The Institutional Framework of the Gulf Central Bank

As the process of the Gulf Monetary Union (GMU) is being finalised, the institutional and governance structure of the Gulf Central Bank is becoming a pressing priority. This report "The Institutional Framework of the Gulf Central Bank" discusses the viable alternatives for a suitable institutional and governance framework for the policy making body presiding over the GMU. We review a series of alternatives from the simplest one (i.e. a Governors Council formed by the Governors of the national Central Banks and Monetary Authorities, each endowed with a single equal vote), to the more elaborate ones, involving the set up of a supranational institution, a Gulf Central Bank (GCB) with permanent staff, an appointed President and an Executive Board, which together with the national governors would form a Monetary Policy Council (MPC) responsible for the setting of monetary policy instruments and taking decisions in all the main areas of monetary policy. The members of the MPC could be given equal voting rights, or a voting power weighted according to the economic and financial size of each country, with some corrective counterweight mechanism such as a specific voting weight for the President and/or the Executive Board to provide checks and balances.

The solution we feel markets (and possibly the public) would find more credible and suitable would be one involving the creation of a new Gulf Central Bank with its own staff and an Executive Board, because it would strengthen the authority and sustainability of the institutional arrangement and create an organisation that is an effective counterpart of the other major international central banks and financial markets. Highly qualified professionals from international markets, national central banks and international institutions could be recruited to foster a process of cross fertilisation, critical for the future of an area whose international economic and financial weight is growing and is increasingly important for global financial stability.

An additional factor deserves special attention: international investors and central banks around the world would be keenly interested in holding assets denominated in the new GCC common currency, as a safe haven and a hedge against oil shocks and inflation, thereby boosting its international role. The new currency will clearly be among the five major currencies in the world. This would also boost the sophistication of local GCC financial markets, extend their depth and strengthen their governance. The intermediate phase in the run up to the launch of the single currency should not be left to a temporary institution, like a monetary institute with weak powers. The GCB must be created as soon as possible with a strong mandate to clear the obstacles while testing and fine tuning the decision-making mechanisms in all areas. Recent financial turbulence and global financial uncertainty inject a sense of urgency into the project: the increasing international economic and financial openness of the GCC countries requires policy coordination and concerted action within a well-conceived economic policy framework, to avoid the risk of being swept by developments that individual countries do not have the power to resist or control.