

Chapter 5

Impact of the Pandemic (COVID-19) on Financial Performance: A Comparative Analysis of Listed Companies in Oman

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ABSTRACT

This study aims to examine the influence of the COVID-19 pandemic on the financial sector's performance in the Sultanate of Oman. The analysis is based on data from the daily closing stock market price of Muscat Stock Market (MSX- 30) securities and the number of affected patients from March 2020 to July 2020 during the peak era of COVID-19 in Oman. Following the modern monetary theory (MMT), these results reveal that return on bonds reacted adversely during the pandemic in proportionate to the rise in COVID-19 infected cases. Moreover, the COVID-19 pandemic had a detrimental effect on the performance of the Omani Financial Market. The data and results also demonstrated that in the epidemic's early days, some industries' stock rapidly responded to COVID-19, and a considerable negative market reaction was evidenced. Additionally, in response to the COVID-19 pandemic, the stock market has changed accordingly. However, the pandemic duration and stimulus packages by Omani Government have played an essential role in managing the effects of the COVID-19 outbreak on the economy.

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1. INTRODUCTION

Financial markets hold central importance in any economy of the world. On the one hand, they provide a platform for trading financial assets and instruments. On the other hand, they signal the direction of the overall economy triggering prompt responses from the governments to stay on the right track. A well-developed financial market is the hallmark of a well-developed economy (Wong & Zhou, 2011). Its most significant role is reallocating financial resources and ensuring technological advancements with economic efficiency. Various studies (Gregorio & Guidotti, 2011; King & Levine, 1993) have found a strong positive correlation between the development of financial markets and economic growth. However, not all financial markets are the same. As Ibrahim (2007) pointed out, assuming homogeneity across financial markets is a mistake because measures that work efficiently in one financial market might fail in another. Therefore, it is paramount that each financial market is studied separately and comparatively to understand the factors that affect it.

Muscat Stock Exchange (MSX) is the sole capital market for Oman, established by the Royal Decree 53/88 issued on June 21, 1988, to function as an independent authority to regulate Omani securities and thus enable the much-required support and completion of the financial sector in Oman. The core functionality of the MSX includes supervision of the trading services that entail share dealing. It ensures that price fairness is maintained throughout while maintaining the integrity of different procedures. These include the settlement of the rights and obligations of all parties involved. MSX exercises control on the brokerage firms to ensure the essential governance that entails continuous monitoring and dissemination of information on a timely basis, ensuring that the public's interests are maintained.

MSX is also the avenue for companies seeking Initial Public Offering (IPO). Since its inception it has witnessed significant developments, with approximately 115 companies listed across five key sectors. At the beginning of 2020, a disease called COVID-19 broke out worldwide. It was declared a pandemic by the WHO in March 2020. It caused widespread lockdowns worldwide, limiting economic activity, so people began to resort only to necessities. Economies world over experienced a shock as investors started to panic. It became obvious from the onset of COVID-19 that the stock market would be among many of the realms hit by the pandemic. The GCC region despite its cautious approach to COVID-19, experienced a retardation in economic growth. It soon learned that there was an essential tradeoff between restricting the spread of COVID-19 and allowing business activities to continue. Since there is nothing more precious than human life, lockdowns were preferred. Oman also experienced a strict lockdown as the Government considered some businesses essential and only allowed those to operate openly. Most businesses that could adopt and shift to online mode did so, but those that could not have suffered greatly. For instance, schools and universities shifted wholly to the Internet, food businesses limited themselves to home deliveries and takeaways, tourism and construction activities were banned altogether, and sports events were canceled (it was resumed later, but only essential personnel were allowed on courts). Muscat remains the most affected city, with the most confirmed cases and fatalities (*Ministry of Health, Oman*). The Omani stock market is also expected to be adversely affected as most activities that can boost economic growth are halted. This study aims to investigate exactly how the Omani stock market was affected by COVID-19 to suggest solutions to financial setbacks.

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