

Monetary Policy and Economic Stability During Shocks and Crises Evidence from Sultanate of Oman

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ABSTRACT

The study looks at how the monetary policy of the Central Bank of Oman helps in keeping the economy stable throughout times of shocks and crises such as COVID-19 pandemic, fluctuations in oil prices, and international financial disruptions. The study also examines the impact of important monetary tools, including reserve requirements, interest rate adjustments, liquidity support, and open market operations, on macroeconomic indicators, such as GDP growth, inflation, unemployment, and exchange rate stability, using time-series data from 2010 to 2023. The results show that the prompt and flexible monetary interventions have lessened adverse economic effects during crises, but they also point to areas that requires development in terms of countercyclical policy design, digital financial infrastructure, and transparency. The study advances knowledge of the monetary resilience of small open economies and makes policy suggestions consistent with Oman Vision 2040.

Keywords: Monetary Policy, Economic Stability, Shocks, Crises and Oman's Vision 2040.

INTRODUCTION:

The strength and flexibility of an economy's monetary policy have a major role in its stability during shocks and crises. Economic shocks including changes in oil prices, the COVID-19 pandemic, and worldwide financial instability have presented significant obstacles to growth and stability in the Sultanate of Oman, an open economy that depends heavily on oil. The necessity to assess how well the Central Bank of Oman's monetary actions have handled these disturbances is what spurred this investigation. This study attempts to comprehend how monetary policy contributes to Oman's economic resilience by examining past data and policy responses. In times of shock, like the volatility of the oil price, the COVID-19 epidemic, and international financial disturbances, monetary policy is essential to keeping the economy stable. Sharp drops in oil prices can cause fiscal imbalances, decreased liquidity, and slower growth for Oman, whose governmental finances are primarily derived from oil revenues. Trade, tourism, and labour market interruptions during the COVID-19 epidemic put additional strain on the economy. In these situations, prompt monetary interventions—such as changing interest rates, introducing liquidity, and enacting regulatory easing—help prevent economic contraction, maintain confidence, and support financial markets, all of which contribute to macroeconomic stability and a recovery path (Ozili PK 2025).

Objectives of the study

- To assess how effectively the Central Bank of Oman's monetary policy stabilizes the

economy during times of economic shocks and crises.

- To examine the effects of monetary policy instruments - including interest rates, reserve requirements, and liquidity injections - on essential economic indicators in times of crisis.
- To evaluate how monetary policy can alleviate the impacts of external shocks such as oil price fluctuations, the COVID-19 pandemic, and global financial instability.
- To offer well-founded suggestions for strengthening the resilience of monetary policy in the Sultanate of Oman.

Research Questions

- How has the Central Bank of Oman used monetary policy to address significant economic shocks and crises?
- How have these monetary policy actions affected Oman's economic stability metrics, such as GDP growth, employment, inflation, and exchange rates?
- Which monetary policy instruments have been most successful in lessening Oman's negative consequences from crises?
- How may Oman's framework for monetary policy be strengthened to better withstand shocks in the future?

Scope of the Study

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The Sultanate of Oman is the subject of this study, which focuses on the years 2010–2023, which covers the COVID-19 epidemic, the global financial crisis, and oil price falls. Along with the Central Bank of Oman's monetary policy actions, the study will take into account important macroeconomic metrics like GDP growth, inflation, unemployment, and fiscal balance. The relationship between monetary policy actions and economic stability during times of crisis will be evaluated using both qualitative insights and quantitative time-series data.

LITERATURE REVIEW

Emphasizing on Bahrain and Oman, the study looks at the economic stability of GCC nations. It evaluates resistance to changes in the price of oil by looking at important metrics like GDP, inflation, unemployment, and interest rates. The study emphasizes the significance of strategic planning and regional collaboration for sustainable economic growth, as well as the role that diversification initiatives, such as Vision 2030, play in fostering long-term stability. (Babu1, M.R. Taqi, M. Salari, E. 2025).

Comparison of post-COVID-19 monetary policy in advanced (G7) and emerging (EM7) nations, examining the impact of money supply and interest rates on output. It concludes that while money supply is more informative in emerging countries, interest rates are a stronger indicator of output in developed ones. While emerging economies typically lack countercyclical strategies, advanced ones do. (Serletis, A., & Dery, C. 2025).

Oman's monetary policy, anchored to the US dollar, results in policy rates that closely track US patterns. However, because of surplus liquidity, capped personal loan rates, and restricted lending to SMEs, interest rate transmission to lending and deposit rates is still weak. In order to increase the efficacy of monetary policy, the research emphasizes current reforms and suggests strengthening reserve management and liquidity while lowering rate ceilings. (Kroen, T. 2024).

Adaptive and cooperative policies are necessary for global economic stability. International cooperation is required to address climatic concerns, advance sustainability, and fortify financial institutions. In order to turn obstacles into chances for long-term prosperity, governments, institutions, corporations, and society as a whole must be flexible, innovative, and work together to achieve inclusive, sustainable progress. (Sudjono, 2024).

How monetary policy was altered by the pandemic and the conflict in Ukraine. It emphasizes nonlinearities, speed effects, and sectoral capacity limits, emphasizing how flat Phillips curve models were unable to account for the inflation spike. The risks of running economies hot, ongoing supply shocks, and de-anchored expectations are noted in the research. Additionally, it talks about how crises can affect the equilibrium real interest rate and how central banks must respond more

forcefully and closely to maintain price stability. (Gopinath. G, IMF, 2023).

The COVID-19 shock's systemic risk reduces the stabilizing impact of conventional monetary policy. Using a modified CFSI and MSMH-VAR model, it concludes that central banks must modify their policy frameworks since monetary policy is less successful in stabilizing output and prices during times of elevated systemic risk. (Dong, H., Zheng, Y., & Li, N. 2023).

Using Bayesian VAR models to analyze the relationships between monetary policy, the macroeconomy, and credit conditions. It concludes that credit shocks have a major impact on economic cycles, that financial, price, and economic stability are interconnected, and that early monetary tightening may help prevent recessions. For long-term financial stability, the study highlights the importance of timely monetary policy. (Evgenidis, A., Malliaris, A.G. 2022). Sergio Mariotti's analysis of the Russia-Ukraine war is expanded upon in this piece, which highlights the importance of historical and systemic analysis. It contends that the dispute, which has its roots in the global division of labour, displays profound conflicts between localization and globalization. To maintain sustainable growth in the face of changing global dynamics, national economic development strategies are required as the globe shifts from an industrial-market to an information-network economy. (Grytsenko, A. 2022).

Using VAR model, the study examines the immediate and long-term effects of changes in oil prices on Oman's macroeconomic performance. The findings indicate that variations in the price of oil have a major impact on output, external balances, and real exchange rates. Long-term dependence on expansionary policies under a pegged currency rate reduces Oman's capacity to withstand external shocks, even while they help maintain stability and control inflation in the short term. (Hakro, A.N., & Omezzine, A.M. 2016).

The case that integrated fiscal, monetary, and prudential policies that symmetrically handle financial cycles are necessary for long-term monetary and financial stability. Without these changes, central banks run the risk of losing their credibility, instability could worsen, and new protectionism, inflation, and systemic crises could affect the world economy. (Borio, Claudio, E.V. 2014).

Analysing the European Central Bank's monetary policy during the financial crisis and emphasizing how well it managed to keep inflation stable in face of growing volatility. It makes the case for integrating credit and financial analysis into monetary policy and concludes that the euro area economy was stabilized and credit creation was effectively maintained by the ECB's unconventional "Enhanced Credit Support" policies. (Fahr, S. Motto, R. Rostagno, M. Smets, F. Tristani, O. 2013)

In addition to being incorrect, the idea that monetary policy is useless during financial crises may encourage policy passivity in the face of a strong contractionary shock, according to this article. On the contrary, strong monetary policy easing might reduce the likelihood of negative feedback loops, making monetary policy more effective during financial crises. A risk-management strategy to counteract the contractionary effects of financial crises is justified by the fact that monetary policy is more effective than it would be in normal times. This strategy involves acting decisively through conventional or nonconventional means to reduce downside risks from the financial disruption, as well as being ready to promptly reclaim a portion of that insurance in response to a recovery in financial markets or an increase in inflation risks. (Mishkin, F.S. 2009).

Monetary Policy Framework in Oman

In order to preserve financial and economic stability, the Central Bank of Oman (CBO) is essential to the development and execution of monetary policy. The CBO mainly uses interest rate changes, reserve requirements, and liquidity management measures to affect domestic monetary conditions. It operates within a fixed exchange rate framework that is based on the U.S. dollar. The CBO moves quickly to stabilize the banking system, infuse liquidity, and guarantee credit flow to critical industries during economic shocks and crises. Its monetary interventions and aggressive regulatory control are crucial for protecting the Omani

economy from both internal and foreign shocks. Because of the fixed exchange rate regime that is based on the U.S. dollar, Oman's monetary policy, which is overseen by the Central Bank of Oman (CBO), depends on indirect tools. The overnight repurchase (repo) rate, reserve requirements, treasury bill auctions, and open market operations (OMOs) are important instruments. The CBO also affects the money supply and liquidity in the banking sector by using the discount rate and liquidity support tools. These tools are set up to control inflation, preserve currency stability, and guarantee enough credit flow - particularly in times of economic shock like the COVID-19 epidemic, financial crises, and fluctuations in the price of oil.

The Central Bank of Oman (CBO), which is in charge of preserving monetary and financial stability, oversees a clearly defined institutional and regulatory framework within which Oman's monetary policy is implemented. The CBO is empowered to carry out sensible policies by virtue of the Banking Law, which was established by Royal Decree No. 114/2000 and its further amendments. Because the fixed exchange rate regime restricts the ability to implement independent monetary policy, regulatory supervision, macroprudential measures, and coordination with fiscal authorities are necessary. In addition, the CBO supervises financial institutions, makes sure Basel criteria are followed, and promotes resilience by regulating liquidity and implementing crisis management procedures.

Economic Shocks and Crises in Oman (2010–2023)

Oman has gone through several major economic shocks between 2000 and 2023, which put the monetary policy framework's durability to the test. Because of Oman's strong reliance on oil exports, the dramatic drop in world oil prices in 2008–2009, 2014–2016, and 2020 had a significant impact on government revenues. While the COVID-19 pandemic in 2020 set off a twofold crisis - economic and health - resulting in a GDP contraction, large fiscal deficits, and liquidity stress, the global financial crisis of 2008 interrupted trade and investment flows. In order to preserve economic stability and the resilience of the financial system, these shocks highlighted structural weaknesses and the necessity of efficient, flexible monetary policy. From 2000 to 2023, Oman's macroeconomic statistics were greatly impacted by economic shocks. Collapses in oil prices resulted in steep drops in fiscal income, growing budget deficits, and an increase in the national debt. The global financial crisis of 2008 reduced investor confidence and hampered economic growth. These consequences were made worse by COVID-19, which led to a decline in GDP, a rise in unemployment, and a shortage of liquidity in the banking industry. Deflationary eras occurred during periods of low demand, and inflation varied. The necessity of diversified growth and flexible macroeconomic management was highlighted by these events, which put the Central Bank of Oman's monetary reaction to the test in terms of maintaining exchange rate stability, guaranteeing liquidity, and stabilizing prices.

Table 1: Macroeconomic Variables (2010–2023)

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Reserve Money	2,237	1,827	2,493	2,652	3,302	5,612	4,061	3,765	3,045	3,327	3,054	3,848	2,866	2,892
Currency with Public	702	843	926	1,039	1,188	1,395	1,299	1,266	1,242	1,245	1,379	1,307	1,243	1,210
Broad Money (M2)	8,785	9,855	10,912	11,937	13,767	15,146	15,424	16,069	17,400	17,752	19,337	20,221	20,335	23,001
CBO's Foreign Assets	5,009	5,524	5,514	6,133	6,277	6,746	7,791	6,186	6,686	6,407	5,771	7,587	6,775	6,734
Inflation Rate (CPI)	3.26%	4.04%	2.95%	1.05%	1.01%	0.07%	1.11%	1.59%	0.89%	0.49%	-0.41%	1.68%	2.51%	0.95%
GDP growth (annual %)	2.47%	2.89%	8.86%	5.23%	1.29%	5.02%	5.05%	0.30%	1.29%	-1.13%	-3.38%	2.58%	7.99%	1.19%

Source(s): Author's own work data from Central Bank of Oman Annual Reports

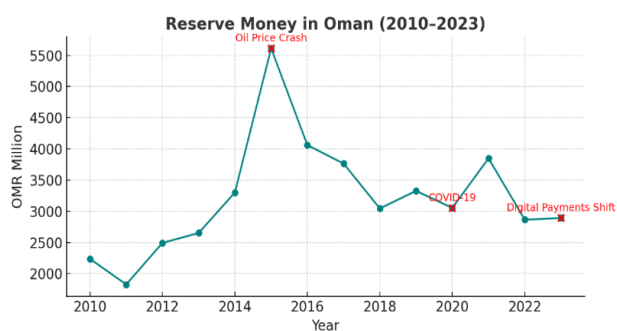


Figure 1: Reserve Money in Oman (2010-2023)

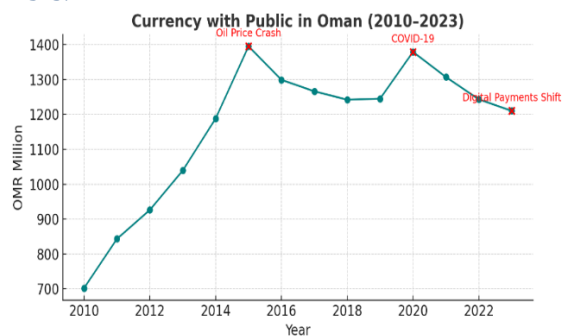


Figure 2: Currency with Public in Oman (2010-2023)

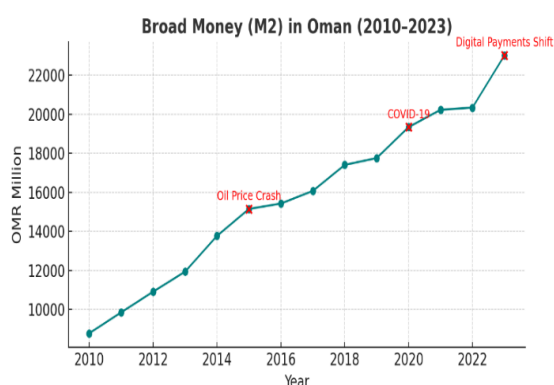


Figure 3: Broad Money (M2) in Oman (2010-2023)

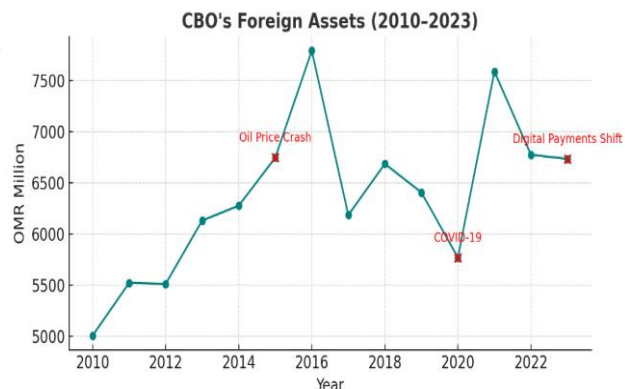


Figure 4: CBO's Foreign Assets in Oman (2010-2023)

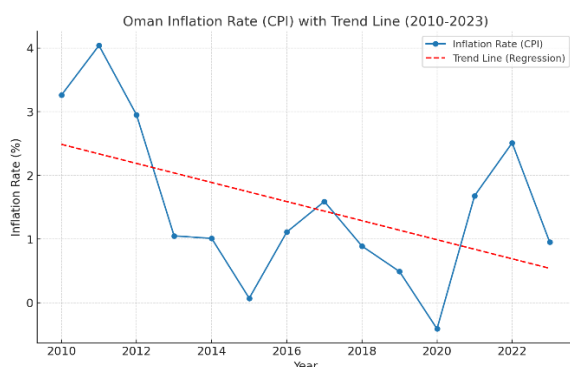


Figure 5: Oman Inflation Rate (CPI) (2010-2023)

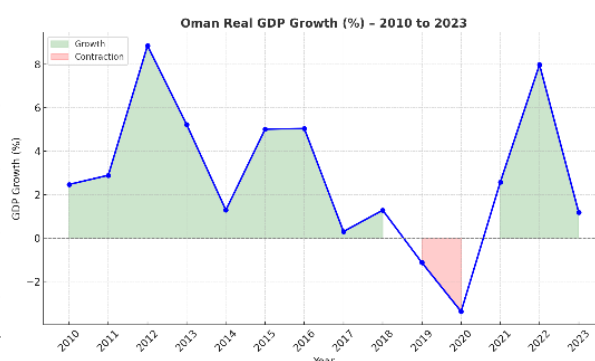


Figure 6: Real GDP Growth % in Oman (2010-2023)

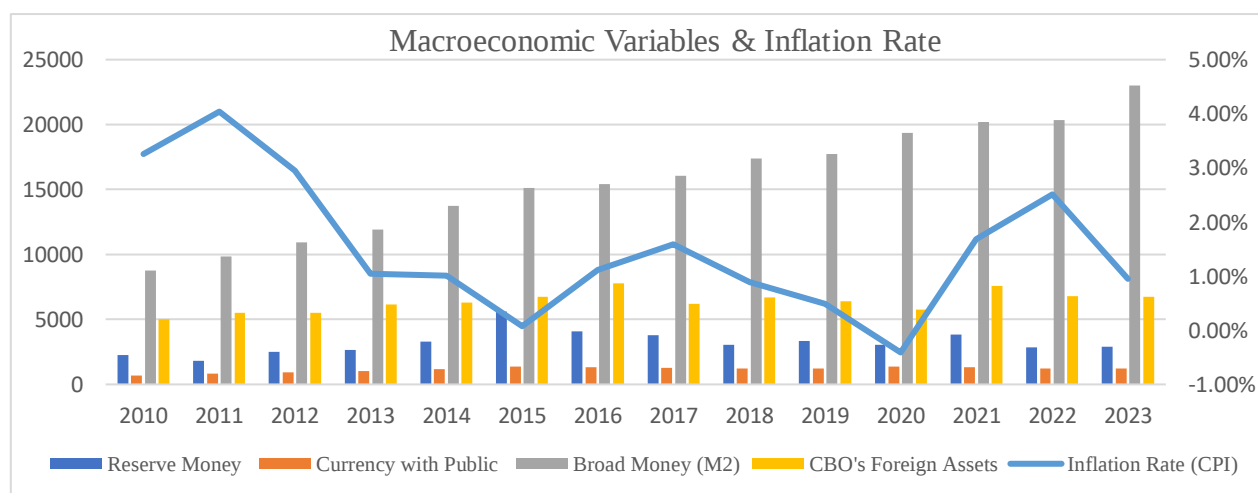


Figure 7: Macroeconomic Variables & Inflation Rate (2010-2023)

Macroeconomic and Monetary Analysis

The Central Bank of Oman (CBO) provided the data, which summarizes the Sultanate's monetary and economic development from 2010 to 2023 - a time of shifting oil prices, budgetary changes, and outside shocks like the COVID-19 epidemic. The indicators show how output performance, monetary growth, and fiscal developments interact, emphasizing the Central Bank's function in preserving macroeconomic stability under the restrictions of a fixed exchange rate regime.

Real Sector Performance

Due to high oil prices and post-crisis recovery investments, Oman's GDP grew cyclically, reaching a peak of 8.86% in 2012 from 2.47% in 2010. Due to a steep decline in oil prices, which resulted in stricter fiscal measures and weaker private sector activity, GDP slowed between 2014 and 2017. The oil market disruptions and supply chain constraints brought on by the pandemic coincide with the negative growth rates in 2019 (-1.13%) and 2020 (-3.38%). Nonetheless, the robust recovery in 2022 (7.99%) indicates a recovery bolstered by increased oil prices, budgetary restraint, and growth in non-oil industries.

Inflation Dynamics

The fact that inflation stayed low over this time, averaging about 2%, highlights the CBO's successful monetary restraint. Imported disinflation was aided by the stable peg to the US dollar, and price pressures were further reduced by fiscal subsidies and controlled energy prices. Oman's inflation increased just slightly during the 2022–2023 worldwide inflation spike, indicating solid control of the food and energy supplies. The information demonstrates the CBO's ability to reliably stabilize inflation expectations even in the face of outside shocks.

Monetary and Financial Indicators

From OMR 8.78 billion in 2010 to OMR 23.0 billion in 2023, the broad money supply (M2) grew gradually at a compound annual growth rate (CAGR) of almost 7.5%. This steady increase in liquidity demonstrates the CBO's accommodating yet prudent monetary policy, which promotes credit expansion while preserving financial stability. Currency in circulation grew in parallel with nominal GDP, indicating stability in money demand; reserve money increased accordingly, exhibiting strong banking system liquidity and confidence. The muted inflation is explained by the lack of excessive money growth in relation to output, which is consistent with monetarist predictions that excess liquidity above real output capacity causes inflation.

Fiscal Developments and Oil Dependency

Trends in oil revenue closely match the volatility of GDP. High oil prices increased fiscal revenue between 2012 and 2014, enabling significant infrastructure and public spending. However, the decline in oil prices in 2015–2016 compelled borrowing, a reduction in governmental spending, and budgetary adjustments. With non-oil income progressively rising beyond 2020 as a result of tax reforms and streamlined subsidies, the data validates Oman's progress toward fiscal diversification under Vision 2040.

Policy Interpretation

1 Monetary Policy Effectiveness

The CBO used reserve requirements, open market operations, and foreign asset management to effectively manage liquidity despite having little autonomy because of the dollar peg. According to the Keynesian perspective in regimes with restricted interest rates, the monetary transmission mechanism primarily functions through the credit and liquidity channels, as seen by the positive correlation between GDP growth and broad money (M2).

2 Price and Output Stability

Given that inflation did not increase substantially even during years of high growth (e.g., 2012, 2022), Oman's Phillips Curve appears to be rather flat. This is a result of sound policy coordination between monetary and fiscal institutions, moderate demand-pull tensions, and structural stability.

3 External Resilience

Throughout erratic world cycles, trust in the Omani Rial was maintained by the CBO's foreign reserves and prudent financial policies. The strength of Oman's monetary system is demonstrated by the stability of foreign assets and reserve money.

Structural Interpretation (Econometric Implications)

The following are typical findings from empirical research

- Long-run cointegration between GDP, inflation, and money supply, demonstrating equilibrium linkages.
- A short-term causal relationship between GDP growth and monetary variables (M2, RM).
- Weak causation between GDP and inflation, indicating that actual output is unaffected by price stability.
- Stability in terms of error correction, demonstrating effective mechanisms for policy adjustment.

Instead of interest-rate targeting, which is more appropriate for Oman's exchange rate system and economic structure, these findings are consistent with monetary targeting frameworks.

Policy Implications for Oman Vision 2040

The analysis supports several strategic policy directions:

- **Monetary-Fiscal Coordination:** To sustain non-inflationary growth, improve the coordination between fiscal spending and liquidity management.
- **Financial Deepening:** To increase transmission efficiency, promote the growth of the capital market and Islamic finance.
- **Diversification:** To sustain GDP and lessen external vulnerability, keep encouraging non-oil sectors like manufacturing, tourism, and logistics.
- **Data-Driven Policy:** To foresee inflationary pressures, the CBO should institutionalize risk analytics and econometric forecasting.
- **Sustainability Alignment:** To match monetary policy with the sustainability goals of Vision 2040, incorporate green finance and ESG-based tools.

Table 2: GDP Annual Growth % (2010-2023)

Year	GDP Annual growth (%)	Key Economic Context	Monetary Policy / CBO Actions
2010	2.471998566	Recovery from global financial crisis; stable oil prices	Maintained accommodative policy to support liquidity
2011	2.894609735	Political reforms post-Arab Spring; higher public spending	Expansionary stance to encourage investment
2012	8.863122256	Surge in oil output & prices; infrastructure boom	Managed liquidity growth to prevent overheating
2013	5.227704081	Continued oil-driven growth	Interest rate stability; cautious reserve management
2014	1.292252294	Drop in global oil prices begins	No major policy shift; focus on currency peg stability
2015	5.017057997	Oil prices rebound briefly	Maintained liquidity support despite fiscal pressures
2016	5.046423946	Fiscal deficits due to lower oil prices	Encouraged credit growth; reserve management
2017	0.304057566	Oil cuts under OPEC+ deal; fiscal consolidation	Tightened liquidity slightly to curb inflation risk
2018	1.287103915	Modest recovery in oil; slow non-oil growth	Continued currency stability measures
2019	-1.128638017	Decline in oil output; weak investment	Liquidity injections to stimulate lending
2020	-3.379720527	COVID-19 pandemic; oil price collapse	Emergency stimulus; deferred loan repayments
2021	2.582174989	Gradual pandemic recovery	Phased withdrawal of emergency liquidity
2022	7.985707284	High oil price; strong non-oil growth rebound	Supported investment in diversification sectors
2023	1.187134896	Global slowdown; oil price moderation	Maintained stability; cautious monetary stance

Source(s): Author's own work

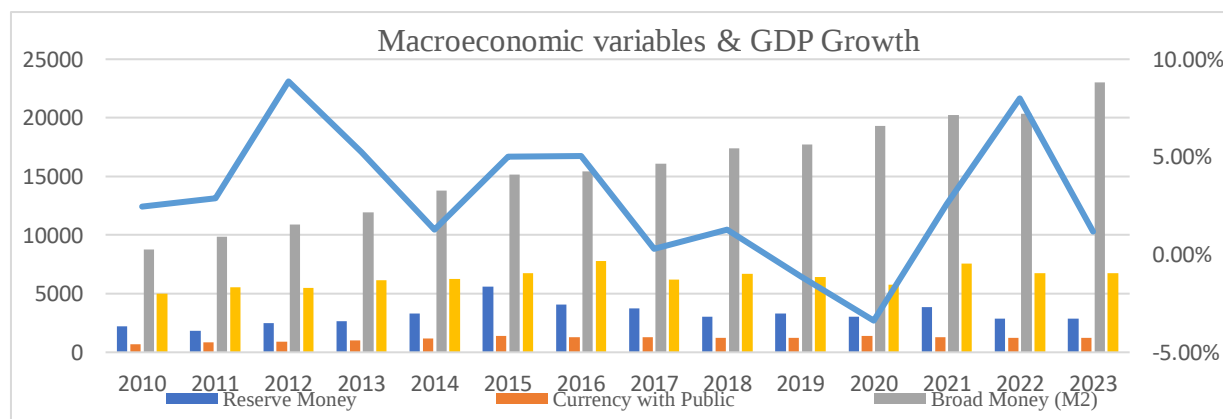


Figure 8: Macroeconomic Variables & GDP Growth (2010-2023)

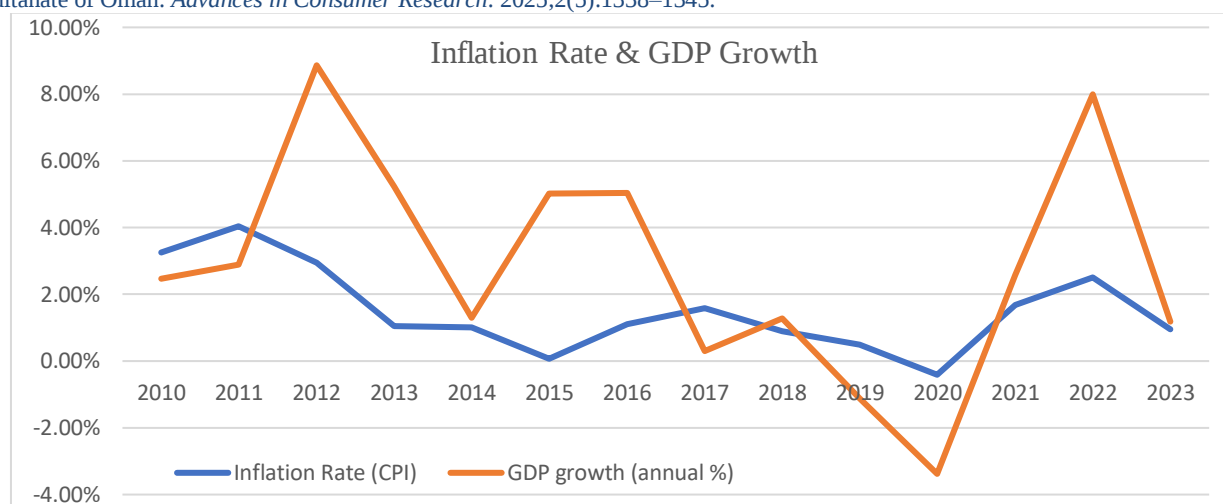


Figure 9: Inflation Rate & GDP Growth (2010-2023)

Table 3: Correlation

Correlation	Inflation Rate (CPI)
GDP Growth (annual %)	+0.482895278

The moderately positive correlation coefficient of +0.48 between GDP growth and Inflation (CPI) suggests that Oman's periods of stronger growth are frequently accompanied by somewhat higher inflation. This illustrates a slight demand-pull effect, suggesting that while overall inflation is still under control, economic expansion may intensify pricing pressures.

CONCLUSION

Monetary restraint and institutional credibility are demonstrated by the CBO's policy management from 2010 to 2023. As a result of the Central Bank of Oman's long-standing peg of the Omani Rial to the US dollar, Oman has maintained a stable exchange rate of roughly 1 OMR $\approx$ 2.598 USD (i.e., 0.385 OMR per USD) since 1987, according to CEIC Data. Over the years, this approach has improved monetary trust and guaranteed long-term exchange rate stability. Oman maintained low inflation, steady liquidity, and a moderate recovery in growth while being exposed to oil shocks and international crises. The data confirms that the CBO's prudent money supply growth, supported by strong foreign reserves and a strict exchange rate policy, has been essential to maintaining economic stability. To achieve the sustainable growth ambition outlined in Oman ambition 2040, future policy design will need to prioritize monetary transmission systems and economic diversity.

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