

A decorative graphic in the top left corner consists of overlapping yellow, red, and blue squares with a black crosshair.

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

Mohsin S. Khan
International Monetary Fund

Prepared for the conference on
The Euro at 10: The Next Global Currency

Washington D.C.
October 10, 2008



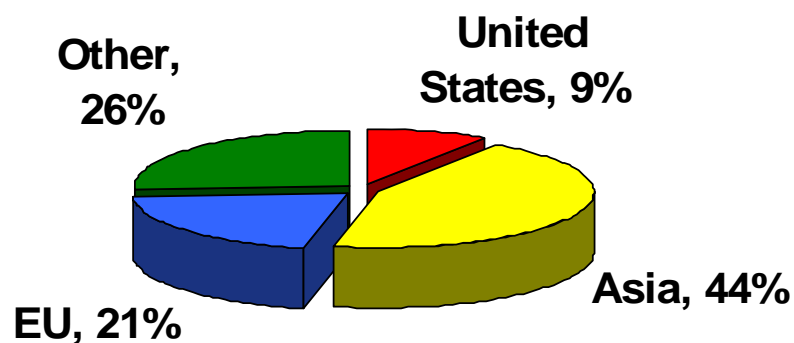
Backdrop

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

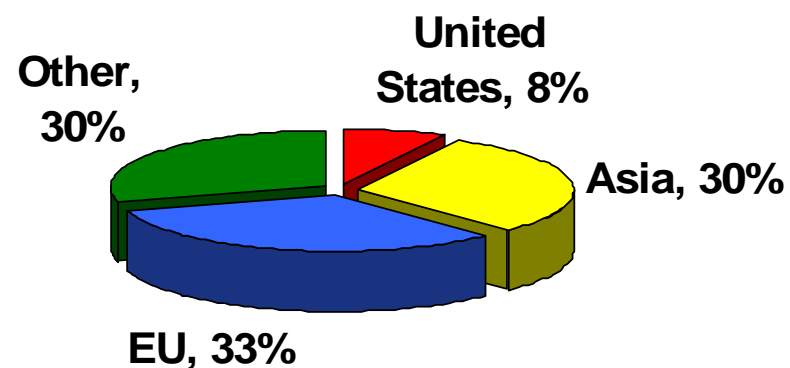


Direction of MENA Trade

Destination of MENA Exports
2007



Origin of MENA Imports
2007

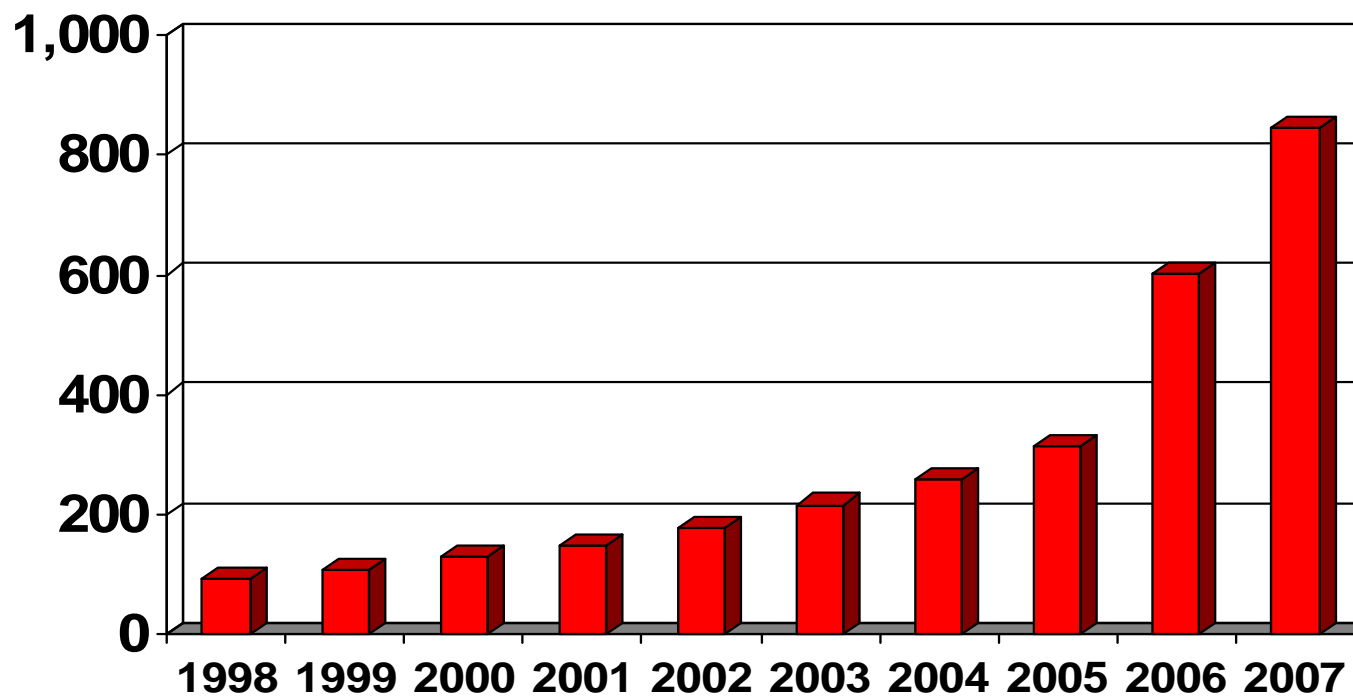


Dollar transactions dominate.



MENA's Gross Official Reserves

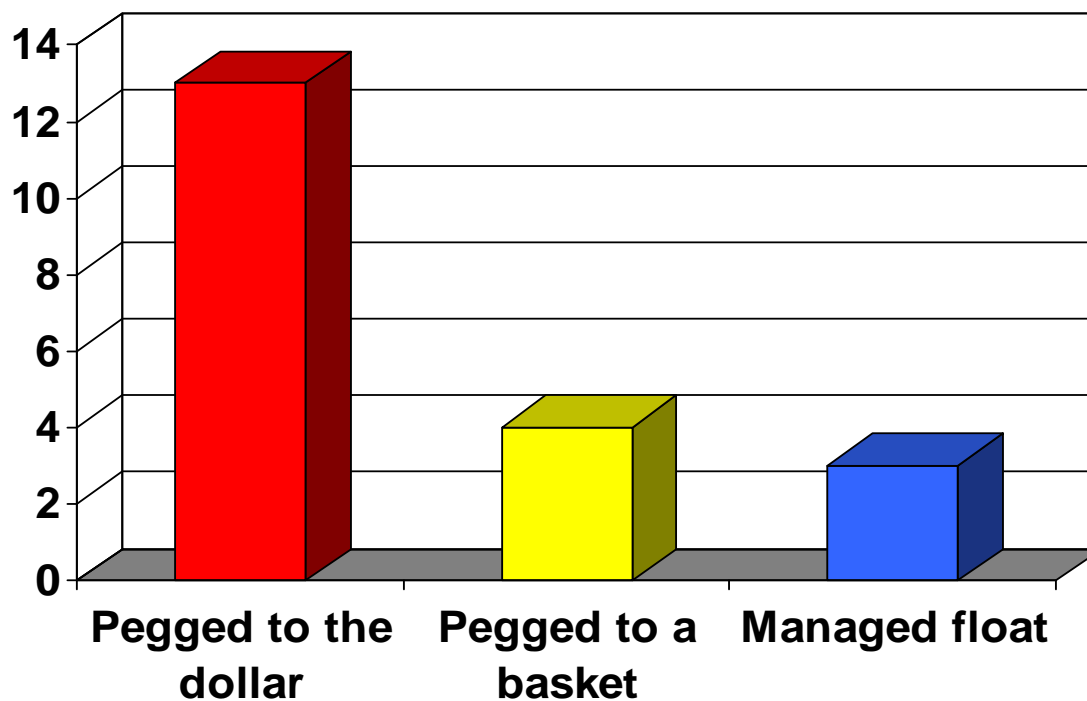
(In billions of U.S. dollars)



Distribution is undisclosed.



Exchange Rate Arrangements in MENA



Most countries are pegged to the dollar.



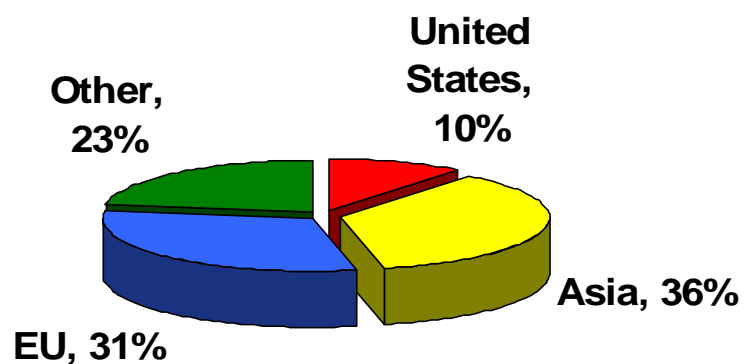
Recent Focus on the GCC

- 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?

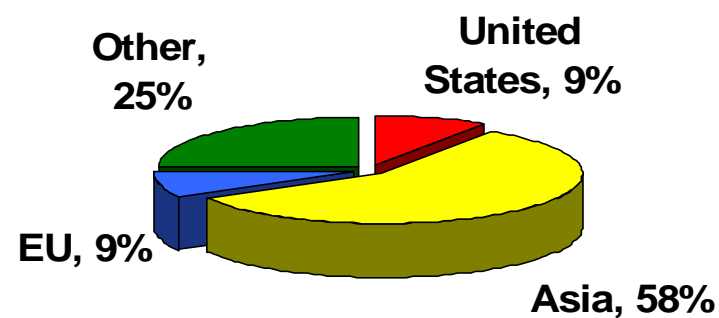


Direction of GCC Trade

Origin of Imports
2007



Destination of Exports
2007

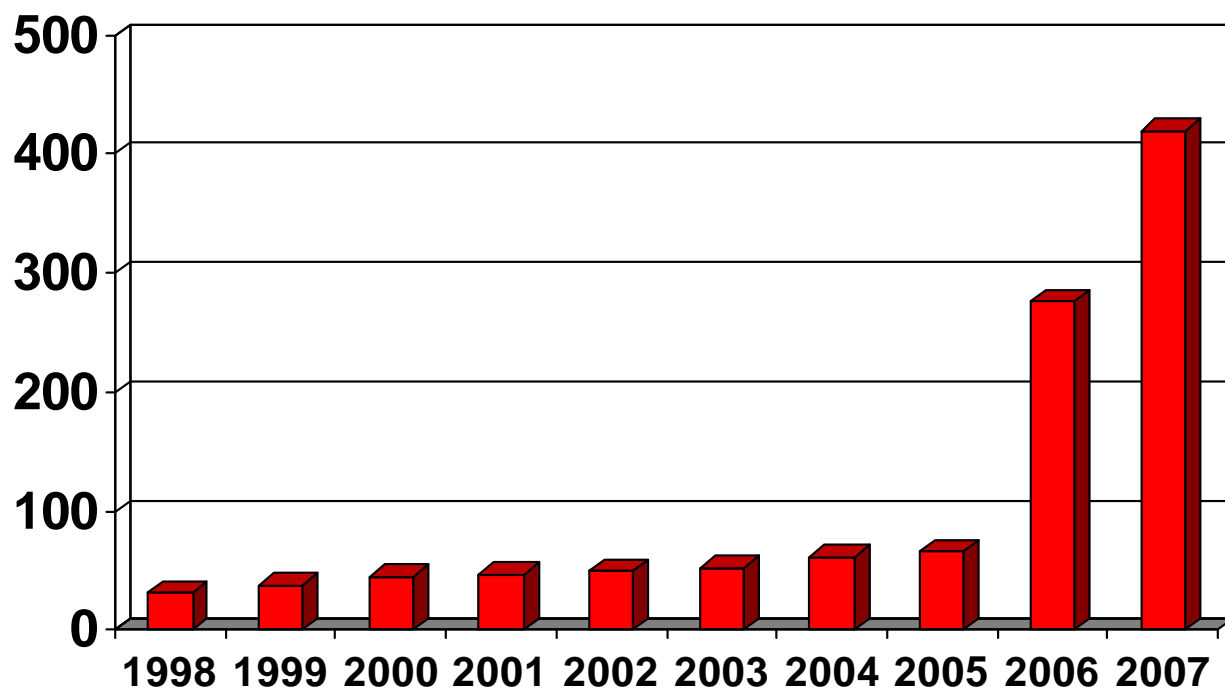


Transactions with dollar-area even larger than for MENA.



GCC Gross Official Reserves

(In billions of U.S. dollars)



Reserves are mainly in dollars.



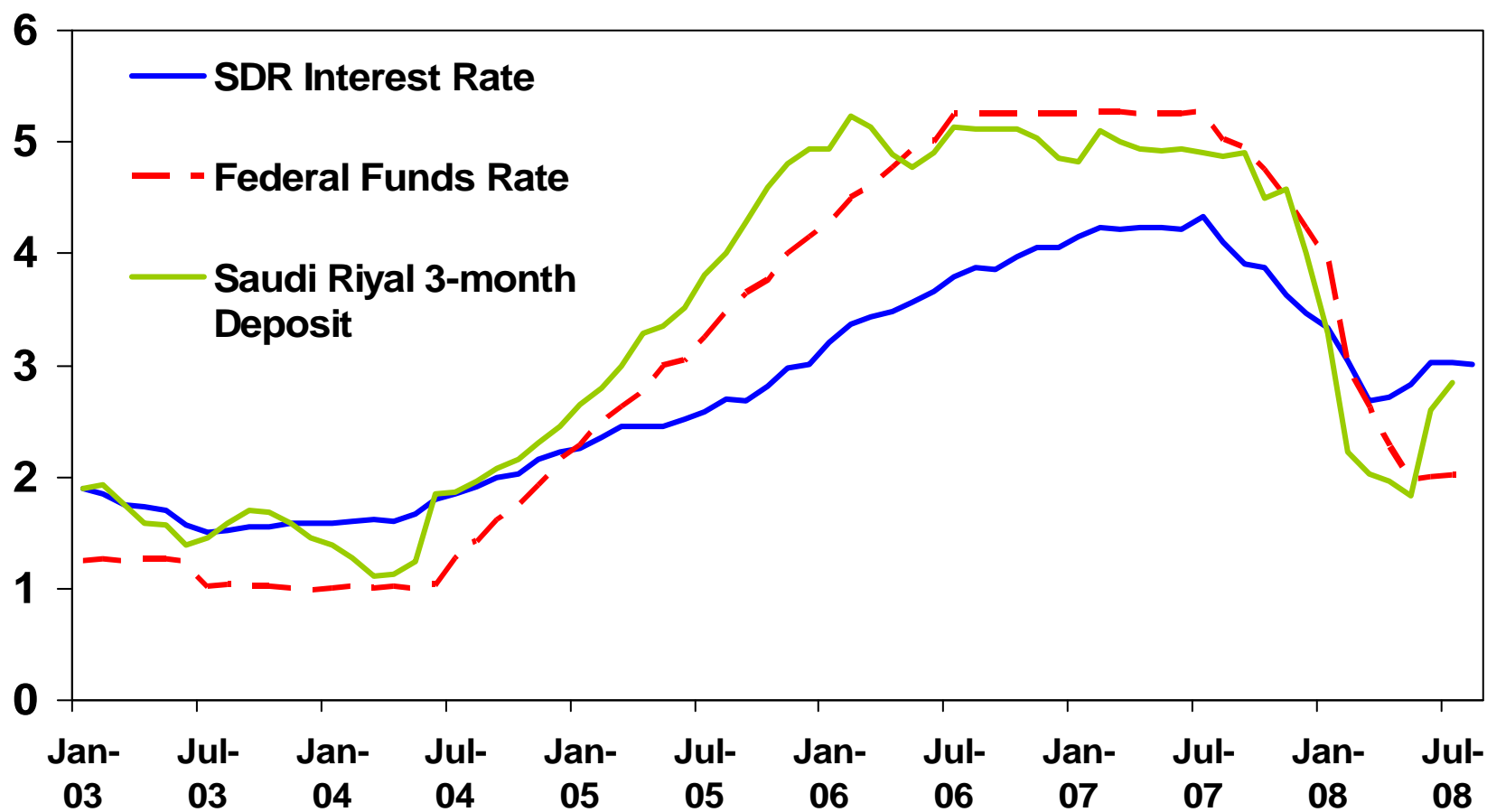
Exchange Rate Regimes

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



Interest Rates, Jan. 2003 – Aug. 2008

(In percent per annum)





Looking Ahead

- 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.