

Gcc central bank

Finance



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GCC Central Bank Executive summary The introduction of a single currency is being planned by the six member nations that make up the Gulf Cooperation Council (GCC) of which Qatar is an affiliate, include Bahrain, United Arab Emirates (UAE) Kuwait, Omar, and Saudi Arabia. The primary focus will be on selected macroeconomic, as well as established issues and key policy choices that could most likely arise in the GCC's central bank's processing of monetary integration. However, this does not assess the potential cost and benefits of a GCC monetary union, taking into account that political influence has been considered in the introduction of a single currency, and no analytical options for monetary, as well as the exchange rate policies within the GCC after a single currency implementation have been launched. Key findings will state that (1) a GCC supranational monetary institution is required in order to conduct a singular monetary, as well as the exchange rate policy geared towards economic, financial and monetary conditions within the monetary union; (2) Qatar, as well as the other GCC state members, have already achieved an incredible degree of monetary union, but fiscal union still remains its biggest challenge and needs support by way of an appropriate fiscal policy framework, and (3) with the current high degree of structural convergence, of which is expected to diminish in light of the process of diversification in Qatar and member states of GCC's economies (Sturm and Siegfried 6). This will call for adequate responses in policymaking.

Introduction The European Central Bank (ECB) can look back to several years and comfortably say that they have achieved economic and monetary integration. Integration in Europe is far more advanced than that of Qatar and its member states, having been discussed and analyzed until it became a reference point for other regions in the world (Sturm and Siegfried

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8). Although the regional economic integration is one of the experiences, being faced by Europe, one area of integration that has had great success is in monetary integration with the introduction of the euro. The European monetary integration achievement can be attributed to the ECB. Discussion The GCC's monetary merger is interesting for several reasons. It seems to be the most advanced initiative among various attempts to achieve monetary integration in many regions of the world, given the timetable and state of preparations. Moreover, the degree of economic convergence, in particular monetary convergence that has already been achieved is high compared to other regions. With this realization, the GCC central bank's monetary union will be the second essential monetary union in the world in relation to GDP and population, after the euro area. Furthermore, it is worth noting that this integration initiative is taking place in an area, the Middle East, which has up till now been characterized by a very low degree of economic integration and failed attempts to foster regional economic interaction in an effective fashion, and whose economic performance has attracted considerable attention currently. Lastly, the GCC monetary union plan has so far not been extensively covered in the economic literature (Sturm and Siegfried 9). Over the last few years, the ECB has been in communication with monetary agencies and central banks in the location and the GCC Secretariat General to discuss with other regional groupings for potential sessions from monetary incorporation in the EU, to the degree that these are relevant to the region. This being said, while Qatar is eyeing monetary integration, what are the objectives of a monetary union? The objective of the monetary union in the GCC central bank are embedded in a wider economic integration process, for which an ambitious, but consistent agenda has been laid out. With the <https://assignbuster.com/gcc-central-bank/>

realization of free trading areas as well as customs union and completion of a common market, introduction of a single currency is the next item on the agenda. With the deepening of a low degree in economic integration in the GCC, monetary integration would be of great benefit, which would finalize the implementation of the final stage of integration (Sturm and Siegfried 9). Furthermore, as GCC institutes assist in the economic integration process, which has followed an intergovernmental approach, they will have to consolidate the last stages of integration. The GCC central bank will need a single and indivisible monetary as well as the exchange rate policy. With this principle of indivisibility, monetary union is more than just a specific tight exchange rate arrangement and mere coordination of national monetary policies that will not sustain a single currency. For a singular monetary and exchange rate policy geared towards economic, monetary, as well as financial conditions, a supranational monetary institute is needed (Jeffery 1). Decision making on monetary, as well as the exchange rate policies have to be centralized, and at the same time have different options when it comes to centralization or decentralization of the analysis, implementation, and communication of a singular monetary and exchange rate policy. The analysis of monetary and fiscal convergence in the GCC central bank reveals a significant degree of monetary union, with low inflation rates in all member states and short-term interest rates moving in a narrow range. This is due to the GCC central bank's currency long-standing alignment with a common external presenter, that of the US dollar, which has led to a very high quantity of intra-GCC exchange charge stability that is all the more noteworthy as it has prevailed in a liberalized environment (Jeffery 1). The fiscal union is of a lesser marking than that of the monetary convergence

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and seems to constitute a vital encounter for the GCC central bank. While the banking sector in Qatar is fairly stable, despite it experiencing some financial difficulty that was attributed to the global financial meltdown, the state of the GCC banking system was not affected. Firstly, the GCC banking system is not a homogeneous constituent, but a mix of different structures as well as situations, which in turn means that, the strains felt in a given region are not replicated in another region (IFR, 1). Conclusion In conclusion, having looked at the key economic and institutional aspects of the envisaged GCC monetary union. Introducing a single currency in the member nations of the GCC is an objective, which is supported by the region's common history and language, the relative homogeneity of its political systems and traditions and, most importantly, the similarity of economic structures among the member states. Despite differences between member states, these structures remain largely dominated by the production of oil and gas. In their endeavor to achieve a single currency, GCC countries can also build on a considerable degree of monetary convergence over recent a decade, which is reflected in a high degree of exchange rate stability, generally low inflation rates and co-moving interest rates. The progression of monetary integration is embedded in a comprehensive project for economic integration, which, after the founding of a free trade area and a customs union, aims at the completion of a general market. However, it has to be renowned that so far the level of economic integration (as reflected in the level of intra-GCC trade, for example, has been relatively limited. Besides legal and regulatory barriers to closer integration, which should be eliminated in the course of the assimilation process, the similar factor endowment of the region represents a structural factor that limits economic integration. Reference list Sturm and <https://assignbuster.com/gcc-central-bank/>

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