

**The Cooperation Council for the Arab
States of the Gulf
Secretariat General**



AGREEMENT

**ESTABLISHING THE MONETARY UNION
OF THE COOPERATION COUNCIL FOR
THE ARAB STATES OF THE GULF
(GCC MONETARY UNION AGREEMENT)**

2009

The governments of:

1. The Kingdom of Bahrain
2. The Kingdom of Saudi Arabia
3. The State of Qatar
4. The State of Kuwait

Members of the Cooperation Council for the Arab States of the Gulf,

Pursuant to the objectives of the GCC Charter which calls for closer convergence and stronger links among Member States, and

Based on the Economic Agreement which provides for the establishment of a monetary union among Member States and the introduction of a single currency, and

Further to the steps that have been taken for achieving economic unity among Member States, and

Confirming their intention to create a monetary union and lay down its legal and organizational foundations on firm and solid grounds, and

In the light of the GCC resolutions concerning the monetary union

Have hereby agreed as follows:

CHAPTER ONE

General Provisions

Article (1)

Definitions

The following terms shall have the meanings assigned against them, unless the context otherwise requires:

“Cooperation Council”: The Cooperation Council for the Arab States of the Gulf

“Supreme Council”: The Supreme Council of the Cooperation Council

“GCC States”: Member States of the Cooperation Council

“Member States”: States of the Cooperation Council that are contracting parties to this Agreement

“Secretariat - General” : Secretariat - General of the Cooperation Council

“Monetary Union”: Monetary Union of Member States

“Monetary Council”: Monetary Council of Member States

“Central Bank”: The Central Bank of Member States

“National Central Banks”: Monetary agencies and Central Banks of Member States

“Lending”: Overdrawing or any other kind of lending facilities

“Single Currency Area”: The Single Currency Area of Member States

“Public Entities”: The GCC, the governments of Member States and the public artificial persons located in the single currency area

“Financial institutions”: The entities subject to the licensing, supervision and control of National Central Banks

“Government entities”: Governments of Member States, local national authorities, legislative bodies, public establishments and other affiliated entities

Article (2)

Establishment of the Monetary Union

A Monetary Union shall be established under the present Agreement in accordance with the procedures set out herein and the statutes appended thereto.

Article (3)

Basic principles and features of the Monetary Union

Establishing the Monetary Union shall entail:

1. Coordination of the economic policies of Member States so as to ensure that they are conducive to fiscal and monetary stability with a view to achieving a high degree of sustainable economic convergence throughout the single currency area,
2. Provision of financial infrastructures related to payment and settlement systems necessary for introducing the single currency
3. Adoption of uniform banking legislation and common rules in the field of banking supervision with a view to achieving monetary and financial stability
4. Establishment of a monetary council which would prepare for the establishment of a Central Bank as an independent institution that will draw up and implement the monetary policy and the exchange rate policy of the single currency area
5. Introduction of a single currency which shall substitute the currencies of Member States

CHAPTER TWO

The Monetary Council

Article (4)

Establishment of the Monetary Council

1. As soon as the present agreement comes into force, Member States shall take all steps required for establishing the Monetary Council.
2. The so established Monetary Council shall carry out its tasks until the establishment of the Central Bank that will replace the Monetary Council upon finalization of the relevant procedures.
3. The Monetary Council shall exercise its tasks and duties under the provisions set out in this Agreement and in its Statute.
4. The Monetary Council shall have its headquarter in Riyadh, the Kingdom of Saudi Arabia

Article (5)

Legal Personality

The Monetary Council shall enjoy an independent legal personality in all Member States within the limits, objectives and tasks of its mandate under the conditions set out in this Agreement and in its Statute.

Article (6)

Objectives and Tasks

The primary objective of the Monetary Council is to prepare the necessary infrastructures for establishing the Monetary Union, especially the establishment of the Central Bank, and lay down its analytical and operational capacities through:

1. Enhancement of cooperation among National Central Banks (NCBs) with a view to creating appropriate conditions for the establishment of the Monetary Union
2. Development and coordination of the monetary policies and exchange rate policies for national currencies until the establishment of the Central Bank
3. Following up the adherence to the prohibition on NCBs lending to public entities in Member States and developing appropriate rules of procedures
4. Drawing up the necessary legal and organizational framework for the CB to carry out its tasks in cooperation with NCBs
5. Development of necessary statistical systems with view to achieving the objectives of the Monetary Union
6. Preparation for the introduction of the banknotes and coins of the single currency and developing a uniform framework for the introduction and circulation of the single currency in the single currency area

7. Ensuring readiness of the payment and settlement systems related to the single currency
8. Following up fulfillment by the Member States of their obligations to the Monetary Union and the introduction of single currency, in particular those related to the economic convergence criteria
9. Setting the timeframe for the introduction and circulation of the single currency
10. Making recommendations to the GCC on the legislation required for establishing the Monetary Union and the CB and introducing the single currency

Article (7)

Consultation with the Monetary Council

Member States shall consult the Monetary Council on any proposed draft legislation related to the Monetary Union

Article (8)

Bodies of the Monetary Council

The Monetary Council shall be composed of a Board of Directors and Executive Body. The Statute of the Monetary Council shall specify the functions of the Board of Directors and the Executive Body.

CHAPTER THREE

The Single Currency

Article (9)

Name of the Single Currency

The Monetary Council shall specify the name of the single currency as well as its subdivisions, denominations, specifications, security features and foreign exchange rates.

Article (10)

Issuance of the Single Currency

The exchange rates of the currencies of the Member States against the single currency shall be specified at fixed irrevocable conversion rates before the issuance of the single currency. The single currency shall be adopted as an accounting unit in accordance with the decisions made by the Monetary Council.

Article (11)

Banknotes and Coins

1. Banknotes and coins issued by the CB shall be the only currency with legal tender status in the single currency area.
2. Banknotes and coins issued in Member States may remain legal tender within their territorial limits following the issuance of the single currency until such a date as set by the CB for replacing the currencies of Member States with the single currency.

CHAPTER FOUR

The Central Bank (CB)

Article (12)

Establishing the Central Bank

The Central Bank shall be established and shall supersede the Monetary Council upon a resolution by the Supreme Council based on a recommendation by the Monetary Council. The CB shall carry out its tasks and duties in accordance with the provisions of this agreement and the conditions set forth in its Statute.

Article (13)

Legal personality

The Central Bank shall enjoy an independent legal personality within the limits of the objectives and duties set out in this agreement and in its Statute.

Article (14)

Objectives and Tasks

The primary objective of the Central Bank shall be to ensure price stability in the single currency area through

optimal utilization of the economic resources that would ensure economic stability. The tasks of the CB entail the following:

1. defining and implementing the monetary policy of the single currency, including exchange rate policy, and ensuring compatible implementation in the single currency area through NCBs
2. Managing the foreign cash reserves of the single currency
3. Issuing banknotes and coins denominated in the single currency
4. Enhancing effective operation of the infrastructure of the payment and settlement systems within the single currency area
5. carrying out the operational, statistical and advisory functions that are necessary for the CB to exercise its tasks and perform its duties
6. Developing general rules for prudential supervision on financial institutions

Article (15)

Independence

Neither any of the GCC bodies nor any of the government entities of the Member States shall give instructions to the

CB, the NCBs or to any member of their executive bodies that would influence the performance of their tasks and duties as assigned by the present Agreement and its statute. The GCC and public bodies shall respect this principle and shall not seek to influence the members of the executive bodies of the CB and the NCBs while performing their jobs.

Article (16)

CB Bodies and their Functions

The Statute of the CB shall specify the CB bodies and their tasks.

CHAPTER FIVE

Principles and Rules of Cooperation

Article (17)

Uniform GCC Legislation

1. Member States shall take all measures and actions to ensure that their national legislation, including the statutes of their NCBs, are compatible with the provisions of this Agreement so as to enable the CB to perform its functions and carry out its tasks.
2. The NCBs shall respect any directives issued by the CB on matters related to the functions of the CB.

Article (18)

Relations with NCBs

1. Financial institutions organized in the GCC Member States shall exercise their activities in accordance with the CB rules and procedures notified through NCBs.
2. The CB shall set principles and conditions for prudential supervision on the financial institutions in Member States and the procedures and safeguards necessary for financial stability.

Article (19)

International Relations of the CB

The CB shall represent the single currency area in the international organizations and forums for monetary and financial cooperation when such organizations and forums deal with monetary and exchange rate policy matters or other issues relevant to the CB's tasks and functions; including the signing of international bilateral or multilateral agreements with other countries as well as regional and international organizations.

Article (20)

Coordination of Economic and Fiscal Policies

Member States shall adopt economic policies that would achieve macroeconomic convergence in the single currency area in accordance with the established economic convergence criteria with a view to maintaining financial and monetary stability. The CB shall lay out necessary procedures and mechanisms for monitoring and assessing these criteria. National statistical entities shall enable the CB to obtain statistics within a timeframe deemed adequate for the CB to perform its tasks.

Article (21)

Prohibition on Lending to Public Entities

The CB and NCBs shall be prohibited from lending to public entities. Outstanding loans granted to those entities shall be phased out before introducing the single currency. Direct purchases by the CB and NCBs of securities and other debt instruments issued by the public entities shall be also prohibited. Such prohibition shall not apply to financial institutions.

Without prejudice to the above, the CB and NCBs may purchase those instruments from the secondary market with a view to implementing open market operations, to accept them as collaterals.

Article (22)

Penal Actions

1. Member States shall adopt uniform legislation against money counterfeiting crimes, including protective actions and uniform penalties against such crimes.
2. The CB may impose fines on NCBs for breaching their obligations. The CB shall then specify and decide such breaches and subsequent penalties.

CHAPTER SIX

Final Provisions

Article (23)

Privileges and Immunities

The CB, its bodies and staff shall enjoy the necessary privileges and immunities in Member States in order to achieve its objectives and carry out its tasks according to the GCC Privileges and Immunities Agreement. The CB shall enter into a Headquarter Agreement with the host State specifying these privileges and immunities in detail. Such privileges and immunities shall also apply to the Monetary Council when performing its tasks and functions.

Article (24)

Dispute Settlement

Member States shall seek to settle any dispute arising from the interpretation or implementation of the provisions of this agreement through amicable vehicles. If such amicable settlement cannot be reached, the dispute shall be referred to arbitration in accordance with the rules to be agreed upon.

Article (25)

Appendixes

The Statutes of the Monetary Council and the Central Bank, once entered into force, as well as any other appendixes to be hereby agreed on, shall be integral part of this Agreement.

Article (26)

Amendments

Amendments to this agreement can be effected subject to the approval of all Member States, as proposed by any Member State. For any amendment to come into force, it shall be subject to the same procedure set out in Article (28) of this Agreement.

Article (27)

Accession

Any state of the Cooperation Council, other than contracting Member States, may accede to this Agreement, subject to meeting the economic convergence criteria and the approval of the Supreme Council.

Article (28)

Entry into force

This Agreement is drawn up in a single original in the Arabic language, which shall be deposited with the Secretariat-General. This Agreement shall enter into force after one month from the date of depositing the fourth instrument of ratification with the Secretariat-General.

This Agreement was signed at Muscat, Sultanate of Oman, on the 2nd day of Muharram 1430 AH, corresponding to the 30th day of December 2008 AD. The Ministerial Council has signed this Agreement based on an authorization by the Supreme Council.

**His Excellency Sheikh Khaled Bin Ahmad Bin Mohammad
Al-Khalifa, Minister of Foreign Affairs,
The Kingdom of Bahrain**

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**His Royal Highness Prince Saud Al-Faisal,
Minister of Foreign Affairs,
The Kingdom of Saudi Arabia**

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**His Excellency Sheikh Hamad Bin Jassem Bin Jabr Al-
Thani,
Prime Minister , Minister of Foreign Affairs,
The State of Qatar**

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**His Excellency Sheikh Dr. Mohammad Sabah Al-Salem Al-
Sabah,
Deputy Premier, Minister of Foreign Affairs,
The State of Kuwait**

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