

Discussion Paper on Developing Debt Market in Oman: A Road Map



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I. Introduction

Equity and debt are the two major sources of external finance. While equity holders are the owners of the company, debt holders are the financiers of the company. The equity holders, being the owners of the company, decide the level of leverage the enterprise should ideally have in the course of its business expansion. Once the size of the debt is decided, the management has to choose among the alternative sources of debt finance. The commonly available sources of debt finance are either intermediated debt, borrowed mainly from the commercial banks and financial institutions, or market debt borrowed directly from the market through the issue of debt instruments such as bonds, debentures etc. If the financial system is dominated by asymmetric information, then the intermediated debt may be more appropriate as banks/financial institutions try to minimize the problems of adverse selection and moral hazards through their monitoring mechanism. Institutional finance may also dominate in countries where market micro-structure for debt market is underdeveloped and accounting and legal systems are not put in place. Intermediated debt is generally more expensive as borrowers have to bear the intermediation cost in addition to the cost that may arise due to inefficiency of intermediaries. In the absence of corporate debt market, intermediaries may often extract too much rent from the borrowers, either to cross-subsidize certain sectors or to cover their cost of lending to the risky sectors.

Unlike intermediated debt, direct financing from the market through issue of debt instruments has a superior allocative role as it can provide price signals for investment decision. Development of the corporate debt market does not undermine the importance of banks, and/or financial institutions. Institutional finance, in fact, remains as a major source of external finance for smaller and younger firms without established reputation. Moreover, many firms depend

partly on direct financing from the market and partly on intermediated debt i.e., borrowing from the banks and financial institutions. Debt finance directly from the market is generally more suitable for long-term financing while the short-term financing requirements (working capital finance) are generally met from banks and financial institutions.

Oman has been pursuing diversification programme since the mid-1980s. The private sector has been given freedom to flourish within the framework of a small open market economy. The financing needs of the corporate sector have been largely met by promoters' contributions and bank finance. The number of companies registered with the Ministry of Commerce and Industry has gone up significantly since 1980. However, less than 150 companies have been listed in the Muscat Securities Market (MSM). Many of the large enterprises in Oman are family-owned business houses. Nevertheless, the culture of public ownership is gradually gaining ground in Oman. There is a growing secondary market for equities in Oman. The trading platform is provided by the MSM under the regulatory ambit of the Capital Market Authority (CMA). There is also provision for secondary market transaction of debt instruments such as government securities, corporate bonds etc. But, the debt market is dormant mainly due to lack of issuance of securities by the Government as well as by the corporate sector.

An attempt has been made here to provide concrete suggestions for the development of both government securities market and corporate debt market in Oman. Section II draws lessons from the international experience. Section III is devoted for the development of government securities market in Oman. Section IV analyses the prospects of developing corporate debt market in Oman. Section V provides concluding observations.

II. International Experience

II.1 Government Securities Market

There is no unique process through which debt market is developed around the world. Within the diverse processes of development, one would find some general trend. For our purpose, we have discussed the broad trend without going into the individual country experience. The size of borrowing requirement of the Government is determined by the magnitude of budget deficit. Given the size of budget deficit, either the Treasury department or the central bank, on behalf of the Government, conducts primary auctions, manages public debt in terms of timing of issuance, magnitude, type of auction, mode of payment and settlement, maturity of debt based on well-established debt management practices. Often the central bank works as front and/or middle office while back office functions are retained by the Treasury. The secondary market transactions are generally put through stock exchanges although over-the-counter transactions are also allowed in many jurisdictions. Moreover, central banks generally act as depository to public debt issued in domestic currency and thereby facilitate the issuance of domestic public debt in demat form. Besides outright transactions, government securities are also used as collateral in case of inter-bank transactions as well as transactions with the central bank. As stakeholders are many, there is a need for Public Debt Act and guidelines should be well codified with clear responsibilities vested with respective authorities. Being the sovereign borrower, Government issues Treasury Bills and/or dated securities at rates generally lower than the commercial banks' lending rates of comparable maturity. While the primary market provides the critical mass of debt securities, the secondary market discovers the yield curve provided the secondary market is deep and the traded securities of different maturities are liquid. The sovereign yield curve provides benchmark for the pricing of other debt and derivative instruments. Therefore, development of the government securities market is one of the major pre-requisites for the development of corporate debt market.

II.2. Pre-Requisites for Corporate Debt Market

The major pre-requisites of developing a corporate debt market are as follows:

- a) Private sector has greater role to play and its financing requirements are met directly from the market through the issue of both equity and debt instruments;
- b) Interest rate is completely deregulated and various segments of the financial markets are reasonably integrated;
- c) There exists a developed government securities market which provides a benchmark yield curve for bond pricing;
- d) Clearing and settlement system is reasonably sound;
- e) There should be an empowered Regulatory System which can steer the securities market through adequate disclosures and other requirements;
- f) A well functioning depository system is available so that issues can be made in demat form;
- g) A credible system of rating agencies is a must for the issue of debt papers;
- h) Legal and security laws are put in place to avoid unhealthy practices; and
- i) Government has clear policy with respect to the development of corporate bond market.

In case of developed financial markets, there exist sound financial and legal infrastructures that are necessary for the development of corporate debt market, supported by well functioning regulatory system. The USA, for example, has a deep, efficient and liquid corporate debt market. The bond markets in London and Euro area are also developed. Institutional investors, rather than individual investors, are the key players in the corporate debt markets. The secondary market is generally liquid in case of issues which have ratings above the investment grade. Over-the-counter trade in corporate debt is often significant, sometimes higher than the volume of secondary market transactions. In case of developed countries, the relationship between the size of bank loans and the

volume of corporate bonds issued is generally inverse indicating substitutability between them rather than complementarity as observed in case of the developing countries. While full disclosures are necessary for public offerings of debt, private placements require relatively less stringent disclosures. In normal times, the spread between the yield of risk-free sovereign bond and top rated private sector bond is much smaller in the developed countries compared to the same in the emerging market economies. The derivative markets are developed which provide opportunity for hedging against adverse market movement. Supporting infrastructure such as dependable rating agencies, bond insurance, securitization agencies/ law are available to foster the development of corporate debt market in the developed countries.

Unlike in the developed countries, the corporate debt market has a short history of development in the emerging market economies. These countries face several problems in developing the corporate debt market. First, there is predominance of commercial banks and other financial institutions which meet corporate sector's financial requirements. Second, the corpus of institutional investors like insurance, pension funds, provident fund etc., is small and mostly guided by the policy of directed investment. Third, government securities market is either not developed or inadequately developed with less dependable yield curve. Fourth, financial markets are highly volatile with high inflation and depreciating currency. Fifth, incomplete integration of financial markets and high transaction costs result in large spread between government securities and corporate bond rates. Sixth, the tax regime is generally unfavorable to the growth of corporate debt market. Seventh, there is either regulatory overlap or regulatory gap which inhibits planned growth of the corporate debt market. Eighth, the reporting system is either inadequate or not put in place as regards corporate debt market. Ninth, supporting financial and legal infrastructure such as rating agency, bond insurance, derivative market and insolvency law are either not available or underdeveloped.

III. Government Securities Market in Oman

The Financial Affairs Council (FAC) and the Ministry of Finance (MOF) are the two apex authorities responsible for all financial matters in Oman. The FAC is composed of MOF and representatives from the Central Bank of Oman (CBO) and the Capital Market Authority (CMA). The MOF proposes to the FAC financial policies related to regulations for adoption and also monitors their implementation. According to the Royal Decree 39/96, the MOF has authority to borrow on behalf of the Government and keeps records of the government's financial transactions. The decree does not specify the purpose of borrowing, limits of borrowing and objectives of debt management strategy. Reporting of debt management activities is not mandated. There is no Public Debt Act in Oman.

According to the Banking Law 2000, the CBO can borrow funds on behalf of the Sultanate provided the loans are guaranteed by the Government. To meet temporary cash flow needs of the Government, the CBO can provide short-term credit to the Government by way of overdraft up to a limit. The amount of such overdraft limit from the CBO together with outstanding Treasury Bills issued on behalf of the Government shall not exceed 10 percent of budgeted current revenues and needs to be repaid within 90 days. Public debt management is entrusted to the Treasury department of the MOF. There are two separate units for debt issues, one for external debt and the other for domestic debt. External debt office (Loan Department) performs both front and back office functions. The domestic debt office is known as Treasury Department which mainly performs back office functions. The front office functions for domestic debt are performed by the CBO as an agency of the Government as specified in a memorandum of understanding. A committee of MOF and CBO officials is supposed to meet regularly for the issuance of Treasury Bills and once in every quarter for the issuance of development bonds (DBs). The CBO conducts auctions of Treasury Bills and DBs and keeps a registry of Treasury Bills. Issuance of Treasury Bills

has been discontinued since 2005 due to improved fiscal position of the Government. Before every auction of development bonds, the CBO publishes the terms of each issue. As soon as the auctions are over, the CBO transfers the registry of development bonds to the Muscat Clearing and Depository Co. (MCDC) Vide Royal Decree No.82/98, February 25, 1998. Earlier, it was called Muscat Depository and Securities Registration Company (MDSRC). According to the Capital Market Law, development bonds are traded in the MSM through the brokers. OTC trades, if any, has to be put through brokers. Transaction details are communicated by brokers to the MCDC for settlement on T+1 basis. The MSM is responsible for releasing market data on DBs on a daily basis. In order to promote placement of development bonds, a Primary Dealers' (PDs) system has been introduced with rights and duties of PDs stated in the PD agreement. The PD system is dysfunctional as issuance of development bonds are few in recent years and there are virtually no transactions of development bonds in the secondary market.

According to Article 26 of the Banking Law, 2000, the CBO can issue its own securities to conduct monetary operations. Currently, the CBO is issuing 28-day CBO CDs on a weekly basis to mop-up excess liquidity from the system. The CBO CDs are eligible as collateral for inter-bank repo as well as for repo transactions with the CBO. The CBO is the clearing house and central depository for the CDs.

The profile of public debt of the Sultanate (Table 1) indicates that the amount outstanding under DBs has steadily declined since 2005, partly due to repayments and more importantly due to limited issuances. Its share in the total public debt outstanding declined from a little over 63 percent in 2005 to 25 percent in 2009. Following increase in the crude oil prices and consequent improvement in the overall fiscal position, Government's short-term borrowing became zero since 2006. However, medium and long-term loans, mainly from the overseas market, grew modestly over the recent years. These are mostly

government guaranteed loans for the public sector undertakings obtained from abroad to take advantage of the low interest rate prevailing in the international markets. The share of medium and long-term loans in the total public debt increased steadily from 36.4 percent in 2005 to nearly 75 percent in 2009. Public debt to GDP ratio declined from 8.6 percent in 2005 to 4.2 percent in 2008 before rising to 5.7 percent in 2009. Improvement in the overall fiscal balance, following steady increase in crude oil prices in the global markets contributed to the decline in debt-GDP ratio during the recent years.

Table1: Public Debt in Oman

	(RO Million)				
	2005	2006	2007	2008	2009(p)
Development Bonds					
Opening Balance	650	642	562	432	352
Issuance	52	0	0	80	50
Repayment	60	80	130	160	150
Closing Balance	642	562	432	352	252
Short-term Borrowing					
Opening Balance	147.9	5.9	0	0	0
Disbursement	0	0	0	0	0
Amortization	142	5.9	0	0	0
Closing Balance	5.9	0	0	0	0
Medium and Long-term Loans					
Opening Balance	521.2	370.1	565.6	568.9	612.9
Disbursement	185.5	215.2	198.1	187.5	203.5
Amortization	336.6	19.7	194.8	143.5	63.6
Closing Balance	370.1	565.6	568.9	612.9	752.8
Total Debt	1018.0	1127.6	1000.9	964.9	1004.8
(%GDP)	8.6	8.0	6.3	4.2	5.7
		(Percent of Total)			
Development Bonds	63.1	49.8	43.2	36.5	25.1
Short-term Borrowing	06	0	0	0	0
Medium and Long-term Loans	36.4	50.2	56.8	63.5	74.9

P: Provisional

The development of the government securities market in Oman is limited by the volume of transaction in both primary and secondary markets (Table 2). During 2005 to 2007, there was no issuance of DBs. The secondary market transactions were negligible as subscribers, mainly banks and pension funds, held these securities to maturities. Yields were lower than the commercial bank's average lending rates. Therefore, there exists a scope for borrowing from the domestic market at competitive rate, at least by the public sector units (PSUs), rather than pushing the PSUs to borrow from the commercial banks at higher rates. As the international interest rates are expected to go up with pick-up in the global recovery, it is desirable to borrow from the domestic market rather than locked into variable rate borrowing from the international markets.

**Table 2: Government Bonds: Primary and Secondary Market Indicators
(RO Million)**

Issue No.	Issue date	Maturity date	Issue amount	Local Subscribers	Foreign Subscribers	Average yield(%)	Turnover 2008	Turnover 2009
29	05/05/03	01/05/08	80	72.3	7.7	3.92	-	-
30	04/08/03	01/08/08	80	63.5	16.5	3.98	-	-
31	03/11/03	01/11/10	70	52.7	17.3	5.17	6.48	6.03
32	15/03/04	01/02/09	70	46.4	23.6	4.36	0.01	-
33	02/08/04	02/08/09	80	70.2	9.8	4.81	6.68	-
34	15/12/04	01/11/10	52	23.3	28.7	5.38	12.76	0.06
35	03/08/08	03/08/13	80	80	0	3.86	12.26	-
36	06/09/09	06/09/12	50	50	0	2.18	-	0.05
37	26/07/10	26/07/15	100	100	0	2.37	-	-
38	11/11/10	11/11/14	100	100	0	1.83	-	-

Source: CBO and MSM.

III.1 Arab Debt Market Development Initiative: Oman

The International Monetary Fund (IMF) has recently prepared two comprehensive papers. The first relates to "Central Bank of Oman: Strengthening Liquidity Management and Developing Money and Debt Markets" (IMF, 2008). The second paper is on "Arab Debt Market Development Initiative: Oman" (IMF,

June 2009). While the first paper has suggested for the development of both money and debt markets, the second paper has exclusively dealt with the development of government securities market in Oman. The major recommendations of the IMF extracted from the second paper are given in Annex1.

The Central Bank of Oman broadly agrees that there is a need, in the medium term, to develop a vibrant debt market in Oman. There are a few substantive issues which need to be resolved for developing the debt market in Oman. A time-bound road-map is necessary in this regard for the development of both primary and secondary markets for government securities as well as for corporate debt securities. While preparing the road-map, sequencing of debt market development initiatives assumes importance. Initially, the agenda should include regular issuances of government securities, followed by development of market micro-structure and regulatory requirements for orderly development of government securities market. The issue relating to the cost of issuance of government securities needs to be resolved in view of surplus in the overall fiscal balance in Oman. As multiple agencies are involved in the endeavour, there is a need for coordination among them, particularly among the Ministry of Finance, CBO, and the Capital Market Authority, including the Muscat Securities Market (MSM).

The CBO CDs and the government securities can be issued side by side as the tenor and purpose of both the instruments are different. As the Government is in surplus mode, issuance of Treasury Bills and dated securities in large amount may not be advisable. At the most, for the purpose of developing the debt market, the Government may like to follow a calendar of issuing Treasury Bills and dated securities in small amount such that the costs remain limited. In fact, it is not desirable to assign the entire burden of liquidity management to the government securities.

There is a need to review the legal and regulatory framework as well as market micro-structure, including the setting up of an OTC market for quote-driven trading. According to the Capital Market Authority, the current trading system allows quote-driven transactions. But, there should be market makers in order to implement this suggestion. In a quote driven system, markets are run by market makers, who give both-way quotes to buy and sell and the entire order book is exclusively available to them. In an order driven system, investors can directly see the prices on the screen as the entire order book is available on screen and place their order through brokers or trading members. Each system has its own merits and demerits. However, through an order matching system, better price discovery takes place while quote driven system is effective in creating liquidity in illiquid papers. For a vibrant secondary market, we feel that an order-driven trading system should be put in place over a period of time, although quote-driven system may be desirable at the initial stage of market making.

III.2 A Road Map for Developing Government Securities Market

Keeping in view huddles in the process of developing debt market in Oman, a road-map is proposed below to develop Government securities market as well as the corporate debt market.

To begin with, the Ministry of Finance may initiate work for the enactment of a Public Debt Act in Oman. It would spell out, inter alia, the medium term objectives of public debt management, responsibilities of front office, middle office and back office, strategy of public debt management with emphasis on the development of domestic debt market, legal foundation for setting up of market micro-structure and coordination mechanism between CBO, CMA and MOF for time-bound growth of primary and secondary markets.

Pending enactment of a Public Debt Act in Oman, the CBO may initiate discussion with the Ministry of Finance to prepare the issuance calendar of

Treasury Bills and dated securities (development bonds) starting from January 2011. The amount mobilized under the proposed scheme for the purpose of developing the debt market may form a corpus called Market Development Fund (MDF) as proposed by the IMF. During the next five years, the outstanding government securities may increase by a little over RO one billion so as to provide a critical minimum mass of government securities that are required for the development of a vibrant government securities market in Oman.

The Market Development Fund should be converted from the domestic currency to the US dollar by the Government, if the management of MDF is assigned to the CBO so that CBO's own foreign assets are not utilized for this purpose. At the end of each year, the amount outstanding in MDF in domestic currency may be replaced by an equivalent amount of US dollar by the Government for its investment as per guidelines agreed between the CBO and the Government. MDF may be maintained in the CBO's balance sheet as a distinct account of the Government which would service the debt issued for the development of the debt market.

The problem relating to 'who would bear the cost of outstanding government securities' needs to be resolved upfront before persuading the Government to issue Treasury Bills and dated securities in regular intervals, even under condition of overall budgetary surplus. The management of this fund may be either assigned to the CBO or undertaken by the MOF itself. Investment of these funds in sovereign debt issued by leading western countries may not fetch as much returns as the cost of raising these funds domestically. In order to resolve the problem of cost of fund, the investment guidelines of MDF may be devised in such a manner that returns from MDF should fully meet the domestic cost. This is possible if at least 50 percent of MDF is earmarked to be invested in the emerging markets where the returns are generally higher than the domestic cost of fund in Oman. In case 50 percent of MDF is initially not sufficient to compensate the domestic cost, the allocation may be increased up to a

maximum of 75 percent for the emerging markets. Investment guidelines may further specify the combination of sovereign debt and equity that could be allowed while investing in the emerging markets.

Initially the balance amount in MDF may be invested in government bonds issued by the western countries. The alternative option is to invest the remaining proceeds domestically for the development of infrastructure. As of now, the Government is playing a critical role in this direction. The budgetary resources are channeled through capital expenditures for infrastructure development. Outside the budget, projects undertaken by the private sector that are critical to supplement government endeavour for infrastructure development may be financed from the MDF. A new investment vehicle may be needed for this purpose. An innovative non-bank finance company such as Oman Infrastructure Investment Company (OIIC) can be floated for this purpose. The OIIC may provide matching capital investment by the private sector in specified projects. Projects undertaken under public-private partnership (PPP) would also be eligible for assistance provided projects belong to the specified category. Initially, OIIC may be owned by the CBO and/or provide the line of credit from the MDF for such investment as specified from time to time on a no-profit no-loss basis. More and more funds may be channeled from MDF to the investment vehicle as the activities of the proposed OIIC picks up.

The illustrative calendar for the regular issuance of Treasury Bills and dated securities is given in Tables 3 and 4. The calendar for Treasury Bills is proposed in such a manner that there is issuance of 91-day, 182-day and 364-day Treasury Bills once in every quarter for a small amount of say RO 25 million each in the first week of every month.

As indicated in the Table 3, there would be four issues of 91-day Treasury Bills amounting to a gross amount of RO 100 million in a year. By the end of the year, the outstanding amount of 91-day Treasury Bills would be zero, as these issues

would mature during the course of the year. Similarly, out of four issues of 182-day Treasury Bills, only two issues amounting to RO 50 million would remain outstanding while all four issues of 364-day Treasury Bills would remain outstanding at the end of the year. Taken together, there would be 12 issues amounting to a gross amount of RO 300 million of which RO 150 million would remain outstanding at the end of the year.

Table 3: Illustrative Calendar for the Issuance of Treasury Bills

(RO Million)

Month	91-day TB	182-day TB	364-Day TB	Total TB
Jan	25	-	-	25
Feb	-	25	-	25
Mar	-	-	25	25
April	25	-	-	25
May	-	25	-	25
June	-	-	25	25
July	25	-	-	25
Aug	-	25	-	25
Sept	-	-	25	25
Oct	25	-	-	25
Nov	-	25	-	25
Dec	-	-	25	25
Outstanding	-	50	100	150

Note: Securities that would remain outstanding at the end of the year are indicated in bold.

The maturities of dated securities to be issued may be 3, 5, 7 and 10 years. Dated securities may be issued each quarter for an amount of RO 50 million as illustrated in Table 4. The amount of dated securities outstanding at the end of first year shall be RO 200 million.

Table 4: Illustrative Calendar for the Issuance of Dated Securities**(RO Million)**

Quarter	3-Year	5-Year	7-Year	10-Year	Total
Q1	-	-	-	50	50
Q2	-	-	50	-	50
Q3	-	50	-	-	50
Q4	50	-	-	-	50
Outstanding	50	50	50	50	200

Keeping in view their maturity profiles, the amount outstanding in the MDF at the end of each year is indicated in Table 5. The cumulative amount would be RO 1050 million by the end of the fifth year which is less than the amount outstanding under CBO CDs at this moment. With the regular issuance of Treasury Bills and dated securities, the pressure on CBO CD would be less. However, lesser amount of CBO CDs may continue to be issued as an instrument of liquidity management side by side with regular issuances of government securities.

Table 5: Cumulative Amount Outstanding in MDF**(RO Million)**

At the end of	T. Bills	Dated Securities	Total
1 st Year	150	200	350
2 nd Year	150	400	550
3 rd Year	150	600	750
4 th Year	150	750	900
5 th Year	150	900	1050

The cost of such borrowing would depend on the prevailing market conditions and the coupon rate at which the government securities were issued from time to time. The CBO should derive weighted average interest rate of all outstanding government securities on a quarterly basis to ascertain the cost vis-à-vis the

return on investment of the MDF. As mentioned earlier, the endeavour should be made to earn as much return as possible so that servicing cost of the amount outstanding in MDF is fully met.

As per the present arrangement, the CBO can provide temporary overdraft to the Government in case of exigency subject to a prudential limit of 10 percent of the budgeted revenue. The limit includes not only loans by the CBO but also amount outstanding in 91-day Treasury Bills. As Treasury Bills are expected to be absorbed entirely by the market without any devolvement on the CBO, there is no possibility of reserve money expansion on account of the issuance of Treasury Bills. Since we propose regular issuance of Treasury Bills, including 91-day Treasury Bills, the Banking Law, 2000 may be amended to remove 91-day Treasury Bills from the 10 percent limit.

IV. Developing Corporate Debt Market in Oman

One of the pre-requisites for developing corporate debt market in any country is the existence of a developed government securities market as discussed in Section II. However, efforts may be made to develop corporate debt market in Oman side by side with the government securities market. As diversification of the Omani economy is under progress, the corporate sector may find it cheaper to raise resources from the market through issuance of debt securities rather than entirely depend on institutional finance. Listed companies may be encouraged to borrow from the market through public issue of debt securities while unlisted companies may mobilize resources through private placements. The Capital Market Authority (CMA) may issue detailed guidelines on the primary issuance of debt securities subject to adequate public disclosures. A couple of rating agencies may be set-up by the CMA urgently for the rating of each debt securities issued by the corporate sector. Rules and regulations for the secondary market trading of corporate debt may be revisited by the CMA on the lines of international best practices. A robust reporting system of the corporate

debt market may be put in place for an orderly development of this segment of the debt market. The CMA may initiate actions for the development of market micro-structure for the corporate debt market including setting up of depository, clearing and settlement system etc.

V. Concluding Observations

There is a need to develop both government securities and corporate debt markets in Oman. While a developed government securities market would discover a benchmark sovereign yield curve, the corporate debt market would provide an alternative channel of finance to the corporate entities. As a part of the time bound road-map, government should initiate action for the enactment of a Public Debt Act for Oman. The CBO may coordinate between Ministry of Finance and Capital Market Authority for the development of both primary and secondary market for government securities. A calendar indicating regular issuance of Treasury Bills and dated securities in small amount, as proposed in this paper, may be worked out jointly by the CBO and the MOF. The corpus may form Market Development Fund which should be converted into foreign currency by the Government and invested abroad to compensate the cost of domestic borrowing under conditions of overall fiscal surplus. The investment guidelines may be revisited. At least 50 percent of the corpus may be invested in the emerging markets to earn as much return as possible to fully compensate the cost of domestic borrowing. A new investment vehicle in the form of an NBFC namely, Oman Infrastructure Investment Company may be set up to provide matching investment assistance to the specified projects undertaken by the private sector or under public-private partnership. The Banking Law, 2000 may be amended to take out 91-day Treasury Bills outstanding from the 10 percent limit of current revenues while providing temporary overdraft to the Government by the CBO in case of exigency. For the development of corporate debt market, the CMA may issue detailed guidelines for public issue and private placement of corporate debt instruments by listed and unlisted companies, respectively.

Setting up of a couple of rating agencies may be considered urgently. The CMA may revisit the regulations relating to central counterparty, OTC market and depository for corporate debt at the earliest. Government may consider enactment of Insolvency Law in Oman in due course. Issues relating to short selling, security lending, securitization, bond insurance could be taken up at a later stage of debt market development.

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Annex 1. Main Recommendations and Timing for Developing Debt Market in Oman

Recommendation	Timing
I. Strengthen liquidity management to mop up excess liquidity and develop money market	
Adopt an operating target for liquidity management based on an assessment of liquidity conditions	Short-term
Develop a liquidity forecasting framework and coordinate with MOF on its cash flow forecasts	Short-term
Issue only on the short-end (i.e. 28 day segment) and progressively phase out CD issuance as the T-Bill market develops	Short-and medium-term, respectively
Shorten the repo facility so that it is used on a daily basis only	Short-term
Discontinue the rediscount facility	Short-term
II. Develop a medium-term debt management strategy (MTDS) as the pillar supporting the government's issuance strategy	
Develop a MTDS that defines the objectives of the debt strategy (recognizing the importance of debt market development as an objective) and formulates an associated financing strategy	Short-term
Within the MTDS assess implications of issuance strategy for cash management and liquidity management, and coordinate with CBO	Short-term
On the basis of the MTDS and financing strategy, issue securities on a regular basis across the yield curve (even in the absence of a financing need)	Short-term
III. Review implications of financing strategy for sovereign balance sheet	
Determine strategic asset allocation (SAA) of fund raised by government's issuance strategy, taking into account corresponding liability structure	Short-term
Review implications of the SAA for the government's other reserve funds and sovereign liabilities	Short-term
IV. Set up an effective Debt Office inside the MOF	
Reorganize debt activities of the MOF according to a FO/MO/BO line	Short-term
Entrust the MO with the mission of drafting a global debt analysis and a MTDS	Short-term
Develop relation between the FO of the MOF and market participants	Short-term
V. Develop the primary market	
Ensure regular issuance on the primary market	Short-term

Target segments on the yield curve to create benchmarks and establish regular issuance program and auction calendar for government securities	Short-to medium-term
Consider purchases of dated bonds and re-opening to foster more active trading and a price reference	Medium-term
VI. Develop the secondary market	
Implement an OTC market (quote-driven) for government securities	Short-term
Regulate the OTC market through a MOU between the CBO and CMA and develop IT infrastructure to ensure transparency and direct settlement through CBO and MDSRC	Short-term
VII. Other measures to support the development of the market	
Create a Bankers Association and a Dealers Association	Short-term
Reassess current restrictions on banks' lending operations and equity holdings, as well as regulations pertaining to corporate bond issuance	Medium-term
Reassess current restrictions on short selling and bond lending	Medium-term
Consider enacting a public debt law	Medium-term
Consider a securitization law to provide investment outlets for investors	Medium-term