

## The Impact Of Fiscal Policy On Economic Growth In Algeria: Empirical Study (2000-2022)

أثر السياسة المالية على النمو الاقتصادي في الجزائر: دراسة قياسية (2000-2022)

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**Abstract:** This study examines the impact of fiscal policy on economic growth in Algeria over the period 2000–2022, using a multiple regression and (OLS) method. Fiscal policy variables were employed to capture government intervention in the economy, while economic growth was measured by real GDP growth. The empirical results reveal a positive and significant relationship between fiscal policy and economic growth. This finding suggests that expansionary fiscal measures, particularly public expenditure, have played a supportive role in stimulating economic activity in Algeria. The positive effect can be explained by the role of government spending in enhancing aggregate demand, improving infrastructure, and supporting key productive sectors. The results highlight the importance of an efficient fiscal policy framework in promoting sustainable economic growth, especially in developing and resource-dependent economies such as Algeria

**Keys words:** Fiscal Policy, Economic Growth, Public Spending, Ordinary least Squares

**JEL classification codes:** E62; O40; H50 ;C21

**ملخص:** تتناول هذه الدراسة أثر السياسة المالية على النمو الاقتصادي في الجزائر خلال الفترة 2000–2022، باستخدام أسلوب الانحدار المتعدد وطريقة المربعات الصغرى العادية (OLS). تم استخدام متغيرات السياسة المالية لرصد تدخل الحكومة في الاقتصاد، بينما يقاس النمو الاقتصادي بنمو الناتج المحلي الإجمالي الحقيقي. تكشف النتائج التجريبية عن وجود علاقة إيجابية هامة بين السياسة المالية والنمو الاقتصادي. تشير هذه النتيجة إلى أن التدابير المالية التوسعية كالإنفاق العام، قد لعبت دور داعم في تحفيز النشاط الاقتصادي في الجزائر. يمكن تفسير هذا الأثر الإيجابي بدور الإنفاق الحكومي في تعزيز الطلب الكلي، وتحسين البنية التحتية، ودعم القطاعات الإنتاجية الرئيسية. تبرز النتائج أهمية وجود إطار فعال للسياسة المالية في تعزيز النمو الاقتصادي المستدام، وخاصة في الاقتصادات النامية والمعتمدة على الموارد مثل الجزائر.

**الكلمات المفتاحية:** السياسة المالية، النمو الاقتصادي، الإنفاق العمومي، طريقة المربعات الصغرى العادية

**تصنيف JEL:** E62, O40, H50, C21

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## **1-Introduction**

Fiscal policy is a mirror reflecting the state's development in economic activities. The primary objective of this policy is to promote economic development, maintain economic stability, and enhance the country's public wealth through state-initiated programs and plans.

The relationship between fiscal policy and economic growth has been the subject of extensive studies in the field of economics. This topic was promoted notably by the Keynesians. Keynes, the founder of this school, maintained that fiscal policy is more effective than monetary policy due to its efficient and effective tools, represented by public expenditures and tax revenues, and their impact on aggregate demand and growth.

The impact of fiscal policy on economic growth remains a subject of debate in economic theory and empirical research. The issue will receive further attention in the wake of recent calls for new tax cuts and increased spending on security, Medicare, defense, homeland, and social protection programs.

Several studies found that fiscal policy hurts economic growth. Similarly, the results also suggest that the effect may be positive. Fiscal policy affects economic activities through its tools as government spending, public debt, and taxation, and influences employment and aggregate demand growth level. Fiscal policy strengthens policymakers' ability to manage the economy by managing their income and spending power to achieve specific goals that lead to economic growth (Tcherneva, 2011, p. 95)

With the beginning of the new millennium, the Algerian economy witnessed complete stability, which was translated into an improvement in all economic, social, and human development indicators. This is due to the rise in oil prices, which led to the launch of many development projects, especially in the period (2001-2019), in addition to the implementation of several reform strategies and policies by the government, which had a positive impact on economic performance in general and economic growth rates in particular.

This paper explores the relationship between fiscal policy and economic growth in Algeria over the period 2000-2022, we provide a brief overview of the macroeconomic relations between fiscal policy and growth, then we aim to measure the impact of fiscal policy on economic growth in Algeria by analyzing its tools represented by public spending and public revenues, and focus on their role in achieving economic growth in Algeria.

## **2- Theorecal framwork**

### **2 -1- Fiscal Policy: Definitions and Types**

The fiscal policy is a set of goals, directions, procedures ,and activities adopted by the state to influence the national economy and society with the aim of maintaining its general stability, developing it, and addressing its problems and all changing circumstances. (Tcherneva, 2011, p. 96)

John Maynard Keynes defines fiscal policy as a set of rules, methods, means, procedures, and measures taken by the state to manage its financial activity with the greatest possible efficiency, in addition to how to use revenues, expenditures, and public debt to achieve high levels of total production and to prevent the occurrence of economic inflation.

The International Monetary Fund defines it as: the sound management of a country's public finances, through the rational management of its resources and the effective direction of its expenditures, with transparent budget implementation that allows it to integrate into the global economy.

Fiscal policy comes in two basic forms: *Expansionary policy* and *Contractionary policy* , Expansionary fiscal policy designed to stimulate the economy in times of recession and depression , it is called expansionary because it requires the government to expand spending, reduce taxes, or both. this type of fiscal policy aims to put more money into the hands of consumers so they will spend more and stimulate the economy to grow, ensuring that consumers' purchasing power is not weakened.

Contractionary fiscal policy used in certain situations to slow economic growth, which has led to a significant increase in inflation and price increases, this policy based on increasing taxes, reducing spending, or both to reduce growth rates in order to restore balance and achieve stability in the economy. (Blanchard, 2025, p. 10)

### **2- 2- The Relationship between Fiscal Policy and Economic Growth**

The nexus between fiscal policy and economic growth represents a foundational theme in macroeconomic theory and empirical research. Academic literature extensively examines whether fiscal interventions contribute to enhancing economic growth or impose constraints on economic activity.

From a theoretical perspective, fiscal policy functions as a strategic mechanism through which governments influence economic growth by affecting aggregate demand, investment incentives, and the efficient allocation of public

resources. These channels collectively determine the trajectory of economic performance and long-term growth sustainability. (Al-kasasbeh, 2023, p. 17)

Theoretically, fiscal policy can effect economic growth through many channels :

**Impact on the economic situation of the country:** The government can use fiscal policy tools to influence the economic situation of the country. In a boom, the government increases taxes and raises interest rates, which reduces the demand for investment and thus calms the inflationary movement that the country is heading towards. In a recession, the government reduces taxes to encourage consumption and increase incomes and reduces the interest rate, which encourages demand for investment and thus restores stability and balance to the national economy.

**Achieving social justice:** Fiscal policy can contribute to achieving social justice by using tools such as taxes, public spending, and others. For example, the state can increase taxes on the wealthy and reduce them on the poor, or increase public spending on service projects and non-productive sectors of the economy, such as health, education, sports, culture, and other facilities that directly benefit the poor and those with limited income. The state can also assist large families, families that cannot find work, or the unemployed in general, as well as to the elderly, the elderly and others. In this way, the state seeks to redistribute income in favor of the poor. (Nora Lustig, 2025, p. 430)

**Stimulate economic growth :** Fiscal policy affects economic growth through government spending, public debt, and taxation influence employment and aggregate demand growth level. Fiscal policy strengthens policymakers' ability to manage the economy by managing their income and spending power to achieve specific goals and provide countries with economic stability by improving economic conditions and factors in a way that strengthens the state's business and ensures that government decisions are appropriate for economic stability. (Al-kasasbeh, 2023, pp. 17-19)

### **3-Empiricals Studies on Fiscal Policy and Economic Growth**

Over the past few decades, the relationship between fiscal policy and economic growth has attracted considerable attention owing to the growth experiences of several countries. Researchers in the field of economics have sought to address this critical question: whether the fiscal. According to previous research, the relationship between fiscal policy and economic growth is not clear and consistent; in some cases, a positive relationship is observed, while in others, the relationship appears to be negative.

1. (Barro, 1990) examines the relationship between fiscal policy and economic growth within an endogenous growth framework, emphasizing the role of government spending. The study argues that government spending on infrastructure, education, and public services increases the productivity of private capital and thus enhances long-run economic growth. Barro highlights that this positive effect depends critically on the method of financing public spending. Distortionary taxation may reduce incentives for investment and savings, thereby exerting a negative impact on economic growth. (Barro, 1990)
2. (Abdullah Ali Al-Masaeed, Evgeny Tsaregorodtsev, 2018) studied the impact of fiscal policy on the economic growth of Jordan over the period 1990-2010 using multiple linear regression and OLS. They estimate the effect of fiscal policy measures by (government expenditure, government revenue, internal public debt, external public debt), in addition to exports and inflation factors, on the Jordanian GDP growth. The results indicate that government expenditure, government revenue, and exports have a positive and significant impact, internal public debt and inflation have a negative and significant effect, while external public debt has a negative but not significant effect on the Jordanian GDP growth. (Abdullah Ali Al-Masaeed, 2018, p. 145)
3. (Benos, 2009) uses data on 14 EU countries over the period 1990-2006 to examine whether a reallocation of the components of public spending and revenues can enhance economic growth. The results show that public expenditures on infrastructure (economic affairs, general public services) and property rights protection (defense, public order safety) exert a positive impact on growth, government spending on human capital enhancing activities (education, health, housing-community amenities, environment protection, recreation-culture-religion), defense and social protection have a significant growth enhancing effect. These findings provide support for endogenous growth models. (Benos, 2009)
4. (Kim, 2021) In this paper, the author seeks to understand the key features of the Chinese fiscal system and their impact on China's economic growth. The results suggest that local expenditures have a larger effect on output growth than central expenditures growth. The results also reveal that the response of output growth to anticipated changes in taxation was impeded by liquidity constraints. In addition, evidence shows that long-term debt has a significant influence on China's fiscal system, especially on government revenues. (Kim, 2021, pp. 555-582)

5. (Priyadipa, 2022) This study aims to see the effect of fiscal policy (government revenue and expenditure) on economic growth in Indonesia over the period 2005-2020 using vector autoregression (VAR) analysis methods. The results reveal that economic growth and government revenues do not have a reciprocal relationship (causality), while government spending has a reciprocal relationship (causality) with economic growth. The results of the VAR method suggest that government spending has a negative and significant effect on economic growth. (Priyadipa, 2022, p. 35)
6. (Oluwayemisi, 2024) This study explores the impact of fiscal policy on Nigeria's economic growth over the period 1981 -2022. The research investigates the impact of government recurrent expenditure, government capital expenditure, and tax revenue on economic growth. The results show a complex relationship between government expenditures, tax policies, and economic growth outcomes in Nigeria. Government recurrent expenditure had a positive effect on economic growth, while government capital expenditure and Tax revenue harmed economic growth. (Oluwayemisi, 2024, pp. 233-250)
7. (Dahmani, 2021) This research aims to verify the validity of Wagner's Law in Algeria during the period 1970-2018. The author used both linear and nonlinear models (ARDL, NARDL) to investigate this Law's long-run relationship. The results showed a one-way connection from economic growth to government spending, as well as a linear and nonlinear cointegration of the relationship between them. Consequently, this result provides the theoretical support for Wagner's Law in Algeria for the six recognized versions that reflect the validity of this Law during the period of study. (Dahmani, 2021)

#### **4-The Empirical Study: The Impact Of Economic Growth On Fiscal Policy In Algeria over The Period 2000-2022**

This study seeks to examine the impact of fiscal policy on economic growth in Algeria over the period 2000-2022. The analysis relies on gross domestic product as the main indicator of economic growth, while total public expenditure and government revenues are employed as key proxies for fiscal policy. To investigate the relationship between these variables, the study applies the Ordinary Least Squares OLS estimation technique using annual time-series data covering than two decades.

This empirical approach aims to provide a deeper understanding of how fiscal policy has influenced Algeria's economic performance and to assess the

effectiveness of fiscal instruments in promoting sustainable economic growth during the study period.

### **Data and model:**

To measure the impact of fiscal policy on economic growth in Algeria during the period 2000-2022, we will estimate the following model :

$$GDP = \beta_0 + \beta_1 G + \beta_2 R + \varepsilon_t$$

**Table 1. The Study Variables**

| Name | Variable               | Data source |
|------|------------------------|-------------|
| Y    | Gross Domestic Product | ONS         |
| G    | Public Expenditure     | ONS         |
| R    | Public Revenues        | ONS         |

**Y : Gross Domestic Product GDP:** This variable will be used as an indicator of economic growth. It is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the product value .

**Public Expenditure (G):** This variable will be used as an indicator of fiscal policy and can be defined as the sum of household final consumption expenditure, general government final consumption expenditure, and gross capital formation. Data are in constant local currency and are taken from the World Bank database.

**Public Revenues (R):** This variable will be used as an indicator of fiscal policy. It is the total amount of money received by governments to spend on public facilities and projects. The data is in millions of dinars and is taken from the National Bureau of Statistics database.

Table.2 shows the descriptive and statistical measures generated using Eviews provide an initial overview of the behavior of the study variables over the period 2000-2022.

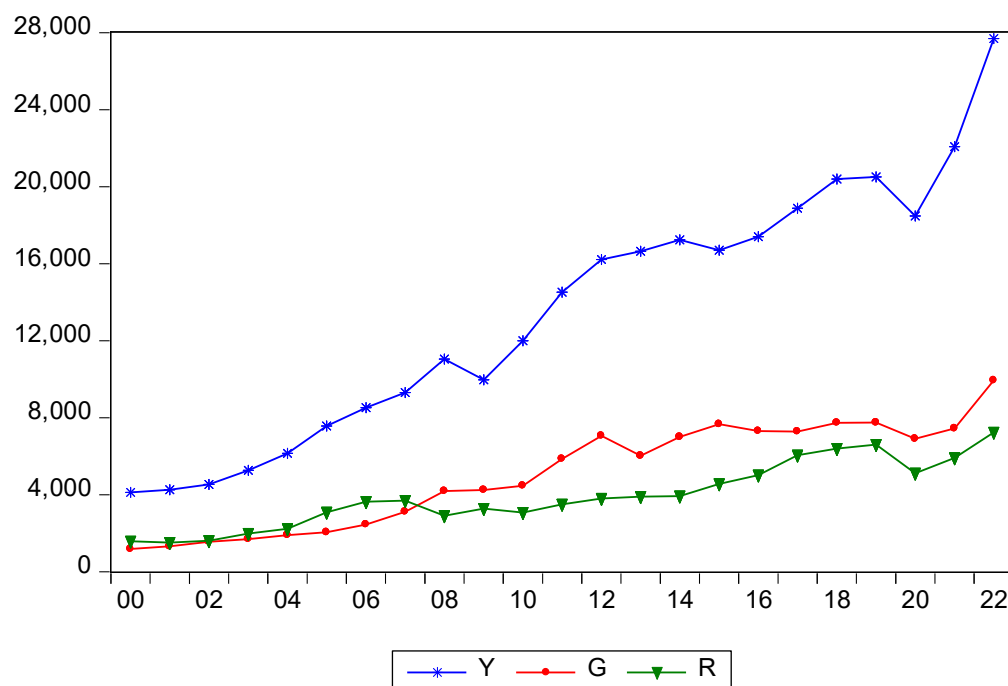
**Table 2.** The Descriptive Statistics Of The Variables

|              | <b>Y</b> | <b>G</b>  | <b>R</b> |
|--------------|----------|-----------|----------|
| Mean         | 13454.78 | 5046.340  | 3936.183 |
| Median       | 14519.80 | 5853.569  | 3687.900 |
| Maximum      | 27688.80 | 9935.653  | 7228.384 |
| Minimum      | 4123.500 | 1178.122  | 1505.526 |
| Std. Dev.    | 6594.220 | 2673.990  | 1682.486 |
| Skewness     | 0.163088 | -0.099982 | 0.333663 |
| Kurtosis     | 2.117665 | 1.656807  | 2.158671 |
| Jarque-Bera  | 0.848035 | 1.767314  | 1.105112 |
| Probability  | 0.654413 | 0.413269  | 0.575477 |
| Observations | 23       | 23        | 23       |

**Source :** Eviews outputs

The plotted time-series graphs illustrate the evolution of these variables across the study period, highlighting notable fluctuations, structural changes, and long-term trends that provide a clearer understanding of fiscal policy and economic growth in Algeria.

**Fig 1.** The evolution of economic growth, public spending, and public revenues in Algeria 2000-2022

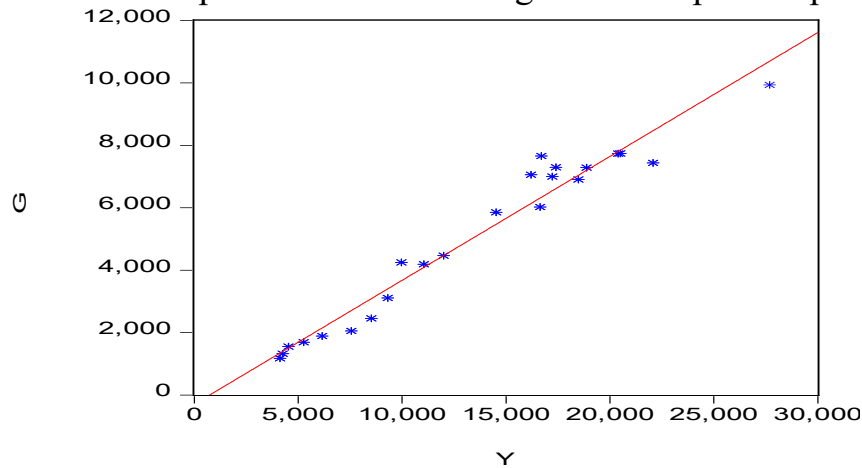


**Source :** Eviews outputs

The scatter plot representing the relationship between public expenditure and GDP in Algeria from 2000 to 2022 shows a strong positive correlation between the two variables. The upward-sloping trend line indicates that

increases in the level of economic output generally accompany increases in government spending. This pattern reflects the expansionary fiscal stance adopted during several phases of the study period, particularly during years of rising oil revenues, which enabled higher levels of public investment and current expenditure. Overall, the graph illustrates that public spending has moved in tandem with GDP, supporting the idea that fiscal policy played a significant role in influencing economic activity in Algeria throughout the 2000–2022 period.

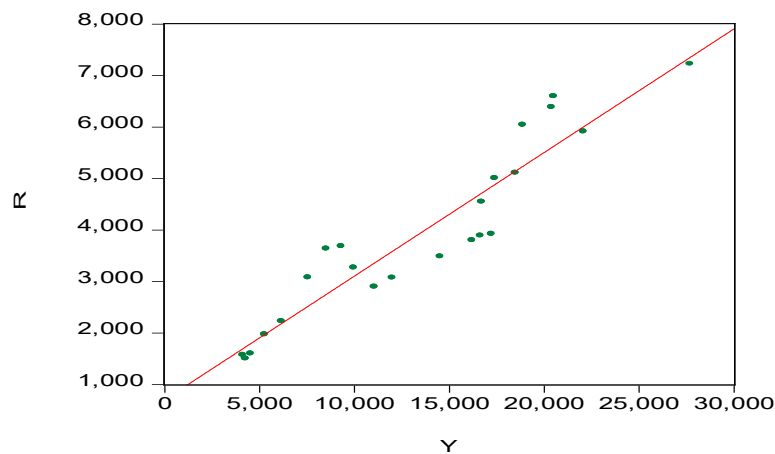
**Fig 2.** The relationship between economic growth and public spending



**Source :** Eviews outputs

The scatter plot illustrating the relationship between public revenues and GDP in Algeria from 2000 to 2022 reveals a clear positive link between the two variables. As government revenues increased, driven by fluctuations in hydrocarbon earnings, tax receipts, and external trade performance, GDP levels tended to rise as well. This relationship indicates that periods of strong revenue inflows provided the state with greater fiscal capacity to finance economic activity, support public spending, and stimulate growth. Although some dispersion is visible around the trend line, particularly in years marked by external shocks or volatility in oil prices, the overall pattern demonstrates that public revenues and GDP moved closely together over the study period. This suggests that revenue performance constituted an important determinant of Algeria's economic growth dynamics during 2000–2022.

**Fig 3.** The relationship between economic growth and public revenues



**Source :** Eviews outputs

## **5- Results and Discutions**

The first step in the OLS method involves testing the stationary of the variables. The results presented in Table 2 based on the Augmented Dickey-Fuller unit test root indicate that all series are stationary at the first differences.

**Table 3.** Unit test root estimation

|                         | <i>At Level</i>            |             |             |             |
|-------------------------|----------------------------|-------------|-------------|-------------|
|                         | <b>Variables</b>           | <b>Y</b>    | <b>G</b>    | <b>R</b>    |
| With constant           | t-statistic                | 0.23        | -0.53       | 0.36        |
|                         | prob                       | 0.96        | 0.86        | 0.97        |
| With constant and trend | t-statistic                | -4.08       | -2.60       | -2.58       |
|                         | prob                       | 0.02        | 0.28        | 0.28        |
| Without With constant   | t-statistic                | 3.27        | 2.07        | 2.82        |
|                         | prob                       | 0.99        | 0.98        | 0.99        |
|                         | <i>At First Differnces</i> |             |             |             |
|                         | <b>Variables</b>           | <b>D(Y)</b> | <b>D(G)</b> | <b>D(R)</b> |
| With constant           | t-statistic                | -4.11       | -4.74       | -3.88       |
|                         | prob                       | 0.005       | 0.001       | 0.00        |
| With constant and trend | t-statistic                | -3.88       | -4.48       | -3.74       |
|                         | prob                       | 0.03        | 0.01        | 0.03        |
| Without With constant   | t-statistic                | -1.53       | -0.90       | -3.34       |
|                         | prob                       | 0.01        | 0.03        | 0.00        |
| Order of integration    |                            | <b>I(1)</b> | <b>I(1)</b> | <b>I(1)</b> |

**Source :** Eviews outputs

To analyze the relationship between the study variables, we estimate the multiple regression model using the ordinary least squares OLS method. This approach helps identify how each independent variable affects the dependnt variable. The estimated coefficients and their significance levels are presented in the following table, providing a clear view of the main results.

**Table 4.** OLS Regression Results

| Dependent Variable: DY                      |             |                       |             |          |
|---------------------------------------------|-------------|-----------------------|-------------|----------|
| Method: Least Squares                       |             |                       |             |          |
| Sample (adjusted): 2001 2022                |             |                       |             |          |
| Included observations: 22 after adjustments |             |                       |             |          |
| Variable                                    | Coefficient | Std. Error            | t-Statistic | Prob.    |
| C                                           | 354.0405    | 254.7742              | 1.389625    | 0.1807   |
| DG                                          | 1.216073    | 0.322873              | 3.766408    | 0.0013   |
| DR                                          | 0.907329    | 0.411857              | 2.203019    | 0.0401   |
| R-squared                                   | 0.612470    | Mean dependent var    |             | 1071.150 |
| Adjusted R-squared                          | 0.571677    | S.D. dependent var    |             | 1566.440 |
| S.E. of regression                          | 1025.179    | Akaike info criterion |             | 16.82925 |
| Sum squared resid                           | 19968839    | Schwarz criterion     |             | 16.97802 |
| Log likelihood                              | -182.1217   | Hannan-Quinn criter.  |             | 16.86429 |
| F-statistic                                 | 15.01420    | Durbin-Watson stat    |             | 2.210521 |
| Prob(F-statistic)                           | 0.000123    |                       |             |          |

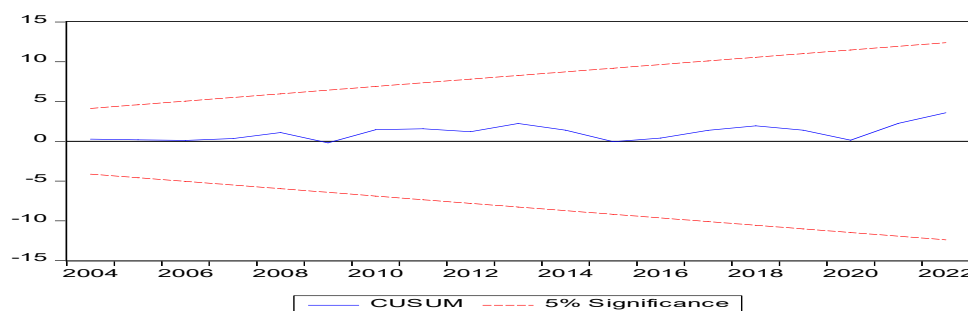
Source : Eviews outputs

Then we conduct various diagnostic tests and stability tests to ascertain the efficiency of the model. the results shown in table 3 reveal that the residuals are free from serial correlation, heteroscedasticity, and normally distributed (All P. values are greater than critical values of 0.05). the cumulative sum of recursive residuals (CUSUM) and the cumulative sum of squares of recursive residuals (CUSUMQ) plots shown in figures 2 indicate that the estimates reported above are structurally stable.

**Table.5 :**Diagnostic Tests

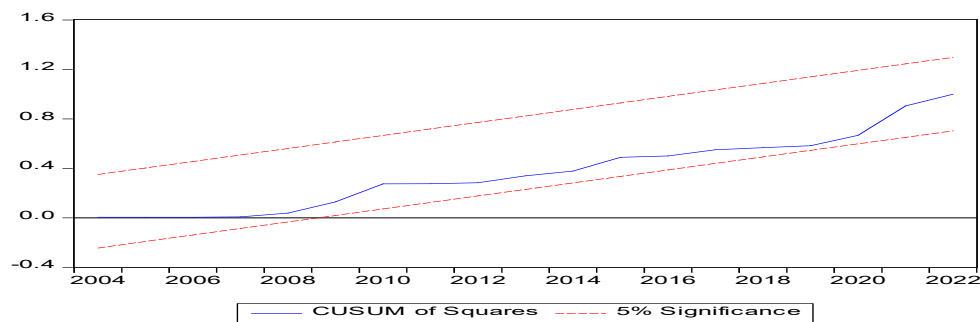
| Serial Correlation | heteroskedasticity | Normality (Jarque-bera) |
|--------------------|--------------------|-------------------------|
| 0.92               | 0.29               | 0.34                    |
| (0.33)             | (0.74)             | (0.84)                  |

Source : Eviews outputs

**Figure 4.A.** The plot of the cumulative sum of recursive residuals

Source : Eviews outputs

**Figure 4.B.** The plot of the cumulative sum of squares recursive residuals



**Source :** Eviews outputs

After confirming the validity of the model through the diagnostic tests performed, the obtained results can be interpreted as follows:

- The value of the coefficient of determination  $R^2=0.61$ , which means that the interpreted variables explain 61% of the changes in the dependent variable.
- Regarding the Fisher test, we note that "Prop (F-statistic) = 0.000", and therefore the model as a whole is important, and the estimated model is able to explain the dependent variable during the period Subject of study.
- We find a significant positive effect of public spending on economic growth. The observed positive relationship aligns with Keynesian principles, as increased public investment in infrastructure and social sectors in Algeria has translated into higher domestic demand and employment during the study period, thereby boosting economic activity and employment in an economy that relies solely on natural resources.
- We find a significant positive impact of public revenues on economic growth, which supports growth by financing these expenditures without resorting to excessive borrowing, thus reducing inflation risks and maintaining financial stability, especially in light of fluctuations in oil prices, which constitute a major source of revenue. This positive impact reflects the efficiency of fiscal policies in converting oil revenues into productive investments.
- The positive impact of both public expenditures and public revenues on Algeria's economic growth over the period 2000–2022 can be interpreted through the country's fiscal structure and economic trajectory. Increasing public spending, particularly on infrastructure, social services, and productive investment, has stimulated aggregate demand and enhanced the economy's productive capacity. At the same time, higher public

revenues, driven largely by hydrocarbon earnings and improved fiscal mobilization, have reinforced the government's ability to finance development projects. These dynamics contributed to sustained GDP growth and improved fiscal resilience, particularly during periods of external shocks such as oil price downturns.

## **8. Conclusion**

In conclusion, Fiscal policy is one of the most important components of Algerian economic policy. Through it, the governments achieve their goals, increase economic situation, and thus achieve their stated economic goals. This is because public expenditures largely reflect the government's effectiveness and the extent of its impact on economic activity.

The study confirms that fiscal policy played a significant and positive role in supporting Algeria's economic growth from 2000 to 2022. Both public expenditures and public revenues contributed meaningfully to stimulating economic activity and improving the overall development trajectory. These results highlight the importance of maintaining a balanced and growth-oriented fiscal framework capable of responding effectively to internal and external shocks.

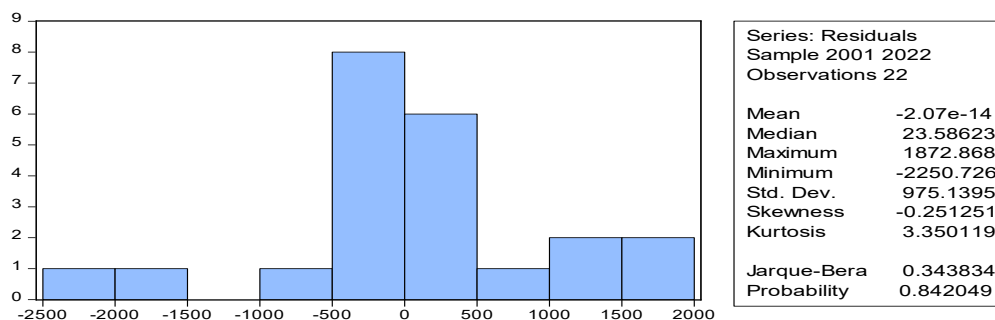
Based on the findings of this study, several recommendations are proposed to enhance the effectiveness of fiscal policy in supporting economic growth in Algeria :

- Enhance the efficiency and targeting of public expenditures to maximize developmental outcomes.

- Diversify public revenues by strengthening non-hydrocarbon tax bases and improving fiscal mobilization.
- Adopt medium-term fiscal planning to reduce vulnerability to fluctuations in global energy prices.
- Promote investment in productive sectors to reduce reliance on public spending as the main growth engine.

**9-Appendices:**

| Dependent Variable: DY                      |             |                       |             |          |
|---------------------------------------------|-------------|-----------------------|-------------|----------|
| Method: Least Squares                       |             |                       |             |          |
| Date: 01/09/26 Time: 11:43                  |             |                       |             |          |
| Sample (adjusted): 2001 2022                |             |                       |             |          |
| Included observations: 22 after adjustments |             |                       |             |          |
| Variable                                    | Coefficient | Std. Error            | t-Statistic | Prob.    |
| C                                           | 354.0405    | 254.7742              | 1.389625    | 0.1807   |
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| F-statistic                                 | 15.01420    | Durbin-Watson stat    |             | 2.210521 |
| Prob(F-statistic)                           | 0.000123    |                       |             |          |



|                                             |          |                     |        |
|---------------------------------------------|----------|---------------------|--------|
| Breusch-Godfrey Serial Correlation LM Test: |          |                     |        |
| F-statistic                                 | 0.929820 | Prob. F(2,17)       | 0.4138 |
| Obs*R-squared                               | 2.169293 | Prob. Chi-Square(2) | 0.3380 |

|                                                |          |                     |        |
|------------------------------------------------|----------|---------------------|--------|
| Heteroskedasticity Test: Breusch-Pagan-Godfrey |          |                     |        |
| F-statistic                                    | 0.294345 | Prob. F(2,19)       | 0.7484 |
| Obs*R-squared                                  | 0.661157 | Prob. Chi-Square(2) | 0.7185 |
| Scaled explained SS                            | 0.579464 | Prob. Chi-Square(2) | 0.7485 |

**10- Citations**

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