

The Impact of Budget Deficit and Monetary Policy Transparency on Exchange Rate Volatility in MENA Countries: A Quantile Approach

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Abstract

Exchange rate volatility poses a significant challenge to MENA economies, adversely affecting economic stability, foreign trade, and investment flows. This study investigates the impact of budget deficits and central bank transparency on exchange rate volatility in selected MENA countries from 2010 to 2022. Employing a Wavelet Quantile Regression approach, the analysis captures nonlinear relationships across different time horizons and distribution quantiles. The findings reveal that both budget deficits and monetary policy transparency significantly influence exchange rate volatility, with distinct temporal patterns: monetary policy transparency exerts stronger effects in the short term, while budget deficits demonstrate more pronounced impacts in the short and medium terms. These effects notably diminish in the long run. The study underscores that enhancing central bank transparency and implementing prudent fiscal policies are crucial for mitigating exchange rate volatility and promoting economic stability in the region.

Keywords: Budget Deficit; Monetary Policy Transparency; Exchange Rate Volatility; Wavelet Quantile Regression; MENA Countries.

JEL Classification: E58, E52, H62, C22.

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