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Why Don’t MENA Oil Exporter Float?

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Outline

Why haven't oil producers been floating?

- GCC countries
- Others (Algeria, Iran, Iraq, Libya)

More flexibility in the future?

Systemic implications?

Exchange Rate Regimes

(Source: IMF AREAR, 2022)

Country	De jure	De facto	GCC
Bahrain	Peg $	Peg $	X
Kuwait	Peg basket	Peg basket	X
Oman	Peg $	Peg $	X
Qatar	Peg $	Peg $	X
Saudi Arabia	Peg $	Peg $	X
UAE	Peg $	Peg $	X
Algeria	Managed float	Crawl-like arrangement	
Iran	Managed float (Multiple rates)	Stabilization arrangement (Multiple rates)	
Iraq	Peg $ (Multiple rates)	Peg $ (Multiple rates)	
Libya	Peg SDR	Peg SDR	

I. GCC

Pegs (five to USD, one has basket)

Why peg?

- Undiversified; nominal anchor; allowed central banks to accumulate reserves in good times; open capital account (dilemma, not trilemma)
- Fear of losses on sovereign balance sheets
- Fiscal policy as adjustment tool (though w/o fiscal rules); weak monetary policy transmission
- Flexible migrant-based labor markets
- Geopolitics and petrodollar recycling

II. Other Oil Exporters

Mainly adjustable pegs, but with multiple rates

Why not float?

- Avoid government revenue uncertainty
- Support for import substitution
- Control inflation
- Cope with (geo)political shocks and sanctions
- Governance: rent-seeking and corruption associated with multiple rates

III. The Future and Systemic Implications

Less reliance on U.S. and dollar system?

- **Some shift away from dollars in oil trade** (Yuan oil) and balance sheets, but this has been highly exaggerated
- **Driven mainly by geopolitics and risk of sanctions**

Exchange rate flexibility?

- **GCC:** May shift to flex very slowly (*unless* fiscal conditions weaken considerably, especially because of mega projects and stranded assets); diversification
- **Other oil exporters:** No change soon. Domestic and geopolitical conflicts and corruption undermine change