Abu-Bader, Suleiman 10, 51
Abu-Qarn, Aamer S. 10, 51
accountability 65–6, 128, 129, 133, 167
adjustable peg 72, 106–7, 169
  see also Bretton Woods system;
    Exchange Rate Mechanism
    (ERM)
Africa 7, 64, 83, 110–11, 115, 117
appreciation
  and exchange rate regime choices
    for currency union in GCC
    countries 89–90, 94
  exchange rate regime in United Arab
    Emirates (UAE) 100, 104, 105,
    114, 115, 116, 161, 174–8
Arab Monetary Fund (AMF) 19, 21,
  22, 24
asymmetric shocks 44, 50–52, 108, 109,
  171
auctions 125, 150
Australian 47, 50, 113
Australian dollar pegging 113
Austro-Hungarian Empire currency
  union 65
Badr-El-Din, Ibrahim 10
Bahrain
  criteria for currency union in the
    GCC countries 19, 20, 21, 22–3,
    24, 25, 26, 39, 84
deflation 17
  exchange rate regimes 9, 14, 42,
    83–4, 87
  exchange rate trends 39
GDP 46
  international trade 46–7, 48–9
  population 46
real labour mobility 53
Bakardzhieva, Damyana 11
balance of payments 86, 104, 121, 124,
  125–6, 132, 182
balance sheet stability 86, 92
balance sheets 127–8, 133, 139, 140–42,
  145–8
banded exchange rate regimes 106, 116,
  164–5, 172
Bank of England 37, 66
banking crises 17–18, 36–7, 105, 157,
  169, 170
banking sector 36–8, 126–7, 133,
  140–42, 146, 148, 151–2, 169–70
basket peg
  described 106–7
  exchange rate regime choices
    for currency union in GCC
    countries 92–3, 96
Kuwait 9, 22, 30, 42, 85, 93
United Arab Emirates (UAE) 30,
  104, 107, 114–15, 116, 117, 155,
  164–7, 172–80, 181, 188–90
  see also European Currency Unit
    (ECU)
  basket peg and price of oil (PBO) 116,
    117, 168
Bayoumi, Tamim 55, 56
Belgium-Luxembourg monetary
  unification 64
Ben Naceur, Samy 10, 46, 47, 51
Berengaut, Julian 12, 83
bid/ask spread 123, 135
Bretton Woods system 71, 72, 74, 103,
  107, 111
broad money (M2) 126, 127, 137, 139,
  141, 143
budget deficit 14, 16, 23–5, 57, 58–9, 84
Buiter, Willem H. 33, 36, 37, 56, 59,
  61, 84
Bundesbank 74–5
business cycle synchronicity 10, 11,
  14–15, 51–2, 154, 159, 160, 161–2,
  164
business cycles 126
Currency union and exchange rate issues

Canada 55–6, 113–14, 115
Canadian dollar pegging 113–14
capital mobility currency union in the GCC
countries 35–6, 88, 91
economic integration in the GCC
countries 9
and exchange rate regime in United
Arab Emirates 99, 103, 104,
157, 164, 165, 168, 169
and fixed exchange rate
incompatibility 73
and optimal currency areas (OCAs)
43, 53, 54, 107
Caribbean Currency Area 64, 83
central bank dependence 12
central bank independence 57, 92, 105,
167
central bank interventions 92, 122, 124,
168, 182
Central Bank of the United Arab
Emirates (CBUAE) 120, 121,
122–3, 127, 137, 181–2
central banks 15, 23, 35, 36–7, 38, 75
see also central bank dependence;
central bank independence;
central bank interventions;
exchange rate targeting;
inflation targeting; monetary
aggregate targeting;
supranational central banks;
individual central banks
CFA Franc Zone 64
Chinn, M.D. 103–4
CIS currency union 35, 65
citizen mobility 9
commitment to economic and political
integration 11
commodity standard 93–4, 107,
115–16
Common Agricultural Policy (CAP)
(EU) 75
common market (GCC) 8–9, 30, 84
compatibility of GCC countries
10–11
constitutional aspects of currency
unions 61–6
convergence criteria for currency union
in GCC countries
budget deficit criterion 14, 16, 23–5,
58–9, 84
countries performance 7, 11, 18–25,
26, 38–42, 84–5, 90
definitional and data problems
16–18, 26–7
evaluation 10–11
foreign exchange reserves criterion
14, 22–3, 58, 60, 84
inflation rate criterion 11, 13, 14,
16–17, 18–20, 38–42, 58, 59–60,
84–5, 90, 95
interest rate criterion 13–14, 17–18,
20–22, 57, 58, 60, 84
public debt criterion 14, 15–16, 25,
26, 58–9, 84
relevance 14–15, 58–60
convergence criteria for European
Monetary Union (EMU) 57, 60,
76–80, 81
cost–benefit analysis, of convergence
criteria of currency union in the
GCC countries 10
Coury, Tarek 11
CPI (consumer price index) data 17,
115, 116, 128, 158, 174–5
crawling peg
described 106
empirical evidence 110, 111
Poland 170
United Arab Emirates (UAE)
104, 107, 114–15, 117, 164,
165–6
credibility
and exchange rate regime choices
for currency union in GCC
countries 87, 90, 93, 94
and exchange rate regime in United
Arab Emirates (UAE) 100,
101–2, 103, 111–12, 115, 117,
156–7, 158, 167, 173
and exchange rate regimes 109,
135
and exiting from fixed exchange rate
regimes 170
and inflation targeting 92
and spillover costs of currency
unions 13
credit to banks 134, 139, 140, 141, 146,
148
currencies see appreciation; depreciation; devaluation; devaluation prohibition; euro and basket of currencies; euro pegging; Japanese yen and basket of currencies; national currencies; overvaluation; revaluation; US dollar and basket of currencies

currency boards 64, 107, 121, 135–6, 162, 163

currency creation in currency unions 83

currency crises 169–70

currency union in the GCC countries background 8–9, 30, 83–6

convergence criteria see convergence criteria for currency union in GCC countries

exchange rate regime choices see exchange rate regime choices for currency union in GCC countries

fiscal sustainability membership condition 58–9

importance 7, 83

literature review 9–11

macroeconomic stabilization:

optimal currency areas 38–56, 84

asymmetric shocks, impacts of 50–52

nominal cost and price rigidities 43, 44–5

real factor mobility limitations 52–4

small size and openness of GCC countries, impacts of 45–50, 57

supranational federal fiscal authority, as unnecessary 55–6

microeconomic efficiency and financial stability 31–8

political and constitutional aspects 61–2, 65–6

pros and cons of currency unions 9–10, 11–13

currency unions 11–13, 31–2, 47, 50, 61–6, 83, 107

see also CIS currency union; currency union in the GCC countries; European Monetary Union (EMU)

current account deficits 113, 169–70

current account surpluses 89–90, 114, 180

customs unions 8, 30

Czech-Slovak monetary union 65

Dar, Humayon A. 10

data problems, convergence criteria for currency union in the GCC countries 16–18, 26–7

Dave, Chetan 11

De Grauwe, Paul 51, 76, 79
decentralized implementation, in currency union in the GCC countries 35
decentralized issuance, in the CIS currency union 35
deflation 17, 99, 103, 125
demand shocks 51, 104–5, 108–9
deposit insurance 38
depreciation and exchange rate regime choices for currency union in GCC countries 94

and exchange rate regime in United Arab Emirates 100, 104, 105, 113, 115, 116, 166, 176–7

and national currencies of European Union countries 76

US dollar 9, 14, 20, 30, 38–41, 88, 89, 95, 99, 155, 156, 160, 161, 166, 171
devaluation 42, 103, 113
devaluation prohibition 77, 79
developed countries 109, 110
developing countries 109, 110, 168

Dutch disease 94, 102–3, 115, 125

ECOFIN 75

Economic Agreements (GCC countries) 8, 9, 30
economic diversification

and budget deficit criterion for currency union in the GCC countries 24–5

and exchange rate regime choices for currency union in the GCC countries 85–6, 88, 91, 95

and exchange rate regime in United Arab Emirates (UAE) 98, 102, 112, 154, 155, 162, 173
long-term benefits of currency union in the GCC countries
and revaluation
economic efficiency 9, 11–12, 31–2
economic growth 11, 15–17, 110, 128, 133, 157, 163, 164, 165, 168, 170, 171–2
economic integration 8–9, 11, 30, 51–2, 154

economics of scale 12

Edwards, S. 101, 110
Eichengreen, Barry 61, 123–4, 164
Elborgh-Wyotek, Katrim 12, 83

emerging-market countries 109–10, 168
employment 9, 50, 53–4, 85–6, 133, 157, 170

see also expatriate labour supply; labour market flexibility; labour mobility; national labour supply; nominal wage rigidities; wage flexibility

equality 8, 9
euro and basket of currencies 93, 96, 173–9, 180, 188–90
euro pegging 113
European Central Bank 17, 35, 37, 57, 60, 66, 70, 75, 80, 84
European Commission 31, 37, 51–2, 56, 57, 60–61, 62, 70, 80–81
European Currency Unit (ECU) 72, 73, 75
European Monetary System (EMS) 71–5
European Monetary Union (EMU) centralized decision-making 35
convergence criteria see convergence criteria for European Monetary Union (EMU)
currency creation 83
exchange rate pegging 74–6
foreign exchange transaction costs savings 31, 32
historical background 71–4
institutions 70–76
and lender of last resort 37
opt-outs 30
and optimal currency areas (OCAs) 78
political and constitutional aspects 62
real/structural convergence 60–61
and single banking and financial regulator 36–7
switching costs 32
trade increases 12

European Parliament 66, 70, 80–81
European Payments Union (EPU) 71
European Union (EU) 30, 56, 62, 71, 113, 114
European Unit of Account (EUA) 75–6
excess reserves 125–6, 127, 128, 140, 144–5
exchange rate convergence 57, 60, 71, 75–6, 77, 79–80
exchange rate costs 154, 157, 167
Exchange Rate Mechanism (ERM) 57, 60, 71, 72, 75, 77, 94
exchange rate misalignment 102, 105, 112–13, 135, 155, 159–60, 161–2
exchange rate pegging 74–6, 113–14, 134–5, 164

see also adjustable peg; Australian dollar pegging; basket peg; Canadian dollar pegging; crawling peg; currency boards; euro pegging; fixed exchange rates; Japanese yen and basket of currencies; Norwegian krone pegging; peg the export price (PEP); SDR (special drawing rights) pegging; US dollar pegging
exchange rate regime choices for currency union in GCC countries
alternative regimes 60, 87–94
basket peg 92–3, 96
export oil price peg 93–4
managed float 91–2, 96
US dollar pegging 90–91, 94–5
appropriateness 88–90
general considerations 86–7
exchange rate regime in United Arab Emirates (UAE)
Index

exitng from fixed exchange rates 122–3, 180–83
fixed versus flexible regimes 101–5, 107–9, 121–2, 164, 168–9, 171–2
monetary targeting 127, 137–52
oil and natural gas sector versus non-hydrocarbon sector 98
optimal currency area (OCA) criteria 107–9, 112
SDR pegging 42, 121, 156
variant regimes 107, 111–17, 155, 164–9, 171–3
exchange rate regimes see exchange rate regime choices for currency union in GCC countries; exchange rate regime in United Arab Emirates (UAE); exchange rate regimes in GCC countries; operational implications of changing to alternative exchange rate regimes; optimal currency areas (OCAs)
exchange rate regimes in GCC countries 38–42, 58
exchange rate risk 90, 91, 92, 93, 154, 160–61, 167
exchange rate risk management 123, 182–3
exchange rate stability 111–12, 115, 117, 154, 157, 159, 165–6
exchange rate targeting 124–6, 132, 136
exchange rate trends in GCC countries 38–41
exchange rate volatility and exchange rate regime choices for currency union in GCC countries 92, 93
and exchange rate regime in United Arab Emirates 102–3, 104, 105, 115, 155, 159–61, 171
US dollar 90, 112
expatriate labour supply 53, 83, 88, 160, 162
exports 8, 93–4
see also export price of oil pegging; international trade; manufacturing exports; non-oil exports; oil exporting countries; oil exports; peg the export price (PEP); services imports and exports
external common custom tariff (ECT) 8, 9, 84
external instability 159–60
external shocks 125, 171
external stability 86, 91, 94, 95, 154, 156, 159–60, 172
familiarity 91, 100, 101–2, 103
Fasano-Filho, Ugo 18, 51
Federal Reserve System 14, 15, 35, 38, 63, 66, 93
financial crises 15, 17–18, 36–7, 99, 100, 169
financial difficulties, spillover costs of currency unions 13
financial integration 84
financial markets 92, 127
financial sector 7, 10, 17, 36–7, 50, 57, 155, 162, 167–8, 171
financial sector regulations 167–8
financial shocks 155, 157, 172
financial stability 31–8, 86–7
fiscal policy and currency union in GCC countries 10, 15–16, 18, 88, 90, 91
and exchange rate targeting 125
and exiting from fixed exchange rate regimes 169, 170
fiscal stabilization 55–6, 91
fiscal sustainability 58–9
fiscal transparency 18, 26
fixed exchange rates and exchange rate regime in United Arab Emirates (UAE) 164, 168–9, 171–2
versus flexible exchange rates 101–5, 109–11, 121–2
Currency union and exchange rate issues

operational implications of exiting 122–4, 169–70, 180–83

see also US dollar pegging

flexible exchange rates described 106, 107, 134–6

and exchange rate regime choices for currency union in GCC countries 88

and exchange rate regime in United Arab Emirates 104–5, 107, 108–9, 155, 164, 167–9, 171–2

versus fixed exchange rates 101–5, 109–11, 121–2

forecasting

and exchange rate targeting 125

and inflation targeting 129, 133

and monetary aggregate targeting 92, 127, 133, 137, 138, 142, 144, 145, 146, 147

foreign direct investment 10, 84, 88

foreign exchange markets 52, 148–9, 181–2

foreign exchange reserves criterion for currency union in GCC countries 14, 15, 58, 60

GCC countries’ performance 7, 22–3, 84

and exchange rate regime choices for currency union in GCC countries 87

and exchange rate regime in United Arab Emirates 105, 154, 156, 158, 160, 164, 165, 180, 182

and monetary aggregate targeting 146, 148–9

foreign exchange swaps 124, 150, 151

forward markets 91, 102, 124, 182

France 41, 64, 71, 72, 76, 81

Frankel, Jeffrey A. 45, 76, 84, 93, 103–4, 115, 168

free trade 8, 105

Friedman, Milton 104–5

FSA (Financial Services Authority) (UK) 36, 37

gas exports 90

gas prices 50–51

gas resources 98

gas revenues 58–9

gas sector 98

GCC Central Bank 17, 35, 36, 37–8, 61, 62, 65–6, 84

GCC countries economic and geographic conditions 7, 46

US dollar pegging 9, 14, 38–42, 58, 83–4, 85, 87, 88, 121

see also currency union in the GCC countries; individual countries

GCC financial committee 9, 13

GCC regulator 36

GDP, of GCC countries 7

GDP growth 11, 16, 17

General Data Dissemination System (GDDS) 27

geographical size, GCC countries 7

Germany 41, 46, 63–4, 72, 74–5, 76, 77, 78, 81

globalization 7, 88, 155, 157

gold standard exchange rate regime 107, 116–17

goods 8, 9, 17, 34, 108, 158

government deposits 151–2

government expenditure 20, 160

Government Finance Statistics (IMF) 18, 27

government securities 139, 147, 148, 150

Gulf Monetary Council (GMC) 35, 66, 84

Hatase, Mariko 123–4

hedging exchange rate risk 91, 93, 102

hyperinflation 35, 65

IMF (International Monetary Fund) 15, 18, 26, 27, 84, 89–90, 98, 99, 101–2, 103, 106, 111, 117, 120, 137, 158, 159, 161, 175, 178, 186, 187, 189, 190

see also SDR (special drawing rights)

pegging

import prices 94

imported inflation 88, 113, 158, 161

imports 8, 14, 22–3

see also import prices; imported inflation; international trade; non-oil imports; oil importing countries; open economies; services imports and exports; tariffs
### Index

<table>
<thead>
<tr>
<th>Page</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>197</td>
<td>income redistribution 55</td>
</tr>
<tr>
<td></td>
<td>inflation rates</td>
</tr>
<tr>
<td></td>
<td>criterion for currency union in GCC countries 13, 14, 16–17, 58, 59–60, 95</td>
</tr>
<tr>
<td></td>
<td>criterion for European Monetary Union 17, 57, 60</td>
</tr>
<tr>
<td></td>
<td>and exchange rate unions 12</td>
</tr>
<tr>
<td></td>
<td>and exchange rate regime choices for currency union in GCC countries 86, 87–8, 89, 90, 92, 95</td>
</tr>
<tr>
<td></td>
<td>and exchange rate regime targeting 124, 125</td>
</tr>
<tr>
<td></td>
<td>GCC countries 11, 18–20, 38–42, 84, 90, 99</td>
</tr>
<tr>
<td></td>
<td>Kuwait 9, 19, 30, 39, 84</td>
</tr>
<tr>
<td></td>
<td>Germany 78</td>
</tr>
<tr>
<td></td>
<td>imported inflation 88, 113, 158, 161</td>
</tr>
<tr>
<td></td>
<td>and monetary aggregate targeting 126, 133, 137, 138</td>
</tr>
<tr>
<td></td>
<td>US 88, 90, 113</td>
</tr>
<tr>
<td></td>
<td>and US dollar pegging 15, 90</td>
</tr>
<tr>
<td></td>
<td>inflation targeting 92, 115, 116, 128–30, 133, 167</td>
</tr>
<tr>
<td></td>
<td>inflation tax 33–5</td>
</tr>
<tr>
<td></td>
<td>information 36–7, 93, 123, 125, 127–8, 129, 132, 133, 182</td>
</tr>
<tr>
<td></td>
<td>institutions 70–76, 155, 157, 158, 167, 169–70</td>
</tr>
<tr>
<td></td>
<td>interbank interest rates 14, 17, 128, 145</td>
</tr>
<tr>
<td></td>
<td>interbank markets 120, 121, 122–3, 124, 125–6, 132, 145, 151, 181–2</td>
</tr>
<tr>
<td></td>
<td>interest rates</td>
</tr>
<tr>
<td></td>
<td>criterion for currency union in GCC countries 13–14, 17–18, 57, 58, 60</td>
</tr>
<tr>
<td></td>
<td>criterion for European Monetary Union 17, 57</td>
</tr>
<tr>
<td></td>
<td>and exchange rate regime choices for currency union in GCC countries 91</td>
</tr>
<tr>
<td></td>
<td>GCC countries 20–22, 84</td>
</tr>
<tr>
<td></td>
<td>United Arab Emirates (UAE) 99, 100, 112–13, 159, 168</td>
</tr>
<tr>
<td></td>
<td>Germany 74</td>
</tr>
<tr>
<td></td>
<td>and inflation targeting 129–30</td>
</tr>
<tr>
<td></td>
<td>and monetary aggregate targeting 127, 128, 133, 136, 137, 141, 145, 148, 149</td>
</tr>
<tr>
<td></td>
<td>US 14–15, 20, 100, 159</td>
</tr>
<tr>
<td></td>
<td>internal stability 154, 159, 160</td>
</tr>
<tr>
<td></td>
<td>international capital markets 91, 109–10, 162, 169</td>
</tr>
<tr>
<td></td>
<td>international competitiveness</td>
</tr>
<tr>
<td></td>
<td>and exchange rate regime choices for currency union in the GCC countries 86–7, 89, 90–91, 95</td>
</tr>
<tr>
<td></td>
<td>and exchange rate regime in United Arab Emirates 99, 100, 115, 158, 160, 171, 173</td>
</tr>
<tr>
<td></td>
<td>and exchange rate targeting 124</td>
</tr>
<tr>
<td></td>
<td>and revaluation 89</td>
</tr>
<tr>
<td></td>
<td>International Financial Statistics (IFS) 26</td>
</tr>
<tr>
<td></td>
<td>international seigniorage 35</td>
</tr>
<tr>
<td></td>
<td>international trade 10, 12, 46–7, 48–9, 102, 114, 121</td>
</tr>
<tr>
<td></td>
<td>see also exports; free trade; imports; tariffs; terms-of-trade shocks; trade diversification; trade integration; trade openness</td>
</tr>
<tr>
<td></td>
<td>investment 43, 100, 102</td>
</tr>
<tr>
<td></td>
<td>investment saving shocks 51</td>
</tr>
<tr>
<td></td>
<td>Ireland 64, 72, 80</td>
</tr>
<tr>
<td></td>
<td>Italy 63, 64, 71, 72, 76, 78, 80, 111</td>
</tr>
<tr>
<td></td>
<td>Ito, T. 114</td>
</tr>
<tr>
<td></td>
<td>Jadresic, E. 9–10, 12, 13</td>
</tr>
<tr>
<td></td>
<td>Japan 113, 114, 123–4, 176, 177, 178–9</td>
</tr>
<tr>
<td></td>
<td>Japanese yen 113, 123–4</td>
</tr>
<tr>
<td></td>
<td>Japanese yen and basket of currencies 176, 177, 178–9</td>
</tr>
<tr>
<td></td>
<td>Kamar, Bassem 10, 11, 46, 47, 51</td>
</tr>
<tr>
<td></td>
<td>Kenen, Peter B. 43, 52, 61, 107</td>
</tr>
<tr>
<td></td>
<td>Krugman view of asymmetric shock likelihood 51</td>
</tr>
<tr>
<td></td>
<td>Kuwait</td>
</tr>
<tr>
<td></td>
<td>basket of currencies 9, 22, 30, 42, 85, 93</td>
</tr>
<tr>
<td></td>
<td>criteria for currency union in the GCC countries 19, 20, 21, 22, 23, 24, 25, 26, 39, 84</td>
</tr>
<tr>
<td></td>
<td>exchange rate trends 39, 40</td>
</tr>
</tbody>
</table>
GDP 46
inflation rate 9, 19, 30, 39, 84
international trade 46–7, 48–9
population 46
real labour mobility 53
speculation 89, 93
US dollar pegging 9, 40, 42, 85

Laabas, Belkacem 10–11, 12
labour market flexibility 83, 87, 88, 90, 91, 154, 158, 162
labour mobility 9, 53–4, 78, 107, 164
Latin Monetary Union 64
laws 62, 125, 133, 182–3
lender-of-last-resort (LOLR) 36–8, 105
Limam, Imed 10–11, 12
liquidity management 92, 120, 121, 147
long-term government bonds 17, 18, 80
Lucas critique 44–5

Maastricht convergence criteria see convergence criteria for European Monetary Union (EMU)
MacDonald, R. 102, 116
macroeconomic efficiency 31–8
macroeconomic policy harmonization 9–11
macroeconomic stability 43, 86–7
managed/dirty float described 106
empirical evidence 111
exchange rate regime choices for currency union in GCC countries 91–2, 96
United Arab Emirates (UAE) 107, 115, 164, 167–8, 169, 172–3, 188–90
manufacturing exports 88
manufacturing sector 50, 98, 114
Masson, Paul R. 43, 55, 56, 164
Medas, Paulo 15
menu cost theory 45
Mexico 129, 169, 170
minimum reserve requirements 144–5, 149
mobility 8, 9
see also capital mobility; labour mobility; real factor mobility
monetary aggregate targeting described 126–8, 132–3
and exchange rate regime choices for currency union in GCC countries 92
general framework of monetary control
controlling base money 145–8
managing the money multiplier 143–5
money supply 138–43
money target 137–8
instruments of control 148–52
regime options 134–7
monetary base (M0) 126, 127, 134, 137–8, 139–40, 142, 145–8
monetary issuance 35, 37
monetary policy
Poole’s model of optimal monetary policy 51
see also exchange rate targeting; inflation targeting; monetary aggregate targeting
Monetary Policy Committees 66, 138
monetary policy coordination 10, 11
monetary policy dependence 14–15, 100, 103, 107, 113
monetary policy independence 14, 87–8, 91, 104, 107, 108, 109, 114–15
monetary policy independence costs 14–15
monetary spillover costs 13
Monetary Union Agreement (MUA) 84
monetary unions see currency unions
money demand 92, 129, 133, 134, 135, 136–8, 141, 167
money demand shocks 51
money multiplier 127, 135, 140, 141–5, 149
money supply 126, 134, 135, 136, 138–43
money supply shocks 51
monitoring, and exchange rate targeting 125
Index

Mundell, Robert A. 43, 78, 107, 109, 116
Muscat summit 8–9, 13

narrow money (M1) 126, 127
national currencies 61–2, 76
see also Australian dollar pegging; Canadian dollar pegging; Japanese yen; Japanese yen and basket of currencies; Norwegian krone pegging; US dollar; US dollar and basket of currencies; US dollar pegging

national labour supply 9, 53–4, 85–6, 88, 91, 162
national sovereignty 12, 43, 61–5
national treatment 8, 9
net credit to government 146, 147, 148
net foreign assets 141, 146, 148
net other assets 146, 147–8
Netherlands 60, 64, 72
see also Dutch disease
New Zealand 47, 50
nominal cost rigidities, and optimal currency areas (OCAs) 43, 44–5
nominal price rigidities, and optimal currency areas (OCAs) 43, 44–5
nominal shocks 43, 86, 90, 164
nominal wage rigidities 43, 44–5
non-oil exports 89, 94, 100, 125, 154, 159–60, 162, 168
non-oil imports 158–60
non-oil production 92
non-oil revenues 24, 25
non-oil sector
and exchange rate regime choices for currency union in the GCC countries 85–6, 88, 90
and exchange rate regime in United Arab Emirates (UAE) 98, 102, 105, 155, 156, 158–9, 160, 162, 168, 171
national labour supply 85–6, 88, 91
Northern Rock 37
Norway 64, 103, 114, 115
Norwegian krone pegging 114
numeraire, alternative 113–14

Ogawa, Eiji 114
oil demand shocks 108–9

oil exporting countries 83, 93, 99, 107, 108–9, 112, 114, 125, 186
oil exports 85, 90, 115, 121, 125, 156
oil importing countries 93, 107, 108–9, 112, 113, 117, 162
oil price pegging 93–4, 115, 116, 164, 168, 176–7, 186–7
oil price shocks 15, 108–9, 112–13, 125, 157, 161, 167
oil price volatility
and exchange rate regime choices for currency union in GCC countries 92, 94
and exchange rate regime choices for oil-producing countries 99
and exchange rate regime in United Arab Emirates (UAE) 100, 103, 104, 105, 114, 115, 116, 154, 160, 168
oil prices
and exchange rate regime choices for currency union in GCC countries 88–9, 92, 93–4
and exchange rate regime in United Arab Emirates (UAE) 113, 114–16, 117, 162, 164, 168, 186–7, 188, 189, 190
and fiscal criteria for currency union in the GCC countries 14, 15, 23
and inflation rate criterion for currency union in the GCC countries 19
see also oil price shocks; oil price volatility
oil production 50–51, 85, 94
oil resources 98
oil revenues 24, 25, 34, 58–9, 85, 92, 121, 125, 160
oil sector 10–11, 98
oil shocks 88, 108–9
oil supply shocks 108–9
Oman
criteria for currency union in the GCC countries 16, 19, 20, 21, 22, 23, 24–5, 26, 84
exchange rate trends 40
GDP 46
international trade 46–7, 48–9
opting out of currency union in the GCC countries 24–5, 26, 30, 85
population 46
US dollar pegging 9, 14, 42, 83–4, 87
OPEC Reference Basket 14
open economies 45–50, 57, 83, 93, 154, 157, 158
open market operations (OMO) 147–51
operational implications of changing to alternative exchange rate regimes
alternative nominal anchors
exchange rate targeting 124–6, 132
inflation targeting 128–30, 133
monetary aggregate targeting see monetary aggregate targeting
monetary aggregate targeting exiting from fixed exchange rates 122–4, 169–70
optimal currency areas (OCAs)
asymmetric shocks, impacts of 50–52
criteria 43–4, 107–8
for currency union in the GCC countries 10–11
and European Monetary Union (EMU) 78
and exchange rate regime in United Arab Emirates (UAE) 107–9, 112
nominal cost and price rigidities 43, 44–5
real factor mobility limitations 52–4, 78
shortcomings of 43
small size and openness of GCC countries, impacts of 45–50, 57
supranational federal fiscal authority, as unnecessary 55–6
optimal monetary policy 51
over the counter (OTC) interbank markets 122
overvaluation 112–13

peg the export price (PEP) 93–4, 106, 115–16, 164, 168, 176–7, 186–7
permanent real rigidities, and optimal currency areas (OCAs) 43
permanent shocks 43, 108–9, 112
Poland 170
policy coordination costs 13
political aspects of currency unions 9, 10, 11, 61–6, 162
political costs 87
Poole, William 51

population, of GCC countries 7, 46
Presley, John R. 10
price indexes 14, 17, 115, 116, 127–8, 133, 158, 174–5
price stability
and European Monetary System 75
and fiscal policy 90
and inflation rate criterion for currency union in EMU 17, 60
and inflation rate criterion for currency union in the GCC countries 16, 38, 42
and inflation targeting 128, 129
and monetary aggregate targeting 92, 126, 136
price transparency 32
prices 20, 126, 127–8, 134, 135, 136, 141
proven oil and gas reserves 7, 24
prudential banking regulations 83, 123
public debt 14, 15–16, 25, 26, 57, 58–9, 78, 84, 170, 171
Qatar
criteria for currency union in the GCC countries 19, 20, 21, 22, 23, 24, 25, 26, 41, 84–5
exchange rate regimes 9, 14, 42, 83–4, 87
exchange rate trends 40
GDP 46
international trade 46–7, 48–9
population 46
real labour mobility 53
Razin, A. 110
real costs 45
real factor mobility 52–4
real income 128, 133, 137, 138, 141
real interest rates 15
real/structural convergence, European Monetary Union 60–61
recapitalization 37
Reinhart, C.M. 109, 110–11
reporting 18, 26–7, 183
see also balance sheet stability;
balance sheets
retail foreign exchange markets 181–2
revaluation 89, 113, 162
Index

201

reviewing, and monetary aggregate targeting 128, 133
Rogoff, K.S. 109–11
Rubinstein, Y. 110
Sachs, Jeffrey 55, 56
Sala-i-Martin, Xavier 55, 56
Saudi Arabia
criteria for currency union in the GCC countries 19, 20, 21, 22, 23, 24, 25, 26, 41, 84
deflation 17
dominance, and currency union in the GCC countries 10
exchange rate regimes 9, 14, 42, 83–4, 87
exchange rate trends 41
GDP 46
international trade 46–7, 48–9
population 46
Scandinavian monetary union 64
Schaechter, Andrea 18, 51
SDR (special drawing rights) pegging and exchange rate regime choices for currency union in GCC countries 92
GCC countries 42
United Arab Emirates (UAE) 42, 121, 156, 164, 165, 172, 177, 179, 181
seigniorage 32–5, 105
services 8, 9, 17, 22, 30, 34, 50, 108, 158
see also financial sector; services imports and exports; social services
services imports and exports 8, 9, 44, 45, 46, 66, 88
shocks 91, 108–9
see also asymmetric shocks; banking crises; currency crises; demand shocks; external shocks; financial crises; financial shocks; investment saving shocks; money demand shocks; money supply shocks; nominal shocks; oil shocks; permanent shocks; real shocks; supply-side shocks; symmetric shocks; temporary shocks; terms-of-trade shocks; wealth shocks
short term notes (certificates of deposit) 139, 141, 147, 148, 149–51
Sibert, Anne C. 56, 59
Single Customs Declaration (SCD) 8
small economies 45–50, 57, 93–4, 157
social services 7, 16
sociopolitical differences 13
Sovereign Wealth Funds 15, 23
speculation 15, 89, 93, 102, 113, 124, 126, 132, 135, 169
spillover costs 12–13
standards and codes 18, 26, 27
standing facilities 151
subnational fiscal stabilization authorities 55, 56
supply-side shocks 50–51, 108–9, 115
supranational central banks 11, 35, 61, 62
supranational federal fiscal authority 55–6
supranational monetary authority 35
Supreme Council 8–9
switching costs 31, 32, 44, 87
symmetric shocks 10, 44, 50, 51, 108
tariffs 8, 9, 76, 84, 95, 105
tax-transfer systems 55
technical efficiency 52
temporary shocks 43, 108, 157, 170
terms-of-trade 104, 174, 188
terms-of-trade shocks
exchange rate regime choices for currency union in GCC countries 88, 93, 94
and exchange rate regimes 110
trade diversification 107
trade integration 84, 164
trade openness 88, 107, 154, 158
transaction costs 87, 92, 160–61, 165, 166–7
transaction costs savings 12, 31–2, 91, 100, 156, 157
transparency
and exchange rate regime choices for currency union in GCC countries 94
and exchange rate regime in United Arab Emirates (UAE) 167, 183
and exchange rate targeting 125, 132
GCC central bank 65–6
and inflation targeting 92, 128, 133, 167
and monetary aggregate targeting 128, 133
see also fiscal transparency; price transparency; transparency, lack of
transparency, lack of 93, 114, 165
UK 30, 36, 37, 64, 66, 71, 72, 76, 80, 111
uncertainty 17–18, 87, 92, 102
undervaluation 89–90, 161
unilateral currency valuation changes, loss of 12
United Arab Emirates (UAE)
capital mobility 99
criteria for currency union in the GCC countries 19, 20, 21, 22–3, 24, 25, 26, 41, 84–5
exchange rate regime see exchange rate regime in United Arab Emirates (UAE)
exchange rate trends 41
GDP 46
inflation rate 19, 20, 41, 84, 85, 99, 100, 101, 105, 112–13, 154, 171–2, 173, 174, 178
interest rate 20, 21, 84, 99, 100, 108
international trade 46–7, 48–9
oil revenues 121
opting out of currency union in the GCC countries 85
population 46
real labour mobility 53
US
financial crises 15, 99, 100
income redistribution and tax-transfer systems 55–6
inflation rates 88, 90, 113
interest rates 14–15, 20, 100, 159
monetary policy 14–15, 99, 107, 108
as oil importing country 107, 108–9, 112
political unification 63
trade with GCC countries 90
see also Federal Reserve System; US dollar
US dollar
depreciation 9, 14, 20, 30, 38–41, 88, 89, 95, 99, 155, 156, 160, 161, 166, 171
volatility 90, 112
see also US dollar and basket of currencies; US dollar pegging; US dollar swaps
US dollar and basket of currencies 93, 96, 165–7, 172–80, 188–90
US dollar pegging
Bahrain 9, 14, 42, 83–4, 87
exchange rate regime choices for currency union in GCC countries 90–91, 94–5
GCC countries 9, 14, 38–42, 58, 83–4, 85, 87, 88, 121
Japan 123
monetary policy independence costs 14–15
oil producing countries 99
Poland 170
and preparation for currency union in the GCC countries 9, 13, 30
US dollar swaps 139, 141, 147, 148
wage flexibility 83, 154, 158
wealth shocks 50–51
wholesale interbank markets 181
Yeyati, E, 110
Yugoslavia currency union 65
Zakharova, Daria 15