



Arabic (& Asian) Currency Union Plans

Philipp Nimmermann
BHF-BANK Financial Markets

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Possible Arabic & Asian Currency Unions

1) GCC

(Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates)

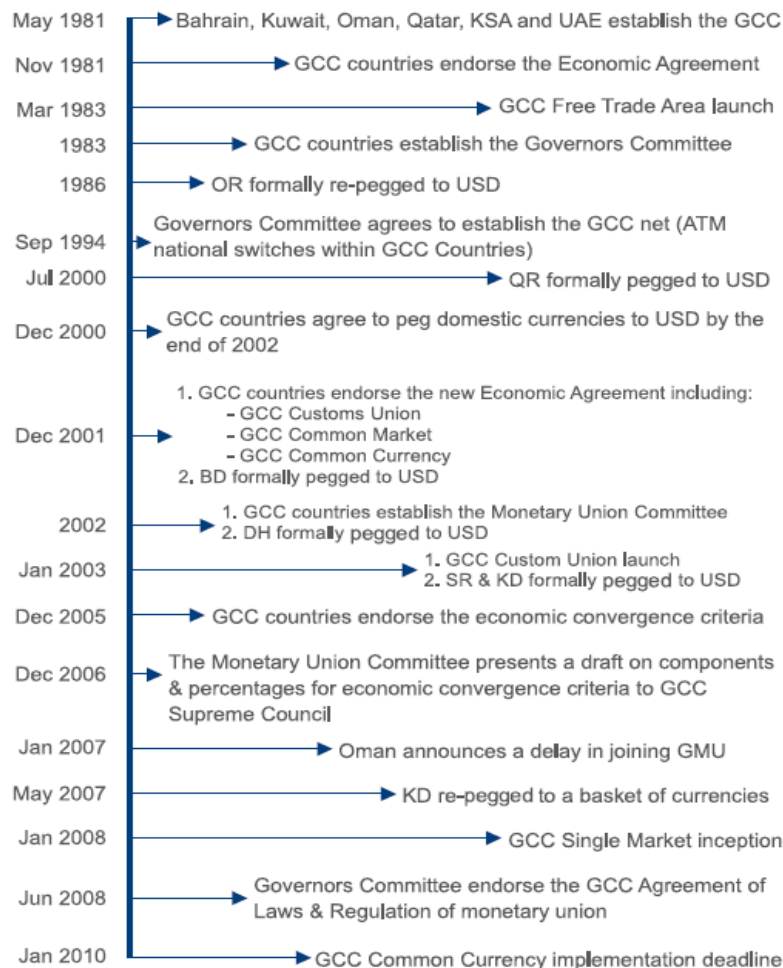
⇒ 2010

2) ASEAN + 3 (+ 4?)

(Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam + Japan, South Korea, and China (+ India?))

⇒ 2030 (???)

Milestones in the GCC Monetary Union & latest assessment of the Convergence Criteria



Country	Inflation Rate	Interest Rate	Forex Reserve	Fiscal Deficit	Public Debt	Exchange Rate
Bahrain	Yes	Yes	Yes	Yes	Yes	Yes
Kuwait	Yes	Yes	Yes	Yes	Yes	No
Oman	Yes	Yes	Yes	Yes	Yes	Yes
Qatar	No	Yes	Yes	Yes	Yes	Yes
KSA	Yes	Yes	Yes	Yes	Yes	Yes
UAE	No	Yes	Yes	Yes	?	Yes

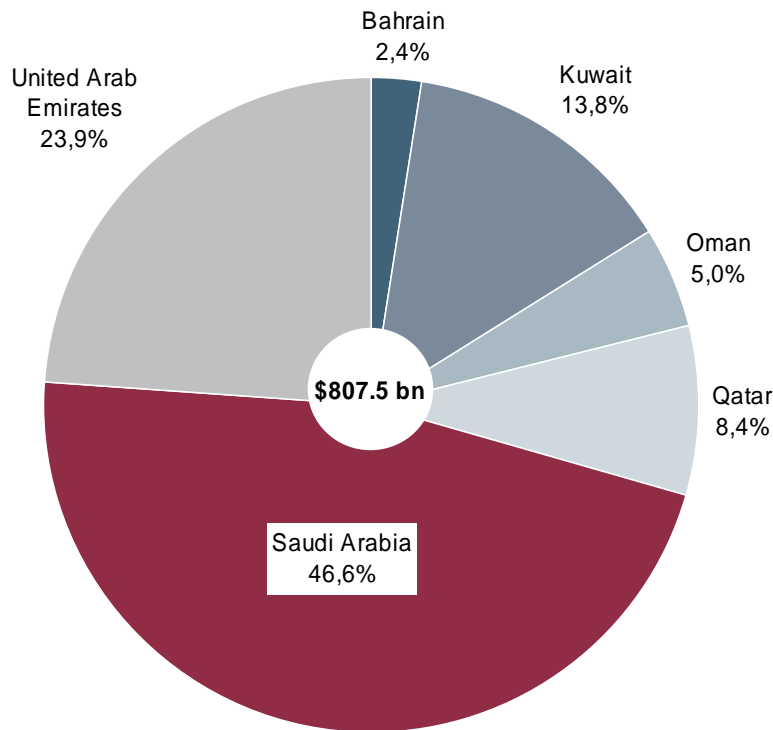


On **June 9, 2008**, the Governors' Committee agreed on a draft text which will be submitted for approval to the GCC Finance and Economic Co-operation Committee on **September 17**. The final step will take place at the **end of 2008** when the final document is signed by the Heads of States of the GCC at their annual Summit

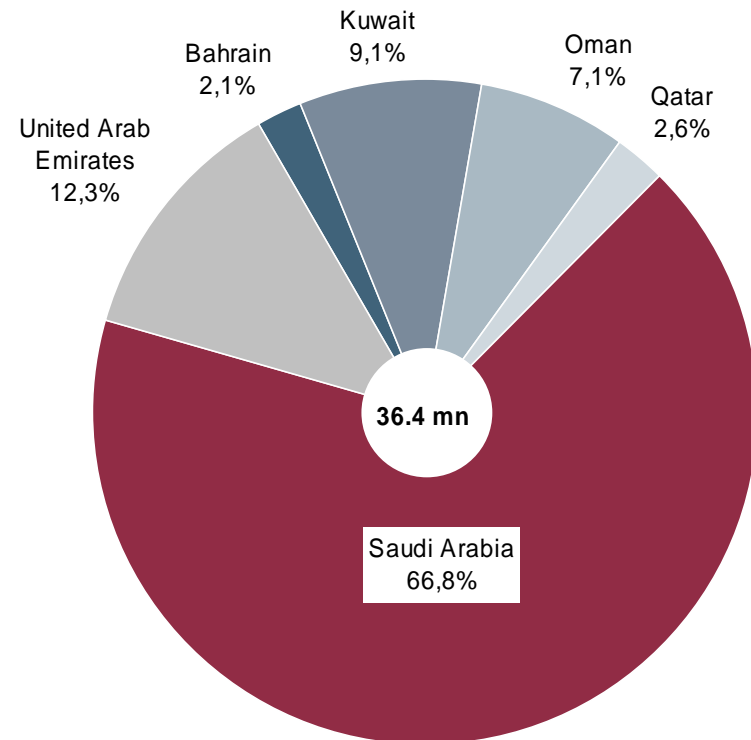
Source: Dubai International Financial Centre (August 2008): "An Assessment of the Progress towards GCC Monetary Union"

The Golf Cooperation Council (GCC) is a fairly small region dominated by Saudi Arabia

Nominal GDP 2007



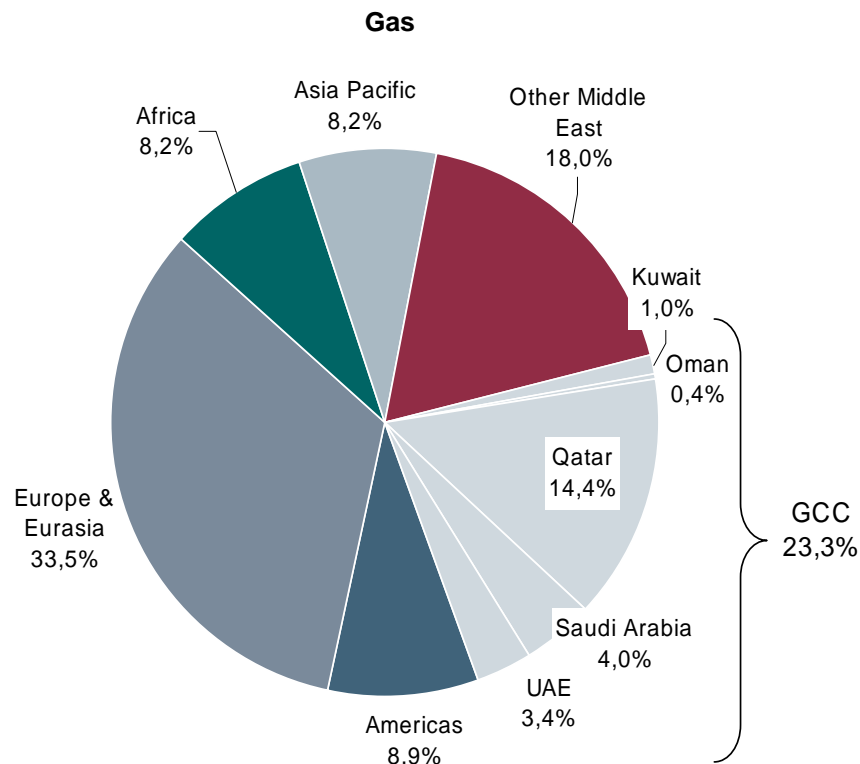
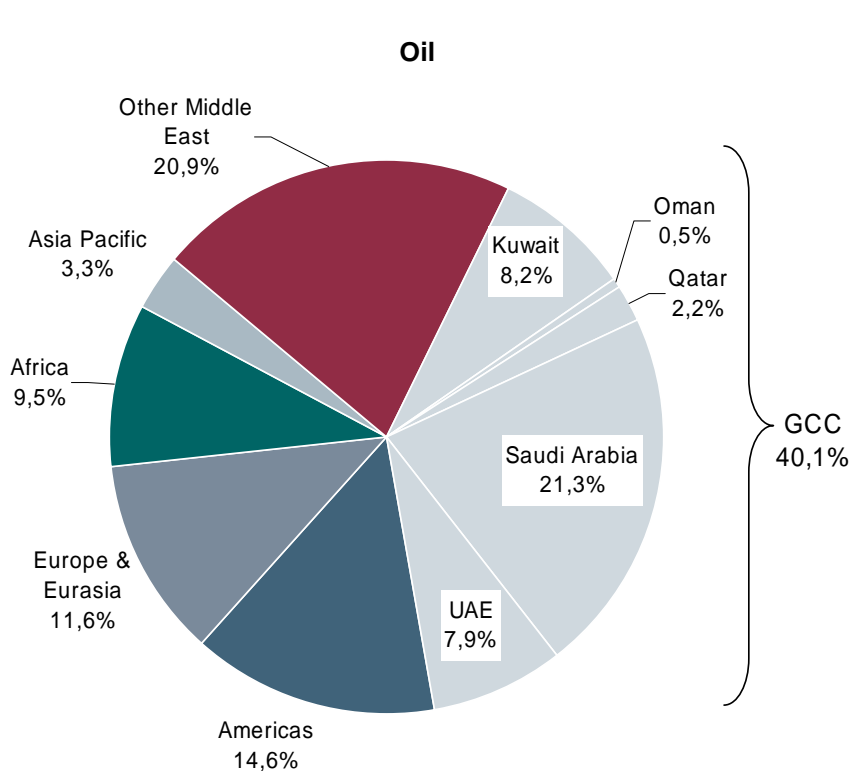
Population 2007



Source: International Monetary Fund, World Economic Outlook Database

GCC Countries dominate oil & gas markets

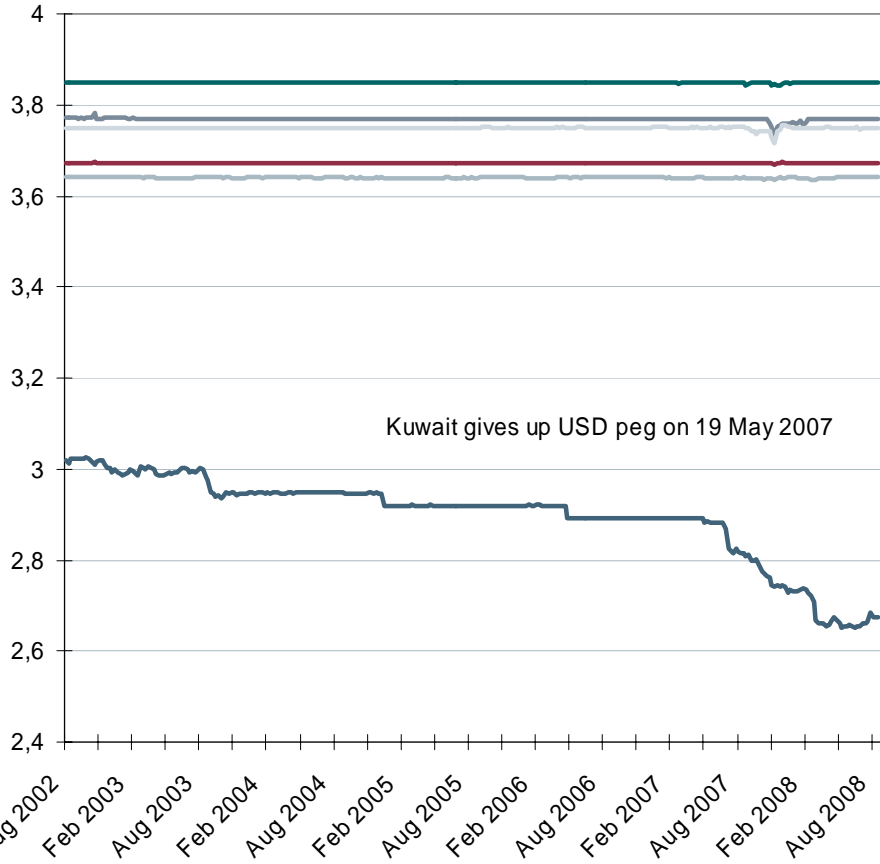
Geographic distribution of proven oil and gas reserves



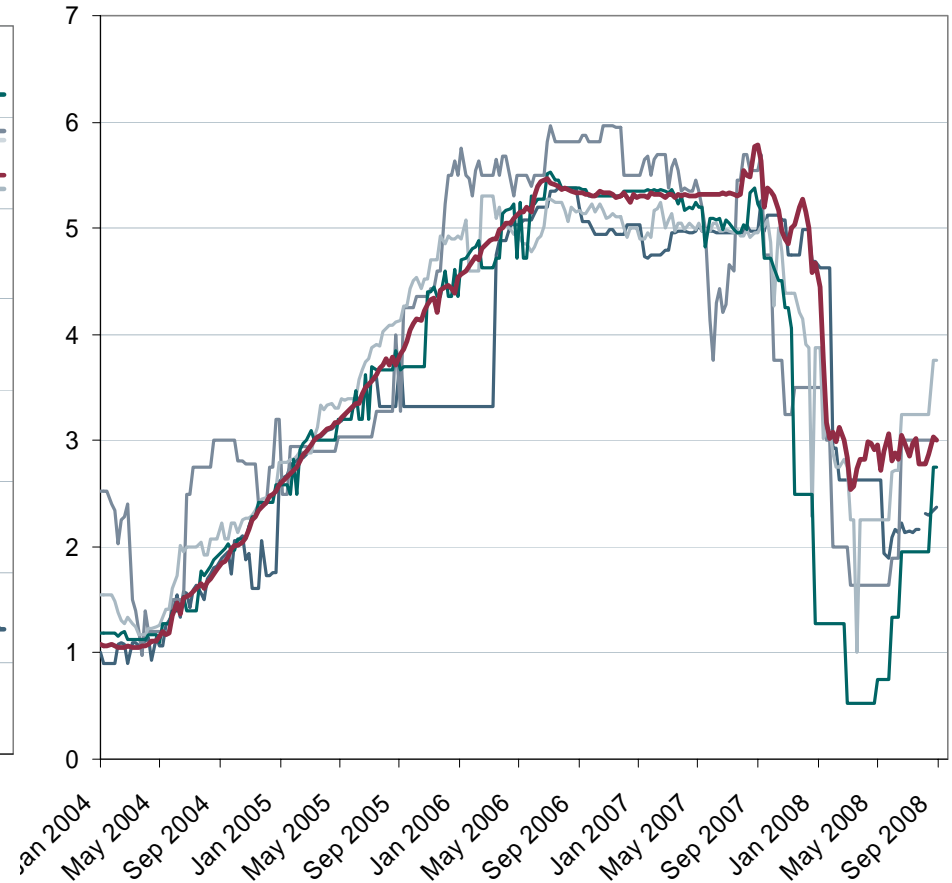
Source: BP Statistical Review of World Energy June 2008

USD exchange rate peg requires a quasi USD interest rate peg

— BAHRAINI DINAR TO US \$ (x10) — KUWAITI DINAR TO US \$ (x10)
 — OMAN RIAL TO US \$ (x10) — QATARI RIAL TO US \$
 — SAUDI RIYAL TO US \$ — UAE DIRHAM TO US \$



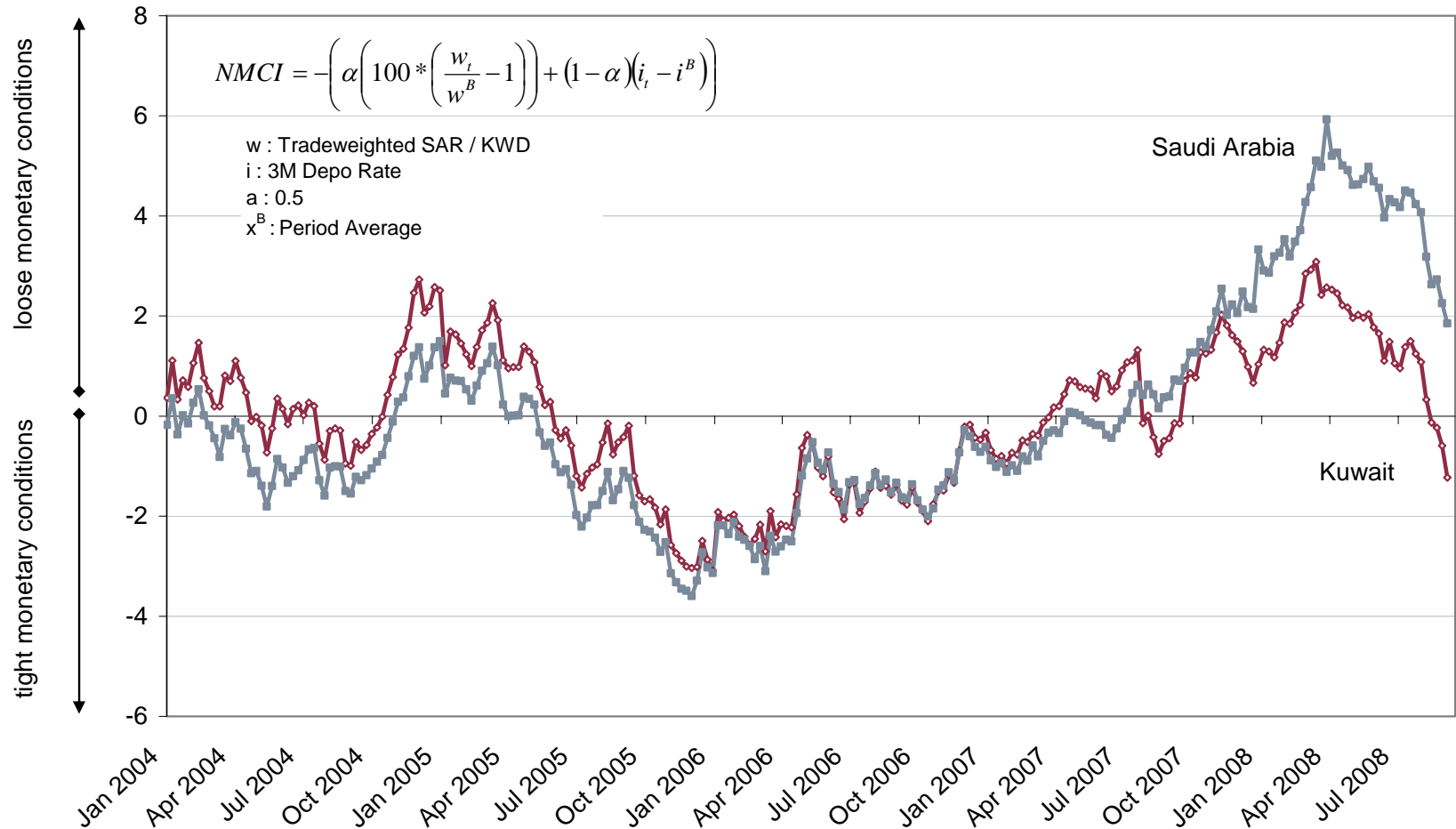
— BHD 3M Deposit — KWD 3M Deposit — SAR 3M Deposit
 — AED 3M Deposit — USD 3M Deposit



Source: Datastream, Bloomberg, BHF-BANK

A weak currency & low interest rates lead to loose monetary conditions

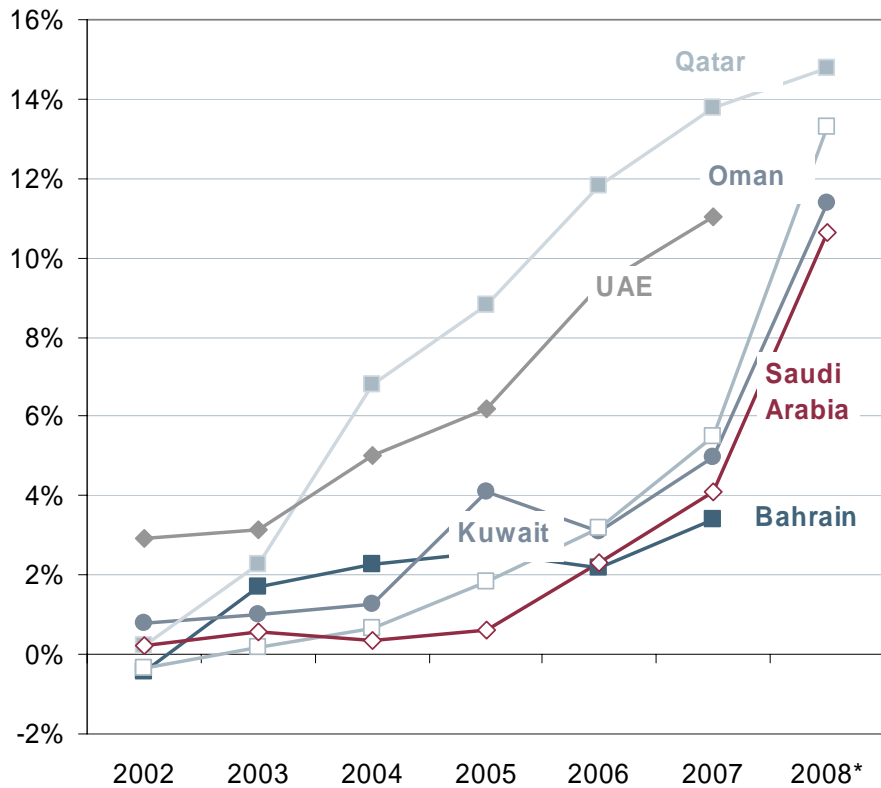
Nominal Monetary Conditions Indices



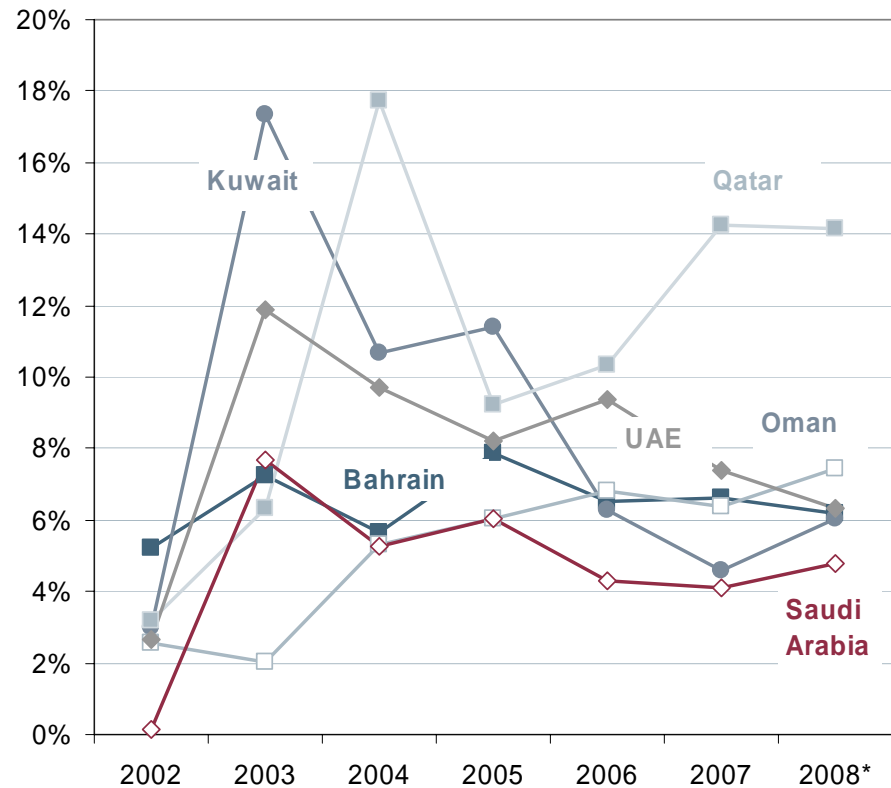
Source: Datastream, Bloomberg, BHF-BANK

Most GCC Countries seem to be overheating => external plus internal inflation pressure

CPI (year-on-year)

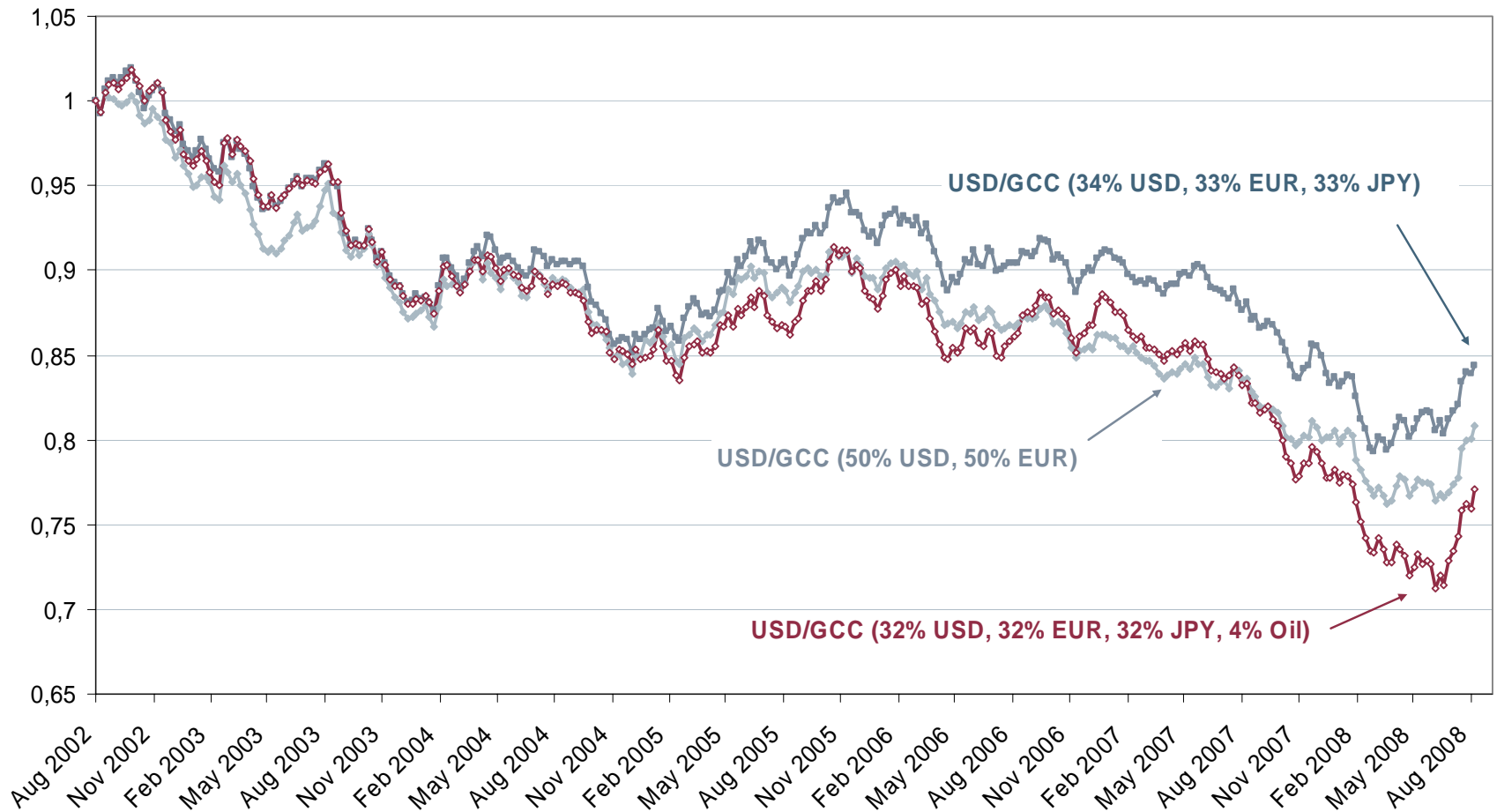


Real GDP (year-on-year)



Source: International Monetary Fund, World Economic Outlook Database, Bloomberg. * Latest available data or IMF estimates

It would make sense for the GCC Countries to include the oil price in a possible currency basket

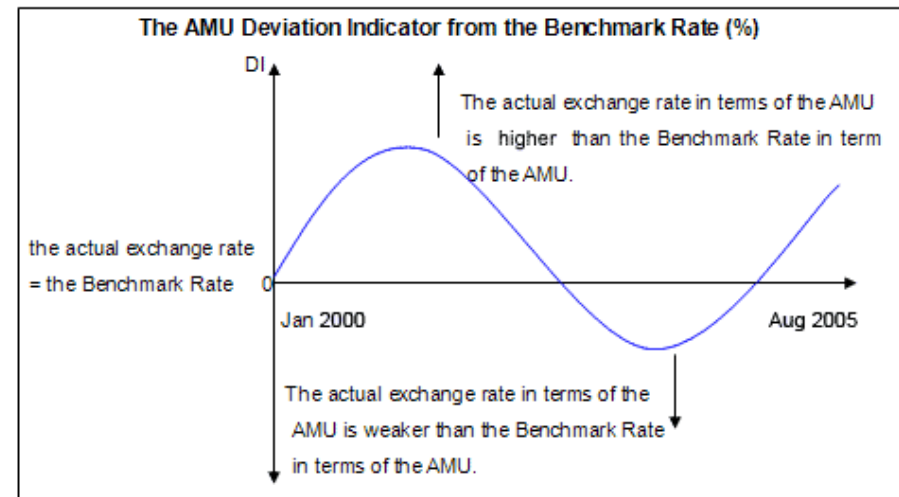
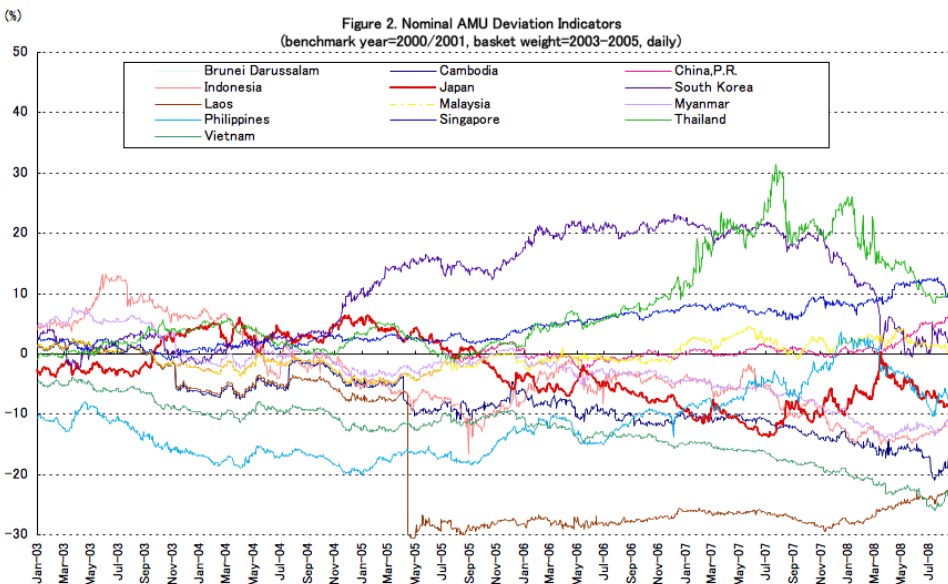


Source: Datastream, Bloomberg, BHF-BANK

One chart on the Asian Monetary Unit (RIETI): Significant under- and overvaluation has to diminish before creating a common currency



Research Institute of Economy, Trade & Industry, IAA



$$\text{Nominal Deviation Indicator (\%)} = \frac{\text{actual exchange rate of AMU/currency} - \text{benchmark exchange rate of AMU/currency}}{\text{benchmark exchange rate of AMU/currency}} \times 100$$

Source: RIETI (<http://www.rieti.go.jp/users/amu/en/detail.html>)

(1)

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BHF-BANK

Financial Markets

60302 Frankfurt am Main

Germany

Tel. +49 69 718-3896

Fax. +49 69 718-2815

<http://www.bhf-bank.com>

Registered office: Frankfurt am Main

Commercial register Amtsgericht Frankfurt am Main HRB 73636

Members of the Board of Managing Directors: Matthias Graf von Krockow (Spokesman), Ingo M. Mandt, Loukas Rizos, Björn H. Robens, Dietmar Schmid

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