Fiscal Policy Effects on Algerian Economic Growth (2015-2021)

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Abstract:

Through the previous study, we conclude that the contribution to economic activity from the measures and application of fiscal policy with setting goals and specifying them within the expected results, and the expansion of public spending applied in Algeria stimulates economic activity, until the growth of GDP,with the inclusion of factors that help to Reaching the objectives of the ruler in influencing the macroeconomic variables.

Through which the fiscal policy on national economic activity was studied and the government's contribution to increasing government spending would positively contribute to increasing the growth of the national economy during the period 2015-2021.

Methodology of the study the inductive approach (descriptive and analytical) based on data and statistics from the annual reports of the Central Bank of Algeria .

The results we conclude that the contribution to economic activity from the measures and application of fiscal policy with setting goals and specifying them within the expected results,and the expansion of public spending applied in Algeria stimulates economic activity, the most important recommendation of the study We must follow the implementation of fiscal policy with its tools and accelerate the pace of economic reform,Activating the role of oversight and independence of the Central Bank by referring to the Monetary Law, Loan 90/10.

Keywords: The National Economy, Fiscal Policy, Economic Activity, The Growth of GDP, Bank of Algeria.

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I. Introduction

The decline in the efficiency of fiscal policy on the national economy has an impact and contribution to the activity of the economy, and through it we must think about using tools that would raise a better level in the national economy, and develop a plan to avoid economic crises and rely on providing an appropriate economic atmosphere that contributes to achieving economic growth as a goal national chief We must address the relationship of fiscal policy and economic activity and the ways in which its tools contribute to it, with the inclusion of factors that help to Reaching the objectives of the ruler in influencing the macroeconomic variables, through which the fiscal policy on national economic activity was studied and the government's contribution to increasing government spending would positively contribute to increasing the growth of the national economy during the period 2015-2021.

- ✓ **Study problem:**

As a major problem, we will discuss the analysis of the change in level of growth of the national economy, in light of fiscal policy adopted by the government, and accordingly we will try as much as possible to answer:

Did development programs contribute in national economic growth ?

This is what we conclude in the sub-questions:

-1- How can Algerian devolvement programs contribute in progressing economic activity ?

-2- How effective are these programs in analyzing economic growth?

- ✓ **Study hypotheses:**

To answer the main problem and based on the main hypothesis the basis of which the development programs contributed to the development of the national economy, and to the extent of their validity lies in relying on the following hypotheses:

-1- There is a direct relationship between fiscal policy and economic activity.

-2- The fiscal policy followed in Algeria has achieving economic growth in the long term.

- ✓ **Objectives of the study:**

The aim of this study is to analyze the impact of financial policy on national economy grouth in the period 2015-2021.

And the most important results obtained and give some solutions that may contribute to the optimal choice of fiscal policy to achieve optimal national economic growth.

- **Study limits:**
  - Spatial boundaries: Algerian economy
  - Time limits: period from 2015 to 2021.
- **Study importance:**

The importance lies in the impact of fiscal policy on the variables of economic activity, on the real GDP rate, which in turn reflects the reality of economic activity by reviewing the growth rate in the hydrocarbon sector and outside the hydrocarbon sector, and the main role of this variable on the analysis and contribution of financial politicians to the national economy.

- **Previousstudies:**

Monetary and financial policies after the global financial crisis of my friend Malika in the Algerian Journal of Globalization No. 01, as well as the letter of the doctor of financial policy and its role in achieving economic balance The case of Algeria 1990-2004 at the University of Algiers 03 for the season 2005-2006 by Dr. Derwasi Massoud. And Dr. LMD’s letter to Dr. Bahaa El-Din Tawil, Hajj Lakhdar University Batna, entitled The Role of Financial and Monetary Policies in Stimulating Economic Growth, a case study of Algeria from 1990-2010 to the 2014-2015 season, an article in the Journal of Economic Studies by Dr. Belkacem Latifa and Dr. Ayyash Zubeir in Volume 04, Issue Three From December 2017.

- **Study Methodology:**

To achieve the goal of this study, we will follow the inductive approach (descriptive and analytical) based on data and statistics from the annual reports of the Central Bank of Algeria, with analysis and interpretation of their figures, and addressing the basics of financial policy.

- **Study plan:**

As a plan for our study of this topic, we divided the study into two main aspects:
Theoretical aspect: which is concerned with the importance of fiscal policy to influence economic activity.
Applied aspect: a study of national economic growth in the period 2015-2021.
In the conclusion, the most important results obtained are presented.

II. Theoretical aspect of the study:

1. Define fiscal policy:

It is the policy of using public financial tools from public spending and revenue programs to move macroeconomic variables such as national output, employment, savings, and investment, in order to achieve the desired effects and avoid undesirable effects on income, output, the level of employment and other economic variables.(182 أحمدعزام، 1988، صفحة)

It is clear that financial policies pass through three channels:

1.1. Financial Policy Channels:

1- Public revenues, from the revenues of the nation’s public property, tax, taxes, zakat and others. It is known that some of these general revenues are earmarked for specific purposes, and some are not.

2- Public spending, which includes all public expenditures of the government and its agencies and bodies, whether they are ordinary or developmental expenditures.

3- Managing the budget deficit (or surplus), how it is financed and the sources of that funding.

2. The main concept of fiscal policy:

It is the role of the government in using taxes and general government spending, because changing taxes affects the purchasing power of individuals and institutions, and this in turn affects the level of aggregate demand in the desired direction, as well as changing government spending affects aggregate demand in the direction desired by the government.

Accordingly, fiscal policy can be defined as a set of methods, rules, procedures and measures taken by the state to manage its financial activity as efficiently as possible, in order to achieve a set of economic, social and political goals within a specified period of time. (43 المطلب، 2003، صفحة)

It also means the way the government follows in planning public spending and managing the means of financing it, as it appears in the state's general budget.

This concept has developed according to the role played by the state in economic activity. The fiscal policy was a neutral policy, but after the emergence of the Keynesian general theory, the fiscal policy became intertwined.

3. **Fiscal Policy Objectives:**

The fiscal policy is one of the most important macroeconomic policies that the government relies on to achieve the goals of society. Perhaps the most important objectives that can be achieved through fiscal policy are:

1 Achieving full employment.

2 Achieving high rates of income growth.

3- Achieving stability in the general level of prices.

4. Achieving justice in the distribution of income.

4. **Financial Policy Tools:** The financial policy tools are as follows:

1- Changing government spending.

2- Changing taxes.

3 Mixing the two together.

This affects the level of aggregate demand in society and, accordingly, affects the level of economic activity in the desired direction.

5. **The most important tools of financial policy:**

1- Business tax policy: The taxes that companies pay to the government affect profits and the amount of investment. Lowering taxes increases aggregate demand and spending on business investment. There are other types of taxes such as indirect taxes, corporate taxes, and customs duties imposed by the state on local goods and services.

2-Government spending: Aggregate demand increases through government spending. Government spending is controlled according to its size and how it is distributed among the various activities within the country. It has a strong impact on these activities, and the impact on some of these activities will affect other related activities.

3- Taxes on individuals, such as income tax, which affects their personal income and how much they can spend, and inject more money into the economy.

6. **Relationship of fiscal policy to economic activity:**

With the continuation of the debate based on the appropriate role of fiscal policy in facilitating economic cycles for many years, the school of thought also calls for the use of transfers, taxes and spending in a balanced way, and to confront the fluctuations of economic activity, mainly due to the imbalance of the market and not interacting with the basic variables and factors. suitable according to some or it harms the economy(صديقي مليكة و علي، 2010، صفحة 91), The relationship between fiscal policy and economic activity in countries is represented in obtaining public revenues from various sources, taking into account the available resources, and generating and distributing them in the form of spending(Khemici, 2012, p. 33). To fill the deficit, it resorts to public lending or cash transfer, with an annual estimate of revenues and expenditures according to realistic statistics, to implement fiscal policy that has an impact on economic activity and predict the expected crises in advance.

7. The role of fiscal policy in achieving economic stability:

Economic stability is achieving full employment of the available economic resources, and avoiding major changes in the general level of prices while maintaining an appropriate real growth rate in the national product, meaning that the concept of economic stability includes two main goals that fiscal policy seeks with other policies to achieve. They are:(سميسم، صفحة 35)

- Maintaining the level of full employment of the available economic resources.
- Achieving an appropriate degree of stability in the general level of prices.

Fiscal policy plays an important role in achieving economic stability, especially at a time of recession or boom, due to its impact on the level of employment, the level of prices, and the level of national income.

8. Fiscal policy and its role in redistributing national income:

The distribution of income in every society is determined by the prevailing form of ownership of the means of production. The distribution is achieved primarily in favor of those who own the means of production, meaning that the process of income distribution is affected by the distribution of ownership of the factors of production and the distribution of income among individuals may not be fair from the point of view of society. In the direction of equitable distribution of wealth among its various members.

9. Fiscal policy and its role in economic development:

As a long-term economic policy to achieve economic growth, it is a process by which the real national income of the economy increases over a long period of time, and if the rate of development is greater than the rate of population growth, the average real per capita income will rise.

The government uses fiscal policy to influence the economy by adjusting revenue levels and spending levels. The state resorts to determining the sources of income and how to spend(حشيش، 1984، صفحة 42), such as employee wages, infrastructure spending projects or various service projects in order to reach levels of economic and social balance. The government aims to follow different fiscal policies in order to increase the GDP and improve the levels of aggregate demand

Taxes affect the economy by determining how much money the government has to spend in certain areas and how much money people have to spend. For example, if the government is trying to stimulate spending among consumers, it can reduce taxes. Reducing taxes provides families with additional money, which the government hopes to spend in turn on goods and services, thus stimulating the economy as a whole.

Spending is used as a fiscal policy tool to push government money into certain sectors that need an economic boost. Anyone who gets those dollars will have extra money to spend and as with taxes, the government hopes the money will be spent on other goods and services.(الشيخ، 1989، صفحة 158)

Among the most important financial policy tools are the following:

10. Activating the role of fiscal policy in economic forecasting:

To develop an effective financial policy in economic activity, economic activity must be forecast through the use of measures and tools to make decisions and develop a financial policy in line with the economic situation.

11. Indications for total caution:

Indicators of total prudence include two main aspects:

1 - The aggregated partial prudence indicators to assess the integrity of the financial sector institutions individually.

2 - Indicators of macroeconomic variables related to the soundness of the financial system as a whole

11.1. Indications for partial caution:(طارق، 2005، صفحة 774.775)

1-Adequacy Capital	ملاءة رأس المال
2-Asset Quality	جودة المنتوجات
3-Management	الإدارة
4-Earnings	الربحية
5-Liquidity	السيولة
6-Sensitivity to Market Risk	الحساسية لمخاطر السوق

11.2. Indicators of macroeconomic variables:

For macroeconomic indicators, including: aggregate growth data, sector growth, balance of payments trends, inflation level and degree of volatility, interest and exchange rates, credit growth and changes in stock and real estate prices, and the vulnerability of financial systems to infection crises.

All of these indicators affect economic activity and the effectiveness of policies to affect macroeconomic variables, which in turn affect economic activity and the extent to which the specific objectives and tools used for this purpose of fiscal policy are achieved

III. The practical aspect of the study:

What distinguishes this period from 2015-2021 is the application of an economic program, the basis of which is to support national economic activity. From this point of view, we try to highlight the extent to which the latter has benefited from these indicators, and based on an important economic study and analysis, which is a fundamental goal that the authorities seek to improve.

Have the determinants of fiscal policy tools succeeded in economic activity?

1. Evolution of the economic growth rate for the period 2015-2018:

What distinguishes this period is the decline in demand for hydrocarbons globally and the impact on the rate of growth of the national economy, starting with achieving a growth of 3.9% of the gross domestic product.

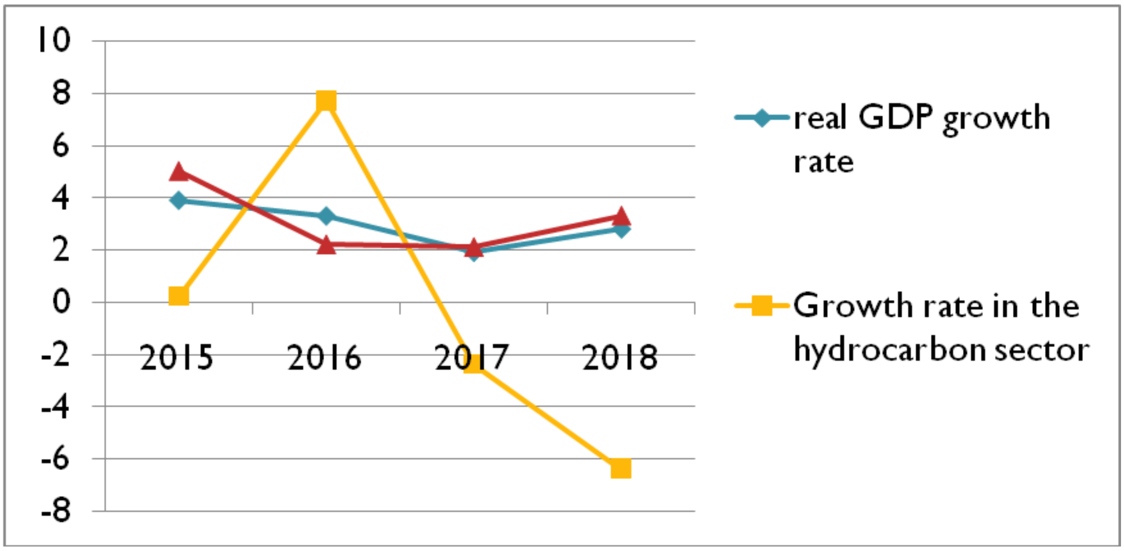
Table No. 01 of the development of growth rates for the period 2015-2018

2018	2017	2016	2015	
2.8	1.9	3.3	3.9	real GDP growth rate
-6.4	-2.4	7.7	0.2	Growth rate in the hydrocarbon sector
3.3	2.1	2.2	5.0	Growth rate in the non-hydrocarbon sector

Source : Banque d’Algérie : annexe rapport annuel 2018, p 111

With regard to the real GDP growth rate, a decrease of 2% is observed, which is due to the decline in the growth rate of the non-hydrocarbon sector to -6.4 percent compared to the base year 2015 and the recorded rate of growth of the non-hydrocarbon sector recorded for the year 2018 is 3.3 percent, which is a significant improvement compared to 2016 and 2017, which stems from the culture of investment outside of hydrocarbon products, and for more clarification we note the following figure that embodies the graphic curve of the path of fluctuation occurring in comparison between 2015 to 2018

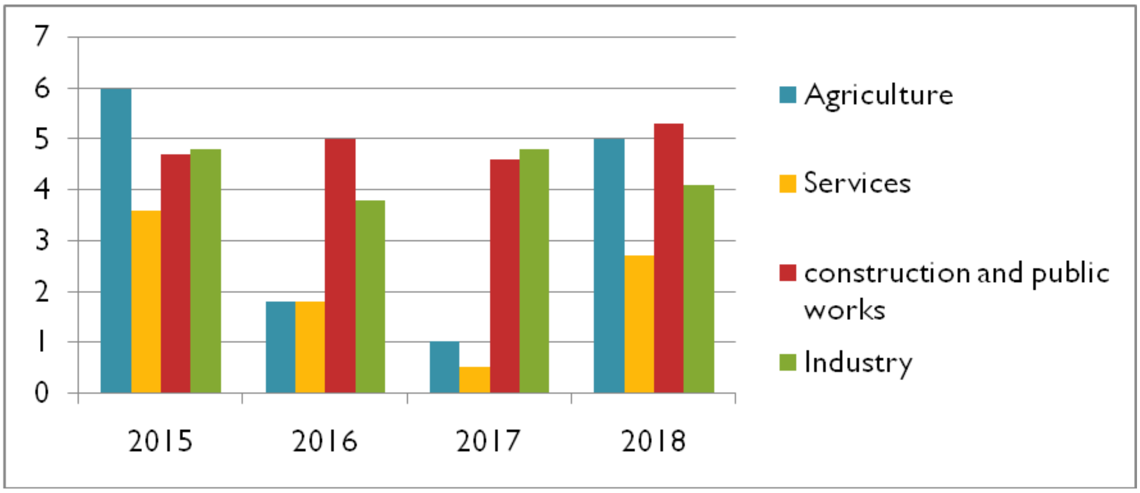
Figure No. 01: Evolution of growth rates in the period 2015-2018



Prepared by the student based on the data: Table No. 01

We will also include the growth of sectors of economic activity in the following figure to simplify the idea

Figure No. (02) Development of the growth of sectors of economic activity for the period 2015-2018



Prepared by the student based on the data.

The graphs show us that in 2015 the agricultural sector support program had an impact compared to 2018, in which it is noted that the construction and public works sector improved with a decline in the services sector for the year 2017 and the agricultural sector and through the government's orientation and political stability a clear impact.

2. **Evolution of the economic growth rate for the period 2019-2020:**

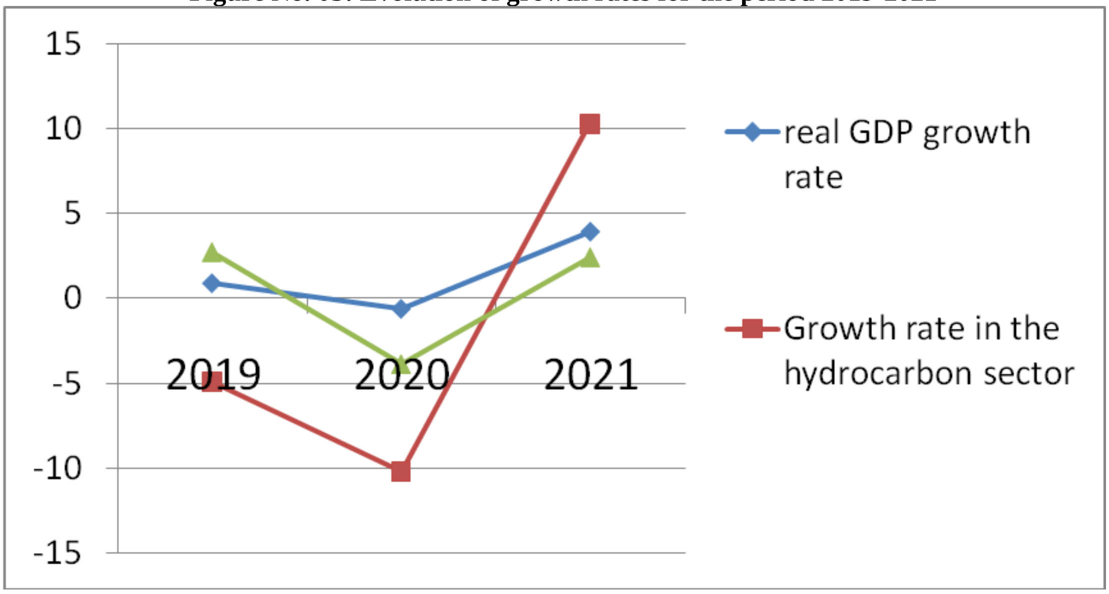
Table No. 02 of the development of growth rates for the period 2019-2021

2021	2020	2019	
3.9	-0.6	0.9	real GDP growth rate
10.3	-10.2	-4.9	Growth rate in the hydrocarbon sector
2.4	-3.9	2.7	Growth rate in the non-hydrocarbon sector

Source: QUARTERLY NATIONAL ACCOUNTS - 4th quarter 2021-P11

The high demand for oil and gas and its prices led to a sharp recovery in the production and export of hydrocarbons in 2021, which led to a sharp decrease in the financial and external financing needs. However, the recovery in the non-fuel sectors of the economy is still incomplete, while inflation is on the rise. Besides the current unexpected hydrocarbon gains, it will necessarily be necessary to speed up the implementation of the government's structural reform program to stimulate recovery, reduce Algeria's dependence on hydrocarbon exports, reduce macroeconomic imbalances sustainably, diversify the economy and create jobs in the private sector.

Figure No. 03: Evolution of growth rates for the period 2019-2021

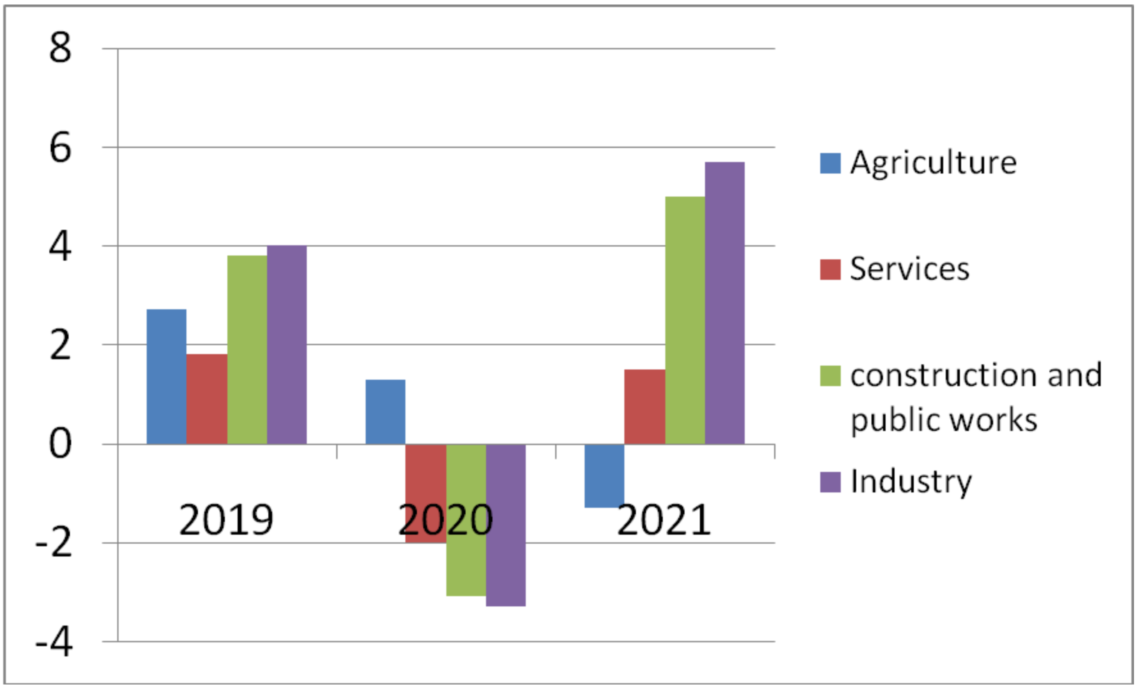


Prepared by the student based on the data: Table No. 02

The economy grew 3.9% year-on-year in the first nine months of 2021, after contracting 5.5% in 2020. As European gas demand increased and OPEC production quotas fell. Agricultural production stagnated due to less rainfall, and activity in the service sector slowed, but growth was driven by industry and construction. In

September 2021, non-hydrocarbon GDP was still 3% below the pre-pandemic level. On the spending side, private consumption and investment are back to pre-pandemic levels.

Figure No. (04) Development of the growth of sectors of economic activity for the period 2019-2021



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Compared to the first period, we find a decline in all fields to a slight increase in the industrial sector, and we do not forget that from the first trio of the year 2019 the year entered the cycle of the epidemic (Corona Covid 19) that affected the economies of the world. It is expected that the gross domestic product will continue its upward trend to return to its level in 2019 in 2022, the growth of investments must also exceed consumption growth, as the latter will be calmer due to the gradual recovery of the labor market and the repercussions of high inflation on the real income of consumers. Hydrocarbon production will increase with the easing of OPEC quotas and Algerian gas demand benefiting from European diversification towards Russian supplies, before declining again, however, this will be offset by modest growth in the non-hydrocarbon sectors

IV. Conclusion:

Through the previous study, we conclude that the contribution to economic activity from the measures and application of fiscal policy with setting goals and specifying them within the expected results, and the expansion of public spending applied in Algeria stimulates economic activity, until the growth of GDP did not affect the answer and due to the weakness of the national economy during the period and the epidemic Global Corona.

Despite the efforts to cover the decline and the decline in the growth of the hydrocarbon sector due to the low demand for it due to the global delinquency, which led Algeria to deepen the study in choosing one of the two policies or a combination of them (financial and monetary) to influence economic activity.

On the side looking at fiscal policy and economic activity, and the extent to which the economic growth rate is analyzed for the period 2015-2021 in Algeria, there is a direct relationship between fiscal policy and economic activity, which confirms the validity of the first hypothesis according to the results of the real GDP growth rate.

By focusing on oil revenues, there is an improvement in public revenue by applying the fiscal policy. We note that the real GDP growth rate has been affected slightly, reflecting part of the validity of the last hypothesis.

With the economy reviving its activity, applying the fiscal policy for the period 2015-2021 in public spending allowed an improvement in the pace of economic growth in the long term, which confirms the main hypothesis.

Economic activity has recovered due to the impact of the monetary and fiscal policy applied throughout the period. We must follow the implementation of fiscal policy with its tools and accelerate the pace of economic reform.

Suggestions:

- In order to ensure the impact of fiscal policy and its tools to raise the pace of changes in national economic activity, we must avoid delays and conflict between objectives.
- -Activating the role of oversight and independence of the Central Bank by referring to the Monetary Law, Loan 90/10
- In the end, we must get out of the renter economy with any alternative economy, especially because of Algeria's strategy in all fields in light of the Russian-European-American conflic

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