

FINANCIAL SERVICES: REGULATION AND ETHICS IN OMAN

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1. Introduction

This essay seeks to investigate the various implications of monetary policy which is regarded as the major macroeconomic factor with context to the various functional aspects for the Sultanate of Oman. The various aspects for successful implementation and adaptation of monetary policy by the Central bank in the Sultanate of Oman have widely been discussed in the different segment of the study. Basically, monetary policy can be defined as the macroeconomic policy which is mainly laid down by the central bank. Along with that, it mainly involves proper management of the supply of money and the different rates of interest. It is also regarded as the economic policy on the demand side that is mainly used by the governmental bodies of a particular country when it comes to the achievement of various macroeconomic goals and objectives such as inflation, liquidity, economic growth and consumption. The primary need/objective of monetary policy is the proper management of inflation. The central banks play a greater role in this aspect of proper control of inflation and reduction of unemployment after controlling inflation.

2. Monetary Policy of the Central Bank of Oman

In general sense, the key macroeconomic policy tool for monetary policy has mainly been used as the management of the macroeconomic conditions mainly on an overall basis. In this context, it is to be stated that the central bank in a country can adopt two kinds of monetary policies such as expansionary policy and contractionary policy. The central bank adopts expansionary policy by aiming on the enhancement of the liquid money in the economy. On the other hand, contractionary policy is adopted by the central bank for decreasing the money in the economy. If the expansionary monetary policy is adopted, central bank buys bonds from the public. This results in an increment in the liquid money in the economy and this increases the supply of money. This kind of enhancement of money in the economy results in increase in aggregate demand in the economy. On the other hand, contractionary monetary policy is implemented by the central bank by selling bonds to the public. This monetary policy is adopted for decreasing the liquid money from the economy. Thus, it can be stated that the

contractionary monetary policy helps to decrease the demand in the economy and by this process the inflation in the economy can be controlled.

The central bank of Oman has played a greater role in regulating its monetary policy and is mandated with the roles of conducting the policy of national monetary. This mainly signifies the critical act when it comes to finding a proper balance between the aspects of demand for and the supply for money. This is more often achieved by altering the rate of interest and the price of money. Thus, it takes into considering the delicate act of balancing which mainly assess the risk of the sources of inflation by avoiding the situations of excess supply of money. The severe conditions of liquidity can also act as the various constraints to that of the different economic growth. In the context of the economy of Oman, the various monetary policy as underlined by the Central Bank of Oman is mainly conditioned by the various implications of the fixed peg of the RO to that of the US dollar ("Central Bank of Oman - Home", 2018).

Thus, the basic goal of the defending of the fixed peg of the RO in relation to that of the USD has mainly been achieved through the process of sound management of domestic liquidity which is mainly aided by the adequate level of the foreign exchange reserves and a strong and well-regulated system of banking. Along with that, the prudent fiscal policies of the governmental bodies that are functioning in Oman support the peg in the long term. This has also helped in ensuring the various stability of the exchange rate (Khatat, 2016).

3. Challenges in the implementation of monetary policy

The various challenges/issues that are being encountered by the Central Bank of Oman at the time of implementation of monetary policy are as under:

- i) There are instances where the financial conditions concerning the economy of Oman are affected to a greater level (Ostry and Kim, 2018).
- ii) There have been varied changes to the various targets of interest rates that have lead to various instances of financial crisis. It has also affected the various volatility aspects of the various rates of exchange that is persisting in the economy of Oman.

- iii) A particular challenge may arise concerning the volatility of the exchange rates of the domestic currency of Oman.
- iv) There have also been constraints in the regulation of the supply of money which has mainly been due to the openness of the economy in Oman.

4. Measures for effective monetary policy

The central bank of Oman has played a greater role in the proper implementation of the policy measures in the case of strengthening the banking sector of Oman which can help in safeguarding the economy of Oman by ensuring proper flow of liquidity. Moreover, the CBO has formulated several money market operations in order to articulate the various changes in the liquidity position of the economy of Oman and promote an effective monetary policy of the country which is mainly discussed as under:

- i) Operations of Repo/Reverse Repo
- ii) Requirements for reserve
- iii) Discount/rediscount of the commercial papers
- iv) Implementation of liquidity coverage ratio in the banks in order to ensure the short term resilience of the various liquidity risk profile (Demirgüç-Kunt *et al.* 2017).
This will help the banking sector that is currently functioning in Oman will help in supporting the economic activities and in this regard, the bank will play a robust role in this aspect.
- v) Finding a proper balance between the demand for and the supply of money by the process of alteration of the prices of money along with the required rate of interest.
- vi) There must be frequent changes in the various rates of interest which can improve upon the monetary policy and benefit the economy in Oman (Abouwafia and Chambers, 2015).
- vii) Direct lending of the US dollars to the local banks'
- viii) Discounting of the treasury bills and implementing foreign exchange swaps.
- ix) Discounting of the commercial papers and issuing the certificates of deposit by the CBO.

5. Conclusion

The entire research study dealt with the various concepts and major objectives of the monetary policy in context to Oman. Alongside, the successful adaptation of the tools of monetary policy by the Central Bank of Oman for the purpose of effective implementation of the monetary policy in the Sultanate of Oman has also been discussed in this particular research study. In context to that, the various challenges that are faced by the Central Bank of Oman in case of implementation of the monetary policy are also being discussed in detail. Lastly, the various measures for performing effective monetary policy in the economy of Oman has also been analysed by taking into consideration the economic situation that is currently prevailing in Oman.

References

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