

IDENTIFYING FISCAL POLICY SHOCKS IN SAUDI ARABIA: AN EMPIRICAL VAR APPROACH

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Abstract

The major source of revenue for financing government expenditures in oil-exporting countries is oil revenues. As a result, governments became more and more dependent on oil revenues to finance their increasing development and recurrent expenditures, therefore Fiscal policy choices have a particularly significant impact on economic performance in these countries.

The aim of this paper is examines the relationship between government spending and non-oil GDP in the case of Saudi Arabia. More specifically, we will estimate a Structural VAR, aiming at identifying fiscal policy shocks and their effects on non-oil GDP growth using an annual data for the period 1968-2013. Furthermore, the impulse response functions (IRFs) and variance decomposition will be estimated in order to calculate the effect on output of a shock to public spending in both the short run and the long run.