

Financial Liberalization in Some Mediterranean Countries: A Retrospective and Analytical Perspective.

ZEGGANE ASMAA

STRATEV lab, University of Mostaganem, Algeria, asmaa.zeggane.za@gmail.com

Received: 07/01/2025

Accepted: 10/09/2025

Published: 15/09/2025

Abstract:

This study critically explores the evolution of financial liberalization in some Mediterranean countries, assessing its impact on key economic and financial indicators. Through a retrospective analysis, the research traces the adoption and progression of financial liberalization policies, examining their influence on economic performance, stability, and financial market integration.

By analyzing data from 2018 to 2024, the study provides an in-depth evaluation of how these reforms have shaped the region's economic landscape, highlighting both the positive and negative repercussions.

The analysis offers valuable insights into the complex relationship between financial liberalization and economic outcomes, contributing to the broader discourse on economic reforms in emerging markets.

Keywords: Financial Liberalization, Economic Reform, Mediterranean Countries, Economic Growth, Financial Stability.

Jel Classification Codes :F36, G18, O16, E44.

1. INTRODUCTION

Financial liberalization has emerged as a pivotal strategy for economic reform in many developing nations, aiming to modernize financial systems, attract foreign investment, and foster economic growth. Egypt, Tunisia, and Turkey serve as illustrative examples of countries that embarked on financial liberalization journeys, each within distinct socio-political and economic contexts. These reforms, while yielding significant advancements in financial integration and economic development, also exposed underlying vulnerabilities and raised critical questions about sustainability and equity.

Egypt, Tunisia, and Turkey have undergone profound transformations in their economic and financial systems over recent decades, each adopting reforms aimed at enhancing integration with the global economy through financial liberalization. While these reforms have yielded positive outcomes in terms of economic growth and the modernization of financial systems, their paths have not been without challenges. While these policies led to attracting foreign investments and enhancing access to international financial markets, they also paved the way for global economic fluctuations that these countries often struggled to control. The experiences of these nations have shown that the gains made through financial openness can be accompanied by negative effects on financial and social stability, prompting one to question the ability of these systems to adapt to growing pressures and economic risks.

2. The Economic and Financial Landscape Under Financial Liberalization:

In the second half of the 1970s and the early 1980s, alongside challenges in external balance, the economies of the selected countries exhibited a rapidly accelerating inflationary structure. This was largely attributed to the financing of increasing public sector deficits through monetary expansion, relying on resources from the central bank.

In such an environment, the implementation of expansionary monetary and fiscal policies supported by low exchange rate and interest rate policies in Turkey exacerbated internal and external economic imbalances. Following these developments, the stabilization measures announced in 1980 introduced a new framework for economic policy in Turkey (Semiz & al. 2019, p. 212).

Regarding Egypt's economic reforms, one of the most significant measures was the reduction of the minimum initial capital requirement for economic activities, which was lowered from 50,000 EGP to 1,000 EGP. This aimed to encourage small and medium-sized enterprises to establish their projects and stimulate both domestic and foreign private sector investments, direct and indirect. By simplifying procedures and reducing the time required to obtain necessary licenses for commercial activities, the time and effort needed to start a business were significantly reduced, thereby improving the overall business environment (Nassim, 2022, p. 225-226).

The Tunisian economy experienced a similar shift, replacing the mixed economic system with a more liberal approach. This period was marked by the adoption of modern economic policy tools, primarily focusing on monetary policies (Bouhafs, 2009, p.11).

2.1. A Comprehensive Overview of Egypt's Economic and Financial Landscape.

Egypt adopted economic reforms in the late 1950s, which initially resulted in strong economic growth. However, by the late 1980s, the global oil crisis of 1985, combined with Egypt's heavy reliance on the hydrocarbon sector and lack of economic diversification, forced the

government to resort to external borrowing to address budget deficits and expenditures (**Soliman, 1999, p. 23**). During this period, the Egyptian economy faced unsustainable debt levels, high inflation, and a significant balance of payments deficit, prompting the initiation of economic and structural reforms. These reforms, guided by the International Monetary Fund (IMF), included financial liberalization measures in exchange for financial assistance in 1991 (**Harrigan & al, 2010., p. 3**).

The structural adjustment program aimed to transition the Egyptian economy toward a market-oriented and export-driven model and consisted of two phases:

- **Phase One (1991–1996):** Focused on price and tax liberalization and financial sector reforms, emphasizing greater private sector involvement (**Awad, 2010, p. 27**).
- **Phase Two (1997–2000):** Concentrated on macroeconomic stabilization and further financial and external liberalization (**Al-Mashat, 1977, p. 3**).

Although the Structural Adjustment Program (SAP) marked Egypt's formal commitment to structural economic reforms, earlier efforts were evident through IMF loans in the late 1970s and 1980s, which likely included conditions for initial economic adjustments (**Awad, 2010, p. 27**). These reforms led to an increase in commercial banks from seven in 1974 to 81 by 1990 (**Mitchell, 1999, p. 458**). However, speculative bubbles triggered by global deregulation and heavy reliance on foreign currency inflows, including remittances from Gulf-based expatriates, collapsed following the Gulf War (1990–1991). By 1989, 26% of private investment loans were non-performing, creating a financial crisis (**Mitchell, 1999, p. 459**).

To stabilize the economy and exit this crisis, the IMF required Egypt to (**Harrigan & al, 2010., p. 4**):

- Achieve internal and external balance;
- Reduce inflation ;
- Reform currency policies to stabilize exchange rates;
- Eliminate price distortions.

Key reforms included Law No. 230 (**Investment Law No. 230, 1989, p.28-55**), which provided tax incentives to private companies for 5 to 10 years; Law No. 203 (**Public Business Sector Companies Law No. 203, 1991-amended 2020, p. 3-31**), which launched a formal public sector privatization program; and Law No. 95 (**Capital Market Law No. 95, 1992, p. 3-31**), aimed at revitalizing capital markets and regulating securities issuance. In the banking sector, these changes facilitated increased foreign capital inflows and enhanced private sector control (**Mohieldin, 2000, p. 16**).

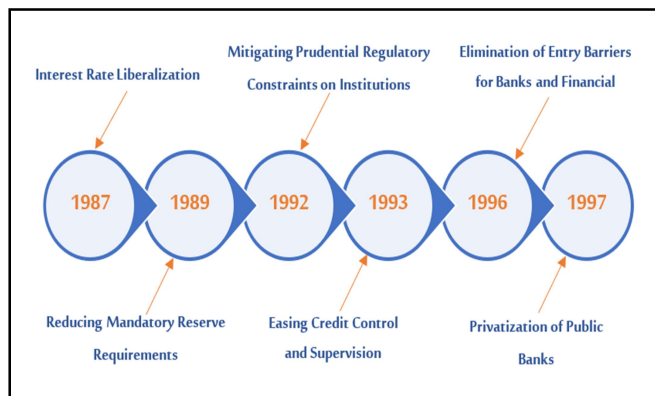
2.2. A Comprehensive Overview of Tunisia's Economic and Financial Landscape.

Since the 1980s, the Tunisian government has aimed to implement an economic model capable of achieving economic stability by diversifying export structures in both goods and services. In collaboration with the International Monetary Fund (IMF) and the World Bank, the Tunisian government began implementing a developmental strategy and structural reforms targeting both the real and financial sectors starting in 1987 (**Hseiba, 2021, p. 150-151**). To reform the Tunisian financial system, the government initiated financial liberalization processes, including measures to increase market competition and efficiency, and to create instruments

capable of expanding and deepening the financial system. Additionally, it began removing barriers to the entry of banks and financial institutions, encouraging both direct and indirect foreign investments. The government also privatized public banks, liberalized interest rates to be governed by supply and demand instead of the central bank, reduced mandatory reserve requirements, and adjusted monetary policy along with its direct and indirect tools.

The figure (01) below illustrates the sequence of financial liberalization from 1987 to 1997, showing a progression from internal to external liberalization. This sequence accurately represents the policy as described by McKinnon, as it reflects the intended approach to financial liberalization.

Fig.1. The Timeline of Stages of Financial Liberalization Policy in Tunisia.



Source: Prepared by the researcher based on a table from the following reference:

Bouزيد, Amaira. "Financial Liberalization and Economic Growth: Evidence from Tunisia." *Journal of Life Economics* 3 (2016). p. 11. <https://doi.org/10.15637/jlecon.171>

2.3. A Comprehensive Overview of Turkey's Economic and Financial Landscape.

The Turkish financial and banking system has been characterized as a closed system in which most transactions take place in financial and monetary markets. For a long period, it was considered a key element in the country's economic development policy. As in many countries around the world, the system faced strict control, with a set of restrictions imposed, including: regulation of market entry and exit, capital adequacy, reserve and liquidity requirements, asset portfolio allocation, interest rates on deposits and loans, as well as deposit insurance. These measures were implemented to enhance the system's stability and increase its profitability (Önis & al, 2007, p. 147).

In the early 1980s, the Turkish government decided to shift its approach by implementing a series of financial reforms and legal, structural, and institutional changes aimed at reducing state intervention and transitioning to a financial and banking system governed by market forces of supply and demand (Yıldırım & al, 2015, p. 149). The goal was to boost foreign direct investments (FDI), portfolio investments, and to overcome the economic challenges faced by the country in the early 1980s (Yıldırım & al, 2015, p. 150).

As part of the external liberalization in Turkey, the government made several amendments to regulations concerning foreign exchange transactions, external loans, portfolio investments, and FDI. Decrees No. 28, 30, and 32, issued in 1983, 1984, and 1989, respectively (Sezgin & al, 2020, p. 2411), primarily liberalized foreign exchange transactions, external loans, and portfolio investments. Even before these decrees came into effect, the authorities had introduced several

regulations to liberalize the foreign exchange market. For instance, in May 1981, the Central Bank of Turkey began setting exchange rates on a daily basis. Commercial banks were allowed to hold foreign currency assets in 1982. It is worth noting that there was a separate set of regulations governing FDI in Turkey (CBRT, 2002, p. 18). According to Decree No. 28 of 1983, residents in Turkey were permitted to open foreign exchange accounts in banks, borrow from abroad, lend foreign currency to non-residents, and take up to \$3,000 in foreign currency abroad (Oktayer, 2009, p.86). Non-residents were also granted the right to purchase property in Turkey as long as they brought the required amount of foreign currency from abroad. Under Decree No. 30 of 1984 (Ozel & al, 1989), the rules regarding capital accounts in Turkey were restructured, granting more authority over capital flows abroad (CBRT, 2002, p. 25), with the business value raised to \$25 million, and easing requirements for residents in Turkey to obtain loans in foreign currency.

The framework decree for foreign capital, which set the rules for foreign direct investment in Turkey, came into force in 1980, immediately following the January 24th decisions. With the legal arrangements made in 1984 and later, restrictions on foreign direct investment in Turkey were gradually eased over time (Savrul& al, 2013, p .230).

2. Financial Liberalization Measures Amid Economic Reforms.

The sample countries implemented a series of economic and financial reforms, which included financial liberalization measures, both internal (domestic) and external, affecting international financial transactions.

2.1 Interest Rate Liberalization:

The Central Bank of Egypt sought to adapt its monetary policy since the official launch of the financial liberalization policy in 1992 under Law No. 37 (Shari'a Law Network, website), which amended Law No. 163 issued in 1957. This was achieved through aligning intervention procedures in the monetary market and the abandonment of financial restraint tools that the Central Bank had used since its establishment (Kanaan Online, website) in favor of a new approach based on open market operations.

The process of interest rate liberalization aimed to create favorable conditions for the gradual development of interest rate determination on deposits and loans, as well as refinancing rates, through market mechanisms. The following steps were taken:

- The lending rate range was set between 12-14% for the short term and 14-15% for the medium term;
- Discount rates were reduced to 13-13.5% for the medium term, and 14% for the long term, instead of the previous 16%;
- The minimum deposit rate for 12-month deposits was reduced from 12% to 11%.

Thus, during the early years of the 1990s, most lending interest rates were liberalized after being set at minimum levels since April 1985. As for borrowing rates, restrictions on interest rates applied to medium- and long-term loans were lifted in October 1990, followed by short-term loans in 1991. In June 1995, interest rates on export loans and medium-term loans eligible for rediscounting were liberalized. Tunisia's reform efforts also included the gradual liberalization of interest rates, except for those applied to loans granted to priority sectors, following the order below (El raqeeb, 2021, p. 43-44):

- In 1987, lending rates were freely determined within a 3% margin, except for loans granted to priority sectors. Interest rates on deposits with a term of at least three months were also liberalized;
- In 1990, preferential rates for all priority sectors were raised, with some exceptions for the agricultural sector;
- In 1994, full liberalization of lending rates for non-priority sectors without any restrictions;
- In 1996, preferential interest rates for priority sectors were abolished, and deposit rates were set at a maximum of 2% on demand deposits and 2% on savings deposits.

Despite the ongoing indexing of interest rates to the average money market rate, these measures ultimately led to the actual liberalization of both lending and borrowing interest rates.

As for Turkey's efforts in interest rate liberalization (**Kopits, 1987, p. 2**). since the launch of financial liberalization policies as part of the January 24, 1980 program, interest rates on deposits and loans were liberalized with the aim of increasing domestic savings by enhancing competition and raising local savings through real interest rates (**Parasız, 1998, p. 212**). Real interest rates reached positive levels in 1981.

The liberalization of interest rates during this period led to a significant channeling of savings into the banking system during 1981 and 1982 (**Köne, 2003, p. 238**). However, the competition in interest rates, especially among small banks and financial institutions, caused an economic crisis in 1982 (**Parasız, 1998, p. 151**). The crisis, which began with the bankruptcy of small bankers, spread in waves and led to the failure of several commercial banks. The burdens of these failing financial institutions were transferred to the public banks (**Köne, 2003, p. 238**). Consequently, in 1983, it was decided that interest rates would be determined by large banks under the control of the central bank. The decision to set interest rates on deposits and loans was approved by the Cabinet and enacted in the Banking Law of 1985 (**Sönmez, 1992, p. 28-29**).

In 1989, financing the public deficit shifted to domestic borrowing from central bank resources, leading to an increase in interest rates on public securities, which indirectly imposed an additional burden on the budget. While the ratio of "public borrowing requirements" to Gross National Product (GNP) was 5.3% in 1989, it had risen to 11.9% by 1993 (**Keyder, 2022, p. 5**).

2.2 Capital Account Liberalization:

Since 1988, the implemented reforms began to target the financial sector, excluding the real sector. One of the most important political changes was undoubtedly Decree No. 32 issued in 1989, which marked a significant step toward financial liberalization in Turkey (**Eroğlu, 2002, p. 39-40**). This decree allowed residents to obtain foreign currencies from private banks and financial institutions and retain foreign currency without any restrictions. It also permitted residents to bring foreign currency into the country for services provided to non-residents, and non-residents were allowed to participate in the Istanbul Stock Exchange (ISE) with approval from the Capital Markets Board. Under Decree No. 32, non-residents in Turkey were granted the freedom to open accounts in Turkish lira and transfer the principal and interest of these accounts either in Turkish lira or foreign currency (**Jbili& al, 1997, p. 16-17**).

The liberalization of the capital account in Turkey continued, although at a slower pace, with modifications to Decree No. 32 after 1989. Moreover, Turkey adopted obligations under Article VIII of the International Monetary Fund (IMF) in 1990.

In parallel, Tunisia's financial system reform included the gradual liberalization of capital account transactions to improve the allocation of foreign exchange resources, attract foreign direct investment, and increase competition among local financial service providers. The Tunisian authorities outlined a three-phase plan to liberalize the capital account, summarized as follows:

- **Phase One:** This phase involved the removal of most restrictions on foreign direct investment flows into the country, granting limited approval for non-residents to invest in foreign currency government securities. It also included the full liberalization of external borrowing for financial institutions and relaxed borrowing requirements for non-financial institutions.
- **Phase Two:** This phase focused on liberalizing restrictions related to foreign direct investment outflows by encouraging local investors to invest abroad. It also removed barriers for non-residents to enter portfolio investments and freely acquire debt securities in the Tunisian market.
- **Phase Three:** This phase aimed at increasing external competition, which included the following (**Wade D Cook, 2001, p. 3**):
 - Allowing foreign banks to open branches and operate within the country;
 - Opening up bank capital to foreign participation;
 - Allowing foreign banks to collect deposits in Tunisian dinars from residents, with some restrictions to protect the national currency from speculation;
 - Enabling the convertibility of the Tunisian dinar in foreign exchange markets, starting in January 1993 (**Mouakni, 2021, p. 10**).

2.3 Exchange Rate Liberalization:

Studies have shown that from the issuance of the **Banking and Credit Act No. 162 in 1957** until its cancellation in 2003, the fixed exchange rate system prevailed. This system was floated in **2003** under the **Central Bank and Banking Law No. 88**. Except for the periods when the system was adjusted and the currency was devalued to reflect a more competitive value during the 1990s, such as with **the issuance of Law No. 38 in 1994** to regulate foreign exchange dealings, the Central Bank of Egypt's monetary policy at that time aimed to increase the stability of the Egyptian pound to ensure overall price stability. This was achieved by targeting broad money supply growth (M2) as an intermediate objective, aligning with the growth of nominal GDP and expected inflation. The Central Bank's policy successfully reduced inflation rates from around 20 percent to less than 10 percent for a sustained period (**Elsherif, 2016, p. 1210**).

In 1987, the Egyptian government, in collaboration with the International Monetary Fund (IMF) and the World Bank, implemented a program aimed at reducing internal and external imbalances and achieving economic stability. This program included multiple adjustments to the exchange rate, which led to a 25% devaluation of the Egyptian pound. It also included foreign exchange market reforms, the removal of import restrictions, and the liberalization of exports. In 1997, the Egyptian Monetary Authority once again adjusted the exchange rate system, shifting from a fixed but adjustable system to a managed float. This adjustment caused the value of the Egyptian pound to decrease from 2 pounds to 3.4 pounds against the US dollar, which had a

positive impact on foreign exchange reserves, reaching over 20 billion dollars (**Mongardini, 1998, p. 29**).

In 2001, the Central Bank announced the adoption of a crawling peg exchange rate system, under which the value of the Egyptian pound was devalued in response to adjustments, reaching 3.85 pounds per dollar. In 2002, the Central Bank devalued the local currency to 4.5 pounds and maintained this level until 2003 when the free-floating exchange rate system was adopted. According to the research, the period from 2001 to 2003 witnessed fluctuations in foreign exchange reserves, reaching 12.5 billion dollars in 2003 (**Massoud & al, 2013, p. 12**). The Egyptian pound lost around 20% of its value, dropping to 5.4 pounds per dollar in the same year and 6.3 in the following year, with the Central Bank intervening to maintain the stability of the exchange rate of the Egyptian pound against the US dollar (**Elbadawi& al, 2006, p. 18-22**). During this period, total reserves reached 14.3 billion dollars (**Selim, 2012, p. 17**).

The Central Bank of Egypt officially launched the foreign exchange market between banks on December 23 of the same year, when all banks approved the foreign exchange trading agreement in an interbank financial market. In the same month, the Central Bank of Egypt abolished the foreign exchange regulation No. 506 regarding the redemption condition, and foreign exchange offices were integrated, with a requirement to meet a minimum capital requirement of 5 million Egyptian pounds (**Alwaleed, 2022, p. 35**).

In the early 1980s, with the launch of structural reforms under the agreements made with the International Monetary Fund, Turkey began implementing financial liberalization measures. In 1989, it liberalized the capital account by issuing Decree No. 32 (**Orhangazi& al, 2020, p. 09**). In 1993, real interest rates began to decrease, leading to increased demand for foreign currencies against the local currency. The exchange rate of the dollar rose from 14.5 Turkish lira in January 1994 to 39.9 lira in April of the same year. The gap between the exchange rates in the free market and the official market also widened, with a rise estimated at 20-30% during the "1994 Crisis" (**Ardıç, 2004, p. 146**). This prompted the Central Bank to introduce temporary measures to stabilize exchange rate fluctuations within a "certain path." Some of the key measures included (**Ardıç, 2004, p. 147**):

- Offering dual-pricing in foreign exchange and money markets between banks with different maturities, acting as both buyer and seller in the market;
- Increasing the supply of dollars through foreign exchange sales;
- Raising the exchange rate to a level closer to the free market rate;
- Preventing excessive exchange rate increases by absorbing excess Turkish lira in the market by offering high interest rates in banks.

The stability package issued in April 1994 was the most important measure addressing the structural problems with a harmonized fiscal and monetary policy, eliminating the financial crisis at the time. Key outcomes of this package included (**Unsal, 2021, p. 102**):

- Stabilizing the exchange rate and reversing the decision to liberalize;
- Raising interest rates by the Central Bank to the market value, which required an additional 40% adjustment. The exchange rate of the dollar, which had risen to 40,000 old Turkish lira, fell to around 30,000 lira by the end of June 1994, bringing the dollar's value against the Turkish lira in line with purchasing power;

- Establishing confidence in the Turkish lira and converting funds from foreign currencies into Turkish lira instruments;
- Interest rates began to decrease from June 1994, and high interest rates were applied on long-term loans.

As part of the structural adjustment policy, Tunisia, between 1980 and 1987, took measures related to the Tunisian dinar, initiating the first adjustment to the basket of currencies to which it had been pegged since 1978. This basket was determined based on the importance of the currencies in external exchange and settlement operations. The basket initially consisted of seven European currencies, in addition to the US dollar and Japanese yen (Saadi, 2018, p. 18). A policy of gradual devaluation of the Tunisian dinar was then adopted during the period from 1986 to 1989 (Hassib, 2021, p. 225), followed by a transition to full floating determined by market forces in March 1995. During this period, the Tunisian dinar was no longer determined by the Central Bank but by the market participants, making it more flexible than before (MarrekchiCharfi, 2008, p. 444).

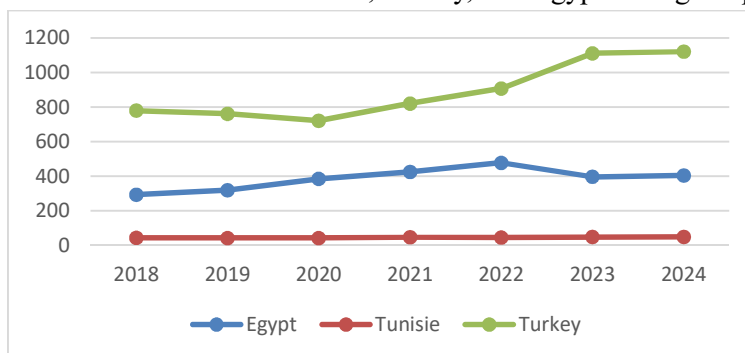
In 2001, the monetary authorities decided to direct the exchange rate system according to export promotion policies to improve the balance of payments position, as part of the structural adjustment programs imposed by the International Monetary Fund (Saadi, 2018, p. 18). The gradual process undertaken by the Tunisian monetary authorities regarding the liberalization of the exchange rate, and the stages through which the Tunisian dinar passed during this period, only showed their significance when an internal security and social crisis turned into an economic crisis. However, the exchange rate of the Tunisian dinar was able to maintain a degree of stability (Hassib, 2021, p. 226). By 2012, the exchange rate of the Tunisian dinar was characterized by flexibility and the absence of prior guidance.

3. Analysis of Some Economic, Financial, and Monetary Indicators for the Sample Countries.

3.1. Analysis of GDP Growth Evolution:

The provided GDP data (in billions of dollars or equivalent) highlights the economic trajectories of Egypt, Tunisia, and Turkey during the 2018–2024 period. Analyzing GDP trends sheds light on the growth patterns and the economic performance of these countries amid financial liberalization and external challenges.

Fig.2. Development of GDP Growth in Tunisia, Turkey, and Egypt during the period 1980-2023.



Source: Prepared by the researcher based on data from the following Data Official website. Accessed on 01/01/2025, from:

- <https://tradingeconomics.com/egypt/gdp>

- <https://tradingeconomics.com/tunisia/gdp>
- <https://tradingeconomics.com/turkey/gdp>
- **2018-2019 (Stable Growth Phase):** During this period, Egypt experienced robust GDP growth, while Tunisia and Turkey faced modest or negative changes due to structural or macroeconomic issues.
- **Egypt:** GDP increased from 292.59 in 2018 to 318.68 in 2019, reflecting steady economic growth supported by structural reforms, financial liberalization, and an improving investment climate.
- **Tunisia:** GDP showed slight fluctuation, declining from 42.69 in 2018 to 41.91 in 2019, suggesting modest economic activity and challenges in attracting investment despite financial reforms.
- **Turkey:** GDP declined slightly from 778.97 in 2018 to 761.01 in 2019, likely due to macroeconomic instability, including high inflation and currency devaluation, which undermined economic performance.
- **2020-2021 (Pandemic-Induced Disruptions):** Egypt and Turkey demonstrated strong GDP recovery during the pandemic, while Tunisia's growth remained moderate, constrained by structural challenges.
- **Egypt:** GDP grew from 383.82 in 2020 to 424.67 in 2021, demonstrating resilience during the pandemic. This growth can be attributed to government-led initiatives, stimulus measures, and ongoing financial liberalization reforms.
- **Tunisia:** GDP increased marginally from 42.49 in 2020 to 46.81 in 2021, indicating some recovery but at a slower pace compared to Egypt, possibly due to limited fiscal capacity and structural economic weaknesses.
- **Turkey:** GDP rebounded significantly from 720.34 in 2020 to 819.87 in 2021, reflecting recovery efforts, including monetary expansion and stimulus measures, despite underlying vulnerabilities like inflation and currency depreciation.
- **2022-2024 (Post-Pandemic Recovery):** While Egypt and Turkey showed strong GDP growth in the post-pandemic period, Egypt faced slight setbacks in 2024. Tunisia's modest but steady growth reflects a more conservative and gradual recovery.
- **Egypt:** GDP rose from 476.75 in 2022 to 404.05 in 2024, showing strong post-pandemic recovery initially but with a slight dip by 2024. This decline could reflect challenges such as rising inflation, external debt, and global economic uncertainties impacting growth.
- **Tunisia:** GDP increased gradually from 44.58 in 2022 to 48.92 in 2024, reflecting slow but steady recovery. The modest growth highlights ongoing structural reforms but limited economic dynamism.
- **Turkey:** GDP grew substantially from 907.12 in 2022 to 1120 in 2024, driven by aggressive monetary and fiscal policies. However, this rapid growth may mask underlying risks, such as inflationary pressures and overreliance on external borrowing.

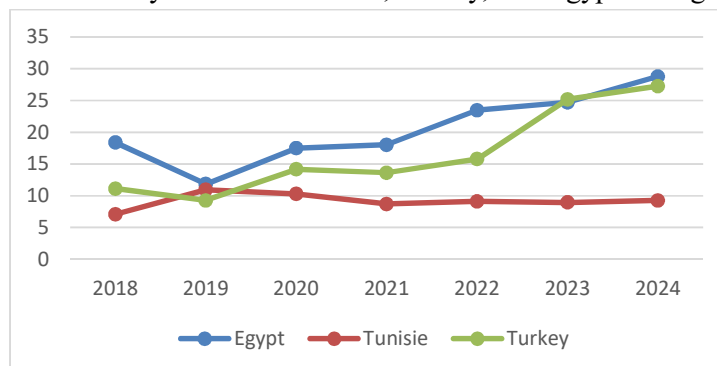
Egypt's GDP growth highlights the effectiveness of its structural reforms and financial liberalization, albeit with challenges emerging in the later years. Tunisia's stagnant growth underscores the need for deeper reforms and stronger fiscal policies to unlock its economic potential. Turkey's rapid GDP expansion signals the success of aggressive policy measures but

raises concerns about sustainability due to underlying vulnerabilities. These contrasting trajectories underscore the diverse impact of financial liberalization and economic policies on GDP performance in the Mediterranean region.

3.2. Analysis of Broad Money Growth Evolution:

Broad money is a critical indicator of liquidity in an economy, representing money circulating within the financial system, including cash, demand deposits, and near money. Based on this, the figure down below reflects trends in broad money (M2 or similar aggregates) for Egypt, Tunisia, and Turkey from 2018 to 2024.

Fig.3. Evolution of Broad Money Growth in Tunisia, Turkey, and Egypt during the Period 1980-2020.



Source: Prepared by the researcher based on data from the following Data Official website. Accessed on 01/01/2025, from:

- <https://fred.stlouisfed.org/series/EGYFMBPCHPT>
- <https://fred.stlouisfed.org/series/TUNFMBPCHPT>
- <https://data.imf.org/?sk=4cc54c86-f659-4b16-abf5-fab77d52d2e6&sid=1393552803658>

Based on the figure above, it can be said that the broad money supply evolved in three distinct phases:

- **2018-2019:** While Egypt and Turkey saw declines in broad money during this period, Tunisia displayed growth, possibly signaling different monetary policy approaches.
- **Egypt:** Broad money started at **18.37** in 2018 and dropped significantly to **11.85** in 2019. This decrease reflects tightening liquidity, possibly due to fiscal adjustments and structural reforms implemented during the early phases of financial liberalization;
- **Tunisia:** Broad money increased from **7.1** in 2018 to **10.95** in 2019, marking a significant rise. This could indicate loose monetary policies or higher domestic credit, aimed at stimulating economic activity amid external and structural challenges;
- **Turkey:** Broad money decreased from **11.12** in 2018 to **9.26** in 2019. The decline suggests challenges such as tightening monetary conditions or a contraction in the financial system due to macroeconomic instability.
- **2020-2021:** Egypt recovered significantly during the pandemic years, while Tunisia struggled to maintain liquidity. Turkey showed relative stability but remained constrained by broader macroeconomic challenges.
- **Egypt:** Broad money rebounded strongly, increasing from **17.47** in 2020 to **18.02** in 2021. This recovery likely reflects expansionary monetary policies adopted to counter the

economic effects of the COVID-19 pandemic, coupled with reforms to boost financial stability;

- **Tunisia:** Broad money decreased slightly from 10.29 in 2020 to 8.7 in 2021. This drop indicates tightening liquidity, possibly due to fiscal pressures or efforts to stabilize the economy amid pandemic-related disruptions;
- **Turkey:** Turkey's broad money remained relatively stable, rising marginally from 14.17 in 2020 to 13.62 in 2021. Despite pandemic pressures, this stability reflects Turkey's attempts to balance inflation control with monetary expansion;
- **2022-2024:** Egypt and Turkey saw significant broad money growth post-pandemic, with Turkey's rapid expansion signaling a more aggressive monetary stance. Tunisia's growth remained constrained, reflecting a conservative approach to monetary policy.
- **Egypt:** Broad money rose sharply from 23.48 in 2022 to 28.78 in 2024, showcasing robust growth. This expansion indicates significant monetary easing or increased financial sector activity, potentially driven by recovery-oriented reforms and higher capital inflows.
- **Tunisia:** Tunisia's broad money experienced moderate growth, moving from 9.12 in 2022 to 9.27 in 2024. This slow growth reflects limited monetary expansion and ongoing structural challenges within the financial system.
- **Turkey:** Turkey experienced the sharpest increase, with broad money rising from 15.77 in 2022 to 27.26 in 2024. This rapid growth points to aggressive monetary expansion, possibly in response to inflationary pressures, economic instability, or efforts to stimulate growth amid financial liberalization.

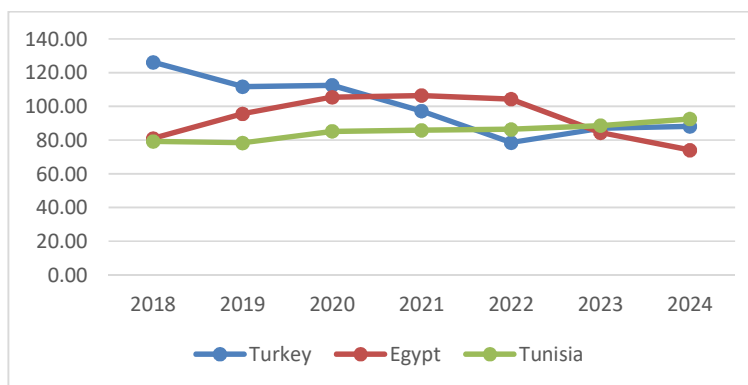
The analysis of broad money highlights the differing trajectories of Egypt, Tunisia, and Turkey under financial liberalization. Egypt demonstrated consistent and strong growth in liquidity, aligning with a reform-driven recovery strategy. Tunisia maintained conservative growth, reflecting structural constraints. Turkey experienced sharp increases post-2022, signaling aggressive monetary interventions. These trends underline the varied impacts of financial liberalization and macroeconomic policies on liquidity and financial stability in the three countries.

3.3. Analysis of Exchange Rate Evolution:

The relationship between the exchange rate and financial liberalization (liberalization of international capital flows) is bidirectional. An increase in interest rates attracts foreign capital inflows, which increases the supply of foreign currency relative to domestic currency, thus raising the value of the local currency against foreign currencies (**Murad, 2011, p. 08**). Significant changes in exchange rates can also increase the risks of foreign investment, causing investors to transfer their funds abroad, which negatively affects the local currency. As a result, capital flows and interest rates are influenced by changes in the exchange rate (**Slaimia, 2017, p. 67**).

The figure below illustrates the development of the real effective exchange rate, which is a measure of the value of the currency against a weighted average of several foreign currencies, divided by the price deflator or cost index, in order to eliminate any inflation in the value of the currency and display its exchange rate more accurately. This data spans the period from 2018 to 2024 for Tunisia, Turkey, and Egypt.

Fig.4. Development of the Real Exchange Rate in Tunisia, Turkey, and Egypt during the period 2018-2024.



Source: Prepared by the researcher based on data from the following Data Official website. Accessed on 01/01/2025, from:

- <https://tradingeconomics.com/egypt/real-effective-exchange-rate-wb-data.html>
- Global Economic Monitor (GEM) | DataBank
- Real Broad Effective Exchange Rate for Turkey (RBTRBIS) | FRED | St. Louis Fed

• **Turkey: Volatile Decline**

Turkey's REER demonstrated significant volatility and an overall decline during this period:

- **2018-2020:** Turkey experienced a sharp depreciation from **126.16** in 2018 to **97.20** in 2020, primarily due to financial instability, currency crises, and policy uncertainties.
- **2021-2024:** The REER partially stabilized, rising slightly to **88.18** in 2024 after bottoming out at **78.56** in 2022. This recovery aligns with efforts to stabilize monetary policies and address inflationary pressures.

The steep decline in Turkey's REER underscores the challenges posed by financial liberalization without robust institutional frameworks, leaving the economy vulnerable to external shocks.

• **Egypt: Initial Strengthening Followed by Decline**

Egypt's REER exhibited an initial strengthening, peaking in 2021, followed by a significant decline:

- **2018-2021:** Egypt's REER increased from **81.04** in 2018 to **106.43** in 2021, reflecting increased foreign investment and currency appreciation driven by structural reforms under financial liberalization programs.
- **2022-2024:** However, the REER declined to **74.06** in 2024, driven by external debt pressures, currency devaluations, and economic challenges exacerbated by global financial disruptions post-COVID-19.

This trajectory reflects Egypt's initial success in liberalization but highlights the fragility of gains amid external and domestic challenges.

• **Tunisia: Gradual Appreciation**

Tunisia's REER demonstrated a more stable and gradual upward trend:

- **2018-2024:** Tunisia's REER rose steadily from **79.22** in 2018 to **92.50** in 2024, with moderate fluctuations. This suggests a more measured approach to financial liberalization, supported by policies that maintained currency competitiveness.

Tunisia's stability and gradual appreciation of its REER indicate a cautious and balanced liberalization strategy, mitigating the risks seen in Turkey and Egypt.

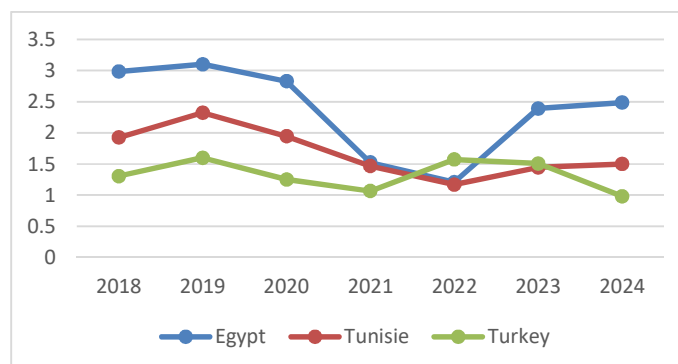
- **Comparative Insights**

- **Volatility vs. Stability:** Turkey's and Egypt's REER trends were marked by significant volatility, highlighting the challenges of financial liberalization under economic and institutional pressures. In contrast, Tunisia demonstrated greater stability, reflecting a more controlled liberalization approach;
- **Short-Term Gains vs. Long-Term Sustainability:** Egypt's initial REER improvement contrasts with its subsequent decline, raising questions about the sustainability of early liberalization gains. Tunisia's consistent REER growth suggests better long-term planning;
- **Structural and Policy Differences:** The divergence in REER trajectories underscores differences in financial systems, policy execution, and resilience to external shocks among the three countries.

4.3. Analysis of Foreign Direct Investment Flows Evolution:

The comparative analysis highlights the varied outcomes of financial liberalization on FDI inflows in the three countries.

Fig.5. Development of Foreign Direct Investment Inflows in Tunisia, Turkey, and Egypt during the period 2018-2024.



Source: Prepared by the researcher based on data from the World Bank. Accessed 01/01/2025, from: [Foreign direct investment, net inflows \(% of GDP\) | Data](#)

Based on the curve above, the development of foreign direct investment (FDI) inflows can be divided into three stages for all of Egypt and Tunisia, and Turkey as follows:

- **2018-2019 (Initial Growth Phase):** During this period, all three countries showed positive trends in attracting FDI, with Egypt leading in terms of volume, Tunisia showing stability, and Turkey benefiting from short-term growth despite emerging risks.
- **Egypt:** FDI inflows increased from **2.98** in 2018 to **3.10** in 2019, indicating strong investor confidence driven by liberalization reforms, improved macroeconomic stability, and structural adjustments.
- **Tunisia:** Tunisia's FDI inflows also rose from **1.92** in 2018 to **2.32** in 2019, reflecting moderate growth as a result of gradual liberalization policies and cautious economic reforms.

- **Turkey:** Turkey experienced an increase from **1.30** to **1.59**, driven by early financial liberalization efforts, although underlying economic vulnerabilities, such as inflationary pressures, were already surfacing.
- **2020-2021 (Pandemic-Induced Decline):** The pandemic led to a significant decline in FDI across all three countries. Egypt and Turkey were hit hardest, while Tunisia demonstrated relative resilience.
- **Egypt:** FDI inflows fell from **2.83** in 2020 to **1.52** in 2021. The COVID-19 pandemic disrupted Egypt's economy, with reduced global investment flows and heightened external debt pressures affecting investor sentiment.
- **Tunisia:** Tunisia saw a smaller decline, with FDI inflows dropping from **1.94** in 2020 to **1.46** in 2021. The impact of the pandemic was mitigated by Tunisia's measured liberalization approach, which limited extreme shocks.
- **Turkey:** Turkey experienced a sharp decline from **1.25** in 2020 to **1.06** in 2021, exacerbated by macroeconomic instability, inflation, and inconsistent policy responses during the pandemic.
- **2022-2024 (Post-Pandemic Recovery):** we notice on this period Egypt demonstrated the strongest post-pandemic recovery, while Tunisia maintained stability. Turkey struggled to sustain recovery due to ongoing economic challenges.
- **Egypt:** Egypt's FDI inflows rebounded strongly from **1.20** in 2022 to **2.48** in 2024, reflecting successful policy adjustments, efforts to stabilize the investment climate, and renewed investor confidence.
- **Tunisia:** Tunisia experienced gradual recovery, with FDI inflows increasing steadily from **1.44** in 2022 to **1.49** in 2024. The cautious liberalization strategy continued to deliver consistent, if modest, growth.
- **Turkey:** Turkey's recovery was limited and volatile. While FDI inflows rose to **1.57** in 2022, they declined sharply to **0.97** in 2024, highlighting persistent macroeconomic instability and reduced investor confidence.

While pre-pandemic liberalization efforts boosted inflows, the pandemic exposed structural weaknesses. Egypt demonstrated the potential of reform-driven recovery, Tunisia maintained stability through cautious liberalization, and Turkey struggled with persistent economic instability. These findings underline the importance of adaptive and sustainable financial policies during periods of global and domestic uncertainty.

4. CONCLUSION

The comparative analysis of Egypt, Tunisia, and Turkey reveals distinct economic trajectories within the context of financial liberalization between 2018 and 2024, taking into account the evolution of their local economic and financial systems since the 1980s. Each country embarked on financial liberalization as part of broader economic transformations, with Egypt initiating structural reforms and financial liberalization programs in the 1980s to stimulate growth and investment. These efforts were reflected in the country's ability to achieve consistent GDP growth and a stable money supply over recent decades.

In contrast, Tunisia began its financial liberalization within a framework of cautious economic opening. However, it encountered significant structural and institutional challenges that

impeded the effective development of its economic and financial systems, resulting in slower growth compared to its regional counterparts. In Turkey, the post-1980s period was marked by radical economic reforms and bold liberal policies, which strengthened the domestic financial system. Nevertheless, these reforms were frequently accompanied by cycles of economic volatility, as evidenced by fluctuations in GDP and the money supply in recent years.

The findings of this study underscore the varying impacts of financial liberalization on the economic and financial systems of each country. Egypt successfully achieved a balance between reform and stability, while Tunisia faced persistent structural constraints that hindered progress. Turkey, though exhibiting considerable economic dynamism, faces challenges related to the sustainability of its growth. This analysis highlights the critical importance of addressing structural challenges and implementing balanced reform policies to foster sustainable economic and financial growth. As these nations continue their economic development, the trajectory of their systems since the 1980s will remain a crucial reference point for understanding their current performance and shaping their future directions.

The analysis reveals important conclusions regarding the varying effects of financial liberalization in Egypt, Tunisia, and Turkey. These findings highlight the key factors that shaped each country's economic performance and the broader implications of financial liberalization on their growth and stability.

- * **Financial liberalization is not a one-size-fits-all process.** The differing outcomes in Egypt, Tunisia, and Turkey highlight that the success of liberalization depends on various factors, including the pace of reforms, institutional development, political stability, and external conditions.
- * **The importance of gradualism and institutional strengthening.** Turkey's experience shows the risks of rapid liberalization without sufficient institutional and regulatory development. Both Egypt and Tunisia's experiences underline the importance of aligning financial liberalization with broader economic and institutional reforms.
- * **External vulnerabilities must be managed.** Each country's exposure to external financial crises or global economic shifts emphasizes the need for financial liberalization to be accompanied by economic buffers, such as foreign reserves, diversification of the economy, and resilient financial systems.

In conclusion, the comparative study of Egypt, Tunisia, and Turkey shows that while financial liberalization can stimulate growth and attract investment, its effectiveness is deeply influenced by the strength of domestic institutions, political stability, and the ability to manage external economic pressures. The experience of these countries suggests that a balanced, well-managed approach is necessary to reap the full benefits of financial liberalization while minimizing its potential downsides.

5. Bibliography List:

1. Books:

Parasız, İsmail. *The Turkish Economy: Economic and Stability Policies from 1923 to the Present*. Bursa: Ezgi Publishing House, 1998.

Sönmez, Mehmet. *100 Questions on Turkey's Capitalism Opening to the Outside from the 1980s to the 1990s*. Istanbul: Gerçek Publishing, 1992.

2. Article:

Elshef, Marwa A. "Exchange Rate Volatility and Central Bank Actions in Egypt: Generalized Autoregressive Conditional Heteroscedasticity Analysis." *International Journal of Economics and Financial Issues*, vol. 6, no. 3.(2016)

Eroğlu, NADİR. "Finansal Küreselleşme: Devletin Düzenleyici Rolü Üzerine Etkileri." *Küreselleşme*, Om Yayinevi, (2002).

Fatma Marrekchi Charfi. "Le taux de change réel d'équilibre et mis alignement : enseignement d'un modèle VAR-ECM pour le cas de la Tunisie." *Panoeconomicus*, vol. 4, (2008). <https://shorturl.at/Nsivm>.

Fatma, Nassim. "The Role of Foreign Direct Investment in Technology Transfer to Egypt: An Empirical Study on the Egyptian Energy Sector." *Journal of Politics and Economics*, vol. 17, no. 16, October 2022. <https://doi.org/10.21608/jocu.2022.154948.1208>.

Hakim, Bouhafs. "Reforms and Economic Growth in North Africa: A Comparative Study of Algeria, Morocco, and Tunisia." *North African Economics Journal*, vol. 5, no. 7, 2009. <https://www.asjp.cerist.dz/en/article/48243>.

Harrigan, Jane R., and Hamed El-Said. "The Economic Impact of IMF and World Bank Programs in the Middle East and North Africa: A Case Study of Jordan, Egypt, Morocco, and Tunisia, 1983–2004." *Review of Middle East Economics and Finance*, vol. 6, no. 2 (2010). <https://doi.org/10.2202/1475-3693.1261>.

Ibrahim, Awad. "Switching to the Inflation Targeting Regime: The Case of Egypt." *Zagreb International Review of Economics & Business*, vol. 13, no. 1 (2010). https://ideas.repec.org/p/fau/wpaper/wp2008_34.html.

Jbili, Abdelali, Klaus Enders, and Volker Treichel. "Financial Sector Reforms in Algeria, Morocco, and Tunisia: A Preliminary Assessment." *SSRN Electronic Journal*, 1997, <https://doi.org/10.2139/ssrn.882369>.

Köne, Aylin Çiğdem. "Reconstruction of Money-Capital: The Case of the Turkish Private Banking Sector." *Doğuş University Journal*, vol. 4, no. 2 (2003). <https://search.trdizin.gov.tr/tr/yayin/detay/2845>.

Massoud, Ali, and Willett Thomas. "Egypt's Exchange Rate Regime Policy after the Float." *International Journal of Social Science Studies*, vol. 2, no. 4.(2014)

Mitchell, Timothy. "No Factories, no Problems: The Logic of Neo-Liberalism in Egypt." *Review of African Political Economy*, vol. 26, no. 82 (1999). <https://doi.org/10.1080/03056249908704412>.

Oktayer, Asuman. "A Qualitative Study on the Process of Financial Liberalization and Deepening in Turkey." *Academic Reviews*, vol. 4, no. 1.(2009)

Elwaleed Ahmed Talha, "Exchange Rate Liberalization Policies in Arab Countries: Between Theory and Practice," *Economic Studies*, International Monetary Fund, Issue 99, (May 2022). <https://shorturl.at/pQLUq>

Önis, Ziya, and Caner Bakır. "Turkey's Political Economy in the Age of Financial Globalization: The Significance of the EU Anchor." *South European Society & Politics*, vol. 12, no. 2 (June 2007). <https://doi.org/10.1080/13608740701306086>.

SouadiRachda, Derbal Abdelkader. "The Euro and Exchange Rate Policy in Maghreb Countries: A Case Study of Algeria Using Vector AutoRegression for the Period 2000-2015." *Journal of Economics and Business*, Issue 6, (June 2018).

Savrul, Burcu K., Halil Ozkicioglu, and Hasan Alp Ozel. "The Evolution of Financial Liberalization in Turkey." *DumlupınarUniversitesiSosyalBilimlerDergisi*, vol. 38.(2013)

Semiz, GüngörToplu, and Yaşar. "The Entry of American Imperialism into Turkey During the Republican Era: The Thornburg Report." *Journal of Social Sciences*, vol. 27, no. 27, January 1, 2019. <https://doi.org/10.29228/tbd.2007.7395>.

Sezgin, Volkan, and Özge Sezgin. "An Analysis on the Impacts of the Economic Recommendations of the EU over Turkish Trade and Investments." *Turkish Studies - Economics, Finance, Politics*, vol. 15, no. 4. (2020).

Yıldırım, Deniz, and A. ErincYeldan. "Democracy Gap in Turkey and the World in the Context of Globalization and Deindustrialization." (2015). https://www.researchgate.net/publication/346676987_Kuresellesme_ve_sanayisizlesme_baglami_nda_Turkiye'de_ve_Dunyada_demokrasi_acigi.

3. Papers Presented at Conferences:

Derbal, Abdelkader. "Monetary Policy and Exchange Rate in Algeria: The Experience of the Floating Exchange System." *Proceedings of the Algerian Association of Economists Conference*, Algiers, (May 2018).

Massoud, Ali. "Exchange Rate Policy in Egypt after the Float: A Critical Evaluation." Presented at the Middle East Economic Association Conference, Cairo, (January 2005).

Yeldan, Erinc. "Economic Liberalization and Its Impact on Turkey's Industrial Structure." Paper presented at the International Conference on Financial Liberalization and Economic Stability in Developing Countries, Istanbul, (October 2004).

SlaimiaDarifa. *Lectures on Exchange Rate Economics*. Faculty of Economic, Commercial, and Management Sciences, Department of Economic Sciences, 4 May 1955 University, Guelma, Algeria, Academic Year 2016-2017. <https://shorturl.at/OtpHA>

4. Theses :

Ardıç Hülya. *An Examination of the Movements Caused by the 1994 and 2001 Economic Crises on the Balance Sheet of the Central Bank of the Republic of Turkey*. Expertise Qualification Thesis, Central Bank of the Republic of Turkey, Accounting General Directorate, Ankara, December 2004.

Hassib, Souhila. *An Econometric Study on the Impact of Financial Liberalization on Economic Growth: A Case Study of the Maghreb Countries*. PhD Thesis, Faculty of Economic, Commercial, and Management Sciences, Department of Management Sciences, Specialization in Financial Management, AbdelhafidBoussouf University Center, Mila, Algeria, 2020-2021. <http://dspace.centre-univ-mila.dz/jspui/handle/123456souhila789/1042>.

Mouakni, Sohaila. "The Impact of Financial Liberalization Policy on Foreign Exchange Reserves in the Maghreb Countries: An Econometric Study for the Period 1990-2018." Thesis submitted for the Ph.D. degree in Economic Sciences, Faculty of Economic, Commercial, and Management Sciences, Department of Economics, Hassiba Ben Bouali University, Chlef, 2021.

Murad Abdelkader, "A Study of the Impact of Monetary Variables on the Algerian Dinar Exchange Rate against the US Dollar during the Period 1974-2003," Thesis Submitted to Fulfill the Requirements for a Degree in Economic Sciences, Faculty of Economic, Commercial, and Management Sciences, Department of Economic Sciences, University of KasdiMerbah, Ouargla, Algeria, Academic Year 2010-2011.

5. Internet websites:

Central Bank of Egypt. "Monthly Statistical Bulletin: December 2023." Accessed November 23, 2024. <https://www.cbe.org.eg/-/media/project/cbe/listing/monthly-statistical-bulletin/bulletin/july/monthly-statistical-bulletin328.pdf>

Trading Economics. "Egypt GDP Annual Growth Rate." <https://tradingeconomics.com/egypt/gdp-growth-annual>.

World Bank Data. "Turkey GDP Growth (Annual %)." <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=TR>.

Federal Reserve Economic Data | FRED | St. Louis Fed. (s. d.). <https://fred.stlouisfed.org/>