

This dissertation comprises three empirical essays on adopting the inflation targeting regime in Egypt. It sets out to answer the following questions: (i) Can the central bank of Egypt (CBE) achieve the goal of price stability under the currently applied monetary targeting regime? (ii) Is the legal independence granted to the CBE under the latest legislation promulgated in 2005 factual? (iii) Does the CBE maintain an implicit target for the FX rate? Does the CBE follow an independent monetary policy? Which variables have priority in the reaction function of the CBE? How far can foreign economic shocks explain the behavior of real GDP and price level in the Egyptian economy compared with domestic economic shocks? And which monetary transmission mechanism channels play a dominant role in the Egyptian economy?

The main conclusions of the study came as follows:

(i) Neither the demand for money function nor the velocity of circulation of money is found stable in Egypt. Thus, the study concludes that the CBE cannot achieve price stability under the currently applied monetary targeting regime.

(ii) The legal independence granted to the CBE under the latest legislation is not factual.

(iii) By estimating the monetary transmission mechanisms (MTMs) using a structural VAR model the conclusions of the study were as follows: (1) The CBE is (implicitly) maintaining a target for the FX rate. (2) The CBE does not apply an independent monetary policy. (3) The federal funds rate and the FX rate, respectively, play the most important role among the foreign and domestic variables that influence the reaction of the CBE. (4) Foreign economic shocks play a dominant role in explaining the behavior of real domestic growth, whereas domestic economic shocks play a dominant role in explaining the behavior of domestic inflation, especially in the short run. (5) The interest rate channel explains the MTMs in the Egyptian economy.