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April 18, 2008

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

We thank the staff for their focused Staff Report and Mr. Shaalan for his helpful statement. We broadly agree with the staff appraisal.

We appreciate the staff analysis on rising inflation, and commend the authorities for their policy response against inflationary pressures. Having said that, observing the depreciation of the U.S. dollar, the differences between the business cycles of the United States and Oman, and the constraints on monetary policy stemming from the pegged exchange rate regime, it would be uncertain whether these policy responses can contain the inflationary pressures. In this regard, *we would welcome the staff's further elaboration on whether the fiscal policy tools indicated in the Staff Report would be sufficiently effective toward containing inflation.* Moreover, at least on a theoretical basis, the lack of effective policy tools to combat inflationary pressures, if any, may suggest a need to re-think the appropriateness of the pegged exchange rate. In addition, the high-level of reserve requirements might impair the efficiency of the banking sector. *The staff's comments on these issues are welcome.*

Since Oman's authorities must make full use of fiscal policy measures to stabilize prices, it is important to examine whether public expenditures are in line with macroeconomic objectives. In this regard, *we would also welcome the staff's assessment regarding the consistency between the developments in public sector wages and the policy objective of easing inflationary pressures.* Additionally, from the fiscal side, there are some direct tools that may reduce inflation figures, i.e., maintaining administered prices at relatively low levels by making available implicit subsidies and introducing regulatory "caps" to some prices. Needless to say, if overly used, these policy measures may include the risk of distorting effective resource allocation. (For example, caps on rent will inevitably present the risk of a supply shortage of rental houses and the emergence of "under-the-table" additional rent charges.) In this regard, *we would appreciate further information from staff regarding the share of administered prices in Oman's CPI basket, in comparison with other GCC member*

*countries.*

With these remarks, we wish the authorities every success in their future endeavors.