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

The Omani authorities have managed the economy skillfully and prudently. As underscored in the well-written staff report and Mr. Shaalan's illuminating statement, despite the decline in oil production and the substantial destruction by a cyclone, they have been able to preserve strong macroeconomic fundamentals with sizeable fiscal and current account surpluses and a comfortable level of foreign assets. In addition, their strategy of accelerating the diversification of the economy and reducing its vulnerability to changes in oil prices is bearing fruit. Real non-hydrocarbon GDP increased by 9 percent in 2007, and short- and medium-term prospects remain favorable. The economy is projected to grow by a healthy 7.4 percent in 2008, with a turnaround in oil production as well as a broad-based expansion in the non-hydrocarbon sector, benefiting from higher private-sector investment and improved domestic confidence. The latter is most notably reflected in a surge in the stock market by 60 percent during 2007. The authorities should take advantage of this strong performance and positive outlook to address the key challenge of creating more job opportunities for the rapidly growing labor force while maintaining price stability.

On the fiscal front, reducing dependency on oil revenues over the medium term by further enhancing the non-oil revenue base would be critical. In this regard, the authorities' intention to raise non-hydrocarbon revenues over the medium term and the ongoing preparatory work for introduction of the VAT are encouraging. While a progressive diversification of the economy, including through development of the tourism sector along with the large-scale industrial projects would create room for alternative sources of revenue, a careful balance between front-loaded expenditure growth due to investment projects, and maintaining low inflation would be crucial. This calls for close cooperation between the fiscal and monetary authorities to ensure an appropriate policy mix. To achieve a sustainable non-oil budgetary position, a consolidation of current expenditures is needed, and the policy of continued domestic price subsidies on petroleum products should be revised. In this regard, the authorities' plan to phase out subsidies on electricity and water is welcome. We note that capital expenditure on oil recovery is going to be gradually reduced, the reasons of which are not clear; staff elaboration would be appreciated. Efforts to place the Civil Servant Employees Pension Fund on a sound and sustainable footing would also contribute to

safeguarding macroeconomic stability.

The central bank's efforts to mop up excess liquidity are commendable. Increasing CD rates to levels closer to the US rates would help to this end. We welcome the authorities' reaffirmed commitment to tighten monetary policy, if needed, especially in light of the expected continued strong credit growth to the private sector and inflationary pressures, however, prudent fiscal policy would be also helpful. It is encouraging that, as indicated by Mr. Shaalan, liquidity conditions and the growth in the private sector credit will continue to be closely monitored. The exchange rate peg has served the economy well and, as indicated by staff, the current level is broadly in line with fundamentals. The authorities should be commended for their efforts in enhancing the soundness and integrity of the banking system and implementing FSAP recommendations, in particular those related to Pillars I and II of Basle II and minimum capital requirements. Their interest in undertaking an FSAP update in 2009 is well advised and would help strengthen and deepen the financial sector.

The authorities deserve commendation for their continued impressive efforts, particularly to privatize the power sector and improve the business environment and operations of the Omantel. The priority attached to higher education and training is appropriate.

Notwithstanding the authorities' efforts to improve data quality, there is scope to improve the availability and timeliness of statistics to support policy formulation and analysis. The GDDS framework is a helpful guide in this task. We wish the authorities continued success.