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## Capital Accumulation in a Politically Unstable Region

By RISTO HERRALA\* AND RIMA TURK ARISS\*\*<sup>1</sup>

*We investigate the different channels by which political instability impacts capital accumulation using a unique data of firms from the Middle East and North Africa (MENA), a region that has long suffered from political unrest, and a novel empirical method. We find that political stability shapes firm investment mainly via its influence on credit conditions. Political instability tightens borrowing constraints and impedes capital accumulation, thereby adversely affecting economic growth.*

JEL classification: G31; H1; E2; O16; P48

Keywords: MENA countries; capital accumulation; political stability

The views expressed in this paper are those of the authors and do not necessarily represent those of the IMF or IMF policy.

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