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**Statement by Mr. Heath and Mr. Parodi on Oman
(Preliminary)
Executive Board Meeting 08/35
April 21, 2008**

Mr. Shaalan rightfully highlights the commendable progress made by the Omani authorities to support economic diversification by improving the business environment. We applaud the authorities' focus on promoting private sector development, and education and training, with a view to enhancing productivity.

We agree with the Managing Director's focus on improving regional surveillance. Colleagues are aware that this chair has been requesting greater attention to regional developments in the context of GCC integration over the past year and a half. The Omani authorities announced in late 2006 their decision not to join the GCC monetary union. During last year's consultations, the authorities opined that more time should be taken to fully implement the monetary union. Relevant and effective bilateral surveillance would have included a regional analysis on the prospective monetary union, along with a discussion of the implications of the authorities' decision to abandon the planned monetary union for Oman and the GCC region as a whole. Have the staff and the authorities discussed the costs and benefits of Oman's decision not to participate in the proposed monetary union?

We do not disagree with the staff's view that the exchange rate is broadly aligned with fundamentals. As a point to PDR that we have made in other cases, we think the Staff Report would benefit from additional technical background to guide in the analysis of the results. Also, the Staff Report cites econometric work done for GCC and MCD countries that, to date, has not been presented to the Board.

The staff notes that inflationary pressures remain elevated due to supply-side constraints, rising aggregate demand, and high international food prices. In our view, inflationary pressures are exacerbated by overly loose monetary conditions. The authorities need to take actions to improve liquidity management by raising reserve requirements and not allowing concerns over central bank profitability to play any role in its decision-making.

Lastly, we urge the authorities to improve the quality, timeliness and availability of macroeconomic data.