

An Economic Analysis of the Potential GCC Economic and Monetary Union for Sustainable Development—Drawing from the European Experience*

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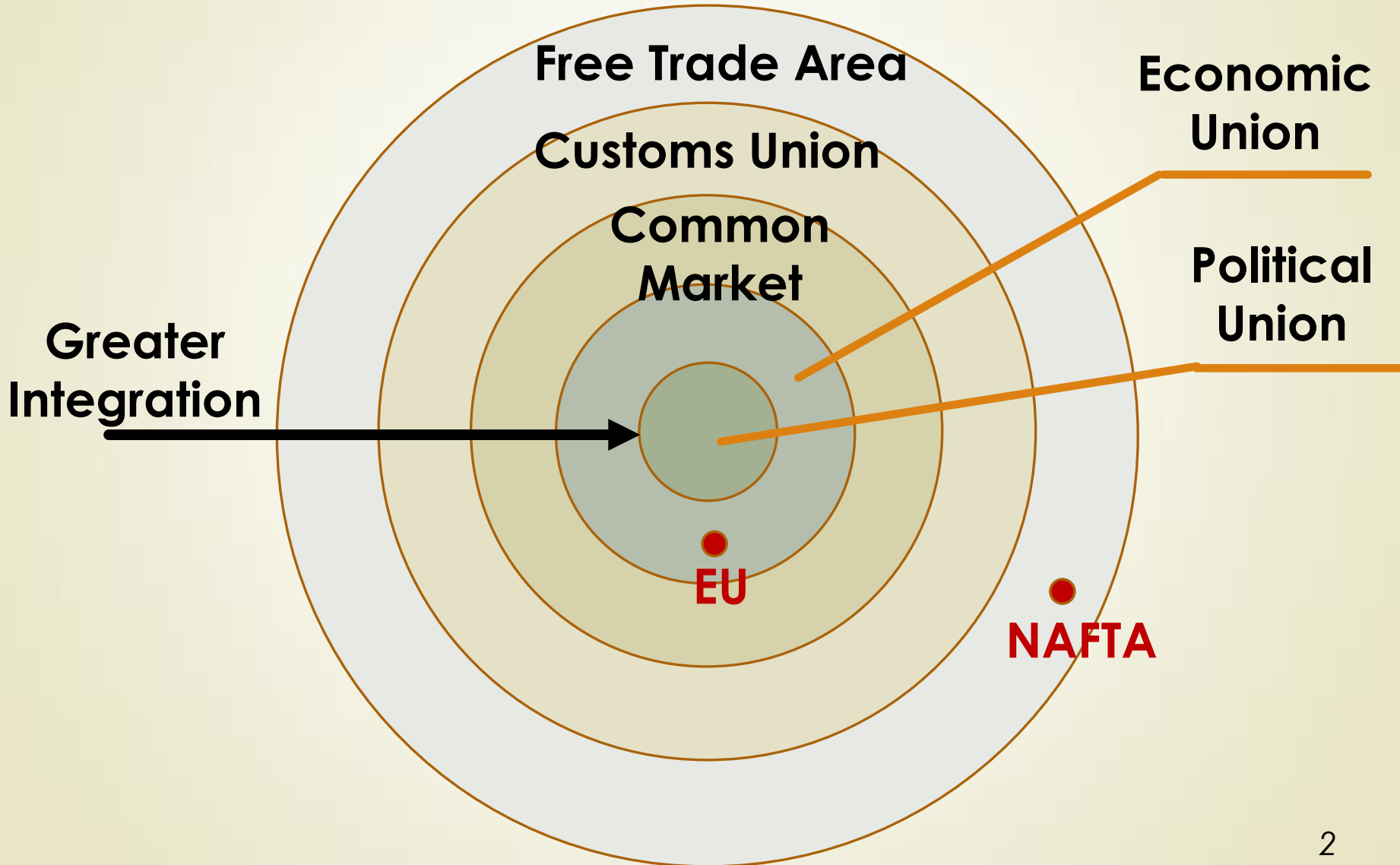
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Degrees of Economic Integration



Key GCC Statistics

- Combined GDP of GCC members estimated at USD 1.4 trillion for 2015 (at 2005 prices)
- Total population of ~55 million comprising 51% nationals and 49% expatriates
- 2013 per capita GDP ~\$33,500 with \$1 trillion foreign exchange reserves
- 2015 growth has been projected at a modest 3% for the region
- Debt-to-GDP levels within manageable limits for most (< 50% of GDP as compared to G7 countries)

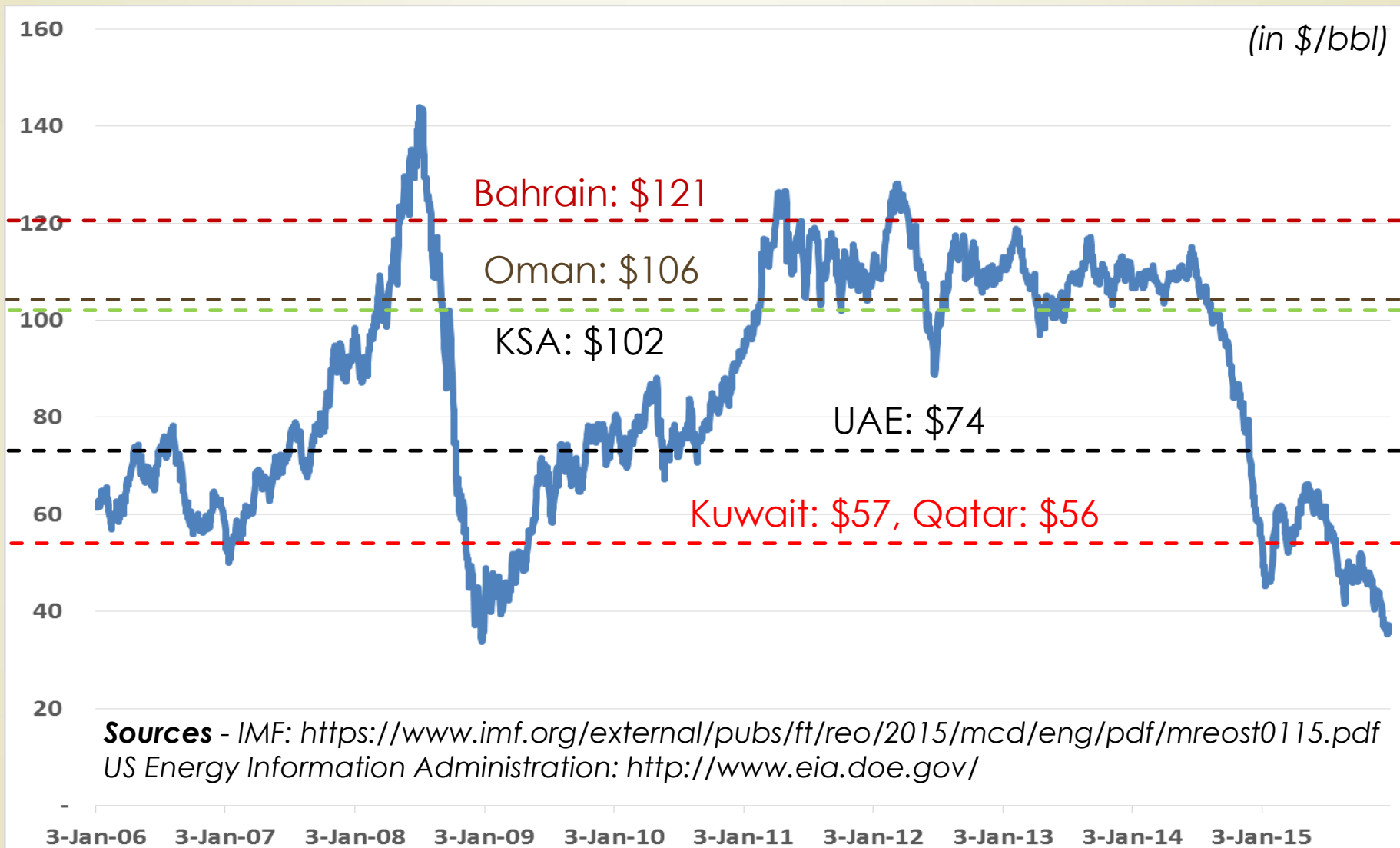
Source: IMF, *Regional Economic Outlook, Middle East & Central Asia*, October 2015

Why is Oil Important for the GCC?

- ~30% of global oil reserves held by GCC states
- 22% of total daily contribution to worldwide oil production
- Significant source of government revenue for all members and remains a substantial component of (nominal) GDP:

(% of Total)	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE
Revenue	86	80	88	80	77	64
Exports*	61	88	61	86	80	29
GDP	24	63	56	51	43	34

Historical Oil Prices vs. Fiscal Break-even Levels



Short Term Challenges

- No Monetary Policy leeway
- Limited Fiscal Policy adjustments
- Counter-intuitive fiscal policy in a restricted regime
 - Government spending cuts
 - Increased taxation

During oil price lows when

- Governments should spend more to boost the economy

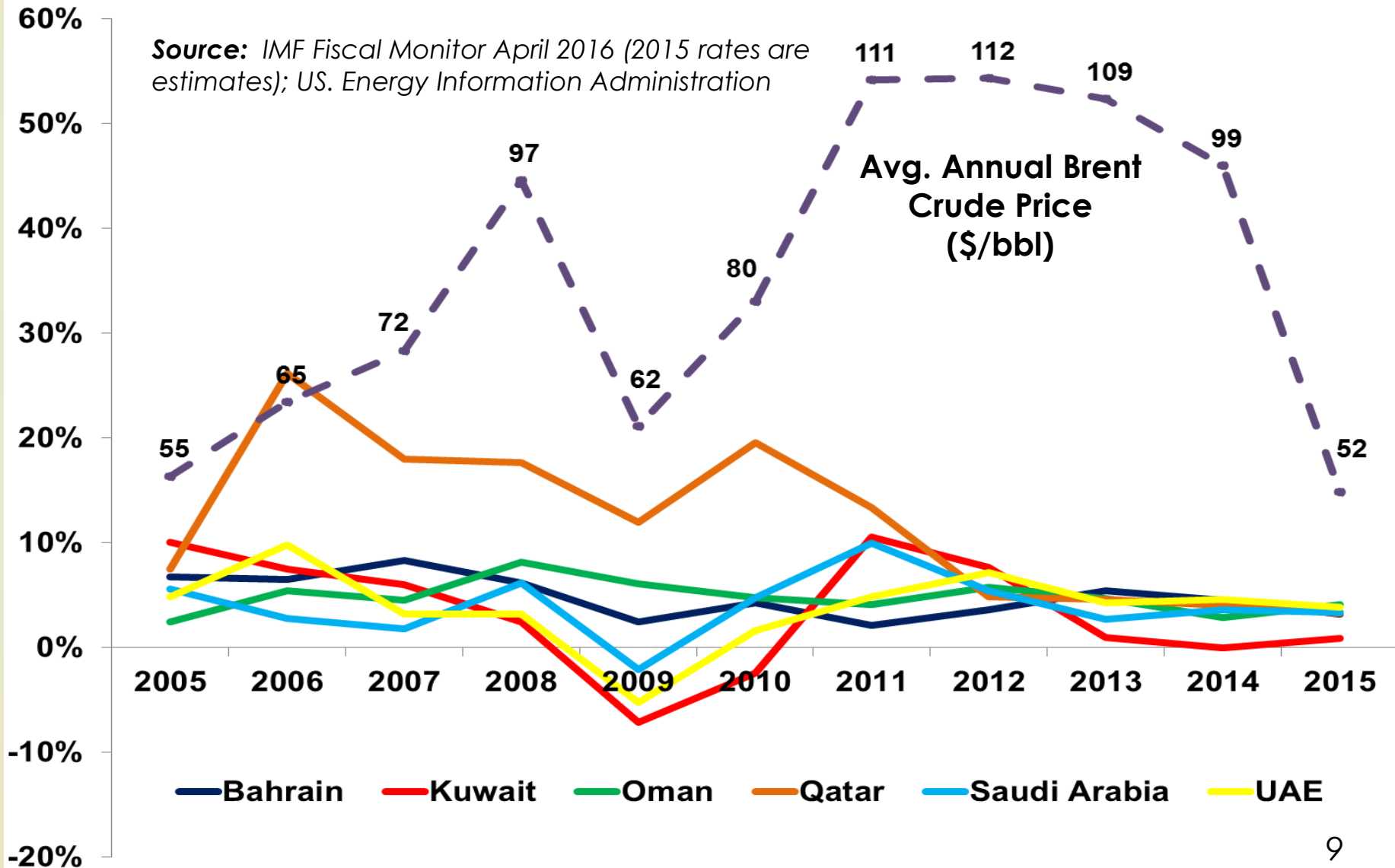
Five Convergence Criteria of EMU

Key Metric	Measured Using	Convergence Criteria
Price Stability	Consumer price inflation (CPI)	$\leq 1.5\%$ higher than 3 lowest member states
Sound Public Finances	Government deficit as % of GDP	$\leq 3\%$
Sustainable Public Finances	Government debt as % of GDP	$\leq 60\%$
Durability of Convergence	Long-term interest rate	$\leq 2\%$ above the rate of three best performing member states in terms of price stability
Exchange Rate Stability	Deviation from a central rate	Participation in ERM II for at least 2 years without major deviations from the central rate

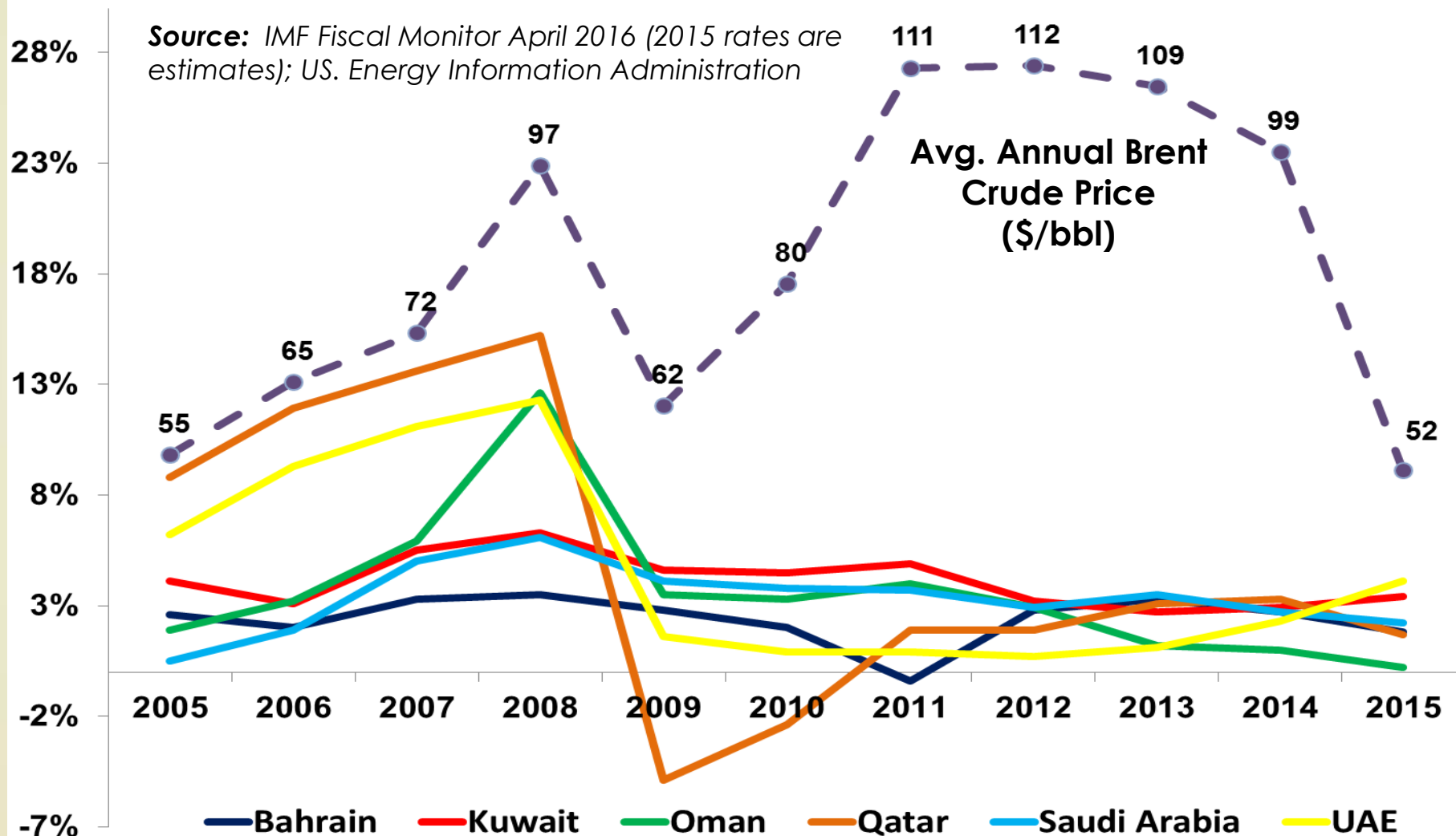
GCC Convergence Criteria

Key Metric	Measured Using	Convergence Criteria
Sustainable Growth	Real GDP growth rates	$\leq 1.5\%$ above 3 best performing members
Price Stability	Consumer Price Inflation (CPI) Rate	$\leq 1.5\%$ above 3 best performing members
Sound Public Finances	Government deficit as % of GDP	$\leq 3\%$
Sustainable Public Finances	Government debt as % of GDP	$\leq 60\%$
Exchange Rate Stability	Deviation from the pegged rates of individual currencies to the USD	Participation in the pegged exchange rate regime for at least 2 years without severe tensions

Real GDP Growth Trend vs. Oil Price (2005 – 2015)



GCC Inflation Rate Trend vs. Oil Price (2005 – 2015)



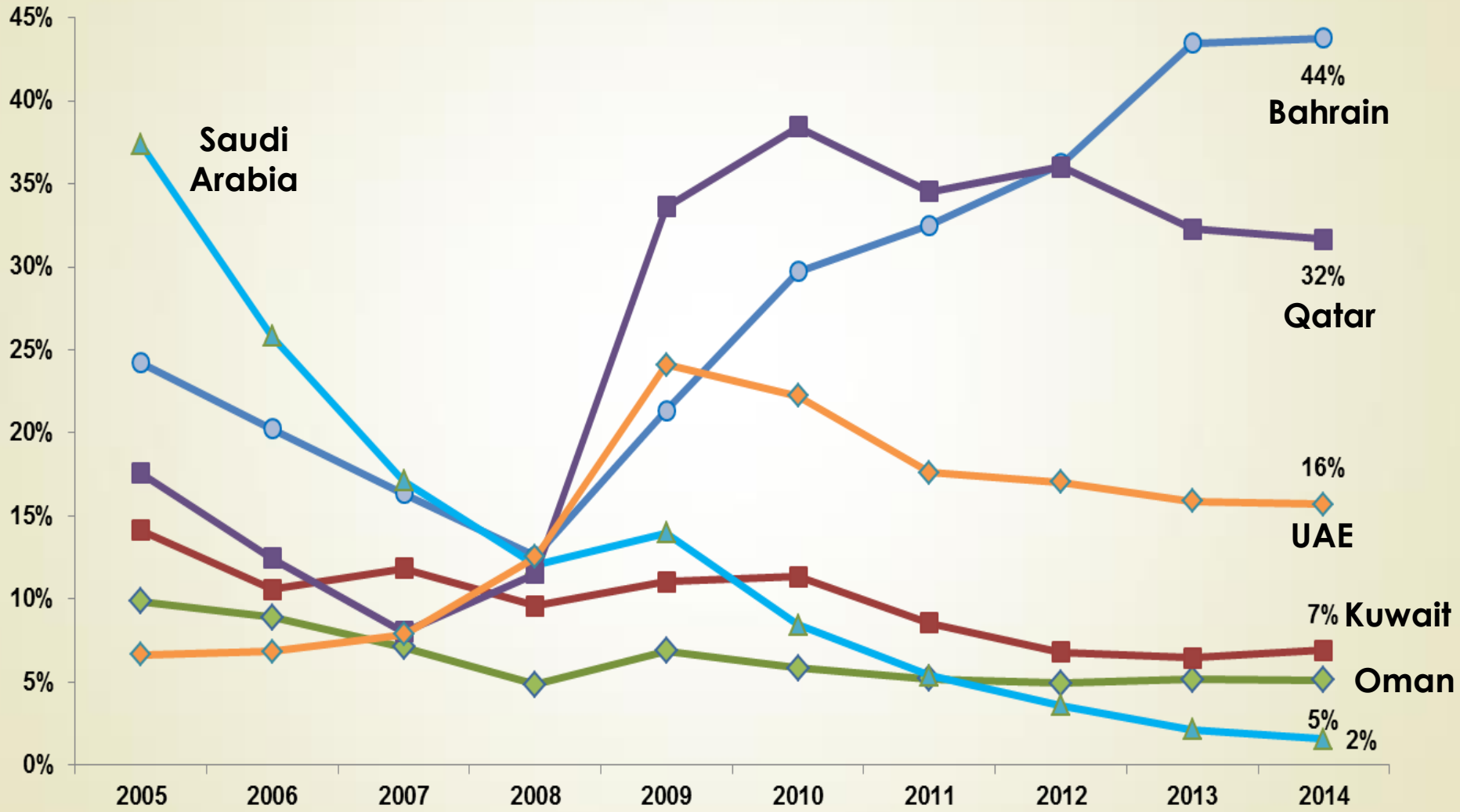
Fiscal Surplus/Deficit to GDP Ratio

(%)	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Bahrain	4	3	2	5	-6	-6	-2	-3	-4	-6	-14
Saudi Arabia	18	21	12	30	-5	4	11	12	6	-3	-22
Kuwait	37	32	37	20	27	26	33	35	34	26	1
Oman	12	14	12	17	0	6	9	5	3	-2	-18
Qatar	9	9	10	11	16	6	10	14	21	15	5
UAE	20	25	22	20	-4	2	6	11	10	5	-6

Note: 2015 numbers are IMF estimates

Source: IMF Fiscal Monitor October 2015, IMF Article IV releases

Debt to GDP Ratio Trend (2005 – 2014)



Note: 2015 numbers are IMF estimates

Source: Based on IMF, Regional Economic Outlook: Middle East and Central Asia (October 2015)

Debt-to-GDP Ratio

(%)	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Bahrain	24	20	16	13	21	30	32	36	43	44	67
Saudi Arabia	37	26	17	12	14	8	5	4	2	2	7
Kuwait	14	11	12	10	11	11	9	7	6	7	10
Oman	10	9	7	5	7	6	5	5	5	5	9
Qatar	18	12	8	12	34	38	35	36	32	32	30
UAE	7	7	8	13	24	22	18	17	16	16	19

Note: 2015 numbers are IMF estimates

Source: Based on IMF, Regional Economic Outlook: Middle East and Central Asia (October 2015)

Observations for GCC EMU

- Some convergence criteria satisfied during recent times
 - Both real GDP and inflation rates within a narrow range for the past few years
- Fiscal deficit-to-GDP ratios for some member states are a source of significant concern
 - Trajectory for both Bahrain and Saudi Arabia imply an urgent need for the government to rein in expenses
- Higher debt-to-GDP ratios observed for Bahrain and Qatar

Conclusion

- Sustainability of potential EMU may be threatened in the short to medium term
- Likelihood of unstable fiscal balance and government debt in the medium term as GCC members rein in expenses and realign to lower revenue expectations
- Long term diversification strategies and lower oil dependability would lead to successful EMU in GCC