

**LAPSE OF
TIME**

EBD/17/11

March 20, 2017

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Gulf Monetary Council—Request for Fund Technical Assistance and Training**

Board Action: Executive Directors' **consideration** on a lapse of time basis

Deadline to Request a Board Meeting, after which Proposed Decision Deemed Approved: **Friday, March 24, 2017
12:00 (noon)**

Proposed Decision: Page 4

Questions: Mr. Callen, MCD (ext. 38873)



March 20, 2017

GULF MONETARY COUNCIL—REQUEST FOR FUND TECHNICAL ASSISTANCE AND TRAINING

Approved By
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Aasim M. Husain,
and **Gerd Schwartz**

Prepared by the Institute of Capacity Development and the
Legal and Middle East and Central Asia Departments

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INTRODUCTION

1. **The Gulf Monetary Council (GMCo) was established with the primary objective of preparing the necessary infrastructure for establishing the GCC Monetary Union, including the establishment of a regional central bank.** GMCo was established by four of the six Gulf Cooperation Council (GCC) member countries (Bahrain, Kuwait, Qatar, and Saudi Arabia) and started operations in 2010.¹ This followed the approval of the Monetary Union Agreement for the four countries, as well as the Statute of the Gulf Monetary Council, in December 2008. The main objectives of the GMCo are to (i) enhance cooperation among the National Central Banks (NCBs) to prepare the necessary infrastructures for establishing the Gulf Monetary Union (GMU), and (ii) coordinate monetary and exchange rate policies to establish a regional central bank. The GMCo aims to establish the necessary legal and organizational frameworks for the regional central bank to carry out its tasks in cooperation with the national central banks; develop the necessary statistical systems; introduce single currency banknotes and coins; and ensure readiness of the payment and settlement systems related to the single currency.
2. **The Fund has been strengthening its overall cooperation on surveillance issues with the Gulf Cooperation Council (GCC) countries, which has also included discussions with GCC institutions like the GMCo.** For example, for the Annual Meeting of GCC Finance Ministers and Central Bank Governors, Fund staff has been preparing background papers for all six GCC countries that have covered a variety of issues, such as macroprudential policies, energy price reforms, non-oil fiscal revenues, economic diversification, and the adequacy of bank capital. Similarly, STA has been engaging with the GCC Statistical Center (GCC-Stat). The stronger surveillance dialogue also contributed to more demand for capacity development (CD) support by individual GCC member countries. In the area of technical assistance (TA), this has included, for example, support on tax and expenditure policy issues, fiscal frameworks, liquidity management, and a broad range of statistical issues. In the area of training, this has included a closer engagement with GCC countries through the IMF's Kuwait Center for Economics and Finance (CEF) since its opening in 2011.
3. **The Fund has received a request from the GMCo for TA support to put in place the necessary frameworks and policies for an eventual move to a monetary union in coordination with its member national central banks.**² Such TA could include, but would not be limited to, assistance in the areas of central banking and financial stability. In addition to supporting the move to a monetary union over the longer-term, Fund staff considers that the proposed TA would also help the four member central banks of the GMCo to strengthen and harmonize their policy frameworks and toolkits in the near-term in order to increase the effectiveness of their response to lower oil prices. The GMCo proposes to pay for the technical assistance.

¹ The GMCo is an "international agency" for Fund purposes, given that the GMCo has its own legal personality.

² The letter requesting technical assistance is attached as an Annex.

PROPOSAL

4. **In response to the request by the GMCo, it is proposed that the Executive Board authorize the Managing Director to approve the provision of Fund CD activities** to help the GMCo put in place the necessary frameworks and policies for an eventual move to a monetary union in coordination with its member national central banks, including but not limited to assistance in the areas of central banking and financial stability. The advance approval of the Executive Board is necessary for technical services by persons on the staff of the Fund in response to requests by international agencies under Rule N-16(d) of the Fund's Rules and Regulations.

Proposed Decision

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

“In response to a request by the Gulf Monetary Council (GMCo), the Fund authorizes the Managing Director to approve the provision of Fund technical assistance to help the GMCo put in place the necessary frameworks and policies for an eventual move to a monetary union in coordination with its member national central banks, including but not limited to assistance in the areas of central banking and financial stability.”



President Office
No: 1360

المجلس النقدي الخليجي
Gulf Monetary Council

مكتب الرئيس
الرقم: 1360

Carla Grasso
Deputy Managing Director,
International Monetary Fund

March 1st 2017

Dear Ms. Grasso

I would like to express my personal appreciation and that of our Board, comprising the Gulf Monetary Council (GMCo) member countries' central bank governors, for the professional and excellent discussions we have had with the IMF staff. As envisaged under the cooperation agreement between the IMF and the Gulf Monetary Council (GMCo), we have worked closely with your staff to put together a multi-year program for operationalizing our strategic plan to launch the Gulf Central Bank (GCB) and introduce a single currency in its member countries. GMCo's Board met on February 8th, 2017, and the Governors discussed and approved the program.

As you may know that, the primary objective of the Gulf Monetary Council (GMCo) is to prepare the necessary infrastructures for establishing the Monetary Union, especially the establishment of the Central Bank, and lay down its analytical and operational capacities. This is a very significant project for the region that will advance the reform agenda in GMCo's member countries. We would now like to request technical assistance from the IMF to help GMCo and its member central banks (Bahrain, Kuwait, Qatar, and Saudi Arabia) to put in place the necessary frameworks and policies for an eventual move to a monetary union, including but not limited to assistance in the areas of central banking operations and financial stability. As well as helping with the long-term goal of monetary union, this support will be critical in the short-term to help our member central banks respond to the current challenges created by lower oil prices.

We look forward for our continued fruitful cooperation.

Sincerely,

Raja Almarzoqi
President

cc: Mr. Hazem Elbeblawi
Mr. Hesham Alogeel
Mr. Juha Kahkonen

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