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GCC Currency Peg

Are the Pegs resilient?

What are the risks for the GCC currency peg and can the pegs remain resilient?

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ECONOMIC RESEARCH REPORT

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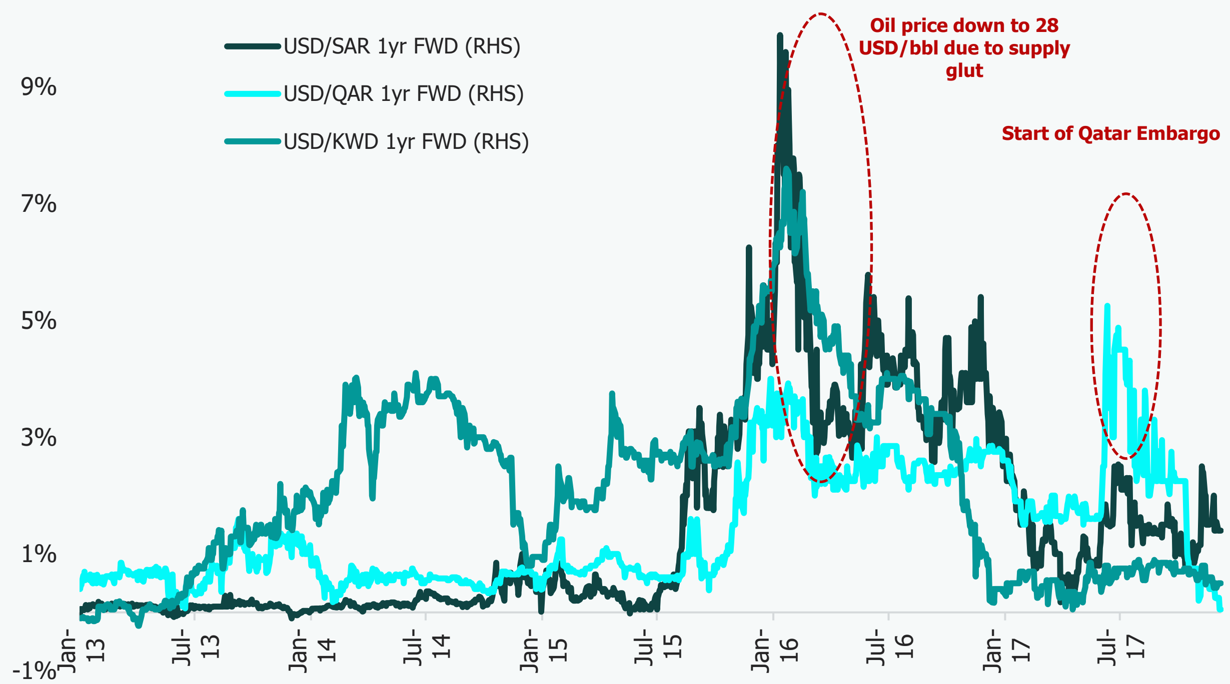
Executive Summary

Currency peg among the GCC countries has been a widely debated topic in the recent years, ever since the collapse of oil prices witnessed in 2014. All GCC countries barring Kuwait employ a fixed currency exchange rate policy, pegging their local currencies to the U.S dollar while Kuwait pegs its local currency to a basket of currencies that is believed to be predominantly weighted in favor of US Dollar. While pegging has both merits and demerits associated in the context of GCC economies, current macroeconomic factors have started imposing pressure on the status quo leading them to rethink their strategies in terms of pegging and adopting an independent monetary policy.

Figure 1: 12-month forward currency exchange rate fluctuation



Source: Reuters, Marmore Research

Oil dependent GCC economies adopted pegging to the U.S dollar in order to mitigate the risk of their exports losing value due to fluctuation in currency exchange rates. However, it has come under scrutiny in recent times as challenges have been mounting from different fronts against the current peg to the US dollar. With non-oil economic growth in their agenda moving forward, sticking to a U.S dollar peg appears counterproductive due to the mismatch in economic growth cycles of the U.S and the GCC economies. Devaluation on the other hand is not a simple solution either as it can lead to negative short term effects such as triggering a spurt in inflation, pressure to increase wages, and social uncertainties that could ultimately dent investor confidence.

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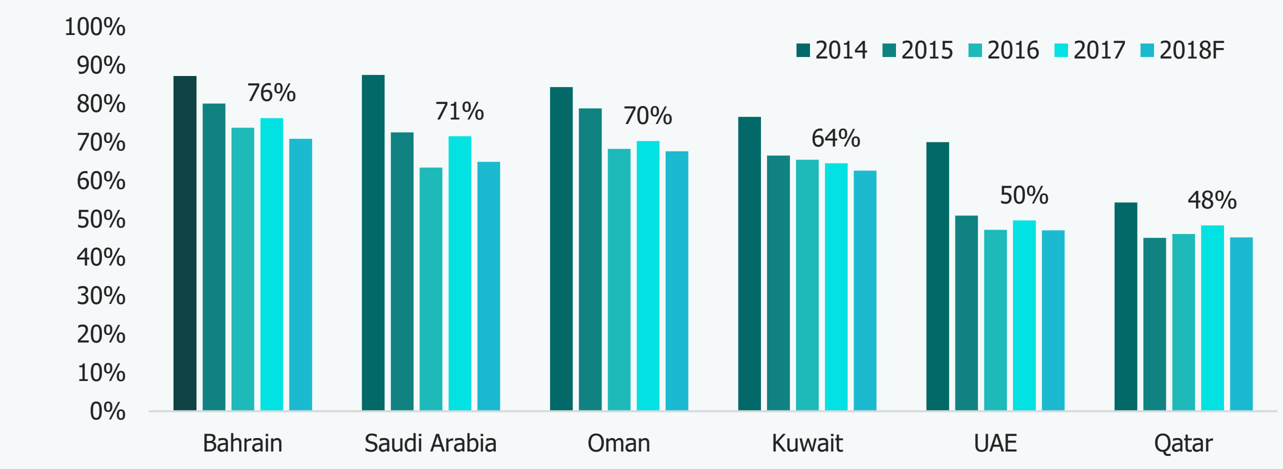
Why are GCC currencies pegged?

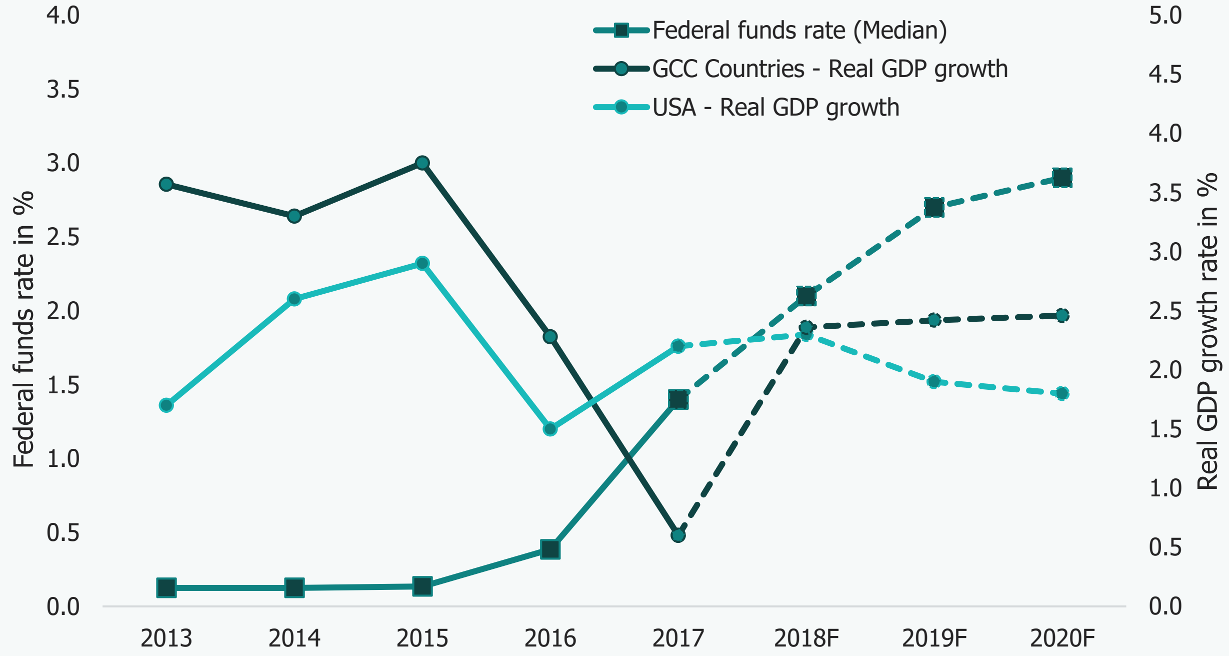
External trade is a major component of the GDP of GCC countries with oil and gas being the chief export commodity. Despite the variety of collective and individual diversification measures undertaken by the respective countries, revenue from hydrocarbons remains the major source of revenues for all the GCC economies including Bahrain earning more than two thirds of its total revenue through oil in 2017. Owing to their reliance on hydrocarbon receipts, any fluctuation in exchange rates would adversely affect potential revenues. In order to mitigate this risk, GCC countries have pegged their local currencies to the U.S dollar, which is the world's reserve currency. However, pegging comes at a cost as GCC countries lose independent control over their monetary policies and have the need to follow the policy direction set by the U.S Federal Reserve. The U.S economy, which is set to see an expansion, has prompted the U.S Fed to start hiking their interest rates.

Figure 2: Oil revenues as a part of total revenue



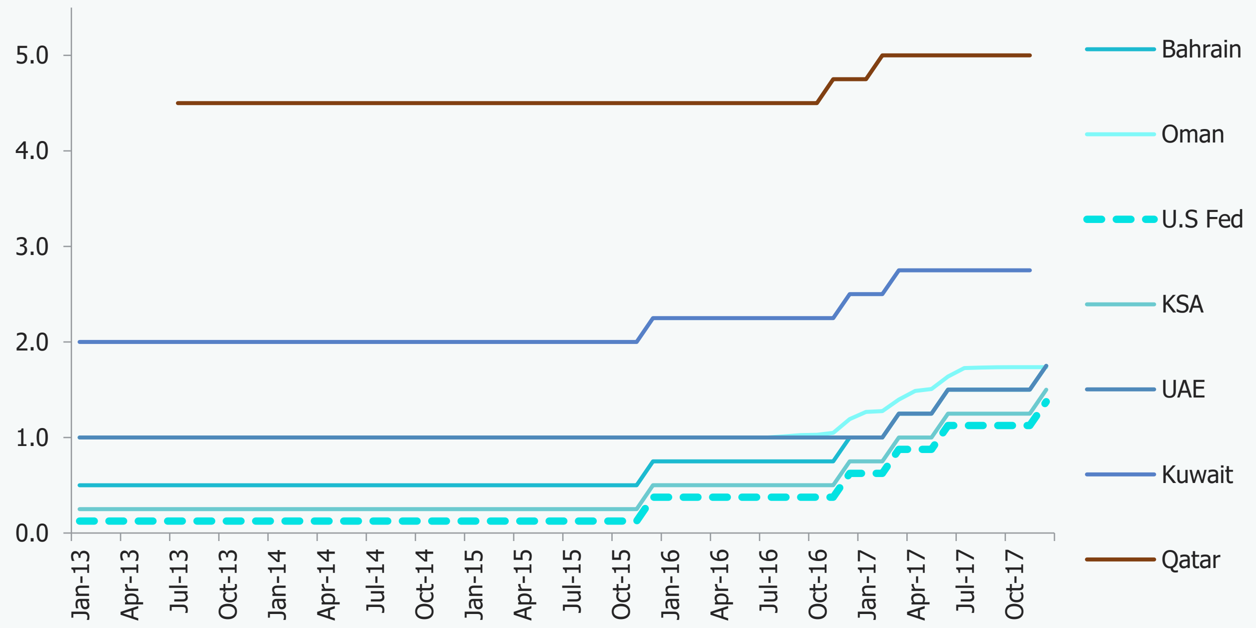
Source: IIF

Figure 3: Federal Funds rate vs. Real GDP growth rate



Source: FOMC, IMF Note: Median values used, Projections as of Sep 2017

Figure 4: Key Policy Rates (in %)



Source: Reuters, Note - Each country has its own policy rate. For KSA it's the reverse repo rate, UAE it's the repo rate, Kuwait it's the discount rate, Bahrain 1week deposit rate, Oman weighted average rate and for Qatar its QCB Lending Rate

If GCC countries opt to follow the policy direction and maintain the peg, they are at risk of hindering their own economic growth. An increase in interest rates will subsequently increase the cost of capital. The rise in borrowing costs will also affect SMEs who are dependent on banks or external funding for their business operations. The cascading effect would also deter companies from hiring new employees resulting in reduced job creation. Consumer spending is also expected to come down as a result. As GCC economies are on a diversification drive, these changes would be a deterrent for their economic growth.

Conversely, may they choose to deviate from the U.S Fed's policy while maintaining the peg, a gap emerges between interest rates of GCC countries and the U.S resulting in arbitrage opportunities. In order to offset this gap, GCC countries would have to buy their own currency from the open market while selling the U.S dollars from their reserves, an action that would lead to depletion of their foreign reserves. Hence, they will have to sacrifice economic growth by mimicking the monetary policy followed by Fed.

Pressure points for the currency peg

Currency pegs to the dollar has remained for several decades in the GCC. Omani Riyal has been pegged to the U.S dollar since 1986, UAE Dirham since 1997, Qatari and Bahraini Dinar since 2001 and the Saudi Riyal since 2003. Kuwaiti Dinar despite being pegged to a basket of currencies is heavily skewed towards the dollar.

Sustainability of pegs in the GCC has come under threat in recent times due to the weakness of oil prices and the difference in growth cycles of the U.S and GCC economies. The effect is already evident as export revenues have significantly come down when compared to 2014. Subsequently, Oman, Saudi Arabia and Bahrain have registered fiscal deficit of 22%, 18% and 17% of their respective GDPs in 2016 (IMF Regional Outlook).

GCC countries not having an independent monetary policy is one of the biggest shortcomings of the peg, as they will have to mimic the policy path followed by the Fed irrespective of the current state of their economies. In 2017, Fed hiked its interest rates thrice, increasing it from 0.75% to 1.00% in March, 1.00% to 1.25% in June and 1.25% to 1.50% in December. GCC countries followed suit with proportional hikes on their key interest rates. The UAE central bank increased its Repo rates against certificate of deposits by 75 base points during the period. SAMA also increased its reverse repo rates from 0.75% to 1.50% while keeping its repo rates unchanged at 2.00%. Central Bank of Kuwait (CBK) raised its discount rates in March from 2.50% to 2.75% and kept it unchanged until December. Similarly, Qatar Central Bank increased its lending rate to 5.00% from 4.75% in March while leaving it unchanged during June and December. Bahrain's central bank raised the interest rate on one-week deposit facility to 1.75% and overnight deposit rate to 1.50%.Barring Kuwait and Qatar that kept its rates unchanged at June and December, other GCC economies have followed the policy path of the Fed amidst subdued economic growth.

Table 1: Current account balance of GCC countries (in USD Bn)

	2012	2013	2014	2015	2016	2017e	2018f
United Arab Emirates	79.56	71.21	54.49	17.26	11.55	10.39	10.00
Qatar	62.00	60.46	49.41	13.75	(8.32)	6.22	7.55
Saudi Arabia	164.76	135.44	73.76	(56.72)	(27.55)	(1.94)	4.50
Kuwait	79.03	70.12	54.31	3.96	(5.06)	(1.29)	(0.51)
Bahrain	2.58	2.41	1.52	(0.75)	(1.49)	(1.42)	(1.27)
Oman	7.87	5.27	4.27	(10.90)	(12.30)	(9.64)	(8.95)

Source: IIF

Weakness of oil prices amidst global uncertainties is another pressure point for the current fixed exchange rate policy. Despite the rebound of oil prices seen in 2017, prices are not expected to reach the pre-2014 levels anytime soon. As uncertainty still looms large in the oil markets, hydrocarbon export revenues would continue to remain low resulting in current account deficits. Bahrain, Kuwait and Oman are projected to have current account deficits in 2018[1].

Geopolitical issues such as Saudi Arabia's anti-corruption purge, escalation of tensions between Saudi Arabia and Iran, Qatar diplomatic crisis are also major threats to the region's dollar peg. Despite the current slowdown of fund outflows from the financial system in Qatar post-crisis, it has put enormous pressure on their foreign reserves.

Owing to the pullout of funds by Qatar's GCC neighbors, deposits majorly in the form of foreign currency deposits reduced by QAR 46.9bn in a span of 5 months between June and October 2017 leading the Qatar government to deposit funds into its banking system to offset the withdrawal[2].

As an implication of the Saudi Arabia corruption purge, foreign institutions remained net sellers of Saudi stocks for four straight weeks out of the fear that it could be seized as part of the crackdown. Saudi institutions, predominantly mutual funds and corporations were heavy net buyers after the purge hinting that the state-linked funds deliberately supported the market to avert panic. Potential geopolitical confrontations in the region are also a major risk for the stability of the financial systems, putting pressure on the dollar pegs.

[1] *IIF estimates*

[2] *Reuters*

3 How long could the peg last?

Table 2: Marmore Projections for Reserve adequacy

	2018	2019	2020	2021	2022	Adequacy
UAE						
Projected Foreign Reserves	840.2	854.1	868.3	882.6	897.2	Reserves are adequate
Minimum Requirement under stress	177.4	188.1	200.1	210.8	222.7	
Saudi Arabia						
Projected Foreign Reserves	771.0	712.8	659.0	609.3	563.3	Reserves are adequate
Minimum Requirement under stress	169.9	170.7	176.0	181.0	185.0	
Kuwait						
Projected Foreign Reserves	690.3	696.4	702.6	708.8	715.1	Reserves are adequate
Minimum Requirement under stress	63.8	65.3	66.7	67.9	69.2	
Qatar						
Projected Foreign Reserves	426.9	438.6	450.7	463.2	476.0	Reserves are adequate
Minimum Requirement under stress	58.2	59.5	61.8	64.4	67.0	
Bahrain						
Projected Foreign Reserves	15.1	13.8	12.6	11.5	10.5	Reserves are vulnerable in 2022
Minimum Requirement under stress	9.0	9.3	9.7	10.2	10.8	
Oman						
Projected Foreign Reserves	42.7	41.8	41.0	40.3	39.5	Reserves are vulnerable in 2022
Minimum Requirement under stress	26.7	29.2	33.1	38.4	44.8	

Source: Marmore Research, IIF, IMF, Note - Short-term debt has not been considered for calculation of the multiple in Bahrain's case due to data unavailability

Adequacy of foreign reserves is the fulcrum on which the credibility of any currency peg policy hinges. Economic conditions have been challenging in the GCC ever since oil prices saw a drastic fall. Rise in interest rates and geopolitical incidents have further compounded the uncertainties with economic growth bearing the impact. Presence of sizeable amount of reserves acts as a buffer to offset any potential economic shocks and maintain the currency peg. Hence, we analyze how well the GCC economies are poised in terms of adequacy of their foreign reserves to sustain the currency pegs.

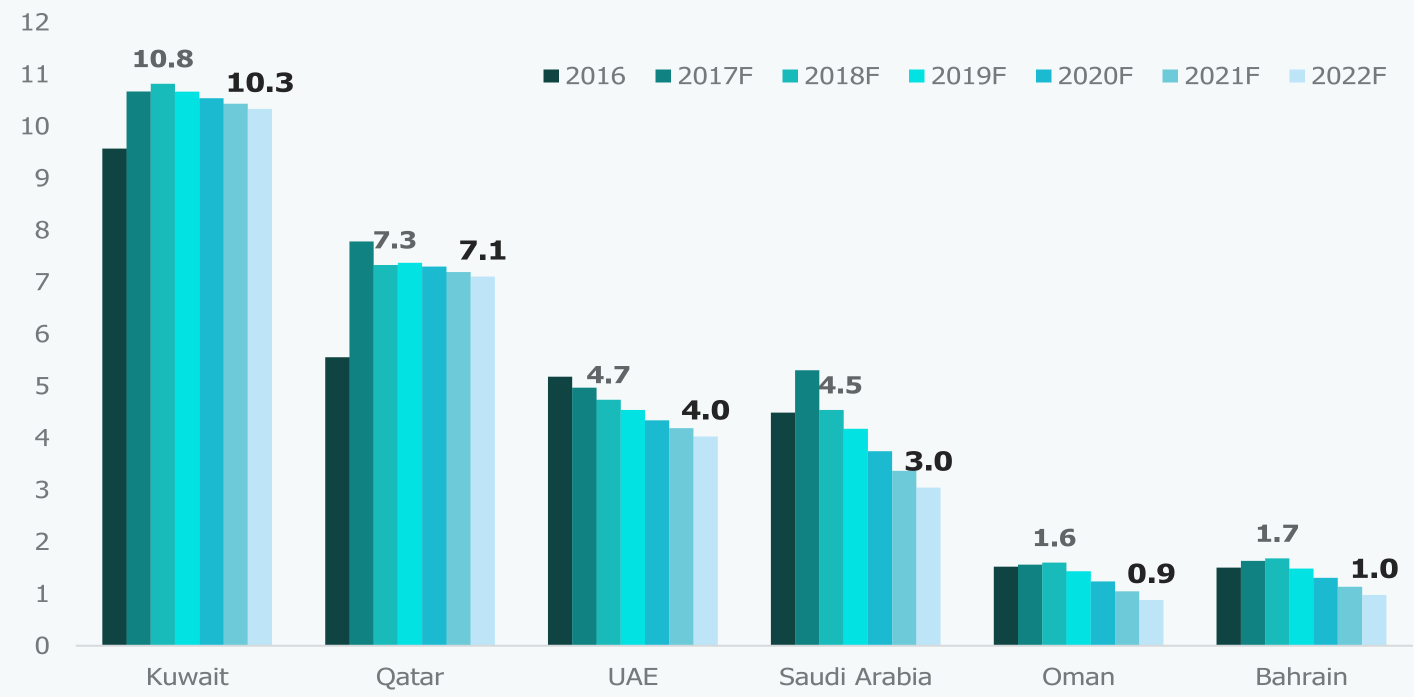
Table 3: Foreign Reserve adequacy metric under economic stress – 2018 Projections

Factor		Current Account Balance*	Portfolio Liabilities	Money Supply	Short Term debt	Adequacy Metric for FX Reserve	Actual FX Reserve
UAE	Actual	-6.74	2.81	369.87	108.77		
	Weighted	-6.74	1.41	73.97	108.77	**177.41**	**840.20**
Saudi Arabia	Actual	-2.24	40.00	504.33	51.26		
	Weighted	-2.24	20.00	100.87	51.26	**169.88**	**770.97**
Kuwait	Actual	1.37	0.59	124.16	37.32		
	Weighted	1.37	0.29	24.83	37.32	**63.81**	**690.29**
Qatar	Actual	-1.45	0.89	149.47	29.35		
	Weighted	-1.45	0.45	29.89	29.35	**58.24**	**426.86**
Oman	Actual	7.92	1.10	42.85	9.65		
	Weighted	7.92	0.55	8.57	9.65	**26.69**	**42.66**
Bahrain	Actual	1.17	2.30	33.39	-		
	Weighted	1.17	1.15	6.68	-	**9.00**	**15.14**

*Source: Marmore Research, IIF, IMF, *- Negative value denotes surplus*

In order to measure the adequacy of the reserves, we consider four major parameters that could potentially inflict pressure on the pegs. These include fall in export revenues, capital flight, debt rollover risk and portfolio outflows. We consider current account balance projections (assuming

Figure 5: Reserve Adequacy Multiple



Source: Marmore Research, IIF, IMF, Note - Short-term debt has not been considered for calculation of the multiple in Bahrain's case due to data unavailability

the oil prices at USD 40 per barrel) as a measure to depict the risk of fluctuation in export revenues. The risk of capital flight is captured using a weighted metric of broad money supply as proxy for withdrawal of liquid resident deposits from the system during economic uncertainty. Short-term debt is used as a metric to capture the effect of the debt rollover risk due to rise in interest rates. Similarly, to capture the risk of portfolio outflows from the country by foreign investors in the event of any economic uncertainty, we take a weighted metric of portfolio liabilities (equity and debt).

As per our projections, the amount of reserves possessed by Kuwait, Qatar, UAE and Saudi Arabia are adequate to absorb any threat to currency peg in the short and medium term through to 2022. All four countries have adequate amount of reserves required to withstand any minor shocks. Oman potentially remains in the danger zone as its reserves are expected to be inadequate unless the government takes steps to prevent the erosion of their reserves. Oman's foreign reserve requirement under duress as per our projections exceeds the actual reserves by USD 5.31 Bn in 2022. In Bahrain's case, despite excluding short-term debt component due to unavailability of data, their reserve adequacy is still under threat. The country's foreign reserves fall short by USD 0.24 Bn in 2022 according to our projections.

In the case of Qatar, a prominent difference in the adequacy multiple is witnessed between 2016 and 2017 due to the increase in reported foreign reserves despite the decrease in foreign portfolio liabilities during the period. For UAE, short-term debt of USD 101 Bn in 2017 had an impact on the metric across the years in spite of the other factors being stable.

UAE, Kuwait and Qatar look relatively stable in comparison to their GCC counterparts with lower fiscal and current account deficits. Out of Saudi Arabia, Oman and Bahrain who are expected to run deficits in 2018, Saudi Arabia remains safe due to its large foreign reserves and low external debt. Saudi Arabia currently holds the second largest reserves in the Arab region estimated at USD 790 Bn. The country has also been taking economic diversification and fiscal consolidation measures that

Table 4: Total Foreign Assets of GCC countries (in USD Bn)

	2013	2014	2015	2016	2017F	2018F
United Arab Emirates	706.4	786.8	778.7	794.6	814.2	840.2
Saudi Arabia	1038.8	1055.2	902.2	800.1	790.2	771.0
Kuwait	611.0	666.3	643.1	655.6	670.5	690.3
Qatar	333.1	382.8	381.3	401.0	411.6	426.9
Oman	43.3	46.1	43.4	43.9	42.3	42.7
Bahrain	18.3	21.7	17.9	14.9	14.9	15.1

Source: IIF; SWF Institute

are expected to reduce its fiscal deficits from 17.2% of its GDP seen in 2016 to 8.6% in 2017 and to 7.2% in 2018[3].

However, the same does not apply to relatively smaller economies like Bahrain and Oman. Bahrain's ability to maintain the peg looks relatively weak with low and volatile foreign reserves. Its public debt is expected to rise to 78% of the GDP in 2017 from 18% that was witnessed in 2008, while potentially reaching a peak of 83% in the upcoming years[4].

However, Bahrain is expected to have the financial support of its stronger neighbors. In Oman's case, fiscal deficit was the highest in the region at 21.6% of its GDP in 2016. Although projections show that it would narrow down to 13% in 2017 due to a rebound in oil prices and fiscal consolidation measures, it remains one of the highest in the region exceeded only by Bahrain at 13.2%[5]. Oman is expected to bridge the gap moving forward through fiscal consolidation and external borrowings through international bonds. In addition to the revenues generated through VAT, which is expected to be implemented in 2019, Oman is also looking to increase subsidy cuts and electricity tariffs to strengthen its fiscal position. In 2018, additional fixed income offerings are expected on top of the USD 7Bn offerings witnessed in YTD 2017[6]. International bonds, Sukuk and syndicated loans are expected to raise Oman's gross public debt to 34% of GDP pushing the lending rates for the Omani Riyal up by 50 to 75 basis points[7].

Table 5: External debt as a percentage of GDP (in %)

	2013	2014	2015	2016	2017F	2018F
Bahrain	110.2	119.2	135.8	149.8	150.1	149.1
Qatar	81.4	80.7	110.6	136.0	125.7	122.5
United Arab Emirates	38.5	42.8	59.3	63.6	62.3	61.4
Kuwait	19.8	23.8	35.1	41.6	45.9	46.6
Oman	18.5	17.8	22.6	36.7	43.6	48.9
Saudi Arabia	11.4	11.7	15.4	20.6	23.0	24.3

Source: GCC countries barring Bahrain and Qatar have low external debts, which could facilitate the sovereigns to raise external finance with relative ease, if necessary.

[3] IMF Regional Economic Outlook

[4] IIF Forecast

[5] IIF

[6] Reuters and sukuk.com

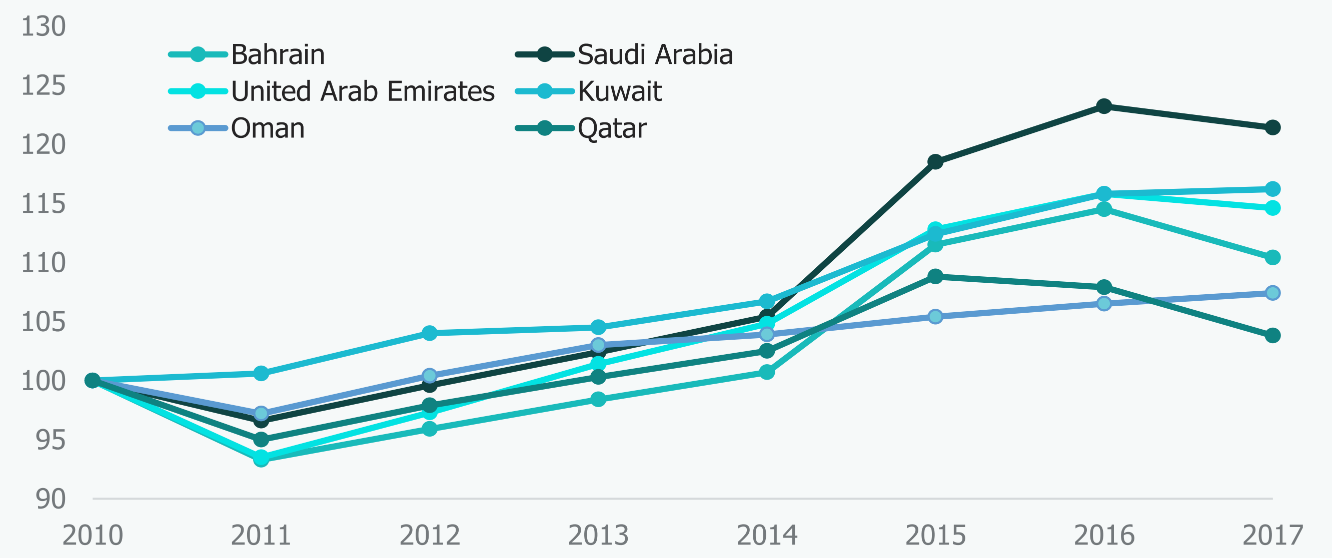
[7] IIF

4 Peg or De-peg?

There has been widespread speculation over GCC countries devaluing their currencies ever since Kuwait in 2007 decided to move towards a more flexible exchange rate by pegging the Kuwaiti Dinar against a basket of currencies. Several economic events such as drop in oil prices, hike in interest rates by the U.S Federal Reserve in addition to the geopolitical risks have put question marks over the viability of maintaining currency pegs through a longer time horizon.

GCC currencies are now highly overvalued due to their mismatch with the fundamentals such as terms of trade, government consumption, net foreign assets and economic productivity. The Real Effective Exchange Rate (REER) is a measure of a currency's value in relation to an average group of major currencies. When compare to Equilibrium Real Effective Exchange Rates[8] (ERER), it is observed that ERERs have been depreciating after the drop in oil prices from 2014 while the REERs of GCC

Figure 6: Real effective exchange rates (Rebased with 2010 = 100)



Source: IIF

[8] The ERER is defined as the level of REER that is consistent with the equilibrium values of economic fundamentals

countries have increased as a consequence of the appreciation in US dollar. In 2015, the REER was 12% higher than the estimated ERER showing a major misalignment in value[9]. The ERER is however, expected to reverse the trend and rise again owing to the fiscal consolidating measures taken by the GCC economies.

The commitment of GCC economies towards maintaining the currency peg remains resilient at least in the short term despite growing fiscal deficits and the appreciation of real effective exchange rates across the GCC, as they believe that currency pegs play a vital role in upholding economic stability. The expectations of devaluation could further pressurize the local currencies, potentially triggering a significant outflow of capital.

The currency pegs have remained in tougher circumstances in the past even when their foreign reserves were well below the current levels. In Saudi Arabia's case, speculative attacks on its currency came only in the 1990s when its government deposits plunged to extremely low levels. It was as low as SAR 42.5 Bn at the end of 1993 and SAR 49.2 Bn at the end of 1998[10]. In comparison, they have grown by nearly 20 times now, consolidating the country's position to wade off any speculative attacks. Therefore, GCC economies are now better placed to weather the storm in the current low oil climate, maintaining their stance on pegging their currency.

Table 6: Currency Peg history of GCC Countries

Country	Currency	Exchange rate*	History of Peg
UAE	UAE Dirham (AED)	0.27	• Pegged to IMF's SDR since 1978 • Officially pegged to USD since Nov 1997
Saudi Arabia	Saudi Riyal (SAR)	0.27	• Pegged to IMF's SDR since 1986 • Officially pegged to USD since Jan 2003
Kuwait	Kuwaiti Dinar (KD)	3.30	• Pegged to USD between 2003 and 2007 • Officially pegged to a basket of currencies in May 2007
Qatar	Qatari Riyal (QAR)	0.27	• Pegged to IMF's SDR since 1975 • Officially pegged to USD since 2001
Bahrain	Bahraini Dinar (BHD)	2.66	• Pegged to IMF's SDR since 1980 • Officially pegged to USD since 2001
Oman	Omani Rial (OMR)	2.60	• Pegged to USD between 1973 and 1986 at 1 OM-R=USD 2.90 • Pegged to USD from 1986 at 1 Rial = USD 2.60

*Source: IMF, Respective Central Banks; *- As of Jan 10th 2018*

[9] *IIF Report: GCC - Dollar Pegs Will be Maintained*

[10] *SAMA Annual Reports*

Table 7: Fiscal Breakeven Oil price* (USD per barrel)

	2014	2015	2016	2017F	2018F
Bahrain	103.3	118.7	105.7	99.0	95.2
Kuwait	54.5	47.2	43.1	46.5	47.1
Oman	94.0	101.9	88.9	83.6	76.3
Qatar	56.1	50.9	50.0	46.8	47.2
Saudi Arabia	105.7	94.0	96.6	73.1	70.0
United Arab Emirates	91.0	64.7	60.7	68.0	61.7

*Source: IIF, *the oil price at which the fiscal balance is zero*

Despite the continuous decline in foreign assets over the years, the enormity of financial buffers is expected to protect the peg for GCC countries. In addition, the fiscal consolidation measures taken by them should help narrow down the fiscal deficit to 1.5% of the GDP by 2025 by measures such as reduction of fuel subsidies and increase in fuel exports, additional non-oil revenue and decline in public spending[11]. Consequently, the fiscal breakeven price of oil in the GCC is also projected to go down to USD 66 per barrel in 2025 from USD 82 per barrel in 2016.

Flexible exchange rates offer better insulation and adjustment to external shocks while fixed exchange rates offer fewer uncertainties in terms of export revenues. In both cases, stability in exchange rates usually yields better outcomes and increases investor confidence. However, a stable exchange rate at the wrong level may result in the increase of inflation beyond the desirable levels.

The bigger question is whether GCC countries would maintain the peg with all the current shortcomings in the medium to long term. As they have set foot on the path of diversification, it would seem more appropriate to move to a flexible exchange rate policy. One approach towards the change would be moving to a managed floating exchange rate that would help them use an independent monetary policy to foster economic growth and put them in a better position to absorb any shocks in the long-run. An alternative approach could be pegging their currency to a diversified basket by adding currencies like the Euro, Chinese Yuan with appropriate weightages in addition to the U.S dollar thereby providing more flexibility to the exchange rates.

[11] *IIF*

5 What next for the GCC?

Diversification has been a primary emphasis of GCC countries as it would be key to protect their balance of payments from the price volatility of oil. Moving towards an independent monetary policy would help consolidate their financial stability, mainly for the countries with relatively weak reserves, as pressure on their currency system would significantly reduce the credibility of the region as a whole by having a cascading effect on other economies. It must also be taken into consideration that when a change is adopted, GCC countries must be prepared to cope with inflation, maintain investor confidence and have the expertise to run an independent monetary policy.

Currently, oil or oil-related products constitute bulk of the exports in the GCC and are expected to remain so in the medium term while fiscal deficits are also at a manageable state. These factors point towards the peg being maintained by GCC countries for the next 5 years.

As per our reserve adequacy projections, UAE, Saudi Arabia, Qatar and Kuwait have adequate foreign reserves to protect their peg against any economic uncertainties in the next 5 years. Bahrain and Oman do not enjoy the same protection when compared to their neighbors, as the adequacy of their foreign reserves is vulnerable to external threats. Factoring in the economic uncertainties, we expect Oman and Bahrain's peg to be under threat in 3 to 5 years. They will have to resort to external borrowing, extensive fiscal consolidation or receive financial support from its neighbors to maintain the peg.

Despite the Outlook being positive for the peg in the short term for UAE, Saudi Arabia, Qatar and Kuwait in the short term, they need to rethink their strategy of pegging to the dollar in the long run. They will have to move to a viable alternative to the peg, considering factors such as uncertainties in oil prices, diversification and adopting an independent monetary policy to support economic growth.

Table 8: Marmore Outlook for Currency Pegs

Country	Marmore's take on Peg
UAE	Pegs are expected to be maintained
Saudi Arabia	Pegs are expected to be maintained
Kuwait	Pegs are expected to be maintained
Qatar	Pegs are expected to be maintained
Bahrain	Pegs are expected to come under threat in 2022
Oman	Pegs are expected to come under threat in 2022

*Source: IIF, *the oil price at which the fiscal balance is zero*

6 Appendix

Reserve Adequacy Metric Calculation

Adequacy of foreign reserves is calculated to project the ability of a country's foreign reserve to absorb any major economic shock. It is a measure of the minimum amount of foreign reserves required to offset the damage caused by an undesirable economic event. Given below are the factors, weightages and the calculations used to arrive at the Reserve Adequacy Multiple shown above

Table 9: Methodology

Factor	Reason	Weightage
Current Account deficit	Current Account Deficit is used to capture the effect of drop in export revenue due to fluctuations in Oil price. Current Account Deficit is projected keeping oil price as USD 40 per barrel.	1.0
Money Supply	Broad Money supply is considered to capture the risk of refinancing the withdrawal of liquid deposits by residents from the system.	0.2
Short term debt	Short-term debt is used to capture the rollover risk due to change in Interest rates and depict the worst case scenario where they are paid from reserves	1.0
Portfolio liabilities	Portfolio liabilities from foreign sources is considered to capture the risk of foreign investments in Debt and Equity being pulled out of the country in times of economic uncertainty	0.5

Table 10: Calculations (in USD Bn)

Factors		2016	2017e	2018f	2019f	2020f	2021f	2022f
United Arab Emirates								
Current Account Balance*	Actual	-8.4	-7.9	-6.7	-8.5	-9.7	-12.1	-14.6
	Weighted	-8.4	-7.9	-6.7	-8.5	-9.7	-12.1	-14.6
Portfolio Liabilities	Actual	2.6	2.7	2.8	2.8	2.7	2.6	2.6
	Weighted	1.3	1.3	1.4	1.4	1.4	1.3	1.3
Money Supply	Actual	330.9	347.3	369.9	391.1	413.5	437.1	462.2
	Weighted	66.2	69.5	74.0	78.2	82.7	87.4	92.4
Short Term debt	Actual	94.3	101.0	108.8	117.1	125.8	134.2	143.6
	Weighted	94.3	101.0	108.8	117.1	125.8	134.2	143.6
Adequacy Metric for FX Reserve		**153.4**	**163.9**	**177.4**	**188.1**	**200.1**	**210.8**	**222.7**
Actual FX Reserve		**794.6**	**814.2**	**840.2**	**854.1**	**868.3**	**882.6**	**897.2**
Saudi Arabia								
Current Account Balance*	Actual	27.5	-4.3	-2.2	-6.8	-7.4	-8.2	-10.5
	Weighted	27.5	-4.3	-2.2	-6.8	-7.4	-8.2	-10.5
Portfolio Liabilities	Actual	16.8	15.0	40.0	39.5	39.1	38.6	38.2
	Weighted	8.4	7.5	20.0	19.8	19.6	19.3	19.1
Money Supply	Actual	482.7	488.4	504.3	515.5	526.9	538.6	550.6
	Weighted	96.5	97.7	100.9	103.1	105.4	107.7	110.1
Short Term debt	Actual	45.9	48.1	51.3	54.6	58.5	62.2	66.3
	Weighted	45.9	48.1	51.3	54.6	58.5	62.2	66.3
Adequacy Metric for FX Reserve		**178.3**	**149.0**	**169.9**	**170.7**	**176.0**	**181.0**	**185.0**
Actual FX Reserve		**800.1**	**790.2**	**771.0**	**712.8**	**659.0**	**609.3**	**563.3**
Kuwait								
Current Account Balance*	Actual	5.0	0.7	1.4	1.6	1.4	1.5	1.3
	Weighted	5.0	0.7	1.4	1.6	1.4	1.5	1.3
Portfolio Liabilities	Actual	0.5	0.6	0.6	0.5	0.5	0.5	0.4
	Weighted	0.2	0.3	0.3	0.3	0.3	0.2	0.2
Money Supply	Actual	118.4	118.9	124.2	127.1	130.2	133.3	136.5
	Weighted	23.7	23.8	24.8	25.4	26.0	26.7	27.3
Short Term debt	Actual	39.6	38.1	37.3	38.1	39.0	39.6	40.4
	Weighted	39.6	38.1	37.3	38.1	39.0	39.6	40.4
Adequacy Metric for FX Reserve		**68.5**	**62.9**	**63.8**	**65.3**	**66.7**	**67.9**	**69.2**
Actual FX Reserve		**655.6**	**670.5**	**690.3**	**696.4**	**702.6**	**708.8**	**715.1**
Qatar								
Current Account Balance*	Actual	7.7	-3.9	-1.5	-2.3	-2.4	-2.0	-1.8
	Weighted	7.7	-3.9	-1.5	-2.3	-2.4	-2.0	-1.8
Portfolio Liabilities	Actual	16.2	1.0	0.9	0.9	1.0	1.0	1.1
	Weighted	8.1	0.5	0.5	0.5	0.5	0.5	0.6
Money Supply	Actual	134.3	141.0	149.5	157.7	166.3	175.5	185.1
	Weighted	26.9	28.2	29.9	31.5	33.3	35.1	37.0
Short Term debt	Actual	29.6	28.1	29.4	29.8	30.4	30.7	31.2
	Weighted	29.6	28.1	29.4	29.8	30.4	30.7	31.2
Adequacy Metric for FX Reserve		**72.2**	**52.9**	**58.2**	**59.5**	**61.8**	**64.4**	**67.0**
Actual FX Reserve		**401.0**	**411.6**	**426.9**	**438.6**	**450.7**	**463.2**	**476.0**
Oman								
Current Account Balance*	Actual	12.3	10.3	7.9	7.2	6.6	6.0	4.5
	Weighted	12.3	10.3	7.9	7.2	6.6	6.0	4.5
Portfolio Liabilities	Actual	4.6	1.1	1.1	0.7	0.5	0.3	0.2
	Weighted	2.3	0.5	0.6	0.4	0.2	0.2	0.1
Money Supply	Actual	40.1	41.7	42.9	44.3	45.8	47.3	48.9
	Weighted	8.0	8.3	8.6	8.9	9.2	9.5	9.8
Short Term debt	Actual	6.2	7.9	9.7	12.8	17.2	22.8	30.4
	Weighted	6.2	7.9	9.7	12.8	17.2	22.8	30.4
Adequacy Metric for FX Reserve		**28.8**	**27.1**	**26.7**	**29.2**	**33.2**	**38.4**	**44.8**
Actual FX Reserve		**43.9**	**42.3**	**42.7**	**41.9**	**41.1**	**40.3**	**39.5**
Bahrain								
Current Account Balance*	Actual	1.5	1.6	1.2	1.1	1.0	1.0	1.0
	Weighted	1.5	1.6	1.2	1.1	1.0	1.0	1.0
Portfolio Liabilities	Actual	4.2	2.3	2.3	2.8	3.3	4.0	4.8
	Weighted	2.1	1.2	1.2	1.4	1.7	2.0	2.4
Money Supply	Actual	31.8	32.1	33.4	34.2	35.1	35.9	36.8
	Weighted	6.4	6.4	6.7	6.8	7.0	7.2	7.4
Short Term debt	Actual	-	-	-	-	-	-	-
	Weighted	-	-	-	-	-	-	-
Adequacy Metric for FX Reserve		**9.9**	**9.1**	**9.0**	**9.3**	**9.7**	**10.2**	**10.8**
Actual FX Reserve		**15.0**	**14.9**	**15.1**	**13.8**	**12.6**	**11.5**	**10.5**

*Source: Marmore Research, IIF, IMF, *- Negative value denotes surplus*

Types of Exchange rate regimes

Type	Description	Example	Advantages/Disadvantages
Dollarization	One country uses another nation's currency as a medium of exchange, inheriting the credibility of that country's currency, but not its creditworthiness. It is a very inflexible system.	Ecuador, Zimbabwe	• Facilitates Disinflation and reduces the chance for currency crisis • Lower Transaction costs • Stable Interest rates • Adopting country loses monetary autonomy • No Seigniorage • No ability to absorb shocks • Difficulty to exit as there is no alternate currency
Currency Union	Several countries share a common currency. No individual country has ultimate control over the currency or monetary policy but only a representation in the currency union's central bank.	European Union	• Some autonomy is gained through representation in the board of the central bank • Central bank can act as a lender of last resort, but is not as politically responsive • Seigniorage is shared with other members of the union • Systemic union-wide shocks are absorbed, but local shocks are not
Currency Board	An institutional arrangement to issue a local currency backed by a foreign one. The country's legislature has to commit to the system, with the foreign currency guaranteed to be exchanged at a fixed rate to the local currency.	Hong Kong, Bulgaria	• Imposes financial discipline but the currency board may not act as the lender of last resort, unlike a central bank • Advantages are similar to dollarization except that some seigniorage is possible and exiting is easier
Fixed Peg	The exchange rate is pegged to either a single currency or a currency basket with a +/- one percent band of permitted fluctuation. There is no legislative commitment to parity and there is a discretionary foreign exchange reserve target.	Saudi Arabia, UAE	• A stable system if peg is credible • Lower interest rates • Helps in moderating inflation • Requires high level of international reserves • Low ability to absorb shocks • Inability to adopt independent monetary policy

Type	Description	Example	Advantages/Disadvantages
Soft Peg	**Pegged with bands** - Rather than being firmly fixed, the exchange rate is allowed to vary within wider bands around the peg	Syria	• Slightly flexible in deciding monetary policy • Relatively better ability to absorb shocks compared to other fixed systems • Prone to speculative attacks when the value of currency approaches either limits
	Crawling Peg - The exchange rate is periodically adjusted at a fixed preannounced rate to keep the effective exchange rate competitive. Since inflation differentials are often used, the net effect of this adjustment is to keep the real effective exchange rate from rising.	China, Iran	• Exchange rates can be adjusted keeping in pace with inflation and preventing a run of reserves • Prone to attacks from speculators who estimate future inflation trends
	Crawling Band - A hybrid currency regime that combines both 'Pegged Within Bands' and 'Crawling Peg' systems. The peg is adjusted at a preannounced rate within a preannounced band.	Costa Rica	• Has similar advantages and disadvantages associated with both systems with greater flexibility to allow exit from fixed parity • Affords the monetary authority greater latitude in policy execution • Exchange rate system is complex
Floating Regimes	**Managed Float** – A policy of loose intervention is adopted to achieve full employment or price stability with an implicit invitation to other countries with which it conducts business to respond in kind. Central bank actively intervenes in the foreign exchange market. Intervention may be direct, in both spot and forward markets, or indirect, through policy interest rates and even long-term market rates.	Cambodia	• Monetary policy is relatively free to be used in an effective manner to buffer external shocks and support fiscal policy • Has better protection from speculative attacks • Lower vulnerability to currency crisis • Relatively high international reserves are required • Lack of transparency as criteria for intervention is not disclosed
	Independent Float - Exchange rates are determined by supply and demand operating freely in the foreign exchange market, without intervention by monetary authorities. Monetary policy is independent of the exchange rate regime and is free to be used as a tool in domestic economic management.	USA, UK	• Gives the flexibility to determine monetary policy and absorb adverse external shocks • Has resistance to currency crisis and speculation • High international reserves are not required • Exchange rate is subject to volatility

Source: Marmore Research, Investopedia and SAMA Working paper on Saudi Arabia's Exchange Rate Policyplus

About marmore

Our vision

To be the first choice for obtaining strategic intelligence on the MENA region.

Our mission

Serving businesses and institutions with reliable information and intelligence about MENA, needed to catalyse growth, understand the larger environment and facilitate decision-making.

Our aim

Advocate intellectual research on MENA economies, businesses and financial markets and provide customized, actionable solutions.

Our foundation

- A subsidiary of Markaz: Investment bank and asset management firm with 40+ years of history
- Markaz research activities commenced in 2006
- Marmore established in 2010 to intensify the research activities
- Publishes research reports and provides consulting services

Consulting services

Marmore provides customized consulting services based on specific requirements of our clients. Marmore's bespoke consulting services marries the challenges of cost, time, scope and data availability to generate actionable outcomes that are specific to our clients' needs.

What type of consulting services we provide?

- Industry market assessment (market size, competitors, regulations)
- White label reports (industry reports, company newsletters, periodic research)
- Databases (competitors' information, target clients insights)
- Company valuation (buy/sell side advisory)
- Due diligence / Business evaluation
- Feasibility studies (market and financial)
- Business plans
- C-Suite support to leaders with intellectual, industry related needs

How do we execute consulting engagement?

Our seven step process to execute consulting engagements:

- Step 1: Requirement and scope analysis
- Step 2: Proposal submission
- Step 3: Project initiation
- Step 4: Fieldwork / research
- Step 5: Analysis & reporting
- Step 6: Review & approval
- Step 7: Report submission / presentation

Published research

Industry research

Marmore's industry reports provide information on industry structure, key players, market analysis, demand drivers, competitive analysis and regulatory requirements.

Economic research

These reports are produced as thematic discussions based on current issues in the economy. The reports aid key stakeholders such as investors, businessmen, market participants, and policy makers in understanding the impact of a particular theme on the economy.

Infrastructure research

Infrastructure research highlights bottlenecks in the sector and areas requiring urgent investments. Our infrastructure report analyses the link between economic development and infrastructure and showcases supply & demand challenges in the GCC and investment opportunities.

Capital market research

Capital market reports provide an analysis of stock & bond markets in the MENA region including outlook. These reports are strategic in nature and provides investment perspective to readers.

Policy research

Marmore has partnered with several leading thought leaders and institutions of repute to generate economic policy research studies in key areas like energy, labor, economic structure and public sector.

Periodic research

Our periodic reports capture GCC stock markets' earnings, risk premium studies, and economic development & outlook.

Regulatory research

Our regulatory research series is an effective consolidation, analysis and summary of key business, economic, and market regulations that impact business environment.