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

We thank staff for an insightful paper, and Mr. Shaalan for his helpful Buff statement.

We welcome Oman's strong economic performance in 2007. The authorities' commendable diversification efforts have enabled real GDP growth –largely driven by the nonhydrocarbon sector– to remain above 6 percent for the third consecutive year, while maintaining large fiscal and current account surpluses. We note, however, that inflationary pressures have grown as a result of supply-side constraints, rising aggregate demand, and increases in international food prices.

Although the medium-term outlook remains favorable, thanks to high international oil prices and the authorities' diversification efforts away from the oil sector, the Omani authorities face the key medium-term challenge of containing rising inflation by tackling supply bottlenecks and reducing aggregate demand. We agree that given the limited scope for monetary policy within the current peg regime, fiscal policy will have to play a crucial role in this regard. To preserve the current favorable medium-term outlook for growth, we also agree that the authorities will have to pursue vigorously their diversification program and continue to implement structural reforms aimed at providing employment opportunities to the rapidly growing workforce.

**Fiscal Policy**

Although we note that the overall fiscal balance reached a large surplus in 2007, the non-oil fiscal balance continues to record significant deficits. Therefore, despite the importance of the investment program for Oman's medium-term growth, we agree that the pace of capital spending needs to be slowed down through reprioritizing and phasing of large investment projects, given the limitations posed by the economy's absorptive capacity. Current expenditures on wages and pensions also need to be contained. On the revenue side, the introduction of the VAT would help increase non-oil revenues.

**Monetary and Exchange Rate Policies**

We concur that the peg has served the country well by providing a credible monetary anchor and helping sustain investor confidence. Despite the limited scope for monetary policy under the peg, the central bank should help reign in excess liquidity by aligning more closely domestic interest rates with U.S. dollar rates. We welcome the authorities' readiness to further raise reserve requirements to mop up excess liquidity. The government can help facilitate the central bank's management of excess liquidity by gradually reducing its existing deposits in commercial banks and depositing its excess cash balances with the central bank.

We urge the authorities to implement promptly the recommendations made by the recent IMF technical assistance mission on liquidity management, which would help facilitate the broadening and deepening of the money market and enhance the effectiveness of the monetary transmission mechanism.

### **Structural Reforms**

The authorities' progress in economic diversification will help increase the resilience of Oman's economy, as investment in infrastructure to develop tourism, manufacturing, and gas-based non-hydrocarbon industries will help increase exports, and provide employment opportunities for Oman's rapidly growing labor force. The priority attached by the government to education and training, in order to raise the productivity of the Omani labor force, is welcome.

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