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April 18, 2008

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

We thank staff for their report, and Mr. Shaalan for his helpful buff. As we broadly concur with staff 's assessment and recommendations, we will focus our comments on the following few points.

Buoyant growth and fiscal and external surpluses, supported by high oil prices and prudent macroeconomic policies , have benefited Oman in recent years. However, the increasing inflationary pressures and continuing supply bottlenecks pose challenges to the authorities in finding the right balance between moving ahead to diversify the economy and contain inflationary pressures.

High inflation driven by global food prices and rising domestic demand, poses an immediate short-term risk for the Omani economy. Given the fixed exchange rate regime, fiscal policy will have to assume a central role in containing demand pressures. We welcome the authorities' plans to raise significantly non-oil revenues and reduce the non-oil budget deficit over the medium term. However, like Mr.Yamaoka and Mr.Nozaki we wonder whether the fiscal policy measures envisaged by the authorities will be sufficiently strong and timely to prevent inflationary pressures continuing to build up. We would advise the authorities to move swiftly and decisively to strengthen fiscal policy, bringing forward many of the planned measures like introduction of the VAT and reduction of subsidies.

We have no reason to challenge the view that the current currency peg has provided a credible nominal anchor and as such served the Omani economy well, and we take note of staff's conclusion that the rial is broadly in line with the fundamentals. However, in the present circumstances the possibility of adjusting the exchange rate should remain in the tool-box.

In the longer term it is imperative to move forward with structural reforms promoting private sector growth, improving investment climate and trade liberalization to foster diversification of the economy . We welcome the authorities ' plans in this respect and are especially pleased by the authorities' emphasis on higher education and training as this is crucial to improve economic growth prospects.

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