CENTRAL BANK OF OMAN

ANNUAL REPORT 2014

Central Bank of Oman

Annual Report

2014

June 2015

H.M. Qaboos bin Said, Sultan of Oman

CENTRAL BANK OF OMAN

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FOREWORD

It is a great pleasure and privilege for the Central Bank of Oman to present its Annual Report for 2014 to His Majesty, Sultan Qaboos bin Said, the Sultan of Oman.

The Sultanate's nominal GDP grew by 4.6 percent during 2014. Inflation in Oman continued to be very low since 2013. Annual inflation rate measured by movement in the average CPI for the Sultanate stood at 1.0 percent in 2014 as compared to 1.1 percent in 2013 The Sultanate's crude oil production during 2014 increased by 0.2 percent to 344.4 million barrels from 343.8 million barrels during the same period in 2013. The Omani crude oil prices averaged US$ 103.2 per barrel during 2014 as compared to US$ 105.5 per barrel during 2013. The fiscal deficit during 2014 was about RO one billion as against a deficit of RO 82.6 million in 2013. Despite lower oil prices in the second of 2014, the balance of payments position of the Sultanate of Oman continued to be comfortable during 2014.

The evolution of monetary aggregates in Oman during 2014 has been consistent with the policy stance of CBO aimed at ensuring adequate liquidity in the system, maintaining orderly conditions in the markets and supporting faster growth. Broad money supply M2 registered an annual increase of 15.3 percent, while total credit expanded by 15 percent during 2014. Reflecting comfortable liquidity condition, domestic interest rates softened considerably.

The Omani banking sector has been growing at a sustained pace in recent years. The financial health of banks in terms of assets quality, provision coverage, capital adequacy and profitability remained strong. The balance sheet of commercial banks further strengthened due to the robust growth in both deposits and credits. In its capacity as the country's monetary agency, as well as the regulator and supervisor of its financial institutions, the Central Bank of Oman (CBO) has been in the forefront in promoting the financial sector as envisaged in Vision 2020. The CBO has put in place appropriate prudential and regulatory framework, instilling confidence in the banking sector and promoting economic growth and development in the economy. A notable development in the banking sector in the recent period was the introduction of Islamic Banking in Oman in 2012, which would diversify banking services and promote financial inclusion. Several steps are being taken to promote SMEs for diversification and growth of the economy and the potential for increased job opportunities.

The Central Bank of Oman acknowledges with utmost appreciation the cooperation and support it has been receiving on a sustained basis from the Government, commercial banks and other institutions in Oman. It takes this opportunity to place on record its deep appreciation for the management and the staff of the Bank for their continued commitment to work and excellent contribution to the smooth and efficient functioning of the CBO.

Dr. Ali Mohammed Moosa
Deputy Chairman, CBO Board of Governors

Overview and Outlook

OVERVIEW AND OUTLOOK

International Developments

The global economy registered a modest growth in 2014 as was the case in 2013. Unlike 2013, however, the advanced economies showed signs of growth momentum while the emerging and developing economies slowed down. Despite an overall higher pace of economic growth among the advanced economies, there were divergences among them as indicated by the IMF World Economic Outlook released in April 2015. While the US economic recovery was faster than anticipated, other advanced economies such as Japan and the euro area pointed to weak recoveries. Underpinning the global economic performance in 2014 was the weakening in commodity prices with adverse impact on commodity-exporting economies and increase in geopolitical tensions, primarily in some Middle Eastern countries and the Common Wealth of Independent States (CIS) countries.

The global economy grew at 3.4 percent in 2014 with similar growth rate registered in 2013, according to the IMF. The advanced economies grew by 1.8 and 1.4 percent between the two respective periods while the emerging market and developing economies slowed down to 4.6 percent growth in 2014 after growing by 5.0 percent in the previous year. Low inflationary pressure when measured in terms of Consumer Price Index continued among the advanced economies as it registered 1.4 percent in 2013 as well as in 2014. As for the emerging market and developing economies, inflationary pressure abated to 5.1 percent in 2014 from 5.9 percent in in the previous year.

In 2014, the Gulf Cooperation Council (GCC) economies were faced with falling crude oil prices that started in the second half of the year. The effect was an overall slowing down of the member states economies during the year registering a 3.6 percent combined growth compared to a growth of 4.1 percent in 2013. Inflationary pressure among the member states remained low at an average of 2.6 percent in 2014 primarily in view of their currencies appreciation in tandem to the US dollar that in turn lowered imported inflation.

Similar challenges that confronted global trade in 2013 were also present in 2014 as the euro area and the Japanese economies grew at modest rates. More importantly, the slowing down in Chinese growth momentum had impact on global trade and especially with respect to commodities. Accordingly, following a 3.5 percent growth in 2013, the world trade volume grew at a slightly lower pace of 3.4 percent in 2014.

Despite the continued winding down of monetary stimulus by the Federal Reserve in the United States, the US economy grew at 2.4 percent in 2014; a higher rate than anticipated. Given the consumption dominated US economy, steady job creation and rising in income levels have both contributed to improved performance of the economy in 2014. These factors were further strengthened by lower oil prices as well as rising consumer confidence, according to the IMF.

Domestic Macroeconomic Developments

Economic Growth

Despite lower oil prices in the second half of 2014, the macroeconomic situation in the Sultanate remained favorable. The major drivers of growth were higher sustained domestic demand, mainly supported by large public expenditure and accommodative monetary policy pursued by the Central Bank of Oman. Following a negative growth in 2009 due to fall out from the global financial crisis, the average growth rate of Gross Domestic Product (GDP) at current prices between 2010 and 2012 was around 16.5 percent. In 2013, the GDP at current prices grew at a modest pace of 2.4 percent primarily due to weaker crude oil prices in the global market and in 2014, as the economic momentum picked up slightly the nominal GDP grew by 4.6 percent. While the petroleum sector nominal GDP declined by 2.4 percent the non-hydrocarbon nominal GDP grew by 10.1 percent during 2014. As a result, the share of petroleum activities in the overall GDP at current market prices declined to 47.2 percent in 2014 from 50.6 percent in 2013. Within the non-petroleum industrial activities, manufacturing sector recorded a modest growth of 0.4 percent in 2014, while 'electricity and water supply' and 'building and construction' grew by 8.6 percent and 8.3 percent, respectively. The services sector grew by 13.1 percent in 2014 as compared to 9.2 percent in the previous year. The share of services sector in GDP increased to 40.7 percent in 2014 from 37.7 percent in 2013.

Employment

The Government has been taking several initiatives to create employment in public and private sector including aligning some of the benefits between the two sectors so as to make private sector jobs more attractive to nationals. Employment opportunities created in the public sector during the five year period 2009 to 2013 increased by an average rate of 6.6 percent. During 2013, the employment in the public sector increased by 8.6 percent as compared to 5.4 percent in the previous year. During the five year period 2010 to 2014, average employment growth in the private sector was 12.7 percent. However, during 2014 the growth in employment in the private sector slowed down to 3.4 percent as compared to 14.8 percent in the previous year. The decline in employment within the private sector was mainly due to sharp fall in the growth rate of employment of expatriates in this sector, from 16.0 percent in 2013 to 2.8 percent in 2014. On the other hand, the growth in employment of Omanis in the private sector stood at 8.6 percent during 2014 as compared to 5.7 percent in the previous year, pointing to the potential of the private sector to employ more nationals.

Prices

While the growth momentum has been sustained, inflation was also fairly contained in the Sultanate with the average inflation based on CPI for the Sultanate being lower at 3.4 percent during the three year period 2010 to 2012. The year 2013 continued to witness low inflation with the average inflation registering an increase of only 1.1 percent. In 2014, the average inflation based on CPI for the Sultanate stood slightly lower at 1.0 percent. The CBO and the Government have been keeping a close watch on the price situation. There have been efforts towards increasing market awareness of consumers, proper monitoring of supply situations and diversifying imports. The recent moderate rise in prices in Oman owed to both demand and supply side factors originating from the domestic as well as external sources. Lower international food and metal prices helped in keeping the inflation low as bulk of food items were imported. Though the overall inflation remained low, the contribution of the three groups 'Foods & non-alcoholic beverages', 'Housing, water, electricity, gas and other fuels' and 'furnishing, household equipment and routing housing maintenance' to overall inflation were high during 2014. Together, these three commodities have contributed 88.3 percent of increase in inflation during 2014 as compared to 80.5 percent in 2013, indicating the extent of their significance in affecting domestic prices.

Oil and Gas

The Omani crude oil fetched an average price of US$ 98.7 per barrel between 2010 and 2013. During the same period, oil production in the Sultanate increased by an average of 3.8 percent, while oil exports increased by an average rate of 5.9 percent. The Omani crude oil prices averaged US$ 103.2 per barrel during 2014 as compared to US$ 105.5 per barrel during 2013. The Sultanate's crude oil production registered a modest year-on-year increase of 0.2 percent to 344.4 million barrels in 2014. The daily average production of crude oil increased to 943.5 thousand barrels during 2014 from 941.9 thousand barrels during 2013. The aggregate production of natural gas declined by 3.9 percent to 97.8 million cubic meters in 2014 compared to 101.8 million cubic meters in 2013. Oil and gas revenues as a percentage of GDP stood at 37.8 percent in 2014 and accounted for 84.3 percent of total government revenues and 65.5 percent of total merchandise exports during 2014.

Government Finance

The fiscal deficit during 2014 was RO 1,064.3 million as against a deficit of RO 82.6 million in 2013. The budgeted fiscal deficit in the State General Budget for 2014 was RO 1,800 million. Total government revenue registered a net increase of 1.4 percent, with revenues from oil declining by 2.2 percent while revenues from natural gas increased by about 13 percent and other current revenues by 2.7 percent. Total government expenditure during 2014 increased by 8.4 percent to RO 15,171.8 million. At component levels current expenditure increased by 8.9 percent to RO 9,606.2 million, investment expenditure by about 15 percent to RO 3,584.2 million while expenditure on participation and other expenses declined by 3.3 percent to RO1, 981.4 million.

Monetary Conditions

The evolution of monetary aggregates in Oman during 2014 has been consistent with the policy stance of CBO aimed at ensuring adequate liquidity in the system, maintaining orderly conditions in the markets and supporting faster growth. Reflecting sustained growth of the Omani economy, broad money supply (M2) increased by 15.3 percent in 2014 compared to 9.4 percent in the previous year. Similarly, the expansion of total bank credit of conventional and Islamic banks together was higher at 15.0 percent in 2014 compared to 9.0 percent in 2013. Aggregate deposits held with the banks also registered a higher growth of 14.0 percent in 2014 as compared to 11.2 percent in 2013. Liquidity condition continued to remain comfortable throughout 2013 and 2014, as evident from the large roll over of CBO CDs in the weekly auctions. Given comfortable liquidity condition, domestic interest rates softened considerably. Average Rial Omani deposit rate declined from 1.17 percent in December 2013 to 0.99 percent in December 2014 while Rial Omani lending rate moved downward from 5.41 percent to 5.08 percent during the same period. The CBO's policy rate for injection of liquidity i.e., repo rate remained unchanged at 1 percent since March 2012. The CBO's policy interest rate for absorption of surplus liquidity in the form of CD's with 28 days maturity was 0.13 percent in December 2014. Interest rates in Oman have been deregulated since 1993 and moved with market forces except for the personal loan segment for which an interest rate ceiling applies. Currently the ceiling stands at 6.0 percent per annum for all loans extended from October 2, 2013.

Financial System

As at the end of 2014, Oman's banking sector comprised 16 conventional commercial banks of which 7 were locally incorporated and 9 were branches of foreign banks, 2 specialized banks and 2 full-fledged Islamic banks together with 6 local commercial banks operating separate Islamic windows for banking operations. The CBO has played an important role in maintaining financial stability over the years by pursuing appropriate monetary policies, developing financial markets and providing an environment aimed at ensuring exchange rate stability. The CBO has also put in place appropriate prudential and regulatory framework, instilling confidence in the banking sector and promoting economic growth and development in the economy. Furthermore, the CBO has been proactively fine tuning prudential and supervisory norms through development of sound risk management systems, enhancing transparency and complying with international standards and best practices in order to strengthen the banking system in the Sultanate. Towards this objective, the CBO had initiated a number of regulatory and supervisory measures in the recent period.

The CBO is well ahead in the implementation of Basel III framework. The final guidelines on Basel III were issued in November 2013. Again, the risk-based supervision framework for on-site examinations has been fully implemented since 2012. In order to strengthen the risk assessment procedures, CBO had issued guidelines to banks for the implementation of the Internal Capital Adequacy Process (ICAAP) which has been operationalized by all banks in Oman from December 31, 2012. Prompt Corrective Actions with revised trigger points like changes in capital adequacy requirement of banks is being emphasized further. Additionally, several steps are being taken to promote SMEs for diversification and growth of the economy and the potential for increased job opportunities. The CBO advised banks to formulate a liberal lending policy for the SME segment and mandated that they should allocate at least 5 percent of their total credit to SMEs and this target is to be achieved latest by December 2015. The prudential requirements for banks to lend to SMEs have also been relaxed in terms of general provisioning requirements and risk weightage.

Despite increase in the size of the balance sheets, the gross non-performing loans (NPLs) continued to remain low. The gross NPLs as percentage of total credit and net of reserve interest stood at 2.1 percent with similar ratio prevailing in December 2013. The capital adequacy ratio stood at 15.4 percent of risk-weighted assets in December 2014. Consistent with the accommodative monetary policy, the liquidity situation remained robust in the banking system during 2014.

Balance of Payments

The balance of payments position for the Sultanate of Oman remained comfortable during 2014. Total merchandise exports amounted to RO 20.5 billion during 2014, representing a decline of 5.7 percent from 2013. Merchandise imports (f.o.b) fell by 13.0 percent from 2013 to RO 10.7 billion during the year under review. The bulk of imports included mineral products, electrical machinery and mechanical equipment and transport equipment. The merchandise trade surplus increased to RO 9.7 billion during 2014 from RO 9.4 billion in the previous year. The services, income and current transfers continued to be in a deficit mode, given the nature of the Omani economy. The combined deficit on these three accounts rose to RO 8.2 billion during 2014 from RO 7.4 billion during 2013. The net effect was a surplus current account at about RO 1.6 billion in 2014 compared to a higher surplus of RO 2.0 billion registered in the previous year.

On the capital and financial account front, there were net outflows of RO 788 million. Under financial account, foreign direct investment registered an outflow of RO 357 million, portfolio investment with an outflow of RO 152 million, and other investments also registering an outflow of RO 228 million during the year. The overall balance of payments position (after errors and omissions) indicated a surplus of RO 429 million during 2014 leading to a rise in foreign exchange reserves of Oman by the same amount. The CBO's foreign exchange reserves increased by RO 233 million while government reserves increased by RO 196 million. Reflecting the country's overall balance of payments position, the foreign assets of the CBO as at the end of 2014 increased by 2.3 percent to RO 6,276.9 million compared to RO 6,133.3 million at the end of December 2013.

Outlook

Global Economy

The global economy is expected to grow at modest rate in 2015 albeit at a slightly higher pace than in 2014. When compared to 2014, the outlook for the advanced economies is ameliorating while the prospect for growth among the emerging market and developing economies is expected to moderate in anticipation of weaker growth among some key emerging market economies and oil-exporting economies. According to the IMF World

Economic Outlook issued in April 2015, the global economy is projected to grow at 3.5 percent compared to a 3.4 percent growth registered in 2014. The pace of economic activities among the advanced economies is projected to pick up in 2015 with projected growth of 2.4 percent following a 1.8 percent growth in 2014. In contrast, the emerging market and developing economies are projected to slow down with growth anticipated at 4.3 percent in 2015 after growing by 4.6 percent in 2014.

The US continues to project favorable conditions for a strong economic performance in 2015. A combination of lower energy prices, low inflationary pressure, improved fiscal performance and improving housing markets are some of the factors that expected to sustain the US growth momentum in 2015, according to the IMF. The US Federal Reserve is contemplating to start raising interest rate at some point this year despite the prospect of further improvement in the US economy, according to the Fed Chair. Should the Fed pursue this policy, it would take some time to impact the US economy and as such, the economy would continue to recover and allow for more job creation, according to the Chair. In the case of the euro area, despite some signs of economic recovery, private investment remains weak with the exception of few countries. However, other factors such as lower interest rates, the euro depreciation against the US dollar, and lower oil prices are expected to boost the economy in 2015. The emerging and developing economies are also expected to benefit from rising pace of investments, lower oil prices and in some countries growth-driven policy reforms that have been introduced.

In view of the continued projected low oil prices in 2015, the GCC economies are expected to register a slower growth of 3.4 percent during the year compared to a 3.6 percent growth in 2014. According to the IMF, under the prevailing price assumption for crude oil, the GCC economies are anticipated to register a fall of US $ 287 billion in export earnings or 21 percent of the aggregate GDP during the current year. Fiscal positions among the member states are also expected to weaken in response to low oil prices in 2015. The uncertainty from volatility in oil prices has increased due to the ongoing dynamics between shale and conventional oil production as well as the ongoing geopolitical tensions, particularly those prevailing in the region. The main economic challenges for the GCC countries remain in promoting a diversified based economy with the private sector leading the way in generating productive and skilled jobs as well as introducing fiscal reforms so as to minimize the current reliance on the hydrocarbon sector.

Real Sector

According to the State General Budget 2015 of Oman, the Omani economy is estimated to grow by about 5.0 percent in real terms during 2015, supported by non-oil sector, which is expected to grow by 5.5 percent. Even in the wake of lower oil prices, the government has indicated through the 2015 State General Budget that it would continue to spend on key economic sectors and maintain the growth rate achieved in recent years. Accordingly, large expenditure has been allocated towards completion of infrastructure projects such as airports, sea-ports, roads, developing the industrial estates, electricity, water and wastewater projects. New priority projects approved under the current Five Year Development Plan will also be implemented. These large projects in the pipeline continue to act as growth drivers for the economy. The government also continues to channel resources on improving the quality of public services and support social welfare schemes relating to health, education and housing. Equally important in the current year budget is the supports extended to small and medium enterprises and improvement of quality of public schools and university education.

The ongoing challenge to the Omani economy due to low oil prices would be overcome given the resilience of the economy and the adoption of prudent fiscal and monetary policies. The main objective of the government and the CBO in the present situation is to avoid any slowdown in the growth process and continue with policies that promote economic diversification. Apart from social sectors, the focus is on the development of Small and Medium Enterprises (SMEs), developing the financial sector, greater involvement of the private sector, improving investment climate and developing infrastructure. The advent of Islamic banking is expected to further diversify banking services and expand financial inclusion. The banking sector will continue to play an active role in providing credit to growing sectors of the economy and stimulating growth. Thus, the future prospects of the Omani economy in general remains promising, taking into account the pace of economic diversification, large expenditure planned by the government and the role of the private sector in the development process. The experience of Oman shows that Oman has the resilience and inner strength to withstand lower oil prices and sustain its growth process.

Monetary Policy

The primary objective of the Central Bank of Oman (CBO) is to ensure “monetary and financial stability” and constantly strive to promote a sound macroeconomic environment in order to enhance investment and growth of the Omani economy within the framework of a fixed exchange rate to the US dollar and open capital account. In view of the fixed exchange rate regime, the primary focus of the operating procedure of the monetary policy is to ensure appropriate level of liquidity so as to avoid internal and external imbalances. Inherent to this policy is the fact that interest rates in Oman are expected to be closely aligned to the corresponding rates prevailing in the US.

The CBO uses both direct and indirect instruments for liquidity management. As regards direct instruments, the CBO used the cash reserve requirement and the lending ratio when circumstances dictated to do so. Indirect policy instruments include sale of CBO CDs to absorb excess liquidity, repo operation to inject liquidity in domestic currency and swap and reverse swap operation for lending in foreign currency to the domestic commercial banks if and when required. In addition, CBO can provide discounting facility to the commercial banks against eligible securities. Thus, CBO has adequate tools to manage liquidity in the system and contain inflation pressures, if any. With lower international oil prices, the CBO will continue to closely monitor liquidity situation in the banking sector and is always prepared to inject liquidity in the banking system as and when situation arises.

Financial Sector

The Central Bank of Oman plays an important role in maintaining financial stability, pursuing appropriate monetary policies, developing financial markets and providing an environment aimed at ensuring exchange rate stability. The CBO will continue to enhance the role of the banking sector in the economic development by encouraging credit growth to productive sectors including small and medium enterprises (SMEs) and promote saving among the population. Given the government initiative to continue with existing projects and undertake new projects combined with supportive demographic profile of the population in Oman, it is expected that the demand for banking products will continue to increase even in the environment lower oil prices. With greater participation of commercial banks in the development process, together with large investments by the government, the balance sheet and profits of commercial banks are expected to remain healthy during 2015.

The regulatory outlook of the CBO is to increase the role of the private sector in the national economy by stimulating domestic and foreign investment in order to sustain the Sultanate's economic growth for which financial sector is expected to play a leading role. Banks are also efficiently and effectively building up their capacity in terms of higher capital, exposure and leveraging abilities, technological capabilities and foreign currency funding sources, all of which play an important role in the current situation. In the event the current environment of lower oil prices continues, banks are expected to be forward looking and be in a position to build reserves to account for likelihood of any increase in NPLs.

Islamic banking is expected to assume an important position in the financial sector of the Sultanate. It is expected that Islamic banks will complement the current conventional banking in promoting growth in the economy, diversifying banking services and augmenting financial inclusion.

At present, interest rates globally are very low as advanced economies are following accommodative monetary policies to recover from the effect of global financial crisis. However, as these economies recover, the interest rate cycle will turn upward, which in turn, will also lead to higher interest rates in Oman given its open economy and fixed exchange rate. To improve the pricing mechanism, the banking industry would need benchmark rates for the various tenors which can be possible if a suitable yield curve is developed. To develop such a benchmark rate, there are several prerequisites, including development of money market, government securities market, corporate bond market and Shariah compliant products. The existence of an efficient government securities market is seen as an essential precursor, in particular, for development of benchmark interest rate.

The financial markets should be able to channel financing in an efficient manner at lower cost. In order to carry out this important task, the markets should be deeper, liquid and vibrant. There is also a need to enhance linkages among the money, government securities and foreign exchange markets. The payment and settlement system is important from the point of view of developing the financial system in the economy. Since the implementation of the first electronic payment system Real time Gross settlement System

(RTGS) in 2006, the payment system in Oman has become very efficient, effective and secured. The current gaps in this field are being addressed by CBO through implementing multiple projects in the different payment systems that exist in the Sultanate. The Central Bank of Oman has taken many initiatives to adhere with international standards and acquire the latest technology available in the market. With technical assistance from the World Bank, the CBO has drawn the National Payment Systems Strategy and work is underway to enact the National Payment System Law. In addition, the CBO is undertaking several projects to enhance the current available payments infrastructure and to build a solid ground for future innovative payment solutions, aiming to minimize the use of cash. Furthermore, the CBO is in the process of acquiring a payment gateway that will reduce cost for all stakeholders and increase privacy and security for all users. The Central Bank of Oman has also entered into a formal contract to upgrade its existing Electronic Check Clearing (ECC) payment system infrastructure and to create a National Cheque Archiving System which will provide a central archive repository of all the transactions.

Fiscal Sector

In the environment of prevailing low oil prices, the government is exploring a number of initiatives to reform the fiscal sector. The reform aims to augment non-oil revenues, rationalize subsidies, control current expenditure and resort to a mix of domestic and international borrowings, among other measures. The spending pattern by the government has been in most part correlated with the oil prices. Accordingly, avenues are being explored to rationalize and prioritize expenditure and as such further promoting fiscal control. Underpinning the fiscal reform is the sustainability of economic growth process through economic diversification.

The 2015 State General Budget projects total government revenues for the year at RO 11.6 billion, a marginal decline of about one percent over the total revenue of RO 11.7 billion estimated in the 2014 Budget. The projected oil revenue is at RO 7.7 billion, which constitutes around 66 percent of total government revenues. Revenues from natural gas are anticipated to be at around RO 1.5 billion for 2015, representing 12.6 percent of total revenues. The non-oil revenue is projected at around RO 2.4 billion, an increase of around 19 percent over the 2014 budget estimates. Total Government expenditure has been projected at RO 14.1 billion during 2015, an increase of 4.4 percent over budgeted expenditure of RO 13.5 billion during 2014. The budget includes a net borrowing of RO 600 million to finance the anticipated deficit, out of which RO 400 million will be from domestic market and RO 200 million from abroad. Based on total revenue and expenditure, the projected budget deficit for the year 2015 is RO 2.5 billion as compared to RO 1.8 billion projected in the 2014 Budget for the financial year 2014. The remaining sources of finance for 2015 includes RO 200 million from grant, RO 700 million drawn from reserves, RO 1,000 million from the remaining surplus brought from previous years.

External Sector

The current level of lower oil prices is also expected to impact the Sultanate's external sector in 2015. The current account is expected to remain flat or in deficit during 2015. In order to improve the current account balance position in 2015, policies that promote diversifying of non-oil exports are of essence. The Sultanate has also been promoting policies that would attract more foreign investments in industries which could use local raw materials, employ Omanis and promote traditional industries. Additionally, the government has been pro-active in attracting FDI by through liberal policies as well seeking international partners who could invest in the Sultanate.

Overall, as indicated in the 2015 State General Budget, the government is exerting efforts to rationalize and control public spending to sustainable limits while enhancing the sources of non-oil revenues. The Budget also focuses on reducing the dependence on oil through enhancing the contribution of promising sectors such tourism, agriculture and fisheries. The long-term objective is to diversify the economy in the medium to long-term and create employment opportunities for nationals by establishing income generating industries, promoting small and medium enterprises, emphasis on private sector, encouraging tourism, and improving the business climate to attract additional domestic and foreign investments.

Output, Employment and Prices

OUTPUT, EMPLOYMENT AND PRICES

The Government of Oman and the CBO continue to pursue growth based policies aimed at further diversifying the economy despite the advent of low oil prices that started in the second half of 2014. Towards this objective, the government has allocated current year expenditure targeting the completion of key infrastructure projects. Accordingly, the State General Budget 2015 endeavors to continue implementing various development and infrastructure projects as per their set schedules in sectors such as hospitals, schools, airports, roads, ports, electricity and water. New priority projects approved under the current Five Year Development Plan will also be implemented. These large projects, some of which are in pipeline, continue to act as growth drivers for the Omani economy. The government is also expected to continue raising the level of efficiency and productivity in the oil and gas sector. The earlier experience of Oman suggests that it has the resilience to withstand lower oil prices and sustain its growth process.

Within the framework of economic diversification policies, efforts are geared towards creating more employment by increasing the role of private sector in the national economy as well as stimulating domestic and foreign investments. In this context, the banking sector will continue to play an active role in providing credit to growing sectors of the economy and stimulating economic growth. The advent of Islamic banking is expected to further diversify banking services and expand financial inclusion in the sultanate. The Government and the CBO are also promoting Small and Medium Sized Enterprises (SMEs). All these efforts by the Government and the CBO are expected to sustain the current growth momentum.

The Sultanate's Gross Domestic Product at current prices grew at an average rate of 11.3 percent during the five year period 2010 to 2014. The petroleum sector which accounted for around 50 percent of the nominal GDP grew by 16.3 percent during the five year period, while the non-petroleum sector activities grew by 10.3 percent. For the year 2014, the Sultanate's Gross Domestic Product at current prices grew at 4.6 percent over the previous year (Table 2.1, Chart 2.1). The petroleum sector contracted by 2.4 percent while the non-petroleum sector registered a growth of 10.1 percent (Chart 2.2). As for the average inflation rate based on CPI for the Sultanate, it registered 1.0 percent during the year under review.

Petroleum Activities

The 2014 indicators continued to point to the reliance of the hydrocarbon sector as the main source of export as well as government revenues. Oil and gas sectors as a share of GDP stood around 47.2 percent and their combined contribution to government revenues stood at around 85 percent and 65.5 percent of total merchandise exports (Chart 2.3). Crude oil and natural gas, being the natural endowment of the country, are increasingly

Chart 2.1: Nominal GDP Growth and Change in Oil Prices

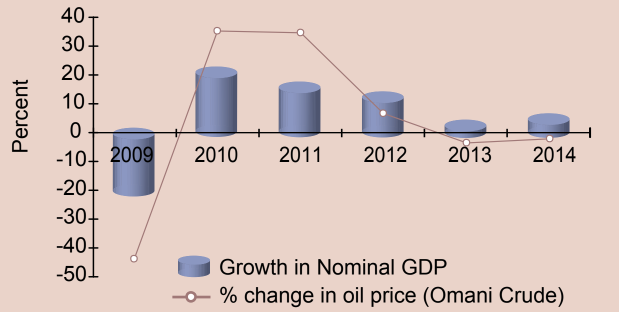


Chart 2.2: Oil Production, Petroleum & Non-Petroleum Activities

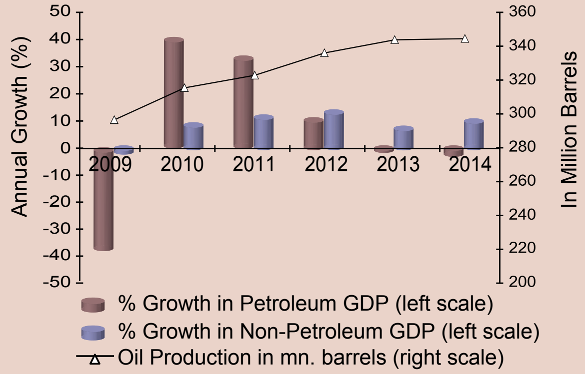


Table 2.1
Output Indicators

Items	2010	2011	2012	2013*	2014**
GDP at current market price (RO mln.)	22547.6	26122.0	29353.3	30061.3	31450.8
Annual Growth (%)	21.2	15.9	12.4	2.4	4.6
GDP at constant 2010 prices (RO mln.)	22547.6	22301.6	23880.7	24815.1	NA
Annual Growth (%)	4.8	-1.1	7.1	3.9	NA
GDP Deflator	100.0	117.1	122.9	121.1	NA
Annual Growth (%)	15.6	17.1	4.9	-1.4	NA
Share in GDP at Current Market Price (in per cent)#					
1. Petroleum Activities	46.1	53.2	52.3	50.6	47.2
1.1 Crude Petroleum	42.3	49.3	48.5	46.7	43.8
1.2 Natural Gas	3.8	3.9	3.8	3.9	3.4
2. Non-Petroleum activities	56.0	54.0	54.6	57.2	60.2
2.1 Agrl. and Fishing	1.4	1.3	1.2	1.2	1.3
2.2 Industry	18.0	18.5	18.1	18.3	18.1
2.3 Services Activities	36.6	34.3	35.4	37.7	40.7
Components of GDP (in per cent)					
a. Private Consumption	31.9	28.2	28.7	30.2	NA
b. Government Consumption	18.1	18.0	19.6	21.3	NA
c. Capital Formation (investment)	27.0	24.2	27.3	28.5	NA
d. Exports-Imports (goods and services)	24.4	29.9	26.7	22.3	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.

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

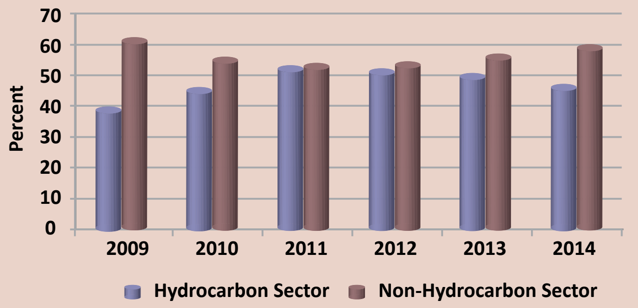
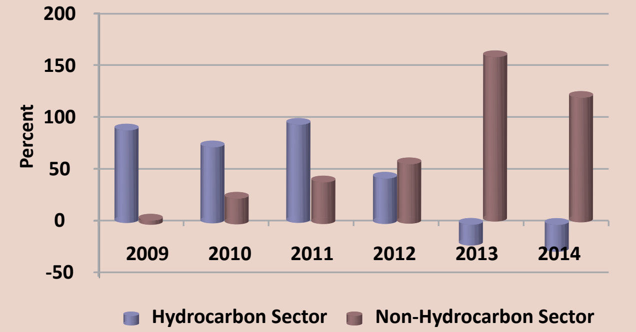


Chart 2.3 (b): Contribution of Hydrocarbon and Non-Hydrocarbon Sector in Growth of GDP at Current Market Prices



being used in other industries such as fertilizer, petrochemicals, aluminum, power generation and water desalination and as such contributes to value addition. Despite the constraint of lower oil prices since the second half of 2014, the government and the CBO will continue to pursue policies to sustain the country's economic growth.

Detailed developments in the oil and gas sector are analyzed in Chapter III of this Report. The Sultanate's crude oil production during 2014 registered a modest growth of 0.2 percent to 344.4 million barrels from 343.8 million barrels during 2013. The daily average production of crude oil increased to 943.5 thousand barrels from 941.9 thousand barrels between the two corresponding periods. The Omani crude oil prices averaged US$ 103.2 per barrel during 2014 as compared to US$ 105.5 per barrel during 2013. Hydrocarbon-based nominal GDP contracted by 2.4 percent to RO 14,840 million in 2014 compared to a more modest contraction of about one percent in the previous year (Table 2.2).

Non-Petroleum Industrial Activities

The Government is continuously pursuing policies that promote economic diversification and the focus has been on increasing the contribution of non-oil sectors to the GDP. Accordingly, the Eighth Five Year Development Plan (2011-15) has strived to enhance economic diversification by adopting a set of sectoral objectives, policies and mechanisms. Among others, the Plan has opted to achieve this through intensifying efforts related to the development of Small and Medium Enterprises (SME), developing the financial sector, financing the private sector, improving investment climate and developing infrastructure. The Ninth Five Year Development Plan (2016-2020) is expected to further intensify these efforts.

There have been several initiatives by the Government in recent years to create infrastructural facilities in industrial clusters, industrial estates and free zones. The Government is focusing on developing the Duqm Special Economic Zone (SEZ) centered on the multi-purpose commercial port, industrial area, new town, fishing harbor, tourist zone and other infrastructural facilities. Duqm SEZ is expected to become the center of industrial activities and to continue to attract foreign investments. The Government is taking special interest in this project and has announced several incentives to attract domestic and foreign investment in this Zone.

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

Activities	2010	2011	2012	2013*	2014**	% Change (2013/12)	% Change (2014/13)
1. Industry (1.1 + 1.2)	**14450.0**	**18716.2**	**20660.5**	**20702.5**	**20546.8**	**0.2**	**-0.8**
1.1 Petroleum Activities	**10388.4**	**13888.8**	**15350.2**	**15205.8**	**14840.0**	**-0.9**	**-2.4**
- Crude Petroleum	9526.6	12875.2	14239.1	14047.0	13780.1	-1.3	-1.9
- Natural Gas	861.8	1013.6	1111.1	1158.8	1059.9	4.3	-8.5
1.2 Non-Petroleum Industrial Activities	**4061.6**	**4827.4**	**5310.3**	**5496.7**	**5706.8**	**3.5**	**3.8**
- Mining and Quarrying	91.7	98.8	100.9	114.7	124.5	13.7	8.5
- Manufacturing	2385.2	2979.9	3143.5	3138.8	3151.9	-0.1	0.4
- Electricity & Water Supply	271.0	301.9	318.9	346.2	376.2	8.6	8.6
- Building and Construction	1313.7	1446.7	1747.0	1897.0	2054.3	8.6	8.3
2. Agriculture & Fishing	**311.7**	**327.9**	**341.3**	**371.2**	**406.1**	**8.8**	**9.4**
3. Services	**8260.5**	**8956.0**	**10378.0**	**11330.4**	**12814.5**	**9.2**	**13.1**
- Wholesale & Retail Trade	1663.4	1776.6	1963.0	2042.3	2083.6	4.0	2.0
- Hotels & Restaurants	172.5	170.3	218.8	238.2	258.7	8.9	8.6
- Transport, Storage & Communication	1201.9	1226.2	1378.9	1469.2	1574.7	6.5	7.2
- Financial Intermediation	999.3	1091.5	1273.5	1383.4	1511.7	8.6	9.3
- Real Estate & Business Activities	983.5	1030.5	1090.8	1155.1	1230.5	5.9	6.5
- Public Administration & Defence	1604.5	1933.7	2472.2	2764.6	3163.9	11.8	14.4
- Other Services (Education, Health, Community/Personal Services, and Private Household)	1635.4	1727.1	1980.8	2277.6	2991.5	15.0	31.3
4. Total Non-Petroleum Activities (1.2 + 2 +3)	**12633.7**	**14111.3**	**16029.6**	**17198.3**	**18927.4**	**7.3**	**10.1**
5. Less Financial Intermediation Services Indirectly Measured	468.3	533.6	589.0	612.6	640.3	4.0	4.5
6. Gross Domestic Product at Producers Prices (1.1+4-5)	**22553.8**	**27466.4**	**30790.7**	**31791.5**	**33127.1**	**3.3**	**4.2**
7. Plus :Taxes Less Subsidies on Products	-6.2	-1344.4	-1437.5	-1730.2	-1676.3	20.4	3.1
8. Gross Domestic Product at Market Prices (6+7)	**22547.6**	**26122.0**	**29353.3**	**30061.3**	**31450.8**	**2.4**	**4.6**

* Provisional ** Preliminary

Source: National Center for Statistics and Information.

The Government and the CBO have brought the development of the SMEs sector to the forefront and several policy initiatives have been taken including formal targets for credit delivery to this sector. Efforts have also been initiated to develop SMEs in terms of capacity building of prospective entrepreneurs, identifying key areas for SME finance, facilitating public-private cooperation and improving upon forward and backward linkages of these entities. The CBO has advised banks to formulate a liberal lending policy for the SME segment and mandated that they allocate at least 5 percent of their total credit to this sector by December 2015. The prudential requirements for banks to lend to SMEs have also been relaxed in terms of general provisioning requirements and risk weightage.

Non-petroleum industrial activities pointed to a modest improvement in 2014 as relevant activities grew at 3.8 percent during the year compared to 3.5 percent growth in the previous year. Manufacturing which accounted for 55.2 percent of non-petroleum industrial activities registered a modest growth of 0.4 percent during the year under review. In other sub-sectors under the non-petroleum sector, ‘electricity and water supply’ and ‘construction’ grew by 8.6 percent and 8.3 percent, respectively. With the continued investment in the infrastructure sector by the government, construction activity is expected to grow in the foreseeable future.

Agriculture and Fisheries

One of the objectives of the Eighth Five-Year Development Plan (2011-15) has been the development of agriculture and fisheries sector, primarily to promote food security and provide work opportunities for the national workforce in rural areas. Special initiatives have in effect been taken by the government to develop these two sectors. Focus on additional allocation of funds to this sector, construction of new markets, improving marketing of products and providing product specific support to the producers, are some of the initiatives that have been taken by the government. Moreover, there is a strategic plan to develop fisheries sector (2013-2020) which aims to enhance fish production, increase its efficiency and protect natural resources from extinction. The strategy also aims to secure safe supplies of fish production for local consumption, better utilization of fish reserves and increase in investment by the private sector besides attracting foreign investments to fish and fish processing industries, as well as aquaculture. There also exists a comprehensive strategy to develop animal and plant division of the agriculture sectors (2010-2040) developed in collaboration with Food and Agriculture Organization (FAO) with the objectives of ensuring optimum use of resources, developing agricultural and food systems, enhancing food security, generating jobs, increasing income and enhancing competitiveness of the Omani products.

According to the target set for the agriculture sector in the Vision 2020, its contribution to GDP is expected to be raised to 3.1 percent by 2020 with an annual growth of not less than 4.5 percent. The vision for fishing sector also aims to expand its contribution to GDP to about 2 percent by 2020 with a targeted annual growth of 5.6 percent. In 2014, the agriculture and fisheries sector grew by 9.4 percent compared to 8.8 percent growth in the previous year. The combined share of agriculture and fisheries to GDP was only 1.3 percent in 2014 compared to 1.2 percent in the previous year. The total production of agriculture increased by 2.0 percent from 1,484 thousand tons in 2013 to 1,515 thousand tons in 2014.

The Ministry of Agriculture and Fisheries (MoAF) conducted Agricultural Census 2012-13 to help planners and researchers by providing information about projects and programs to prepare long term strategies to develop the sector. The census pointed to an increase in the number of animal wealth by 39 percent compared to census undertaken in 2004-05. There has been a 479 percent increase in the size of aquaculture ponds from 1.4 acres in 2004-05 to 8.11 acres in 2012-13. Plantation of vegetables grew by 125 per cent from 12,267 acres in 2004-05 census to 27,574 acres in the 2012-13 census.

Services

With increasing diversification of the Omani economy, the demand for different type of services activities is also growing. The Eighth Five-Year Development Plan emphasized the development of software and tourism industry in the services sector, among others, through improving the institutional frameworks, encouraging investment, provision of qualified cadre and encouraging scientific research in these areas. The Eighth Five Year Development Plan has also laid down special emphasis on promoting opportunities of sustainable tourism development by allotting lands, encouraging investments in hotels, developing integrated tourism complexes and parks in various parts of the country. There have also been efforts to attract foreign investment in the tourism sector. The Government has also been pursuing the policy of augmenting domestic supply of efficient services at competitive prices so as to contain the outflow of domestic income by way of import of services in an open economy environment.

In 2014, the services sector grew by 13.1 percent to RO 12,814.5million compared to an increase of 9.2 percent in the previous year. The share of services sector to GDP increased to 40.7 percent in 2014 from 37.7 percent in the previous year. At disaggregate level, all the constituents of services sector in Oman witnessed positive growth of varying degrees during the year under review. Growth was notable in case of 'public administration and defence' (14.4 percent), 'wholesale and retail trade' (2.0 percent) and 'transport, storage and communication' (7.2 percent). These three sub-sectors together, accounted for 53.2 percent of total services sector GDP in 2014. The financial intermediation sector continued to consolidate its position and registered a growth of 9.3 percent in 2014 as compared to 8.6 percent growth in the previous year. Value added under 'Hotels and restaurants' in Oman grew by 8.6 percent during 2014 as compared to 8.9 percent in 2013. Tourism continued to remain a priority area for the diversification of the Omani economy.

GDP at Constant Prices

The base year of Oman's GDP at constant prices has been brought forward to 2010 from the 2000 base year. Unlike the GDP at current prices, which reflects the combined effect of output produced and price increases recorded during a period, GDP at constant prices shows only the output effect, and hence, this concept of GDP is often viewed internationally as the appropriate reference indicator for growth analyses. However, in case of oil exporting countries like Oman, petroleum sector has large contribution to GDP and therefore, high international prices of petroleum products add real purchasing power to a significant part of the nominal GDP. Hence, both nominal and real GDP data are used for macroeconomic analysis in such countries. Moreover, national accounts data for Oman, both at current and constant prices, are based on market prices and not at factor cost.

The data on real GDP for Oman is available until the year 2013. Based on the new series of GDP at constant prices data, the Sultanate's real GDP witnessed a growth of 3.9 percent in 2013 as compared to 7.1 percent in the previous year. The real GDP from the hydrocarbon sector registered a growth of 2.4 percent in 2013, marginally lower than 3.0 percent witnessed in 2012 (Table 2.3). The non-hydrocarbon real GDP grew by 6.2 percent in 2013 as against 10.1 percent in the previous year. The continued growth in the non-hydrocarbon sector augurs well for the diversification process in the Sultanate as the government is pushing for the development of industrial and services activities.

The non-petroleum industrial activities with a share of 19.5 percent in the overall real GDP, registered a growth rate of 5.0 percent during 2013 as compared to 9.8 percent in the previous year. Among the non-petroleum industrial activities, manufacturing and 'electricity & water supply' in the industrial sector registered a growth rate of 2.4 percent and 5.5 percent, respectively. In terms of key components of the non-petroleum sector, though the share of the agriculture and fishing sector in the real GDP is low at around 1.3 percent, the sector recorded a healthy growth of 5.1 percent during 2013 as against 2.6 percent in the previous year.

The services sector with a share of around 42.0 percent in the overall real GDP during 2013 closely followed the hydrocarbon sector which had a major share of around 45 percent in the real GDP. Impressive real growth of several constituents of non-petroleum activities under the services sector during 2013 included, among others, health (18.0 percent), education (11.1 percent), 'private household with employed persons' (9.9 percent), 'other community, social and personal services' (9.8), 'public administration & defense' (9.6 per cent), 'financial intermediation' (6.0 percent), 'hotel and restaurants' (4.5 percent), 'real estate & business activities' (4.5 percent), transport, storage & communication' (3.9 percent) and 'wholesale and retail trade' (2.9 percent). Broad-based growth in various sub-sectors of industry and services suggests steady progress of the diversification program in Oman.

Analyzing the real GDP data in terms of composition, the diversification of the Omani economy pointed to some improvement since 2010. The share of the hydrocarbon sector in terms of real GDP declined marginally to 45.0 percent in 2013 from 46.1 percent in 2010. In terms of contribution to the real GDP growth, the non-hydrocarbon sector has also been increasing at the account of the hydrocarbon sector over the same period.

Saving and Capital Formation

According to the latest national accounts data released by the government, after a sharp increase in 2012, gross capital formation as proportion

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

Activities	2010	2011	2012	2013*	% Change (2012/11)	% Change (2013/12)
1. Industry (1.1 + 1.2)	**14450.0**	**14786.8**	**15511.5**	**16000.5**	**4.9**	**3.2**
1.1 Petroleum Activities	**10388.4**	**10597.5**	**10912.9**	**11170.4**	**3.0**	**2.4**
- Crude Petroleum	9526.6	9716.8	10025.6	10263.2	3.2	2.4
- Natural Gas	861.8	880.8	887.3	907.2	0.7	2.2
1.2 Non-Petroleum Industrial Activities	**4061.6**	**4189.3**	**4598.6**	**4830.1**	**9.8**	**5.0**
- Mining and Quarrying	91.7	86.6	88.0	94.8	1.6	7.7
- Manufacturing	2385.2	2416.1	2460.0	2519.4	1.8	2.4
- Electricity & Water supply	271.0	308.5	347.2	366.2	12.5	5.5
- Building and Construction	1313.7	1378.1	1703.5	1849.8	23.6	8.6
2. Agriculture & Fishing	**311.7**	**310.1**	**318.2**	**334.4**	**2.6**	**5.1**
- Agriculture	201.7	203.7	189.6	196.0	-6.9	3.4
- Fishing	110.0	106.4	128.6	138.5	20.9	7.7
3. Services	**8260.5**	**8825.9**	**9756.7**	**10420.7**	**10.5**	**6.8**
- Wholesale & Retail Trade	1663.4	1728.6	2019.0	2077.6	16.8	2.9
- Hotels & Restaurants	172.5	166.2	205.0	214.3	23.3	4.5
- Transport, Storage & Communication	1201.9	1288.3	1428.8	1484.7	10.9	3.9
- Financial Intermediation	999.3	1063.6	1163.1	1233.4	9.4	6.0
- Real Estate & Business Activities	983.5	1004.1	1037.4	1084.1	3.3	4.5
- Public Administration & Defence	1604.5	1884.8	2146.2	2351.6	13.9	9.6
-Education	981.2	996.8	1031.3	1145.8	3.5	11.1
-Health	353.4	366.3	389.7	460.0	6.4	18.0
-Other Community, Social and Personal Services	237.9	254.5	252.4	277.1	-0.8	9.8
-Private Household with Employed Persons	62.9	72.5	83.7	92.0	15.4	9.9
4. Total Non-Petroleum Activities (1.2 + 2 +3)	**12633.7**	**13325.4**	**14673.5**	**15585.3**	**10.1**	**6.2**
5. Less Financial Intermediation Services Indirectly Measured	468.3	510.5	557.2	573.3	9.1	2.9
6. Gross Domestic Product at Producers Prices (1.1+4-5)	**22553.8**	**23412.4**	**25029.2**	**26182.4**	**6.9**	**4.6**
7. Plus :Taxes Less Subsidies on Products	-6.2	-1110.8	-1148.5	-1367.3	3.4	19.1
8. Gross Domestic Product at Market Prices (6+7) #	**22547.6**	**22301.6**	**23880.7**	**24815.1**	**7.1**	**3.9**

* Provisional

Source: National Center for Statistics and Information.

to GDP increased marginally from 27.3 percent in 2012 to 28.5 percent in 2013 (Table 2.4). On average, the investment rate during the five year period 2009 to 2013 worked out to 28.1 percent of GDP while the average real GDP growth was 4.2 percent during the same period, reflecting an average incremental capital output ratio of 6.7. Gross capital formation increased by 6.6 percent to RO 8,554.6 million in 2013 from RO 8,024.9 million in the previous year which could be primarily attributed to increase in the capital formation in the form of 'building and construction' and intangible fixed assets by 8.6 percent and 13.7 percent, respectively. However, capital formation in terms of 'machinery and equipment' increased only marginally by 0.7 percent in 2013 over the previous year. In 2013, the share of capital formation in the oil and gas-related activities was 30.8 percent while the remaining portion of investment came from non-oil activities.

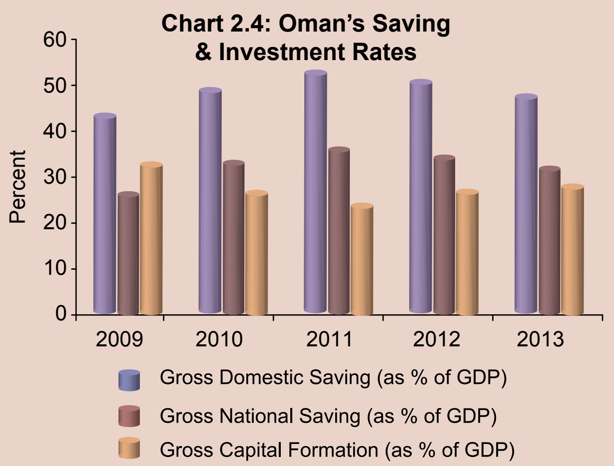
The investment needs of a country could be financed by both domestic savings and inflow of capital. In case of Oman, gross domestic saving exceeds gross capital formation by a wide margin mainly due to large public saving arising out of excess oil revenues realized through steady increase in crude oil prices in the international markets between 2010 and 2013. As domestic savings exceeded investment levels, there was net outflow of financial savings from the country for creation of assets abroad. The gross domestic saving as proportion of GDP was 48.4 percent in 2013 lower than 51.6 percent in 2012. During 2013, a large amount of the gross domestic saving moved out of the country in the form of current transfers i.e., remittance by the expatriate workers in Oman (RO 3.6 billion) and investment income i.e., net interest and dividend paid on external liabilities (RO 1.2 billion) (Chart 2.4). Consequently, gross national saving as percentage of GDP

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

Items	2010	2011	2012	2013*
A. Gross Capital Formation at Current Prices	**6091.6**	**6330.8**	**8024.9**	**8554.6**
(i) Building and Construction	3341.7	3680.0	4449.9	4832.6
(ii) Machinery & Equipment	2083.2	1888.6	2641.5	2660.6
(iii) Intangible Fixed Assets	666.6	762.1	933.5	1061.5
Change in Inventories**	-360.4	-112.5	-704.3	-705.6
B. Gross Capital Formation as % of GDP	**27.0**	**24.2**	**27.3**	**28.5**
C. Gross Domestic Saving	**11242.4**	**14023.0**	**15145.2**	**14562.9**
D. Net primary Income from abroad	-1377.0	-1591.0	-1716.0	-1246.0
E. Net current transfers from abroad	-2260.1	-2842.6	-3187.4	-3571.0
F. Gross National Saving (C+D+E)	**7605.3**	**9589.4**	**10241.8**	**9745.9**
G. Gross Domestic Saving as % of GDP	**49.9**	**53.7**	**51.6**	**48.4**
H. Gross National Saving as % of GDP	**33.7**	**36.7**	**34.9**	**32.4**

* Provisional ** Not included in Gross Capital Formation.

Source: National Center for Statistics and Information.



stood significantly lower at 32.4 percent in 2013, implying a leakage of savings out of the country to the extent of 16.0 percent of GDP. Gross national saving rate at 32.4 percent in 2013, was higher than the domestic investment rate (28.5 percent). This could be corroborated by the surplus in the country's external current account in 2013. As the current account surplus was lower in 2013 as compared to 2012, the difference between gross national saving rate and domestic investment rate was lower as compared to the previous year.

Employment

Oman has a young population and with improvement in education over the years, there has been continuous increase in the need for creating employment opportunities for the young and educated Omanis to join the labor force. The Eighth Five Year Development Plan (2011-15) focused on the diversification of the economy, while creating employment opportunities through increasing investment, developing sectors of high labor-intensity and developing small and medium enterprises which are employment intensive. The Plan also sought to improve the quality of education and training. As the result, the quality of skilled labor force in the private sector is increasing which allows for higher scope for Omanization. The Ninth Five Year Development Plan (2016-2020) will continue to focus on creating employment opportunities for the Omanis both in the public and private sectors.

Public Sector Employment

One of the major recurrent objectives of the Five-Year Development Plans has been to create adequate employment opportunities for Omanis. Employment opportunities created in the public sector during the five year period 2009 to 2013 increased by an average rate of 6.6 percent. During 2013, the employment in the public sector increased by 8.6 percent as compared to 5.4 percent in the previous year (Table 2.5). While employment of Omanis in the public sector increased by 8.4 percent in 2013 over the previous year, that of expatriates rose by 10.4 percent. Of the total employment in the public sector, employment of Omanis stood at 85.6 percent in 2013, as compared to 85.8 percent in 2012. At 87.4 percent, the share of Omanis in the civil services is the highest among all sectors.

Private Sector Employment

With higher rate of growth and economic diversification, employment opportunities in the private sector have been growing at a faster pace in the recent years. The Government has been taking several initiatives to make jobs in the private sector more attractive in order to improve the Omanization rate in this sector. The Omanization program has been streamlined with emphasis on

Table 2.5
Sector Wise Employment in Oman

Items	2010	2011	2012	2013	2014
A. Public Sector Employees (A1+A2+A3+A4)*	**163982**	**184440**	**194326**	**211129**	_
Omanis	140370	159258	166804	180737	_
Expatriates	23612	25182	27522	30392	_
A.1 Civil Service	**128415**	**144605**	**151683**	**166707**	_
Omanis	114206	129107	134417	145736	_
Expatriates	14209	15498	17266	20971	_
A.2 Diwan of Royal Court	**10579**	**11822**	**12520**	**12097**	_
Omanis	6374	7420	7972	8545	_
Expatriates	4205	4402	4548	3552	_
A.3 Royal Court Affairs	**15009**	**16547**	**17712**	**18717**	_
Omanis	12226	13681	14622	15518	_
Expatriates	2783	2866	3090	3199	_
A.4 Public Corporations	**9979**	**11466**	**12411**	**13608**	_
Omanis	7564	9050	9793	10938	_
Expatriates	2415	2416	2618	2670	_
B. Private Sector Employees	**1133346**	**1289031**	**1488248**	**1709101**	**1767642**
Omanis**	177716	174441	172066	181860	197510
Expatriates	955630	1114590	1316182	1527241	1570132

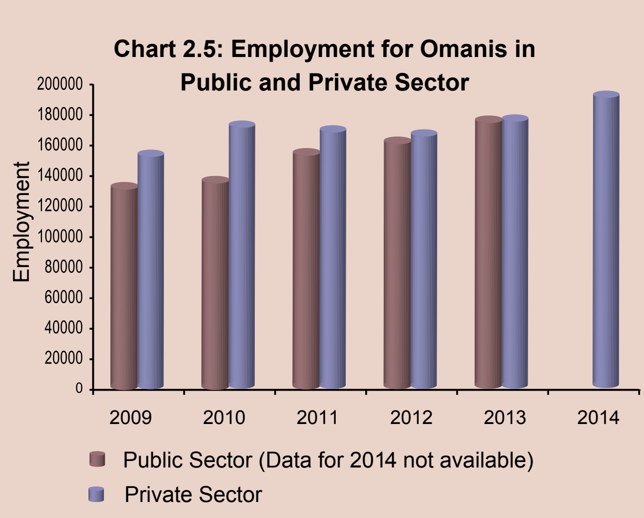
* Excluding security and defense personnel.
** Registered with Public Authority for Social Insurance (PASI).

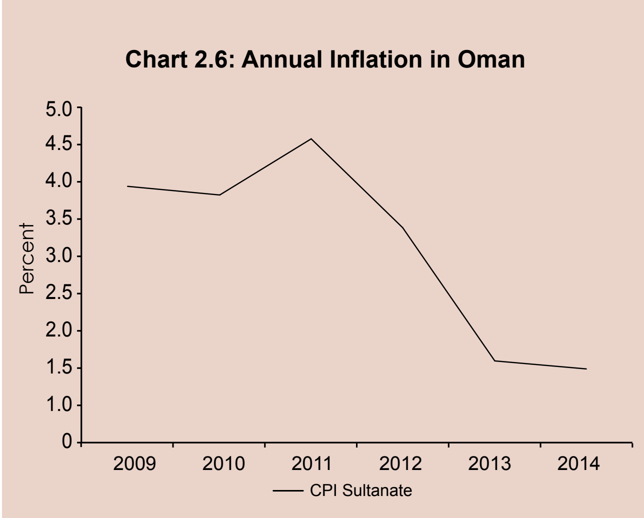
Source: National Center for Statistics and Information.

education and training so that Omanis are easily absorbed in the private sector.

During the five year period 2010 to 2014, average employment growth in the private sector was 12.7 percent. However, during 2014 the growth in employment in the private sector slowed down to 3.4 percent as compared to 14.8 percent in the previous year. The decline in the growth rate of employment in the private sector was mainly due to sharp fall in the growth rate of employment of expatriates in the sector, from 16.0 percent in 2013 to 2.8 percent in 2014. On the other hand, the growth in employment of Omanis in the private sector was 8.6 percent during 2014 compared to 5.7 percent in the previous year (Chart 2.5). This implies that the private sector has the potential to employ large number of Omanis with greater skill acquisition and training.

The fact remains that jobs in private sector is dominated by expatriates which constituted 88.8 percent during 2014 of the total employment in the private sector. The major sector which employs more than 40 percent of expatriates is the construction sector which typically employs unskilled labor. Other sectors which continued to employ large expatriates include wholesale, retail trade and car repair, followed by manufacturing, private households, hotel and restaurants and agriculture and fishing.





Prices

The base year for the Sultanate Consumer Price Index has been revised by the National Center for Statistics and Information and brought forward to 2012 from 2000. The weights are now based on Household Expenditure and Income survey by taking average for the years 2008, 2009 and 2010. The data coverage has also increased as it is compiled on the basis of 28,168 priced items of goods and services from 1721 selected sources (the 2000 Sultanate CPI series was compiled based on 8101 items of goods and services and 1571 selected sources).

Inflation in Oman was also fairly contained with the average inflation based on CPI for the Sultanate being lower at 3.4 percent during the three year period 2010 to 2012. Inflation in Oman continued to be very low since 2013. In 2014, annual inflation rate measured by movement in the average CPI for the Sultanate stood at 1.0 percent compared to 1.1 percent in 2013 (Chart 2.6).

Although inflation expectations largely remained low in Oman, it is important to keep track of key variables which could impact on prices. The recent moderate rise in prices in Oman owes to both demand and supply side factors originating from the domestic as well as external sources (Table 2.6). From the demand side, growth in the nominal GDP in Oman was moderate which helped in containing demand. Among the supply side factors, world food and metal prices declined by 4.1 percent and 7.5 percent, respectively in 2014. Lower international food and metal prices helped in keeping the inflation low as bulk of food items are imported. The growth in prices with respect to the category 'Housing, water, electricity, gas and other fuels' in Oman remained low in 2014 at 1.0 percent. Thus, rise in house rents and other components of household use have also been moderate in the Sultanate in the recent period which has helped in containing inflationary pressures. The intake of foreign labor in the private sector was lower in absolute terms in 2014 compared to that in the previous year. Overall, the impact of both demand and supply factors were positive for inflation which led to lower inflation in the Sultanate.

The commodity-wise inflation also remained low during 2014. The increase in prices with respect to the group food and non-alcoholic beverages was 1.7 percent during 2014 compared to 2.8 percent in 2013 (Table 2.7). There were certain categories where inflationary pressure remained high including furnishings, household equipment & routing household maintenance (5.5 percent), education (5.8 percent) and health (5.1 percent). The inflation rate remained low for most of the other commodity groups during 2014 including tobacco (0.8 percent), housing, water, electricity, gas and other fuels (1.0 percent), communication (0.1 percent) and restaurants and Hotels (1.1 percent). There were certain commodity groups which witnessed decline in prices such as clothing and footwear which declined by 0.3 percent during 2014, and transport by 0.5 percent.

Although the overall inflation remained low, the contribution of the group 'Foods & non-alcoholic beverages' to overall inflation has been high and explained around 60.8 percent and 40.6 percent, during 2013 and 2014, respectively. Also, the contribution of the two groups 'Housing, water, electricity, gas and other fuels' and 'furnishing, household equipment and routing housing maintenance' to overall inflation have increased to 26.5 percent and 21.2 percent, respectively, during 2014 (It was 12.0 percent and 7.6 percent, respectively, in 2013). Overall, these three commodities have contributed 88.3 percent of increase in inflation during 2014 compared to 80.5 percent in 2013. On the other hand, contribution to inflation of the groups 'transport' was negative during 2014, offsetting the increase in prices of other commodities. Thus, policy makers will

Table 2.6
Broad Sources of Inflation

(Percent)

Items	2010	2011	2012	2013	2014
Demand Condition					
(a) GDP Growth	21.2	15.9	12.4	2.4	4.6
(b) Increase in Govt Expenditure	7.2	34.8	26.2	3.1	0.3
Monetary Expansion					
(a) Broad Money (M2) growth	11.3	12.2	10.7	9.4	15.3
(b) Credit growth	9.1	16.7	14.4	6.0	11.3
Supply Constraints/External Shocks					
(a) World Food Prices[1]	11.9	19.9	-2.4	1.1	-4.1
(b) World Metal Prices [2]	48.2	13.5	-16.8	-4.3	-7.5
(c) Housing, Water, Electricity, Gas and Other Fuels (Oman)[3]	4.5	2.9	2.1	0.5	1.0
(d) Regional Inflation (Middle East & North Africa)[4]	6.2	8.6	9.6	9.2	7.5
(e) NEER* Variation	0.0	-0.2	0.7	3.6	5.6
(f) Change in Import Price[5]	-18.6	-2.1	4.3	-26.7	9.6
(g) Foreign Labour in Pvt. Sector (Annual absolute increase)	81385	158960	201592	211059	42891

* 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.

Chart 2.7: Contribution to Inflation by Major Groups

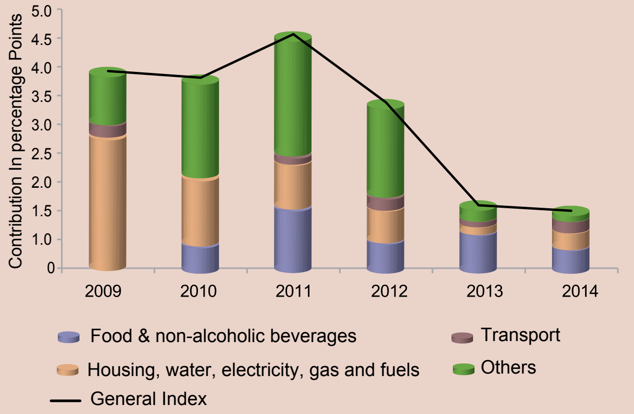
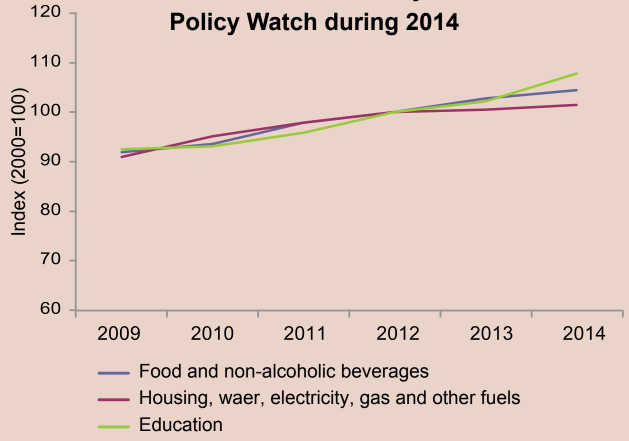


Chart 2.8: Sultanate CPI: Key Items for Policy Watch during 2014



have to devote attention in the prices of three groups -'Foods & non-alcoholic beverages'; 'Housing, water, electricity, gas and other fuels'; and 'furnishing, household equipment and routing housing maintenance'(Chart 2.7) and (Chart 2.8).

Global commodity prices continued to fall in 2014. There has been substantial decline in international crude oil prices in the second half of 2014 on weak demand and ample supply. Metal prices have also declined in recent period. According to the IMF latest estimates, metal prices are projected to decline by 7.5 percent in 2014 and by 1.8 percent in 2015, before rising 0.6 percent in 2016. Food prices have also been low during 2014 on improved supply prospects. The IMF projections indicate that food prices will decline by 4.1 percent in 2014 and by 7.9 percent in 2015 and to remain broadly unchanged in 2016. The larger weight of food items in the consumer price index of the Sultanate is expected to keep inflation lower in 2015. Nevertheless, the Government and the CBO will continue to closely monitor the price situation by developing market monitoring means, awareness of consumers, and encouraging importers to diversify their sources of imports.

Table 2.7
Sultanate Consumer Price Index (2012 = 100)

Items of Consumption	Weights	2012	2013	2014	% change 2013/12	% change 2014/13
1. Food & Non -Alcoholic Beverages	**23.903**	**100.0**	**102.8**	**104.5**	**2.8**	**1.7**
Cereals & Breads	3.020	100.0	100.9	102.3	0.9	1.4
Meat	6.103	100.0	101.2	103.1	1.2	1.9
Fish & Sea food	2.208	100.0	107.3	115.4	7.3	7.6
Milk , Cheese & Eggs	2.865	100.0	100.9	101.8	0.9	0.9
Oil & Fats	0.715	100.0	100.0	100.2	0.0	0.2
Fruits	2.815	100.0	104.4	107.2	4.4	2.7
Vegetables	2.493	100.0	108.4	106.8	8.4	-1.5
Sugar, Jam,Honey, Chocolate & Confectionary	1.135	100.0	99.8	99.6	-0.2	-0.2
Food Products n.e.c.	0.521	100.0	100.3	100.8	0.3	0.5
Non- Alcoholic Beverages	2.028	100.0	102.1	103.3	2.1	1.1
2. Tobacco	**0.125**	**100.0**	**101.5**	**102.3**	**1.5**	**0.8**
3. Clothing & Footwear	**5.961**	**100.0**	**101.8**	**101.6**	**1.8**	**-0.3**
4. Housing,Water,Electricity, Gas & Other Fuels	**26.477**	**100.0**	**100.5**	**101.5**	**0.5**	**1.0**
5. Furnishings,Household Equipment & Routine Household Maintenance	**3.787**	**100.0**	**102.2**	**107.8**	**2.2**	**5.5**
6. Health	**1.161**	**100.0**	**101.5**	**106.6**	**1.5**	**5.1**
7. Transport	**19.167**	**100.0**	**100.4**	**99.9**	**0.4**	**-0.5**
8. Communication	**5.633**	**100.0**	**97.7**	**97.8**	**-2.3**	**0.1**
9. Recreation and Culture	**1.135**	**100.0**	**98.9**	**98.8**	**-1.1**	**-0.1**
10. Education	**1.368**	**100.0**	**104.2**	**110.3**	**4.2**	**5.8**
11. Restaurants and Hotels	**6.098**	**100.0**	**101.1**	**102.2**	**1.1**	**1.1**
12. Miscellaneous goods and Services	**5.185**	**100.0**	**100.3**	**100.3**	**0.3**	**0.0**
General Price Index	**100.0**	**100.0**	**101.1**	**102.1**	**1.1**	**1.0**

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 (2000 = 100)

Items of Consumption	Weights	2011	2012	2013	2014	% change 2013/12	% change 2014/13
1. Food and Non-Alcoholic Beverages	**16.822**	**97.8**	**100.0**	**102.7**	**104.1**	**2.7**	**1.3**
Cereals & Breads	2.170	102.7	100.0	101.1	101.5	1.1	0.4
Meat	3.962	94.3	100.0	99.8	100.0	-0.2	0.1
Fish & Sea food	1.243	95.9	100.0	111.3	124.8	11.3	12.1
Milk, Cheese & Eggs	2.054	99.5	100.0	100.1	101.1	0.1	1.0
Oils and Fats	0.511	99.1	100.0	99.9	100.2	-0.1	0.2
Fruits	1.901	100.6	100.0	105.2	106.2	5.2	1.0
Vegetables	1.962	95.4	100.0	107.4	105.2	7.4	-2.0
Sugar,Jam,Honey,Chocolate& Confectionary	0.895	96.5	100.0	100.3	100.1	0.3	-0.2
Food Products n.e.c.	0.415	94.7	100.0	102.6	105.1	2.6	2.4
Non-Alcoholic Beverages	1.709	99.0	100.0	102.5	104.9	2.5	2.4
2. Tobacco	**0.078**	**90.8**	**100.0**	**102.2**	**102.3**	**2.2**	**0.1**
3. Clothing & Footwear	**5.366**	**96.8**	**100.0**	**104.2**	**101.7**	**4.2**	**-2.4**
4. Housing,Water, Electricity ,Gas & Other Fuels	**34.703**	**98.1**	**100.0**	**100.9**	**102.5**	**0.9**	**1.6**
5. Furnishings, Household Equipment & Routine Household Maintenance	**4.056**	**96.6**	**100.0**	**103.6**	**107.8**	**3.6**	**4.0**
6. Health	**1.329**	**97.3**	**100.0**	**102.0**	**102.9**	**2.0**	**0.9**
7. Transport	**19.268**	**96.9**	**100.0**	**100.9**	**100.4**	**0.9**	**-0.5**
8. Communication	**5.372**	**104.4**	**100.0**	**97.7**	**97.7**	**-2.3**	**-0.1**
9. Recreation and Culture	**1.475**	**98.5**	**100.0**	**98.2**	**97.2**	**-1.8**	**-1.0**
10. Education	**1.843**	**86.1**	**100.0**	**105.0**	**114.2**	**5.0**	**8.7**
11. Restaurants and Hotels	**4.721**	**100.0**	**100.0**	**100.0**	**100.3**	**0.0**	**0.2**
12. Miscellaneous Goods and Services	**4.967**	**94.7**	**100.0**	**100.3**	**100.1**	**0.3**	**-0.2**
General Price Index	**100.0**	**96.6**	**100.0**	**101.3**	**102.2**	**1.3**	**0.9**

Note: 1. The weights are based on Household Expenditure and Income Survey by taking average for the years 2008, 2009 and 2010.
2. Data collected from all 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	2011	2012	2013	2014	% change 2013/12	% change 2014/13
First: Oil & Gas Products	**79.534**	**154.3**	**164.7**	**160.7**	**156.6**	**-2.5**	**-2.5**
Crude Oil & Natural Gas	68.002	155.5	167.1	164.0	160.3	-1.8	-2.2
Refined Oil & Gas Products	11.533	147.1	150.8	141.0	134.8	-6.5	-4.4
Second : Non -Oil Products	**20.466**	**112.2**	**110.6**	**111.3**	**110.3**	**0.6**	**-0.8**
1. Mining, Electricity & Water	**4.964**	**104.8**	**102.7**	**103.1**	**102.8**	**0.4**	**-0.3**
2. Non-Oil Manufacturing	**15.502**	**114.5**	**113.1**	**113.9**	**112.7**	**0.7**	**-1.0**
A. Food, Beverages & Textiles Products	**3.104**	**121.2**	**122.8**	**120.3**	**119.1**	**-2.0**	**-1.0**
Fish, Fruits, Vegetables & Oils	0.974	125.0	126.3	117.0	114.1	-7.4	-2.5
Dairy Products	0.538	111.8	117.7	115.7	115.1	-1.7	-0.5
Bakery Products & Other Food Products	1.116	117.0	117.2	118.0	117.4	0.6	-0.5
Beverages	0.420	136.2	137.0	140.7	140.5	2.7	-0.2
Clothing, Textiles & Footwear	0.056	116.4	116.1	117.1	117.3	0.8	0.2
B.Transportable Goods	**7.294**	**114.3**	**114.4**	**119.1**	**119.5**	**4.2**	**0.3**
Wood & Paper Products	0.475	121.6	126.1	128.2	128.9	1.6	0.6
Gases,Acids & Polypropylene Products	2.889	116.0	115.2	125.8	125.0	9.2	-0.6
Paints & Pharmaceutical products	0.656	117.0	121.2	123.8	126.5	2.2	2.2
Rubber & Plastics Products	0.751	106.5	105.0	104.1	104.3	-0.8	0.2
Glass,Cement & Marble Products	2.012	112.6	111.6	112.2	113.5	0.6	1.2
Furniture, Jewellery manufacturing & Anti melted Metal Waste	0.511	112.9	115.1	116.6	117.4	1.3	0.7
C. Metal Products,Machinery & Equipment	**5.103**	**110.7**	**105.3**	**102.4**	**99.1**	**-2.8**	**-3.2**
Raw & Products of Steel or Aluminium	1.897	114.9	107.7	100.9	97.3	-6.4	-3.5
Fabricated Products of Steel or Aluminium	0.758	103.0	103.9	104.7	101.1	0.8	-3.4
Conditioning, Heating & Pumping Water, & Drilling of Wells Apparatus, & Car Oils Filters	0.240	110.6	110.0	108.6	107.9	-1.3	-0.6
Distribution & Delivery of Electricity Apparatus and Recording tapes &CDs	2.208	109.8	103.2	102.2	99.0	-1.0	-3.1
General Price Index	**100.0**	**145.6**	**153.6**	**150.5**	**147.2**	**-2.0**	**-2.3**

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

After several challenging years, the economic growth rate has witnessed signs of robust recovery in some advanced economies and emerging market economies in 2014. The global economic growth rate during the year, however, remains at a modest rate of 3.4 percent, the same growth rate recorded in 2013. Furthermore, the dramatic decline in oil prices in the second half of 2014 reemphasized the familiar pattern of volatility in the prices of commodities that seems to have been forgotten over the last few years in which oil prices remained above $100 per barrel. The lower and more volatile price of oil is expected to continue through 2015 and likely longer.

Many factors contributed to the remarkable decline in oil prices that started in the summer of 2014. On the demand side these factors include: slower –than- expected global economic recovery which in turn led to weaker demand for oil, especially in some major emerging economies, and high degree of uncertainty in the Eurozone. The improvements in energy efficiency seem to have played a part in the mentioned outcomes. On the supply side, three factors that were particularly relevant; the steady increase in the production from countries outside the Organization of the Petroleum Exporting Countries (OPEC), especially the United States; the rise in the production level of some of OPEC's members and the organization's decision in November 2014 to maintain production levels despite the sharp decline in prices.

As per the Oil Market Report by the International Energy Agency (IEA, April 2015), the daily average demand for crude oil in 2014 stood marginally higher at 92.5 million barrels as against 91.9 million barrels in 2013, corresponding to a year-on-year increase of 0.6 million barrels per day. Daily average global supply of crude oil stood at 93.5 million barrels in 2014 compared to 91.4 million barrels in 2013. The OPEC decided in November 2014 to leave it to the market forces to correct the mismatch between the growth in the demand and the supply of oil without having any specific target for the prices.

Recent signs point to a continued acceleration in the advanced economies, primarily on the account of higher growth rates in most non-Euro members of Organization for Economic Cooperation and Development (OECD). Further, the recorded economic growth rate in China and India in 2014 was 7.4 percent and 7.2 percent, respectively. As a result, global average growth rate was 3.4 percent in the years 2013 and 2014 and is projected to improve slightly to 3.5 percent in the current year, according to the International Monetary Fund's World Economic Outlook (April, 2015). The lower than expected recovery in the global growth rate had its impact on the level of the crude oil prices in 2014. OPEC basket average stood at US $ 96.3

per barrel in 2014 compared to US $105.9 per barrel a year before. As at December 2014, Brent crude oil price stood at US $ 77.1 per barrel as against a considerably higher level of US $ 108.7 in December 2013. The price for West Texas Intermediate crude oil declined to US $ 73.1 per barrel in December 2014 from US $ 98 per barrel a year earlier. Omani crude oil as at the end of December 2014 stood at US $ 75.5 per barrel compared to US $ 105.5 per barrel during the same period the previous year.

The outlook for the crude oil markets remains highly uncertain for 2015. The IEA anticipates the global demand to reach a daily average of 93.6 million barrels in 2015 or 1.1 million barrels higher than the demand in 2014. The IEA attributes the rise to growing demand in China, India and Europe and the need in the Western world for more energy for heat as a result of colder temperatures in the first quarter of 2015. On the price front, the April 2015 IMF World Economic Outlook estimated the average crude oil price at US $58.14 during the current year and US$ 65.65 in 2016, in line with prices in future markets. The trend reflects the disagreement among OPEC members about introducing cut on the quantity they supply and the constant rise in the supply from non- OPEC countries such as the U.S., Brazil, Canada, and Russia. The prospect of lower crude oil prices in 2015 was evident early this year as the price for Brent was quoted at US $ 55.13 per barrel at the end of March 2015, while the price for West Texas Intermediate stood at US $ 48.65 per barrel, according to the IEA. The price for the Omani crude oil in 2015 is also expected to remain in line with the global trend.

The Economics of Oil and Gas in Oman

The hydrocarbon sector accounted for 47.2 percent of the nominal GDP in 2014 compared with 50.6 percent in 2013 and 52.3 percent in 2012. Though there is a declining trend in the share of hydrocarbon sector in the economic activities in the last few years, it has remained the dominant economic sector in Oman. The decline in the crude oil prices in the global market that was not accompanied by a significant increase in crude oil and gas production in Oman during the year 2014, could explain the reduction in the contribution of this sector to the aggregate GDP. The average price for the Omani crude oil declined by 2.2 percent to US $ 103.23 per barrel in 2014 from US $ 105.51 per barrel in 2013 (Table 3.1, Chart 3.1). Oil production rose slightly to a daily average of 943.5 thousand barrels during 2014. On an aggregate basis, oil production rose by 0.2 percent to 344.4 million barrels in 2014 from 343.8 million barrels in the previous year. The production of natural gas, on the other hand, registered a decline of 3.6 percent to 37,687 million cubic meters during the same year. Other key macroeconomic indicators pointed to the continued dominance of the hydrocarbon sector in the Omani economy. Oil and gas revenues as a percentage of GDP stood at 37.8 percent in 2014 and accounted for 84.3 percent of government revenues and about 65.5 percent of total merchandise exports (including re-exports) during the year.

The Government of Oman continued to pursue a developmental and economic diversification policy in 2014 wherein more and more hydrocarbon resources were being utilized to develop value-added hydrocarbon-based industries in the country,

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

Month	2010	2011	2012	2013	2014
January	77.64	83.60	109.33	107.14	105.97
February	75.36	88.93	107.41	106.16	107.88
March	77.04	92.51	110.63	107.78	104.04
April	73.88	100.39	117.32	111.21	105.04
May	77.77	108.95	122.80	105.50	104.36
June	83.70	116.51	117.29	101.81	104.99
July	77.22	109.20	107.68	100.43	105.65
August	74.09	107.84	94.42	100.21	108.08
September	72.50	110.57	99.47	103.59	106.24
October	74.58	105.10	109.05	106.96	102.23
November	75.35	106.96	111.24	108.58	97.26
December	80.52	104.88	108.67	106.70	86.96
Average (Jan-Dec)	**76.64**	**102.95**	**109.61**	**105.51**	**103.23**

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

including petrochemical and energy-intensive industries. Major oil companies in Oman continued to invest in research and development for new technologies with the objectives of enhancing oil production from challenging geological formations and complex reservoirs as well as trying to minimize production costs. With lower output per well and less accessible reservoirs, the Sultanate

Chart 3.1 : Oil Production and Prices

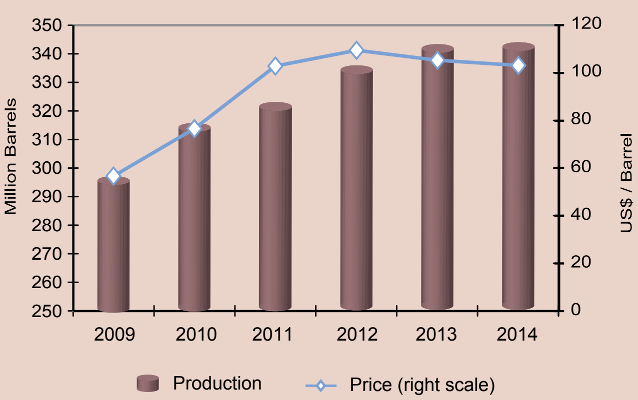


Table 3.2
Oil Production & Exports
(Million Barrels)

Year	Production	% Change	Exports	% Change
2010	315.6	6.4	271.8	11.9
2011	323.0	2.3	269.4	-0.9
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

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

is deploying capital-intensive Enhanced Oil Recovery (EOR) techniques. The Omani oil sector started to benefit from these innovations in 2008 when declining production trend was reversed after seven years. These efforts continued to bear fruit as validated by the 0.2 percent increase in oil production in 2014 (Table 3.2, Chart 3.1).

Crude Oil

Production and Exploration

The year 2014 witnessed an increase of 0.2 percent in crude oil production over the previous year which works out to a daily average of 943.5 thousand barrels. This increase reflected in most part the increase in output from Occidental Oman, CC Energy and Daleel Petroleum Company. Average production from Occidental Oman increased from 82.6 thousand barrels per day in 2013 to 86 thousand barrels per day in 2014. Also, average production from CC Energy rose to 25.3 thousand barrels per day in 2014 from an average of 15.1 thousand barrels per day in 2013. Similarly, average production of Daleel increased to 43.9 thousand barrels per day in 2014 from 40.4 thousand barrels per day in the previous year. The total average daily production of 943.5 thousand barrels in 2014 consisted of 856.2 thousand barrels of oil and 87.3 thousand barrels of condensates produced from 217 oilfields across Oman.

Petroleum Development Oman (PDO) continued to remain the largest petroleum company in Oman in 2014. Its daily average oil production stood at 570.5 thousand barrels compared to a slightly lower production level of 569.7 thousand barrels in 2013. The quantity of oil produced by PDO in 2014 was well above the Company's long-term target of 550 thousand barrels per day. The company continued to maximize recovery from conventional oil and gas fields and to enhance exploration from unconventional opportunities. In 2014, the success shown by PDO in recent years continued for the seventh consecutive year as the Company's combined production of oil, gas, liquid petroleum gases and condensates stood at 1.23 million barrels of oil equivalent per day, the third highest in PDO history.

The Ministry of Oil and Gas signed two exploration and production sharing agreements in 2014, with local and international companies. The objective of these agreements is to book additional oil reserves to the existing reserves so as to sustain and potentially increase production. The first agreement was signed with Petrogas Kahil LLC for Block 55, that occupies an area of 7,564 sq km in the AlWusta governorate. The second agreement was signed with the Indonesian Medco Arabia Limited with a local partner Intaj LLC for Blocks 56 which occupies an area of 5,808 sq km and located within AlWusta Governorate, as well. These agreements are to perform geological and geophysical studies and drill several wells during the exploration period.

In 2014, the oil exploration companies in Oman drilled forty nine exploration wells and according to initial findings the results appeared to be promising. In the course of 2014, PDO drilled 29 exploration wells, resulting in new oil discoveries in two of them. These discoveries have added approximately 613 million barrels of stock tank oil initially in place, the biggest booking since 1994. Occidental Oman drilled 10 exploration wells in 2014. Also, CC Energy drilled 6 exploration wells, while the remaining companies drilled 4 wells. Total oil and condensate reserves for Oman were estimated at 5,306 million barrels in 2014.

New Projects

Oil companies that operate in the Sultanate initiated a number of new projects during 2014 in order to increase crude oil and gas production as well as to boost existing hydrocarbon reserves. The major producer, PDO, has 560 million barrels of hydrocarbon resources under development across a number of major projects. In 2014, alongside five major EOR field development projects at Marmul, Qarn Alam, Harweel-2AB, Amal, and Birba, there are two EOR trails in Nimr polymer and Amal West steam. Furthermore, during 2014, PDO conducted six trails and tests at the engineering design and execution stage. The Marmul polymer project has been running efficiently for the last four years. At the end of 2014, the project delivered 1.4 million square meters (8.8 million barrels) of incremental oil recovery. The Rehab Harweel integrated project moved smoothly into the execution stage.

Chart 3.2 : Omani Crude Oil Production and Exports

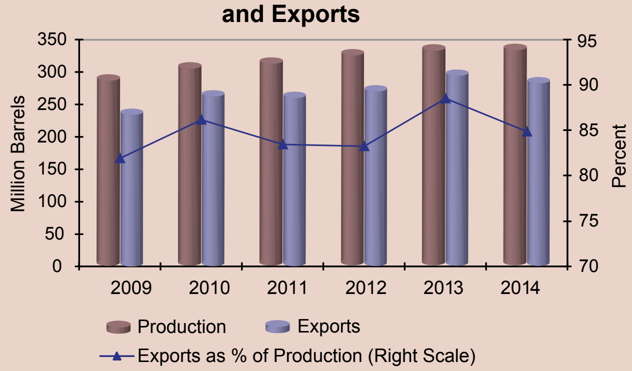
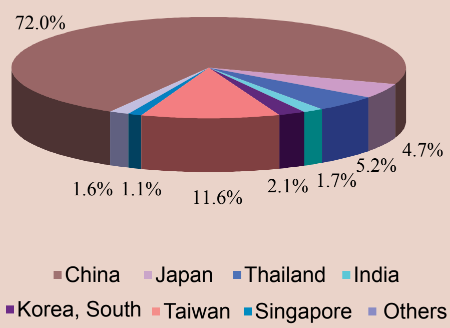


Chart 3.3: Direction of Oil Exports 2014



About 243 million barrels of oil is estimated to be produced from the project. Another successful project is the Nimr-C field which has achieved a six-fold oil production increase in just four years, from 2,800 barrels per day (bpd) in 2010 to 17,600 bpd in 2014.

CC Energy Development Oman has made significant achievements by raising its daily production level to an average of 25,000 barrel in 2014 within just few years of starting its operations in Blocks 3 & 4, located in the eastern part of the Sultanate. CC Energy is acknowledged for its success in achieving full scale production within a relatively short span of time from the initial discovery date.

Oil Exports

After a modest decline of 0.9 percent in 2011, Omani crude oil exports continued on the increasing trend for the following two years. Total oil exports rose by 3.9 percent to 279.8 million barrels in 2012 and rose again by 8.7 percent to 304.2 million barrels in 2013 (Table 3.2, Chart 3.2). In 2014, though there was a slight increase in the production levels, the export level declined by about 4 percent, mainly due to the rise in the domestic demand. Affected by relatively lower level of oil prices, crude oil exports decreased by 6.1 percent to RO 11,591.3 million in 2014, refined oil exports declined by 9.2 percent to RO 309.5 million, and Liquefied Natural Gas (LNG) exports decreased by 10.6 percent to RO 1,493 million during the same year (details given in chapter 6).

As regards export destinations for the Omani crude oil, China received the largest share of the Omani crude oil exports in 2014, reaching 210.5 million barrels or 72 percent of the aggregate oil exports during the year. Taiwan imported 33.9 million barrels of Omani crude oil in 2014, with the remaining exports going to a number of Asian emerging economies (Table 3.3, Chart 3.3). Besides China and Taiwan, other major importers in 2014 included Thailand (15.1 million barrels or 9 percent of total oil exports), Japan (13.8 million barrels), South Korea (6.1 million barrels), India (4.9 million barrels), and Singapore (3.3 million barrels).

Natural Gas

The Sultanate of Oman witnessed increasing level of activities in 2014 aimed at discovering new gas reserves and boosting production. Provisional

Table 3.3
Direction of Oil Exports
(In Million Barrels)

Country of Destination	2010	2011	2012	2013	2014
China	111.3	122.8	140.1	180.8	210.5
Japan	37.9	27.5	38.2	29.3	13.8
Korea, South	17.7	20.5	10.9	4.7	6.1
India	38.1	33.5	5.2	13.2	4.9
Taiwan	12.1	9.6	33.4	27.4	33.9
Thailand	28.8	21.7	19.0	17.1	15.1
Singapore	10.3	9.6	19.9	13.5	3.3
Others	13.9	21.6	7.1	18.3	4.6
Total	**271.8**	**269.4**	**279.8**	**304.2**	**292.2**

Source: Ministry of Oil and Gas.

figures for 2014 pointed to an aggregate reserve of 24.31 trillion cubic feet of natural gas while the number of gas producing fields in Oman stood at 33 during the year. A number of companies continued to conduct gas exploration activities in 2014 with notable results. A total of 18 exploration wells were drilled during the year. Also, five wells were tested and fracked by PDO, mainly in Khulud West, Mabrouk South, and Tayseer. The company has continued its extended well tests at the Khulud tight gas project, one of the deepest tight gas developments in the world. The knowledge that is acquired from the hydraulic fracturing work at Khulud will be essential component for the commercialization of the tight gas reservoirs, in particular, and the future gas supplies to the country, in general.

In 2014, the daily production of natural gas declined by 3.9 percent, reaching an output of 97.8 million cubic meters (18.6 million cubic meters of associated gas and 79.2 million cubic meters of non-associated gas) as compared to 101.8 million cubic meters per day in 2013. Natural gas accounted for about 40 percent (47 percent, including condensate) of PDO's oil production in 2014. PDO operates on behalf of the Government, the owner of all the non-associated gas resources in block 6.

The aggregate production of natural gas decreased to 37,687 million cubic meters (6,790 million cubic meter of associated gas and 30,897 million cubic meter of non-associated gas) in 2014 from 39,109 million cubic meter (6,854 million cubic meter of associated gas and 32,255 million cubic meter of non-associated gas) in 2013 (Table 3.4). Natural gas was used for power generation, industries, industrial projects, as well as in various oil fields as fuel and for re-injection in oil wells to enhance production.

Oman imported 5.4 million cubic meters per day of natural gas from Dolphin Energy Company in order to meet rising domestic demand in 2014, more specifically for re-injection in oil wells. Natural gas is increasingly becoming a critical source of energy to the Omani economy as the Government pursues its economic diversification policy. A number of industries that have come on stream are energy-intensive and combined with rising demand for power consumption as the economy continues to grow, the demand for natural gas is expected to rise.

Gas Exports

Another important component of Omani exports is natural gas. In 2014, Oman exported a total of 7.9 million metric tons of Liquefied Natural Gas (LNG). Oman LNG Company exported a total of 5 million

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

	2013	2014*	% Changes 2014/2013
Production	**39,109**	**37,687**	**-3.6**
Associated	6,854	6,790	-0.9
Non Associated	32,255	30,897	-4.2
Uses	**39,114**	**37,687**	**-3.6**
A- Power Generations	7,473	7,998	7.0
B- Industrial Areas	679	682	0.4
C- Industrial Projects	21,915	21,169	-3.4
D- Oil Fields	9,047	7,838	-13.4
Fuel	2,391	2,537	6.1
Re-injection	2,860	2,882	0.8
Flared	1,531	1,593	4.0
Other	2,265	825	-63.6

*Provisional
Source: National Center for Statistics and Information.

Table 3.5
Oman's Mining and Quarrying Production
(Thousand Metric Ton)

Description	2013	2014	% Changes 2014/2013
Marble	1,255.0	1,565.1	24.7
Limestone	5,489.0	8,723.7	58.9
Gypsum	2,785.0	3,387.3	21.6
Salt	11.8	12.9	9.3
Chromite	787.7	751.2	-4.6
Iron (Laterite)	572.4	753.1	31.6
Building Materials	69,449.3	62,546.5	-9.9
Clay	221.7	305.4	37.8
Sand	50.3	60.2	19.7
Quartz	346.7	282.9	-18.4
Copper	57.4	72.1	25.6
Magnesium	49.0	37.5	25.6
Kaolinite	114.7	66.6	-23.5

Source: Public Authority for Mining.

metric tons while 2.9 million metric tons were exported by Qalhat LNG Company. The Sultanate also exported 0.246 million metric tons of Natural Liquid Gas (NGL) in 2014.

Mining and Quarrying

Oman is endowed with massive amount of superior quality mineral resources. The mineral recourses in Oman are divided into two major categories: metallic minerals (e.g. copper and chromite) and industrial minerals (e.g. limestone and marble). Mining sector is considered as a promising sector to the national economic diversification strategy and as a contributor to the nation's GDP as well as providing jobs for Omanis. The Government has undertaken many steps in order to enhance the contribution of this key economic sector to the progress in the national development. Among these actions was conducting a comprehensive review of the country's burgeoning mining industry. In September 2014, the Public Authority for Mining was established by a Royal Decree. The Authority has wide ranging functions to regulate and promote the development of the mining sector in the Sultanate. By the end of the year 2014, thirty three companies were conducting mineral explorations and operations in Oman. The natural resources that are included under mining and quarrying are quantified in metric tons and consisted of 13 items in 2014 (Table 3.5). According to 2014 provisional figures, the largest quantity produced was in building materials at 62.6 million metric tons, less by about 10 percent than its production level in 2013, followed by limestone at 8.7 million metric tons, and by Gypsum at 3.4 million metric tons. Other resources produced in 2014 included copper, marble, salt, chromite, iron, clay, sand, and quartz.

Public Finance

PUBLIC FINANCE

Overall Fiscal Assessment

Provisional figures for the Sultanate's 2014 fiscal year pointed to a deficit (net of transfers to reserve funds) of RO 1,064.3 million as against a deficit of RO 82.6 million in 2013. The higher deficit in 2014 was the net result of a relatively modest increase in government revenues and an expansionary fiscal policy. Although the size of the fiscal deficit was the largest since 2010, it remained relatively modest when viewed in the context of fiscal indicators such as its percentage of the total government revenues or as percentage of Gross Domestic Product.

Revenues from sale of crude oil continued to be the main source of government revenues in 2014 as had been the case in previous years. Given a 2.2 percent decrease in average Omani crude oil prices between 2013 and 2014, a modest 0.2 percent increase in crude oil production, and 3.9 percent decline in amount of oil exported as domestic consumption increased, the year under review registered a 2.2 percent decline in net oil revenues compared to an increase of 6.1 percent in 2013. With revenues from oil accounting for 72.3 percent of government revenues in 2014, its decline from the previous year had an impact on aggregate government revenues that resulted in a modest increase of 1.4 percent during the year in contrast to an increase of 3.2 percent in the previous year.

The impact of the decrease in oil revenues on total government revenues in 2014 was offset by the increase in other major sources of government revenues with revenues from natural gas increasing by about 13 percent and other current revenues in the form of taxes, fees and other non-taxes revenues, rising by 2.7 percent. On aggregate, oil and gas revenues amounted to 84.3 percent of total government revenues with revenues from natural gas contributing 12 percent. The decline in oil revenues in 2014 and the prospect of lower oil prices in the near future prompted the government to explore a number of fiscal adjustment alternatives to enhance its fiscal space. One of the alternatives being explored is the expansion of non-hydrocarbon based revenues, but without compromising the overall business environment.

The expenditure side of the public finance pointed to an expansionary fiscal policy in 2014 as already stated given a year-on-year increase of 8.4 percent in total government expenditure compared to a more tempered expansion of 3.2 percent in 2013. On the key expenditure items, current expenditure increased by about 9.0 percent during the year under review compared to a modest increase of 0.6 percent in 2013. Similar trend is observed on investment expenditure given a growth of about 15 percent in 2014 compared to 8.1 percent increase in the previous year. In contrast, government expenditure on participation and other expenses pointed to a reversal during the year under review as it declined by 3.3 percent compared to an increase of 8.0 percent in the previous year.

Although the decline in crude oil prices that started in the second half of 2014 had some adverse impact on the overall fiscal position for the Sultanate, it was, nonetheless, easily contained. The marginal fiscal impact was in part due to the fact that a significant portion of Omani crude oil was sold on forward contract basis with prices more favorable than those that prevailed in the spot markets. In fact, the margin between the two prices was critical in mitigating the effect of the collapse of hydrocarbon price that took place during the year as testified by fiscal management indicators (Table 4.1).

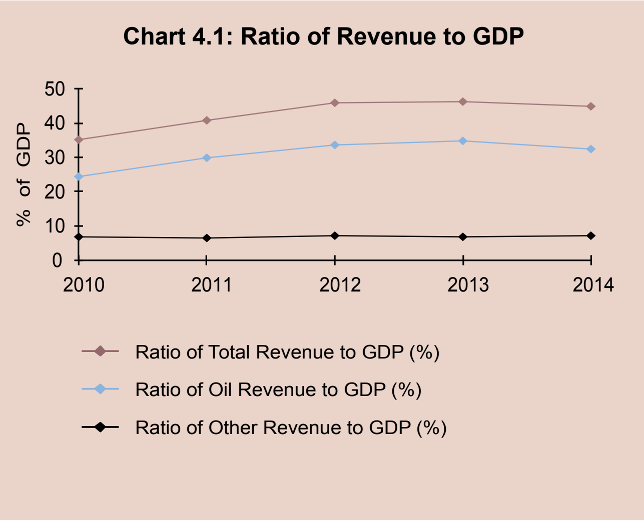
Provisional figures for 2014 indicated that fiscal balance as percentage of GDP amounted to a deficit of 3.4 percent compared to a deficit of 0.3 percent in 2013 while total revenues as percentage of GDP stood at 44.9 percent as against 46.3 percent in the previous year. The increase in fiscal deficit as percentage of GDP in 2014 reflected both higher deficit and the increase in nominal GDP when compared to 2013 while lower total revenues as percentage of GDP reflected lower government revenues but also an increase in nominal GDP (Chart 4.1). Net oil revenues as of percentage of GDP declined to 32.4 percent during the year under review from 34.7 percent in the previous year.

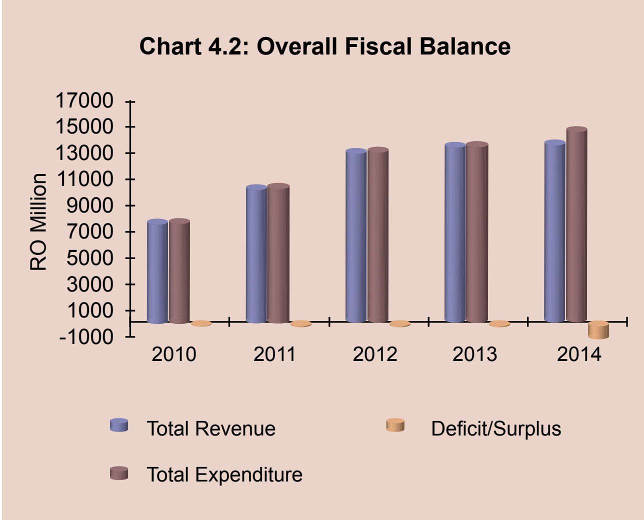
Fiscal management indicators related to expenditure show that total government expenditure as percentage of GDP increased to 48.2 percent in 2014 from 46.5 percent in 2013. At sub-component levels, similar upward trends were observed given that current expenditure as percentage of GDP increased to 30.5 percent from 29.3 percent in the previous year and investment expenditure to 11.4 percent from 10.4 percent. In contrast to current and investment expenditures, government expenditure related to participation

Table 4.1
Indicators of Fiscal Management

Items	2010	2011	2012	2013	2014*
Fiscal Balance as % of GDP	-0.2	-0.4	-0.3	-0.3	-3.4
Total Revenues as % of GDP	35.1	40.7	45.9	46.3	44.9
Net Oil Revenues as % of GDP	24.3	29.9	33.5	34.7	32.4
Total Expenditure as % of GDP	35.3	41.1	46.2	46.5	48.2
Current Expenditure as % of GDP	21.2	23.4	29.9	29.3	30.5
Investment Expenditure as % of GDP	11.5	11.3	9.8	10.4	11.4
Participation & Other Expenses as % of GDP	2.6	6.4	6.5	6.8	6.3
Share of Oil Revenues in Total Revenues	69.1	73.4	73.0	75.0	72.3
Share of Current Expenditure in Total Expenditure	60.2	56.8	64.7	63.1	63.3

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





and other expenses as percentage of GDP declined to 6.3 percent in 2014 from 6.8 percent in 2013. The decrease in oil revenues in 2014 was also reflected in terms of total government revenues as its share stood at 72.3 percent compared to 75.0 percent during the previous year. At 63.3 percent, share of current expenditure in total expenditure pointed a marginal increase in 2014 as similar indicator stood at 63.1 percent in 2013.

Government Revenues

As alluded to in the section above on overall fiscal assessment for the Sultanate in 2014, the impact of falling oil prices in the global market that started in the second half of 2014 was reflected on the revenues side of government public finances. The net effect of most the Omani oil having been sold on forward contracts and the remaining on spot prices resulted in a 2.2 percent annual decline in average Omani crude oil price for the year under review. Accordingly, given the significant dominance of crude oil as a source of public revenues, total government revenues registered rather a modest increase of 1.4 percent from the previous year to RO 14,107.5 million in 2014 against an increase of 3.2 percent in 2013 (Chart 4.2, Table 4.2). The 3.9 percent decline in quantity of crude oil exports during 2014 further contributed the decrease in oil revenues.

An analysis in the trend of the key sub-components under total government revenues reveals a decline of 2.2 percent in net oil revenues to RO 10,205.2 million in 2014, compared to an increase of 6.1 percent during the previous year. Unlike oil revenues, government revenues from natural gas increased by about 13.0 percent to RO 1,687.6 million in 2014, a marked increase when compared to a decline of 5.6 percent in 2013. A recent policy by the government to sell natural gas domestically at competitive prices explains the surge in natural gas revenues in 2014. Other current revenues increased by 2.7 percent in 2014 to RO 1,983.7 million compared to a decline 5.0 percent in 2013. The following section discusses the elements and the various sources of other current revenues and as such provides an insight to the composition of non-hydrocarbon sources of government revenues.

Table 4.2
Public Finance
(Rial Omani Million)

Items	2010	2011	2012	2013	2014*	% change 2013/12	% change 2014/13
REVENUES	**7916.5**	**10624.7**	**13474.5**	**13907.6**	**14107.5**	**3.2**	**1.4**
Net Oil Revenues	5470.1	7798.4	9831.3	10429.5	10205.2	6.1	-2.2
Gas Revenues	929.9	1172.9	1583.7	1495.3	1687.6	-5.6	12.9
Other Current Revenues	1464.2	1596.5	2033.7	1931.0	1983.7	-5.0	2.7
Capital Revenues	29.9	17.6	13.0	30.2	15.8	-	-47.7
Capital Repayments	22.4	39.3	12.8	21.6	215.2	68.8	-
TOTAL EXPENDITURE	**7965.3**	**10737.9**	**13555.1**	**13990.2**	**15171.8**	**3.2**	**8.4**
Current Expenditure	**4791.3**	**6103.8**	**8772.7**	**8822.0**	**9606.2**	**0.6**	**8.9**
Defence & National Security	1888.2	2563.7	4742.5	4494.2	4210.8	-5.2	-6.3
Civil Ministries	2613.5	3186.9	3503.3	3848.5	4762.7	9.9	23.8
Interest Paid on Loans	37.4	38.1	45.3	53.6	52.9	18.3	-1.3
Oil Production Expenditures	177.0	235.0	392.7	343.9	484.5	-12.4	40.9
Gas Production Expenditures	75.2	80.1	88.9	81.8	95.3	-8.0	16.5
Investment Expenditure	**2596.8**	**2959.5**	**2886.5**	**3120.0**	**3584.2**	**8.1**	**14.9**
Development Expenditure for Civil Ministries	1647.5	1871.9	1650.3	1744.3	2093.6	5.7	20.0
Capital Expenditure for Civil Ministries	48.5	53.9	58.2	60.7	72.0	4.3	18.6
Oil Production Expenditures	613.5	624.3	659.9	752.7	748.1	14.1	-0.6
Gas Production Expenditures	287.3	409.4	518.1	562.3	670.5	8.5	19.2
Participation & Other Expenses	**577.2**	**1674.6**	**1895.9**	**2048.2**	**1981.4**	**8.0**	**-3.3**
SURPLUS/DEFICIT	**-48.8**	**-113.2**	**-80.6**	**-82.6**	**-1064.3**	**-**	**-**
FINANCING	**48.8**	**113.2**	**80.6**	**82.6**	**1064.3**	**-**	**-**
Net Grants Received	-24.7	-55.7	-32.7	-43.4	-50.2	-	-
Drawing from Reserves	-	-	-	-	-	-	-
Net loans Received	53.3	-38.9	-36.7	-74.0	-60.3	-	-
Development Bonds(Net)	78.0	150.0	150.0	200.0	100.0	-	-
Surpluses Brought from Previous Years	-	57.8	-	-	1074.8	-	-
Change in Government Accounts	-57.8	-	-	-	-	-	-

* Provisional

Source: Ministry of Finance.

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

Items	2010	2011	2012	2013	2014*	% Change 2014/13
A. Taxes and Fees Revenues	**707.6**	**728.5**	**909.9**	**943.1**	**1082.9**	**14.8**
Income Tax on Companies and Establishments	272.6	281.9	353.3	394.2	448.0	13.6
Company Participation in Technical/Training Projects	121.0	150.5	163.6	154.5	156.0	1.0
Fees on Licences and Others	124.4	134.9	142.9	177.1	199.7	12.8
Licences Fees on Communication Services	10.0	-	-	-	-	-
Custom Duties	179.6	161.2	250.1	217.3	279.2	28.5
B. Non-Tax Revenues	**756.6**	**868.0**	**1123.7**	**987.9**	**900.8**	**-8.8**
Water Revenues	59.5	56.2	57.8	63.3	63.1	-0.3
Postal Revenues	0.4	0.4	0.4	0.0	0.0	0.0
Airport Revenues	30.1	31.2	32.2	33.6	23.4	-30.4
Port Revenues	0.3	0.3	0.3	0.3	0.3	0.0
Public Communication Services Toll	37.8	46.2	41.7	88.4	48.0	-45.7
Surplus from Public Authorities	9.1	10.3	7.4	10.2	8.0	-21.6
Rent from Government Real Estate	8.7	8.5	10.2	11.6	11.6	0.0
Income from Government Investments	380.0	512.0	775.2	556.0	474.1	-14.7
Interest on Bank Deposits and Lending	27.9	25.2	25.8	27.8	20.5	-26.3
Others	202.8	177.7	172.8	196.7	251.8	28.0
Total	**1464.2**	**1596.5**	**2033.7**	**1931.0**	**1983.7**	**2.7**

* Provisional
Source: Ministry of Finance.

Other Current Revenues

The sources of revenues to the government classified as other current revenues consist of two key components, namely taxes and fees revenues and non-tax revenues. Revenues from taxes and fees amounted to RO 1,082.9 million in 2014, corresponding to a year-on-year increase of 14.8 percent. In contrast, non-tax revenues declined to RO 900.8 million, or a decrease of 8.8 percent from the previous year (Table 4.3). While revenues from taxes and fees pointed to a sustained increase since 2010, non-tax revenues increased between 2010 and 2012, but were followed by consecutive decline in 2013 and 2014.

Under taxes and fees revenues, income tax on companies and establishments added RO 448.0 million to the overall government revenues in 2014, or an increase of 13.6 percent in similar revenues from the previous year. These particular revenues accounted for 41.4 percent of taxes and fees revenues in 2014, followed by fees on licenses and others at RO 199.7 million and revenues from companies participating in technical and training projects at RO 156 million, both of which pointed to increases from the previous year at 12.8 percent and one percent, respectively.

The 8.8 percent decline in non-tax revenues in 2014 owed to the decline in almost all its main sources. Income from government investments which stood at RO 474.1 million and accounted for 52.6 percent of all non-tax revenues during the year, pointed to a decline of 14.7 percent. The net effect of an increase of 14.8 percent in taxes and fees revenues and a decline of 8.8 percent in non-tax revenues resulted in RO 1,983.7 million in other current revenues in 2014, or an increase of 2.7 percent from 2013.

Government Expenditure

The government pursued a more pronounced expansionary fiscal policy in 2014 than in the previous year. Total government expenditure increased by 8.4 percent, to RO 15,171.8 million in 2014 whereas the previous year witnessed a fiscal expansion of 3.2 percent. On the composition of total expenditure, both current expenditure and investment expenditure witnessed an increase in 2014 while expenditure on participation and other expenses pointed to a decrease.

Current expenditure continued to dominate total government expenditure in 2014, accounting for 63.3 percent. Following a marginal increase of 0.6 percent in 2013, it grew further by about 9.0 percent to RO 9,606.2 million during the year under review (Chart 4.3). Investment expenditure increased by an even higher rate of about 15.0 percent reaching RO 3,584.2 million in 2014 compared to an increase of 8.1 percent in the previous year. In contrast, expenditure on government participation and other expenses declined by 3.3 percent to RO 1,981.4 million following an increase 8.0 percent in 2013 (Chart 4.4).

Current Expenditure

The increase of about 9.0 percent in current expenditure to RO 9,606.2 million in 2014 reflected rising expenditure in some of the large items with the exception of current expenditure on defense and national security which pointed to a decrease of 6.3 percent to RO 4,210.8 million in 2014 following a decrease of 5.2 percent in 2013. In current expenditure on oil production surged by about 41 percent to reach RO 484.5 million in 2014 after declining by 12.4 percent in the previous year. One of the large current expenditure items that pointed to a sustained increase is the expenditure on civil ministries which in 2014 surged by 23.8 percent to

Chart 4.3: Components of Fiscal Expenditure

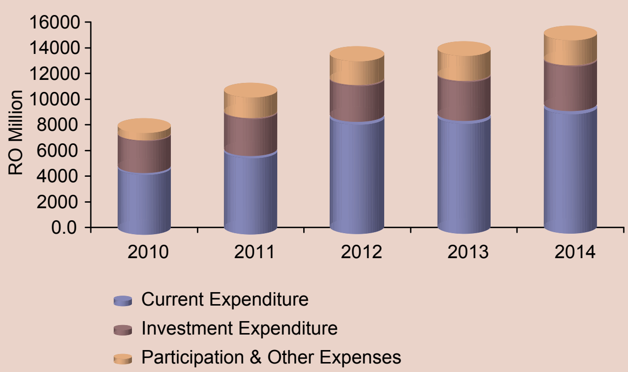
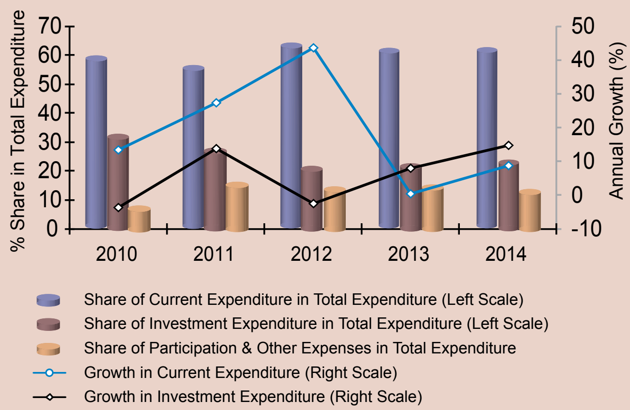


Chart 4.4: Compositional Shifts in Total Expenditure



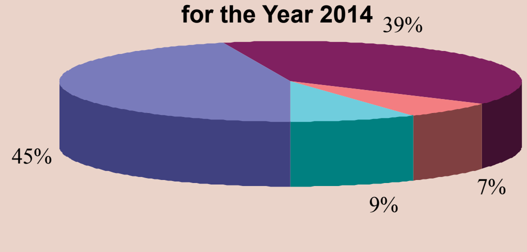
RO 4,762.7 million following an increase of about 10.0 percent the year before. The marked increase in current expenditure on civil ministries in 2014 was the result of significant increases in wages, salaries, and allowances for public employees as well as on expenditure related to the purchase of goods and services by the government as discussed in the subsequent section.

Civil Ministries Current Expenditure

Three key components make up the civil current expenditure (Table 4.4). The first component includes total wages, salaries, allowances and others which registered a year-on-year increase of 35.3 percent, reaching RO 3,345.3 million in 2014 and accounting for 70.2 percent of total civil expenditure (Chart 4.5). The breakdown of the component indicated that expenditure on salaries and wages accounted for about 45.2 percent while expenditure on allowances accounted for 39.2 percent in 2014. Both sub-components pointed to marked increases from 2013 with salaries and wages growing by 37.0 percent and allowances by about 39.0 percent.

The notable increase in civil current expenditure related to salaries, wages and allowances in 2014 reflected in most part the government's initiative to align salaries, wages and benefits among various government institutions. Together, expenditure on other remunerations and contribution to the pension fund accounted for the remaining 15.7 percent during the year under review. The second component of civil current expenditure consists of goods and services which together, registered an increase of about 11.0 percent from 2013 to RO 903.0 million in 2014. In contrast, current expenditure on subsidies and other current transfers pointed to a decline of 8.5 percent to RO 514.4 million during the year under review. At aggregate, civil current expenditure surged by 23.8 percent to RO 4,762.7 million in 2014.

Chart 4.5: Breakdown of Total Salaries, Wages, Allowances and Others for the Year 2014



The breakdown of civil current expenditure by function lists a number of items, all of which pointed to increases in 2014 (Table 4.5). The largest current expenditure classified by function related to education affairs and services which accounted for 36.1 percent, or RO 1,717.7 million in 2014, and having registered a marked increase of 31.3 percent from 2013. Other major items include expenditure on health which also increased significantly by 33.8 percent to RO 691.7 million, expenditure on general public services sector by 11.8 percent to RO 614.3 million, expenditure on social security and welfare by 5.8 percent to RO 593.0 million and expenditure on housing by 18.3 percent to RO 581.4 million 2014. The increase in overall civil current expenditure in 2014 was part of a policy designed to ameliorate social services and keep up with the demand.

Investment Expenditure

Investment expenditure pointed to a notable increase of about 15.0 percent to RO 3,584.2

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

Items	2010	2011	2012	2013	2014*	% Change 2014/13
A. Total Wages, Salaries, Allowances and Others	**1722.7**	**1935.4**	**2307.7**	**2472.1**	**3345.3**	**35.3**
Salaries and Wages	833.1	904.5	1041.1	1103.0	1510.9	37.0
Allowances	543.0	702.8	865.1	943.2	1310.4	38.9
Other Remuneration	233.5	170.0	200.6	213.5	225.7	5.7
Contribution to Pension Fund	113.1	158.1	200.9	212.4	298.3	40.4
B. Expenditure on Goods and Services	**702.7**	**584.8**	**661.3**	**814.1**	**903.0**	**10.9**
Purchase of Goods	148.2	165.0	179.5	212.4	221.3	4.2
Purchase of Services	475.8	342.8	399.5	506.1	578.7	14.3
Expenses of Government Services	78.7	77.0	82.3	95.6	103.0	7.7
C. Subsidies and Other Current Transfers	**188.1**	**666.7**	**534.3**	**562.3**	**514.4**	**-8.5**
Total Civil Current Expenditure	**2613.5**	**3186.9**	**3503.3**	**3848.5**	**4762.7**	**23.8**

* Provisional
Source: Ministry of Finance.

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

Items	2010	2011	2012	2013	2014*	% Change 2014/13
General Public Services Sector	420.3	426.8	486.7	549.7	614.3	11.8
Public Order and Safety	66.8	82.0	90.1	109.5	141.8	29.5
Education Affairs and Services	935.4	1036.5	1230.0	1308.2	1717.7	31.3
Health	334.5	372.4	434.7	517.0	691.7	33.8
Social Security and Welfare	281.1	629.0	536.4	560.6	593.0	5.8
Housing	391.1	413.6	446.1	491.3	581.4	18.3
Cultural and Religious Affairs	88.4	117.6	151.4	163.6	231.3	41.4
Fuel and Energy	3.1	3.2	3.9	3.9	4.8	23.1
Agriculture, Forestry & Fishing	33.2	38.9	44.8	48.0	62.3	29.8
Mining, Manufacturing and Construction	-	-	0.1	0.0	0.0	0.0
Transport and Communication	32.8	39.0	45.7	50.2	63.7	26.9
Other Economic Affairs	26.8	27.9	33.6	46.5	60.7	30.5
Total Civil Current Expenditure	**2613.5**	**3186.9**	**3503.3**	**3848.5**	**4762.7**	**23.8**

* Provisional
Source: Ministry of Finance.

million in 2014 following an increase of 8.1 percent in 2013. At sub-component levels, development expenditure for civil ministries which accounted for 58.4 percent of investment expenditure pointed to a surge of 20.0 percent, reaching RO 2,093.6 million during the year under review, reflecting ongoing government's policies to develop new infrastructure and improve existing ones (Chart 4.6). Despite declining crude oil prices in 2014 and the subsequent implication, the government of Oman continued to give priority to its infrastructure projects with the aim of crowding in domestic as well as foreign investments.

Investment expenditure on oil production however, declined and albeit slightly by 0.6 percent to RO 748.1 million while similar expenditure on gas production pointed to a major increase of 19.2 percent, reaching RO 670.5 million in 2014. On aggregate, government investment expenditure on crude oil and natural gas production amounted to RO 1,418.6 million in 2014, representing 39.6 percent of total government investment expenditure during the year (Chart 4.7). While initiatives took place in 2014 to rationalize spending in the hydrocarbon sector, the government made sure that they did not come at the expense of production. The increase in investment expenditure related to gas production reflected the government policy to promote the sector as a strategic industry to meet the Sultanate's development needs, primarily with respect to rising demand for energy. The following section discusses the breakdown of civil development expenditure in terms of their functions.

Civil Development Expenditure

The breakdown of civil development expenditure by function lists itemized expenditure on various sectors (Table 4.6). The 20 percent increase in total civil development expenditure that reached RO 2,093.6 million in 2014 was driven by marked increases in two major items, namely expenditure on housing that surged by 75.3 percent to RO 656.9 million and expenditure on education affairs and services which also registered a major increase of 38.8 percent, reaching about RO 244.0 million during the year under review. Expenditure on transport and communication which accounted for 41.0 percent of total civil development expenditure in 2014 grew by 1.2 percent from the previous year to reach RO 859.3 million during the year. The marked increases in development expenditure

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

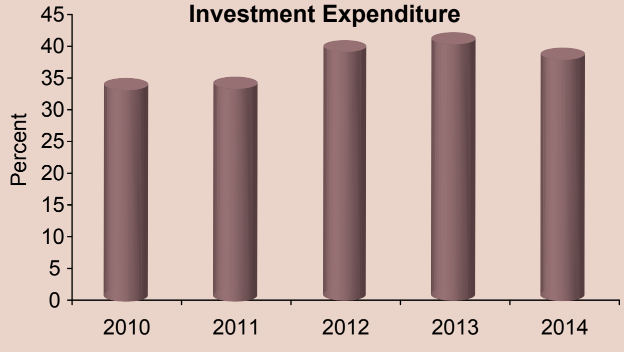


Chart 4.7: Breakdown of Investment Expenditure for the Year 2014

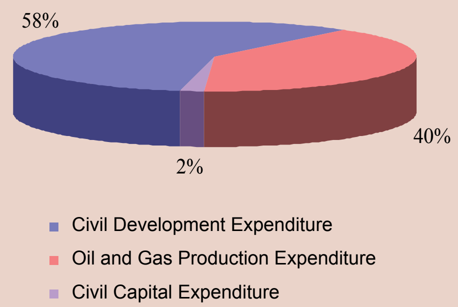


Table 4.6
Breakdown of Civil Development Expenditure by Function
(Rial Omani Million)

Items	2010	2011	2012	2013	2014*	% Change 2014/13
General Public Services Sector	237.4	230.2	212.3	162.1	147.2	-9.2
Public Order and Safety	12.6	14.9	11.3	9.4	11.6	23.4
Education Affairs & Services	101.7	107.4	141.9	175.8	244.0	38.8
Health	48.8	38.9	34.0	54.4	27.8	-48.9
Social Security and Welfare	5.9	9.2	14.9	9.9	6.3	-36.4
Housing	537.7	549.1	430.6	374.7	656.9	75.3
Cultural and Religious Affairs	25.4	29.7	29.9	48.3	82.5	70.8
Fuel and Energy	1.3	0.5	0.8	0.9	0.3	-66.7
Agriculture, Forestry and Fishing	26.8	26.5	22.5	28.8	31.0	7.6
Mining, Manufacturing and Construction	5.8	0.6	1.1	0.5	1.0	_
Transport and Communication	606.0	824.8	711.5	848.9	859.3	1.2
Other Economic Affairs	38.1	40.1	39.5	30.6	25.7	-16.0
Total Development Expenditure	**1647.5**	**1871.9**	**1650.3**	**1744.3**	**2093.6**	**20.0**

* Provisional
Source: Ministry of Finance.

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

Items	2010	2011	2012	2013	2014*	% Change 2014/13
Participation in Domestic, Regional and International Interests	356.0	528.3	611.0	451.6	465.4	3.1
Subsidy on Soft Loans to Private Sector and Housing	17.9	18.6	24.6	30.5	32.4	6.2
Government Support to Electricity Sector	203.3	172.1	252.6	320.5	270.6	-15.6
Support Basic Foods	-	-	-	27.9	19.3	-30.8
Operational support to Gov Organisations	-	-	-	98.6	59.1	-40.1
Support Petroleum Products	-	955.6	1007.7	1119.1	1134.6	1.4
Total Participation & Other Expenses	**577.2**	**1674.6**	**1895.9**	**2048.2**	**1981.4**	**-3.3**

* Provisional
Source : Ministry of Finance.

on education affairs and services as well as on housing, aligned with the government continued policy to give priority to social development.

Government Participation and Other Expenses

In the light of falling oil prices and the government subsequent policy to rationalize certain areas of public expenditure, government expenditure on participation in domestic, regional and international interests as well as on various supports and subsidies declined by 3.3 percent to RO 1,981.4 million in 2014 (Table 4.7). On major expenditure items, government spending on participation in domestic, regional and international interests increased by 3.1 percent to RO 465.4 million in 2014. In contrast, expenditure on government support to the electricity sector declined by 15.6 percent to RO 270.6 million during the year under review. Expenditure on government support to petroleum products accounted for 57.3 percent of total expenditure on participation and other expenses in 2014. This expenditure increased by 1.4 percent and amounted to RO 1,134.6 million during the year under review. Expenditure on operational support to government organizations such as Oman Air, Oman Post Company, National Ferries, and Sewerage companies registered a significant decrease of about 40 percent in 2014.

Government Debt

The Sultanate's fiscal position measured in terms of government debt indicators remained robust in 2014 despite the advent of lower oil prices during the year. Debt to GDP ratio stood at 4.8 percent compared to 4.9 percent in 2013. Debt services ratio also remained below one percent at 0.5 (Table 4.8, Chart 4.8). The stock of debt as at the end of 2014 stood at RO 1,526.3 million, or 2.7 percent higher than in the previous year. Principal repayments increased by 5.8 percent to RO 89.4 million while interest payment decreased by 6.5 percent to RO 50.1 million in 2014.

Approved Budget and Actual Fiscal Performance

The Sultanate of Oman's State General Budget for 2015 coincided with the last year of the Eighth Five-Year Development Plan (2011-2015) and was formulated amid lower crude oil prices that started in 2014. Nonetheless, the objectives set out by the budget and the subsequent investment expenditure continued to reflect the government policy framed within the Five-Year Development Plan that aims to maintain an overall real economic growth of about 5.0 percent with the non-oil sector expected to grow at approximately 5.5 percent. Priorities in the 2015 budget included both infrastructure and social developments such as hospitals, schools, roads, ports, airports, water and electricity. Equally important are the efforts to enhance efficiency and increase productivity in the hydrocarbon sector through appropriate investments.

Chart 4.8: Government Debt to GDP Ratio and Debt Service Ratio

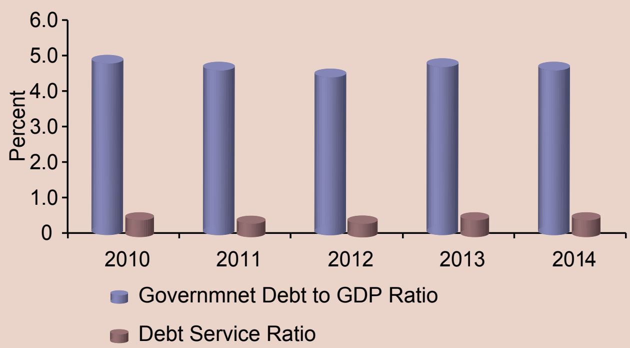


Table 4.8
Government Debt Indicators
(Rial Omani Million)

Items	2010	2011	2012	2013	2014*	% Change 2014/13
1.Stock of Debt (RO mn.)	1136.2	1247.2	1360.5	1486.5	1526.3	2.7
2. Principal Repayments (RO mn.)	169.0	47.2	65.8	84.5	89.4	5.8
3. Interest Payments (RO mn.)	37.4	38.1	45.3	53.6	50.1	-6.5
4. Debt Indicators* *						
(a) Debt to GDP ratio (%)	5.0	4.8	4.6	4.9	4.8	-
(b) Debt Services Ratio (%)***	0.5	0.4	0.4	0.5	0.5	-

* 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.

Approved State General Budget 2014 and Actual Fiscal Performance 2014

Provisional actual fiscal data for 2014 pointed to higher government expenditure when compared to expenditure approved in the State General Budget. On the revenues side, data pointed to higher actual government revenues than those estimated in the budget. The margin between actual government revenues and revenues estimated in the budget owed primarily to an assumed average price of US $ 85 per barrel for the Omani crude oil as a basis to formulate the budget compared to an actual price of US $ of 103.23 per barrel realized in 2014.

The 2014 budget estimated government revenues at RO 11,700 million based on the assumptions of an average price of US $ 85 for the Omani crude oil as mentioned above and a daily average production of 945,000 barrels. Actual total government revenues for 2014, however, exceeded the budget estimate by 20.6 percent (Table 4.9). Analyzing the three main sources of government revenues, actual net oil revenues in 2014 exceeded the estimated budget revenues by 25.2 percent with similar comparison for gas revenues pointing to 12.5 percent higher in actual revenues. On the other hand, other current revenues, namely revenues from taxes and fees indicated a shortfall of about one percent.

On the expenditure front, total actual government expenditure exceeded the approved budget spending by 12.4 percent. Of the three major government expenditure items, actual current expenditure overshot the budget by 10.9 percent, investment expenditure by 11.0 percent, and actual government expenditure related to the participation and other expenses by 23.2 percent. This trend is mainly attributed to an assumed crude oil price that is lower than the actual price as the government engage in additional spending in certain sectors to avoid incurring opportunity costs by taking advantage of favorable oil prices in contrast to the price assumed under the budget.

Main Features of the 2014 and 2015 Approved State General Budgets

Two major assumptions provide the basis for the formulation of the Sultanate's State General Budget, specifically estimated Omani crude oil price and production. According to the estimates under the 2015 budget, production of crude oil will average 980,000 per day while the assumed average price for the Omani crude oil was estimated at US $ 75 per barrel. While the Government has discussed with companies in the hydrocarbon sector to identify potential cost reduction areas in the face of depressed oil prices that started in half way through 2014, major activities are expected to proceed as initially planned. To that effect, estimated crude oil production in the 2015 budget represented an increase of about 5.4 percent from the previous year budget estimate.

In light of the assumptions pertaining to the oil sector, total government revenues was estimated at RO 11,600 million or about one percent lower than the previous year budget estimate. Total government expenditure is expected to amount to RO 14,100 million, representing a fiscal expansion of 4.4 percent from the 2014 budget (Table 4.9). Accordingly, the fiscal balance is expected to register a deficit of RO 2,500 million, or 21.6 percent of estimated total government revenues in the current fiscal year compared to a deficit of RO 1,800 million, or 15.4 percent of total government revenues in the 2014 budget. It is important to note that the estimated deficit in the 2014 budget did not account for RO 800 million to RO 900 million in current expenditure on civil service salaries and benefits realignment.

The extent of the expansionary fiscal policy pursued by the government as reflected in the 2015 budget is as restrained as it was in the previous year budget, mirroring primarily expected lower oil prices during the current fiscal year, but also the attempt by the government to rationalize public spending. However, the true measure of fiscal assessment is reflected in actual expenditure.

Analyzing the sub-component parts under total government revenues, net revenues from crude oil were estimated at RO 7,700 million in the 2015 budget, accounting for 66.4 percent of total government revenues and a decrease of 5.5 percent from the previous year's budget estimate. Estimated revenues from natural gas are also lower, by 2.7 percent from the previous year budget to RO 1,460 million under the current fiscal year budget (Chart 4.9). Together, government revenues from the oil and gas sector are expected to account for about 80.0 percent of estimated total government revenues in the 2015 approved budget. In contrast to revenues from the hydrocarbon sector, other current revenues, namely revenues from taxation and fees, are expected to reach RO 2,380 million, or an increase of 19.0 percent from the previous year budget estimate.

Regarding major expenditure items in the 2015 budget, both investment expenditure and expenditure on participation and other expenses pointed to declines while current expenditure is

Table 4.9
Budget Estimates & Actuals
(Rial Omani Million)

ITEMS	2014 Budget	2014 Actual	% change actual 2014/ budget 2014	2015 Budget	% Change budget 2015/14
TOTAL REVENUES	**11700.0**	**14107.5**	**20.6**	**11600.0**	**-0.9**
Net Oil Revenues	8150.0	10205.2	25.2	7700.0	-5.5
Gas Revenues	1500.0	1687.6	12.5	1460.0	-2.7
Other Current Revenues	2000.0	1983.7	-0.8	2380.0	19.0
Capital Revenues	20.0	15.8	-21.0	25.0	25.0
Capital Repayments	30.0	215.2	617.3	35.0	16.7
TOTAL EXPENDITURE	**13500.0**	**15171.8**	**12.4**	**14100.0**	**4.4**
Current Expenditure	**8664.0**	**9606.2**	**10.9**	**9576.0**	**10.5**
Defence & National Security	3700.0	4210.8	13.8	3800.0	2.7
Civil Ministries	4487.0	4762.7	6.1	5166.0	15.1
Oil production Expenditures	340.0	484.5	42.5	350.0	2.9
Gas production Expenditures	92.0	95.3	3.6	210.0	128.3
Interest Paid on Loans	45.0	52.9	17.6	50.0	11.1
Investment Expenditure	**3228.0**	**3584.2**	**11.0**	**3214.0**	**-0.4**
Development Expenditure for Civil Ministries	1800.0	2093.6	16.3	1650.0	-8.3
Capital Expenditure for Civil Ministries	38.0	72.0	89.5	44.0	15.8
Oil Production Expenditures	690.0	748.1	8.4	780.0	13.0
Gas Production Expenditures	700.0	670.5	-4.2	740.0	5.7
Participation & Other Expenses	**1608.0**	**1981.4**	**23.2**	**1310.0**	**-18.5**
SURPLUS/DEFICIT	**-1800.0**	**-1064.3**	-	**-2500.0**	-
FINANCING	**1800.0**	**1064.3**	-	**2500.0**	-
Net Grants Received	0.0	-50.2	-	200.0	-
Drawing from Reserves	400.0	0.0	-	700.0	-
Net loans Received	200.0	-60.3	-	200.0	-
Development Bonds (Net)	200.0	100.0	-	400.0	-
Remaining Surpluses Brought from Previous Years	1000.0	1074.8	-	1000.0	-
Change in Government Accounts	-	-	-	-	-

Source: Ministry of Finance.

Chart 4.9: Breakdown of Government Revenues 2014 Budget Estimates

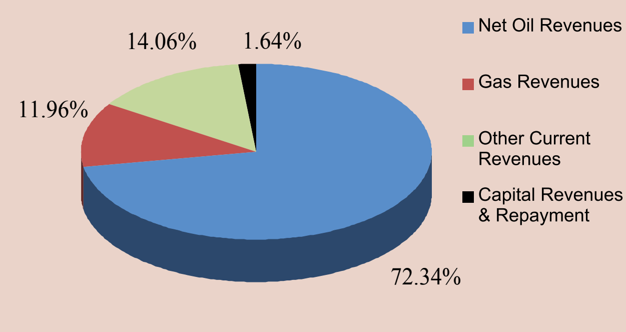
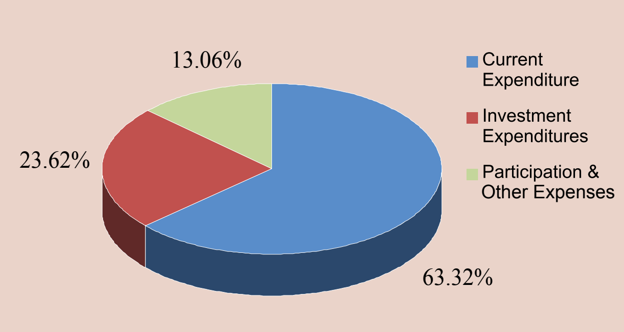


Chart 4.10: Breakdown of Public Expenditure 2014 Approved Budget



expected to be higher when compared to the 2014 budget. At RO 9,576 million, current expenditure under the current fiscal year budget represents an increase of 10.5 percent from the previous year budget. Investment expenditure was estimated at RO 3,214 million, corresponding to a marginal decrease of 0.4 percent from the previous year budget. Government expenditure on participation and other expenses pointed to a more pronounced reduction of 18.5 percent estimated at RO 1,310 million in the current year fiscal budget; a trend aligned with the government efforts to find fiscal space from non-hydrocarbon revenues. As share of total expenditure, current expenditure is expected to account for 67.9 percent of total expenditure in the 2015 budget, investment expenditure for 22.8 percent, and expenditure on participation and other expenses for 9.3 percent (Chart 4.10).

The estimated deficit in the 2015 budget is expected to be funded from multiple sources, including RO 200 million from grants, RO 700 million drawn from reserves, RO 200 million from loans, RO 400 million from issuance of government development bonds, and RO 1,000 million from fiscal surpluses from previous years.

Money, Banking and Financial Institutions

MONEY, BANKING AND FINANCIAL INSTITUTIONS

In the overall architecture for the regulation and supervision of the financial sector in the Sultanate of Oman, the CBO's regulatory purview extends to a large segment of financial institutions which include the conventional commercial banks, Islamic banks and Islamic Windows, specialized banks, non-bank finance and leasing companies, money exchange and draft issuing establishments and money changing outlets. As at the end of 2014, the number of conventional commercial banks continued at 16 of which 7 were locally incorporated and 9 were branches of foreign banks. They operated in Oman with a network of 469 branches as well as with seven branches and two representative offices abroad. The locally incorporated conventional commercial banks were Bank Muscat, National Bank of Oman, HSBC Bank Oman, Oman Arab Bank, Bank Dhofar, Bank Sohar and Al Ahli Bank. Foreign banks operating in Oman were the Standard Chartered Bank, Habib Bank, Bank Melli Iran, Bank Saderat Iran, Bank of Baroda, State Bank of India, National Bank of Abu Dhabi, Bank of Beirut and Qatar National Bank. The above conventional commercial banks (excluding their Islamic banking Windows) had in total 1053 ATMs (of which 523 were off-site), 332 cash deposit machines (of which 32 were off-site) and 12 on-site banking facilities. Of the seven local banks, six were listed in the Muscat Securities Market. All commercial 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 imposed on the shareholding pattern. As at the end of 2014, twelve commercial banks and one full-fledged Islamic bank had approval to engage in specific investment banking activities on a tiered licensing system. As at the end of 2014, there were also two Government owned specialized banks, 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. The specialized banks operated with a network of 23 branches as at the end of 2014. As at the end of 2014, there were two full-fledged locally incorporated Islamic banks, viz., Bank Nizwa and Al Izz Islamic Bank. Six out of the seven locally incorporated conventional commercial banks were also offering Islamic banking services through dedicated windows. The Islamic banks and windows together operated with 46 branches at the end of 2014. Islamic banking entities in total had 43 on-site ATMs and 19 on-site cash deposit machines as at the end of 2014. Six finance and leasing companies licensed by CBO were also engaged in leasing activities, hire purchase, debt factoring and similar asset based financing in Oman. They had 38 branches, all in Oman. As at the end of December 2014, there were 15 exchange establishments licensed for money changing and remittance business as well as 31 money changing firms. The exchange establishments operated with 264 branches at the end of 2014. Besides the above, the broad financial sector in the Sultanate of Oman also included public and private sector Pension Funds, several insurance and brokerage firms and the Muscat Securities Market.

Monetary and Banking Indicators

In Oman, financial sector reforms have sought to strengthen the regulatory and supervisory framework and to bring it in line with international best practices. Recent initiatives by CBO have been the change in supervision including progress towards risk-based supervision and consolidated supervision, emphasis on financial stability and technological advancements in the field of payment and settlements. The advent of Islamic banking in the Sultanate promoted the process of both financial inclusion and deepening. The increased provision of financial services amidst a stable macroeconomic environment is expected to further the process of financial deepening. Select monetary and banking indicators are reviewed in Table 5.1.

The evolution of monetary aggregates in Oman during the recent period has been consistent with the policy stance of CBO aimed at ensuring adequate liquidity in the system, maintaining orderly conditions in the markets and supporting sustainable growth. With easy liquidity conditions prevailing in the market, the various monetary aggregates such as reserve money, currency with the public, as well as narrow and broad money registered significant growth during the year. Money supply growth responded to the growing money demand associated with the growth in the real sector in line with the nominal GDP growth. The ratio of net foreign assets of the banking system to broad money remained stable throughout the five year period between 50 to 60 percent range, providing strength to the monetary system. Significant growth was witnessed during the recent five year period in the main banking system aggregates, notably in total asset growth, deposits and credit. The total assets of other depository corporations operating in Oman (conventional banks and Islamic banks and Windows combined) registered a significant growth of 13.5 percent during 2014 when compared to the previous year. The same trend was evident in both deposits and credit growth. The growth in balance sheet size was accompanied by the improvement in the financial health of banks in terms of assets quality, provision coverage, profitability and capital adequacy.

Oman has witnessed significant financial deepening in recent years. In terms of yardsticks such as bank credit to GDP, bank deposits to GDP and broad money to GDP, there has been significant strides in the recent period. The ratio of bank credit to GDP increased to 57.1 percent in 2014 from 51.9 percent recorded in the previous year. When marked in relation to non-oil GDP, particularly that bank credit is mainly extended to finance non-oil economic activities in the private sector, the ratio improved to 94.8 percent in 2014 from 90.8 percent registered in the previous year. The ratio of bank deposits and broad money to GDP also improved to 57.1 percent and 43.8 percent, respectively during 2014. The income velocity of broad money (ratio of GDP at current prices to broad money), an indicator of economic activity associated with a given amount of money stock during a particular time period moderated to 2.3 in 2014 from 2.5 in the previous year, indicative of the lesser number of times that money balances turned over in the economy. Given the surplus liquidity situation and

Table 5.1
Select Monetary and Banking Indicators

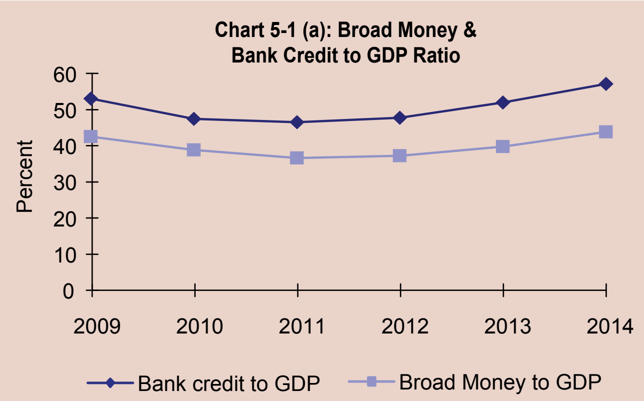
	2010	2011	2012	2013	2014
Monetary Indicators					
Reserve money (in RO million)	2237	1827	2493	2652	3302
Currency with public (in RO million)	702	843	926	1039	1188
Narrow money M1 (in RO million)	2876	3065	3492	3995	4808
Broad money M2 (in RO million)	8785	9855	10912	11937	13767
CBO's foreign assets (in RO million)	5009	5524	5514	6133	6277
Ratio of NFA of CBO to Reserve money	2.2	3.0	2.2	2.3	1.9
Ratio of NFA of banking system to M2	0.6	0.6	0.5	0.6	0.5
Banking Indicators					
Number of conventional commercial banks	17	17	16	16	16
Number of branches of conventional commercial banks	444	461	479	493	469
Number of branches of Islamic banking entities	-	-	-	32	46
Conventional commercial Bank ATMs	914	971	1024	1071	1053
Islamic banking entities ATMs	-	-	-	29	43
Other depository corporations total assets (in RO million)	15648	18408	20856	22902	26005
Other depository corporations total deposits (in RO million)	10517	12573	14172	15758	17968
Other depository corporations total credit (in RO million)	10724	12515	14320	15612	17948
Capital Adequacy ratio	15.9	15.9	16.0	16.2	15.4
Financial deepening indicators					
Bank credit to GDP (%)	47.4	46.5	48.8	51.9	57.1
Bank credit to non-oil GDP (%)	84.7	88.0	89.3	90.8	94.8
Bank deposits to GDP (%)	46.5	46.7	48.3	52.4	57.1
Quasi-money to GDP (%)	26.1	25.2	25.3	26.4	28.5
Broad money to GDP (%)	38.8	36.6	37.2	39.7	43.8
Currency with public to GDP (%)	3.1	3.1	3.2	3.5	3.8
Currency with public to reserve money (%)	31.4	46.1	37.1	39.2	36.0
Currency with public to broad money (%)	8.0	8.6	8.5	8.7	8.6
Income velocity of broad money	2.6	2.7	2.7	2.5	2.3
Money multiplier (M2 over reserve money)	3.9	5.4	4.4	4.5	4.2
Stock market capitalization to GDP ratio (%)	48.2	38.4	39.7	47.1	46.3

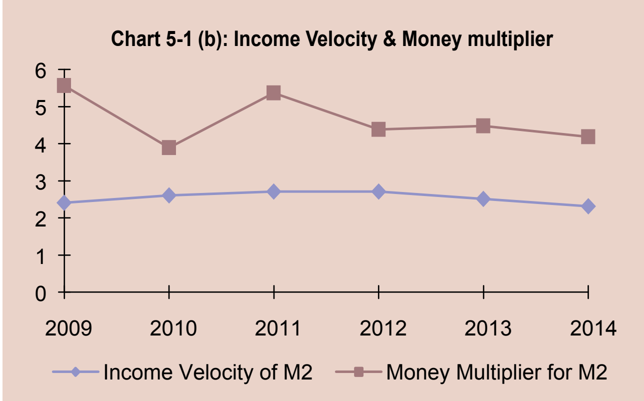
Note: Other depository corporations include conventional banks and Islamic banks and windows.
Source: Central Bank of Oman

higher level of bank deposits held with the CBO, the money multiplier, which explains by how much the base money or reserve money has expanded through the banking system, declined from 4.5 in 2013 to 4.2 in 2014. Stock market capitalization to GDP ratio after having improved impressively in 2013 to 47.1 marginally dropped to 46.3 in the year 2014.

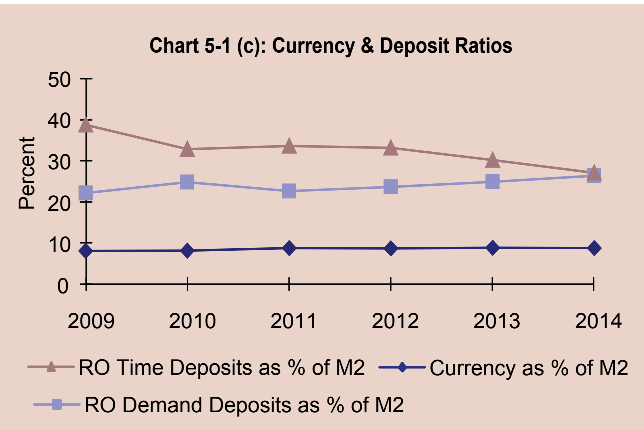
CBO's Monetary Policy

Consistent with the overall objective of achieving growth while ensuring price and financial stability, monetary management during the recent period kept pace with the evolving domestic and international challenges. Although the policy objectives of the CBO have remained broadly the





same over the years, there have been changes in emphasis from time to time. Oman operates with a fixed exchange rate with its currency, the Rial Omani, pegged to the US dollar since 1973. The parity underwent a change in January 1986 and has since remained unchanged at US $ 2.6008 per Rial Omani. With Oman's open economy, the independence of the monetary authority in setting domestic interest rates or controlling money stock remains limited given the fixed exchange rate. The CBO has to largely follow the monetary policy of the anchor country to avoid pressures on the exchange rate. Within this limitation, the CBO adopts appropriate strategies in discharging its responsibilities as the monetary authority to ensure stability in the financial system. The fact that the credibility of the exchange rate peg has been sustained for many years has provided considerable degree of certainty for investors by



limiting risks associated with currency fluctuations.

Monetary management during the year was formulated against the backdrop of abundant liquidity in the banking system, declining inflation, softening of interest rates and comfortable fiscal and balance of payments positions. The need to mop up the excess liquidity in the banking system took center stage. The CBO uses both direct and indirect instruments for liquidity management. As regards direct instruments, the CBO uses the cash reserve ratio and the lending ratio from time to time depending on the circumstances prevailing. Among the indirect instruments, CBO currently actively uses the weekly issuance of 28 days certificates of deposit as its main instrument to absorb liquidity through a multi-price auction method. The target rate is linked to the prevailing LIBOR. The CBO uses repo operations to inject liquidity in local currency should the need arise and reverse swap operation for lending in foreign currency.

Monetary policy and liquidity management operations are reviewed by the Monetary Policy and Banking Development Committee (MPBDC) which meets as least once in every quarter during the year. A set of liquidity indicators which include daily clearing balances with CBO, domestic inter-

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

	2012	2013	2014	Absolute Change 2013/12	Absolute Change 2014/13
Currency Issued	1178.8	1342.7	1593.7	163.9	251.0
Banks deposits with CBO*	1314.7	1309.5	1708.4	-5.1	398.9
Monetary Base (M0)	**2493.5**	**2652.2**	**3302.1**	**158.7**	**649.9**
Central Bank Assets					
Foreign assets	5513.7	6133.3	6276.9	619.7	143.5
Claims on Government	86.2	0.0	173.2	-86.2	173.2
Fixed and other assets	189.1	184.5	188.7	-4.6	4.2
Less:					
Central Bank Liabilities					
Net Worth (capital and reserves)	1360.0	1332.9	1298.8	-27.1	-34.2
Government deposits	806.8	873.0	512.4	66.2	-360.5
Foreign liabilities	106.1	106.6	100.1	0.5	-6.5
Other liabilities	1022.6	1353.2	1425.4	330.6	72.2

* 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	2010	2011	2012	2013	2014
Money Supply (M1)	**2875.9**	**3064.9**	**3492.3**	**3994.9**	**4808.0**
Currency with public	702.0	843.1	926.0	1039.2	1188.2
Demand deposits in local currency	2173.9	2221.8	2566.4	2955.7	3619.8
Quasi Money	**5908.9**	**6790.0**	**7419.7**	**7942.6**	**8958.9**
Savings deposits in local currency	2060.5	2468.8	2884.0	3339.8	4006.4
Time deposits in local currency	2879.9	3308.6	3614.7	3595.9	3712.3
Deposits in foreign currency	882.2	928.5	821.6	887.3	1088.1
Margins	86.3	84.1	99.4	119.6	152.1
Broad Money (M2)	**8784.8**	**9854.9**	**10912.0**	**11937.5**	**13766.9**

B. (Percentage To Total)

End of the Period	2010	2011	2012	2013	2014
Money Supply (M1)	**32.7**	**31.1**	**32.0**	**33.5**	**34.9**
Currency with public	8.0	8.6	8.5	8.7	8.6
Demand deposits in local currency	24.7	22.5	23.5	24.8	26.3
Quasi Money	**67.3**	**68.9**	**68.0**	**66.5**	**65.1**
Savings deposits in local currency	23.5	25.1	26.4	28.0	29.1
Time deposits in local currency	32.8	33.6	33.1	30.1	27.0
Deposits in foreign currency	10.0	9.4	7.5	7.4	7.9
Margins	1.0	0.9	0.9	1.0	1.1
Broad Money (M2)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Central Bank of Oman.

bank volumes and rates, investment in CBO CDs etc. are monitored on an on-going basis.

Monetary Aggregates

The monetary aggregates in Oman during 2014 remained consistent with the accommodative monetary policy stance of CBO aimed at ensuring adequate liquidity in the system, maintaining orderly conditions in the markets and supporting economic growth with low levels of inflation. Reserve money (monetary base) increased by 24.5 percent in 2014 on a year-on-year basis partly due to the increase in foreign assets of the CBO following the surplus in the overall balance of payments. Despite the rise in reserve money, broad money growth remained within reasonable band following the decline in the money multiplier emanating from higher currency demand. As at the end of December 2014, narrow money stock (M1) when measured on year-on-year basis, grew by 20.4 percent driven mainly by the increase in Rial Omani demand deposits by 22.5 percent as well as increase in currency with public by 14.3 percent. Quasi-money (RO savings and time deposits, CDs issued by commercial banks, margin deposits and foreign currency denominated deposits) witnessed an impressive growth during the year at 12.8 percent with its share to the total money stock at 65.1 percent. The impetus for the growth in quasi-money was seen mainly from the increase in foreign currency designated deposits as well as from the rise in Rial Omani saving deposits. Broad money supply M2 (M1 plus quasi-money) stood at RO 13.8 billion at the end of December 2014, up from RO 11.9 billion a year ago, registering a rise of 15.3 percent.

Monetary Survey

The monetary survey aggregates given in Table 5.4 include that of conventional commercial banks as well as Islamic banks and windows. The key drivers of monetary expansion during 2014 was the increase in banks' domestic claims on the private sector by RO 2.1 billion (14.8%) followed by claims on public enterprises by RO 266 million (15.2%). Monetary expansion was slightly mitigated by the 3.2 percent drop in net foreign assets of the banking system. While CBO's net foreign assets rose by RO 150.2 million (2.5%) over the year, that of the other depository corporations declined by RO 367.4 million.

Financial Markets

The financial structure of any country is composed of a variety of markets and financial products and its development encompasses not only monetary aggregates and interest rates but also institutional capacity, regulation and supervision and financial openness. Well developed financial markets enable the Central Bank to effectively conduct monetary policy and help in improving the allocative efficiency of resources. The CBO has endeavored to promote development of all the segments of financial markets coming under its jurisdiction. Efforts have been made to increase the efficiency of the payment and settlement systems, reduce transaction costs and strengthen the price discovery process. All the segments of the financial market, viz., money market, capital market and the foreign exchange market remained orderly and stable during the year aided by the supportive macroeconomic environment in the Sultanate.

Table 5.4
Monetary Survey *

End of Period	(Rial Omani Million)					Change in RO million 2014/13	% Change 2014/13
	2010	2011	2012	2013	2014		
1. Broad money (A+B)	**8784.8**	**9854.9**	**10912.1**	**11937.5**	**13766.9**	**1829.4**	**15.3**
A. Money	2875.9	3064.9	3492.4	3994.9	4808.0	813.1	20.4
a) Currency with public	702.0	843.1	926.0	1039.2	1188.2	149.0	14.3
b) Demand deposits in RO	2173.9	2221.8	2566.4	2955.7	3619.8	664.1	22.5
B. Quasi Money	5908.9	6790.0	7419.7	7942.6	8958.9	1016.3	12.8
(of which foreign cy. deposits)	(882.2)	(928.5)	(821.6)	(887.3)	(1088.1)	200.9	22.6
2. Foreign Assets (net)	**5065.0**	**5882.4**	**5952.8**	**6763.6**	**6546.4**	**-217.2**	**-3.2**
Central Bank	4901.9	5416.9	5407.5	6026.6	6176.8	150.2	2.5
Other Depository Corporations	163.1	465.5	545.3	737.0	369.6	-367.4	-49.9
3. Domestic Assets	**3719.8**	**3972.5**	**4959.2**	**5173.9**	**7220.5**	**2046.6**	**39.6**
a) Claims on Government (net)(i-ii)	-2618.3	-3879.7	-4146.1	-4829.8	-4810.8	19.0	
i) Government borrowings	477.9	433.3	615.7	613.8	835.0	221.2	36.0
ii) Government deposits	3096.2	4313.0	4761.8	5443.7	5645.8	202.2	3.7
b) Domestic claims on Pvt. Sector	9694.0	10939.7	12577.2	13906.9	15966.1	2059.2	14.8
c) Claims on Public enterprises	937.2	1471.2	1714.2	1750.0	2016.1	266.0	15.2
d) Other items (net) (-)	4293.1	4558.7	5186.1	5653.2	5950.9	297.7	5.3
i) Central Bank	3548.6	3633.9	3761.0	4114.5	4649.4	534.9	13.0
ii) Other Depository Corporations	744.5	924.8	1425.1	1538.7	1301.4	-237.3	-15.4

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

Source : Central Bank of Oman.

Money Market

The money market acts as an important segment in the broad financial market and provides an equilibrating mechanism between the demand and supply of short-term funds. Development of an efficient money market constitutes an integral part of financial liberalization and is considered a pre-requisite for the effective transmission of monetary policy. The money market instruments in Oman mainly comprise the call money market, short term certificates of deposit (CDs), treasury bills, bankers acceptances and Repo facilities.

The CBO undertakes liquidity management operations to smoothen the short-term fluctuations in bank liquidity with a focus on maintaining stability in the money market. For absorption of liquidity from the banking system, CBO conducts weekly auction of its certificates of deposit. After several years of non-issuance of treasury bills, commencing March 2015, CBO has begun issuing 91 days Government treasury bills to banks which has increased the options available for liquidity management. Injection of liquidity is mainly done through Repos in CBO CDs. An intra-day liquidity facility is also available to banks through Repos.

Table 5.5
Absorption and Injection of Liquidity by CBO during 2014

Month	Liquidity Absorption (CBO CDs)			Liquidity Injection (Repos With CBO)*	
	28 Day CDs				
	Amount Issued During the Month (RO Million)	Weighted Average Interest Rate (% p.a)	Outstanding CDs at the end of the Month (RO Million)	Amount Repoed During the Month (RO Million)	Repo Rate (% p.a)
January	1415.0	0.130	1415.0	0.0	1.0
February	1344.0	0.128	1344.0	0.0	1.0
March	2011.0	0.122	2011.0	0.0	1.0
April	2260.5	0.128	1862.5	0.0	1.0
May	2199.0	0.126	2199.0	0.0	1.0
June	2529.4	0.123	2529.4	0.0	1.0
July	1758.4	0.129	1117.0	0.0	1.0
August	1842.0	0.125	1842.0	0.0	1.0
September	1427.0	0.126	1427.0	0.0	1.0
October	1958.0	0.127	1381.0	0.0	1.0
November	1296.0	0.130	1296.0	0.0	1.0
December	1413.4	0.130	1323.0	1.0	1.0

* Includes repos in all instruments such as CBO CDs,GDBs,and T.Bs which are mostly of one to two day durations. Excludes intra-day repos.
Source : Central Bank of Oman.

The month-wise details of liquidity absorption and injection by CBO during 2014 is given in Table 5.5. As can be seen, the demand for CBO CDs remained at an elevated level throughout the year with minimal recourse to the repo facility, given the excess short-term liquidity prevalent in the banking system. The domestic inter-bank Rial Omani call money market continued to lack sufficient depth with transactions mostly confined to overnight tenors and low volumes. The daily average transactions during 2014 declined to RO 24.4 million compared to RO 30.2 million in the previous year.

Capital Market

The role of the government securities market is of prime importance in promoting financial stability and in facilitating price discovery by serving as a benchmark for debt instruments. Beside enhancing financial intermediation, and providing a yield curve for pricing of corporate debt, it would also help the Government in meeting financing needs when the fiscal position turns into deficit. Listed companies in Oman mainly depend on bank finance. However, as diversification of the economy progresses, the corporate sector may find it cheaper to raise resources from the market

Table 5.6 (a)
Holding Pattern of Outstanding Government Development Bonds (2014)

	Amount (R.O. Million)*	Percentage to Total
Banks	562.6	60.5
Govt Entities	2.4	0.3
Pension Funds	292.8	31.5
Other Financial Institutions	70.3	7.6
Individuals	1.9	0.2
Total	**930.0**	**100.0**

* Holding pattern based on primary issuance
Source: Central Bank of Oman

by issuing debt securities. During 2014, three companies were placed for public subscription and were fully covered and listed in the stock market. With regard to Government Development bonds, during the year 2014 there was only one GDB issue amounting to RO 200 million and a GDB redemption of RO 100 million. As at the end of December 2014, the outstanding GDBs amounted to RO 930 million compared to RO 830 million at the end of the previous year. The holding pattern based on the primary issuance of GDBs given in Table 5.6 (a) indicates that the bulk of bonds (60.5%) were held by banks followed by Pension Funds at 31.5 percent.

The performance of the Muscat Securities Market is summarized in a few indicators given in Table 5.6 (b). The Muscat Securities Market Index (MSM-30) closed at 6,343.22 points registering a fall of 7.2 percent over the previous year end. It reached its peak level during 2014 when it closed at 7,552.41 on 14 September and recorded its lowest level of 5,401.51 on 16 December. The Sharia-compliant index also witnessed a drop of 12.1 percent to close at 966.26 at the end of 2014 compared to 1099.68 at the end of 2013. The total turnover of trading in shares and bonds increased by 0.62 percent to RO 2.27 billion during 2014. Accordingly, the average value of trading per day amounted to RO 9.30 million during 2014 compared to RO 9.17 million during the previous year. The highest trading value amounted to RO 51.7 million on 6 November 2014 while the lowest value reached RO 2.6 million on 15 June 2014.

Table 5.6 (b)
Stock Market Indicators

	2010	2011	2012	2013	2014
1) MSM 30 Share Price Index	6754.92	5695.12	5760.84	6834.56	6343.22
2) Number of shares traded (Million)	3013.2	2366.2	4319.2	7949.2	6620.0
3) Number of bonds traded (Million)	11.3	14.1	23.0	213.7	86.6
4) Total turnover of trading (RO Million)	1317	991	1065	2255	2269
a) Turnover of trading in shares (RO Million)	1274	981	1025	2208	2235
b) Turnover of trading in bonds (RO Million)	43	10	40	47	34
5) Number of trading days	247	246	249	246	244
6) Average value of trading per day in shares & bonds (RO Million)	5.33	4.03	4.28	9.17	9.30
7) Market capitalization (RO Million)	10902	10342	11665	14155	14565

Source: Muscat Securities Market

Market capitalization increased by 2.9 percent to reach RO 14.56 billion in 2014 compared to RO 14.16 billion in 2013. The market capitalization to GDP ratio which reflects the size of the market stood at 46.3 percent in 2014. The total number of listed securities reached 137 during 2014, of which 117 were listed joint stock companies, 18 bonds and 2 funds.

Foreign Exchange Market

The foreign exchange market is an important segment of the broad financial market playing a key role in international trade and investments by enabling currency conversion. In Oman, the foreign exchange market is fairly significant given that the economy is largely foreign trade oriented with practically no current or capital account controls. The foreign exchange market in Oman witnessed stable and orderly conditions during 2014. The market is predominantly dollar based as it acts as the main intervention currency for international trade besides being the anchor currency under the fixed exchange rate regime prevalent in Oman. Dollar designated deposits accounted for close to 90 percent of all foreign currency deposits held with commercial banks, while dollar denominated credit extended by banks as a proportion at to total foreign currency credit stood at 98.9 percent as at the end of 2014. The Government is the main supplier of foreign exchange to the CBO which it sells against its Rial Omani requirements, while commercial banks are the main buyers of foreign exchange from the CBO. Bank's foreign exchange needs mainly arise from its customer's demand for import payments, remittances and other capital account transactions. During 2014, CBO purchased US $ 27.72 billion from the government and other institutions, while the sale to commercial banks and other institutions stood at US $ 28.64 billion.

Interest Rate Structure and Developments

Interest rate represents the reward for saving or abstaining from present consumption. Accordingly maintaining interest rates in a right band is of importance in promoting savings in the economy as well as in the allocation between bank deposits, bonds, equities and the like. In a bank dominated financial system such as in Oman, interest rates play a crucial role in the determination of savings, investment and growth in the economy. Prior to 1993, direct monetary controls coupled with interest rate ceilings on deposits and credit rendered the interest rate environment less effective in the transmission mechanism of monetary policy. The structure of administered interest rate ceilings has been almost dismantled commencing 1993 with the exception of the personal loan segment. Banks now have sufficient flexibility to decide their deposit and lending interest rate structure and manage their assets and liabilities profile, accordingly. However, despite the deregulated environment, the free movement of market forces in determining interest rates is partially constrained by the prevalence of prize money schemes in operation in local banks as well as the personal loan interest rate ceiling rendering the pricing of risk by banks difficult. With regard to interest rate on personal loans, ceilings have been stipulated by CBO from time to time. The ceiling rate has been reduced over the years in line with the prevailing trend and at present has been fixed at 6 percent per annum for all loans extended from 2nd October 2013.

Interest rates in Oman are expected to broadly converge with the interest rates prevailing in the USA in view of the fixed exchange rate peg of the Rial Omani with the US dollar. The policy rates such as the CBO CD rates and the Repo rate are closely aligned to the corresponding LIBOR rates partly to meet the requirement under the fixed peg and more importantly to stimulate the economy through easy and accommodative monetary policy.

Reflecting the comfortable liquidity conditions, both deposit and lending rates in Oman softened during the year. The weighted average interest rate on total deposits, which stood at 1.14% in December 2013, declined to 0.97% by December 2014 (Table 5.7 (a)). While Rial Omani deposit rates fell from 1.17% in December 2013 to 0.99% in December 2014, interest rates on foreign currency designated deposits declined from 0.91% to 0.87% during the same period. With regard to lending rates, the weighted average lending rate depicted a largely similar pattern to deposit rates, declining from 4.96% in December 2013 to 4.67% as at the end of December 2014. While the weighted average rate for lending in Rial Omani declined from 5.41% in December 2013 to 5.08% in December 2014, that of foreign currency designated credit edged up marginally from 2.30% to 2.38%. Commercial banks' interest rate spread marginally moderated following the softening of interest rates during the year, although banks still operated with relatively high margins. The spread between the total lending and deposit rates narrowed marginally from 3.83% in December 2013 to 3.70% in December 2014. Likewise, the interest rate spread between Rial Omani lending and deposits also declined from 4.237% to 4.094% (Chart 5.2).

An analysis of the distribution pattern of Rial Omani deposits held with commercial banks at the end of December 2014, reveal that 80.5 percent of the deposits fetched interest rates of 2% or less per annum compared to 74 percent in December 2013 (Table 5.7 (b)). This pattern can be attributed to the low interest rate regime prevalent as well as to the existence of cash prizes in lieu of interest payments on savings deposits by local banks. With regard to Rial Omani time deposits outstanding at the end of December 2014, it is seen that 77 percent of such deposits were contracted at an interest rate of 3 percent and less, compared to 67.8 percent in the previous year (Table 5.7 (c)).

Chart: 5.2 Weighted Average Interest Rates

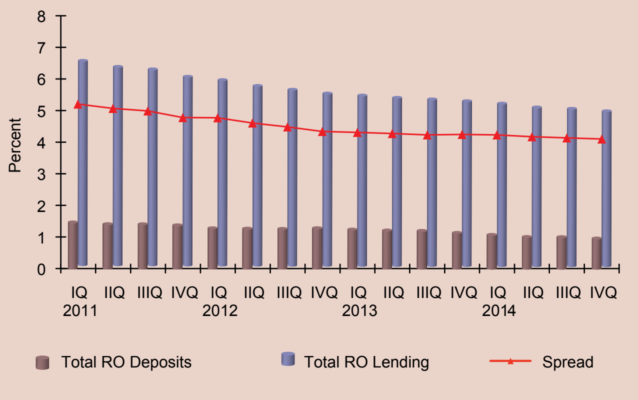


Chart: 5.3 Short-Term Interest Rates

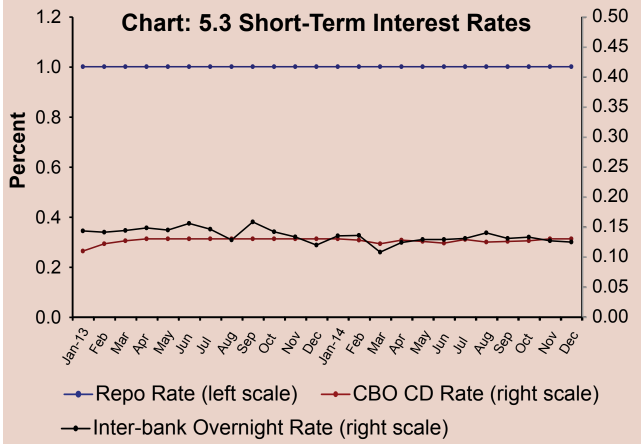


Table 5.7 (a)
Weighted Average Interest Rates
(percent per annum)

End of Period	Deposit Rate			Lending Rate			Spread	Spread	Spread
	Total RO Deposits	Total Fcy Deposits	Total Deposits (RO+Fcy)	Total RO Lending	Total Fcy Lending	Total Lending (RO+Fcy)			
	(1)	(2)	(3)	(4)	(5)	(6)	(4)-(1)	(5)-(2)	(6)-(3)
Mar-2011	1.509	0.859	1.413	6.704	2.314	5.810	5.195	1.455	4.397
Jun-2011	1.446	0.910	1.362	6.505	2.248	5.690	5.059	1.337	4.327
Sep-2011	1.448	0.892	1.361	6.427	2.325	5.649	4.979	1.434	4.288
Dec-2011	1.416	1.027	1.349	6.189	2.384	5.523	4.773	1.357	4.174
Mar-2012	1.318	0.962	1.266	6.085	2.509	5.458	4.767	1.547	4.192
Jun-2012	1.301	0.910	1.242	5.896	2.429	5.350	4.595	1.520	4.108
Sep-2012	1.299	0.900	1.242	5.774	2.384	5.268	4.475	1.484	4.026
Dec-2012	1.316	1.011	1.274	5.649	2.385	5.201	4.333	1.374	3.927
Mar-2013	1.278	0.998	1.241	5.584	2.366	5.134	4.306	1.368	3.893
Jun-2013	1.247	0.928	1.205	5.514	2.294	5.060	4.267	1.367	3.855
Sep-2013	1.236	1.005	1.206	5.463	2.336	5.023	4.226	1.331	3.816
Dec-2013	1.171	0.908	1.138	5.409	2.303	4.963	4.237	1.395	3.825
Mar-2014	1.100	0.951	1.084	5.326	2.305	4.874	4.226	1.354	3.790
Jun-2014	1.041	0.933	1.030	5.207	2.363	4.756	4.166	1.430	3.726
Sep-2014	1.030	0.908	1.017	5.163	2.441	4.752	4.133	1.533	3.735
Dec-2014	0.986	0.870	0.972	5.080	2.378	4.672	4.094	1.508	3.700

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

Rate of Interest (% per annum)	December 2012		December 2013		December 2014	
	Amount in RO Mln	% Share	Amount in RO Mln	% Share	Amount in RO Mln	% Share
Upto 2%	8,332.1	68.2	10,079.4	74.0	12,298.9	80.5
Over 2% TO 3%	1,977.2	16.2	1,816.3	13.3	1,613.4	10.6
Over 3% TO 4%	1,326.9	10.9	1,294.3	9.5	1,006.4	6.6
Over 4% TO 5%	409.4	3.4	338.9	2.5	284.1	1.9
Over 5% TO 6%	134.5	1.1	75.6	0.6	57.8	0.4
Over 6% TO 7%	32.0	0.3	17.6	0.1	9.0	0.1
Over 7% TO 8%	0.0	0.0	0.0	0.0	0.0	0.0
Over 8% TO 9%	4.3	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	**12,216.5**	**100.0**	**13,622.1**	**100.0**	**15,269.6**	**100.0**
Weighted average interest rate (%)	**1.316**		**1.171**		**0.986**	

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

Rate of Interest (% per annum)	December 2012		December 2013		December 2014	
	Amount in RO Million	% Share	Amount in RO Million	% Share	Amount in RO Million	% Share
Upto 2%	1302.8	25.7	1815.4	34.4	2928.3	50.6
Over 2% TO 3%	1,897.7	37.4	1,762.2	33.4	1,526.5	26.4
Over 3% TO 4%	1,316.0	25.9	1,286.8	24.4	1,000.9	17.3
Over 4% TO 5%	387.8	7.6	317.0	6.0	264.2	4.6
Over 5% TO 6%	133.1	2.6	74.0	1.4	56.1	1.0
Over 6% TO 7%	32.0	0.6	17.6	0.3	9.0	0.2
Over 7% TO 8%	0.0	0.0	0.0	0.0	0.0	0.0
Over 8% TO 9%	4.3	0.1	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	**5,073.7**	**100.0**	**5,272.9**	**100.0**	**5,785.0**	**100.0**
Weighted average interest rate (%)	**2.624**		**2.386**		**2.017**	

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

Rate of Interest (% per annum)	December 2012		December 2013		December 2014	
	Amount in RO Million	% Share	Amount in RO Million	% Share	Amount in RO Million	% Share
Upto 5%	4,163.8	33.7	4900.7	37.7	6385.4	44.5
Over 5% TO 7%	3,919.4	31.7	4850.1	37.3	5519.3	38.5
Over 7% TO 8%	3,238.6	26.2	2460.0	18.9	1787.0	12.5
Over 8% TO 9%	647.3	5.2	464.8	3.6	331.4	2.3
Over 9% TO 10%	105.4	0.9	80.9	0.6	74.9	0.5
Over 10% TO 11%	65.5	0.5	58.5	0.5	65.3	0.5
Over 11% TO 12%	87.9	0.7	72.3	0.6	72.8	0.5
Over 12% TO 13%	34.7	0.3	24.7	0.2	21.2	0.1
Over 13%	89.3	0.7	86.7	0.7	85.9	0.6
Total	**12,351.9**	**100.0**	**12,998.8**	**100.0**	**14,343.2**	**100.0**
Weighted average interest rate (%)	**5.649**		**5.409**		**5.080**	

With the downward pressure on interest rates, the weighted average interest rate on Rial Omani time deposits declined to 2.017% at the end of December 2014 from 2.386% a year ago. With regard to interest rates on Rial Omani lending, 82.9 percent was disbursed at an interest rate of 7 percent and less, in 2014, compared to 75 percent in the previous year. It can be seen that a large part of Rial Omani lending (38.5%) was extended in the interest range of over 5% to 7%, bulk of which constituted personal loans to the household sector. Just as in the case of deposits, the weighted average Rial Omani lending rate at the end of December 2014 stood lower at 5.080% compared to 5.409% a year ago (Table 5.7 (d)).

Reflecting the surplus liquidity conditions prevalent in the banking system, the domestic inter-bank overnight call money market rates remained depressed during the year. The domestic inter-bank overnight lending rate averaged 0.129% during 2014 as against 0.142% in the previous year. The call money rate for most of the period during 2014 was marginally higher that the CBO CD rate and within the informal corridor set by the CBO CD rate and the Repo rate (Chart 5.3). With

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

Period	2013		2014	
	Daily Average Amount in RO Million	Monthly Weighted Average Interest rate*	Daily Average Amount in RO Million	Monthly Weighted Average Interest rate*
Jan	34.6	0.143	23.5	0.135
Feb	27.4	0.141	26.6	0.136
March	32.2	0.144	15.8	0.108
IQ Avg	**31.4**	**0.143**	**22.0**	**0.126**
April	31.4	0.148	27.5	0.124
May	17.9	0.145	32.3	0.129
June	23.7	0.156	11.7	0.129
IIQ Avg	**24.3**	**0.150**	**23.8**	**0.127**
July	31.7	0.146	25.7	0.131
August	27.5	0.129	14.0	0.140
September	41.4	0.158	29.3	0.131
IIIQ Avg	**33.5**	**0.144**	**23.0**	**0.134**
October	37.2	0.142	35.0	0.133
November	38.0	0.133	31.7	0.127
December	19.0	0.120	20.0	0.125
IVQ Avg	**31.4**	**0.132**	**28.9**	**0.128**

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

the inter-bank market being shallow as a result of the excess liquidity in the system, the daily average transactions also declined during 2014 to RO 24.4 million compared to RO 30.2 million in the previous year.

Regulatory and supervisory initiatives of CBO

As financial institutions evolve and expand their business under the environment of financial reforms, deregulation, new accounting standards and technological upgradation, the role of regulation and supervision becomes critical for the soundness and stability of the financial system. The Central Bank of Oman (CBO) has been proactively fine tuning prudential and supervisory norms through the development of sound risk management systems, enhancing transparency and complying with international standards and best practices in order to strengthen the banking system in Oman. Towards this end, the CBO had initiated a number of regulatory and supervisory measures in the recent period.

In order to provide thrust and rigour to the to the supervision process of the banks, all on-site bank examinations done by CBO are now undertaken using the more risk-based supervision methodology. Again, in order to strengthen the risk assessment procedures, the CBO issued guidelines to banks for the implementation of the Internal Capital adequacy Process (ICAAP) which has been operationalized by all banks in Oman. Prompt Corrective Actions with revised trigger points like changes in capital adequacy requirement of banks is being emphasized further.

As financial stability has emerged as a global issue, a financial stability Department has been set up within CBO for macro-prudential supervision of the financial system, which is now producing stress testing and financial stability reports. It is comforting to note that the latest Stress Testing Report suggests that the overall banking system appears to be quite resilient to withstand various shocks. A Joint Committee on Financial Stability has also been formed to act as a macroprudential regulatory body. As part of financial stability, a framework for "Domestic Systemically important banks (D-SIBs)' has been operationalized. The new framework requires creation of an enhanced supervisory regime for such banks that fall under the category of 'too big to fail'. Accordingly banks that have been identified as D-SIB have to adhere to rigorous stress testing exercises, have in place a well-defined early warning and crisis management mechanism, build a robust Recovery and Resolution Plan in addition to a comprehensive Risk appetite framework. Further, an enhanced capital surcharge for such banks is stipulated at 1 percent to be enforced in phases.

The Central Bank of Oman issued the final framework on Liquidity Coverage Ratio (LCR) and LCR disclosure standard requirements under Basel III in December 2014, after due process of consultations. The Basel Committee on Banking Supervision developed the LCR to promote the short-term resilience of the liquidity risk profile of banks by ensuring that they have sufficient high quality liquid assets to survive a significant stress scenario lasting 30 calendar days. The standard for LCR becomes effective from January1, 2015 with a minimum ratio of 60 percent. Thereafter the ratio will gradually increase by 10 percent every year till it reaches 100 percent by 2019. Another ratio, called the Net Stable Funding Ratio has been developed by the Basel Committee to provide a measure of sustainable maturity structure of assets and liabilities.

A notable development in the banking sector was the introduction of Islamic banking since December 2012. The Government and the CBO have vigorously pursued to promote Islamic banking which would diversity banking services and promote financial inclusion. Within a short span, two full-fledged Islamic banks have commenced operations. Out of the seven local banks, six of them have also established Windows for practicing Islamic banking. The Islamic banks and windows operated with 46 branches as at the end of December 2014. All these institutions have established their own Sharia Supervisory Boards to guide them in sharia-related matters. Also in implementation of Royal Decree 69/2012 and as part of strengthening the Sharia Regulatory Framework, a High Sharia Supervisory Board was established in the Central Bank of Oman. The functions of the Authority include giving opinion and advice to CBO on Sharia matters relating to Islamic banking business and deciding on issues which are subject of a Fiqh dispute between Sharia supervisory boards in licensed banks.

During the year, CBO reviewed some of the existing regulatory norms with regard to cross border exposures of banks and certain modifications were made to the limits placed on the aggregate funded and non-funded exposures by banks to non-resident borrowers. Attention of the bankers was also drawn towards the Foreign Accounts Tax Compliance Act (FATCA) and banks were instructed to take effective steps to identify their target customers and obtain their consent for making the required disclosure.

The Bank Credit Statistical Bureau within CBO released quarterly corporate credit market bulletin to banks and FLCs in 2014. The bulletin contains analysis of the corporate credit data across different demographic dynamics like market share, loan type, non-performing loans, business type, foreign currency loans, region wise distribution etc. In addition to single inquiries for credit information report through the BCSB website, a facility was provided to banks and FLCs to make inquiries in bulk in one file through File Transfer Protocol (FTP).

The Ministry of Manpower in conjunction with the CBO introduced the Salary Protection System (SPS) compliance to ensure a methodical and timely process for disbursement of salaries through banks to private sector employees.

The Government and the CBO have been taking concerted efforts to develop the SME sector in terms of capacity building of prospective entrepreneurs, identifying key areas for SME finance, facilitating public-private cooperation and improving upon forward and backward linkages of these entities. The Government is working on entrepreneurial empowerment, preferential treatment in public tenders, sub-contracting and other possible enablers. The CBO advised banks to formulate a liberal lending policy for SMEs and mandated that they should allocate at least 5 percent of their total credit to SMEs and this target is to be achieved latest by December 2015. The prudential requirements for banks to lend to SMEs have also been relaxed in terms of general provisioning requirements and risk weightage. Islamic banking entities, by their business philosophy itself, should find SME finance more attractive.

CBO has been actively participating with various stake-holders in several forums to periodically review SME development and identify and address challenges faced. Banks too have been cooperating and useful suggestions are considered for implementation- coordinated by the Public Authority for SME development. There is no doubt that the financing of SMEs is a challenge, but given the policy initiatives by the Government and CBO, it is expected that banks will be able to turn the lending option to SMEs commercially attractive so that there is more incentive on the part of the banks to lend to this sector.

Central Bank Operations

The statement of the financial position of the Central Bank of Oman (CBO) as at 31 December 2014 along with a comparative position for the previous four years is given in Table 5.8 (a). The financial statements have been prepared in accordance with the Banking Law of 2000 and International Financial Reporting Standards (IFRS) except for the accounting treatment of revaluation gains and losses on foreign currencies, shares, bullion and derivatives which are recognized through the statement of changes in capital and reserves, and the presentation of statement of comprehensive income 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 and bullion.

The presentation of the financial position of CBO given in Table 5.8 (a) marginally differs from the presentation of the audited financial statements that appear separately under the Section “Central Bank Accounts and Regulations”, covered later in this Report. This practice is followed in order to facilitate analysis and to be consistent with the requirements of monetary statistics analysis.

Total assets of the Central Bank of Oman stood at RO 6,638.7 million at the end of December 2014 compared to RO 6,317.9 million in the previous year end, registering an increase of 5.1 percent over the year. Foreign assets, which constituted the bulk of total assets at 94.6 percent, increased by 2.3 percent over the previous year. Changes in CBO’s level of foreign assets are largely determined by the extent of the Government sale of foreign currency to CBO to meet their local currency requirements, banks’ purchase 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 variations in foreign currency balances of the Government held with the CBO. Within the components of foreign assets, CBO’s available-for-sale investments in foreign securities increased steadily over the five year time horizon from RO 3,821.7 million in 2010 to RO 4,763.3 million in

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

	2010	2011	2012	2013	2014	% Change 2014/13
Foreign Assets	**5008.5**	**5524.0**	**5513.7**	**6133.3**	**6276.9**	**2.3**
a) Bullion	0.6	0.6	0.7	0.4	0.4	5.8
b) IMF Reserve assets	135.8	146.9	148.3	153.0	144.5	-5.6
c) Placements abroad	1050.4	1434.5	1097.1	1216.6	860.4	-29.3
d) Securities	3821.7	3942.0	4267.6	4763.3	5271.6	10.7
Due from Government	143.7	0.0	86.2	0.0	173.2	-
Due from Banks and other Institutions *	0.6	0.3	27.7	0.1	0.4	-
Fixed Assets	15.4	20.9	29.8	33.8	40.5	19.8
Other Assets	128.4	136.3	131.6	150.7	147.7	-2.0
Total Assets / Liabilities	**5296.6**	**5681.5**	**5789.0**	**6317.9**	**6638.7**	**5.1**
Currency Issued	913.4	1037.3	1178.8	1342.7	1593.7	18.7
Net Worth	1241.0	1324.3	1360.0	1332.9	1298.8	-2.6
a) Capital	500.0	500.0	500.0	500.0	700.0	40.0
b) General Reserves	352.2	395.3	430.7	455.6	396.2	-13.0
c) Others	388.8	429.0	429.3	377.3	202.6	-46.3
Due to Government	794.8	939.9	806.8	873.0	512.4	-41.3
Due to banks and other institutions	1324.0	789.2	1314.7	1309.5	1708.4	30.5
Foreign Liabilities**	106.6	107.1	106.1	106.6	100.0	-6.2
Other Liabilities	**916.8**	**1483.7**	**1022.6**	**1353.2**	**1425.4**	**5.3**
a) CDs	804.0	1372.0	909.5	1247.0	1323.0	6.1
b) Others	112.8	111.7	113.1	106.2	102.4	-3.6

* Includes US Dollar liquidity support scheme for local banks. ** Includes SDR allocations

Source: Central Bank of Oman.

Table 5.8 (b)
Central Bank's Own Foreign Assets
(Rial Omani Million)

	Dec. 2013	Dec. 2014	Absolute Change 2014/2013
1. Gross Foreign Assets	**6133.3**	**6276.9**	**143.6**
a) Bullion	0.4	0.4	0.0
b) IMF Reserve Assets	153.0	144.5	-8.5
c) Placements Abroad	1216.6	860.4	-356.2
d) Securities	4763.3	5271.6	508.3
Less:			
Foreign cy. deposits from Government	550.8	435.5	-115.3
Foreign cy. deposits from banks	0.0	82.8	82.8
2. Central Bank's Own Foreign Assets	**5582.5**	**5758.6**	**176.1**

Source : Central Bank of Oman.

2013 and further to RO 5,271.6 million as at the end of 2014. The CBO invests only in securities which carry a minimum credit rating as specified by the Bank's investment guidelines. The Bank's placements with approved counterparties as at the end of December 2014 stood at RO 860.4 million as against RO 1,216.6 million at the previous year end, a significant decline of 29.3 percent. The CBO holds these placements predominantly in US dollars. The CBO's own foreign assets position after netting off the foreign currency deposits of the Government and banks held with the Bank, remained at a healthy level vis-à-vis import cover, and stood at RO 5,758.6 million at the end of December 2014, an increase of RO 176.1 million (3.2%) over the previous year end (Table 5.8 (b)). Fixed assets in the form of premises and equipments increased to RO 40.5 million as at the end of 2014 from RO 33.8 million a year ago. Depreciation is charged so as to write off the cost of assets over their estimated useful lives.

On the liabilities side of the CBO balance sheet, currency issued for circulation registered a significant increase of 18.7 percent, from RO 1,342.7 million at the end of 2013 to RO 1,593.7 million at the end of 2014 consistent with the economic growth. The networth of the Bank comprising its capital, general reserves and other reserves registered a marginal decline of 2.6 percent over the year. The capital of CBO was increased by 40 percent to RO 700 million by transfers from the general reserve of RO 100 million, bond price fluctuation reserve of RO 60 million and currency fluctuation reserve of RO 40 million. 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 2014, the general reserve of the Bank stood at RO 396.2 million and was 25 percent of the currency in circulation. Among other reserves, the Bond price fluctuation reserve established by appropriation from the profit and available to counter balance any deficit between the market price of the Bank's bond holdings and the carrying value, stood at RO 47.5 million at the end of December 2014. Similarly, a Currency fluctuation reserve established to counterbalance any deficit "arising from unfavourable currency movements" stood at RO 29 million as at the end of 2014. Apart from the above two reserves, other reserves that form part of the Bank's net worth include the "Currency Valuation adjustment account" which stood at RO 114.1 million and the "Financial assets valuation adjustment account on available-for-sale investments" which amounted to RO 11.99 million as at the end of December 2014.

Central Bank liabilities to banks and other institutions, mostly in the form of clearing account balances held with CBO (as part of statutory reserve requirements) and capital deposits with CBO increased to RO 1,708.4 million at the end of 2014, a rise of 30.5 percent over the year. As part of monetary policy and liquidity management, the Central Bank issued its own certificates of deposits (CDs) to banks and the outstanding amount at the end of 2014 stood at RO 1,323 million compared to RO 1,247 million in the previous year end. An average effective annual rate of interest of 0.08 percent (2013 at 0.07%) was paid on Rial Omani CDs, local banks capital deposits and government accounts held with CBO during the year. The average effective annual interest rate paid on deposits denominated in foreign currencies was 0.03 percent during 2014 compared to 0.11 percent in the previous year. Despite the current low interest rate scenario, CBO's profits for the year 2014 witnessed an increase of 23 percent, from RO 32.96 million in 2013 to RO 40.55 million in 2014.

Commercial Banks' Operations

During the recent years, the macroeconomic environment and supporting financial and monetary policies had a favourable impact on business growth and performance of banks in Oman. The balance sheet of banks witnessed continuous strengthening over the years due to the robust growth of deposits accompanied by higher credit extension and increased investments. As part of the ongoing efforts to strengthen the banking system and bring about greater financial inclusion, CBO initiated various measures in the recent period in line with international norms and practices. Greater emphasis was laid on risk management, capital adequacy and financial stability. These measures helped to improve the efficiency of the Sultanate's financial system in general and the banking sector in particular.

The growth of the total assets of commercial banks in 2014 at 11 percent was higher by 3.8 percentage points over the growth realized in the previous year (Table 5.9 (a)). Of the total assets, credit disbursement accounted for 68 percent and increased by 11.3 percent over the year to RO 16.9 billion as at the end of December 2014. Even though bank credit had registered a significant growth during 2014, there was no dilution in lending standards to sustain the high level of credit growth. Credit extended to public enterprises during the year registered a growth of 14 percent to reach RO 1.97 billion as at the end of December 2014. Private sector credit growth also witnessed an increase of 10.9 percent during the year to RO 14.7 billion. Of the total private sector credit outstanding as at the end of 2014, the share of the non-financial corporate sector stood at 47.8 percent, closely followed by the household sector (largely constituting personal loans) at 45.4 percent, financial corporations at 4.8 percent and other sectors the remaining 2 percent. Commercial banks' overall investment in securities stood at RO 2.9 billion in December 2014, a rise of 14.2 percent over the previous year. Bulk of the banks' investments related to the holding of CBO certificates of deposit which stood at RO 1.32 billion in December 2014 followed by investment in foreign securities amounting to RO 708.6 million.

Aggregate deposits held with commercial banks as at the end of 2014 stood at RO 17.3 billion, an increase of 10.9 percent over the year. Private sector deposits which accounted for 64.7 percent of the total deposit base rose by 13.5 percent to RO 11.2 billion as at the end of December 2014. The sector-wise holding of private sector deposits with banks reveal that the household sector held 48.5 percent, followed by non-financial corporations at 29 percent, financial corporations at 20.8 percent mainly constituting Pension Fund deposits, and other sectors the remaining 1.7 percent. A sectoral flow of funds review indicates that while the household sector held 48.5 percent of the private sector bank deposits at the end of December

2014, their availment of private sector credit stood at 45.4 percent. In absolute terms, however, while the household sector held RO 5.4 billion deposits with commercial banks, their availment of credit stood at RO 6.7 billion. Non-financial corporations while holding 29 percent (RO 3.2 billion) of private sector deposits of banks availed 47.8 percent (RO 7 billion) of total private sector credit. Financial corporations on the other hand held 20.8 percent (RO 2.3 billion) of private sector deposits while availing just 4.8 percent (RO 0.7 billion) of bank credit (Chart 5.4).

The core capital and reserves of commercial banks increased by 7.8 percent to RO 3.24 billion in 2014 while banks' supplementary capital elements went up by 2.9 percent to RO 651.4 million. The BIS capital adequacy ratio of commercial banks averaged 15.4 percent at the end of the year which exceeded the 12.625 percent (including 0.625% capital conservation buffer) mandated for individual banks. Total provisions and reserved interest held by commercial banks continued to surpass the stock of non-performing loans.

The gross non-performing loans increased by 9.1 percent from RO 458 million in 2013 to RO 500 million in 2014. However, the gross non-performing loan ratio as a proportion to total loans and advances net of reserve interest, remained unchanged at 2.1 percent at the end of December 2014 when compared with the previous year.

The sources and uses of bank funds given in Table (5.9 (b)) reveal a large increase in available bank resources amounting to RO 2.5 billion in 2014. Increase in customer deposits with banks during 2014 to the tune of RO 1.69 billion, augmentation of the capital base by RO 0.3 billion and borrowings from banks abroad of RO 0.2 billion provided the additional resources for further asset creation. The increased funds were mainly deployed in the expansion of credit by RO 1.72 billion as well as in investments including CBO CDs by RO 0.4 billion. Commercial banks holdings of cash in their vaults and their balances with CBO as part of required reserve maintenance also increased by RO 0.44 billion during 2014. The non-resident transactions of commercial banks shown in Table (5.9 (c))

Chart 5.4(a): Share of Private Sector Deposits (December 2014)

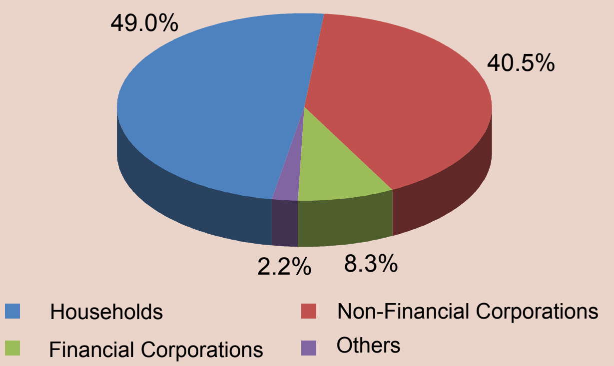


Chart 5.4(b): Share of Private Sector Credit (December 2014)

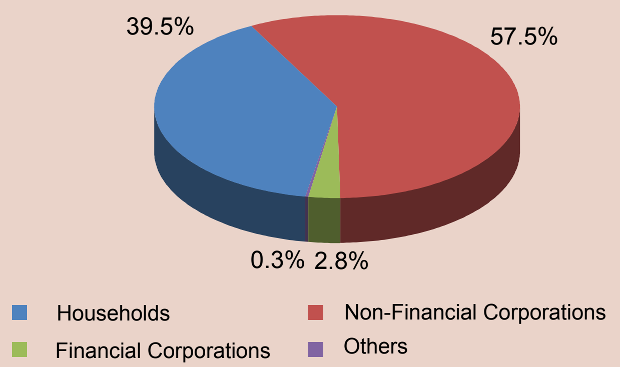


Table 5.9 (a)
Combined Balance Sheet of Commercial Banks
(Rial Omani Million)

	2010	2011	2012	2013	2014	% Change 2014/2013
Cash and deposits with CBO	1520.3	978.9	1568.0	1537.7	1979.0	28.7
Due from Head Office, affiliates and other banks abroad	1173.5	1794.8	1889.5	1876.7	1826.5	-2.7
Total Credit	**10724.3**	**12514.9**	**14319.6**	**15177.4**	**16898.4**	**11.3**
a) Credit to Private Sector	9557.3	10800.0	12414.2	13262.1	14704.0	10.9
b) Credit to public enterprises	921.8	1460.3	1699.8	1731.1	1973.1	14.0
c) Credit to Government	47.9	32.9	31.3	18.4	21.7	18.0
d) Credit to Non-Residents	197.3	221.7	174.3	165.8	199.6	20.4
Securities	**1471.4**	**2200.0**	**2133.5**	**2550.3**	**2912.9**	**14.2**
a) Treasury Bills	0.0	0.0	0.0	0.0	0.0	-
b) Government Bonds	286.2	400.4	470.2	567.5	564.0	-0.6
c) CBO CDs	804.0	1372.0	909.5	1247.0	1323.0	6.1
d) Domestic shares	135.0	118.7	122.3	149.1	156.9	5.3
e) Other domestic securities	39.3	33.3	84.5	84.5	160.3	89.7
f) Foreign securities	206.9	275.6	547.0	502.2	708.6	41.1
Fixed assets	177.2	180.7	176.5	189.0	209.7	10.9
Other assets	581.0	738.3	768.6	1024.5	994.9	-2.9
Total assets / liabilities	**15647.7**	**18407.6**	**20855.7**	**22355.6**	**24821.3**	**11.0**
Total Deposits	**10516.8**	**12573.3**	**14171.7**	**15586.2**	**17278.9**	**10.9**
a) Government deposits	2301.2	3373.1	3955.1	4504.3	4959.4	10.1
b) Deposits of public enterprises	864.2	980.5	969.2	935.4	879.7	-6.0
c) Deposits of private sector	7236.9	8031.3	9016.8	9857.6	11184.3	13.5
i) Demand	2222.7	2272.3	2575.6	2985.9	3740.9	25.3
ii) Savings	2111.4	2517.5	2949.7	3384.2	3992.6	18.0
iii) Time	2816.5	3157.4	3392.1	3371.6	3306.6	-1.9
iv) Commercial prepayments	86.3	84.1	99.4	116.0	144.2	24.4
(of which in foreign currency)	(659.2)	(640.2)	(629.6)	(681.6)	(860.6)	26.3
d) Deposits of non-residents	114.5	188.4	230.6	288.9	255.5	-11.6
Due to banks abroad	1201.6	1433.2	1687.4	1352.0	1547.4	14.5
Core Capital and Reserves	2116.6	2302.7	2712.8	3009.0	3244.2	7.8
Supplementary Capital	427.1	636.0	572.5	633.1	651.4	2.9
Total provisions and reserved interest	451.4	469.7	532.2	560.8	597.0	6.5
(of which general provisions)	(136.3)	(162.0)	(189.8)	(197.2)	(218.7)	10.9
Other liabilities	934.2	992.7	1179.1	1214.6	1502.4	23.7

Source : Central Bank of Oman.

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

Source of Funds	Dec. 2013	Dec. 2014	Uses of Funds	Dec. 2013	Dec. 2014
1. Increase in Total deposits	1414.5	1692.7	1. Increase in Total credit disbursement	857.8	1721.0
a) Government deposits	549.2	455.1	a) Credit to Govt.	-12.9	3.3
b) Deposits of public enterprises	-33.9	-55.7	b) Credit to public enterprises	31.3	242.0
c) Deposits of Private Sector	840.8	1326.7	c) Credit to private sector	847.9	1441.9
1. Financial corporations	52.0	110.3	1. Financial corporations	60.3	39.9
2. Non-Financial corporations	193.7	537.7	2. Non-Financial corporations	533.9	833.5
3. Household sector	568.2	650.1	3. Household sector	268.5	572.8
4. Other sectors	26.9	28.6	4. Other sectors	-14.8	-4.2
d) Non-resident deposits	58.4	-33.4	d) Credit to non-residents	-8.5	33.8
2. Borrowings from banks abroad	-335.4	195.4	2. Investments including CDs	416.8	362.6
3. Increase in Capital, reserves & provisions	385.4	289.8	3. Placements with banks abroad	-12.8	-50.2
4. Other liabilities	35.4	287.8	4. Cash and Deposits with CBO	-30.3	441.3
			5. Fixed assets	12.4	20.7
			6. Other assets	256.0	-29.7
Total sources of funds	**1499.9**	**2465.7**	**Total uses of funds**	**1499.9**	**2465.7**

Source: Central Bank of Oman

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

	Dec. 2013	Dec. 2014	Absolute Change
Foreign Assets	**2568.6**	**2755.8**	**187.2**
Due from banks abroad	1876.7	1826.5	-50.2
Credit extended abroad	165.8	199.6	33.8
Investment in foreign securities	502.2	708.6	206.4
Other assets	23.9	21.1	-2.8
Foreign Liabilities	**1967.0**	**2315.3**	**348.3**
Deposits	288.9	255.5	-33.4
Long term bonds	190.6	386.5	195.9
Due to banks abroad	1352.0	1547.4	195.4
Other liabilities	135.5	125.9	-9.6
Net Foreign Assets	**601.6**	**440.5**	**-161.1**

Source: Central Bank of Oman

point to the increase in foreign assets during 2014 amounting to RO 187.2 million. Increase in foreign assets was mainly seen under the investments in foreign securities. Foreign liabilities of banks registered a larger increase during the year amounting to RO 348.3 million. The larger increase in foreign liabilities vis-à-vis foreign assets resulted in a net inflow of RO 161.3 million during 2014.

Sectoral Flow of Bank Credit

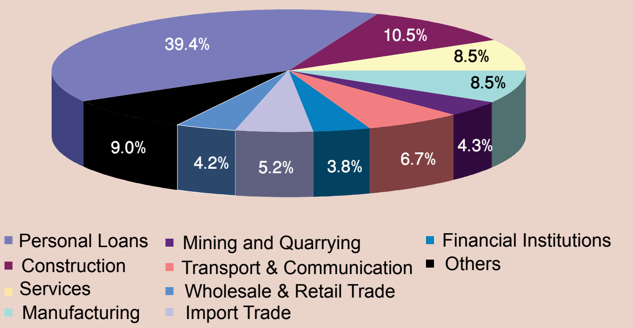
The operations of commercial banks during the year 2014 was marked by a large expansion of bank credit to the tune of 11.3 percent. Apart from setting a ceiling on the quantum of personal loans that an individual bank may extend as a proportion of its total credit portfolio, and requiring banks to disburse at least 5 percent of their total credit towards SME financing, the CBO does not set any other target for priority sector lending. The sectoral deployment of commercial bank credit to the various economic sectors is given in Table 5.10. Sector-wise classification of credit by banks may lack precision because of the inability to figure out the end use with certainty and because borrowers may be engaged in multiple activities spread across diverse industrial groups. These limitations will have to be kept in mind while drawing inferences and interpreting data on sector-wise bank credit. Personal loans inclusive of residential housing loans continued to occupy the major share of total credit at RO 6,655.5 million (39.4%) as at the end of December 2014. Within the personal loan segment, residential housing loans stood at close to 7 percent of bank's total credit portfolio, well within the 15 percent ceiling stipulated by CBO. On an incremental basis, the flow of credit to the personal loans segment resulted in an additional

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

End of Period	2012	2013	2014
Import Trade	765.6	684.4	873.1
Export Trade	26.1	64.2	25.0
Wholesale & Retail Trade	674.4	629.8	647.2
Mining and Quarrying	747.3	584.5	719.4
Construction	1347.8	1480.1	1771.9
Manufacturing	1035.7	1226.9	1431.1
Electricity, gas and water	666.1	772.7	826.7
Transport and Communication	798.5	1009.1	1134.5
Financial Institutions	612.2	672.5	712.4
Services	1265.9	1288.8	1437.5
Personal Loans	5804.4	6080.9	6655.5
Agriculture and allied activities	49.2	45.6	53.8
Government	31.3	18.4	21.7
Non-Resident lending	174.3	165.8	199.6
All Others	320.8	453.7	389.2
Total Credit	**14319.6**	**15177.4**	**16898.5**

Source: Central Bank of Oman.

Chart 5.5: Sectoral Distribution of Commercial Bank Credit (December 2014)



net disbursement of RO 574.6 million during 2014 when compared to lesser credit outlay of RO 276.5 million during the previous year. Personal loans including residential housing were largely backed by salary assignments and mortgages and this segment remained the mainstay and key profit driver for banks. Credit extended to the construction sector was the next major group after personal loans with a share of 10.5 percent in total credit. Total credit towards the construction sector stood at RO 1,771.9 million as at the end of December 2014 and the additional net credit outlay during the year stood at RO 291.8 million. Both the services sector and manufacturing sector had a share of 8.5 percent each in total credit with a net credit outlay of RO 148.7 million and RO 204.2 million, respectively. Transport and communications came next with a share of 6.7 percent in total credit. Other major sectors availing credit from commercial banks included electricity, gas and water, financial institutions, mining and quarrying and wholesale and retail trade. Credit extended for agriculture and allied activities stood at RO 53.8 million at the end of December 2014 compared to RO 45.6 million a year ago. Despite the low share of agriculture and fishing in non-oil GDP of the country, this sector is expected to grow with the large expenditures planned by the Government as it helps in employment generation and is the mainstay of the consumption pattern of the rural population.

Commercial Banks' Profitability

High rates of GDP growth achieved in the Sultanate of Oman during the past few years enhanced the performance of commercial banks resulting in an improvement in their profits. Information technology and an increasingly liberalized financial sector have further facilitated the growth of banks income and enabled banks to derive diversification gains through greater fee based income and other non-interest based income. The high growth of operating profits in recent years was achieved despite the softer interest rate regime. Profits of commercial banks increased during 2014 over and above the strong performance recorded in the previous year. Net profits after provisions and taxes rose from RO 351.3 million in 2013 to RO 362.9 million in 2014, an increase of 3.3 percent over the year (Table 5.11). Of these, net profits of local banks amounted to RO 349.6 million (96.3%) while that of foreign banks stood at RO 13.3 million (3.7%).

Interest income from the core activities including loans and advances, placements with banks and investments, remained the dominant component of bank earnings, accounting for 72.2 percent of the total income of commercial banks during 2014. The rise in interest income from RO 841.1 million in 2013 to RO 881.2 million in 2014 was mainly due to the increased volumes of credit as well as larger levels of investment by banks. Interest expenses on the other hand, remained

Table 5.11
Profitability of Commercial Banks
(Rial Omani Million)

	2012	2013	2014	% Change 2013/2012	% Change 2014/13
1. Interest Income	789.7	841.1	881.2	6.5	4.8
2. (Interest Expenses)	(240.3)	(256.5)	(257.0)	6.7	0.2
3. Net Interest	549.4	584.6	624.2	6.4	6.8
4. Foreign Exchange earnings	34.9	34.3	47.7	-1.7	39.2
5. Fees and Commissions	59.5	64.5	83.3	8.4	29.1
6. Other Income	176.1	223.4	208.8	26.9	-6.5
7. Gross Income (3+4+5+6)	820.0	906.8	964.1	10.6	6.3
8. Operating Expenses	359.6	399.6	428.6	11.1	7.3
a) Administrative Costs	330.4	370.4	400.9	12.1	8.2
b) Depreciation	25.5	28.0	27.3	9.8	-2.4
c) Others	3.7	1.2	0.4	-67.6	-66.1
9. Gross Profits (7-8)	460.3	507.2	535.5	10.2	5.6
10. Provision for doubtful debts *	113.5	105.6	124.0	-7.0	17.5
11. Profits after provisions (9-10)	346.8	401.6	411.5	15.8	2.5
12. Provision for Taxes	41.5	50.3	48.6	21.2	-3.3
13. Net Profit after Provisions & Taxes (11-12)	**305.3**	**351.3**	**362.9**	**15.1**	**3.3**

* Gross provisions made during the year. Recoveries on previous loan loss provisions are reflected under other income.
Note: The profits for the year 2013 and 2014 comprise that of commercial banks and their Islamic windows.
Source : Central Bank of Oman

more or less unchanged over the year despite the significant deposit growth largely due to the decline in the weighted average interest rates paid on deposits by banks which fell from 1.20 percent in 2013 to 1.03 percent in 2014 (average of the four quarters). The net interest income defined as the difference between interest income and interest expenses increased from RO 584.6 million in 2013 to RO 624.2 million in 2014, a rise of 6.8 percent over the year. As mentioned earlier, with the diversification of banks' portfolio, non-interest income has evolved as an increasingly important category of income for banks. Income from foreign exchange operations posted a significant increase of 39.2 percent to RO 47.7 million during 2014. Fee based income such as commissions earned on letters of credit and guarantees, remittance fees and other transfers also rose significantly during the year amounting to RO 83.3 million, a rise of 29.1 percent over the previous year. Other income earned during 2014 comprising recoveries on previous loan loss provisions earmarked, and other miscellaneous income such as insurance recovery charges, credit card fees, lockers fees, rentals and other service charges stood at RO 208.8 million.

During 2014, the operating expenses of commercial banks registered an increase of 7.3 percent over and above the 11.1 percent growth recorded in the previous year. Operating expenses comprise broadly the wage bill and non-wage expenses such as rents paid, head office expenses, depreciation charges and other miscellaneous expenses in the form of travel, entertainment, legal charges, advertisement etc. The ratio of operating expenses to total expenses increased marginally from 61 percent in 2013 to 62.5 percent during 2014. The total wage bill (salaries and other staff costs) increased by 11.9 percent in 2014 to RO 238.6 million compared to RO 213.4 million in the previous year. The share of the wage bill in operating expenses increased to 55.7 percent in 2014 against 53.4 percent during the previous year. Rents and other occupancy costs amounted to RO 38.5 million, a rise of 3.3 percent over the previous year. Depreciation charges on banks' property and equipments amounted to RO 27.3 million in 2014, a marginal decline of 2.4 percent over the previous year. Gross provisions earmarked for doubtful debts and contingencies inclusive of general provisions made during the year increased from RO 105.6 million in 2013 to RO 124 million in 2014. Commercial banks provided RO 48.6 million as provision for taxes for 2014. Cash dividends paid out by local banks to their shareholders registered a marginal decline of 7.4 percent from RO 120.5 million in 2013 to RO 111.5 million in 2014. On the other hand, stock dividends rose significantly by 49.2 percent from RO 64.2 million in 2013 to RO 95.8 million in 2014. Foreign banks' profit remittances amounted to RO 2.84 million in 2014 despite having made larger profits during the year amounting to RO 13.3 million as they retained bulk of their profits to enhance their capital and reserves position within Oman.

Islamic Banking Operations

Islamic banking in the Sultanate of Oman has been progressing very well. There has been considerable increase in the number of branches and assets held by these entities. Islamic banks are opening up new segments and players and thus adding to the competitive environment not only in terms of efficiency and innovations, but by also providing the consumers the benefit of choosing between both conventional and Islamic banking products. The total assets of Islamic banks and windows stood at RO 1,371 million at the end of December 2014, an increase of 68.2 percent over the previous year end (Table 5.12). Islamic banking entities provided financing to the extent of RO 1,049.5 million as at the end of 2014 compared to RO 434.3 million a year ago. Total customer deposits held with Islamic entities

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

	Dec. 2013	Dec. 2014	% Change 2014/13
Cash on hand and deposits with CBO	72.8	131.5	80.6
Due from Head Office, affiliates and other banks abroad	77.7	56.1	-27.8
Due from banks in Oman	87.7	43.1	-50.9
Total financing	434.3	1049.5	141.7
Total investments	104.2	44.9	-56.9
Net fixed assets	32.8	34.2	4.3
Other assets	5.7	11.7	105.3
Total assets/liabilities	**815.2**	**1371.0**	**68.2**
Total deposits	171.9	688.9	300.8
Due to Head Office, affiliates and other banks abroad	23.2	157.6	579.3
Due to banks in Oman	87.3	43.0	-50.7
Core capital and reserves	328.1	350.6	6.9
Other liabilities	204.6	130.9	-36.0

Source: Central Bank of Oman

also registered a significant rise over the year to RO 688.9 million while their capital and reserves amounted to RO 350.6 million as at the end of December 2014. Islamic banks and windows together reported a net loss of RO 4.4 million in 2014 compared to a net loss of RO 13.86 million during the previous year.

Other Depository Corporations

Depository corporations refers collectively to the Central Bank and other depository corporations. The other depository corporations consists of financial corporations (except the Central Bank) that issues liabilities included in the national definition of broad money. For the Sultanate of Oman, the other depository corporations have been defined to include all the conventional commercial banks as well as Islamic banks and windows. The combined balance sheet of other depository corporations given in Table 5.13 provide a broad overview of the financial intermediation taking place in the banking system in Oman. It can be seen that the conventional banks together with Islamic banking entities extended credit amounting to RO 17.9 billion outstanding as at the end of December 2014, a rise of 15 percent over the previous year end. Total deposits held with the other depository corporations also registered an increase of 14 percent over the year to RO 17.97 billion at the end of December 2014. Other depository corporations combined core capital and

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

	December 2013	December 2014	% Change 2014/2013
Cash on hand and deposits with CBO	1610.4	2110.5	31.0
Due from Head Office, affiliates and other banks abroad	1954.3	1882.6	-3.7
Total Credit	15611.8	17948.0	15.0
Total investments	2654.5	2957.8	11.4
Net fixed assets	221.8	243.8	10.0
Other assets	849.5	862.5	1.5
Total assets/liabilities	**22902.3**	**26005.2**	**13.5**
Total deposits	15758.0	17967.8	14.0
Due to Head Office, affiliates and other banks abroad	1375.2	1704.9	24.0
Core capital and reserves	3248.6	3479.3	7.1
Supplementary capital	632.3	651.5	3.0
Total provisions & reserve interest	567.8	612.9	8.0
(of wich general provisions)	(204)	(233.3)	14.4
Other liabilities	1320.5	1588.8	20.3

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

reserves stood at RO 3.5 billion at the end of 2014 as against RO 3.3 billion in the previous year.

Specialized Banks

As at the end of the year 2014, there were two specialized banks operating in Oman, with a network of 23 branches. Both these specialized credit institutions are Government owned banks, namely, Oman Housing Bank (OHB) and Oman Development Bank (ODB). Oman Housing Bank provides finance by way of long term soft housing loans to all segments of Omani society. Total mortgage loan accounts at the end of December 2014 stood at RO 334.6 million compared to RO 299.3 million a year ago, giving a rise of 11.8 percent. The share capital of OHB remained at RO 30 million while the total shareholders equity increased to RO 150.4 million as at the end of 2014 when compared to RO 138.3 million a year ago. Oman Development Bank is mainly engaged in providing loans for development projects including for activities related to agriculture and fisheries, health, education, tourism and traditional craftsmanship in Oman. As at the end of 2014, total loans and advances inclusive of staff loans amounted to RO 110.4 million. The share capital of ODB remained unchanged at RO 100 million while total shareholders' equity increased to RO 157.4 million at the end of December 2014 when compared to RO 151.2 million at the end of the previous year.

Money Exchange Companies

Two types of institutions in Oman carry out money exchange business, namely, those who are engaged in money changing and remittance business and other who are exclusively dealing in money exchange only. As at the end of December 2014, there were 15 exchange establishments licensed for undertaking money changing and remittances and 31 money changing firms. The exchange establishments operated with a network of 264 branches. They are annually examined by CBO to ensure that they keep proper books and records and comply with the regulations, besides remaining solvent. Money changing firms, on the other hand, are selectively examined by rotation. The total assets of the fifteen establishments stood at RO 61.3 million as at the end of 2014. These assets mainly included balances held with banks at RO 28.8 million and cash on hand at RO 18.9 million. The total capital, reserves and retained profits of these companies amounted to RO 45.7 million as at the end of December 2014.

Finance and Leasing Companies (FLCs)

The role of non-banking financial companies in extending financial services and playing the role of financial intermediary is distinct from that of banks. They generally have a well defined business profile serving a specific market niche. There are currently six finance and leasing companies with a branch network of 38 operating under the license of CBO. FLCs in Oman mainly operate in three market segments, namely, retail financing, where the financing is to individual customers mainly for purchase of automobiles and electronic goods; equipment leasing where finance is extended to small and medium enterprises (SMEs) for expansion, modernization and replacement requirements; and finally for factoring and working capital financing to SMEs for cross border or domestic trade, or for the execution of projects, usually against the assignment of receivables.

Total assets of FLCs recorded an increase of RO 63.4 million or 7.4 percent and stood at RO 919 million as at the end of December 2014 compared to RO 855.6 million a year ago (Table 5.14). Net outstanding credit in the form of hire purchase credit, lease financing etc. amounted to RO 887.5 million as at the end of December 2014. Gross non-performing loans increased by 7.6 percent to RO 55.3 million at the end of 2014 compared to RO 51.4 million a year ago. Gross NPLs at the end of 2014 constituted 5.9 percent of the gross loan portfolio of FLCs. Borrowings from banks and other financial institutions which are the main source of funding for FLCs increased to RO 518.9 million in 2014 from RO 481.2 million as at the previous year end. The consolidated capital and reserves of FLCs rose to RO 232.5 million at the end of 2014 from RO 217.1 million in the previous year. Net profits after provisions and taxes for the year ended December 2014 amounted to RO 29.4 million, a rise of 13.1 percent over the previous year.

Payment and Settlement System

A well developed payments and settlement system acts as an important conduit for financial inclusion and inclusive growth, contributes to public welfare and strengthens global competitiveness through efficiency gains at a low cost. The Central Bank of Oman as the regulator oversees the orderly functioning of the payment and settlement system

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

	2010	2011	2012	2013	2014
Total Assets	566.0	603.6	736.5	855.6	919.0
Loans/Lease Portfolio*	498.1	582.2	711.7	823.5	887.5
Gross Non-Performing Loans	54.7	46.5	45.6	51.4	55.3
Cash and Bank Balances	13.9	8.3	9.5	17.2	16.8
Borrowings from Banks & Financial Institutions	265.0	311.2	408.0	481.2	518.9
Paid Up Capital	95.4	108.4	133.9	142.5	148.2
Capital & Reserves	149.9	167.9	202.9	217.1	232.5
Loan Loss Provisions and Reserve Interest	36.1	41.0	43.8	48.9	55.8
Net Profit After Provisions and Tax	15.6	20.8	24.3	26.0	29.4
Weighted Average Rate of Interest Charged (% per annum)	11.1	10.8	9.7	9.5	9.0
Number of Branches (Including Head Office)	33	34	37	38	38

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

to ensure financial stability by minimizing the possibility of systemic risks whilst encouraging the use of electronic modes of payment. The CBO operates four different systems which are the Real Time Gross Settlement System (RTGS), Automated Clearing House (ACH), Electronic Cheques Clearing (ECC) and OmanNet Switch. The CBO has also drawn the National Payment System Strategy and work is underway to enact the National Payment Systems Law to strengthen the current legal and regulatory framework. Once enacted, the National Payment System Law will provide a comprehensive legal framework to address all the aspects related to the sector in a holistic manner and assigning clear powers to CBO to oversee, regulate and supervise all matters relating to the National Payment Systems in Oman.

The CBO is working on several other initiatives to keep the payments infrastructure upto date. The CBO in collaboration with the other GCC countries has initiated a project in order to facilitate payments across the GCC region in a safe, efficient and timely manner. The objective is to establish a multi-currency RTGS system. The overall operating model, legal and regulatory structure and risk management framework for the GCC related RTGS is being worked on. With regard to the Electronic Cheque Clearing System, a separate Archive system is being implemented in order to archive all cheques presented in the system. The new archiving solution will provide access to over 18 million cheque items data that are historically stored and will be available for access to all participant banks.

Payment and Settlement Systems
Table 5.15 (a)
RTGS Business Trends

Year	No. of Transactions	Value (RO Millions)
2009	334,826	91,360
2010	336,057	107,507
2011	330,085	110,762
2012	362,700	127,912
2013	426,926	142,507
2014	466,655	164,862

Table 5.15 (b)
ACH Business Trends

Year	No. of Transactions	Value (RO Millions)
2009	937,764	569
2010	1,286,132	755
2011	1,690,283	1,062
2012	2,025,852	1,300
2013	2,638,504	1,754
2014	3,238,499	2,224

Table 5.15(c)
Electronic Cheque Clearing

Year	No. of Transactions	Value (RO Millions)
2009	2,529,465	8,880
2010	2,662,962	10,299
2011	2,928,723	12,210
2012	3,213,132	13,287
2013	3,581,224	15,115
2014	3,813,167	17,675

Table 5.15 (d)
Oman Net Switch Business Trends

Year	No. of Transactions	Value (RO Millions)
2009	N/A	N/A
2010	N/A	N/A
2011	11,301,803	664
2012	14,459,303	931
2013	18,724,214	1,269
2014	24,554,107	1,813

Source: Central Bank of Oman

Chart 5.6 (a): Retail Payment Systems

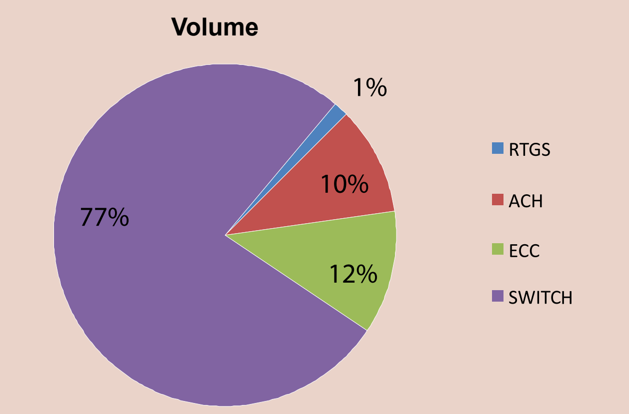
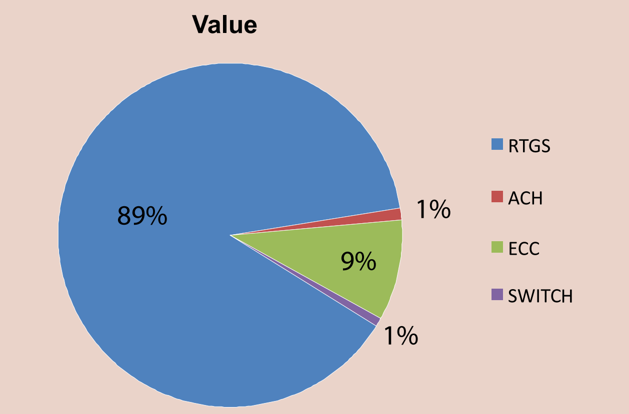


Chart 5.6 (b): Retail Payment Systems



The CBO has also been working on EMV compliance for Payment Cards infrastructure in Oman. The project will require all banks to upgrade their payment terminals (ie., ATMs, CDMs and POS) and all debit cards must be able to accept and conduct EMV transactions. The Payment Gateway is another project which aims to process national online transactions through the debit cards. In addition to facilitating online payments, the gateway will also provide consumers with advanced authentication mechanism to ensure enhanced safety in the financial transactions.

Transactions under the RTGS, ACH, ECC and OmanNet Switch are presented in Table 5.15. It can be seen that during 2014, the RTGS transactions which is positioned for handling time critical and high value but low volume, processed just 1.5 percent of the total transactions in volume terms but handled 88.4 percent of the total transactions in value terms (Chart 5.6). On the other hand, the retail payment systems like ACH, ECC and OmanNet Switch processed large volume of transactions while accounting for small value.

Foreign Trade and Balance of Payments

FOREIGN TRADE AND BALANCE OF PAYMENTS

Growth in world merchandise trade remained subdued in 2014 on account of several adverse conditions, including slower GDP growth in emerging economies, an uneven recovery in developed countries following the financial crisis, and rising geopolitical tensions, among others. Prospects for world trade in 2015 and 2016 seem promising, with world real GDP growth forecasted to grow at around the same rate as trade volumes. According to the Press Release issued by the World Trade Organization in April 2015, growth in the volume of world merchandise trade is expected to recover gradually over the coming years, rising from 2.8 percent in 2014 to 3.3 percent in 2015 and further to 4.0 percent in 2016.

Though international oil prices declined during the second half of 2014, the price of Omani crude oil did not drop significantly for the year, but averaged US$ 103.21 per barrel in 2014 as compared to US$ 105.51 per barrel in 2013. As a result, the balance of payments position did not deteriorate drastically in 2014 although the current account surplus was lower as compared to 2013. Oman's merchandise trade has been on a high trajectory of growth in the past few years facilitated by the international price of crude oil as well as conducive environment and exchange rate stability. Going forward the drop in global oil prices from the earlier highs is likely to have an adverse impact on both trade balance and current account balance.

The merchandise trade surplus increased by 3.9 percent to RO 9.7 billion in 2014 from RO 9.4 billion a year ago, mainly on account of a 13 percent decline in the value of imported goods. The combined deficit on services, income and current transfers stood at RO 8.2 billion in 2014 as compared to RO 7.4 billion in 2013. The current account registered a lower surplus of RO 1.6 billion in 2014 (equivalent to 5.0 percent of nominal GDP) as compared to RO 2.0 billion or 6.7 percent of nominal GDP in 2013. With oil prices continuing to remain low in 2015, averaging around US $ 60 per barrel so far, it is expected that Oman's current account will turn into deficit in 2015.

The capital and financial account posted a net outflow of RO 788 million in 2014 as against an inflow of around RO 2.3 billion last year, reflecting positive levels of domestic savings over investment demand. The overall balance of payments position registered a surplus of RO 429 million during 2014 giving rise to the augmentation of the country's foreign exchange reserves by the same amount. Foreign exchange reserves of the Central Bank of Oman (net of valuation adjustment) increased by RO 233 million and Government reserves increased by RO 196 million in 2014. As at the end of 2014, the gross foreign assets of the Central Bank of Oman stood at RO 6,276.9 million providing import cover for 7 months of merchandise goods.

Foreign Trade

Given the nature of Oman's economy in terms of its high degree of trade openness and contribution to the domestic economy, merchandise exports (f.o.b.) and imports (c.i.f.) together stood at 102.9 percent of nominal GDP in 2014. Of the combined total, merchandise exports alone comprised 65.1 percent of nominal GDP, while imports represented 37.8 percent of nominal GDP (Table 6.1). Oman's international trade continued to exhibit a high degree of concentration in hydrocarbon exports (Chart 6.1). The share of oil and gas exports to total exports marginally declined to 65.5 percent in 2014 from 66.1 percent in the previous year.

Merchandise Trade Balance

The decline witnessed in the value of total merchandise imports by 13 percent to RO 11,898 million in 2014 was more pronounced than the decline of 5.7 percent in total merchandise exports to RO 20,463 million during the year (Chart 6.2). As a result the, merchandise trade balance registered a larger surplus of RO 8,565 million in 2014 compared to RO 8,018 million in 2013 – an increase of 6.8 percent over the year (Table 6.1 and Chart 6.3). The surplus in the trade balance in terms of nominal GDP stood at 27.2 percent in 2014 as compared to 26.7 percent in 2013 (Chart 6.4).

Exports

Merchandise exports of Oman comprising crude oil, refined oil, liquefied natural gas (LNG), non-oil exports and re-exports, experienced different levels of growth in 2014. Crude oil exports (inclusive of refined oil) decreased by 6.0 percent to RO 11,901 million in 2014 compared to RO

Table 6.1
Trade Transactions
(Rial Omani Million)

	2010	2011	2012	2013	2014	% Change 2014/13
Imports (c.i.f.)	**7,679.5**	**9,235.2**	**11,010.4**	**13,679.5**	**11,898.1**	**-13.0**
Exports (f.o.b.)	**14,073.2**	**18,106.8**	**20,047.2**	**21,697.0**	**20,463.4**	**-5.7**
Crude Oil	8,007.7	10,659.6	11,795.0	12,337.5	11,591.3	-6.0
Refined Oil	519.4	697.1	557.1	340.9	309.5	-9.2
LNG	1,176.2	1,469.3	1,614.7	1,670.3	1,493.0	-10.6
Non-oil	2,448.2	3,033.2	3,594.1	3,806.9	4,125.5	8.4
Re-exports	1,921.7	2,247.6	2,486.3	3,541.4	2,944.1	-16.9
Trade Balance	**6,393.7**	**8,871.6**	**9,036.8**	**8,017.5**	**8,565.3**	**6.8**
(Exports+Imports) as % of GDP	96.5	104.7	105.8	117.7	102.9	
Trade Balance as % of GDP	28.4	34.0	30.8	26.7	27.2	
Total Non-oil Exports as % of GDP*	19.4	20.2	20.7	24.4	22.5	

*Includes re-exports.

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

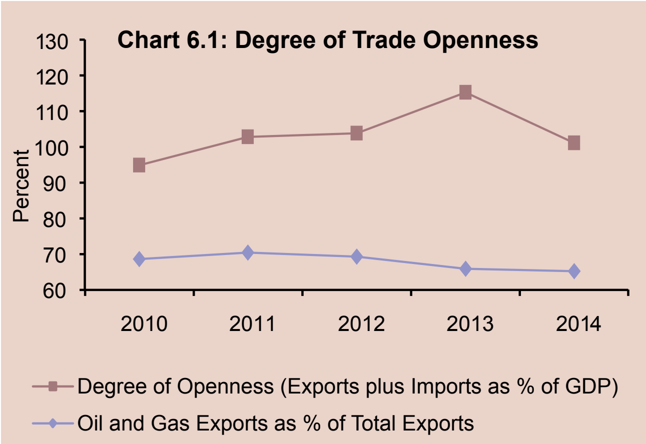


Chart 6.1: Degree of Trade Openness

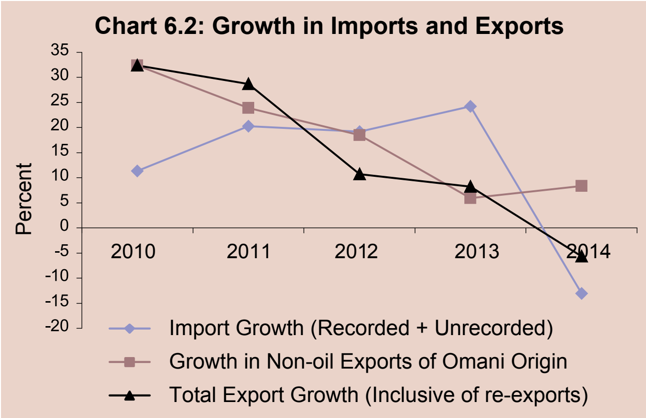


Chart 6.2: Growth in Imports and Exports

Chart 6.3: Merchandise Trade

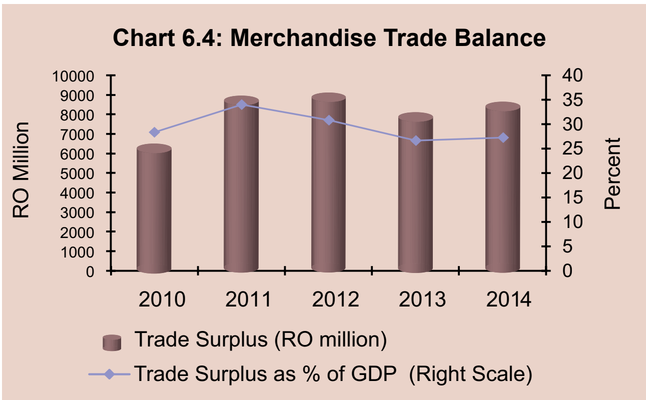


Chart 6.4: Merchandise Trade Balance

12,678 million in the previous year. The decline in value of crude oil exports was attributed to lower realization of oil prices in 2014 (a decline of 2.2 percent) and to smaller volumes of oil exports (a decline of 3.9 percent). Similarly, while the value of LNG exports decreased by 10.6 percent to RO 1,493 million in 2014, re-exports also declined considerably by 16.9 percent to RO 2,944 million during the same year. In contrast, the value of non-oil exports of Omani origin increased by 8.4 percent to RO 4,126 million in 2014.

Non-Oil Exports of Omani Origin

Non-oil exports are important from the point of diversification of the economy and more particularly so in the wake of lower oil prices. With the attention and support provided for the development of small and medium enterprises (SMEs), it is expected that non-oil exports will be further diversified, which augurs well for the economy. The non-oil export growth during 2014 was led by "products of chemicals and allied industries" at 18.2 percent, followed by "Plastic, rubber, & articles thereof" at 23.4 percent (Table 6.2). Exports of "base metals & articles thereof" increased by 5.7 percent, while "live animals and animal products" also recorded an annual growth of 19.3 percent in 2014. Despite recording a marginal negative growth of 1.7 percent, "mineral products" accounted for the largest share of 30.5 percent of non-oil exports of Omani origin in 2014.

Re-Exports

Total re-exports drastically declined by 16.9 percent to RO 2,944 million in 2014 over the previous year

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

Classification	2010	2011	2012	2013	2014	% Change 2014/13
Live animals and animal products	160.3	173.4	175.6	176.0	210.0	19.3
Vegetable products	33.3	35.9	43.2	98.2	59.2	-39.7
Animal or vegetable fats & oil	55.9	76.2	52.3	70.8	81.2	14.7
Foodstuffs, beverages, tobacco & related products	65.6	80.1	98.8	96.5	115.0	19.2
Mineral products	612.7	422.1	1,001.8	1,277.8	1,256.4	-1.7
Products of chemicals & allied industries	708.9	1,181.4	1,076.3	800.5	945.9	18.2
Plastic, rubber, & articles thereof	254.9	300.8	252.4	288.8	356.3	23.4
Textiles & articles thereof	5.3	5.9	8.0	7.9	9.9	25.3
Base metals & articles thereof	335.9	542.0	671.2	724.6	765.8	5.7
Others	215.4	215.4	214.5	265.8	325.8	22.6
Total	**2,448.2**	**3,033.2**	**3,594.1**	**3,806.9**	**4,125.5**	**8.4**

*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	2010	2011	2012	2013	2014	% Change 2014/13
Live animals and animal products	5.2	6.7	7.9	12.6	23.4	85.7
Vegetable products	15.5	5.5	13.9	15.6	7.2	-53.8
Animal or vegetable fats & oil	0.8	0.8	1.3	0.3	0.1	-65.7
Foodstuffs, beverages, tobacco & related products	40.6	45.9	40.4	74.4	78.2	5.1
Mineral products	78.6	520.3	567.6	1,293.5	516.1	-60.1
Products of chemicals & allied industries	14.3	15.4	23.9	131.7	114.8	-12.9
Plastic, rubber, & articles thereof	5.8	9.8	10.1	11.3	11.3	0.0
Textiles & articles thereof	40.3	17.2	9.2	9.3	8.4	-9.7
Base metals & articles thereof	27.9	26.3	25.2	32.5	32.2	-0.9
Vehicles, aircraft, vessels & associated transport equipment	1,455.1	1,395.6	1,575.2	1,731.6	1,886.5	8.9
Others	237.5	204.0	211.6	228.6	265.9	16.3
Total	**1,921.6**	**2,247.5**	**2,486.3**	**3,541.4**	**2,944.1**	**-16.9**

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

mainly on account of a marked drop (equivalent to 60 percent) in the value of re-exports of "mineral products" (Table 6.3). "Products of chemical & allied industries" and "vegetable products" also recorded negative growths of 12.9 percent and 53.8 percent, respectively, during the same year. In contrast, re-exports of "vehicles, aircraft, vessels & associated transport equipment" registered positive growth of 8.9 percent in 2014.

Destination of Non-Oil Exports

The United Arab Emirates (UAE), Pakistan and Saudi Arabia with a share of 40.7 percent remained as the three most important destinations for total non-oil exports of Omani origin in 2014 (Table 6.4). The United Arab Emirates (UAE) continued to be the largest destination for Omani exports with its share increasing to 18.8 percent in 2014 from 17.3 percent in 2013. In contrast, share of non-oil exports from Oman to Saudi Arabia and China decreased in 2014. In value terms, while non-oil exports to the UAE increased by 17.9 percent to RO 776 million in 2014, non-oil exports to Saudi Arabia and India decreased by 19.5 percent and 7.7 percent, respectively, for the same year. The main reason for decline in non-oil exports of Omani origin were lower exports of "mineral products" to Saudi Arabia and lower exports of "base metals and articles thereof" to India. Most importantly and a positive in terms of diversification, the USA emerged as the fifth most important market for

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

Country	2012		2013		2014	
	Non-Oil Exports	% of Total	Non-Oil Exports	% of Total	Non-Oil Exports	% of Total
UAE	550.4	15.3	658.3	17.3	776.0	18.8
India	611.6	17.0	415.7	10.9	383.6	9.3
China	289.9	8.1	217.1	5.7	220.7	5.3
Saudi Arabia	329.7	9.2	542.5	14.3	436.6	10.6
S.Korea	45.1	1.3	60.1	1.6	121.9	3.0
Qatar	61.6	1.7	134.6	3.5	96.4	2.3
U.S.A	233.2	6.5	185.6	4.9	221.3	5.4
Iraq	182.0	5.1	88.3	2.3	50.4	1.2
Pakistan	217.8	6.1	282.4	7.4	468.0	11.3
Indonesia	90.6	2.5	27.1	0.7	26.7	0.6
Netherlands	35.6	1.0	48.5	1.3	60.8	1.5
Somalia	49.3	1.4	106.0	2.8	62.5	1.5
Malaysia	89.6	2.5	66.4	1.7	75.1	1.8
Kuwait	66.6	1.9	166.0	4.4	157.7	3.8
Taiwan	49.4	1.4	20.8	0.5	82.2	2.0
Others	691.7	19.2	787.5	20.7	885.6	21.5
Total	**3,594.1**	**100.0**	**3,806.9**	**100.0**	**4,125.5**	**100.0**

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

Omani non-oil exports with a share of 5.4 percent, consisting mainly of "mineral products" and "plastic, rubber, & articles thereof."

Destination of Re-Exports

The destination of majority of re-exports from Oman in 2014 was to UAE, Saudi Arabia and China. Re-exports to these three countries together stood at RO 1,931 million and accounted for 65.6 percent of total re-exports in 2014. On an individual basis, the country-wise ranking of re-exports remained more or less unchanged during the year (Table 6.5). Commodity wise, re-exports to the UAE mainly comprised vehicles, machinery and transport equipment, whereas for Saudi Arabia and China it consisted of vehicles, mineral products, and chemicals. The sizable contraction in the overall level of re-exports could be attributed to the 73 percent decrease in re-exports of mineral products to "others" countries in 2014. Moreover, the relative share of re-exports of "mineral products" to "others" countries declined substantially to 30 percent in 2014 from 45 percent in 2013.

Imports

The value of recorded imports (on c.i.f. basis) declined by 14.6 percent to RO 11,267.7 million in 2014 from RO 13,201.1 million in the previous year. The main categories of recorded imports with their respective shares for 2014 were "vehicles, aircraft, vessels & associated transport equipment (22.8 percent), "electrical machinery & mechanical equipment & parts (17.2 percent)," "base metals & articles thereof (11.7 percent)," "mineral products (11.5 percent), and "products of chemicals & allied industries (8.8 percent)" (Table 6.6). The share of imports of electrical machinery, vehicles and transport equipment combined remained high at 40 percent in 2014. Of these, imports of "vehicles, aircraft, vessels & associated transport equipment" increased by 8.1 percent to RO 2,568.4 million in 2014 from RO 2,375.9 million in 2013. This increase in levels of imports of vehicles and transport equipment during the year could be associated with higher domestic consumption as well as higher demand for Omani re-exports from neighboring countries. In contrast, imports of "mineral products" decreased substantially by 64.2 percent to RO 1,297.9 million from RO 3,627.6 million a year ago due to lower demand for Omani re-exports of mineral products. "Live animals and animal products," "vegetable products," and "foodstuff, beverages, etc." together recorded an average annual growth of 15.1 percent in 2014 compared to 8.6 percent in 2013. All three food categories witnessed marked growth during the year in line with the recent surge in domestic demand for food and beverages by the rising population.

The United Arab Emirates (UAE) and Japan were the two major sources of imports for Oman comprising 44.7 percent of total imports in 2014. The UAE continued to remain the largest source of imports for Oman at RO 3,658.5 million, representing 32.5 percent of total imports in 2014 (Table 6.7). Imports from UAE decreased by 6.5 percent in 2014 led mainly by RO 408.2 million or 56.0 percent decrease in imports of mineral products, whereas imports from Japan increased by 12.2 percent to RO 1,376.2 million for the same year on account of mainly higher imports of vehicles and transport equipment. Other major

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

Country	2012		2013		2014	
	Re- Exports	% of Total	Re- Exports	% of Total	Re- Exports	% of Total
UAE	988.7	39.8	1,270.1	35.9	1,323.0	44.9
Iran	114.1	4.6	122.1	3.4	133.1	4.5
Saudi Arabia	179.7	7.2	366.2	10.3	355.8	12.1
U.K.	24.8	1.0	13.4	0.4	15.8	0.5
Hong Kong	72.7	2.9	41.1	1.2	38.7	1.3
Singapore	17.9	0.7	45.6	1.3	32.6	1.1
Belgium	24.3	1.0	26.1	0.7	24.6	0.8
Yemen	11.4	0.5	0.1	0.0	18.1	0.6
China	436.1	17.5	360.5	10.2	252.3	8.6
Iraq	104.3	4.2	2.8	0.1	23.2	0.8
Libya	18.2	0.7	41.9	1.2	40.4	1.4
Germany	10.4	0.4	13.7	0.4	10.8	0.4
India	34.8	1.4	70.3	2.0	39.0	1.3
Sudan	2.8	0.1	4.3	0.1	3.5	0.1
Kazakhstan	0.7	0.0	0.3	0.0	0.6	0.0
Others	445.4	17.9	1,162.9	32.8	632.6	21.5
Total	**2,486.3**	**100.0**	**3,541.4**	**100.0**	**2,944.1**	**100.0**

Notes: Refer to Table 3.3 in Chapter 3 for data on destination of oil exports.
Source: Directorate General of Customs and National Center for Statistics & Information .

Table 6.6
Composition of Recorded Imports
(Rial Omani Million)

Classification	2010	2011	2012	2013	2014	% Change 2014/13
Live animals and animal products	282.0	337.4	380.7	429.3	472.7	10.1
Vegetable products	222.0	258.3	309.2	325.6	409.6	25.8
Foodstuffs, beverages, tobacco & related products	364.6	316.9	352.7	377.1	420.9	11.6
Mineral products	673.7	1,317.3	1,462.7	3,627.6	1,297.9	-64.2
Products of chemicals & allied industries	597.8	667.5	857.9	1,007.3	993.2	-1.4
Plastic, rubber, & articles thereof	279.7	333.4	359.3	386.8	415.0	7.3
Textiles & articles thereof	120.6	143.2	155.4	150.9	152.0	0.7
Articles of stone, plaster, cement, asbestos, mica or similar materials, ceramic products, glass & glassware	103.0	128.2	171.4	154.0	255.8	66.1
Base metals & articles thereof	880.6	1,095.9	1,402.6	1,376.9	1,320.7	-4.1
Electrical Machinery & Mechanical Equipment & Parts	1,572.2	1,941.9	1,988.0	2,054.2	1,942.5	-5.4
Vehicles, aircraft, vessels & associated transport equipment	1,944.5	1,882.9	2,564.4	2,375.9	2,568.4	8.1
Others	549.4	658.9	807.0	935.5	1,019.0	8.9
Total	**7,590.1**	**9,081.8**	**10,811.3**	**13,201.1**	**11,267.7**	**-14.6**

Notes: Import figures presented here include recorded imports only & hence, they may not tally with import figures in Tables 6.1 & 6.10.
Source: Directorate General of Customs and National Center for Statistics & Information.

Table 6.7
Sources of Recorded Imports
(Rial Omani Million)

Country	2012		2013		2014	
	Imports	% of Total	Imports	% of Total	Imports	% of Total
UAE	2,781.5	25.7	3,911.3	29.6	3,658.5	32.5
Japan	1,455.9	13.5	1,277.7	9.7	1,376.2	12.2
Italy	212.3	2.0	245.4	1.9	220.3	2.0
UK	201.6	1.9	198.5	1.5	197.8	1.8
Germany	349.5	3.2	360.9	2.7	332.0	2.9
USA	641.3	5.9	582.4	4.4	486.3	4.3
France	161.0	1.5	133.4	1.0	99.6	0.9
India	592.4	5.5	1,198.5	9.1	486.6	4.3
Netherlands	123.1	1.1	190.1	1.4	163.6	1.5
South Korea	398.2	3.7	369.1	2.8	412.7	3.7
Australia	180.9	1.7	127.9	1.0	122.8	1.1
China	540.1	5.0	403.0	3.1	540.6	4.8
Saudi Arabia	453.0	4.2	778.1	5.9	462.0	4.1
Singapore	69.1	0.6	106.6	0.8	172.1	1.5
Belgium	111.6	1.0	149.1	1.1	132.3	1.2
Brazil	457.8	4.2	474.9	3.6	438.2	3.9
Others	2,082.0	19.3	2,694.1	20.4	1,966.1	17.4
Total	**10,811.3**	**100.0**	**13,201.0**	**100.0**	**11,267.7**	**100.0**

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

sources of imports include China, USA, India, and Saudi Arabia together accounting for 17.5 percent of total imports.

Trade with GCC Countries

The respective share of GCC countries together as percentage of Oman's total imports and exports (inclusive of re-exports) remained more or less unchanged over the past several years. Omani non-oil exports (inclusive of re-exports) as percentage of Oman's total non-oil exports plus re-exports increased marginally from 43.7 percent in 2013 to 45.7 percent in 2014, whereas the share of GCC in Oman's recorded imports declined from 39.2 percent to 37.2 percent for the same years. While value of total non-oil exports (inclusive of re-exports) to GCC increased marginally by 0.5 percent to RO 3,230.4 million over the year, recorded imports from GCC countries decreased by 17.4 percent to RO 4,428.3 million in 2014 from RO 5,364.4 million in the previous year. Among the GCC countries, the UAE continued to be the main trading partner of Oman in 2014 with a share of 65.0 percent of total Omani non-oil exports (inclusive of re-exports) to GCC countries, and 82.6 percent of imports of Oman from the GCC countries (Table 6.8).

Unit Value Trade Indices

Unit value trade indices for Omani exports and imports have been constructed to derive a proxy that determines the relative social welfare of Oman and the implied terms of trade for the country (Table 6.9). As depicted in Chart 6.5, the unit value

Table 6.8
Trade with GCC Countries
(Rial Omani Million)

GCC Countries	2013				2014			
	Non-Oil Exports*		Recorded Imports		Non-Oil Exports*		Recorded Imports	
	Value	% of Total	Value	% of Total	Value	% of Total	Value	% of Total
UAE	1,928.4	60.0	3,911.3	72.9	2,099.1	65.0	3,658.5	82.6
Saudi Arabia	908.7	28.3	778.1	14.5	792.5	24.5	462.0	10.4
Bahrain	47.2	1.5	96.4	1.8	44.9	1.4	77.0	1.7
Kuwait	177.5	5.5	103.7	1.9	171.8	5.3	60.9	1.4
Qatar	152.3	4.7	474.9	8.9	122.2	3.8	169.9	3.8
Total	**3,214.1**	**100.0**	**5,364.4**	**100.0**	**3,230.4**	**100.0**	**4,428.3**	**100.0**

*Includes re-exports.

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

index for Omani crude oil in 2014 decreased to 370.8 from 379.0 (expressed as an index with the base period 2003=100), implying a welfare loss of 2.2 percent in oil income over the previous year. While the non-oil export price index increased by 74.9 percent to 142.9 in 2014 over its level of 81.7 in 2013, the unit value index for imports in 2014 increased further by 9.6 percent to around 108.6.

Nominal Effective Exchange Rate

The Rial Omani NEER index surged to 101.6 in December 2014 from 96.2 at the end of the previous year following the appreciation of the US dollar to which the Rial Omani is pegged. As at the end of March 2014 the index stood at 95.7 with a marginal dip to 95.1 in June, rising again to 98.4 in September 2014, pointing to an overall appreciating trend of the Rial Omani in 2014 against a basket of currencies of the Sultanate's importing partners (Table 6.10). The appreciation in Omani NEER index witnessed in the course of 2014 is compatible with the trend of US dollar as the US economy pointed to better improvement in 2014 when compared to other major advanced economies (Chart 6.6). The appreciation of the US dollar during the year and the consequent rise in the value of the Rial Omani had a positive impact on import costs from countries other than the USA, which was clearly evident in the significant drop in domestic inflation in Oman, given that the Sultanate of Oman relies to a large extent on imports.

Chart 6.5: Unit Value Indices of Exports and Imports

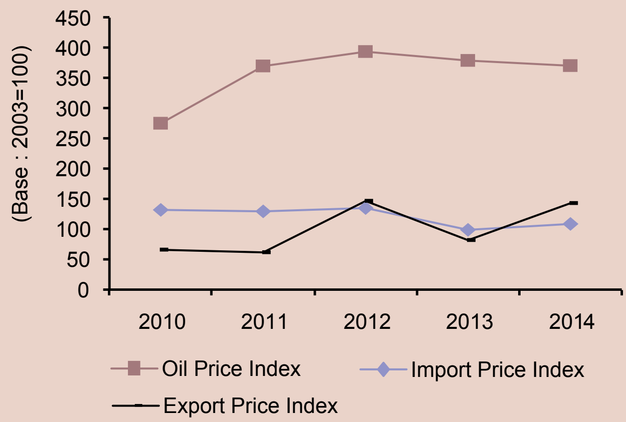


Table 6.9
Value and Quantity of Exports / Imports

Year	Non-oil Exports of Omani Origin*		Re-Exports		Recorded Imports		Oil Exports	
	Value in RO Million	Weight (000) Tonnes	Value in RO Million	Weight (000) Tonnes	Weight (000) Tonnes	Weight (000) Tonnes	Million Barrels	Avg. Price USD per Barrel
1995	182.0	643.7	321.9	203.3	1,633.6	2,772.6	284.6	16.39
1996	173.3	698.7	387.0	251.0	1,760.2	3,416.5	296.2	19.42
1997	203.3	692.8	506.8	231.2	1,932.5	3,760.8	303.2	18.62
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	3,747.2	17,015.1	2,727.6	2,742.8	11,267.7	23,175.3	292.2	103.20

*Excludes re-exports.

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

Chart 6.6: NEER and Non-Oil Exports

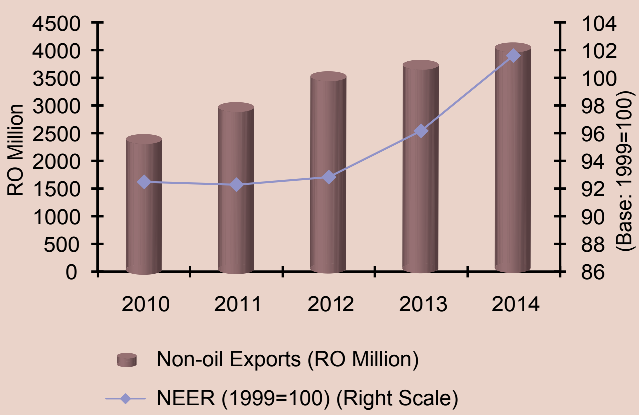


Chart 6.7: Current Account Balances

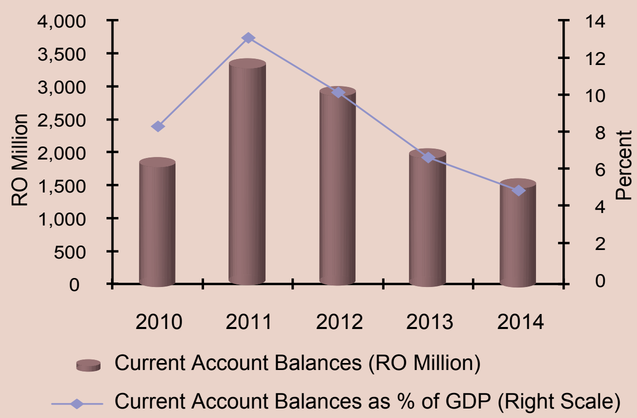


Table 6.10
Nominal Effective Exchange Rate (NEER)
(1999=100)

Period	Import Weighted	Non-Weighted
End of year		
2003	97.1	91.3
2004	93.5	86.6
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
Month-end (2014)		
January	96.2	91.7
February	95.9	91.1
March	95.7	90.3
April	95.3	89.7
May	95.3	89.9
June	95.1	89.7
July	95.4	90.1
August	96.5	91.5
September	98.4	94.0
October	98.6	94.4
November	100.8	96.1
December	101.6	97.4

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

Balance of Payments

Current Account

Oman's balance of payments (BoP) during 2014 was to some extent impacted due to lower oil prices in the second half of 2014, which led to lower current account surplus as compared to the previous year. While merchandise trade registered a higher surplus of RO 9,741 million during 2014, the current account surplus stood lower at RO 1,559 million, which was equivalent to 5.0 percent of GDP (Chart 6.7). The surplus in the current account stood at RO 2,018 million in the previous year.

Services, income and transfers together resulted in a net outflow of RO 8,181 million in 2014 compared to an outflow of RO 7,358 million in 2013. The combined net deficit on services, income and current transfers were equivalent to 26.0 percent of nominal GDP in 2014. Net outflows under the services account amounted to RO 2,754 million in 2014, an increase of 4.2 percent over the outflows of RO 2,643 million registered during the previous year. Income receipts on foreign assets decreased by 36.8 percent to RO 467 million in 2014 from RO 739 million in 2013, while income payments on foreign liabilities decreased marginally from RO 1,953 million to RO 1,933 million during the same period on account of lower repatriation of profits in the oil and gas sector.

Current transfers associated with outward worker remittances increased by 13.1 percent to RO 3,961 million in 2014 over the previous year reflecting continued increase in expatriate employment in Oman, particularly in the private sector. The ratio of outward remittances in terms of total merchandise export earnings stood at 19.4 percent in 2014 as compared to 16.1 percent in the previous year (Chart 6.8).

Capital and Financial Account

The positive saving-investment gap of Oman vis-à-vis the rest of the world, commensurate to the surplus of RO 1,559 million witnessed in the current account, was matched by an outflow of RO 788 million in the capital and financial accounts of BoP and an increase of RO 429 million in official international reserves of the country. Capital inflows to Oman remained subdued due to fragile global economic conditions which were reflected in the deficits observed in the various heads under the capital and financial accounts.

The deficit in the capital and financial accounts in 2014 as against a large surplus in 2013 was a notable development in Oman's BoP (Table 6.11). The sizeable exception with regard to capital inflows reported last year in the BoP was an outcome of the merger that took place between the Contingency Fund (an above the line item) and the State General Reserve Fund (a below the line item). Net outflows reported under FDI stood at RO 357 million in 2014 as against an inflow of RO 333 million last year. While FDIs by nonresidents into Oman (obligations to nonresidents) was estimated at RO 284 million during 2014, foreign direct investments abroad (i.e. claims on nonresidents) was estimated at RO 642 million for same the year. The large increase witnessed in FDI outflows during 2014 primarily reflected transactions related to the acquisition made by Oman Oil Company of Oxea from Advent Chemicals in 2013.

Portfolio investments witnessed a net outflow of RO 152 million in 2014 as against a net inflow of RO 138 million in 2013 due to lower investments by nonresidents in securities listed on Muscat securities Market (MSM), and due to increase in investments of commercial banks and pension funds abroad. The Muscat Securities Market Index (MSM 30) closed at 6,343.22 at the end of December 2014 recording a decline of 7.19 percent compared to 6,834.56 at the end of December 2013. However, percentage of shareholding by non-Omanis (i.e. GCC citizens & other nationals) in total market capitalization was higher at 29.25 percent in 2014 compared to 27.67 percent a year earlier. GCC citizens owned 16.16 percent of listed joint stock companies in 2014 (up from 14.68 percent in 2013) whereas non-GCC citizens owned 13.09 percent of the same in 2014 (up from 12.99 percent in 2013). Other investment under the financial account registered a net outflow position of RO 228 million in 2014 largely as the Government did not build up its foreign assets abroad as was the case in previous years.

The overall balance of payments position (adjusted for errors and omissions), which represents the combined effect of the net flows emerging out of the current, capital, and financial accounts, witnessed a surplus of RO 429 million in 2014.

Chart 6.8: Outward Remittances

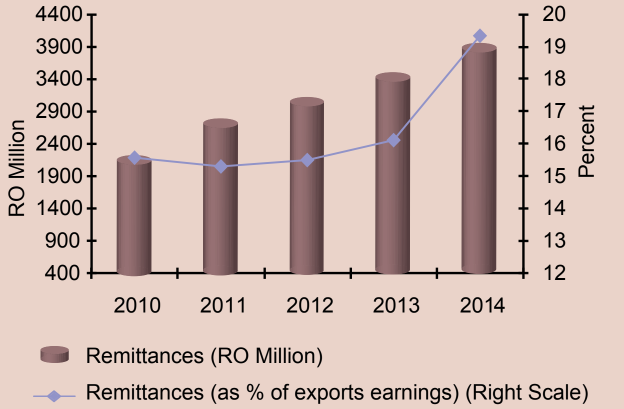
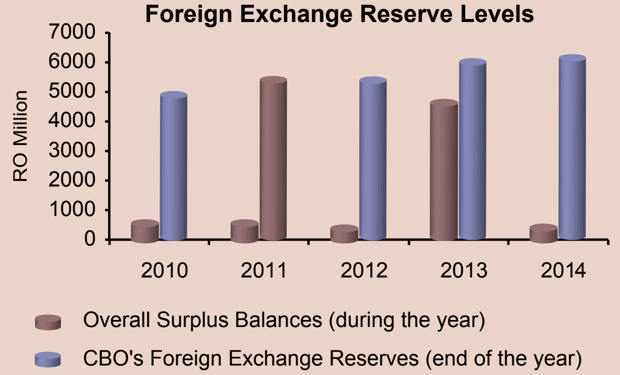


Chart 6.9: Overall BoP Surpluses and CBO's Foreign Exchange Reserve Levels



Reserve Assets

The overall balance of payments surplus of RO 429 million in 2014 led to an increase of RO 233 million in net foreign assets (net of valuation adjustment) of the CBO and an increase of RO 196 million in SGRF balances of the Government (Chart 6.9). CBO's net foreign assets position in 2014 stood at RO 6,176.8 million at the end of 2014 in comparison to RO 6,026.6 million at the end of 2013. CBO's foreign exchange reserves at the end of 2014 provided cover for 7 months of merchandise imports and close to 4 months cover for imports of goods, services, income payments and current transfers combined in 2014.

Foreign Direct Investment

Preliminary estimates by the National Center for Statistics and Information (NCSI) on foreign investment indicate that the outstanding stock of total foreign investment in Oman declined marginally by 0.1 percent to RO 13,610.2 million in 2013 from RO 13,629.8 million in 2012. Foreign direct investment (FDI), which is a major component of total foreign investment at around 50 percent, witnessed an annual increase of 4.6 percent to RO 6,688.4 million in 2013 over the previous year (Chart 6.10). Total return on FDI (dividends and reinvested earnings) declined slightly from 28.3 percent in 2012 to 24.7 percent 2013 (Chart 6.11). The main sectors receiving the largest share of FDI remained mostly unchanged during the recent years. Leading FDI investments in 2013 were oil & gas sector at 49 percent, followed by financial intermediation at 16.6 percent and manufacturing at 15.2 percent. Oman's external sector during 2013 has remained comfortable though the current account surplus was lower than the previous years.

Going forward, the challenge for the Omani economy is to cope with the lower oil prices and ensure that the balance of payments situation does not worsen. This will include diversifying exports, containing imports particularly of luxury items, encourage tourism receipts and attracting capital inflows in the form of foreign direct inflows and portfolio inflows. With increasing Omanization, it is also expected that outflows under the workers remittances abroad will not continue to rise. The "State General Budget 2015" is very positive and focuses on continuing investment spending to implement the development projects as per their schedule. This will allow the Omani economy to continue with its growth trajectory.

Chart 6.10: Stock of Foreign Investment in FDI Enterprises

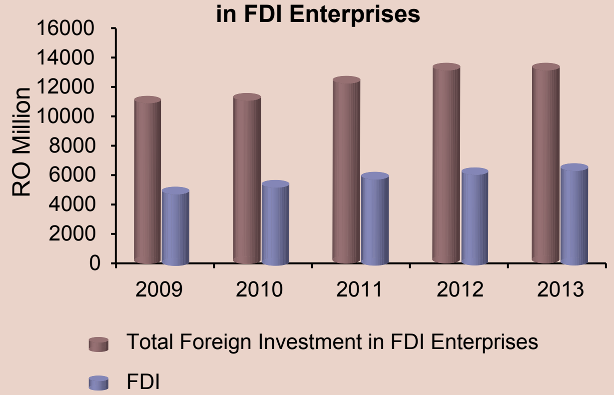


Chart 6.11: Annual Income on FDI Stock

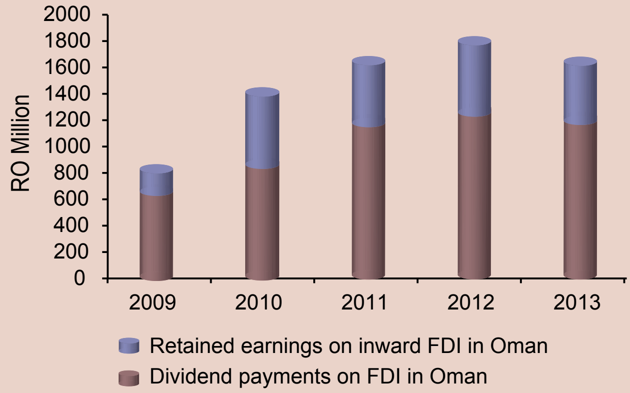


Table 6.11
Balance of Payments
(Rial Omani Million)

Items	2010	2011	2012	2013	2014 Prel.
A. Current account	**1,881**	**3,402**	**2,976**	**2,018**	**1,559**
1. Goods	**7,200**	**9,841**	**10,193**	**9,376**	**9,741**
Exports (f.o.b)	**14,073**	**18,107**	**20,047**	**21,697**	**20,464**
Oil	8,527	11,357	12,352	12,678	11,901
Natural Gas	1,176	1,469	1,615	1,670	1,493
Other exports	2,448	3,033	3,594	3,807	4,126
Re-exports	1,922	2,248	2,486	3,541	2,944
Imports (f.o.b)	**-6,873**	**-8,266**	**-9,854**	**-12,321**	**-10,723**
2. Services	**-1,753**	**-2,074**	**-2,338**	**-2,643**	**-2,754**
Services (Credit)	**694**	**896**	**1,033**	**1,127**	**1,179**
Travel	300	383	421	498	520
Transportation	202	348	428	420	446
Insurance	10	13	16	18	19
Communication	32	24	29	39	37
Other Services	150	128	139	152	157
Services (Debit)	**-2,447**	**-2,970**	**-3,370**	**-3,770**	**-3,933**
Travel	-385	-449	-493	-548	-714
Transportation	-1,025	-1,190	-1,401	-1,689	-1,542
Insurance	-275	-292	-314	-332	-353
Communication	-14	-12	-23	-33	-44
Other Services	-748	-1,027	-1,140	-1,168	-1,280
Balance on goods & services (1+2)	**5,447**	**7,767**	**7,855**	**6,733**	**6,987**
3. Income	**-1,373**	**-1,591**	**-1,770**	**-1,214**	**-1,466**
Income (Credit)	**297**	**282**	**276**	**739**	**467**
Compensation of Employees	15	15	15	15	15
Other Investment Income	282	267	261	724	452
Income (Debit)	**-1,670**	**-1,873**	**-2,047**	**-1,953**	**-1,933**
Direct Investment Income	-1,463	-1,715	-1,879	-1,843	-1,828
Other Investment Income	-207	-158	-168	-110	-105
Balance on goods, services & income (1+2+3)	**4,074**	**6,176**	**6,085**	**5,519**	**5,521**
4. Current Transfers	**-2,193**	**-2,774**	**-3,109**	**-3,501**	**-3,961**
Current Transfers (Credit)	-	-	-	-	-
Current Transfers (Debit)	-2,193	-2,774	-3,109	-3,501	-3,961
Worker Remittances	-2,193	-2,774	-3,109	-3,501	-3,961

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

Items	2010	2011	2012	2013	2014 Prel.
B. Capital and Financial Account (5+6)	**-1,646**	**-2,358**	**-2,411**	**2,277**	**-788**
5. Capital Account	**-25**	**-56**	**-33**	**-43**	**-50**
Grants (Credit)	0	0	0	0	0
Grants (Debit)	-25	-56	-33	-43	-50
6. Financial Account (i + ii + iii)	**-1,621**	**-2,302**	**-2,378**	**2,320**	**-739**
(i) Foreign Direct Investment	**-98**	**204**	**-13**	**333**	**-357**
Assets (FDI abroad)	-576	-470	-340	-4	-642
Liabilities (FDI in Oman)	478	674	327	337	284
(ii) Portfolio Investment	**94**	**-193**	**114**	**138**	**-152**
Assets	-409	-35	-567	-385	-502
Liabilities	503	-158	681	523	350
(iii) Other Investment	**-1,617**	**-2,313**	**-2,479**	**1,849**	**-228**
(a) Assets	**-1,099**	**-2,817**	**-2,702**	**2,471**	**14**
Trade Credit & Other Receivables	43	-30	-91	-138	-170
Currency & Deposits	299	-578	-24	-273	89
Other Assets	-1,441	-2,209	-2,587	2,882	95
(b) Liabilities	**-518**	**504**	**223**	**-622**	**-243**
Trade Credit & Other Payables	143	27	44	71	-148
Currency & Deposits	-504	292	292	-247	428
Loans	-146	-99	-175	-464	-271
General Government (net)	53	-39	-37	-74	-60
Other Sectors	-199	-60	-138	-390	-211
Other Liabilities	-11	284	62	18	-252
C. Net Errors & Omissions	**341**	**-470**	**-168**	**429**	**-342**
D. Overall Balance	**576**	**574**	**397**	**4,725**	**429**
E. Reserve Assets	**-576**	**-574**	**-397**	**-4,725**	**-429**
Central Bank	-341	-528	26	-605	-233
Government Reserves	-235	-46	-423	-4,120	-196

Note: Data relating to the financial account has been revised for the last few years in line with the most recent survey on foreign investment conducted by the National Center for Statistics and Information (NCSI).

Source: Central Bank of Oman.

Central Bank Accounts and Regulations

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P. R. No. MH/4

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

Report on the extracts from the financial statements

The accompanying extracts from the financial statements, which comprise the statement of financial position as at 31 December 2014 and income statement for the year ended 31 December 2014, are derived from the audited financial statements of the Central Bank of Oman ("the Bank") for the year ended 31 December 2014. We expressed an unmodified opinion on those financial statements in our report dated 23 March 2015. Those financial statements, and the extracts from the financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

The extracts from the financial statements do not contain all the disclosures required by accounting policies as set out in note 3 to the audited financial statements and the Banking Law 2000. Reading the extracts from the financial statements, therefore, is not a substitute for reading the audited financial statements of the Bank.

Management's responsibility for the extracts from the financial statements

Management is responsible for the preparation of the extracts from the audited financial statements in accordance with the minimum disclosure requirements of Oman's Banking Law 2000.

Auditor's responsibility

Our responsibility is to express an opinion on these extracts from the financial statements based on our procedures, which were conducted in accordance with International Standards on Auditing (ISA) 810, "Engagements to Report on Summary Financial Statements".

Opinion

In our opinion, the accompanying extracts from the financial statements derived from the audited financial statements of the Bank for the year ended 31 December 2014 are consistent, in all material respects, with those financial statements in accordance with the minimum disclosure requirements of Oman's Banking Law 2000.

24 May 2015
Muscat

Central Bank of Oman
Statement of Financial Position at 31 December 2014

	2014 RO'000	2013 RO'000
ASSETS		
Bullion	423	447
Reserve holdings abroad		
Foreign currency placements	860,397	1,216,633
Available-for-sale investments	5,271,567	4,763,300
Other assets	236,078	59,680
International Monetary Fund		
Reserve tranche	46,841	49,197
Currency quota	85,184	91,138
	132,025	140,335
Special drawing rights holdings	97,651	103,757
	229,676	244,092
Premises and equipment	40,524	33,808
Total assets	**6,638,665**	**6,317,960**
LIABILITIES		
Currency in circulation	1,593,710	1,342,693
Deposits and current accounts	3,545,014	3,431,216
Other liabilities	16,345	14,068
International Monetary Fund		
Non-interest bearing demand notes	69,500	69,500
Other accounts	15,706	21,662
	85,206	91,162
Special drawing rights allocation	99,613	105,883
	184,819	197,045
Total liabilities	5,339,888	4,985,022
CAPITAL AND RESERVES		
Capital	700,000	500,000
General reserve	396,187	455,637
Bond price fluctuation reserve	47,500	107,500
Currency fluctuation reserve	29,000	69,000
Currency valuation adjustment account	114,099	196,616
Financial assets valuation adjustment account on available-for-sale investments	11,991	4,185
Total capital and reserve	1,298,777	1,332,938
TOTAL LIABILITIES AND CAPITAL AND RESERVES	**6,638,665**	**6,317,960**

H.E. Hamood Sangour Al Zadjali
The Executive President

Bader Khalid Ahmed Al Aghbari
Manager Banking Operations Department

Central Bank of Oman
Income Statement
For the year ended 31 December 2014

	2014 RO'000	2013 RO'000
Interest income	58,105	58,054
Interest expense	(2,715)	(2,504)
Net interest income	**55,390**	**55,550**
Other income	31,523	21,368
Operating income	**86,913**	**76,918**
Operating expenses		
Staff costs	(30,218)	(29,496)
Currency expenses	(2,032)	(3,301)
Administrative expenses	(11,798)	(8,420)
Depreciation on premises and equipment	(2,315)	(2,742)
Total operating expenses	**(46,363)**	**(43,959)**
Profit for the year	**40,550**	**32,959**

31 March 2014

CIRCULAR BM 1120

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

After Compliments,

Sub: Guidelines on Credit Exposure to Non-residents and Placement of Bank Funds Abroad

As the banks are aware, the credit exposure to non-residents and placement of bank funds abroad has been engaging the attention of the Central Bank for some time due to the risks associated with such exposures. The matter was discussed in the Annual Bankers' Meeting 2013, followed by a series of consultations with banks. We acknowledge the valuable inputs received from the banks in this regard. We advise that the Central Bank has considered their suggestions on merits and reckoned the business/ operational considerations and the past cross-border exposure data in finalizing the Guidelines (copy enclosed).

It is advised that the Circular together with the Guidelines comes into force with immediate effect. The banks, which are in excess of the prudential limits prescribed under the Guidelines, are granted time upto six months from the date of this Circular to bring down their exposures within the prudential limits or the maturity of their exposures, whichever is earlier.

Best regards,

Hamood Sangour Al-Zadjali
The Executive President

Guidelines on Credit Exposure to Non-residents and Placement of Bank Funds Abroad

1. The objective of prudential regulations is to cap the risks at a particular level and manage them in a manner, which promotes the safety and soundness of the individual financial institutions and strengthens the stability of the financial system, while facilitating the financial transactions for the ultimate benefit of the economy and the country.

2. Credit exposures to non-residents and placement of funds abroad involve the banks assuming higher degree of country, transfer, credit, currency, reputational, legal and other risks and have multiple implications for the banking system and the economy. Banks are also exposed to heightened competition in the international financial markets. At the same time, it may not be prudent to preclude banks from tapping gainful cross-border business opportunities in the context of liberalization and globalization. Under these circumstances, it is necessary to mitigate the underlying risks of such exposures through prudential regulations/ circulars and risk limits, for maintaining financial stability and solvency of the licensed banks.

3. In the light of the experiences gained and for improving the portfolio quality and risk profile of the cross border exposures of banks, the Central Bank has reviewed some of the existing regulatory practices/ norms and certain modifications have been made therein. Accordingly, the following updated and consolidated instructions, in supersession/ modification of the instructions contained in the Circulars, as listed out in Annex 1, are, hereby, issued for strict compliance by the licensed banks. The updated and consolidated instructions are arranged below in the following order:

   A. Credit Exposure in Rial Omani to Non-Residents
   B. Credit Exposure to Non-Residents in Foreign Currencies for Operations Abroad
   C. Placement of Bank Funds Abroad
   D. Other Prudential Requirements

A. Credit Exposure in Rial Omani to Non-Residents

4. Banks are advised that Circular BM 335 (Regulation No. BM/REG/022/9/81) on credit exposure in Rial Omani to Non-Residents remains in force. Non-residents assuming positions in Rial Omani has implications for domestic liquidity and the stability of the currency. The extant measures are reiterated to prevent taking of positions in Rial Omani.

   4.1. Licensed banks shall not maintain Rial Omani deposits with or make loans or advances denominated in Rial Omani to any non-resident bank or non-resident financial institution, which shall, inter alia, include the Head Office, branches of such licensed bank outside the Sultanate, affiliates or subsidiary companies thereof.

   4.2. Licensed banks are not allowed to grant loans and advances or take other credit exposures denominated in Rial Omani to non-resident companies, individuals or other legal entities.

   4.3. The Embassies, Consulates, and persons of diplomatic status within the Sultanate shall not be regarded as non-residents for the purpose of the above norms.

5. These measures shall not, in any way, affect the right of any person, other than licensed banks, to transfer or hold Rial Omani balances, assets or other currencies outside the Sultanate of Oman.

B. Credit exposure to Non-Residents in Foreign Currencies for Operations Abroad

6. The following instructions are issued with a view to enhancing the safety and soundness of banks. These instructions will cover credit exposures to all non-residents including non-resident banks. (There are separate guidelines for transactions relating to placement of bank funds abroad at 'C' & 'D' below.)

   6.1 Any credit exposures of US$ 5 million and above to any non-resident borrower other than a non-resident bank, shall be assumed only through the route of syndication.

6.2. The prudential limits for aggregate Funded Credit Exposures, inclusive of debt securities and investment products treated as credit substitutes, to a non-resident borrower and the related parties are as follows:

6.2.1. Domestic Banks including the Overseas Branches

Borrower	Limit per borrower
Each Non-Resident (other than a Bank) and the related parties	2.5% of the local networth of the Bank
Each Non-Resident Bank and the related parties	5% of the local networth of the Bank

The aggregate funded credit exposure to all non-resident borrowers (other than banks) and related parties shall be limited to 20% of the local networth of the Bank. The aggregate funded credit exposure to all non-resident borrowers (including banks) shall be limited to 30% of the local networth of the Bank.

The facilities given by an overseas branch of a domestic bank to residents of the country in which the branch is domiciled are not considered under this section.

6.2.2. Foreign Bank branches in the Sultanate

Borrower	Limit per borrower
Each Non-Resident (other than a Bank) and the related parties	2.5% of the local networth of the Bank
Each Non-Resident Bank and the related parties	5% of the local networth of the Bank

The aggregate funded credit exposures of the Bank to all non-resident borrowers (other than banks) and the related parties shall be limited to 20% of the aggregate local networth of the local branches. The aggregate funded credit exposures to all non-resident borrowers (including banks) and their related parties shall be limited to 30% of the local networth of the local branches.

6.2.3. Overseas Branches of Domestic Banks

Borrower	Limit per borrower
Each Non-Resident (other than a Bank) and the related parties	2.5% of the local networth of the Bank
Each Non-Resident Bank and the related parties	5% of local networth of the Bank

Non-resident borrowers for the purpose of this section shall be those residents in a jurisdiction other than the country in which the overseas branch is domiciled.

The aggregate funded credit exposure to all non-residents (other than banks) and the related parties shall be limited to 20% of the local networth of the bank. The aggregate funded credit exposure to all non-resident borrowers (including banks) shall be limited to 30% of local networth of the bank.

The above limitations are subject to any related overriding limits of the host country regulators. The facilities extended by an overseas branch of a domestic bank to residents of the country in which the branch is domiciled are not considered under this section.

6.3. The aggregate funded and non-funded credit exposures by any licensed bank to all non-resident borrowers and the related parties (both banks and other than banks) should not exceed 100% of the local networth of the bank.

6.4. The aggregate credit exposures of a domestic bank including those of its overseas branches to a resident and the related parties in Oman should not exceed

15% of the global networth of the bank.

6.5. Banks should report the details of the credit exposures in foreign currency to non-residents, as per Annex 2 and the details of syndicated loans, both for resident and non-resident borrowers, as per Annex 3, within 15 days after the end of each quarter.

C. Placement of Bank Funds Abroad

7. The placement of bank funds abroad with Related Parties is governed by the following guidelines:

Placement of Bank Funds with Related Parties:

7.1 Branches of Foreign Banks operating in the Sultanate:

The aggregate of all foreign currency balances with the offices indicated below shall not exceed 60% of the local networth and shall be segmented further within the following ceilings:

	Offices with which the Foreign Currency Balance is Maintained	Ceiling
i)	Head Office and own branches abroad (aggregate)	20% of the local networth
ii)	Each Affiliate abroad	20% of the local networth

7.2. Domestic Banks:

The aggregate of all foreign currency balances with the offices indicated below shall not exceed 60% of the local networth and shall be segmented further within the following ceilings:

	Offices with which the Foreign Currency Balance is Maintained	Ceiling
i)	Affiliates of the bank abroad (aggregate)	20% of the local networth
ii)	Principal Shareholders & their own offices / branches and affiliates abroad (aggregate)	20% of the local networth
iii)	Branches of domestic banks abroad (aggregate)	20% of the local networth

Placement of Bank Funds with Non-Related Parties:

8. The aggregate of all foreign currency balances held abroad by a domestic bank or a foreign bank branch operating in the Sultanate with non-related party banks shall not exceed 60% of its local networth. Within this overall ceiling, the aggregate balances with the overseas branches/ offices of any one non-resident bank (including its affiliates) shall not exceed 20% of the local networth.

9. Banks should report the details of placements of bank funds abroad, as per Annex 4, within 10 days after the end of each quarter.

D. Other Prudential Requirements: Applicable to all the Licensed Banks

10. The exposure in foreign currency (in the form of placement as well as credit exposure) to a single non-related overseas (i.e., non-resident) bank and/ or its affiliates is capped at 20% of the bank's local networth; and the aggregate overseas exposures (in the form of placements as well as credit exposure) to related and non-related parties is capped at 120% of local networth.

11. Banks are advised to be careful in assuming credit exposures to / making placements with non-residents (including banks) and/ or in countries, which are rated below investment grade. Such high risk exposures in aggregate should not exceed 15% of the local networth of the bank with a cap of 5% on a single country. Requests for justifiable exemption from this prudential limit indicating inevitable linkages or other reasons may be made to the Central Bank by foreign bank branches operating in the Sultanate.

12. The ceilings stipulated herein for the purpose of placement of funds abroad refer to the sum total of all placements, including the balances in Nostro accounts (before netting with dues to respective branches/ offices).

13. Domestic licensed banks issuing Letters of Credit (LCs) for large amounts, for and on behalf of their customers, and for which they require confirmation from related party banks or non-related party banks, are exceptionally authorized to deposit with such banks a maximum of 50% of the amounts of such LCs over and above the prescribed limits.

14. It is clarified that these prudential limits will not apply to interbank transactions undertaken by banks, which are licensed by Central Bank of Oman.

15. For the purpose of placement of funds abroad, the following definitions shall apply:

a) 'Principal Shareholders' in the case of locally incorporated banks refers to any non-resident bank that holds equity ownership of 15% or more of capital issued and outstanding of the domestic bank.
b) 'Affiliates' means an institution where a bank owns having 25% or more of the voting shares in the equity of the concerned institution and its affiliates.
c) 'Head Office Affiliate' in the case of foreign banks and 'Principal Shareholder's Affiliate' in the case of domestic banks means an institution in which Head Office or the Principal Shareholder as the case may be owns 25% or more of the voting shares of the affiliate. The term 'affiliates' includes both 'affiliates of Principal Shareholders' and 'affiliates of the bank'.
d) 'LCs for large amounts' refers to individual LCs exceeding Rial Omani one million.

16. Banks are advised to report the 'placements abroad' and 'loans to banks abroad' under "dues from banks/claims on banks" in the balance sheet and provide the break-ups in the relevant 'notes to accounts'. Similarly, overseas investments in debt securities etc treated as credit substitutes, should be reported under 'investments' in the balance sheet with details provided in the relevant 'notes to accounts'. Relevant 'notes to accounts' should provide the break-ups/ details of 'placements abroad', 'loans to banks abroad' and overseas investments in debt securities etc treated as credit substitutes, bank-wise and within the bank Head Office, branch, affiliate/ related party wise. Banks may note to maintain proper records of such transactions to facilitate review by internal and external audit/compliance/ CBO Examiners.

17. Banks are advised to follow the risk classification and loan loss provisioning (general and specific) instructions set out in circular BM 977 for their non-resident (both bank and other than bank) loans subject to lower general loan loss provisioning of 0.5% for exposures to banks. While no general loan loss provisioning has been mandated for placement of bank funds abroad, Central Bank may at its discretion direct a bank to make general provisions on any placement (irrespective of the tenor) at any point of time based on its risk perception.

18. Credit Exposure for the purpose of this circular would mean those exposures indicated in para 2 of circular BM 1024, but excluding exposures to investment grade Governments and Central Banks in the form of T bills and bonds. Banks' exposures in this regard are also subject to the provisions of Banking Law (Article 65). Banks are also advised that placements exceeding one year period will be treated as funded credit exposures and the relevant prudential limits as detailed in Section B and D of this Circular will apply to such placements. Further, placements which are renewed/ rolled over, without being closed out with a cash flow with the total period exceeding one year, will also be treated as funded credit exposure and the relevant prudential limits as detailed in Section B and

D of the circular will apply. The reduced rate of general loan loss provisioning indicated in para 17 above will not apply to such placements.

19. Banks are advised that the prudential limits set out in this Circular are not to be seen as entitlements and they are advised to be diligent and conservative in this regard. Further, banks are advised to have a comprehensive Board approved policy covering funded and non-funded exposures to non-residents (both banks & other than banks) so as to mitigate the adverse effects of country risk. The policy should inter alia cover the following:

- Risk management committee of the Board
- Board-approved internal risk limits on Deals, Currency, Dealer, stop-loss, country risk and counterparty (single & group) exposures.
- Each of these should be backed by a rational and well-documented strategy. Further, independently validated, bank-specific, business-specific models for Value at Risk and stress tests etc should be in place.
- Assets Liabilities Management Committee should take informed decisions based on 'cost-benefit' analysis of transactions.
- Banks are advised to follow global best practices with regard to cross-border exposures in countries, which are rated below investment grade by international rating agencies. Such risky exposures, if any, should be backed by strong financials and adequate collateral.
- Banks are advised to monitor very closely the currency risk assumed by their non-resident customers to avoid market risk triggered by credit risk.

The bank's internal and external audit system should also validate adherence to policy in this regard.

20. The guidelines as laid down herein come into force with immediate effect. Banks are also advised that notwithstanding the prudential limits prescribed herein, Central Bank may direct any bank to reduce their non-resident exposures based on the risk perception.

14 September 2014

CIRCULAR BM 1123

To: All Licensed Banks
Operating in the Sultanate of Oman

After Compliments,

Subject: Small and Medium Enterprises (SMEs)

1. Reference is invited to Circular no. BM 1108 dated May 6, 2013 on the above subject.
2. Central Bank has been periodically reviewing the progress made by banks in lending to the SME sector and observes that the progress in this regard has not been quite adequate.
3. It is observed, among others, that some banks are yet to comply with other Central Bank stipulations, also, like setting up of separate SME Department to be headed by a Senior Management staff, review of adequacy of powers of delegation for lending to SMEs, review of pricing structure for SMEs in view of regulatory concessions (on risk weightage and general provisions) and other initiatives (extending non-financial assistance) to achieve the stipulated target.
4. The target of 5% of SME lending was stipulated based upon consultation and consensus at national level and, hence, the progress made by banks on SME lending acquires added importance and attracts increasing attention from all stake-holders.
5. Considering the representations received from banks in this regard and in order to provide more time for banks to progress on requirements stated in Para 3 above and be compliant on set credit requirement, it has been decided to extend the time for achieving the target of 5% of their credit to SMEs to December 31, 2015.
6. Banks are advised to utilise the extended time to plan, strategize, and step up their efforts in full preparedness to achieve the stipulated target well ahead of the revised date, noting that there shall be no slippage from existing position and that there should be compliant, measured and meaningful progress.
7. Other contents of the above Circular, covering, among others, emphasis on non-financial inputs from banks (including reasonable lending policy and practices) and reporting requirements remain unchanged.

Best Regards,

Hamood Sangour Al Zadjali

The Executive President

18 September 2014

MASTER CIRCULAR BM 1124

To: All Licensed Banks
Operating in the Sultanate of Oman

After Compliments,

Subject: Deposits in Foreign Currencies with the Central Bank

The Central Bank of Oman has in place, since March 19, 1979, a foreign currency deposit facility for licensed banks. This Master Circular consolidates the currently applicable instructions and replaces all the preceding Circulars/instructions on the deposit facility.

The Central Bank of Oman will accept deposits in foreign currencies from the Licensed Banks in Oman on the following terms and conditions:

1. Currencies:

   Deposits will be accepted in U.S. dollar, Euro and Pound Sterling.

2. Amounts:

   The Minimum acceptable amount will be 5 million units of the respective currencies (i.e., U.S. dollar 5 million, Euro 5 million, and Sterling 5 million).

3. Tenor

   The deposits will be accepted for a minimum duration of one day to the maximum of 3 months.

4. Interest Rates

   The interest rates paid on the deposits shall be in conformity with the prevailing rates in the international markets less a margin set by the Central Bank of Oman subject to change from time to time.

5. The Central Bank of Oman reserve the right to reject any deposits without giving any reason thereof.

Best Regards

Hamood Sangour Al Zadjali

The Executive President

1. Reference is invited to Circular BM 762 dated 4th July 1992 on the requirement on banks to achieve 75%, 95% and 100% Omanisation in Top & Middle Management, Clerical and Non-Clerical job-categories respectively (with some relaxations for smaller banks).

2. Considering the positive response received from banks, scope for further progress on the subject and increased emphasis being placed on a matter of social and national importance, the following have been decided upon by the Central Bank.

   i) Overall Omanisation ratio being over 92.5% in many banks, all banks need to strive and reach levels higher than 90% – without need for formal targeting from Central Bank of Oman.

   ii) Top and Middle Management category will be split into two consisting of (a) Senior Management and (b) Middle Management Cadres.

   Senior Management will consist of Assistant General Managers and higher cadres, besides line management reporting to CEO and Heads of Core Departments (like Retail banking, Corporate banking, Credit, Investment banking, Investment Management, Treasury, Risk Management, Audit, Compliance, IT, Financial Control, SME Development depending upon the size of the bank) and banks should achieve 65% in this Cadre by December 2015 and 75% by December 2016 (with plan to raise it to 90% by December 2018).

   Middle Management, consisting of others in Management cadre, will reach 90% Omanisation by December 2016.

   iii) While Non-Clerical cadre will continue to have 100% Omanisation, Clerical Cadre will reach 100% by December 2013.

3. Considering special circumstances, the following will be the exemptions.

   i) All foreign banks may exempt their CEOs/ Country Managers from Omanisation reckoning.

   ii) Foreign banks with only one branch shall, also, have the option of having three Non-Omani staff. Earlier additional parameter of having more than 20 staff is repealed.

   iii) Islamic banks and Windows shall be allowed to be treated separately and given time for four years from commencement of their business for compliance with overall ratio of 90% and all sub-segmental ratios as others – subject to their having at least 65% overall ratio, besides senior management, middle management, clerical and non-clerical cadres of 50%, 50%, 75% and 100%, respectively, **to start with** and setting a plan for progress annually.

4. While Central Bank of Oman is pleased to note banks' commitment to raising job opportunities for Omanis and further recruitment of Omanis, it is observed that not all banks have identified/ shared adequate training and other inputs and diverse, on-the-job and other exposures, for Omani employees for their preparation and empowerment with higher responsibilities.

   It is pertinent to note in this connection that His Majesty's speech in the Annual Session of the Council of Oman on 12th November 2012

   has, also, placed much emphasis on training programs and promotion of productive capacities for Omani citizens, as part of social development. Obviously, these requirements need to be addressed adequately.

5. All banks shall, from June 2013 onwards, provide quarterly returns, as at present (but for bifurcation of Top & Middle Management into Senior Management and Middle Management) and providing, additionally, list of identified Senior Management positions, as stated in para 2(ii) above.

Best regards

Hamood Sangour Al Zadjali

The Executive President

2 February 2015

CIRCULAR BM 1130

To: All Licensed Banks
Finance and Leasing Companies
Money Exchange Companies
Operating in the Sultanate of Oman

After Compliments,

Re: Payment of Interest on Capital Deposits

1. Further to our Circular BM 1086 dated 2nd January 2012 and in pursuance of Article 61 (g) of the Banking Law, the Central Bank of Oman has reviewed the matter and decided after considering the prevailing interest rates within the Sultanate that the rate of interest payable on Capital Deposits shall stand reduced to 1% per annum from 1.5% per annum hitherto paid. The above revision takes effect from 1st January 2015.
2. All Licensed Banks, Finance and Leasing Companies and Money Exchange Companies are advised to note the above change and also that all other provisions/regulations/instructions in this regard shall continue to be in force.

Best Regards,

Hamood Sangour Al Zadjali

The Executive President

Statistical Appendix

LIST OF APPENDIX TABLES

Table 1
Domestic and National Savings
(Rial Omani Million)

Items	2008	2009	2010	2011	2012	2013 (Prov.)
1- GDP at Market Prices	23,418.1	18,605.3	22,547.6	26,122.0	29,353.3	30,061.3
2- Total Final Consumption	9,887.9	10,382.5	11,305.2	12,099.0	14,208.1	15,498.4
3- Domestic Savings (1-2)	**13,530.3**	**8,222.9**	**11,242.4**	**14,023.0**	**15,145.2**	**14,562.9**
4- Net Factor Income (transfer)	-3,114.1	-3,231.1	-3,637.1	-2,842.6	-3,187.4	-3,571.0
5- National Savings (3-4)	**10,416.1**	**4,991.8**	**7,605.3**	**9,589.4**	**10,241.8**	**9,745.9**
6- Percent Of Domestic Savings to GDP (3/1)	**57.8**	**44.2**	**49.9**	**53.7**	**51.6**	**48.4**
7- Percent of National Savings to GDP (5/1)	**44.5**	**26.8**	**33.7**	**36.7**	**34.9**	**32.4**

Source : National Center for Statistics and Information.

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

Items	2008	2009	2010	2011	2012	2013 (Prov.)
1. Final Consumption Expenditure	**9,887.9**	**10,382.5**	**11,305.2**	**12,099.0**	**14,208.1**	**15,498.4**
Households	6,559.3	6,760.8	7,200.3	7,363.5	8,410.1	9,076.1
Government	3,316.4	3,601.1	4,092.0	4,713.5	5,762.1	6,392.5
Non Profit Institutions	12.2	20.6	12.9	22.0	35.9	29.7
2. Gross Capital Formation*	**7,170.3**	**6,196.7**	**6,091.6**	**6,330.8**	**8,024.9**	**8,554.6**
Building and Construction	2,978.7	3,148.1	3,341.7	3,680.0	4,449.9	4,832.6
Machinery and Equipment	3,554.3	2,390.7	2,083.2	1,888.6	2,641.5	2,660.6
Intangible Fixed Assets	637.4	657.9	666.6	762.1	933.5	1,061.5
Change in Inventories	**1372.2**	**-948.6**	**-360.4**	**-112.5**	**-704.3**	**-705.6**
3.Net Exports of Goods & Services	**13,694.9**	**9,420.9**	**12,881.5**	**7,804.7**	**7,824.6**	**6,713.9**
GDP at Market Prices	**23,418.1**	**18,605.3**	**22,547.6**	**26,122.0**	**29,353.3**	**30061.3**

* It does not include change in inventories.

Source: National Center for Statistics and Information.

Table 3
Structure of Interest Rates on Commercial Banks Deposits
December 2014
(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	3,016,954	91.8	6,458,419	42.3	15,495	75.5	635,325	31.6	3,032,449	91.7	7,093,744	41.1
Over 0% To 2%	252,242	7.7	5,840,432	38.2	4,926	24.0	1,176,042	58.5	257,168	7.8	7,016,474	40.6
Over 2% To 3%	2,618	0.1	1,613,435	10.6	65	0.3	136,603	6.8	2,683	0.1	1,750,038	10.1
Over 3% To 4%	1,371	0.0	1,006,391	6.6	28	0.1	45,625	2.3	1,399	0.0	1,052,016	6.1
Over 4% To 5%	11,736	0.4	284,054	1.9	20	0.1	15,420	0.8	11,756	0.4	299,474	1.7
Over 5% To 6%	104	0.0	57,847	0.4	2	0.0	256	0.0	106	0.0	58,103	0.3
Over 6% To 7%	8	0.0	9,018	0.1	0	0.0	0	0.0	8	0.0	9,018	0.1
Over 7% To 8%	2	0.0	8	0.0	0	0.0	0	0.0	2	0.0	8	0.0
Over 8% To 9%	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Over 9% To 10%	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Over 10% To 11%	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Over 11% To 12%	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Over 12%	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Total	**3,285,035**	**100**	**15,269,604**	**100**	**20,536**	**100.00**	**2,009,271**	**100**	**3,305,571**	**100**	**17,278,875**	**100**
Weighted Average Rate of Interest (%)			**0.986**				**0.870**				**0.972**	

Source: Central Bank of Oman.

Table 4
Structure of Private Sector Time Deposits by Rate of Interest and Maturity
December 2014
(Rial Omani Thousands)

Rates of Interest (Per Annum)	7 Days to Less than 6 Months			6 Months to Less than 1 Year			1 Year and Above			Total		
	Rial Omani	Foreign Currency	Total	Rial Omani	Foreign Currency	Total	Rial Omani	Foreign Currency	Total	Rial Omani	Foreign Currency	Total
NIL INTEREST	12,658	3,323	15,981	4	240	244	11,679	3,192	14,871	24,341	6,755	31,096
OVER 0% TO 2%	185,130	88,553	273,683	342,894	72,640	415,534	1,225,831	147,292	1,373,123	1,753,855	308,485	2,062,340
OVER 2% TO 3%	56,355	134	56,489	44,705	8	44,713	715,402	20,640	736,042	816,462	20,782	837,244
OVER 3% TO 4%	16,685	7,965	24,650	34,722	58	34,780	303,786	16,433	320,219	355,193	24,456	379,649
OVER 4% TO 5%	957	0	957	0	0	0	124,331	15,342	139,673	125,288	15,342	140,630
OVER 5% TO 6%	0	0	0	0	0	0	34,982	0	34,982	34,982	0	34,982
OVER 6% TO 7%	0	0	0	0	0	0	9,018	0	9,018	9,018	0	9,018
OVER 7% TO 8%	0	0	0	0	0	0	8	0	8	8	0	8
OVER 8% TO 9%	0	0	0	0	0	0	0	0	0	0	0	0
OVER 9% TO 10%	0	0	0	0	0	0	0	0	0	0	0	0
OVER 10% TO 11%	0	0	0	0	0	0	0	0	0	0	0	0
OVER 11% TO 12%	0	0	0	0	0	0	0	0	0	0	0	0
OVER 12%	0	0	0	0	0	0	0	0	0	0	0	0
Total	**271,785**	**99,975**	**371,760**	**422,325**	**72,946**	**495,271**	**2,425,037**	**202,899**	**2,627,936**	**3,119,147**	**375,820**	**3,494,967**
Weighted Average Rate of Interest (%)	1.430	1.168	1.360	1.364	0.999	1.310	2.016	1.604	1.984	1.876	1.371	1.822

Source: Central Bank of Oman.

Table 5
Structure of Interest Rates on Commercial Banks Credit
December 2014
(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	%	Amount	%
NIL INTEREST	6,475	0.7	40,159	0.3	129	3.0	11,861	0.5	6,604	0.7	52,020	0.3
OVER 0% TO 2%	1,421	0.1	1,374,747	9.6	366	8.6	1,018,352	39.9	1,787	0.2	2,393,099	14.2
OVER 2% TO 4%	17,174	1.8	2,793,457	19.5	1,913	44.8	1,262,484	49.4	19,087	2.0	4,055,941	24.0
OVER 4% TO 5%	30,267	3.2	2,177,071	15.2	337	7.9	222,344	8.7	30,604	3.2	2,399,415	14.2
OVER 5% TO 7%	352,225	37.0	5,519,255	38.5	234	5.5	33,600	1.3	352,459	36.8	5,552,855	32.9
OVER 7% TO 8%	176,550	18.5	1,786,965	12.5	1,167	27.3	2,001	0.1	177,717	18.6	1,788,966	10.6
OVER 8% TO 9%	25,471	2.7	331,435	2.3	22	0.5	126	0.0	25,493	2.7	331,561	2.0
OVER 9% TO 10%	1,742	0.2	74,853	0.5	0	0.0	0	0.0	1,742	0.2	74,853	0.4
OVER 10% TO 11%	9,945	1.0	65,344	0.5	22	0.5	54	0.0	9,967	1.0	65,398	0.4
OVER 11% TO 12%	3,615	0.4	72,753	0.5	1	0.0	3,786	0.1	3,616	0.4	76,539	0.5
OVER 12% TO 13%	1,186	0.1	21,238	0.1	2	0.0	193	0.0	1,188	0.1	21,431	0.1
OVER 13% TO 14%	286	0.0	3,113	0.0	0	0.0	0	0.0	286	0.0	3,113	0.0
OVER 14% TO 15%	1,317	0.1	4,460	0.0	35	0.8	295	0.0	1,352	0.1	4,755	0.0
OVER 15% TO 16%	999	0.1	65	0.0	3	0.1	0	0.0	1,002	0.1	65	0.0
OVER 16% TO 17%	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
OVER 17% TO 18%	316,998	33.3	76,814	0.5	40	0.9	137	0.0	317,038	33.1	76,951	0.5
OVER 18% TO 20%	7,358	0.8	1,486	0.0	0	0.0	0	0.0	7,358	0.8	1,486	0.0
OVER 20%	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Total	**953,029**	**100**	**14,343,216**	**100**	**4,271**	**100**	**2,555,233**	**100**	**957,300**	**100**	**16,898,449**	**100**
Weighted Average Rate of Interest (%)			**5.080**				**2.378**				**4.672**	

Source: Central Bank of Oman.

Table 6

Structure of Private Sector Credit by Rate of Interest and Maturity

December 2014

(Rial Omani Thousands)

Rates of Interest (Per Annum)	Overdraft			Credit Cards			Other Loans and Advances						Total	
							Less than 1 Year			1 Year and above				
	Rial Omani	Foreign Currency	Total	Rial Omani	Foreign Currency	Total	Rial Omani	Foreign Currency	Total	Rial Omani	Foreign Currency	Total	Rial Omani	Foreign Currency
NIL INTEREST	24,606	7,198	31,804	0	0	0	3,214	4,332	7,546	12,339	331	12,670	40,159	11,861
OVER 0% TO 2%	41,618	204	41,822	0	0	0	473,627	261,392	735,019	83,511	362,236	445,747	598,756	623,832
OVER 2% TO 4%	116,235	6,075	122,310	824	0	824	1,129,988	105,711	1,235,699	1,125,752	767,748	1,893,500	2,372,799	879,534
OVER 4% TO 5%	118,348	1	118,349	692	0	692	232,811	29,227	262,038	1,822,841	193,116	2,015,957	2,174,692	222,344
OVER 5% TO 7%	198,005	3,847	201,852	1,405	0	1,405	459,852	9,566	469,418	4,841,672	20,187	4,861,859	5,500,934	33,600
OVER 7% TO 8%	83,791	1,423	85,214	0	0	0	87,976	125	88,101	1,615,118	453	1,615,571	1,786,885	2,001
OVER 8% TO 9%	29,684	73	29,757	0	0	0	68,741	0	68,741	233,010	53	233,063	331,435	126
OVER 9% TO 10%	16,649	0	16,649	0	0	0	6,810	0	6,810	51,394	0	51,394	74,853	0
OVER 10% TO 11%	38,292	54	38,346	0	0	0	19,132	0	19,132	7,920	0	7,920	65,344	54
OVER 11% TO 12%	63,179	3,786	66,965	3,740	0	3,740	1,620	0	1,620	4,214	0	4,214	72,753	3,786
OVER 12% TO 13%	15,574	180	15,754	461	0	461	759	13	772	4,444	0	4,444	21,238	193
OVER 13% TO 14%	1,026	0	1,026	1,171	0	1,171	33	0	33	883	0	883	3,113	0
OVER 14% TO 15%	4,362	295	4,657	98	0	98	0	0	0	0	0	0	4,460	295
OVER 15% TO 16%	61	0	61	0	0	0	4	0	4	0	0	0	65	0
OVER 16% TO 17%	0	0	0	0	0	0	0	0	0	0	0	0	0	0
OVER 17% TO 18%	0	0	0	76,029	137	76,166	783	0	783	0	0	0	76,812	137
OVER 18% TO 20%	0	0	0	1,486	0	1,486	0	0	0	0	0	0	1,486	0
OVER 20%	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	**751,430**	**23,136**	**774,566**	**85,906**	**137**	**86,043**	**2,485,350**	**410,366**	**2,895,716**	**9,803,098**	**1,344,124**	**11,147,222**	**13,125,785**	**1,777,763**
Weighted Average Rate of Interest (%)	**6.057**	**4.471**	**6.009**	**16.748**	**17.500**	**16.749**	**3.711**	**1.873**	**3.450**	**5.661**	**2.723**	**5.307**	**5.387**	**2.550**

Source: Central Bank of Oman.

Table 7
Licensed Banks in the Sultanate of Oman
(As at 31 December 2014)

Name of the Banks	Date Of Establishment	Authorised Offices	Operating Offices
Local Banks			
1. National Bank of Oman	1973	63	63
2. Oman Arab Bank	1973	59	58
3. HSBC Bank Oman	1975	73	70
4. Bank Muscat	1981	139	139
5. Bank Dhofar	1990	65	64
6. Bank Sohar	2007	27	24
7. Al Ahli Bank	1997	15	12
Foreign Banks			
1. Standard Chartered Bank	1968	3	3
2. Habib Bank Ltd.	1972	7	7
3. Bank Melli Iran	1974	1	1
4. National Bank of Abu Dhabi	1976	9	9
5. Bank Saderat Iran	1976	2	2
6. Bank of Baroda	1976	4	4
7. State Bank of India	2004	1	1
8. Bank of Beirut	2006	4	4
9.Qatar National Bank	2007	6	6
Specialised Banks			
1. Oman Housing Bank	1977	9	9
2. Oman Development Bank	1977	14	14
Islamic Banks			
1. Bank Nizwa	2012	11	10
2. Al Izz Islamic Bank	2013	5	4
Total		**517**	**504**

** Oman International Bank merged with HSBC to form HSBC Bank Oman as locally incorporated Bank in 2012.*

Source: Central Bank of Oman.

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

	December 2014	December 2013
Assets		
Cash and cash equivalents	8,268	5,282
Term deposits	-	1,000
Mortgage loan accounts	334,595	299,300
Property and equipment	2,505	2,386
Other assets	2,155	2,032
Total assets	**347,523**	**310,000**
Liabilities and Equity		
Liabilities		
Customers' deposits	76,561	58,416
Loans from the Government	103,830	103,830
Loan from Arab Fund for Economic & Social Development	6,639	-
Other liabilities	10,112	9,499
Total Liabilities	**197,142**	**171,745**
Equity		
Share capital	30,000	30,000
Legal reserve	17,498	16,045
Special reserve	51,119	48,984
Revaluation reserve	1,157	1,157
Retained earnings	50,607	42,069
Total equity	**150,381**	**138,255**
Total liabilities and equity	**347,523**	**310,000**
Mortgage Loan Commitments	**30,139**	**31,403**

Source: Oman Housing Bank SAOC.

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

	December 2014	December 2013
Assets		
Cash and balances with Central Bank of Oman	381	300
Balances due from other banks	22,869	21,289
Loans and advances to costomers	108,887	110,178
Investments	28,866	25,421
Staff housing loans	1,479	1,312
Receivable from Government	500	550
Property and equipment	1,571	1,480
Prepayments and other receivables	348	626
Total assets	**164,901**	**161,157**
Liabilities and Shareholders' Equity		
Liabilities		
Customer Deposits(Izdihar)	2,004	2,807
Payable to Government	2,074	3,478
Payable and accruals	3,410	3,546
Total liabilities	**7,489**	**9,831**
Shareholders' Equity		
Share capital	100,000	100,000
Legal reserve	6,161	5,480
Special reserve	5,541	5,541
Changes in fair value of investments	673	1,394
Retained earnings	45,037	38,911
Total shareholdres' Equity	**157,412**	**151,326**
Total liabilities and shareholders' Equity	**164,901**	**161,157**
Net assets value per share	**1.574**	**1.513**

Source: Oman Development Bank.

Table 10
Combined Balance Sheet of Exchange Houses Licensed to Issue Drafts
As at December 31, 2014
(Rial Omani Thousands)

	Rial Omani	Foreign Currency	Total
Assets			
1- Cash &Precious Metals on Hand	8,923	9,984	18,907
2- Capital Deposits with CBO	1,560	0	1,560
3- Balance due from Banks, Branches & Money Changers	8,984	21,981	30,965
4- Investments	475	0	475
5- Fixed Assets	5,821	0	5,821
6- Other Assets	3,573	0	3,573
Total Assets	**29,336**	**31,965**	**61,301**
1- Capital, Reserves & Retained Earnings	45,736	0	45,736
2- Borrowing from Banks	0	0	0
3- Balances due to Banks, Branches & Money Changers	5,578	0	5,578
4- Drafts & Cheques Issued & Outstanding	0	3,960	3,960
5- Other Liabilities	6,027	0	6,027
Total Liabilities	**57,341**	**3,960**	**61,301**

Source: Central Bank of Oman.

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