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THE IMPACT OF POLITICAL INSTABILITY ON ECONOMIC PERFORMANCE: THE CASE OF THE MIDDLE EAST AND NORTH AFRICA

Abstract:

This study aims to examine the impact of political instability on economic performance for the MENA region. It separately investigates the effects of political instability on economic growth and inflation volatility. First, I examine the multidimensionality of political instability using 19 political instability indicators. Then, by adopting the factor analysis technique, I find that political instability has five dimensions; instability of the political regime, war, government instability, aggression, and aggression (2). Next, to evaluate the inflation volatility, I adopt three GARCH models and choose the best-fitted model for each country. Then, I examine the impact of the five dimensions of political instability on inflation volatility and economic growth separately using a dynamic panel system Generalized Method of Moments GMM model. This study reports evidence of the positive and negative effects of political instability on economic performance. Specifically, the instability of the political regime dimension significantly weakens the economic performance by increases inflation volatility and decreasing economic growth. On the other hand, the dimension of government instability significantly enhances economic performance by reducing inflation volatility and increasing economic growth.

Keywords:

Political instability, MENA region, GMM.