

M. Lorusso: Oil and Fiscal Policy Regimes

We analyse fiscal policy responses in oil rich countries by developing a Bayesian regime-switching panel country analysis. We use parameter restrictions to identify procyclical and countercyclical fiscal policy regimes over the sample in 23 OECD and non-OECD oil producing countries. We find that fiscal policy is switching between pro- and countercyclical regimes multiple times in all countries. Furthermore, for all countries, government oil revenues and expenditures are more volatile in the countercyclical regime than in the procyclical regime. In the procyclical regime, however, fiscal policy is systematically more volatile in the non-OECD countries than in the OECD countries. Our results emphasise that it is both possible and important to separate a procyclical regime from a countercyclical regime when analysing fiscal policy. Doing so, we have encountered new facts about fiscal policy in oil rich countries.