

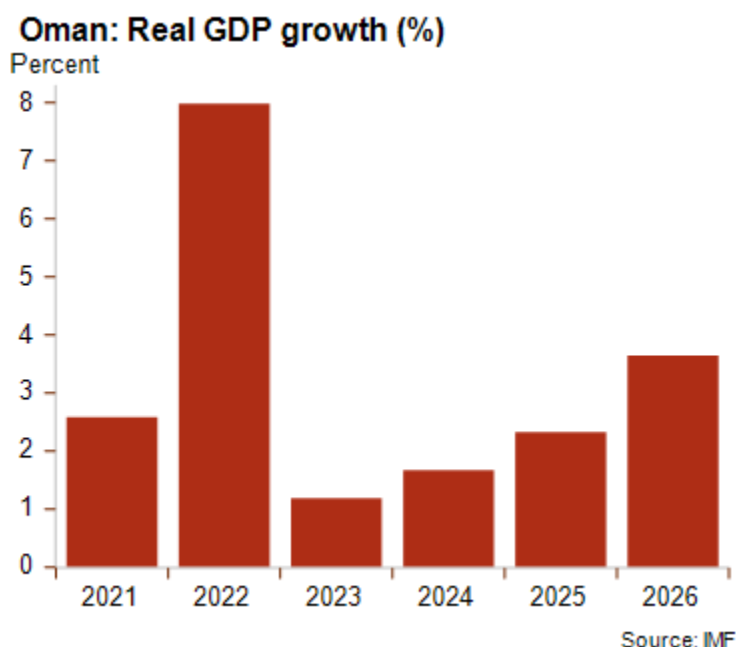
Oman: Strengthened macroeconomic position supports short-term outlook despite headwinds | Credendo

Oman's restored macroeconomic resilience

Oman's post-Covid-19 macroeconomic realignment enhanced the country's resilience to withstand the significant current headwinds amidst regional instability, increased global economic uncertainty and moderation of hydrocarbon prices. Over the past years, thanks to prudent macroeconomic reforms and high hydrocarbon prices, the country improved its public and current accounts, while reducing its external and public debt levels.

External headwinds might weight on short-term economic prospects

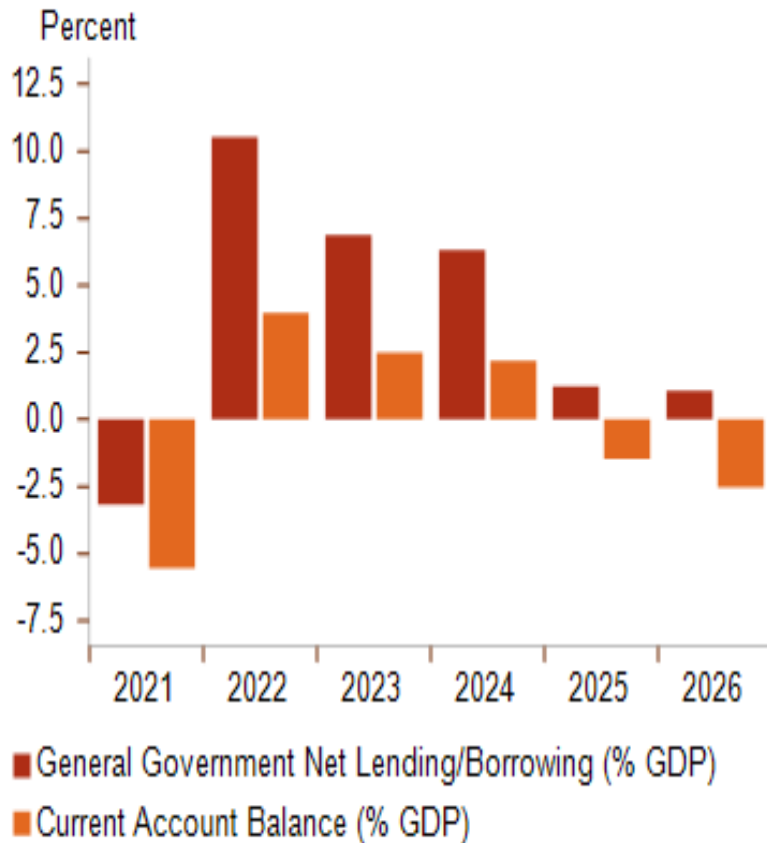
The outlook for this year is positive. In 2025, economic growth is expected to accelerate to 2.3% from muted levels, mainly as the authorities pursue economic diversification plans, and given the unravelling of oil production cuts under the OPEC+ agreement.



Nonetheless, projections might be revised, as high global uncertainty and volatility might impact Oman's business environment and overall economic performance. First, the Omani rial is pegged to the US dollar, exposing the country to tighter-than-expected US monetary policy, given the current inflationary trade policies. Specifically, domestic financial conditions may stay tighter than anticipated. Moreover, a weaker US dollar could fuel import-driven inflationary pressures from the current low levels. The moderation of oil prices also represents an important downside risk for the country. Indeed, despite the ambitious efforts to diversify the economy under "Oman vision 2040", the country remains very much reliant on the oil sector. Notably, last year, the oil sector contributed to over 60% of the fiscal and current account revenues. In this context, with lower oil prices, the country could experience a sharp decline in both fiscal and current account revenues this

year.

Oman: Public and external balances



Source: IMF

Still, the sultanate is expected to maintain its overall fiscal surpluses, while the current account balance is likely to turn into deficit – albeit at a narrower level than the pre-Covid-19 7.8% of GDP average. Moreover, the country's liquidity position remains strong, as Oman has more than adequate foreign exchange reserves, moderate short-term external debt levels and improved access to financial markets.

It is true that in case of heightened regional tensions and more restrictive US trade policies, economic pressures on Oman could intensify. Nonetheless, Oman remains less directly exposed to these risks than many other regional peers, given its limited trade with the US (around 6% of total exports in 2024) and its geographical position that limits exposure to chokepoints, such as the Hormuz Strait. That said, fluctuations in oil markets remain a key risk for the country, as depressed oil markets might impact the country's economic performance and constrain its ability to finance diversification projects.

Considering Oman's stronger macroeconomic buffers and the country's structural challenges, the outlook remains stable for Credendo's short-term political risk classification.

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