Measuring Fiscal Space in MENA Economies: A Composite Index and Panel Evidence

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Abstract: Traditional debt-to-GDP ratios often obscure the fiscal capacity of resource-dependent economies. This study constructs a composite Fiscal Space Index for eleven MENA economies over 2000–2022 using principal component analysis. The results show that revenue adequacy, rather than debt alone, is the main dimension separating stronger fiscal positions from weaker ones in the region. The index places GCC oil exporters at the top, while structurally constrained oil-importing economies lag behind. Two-way fixed-effects regressions with Driscoll-Kraay standard errors indicate that oil rents are strongly associated with fiscal space, whereas GDP growth and inflation do not show independent significance. These findings suggest that durable fiscal space in MENA depends less on short-term growth fluctuations than on revenue structure, hydrocarbon dependence, and the development of more resilient non-oil fiscal frameworks.

Keywords: Fiscal Space; MENA Economies; Composite Index; Oil Rents; Fiscal Sustainability
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1. Introduction

Fiscal space has become a binding constraint for macroeconomic policy. Governments are expected to respond to shocks, stabilise markets and maintain public services, yet these responses must be financed without weakening debt sustainability. In its conventional policy meaning, fiscal space refers to the room in a government budget that allows additional resources to be used without damaging the sustainability of the government's financial position (Heller, 2005). Capturing this capacity requires more than a debt ratio. Fiscal room depends on revenue mobilisation, debt-servicing costs, external balances and the strength of the underlying fiscal position.

The Middle East and North Africa (MENA) region provides a clear setting for this measurement problem. Since 2000, the region has faced the global financial crisis, the Arab Spring, the 2014–2016 oil price decline, the COVID-19 shock and the recent tightening of global financing conditions. These shocks affected fiscal space through different channels. Hydrocarbon exporters were exposed mainly through oil-revenue cycles, while oil-importing economies faced pressure from weaker revenue mobilisation, external deficits, interest payments and constrained financing conditions. A debt-only framework therefore risks misreading the region's fiscal reality by separating debt stocks from the revenue and external buffers that sustain them.

Recent fiscal-space research increasingly treats fiscal capacity as multidimensional, combining debt sustainability, balance-sheet vulnerability, external risk and market access (Kose et al., 2022). The fiscal-resilience literature also shows that the ability to avoid procyclical retrenchment depends on structural buffers rather than debt levels alone (Aizenman et al., 2019). In the Arab and MENA context, policy frameworks similarly treat domestic revenue mobilisation, expenditure reprioritisation and deficit financing as distinct margins of fiscal room rather than secondary accounting details (Roy et al., 2012; Bloch et al., 2019).

To operationalise these fiscal margins, this paper constructs a composite Fiscal Space Index for eleven MENA economies over 2000–2022. The index combines five components: government debt, government revenue, implied interest burden, current account balance and primary fiscal balance. These variables capture the main channels through which governments gain or lose usable policy room: inherited debt pressure, revenue adequacy, debt-servicing cost, external balance and the fiscal stance before interest payments. By combining these dimensions, the index avoids treating public debt as a sufficient statistic for fiscal capacity.

The study addresses three empirical questions. How does fiscal space vary across MENA economies when measured through a multidimensional index rather than a single debt ratio? Which fiscal components explain most of the variation in fiscal space across the region? Are oil rents, GDP growth and inflation associated with movements in fiscal space after country and year effects are controlled for? These questions are directly linked to regional fiscal diagnosis: if fiscal space in MENA is shaped mainly by revenue adequacy and hydrocarbon dependence, debt-based comparisons provide an incomplete basis for policy assessment.

The paper uses principal component analysis to construct the Fiscal Space Index and entropy weighting as a robustness check. It then estimates a two-way fixed-effects panel model with Driscoll-Kraay standard errors to examine the macroeconomic correlates of fiscal space.

The estimates are interpreted as associations rather than structural causal effects, reflecting the observational nature of the country-level panel.

The paper contributes to the regional public finance literature by providing a transparent and updateable diagnostic tool for measuring fiscal space in MENA. It shifts the analysis from debt ranking to fiscal structure, showing how debt, revenue, interest burden, external balance and primary fiscal stance jointly define usable policy room. The empirical results further show that revenue adequacy and external buffers are central to the region's fiscal-space distribution, while oil rents are more closely associated with movements in the index than headline GDP growth. The policy implication is clear: hydrocarbon exporters need to convert temporary resource revenue into durable non-oil fiscal capacity, while oil-importing economies need stronger revenue mobilisation and lower debt-servicing pressure.

The remainder of the paper is organised as follows. Section 2 reviews the literature on fiscal space measurement and MENA fiscal dynamics. Section 3 describes the data, index construction and panel methodology. Section 4 presents and discusses the empirical results. Section 5 concludes with policy implications.

2. Literature Review

2.1. Fiscal space beyond public debt

Policy discussion often equates fiscal space with gross public debt, yet debt alone cannot capture a government's capacity to mobilise revenue, service obligations, absorb external shocks or sustain expenditure without destabilising the macroeconomic position. A country with moderate debt may still face limited fiscal room if revenue mobilisation is weak, interest payments are high or external balances are fragile.

Fiscal space is therefore better understood as a multidimensional constraint. It refers to the budgetary room available to finance policy objectives without compromising fiscal sustainability (Heller, 2005). Recent cross-country work organises fiscal space around debt sustainability, balance-sheet vulnerability, external risks and market access (Kose et al., 2022). This wider interpretation is especially relevant for emerging and developing economies, where fiscal stress often spreads through financing constraints, revenue instability and external vulnerability rather than debt levels alone.

Fiscal space also shapes fiscal resilience. Governments with limited fiscal room are more likely to cut spending during downturns, reinforcing procyclical fiscal behaviour. Evidence from the fiscal-resilience literature links limited fiscal capacity with expenditure cyclicality, with MENA among the more procyclical regions in government spending behaviour (Aizenman et al., 2019; Ahmad et al., 2021).

2.2. Fiscal margins: revenue, debt service and external buffers

Revenue dynamics explain why debt metrics can become detached from actual fiscal capacity. Public debt is a stock of obligations, while the ability to manage that stock depends on the flow of resources available to the government. Weak revenue mobilisation restricts public investment, social protection and countercyclical policy even when debt ratios do not appear extreme. Evidence on tax effort in emerging markets identifies insufficient revenue collection as a central constraint on fiscal planning (Canavire-Bacarreza et al., 2021), while natural resource endowment can raise public receipts during boom periods without creating a durable tax base (Ndikumana & Abderrahim, 2010).

Arab and MENA fiscal-space frameworks treat domestic revenue mobilisation, expenditure reprioritisation and deficit financing as distinct channels through which governments create fiscal room (Roy et al., 2012). MENA-focused social protection work follows the same logic, assessing fiscal space through internal financing sources such as revenue reforms and expenditure reallocation rather than borrowing capacity alone (Bloch et al., 2019). These approaches support the view that fiscal room is built from several margins, each carrying different political and macroeconomic costs.

Debt-service pressure and external buffers further shape usable fiscal room. High debt is less restrictive when servicing costs remain low, whereas interest payments can narrow budgetary discretion even at moderate debt levels. Recent development-finance discussions show that debt-service costs can crowd out social and infrastructure spending (Organisation for Economic Co-operation and Development [OECD], 2025). External balances also matter in an open and resource-dependent region, where oil exporters often combine high revenue with current account surpluses during commodity booms, while oil importers face tighter constraints when import bills rise or financing conditions deteriorate (UNCTAD, 2025).

2.3. Oil rents and the MENA fiscal divide

MENA's fiscal structure is shaped by a structural divide between hydrocarbon exporters and oil-importing economies. In GCC economies and Algeria, oil and gas revenues have historically financed public employment, subsidies, infrastructure spending and fiscal buffers. This model can widen fiscal space during commodity booms, but it also exposes fiscal capacity to oil-price cycles.

Hydrocarbon dependence has long shaped the region's diversification challenge. Oil revenues supported public-sector expansion and fiscal buffers while delaying the construction of stable non-oil revenue systems (Callen et al., 2014). Evidence on oil-abundant MENA economies further links oil rents, governance and diversification to the wider resource-dependence problem (Matallah & Matallah, 2016). Resource revenue can enlarge the fiscal envelope, but it does not automatically create durable fiscal capacity.

Oil-importing economies face a different structural constraint. Egypt, Jordan, Morocco and Tunisia depend more heavily on domestic revenue, external financing and fiscal consolidation programmes. Their fiscal space is less sensitive to oil windfalls and more sensitive to borrowing costs, current account pressure and debt service. MENA evidence therefore requires multidimensional and heterogeneous approaches: fiscal policy responses to public debt differ between oil exporters and oil importers, while regional fiscal limits also vary by resource status (Slimane et al., 2010; Tazar et al., 2022; Yamout, 2025).

2.4. Positioning of the present study

The literature points to a clear measurement gap. Fiscal space is broader than debt, MENA fiscal structures are divided by oil dependence, and key fiscal margins—revenue, debt service, external balance and primary fiscal stance—move together in ways that a single ratio cannot capture. Existing global datasets provide broad fiscal-space indicators, while Arab and MENA policy frameworks identify several channels through which fiscal room can be created. A compact, region-specific index that captures these co-moving margins for MENA economies over time remains less developed.

This paper addresses that gap by constructing a five-component Fiscal Space Index for eleven MENA economies over 2000–2022. The index combines debt, government revenue, implied interest burden, current account balance and primary fiscal balance. Principal component analysis extracts the common fiscal-space dimension, while entropy weighting tests whether country rankings depend on the weighting method. The paper asks how fiscal-space rankings change when measurement moves beyond debt, which component dominates the index, and whether macroeconomic variables still explain within-country movements once country and year effects are absorbed.

3. Data and Methodology

3.1. Data and sample

This study uses an annual country-level panel of eleven MENA economies over 2000–2022. The main sample includes Algeria, Bahrain, Egypt, Jordan, Kuwait, Morocco, Oman, Qatar, Saudi Arabia, Tunisia and the United Arab Emirates. These countries are selected because they provide consistent fiscal coverage and capture the region's main fiscal divide between hydrocarbon exporters and oil-importing economies. Iran and Iraq are excluded from the main sample because their fiscal and macroeconomic series contain larger reporting gaps and irregularities over the study period, which could reduce cross-country comparability.

The countries are grouped into oil exporters and oil importers. Algeria, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates are classified as oil exporters, while Egypt, Jordan, Morocco and Tunisia are classified as oil importers. This classification is analytical rather than absolute. Bahrain, for example, is formally an oil exporter but has a weaker fiscal profile than most GCC economies, making it useful for assessing whether the index captures within-group fiscal divergence.

Fiscal variables are obtained from the IMF DataMapper and World Economic Outlook databases (International Monetary Fund, 2024a, 2024b). Oil rents are taken from the World Bank World Development Indicators (World Bank, 2024). The final panel contains 253 country-year observations for the Fiscal Space Index components and 241 observations in the regression model because oil rents are unavailable for several country-year observations. Table 1 reports the descriptive statistics.

Table 1. Descriptive statistics

Variable	N	Mean	SD	Min	Max
Debt (% GDP)	253	41.67	28.96	1.50	125.70
Revenue (% GDP)	253	33.28	14.02	16.70	86.11
Interest burden (% GDP)	253	0.74	4.71	-24.93	8.89
Current account (% GDP)	253	5.19	12.71	-16.60	45.50
Primary balance (% GDP)	253	2.48	10.41	-24.73	52.66
Oil rents (% GDP)	241	18.34	15.82	0.00	58.37
Real GDP growth (%)	253	4.06	4.18	-8.98	26.17
Inflation, CPI (%)	253	3.50	3.86	-4.86	29.51

3.2. Fiscal Space Index construction

The Fiscal Space Index is constructed from five components: government debt, government revenue, implied interest burden, current account balance and primary fiscal balance, all

expressed as percentages of GDP. These components reflect the multidimensional view that fiscal capacity depends on debt sustainability, revenue adequacy, financing pressure and external buffers rather than debt alone (Heller, 2005; Kose et al., 2022). They also fit Arab and MENA fiscal-space frameworks, where domestic revenue mobilisation, expenditure reprioritisation and financing constraints are treated as separate fiscal margins (Roy et al., 2012; Bloch et al., 2019).

Debt captures inherited fiscal pressure and enters the index negatively. Government revenue captures the flow of resources available to finance expenditure and service obligations, and enters positively. The implied interest burden reflects debt-servicing pressure and enters negatively. The current account balance captures the external buffer available for macroeconomic adjustment, while the primary balance reflects the fiscal stance before interest payments; both enter positively.

Before aggregation, debt and implied interest burden are sign-reversed so that higher values consistently indicate greater fiscal space. All five indicators are then standardised using z-scores:

$$Z_{itj} = \frac{X_{itj} - \bar{X}_j}{s_j}, \tag{1}$$

where $X_{itj}$is the direction-adjusted value of component $j$for country $i$in year t, $\bar{X}_j$is the sample mean and $s_j$is the sample standard deviation.

Principal component analysis is then used to extract the common fiscal-space dimension from the five standardised components. PCA is suitable because the indicators are conceptually related and empirically co-moving, while no single variable can represent fiscal space on its own. It is also widely used in composite indicator construction when correlated variables need to be summarised into an interpretable measure (Organisation for EconomicCo-operation and Development&European Commission, Joint Research Centre, 2008). The first principal component is used as the main index:

$$PC1_{it} = w_1 Z_{it,Debt} + w_2 Z_{it,Revenue} + w_3 Z_{it,Interest} + w_4 Z_{it,CA} + w_5 Z_{it,Primary}, \tag{2}$$

where $w_j$denotes the loading associated with component$j$. Because the orientation of principal components is statistically arbitrary, the direction of $PC1_{it}$is verified and adjusted so that higher values correspond to stronger fiscal-space conditions. The raw score is then rescaled to a 0–100 range:

$$FSI_{it} = 100 \times \frac{PC1_{it} - \min(PC1)}{\max(PC1) - \min(PC1)}. \tag{3}$$

A higher value indicates stronger fiscal space relative to other MENA country-year observations in the sample. The index is therefore a relative diagnostic measure, not an absolute debt-sustainability threshold. Entropy weighting is used as a robustness check to assess whether country rankings depend on the selected weighting method.

3.3. Panel specification

After constructing the FSI, the study estimates a two-way fixed-effects model to examine its macroeconomic correlates:

$$FSI_{it} = \alpha_i + \lambda_t + \beta_1 OilRents_{it} + \beta_2 GDPGrowth_{it} + \beta_3 Inflation_{it} + \varepsilon_{it}, \tag{4}$$

where FSI_{it} is the PCA-based Fiscal Space Index, $OilRents_{it}$ measures oil rents as a percentage of GDP, $GDPGrowth_{it}$ is real GDP growth and $Inflation_{it}$ is annual CPI inflation. Country fixed effects α_i absorb time-invariant national characteristics such as fiscal institutions, geography, resource endowment and long-run state capacity. Year fixed effects λ_t absorb common shocks, including oil price cycles, global financing conditions and pandemic-related disruptions.

The current account balance is not included as a right-hand-side variable because it is already part of the FSI. Including it again would mechanically relate part of the dependent variable to itself. Governance indicators are not included in the baseline specification because harmonised annual institutional data are not consistently available for all countries and years in the working sample. This is treated as a limitation rather than addressed through a weak proxy.

Driscoll-Kraay standard errors are used because MENA economies are exposed to common shocks and may exhibit cross-sectional dependence and serial correlation (Driscoll & Kraay, 1998). The regression is interpreted as an association model rather than a causal design. Its purpose is to assess whether oil rents, GDP growth and inflation are systematically linked to fiscal space after accounting for country and year effects.

4. Results and Discussion

4.1. Index validation and fiscal-space structure

The PCA results reported in Table 2 indicate that the first principal component captures a strong common dimension across the selected fiscal and external indicators, supporting the construction of a unified Fiscal Space Index. Debt, revenue, implied interest burden, current account balance and primary balance are therefore not isolated fiscal statistics; instead, they reflect an interdependent structure of fiscal capacity in MENA economies.

Table 2. PCA loadings and index weights

Component	PC1 loading	PCA weight (%)
Debt	0.412	16.9
Revenue	0.519	27.0
Interest burden	0.386	14.9
Current account	0.482	23.2
Primary balance	0.424	17.9

Note: Debt and interest burden are sign-reversed before PCA so that higher values indicate greater fiscal space. PC1 explains 63.3% of total variance. PCA weights are calculated from squared loadings.

The loading pattern provides the first substantive finding: regional fiscal space is organised less around debt liabilities alone than around the joint movement of revenue capacity and external buffers. This co-movement reflects the political economy of resource-dependent economies, where hydrocarbon revenues can simultaneously strengthen government receipts, support current account surpluses and improve primary fiscal positions. The FSI therefore captures a revenue-buffer mechanism rather than a static debt ranking.

The multidimensional structure also explains why single-indicator debt metrics remain insufficient. A debt-to-GDP ratio treats fiscal space mainly as an accumulated stock problem, while the PCA evidence shows that fiscal room in MENA is also shaped by flows and buffers. Countries with stronger revenue systems and favourable external positions retain greater policy room, whereas economies with weak revenue mobilisation and high debt-servicing pressure face

tighter constraints even when debt alone does not fully reveal the vulnerability. The entropy-weighting robustness check further confirms that the country rankings are not driven by an arbitrary aggregation rule.

4.2. Country rankings and fiscal heterogeneity

Figure 1 and Table 3 reveal a clear divide between hydrocarbon exporters and oil-importing economies, accompanied by meaningful intra-group variation. The upper part of the FSI distribution is occupied mainly by oil exporters with stronger revenue and external buffers. This advantage is not merely a reflection of lower debt, but the combined effect of resource revenue, primary fiscal strength and external surpluses.

Figure 1. Mean Fiscal Space Index by Country, 2000–2022



Table 3. Fiscal Space Index rankings

Rank	Country	Group	FSI (PCA)	FSI (EW)	Debt (% GDP)
1	Kuwait	Oil exporter	81.7	82.7	10.2
2	Qatar	Oil exporter	44.9	41.5	38.7
3	UAE	Oil exporter	41.3	35.1	15.3
4	Saudi Arabia	Oil exporter	41.1	37.7	30.2
5	Oman	Oil exporter	39.1	36.0	21.4
6	Algeria	Oil exporter	35.7	32.1	26.7
7	Bahrain	Oil exporter	25.1	20.9	51.3
8	Morocco	Oil importer	22.6	18.3	56.9
9	Jordan	Oil importer	21.8	19.1	69.4
10	Tunisia	Oil importer	20.6	15.9	55.5
11	Egypt	Oil importer	16.1	13.0	82.9

Figure 2 clarifies the component-level structure behind these rankings. Stronger fiscal-space positions are associated with the joint presence of revenue adequacy, external balance strength and favourable primary fiscal conditions rather than the dominance of a single indicator. This structure helps explain within-group differences among oil exporters. Kuwait represents the clearest high-buffer case, while Qatar, the United Arab Emirates, Saudi Arabia and Oman remain in the stronger part of the distribution without displaying identical fiscal profiles. This intra-group heterogeneity is consistent with recent regional assessments showing that fiscal adjustment pressures and structural vulnerabilities differ substantially even among oil-exporting economies (International Monetary Fund, 2025).

Figure 2. Fiscal-Space Components by Country, 2000–2022



Bahrain represents the most important exception. Although it is formally a GCC hydrocarbon exporter, its FSI position is closer to the constrained oil-importing group than to its high-buffer peers. Resource endowment alone is therefore insufficient to guarantee policy space. Revenue scale, inherited debt and debt-servicing pressure ultimately determine whether hydrocarbon income becomes usable fiscal room. This divergence is consistent with recent World Bank analysis of the GCC, which stresses that the fiscal and growth effects of public spending depend on efficiency and allocation rather than expenditure scale alone (World Bank, 2025).

Oil-importing economies cluster at the lower end of the FSI distribution because they lack the hydrocarbon revenue channel that supports both fiscal and external buffers. Their fiscal constraint is characterised by a combination of narrow domestic revenue bases, debt-service

burdens and external financing needs. This pattern reinforces the central argument that debt stocks alone cannot identify the full depth of fiscal fragility.

4.3. Fiscal-space dynamics and commodity-cycle exposure

The temporal patterns in Figure 3 show that regional fiscal space is uneven across countries and exposed to external shocks. Oil exporters exhibit stronger cyclical fluctuations because their fiscal and external buffers respond directly to hydrocarbon market conditions. Commodity upswings expand fiscal room, while oil-price downturns and global macroeconomic shocks tighten it. This pattern is consistent with evidence that public finances in resource-exporting economies are closely tied to commodity cycles and that spending adjustment is often asymmetric between boom and bust periods (Arezki & Ismail, 2013; Villafuerte et al., 2010).

Figure 3. Fiscal Space Index Trends by Country Group, 2000–2022



Oil-importing economies follow a flatter and more constrained trajectory. Without commodity-driven revenue windfalls, their fiscal room depends more heavily on domestic revenue mobilisation, borrowing costs and balance-of-payments conditions. The persistent divergence points to two different fiscal-space problems: oil exporters face a volatility problem linked to commodity exposure, while oil importers face a capacity problem rooted in weaker domestic revenue systems and external buffers (International Monetary Fund, 2025).

These distinct constraints require differentiated policy responses. Resource-rich economies need stronger countercyclical saving mechanisms and fiscal frameworks that reduce the dependence of public spending on price cycles. Oil-importing economies need broader revenue reforms and lower debt-servicing pressure. This interpretation is consistent with the fiscal

procyclicality literature, which shows that resource-rich countries often struggle to separate public spending from commodity cycles, although stronger institutions and fiscal rules can reduce this tendency (Céspedes & Velasco, 2014; Frankel et al., 2013). Recent work on resource-rich fiscal frameworks similarly argues for rules that delink annual expenditure from volatile resource revenue and place greater emphasis on shock insurance (Eyraud et al., 2023).

4.4. Regression evidence and macroeconomic correlates

The panel estimates reported in Table 4 substantiate the index-level findings. Oil rents are the only macroeconomic variable in the baseline specification that shows a robust and statistically significant association with the FSI. Within-country movements in fiscal capacity are therefore closely linked to the hydrocarbon revenue channel. This result is consistent with the PCA evidence: since revenue and external buffers dominate the common fiscal-space dimension, changes in oil rents naturally explain a substantial part of within-country variation in the index.

Table 4. Panel regressionresults

Variable	FSI (PCA)
Oil rents (% GDP)	0.931***
	(0.124)
Real GDP growth (%)	-0.020
	(0.130)
Inflation, CPI (%)	-0.107
	(0.074)
Country fixed effects	Yes
Year fixed effects	Yes
Standard errors	Driscoll-Kraay
Observations	241
Countries	11
Within R^2	0.354

Note: Dependent variable is FSI (PCA), scaledfrom 0 to 100. Standard errors in parentheses are Driscoll-Kraaywithmaxlag = 2. *** p < 0.001, ** p < 0.01, * p < 0.05.

Headline GDP growth does not retain independent explanatory power once oil rents and fixed effects are included. In the MENA context, aggregate output growth is less informative than the fiscal structure behind that growth. In hydrocarbon-exporting economies, GDP growth is often linked to oil-sector cycles, which are captured more directly by the resource-rent proxy. In oil-importing economies, growth does not automatically generate usable fiscal room when tax buoyancy is weak or interest payments absorb a large share of public revenue. This pattern is consistent with public finance evidence showing that resource reliance can weaken traditional fiscal transmission channels by shifting government revenue toward non-tax rents rather than broad-based economic activity (Bornhorst et al., 2009; Crivelli & Gupta, 2014).

Inflation carries the expected negative sign but does not emerge as a dominant correlate of fiscal space. Price pressures may signal macroeconomic stress, but they do not systematically explain fiscal-space variation once country characteristics, common shocks and oil-rent dynamics are taken into account. In this sample, the commodity-revenue channel remains the stronger organising force.

4.5. Discussion

The findings indicate that fiscal space in MENA should be diagnosed as a structural capacity constraint rather than a narrow accounting solvency problem. Debt ratios remain necessary, but they are not a sufficient statistic for regional fiscal assessment. Stronger fiscal-space positions are found where revenue streams, primary balances and external accounts reinforce one another, while weaker positions arise where narrow tax bases, high debt-service costs and external vulnerabilities interact.

This diagnosis carries two policy implications. First, fiscal space among oil-rich economies should not be equated with long-run structural solvency. Large fiscal buffers remain vulnerable unless they are converted into broad-based non-oil tax systems, disciplined expenditure frameworks and countercyclical saving mechanisms (Venables, 2016). Well-calibrated fiscal rules can strengthen discipline in resource-rich countries by reducing expenditure procyclicality and protecting non-resource primary balances, although their effectiveness depends on institutional design and enforcement (Apeti et al., 2023).

Second, limited fiscal space among oil-importing economies should not be reduced to the absence of natural resources. Their constraint is structural, combining weak domestic revenue mobilisation, high interest-expenditure burdens and external financing vulnerability. Addressing this constraint requires revenue reform, expenditure prioritisation and debt-cost management rather than repeated reliance on deficit financing, especially as global financing conditions tighten and regional adjustment pressures diverge (International Monetary Fund, 2025; World Bank, 2025).

The broader contribution of these results is the shift from single-ratio assessment to structure-based diagnosis. The FSI does not merely rank countries; it identifies the fiscal margins through which countries gain or lose policy room. In MENA, those margins are strongly shaped by hydrocarbon rents, but they are not reducible to oil status alone. The region's fiscal-space challenge is therefore not only how much debt governments carry, but whether revenue systems, external buffers and primary fiscal positions can sustain policy room when shocks arrive.

5. Conclusion and Policy Implications

This study constructs a multidimensional Fiscal Space Index for eleven MENA economies over 2000–2022, moving regional fiscal assessment beyond conventional debt-to-GDP metrics. By combining public debt, government revenue, implied interest burden, current account balance and primary fiscal balance, the index captures the fiscal margins through which governments gain or lose usable policy room in a resource-dependent region.

The evidence shows that fiscal space in MENA is organised primarily around revenue capacity and external buffers rather than debt accumulation alone. Cross-country patterns reveal the expected divide between hydrocarbon exporters and oil-importing economies, but also important variation within the oil-exporting group. Resource endowment is therefore not sufficient to guarantee fiscal space. Hydrocarbon revenue becomes usable policy room only when supported by manageable debt dynamics, lower servicing pressure and a stronger primary fiscal position. The panel estimates reinforce this interpretation by showing that oil rents are closely associated with movements in the Fiscal Space Index, while GDP growth and inflation do not retain independent significance once country and year effects are absorbed.

The policy implications are differentiated. Oil-exporting economies need to convert temporary resource revenue into durable non-oil fiscal capacity through broader revenue systems, disciplined expenditure frameworks and countercyclical saving mechanisms. Resource wealth supports fiscal capacity only when volatility is managed and rents are allocated prudently (Venables, 2016; Eyraud et al., 2023). Oil-importing economies face a different constraint: weak domestic revenue mobilisation, debt-service burdens and external financing vulnerability. Expanding fiscal space in these economies requires revenue reform, expenditure prioritisation and debt-cost management rather than repeated reliance on deficit financing, especially as regional adjustment pressures remain uneven (International Monetary Fund, 2025).

The index is a relative diagnostic tool, not an absolute debt-sustainability threshold or a causal model of fiscal outcomes. Its contribution lies in identifying the fiscal margins that sustain or restrict policy room. Overall, MENA's fiscal resilience depends not only on how much governments owe, but on whether revenue systems, external buffers and primary fiscal positions can preserve policy room when shocks occur.

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