

# **Digital Finance in the Middle East: Examining the Role of Digital Currency in Stable Versus Fragile Economies**

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## **Digital Finance in the Middle East: Examining the Role of Digital Currency in Stable Versus Fragile Economies by Fatima Abdulaziz**

Historically, the Middle East has always been a heterogeneous political landscape, comprising both geopolitically fragile states and wealthy, stable economies. The deployment and impact of digital finance technologies, characterized by stark contrasts between politically stable, resource-rich nations and economically fragile states grappling with systemic crises, sets the stage for a paper that conducts a comparative analysis of the role of digital finance in the region. In fragile economies, cryptocurrencies and stablecoins can enhance financial resilience, providing alternatives to weak or collapsing currencies and constrained conventional banking. Conversely, in stable states, digital currencies underpin innovation, economic diversification, and global competitiveness.

By analysing these contrasting contexts, this paper challenges one-dimensional narratives of the Middle East's financial sector and demonstrates how fintech can simultaneously serve as a lifeline in crisis settings and a strategic tool for growth and innovation. This dual perspective is especially relevant in today's policy discussions, providing insights for leaders looking to use digital finance for both economic resilience and modernization.

### ***Background Research: Digital Currencies and Global Policy Landscape***

There is no doubt that today's economies are becoming increasingly reliant on digitisation, and this fact has been reflected in the rapid adoption of cryptocurrencies, stablecoins, and central bank digital currencies (CBDCs). While these terms are often used interchangeably in popular discussion, they differ significantly in their design, governance, risk, and policy implications.

A cryptocurrency refers to a decentralized digital asset that relies on blockchain technology, with the goal of decentralising and democratising financial services, as it operates without direct issuance by a government or central bank and is often subject to high volatility and speculative use. In contrast, stablecoin aims to remove the volatility factor associated with cryptocurrencies. It is a crypto asset whose value is stabilized relative to a specific asset (Bains & Singh, 2022). Typically, this asset is the US dollar (Bratcher, 2025). In contrast with cryptocurrencies, stablecoins "aim to offer price consistency while still operating on decentralized networks" (Bratcher, 2025). This stability allows for a more effective medium of exchange and store of value. In contrast, a CBDC is government-issued legal tender in digital form, backed by the central bank. While both stablecoins and CBDCs aim to provide the stability that is often absent in cryptocurrencies, there are key differences between the two. The most significant is the fact that stablecoins are issued by private entities, typically fintech companies, and it is up to them to maintain the asset backing of the stablecoin. On the other hand,

CBDCs are liabilities of the issuing central bank and are thus fully backed by it, allowing them to achieve a greater degree of stability than stablecoins. CBDCs are also more traceable and allow for greater monitoring of financial transactions (Bratcher, 2025). Globally, policymakers and central banks have intensified their research and experimentation with digital currencies. A 2024 survey by the Bank for International Settlements (BIS) confirmed that 85 of 93 surveyed central banks were exploring either a retail or wholesale CBDC, or both (Illes et al., 2025). Motivations for digital currency adoption vary but commonly include improving payment efficiency and access (especially where large unbanked populations exist) and modernising financial infrastructures. The BIS’s 2021 report on *Central bank digital currencies for cross-border payments* highlights how CBDCs could help reduce existing frictions in cross-border payments (BIS, 2021).

This global backdrop frames the subsequent enquiry for the Middle East. In the next section, we turn our attention to the classification of different Middle Eastern economies in the region as fragile or stable through the Fragile State Index (FSI).

### ***Defining Heterogeneity and Stability in the Middle East***

In order to differentiate between fragile and stable states in the Middle East, this paper will rely on the Fragile States Index (FSI). Powered by the American think tank Fund for Peace, the FSI is a globally recognized measure of states’ vulnerability to collapse. More specifically, it highlights when political and socioeconomic pressures outweigh a state's capacity to manage those pressures. The FSI gives each country a fragility score on a scale of 0-120, with 120 being the most fragile and 0 being the most stable. The Index uses the Conflict Assessment System Tool (CAST), analysing 12 political, economic, and social indicators through the context of global media, quantitative data sets, and expert validation. The following table shows the Fragile States Index of Middle Eastern countries in 2024:

<b>Country</b>	<b>Total FSI</b>
Syria	108.1
Yemen	106.6
Palestine	97.8
Lebanon	92.7
Iraq	88.6
Turkey	84.0

Iran	82.9
Egypt	82.8
Jordan	74.3
Bahrain	64.2
Saudi Arabia	63.2
Kuwait	49.3
Oman	47.4
Qatar	39.8
United Arab Emirates	34.7

**Table 1:** Fragile States Index for Middle Eastern countries, from most to least fragile.

The next two sections will be dedicated to a case study of one fragile economy and one stable one, and the role of digital finance in each. As shown in Table 1, Lebanon (FSI = 92.7) ranks among the more fragile states in the region, reflecting persistent economic vulnerabilities, governance challenges, and exposure to macroeconomic shocks. Conversely, the United Arab Emirates (FSI = 34.7) is the most stable and institutionally robust economy in the Middle East by FSI standards. These two cases will be studied more closely for their relevance to this paper.

### ***Digital Finance in Fragile Economies***

Of the states with a higher FSI Index, what makes Lebanon an interesting case study is the financial collapse that unfolded after 2019, exposing deep structural weaknesses in its banking system. The crisis created the structural conditions under which turning to digital financial instruments became a logical and, in many cases, necessary alternative to the formal banking system.

The financial crisis in Lebanon has been described as one of the worst economic crises in the world since the mid-nineteenth century (World Bank, 2021). However, it cannot be understood as a sudden shock but rather a culmination of decades of structural imbalance (Snaije, 2022). Snaije argues that the crisis can be traced back to the post-civil-war economic model built in the 1990s, specifically the 1997 fixed-exchange-rate peg of the Lebanese pound to the US dollar. This enabled successive

governments to finance persistent fiscal and trade deficits through continuous foreign-currency inflows, a system which masked the deep vulnerabilities of public finances and the banking sector.

Once these inflows began to slow due to decreased confidence in Lebanon's financial system amid political paralysis, the structure unravelled. The banking sector, long the anchor of the country's financial system, became insolvent (Snaije, 2022).

As the formal banking system deteriorated, digital financial instruments began to fill critical gaps left by the collapse of traditional monetary channels. Notably, this appeared in the form of cryptocurrencies and dollar-denominated stablecoins. A 2021 *Reuters* report revealed that the majority of crypto transactions in Lebanon were made up of stablecoins such as Tether (USDT) and other USD-denominated digital currencies, "whose values always hover around \$1 per unit" (Azhari, 2021). For most users, crypto adoption as a response to currency devaluation was not speculative but adaptive. Stablecoins provided a more reliable store of value than the collapsing Lebanese pound, while Bitcoin and other cryptocurrencies offered accessible channels for international transfers in the absence of functioning banking infrastructure. In this context, digital finance emerged as an improvised resilience mechanism, driven not by technological enthusiasm but by the practical need to navigate a failing financial system.

Beyond these informal forms of digital finance, Lebanon's crisis has also sparked discussion about more structural, state-led digital currency reforms. Hamdar, Saad, and Hamdar (2021) argue that Lebanon's dependence on the US dollar and the collapse of confidence in formal monetary institutions create conditions in which a national, blockchain-based digital currency (what they term the "Digi-Lira") could theoretically strengthen monetary governance and restore trust in financial transactions. Their model proposes a state-backed digital currency built on modified Bitcoin architecture, designed to improve transparency and financial inclusion, and reduce reliance on foreign intermediaries. While largely aspirational, this line of research illustrates that Lebanon's crisis has not only driven grassroots adoption of stablecoins and informal crypto markets, but also opened debate about whether digital financial architecture could play a role in long-term monetary restructuring.

### ***Digital Finance in Stable Economies***

In contrast, the UAE represents a financially stable context in which digitalization is pursued proactively as part of a long-term economic transformation. This is a common theme among the UAE's Gulf Cooperation Council (GCC) neighbours, which are among the Middle East's more stable states. For the purpose of this case study, the UAE will be examined as it has the lowest FSI index score.

The UAE's regulatory and institutional capacity has allowed it to integrate fintech innovation, digital payments, and CBDC development into its broader efforts to enhance financial system efficiency

and global competitiveness. A central pillar of the UAE's digital finance environment is the "Digital Dirham", the nation's soon to be launched CBDC. According to the UAE's central bank, "[the] Digital Dirham is a core element of the CBUAE's multi-year Financial Infrastructure Transformation (FIT) programme" (CBUAE, 2025, p. 1). This is a prominent example of how cryptocurrency is being adopted formally by the state for digitisation and future-proofing purposes. The Digital Dirham's development was initiated in 2023, and its benefits and risks have been heavily considered to inform this development. The adoption of this CBDC could lead to a wide range of benefits. As with all CBDCs, it provides a secure and trusted form of cryptocurrency. The UAE's central bank anticipates the CBDC to "enhance the efficiency of the local payment system [and] safeguard the stability of the monetary system" (CBUAE, 2025, p. 4). Financial expansion is also an expected outcome, both in terms of expanding access to financial services for underbanked individuals as well as regional financial leadership.

Despite its potential benefits, the introduction of the Digital Dirham carries several risks that the CBUAE has explicitly sought to manage. From a digital perspective, increased reliance on these platforms exposes payment infrastructure to cybersecurity vulnerabilities and operational disruptions. There is also the challenge of financial exclusion of individuals lacking access to digital infrastructure or literacy. As for macroeconomic concerns, the CBUAE is concerned that widespread adoption of the Digital Dirham could draw deposits away from commercial banks and intensify liquidity pressures during periods of stress. Additional risks concern monetary policy transmission, since expanding access to non-cash central bank money may alter saving and borrowing behaviours (CBUAE, 2025).

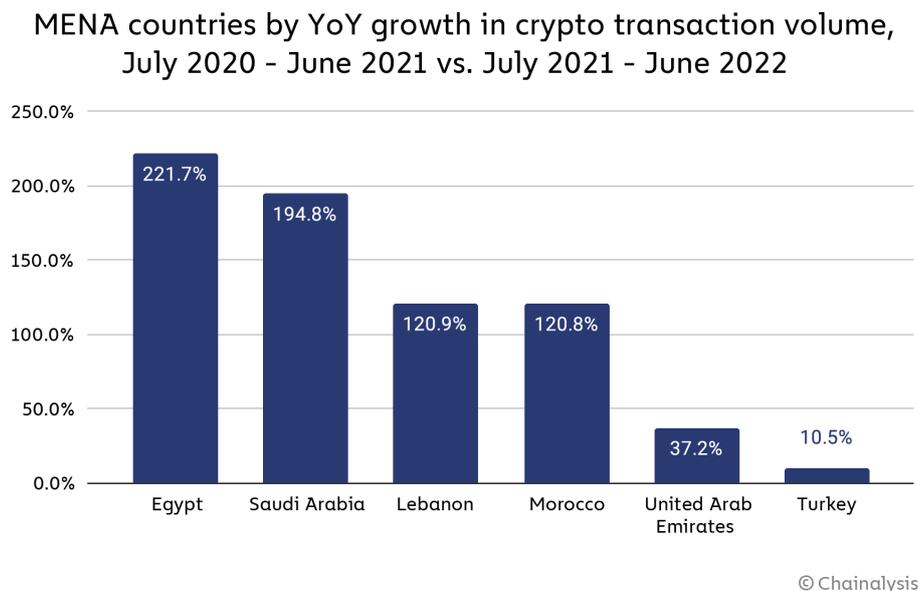
The UAE also played a leading role in the BIS-led Project mBridge, which conducted a multi-jurisdictional live pilot for cross-border CBDC settlement involving the UAE, Hong Kong, China, and Thailand. The project demonstrated that CBDCs could enable near real-time international transfers at lower cost and with improved transparency relative to existing settlement channels (BIS, 2024). Parallel to these initiatives, the UAE has developed one of the region's most advanced fintech ecosystems through regulatory hubs such as the Abu Dhabi Global Market (ADGM) and the Dubai International Financial Centre (DIFC), which provide clear licensing regimes for digital assets, tokenization, and open-banking frameworks. Together, these developments position the UAE as an emerging centre for digital payments integration and cross-border financial innovation.

### ***Comparative Analysis of the Middle East's Digital Finance Landscape***

Across the Middle East, digital finance adoption reflects a clear structural divide between fragile and stable economies. As illustrated by Lebanon and the UAE, the primary drivers of adoption differ sharply: in fragile states, digital finance emerges as a survival mechanism amid currency collapse

and institutional failure, while in stable economies it is used as a tool for long-term growth, innovation, and competitiveness.

The analytical framework developed through the Lebanon and UAE case studies can be applied to the broader Middle East to reveal this clear structural divide. Many other nations also exhibit a similar pattern of digital finance adoption. A 2022 *Reuters* article reported that the MENA (Middle East and North Africa) region had emerged as the world’s “fastest-growing crypto adopter”, specifically mentioning Turkey and Egypt as key players (Saba, 2022). This comes from *Chainalysis’s* 2022 *Geography of Cryptocurrency* report, which stated that in both Turkey and Egypt, heightened crypto usage has coincided with sharp currency devaluations, strengthening the appeal of cryptocurrencies as tools for savings preservation and transactional resilience amid macroeconomic instability (Saba, 2022). In recent years, inflation in Turkey reached approximately 80.5%, while the Egyptian pound depreciated by roughly 13.5% (Chainalysis Team, 2022). This reinforced incentives for local households to seek alternatives to local currency. Egypt also has a large remittances market which accounts for around 8% of its GDP, which initiated efforts to develop crypto-based remittance payments between Egypt and the UAE (Chainalysis Team, 2022). The report states that, “Egypt’s position at the intersection of growing crypto remittances and increased inflationary pressures help explain why it’s the fastest growing crypto market in all of MENA this year” (Chainalysis Team, 2022, para. 4). Turkey, by contrast, remains the largest cryptocurrency market in MENA by total transaction value, with residents receiving approximately \$192 billion in crypto over the same timeframe.



**Figure 1:** year-on-year growth in crypto transaction volume in MENA (source: Chainalysis).

Middle East & North Africa: Countries by cryptocurrency value received, July 2021 - June 2022

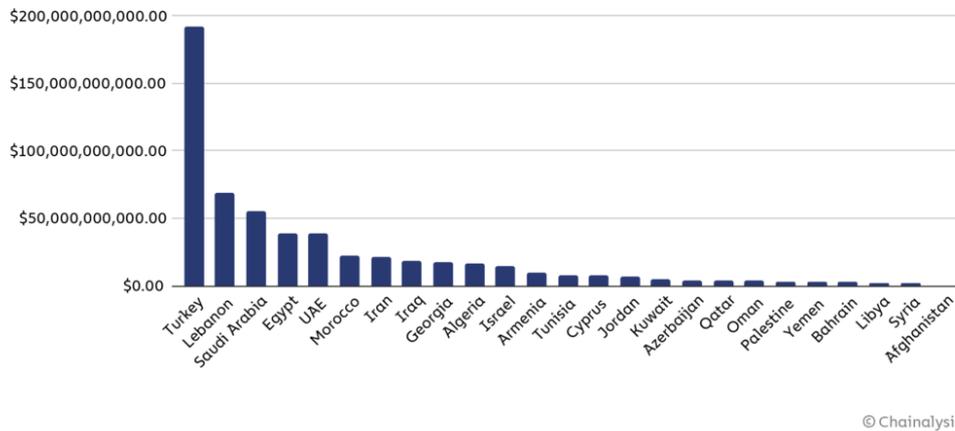


Figure 2: MENA crypto market size by total transaction value (source: Chainalysis).

By contrast, the GCC countries rarely rank highly on grassroots (i.e. organic adoption and development by everyday users rather than institutions) crypto adoption indices, largely due to their higher income levels and purchasing power (Chainalysis Team, 2022). Nonetheless, their role in the regional digital finance ecosystem remains significant (Saba, 2022). As shown in Figure 2, Saudi Arabia and the UAE rank among the largest crypto markets in MENA by transaction value. This reflects a fundamentally different adoption model characterized by institutional participation, regulatory oversight, and strategic state-led integration, rather than crisis-driven household use. Akos Erzse, Senior Manager for Public Policy at the Dubai-based crypto exchange BitOasis, explains that adoption in GCC markets is “not just on the retail or customer side, but also in the ecosystem”. He points out that crypto assets are also largely utilized in the GCC by “young, tech-savvy early adopters” as an investment opportunity, rather than out of need for a replacement to fiat currency (Chainalysis Team, 2022, para. 7). Together, these patterns highlight how similar digital financial tools can serve markedly different functions depending on underlying economic conditions.

**Policy Recommendation and Conclusion**

Policy approaches to digital finance in the Middle East must therefore be context-specific. Fragile economies should prioritize regulatory clarity, financial literacy, and stability before pursuing CBDC implementation, given the risks of politicisation and weak institutional capacity. In such contexts, premature deployment of digital currencies could exacerbate instability rather than mitigate it. By contrast, stable economies should focus on cybersecurity resilience and regional coordination to maximize the benefits of digital finance while safeguarding financial stability. Over time, deeper cross-border integration among stable states could also help set regional standards for digital payments and CBDC governance. Overall, the Middle East demonstrates that digital finance is neither inherently

stabilizing nor destabilizing. Rather, its impact is shaped by the economic and institutional environments in which it is designed and deployed.

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