صندوق النقد العربي
ARAB MONETARY FUND

FINANCIAL STABILITY REPORT IN ARAB COUNTRIES BRIEF NOTE

2025

مجلس محافظي المصارف المركزية ومؤسسات النقد العربية
COUNCIL OF ARAB CENTRAL BANKS AND MONETARY AUTHORITIES GOVERNORS

صندوق النقد العربي
ARAB MONETARY FUND

Technical Secretariat of the Council of Governors of Arab Central Banks and Monetary Authorities

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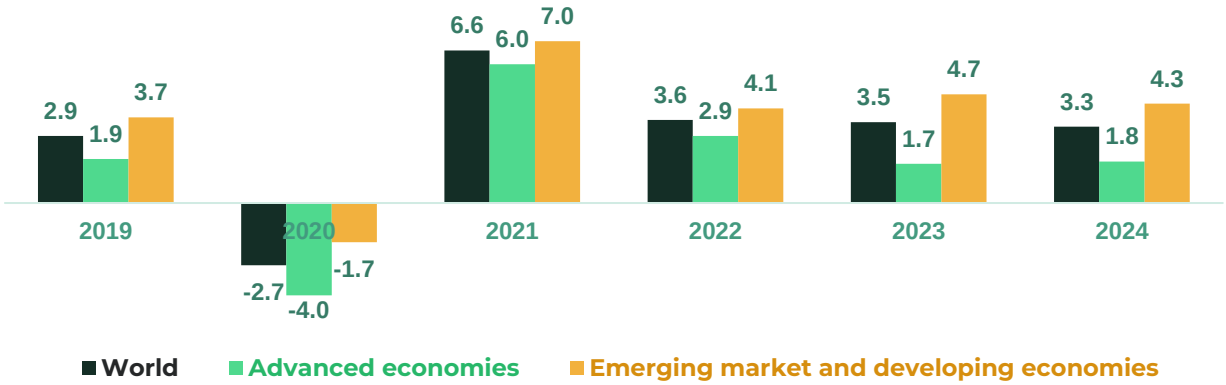
Chapter One: Regional and International Economic Developments Related to Financial Stability in Arab Countries

The global economy experienced a slowdown in growth during 2024, recording approximately 3.3 % compared to 3.5 % in 2023. Global economic performance continued a growth trajectory oriented toward stability, with a notable recovery in global trade, which expanded by approximately 3.8% in 2024 compared to the previous year. This was accompanied by a decline in inflation rates trending toward central banks' targets. Restrictive monetary policies were maintained to contain inflation, resulting in public debt and interest rates remaining at elevated levels even as monetary easing began in the second half of 2024. This persistence was driven by elevated global risk premiums, reflecting heightened systemic risks.

Real Global Economic Growth (%)



Source: International Monetary Fund, World Economic Outlook, April 2025.

Within this framework, certain financial institutions encountered difficulties in refinancing their debt due to elevated financing costs and tightened credit conditions. Risk premiums on lower-rate bonds increased significantly, leading to heightened pressures across banking sectors and capital markets globally, prompting numerous countries to undertake periodic reassessments of their fiscal and monetary policies.

Regarding exchange rate fluctuations, the tightening of the U.S. monetary policy triggered substantial waves of appreciation in the U.S. dollar exchange rate against major global currencies. This resulted in a significant increase in external debt burdens for developing countries, including certain Arab nations, particularly debt denominated in U.S. dollars. This amplified pressures on the fiscal budgets of these countries and resulted in a decline in foreign reserves levels. It further exacerbated pressures on local banking sectors, increasing potential levels of banking and credit risks, particularly in certain emerging economies.

Arab Countries Economic Performance

Arab countries recorded economic growth of approximately 2.2% in 2024, compared to growth of approximately 0.9% during 2023, representing a substantial improvement. Economic performance across Arab nations during 2024 was affected by several factors, including fluctuations in global oil prices and geopolitical developments in the Arab region and at the international level. The impact of these global developments on Arab economies was heterogeneous, reflecting differences in structural characteristics.

In oil-exporting countries, such as Gulf Cooperation Council nations, the impact of elevated interest rate levels on non-oil sector growth remained limited. Rising oil revenues supported liquidity conditions and bolstered investor and consumer confidence. Conversely, oil-importing Arab countries experienced widening deficits in their balance of payments. This resulted in local currency exchange rates facing substantial pressures in several countries within the group, leading to currency depreciation and rising general price levels.

Inflation Developments

On the inflation front, the inflation rate in Arab countries declined to approximately 11.1% during 2024, compared to 14.3% recorded in the previous year, excluding countries experiencing elevated inflation rates, which include Sudan, Syria, Lebanon, and Yemen. This decline resulted from a decrease in commodity prices in global markets and reduced pressure on local currency exchange rates in certain countries.

Developments in Inflation Rates in Arab countries during the Period (2020-2024)

Country / Region	2020	2021	2022	2023	2024
Saudi Arabia	3.2	3.1	2.5	2.5	1.5
United Arab Emirates	2.1-	0.2	4.8	1.6	1.7
Qatar	2.6-	2.3	5	3	1.3
Kuwait	2.1	3.4	4	3.6	2.9
Oman	0.9-	1.5	2.5	0.9	0.6
Bahrain	2.3-	0.6-	3.6	0.1	0.9
Algeria	2.4	4.7	9.3	9.3	4.1
Iraq	0.6	6.1	4.9	4.4	2.6
Yemen	27.4	63.8	29.5	0.9	33.9
Libya	1.4	2.7	4.5	2.4	2.1
Egypt	5.1	5.8	14.9	35.4	27.9
Morocco	0.7	1.4	6.6	6.1	0.9
Sudan	163.3	359.1	155.8	190.3	170
Tunisia	5.6	5.7	8.3	9.3	7
Lebanon	84.9	154.8	171.2	221.3	45.2
Jordan	0.3	1.3	4.2	2.1	1.6
Syria	111.2	87.3	63	117.3	57
Palestine	2.5-	0.9	6.7	5.9	53.7
Mauritania	2.5	2.4	3.8	9.6	5
Djibouti	2.1	1.8	1.2	5.2	1.4
Somalia	5.5	3.5	3.9	6.8	6.2
Comoros	5	0.8	1.5	12.4	8.5
Arab region	**31.9**	**26.9**	**51.5**	**29.9**	**38.1**
Arab region (excluding Sudan, Syria, Lebanon, and Yemen)	**11.1**	**2.7**	**4.2**	**8.7**	**14.3**

Source: Arab Monetary Fund database.

However, maritime navigation through the Red Sea corridor, including the Suez Canal and the Strait of Bab el-Mandeb, was significantly affected by regional geopolitical tensions. This disruption resulted in supply chain bottlenecks, which led to increased shipping and insurance costs, partially offsetting the disinflationary impact of global commodity price declines.

In efforts to contain inflation, several Arab countries maintained elevated interest rates to curb inflationary pressures. This approach negatively affected domestic debt service burdens and exerted adverse impacts on economic activity and domestic investment levels. These developments resulted in volatility in profitability levels and anticipated default rates, thereby increasing credit risk levels within the banking sectors of these countries.

Foreign Direct Investment Flows

The year 2024 witnessed a decline in foreign direct investment inflows to certain Arab countries, reflecting reduced confidence in emerging market economies generally and amid deteriorating levels of economic stability and increased geopolitical risks. Consequently, risk levels in sovereign debt instruments rose in countries with lower credit ratings.

Global Trade Performance

During 2024, global trade experienced notable growth, reaching a record value of approximately 33 trillion U.S. dollars, achieving an increase of 3.8%, equivalent to 1.2 trillion U.S. dollars, compared to 2023. This growth was driven primarily by improvements in services trade. Services trade expanded by 9.0%, representing approximately 700 billion U.S. dollars, accounting for nearly 60% of the total increase in global trade compared to the previous year.

In contrast, goods trade during 2024 recorded an increase of approximately 2.0%, with an increase valued at 500 billion U.S. dollars compared to 2023.

External Trade Performance of Arab Countries

Regarding foreign trade in goods and services for Arab countries, it witnessed an increase during 2024 by 3.2%, reaching approximately 3.2 trillion U.S. dollars. Exports of goods and services recorded approximately 1.7 trillion U.S. dollars, nearly equivalent to the value recorded in 2023. Imports of goods and services increased more substantially, rising by more than 7.0% to reach approximately 1.5 trillion U.S. dollars during 2024 compared to the previous year.

Chapter Two: Developments in Legislative and Institutional Frameworks for Financial Stability and Financial Sector Infrastructure Systems in Arab Countries

Throughout 2024, Arab central banks continued updating the legislative frameworks governing the operation of banking and financial institutions and developing the banking and financial infrastructure to align with the latest international best practices, thereby enhancing confidence in the services provided by these institutions.

To ensure effective banking supervision, most central banks accelerated the implementation of Basel III requirements and the International Financial Reporting Standard (IFRS 9), reflecting the soundness of the banking sector and strengthening banks' resilience to shocks.

This chapter covers the institutional framework for financial stability, recent updates in legislative and regulatory systems, developments in financial system infrastructure, and the framework for macroprudential policy.

Institutional Framework for Financial Stability

Arab central banks continued reviewing the laws regulating their operations during 2024, with the aim of clarifying their responsibilities, especially regarding financial stability. Examples from Arab countries include:

United Arab Emirates: The scope of supervision by the Central Bank of the UAE was amended to include banks, financing companies, payment service providers, card systems and stored-value facilities, retail and high-value payment systems, exchange companies, insurance and reinsurance companies, insurance agents, brokers, damage assessors, insurance consultants, actuarial experts, insurance claims management companies, insurance points of sale, and payment tokenization services.

Algeria: Bank of Algeria continued its efforts to implement the monetary and banking law issued in 2023.

Saudi Arabia: The organizational structure of the Financial Stability Department was amended to become a general department encompassing three divisions: Macro-Financial Surveillance, Macroprudential Policies, and Systemic Risk Evaluation. Amendments were also made to the regulation of financing companies supervised by the central bank.

Iraq: Issued a guide for banks on environmental, social, and corporate governance standards.

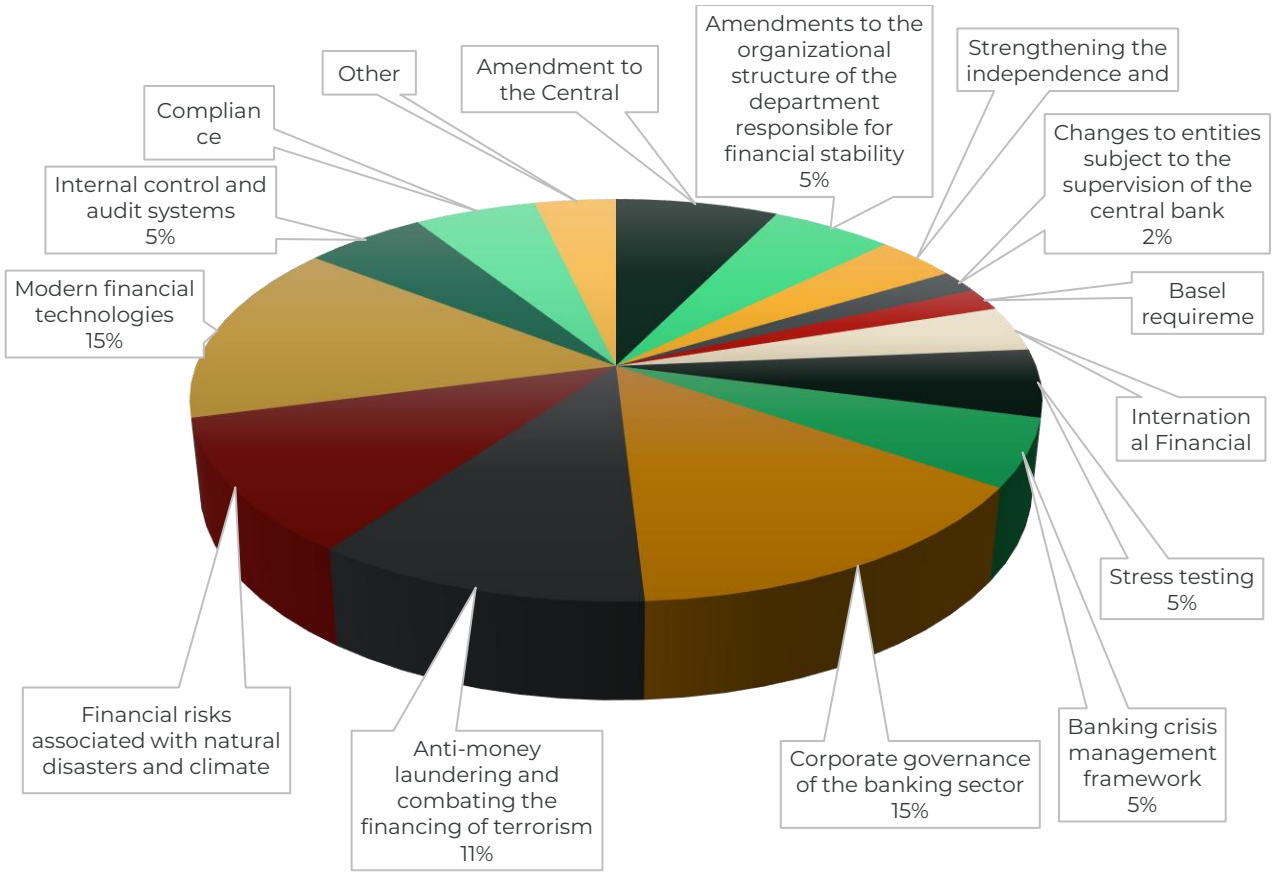
Morocco: Strengthened financial supervision and macroprudential analysis by establishing two new units: one analyzing risks from non-bank financial intermediaries (NBFI) and another for emerging financial risks, tasked with monitoring and assessing new risks threatening financial stability such as climate change, artificial intelligence, and cyber risks.

Libya: Issued Law No. (35) amending provisions on prohibition of usury transactions, allowing banks to operate under a dual Islamic and conventional system.

Updates on Legislative and Supervisory Frameworks of the Financial System

Arab central banks and monetary institutions continued during 2024 to develop legislative and supervisory frameworks in accordance with the best international standards and practices, thereby enhancing financial stability. Corporate governance and modern financial technologies ranked first in updates among 15 development areas.

Key areas of focus for Arab central banks in updating their legislative and supervisory frameworks during 2024



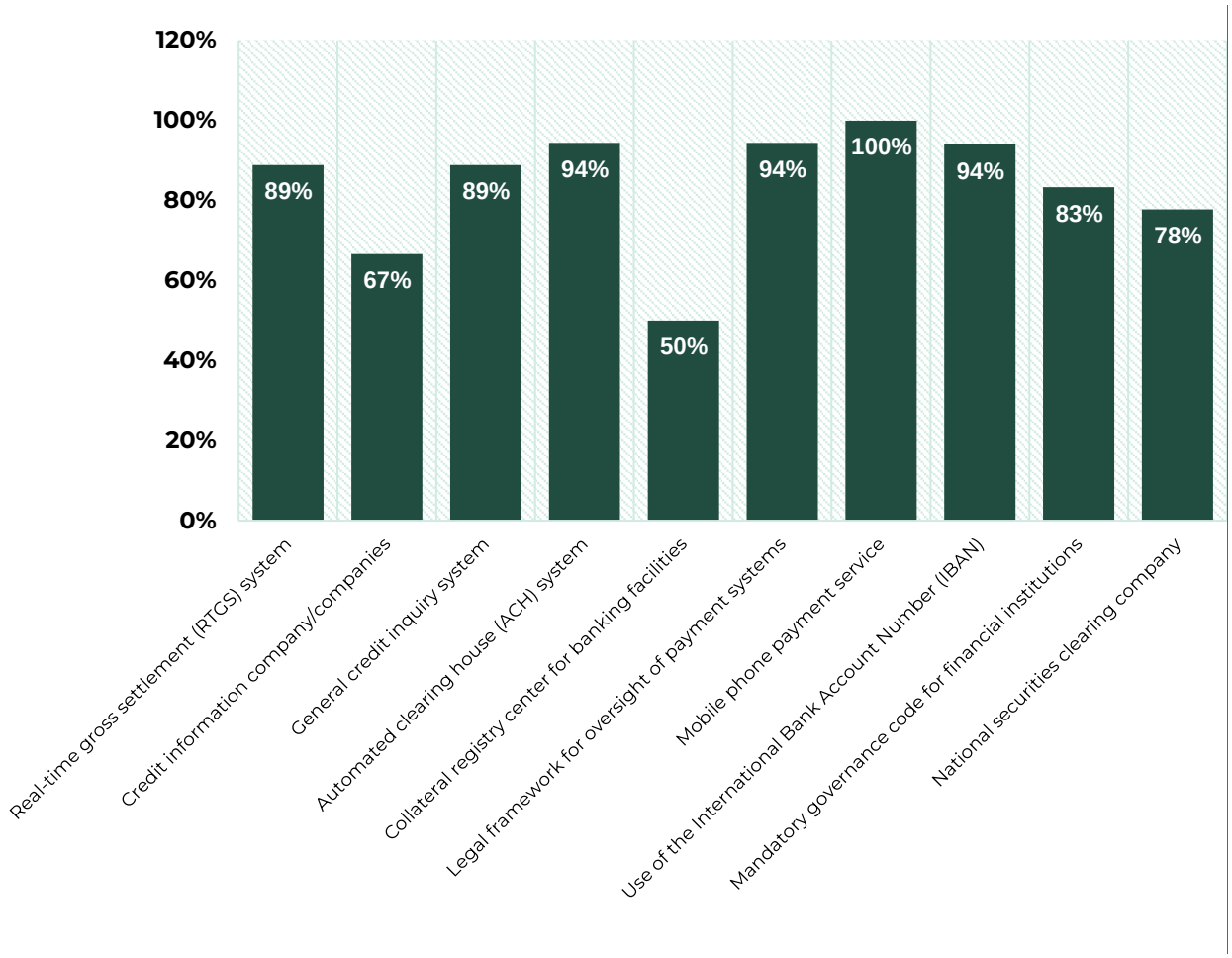
Source: Arab Monetary Fund (2025), Financial Stability Report Questionnaire.

Examples of updates include issuance of credit risk management, Credit Rating & integrity systems (UAE), development of new systems regarding short-term and long-term liquidity and updating prudential standards (Algeria), revision of risk-weighted asset calculation methods according to Basel III instructions and inclusion of the climate dimension within the supervisory framework (Tunisia), amendment of some provisions of the main principles of governance in financial institutions and development of the anti-financial crimes and terrorism financing strategy (Saudi Arabia), and gradual elimination of the exception for treatment of non-performing loans for small and medium enterprises and updating governance of internal Audit for banks (Egypt).

Developments in Financial System Infrastructure

The Arab countries have made significant milestones in this domain, covering ten key aspects of financial system infrastructure development as indicated by the graph below that highlight the ratio of Arab countries with such infrastructure.

Percentage of Arab countries that applied the key aspects of the development of financial system infrastructure relative to the total number of Arab countries



Source: Arab Monetary Fund (2025), Financial Stability Report Questionnaire.

Arab central banks continued enhancing financial and banking infrastructure aligned with up-to-date international best practices, boosting confidence in financial and banking institution services. Notable progress was evident in mobile payment services with 100% of Arab countries providing such services and 94% having legal frameworks overseeing payment systems. Similarly, advances in automated inquiry systems and real-time gross settlement (RTGS) systems were evident.

For example, the UAE updated and published a handbook on instant payments for banks participating in the system. Tunisia launched a project to centralize information and establish an institutional numbering system within its central bank. Saudi Arabia is reviewing and updating its RTGS system, and regarding the Instant Payment System (IPS) arrangements are currently underway to introduce several additional services. Egypt launched payment card tokenization on mobile applications, with Apple Pay enabled as an initial stage in addition to, activating the reception of international remittances through the Instant Payment Network (IPN).

Despite progress made in this area, there remains a need for further efforts to develop credit scoring systems to reduce default rates among borrowers, improve credit portfolio quality, and enhance the effectiveness of risk management, which positively impacts financial stability. Arab countries also need to work on developing collateral registration centers for credit facilities, particularly to facilitate financing for small and medium enterprises (SMEs). It is noteworthy that private and public credit scoring systems and movable collateral registry systems are important aspects of the “Doing Business” index published by the World Bank.

Macroprudential Policy Framework in Arab Countries

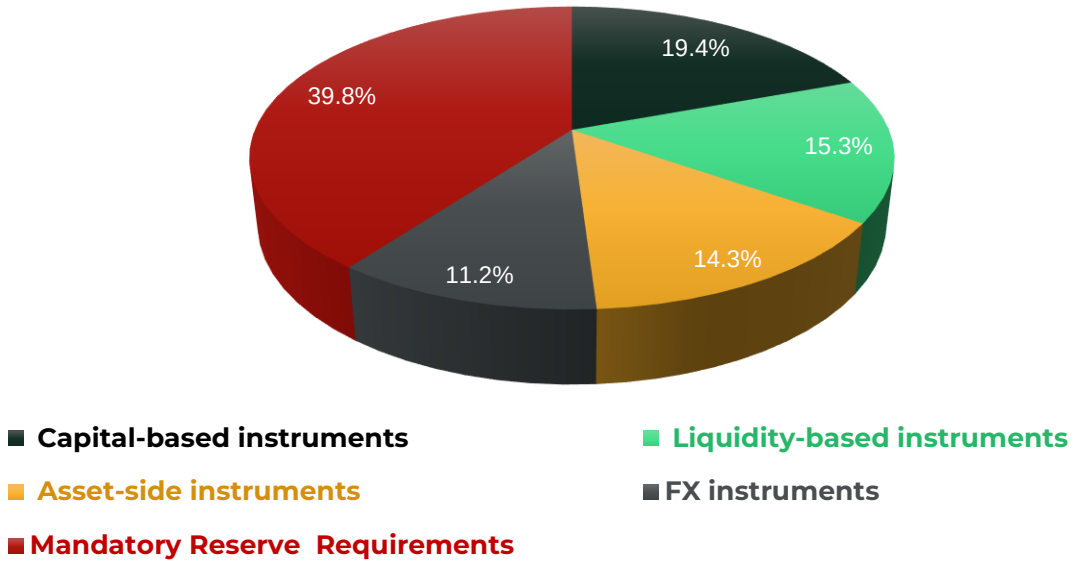
The Arab banking system enjoys high capital and liquidity buffers exceeding Basel III requirements. Financial safety indicators, stress tests, and financial stability indices demonstrate the resilience of the Arab banking system to shocks.

The assessment of systemic risks in the financial system during 2024 did not necessitate the use of macroprudential tools by supervisory authorities, except in limited cases.

Most Arab central banks have fully or partially implemented Basel III requirements and the International Financial Reporting Standard (IFRS) number 9. Approximately 88% of Arab central banks apply Basel III requirements (partially or fully), 40% have developed a plan or are studying the quantitative impact assessments of applying Basel III amendments, and 75% implement IFRS9.

The use of macroprudential tools focuses on two dimensions: first, controlling systemic risk; second, enhancing the banking system’s resilience to shocks. Therefore, their use does not necessarily signal systemic risks in the sector. Figure below illustrates macroprudential tools and liquidity enhancement tools used by Arab central banks and monetary institutions from 2010 to 2024, regardless of whether the macroprudential policy stance was tightening or loosening.

Frequency of Use of Macroprudential Tools as a Percentage of Total Macroprudential Tool Usage by Arab Central Banks and Monetary Institutions between 2010 and 2024



Source: Financial Stability Reports 2024 and 2025 Surveys, Arab Monetary Fund.

Regarding the direction of macroprudential policy, tightening measures constituted 65% of total prudential decisions made by Arab central banks and monetary institutions during 2010-2024, while loosening measures accounted for about 35%. This reflects the cautious stance of these banks, noting that loosening measures were mostly concentrated during the COVID-19 pandemic.

From the perspective of Arab central banks aiming to strengthen financial stability, geopolitical risks remain the greatest challenge, with an average rating of 2.9 points, indicating a moderate impact. Natural disasters and climate change risks rank second with 2.8 points, while cyber risks and real estate market risks occupy the third place among concerns.

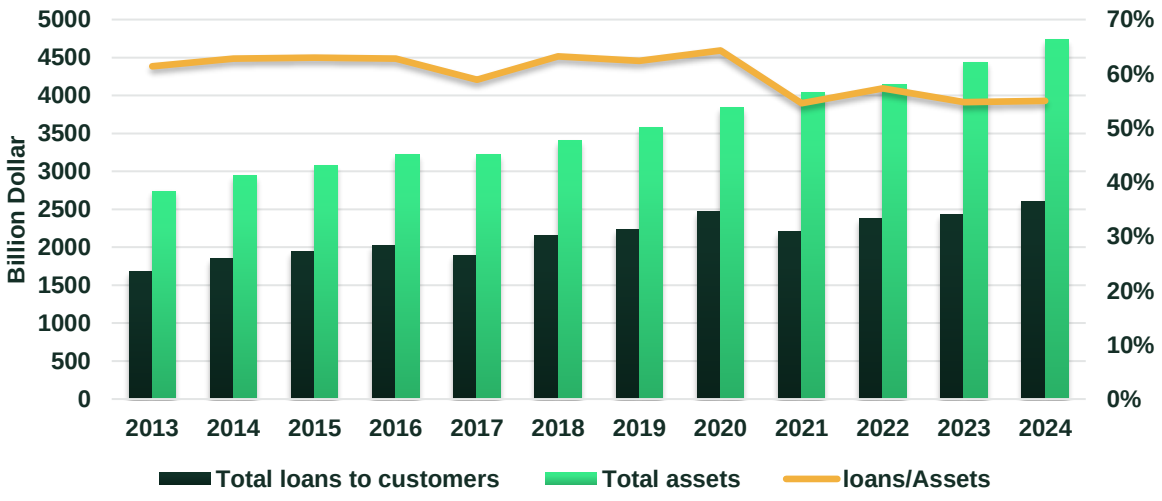
Chapter Three: Developments in the Performance of the Banking Sector in Arab Countries and Potential Risks

The Arab banking sector maintained strong and stable performance during 2024, supported by high levels of capital adequacy and liquidity ratios, along with a notable improvement in asset quality. The adoption of the International Financial Reporting Standard (IFRS 9) contributed to the building of additional precautionary provisions, enhancing banks' financial resilience and their ability to absorb credit shocks. Profitability indicators also showed relative improvement in several banking systems despite pressures resulting from higher funding costs.

The total assets of the Arab banking sector grew by 6.5%, reaching approximately 4.8 trillion U.S. dollars by the end of 2024, compared to about 4.5 trillion U.S. dollars in the previous year. This growth was mainly driven by an increase in assets within key banking sectors in the UAE, Saudi Arabia, and Qatar, which collectively accounted for around 62% of total Arab banking assets. Libya and Saudi Arabia topped the list of countries in terms of growth rate, recording 14.8% and 13.6%, respectively, followed by the UAE with 12.1%.

In terms of the structure of the assets, credit facilities accounted for 55% of total banking assets, reflecting the continued reliance of banks on their core intermediation role. Granted credit facilities increased by 7%, reaching approximately 2.6 trillion U.S. dollars. Credit facilities were distributed by borrower type as follows: individuals accounted for 43.1%, corporations for 39.5% (80% of which belonged to large corporates), and government and public sector entities for 17.4%. The ratio of credit facilities to GDP rose to 76% in 2024, up from 72% in the previous year.

Evolution of the volume of both Customers loans and assets (denominated in US dollars), and the ratio of Loans to assets in the banking sector in Arab countries during the period (2013–2024).

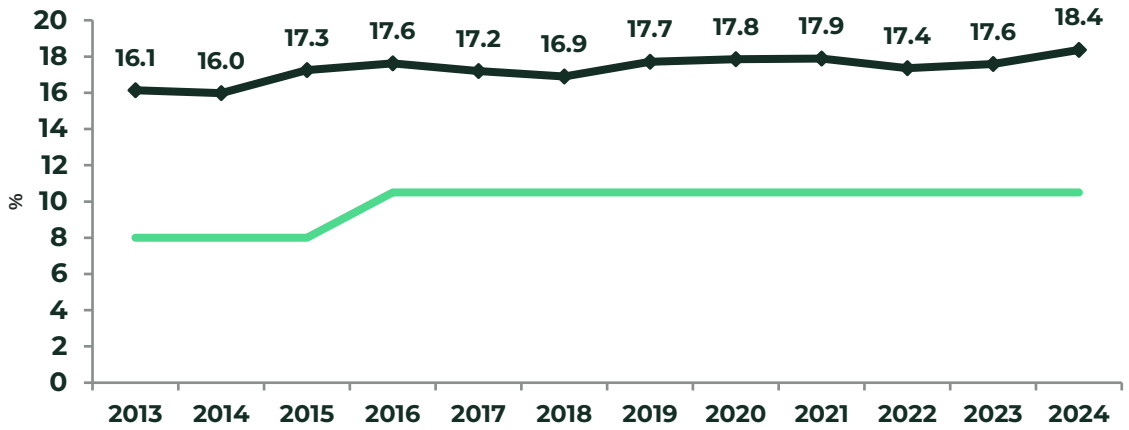


Source: Arab Monetary Fund (2025), Financial Stability Report Questionnaire.

On the liabilities side, deposits reached about USD 2.9 trillion U.S. dollars, marking an annual growth of 4.1% and accounting for 64.8% of total liabilities in the Arab banking sector. Banks in the GCC countries held around 73% of total Arab banking deposits. The loan-to-deposit ratio rose to 91.3% by the end of 2024, compared to 88.8% in 2023, reflecting increased demand for financing.

Financial soundness indicators confirmed the Arab banking sector's continued resilience and capacity to withstand shocks. The average capital adequacy ratio stood at 18.4%, while the ratio of non-performing loans (NPLs) to total credit facilities declined to 7.9%. The coverage ratio of provisions for non-performing loans decreased slightly to 82.5%, compared to 84.8% in the previous year. Liquid assets represented roughly 33.4% of total assets, supported by the implementation of Basel III liquidity standards such as the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). The net interest margin declined to 63.7% of total income, down from 67.9% in the prior year, while return on assets (ROA) reached 1.43%, and return on equity (ROE) stood at 13.5%.

Evolution of the average capital adequacy ratio & Regulatory limit set by Basel (2023–2013) of the banking sector in Arab countries during the period



Despite the overall positive performance, the Arab banking sector remains exposed to several risks. The most prominent are market risks arising from changes in interest rates and repricing, concentration risks in specific sectors such as real estate, liquidity risks driven by tightening and volatility in global financial conditions and escalating cyber risks accompanying the rapid expansion of digital financial transformation across many Arab countries.

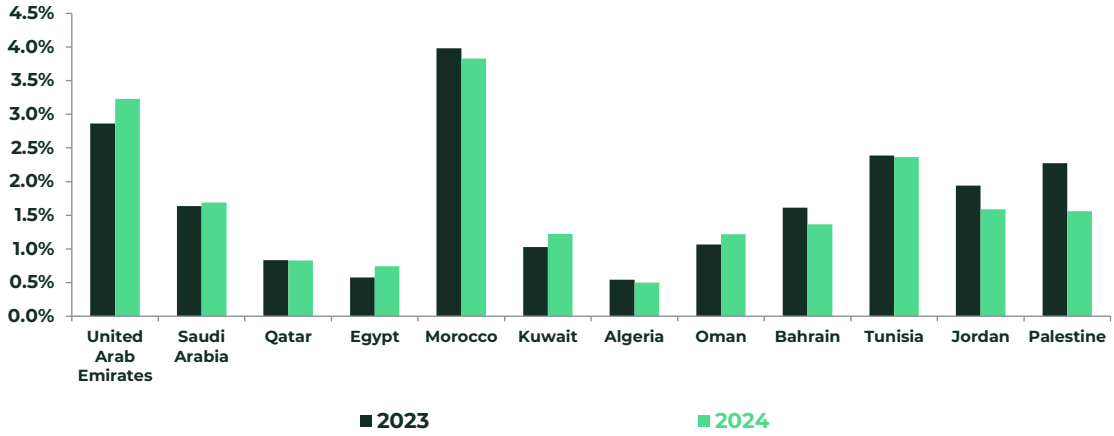
Chapter Four: Developments in the Performance of the Non-Banking Financial Sector in Arab Countries and Potential Risks

The non-banking financial sector serves as a strategic partner to the banking sector in promoting economic growth and financial and social stability in Arab countries. It also effectively contributes to supporting financial inclusion, with its assets (excluding pension funds) reaching about 6.7% of total financial sector assets at the end of 2024, compared to 6.5% in 2023, and about 13.1% of the GDP.

Insurance Sector

The insurance sector in Arab countries witnessed notable development, with total insurance premiums increasing by 8.8% to about USD 56.1 billion in 2024, reflecting growing demand for these services. Despite this growth, the Arab insurance sector's share of the global market remains low at around 1%. It is worth noting that life insurance premiums accounted for about 21.2% of the total premiums written in 2024, while non-life insurance premiums represented 78.8%. The insurance depth—measured as the ratio of premiums to GDP—stood at 1.7%, below the global average of 7%. Nationally, Morocco and the UAE lead in insurance depth, whereas Egypt and Algeria recorded the lowest ratios. The average ratio of claims paid to premiums written was 56.7%.

Ratio of Total Written Premiums to Gross Domestic Product (insurance penetration) for Arab Insurance Companies during the period (2023–2024)



Source: Annual report of the global reinsurance company Swiss Re Institute, central banks, insurance sector supervisory authorities, and the 2025 Financial Stability Report questionnaire of the Arab Monetary Fund.

Arab Financial Markets

Arab financial markets saw increased performance in 2024, with the number of shares traded rising by 27% to 624 billion shares, and the value of traded shares increasing by 53.6% to about USD 1,019.1 billion by the end of 2024. The stock market turnover ratio (%) rose from 14.5% to 23.3%, with the Egyptian stock exchange outperforming in this regard. Despite increased activity, the market capitalization of Arab financial markets declined by 4.1% to USD 4.374 trillion, driven by a decrease of USD 282.4 billion in the Saudi market. The Arab Monetary Fund index for Arab stock markets rose by 3.5% to 503.3 points, reflecting improving investment environments and attractiveness despite geopolitical and economic challenges.

Non-Banking Financial Institutions

The Microfinance Sector, experienced notable growth in 2024, with assets recorded USD 4.3 billion, led by Egypt with USD 1.7 billion in assets. The loan portfolio reached USD 3.7 billion. The average loan size recorded USD 636 per client, with Palestine having the highest average loan. The number of active clients reached about 5.879 million. The microfinance loan portfolio is showing a good quality, with an average loan (overdue more than 30 days) of about 5.8% by end-2024, reflecting the sector's efficiency in credit rating assessment. These institutions also demonstrated good profitability, with a return on assets averaging about 3.7% in 2024.

In the leasing and other financing companies' sector, assets grew by 4% to USD 42.2 billion, while loans increased by 4.5%, led by Saudi Arabia's growth in consumer, residential real estate, and vehicle financing. Credit quality reflected in non-performing loans to record 10.4%. Profitability remained sound, with an average return on assets of 2.3% in 2024, and Saudi Arabia reporting the highest rate at 4.1%.

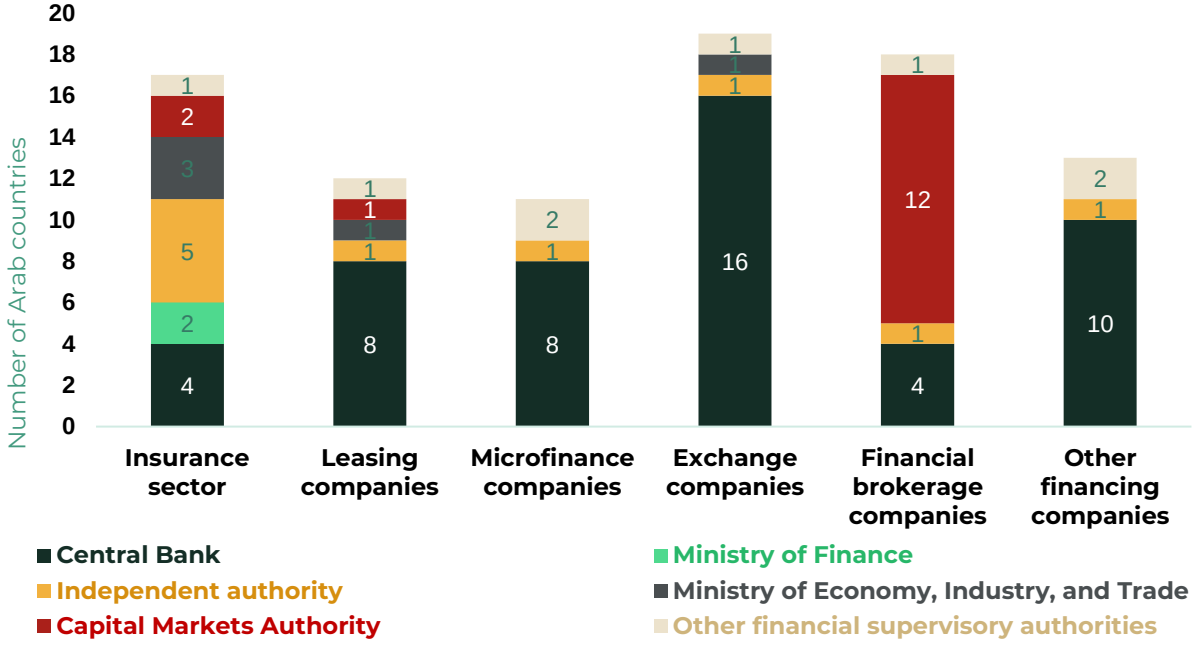
Exchange Houses Sector

The sector's capital amounted to about USD 2.86 billion, with assets recorded around USD 4.7 billion in 2024. The UAE exchange houses sector accounted for roughly 47.0% of the Arab exchange houses, with an average return on assets of 4.2% for Arab exchange houses at the end of 2024. UAE exchange companies achieved the highest return on assets of 9.5%.

Supervision of the Non-Banking Financial Sector

The 2008 crisis highlighted the urgent need for effective regulation of the non-banking financial sector due to its direct impact on financial stability. This highlights the importance of coordination between supervisory authorities, providing accurate data, and forming committees for crisis management and financial stability that include representatives from central banks, regulatory agencies, and ministries of finance. This coordination aims to monitor systemic risks, increase consumer protection, and enhance financial stability across Arab countries.

Supervisory authorities for the main non-bank financial institutions in Arab countries



Source: Arab Monetary Fund (2025), Financial Stability Report Questionnaire.

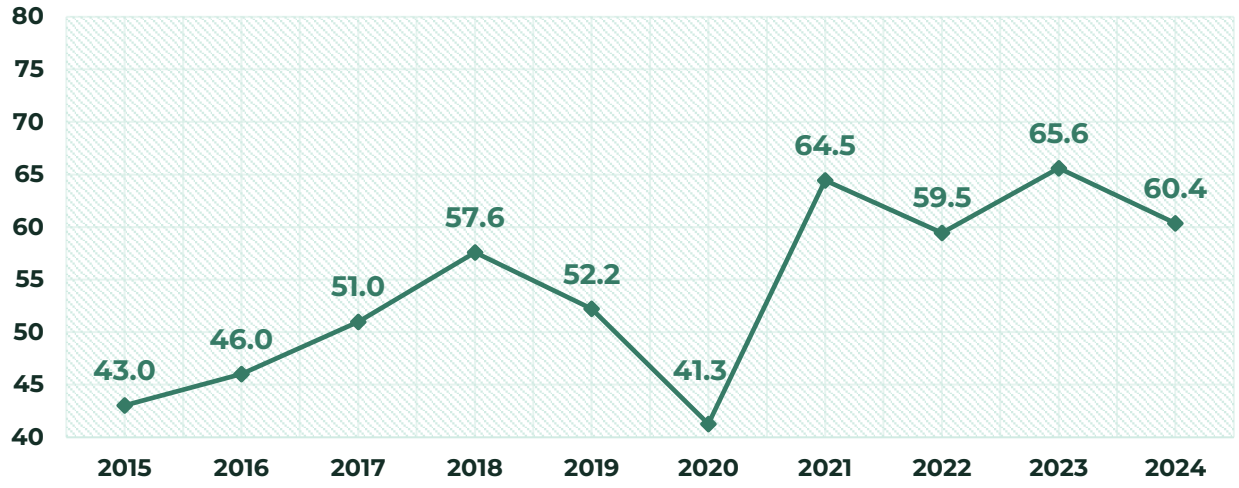
Chapter Five: Financial Stability Indicators in Arab Countries

Financial stability indicators serve as a pivotal tool relied upon by supervisory authorities in Arab countries to confront financial crises and maintain the stability of financial and banking systems. These indicators provide precise and focused information about the overall status of the financial system, considering its various components as well as structural and economic circumstances, thus enhancing the effectiveness of macro- and micro prudential policies and enabling proactive intervention before risks escalate.

In this context, the Arab Monetary Fund, in collaboration with Arab central banks, developed a composite financial stability index aimed at establishing an accepted reference for assessing the evolution of financial stability across the Arab region. The index consists of four main indicators, each comprising several different sub-indicators and sub-variables. The main group of indicators includes: the banking sector index, the macroeconomic index, the capital market index, and the financial cycle index. These indicators are calculated using the minimum-maximum statistical normalization methodology for each sub-variable/index. The closer the processed value of the variable approaches one, the better the financial stability situation, relative to the years included in the analysis.

The estimation results for the 2024 index showed a decline of around 5.2 percentage points—from 65.6 points in 2023 to 60.4 points in 2024. This decrease is mainly attributable to a drop in the macroeconomic index by about 6.3 percentage points, as well as declines in the capital market index by 2.3 percentage points and the credit gap index by 1.0 percentage point. Conversely, the banking sector index improved by approximately 4.3 percentage points, driven by enhanced liquidity, profitability, and capital adequacy sub-indices, despite a notable drop in the asset quality sub-index, which reached its lowest level since 2015.

Value of the Financial Stability Index in Arab countries between 2015 and 2024 (percentage points)



Source: Arab Monetary Fund.

Analysis revealed diverging trends among Arab countries during 2024. Tunisia and Libya witnessed improvements in financial stability indicators, while the UAE and Palestine saw declines. This variation underscores the need for each country to rely on tailored indicators that account for the characteristics of its financial system and its surrounding risks, and for these indicators to be updated regularly to keep pace with changing risk maps.

An analysis was conducted on the composition of financial stability indicators at six Arab central banks (UAE, Iraq, Oman, Palestine, Libya, Egypt). These institutions employed a total of 54 different indicators, of which financial and monetary sector metrics comprised 41 (76%), while the remainder were distributed across the external sector (6 indicators), public finance (4 indicators), and the real sector (3 indicators).

Regarding the financial sector, banking indicators accounted for two-thirds (31 indicators) and were categorized into five groups: risk (the largest group), liquidity, asset quality, profitability, and resilience. Risk indicators included probability of banking sector default, volatility of listed bank stock prices, and credit default swap ratios. Liquidity indicators covered the liquidity coverage ratio, net stable funding ratio, and loan-to-deposit ratio.

Central banks relied on six capital market indicators focusing on market capitalization-to-GDP, returns on financial assets, price volatility, and market turnover. The insurance sector comprised four indicators related to premiums-to-GDP ratio, return on equity, compensation ratio, and capital-to-assets ratio. Palestine distinguished itself by including insurance indicators as 25% of its financial metrics.

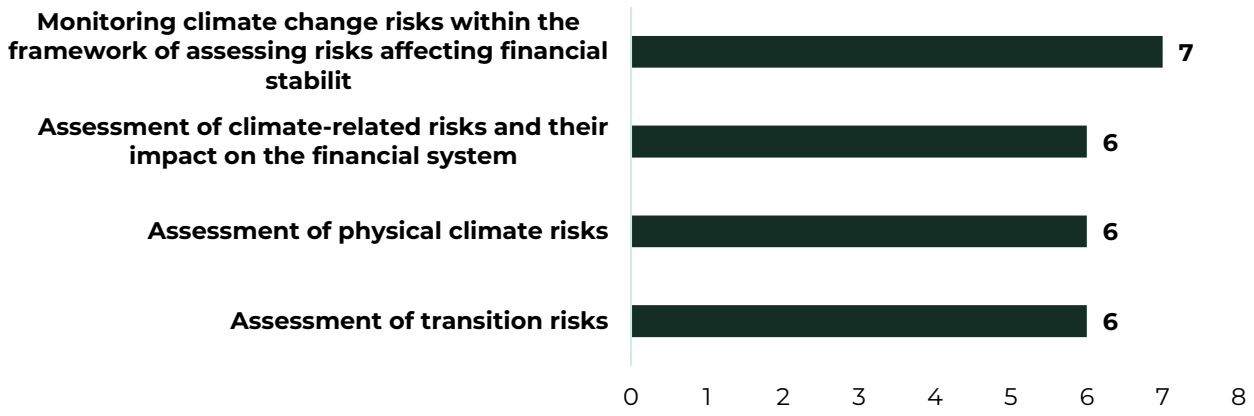
For real sector and public finance indicators, nearly all central banks focused on GDP growth and inflation rates, with the UAE particularly emphasizing real estate prices. In public finance, central banks paid close attention to public debt and budget deficit metrics, with Oman focusing on the ratio of external government debt to foreign reserves and sovereign bond yield spreads, while the UAE's central bank did not include any public finance indicators.

For external sector indicators, all countries included at least one metric for monitoring external balances, with current account deficit to GDP being most frequently used, followed by foreign reserves and exchange rates. Indicators pertaining to global economic conditions (global growth, inflation) were not included across all metrics and were limited to Iraq, Egypt, and the UAE.

Chapter Six: Climate Change Risks and Their Impact on Financial Stability

Climate change risks and natural disasters represent significant and escalating challenges facing financial systems in Arab countries, having become critical factors influencing financial and economic stability. Recognizing this importance, Arab central banks have begun incorporating climate risks—both physical risks resulting from natural phenomena and transitional risks related to the shift toward a low-emission economy—within financial stability assessment frameworks. These efforts include the development of advanced analytical tools and methodologies that allow for the evaluation of the financial system's exposure to such risks, in addition to organizing workshops and training courses to enhance the abilities of financial sector staff to understand and manage these risks.

Number of Arab countries Monitoring climate change risks



Source: Arab Monetary Fund (2025), Financial Stability Report Questionnaire.

Several Arab central banks have joined specialized international networks to strengthen cooperation and coordination—such as the Network for Greening the Financial System (NGFS) and the Sustainable Banking and Finance Network (SBFN)—to exchange expertise and adopt best global practices. Some central banks have issued mandatory regulations requiring financial institutions to disclose their data related to environmental, social, and governance (ESG) standards, thereby enhancing transparency and accountability in this field.

Alongside supervisory efforts, Arab countries have launched national strategies for the transition toward clean energy sources and reduction of carbon emissions, with initiatives toward achieving carbon neutrality. In this context, several countries—including Morocco, Tunisia, Saudi Arabia, Oman, and Bahrain—have adopted ambitious emission reduction targets, and some are developing major strategic projects to strengthen renewable energy and adopt environmentally friendly technologies such as green hydrogen.

Data availability represents one of the biggest challenges facing climate risk assessment. Some central banks such as Bahrain, Tunisia, Kuwait, Morocco, and Egypt collect data on climate risks. Only a limited number of central banks possess detailed sector-level data on the exposure of asset portfolios to climate risks, while the UAE and Morocco also collect such data at the geographic level.

As for climate stress tests, which are advanced analytical tools for assessing the ability of financial institutions to withstand severe potential climate scenarios and identifying capital shortages and potential systemic risks, their adoption remains limited. Only four central banks have issued instructions to their banks and financial institutions to conduct stress tests for climate and transition risks, while the UAE and Kuwait incorporate them within macro-level stress testing exercises.

Green finance in the Arab countries has shown steady progress as one of the main pillars of the transition toward a sustainable low-carbon economy. Central banks and regulatory bodies strive to direct financial resources toward environmental projects, focusing on renewable energy, resource efficiency, and emission reduction. These initiatives are still at an early stage, although countries like Morocco and Saudi Arabia have made notable advances in integrating climate considerations within their banking and regulatory policies.

With rising environmental awareness, seven Arab countries have issued green bonds and sukuk to finance sustainable projects, leveraging advanced mechanisms such as carbon credits, the Green Climate Fund, and public-private partnerships. Other countries, such as Morocco, have relied on diverse financing tools including government guarantees. International cooperation has further supported this approach, with Arab nations like Morocco, Tunisia, Egypt, and Palestine accessing climate finance programs from international organizations like the IMF and World Bank to support environmental transformation and boost climate adaptation capacity.

Arab countries' experiences in addressing climate risks and green transition financing vary according to institutional capacities and national priorities, but they share a growing focus on enhancing environmental sustainability within financial policy. In Jordan, the central bank leads climate risk assessments in coordination with international networks; the UAE employs advanced approaches based on precise data and macro-level stress tests; Bahrain has issued a national energy strategy that aims to enhance environmental safety and comprehensive ESG reporting rules; Tunisia has laid out a roadmap to embed environmental risks within financial sector regulation and develop the green bond market; Algeria focuses on clean energy and the advancement of clean hydrogen technology; Saudi Arabia integrates climate risks within banks' risk management frameworks and has launched initiatives to achieve carbon neutrality; Oman has adopted sustainable finance policies and issued green sukuk; Iraq has established a green bank targeting environmentally sustainable project funding; Palestine collaborates with international associations to

promote green finance; Kuwait collects sectoral data for risk assessment and sustainable finance development; Egypt's central bank established a sustainability department to implement comprehensive regulatory policies, aiming to reduce climate-related risks and encourage green project financing, and has joined several leading international organizations in the field of sustainability and green finance. Morocco stands out regionally with an integrated institutional framework, having developed a national climate plan that reflects the climate dimension of its national sustainable development strategy and supporting legislation, along with a national climate finance strategy.

These initiatives reflect a growing Arab commitment to transitioning toward a sustainable low-carbon economy and reinforcing the role of financial systems in confronting climate challenges and achieving green growth.

Chapter Seven: The Impact of Artificial Intelligence and Digital Banks on the Future of the Banking System

Arab countries are witnessing a fundamental transformation in their financial and banking landscape because of the rapid adoption of modern financial technologies. These technologies have become a strategic cornerstone for enhancing operational efficiency and expanding financial inclusion. The most widespread technologies include retail electronic payment and transfer systems, digital currencies, crypto assets, digital wallets, crowdfunding, and Blockchain technology for transferring financial assets. This transformation holds particular importance amid growing demand for digital services and non-cash payments, prompting central banks and regulatory authorities to set comprehensive regulatory frameworks covering licensing, capital requirements, anti-money laundering and terrorism financing, consumer protection, operational risks, and cybersecurity requirements.

There is significant variability among Arab countries in their levels of financial technology adoption. The United Arab Emirates, Bahrain, and Oman have embraced all six core technologies: Blockchain asset transfer models, retail electronic payment and transfer systems, crypto currencies/assets, digital currencies, mobile wallets, and crowdfunding. In 2024 alone, the UAE market welcomed more than 1000 fintech companies, reflecting an advanced and innovative-friendly regulatory environment. In Saudi Arabia, 261 companies operated in the sector with investments exceeding USD 2.036 billion in 2024. In contrast, Tunisia had 110 companies, Bahrain 51, Kuwait 10 for electronic payment, 4 for electronic money services, and 1 for electronic payment system operation. In Egypt, 177 fintech companies entered the market in 2022 with investments totaling approximately USD 796.5 million; in Morocco, 23 digital wallet providers launched in 2024; and Oman, Palestine, and Libya reported 10, 5, and 8 companies, respectively. Notably, neither Algeria nor Yemen had fintech companies through the end of 2023, with digital transformation still under study in both countries.

In fintech sector regulation, each Arab country adopts a distinct approach. In the UAE, the central bank is the sole regulator of electronic payments, while crypto-asset regulation falls under the central bank, the Securities and Commodities Authority, and the Virtual Assets Regulatory Authority (VARA). In Bahrain, the central bank oversees all six technologies with an advanced regulatory framework consistent with the economic vision. In Saudi Arabia, responsibilities are split among the central bank, the Capital Market Authority, and the Insurance Authority, depending on the service. In Tunisia, responsibility is shared among the central bank, the Capital Market Authority, and the Microfinance Control Authority. All these regulatory frameworks cover basic elements: licensing requirements, investment policy, capital adequacy, anti-financial crime measures, and consumer protection.

The Arab financial sector is experiencing a rapid digital transformation exemplified by digital banks and crypto assets. Digital banks, which rely entirely on digital infrastructure, are no longer an extension of traditional banks but independent institutions providing inclusive banking services without physical branches, making them a new model for modernizing the financial sector and deepening financial inclusion. However, most Arab countries have not yet issued official licenses for digital banks and are still conducting studies to evaluate the benefits and risks. Only the UAE, Bahrain, and Saudi Arabia have begun to issue digital banking licenses and develop dedicated regulatory frameworks.

Regarding digital bank data, which is critical for sector development evaluation and risk monitoring, such data is periodically available only in Saudi Arabia, Bahrain, and the UAE, while other countries are developing or have not started collecting these indicators. Legislative and regulatory frameworks organize the core functions of digital banks, including licensing conditions, investment policy, capital adequacy, anti-money laundering, consumer protection, and operational risk, with marked emphasis on cybersecurity and business continuity.

Arab countries are at different stages in studying and implementing central bank digital currencies (CBDCs). The UAE has completed comprehensive feasibility studies and launched the “Aber” project, jointly with Saudi Arabia, to trial cross-border digital currencies with a focus on increasing financial inclusion, enhancing efficiency and security, improving monetary policy transmission, and reducing operating costs. Bahrain’s digital dinar project began in 2018 as an alternative payment method (not a policy tool) and entered the pilot stage in 2023. Oman finalized feasibility studies covering design, operational, regulatory, and security frameworks. Other countries remain at early stages, as in Jordan (studying digital dinar), Egypt (moving from theoretical phase to proof of concept), and Morocco (establishing an internal committee). These initiatives highlight the growing importance of digital currencies for digital financial transformation, with consideration given to potential risks on financial and monetary stability.

The approach to crypto-assets and virtual currencies varies across Arab countries. The UAE, Bahrain, and Oman permit crypto transactions within strict regulatory frameworks—monitoring platforms, issuing licenses, and enforcing investor protection and anti-financial crime rules. In contrast, many countries prohibit crypto dealings wholly or partially: Saudi Arabia (while developing a full legal framework), Egypt (legal prohibition without license), Kuwait (total ban since July 2023), Jordan (ban on banks and financial institutions), Morocco (ban with ongoing legal reform), and Palestine (official warning from dealing in crypto assets). Tunisia and Iraq are developing balanced frameworks to benefit from the technology while managing risk. These cautious policies reflect regulatory concerns over money laundering, consumer protection, price volatility, and financial stability.

Cybersecurity is a strategic priority in the Arab world, as 12 out of 14 surveyed countries have regulatory/supervisory legislations focused on cybersecurity and its risk management, reflecting increased awareness of accelerating cyber risks. These legislations typically include training programs, definition of the roles of boards and senior management, security breach and business continuity procedures, and independent penetration testing. Those legislations are concentrated in Banking (12 central banks), followed by the non-bank financial sector (9 central banks), with relatively limited coverage in insurance. Despite this progress, the region faces challenges due to high costs of Information systems security techniques and the rapid evolution of IT, necessitating greater investment in security infrastructure and the development of specialized human capacities.

Components covered by central bank legislation related to cybersecurity

Country	Training	Role of Institution's Board and Senior Management	Security Breach Process and Recovery	Independent Testing	Other Elements
UAE	✓	✓	✓	✓	
Bahrain	✓	✓	✓	✓	
Saudi Arabia	✓	✓	✓	✓	✓
Morocco			✓	✓	✓
Yemen					
Tunisia					
Algeria	✓	✓	✓	✓	
Palestine	✓	✓	✓	✓	✓
Kuwait	✓	✓	✓	✓	✓
Libya	✓	✓	✓	✓	
Egypt	✓	✓	✓	✓	
Jordan	✓	✓	✓	✓	✓
Oman	✓	✓	✓	✓	✓
Iraq	✓	✓	✓	✓	

Source: Arab Monetary Fund (2025), Financial Stability Report Questionnaire.

Chapter Eight: Stress Tests (Resilience) and Their Results for the Banking Sector in Arab Countries

Stress tests are a pivotal tool in risk management and early warning systems. They are used to evaluate banks' capacity and resilience to face various risks under exceptional but plausible low probability adverse circumstances. These tests contribute to the development of contingency and recovery plans for banks, ensuring their continued ability to meet obligations and safeguarding the financial system's ongoing role in intermediation and in supporting financial and economic stability.

Arab central banks conduct various stress tests, which can be grouped into main categories: capital adequacy tests covering credit, concentration, market, and operational risks; liquidity risk tests; contagion risk tests between banks and cross-border risks; macro-level and reverse stress tests. These tests consider current conditions marked by uncertainty, including geopolitical developments related to the Gaza war, continued restrictive monetary policy, oil price fluctuations, and challenges tied to debt sustainability.

Stress Test Results by Country

Oman

The Central Bank of Oman conducted a series of stress tests to assess banking system resilience against shocks linked to volatility in crude oil prices and GDP growth. Results showed that capital adequacy in the banking sector remains stable and well above the local regulatory minimum of 13.5% over the next three years, even under more severe scenarios. Liquidity tests showed the sector had a liquidity coverage ratio of 224% in December 2023, exceeding the regulatory minimum of 100%.

Bahrain

The Central Bank of Bahrain applied stress tests using hypothetical scenarios that included rises in non-performing loan (NPL) ratios in major economic sectors, real estate, and the SME sector. The results confirmed the sector's robustness and the absence of risk indicators that threaten banking system in the long-term, demonstrating banks' capacity to absorb severe shocks owing to strong capital positions.

Jordan

The Central Bank of Jordan conducted stress tests assuming a 100% increase in default probability and a 50% drop in bank profits in 2024. The test shows capital adequacy declining from 17.9% to 16.1%, yet still above the regulatory minimum of 12%, confirming banking sector resilience. Concentration risk tests showed most banks could absorb defaults of their largest borrowers, and market risk tests had no significant impact on capital adequacy ratios.

Palestine

Stress tests covered all operating banks in Palestine using a required minimum of 10.5%. Results showed banks could maintain capital adequacy above the required minimum, even after simulating multiple shocks—such as a 70% decline in collateral value and a rise in NPL ratio to 7%. Liquidity tests demonstrated banks' ability to manage cumulative daily withdrawals over four consecutive days before some institutions ran short of liquidity.

Egypt

The Central Bank of Egypt conducted comprehensive stress tests on the top 10 banks—representing about 80% of total assets—covering sovereign and private credit risks, concentration risk, market risk, and operational risk. Results showed risks are low under both baseline and moderate scenarios, while sovereign credit and corporate concentration risks show moderate impact only in the most severe scenario. Liquidity tests affirmed sector resilience under pressure, with local currency liquidity coverage showing low risk across all scenarios and foreign currency liquidity coverage registering moderate risk under moderate and severe scenarios.

United Arab Emirates

The UAE Central Bank carried out stress tests on 15 local banks and 4 foreign banks, representing over 90% of banking sector assets, covering credit, concentration, market, and liquidity risks. Results showed the banking system maintains sound capital levels under both baseline and adverse scenarios, and banks can sustain adequate liquidity and credit flows to the economy while meeting minimum regulatory requirements. Climate risk stress tests projected increased probabilities of default in industrial operations, manufacturing, transport, and oil and gas sectors by 2030 and 2040 under various scenarios.

Morocco

Bank Al-Maghrib ran macro stress tests on 8 major banks representing over 90% of total banking assets using three scenarios. Results indicated average prudential capital ratios would fall by about 69 basis points in the moderate scenario and 105 basis points in the most severe scenario but would remain above regulatory minimums—confirming Moroccan banks' ability to withstand severe shocks.

Iraq

The Central Bank of Iraq applied two macro stress models: the first used NPL ratios and the second liquid assets as dependent variables, studying the impact of shocks in deposits, credit, revenues, expenditures, exchange rate, and inflation. Results showed a negative relationship between the economic growth gap and failure probability, and a positive relationship between lending rates and inflation with failure probability.

Unified Regional Stress Tests

Stress tests were applied to some Arab banking sectors using consistent, graduated severity assumptions, covering Algeria, Palestine, Oman, and Morocco. Results confirmed capital adequacy in these countries was sufficient to absorb losses from multiple types of risk, under all three scenarios, with post-shock capital adequacy ratios remaining above the Basel benchmark (10.5%) based on actual data for December 2023 and 2024.

Overall, stress test results in Arab central banks confirm the resilience of the banking sectors and their ability to withstand various shocks. Banks maintain adequate capital and liquidity levels, enabling them to absorb unexpected losses and continue providing essential banking services. These tests help reinforce financial stability and enhance regulatory and prudential frameworks, ensuring banks can support economic growth even under adverse conditions.

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