



**Mediterranean Programme**  
**10th Mediterranean Research Meeting**

Florence & Montecatini Terme 25-28 March 2009



**Workshop 5**

***Monetary Policy and Financial Markets in the Middle East and North Africa:  
Frameworks, Institutions and Objectives***

**directed by**

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***Workshop abstract***

We propose a workshop which will complement and extend the workshop on monetary policy and central banking in MENA countries which we organised in the March 2007 8th Mediterranean Research Meeting. In this workshop we expect to include more papers on monetary policy and central banking, especially in those MENA countries which were not covered in the previous workshop and about which relatively little has been published (this would include, for example, Jordan, Iran and the Gulf countries). We also want to attract papers which place a particular emphasis on the development of the financial markets which are essential prerequisites for the operation of a 'modern' monetary policy: money and bond markets. In this respect, we seek papers which document the current situation with respect to these markets in MENA countries and which discuss the prospects for developments in this area which would facilitate the modernisation of monetary policy and its separation from fiscal policy. In addition, we are interested in papers on monetary policy frameworks and objectives such as inflation-targeting, exchange rate pegging, asset price targeting and the importance of energy price shocks and real estate booms and busts for monetary policy in the MENA and especially in the GCC countries. Lastly we believe there are still unresolved issues related to monetary policy and exchange rates in MENA countries (including the plans for monetary integration in the GCC), and we welcome papers on such issues.

### *Workshop description*

This workshop is designed to complement and extend the work of the successful workshop which we directed in the March 2007 8th Mediterranean Research Meeting, on monetary policy and central banking in MENA countries. The best papers from that workshop are now forthcoming in a book in the Routledge Political Economy of the Middle East series (*Monetary Policy and Central Banking in the Middle East and North Africa*, eds D Cobham and G Dibeh, expected early 2009). These included two outstanding studies on central bank independence in Mediterranean countries (Gisolo, 2009) and on the nature of central bank operations (Schnabl and Schobert, 2009). However, it is clear that there remain significant gaps in our knowledge in this area, and there is plenty of scope for further work.

First, although the previous workshop included papers on monetary policy and central banking in Lebanon (Dibeh, 2009) and Algeria (Zouache and Ilmane, 2009) and papers which focused on specific aspects of policy in Turkey (Alper and Hatipoglu, 2009) and Tunisia (Boughrara, Boughzala and Hassouna, 2009), there is clearly room for case studies on a number of other countries – notably, Morocco, Libya, Jordan, Syria, Iraq, the Gulf countries and Iran – about which relatively little has so far been published.

Second, we want to encourage papers which examine the development in the MENA countries of the financial markets which are necessary for a ‘modern’ monetary policy – that is, one which works through interest rates rather than quantities of credit or money and which involves some deliberate targeting of inflation and/or growth or unemployment. These markets are essentially money markets and bond markets – markets in short term financial instruments such as treasury bills or certificates of deposit or, in developed financial systems, repurchase agreements on long term bonds (repos), and markets in long term government (and possibly corporate) bonds, typically conventional but also, in more developed financial systems, index-linked. The former allow banks to trade their short-term surpluses and deficits and allow central banks to intervene to affect the level of interest rates, and they typically imply some mechanism by which the interest rate in the money market is transmitted through to the other activities of commercial banks (deposits and loans). The latter make it possible for governments to borrow from the private sector rather than the banking sector, and therefore allow monetary growth and monetary policy to be independent, at least in the short run, from the government’s budget deficits. Countries like Lebanon, Jordan and Egypt have some markets of this type, but most Gulf countries, for example, have very little.<sup>1</sup> These issues were not covered in any serious way in the previous workshop. For this one, we want to see papers which collect information on the existence and development of these markets in the different countries, and which analyse their current and possible future contributions to the operation of monetary policy. Relatively little has been published on these topics; we hope that economists from international institutions such as the Arab Monetary Fund or possibly the European Central Bank or a European national central bank (economists from the ECB and the Banca d’Italia made very useful contributions as external participants in the previous workshop) would be able to collect the information required, and we think such economists and others could provide more analytical studies of the issues involved. In this respect, we would also like to attract papers that discuss issues such as inflation-targeting vs. exchange rate pegging (see, for example, Ball and Reyes, 2008) and its relevance for one or a group of MENA countries. Of particular interest are the output-effects of such different monetary policy

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<sup>1</sup> For up to date but basic measures of financial market development in the MENA region, see Creane et al. (2007).

objectives and the costs and benefits of the degree of central bank independence and the political economy of central bank independence (King, 2001). Moreover, recent swings in financial asset prices, especially in the GCC countries, the energy price shocks in these financial markets and the real estate boom in the region raise important questions on the role of monetary policy vis-à-vis asset prices, oil shocks and real estate price dynamics.<sup>2</sup>

Third, while the previous workshop included a number of papers on exchange rate regimes in MENA countries, there is scope for further work. The MENA countries typically peg their currencies to the US dollar, although their trade flows – particularly their imports – are much heavier with the European Union (and the Eurozone) than with the US. To some extent these pegs have operated as substitutes for a modern monetary policy in countries where the prerequisites (notably in terms of money and bond markets and independent central banks) do not exist. Papers in the previous workshop investigated the trade effects (Adam and Cobham, 2009), the growth and inflation effects (Achkar and Shahin, 2009) and the welfare effects (Bangake et al., 2009) of such regimes as opposed to alternative feasible regimes, and suggested a mechanism for moving towards monetary integration (Rossi, 2009). However, there is clearly scope for more work on those topics and in areas such as: the extent to which fixed exchange rates in the MENA context have limited monetary independence (e.g. how much have interest rates in practice been forced to follow US interest rates?); the extent to which in the current conjuncture fixing to the dollar means importing inflation; and the desirability of regional monetary integration at different levels (GCC, Maghreb, wider groupings, etc).

Overall, we are looking for both case-studies of particular countries and papers which examine particular issues across a range of countries. We expect papers to have a strong empirical and/or policy orientation but to be informed by good analytical understanding. And we hope to receive proposals from academic economists and economists in international banking and finance institutions.

Our hope is that the workshop would attract a sufficient number of sufficiently high quality papers to enable publication of a further book in this area or, failing that, a special issue of a journal such as *Review of Middle East Economics and Finance*.

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<sup>2</sup> For monetary policy and asset prices, see Bernanke and Gertler (2001). For the recent rise of stock markets in the GCC area see Bley and Chen (2006) and Hammoudeh and Choi (2007).

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