CENTRAL BANK OF OMAN

Mid-Year Review of the Omani Economy 2015

January 2016

Central Bank of Oman

Mid-Year Review
of the
Omani Economy

2015

January 2016

Contents

Foreword

The sustained drop in global oil prices has brought to the fore several challenges to the Omani economy. With the oil sector still central to the Omani economy, the low oil prices have turned Oman's fiscal balances to deficit. This has enhanced the urgency for Oman to undertake fiscal adjustments and reform measures. The State General Budget 2016 has ushered in meaningful fiscal reforms with relevant policies both on revenue and expenditure side. In addition, the Ninth Five Year Development Plan (2016-2020) has identified five main sectors, namely, manufacturing, logistics, fisheries, tourism and mining for accelerated growth potential and its contribution to the Sultanate's GDP. With continued focus on higher investment in these areas, domestic demand could be sustained and the economic diversification program strengthened. While the inflationary pressure in the Sultanate of Oman continued to soften, monetary policy has been formulated against the backdrop of comfortable liquidity conditions, lower inflation, and low Rial Omani interest rates on deposits. Against this backdrop, the Mid-Year Review of the Omani Economy for 2015 analyses developments related to the global economy, output growth, price situation, fiscal position, monetary and banking conditions, financial markets, foreign trade and balance of payments and macroeconomic outlook during the year so far.

Hamood Sangour Al-Zadjali
Executive President,
Central Bank of Oman

Mid-Year Review of the Omani Economy 2015

Overview and Macroeconomic Outlook

Overview

An uneven global recovery beset with several setbacks further weakened in 2015, reflecting slowed growth in Emerging Market and Developing Economies (EMDEs), despite a modest upturn in the advanced economies (AEs). The slowdown in global growth was influenced by the rebalancing of economic activity in China, persistently lower commodity prices and recent Fed Fund rate hike. The International Monetary Fund (IMF) in its January 2016 update of World Economic Outlook (WEO), projects global growth at 3.1 percent in 2015, lower than 3.4 percent growth recorded in 2014. For 2016, the forecast for global growth is at 3.4 percent, lower than projected in October 2015. The AEs are projected to grow at 1.9 percent in 2015 as compared with 1.8 percent in 2014. GDP growth for EMDEs is projected at 4.0 percent in 2015, marginally lower than 4.6 percent in 2014. The growth rate of countries in the Gulf Cooperation Council (GCC) is expected at 3.3 percent in 2015 as compared to 3.4 percent in 2014. Inflation in the GCC countries continued to remain low at around 2.4 percent in 2015 and is expected to rise marginally to 2.5 percent in 2016.

Reflecting the persistently low crude oil prices in the global markets and sluggish global growth, the Sultanate exhibited slowdown in economic activities in the first three quarters (January-September) of 2015. The Sultanate's nominal GDP contracted by 14.2 percent in January-September 2015 in contrast to a 4.3 percent growth over similar period a year ago. The petroleum sector GDP declined sizeably by 38.5 percent while the non-petroleum sector witnessed a modest growth of 4.7 percent. Omani crude oil average price declined to US $ 59.8 per barrel during the period January -September 2015 from US $ 105.8 over the same period a year ago.

The daily average production increased by 3.2 percent to 978.2 thousand barrels with the cumulative oil production during January-September 2015, reaching 267.1 million barrels as against 258.8 million barrels over the same period in 2014. The crude petroleum activities continued to remain the major contributor to the overall hydrocarbon sector with 30.1 percent of value addition to the nominal GDP compared to a modest 4.5 percent value addition from the natural gas sector.

The inflationary pressure in the Sultanate of Oman continued to soften mostly reflecting the decline in commodities prices, reduced government spending and notable appreciation of US Dollar in real effective terms since mid-2014. 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. During the first three quarters of 2015 (January-September), the average inflation based on CPI has weakened to 0.2 percent.

With Oman's hydrocarbon sector still primary to its economy, the decline in oil prices on a sustained basis has pushed Oman's fiscal balances to deficit from 2014. Ongoing efforts to pursue economic diversification are becoming more critical in the lower oil price environment. Oman's fiscal balance has turned from surplus to deficit on account of the slump in crude oil prices. Oman registered a budget deficit of RO 2,934.3 million during January-September 2015 compared with a surplus RO 136.1 million over the same period in 2014. During the first nine months of 2015, government revenues decreased sharply by 35.9 percent to RO 6,711.6 million, while government expenditure declined by 6.6 percent to RO 9,645.9 million. The Sultanate's aggregate government debt expanded to RO 2,758.7 million as of the end of September 2015 from RO 1526.3 million at the end of December 2014.

The Sultanate's annual State General Budget for the year 2016 approved in the first week of January, has been dovetailed with the objectives stated under the Ninth Five-Year Development Plan (2016-20) and crafted to address the ensuing challenges in fiscal management of the Sultanate. As the first year of the current five-year development plan, the 2016 budget is expected to set the momentum for the country's developmental priorities and economic growth over the next five years which is anticipated to witness substantial reduction in government revenues that would in turn support a path of fiscal consolidation in the medium term.

The growth of monetary aggregates in Oman continued its sustained growth pattern despite the decline in crude oil prices which commenced in the second half of 2014. CBO on its part ensured that adequate liquidity remained in the banking system, credit demand was fully met and orderly conditions were maintained in the markets. With comfortable liquidity prevailing in the market, the monetary aggregates registered significant growth. Broad money stock M2 stood at RO 14.72 billion at the end of September 2015, up from RO 13.25 billion a year ago, registering a growth of 11.1 percent which fully supported non-oil economic activities in the real sector.

During the recent years, the macroeconomic situation and supporting monetary and financial policies had a positive impact on business and performance of banks in the Sultanate. Despite the drop in crude oil prices and a general slowdown in economic activity, the balance sheet of banks continued on the growth path with increased accretion to deposits and credit. Total assets of conventional banks increased by 13.6 percent to RO 27.9 billion in September 2015 compared to RO 24.6 billion a year ago.

The weighted average interest rate on Rial Omani deposits declined from 1.030 percent in September 2014 to 0.894 percent in September 2015, while the weighted average RO lending rate decreased from 5.163 percent to 4.790 percent during the same period. The overnight Rial Omani domestic inter-bank lending rate firmed up to 0.217 percent in September 2015 from 0.131 percent a year ago. Interest rate on foreign currency deposits offered by banks declined from 0.908 percent in September 2014 to 0.847 percent in September 2015. The lending rate in foreign currency, which was 2.441 percent in September 2014, rose modestly to 2.511 percent by September 2015.

Merchandise exports of the Sultanate declined sharply by 32.8 percent to RO 10,446 million in January-September 2015, while the value of merchandise imports (on c.i.f. basis) dropped marginally by 0.4 percent to RO 8,383 million. Consequently, merchandise trade balance registered a smaller surplus of RO 2,062 million in January-September 2015 - a decrease of 71.7 percent over the same period a year ago. The recent trend in merchandise trade indicates that current account balance in the January-September 2015 would undergo a major adjustment from surplus to a deficit. It is anticipated that the current account deficit would be financed partly by draw-down of Government reserves and partly by inflows under the financial account. Reflecting the country's overall balance of payments position, the foreign assets of the CBO during the first three quarters of 2015 increased by 15.0 percent to RO 7,221.1 million from RO 6,276.9 million at the end of December 2014.

Outlook

Global growth is projected to pick-up gradually to 3.4 percent in 2016 as per the IMF's January 2016 update of World Economic Outlook (WEO). The forecasts for growth have been lowered by 0.2 percentage point for 2016. The downgrade reflects a subdued growth in EMDEs and prospects of countries in the Middle East affected due to unprecedented fall in the oil prices in recent period. It is expected that growth momentum in the US will be maintained in 2016. In AEs, pickup in growth will entail monetary policy to remain accommodative where inflationary pressures are benign. Fiscal policy in the form of investments that augment productive capital may also be helpful in supporting recovery.

The average price of oil (U.K. Brent, Dubai Fateh and West Texas Intermediate crude) has declined markedly to US$ 50.9 per barrel in 2015 from US$ 96.3 per barrel in 2014. Key factors such as weaker global growth, increasing crude oil supply, a strong US dollar and receding geopolitical risks have pushed oil prices down significantly. In its January 2016 update of World economic Outlook, the IMF indicates that the assumed price of oil is US$ 41.97 per barrel for 2016 and is US$ 48.21 per barrel for 2017, based on future markets.

As the international oil prices continue to hover around US$ 30 per barrel (till end-January 2016), there would be sustained fall in oil revenues in GCC countries and the fiscal buffers available in these countries are expected to be eroded. It is also anticipated that the current account balance would also turn negative for some of these countries. The GCC countries would have to undertake several policy measures to mitigate the risks associated with the twin deficits. The IMF expects inflation to remain moderate in most GCC countries, primarily because of decreasing international commodity prices.

The hydrocarbon sector is still primary to the Omani economy. Oil and gas revenues as a percentage of GDP stood around 38 percent in 2014 and accounted for around 84 percent of government revenues and about 58 percent of total merchandise exports. The high reliance on oil revenues implies that the economy is subject to the vicissitudes of the global oil market. In order to insulate the Omani economy from the volatility of hydrocarbon prices, which can be a key source of macroeconomic instability, diversification of the economy is essential.

The oil price decline has enhanced the urgency for Oman to undertake fiscal adjustments and reform measures. The State General Budget 2016 has ushered in meaningful fiscal reforms based on efficient and effective resources allocation. On the revenues side the government would improve its tax collection from higher corporate taxes and customs revenues through effective infrastructure. On the expenditure side, measures have been initiated to bring about subsidies reform by linking fuel prices to international prices at periodic intervals. Another important objective has been to rein current expenditure, which is mainly in the form of current consumption and at the same time allocate adequate investment for the infrastructure projects of strategic importance. It is expected that the Government will contain the fiscal deficit with relevant policies both on revenue and expenditure side.

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

The Government would make intensified efforts for diversification of the economy during the Ninth Five Year Plan (2016-2020) so that the tradable sector grows. Promoting and diversifying non-oil exports vigorously is one option to increase exports. Developing large scale tourism and attracting more tourists could be an option to reduce imbalances in services accounts of balance of payments. With continued focus on higher investment in other key sectors such as manufacturing, logistics, fisheries, and mining, domestic demand could be sustained, and the economic diversification program could be strengthened. In order to attract higher foreign investment flows for sustaining economic growth in the milieu of low oil prices, Oman's Foreign Capital Investment Law is undergoing revisions. All these policy initiatives would improve the sustainability of the balance of payments situation. Oman has the inner strength and resilience to weather the challenges faced by the low oil prices and the policy authorities are expected to make concerted efforts to mitigate any slowdown in the growth process and continue with the diversification process.

Mid-Year Review of the Omani Economy 2015

I. Global Economic Situation

Global economic activity weakened in 2015 hamstrung by the loss of speed in emerging market economies (EMEs), which constitute 70 percent of global GDP, despite a modest recovery in the advanced economies (AEs). The slowdown in global growth was characterized by the rebalancing of economic activity in China, persistently lower commodity prices and recent Fed Fund rate hike. In the advanced economies (AEs), recovery gained traction in 2015 and has been increasingly driven by stronger domestic demand as labor markets strengthen and credit conditions improve. Growth in the emerging market and developing economies, which portrayed a diverse picture, declined for the fifth consecutive year. The International Monetary Fund (IMF) in its January 2016 update of World Economic Outlook (WEO), projects global growth at 3.1 percent in 2015, lower than 3.4 percent growth recorded in 2014. For 2016, the forecast for global growth is at 3.4 percent, lower than projected in October 2015. The AEs are projected to grow at 1.9 percent in 2015 as compared with 1.8 percent in 2014. GDP growth for Emerging Market and Developing Economies (EMDEs) are projected at 4.0 percent in 2015, marginally lower than 4.6 percent in 2014. The growth rate of countries in the Gulf Cooperation Council (GCC) is expected to edge down to 3.3 percent in 2015 as compared to 3.4 percent in 2014. Inflation in the GCC countries continued to remain low at around 2.4 percent in 2015 and is expected to rise marginally to 2.5 percent in 2016 (Table 1).

The recovery in the United States has resumed, supported by still comfortable financial conditions and strengthening of housing and labor markets. The US dollar appreciation and weakening external demand, however, are weighing on manufacturing activity and exports and the lower oil prices are dampening investment in mining structures and equipment. Real GDP increased at a healthy rate of 3.9 percent in the second quarter of 2015 and moderated subsequently to 2.0 percent in the third quarter. With the output gap closing, the US Federal Reserve has raised the target range for the Federal funds rate on December 16, 2015 and also forecasted that the target rate for the end of 2016 would be 1.375 percent, indicating another 100 basis points hike over 2016. Should the target of 1.375 percent materialize, it will clearly point to the beginning of a move away from the long period of extraordinary monetary accommodation and the first step toward normalizing the monetary and financial conditions. This would facilitate reduction in excessive financial risk taking and corporate leverage which have arisen on account of highly accommodative monetary policy.

Table 1: Global Economic: Key Indicators

(Percent)

	2013	2014	2015 *	2016*
1. World Output (Growth Rate)	**3.3**	**3.4**	**3.1**	**3.4**
Advanced Economies	**1.1**	**1.8**	**1.9**	**2.1**
• United States	1.5	2.4	2.5	2.6
• Euro Area	-0.3	0.9	1.5	1.6
• Japan	1.6	0.0	0.6	1.0
• United Kingdom	1.7	2.9	2.2	2.2
Emerging and Developing Economies	**5.0**	**4.6**	**4.0**	**4.3**
• Emerging and Developing Asia	7.0	6.8	6.6	6.3
China	7.7	7.3	6.9	6.3
India	6.9	7.3	7.3	7.5
Latin America and the Caribbean	2.9	1.3	-0.3	-0.3
Middle East and North Africa	2.1	2.8	2.5	3.6
• GCC Countries	3.2	3.4	3.3	2.8
2. World Trade Volume (goods and services)	**3.3**	**3.4**	**2.6**	**3.4**
3. Consumer Prices				
Advanced Economies	1.4	1.4	0.3	1.1
Emerging and Developing Economies	5.8	5.1	5.5	5.6
• GCC Countries	2.8	2.6	2.4	2.5

* Projection

Source: World Economic Outlook , October 2015 and January 2016 Update, IMF and Regional Economic Outlook, Middle East and Central Asia, October, 2015.

In the Euro area, there was a pickup in growth supported by strengthened domestic demand and exports partly due to the lagged effect of Euro depreciation. Easy financial conditions and intra-European trade growth point to a broadening recovery. Concerns about deflation have eased, albeit core inflation and wage growth remain subdued among economies with high long-term unemployment rates. These are initial indications that the European Central Bank unconventional monetary policy is beginning to work. In this context, the Eurozone's extended program of quantitative easing and cut in deposit rate would augur well for sustaining the growth upturn. The Japanese economy is expected to continue to recover, despite a setback in the second quarter, on the back of firming-up of corporate investments. The Bank of Japan's quantitative and qualitative monetary easing has improved financial conditions, increasing equity prices and leading to a modest increase in bank credit. However, market-based inflation expectations remain below the Bank of Japan's inflation targets. Japan's seasonally adjusted real GDP expanded during the third quarter of 2015 by 0.3 percent compared to the previous quarter. Overall, the GDP growth is estimated at 0.6 percent in 2015. In China, there is gradual slowdown and rebalancing of economic activity away from investment and manufacturing toward consumptions and services. China's GDP is projected to decline marginally from 7.3 percent in 2014 to 6.9 percent in 2015. The slowdown in Chinese imports and exports and the markets concerns about the future performance of the Chinese economy would have implications for other economies in terms of spillovers through trade channels and weaker commodity prices as well as diminishing confidence and increasing volatility in financial markets. India and the rest of emerging Asia are estimated to continue growing at a robust pace although some countries may have to deal with the challenges from China's economic rebalancing and global manufacturing weakness. In Latin America and the Caribbean, the GDP growth is projected to contract in 2015 as well as in 2016 reflecting the recession in Brazil and economic distress in other countries. The growth for the Middle East is projected higher at 3.6 percent in 2016, but the lower energy prices, geopolitical tensions and domestic strife may pose challenges to the outlook.

World Trade Organization, in its Press Release issued in September 2015, has lowered its forecast for world merchandise trade volume growth to 2.8 percent in

2015 (from 3.3 percent forecast made in April 2015) and further reduced its estimate for 2016 to 3.9 percent (from 4.0 percent projected in April 2015). Growth in volume of world trade is hovering below the growth of world GDP in 2015, for the fourth consecutive year, rather than being twice as fast in the 1990s and early 2000s. In its January 2016 update of the World Economic Outlook, the IMF predicts that the growth in world trade volume in goods and services will be at 2.6 percent in 2015 and 3.4 percent in 2016.

International financial markets experienced several bouts of volatility in 2015. Ultra-accommodative monetary policy in AEs buoyed asset prices across all classes in the second quarter of 2015. In the third quarter of 2015, conditions altered drastically with protracted Greece negotiations and later with the sharp fall in Chinese equity prices and RMB devaluation weakening investor sentiment precipitously. The latest Global Financial Stability Report of the IMF (October 2015) notes that financial stability in advanced economies have improved and risks continue to shift toward emerging markets. Emerging market vulnerabilities, legacy issues from the crisis in advanced economies and weak systemic market liquidity would weigh on the global financial outlook.

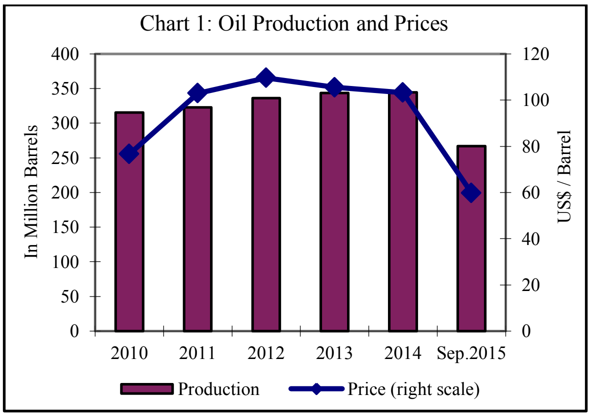
The slump in international oil prices along with the decline in the price of other commodities mark the end of the supercycle that begun in early 2000s. Weaker global growth, increasing crude oil supply, a strong US dollar and receding geopolitical risks have pushed oil prices down by over 50 percent since June 2014. Sluggish global growth, particularly the slowdown in China and other emerging markets has subdued the oil demand, while supply has increased significantly. OPEC production has increased by 1.2 mb/d mainly on account of Iraq and Saudi Arabia over the previous year and the non-OPEC output has been sustained by increases in Russia and the United States. The International Energy Agency (IEA), in its October 2015 Oil Market Report, has projected global oil demand for 2015 and 2016 at 94.5 million barrels a day and 95.7 million barrels a day, respectively. This entails an incremental increase in global oil demand of 1.2 million barrels a day in

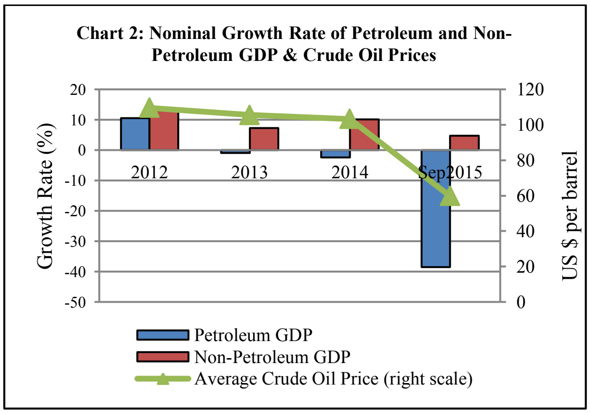
2016 which is lower than the increase of 1.8 million barrel a day in 2015. On the other hand, global supply held steady at 96.6 million barrels a day in September as lower non-OPEC production was offset by marginal increase in OPEC crude output. Further, oil inventories in OECD countries remained at record highs. All these factors indicate that oil prices are likely to remain under pressure. Downside risks to the energy forecast include higher-than expected non-OPEC production and continued gains in OPEC output notably from Iran. Upside risks include earlier-than expected closure of high-cost operations, supply restraint by major producers and unexpected disruptions in supply stemming from geopolitical risks. In its January 2016 update of World economic Outlook, the IMF indicates that the average crude oil price was US$ 50.92 per barrel in 2015 and based on future markets, the assumed price for 2016 is US$ 41.97 per barrel and for 2017 is US$ 48.21 per barrel.

II. Domestic Output Growth

Reflecting the persistent low crude oil prices in the global markets and sluggish global growth, the Sultanate exhibited slowdown in economic activities during the period January-September 2015. Preliminary national accounts data for the Sultanate indicate a 14.2 percent contraction in Gross Domestic Product at current prices in contrast to a 4.3 percent growth over similar period a year ago. The petroleum sector GDP declined sizeably by 38.5 percent while the non-petroleum sector witnessed a modest growth of 4.7 percent.

In contrast to the downward trend manifested in Omani crude oil average price which declined to US $ 59.8 per barrel during the period January -September 2015 from US $ 105.81 over the same period a year ago, daily average production increased by 3.2 percent to 978.2 thousand barrels with the cumulative oil production during January-September 2015, reaching 267.1 million barrels as against 258.8 million barrels over the same period in 2014. The crude petroleum activities continued to remain the major contributor to the overall hydrocarbon sector with 30.1 percent of value addition to the nominal GDP compared to a modest 4.5 percent value addition from the natural gas sector (Appendix Table 1 and Charts 1 and 2).





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

Analyzing the trend in economic diversification, the period January-September 2015 pointed to an expansion insofar as the non-petroleum industrial sector is concerned as it rose by 6.4 percent from similar period in 2014. Among the non-petroleum industrial activities, manufacturing sector declined by 1.6 percent. Despite increase in other major non-petroleum industrial sectors such as 'construction', 'electricity and water supply' and 'mining and quarrying' which grew by 17.1 percent, 13.6 percent and 8.5 percent, respectively, the contraction in manufacturing activities moderated the expansion in the overall industrial activities.

Table 2: Oil Prices, Production & Exports

Year	**Oil Prices** (US$ per Barrel)	**% Change**	**Oil Production** (Million Barrels)	**% Change**	**Oil Exports** (Million Barrels)	**% Change**
2008	101.1	55.1	277.0	6.8	216.7	-2.4
2009	56.7	-43.9	296.6	7.1	242.9	12.1
2010	76.6	35.1	315.6	6.4	268.7	10.6
2011	103.0	34.5	323.0	2.3	266.4	-0.9
2012	109.6	6.4	336.2	4.1	279.8	5.0
2013	105.5	-3.7	343.8	2.3	304.2	8.7
2014	103.2	-2.2	344.4	0.2	292.2	-3.9
2015						
Jan-Mar	62.0	-41.5	86.9	1.8	78.4	10.2
Jan-June	59.3	-43.7	175.7	2.9	154.9	7.6
Jan-Sept	59.8	-43.5	267.1	3.2	232.5	5.7

Echoing the upward trend witnessed in the non-petroleum industrial sector recently, the services sector grew by 4.0 percent between the two periods under review. Key services sector such as 'public administration and defense' grew at 3.9 percent, 'wholesale and retail trade' at 3.0 percent, 'transport, storage and communications' at 4.0 percent, 'financial intermediation' at 5.3 percent, and real estate services at 5.8 percent.

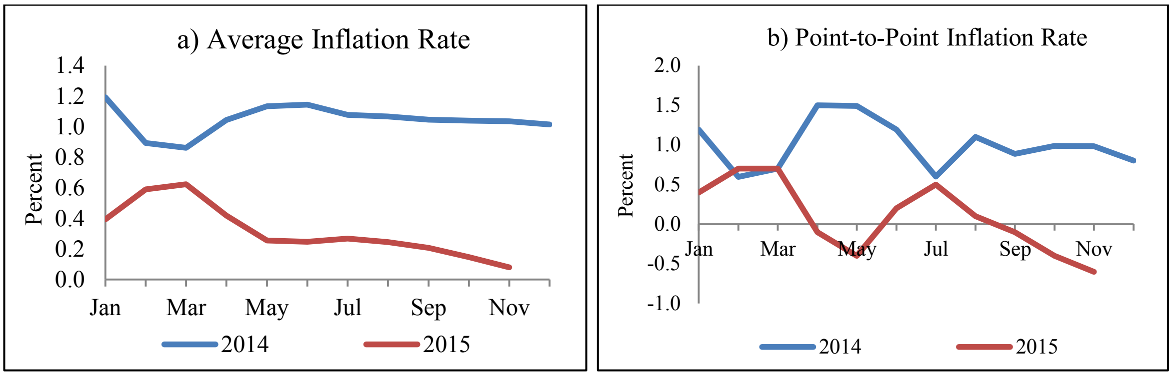
In the current macroeconomic situation, the main challenge before the Sultanate is diversification of the economy along with the need to increase employment opportunities. With the decline in oil prices, there will be contraction in petroleum sector's nominal GDP contribution. The Government has undertaken large public investment programs, particularly in infrastructure and social sector reforms during the Eighth Five-Year Development Plan (2011-15). Additionally, there have been intensified efforts related to developing the financial sector, financing the private sector, improving investment climate, and promoting Small and Medium Enterprises (SMEs). The Ninth Five Year Development Plan (2016-2020) has identified five main sectors, namely, manufacturing, logistics, fisheries, tourism and mining for accelerated growth potential and its contribution to the Sultanate's GDP. With continued focus on higher investment in these areas, domestic demand could be sustained and the economic diversification program strengthened.

Lower oil prices reduce growth in countries that are highly reliant on hydrocarbon exports mainly through government spending. Faced with lower revenues, government has the option to cut back expenditure and in anticipation of these cuts, households and corporates are likely to hold back consumption and investment. Oman's real GDP growth is projected at 2.9 percent in 2014, 4.4 percent in 2015 and 2.8 percent in 2016 (IMF, World Economic Outlook, October 2015).

III. Price Situation

The inflationary pressure in the Sultanate of Oman continued to soften mostly reflecting the decline in commodity prices, reduced government spending and notable appreciation of US Dollar in real effective terms since mid-2014. 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. During the first three quarters of 2015 (January-September), the average inflation based on CPI (base 2012) has weakened to 0.2 percent (Chart 3). Consumer inflation in Oman compare favorably with that of Gulf Cooperation Council (GCC) countries which is projected to drop to 2.4 percent in 2015 from 2.6 percent in 2014 (IMF, World Economic Outlook, October 2015). As imported inflation is a key determinant in Oman's headline inflation rate, the overall decline in inflation rates in case of its trading partners is expected to augur well for the price situation in the Sultanate. The CBO and the Government have been keeping a close watch on the price situation and taking necessary measures as and when necessary. Moreover, there has been effort towards increasing market awareness of consumers.

Chart 3: Inflation Rate (CPI for the Sultanate)



Source: National Center for Statistics and Information.

Commodity-wise, inflation rate remained subdued for most of the commodities during January-September 2015 except in case of 'education' (4.5 percent), ‘tobacco’ (4.0 percent) and ‘health’ (3.6 percent) (Appendix Table 2 and Table 3). On the other hand, there were decline in prices of certain classifications such as ‘Clothing & Footwear’ and ‘Food & non-alcoholic beverages’. There was also marginal decline in price of classification ‘recreation and culture’.

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

(Percent)

Items of Consumption	Weights	2005	2010	2012	2013	2014	Sep 2015@
1 Food,& non- alcoholic beverages	23.903	4.4	1.8	2.1	2.8	1.7	-0.7
2 Tobacco	0.125	-0.1	0.9	8.3	1.5	0.8	4.0
3 Clothing & Footwear	5.961	0.7	0.0	2.7	1.8	-0.3	-1.2
4 Housing, Water, Electricity, Gas and Other Fuels	26.477	0.0	4.4	2.1	0.5	1.0	0.4
5 Furnishings, household equipment & routing household maintenance	3.787	0.3	0.6	4.4	2.2	5.5	2.0
6 Health	1.161	0.1	0.6	2.4	1.5	5.0	3.6
7 Transport	19.167	4.3	3.5	2.7	0.5	-0.6	0.3
8 Communication	5.633	-9.7	0.3	-3.8	-2.3	0.1	1.5
9 Recreation and Culture	1.135	-0.7	1.7	2.5	-1.1	-0.1	-0.1
10 Education	1.368	1.9	4.7	17.2	4.2	5.9	4.5
11 Restaurants and Hotels	6.098	0.1	4.3	1.1	1.1	1.1	0.4
12 Miscellaneous goods and services	5.185	4.0	14.6	5.5	0.3	0.0	-0.1
GENERAL PRICE INDEX	**100.0**	**1.9**	**3.3**	**2.9**	**1.1**	**1.0**	**0.2**

@: Data pertains to January-September, 2015.
Source: National Center for Statistics and Information.

In the first three quarters of 2015 (January-September), though the overall inflation remained low, the contribution of ‘Housing, water, electricity, gas and other fuels’ to overall inflation had been high and explained around 53.0 percent of increase in prices during the period January-September 2015. Also, the contribution of the two classifications ‘communication’ and ‘Furnishings, household equipment & routine household maintenance’ to overall inflation have increased to 42.2 percent and 37.9 percent, respectively, during January-September 2015. Overall, these three commodities have contributed 133.1 percent of increase in inflation during the first three quarters of 2015 (Table 4). On the other hand, contribution to inflation from ‘Foods & non-alcoholic beverages’ and ‘Clothing & Footwear’ was negative during January-September 2015, offsetting the increase in prices of other commodities.

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

(Percent)

Items of Consumption	Weights	2005	2010	2012	2013	2014	2015*
1 Foods& non-alcoholic beverages	23.903	49.6	13.5	17.9	60.8	40.6	-83.7
2 Tobacco	0.125	0.0	0.0	0.3	0.2	0.1	2.5
3 Clothing & Footwear	5.961	2.8	0.0	5.5	9.8	-1.8	-35.8
4 Housing, water, electricity, gas and other fuels	26.477	0.0	35.3	19.9	12.0	26.5	53.0
5 Furnishings, household equipment & routine household maintenance	3.787	0.6	0.8	5.7	7.6	20.8	37.9
6 Health	1.161	0.1	0.2	1.0	1.6	5.8	20.9
7 Transport	19.167	47.2	20.4	17.8	8.7	-11.5	28.8
8 Communication	5.633	-62.0	0.6	-8.0	-11.8	0.6	42.2
9 Recreation & Culture	1.135	-0.5	0.6	1.0	-1.1	-0.1	-0.6
10 Education	1.368	1.3	1.7	7.2	5.2	8.1	30.8
11 Restaurants and Hotels	6.098	0.5	8.1	2.4	6.1	6.7	12.2
12 Miscellaneous and Services	5.185	7.2	18.0	9.6	1.4	0.0	-2.6
General Index	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

@: Data pertains to January-September, 2015.
Source: National Center for Statistics and Information.

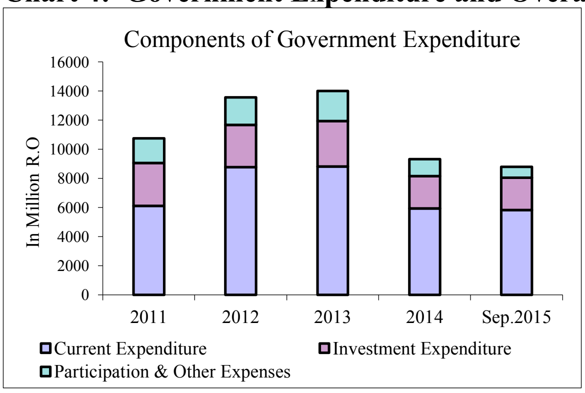
Global commodity prices witnessed a steep fall in 2015. There has been persistent and substantial decline in international crude oil prices in 2015 on weak demand due to weaker-than-expected global activity and strong production. A further boost is expected coming from the Islamic Republic of Iran after the recent lifting of sanctions. Metal prices have also declined in recent period. According to the IMF latest estimates, metal prices are projected to decline by 22.3 percent in 2015 and by 9.4 percent in 2016, before rising 0.7 percent in 2017. Food prices have also been low during 2015 on improved supply prospects. The IMF projections indicate that food prices will decline by 16.8 percent in 2015 and by 4.7 percent in 2016, before rising 1.2 percent in 2017. The larger weight of food items in the consumer price index of the Sultanate is expected to keep inflation low in 2016.

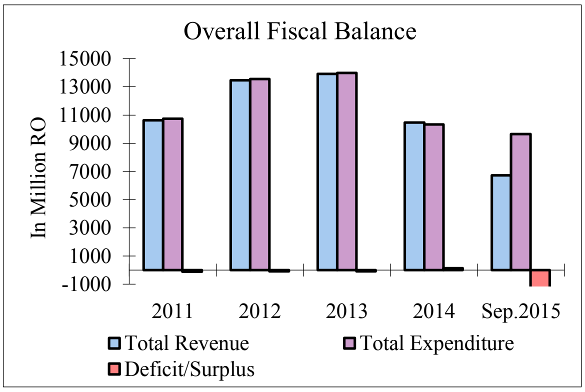
IV. Fiscal Position

Oman's fiscal balance has turned from surplus to large deficit on account of a substantial and persistent drop in crude oil prices. Oman registered a budget deficit of RO 2,934.3 million during January-September 2015 period compared with a surplus RO 136.1 million over the same period a year ago. During the first nine months of 2015, government revenues decreased sharply by 35.9 percent to RO 6,711.6 million, while government expenditure declined by 6.6 percent to RO 9,645.9 million (Chart 4 and Appendix Table 3).

Net oil revenue dropped markedly by 45.5 percent, while gas revenue pointed to a modest increase of 2.3 percent during the period under review. Other current revenues which consist of taxes and fees, as well as other forms of non-tax revenues, also witnessed a nominal decrease of 1.1 percent. The large contraction in oil revenues and marginal reduction in other current revenues in the first nine months of 2015 are indicative of the fiscal challenges that the Sultanate is expected to face in the immediate future as oil prices are projected to remain well below the fiscal break-even prices. Omani crude oil price averaged US$ 59.80 per barrel in the first nine months of 2015 compared to US$ 105.81 over similar period in 2014, representing a decrease of about 43.5 percent.

Chart 4: Government Expenditure and Overall Fiscal Balance





Source: Ministry of Finance.

Contrary to the Sultanate's fiscal trend in recent years characterized by rising public expenditure, there was a rationalization of total expenditure during January-September 2015 period (Table 5). Current expenditure decreased marginally by 1.8

Table 5 : Fiscal Balance in Oman

(Rial Omani Million)

						Jan-Sep	
	2010	**2011**	**2012**	**2013**	**2014***	**2014**	**2015**
I. REVENUES	**7916.5**	**10624.7**	**13474.5**	**13907.6**	**14107.5**	**10463.4**	**6711.6**
(i) Oil and Gas Revenues	6400.0	8971.3	11415.0	11924.8	11892.8	8854.1	5326.7
(ii) Other Revenues	1516.5	1653.4	2059.5	1982.8	2214.7	1609.3	1384.9
II. TOTAL EXPENDITURE	**7965.3**	**10737.9**	**13555.1**	**13990.2**	**15171.8**	**10327.3**	**9645.9**
1. Current Expenditure	**4791.3**	**6103.8**	**8772.7**	**8822.0**	**9606.2**	**5935.8**	**5826.5**
(i) Defence & Nat. Security	1888.2	2563.7	4742.5	4494.2	4210.8	2591.8	2343.0
(ii) Civil Ministries	2613.5	3186.9	3503.3	3848.5	4762.7	2969.4	2987.5
(iii) Other Expenditure	289.6	353.2	526.9	479.3	632.7	374.6	496.0
2. Investment Expenditure	**2596.8**	**2959.5**	**2886.5**	**3120.0**	**3584.2**	**2213.2**	**2214.5**
(i) Civil Ministries	1696.0	1925.8	1708.5	1805.0	2165.6	1297.4	1366.3
(ii) Oil Production	613.5	624.3	659.9	752.7	748.1	550.5	467.3
(iii) Gas Production	287.3	409.4	518.1	562.3	670.5	365.3	380.9
3. Participation & Other Expenses	**577.2**	**1674.6**	**1895.9**	**2048.2**	**1981.4**	**1178.3**	**754.9**
III. SURPLUS/DEFICIT(I-II)	**-48.8**	**-113.2**	**-80.6**	**-82.6**	**-1064.3**	**136.1**	**-2934.3**

Note: For January-September 2015, total expenditure includes RO 850.0 million as actual expenditure under settlement, while for 2014 actual expenditure under settlement was RO 1000 million.

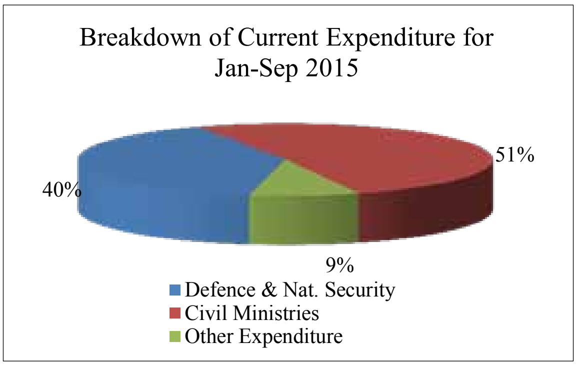
* Provisional.

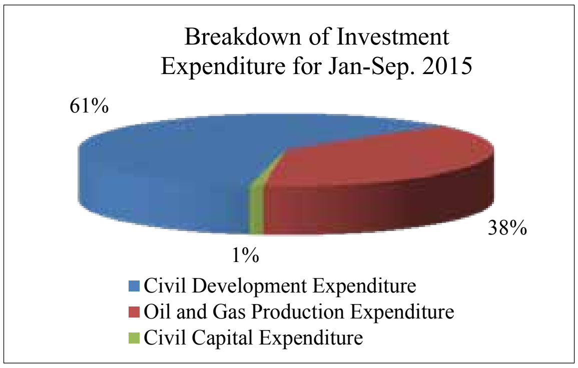
Source: Ministry of Finance.

percent due to 9.6 percent drop in expenditure on defense and national security. In the attempt to offset some of the losses in government revenues due to low oil prices through production enhancement, current expenditure on oil production increased by 23.2 percent and gas production by 95.2 percent during the period under review. Current expenditure on civil ministries was maintained with a nominal increase of 0.6 percent. Together, current expenditure on defense and national security and similar expenditure on civil ministries accounted for 91.5 percent of current expenditure and about 55 percent of total government expenditure in the January-September 2015 period.

Capital expenditure registered a nominal increase of 0.1 percent owing to 15.1 percent decline in oil production expenditure offset by 5.3 percent increase in civil ministries expenditure and 4.3 percent increase in gas production expenditure (Chart 5 and Table 6). Capital expenditure on civil ministries accounted for about 62 percent of total capital expenditure during the period under review.

Chart 5: Pattern of Government Expenditure





Source: Ministry of Finance.

The Sultanate's aggregate government debt expanded to RO 2,758.7 million as of the end of September 2015 from RO 1,526.3 million at the end of December 2014. The increase in aggregate government debt during the period under review was brought about entirely by mobilization of domestic resources through government development bonds and issue of short term debt mainly comprising of Treasury bills. Though the external debt witnessed a decline of 12.65 percent during the period under review, it is, however, expected to rise in near future as the government resorts to external means to finance the growing fiscal deficit.

Table 6 : Growth in Revenue and Expenditure

(Percent)

	2010	2011	2012	2013	2014*	Jan-Sep 2015/2014
I. REVENUES	**17.3**	**34.2**	**26.8**	**3.2**	**1.4**	**-35.9**
(i) Oil and Gas Revenues	22.6	40.2	27.2	4.5	-0.3	-39.8
(ii) Other Revenues	-0.7	9.0	24.6	-3.7	11.7	-13.9
II. TOTAL EXPENDITURE	**7.2**	**34.8**	**26.2**	**3.2**	**8.4**	**-6.6**
1. Current Expenditure	**13.6**	**27.4**	**43.7**	**0.6**	**8.9**	**-1.8**
(i) Defence & Nat. Security	9.4	35.8	85.0	-5.2	-6.3	-9.6
(ii) Civil Ministries	17.9	21.9	9.9	9.9	23.8	0.6
(iii) Other Expenditure	5.2	22.0	49.2	-9.0	32.0	32.4
2. Investment Expenditure	**-3.5**	**14.0**	**-2.5**	**8.1**	**14.9**	**0.1**
(i) Civil Ministries	3.8	13.5	-11.3	5.6	20.0	5.3
(ii) Oil Production	-11.9	1.8	5.7	14.1	-0.6	-15.1
(iii) Gas Production	-20.4	42.5	26.6	8.5	19.2	4.3
1. Participation & Other Expenses	**11.1**	**190.1**	**13.2**	**8.0**	**-3.3**	**-35.9**
Memo Item						
Crude Oil Prices (US$ per barrel)	**76.64**	**103.0**	**109.6**	**105.5**	**103.2**	**59.8**

* Provisional

Source: Ministry of Finance.

Public debt can spur economic activity and can act as a policy tool to cope with adverse shocks. Empirical cross-country evidence shows that debt thresholds, defined as the turning point at which negative effect of debt on the economy materializes, are in the range of 70 to 90 percent of GDP for higher-income countries and 30 to 50 percent of GDP for the emerging market economies as they are prone to capital flow reversals[1]. Oman's current level of debt to GDP ratio indicates that there is considerable head room available to increase government debt to sustain growth momentum.

[1] OECD, "Achieving prudent debt targets using fiscal rules", Policy Note No 28, 2015

State General Budget 2016

With Oman's hydrocarbon sector still primary to its economy, the decline in oil prices on a sustained basis has pushed Oman's fiscal balances to deficit from 2014. Ongoing efforts to pursue economic diversification are becoming more critical in the lower oil price environment. The Sultanate's annual State General Budget for the year 2016 (Table 7), approved in the first week of January, was dovetailed with the objectives stated under the Ninth Five-Year Development Plan (2016-20) (Table 8) and has been crafted to address the ensuing challenges in fiscal management of the Sultanate. As the first year of the current five-year development plan, the 2016 budget is expected to set the momentum for the country's developmental priorities and economic growth over the next five years which is anticipated to witness substantial reduction in government revenues that would in turn support a path of fiscal consolidation in the medium term. The 2016 budget endeavors to focus on measures aimed at (i) augmenting non-oil revenue, (ii) rationalizing government spending and (iii) initiating reforms in subsidies.

Notable measures envisaged to augment non-oil revenues are : (i) raising income tax rates to 15 percent for companies and institutions, (ii) reducing exemptions for corporate tax, (iii) raising efficiency of tax collection and administration, (iv) introducing automated accounting system for calculation of customs duties at all ports, (v) rationalizing exemption rule for customs duty, (vi) increasing visa and residence card fees, (vii) enhancing electricity and water tariff for government, commercial and industrial uses and (viii) modifying fees for driving licenses, vehicle registration and renewal.

Rationalization of government spending would focus on following major steps: (i) revision of fuel prices beginning January 15, 2016 and putting in place an institutional mechanism for linking retail price directly with international crude price, (ii) Consolidation of organizational structures of ministries and government units, (iii) Deferment of implementation of non-essential projects, (iv) Cutting down expenditure on non-essential transport for government officials and unnecessary administrative expenses (v) encouraging more use of e-mails for official communication, reduction of power consumption in government and administrative offices by replacing all lighting systems by energy-saving LEDs, and reducing external training and rationalizing government delegation on foreign assignments on the basis of need (vi) Privatization of some government services through tendering.

The State General Budget for 2016 projects the total revenue of the State for the year at RO 8.6 billion, a steep decline of 25.9 percent over the total revenue of RO 11.6 billion estimated for 2015 Budget. According to the State General Budget 2016, the actual public revenue for the fiscal year 2015 is estimated at RO 8.9 billion compared with budgeted amount of RO 11.6 billion, which reflects a decrease of around 23 percent. The projected oil revenue for 2016 is RO 4.6 billion, which constitutes around 53 percent of total revenue. The projected gas revenue at around RO 1.6 billion for 2016 represents 18.5 percent of total revenue. The non-oil revenue is projected at around RO 2.4 billion; the same amount budgeted for 2015.

Total Government expenditure has been projected at RO 11.9 billion during 2016, a decline of 15.6 percent over budgeted expenditure of RO 14.1 billion during 2015. According to the State General Budget, the actual expenditure during 2015 was around RO 13.4 billion, a decrease of around 5.0 percent over the budgeted amount for 2015 as steps were initiated to rationalize expenditure. Current expenditure projected at RO 8.7 billion for 2016 represents around 73 percent of total expenditure.

Investment expenditure at RO 2.7 billion comprises 22.4 percent of total expenditure. Investment expenditure mainly covers spending on development projects and capital expenses for the production of oil and gas. The investment expenditure is projected to decline markedly by 16.9 percent during 2016. The expenditure category "participation and other expenses" includes all government subsidies to housing loans, public sector companies and subsidies relating to food , electricity and petroleum products. The expenditure on participation and other expenses at RO 0.6 billion is projected to decline by 58.0 percent. The major decline at 63.6 percent from RO 1,100 million in Budget 2015 to RO 400 million in Budget 2016 is projected in subsidies relating to the petroleum products, electricity, housing and development loans.

Table 7: Budget Estimates

(Rial Omani Million)

ITEMS	2014 Budget	2015 Budget	2016 Budget	% change Budget 2015/ Budget 2014	% change Budget 2016/ Budget 2015
TOTAL REVENUES	**11700.0**	**11600.0**	**8600.0**	**-0.9**	**-25.9**
(i) Oil and Gas Revenues	9650.0	9160.0	6150.0	-5.1	-32.9
(ii) Other Revenues	2050.0	2440.0	2450.0	19.0	0.4
TOTAL EXPENDITURE (1+2+3)	**13500.0**	**14100.0**	**11900.0**	**4.4**	**-15.6**
1. Current Expenditure	**8664.0**	**9576.0**	**8680.0**	**10.5**	**-9.4**
(i) Defence & National Security	3700.0	3800.0	3500.0	2.7	-7.9
(ii) Civil Ministries	4487.0	5166.0	4600.0	15.1	-11.0
(iii) Other Expenditures	477.0	610.0	580.0	27.9	-4.9
2. Investment Expenditure	**3228.0**	**3214.0**	**2670.0**	**-0.4**	**-16.9**
(i) Civil Ministries	1838.0	1694.0	1370.0	-7.8	-19.1
(ii) Oil Production	690.0	780.0	700.0	13.0	-10.3
(iii) Gas Production	700.0	740.0	600.0	5.7	-18.9
3. Participation & Other Expenses	**1608.0**	**1310.0**	**550.0**	**-18.5**	**-58.0**
SURPLUS/DEFICIT	**-1800.0**	**-2500.0**	**-3300.0**	**38.9**	**32.0**

Source: Ministry of Finance

In the State Budget for 2016, the projected allocations for social sectors have been pruned. The allocations include RO 2.5 billion for education, RO 1.3 billion for health, RO 163 million for social welfare. The State General Budget 2016 will, however, strive to continue vital projects which are deemed essential for diversifications.

The budget includes a drawdown from reserves of RO1.5 billion, net loan received of RO 0.9 billion, net grants received of RO 0.6 billion and net borrowing of RO 300 million from domestic market. Based on total revenue and expenditure, the projected budget deficit for the year 2016 is RO 3.3 billion as compared to RO 2.5 billion projected in the 2015 Budget for the financial year 2015.

Table 8: Ninth Five Year Development Plan

(Rial Omani Million)

		Ninth Five Year Development Plan				
ITEMS	**2015 Budget**	**2016**	**2017**	**2018**	**2019**	**2020**
I. TOTAL REVENUES	**11600.0**	**8600.0**	**9800.0**	**10300.0**	**11100.0**	**11300.0**
(i) Oil and Gas Revenues	9160.0	6150.0	7165.0	7320.0	7970.0	8060.0
(ii) Other Revenues	2440.0	2450.0	2635.0	2980.0	3130.0	3240.0
II. TOTAL EXPENDITURE (1+2+3)	**14100.0**	**11900.0**	**12700.0**	**13300.0**	**13900.0**	**14100.0**
1. Current Expenditure	**9576.0**	**8680.0**	**9060.0**	**9640.0**	**10065.0**	**10385.0**
(i) Defence & National Security	3800.0	3500.0	3600.0	3700.0	3800.0	3900.0
(ii) Civil Ministries	5166.0	4600.0	4670.0	4820.0	4970.0	5170.0
(iii) Other Expenditures	610.0	580.0	790.0	1120.0	1295.0	1315.0
2. Investment Expenditure	**3214.0**	**2670.0**	**3050.0**	**3100.0**	**3245.0**	**3095.0**
(i) Civil Ministries	1694.0	1370.0	1550.0	1650.0	1850.0	1900.0
(ii) Oil Production	780.0	700.0	720.0	750.0	780.0	710.0
(iii) Gas Production	740.0	600.0	780.0	700.0	615.0	485.0
3. Participation & Other Expenses	**1310.0**	**550.0**	**590.0**	**560.0**	**590.0**	**620.0**
III. SURPLUS/DEFICIT	**-2500.0**	**-3300.0**	**-2900.0**	**-3000.0**	**-2800.0**	**-2800.0**

Source: Ministry of Finance

V. Monetary and Banking Conditions

The Central Bank of Oman (CBO) simultaneously acts as a monetary authority of the country, regulator of all financial services except securities, insurance and pension funds and supervisor of banks and non-bank financial institutions. Although the policy objectives of the CBO have remained broadly unchanged over the years, there have been some changes in emphasis from time to time. The CBO uses both direct and indirect instruments for liquidity management and thereby tries to achieve monetary stability. As regards direct instruments, the CBO uses the cash reserve requirement and the lending ratio from time to time depending on the circumstances. Indirect instruments include sale of CBO CDs to absorb excess liquidity, repo operation to inject liquidity in domestic currency and swap and reverse swap operation for lending in foreign currency to the domestic commercial banks in case of need. Besides operationally active CBO CDs and repos, the CBO can provide discounting facility to the commercial banks against eligible securities.

The growth of monetary aggregates in Oman continued its sustained upward trend despite the decline in crude oil prices which commenced in the second half of 2014. CBO on its part ensured that adequate liquidity remained in the banking system, credit demand was fully met and orderly conditions were maintained in the markets. With comfortable liquidity 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. As at the end of September 2015, narrow money stock (M1) when measured on a year-on-year basis, grew by 16.8 percent driven mainly due to the increase in Rial Omani demand deposits (21.5 percent) and to a lesser extent by the rise in currency held by the public (4.4 percent). Quasi-money (RO saving and time deposits, CD’s issued by commercial banks, margin deposits and foreign currency denominated deposits) also witnessed an impressive growth during the period at 8.2 percent with its share to the total money stock at 64.4 percent. The impetus for the growth in quasi-money was seen mainly in the increase in Rial Omani saving deposits and in the rise in foreign currency deposits. Broad money stock M2 (M1 plus quasi-money) stood at RO 14.72 billion at the end of September 2015, up from RO 13.25 billion a year ago, registering a growth of 11.1 percent which fully supported non-oil economic activities in the real sector (Table 8 and Chart 6).

Table 8: Select Monetary Indicators

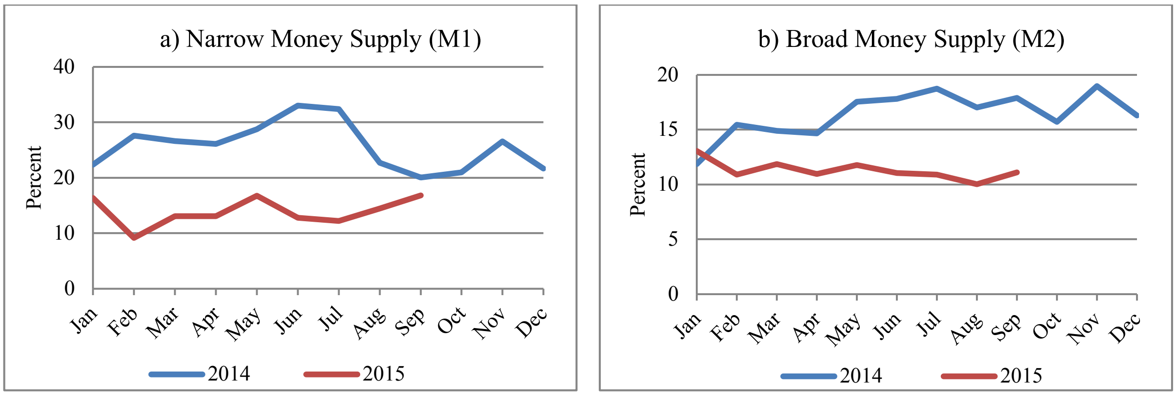
				September	
Monetary Indicators	**2012**	**2013**	**2014**	**2014**	**2015**
1. Reserve Money					
In RO million	2,493.5	2,652.2	3,302.1	3,195.0	5789.6
Annual Growth Rate	36.5	6.4	24.5	15.7	81.2
2. Narrow Money M1					
In RO million	3,492.3	3994.9	4,808.0	4,487.4	5,241.6
Annual Growth Rate	13.9	14.4	20.3	19.3	16.8
3. Broad Money M2					
In RO million	10,912.0	11,937.5	13,766.9	13250.9	14,720.1
Annual Growth Rate	10.7	9.4	15.3	17.2	11.1
4. CBO's Foreign Assets					
In RO million	5,513.7	6,133.3	6,276.9	6,471.6	7,221.1
Annual Growth Rate	-0.2	11.2	2.3	4.0	11.6

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

Source: Central Bank of Oman

The key drivers of monetary expansion during the first nine months of the year in relation to the corresponding period of the previous year came from the increase in banks domestic claims on the private sector by RO 2.1 billion (13.5%). Net claims on the Government also registered an increase of RO 953 million during the period. Monetary expansion was mitigated by the 19.9 percent decline in the net foreign assets of the banking system arising mainly from other depository corporations net foreign asset position, and from the increase in non-monetary liabilities namely capital, reserves and provisions during the period under review (Appendix Table 5).

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

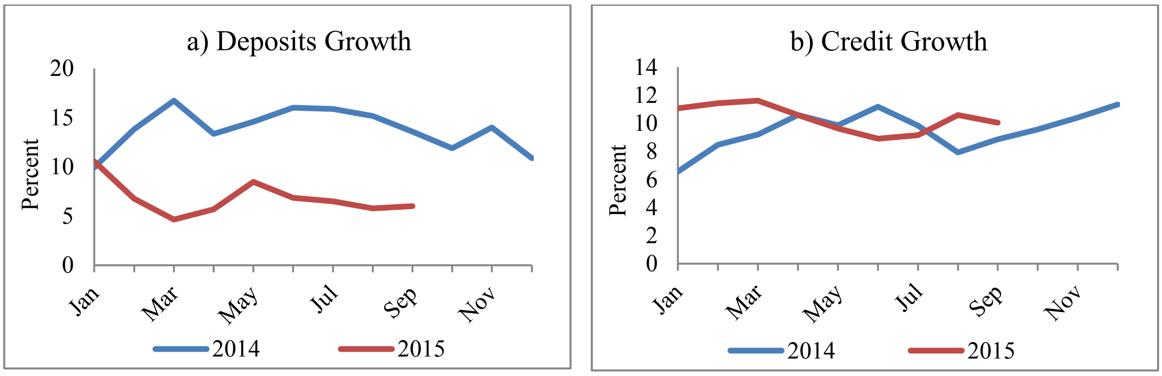


Source: Central Bank of Oman.

Conventional Banks' Operations

During the recent years, the macroeconomic situation and supporting monetary and financial policies had a positive impact on business and performance of banks in the Sultanate. Despite the drop in crude oil prices and a general slowdown in economic activity, the balance sheet of banks continued on the growth path with increased accretion to deposits and credit. Total assets of conventional banks increased by 13.6 percent to RO 27.9 billion in September 2015 compared to RO 24.6 billion a year ago (Appendix Table 6). Of the total assets, credit extended accounted for 65 percent and registered an increase of 10 percent over the year (Chart 7). Credit to the private sector stood at RO 15.9 billion as at the end of September 2015, an increase of 10.1 percent over the year. Of the total credit to the private sector, the share of the non-financial corporate sector stood at 47 percent, closely followed by the household sector (mainly comprising personal loans) at 45.2 percent, financial corporations at 5.3 percent and other sectors the remaining 2.5 percent. Commercial banks' overall investment in securities declined by around 11.0 percent to RO 2.7 billion as at the end of September 2015 from RO 3 billion a year ago. The drop resulted mainly in bank's investments in CBO CDs which fell from RO 1.4 billion in September 2014 to nil in September 2015. Investment in Government Development bonds, however, increased by 32.3 percent over the year to RO 750 million. Banks also invested RO 408.4 million in Government Treasury bills as at the end of September 2015.

Chart 7: Growth in Deposits and Credit of Conventional Banks (Y-o-Y Growth in percent)

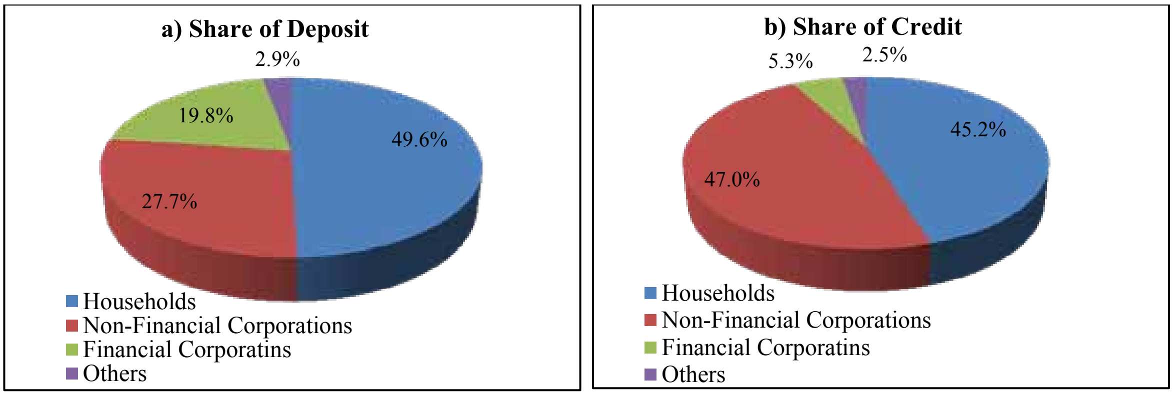


Source: Central Bank of Oman.

The deposit base of conventional banks rose by 6 percent as at the end of the third quarter of 2015 to RO 18.1 billion. Year-on-year increases were seen in deposits of the Government, public enterprises as well as the private sector. Private sector deposits which accounted for 63.8 percent of the total deposits rose by 8 percent over the year. The sector-wise holding of private sector deposits with banks indicates that the share of the households stood at 49.6 percent, followed by non-financial corporations at 27.7 percent, financial corporations mainly constituting Pension Fund deposits at 19.8 percent and other sectors the remaining 2.9 percent. A sectoral flow of funds review indicates that while the household sector held 49.6 percent of the private sector bank deposits at the end of September 2015, their availment of credit stood at 45.2 percent. In absolute terms, however, while the household sector held RO 5.7 billion of deposits with the conventional banks, their availment of credit stood at RO 7.2 billion. Non-financial corporations while holding 27.7 percent (RO 3.2 billion) of the private sector deposits availed 47 percent (RO 7.5 billion) of credit. Financial corporations, on the other hand, held 19.8 percent (RO 2.3 billion) of the deposits while availing just 5.3 percent (RO 0.8

billion) of bank credit (Chart 8). The core capital and reserves of conventional banks increased by 13.5 percent to RO 3.3 billion while the supplementary capital element rose by 1.5 percent to RO 705.3 million over the one year period ending September 2015.

Chart 8: Share of Private Sector Deposit & Credit (September 2015)



Source: Central Bank of Oman.

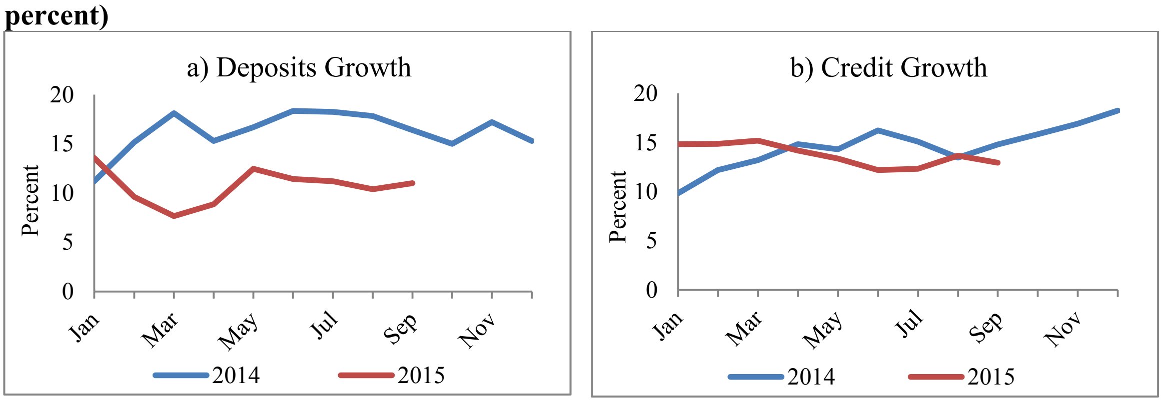
Islamic Banking

An important milestone in the Sultanate's banking sector in the recent period was the introduction of Islamic Banking, which would diversify banking services and promote financial inclusion. Islamic banking entities provided financing of RO 1.5 billion outstanding as at the end of September 2015 when compared to RO 0.9 billion a year ago. Most of the credit extended came from the Islamic Windows of conventional banks (71.6%) and the remaining from the two full-fledged Islamic banks which would need some more time to become fully focused on gaining greater market share. Total customer deposits held with Islamic banks and windows also registered a significant increase to RO 1.3 billion in September 2015 from RO 0.4 billion as at the end of September 2014. The total assets of Islamic banks and windows combined amounted to RO 2 billion as at the end of September 2015 which constituted about 6.5 percent of the banking system asset base.

Other Depository Corporations

Depository corporations refer 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. The other depository corporations combined balance sheet (Appendix Table 7) includes the balance sheet data of all conventional banks as well as Islamic banks and windows. Taken together, it provides a broader overview of the financial intermediation taking place in the banking system in Oman. The total outstanding credit extended by the other depository corporations stood at RO 19.7 billion as at the end of September 2015, a rise of 12.9 percent over the level witnessed a year ago (Chart 9). Total deposits held with other depository corporations also registered a significant growth of 11 percent to RO 19.5 billion at the end of September 2015.

Chart 9: Growth in Deposits and Credit of Other Depository Corporations (Y-o-Y Growth in percent)



Source: Central Bank of Oman.

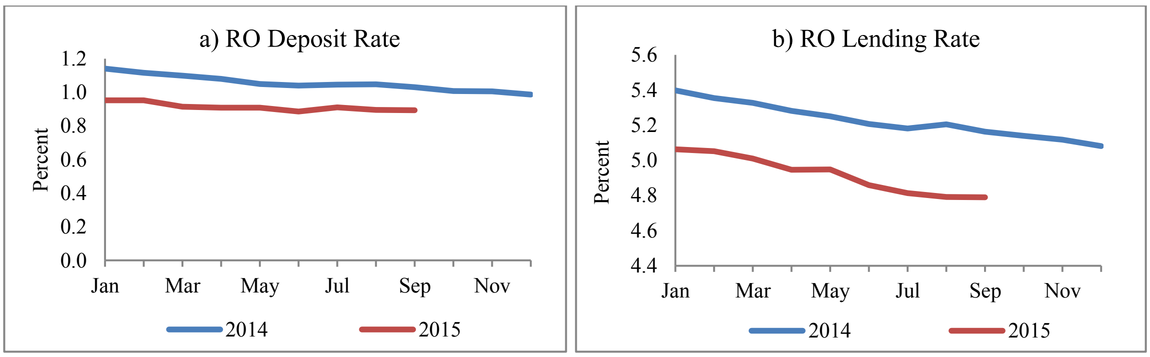
Regulatory and Supervisory Developments

The Central Bank of Oman (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 direction, the CBO had initiated a number of regulatory and supervisory measures in the recent period. As financial stability has emerged as a global issue, a financial stability department was set up within the CBO for macro-prudential supervision of the financial system, which is now producing stress testing and financial stability reports. As a part of financial stability measure, a framework for the "Domestic Systemically Important Banks (D-SIBs)" has been operationalized. The CBO is well ahead in the implementation of Basel III framework and 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. Prompt Corrective Actions with revised trigger points like changes in capital adequacy requirement of banks is being emphasized further. CBO also reviewed some of the existing regulatory norms with regard to cross border exposures of banks and certain modifications have been made with regard to the limits placed on the aggregate funded and non-funded exposures by bank to non-resident borrowers. The CBO issued the final framework on Liquidity Coverage Ratio (LCR) and LCR disclosure standard requirements under Basel III in December 2014. The standard of LCR came into effect from January 1, 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. The Government and the CBO have been taking concerted effort 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 for these entities. The CBO advised banks to formulate liberal lending policies for the SME segment and mandated that they should allocate at least 5 percent of their total credit to SMEs. As a result of initiatives undertaken by CBO, the health of the banking system has improved and the banks are in a better position to contribute towards growth of the Omani economy.

Interest Rate Developments

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 rates 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 an accommodative monetary policy. CBO's policy interest rate for absorption of surplus liquidity in the form of CBO CD's of 28 days maturity stood at 0.1 percent in August 2015. In the subsequent months there was no issue of CDs. The repo rate that is used to inject liquidity remained at 1 percent since March 2012. The five year Sovereign Sukuk of RO 250 million was raised at 3.5 percent profit rate per annum. In respect of the domestic interest rate structure of conventional banks, both the deposits and lending rate softened during this period. The weighted average interest rate on Rial Omani deposits declined from 1.030 percent in September 2014 to 0.894 percent in September 2015, while the weighted average RO lending rate decreased from 5.163 percent to 4.790 percent during the same period (Chart 10 and Appendix Table 8). The overnight Rial Omani domestic inter-bank lending rate firmed up to 0.217 percent in September 2015 from 0.131 percent a year ago. The rate declined to an average of 0.155 percent per annum in October 2015.

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



Source: Central Bank of Oman.

Since December 2008, banks have been offering lower interest rate on foreign currency deposits compared to Rial Omani deposits. Interest rate on foreign currency deposits declined from 0.908 percent in September 2014 to 0.847 percent in September 2015. The lending rate in foreign currency, which was 2.441 percent in September 2014, rose modestly to 2.511 percent by September 2015. Commercial banks’ spread in foreign currency lending over the foreign currency deposit rate rose to 1.664 in September 2015 from 1.533 in September 2014. Interest rates on foreign currency deposit and lending were mostly governed by those prevailing in the international markets, while domestic deposit and lending rates were influenced by domestic demand and supply conditions.

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

VI. Financial Markets

The financial structure of any country is composed of a variety of markets and financial products, and development encompasses not only monetary aggregates and interest rates but also financial openness, regulation and supervision, and institutional capacity. In recognition of the critical role played by the financial sector, Oman has been focusing on developing deeper, liquid, vibrant and integrated banking system and financial markets. It is now recognized that domestic financial system is important to support the growth momentum and diversification of the Omani economy. This also allows risks to be shared more broadly and facilitates the flow of capital to the productive sectors.

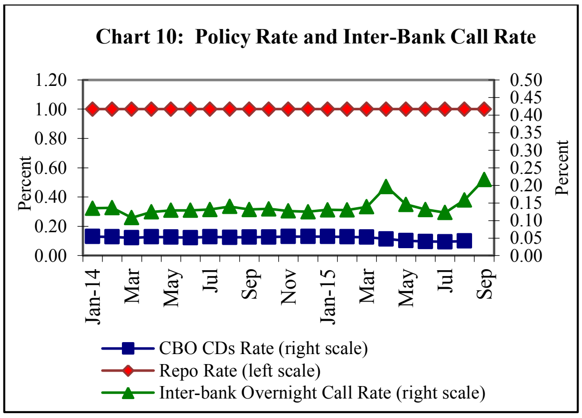
Typically, for a small open economy like Oman, financial development is measured by a small set of quantitative variables, such as the ratio of broad money to GDP and the ratio of private sector credit to GDP. The ratio of broad money to GDP is conventionally used as a measure of financial sector deepening, however, such indicators may not be comprehensive enough. When we look at the level of financial deepening based on the simple indicators like ratio of broad money to GDP and ratio of credit to GDP, we find that these ratios have been increasing gradually in Oman. The ratio of broad money to GDP stood at 43.8 percent during 2014. Similarly, the ratio of bank credit to GDP as well as the ratio of bank deposits to GDP stood at 57.1 percent in 2014. Another indicator that is quite often looked at is the ratio of market capitalization to GDP. With respect to the Omani stock market, this ratio has come down in the last few years in line with other markets of GCC countries and it stood at 46.3 percent in 2014. Looking at these ratios indicate that there is a scope for further financial deepening in Oman.

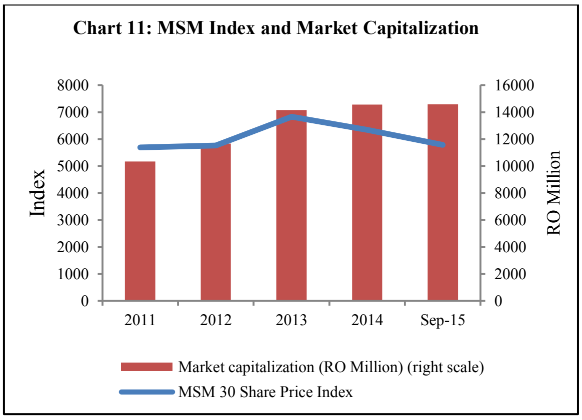
In Oman, the money market and the foreign exchange market fall within the jurisdiction of the CBO, while the capital market, corporate debt market and the insurance market are regulated by Capital Market Authority (CMA). It is recognized in Oman that the development of vibrant Government securities market and the corporate bond market are important to raise resources from the market in a cost effective manner. The Government, the Central Bank of Oman (CBO), and the Capital Market Authority (CMA) have been laying emphasis to develop a deep and liquid domestic Government securities and corporate debt markets. The existence of an efficient government securities market is seen as an essential precursor, in particular, for development of the corporate debt market. Reforms in these markets are focusing on the development of appropriate market infrastructure, elongation of maturity profile, increasing the width and depth of the market, improving risk management practices, efficient payments and settlements mechanism and increasing transparency.

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

The domestic inter-bank call money market continued to lack sufficient depth with transactions mostly confined to overnight tenors. In the over-night call money market in Oman, the average daily turnover during the first nine months of 2015 was higher at RO 28.17 million compared to RO 22.93 million during the same period in the previous year. In the background of tightened liquidity, the overnight domestic inter-bank call money rates edged up to 0.217 percent per annum in September 2015 from 0.131 percent a year ago. They however remained higher than the CBO CD rates ruling out any possibility of interest rate arbitrage (Chart 10). While structural excess liquidity has been mopped up by weekly auction of the CBO CDs, frictional liquidity found its equilibrium among banks in the overnight call money market at a modest premium over the CBO CD rate.

With regard to the capital market, there were two issuances of Government Development Bonds during 2015 amounting to a total of RO 500 million, and the Sovereign Sukuk amounting to RO 250 million. With the diversification of the economy, the corporate sector in Oman is also expected to raise resources from the market by issuing debt securities. The Muscat Securities Market Index (MSM-30) closed at 5,787.69 points at the end of September 2015 compared to 7,484.17 points recorded in the corresponding period of the previous year, registering a fall of 22.7 percent. The market capitalization decreased by around 6.5 percent to reach RO 14.6 billion in the three quarters (January-September) of 2015 from RO 15.6 billion during the same period of 2014. The turnover dropped by 44.4 percent to reach RO 0.95 billion during January-September 2015 from RO 1.71 billion during the same period of the previous year. The total number of securities traded during January-September 2015 declined by 29.7 percent to 3,575.3 million as compared to 5,086.1 million shares traded during the first nine months in 2014. The financial sector was the most active sector with a share in total turnover at 53.0 percent during January-September 2015, followed by services sector with a share in total turnover of around 30.0 percent and industrial sector with a share in total turnover at 14.6 percent during the same period (Chart 11).





Source: Central Bank of Oman.

The foreign exchange market is predominantly dollar based as it acts as the main intervention currency for international trade and is the anchor currency under the fixed exchange rate regime. Foreign exchange market by and large worked smoothly during the first three quarters of 2015 despite turbulence in the international financial markets. The government continued to remain the main supplier of foreign exchange due to its dollar denominated oil revenues which it sells to the CBO for its local currency requirements. Commercial banks, on the other hand, purchased foreign exchange from the CBO to meet the customers' demand for foreign exchange arising from transactions related to imports, workers' remittances and other capital account transactions. Commercial banks also accept foreign currency deposits, bulk of which is denominated in the US dollar. While foreign currency deposits mostly finance foreign currency lending, commercial banks can borrow from the overseas markets within the aggregate gap limit prescribed by the CBO. During January- September 2015, CBO purchased US $ 15.9 billion from the Government while sale of US dollar to commercial banks amounted to US $ 17.0 billion.

NOMINAL EFFECTIVE EXCHANGE RATE (NEER)

The Rial Omani NEER index decreased from 104.6 in March 2015 to 103.9 in June, rising again to 104.5 in September 2015, indicating an appreciation of the Rial Omani between June 2015 and September 2015 against a basket of currencies of the

Sultanate's importing partners. The appreciation in Omani NEER index witnessed between June and September 2015 mirrored the trend in US dollar as the US economy rebounded in the second quarter and posted notable growth in the third quarter of 2015. Real GDP in the US grew by 3.9 percent in the second quarter and by 2.0 percent in the third quarter. The higher economic growth witnessed in the US in the second and third quarter of 2015 contrasted with a modest growth in the Euro zone during the same quarters and two quarters of uneven turnaround of the Japanese economy, induced the US dollar to gain strength against a number of major currencies (Table 10).

TABLE 10
EFFECTIVE EXCHANGE RATE INDEX OF RIAL OMANI
(1999 = 100)

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

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

Source: Central Bank of Oman.

VII. Foreign Trade and Balance of Payments

As per the preliminary balance of payments (BoP) statistics compiled for the first nine months of 2015, merchandise exports of the Sultanate declined sharply by 32.8 percent to RO 10,446 million in January-September 2015 period as compared to a decrease of 4.6 percent in similar period a year ago, reflecting the marked drop in global oil prices. Merchandise exports of Oman comprising oil exports, natural gas, non-oil exports and re-exports, registered varied levels of contraction in the first three quarters of 2015. The decline in value of oil exports was attributed to lower realization of oil prices (a fall of 43.5 percent) notwithstanding a higher volume of oil exports (an increase of 5.7 percent). Similarly, while the value of natural gas exports decreased by 29.3 percent, other exports consisting primarily of mineral, plastic and rubber products as well as base metals and articles also declined by 23.0 percent (Table 11). Collectively, oil and gas exports accounted for about 59.3 percent of merchandise exports in January-September 2015 compared to 65.8 percent over similar period in 2014. Total re-exports declined by 16.1 percent to RO 1,886.3 million in January-September 2015 over the corresponding period in 2014 mainly on account of marked drop in the value of 'transport equipment' and 'others'.

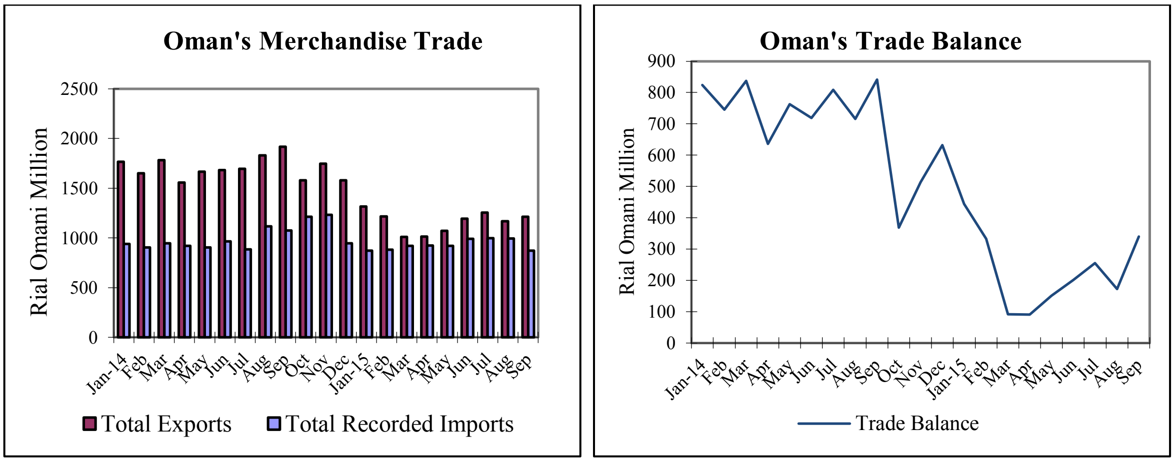
The value of merchandise imports (on c.i.f. basis) dropped marginally by 0.4 percent to RO 8,383 million during the first three quarters of 2015 from RO 8,420 million in the corresponding period of 2014. The main categories of recorded imports which contributed to the subdued imports were 'transport equipment' and 'live animals and its products'. The decline recorded in value of total merchandise exports by 32.8 percent in January-September 2015 was more pronounced than the fall of 0.4 percent in total merchandise imports during the same period. Consequently, merchandise trade balance registered a smaller surplus of RO 2,062 million in January-September 2015 - a decrease of 71.7 percent over the same period a year ago (Chart 12).

Table 11: Oman's Foreign Trade
(Rial Omani Million)

Merchandise Trade	2013	2014	January- September 2014	January- September 2015 *	January- September % Change
Total Merchandise Exports	**21,696**	**20,464**	**15,554**	**10,446**	**-32.8**
Oil Exports	12,678	11,901	9,177	5,447	-40.6
Natural Gas	1,670	1,493	1,060	749	-29.3
Other Exports	3,807	4,126	3,069	2,364	-23.0
Re-Exports	3,541	2,944	2,248	1,886	-16.1
Imports (c.i.f)	**13,680**	**11,898**	**8,420**	**8,383**	**-0.4**
Trade Balance	**8,016**	**8,566**	**7,134**	**2,062**	**-71.1**

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

Chart 12: Oman's Merchandise Trade and Trade Balance



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

Although quarterly balance of payments data are not available in the public domain, the recent trend in merchandise trade indicates that current account balance in the January-September 2015 would undergo a major adjustment from surplus to a deficit. The services, income and current transfers would also continue to be in a deficit mode, given the nature of the Omani economy.

It is anticipated that the current account deficit would be financed partly by draw-down of Government reserves and partly by inflows of non-resident deposits under the financial account.

Notwithstanding the compressed surplus in trade balance and deficits in services, income and transfers account, it is expected that the overall balance of payments will register a surplus in January-September 2015 mainly due to net inflows in ‘other investments’ in the financial account. During the first three quarters of 2015, the foreign assets of the CBO increased by 15.0 percent to RO 7,221.1 million from RO 6,276.9 million at the end of December 2014 reflecting the country's overall balance of payments position.

Foreign Investment in Oman

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

The Sultanate offers an investor-friendly legislative environment and transparent corporate governance. In order to attract higher foreign investment flows for sustaining economic growth in the milieu of low oil prices, Oman's Foreign Capital Investment Law is undergoing revisions. Given the fact that Oman is a free economy, there is no restriction on remittances abroad of equity, debt, capital, interest, dividends, profits and personal savings. Moreover, the fixed exchange rate of Omani Rial provides certainty of returns to the foreign investors in the absence of exchange rate risk.

Appendix Tables

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

Activities	2012	2013	2014*	Jan - Sep		% change (2015/14)
				2014*	2015**	
1. Industry (1.1 + 1.2)	**20660.5**	**20702.5**	**20546.8**	**15294.2**	**11208.6**	**-26.7**
1.1 Petroleum Activities	**15350.2**	**15205.8**	**14840.0**	**11291.1**	**6949.4**	**-38.5**
- Crude Petroleum	14239.1	14047.0	13780.1	10530.8	6037.1	-42.7
- Natural Gas	1111.1	1158.8	1059.9	760.2	912.3	20.0
1.2 Non-Petroleum Industrial Activities	**5310.3**	**5496.7**	**5706.8**	**4003.1**	**4259.2**	**6.4**
- Mining and Quarrying	100.9	114.7	124.5	87.9	95.3	8.5
- Manufacturing	3143.5	3138.8	3151.9	2199.8	2165.1	-1.6
- Electricity & Water Supply	318.9	346.2	376.2	279.1	317.0	13.6
- Construction	1747.0	1897.0	2054.3	1436.4	1681.8	17.1
2. Agriculture & Fishing	**341.3**	**371.2**	**406.1**	**301.1**	**314.0**	**4.3**
3. Services	**10378.0**	**11330.4**	**12814.5**	**9150.2**	**9512.2**	**4.0**
- Wholesale & Retail Trade	1963.0	2042.3	2083.6	1912.8	1970.6	3.0
- Hotels & Restaurants	218.8	238.2	258.7	189.8	195.8	3.2
- Transport, Storage & Communication	1378.9	1469.2	1574.7	1169.7	1216.5	4.0
- Financial Intermediation	1273.5	1383.4	1511.7	1064.5	1121.2	5.3
- Real Estate & Business Activities	1090.8	1155.1	1230.5	776.7	821.9	5.8
- Public Administration & Defence	2472.2	2764.6	3163.9	1910.2	1984.4	3.9
- Other Services (Education, Health, Community/Personal Services, and Private Household)	1980.8	2277.6	2991.5	2126.4	2201.9	3.6
4. Total Non-Petroleum Activities (1.2 + 2 +3)	**16029.6**	**17198.3**	**18927.4**	**13454.4**	**14085.3**	**4.7**
5. Less Financial Intermediation Services Indirectly Measured	589.0	612.6	640.3	463.7	489.4	5.5
6. Gross Domestic Product at Producers Prices (1.1+4-5)	**30790.7**	**31791.5**	**33127.1**	**24281.7**	**20545.3**	**-15.4**
7. Plus :Taxes Less Subsidies on Products	-1437.5	-1730.2	-1676.3	-875.7	-457.1	47.8
8. Gross Domestic Product at Market Prices (6+7)	**29353.3**	**30061.3**	**31450.8**	**23406.0**	**20088.2**	**-14.2**

* Provisional.

** Preliminary.

Source: National Center for Statistics & Information.

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

Items of Consumption	Weights	2013	2014	Jan - Sep 2014	Jan - Sep 2015	% change (2015/14)
1 Food & non-alcoholic Beverages	**23.903**	**102.8**	**104.5**	**104.4**	**103.6**	**-0.8**
Bread & Cereals	3.020	100.9	102.3	102.4	101.5	-0.8
Meat	6.103	101.2	103.1	103.0	103.1	0.1
Fish & Seafood	2.208	107.3	115.4	117.1	108.1	-7.7
Milk , Cheese & Eggs	2.865	100.9	101.8	101.6	101.5	-0.1
Oil & Fats	0.715	100.0	100.2	100.1	100.1	0.0
Fruits	2.815	104.4	107.2	106.7	107.1	0.4
Vegetables	2.493	108.4	106.8	104.5	105.0	0.5
Sugar,Jam,Honey & Confectionary	1.135	99.8	99.6	99.6	100.2	0.6
Food Products n.e.c.	0.521	100.3	100.8	100.7	101.2	0.5
Non – Alchoholic Beverages	2.028	102.1	103.3	103.3	103.3	0.0
2 Tobacco	**0.125**	**101.5**	**102.3**	**101.9**	**106.0**	**4.0**
3 Clothing & Footwear	**5.961**	**101.8**	**101.6**	**101.8**	**100.6**	**-1.1**
4 Housing , Water, electricity, gas and other fuels	**26.477**	**100.5**	**101.5**	**101.5**	**101.9**	**0.4**
5 Furnishings, household equipment & routing household maintenance	**3.787**	**102.2**	**107.8**	**107.3**	**109.5**	**2.0**
6 Health	**1.161**	**101.5**	**106.6**	**106.3**	**110.1**	**3.6**
7 Transport	**19.167**	**100.4**	**99.9**	**99.8**	**100.1**	**0.3**
8 Communication	**5.633**	**97.7**	**97.8**	**97.4**	**98.8**	**1.4**
9 Recreation & Entertainment	**1.135**	**98.9**	**98.8**	**98.8**	**98.8**	**-0.1**
10 Education	**1.368**	**104.2**	**110.3**	**109.1**	**113.9**	**4.4**
11 Restaurant and Hotels	**6.098**	**101.1**	**102.2**	**102.1**	**102.6**	**0.4**
12 Miscellaneous goods and Services	**5.185**	**100.3**	**100.3**	**100.4**	**100.2**	**-0.1**
General Price Index	**100.0**	**101.1**	**102.1**	**102.0**	**102.2**	**0.2**

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

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

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

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

Appendix Table 3
Public Finance
(Rial Omani Million)

Items	2012	2013	2014	Estimated Budget 2016	Jan - Sep		% change (2015/14)
					2014	2015	
REVENUES	**13474.5**	**13907.6**	**14107.5**	**8600.0**	**10463.4**	**6711.6**	**-35.9**
Net Oil Revenues	9831.3	10429.5	10205.2	4560.0	7808.3	4257.1	-45.5
Gas Revenues	1583.7	1495.3	1687.6	1590.0	1045.8	1069.6	2.3
Other Current Revenues	2033.7	1931.0	1983.7	2400.0	1387.5	1372.5	-1.1
Capital Revenues	13.0	30.2	15.8	20.0	10.2	9.3	-8.8
Capital Repayments	12.8	21.6	215.2	30.0	211.6	3.1	-
TOTAL EXPENDITURE	**13555.1**	**13990.2**	**15171.8**	**11900.0**	**10327.3**	**9645.9**	**-6.6**
Current Expenditure	**8772.7**	**8822.0**	**9606.2**	**8680.0**	**5935.8**	**5826.5**	**-1.8**
Defence & National Security	4742.5	4494.2	4210.8	3500.0	2591.8	2343.0	-9.6
Civil Ministries	3503.3	3848.5	4762.7	4600.0	2969.4	2987.5	0.6
Interest Paid on Loans	45.3	53.6	52.9	90.0	33.2	32.1	-3.3
Gas Production Expenditures	88.9	81.8	95.3	190.0	60.2	117.5	95.2
Oil Production Expenditures	392.7	343.9	484.5	300.0	281.2	346.4	23.2
Investment Expenditure	**2886.5**	**3120.0**	**3584.2**	**2670.0**	**2213.2**	**2214.5**	**0.1**
Development Expenditure	-	-	-	1200.0	-	-	-
Development Expenditure for Civil Ministries	1650.3	1744.3	2093.6	150.0	1272.8	1343.5	5.6
Capital Expenditure for Civil Ministries	58.2	60.7	72.0	20.0	24.6	22.8	-7.3
Oil Production Expenditures	659.9	752.7	748.1	700.0	550.5	467.3	-15.1
Gas Production Expenditures	518.1	562.3	670.5	600.0	365.3	380.9	4.3
Participation & Other Expenses	**1895.9**	**2048.2**	**1981.4**	**600.0**	**1178.3**	**754.9**	**-35.9**
Actual Expenses under Settlement**	**0.0**	**0.0**	**0.0**	**550.0**	**1000.0**	**850.0**	**-50.7**
SURPLUS/DEFICIT	**-80.6**	**-82.6**	**-1064.3**	**0.0**	**136.1**	**-2934.3**	
FINANCING	**80.6**	**82.6**	**1064.3**	**-3300.0**	**-136.1**	**2934.3**	
Net Grants Received	-32.7	-43.4	-50.2	3300.0	-27.8	176.2	
Drawing from Reserves	0.0	0.0	0.0	600.0	0.0	0.0	
Net loans Received	-36.7	-74.0	-60.3	1500.0	-52.8	-75.3	
Development Bonds(Net)	150.0	200.0	100.0	900.0	0.0	400.0	
Remaining Surplus	0.0	0.0	1074.8	300.0	0.0	0.0	
Change in Government Accounts	0.0	0.0	0.0	0.0	-55.5	2433.4	

* *Provisional.*

** Amount already allocated but not yet disbursed.

Source: Ministry of Finance.

Appendix Table 4

Money Supply

(Rial Omani Million)

End of Period	Currency with Public (1)	Demand Deposits (2)	Money Supply (M1) (3) =(1+2)	% Change in M1Over Previous Year (4)	Quasi-Money* (5)	Money Supply (M2) (6)=(3+5)	% Change in M2 Over Previous Year (7)
2010							
Mar.	634.0	1969.1	2603.1	19.3	5672.3	8275.4	9.1
June	632.8	1958.9	2591.7	13.8	5616.6	8208.3	8.0
Sept.	648.9	2017.8	2666.7	19.1	5667.9	8334.6	8.7
Dec.	702.0	2173.9	2875.9	21.6	5908.9	8784.8	11.3
2011							
Mar.	759.4	2344.4	3103.8	19.2	5616.4	8720.2	5.4
June	795.8	2269.2	3065.0	18.3	5943.5	9008.5	9.7
Sept.	807.1	2457.5	3264.6	22.4	6228.4	9493.0	13.9
Dec.	843.1	2221.8	3064.9	6.6	6790.0	9854.9	12.2
2012							
March	912.0	2557.9	3469.9	11.8	6745.0	10214.9	17.1
June	914.7	2490.9	3405.6	11.1	7110.8	10516.4	16.7
Sept.	910.6	2656.5	3567.1	9.3	7175.0	10742.1	13.2
Dec.	925.9	2566.4	3492.3	13.9	7419.7	10912.0	10.7
2013							
March	978.3	2713.8	3692.1	6.4	7524.4	11216.5	9.8
June	975.5	2640.5	3616.0	6.2	7719.3	11335.3	7.8
Sept.	997.8	2762.9	3760.7	5.4	7546.6	11307.3	5.3
Dec.	1039.2	2955.7	3994.9	14.4	7942.6	11937.5	9.4
2014							
March	1111.5	3553.1	4664.6	26.3	8200.0	12864.6	14.7
June	1136.3	3651.8	4788.1	32.4	8500.7	13288.8	17.2
Sept.	1228.7	3258.7	4487.4	19.3	8763.5	13250.9	17.2
Dec.	1188.2	3619.8	4808	20.4	8958.9	13766.9	15.3
2015							
Mar.	1216.2	4058.8	5275	13.1	9116.7	14391.7	11.9
June	1261.6	4139.9	5401.5	12.8	9354.4	14755.9	11.0
Sep.	1282.3	3959.3	5241.6	16.8	9478.5	14720.1	11.1

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

Source: *Central Bank of Oman.*

Appendix Table 5

Factors Affecting Broad Money (M2)

(Rial Omani Million)

	Sep. 2014	**Sep. 2015**	**Absolute Change in RO Million Sep.2015/2014**	**% Change Sep. 2015/2014**
1. Broad Money (A+B)	**13250.9**	**14720.1**	**1469.2**	**11.1**
A. Money (M1)	4487.4	5241.6	754.2	16.8
a) Currency with public	1228.7	1282.3	53.6	4.4
b) Demand Deposits	3258.7	3959.3	700.6	21.5
B. Quasi Money	8763.5	9478.5	715.0	8.2
(Of which foreign cy. deposits)	*1047.5*	*1154.0*	106.5	10.2
2. Foreign Assets (Net)	**6761.6**	**5533.1**	**-1228.5**	**-18.2**
Central Bank	6369.1	7124.1	755.0	11.9
Commercial Banks	392.5	-1591.0	-1983.5	
3. Domestic Assets	**6489.3**	**9187.0**	**2816.9**	**41.6**
A) Claims on Government (net) (i-ii)	-5083.6	-4130.6	953.0	
i) Government borrowings	661.4	2126.7	1465.3	221.5
ii) Government Deposits (-)	5745.0	6257.3	512.3	8.9
b) Claims on Pvt. Sector	15569.0	17668.4	2099.4	13.5
c) Claims on Public Enterprises	1921.6	2094.8	173.2	9.0
d) Other items (net) (-)	5917.7	6445.6	408.7	8.9

Source: Central Bank of Oman.

Appendix Table 6

Combined Balance Sheet of Conventional Banks

(Rial Omani Million)

	2013	2014	Sep. 2014	Sep. 2015	% Change Sep.2015/14
Cash and deposits with CBO	1,537.7	1,979.0	1,865.8	4,235.0	127.0
Due from H/O, branches and affiliates abroad	452.3	390.9	407.1	404.5	-0.6
Due from other banks abroad	1,424.4	1,436.2	1,394.1	1,447.1	3.8
Total Credit	**15,177.4**	**16,898.4**	**16,511.3**	**18,168.9**	10.0
a) Credit to Government	18.4	21.7	18.7	6.3	-66.3
b) Credit to public enterprises	1,731.1	1,973.1	1,878.3	2,057.7	9.6
c) Credit to private sector	13,262.2	14,704.0	14,437.2	15,891.0	10.1
(Of which in foreign currency)	*1,341.1*	*1,581.7*	*1,589.1*	*1,524.1*	-4.1
d) Credit to non-residents	165.8	199.6	177.2	213.9	20.7
Securities	**2,550.3**	**2,912.9**	**3,008.7**	**2,681.1**	-10.9
a) Treasury Bills	0.0	0.0	0.0	408.4	-
b) Government Development Bonds	567.5	564.0	566.7	750.0	32.3
c) CBO CDs	1,247.0	1,323.0	1,427.1	0.0	-100.0
d) Domestic Shares	149.1	156.9	190.0	150.9	-20.6
e) Other domestic securities	84.5	160.3	137.6	723.9	426.2
f) Foreign securities	502.2	708.6	687.4	647.9	-5.7
Net fixed assets	189.0	209.7	191.6	206.6	7.9
Other assets	1,024.6	994.2	1,226.4	804.8	-34.4
TOTAL ASSETS / LIABILITIES	**22,355.6**	**24,821.3**	**24,605.0**	**27,948.0**	13.6
Total Deposits	**15,586.2**	**17,278.9**	**17,113.5**	**18,140.7**	6.0
a) Government deposits	4,504.3	4,959.4	5,163.2	5,257.9	1.8
b) Deposits of public enterprises	935.4	879.7	974.7	1,056.3	8.4
c) Deposits of Private Sector	9,857.6	11,184.3	10,719.4	11,575.6	8.0
i) Demand	2,985.9	3,740.9	3,357.6	3,849.2	14.6
ii) Savings	3,384.2	3,992.6	3,852.3	4,273.7	10.9
iii) Time	3,371.6	3,306.6	3,388.1	3,178.4	-6.2
iv) Commercial prepayments	116.0	144.2	121.4	274.3	125.9
(Of which in foreign currency)	*681.6*	*860.6*	*736.3*	*863.3*	17.2
d) Deposits of non-residents	288.9	255.5	256.2	250.9	-2.0
Due to H/O, branches and affiliates abroad	363.5	426.1	322.7	280.7	-13.0
Due to other banks abroad	988.5	1,121.7	1,385.1	3,242.4	134.1
Core capital and reserves	3,009.0	3,244.2	2,886.8	3,276.9	13.5
Supplementary capital elements	633.1	651.4	694.7	705.3	1.5
Specific provisions and reserved interest	560.8	597.0	596.6	631.4	5.8
(Of which general provisions)	*197.2*	*218.7*	*211.5*	*235.1*	11.2
Other Liabilities	1,214.6	1,502.0	1,605.6	1,670.6	4.0

Source: Central Bank of Oman.

Appendix Table 7

Combined Balance Sheet of Other Depository Corporations

(Rial Omani Million)

	2013	2014	Sep. 2014	Sep. 2015	% Change Sep.2015/14
Cash and deposits with CBO	1,610.4	2,110.5	1,961.5	4,495.1	129.2
Due from H/O, branches and affiliates abroad	452.3	390.3	410.9	404.6	-1.5
Due from other banks abroad	1,502.0	1,492.3	1,481.2	1,466.6	-1.0
Total Credit	**15,611.8**	**17,948.0**	**17,415.8**	**19,669.4**	**12.9**
a) Credit to Government	18.4	21.7	18.7	6.3	-66.3
b) Credit to public enterprises	1,731.1	1,973.1	1,878.3	2,057.7	9.6
c) Credit to private sector	13,690.5	15,735.8	15,328.3	17,377.2	13.4
(Of which in foreign currency)	*1,346.3*	*1,587.3*	*1,599.0*	*1,528.9*	*-4.5*
d) Credit to non-residents	171.8	217.3	190.6	228.2	19.8
Securities	**2,654.5**	**2,957.8**	**3,068.4**	**2,733.5**	**-11.0**
a) Treasury Bills	0.0	0.0	0.0	408.4	-
b) Government Development Bonds	567.5	564.0	566.7	750.0	32.3
c) CBO CDs	1,247.0	1,323.0	1,427.1	0.0	-100.0
d) Domestic Shares	149.7	158.4	191.6	155.5	-18.7
e) Other domestic securities	113.9	190.8	168.7	754.9	347.5
f) Foreign securities	576.5	721.5	714.3	664.8	-7.0
Net fixed assets	221.8	243.8	224.7	240.0	6.8
Other assets	849.5	862.6	988.5	726.1	-26.5
TOTAL ASSETS / LIABILITIES	**22,902.3**	**26,005.2**	**25,551.0**	**29,735.4**	**16.4**
Total Deposits	**15,758.0**	**17,967.8**	**17,543.3**	**19,472.6**	**11.0**
a) Government deposits	4,570.7	5,133.4	5,264.8	5,783.6	9.9
b) Deposits of public enterprises	935.4	948.4	982.8	1,180.4	20.1
c) Deposits of Private Sector	9,963.0	11,630.4	11,039.4	12,257.4	11.0
i) Demand	3,036.1	3,865.4	3,443.4	4,072.7	18.3
ii) Savings	3,414.1	4,090.0	3,921.4	4,430.9	13.0
iii) Time	3,393.3	3,523.0	3,544.6	3,452.0	-2.6
iv) Commercial prepayments	119.6	152.0	130.1	301.7	132.0
(Of which in foreign currency)	*682.8*	*862.9*	*737.7*	*877.0*	18.9
d) Deposits of non-residents	288.9	255.6	256.2	251.1	-2.0
Due to H/O, branches and affiliates abroad	378.0	514.4	391.9	340.6	-13.1
Due to other banks abroad	997.2	1,190.6	1,456.1	3,289.0	125.9
Core capital and reserves	3,248.6	3,479.3	3,125.9	3,512.0	12.3
Supplementary capital elements	632.3	651.5	694.8	705.3	1.5
Specific provisions and reserved interest	567.8	612.9	610.0	654.3	7.3
(Of which general provisions)	*204.0*	*233.3*	*224.1*	*255.3*	*13.9*
Other Liabilities	1,320.5	1,588.8	1,728.9	1,761.7	1.9

Source: Central Bank of Oman.

Appendix Table 8
Weighted Average Interest Rates

(Percent per annum)

	Deposits			Lending		
	Total RO Deposits	**Total FCY Deposits**	**Total Deposits (RO+Fcy)**	**Total RO Lending**	**Total FCY Lending**	**Total Lending (RO+Fcy)**
Jan-13	1.313	0.974	1.266	5.664	2.343	5.202
Feb-13	1.320	1.008	1.278	5.627	2.418	5.173
Mar-13	1.278	0.998	1.241	5.584	2.366	5.134
Apr-13	1.269	0.985	1.232	5.559	2.383	5.127
May-13	1.247	0.966	1.210	5.535	2.462	5.110
Jun-13	1.247	0.928	1.205	5.514	2.294	5.060
Jul-13	1.248	0.924	1.207	5.464	2.362	5.024
Aug-13	1.235	0.904	1.193	5.481	2.283	5.017
Sep-13	1.236	1.005	1.206	5.463	2.336	5.023
Oct-13	1.192	0.949	1.162	5.456	2.263	5.002
Nov-13	1.177	0.883	1.141	5.430	2.262	4.980
Dec-13	1.171	0.908	1.138	5.409	2.303	4.963
Jan-14	1.141	0.836	1.106	5.397	2.259	4.935
Feb-14	1.116	0.906	1.091	5.353	2.290	4.900
Mar-14	1.100	0.951	1.084	5.326	2.305	4.874
Apr-14	1.081	0.953	1.068	5.281	2.351	4.852
May-14	1.049	0.911	1.035	5.250	2.366	4.827
Jun-14	1.041	0.933	1.030	5.207	2.363	4.756
Jul-14	1.046	0.942	1.035	5.181	2.456	4.778
Aug-14	1.047	0.868	1.028	5.204	2.445	4.785
Sep-14	1.030	0.908	1.017	5.163	2.441	4.752
Oct-14	1.009	0.886	0.995	5.138	2.404	4.728
Nov-14	1.006	0.830	0.986	5.118	2.406	4.711
Dec-14	0.986	0.870	0.972	5.080	2.378	4.672
Jan-15	0.953	0.860	0.942	5.062	2.386	4.655
Feb-15	0.952	0.841	0.940	5.051	2.405	4.649
Mar-15	0.915	0.826	0.905	5.010	2.398	4.606
Apr-15	0.908	0.842	0.901	4.945	2.434	4.569
May-15	0.908	0.889	0.905	4.948	2.407	4.570
Jun-15	0.885	0.857	0.882	4.859	2.410	4.495
Jul-15	0.910	0.851	0.903	4.812	2.463	4.469
Aug-15	0.895	0.863	0.891	4.791	2.487	4.464
Sep-15	0.894	0.847	0.888	4.790	2.511	4.471

Source: Central Bank of Oman

CENTRAL BANK OF OMAN

Economic Research and Statistics Department

P.O. Box No. 1161, Ruwi, Postal Code 112, Sultanate of Oman

E-mail: ERSD@cbo.gov.om

Website: www.cbo.gov.om