Macroeconomic Development and Risk Profile in the GCC Economies

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Dubai International Financial Centre

Agenda

- **Economic Renaissance of GCC**
  - Macroeconomic performance
  - Drivers of growth
  - Equity markets
  - Prospects for the region
- **Why Dubai?**
  - Overall outlook
  - Dubai Strategic Plan 2015
- **DIFC & New Global Financial Geography**

MENA outperforming the global economy

- Emerging markets have contributed 2/3 of global growth since 2002.
- EM Major beneficiaries of 'Great Moderation' - the large decline in the volatility of inflation and real GDP - starting in the early 1980s .
- Increased evidence of 'de-coupling' from US/EU business cycles
- MENA countries have achieved above trend average real GDP growth (6.4% over 2004-2007).
- GCC have achieved average real GDP growth of 6.2% over 2004-2007 vs. 3.2 % in 1998-2002, with increased diversification of economic activity, while in nominal terms growth has averaged over 25% p.a.
- Continued high growth is forecast in 2008: MENA at (6.4%), GCC at (7.8%), oil exporters (6.8%) and Central Asia (7.2%).
- Growth is investment led with strong private sector participation and record FDI levels.
- Investment & infrastructure leading to an increase in productivity growth, economic diversification and absorptive capacity.

World Growth in Detail

	Year over Year						Q4 over Q4		
			Projections		Difference from July 2008 WEO Projections		Estimates	Projections	
	2006	2007	2008	2009	2008	2009	2007	2008	2009
World output[1]	**5.1**	**5.0**	**3.9**	**3.0**	**–0.2**	**–0.9**	**4.8**	**2.8**	**3.2**
Advanced economies	3.0	2.6	1.5	0.5	–0.2	–0.9	2.6	0.7	1.0
United States	2.8	2.0	1.6	0.1	0.3	–0.7	2.3	0.8	0.4
Euro area	2.8	2.6	1.3	0.2	–0.4	–1.0	2.1	0.4	0.6
Germany	3.0	2.5	1.8	—	–0.2	–1.0	1.7	0.7	0.6
France	2.2	2.2	0.8	0.2	–0.8	–1.2	2.2	–0.1	0.8
Italy	1.8	1.5	–0.1	–0.2	–0.6	–0.7	0.1	–0.1	0.2
Spain	3.9	3.7	1.4	–0.2	–0.4	–1.4	3.2	0.1	0.1
Japan	2.4	2.1	0.7	0.5	–0.8	–1.0	1.4	0.2	0.9
United Kingdom	2.8	3.0	1.0	–0.1	–0.8	–1.8	2.9	–0.3	0.7
Canada	3.1	2.7	0.7	1.2	–0.3	–0.7	2.8	0.3	1.7
Other advanced economies	4.5	4.7	3.1	2.5	–0.2	–0.8	5.0	2.0	3.7
Newly industrialized Asian economies	5.6	5.6	4.0	3.2	–0.2	–1.1	6.1	2.6	5.4
Emerging and developing economies[2]	7.9	8.0	6.9	6.1	—	–0.6	8.5	6.1	6.5
Africa	6.1	6.3	5.9	6.0	–0.5	–0.4	. . .	. . .	. . .
Sub-Sahara	6.6	6.9	6.1	6.3	–0.5	–0.5	. . .	. . .	. . .
Central and eastern Europe	6.7	5.7	4.5	3.4	–0.1	–1.1	. . .	. . .	. . .
Commonwealth of Independent States	8.2	8.6	7.2	5.7	–0.6	–1.5	. . .	. . .	. . .
Russia	7.4	8.1	7.0	5.5	–0.7	–1.8	9.5	5.9	5.8
Excluding Russia	10.2	9.8	7.6	6.2	–0.2	–0.8	. . .	. . .	. . .
Developing Asia	9.9	10.0	8.4	7.7	—	–0.7	. . .	. . .	. . .
China	11.6	11.9	9.7	9.3	—	–0.5	11.3	9.2	9.4
India	9.8	9.3	7.9	6.9	–0.1	–1.1	8.9	7.2	6.9
ASEAN–5	5.7	6.3	5.5	4.9	–0.1	–1.0	6.6	4.7	5.7
Middle East	5.7	5.9	6.4	5.9	0.2	–0.1	. . .	. . .	. . .
Western Hemisphere	5.5	5.6	4.6	3.2	0.1	–0.4	. . .	. . .	. . .

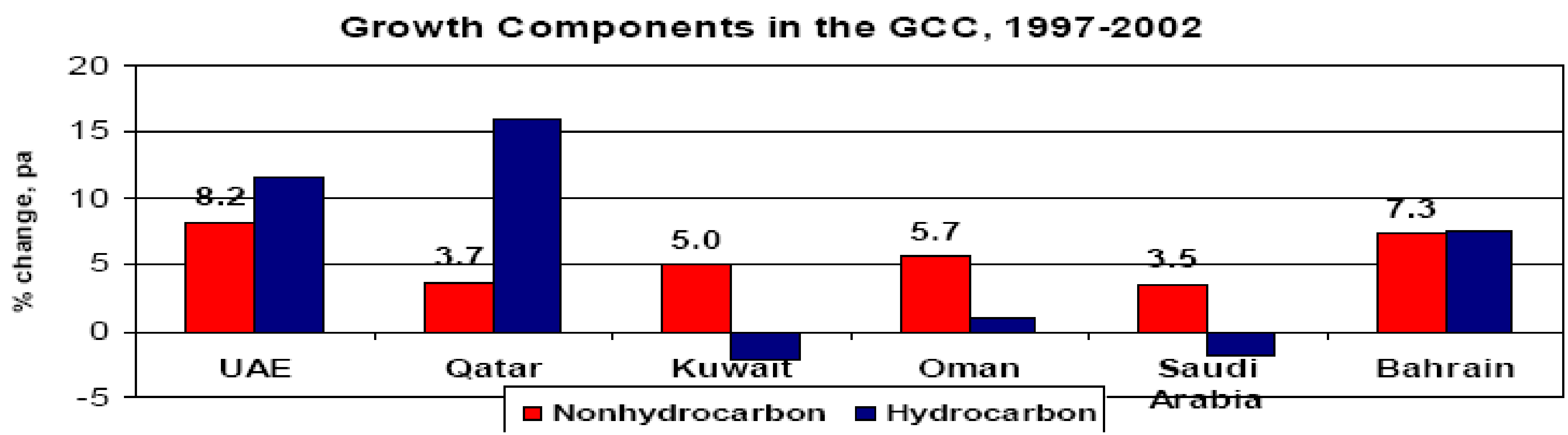
Source: IMF World Economic Outlook

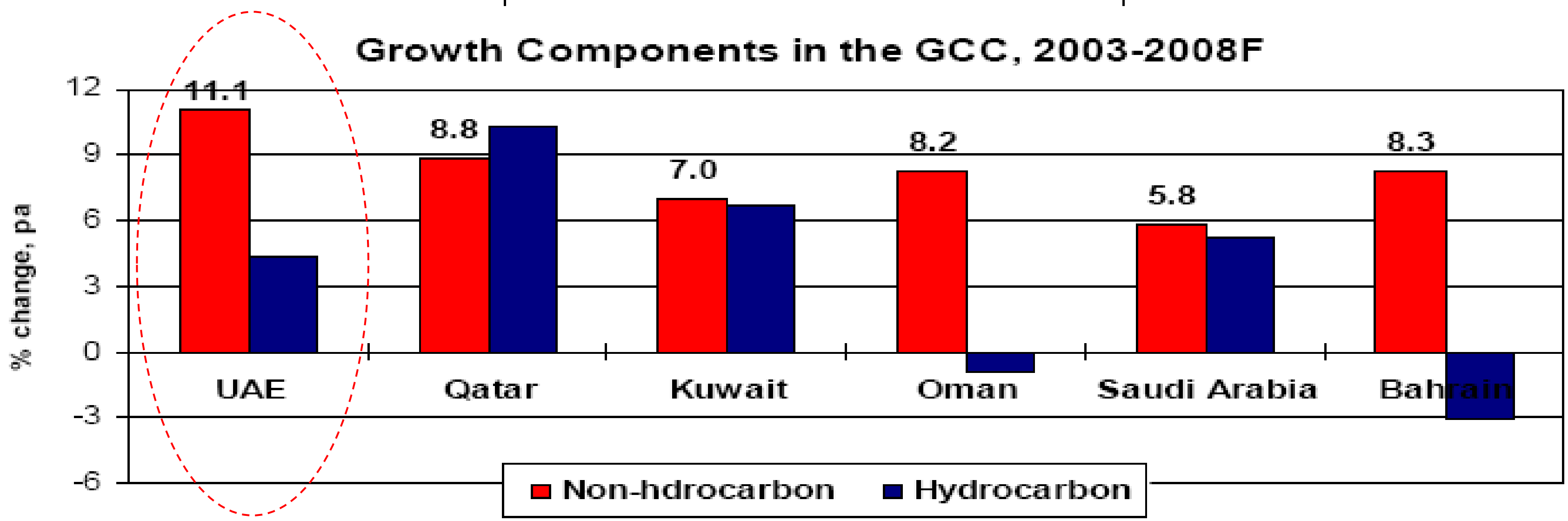
MENA: Overheating still a concern!

	Real GDP				Consumer Prices[1]				Current Account Balance[2]			
	2006	2007	2008	2009	2006	2007	2008	2009	2006	2007	2008	2009
Middle East	5.7	5.9	6.4	5.9	7.0	10.6	15.8	14.4	21.1	18.4	22.9	17.1
Oil exporters[3]	5.6	5.7	6.2	5.9	7.6	10.7	16.8	14.3	24.2	21.2	26.0	19.9
Iran, I.R. of	5.8	6.4	5.5	5.0	11.9	18.4	26.0	22.0	9.2	10.1	11.2	6.7
Saudi Arabia	3.0	3.5	5.9	4.3	2.3	4.1	11.5	10.0	27.9	25.1	32.5	23.8
United Arab Emirates	9.4	7.4	7.0	6.0	9.3	11.1	12.9	10.8	22.6	20.5	22.6	18.8
Kuwait	6.3	4.6	5.9	5.8	3.1	5.5	9.0	7.5	52.2	43.1	44.6	39.3
Mashreq	5.9	6.3	6.6	5.8	5.4	9.2	11.3	13.5	–1.7	–2.2	–3.1	–3.6
Egypt	6.8	7.1	7.2	6.0	4.2	11.0	11.7	16.1	0.8	1.5	0.6	–0.9
Syrian Arab Republic	4.4	3.9	4.2	5.2	10.4	4.7	8.0	7.0	–2.9	–1.4	–2.7	–2.9
Jordan	6.3	6.0	5.5	5.3	6.3	5.4	15.8	7.6	–11.3	–17.5	–18.5	–16.3
Lebanon	—	4.0	6.0	5.0	5.6	4.1	11.0	6.2	–5.6	–12.7	–14.0	–13.7

Source: IMF World Economic Outlook

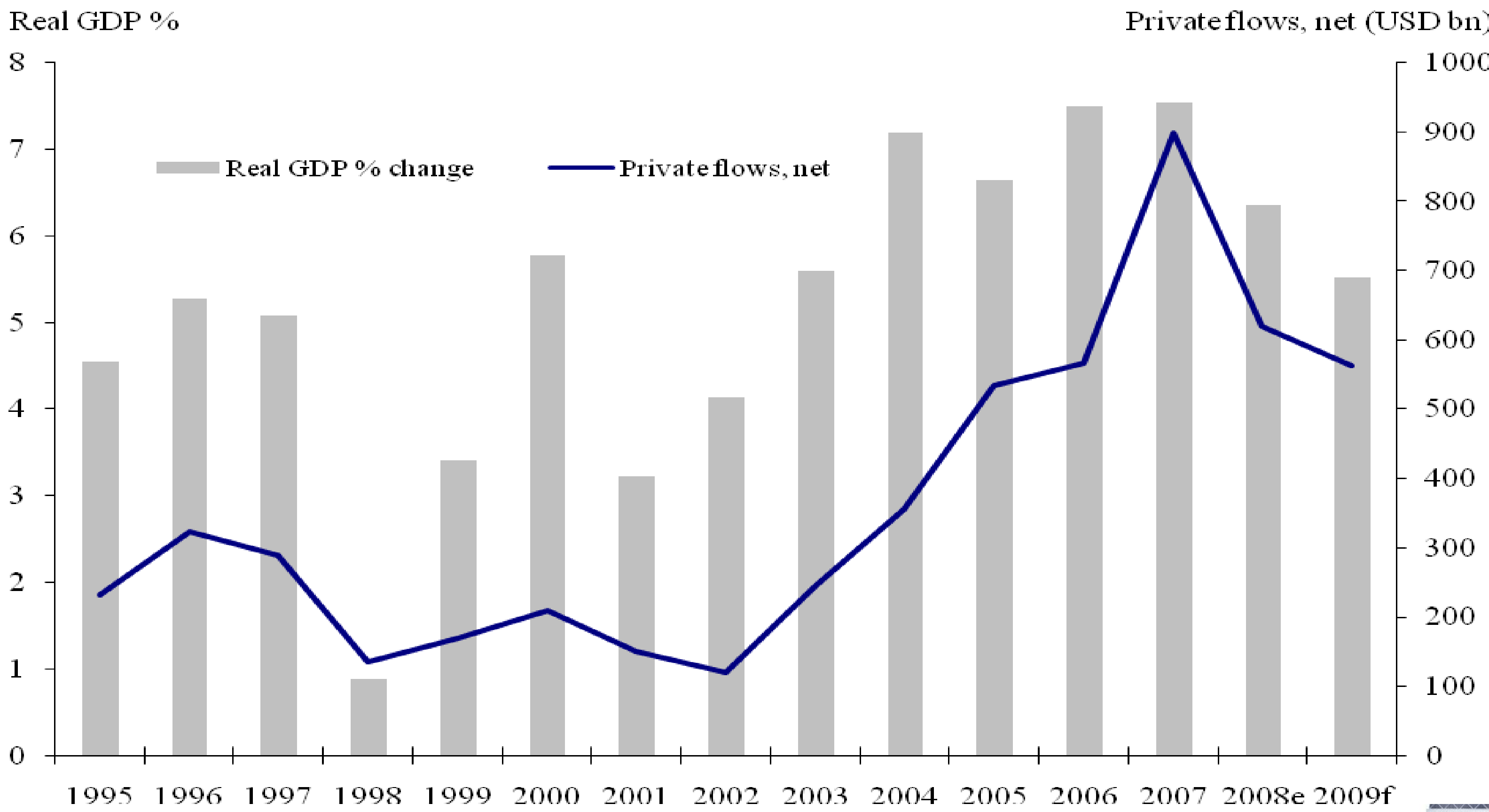
GCC Increasingly Diversified





Source: EIU, IMF & DIFC Economics

FDI to Emerging Markets



Source: Capital Flows to Emerging Market Economies, IIF report, October 12, 2008.

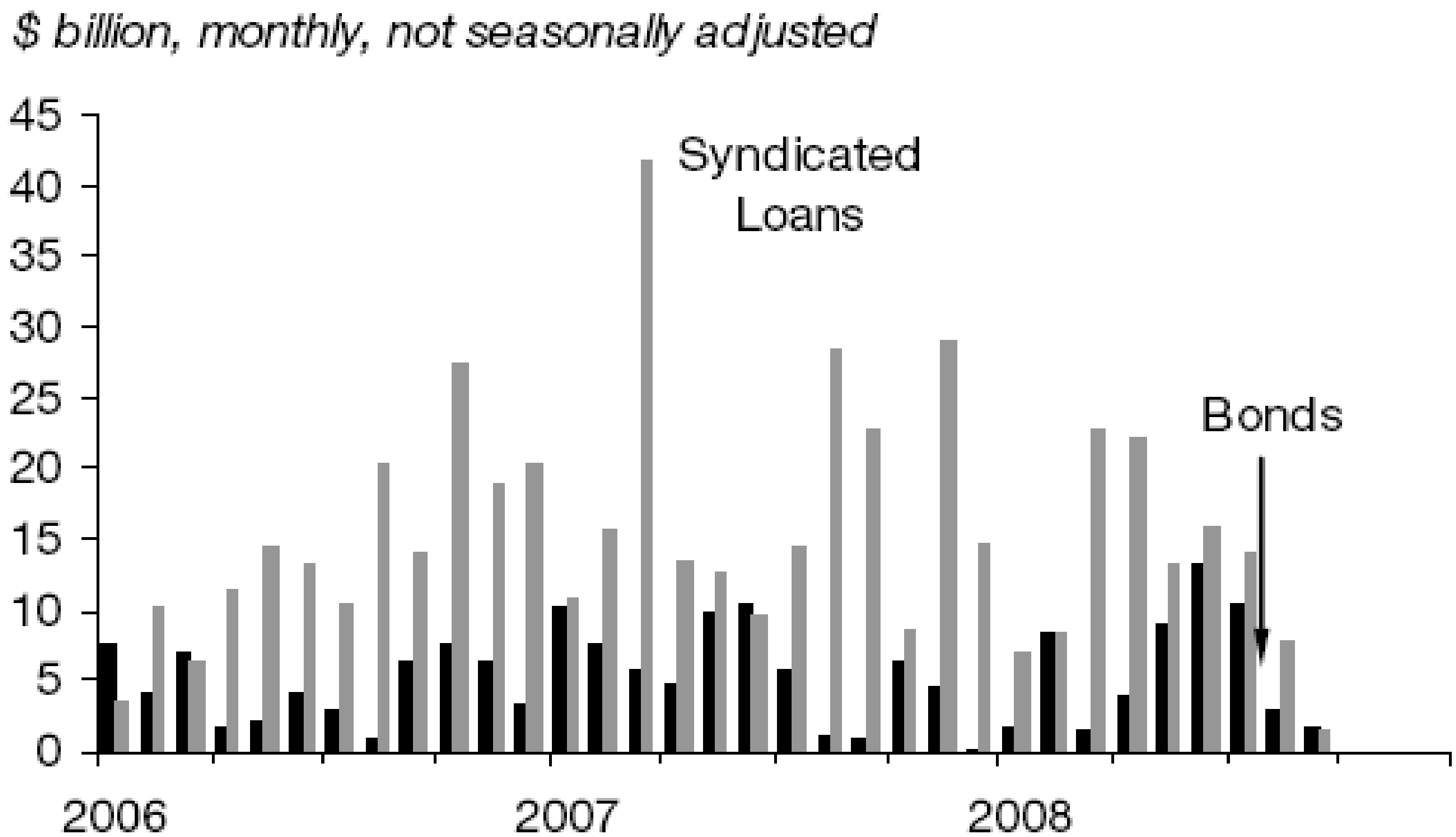
Foreign Direct Investments to the Middle East

(in US dollars billion)

Sector	2005	2006	2007	2008	Total	Average Annual Growth
Financial Services	67	108	81	57	313	18.1%
Business Services	40	56	66	36	198	28.9%
Software & IT services	39	48	39	31	157	2.2%
Real Estate	26	63	27	37	153	42.6%
Hotels & Tourism	31	50	30	30	141	10.6%
Communications	14	33	26	20	93	57.3%
Industrial Machinery, Equipment & Tools	18	16	23	11	68	16.3%
Coal, Oil and Natural Gas	21	13	18	11	63	0.2%
Transportation	13	15	8	8	44	-15.6%
Building & Construction Materials	4	17	6	10	37	130.1%
Other Sectors	74	94	78	49	295	5.0%
Overall Total	347	513	402	300	1,562	13.1%

Source: FDI Intelligence from the Financial Times Ltd.

FX denominated International Debt by EME



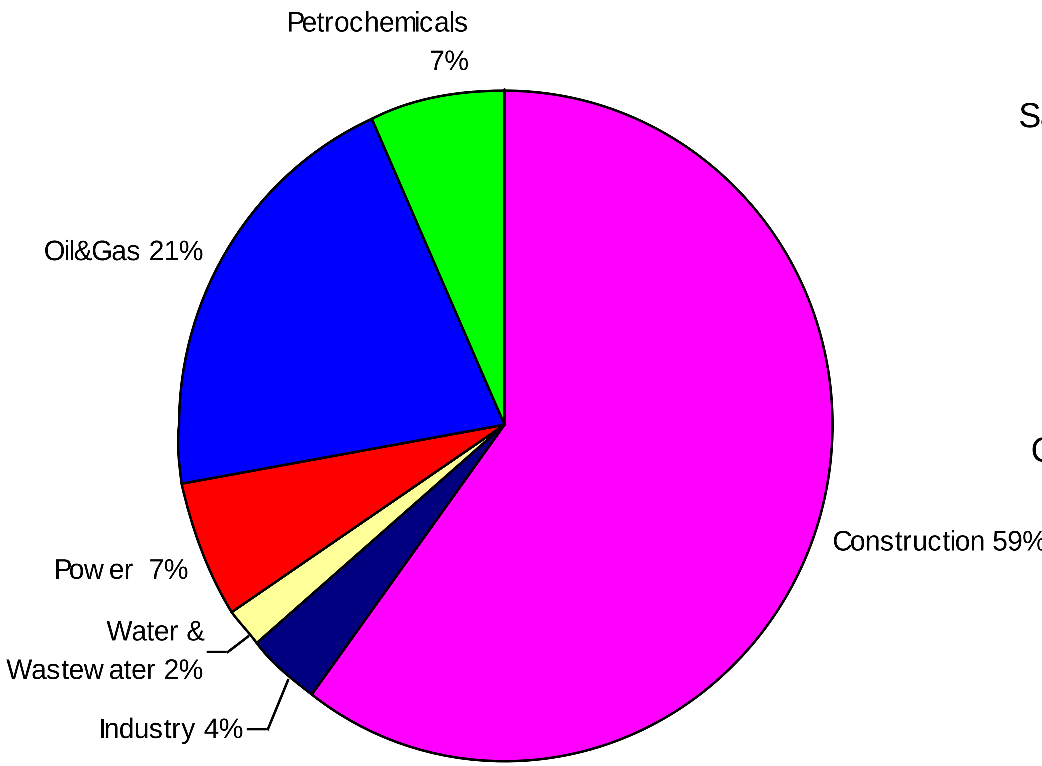
Source: Capital Flows to Emerging Market Economies, IIF report, October 12, 2008.

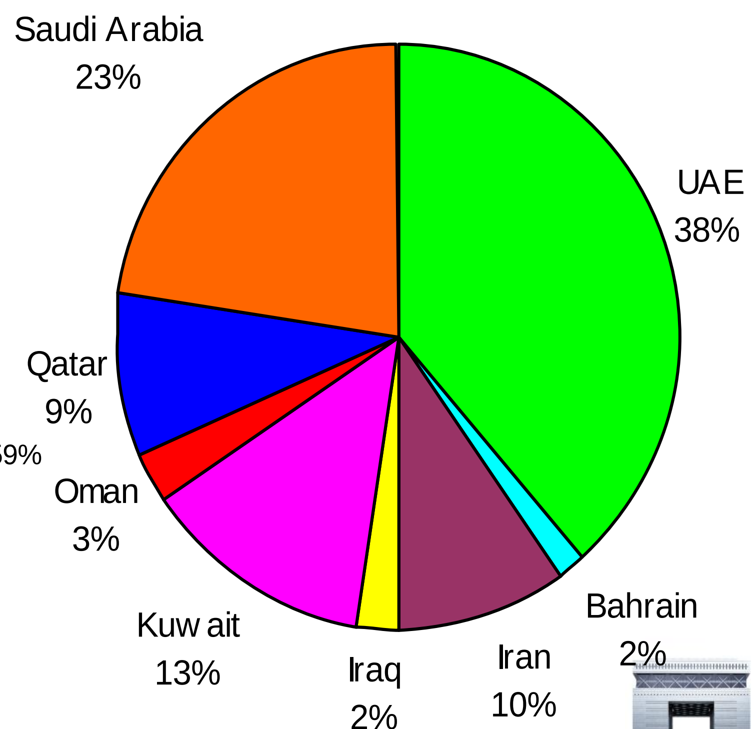
FDI stylized facts

- The leading sector in the Middle East region for FDI was Financial Services which accounted for almost 20% of all investment between 2005 to end of Q2 2008.
- The leading investors into the Middle East were the USA, UK and India providing 24%,10% and 9% of the investment projects respectively.
- The average number of jobs per project was 250 – much higher than the average across Western European region for example where the number is around 50. This is reflective of the types of projects and particularly some of the large scale infrastructural projects.
- The leading destination regions for investment into the Middle East in the same time period were UAE, Saudi Arabia and Qatar which attracted 51%,11% and 7% respectively of all investment projects.

Gulf Projects by Sector & Country

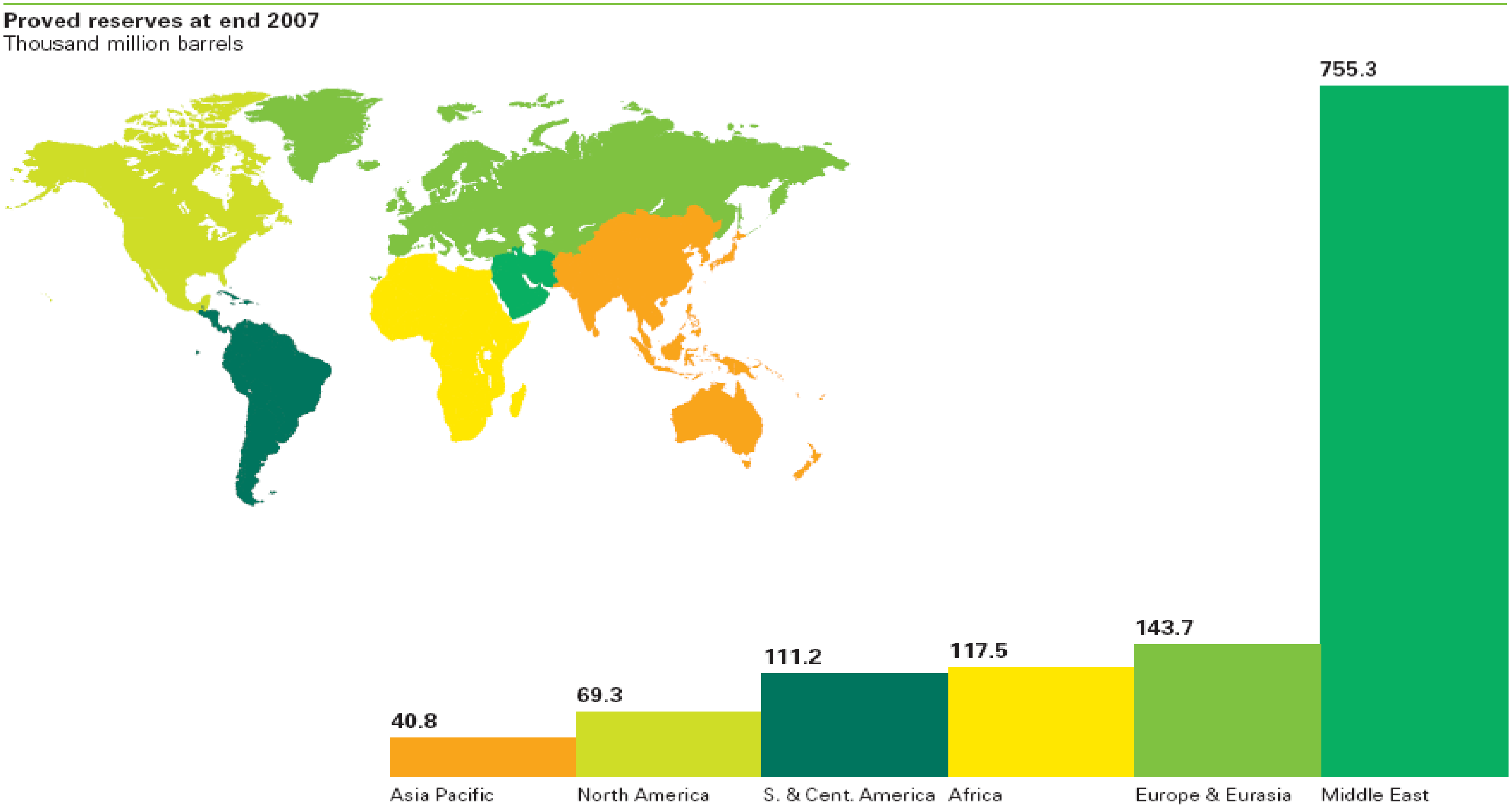
The total value of projects planned or under development in the Gulf exceeds US$2.4 trillion (MEED Project Tracker, 2008)





Source: MEED Project Tracker, 2008

The Middle East holds two thirds of Oil Reserves



Source: BP Statistical Review of World Energy, 2008

Increase in Wealth and Liquidity

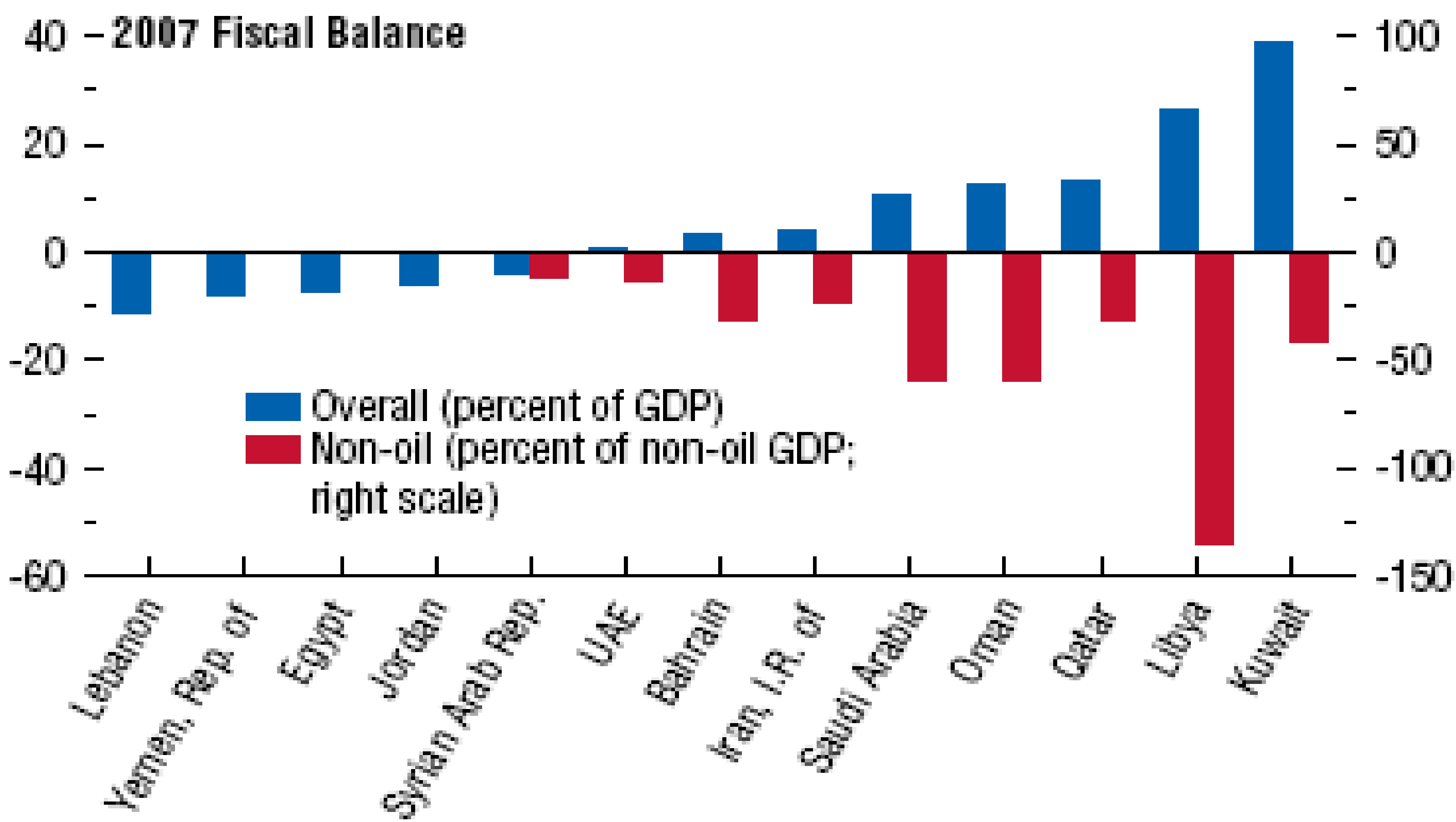
- **Massive Wealth Creation**
  - Value of oil reserves of GCC increased by about $24 trl between 2001 and 2008. Analogously the value of gas reserves has increased by more than $7 trl.
  - Oil revenues for the GCC countries increase by 4.5 USD billion for every 1 USD increase in oil price. Likewise a 1 dollar increase in natural gas prices (which represents a much larger percentage increase compared to a 1 USD increase in oil price) leads to a 5.2 USD billion increase in revenues.

- **Increased liquidity resulted in an investment driven boom:**
  - Real estate boom and asset price appreciation
  - Stock market boom

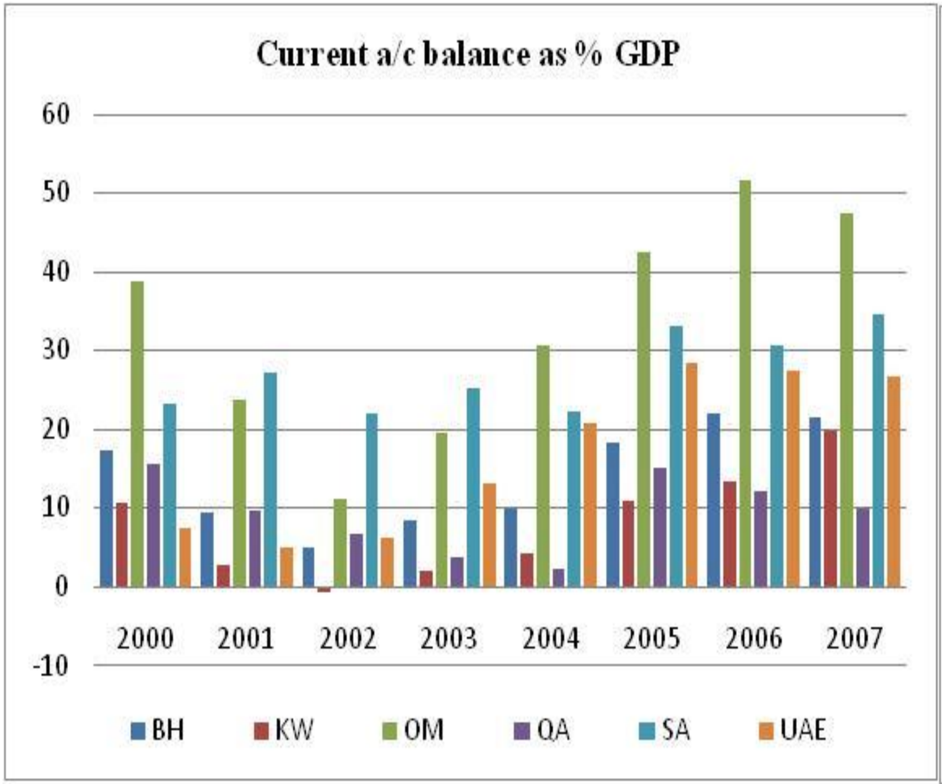
- As a consequence Inflation is forecast to increase from 9.2% in 2007 to 14.8% in 2008 for MENA and from 7.5% to 12.4% for GCC

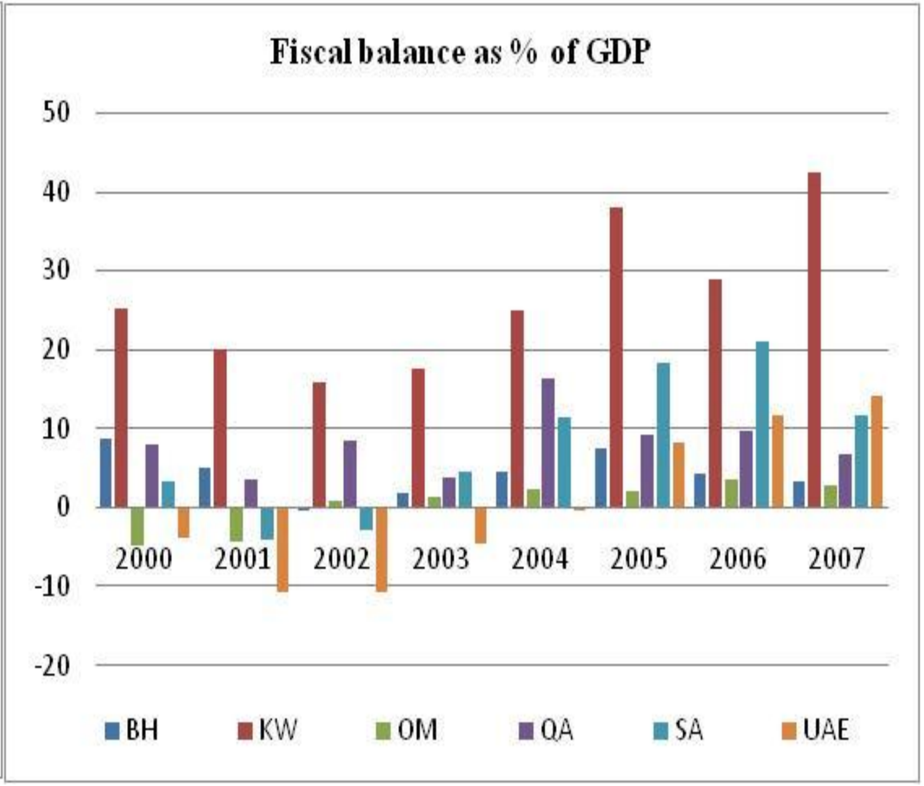
Source: EIU, IMF, BP & DIFC Economics

Healthy Government Finances



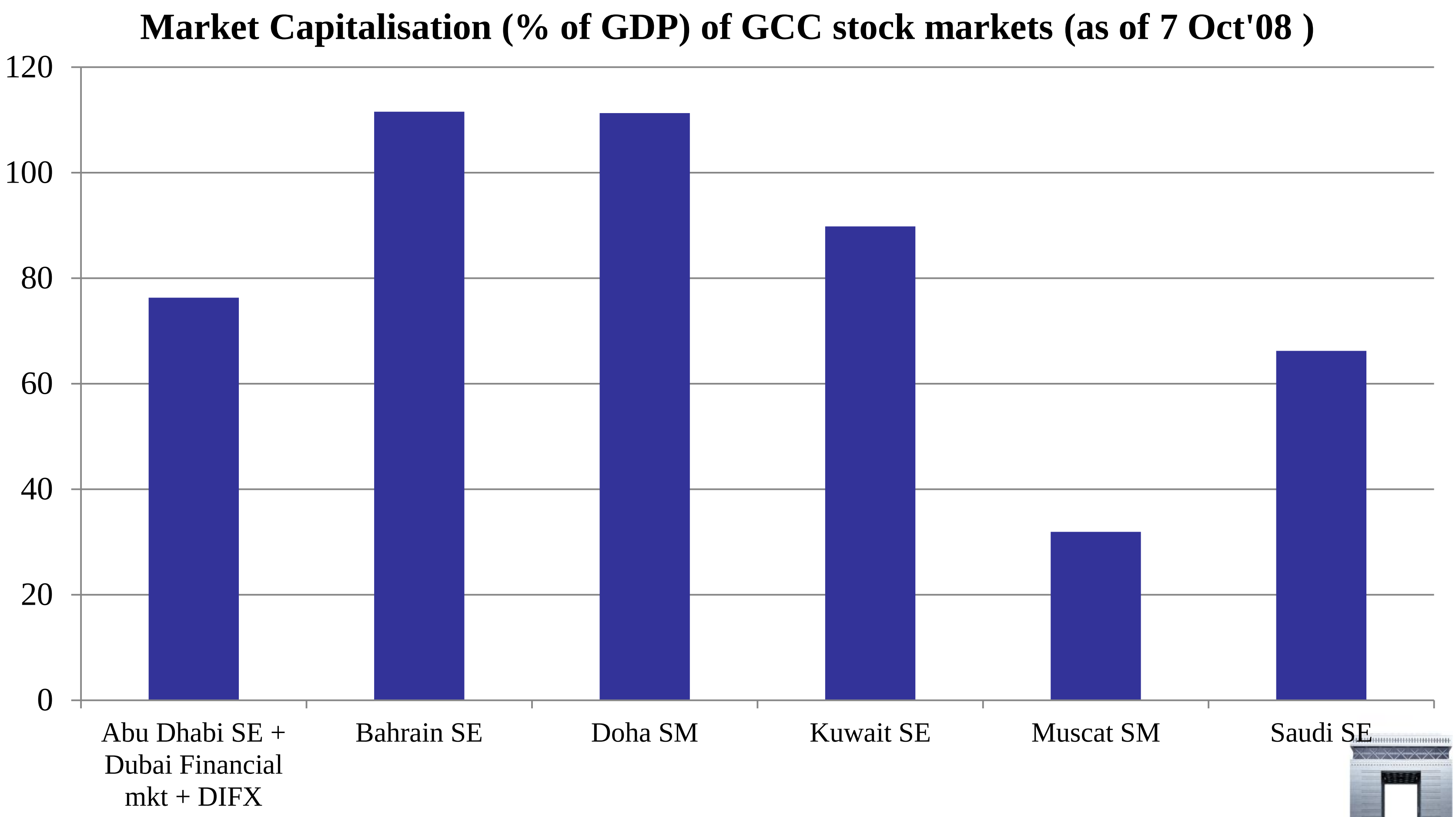
Fiscal and current account surpluses



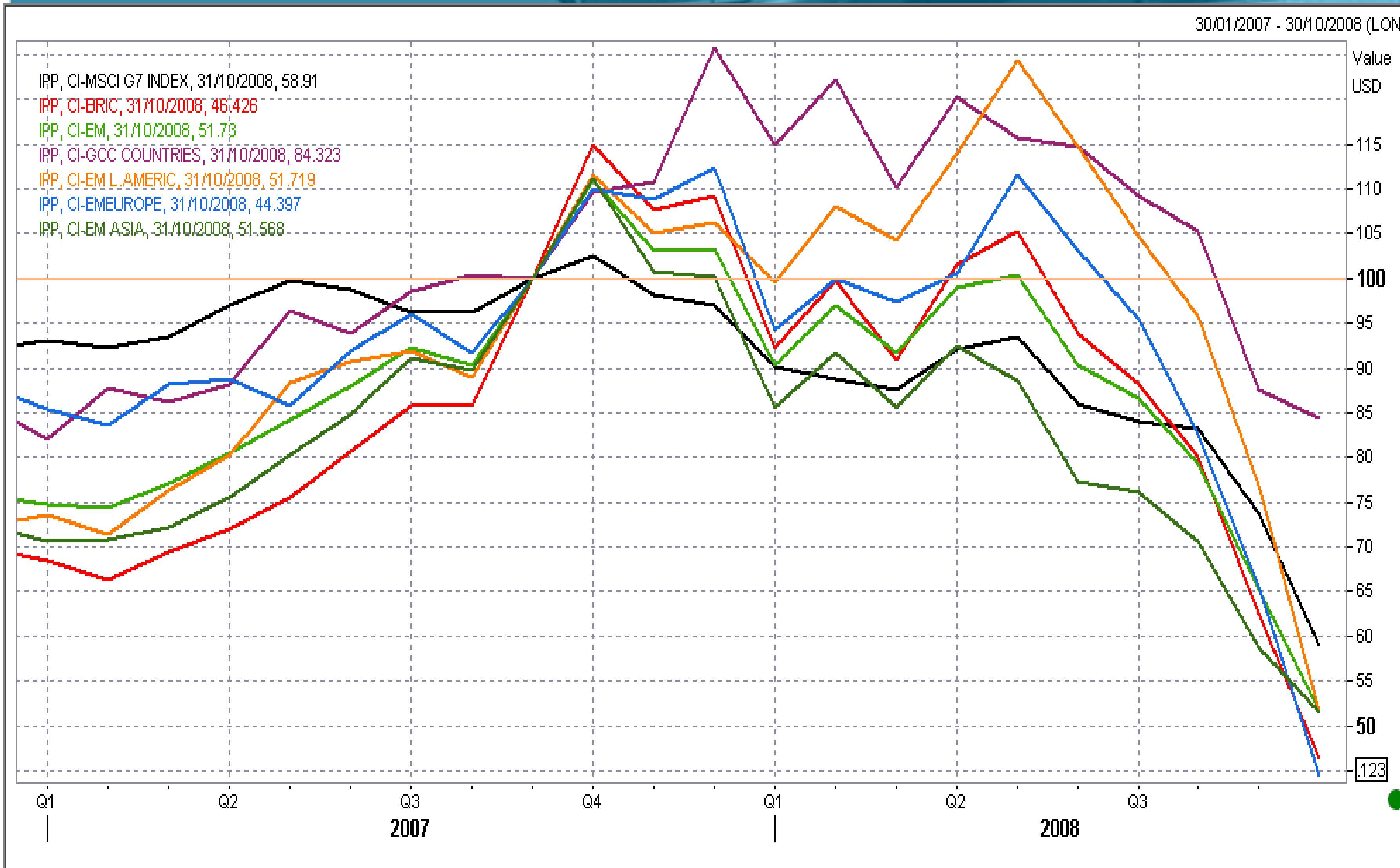


Record high oil prices have contributed to the massive increase in external current account and fiscal surpluses across the GCC countries

Market Capitalisation: GCC

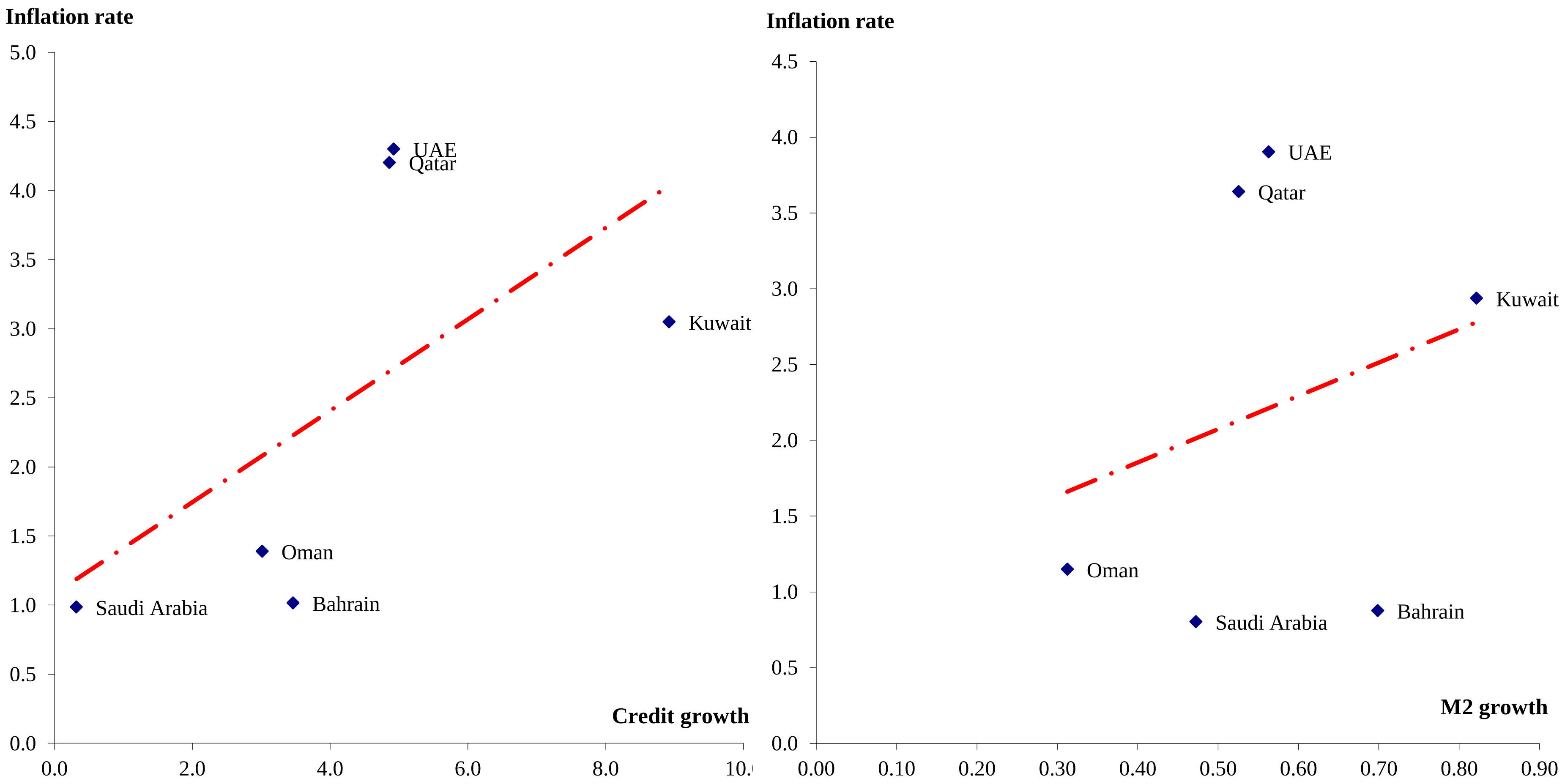


Emerging Markets vs. G7 Equities



Source: Reuters 3000Xtra, DIFC Economics

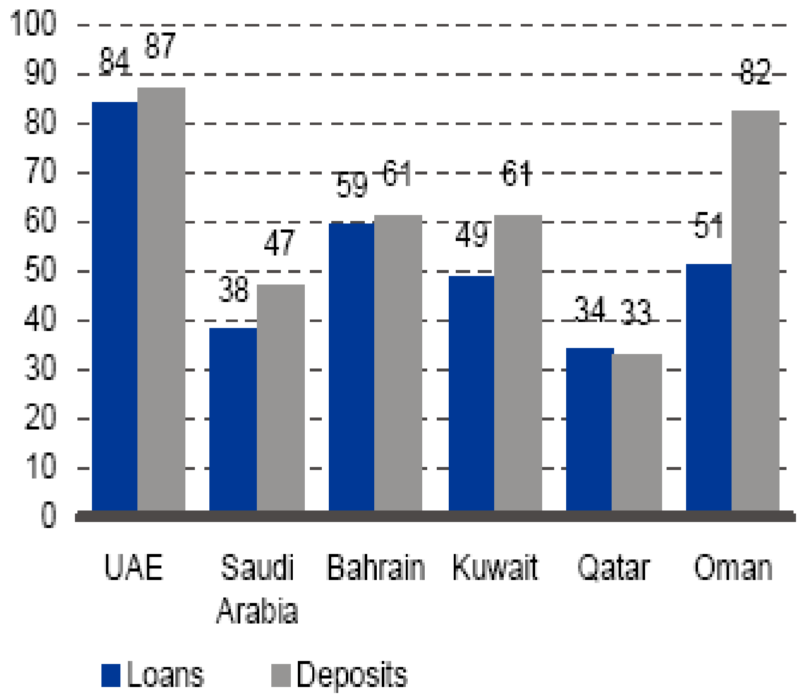
Direct relation between money supply/credit growth & inflation



GCC - Banking sector

GCC loans and deposits
Banking penetration is highest in the UAE

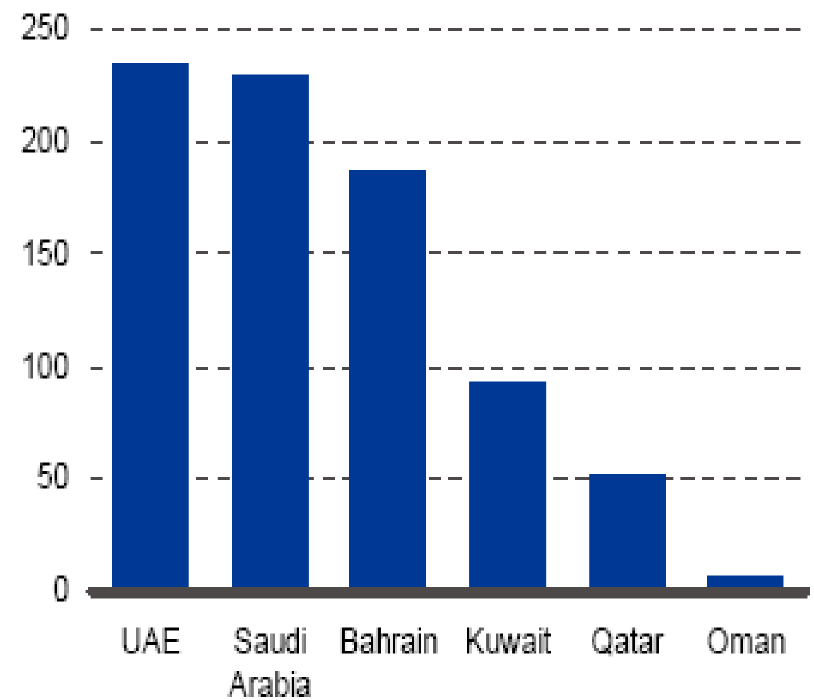
% of GDP, 2006



Source: GCC Central Banks and Damac

GCC banking sector assets
UAE and Saudi Arabia leading

USD bn, 2006



Source: GCC Central Banks and Damac

Why Dubai?

Political and Economic stability

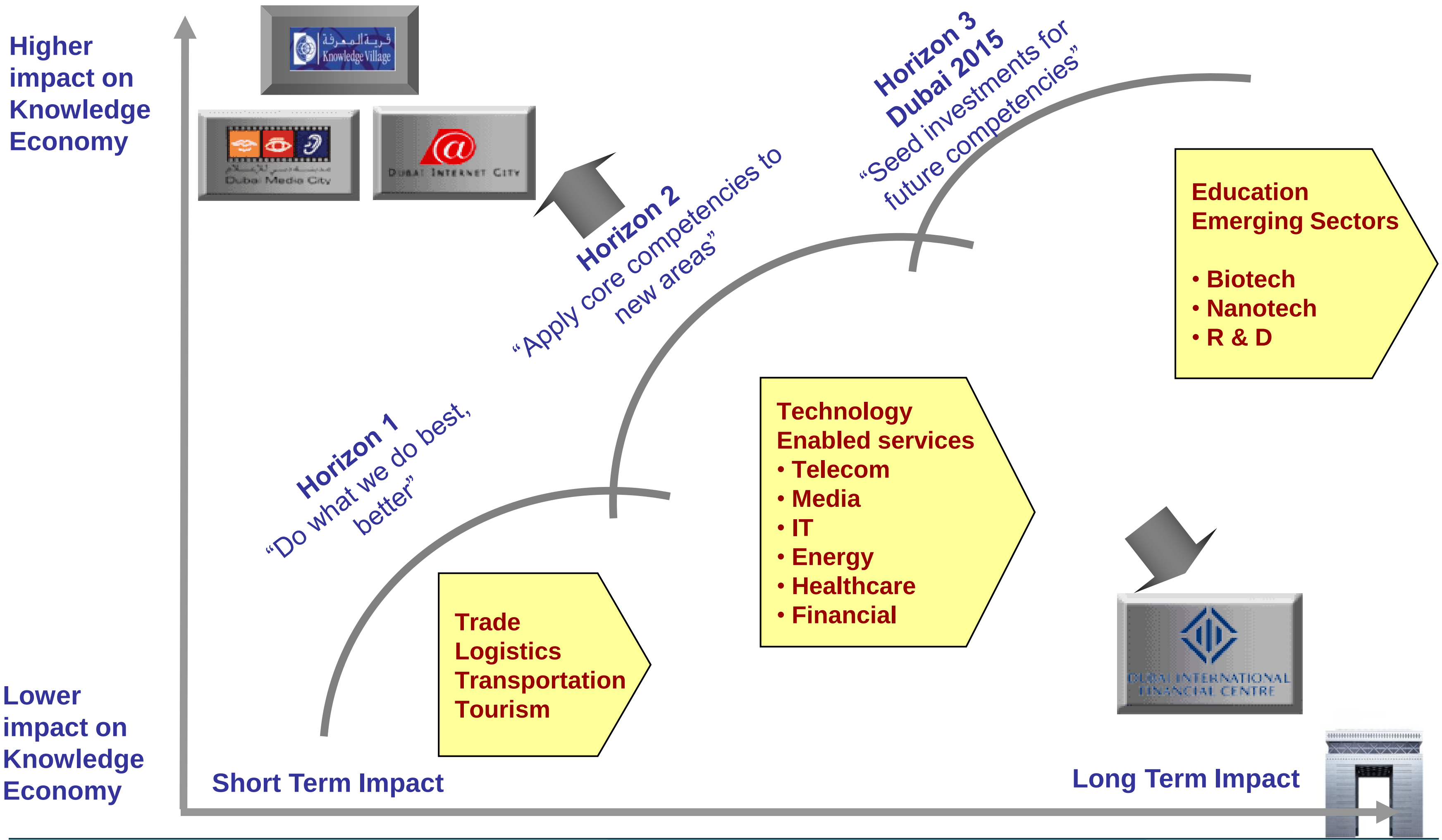
- Government policies aimed at fostering economic diversification and liberalization
- Rule of Law which provides safe and secure working and living environment

Business Centric

- Well recognized and growing financial hub with a successful and credible track record
- 100% repatriation of capital and profit
- Diversely skilled, well educated, multi cultural & multi lingual workforce
- Modern infrastructure complying with the highest international standards. New infrastructure has led to better business environment, logistics and delivery of services
- Modern telecommunication networks, high internet penetration (28% in Dubai vs. 17% in the MENA region; 2.5 ml mobile users for a population of 1.5 ml)
- A destination of choice for FDI in the region: 18 companies out of top 50 in the Global Fortune 500 such as GE, Citigroup, J.P. Morgan Chase, Samsung Electronic, Honda, Nissan, Siemens, HSBC, Deutsche Bank, Goldman Sachs & IBM have substantial operations in Dubai

Excellent Global Connectivity

Dubai Strategic Plan (DSP) 2015



DSP - Objectives

The Dubai Strategic Plan 2015 builds on current strengths and focuses on 5 key objectives to create a 21st century economy

- Economic Development
- Social Development
- Infrastructure, Land and Environment
- Security, Justice and Safety
- Public Sector Excellence

DSP - Economic Development

The Economic Development Plan (EDP) aims to

- Sustain real GDP growth of 11% per annum for the next ten years
- Increase real per capita GDP from $31,000 to $44,000 by 2015
- Increase productivity by 4% per annum
- Focus on strategic sectors: Trade & Tourism, Logistics, Financial Services
- Banking & Financial sector to contribute up to 15.1% of GDP
- Create new sectors of growth with sustainable competitive advantage diversifying away from the energy sector
- Dubai will be creating an ‘Economic Development Authority’ to focus on DSP 2015 implementation

Dubai Outlook

- Dubai is a strategically located international trading hub with some of the world's best air and sea ports serving over 205 destinations.
- Dubai economy is well diversified and continues to grow at an increasing rate.
- During 2000-2006, Dubai's GDP grew in real terms by 13% annually while the population expanded by 9% annually, with real per capita income rising by 4%.
- Oil has played a progressively diminishing role in Dubai's economy and by 2010 it is expected to account for less than 1 percent of Dubai's GDP.
- The service sector has been the key driver of economic growth with an annual growth rate of 21% since 2000.

Macro Indicators

	2004	2005	2006	2007	1Q08
Population (mil)	1.07	1.32	1.42	1.53	1.55
GDP (mil) US$	32269	38202	45989	n.a	n.a
GDP (non-Oil Sector)	30444	36166	43669	n.a	n.a
GDP (Construction)	3808	4486	5859	n.a	n.a
GDP (Transport & Communicatio	4128	4960	5834	n.a	n.a
GDP(Financial Sector)	3148	3728	4677	n.a	n.a
GDP (Wholesale & Retail Trade)	7319	8525	9861	n.a	n.a
GDP (Manufacturing)	4570	6030	7213	n.a	n.a
Imports (Direct Trade)	40612	51882	59910	81126	26212
Export (Direct Trade)	2628	3059	4975	7376	2862
Re-Export (Direct Trade)	15542	21478	21338	27421	10151
Imports (Free Zone)	18743	27002	30254	42401	12012
Exports & Re-Exports (Free Zone	14329	21452	22512	26554	7242

Source: Dubai Statistics Centre

UAE - Solid Economic Performance

- Non-Oil sector's contribution to the GDP has been on the rise, enabling diversification of the economy.
- Inflation has accelerated in the past two years, as the surge in domestic demand led to price pressures, particularly in real estate and some services.
- The dollar slump is adding to inflationary pressure, as are the rise in the global prices of food and building materials.
- Both the Dubai Financial Market and Abu-Dhabi Securities market have witnessed sell-offs, but the potential to bounce back remains.

Macro Indicators	2005	2006	2007	2008f
Population (mil)	4.0	4.3	4.6	4.9
Real GDP growth (%)	11.9	9.7	8.2	9.4
Nominal GDP (US$bn)	132.2	170.1	198.7	225.4
of which Financial Sector (%)	5.8	6.0	6.1	6.3
CPI Inflation (% change)	3.1	7.0	12.5	13.5
Total debt/ GDP	27.4	29.1	26.4	27.3
Budget balance (%GDP)	-4.5	-0.4	8.1	11.6
Public debt (%GDP)	17.3	18.2	17.7	19.8
Government consumption (%GDP)	14.3	12.6	11.1	9.3
Private consumption (%GDP)	49.6	51.4	48.1	43.5
Domestic demand (%GDP)	87.5	86.3	79.7	73.2
Domestic credit growth (%)	22.9	27.1	46.2	41.1
M2 (%pa)	15.5	23.8	30.5	23.2
Money market interest rate (%)	1.2	1.6	3.5	5.2
Trade balance (%GDP)	24.7	26.8	23.4	25.6
Current Account (%GDP)	18.3	22.0	21.6	27.5

Source: EIU, IMF & DIFC Economics

Free Zones: Economic clusters

- The strategy for economic diversification hinges on the Free Zones, i.e. designated areas where firms operating in **a specific sector cluster and operate under a special legal and regulatory regime** which complies with international standards and best practices.

- **Free Zones are separated from the legal system of the country and offer a more business friendly environment to foreign investors**, for example in terms of ownership, administrative permits, employment laws, custom duties and taxation, with a zero rate for personal and corporate taxation

- In Dubai 18 Free Zones, including the DIFC, are already operational while more are in the pipeline.

DUBAI AIRPORT FREE ZONE

Jafza Jebel Ali Free Zone

DUBAI OUTSOURCE ZONE

DUBAI KNOWLEDGE VILLAGE

DUBAI MEDIA CITY

DIFC Dubai International Financial Centre

DUBAI HEALTHCARE CITY

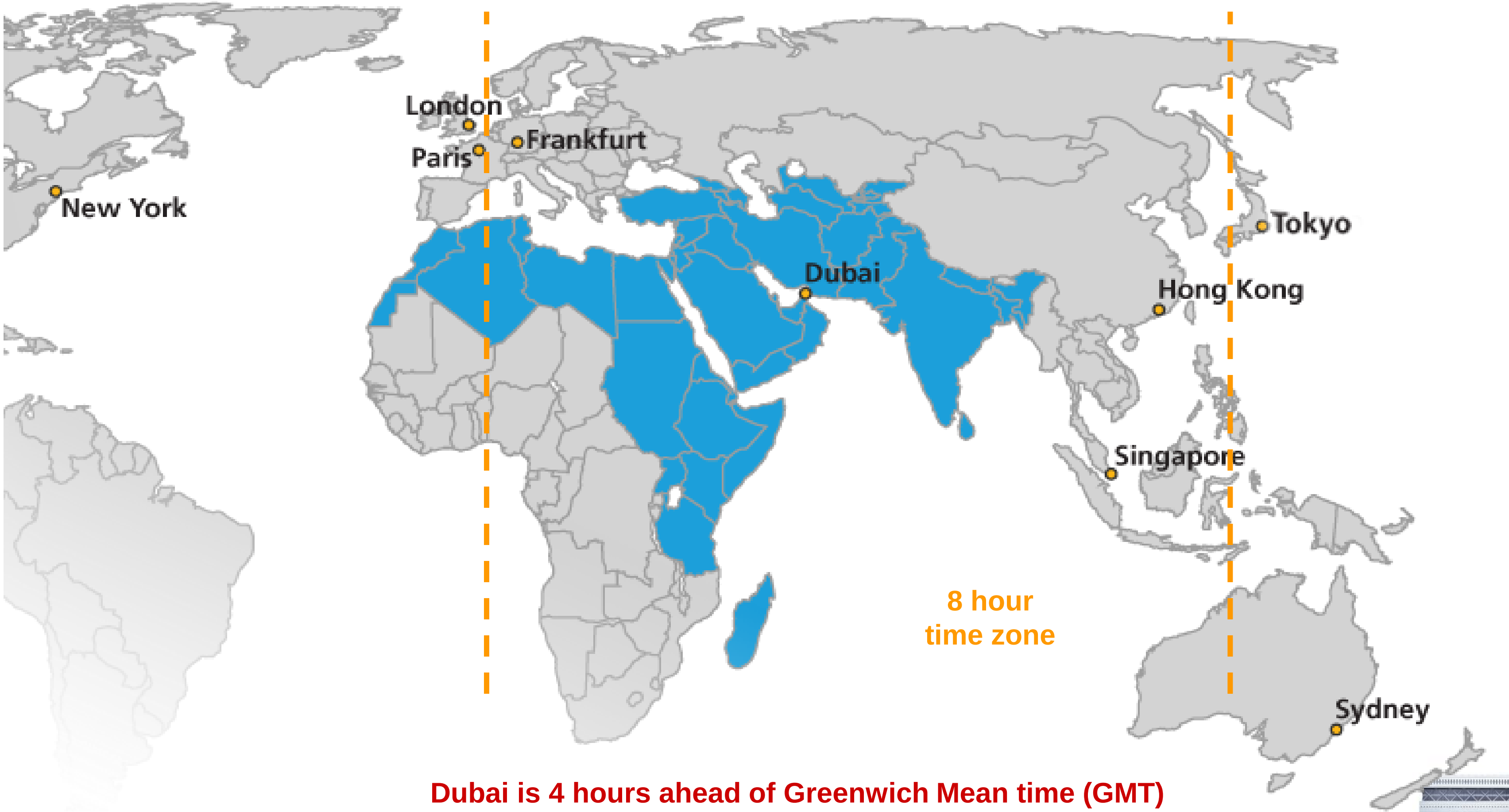
Dubai's status as a leading Global Financial Centre

City of London's 2008 Global Financial Centre Index

- **Dubai is ranked as the 5th leading centre in the world outside America and Europe**, maintaining its status as the leading financial centre in the region between Zurich at one end and Singapore/Hong Kong at the other.
- **Dubai** ranked # 1 again in the list of top 5 financial centres that might become significantly more important over the next two to three years.
- **Dubai** ranked # 1 again on the list of financial centres where organisations may open new operations in the next 2 to 3 years.
- **Dubai (23)** continues to lead BRIC (Brazil, Russia, India China) and key 'emerging' centres Shanghai (34), Beijing (47), Mumbai (49), Sao Paulo (52) and Moscow (57).
- **Dubai** is the clear leader in perceptions of potential growth as a financial centre.

Competitiveness Factors	Rank
Availability of skilled personnel	1
Regulatory environment	2
Access to international financial markets	3
Availability of business infrastructure	4
Access to customers	5
A fair and just business environment	6
Government responsiveness	7
Corporate tax regime	8
Operational costs	9
Access to suppliers of professional services	10
Quality of life	11
Culture & language	12
Quality / availability of commercial property	13
Personal tax regime	14

DIFC – Time Zone Advantage



Dubai is 4 hours ahead of Greenwich Mean time (GMT)

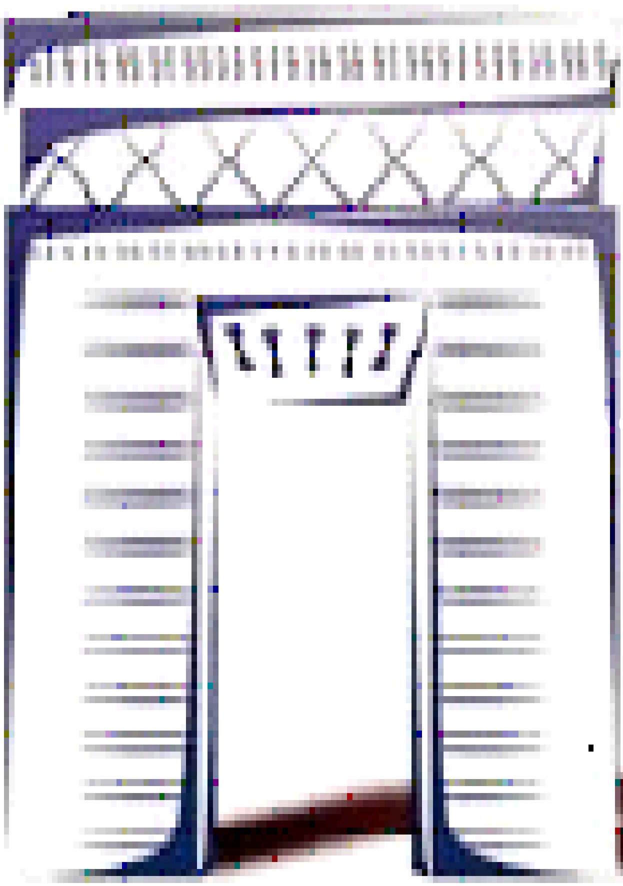
5pm Dubai = 9am New York	1pm Dubai = 9am London	9am Dubai = 1pm Hong Kong

DIFC: The Region's International Financial Centre

- Internationally-accepted common law legal framework
- A regulated financial centre with full transparency
- Platform to centralise regional wealth for economic growth & development
- Deployment channel for new wealth
- Link to the international markets

The vision of the Dubai International Financial Centre (DIFC) is to shape tomorrow's financial map as a global gateway for capital and investment.

Characteristics of the DIFC



- Onshore Capital Market / International Standards
- Designated as a Financial Free Zone
- Foreign Currency Denominated / Zero Tax Rate*
- Civil and Commercial Laws of UAE not applied
- Tailor made laws for the DIFC
- No local partner requirements

DIFC - Hierarchy of Laws

Constitutional
- UAE Constitution

Federal
- UAE Federal Law No.8 of 2004
- Federal Decree No.35 of 2004
- Cabinet Resolutions

Dubai
- Dubai Law No.9 of 2004
- Dubai Law No.12 of 2004

DIFC
- DIFC Laws
- DIFC Regulations, DIFC Courts' Rules and DFSA Rules

DIFC Laws

DIFC Law No	Law/Regulation
No.1 of 2008	Arbitration Law
No. 5 of 2007	Strata Title Law
No.4 of 2007	Real Property Law
No.1 of 2007	Data Protection Law
No.4 of 2006	Limited Partnership Law
No.3 of 2006	Companies Law
No.9 of 2005	Personal Property Law
No.10 of 2005	Laws Relating to the Application of DIFC Laws
No.8 of 2005	Law of security
No.7 of 2005	Law of damages and remedies
No.6 of 2005	Implied terms in contracts and unfair terms Law

DIFC Law No	Law/Regulation
No.5 of 2005	Law of Obligations
No.4 of 2005	Employment Law
No.11 of 2004	General Partnership Law
No. 10 of 2004	DIFC Court Law
No.8 of 2004	Arbitration Law
No. 7 of 2004	Insolvency Law
No.6 of 2004	Contract Law
No.5 of 2004	Limited liability partnership Law
No.4 of 2004	Law relating to the application of DIFC Laws
No. 3 of 2004	Application of Civil and Commercial Laws

DIFC - Regulatory/Legal Framework

Dubai International Financial Centre

- Develop overall strategy and provide direction to the Centre
- Develop laws and regulations governing non-financial services activities
- Promote DIFC and attract licensees to operate in the Centre
- One stop shop service for visas, work permits etc

DFSA Dubai Financial Services Authority

- Sole financial regulator within DIFC, AML co-regulation with UAE Central Bank
- Administrative and civil rule making and enforcement
- Bilateral MOUs with host of jurisdictions
- IOSCO (including multilateral MOU), IFSB, IAIS (Technical Committee) etc

محاكم DIFC COURTS

- An independent court system responsible for administering and enforcing the civil and commercial matters at the Centre
- Based on Common Law-offering institutions and companies legal clarity and predictability

DIFC - Ecosystem

Banking | Capital Markets | Wealth Management | Insurance

Islamic Finance

→ *Core Verticals For Overall Financial Services Industry Development*

Financial Infrastructure
(Exchanges, Payment systems etc)

Ancillary Services
(Legal, Accounting, Technology, Professional services etc)

→ *Horizontals required for Centre Building*

Soft Infrastructure
(Government services, culture/art, business support etc)

→ *One Stop Shop Business Services*

Physical Infrastructure
(State of art commercial, residential and retail)

Regulatory/Legal Environment

DFSA – Three main Pillars

Independent integrated Regulatory Authority (FSA Model)

Statutory authority with guaranteed operational independence and funding

Regulatory approach that is based on international standards, best practices and laws of the world's leading financial jurisdictions

Financial Services Authorisation Categories

Category 1

- Accepting Deposits
- Providing Credit
- Managing a Profit Sharing Investment Account

Category 2

- Dealing in Investments as Principal, except where it does so as a Matched Principal as defined in Rule 1.3.2 (2)
- Managing a Profit Sharing Investment Account

Category 3

- Dealing in Investments as Principal where it does so only as a Matched Principal as defined in Rule 1.3.2 (2)
- Dealing as Agent
- Operating a Collective Investment Fund
- Managing Assets
- Providing Custody and Trust services
- Acting as the Trustee of a fund
- Managing a Profit Sharing Investment Account

Category 4

- Arranging Credit or Deals in Investments
- Advising on Financial Products or Credit
- Arranging Custody
- Insurance Intermediation
- Insurance Management
- Operating an Alternative Trading System
- Providing Fund Administration

Category 5

- An Islamic Financial Institution whose entire business is conducted in accordance with Shari 'a and which Manages a Profit Sharing Investment Account

Borse Dubai: DIFX and DFM

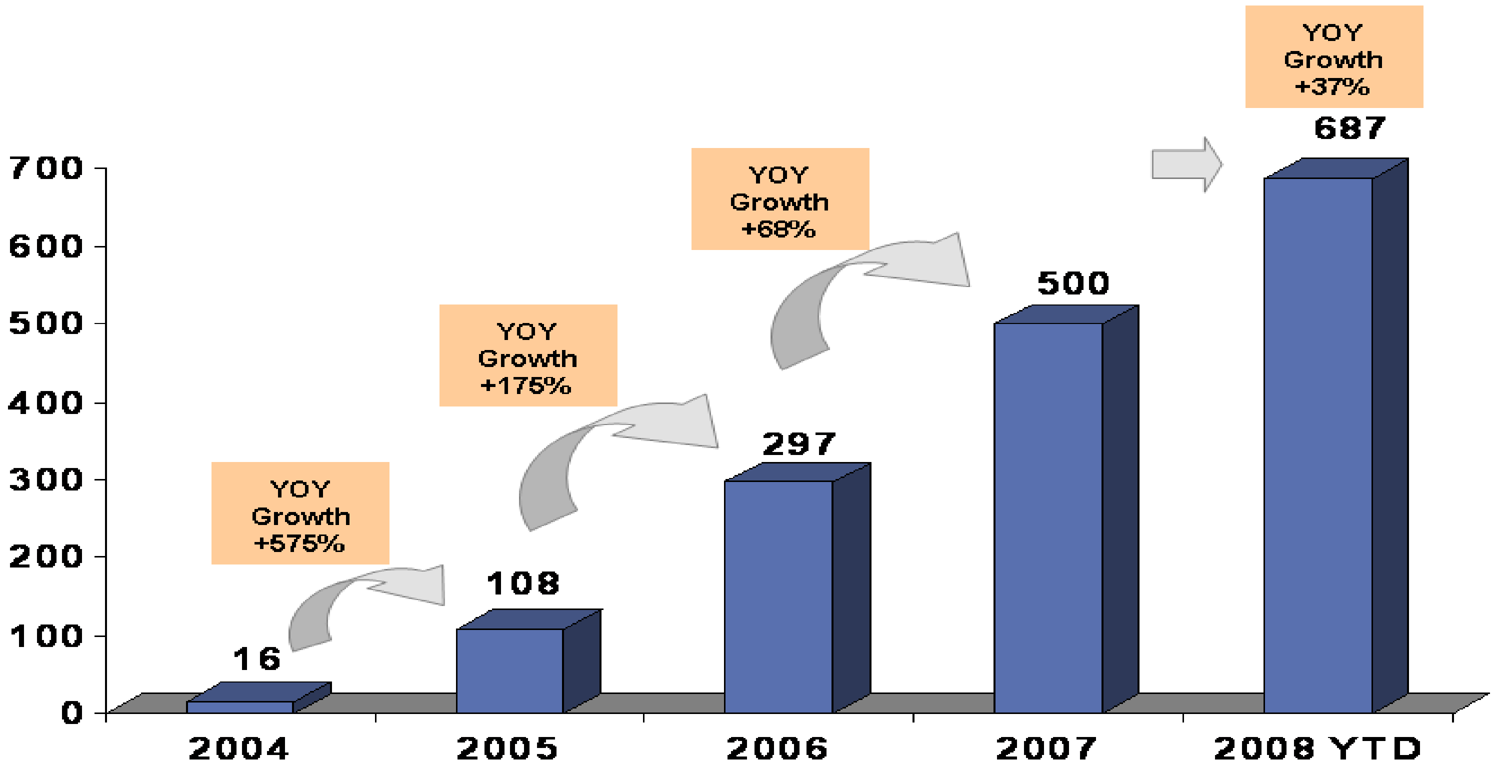
- Borse Dubai is the holding company for Dubai Financial Market (DFM) and Dubai International Financial Exchange (DIFX).
- The purpose to create Borse Dubai in 2007was to consolidate the two stock exchanges in Dubai (DFM & DIFX) as well as current investments in other exchanges to expand Dubai's position as a capital market hub in the region.
- NASDAQ has strategic shareholding in DIFX and partnering with Borse Dubai to link and integrate the region's financial markets
- DIFX is a fully integrated electronic exchange and is now largest Bond/Sukuk Market in the ME
- The number of companies under Borse Dubai (as of Oct 7th 2008): DIFX (23) & DFM (63) => Total = (86)

Dubai Mercantile Exchange

- Launched on 1st June 2007, The Dubai Mercantile Exchange Limited (DME), is a fully electronic exchange located within the Dubai International Financial Centre (DIFC).
- DME is a joint venture between Tatweer, a member of Dubai Holding, the New York Mercantile Exchange, Inc. (NYMEX) and the Oman Investment Fund (OIF), is an international energy futures and commodities exchange.
- DME has developed and lists the Oman Crude Oil Futures Contract, addressing the growing market need for price discovery of Middle East Sour Crude Oil while simultaneously bridging the time-zone gap between Europe and Asia and North America
- Total Number of DME Oman Crude Oil Futures Contracts traded since launch: 446,450[1]
- DME is authorised and regulated by the DFSA and all trades executed on the Exchange are cleared through, and guaranteed by, NYMEX's AA+ rated clearinghouse.
- DME has 69 members and the number is growing[1].

Development of DIFC as a Financial Hub

Yearly Growth in Number of DIFC Registered Companies



- Of the total 687 companies operating out of DIFC currently, there are 268 regulated (39%) and 419 non-regulated (61%) companies.

*Data as of August 31, 2008; Source: ROC Data, DFSA Register; * DIFC started operating in September 2004*

DIFC - Value Proposition

DFSA: World Class Regulations

Clear & Transparent Legislation

DIFC Courts: Independent Judicial System

Dedicated Financial Services cluster

Borse Dubai/DIFX: Liquid & Transparent International Exchange

Hawkamah Institute for Corporate Governance

Window to a wealth of opportunities

DIFC Education Strategy: Access to Talent

DIFC Resource Centre: Business Support Services

Prospects

- GCC bloc emerging as economic and financial hub for MENASA region
- **Infrastructure development** => greater economic & financial integration, increased absorptive capacity, economic/financial diversification
- **GCC Monetary Union and Gulf CB**
- **GCC Common Currency** can emerge as 3rd global currency
- Management & Control of wealth: emergence of a new global financial geography
- The GCC and Italy have an opportunity to develop institutional and working relationships between each other: Free Trade Agreement
- **Promote Financial market integration**: linking stock exchanges
- Banks, financial institutions can establish presence in DIFC
- Listing of Italian securities on DIFC and GCC exchanges
- Companies participating in GCC infrastructure projects

Policy Challenges

- GCC have become **'asset-based economies'** with income from assets becoming more important than oil & gas revenue
- DIFC's role is to Invest, Manage and Control region's financial wealth of $2.6 trillion and growing as a result of high energy prices
- **Financing Infrastructure & Regional Economic Integration**
- Economic, trade and revenue diversification
- Enable & support economic and financial reforms:
  - Enable separation of oil revenue management from fiscal policy & investment
  - Privatization and private sector participation in infrastructure
- DIFC is building **payment system infrastructure**: RTGS for $ and Euro

GMU, GCC Common Currency and the GCB

Convergence Criteria - Summary

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

Four important policy issues that need to be addressed.

1. An institutional and governance framework to ensure smooth, transparent and effective decisions on the conduct of monetary policy and other central banks policies -the modus operandi of the GCC Central Bank.
2. Inflation should be the priority item on the policy agenda. While a US $ exchange rate peg policy provided for monetary and price stability in the past, structural changes, increased economic and trade diversification with Asia (increasingly the main trade and investment partner) and weakness of the US $ on international markets, provide the rationale for a change in policy towards inflation targeting, with monetary policy geared to maintaining inflation within an announced target range.

GCC Common Currency and the GCB

3. The GCC countries will need to invest in building their statistical capacity, in order to provide harmonized, comparable economic and financial data, to support the GMU and The Gulf Common Market.
4. The GMU, if it is to be achieved and serve its purpose, needs to be supported by investments in financial infrastructure (including legal and regulatory), payment systems and the development and linkage of money and capital markets.

Why a Strong GCB?

- The new currency will be a major world currency with an appeal as reserve currency for central banks and global asset managers; It must be managed by a strong, independent and well managed institution with a strong political backing
- The GCB will become the voice of the GCC on global economic issues and look after the interest of its member countries in global arena
- Financial markets take assurance that the currency value is guaranteed by an institution committed to maintaining lower inflation => inflation targeting framework
- A new institution can adopt the best international practices in governance and attract top professionals

Key Points on the GMU and the GCB

- The Gulf Central Bank will be closely watched by international markets who therefore expect that it adopts a communication style and monetary policy regime that abides by the highest standards and is in line with the major and most respected central banks in the world.

- The effects of the monetary union in the Gulf will be widely felt in international markets. The creation of a new strong currency, whose stability is guaranteed by oil wealth and increasingly by financial wealth, will attract sizeable capital inflows from all over the world and provide a safe haven for investors when commodity prices spike or when security tensions arise.

- In the medium term, it might lead to the GCC common currency serving as a reserve asset for other countries, notably the Arab countries and oil importers. Similarly, the quotation of reference-oil prices might gradually be expressed in the new currency instead of US dollars. This will increase the seignorage revenues of the GCC countries, but more importantly it will raise the international profile of the GCC states as a whole.

Milestones in the GCC Monetary Union

May 1981	Bahrain, Kuwait, Oman, Qatar, KSA and UAE establish the GCC
Nov 1981	GCC countries endorse the Economic Agreement
Mar 1983	GCC Free Trade Area launch
1983	GCC countries establish the Governors Committee
1986	OR formally re-peg to USD
Sep 1994	Governors Committee agrees to establish the GCC net (ATM national switches within GCC Countries)
Jul 2000	QR formally peg to USD
Dec 2000	GCC countries agree to peg domestic currencies to USD by the end of 2002
Dec 2001	1. GCC countries endorse the new Economic Agreement including: - GCC Customs Union - GCC Common Market - GCC Common Currency 2. BD formally pegged to USD
2002	1. GCC countries establish the Monetary Union Committee 2. DH formally peg to USD
Jan 2003	1. GCC Custom Union launch 2. SR & KD formally peg to USD
Dec 2005	GCC countries endorse the economic convergence criteria
Dec 2006	The Monetary Union Committee presents a draft on components & percentages for economic convergence criteria to GCC Supreme Council
Jan 2007	Oman announces a delay in joining GMU
May 2007	KD re-peg to a basket of currencies
Jan 2008	GCC Single Market inception
Jun 2008	Governors Committee endorse the GCC Agreement of Laws & Regulation of monetary union
Jan 2010	GCC Common Currency implementation deadline


Thank You