

Central Bank of Oman's Second Economic Stimulus Package Released

September 15, 2020

In an effort to respond to the on-going challenges faced by businesses and individuals as a consequence of the coronavirus pandemic and economic downturn, the Central Bank of Oman (CBO) has issued a raft of policy measures aimed at providing additional liquidity to local banks and finance companies, thereby facilitating continued support to affected customers (with specific focus on first time home owners). The relief provided to impacted businesses and individuals is, in turn, expected to contribute to the recovery of the Oman economy.

The policy measures in this stimulus package were released in a circular issued by His Excellency Tahir Salim Al Amri, the Executive President of the CBO and take effect from 7 September 2020. They follow the initial stimulus package announced by the CBO earlier this year in March. We highlight some of the latest measures introduced as follows:

Extension of the existing loan deferment scheme

The loan deferment scheme included in the CBO's first stimulus package announced in March 2020 has been extended until 31 March 2021. Under this scheme, banks are able to defer payments of loan instalments and interest or profit for affected borrowers, without adjusting the risk classification of such loans. This scheme is particularly aimed at supporting the continued viability of SMEs adversely impacted by the current circumstances.

Enhancing the limit and tenor of the Forex Swap facility provided by the CBO

In an effort to assist banks to overcome current liquidity constraints, the maximum limit of the CBO's forex swap facility scheme offered to banks has been increased to a maximum of 100 per cent of the bank's net worth. Previously, banks were subject to an aggregate limit of 25 per cent of its latest approved net worth applicable to both the CBO's forex swap facility and its scheme for discounting and rediscounting of commercial paper. In addition, the maximum tenor of the CBO's forex swap facility has been increased to one year in this latest round of support measures.

LTV for Housing loans

Interestingly the stimulus package also includes measures to assist first time home buyers acquire a residential property (for their own use). Specifically, the loan to value margin applicable to housing loans availed by first time home owners has been halved from 20% to 10%, meaning that applicants meeting the required criteria are able to borrow more against the value of the property than previously permitted. In addition to assisting new entrants to the residential property market, this package will go some way in the much needed efforts to bolster the residential property market, which has suffered in the economic downturn.

Banks are now also able to include insurance and registration costs imposed by the Ministry of Housing and Urban Planning in the calculation of the loan to value ratio for housing loans. As the fees for registering a transfer and a legal

mortgage can be quite significant, being able to include these costs in the amount borrowed is likely to be viewed as a benefit to many borrowers.

Liquidity Coverage Ratio

In another move to increase the funds available to lend to customers needing access to debt to finance their operations in these challenging times, banks may now seek the approval of the CBO to temporarily operate below the required liquidity coverage ratio of 100 per cent (provided a liquidity ratio of at least 75 per cent is maintained). This relaxation (for which banks still need to seek prior CBO approval) is likely to be available until 31 March 2021.

Given the disruption and downturn caused by the global pandemic, its rising debt burden and recent ratings downgrades in addition to the adverse impact of lower oil prices, Oman faces a number of ongoing challenges in its efforts to implement urgent measures to counter the economic downturn. These latest CBO measures will certainly be viewed as one of a number of welcome developments needed to stimulate the economy. Another positive measure introduced recently has been the announcement of a new fund to support Omani job seekers and Omani employees who have lost their jobs (please see our article on this here).

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