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

I thank the staff for the well-written and comprehensive report, and Mr. Shaalan for his thoughtful buff statement. The Omani authorities are to be complimented for the economy's continued strong performance. Last year, non-oil GDP growth remained robust and the fiscal and external accounts registered healthy surpluses. Broader indicators, including the stock market index, further reflect the economy's buoyancy. The outlook is also promising in view of the continued prudent economic policy context and the ongoing efforts to enhance the business environment that should further advance private sector growth.

This favorable outcome is reflective of both oil market developments and a sustained strategy of economic diversification in a setting of macroeconomic prudence and structural improvements. The authorities' policies have also been mindful of the need to generate employment opportunities for the growing domestic labor force. Indeed, higher private sector investment and growth along with the increased emphasis on training and education have increased the employment of Omani nationals. The challenge now is to sustain this strong economic performance while containing inflationary pressures. In this connection, I note the efforts by the Central Bank of Oman (CBO) to tighten liquidity and its willingness to take further action if needed. I am also reassured by the authorities' efforts to boost competition among bidders for projects and their readiness to slow the growth of government spending if inflationary pressures persist.

On the fiscal front, the Omani authorities are to be commended for their prudent stance. Over the past few years, large surpluses have been accumulated, government debt to GDP ratio has been reduced, and foreign assets have risen substantially. These trends should continue as the overall fiscal and current account positions are expected to remain in surplus. Indeed, the authorities plan to substantially raise non-hydrocarbon revenues over the medium term. In this regard, I note that preparations have started for the introduction of the Value Added Tax (VAT). The ongoing development of the tourism sector and large-scale industrial projects

should further enhance the economy's potential and increase revenues.

On the expenditure side, the plan to phase out subsidies on electricity and water as part of the privatization process of the utility companies should not only reduce spending, but also improve efficiency. The efforts, as detailed in Mr. Shaalan's buff statement, to place the Civil Servant Employees Pension Fund on a sound financial path also bode well for the future.

Monetary policy remains rightly focused on supporting the exchange rate peg to the U.S. dollar. Indeed, the current exchange rate regime has served the economy well, remains appropriate, and is in line with the fundamentals. While substantial external account surpluses have been recorded over the past year, it is important to underscore that these surpluses are a result of exports of non-renewable resources. In this connection, it is critical to use these surpluses effectively to raise the growth potential of the economy, and accumulate savings to help ensure intergenerational equity and diversify the revenue base.

Turning to the financial sector, I am reassured that the financial system remains sound. Indeed, the banking sector shows comfortable levels of capitalization and profits and the stress test results indicate that banks would be resilient to a variety of shocks. I am also encouraged that efforts are underway to further strengthen the prudential and regulatory oversight of the banking system and that the CBO is developing its risk-based supervision model.

I welcome the progress made on structural reform. Indeed, the decision to allow foreigners to own freehold properties in "tourism designated areas" has already resulted in a number of development projects. The ongoing efforts to improve the business environment, as detailed in the staff report, should also enhance private sector investment. The authorities' plan to continue with privatization of the power sector should further strengthen the role of the private sector in the economy.

With these comments, I wish the authorities further success.