

Salalah Port conducts awareness programme

Salalah Port has organised an awareness programme on shipping operations for registered shipping agents in and around the port. ■ Page 22



Business

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CBO raises cash reserve requirement of commercial banks to 5 per cent

MUSCAT — The Central Bank of Oman (CBO) yesterday decided to raise the cash reserve requirement of commercial banks to 5 per cent of total deposits from 3 per cent now.

The decision was taken by the CBO board, which met under the chairmanship of Dr Ali bin Mohammed bin Moosa, Minister of Health and Deputy Chairman of CBO board.

The prudent measure is aimed at mopping up excess liquidity with banks and thereby indirectly control the inflationary pressure within the economy.

When contacted, Hamoud bin Sangour al Zadjali, Executive President of the CBO, said that the measure was aimed at mopping up excess liquidity with banks. "This will have an impact on the bank's capacity to lend money. It is a tool used by the

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central bank to reduce excess liquidity," he added. The cash reserves, which are kept with the apex bank, do not carry any interest.

Al Zadjali said that the reduction in liquidity with banks would have an indirect impact on inflation rate.

The interest margin of banks is expected to come down further, with less lendable resources with these institutions. "The banks have been generating good profit this year," he noted.

Al Zadjali also noted that even with the rise, Oman's reserve requirement is much lower than several other countries.

For instance, the cash reserve requirement is 9 per cent in Saudi Arabia, 10 per cent in India and 12 per cent in the United Arab Emirates

(UAE). "We have one of the lowest levels of reserve requirement. Recently, China raised the reserve requirement to 14 per cent," noted the CBO chief.

Stock market sources said that the CBO move would have an impact on the prices of bank shares today. Institutional investors may divest their holdings in bank stocks, but individual investors will find it difficult to take a decision. "The rise in reserve requirement will have an impact on the bank's capacity to lend," said a senior analyst working with a leading brokerage firm.

The net interest margin of banks has been coming under pressure with the recent entry of a couple of new banks.

Bank Sohar, which started operations early this year, has aggressive expansion plans. Bank of Beirut

(BoE) has recently opened its first branch in Muscat, while Qatar National Bank is set to make its debut by opening a new branch.

Alliance Housing Bank (AHB) is set to offer all products of a commercial bank, while Oman Merchant Bank is expected to commence operations next year.

"There was a marginal decline in the interest margin of banks in the recent past due to increasing competition," said a broker.

A rise in reserve requirement will further squeeze the net margin as the banks are not in a position to raise lending rates in the short-run due to acute competition.

The Central Bank of Oman has also approved the plans of Al Anwar Holdings Company to raise its stake in Taageer Finance from 10 per cent to 20 per cent.