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April 18, 2008

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

We thank staff for this report and Mr. Shalaan for his very insightful Buff statement.

Since we agree with the thrust of the report, we would like to emphasize only a few points :

1. We commend the authorities for Oman's continued strong economic performance, notably in the non-oil sector, and its very favorable medium-term prospects.

2. We commend the authorities for their sound fiscal management.

The contribution of fiscal policy to reducing aggregate demand pressures is important, all the more that there is significant scope within expenditures for prioritisation and sequencing and that the economy's absorptive capacity is limited : the authorities could contain further current expenditures on wages and pensions, streamline on-budget subsidies on electricity, petroleum and water and phase the implementation of large projects.

In the longer term, in the view of declining hydrocarbon revenues, continuing to reduce the non-oil deficit is essential to safeguard macroeconomic stability. We welcome the authorities' medium-term fiscal policy intentions to raise non-hydrocarbon revenues to about 50 percent of oil and gas revenues. We support staff's recommendation to widen the tax base and strengthen non-oil revenues, by introducing a value added tax, as well as a corporate income tax.

We would be grateful for some information by staff on the State general reserve fund and on the Infrastructure development fund, notably on their relation with the budget.

3. With respect to the monetary policy, we agree with staff that to avoid inflationary pressures to become entrenched, the authorities should moderate the growth of domestic demand, while reducing supply bottlenecks, notably in the real estate sector.

We take note that, according to staff, the banking system's vulnerability is low. However the authorities should continue to monitor carefully the banking sector's exposure to the real

estate sector, as well as to the current financial market developments.

4. We take note that staff agrees with the authorities on the level of the exchange rate and judges the the current peg a credible monetary anchor, which helped sustain investor confidence. *We would be grateful for staff to comment on the impact of the US dollar depreciation on the sustainability of the peg.*

5. With regard to structural reforms, we encourage the authorities to continue to develop a competitive private sector through diversification of Oman's economy and a higher focus on education and training: it is crucial to increase employment opportunities for Oman's rapidly growing labor force and to reduce the economy's oil-dependency and vulnerability to oil price swings, given the high cost of extraction and the limited oil reserves in Oman. We commend the authorities for the acceleration of the privatization process in the utilities sector.