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

We thank staff for their report and Mr. Shaalan for his insightful buff statement. While the issues focused on in the staff report are all relevant, it would have been more in line with the 2007 Surveillance Decision if staff had framed their discussion of the Omani economy and the associated risks more in terms of domestic and external stability.

Oman's recent economic performance has been strong and we commend the authorities on the progress they have made in implementing structural reforms since the last Article IV consultation, including the privatisation of the utilities sector. We encourage the authorities to continue their efforts at diversification, which will be essential to create a sustainable economic environment. Oman's relatively small hydrocarbon endowment, combined with its rapidly increasing population, suggests that the time left until its resources come under significant pressure is less than for other countries in the region.

We share staff's concerns over the risks from inflation. Like other economies in the region with fixed pegs to the US dollar, inflationary pressures have increased as the dollar has depreciated, US monetary policy has been eased and the Omani economy has continued to grow strongly. We agree with staff that fiscal policy has a key role to play but consider that staff may overplay its ability to restrain inflationary pressures. We note that Sultan Qaboos has recently granted public sector wage increases of between 5 and 42 percent, in response to the pickup in inflation. Do staff's forecasts for inflation capture these wage increases? While the staff report notes that the authorities are against a revaluation, we would be interested to hear whether staff consider there to be some benefits in revaluing the exchange rate peg, even if only moderately, or moving to greater flexibility.

Turning to the fiscal outlook, we note that quasi-fiscal activities are still prevalent. We support staff's advice to reduce the subsidies on domestic prices of hydrocarbon products and

encourage efforts to raise domestic fuel prices in line with world prices, even though this is likely to raise inflation in the near term. We welcome the authorities' plans to introduce a value added tax.

We appreciate the authorities' emphasis on higher education and training, which we agree is essential to enhance productivity and improve the country's growth prospects. A key challenge facing Oman, which is not covered in much detail in the report, is its young and rapidly growing labour force. We would be interested to hear staff's views on how the creation of the GCC common market might affect Oman's labour market.