Fiscal Regimes In and Outside the MENA Region

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Abstract

The 1990s ushered the world not only into a democracy wave, following the collapse of the former Soviet Union, but also into a wave of Fiscal Rules, where the number of countries adopting this fiscal regime steadily rose from only 10 in 1990 to 97 in 2009. Countries that depend on hydrocarbons, in general, tend to suffer from fiscal policies that are highly susceptible to energy price shocks. This provides incentives for implementing fiscal stabilization instruments in the form of fiscal rules. However, the resource-rich but largely democracy-deficient MENA region has been a fiscal rules-free region. Against this backdrop, this paper asks two fundamental questions: Why have MENA countries chosen not to adopt fiscal rules? And what role, if any, might have resource dependence and political institutions played in this outcome? We find that the lack of democracy and the weak systems of political checks and balances that characterize MENA countries appear to have outweighed the positive impacts of oil resources, so that fiscal instability persists despite ample oil revenues. The nascent Arab democracy spring might tip the scale in favor of adopting fiscal rules by emerging democratic governments in the region. However, stronger systems of political checks and balances are also needed and, unfortunately, are not necessarily a certain outcome of the current political changes. . A move toward inflation targeting regimes, as proposed for Tunisia and Egypt, might also provide additional impetus for adopting fiscal rules as the evidence of Chile and other inflation-targeting countries suggests..