Volatility and Transparency of Financial Markets in the MENA Region

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Abstract

Furman-Stiglitz (1998) hypothesize that improved transparency in financial markets intensifies volatility, yet more conventional wisdom exemplified by the International Monetary Fund’s position states that lack of transparency intensifies volatility. Mohtadi-Ruediger (2012) provide a theoretical model which brings the two concepts together, identifying a U-shaped relationship between volatility and transparency. This paper estimates the impact of transparency on financial volatility in MENA countries using a sample of 12 MENA countries over 10 years. The particular focus of the paper is to determine if financial markets in MENA follow different volatility patterns due to the impact of natural resources returns on the general economy. Taking into account the large importance of natural resources we identify a U-shaped pattern showing that financial transparency initially worsens and eventually decreases volatility of financial markets. Thus, the results provide important implications for reform of financial markets in the MENA economies.

Keywords: information, transparency, financial volatility, natural resources, oil