IMF-MENA Inaugural Research Conference
Steering Macroeconomic and Structural Policies in A Shifting Global Economic Landscape

May 18-19, 2025
The American University in Cairo, Egypt

On the conduct of monetary policy in MENA countries in face of three decades of turmoil

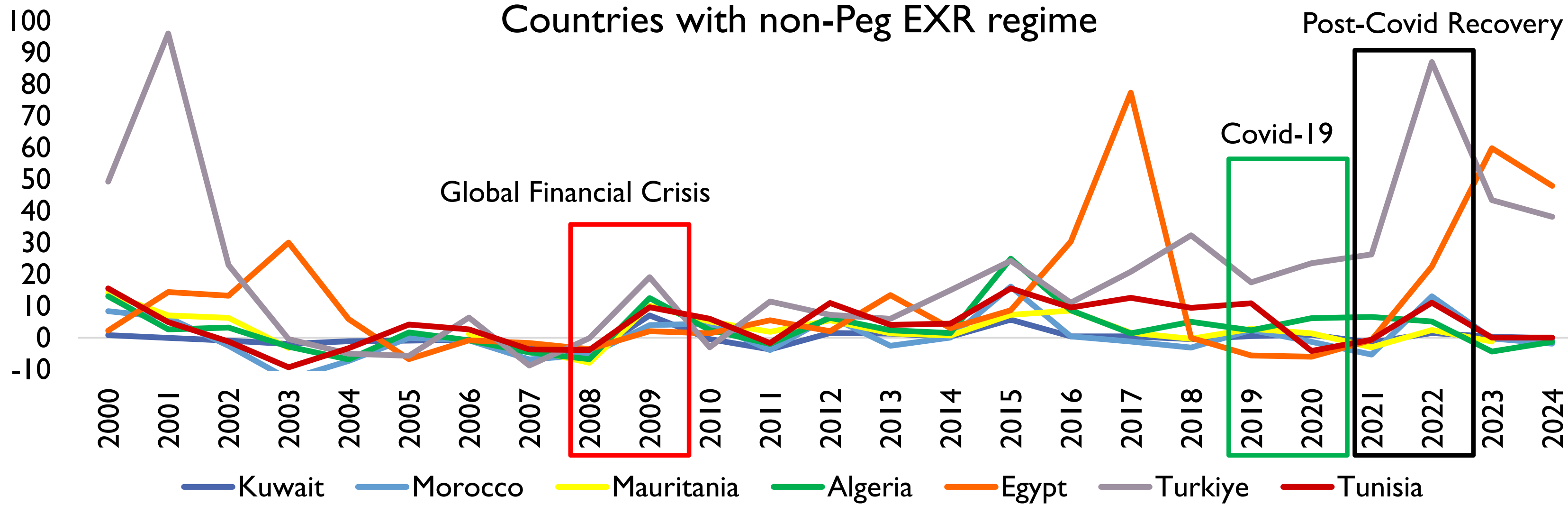
Ahmed Kamaly
Department of Economics, the American University in Cairo, Onsi Sawiris School of Business

Research assistance from Hager Atwa has been invaluable in drafting this presentation.

Exchange Rate Arrangements

- All Gulf oil-exporting countries (Bahrain, Qatar, Saudi Arabia, UAE, and Kuwait) adopt a conventional peg .
- Jordan is the only oil-importing country that maintains a fixed exchange rate.
- Other oil-importing countries (Egypt, Turkey, Tunisia, and Morocco) have more flexible regimes, ranging from *de facto* pegs to floating.
- Algeria is the only oil-exporting country that does not adopt a conventional peg.

Official Exchange Rate (LCU per US$, Period Average, % Change) for Countries with non-Peg EXR regime



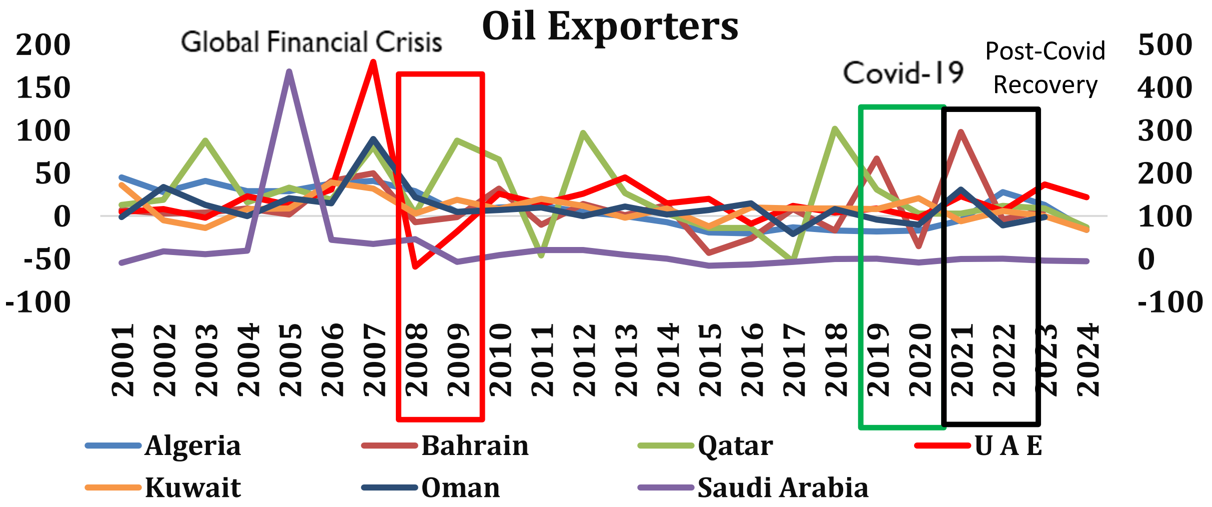
Source: Author's calculations based on World Development Indicators (WDI) data

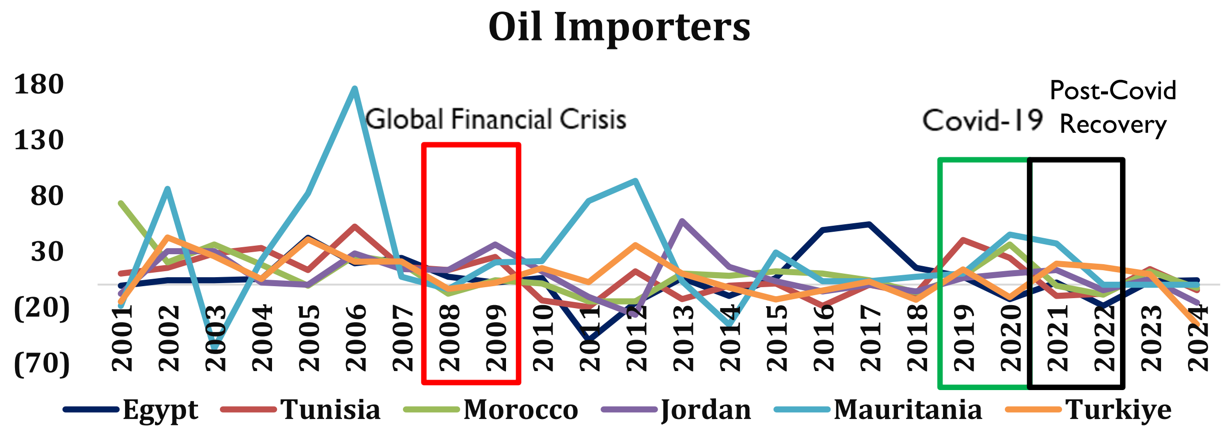
Countries	Exchange Rate Arrangement
Bahrain, Qatar, Saudi Arabia, United Arab Emirates, Jordan, and Oman	Conventional Peg
Kuwait, Morocco, Mauritania, Algeria, Egypt, Turkey, and Tunisia	Others

International Reserves

	High Variability	Low Variability
High	Saudi Arabia and UAE	-
Moderate	Algeria, Qatar and Turkey	Kuwait
Low	Egypt and Mauritania	Bahrain, Jordan, Tunisia, Morocco and Oman

- **Saudi Arabia** and **UAE** demonstrate substantial growth in total reserves, reaching notably high levels compared to other oil exporters.
- **Other Gulf countries** like Kuwait, Qatar, Bahrain, and Oman show more moderate and fluctuating levels.
- **Turkey** exhibits a highly volatile, while **Egypt** shows considerable fluctuations, particularly in the latter part of the period.
- Countries like **Morocco, Jordan, and Mauritania** maintain relatively stable but considerably lower levels of total reserves compared to both the major Gulf exporters and the more volatile oil importers.

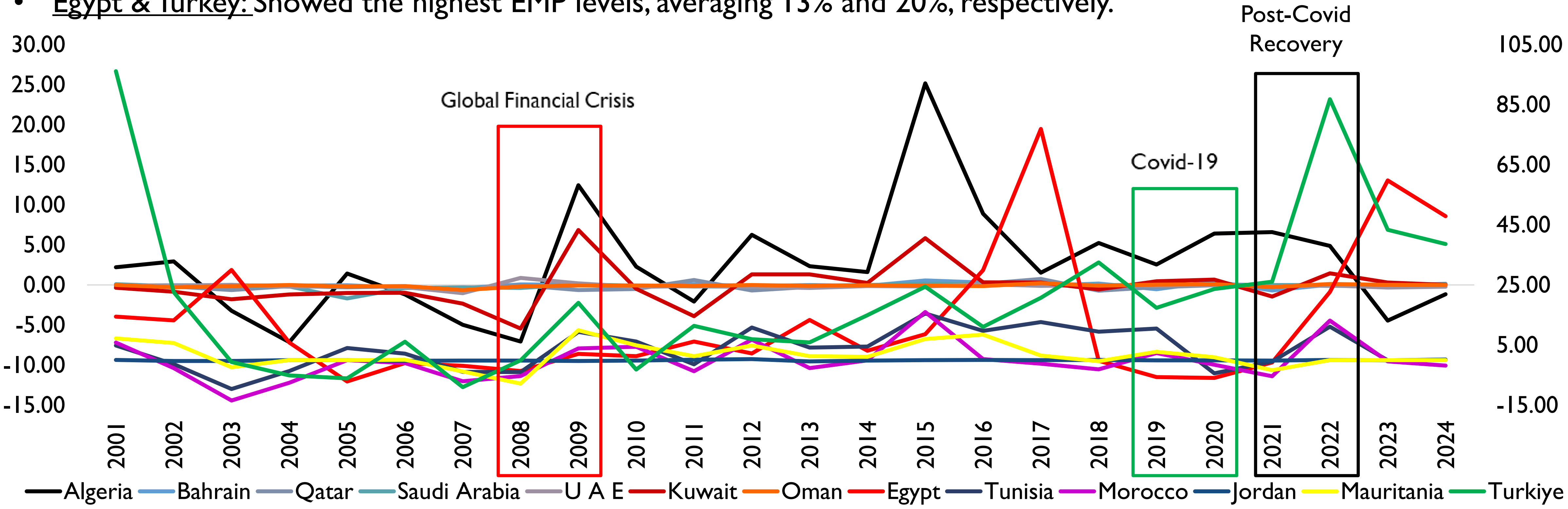




Source: World Development Indicators (WDI) data

Exchange Market Pressure

- Gulf Countries: EMP is negative due to pegged exchange rates and BoP surpluses.
- Morocco & Jordan: Despite being oil importers, both maintained negative EMP throughout the period.
- Egypt & Turkey: Showed the highest EMP levels, averaging 13% and 20%, respectively.

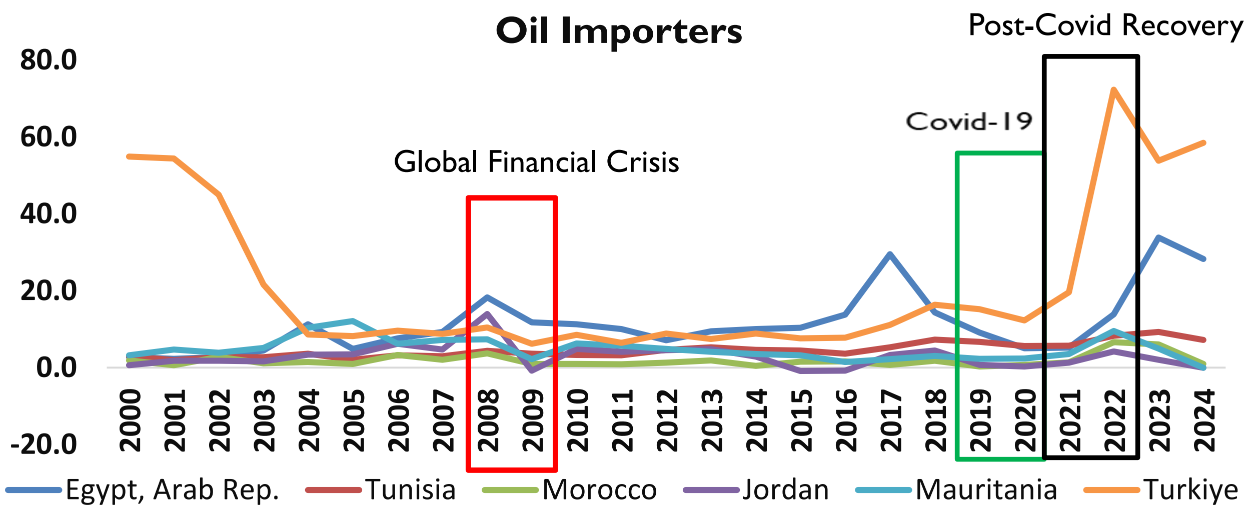


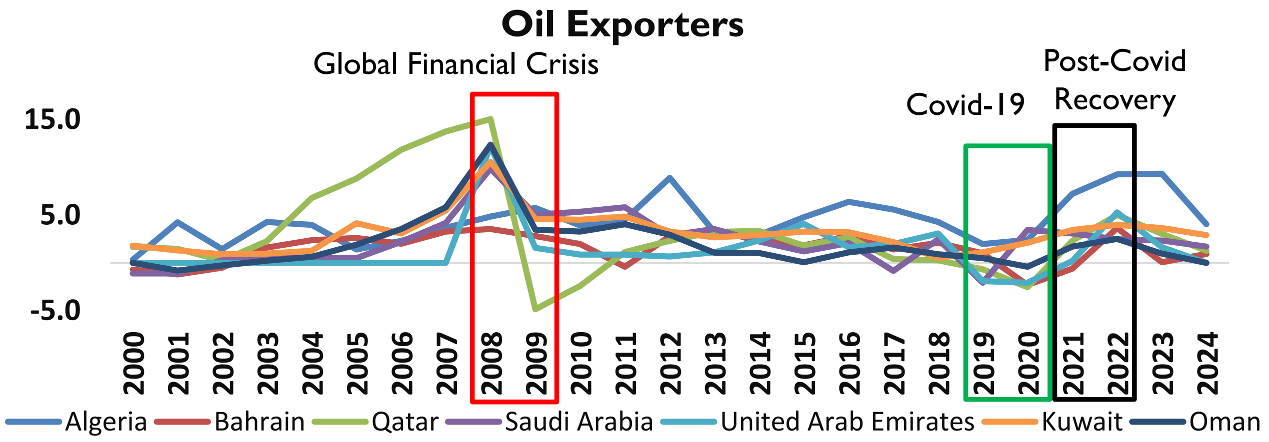
Source: Author's Calculations

Inflation Rates

	High Variability	Low Variability
High	Egypt and Turkey	-
Low	Qatar, UAE, Jordan and Saudi Arabia	Algeria, Tunisia, Kuwait, Morocco, Bahrain, Oman and Mauritania

- Countries with pegged exchange rate regimes have low average inflation (2.46%) compared to countries which have other arrangements regime (8.18%).
- Some pegged countries (Qatar, UAE, Jordan, Saudi Arabia) exhibit high inflation volatility despite low average inflation.
- Algeria, Tunisia, Morocco, and Mauritania maintain moderate inflation (4%) with low variability, reflecting price stability.
- Egypt and Turkey experience both the highest average inflation and the greatest volatility, indicating weak price stability.





Source: World Development Indicators (WDI) data

Central Bank Independence

Good news: Most countries show improvement in the independence of their central banks, with the exception of Egypt and Saudi Arabia.

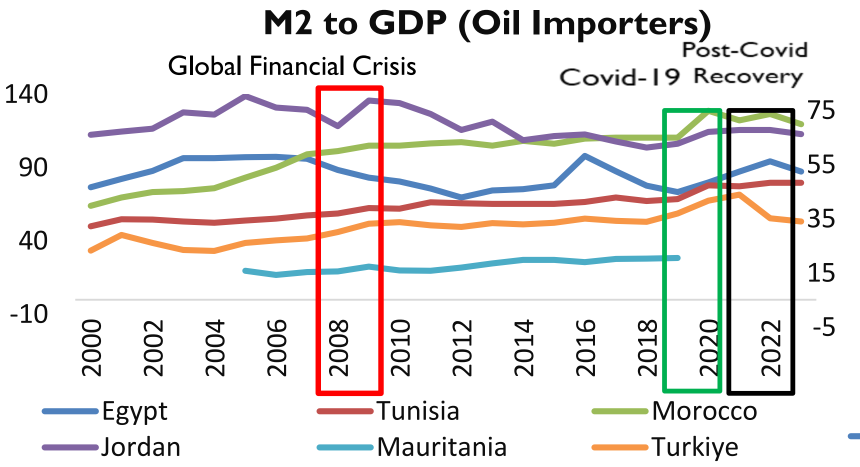
Year	Country	Degree of Independence
1970 - 1974	Egypt	49%
1975 - 2003	Egypt	44% ↓
2004 - 2023	Egypt	41% ↓
1970 - 2006	Mauritania	39%
2007 - 2017	Mauritania	64% ↑
2018 - 2023	Mauritania	67% ↑
1970 - 2004	Morocco	11%
2005 - 2018	Morocco	57% ↑
2019 - 2023	Morocco	61% ↑
1970 - 2002	Algeria	25%
2003- 2009	Algeria	35% ↑
2009 - 2023	Algeria	42% ↑
1970 - 1987	Tunisia	24%
1988 - 2005	Tunisia	45% ↑
2006 - 2023	Tunisia	52% ↑

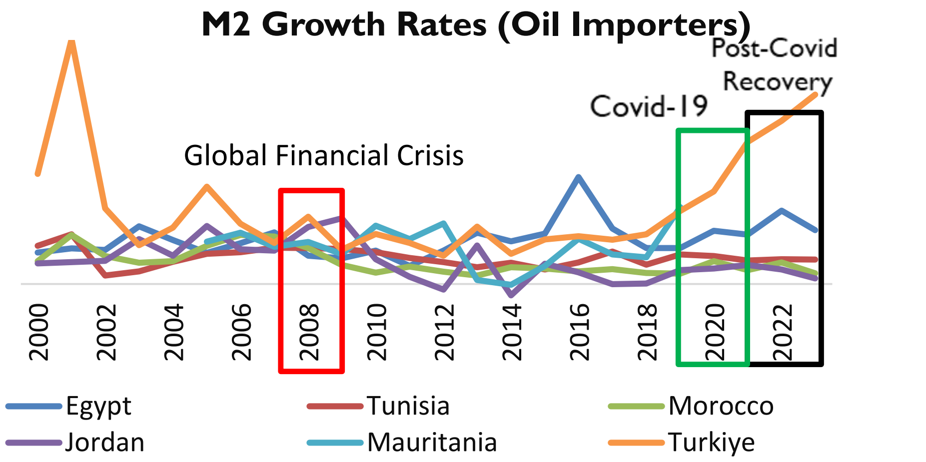
Source: Ana Carolina Garriga (2025)

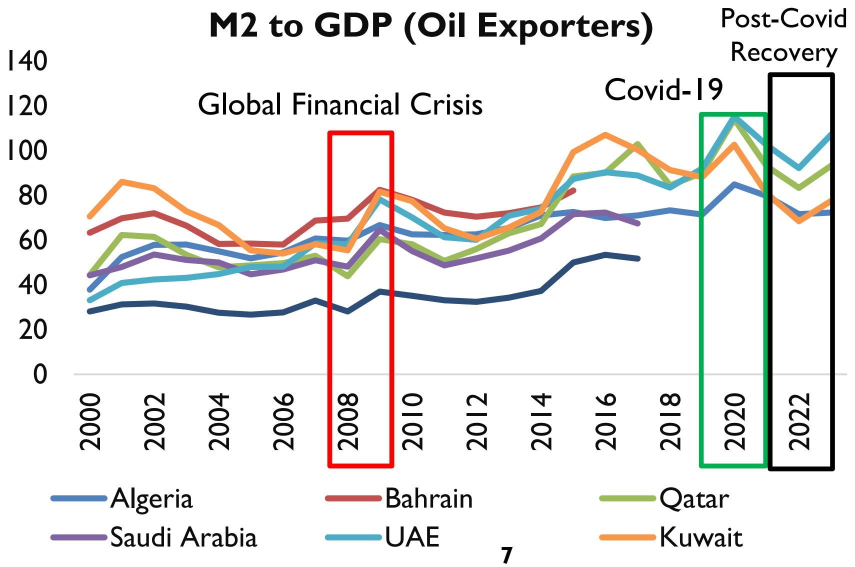
Year	Country	Degree of Independence
1970 - 1989	Turkey	50%
1990 - 2000	Turkey	53% ↑
2001 - 2023	Turkey	86% ↑
1971 - 2015	Jordan	51%
2016-2023	Jordan	68% ↑
1970 - 2023	Kuwait	40%
1973 - 2005	Bahrain	37%
2006 - 2023	Bahrain	38% ↑
1973 - 1992	Qatar	26%
1993 - 2005	Qatar	39% ↑
2006 - 2023	Qatar	51% ↑
1980 - 2019	UAE	43%
2020-2023	UAE	46% ↑
1974 – 2023	Oman	43%
1970 – 2019	Saudi Arabia	43%
2020 - 2023	Saudi Arabia	40% ↓

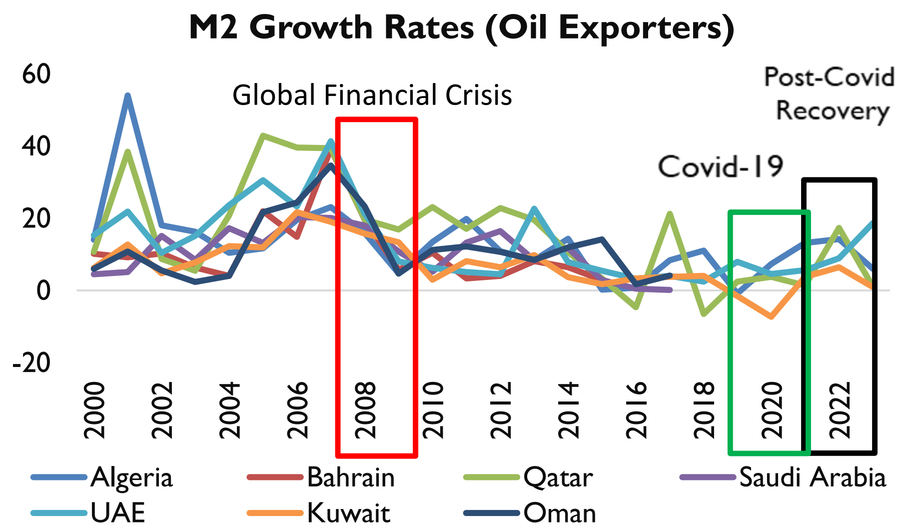
Monetary Indicators

Despite adopting pegged systems, monetary indicators (M2 to GDP and growth in money creation) in Gulf countries (Qatar, UAE, Oman, Kuwait, and Saudi Arabia) exhibit relatively high variability.





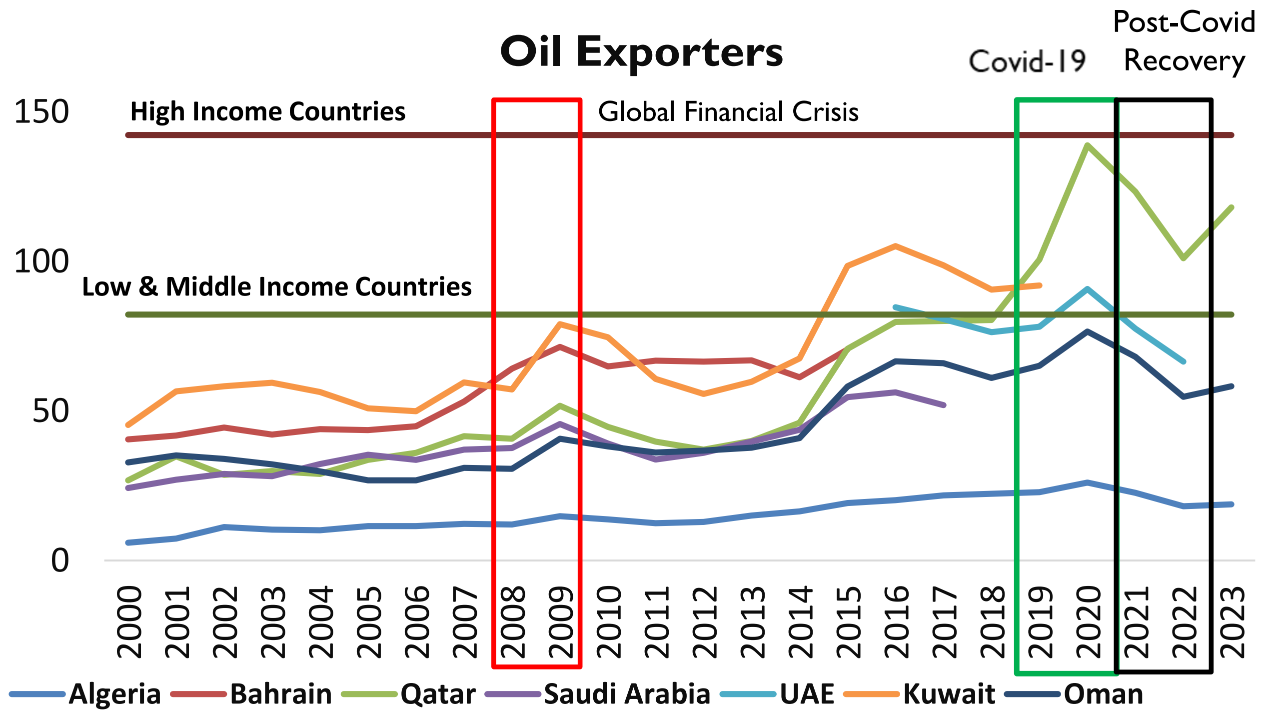


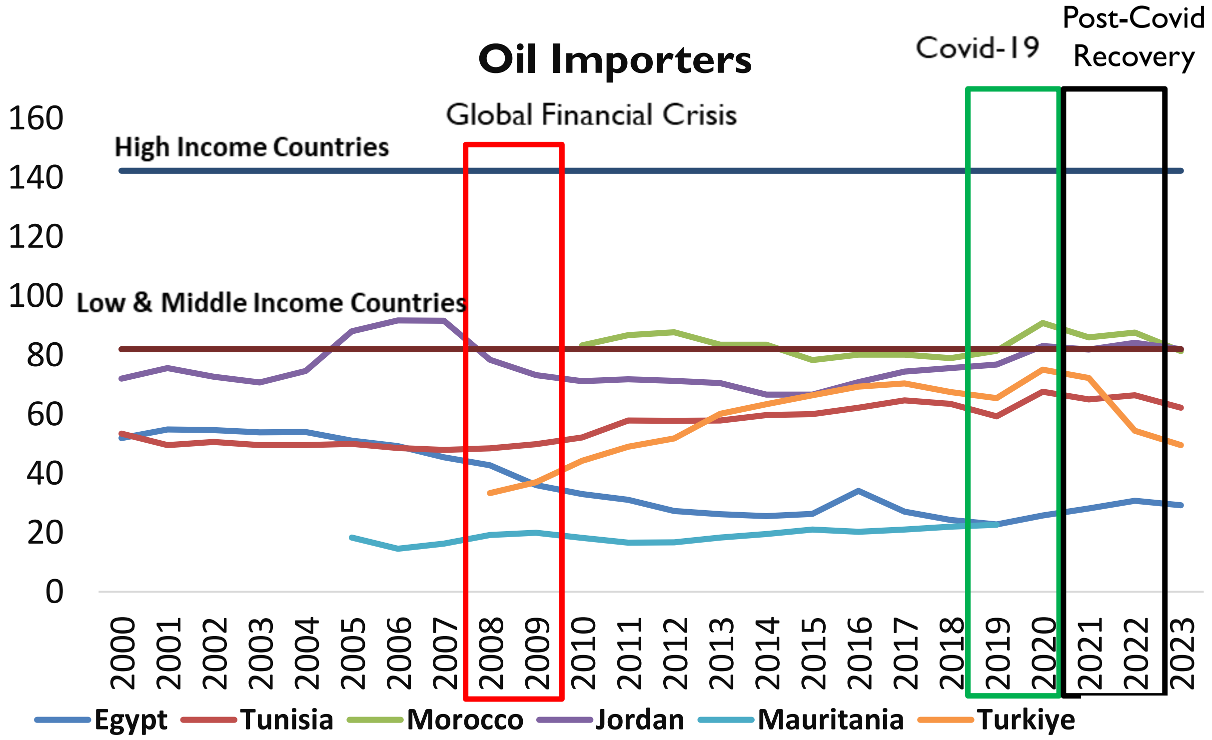


Source: World Development Indicators (WDI) data

Credit to Private Sector

- Credit to private sector (% of GDP) is relatively high in **Gulf countries**, particularly in Qatar, Kuwait, UAE, Bahrain, Saudi Arabia, and Oman, all exceeding 50%.
- In contrast, **Egypt** shows consistently low and declining credit to the private sector, indicating a potential crowding-out effect due to increased government borrowing.





Source: World Development Indicators (WDI) data

Effectiveness of Monetary Policy

Monetary Policy Objectives

Objective	Bahrain	Qatar	KSA	UAE	Jordan	Oman	Egypt	Morocco	Turkey	Mauritania	Algeria	Tunisia	Qatar
Price Stability													
Exchange Rate Stability													
Financial Stability													

Source: Central Banks of each country

Price Stability Objective

- Among the countries that have **price stability** as a **monetary objective (**Egypt, Morocco, Mauritania, Algeria, Tunisia, and Qatar). Best performers are **Morocco, Algeria, and Tunisia,** followed by **Mauritania. Turkey and Egypt** are the worst performers, as both have averaged double-digit inflation with high volatility.
- **Qatar** is the only Gulf country that explicitly lists price stability as a monetary objective. Despite its relatively **low mean inflation** (3.1%), inflation in Qatar is highly volatile—more than double the volatility observed in Tunisia, which actually has a higher average inflation level.
- The source of inflationary pressure differs between **Egypt and Turkey**. In **Turkey**, inflation is mainly driven by excessive monetary expansion ($\rho_{\pi,\mu}$= 0.78; $\rho_{EMP, M2/GDP}$ = 0.79). In **Egypt**, inflation is largely due to the pass-through effect of exchange rate inflexibility, which encourages speculative and rent-seeking activities.

Inflation	Algeria	Bahrain	Egypt	Qatar	KSA	UAE	Tunisia	Morocco	Jordan	Kuwait	Oman	Mauritania	Turkey
Mean	4.4	1.5	11.5	3.1	2.3	2.1	4.6	1.9	3.0	3.1	2.1	5.0	21.7
SD	2.4	1.7	8.3	4.8	2.6	3.3	2.0	1.6	3.1	2.1	2.8	2.7	20.7

Exchange Rate Stability

- Only **Oman** has exchange rate stability as its monetary policy objective.
- All **Gulf countries** maintain pegged exchange rate systems.
- As expected in a fixed exchange rate regime, the variability of international reserves is high among **Gulf countries**.

Countries with Conventional Peg EXR regime						
Reserves	**Bahrain**	**Qatar**	**KSA**	**UAE**	**Jordan**	**Oman**
CV	0.59	12.71	134.56	45.90	2.37	3.10

Countries with non-Peg EXR regime							
Reserves	**Algeria**	**Egypt**	**Tunisia**	**Morocco**	**Kuwait**	**Mauritania**	**Turkey**
CV	35.15	4.25	0.98	3.13	8.06	0.51	15.08

Financial Stability and Deepening

- All countries prioritize **financial stability** as a primary monetary policy objective.
- In most countries, the trend of **private credit to GDP** is increasing, except for **Algeria** (due to state involvement) and **Egypt** (due to the crowding-out effect).
- **M2 to GDP** is high in **Gulf countries**, **Jordan** and **Morocco**, (exceeding 100% in Qatar, UAE, Morocco, Jordan, and Kuwait).
- This trend indicates increasing **financial deepening** and large **current account surpluses** for **Gulf countries.**
- Some countries **(Morocco, Bahrain, and Oman)** show a very benign trend of stable and increasing **financial deepening** and **private credit to GDP**.
- The high volatility in **monetary indicators** (such as M2 to GDP and μ) in **Gulf countries** and **Jordan** are an offshoot of the pegged exchange rate system and fluctuating current accounts.

Use of Monetary Policy for Stabilization

- Among the sample countries, only **Egypt** exhibits a countercyclical monetary policy ($\rho_{\text{EMP, GDP gap}} = 0.439$).
- In contrast, the remaining countries do not demonstrate an active monetary policy. Nonetheless, **Kuwait** and **Oman** show low cyclical monetary policy.

Conclusion & Policy Recommendations

- With more financial integration, global trends affect more and more the monetary stance in MENA countries.
- Inflation and exchange rate pressures are relatively weaker in oil exporting countries given their fixed exchange rate regimes and favorable current account surpluses.
- Price stability is not synonymous to low inflation. Some Gulf countries should try to reduce the variability in inflation by reducing the variability in monetary aggregates.
- Inflation-Exchange rate spiral should be tamed in Turkey & Egypt through more monetary discipline creation in the former & more fiscal balance in the latter.

Conclusion & Policy Recommendations

- Despite improvement in financial deepening however the region lags behind in terms of the share of the private sector in the economy. Central Banks should promote granting more credit to the private sector firms.
- Despite the salutary trend in CB independence, more efforts have to be directed to enhance *de facto* independence & CB credibility.
- High levels of financial deepening are not inherently dangerous; though excessive liquidity when directed to the private sector can create asset bubbles & constrain tradable sectors & diversification efforts.
- Monetary Policy in MENA countries is not used to stabilize the real side of the economy [except for Egypt]; understandable in pegged system but not much in more flexible regimes.

“Thank You”