



UNIVERSITI PUTRA MALAYSIA

**MONETARY POLICY TRANSMISSION MECHANISM IN GULF
COOPERATION COUNCIL COUNTRIES**

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**MONETARY POLICY TRANSMISSION MECHANISM IN GULF
COOPERATION COUNCIL COUNTRIES**

By

SAYYED MAHDI ZIAEI

**Thesis Submitted to the School of Graduate Studies, Universiti Putra Malaysia, in
Fulfilment of the Requirements for the Degree of Doctor in Philosophy**

October 2010



DEDICATION

I dedicated this thesis to my parents. I hope that this achievement will complete the dream that they had for me all those many years ago when they choose to give me the best education that I could.



Abstract of Thesis Presented to the Senate of Universiti Putra Malaysia
in Fulfilment of Requirement for the Degree of Doctor of Philosophy
**MONETARY POLICY TRANSMISSION MECHANISMS IN GULF
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This study examines monetary policy transmission mechanisms in six members of (Persian) Gulf Cooperation Council (GCC). While GCC authorities had succeeded to maintain economic stability during 1980s and 1990s, in last decade they experienced economic fluctuation due to; the depreciation of US dollar (increasing imports cost), inflationary pressures (decreasing purchasing power), effects of foreign shocks, fix exchange rate problems, and consequences of worldwide economic crises. Two econometric methods namely structural vector autoregressive (SVAR) and panel vector autoregressive (PVAR) are used in this thesis.



The results show that in GCC, the interest rate channel provides correct signs in accordance to theory, but the magnitude of effects is not very pronounced. A temporary rise in the short-term interest rate tends to be followed by a fall in output and price but these decreases aren't amplitude. Moreover, in most GCC countries interest rate responds positively and simultaneously to unexpected positive innovation in the monetary aggregate (M2). Simultaneous interactions between monetary policy instruments and other variables such as monetary aggregate and exchange rate show that monetary policies would influence economy stronger if sovereignty of monetary authorities on monetary policy is increased. Furthermore, comparison between the channels of monetary policy in GCC countries indicate that there are two groups of countries classified in the matter of monetary policy transmission mechanisms; the first group includes; Saudi Arabia, the UAE and Bahrain. In this group the exchange rate channel is the most influential channel in the short term. The difference is that in long term in Saudi Arabia, the credit channel is the strongest channel after exchange rate channel, but in the UAE and Bahrain the interest rate channel is the most important channel. The second group includes; Kuwait, Oman and Qatar. In this group the credit channel is the strongest channel in the short term. However in the long term, the interest rate is strongest in Oman and exchange rate channel is most influential in the case of Kuwait and Qatar after credit channel. Moreover, effects of monetary policy on aggregate demand components demonstrate that (except Kuwait), monetary policy shocks influences investment more than other components of GDP.

In conclusion, this study found that monetary policy transmission mechanism operate to some extent in the same underlying monetary pattern across the member of GCC



countries, and with more flexible exchange rate and establishment of monetary union, influences of monetary policy on money and credit markets could be strengthened.



Abstrak Tesis yang Dikemukakan kepada Senat Universiti Putra Malaysia

Sebagai memenuhi keperluan untuk ijazah Doktor Falsafah

**MEKANISME TRANSMISI POLISI MONETARI DI LIMA NEGARA GULF
COOPERATION COUNCIL COUNTRIES**

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Kajian ini meneliti mekanisme penghantaran dasar kewangan di enam negara-negara (Parsi) Gulf Cooperation Council (GCC). Walaupun pihak berkuasa GCC berjaya menjaga kestabilan ekonomi semasa 1980-an dan 1990-an, namun pada dekad yg lepas mereka mengalami perubahan ekonomi disebabkan oleh: penyusutan dollar Amerika (peningkatan kos import), tekanan inflasi (pengurangan kuasa pembelian), kesan goncangan asing, masalah kadar pertukaran tetap dan kesan akibat krisis ekonomi dunia. Dua kaedah ekonometrik iaitu vector autoregressive berstruktur (SVAR) dan vector autoregressive panel (PVAR).



Keputusan menunjukkan bahawa di GCC, saluran kadar bunga memberikan tanda-tanda yang bersesuaian dengan teori, tetapi, kesan tidak begitu jelas. Kenaikan sementara pada kadar bunga jangka pendek cenderung untuk diikuti dengan penurunan dalam keluaran dan harga. Namun begitu, penurunan ini tidak terlalu besar. Tambahan pula, di kebanyakan Negara-negara GCC, kadar bunga memberi respon positif dan serentak kepada inovasi positif yang tidak disangka di dalam agregat kewangan (M2). Interaksi serentak di antara instrument dasar kewangan dan pembolehubah lain seperti agregat kewangan dan kadar pertukaran menunjukkan bahawa dasar-dasar kewangan mungkin mempunyai pengaruh yang kuat jika kedaulatan kuasa kewangan meningkat. Selain itu, perbandingan antara saluran polisi kewangan Negara-negara GCC menunjukkan bahawa terdapat dua kumpulan negara-negara yang diklasifikasikan dalam isu mekanisme penghantaran polisi kewangan. Kumpulan pertama terdiri daripada Arab Saudi, Emirate Arab Bersatu dan Bahrain. Dalam kumpulan ini, saluran kadar pertukaran adalah saluran yang paling berpengaruh pada jangka masa pendek. Perbezaannya adalah, pada jangka masa panjang, di Arab Saudi, saluran kredit adalah saluran yang paling kukuh selepas saluran kadar pertukaran. Namun begitu, di Emirate Arab Bersatu dan Bahrain, saluran kadar bunga adalah saluran yang terpenting sekali. Kumpulan kedua pula terdiri daripada Kuwait, Oman dan Qatar. Dalam kumpulan ini, saluran kredit adalah saluran yang paling kukuh dalam jangka masa pendek. Akan tetapi, pada jangka masa panjang, saluran kadar bunga adalah terkukuh di Oman, manakala saluran kadar pertukaran adalah paling berpengaruh di Kuwait dan Qatar. Tambahan pula, kesan polisi kewangan terhadap komponen permintaan agregat menunjukkan bahawa, dengan Kuwait terkecuali, goncangan polisi kewangan mempengaruhi perlaburan lebih dari komponen GDP yang lain.



Sebagai penutup, kajian ini mendapati bahawa mekanisme penghantaran dasar kewangan beroperasi dalam pola kewangan terdasar yang sama antara ahli-ahli GCC, dan dengan kadar pertukaran yang lebih fleksibel serta penubuhan kesatuan kewangan, pengaruh-pengaruh dasar kewangan terhadap wang dan pasaran kredit boleh diperkukuhkan.



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I certify that an Examination Committee has met on 12 October date of viva voce to conduct the final examination of Sayyed Mahdi ziaei on his Doctor of Philosophy thesis entitled “MONETARY POLICY TRANSMISSION MECHANISM IN GCC COUNTRIES” in accordance with the Universities and University Colleges Act 1971 and the Constitution of the Universiti Putra Malaysia [P.U.(A) 106] 15th March 1998. The Committee recommends that the student be awarded the Doctor of Philosophy.

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DECLARATION

I declare that the thesis is my original work except for quotations and citations which have been duly acknowledged. I also declare that it has not been previously, and is not concurrently, submitted for any other degree at university Putra Malaysia or at any other institution.

SAYYED MAHDI ZIAEI

12 October 2010



TABLE OF CONTENTS

DEDICATION	ii
ABSTRACT	iii
ABSTRAKT	vi
AKNOWLEDGEMENTS	ix
APPROVAL	x
DECLARATION	xii
LIST OF TABLES	xix
LIST OF FIGURES	xxi
ABBREVIATION	xxii

CHAPTER

1	OVERVIEW OF THE STUDY	1
	1.1 Introduction	1
	1.2 Statement Of Research Problem	3
	1.3 Objectives Of The Thesis	6
	1.4 Significance Of Study	7
	1.5 Organization Of Thesis	8
2	GCC ECONOMIC STRUCTURE AND MONETARY POLICY	11
	2.1 Introduction	11
	2.2 GCC Economic Structures And Recent Development	12
	2.3 Fix Exchange Rates In GCC	18
	2.3.1 Pros And Cons Of A Fixed Exchange Rate	19
	2.4 Monetary Policy Of Gcc Countries	21
	2.4.1 Monetary Policy In Bahrain	23



	2.4.2 Monetary Policy In Kuwait	25
	2.4.3 Monetary Policy In Oman	26
	2.4.4 Monetary Policy In Qatar	27
	2.4.5 Monetary Policy In Saudi Arabia	29
	2.4.6 Monetary Policy In UAE	30
	2.5 Concluding Remarks	32
3	LITERATURE REVIEW	34
	3.1 Introduction	34
	3.2 Transmission Mechanism Of Monetary Policy	35
	3.2.1 Interest Rate Channel	36
	3.2.2 Credit Channel	39
	3.2.3 Exchange Rate Channel	47
	3.2.4 Asset Price Channel	55
	3.3 Empirical Studies Of Monetary Policy Transmission Channels	56
	3.3.1 Empirical Studies On Credit Channel	56
	3.3.2 Empirical Studies On Money & Credit Channels In Other Countries	60
	3.3.3 Empirical Studies On Asset And Wealth Channels	64
	3.3.4 Empirical Studies On Exchange Rate Channel	67
	3.3.5 Empirical Studies Of Monetary Transmission On Aggregate Demand	69
	Components	69
	3.3.6 Empirical Studies On Monetary Transmission Mechanism In Mena	71
	3.4 Concluding Remarks	78
4	METHODOLOGY	80
	4.1 Introduction	80
	4.2 VAR Model Classification	81
	4.3 Formal SVAR Model	85



4.3.1 Impulse Response And Variance Decomposition	88
4.4 Some Puzzles In VAR Literature	90
4.5 SVAR Model Of KR	93
4.5.1 Privileges Of KR Model	97
4.6 Fixed Exchange Rate	98
4.6.1 Monetary Policy Modeling And Fix Exchange Rate	99
4.7 SVAR Baseline Model Of GCC Countries	103
4.8 PVAR Model For GCC Countries	108
4.9 Estimation Process	111
4.10 Data Description	112
5 MONETARY POLICY SHOCKS, SVAR RESULTS	114
5.1 Introduction	114
5.2 Specifying Lag Length	115
5.3 Choosing Money Equilibrium Market Sets	116
5.3.1 Bahrain	116
5.3.2 Kuwait	117
5.3.3 Oman	118
5.3.4 Qatar	118
5.3.5 Saudi Arabia	119
5.3.6 UAE	119
5.4 Contemporaneous Relationship Between Variables	120
5.5 Bahrain Interest Rate Channel	122
5.5.1 Impulse Response	122
5.5.2 Variance Decomposition	123
5.5.3 Summary Of Results	123
5.6 Kuwait Interest Rate Channel	126
5.6.1 Impulse Response	126



5.6.2 Variance Decomposition	127
5.6.3 Summary Of Results	128
5.7 Oman Interest Rate Channel	130
5.7.1 Impulse Response	130
5.7.2 Variance Decomposition	130
5.7.3 Summary Of Results	131
5.8 Qatar Interest Rate Channel	133
5.8.1 Impulse Response	133
5.8.2 Variance Decomposition	134
5.8.3 Summary Of Results	134
5.9 Saudi Arabia Interest Rate Channel	137
5.9.1 Impulse Response	137
5.9.2 Variance Decomposition	137
5.9.3 Summary Of Results	138
5.10 UAE Interest Rate Channel	140
5.10.1 Impulse Response	140
5.10.2 Variance Decomposition	141
5.10.3 Summary Of Results	141
5.11 Concluding Remarks	144
6 MOETARY POLICY TRANSMISSION MECHANISMS & PVAR RESULTS	147
6.1 Introduction	147
6.2 Exchange Rate Channel	147
6.2.1 Bahrain	148
6.2.2 Kuwait	150
6.2.3 Oman	152
6.2.4 Qatar	154



6.2.5 Saudi Arabia	156
6.2.6 UAE	158
6.3 Bank Lending Channel	161
6.3.1 Bahrain	163
6.3.2 Kuwait	165
6.3.3 Oman	168
6.3.4 Qatar	170
6.3.5 Saudi Arabia	173
6.3.6 UAE	175
6.3.7 Comparison Channel Of Monetary Policy Transmission Mechanism	178
6.4 Diagnostic Test	180
6.5 Analysis Effect Of Monetary Policy On Aggregate Demand Components	184
6.5.1 Bahrain	185
6.5.2 Kuwait	187
6.5.3 Oman	188
6.5.4 Qatar	189
6.5.5 Saudi Arabia	190
6.6 PVAR Analysis Of Monetary Policy In GCC States	192
6.6.1 Impulse Response And Variance Decomposition	193
6.6.2. Evaluation Of PVAR & SVAR	196
6.7 Concluding Remarks	197
7 CONCLUSION	201
7.1 Introduction	201
7.2 Summary	201
7.3 Conclusion About Different Blocks	203
7.3.1 Exogenous Variables	204
7.3.2 Output	206



7.3.3 Price	208
7.3.4 Interest Rate	209
7.3.5 Monetary Aggregate	211
7.3.6 Nominal Effective Exchange Rate	211
7.3.7 Domestic Credit To The Private Sector	213
7.3.8 Summary Of Results On Basis Of Thesis Objective	214
7.4 Policy Implication	215
7.4.1 Monetary Policy Of GCC Countries And Fixed Exchange Rate	215
7.4.2 Monetary Policy And Monetary Union	218
7.4.3 Some Recommendation	223
7.5 Limitation Of Study	226
7.6 Future Research	228
REFERENCES	229
APPENDICES	243
BIODATA OF STUDENT	268
LIST OF PUBLICATIONS	269

