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April 18, 2008

Statement by Ms. Agudelo and Mr. Santana on Oman
(Preliminary)
Executive Board Meeting 08/35
April 21, 2008

1. We thank staff for a well written paper and Mr. Shaalan for his informative Buff statement.

2. Oman's economic performance in 2007 was positive. Growth was solid; fiscal position remained in surplus; current account surplus diminished but was still 10 percent of GDP. Notwithstanding a 4 percent decline in oil production; credit growth was strong and the Muscat Stock Market outperformed all the other GCC stock markets. However, average inflation increased with respect to 2006, even though it remained confined to one digit.

3. Fiscal policy has continued being expansive. Spending is concentrated in vital infrastructure projects aimed at supporting the economy's diversification and the government's growth strategy. Nevertheless, given the fixed exchange rate regime and open capital account, fiscal policy has to bear the brunt of taming the surge of inflation. We welcome the fact that the authorities have agreed on the gravity of the recent rise in inflation and on the crucial role that the fiscal policy has to play in containing it. We think that the authorities' willingness to slow the growth of government expenditure if inflationary pressures persist is the correct stance. Reprioritization and phasing of investment projects seems to be a way to reduce the speed of their implementation. The authorities should heed the staff's recommendations on subsidies reduction and on the introduction of a value-added tax.

4. The management of excess liquidity, while there is in place an exchange rate peg and high capital mobility, has become a complex task for the authorities' monetary policy. The further raising of banks' reserve requirement and the investment abroad of some of the government deposits now held at commercial banks –a measure being considered by the authorities- seem to be steps in the right direction. The last measure would help to smother the credit growth. However, given the expectation of continued fiscal surpluses, we sympathize with the authorities' reluctance to set up a Market Development Fund due to the issuance of government debt that it will require. We commend the level of soundness achieved by the banking system - thanks in part to the implementation of most of the

recommendations of the 2003 FSAP- and the efforts made by the authorities to guarantee the improvement of the regulatory and supervisory standards. We welcome the interest of the authorities in undertaking an FSAP update in 2009.

5. The advancements in the authorities' reform agenda have been significant in the promotion of the private sector's participation, a fundamental factor in the process of diversification of the economy. We praise the authorities' plans for enhancing the investment climate by amending the Foreign Direct Investment law, revising the Company Law, and working in the legislative changes needed for the implementation of the Oman-USA Free Trade Agreement.

6. With these comments, we wish the best to the authorities in their future undertakings.