



صندوق النقد العربي
ARAB MONETARY FUND

ANNUAL REPORT 2018





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Preface

The Annual Report of the Arab Monetary Fund (AMF) is produced under Article 33 of the AMF's Articles of Agreement. This report presents a summary of AMF's activities and financial position for the year ends on December 31st, 2018. This includes financial and technical support provided by the Fund through lending and technical assistance, contributions to capacity building of official cadres of Arab ministries of finance, economy and commerce, central banks and statistical agencies through training courses, workshops and seminars organized by the AMF's Economic Policy Institute (EPI). The report reviews developments of AMF's investment activities conducted under Article 5 of the AMF's Articles of Agreement. This report also reviews activities aimed at supporting and promoting inter-Arab trade, as well as events organized by the Fund in various economic, monetary, and fiscal areas to discuss solutions and proposals that respond to challenges facing Arab economies in order to shed light, and exchange views and experiences, on current issues of interest to all Member Countries. This positively supports economic development efforts in Arab Countries, particularly those related to the monetary, financial and banking sector, and public finance sector. The report also highlights initiatives adopted by AMF to meet technical assistance needs of the Member Countries, with a view to set up the infrastructure for vibrant, modern and well-developed financial, monetary, banking systems in Arab Countries.



Abdulrahman A. Al Hamidy

Director General

Chairman of the Board of Executive Directors

About AMF

Establishment:

Arab Countries established the AMF with a view to laying the foundation for inter-Arab economic integration and promoting economic development in all Arab Countries. The AMF's Articles of Agreement was signed in Rabat, Morocco, on April 27th, 1976. The Agreement is comprehensive in terms of purposes, while it provides flexibility in terms of means that have been made available to serve those purposes. All members of the League of Arab Countries are members to the AMF. Abu Dhabi, the capital city of UAE, is the permanent head quarter of the AMF.

Mission:

The establishment of the AMF crowned the efforts made by Arab Countries in monetary and financial cooperation since mid-1940s. Unlike all other regional economic blocks and groups, the Arab region is the only regional block that has its own monetary fund. This was a dream that came true for policy makers in Arab Countries for a long time. It is a mechanism that is meant to enhance monetary integration and cooperation among Arab Countries within a wider joint Arab action framework that aims at enhancing inter-Arab economic cooperation and integration as a step towards full-fledged Arab Unity.

The AMF follows a proactive methodology in providing support to its Member Countries. It studies economic implications of global and regional developments for Arab Countries and develops appropriate alternatives for providing financial and technical support to cope with such implications and to help affected Arab economies get back to sustainable development track. The AMF also follows a systematic, strategic plan on crisis management in case Arab economies face a crisis to help them

manage its spillovers. The AMF has a respectable body of technical staff and specialists with relevant credentials from all Arab Countries.

The AMF lays emphasis on cooperation and experience sharing on monetary policy, coordination among Arab Countries in international meetings and fora, as well as coordination among Arab central banks and monetary Agencies in all relevant areas. This would help share experience and coordinate stances on regional and international developments that are relevant to banking sector. These efforts in turn would promote monetary cooperation among Arab Countries with a view to harmonizing the foundations of monetary policies in the region.

Arab capital market development also receives special attention by the Fund. This stems from the fact that the Fund values the role of capital markets in mobilizing funds for sustainable, comprehensive economic development plans. Ultimately, this would help create productive jobs, further diversify, scale up economies, and increase productivity.

The AMF provides technical assistance programs that are relevant to policy, work mechanisms and national capacity development in Member Countries. It is also bent upon developing for reaching regional initiatives to further improve payment systems, applications of modern financial innovations, capital markets, economic data bases, national accounts statistics, financial inclusion efforts, and other related activities within its mandate.

Objectives:

Article Four of the AMF Articles of Agreement identifies eight objectives for the Fund. They are as follows:

1. Correcting disequilibria in the balances of payments of AMF Member Countries.
2. Promoting the stability of exchange rates among Arab currencies, rendering them mutually convertible, and striving for the removal of restrictions on current payments between Member Countries.
3. Establishing such policies and modes of Arab monetary cooperation. The aim is to achieve the quickest pace of Arab economic integration and speed the process of economic development in Member Countries.
4. Rendering advice, whenever called upon, with regards to policies related to the investment of financial resources of Member Countries in foreign markets, to ensure the preservation of the real value of these resources and to promote their growth.
5. Studying ways to promote the use of the Arab Accounting Dinar (AAD) and paving the way for the creation of a unified Arab currency.
6. Promoting the development of Arab financial markets.
7. Coordinating the position of Member Countries in addressing international monetary and economic challenges with the aim of realizing their common interests while, at the same time, contributing to the resolution of world monetary challenges.
8. Settling current payments between Member Countries to promote trade among them.

Furthermore, Article Eight of the AMF Articles of Agreement stipulates that the Fund shall provide technical assistance and services in the financial and monetary domains to Member Countries pursuing economic agreements aimed at attaining monetary union between them, being a phase towards the realization of the goal of the Fund, namely, Arab economic and monetary integration.

Means and resources:

For the realization of its goals, AMF adopts several means that are spelt out in Article Five of its Articles of Agreement. They include: providing short-term and medium-term credit facilities to Member Countries with a view to assisting them to finance their overall balance of payments deficits with the rest of the world, resulting from the exchange of goods and services, transfers and capital flows; issuing guarantees in favor of Member Countries to strengthen their borrowing capabilities from other financial sources for financing overall deficits in their balances of payments; and acting as intermediary in the provision of loans in Arab and international financial markets for the account of Member Countries and under their guarantees.

The means also include coordinating monetary policies of Member Countries and promoting cooperation between their monetary Agencies; liberalizing and promoting trade and insuring current payments and encouraging capital flows between Member Countries.

The AMF Articles of Agreement also stipulates that the Fund, in agreement with the Member Country/Countries concerned, shall make necessary arrangements for managing funds placed at the Fund by a Member State or Countries for the benefit of other Arab or non-Arab parties in accordance with the goals of the Fund.

For the realization of the goals of the AMF, Article Six of the Fund's Articles of Agreement calls for cooperation among Member Countries and with the Fund with a view to reducing restrictions on current payments among Member Countries and restrictions on the transfer of capital and profits therefrom, with a view to eliminating those restrictions. Also, under Article Six of the AMF's Articles of

Agreement, each Member State shall endeavor to achieve the necessary degree of coordination between Arab economic policies, particularly fiscal and monetary, in a manner that will contribute to Arab economic integration and assist in creating the necessary conditions for the establishment of a unified Arab currency.

To reiterate flexibility granted to the Fund in the fulfillment of its mandate, Article Nine of the AMF's Articles of Agreement stipulates that the Fund shall adopt, by a decision of the Board of Governors, any other measures that may assist in the realization of its goals. Under Article Eleven of the AMF's Articles of Agreement, the resources of the Fund shall consist of the following: paid-up capital reserves loans and credits obtained by the Fund and any other resources decided upon by the Board of Governors.

AMF Governance Framework

The AMF Governance Framework is based on a set of principles that are of paramount importance on its list of priorities. They can be summarized as follows:

Protection of membership rights and equal treatment: the AMF governance framework ensures that shareholder rights are protected and easy to exercise; and that members are equally treated.

AMF system of governance is a framework that does not provide for unilateral decisions on core matters, be it at the level of the Board of Executive Directors or that of executive management departments. Members of the Board of Executive Directors' nominations are endorsed by the highest level of authority in the Fund, namely, the Board of Governors. They are elected from the citizens of Member Countries with experience and expertise. The Board of Executive Directors

operates under procedural rules that govern decision taking. At the level of executive management departments, work policies and procedure govern responsibilities and powers. Specialized committees consider, and recommend on, core matters.

Recognition of stakeholder rights: This principle covers the protection of stakeholder rights. Stakeholders are defined as Member Countries, AMF staff and contractors.

Disclosure and transparency: The Board of Governors that elects, and decides the remuneration of, Directors collectively ensures the disclosure of salaries and benefits of the Directors and their neutrality.

Accountability: AMF fully adheres to this principle at all levels. The **governance structure** of the Fund reflects the attention paid to defining roles and responsibilities across its supervisory, oversight and executive bodies, their integration, interaction, horizontal communication, opinion sharing, broadening the scope of knowledge, and insight, prior to taking a decision.

The governance structure consists of the Board of Governors and the Board of Executive Directors under which there are the Audit and Risk Committee, the system of executive management, including executive departments and committees, the Office of Internal Audit and the External Auditors.

Board of Governors represents all Arab Countries. It is the highest authority of the Fund that oversees the strategic orientation, accountability and performance evaluation. The AMF's Articles of Agreement entrusts all management powers to the Board of Governors, including that of delegation of powers to the Board of Executive Directors to exercise any of

exclusive powers⁽¹⁾. It convenes annually under the by-laws that govern proceedings and voting. The Board of Governors annually elects one governor as chairman on rotation.

Board of Executive Directors is composed of the Director General as Chairman and eight members elected by the Board of Governors from the citizens of Member Countries with experience and expertise for renewable three-year tenures on a part-time basis. The Board of Executive Directors oversees AMF operations. It is collectively entrusted with oversight of key policy making, strategic plans and action programs, performance and accountability of executive management. It reports to the Board of Governors. The Board holds quarterly meetings to take decisions under relevant voting and decision-taking procedure specified in AMF's Articles of Agreement.

Audit and Risk Committee reports to the Board of Executive Directors. The mandate of this committee is to assist the Board in its supervisory function. It is entrusted mainly with ensuring financial statement integrity, follow-up on the implementation of risk management and internal control policies, the evaluation of the efficiency and effectiveness of the Internal Audit Office as well as the discussion of this office's reports, monitoring the independence of external auditors and the discussion of their reports and review of, and recommendation on, whistle blowing reports. The Audit and Risk Committee is composed of three members who are independent of the executive management of the Fund and who are elected by the Board of Executive Directors at the beginning of each session. The Audit and Risk Committee follows a charter that governs its work.

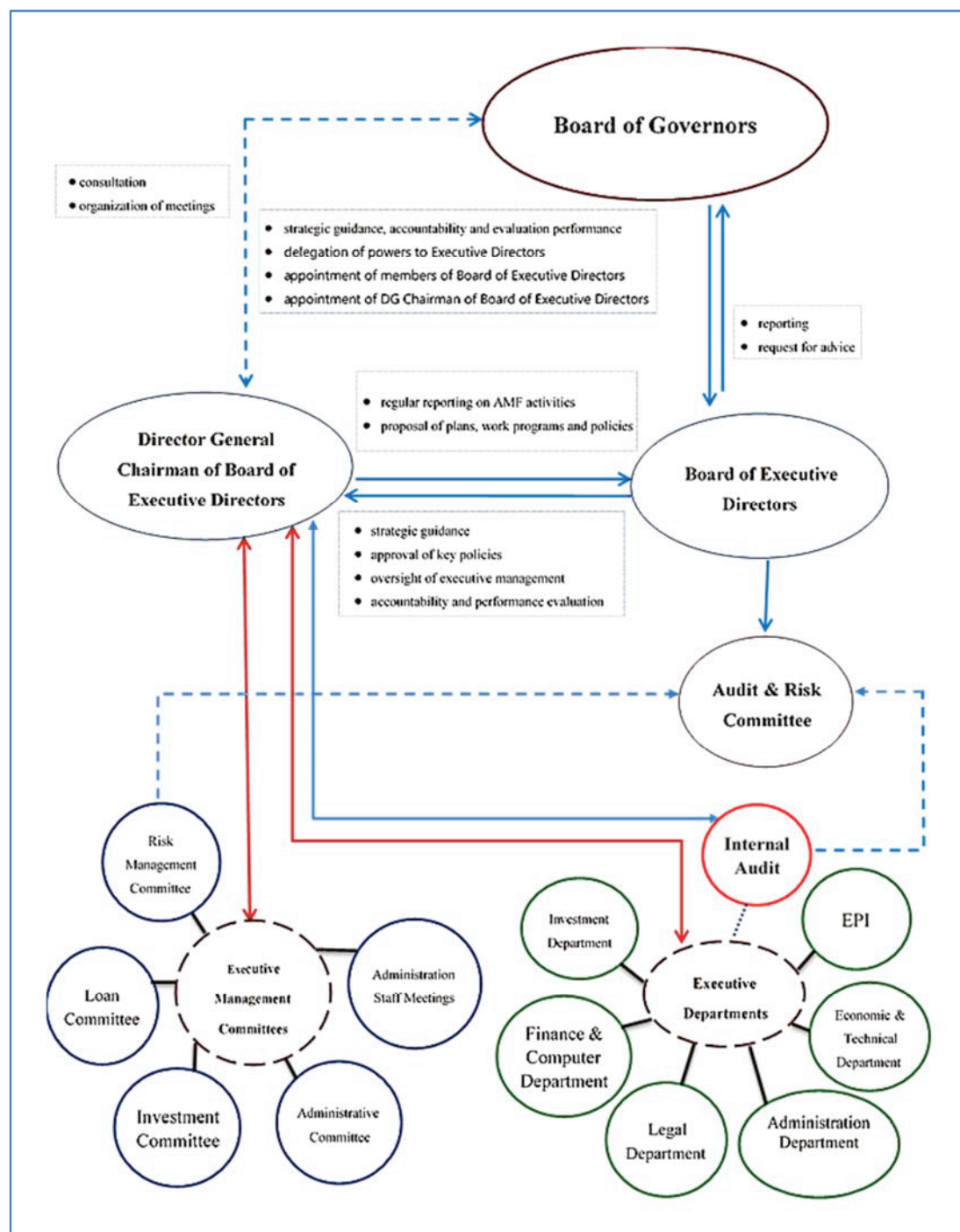
The organizational framework for executive management units consists of the Director General Chairman of the Board of Executive Directors and six specialized executive management departments, namely, the Economic and Technical Department, the Economic Policy Institute (EPI), the Investment Department, the Finance and IT Department, the Administration Department and the Legal Department. Additionally, the executive management committees, namely, Loan Committee, Investment Committee, Administrative Committee and Risk Management Committee, in their respective advisory capacities, advise on core matters. The committee's membership consists of senior competent AMF staff. AMF organizational units operate within a coherent, integrated system of internal control that consists of regulations, policies and rules on AMF activities and operations. This serves as a safeguard against unilateral decisions on core matters.

Office of Internal Audit (OIA) is a major component of internal control system. AMF senior management ensures that OIA fulfills its mandate independently. Its function includes the evaluation of the effectiveness of internal control systems, risk management activities and governance under the approved methodology. It directly communicates with the Audit and Risk Committee that reports to the Board of Executive Directors.

External audit, in turn, is another important link in the AMF governance system. The Board of Governors is invested with exclusive powers to appoint external auditors. Under the AMF's Articles of Agreement, these powers cannot be delegated to another body of the Fund.

⁽¹⁾ Exclusive powers of the Board of Governors include the appointment of the Director General and Chairman of the Board of Executive Directors, members of the Board of Executive Directors, decisions on the remuneration of its members, admission of new members, suspension of

membership, increase of capital, distribution of income, appointment of external auditors, approval of final accounts and deacons on the interpretation and amendment of AMF Agreement.

Chart (1): The AMF Governance Framework⁺

⁺ The schema of AMF governance does not reflect the organizational structure of the Fund. It rather reflects work relationships and governance bodies within the institution.

AMF Strategy Framework (2015-2020)

Salient Features of the Strategy

A Strategy Framework was developed for 2015-2020. It reflects the evolving vision on how to realize the aspirations of the AMF's Member Countries. It entails a continuous effort by the Fund to keep in tandem with regional and global developments. The Fund translates this into dynamic and responsive mechanisms, programs and a system of governance that follow the best practices worldwide. The Strategy Framework takes future needs of the Member Countries into account.

The Strategy Framework lays emphasis on building on AMF strengths and comparative advantages, manifested by the organizational setup and ownership as the AMF is the single regional monetary institution owned by all Arab Countries, its location in the Arab region, and its pivotal role as a platform for meetings and consultations among economic, financial, and monetary policy makers. Furthermore, the AMF has a well-established role in capacity building through specialized training offered by its Economic Policy Institute to officials in Arab Countries. The financial soundness of the Fund has added confidence of Member Countries in the Fund's long-established role of providing reserve management services and deposit taking from Member Countries.

The Strategy Framework devoting a priority to tapping the potential for strengthening its capacity to enhance the Fund's responsiveness to the varying needs of its Member Countries. The Framework elaborated on the range of opportunities available to the AMF to strengthen its role in serving Member Countries. These opportunities include the ability to meet the growing financing needs of members, to

provide technical assistance on economic reform, and fulfill pressing and varying needs for capacity building and training in various fields of finance and economics.

The flexible wide range of activities adds another comparative advantage to AMF. This has enabled the Fund to rise to challenges faced by Arab economies in a way that keeps in tandem with regional and global developments and trends, responds to potential implications for financial and banking sectors and capital markets in the Arab region. While developing the Strategy Framework for 2015-2020, due reference was made to the needs of the Arab Countries. In order for the Fund to effectively respond to those needs, intensifies communication with the Member Countries, strengthen its capacity and initiatives to help them, and upscale its research and statistical work to provide more credible economic data, more comprehensive, deeper analytical reports that support the work of scholars and policy makers.

AMF Vision

"Continue fulfilling its Mission, as a leading Arab financial institution, in supporting economic, financial, and monetary reforms in the Arab Region"

The Fund's vision is based on its mission as identified in its Articles of Agreement, i.e., to lay monetary foundations for Arab economic integration and help achieving economic development in the entire Arab region. While fulfilling its mandate, the Fund has strengthened its capacity and initiatives to cope with emerging situations. This has enabled the

Fund to build on its comparative advantage to serve the Member Countries as a leading institution in a better way.

Strategic Objectives

For the strategic vision to be materialized, the efforts of the AMF were envisaged within the context of three fundamental pillars: strengthening opportunities for inclusive growth, establishing the basis for efficient and properly governed financial and economic institutions in Member Countries and enhancing cooperation and financial and economic integration among Arab Countries in close cooperation with relevant regional and international financial, monetary and economic institutions, as well as further development of a more capable, effective AMF institutional architecture.

The core strategic objectives of the Fund are: achieving further development in AMF programs and activities to support reforms aiming at macroeconomic stability in Arab Countries, expanding the banking and financial sectors initiatives and programs and improving modalities to access funding and financial services, strengthening the pivotal role of the Fund as a platform for meeting and consultation among policy makers, supporting efforts for economic, financial, and monetary integration among Arab Countries, and strengthening the AMF role as a center of excellence for knowledge, expertise, technical advice and capacity building.

Means and activities for achieving strategic objectives

The AMF Strategy Framework for 2015-2020 envisages a greater outcome of available resources as well as the introduction of new modalities that would enhance the outcomes of more diversified AMF activities. This would

ensure that the AMF delivers on its strategic objectives in a way that responds best to the aspirations of its membership.

In this respect, modalities employed by the Fund to assist member countries include a range of lending facilities to overcome the overall Balance of Payments deficit, support structural adjustments in fiscal, financial and banking sectors. This is a part of the lending activity as provided by the AMF's Articles of Agreement, as the main modality that is available to the Fund to fulfill its mandate. The Fund offers credit facilities to its member Countries in concessional loans with different maturities. Most of the credit facilities are provided within a package that includes consultations with the authorities of the borrowing country to reach agreement on an economic reform program that includes appropriate policies and measures to address and reform its economic, fiscal and monetary situation, as well as to follow up on its implementation.

The first strategic objective, Within the AMF Strategy Framework for 2015-2020, is further development of AMF programs and activities to support reforms aiming at macroeconomic stability in the Arab Countries. Emphasis here is laid on programs and activities that the AMF is undertaking to support efforts devoted by Member Countries to achieve macroeconomic stability, either through financial assistance supporting economic reforms, or through further engagement in relevant technical assistance consultations. This objective covers a key sub-objective on which the Fund focuses during the life of this new Strategy Framework, namely, to further develop its lending activities by revisiting the existing lending facilities to ensure that they continue to be relevant in meeting financial support needs of Member Countries and improve procedures for lending activities.

Within the context of support provided to the Arab Countries, **investment** is one of the main activities of the Fund. It includes deposit taking from Member Countries and Arab financial institutions, portfolio management on their behalf, and investment-related technical assistance. The AMF's Strategy Framework for 2015-2020 includes a set of objectives which the Fund shall work for within the context of investment, mainly to increase deposit taking from Member Countries and Arab financial institutions, with ensuing widening of sectoral and geographic coverage of depositors.

This is envisaged to materialize through the attraction of the greatest possible number of governments, organizations and institutions within the Arab region, a fact that would ensure that sources of investment finance would be further increased and diversified. During the life of this strategy, the Fund also envisages further development of portfolio management. This would materialize through encouraging governments, organizations and institutions within the Arab region to make use of AMF capacity in managing their foreign reserves. It may be noted that the Fund offers investment portfolio management through deposits, bonds and other securities.

AMF investment activities also include the expansion of relationships with organizations that deposit part of their reserves with the Fund for management, the provision of investment-related technical assistance and cooperation in foreign reserve management, through further consultations on investment and reserve management with the Fund. This would ensure a better support by the Fund in this respect.

As part of AMF continuing efforts to strengthen fiscal, monetary, and banking sectors in Arab Countries and enhance access to finance and financial services, **programs and initiatives**

adopted by the Fund represent another set of tools employed by the Fund to provide support to the member Countries. These programs and initiatives feed into deeper financial and banking sectors, building on the weight attributed to these sectors by the Fund in supporting efforts for inclusive growth and economic and financial stability.

The AMF Strategy Framework for 2015-2020 includes another set of objectives, namely, **to further develop programs that support financial and banking sectors and capital markets in Arab Countries** through a comprehensive initiative to develop bond markets in local currencies and strengthen financial inclusion in addition to extending initiatives for developing the financial sector infrastructure and the applications of modern financial innovations. This also includes strengthening surveillance legislation and promoting macro-prudential supervision policies, in addition to improving information and indices for measuring the performance of the financial sector and capital markets.

Training and capacity building programs and activities undertaken by the Fund, through its Economic Policy Institute, represent another set of tools that stands evidence to its role as a center for knowledge, experience and expertise, technical advice, and capacity building within its field. This set of tools responds to the growing needs of the member countries to provide technical knowledge and further empower official cadres. Based on this premise, the AMF Strategy Framework for 2015-2020 envisages upgrade of the academic content of current training programs, expansion of the list of training programs and activities, including those offered by the Fund in Arab countries. In addition, the AMF also plans to lay down the foundation for Online Learning.

The Fund considers its activity in **research and statistics** a crucial tool that contributes to capacity building for specialists and other stakeholders in economic, fiscal and monetary fields in Arab Countries. In this respect, the Fund pays special attention to studies, bulletins and reports as major tools of methodological research and investigation on various issues with a view to developing appropriate policies and taking decisions. They also serve as channels for debate and awareness of current issues that are relevant to Arab economies.

Against this backdrop, the AMF Strategy Framework envisages stepping up AMF efforts to further developed research, bulletins, economic reports and existing statistics. In addition, the AMF works for launching new reports which contribute to help economic decision makers and enrich the Arab thought. The AMF is also in charge of the development of Arab Statistics Initiative “ArabStat” as well as compiling and disseminating financial data summaries on Arab Countries.

Furthermore, the Fund's library contains a thorough range of economic, fiscal, monetary and statistical references, research papers and periodic reports that have been published, as well as continuous efforts to enrich and continually update this content.

The Fund continuously works on developing its role as **Technical Secretariat to the Council of Arab Central Banks and Monetary Authorities Governors, and the Council of Arab Finance Ministers**. This is seen by the Fund as a tool of enhanced AMF coordination among Arab Countries in monetary and fiscal areas as well as coordination of membership stands on international monetary and economic issues in their common interest. The Annual Meetings of the Council of Arab Central Banks and Monetary Authorities Governors, and the

Council of Arab Finance Ministers serve as important platforms for discussions on topics related to AMF objectives as well as current issues of interest to both Councils.

Strategy Support Team

AMF has created a Strategy Support Team on which AMF departments are represented. It has been entrusted with the follow up and support of the implementation of the strategy in an efficient and effective way.

The team shall remain in close contact with organizational units of the Fund to discuss implementation indicators, score cards, long term plan proposals as well as developments that are relevant to the implementation of the strategy. The team shall also discuss relevant progress reports, prepare corporate performance reports, organize awareness seminars, workshops and presentations on progress made in the implementation of the strategy, coordinate efforts for the development of the next 5-years phase of the strategy, and promote Fund's initiatives and innovation.

Summary of AMF activities in 2018

As part of the Fund's role in supporting the Arab economies, and following up on global economic developments, which are reflected to varying degrees in their performance, the Fund follows, through monitoring and analysis, all economic developments and trends at the regional and international levels, which are directly and indirectly related to prospects of economic growth in Arab Countries.

The Arab economies demonstrate high degree of openness to the global economy, but such openness has made them directly and indirectly vulnerable to the repercussions of global economic developments, during 2018,

particularly in the economic zones that represent the main trading partners of the Arab Countries. For example, Arab economies have been affected by developments related to interest rates in the United States, and the European Central Bank has begun to curtail asset purchases as of January 2018, announcing the cessation of such operations by the end of December 2018, and the high levels of indebtedness of corporations and sovereign entities in a number of these economies, making them more vulnerable. In addition to the uncertainty related to foreign trade, following the actions of the United States and China, the general decline in multilateral consultations on trade issues, and the failure to reach final decisions in the negotiations on the United Kingdom's exit from the European Union. All these developments were reflected in the economies of the Arab Countries during 2018, both as trading partners of these countries and international economic groupings, or part of production chains of their respective productive commodities.

Nevertheless, the relative improvement in world oil prices played a positive role in the performance of many Arab economies, but the continued internal developments in some Arab Countries, and the rises in US interest rates contributed to the region's low share of foreign investment, resulting in relatively lower growth, and the implementation of economic reform programs, by a number of Arab Countries in cooperation with international financial institutions to correct economic imbalances, reflecting the growth rate in the Arab Countries.

In the light of the foregoing, reforms aimed at increasing economic diversification, deepening financial inclusion and creating an enabling environment for small and medium-sized enterprises to play their vital role in achieving

sustainable economic growth and creating productive jobs, have topped the list of priorities for policymakers. Reforms in public finances have also been among the priorities of policymakers in the Arab Countries, as a prerequisite for accelerating economic growth, with public finance reform programs, focusing on strengthening government resources through the application of value-added tax (VAT) and the development of revenue forecasts, and tax collection, as well as adjustments in tax rates and achievement of tax justice by reducing the tax burden on vulnerable.

On the expenditure side, efforts focused on rationing expenditures, enhancing government procurement systems and developing automation systems to reduce costs, while improving the quality of government services, to provide greater fiscal space that would contribute to the expansion of infrastructure projects needed to achieve growth and attract domestic and international investments. In 2018, many Arab Countries exerted great efforts in enhancing the digital economy, expanding the use of modern financial technologies, creating a secure environment for dealing with them, and developing mechanisms to protect consumers of financial services within the framework of financial inclusion.

In this context, AMF continued its efforts in supporting the Arab Countries orientations regarding structural reforms, and adaption of policies to raise productivity, building on the gains generated by these reforms, by encouraging innovations, deploy technologies, increasing participation in the labor market, especially by women and youth, and promoting investments in education & training to increase employing. AMF also paid attention to the reforms related to the development of macro- and micro-prudential policies, the reduction of increased financial leverage ratios, excessive

risk and the containment of risks to financial stability, including threats to cyber security. The challenges facing the financial and banking sector, coinciding with greater openness to global financial markets, which are undergoing a major shift towards digitating action, and the acceleration in the use of financial technologies, in entail involve many risks that require hedging against it.

Within the framework of the **lending activity**, the AMF provided five loans during 2018, three of which were in the framework of the SME's Conducive Environment Support Facility, benefiting the Republic of the Sudan, the Arab Republic of Egypt and the Republic of Tunisia. The three loans were aimed at supporting reform programs in the SMEs sector, enabling it to fulfil its role of achieving inclusive and sustainable growth, and supporting the effort to enhance, financial inclusion in addition to developing the systems, mechanisms and frameworks for its successful, and for confronting challenges related to its capacity to access finance and financial services. These reforms also to enhance the capacity of SMEs to create more jobs.

Moreover, AMF provided two compensatory loans benefiting the Kingdom of Morocco and the Republic of Tunisia, to support balance of payments positions.

In the light of the above, the total contractual value of the loans provided by the Fund to Member Countries during 2018 amounted to about AAD 189 million, equivalent to about U.S.\$ 793 million.

For the **reports, publications, research and studies issued by AMF during 2018**, in the context of its ongoing efforts to support and assist decision makers and economic policymakers in the Arab Countries, it included

the release of the Arabic and English version of the "Joint Arab Economic Report". Additionally, the Fund has released two editions of "The Arab Economic Outlook Report" in April and September 2018, including forecasts for the macroeconomic performance of the Arab countries. The fund has issued a new report entitled "A Way to Reform" in 2018, as a specialized report that addresses each year one of the detailed themes of the economic reform Programs, being implemented by the Arab Countries. The 2018 edition of the report focuses on the reform of the civil service systems. During 2018, the AMF has also issued a report on "the Regulatory Developments and Implementation of Basel III Requirements in the Arab Countries", which highlighted the efforts made by central banks and Arab monetary institutions to implement Basel III reforms to ensure banking soundness and financial stability.

Within the same context, a series of studies and working papers were prepared on various topics, including:

- Determinants of Female Labor Force Participation in Labor Market in the Arab Countries,
- Managing Liquidity Risks, according to Basel III, Requirements in Arab Countries,
- Balance of Payments and International Investment Position in the Arab Countries: Reality and Challenges,
- Big Data Applications in the Arab Countries,
- The Evolution of the Structure of Foreign and Intra-regional trade in the Arab Countries,
- The Implications of Non-Performing loans on the performance of banks and economic activity,
- Measuring the Determinants of Foreign Trade in the Arab Countries Using Gravity Models,
- Calculating a Composite Index of Financial Inclusion and Estimating the Relationship

Between Financial Inclusion and GDP in the Arab Countries,

- The Performance of Islamic and Conventional Financial Markets and Development Mechanisms,
- Subsidy Policies in Arab countries,
- The Limits of Sustainable Public Debt and Economic Growth Between Theory and Reality,
- Review of Monetary Unions Criteria and Prospect of the GCC Monetary Union Experience of the Gulf Cooperation Council,
- Forecasting Annual National Accounts Using Input and Output Model,
- The Impact of Monetary and Fiscal Policies on Economic Growth in the Arab Countries,

A number of statistical bulletins have been issued in 2018 including the third issue of "The Competitiveness of Arab Economies Bulletin" and the sixth issue of the "Foreign and Intra-Trade Competitiveness Statistics in the Arab Countries Bulletin".

With regard to the **technical assistance** provided by AMF to its Member Countries during 2018, it covered various areas, such as the development of the financial and banking sector infrastructure and government bond markets, the development and strengthening of capacity in the preparation of economic statistics and the application of international statistical methodologies to the best international practices, and other relevant areas. The AMF's technical assistance activities, in supporting the development of the financial and banking sector and Arab capital markets, has been based on a range of pillars, the most important of which is to promote financial inclusion by providing greater access to finance and financial and banking services by small and medium-sized enterprises, in addition to strengthening the procedures and institutional and regulatory frameworks that provide

protection to consumers of financial services, working to create conditions conducive to the provision of long-term financing and the development of non-banking financial institutions, and working to develop and revitalize the markets of debt instruments in local currencies, as well as strengthening financial stability and banking supervision.

With regard to the **training and capacity-building** activity, the AMF continued, during 2018, through its Economic Policy Institute, upgrading training activities, updating the scientific content of all training programs provided, and expanding the list of activities and programs to cover all the economic, financial, monetary, commercial, and statistical sectors, as well as the development of new training programs, according to the needs of Member Countries. During 2018, 29 training courses were provided, benefiting to 861 trainees from Arab official cadres, bringing the number of beneficiaries from the training courses offered by the Institute since its inception, until the end of 2018, to approximately 12,129 trainees.

In the area of **investment**, the AMF continued, during 2018, its approach in maintaining a conservative investment policy and strategy in managing investment portfolios, contributing to the protection of invested capital and continuing to achieve stable positive returns at the macro level, while keeping low risk levels. In addition to employing its own resources, the AMF's investment activity includes deposit acceptance from Member Countries, where AMF maintained high balances from this activity to reflect the continued confidence of Member Countries. The AMF continued to implement the Basel (III) requirements for capital adequacy, liquidity and leverage. In addition, the Fund continued managing funds for the Arab Trade Financing Program (ATFP), for the Consolidated Account of Specialized Arab

Organizations, as well as the supervision of external managed portfolios and funds, in accordance with approved investment policy and strategy.

During 2018, the Fund continued to carry out the tasks associated with its role as the **Technical Secretariat of the Board of Governors of Central Banks and Arab Monetary Institutions**, as well as the technical secretariat of the Committees and task forces emanating therefrom. The Fund also functions as the **Technical Secretariat of the Council of Arab Ministers of Finance**.

Lending

The AMF's lending activity aims at providing support to borrowing Member Countries to implement economic and structural reform programs in areas that are relevant to the Fund's mandate as well as necessary technical assistance for effective and efficient design of such programs. In so doing, AMF fulfills its mandate as defined in its Agreement. The goal of the Fund support is to help Arab Countries establish the pillars of the macroeconomic stability, address balance of payment imbalances, and implement reforms in several sectors to improve efficiency of the use of resources and enhance opportunities for sustainable, inclusive growth. AMF lending activity contributes to the fulfillment of the objectives of the AMF Strategy Framework for 2015-2020 using its resources in a responsive manner to meet the changing and increasing needs of its member Countries.

Categories of loans and facilities

AMF offers a range of loans and facilities that fall in two categories. The first category of facilities aims at addressing balance of payment

imbalances, while the second aims at supporting reforms at the sectoral level of the economy.

The loans currently offered to help address overall balance of payment deficit include four types of loans, namely, automatic loan, ordinary loan, extended loan, and compensatory loan.

The **Automatic Loan** is extended to assist in financing the overall deficit in the balance of payments in an amount not exceeding 75 percent of the member country's subscription in the Fund's capital paid in convertible currencies. The loan has a maturity of three years and is not conditional on the implementation of an economic reform program to cut BOP deficit.

The **Ordinary Loan** is extended to an eligible member country when its financing needs exceed 75 percent of its paid subscription in convertible currencies. Generally, this loan is extended up to 100 percent of the member country's paid subscription in convertible currencies and could be raised to the limit of Automatic Loan to reach a maximum of 175 percent. To benefit from this loan, the borrowing member country must agree with the Fund on a fiscal adjustment program, covering a period of not less than a year. The policies and actions included in a such program would aim at restoring fiscal equilibrium with a view to reducing balance of payments deficit. Each tranche of the loan is repaid within five years from its date of withdrawal.

The **Extended Loan** is provided to an eligible member country with a chronic deficit in its balance of payments resulting from structural imbalances in its economy. The member country is required to agree with the Fund on an economic reform program covering a period of not less than two years. The maximum amount of this loan is equivalent to 175 percent

of the member country's paid subscription in convertible currencies. It can, however, be supplemented by an Automatic Loan, thereby reaching up to 250 percent of the member country's paid subscription. Each tranche of the loan is repaid within seven years from its date of withdrawal.

The **Compensatory Loan** is extended by to assist a member country experiencing an unanticipated balance of payments deficit resulting from a shortfall in export receipts of goods and services and/or a sharp increase in the value of agricultural imports due to a poor harvest. This loan's limit is equivalent to 100 percent of the member's paid subscription in convertible currencies, and it has a maturity of three years. The borrowing country must be experiencing a transitory fall in exports or a transitory increase in agricultural imports. Each tranche of the loan is repaid within three years from its date of withdrawal.

The second category of loans and facilities is available to support reforms in several sectors of an economy. It includes the Structural Adjustment Facility, the Trade Reform Facility, the Oil Facility, the Short-Term Liquidity Facility, and the SME's Conducive Environment Support Facility.

The **Structural Adjustment Facility** was introduced in 1998. Loans extended through this facility focus on supporting reforms in the financial and banking and public finance sectors. To have access to the Structural Adjustment Facility, a member country is required to have started structural reforms and has made reasonable progress towards macroeconomic stability. Access to this facility is subject to agreement on a reform program to be monitored by the Fund. A borrowing member country may have access to this facility up to 175 percent of the member's

paid subscription in convertible currencies. Each tranche is to be repaid in four years from the date of withdrawal.

The **Trade Reform Facility**, which was created by the AMF Board of Governors in 2007, aims at assisting Member Countries to meet finance costs associated with the implementation of trade reforms, thus encouraging them to adopt necessary reforms to facilitate their access to finance on international markets to consolidate growth and create productive job opportunities. This facility is extended up to 175 percent of the member's paid subscription in convertible currencies, provided the borrowing member country agrees with the Fund on an appropriate structural reform program that will be monitored by the Fund. Each tranche is to be repaid in four years from the date of withdrawal.

The **Oil Facility** was introduced in 2007, as a temporary lending mechanism to provide support to Member Countries affected by a rise in the value of oil and gas imports, and to support appropriate reforms geared to strengthening their resilience to external shocks. The Oil Facility is generally extended to eligible countries up to 100 percent of a member country's paid subscription in convertible currencies. This facility may be expanded up to 200 percent of a member country's paid subscription in convertible currencies. To benefit from the full amount of the facility, an eligible borrowing member country must agree with the Fund on a reform program. A loan that is extended through the Oil Facility should be repaid within four years following withdrawal.

The Board of Executive Directors suspended the Oil Facility in March 13th, 2017, based on a recommendation by the Loan Committee, with

the resumption of the facility to be considered in future in a view of oil price developments on international markets, subject to the approval by the AMF Board of Directors.

The **Short-Term Liquidity Facility** is a lending mechanism that is meant to assist Member Countries that face temporary liquidity shortage due to unfavorable developments in global financial markets. The facility is extended promptly and without any prior agreement on a reform program with the eligible borrowing member country. The short-term liquidity facility is extended with a maximum limit of 100 percent of the member's paid up subscription in convertible currencies.

The disbursement of the facility could be carried out in one or more tranches as requested by the borrowing member. Each payment is settled after six months of withdrawal, with possible extension to two terms. The Short-Term Liquidity Facility was adopted according to the decision 4/2009 of the Board of Governors. Its regulations were adopted by Decision 13/2009 of the Board of Executive Directors. Under Decision 2/2017 of the Board of Executive Directors, this facility was temporarily extended for a period of three years after which the Fund will review the facility and decide whether to extend it on a temporary or a permanent basis or to end it.

SME's Conducive Environment Support Facility was introduced by the Fund in 2016 with a view to supporting reforms in SMEs sector, given the significant role these enterprises play in driving economic growth and creating jobs. This facility is extended with a maximum limit of 100 percent of the members paid up subscription in convertible currencies. Each tranche is to be repaid in four years from the date of withdrawal.

Loan Commitments

During 2018, AMF provided five loans to its Member Countries, representing three loans within the framework of SME's Conducive Environment Support Facility, for the Republic of the Sudan, amounting to AAD 22.800 million, the Arab Republic of Egypt, valued at AAD 87.700 million, and the Republic of Tunisia valued at AAD 18.532 million, and two compensatory loans for the Kingdom of Morocco, valued at AAD 41.125 million, and the Republic of Tunisia, worth AAD 18.532 million. The total value of the loans provided in 2018 amounted to about AAD 189 million, equivalent to about US \$793 million.

Adding the value of the new loans that AMF provided to its Member Countries during 2018 to the loans provided since the beginning of its lending activity in 1978, the total value of the loans provided by the Fund to its Member Countries, up to the end of 2018, amounts to AAD 2.323 billion, equivalent to about U.S.\$10 billion. Fourteen Member Countries benefited from the 184 loans provided by the Fund. The details of these loans, by year and beneficiary State during the period 1978-2018, are shown in table (A-1), in Appendix No. 1.

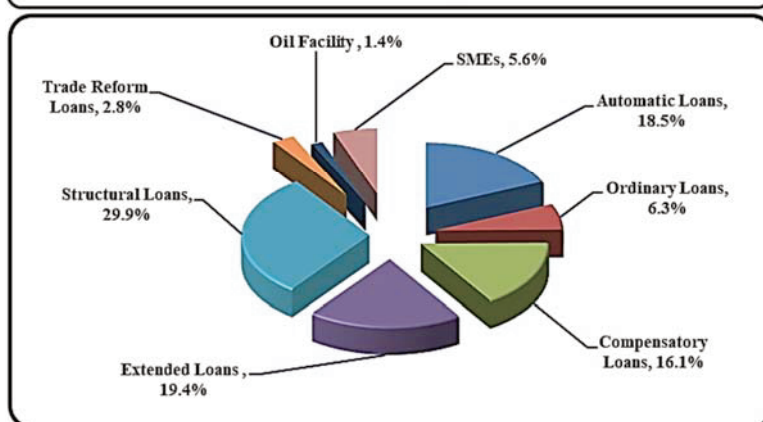
Traditional loans extended by the Fund (Automatic, Extended, Ordinary, and Compensatory) were at the forefront of the facilities provided by the Fund since the beginning of its lending activity in 1978 through the end of 2018.

They represented 60.3 percent of the total loans provided throughout. The Structural adjustment facilities extended for both banking & financial, and public finance sectors came second with share of 29.9 percent. The trade facility accounted for 2.8 percent, while oil facility at 1.4 percent, and the SME's

Conductive Environment Support Facility recorded 5.6 percent.

Table A-2 shows in annex 1 the value and number of loans received by each Member Country, broken down by the types of loans provided. Chart (2) shows the relative distribution of loans, by type, during the period 1978-2018.

Chart (2): Distination of Types of Loans as Share of Total Loans (1978 - 2018)



Loan Disbursements and Repayments

The total disbursements on contracted loans amounted to AAD 173.203 million during 2018, compared to AAD 53.920 million during 2017. In line with loan repayment schedules, borrowing Member Countries repaid a total of AAD 157.223 million during 2018, representing installments on contracted loans. As a result, balance of outstanding loans extended to borrowing Member Countries amounted to about AAD 502.558 million, at the end of 2018, compared to AAD 486.578 million at the end of 2017.

The balance of undisbursed tranches of contracted loans amounted to approximately AAD 71.721 million, at the end of 2018, compared to AAD 56.232 million at the end of

2017. Table (A-3) shows the details of withdrawals and undisbursed tranches and loan commitments of Arab Countries in 2017 and 2018, while table (A-4) provides details for the period 1978-2018. Table (A-5) illustrates the evolution of interest rates the Fund applies on loans to borrowing Member Countries. The Fund publishing the interest rates on its web site monthly. Chart. (6) in Annex 1, illustrates the evolution of interest rates during the period (2003-2018).

Arrears

A borrower country is considered in arrears, when the delay in the settlement of its due loan obligations exceeds twelve months.

According to the Fund's financial position at the end of December 2018, three delays were reported, namely, the Federal Republic of Somalia and the Syrian Arab Republic, as well as the case of the Republic of Yemen, which delayed for more than twelve months and turned in arrears. Total arrears amounted to about AAD 124.878 million, including overdue loan installments of AAD 66.858 million, and cumulative interest of about AAD 58.025 million.

In the case of **Somalia**, arrears were reported for the first time in 1984. The Fund is engaged in consultations with Somalian authorities to settle arrears which amounted to AAD 68.468 million as of end of 2018. This amount includes overdue loan installments totaling AAD 14.877 million and cumulative interest amounting to about AAD 53.591 million.

Regarding the case of **Syria**, arrears were reported for the first time in December 2011.

Total overdue loan installments and cumulative interest were about AAD 3.328 million on the second structural adjustment facility loan, as of end of 2018.

As for the case of **Yemen**, the delay began since June 2016, and the total overdue loan installments and cumulative interest amounted to AAD 53.082 million, at the end of December 2018, representing an overdue loan installment totaling AAD 49.096 million, and cumulative interest amounting to AAD 3.986 million.

Studies of loan applications from Member Countries

AMF has prepared a study on the request for a compensatory loan from the Republic of Tunisia to support the balance-of-payments deficit resulting from an emergency increase in the value of the Tunisian's agricultural imports.

The conclusion of the study was presented to the Loan Committee of the Fund, which recommended the approval of a compensatory loan to the Republic of Tunisia amounting AAD 18.532 million, and the withdrawal of the loan in one tranche. Upon approval of the recommendations of the Loan Committee by the Fund's Board of Executive Directors, the loan contract between the AMF and the Republic of Tunisia was signed on April 10, 2018, and the loan amount was withdrawn on April 16, 2018.

In response to the request from the Kingdom of Morocco for a compensatory loan to support the balance of payments, the Fund extended a compensatory loan to Morocco amounting AAD 41.125 million. The loan contract signed on 29 November 2018, and the loan amount was withdrawn on December 5, 2018.

Lending-related Consultations with Member Countries

The AMF fielded four missions in 2018, including Sudan, Egypt, Morocco and Jordan.

Regarding the missions to **Sudan, Egypt and Jordan**, they came as a response to the request of the three countries to make use of the Fund's resources, to support reform programs in the areas identified by the loan applications. The mission, visited **Morocco**, aimed to follow up the implementation of the reform program in the financial and banking sector, agreed upon with the Moroccan authorities for the period Sept. 2017 - Sept. 2018, in preparation for the withdrawal of the second tranche of the contracted loan.

The duties of missions undertaken by AMF also included an assessment of the economic and financial situation of the concerned countries, the possibility of extending AMF loans, as well as the provision of technical advice and recommendations on the adopted economic and financial policies.

The AMF's mission to **The Republic of Sudan** during 21-25 January 2018, came as a response to the request of the Sudanese government, to utilize the Fund's resources to support a program aims at enhancing a conducive environment for the SMEs sector.

The mission was briefed Sudanese government to develop financing instruments to promote the growth of micro-enterprises and to achieve strategic objectives, as well as the efforts made within the strategic plan for development and enhancement of microfinance sector over the period (2013-2017). The vision imbedded in the strategic plan, included that Microfinance should be a major driver of economic and social development in the Sudan, and aimed at

developing policies and legislation encouraging the development of the microfinance sector, developing infrastructure for microfinance, and enhancing cooperation between various levels of government, (ministries, state and local governments), and different institutions, the promotion of information availability and the use of technology, as well as the promotion of successful microfinance projects.

The mission also discussed the Five-Year Economic Reform Program (2015-2019), which aims to support production of exports and to improve the standards of living, by promoting the agricultural sector, supporting the small and artisanal industries, enhancing competitiveness and productivity, and encouraging the private sector to work in the area of microfinance.

The mission also discussed the efforts of the Central Bank of Sudan to support government efforts, with particular attention paid to directing bank financing for priority production activities, especially the agricultural sector, both plant and animal, and the artisan sector, as well as providing incentives to the banking sector to promote bank financing for micro and small enterprises, especially those belonging to youth and women in the less developed states and areas.

The mission's consultations with the Sudanese authorities culminated in an agreement on a reform program within the framework of SME's Conducive Environment Support Facility, covering the period February 2018-February 2019, based on five pillars; namely strengthening legislative, legal and regulatory frameworks, promoting financial inclusion by enabling micro, small and medium-sized enterprises to access finance and banking services, develop the information and credit

rating systems, strengthening capacities, and providing fiscal incentives for small, medium and micro enterprises.

On the basis of the report prepared by the mission and the recommendations of the Loan Committee, the Fund extended a loan to the Republic of the Sudan, within the framework of SME's Conducive Environment Support Facility, to support the reform program agreed upon, in the amount of AAD 22.8 million, equivalent of 100 per cent of the share of the Sudan in the AMF's capital. The withdrawal of the loan was approved to be in two instalments; the first, amounts to AAD 13.68 million, was withdrawn on April 16th, 2018, after the signing of the loan agreement on April 10th, 2018, and the second installment, in the amount of AAD 9.12 million, is to be withdrawn after the implementation of the agreed upon reform program.

For the consultation mission that visited the **Arab Republic of Egypt** during the period 6-10 May 2018, it came in response to the government request for a loan within the framework of SME's Conducive Environment Support Facility, to support a reform program in the SMEs sector. During the visit, the mission discussed the current situation of the small and medium enterprises sector and its share in the formal business sector, as defined by the Egyptian Central Bank. The contribution of micro, small and medium-sized enterprises to the output is about 25 percent, while their total contribution to the value added of the service sector is about 79.2 percent, compared to 18.7 percent for the manufacturing industry, 1.7 percent for agricultural activities, and 0.4 percent for energy and mining.

The mission's consultations also addressed the challenges faced by SMEs, namely, the low capital size, and high dependence on their own

resources or private sources of funding for the activity both at the foundation stage and at the operating stage, which limits their ability to invest and purchase capital goods in comparison with large projects. In addition, SMEs have limited access to finance available from the capital markets because of difficulties related to meet the required standards, and the nature of these enterprises as most of them are individual or family-owned.

To address these challenges, the Egyptian authorities have made strenuous efforts to promote the small and medium-sized enterprise, which considered the foremost platform for achieving inclusive and sustainable economic development and job creation. In this context, the efforts of the Egyptian authorities have focused on developing legislative and institutional frameworks, creating an enabling infrastructure, and providing the necessary concessions to small and medium-sized enterprises, with a view to ensuring their viability and competitiveness.

The role of specialized government institutions and agencies such as the Small, Medium and Micro Enterprise Development Agency in the area of direct financing of small enterprises has been strengthened, with the direct funding provided by the agency reaching about 30 billion Egyptian pounds, in addition to indirect financing provided through banks and community associations to some 2.3 million micro-enterprises, providing an estimated 2.4 million jobs, as well as providing non-financial services to micro and small enterprises through "single-window services" and the issuance of 328 thousand permanent and temporary operating licenses.

The Central Bank of Egypt has endeavored to strengthen the capacity of small and medium-sized enterprises by establishing control and regulatory frameworks to enable greater

transparency and control of the work of microfinance institutions, and to update the standard definition of existing and newly established small, medium-sized and micro-projects. Moreover, the central bank has committed banks to the extent that loans and facilities, granted to SMEs, should not be less than 20 percent of the bank's total credit portfolio within the scope of the said initiative. On the other hand, the central Bank of Egypt has adopted the implementation of the initiative of the President of the Republic to support small, medium and micro enterprises, over the period (2016-2020), to provide bank financing for small and medium-sized enterprises with soft loans and allocated 200 billion Egyptian pounds (U.S.\$11 billion), as a total target portfolio.

In the same vein, the central bank has provided support to the financing assurance system for small and medium-sized enterprises, which has contributed to the restructuring and development of the credit risk guarantee company, with the framework of an agreement signed between the bank and the company to benefit from its experience in managing credit risk assurance programs assigned to different categories SMEs, with the aim of expanding this area by covering part of the high risks faced by banks in financing, and in proportion to the nature of this sector. This is a positive reflection on the banks involved in providing funding for this type of company.

In light of the above, and in order to preserve the gains generated by the efforts made by the Egyptian authorities to create an enabling environment for SMEs, the Egyptian authorities and the AMF's mission agreed on a reform program, covering the period from June 2018 to June 2019, supported by the SME's Conducive Environment Support Facility. The program is based on four pillars, namely,

enhancing the access of small and medium-sized enterprises to finance to support financial inclusion, strengthening the guarantee system for securing financing for SMEs, developing databases and systems of credit enquiry, and enhancing training and capacity development.

Based on the mission's report and the Loan Committee recommendations, the AMF Board of Executive Directors, at its meeting held on June 7th, 2018, approved a loan to be extended to Egypt within the framework of SME's Conducive Environment Support Facility, to support the above-mentioned program. The loan amounted to AAD 87.7 million, or 100 percent of Egypt's paid capital subscription in convertible currencies, to be disbursed in two tranches, the first in the amount of AAD 52.62 million, withdrawn after the signing of the loan agreement, while the second tranche amounted AAD 35.08 million., to be withdrawn following an implementation of the program agreed upon.

Accordingly, the loan contract was signed with the Egyptian government on October 28, 2018, and the first installment was withdrawn on October 31, 2018.

The mission to the **Hashemite Kingdom of Jordan**, during October 28th -November 1st, 2018, followed a request from the Jordanian government for a loan, within the framework of the Structural Adjustment Facility, to support a reform program in the financial and banking sector. In this context, the consultations conducted by the mission with the Jordanian authorities addressed the recent economic developments in Jordan, and the reform efforts in the financial and banking sector made by the Central Bank of Jordan, to develop the financial and banking sector, and to improve its efficiency, within the framework of central bank strategy for the years (2016-2018), in order to strengthen the legal and

regulatory structure, develop financial infrastructure, strengthen control and supervision frameworks, provide secure and efficient national payment systems, encourage innovations and modern financial technologies, and enhance financial inclusion, to ensure easy access to financial services and financing, especially for youth and women.

In this context, the efforts of the central Bank of Jordan to continue providing support to the financing programs directed to the sectors of industry, tourism, renewable energies, agriculture, information technology, and engineering consultancy. The bank was also keen to expand the coverage of those programs to include health, education, and transport sectors.

The central bank of Jordan has also paid great attention to the development of its supervisory and regulatory role to keep pace with the development of international standards and practices in this field, and to maintain the safety and durability of the Jordanian banking system, thereby enhancing the immunity of the banking system to overcome the consequences of the financial and economic crises, achieves monetary and financial stability, and ensures that banks contribute positively to the development of the national economy.

Within the same context, the Central Bank of Jordan has expanded its regulatory and supervisory umbrella to include microfinance sector, with the aim of promoting and developing its role and sustainability, where new department was created at the Central Bank of Jordan, aimed at enhancing control on microfinance and credit information companies. The new department main tasks are studying applications for licensing of microfinance companies, as well as field and office control functions, which include verifying the financial

conditions of the sector in accordance with the laws, regulations and instructions in force, and international standards.

The Central Bank of Jordan has also made strenuous efforts to strengthen the credit system, to contribute to the rationalization of credit decisions, to be taken based on an accurate assessment of the customer's ability to pay, and thus the pricing of financial products and services provided based on the degree of customer risk, which enhances effective risk management and improved access to finance, especially for individuals and for SMEs.

In a related context, the National Financial Inclusion Strategy was launched in 2017, with the aim of achieving economic and social development, in parallel with the achievement of the sustainable development Goals 2030, through raising the financial inclusion ratios for low-income people, youth, women and micro, small and medium-sized enterprises. The strategy has been formulated and developed, in collaboration with public and private sector partners, and through external partnerships with international and regional financial institutions. The central bank of Jordan also launched the 'FinTech Regulatory Sandbox', with the aim of creating an incubator for entrepreneurs to support and encourage innovation and development in the field of financial technology.

In the light of the foregoing, and to continue the reform efforts undertaken by the Jordanian authorities, AMF's mission reached an agreement with Jordanian authorities on a reform program in the financial and banking sector covering the period November 2018-November 2019, aimed at strengthening financial stability and access to finance and financial services, and supporting efforts to strengthen payment, settlement and recovery systems.

The program is based on three pillars: promote financial inclusion by facilitating access to finance and financial services for individuals and small, medium and micro enterprises, strengthening the system of control and supervision of the financial and banking sector, strengthening payment and settlement systems and supporting the application of technologies. Modern finance.

Based on mission's report and relevant Loan Committee recommendations, AMF Board of Executive Directors, at its meeting held on 27th December 2018, approved a loan to be extended to Jordan within the framework of the Structural Adjustment Facility, to support a reform program in the financial and banking sector.

The loan amounted to AAD 23 million, or 100 percent of Jordan's paid capital subscription in convertible currencies, to be disbursed in two tranches. The first of which amounted to AAD 13.8 million to be withdrawn following the signing of the agreement, while the second tranche amounted to AAD 9.2 million, to be withdrawn following an assessment of the reform progress agreed upon.

The Fund's follow-up mission to the **Kingdom of Morocco**, 3-7 September 2018, was in response to a request from the Moroccan Ministry of Economy and Finance to withdraw the second installment of the Structural Adjustment Facility loan, which supports the financial and banking sector reform program for the period September 2017-September 2018, agreed between the AMF and the Moroccan Government.

The mission concluded that Moroccan authorities had made progress on implementing the package of reforms agreed upon with the Fund, within its three pillars: promoting financial inclusion by facilitating

access to finance and financial services for individuals and small, medium and micro-enterprises, and deepening the role of the capital market in financing The economy, strengthening the system of control and supervision of the financial and banking sector.

The implementation of the program was a framework of supportive macroeconomic developments, thanks to the good performance of the tourism, minerals and manufacturing sectors, especially the automobile and aircraft industry, the low inflation rate, the improved fiscal balance, the stability of the exchange rate and the improvement of the external situation. In this context, the Moroccan authorities have prepared a governance framework for the National Strategy for Financial Inclusion, consisting of the National Council for Financial Inclusion, headed by the Minister of Economy & Finance, the Strategic Committee, and the Technical Committee. The framework approved by the Ministry of Economy & Finance and the Bank of Morocco.

As part of the efforts of the Moroccan authorities to support emerging and innovative projects, partnerships have been established between the Central Guarantee Fund and non-profit cooperative associations (as Incubators), with the aim of financing the early stages of creating innovative projects, by helping entrepreneurs develop ideas into prototypes, leading to the creation and qualification of projects to benefit in the next phase of venture capital fund resources.

These associations cover a wide geographical scope for the selection of projects located in different quarters to bring these financing mechanisms closer to emerging and innovative projects in remote areas. A new general system has been drafted for the Casablanca Stock Exchange to enable the launch of a market for

SMEs to enhance their access to finance through capital market instruments on concessional terms.

As part of efforts to enhance women's access to finance, encourage women-owned enterprises, develop capacities and empower women to improve living conditions and reduce poverty rates, the product of the guarantee has been developed and expanded to cover 80 percent of bank loans for female-owned entrepreneurs, if women contribute to the larger proportion of the project capital.

With regard to deepening the role of the capital market in ensuring financing to the economy, Moroccan authorities implemented measures included; the revision of the legal and regulatory frameworks for financial activities within the financial market framework and the updating of the regulations and implementing texts on the laws issued, leading to the upgrading and revitalization of market performance in support the financial needs of the economy and the strengthening of the investment environment.

The mission also noted the completion of a package of measures by the Moroccan authorities, as part of the strengthening of the system of control and supervision of the financial and banking sector, which included the ratification of the Law on the statutes of the central bank of Morocco, which strengthens its independence, and extends its powers to ensure stability, besides the other traditional functions of central banks. The law also granted full independence to the Bank of Morocco, which empowers it to achieve the goal of price stability and monetary policy approach in all transparency, as well as provisions for regular consultation between the Minister of Economy and Finance and the Bank of Morocco to ensure the compatibility of the macro- prudential

policy, and monetary policy with other instruments related to macro-economic policy.

The AMF's mission concluded that actions implemented, within the framework of the agreed reform program, will help to carry out banking and financial operations in a highly effective and efficient manner, and enhance financial inclusion and increase the financial sector's resilience to the various challenges. These reforms will also promote financial stability, access to finance and financial services and meet the financing requirements of various economic activities.

In the light of the foregoing and taking into account the efforts made by the Moroccan authorities to implement the agreed upon program, the second installment of the loan of AAD 30 million was withdrawn on October 12th, 2018.

Economic research, studies, reports and bulletins

The Fund publishes a whole range of reports, bulletins, researches, studies, and books as part of its efforts to support and assist decision and economic policymakers in Arab Countries.

In this regard, AMF publications focus mainly on addressing economic issues, identifying challenges, and recommendations of proposing policy, in a way that contributes positively to the decision-making process in the Arab Countries. AMF publications also provide information, data and economic analysis that enables those interested in Arab economic affairs and researchers to discuss the most important economic issues facing the Arab world, as well as enable policymakers in the Arab countries to develop future strategies based on solid ground.

In this context, the reports, bulletins, studies and books issued by AMF during 2018 included the publication of the “the Joint Arab Economic Report 2018 (JAER)”, in Arabic, as well as the summary of the report in English, which considered as the main reference for economic developments in the Arab Countries.

The report is the result of fruitful cooperation among Arab institutions. It is co-authored by the General Secretariat of the League of Arab Countries, the Arab Fund for Economic and Social Development, the Arab Monetary Fund and the Organization of Arab Petroleum Exporting Countries. The Arab Monetary Fund takes the editing and publishing responsibilities of this report since 1980.

The AMF has also released two editions of “**the Arab Economic Outlook**” in April and September during the mentioned year. The two editions included forecasts for Arab countries for the years 2018 and 2019. The report is prepared and published on the official website of the AMF, with a view to provide decision makers with a forward-looking and analytical vision of the performance of Arab economies, that contributes to strengthening the scope of research work and responding to the need for member countries to have expectations of the overall economic performance of the Arab Countries as a group. The report benefits from the economic analysis and expectations of specialists in both central banks and Arab ministries of finance, related to the macroeconomic performance at several aspects, namely: the economic growth, domestic price level, monetary conditions, public finance, and the external sector.

In line with the Fund's quest for continuous development of its research activities, the fund has launched the first edition of a new specialized report entitled “**A Way to Reform**”,

that addresses one of the detailed themes of the economic reform programs being implemented in the Arab countries. The report highlights the experiences of Arab countries in implementing such reforms in addition to the lessons learned from international experiences. The first issue of the report discussed **"reforms of the civil service system"**.

Additionally, the AMF has issued a report on **"The Regulatory Developments and Implementation of Basel (III) Requirements in the Arab Countries"**, highlighting the progress made by the Arab Central Banks and Monetary Authorities to implement international standards specifically Basel III requirements to ensure banking soundness and financial stability. In the same vein, AMF published the third issue of the **"Competitiveness of Arab Economies Bulletin"** which measures the competitiveness of the Arab economies using two main indexes, namely, the macroeconomic index and the business environment and the attractiveness of investment index.

AMF also published the sixth edition of **"the foreign and intra-Arab Trade Competitiveness Bulletin"**, which includes developments in the overall and intra-trade structure, according to the harmonized commodity classification, and the measurement of the most important indices of foreign trade competitiveness, such as comparative advantage index, share of merchandise exports in global markets index, the export concentration index, and commodity exports in total merchandise exports index.

Other series of economic studies have been prepared by AMF during 2018, covering various topics including:

- **"The limits of Sustainable Public Debt and Economic Growth Between Theory and Reality"**. The Study analyzed the impact of exceeding the public debt ceiling on the economic development achievements of the Arab Countries, given the importance of debt as the main source of financing public investments and government consumption. Also, given the fact that economic growth sustainability might be affected negatively by over-funding and debt accumulation.
- **"Review of Monetary Unions Criteria and Prospect of the GCC Monetary Union Experience of the Gulf Cooperation Council"**. The study deals with the future of the GCC monetary union and recommends focusing on the most important common characteristics in the GCC countries, such as geographical limits, demographic and cultural similarities as well as the similarity of production structure. The paper contains an analysis of the most important external economic factors that affect the common destiny of the nations of this group of countries as well as the economic aspects that must be enhanced in the medium and long term.
- **"Measuring the Determinants of Foreign Trade in the Arab Countries Using Gravity Models"**. The study aims to identify the most important factors influencing trade between Seventeen Arab countries and other regions using gravity models.
- **"Forecasting Annual National Accounts Using the Input and Output Model"**. The study reviewed the conceptual framework of the methodology for preparing forecasts for annual national accounts using the input-output model, which enables measurement of the linkages between the economic

sectors and impact of the change in any economic sector on other sectors. The study includes an empirical case for estimating GDP and its sectoral and expenditure structure at constant and current prices, during the year 2017 and forecasts for 2018 and 2019. That was based on a set of hypotheses related to the evolution of some variables related to the national economy and international economic developments. The study also provides an assessment of the effects of some economic policies on economic growth.

- **"The Impact of Monetary and Fiscal Policy on Economic Growth in the Arab Countries"**. The study aimed at measuring the impact of monetary and fiscal policies on economic activity in the short and medium term for a number of Arab countries, using Vector Auto Regressive Models and the Impulse Response Function, along with Analysis of Variance Decomposition to measure the relative importance of variables in interpreting variation prediction errors for variables included in the model.
- **"Determinants of Female Labor Force Participation in Labor Market in the Arab Countries"**. The study focused on the most prominent determinants of female labor force participation in the labor market in Arab countries. The study reviewed the international evidence from previous research contributions that have focused on this topic in a number of countries and geographical regions. With a view to identifying the determinants that are most capable factors of interpreting female participation in the labor market in the Arab Countries, the study used descriptive and econometric analysis to identify the determinants of Arab women's participation

in the labor market for a sample of 19 Arab countries for the period (1990-2016).

- **"Managing Liquidity Risks according to Basel III Requirements in Arab Countries"**. The study aimed at exchanging experiences and supporting the Arab central banks' efforts with regard to the implementation of Basel III liquidity requirements.
- **"Balance of Payments and International Investment Position in the Arab Countries: Reality and Challenges"**. The study highlighted the experiences of the Arab countries in compiling balance of payments and international investment position. The study aimed at supporting efforts exerted by the Arab countries to implement the latest Balance of payments and international investment position methodologies, thus providing an opportunity to reach constructive recommendations to improve the quality of this kind of statistics.
- **"Big Data Applications in the Arab Countries"**. The study addressed the applications of big data In the Arab countries, shed light on methodologies, systems, and laws of big data management, which needs nontraditional analytical tools and techniques. The study was prepared drawing on the results of the Arab Monetary Fund's questionnaire on big data applications in the Arab countries.
- **"The Evolution of the Structure of Foreign and Intra-regional Trade in the Arab Countries"**. The study dealt with the measurement of the performance of the international and intra-regional Arab trade and highlighted the structure of merchandise exports in the Arab countries

and the main exports according to the Harmonized Commodity Description and Coding (HS-4) without oil. The study also addressed the evolution of trade trends and identified the most important trading partners with the Arab countries.

- **"The Implications of Non-Performing Loans on the Performance of Banks and Economic Activity"**. The study examined the determinants of the Non-Performing loans in the banking sector for some of the Arab countries during the period (2007-2015), through a model that shows the relative importance of macroeconomic factors and banking indicators.
- **"Calculating a Composite Index of Financial Inclusion and Estimating the Relationship Between Financial Inclusion and GDP in the Arab Countries"**. The study aimed at contributing in a systematic way to enhance knowledge on how to calculate a five-composite index of financial inclusion in the Arab countries, in addition to studying the Two-way relationship between Financial inclusion and GDP per capita.
- **"The Performance of Islamic and Conventional Financial Markets and Development Mechanisms"**. The study aimed at exploring the flexibility and stability of the performance of Islamic and conventional financial markets during and after the global financial crisis and highlighted the most important variables that may affect the volatility of these markets.
- **"Subsidy Policies in Arab countries"**. The study addressed the different aspects of subsidy policies in the Arab countries and efforts exerted to reform subsidy systems. In addition, the study highlighted the current situation of these systems including

its volume, coverage levels, scope, and implementation mechanisms, economic implications, along with future reforms.

Technical Assistance to Member Countries

Technical assistance is one of the means that are available to the Fund under its Articles of agreements to achieve its objectives. It includes all activities that aim at enhancing and strengthening capabilities in the formulation and implementation of economic and fiscal policies, as well as economic reforms in Member Countries.

AMF offers direct technical assistance and support to its Member Countries, in the area of macroeconomic policy making and structural reform program design, by delegating lending-related missions for consultation on loans to support economic and structural reform programs. During these missions, Member Countries are exposed to AMF experience. Member Countries also receive services provided by external experts taking part in these missions.

Upon request from Member Countries, the AMF provides technical assistance missions to Member Countries, deploying its expertise in economic and financial areas. This includes providing recommendations addressing certain challenges and gaps. The Fund provides technical assistance in fields related to its expertise, such as economic policy design, financial and banking infrastructure development, government bond markets, capacity building in the compilation of economic statistics, and other related areas.

The Fund provides this technical assistance in both direct and indirect forms, as appropriate. These include the provision of technical assistance as part of different initiatives

adopted by The AMF for further development of the financial sector in Arab Countries, as well as seminars, conferences and consultative meetings organized by the AMF.

The AMF technical assistance activity in various economic and financial areas during 2018 is detailed as follows:

▪ **Support for development of financial and banking sector and capital markets in Arab Countries**

During 2018, the Fund continued to provide technical support for the development of the financial and banking sector and capital markets in the Arab Countries through its initiatives, conferences, meetings and high-level workshops, in which it collaborates with relevant regional and international financial institutions.

In this context, the AMF organized a press conference on April 27, 2018, on the occasion of the Arab Day of Financial Inclusion, which was organized this year under the theme "Enabling the access of youth and entrepreneurs to financial services". During the press conference, the study on payment aspects for financial inclusion in the Arab region has been formally launched in the framework of the Financial Inclusion for the Arab Region Initiative (FIARI). The study aims to address challenges of promoting financial inclusion in the Arab region through the development of digital financial services and payment systems. Moreover, the Fund participated in the conference entitled "Using Digital Technology and Financial Services to Promote Financial Inclusion", held in Beirut on April 27, 2018, as part of the Arab Day of Financial Inclusion.

On the other hand, in the context of the increasing importance and exponential growth

in the use of financial technology in the financial and banking sector, and the significant opportunities it offers in supporting access to financing and financial services and promoting entrepreneurship, the Fund organized in cooperation with the International Monetary Fund, on September 18th, 2018, in Amman, Jordan, a meeting on "The Growing Financial Technologies: Opportunities and Challenges in the Arab Countries".

The meeting was attended by a number of Arab Central Banks and Monetary Authorities' Governors, high-level representatives from international central banks and Arab commercial banks, as well as representatives of the leading private sector institutions operating in the field of financial technologies. The discussion focused on "financial technologies and financial inclusion", "regulatory and supervisory methodologies for financial technologies", "central bank digital currencies, and the e-threat risk management framework", as well as "Effective Management Requirements to face Cyber Threats in the Financial and Banking Sector."

In October 2018, the Fund also hosted in Abu Dhabi, the Task Force on Payment Aspects for Financial Inclusion (PAFI). High-level representatives from 27 global central banks and international organizations took part in the meeting. The meeting discussed a number of topics, mainly the application of the guiding principles of payment systems to enhance the financial inclusion defined by task force and the challenges in this regard and assess the effectiveness of procedures of expanding use of bank accounts.

In the same context, in October 2018, the Fund organized in Abu Dhabi, a high-level workshop on issues related to payment systems to enhance financial inclusion, with the participation of the

World Bank Group and the Bank for International Settlements. The workshop was attended by high-level representatives from a number of global central banks, international organizations, as well as the secretariat of the Gulf Cooperation Council, representatives of central banks and Arab monetary authorities, members of the Arab Committee on Payment and Settlement Systems. During the workshop, Arab and international issues and experiences related to payment systems were reviewed and discussed to enhance financial inclusion, and identify achievements in this regard, as well as ways to take advantage of new payment solution to enhance financial inclusion and access to financial services at the global level. The implications of financial technologies on payment systems and how they can be used to promote financial inclusion have also been discussed through, inter alia, digital identity, Blockchain technology, and digital currencies supported by central banks.

As to the performance of the Arab financial markets and exchanges, The AMF has published so far 94 quarterly bulletins on Arab Financial Markets, since the start of these quarterly bulletins addressing the most significant economic developments related to the activity of Arab financial markets, the most important regulatory developments, as well as the analysis of the performance and activity of securities markets.

These publications issued by the Fund in 2018, showed an improvement in the performance of Arab financial markets compared to 2017, with an increase in the total market value of securities registered in the Arab stock exchanges during the comparison period of U.S.\$ 71.0 billion, and by 6.3 percent, to reach almost U.S.\$ 1,209 billion by the end of December 2018.

▪ Development of Statistical Capacity in Arab Countries

The Fund recognizes the importance of providing comprehensive and reliable statistics to enhance the economic, monetary, and fiscal decisions and policies in Arab Countries. The Fund considers the issue of developing statistical capacity in the Arab Countries as one of its main priorities and concerns.

In this regard, during 2018, the Fund continuously update its statistical databases, publish periodically statistical bulletins and reports, on its website. The Fund's work in statistical areas during 2018 also included several activities programmed under the objectives of the Fund's strategy, including building staff's capacity in statistical agencies in the Arab Countries, the preparation of studies and reports, as well as the provision of data annexes of the Joint Arab Economic Report.

Within the framework of its role as the Secretariat of the Technical Committee of the Arab Statistics Initiative "ARABSTAT", the Fund organized the fifth meeting of the technical committee of the initiative, during 7th - 8th November 2018, in Abu Dhabi, gathering more than 60 participants from the Arab central banks, monetary institutions, ministries of finance and statistical agencies, as well as participants from 8 international and regional institutions.

The objective of the meeting is primarily to exchange experiences and enrich dialogue and improve statistical methodologies and guidelines in the Arab Countries, aiming at developing the production and dissemination of comprehensive, reliable and updated data, as well as providing relevant economic and social indicators, that meet users' needs.

Considering its objectives, the 2018's agenda of the initiative included statistical and social issues, which are highly important to the Arab Countries. The suggestions of the technical committee expressed in a questionnaire related to the development of the work of the initiative.

The meeting presented the main findings of the questionnaires prepared by the secretariat on the challenges facing a number of statistical bodies in the Arab Countries in the areas of; production of statistical data and indicators, government finance statistics, sustainable development indicators, quarterly national accounts, the application of guidelines and methodologies in statistics and data dissemination and balance-of-payments statistics.

The meeting also presented training courses in statistical fields, organized by the AMF in 2018, in diverse areas including data analysis, econometric and economic modelling, which are important issues for the Arab Countries.

The following list of questionnaires are prepared by the AMF for identifying the statistical needs of Arab Countries in areas of training and technical assistance:

- **"Government Finance Statistics (GFS)"** questionnaire, aims at identifying the status of the government finance statistics and assessing progress in the application of internationally recognized methodologies.
- **"Balance of Payments Statistics"** questionnaire, which intended to evaluate the way the balance of payments statistics and the international investment position in the Arab Countries are prepared, regarding applied methodologies, periodicity of accessing data and sources, as well as data comprehensiveness.

- **"The Quarterly National Accounts"** questionnaire's objective is to monitor the status of the preparation and publication of the quarterly national accounts in the Arab Countries, and to assess the progress in the application of international methodologies and standards in this area.
- **"Status of Dissemination of Statistics in the Arab Countries"** questionnaire aims at highlighting the efforts of the Arab Countries in the preparation and dissemination of statistics and examining the most important characteristics and types of published data and indicators, as well as identifying the methodologies and standards used in the data dissemination systems of Arab statistical institutions. The questionnaire covered subjects related to the legal and institutional environment of data dissemination systems, types of published data, periodicity of publications, and methods used in the exchange of data between statistical bodies, as well as cooperation efforts with regional and international institutions in this area.
- **"Sustainable Development"** questionnaire, aims at identifying sustainable development status in the Arab Countries, and their future prospects and the most important actions and measures taken by the Arab Countries in this regard, through questions related to the strategies set by the Arab Countries to achieve sustainable development goals, and the most challenging issues.
- **"Application of International Statistical Guidelines, Methodologies and Standards"** Questionnaire, aimed at assessing the status of the application of international statistical guidelines and methodologies in the Arab Countries, and

identifying the strategies put in place by statistical bodies in the field of data production and dissemination. Besides, the questionnaire reviewed the most important actions taken by the Arab Countries in this area, particularly with regard to National Accounts, Balance of Payments and International Investment Position, Monetary and Financial Statistics and Government Finance Statistics.

▪ Management of the Consolidated Account for Funding Arab Specialized Organizations

The Fund is entrusted with the management of the Consolidated Account for Funding Arab Specialized Organizations in which it was created pursuant to Economic and Social Council Decision No.1056 adopted in July 1988, to cover the expenditure of Arab Specialized Organizations, within its approved budgets. The account's inflows reflecting the sum of Arab countries contributions.

Specialized Organizations created within the League of Arab States (L.A.S.) as one of the major pillars of inter-Arab cooperation. They serve as technical arms and centers of excellence under the L.A.S. They offer advice and expertise on economic, social, cultural and financial issues and activities. They are playing a pivotal role in achieving Arab common aspirations within their respective mandates. The Arab organizations that are parties to this consolidated account include:

- 1- Arab Organization for Administrative Development (ARADO)
- 2- Arab Labor Organization
- 3- Arab Industrial Development and Mining Organization
- 4- Arab League Education, Culture and Science Organization (ALECSO)

- 5- Arab Organization for Agricultural Development
- 6- Arab Center for the Studies of Arid Zones and Dry Lands (ACSAD)
- 7- Arab Atomic Energy Agency
- 8- Arab Authority for Civil Aviation (ACAC)
- 9- The Arab Centre for the Prevention of earthquakes and other natural disasters.

Within this context, the AMF prepares a quarterly report for each organization that shows expenditure and remaining balance, and the contributions by Member Countries to the budget of the organization concerned, as well as a regular aggregated quarterly report on the operations of the consolidated account.

The financial position of the Consolidated Account shows that the balance on the asset side as of Year End 2018 was U.S.\$ 24.0 million, up from U.S.\$ 23.0 million as of Year End 2017.

It is noteworthy that the return on investments of the Consolidated Account's balance is deposited in a special reserve sub-account belonging to these organizations. The balance of the sub-account, as of Year End 2018, was about U.S.\$ 10.0 million. It now covers almost 24 percent of total appropriations of the budgets of member organizations for the last fiscal year, although percentages vary across individual organizations. Decisions taken by the Economic and Social Council envisage that a buildup of reserve under this account to be used in emergencies, as decided by the Economic and Social Council of the League of Arab States.

▪ Cooperation and Partnership with Arab, Regional and International Organizations

As part of its keenness to strengthen its relationship with local, regional and international financial organizations and

institutions, the Fund organized in the Kingdom of Morocco in January 2018, the **"Regional high-level conference on prosperity for all: promoting jobs and inclusive growth in the Arab world"**, in cooperation with the Moroccan ministry of economy and finance, the International Monetary Fund, and the Arab Fund for Economic and Social Development.

The Moroccan and Tunisian Prime Ministers, the Director General of the International Monetary Fund, and a number of Arab central banks and monetary authorities' governors, along with Ministers of Finance, Economy and Labor in the Arab Countries, as well as a number of representatives of the private sector, leadership institutions, and relevant civil society organizations attended the conference. The aim of the Conference was to highlight the issues of inclusive growth in the Arab Countries, including job creation, entrepreneurship promotion, emerging projects, and ways to take advantage of modern financial technologies in the service of emerging businesses. In the same vein, a competition for young Arab innovators was organized on the sidelines of the conference, and four winners out of 80 contestants were honored. The four winning business themes were: training children in engineering, financial technology and entrepreneurship, developing a platform for self-service, manufacturing and marketing of environmentally friendly cars, and manufacturing organic fertilizer for agricultural land.

On the other hand, under the patronage of H.E. President Abdelaziz Bouteflika, President of the People's Democratic Republic of Algeria, the Fund organized, in March 2018, the "High-level Regional Conference Towards a New Economy for the Arab Countries: Youth, Technology and Finance", in cooperation with the Algerian Ministry of Finance, in presence

of the IMF and the World Bank Group. The Conference discussed the requirements and needs of job creation for the youth and university graduates in Arab Countries, as part of the transition to a new economy that is based on modern technologies and enhances opportunities for innovation and creativity.

The Conference also addressed the needs of developing the technical and financial infrastructure and education and training systems needed for the knowledge economy, as well as discussing the importance of supporting emerging companies in creating jobs for young people, the requirements of infrastructure development, communication technologies, and the role of advanced payment systems and applications of digital technologies in facilitating access to finance. Discussions also touched on the importance of creating job platforms, developing education systems and institutions to support innovation, as well as the need for a legislative and legal environment supportive of the requirements of the new economy.

In July and October 2018, the Fund organized two meetings at its headquarters in Abu Dhabi with the Islamic Development Bank Group to discuss ways to develop cooperation between the two institutions in the field of training and capacity-building, and to issue indicators for the performance of sukuk markets in the Arab Countries, as well as to prepare studies and researches, joint reports, participation in the provision of advice and technical assistance for the development of Islamic Finance and Shariah-Compliant Financial Markets, and assisting Arab Countries wishing to join the World Trade Organization. Also, the Fund participated in the Annual Arab Banking Conference 2018, held in Beirut, Lebanon, in November 2018, on "Public-Private Partnership". The conference was attended by

governors of Arab central banks, directors general and heads of boards of Arab commercial banks, as well as senior officials in the financial and banking sector and economic experts from the public and private sectors at the Arab, regional, and international level.

Moreover, the Fund participated, in December 2018, in the "Fourth Annual Conference of the Central Bank of Iraq", held in the Iraqi capital of Baghdad, titled "The Development Role of the Central Bank of Iraq-Data and Trends". In May 2018, the Fund participated in the "African Summit on Blockchain", held in the Republic of Tunisia.

The Fund also participated in the conference **"Rising Debt: Risks, Safety and Responsibility"** held in May 2018 in Brussels, Belgium. A number of international organizations that participated in the conference, namely and among others, the IMF, the World Bank, the Organization for Economic Cooperation and Development (OECD) and the Center for International Development in Washington. The meeting discussed a number of issues, including the developments and prospects of global public debt management, ways to adjust the continuing increase in public debt levels, the role of the private sector in responsible financing, and the importance of the availability and quality of data in achieving effective public debt management, as well as ways to establish a legislative and institutional structure for debt management and local financial market development issues to address the risk of debt growth, manage risks in a changing global environment and local debt risk, in addition to debt reforms in the context of sustainability, opportunities, challenges of asset management and commitments.

Within another level, the Fund participated in the Forum on intercontinental Dialogue and the

global financial system held in Paris in September 2018, with the participation of a large number of world economic, financial and banking personalities and expertise to discuss the prospects and trends of the global economy. The Fund participated in the meeting to discuss the prospects of emerging economies and the increasing role of regional financial arrangements. The Fund is linked to a joint work program with the Organization for Economic Cooperation and Development (OECD), where the program has been updated to serve the needs of Arab Countries.

On the other hand, the Fund represented the secretariat of the Arab Committee for Banking Supervision in the "Meeting of the Consultative Group of the Basel Committee on Banking Supervision", held in the Swiss city of Basel during February 2018. The program of the meeting included a discussion of a number of priority topics, in terms of banking supervision and implementation of Basel requirements (III).

The Fund also hosted the regular meeting of the Basel Committee consultative Group held in November 2018 in Abu Dhabi city. The meeting was attended by a number of senior officials from the banking supervision departments of a number of central banks and global regulatory bodies, as well as representatives of the banking oversight committees of the various regional groups. The meeting discussed a number of issues and topics, including proportionality in the implementation of regulatory reforms, anti-money laundering and the financing of terrorism.

On the other hand, the Fund participated in the Development Committee and G20 meetings, held in October 2018 in Bali, Indonesia. This included attendance of development Committee meetings and G24 meetings. The Fund also participated in the Arab Group ministerial meetings with the President of the World Bank

Group and the Director-General of the International Monetary Fund. The Fund's delegation also held numerous meetings with various IMF and World Bank departments to discuss joint regulations and initiatives with these two institutions.

AMF participated in the International Credit Information Committee meeting held in April 2018 in Washington, D.C., U.S.A., since a number of topics have been discussed, including a policy paper on alternative data for financing medium and small projects for the G20, general guidance on cyber threats and recent methodologies in the field of credit query. The Fund also participated as an observer in the twenty-seventh general meeting of the Financial Action Group for the Middle East and North Africa (MENAFATF), held in the Republic of Lebanon in May 2018.

Financial Inclusion for the Arab Region Initiative (FIARI)

In the framework of the Fund's strategy, to contribute to supporting and enhancing financial inclusion in the Arab Countries, while recognizing the close relationship between financial inclusion, financial stability, economic growth and sustainable development, and after the launch of Financial Inclusion for the Arab region Initiative (FIARI), under the auspices of the Council of Arab Central Banks and Monetary Authorities' Governors in September 2017, the Fund has organized the first meeting of FAIRI's partners in Abu Dhabi in February 2018. The meeting was attended by the German Development Agency (GIZ), the Alliance for Financial Inclusion (AFI), the World Bank, the Japan Development Agency (JICA), the Islamic Development Bank (IsDB), the International Monetary Fund (IMF) and the International Finance Corporation (IFC).

The participants in the meeting agreed on the institutional framework of the initiative and endorsed the proposed AMF triennial Work Program covering the period 2018-2020, defined after careful consideration of needs, priorities and expectations of Arab Countries. Moreover, a follow up meeting has been organized in July 2018, at AMF headquarters in Abu Dhabi, which aims to support the efforts of the Arab Countries to improve the access to finance to all economic sectors and social groups in the Arab Countries; Contributing to the overall economic and social development opportunities,

In the framework of the endorsed FIARI triennial work program, the AMF has conducted in October 2018 a technical assistance mission to the Republic of Iraq, in cooperation with the World Bank, the German Development Agency (GIZ) and the Alliance for Financial Inclusion (AFI) to provide technical assistance to Central Bank of Iraq to develop National Financial Inclusion Strategy and related policies, aiming at financial inclusion indicators in Iraq. The mission completed a comprehensive assessment of the state of financial inclusion in the context of financial sector development agenda in Iraq and provided policy short-and medium recommendations as well as an action plan that will support Central Bank of Iraq and other stakeholders to expanding access to finance Iraq.

In the same framework, the AMF, in collaboration with the German Development Agency (GIZ) and the Alliance for Financial Inclusion (AFI), with the support of the Central Bank of the United Arab Emirates, organized the first Arab Fintech Symposium on Blockchain & Financial Inclusion in December 2018, providing a unique platform for an informed and critical debate on how best to promote transformative FinTech opportunities that can aid further development in Arab

countries. The symposium has been attended by senior officials from Ministries of finance, Ministries of economy, Central Banks, Arab Monetary Authorities, financial markets authorities, commercial banks, academics, financial technology providers in the Arab Countries and beyond.

The Symposium highlighted the new Arab FinTech Agenda of public and private stakeholders, which outlines the region's priorities in FinTech for Financial Inclusion while taking into account its unique ecosystem opportunities. During the event, the strategic objectives of the new regional FinTech Working Group will be presented as well as the ambitious plan to develop the first Arab Regional Payments System.

As a stage for talks on regional and global developments in Blockchain technology for financial inclusion, the Symposium will include topics about innovations in payment systems, digital currency, cross-border remittances, impact investing, and digital identities. It will help to identify effective policies and regulatory approaches to transformative FinTech opportunities, including regulatory and supervisory technology, that hold promise – or have proven successful – for improving financial and economic development in Arab countries.

In addition, the Fund has launched the Regional Working Group on Financial Technologies, which held its first meeting in Abu Dhabi on December 11, 2018. The group aims to examine the topics of financial technologies, consult and exchange experiences and knowledge related to these issues and develop visions for their revitalization and organization in the Arab Countries. Representatives from Central Banks and Arab monetary authorities, ministries of finance, capital markets authorities, commercial

banks and financial services providers, as well as representatives from financial technology service providers in the Arab Countries as well as experts from a number of financial institutions have participated in the meeting.

AMF's efforts in promoting financial inclusion in the Arab region, in prolongation of the increased attention paid by central banks and Arab monetary authorities in recent years, to programs and policies to promote inclusive finance within the framework of policies and strategies to support economic growth and financial stability, where legislative and regulatory frameworks have evolved significantly in the promotion of financial inclusion, focused on working to improve the access of entrepreneurs to finance, as well as to reduce the leakage of private savings from the formal financial and banking sector in the Arab region.

The AMF's launch of FIARI initiative to support financial inclusion related agenda in the Arab Countries is in line with international efforts in this regard, consisting to support further 2030 sustainable Development Goals (SDGS) set by the United Nations, where financial inclusion has been considered the foremost means to achieve economic efficiency and social equity, which are the main pillars of sustainable development.

It is noteworthy that financial inclusion contributes to the achievement of a number of 17 ambitious sustainable development goals, through the promotion of digital financial services, access to finance, the provision of secure and reliable payment systems, both directly and indirectly.

Financial inclusion issues over the past years have also attracted the attention of relevant international institutions and standard setting

bodies such as the G20 and its Global Partnership for Financial Inclusion (GPFI). This is in addition to the importance given to the financial inclusion issues in the programs and activities of both the IMF and the World Bank.

Capitalizing on all the above mentioned, The AMF, in cooperation with Arab financial sector supervisory authorities has worked to lead this tendency and to help address challenges of achieving financial inclusion in the Arab region. The AMF's strategy for the period 2015-2020 has included many programs and activities aimed at assisting Arab Countries in improving access to finance and financial services.

In this context, many workshops, conferences and training courses have been organized in partnership and cooperation with regional and international institutions, such as the IMF and the World Bank, the Alliance for Financial Inclusion (AFI), Bill and Melinda Gates Foundation (BMGF), the Bank of International Settlements (BIS), the German Agency for Development (GIZ), the Japan International Cooperation Agency (JICA), and a number of central banks outside the Arab region.

The objective of FIARI is to promote inclusive and sustainable growth and poverty reduction through sustainable financial inclusion policies by supporting efforts to expand access to the formal financial system for the underserved and financially non-included populations, with a focus on catalyzing the provision of appropriate financial products and services to meet the needs of households and businesses.

Important components of FIARI will focus on developing a coordination mechanism, developing and establishing a monitoring and evaluation framework, supporting the implementation of national strategies for financial inclusion and developing country

specific programs. On the regional level, FIARI will deliver its services by enabling peer-to-peer learning, providing training, and fostering knowledge exchange. On the national level, country specific programs and technical assistance/advisory services will be provided. FIARI's main beneficiaries include Central Banks in the Arab region, Ministries of Finance, other ministries in the Arab region in charge of SMEs, women and employment, among others, as well as relevant market players. Specific priorities include:

- ✓ Financial inclusion data to support evidence-based policy making;
- ✓ Women's financial inclusion, employment and empowerment;
- ✓ Financial services for MSMEs including credit guarantee mechanisms;
- ✓ Financial market infrastructure that allows for greater financial inclusion;
- ✓ Support responsible finance towards more sustainable and resilient development; and,
- ✓ Digital financial services and institutional innovation as a mean to expand alternative channels for financial system access and usage;

Moreover, FIARI initiative is supporting Arab Financial Inclusion Day that has been endorsed by the Council of Arab Central Banks and Monetary Authorities' Governors in 2016, as a mean to raise awareness and build capacity in the area of financial inclusion.

Arab Regional Payments System (ARPS) project

In the context to move into the implementation of decision No. 10-2017 of the Council of Arab Central Banks and Monetary Authorities' Governors, which called for the establishment of an AMF owned independent entity for an Arab Regional Payments Clearing and

Settlement System (ARPS), the Arab Monetary Fund has embarked on the implementation of ARPS, as commissioned by its Board of Governors and take all necessary measures to make the system operational at the earliest. Previously, the AMF has prepared a detailed implementation plan taking into account the need for establishing a proper legal framework for the operation of the system while ensuring full compliance with relevant international standards and principles.

In line with the said implementation plan, several achievements have been accomplished to date, covering four key workstreams. First, on the legal and regulatory front, an international legal firm is assisting the AMF in establishing the ARPS entity as a regional organization with an independent legal personality, fully owned by the AMF, and supported by a well-founded, clear, transparent and enforceable legal basis.

Second, AMF has conducted technology trends assessment reviewing recent developments in the areas of cross border payments. A global consultancy firm has been contracted to proceed accordingly and assess technology selected in ARPS design document help exploring opportunities to take advantage of recent developments in the field of information technologies. Third, from an organizational perspective, a robust organizational structure and transparent governance arrangements have been designed. Moreover, a team of high-caliber leaders and talented workforce is currently being recruited to drive the implementation and operation of ARPS. Finally, a communication services company has been engaged to support in defining communication and public relationship strategy of the company as well as identifying its brand identity.

Training and capacity building

Training activities undertaken by the AMF-Economic Policies Institute (EPI) support the objectives of AMF Strategy Framework for 2015-2020 through the upgrade of training and capacity building in economic, fiscal, monetary, trade, and statistical areas in the Arab region.

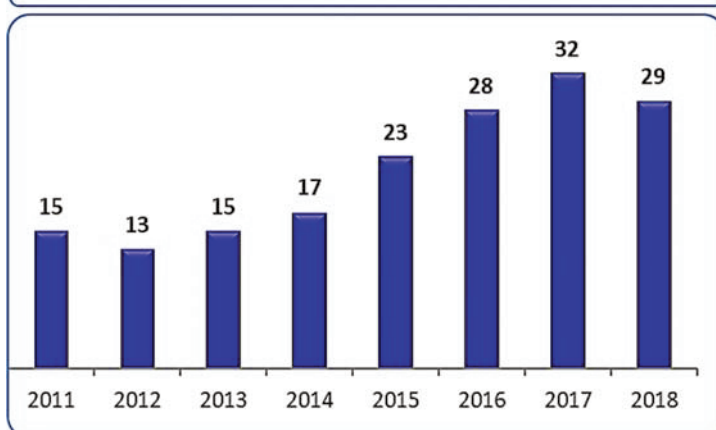
To this end, the Economic Policy Institute (EPI) has accorded a high priority to upgrading training in general and, in particular, the academic content of current training programs, expansion of the list of training programs and activities, including those offered by the Fund at its HQ in Abu Dhabi, UAE, and in Arab Countries. In addition, the EPI has accorded a high priority to laying down the foundation for online training and the possibility of introducing a program for visiting scholars and another one for junior economists.

In this regard, the Plan of Action implemented by the Institute during 2018 was based on the following themes:

- 1- An increase in the number of activities and that of partner organizations in which the EPI cooperates in delivering training, particularly the increase of new training activities.
- 2- Improved return on spending and foreign contribution to program allocations and diversification of sources of funding.
- 3- Strengthening core business lines through better training processes and informatics systems that support electronic registration.
- 4- Strengthening AMF own capacity to improve response to future training needs. In the light of the foregoing, during 2018, EPI provided 29 training courses, two of which were held outside the headquarters state.

The courses addressed new topics, in addition to existing topics, in response to the expectations of Member Countries, meeting their needs and maximizing the benefits of their cadres (chart 3).

Chart (3): Activities of Economic Policy Institute (2011 - 2018)



The 2018 program included eight sessions with the International Monetary Fund (IMF), three sessions with the World Trade Organization (WTO), two courses with the Central Bank of Germany (Bundesbank), a course with the Central Bank of England (BoE), two courses with the Bank for International Settlements (BIS) and three sessions with the Islamic bank For development, his role with the World Bank, his role with the Japan Agency for International Cooperation (JICA), his role with the Middle East and North Africa Financial Action Group Mena FATF, his role with the U.S. Federal Reserve Bank, and his role with the Islamic Financial Services Council and the rest of the courses provided by fund experts Arab criticism.

As for the number of participants from Arab cadres at the institute's courses, 861 trainees from Arab officials participated in the training programs of 2018, with a participation rate of approximately 40 per cent for women. In order to raise the quality and efficiency of training activities, the Institute pays great attention to the

requirements of Member Countries through the questionnaire sent them in the fourth quarter of each year to determine the training needs of these Countries, where the Institute is keen to analyze the answers of the questionnaire that it prepares on the impression Participants and their views on the training courses and programs of the Institute, which were mostly positive, especially with regard to the effectiveness of training, the extent of application of information systems, and the skills acquired. In this regard, the Institute pays great attention to the study of participants' proposals on the design of additional training programs to match their needs and aspirations.

With regard to the financial dimension, in the sense of success in raising the efficiency of spending and enhancing the involvement of external actors in resources directed to support activities, the Fund's plan for 2018 relied on the contribution of partner institutions in most activities, within the framework of understandings of cooperation with the participants, noting Most of them bear the costs of their experts, including accommodation and travel. The World Trade Organization (WTO) and the Islamic Development Bank (IDB) are also involved in half of the other costs of the activity. In addition, training courses based on the Fund's own sources and resources, such as the Economic and technical Service and the investment service, were held.

Also, the Fund is paying attention to maintain capabilities of development and training, through strengthen the human resources that are qualified to strengthen the activities of the EPI. In this regard AMF continued to attract cadres to join the staff of the Institute and seek to find cadres with a distinguished academic

and practical background. In order to strengthen the basic courses of action that must be distinguished, there is great interest in automating the procedures of the training activity as far as possible, such as remote registration and continuous follow-up to increase the effectiveness of the holding, organization and management of courses.

Here is an annotated list of courses and workshops held during 2018, including topics, co-organizers and objectives:

- 1- Training course in cooperation with the IMF Middle East Centre for Economics and Finance on **"Exchange Rate Policy"** during the period 14-25 January 2018, aimed at a comprehensive overview of exchange rate policy and analysis. The first part of the session addressed the most important definitions and concepts used in exchange rate analysis, including the analysis of exchange rate misalignment.
- 2- Training course in cooperation with the technical staff ,Investment Department, AMF, on **"Portfolio Management"** during the period 28 January-1 February 2018, aimed at informing the participants on the practical aspects of the management of investment portfolios and the bases of management of those portfolios in terms of defining investment strategies , distribution and diversification of various investment assets with the aim of achieving the highest risk-weighted rate of return.
- 3- Training course in collaboration with the technical staff, Economic and technical department, AMF, on **"Advanced Quantitative Data Analysis"** during the period 4 – 8 February 2018, aimed at enabling participants to enhance their knowledge of advanced descriptive and analytical analysis methods.
- 4- Training course in collaboration with the U.S. Federal Reserve Bank on **"Onsite and Offsite inspections of Banks"** during the period 11 -15 February 2018, aimed at deepening the knowledge of the participants about the risk management and analytical concepts that are used in the types of censorship whether they are office or The field.
- 5- Training course in cooperation with the Central Bank of Germany on the **"Monetary Policy Communication Mechanism"** during the period 25-25 February 2018, aimed at informing the participants of the importance of the principle of transparency in central banks as a prerequisite for the success of monetary policy, especially in central banks that adopt the policy of inflation targeting in monetary policy management.
- 6- Training course in collaboration with the IMF Center for Economic and Financial in the Middle East on **"Fiscal Policy Analysis"** during the period 4-15 March 2018, aimed at providing an overview of the most important concepts and methods of public finance policy used in analyzing the contribution of public finance policy to achieving macroeconomic stability and sustainable long-term growth.
- 7- Training course, in collaboration with IMF Center for Economic and Financial in the Middle East, on **"Financial Development and Financial Inclusion"** during the period 25 March-5 April 2018, aimed at shedding light on the concept of development and financial inclusion. An analytical framework has presented during the course

for outlining the role of finance in the economy, as revision of the most important studies on the impact of financing on macroeconomic performance and growth.

- 8- Training course, in collaboration with the Bank for International Settlements (BIS) on **"The Risks of weak governance in financial institutions"** during 10-12 April 2018, reviewed the concept and importance of governance, as well as its most important principles by focusing on the application of governance principles in banking institutions, especially responsibility, accountability and transparency And justice to increase performance, reduce risk and stimulate performance.
- 9- Workshop, in collaboration with IMF Center for Economic and Financial in the Middle East, on **"Financial Soundness indicators"** during the period 15-19 April 2018, aimed at discussing how to take advantage of financial safety indicators to enhance overall prudential control in Arab countries, stability Finance, and macroeconomics.
- 10- Training course, in collaboration with IMF Center for Economic and Financial in the Middle East, on **"Fiscal Policy Frameworks"** for the period 22 April-3 May 2018, aimed introduces participants key concepts of measuring and analyzing the consistency and effectiveness of public finance policy and the study of financial frameworks as the best practices developed to promote fiscal discipline.
- 11- Training course, in collaboration with the Islamic Development Bank, on **"SMEs Financing in Accordance with the Islamic perspective"** during the period 6-10 May 2018, aimed at deepening the understanding of the participants in the methods of financing, Shariah compliant, and its importance in the advancement of the enterprise sector Small and medium-sized, with a focus on the most widely used Islamic finance instruments to finance this type of project, which is a mainstay of economic growth and employment policy.
- 12- Training course, in cooperation with the World Bank and the AMF technical staff on **"The Development of Debt Markets and Infrastructure for Capital Markets in the Arab countries"** during the period 24-28 June 2018, aimed at informing participants about the issues of debt market development, public debt management processes and the risks surrounding them, and their linkage to financial and banking sector development and macroeconomic policies.
- 13- Workshop, in collaboration with the Islamic Services Council on **"Facilitating the application of the standards issued by the Islamic Services Board"** during the period 2-5 September 2018, aimed at informing participants about the standards issued by the Islamic Services Council on capital adequacy and risk management.
- 14- Training course, in cooperation with the World Trade Organization (WTO) on **"Trade facilitation Agreements"** held during the period 11-13 September 2018, aimed at informing participants of the importance of trade facilitation agreements in facilitating cross-border trade by simplifying border procedures and administrative requirements and providing Electronic information and procedures leading to the revival of the economic movement of developing countries, thereby raising the economic growth rates in this country.

- 15- Training course, in collaboration with IMF Center for Economic and Financial in the Middle East, on **"Financial Soundness indicators"** during the period 16-27 September 2018, covered the concepts, definitions, data sources and methods used in the preparation of financial safety indicators that help to support the safety analysis Macroeconomic.
- 16- Training course, in collaboration with the Central Bank of Germany on **"Monetary Policy Implementation"** during the period 1-4 October 2018, aimed at deepening participants ' understanding of the role and functions of monetary policy instruments, and discussing the practical framework of the various tools and their methods of application and the factors influencing market liquidity and processes The open market and how monetary policy influences the budget of the Central bank.
- 17- Training course, in collaboration with the Bank for International Settlements (BIS) on **"Risk-based Supervision and Basel (III)"** during the period 9 -11-Oct 2018, was aimed at reviewing modern methods and practices in the control of financial institutions by focusing on risks under Basel (III).
- 18- Training course, in cooperation with the World Trade Organization (WTO) on **"Trade in Services"** during the period 15-18 October 2018, aimed at deepening the understanding of the participants in the subject of services trade in terms of related policies, regulatory instruments and new ways of negotiations.
- 19- Training course, in cooperation with the AMF technical staff on **"Economic Reforms in Arab countries"** during the period 21-25 October 2018, aimed at deepening the understanding of the participants on issues of economic reform and strengthening their capacities in the design and evaluation of economic reform programs at the macro level, in the government financial sector and in the financial and banking sector.
- 20- Training course, in cooperation with AMF technical staff on **"Investment risk management"** during the period 28 October-1 November 2018, aimed at informing the participants about the mechanisms and how to manage the various investment risks, and to clarify the types of risks inherent in the various tools Investment and how to reduce those risks, including, for example, interest rate risk, credit risk and others.
- 21- Training course, in cooperation with the World Trade Organization (WTO) on **"Regional advanced trade negotiations simulations skills"** during the period 4-8-Nov 2018, aimed at informing participants about the general framework on how national statistics on international services trade are prepared.
- 22- Training course in collaboration with AMF technical staff on **"Economic Modelling"** during the period 11-15 November 2018, focused on the importance of economic modelling as one of the most important tools and instruments used by decision-makers to measure the effects of different economic policies on Their countries ' economies.
- 23- Training course, in collaboration with the Central Bank of England on **"Econometrics"** during the period 18-22 November 2018, aimed at increasing the efficiency of participants in the instruments of forecasting the macroeconomic variables

through the application of modern econometric methods.

- 24- Training course in collaboration with IMF Center for Economic and Financial in the Middle East, on **"Compilation of Balance of Payments Statistics"** during the period 25-29-Nov 2018, reviewed how to prepare and publish balance-of-payments Statistics and international investment status based on balance data collection advisor Payments and the status of international investment.
- 25- Workshop in collaboration with the Middle East and North Africa Financial action Group (MENAFATF), on **" Money Laundering Risk-based Supervision& Mitigation methods"**, held during the period 4-6 December 2018, aimed to inform participants of how banking supervision is conducted Based on the risk-based approach to money-laundering and the financing of terrorism.
- 26- Training course in collaboration with IMF Center for Economic and Financial in the Middle East, on **" vulnerabilities Diagnostics "** during the period 25-29-Nov 2018, the course aimed to enhance the ability of participants to assess vulnerabilities in public finances, the financial sector and external accounts through Use appropriate metrics for this purpose.
- 27- Training course, in collaboration with the Islamic Development Bank on **"Islamic Financial Markets: Principles, Products, and Regulations"** during the period 23-27 December 2018, the course aimed to highlight the Islamic money market and its most important characteristics, the conditions of its composition and the elements of its success, and the most important tools traded in it, The concept and

conditions of efficiency in that market, and the most important differences between them and traditional markets.

- 28- Training course held in the **Hashemite Kingdom of Jordan** in cooperation with the Islamic Development Bank on **" regulation, Supervision, and Risk Management in Islamic financial institutions"** during the period 7-11 January 2018, aimed at informing participants about the principles of effective control over the institutions providing Islamic financial services and the elements and areas that should be given special attention by observers, as well as the extent to which these institutions calculate the ratio of capital adequacy according to internal models, and the extent to which these institutions are able to manage risks in terms of identifying, measuring, controlling and monitoring risks.
- 29- Training course held in the **Republic of Tunisia** in cooperation with the Japan Agency for International Cooperation (JICA) on **"SMEs Development"** during the period 12 – 16 November 2018, aimed at familiarizing participants with the concept of small and medium-sized enterprises and their importance to the economies of Countries in terms of their role in reducing the size Unemployment and the encouragement of financial innovations thus have a positive impact on economic growth.

Investment

Investment activity is one of the main activities of the Fund, by virtue of the objectives and tasks defined by the Convention and the decisions issued by the Board of Governors, which established the general framework of the policy of investment activity. The decisions of the board of Executive Directors also outlined those

policies, controls and key criteria for their implementation and the management and risks of various investments. In this context, the fund follows a conservative and balanced investment policy based on the principle of distributing different investment risks and is consistent with its nature as a regional financial and development institution.

The Fund's approved investment policy is based on four key criteria of protecting the value of invested funds as a priority, providing liquidity, free transfer, and maximizing returns available on an annual time horizon while maintaining the risk limits of investment portfolios within the acceptable level achieving the protection of the value of investments at the macro level.

The activity involves investing the fund's own financial resources, consisting of capital and reserves, and employing them in accordance with the strategic objectives of the Fund, including lending and investing in Arab bonds within the established limits, with a view to developing the Arab bond markets in accordance with the policy. The approved investment strategy, in addition to achieving a return, contributes to the Fund's administrative expenses and strengthens its reserves and self-resources.

The investment activity also includes the implementation of operations that will strengthen cooperation frameworks with the official authorities of the Arab Member Countries, as well as with Arab financial institutions, including the implementation of deposit acceptance processes from these parties. The Investment activity is considered as one of the main activities of the Fund, based on the objectives and the scope defined by the Articles of Agreement, and on the resolutions issued by the AMF's Board of Governors, that define the general framework of the investment policy.

The resolutions of the Board of Executive Directors set the general guidelines for the investment policy, in addition to setting the controls and the standards for its implementation and for the management of various investments and their associated risks. In this context, the Fund follows a conservative and balanced investment policy based on the principle of diversification of investment risks in line with its nature as a regional financial and developmental institution.

The Fund's approved investment policy is based on four main principles: the protection of the principal invested as a priority, the availability of liquidity, the free transferability, and then realizing the highest possible return on an annual basis while complying with portfolio risk limits to protect the value of the overall investments.

The activities include investing the Fund's accumulated financial resources, which consist of capital and reserves that are employed in activities consistent with the Fund's strategic objectives. Such activities include lending and investing in Arab Government Bonds within set limits in the interest of developing Arab capital markets in line with approved investment strategy and policy and earn an income which contributes to cover the Fund's administrative expense and grow its reserves and its own resources.

The investment activities also include the engagement in activities that are expected to enhance channels of cooperation with both public institutions of Member Countries and with Arab financial organizations. These activities include accepting deposits and deployment of investments in line with the approved investment policy in addition to offering portfolio management services in

deposits, money market and bonds to Member Countries and to Arab financial organizations.

It is worth mentioning that the Fund's investment activities are directly and indirectly affected by economic and financial developments at the regional and international levels; these factors are considered in setting the investment strategy within the AMF's strategy.

In this context, the monetary policies adopted by major Central Banks varied during 2018, reflecting different economic conditions in major industrialized countries. The Fed adopted a quasi-restrictive monetary policy while the Central Banks in Japan and in the Eurozone, adopted accommodative monetary policies. As for financial markets, trends in the yield curve differed throughout the year. The yield on U.S. government bonds rose against the backdrop of a noticeable improvement in the performance of the U.S. economy; this improvement came as a result of economic and fiscal reforms introduced by the U.S. government early in the year. The Federal Reserve has gradually raised the official interest rate during 2018 on the back of an increase in wages inflation and of a decline in unemployment to a low of 3.9 percent in December and 3.7 percent in November 2018; the drop marked the lowest level this indicator reached in almost 50 years.

In Europe, the yield on medium-and long-term government bonds has declined as a result of the generally weak economic conditions in the eurozone and the continued quantitative easing adopted by the European Central Bank. In addition, political tensions in several European countries and the rise of right-wing separatist movements contributed to increased pressure on the medium term of the yield curve.

The fourth quarter of 2018 witnessed a decline in the performance of financial markets. Both

stock markets and corporate bonds markets declined against the backdrop of fears of slowdown in growth of the global economy; in addition, to rising trade war between the United States of America and China, and to challenges associated with the exit of the United Kingdom from the European Union.

In line with these developments, AMF has continued to pursue a conservative approach by prioritizing the preservation of the principal value of its investments. In light of the economic and investment climate that has prevailed during the year, the Fund ensured the safety of its investments through allocations to highly rated investment instruments and dealing with regional and global financial institutions with high credit ratings. The Fund reviews developments with these institutions through regular monitoring.

The Fund actively manages risks of its investment portfolio by focusing on major investment risks including concentration risk, interest rate risk, liquidity risk, currency risk and credit risk.

The AMF's investment portfolios consist of its own funds, as well as deposits received from Member Countries. The total value of these investments amounted AAD 3.07 billion, equivalent to about U.S. \$ 12.83 billion as of the end of 2018.

The investment portfolio consists primarily of investments in bank deposits and bonds and marketable securities apart from limited investments in multi-strategy investment and property funds. As of the end of 2018, the total investment portfolio had an allocation of 28 percent to bank deposits, 70 percent to bonds and marketable securities, and 2 percent to multi-strategy and property investment funds.

The approved investment policy allows allocation to investments through various investment instruments, including deposits with Arab and foreign commercial banks that fall within the list of approved banks for the purposes of deposit. The list currently includes approximately 107 banks and financial institutions. The list, which is approved annually by the Board of Executive Directors, is prepared according to established rules for bank selection and limit setting for dealing. The list is subject to continuous monitoring on banks' financial status and credit ratings. As for investment in bonds and marketable securities, AMF maintains high quality instruments in its portfolios in terms of liquidity and credit ratings, aiming to diversify its exposures and geographical distribution.

A large portion amounting to 55 percent of the bond portfolios were invested in government, semi-government securities and money market instruments; the share of bonds rated AA or better stood at 74 percent of the portfolios while bonds rated A stood at 22 percent.

In order to reduce country risk and respond to developments in financial markets, the Fund continued to diversify its investments to ensure a balanced geographical distribution for all its investment portfolios including its own funds and accepted deposits in line with approved investment guidelines.

Investment in deposits, bonds and marketable securities in Arab countries amounted to AAD 766 million, equivalent to U.S.\$ 3,195 million, representing about 25 percent of the total value of the funds invested at the end of 2018, including an amount of AAD 537 million, equivalent to U.S.\$ 2,240 million invested in deposits with Arab banks and financial institutions, and an amount of AAD 229 million, equivalent to U.S.\$ 955 million invested in

bonds and marketable securities issued by Member Countries, banks and Arab companies.

In terms of investments in Arab currencies, the investment policy allows, under specific conditions, the investment of a portion of the funds available for investment in deposits, bonds and securities in the Arab convertible currencies, where the Fund's investments in Arab currencies amounted to AAD 82 million, equivalent to U.S.\$ 342 million by the end of 2018.

Investments in Arab bonds and securities were valued at AAD 229 million, amounting to U.S.\$ 955 million by the end of the year, including government issues totaling AAD 146 million, equivalent to U.S.\$ 611 million, or about 64 percent of total investment in Arab bonds. The remaining balance of AAD 83 million, equivalent to U.S.\$ 344 million, or about 36 percent, represents investments in bonds issued by Arab commercial banks and financial institutions. In terms of the credit rating of Arab government bonds, 36 percent of the portfolio is invested in government bonds with a credit rating of A or higher.

The remaining 64 percent represent investments in Arab government issues with a lower credit rating ranging from BBB to B, totaling AAD 94 million, equivalent to U.S.\$ 392 million at the end of 2018.

It is worth noting that the AMF's Board of Governors expressed its support, during its 2012 meeting, to the creation of an Arab government bonds' portfolio. In response, the Fund's Board of Executive Directors resolved to regulate investments in Arab government bonds rated below A, expanding the credit ratings' categories that were acceptable for investment in Arab government bonds to include the B credit rating category.

In addition, part of the Fund's own resources were allocated to investment in Arab government bonds with a credit rating ranging from BBB to B, amounting to AAD 115 million (equivalent to U.S.\$ 480 million), under a Board of Executive Directors' resolution increasing the number of Arab countries in which the Fund may invest; these include government bonds of Egypt, Morocco, Tunisia, Jordan, Lebanon, Bahrain, Iraq and Oman.

The Board's decision to invest in Arab government bond markets reflects the Fund's growing interest in expanding its participation in, and contribution to, supporting and developing Arab bond markets by increasing investment in bond issuances of Member Countries with a credit rating of BBB and lower, as part of the Fund's continuous efforts to further develop Arab financial markets, including bond markets.

Deposit acceptance from Arab governments and financial institutions is conducted in line with the Fund's strategic objectives as set out in its Articles of Agreement and in accordance with the Board of Governors' various resolutions which called upon Arab countries to voluntarily deposit a portion of their funds with the AMF. These resolutions established several rules including prohibiting the AMF from using its deposits in providing loans to its Member Countries, and it allocated a portion of the Fund's resources to support this activity.

The Board of Executive Directors issued several resolutions that govern the management of this activity in terms of deposit acceptance and management of its investment funds, which includes the voluntary adoption of the Basel framework as a reference for managing risks and limits for this activity. The investment instruments allowed for this activity are limited to bank deposits, bonds and

securities, in addition to the management of assets and liabilities on a conservative basis.

The Fund has distinctive capabilities that contribute to enhancing confidence of depositing countries, predominantly through its conservative investment policy that accords greater weight to the preservation of invested capital. Deposited funds also enjoy a high level of safety by virtue of the Fund's financial solvency, and its risk mitigation approach to investment activities. The Fund voluntarily adopted the Basel framework to manage risks of the investment portfolio of the accepted deposits of Member Countries, achieving a Capital Adequacy Ratio of 30.99 percent as of Dec. 31st, 2018., compared to the minimum requirement of Basel (III) at 13 percent.

The 30-day short-term Liquidity Coverage Ratio reached 427.21 percent, compared to the minimum requirement of 90 percent which came into force in January 2018. The Fund recorded a Net Stable Funding Ratio of 357.34 percent, compared to the minimum requirement of 100 percent. The Leverage Ratio reached 8.27 percent, compared to a minimum of 3 percent.

These indicators reflect the robustness of the risk management of this activity and the attention the Fund allocates to deposits from Member Countries. These characteristics have collectively contributed to the growth in the size of accepted deposits from Member Countries. This activity recorded a remarkable growth over the past several years. The amount of accepted deposits, as of Dec. 31st, 2018, reached AAD 2,525 million, equivalent to U.S.\$ 10,534 million received from 15 Arab countries and financial institutions.

The Fund's conservative implementation of its investments policy and proactive risk

management practices effectively contributed to protecting the value of invested funds and recorded a positive stable performance from these investments, despite low interest rates on some currencies included in the components of the SDR basket. The investment portfolio achieved a return on net invested funds that exceeded the 6 Months LIBOR and the FTSE Russell index for government bonds for the 1-3 year sector during 2018.

In addition, the Fund continued managing investment portfolios directly for a portion of the funds of Arab Trade Financing Program and funds in the Consolidated Account of Specialized Arab Organizations. In addition, the Fund continued to oversee the portfolios managed by external parties, on behalf of the Arab Trade Financing Program according to the approved investment policy and strategy.

Arab Trade Financing Program (ATFP)

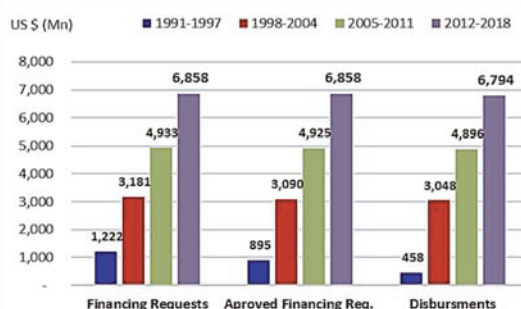
The Arab Trade Financing Program (ATFP) was established in 1989 by virtue of a resolution adopted by the Board of Governors of the Arab Monetary Fund as a joint Arab specialized financial Institution. ATFP authorized capital amounts to U.S.\$ One billion distributed to two hundred thousand shares of U.S.\$ 5000 each. ATFP's shareholders are 53 national and regional Arab financial institutions and banks. ATFP contributes to developing Arab trade and fostering the competitiveness of Arab exporters by providing a part of needed funding for trade, beside the provision of the information related to trade activities to promote Arabian goods and commodities.

ATFP's operational mechanism is based on dealing with importers and exporters in Arab Countries through national agencies appointed by Arab Countries for that purpose. The wide reach of national agencies contributes to the

expansion of ATFP activities. The number of these agencies reached 215 by the end of 2018, covering 19 Arab Countries and 5 foreign Countries.

The value of requests received by the ATFP since its inception amounted to U.S.\$ 16.2 billion. This was used in financing trade transactions of U.S.\$ 21.5 billion. The ATFP approved to finance U.S.\$ 15.8 billion thereof. Total disbursements during that period amounted to U.S.\$ 15.2 billion. Chart (4) illustrates the development of ATFP cumulative financing during 1990 - 2018.

Chart (4): ATFP 's Progressive development of the Financing Activities (1990 - 2018)



Regarding ATFP's trade information services, the Program has completed the construction of its Inter-Arab Trade Information Network (IATIN) and it was activated at the regional level. The network consists of 33 focal points spread over virtually all Arab Countries. The ATFP's website (www.atfp.org.ae) provides access to information on trade for all Arab Countries.

The ATFP is keen on offering opportunities to support the promotion of trade flows between Arab importers and exporters. As part of this promotion drive, The ATFP organizes and conducts meetings between exporters and importers in specific sectors. In cooperation with numerous entities in Arab Countries, the Program organized 18 meetings in many

sectors, including textiles and garments, food production, agricultural products and its inputs, metallurgical industries, pharmaceutical, industries, furniture and construction.

The AMF is acting as the **Secretariat of the Council of Arab Central Banks and Monetary Authorities' Governors** as well as its permanent bureau. It is also in charge of the Technical Secretariat of Committees and Task Forces established under the umbrella of the Council, namely, the Arab Committee on Banking Supervision, the Arab Committee on Payment and Settlement Systems, the Arab Committee on Credit Information, the Financial Inclusion Task Force and the Financial Stability Task Force.

Within this framework, during 2018 the fund continued to carry out its responsibilities in the preparation of studies, papers and reports required by the work of the Council, its permanent library, its functional commissions and the task forces emanating therefrom.

The Secretariat of the Council of Arab Central Banks and Monetary Authorities Governors

The AMF is acting as the **Secretariat of the Council of Arab Central Banks and Monetary Authorities' Governors** as well as its permanent bureau. It is also in charge of the Technical Secretariat of Committees and Task Forces established under the umbrella of the Council, namely, the Arab Committee on Banking Supervision, the Arab Committee on Payment and Settlement Systems, the Arab Committee on Credit Information, the Financial Inclusion Task Force and the Financial Stability Task Force.

In that context, the AMF continued in 2018 to carry out its responsibilities in terms of making

necessary arrangements for meetings, issuing thematic focused studies, working papers and reports in line with the council priorities and objectives in financial sector development related area.

In this regard, the AMF organized in Amman, Jordan on 17 September 2018 the forty-second meeting of the Council. The agenda of the meeting included discussion of the regional and international economic developments and their implications for the Arab Countries, enhancing access to finance for small and medium enterprises, applications of "blockchain" technology, as well as the implications of the data protection's regulation of the European Union on the financial sector. The Council also discussed a number of reports and working papers related to the work of the committees and task forces.

Within this context, the agenda of the meeting covered a number of important issues, including: "Managing Liquidity Risk according to Basel (III) requirements in the Arab Countries", "Identifying and Managing the Risks of Supporting Associated Companies", "Regulatory and Supervisory Measures related to weak banks", and "Applying the Net Stable Funding Ratio according to Basel (III)", "Empowering Women's Access to Finance and Banking services", "Using Electronic Payment Tools to Enhance Financial Inclusion", "Stimulating Banks to Finance Startups", "Digital Revolution and its Implications for Banking System and Financial Stability: Risks of Financial Innovations", "The Requirements for Issuing a Local Index of Financial Stability in the Arab Countries", and "The Role of Workers' Remittances in supporting Financial Stability".

Topics and papers included also "The Risks of Electronic Financial Crimes and its Effects on

Payment Systems", "Instant Remittance Applications in Small Payments", "Issues related to the Implementation of Electronic Cheque and Electronic Signature", "Guidelines on the Rights of Credit Information Services Users", "Development of Movable Assets Registration Systems in the Arab Countries", and "Using of Credit Information for Banking Supervision and Control in the Arab Countries".

The Council's agenda also included a number of issues of importance to Arab Central Banks and Monetary Authorities, notably "the implementation of the Arab Clearing Project". This project reached the implementation stage after the adoption of the council in its meeting in September 2017 to the design made by AMF. The design, aims to promote the use of Arab currencies in clearing and settling intra-Arab payments, thus helping to reduce the time and cost of banks in making these transactions, and enhance the opportunities to boost investment and intra-Arab trade.

As part of its responsibilities as the technical secretariat of the **Arab Committee for Banking Supervision**, the Fund organized the 31st and 32nd meetings of the Committee, in May and November 2018 in Abu Dhabi. In these meetings, the Committee discussed several topics and working papers that included "Liquidity Managing Risk in Arab Countries, according to Basel (III) Requirements", "Identifying and Managing Risks of supporting the Associated Companies", "Regulatory and Supervisory Measures for Weak Banks", as well as "Applying the Net Stable Funding Ratio, according to Basel (III)"

The Committee also discussed a number of topics, including "The Required treatments for the allocated Provisions for Capital Adequacy Ratio in accordance with International Financial Reporting Standard 9", "Application of

Counter-Cyclical Capital Buffer Requirements in Arab Countries" and "Implications of the Application of the European Data Protection Regulation on the financial sector", "Challenges of applying discretionary standards under Basel (III)" and "Regulatory Framework for Modern Financial Technologies: International and Arab experiences".

The Committee also discussed the topics of "The Application of the Capital Requirement to meet the Risks of Domestically Regulated Banks", "Operational Risk Frameworks" and "Cyber Security Aspects" in the context of operational risks.

In its capacity as a Technical Secretariat for a **Financial Stability Task Force**, The AMF organized the 7th and 8th meetings of the group in March and September 2018, in Abu Dhabi, in which a number of topics were discussed, including "The Digital Revolution and its Implications for the Banking System and Financial Stability: Risks of Financial Innovation", "Requirements for issuing a Local Index for Financial Stability in the Arab Countries", "The role of Workers' Remittances in Supporting Financial Stability", as well as "The Indebtedness of the Household sector and its impact on financial stability".

The task force also discussed the topics of virtual currencies, and recovery plans for banks of local systematic importance. In the same vein, the first Annual Report on Financial Stability in the Arab Countries has been finalized.

In the framework of the Technical Secretariat of the **Arab Committee for payment and settlement systems**, the Fund organized in February and October 2018, in Abu Dhabi, the 16th and 17th meetings of the Committee, where a number of important topics were discussed,

including "The Risks of Electronic Financial Crimes and their effects on Payment Systems "," Instant Transfer Applications in Small Payments "," The adoption of the Electronic cheque and Electronic Signature", "Blockchain Technologies, and the use of Virtual Currencies in Payment Systems and the role of Central Banks", and" Development of Cross-Border Electronic Remittance Centers ".

During the two meetings, the Committee discussed the issue of digital financial services and the mobile payment system, as well as issues related to prepaid cards and an interactive teller machine, as well as the compilation of comprehensive statistics on payment and settlement in the Arab Countries.

In March and September 2018, the Fund organized, in Abu Dhabi, the 5th and 6th meetings of the **Arab Committee for Credit Information**. A number of important topics were discussed, including: "Guidelines on the Rights of Users of Credit Query Services", "Development of Systems for Registering Assets Transferred in Arab Countries", and "The Use of Credit Information for Banking supervision and Control in the Arab Countries".

In addition, the Committee continued to discuss the methodology of the business climate related to the World Bank's credit reports, as well as to discuss the comments of Arab Countries on issues and developments in the area of credit information.

The Fund organized, during 2018, three meetings (13th, 14th and 15th) of **Financial Inclusion Task Force in the Arab Countries** in Abu Dhabi. The first meeting was held in March, the second in July and the third in November.

In these meetings, discussions included the annual workplan of Financial Inclusion for the

Arab region Initiative (FIARI), "Empowering Women access to Finance and Banking Services", "Using Electronic Payment Tools to Enhance Financial Inclusion", "Stimulating Banks to Finance Startups", "Strengthening financial inclusion indicators in Arab Countries, demand side surveys framework in Arab Countries, and digital financial services.

The participants also discussed the survey questionnaire on the financing of rural communities and farmers in the Arab Countries, the relationship between financial inclusion and the commitment to implement the decisions and recommendations on combating money-laundering and the terrorism financing, as well as the preparation for the Day of Financial Inclusion on April 2019.

Activities of the Secretariat of the Council of Arab Finance Ministers

AMF has been entrusted with the role of the **Technical Secretariat of the Council of Arab Finance Ministers** since the establishment of the Council and the start of its annual meetings in 2010. Within this context, the Fund organized the ninth Meeting of the Council, that was held on 10 April 2018, at the Dead Sea in the Hashemite Kingdom of Jordan.

The agenda included an important topics, related to the issues of wage system reforms, the challenges facing Arab Countries in this regard and the importance of working to develop strategies for reforming pay systems, as well as promoting private sector participation in public investments, as well as the reality of policies support in the Arab Countries, where a series of working papers were discussed on the topics of "Wage Bill Reforms in the Arab Countries", "Public-Private Partnership Development Initiatives",

"Subsidy Policies in the Arab Countries", and "International Standards for the Automatic Exchange of Financial Information".

The Meeting also reviewed the report submitted by The AMF on the developments of the project to establish a regional system for clearing and settling Arab inter-payments, after the Fund had completed the design document covering all aspects and requirements related to the system. The documents discussed during the meeting also included the board's annual message to the President of the World Bank Group and the Director-General of the International Monetary Fund.

On Jan. 17th and 18th, 2018, the AMF organized the fourth annual meeting of the Deputies for Arab Finance Ministries, which was attended by a number of IMF and World Bank experts and the Organization for Economic Cooperation and Development (OECD). Topics included on the meeting's agenda included: "Wage bill Reforms in the Arab Countries", "Initiatives to Develop Public-Private Partnerships in the Arab Countries," and "Subsidy Policies in the Arab Countries". The meeting also reviewed the issues of the application of international standards for the immediate exchange of financial information issued by the OECD. The meeting also discussed, within the framework of exchanging experiences and experiments, reforming and policies of fiscal control in the Arab Countries.

The Fund also organized the third Arab Fiscal Forum, titled "Public Finance Reforms in the Arab Countries: Opportunities and Challenges", Which was held on February 10th, 2018 in Dubai. The forum was attended by a number of Arab Finance Ministers, Governors of Central Banks and Arab Monetary Institutions, as well as a number of

heads of departments and senior officials and experts from regional and international financial institutions, ministries of finance and central banks in the Arab Countries.

The Forum discussed financial policy issues and enhanced revenue mobilization and diversification in Arab Countries. The aim of the forum was to share experiences and discuss challenges faced by policymakers in the Arab region in light of regional and international economic and financial developments.

The Forum addressed the strategies and challenges of reforms and raising the efficiency of public spending. It also discussed economic prospects and their implications on public finances in the Arab Countries. The Forum also tackled modern financial technologies, public finances and ways to take advantage of the opportunities that financial technologies provide in the development of public finance management. Regional and international experiences relevant to subsidy policies and increased efficiency of public expenditure were also addressed.

AMF consolidated financial position

Under Article (49) of the Articles of Agreement of the Arab Monetary Fund "the Fund", assets, liabilities and transactions are expressed in Arab Accounting Dinars (AAD). Each AAD is equal to three Special Drawing Rights (SDR) as defined by the International Monetary Fund.

The consolidated financial statements, which incorporate the financial statements of the Arab Monetary Fund and the Arab Trade Financing Program "the Subsidiary", are prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

The consolidated financial statements present the consolidated financial position of the Fund and its Subsidiary as of 31 December 2018, and the results of operations, changes in equity and cash flows for the year then ended. They also present notes comprising significant accounting policies and other explanatory information. The following provides an overview of key financial information:

Resources

The resources of the Fund, as defined in Article Eleven of the Articles of Agreement, consist of paid-up capital, reserves, loans and credits obtained by the Fund, and any other resources approved by the Board of Governors.

The Board of Governors had accordingly approved in 1989 the acceptance of deposits from Arab Central Banks and monetary agencies, aiming at supporting Arab Countries in managing their foreign reserves, on condition that such resources would not be used in lending activities. This is in tandem with the objectives of the Fund, particularly with reference to the fifth Article in AMF Agreement.

The Board of Governors of the Fund had also approved, through the Articles of Association of the Arab Trade Financing Program (ATFP), the contributions of shareholders from different categories, including financial institutions, aiming at bolstering the resources directed to support Arab trade financing.

Capital

The authorized capital of the Fund as defined in Article Twelve of the Articles of Agreement is equivalent to AAD 600,000 thousand divided into twelve thousand shares of AAD 50 thousand each. The Board of Governors of the Arab Monetary Fund has approved via its

resolution No. (3) of 2013 to increase the authorized capital to AAD 1,200,000 thousand. The resolution has also called for subscriptions from Member Countries by AAD 300,000 thousand, raising accordingly the subscribed capital to AAD 900,000 thousand. The resolution also provides for half of the subscriptions amounting to AAD 149,010 thousand to be paid by transfer from general reserves, and the other half by cash transfer from Member Countries in five annual installments commencing in April 2014, while maintaining the deferral to call on Palestine share in accordance with the Board's resolution number (7) of 1978.

The paid-up share capital reached AAD 878,425 thousand as of end of 2018 (2017: AAD 854,973 thousand). The unpaid share capital of AAD 21,575 thousand as of Year End of 2018 (2017: AAD 45,027 thousand) represents the overdue installments from member Countries.

Reserves

Reserves amounted to AAD 434,655 thousand as of Year End of 2018 compared to AAD 407,907 thousand as of Year End of 2017. The reserves by the end of 2018 represent approximately 49 percent of the paid-up capital compared to 48 percent by the end of 2017.

Reserves are composed of the general reserve, contingency reserve and the reserve for revaluation for investments classified at fair value through other comprehensive income (FVOCI). **Following are reserve position changes during 2018, compared to the previous year:**

The general reserve balance reached AAD 265,163 thousand by the end of 2018, compared to AAD 238,343 thousand by the end of 2017.

The contingency reserve balance reached AAD 175,000 thousand by the end of 2018, compared to AAD 170,000 thousand by the end of 2017. The contingency reserve was established in accordance with the Board of Governors' resolutions No. (7) of 1989 and No. (4) of 2000, whereby an amount of AAD 5,000 thousand, or 10 percent of the net annual income for the year whichever is greater, is appropriated to the contingency reserve each year. This reserve is intended to mitigate unanticipated future losses.

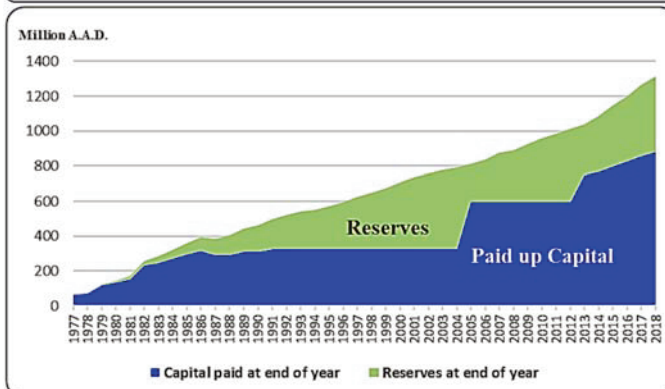
The revaluation reserve of investments at fair value through other comprehensive income showed a debit balance of AAD (5,508) thousand by the end of 2018, compared to a debit balance of AAD (436) thousand by the end of 2017.

Shareholders' equity

The net equity of the Fund's shareholders, represented by the paid-up capital and reserves, increased to AAD 1,313,080 thousand by the end of 2018, compared to AAD 1,262,880 thousand at 31 December 2017 showing an increase of AAD 50,200 thousand (4 percent during the Comparison period).

Chart No. (5) shows the growth in shareholders' equity of the Fund from inception till 31 December 2018; The interest of other shareholders in the Subsidiary, represented by their interest in the capital and reserves of the Arab Trade Financing Program, amounted to the equivalent of AAD 121,297 thousand by the end of 2018, compared to AAD 116,353 thousand by the end of 2017.

Chart (5): Development of the AMF Shareholder's Equity (1977 - 2018)



The resulting increase of AAD 4,944 thousand (4 percent during the compression period) is attributed mainly to the differences in U.S.\$ exchange rate (The base currency of the Arab Trade Financing Program) vis-à-vis the AAD at the end of 2018 and 2017.

Total equity of the shareholders of the Arab Monetary Fund and other shareholders in the Subsidiary amounted to AAD 1,434,377 thousand by the end of year 2018, compared to AAD 1,379,233 thousand by the end of 2017. The resources were employed to finance loans to member Countries, lines of credit to eligible national agencies, financial investments, and other assets as explained below.

Loans to Member Countries

The balance of outstanding loans to Member Countries as of 31 December 2018 amounted to AAD 502,558 thousand, compared to AAD 486,578 thousand by the end of 2017. Loan commitments, amounted to AAD 574,279 thousand by the end of 2018, comprising the balance of outstanding loans in addition to the balance of approved and undisbursed loans of AAD 71,721 thousand by the end of 2018.

Lines of Credit

Lines of credit represent facilities provided by the Subsidiary to approved national agencies with the aim of promoting intra Arab trade in commodity exports and imports and in related services. The balance of drawings against contracted lines of credit amounted to AAD 212,713 thousand (U.S.\$ 888 million) as of 31 December 2018, compared to AAD 197,684 thousand (U.S.\$ 845 million) at the end of 2017.

Deposits at Central Banks of Member Countries

In accordance with Article Fourteen of the Articles of the Agreement of the Arab Monetary Fund, 2 percent of the initial capital contributions were paid in the national currencies of Member Countries and deposited with their central banks.

These deposits are adjusted by the Member Countries at the end of each year, based on exchange rate announced by the IMF to maintain their nominal value in Arab Accounting Dinar. The total of these deposits was equivalent to AAD 5,336 thousand by the end of 2018 and by the end of 2017.

Investments

The consolidated investment portfolio is comprised of current and call accounts and time deposits with banks, accounts of other shareholders with the International Monetary Fund, and financial investments portfolios, minus deposits accepted from Arab monetary and financial institutions. The value of consolidated investments portfolios was AAD 715,175 thousand as of 31 December 2018, up from AAD 714,106 thousand as of 31 December 2017.

Other Assets

Other assets include the Fund's Kuwaiti-Dinar-denominated contribution in the share capital of The Arab Investment and Export Credit Guarantee Corporation, equivalent to AAD 8,013 thousand as of 31 December 2018, compared to AAD 7,871 thousand as of Year Ended 2017.

The Board of Governors originally approved by Resolution No. (6) of 2002, to subscribe in the increase of the Corporation's capital on behalf of its Member Countries, for an amount of KWD 8,118 thousand which was paid in full. Subsequently the Board approved in its resolution No. (3) of 2015 an additional subscription in the increase of the Corporation capital by 25 percent of its original subscription amounting to KWD 2,030 thousand raising the Fund's contribution to KWD 10,148 thousand. The resolution also provides for the increase to be paid in five equal installments. Fund's contribution was fully paid.

Results of Operations

Consolidated net income for the year ended 31st December 2018, excluding other shareholders' interest in the income of the Subsidiary, amounted to AAD 35,129 thousand, compared to AAD 33,094 thousand for the previous year. The components of net income are the following:

Income

Total consolidated income of the Fund and the Subsidiary, for the year ended 31st December 2018, after deducting the interest paid on accepted deposits from Arab monetary and financial institutions of Member Countries, amounted to AAD 45,137 thousand, compared to AAD 42,073 thousand, for the previous year.

Administration and General Expenditure

Total consolidated administrative and general expenses of the Fund and the Subsidiary for the year ended 31st December 2018 amounted to AAD 6,255 thousand, compared to AAD 5,927 thousand for the previous year. Expenses include staff expenses, Board of Governors and Directors meetings expenses, office running expenses, hospitality and communication expenses, bank charges and consultancy expenses.

Technical Assistance Expenditure

AMF offers to its Member Countries various technical assistance programs in collaboration with regional and international institutions based on partnership memorandums. Spending on technical assistance programs performed during 2018 amounted to AAD 818 thousand, including in-kind and cash contributions from participating parties for an amount of AAD 214 thousand, equivalent to 26 percent of total spending, whereas the total expenses incurred by the Fund on technical assistance during 2018 was AAD 604 thousand.

This is compared to total spending during 2017 of AAD 783 thousand, out of which AAD 207 thousand were contributed by the regional and international institutions, representing 26 percent of total spending, whereas the total expenses incurred by the Fund on technical assistance during 2017 was 576 thousand.

Currencies

AMF manages currency risk by substantially maintaining its assets in currencies closely aligned to the components of the SDR basket. Loan transactions to member Countries are contracted in Arab Accounting Dinars.

The investment of the Fund in the Subsidiary is included in the US Dollar component of the Fund's assets. Other resources are employed in assets denominated in convertible currencies among with forward foreign exchange contracts.

The table below shows the weights of currencies included in SDR basket, and SDR exchange rates. 1 AAD equal to 3 SDRs, by the end of 2018, and 2017.

Currency	The Weights of the Currencies included in SDR Basket (%)			SDR Exchange Rates Against Currencies included in the Basket	
	31 Dec. 2018	31 Dec. 2017	30 Sep. 2016	31 Dec. 2018	31 Dec. 2017
US Dollar	41.88%	40.90%	41.73%	1.391	1.424
Euro	31.88%	32.55%	30.94%	1.213	1.188
Pound Sterling	7.85%	8.16%	7.98%	1.095	1.054
Japanese Yen	7.76%	7.43%	8.43%	153.383	160.236
Chines Renminbi	10.63%	10.96%	10.92%	9.570	9.281
	100.00%	100.00%	100.00%		

Contribution to Humanitarian Support of the Palestinian People

The Fund contributes to the collective effort of Arab financial institutions to provide humanitarian support to the Palestinian people, through allocating 10 percent of its annual net income to this purpose since 2002. In this context, the AMF Board of Governors, at its 41st Annual Meeting, held in Jordan on April 10th, 2018, adopted Resolution No. (7) of 2018, stipulating the sixteenth allocation amounting to AAD 3,309 thousand (about USD 14.4 million). This makes the amount of the total allocations approved by the Board reaching AAD 46.787 million (about USD 206.5 million) over the period (2002-2018).

AMF's Board of Executive Directors approves the components of programs supported by AMF contribution under a methodology that had been agreed upon with Al-Aqsa Fund which is

managed by the IDB. Under that methodology, the Palestinian Governor at the AMF Board provides recommendations on sectors included in the support program as well as components to be supported by each allocation, in coordination with the Governors of other Arab financial Authorities. AMF and Al-Aqsa Fund ensure the integration of priority projects in humanitarian support to the Palestinian People.

Allocations contributed by AMF during 2018 were distributed across sectors and projects for humanitarian support to the Palestinian People as the following:

- **Education Sector** received a total of USD 82.4 million, or 40 percent of total allocations, which was directed to the construction of new schools, renovation, maintenance and equipment to existing schools, in addition to supporting the Palestinian Student Loan Fund.
- **Health service sector** was funded by USD 22.1 million or about 11 percent of the total allocation which was directed to the construction of new medical centers, building and expanding of hospitals and acquiring of medical equipment for hospital and clinics.
- **Support for non-government organization** received about USD 29.4 million, or 14 percent of the total allocation. The support covers activities of the Palestinian Red Crescent Society and youth employment and training programs.
- **Integrated rural development and economic enabling sector** received about USD 66.1 million, or 32 percent of the allocation. Support provided for this sector focuses on assistance to small businesses, rehabilitation of territories, support to villages, improvement and maintenance of

electricity grids, water systems, rural roads networks, land reclamation, building and rehabilitation of inner roads, building of sanitation networks, financing productive women projects and support to needy households and orphans.

- **Protection and restoration of historic building sector** received USD 6.5 million or 3 percent of the total allocation and was directed to the reconstruction of Jerusalem Old Town and rehabilitation of historic buildings.

In addition, the AMF offers training and capacity building to Palestinian government employees in the fields of AMF expertise.

This is delivered through courses and workshops organized by the Economic Policy Institute of the AMF, in collaboration with several international institutions. The members of Palestinian trainees who participated in these courses and workshops reached 485 by the end of 2018.

**AMF External Auditors Report &
Consolidated Financial Statements
As of December 31, 2018**

The Arab Monetary Fund

CONSOLIDATED FINANCIAL STATEMENTS 31 December 2018

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Independent auditors' report on the consolidated financial statements

The Board of Governors
The Arab Monetary Fund
Abu Dhabi
United Arab Emirates

Opinion

We have audited the consolidated financial statements of Arab Monetary Fund, and its Subsidiary (together "the Fund"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, consolidated statements of comprehensive income and changes in equity, and consolidated statements of cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Fund as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Fund in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Audit and Risk Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the member countries either resolve to liquidate the Fund or to cease operations in accordance with the Fund's agreement, or has no other alternative.

The Review and Risk Committee of the Board of Executive Directors is responsible for overseeing the Fund's financial reporting process.

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The Arab Monetary Fund
Independent auditors' report
31 December 2018

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. A further description of the auditor's responsibilities for the audit of the consolidated financial statements is provided in Appendix I to the auditor's report.

Report on Other Legal and Regulatory Requirements

We also confirm that, in our opinion, proper books of account have been kept by the Fund and the consolidated financial statements are in agreement therewith and the total administrative expenses for the year are in accordance with the financial rules of the Fund and within limits specified in the administrative budget. We have obtained all the information and explanations we required for the purpose of our audit and to the best of our knowledge and belief, no violations of the Articles of the Fund Agreement have occurred during the year which would have had a material effect on the business of the Fund or on its financial position, and that the Fund complies with the relevant articles of establishment.

KPMG lower Gulf limited

Fawzi AbuRass

Registered Auditor Number: 968
Abu Dhabi, United Arab Emirates
Date : 14 March 2019

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Appendix I

Auditor's responsibilities for the audit of the consolidated financial statements of Arab Monetary Fund for the year ended 31 December 2018

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information or activities of the subsidiary within the Fund to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Fund audit. We remain solely responsible for our audit opinion.

We communicate with the Review and Risk Committee of the Board of Executive Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The Arab Monetary Fund

CONSOLIDATED STATEMENT OF FINANCIAL POSITION As of 31 December 2018

	Notes	2018 AAD 000	2017 AAD 000
Assets			
Loans to Member Countries	3	502,558	486,578
Lines of credit	4	212,713	197,684
Deposits with central banks of Member Countries	5	5,336	5,336
Term deposits with banks, current and call accounts	17	899,697	792,790
Financial investments	6	2,340,095	2,162,142
Accounts receivable and other assets	7	38,969	22,692
Total assets		3,999,368	3,667,222
Equity and Liabilities			
Equity			
Subscribed capital 900 million AAD			
Paid-up capital	8	878,425	854,973
Reserves	9	434,655	407,907
		1,313,080	1,262,880
Non-controlling interest in the Subsidiary	10	121,297	116,353
Total equity		1,434,377	1,379,233
Liabilities			
Deposits from Arab monetary and financial institutions	11	2,524,617	2,240,826
Accounts payable and other liabilities	12	40,374	47,163
Total liabilities		2,564,991	2,287,989
Total equity and liabilities		3,999,368	3,667,222



Abdulrahman A. Al Hamidy
Director General Chairman of the Board

These consolidated financial statements were approved by the Board of Executive Directors on 14 March 2019.

The attached notes from 1 to 20 form part of these consolidated financial statements.
The independent auditors' report is set out on pages 1 to 3.

The Arab Monetary Fund

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME For the year ended 31 December 2018

	Notes	2018 AAD 000	2017 AAD 000
Income			
Income from loans and lines of credit			
Interest and fee income on loans to Member Countries		18,271	13,217
Interest and fee income on lines of credit		6,170	4,111
		<u>24,441</u>	<u>17,328</u>
Income from investment activities			
Investment income	13	50,933	36,269
Interest income on deposits and current and call accounts		19,213	14,138
		<u>70,146</u>	<u>50,407</u>
Interest on accepted deposits from Arab monetary and financial institutions	11	(49,721)	(25,757)
		<u>20,425</u>	<u>24,650</u>
Other income		<u>271</u>	<u>95</u>
Total income		<u>45,137</u>	<u>42,073</u>
Expenses			
Administration and general expenses	14	(6,255)	(5,927)
Technical assistance	15	(604)	(576)
		<u>(6,859)</u>	<u>(6,503)</u>
Net income before the interest of non-controlling shareholders in the Subsidiary		38,278	35,570
Interest of non-controlling shareholders in the Subsidiary	10	(3,149)	(2,476)
Net income		<u>35,129</u>	<u>33,094</u>
Unrealized changes in values of investments through equity excluding amounts attributable to non-controlling shareholders in the Subsidiary	6	(5,072)	2,538
Net Income and comprehensive income		<u>30,057</u>	<u>35,632</u>

The attached notes from 1 to 20 form part of these consolidated financial statements.
The independent auditors' report is set out on pages 1 to 3.

The Arab Monetary Fund

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AND CHANGES IN EQUITY OF CONTROLLING SHAREHOLDERS For the year ended 31 December 2018

	Notes	Paid-up capital	General reserve	Contingency reserve	Changes in provision of investment at FVOCI	Total
		AAD 000				
2017						
Balance at 1 January 2017		825,641	214,167	165,000	(2,974)	1,201,834
Comprehensive Income						
Net income for the year 2017		-	33,094	-	-	33,094
Unrealized changes in values of investments through equity excluding amounts attributable to non-controlling shareholders in the Subsidiary	6	-	-	-	2,538	2,538
Net Comprehensive Income		-	33,094	-	2,538	35,632
Changes in equity						
Prior years adjustment- IFRS9 implementation	9	-	(810)	-	-	(810)
Contributions received in cash to increase share capital		29,332	-	-	-	29,332
Transfer to contingency reserve	9	-	(5,000)	5,000	-	-
Appropriation to support Palestinian People (15 th)	9	-	(3,108)	-	-	(3,108)
Balance at 31 December 2017		854,973	238,343	170,000	(436)	1,262,880
2018						
Balance at 1 January 2018		854,973	238,343	170,000	(436)	1,262,880
Comprehensive Income						
Net income for the year 2018		-	35,129	-	-	35,129
Unrealized changes in values of investments through equity excluding amounts attributable to non-controlling shareholders in the Subsidiary	6	-	-	-	(5,072)	(5,072)
Net Comprehensive Income		-	35,129	-	(5,072)	30,057
Changes in equity						
Contributions received in cash to increase share capital		23,452	-	-	-	23,452
Transfer to contingency reserve	9	-	(5,000)	5,000	-	-
Appropriation to support Palestinian People (16 th)	9	-	(3,309)	-	-	(3,309)
Balance at 31 December 2018		878,425	265,163	175,000	(5,508)	1,313,080

The attached notes from 1 to 20 form part of these consolidated financial statements.

The Arab Monetary Fund

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 AAD 000	2017 AAD 000
Operating activities			
Net income for the year		35,129	33,094
Adjustments for:			
Depreciation of property and equipment		218	193
Change in provision for expected credit loss		278	200
Changes in interests of non-controlling shareholders in the Subsidiary		6,167	(4,198)
		<u>41,792</u>	<u>29,289</u>
Loans drawings		(173,203)	(53,920)
Loans repayments		157,223	110,211
Change in lines of credit		(15,084)	(20,473)
Change in accounts receivable and other assets		(16,690)	34,510
Change in accounts payable and other liabilities		(7,774)	(2,427)
Change in deposits with banks maturing after three months from inception		171,726	(586,387)
Change in deposits from Arab monetary and financial institutions		<u>283,791</u>	<u>(130,941)</u>
Net cash from/ (used in) operating activities		<u>441,781</u>	<u>(620,138)</u>
Investing activities			
Property and equipment, net		195	(791)
Change in investments in multi-strategies and property funds		18,317	(2,006)
Change in securities at fair value through consolidated comprehensive income		(165,210)	(21,854)
Change in securities at amortized cost		<u>(36,257)</u>	<u>5,917</u>
Net cash used in investing activities		<u>(182,955)</u>	<u>(18,734)</u>
Financing activities			
Contributions received to increase share capital		23,452	29,332
Dividends paid to non-controlling shareholders in the Subsidiary		(1,223)	(831)
Appropriations paid to support Palestinian People		<u>(2,294)</u>	<u>(2,360)</u>
Net cash from financing activities		<u>19,935</u>	<u>26,141</u>
Net increase/ (decrease) in cash and cash equivalents		278,761	(612,731)
Cash and cash equivalents at beginning of year		<u>206,410</u>	<u>819,141</u>
Cash and cash equivalents at end of year	17	<u>485,171</u>	<u>206,410</u>

The attached notes from 1 to 20 form part of these consolidated financial statements.
The independent auditors' report is set out on pages 1 to 3.

The Arab Monetary Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

1 ACTIVITIES

The Arab Monetary Fund ("The Fund") is a regional Arab financial institution formed in 1976 and started its operations in April 1977, being desirous of laying the monetary foundations of Arab economic integration and accelerating the process of economic development in all Arab countries. The Fund includes all the Arab countries members in the League of Arab States. The Fund is situated in Abu Dhabi, United Arab Emirates (P.O. Box 2818, Abu Dhabi, United Arab Emirates).

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB), under the historical cost convention as modified for forward foreign exchange contracts and investments measured at fair value. In accordance with the Articles of Agreement of the Fund, the consolidated financial statements are expressed in Arab Accounting Dinars ("AAD"). Each AAD is equal to three Special Drawing Rights ("SDR") as defined by the International Monetary Fund.

The preparation of consolidated financial statements in conformity with IFRSs requires management to make estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the current circumstances. The estimates and underlying assumptions are reviewed on an ongoing basis to ensure appropriate valuations of assets and liabilities and recognition of results in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Accounting policies have been consistently applied for periods presented in these consolidated financial statements.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Arab Monetary Fund (the "Fund") and Arab Trade Financing Program (the "Subsidiary") in which the Fund owns 56.3% of its subscribed and fully paid up capital as of 31 December 2018 (2017: 56.3%) explained in note 10 to the consolidated financial statements. The Subsidiary was established in accordance with resolution number (4) of 1989 by the Board of Governors of the Arab Monetary Fund with the aim of promoting and developing intra-Arab trade by providing the necessary financing in the form of lines of credit to Arab exporters and importers in Member Countries. The Subsidiary has its headquarter in Abu Dhabi, United Arab Emirates. All significant inter-entity balances, transactions and profits have been eliminated on consolidation.

(c) Financial instruments: recognition and measurement

AMF has early adopted IFRS 9 "Financial Instruments" with a date of initial application of 1 January 2017.

The policies adopted with regard to the definition, recognition and measurement of financial instruments are as follows:

i. Initial recognition:

All financial instruments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with those financial instruments.

The Arab Monetary Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments: recognition and measurement (continued)

ii. Classification of financial assets:

On initial recognition, a financial asset is classified at amortized cost, fair value through other comprehensive income or fair value through profit and loss, based on two factors: the approved business model for managing the financial assets and the cash flow characteristics of the financial assets.

- A financial asset is classified at amortized cost if it meets the following conditions:
 - The contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on principal amount outstanding.
 - The objective of the business model is to hold assets to collect contractual cash flows.
- A debt instrument is measured at fair value through other comprehensive income only if it meets both of the following conditions:
 - The contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on principal amount outstanding.
 - The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial asset.
- All other financial assets are classified as subsequently measured at fair value, with changes in fair value recognized in profit or loss.

The business model was assessed based on the approved corporate policies for investment and lending activities at the level of corporate portfolios; not according to individual asset levels, taking into consideration all relevant available evidence at the date of assessment which include:

- The stated policies and objectives for the investment and lending portfolios, the extent of application of these policies in practice, management strategy focus on the collection of the contractual cash flows, and matching of the financial assets durations with respective liabilities funding those assets, or realizing cash flows from the sale of financial assets.
- How the performance of the portfolio is evaluated and reported to the management.
- The risks that affect the performance of the business model and how those risks are managed.
- The frequency, volume and sales in prior periods, the reasons for sales and its expectations about future sales activity.

For the purpose of assessing contractual cash flows, “principal” is defined as the fair value of the financial asset on initial recognition. “Interest” is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks, liquidity risk, administrative expenses as well as profit margin.

In assessing whether the contractual cash flow are solely payments of principal and interest, AMF considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet these conditions. In making the assessment AMF considers:

- Contingent events that would change the amount and timing of cash flows.
- Early settlement and extension terms.
- Terms that limit AMF claim to the cash flows from specific assets.
- Features that modify consideration of the time value of money.

The Arab Monetary Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments: recognition and measurement (continued)

iii. Reclassification:

Financial assets are not reclassified subsequent to their initial recognition, except in the period after AMF changes its business model for managing financial assets.

iv. Financial liabilities:

AMF classifies its financial liabilities as measured at amortized cost.

v. Derecognition:

AMF derecognizes a financial asset when the contractual right to the cash flows from the financial asset expire or it transfers the right to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of (i) the consideration received and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in the profit or loss.

AMF enters into securities lending and repurchase contracts whereby it transfers financial assets recognized in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In such cases, the transferred assets are not derecognized.

(d) Impairment of financial assets:

AMF recognizes provisions for expected credit loss on debt instruments measured at amortized cost and that measured at fair value through other comprehensive income. As for financial assets classified at fair value through profit and loss, the effect of future events on credit loss is directly recognized as changes in fair value through income.

For the purpose of calculating expected credit loss, the Fund categorizes its financial assets into three class:

- Financial assets with a fixed credit rating: For assets that their credit rating do not change, the Fund recognizes 12 months expected credit loss.
- Financial assets with variable credit rating: if the credit rating of the financial asset changes to lower rating grade the Fund recognizes lifetime expected credit loss. Later if the credit rating of the financial asset improves in a subsequent period, the Fund shall revert to recognizing 12 months expected credit loss.
- Impaired financial assets: if there is sufficient evidence that the financial asset has been impaired, a lifetime expected credit loss is recognized and interest income is calculated based on the net asset value after deducting the provision for credit losses.

In calculating expected credit loss the Fund takes into account the important economic factors that include; the ratio of external debt to GDP, the number of months of imports covered by reserves and the ratio of external debt to the volume of exports of goods and services. In addition to the indicators of historical experience and the rating index.

AMF provides for lifetime expected credit loss, except for the following, for which 12-month expected credit loss will be provided for:

- Debt investment securities that are determined to have low credit risk at the reporting date; and
- Other financial assets on which credit risk has not increased significantly since their initial recognition.

AMF considers a debt security to have low credit risk when their credit rating is equivalent to the globally understood definition of "investment grade".

The Arab Monetary Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Impairment of financial assets (continued)

AMF measures the expected credit loss for financial assets that are not credit-impaired at the reporting date as the present value of the difference between the contractual cash flows due to AMF and the cash flows that it expects to receive. For Financial assets that are credit-impaired at the reporting date, expected credit loss is measured as the difference between the gross carrying amount of the instrument and the present value of estimated future cash flows.

During 2018, the provisions related to estimates of the expected credit loss of the financial assets measured at amortised cost or FVOCI have been included in the financial statements.

In addition to the assessment of expected credit loss, an assessment is made at the consolidated statement of financial position date to determine whether there is objective evidence that a financial asset or a group of financial assets is impaired as follows:

i Loans to Member Countries

The Fund adopts the policy of making provisions against interest on loans to Member Countries who have defaulted in settlement of any instalment due for more than a year, as well as against interest calculated on delayed loan principal and interest instalments. The Fund then endeavours to reach agreements with those Countries for the settlement of their arrears.

The provisions of loans to Member Countries, if any, are included in contingency reserve.

ii Financial Investments

The Fund assesses, periodically, the exposure of its investments to a prolonged or significant decline in market value against cost. The assessment process requires the exercise of estimates and assumptions based primarily on the presence of evidence to support a decline in the credit or financial rating of the issuer. In case objective evidence exists that a financial asset is impaired, the estimated recoverable amount of that financial asset is determined and any impairment loss is recognised for the difference between the recoverable amount and the carrying amount as follows:

- For financial assets carried at amortized cost, the carrying amount of the asset is reduced to its estimated recoverable amount either directly or through the use of an allowance account and the amount of the loss is included in the consolidated statement of comprehensive income for the period.
- For financial assets at FVOCI, if a loss has been recognised directly in equity (i.e. recoverable amount is below original acquisition cost), and there is objective evidence that the asset is impaired, the cumulative net loss that had been recognised directly in equity is removed from equity and recognised in the consolidated statement of comprehensive income for the period.

(e) Foreign currency transactions

Foreign currency transactions are recorded at rates of exchange ruling at the dates of the transactions. Assets (except property and equipment) and liabilities denominated in foreign currencies at the statement of financial position date are translated to Arab Accounting Dinar (AAD) which is equivalent to three Special Drawing Rights (SDR) at the exchange rates announced by the International Monetary Fund for the said date.

Property and equipment are recorded at rates of exchange prevailing at date of purchase.

The Arab Monetary Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Financial statements of the Subsidiary

The currency mix of the Fund's assets is closely aligned to the components of the SDR basket of currencies comprising the Special Drawing Rights unit to which the AAD is associated. The investment in the subsidiary is included in the US Dollar Component of the fund's assets aligned to the SDR currency composition. Accordingly, the exchange differences arising from the translation of the Subsidiary's financial statements are offset by the corresponding differences arising from translation of the Fund's assets denominated in other currencies.

(g) Derivative financial instruments

The Fund and its Subsidiary use derivative financial instruments, currency swaps and forward foreign exchange contracts, to manage exposure to foreign exchange risks. The Fund and its Subsidiary do not hold or issue derivative financial instruments for trading purposes. Any profit or loss arising from changes of the fair value of the derivatives is recognized through profit and loss.

(h) Depreciation of property and equipment

The cost of property and equipment is expensed by equal annual instalments over the expected useful lives of the assets concerned.

(i) Cash and cash equivalents

For the purposes of the consolidated cash flow statement presentation, cash and cash equivalents are defined as current and call accounts with banks and International Monetary Fund and deposits with banks maturing within three months from the inception date.

(j) Revenue recognition

For all financial instruments measured at amortised cost and interest bearing financial assets classified at FVOCI, interest and similar income and expense are recognised in profit or loss using the effective interest rate. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instruments, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

The Arab Monetary Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 31 December 2018

2 SIGNIFICANT ACCOUNTING POLICIES (*continued*)

(k) Future changes in accounting policies – Standards issued but not yet effective as at 31 December 2018

Standards issued but not yet effective up to the date of the issuance of the Fund's financial statements are listed below. This listing is of standards and interpretations issued, which the Fund reasonably expects to be applicable at a future date.

- IFRS 16 "Leases" (Effective by 1 January 2019)

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard-i.e. Lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Fund assessed the potential impact on its financial statements resulting from the application of IFRS 16, and concluded that there will be no significant impact on its financial statement.

- Other Standards

The following amended standard and interpretations are not expected to have a significant impact on the Fund's consolidated financial statements.

- IFRIC 23 Uncertainty over Tax Treatments.
- Prepayment Features with Negative Compensation (Amendments to IFRS 9).
- Long-term interests in Associates and Joint Ventures (Amendments to IAS 28)
- Plan Amendment, Curtailment or Settlement (Amendments to IAS19)
- Amendments to References to conceptual Framework in IFRS Standards.
- IFRS17 Insurance contracts.
- Annual Improvements to IFRS Standard 2015-2017 Cycle-various standards.

The Arab Monetary Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 31 December 2018

3 LOANS TO MEMBER COUNTRIES

	2018 AAD 000	2017 AAD 000
Balance at 1 January	486,578	542,869
Drawings during the year	173,203	53,920
Repayments during the year	(157,223)	(110,211)
Balance at 31 December	502,558	486,578

Loans to Member Countries at 31 December 2018 include over one year principal amounts overdue and not received of AAD 66,852 thousand (2017: AAD 54,939 thousand). Outstanding loans to Member Countries also include unrealised capitalized interest balances which form part of restructured debt positions of two of the Member Countries. The Fund follows a policy of recognizing capitalized interest proportionately with the rescheduled debt repayments. Therefore, the balance of unrealised capitalized interest is included in accounts payable and other liabilities as deferred income, and gradually amortized to the consolidated statement of comprehensive income proportionately with the debt repayments. The balance of unrealized capitalized interest as at 31 December 2018 amounted to AAD 16,162 thousand (2017: AAD 26,458 thousand).

The undisbursed balances of the contracted loans at 31 December 2018 amounted to AAD 71,721 thousand (2017: AAD 56,235 thousand).

4 LINES OF CREDIT

	2018 AAD 000	2017 AAD 000
Balance at 1 January	197,684	177,312
Drawings during the year	316,126	262,438
	513,810	439,750
Repayments during the year	(305,784)	(232,029)
Provision for expected credit loss	(156)	(101)
Differences in translation to AAD	4,843	(9,936)
Balance at 31 December	212,713	197,684

Lines of credit represent facilities provided by the Subsidiary to approved national agencies with the aim of promoting intra-Arab trade. Unutilised balances of contracted lines of credit as at 31 December 2018 are AAD 1,102 thousand (2017: AAD 136 Thousand).

5 DEPOSITS WITH CENTRAL BANKS OF MEMBER COUNTRIES

These deposits represent the portion of capital contributions paid by Member Countries in their national currencies and deposited with their central banks in accordance with Article Fourteen of the Articles of Agreement of the Arab Monetary Fund.

The Arab Monetary Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

6 FINANCIAL INVESTMENTS – Composition and Valuation Techniques

Financial investments are comprised of highly rated instruments of governments, governmental corporations, international institutions, financial and non-financial corporations, banks and multi strategies and property funds. Investments reported at fair value are categorised using the fair value hierarchy of inputs used to measure fair value as follows:

	2018 AAD 000	2017 AAD 000
Investments at fair value through other comprehensive income “equity” (level 1)	1,706,575	1,546,437
Investments at fair value through profit and loss (level 2)	78,172	96,489
Investments securities at amortised cost	556,256	519,999
	<u>2,341,003</u>	<u>2,162,925</u>
Provisions for expected credit loss	(908)	(783)
	<u>2,340,095</u>	<u>2,162,142</u>

Level 1: Investments are valued using quoted prices in active markets for identical instruments.

Level 2: Investments are valued using inputs observable directly or indirectly.

Change in expected credit loss on financial investments recognized in the profit and loss for year 2018 is AAD 125 thousand (2017: AAD 177 thousands).

Change in fair value of investments through other comprehensive income “equity”

	2018 AAD 000	2017 AAD 000
Balance at 1 January	(436)	(2,974)
Changes during the year	(5,072)	2,538
Balance at 31 December	<u>(5,508)</u>	<u>(436)</u>

Investments at amortized cost

The market value of investments amortized cost at 31 December 2018 was AAD 552,341 thousand (2017: AAD 522,290 thousand).

The Arab Monetary Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

7 ACCOUNTS RECEIVABLE AND OTHER ASSETS

	2018 AAD 000	2017 AAD 000
Gross interest receivable	122,098	112,597
Interest in suspense on rescheduled loans	(45,593)	(45,593)
Overdue interest receivable on loans	(58,042)	(54,700)
	<u>18,463</u>	<u>12,304</u>
Contribution in Arab Investment & export credit Guarantee Corporation	8,013	7,871
Property and equipment	784	1,197
Arab regional payments system	940	-
Other debit balances	1,980	1,320
Net value of investment transactions	<u>8,789</u>	<u>-</u>
	<u>38,969</u>	<u>22,692</u>

The Fund's share in the Arab Investment & Export Credit Guarantee Corporation consists of 10,148 shares at a nominal value of one thousand Kuwaiti Dinar (KWD) per share, representing about 11% of the authorized and offered for subscription capital, which were fully paid.

Arab Regional Payments System balance represents the cost incurred by the Fund towards setting-up the system (note 19).

8 SUBSCRIBED AND PAID-UP CAPITAL

	2018 AAD 000	2017 AAD 000
Authorized Capital (24,000 shares of AAD 50 thousand each)	1,200,000	1,200,000
Subscribed capital (18,000 shares)	900,000	900,000
Unpaid capital	(21,575)	(45,027)
Capital paid-up	<u>878,425</u>	<u>854,973</u>

The Board of Governors of the Arab Monetary Fund had approved through resolution number (3) of 2013 increasing the Fund's authorized share capital by AAD 600 million, to become AAD 1,200 million. The resolution has also called for subscriptions from Member Countries amounting to AAD 300 million, of which AAD 149.010 million to be paid by transfer from general reserve, and the other part by cash transfer from Member Countries in five annual instalments commencing in April 2014, and continued consideration of deferring the payment of Palestine share in accordance with the Board's resolution number (7) of 1978. The unpaid capital amount represents the overdue instalments. Subsequent to the financial statement date Sudan settled its overdue instalments for an amount of AAD 4.6 Million.

The Arab Monetary Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

9 RESERVES

The transfer to the contingency reserve is made in accordance with the Board of Governors' resolutions number (7) of 1989 and number (4) of 2000, under which an annual sum being the greater of AAD 5 million or 10% of the net income for the year is to be appropriated to the contingency reserve each year. This reserve is to be used to mitigate any unforeseen future losses and the remaining amount is transferred to the general reserve. The general reserve at 31 December 2018 includes AAD 24,064 thousand (2017: AAD 21,614 thousand) being the Fund's share in reserves of the Subsidiary.

The Board of Governors approved through resolution number (7) of 2018, a 16th appropriation of 10% of 2017 net income amounting to AAD 3,309 thousand as contribution towards the efforts exerted to support the Palestinian people. The Board of Governors had also approved through resolution number (4) of 2017, a similar appropriation of 10% of 2016 net income amounting to AAD 3,108 thousand for the same purpose.

In respect of the rights of Member Countries in reserves, and because the payments of capital shares were made by Member Countries on different dates, the resolution of the Board of Governors number (3) of 2005 accorded the application of the principal of weighted average capital (based on amounts and dates of Capital payments by each Member Country) in determining the share of each Member Country in the income and reserves.

The opening balance of reserves as on 1 January 2017 includes provisions for expected credit losses on financial instruments amounting to AAD 810 thousand as a result of implementing IFRS9.

The Arab Monetary Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

10 NON-CONTROLLING INTEREST IN THE SUBSIDIARY

Non-controlling interest in the Subsidiary (Arab Trade Financing Program) comprises minority shareholders interest in the net assets of the Subsidiary at the consolidated statement of financial position date. Their interest is denominated in US dollars, being the base currency of the Subsidiary.

	2018 USD 000	2017 USD 000
Owners' equity in the base currency of the Subsidiary:		
Paid-up capital	987,920	987,316
Reserves	170,670	151,577
Total owners' equity	<u>1,158,590</u>	<u>1,138,893</u>
 The value of non-controlling interest in the Subsidiary	 <u>506,099</u>	 <u>497,106</u>

	2018 AAD 000	2017 AAD 000
Non-controlling interest movement		
Balance at 1 January	116,353	121,430
Net income for the year	3,149	2,476
Dividends paid during the year	(1,223)	(831)
Change in provision for valuation of investments at FVOCI	(27)	35
Difference in translation to AAD	3,045	(6,757)
	<u>121,297</u>	<u>116,353</u>

11 DEPOSITS FROM ARAB MONETARY AND FINANCIAL INSTITUTIONS

In fulfilling its objectives, and in accordance with article 5 of its Articles of Agreement, the Fund accepts deposits from Arab monetary and financial institutions at agreed rates of interest.

Interest expense on deposits accepted from Arab monetary and financial institutions for the period ended 31 December 2018 amounted to AAD 49,721 thousand (2017: AAD 25,757 thousand).

12 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2018 AAD 000	2017 AAD 000
Unrealised capitalized interest (Note 3)	16,162	26,458
Accrued interest payable	9,512	3,793
Net value of investment transactions	-	3,254
Other credit balances	14,700	13,658
	<u>40,374</u>	<u>47,163</u>

The Arab Monetary Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

13 INVESTMENT INCOME

	2018 AAD 000	2017 AAD 000
Securities at fair value through consolidated comprehensive income	34,549	21,400
Investment in multi-strategies and property funds - through consolidated comprehensive income	1,146	4,587
Securities at amortised cost	15,363	10,459
	51,058	36,446
change in provision for expected credit loss	(125)	(177)
	50,933	36,269

14 ADMINISTRATION AND GENERAL EXPENSES

Administration and general expenses for the year ended 31 December 2018 include Board of Directors remuneration and employees salaries and benefits amounting to AAD 5,013 thousand (2017: AAD 4,854 thousand). The Fund and its Subsidiary employed 185 employees as of 31 December 2018 (2017: 186 employees).

15 TECHNICAL ASSISTANCE EXPENSES

	2018 AAD 000	2017 AAD 000
Training courses, seminars and direct technical assistance	818	783
Cash and in-kind contributions from partner institutions	(214)	(207)
Technical assistance beared by the Fund	604	576

16 MANAGED FUNDS

The Fund and the Subsidiary assigned parts of their investment portfolios for management by a number of specialised external fund managers for agreed fees in accordance with respective fund management agreements. Managed funds amounted to AAD 191,854 thousand as at 31 December 2018 (2017: AAD 208,846 thousand).

Funds managed by the Arab Monetary Fund for Arab Specialised Organisations amounted to AAD 5,662 thousand as at 31 December 2018 (2017: AAD 5,389 thousand).

The Arab Monetary Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 31 December 2018

17 CASH AND CASH EQUIVALENTS

	2018 AAD 000	2017 AAD 000
Current and call accounts with banks and International Monetary Fund	4,384	3,901
Deposits with banks	895,616	789,064
Deposits with banks, current and call accounts provision for expected credit loss	900,000	792,965
	(303)	(175)
	899,697	792,790
Deposits maturing after three months from inception	(414,526)	(586,380)
	485,171	206,410

Change in expected credit loss on time deposits recognized in the profit and loss for the year 2018 is AAD 128 thousand (2017: AAD 7 thousand).

18 GEOGRAPHICAL DISTRIBUTION OF INVESTMENT PORTFOLIO

The geographical classification of the investment portfolio is based on the country of institution for current, call and deposit accounts with banks and International Monetary Fund, and on the location of the issuer for securities portfolio. The geographical distribution of the investment portfolio as at 31 December was as follows:

	2018 AAD 000	2017 AAD 000
Arab and African Countries	774,069	609,983
Europe	815,678	829,448
North America	365,810	356,484
Far East and Pacific	1,096,635	929,582
Supra National Organisations	187,600	229,435
	3,239,792	2,954,932

19 INTER ARAB REGIONAL PAYMENTS SYSTEM

In accordance with the board of Governors' resolution number (4) of 2018 which adopted the decision issued by the board of the Governors for Central Banks and Arab Monetary Institutions, that commissioned the Fund to set-up a legal entity for clearing and settlement of inter-Arab payments with an authorized capital USD 100 million. The decision also provided for considering the cost incurred by the Fund until the establishment of the entity as part of its contribution to the capital. The total cost incurred by the Fund for setting-up the entity amounts to AAD 940 thousand in 31 December 2018 is included in other debit balances.

Contracts under execution signed by the Fund on behalf of the entity amounted to AAD 2,042 thousand of which AAD 158 thousand were executed.

The Arab Monetary Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

20 FINANCIAL INSTRUMENTS

(a) Maturities of assets and liabilities- 31 December 2018

Maturity analysis of the consolidated assets and liabilities as at 31 December 2018 were as follows:

	Total	Less than 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified maturity
	AAD 000					
Assets						
Loans to Member Countries	502,558	123,024	79,125	284,535	998	14,876
Lines of credit	212,713	172,813	29,527	10,373	-	-
Deposits with central banks	5,336	-	-	-	-	5,336
Current and call accounts with banks & IMF	4,384	4,384	-	-	-	-
Term deposits with banks	895,313	847,662	47,651	-	-	-
Securities at FVOCI	1,706,445	1,706,445	-	-	-	-
Multi- strategies and property funds	78,172	78,172	-	-	-	-
Securities at amortized cost	555,478	187,937	227,130	98,293	42,118	-
Accounts receivable and other assets	38,969	28,905	1,267	-	-	8,797
	<u>3,999,368</u>	<u>3,149,342</u>	<u>384,700</u>	<u>393,201</u>	<u>43,116</u>	<u>29,009</u>
Equity and liabilities						
Interest of other shareholders in the Subsidiary	121,297	-	-	-	-	121,297
Deposits from Arab monetary and financial institutions	2,524,617	2,524,617	-	-	-	-
Accounts payable and other liabilities	40,374	13,607	14,257	10,070	2,440	-
	<u>2,686,288</u>	<u>2,538,224</u>	<u>14,257</u>	<u>10,070</u>	<u>2,440</u>	<u>121,297</u>

Maturities of assets and liabilities- 31 December 2017

Maturity analysis of the consolidated assets and liabilities as at 31 December 2017 were as follows:

	Total	Less than 6 months	6 to 12 months	1 to 5 years	Over 5 years	Unspecified maturity
	AAD 000					
Assets						
Loans to Member Countries	486,578	119,161	84,365	268,048	128	14,876
Lines of credit	197,684	149,066	25,771	22,847	-	-
Deposits with central banks	5,336	-	-	-	-	5,336
Current and call accounts with banks & IMF	3,901	3,901	-	-	-	-
Term deposits with banks	788,889	716,498	72,391	-	-	-
Securities at FVOCI	1,546,400	1,546,400	-	-	-	-
Multi- strategies and property funds	96,489	96,489	-	-	-	-
Securities at amortized cost	519,253	199,620	163,577	112,033	44,023	-
Accounts receivable and other assets	22,692	12,570	1,054	-	-	9,068
	<u>3,667,222</u>	<u>2,843,705</u>	<u>347,158</u>	<u>402,928</u>	<u>44,151</u>	<u>29,280</u>
Equity and liabilities						
Interest of other shareholders in the Subsidiary	116,353	-	-	-	-	116,353
Deposits from Arab monetary and financial institutions	2,240,826	2,217,420	23,406	-	-	-
Accounts payable and other liabilities	47,163	12,167	3,399	19,810	11,787	-
	<u>2,404,342</u>	<u>2,229,587</u>	<u>26,805</u>	<u>19,810</u>	<u>11,787</u>	<u>116,353</u>

The Arab Monetary Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 31 December 2018

20 FINANCIAL INSTRUMENTS *(continued)*

(b) Credit risk management and concentration of credit risk

For all classes of financial instruments, the maximum credit risk exposure is the carrying value as disclosed in the consolidated financial statements at the consolidated statement of financial position date.

Investments accounted for at amortized cost and at fair value through the statement of comprehensive income are concentrated in highly rated debt securities with lower risks. Loans are extended by the Fund to Member Countries in order to correct disequilibria in their balance of payments and to finance structural adjustment programs in those countries. Lines of credit are extended by the Subsidiary to provide financing to Arab exporters and importers in the Member Countries with a view to promoting and developing intra-Arab trade in line with the Subsidiary's mandate.

The Fund and the Subsidiary seek to contain their exposure to credit risk relating to their financing activities through the implementation of policies and procedures that are designed to maintain the exposures within pre-defined limits. These limits have been set on the basis of the type of loans and the Member Countries' subscription to capital in convertible currencies and the credit rating of the counterparties. Accordingly, the occurrence of expected credit loss is unlikely.

Included in the financial statements provisions of AAD 1,367 thousand for expected credit loss recognized on time deposits, debt instruments measured at amortized cost and those measured at fair value through other comprehensive income, in addition to the lines of credit extended by the subsidiary.

The Arab Monetary Fund

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

20 FINANCIAL INSTRUMENTS (continued)

At the financial statements date, there is neither significant increase in the credit risk of any financial asset, nor there any financial asset that is credit impaired. Accordingly, no lifetime expected credit loss was recognized. The following table shows the reconciliation of expected credit loss (ECL) by instrument type:

	12-Month expected Credit loss	
	2018	2017
Cash & cash equivalents		
Balance at 1 January	175	168
Changes in ECL during the year	128	7
Balance at 31 December	303	175
Investments at FVOCI		
Balance at 1 January	36	35
Changes in ECL during the year	94	1
Balance at 31 December	130	36
Investments at Amortized cost		
Balance at 1 January	747	1,602
Changes in ECL during the year	31	176
Financial assets that have been derecognised	-	(1,031)
Balance at 31 December	778	747
lines of Credit		
Balance at 1 January	101	66
Changes in ECL during the year	55	35
Balance at 31 December	156	101
Total		
Balance at 1 January	1,059	1,871
Changes in ECL during the year	308	219
Financial assets that have been derecognised	-	(1,031)
Balance at 31 December	1,367	1,059

The Arab Monetary Fund

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20 FINANCIAL INSTRUMENTS (continued)

(c) Interest rate risk management

The risk of interest rate volatility for the Fund and its Subsidiary is very limited, as its being managed through revising the interest on lines of credit and loans to Member Countries and through maturity date management techniques for investments at amortized cost and repayment periods for investment at fair value through other comprehensive income.

The following sensitivity test table is showing the effect on equity and the consolidated statement of comprehensive income statement, resulting from a change of 25 basis points in interest rates on financial assets and liabilities tied to floating interest rates, with other variables remaining unchanged:

	<i>Change in basis points</i>	<i>2018 AAD 000</i>	<i>2017 AAD 000</i>
Effect on owners' equity	25	883	525
Effect on consolidated statement of comprehensive income	25	1,359	1,354

(d) Fair value risk management

The fair value of the financial assets and liabilities is almost equal to their book values as shown in the consolidated financial statements and the fair value risk is being managed by diversifying the components of the assets.

(e) Currency risk

The Fund principally manages currency risk by substantially maintaining its assets in AAD that are closely aligned to the components of the SDR basket of currencies, matching deposits received with deposits placed in terms of currency and maturity, and also through the use of forward foreign exchange contracts.

The Fund and Subsidiary manage currency risk by hedging financial assets and liabilities denominated in currencies other than base currency against exchange rates fluctuations by using forward foreign exchange contracts, within the limits specified in the investment policy.

Forward foreign exchange contracts entered into and outstanding at 31 December 2018 amounted to AAD 756,922 thousand (2017: AAD 801,136 thousand).

(f) Liquidity risk management

The liquidity risk is being managed by diversification in the components of assets, taking in consideration due dates of liabilities, liquidity requirements and by retaining enough balances of cash, cash equivalents and tradable financial instruments.

(g) Capital risk management

Capital is being managed in a way to achieve the main objectives of the Fund and its Subsidiary as stated in the Fund's Articles of Agreement and the Subsidiary's Articles of Association. This is being fulfilled by diversifying and managing the components of the assets taking into consideration due dates and costs of liabilities, in order to generate a return that supports the financial position through what gets allocated to their reserves to expand operations, in addition to Subsidiary's obligation to distribute cash dividends to its shareholders. The Capital base is composed of capital and reserves as detailed in the consolidated statement of comprehensive income and changes in equity.

Organization and Management Structure

Organizational Structure

The organizational structure of the Arab Monetary Fund includes: The Board of Governors, the Board of Executive Directors, and the Director-General Chairman of the Board of the Executive directors.

The Board of Governors

The Board of Governors consists of a governor and a deputy governor appointed by each Member State of the Fund. The Board annually elects its Chairman from among its members alternately. The Board of Governors is the General Assembly of the Fund and has all the powers of the management. The AMF's Board of Governors shall hold an annual meeting, in the first half of each year, in or outside the headquarters state. The following table illustrates the current composition of the Board of Governors of the Fund:

The current composition of the Board of Governors	
Member Countries	Governors & Deputy Governors
The Hashemite Kingdom of Jordan	Governor: H.E. Dr. Ziad Fariz Deputy Gov.: H.E. Dr. Ezzeddin Kanakrieh
The United Arab Emirates	Governor: H.E. Obeid Humaid Al Tayer Deputy Gov.: H.E. Mubarak Rashid Al Mansouri
Kingdom of Bahrain	Governor: H.E. Sheikh Salman Bin Khalifa Al Khalifa ⁽¹⁾ Deputy Gov.: H.E. Rashid Mohammed Al Mearaj
The Republic of Tunisia	Governor: H.E. Dr. Marouane El Abassi ⁽²⁾ Deputy Gov.: H.E. Mourad Abdesslem ⁽³⁾
The People's Democratic Republic of Algeria	Governor: H.E. Abderrahmane Raouia Deputy Gov.: H.E. Mohamed Loukal
Republic of Djibouti	Governor: H.E. Boudi Ahmad Roubleh Deputy Gov.: H.E. Osman Ahmed Ali
The Kingdom of Saudi Arabia	Governor: H.E. Mohammed Bin Abdullah Al-Jadaan Deputy Gov.: H.E. Dr. Ahmed Bin Abdulkarim Al Kholifey
Republic of Sudan	Governor: H.E. Mutaz Mousa Abdulla Salem ⁽⁴⁾ Deputy Gov.: H.E. Dr. Mohamed Khair Al-Zubair ⁽⁵⁾
The Syrian Arab Republic	Governor: H.E. Dr. Mamoun Hamdan ⁽⁶⁾ Deputy Gov.: H.E. Dr. Hazem Younes Qarfoul ⁽⁷⁾
The Federal Republic of Somalia	Governor: H.E. Abdirahman Duale Beyle Deputy Gov.: H.E. Bashir Isse
The Republic of Iraq	Governor: H.E. Dr. Ali Mohsin Ismail Deputy Gov.: H.E. Dr. Salahuddin Hamid Juaatta

The current composition of the Board of Governors (Cont.)	
Member Countries	Governors & Deputy Governors
Sultanate of Oman	Governor: H.E. Darwish Bin Ismail Al Balushi Deputy Gov.: H.E. Tahir bin Salim bin Abdullah Al Amri ⁽⁴⁾
State of Palestine	Governor: H.E. Abeer Odeh Deputy Gov.: H.E. Dr. Riyadh Shehada
State of Qatar	Governor: H.E. Ali Sherif Al Imaadi Deputy Gov.: H.E. Sheikh Abdullah Bin Saoud Al Thani
Union of Comoros	Governor: H.E. Sayed Ali Sayed Sheikhan Deputy Gov.: H.E. Younoussa Imani
State of Kuwait	Governor: H.E. Dr. Nayef Falah Mubarak Al-Hajraf Deputy Gov.: H.E. Dr. Mohammad Yousef Al Hashel
The Republic of Lebanon	Governor: H.E. Riad Toufic Salame` Deputy Gov.: H.E. Raed Charafeddine
State of Libya	Governor: H.E. Saddek Omar Elkaber Deputy Gov.: Central Bank of Libya
Arab Republic of Egypt	Governor: H.E. Tarek Hassan Ali Amer Deputy Gov.: H.E. Dr. Mohamed Maait ⁽⁸⁾
The Kingdom of Morocco	Governor: H.E. Mohamed Benchaaboun ⁽⁹⁾ Deputy Gov.: H.E. Abdellatif Jouahri
The Islamic Republic of Mauritania	Governor: H.E. Abdel Aziz Ould Dahi Deputy Gov.: H.E. Boumediene Ould Taya`
The Republic of Yemen	Governor: H.E. Ahmed Obeid Alfadli Deputy Gov.: H.E Dr. Mohamed Mansour Zemam ⁽¹⁰⁾

(1) Replacing H.E Sheikh Ahmed bin Mohammed Al Khalifa, as of December 2018

(2) Replacing H.E. Dr. Chedli Ayari, as of February 2018

(3) Replacing H.E. Ahmed Tarshi, as of October 2018

(4) Replacing H.E. Dr. Mohamed Osman Suleiman al-Rikabee, as of September 2018

(5) Replacing H.E. Dr. Hazim Abdelgadir Ahmed Babiker, as of September 2018

(6) Replacing H.E. Dr. Duraid Dergham, as of September 2018

(7) Replacing H.E. Mohamed Aden Ibrahim Farjeti, as of March 2018

(8) Replacing H.E. Dr. Amr Abdel Aziz El-Garhy, as of June 2018.

9) Replacing H.E. Mohammad Boussaid, as of September 2018.

(10) Replacing H.E. Monser Saleh Al-Quaiti, as of February 2018.

The Board of Executive Directors

The Board of Executive Directors is composed of the Director General of the Fund as Chairman and eight non-resident members elected by the Board of Governors for a renewable term of three years. The Board is entrusted with the oversight of the Fund's activities and renders advice when deemed necessary. The following table shows the composition of the Board of Executive Directors for 2016-2019, as at the end of December 2018.

Executive Directors	Country/Countries represented	Voting power (percent)
H.E. Dr. Abdulrahman Bin Abdullah Al Hamidy	Director General Chairman of the Board	-
H.E. Mohammed Saleh Alghofaili	Kingdom of Saudi Arabia	13.96
H.E. Abdelhak Bedjaoui	The People's Democratic Republic of Algeria	12.27
H.E. Dr. Mazen Sabah Ahmed	Republic of Iraq	12.27
H.E. Shakeeb Saeed Abdullah Al Hubaishi ⁽¹⁾	Arab Republic of Egypt Republic of Yemen Republic of Sudan Federal Republic of Somalia Republic of Djibouti The Republic of Comoros	*19.65
H.E. Younis Haji Al Khoori (UAE)	State of Kuwait United Arab Emirates	15.13
H.E. Nadia Gamha ⁽²⁾	Kingdom of Morocco State of Libya Republic of Tunisia Islamic Republic of Mauritania	12.87
H.E. Sheikh Salman Bin Issa Al-Khalifa (Bahrain)	State of Qatar Kingdom of Bahrain Sultanate of Oman	6.77
H.E. Ziyad Asaad Ghanma (Jordan)	Syrian Arab Republic Hashemite Kingdom of Jordan Republic of Lebanon State of Palestine	7.07

*The above voting power is affected by the temporary suspension of the voting power of Somalia.

(1) Replacing H.E. Abbas Ahmed al-Pasha as of July 2018

(2) Replacing H.E. Mohamed Rekik as of October 2018

The Director General and Executive Management departments

The Board of Governors appoints a Director-general of the Fund for a renewable term of five years, and the Director-General of the Fund chairs the meetings of the Board of Executive directors. The Director-General of the Fund is the chief of Staff of the Fund and is responsible for all its work and submits an annual report on the work of the Fund to the Board of Governors at its regular annual meeting. The Director-General assists in the completion of the Fund's work by professional staff organized in several departments. In addition to the Chambers, the organizational structure includes an internal audit office. Five committees have been formed, including two permanent committees, the Loan and Investments Committees, mentioned in the Fund's Articles Agreement, as well as the Administrative Committee established under the Staff Regulations, agreed upon by the Board of Executive Directors, and approved by the Board of Governors and the Risk Management Committee, in addition to the Audit and Risk Committee emanating from the Board of Executive Directors.

Appendixes

Appendix (A-1) : Loans Extended to Member States (1978 - 2018)

(Thousands of AAD)

Year	Loan No.	Country	Automatic	Ordinary	Extended	Compensatory	Trade Facility	Oil Facility	Structural Adjustment	SMEs Facility	Total
1978	1	Egypt	4,688								
	2	Sudan	1,875								
			6,563	0	0	0	0	0	0		6,563
1979	3	Mauritania	750								
	4	Morocco	1,875								
	5	Syria	750								
	6	Sudan	1,875								
	7	Sudan			11,250						
			5,250	0	11,250	0	0	0	0		16,500
1980	8	Mauritania	750								
	9	Mauritania		4,500							
	10	Somalia	1,500								
	11	Sudan				5,000					
			2,250	4,500	0	5,000	0	0	0		11,750
1981	12	Yemen	2,940								
	13	Morocco	1,875								
	14	Morocco			31,850						
	15	Morocco	3,600								
	16	Yemen		8,820							
	17	Morocco				9,800					
	18	Somalia	1,440								
	19	Somalia			12,740						
	20	Sudan	1,875								
	21	Yemen	3,675								
			15,405	8,820	44,590	9,800	0	0	0		78,615
1982	22	Sudan			5,000						
	23	Sudan	3,600								
	24	Mauritania	2,190								
	25	Morocco	1,875								
	26	Syria	2,940								
	27	Mauritania			8,240						
	28	Yemen	3,675								
	29	Yemen				3,920					
			14,280	0	13,240	3,920	0	0	0		31,440
1983	30	Iraq	27,930								
	31	Sudan				4,800					
	32	Sudan	1,875								
	33	Yemen					3,920				
	34	Mauritania	750								
	35	Iraq				27,000					
	36	Syria					3,000				
	37	Jordan	3,990								
	38	Jordan					1,960				
	39	Yemen		5,700							
			34,545	5,700	0	31,800	8,880	0	0		80,925
1984	40	Somalia	1,500								
	41	Yemen					4,900				
	42	Sudan			4,335						
	43	Morocco	1,875								
	44	Yemen	3,690								
			7,065	0	4,335	0	4,900	0	0		16,300
1985	45	Yemen	3,975								
	46	Morocco	3,600								
	47	Morocco	3,750								
	48	Yemen				5,100					
	49	Jordan	1,050								
	50	Jordan				2,660					
	51	Jordan					700				
	52	Mauritania	2,190								
	53	Iraq	27,930								
			42,495	0	0	7,760	700	0	0		50,955

Appendix (A-1) : Loans Extended to Member States (1978 - 2018) (Cont.)

(Thousands of AAD)

Year	Loan No.	Country	Automatic	Ordinary	Extended	Compensatory	Trade Facility	Oil Facility	Structural Adjustment	SMEs Facility	Total
1986	54	Yemen	3,675								
	55	Morocco	1,875								
	56	Syria	2,940								
	57	Syria	2,400								
	58	Morocco		6,250							
	59	Morocco					2,500				
	60	Mauritania			3,250						
	61	Mauritania	1,500								
	62	Tunisia	3,675								
	63	Jordan	3,990								
	64	Tunisia	1,500								
			21,555	6,250	3,250	0	2,500	0	0		33,555
1987	65	Tunisia					3,450				
	66	Yemen		2,500							
	67	Iraq					18,620				
			0	2,500	0	0	22,070	0	0		24,570
1988	68	Morocco	1,875								
	69	Yemen	3,690								
	70	Jordan					1,960				
	71	Morocco	7,350								
	72	Algeria					18,620				
	73	Mauritania				2,460					
	74	Yemen		6,150							
	75	Egypt	4,687								
	76	Yemen	3,975								
	77	Mauritania	2,190								
	78	Yemen					5,100				
	79	Syria		8,200							
	80	Algeria	27,930								
	81	Iraq	27,930								
			79,627	14,350	0	2,460	25,680	0	0		122,117
1989	82	Iraq	3,300								
	83	Jordan		5,320							
	84	Egypt	5,250								
	85	Morocco			17,150						
	86	Algeria		41,640							
			8,550	46,960	17,150	0	0	0	0		72,660
1990	87	Mauritania			9,050						
	88	Egypt				6,625					
			0	0	9,050	6,625	0	0	0		15,675
1991											
1992	89	Morocco			14,800						
	90	Tunisia	3,675								
			3,675	0	14,800	0	0	0	0		18,475
1993	91	Mauritania			3,250						
			0	0	3,250	0	0		0		3,250
1994	92	Yemen	11,340								
	93	Mauritania				2,460					
	94	Jordan			7,980						
	95	Algeria			29,150						
			11,340	0	37,130	2,460	0	0	0		50,930
1995	96	Yemen		15,120							
	97	Tunisia	5,175								
	98	Jordan			5,320						
			5,175	15,120	5,320	0	0	0	0		25,615
1996	99	Algeria			31,230						
	100	Mauritania			4,955						
			0	0	36,185	0	0	0	0		36,185

Appendix (A-1) : Loans Extended to Member States (1978 - 2018) (Cont.)

(Thousands of AAD)

Year	Loan No.	Country	Automatic	Ordinary	Extended	Compensatory	Trade Facility	Oil Facility	Structural Adjustment	SMEs Facility	Total
1997	101	Jordan				2,660					
	102	Djibouti		367							
	103	Yemen			19,656						
			0	367	19,656	2,660	0	0	0		22,683
1998	104	Jordan							3,910		
	105	Yemen							9,057		
			0	0	0	0	0	0	12,967		12,967
1999	106	Algeria							30,605		
	107	Tunisia	5,175								
	108	Morocco							10,878		
	109	Tunisia							5,072		
	110	Lebanon	3,675								
			8,850	0	0	0	0	0	46,555		55,405
2000	111	Djibouti			245						
	112	Lebanon							3,601		
	113	Mauritania			4,000						
	114	Morocco				7,400					
	115	Egypt							23,153		
			0	0	4,245	7,400	0	0	26,754		38,399
2001	116	Jordan							5,214		
	117	Morocco							14,504		
	118	Egypt				15,750					
	119	Egypt	23,625								
	120	Tunisia				3,450					
	121	Tunisia							6,762		
			23,625	0	0	19,200	0	0	26,480		69,305
2002	122	Egypt							30,870		
	123	Djibouti							420		
	124	Lebanon	3,675								
			3,675	0	0	0	0	0	31,290		34,965
2003	125	Morocco							11,100		
	126	Djibouti			368						
	127	Egypt			55,125						
			0	0	55,493	0	0	0	11,100		66,593
2004	128	Comoros	184								
	129	Tunisia							5,175		
	130	Sudan			9,800						
	131	Egypt							23,625		
			184	0	9,800	0	0	0	28,800		38,784
2005	132	Mauritania			8,600						
	133	Sudan							9,800		
	134	Lebanon							6,825		
			0	0	8,600	0	0	0	16,625		25,225
2006	135	Djibouti							350		
			0	0	0	0	0	0	350		350
2007	136	Syria							2,000		
	137	Lebanon							9,100		
			0	0	0	0	0	0	11,100		11,100
2008	138	Comoros		184							
	139	Djibouti						614			
	140	Syria							9,600		
	141	Lebanon						18,200			
			0	184	0	0	0	18,814	9,600		28,598

Appendix (A-1) : Loans Extended to Member States (1978 - 2018) (Cont.)

(Thousands of AAD)

Year	Loan No.	Country	Automatic	Ordinary	Extended	Compensatory	Trade Facility	Oil Facility	Structural Adjustment	SMEs Facility	Total
2009	142	Jordan	7,365								
	143	Jordan							12,275		
	144	Morocco							47,863		
	145	Mauritania							9,120		
	146	Morocco				21,880					
			7,365	0	0	21,880	0	0	69,258		98,503
2010	147	Jordan				9,820					
	148	Jordan							17,185		
	149	Morocco							47,863		
	150	Yemen			43,000						
			0	0	43,000	9,820	0	0	65,048		117,868
2011	151	Morocco						13,675			
	152	Egypt	43,725								
	153	Egypt							58,300		
			43,725	0	0	0	0	13,675	58,300		115,700
2012	154	Jordan	7,365								
	155	Yemen		21,000							
	156	Yemen				24,000					
	157	Tunisia							15,935		
	158	Tunisia				12,750					
	159	Tunisia	9,562								
	160	Morocco				27,350					
			16,927	21,000	0	64,100	0	0	15,935		117,962
2013	161	Sudan							9,800		
	162	Yemen		21,000							
	163	Jordan				12,790					
	164	Jordan			12,790						
	165	Comoros			787						
	166	Tunisia							12,000		
	167	Tunisia							20,000		
	168	Morocco							60,000		
			0	21,000	13,577	12,790	0	0	101,800		149,167
2014	169	Mauritania			20,000						
	170	Yemen			36,510						
			0	0	56,510	0	0	0	0		56,510
2015	171	Jordan							13,285		
	172	Egypt							78,880		
	173	Egypt	59,160								
	174	Sudan			39,900						
			59,160	0	39,900	0	0	0	92,165		191,225
2016	175	Jordan	9,964								
	176	Mauritania				12,340					
	177	Egypt				81,820					
			9,964	0	0	94,160	0	0	0		104,124
2017	178	Jordan				13,400					
	179	Morocco							69,500		
			0	0	0	13,400	0	0	69,500	0	82,900
2018	180	Tunisia				18,532					
	181	Tunisia								18,532	
	182	Sudan								22,800	
	183	Egypt								87,700	
	184	Morocco				41,125					
			0	0	0	59,657	0	0	0	129,032	188,689
Total			431,250	146,751	450,331	374,892	64,730	32,489	693,627	129,032	2,323,102

Appendix (A-2) : Loans Extended to Member States By Type (1978 - 2018)

Automatic Loans	No. of Loans	Value of Loans (Million AAD)	Extended Loans	No. of Loans	Value of Loans (Million AAD)
Jordan	6	33.724	Jordan	3	26.090
Tunisia	6	28.762	Algeria	2	60.380
Algeria	1	27.930	Sudan	5	70.285
Sudan	5	11.100	Somalia	1	12.740
Syria	4	9.030	Egypt	1	55.125
Somalia	3	4.440	Morocco	3	63.800
Iraq	4	87.090	Mauritania	8	61.345
Lebanon	2	7.350	Yemen	3	99.166
Egypt	6	141.135	Djibouti	2	0.613
Morocco	10	29.550	Comoros	1	0.787
Mauritania	7	10.320			
Yemen	9	40.635			
Comoros	1	0.184			
	64	431.250		29	450.331

Ordinary Loans	No. of Loans	Value of Loans (Million AAD)	Trade Facility	No. of Loans	Value of Loans (Million AAD)
Jordan	1	5.320	Jordan	3	4.620
Algeria	1	41.640	Tunisia	1	3.450
Syria	1	8.200	Algeria	1	18.620
Morocco	1	6.250	Syria	1	3.000
Mauritania	1	4.500	Iraq	1	18.620
Yemen	7	80.290	Morocco	1	2.500
Djibouti	1	0.367	Yemen	3	13.920
Comoros	1	0.184			
	14	146.751		11	64.730

Compensatory Loans	No. of Loans	Value of Loans (Million AAD)	Structural Adjustment Facility	No. of Loans	Value of Loans (Million AAD)
Jordan	5	41.330	Jordan	5	51.869
Tunisia	3	34.732	Tunisia	6	64.944
Sudan	2	9.800	Algeria	1	30.605
Iraq	1	27.000	Sudan	2	19.600
Egypt	3	104.195	Lebanon	3	19.526
Morocco	5	107.555	Egypt	5	214.828
Mauritania	3	17.260	Morocco	7	261.708
Yemen	3	33.020	Yemen	1	9.057
			Djibouti	2	0.770
			Syria	2	11.600
			Mauritania	1	9.120
	25	374.892		35	693.627

Oil Facility	No. of Loans	Value of Loans (Million AAD)	SMEs Facility	No. of Loans	Value of Loans (Million AAD)
Djibouti	1	0.614	Sudan	1	22.800
Lebanon	1	18.200	Egypt	1	87.700
Morocco	1	13.675	Tunisia	1	18.532
	3	32.489		3	129.032

Appendix (A-3): Balance of Outstanding Loans (2017 - 2018)

(Thousands of AAD)

Country	End of 2017			End of 2018		
	Balance of Outstanding Loans	Balance of Undisbursed Loans	Total Loans Commitments	Balance of Outstanding Loans	Balance of Undisbursed Loans	Total Loans Commitments
Jordan	44,104		44,104	29,297		29,297
Sudan	56,164	7,980	64,144	66,703	9,120	75,823
Syria	2,880		2,880	2,880		2,880
Somalia	14,876		14,876	14,876		14,876
Iraq	29,115		29,115	20,161		20,161
Egypt	183,729		183,729	137,703	35,080	172,783
Morocco	55,500	30,000	85,500	118,625		118,625
Yemen	62,605	18,255	80,860	62,605	18,255	80,860
Mauritania	28,005		28,005	18,710		18,710
Tunisia	9,600		9,600	30,998	9,266	40,264
Total	486,578	56,235	542,813	502,558	71,721	574,279

Appendix (A-4): Balance of Loans Commitments (1978- 2018)

(Thousands of AAD)

Year	Loans Extended during the year	Outstanding Loans Commitments *	Balance of Outstanding Loans **
1978	6,563	6,563	6,563
1979	16,500	23,063	18,062
1980	11,750	48,687	42,187
1981	78,615	102,834	68,674
1982	31,440	129,733	111,700
1983	80,925	198,587	193,037
1984	16,300	189,388	183,423
1985	50,955	187,724	181,759
1986	33,555	195,558	183,843
1987	24,570	167,666	157,451
1988	122,117	226,484	213,717
1989	72,660	283,740	242,041
1990	15,675	244,329	233,379
1991	-	213,441	198,641
1992	18,475	189,467	179,467
1993	3,250	162,451	151,131
1994	50,930	203,450	167,985
1995	25,615	211,728	177,562
1996	36,185	218,253	186,905
1997	22,683	231,295	206,697
1998	15,023	227,413	199,314
1999	55,405	263,858	229,129
2000	38,399	276,416	250,459
2001	69,305	300,630	278,997
2002	34,965	278,180	275,970
2003	66,593	316,658	281,121
2004	38,784	280,182	252,695
2005	25,225	275,201	253,376
2006	350	262,611	231,511
2007	11,100	247,693	226,218
2008	28,598	283,693	251,111
2009	98,503	352,671	318,273
2010	117,868	418,105	356,614
2011	115,700	466,769	416,119
2012	117,962	509,723	440,605
2013	149,167	541,148	466,096
2014	56,510	474,284	402,047
2015	191,225	528,846	451,978
2016	104,124	570,911	542,869
2017	82,900	542,813	486,578
2018	188,689	574,279	502,558

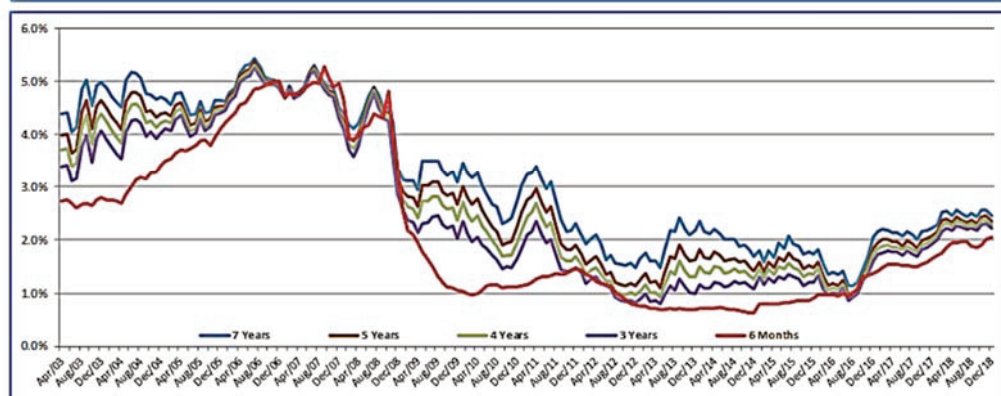
* Total outstanding loans and undisbursed balances.

** Total disbursed loans minus repayments.

Appendix (A-5): Interest Rates According to Maturity of Loans (Jan. Dec.) 2018

	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18
7 Years	2.29%	2.51%	2.54%	2.45%	2.56%	2.50%	2.43%	2.49%	2.43%	2.56%	2.57%	2.46%
5 Years	2.16%	2.37%	2.40%	2.33%	2.44%	2.38%	2.32%	2.37%	2.31%	2.44%	2.45%	2.35%
4 Years	2.09%	2.27%	2.32%	2.26%	2.36%	2.32%	2.27%	2.30%	2.25%	2.37%	2.38%	2.29%
3 Years	2.01%	2.16%	2.22%	2.18%	2.27%	2.24%	2.20%	2.22%	2.18%	2.29%	2.31%	2.23%
6 Months	1.72%	1.76%	1.87%	1.95%	1.95%	1.96%	1.96%	1.88%	1.87%	1.91%	2.01%	2.05%

Chart (6) : Interest Rates on Loans According to Maturity, (2003 - 2018)



Appendix (B-1): Capital at 31 December 2018

(Thousands of AAD)

	Country	Subscribed Capital	Paid-Up Capital			
			Local Currencies	Convertible Currencies	By a Transfer from General Reserve ⁽²⁾	Total
1	Jordan	14,850	80	7,795	6,975	14,850
2	UAE	52,950	300	27,725	24,925	52,950
3	Bahrain	13,800	80	7,220	6,500	13,800
4	Tunisia	19,275	100	10,113	9,063	19,275
5	Algeria	116,850	760	61,115	54,975	116,850
6	Saudi Arabia	133,425	760	69,878	62,788	133,425
7	Sudan	27,600	200	9,800	13,000	23,000
8	Syria	19,875	80	7,120	9,363	16,563
9	Somalia	11,025	80	3,920	5,188	9,188
10	Iraq	116,850	760	61,115	54,975	116,850
11	Oman	13,800	80	7,220	6,500	13,800
12	Qatar	27,600	200	14,400	13,000	27,600
13	Kuwait	88,200	500	46,200	41,500	88,200
14	Lebanon	13,800	100	7,200	6,500	13,800
15	Libya	37,035	186	19,427	17,423	37,035
16	Egypt	88,200	500	46,200	41,500	88,200
17	Morocco	41,325	200	21,688	19,438	41,325
18	Mauritania	13,800	80	7,220	6,500	13,800
19	Yemen	42,450	280	16,535	19,975	36,790
20	Palestine ⁽¹⁾	5,940	0	0	0	0
21	Djibouti	675	5	245	313	563
22	Comoros	675	5	245	313	563
Total		900,000	5,336	452,379	420,710	878,425

(1) Payment of Palestine's share was deferred by the Board of Governors' Resolution No. (7) of 1978.

(2) The Board of Governors of the Arab Monetary Fund had approved through resolution number (3) of 2013 increasing the Fund's authorized share capital by AAD 600 million, to become AAD 1,200 million. The resolution has also called for subscriptions from member countries amounting to AAD 300 million, half of which amounting to AAD 149.010 million to be paid by transfer from general reserve, and the remaining half by cash transfer from member countries in five annual instalments commencing in April 2014, and continued consideration of deferring the payment of Palestine share in accordance with the Board's resolution number (7) of 1978.

Appendix (C): Number of Participants Courses / Seminars / Workshops (1988-2018)

	Before 1988	Courses (AMF&Various Inst.)	Courses Coordinated With IMF	Courses Coordinated With WTO	Workshops	Workshops Coordinated With Imf	Workshops Coordinated With WTO/IMF	Workshops Coordinated With WTO	Seminars	Total
Number of Activities		180	143	35	13	9	3	5	4	392
Jordan	14	338	295	73	26	19	6	3	4	778
U.A.E	32	374	223	89	14	16	4	7	10	769
Bahrain	9	281	175	39	9	13	5	7	4	542
Tunisia	11	267	216	57	19	10	5	3	3	591
Algeria	6	206	199	42	16	15	4	4	3	495
Djibouti	0	33	311	2	0	2	2	0	0	350
Saudi Arabia	16	451	371	75	25	20	6	16	9	989
Sudan	14	330	295	60	14	16	5	4	6	744
Syria	8	268	245	78	68	18	5	3	4	697
Somalia	8	25	43	2	0	0	0	1	0	79
Iraq	13	233	441	38	15	8	5	3	2	758
Oman	9	279	233	64	17	13	6	7	6	634
Palestine	0	230	185	43	10	7	5	2	3	485
Qatar	5	200	136	29	19	16	5	10	3	423
Comoros	0	6	15	11	1	1	0	0	2	36
Kuwait	10	287	189	24	12	9	5	5	2	543
Lebanon	2	164	162	52	24	14	3	2	9	432
Lybia	0	220	131	22	13	7	4	3	1	401
Egypt	2	382	254	63	21	17	6	2	7	754
Monocco	15	255	290	38	15	15	6	3	4	641
Mauritania	9	201	185	31	10	13	1	5	4	459
Yemen	21	208	216	34	17	19	5	4	5	529
Total	204	5,238	4,810	966	365	268	93	94	91	12,129



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