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GRAY/21/2300

August 23, 2021

**Statement by Mr. Sigurgeirsson and Mr. Vaikla on Oman  
(Preliminary)  
Executive Board Meeting  
August 25, 2021**

We thank staff for their informative report and Mr. Mohieldin, Mr. Alhosani, and Mr. Al-Kohlany for their useful Buff statement. The COVID-19 pandemic and decline in oil prices has impacted Oman's fiscal and current account balance, and economic activity. However, rising oil prices and the authorities' decisive policy response has mitigated the effect on the economy. The authorities' main focus should be on maintaining fiscal sustainability, reduce its dependence on oil, and implement structural reforms for more sustainable growth going forward. **We agree with the thrust of the staff appraisal but would like to make the following points for emphasis.**

**We note that public debt sustainability risks increased significantly in 2020.** While the authorities have sizable financial buffers, public debt sustainability remains vulnerable to oil markets developments and shocks to GDP growth. We also note that external debt increased from about 64 to 114.7 percent of GDP during 2016-2020, which remains subject to exchange rate and current account shocks. We therefore share staff's assessment that steadfast implementation of the MTFP will be essential to put debt on a firm downward trajectory and rebuild fiscal buffers, and we also welcome the authorities' policies to raise non-hydrocarbon revenue and contain expenditures. We note that the external position in 2020 was substantially weaker than the level implied by fundamentals and desirable policies, which also underscores the importance of the MTFP to support the peg. The key challenge for the authorities will be to find a balance between tackling fiscal and external vulnerabilities while limiting the impact of adjustment on the economy through social support measures. The authorities should build on the success of introducing the VAT and should also seek to diversify the revenue base by increasing non-hydrocarbon tax revenues.

Given that wages and benefits account for a relatively large amount in spending, we encourage the authorities to keep the wage bill from rising as a share of GDP.

**The banking sector seems robust but monitoring risks will be important going-forward.**

While the banks have ample capital and liquidity buffers, the loan deferral program will likely have masked some financial vulnerabilities. We therefore encourage the authorities to closely monitor any emerging pressures on asset quality and any potential build up in financial sector risks. We share staff's view that limits on banks' credit exposures to nonresidents can be replaced with non-discriminatory prudential measures that address underlying risks without limiting capital flows and affecting domestic systemic risk. We welcome the approval of the National AML/CFT Strategy for 2020-2022 and undergoing an AML/CFT mutual evaluation in 2021.

**We strongly welcome planned structural reforms under Oman Vision 2040 to improve the business environment and enhance labor market flexibility.**

We welcome measures aimed towards raising competitiveness and fostering the creation of private sector jobs. These efforts must be coupled with enhancing the competitiveness of job seekers through improving education and training to address low productivity concerns. Furthermore, greater mobility of workers could reduce the wage differential between expatriates and nationals and facilitate more efficient human resource reallocation. Given that Oman has one of the lowest gaps in access to finance for households in the GCC region, we welcome efforts to promote Fintech and encourage further measures to improve access to credit. Finally, we commend plans to increase female labor force participation and the ongoing efforts to strengthen the social safety net which are necessary to facilitate labor market flexibility.