2017

ANNUAL REPORT

WWW.GMCO.INT

المجلس النقدي الخليجي
Gulf Monetary Council

TABLE OF CONTENTS

Annexes

Charts

Tables

Boxes

MESSAGE FROM THE BOARD CHAIRMAN

The Executive Board of the Gulf Monetary Council (GMCo) is pleased to present its 2017 annual report, the third issue in the series. The report makes four contributions as follows:

- discusses recent economic development and economic outlook among GCC member countries
- presents the work carried out by the staff during 2017 under the Board's guidance
- summarizes progress in achieving the statutory objectives of our organization
- explains the challenges faced by GMCo to achieve its objectives

The year 2017 witnessed another milestone in the pursuit of the organization's objectives. The staff was strengthened with the support of the Board and the technical work expanded. Several reports and projects were prepared in the course of the year that helped to clarify the need to:

- harmonize policies, processes and instruments
- improve statistical base among member countries to facilitate monetary integration
- make legal frameworks more compatible with the requirements of the Monetary Union Agreement

The tasks ahead are now to implement the recommendations coming out of the Board of Directors discussions of the various projects and reports. It is expected that this will call for greater interaction among GMCo, National Central Banks (NCBs) and National Authorities (Ministries of Finance; Office of Statistics etc.).

I want to thank my fellow Governors for their support and dedication in advancing our agenda for monetary integration. I also thank the GMCo management and staff for their hard work and I look forward to another year of very productive work.

Rasheed Mohammed Al Maraj
Chairman of the Board of Directors

I. Overview

This report is mainly focused on what the Gulf Monetary Council (GMCo) accomplished in 2017 and the challenges it faces to meet its statutory objectives. GMCo was formally established on March 30, 2010 when its Board of Directors held its inaugural meeting in Riyadh. Actual operations started much later as a result of delays in sorting out logistics and appointing staff.

Back in December 2008, the Supreme Council, the highest decision-making body of the Gulf Cooperation Council (GCC) had approved the Monetary Union Agreement (MUA) and in May 2009, it chose Riyadh to host the headquarters of GMCo. In June, the Ministers of Foreign Affairs of four GCC members (Bahrain, Kingdom of Saudi Arabia; Kuwait and Qatar) signed the Agreement. The MUA is a document that lays out the purpose, functions and objectives of the organization. The Agreement is supplemented by the Statutes of the Council which provide additional details on its functioning. While both documents guide the organization, it is the MUA that provide the basis for the accountability of the organization.

GMCo is an independent entity with a legal personality overseen by a Board made up of the Governors of the four Central Banks of member countries. It is headed by a President supported by a staff of senior and junior officials. The first President, Khalid Al-Saad, a Kuwaiti national was appointed at the end of 2012. He was succeeded by Raja Al-Marzoqi, a Saudi national. In principle, Presidents are appointed by the Board for a three-year term renewable once.

The Board of Directors which meets at least six times a year, sets out the broad parameters within which the staff carries out its work. In addition to the President, it also approves the appointment of the senior staff who must be GCC citizens. Any exception (and there have been several of them in 2017) must be approved by the Board.

This report will emphasize what was accomplished by the staff in 2017 under the broad guidance of the Board. The report includes in its analytical and prospective sections the two other GCC member countries, Oman and UAE.

At the technical level the organization continues to forge ahead and, on a more positive note, 2017 represents somewhat of a watershed in its short history. It has now laid out very clearly what is to be done to achieve its statutory objectives, what are the prerequisites and what are the challenges it faces to fulfill its mandates.

II: Economic Development among GCC Member Countries

Introduction

This section discusses first economic development in 2017 among GCC member countries. The impact of the Federal Reserve's increases in interest rate on GCC countries is then examined. The convergence criteria are reviewed in the following section. Finally, medium term prospects across the GCC membership are presented based on GMCo's forecasting model.

2.1 Recent Economic Development

While oil prices picked up during 2017, they were still well below their peak levels of 2013 and 2014[1]. As a result, economic growth was generally smaller among all GCC member countries notably Kuwait which witnessed the biggest decline because of the lower level of its oil production (see the section on Kuwait for more details).

Inflation was subdued across the membership reflecting lower international food prices and rents as supply of housing expanded among several member countries. Food and housing are items that account in general for the biggest shares in the CPI basket among GCC countries.

In the fiscal sector, in part as a result of the upward trend of oil prices, the deficit declined among all the six member countries even if they remained quite high especially in Bahrain, Oman and, to a lesser extent, Saudi Arabia. Capital expenditure appears to have borne the brunt of fiscal consolidation across the membership although recurrent items were also affected in KSA. Revenue was also higher in general which contributed to the reduced deficit.

The total financing needs of the six member countries amounted to about $80 billion in 2017, seventy-seven percent of which is accounted for by KSA alone. Member countries raised significant amount of funds both on the domestic and the international markets but also drew down from their reserves. The total financing needs of member countries show the potential for development of financial markets if cross border capital movement among all of them could take place more easily.

In the monetary sector, money supply expansion was quite varied across the membership: the increase in broad money was a mere 0.2 percent in KSA but 21.3 percent in Qatar, the other four countries witnessing single-digit growth. While Net Foreign Assets (NFA) declined across the member countries (except for UAE) reflecting lower oil prices, the expansion of credit both to the government and to the private sector was the main explanatory factor in Qatar's money supply growth. This was supported by a significant increase (on the liability side) in deposits, notably by

1 The average annual OPEC crude oil price was $52.5 per barrel in 2017 up from $40.7 in 2016 but still considerably below the peaks of $109.5 and $105.9 in 2012 and 2013, respectively.

public enterprises whose deposits expanded by 73 percent in 2017[2].

As mentioned above, the country is embarked on an ambitious infrastructure program. The increase in credit to the private sector among the other GCC members was the highest in Oman giving credence to the fact that in 2017 competition among banks continued as deposits slowed putting pressure on interest rates. The increase in credit to the private sector was also fairly high in Kuwait reflecting the country's effort at diversification. Otherwise, it was either negative or fairly moderate among the remaining countries. The continued expansion of credit to the government in KSA was compensated by the decline in Net Foreign Assets (NFA).

In the external sector, the current account balance as a percentage of GDP improved, although only marginally so in Bahrain but markedly in the other countries, again the exception being UAE where the surplus almost doubled. The economy of the UAE is far more diversified than other GCC members. The current account deficit was the highest in Oman in 2017.

Trade surpluses generally expanded among member countries as oil prices picked up while the structural deficit on the service sector remained roughly the same, as a result of which the current account deficit was lower.

The fairly large deficits in the financial accounts of the previous years declined, significantly for some of the countries, reversing the trend of overseas assets accumulation. As a result, the outcome on the overall balance generally improved even if in some cases (notably KSA) the overall deficit in absolute terms was still fairly high.

External debt, while generally fairly low by international standards except for Bahrain, Qatar and Oman, is on the rise. Given the significant accumulation of external assets in general by member countries, this should be less of a problem for Qatar but not Bahrain and Oman. It is an area that should retain the attention of the authorities going forward.

The overall picture that emerged in 2017 among GCC member countries is that the pace of the economy slowed down while the deficits in both the public and external sectors were improving due to higher oil prices. There are still structural challenges to be addressed, among which:

- containing recurrent expenditure
- improving the efficiency and effectiveness of the capital budget
- monitoring the external debt situation (at least for the highly indebted countries)

The case of Bahrain and to a lesser extent, Oman however remains tenuous faced as they are with greater fiscal imbalances. As will be discussed below, it is even more urgent to complete the institutional set up required for successful monetary union. Had that been the case, an orderly program of technical and financial assistance could have been forthcoming supported by GMCo

2 See IMF, "Qatar - Staff Report for the 2018 Article IV Consultation," Table 6 (Monetary Survey) p.31

and a yet-to-be-set-up Gulf Fiscal Board (along the lines of the European Fiscal Board[3]).

2.1.1 Bahrain

In 2017, real GDP is estimated to have grown by 3.9 percent compared to 3.2 percent one year earlier. Inflation, as measured by the average consumer prices, declined to 1.4 percent compared to 2.8 percent in 2016.

Table 1: Recent economic development in Bahrain

	2016	2017
GDP (growth rate real)	3.2	3.9
Nominal GDP (billions $)	32.2	35.3
Nominal GDP per capita (US$)	24,146	25,170
Population (million)	1.4	1.5
Inflation (consumer price index)	2.8	1.4
Fiscal balance for budgetary central government (billions $)	-4.3	-3.5
Fiscal balance for central government (billions $)	-5.8	-5.3
Fiscal balance for central government (% of GDP)	-17.9	-15.0
Money and quasi-money (% change)	1.1	4.2
of which: NFA (% change of beginning broad money)	-4.8	-2.2
NCG (% change of beginning broad money)	10.3	3.7
CPS (% change of beginning broad money)	1.1	1.7
Current account (% of GDP)	-4.6	-3.9
Reserves – billions $ (months of non-oil goods imports)	2.4 (2.8)	2.6 (2.7)
Central Government gross debt (% of GDP)	81.5	89.3

Source: Central Bank of Bahrain, National authorities and IMF

(Note: In this table and all others below, NFA is net foreign assets; NCG: net credit to the government; CPS: claims on private sector)

While the deficit in the public sector declined to 15 percent of GDP in 2017, it still remains high and should be a major issue of preoccupation for the authorities. In the monetary sector, broad money grew by 4.2% in 2017 compared to 1.1% in the previous year. This is accounted for by the increase in credit to the Central Government[4] (see Table 1) expanding by 3.7 percent and to a lesser extent by claims on private sector for a mere 1.7 percent.

In the external sector, the current account deficit as a percentage of GDP declined to 3.9 percent from 4.6 percent the previous year while central government debt continued to increase reaching the equivalent of 89.3 percent of GDP in 2017. The level of reserves amounted to the equivalent

3 The European Fiscal Board was set up in 2016, its main functions being to evaluate the implementation of the European Union fiscal framework by member countries and to review and assess the fiscal stance for the euro area as a whole.

4 Government deposits are included in the component of broad money for Bahrain. As such, only claims on central government (CG) remains as part of factors affecting broad money for Bahrain.

of almost 3 months of imports of goods.

Bahrain is a fairly small economy compared to the KSA (and UAE if GCC membership is considered). It has sought to diversify its economic base notably through a thriving offshore banking sector accounting for more than 17 percent of GDP and is the largest non-oil contributor to GDP[5] . While it faces the same challenges as other GMCo members, the fact that it does not have abundant oil and gas reserves as they do makes its situation more tenuous.

While it has a fairly robust legal framework to underpin its budget process, it needs, as other GMCo members, to strengthen its fiscal governance framework in order to emphasize greater transparency in the allocation process and enhanced accountability in budget execution.

2.1.2 Kuwait

Real GDP growth was negative in 2017 reflecting a decline in oil output as Kuwait implemented its share of the OPEC+ agreement to reduce production. Despite upward adjustment in electricity and water rates, inflation declined in 2017 to 1.7 percent reflecting lower food prices and rents as more housing projects are completed. There was a surplus in the fiscal sector. However, if the 10 percent mandatory revenue transfers to the Future Generations Fund was excluded, then a fairly large deficit would emerge. The deficit was financed through a combination of drawdown of deposits, domestic and international borrowing.

Table 2: Recent economic development in Kuwait

	2016	2017
GDP (growth rate real)	2.9	-3.5
Nominal GDP (billions $)	109.4	119.5
Nominal GDP per capita (US$)	24,803	26,563
Population (million)	4.4	4.5
Inflation (consumer price index)	3.5	1.7
Fiscal balance for budgetary central government (billions $)	-15.3	-10.7
Fiscal balance for central government (billions $)	0.69	4.73
Fiscal balance for central government (% of GDP)	0.6	4.0
Money and quasi-money (% change)	3.6	3.8
of which: NFA (% change of beginning broad money)	3.9	-1.5
NCG (% change of beginning broad money)	2.3	2.6
CPS (% change of beginning broad money)	2.6	2.8
Current account (% of GDP)	-4.6	5.9
Reserves – billions $ (months of goods imports)	31.2 (12.1)	33.5 (12.0)
Central Government gross debt (% of GDP)	17.5	25.7

Source: Central Bank of Kuwait, National authorities and IMF

Note: (i) Reserves do not include external assets of the Kuwait Investment Authority; (ii) fiscal year starts in April; (iii) growth calculations are on the basis of domestic currency.

5 Bahrain, Base Prospectus, p. 45

In the monetary sector, broad money grew by 3.8 percent in 2017 compared to 3.6 percent in the previous year. This is accounted for by the increase in credit both to the private sector and to the government by, respectively 2.8 percent and 2.6 percent. The increase in private sector credit, albeit small, should have a positive impact on growth in the period ahead.

In the external sector, there was a surplus on the current account in 2017 after an unusual deficit the year before. There was a surplus on the trade account of $25.6 billion. This more than compensated the sum of the deficits on the service and current transfer accounts and combined with the surplus on the investment income resulted in a small surplus in the overall balance.

As a result, there was a surplus on the current account of $7.1 billion. There was an outflow on the financial account in the form of portfolio investment amounting to $20.0 billion. There was a small surplus on the overall balance of $1.9 billion in 2017 down from $3.2 billion the previous year.

The most important long term challenge faced by Kuwait is the diversification of the economy. Steps are being taken to address this, notably through international investment promotion in downstream oil products. In the near term, the strengthening of the budget process (budget preparation, execution, reporting and accounting) needs to be maintained. There is now an emphasis on reducing waste in spending and increasing capital expenditures, notably infrastructure and strategic projects. Similarly, budget preparation has now been shifted from its annual process to a medium term framework.

2.1.3 Oman

As with Bahrain, Article IV documents with Oman are not available for public domain on the IMF site. Real GDP is estimated to have shrunk by 0.3 percent in 2017 as a result of a decline in oil output due to the implementation of OPEC+ agreement to control production. Inflation nudged slightly up to 1.6 percent compared to the previous year reflecting reduction in subsidies notably on gasoline and diesel.

Table 3: Recent economic development in Oman

	2016	2017
GDP (growth rate real)	1.8	-0.3
Nominal GDP (billions $)	66.8	72.2
Nominal GDP per capita (US$)	14,982	15,833
Population (million)	4.4	4.6
Inflation (consumer price index)	0.8	1.6
Fiscal balance for budgetary central government (billions $)	-13.8	-9.8
Fiscal balance for central government (billions $)	-13.4	-8.2
Fiscal balance for central government (% of GDP)	-20.0	-11.3
Money and quasi-money (% change)	1.8	4.2
of which: NFA (% change of beginning broad money)	-3.1	-5.1
NCG (% change of beginning broad money)	41.1	1.0
CPS (% change of beginning broad money)	9.9	6.0
Current account (% of GDP)	-18.4	-11.5
Reserves – billions $ (months of goods imports)	20.3 (27.3)	16.1 (18.2)
Central Government gross debt (% of GDP)	31.3	43.8

Source: Central Bank of Oman, National authorities and IMF

The public sector deficit declined to the equivalent of 11.3 percent of GDP, still the second highest among GCC countries except for Bahrain, on account of higher oil prices and expenditure cuts. Money supply increased by 4.2 percent in 2017 reflecting continued expansion, albeit at a lower rate, of credit to the private sector. The current account deficit also declined in 2017 to the equivalent of 11.5 percent which combined with a probable deficit on the financial account brought about a decline in reserves to $16.1 billion, representing the equivalent of a still comfortable level of 18.2 months of goods imports.

Government debt to GDP ratio has increased rapidly since 2016 almost quadrupling from its 2015 level reaching the equivalent of an unprecedented 44 percent of GDP. This will have an impact on the fiscal situation going forward as the government faces increasing debt service payments.

2.1.4 Qatar

Qatar has had to face unprecedented challenges in 2017. There was some uncertainty initially as regard availability of consumer supplies while at the same time the banking sector faced significant withdrawals from non-residents. But confidence was quickly reestablished and the economy picked up.

New trade and air routes were found while the Central Bank and the sovereign wealth fund, Qatar

Investment Authority, injected enough deposits to reassure the banking system.

As a result, real GDP increased by 1.6 percent in 2017 from 2.2 percent in 2016. Crude oil production declined to its lowest level in five years but natural gas production maintained its highest level also in five years. The rate of inflation was down to 0.4 percent compared to 2.7 percent the previous year on account of lower food prices and rents.

Table 4: Recent economic development in Qatar

	2016	2017
GDP (growth rate real)	2.2	1.6
Nominal GDP (billions $)	152.5	167.6
Nominal GDP per capita (US$)	59,535	58,166
Population (million)	2.6	2.7
Inflation (consumer price index)	2.7	0.4
Fiscal balance for budgetary central government (billions $)	-14.0	-9.7
Fiscal balance for central government (billions $)	-7.2	-2.7
Fiscal balance for central government (% of GDP)	-4.7	-1.6
Money and quasi-money (% change) of which: NFA (% change of beginning broad money) NCG (% change of beginning broad money) CPS (% change of beginning broad money)	-4.6 -21.4 13.1 4.1	21.3 -2.5 6.7 6.6
Current account (% of GDP)	-5.4	3.8
Reserves – billions $ (months of goods imports)	31.6 (11.9)	14.8 (5.8)
Central Government gross debt (% of GDP)	46.5	53.6

Source: Central Bank of Qatar, National authorities and IMF

The public sector deficit is estimated to have declined in 2017 to 1.6 percent from 4.7 percent in 2016. This is explained by a reduction in both current and capital expenditures. Qatar has a more balanced split of its total expenditure between those two broad categories in large part due to its infrastructure program to host the 2022 World Cup. They accounted, respectively, for 18.6 and 13.8 percent of GDP (see Table 5 below). The country is implementing an ambitious infrastructure program amounting to a total of $200 billion (equivalent to 121 percent of 2017 GDP) to diversify the economy and prepare for the FIFA 2022 World Cup[6].

6 See IMF Art IV 2017 Concluding Statement

Table 5: Expenditure as percentage of GDP among GCC countries in 2017

	Bahrain	Kuwait	KSA	Qatar	Oman	UAE
Current of which: wage bill	31.2 (11.3)	44.0 (15.7)	29.0 (17.1)	18.6 (8.6)	31.9 (12.0)	27.0 (4.8)
Capital	2.5	7.7	7.0	13.8	12.0	3.2
Total expenditure	33.7	51.7	36.0	32.4	43.9	30.3

Source: National authorities and IMF Article IV Consultations (various years)

Note: data are for fiscal year basis 2016/17 for Kuwait

In the monetary sector, broad money supply increased by 21.3 percent in 2017. This is accounted for by an increase in claims to both the government and the private sector, each one of which expanded by close to 7 percent. While the increase in claims to the private sector was higher than in 2016, this was still well under previous annual rates.

In the external sector, the current account was back in surplus after experiencing the first deficit in many years in 2016. As is the case with other member countries, Qatar has a significant surplus on its trade account but structural deficits on its services, income and transfers accounts. Consistent with the pattern of previous years, the financial account was again in deficit in 2017 by $25 billion. This structural deficit is explained by the fact that both government and the private sector usually seek investment opportunities abroad.

As a result, Qatar experienced a deficit of almost $18 billion in its overall balance of payments. Consequently, the level of reserves (not including Qatar's Investment Authority) accumulated by the Central Bank declined to $14.8 billion in 2017 in part due to the capital outflows taking place after the June events.

Central government debt as a percentage of GDP has increased rapidly over the last three years reaching 54 percent in 2017 in part because the authorities preferred cheaper financing conditions abroad rather than drawing down on the accumulated fiscal surpluses of the past. While overseas asset accumulated is strong enough to enable Qatar to easily meet its obligations, the authorities might still want to monitor the situation closely. The challenge is to ensure that borrowed funds are used effectively to enable the government to meet its long term development goals. This raises the same issues faced by other member countries, i.e., the need to implement a robust fiscal governance framework emphasizing greater transparency and accountability.

2.1.5 Saudi Arabia

The Saudi economy declined in 2017. GDP decreased in real terms by 0.9 percent compared to an increase of 1.7 percent in 2016. This is mainly explained by a decline in oil production to 10 million barrels/day (b/d) compared to 10.5 million (b/d) in 2016 as per the OPEC adjustment to curtail supply. Nominal GDP per capita increased in 2017 to $21,057 from $20,289 one year earlier.

Table 6: Recent economic development in KSA

	2016	2017
GDP (growth rate real)	1.7	-0.9
Nominal GDP (billions $)	645.0	686.7
Nominal GDP per capita (US$)	20,289	21,057
Population (million)	31.8	32.6
Inflation (consumer price index)	2.0	-0.84
Fiscal balance for budgetary central government (billions $)	-83.0	-63.6
Fiscal balance for central government (billions of $)	-111.0	-61.3
Fiscal balance for central government (% of GDP)	-17.2	-9.0
Money and quasi-money (% change) of which: NFA (% change of beginning broad money) NCG (% change of beginning broad money) CPS (% change of beginning broad money)	0.8 -21.3 21.2 1.9	0.2 -8.2 12.0 -0.7
Current account (% of GDP)	-3.7	2.2
Reserves – billions $ (months of goods imports)	535.8 (50.3)	496.4 (49.9)
Central Government gross debt (% of GDP)	13.1	17.2

Source: SAMA, IMF and authorities

In the fiscal sector, revenue picked up rapidly in 2017 from the decline witnessed in 2016 reaching $185.5 billion. As a result, the deficit, close to $61.3 billion or 9.3 percent of GDP, turned out to be much lower than the previous year ($111 billion or 17.2 percent of GDP) as capital expenditure was adjusted downwards. The latter took the brunt of the adjustment declining from the equivalent of 11.3 percent of GDP in 2014 (the highest level ever) to 5.5 and 7.0 percent in 2016 and 2017, respectively.

A decline in capital expenditures would compromise growth in the period ahead to the extent that they would have gone through a rigorous screening process and be part of a well thought-through, integrated medium term framework. If not, reducing them would have no such impact. As has often been pointed out, recurrent expenditure (especially public wage bill) accounts for a large share of total expenditure, well outside the norms of international standards. The wage bill for example, the largest share by far in this category of expenditures, reached 17.1 percent of GDP in 2017 compared to 14.0 percent in 2014.

In the monetary sector, broad money supply witnessed a marginal increase of 0.2 percent in 2017 compared to 0.8 percent in the previous year. This is accounted for by the relative decline in net foreign assets and the continued expansion of credit to the government albeit at a smaller rate than in 2016 given the smaller fiscal deficit. Government deposits with the banking system continued to decline in 2017 reaching an estimated $196.8 billion, its lowest level in more than five years. The decline in credit to the private sector is noticeable also reaching its lowest level in more than five years. This is explained by the slowdown in economic activities on the demand side. Real GDP declined by 0.9 percent in 2017.

KSA's banking system has considerable potential and can make significant contributions to the development of money markets and more broadly to economic growth[7]. Deposits account for 70.2 percent of total banks' liabilities and equity and interbank for, respectively, 15.7 and 1.7 percent. The small share of interbank liabilities epitomizes the extent to which money markets must be further developed and cross-border activities expanded. Banks need to diversify both their sources of funds and their use to develop the financial markets. Steps are being taken in the Kingdom to do so with government debt being now traded on the stock market, Tadawul. This will help develop the money market. For example, the sophistication of the US money markets (liquidity and depth) is very much the result of the significant borrowing needs of the government.

In the external sector, both oil and non-oil exports picked up in 2017, as a result of which the surplus on the trade balance was higher than in the two previous years even if it was still below the levels experienced during the times of high oil prices of 2012 and 2013. As a result, the current account showed a surplus equivalent to 2.2 percent of GDP compared to a deficit of 3.7 percent of GDP in 2016. The Kingdom's international reserves declined to $496.4 billion in 2017 (or the equivalent of 50 months of goods imports) compared to $535.8 billion in 2016 (equivalent to the same level of months of goods imports).

Keeping the wage bill as a percentage of GDP within acceptable international norms in the next five years will remain a key challenge for the authorities together with the need to improve the efficiency and effectiveness of capital expenditures. The other challenges for the period can be summarized as follows:

- Developing the financial markets notably through the promotion of cross-border activities (for example trading government debt instruments among all GCC countries; harmonizing collateral practices and policies; etc.)
- Ensuring sustainable returns by the country's sovereign wealth fund, the Public Investment Fund, to ensure intergenerational equity

2.1.6 UAE

GDP is estimated to have slowed down in 2017 when the economy grew by 1.5 percent only compared to 3 percent the previous year. This is mainly due to the fact that oil production was reduced to 2.9 million barrels/day (b/d) compared to 3 million b/d in 2016 as per OPEC agreement. Inflation, as measured by average CPI, picked up slightly to 2 percent from 1.6 percent the previous year reflecting the reduction in subsidies for water and electricity and higher gasoline prices.

7 See IMF, FSAP July 2017 p.8

In the fiscal sector, the deficit declined to the equivalent of 1.8 percent of GDP from 2.5 percent in 2016 notwithstanding the lower level of total revenue as a percentage of GDP. This is explained by the reduction in both current and capital expenditures as the government implements a strong program of fiscal consolidation (notably an adjustment in subsidies). Much of the capital expenditure program is geared to support the preparation of Expo 2020. The deficit was financed mainly through withdrawals from the sovereign wealth funds and external borrowing[8].

In the external sector, the current account surplus increased to the equivalent of 7.3 of GDP from its previous level in 2016. The external sector of UAE is very much similar to other GCC countries: strong surplus on the trade account but structural deficits in the other accounts, notably services and transfers. However, contrary to other GCC countries, UAE typically has a surplus on its income account reflecting the government's income account.

Table 7: Recent economic development in UAE

	2016	2017
GDP (growth rate real)	3.0	1.5
Nominal GDP (billions $)	348.7	378.6
Nominal GDP per capita (US$)	35,384	37,346
Population (million)	9.9	10.1
Inflation (consumer price index)	1.6	2.0
Fiscal balance for central government (billions $)	-14.0	-9.7
Fiscal balance for general government (billions $)	-8.6	-6.8
Fiscal balance for general government (% of GDP)	-2.5	-1.8
Money and quasi-money (% change) of which: NFA (% change of beginning broad money) NCG (% change of beginning broad money) CPS (% change of beginning broad money)	3.3 1.0 -1.0 4.9	4.1 5.4 0.7 0.6
Current account (% of GDP)	3.8	7.3
Reserves – billions $ (months of goods imports)	85.5 (4.5)	95.5 (4.9)
General Government gross debt (% of GDP)	20.7	19.4

Source: Central Bank of UAE, IMF and authorities

The financial account has been in deficit for several years (due in part to accumulation of foreign assets by banks) although it is estimated to have declined in 2017. As a result of the deficits in both the current and the financial accounts, the overall balance was also in deficit estimated at $4.7 billion, still better than the previous year's $14.3 billion. Gross official reserves therefore declined to $80.7 billion from $85.4 billion in 2016. The debt to GDP ratio at general government level declined to the equivalent of 19.4 percent in 2017 from 20.7 percent in 2016.

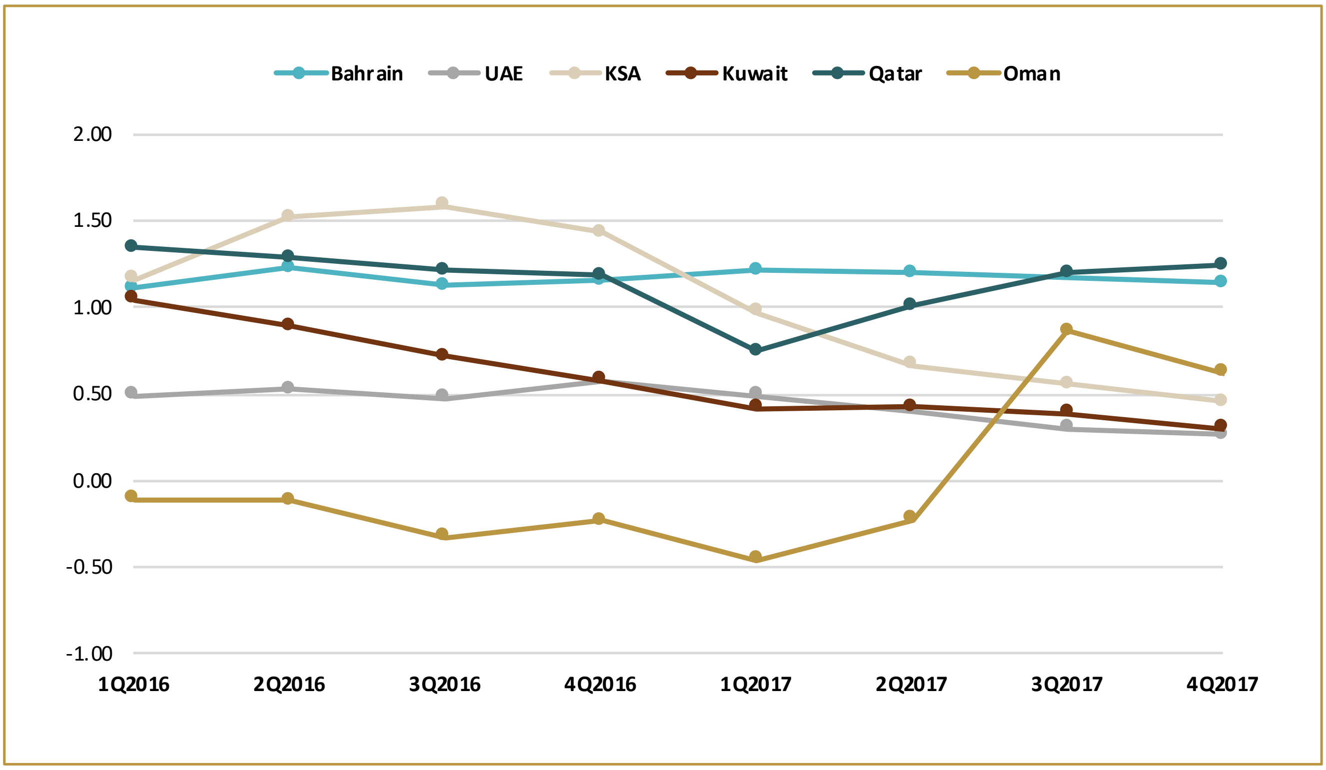
8 IMF, "UAE 2017 Art IV Consultations" p.5

UAE's economy is fairly more diversified than other GCC countries'. For example, it has a strong program of re-exports amounting to 46 percent of total exports. On the expenditure side, the wage bill as a percentage of GDP was estimated at 4.8 percent in 2017 although according to the IMF, some of the wage components might be classified in categories other than compensation of employees[9]. This stands in sharp contrast to other GCC countries where the wage bill accounts for a large share of GDP.

2.2 The impact of FED's increases in interest rate on member countries

The upward adjustment in interest rates by the FED in 2017 posed a dilemma for GCC members. They had little choice but to follow suit; however, they needed also to be mindful of the impact on growth and on the level of indebtedness at corporate and household levels. There is a very delicate balance between the two. Chart 2 shows the differential in interbank rates of GCC member countries' currencies compared to the US dollar's for 3- month maturity (domestic minus US dollar rates) for each quarter in 2016 and 2017 (except for Oman where the overnight rate was used because of the unavailability of three-month maturity). In the case of Saudi riyal, the spread increased reaching a peak in 3Q 2016 and declined thereafter throughout 2017.

Chart 1: The spread between domestic and US interest rates in GCC countries (Annualized rates)



Source: NCBs and Federal Reserve

According to SAMA, the initial increase was due to tighter liquidity conditions caused by a shift of deposits from the banking sector to investments in government bonds (following domestic debt

9 See IMF, 2017 Article IV Consultations p.9 footnote 5 issuances in 2015 and 2016) as well as some withdrawals of large government-related entities' accounts from the banking system. As deposits decline, competition increased among banks resulting in higher market rates.

The situation tempered soon after SAMA deposited significant amounts with the banking system among other measures. SAR 35 billion ($9.3 billion) was deposited with the banking system by SAMA throughout 2016. SAMA also reduced the weekly issuance ceiling for SAMA bills from SAR 9 billion ($2.4 billion) to SAR 3 billion ($0.8 billion) starting from October 2016 to allow banks to reconstitute their liquidity base. Finally, SAMA introduced longer term Repo facility of 1week, 1 month and 3 months which were subsequently terminated as market conditions improved.

If the spread for longer term maturities declines too much and even becomes negative (the Saudi riyal loses competitiveness), that could encourage speculative activities on the forward market. In principle, the interest rate differentials between Saudi riyals and US dollars must be equal to the forward premium or discount (difference between the forward and spot rates).

In 2015, the one-year forward rate between the Saudi riyal and the dollar was subject to increasing demand by speculators. It necessitated the intervention of the authorities - as it did in 1993 and 1998 when widening interest rate differentials failed to contain pressure on the forward market. A few regulations were subsequently introduced regarding participation on the forward market[10].

The case of Kuwait and UAE follows a similar pattern between them. The spread declines continuously (even if it is more steep for Kuwait than for UAE) throughout the whole period and tend towards 0 by the end of 2017. Back in 2005, the Central Bank of Kuwait issued a communiqué[11] to banks underlying the importance of maintaining a sufficiently large interest rate differential on private sector deposits to support the peg. At that time, the banks were awash with liquidity and that was putting downward pressure on the differentials.

However, in general, the Central Bank of Kuwait always maintain an appropriate margin between interest rates on Kuwaiti dinar deposits and those in US dollar in favor of the former. This helps not only to defend the peg but also ensures the attractiveness of the national currency as a store of value.

Bahrain maintained a relatively stable spread during the period. Qatar and Oman are the opposite of KSA: the spread initially declined until a turning point of 1Q 2017 when it increased (more rapidly for Oman than for Qatar). By the end of 2017, the spread for Qatar was the highest among GCC countries (115 basis points) followed by Bahrain (105 basis points).

The increase in spread for Qatar could be explained by the tightening of liquidity in the banking

---

10 See Muhammad Al Jasser and Ahmed Banafe, "Monetary policy transmission mechanism in Saudi Arabia" BIS Papers No.35, p.440

11 Communique by Dr. Nabeel Al-Mannae, then Deputy Governor, "Circular to all local banks" August 10, 2005 system as a result of the uncertainty that arose in 2017. As regard Oman, according to its Central Bank[12], lower growth in deposits as domestic credit continued to expand led to increased competition among banks putting upward pressure on interest rates. The evolution of the spread should reflect both domestic consideration (as the case of Oman showed) but also the risk profile of individual countries. This explains why the spread is higher in Bahrain than UAE or KSA.

2.3 The Convergence criteria

Convergence criteria describe economic performance that member countries must fulfil to be eligible for membership of the Monetary Union. The criteria were initially established during the meeting of the Supreme Council at the 27th Session (Riyadh- December 2006) and the Joint Technical Committee completed the formulation of economic performance criteria in May 2007. They cover inflation rates, interest rates, imports cover ratio, ratios of annual deficit in government budget, public debt ratios, and exchange rates.

The criteria aim to ensure that economic performance of member countries are moving in the same direction and that there are no potential macro imbalances that could undermine the monetary union and the introduction of the single currency. Still, the criteria must be interpreted with caution: they are not an end in themselves but only serve as a guide to call to attention the authorities whenever one country's macro aggregates are falling out of line with others in the different areas concerned.

Table 8: The Convergence Criteria

Convergence criteria	
Inflation rate	Inflation rate should not exceed the weighted average (by GDP) of the inflation rates in GCC countries plus two percentage points (2%).
Interest rate	The interest rate should not exceed the average of lowest three short-term interest rates (for three months) in the GCC members plus two percentage points (2%).
Imports coverage ratio	The foreign reserves of the monetary authority in each country should be sufficient to cover cost of its goods imports for a period of no less than 4 months.
Fiscal deficit ratio	The annual fiscal deficit should not exceed 3% of nominal GDP (As long as the average price of OPEC Oil basket is $25 or more).
Public Debt ratio	The ratio of Public debt for the General Government should not exceed 60% of the nominal GDP, and that of the Central Government should not exceed 70% of the nominal GDP.
Exchange rate	The US dollar is set as a common anchor for GCC's currencies.

Source: GMCo

12 Central Bank of Oman, Annual Report 2016, p. 11

Table 9: The Convergence criteria in 2017

GMCo member countries performance vis-a-vis the Convergence Criteria in 2017						Other GCC countries		
Convergence criterion	Threshold	Bahrain	KSA	Qatar	Kuwait	Threshold	Oman	UAE
Inflation rate (CPI average)	≤ 2.31	1.4	-0.84	0.4	1.7	≤ 2.81	1.6	2.0
Interest rate (%)	≤ 3.86	2.3	1.8	2.2	1.5	≤ 3.5	1.2	1.5
Imports cover ratio (months)	≥ 4.0	2.7	49.9	5.8	12.0	≥ 4.0	18.2	4.9
Fiscal balance (% of GDP)	≤ - 3.00	-15.0	-9.0	-1.6	4.7	≥ - 3.00	-11.5	-1.8
Public debt ratio (% of GDP)	≤ 70.0	89.3	17.2	53.6	25.6	≤ 70.0	43.8	19.5

Source: GMCo

Table 9 summarizes the performance criteria for member countries during 2017. The following comments can be made:

Inflation rates: Table 9 shows the inflation rates for member countries and the reference value, i.e., weighted average inflation rates plus 2 percent. The annual average rate of inflation ranged from 1.7 percent (Kuwait) to -0.84 percent (Saudi Arabia). These rates, excluding Saudi Arabia, have been used to calculate the reference value of 2.3%. All member countries had inflation rates below the reference value. This performance is explained by declining prices for housing and food items combined with the slowdown in the domestic demand and liquidity in line with the decline in imported inflation as well.

Interest rates: Three-month interbank rates are used in calculating reference value except for Oman, where the overnight rate is chosen. In 2017, the rates ranged from 1.53 percent (Kuwait) to 2.33 percent (Bahrain). The calculated reference rate using the average of the lowest rates plus 2 percentage points is 3.86%. All member countries had rates below the reference value. UAE and Oman broadly followed similar short-term interest rates developments with little to no difference in short-term interest rates. Their three-month interbank rates were 1.5% and 1.2% respectively, below the reference value of 3.5%.

Fiscal deficit: As shown in Table 9, only Kuwait and Qatar met this criterion, the other two countries falling well below the reference value. The greatest effort to meet all the conditions for successful monetary union lies in the public sector. This is why the budget process, notably an enhanced fiscal governance framework, was emphasized above for all member countries going forward.

Import cover ratio: Saudi Arabia and Kuwait had the largest import cover ratio in 2017 with reserves covering, respectively 49.9 and 12.0 months. Qatar recorded the largest decline, from 11.9 months in 2016 to 5.8 months in 2017. However, in Bahrain, reserves covered merely 2.7 months. As regards the performance against the reference value of 4 months, all countries except

Bahrain met the criteria.

Public debt: The debt to GDP ratio generally increased among GMCo member countries in 2017. The ratio increased significantly in Oman reaching 43.8 percent. Oman's debt to GDP ratio increased tenfold from the low level of 2014 and threefold from the 2015 level. But it still met the criterion. Bahrain is the only GCC member country not to meet the threshold on debt to GDP ratio as seen in Table 9.

As mentioned above, the importance of the convergence criteria should not be overestimated. They point to directions where greater effort for macro management is required rather than provide in-depth analysis on the economy of member countries.

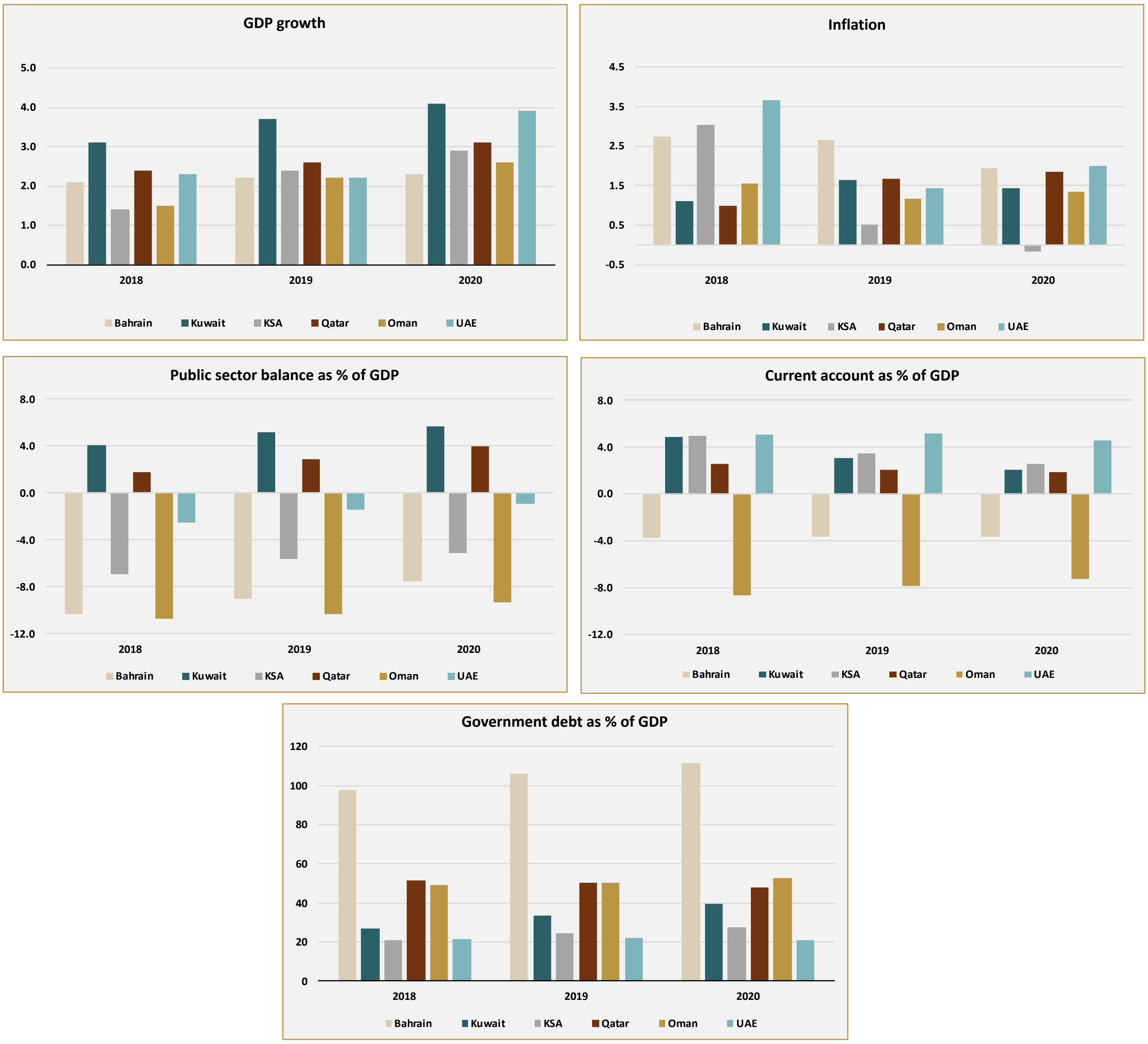
2.4 Medium term outlook based on GMCo econometric model

The medium term outlook is reasonably bright in general for GCC member countries. The momentum for growth is expected to strengthen across the membership reflecting higher oil prices, renewed fiscal stimulus and robust global demand. Real GDP is expected to grow by 1.9 percent for the GCC countries as a whole in 2018 supported principally by activities in the non-oil sector. The oil sector would continue to be affected by OPEC production cuts in 2018. Non-oil growth is expected to expand by 3.6 and 3.5 percent in 2019 and 2020, respectively. Overall, GDP is forecast to grow by 2.5 and 3.2 percent in 2019 and 2020, respectively.

Inflation is expected to pick up to 2.7% in 2018, following the introduction of new fees, the removal of subsidies and the implementation of the Value-Added Tax (VAT), especially in KSA (and UAE). There are also risks that this could affect private sector and undermine the economic recovery. It should subside thereafter to 1.0 and 0.9 percent in the following two years, respectively.

The major challenge will be to deal with the public sector deficits and for some of the member countries, the increase in debt to GDP ratio. Bahrain and Oman, in particular, will have to take some difficult decisions to deal with the expected fiscal deficits and what could be fairly high levels of indebtedness. The external current account is expected to be either in surplus or fairly sustainable across the GCC membership except for Oman and Bahrain where the situation could be challenging.

Chart 2: Medium term outlook among GCC member countries



Source: GMCo calculations

2.4.1 Bahrain

The economy is expected to grow at a moderate pace of 2.1 percent during 2018, helped by the resilience of the non-oil sector which should compensate the weakness of the oil sector. GDP is forecast to grow at an average of 2.3% for the two years thereafter. Inflation is estimated to rise to 2.8% in 2018 mainly because of a surge in gasoline prices and a planned VAT introduction in October 2018 to be compensated by continued declines in rents and food prices.

Table 10: Medium term outlook for Bahrain

	2018	2019	2020
Real GDP growth (%)	2.1	2.2	2.3
Inflation (%)	2.8	2.7	2.0
Fiscal Balance (% of GDP)	-10.3	-9.0	-7.5
Government debt (% of GDP)	97.7	106.0	111.3
Current account (% of GDP)	-3.7	-3.6	-3.6

Source: GMCo

While the budget deficit is expected to contract progressively from the high levels of the previous years, it is likely to remain above the equivalent of 10 percent of GDP in 2018. It would decline subsequently thereafter although still remaining at too high levels. The financing of the deficit through domestic and international bonds would cause the debt to GDP ratio to exceed 100 percent by 2019 and possibly increase even more in the following years. The external current account is not expected to be an area of concern despite an expected deficit representing the equivalent of about 3.7 percent of GDP in 2018 and 3.6 percent for each of the following two years.

2.4.2 Kuwait

GDP is expected to grow by 3.1 percent in 2018, 3.7 percent in 2019 and 4.1 percent in 2020. The main drivers would be the government's capital spending, in line with the National Development Plan and the shift toward a more gradual fiscal adjustment thanks to substantial fiscal buffers, including large government external assets.

Table 11: Medium term outlook for Kuwait

	2018	2019	2020
Real GDP growth (%)	3.1	3.7	4.1
Inflation (%)	1.1	1.6	1.4
Fiscal Balance (% of GDP)	4.1	5.2	5.7
Government debt (% of GDP)	27.1	33.5	39.5
Current account (% of GDP)	4.9	3.1	2.1

Source: GMCo

Inflation is expected to decline to 1.1% in 2018 and pick up slightly to 1.6% in 2019 before subsiding to 1.4 percent in 2020. The hike in utility prices taking place in 2017 and early 2018 is affecting the rest of consumer prices, while the expected introduction of the VAT in 2019 would put additional pressure on prices.

As a result of fiscal consolidation and increases in oil prices, the budget surplus would reach 4.1

percent of GDP in 2018 and expand thereafter to reach 5.2 and 5.7 percent of GDP in the next two fiscal years. This situation could be explained by an improvement in capital spending, but with a focus on increasing non-oil revenue, through the introduction of a corporate income tax and the VAT. The current account surplus that emerged in 2017 is expected to decline thereafter to 4.9 percent in 2018, 3.1 and 2.1 percent of GDP in the following two years, respectively.

2.4.3 Oman

Real GDP is expected to pick up in 2018 through 2020 as the economy recovers from the decline of 2017 reflecting higher oil prices, continued diversification efforts and completion of major infrastructural projects. Fiscal consolidation continues in the medium term as the government intensifies its efforts to contain spending and introduces VAT and excise taxes. Nevertheless, the deficit remains quite high and is financed in part through borrowing which results in an increase in debt to GDP ratio to reach the equivalent of 53 percent of GDP in 2020. The current account deficit declines slightly but also remains fairly high (especially in relation to other GCC member countries) presumably on account of insufficient capital inflows.

Table 12: Medium term outlook for Oman

	2018	2019	2020
Real GDP growth (%)	1.5	2.2	2.6
Inflation (%)	1.6	1.2	1.3
Fiscal Balance (% of GDP)	-10.7	-10.3	-9.3
Government debt (% of GDP)	48.9	50.5	53.0
Current account (% of GDP)	-8.6	-7.8	-7.2

Source: GMCo

2.4.4 Qatar

Qatar's economy is expected to show strong continued resilience despite the uncertainty regarding the final outcome of the current situation. The economy is expected to grow at an annual average rate of 2.7 percent for the three-year period 2018 – 2020 reflecting increasing government's infrastructure investment in preparation for the 2022 World Cup.

Table 13: Medium term outlook for Qatar

	2018	2019	2020
Real GDP growth (%)	2.4	2.6	3.1
Inflation (%)	1.0	1.7	1.8
Fiscal Balance (% of GDP)	1.8	2.9	4.0
Government debt (% of GDP)	51.5	50.2	48.1
Current account (% of GDP)	2.6	2.1	1.9

Source: GMCo

Inflation is estimated to pick up to 1.0 % in 2018, 1.7 % in 2019 and 1.8 percent in 2020 on account of the introduction of the VAT. The public sector balance would continue to improve well into 2020, the surplus reaching the equivalent of 4 percent of GDP from 2.9 percent in 2019 and 1.8 percent in 2018. The surplus on the current account should continue its decline reaching the equivalent of 1.9 percent in 2020 from 2.1 percent and 2.6 percent in 2019 and 2018 respectively.

2.4.5 Saudi Arabia

Economic growth is projected to rebound in the upcoming years on account of stronger domestic demand and fiscal stimulus. GDP growth could reach 1.4% in 2018 and 2.4 and 2.9 percent in 2019 and 2020, respectively buttressed by fairly strong growth in the non-oil sector. The government is planning to increase its expenditures and add new sources of non-oil revenues to diversify its activities away from oil industry and boost economic growth. However, there are also risks that the reform measures could affect negatively private sector performance and temper the positive impact of the announced budget stimulus for the next few years.

Table 14: Medium term outlook for Saudi Arabia

	2018	2019	2020
Real GDP growth (%)	1.4	2.4	2.9
Inflation (%)	3.0	0.5	-0.2
Fiscal Balance (% of GDP)	-6.9	-5.6	-5.1
Government debt (% of GDP)	21.0	24.5	27.8
Current account (% of GDP)	5.0	3.5	2.6

Source: GMCo

Inflationary pressures are estimated to resurface again in 2018 to 3.0 percent on the back of the introduction of the VAT and further increases in domestic energy prices starting in January 2018. But the impact should attenuate thereafter. Thus, inflation is projected to be at 0.5 and -0.2 percent in 2019 and 2020, respectively.

The budget deficit would continue its decline which it started in 2017 and is expected to reach the equivalent of 5.1 percent in 2020 from 6.9 percent and 5.6 percent in 2018 and 2019 respectively. The surplus on the current account would decline from its recent peak of 5 percent of GDP in 2018 to 3.5 and 2.6 percent in 2019 and 2020, respectively.

2.4.6 UAE

GDP is forecast to bounce back from its level of 2017 and grow by an annual average rate of 2.8 percent through 2020 reflecting large infrastructure investment as the country prepares for 2020 World Expo and expected capital inflows.

Table 15: Medium term outlook for UAE

	2018	2019	2020
Real GDP growth (%)	2.3	2.2	3.9
Inflation (%)	3.7	1.4	2.0
Fiscal Balance (% of GDP)	-2.5	-1.4	-0.9
Government debt (% of GDP)	21.3	22.0	20.9
Current account (% of GDP)	5.1	5.2	4.6

Source: GMCo

Inflation should pick up to 3.7 percent in 2018 before declining to much lower levels as the impact of VAT implementation continues to play out. After an increase in 2018, the fiscal deficit is expected to decline and could be close to balance by 2020. The current account should continue to show a surplus throughout the medium term even if it is somewhat lower that the fairly high level of 2017. Government debt should remain fairly low during the medium term.

III: Main activities undertaken by GMCo in 2017

Introduction

Several activities were carried out in 2017. First, GMCo launched a strong recruiting program starting in December 2016 to strengthen the technical unit of the organization. Four experts were recruited at senior level in an advisory capacity. Three of them had previous worked either for the IMF (one also for the World Bank) or a central bank or both. One of them is a specialist in model building having previously worked for the IMF and a regional central bank. A GCC staff member was equally hired to support the Statistics sub-unit and assist in the development of GMCo modeling work. Finally, the staff member in charge of the legal unit resigned and was replaced by another GCC staff member.

Second, as a result of the recruitment, several studies and projects were carried out as follows:

1. Preparing the following studies to inform the work plan:
   a. "Strengthening and Harmonizing the Gulf Monetary Council Member Countries' Public Financial Management Legal Framework"
   b. "Towards a Unified Monetary Policy: Harmonizing Monetary Policy and Legal Frameworks Among Member Countries"
   c. "Reviewing Fiscal Criteria in Gulf Monetary Union"
   d. "Independence of National Central Bank in GMCo's member countries"
2. Carrying out a joint Statistical assessment mission with the Statistical Center for the Cooperation Council for the Arab Countries of the Gulf (GCC-STAT).
3. Building a macroeconomic model to analyze the economy of the member countries and produce forecasts of several key variables.

The main findings are discussed below.

3.1 Harmonizing the PFM legal framework of member countries

In May 2017, GMCo started work on the harmonization of the budget laws of both its four member countries and the two other non-member GCC countries, Oman and UAE. The purpose of the study were two-fold:

- Review the main budget standards recommended by international organizations
- Analyze the legal framework (Constitution; Organic laws; Decrees etc.) of all six GCC members to identify gaps therein

A Heat map (see Annex 1) was prepared to provide a visual overview of the respective strengths and weaknesses of each of them.

The main international standards discussed were:

- IMF Government Finance Statistics Manual 2014 (GFSM) - recording, classifying and accounting of government transactions
- IMF Fiscal Transparency Code – international fiscal standards and practices
- International Public Sector Accounting Standards Board (IPSASB) - government accounting (notably cash and accrual basis of accounting)
- International Organization of Supreme Audit Institutions (INTOSAI) - standards for public sector external audit
- OECD Best Practices for Budget Transparency - budget reports, disclosures, accountability
- Public Expenditure and Financial Accountability (PEFA) - PFM systems, processes and institutions

Why is fiscal policy important in a monetary union? In a typical monetary union, fiscal policy is decentralized at member countries' level while monetary policy is centralized at the union level. As the 2008 debt crisis in the Euro zone showed, this dichotomy is risky and could undermine the viability of the union if the two sectors are misaligned with each other. This is why the European Commission is now increasingly seeking greater coordination between fiscal and monetary policies. New institutions are being set up (example, European Fiscal Board) and greater harmonization of PFM legal framework carried out.

In a recent paper entitled, "The Euro needs a Fiscal Union", the IMF explains that, "Europe's currency union remains incomplete and leaves the region vulnerable to future financial crises….. Without some degree of fiscal union, the region will continue to face existential risks that policymakers should not ignore[13]".

The report's findings, following the Board approval, have been shared with the four member countries and GMCo plans to engage, starting in 2018, with all of them to assist in upgrading their PFM legal framework. The KSA does not yet have a budget law and will require more time than the others for the assignment to be completed, should the authorities agree with the recommendations. Activities related to the implementation of the report's findings will constitute the basis of GMCo's workplan in the medium term.

3.2 Harmonizing monetary policy and legal frameworks among member countries

GMCo carried out a study on monetary policy among its member countries. The purpose was three-fold:

- Review basic concepts and instruments of monetary policy and financial stability highlighting international best practices in the process.
- Examine the design and conduct of monetary policy, the legal and institutional frameworks to do so and the procedures used by the National Central Banks (NCBs).
- Propose ways to harmonize legal and institutional frameworks, monetary policy instruments

13 IMF, "Revisiting the Economic Case for Fiscal Union in the Euro Area", Jan 2018, p.2

and procedures.

The first drafts were circulated by the end of 2017 and were shared with the European Central Bank (ECB). ECB provided valuable feedback most of which have been incorporated in the final draft. The report, following its approval by the Board, has been shared with the NCBs. It provides a basis for GMCo to engage with them and will inform GMCo's workplan for the next three years.

The main findings of the report are:

- Review the legal framework of NCBs and ensure consistency with the Monetary Union Agreement (for example advances to government).
- Strengthen the liquidity forecasting and management framework of NCBs.
- Harmonize monetary policy instruments (e.g. cross-border collaterals; maintenance period for reserve requirements etc.).
- Expand the supply of Shariah-compliant instrument.
- Consider allowing GMCo to attend Monetary Policy Committee meetings.
- Develop the secondary money markets (through expanding supply and demand).

3.3 Reviewing Fiscal Criteria in Gulf Monetary Union

GMCo prepared a research paper on fiscal criteria reform for the convergence criteria. The report suggests there is scope to strengthen GMU's fiscal rules and the main areas for improvements could be:

- Strengthening the rule's monitoring mechanisms
- Introduction of well-designed escape clauses to allow for more flexible responses to negative shocks
- Adopt a correction mechanism for addressing temporary deviations from the fiscal rule
- Enhancing the rule's enforcement mechanisms through binding rules
- Enhancing the effectiveness of fiscal rules by institutional arrangements
- Adopt a medium-term fiscal framework to strengthen the budget process within the context of fiscal rules
- Finally the deficit limit could be reconsidered to better reflect type of risks the region is exposed to

3.4 Note on the Independence of Central Banks

GMCo prepared a note on the independence of central banks. The purpose was to:

- Ensure that the statutes determines with clarity and certainty the primary objectives of the NCB
- Provide explicit statutory requirements as regard the governance framework for Central Banks
- Safeguard against influence from the executive branch of the government
- Ensure the ability of the NCB to autonomously avail itself sufficient financial resources to

fulfil its task.

3.5 Joint assessment work with GCC - STAT

In late 2016/early 2017, GMCo held discussions with the Statistical Center for the Cooperation Council for the Arab Countries of the Gulf (GCC-STAT) on assessing the needs for upgrading and harmonizing statistics across the GCC membership to support economic (for GCC) and monetary (for GMCo) unions. A joint assessment team was set up supported by Consultants (previously Deputy Directors and Director of the IMF Statistics department) for that purpose.

The team visited the four member countries between October and December 2017 meeting with all data producers (central bank, national statistics office, Ministry of Finance, and other relevant Ministries); data providers (representatives of conventional and Islamic banks, stock exchange, pension and insurance authorities/regulators) and data users. The terms of reference of the team were to:

- Assess the availability, comprehensiveness, frequency, timeliness and conformity with international statistical standards and identify gaps therein
- Propose a realistic road map to assist member countries to deal with all the gaps

Individual country reports together with a consolidated version were prepared and shared with the respective authorities for feedback and comments. The reports identify major gaps in areas such as National Accounts (NA); Monetary and Financial Statistics (MFS); Financial Soundness Indicators (FSIs); Government Finance Statistics (GFS); External Sector Statistics (ESS), etc. The consolidated version, which will be examined by the GMCo Board during 2018, proposes the following allocation of responsibilities between GMCo and GCC-STAT (based on their core mandates and respective comparative advantage).

GMCo will take the lead role for: (i) monetary and financial statistics (MFS) including Islamic financial statistics; (ii) external sector statistics covering the following areas: balance of payments (BOP) including conversion of merchandise foreign trade statistics to a BOP basis, international investment flows and stock including the international investment position (IIP) statement, external debt statistics, reserves data including the reserves template; (iii) securities issuance and ownership data, (iv) financial soundness indicators (FSIs), and (v) government debt statistics.

Box 1: International standards – why they are important

GMCo member countries need to adhere to international statistical standards and classifications, adapted to regional needs as appropriate – e.g., separately identifying oil and gas in exports in the BoP and in revenue in GFS, and Islamic financial institutions in monetary and financial statistics. Dissemination is equally important, as per the Special Data Dissemination Standard (SDDS)[14]. International statistical standards bring many benefits of which:

- They offer a coherent statistical system as concepts and classifications
- They embody best practice developed from the compilers world-wide

Consistent standards are useful for the following reasons:

- They allow data that appear in more than one domain to be collected only once – such as BoP data that can be integrated into the national accounts; and counterparty data to be used and compared - so government deposits reported by banks can be compared with those reported by the government, which helps to identify errors in reporting and recording.
- Consistent standards are particularly relevant for compiling harmonized data in a MU. Without common international standards, asymmetric adjustments would arise from the conceptual approaches taken.
- The use of common consistent standards across countries allows partner country counterparty data to be used.
- Use of SDDS frequency and timeliness requirements allows the GCC region to be consistent with the advanced economies and with market expectations as to the international norm for dissemination.

GCC-STAT will take the lead role for: (i) real sector statistics covering the following areas: national account statistics, price statistics, energy statistics, labor statistics, industrial production statistics, population statistics; (ii) external sector statistics covering the following areas: merchandise foreign trade statistics, trade in services statistics, and international investment survey; (iii) government finance statistics (GFS) operational data for monetary union, including taking the lead role in deciding definitional and classification issues for all GFS data (operating, financial balance sheet, and debt data) in collaboration with GMCo.

It will require a fair amount of resources for both GMCo and GCC-STAT and commitment on the part of member countries to bring all of them to a satisfactory level as regard their statistical base. This is necessary in the first place for them to meet their own policy analysis but also to support economic and monetary integration. GMCo, subject to Board approval, would like to propose the establishment of regional technical working group or focus group comprising staff members

14 SDDS provides guidance to countries to disseminate key data with specified frequency and timeliness so that users in general, and financial market participants in particular, have adequate information to assess the economic situations of individual countries. The SDDS not only prescribes that subscribers disseminate certain data categories but also prescribes that subscribers disseminate the relevant metadata to promote public knowledge and understanding of their compilation practices with respect to the required data categories.

from the national central banks and other relevant agencies under its leadership. GMCo and the technical working groups would encourage and support countries to develop action plans for each statistical area under its responsibilities.

3.6 Econometric modeling

As part of its statutory objectives, GMCo needs to analyze, monitor and forecast the macroeconomic development of its members. A small sub-unit was set up in 2017 to carry out modeling work. While several existing macro-models emphasize the impact of oil prices on economic growth primarily through government spending, GMCo's work includes other transmission channels such as domestic credit, bank's liquidity and the Foreign Direct Investment (FDI).

The choice of model is based on the GCC's economic characteristics, data limitation, and the intended objectives. As all GCC countries depend highly on oil revenues to support non-oil economic growth, one of the design criteria in the model is to forecast separately the oil GDP and the non-oil GDP, which is a better indicator of economic activity.

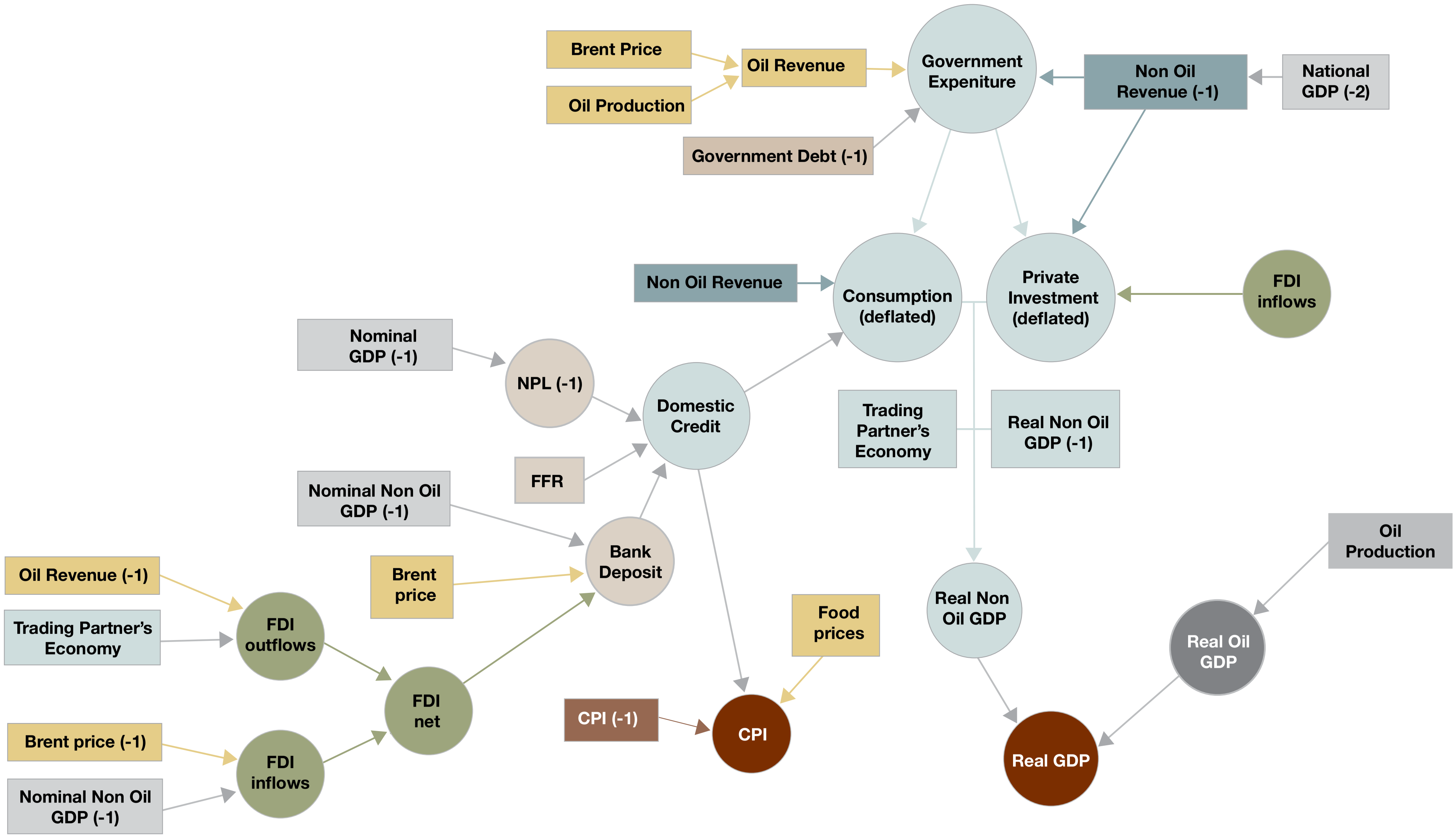
The model consists of 13 econometric equations, which are estimated using ordinary least squares (OLS) during the period 1980-2016. The structure of each equation is inspired by the economic theory but adapted to the GCC specificities and to the data availability. It also takes into consideration the statistical significance and the forecasting accuracy of the adopted model.

Chart 4 outlines the overall structure and interrelations of the model. It gives a detailed description of the economic relationships between the exogenous and the endogenous variables of the model. According to the relationships described in Chart 5, each equation reflects the main drivers of each block and is expressed as a function of exogenous variables as well as some endogenous variables from the previous equations.

The model is solved simultaneously for each country allowing for interactions among the variables instead of solving sequentially by blocks. Direct and indirect effects of specific shocks on economic growth can then be identified. Furthermore, in order to take into consideration some lagged effects of the independent variables in the equations, a statistically significant number of lags, in line with the economic theory and the existing literature was added. The model allows the simulation of alternative scenarios to be carried out and the impact of different development and external shocks quantified.

Based on the forecasting performances of this model, it was found that the methodology adopted to forecast the GDP growth is the most appropriate, taking into consideration all available data and the lack of alternative sources for evaluating economic activity. Indeed, the usefulness and quality of the results seem promising, but could still be improved if more data were available in a longer time series and if there were more information reflecting the development of economic activity at relatively high frequency.

Chart 3: Economic Relationships of GMCo Model



Source: GMCo

IV. The period ahead

Introduction

This section will discuss GMCo's progress as regard its statutory objectives and the challenges it faced during 2017. It will then review the cooperation agreement that was signed between GMCo and the ECB and GMCo and the IMF. Finally, it will present GMCo's workplan for the next several years. Those four subsections are summarized below.

1. GMCo's statutory objectives
2. Challenges faced by GMCo
3. Technical assistance agreement between GMCo and the IMF and the ECB
4. GMCo's workplan for the next several years

4.1 GMCo's statutory objectives

Art 6 of the MUA defines the objectives and tasks of GMCo. The preamble of Art 6 states that the primary objective of GMCo is to prepare the necessary infrastructures to establish the monetary union, especially the Central Bank. This is to be achieved through a number of ten actions listed in Art. 6. GMCo's approach so far has been to allocate the different objectives to two broad implementation phases 1 and 2. Table 16 below lists the objectives and explains ongoing progress towards meeting them.

Table 16: Progress towards meeting GMCo's objectives

Objectives and Tasks	Phases	Comment
1. Enhancement of cooperation among National Central Banks (NCBs) with a view to creating appropriate conditions for the establishment of the Monetary Union	One	GMCo needs to work closely with NCBs. All the reports mentioned above have been shared with the four NCBs. GMCo plans to engage with them starting in 2018
2. Development and coordination of the monetary policies and exchange rate policies for national currencies until the establishment of the Central Bank	One and two	GMCo's report on setting out a unified monetary policy proposes the harmonization of instrument, policies, procedures etc. As mentioned above, GMCo will start engaging with NCBs in 2018 as regard coordination of monetary policies. Exchange rate policies will be dealt with in phase two

3. Following up the adherence to the prohibition on NCBs lending to public entities in Member States and developing appropriate rules of procedures	One	GMCo's report on the unified monetary policy analyzes the central bank legislation of the four member countries and proposes an overhaul in cases where there are incompatibilities between a member country's legislation and the MUA. The role of the Ministry of Finance for some of them, is so overpowering and so entrenched that it will require strong political commitment to make national legislation compatible with the spirit and letter of the Agreement.
4. Drawing up the necessary legal and organizational framework for the CB to carry out its tasks in cooperation with NCBs	Two	Not yet started
5. Development of necessary statistical systems with view to achieving the objectives of the Monetary Union	One	A diagnostic of the statistical systems of the four members was completed in December 2017 in collaboration with GCC – STAT and the reports shared with all of them. Implementation of the recommendations, subject to both Board approval and the willingness of NCBs to engage with GMCo, is expected to start in 2018
6. Preparation for the introduction of the banknotes and coins of the single currency and developing a uniform framework for the introduction and circulation of the single currency in the single currency area	Two	Not yet started
7. Ensuring readiness of the payment and settlement systems related to the single currency	Two	According to GCC Secretariat General press release, a private company has been established to link the payment and settlement systems of all six GCC member countries. GMCo needs to be more involved in this work since payment and settlement are clearly within the scope of monetary policy and the purview of a central bank.
8. Following up fulfillment by the Member States of their obligations to the Monetary Union and the introduction of single currency, in particular those related to the economic convergence criteria	One	As Table 7 shows, economic convergence is yet to be fulfilled especially in the fiscal sector. A formal engagement process with member countries on the basis of the latest convergence report is missing. In principle, GMCo should have the authority to engage with the four respective Ministries of Finance on the basis of their performance and define an action plan whereby they work to meet all the criteria. Not only is this not the case but even a process of formal engagement has yet to be defined. This is why GMCo is trying to strengthen its ties with both EDAC and GS – GCC to at least put in place such a process of formal engagement with all relevant actors.

9. Setting the timeframe for the introduction and circulation of the single currency	Two	Not yet started
10. Making recommendations to the GCC on the legislation required for establishing the Monetary Union and the CB and introducing the single currency	Two	Not yet started

Source: GMCo

4.2 Challenges faced by GMCo to achieve its objectives

Some of the challenges faced by GMCo are:

- Need for stronger institutional support
- Need for other highly experienced staff with hands-on experience
- Ongoing uncertainty in the region
- Need for better communications to stakeholders regarding GMCo

4.2.1 Need for stronger institutional support

If the example of the successful Euro zone is considered, the European Commission played a determining role in the period leading to the introduction of the single currency as mentioned in Part II above. In particular, the strong leadership provided by its then President, Jacques Delors was critical in successfully bringing about the Euro. Notwithstanding its undeniable success, the Euro zone still remains work in progress as the importance of issues such as fiscal and banking unions to complete the process is increasingly being raised[15].

There is no equivalent of a European Commission amidst the institutional landscape of GMCo. The General Secretariat of the GCC could very well play this role except that the fact that Oman and UAE are not part of GMCo makes it difficult for it to do so. This is why GMCo will always emphasize the need for those two countries to formally join the monetary union[16] and it will spare no effort to achieve this.

The inability for the GS-GCC to undertake this role makes GMCo isolated in encouraging the advancement of the agenda. GMCo is still pursuing its institutional collaboration with GCC and plans to sign an MOU for that purpose. GMCo is also pursuing a similar agreement with the Office of the GCC Economic and Development Affairs Commission (EDAC) and hopes among other purpose to obtain its support to convince the two countries to join GMCo even if initially as observer but thereafter as full-fledged member.

15 See European Commission, "Deepening of the Economic and Monetary Union", May 2017; IMF, "Revisiting the Economic case for Fiscal Union in the Euro Area", 2018
16 The Economic Agreement signed by all six GCC countries in 2001 makes explicit reference to monetary union (continue)

Chart 6 shows the institutional landscape of GMCo. The GCC Charter signed by the six member countries in May 1981 defines the institutional set up and mandates of the different bodies. The highest decision-making body is the Supreme Council (SC) which is composed of Heads of State of GCC member countries. It holds an ordinary and a consultative session every year.

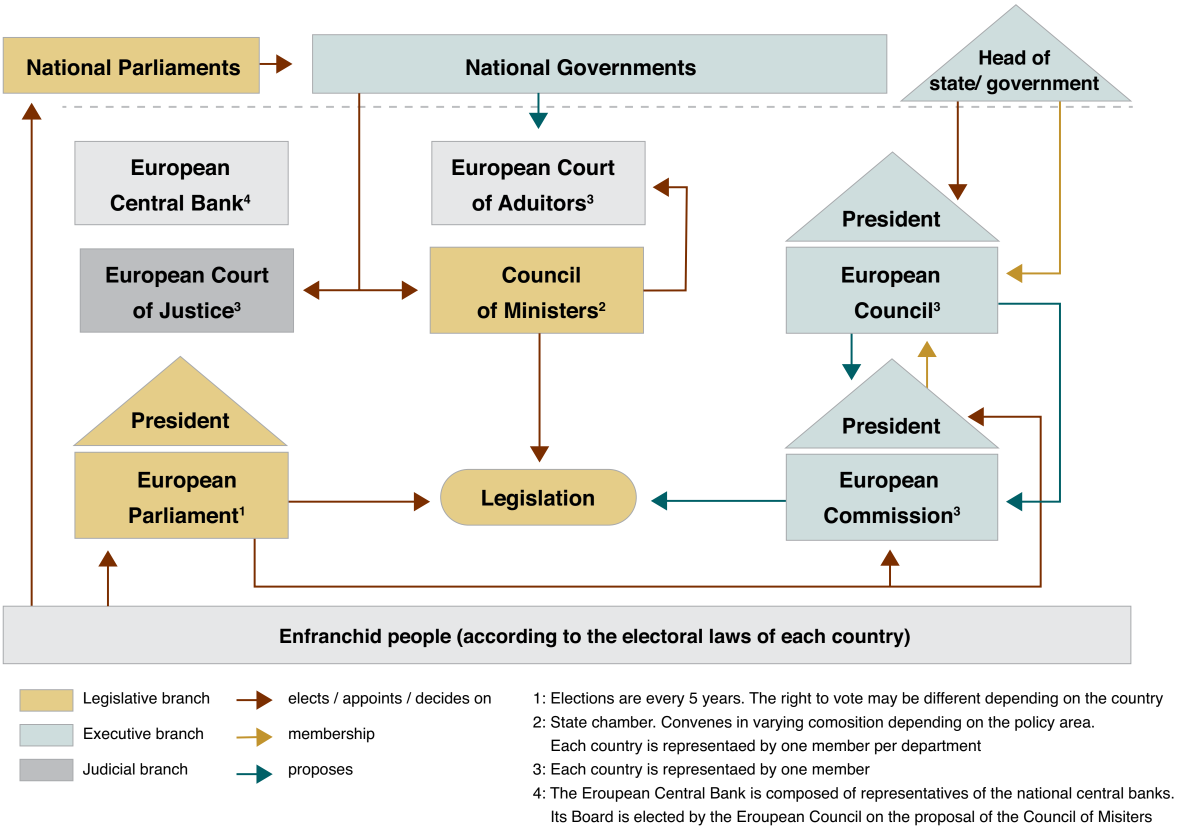
The Ministerial Council is made up of the Foreign Ministers and meets every three months. It is the operating arm of the SC and among its key mandates are to prepare the agenda and to refer matters to the SC with recommendations for appropriate action. As such it is an important body. The Secretary General of the GCC is appointed by the Supreme Council for a period of three years renewable once only.

EDAC and the “Economic Judiciary Commission” were both created on May 31, 2016 following the 16th GCC Consultative Summit of the Supreme Council held in Jeddah. EDAC was intended to serve as a fast-lane, higher-level entity. It is mainly responsible for the swift implementation of decisions in economic and financial affairs aimed at promoting integration among GCC countries and their follow-up. During its inaugural meeting in November 2016 chaired by the KSA Crown Prince, it was further specified in the closing statement that EDAC’s goals were to[17]:

- Explore and discuss economic and development issues of interest to member states.
- Take the necessary decisions on these issues.
- Look into policies, recommendations, studies and projects that aim to promote cooperation, coordination and integration among member states in line with regional and global economic and development trends.
- Monitor GCC decisions and agreements related to economy and development.
- Look into issues referred to it by the Supreme Council of the GCC and from other ministerial committees.

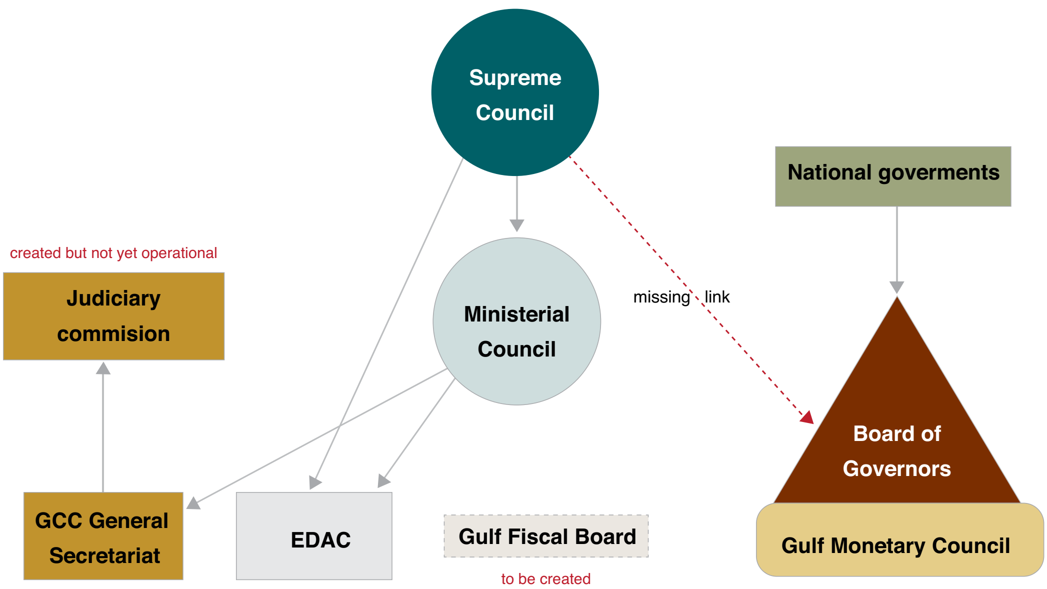
17 Arab News, Friday 11 November 2016

Chart 4: European Institutions



Source: ECB

Chart 5: The Gulf Monetary Council Institutional Landscape



GMCO institutional framework needs to be integrated with GCC system. There are no functional links between GMCo and EDAC and the General Secretariat of the GCC. An MOU is under consideration to strengthen interactions among those three institutions without compromising their respective statutory independence.

Source: GMCo based on relevant legal texts

Table 17: Mandates of the different GCC institutions

Supreme Council	Ministerial Council	Secretariat General GCC	EDAC	Judiciary Commission
(i) reviews matters of interest to the member states (ii) lay down the higher policy for the Cooperation Council and the basic lines it should follow (iii) reviews recommendations, reports, studies and joint ventures submitted by the Ministerial Council (iv) review reports and studies prepared by the Secretary General etc.	(i) proposes policies to enhance cooperation (ii) promote cooperation among private sectors of member countries (iii) encourage movement of GCC citizens (iv) prepare meetings of Supreme Council etc.	(i) Prepare reports, studies as per request of SC or MC (ii) Follow up on implementation of resolutions, recommendations of the Supreme Council and Ministerial Council. (iii) Prepare periodic reports on the work of cooperation council etc.	(i) discuss economic and development topics of interest to member states and take necessary decisions about it; (ii) consider recommendations to enhance cooperation, coordination and integration among member states; (iii) follow up on implementation of agreements in regard to economic and development decisions and consideration of matters referred to it by the Supreme Council and submitted from ministerial committees within the Council.	(i) litigate, cases of failure to implement the provisions of the Economic Agreement, unified Laws, or resolutions pursuant to its provisions (ii) carry out any investigation it deems necessary and may entrust such investigation to some of its judges

Source: GCC SG

The commission aims to overcome obstacles facing Gulf economic integration, including addressing different regulations and procedures among countries, as well as activate agreements related to the Customs Union, the Gulf Common Market and a unified Gulf currency. It shows that unless and until the memberships of both GCC and GMCo are aligned, achieving the goal of monetary integration will remain a daunting task.

An Economic Agreement (EA) was signed in November 1981 in the wake of the creation of the GCC. In December 2001, a reformulated version of the EA was signed again by members of the Supreme Council during the 22nd GCC Summit held in Muscat. The new Agreement was ratified by all members. Chapter III makes reference to the Monetary and Economic union requirements as follows:

"For the purpose of achieving a monetary and economic union between Member States, including currency unification, Member States shall undertake, according to a specified timetable, to achieve the requirements of this union. These include the achievement of a high level of harmonization between Member States in all economic policies, especially fiscal and monetary policies, banking legislation, setting criteria to approximate rates of economic performance related to fiscal and monetary stability such as rates of budget deficit, debt and price levels."

Therefore, for all intents and purposes, all six countries have agreed on monetary union and the introduction of the single currency. Article 27 of the EA, entitled Settlement of disputes, announces the creation of a judicial body to arbitrate on matters related to its implementation. Paragraph 3 of the Article states:
"A specialized judicial commission shall be formed, when deemed necessary, to adjudicate disputes arising from the implementation of this Agreement or resolutions for its implementation. The Financial and Economic Committee shall propose the charter of this commission."

It is the creation of this Judiciary Commission that was announced during the Consultative Summit in Jeddah together with EDAC and which is represented in Chart 7 above. The Statutes of the Commission (original in Arabic) states in its Article 4 that "the Commission shall hold its first session within three months of the Supreme Council decision to appoint the judges". As this has not been done, the Commission has not been operational and awaits ratification by Member countries.

The mandates of the Commission is strictly to litigate in cases of failure to implement the provisions of the Economic Agreement, unified Laws, or resolutions pursuant to its provisions. The GCC Secretariat General refers the matter to the Economic Judiciary Commission following notifications of the relevant member countries.

4.2.2 Need for other highly experienced staff with hands-on experience

GMCo is currently operating with a total of 30 staff allocated to the different units as shown in Table 18. This is far below what the organization requires to deliver on all of its objectives. GMCo plans to intensify its effort to recruit both newly qualified young graduates from GCC countries as well as experienced staff. Hiring and retaining experienced staff has not always been easy. There are two aspects to this issue: the need to stay competitive and the dearth of skilled personnel in general in the region. GMCo improved its benefits following a review carried out in 2017. It also plans to carry out a comparator study to ensure that its overall package of benefits is well aligned with market requirements. Given the many ongoing reforms in KSA and other GCC countries, demand for highly experienced staff has increased while supply has not kept up. As a result, the hiring process has not been as smooth as should have been.

Table 18: GMCo staff in 2017

Unit/Department	Number of staff
Office of the President	4
Human Resource & Admin	6
Finance	3
Legal	2
Information Technology	7
Economic Research and Statistics	7
Board Secretary	1
Total	**30**

Source: GMCo

On the other hand, GMCo is also trying to avoid hiring too many staff without the formal process of engagement with member countries well under way. There is a fine line between those two considerations. GMCo will attempt to link its hiring process to the development of activities with member countries.

4.2.3 Need for better communications to stakeholders regarding GMCo

Communicating better to all stakeholders about its goals, strategy, accomplishments, and challenges is very important for GMCo. The preparation and dissemination of its Annual Report is a key component of this strategy. This is not enough, however and the organization needs to engage more intensely with its stakeholders to ensure that they are all up to date as regard the evolution of the organization and the extent to which it is meeting its goals. Indeed, meetings were organized with the Ministry of Finance in KSA to explain the role and the possible contribution of GMCo to the ongoing macroeconomic reform. Similar meetings will have to be organized in the other member countries.

4.3 Technical cooperation agreement between GMCo and the IMF and the ECB

In January 2016, the President of the Gulf Monetary Council and the President of the European Central Bank (ECB), signed a Memorandum of Understanding (MoU) in Frankfurt. The MoU provides a framework for an exchange of information and a program of technical cooperation between the two institutions. Technical cooperation could take the form of joint seminars and workshops in areas of mutual interest in the field of central banking and monetary integration or other forms of interaction. It is within the framework of the MoU that GMCo shared the report on a Unified Monetary policy with the ECB.

In April 2016, GMCo and the IMF also signed a MoU although that one was different to the ECB's in several ways. First it consists of a well laid out program made up of four components as follows:

- Technical Cooperation with GMCo and its members
- Exchange of employees between the IMF and GMCo
- Training of GMCo staff and those of its member countries
- Data- exchange

Second, it is a cost-sharing agreement and GMCo was expected to meet the costs of the operations. Cooperation is expected to be in the form of joint GMCo/IMF missions; long term resident experts and peripatetic expert visits. The Monetary and Capital Markets (MCM) department of the IMF is the lead unit. The program was due to cover the three year period March 2017 to March 2020 but will be extended given that there has been little to no activity.

The agreement is very important to GMCo. However, given that in the meantime new staff have joined the organization and new reports have been prepared, GMCo has now been able to better identify its needs and the priorities of its member countries. For example, the issue of harmonizing definitions and classifications of statistics in the various macro sectors is proving, quite rightly so, to be a priority among member countries following the joint GMCo/GCC – STAT report. This topic was not included in the cooperation agreement despite the IMF's unique expertise in this area. This is why a reassessment of the details of the agreement is called for but GMCo expects to reengage with the IMF in due time.

4.4 GMCo's work plan

Consistent with the studies and reports discussed in chapter IV above and broadly aligned with the proposed tasks in the MoU agreement with the IMF, GMCo's work plan for the next three years revolves around six main thematic areas as follows:

- Statistics
- Fiscal policy issues (harmonization of budget laws; assisting in setting up a Gulf Fiscal Board)
- Monetary policy harmonization and implementation
- Exchange Rate Policy
- Financial Stability and Banking Supervision
- Payment and settlement systems

Those agendas define the organization's work for several years to come

4.4.1 Statistics

The joint GMCo/GCC – STAT discusses the details of what is to be done in this area. Working in close collaboration, the two organizations will need to:

- Ensure that member countries are using definitions, classifications, coverage, standard presentations and reporting consistent with international standards

- Train and support national authorities in cases where common practices are sub-standard

This will be done for the four macro sectors (National Accounts; GFS; Monetary Statistics; BOP/External debt) as explained in chapter IV, section 4, according to an allocation of tasks between the two organizations based on their respective mandates and comparative advantage. Based on the joint report and other GMCo fact-finding missions as required, the following activities are expected to be carried out:

- Clarify the current status of each member country in regard to matters of definition, classification, reporting etc.
- Define scope of work and preparation of action plans as required to ensure that eventually all member countries meet SDDS requirements
- Prepare progress report on each set of data for GMCo Board for eventual transmission to national authorities

4.4.2 Fiscal policy issues

The Heat Map in Annex 1 provides an overview of the extent to which the legal frameworks of the four GMCo Member countries and the two other GCC members are fully aligned with international public financial management principles and standards. It is meant to show in very broad terms, rather than being a perfectly accurate rendering of, the main areas of strengths and weaknesses of the six countries. It shows where the efforts to strengthen and harmonize member countries' legal framework should be and as such provides the basis for an eventual GMCo engagement with the member countries.

The task will necessitate a close engagement by GMCo staff with the respective Ministries of Finance of member countries. It will require greater effort in the case of the KSA since there is no budget law at present and that will mean starting from scratch. The fact that GMCo is based in Riyadh should however make it easier.

At a later stage, consideration will have to be given to strengthen the fiscal institutional set up that underpins the monetary union arrangement. An eventual Gulf Fiscal Board will have to be set up to oversee fiscal issues and to ensure that member countries' budgets are compatible with the requirement of the single currency. GMCo would likely have to assist in this endeavor.

4.4.3 Monetary policy harmonization and implementation

Many tasks are expected in this area which represents GMCo's core mandates. First, the legal framework of the NCBs will have to be reviewed to ensure they are compatible with the Monetary Union Agreement. Then monetary policy instruments will have to be harmonized, meaning among others, reserve requirements, acceptance of cross-border collaterals, etc. The IMF has often underscored the need to improve the liquidity forecasting and management framework of NCBs. GMCo also considers this as a priority and will work with NCBs to support their staff to improve the framework. The development of the secondary markets is also an important priority for GMCo and will therefore constitute an area where GMCo expects to be fairly active.

4.4.4 Exchange Rate Policy

One of the most challenging decisions to face GMCo in due time is the determination of the bilateral rates between the currency of each member country and the single currency. In principle, since all of them are pegged to the dollar (except the Kuwaiti dinar), that should make it easier to determine the respective bilateral rates. However, it would be opportune to review the cross rates in light of prevailing economic situation at the time the single currency is introduced. Several indicators should be considered to determine the rates of each currency vis-à-vis the single currency among which:

- Current account deficits
- Real effective exchange rates (if available, using also third country weighted averages in addition to trade-weighted averages)
- Level of foreign currency reserves

This task will have to be undertaken in the final leg of the preparatory stage of the monetary union.

4.4.5 Financial Stability and Banking Supervision

Article 3 of the MUA calls for the "Adoption of uniform banking legislation and common rules in the field of banking supervision with a view to achieving monetary and financial stability." As it is now, member countries have different regulatory and institutional set up as regard financial stability and their respective banking supervisions are not harmonized even if there are some common rules.

For example, the Central Bank of Bahrain is the sole regulator of Bahrain's financial sector (except for social insurance), covering the full range of banking, insurance, investment business and capital markets activities. This is not the case in the KSA where different authorities oversee stock and capital markets for example while SAMA is in charge of banking activities. Islamic banking, an important component of the financial industry is also regulated and overseen differently among the member countries.

GMCo will therefore have to carry out in the first place a comprehensive survey of the institutional set up and the regulatory framework of member countries before embarking on the required harmonization as called for by the MUA.

4.4.6 Payment and settlement systems

The payment and settlement systems will have to be harmonized before introducing the single currency as called for by the MUA. Here also, GMCo will have to carry out a preliminary survey of the different systems among member countries before setting out to harmonize them.

As can be seen here, the tasks of GMCo for the next several years are quite varied, complex and very demanding. The organization will have to be appropriately geared and adequately staffed to respond to all those challenges.

Annex 1: Heat Map of GCC Member Countries' budget laws

	GMCo Member States				*Other GCC*	
PFM Features	**KSA**	**Bahrain**	**Kuwait**	**Qatar**	**Oman**	**UAE**
Budget preparation						
Medium-term framework						
Fiscal rules						
Citizens' Guide to budget						
Budget documentation						
Public Investment management						
Budget presentation						
Comprehensiveness						
Tax expenditures						
Fiscal and other risks						
Classification (Adm., Econ, Functions)						
Structure of the public sector						
Financing, liquidity and debt management						
Limits to borrowing, contingencies, guarantees						
Treasury Single Account (centralization of payments)						
Debt management (strategy & implementation)						
Central Bank advances to Government						
Auditing & Reporting						
External audit (comprehensive, timely)						
Independence of OAG						
Coverage institutions						
Coverage stocks						
Coverage flows						
Other						
Legislative scrutiny of budget						
Submitting budget Parliament early enough						
Budget approval before start of FY						
Basis of accounting						
Expenditure arrears						
Supplementary budget in case of major changes						
Approval of multiyear contracts						
Natural resource revenue management						
Legal & fiscal regime						
Fiscal reporting						

Note*:* The Heat Map provides an overview of the strengths and weaknesses of all six GCC member countries based on recommended PFM principles and standards. Natural resource revenue management is an area where greater transparency is required among all six countries. Auditing and reporting constitutes a reasonable base for almost all the countries but can be strengthened further. Medium term budgeting, limits to borrowing and disclosure of contingent liabilities are examples of principles that need to be more urgently introduced in the law.

Annex 2: Statistical Annex

Table 1: GDP by income for GMCo's Member Countries (current prices, Mill. US $)

		2013	2014	2015	2016	2017
KSA	Agriculture, Forestry & Fishing	16,107.5	16,843.7	17,137.9	17,320.6	17,410.7
	Mining & Quarrying	328,752.7	301,347.6	160,135.6	142,303.0	174,637.8
	Manufacturing	74,152.4	81,650.3	82,990.7	83,242.7	88,367.0
	Electricity, Gas and Water	8,166.2	8,661.0	9,617.9	10,238.8	10,832.2
	Construction	35,890.2	40,790.7	43,459.9	42,553.3	41,224.6
	Wholesale & Retail Trade, Restaurants & hotels	64,423.0	71,106.4	74,141.3	73,623.0	73,325.3
	Transport, storage and communications	35,802.2	38,590.1	41,410.5	42,823.3	44,046.1
	Financial, real estate, and business activities	71,948.0	78,131.0	82,776.4	86,626.3	90,168.9
	Government Services	98,152.0	104,433.6	126,684.5	130,004.1	N/A
	Community, Social & Personal Services	13,264.1	14,295.2	14,869.1	15,299.1	N/A
	Private households	N/A	N/A	N/A	N/A	N/A
	Imputed Bank Services Charge	-5,657.5	-5,771.3	-5,885.8	-5,995.1	6,086.9
	Taxes less Subsidies on products	5,646.4	6,272.0	6,932.0	6,896.5	6,234.1
	GROSS DOMESTIC PRODUCT	746,647.1	756,350.4	654,269.9	644,935.5	686,738.5
Qatar	Agriculture, Forestry & Fishing	190.9	241.8	262.9	279.1	310.4
	Mining & Quarrying	110,722.8	108,294.0	63,547.0	46,223.6	54,863.7
	Manufacturing	20,280.2	20,915.7	15,950.0	13,791.5	15,606.3
	Electricity, Gas and Water	822.8	903.6	951.6	995.3	1,023.9
	Construction	10,797.8	13,744.8	15,870.1	18,104.9	20,909.1
	Wholesale & Retail Trade, Restaurants & hotels	13,140.4	14,843.1	16,389.0	17,124.2	17,244.8
	Transport, storage and communications	6,305.8	6,892.9	7,375.8	7,710.4	7,808.5
	Financial, real estate, and business activities	22,963.5	26,262.6	29,313.7	31,994.2	32,875.0
	Government Services	10,231.6	11,213.5	12,201.1	13,202.7	14,043.7
	Community, Social & Personal Services	6,871.2	7,646.7	8,039.6	8,690.9	9,241.5
	Private households	747.3	886.0	975.0	1,052.5	1,091.8
	Imputed Bank Services Charge	-5,212.4	-6,256.6	-6,727.7	-7,164.8	-7,834.6
	Taxes less Subsidies on products	867.0	634.6	493.4	447.5	421.4
	GROSS DOMESTIC PRODUCT	198,728.8	206,222.5	164,641.5	152,452.2	167,605.5

Bahrain	Agriculture, Forestry & Fishing	89.4	100.1	98.2	107.1	103.1
	Mining & Quarrying	8,439.2	7,998.6	4,407.9	3,883.9	4,741.1
	Manufacturing	4,821.4	4,984.2	5,398.1	5,813.7	6,562.2
	Electricity, Gas and Water	404.5	423.2	438.3	434.6	461.8
	Construction	1,936.0	2,126.0	2,298.9	2,544.4	2,871.4
	Wholesale & Retail Trade, Restaurants & hotels	2,012.3	2,120.1	2,193.9	2,262.3	2,451.3
	Transport, storage and communications	2,032.2	2,197.1	2,339.6	2,402.1	2,513.7
	Financial, real estate, and business activities	6,585.8	6,906.5	7,124.5	7,466.1	7,925.1
	Government Services	2,558.4	2,701.1	2,790.5	2,940.7	3,000.5
	Community, Social & Personal Services	3,113.4	3,334.4	3,464.6	3,715.5	3,882.8
	Private households	240.7	260.7	280.9	321.3	350.2
	Imputed Bank Services Charge	N/A	N/A	N/A	N/A	N/A
	Taxes less Subsidies on products	306.1	235.6	290.5	261.0	443.7
	GROSS DOMESTIC PRODUCT	32,539.6	33,387.5	31,125.8	32,152.7	35,307.1
Kuwait	Agriculture, Forestry & Fishing	618.4	733.2	616.0	567.3	609.9
	Mining & Quarrying	110,640.5	98,975.3	49,449.2	42,480.9	50,648.6
	Manufacturing	10,238.5	9,016.9	7,991.7	7,879.6	8,363.6
	Electricity, Gas and Water	3,243.0	3,423.3	3,355.6	3,411.7	3,430.7
	Construction	3,163.4	3,363.2	3,269.2	3,266.7	3,025.9
	Wholesale & Retail Trade, Restaurants & hotels	6,629.2	7,220.3	6,509.9	6,630.1	6,800.4
	Transport, storage and communications	8,734.2	8,747.6	8,364.5	7,932.2	8,421.0
	Financial, real estate, and business activities	22,624.4	23,272.0	23,086.3	23,042.6	23,719.2
	Government Services*	13,524.9	13,641.6	13,855.5	13,422.4	13,448.3
	Community, Social & Personal Services*	13,282.7	14,138.8	13,522.3	13,737.4	14,307.8
	Private households*	1,618.2	1,589.5	1,593.3	1,656.7	1,683.5
	Imputed Bank Services Charge	-6,897.8	-7,063.9	-7,461.1	-7,677.7	-7,820.7
	Taxes less Subsidies on products	-13,291.2	-14,362.6	-9,618.3	-6,943.6	-7,103.4
	GROSS DOMESTIC PRODUCT	174,128.5	162,695.7	114,534.0	109,407.1	119,534.7

Source: NCB's

Note: * The categories of national classification (ISIC) are split, aggregated or regrouped to provide alternatives to the standard list of base version.

Table 2: GDP by income for GMCo's Member Countries (constant prices, Mill. US $)

		2013	2014	2015	2016	2017
KSA (2010=100)	Agriculture, Forestry & Fishing	15,449.7	15,835.1	15,931.7	16,032.6	16,112.5
	Mining & Quarrying	256,960.6	259,394.4	271,596.1	279,142.6	269,361.0
	Manufacturing	68,160.8	74,663.1	79,584.4	82,129.9	83,195.1
	Electricity, Gas and Water	7,956.4	8,341.9	8,780.7	8,983.6	9,101.8
	Construction	30,031.2	32,056.9	33,382.5	32,320.8	31,269.0
	Wholesale & Retail Trade, Restaurants & hotels	56,719.3	60,112.1	61,798.5	60,819.7	61,167.6
	Transport, storage and communications	34,298.6	36,427.1	38,538.3	39,591.1	40,477.1
	Financial, real estate, and business activities	58,231.7	60,159.6	61,556.2	63,238.2	65,818.0
	Government Services	89,348.5	92,293.0	94,386.3	94,538.4	N/A
	Community, Social & Personal Services	12,090.7	12,775.4	13,016.7	13,239.6	N/A
	Private households	N/A	N/A	N/A	N/A	N/A
	Imputed Bank Services Charge	-5,378.4	-5,425.8	-5,474.9	-5,522.4	-5,592.8
	Taxes less Subsidies on products	5,115.0	5,324.8	5,633.3	5,554.6	5,001.9
	GROSS DOMESTIC PRODUCT	628,984.1	651,957.6	678,729.7	690,068.7	684,157.6
Qatar (2013=100)	Agriculture, Forestry & Fishing	190.7	238.7	258.8	280.0	303.3
	Mining & Quarrying	110,722.3	110,023.6	109,433.8	108,336.5	107,187.4
	Manufacturing	20,280.2	21,123.1	21,822.8	21,610.4	22,241.8
	Electricity, Gas and Water	822.8	914.0	977.8	1,018.1	1,026.6
	Construction	10,798.1	13,265.4	15,631.0	18,038.2	20,744.2
	Wholesale & Retail Trade, Restaurants & hotels	13,140.7	14,771.7	16,082.7	16,623.6	16,452.5
	Transport, storage and communications	6,305.5	6,891.8	7,206.6	7,565.4	7,547.3
	Financial, real estate, and business activities	22,963.2	25,406.6	27,970.1	29,953.0	31,572.5
	Government Services	10,231.3	11,070.1	11,956.9	12,743.1	13,217.0
	Community, Social & Personal Services	6,870.9	7,548.4	7,846.2	8,330.5	8,640.1
	Private households	747.3	816.2	888.2	939.6	963.2
	Imputed Bank Services Charge	-5,212.6	-6,057.4	-6,581.9	-7,136.3	-8,069.8
	Taxes less Subsidies on products	867.0	624.2	479.7	426.7	394.5
	GROSS DOMESTIC PRODUCT	198,727.2	206,636.3	213,972.5	218,728.9	222,220.6

Bahrain (2010=100)	Agriculture, Forestry & Fishing	80.5	89.7	86.9	92.9	92.1
	Mining & Quarrying	6,094.4	6,324.0	6,327.9	6,347.0	6,324.2
	Manufacturing	4,165.5	4,368.2	4,508.0	4,742.9	4,792.7
	Electricity, Gas and Water	380.9	424.0	444.5	439.4	457.8
	Construction	1,911.9	2,035.4	2,156.0	2,279.3	2,319.1
	Wholesale & Retail Trade, Restaurants & hotels	1,946.4	2,022.3	2,071.5	2,125.3	2,313.6
	Transport, storage and communications	1,974.6	2,093.1	2,235.7	2,291.1	2,396.6
	Financial, real estate, and business activities	6,346.6	6,559.2	6,700.9	6,976.1	7,331.8
	Government Services	2,365.6	2,487.3	2,561.2	2,640.3	2,733.4
	Community, Social & Personal Services	2,880.5	3,051.9	3,153.0	3,319.5	3,550.5
	Private households	227.5	239.7	255.8	285.0	304.7
	Imputed Bank Services Charge	N/A	N/A	N/A	N/A	N/A
	Taxes less Subsidies on products	300.1	227.0	277.1	230.2	386.7
	GROSS DOMESTIC PRODUCT	28,674.4	29,921.8	30,778.5	31,769.1	33,003.3
Kuwait (2010=100)	Agriculture, Forestry & Fishing	557.8	623.6	557.8	558.8	575.6
	Mining & Quarrying	81,607.3	80,317.2	75,353.3	76,600.0	70,764.1
	Manufacturing	9,668.8	8,372.9	7,466.4	8,916.8	8,857.8
	Electricity, Gas and Water	2,745.2	4,577.3	3,942.4	4,287.5	4,440.1
	Construction	2,770.3	2,775.2	2,461.6	2,183.8	1,910.0
	Wholesale & Retail Trade, Restaurants & hotels	6,006.3	6,347.9	5,610.2	5,530.3	5,715.5
	Transport, storage and communications	8,822.0	9,019.0	8,595.4	8,748.7	9,152.5
	Financial, real estate, and business activities	20,587.4	20,814.6	20,181.9	19,358.5	19,834.3
	Government Services*	12,179.9	13,039.0	12,191.2	13,712.4	13,714.8
	Community, Social & Personal Services*	10,597.5	10,942.3	10,801.1	10,920.2	11,077.6
	Private households*	1,464.0	1,302.4	1,208.1	1,171.8	1,139.9
	Imputed Bank Services Charge	-6,305.2	-6,469.2	-6,314.2	-6,295.8	-6,263.4
	Taxes less Subsidies on products	-12,840.3	-13,493.4	-10,686.8	-10,994.1	-11,429.4
	GROSS DOMESTIC PRODUCT	137,884.3	138,168.9	131,369.0	134,699.0	129,489.6

Source: NCB's

Note: * The categories of national classification (ISIC) are split, aggregated or regrouped to provide alternatives to the standard list of base version.

Table 3: Consumer Price Index for GMCo's Member Countries (base year 2007 = 100)

		2013	2014	2015	2016	2017
Bahrain	CPI	114.8	117.8	120.0	123.3	125.0
	Inflation	3.3	2.6	1.8	2.8	1.4
	Food and beverages	137.5	141.4	144.8	146.7	148.2
	Tobacco	140.5	144.6	149.7	188.5	198.4
	Clothing and Footwear	109.6	110.3	110.7	108.0	108.9
	Housing, Water, Electricity and Fuel	95.8	100.5	105.1	108.3	112.0
	Furniture and Household Goods	137.5	138.2	139.1	141.7	143.7
	Medical Care	106.2	110.1	114.0	113.5	112.5
	Transportation	107.5	109.2	108.9	123.2	121.6
	Communications	87.2	87.3	87.0	87.0	86.9
	Culture and Entertainment	136.4	139.0	140.7	142.7	144.3
	Education	121.4	126.7	130.4	133.6	136.7
	Restaurants and Hotels	107.8	110.2	111.1	111.8	113.8
	Miscellaneous Goods and Services	137.5	141.7	140.4	141.4	143.5
Saudi Arabia	CPI	126.7	129.5	131.1	133.8	132.7
	Inflation	3.5	2.2	1.2	2.1	-0.84
	Food and beverages	140.5	142.4	143.3	141.4	140.3
	Tobacco	153.1	160.1	162.6	185.6	235.3
	Clothing and Footwear	104.7	105.7	107.0	108.0	104.8
	Housing, Water, Electricity and Fuel	153.8	161.3	165.2	173.2	172.0
	Furniture and Household Goods	122.6	124.7	125.9	126.4	124.1
	Medical Care	109.0	110.9	113.4	115.8	115.8
	Transportation	111.0	112.5	113.6	122.1	119.6
	Communications	93.7	94.3	93.6	93.9	92.9
	Culture and Entertainment	106.3	106.0	106.4	104.7	101.6
	Education	112.6	118.3	119.4	123.1	123.7
	Restaurants and Hotels	126.8	127.8	130.2	130.6	131.3
	Miscellaneous Goods and Services	117.6	118.6	119.7	120.6	120.5
Qatar	CPI	113.6	117.4	119.5	122.7	123.2
	Inflation	3.2	3.4	1.8	2.7	0.4
	Food and beverages	132.0	132.3	133.4	130.9	133.4
	Tobacco	137.2	143.4	156.4	156.4	156.4
	Clothing and Footwear	112.2	114.9	114.7	115.5	114.1
	Housing, Water, Electricity and Fuel	96.2	103.8	106.7	111.0	107.6
	Furniture and Household Goods	120.9	127.4	128.3	130.2	130.8
	Medical Care	129.4	131.6	131.6	130.6	133.5
	Transportation	123.6	126.4	131.6	136.1	146.0
	Communications	83.0	82.6	82.3	82.4	81.9
	Culture and Entertainment	112.2	117.4	114.2	122.6	120.2
	Education	148.3	150.1	170.3	180.0	184.0
	Restaurants and Hotels	118.7	119.4	120.1	119.0	117.1
	Miscellaneous Goods and Services	138.7	139.3	138.8	142.3	142.5

Kuwait	CPI	129.2	133.2	137.9	142.8	145.1
	Inflation	2.7	3.1	3.5	3.5	1.7
	Food and beverages	141.9	145.5	149.5	152.5	152.6
	Tobacco	132.6	140.0	147.8	148.2	150.1
	Clothing and Footwear	126.9	131.2	131.4	132.6	134.4
	Housing, Water, Electricity and Fuel	127.7	133.7	141.5	150.1	150.0
	Furniture and Household Goods	131.9	137.9	142.9	146.1	151.2
	Medical Care	126.8	127.3	129.4	131.0	131.4
	Transportation	122.6	125.0	126.1	131.3	144.6
	Communications	101.3	99.5	99.9	102.2	101.5
	Culture and Entertainment	128.2	128.0	127.8	125.4	129.3
	Education	124.2	130.5	136.4	141.7	145.8
	Restaurants and Hotels	126.5	128.6	136.0	145.6	150.5
	Miscellaneous Goods and Services	128.7	127.5	130.6	131.4	133.7

Source: GCC-STAT

Table 4: Government Finance Statistics for GMCo's Member Countries (in Mill. $)

GFS		2015	2016	2017
Bahrain	Budgetary Central Government Fiscal Balance	-4,035.26	-4,347.12	-3,552.59
	General Government Total Revenue, Excluding Grants	5,400.0	5,010.2	5,759.5
	General Government Oil Revenue	4,112.8	3,714.3	4,215.8
	General Government Non-Oil Revenue	1,287.2	1,295.9	1,543.7
	General Government Total Expenditure and Net Lending	3,919.4	4,204.9	4,789.0
	Central Government Net Lending/Borrowing	-5,726.9	-5,769.7	-5,285.8
	General Government Fiscal Balance	-5,726.9	-5,769.7	-5,285.8
	Total Government Gross Debt	20,549.2	26,217.9	31,521.8
Saudi Arabia	Budgetary Central Government Fiscal Balance	-103,626.40	-82,950.70	-63,598.40
	General Government Total Revenue, Excluding Grants	163,385.1	138,519.7	166,933.3
	General Government Oil Revenue	101,852.5	71,860.2	97,511.1
	General Government Non-Oil Revenue	61,532.6	66,659.5	69,422.2
	General Government Total Expenditure and Net Lending	267,011.2	249,471.0	228,266.7
	Central Government Net Lending/Borrowing	-103,626.1	-110,951.3	-61,333.3
	General Government Fiscal Balance	-103,626.1	-110,951.3	-61,333.3
	Total Government Gross Debt	37,946.7	84,438.7	118,225.3
Qatar	Budgetary Central Government Fiscal Balance	-1,539.84	-13,963.74	-9,723.90
	General Government Total Revenue, Excluding Grants	77,115.8	53,717.5	51,082.9
	General Government Oil Revenue	53,214.7	21,139.6	15,715.4
	General Government Non-Oil Revenue	23,901.1	32,577.9	35,367.5
	General Government Total Expenditure and Net Lending	68,357.1	60,902.5	53,820.6
	Central Government Net Lending/Borrowing	2,096.9	-14,136.3	-10,039.0
	General Government Fiscal Balance	8,758.6	-7,185.0	-2,737.7
	Total Government Gross Debt	57,493.5	70,869.2	89,752.7
Kuwait	Budgetary Central Government Fiscal Balance	-15,322.80	-15,252.64	-10,706.47
	General Government Total Revenue, Excluding Grants	68,761.8	59,202.6	65,395.4
	General Government Oil Revenue	32,117.9	25,262.4	29,198.2
	General Government Non-Oil Revenue	36,643.9	33,940.2	36,197.2
	General Government Total Expenditure and Net Lending	62,357.8	58,516.9	60,660.5
	Central Government Net Lending/Borrowing	6,404.0	685.7	4,734.9
	General Government Fiscal Balance	6,404.0	685.7	4,734.9
	Total Government Gross Debt	5,333.1	10,957.8	24,841.7

Source: Statistical Appendix, Regional Economic Outlook: Middle East and Central Asia, May 2018, IMF

Table (5): Monetary Survey for GMCo's Member Countries (Mill. US $)

Topic		2013	2014	2015	2016	2017
Bahrain	Net Foreign Assets	4,101.3	6,089.6	2,127.4	612.0	-102.1
	Net Domestic Assets	25,738.3	24,855.1	29,508.8	31,360.9	33,403.5
	Claims on Private Sector	22,657.4	21,327.7	22,945.2	23,286.2	23,856.9
	Net Claims on Gov.	8,482.7	9,217.6	11,698.4	14,964.9	16,208.5
	Other Net Domestic Assets	-5,401.9	-5,690.2	-5,134.8	-6,890.2	-6,662.0
	Money Supply M2/M3	29,839.6	30,944.7	31,636.2	31,972.9	33,301.3
Saudi Arabia	Net Foreign Assets	753,088.0	766,753.0	669,045.0	567,481.0	528,324.0
	Net Domestic Assets	-341,047.8	-305,592.0	-196,166.2	-90,854.0	-50,688.2
	Claims on Private Sector	299,638.8	334,989.3	365,846.7	374,793.0	371,653.0
	Net Claims on Gov.	-424,509.8	-402,019.3	-287,030.2	-185,868.7	-128,879.9
	Other Net Domestic Assets	-216,176.8	-238,562.1	-274,982.7	-279,778.4	-293,461.3
	Money Supply M2/M3	412,040.2	461,161.0	472,878.8	476,627.0	477,635.8
Qatar	Net Foreign Assets	29,300.2	34,245.8	12,962.9	-16,306.7	-20,450.0
	Net Domestic Assets	95,896.2	104,222.6	130,274.2	152,995.7	186,200.6
	Claims on Private Sector	135,337.9	147,577.1	164,490.1	170,141.6	181,108.5
	Net Claims on Gov.	16,671.9	20,002.1	36,311.6	54,206.8	65,287.2
	Other Net Domestic Assets	-56,113.7	-63,356.5	-70,527.4	-71,352.7	-60,195.1
	Money Supply M2/M3	125,196.4	138,468.4	143,237.1	136,689.0	165,750.6
Kuwait	Net Foreign Assets	54,592.1	54,547.0	51,544.3	55,519.1	54,563.9
	Net Domestic Assets	61,854.0	61,479.6	62,338.2	61,347.0	68,376.8
	Claims on Private Sector	110,183.1	111,700.4	116,394.0	118,246.7	123,215.5
	Net Claims on Gov.	-14,842.7	-14,821.3	-16,990.6	-14,274.1	-11,372.7
	Other Net Domestic Assets	-33,486.4	-35,399.5	-37,065.2	-42,625.5	-43,466.0
	Money Supply M2/M3	116,446.1	116,026.7	113,882.5	116,866.1	122,940.7

Source: NCB's

Table (6): Balance of Payments for GMCo's Member Countries (in Mill. $)

		2013	2014	2015	2016	2017
Bahrain	Current Account	2,410	1,523	-752	-1,493	-1,389
	Exports F.O.B.)	25,602	23,498	16,540	12,785	15,376
	Imports (F.O.B)	21,280	19,785	15,710	13,588	16,076
	Services (net)	1,449	1,807	2,520	3,498	3,556
	Income (net)	-1,196	-1,633	-1,736	-1,795	-1,778
	Transfers (net)	-2,166	-2,364	-2,367	-2,391	-2,466
	Capital & financial Account (net)	-2,269	-1,576	-3,522	1,459	1,037
	Errors and omissions (net)	2	774	1,617	-1,069	423
	Overall Balance	143	721	-2,657	-1,103	72
	Change in Reserve Assets	2,166	-721	2,657	1,103	-72
	Total Foreign reserves	5,354	6,055	3,394	2,400	2,600
Saudi Arabia	Current Account	135,442	73,758	-56,724	-23,843	15,229
	Exports F.O.B.)	375,901	342,457	203,537	183,607	221,072
	Imports (F.O.B)	153,344	158,462	159,271	127,843	119,328
	Services (net)	-64,807	-88,029	-73,562	-53,014	-58,797
	Income (net)	13,561	16,526	17,280	15,727	11,812
	Transfers (net)	-35,869	-38,734	-44,707	-42,319	-39,530
	Capital & financial Account (net)	-57,717	-57,686	-43,915	9,837	-50,594
	Errors and omissions (net)	-8,574	-9,443	-15,296	-66,616	-4,008
	Overall Balance	69,151	6,628	-115,935	-80,621	-39,374
	Change in Reserve Assets	-69,151	-6,628	115,935	80,621	39,374
	Total Foreign reserves	725,725	732,353	616,418	535,797	496,423
Qatar	Current Account	60,461	49,410	13,751	-8,270	6,426
	Exports F.O.B.)	133,336	126,702	77,294	57,309	67,498
	Imports (F.O.B)	31,475	31,145	28,496	31,934	30,766
	Services (net)	-16,304	-19,333	-15,778	-16,366	-13,721
	Income (net)	-10,364	-9,301	-3,565	-1,109	-420
	Transfers (net)	-14,732	-17,514	-15,704	-16,169	-16,167
	Capital & financial Account (net)	-52,147	-49,177	-19,673	3,802	-25,453
	Errors and omissions (net)	751	1,060	419	-1,167	1,151
	Overall Balance	9,064	1,293	-5,503	-5,635	-17,877
	Change in Reserve Assets	-9,064	-1,293	5,503	5,635	17,877
	Total Foreign reserves	42,066	43,008	37,133	31,630	14,809

Kuwait	Current Account	70,180	54,409	4,013	-5,058	7,094
	Exports F.O.B.)	115,719	104,530	54,428	46,508	55,137
	Imports (F.O.B)	25,570	26,990	26,531	26,988	29,527
	Services (net)	-14,821	-18,097	-19,972	-20,019	-22,830
	Income (net)	13,955	15,648	12,688	12,778	18,979
	Transfers (net)	-19,102	-20,681	-16,599	-17,337	-14,666
	Capital & financial Account (net)	-64,200	-52,360	-7,457	8,581	-20,042
	Errors and omissions (net)	-2,605	-775	4,135	-345	14,825
	Overall Balance	3,374	1,274	-2,943	3,178	1,876
	Change in Reserve Assets	-3,374	-1,274	-2,943	-3,178	-1,876
	Total Foreign reserves*	29,137	29,251	25,611	31,200	33,500

Source: NCB's

Note: * Total Foreign Reserves comprise holdings of foreign exchange and monetary gold under the control of Kuwait Central Bank plus IMF reserve position & SDR.

Table (7): Oil & Gas Statistics for GMCo's Member Countries

		2013	2014	2015	2016	2017
Bahrain	Proven Crude Oil Reserves (Million Barrels)	120.0	120.0	120.0	120.0	120.0
	Proven Natural Gas Reserves (Billion Cubic Feet)	3,249.0	3,249.0	3,249.0	3,249.0	3,249.0
	Crude Oil Production (1000 bpd)	197.6	202.4	201.5	202.0	197.1
	NGL Production (1000 bpd)	10.0	10.0	10.0	10.0	10.0*
	Gross Natural Gas Production (Billion Cubic Feet)	679.5	728.4	751.6	743.8	758.0
	Oil & Gas Exports (Million USD)	15,292.6	14,500.8	7,739.1	6,081.6	8,411.4
Kuwait	Proven Crude Oil Reserves (Million Barrels)	101,500.0	101,500.0	101,500.0	101,500.0	101,500.0
	Proven Natural Gas Reserves (Billion Cubic Feet)	63,002.0	63,002.0	63,002.0	63,002.0	63,002.0
	Crude Oil Production (1000 bpd)	2,708.0	2,692.0	2,883.0	2,898.0	2,704.0
	NGL Production (1000 bpd)	140.4	136.8	141.2	201.6	205.5
	Gross Natural Gas Production (Billion Cubic Feet)	583.7	538.5	605.0	618.6	689.8
	Oil & Gas Exports (Million USD)	108,573.9	97,722.8	48,820.7	41,461.5	49,970.7
Qatar	Proven Crude Oil Reserves (Billion Barrels)	25,070.0	25,244.0	25,244.0	25,244.0	25,244.0
	Proven Natural Gas Reserves (Billion Cubic Feet)	871,500.0	866,322.9	858,122.7	850,120.3	850,120.3
	Crude Oil Production (1000 bpd)	723.9	709.2	656.0	651.5	600.0
	NGL Production (1000 bpd)	1,117.1	1,106.5	1,199.0	1,195.0	1,224.9*
	Gross Natural Gas Production (Billion Cubic Feet)	7,013.2	7,027.5	7,486.2	7,554.1	7,498.7
	Oil & Gas Exports (Million USD)	119,977.7	113,900.0	65,500.0	47,800.0	53,600.0
KSA	Proven Crude Oil Reserves (Billion Barrels)	265,789.0	266,578.0	266,455.0	266,208.0	266,208.0
	Proven Natural Gas Reserves (Billion Cubic Feet)	293,685.0	299,742.0	303,251.0	304,390.6	304,390.6
	Crude Oil Production (1000 bpd)	9,637.3	9,712.7	10,192.6	10,460.2	9,951.0
	NGL Production (1000 bpd)	1,093.1	1,099.6	1,155.2	1,185.5	1,215.2*
	Gross Natural Gas Production (Billion Cubic Feet)	4,030.1	4,122.0	4,231.8	4,491.5	4,752.0
	Oil & Gas Exports (Million USD)	321,888.0	284,557.6	152,909.9	136,194.4	170,240.7

Source: OAPEC, OPEC, and British Petroleum Statistical Energy

Note: * GMCo's Staff Estimation

WWW.GMCO.INT