barrels from 968.7 thousand barrels during the corresponding period a year ago. Notwithstanding a drop in production, the recovery in oil prices drove up the nominal GDP emanating from the hydrocarbon sector, which registered a growth of 20.8 percent in 2017 as compared to a contraction of 20.7 percent in 2016 (Table 2.2). The pronounced growth in petroleum activities was credited to the value addition from crude oil, which grew by 23.0 percent and contributed about 91 percent to the growth of petroleum activities. While the value addition emanating from natural gas witnessed a growth of 10.5 percent and contributed about 9 percent to the incremental petroleum activities during 2017. The rise in petroleum activities in 2017 contributed 64.7 percent to the growth of nominal GDP. The surge in oil prices following a drop in global supply and a resurgent global demand led to expansion of nominal GDP in the

hydrocarbon sector during 2017. In fact, the surge in international oil prices helped Oman to recover some portion of its nominal GDP that was lost during the contractionary period 2015 and 2016. The average Omani crude oil prices increased to US\$ 51.3 per barrel during 2017 as compared to US\$ 40.1 a barrel during 2016. During January-March 2018, the international prices for Omani crude oil averaged US\$ 62.9 per barrel as compared with US\$ 50.4 per barrel during January-March 2017.

The hydrocarbon sector remained the backbone of Omani economy with its direct and indirect contribution over the years. The economic diversification has been planned and promoted in a big way to insulate the economy from the vagaries of commodity prices in general and oil prices in particular, and a tangible progress has been made in this regard. The oil sector also played a prominent role in fostering economic diversification through promoting activities in the allied industries such as fertilizer, petrochemicals, aluminum, power generation and water desalination. The planned projects in hydrocarbons sector that are being implemented would not only support in maintaining the current crude oil production levels but also aid diversification through associated industries. Oman produced crude oil amounting to 354.3 million barrels during 2017, of which, 294.2 million barrels were exported and the remaining of 60.1 million barrels were used by domestic refineries. The usage of crude oil by domestic refineries jumped considerably during 2017 due to a significant increase in exports of refined oil. On the contrary, the bulk of natural gas production was used domestically in gas-based industries, oil fields, and power generation. In terms of direct contributions, oil and gas constituted 25.3

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

Activities	2013	2014	2015	2016*	2017**	% Change (2016/15)	% Change (2017/16)
1. Industry (1.1 + 1.2)	20466.7	19989.7	14356.9	12377.1	13924.9	-13.8	12.5
1.1 Petroleum Activities	14874.4	14450.2	8788.7	6970.9	8419.2	-20.7	20.8
- Crude Petroleum	13826.0	13448.2	7587.5	5737.9	7057.1	-24.4	23.0
- Natural Gas	1048.4	1002.0	1201.3	1232.9	1362.1	2.6	10.5
1.2 Non-Petroleum Industrial Activities	5592.3	5539.5	5568.2	5406.2	5505.7	-2.9	1.8
- Mining and Quarrying	110.6	120.0	122.8	131.0	151.5	6.6	15.7
- Manufacturing	3244.7	3059.7	2866.4	2449.3	2673.4	-14.6	9.2
- Electricity & Water Supply	434.5	455.6	511.9	540.9	571.7	5.7	5.7
- Construction	1802.5	1904.2	2067.1	2285.1	2109.2	10.5	-7.7
2. Agriculture & Fishing	395.0	396.6	452.7	494.8	529.4	9.3	7.0
3. Services	11437.2	12741.7	13180.6	13794.9	14425.9	4.7	4.6
- Wholesale & Retail Trade	2143.8	2234.5	2239.0	2147.7	2318.8	-4.1	8.0
- Hotels & Restaurants	219.1	238.0	255.8	267.5	286.8	4.6	7.2
- Transport, Storage & Communication	1516.2	1485.0	1593.3	1482.1	1623.8	-7.0	9.6
- Financial Intermediation	1331.5	1427.8	1486.6	1549.5	1614.5	4.2	4.2
- Real Estate & Business Activities	1143.0	1202.5	1249.4	1325.3	1412.0	6.1	6.5
- Public Administration & Defence	2834.1	3192.7	3296.5	3708.1	3652.1	12.5	-1.5
- Other Services (Education, Health, Community/Personal Services, and Private Household)	2249.7	2961.0	3060.1	3314.7	3517.9	8.3	6.1
4. Total Non-Petroleum Activities (1.2 + 2 +3)	17424.5	18677.8	19201.5	19695.9	20461.1	2.6	3.9
5. Less Financial Intermediation Services Indirectly Measured	591.1	629.3	693.1	782.4	760.0	12.9	-2.9
6. Gross Domestic Product at Producers Prices (1.1+4-5)	31707.9	32498.7	27297.1	25884.3	28120.3	-5.2	8.6
7. Plus :Taxes Less Subsidies on Products	-1415.3	-1324.8	-803.1	-190.3	-189.1	-76.3	0.6
8. Gross Domestic Product at Market Prices (6+7)	30292.6	31173.9	26494.0	25694.0	27931.1	-3.0	8.7

* Provisional

** Preliminary

Source: National Center for Statistics and Information.

percent and 4.9 percent of nominal GDP in 2017, respectively, as against 22.3 percent and 4.8 percent in 2016, respectively (Table 2.1).

Non-Petroleum Activities

The non-petroleum sector continued to attract the attention of policy authorities, reflecting the importance of this sector for economic diversification and sustainable growth in the economy. The concerned authorities are pushing non-petroleum activities through improving the investment climate, facilitating trade with countries in GCC region and outside, promoting tourism etc. The World Bank's Ease of Doing Business report ranked Oman 3rd among the GCC countries and 71st globally. The various initiatives implemented under the 9th Development Plan, which has been drawn from the Vision 2020, made rapid progress in 2017 with a tangible contribution to the economic diversification in the economy. The Vision 2020 aims at steering the Sultanate towards a more diversified and stable economy by creating favorable economic conditions. The Government intends to use hydrocarbon revenues to achieve economic diversification, but at the same time for providing basic public services and improving human capital.

Non-petroleum activities made good progress in the last few years due to diversification efforts and various other policy measures undertaken to nurture the private-sector led growth in the economy. The rebound in petroleum activities also contributed to the non-petroleum activities, reflecting strong inter-linkages. The growth of non-hydrocarbon sector accelerated to 3.9 percent in 2017 from 2.6 percent during 2016, with major

contribution to non-oil GDP stemming from the services activities [Chart 2.4 (a) & (b)]. Although the share of services activities in non-petroleum value addition continued to be highest, its contribution to incremental value addition declined while that of non-petroleum industrial activities increased in 2017, mainly due to an upsurge in manufacturing activities.

The National Program for Enhancing Economic Diversification, 'Tanfeedh', an action-oriented program formulated to bolster economic activities in non-oil sector to achieve the goals of the Development Plan continued to concentrate on five sectors, viz. (i) manufacturing, (ii) tourism, (iii) logistics, (iv) fisheries and (v) mining for identifying and implementing various projects and initiatives with a monitorable action plan. Besides, the finance and labour act as facilitators for implementing policy and programs in the aforementioned sectors. Under the Tanfeedh plan, a total of 121 projects and initiatives would be taken up, which are expected to generate significant investment opportunities with the private sector bringing in the major share. It is anticipated that around 30,000 jobs for Omanis would be created through this by 2020. Furthermore, the Vision 2040 also continues to foster economic diversification to develop a more diversified, globally integrated and competitive economy for ensuring a sustainable growth over the long-run with increased participation of the private sector.

The public-private partnership (PPP) also focuses on promoting private-sector-led diversification and growth in the economy under the 9th Development Plan, which targets projects worth RO 2.52 billion

to be delivered by 2020 through PPP. The Government is contemplating setting up a dedicated PPP authority for execution and monitoring of infrastructure and other civil projects, which would pave the way for enhanced participation of private sector in the Sultanate. Furthermore, the participation of private sector would be increased through privatization of government assets, aiming at improving efficiency and productivity, besides helping in generating non-oil non-tax receipts for financing fiscal deficit. The enactment of Foreign Investment Law and Bankruptcy Law are under active consideration, which would encourage domestic and foreign investors greatly and promote diversification in the Sultanate. The Capital Market Authority (CMA) recently issued the regulatory framework for introduction and trading of real estate investment trusts (REITs) on the Muscat Securities Market, which would boost private investment in the real state sector and contribute to non-petroleum activities.

Non-Petroleum Industrial Activities

The non-petroleum industrial activities grew by 1.8 percent in 2017 as against an annual average decline of 1.2 percent witnessed during the contractionary period 2015-2016. The rebound in non-petroleum industrial activities in 2017 was driven by an upturn in both domestic and external demand, conditioned by domestic economic recovery and robust global growth. A reasonable growth of bank credit suggests some improvement in consumption demand in the economy, while upsurge in growth of non-oil exports (32.4 percent) is indicative of the robust external demand. The component-wise analysis indicates that the manufacturing activity remained the main

propeller of growth in non-petroleum industrial activities during 2017, albeit other activities such as mining and quarrying and electricity & water supply also contributed. The manufacturing sector registered a robust growth of 9.2 percent, after experiencing an average annual contraction of 10.4 percent during the period 2015-2016. The mining & quarry witnessed a considerable growth of 15.7 percent in 2017 as against an average annual growth of 4.5 percent during the last two years 2015-2016. The electricity & water activities exhibited a growth of 5.7 percent in 2017, exactly the same as in 2016 but much decelerated as compared to 12.4 percent in 2015. On the contrary, the value addition emanating from the construction activities experienced a sharp contraction of 7.7 percent in 2017, as against an average annual growth of 9.6 percent during the contractionary period 2015-2016, suggesting a lagged effect of economic slowdown on this sector. The manufacturing contributed 225.2 percent to the incremental value addition in non-petroleum industrial activities during 2017, followed by electricity & water supply (31.0 percent), and mining (20.6 percent). The construction, however, contributed a negative of 176.8 percent to the incremental value addition in non-petroleum industrial activities. Accordingly, the share of manufacturing sector in the GDP emanating from non-petroleum industrial activities increased to 48.6 percent in 2017 from 45.3 percent during 2016, while the share of construction activities declined to 38.3 percent from 42.3 percent during this period. At the macro level, the manufacturing sector contributed 9.6 percent to the overall GDP in 2017, lower as compared to the annual average of 10.2 percent during the period 2015-2016. The contribution of manufacturing sector in the overall

GDP is targeted at about 15 percent by 2020 under diversification program and vision 2020.

The non-oil industrial activities, especially manufacturing are accorded priority in the Ninth Development Plan (2016-2020), aiming at enhancing economic diversification in the economy. The concerted efforts are underway to develop the identified five sectors under “Tanfeedh” to enhance the potential and attain higher growth in the non-oil industrial sector. The increased role of private sector in the economy by encouraging domestic and foreign investment would also boost the growth of non-oil industrial activities. The policy initiatives such as public-private partnership, developing industrial clusters, industrial estates, and free zones, and removal of impediments to conduct business, etc. would facilitate higher private sector investment in the Sultanate. Some of the ongoing projects in the non-oil industrial sector are Liwa Plastics, Mirrah Solar, and Duqm special economic zone, which would contribute significantly to non-oil activities and diversification. Liwa Plastics, which is expected to come into steam shortly, would contribute significantly to job creations and the country’s GDP. The Duqm Special Economic

Zone (SEZ) is an integrated development project comprising of a seaport, industrial area, new town, fishing harbor, tourist zone, a logistics center and an education and training zone and hence, it would significantly bolster the non-oil economic activities including manufacturing and play a key role in diversification. The upgradation of infrastructure, including Muscat New Airport, would also act as the enabler to boost private-sector led economic activities including tourism-related in the Sultanate. Furthermore, the completion of major road projects (such as the Batinah Expressway and the Saudi-Oman road) would help in developing Oman as a logistics hub. The plans are also underway to build six solar and wind projects, aiming to produce a combined renewable energy up to 2.65 GW by 2024, which would not only provide clean energy but also spare more hydrocarbon resources for exports.

Small and Medium Enterprises (SMEs) remain a backbone of the economy by creating employment, promoting innovation and technology, and contributing to value addition and inclusive growth. SMEs sector’s contribution to the non-oil industrial activities also remains paramount

Chart 2.4 (a): Share in Non-Oil GDP (Current Prices)

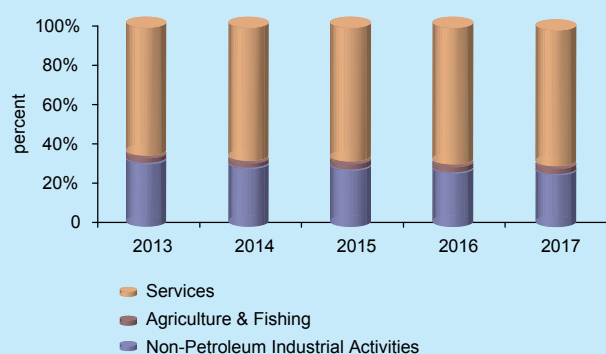
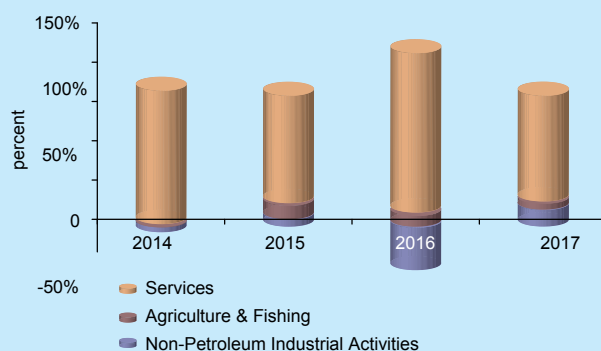


Chart 2.4 (b): Contribution to Incremental Value Addition in Non-Oil Sector (Current Prices)



and accordingly, this sector finds a central place in the diversification program. Recognizing its importance, the Government and other concerned authorities including the Central Bank of Oman (CBO) have been undertaking policy measures to nurture and promote SMEs. The CBO has mandated banks to lend a minimum 5 percent of their total credit to the SME sector. Furthermore, CBO allowed banks to reckon non-funded credit, up to a maximum of 1 percent of total credit, within the overall target of 5 percent to ease the flow of non-funded credit to SMEs. Notwithstanding their concerted efforts, the banks are yet to fully achieve the target of lending to SME sector due to various constraints such as lack of capacity, inadequate credit information, higher riskiness, lack of collaterals, etc. The Government and other agencies are undertaking various capacity building programs for the SME sector, while at the same time alternative sources of financing through the Al Raffd Fund, the SME development Fund, etc. are promoted and encouraged.

Agriculture and Fishing

The agriculture and fishing sector is gaining prominence under the diversification programme due to a huge scope especially in fishing as Oman is endowed with a long marine belt. The agriculture, however, faces natural constraints due to the topography with scanty rainfall and very limited underground water, and therefore, Oman is not able to attain self-sufficiency in food grains and other agricultural products. Hence, the movements in international commodity prices often have a bearing on the price situation in Oman. International commodity prices, after remaining largely benign, inched up considerably

and added to inflation during 2017. Agriculture and fishing sector witnessed a robust growth of 7.0 percent in 2017, albeit lower as compared to an annual average growth of 11.7 percent during the period 2015-2016. The agriculture and fishing contributed around 2.0 percent to the overall GDP in 2017, almost same as in 2016. The contribution of agriculture and fishing to the GDP emanating from non-oil activities improved marginally to 2.6 percent in 2017 from an annual average of 2.4 percent during the period 2015-2016. The real GDP stemming from agriculture and fishing sector also displayed progress during the recent years. The 'Vision 2020' has envisaged a target for annual average growth in the fishing sector at 5.6 percent with its contribution to GDP at 2 percent by 2020.

Services

The accentuated public policy's thrust on the economic diversification in the economy also helped considerably the growth in services sector over the last few years. The intended objective of policy initiatives has been to develop a healthy and competitive services sector in the country, which can meet the growing demand for various services by citizens in a cost-effective manner and at the same time, reduce dependence on imports of such services. The two sectors viz. logistics and tourism identified under "Tanfeedh" have got large potential and hence, these sectors would be pivotal in sustaining robust growth in the services sector and generating employment opportunities during the coming years. Improved infrastructure in terms of roads, ports, and airports has created a conducive environment to facilitate accelerated activities in both logistics and tourism sectors in the Sultanate.

The services sector continued on the upward trajectory and grew by 4.6 percent in nominal terms in 2017, somewhat at an accelerated pace in comparison to the annual average growth of 4.1 percent during the preceding two years. Consequently, the services sector accounted for 51.6 percent share in the overall GDP, along with contributing 28.2 percent to the growth of value addition in the economy during 2017. Among various service activities, the value addition stemming from 'transport, logistics & communication' registered a highest growth of 9.6 percent, followed by 'wholesale & retail trade (8.0 percent), 'hotels & restaurants' (7.2 percent), and 'real estate & business activities' (6.5 percent) during 2017. In terms of relative contribution, 'hotels & restaurants' and 'transport, storage & communication' together accounted for 25.5 percent of the growth in value addition of services sector. However, the above two sectors together contributed about 13.2 percent (2.0 percent and 11.2 percent, respectively) to the value addition emanating from the services sector. The 'public administration & defence' and 'other services' together still accounted for about 50 percent of the services value addition in 2017. The lower share of 'hotels & restaurants' and 'transport, storage & communication' services indicates an existence of a large untapped potential in these sectors, especially in the backdrop of significant improvement registered by transport and communication infrastructure in the Sultanate. The 'financial intermediation' services continued to grow in 2017 (4.2 percent), almost at a similar pace that was witnessed in the last two preceding years and contributed 11.2 percent to the value addition in the services sector.

Although growth of services is mainly dependent on domestic demand, the external demand is also becoming increasingly important especially for sectors like 'transport, storage & communication' and 'hotels and restaurants'. In 2017, a rebound in domestic demand led by the economic recovery along with resurgent external demand conditioned the growth of various services in the Sultanate. Notwithstanding a decline in construction activities, the growth of 'real estate & business services' was driven by improving business and investment environment in the country. The government is promoting tourism as an important contributor to the diversification and sustainable growth and accordingly, this sector has been identified under diversification programme "Tanfeedh" for implementing various initiatives and projects to boost tourism-related activities in the Sultanate. The "Vision 2020" has set a target of an annual average growth 5.3 percent for the tourism sector with a contribution to GDP at 3.3 percent by 2020. A total investment of RO 1.6 billion has been envisaged in the tourism sector during the Ninth Development Plan (2016-2020).

GDP at Constant Prices

Internationally, the real economic performance of an economy is gauged through GDP at constant prices, as the nominal GDP (current prices) contains pricing factor also, which can obfuscate the real activities completely at times (e.g. despite real growth being positive, the nominal growth was significantly negative during 2015 and 2016). The fluctuations in crude oil prices in the international markets make nominal GDP in an oil-exporting country like Oman prone to volatility. Similar would be the case of other countries where commodity

exports are the mainstay of the economy. On the contrary, the domestic prices exert a major influence on the nominal GDP in the rest of the world, especially in non-commodity exporting countries. Nonetheless, both nominal and real GDP are considered important for macroeconomic analysis and policy purpose in the oil exporting countries.

Latest available data exhibits that Oman's real GDP at constant prices (Base year: 2010) grew higher by 5.4 percent in 2016, in comparison with 4.7 percent during 2015 (Table 2.3). The higher pace of real growth in 2016 was mainly attributed to lower spending on subsidies by the government, as all sectors including hydrocarbon witnessed a decelerated growth during the year. The hydrocarbon sector's real GDP grew by 2.3 percent during 2016 as against 4.4 percent in 2015. Oil and natural gas production increased by 2.3 percent and 2.1 percent, respectively, during 2016, as compared to 4.6 percent and 2.3 percent, respectively, in 2015. The real GDP originating from the non-hydrocarbon sector, however, registered a drop in growth to 1.8 percent in 2016 from 5.5 percent during 2015. The share of hydrocarbon sector in the real GDP also declined to 41.1 percent in 2016 from 42.3 percent during 2015, while the share of non-hydrocarbon sector dropped to 62.4 percent from 64.6 percent during this period on account of deceleration across all sub-sectors.

Among the non-petroleum activities, the real value addition emanating from agriculture and fishing sector registered a highest growth of 7.8 percent, followed by non-petroleum industrial activities (5.1 percent), and services sector (0.2 percent) in 2016. The real growth in non-petroleum industrial

activities in 2016 was mainly driven by 'building and construction' activities and 'electricity and water supply', which grew by 10.4 percent and 9.5 percent, respectively. The 'mining and quarrying' witnessed a real growth of 2.2 percent (10.4 percent in 2015), whereas manufacturing activities registered a muted real growth of 0.2 percent (5.9 percent last year). Among the services, the 'real estate and business activities' recorded highest real growth (4.4 percent) in 2016, followed by 'hotels and restaurants' (3.5 percent), 'financial intermediation' (3.4 percent), and 'education' (3.3 percent). The real activities in "wholesale & retail trade" and 'transport, storage & communication' contracted during 2016. The decelerated real growth in several constituents and a contraction in few constituents of non-petroleum activities during 2016 were attributed to domestic economic slowdown and a muted external demand.

Saving and Capital Formation

After decreasing significantly in 2014, Oman's gross capital formation as a proportion to GDP resumed an upward trend since 2015, which was largely attributed to a substantial fall in GDP and hence, may not be construed as improving investment in the country (Table 2.4). The gross capital formation as a proportion to GDP improved from 28.5 percent in 2015 to 29.2 percent in 2016. The average of investment rate for the past five years (2012-2016) amounted to 27.6 percent. As the average real GDP growth for the same period was 5.2 percent, the average incremental capital-output ratio stood at 5.3 during this period. The nominal value of gross capital formation, however, decreased by 0.79 percent in 2016. The componentwise analysis displays that the

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

Activities	2013	2014	2015	2016*	% Change (2015/14)	% Change (2016/15)
1. Industry (1.1 + 1.2)	15987.5	16025.8	16893.9	17430.2	5.4	3.2
1.1 Petroleum Activities	11212.8	11097.5	11588.1	11856.0	4.4	2.3
- Crude Petroleum	10295.5	10230.5	10701.0	10949.8	4.6	2.3
- Natural Gas	917.3	867.0	887.1	906.1	2.3	2.1
1.2 Non-Petroleum Industrial Activities	4774.7	4928.3	5305.8	5574.2	7.7	5.1
- Mining and Quarrying	89.3	100.0	110.5	112.9	10.4	2.2
- Manufacturing	2583.6	2501.4	2649.4	2655.1	5.9	0.2
- Electricity & Water supply	422.8	478.4	533.8	584.6	11.6	9.5
- Building and Construction	1679.1	1848.5	2012.1	2221.5	8.9	10.4
2. Agriculture & Fishing	364.5	371.0	433.7	467.3	16.9	7.8
- Agriculture	226.0	229.3	261.3	279.9	13.9	7.1
- Fishing	138.4	141.7	172.4	187.4	21.7	8.7
3. Services	10888.7	11469.8	11954.6	11974.9	4.2	0.2
- Wholesale & Retail Trade	2130.3	2122.2	2221.1	2149.2	4.7	-3.2
- Hotels & Restaurants	219.7	234.2	259.7	268.7	10.9	3.5
- Transport, Storage & Communication	1510.2	1651.5	1738.6	1701.2	5.3	-2.2
- Financial Intermediation	1251.6	1377.1	1460.5	1509.6	6.1	3.4
- Real Estate & Business Activities	1095.5	1121.4	1173.8	1226.0	4.7	4.4
- Public Administration & Defence	2596.1	2653.5	2732.6	2692.2	3.0	-1.5
- Education	1200.5	1320.1	1362.6	1407.6	3.2	3.3
- Health	489.5	537.9	546.9	555.5	1.7	1.6
- Other Community, Social and Personal Services	294.9	346.1	342.2	337.1	-1.1	-1.5
- Private Household with Employed Persons	100.4	105.7	116.6	127.9	10.4	9.6
4. Total Non-Petroleum Activities (1.2 + 2 + 3)	16027.9	16769.0	17694.1	18016.3	5.5	1.8
5. Less Financial Intermediation Services Indirectly Measured	577.2	648.4	720.6	804.7	11.1	11.7
6. Gross Domestic Product at Producers Prices (1.1+4-5)	26663.5	27218.2	28561.6	29067.6	4.9	1.8
7. Plus : Taxes Less Subsidies on Products	-1218.5	-1072.7	-1177.3	-209.2	9.7	-82.2
8. Gross Domestic Product at Market Prices (6+7)	25445.1	26145.4	27384.3	28858.4	4.7	5.4

* Provisional

Source: National Center for Statistics and Information.

gross capital formation in the form of machinery and equipment experienced a largest drop of 26.2 percent, followed by intangible fixed assets (2.8 percent) in 2016. However, the aforementioned decline was somewhat offset by the increase of 5.6 percent in the gross capital formation's largest component, "building and construction". Oman's investment growth, in both oil and non-oil sectors, is driven mainly by government efforts and its ability to finance such growth. Government investment expenditure constituted a significant part of the total capital formation in 2016, reflecting its predominant role in sustaining investment growth in the country. A significant drop in oil revenue and fiscal consolidation being pursued to support the macro stability, however, constrained the government spending in the recent past, which in turn impacted the investment in the economy. Notwithstanding the government's predominant contribution, the private sector led investment growth is becoming increasingly imperative for

ensuring a sustainable growth and accordingly, it has been accorded utmost importance under the diversification program. The foreign investment law, which is under consideration, would pave the way for increased foreign investment in the Sultanate.

National savings generally play a predominant role in financing capital formation and a surplus in the former over latter means investments made in foreign assets and a deficit means an inflow of funds from abroad to finance domestic capital formation. Historically, Oman remained a net oil exporter, and hence, enjoyed large surpluses in current account which were used for investment in foreign assets. However, the current account balance turned into a large deficit since 2015 on account of a steep fall in oil exports, which in conjunction with a fiscal deficit led to a decline in domestic savings. Overall gross domestic savings decreased by 8.6 percent in 2016, and their ratio

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

Items	2013	2014	2015	2016*
A. Gross Capital Formation at Current Prices	7403.4	7522.9	7563.6	7504.2
(i) Building and Construction	4591.4	4850.3	5265.3	5560.2
(ii) Machinery & Equipment	1782.3	1699.8	1240.9	915.8
(iii) Intangible Fixed Assets	1029.7	972.8	1057.4	1028.3
Change in Inventories#	653.2	-796.5	948.1	824.8
B. Gross Capital Formation as % of GDP	29.1	24.1	28.5	29.2
C. Gross Domestic Saving	14805.9	13836.5	9080.3	8296.8
D. Net primary Income from abroad	-1244.0	-1648.2	-869.8	-752.5
E. Net current transfers from abroad	-3571.0	-4037.3	-4226.0	-4031.0
F. Gross National Saving (C+D+E)	9990.6	8151.0	3984.4	3513.3
G. Gross Domestic Saving as % of GDP	48.9	44.4	34.3	32.3
H. Gross National Saving as % of GDP	33.0	26.1	15.0	13.7

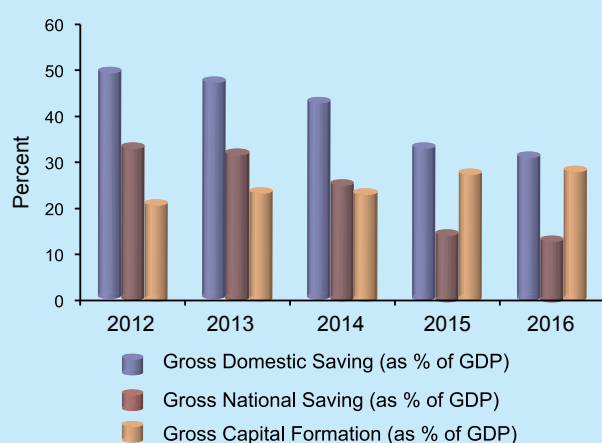
* Provisional

Not included in Gross Capital Formation.

Source: National Center for Statistics and Information.

as a percentage of GDP declined to 32.3 in 2016 from 34.3 in 2015 (Chart 2.5). On the other hand, the leakage of domestic savings in the form of net outflows under investment income (i.e. net interest and dividend payments on external liabilities) and workers' remittances abroad reduced during 2016 (Table 2.4). Expatriate worker remittances have been worth approximately RO 4 billion, while the net interest and dividend payments have been coming down due to the lower payment of dividends on foreign direct investment reflecting the economic slowdown. However, a comparison between gross domestic savings and gross national savings as ratio of GDP reveals that the former exceeded the latter by 18.6 percentage points in 2016, thus pointing to a sustained leakage of savings out of the country. Gross capital formation rate at 29.2 percent was much higher than the gross national saving rate of 13.7 percent, and hence, the gap was funded by external savings and disinvestment of foreign assets abroad, which reflected in current account deficit. The current account deficit increased from RO 4.2 billion in 2015 to 4.7 billion during 2016 but subsided to about RO 4.1 billion in 2017.

Chart 2.5: Oman's Saving & Investment Rates



Employment

The labour market in Oman has been providing employment to the nationals and a large number of expatriates over the last many years. The high growth propelled by hydrocarbon activities, except for slowdown since 2015 inflicted by a collapse in oil prices, created ample employment opportunities in the Sultanate. Notwithstanding slowdown in economic activities, the imbalance in the domestic labour market (i.e. demand for labor exceeding supply) led to meeting a large part of the demand from the external sources. Accordingly, the expatriate employment in Oman, particularly in the private sector, increased significantly during 2015 and 2016 (Table 2.5). The focus on diversification in the economy, which is making tangible progress, would not only promote sustainable growth by reducing dependence on the oil sector but also provide additional employment opportunities, especially in the private sector. The public sector remains the main employer of Omanis, while the private sector employs expatriates mostly. However, with a quasi-freeze on hiring in the public sector, the private sector was supported to take the lead role in employing Omanis, many of whom are fresh entrants to the workforce. The private sector has been creating new and sustainable employment opportunities for Omanis at a stable rate during the past few years and a further progress in diversification would create more such opportunities. In November 2017, the Omani Council of Ministers announced to provide jobs for 25,000 Omanis in public sector and private sector with a higher contribution expected from the latter due to a limited scope available in the former.

Table 2.5
Sector Wise Employment in Oman

Items	2013	2014	2015	2016	2017
A. Public Sector Employees (A1+A2+A3+A4)*	211129	225833	229467	233561	-
Omanis	180737	192222	193965	195937	-
Expatriates	30392	33611	35502	37624	-
A.1 Civil Service	166707	178965	180386	182138	-
Omanis	145736	154977	155761	155672	-
Expatriates	20971	23988	24625	26466	-
A.2 Diwan of Royal Court	12097	12202	13850	14415	-
Omanis	8545	8696	9004	9581	-
Expatriates	3552	3506	4846	4834	-
A.3 Royal Court Affairs	18717	19525	19552	19483	-
Omanis	15518	16229	16339	16313	-
Expatriates	3199	3296	3213	3170	-
A.4 Public Corporations	13608	15141	15679	17525	-
Omanis	10938	12320	12861	14371	-
Expatriates	2670	2821	2818	3154	-
B. Private Sector Employees	1652996	1707903	1845658	2011062	2034377
Omanis**	181860	197510	209620	223083	238688
Expatriates	1471136	1510393	1636038	1787979	1795689

* Excluding security and defense personnel.

** Registered with Public Authority for Social Insurance (PASI).

Source: National Center for Statistics and Information.

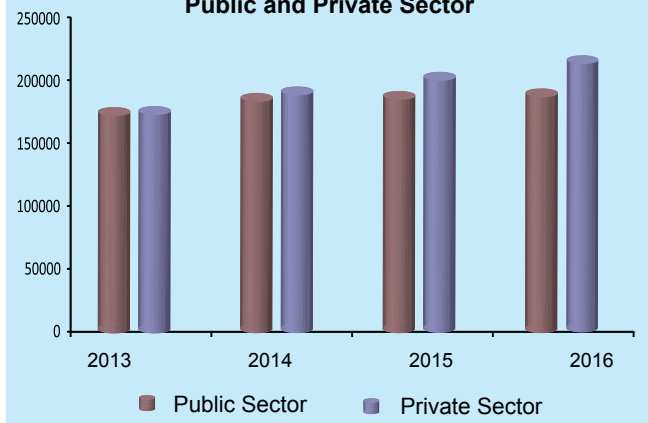
Public Sector

Providing adequate employment to Omani nationals has remained one of the core mandates of the Public sector over the years. Nonetheless, the share of Omani employees in the public sector continued to diminish while that of expatriate workforce witnessed a steady rise over the last few years, reflecting labour market mismatch. The share of Omanis employees in public sector dropped marginally to 83.9 percent in 2016 from 84.5 percent during 2015. The overall employment in the public sector recorded a growth of 1.8 percent in 2016, marginally higher than 1.6 percent in 2015 but much lower compared to the average 7.8 percent during 2013 and 2014. Omanis employed in the public sector grew by 1.0 percent during 2016, while expatriates employed in this sector grew by a more significant 6.0 percent. However,

the number of Omanis working in the public sector exceeds that of expatriates by more than five times. The significant growth in employment of expatriates in the public sector was mainly attributed to higher employment in civil service ministries.

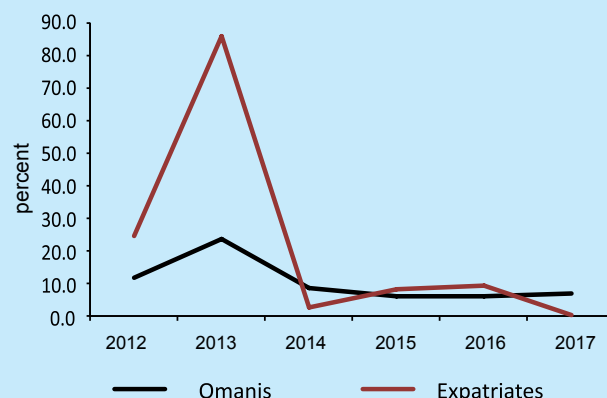
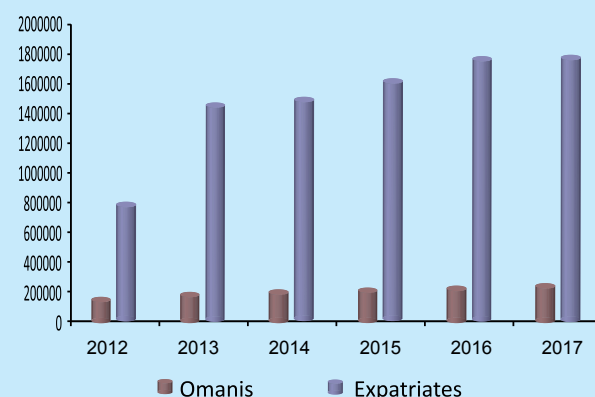
Private Sector

The private sector has been generating adequate employment opportunities over the last few years with expanding economic activities that reflect a good progress of diversification. Accordingly, this sector has assumed paramount importance to provide employment to Omani nationals with a limited scope existing in the public sector. The government provided numerous incentives to the private sector, enabling it to meet the Omanization target and the sector has been creating an

Chart 2.6: Employment for Omanis in Public and Private Sector

increasing number of new and sustainable employment opportunities for Omanis during the past few years. Consequently, the number of Omanis employed by the private sector exceeded that employed by the public sector since 2013 (Chart 2.6). During 2017, despite a significant growth in nominal GDP, the overall employment in private sector registered a moderate increase of 1.2 percent compared to an average of 8.5 percent in the previous two years. Nonetheless, the employment of Omanis in the private sector grew considerably by 7.0 percent in 2017 as against an average of 6.3 percent in 2015 and 2016 (Chart 2.7). A significant drop was registered in the growth of expatriate workforce in the private sector. The employment of expatriates in the private sector grew marginally by 0.4 percent in 2017 in comparison with 8.3 percent and 9.3 percent in 2015 and 2016, respectively. Nonetheless, the composition of employment in the private sector continued to be dominated by expatriate workers (Chart 2.8).

The sectoral composition of the employment in private sector shows that the construction sector employed the largest number of both Omani and expatriate workforce in 2017 with a share

Chart 2.7: Growth of Employment in Private Sector**Chart 2.8: Employment in Private Sector**

of 24 percent and 35 percent, respectively. The wholesale, retail trade & repair of motor vehicles sector employed the second largest Omani and expatriate workforce in the private sector with a share of 15 percent and 13 percent, respectively. The mining and quarrying sector employed the third largest share of Omanis in the private sector at 12 percent, while for the expatriate workforce it was the manufacturing sector, at the same percentage.

Prices

The price stability remains the top priority for both the Government and CBO and accordingly, the

timely measures are taken to ensure that inflation does not traverse beyond the tolerable limit. The steep recovery in oil prices since the second half of 2017 provided the much-needed respite, however, fiscal and external positions of Oman continued to remain challenging. Hence, the Government continued with fiscal consolidation through rationalizing expenditure and augmenting non-oil revenue. The fiscal measures included, inter alia, increase in tax rate, hike in fee of public services, and reduction in subsidy. Notwithstanding the above challenges, the authorities, especially the Public Authority for Consumer Protection have remained vigilant and intensified monitoring of prices to avoid unjustifiable hikes.

The price situation in Oman is affected by imported inflation to a large extent due to the currency peg arrangement, open capital account and a large dependence on imports of goods and services. The inflationary situation prevailing in its trading partners, fluctuations in global commodity prices, changes in the exchange rate of US\$, and transmission of monetary conditions from the USA shape up the price situation significantly in the Sultanate. Accordingly, it has been noticed that inflation in Oman has been tracking the inflation in advanced countries over the last few years. The consumer inflation in advanced economies is estimated to inch up to 2.0 percent in 2018, higher than 1.7 percent in 2017, mainly due to economic activities gaining further strength and output gap closing fast and hardening of oil and non-oil commodity prices. In emerging market and developing economies, the consumer inflation rate is estimated to rise to 4.6 percent in 2018 from 4.0 percent in 2017 (IMF, World Economic Outlook, April 2018). The consumer inflation in Oman

projected at 2.5 percent for 2018 is lower than that projected at 3.6 percent for the Gulf Cooperation Council (GCC) countries.

The average inflation based on CPI for the Sultanate increased to 1.6 percent in 2017 from 1.1 percent in 2016 mainly due to the recovery in international commodity prices, increase in inflation of trading partners, less-than-anticipated reduction in government spending and notable depreciation in US Dollar in real effective terms (Chart 2.9). In the above backdrop, the recent price situation in Oman could be explained in terms of both demand and supply side factors that stemmed from domestic as well as external sources (Table 2.6). On the demand side, a sharp recovery in crude oil prices and improved performance of diversification in the economy led to an upturn in the nominal GDP, despite fiscal consolidation pursued by the Government. The money supply, reflecting the domestic demand conditions, increased by 4.2 percent during 2017, higher as compared to 1.8 percent in 2016. At the same time, the bank credit growth decelerated to 6.4 percent in 2017 from 10.1 percent in the previous year. The expatriate workers, however, increased marginally in the private sector in 2017 as against a significant growth during the previous two years. The fiscal consolidation made further progress with total expenditure declining by 4.9 percent, contributing to lowering of domestic demand during 2017. On the other hand, a significant upsurge in crude oil prices in conjunction with a robust and widespread global growth led to increase in external demand for Oman during 2017. On the supply side, international non-fuel commodity prices jumped considerably by 6.8 percent in 2017 in comparison with a decline of 1.5 percent during

Table 2.6
Broad Sources of Inflation

(Percent)

Items	2013	2014	2015	2016	2017
Demand Condition					
(a) GDP Growth	2.9	2.9	-15.0	-3.0	8.7
(b) Increase in Govt Expenditure	3.1	8.5	-9.7	-5.8	-4.9
Monetary Expansion					
(a) Broad Money (M2) growth	9.4	15.3	10.0	1.8	4.2
(b) Credit growth	9.0	15.0	12.0	10.1	6.4
Supply Constraints/External Shocks					
(a) World Food Prices ¹	1.2	-4.1	-10.3	3.4	2.5
(b) World Metal Prices ²	-3.5	-10.1	-16.4	-4.8	22.5
(c) Housing, Water, Electricity, Gas and Other Fuels (Oman) ³	0.5	1.0	0.4	0.7	1.6
(d) Regional Inflation (Middle East & North Africa) ⁴	9.2	6.7	5.6	4.7	6.3
(e) NEER* Variation	3.6	5.6	3.5	2.0	-6.6
(f) Change in Import Price ⁵	-26.7	9.6	-35.5	-26.9	28.6
(g) Foreign Labour in Pvt. Sector (Annual absolute increase)	154954	39257	125645	151941	7710

* Nominal Effective Exchange Rate of RO (import weighted); minus indicates depreciation.

Source: 1,2&4: IMF, 3: National Center for Statistics and Information (Rent component in the CPI for the Sultanate).

5: Derived from NCSI data on value of imports and quantity of imports.

2016. The break-up of international non-fuel commodity prices shows that the world food prices increased by 2.5 percent in 2017, contributing to food inflation in Oman. The world metal prices increased by 22.5 percent in 2017. The nominal effective exchange rate (NEER) depreciated by 6.6 percent, suggesting higher import cost for

Oman during 2017. The change in imports price, namely unit value index of non-oil Omani imports, which encompasses the impact of inflation in the trading partners, international commodity prices and changes in the NEER, increased in 2017 by 28.6 percent, making imported goods costlier in Oman. With the continued slackening of demand for housing, the pressure on house rent moderated which was offset by increase in energy prices and other user fees as part of the fiscal reforms. Consequently, inflation of the “housing, water, electricity, gas and other fuels” edged up to 1.6 percent in 2017 as compared to 0.7 percent and 0.4 percent in 2016 and 2015, respectively. On a balance, the demand conditions remained largely muted, albeit with indication of some uptick, during 2017, while supply conditions mainly contributed to inflation in the Sultanate during 2017.

Chart 2.9: Annual Inflation in Oman

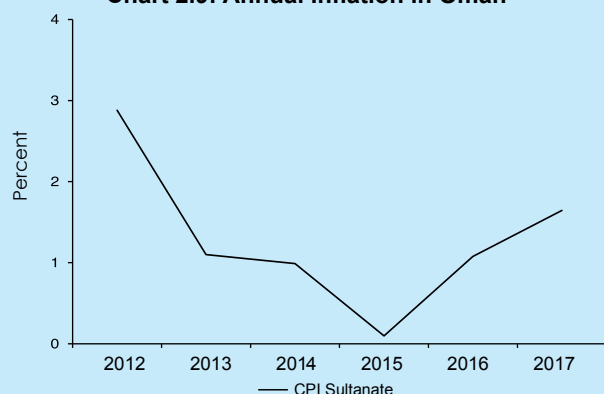
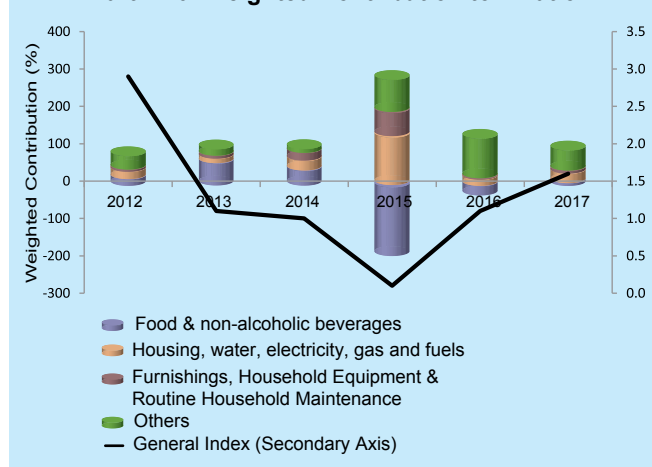
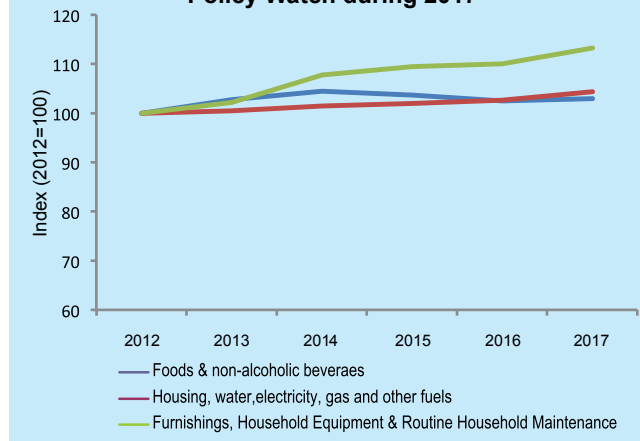


Chart 2.10: Weighted Contribution to Inflation



During 2017, the component-wise analysis shows -that overall inflation was mainly contributed by the increase in prices under the groups ‘transport’, ‘furnishings, household equipment & routine household maintenance’, ‘education’, ‘housing,

Chart 2.11: Sultanate CPI: Key Items for Policy Watch during 2017



water, electricity, gas & other fuels’, and ‘food & non-alcoholic beverages’. The decline in inflation under ‘communication’, however, partly offset inflation contributed by the above items (Table 2.7 & Table 2.8).

Table 2.7
Sultanate Consumer Price Index (2012 = 100)

Items of Consumption	Weights	2015	2016	2017	% change 2016/15	% change 2017/16
1. Food & Non-Alcoholic Beverages	23.903	103.7	102.5	103.0	-1.2	0.5
Cereals & Breads	3.020	101.3	99.5	99.1	-1.8	-0.5
Meat	6.103	103.1	103.2	103.6	0.1	0.4
Fish & Sea food	2.208	105.3	101.3	103.8	-3.8	2.4
Milk , Cheese & Eggs	2.865	101.5	100.4	99.8	-1.0	-0.7
Oil & Fats	0.715	100.0	99.4	99.3	-0.6	-0.1
Fruits	2.815	107.8	106.3	107.5	-1.4	1.2
Vegetables	2.493	108.2	104.6	106.3	-3.3	1.7
Sugar, Jam,Honey, Chocolate & Confectionary	1.135	100.3	100.6	101.1	0.4	0.4
Food Products n.e.c.	0.521	101.3	101.2	100.8	-0.1	-0.4
Non- Alcoholic Beverages	2.028	103.2	103.6	103.9	0.4	0.3
2. Tobacco	0.125	106.1	112.3	131.9	5.9	17.4
3. Clothing & Footwear	5.961	100.6	100.4	100.4	-0.2	-0.1
4. Housing,Water,Electricity, Gas & Other Fuels	26.477	102.0	102.7	104.4	0.7	1.6
5. Furnishings,Household Equipment & Routine Household Maintenance	3.787	109.5	110.1	113.3	0.6	2.9
6. Health	1.161	110.2	111.5	111.8	1.1	0.3
7. Transport	19.167	99.9	105.9	110.6	6.1	4.4
8. Communication	5.633	98.3	97.9	95.7	-0.4	-2.3
9. Recreation and Culture	1.135	98.7	98.4	98.7	-0.4	0.4
10. Education	1.368	114.8	118.2	122.2	3.0	3.4
11. Restaurants and Hotels	6.098	102.5	102.8	103.0	0.2	0.2
12. Miscellaneous goods and Services	5.185	100.2	100.4	102.0	0.2	1.6
General Price Index	100.0	102.2	103.3	105.0	1.1	1.6

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

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

Items of Consumption	Weights	2015	2016	2017	% change 2016/15	% change 2017/16
1. Food and Non-Alcoholic Beverages	16.822	104.0	102.2	103.0	-1.7	0.7
Cereals & Breads	2.170	100.3	98.6	98.9	-1.7	0.2
Meat	3.962	99.8	99.5	99.8	-0.3	0.3
Fish & Sea food	1.243	110.8	106.7	108.1	-3.8	1.4
Milk, Cheese & Eggs	2.054	101.4	100.6	101.3	-0.8	0.7
Oils and Fats	0.511	99.7	99.1	99.6	-0.6	0.5
Fruits	1.901	111.0	107.2	108.3	-3.4	1.1
Vegetables	1.962	109.2	102.7	104.6	-6.0	1.9
Sugar, Jam, Honey, Chocolate & Confectionary	0.895	101.6	102.1	102.5	0.5	0.4
Food Products n.e.c.	0.415	106.4	105.8	105.4	-0.6	-0.4
Non-Alcoholic Beverages	1.709	104.9	105.8	106.5	0.9	0.6
2. Tobacco	0.078	108.6	113.3	133.9	4.3	18.2
3. Clothing & Footwear	5.366	98.8	98.2	98.4	-0.6	0.2
4. Housing, Water, Electricity, Gas & Other Fuels	34.703	103.1	103.4	104.0	0.3	0.6
5. Furnishings, Household Equipment & Routine Household Maintenance	4.056	108.9	110.4	117.9	1.3	6.8
6. Health	1.329	103.5	104.2	104.2	0.7	0.0
7. Transport	19.268	100.7	106.3	110.5	5.5	4.0
8. Communication	5.372	98.1	97.5	95.3	-0.5	-2.2
9. Recreation and Culture	1.475	97.1	97.1	96.9	-0.1	-0.2
10. Education	1.843	120.8	125.5	130.6	3.9	4.0
11. Restaurants and Hotels	4.721	100.3	100.3	100.3	0.0	0.0
12. Miscellaneous Goods and Services	4.967	99.8	100.0	101.4	0.3	1.4
General Price Index	100.0	102.5	103.5	105.0	1.0	1.5

Note: 1. The weights are based on Household Expenditure and Income Survey by taking average for the years 2008, 2009 and 2010.

2. Data collected from all Willayats of Muscat Governorate.

3. Data are compiled on the basis of 7,920 priced items of goods and services from 266 selected sources.

4. Data on rent is collected from a sample of 600 rented units

Source: National Center for Statistics and Information.

Table 2.9
Producer Price Index (2007=100)

Items of Consumption	Weights	2015	2016	2017	% change 2016/15	% change 2017/16
First: Oil & Gas Products	79.534	116.1	90.6	106.0	-22.0	17.0
Crude Oil & Natural Gas	68.002	120.7	91.1	105.8	-24.5	16.1
Refined Oil & Gas Products	11.533	89.5	87.5	107.2	-2.2	22.5
Second : Non -Oil Products	20.466	104.6	98.7	100.1	-5.8	1.4
1. Mining, Electricity & Water	4.964	104.9	104.1	100.1	-0.8	-3.8
2. Non-Oil Manufacturing	15.502	104.5	96.9	100.1	-7.4	3.3
A. Food, Beverages & Textiles Products	3.104	113.5	111.9	112.5	-2.3	0.5
Fish, Fruits, Vegetables & Oils	0.974	106.0	104.1	107.8	-2.3	3.6
Dairy Products	0.538	98.6	94.2	102.5	-4.5	8.8
Bakery Products & Other Food Products	1.116	116.8	116.0	110.8	-2.5	-4.5
Beverages	0.420	140.5	140.3	140.0	-0.1	-0.2
Clothing, Textiles & Footwear	0.056	118.9	120.1	119.6	1.0	-0.5
B.Transportable Goods	7.294	110.6	106.6	110.4	-3.6	3.7
Wood & Paper Products	0.475	128.4	129.6	128.9	0.9	-0.5
Gases,Acids & Polypropylene Products	2.889	102.6	94.9	107.5	-7.5	13.4
Paints & Pharmaceutical products	0.656	125.3	121.3	115.0	-3.2	-5.0
Rubber & Plastics Products	0.751	101.8	95.7	94.9	-6.0	-0.8
Glass,Cement & Marble Products	2.012	114.5	114.6	112.5	0.1	-1.8
Furniture, Jewellery manufacturing & Anti melted Metal Waste	0.511	117.9	116.6	118.5	-1.1	1.6
C. Metal Products,Machinery & Equipment	5.103	90.3	74.0	77.8	-18.1	5.1
Raw & Products of Steel or Aluminium	1.897	81.1	71.3	82.3	-12.2	15.4
Fabricated Products of Steel or Aluminium	0.758	89.0	77.5	79.6	-12.9	2.7
Conditioning, Heating & Pumping Water, & Drilling of Wells Apparatus, & Car Oils Filters	0.240	107.0	107.9	107.8	0.8	-0.1
Distribution & Delivery of Electricity Apparatus and Recording tapes &CDs	2.208	96.9	71.6	70.2	-26.1	-2.0
General Price Index	100.0	113.8	92.2	104.8	-19.0	13.7

Note: 1. PPI are based on the relative share of the various industries outputs produced in the Sultanate whether sold in local market or exported to other countries, using Industrial Survey data 2007.

2. Data are compiled on the basis of 564 items of commodity entering the local market and 329 items of export commodity.

Source: National Center for Statistics and Information.

Oil and Gas

OIL AND GAS

Developments in World Oil Markets

The world growth gained further momentum mainly on the back of strong investment spending and a cyclical upturn in global trade. The investment spending in advanced countries extended its strong run, while the declining investment trend in emerging markets and developing economies witnessed a reversal with the major push coming from commodity exporting countries. Overall, strong investment spending and an upsurge in global trade led the world economy to grow by 3.8 percent in 2017 from 3.2 percent a year ago, creating robust demand for oil and gas. The growth in advanced countries edged up to 2.3 percent in 2017 from 1.7 percent in 2016, while that for emerging market and developing economies accelerated to 4.8 percent from 4.4 percent during this period. As per IMF, the world economy is projected to grow by 3.9 percent in 2018 with growth in advanced economies and emerging markets and developing economies projected at 2.5 percent and 4.9, respectively. The deceleration in the growth of China would be counter-balanced by an acceleration in the growth of India. The robust outlook for global growth in 2018 is positive for demand for oil and gas and will help in sustaining the recovery in oil prices.

The historic agreement between OPEC and Non-OPEC oil producers to cut production, implemented starting in 2017 for clearing the global oil supply glut, succeeded to a large extent. The decline in supply facilitated by the agreement

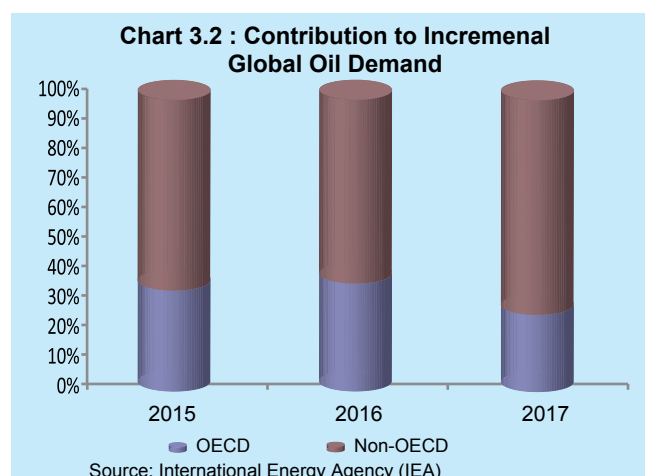
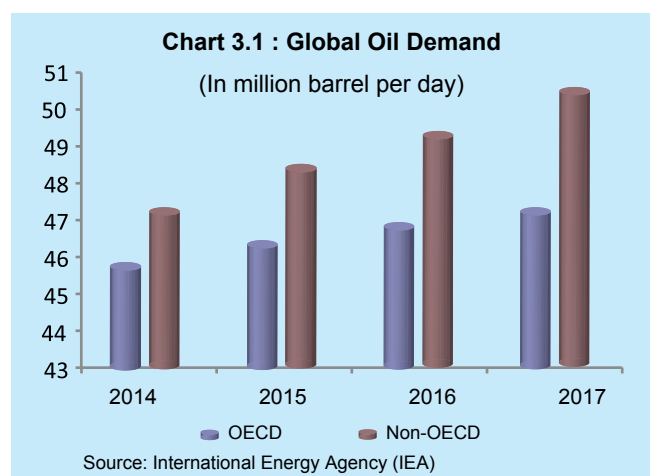
brought oil inventories down and cleared excess global supply that had weighed down oil market for some time and led to a sharp fall in oil prices since late 2014. The inability of shale production in the USA to increase the production to match up the supply cut by OPEC and Non-OPEC oil producers also helped in eliminating excess supply. The global oil market moved towards rebalancing after a long time and consequently, the crude oil prices started recovering since the second half of 2017. The OPEC and Non-OPEC oil producers agreed in November 2017 to continue with production cut until the end of 2018. At the same time, oil production from Venezuela has fallen significantly and the USA's withdrawal from the Iran nuclear deal has created uncertainty regarding oil supply from Iran. Notwithstanding substantial uptick in oil prices, the shale production from the USA has also been finding it difficult to upgrade the supply due to various logistics and other constraints. Additionally, the new regulations by International Maritime Organization on using more clean fuel in ships with the lower concentration of sulfur, which is likely to come into effect starting 2020, are expected to increase demand for OPEC oil. Nonetheless, going forward, potential to accelerate supply by the shale production despite various constraints and increasing use of alternative energy sources could hold back oil prices.

International Energy Agency (April 2018) reports that the global oil demand increased by 1.6 percent to about 97.9 million barrels per day in 2017, which was mainly driven by strong demand

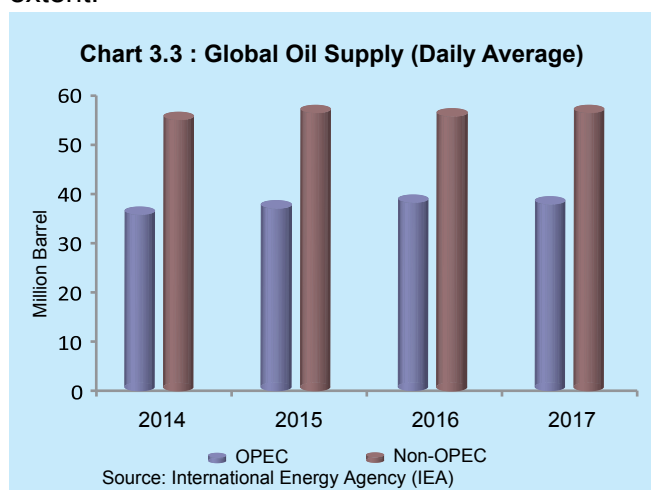
emanating from Non-OECD countries (Chart 3.1 & 3.2). The contribution of Non-OECD countries to incremental global oil demand surged to about 75 percent in 2017 in comparison with about 64 percent in 2016. The oil demand of Non-OECD countries went up by 2.4 percent to around 50.57 million barrels per day from about 49.37 million barrels a day in 2016. While oil demand from OECD countries increased by 0.8 percent to around 47.3 million barrel a day in 2017. In Non-OECD countries, Asia contributed the largest share to oil demand that originated from this group with China followed by India leading the countries in the group. China and India together accounted for 17.6 percent in global oil demand and 34.0 percent of Non-OECD group's oil demand in 2017. Besides strong growth, the low price seems to have bolstered higher demand for oil in Asia, which grew by 3.5 in 2016 and 4.2 percent in 2017. However, the demand in the Middle East fell slightly by 0.1 during 2017, although lower as compared to a decline of 1.2 percent in 2016. In OECD group, the demand for oil grew highest by 1.9 percent in Europe to 14.30 million barrel per day in 2017. Overall, China and India continued to lead the oil importer side in 2017, while shale oil production in USA shifted the country from

being net importer to net exporter side. The recent upsurge in oil prices may, however, dent the demand for oil emanating from Asia and other countries going forward.

The agreement between OPEC and Non-OPEC oil-producing countries to cut oil supply in the market, as alluded to earlier, helped in clearing global supply glut. Since the agreement has been extended until the end of 2018, the global supply would remain under pressure in the near-term, until other sources such as shale production make up the reduction. The world oil supply increased marginally by 0.4 percent to around 97.3 million barrels per day in 2017 as compared to 96.9 million barrels a day in 2016 to meet the increased demand. The main contribution to increase in global oil supply in 2017 stemmed from non-OPEC countries, as the supply from OPEC countries fell by about 1 percent during the year (Chart 3.3). The country-wise analysis displays that the increase in oil supply was mainly attributed to the United States, Canada and Brazil. The oil production from USA jumped considerably by 5.0 percent to an average of about 13.2 million barrels a day in 2017 due to elevated shale production. The significant



upsurge in oil prices led to even higher average daily oil production in USA at 13.85 million barrels in the fourth quarter of 2017, which undermined OPEC's plan to speed up the process of market balance to an extent. The OPEC's average daily oil supply declined to 39.24 million barrels in 2017 and the major contribution to the supply cut came from Saudi Arabia followed by Venezuela, Kuwait and UAE. In term of percentage, Venezuela witnessed highest decline of about 13.5 percent in the average daily oil supply among OPEC countries in 2017. The dwindling investment, the US financial sanctions and a huge debt have been affecting the oil production in Venezuela, which plunged below the OPEC target for the country. The geopolitical situation in the Middle East, especially the recent withdrawal by the USA from Iran's nuclear deal, is likely to put a sizable oil supply at risk in the near future. OPEC gave a space for more supply to Iran, Iraq and Libya, and these countries together emerged as the second biggest source of incremental supply following the USA in 2017. In fact, the increase in supply by the three countries together offset the cut affected by other OPEC countries, such as UAE, Kuwait, Qatar and Saudi Arabia, to a large extent.



Global oil market rebalanced in 2017 after suffering from excess supply quite for some time, and oil prices recovered sharply from a significant plunge in the early part of 2016. The production cut by OPEC and Non-OPEC oil producing countries along with the shale's inability to produce at the targeted pace due to logistics and constraints resulted in lower global oil supply. On the other hand, global economic activities gained further traction, leading to elevated demand for oil. Hence, the decline in supply and an increase in demand eventually rebalanced the oil market, clearing the global supply glut. As reported by IEA, the demand and supply conditions resulted in an average deficit of 0.5 million barrel a day in 2017 from an average surplus of 0.7 million barrel a day in 2016 and 1.5 million barrels a day in 2015. Consequently, global oil prices made rapid strides, especially in the second half of 2017 and Brent oil price increased from US\$ 46.4 a barrel in June 2017 to US\$ 64.4 per barrel in December 2017 and further to US\$ 72.1 in April 2018. The global oil supply is likely to remain under pressure in the near-term due to geopolitical tensions such as withdrawal of USA from Iran nuclear deal, further anticipated drop in supply from Venezuela, decline in oil investments in the recent past, etc. At the same time, oil consumption is expanding on account of widespread strong economic activities. IMF baseline assumption demonstrates an increase of about 18.0 percent in average crude prices to US\$ 62.3 a barrel for 2018, but with lower expectations for 2019 due to pick-up in the US supply and the agreement between OPEC and Non-OPEC oil producers coming to an end. IMF's assumptions of oil prices are, however, fraught with upside risks due to supply related uncertainties. Additionally, an upward revision in global growth by 0.2

percentage point would increase the oil demand by 0.2 percentage point (IMF's WEO, April 2018).

The Economics of Oil and Gas in Oman

The hydrocarbon sector remained a major driver of economic activities in the Sultanate, and it accounted for 30.1 percent of the nominal GDP in 2017, higher as compared with 27.1 percent in 2016. The recovery in oil prices in conjunction with diversification efforts helped the Omani economy to rebound in 2017 from the contractionary spiral. The average price for the Omani crude oil increased by 27.8 percent to US\$ 51.3 per barrel in 2017 from US\$ 40.1 per barrel in 2016 (Table 3.1, chart 3.4). During the year 2017, the average price of the Omani crude oil ranged from its lowest level of US\$ 44.54 in January to its peak level of US\$ 55.59 in the month of December. Daily average oil production, however, declined by 3.4 percent to 970.6 thousand barrels in 2017 as compared to 1 million barrels in 2016, reflecting implementation of OPEC and Non-OPEC oil producing countries agreement to cut production. On an aggregate basis, oil production fell to 354.3 million barrels in 2017 from 367.6 million barrels in the previous year. The production of natural gas, on the other hand, increased slightly by 0.1 percent to 40,908 million cubic meters during 2017. Government revenues from Oil and gas as a percentage of GDP stood at 22.2 percent in 2017 and accounted for 72.9 percent of total government revenues.

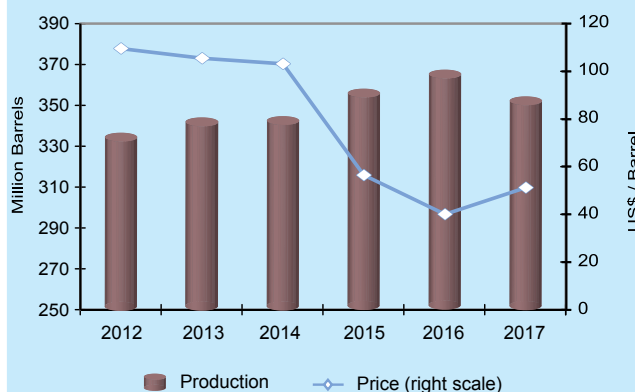
The value-added hydrocarbon-based activities remained on the top agenda of the government and other stakeholders, given a large potential for such activities in the Sultanate. Accordingly, the promotion of petrochemicals and energy-intensive

Table 3.1
Oman's Oil Prices
(US \$/ Barrel)

Month	2013	2014	2015	2016	2017
January	107.14	105.97	78.24	42.28	44.54
February	106.16	107.88	61.01	34.59	52.72
March	107.78	104.04	46.73	27.40	53.93
April	111.21	105.04	56.21	30.23	55.12
May	105.50	104.36	55.09	36.34	51.71
June	101.81	104.99	58.68	39.40	52.82
July	100.43	105.65	63.62	44.33	50.55
August	100.21	108.08	61.84	46.60	46.52
September	103.59	106.24	56.33	43.40	47.63
October	106.96	102.23	47.88	44.02	50.39
November	108.58	97.26	45.76	43.92	54.02
December	106.70	86.96	46.03	49.18	55.59
Average (Jan-Dec)	105.51	103.23	56.45	40.14	51.30

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

Chart 3.4 : Oil Production and Prices



industries is likely to boost demand for hydrocarbon resources domestically going forward.

Crude Oil

Production and Exploration

The crude oil production declined by 3.6 percent during 2017 over the previous year with a daily average production of 970.6 thousand barrels (Table 3.2 & Chart 3.5). The Sultanate had decreased its oil production as a result of the OPEC and non-OPEC agreement to limit oil production. The total average daily production in 2017 consisted of 884 thousand barrels of oil and 86.6 thousand barrels of condensates produced from 239 oilfields across Oman. The Ministry of Oil and Gas signed four exploration and production sharing agreements (EPSA) during 2017 with energy companies to develop oil blocks in various parts of the country. The agreement with Tethys Oil Montasar Limited was signed for developing onshore block 49, while that with ARA Petroleum Oman B31 Limited was signed to explore oil in

block 31. The agreement for block 30 was signed with Occidental Hafar LLC. The pact for block 52 was entered with ENI Oman B.V.

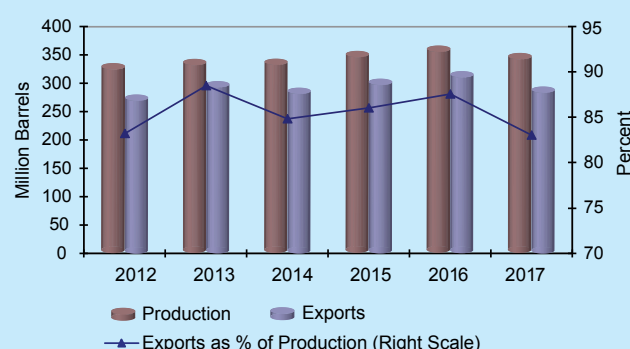
Petroleum Development Oman (PDO) remained as the biggest petroleum company in Oman with a daily average oil production of 582.2 thousand barrels in 2017 compared to the higher production level of 600.2 thousand barrels in 2016. Nonetheless, the quantity of oil produced by PDO in 2017 was well above the Company's long-term target of 550 thousand barrels per day. The production of condensate by PDO was at 68,467 bpd, lower than the target by 8,740 bpd, due to numerous challenges including the frequent closure of Rabab wells for flare control, recurring station trips and a variable performance at Kauther. PDO continued to maximize recovery from conventional oil and gas fields as well as to enhance exploration from unconventional opportunities. The PDO continued to display high efficiency for the tenth consecutive year 2017 and the Company's combined production of oil, gas, liquid petroleum gases and condensates stood at 1.29 million barrels of oil equivalent per day, one of the highest levels of production in the PDO's history.

Table 3.2
Oil Production & Exports
(Million Barrels)

Year	Production	% Change	Exports	% Change
2012	336.2	4.1	279.8	3.9
2013	343.8	2.3	304.2	8.7
2014	344.4	0.2	292.2	-3.9
2015	358.1	4.0	308.1	5.4
2016	367.6	2.7	321.9	4.5
2017	354.3	-3.6	294.2	-8.6

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

Chart 3.5 : Omani Crude Oil Production and Exports



Oil and gas companies operating in the oil and gas concession areas in 2017 drilled, tested and evaluated 58 exploration and appraisal wells, 21 of which were drilled in the years 2015 and 2016, and the progress has been satisfactory so far. PDO alone drilled 28 exploration wells, while Occidental Oman and CC Energy Development Oman drilled 17 exploration wells and the remaining companies drilled 13 wells. Total reserves of crude oil and condensate for Oman were estimated at 4,740.3 million barrels in 2017, a decrease of about 10 percent in comparison with 5,242.5 barrels estimated in 2016. The decrease in reserves was estimated due to the modification of the Occidental reserve calculation method, where the reserve amounts were converted to recoverable amounts. PDO reserves constituted about 68 percent of the total reserve of crude oil and condensates in 2017.

New Projects

Oman continued with exploration and development of new oil and gas projects in 2017 to augment oil and gas production despite crude oil prices remaining low even after considerable recovery from the lows of 2016. In this regard, Oil companies, operating in the Sultanate, initiated a number of new projects during 2017. Furthermore, Ghaba North in the Qarn Alam cluster project reached its peak production during 2017. The Rabab Harweel Integrated and Yibal Khuff mega projects are progressing well and have secured capital savings of almost USD 800 million. The Zauliyah Gas Plant and Lekhwair F in the Upper Shuaiba were brought on stream during 2017. The PDO commissioned Hawqa Early Development Facility in a record time of just 13 months and unlocked the potential to produce more than 11,000 barrels

of oil per day and 650,000 m³/day of gas. PDO also continued work in collaboration with Glass Point Solar on the Mirrah solar energy project in Amal's oilfield, which is the world's largest-ever solar thermal project at peak production. The peak capacity of this project would be 1,021 megawatt solar thermal facility harnessing the sun's rays to produce steam for thermal enhanced oil recovery. The construction work on the first phase of the project was completed and the first steam was integrated into the system at Amal West. The work on the second phase has begun with a considerable progress attained during 2017.

Occidental Oman's team added about 100,000 BPD of liquid handling capacity and 50,000 BPD of water injection capacity in 2017 in Block 9 and 27. Additional gas compression and liquid handling facilities along with further de-bottlenecking of production stations will continue in 2018. In Block 53, 194 production wells were provided permanent power to reduce operating expenses. Daleel Petroleum commissioned the gas plant train II with impact reflected on gas production and the exportation of 12 MMSCFD on average. The gas plant extracts three types of gas viz. liquefied petroleum gas (LPG), natural gas liquefied (NGL) and lean gas. Oman Oil Company inaugurated Musandam Gas Plant and the Musandam Power Company and signed a MoU with Eni for cooperation in the Oil & Gas sector. Oman Oil Company also signed partnership agreements with Kuwait Petroleum International Ltd (KPI) for the development of Duqm Refinery and Petrochemical Complex. Rabab Harweel Project has been progressing well with 40 percent completion and 38 out of 65 milestones achieved. Sohar Refinery

Improvement Project, which is a multi-billion US dollar capital investment for Orpic, is being implemented in response to the need to upgrade refining capability of the Sultanate in order to further maximize the value addition of Omani crude oil. Orpic also inaugurated Muscat Sohar product Pipeline & Al Jefnain Terminal, which has come up in response to the strategic objective set by the government for developing oil products logistic solutions in the Sultanate to meet the rapidly growing demand for fuels.

Oil Exports

After witnessing growth over the last two years, Omani crude oil exports declined by 8.6 percent to 294.2 million barrels in 2017 (Table 3.3 and Chart 3.5). The lower crude oil exports during 2017 were an outcome of production cut implemented by Oman as part of the agreement between OPEC and Non-OPEC countries. The exports of crude oil had increased considerably in last two years 2015 and 2016 in line with production in order to compensate for fall in oil prices.

The destination-wise analysis of crude oil exports exhibits that China constituted the largest about 70 percent of the total exports of crude oil and condensates from Oman in 2017, followed by India with around 10 percent contribution (Table 3.3 & Chart 3.6). The rest of the countries constituted the remaining about 20 percent of the total exports of crude oil and condensates. Further investigation revealed that the crude oil exports directed to China declined the most, in absolute terms, by 46.3 million barrels, followed by the United States of America with a decline of 8.2 million barrels in 2017. In terms of percentage, the decline was

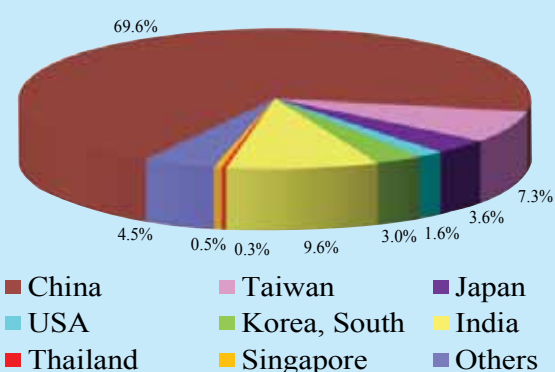
Table 3.3
Direction of Oil Exports
(In Million Barrels)

Country of Destination	2013	2014	2015	2016	2017
China	180.8	210.5	237.6	251.1	204.8
Taiwan	27.4	33.9	27.8	18.8	21.5
Japan	29.3	13.8	9.6	14.2	10.6
United States of America	-	-	-	12.9	4.7
Korea, South	4.7	6.1	5.9	10.6	8.8
India	13.2	4.9	4.6	4.5	28.2
Thailand	17.1	15.1	9.4	0.4	0.8
Singapore	13.5	3.3	10.1	3.6	1.5
Others	18.3	4.6	3.1	5.8	13.3
Total	304.2	292.2	308.1	321.9	294.2

Source: Ministry of Oil and Gas.

highest for oil exports to the USA with 63.6 percent, followed by Singapore (58.3 percent), and Japan (25.4 percent). The crude oil exports to China and South Korea decreased by 18.4 percent and 17.0 percent, respectively, during 2017. On the other hand, the oil exports increased to India, Taiwan, and Thailand by 23.7 million barrels, 2.7 million

Chart 3.6: Direction of Oil Exports in 2017



barrels, and 0.4 million barrels, respectively, in 2017.

Natural Gas

The natural gas industry is becoming important in the Sultanate with growing energy demand and potential to contribute notably to export revenues. The contribution of natural gas to export revenues had, however, fallen sharply following the price crash in the international market since mid-2014. Oman Liquefied Natural Gas, a government-controlled joint-venture, signed an agreement with BP Singapore for sale and purchase of Liquefied Natural Gas (LNG) for a period of seven years, which will open up new horizons for Omani gas on the global gas map and contribute to export revenue. As per the provisional data for 2017, the natural gas reserves stood at 24.96 trillion cubic feet in Oman with 32 gas producing fields, of which, PDO contributed highest at 51 percent, followed by BP at 44 percent, and rest of the companies at 5 percent. The oil and gas companies undertook gas exploration activities, including drilling, testing and evaluating, in 32 wells during the year 2017 with some wells showing positive results, adding to new gas reserves.

During 2017, PDO faced several challenges in a low price environment, however, it continued to maintain good progress at Rabab Harweel and Yibal Khuff mega projects, securing capital savings of almost US\$ 800 million. The Zauliyah gas plant and Lekhwair F in the upper Shuaiba were brought on stream. The Khazzan gas field, jointly developed by British Petroleum (BP) Oman and Oman Oil Company Exploration and Production with 60-40 percent interest, began

production in September 2017 after completion of the first phase. In the first phase of Khazzan project, over 200 wells have been dug and production at full steam is expected at 1bcf of gas per day. The work on the development of the second phase of Khazzan gas field, named “Ghazeer project” would begin in 2018. The Ghazeer project is anticipated to come on stream in 2021 and produce an additional 0.5 bcf/d and over 15,000 bpd condensate production. The Khazzan and Ghazeer together are expected to deliver total production of 10.5 tcf of gas and around 350 million barrels of condensate.

The daily production of natural gas inched up marginally by 0.7 percent to 106.8 million cubic meters (18.8 million cubic meters of associated gas and 87.9 million cubic meters of non-associated gas) in 2017 as against 106.1 million cubic meters (19.3 million cubic meters of associated gas and 86.8 million cubic meters of non-associated gas) in 2016. PDO is the leading exploration and production company of Oman, which currently operates 14 gas fields besides 178 producing oil fields.

The total production of natural gas also increased marginally to 40,903 million cubic meters (6,873 million cubic meter of associated gas and 34,029 million cubic meter of non-associated gas) in 2017 from 40,844 million cubic meter (7,071 million cubic meter of associated gas and 33,774 meter of non-associated gas) in 2016 (Table 3.4). The demand for natural gas, which is used for various purposes viz. power generation, industries and industrial projects, and oil projects, is increasing with expanding economic activities in the Sultanate. The natural gas in oil fields is used

for fuel and re-injection in oil wells to accelerate production.

As domestic production fell short of demand, natural gas was imported during the year by Dolphin Energy Company at about 5.3 million cubic meters per day in 2017, albeit somewhat lower as compared to 5.5 million cubic meters per day in 2016. The natural gas is becoming an increasingly important source of energy in the Sultanate, as alluded to earlier, with diversification in the economy on an accelerating path. The majority of new companies, which are starting operations, are energy-intensive and hence, the demand for power consumption and in turn, natural gas will further go up in the future. It is, however, worth mentioning that the first phase of Khazzan gas project has come on stream and started production in September 2017, and the

work on the second phase has begun. The natural gas production from Khazzan project would be able to meet the growing demand for natural gas, reducing country's dependence on imports.

Gas Exports

The natural gas constitutes a significant part of Omani merchandise exports, albeit their share had shrunk in the recent past due to collapse in international prices. During 2017, the exports of LNG from Oman at 8.6 million metric tons witnessed a marginal uptick as compared to 8.5 million metric tons in 2016. Oman LNG Company exported a total of 5.5 million metric tons, while 3.1 million metric tons were exported by Qalhat LNG Company. The Sultanate also exported 0.238 million metric tons of gas condensates in 2017. Going forward, the exports of natural gas from the Sultanate would get a boost with the signing of Oman LNG's agreement with BP Singapore recently for sale and purchase of LNG for a period of seven years.

Mining and Quarrying

Mining is one of the most promising sectors in the Sultanate with large potential to support the national economy, given the availability of mineral resources in abundance. The Sultanate is endowed with multiple natural resources, viz. chromite, dolomite, zinc, limestone, gypsum, silica, copper, gold, cobalt, iron, etc. Therefore, the mining sector has been accorded prominence in the economic diversification program and included in the five sectors identified under "Tanfeedh" for implementing special programs and projects. A significant contribution is expected from the mining to the economic activities in the

Table 3.4
Production & Uses of Natural Gas
(Million Cubic Meter)

	2016	2017*	% Changes 2017/16
Production	40,844	40,903	0.1
Associated	7,071	6,873	-2.8
Non Associated	33,774	34,029	0.8
Uses	40,849	40,908	0.1
A- Power Generations	7,993	8,236	3.0
B- Industrial Areas	650	659	1.4
C- Industrial Projects	23,042	32,227	39.9
D- Oil Fields	9,163	8,787	-4.1
Fuel	2,928	3,064	4.6
Re-injection	3,781	2,888	-23.6
Flared	1,662	1,727	3.9
Other	793	1,108	39.7

*Provisional

Source: National Center for Statistics and Information.

Sultanate in the coming years. The 9th Development Plan envisages increasing contribution of mining in national GDP to 0.5 percent by 2020. Towards this objective, Public Authority for Mining continued to promote exploration and production of minerals in the Sultanate by issuing licenses to the companies. The authority issued 292 licenses by the end of 2017 for conducting mineral exploration operations. The various projects being implemented include gypsum and limestone ore in Dhofar, chrome in northern Oman and gypsum in Shuweimiah. The foreign direct investment (FDI) is also encouraged in the mining sector to harness the potential and increase their exports.

The Public Authority for Mining and the Mineral Development of Oman (MDO) Company signed an agreement in May 2017 to conduct exploration studies in Manji and Shuweimiah areas as part of the railway project to link mining areas. Both these areas contain commercial quantities of gypsum and limestone ore. The railway line is proposed to transfer the minerals from the quarries to the export area in Duqm port. Furthermore, in order to give a strategic direction to the sector, it has been decided to launch and implement mining and energy labs early 2018 with representatives from government and private stakeholders, academics, experts and representatives of civil society.

Table 3.5 Oman's Mining and Quarrying Production (Thousand Metric Ton)			
Description	2016	2017	% Changes 2017/16
Marble	1,194.1	1,157.3	-3.1
Limestone	9,873.5	8,902.0	-9.8
Gypsum	5,482.9	6,875.5	25.4
Salt	4.5	11.0	144.4
Chromite	450.8	435.8	-3.3
Iron (Laterite)	567.7	525.5	-7.4
Building Materials	37,014.9	35,422.2	-4.3
Clay	481.7	457.3	-5.1
Sand	35.3	10.0	-71.7
Quartz	338.5	315.6	-6.8
Copper	0.0	0.0	0.0
Magnesium	21.3	9.0	-57.7
Kaolinite	173.8	199.5	14.8
Silica	17.4	30.1	73.0

Source: Public Authority for Mining.

As per the preliminary data issued by the Public Authority for Mining, the mining and quarrying sector produced around 66 million tons of minerals during 2017. There are about 292 quarries, distributed across all governorates in the Sultanate. The natural resources, which are included in the mining and quarrying, are quantified in metric tons and consist of 14 items (Table 3.5). Building materials constituted the highest share of around 58.4 percent of the total production, followed by limestone and gypsum with 25.3 percent and 11.3 percent, respectively, during 2017. Other mineral resources produced in 2017 include marble, salt, chromite, iron ore, clay, sand, quartz, and silica.. Notably, the Sultanate ranked as the world's largest exporter of gypsum in 2017.

Public Finance

PUBLIC FINANCE

Overall Fiscal Assessment

The fiscal position of Oman continued to remain under strain, notwithstanding some progress in the fiscal consolidation due to the recovery in oil revenue and reform measures aimed at rationalization of expenditure and augmentation of non-oil revenue. The government spending norms have been restructured with higher consideration for capital investments within the fiscal constraints. A considerable traction gained by non-oil activities helped in generating higher non-oil revenue for the government. The government and other concerned authorities are endeavoring to promote diversification in the economy to reduce dependence on hydrocarbon sector. The Ninth Five-Year Development Plan (2016–2020) and Tanfeedh program, both reinforce the government's vision away from hydrocarbon sector by promoting non-oil economic activities. Besides implementing the dedicated programs and initiatives under Tanfeedh, the public-private partnership (PPP) is promoted to elevate the participation of the private sector and boost non-oil activities in the economy. Additionally, the development of world-class infrastructure comprising airports, roads and ports would enable Oman to develop as a logistics hub and promote non-oil economic activities in the Sultanate. Furthermore, the importance of empowering SMEs as a major force for boosting diversification in the economy has been recognized and hence, the Public Authority

for SME Development (Riyada) was established to ensure a proper ecosystem to foster the SMEs development. The pick-up in diversification would pave the way for more fiscal reforms, enable higher tax buoyancy, and reduce pressure on government expenditure in the Sultanate. The improved tax buoyancy in conjunction with reduced pressure on government expenditure would lead to improvement in non-oil fiscal balance, which resonates with the structural fiscal balance to a large extent given the dominance of volatile hydrocarbon revenue.

The 2017 budget continued with reforms agenda and emphasized on diversification, removing subsidy distortion, improving the SMEs' role in the economy, and further rationalizing the expenditure. Consequently, the fiscal consolidation made further progress, which was partly attributed to the recovery in oil prices also. The oil revenues grew by 28.2 percent and their share in total revenues increased to 55.0 percent in 2017 as the average oil prices rose by US \$11.16 per barrel (US\$ 51.30 a barrel as against US\$ 40.14 a barrel in 2016 and that assumed at US\$ 50 per barrel in the 2017 budget). At the same time, non-oil revenues dropped by 4.6 percent in 2017 mainly due to a significant decline in capital repayments. The government revenue posted a growth of 11.9 percent in 2017 as against the decline of 16.1 percent during 2016. The government revenues as percentage of GDP also increased somewhat during 2017

Table 4.1
Indicators of Fiscal Management

Items	2013	2014	2015	2016	2017*
Fiscal Balance as % of GDP	-0.3	-3.4	-17.5	-20.6	-13.5
Total Revenues as % of GDP	45.9	45.3	34.2	29.6	30.5
Net Oil Revenues as % of GDP	34.4	32.7	21.3	14.2	16.8
Total Expenditure as % of GDP	46.2	48.7	51.7	50.2	43.9
Current Expenditure as % of GDP	29.1	30.8	34.6	36.3	31.9
Investment Expenditure as % of GDP	10.3	11.5	12.5	11.4	9.5
Participation & Other Expenses as % of GDP	6.8	6.4	4.6	2.6	2.5
Share of Oil Revenues in Total Revenues	75.0	72.3	62.4	48.0	55.0
Share of Current Expenditure in Total Expenditure	63.1	63.3	66.9	72.2	72.7

* Provisional

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

as compared to previous year (Chart 4.1) On the other hand, the expenditure declined for the third year in a row during 2017 (4.9 percent), reflecting the focus on rationalization of expenditure. The reduction in expenditure was affected across both current and investment spending, while participation & other expenses increased due to higher support to electricity sector and government organizations, increase in investment expenditure for government companies and reintroduction of targeted fuel subsidy. Both current and investment expenditures as a percentage of GDP also declined during 2017,

suggesting a moderation in the expenditure. In 2017, total expenditure as a percentage of GDP reduced to 43.9 percent compared to 50.2 percent in 2016 (Table 4.1). Although the fiscal deficit declined by 29.1 percent to RO 3,760 million in 2017 from RO 5,300 million during 2016, it exceeded the budget target of RO 3,000 million by 25.3 percent (Chart 4.2). Fiscal balance as a percentage of GDP improved to -13.5 percent in 2017 as compared to -20.6 percent in 2016. The fiscal consolidation plan intends to streamline the spending bill and ensure a sustainable fiscal balance through reducing spending deadweight

Chart 4.1: Ratio of Revenue to GDP

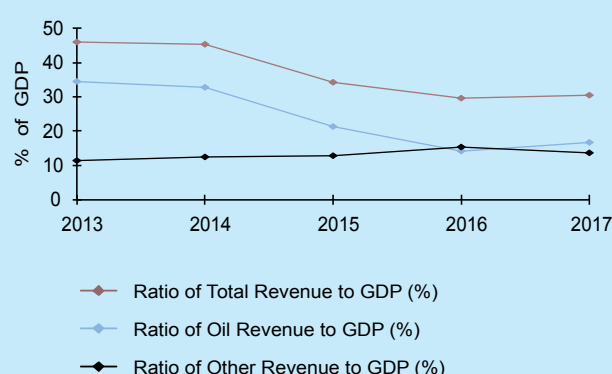
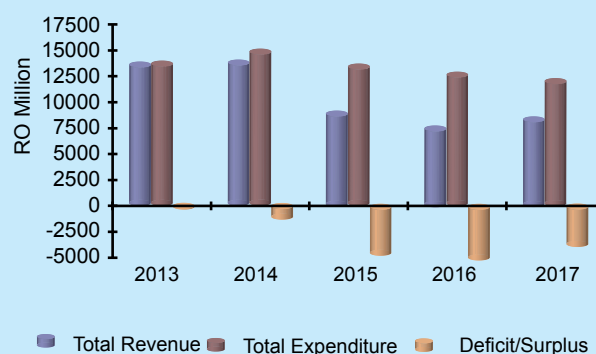


Chart 4.2: Overall Fiscal Balance



loss and generating revenue from other sources away from oil.

Among the objectives set in the Ninth Five-year Development plan and stressed upon in the 2018 budget is the reduction in the breakeven price of oil that will ensure a sustainable economy. The Government aims to raise the share of nonhydrocarbon revenue in total revenue to a minimum of 30 percent from 28 percent in 2017. Notwithstanding the increase in corporate income tax rate from 12 percent to 15 percent effective from 2017, the revenue generated by corporate tax declined by 5.7 percent in 2017, albeit at a much-decelerated pace in comparison with a decline of 14 percent in 2016, reflecting lagged impact of economic slowdown. However, the expected introduction of excise duty and VAT along with tapering of the impact of economic slowdown is likely to increase the tax revenues. The total revenue is budgeted to grow by 11.6 percent in 2018 over the actual in 2017 with major contribution estimated from hydrocarbon revenue. On the other hand, total expenditure is estimated to go up at a muted rate of 1.8 percent in 2018 over the actual in 2017. Overall, the fiscal deficit is budgeted at RO 3,000 million in 2018, which will be largely financed through debt. Furthermore, 2018 budget intends to expedite the privatization of government-owned entities or semi-government companies (manufacturing, petrochemical, and electricity industries) to accelerate the private sector participation in the growth and contribution to revenues. Other policy reforms that the government undertook include the deregulation of fuel prices, reduction of electricity subsidy, restructuring the capital,

increasing private sector partnership, and changing the composition between current and capital expenditures.

Government Revenues

The government revenue witnessed a substantial growth of 11.9 percent during 2017 mainly on the back of a surge in oil revenue (Table 4.2). Oil prices recovered sharply since the second half of 2017 and contributed considerably to the total government revenue in 2017. The average oil price recovered to US \$ 51.3 per barrel (registering the highest price in December at US \$ 55.6 per barrel) from US \$ 40.1 per barrel in the previous year. Consequently, the net oil revenue increased by 28.2 percent, despite a decline in production by 3.6 percent and contributed about 55 percent to the total revenue in 2017 as against 48 percent in 2016. The net oil revenue continued to remain the main contributor to total revenue with 113.8 percent contribution to the incremental growth in 2017. The net oil revenues as a percentage of GDP rose to 16.8 percent in 2017 from 14.2 percent in 2016, increasing the total revenues to GDP ratio to 30.5 percent from 29.6 percent in 2016. The gas revenues, however, declined by 0.8 percent in 2017 as against an increase of 3.5 percent in 2016. The hydrocarbon sector is critical for sustaining growth in the economy and therefore, investment in this sector becomes important even to maintain the current production level and contribution to government revenues. However, the fiscal measures undertaken by the government to rationalize expenditure slowed down investment in various sectors including hydrocarbon sector.

Table 4.2
Public Finance
(Rial Omani Million)

Items	2013	2014	2015	2016	2017*	% change 2016/15	% change 2017/16
REVENUES	13907.6	14107.5	9067.5	7608.2	8514.1	-16.1	11.9
Net Oil Revenues	10429.5	10205.2	5656.2	3651.2	4681.8	-35.4	28.2
Gas Revenues	1495.3	1687.6	1484.4	1536.6	1524.3	3.5	-0.8
Other Current Revenues	1931.0	1983.7	1865.1	2113.6	2173.7	13.3	2.8
Capital Revenues	30.2	15.8	14.0	15.8	130.4	12.9	725.3
Capital Repayments	21.6	215.2	47.8	291.0	3.9	508.8	-98.7
TOTAL EXPENDITURE	13990.2	15171.8	13698.9	12908.2	12273.7	-5.8	-4.9
Current Expenditure	8822.0	9606.2	9164.0	9319.9	8918.0	1.7	-4.3
Defence & National Security	4494.2	4210.8	3862.2	4068.5	3487.5	5.3	-14.3
Civil Ministries	3848.5	4762.7	4722.6	4539.3	4550.1	-3.9	0.2
Interest Paid on Loans	53.6	52.9	37.3	138.4	371.4	271.0	168.4
Oil Production Expenditures	343.9	484.5	375.5	379.1	329.0	1.0	-13.2
Gas Production Expenditures	81.8	95.3	166.4	194.6	180.0	16.9	-7.5
Investment Expenditure	3120.0	3584.2	3315.2	2928.6	2655.4	-11.7	-9.3
Development Expenditure for Civil Ministries	1744.3	2093.6	1822.5	1384.0	1334.1	-24.1	-3.6
Capital Expenditure for Civil Ministries	60.7	72.0	47.7	18.1	11.3	-62.1	-37.6
Oil Production Expenditures	752.7	748.1	774.3	842.6	750.0	8.8	-11.0
Gas Production Expenditures	562.3	670.5	670.7	683.9	560.0	2.0	-18.1
Participation & Other Expenses	2048.2	1981.4	1219.7	659.7	700.3	-45.9	6.2
SURPLUS/DEFICIT	-82.6	-1064.3	-4631.4	-5300.0	-3759.6	14.4	-29.1
FINANCING	82.6	1064.3	4631.4	5300.0	3759.6	-	-
Net Grants Received	-43.4	-50.2	208.8	-	-	-	-
Drawing from Reserves	-	-	-	1500.0	500.0	-	-
Net loans Received	-74.0	-60.3	305.2	3875.9	4093.3	-	-
Development Bonds(Net)	200.0	100.0	650.0	300.0	400.0	-	-
Surpluses Brought from Previous Years	-	1074.8	234.6	-	-	-	-
Net Change in Government Accounts	-	-	3232.8	-375.9	-1233.7	-	-

* Provisional

Source: Ministry of Finance.

Table 4.3
Breakdown of Other Current Revenues
(Rial Omani Million)

Items	2013	2014	2015	2016	2017*	% change 2017/16
A. Taxes and Fees Revenues	943.1	1082.9	1099.1	1141.0	1142.0	0.1
Income Tax on Companies and Establishments	394.2	448.0	451.7	388.6	366.5	-5.7
Company Participation in Technical/Training Projects	154.5	156.0	0.0	0.0	0.0	0.0
Fees on Licences and Others	177.1	199.7	412.0	449.5	513.5	14.2
Custom Duties	217.3	279.2	235.4	302.9	262.0	-13.5
B. Non-Tax Revenues	987.9	900.8	766.0	774.3	1031.7	33.2
Water Revenues	63.3	63.1	61.7	86.7	97.0	11.9
Airport Revenues	33.6	23.4	51.2	49.1	69.7	42.0
Port Revenues	-	-	-	0.8	1.1	37.5
Public Communication Services Toll	88.4	48.0	4.2	106.8	78.2	-26.8
Surplus from Public Authorities	10.2	8.0	6.8	8.9	11.4	28.1
Rent from Government Real Estate	11.6	11.6	14.4	16.3	21.1	29.4
Income from Government Investments	556.0	474.1	337.3	193.5	186.1	-3.8
Interest on Bank Deposits and Lending	27.8	20.5	32.4	9.8	29.4	200.0
Passport and Immigration Fees	21.6	22.2	32.5	58.5	59.4	1.5
Miscellaneous Administrative Fees & Charges	35.1	37.7	38.7	39.1	58.6	49.9
Compensations, Fines & Forfeitures	59.5	79.4	98.9	119.8	113.8	-5.0
Mining Revenues	7.2	8.6	10.0	12.2	15.3	25.4
Miscellaneous Revenues	39.3	73.8	49.4	50.4	117.9	133.9
Others	34.3	30.4	28.5	22.4	172.7	771.0
C. Net Grants	-	-	-	198.3	-	-
Total	1931.0	1983.7	1865.1	2113.6	2173.7	2.8

* Provisional

Source: Ministry of Finance.

Furthermore, the capital revenues witnessed a phenomenal growth in 2017 and generated RO 130 million as against RO 15.8 million in 2016. The growth in capital receipts was mainly driven by privatization and sale of government-owned assets. On the other hand, the capital repayments declined significantly to RO 3.9 million in 2017 after witnessing a sharp growth in 2016 (RO 291 million) due to the sale of investments in non-financial companies. Other current revenues, mainly comprising taxes and user fees, expanded by 2.8 percent, generating

RO 2,174 million in 2017 in comparison with RO 2,114 million in 2016.

Other Current Revenues

Other current revenues constitute taxes, user and license fees and non-tax revenues (Table 4.3). The policy measures introduced by the government in 2017 to augment taxes and fees revenues comprised an increase in customs duties for selected commodities (like tobacco, pork, etc.) and the removal of exemption on

certain imported goods. However, the slowdown in the economy resulted in subdued growth in other current revenues in 2017, which expanded just by 2.8 percent and generated RO 2,174 million as against a significant expansion of 13.3 percent recorded in 2016. The subdued growth in other current receipts during 2017 was mainly attributed to almost no increase in taxes and fees revenues as non-tax revenues increased significantly. The taxes and fees revenue witnessed a marginal growth of 0.1 percent in 2017, despite a significant surge in fees income as tax collections contracted reflecting lagged impact of economic slowdown. The share of taxes and fees revenues in other current receipts also dropped to 52.5 percent in 2017 from 54 percent in 2016. Total tax collections declined by 9.1 percent during 2017 in comparison with a marginal growth of 0.6 percent in the previous year and accordingly, their contribution to total taxes and fees revenues decreased to 55 percent from 60.6 percent during this period (contribution to total other current receipts dropped to 28.9 percent from 32.7 percent). Income tax on companies and establishments contracted to RO 367 million (-5.7 percent) in 2017 from RO 389 million (-14 percent) in 2016, whereas custom duties declined by 13.5 percent to RO 262 million from RO 303 million in 2016. The fees on licenses and others exhibited a robust growth of 14 percent in 2017, much higher than 9 percent in 2016.

Non-tax revenues increased significantly by 33.2 percent to 1,031.7 million during 2017, mainly driven by the high growth in interest on bank deposits and lending, miscellaneous administrative fees & charges, airport revenues,

water revenues, and rent from government real estate. The contribution of non-tax revenues to total other current revenues edged up to 47.5 percent in 2017 from 36.6 percent during 2016. Interest on bank deposits and lending went up considerably by 200 percent to RO 29.4 million mainly as a result of hardening of interest rates in the economy and contributed 2.8 percent to the total non-tax revenues. The robust growth in miscellaneous administrative fees & charges at 49.9 percent reflected the increase in fees for government services, while an increase of 42.0 percent in airport revenues was on account of increased travelers related to tourism and business. The miscellaneous administrative fees & charges and airport revenues accounted for a higher share in total non-tax revenues during 2017 (5.7 percent and 6.8 percent share, respectively). The water revenues recorded a growth of 11.9 percent mainly as a result of a reduction in subsidy of industrial water customers and contributed 9.4 percent to the total non-tax revenues. Income from rent on government real estate and surplus from public authorities grew by 29.4 percent and 28.1 percent during 2017, respectively, with their share in total non-tax revenue at 2.0 percent and 1.1 percent, respectively. On the other hand, income on government investments dropped by 3.8 percent during 2017, reflecting declining foreign assets of the government, and consequently, its share in total non-tax revenue declined to 18 percent from 24.7 percent a year ago. Non-tax revenues on account of public communication services toll contracted by 26.8 percent in 2017 with its contribution to non-tax revenues falling to 7.6 percent from 13.8 percent in 2016. The revenues from compensations,

finances & forfeitures also dropped by 5.0 percent during 2017 and accordingly, its share in total non-tax revenue dropped to 11.0 percent from 15.5 percent in 2016. The deregulation of prices, fees increase, and subsidy removal contributed positively to the non-tax revenues account. These new measures are expected to increase revenues even further in the medium-term. The opening of Muscat International Airport and renovation of Sultan Qaboos Port would increase airport and port revenues even further.

Government Expenditure

The government continued to pursue fiscal consolidation with the rationalization of expenditure, aiming at a reduction in deficit and eventually restoring the fiscal balance. As a result, total government expenditure decreased by 4.9 percent in 2017, although lower compared to a decline of 5.8 percent in 2016 and 9.7 percent in 2015. The decline in government expenditure was contributed by moderation in both current and investment expenditure during 2017 (Table 4.2). The current expenditure declined by 4.3 percent in 2017 compared to an increase of 1.7 percent in 2016, but it continued to constitute the largest share of total government expenditure at 72.7

percent in 2017 (Chart 4.3). At the same time, the investment expenditure contracted by 9.3 percent during 2017 in comparison with 11.7 percent in 2016 and contributed a lower share of 21.6 percent to the total government expenditure. On the other hand, the participation and other expenses increased by 6.2 percent in 2017 compared to a decline of 45.9 percent in 2016, mainly due to higher support to electricity sector and government organizations, increase in investment expenditure for government companies, and introduction of a targeted subsidy on fuel. Accordingly, the shares of both participation and other expenses in total government expenditure went up to 5.7 percent in 2017 from 5.1 percent during the previous year (Chart 4.4). Overall expenditure cut occurred in 2017 through a decline in both current and investment expenditures, however, growth stimulating government investment expenditure is desirable to boost diversification in the economy. The government investment expenditure often crowds in private sector investment and hence, acts as a catalyst to stimulate private sector-led growth. Furthermore, the government investment expenditure is required to sustain and expand the hydrocarbon production in the economy, as the government is the main stakeholder in the oil and gas sector.

Chart 4.3: Components of Fiscal Expenditure

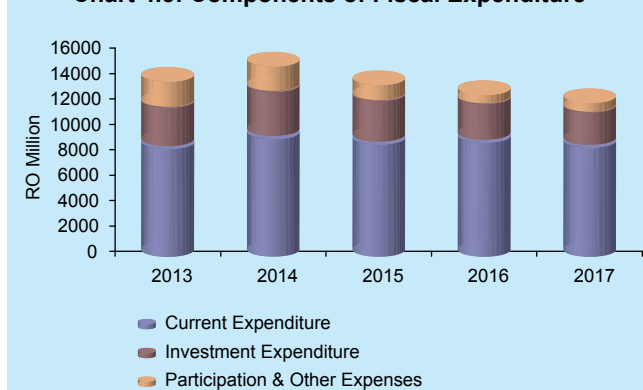
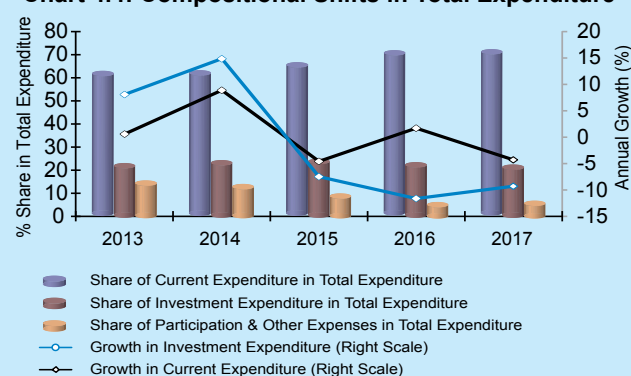


Chart 4.4: Compositional Shifts in Total Expenditure



Current Expenditure

After having increased by 1.7 percent in 2016, the current expenditure decreased by 4.3 percent in 2017 mainly on account of drop in the spending on defense & national security and oil and gas production witnessed during the year (Table 4.2). The current spending on defense & national security declined by 14.3 percent in 2017 as against an increase of 5.3 percent registered during the previous year. The share of defense & national security in total current expenditure also reduced to 39.1 percent in 2017 from 43.7 percent during 2016. The current spending on oil and gas production dropped by 11.3 percent in 2017 in comparison with an increase of 5.9 percent in 2016, constituting 5.7 percent of total current expenditure (as compared to an average of 6.0 percent during the previous two years). The decline in oil and gas production expenditures was mainly due to the implementation of an agreement between OPEC and non-OPEC members to cut the production. The current spending on civil ministries, however, recorded a marginal increase during 2017 as against an average decline of 2.4 percent during the previous two years, which was attributed mainly to higher contribution to pension fund. The share of civil ministries in total current expenditure also improved to 51.0 percent in 2017 from 48.7 percent during 2016. On the other hand, due to the government's accumulating debt stock, its interest payments increased by 168.4 percent to reach RO 371.4 million, although lower as compared to an increase of 271 percent in 2016. The overall decline in the current expenditure reflects the Government's ability to maneuver within the limited fiscal space and the commitment

towards fiscal consolidation through rationalizing expenditure.

Civil Ministries Current Expenditure

The civil ministries' current expenditure increased marginally during 2017 as against a significant contraction in 2016, driven by higher spending on wages, salaries, allowances and others (Table 4.4). Notwithstanding fiscal consolidation efforts, expenditure on "total wages, salaries, allowances and others", which constitutes about 74 percent of total civil ministries current expenditure, increased by 1.8 percent in 2017 as against a decline of 3.1 percent witnessed in 2016, mainly due to a steep jump in contribution to pension funds which was partly attributed to cover the lower contribution previous year (Table 4.4 & Chart 4.5). However, due to stricter expenditure measures undertaken regarding public sector employment and benefits, including a quasi-freeze on hiring in the civil service sector, the spending on "salaries and wages" decreased in 2017, albeit marginally by 0.4 percent. On the other hand, overall expenditure on goods and services registered a considerable decrease of 5.8 percent in 2017, mainly contributed by a significant drop in government expenses on services as spending on purchase of goods increased substantially by 11.1 percent during the year. The spending on subsidies and other current transfers extended the downward trend by declining marginally by 0.9 percent in 2017, reflecting the fiscal prudence being exercised by the government.

A functional breakdown exhibits that a drop in current spending on education affairs and

Table 4.4
Breakdown of Civil Current Expenditure by Type of Expenses
(Rial Omani Million)

Items	2013	2014	2015	2016	2017*	% change 2017/16
A. Total Wages, Salaries, Allowances and Others	2472.1	3345.3	3410.1	3305.9	3366.2	1.8
Salaries and Wages	1103.0	1510.9	1614.1	1658.4	1652.2	-0.4
Allowances	943.2	1310.4	1311.0	1304.8	1292.4	-1.0
Other Remuneration	213.5	225.7	195.9	191.1	174.7	-8.6
Contribution to Pension Fund	212.4	298.3	289.1	151.6	246.9	62.9
B. Expenditure on Goods and Services	814.1	903.0	855.3	781.9	736.5	-5.8
Purchase of Goods	212.4	221.3	200.0	189.4	210.4	11.1
Purchase of Services	506.1	578.7	562.2	473.4	413.5	-12.7
Expenses of Government Services	95.6	103.0	93.1	119.1	112.6	-5.5
C. Subsidies and Other Current Transfers	562.3	514.4	456.8	451.5	447.4	-0.9
Total Civil Current Expenditure	3848.5	4762.7	4722.2	4539.3	4550.1	0.2

* Provisional

Source: Ministry of Finance.

Table 4.5
Breakdown of Civil Current Expenditure by Function
(Rial Omani Million)

Items	2013	2014	2015	2016	2017*	% change 2017/16
General Public Services Sector	549.7	614.3	632.6	569.5	561.6	-1.4
Public Order and Safety	109.5	141.8	130.6	135.4	130.0	-4.0
Education Affairs and Services	1308.2	1717.7	1678.0	1702.4	1664.1	-2.2
Health	517.0	691.7	755.7	725.0	742.7	2.4
Social Security and Welfare	560.6	593.0	554.4	431.6	479.4	11.1
Housing	491.3	581.4	542.8	557.6	560.3	0.5
Cultural and Religious Affairs	163.6	231.3	229.7	221.5	220.6	-0.4
Fuel and Energy	3.9	4.8	4.8	4.6	4.4	-4.3
Agriculture, Forestry & Fishing	48.0	62.3	62.6	60.9	57.8	-5.1
Mining, Manufacturing and Construction	0.0	0.0	0.0	0.0	0.0	0.0
Transport and Communication	50.2	63.7	61.0	61.4	56.9	-7.3
Other Economic Affairs	46.5	60.7	70.4	69.4	60.6	-12.7
Others	-	-	-	-	11.7	-
Total Civil Current Expenditure	3848.5	4762.7	4722.6	4539.3	4550.1	0.2

* Provisional

Source: Ministry of Finance.

services, general public services, public order and safety, transport & communication and other economic affairs largely counter-balanced the jump in current expenditure on social security & welfare, allowing only a marginal rise in aggregate civil ministries' current expenditure (Table 4.5). The current spending on social security and welfare increased considerably by 11.1 percent in 2017 after witnessing an average decline of 14.3 percent in the previous two years (2015 and 2016). The current expenditure on health also increased by 2.4 percent during 2017 as against a decline of 4.1 percent recorded in the previous year. On the other hand, the current expenditure on education affairs and services decreased by 2.2 percent in 2017 after fluctuating over the last few years and increasing by 1.5 percent in 2016, while expenditure on general public services decreased for the second year in a row by 1.4 percent during 2017. The current spending on cultural and religious affairs also continued to decline and contracted marginally by 0.4 percent in 2017 as against an annual average contraction of 2.1 percent during the previous two years, reflecting improved targeting of government expenditure. Other functional heads, viz. public order and safety, fuel and energy, agriculture and forestry, transport and communication and other

economic services also declined during the year as part of effective expenditure management. In terms of relative contribution, the largest share of the civil current expenditure was spent on education affairs and services (36.6 percent), followed by health (16.3 percent), general public services (12.3 percent) and housing (12.3), social security and welfare (10.5 percent), and cultural and religious affairs (4.8 percent) during 2017.

Investment Expenditure

Overall investment expenditure decreased in 2017, following the trend necessitated by the fiscal challenge since 2015 (Table 4.2). Both development and capital expenditures for civil ministries declined, with former that constituted more than 50 percent of investment expenditure dropping by 3.6 percent and the latter declining by 37.6 percent (Chart 4.6). Similarly, investment expenditure on oil and gas production, which together constitute 49 percent of overall investment expenditure, decreased by 11.0 percent and 18.1 percent, respectively (Chart 4.7). The share of investment expenditure in total government expenditure has been on the downward trajectory over the past few years, essentially reflecting funding

Chart 4.5: Breakdown of Total Salaries, Wages, Allowances and Others for the Year 2017

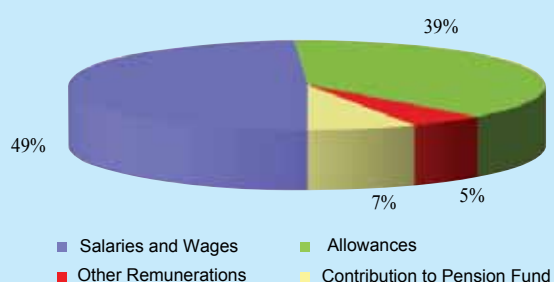


Chart 4.6: Share of Investment Expenditure on Oil & Gas Production in Total Investment Expenditure

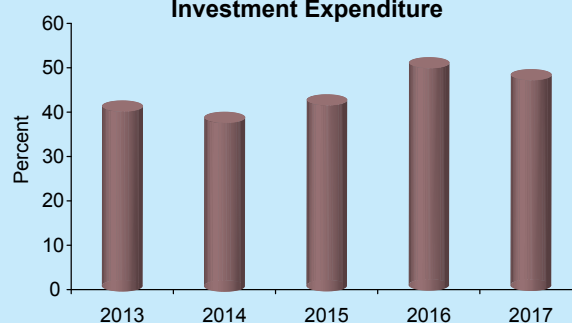
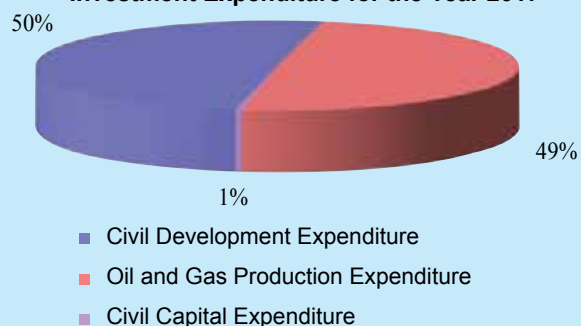


Chart 4.7: Breakdown of Investment Expenditure for the Year 2017



constraints on the back of a drop in oil revenues and rationalization of expenditure as part of the fiscal consolidation being pursued by the government. The government realizes the significance of investment expenditure for growth in the economy; however, the fiscal consolidation

is essential for macroeconomic stability and fostering sustainable growth over the medium to long-run.

Civil Development Expenditure

Despite a decrease in the majority of items under civil ministries' development expenditure, the development expenditure on other economic affairs (which mainly include expenditure on economic free zones) increased dramatically by more than eight fold. Nonetheless, overall civil development expenditure decreased by 3.6 percent in 2017 (Table 4.6). The civil development expenditure, excluding spending

Table 4.6
Breakdown of Civil Development Expenditure by Function
(Rial Omani Million)

Items	2013	2014	2015	2016	2017*	% change 2017/16
General Public Services Sector	162.1	147.2	138.8	95.9	99.1	3.3
Public Order and Safety	9.4	11.6	8.6	3.9	6.0	53.8
Education Affairs & Services	175.8	244.0	257.9	253.1	167.8	-33.7
Health	54.4	27.8	32.9	35.1	20.6	-41.3
Social Security and Welfare	9.9	6.3	8.9	5.2	4.4	-15.4
Housing	374.7	656.9	475.0	385.7	318.2	-17.5
Cultural and Religious Affairs	48.3	82.5	45.0	15.2	15.1	-0.7
Fuel and Energy	0.9	0.3	0.6	0.1	0.1	0.0
Agriculture, Forestry and Fishing	28.8	31.1	37.5	38.1	29.3	-23.1
Mining, Manufacturing and Construction	0.5	1.0	8.8	2.3	2.5	8.7
Transport and Communication	848.9	859.3	769.2	532.3	503.3	-5.4
Other Economic Affairs	30.6	25.6	39.3	17.1	167.7	880.7
Total Development Expenditure	1744.3	2093.6	1822.5	1384.0	1334.1	-3.6

* Provisional

Source: Ministry of Finance.

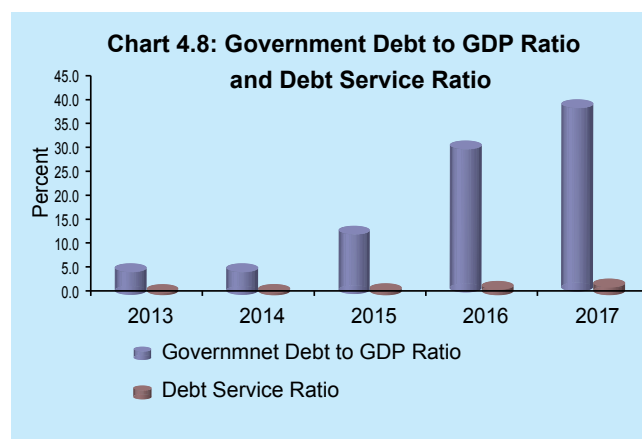
on other economic affairs, recorded a decline of 14.7 percent in 2017. The overall decrease in civil development expenditure was driven mainly by a drop in spending on education affairs and services, housing, and transport and communication, which decreased by 33.7 percent, 17.5 percent, and 5.4 percent, respectively. On the other hand, the civil development expenditure on general public services, public order and safety, and mining, manufacturing, and construction increased by a modest amount.

Government Participation and Other Expenses

The government participation and other expenses, after witnessing a steady decline for the past few years, reflecting implementation of reforms on subsidies and support for government organizations, inched up 6.2 percent in 2017. The increase in the government participation and other expenses was mainly driven by increases in government support to the electricity sector as well as in operational support and investment expenditure extended to government companies, and introduction of targeted fuel subsidy. On the other hand, a sharp fall of 59.3 percent in spending on participation in domestic, regional and international interest partly offset the effect of the above increases on overall government participation and other expenses.

Government Debt

The government relied largely on debt, especially external borrowings, to finance the fiscal deficit for the third consecutive year in 2017. A part of fiscal deficit was also financed through government development bonds (GDBs). Accordingly, the



Government debt stock rose by 39.5 percent to RO 11,150.6 million at the end of 2017 (Table 4.8). Consequently, the interest payments also more than doubled to RO 371.4 million in 2017, partly also reflecting hardening interest rate environment. The debt to GDP ratio, which started rising from 2015, further jumped considerably to 39.9 percent in 2017 mainly on account of a steep rise in the stock of debt, raising same concerns about building up of fiscal vulnerabilities. Debt Services ratio, which is calculated based on the external debt of the government only, increased marginally to 1.7 percent in 2017 from 1.2 percent in 2016 (Chart 4.8). The government was able to raise the required debt successfully at market interest rates to finance the fiscal deficit in 2017, notwithstanding unfavorable fiscal position.

2017 State General Budget: Approved vis-à-vis Outcome

The government has displayed commitment to deal with the accentuated current macroeconomic challenges and accordingly, has been traversing on the fiscal consolidation path within the constraints imposed by the structure of the economy. The annual budget, which reflects the overall stance of fiscal policy, was prepared with due consideration

Table 4.7
Government Participation and Other Expenses
(Rial Omani Million)

Items	2013	2014	2015	2016	2017*	% change 2017/16
Participation in Domestic, Regional and International Interests	451.6	465.4	248.1	203.4	82.7	-59.3
Subsidy on Soft Loans to Private Sector and Housing	30.5	32.4	24.5	25.3	25.2	-0.4
Government Support to Electricity Sector	320.5	270.6	386.4	278.8	380.0	36.3
Support Basic Foods	27.9	19.3	6.8	3.8	3.9	2.6
Operational support to Gov Organisations	98.6	59.1	44.2	41.0	72.8	77.6
Support Petroleum Products	1119.1	1134.6	479.3	17.1	21.0	22.8
Investment Exp for Gov Companies	-	-	30.4	90.3	114.7	0.0
Total Participation & Other Expenses	2048.2	1981.4	1219.7	659.7	700.3	6.2

* Provisional

Source : Ministry of Finance.

Table 4.8
Government Debt Indicators
(Rial Omani Million)

Items	2013	2014	2015	2016	2017*	% change 2017/16
1. Stock of Debt (R.O. Million)	1486.5	1526.3	3444.0	7991.2	11150.6	39.5
2. Principal Repayments (R.O. Million)	84.5	89.4	85.0	87.2	107.2	22.9
3. Interest Payments (R.O. Million)	53.6	52.9	37.3	138.4	371.4	168.4
4. Debt Indicators* *						
(a) Debt to GDP ratio (%)	4.9	4.9	13.0	31.1	39.9	-
(b) Debt Services Ratio (%)***	0.5	0.5	0.7	1.2	1.7	-

* Provisional

** Since non-government debt is not included in deriving these indicators, they do not reflect the debt of Oman as a whole, and hence, they are strictly not comparable with standard published debt indicators for other countries.

*** Relating to external debt of the Government Only. Debt- service ratio implies (principal repayments plus interest payments) as percentage of export of goods and services.

Source : Ministry of Finance.

to fiscal consolidation objective. Nonetheless, the final outcomes at times differ from that provided in the budget estimates due to the factors beyond control and to minimize the adverse consequences on the economy. The preliminary result of 2017 indicates that actual total revenues fell short of budget estimates by 2.1 percent due to significant lower receipts under tax collections and capital repayments (Table 4.9). The actual hydrocarbon revenues, however, exceeded the estimates provided in the budget by 1.6 percent, despite a cut in crude oil production and shortfall in gas revenues, reflecting a sharp recovery in oil prices especially in the second half of 2017. The net oil revenues realized during 2017 were higher by 5.2 percent compared to the budgeted amount. The actual capital receipts in 2017 were also much higher than that provided in the budget estimates. On the expenditure side, the actual total expenditure in 2017 was 4.9 percent higher than the approved budget for the year due to higher current expenditure and spending on participation and others exceeding the budget estimates by 4.9 percent and 30.9 percent, respectively. These deviations in actual vis-à-vis approved budget estimates of revenues and expenditure eventually led to the actual fiscal deficit at RO 3,759.6 million, higher compared with RO 3,000 million budgeted for 2017. Nonetheless, the overall fiscal outcome of 2017 budget was better in comparison with that in a previous year, as actual fiscal deficit exceeded the budget estimates by 25.3 percent in 2017 as against 76.7 percent in 2016.

Main Objectives of 2018 State General Budget

The 2018 state general budget has been formulated in the backdrop of continued

macroeconomic challenges, a need to remain focused on economic diversification, the significance of private sector-led economic growth, and addressing the hardships faced by citizens including unemployment. Notwithstanding a sharp recovery in oil prices since the second half of 2017, the 2018 budget continued with reforms agenda aimed at reinstating macroeconomic stability and addressing external sector vulnerabilities. Besides supporting diversification program “Tanfeedh”, increased participation of the private sector through the public-private partnership, privatization of public sector entities, and removal of bottlenecks for conducting business remained thrust area in 2018 budget. Privatization program entails two-pronged strategy: first, a number of holding companies have been established for all state-owned enterprises (SOEs), and second, each holding company will develop a privatization plan. Along with generating funding, the privatization is expected to boost private sector participation and infuse efficiency and innovation, boosting non-oil economic activities and generating additional tax revenues for the government. Furthermore, the government has initiated the process of monetizing its assets.

The 2018 budget has assumed an average oil price of \$50 per barrel compared to \$45 for the 2017 budget. Accordingly, total government revenues are estimated at RO 9,500 million for 2018, representing an expansion of 9.2 percent and 11.6 percent from the previous year’s budget estimates and actual, respectively. Total revenues consist of net oil and gas revenues of RO 6,780 million (71.4 percent of total) and non-oil and

Table 4.9
Budget Estimates & Actuals
(Rial Omani Million)

ITEMS	2017 Budget	2017 Actual	% change actual 2017/ budget 2017	2018 Budget	% Change budget 2018/17
TOTAL REVENUES	8700.0	8514.1	-2.1	9500.0	9.2
Net Oil Revenues	4450.0	4681.8	5.2	4870.0	9.4
Gas Revenues	1660.0	1524.3	-8.2	1910.0	15.1
Other Current Revenues	2550.0	2173.7	-14.8	2560.0	0.4
Capital Revenues	20.0	130.4	552.0	20.0	0.0
Capital Repayments	20.0	3.9	-80.5	140.0	600.0
TOTAL EXPENDITURE	11700.0	12273.7	4.9	12500.0	6.8
Current Expenditure	8500.0	8918.0	4.9	8990.0	5.8
Defence & National Security	3340.0	3487.5	4.4	3440.0	3.0
Civil Ministries	4385.0	4550.1	3.8	4350.0	-0.8
Oil production Expenditures	330.0	329.0	-0.3	340.0	3.0
Gas production Expenditures	180.0	180.0	0.0	380.0	111.1
Interest Paid on Loans	265.0	371.4	40.2	480.0	81.1
Investment Expenditure	2665.0	2655.4	-0.4	2745.0	3.0
Development Expenditure for Civil Ministries	1200.0	1334.1	11.2	1200.0	0.0
Development Expenditure for Gov Corporations	140.0	0.0	-100.0	165.0	0.0
Capital Expenditure for Civil Ministries	15.0	11.3	0.0	0.0	0.0
Oil Production Expenditures	750.0	750.0	0.0	800.0	6.7
Gas Production Expenditures	560.0	560.0	0.0	580.0	3.6
Participation & Other Expenses	535.0	700.3	30.9	765.0	43.0
SURPLUS/DEFICIT	-3000.0	-3759.6	-	-3000.0	-
FINANCING	3000.0	3759.6	-	3000.0	-
Drawing from Reserves	500.0	500.0	-	500.0	-
Net loans Received	2100.0	4093.3	-	2100.0	-
Development Bonds (Net)	400.0	400.0	-	400.0	-
Surplus Brought from Previous Years	-	-	-	-	-
Net Change in Government Accounts	0.0	-1233.7	-	-	-

Source: Ministry of Finance.

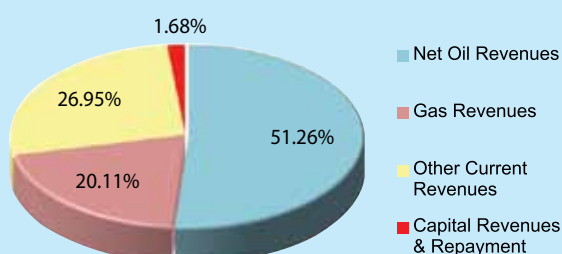
gas revenues of RO 2,720 million (28.6 percent of total). At the same time, total government expenditures for 2018 has been budgeted at RO 12,500 million, an increase of 6.8 percent and 1.8 percent from the budget and actual for 2017, respectively (Table 4.9). Accordingly, the fiscal deficit for 2018 budget is estimated at RO 3,000 million (20.2 percent less than the 2017 actual deficit).

The breakdown of total budgeted revenues displays that the net oil revenues at RO 4,870 million for 2018 are higher by 9.4 percent over the budget estimates for 2017 (but only 4 percent higher than actual in 2017), accounting for 51.3 percent of total government revenues. The net revenues from natural gas, on the other hand, are estimated to increase significantly by 15.1 percent to RO 1,910 million in 2018 budget (chart 4.9). Other current receipts for 2018 budget, are estimated to be higher by 0.4 percent and 17.8 percent, respectively, over the budget estimates and actual for 2017. The capital revenues for 2018 are budgeted at the same level of that in 2017 budget but significantly lower as compared to 2017 actual, while the capital repayments for 2018 are estimated substantially higher than both budget estimate and actual for 2017.

On the expenditures side, the current expenditure for 2018 budget is estimated higher by 5.8 percent over 2017 budget (0.8 percent higher compared to actual in 2017). Under the current expenditure, the budget for civil ministries remains almost the same as in 2017 budget but lower by 4.4 percent compared to 2017 actual, while the current spending on oil and gas productions in 2018 budget is estimated to increase by 3.3

percent and 111 percent, respectively, over their level in 2017 budget estimates (almost similar increase over actual in 2017). The investment expenditure for 2018 is budgeted to increase by 3.0 percent over budget estimates for 2017 and by 3.4 percent over actual in 2017. The spending on development projects has been provided somewhat higher in 2018 budget over both budget estimates and actual for 2017 in order to ensure the completion of all ongoing projects without delay. The development expenditure for civil ministries in 2018 budget declined by 10.1 percent over the actual in 2017 (no change over the budget estimate for 2017), while investment expenditure on oil and gas productions is estimated to increase by 6.7 and 3.6, respectively in comparison with both budget estimates and actual for 2017. The government expenditure on participation and other expenses, which mainly include subsidies for cooking gas, electricity, housing and development loans, and operational support to SOEs (State-Owned Enterprise), provided in 2018 budget increased by 43 percent over 2017 budget and by 9.2 percent as compared with that actual in 2017. The increase in government expenditure on participation and other expenses is mainly attributed to the increase in electricity subsidy to meet the growth in consumption and the knock-on effect of an increase in gas price. The government has, however, introduced cost reflective tariffs (CRT) for government, commercial and industrial customers, known as “large” power consumers, following the subsidy reforms initiated in the recent past. In the meantime, the government is also undertaking a feasibility study on gradual elimination of electricity subsidy on households.

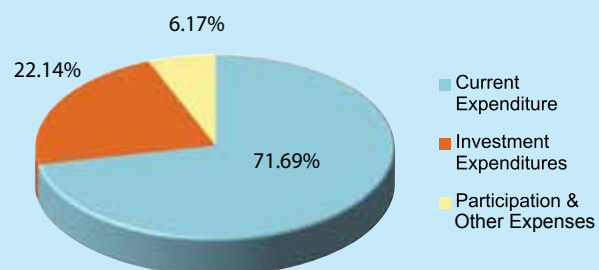
Chart 4.9: Breakdown of Government Revenues in the 2018 Approved Budget



In 2018 budget, the share of current expenditure worked out to be 72 percent, while the share of investment expenditure and expenditure on participation and other expenses stood at 22 percent and 6 percent, respectively (chart 4.10).

The financing to the fiscal deficit of RO 3,000 million in 2018 budget has been provided through a mix of debt and drawdown of foreign reserves with former contributing a major share. The government's external and domestic borrowings are estimated at RO 2,500 million, constituting about 83 percent of the fiscal deficit for 2018 budget. The remaining funding of RO 500 million has been estimated from drawing on reserves. The government has been raising a large part of the borrowings from external sources to avoid crowding out of the private sector investment as well as to take advantage of the easy financial conditions and enhance foreign currency liquidity

Chart 4.10: Breakdown of Public Expenditure in the 2018 Approved Budget



in the domestic market. Since oil prices have surged significantly, much beyond the average level assumed in the budget estimates, the fiscal deficit is expected to be much lower in 2018 compared to that estimated in 2018 budget and consequently, funding requirement would also be lower concomitantly.

The state's general budget is still dealing with high public spending as compared with a low level of total revenues, despite a considerable recovery in oil prices. Therefore, the fiscal consolidation needs to be pursued rigorously by further rationalizing expenditure with controlling current spending and augmenting non-oil revenues in order to restore fiscal balance over the coming years. Furthermore, there is need to target non-oil fiscal deficit for fiscal sustainability over the medium to long-run.

Money, Banking and Financial Institutions

MONEY, BANKING AND FINANCIAL INSTITUTIONS

The Central Bank of Oman (CBO) continues to play an important role in maintaining financial stability, pursuing appropriate monetary policies, developing financial markets, implementation of modern payment and settlement systems and supervising and regulating the banking sector. The banking sector in Oman continued its positive growth trend in 2017 consistent with the overall GDP growth. The liquidity situation in the banking system remained comfortable to support domestic demand and growth. Despite increase in the size of banks' balance sheet, the ratio of gross non-performing loans to total credit registered a marginal increase in 2017. Notwithstanding the macro-economic challenges of twin deficits in the fiscal and current accounts due to the fall in crude oil prices, the banking sector remained robust, supporting economic diversification initiatives and growth. The institutional framework of the financial sector falling under the CBO jurisdiction comprised mainly conventional commercial banks, Islamic banks and windows, specialized banks, non-bank finance and leasing companies, money exchange and draft issuing establishments and money changing outlets. As at the end of the year 2017, the number of conventional commercial banks remained at 16 of which 7 were locally incorporated and 9 were branches of foreign banks. Conventional banks operated in Oman with a network of 436 branches. In addition, they had five branches and three representative offices abroad. The locally incorporated conventional banks were Bank Muscat, National Bank of Oman, HSBC Bank Oman, Oman Arab Bank, Bank Dhofar, Bank Sohar

and Ahli Bank. The foreign banks operating in Oman were Standard Chartered Bank, Habib Bank, Bank Melli Iran, Bank Saderat Iran, Bank of Baroda, State Bank of India, First Abu Dhabi Bank (formerly known as National Bank of Abu Dhabi), Bank of Beirut and Qatar National Bank. Conventional commercial Banks (excluding their Islamic banking windows) had in total 1,288 ATMs (of which 620 were off-site), 225 cash deposit machines (of which 22 were off-site) and 13 on-site banking facilities. Of the seven locally incorporated conventional banks, six were listed in the Muscat Securities Market. All the conventional banks are privately owned, with the Government having minority stakes in a few. Aggregate foreign ownership in locally incorporated banks is limited by law to a maximum equity share of 70 percent with prudential sub-limits on the shareholding pattern. At the end of 2017, twelve conventional banks and one full-fledged Islamic bank had CBO approval to engage in specified investment banking activities on a tiered licensing system. There were also two Government owned specialized credit institutions, namely Oman Housing Bank and Oman Development Bank that provides soft financing to mainly low and middle income nationals to build or purchase residential property and to private sector investors to finance small projects, respectively. The specialized banks operated with a network of 23 branches. At the end of 2017, there were also two full-fledged locally incorporated Islamic banks, namely Bank Nizwa and Al Izz Islamic Bank. The Islamic and the conventional banks' Islamic Windows together operated with 76 branches at the end of 2017 from

70 a year ago. They also had 79 ATMs and 41 cash deposit machines in service. As at the end of December 2017, six finance and leasing companies licensed by CBO were engaged in leasing activities, hire purchase, debt factoring and other similar asset finance based operations. Together, they operated with 37 branches, all based in Oman. There were also sixteen exchange establishments licensed for money exchange and remittance business as well as 36 exclusive money changing firms. The sixteen exchange establishments had 358 branches at the end of the year. Besides the above, the broad financial sector in Oman also included public and private sector Pension funds, several insurance and brokerage firms and the Muscat Securities Market.

Monetary and Banking Indicators

Banking sector regulations and reforms by CBO have resulted in a strong and resilient banking system over the years. Conduct of monetary policy, risk-based supervision, implementation of Basel accords, development of payment and settlement systems and supporting growth with containment of inflation have ensured financial stability. While focusing on a competitive and robust banking sector, CBO has strived for financial inclusion, whereby banking services are accessed easily by all sections of the society. In this context, the onset of Islamic banking has promoted the process of financial inclusion. The extent of financial deepening in the economy that evolved over the recent years are reviewed in terms of few select monetary and banking indicators given in Table 5.1.

In line with the overriding objective of achieving growth together with price and financial stability, monetary management during the year continued

to be in the supportive mode. After economic contraction for the previous two consecutive years, Omani economy witnessed a broad-based recovery and grew in nominal terms by 8.7 percent during 2017. Following a moderate growth of 1.8 percent in 2016, broad money also registered a growth of 4.2 percent in 2017 responding to the growing money demand associated with the growth in nominal GDP. The ratio of net foreign assets of the banking system to broad money remained stable at 30 percent during the period 2015 to 2017 (Table 5.1). Significant growth was registered during the recent five years period in the main banking aggregates, notably in total assets, capital, deposits and credit. The growth in the balance sheet of banks was accompanied by a marginal deterioration in asset quality, but improvement in provision coverage and capital adequacy. The increase in the number of ATMs and their wide spread usage, abundant use of credit, debit and smart cards, electronic payments for various government services, internet and phone banking etc have added to the financial deepening in the banking system. Financial deepening is also evident in terms of certain benchmarks such as bank credit to overall GDP (Chart 5.1(a)), non-oil GDP, bank deposits to GDP, broad money to GDP where compelling strides have been made in recent years. The ratio of market capitalization to GDP also improved over the years. The income velocity of broad money (ratio of nominal GDP to M2) indicates the number of times money balance turn over in the economy. Since 2015, the ratio has remained more or less stable at 1.7 indicative of the lesser number of times that money balances turn over compared to 2.5 in 2013 and 2.3 in 2014 (Table 5.1 & Chart 5.1(b)). Despite the fall in reserve money in 2017, the increase in the money multiplier to 4.3 from 3.8 in the previous year enabled broad money to grow by 4.2 percent.

Table 5.1
Select Monetary and Banking Indicators

	2013	2014	2015	2016	2017
Monetary Indicators					
Reserve money (R.O. Million)	2652	3302	5612	4061	3765
Currency with public (R.O. Million)	1039	1188	1395	1299	1266
Narrow money M1 (R.O. Million)	3995	4808	5368	4979	4941
Broad money M2 (R.O. Million)	11937	13767	15146	15424	16069
CBO's foreign assets (R.O. Million)	6133	6277	6746	7791	6186
Ratio of NFA of CBO to Reserve money	2.3	1.9	1.2	1.4	1.4
Ratio of NFA of banking system to M2	0.6	0.5	0.3	0.3	0.3
Banking Indicators					
Number of conventional commercial banks	16	16	16	16	16
Number of branches of conventional commercial banks	493	469	468	470	436
Number of branches of Islamic banking entities	32	46	60	70	76
Conventional commercial Bank ATMs	1071	1053	1088	1109	1288
Islamic banking entities ATMs	29	43	50	72	79
Other depository corporations total assets (R.O. Million)	22902	26005	30250	29886	31489
Other depository corporations total deposits (R.O. Million)	15758	17968	19412	20423.7	21570
Other depository corporations total credit (R.O. Million)	15612	17948	20097	22130.5	23544
Capital Adequacy ratio	16.2	15.4	16.1	16.5	17.4
Financial deepening indicators					
Bank credit to GDP (%)	51.9	57.1	75.9	86.1	84.3
Bank credit to non-oil GDP (%)	90.8	94.8	104.7	112.4	115.1
Bank deposits to GDP (%)	52.4	57.1	73.3	79.5	77.2
Quasi-money to GDP (%)	26.4	28.5	36.9	40.7	39.8
Broad money to GDP (%)	39.7	43.8	57.2	60.0	57.5
Currency with public to GDP (%)	3.5	3.8	5.3	5.1	4.5
Currency with public to reserve money (%)	39.2	36.0	24.9	32.0	33.6
Currency with public to broad money (%)	8.7	8.6	9.2	8.4	7.9
Income velocity of broad money	2.5	2.3	1.8	1.7	1.7
Money multiplier (M2 over reserve money)	4.5	4.2	2.7	3.8	4.3
Stock market capitalization to GDP ratio (%)	47.1	46.3	59.6	67.3	64.3

Note: Other depository corporations include conventional banks and Islamic banks and windows.

Source: Central Bank of Oman

CBO's Monetary Policy

CBO's monetary policy is geared to ensure monetary and financial stability with growth and containment of inflation within the framework of the prevailing fixed exchange regime of the local

currency to the US dollar. The exchange rate of the Rial Omani has been pegged to the US dollar since 1973 and the current parity has remained constant at US \$ 2.6008 per Rial Omani since 1986. Monetary Policy during the year was formulated against the backdrop of an upturn

Chart 5-1 (a): Broad Money & Bank Credit to GDP Ratio

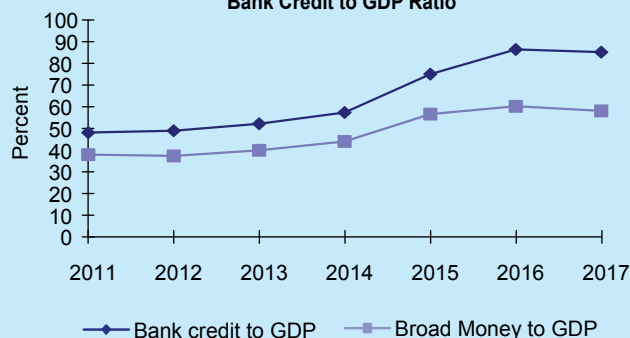


Chart 5-1 (b): Income Velocity & Money multiplier

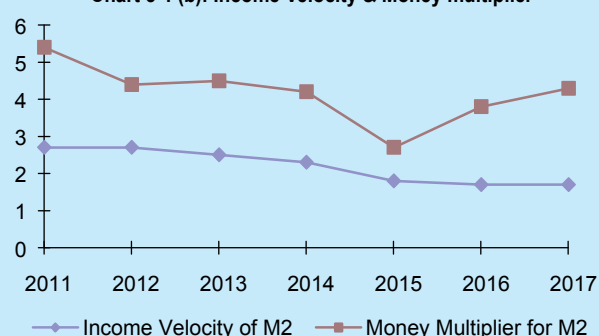
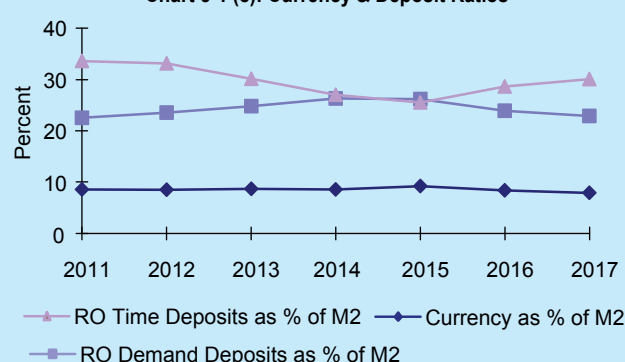


Chart 5-1 (c): Currency & Deposit Ratios



in economic activity, firming up of domestic interest rates, benign inflationary conditions and twin deficits in fiscal and current account. In an environment of free capital movements and fixed exchange rate resulting in limited monetary policy independence, the CBO has been following an supportive monetary stance aimed at ensuring adequate liquidity in the system and maintaining orderly market conditions to support credit and growth. The recent steps taken by CBO to reduce the regulatory capital adequacy ratio and lending ratio norms are expected to strengthen banks' ability to extend credit to spur growth.

The CBO uses both direct and indirect instruments for liquidity management depending upon the circumstances. Direct instruments mainly include the statutory reserve requirements and the loans

to deposit ratios. On the other hand, indirect instruments of liquidity management include issuance of certificates of deposit which have been presently discontinued and replaced with auctioning of Government treasury bills of different maturities, repo operations, rediscount facilities and swap and reverse swap operations. In the current scenario, CBO's liquidity management operations are more skewed towards liquidity absorption rather than injection.

Monetary policy issues are regularly discussed and reviewed in the Monetary Policy and Banking Development Committee (MPBDC) within CBO thus enhancing the consultative process in decisions. Apart from banking regulatory issues, liquidity conditions, short-term interest rate movements are regularly monitored based on indicators which include daily clearing balances and excess reserves, domestic inter-bank volumes and rates, and investment by banks in Government securities.

Monetary Aggregates

Monetary aggregates continued to expand during the year 2017, albeit with some moderation but still ended up with broad money growth of 4.2 percent

on a year-on-year basis (Table 5.3). Reserve money (monetary base), however, registered a decline of 7.3 percent (RO 295.8 million) over the year largely due to the drop in bank's deposits held with CBO (Table 5.2). Despite the fall in reserve money, the increase in the money multiplier allowed broad money to expand at the end of 2017. Narrow money supply (M1) declined by 0.8 percent over the year primarily due to the drop in currency held by the public and to a lesser extent due to the decrease in local currency demand deposits. On the other hand, quasi-money (RO saving and time deposits, certificates of deposit issued by commercial banks, foreign currency deposits and margin deposits) registered an appreciable growth of 6.5 percent (RO 683.2 million) during the year. The stimulus for the growth in quasi-money came mainly from the increase in Rial Omani time deposits as well as from growth in both saving deposits and foreign currency deposits. The compositional shift from demand deposits to time deposits due to the rise in interest rates on the latter also contributed to the growth in quasi-money. Broad money stock M2 (M1 plus quasi-money) stood at RO 16.1 billion at the end of December 2017, up from RO 15.4 billion a year ago.

Monetary Survey

The monetary survey also known as Depository Corporations Survey (DCS) is a consolidated statement of accounts of all financial sector corporations that incur liabilities included in the national definition of broad money. The DCS is designed to assist the analysis of money stock and its components, credit aggregates and depository corporations' foreign assets and liabilities and provides a link to the fiscal and balance of payments

statistics. The monetary survey statement given in (Table 5.4) includes balance sheet aggregates of conventional banks and Islamic banks and their windows. The primary sources of monetary expansion during the year was the increase in banks' domestic claims on the private sector by RO 1.3 billion and their claims on public enterprises by RO 240.6 million. Monetary expansion was mitigated to some extent by the drop in net foreign assets of the banking system and an increase in net non-monetary liabilities.

Financial Markets

The pre-requisites for a stable financial system include sound financial institutions, well functioning and integrated financial markets and a robust financial infrastructure. Financial markets play a critical role in allocating resources efficiently, strengthening price discovery, lowering transaction costs and helps in diversifying risks within the financial system. Developed financial markets also enables inter-temporal consumption smoothing and prudent risk management by different participants. The concerned authorities in Oman have been continuously striving for the development of deeper and liquid financial markets to cater to the diverse needs of all segments of the economy with a market development objective in mind. The various segments of the financial markets, namely, the money market, capital market and the foreign exchange market remained stable and orderly during the year.

Money Market

The money market provides a focal point for Central Bank's intervention for influencing liquidity and

Table 5.2
Monetary Base and its Sources
(Rial Omani Million)

	2014	2015	2016	2017	Absolute Change	
					2016/15	2017/16
Currency Issued	1593.7	1788.2	1647.1	1637.5	-141.1	-9.6
Banks deposits with CBO*	1708.4	3824.3	2413.9	2127.7	-1410.4	-286.2
Monetary Base (M0)	3302.1	5612.5	4061.0	3765.3	-1551.5	-295.7
Central Bank Assets						
Foreign assets	6276.9	6745.8	7790.9	6186.3	1045.1	-1604.6
Claims on Government	173.2	658.2	727.3	565.9	69.1	-161.4
Fixed and other assets	188.6	184.8	348.1	426.3	163.3	78.2
Less:						
Central Bank Liabilities						
Net Worth (capital and reserves)	1298.8	1304.8	1293.1	1432.7	-11.7	139.6
Government deposits	512.4	473.8	1162.5	775.6	688.7	-386.9
Foreign liabilities	100.0	95.9	2127.1	922.8	2031.2	-1204.3
Other liabilities	1425.4	101.8	222.6	282.1	120.8	59.5

* Excludes CDs issued by CBO which are shown under other liabilities

Source: Central Bank of Oman.

Table 5.3
Components of Broad Money
A. (Rial Omani Million)

End of the Period	2013	2014	2015	2016	2017
Money Supply (M1)	3994.9	4808.0	5368.3	4978.8	4940.5
Currency with public	1039.2	1188.2	1395.3	1299.4	1266.2
Demand deposits in local currency	2955.7	3619.8	3973.0	3679.4	3674.3
Quasi Money	7942.6	8958.9	9777.4	10444.9	11128.2
Savings deposits in local currency	3339.8	4006.4	4463.2	4624.5	4807.8
Time deposits in local currency	3595.9	3712.3	3854.5	4415.8	4834.1
Deposits in foreign currency	887.3	1088.1	1169.7	1072.5	1181.1
Margins	119.6	152.1	290.0	332.1	305.2
Broad Money (M2)	11937.5	13766.9	15145.7	15423.7	16068.7

B. (Percentage To Total)

End of the Period	2013	2014	2015	2016	2017
Money Supply (M1)	33.5	34.9	35.4	32.3	30.7
Currency with public	8.7	8.6	9.2	8.4	7.9
Demand deposits in local currency	24.8	26.3	26.2	23.9	22.9
Quasi Money	66.5	65.1	64.6	67.7	69.3
Savings deposits in local currency	28.0	29.1	29.5	30.0	29.9
Time deposits in local currency	30.1	27.0	25.5	28.6	30.1
Deposits in foreign currency	7.4	7.9	7.7	7.0	7.4
Margins	1.0	1.1	1.9	2.1	1.9
Broad Money (M2)	100.0	100.0	100.0	100.0	100.0

Source: Central Bank of Oman.

Table 5.4
Monetary Survey *

End of Period	(Rial Omani Million)					Change in RO million 2017/16	% Change 2017/16
	2013	2014	2015	2016	2017		
1. Broad money (A+B)	11937.5	13766.9	15145.7	15423.7	16068.7	645.0	4.2
A. Money	3994.9	4808.0	5368.3	4978.8	4940.5	-38.3	-0.8
a) Currency with public	1039.2	1188.2	1395.3	1299.4	1266.2	-33.3	-2.6
b) Demand deposits in RO	2955.7	3619.8	3973.0	3679.4	3674.3	-5.1	-0.1
B. Quasi Money	7942.6	8958.9	9777.4	10444.9	11128.2	683.2	6.5
(of which foreign cy. deposits)	887.3	1088.1	1169.7	1072.5	1181.1	108.6	10.1
2. Foreign Assets (net)	6763.6	6546.4	4608.4	4567.0	4319.6	-247.4	-5.4
Central Bank	6026.7	6176.9	6649.9	5663.8	5263.5	-400.3	-7.1
Other Depository Corporations	736.9	369.5	-2041.5	-1096.8	-943.9	152.9	-13.9
3. Domestic Assets	5173.9	7220.5	10537.3	10856.7	11749.1	892.4	8.2
a) Claims on Government (net)(i-ii)	-4829.8	-4810.8	-3224.5	-4548.0	-4594.6	-46.6	1.0
i) Government borrowings	613.8	835.0	2628.8	2538.0	2544.9	6.9	0.3
ii) Government deposits (-)	5443.7	5645.8	5853.3	7086.0	7139.5	53.5	0.8
b) Domestic claims on Pvt. Sector	13906.9	15966.1	18185.8	19985.6	21255.4	1269.8	6.4
c) Claims on Public enterprises	1750.0	2016.1	1982.3	2098.3	2338.9	240.6	11.5
d) Other items (net) (-)	5653.2	5950.9	6406.3	6679.2	7250.6	571.3	8.6
i) Central Bank	4114.5	4649.4	5438.8	3929.2	3787.7	-141.5	-3.6
ii) Other Depository Corporations	1538.7	1301.4	967.5	2750.0	3462.9	712.9	25.9

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

Source : Central Bank of Oman.

interest rates in the economy which in turn provides an equilibrating mechanism to even out the demand and supply of short-term funds, and facilitates monetary policy transmission into the real sector. The CBO facilitated the money market operations smoothly by ensuring appropriate liquidity so that short-term interest rates were consistent with the monetary policy objectives. The liquidity management operations were generally carried out through indirect instruments through the auction of Government treasury bills (since auctions of CBO's certificates of deposit have been discontinued from September 2015) and repo operations.

The month-wise data of liquidity absorption through treasury bills and injection of liquidity through Repos during the year 2017 is given in (Table 5.5). During the year, treasury bills amounting to RO 2,880 million were issued in three different tenors against the total applied amount of RO 4,068 million. The outstanding treasury bills at the end of the year stood at RO 457 million. Injection of liquidity into the banking system took the route of overnight repo transactions amounting to RO 444.3 million during the year. No discounting of treasury bills or rediscounting of commercial papers took place during 2017. The domestic inter-

bank Rial Omani call money market continued to remain shallow and largely confined to overnight tenors with very low volumes. The daily average turnover volume during 2017 stood at RO 32.3 million compared to RO 36.6 million during the previous year.

Capital Market

The role of the government securities market is of prime importance in ensuring financial stability and in facilitating price discovery by serving as a benchmark for debt instruments. Besides enhancing financial intermediation and providing a yield curve for pricing of corporate debt, it would also help the Government in meeting its financing

needs. In Oman, the development and regulation of the capital market is vested with the Capital Market Authority (CMA). The regulators along with the Government have been striving to develop a deep and liquid domestic Government securities and corporate debt market, which are necessary for efficient allocation of resources across various sectors of the economy. While government securities are mainly confined to Development bonds, the corporate debt market is yet to develop its full potential. Listed companies in Oman mainly rely on bank finance. However, as diversification of the economy gains momentum, the corporate sector will find it cheaper to raise resources from the market by issuing debt securities. In the debt segment, there were four Government

Table 5.5
Absorption and Injection of Liquidity
by CBO during 2017

Month	Liquidity Absorption (Treasury Bills)		Liquidity Injection (Repos With CBO)*		
	Amount Issued During the Month (RO Million)	Outstanding TBs at the end of the Month (RO Million)	Amount Repoed During The Month (RO Million)	Outsatnding Repo Amount (RO Million)	Repo Rate (% p.a)
January	189.0	424.0	0.0	0.0	1.268
February	234.8	452.8	0.0	0.0	1.276
March	362.8	484.5	0.0	0.0	1.396
April	309.0	503.5	0.0	0.0	1.488
May	348.6	569.3	20.0	0.0	1.507
June	169.1	511.4	73.0	0.0	1.638
July	183.3	440.6	98.0	0.0	1.727
August	242.3	437.6	130.0	16.0	1.732
September	196.8	508.6	27.0	0.0	1.735
October	146.0	505.1	30.3	0.0	1.736
November	352.9	515.7	30.0	30.0	1.767
December	145.4	457.0	36.0	0.0	1.949

* Includes repos in instruments such as GDBs, T.Bs, and excludes intra-day repos.

Source : Central Bank of Oman.

Development Bond (GDB) issues amounting to RO 600 million and two redemptions totaling RO 200 million during the year 2017. As at the end of the year, the outstanding GDBs amounted to RO 2,030 million. The sector-wise holding pattern of the outstanding GDB's (based on primary issuance) given in (Table 5.6 (a)), reveal that the major portion was held by banks (52.2 percent) followed by Pension Funds (36.9 percent).

The activities and performance of the Muscat Securities Market (MSM) is summarized in a few indicators shown in (Table 5.6 (b)). The activities in the equity segment were generally subdued and the MSM Index, also known as MSM-30 Index, closed at 5,099.28 at the end of December 2017, registering a fall of 11.8 percent over 5,782.71 a year ago. It reached its peak level during the year when it closed at 5,869.59 on 22 February and

Table 5.6 (a)
Holding Pattern of Outstanding Government Development Bonds*
(End 2017)

	Local (R.O. Million)	Abroad (R.O. Million)	Total Holdings (R.O. Million)	Percentage to Total
Banks	1033.7	25.97	1059.68	52.20
Govt Entities	3.25	0.00	3.25	0.16
Pension Funds	749.23	0.00	749.23	36.91
Other Financial Institutions	203.40	0.00	203.40	10.02
Non- Financial Institutions	6.69	0.00	6.69	0.33
Individuals	7.70	0.05	7.75	0.38
Total	2003.98	26.02	2030.00	100.0

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

Table 5.6 (b)
Stock Market Indicators

	2013	2014	2015	2016	2017
1) MSM 30 Share Price Index	6834.56	6343.22	5406.22	5782.71	5099.28
2) Number of shares traded (Million)	7949.2	6620.0	5642.5	4541.0	4264.0
3) Number of bonds traded (Million)	213.7	86.6	91.4	92.4	11.6
4) Total turnover of trading (R.O. Million)	2255	2269	1390	959	993
a) Turnover of trading in shares (R.O. Million)	2208	2235	1366	946	917
b) Turnover of trading in bonds (R.O. Million)	47	34	24	13	76
5) Number of trading days	246	244	248	246	247
6) Average value of trading per day in shares & bonds (R.O. Million)	9.17	9.30	5.60	3.90	4.02
7) Market capitalization (R.O. Million)	14155	14565	15779	17288	17951

Source: Muscat Securities Market

dropped to its lowest level of 4,879.07 on 17 August. The decline in the share price index was witnessed across the sector-wise indices with steepest fall in the services sector index (13.6 percent) followed by the drop in the industrial index (7.7 percent) and lastly in the financial index (2.6 percent). The MSM Sharia Index also registered a steep fall of 17.9 percent to close at 713.64 at the end of 2017 compared to 869.02 points at the end of 2016. The total turnover value of trading in shares and bonds combined, increased by 3.5 percent to RO 993 million during 2017 and the average daily trading value amounted to RO 4.02 million in 2017 compared to RO 3.90 million in the previous year. Total market capitalization increased by 3.8 percent to RO 17.95 billion in 2017 compared to RO 17.29 billion in the previous year. The market capitalization to GDP ratio which is reflective of the size of the market stood at 64.3 percent in 2017 as against 67.3 percent in 2016.

Foreign Exchange Market

In an open economy environment with virtually no restrictions on current or capital account international transactions, the foreign exchange market assumes critical importance for the stability of the financial system. The Rial Omani being pegged to the US dollar is predominantly used for intervention and invoicing of international trade, resulting in the foreign exchange market significantly dollar based with the Government and CBO main players. The Government continued to be the main supplier of foreign exchange to the CBO which it sells for the local currency requirements, while commercial banks are the main buyers of foreign exchange from the CBO.

During the year 2017, CBO purchased US dollar 20.2 billion from the Government and others, while the sale of US dollars to banks amounted to 23.2 billion. Commercial banks in Oman also accept foreign currency deposits, which are largely denominated in US dollars and most of such deposits are used to finance foreign currency lending. Dollar designated deposits accounted for 86 percent of all foreign currency deposits held with conventional banks, while dollar denominated credit stood at 99 percent as a proportion to total foreign currency credit.

Interest Rate Structure and Developments

Due to the fixed exchange rate regime that Oman follows with the Omani Rial pegged to the US Dollar, and while maintaining an open capital account, interest rates in Oman are expected to be in tandem with the FED policy rates, with small differences that account for factors like the country's risk premium, its domestic liquidity conditions etc. With limited ability to adopt an independent monetary policy, the CBO operates a liquidity management framework with the help of a number of tools used to transmit its policy rate to the economy, such as certificates of deposit, treasury bills, repurchase agreements (repos) and rediscount facilities. With the continuous hikes in the US FED policy rates which commenced in 2015, the CBO policy rate, as well as the domestic overnight interbank lending rate, continued to follow suit. The average of the CBO policy rate (repo rate) in 2017 stood at 1.601 percent compared to 1.026 percent in 2016. Similarly, the domestic overnight interbank lending rate which averaged at 0.405 percent in 2016 reached an average of 0.887 percent in 2017.

After witnessing some liquidity tightening due to the slowdown in economic activity in the previous years, domestic liquidity eased in 2017 due to the recovery of economic activity, leading to relatively smaller increases in both lending and deposit rates, compared to the sharper increases in 2016. The interest rate on deposits in RO increased by 0.174 percentage points as at end 2017 compared to an increase of 0.557 percentage points in 2016. The weighted average RO lending rate increased by 0.119 percentage points in 2017 compared to an increase of 0.322 percentage point in 2016. On a yearly average for 2017, the weighted RO deposit rate stood at 1.639 percent and the average RO lending rate stood at 5.159 percent.

Similarly, foreign currency deposit and lending rates, which are reflective of liquidity conditions and policies in the US (as the majority of foreign currency lending and deposits are denominated in US Dollars) also increased as at end 2017. The interest rate on foreign currency deposits increased by 0.110 percentage points as at end 2017 compared to an increase of 0.001 percentage points in 2016. The average foreign currency lending rate sharply increased by 0.849 percentage points as at end 2017 compared to an increase

of 0.675 percentage points in 2016. In 2017, the yearly average foreign currency deposit rate stood at 0.975 percent and the average foreign currency lending rate stood at 3.822 percent.

The interest rate spread between the weighted average deposit and lending rates during the year (RO and foreign currency combined) minimally deteriorated in 2017 as it averaged at 3.409 percent in 2017 compared to 3.440 percent in 2016. Competition between banks to mobilize larger deposits and provide more financing led to increases in deposit rates and some moderation in lending rates. This is evident in the distribution of RO deposits according to interest rate bracket. As at the end of December 2017, 60.4 percent of total RO deposits earned up to 2 percent compared to 64.4 percent in 2016. On the other hand, the bracket of 3 to 4 percent interest captured 18.9 percent of total RO deposits in 2017 compared to 13.8 percent in 2016. Specifically for RO time deposits, in the up to 2 percent and the over 2 to 3 percent interest rate brackets, there were declines in their proportion by 6 percent and 9.2 percent, respectively, in 2017, compared to the over 3 to 4 percent bracket which registered a 10.8 percent increase in share. With regard to interest rates on

Chart: 5.2 Weighted Average Interest Rates

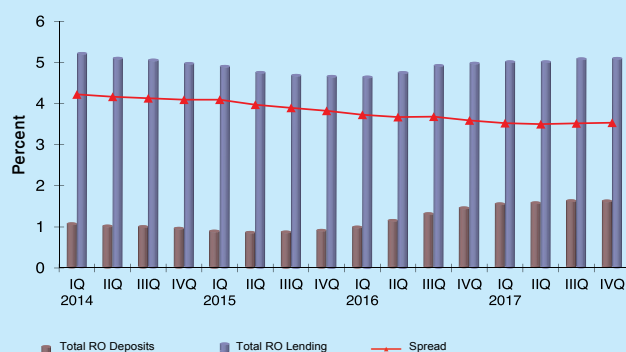


Chart: 5.3 Short-Term Interest Rates

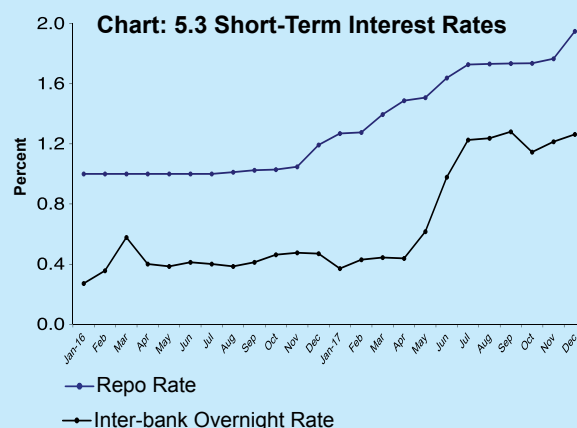


Table 5.7 (a)
Weighted Average Interest Rates*
 (percent per annum)

End of Period	Deposit Rate			Lending Rate			Spread		
	Total RO Deposits	Total Fcy Deposits	Total Deposits (RO+Fcy)	Total RO Lending	Total Fcy Lending	Total Lending (RO+Fcy)	RO	Fcy	Total (RO+Fcy)
	(1)	(2)	(3)	(4)	(5)	(6)	(4)-(1)	(5)-(2)	(6)-(3)
Dec-2014	0.986	0.870	0.972	5.080	2.378	4.672	4.094	1.508	3.700
Mar-2015	0.915	0.826	0.905	5.010	2.398	4.606	4.096	1.572	3.701
Jun-2015	0.885	0.857	0.882	4.859	2.410	4.495	3.974	1.553	3.613
Sep-2015	0.894	0.847	0.888	4.790	2.511	4.471	3.895	1.664	3.583
Dec-2015	0.936	0.894	0.931	4.762	2.592	4.471	3.826	1.698	3.540
Mar-2016	1.016	0.857	0.997	4.747	2.665	4.468	3.731	1.808	3.471
June-2016	1.182	0.969	1.158	4.854	2.851	4.584	3.672	1.881	3.427
Sep-2016	1.349	0.965	1.301	5.030	3.091	4.760	3.681	2.126	3.459
Dec-2016	1.493	0.895	1.423	5.084	3.267	4.827	3.591	2.372	3.404
Mar-2017	1.595	0.884	1.519	5.118	3.651	4.917	3.524	2.767	3.398
Jun-2017	1.621	1.018	1.551	5.123	3.690	4.926	3.502	2.672	3.375
Sep-2017	1.672	0.993	1.587	5.190	3.831	5.004	3.519	2.838	3.417
Dec-2017	1.667	1.005	1.594	5.203	4.116	5.038	3.536	3.111	3.444

*Conventional banks Only.

Table 5.7 (b)
Interest Rate-wise Distribution of Rial Omani Total Deposits

Rate of Interest (% per annum)	Dec. 2015		Dec. 2016		Dec. 2017	
	Amount in RO Million	% Share	Amount in RO Million	% Share	Amount in RO Million	% Share
Upto 2%	12,667.8	80.9	10,380.1	64.4	9,991.9	60.4
Over 2% TO 3%	1,881.3	12.0	1,614.5	10.0	1,129.0	6.8
Over 3% TO 4%	939.0	6.0	2,227.1	13.8	3,127.0	18.9
Over 4% TO 5%	130.2	0.8	1,444.8	9.0	1,837.1	11.1
Over 5% TO 6%	26.8	0.2	440.1	2.7	448.9	2.7
Over 6% TO 7%	9.3	0.1	9.3	0.1	9.5	0.1
Over 7% TO 8%	0.0	0.0	0.0	0.0	0.4	0.0
Over 8% TO 9%	0.0	0.0	0.0	0.0	0.0	0.0
Over 9% TO 10%	0.0	0.0	0.0	0.0	0.0	0.0
Over 10%	0.0	0.0	0.0	0.0	0.0	0.0
Total	15,654.5	100.0	16,115.9	100.0	16,543.9	100.0
Weighted average interest rate (%)	0.936		1.493		1.667	

Table 5.7 (c)
Interest Rate-wise Distribution of Rial Omani Time Deposits

Rate of Interest (% per annum)	Dec. 2015		Dec. 2016		Dec. 2017	
	Amount in RO Million	% Share	Amount in RO Million	% Share	Amount in RO Million	% Share
Upto 2%	2937.8	50.2	1057.9	15.9	689.9	9.9
Over 2% TO 3%	1,827.0	31.2	1,504.3	22.6	928.8	13.3
Over 3% TO 4%	933.5	15.9	2,220.6	33.3	3,068.7	44.1
Over 4% TO 5%	122.2	2.1	1,434.8	21.5	1,822.1	26.2
Over 5% TO 6%	24.9	0.4	438.0	6.6	446.2	6.4
Over 6% TO 7%	9.3	0.2	9.3	0.1	9.5	0.1
Over 7% TO 8%	0.0	0.0	0.0	0.0	0.0	0.0
Over 8% TO 9%	0.0	0.0	0.0	0.0	0.0	0.0
Over 9% TO 10%	0.0	0.0	0.0	0.0	0.0	0.0
Over 10%	0.0	0.0	0.0	0.0	0.0	0.0
Total	5,854.5	100.0	6,664.9	100.0	6,965.2	100.0
Weighted average interest rate (%)	1.934		3.188		3.477	

Table 5.7 (d)
Interest Rate-wise Distribution of Rial Omani Total Lending

Rate of Interest (% per annum)	Dec. 2015		Dec. 2016		Dec. 2017	
	Amount in RO Million	% Share	Amount in RO Million	% Share	Amount in RO Million	% Share
Upto 2%	1313.9	8.3	508.0	3.0	672.6	3.9
Over 2% TO 4%	4026.5	25.4	3637.9	21.5	2921.5	16.8
Over 4% TO 5%	3698.8	23.3	4203.6	24.8	4185.1	24.1
Over 5% TO 7%	4942.4	31.2	6829.0	40.4	7799.4	44.8
Over 7% TO 8%	1326.4	8.4	1278.9	7.6	1328.4	7.6
Over 8% TO 9%	263.2	1.7	212.9	1.3	172.0	1.0
Over 9% TO 10%	52.9	0.3	49.0	0.3	51.4	0.3
Over 10% TO 11%	84.1	0.5	48.8	0.3	64.0	0.4
Over 11% TO 12%	52.9	0.3	38.8	0.2	98.2	0.6
Over 12% TO 13%	8.2	0.1	9.7	0.1	8.1	0.0
Over 13%	93.2	0.6	104.3	0.6	99.9	0.6
Total	15,862.5	100.0	16,920.9	100.0	17,400.6	100.0
Weighted average interest rate (%)	4.762		5.084		5.203	

Table 5.7 (e)
Domestic Inter-Bank Overnight Lending Rates (Conventional Banks)

Period	2016		2017	
	Daily Average Amount in RO Million	Monthly Weighted Average Interest rate* (percent)	Daily Average Amount in RO Million	Monthly Weighted Average Interest rate* (percent)
Jan	47.0	0.271	33.8	0.370
Feb	29.9	0.356	45.4	0.430
March	57.3	0.578	28.3	0.443
IQ Avg	44.7	0.402	35.8	0.414
April	16.9	0.401	12.3	0.438
May	30.9	0.385	36.9	0.616
June	83.3	0.412	65.7	0.978
IIQ Avg	43.7	0.399	38.3	0.677
July	5.7	0.300	39.9	1.225
August	35.8	0.346	23.3	1.237
September	28.5	0.403	26.7	1.281
IIIQ Avg	23.3	0.350	30.0	1.248
October	31.4	0.463	22.1	1.146
November	43.8	0.475	16.0	1.214
December	28.2	0.470	37.5	1.263
IVQ Avg	34.5	0.469	25.2	1.208

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

RO lending, as at the end of December 2017, the largest share (44.8 percent) was extended at the interest rate range of over 5 percent to 7 percent, largely constituting personal loans which are capped at an interest rate ceiling of 6 percent per annum.

Regulatory and Supervisory Initiatives of CBO

As financial institutions expand and become more complex as a result of global economic integration and technological advancements, the most

important challenge faced by the supervisors is to strengthen the regulatory and supervisory framework on a risk-based approach at par with international best practices along with necessary country-specific adaptations. Several regulatory and supervisory initiatives have been taken by the CBO in the recent past including revising existing regulations to boost liquidity and credit and to create a conducive business environment to stimulate growth of the economy. The CBO reduced the minimum capital adequacy ratio for banks from 12 percent to 11 percent effective from

April 1, 2018 which is expected to enhance the banks' lending capacity and reflect positively on overall credit growth. Additional capital buffers such as the capital conservation buffer, counter cyclical buffer and enhanced capital surcharge for D-SIB(s) will be held over and above the 11 percent regulatory minimum capital requirement. The CBO also relaxed the lending ratio allowing banks to reckon their net domestic inter-bank borrowings as part of their deposit base. This amendment allows more space for credit expansion and would encourage banks to borrow and lend to each other leading to activation of the local inter-bank market and optimal utilization of liquidity.

Other measures taken recently by CBO include the withdrawal of the minimum 100 percent risk weightage requirement on exposures to other Sovereigns and Central Banks. In order to provide greater operational flexibility for efficient treasury operations, liquidity management and sound correspondent relationships, the prudential limits for credit exposures to non-residents and placement of funds abroad as percentage of local net worth was raised to 75 percent from 50 percent earlier. Further, in order to enable banks to manage their liquidity gaps more efficiently, the CBO increased the prudential limits for all currencies' liquidity gap based on different maturity time bands.

In line with the guidelines developed by the Basel Committee on Banking Supervision, the CBO mandated the banks to implement the Liquidity Coverage Ratio (LCR) to ensure that banks have sufficient high quality liquid assets to survive a stress scenario. Besides, the Net Stable Funding Ratio (NSFR), which provides a better

assessment of funding risk across all on-and-off balance sheet items is being implemented in 2018 with a minimum ratio of 100 percent. The CBO had mandated 15 percent specific provision on restructured loans which are not classified as non-performing effective from year 2015. Subsequently, keeping in view the difficulties faced by borrowers due to the economic slowdown, the specific provision requirement on restructured loans was phased in with 5 percent for 2016, 10 percent by 2017 and 15 percent by 2018. Banks and FLCs engaged in various projects of Government owned entities, as a special case, were allowed not to treat eligible loans as non-performing assets even if the past due period is 90 days or more, subject to obtaining a specific undertaking from the Government owned entity to pay the dues for the project. However, banks have been advised to stop recognizing income on such accounts after they become past due for 180 days or more and also need to hold specific provisions of at least 5 percent on the outstanding amount. The CBO also issued guidelines to banks with regard to the implementation of International Financial Reporting Standard (IFRS) 9 with regard to financial instruments accounting. Although the responsibility of preparing and presentation of the financial accounts rests with the Board of the respective banks', the guidelines on classification of financial instruments, treatment of impairment of financial assets etc. have been issued to ensure reliable measurement of capital and augments market discipline through greater transparency.

Central Bank Operations

The statement of the financial position of the Central Bank of Oman (CBO) for the five year period 2013 to

2017 is given in Table 5.8. The financial statements have been prepared in accordance with the Banking Law of 2000 and in line with International Financial Reporting Standards (IFRS), except for the accounting treatment of revaluation gains and losses on foreign currencies, bonds, bullion and derivatives which are recognized through the statement of changes in capital and reserves in accordance with the requirements of Article 39 of the Banking Law 2000. The Bank has also not adopted IAS 19 Employee Benefits (Revised 2011) (IAS 19R), which is mandatory with effect from 1st January 2013. The financial statements are prepared under the historical cost convention as modified by the revaluation to fair values of investments available-for-sale, derivatives and bullion. For the year ended 31 December 2017, the Bank has adopted all of the new and revised standards and interpretations issued by the International Accounting Board (IASB) and the International Financial Reporting Interpretations Committee of the IASB that are relevant to its operations and do not contradict with the Banking Law of 2000.

It may be noted that the presentation of the financial position of CBO shown in Table 5.8 marginally differs from the presentation of the audited financial statements that appear separately under the “Central Bank Accounts and Regulations” section, covered later in this Report. This is being done in order to facilitate analysis and to be consistent with the requirement of monetary statistics analysis.

Total assets of the Central Bank of Oman amounted to RO 7,178.4 million at the end of December 2017 as against RO 8,866.3 million at the end of the previous year. Foreign assets, which constituted the major

portion of the total assets at 86.2 percent, stood at RO 6,186.3 million at the end of 2017, registering a decline of 20.6 percent over the previous year. Variations in the level of CBO's gross foreign assets are mostly determined by three factors, namely, the dollar sales to CBO by the Government to meet their local currency requirements, bank's purchases and sales of foreign currencies from/to CBO to meet their customers import/export demand and for other current and capital account transactions, notably workers remittances, profit transfers, and finally by changes in foreign currency deposits held with CBO by the Government and banks. The bulk of CBO's foreign assets as at the end of the year was held in the form of foreign securities. The Bank invests only in securities which carry a minimum credit rating as specified by the investment guidelines. The available-for-sale foreign securities amounted to RO 4,553 million at the end of December 2017. CBO's foreign currency placements held abroad stood at RO 1,535.8 million at the end of the year and these short term placements are mostly held in US dollars with approved counterparties following a system of credit risk evaluation. Receivables from the Government amounted to RO 565.9 million at the end of 2017. The current account overdraft limit for Ministry of Finance is limited to 10 percent of the budgeted recurrent revenue of the Government for the fiscal year in which such advances are made. Fixed assets in the form of premises and equipment of the Bank stood at RO 43.7 million at the end of December 2017. Premises and equipment are stated at cost less accumulated depreciation and impairment.

Currency issued and in circulation stood at RO 1,637.5 million at the end of December 2017, registering a marginal decline of 0.6 percent

over the previous year end. The net worth of the Bank constituting capital, general reserves and various other reserves, amounted to RO 1,432.7 million at the end of the year. The capital of the Bank at the end of 2016 stood at RO 760 million and was enhanced to RO 1 billion by a transfer of RO 240 million from general reserve to capital during April 2017. The Banking Law 2000 requires that the general reserve of the Bank should be maintained by transferring annual net profit into the general reserve until the balance of general reserve is not less than 25 percent of

the currency in circulation. As at 31 December 2017, the general reserve was 20 percent of the currency in circulation. With regard to other reserves, the Bond price fluctuation reserve, established by appropriations from the profit and available to counter balance any deficit between the market price of the Bank's bond holdings and the carrying value, amounted to RO 47.5 million at the end of the year. The Currency fluctuation reserve also established by appropriations from profits to counter balance any deficit arising from unfavorable currency movements remained at

Table 5.8
Central Bank of Oman Assets and Liabilities
(Rial Omani Million)

	2013	2014	2015	2016	2017	% Change 2017/16
Foreign Assets	6133.3	6276.9	6745.8	7790.9	6186.3	-20.6
a) Bullion	0.4	0.4	0.4	0.4	0.4	-
b) IMF Reserve assets	153.0	144.5	135.4	127.2	97.1	-23.7
c) Placements abroad	1216.6	860.4	1358.0	2510.7	1535.8	-38.8
d) Securities	4763.3	5271.6	5252.0	5152.6	4553.0	-11.6
Due from Government	0.0	173.2	658.2	727.3	565.9	-22.2
Due from Banks and other Institutions	0.1	0.4	0.3	0.3	0.1	-66.7
Fixed Assets	33.8	40.5	36.4	36.9	43.7	18.4
Other Assets	150.7	147.7	148.1	310.9	382.4	23.0
Total Assets / Liabilities	6317.9	6638.7	7588.8	8866.3	7178.4	-19.0
Currency Issued	1342.7	1593.7	1788.2	1647.1	1637.5	-0.6
Net Worth	1332.9	1298.8	1304.8	1293.1	1432.7	10.8
a) Capital	500.0	700.0	760.0	760.0	1000.0	31.6
b) General Reserves	455.6	396.2	438.7	488.5	323.4	-33.8
c) Others	377.3	202.6	106.1	44.6	109.3	145.1
Due to Government	873.0	512.4	473.8	1162.5	775.6	-33.3
Due to banks and other institutions	1309.5	1708.4	3824.3	2413.9	2127.7	-11.9
Foreign Liabilities*	106.6	100.0	95.9	2127.1	922.8	-56.6
Other Liabilities	1353.2	1425.4	101.8	222.6	282.1	26.7
a) CDs	1247.0	1323.0	0.0	0.0	0.0	-
b) Others	106.2	102.4	101.8	222.6	282.1	26.7

* Includes SDR allocations

Source: Central Bank of Oman.

RO 29 million in 2017. Apart from the above two reserves, other reserves that form part of the CBO's net worth include the Currency valuation adjustment account and the Financial assets valuation adjustment account on available-for-sale investments.

Central Bank liabilities to banks and other institutions within Oman, mostly in the form of banks' clearing account balances held with CBO (as part of statutory reserve requirement), capital deposits with CBO and foreign currency deposits of local banks placed with CBO amounted to RO 2,127.7 million as at the end of 2017. Government and Government entities deposits held with CBO stood at RO 775.6 million at the end of the year. CBO's foreign liabilities that include deposits held by foreign entities and institutions with CBO and SDR allocation, amounted to RO 922.8 million as at the end of 2017. CBO's profit during the year registered an increase of 50.2 percent, from RO 49.83 million in 2016 to RO 74.82 million in 2017.

Conventional Banks' Operations

Notwithstanding the overall macro-economic challenges of twin deficits in the current account and fiscal accounts since 2015, the Omani banking sector remains resilient and financially sound. With a view to maintain the robustness of the banking system, the CBO took several regulatory and supervisory initiatives in the recent period to bring about greater financial inclusion, strengthening risk-based supervision, ensuring adequate liquidity and fine-tuning regulatory norms to strengthen banks' ability to extend credit to the needy sectors. Banks in Oman are cognizant of

the catalytic role they need to play in the context of the diversification of the economy.

Total assets of conventional banks increased by 3.2 percent to RO 27.9 billion as at the end of December 2017 compared to RO 27.1 billion a year ago (Table 5.9(a)). Of the total assets, credit extension accounted for 73.5 percent and registered an increase of 4.1 percent over the year to RO 20.5 billion as at the end of December 2017. The growth in credit was mainly driven by credit to the private sector which increased by 3.8 percent to RO 18.2 billion. Of the total credit extended to the private sector, the share of the non-financial corporations stood at 46.5 percent, closely followed by the household sector (largely constituting personal loans) at 45.1 percent, financial corporations at 5.6 percent and other sectors the remaining 2.8 percent. Conventional banks' overall investment in securities grew by 18.3 percent to RO 2.9 billion as at the end of December 2017. Investments in Government Development Bonds and Government Sukuk increased by 25.4 percent to RO 1.2 billion, contributing 4.4 percent of the total assets. Investment in Government Treasury bills increased to RO 454.9 million (48.9 percent) while their investments in foreign securities rose significantly to RO 769.5 million (44 percent) as at the end of the year.

Total deposits held with conventional banks witnessed a modest increase of 1.9 percent to RO 18.6 billion as at the end of December 2017. Government deposits with conventional banks marginally rose by 0.8 percent to RO 4.9 billion, while deposits of public enterprises decreased by 2.6 percent over the year to RO 878.1 million. Private sector holdings of deposits went up by

Table 5.9 (a)
Combined Balance Sheet of Conventional Banks
(Rial Omani Million)

	2013	2014	2015	2016	2017	% Change 2017/16
Cash and deposits with CBO	1537.7	1979.0	4057.1	2511.0	2130.7	-15.1
Due from Head Office, affiliates and banks abroad	1876.7	1826.5	1717.9	1400.4	1337.4	-4.5
Total Credit	15177.4	16898.4	18315.7	19704.6	20511.5	4.1
a) Credit to Private Sector	13262.1	14704.0	16207.4	17539.2	18207.5	3.8
b) Credit to public enterprises	1731.1	1973.1	1903.7	1796.3	1997.2	11.2
c) Credit to Government	18.4	21.7	12.1	107.3	34.6	-67.7
d) Credit to Non-Residents	165.8	199.6	192.5	261.8	272.3	4.0
Securities	2550.3	2912.9	3046.8	2433.6	2879.8	18.3
a) Treasury Bills	0.0	0.0	464.2	305.4	454.9	48.9
b) Government Bonds*	567.5	564.0	828.6	970.9	1217.1	25.4
c) CBO CDs	1247.0	1323.0	0.0	0.0	0.0	-
d) Domestic shares	149.1	156.9	133.7	117.9	94.7	-19.6
e) Other domestic securities	84.5	160.3	699.9	505.0	343.6	-32.0
f) Foreign securities	502.2	708.6	920.5	534.4	769.5	44.0
Fixed assets	189.0	209.7	216.6	225.3	247.5	9.8
Other assets	1024.5	994.9	835.1	776.9	806.2	3.8
Total assets / liabilities	22355.6	24821.3	28189.2	27051.8	27913.1	3.2
Total Deposits	15586.2	17278.9	17873.0	18253.7	18601.7	1.9
a) Government deposits	4504.3	4959.4	4789.5	4898.8	4937.5	0.8
b) Deposits of public enterprises	935.4	879.7	950.2	901.9	878.1	-2.6
c) Deposits of private sector	9857.6	11184.3	11868.9	12201.1	12520.4	2.6
i) Demand	2985.9	3740.9	3853.6	3635.6	3777.8	3.9
ii) Savings	3384.2	3992.6	4392.7	4480.5	4543.0	1.4
iii) Time	3371.6	3306.6	3362.7	3766.7	3911.7	3.8
iv) Commercial prepayments	116.0	144.2	259.9	318.3	287.9	-9.6
(of which in foreign currency)	(681.6)	(860.6)	(909.0)	(927.1)	(1045.3)	12.7
d) Deposits of non-residents	288.9	255.5	264.3	251.9	265.7	5.5
Due to Head Office, affiliates and banks abroad	1352.0	1547.4	3809.0	1935.8	2080.1	7.5
Core Capital and Reserves	3009.0	3244.2	3765.7	4068.0	4651.0	14.3
Supplementary Capital	633.1	651.4	707.6	617.7	369.7	-40.1
Total provisions and reserved interest	560.8	597.0	644.3	689.5	713.2	3.4
(of which general provisions)	(197.2)	(218.7)	(236.2)	(255.6)	(261.5)	2.3
Other liabilities	1214.6	1502.4	1389.6	1487.1	1497.4	0.7

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

Table 5.9 (b)
Sources and Uses of Bank Funds
(Rial Omani Million)

Source of Funds	Dec. 2016	Dec. 2017	Uses of Funds	Dec. 2016	Dec. 2017
1. Increase in Total deposits	380.7	348.0	1. Increase in Total credit disbursement	1388.9	806.9
a) Government deposits	109.3	38.7	a) Credit to Govt.	95.2	-72.7
b) Deposits of public enterprises	-48.3	-23.8	b) Credit to public enterprises	-107.4	200.8
c) Deposits of Private Sector	332.2	319.3	c) Credit to private sector	1331.8	668.3
1. Financial corporations	173.1	-66.4	1. Financial corporations	86.6	6.0
2. Non-Financial corporations	72.4	332.5	2. Non-Financial corporations	601.6	346.0
3. Household sector	26.2	81.2	3. Household sector	562.4	303.6
4. Other sectors	60.5	-28.0	4. Other sectors	81.2	12.7
d) Non-resident deposits	-12.4	13.8	d) Credit to non-residents	69.3	10.5
2. Borrowings from banks abroad	-1873.2	144.3	2. Investments in securities	-613.2	446.2
3. Increase in Capital, reserves & provisions	257.6	358.7	3. Placements with banks abroad	-317.5	-63.0
4. Other liabilities	97.5	10.3	4. Cash and Deposits with CBO	-1546.1	-380.3
			5. Fixed assets	8.7	22.2
			6. Other assets	-58.2	29.3
Total sources of funds	-1137.4	861.3	Total uses of funds	-1137.4	861.3

Source: Central Bank of Oman

Table 5.9 (c)
Non-Resident Assets and Liabilities of Conventional Banks
(Rial Omani Million)

	Dec. 2015	Dec. 2016	Dec. 2017	Absolute Change (2017/16)
Foreign Assets	2859.6	2229.7	2411.1	181.4
Due from banks abroad	1717.9	1400.4	1337.4	-63.0
Credit extended abroad	192.5	261.8	272.3	10.5
Investment in foreign securities	920.5	534.4	769.5	235.1
Other assets	28.7	33.1	31.9	-1.2
Foreign Liabilities	4814.4	3149.2	3302.3	153.1
Deposits	264.3	251.9	265.7	13.8
Long term bonds	388.4	619.1	617.8	-1.3
Due to banks abroad	3809.0	1935.8	2080.1	144.3
Other liabilities	352.7	342.4	338.7	-3.7
Net Foreign Assets	-1954.8	-919.5	-891.2	28.3

Source: Central Bank of Oman

2.6 percent to RO 12.5 billion at the end of the year and had a share of 67.3 percent of the total deposit base. The sector-wise holding of private sector deposits with conventional banks indicate that the household sector held 48.4 percent followed by non-financial corporations at 30.4 percent, financial corporations at 18.4 percent and the other sectors at 2.8 percent. The core capital and reserves of conventional banks increased by 14.3 percent over year to RO 4.6 billion at the end of December 2017.

An analysis of the sources and uses of bank funds given in (Table 5.9 (b)) shows an increase in bank resources amounting to RO 861.3 million in 2017. Increase in customer deposits held with banks to the tune of RO 348 million, augmentation in banks' capital and reserves by RO 358.7 million and rise in borrowings from banks abroad by RO 144.3 million provided the main additional resources for asset creation during the year. The increased resources were mainly deployed for expansion in credit outlays amounting to RO 806.9 million during the year as well as towards increase in investment in securities by RO 446.2 million. Conventional banks holdings of cash and their deposits with CBO declined by RO 380.3 million on a year-on-year basis. The non-resident transactions of conventional banks shown in (Table 5.9 (c)) reveals an increase in banks' foreign assets position by RO 181.4 million mainly due to the rise in their investment in foreign securities. Foreign liabilities of banks registered a lesser increase of RO 153.1 million when compared to the rise in foreign assets which resulted in a net outflow of RO 28.3 million in 2017.

Sectoral Flow of Bank Credit

The operations of the conventional commercial banks during 2017 was marked by an expansion of bank credit to the tune of 4.1 percent. Apart from setting a ceiling on the quantum of personal loans that an individual bank can extend as a proportion of its total credit portfolio, and requiring banks to support SMEs by disbursing at least 5 percent of their total credit, the CBO does not set any other target for priority sector lending. The sectoral development of bank credit to the various sectors in the economy is given in (Table 5.10). Sector-wise classification of credit disbursement by banks may lack precision because of the difficulty to figure out the exact end use of credit and as borrowers may be engaged in multiple activities spread across different industrial groups. These few limitations will have to be kept in mind while drawing inferences and interpreting data on the sectoral flow of bank credit. Personal loans continued to hold the major share of the total credit at RO 8.2 billion (40 percent) as at the end of December 2017. Within the personal loan segment, residential housing loans stood at 10.8 percent of the total credit portfolio of banks, but well within the sub limit of 15 percent ceiling stipulated by CBO. On an incremental basis, the flow of credit to the personal loan segment led to an additional net credit outlay of RO 302.9 million during 2017. Credit extended to the construction sector was the next major segment with a share of 9.6 percent in total credit followed by the services sector at 9.4 percent. The manufacturing sector came next with a share of 7 percent in total credit. Other major sectors availing credit included the mining sector, financial institutions, electricity, gas and water, transport and communications as well as wholesale and retail trade. Credit extended for

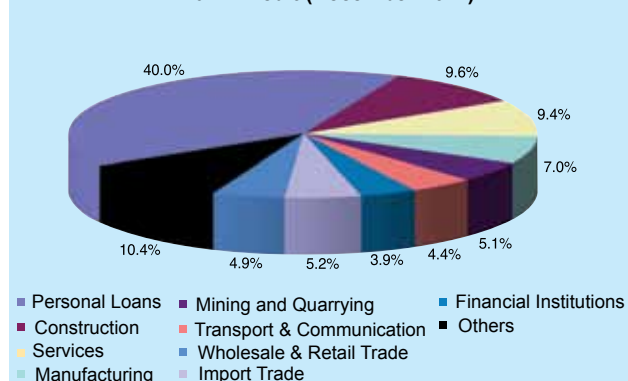
Table 5.10
Distribution of Conventional Bank Credit by Economic Sectors
 (Rial Omani Million)

End of Period	2015	2016	2017
Import Trade	1078.6	1146.0	1070.0
Export Trade	13.8	13.0	20.0
Wholesale & Retail Trade	631.9	675.7	800.7
Mining and Quarrying	808.4	902.7	1046.8
Construction	2089.4	2274.8	1976.9
Manufacturing	1458.1	1523.7	1437.7
Electricity, gas and water	758.3	792.3	910.8
Transport and Communication	999.9	782.4	902.7
Financial Institutions	920.7	1007.3	1013.3
Services	1500.8	1689.4	1923.4
Personal Loans	7333.8	7898.0	8200.9
Agriculture and allied activities	57.6	57.4	61.8
Government	12.1	107.3	34.6
Non-Resident lending	192.5	261.8	272.3
All Others	459.7	572.9	839.7
Total Credit	18315.7	19704.6	20511.5

Source: Central Bank of Oman.

agriculture and allied activities stood at RO 61.8 million at the end of 2017 compared to RO 57.4 million outstanding a year ago. Despite the low share of agriculture and fishing in the GDP of the country, this sector is expected to grow as it helps in employment generation and is the mainstay of the consumption pattern of the rural population.

Chart 5.4: Sectoral Distribution of Conventional Bank Credit (December 2017)



Commercial Banks Profitability

Commercial banks in Oman have maintained their performance in terms of profit generation over the years through diversification of banking activities and prudent lending policies despite the ups and downs of the business cycle. Bank profits were mainly aided by recoveries on previous loan loss provisions, increased earnings from non-interest sources such as on fees and commissions and foreign exchange earnings. Net profits of conventional banks (including their Islamic windows) after setting aside provisions and taxes amounted to RO 376.9 million in 2017 compared to RO 379.3 million in 2016, a marginal drop of 0.6 percent over the year (Table 5.11). Of the total profits registered during the year, local banks share stood at RO 366.1 million (97.1 percent) while that of foreign banks amounted to RO 10.8 million (2.9 percent).

Table 5.11
Profitability of Conventional Banks
 (Rial Omani Million)

	2015	2016	2017	% Change 2016/2015	% Change 2017/2016
1. Interest Income	936.3	1067.3	1183.8	14.0	10.9
2. (Interest Expenses)	(250.7)	(353.2)	(469.1)	40.9	32.8
3. Net Interest	685.6	714.1	714.7	4.2	0.1
4. Foreign Exchange earnings	59.6	64.2	66.7	7.7	4.0
5. Fees and Commissions	104.9	98.0	103.9	-6.6	6.0
6. Other Income	219.3	207.8	233.1	-5.2	12.2
7. Gross Income (3+4+5+6)	1069.4	1084.1	1118.5	1.4	3.2
8. Operating Expenses	465.9	472.6	487.2	1.4	3.1
a) Administrative Costs	437.1	441.9	455.0	1.1	3.0
b) Depreciation	27.9	29.5	31.2	5.7	5.9
c) Others	0.9	1.2	1.0	33.3	-20.3
9. Gross Profits (7-8)	603.5	611.5	631.3	1.3	3.2
10. Provision for doubtful debts *	158.8	174.4	185.8	9.8	6.6
11. Profits after provisions (9-10)	444.7	437.1	445.5	-1.7	1.9
12. Provision for Taxes	51.3	57.8	68.6	12.7	18.7
13. Net Profit after Provisions & Taxes (11-12)	393.4	379.3	376.9	-3.6	-0.6

* Gross provisions made during the year. Recoveries on previous loan loss provisions are reflected under other income.

Note: Profits comprise that of conventional banks and their Islamic windows.

Source : Central Bank of Oman

Interest income remained the dominant component of bank earning, which increased by 10.9 percent in 2017 mainly due to the larger credit outlays and rise in interest rates on lending. Interest earned from loans and advances amounted to RO 1,078.4 million, a rise of 10.1 percent over the interest earnings in the previous year. Interest expenses during the year also registered a marked rise of 32.8 percent to RO 469.1 million in 2017 with banks offering higher interest rates on term deposits given the emerging liquidity tightening. The net interest income defined as the difference between interest income and interest expenses, however, remained virtually unchanged at RO 714 million in both the years 2016 and 2017. As mentioned earlier, with the diverseness of banks' asset portfolio, non-interest income has increasingly become an important source of earnings for banks. Income

from foreign exchange operations rose by 4 percent during the year to RO 66.7 million in 2017. Fee based income such as commissions on letters of credit and guarantees, remittance fees and other transfers, also rose by 6 percent during the year to RO 103.9 million. Other income notably recoveries on provisions and other miscellaneous income such as insurance charges, credit card fees, locker fees, rentals etc. taken together amounted to RO 233.1 million during 2017, a significant rise of 12.2 percent over the previous year.

During 2017, the operating expenses of banks increased moderately by 3.1 percent to RO 487.2 million. Operating expenses comprised broadly the wage bill and non-wage related expenses such as rents, establishment expenses, head office expenses, depreciation charges and

other miscellaneous expenses such as travel, entertainment, legal charges, advertisement expenses and other administrative costs. The total wage bill (salaries and other staff costs) marginally increased by 2.9 percent during 2017 to reach RO 276.6 million compared to RO 268.9 million during the previous year. The share of the wage bill in operating expenses remained stable at around 56 percent during 2015 to 2017. Rents and other occupancy costs increased by 6.5 percent during the year to RO 43.6 million. Department charges on banks property and equipment amounted to RO 31.2 million in 2017, an increase of 5.9 percent over the previous year. Gross provisions made during the year for doubtful loans, restructured loans, general provisions and other contingencies increased by 6.6 percent in 2017 to reach RO 185.8 million. Provision for taxes registered a significant increase in 2017 to RO 68.6 million, a rise of 18.7 percent when compared to the tax

provision in the previous year. Cash dividends paid out by local banks to their shareholders increased by 26.2 percent to RO 181 million in 2017 while stock dividends saw an even larger rise of 88.6 percent to RO 64.3 million. Foreign banks' profit remittances amounted to RO 3.3 million in 2017.

Islamic Banking Operations

Since the introduction of Islamic Banking in the Sultanate in 2012, two full-fledged Islamic banks were established and currently six local banks have formed Windows for engaging in Islamic banking. These institutions have their own Sharia Supervisory Boards to guide them in Sharia-related matters. A high Sharia Supervisory Board has also been set up in CBO with eminent scholars. The functions of the Board include giving opinion and advice to CBO on Sharia matters and deciding on issues which are subject of dispute

Table 5.12
Combined Balance Sheet of
Islamic Banks/Windows
(Rial Omani Million)

	Dec. 2014	Dec. 2015	Dec. 2016	Dec. 2017	% Change 2017/16
Cash on hand and deposits with CBO	131.5	149.4	237.2	351.8	48.3
Due from Head Office, affiliates and other banks abroad	56.1	24.0	48.6	64.4	32.5
Total financing	1049.5	1781.3	2425.9	3033.0	25.0
Total investments	44.9	145.3	159.9	228.7	43.0
Net fixed assets	34.2	35.0	34.0	31.8	-6.5
Other assets	54.8	118.7	174.0	103.6	-40.5
Total Assets / Liabilities	1371.0	2253.8	3079.6	3813.3	23.8
Total deposits	688.9	1539.4	2169.8	2968.2	36.8
Due to Head Office, affiliates and other banks abroad	157.6	154.1	259.8	137.3	-47.1
Core capital and reserves	350.6	391.3	433.0	458.0	5.8
Other liabilities	173.9	169.0	217.0	249.8	15.1

Source: Central Bank of Oman

between Sharia Supervisory Boards in licensed banks. To ensure that the products and services offered by Islamic Banking entities (IBEs) are in line with regulatory and Sharia requirements, IBEs are required to apprise the CBO before launching new Islamic banking products highlighting the product structure, features and associated risks, conformity with Sharia and adherence to the Banking Law. IBEs are required to follow the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Institutions (AAOIFI). Islamic banks can use the relevant International Financial Reporting Standards (IFRS) in the matters where no AAOIFI standards exist. CBO is currently engaged in the consultative process of setting up liquidity management tools which are Sharia compliant. Short term liquidity management, as of now, is being done through inter-bank transactions, mostly Wakala based.

Islamic banking entities are in the process of gaining greater market share in the banking industry in Oman. IBEs provided finance to the extent of RO 3.03 billion outstanding at the end of December 2017 when compared to RO 2.42 billion at the end of the previous year (Table 5.12). Aggregate deposits held with Islamic banks and windows also registered a significant increase of 36.8 percent to RO 2.97 billion at the end of 2017. Core capital and reserves stood at RO 458 million at the end of 2017, a rise of 5.8 percent over the previous year's level. The total assets of Islamic banks and windows taken together amounted to RO 3.81 billion as at the end of December 2017, which constituted 12.1 percent of the banking system assets.

Other Depository Corporations (ODCs)

Depository corporations refer collectively to the Central Bank and other depository corporations. Other depository corporations include the financial corporations (except the Central Bank) that issues liabilities included in the national definition of broad money. The ODCs comprise conventional banks and Islamic banks and Windows and their combined balance sheet provides a broad overview of the financial intermediation taking place in the banking system. The total outstanding credit extended by ODCs at RO 23.5 billion increased by 6.4 percent on a year-on-year basis at the end of December 2017 (Table 5.13). Credit to the private sector registered a rise of 6.5 percent to RO 21 billion over the year. Of the total credit extended to the private sector, the household sector availed 46.1 percent followed very closely by the non-financial corporate sector at 45.7 percent, financial corporations at 4.9 percent and other sectors the remaining 3.3 percent (Chart 5.5(a)). Aggregate deposits held with ODCs registered a growth of 5.6 percent over the year to RO 21.6 billion as at the end of December 2017. Private sector deposits of ODCs grew by 5.2 percent to RO 13.9 billion, while Government deposits rose by 7.4 percent to RO 6.4 billion at the end of the year. Sector-wise, the contribution of households in total private sector deposits was 48.3 percent, followed by the non-financial corporate sector at 29.9 percent, financial corporations at 19.1 percent and the other sectors at 2.7 percent (Chart 5.5(b)). Notwithstanding the share of the household sector in private sector deposits being more than that in private sector credit, in absolute terms, this sector availed much higher credit of

Table 5.13
Combined Balance Sheet of Other Depository Corporations
 (Rial Omani Million)

	Dec. 2014	Dec. 2015	Dec. 2016	Dec. 2017	% Change 2017/16
Cash on hand and deposits with CBO	2110.5	4206.5	2748.2	2482.5	-9.7
Due from Head Office, affiliates and other banks abroad	1882.6	1755.3	1449.0	1401.8	-3.3
Total Credit	17948.0	20097.0	22130.5	23544.5	6.4
Total investments	2957.8	3192.1	2593.5	3108.5	19.9
Net fixed assets	243.8	251.6	259.3	279.3	7.7
Other assets	862.5	747.1	705.4	672.0	-4.7
Total Assets/Liabilities	26005.2	30249.6	29885.9	31488.6	5.4
Total deposits	17967.8	19412.3	20423.5	21569.9	5.6
Due to Head Office, affiliates and other banks abroad	1704.9	3963.1	2195.6	2217.5	1.0
Core capital and reserves	3479.3	3996.0	4316.5	4915.5	13.9
Supplementary capital	651.5	708.3	618.4	370.8	-40.0
Total provisions & reserve interest	612.9	671.4	725.2	758.5	4.6
(of wick general provisions)	(233.3)	(260.2)	(286.5)	(299.0)	4.4
Other liabilities	1588.8	1498.5	1606.7	1656.4	3.1

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

Chart 5.5(a): Share of Private Sector Credit (December 2017)

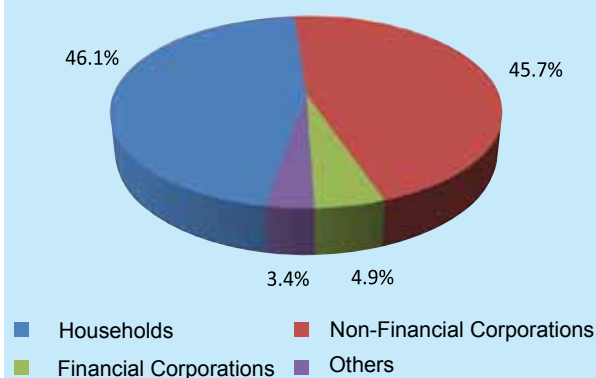
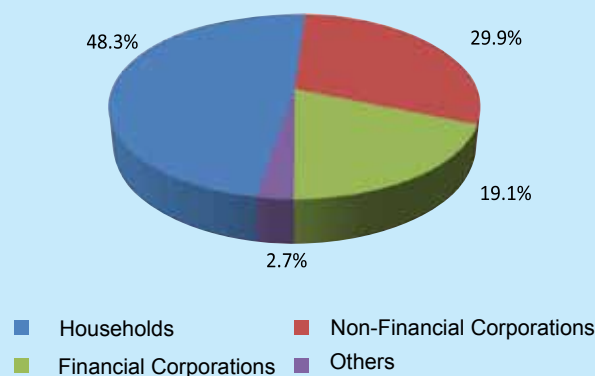


Chart 5.5(b): Share of Private Sector Deposits (December 2017)



RO 9.7 billion than their contribution to deposits at RO 6.7 billion. Non-financial corporations, while holding 29.9 percent (RO 4.2 billion) of private sector deposits, availed 45.7 percent (RO 9.6 billion) of private sector credit. Financial corporations, on the other hand, held 19.1 percent (RO 2.7 billion) of the deposits while availing just 4.9 percent (RO 1.0 billion) of bank private sector credit. The core capital and reserves of ODCs amounted to RO 4.9 billion at the end of the year. ODCs held provisions and reserve interest of RO 758.5 million of which RO 299 million constituted general provisions which provided a comfortable cushion to the overall capital and reserve base.

Specialized Banks

There were two specialized banks operating in Oman with a network of 23 branches as at the end of 2017. Both of these specialized credit institutions are Government owned banks, namely Oman Housing Bank (OHB) and Oman Development Bank (ODB). The primary activity of OHB is to provide long-term soft housing loans to different segments of Omani society. The total outstanding mortgage loan accounts increased to RO 476.2 million in 2017 from RO 420.8 million at the end of 2016 registering a rise of 13.2 percent. The share capital of the Bank remained at RO 100 million, while the total shareholder's equity went up to RO 250.6 million at the end of 2017 from RO 241.5 million a year ago. Oman Development Bank is principally engaged in providing loans for development projects, including for activities related to agriculture and fisheries, livestock, education, health, tourism professional activities, information technology, workshops and traditional industrial craftsmanship in Oman. Besides

granting loans, the ODB administers grants and subsidies and also participates in the share capital of companies. In accordance with its objectives, interest on loans and advances is charged to customers at a rate which is subsidized by the Government of Oman. As at the end of December 2017, loans and advances inclusive of staff housing loans amounted to RO 126.7 million compared to RO 115 million at the end of the previous year. The share capital of ODB remained unchanged at RO 100 million and the total shareholder's equity stood at RO 159.1 million as at the end of December 2017.

Money Exchange Companies

Money exchange business in Oman is carried out by two types of institutions, viz., those who are engaged in foreign currency exchange and money transfers and retailers or money changers that are engaged only in money changing. As at the end of December 2017, there were sixteen exchange establishments licensed for foreign currency exchange and money transfers with 358 branches spread over Oman and 36 money changing firms. The exchange establishments are examined every year by the CBO to ensure compliance with extant regulations. Money changing firms are only selectively examined by rotation. The total assets of the 16 exchange establishments amounted to RO 85.5 million as at the end of 2017. Out of these assets, RO 40.2 million as balances maintained with banks, and RO 26.1 million as cash on hand, together represented liquid assets of RO 66.3 million. The total capital, reserves and retained earnings of these companies stood at RO 57.3 million as at the end of December 2017.

Finance and Leasing Companies (FLCs)

The role of non-banking finance companies in extending financial services and playing the role of financial intermediary is distinct from that of banks. In Oman, the finance and leasing companies have played a crucial role in broadening the access to financial services and enhanced competition by offering various products to individual customers. They generally have a well defined business profile serving a specific market niche. At present there are six finance and leasing companies with a network of 41 branches operating under the license of CBO with limited authorization to accept deposits from corporates. FLCs in Oman currently operate in three market segments, namely, retail finance, where the funding is to individual customers largely for the purchase of automobiles and electronic goods,

equipment leasing where finance is given to small and medium enterprises (SMEs) for expansion, modernization and replacement requirements; and finally for factoring and working capital needs of SMEs for cross-border or domestic trade, or for the execution of projects, usually against the assignment of receivables.

The total combined assets of FLCs recorded a decline of RO 17.1 million or 1.6 percent and stood at RO 1,069.6 million as at the end of December 2017 compared to RO 1,086.7 million a year ago (Table 5.14). Total outstanding credit (net of provisions) in the form of hire purchase credit, lease financing etc. stood at RO 1,020.1 million as at the end of 2017. Gross non-performing loans at the end of the year increased significantly to RO 93.2 million or by 57.4 percent compared to

Table 5.14
Finance and Leasing Companies (FLC) Indicators
(Rial Omani Million)

	2013	2014	2015	2016	2017
Total Assets	855.6	919.0	1037.4	1086.7	1069.6
Loans/Lease Portfolio*	823.5	887.5	990.6	1028.0	1020.1
Gross Non-Performing Loans	51.4	55.3	49.5	59.2	93.2
Cash and Bank Balances	17.2	16.8	32.3	43.8	35.4
Borrowings from Banks & Financial Institutions	481.2	518.9	640.1	688.7	670.9
Paid Up Capital	142.5	148.2	156.6	163.7	170.5
Capital & Reserves	217.1	232.5	251.2	267.5	283.4
Loan Loss Provisions and Reserve Interest	48.9	55.8	57.9	60.1	67.1
Net Profit After Provisions and Tax	26.0	29.4	32.0	31.3	29.2
Weighted Average Rate of Interest Charged (% per annum)	9.5	9.0	8.9	8.8	8.6
Number of Branches (Including Head Office)	37	38	40	43	41

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

RO 59.2 million at the end of 2016. Gross NPLs constituted 8.6 percent of the gross loan portfolio of FLCs at the end of December 2017. Borrowings from banks and other financial institutions which is the main source of funding for FLCs stood at RO 670.9 million as at the end of the year. While the paid up capital of FLCs amounted to RO 170.5 million, the consolidated capital and reserve base rose to RO 283.4 million as at the end of December 2017 compared to RO 267.5 million a year ago. Net profit after earmarking provisions and taxes for the year ended December 2017 amounted to RO 29.2 million, registering a fall of RO 2.1 million or 6.7 percent over the previous year. The weighted average rate of interest per annum charged on lending by FLCs witnesses a marginal drop to 8.6 percent during 2017 compared to 8.8 percent in the previous year.

Payment and Settlement System

The payment and settlement systems continued to provide innovative and secure payment environment in the Sultanate of Oman. The year 2017 witnessed a series of developments in the payment infrastructure in Oman in the form of upgradation/ replacement of existing payment systems and introduction of innovative payment methods, thereby ushering an era of efficient payment services.

The National Payment Systems Law (NPSL) has been issued under Royal Decree No 8/2018 on 20 Feb 2018. The NPSL aims to provide legal backing to the payment system and fortifies the regulatory and supervisory responsibilities and powers of CBO with respect to payment systems

in the Sultanate of Oman. CBO is currently drafting the secondary regulations of the NPSL in collaboration with the Ministry of Legal Affairs, to build provisions for licensing payment system operators, payment service providers for providing payment services such as electronic wallets and all payment instruments issued and used in the Sultanate by banks and non-banks. Additionally, the proposed secondary regulations will also set rules for payment system operators and payment service providers and establish the legality of CBO to oversee and examine such licensed entities in the Sultanate.

The core National Payment System (NPS) Infrastructure namely, RTGS, ACH, ECC and ATM/ POS Switch including the e-Payment Gateway continued to exhibit growth in the year 2017 both volume and value wise (Table 5.15).

The CBO in its endeavor to continuously enhance the payment infrastructure in the country implemented a unique system 24/7 real time, the mobile payment clearing and switching system (MpClear) on 23rd July 2017. The MpClear system promises interoperability and unified switching and clearing services between various mobile banking/ wallets services operated by banks and payment service providers. The uniqueness of MpClear lies in its functionality to conduct a fund transfer with the use of just a mobile number and accommodation of the unbanked sector, thereby giving an impetus to financial inclusion in the Sultanate of Oman. With MpClear, participants can conduct a wide range of payments such as, Person to Person (P2P), Person to Business (P2B), Person to Government (P2G), Person to Merchant (P2M), Business to Person

(B2P), Government to Person (G2P), Business to Business (B2B) etc.

CBO in an attempt to fulfill the current and future payment needs of the stakeholders and the market has embarked on redesigned Automated Clearing House System (ACH) for retail payments, based on a web technology empowered by powerful security standards, which consists of direct credit and direct debit transactions, coupled with Mandate Management System (MMS) for direct debit transactions and the Wages Protection System (WPS) module in collaboration with the Ministry of Manpower (MOMP). It attempts to ensure efficiency for the multiple credit and debit transactions. However, the Direct Debit and Mandate Management System are still not activated as CBO is working on rules and provisions to manage this functionality in the market.

ACH system solution handles the clearing cycle for the transactions exchanged between banks on 24/7 basis, within the country and settling the cleared payments transactions in the Real-Time Gross Settlement (RTGS). Interoperability and flexibility with other third party systems is ensured through a set of standard message formats and Straight Through Processing (STP) capabilities. The MMS ensures that the authorized mandates for the direct debits are available in the system for verification when any direct debit transaction is effected.

Presently, CBO is in the process of implementing two new payment systems, the Electronic Bill Presentment & Payment system (EBPP) and the Dispute Management System (DMS). The EBPP is a payment system that integrates with the billers,

Payment and Settlement Systems

Table 5.15 (a)
RTGS Business Trends

Year	No. of Transactions	Value (RO Millions)
2013	426,926	142,507
2014	466,655	164,862
2015	502,501	165,412
2016	496,433	152,275
2017	578,658	158,811

Table 5.15 (b)
ACH Business Trends

Year	No. of Transactions	Value (RO Millions)
2013	2,622,630	1,746
2014	3,238,499	2,224
2015	4,196,530	2,825
2016	4,782,652	3,146
2017	5,179,105	3,358

Table 5.15(c)
Electronic Cheque Clearing

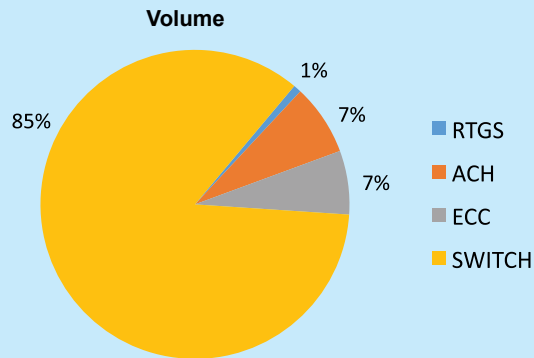
Year	No. of Transactions	Value (RO Millions)
2013	3,581,224	15,060
2014	3,813,167	17,675
2015	4,081,219	17,508
2016	4,383,035	18,196
2017	4,641,772	16,680

Table 5.15 (d)
Oman Net Switch Business Trends

Year	No. of Transactions	Value (RO Millions)
2013	18,714,650	1,269
2014	24,554,107	1,813
2015	29,114,093	2,221
2016	45,263,053	2,945
2017	59,201,183	3,323

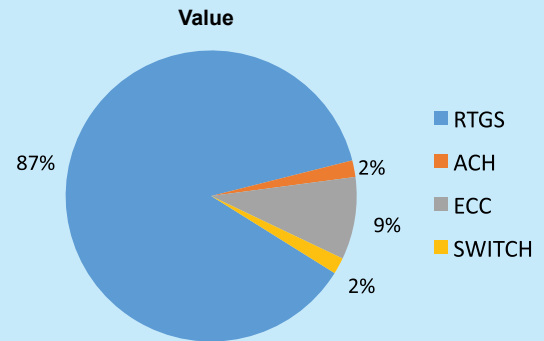
Source: Central Bank of Oman

Chart 5.6 (a): Retail Payment Systems



banks and the aggregators for presentment and payment of bills on request from the customer. The DMS is also a payment system, a core system for the disputes arising out of financial transactions emanating from other payment systems. The implementation of the new generation 24/7 RTGS replacing the existing RTGS is also underway, given the fact that it has to be implemented in alignment with the roll out of the GCC RTGS. The international collaboration with the GCC countries

Chart 5.6 (b): Retail Payment Systems



to facilitate payments across the GCC region in a safe, efficient and timely manner by establishing a multi-country, multi-currency RTGS system, has made progress with the identification of the vendor to set up the infrastructure. GCC countries have agreed and decided to form an independent entity (LLC), with equal contribution and shareholding of six GCC National Central Banks to implement and operate the GCC RTGS.

Foreign Trade and Balance of Payments

FOREIGN TRADE AND BALANCE OF PAYMENTS

The external sector continued to face challenges despite the sharp recovery witnessed in oil prices. The international crude oil prices increased substantially since the second half of 2017, reflecting rebalancing taking place in the global oil market. The extension of production cut agreed between OPEC and Non-OPEC oil-producers helped in clearing the global oil supply glut, while the demand for oil further improved on the back of global growth gaining further momentum. The drop in crude oil production by Venezuela was more than that agreed upon under the OPEC and Non-OPEC countries' agreement. The annual production of oil and condensate in Oman also declined by 3.6 percent to 354.3 million barrels during 2017. Furthermore, the shale production in the USA was not able to fully compensate for the production cut affected by OPEC and Non-OPEC oil producers. Additionally, the lower oil revenues adversely affected the investment in oil and gas exploration across several oil-producing countries and in turn, dented the capability to raise the supply of crude oil in a short span. A combination of all these factors cleared the global supply glut much faster than anticipated, eventually leading to a steep increase in oil prices.

As per IMF, the world output grew by 3.8 percent in 2017, about 0.6 percentage point higher than that in 2016, mainly on account of strong investment and trade activities and a surge in commodity prices. The investment spending in advanced

countries remained buoyant, while investment in the emerging markets and developing countries recovered from a contractionary trend during 2017. The accommodative financial conditions in conjunction with improved business environment supported investment activities. The trade activities witnessed a pronounced growth in emerging and developing economies on the back of strong investment and consumption spending in advanced economies. The recovery in oil and other commodity prices provided much-needed respite and boosted economic activities in commodity exporting countries. In view of the above, the growth recovery has been found to be widespread with contribution emanating from advanced economies (especially USA, Japan, Germany, France, Italy, Canada, etc.), emerging Asia (China and India), emerging Europe, and several commodity exporting countries. The growth for advanced economies edged up to 2.3 percent in 2017 from 1.7 percent in 2016, while the Euro Area witnessed an uptick in growth to 2.3 percent in 2017 from 1.8 percent in 2016. The growth in the USA rebounded quickly and increased to 2.3 percent in 2017 as compared to 1.5 percent in 2016, and an accelerated level of growth at 2.9 percent is expected in 2018 on the back of expansionary fiscal policy. The growth in emerging market and developing economies also surged significantly to 4.8 percent in 2017 from 4.4 percent during 2016. China and India, Oman's major trading partners, also recorded a good

growth of 6.9 percent and 6.7 percent, respectively, during 2017, despite the latter witnessing some moderation due to one-off factors. The near-term outlook for growth in China and India appears quite robust, which would be positive for oil and non-oil exports of Oman.

The world merchandise trade volume grew at an accelerated pace from 2.2 percent in 2016 to 5.4 percent during 2017 but projected to grow at a moderately lower pace of 5.3 percent in 2018 and 4.8 percent in 2019 (IMF's WEO, April 2018). The World Trade Organization (WTO) has also estimated the growth in world merchandise trade volume to increase significantly from 1.8 percent in 2016 to 4.7 percent in 2017 before decelerating to 4.4 percent in 2018 and 4.0 percent during 2019. The WTO projects strong growth in world merchandise trade volume over the next two year period, albeit with some deceleration, factoring in anticipated robust global growth and governments pursuing appropriate monetary, fiscal and trade policies. The anticipated pick-up in global demand, reflected in the projected robust growth in world output and trade volume, is likely to give further impetus to recovery in oil prices as well as non-oil exports from oil exporting countries and help in correcting current account imbalance. The IMF has projected the average crude oil prices to increase by 18.0 percent from US\$ 52.8 per barrel in 2017 to US\$ 62.3 a barrel in 2018 before decreasing by 6.5 percent to US\$ 58.3 per barrel in 2019.

The Omani crude oil price also increased significantly, following the trend in international crude oil prices, and contributed considerably to the improvement in both fiscal and current account

deficits. The average price of Omani crude oil inched up by 27.8 percent to US\$ 51.3 a barrel in 2017 from US\$ 40.14 per barrel in 2016 (intra-year it rose from US\$ 44.54 a barrel in January 2017 to US\$ 55.59 per barrel in December 2017). Consequently, revenues from oil exports increased significantly and contributed to an improvement in trade surplus and current account balance during 2017. Notwithstanding an improvement due to a surge in oil exports, the current account imbalance continued to remain sizable, which was mainly attributed to a higher imbalance in services account, increase in net outflows under income, and elevated current transfers (workers' remittances). The international oil prices have further recovered during 2018 and currently hovers above US\$ 70 per barrel. Furthermore, the uncertainty regarding some global oil supply created by the withdrawal of USA from Iran nuclear deal along with further expected drop in supply from Venezuela and higher demand on the back of robust projected global growth is expected to maintain upward pressure on international oil prices.

As per the balance of payments, the merchandise trade surplus surged by 40 percent to RO 3,369 million in 2017 from RO 2,406 million during the previous year, mainly as a result of the sharp jump in oil exports and considerable growth in other exports. The merchandise imports increased by 13.3 percent to RO 9,275 million during 2017, reflecting improvement in demand on the back of economic recovery, partly offsetting the impact of resurgent oil and other exports during the year. The combined deficit in services, income, and current transfers also increased by 5.0 percent to RO 7,507 million in 2017 as against a decline of 7.4 percent a year ago, mainly due to

deterioration in services and income imbalances as net current transfers moderated somewhat during the year. Improvement in the trade surplus, however, led to a decline in current account deficit to RO 4,137 million (14.8 percent of GDP) in 2017 from RO 4,743 million (18.5 percent of GDP) in the preceding year. Further recovery in oil prices and resurgent other exports on the back of diversification efforts are expected to result in a significant decline in the current account deficit for 2018.

The net inflows under capital and financial accounts increased by more than two fold to RO 3,481 million in 2017 from RO 1,614 million during 2016. The main drivers of net inflows under capital and financial accounts were portfolio investments and loans. The net portfolio investment increased by 29.6 percent to RO 2,492 million, mainly due to the government's external borrowing through Euro bonds to finance the fiscal deficit. Net foreign direct investment, however, dropped considerably by 74.2 percent to RO 189 million in 2017 on account of partial FDI acquisition by Omantel of Zain (21.9 percent stake), which was financed with a combination of long-term and bridge loan facilities. On the other hand, other investments witnessed net inflows of RO 700 million during the year as against outflows of RO 1,241 million in 2016. The reversal in financial flows under other investment during 2017 was mainly attributed to the significant jump in outstanding loans of government and private sector. Since net inflows under capital and financial accounts were lower than the current account deficit, the drawdown of foreign assets amounting to RO 1,066 million was resorted for financing the gap.

Foreign Trade

As an open economy that relies on the revenues from exporting crude oil, Oman has been wedged by a plunge in oil prices over the last few years. Although the recovery in oil prices witnessed recently provided a much-needed relief, the downward shocks affecting the hydrocarbon sector disrupted the business cycle in Oman and impacted most macroeconomic indicators adversely. During 2017, the trade openness in Oman, which is the ratio of exports (f.o.b) plus imports (c.i.f) to nominal GDP, improved to 82.4 percent from 76.8 percent in 2016. The increase in trade openness, which was attributed to the recovery in oil prices and a surge in other exports, indicates the significance of international trade in the domestic economy (Chart 6.1). The merchandise exports constituted 45.3 percent of nominal GDP during 2017 which was higher than 41.2 percent in 2016. On the other hand, the merchandise imports comprised 37.1 percent of nominal GDP in 2017 as compared to 35.6 percent in 2016 which was in line with the improvement of the business cycle and the investment climate in Oman (Chart 6.1). Oman's exports continued to be dominated by oil sector with a contribution of 49 percent to total merchandise exports (f.o.b) in 2017. The exports of oil and gas together comprised 58.3

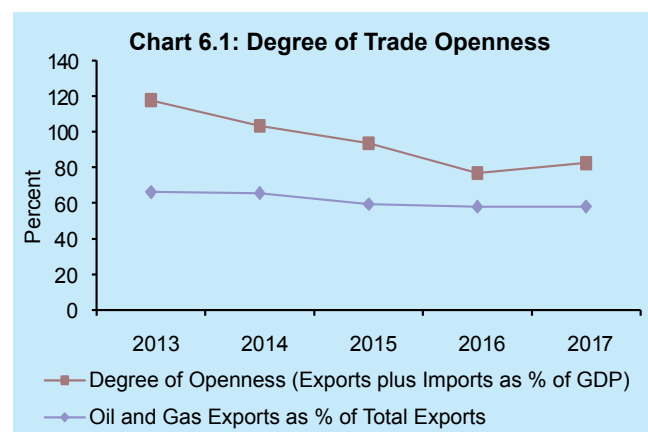


Table 6.1
Trade Transactions
(Rial Omani Million)

Items	2013	2014	2015	2016	2017	% Change 2017/16
Imports (c.i.f.)	13,679.5	11,898.1	11,412.1	9,144.9	10,362.7	13.3
Exports (f.o.b.)	21,697.0	20,596.1	13,721.4	10,591.3	12,644.7	19.4
Crude Oil	12,337.5	11,591.3	6,682.4	4,936.7	5,795.3	17.4
Refined Oil	340.9	309.5	183.7	186.7	404.7	116.8
LNG	1,670.3	1,625.7	1,279.8	1,012.9	1,166.2	15.1
Non-oil	3,806.9	4,125.5	3,003.9	2,398.7	3,176.4	32.4
Re-exports	3,541.4	2,944.1	2,571.6	2,056.3	2,102.1	2.2
Trade Balance	8,017.5	8,698.0	2,309.3	1,446.4	2,281.9	57.8
(Exports+Imports) as % of GDP	116.8	104.2	94.9	76.8	82.4	7.2
Trade Balance as % of GDP	26.5	27.9	8.7	5.6	8.2	45.1
Total Non-oil Exports as % of GDP*	24.3	22.7	21.0	17.3	18.9	9.0

*Includes re-exports.

Note: Import figures in this table include both "recorded" and "unrecorded" imports, and hence, they may not tally with import figures in some other tables which may relate only to recorded imports. Similarly, import figures in this table are on c.i.f. basis, and, therefore, may not tally with import and trade balance figures in other tables where imports could be on f.o.b. basis.

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

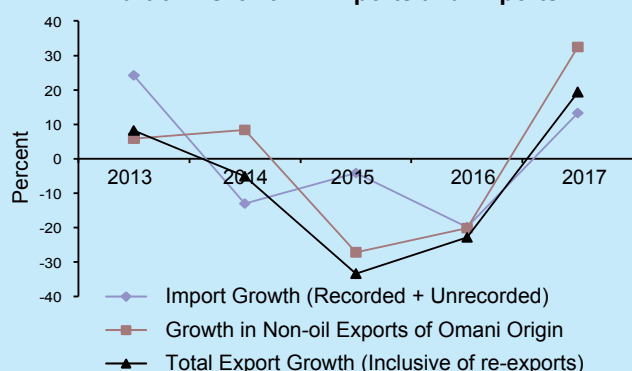
percent of total merchandise exports (Table 6.1). Notwithstanding a pick-up in non-oil economic activities including non-oil exports on the back of diversification efforts, the hydrocarbon sector remains a core support of the economy. Therefore, any downward shocks on international oil prices would have unfavorable consequences for the international trade and the Omani economy. Although the concerted diversification efforts are producing positive results, there is need to promote diversified exports in a big way to insulate the economy from vagaries of oil prices.

Merchandise Trade Balance

Boosted by the recovery of oil prices, the value

of merchandise exports (f.o.b) improved by 19.4 percent in 2017 as compared to a decline of 22.8 percent in 2016. Furthermore, the value of merchandise imports (c.i.f) also recorded a notable increase of 13.3 percent during 2017 as compared to a sharp decline of 19.9 percent in 2016, reflecting increased demand due to economic recovery (Chart 6.2). Subsequently, the merchandise trade surplus witnessed an immense increase of 57.8 percent during 2017 as compared to a sharp fall of 37.4 percent in 2016 (Table 6.1 and Chart 6.3). The surplus in the merchandise trade as a percentage of nominal GDP increased to 8.2 percent in 2017 as compared to 5.6 percent and 8.7 percent in 2016 and 2015, respectively (Chart 6.4).

Chart 6.2: Growth in Imports and Exports



Exports

During 2017, the merchandise exports of crude and refined oil, natural gas, and non-oil exports witnessed a rapid growth, while the re-exports grew at a muted pace. The crude oil exports, which represent 45.8 percent of total export (f.o.b), grew by 17.4 percent during 2017 contrary to a contraction of 26.1 percent in 2016 (Table 6.1). However, the volume of crude oil exports dropped by 8.6 percent, reflecting the production cut implemented following an agreement between OPEC and Non-OPEC to clear excess global supply. The refined oil exports recorded a phenomenal increase of 116.8 percent in 2017 over the level in 2016. At the same time, the recovery of commodity prices helped Oman's LNG exports to increase by 15.1 percent during 2017 in comparison to a contraction of 20.9 percent during the previous year. The pickup in global demand and the positive results of diversification programs led the non-oil exports to recover from a contractionary phase and grow by 32.4 percent during 2017 (as against a contraction of 20.1 percent in 2016). Meanwhile, re-exports also recovered and witnessed a modest growth of 2.2 percent in 2017 as compared to a decline of 20.0 percent in 2016.

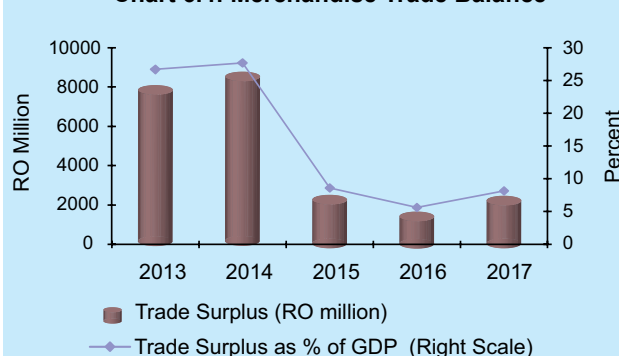
Chart 6.3: Merchandise Trade



Non-oil Exports of Omani Origin

The non-oil exports of Omani origin recorded a remarkable growth during 2017, as alluded to earlier, which was an outcome of the policy efforts undertaken by the government for boosting the non-hydrocarbon activities and resurgent demand by major trading partners. The GCC countries increased their imports of Omani non-oil exports by more than 50 percent to RO 1,564.2 million during 2017, mainly reflecting an upturn in their demand due to economic revival and relaxation in the fiscal consolidation policies on the back of steep recovery in oil prices. The surge in non-oil exports was mainly contributed by a substantial growth in exports of "mineral product" (78.2 percent), followed by "plastic, rubber, & articles thereof" (45.0 percent),

Chart 6.4: Merchandise Trade Balance



“products of chemicals & allied industries” (39.8 percent), and “base metals & articles thereof” (22.8 percent). “foodstuffs, beverages, tobacco & related products” also registered a rapid growth of 32.9 percent during the year (Table 6.2). However, the exports of “live animals and animal products” and “animal or vegetable fats & oil” exhibited a decline of 12.5 percent and 5.1 percent during 2017, respectively. In terms of relative contribution, “mineral products” took the lead and accounted for highest of 27.1 percent of total non-oil exports followed by “products of chemicals & allied industries” and “base metals & articles thereof” with 25.4 percent and 19.6 percent contribution to total non-oil exports, respectively.

Re-Exports

Total re-exports during 2017 increased modestly to RO 2,102.1 million as compared to RO 2,056.3 million in 2016. The re-exports emanating from “foodstuffs, beverages, tobacco & related products”, “products of chemicals & allied industries”, “mineral Textiles & articles thereof”, “base metals & articles thereof”, and “plastic, rubber, & articles thereof” witnessed considerable growth during 2017 (Table 6.3). Nonetheless, a massive drop in re-exports of “vehicles, aircraft, vessels & associated transport equipment” for the third year in succession offset the surge in re-exports of the above items to a large extent, resulting in a moderate growth in total re-exports. The “mineral product” contributed the highest share of 33 percent to total re-exports, followed by “vehicles, aircraft, vessels & associated transport equipment” (28.1 percent) and others (21.2 percent).

Destination of Non-Oil Exports

The UAE remained Oman’s biggest destination for non-oil exports, followed by Saudi Arabia, India, and China (Table 6.4). They remained as the top destinations for Omani non-oil exports for three consecutive years since 2015. The combined share of their non-oil exports increased marginally from 54.5 percent in 2016 to 55.2 percent in 2017. Despite a decline in its share, UAE still held the largest share of 22.4 percent in non-oil exports (RO 711.1 million). Although exports of “machinery and mechanical appliances” and “live animals and animals’ products” to UAE declined by 10.3 percent and 5.9 percent, respectively, total non-oil exports to the UAE increased by 17.6 percent mainly on account of higher exports of “base metals and articles of base metals” (62.9 percent). Furthermore, Saudi Arabia’s share in Oman’s non-oil exports increased to 15.3 percent with a growth in most items except for “animals or vegetable fats and oils” which declined by 21.7 percent. The share of India and China in non-oil exports of Omani origin was 9.8 percent and 7.7 percent during 2017, respectively. Non-oil exports to Qatar recorded a remarkable growth of 160 percent and contributed a fifth largest share of 6.6 percent to total non-oil exports in 2017, owing to increased demand and elevated trade-ties between the two countries. Notably, Qatar replaced the USA in terms of contribution to Omani non-oil exports during the year.

Destination of Re-Exports

The composition of the three major re-export destinations underwent a change in 2017, however, UAE continued to be the largest recipient

Table 6.2
Value of Non-oil Exports of Omani Origin*
(Rial Omani Million)

Classification	2013	2014	2015	2016	2017	% Change 2017/16
Live animals and animal products	176.0	210.0	211.5	187.6	164.2	-12.5
Vegetable products	98.2	59.2	58.5	61.4	63.2	2.9
Animal or vegetable fats & oil	70.8	81.2	82.2	78.1	74.1	-5.1
Foodstuffs, beverages, tobacco & related products	96.5	115.0	120.1	103.2	137.2	32.9
Mineral products	1,277.8	1,256.4	572.8	482.3	859.6	78.2
Products of chemicals & allied industries	800.5	945.9	700.2	577.4	807.2	39.8
Plastic, rubber, & articles thereof	288.8	356.3	277.7	141.3	204.9	45.0
Textiles & articles thereof	7.9	9.9	8.1	7.3	6.5	-11.0
Base metals & articles thereof	724.6	765.8	650.5	508.2	624.9	23.0
Others	265.8	325.8	322.3	251.9	234.6	-6.9
Total	3,806.9	4,125.5	3,003.9	2,398.7	3,176.4	32.4

*Excludes re-exports.

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

Table 6.3
Composition of Re-Exports
(Rial Omani Million)

Classification	2013	2014	2015	2016	2017	% Change 2017/16
Live animals and animal products	12.6	23.4	24.6	41.8	18.2	-56.5
Vegetable products	15.6	7.2	13.6	12.4	18.9	52.4
Animal or vegetable fats & oil	0.3	0.1	1.3	1.2	3.5	191.7
Foodstuffs, beverages, tobacco & related products	74.4	78.2	75.9	52.2	158.8	204.2
Mineral products	1,293.5	516.1	565.5	655.3	694.7	6.0
Products of chemicals & allied industries	131.7	114.8	72.7	27.9	68.1	144.1
Plastic, rubber, & articles thereof	11.3	11.3	13.2	13.2	24.5	85.6
Textiles & articles thereof	9.3	8.4	6.6	3.8	31.3	723.7
Base metals & articles thereof	32.5	32.2	31.7	28.9	47.4	64.0
Vehicles, aircraft, vessels & associated transport equipment	1,731.6	1,886.5	1,615.5	992.6	590.9	-40.5
Others	228.6	265.9	151.0	227.0	445.8	96.4
Total	3,541.4	2,944.1	2,571.6	2,056.3	2,102.1	2.2

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

Table 6.4
Destination of Non-oil Exports of Omani Origin*
(Rial Omani Million)

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

*Excludes re-exports.

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

Table 6.5
Destination of Re-Exports
(Rial Omani Million)

Country	2015		2016		2017	
	Re- Exports	% Share	Re- Exports	% Share	Re- Exports	% Share
UAE	974.8	37.9	570.3	27.7	544.7	25.9
Iran	102.5	4.0	97.7	4.8	223.8	10.6
Saudi Arabia	313.3	12.2	158.1	7.7	24.3	1.2
U.K.	3.7	0.1	7.7	0.4	27.3	1.3
Hong Kong	26.3	1.0	34.3	1.7	42.3	2.0
Singapore	38.3	1.5	18.9	0.9	27.2	1.3
Belgium	10.7	0.4	11.0	0.5	12.0	0.6
Yemen	77.2	3.0	74.1	3.6	115.7	5.5
China	295.6	11.5	189.4	9.2	62.1	3.0
Iraq	132.1	5.1	259.9	12.6	32.8	1.6
Libya	15.8	0.6	1.8	0.1	1.1	0.1
Germany	9.3	0.4	8.8	0.4	19.5	0.9
India	54.7	2.1	41.6	2.0	49.5	2.4
Qatar	16.2	0.6	16.3	0.8	318.7	15.2
Pakistan	92.4	3.6	87.3	4.2	149.0	7.1
Others	408.7	15.9	479.1	23.3	452.2	21.5
Total	2,571.6	100.0	2,056.3	100.0	2102.1	100.0

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

of Omani re-exports (Table 6.5). The UAE's share in total re-exports, however, contracted by 1.8 percentage points to 25.9 percent mainly due to decline in re-exports of "vehicles, aircraft, and vessels" by 16.3 percent in 2017. Following the UAE, the top three destinations for re-exports were Qatar (15.2 percent), Iran (10.6 percent), and Pakistan (7.1 percent). The growth of re-exports to Qatar and Iran accelerated in 2017, shifting them to the top destinations for re-exports. The three largest destinations for 2017 accounted for 51.7 percent of total re-exports in 2017, higher as compared to 49.6 percent in 2016, reflecting an elevation in concentration. Noteworthy, Qatar moved to the second place in 2017 from its earlier insignificant position in terms of contribution to re-exports. The re-export of "vehicles, aircraft and vessels" contracted by 40.5 percent, which was mainly attributed to a drop in such re-exports

to Iran and UAE by 33 percent and 16 percent, respectively.

Imports

The recorded imports (c.i.f) exhibited a strong growth of 11.7 percent in line with the economic recovery and amounted to RO 9,937.5 million during 2017. The major drivers of the recorded imports were "electrical machinery & mechanical equipment & parts", "base metals & articles thereof", and "products of chemicals & allied industries" with a contribution to growth at 46.8 percent, 19.1 percent, and 7.5 percent, respectively. However, the breakdown of total recorded imports displays that imports of all components, except for "mineral products" and "vehicles, aircraft, vessels & associated transport equipment", recorded an uptick during the year

Table 6.6
Composition of Recorded Imports
(Rial Omani Million)

Classification	2013	2014	2015	2016	2017	% Change 2017/16
Live animals and animal products	429.3	472.7	450.1	438.8	451.0	2.8
Vegetable products	325.6	409.6	397.2	320.5	369.9	15.4
Foodstuffs, beverages, tobacco & related products	377.1	420.9	444.7	450.9	481.8	6.8
Mineral products	3,627.6	1,297.9	1,682.7	1,100.3	1,067	-3.0
Products of chemicals & allied industries	1,007.3	993.2	955.3	673.6	751.6	11.6
Plastic, rubber, & articles thereof	386.8	415.0	442.6	364.0	389.8	7.1
Textiles & articles thereof	150.9	152.0	163.8	137.3	170.5	24.2
Articles of stone, plaster, cement, asbestos, mica or similar materials, ceramic products, glass & glassware	154.0	255.8	168.4	170.9	173.5	1.5
Base metals & articles thereof	1,376.9	1,320.7	1,256.6	1,160.7	1,358.8	17.1
Electrical Machinery & Mechanical Equipment & Parts	2,054.2	1,942.5	2,240.7	1,867.5	2,352.6	26.0
Vehicles, aircraft, vessels & associated transport equipment	2,375.9	2,568.4	1,778.0	1,103.2	1101.5	-0.2
Others	935.5	1,019.0	1,173.3	1,112.5	1,269.6	14.1
Total	13,201.1	11,267.7	11,153.3	8,900.2	9,937.5	11.7

Note: Import figures presented here include recorded imports only & hence, they may not tally with import figures in Tables 6.1 & 6.11.

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

Table 6.7
Sources of Recorded Imports
(Rial Omani Million)

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

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

(Table 6.6). The imports of “electrical machinery & mechanical equipment & parts” increased most by 26.0 percent, followed by “textile & articles thereof” with 24.2 percent, and “base metals & articles thereof” with 17.1 percent in 2017. Imports of “mineral products” declined by 3.0 percent (re-exports inched up by 6.0 percent), while that of “vehicles, aircraft, vessels & associated transport equipment” dropped moderately by 0.2 percent (re-exports contracted significantly by 40.5 percent). In terms of share in total recorded imports, “electrical machinery and mechanical equipment’s and parts” accounted for highest of 23.7 percent (RO 2,352.6 million), followed by “base metals and article thereof” with 13.7 percent (RO 1,358.8 million), “vehicles, aircrafts, and vessels”, with 11.1 percent (RO 1,101.5 million), and “mineral products” with 10.7 percent (RO 1,067 million). The above four major items combined constituted 59.2 percent of total imports in 2017.

The UAE continued to remain the biggest destination for Omani imports, despite some drop in its share to 42.8 percent during 2017 (Table 6.7). The main imports from UAE were “electrical machinery and mechanical appliances” and “base metals and articles of base metals” with a share of 23 percent and 15.5 percent, respectively. China, India, and USA continued as other main import partners with 6.2 percent, 5.4 percent, and 4.1 percent shares, respectively. Imports from China grew by 34.5 percent largely on account of “electrical machinery and mechanical appliances” and “base metals and articles of base metals” which grew by 49.1 percent and 34.3 percent, respectively. The largest imports from India were mineral products (31.1 percent) and base metals and articles thereof (17.9 percent). The top four main import partners together accounted for 58.4 percent of total imports in 2017, lower as compared to 63.6 percent in 2016. The share of other countries, such as Brazil, Netherland, and

Table 6.8
Trade with GCC Countries
(Rial Omani Million)

Country	2016				2017			
	Non-Oil Exports*		Recorded Imports		Non-Oil Exports*		Recorded Imports	
	Value	% Share	Value	% Share	Value	% Share	Value	% Share
UAE	1,175.0	65.2	4,343.3	89.8	1,255.8	51.0	4,250.1	87.4
Saudi Arabia	411.6	22.9	319.9	6.6	511.5	20.8	356.7	7.3
Bahrain	27.5	1.5	62.7	1.3	41.2	1.7	115.5	2.4
Kuwait	90.0	5.0	23.4	0.5	125.0	5.1	10.6	0.2
Qatar	97.1	5.4	86.1	1.8	529.0	21.5	127.9	2.6
Total	1,801.1	100.0	4,835.4	100.0	2,462.5	100.0	4,860.8	100.0

*Includes re-exports.

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

Italy, in total imports of Oman went up during the year, suggesting diversification in sources.

Trade with GCC Countries

Omani non-oil exports (including re-exports) to GCC countries increased by 36.7 percent and amounted to RO 2,462.5 million in 2017 as compared to RO 1,801.1 million in 2016 (Table 6.8). Notably, non-oil exports to all GCC countries exhibited a growth in 2017. The UAE remained as the top destination among GCC countries (as well as in the world), albeit its share of 51.0 percent in total non-oil exports to GCC countries declined considerably by 14.2 percentage points in 2017. On the other hand, the share of Qatar in total non-oil exports to GCC countries jumped significantly by 16.1 percentage points to 21.5 percent in 2017. The share of Saudi Arabia in total non-oil exports to GCC countries declined marginally to 20.8 percent during 2017. On the other hand, Omani imports from GCC countries experienced a moderate growth of 0.5 percent and stood at

RO 4,860.8 million during 2017. Imports from Kuwait and UAE contracted by 54.7 percent and 2.1 percent, respectively, while the imports from other GCC countries increased during the year. Imports during the year from Bahrain and Qatar experienced significant uptick of 84.2 percent and 48.5 percent, respectively, amounting to RO 115.5 million and RO 127.9 million, respectively. Notwithstanding a decline, Oman continued to depend largely on UAE for imports with a share of 87.4 percent in total imports from GCC during 2017.

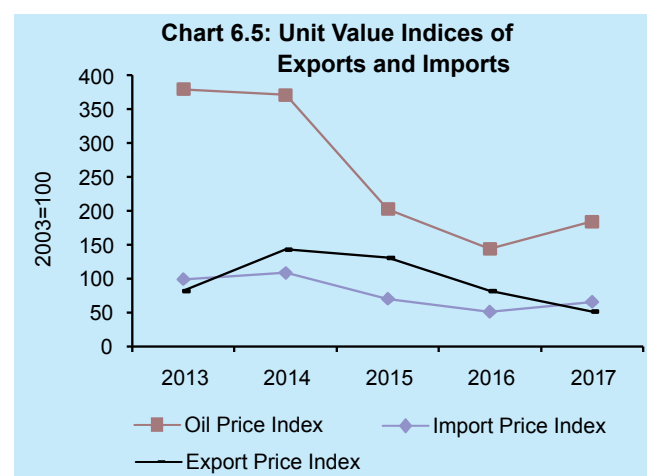


Table 6.9
Value and Quantity of Exports, Re-exports & Imports

Year	Non-oil Exports of Omani Origin*		Re-Exports		Recorded Imports		Oil Exports	
	Value in (R.O. Million)	Weight (000) Tonnes	Value in (R.O. Million)	Weight (000) Tonnes	Value in (R.O. Million)	Weight (000) Tonnes	Million Barrels	Avg. Price US\$ / Barrel
1998	199.3	619.6	493.3	648.3	2,184.5	3,556.9	300.2	11.92
1999	201.4	945.3	455.3	298.2	1,797.1	3,362.3	308.5	17.35
2000	247.8	1,393.8	498.6	310.9	1,937.6	3,841.9	326.9	26.71
2001	265.8	1,583.4	577.6	393.0	2,229.3	4,429.8	331.5	23.12
2002	261.6	1,727.8	726.7	475.2	2,309.1	4,901.0	306.2	24.29
2003	304.1	1,973.0	600.8	492.1	2,527.0	5,643.1	287.7	27.84
2004	420.3	2,167.8	538.3	300.3	3,313.8	5,713.7	263.6	34.42
2005	555.3	3,013.1	583.9	338.8	3,394.5	5,566.9	262.1	50.26
2006	812.5	5,488.1	766.9	318.2	4,190.1	5,822.7	233.2	61.69
2007	1,290.7	6,335.1	1,003.5	338.7	6,146.5	7,398.7	222.0	65.15
2008	1,962.9	10,156.9	1,515.8	608.3	8,813.1	10,476.3	216.7	101.06
2009	1,849.5	11,340.3	1,834.8	1,245.4	6,862.7	9,431.8	242.9	56.67
2010	2,448.2	24,052.9	1,921.7	1,143.7	7,590.1	12,826.9	271.8	76.64
2011	3,033.2	31,775.3	2,247.6	2,129.7	9,081.8	15,651.8	269.4	102.95
2012	3,594.1	15,921.1	2,486.3	2,572.6	10,811.3	17,865.5	279.8	109.61
2013	3,806.9	30,237.6	3,541.4	3,940.6	13,201.0	29,746.6	299.3	105.51
2014	4,125.5	18,731.3	2,944.1	2,887.2	11,267.7	23,175.3	292.2	103.20
2015	3,003.9	14,902.0	2,571.6	2,217.4	11,153.3	35,570.4	308.1	56.45
2016	2,398.7	19,016.1	2,056.3	3,005.7	8,900.2	41,845.0	321.9	40.10
2017	3,176.4	40,013.5	2,102.1	3,183.5	9,937.5	33,724.0	294.2	51.30

*Excludes re-exports.

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

Unit Value Trade Indices

Unit value trade indices constructed for Omani exports and imports, measures country's terms of trade and act as a proxy that reflects the relative social welfare of the country (Table 6.9). The unit value index for Omani crude oil in 2017 inched up substantially to 184.3 from 144.0 in the previous year (expressed as an index with the base period 2003=100), implying a welfare gain of about 28 percent in oil income due to the sharp recovery in the average oil prices (Chart 6.5). On the contrary, the non-oil export price index decreased by about 37.1 percent to 51.5 in 2017 over its level of 81.8 last year, implying a welfare loss, in other words

higher quantities of non-oil commodities are exported at lower prices. At the same time, the unit value index for imports increased by about 28.6 percent to 65.8 in 2017 from 51.2 during the previous year, reflecting welfare loss by importing lower quantities at higher prices.

Nominal Effective Exchange Rate

The nominal effective exchange rate (NEER) index, computed as a weighted average of the nominal exchange rate of the Rial Omani vis-a-vis 18 currencies of the major import trading partners of Oman (base year 1999=100), declined to 100.2 in December 2017 from 107.3 during

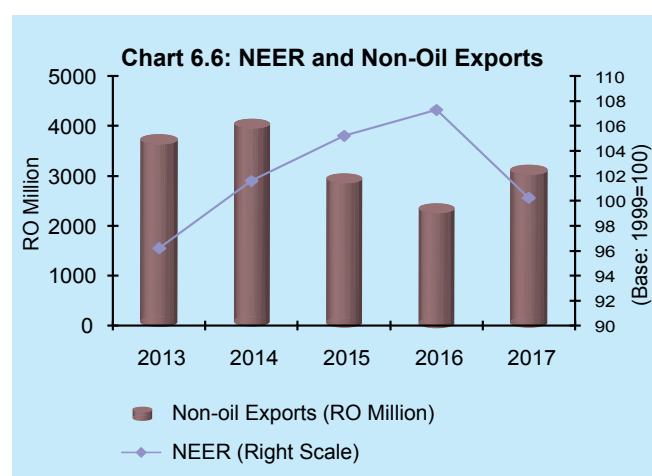
Table 6.10
Nominal Effective Exchange Rate (NEER)
(1999=100)

Period	Import Weighted	Non-Weighted
End of year		
2005	99.4	93.7
2006	96.3	87.7
2007	92.4	82.3
2008	94.1	90.6
2009	92.5	87.6
2010	92.5	87.6
2011	92.3	89.3
2012	92.9	88.6
2013	96.2	91.1
2014	101.6	97.4
2015	105.2	104.5
2016	107.3	108.4
Month-end (2017)		
January	103.9	106.4
February	103.8	106.5
March	103.0	105.4
April	102.5	104.7
May	102.0	103.7
June	102.1	103.9
July	100.6	101.3
August	100.1	100.5
September	101.1	101.7
October	101.3	102.1
November	100.4	100.9
December	100.2	100.7

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

the corresponding period last year as result of weakening of the US dollar to which the Rial Omani is pegged, implying higher import costs. Intra-year movements exhibit that NEER index largely

remained on the downward trajectory during 2017, declining from 103.9 as on end-January 2017 to 103.0 at the end of March, to 102.1 at the end of June, and further to 101.1 as at end-September and 100.2 at the end of December (Table 6.10). The downward trend in NEER suggests that the Rial Omani remained under depreciating bias during 2017 against a basket of currencies of the Sultanate's importing partners, which was, however, in line with the trend of US dollar that reflected an environment of uncertainty regarding fiscal reforms and infrastructure spending (Chart 6.6). The depreciation of Oman's NEER had an adverse impact on import costs as countries other than the USA constitute about 95 percent of total imports and a large part of these imports are of essential nature. The depreciation of NEER also had some adverse implications for inflation, as imported inflation remains one of the main drivers of inflation in Oman given the high degree of reliance on imports. Omani NEER index as well as US dollar, however, appreciated substantially during the first quarter of 2018, providing some relief to the import costs from countries other than the USA as well as containing some inflationary pressure.



Balance of Payments

Current Account

The external account remained under stress and continued to pose a challenge for public policy in the Sultanate, despite a considerable recovery in global oil prices from the historical low of early 2016. The clearance of global supply glut after production cut effected as part of an

agreement between OPEC and Non-OPEC oil-producers, which has been extended until 2018, along with robust global demand led to a sharp upturn in global oil prices. Notwithstanding a steep recovery, the oil prices still remained at a lower level than the external breakeven level for Oman. The balance of payments (BoP) position of Oman remained under stress with the current account balance into deficit consecutively for the third year as against surplus in the previous several years. The deficit in the current account, however, dropped during 2017, which was mainly attributed to increase in trade surplus by 40 percent on account of surge in oil prices and a considerable improvement in non-oil exports. The value of oil exports grew by 21.0 percent, despite agreed cuts in production while non-oil exports jumped substantially by 32.4 percent during 2017. At the same time, merchandise imports also increased significantly by 13.3 percent during 2017 as against contraction in the previous two years, reflecting economic recovery. Notwithstanding a sharp jump in merchandise imports, trade surplus improved considerably to around RO 3.4 billion in 2017 as against RO 2.4 billion in the previous year. The net outflows under services and income increased during the year, while current transfers moderated

somewhat but remained at an elevated level. Consequently, the current account deficit declined to RO 4.1 billion in 2017 from RO 4.7 billion and its ratio to GDP moderated to 14.8 percent in 2017 from 18.5 percent in the previous year (Chart 6.7).

Services, income, and current transfers continued to remain in deficit mode, given the intrinsic nature of the Omani economy, together resulting in a net outflow of RO 7.5 billion in 2017, higher as compared to an outflow of RO 7.1 billion in 2016. The higher outflow under this combined head during 2017 was mainly conditioned by an increase in net outflows under services and income. The ratio of the combined net deficit (services, income, and current transfers) to GDP, however, declined somewhat to 26.9 percent in 2017 from 27.8 percent in the previous year. Net outflows under services increased by 5.8 percent to RO 2.6 billion during 2017 on the back of increased demand for services due to economic recovery, while net outflows under income (payment of interests and dividends) jumped considerably by 56.7 percent to RO 1.1 billion in 2017. Although investment income increased by 3.5 percent during 2017 (from RO 357 million to RO 369 million), the payments on account of interest/ dividends on foreign liabilities

Chart 6.7: Current Account Balances

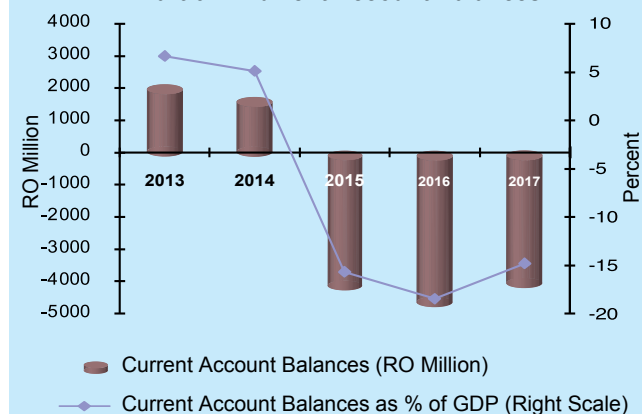
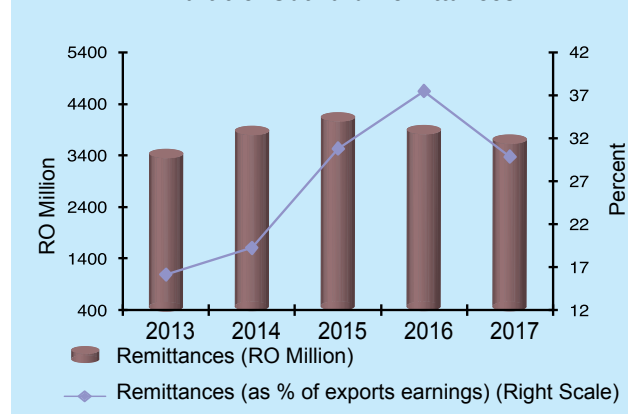


Chart 6.8: Outward Remittances



inched up significantly by 38.4 percent (from RO 1,085 million to RO 1,502 million) reflecting higher repatriation of profits in the oil and gas sector and a surge in servicing of increased external debt, especially government external debt. A large part of the fiscal deficit was financed through external debt so that private sector investment is not crowded out.

The current transfers (mainly workers' remittances), another major outflow under the current account, recorded improvement with a decline of 4.8 percent during 2017. The lower remittances during the year may be attributed to increased domestic consumption by the expatriates and a muted growth in expatriate employment, especially in the private sector. The change in policy for family dependents reduced the threshold minimum wage from RO 600 to RO 300 for expatriate workers to bring their families. The ratio of outward remittances to total merchandise export earnings also decreased significantly to 29.8 percent in 2017 from 37.4 percent in 2016 due to a sharp jump in the export earnings (Chart 6.8).

Capital and Financial Account

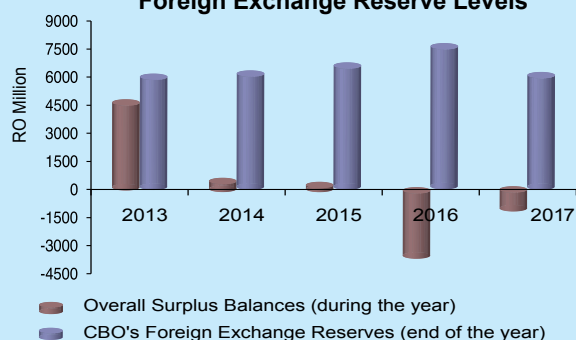
The current account deficit, which is also the mirror image of the domestic saving-investment gap, reflects the dependency of the economy on net external saving for funding domestic investment over the last three years. Oman is facing the challenge of twin deficits, with both fiscal balance and current account balance turning into deficit and the former contributing to the latter. The net inflows of RO 3,481 million in 2017 under the capital and financial accounts was much higher

than RO 1,614 million in 2016, however, these inflows were not sufficient to finance the current account deficit (which also means that these net inflows were not adequate to bridge the domestic saving-investment gap in 2017). Consequently, a drawdown of RO 1,066 million of official international reserves of the country was made during 2017 (as against a much higher drawdown of RO 3,615 million in 2016) in order to meet the current account deficit. Out of total drawdown of reserves, an amount equivalent to RO 500 million was allocated towards funding part of the fiscal deficit in 2017.

The disaggregated analysis indicates that all three major heads, viz. foreign direct investment (FDI), foreign portfolio investment (FPI), and other investment witnessed net inflows during 2017 (Table 6.11). Although FDI inflows increased sharply by 28.8 percent to RO 1,122 million in 2017 reflecting renewed interest of foreign investors, the net FDI flows declined to RO 189 million in 2017 from RO 734 million in the preceding year due to a jump in FDI investment abroad to RO 932 million (Omantel's partial acquisition of Zain through bridge financing).

A large jump of 29.6 percent in net FPI inflows during 2017 was largely due to increases in government external liabilities on account of Euro bond issues amounting to US\$ 5 billion and sovereign Sukuk worth US\$ 2 billion. Other investments witnessed a reversal with large net outflows in 2016 turning into net inflows in 2017 – mainly on account of net government loans amounting to RO 920 million and net loans by corporates (mainly a bridge loan by Omantel) amounting to RO 1,027 million.

Chart 6.9: Overall BoP Surpluses and CBO's Foreign Exchange Reserve Levels



The overall balance of payments position (adjusted for errors and omissions), which encompasses net position of all accounts, viz. current, capital, and financial accounts, recorded a much lower deficit of RO 1,066 million in 2017, as compared to the deficit of RO 3,615 million in 2016. The overall deficit in 2017 was financed by a drawdown of the country's international reserves for the equivalent amount.

Reserve Assets

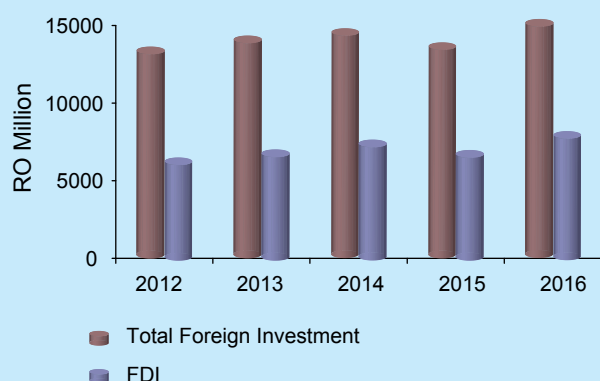
The overall balance of payments deficit experienced during 2017 led to a decline in the country's international reserve assets. The fall in reserves assets consisted of a decline of RO 481 million in net foreign assets (net of valuation adjustment) held by the CBO and RO 585 million in SGRF balances of the Government (Chart 6.9). CBO's net foreign assets position in 2017 stood at RO 5,186 million at the end of 2017, lower as compared to RO 5,666.7 million at the end of 2016. The imports of merchandise goods cover to the foreign exchange reserves declined to 6.7 months at the end of 2017 from 8.3 months as at the end of 2016, while this cover in terms of current account payments decreased to 3.3 months from 4 months during the same period.

Foreign Direct Investment

As per the preliminary estimates by the National Center for Statistics and Information (NCSI), the outstanding stock of foreign investment in Oman rose by 11.1 percent to RO 15,465.1 million in 2016 as against a decline of 6.3 percent in 2015 (RO 13,925.4 million). Foreign direct investment (FDI) surged significantly by 17.5 percent to RO 8,096.7 million in 2016 as against a decrease of 8.8 percent (RO 6,889.4 million during 2015), reflecting the renewed interest of foreign investors in the Omani economy (Chart 6.10). The stock of FDI accounted for 52.4 percent of total foreign investment in the Sultanate at the end of 2016, a higher level than 49.5 percent in 2015. Other foreign investments in Oman also increased by 4.7 percent in 2016 to RO 7,368.4 million as compared to a decline of 3.6 percent in 2015. Total return on FDI (dividends plus reinvested earnings) also witnessed a robust growth of 20.9 percent in 2016, albeit lower as compared to an increase of 29.8 percent in 2015 due to lower dividend payments reflecting lower earnings as a result of the lagged impact of economic slowdown (Chart 6.11). The main sectors receiving the largest share of FDI remained mostly unchanged during the recent years. Leading the stock of FDI investments at the end of 2016 were oil & gas sector at 49.1 percent, followed by financial intermediation at 17.7 percent and manufacturing at 13 percent.

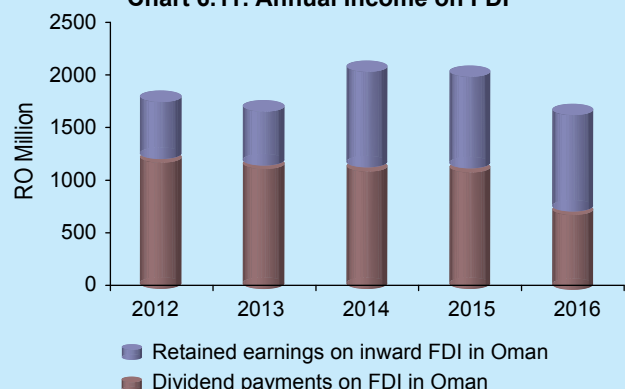
The international crude oil prices made a rapid recovery from the historical low of early 2016, especially since the second half of 2017, remaining above US\$ 60 per barrel since November 2017, mainly attributed to clearance of the excess global supply due to production cut by OPEC and non-

Chart 6.10: Foreign Investment (Stock)



OPEC oil-producers and resurgent global demand. Despite a sharp recovery, the oil prices continued to be lower than the external breakeven level for the country and are also expected to remain the same in the near future and continue to pose a challenge for the balance of payments as well as fiscal management. Oman witnessed twin deficits (i.e. deficit in current account balance and fiscal balance) during the last three consecutive years, which were financed largely by borrowing from external sources and the remaining by domestic borrowing and by utilizing part of the external buffers. Although the recovery in oil prices provided some relief, the macroeconomic challenges still persist with a lower level of fiscal buffers and foreign assets of the country. Nonetheless, Oman has undertaken various policy measures, aimed at fiscal consolidation and increasing private

Chart 6.11: Annual Income on FDI



sector participation in the country, to deal with the challenges. The fiscal consolidation measures include, inter alia, rationalization of expenditure, reducing subsidies, hiking user fees & charges, increasing corporate tax rate, etc. The government has also unveiled a strategy to boost economic diversification with a focus on key potential sectors, viz., manufacturing, tourism, logistics, fisheries and mining. Foreign investment is also encouraged and a foreign investment law, incorporating solution to various existing issues, is under consideration to boost the economic diversification in the economy. All the reform measures would improve the macroeconomic environment and help in meeting the challenges in a non-disruptive manner. At the same, they would improve the outlook for the external sector and ensure sustainable growth over the medium-term.

Table 6.11
Balance of Payments
(Rial Omani Million)

Items	2013	2014	2015	2016	2017 Prel.
A. Current account	2,001	1,617	-4,212	-4,743	-4,137
1. Goods	9,376	9,873	3,506	2,406	3,369
Exports (f.o.b)	21,697	20,596	13,720	10,591	12,644
Oil	12,678	11,901	6,865	5,123	6,200
Crude	12,338	11,591	6,682	4,937	5,795
Refined Oil	341	310	182	187	405
Natural Gas	1,670	1,626	1,280	1,012	1,166
Other exports	3,807	4,126	3,004	2,399	3,176
Re-export	3,541	2,944	2,572	2,056	2,102
Imports (f.o.b)	-12,321	-10,723	-10,214	-8,185	-9,275
2. Services	-2,631	-2,647	-2,622	-2,471	-2,615
Services (Credit)	1,136	1,204	1,305	1,345	1,542
Travel	498	529	592	622	672
Transportation	420	446	483	502	636
Insurance	18	19	16	16	15
Communication	39	37	34	42	47
Other Services	162	174	180	163	172
Services (Debit)	-3,767	-3,850	-3,927	-3,816	-4,157
Travel	-548	-636	-679	-822	-898
Transportation	-1,694	-1,538	-1,517	-1,365	-1,574
Insurance	-332	-353	-387	-361	-394
Communication	-33	-44	-44	-47	-40
Other Services	-1,161	-1,279	-1,300	-1,221	-1,251
Balance on goods & services (1+2)	6,746	7,226	884	-65	754
3. Income	-1,244	-1,648	-870	-713	-1,118
Income (Credit)	737	455	252	372	384
Compensation of employees	15	15	15	15	15
Other Investment Income	722	440	237	357	369
Income (Debit)	-1,981	-2,103	-1,122	-1,085	-1,502
Direct Investment Income	-1,814	-1,945	-951	-823	-1,107
Other Investment Income	-167	-158	-172	-262	-395
Balance on goods, services & income (1+2+3)	5,502	5,578	14	-778	-363
4. Current Transfers	-3,501	-3,961	-4,226	-3,965	-3,774
Current Transfers (Credit)	-	-	-	-	-
Current Transfers (Debit)	-3,501	-3,961	-4,226	-3,965	-3,774
Worker Remittances	-3,501	-3,961	-4,226	-3,965	-3,774

Table 6.11 (cont'd.)
Balance of Payments
(Rial Omani Million)

Items	2013	2014	2015	2016	2017 Prel.
B. Capital and Financial Account (5+6)	2,437	-827	4,617	1,614	3,481
5. Capital Account	-43	-50	209	198	100
Grants (Credit)	0	0	209	198	100
Grants (Debit)	-43	-50	0	0	0
6. Financial Account (i + ii + iii)	2,481	-777	4,408	1,416	3,381
(i) Foreign Direct Investment	261	-27	-964	734	189
Assets (FDI abroad)	-359	-522	-129	-137	-932
Liabilities (FDI in Oman)	620	495	-835	871	1,122
(ii) Portfolio Investment	136	-298	329	1,923	2,492
Assets	-356	-605	-443	143	-542
Liabilities	492	307	772	1,780	3,034
(iii) Other Investment	2,084	-452	5,044	-1,241	700
(a) Assets	2,494	-462	2,716	-816	-908
Trade Credit & Other Receivables	-105	-118	-33	-129	-145
Currency & Deposits	-274	130	105	292	23
Other Assets	2,872	-474	2,645	-979	-786
(b) Liabilities	-410	10	2,327	-425	1,608
Trade Credit & Other Payables	17	8	31	-215	-183
Currency & Deposits	-249	437	2,048	-2,110	-107
Loans	-277	-420	235	1,858	1,947
General Government (net)	-74	-60	305	1,917	920
Other Sectors	-203	-360	-70	-59	1,027
Other Liabilities	99	-15	15	41	-49
C. Net Errors & Omissions	286	-361	-170	-486	-410
D. Overall Balance	4,725	429	235	-3,615	-1,066
E. Reserves Assets	-4,725	-429	-235	3,615	1,066
Central Bank	-605	-233	-547	943	481
Government Reserves	-4,120	-196	312	2,672	585

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

Source: Central Bank of Oman.

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Central Bank Accounts and Regulations



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PR No. HMH/15/2015; HMA/9/2015

INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF GOVERNORS OF CENTRAL BANK OF OMAN

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Central Bank of Oman ("the Bank"), which comprise the statement of financial position as at 31 December 2017, and the income statement, statement of changes in capital and reserves and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance and cash flows for the year then ended in accordance with accounting policies of the Bank as set out in note 3 to the accompanying financial statements and the Banking Law 2000.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting policies of the Bank as set out in note 3 to the accompanying financial statements and the Banking Law 2000, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A member firm of Ernst & Young Global Limited



INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF GOVERNORS OF CENTRAL BANK OF OMAN (CONTINUED)

Auditor's responsibilities for the audit of the financial statements (continued)

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of those charged with governance's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

19 March 2018
Muscat

Central Bank of Oman
Statement of Financial Position at 31 December 2017

	2017 RO'000	2016 RO'000
ASSETS		
Bullion	463	416
Reserve holdings abroad		
Foreign currency placements	1,535,781	2,510,723
Available-for-sale investments	4,552,964	5,152,609
Other assets	693,431	833,285
International Monetary Fund		
Reserve tranche	43,093	76,298
Currency quota	255,009	205,099
	298,102	281,397
Special drawing rights holdings	53,987	50,918
	352,089	332,315
Premises and equipment	43,691	36,931
Total Assets	7,178,419	8,866,279
LIABILITIES		
Currency in circulation	1,637,535	1,647,100
Deposits and current accounts	3,731,431	5,612,998
Other liabilities	23,758	15,490
International Monetary Fund		
Non-interest bearing demand notes	191,876	191,876
Other accounts	63,156	13,244
	255,032	205,120
Special drawing rights allocation	97,917	92,430
	352,949	297,550
Total liabilities	5,745,673	7,573,138
CAPITAL AND RESERVES		
Capital	1,000,000	760,000
General reserve	323,350	488,533
Bond price fluctuation reserve	47,500	47,500
Currency fluctuation reserve	29,000	29,000
Currency valuation adjustment account	77,547	(2,801)
Financial assets valuation adjustment account on available-for-sale investments	(44,651)	(29,091)
Total capital and reserve	1,432,746	1,293,141
TOTAL LIABILITIES AND CAPITAL AND RESERVES	7,178,419	8,866,279
<div style="display: flex; justify-content: space-between;"> <div>H.E. Tahir bin Salim bin Abdullah Al Amri The Executive President</div> <div>Ali Musallam Sulaiman Al Asmi In Charge Banking Operations Department</div> </div>		

**Central Bank of Oman
Income Statement
For the year ended 31 December 2017**

	2017 RO'000	2016 RO'000
Interest income	90,672	78,224
Interest expense	(22,581)	(9,124)
Net interest income	68,091	69,100
Other income	58,134	27,998
Operating income	126,225	97,098
Operating expenses		
Staff costs	(31,415)	(29,931)
Currency expenses	(1,220)	(749)
Administrative expenses	(12,837)	(11,180)
Depreciation on premises and equipment	(5,936)	(5,411)
Total operating expenses	(51,408)	(47,271)
Profit for the year	74,817	49,827

13 April 2017

CIRCULAR BM 1149

To: All Licensed Banks and FLCs operating in the Sultanate of Oman

After Compliments,

Sub: Implementation of International Financial Reporting Standard 9 on Financial Instruments

1. The International Accounting Standards Board (IASB) issued International Financial Reporting Standard (IFRS) 9 on Financial Instruments in July 2014 as a replacement of the existing standard viz. International Accounting Standard (IAS) 39 on Financial Instruments: Recognition and Measurement. This new standard, formulated to address the accounting issues of the global financial crisis of 2007-2008, represents a paradigm shift in the accounting for financial instruments, especially with regard to their impairment.
2. Considering the nature of business, accounting for financial instruments is critical in the banking and financial services industry. While the responsibility of preparing and ensuring fair presentation of the financial statements of a bank/FLC vests primarily with its Board, the Central Bank of Oman is interested in a high quality implementation of IFRS 9 that results in reliable measurement of capital and augments market discipline through greater transparency. Therefore, these guidelines are not intended to override IFRS 9 and instead endeavour to promote consistency of application, facilitate greater comparability across the financial sector and address supervisory concerns. However, nothing should prevent banks and FLCs from applying more conservative criteria or requirements in accordance with the requirements of IFRS, than those laid out in this guidance.
3. The Basel Committee on Banking Supervision (BCBS) issued Guidance on Credit Risk and Accounting for Expected Credit Losses in December 2015, which is structured around 11 principles. The first eight principles deal with supervisory guidance for credit risk and accounting for expected credit losses and inter-alia cover issues such as responsibility of the Board, formulation of sound methodologies for measurement of credit risk, etc. The Central Bank expects banks and FLCs to follow the guidance issued by the BCBS.
4. The guidelines apply mutatis mutandis to Islamic Banks and Islamic windows subject to any specific instructions by the Central Bank for Islamic Banking entities on IFRS 9 if, as and when such instructions are issued. Further, banks are advised to be guided by the principle of substance over form while applying IFRS 9 to their Islamic banking activities.
5. It may be noted that early application of IFRS 9 by banks and FLCs before the mandatory

date specified in the standard is not permitted.

Classification of Financial Instruments

Business Models

6. IFRS 9 requires that financial assets are classified on the basis of the business model within which they are held and their contractual cash flow characteristics. It is therefore imperative that the Boards of banks and FLCs clearly articulate their business models and document them adequately. Further, senior management should ensure that operations are carried out as per Board approved business models and there is supporting evidence to demonstrate the same. Deviations from the business model and changes in the business model should be done in exceptional circumstances, in accordance with the requirements of IFRS 9. The nature, justification and impact of such deviations or changes should be recorded and approved at the Board level. Where material, such deviations should also be disclosed in the notes to the financial statements.

Sale out of amortised cost category

7. The Central Bank expects banks and FLCs to resort to sales of financial assets measured at amortised cost in limited and exceptional circumstances as permitted by IFRS 9. Banks and FLCs should have prudent Board approved policies for sale out of amortised cost category. Further, the rationale for each sale out of amortised cost category should be clearly documented and subjected to annual review by the Board. It may be noted that misuse of the provisions of IFRS 9 for sale out of amortised cost portfolios would invite supervisory measures.

Use of the Fair Value Option

8. IFRS 9 vide paragraphs 4.1.5 and 4.2.2 allows entities the option to designate, at

initial recognition, a financial asset or financial liability as measured at Fair Value Through Profit and Loss (FVTPL) if doing so eliminates or significantly reduces a measurement or recognition inconsistency ('accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. Where the fair value option is applied for financial instruments that are categorised as Level 3 in terms of the IFRS 13 hierarchy, details of the financial instruments and their valuation methodology should be submitted to the Central Bank at the time of submission of audited financial statements under circular BM 980 dated December 18, 2004.

Subsequent measurement of Financial Instruments

Unquoted Equity Instruments

9. Unlike IAS 39, IFRS 9 does not allow for the recognition of unquoted equity investments at cost, though it acknowledges that in rare circumstances cost of an instrument may be an appropriate estimate of fair value. Banks and FLCs are advised to be prudent in the valuation of unquoted equity investments basing the same on current and relevant information rather than on out dated financial statements and meticulously adhere to the disclosure requirements of IFRS 13 for such cases. Further, details of the outstanding investments in unquoted equity investments including their cost, fair value and basis for arriving at the fair value should be submitted to the Central Bank at the time of submission of draft audited financial statements under circular BM 980 dated December 18, 2004.

Own Credit Risk on Financial Liabilities

- 10 IFRS 9 allows Financial Liabilities to be designated at FVTPL, which may result in unrealised gains and losses in Other

Comprehensive Income (OCI) on account of changes in own credit risk. Any unrealised gains and losses on account of own credit risk should be derecognised in the calculation of Common Equity Tier 1 capital as required as per paragraph 14.10 of Guidelines on Regulatory Capital under Basel III (CP-1).

Impairment of Financial Assets

11. Implementation of an expected credit loss model poses a significant challenge for both supervisors and regulated entities. Considering that IFRS 9 introduces an expected loss approach to provisioning, it is expected that provisioning as per IFRS 9 requirements would be higher than that under IAS 39. However, from a supervisory perspective, a less than robust model, could lead to substantial under-provisioning for impairment. Therefore, in the initial stages, until there is supervisory comfort with the models being used by banks and FLCs and the implementation of IFRS 9 has stabilised, a two track approach analogous to the present regulations is envisaged. The requirements for provisioning for impairment of financial assets are as under

- (a) Banks and FLCs should endeavour to develop robust models to determine expected credit losses under IFRS 9 considering the Guidance on Credit Risk and Accounting for Expected Credit Losses issued by the BCBS. They should put in place procedures to periodically assess the quality of their models. Banks and FLCs should provide for impairment as per the requirements of IFRS 9. Banks and FLCs may also recognise interest as per the requirements of IFRS 9.
- (b) Banks and FLCs should concurrently compute the total provisions for impairment as required by extant guidelines on provisioning for non-performing and

restructured loans (BM Circular 977, FM 19, etc.). General provision for standard and special mention assets (where applicable) and reserve interest for non-performing loans should also be included.

- (c) In the first year of implementation, where the aggregate specific and general provisions along with reserve interest as per extant CBO requirements computed under paragraph 11 (b) is higher than the impairment allowance computed under IFRS 9, the difference, net of the impact of taxation, should be transferred to an Impairment Reserve as an appropriation from the net profit after taxes. This Impairment Reserve will not be available for payment of dividend or for inclusion in regulatory capital. In the case of FLCs, Impairment Reserve would not be included in capital and reserves for the computation of leverage.
- (d) In the subsequent years, where the impairment loss (i.e. the charge to the profit and loss account) together with reserve interest based on CBO requirements is higher than the impairment loss computed under IFRS 9, the difference, net of the impact of taxation, should be transferred to the aforementioned Impairment Reserve as an appropriation from the net profit after taxes. An example of the approach is given in Annex 2.
- (e) Any subsequent utilisation of the Impairment Reserve would require prior approval of the Central Bank.
- (f) The details of the difference between impairment allowance and impairment losses as per IFRS 9 and CBO requirements should be disclosed in notes to the financial statements along with the impact on the profit if additional provisions as per Central Bank requirements had

been made.

- (g) In cases where impairment loss as per CBO guidelines is higher than that computed under IFRS 9, the payout ratio for determining the maximum dividend payable will be based on the reduced net profit if additional provisions as per CBO norms had been made.
 - (h) The Central Bank appreciates that the implementation of IFRS 9 would have implications for regulatory capital in terms of general provisions that are presently allowed to be reckoned for Tier 2 Capital, subject to a maximum of 1.25 percent of total credit risk weighted assets. Accordingly, banks may reckon Stage 1 allowances (i.e. 12 month expected loss) made under IFRS 9 up to 1.25 percent of the total credit risk weighted assets for inclusion in Tier 2 capital.
 - (i) Banks and FLCs are advised to desist from making changes in the parameters, assumptions and other aspects of their expected loss model for the purposes of profit smoothening. The rationale and justification for any change in the expected loss model should be documented and justified by the Chief Risk Officer and approved by the Board of Directors.
12. The Central Bank will closely monitor the implementation of IFRS 9 by banks and FLCs. In order to promote consistency and comparability, banks and FLCs are advised to take into account the following requirements while developing their models for expected credit losses.
- (a) *Definition of default:* The definition of default used for accounting purposes should be aligned and consistent with the definition of default used for regulatory purposes.
 - (b) *Forward looking information:* Banks and FLCs should ensure that expected credit losses arrived by them consider all reasonably available information, particularly forward looking information on macroeconomic factors such as Gross Domestic Product (GDP) growth, oil prices, etc. Similarly, in arriving at the Loss Given Default, banks and FLCs should make reasonable and supportable estimates of the value of the collateral. Unduly optimistic estimates of the value of collateral will invite supervisory attention.
 - (c) *Mapping of internal ratings to external rating definitions:* In order to facilitate better comparison and comprehension of their internal ratings, banks and FLCs should map their internal credit risk rating models to credit definitions by internationally well-established independent rating agencies as far as possible. Where such mapping is not possible the reasons thereof should be documented and approved by the Board of Directors. In cases where both external and internal ratings of a particular financial asset are available, favourable internal ratings as compared to external ratings should be examined and justified to the Risk Management Committee of the Board (or local equivalent for foreign banks).
 - (d) *Significant increase in credit risk:* IFRS 9 vide paragraph B 5.5.17 provides a non-exhaustive list of information that is relevant in assessing changes in credit risk. Banks and FLCs should ensure that they build these aspects into their expected credit loss models. In respect of corporate borrowers where the exposure is RO 500,000 or more, banks and FLCs should also consider the occurrence of any one or more of the following events as

evidence of significant increase in credit risk.

- (i) Inadequate or unreliable financial and other information such as unavailability of audited financial statements.
- (ii) Non-cooperation by the borrower in matters pertaining to documentation.
- (iii) Borrower is the subject of litigation by third parties that may have a significant impact on his financial position.
- (iv) Frequent changes in senior management.
- (v) Intra-group transfer of funds without underlying transactions.
- (vi) Deferment/delay in the date for commencement of commercial operations by more than one year.
- (vii) Modification of terms resulting in concessions granted to the borrower including extension of moratorium, deferment of payment, waiver of covenants, etc. In applying this requirement, banks and FLCs may be guided by the extant instructions of CBO in regard to treating an account as restructured.
- (viii) A fall of 25 percent or more in the turnover or in the earnings before interest and taxes (EBIT) as compared to the previous year.
- (ix) Erosion in net worth by more than 20 percent as compared to the previous year end coupled with an increase in leverage.
- (x) A fall in the debt service coverage ratio to below 1.

Banks and FLCs, in limited circumstances with proper justification may not treat the aforementioned events as significant increases in credit risk subject to the specific approval of the Chief Risk Officer (CRO). Further, at the time of submission of draft audited financial statements under circular BM 980, banks and FLCs should provide details of accounts (including the justification of CRO) where any one or more of the aforementioned events has occurred but the bank/FLC has not recognised full lifetime expected credit losses.

(e) *Low credit risk exemption:* As a practical expedient, IFRS 9 permits the measurement of expected credit losses using 12 month ECL where the credit risk of the financial instrument is low at reporting date. Banks and FLCs are advised to be prudent in their use of this exemption. Cases where this exemption has been used for borrowers with exposures of RO 500,000 and more should be submitted to the Central Bank along with the audited financial statements under Circular BM 980.

(f) *Upgradation of accounts:* Banks and FLCs should have a Board approved policy for upgradation of accounts. Mere reduction in probability of default shown by the model should not be the only criteria for upgrading an account. It should be corroborated by other factors that evidence satisfactory performance of the account including the repayment in full of all overdue amounts in the account.

13. IFRS 9 provides for a rebuttable presumption that the credit risk has increased significantly when contractual

payments are more than 30 days past due. The Central Bank encourages banks and FLCs to educate their customers on the need to make payments in a timely manner and not resort to using the flexibility provided by IFRS 9 in a routine manner. However, in limited circumstances, where banks and FLCs do rebut the presumption for corporate customers having limits of RO 500,000 or more, it should be done only with the specific approval of the CRO with clear documentation of the justification for doing so. A list of such cases should be maintained and submitted to the Central Bank along with the audited financial statements under Circular BM 980. Banks and FLCs should not defer the recognition of a significant deterioration in credit risk for any exposure that is overdue beyond 60 days.

14. Banks and FLCs are advised to desist from structuring loans and advances in a manner to delay or avoid the recognition of lifetime credit losses. Similarly, banks and FLCs are advised to exercise caution while derecognising stressed (i.e. where lifetime expected credit losses are required) financial asset subject to restructuring/ reschedulement and subsequently recognising the restructured financial asset in a manner to reduce the impairment required under IFRS 9. Cases, where the restructuring has been carried out merely to reduce the provisioning requirements of IFRS 9 without any significant decrease in the credit risk, would invite strong supervisory action and may result in imposition of additional capital requirements under Pillar II as well as other appropriate penal measures.

Disclosures

15. Banks and FLCs should endeavour to

comply with the disclosure requirements as laid down in IFRS 9 read with IFRS 7: *Financial Instruments: Disclosures* and IFRS 13: *Fair Value Measurement* in both letter and spirit, especially in regard to the classification of financial assets, fair value hierarchy and impairment allowances.

16. Banks and FLCs should continue to maintain and update the risk classification (i.e. standard, special mention, substandard, etc.) of accounts as per the extant CBO norms, including those on restructuring of loan accounts for regulatory reporting purposes. Banks should disclose the risk classification-wise gross and net amount outstanding, provision required as per CBO norms, allowance made as per IFRS 9, interest recognised as per IFRS 9 and reserve interest required as per CBO. Details of provisions required and held for restructured accounts should be disclosed separately. An illustrative template laying down the minimum disclosure requirements is given in Annex 1.

Reporting Requirements

17. As hitherto, a quarterly update on the progress of implementation should be submitted to the Central Bank along with the BOSS Returns. The previous requirement that this update be approved by the Board is dispensed with. However, the Boards and Senior Management should continue to proactively monitor the progress of the implementation. Further, as previously advised, banks and FLCs should submit proforma financial statements (without comparatives for previous year) and parallel BOSS Returns based on IFRS 9 from the quarter ending September 30, 2016 onwards in addition to the regular BOSS Returns. In case any FLC is unable to comply with this timeline,

it should at a minimum submit an impact assessment to CBO for the quarter ending September 30, 2016.

18. Banks and FLCs should submit proforma financial statements for the year ending December 31, 2017 (without comparatives

for the previous year) based on IFRS 9, while submitting their draft audited financial statements for approval. These proforma financial statements should be subjected to limited review by the auditors.

Best regards,

Hamood Sangour Al-Zadjali
The Executive President

26th April 2017

CIRCULAR BM 1150

**To: All Licensed Banks
Operating in the Sultanate of Oman**

After Compliments,

Sub: Small and Medium Enterprises (SMEs)

1. Reference is invited to Circular BM 1141 dated 12th January 2016.
2. In order to encourage banks to provide non-fund based credit too to SME segment and, at the same time, to avoid possible lack of focus, on funded credit, it has been decided to allow banks to reckon non-funded credit, up to maximum of 1% of total credit, for the purpose of monthly/quarterly reporting in respect of 5% target set.
3. Attached is revised format of Monthly Return (Annexure I) to be submitted – effective for the period starting with June 2017.

Quarterly Return, as per Annexure II of Circular BM 1108 dated 6th May 2013, remains unchanged (copy attached for ease of reference).
4. As stated in para 5 of circular letter BDD/CBS/CB/2017/435 dated 2nd February 2017, it is to be noted that non-fund based credit can

be no substitute for banks' direct involvement and contributions required/ desired. Banks should also be diligent in classification and record keeping of SME credit appropriately with no scope for dilution or mix up with personal, other non-SME business loans and the like.

5. All licensed banks shall, accordingly, be fully committed to efforts on much needed SME development – noting that inclusion, as above, of non-fund based credit may be reviewed from time to time and withdrawn if deemed warranted.

Best regards,

Hamood Sangour Al Zadjali
The Executive President



Statistical Appendix

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Table 1
Domestic and National Savings
(Rial Omani Million)

Items	2011	2012	2013	2014	2015	2016*
1- GDP at Market Prices	26,152.5	29,458.8	30,292.6	31,173.9	26,494.0	25,694.0
2- Total Final Consumption	12,725.0	14,426.6	15,486.7	17,337.4	17,413.7	17,397.2
3- Domestic Savings (1-2)	13,427.5	15,032.3	14,805.9	13,836.5	9,080.3	8,296.8
4- Net Factor Income (transfer)	-4,439.4	-4,909.6	-4,815.3	-5,685.5	-5,095.8	-4,783.5
5- National Savings (3-4)	8,988.0	10,122.7	9,990.6	8,151.0	3,984.4	3,513.3
6- Percent Of Domestic Savings to GDP (3/1)	51.3	51.0	48.9	44.4	34.3	32.3
7- Percent of National Savings to GDP (5/1)	34.4	34.4	33.0	26.1	15.0	13.7

* Provisional
Source : National Center for Statistics and Information

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

Items	2011	2012	2013	2014	2015	2016*
1. Final Consumption Expenditure	12,725.0	14,426.6	15,486.7	17337.4	17413.7	17397.2
Households	7,989.4	8,628.6	8,922.0	9600	9926.4	9894.4
Government	4,713.5	5,762.1	6,534.7	7704.4	7456.6	7476.6
Non Profit Institutions	22.0	35.9	30.1	33.0	30.7	26.2
2. Gross Capital Formation #	6,068.5	6,396.0	7,403.4	7522.9	7563.6	7504.2
Building and Construction	3,680.0	4,449.9	4,591.4	4850.3	5265.3	5560.2
Machinery and Equipment	1,626.3	1,012.6	1,782.3	1699.8	1240.9	915.8
Intangible Fixed Assets	762.1	933.5	1,029.7	972.8	1057.4	1028.3
Change in Inventories	-445.8	781.4	653.2	-796.5	948.1	824.8
3. Net Exports of Goods & Services	7,804.7	7,854.8	6,749.3	7110.1	568.6	-32.2
GDP at Market Prices	26,152.5	29,458.8	30292.6	31173.9	26494.0	25694.0

* Provisional

It does not include change in inventories.

Source: National Center for Statistics and Information

Table 3
Structure of Interest Rates on Conventional Banks Deposits
December 2017
(Rial Omani Thousands)

Rates of Interest (Per Annum)	Total Rial Omani Deposits			Total Foreign Currency Deposits			Total Deposits		
	No of A/Cs	%	Amount	No of A/Cs	%	Amount	No of A/Cs	%	Amount
Nil Interest	3,373,227	93.0	6,977,822	42.2	18,711	78.8	793,673	38.6	3,391,938
Over 0% To 2%	237,245	6.5	3,014,063	18.2	4,922	20.7	873,641	42.5	242,167
Over 2% To 3%	4,136	0.1	1,129,045	6.8	85	0.4	178,132	8.7	4,221
Over 3% To 4%	2,494	0.1	3,126,996	18.9	32	0.1	205,668	10.0	2,526
Over 4% To 5%	8,319	0.2	1,837,098	11.1	9	0.0	6,659	0.3	8,328
Over 5% To 6%	161	0.0	448,919	2.7	1	0.0	8	0.0	162
Over 6% To 7%	6	0.0	9,521	0.1	0	0.0	0	0.0	6
Over 7% To 8%	15	0.0	417	0.0	0	0.0	0	0.0	15
Over 8% To 9%	0	0.0	0	0.0	0	0.0	0	0.0	0
Over 9% To 10%	0	0.0	0	0.0	0	0.0	0	0.0	0
Over 10% To 11%	0	0.0	0	0.0	0	0.0	0	0.0	0
Over 11% To 12%	0	0.0	0	0.0	0	0.0	0	0.0	0
Over 12%	0	0.0	0	0.0	0	0.0	0	0.0	0
Total	3,625,603	100	16,543,881	100	23,760	100.00	2,057,781	100	3,649,363
Weighted Average Rate of Interest (%)			1,667				1,055		1,594

Source: Central Bank of Oman.

Table 4
Structure of Private Sector Time Deposits by Rate of Interest and Maturity
December 2017
(Rial Omani Thousands)

Rates of Interest (Per Annum)	7 Days to Less than 6 Months			6 Months to Less than 1 Year			1 Year and Above			Total	
	Rial Omani	Foreign Currency	Total	Rial Omani	Foreign Currency	Total	Rial Omani	Foreign Currency	Total	Rial Omani	Foreign Currency
NIL INTEREST	2	2	4	15	15	30	2,004	144	2,148	2,021	161
OVER 0% TO 2%	65,364	116,551	181,915	38,347	54,960	93,307	279,871	94,008	373,879	383,582	265,519
OVER 2% TO 3%	33,522	1,394	34,916	38,198	31	38,229	333,989	72,408	406,397	405,709	73,833
OVER 3% TO 4%	26,653	625	27,278	405,122	2,953	408,075	1,353,897	3,663	1,357,560	1,785,672	7,241
OVER 4% TO 5%	4,142	6,656	10,798	34,268	0	34,268	717,714	0	717,714	756,124	6,656
OVER 5% TO 6%	0	0	0	0	0	0	383,347	8	383,355	383,347	8
OVER 6% TO 7%	0	0	0	0	0	0	9,521	0	9,521	9,521	0
OVER 7% TO 8%	0	0	0	0	0	0	8	0	8	8	0
OVER 8% TO 9%	0	0	0	0	0	0	0	0	0	0	0
OVER 9% TO 10%	0	0	0	0	0	0	0	0	0	0	0
OVER 10% TO 11%	0	0	0	0	0	0	0	0	0	0	0
OVER 11% TO 12%	0	0	0	0	0	0	0	0	0	0	0
OVER 12%	0	0	0	0	0	0	0	0	0	0	0
Total	129,683	125,228	254,911	515,950	57,959	573,909	3,080,351	170,231	3,250,582	3,725,984	353,418
Weighted Average Rate of Interest (%)	2.013	1.215	1.621	3.306	1.128	3.086	3.653	1.691	3.551	3.548	1.430

Source: Central Bank of Oman.

Table 5
Structure of Interest Rates on Conventional Banks Credit
December 2017
(Rial Omani Thousands)

Rates of Interest (Per Annum)	Total R.O. Lending			Total Foreign Currency Lending			Total Lending (R.O. + Fcy.)		
	No of A/Cs	%	Amount	No of A/Cs	%	Amount	No of A/Cs	%	No of A/Cs
NIL INTEREST	4,839	0.6	52,718	0.3	139	0.3	15,499	0.5	4,978
OVER 0% TO 2%	1,313	0.2	619,836	3.6	305	0.7	41,194	1.3	1,618
OVER 2% TO 4%	31,563	3.8	2,921,545	16.8	1,254	2.7	1,295,743	41.7	32,817
OVER 4% TO 5%	95,791	11.5	4,185,106	24.1	876	1.9	1,196,507	38.5	96,667
OVER 5% TO 7%	360,962	43.5	7,799,371	44.8	404	0.9	490,306	15.8	361,366
OVER 7% TO 8%	151,383	18.2	1,328,426	7.6	43,659	93.4	65,525	2.1	195,042
OVER 8% TO 9%	13,854	1.7	172,012	1.0	18	0.0	5,016	0.2	13,872
OVER 9% TO 10%	2,058	0.2	51,386	0.3	0	0.0	0	0.0	2,058
OVER 10% TO 11%	10,477	1.3	63,959	0.4	23	0.0	45	0.0	10,500
OVER 11% TO 12%	4,249	0.5	98,241	0.6	1	0.0	211	0.0	4,250
OVER 12% TO 13%	1,000	0.1	8,123	0.0	0	0.0	0	0.0	1,000
OVER 13% TO 14%	472	0.1	4,499	0.0	0	0.0	0	0.0	472
OVER 14% TO 15%	755	0.1	5,778	0.0	4	0.0	793	0.0	759
OVER 15% TO 16%	1,606	0.2	432	0.0	3	0.0	1	0.0	1,609
OVER 16% TO 17%	0	0.0	0	0.0	0	0.0	0	0.0	0
OVER 17% TO 18%	142,706	17.2	88,611	0.5	43	0.1	74	0.0	142,749
OVER 18% TO 20%	7,281	0.9	575	0.0	0	0.0	0	0.0	7,281
OVER 20%	0	0.0	0	0.0	0	0.0	0	0.0	0
Total	830,309	100	17,400,618	100	46,729	100	3,110,914	100	877,038
Weighted Average Rate of Interest (%)	5.203			4.116			100		
							20,511,532	100	5,038

Source: Central Bank of Oman.

Table 6
Structure of Private Sector Credit by Rate of Interest and Maturity
December 2017
(Rial Omani Thousands)

Rates of Interest	Overdraft			Credit Cards			Bills, Loans and Advances						Total	
							Less than 1 Year			1 Year and above				
	Rial Omani	Foreign Currency	Total	Rial Omani	Foreign Currency	Total	Rial Omani	Foreign Currency	Total	Rial Omani	Foreign Currency	Total	Rial Omani	Foreign Currency
(Per Annum)														
NIL INTEREST	32,021	8	32,029	0	0	0	3,432	12,390	15,822	17,263	3,065	20,328	52,716	15,463
OVER 0% TO 2%	103,704	4,666	108,370	0	0	0	319,551	22,716	342,267	30,400	9,072	39,472	453,655	36,454
OVER 2% TO 4%	48,043	263	48,306	909	0	909	1,150,331	288,058	1,418,389	1,169,314	498,337	1,667,651	2,368,597	766,658
OVER 4% TO 5%	148,800	88	148,888	0	0	0	507,217	72,851	580,068	3,343,593	643,204	3,986,797	3,999,610	716,143
OVER 5% TO 7%	402,847	6,380	409,227	2,301	0	2,301	753,050	41,663	794,713	6,617,736	420,100	7,037,836	7,775,934	468,143
OVER 7% TO 8%	132,236	0	132,236	0	0	0	99,104	373	99,477	1,096,332	31,215	1,127,547	1,327,672	31,588
OVER 8% TO 9%	17,889	505	18,394	0	0	0	37,473	4,498	41,971	116,651	13	116,664	172,013	5,016
OVER 9% TO 10%	5,094	0	5,094	0	0	0	13,659	0	13,659	32,634	0	32,634	51,387	0
OVER 10% TO 11%	53,416	33	53,449	0	0	0	4,035	0	4,035	6,508	0	6,508	63,959	33
OVER 11% TO 12%	38,368	211	38,579	564	0	564	586	0	586	26,092	0	26,092	65,610	211
OVER 12% TO 13%	2,305	0	2,305	856	0	856	1,960	0	1,960	3,001	0	3,001	8,122	0
OVER 13% TO 14%	2,900	0	2,900	555	0	555	74	0	74	970	0	970	4,499	0
OVER 14% TO 15%	5,198	793	5,991	77	0	77	503	0	503	0	0	0	5,778	793
OVER 15% TO 16%	431	1	432	0	0	0	1	0	1	0	0	0	432	1
OVER 16% TO 17%	0	0	0	0	0	0	0	0	0	0	0	0	0	0
OVER 17% TO 18%	0	0	0	87,828	74	87,902	783	0	783	0	0	0	88,611	74
OVER 18% TO 20%	0	0	0	575	0	575	0	0	0	0	0	0	575	0
OVER 20%	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	993,252	12,948	1,006,200	93,665	74	93,739	2,891,759	422,549	3,314,308	12,460,494	1,605,006	14,065,500	16,439,170	2,040,577
Weighted Average Rate of Interest (%)	5.717	4.843	5.706	16.978	17.500	16.978	4.101	3.421	4.014	5.476	4.457	5.360	5.314	4.245

Source: Central Bank of Oman.

Table 7
Licensed Banks in the Sultanate of Oman
 (As at 31 December 2017)

Name of the Banks	Date Of Establishment	Authorised Offices	Operating Offices
Local Banks			
1. National Bank of Oman	1973	63	61
2. Oman Arab Bank	1973	59	59
3. HSBC Bank Oman	1975	71	47
4. Bank Muscat	1981	140	134
5. Bank Dhofar	1990	59	59
6. Bank Sohar	2007	30	29
7. Al Ahli Bank	1997	14	13
Foreign Banks			
1. Standard Chartered Bank	1968	2	1
2. Habib Bank Ltd.	1972	8	6
3. Bank Melli Iran	1974	1	1
4. First Abu Dhabi Bank	1976	9	7
5. Bank Saderat Iran	1976	2	2
6. Bank of Baroda	1976	5	4
7. State Bank of India	2004	1	1
8. Bank of Beirut	2006	6	6
9. Qatar National Bank	2007	6	6
Specialised Banks			
1. Oman Housing Bank	1977	5	5
2. Oman Development Bank	1977	18	18
Islamic Banks & windows			
1. Bank Nizwa	2012	12	12
2. Al Izz Islamic Bank	2013	10	10
3. BM-Meethaq	2013	19	19
4. NBO - Muzn	2013	6	6
5. BD - Misara	2013	10	10
6. OAB - Al yusr	2013	7	7
7. AHB - Al hilal	2013	7	7
8. BS - Sohar Islamic	2013	5	5
Total		573	535

Source: Central Bank of Oman.

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

	December 2017	December 2016
Assets		
Cash and Bank balances	8,076	8,563
Mortgage loan accounts	476,163	420,765
Due from Government	10,675	10,675
Property and equipment	4,874	4,883
Other assets	2,378	1,950
Total assets	502,166	446,836
Liabilities and Equity		
Liabilities		
Due to Banks	32,004	22,297
Customers' deposits	51,589	25,369
Loans from the Government	103,830	103,830
Loan from Arab Fund for Economic & Social Development	50,831	42,751
Other liabilities	13,277	11,085
Total Liabilities	251,531	205,332
Equity		
Share capital	100,000	100,000
Legal reserve	21,323	20,006
Special reserve	58,006	55,635
Revaluation reserve	2,319	2,319
Retained earnings	68,987	63,544
Total equity	250,635	241,504
Total liabilities and equity	502,166	446,836
Mortgage Loan Commitments	37,646	42,441

Source: Oman Housing Bank SAOC.

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

	December 2017	December 2016
Assets		
Cash and balances with Central Bank of Oman	1,077	398
Balances due from other banks	33,390	19,519
Loans and advances to costumers	125,358	113,815
Investments	19,086	25,220
Staff housing loans	1,294	1,160
Receivable from Government	1,921	7,435
Property and equipment	1,196	1,261
Prepayments and other receivables	1,629	1,433
Total assets	184,950	170,241
Liabilities and Shareholders' Equity		
Liabilities		
Customer Deposits(Izdihar)	539	589
Payable to Government	139	76
Payable and accruals	5,872	4,729
Borrowings	19,346	-
Total liabilities	25,896	5,393
Shareholders' Equity		
Share capital	100,000	100,000
Legal reserve	6,989	6,867
Special reserve	5,541	5,541
Investment revaluation reserve	955	1,049
Retained earnings	45,570	51,391
Total shareholdres' Equity	159,055	164,848
Total liabilities and shareholders' Equity	184,950	170,241
Net assets value per share	1.591	1.648
Commitments and contingencies	26,192	22,869

Source: Oman Development Bank SAOC.

Table 10
Combined Balance Sheet of Exchange Houses Licensed to Issue Drafts
As at December 31, 2017
(Rial Omani Thousands)

	Rial Omani	Foreign Currency	Total
Assets			
1- Cash & Precious Metals on Hand	10,015	19,194	29,209
2- Capital Deposits with CBO	1,940	0	1,940
3- Balance due from Banks, Branches & Money Changers	17,128	26,016	43,144
4- Investments	500	0	500
5- Fixed Assets	6,981	0	6,981
6- Other Assets	4,102	0	4,102
Total Assets	40,666	45,210	85,876
Liabilities			
1- Capital, Reserves & Retained Earnings	63,828	0	63,828
2- Borrowing from Banks	0	0	0
3- Balances due to Banks, Branches & Money Changers	4,538	11,109	15,647
4- Drafts & Cheques Issued & Outstanding	0	0	0
5- Other Liabilities	6,157	244	6,401
Total Liabilities	74,523	11,353	85,876

Source: Central Bank of Oman.

