



Weekly Economic Note

Economics

October 4th, 2007

Oil Market	Yesterday Closing	weekly Δ
OPEC Basket	74.66	-1.14
Brent	77.92	+0.62
Dubai	72.40	-2.24
WTI Cushing	79.94	-0.36

Policy Interest Rates	
US Discount Rate	5.25
US Fed Fund Target	4.75
Euro Deposit Facility	3.00
Euro Marginal Lending Facility	5.00

LIBOR Fixing	
USD 0/N	4.97
USD 1M	5.13
EUR 0/N	3.84
EUR 1M	4.37

Commodities	Yesterday Closing	weekly Δ
Gold	727.20/8.00	-0.40
Silver	13.28/3.33	-0.08

Closing prices of October 4th, 2007

Will we ever be ready for monetary union?

In a recent interview, the UAE Central Bank governor suggested that the target to achieve monetary union by 2010 could be pushed beyond 2015.

The Central Bank governors meeting in Saudi Arabia last month saw the abandoning of the 2010 target for a single currency for the time being. Each country would now have to fight its inflation and adopt a monetary policy in a manner that best suits its economy.

A currency union is best achieved when the member countries have:

- 1) factor mobility, such as labor and capital,
- 2) open economies,
- 3) and when economic shocks are symmetric, i.e., business cycles are synchronized.

If these conditions are met, adopting a monetary union and a "one-size-fits-all" monetary policy should have more benefits than cost to member countries.

Gulf countries rank relatively well on labor and capital mobility (not to undermine the need for more substantial reforms before a monetary union). Also, the GCC economies are open to international trade. This is indicated by the degree of openness defined as the ratio of exports plus imports to GDP. Further, as all GCC economies are currently dependent to some degree on oil exports, their economies are more or less synchronized, and they face common systematic risks (energy prices).

The main difficulty in adopting the 2010 monetary union seems to be the divergence in policies on how to tackle the severe weakness of the US dollar and rising inflation levels, which differ substantially across Gulf countries. This is due to, among other things, diverging fiscal and growth policies and to a lesser extent, demographic and social structure.

Within the next five to 10 years, the GCC economies would also face new unification challenges, in our opinion. The UAE, the second largest economy in the GCC, is the front-runner in embarking on a diversification program, with non-oil real GDP growth of 11%. As time progresses and if other GCC economies don't catch up with diversifying away from an oil economy, we would have unsynchronized economies. This is a much greater challenge in addressing monetary unification as the "one-size-fits-all" monetary policy would not be adequate in tackling asymmetric shocks that affect different countries in different ways. Hence the future cost of monetary union would be high.

We still believe that a monetary union is beneficial to the region. It would foster trade and integration, promote diversification from an oil economy, create a trading block that can compete in the global economy, and enhance the position of the region as a destination for global investors.

We think whether now or in the future, monetary union would require stronger political determination than mere economic justification. Keeping in sight the benefits of the monetary unification, only a strong political will would overcome the costs. Meanwhile GCC countries should continue working on reducing their divergence and loosening obstacles on the circulation of goods, labor, and capital. They should also start tackling the structure and governance of the future supranational institutions (including the GCC Central Bank)■

Strategy & Economics

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Country 2007e	UAE	Qatar	Kuwait	Oman	Bahrain	KSA	Tunisia	Jordan	Egypt	Morocco	Lebanon
Moody's Rating	Aa2	Aa2	Aa2	A2	A2	A1	Baa2	Ba2	Ba1	Ba1	B3
Nominal GDP (US\$ Bn)	183.0	56.0	93.0	38.0	17.0	355.0	34.0	16.5	128.0	62.0	23.0
Nominal GDP (PPP-US\$ Bn)*	158.0	29.5	65.0	53.0	19.0	431.0	99.0	33.5	376.0	159.0	21.5
Population (Mn)	5.30	0.90	3.10	2.60	0.77	24.30	10.50	5.70	74.00	31.00	3.75
GDP per Capita (US\$)	34,528	62,222	30,000	14,615	22,078	14,609	3,238	2,895	1,730	2,000	6,133
GDP per Capita (PPP- US\$)	29,811	32,778	20,968	20,385	24,675	17,737	9,429	5,877	5,081	5,129	5,733
Nominal GDP (% change)	12.60	6.00	-2.50	6.90	9.70	2.50	10.00	12.00	16.10	8.50	3.40
Real GDP (% change)	8.20	8.00	3.50	6.00	6.90	4.70	3.00	6.00	6.70	3.50	1.00
Inflation Rate(CPI % change)	9.30	12.80	5.30	5.90	3.00	3.10	3.00	5.70	10.90	2.00	3.50
Current Account Balance (US\$ Bn)**	22.0	2.8	32.8	-0.3	2.1	69.9	-0.7	-2.3	0.9	1.3	-2.6
Current Account Balance/GDP (%)	12.0%	5.0%	35.3%	-0.8%	12.4%	19.7%	-2.1%	-13.9%	0.7%	2.1%	-11.3%
Net Foreign Direct Investment/GDP	6.10	5.40	0.10	n.a.	7.20	n.a.	7.00	15.80	6.30	2.10	3.30
Gross Official Reserves (US\$ Bn)**	32.5	6.5	16.9	4.4	2.0	255.2 ¹	7.5	6.1	28.5	22.5	10.4
Short Term Interest Rate	5.17	4.20	4.06	3.85	5.18	5.08	5.10	5.80	8.80	3.58	6.25
M2 (LCY Mn)	482,753	116,178	19,085	5,151	4,589	767,579	27,848	15,854	672,605	627,681	22,327,850
Exchange Rate USD	3.67	3.67	0.28	0.38	0.38	3.75	1.29	0.71	5.70	8.35	1,507.00
M2 (USD Mn)	131,540	31,656	67,678	13,413	12,205	204,688	21,554	22,330	118,001	75,171	14,816
Petroleum Production (000s bpd)	2,540	820	2,410	737	184	8600	n.a.	n.a.	665	n.a.	n.a.

Sources: IMF REO, IMF WEO, BMI, Reuters, SHUAA Capital Analysis

* Using the IMF Purchasing Power Parity Based Weights for the World Economic Outlook

** IMF Regional Economic Outlook

¹ SAMA net foreign assets