



# FINANCIAL SERVICES VOLUNTEER CORPS

## Gulf Monetary Union: Policy Perspectives and Questions

Andrew Cunningham  
Managing Director  
Middle East Programs

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# Monetary Union is a Long-Term Project

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- Barre Report, 1969, calls for “greater co-ordination of economic policies and monetary co-operation.”
- Introduction of Exchange Rate Mechanism (ERM) to reduce exchange rate volatility, March 1979.
- Maastricht Treaty establishes, *inter alia*, convergence criteria for adoption of Euro, 1992.
- Creation of “European Monetary Institute” as forerunner of the European Central Bank, January 1994.
- Adoption of the “Stability and Growth Pact,” June 1997.
- Creation of European Central Bank and currency conversion rates for 11 initially-participating countries set, June 1998.
- Euro replaces national currencies, although existing national notes and coins continue to be used, January 1999.
- Euro notes and coins issued, January 2002 and soon after, national notes and coins are withdrawn.

# The distribution of economic weight in the GCC is uneven

## Share of GDP (%), 2007\*

Bahrain	2.3
Kuwait	14.4
Oman	5.0
Qatar	6.0
Saudi Arabia	53.9
United Arab Emirates	18.3

\* At current \$. Source: World Bank

# Two states dominate the monetary environment

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## Share of M2 (%), June 2008

Bahrain	3.5
Kuwait	15.0
Oman	1.6
Qatar	7.9
Saudi Arabia	36.6
United Arab Emirates	35.5

Source: Central Bank Reports

# Private sector credit is concentrated in the same two states

## Approximate distribution of private sector credit from banks (%) June 2008

Bahrain	4.7
Kuwait	16.8
Oman	5.3
Qatar	7.7
Saudi Arabia	37.1
United Arab Emirates	28.3

Source: Central Bank Reports (Figures for Bahrain include retail banks and approximate figure for Islamic retail and wholesale banks.)

# Hypothetical Distribution of Gulf Central Bank's Capital (%)

(% GDP + % Population) % (GCC GDP and GCC Population)

Bahrain	2.2
Kuwait	11.0
Oman	6.2
Qatar	4.2
Saudi Arabia	61.1
United Arab Emirates	15.3

Source of underlying GDP and population data: World Bank

# Two questions for those favoring Gulf Monetary Union

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Is a citizen of Bahrain, Oman and Qatar willing to accept that monetary policy in his/her country will be decided according to the economic priorities of the other, larger states?

*(Note: politicians governing small European states have answered this question "yes," on behalf of their citizens.)*

To what extent do national central banks in the Gulf believe that joint monetary policy must lead to a common approach to banking supervision; and are they willing to accept such a common approach?

**Monetary Policy is a Political Business!**

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Andrew Cunningham  
Managing Director  
Head of Middle East Programs  
Financial Services Volunteer Corps  
800 Third Avenue  
11<sup>th</sup> Floor  
New York, NY 10022

Tel. + 1 (212) 771 1417  
Fax + 1 (212) 421 2162  
[acunningham@fsvc.org](mailto:acunningham@fsvc.org)