Middle East and Oil Exporters’ Perspectives on Reserve Holdings and Pegging Relationships

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Backdrop

- Role of the Euro in MENA
  - Trade
  - Holdings of reserve assets
  - Exchange rate regimes
Direction of MENA Trade

Destination of MENA Exports 2007

- United States, 9%
- Asia, 44%
- EU, 21%
- Other, 26%

Origin of MENA Imports 2007

- United States, 8%
- Asia, 30%
- EU, 33%
- Other, 30%

Dollar transactions dominate.
MENA’s Gross Official Reserves

(In billions of U.S. dollars)

Distribution is undisclosed.
Most countries are pegged to the dollar.
Recent Focus on the GCC

- Increased interest on the GCC

- Record high oil prices

- Pegged to U.S. dollar (except Kuwait), but monetary policy needs of U.S. and GCC differ.

- Should they change their exchange rate regimes?
Direction of GCC Trade

Origin of Imports 2007

- Other, 23%
- EU, 31%
- Asia, 36%
- United States, 10%

Destination of Exports 2007

- Other, 25%
- EU, 9%
- Asia, 58%
- United States, 9%

Transactions with dollar-area even larger than for MENA.
Reserves are mainly in dollars.
Exchange Rate Regimes

- Pegging
  - Adopted to facilitate transition to single currency in 2010.
  - Revaluation?
- Floating
- Pegging to the Oil Price
- Basket peg

(In percent per annum)

- SDR Interest Rate
- Federal Funds Rate
- Saudi Riyal 3-month Deposit

Jan-03 to Jul-08
If external surpluses continue and inflation persists, GCC countries may have to consider alternative arrangements.

Floating is not an option at this time.

A basket peg could be considered.
Looking Ahead

- After GCC Monetary Union, a basket peg could be a bridge to longer-term flexibility.

- Euro/dollar basket peg is an option.