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Labor Market Dynamics in Oman

Bilal Tabti and Haytem Trog

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Labor Market Dynamics in Oman**Prepared by Bilal Tabti and Haytem Troug**

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April 2025

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ABSTRACT: The prevalent strong preference for public sector employment among young Omanis, coupled with demographic pressures and medium-term fiscal sustainability objectives amid economic diversification away from hydrocarbons, underscores the urgency to pivot towards a more dynamic private sector that attracts Omanis towards private sector jobs. This note delves into recent developments and structural idiosyncrasies in Oman's labor market, highlighting distinct segmentation and limited mobility, which disincentivized upskilling and impeded sectoral labor reallocation. The analysis reveals that comprehensive reforms are needed to narrow the public-private wage gap, boost private sector employment for nationals, and elevate overall productivity. These include aligning wages with productivity, improving vocational training, fostering female labor market participation, and enhancing labor market mobility for expatriate workers. Implementing these measures is pivotal for Oman to realize its Vision 2040 objectives, transitioning towards a knowledge-based economy, and achieving sustainable nonhydrocarbon growth.

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Author's E-Mail Address:	btabti@imf.org ; htroug@imf.org

SELECTED ISSUES PAPERS

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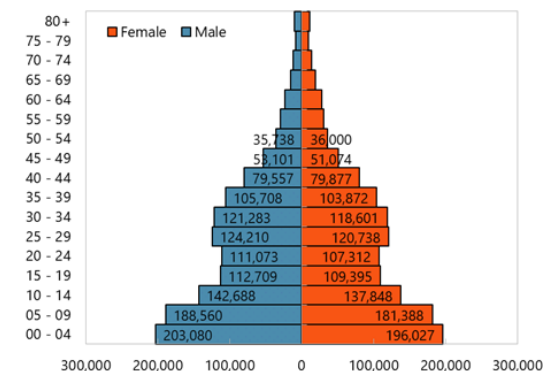
Oman

Prepared by Bilal Tabti and Haytem Trog

A. Introduction

1. **The Omani economy needs to create more than 220 thousand jobs for nationals over the next eight years.** Approximately 550 thousand Omanis will enter the working age population by 2032. Taking into account the prevailing participation rate (67 percent) and the replacement of retirees (approximately 10 thousand annually), around 220 thousand new jobs will need to be created by 2032, against 103 thousand newly created jobs for Omanis during 2012-2019. While it continues to be a preferred destination for young Omanis, using the public sector as an employment vehicle is no longer a feasible option under current efforts to entrench medium-term fiscal sustainability while reducing reliance on hydrocarbon revenues.

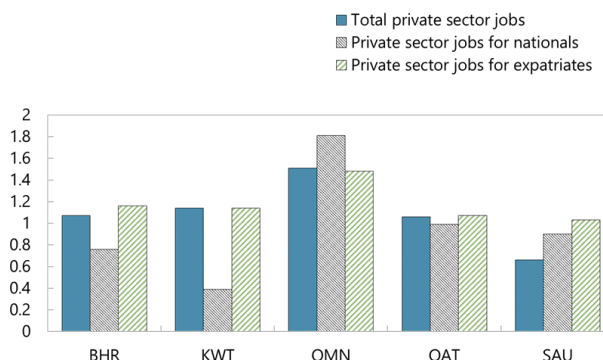
Figure 1. Omani Population by Age Group and Gender, 2020



2. **The private sector in Oman continues to depend heavily on expatriate workers.** Access to low-cost, low-skilled workers from South Asia, together with flexible contractual terms, enabled the nonhydrocarbon economy to expand while complying with quota (Omanization rates) requirements. The low labor costs associated with these expatriate contracts have increased the competitiveness of nonhydrocarbon sectors and boosted profit margins by driving wages downward, particularly in labor intensive sectors. As a result, expatriate employment became more responsive to nonhydrocarbon growth than in other GCC economies, rendering expatriate workers the overwhelming majority in the private sector. Additionally, this has facilitated the nonhydrocarbon sector's rapid adaptation to terms of trade shocks under the fixed exchange rate regime, as detailed by Fasano and Goyal (2004).

3. Policymakers in Oman, like in other GCC countries, continue to heavily rely on administrative measures, such as quota requirements, to enforce employment of nationals in the private sector. These quotas are unevenly enforced across countries in the region and tend to be firm-size and occupation specific. They are less stringent for small and medium-sized enterprises (SMEs), as well as in occupations that are less attractive to nationals such as lower-skilled jobs. On the other hand, quota requirements are higher for administrative and managerial occupations. These quota requirements complement wage-subsidy measures, which, although used much less extensively than in neighboring countries, aim to incentivize firms to favor the employment of nationals by reducing cost differentials with expatriates.

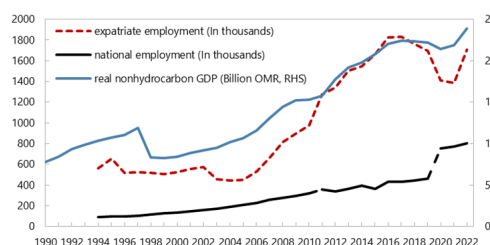
Figure 2. Elasticity of Private Sector Employment to Nonhydrocarbon GDP
(In percent)



Sources: Country authorities and IMF staff calculations. Note: The elasticity is estimated from OLS regressions of the logarithm of employment on the logarithm of non-hydrocarbon GDP, for the years 1990-2022, except for Oman where regression coefficients are estimated for the period 1990-2019. It represents the percentage change in employment as a result of a one percent increase in non-hydrocarbon GDP.

4. Ongoing diversification initiatives, outlined in Oman Vision 2040, offer significant prospects for generating attractive, high-skilled employment opportunities for Omanis. Nonetheless, to reap the full benefits of these diversification efforts, enhancing and broadening the skillset of the Omani workforce through upskilling and reskilling measures is critical. Additionally, it is imperative for the government to find a balance between integrating Omanis into the private sector and ensuring the labor market remains flexible enough to draw in foreign investment and skilled expatriate professionals. The envisaged transformation of the nonhydrocarbon economy, which continues to rely on low-skilled expatriate workers to expand, requires broad efforts to address existing bottlenecks in the labor market.

Figure 3. Output and Total Employment in Oman



Sources: NCSI and IMF staff calculations. Note: The dashed portion in the black line reflects the structural change in the data due to the inclusion of Omanis working in the armed forces and in the family sector to overall employment from 2020 onward.

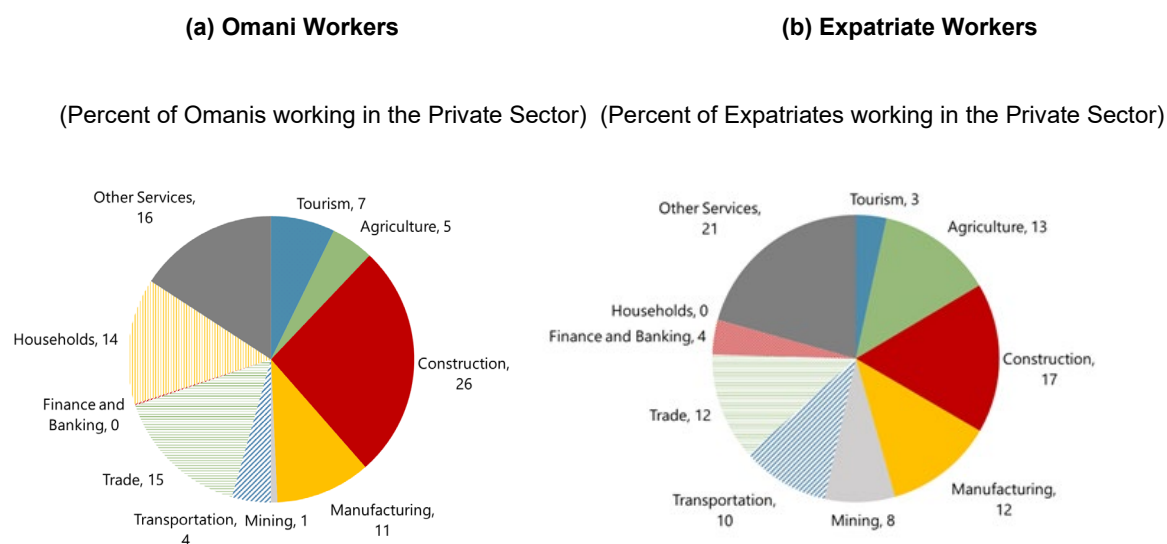
5. Against this background, this note discusses labor market challenges, recent trends and initiatives, and proposes complementary policies to address lingering bottlenecks. Section B analyzes Oman's labor market structure while identifying its main bottlenecks. Section C discusses recent trends, policy

measures, and summarizes findings of recent analytical work on the impact of labor market policies in the GCC. Section D concludes and discusses policy recommendations.

B. Labor Market Structure and Bottlenecks

6. The labor market in Oman exhibits distinct segmentation. While 56 percent of the Omani workforce finds employment within the private sector,¹ public sector jobs remain a favorable destination for Omanis given the continued job security, higher remuneration, and more relaxed work arrangement. Using educational attainment as an indicator of skill level, expatriate workers predominantly occupy the lower-skilled job spectrum ([IMF, 2021](#)), making up 68 percent of Oman's overall employed labor force, and 86 percent of private sector jobs. Moreover, employment among Omanis in the private sector is more diversified, with significant participation in construction, agriculture, and manufacturing sectors. In contrast, expatriate workers primarily find employment in construction, domestic labor, and trade. Regarding sectoral employment shares, the share of Omani workers is high (exceeded 70 percent of total workers) in sectors primarily dominated by state-owned enterprises (SOEs), including electricity and mining. Conversely, Omani workers constituted less than 15 percent of the workforce in sectors such as tourism, construction, and real estate.

Figure 4. Distribution of Workers in the Private Sector, 2023



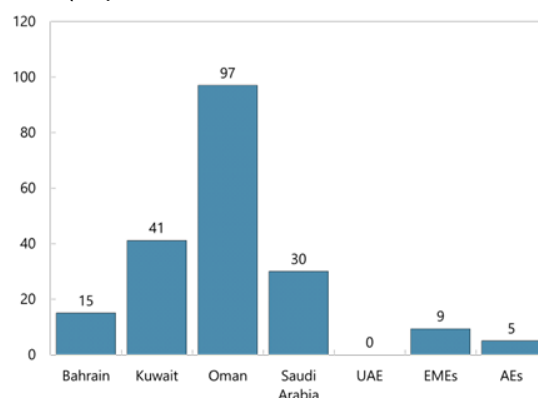
Sources: NCSI; and IMF staff calculations.

¹ Jobs in the private sector include positions within OIA-affiliated entities, which are governed by the labor law. Employment in the public sector is regulated by the civil service law.

7. Omanis command higher salaries in the private sector. Staff estimates that their wages are, on average, around twofold higher than those of expatriate workers occupying similar roles. This wage disparity is more pronounced in jobs requiring low to medium levels of skill, as inferred from educational attainment, particularly among male workers (IMF, 2021). The wage gap in these segments is largely attributed to the high reservation wage driven by public sector salaries, the lack of a minimum wage for expatriate workers, and the large supply of expatriate labor. The latter exerts a downward pressure on private sector salaries, rendering these roles less appealing to Omanis and deterring many employers from hiring them unless enforced by the prevailing quota system.

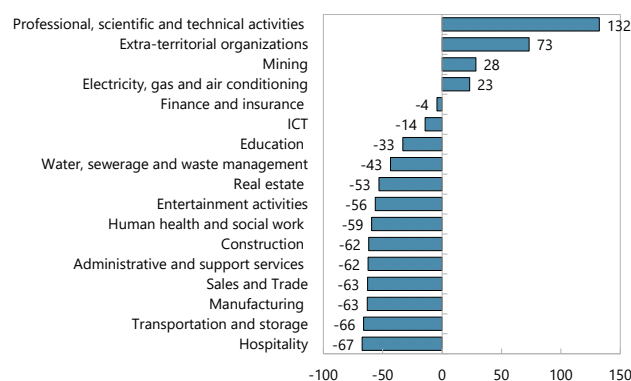
8. Public sector jobs are better remunerated and offer high job security. High salaries and generous benefits are another contributing factor to the public-private wage gap. As mentioned above, elevated public sector salaries raise the reservation wage expectations for private sector positions to be deemed attractive, leading to distorted incentives that result in mispricing of labor and fragmentation of the labor market (IMF, 2018). The substantial wage disparities observed between private and public sector jobs, as well as between Omanis and expatriates within the private sector, indicate a low substitutability between Omani and expatriate workers at current wages, especially in lower-skilled jobs.

Figure 5. Public Wage Premium
(In percent, 2023 or latest available data)



Sources: NCSI, IMF FAD Expenditure Assessment Tool and IMF staff calculations. Note: The wage premium is calculated for citizen workers only. While the most recent data for Saudi Arabia is from 2019, public sector wage employment growth suggests that the public sector wage premium has been trending downwards post 2019.

Figure 6. Average Wages Across the Private Sector, 2023
(Percentage difference compared to public administration)

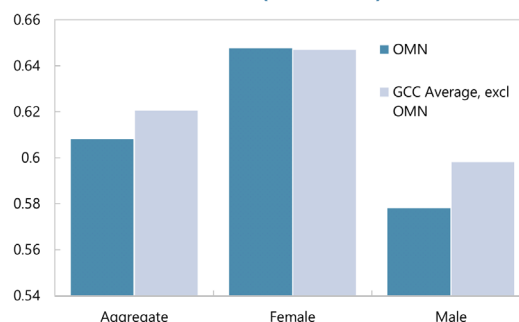


Sources: NCSI; and IMF staff calculations.

9. Oman's education system and the level of educational attainment among its citizens fare below its regional counterparts, and significantly below those observed in emerging markets and advanced economies. Despite Oman's commendable progress in enhancing its educational system, both the overall quality of education and enrollment to higher education remain inferior to those seen in other GCC countries, as evidenced by lower human capital that can be attained by children in Oman compared to peers, and lower average scores on the TIMSS mathematics scale. Moreover, the educational paths predominantly chosen by Omanis are still tilted towards humanities and business administration rather than science, engineering, and technology fields, as in other GCC countries (Arezki et al., 2018). Furthermore, enrollment rates in vocational education represents less than 2 percent of enrollment in higher education. All these factors have led to a discrepancy in the skills required by the private sector and those available in the labor market, especially for jobs that demand medium to high levels of skill.

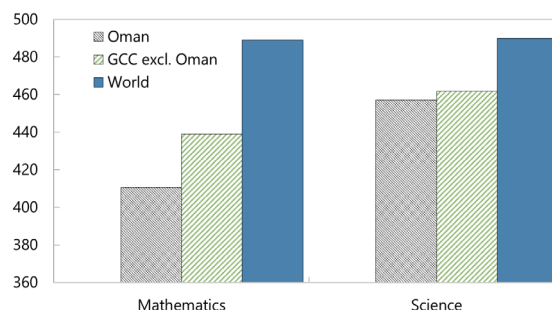
10. The female labor participation rate has shown significant improvement over the recent years, yet it remains below that of men and other GCC economies. Overall female labor market participation rate stands around 32 percent in Oman in 2023, in stark contrast to the 89 percent for men. This discrepancy is particularly striking given that women tend to perform much better than men in educational attainment and outperform them in test scores. Omani women also hold much fewer senior and managerial roles, which could discourage them further from entering the labor market

Figure 7. Human Capital Index, 2020
(Scale 0-1)



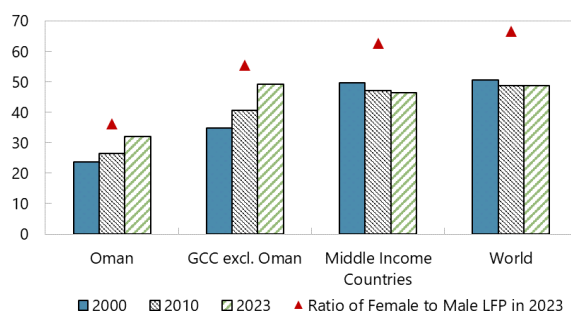
Sources: World Bank; and IMF staff calculations.

Figure 8. Average Scores of Grade 8 Students on TIMSS Mathematics and Science Scales (2019)



Sources: International Association for the Evaluation of Educational Achievement (IEA), Trends in International Mathematics and Science Study (TIMSS), 2019; and IMF staff calculations.

Figure 9. Female Labor Force Participation Rate
(In percent)

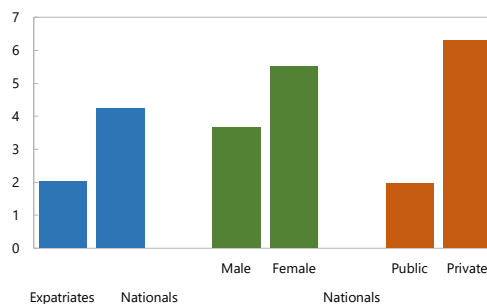


Sources: ILO Modelled Estimates and Projections database (ILOEST); and IMF staff calculations.

and investing in skill development. The government has recently introduced social protection and labor market reforms aimed at encouraging greater participation of women in the workforce.

11. Another key bottleneck in the labor market is limited mobility. Until recently, the recruitment process for expatriates hindered their mobility due to the requirement to remain with their initial employer for 12 months before qualifying for an unconditional job transfer. These restrictions incentivized firms to hire expatriates rather than Omanis because of their lower bargaining power, depressing their wages, and acted as a deterrent for low-skilled Omani workers who might otherwise seek employment in the private sector. Limited mobility also eliminates market incentives, such as promotions and higher wages, disincentivizing expatriate workers from upgrading their skill set to acquire better-paid jobs, causing stagnation in productivity growth in nonhydrocarbon sectors as previously documented ([Ismail and Trog, 2023](#)).

Figure 10. Annual Employment Growth in Oman (2013-2019)
(In percent)



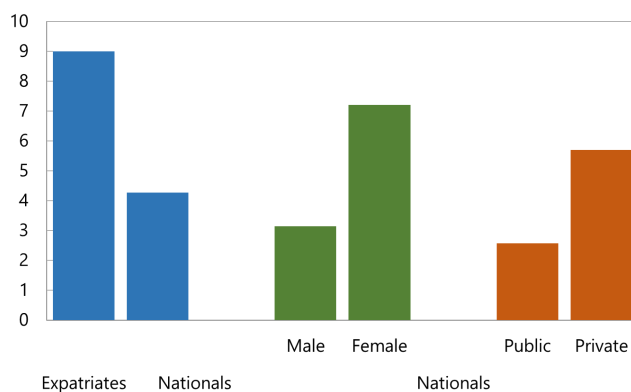
Sources: NCSI; and IMF staff calculations.

C. Labor Market Trends and Recent Policy Measures

12. The pre-pandemic (2013-2019) employment landscape for Omanis experienced significant structural changes, affecting both men and women. While expatriates continued to constitute the backbone of the private sector workforce, employment grew more than twice as fast for Omanis than for expatriates. Employment growth among Omanis highlighted a notable inclination towards the private sector. For instance, employment growth was four times higher in the private sector (44 percent) than in the public sector (12 percent) between 2013 and 2019, accounting for over 80 percent of jobs created for Omanis. The inclusion of women into the workforce was particularly significant, albeit from a low starting base.

Employment growth for Omani women was almost 60 percent higher than that for men during that period.² Together with employment growth tilted towards the private sector, the share of Omani women working in the

Figure 11. Annual Employment Growth in Oman (2020-2023)
(In percent)



Sources: NCSI; and IMF staff calculations.

² Compared to 2013, employment for Omani women was 38 percent higher in 2019. For men, employment grew by 24 percent. Out of the 43 thousand newly created jobs for Omani women between 2013 and 2019, only around one quarter were in the public sector. For men, only one fifth of the 60 thousand newly created jobs were in the public sector.

private sector grew from 33 percent in 2013 to 45 percent by 2019. In comparison, the share of men working in the private sector increased from 57 percent in 2013 to 62 percent in 2019.

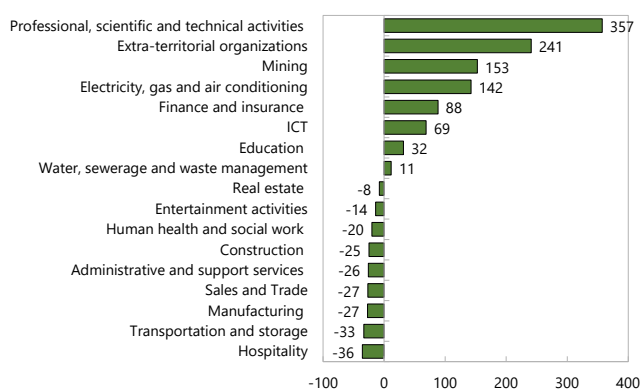
13. These labor market trends favoring private sector employment and greater participation of women in the workforce continued following the COVID-19 pandemic, albeit with some differences.

Compared to the pre-pandemic period, employment grew more than twice as fast for expatriates than for nationals. Among Omanis, employment growth remained driven by the private sector, which grew more than twice as fast (18 percent) than public sector employment (8 percent). In addition, employment growth for Omani women accelerated following the pandemic and reached 23 percent between 2020 and 2023, twice as high as for men (10 percent).

14. Sectoral employment data suggests that most private sector jobs created for Omanis over the last decade were in a few industries dominated by SOEs and in low-paid jobs. Jobs for Omanis were expanded primarily in construction, manufacturing, mining, administrative support, and financial services. New jobs were also created in the hospitality sector, reflecting Oman's rising attractiveness as a tourist destination. However, jobs created in the construction, manufacturing, and administrative support industries—comprising the majority of jobs created in the private sector over the last decade—tended to offer compensation below the Omani private sector average, suggesting that they are primarily occupied by low-skilled workers. The sectors mentioned above (except for financial services), as well as the transportation and trade sectors, were also among the largest contributors to employment gains in the aftermath of the COVID-19 pandemic, confirming a trend in job creation driven by relatively low-skilled, low-paid jobs.

Figure 12. Average Wages Across the Private Sector, 2023

(Percentage Difference Compared to the Private Sector Average)



Sources: NCSI; and IMF staff calculations.

15. More recently, Oman has undertaken notable measures to reinforce social protection and upgrade labor laws. Oman enacted a new social protection law in July 2023, creating a unified system that merges government-supported social protection programs and social insurance under the Social Protection Fund, providing a range of benefits both for Omanis and for expatriates. An upgraded labor law followed, aimed at enhancing job prospects for Omanis in the private sector.

16. The new laws aim to make the labor market more flexible. The new laws standardize social insurance by ensuring equal pension rights across public and private sectors, mitigate the fragmentation of the pension system, promote remote working options, and add some labor protection provisions for expatriates. They broaden the scope of insurance benefits to cover maternity and paternity leave, sickness, and employment injury benefits, including for expatriates and, starting in 2026, they will shift end-of-service

expatriate indemnities to the Provident Fund, managed by the Social Protection Fund. The enhanced provisions for maternity leave to 98 days and the introduction of paternity leave will contribute to a rise in female labor force participation. The laws introduce measures to support gender equality and social protection for women, including survivor benefits and a universal pension for the elderly, addressing deep-rooted disparities.

Box 1. Oman's New Labor Law: Moving Towards International Standards

Oman's new Labor Law, effective from July 26, 2023, was established by Royal Decree 53/2023, marking a significant overhaul of the Sultanate's labor regulations to align them with the Oman Vision 2040 goals and international labor standards. This comprehensive reform introduces several key changes across various dimensions of employment law to foster a labor environment that balances the needs of employers and employees and promote Omani private sector employment.

Omanization initiatives. The law strongly emphasizes "employment is a right for Omanis", mandating employers to formulate and gain approval for an Omanization plan from the Ministry of Labor, aimed notably at promoting Omanis to leadership positions. The law ensures that if an Omani worker is dismissed for poor performance, they must be replaced by another Omani. Additionally, the law restricts the termination of Omanis in favor of expatriates under similar competencies in case of any workforce reductions, illustrating the government's commitment to enhancing employment opportunities for its nationals.

Collective dispute resolution. A departure from the previous practice, where Omani courts handled employment disputes, the new law introduces arbitration for collective disputes through the Collective Labor Disputes Arbitration Committee, providing a framework for amicable resolutions.

Revamping employment contracts. The law includes anti-discrimination clauses and introduces modern work arrangements such as remote work. Fixed-term contracts have been adjusted with a provision that they do not automatically transition to indefinite term contracts unless employment persists beyond five years.

Introduction of redundancy. For the first time, redundancy due to "economic cause" is recognized, granting employers the flexibility to manage workforce adjustments, subject to approval from an interministerial special committee that also includes the Chamber of Commerce and the General Federation of Workers.

Expanded leave provisions. The law broadens statutory leave, introducing several new scenarios and extending existing ones to align leave provisions more closely with international norms. This includes extended maternity and sick leave, paternity leave, and special provisions for nursing workers and unpaid leave for childcare.

Retirement and expatriate worker benefits. The retirement age will gradually increase until it reaches 65 for men and 60 for women, with an adjustment in early retirement eligibility and benefits. The law also enhances benefits for expatriate workers, introducing sickness and injury benefits and overhauling the end-of-service grant to a funded account system.

17. Omani policymakers have more recently put a greater emphasis on incentives to hire nationals, in addition to long-standing administrative measures.³ These incentives include:

- **Time-bound subsidies to employers.** They are meant to lower the relative costs of employing Omanis compared to expatriates. As such, the Ministry of Labor (MoL) introduced during the pandemic a wage support scheme, so far only covering under 4 thousand workers, whereby the government subsidizes

³ Newly introduced measures include disqualifying companies that fail to meet Omanization quotas from participating in public procurement.

OMR 200 per month of a worker's salary for a period not exceeding two years. This subsidy is raised to OMR 400 per month for SMEs and is targeted at workers with at least a vocational diploma.

- **Upskilling initiatives to better match Omani jobseekers' skillset with private sector needs.** The government covers the cost of training courses that are provided to job seekers, with some training schemes guarantying a job offer upon completion, and a monthly allowance during training. Monthly training allowances are also offered to new hires working in firms that wish to provide training themselves, with more generous subsidies for SMEs, where wages are entirely covered by the government during the first year of employment.

18. In their current form, incentives-based policies are unlikely to have a large effect on Omanis' participation in the private sector. The wage support scheme covers less than 1 percent of employed Omanis, while upskilling initiatives have so far benefited a limited number of workers. This is in contrast with neighboring economies such as Bahrain, where the National Employment Program (NEP) subsidizes nationals' employment for the first three years, or Kuwait and the United Arab Emirates, where a permanent subsidy to employ nationals is in place, whose cost is partly covered by expatriate fees.

19. Employment quotas for nationals could be costly and inefficient for firms as they distort their optimal hiring choices. While these costs must be balanced against potential long-term welfare gains for nationals resulting from higher skill accumulation, quantitative evidence for Saudi Arabia (Peck, 2017) shows that the enforcement of quotas comes at a large cost for firms and aggregate employment. While the number of Saudis employed in the private sector went up notably following Nitaqat's implementation, expatriate employment decreased by up to 15 times as much as the increase in Saudi employment.⁴ Related research (Cortés et al., 2023) also highlights the damaging effects of quota enforcement on the performance of exporting firms due to a higher wage bill adversely affecting their competitiveness in international markets: The Nitaqat policy was associated with a reduction in firm headcount, an increase in the probability of firm exit, and a decrease in the probability of continuing to export, and in the volume of exports.⁵

D. Policy Recommendations

20. The new Social Protection and Labor Laws are a step in the right direction to tackle long-standing challenges in the Omani labor market. While the laws help address some of the bottlenecks identified in this note, their impact could be significantly strengthened through additional, complementary policies.

21. Supporting the alignment of wages in the public and private sectors more closely with productivity could enhance the attractiveness of private sector employment. While the new Labor Law

⁴ While the Nitaqat policy is estimated to have created 63 thousand jobs for Saudi citizens, the program is estimated to be responsible for decreasing total employment by 948 thousand workers and causing 11,000 firm exits (a 50 percent increase in exit rates), presumably driven by effects on firm profitability.

⁵ Consistent with Peck (2017), Cortés et al. (2023) also show that the number of foreign workers decreased disproportionately to the number of Saudis hired. In addition, they found that lower-skilled and lower-paid Saudi workers substituted for expatriates to meet quota requirements as average wages of Saudis decreased despite a higher wage bill. They also found persistent effects of the Nitaqat policy 3 years after policy announcement.

puts a greater emphasis on improving productivity at work and aligning wages with performance in the private sector, an equivalent approach should be sought under the forthcoming adoption of the Public Employment Law and follow ongoing efforts under the Ejada⁶ system to ensure that a rating scale, incentives, and promotion are aligned to performance. Ensuring that public sector wages and benefits are based on productivity could reinforce the attractiveness of private sector jobs for Omanis.

22. Active labor market policies should be strengthened and scaled up to reduce the skill mismatch with private sector needs. There is a pressing need for the education system to evolve to develop the necessary tools to equip students with the skills demanded by the private sector. This includes fostering critical thinking capabilities and cultivating leadership qualities that are essential for effective collaboration in work settings. Existing training initiatives have so far benefited a limited number of workers and should be scaled up. Adopting a dual-education system that merges vocational education with on-site training, in collaboration with the private sector, would help reduce skill gaps. Furthermore, continuing to enhance the quality of educational institutions will help attract young Omanis to pursue majors in technology and science, areas that will play a critical role to diversify Oman's economy.

23. Efforts to boost the participation of women in the labor market should be accelerated. Despite considerable advancements over the past two decades, further policy actions are needed to facilitate and empower Omani women in the workforce. These could include scaling up investment in early childhood education, enhancing access to financing for female entrepreneurs, expanding leadership programs under the Royal Academy of Management for aspiring Omani women to ascend to senior positions, and further investing in digital infrastructure to facilitate flexible work arrangements under the new Labor Law.

24. Firms should be given the opportunity to expand according to business needs, while allowing quotas-based measures to gradually support the integration of Omanis in the private sector. To avoid the potential damaging impacts of a strictly enforced quota system, firms should be allowed to hire expatriates freely when needed. They could be required to pay a fee for each expatriate hired over and above the quota requirement. In turn, these revenues could be channeled towards skill development of nationals. In addition, incentive-based policies should be narrowed to sectors with low quota requirements, to lower their fiscal costs.

25. Lastly, enhancing labor market mobility for expatriate workers could help drive aggregate productivity up and attract more skilled expatriates. Further enhancing labor mobility and adopting a more flexible migration policy would underpin market incentives, such as promotions and higher wages, to drive competition between Omani and expatriate workers. This could encourage to invest in skill development and draw a greater number of mid to high-skilled expatriate workers, helping support the transition towards a knowledge-based economy and boosting prospects for aggregate productivity gains.

⁶ Ejada is a system launched in 2022 to measure individual and institutional performance in public administrations. It aims to align, through incentives, employee performance with the objectives of the government organization.

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