

EVALUATION OF THE IMPACT OF FOREIGN DIRECT INVESTMENT FLOWS ON ECONOMIC GROWTH IN ALGERIA: AN ANALYTICAL STUDY ON THE PERIOD (2000-2024)

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Abstract:

This study aims to analyze the relationship between foreign direct investment and economic growth in Algeria, by evaluating the impact of foreign direct investment flows on economic growth through their development, their distribution, and their contribution to gross domestic product and employment opportunities.

The study emphasizes that foreign direct investment flows in Algeria remain below the expected levels despite the available opportunities, which calls for the need to direct foreign investment towards productive sectors with high added value outside the hydrocarbons sector, which contributes to supporting sustainable economic growth.

Keywords: FDI, Flows, economic growth, GDP.

I. : INTRODUCTION:

Foreign direct investment (FDI) is one of the main drivers of economic development in developing countries. Its role is not limited only to the contribution of capital, but also extends to the creation of jobs and the support of economic activity. With the acceleration of global economic changes and the intensification of competition between countries to attract international investment flows, the study of the relationship between FDI and economic growth occupies a central place in the economic literature, especially in rentier economies seeking to diversify their sources of income and reduce their dependence on the hydrocarbon sector.

Algeria belongs to this category of countries that have been making sustained efforts since the early 2000s to attract more foreign investment. However, FDI flows to Algeria remain below the expected levels, due to a set of structural and institutional constraints, such as administrative burdens, difficulties related to economic land and the low diversification of the national productive base. In this context, the problematic of this study revolves around the following question: To what extent do foreign direct investment flows influence the achievement of economic growth in Algeria during the period 2000-2024? In order to answer this problem, the following secondary questions can be formulated: What are the fundamental concepts of foreign direct investment and economic growth? What are the main trends in FDI flows to Algeria during the period studied, and how are they distributed sectorally and geographically? What is the weight of the contribution of FDI to job creation in Algeria? What is the relative share of FDI flows in gross domestic product, and what does it reveal about the nature of their impact on economic growth?

This study is based on the following main hypothesis: Foreign direct investment contributes positively to supporting economic growth in Algeria, but this impact remains variable according to

sectors and periods, which can be measured through its share in the gross domestic product. In order to achieve the objectives of the research and to answer the problem posed, the approach adopted is the descriptive and analytical method, considered as the most appropriate to study the evolution of FDI flows, analyze their sectoral and geographical distribution, as well as evaluate their contribution to gross domestic product, based on statistical data from the competent national and international institutions.

The interest of this study lies in the fact that it combines the theoretical analysis of the concept of foreign direct investment and economic growth with an empirical analysis of the case of Algeria during the period 2000-2024. The work is structured in two main parts : The first part is devoted to the theoretical and conceptual framework of foreign direct investment and economic growth, while the second part focuses on the empirical analysis of the reality of FDI in Algeria during the period 2000-2024, through the study of the evolution of flows, their sectoral and geographical distribution, as well as their effects on employment and economic growth via their relationship with the gross domestic product (GDP), to finally present the main obstacles to foreign direct investment in Algeria.

II. A GENERAL OVERVIEW OF FOREIGN DIRECT INVESTMENT (FDI) AND ECONOMIC GROWTH:

1. FUNDAMENTALS OF FDI:

1.1 DEFINITION OF FDI:

The International Monetary Fund (IMF) defined FDI as when an investor from one country has a lot of control or power over a company in another country. It includes not just owning stock, but also related investments like subsidiaries, affiliated companies, certain types of debt, and reverse investment. The Framework for Direct Investment Relationships (FDIR) is used to classify FDI. It uses control and influence as its main criteria. (IMF, 2009, pp. 100-101)

The United Nations Conference on Trade and Development (UNCTAD) defined foreign direct investment as a long-term investment made by an economic party in one country to an institution in another country, which results in an ongoing relationship that reflects a lasting interest for the investor, in addition to enjoying some degree of control or influence over the management and administration of the institution receiving the investment. (UNCTAD, 2009, p. 243)

FDI, as defined by the Organization for Economic Co-operation and Development (OECD), is when an investor from a particular country invests in an institution located in another country with the aim of establishing a long-term relationship with it, allowing him to participate in its management or influence it. An investor's ownership of 10% or more of the voting rights in this institution is considered a basic indicator of the presence of foreign direct investment, because it reflects the presence of an actual impact and continuity in the relationship between the investor and the institution receiving the investment. (OECD, 2025, p. 32)

The preceding definitions highlight an implicit agreement on the fundamental nature of foreign direct investment (FDI), defining it as a form of international investment undertaken by a foreign investor from the home country in the host country, resulting in the establishment of a long-term investment relationship that enables the investor to exercise a degree of control or managerial influence over the project through full or partial ownership of the capital of the invested enterprise.

1.2 FORMS OF FDI:

According to the OECD classification, FDI takes four main forms: (OECD, 2025, pp. 199-201)

- **GREENFIELD INVESTMENT AND EXTENSIONS OF CAPACITY:** Green investing is the creation of an entirely new project by a foreign investor in a host country. Capacity expansion is an additional investment within an existing organization with the aim of increasing its production or activity.
- **MERGERS AND ACQUISITIONS:** a merger and acquisition is the purchase or merger of a company based in another country by a foreign investor. This type aims to change ownership or control of existing companies instead of creating new projects.
- **CORPORATE AND FINANCIAL RESTRUCTURING:** they are internal processes carried out by multinational companies to reorganize their structure or financial position. For example, it includes transferring assets between branches or converting debts into shares without a significant impact on production.
- **UNALLOCATED WITHIN THE DISAGGREGATION BY TYPE:** these are investment transactions that cannot be included within a specific type due to their ambiguous nature or multiple objectives.

1.3 DETERMINANTS AND MOTIVES OF FDI:

The determinants of foreign direct investment can be classified into three main interrelated axes, namely: (Mohamed, 2024, p. 2260)

- **THE ECONOMIC DETERMINANTS:** economic determinants reflect the general conditions prevailing in the host country and directly influence its attractiveness to foreign investors. They include the availability of basic infrastructure such as transport and communication networks, as well as health, education and energy services. Other factors also play an important role, including the inflation rate, exchange-rate stability, the degree of development of the banking system, and the size of the domestic market and availability of natural resources and labour. These factors influence both the volume of investment and its sectoral distribution.
- **THE LEGAL DETERMINANTS:** the legal determinants concern the existence of a structured and coherent legal framework governing economic activity. Laws must be simple, clear, and free of contradictions, while being applied effectively and transparently on the ground. Moreover, flexibility and continuous modernization of the legal framework are essential elements to improve the business climate and strengthen the country's attractiveness for foreign direct investment.
- **THE POLITICAL DETERMINANTS:** political determinants relate to the degree of political stability in the country. Stability, based on respect for freedoms and human rights, is a determining factor in investors' decisions. Indeed, foreign investors prefer countries with a stable political environment, where the risks of policy change or uncertainty are limited, which guarantees the continuity of their long-term investment activities.

The motivations for FDI can be summarized in a set of factors related to both the investor and the host country, including the following: (Naami Hadda, 2023, pp. 19-20)

- Obtaining raw materials from host countries for use in production.
- Opening new markets for selling products and surplus output.
- Benefiting from lower production costs, especially wages.
- Taking advantage of tax incentives and investment promotion policies.
- Achieving higher profits compared to domestic markets.
- Enhancing competitiveness due to access to advanced technology and capital.

- Diversifying investments and reducing risks.
- Transferring technology and managerial expertise.
- Contributing to reducing unemployment.
- Improving the balance of payments and increasing exports.
- Exploiting local resources (financial and human).
- Strengthening economic linkages between sectors.
- Developing less developed regions.
- Transferring production and marketing techniques.

2. CONCEPTS OF ECONOMIC GROWTH:

Economic growth is a long-standing phenomenon and has become central to countries' economic policies. Economic literature has largely focused on this issue since the 19th century, highlighting that growth, before the Industrial Revolution, depended on several fundamental factors, including population, division of labor, the availability of natural resources and external conditions. Many great economists, such as Adam Smith, David Ricardo, Karl Marx, Joseph Schumpeter, Roy Harrod, and Yves Dumar, have tried to explain the determinants of economic growth and the conditions for its continuity. They stressed the importance of physical and human capital accumulation as the main drivers of growth. However, they concluded that achieving sustainable and sustained economic growth remains a challenge under these traditional models. (BOUYACOUB, 2017, pp. 04-05)

Economic growth refers to the increase in the volume of a country's economic activity over time. This volume is usually measured from the total value of goods and services produced within the economy, known as gross domestic product (GDP). There are two main types of measures of economic growth: nominal and real. Nominal growth is the increase in the monetary value of output over time, taking into account changes in both the quantities produced and price levels. By contrast, real economic growth, which is the most widely used in economic analysis, measures only changes in the volume of output, excluding the effect of price changes. This method of measurement is preferred because it allows to reflect more accurately the actual economic performance and to compare production between different periods in a more objective way. (Australia, n.d, p. 01)

III. The REALITY OF FDI AND ECONOMIC GROWTH IN ALGERIA DURING THE PERIOD 2000-2024:

1. EVOLUTION OF FOREIGN DIRECT INVESTMENT FLOWS (FDI) IN ALGERIA:

Table n°0 1: FDI flows into Algeria during the period 2000-2024 **unit: USD**
Million

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008
FDI	280	1113	1065	638	885	1156	1841	1687	2639
Years	2009	2010	2011	2012	2013	2014	2015	2016	2017
FDI	2747	2300	2571	1500	1692	1502	-538	1638	1230
Years	2018	2019	2020	2021	2022	2023	2024	/	/

Source: Prepared by the authors based on World Bank Data

Based on the table, FDI flows can be divided into five main phases as follows:

▪ **FIRST PHASE: THE START-UP AND LEGISLATIVE REFORM (2000-2004)**

Algeria started from a modest level of 280 million dollars in 2000, before leaping to 1113 million dollars in 2001, nearly tripling in a single year. This sudden surge was not accidental: it resulted from the convergence of several simultaneous factors, including the promulgation of Ordinance 01-03 concerning investment development, which established a clearer and more transparent legal framework; the entry of steel giant ARCELOR MITTAL into the El Hadjar complex with a 49% stake; and the awarding of mobile phone licenses, which attracted Egyptian capital through the Orascom group. This positive momentum, however, did not last: flows fell back to 638 million dollars in 2003, even though Algeria held first place in the Maghreb that year in terms of investment attraction, ahead of Tunisia and Morocco. This early volatility reveals the lack of sustainability and the limited sectoral diversification of investments.

▪ **SECOND PHASE: OIL ABUNDANCE AND THE RISE TO POWER (2005-2011)**

This phase represents the longest period of continuous growth in the history of foreign investment in Algeria, against the backdrop of the major oil boom that reshaped the national economy. The 2006 marked a true turning point, with flows surging to 1841 million dollars, roughly double the 2004 level. This surge was driven by the new hydrocarbons law enacted in March 2005, which restructured relations between foreign companies and SONATRACH by offering more flexible tax and contractual conditions. The banking sector also contributed to this growth, with several foreign banks increasing their capital in Algeria in accordance with the instructions of the Bank of Algeria.

The year 2009 deserves particular analytical attention: investment flows reached 2747 million dollars, a historical record at the time, during the height of the global financial crisis that shook the world's economies. This unusual figure is explained by the fact that the majority of these investments corresponded to contracts signed before the crisis, projects already underway that could not be suspended overnight. This reveals a fundamental characteristic of the investment structure in Algeria: its close dependence on long-term projects in the energy sector, which are distinguished by rigid spending schedules that make them less sensitive to cyclical fluctuations.

The year 2011 saw the historical peak of 2571 million dollars, driven by the rebound in oil prices following the Arab Spring revolutions, which increased the regional risk premium, making Algeria, relatively stable at the time, a preferred investment destination compared to its neighbors.

▪ **THIRD PHASE: THE LEGISLATIVE AND OIL FRACTURE (2012-2016)**

This phase is the most revealing of the link between the legislative framework and investment flows. After the 49/51 rule, enshrined in the 2009 supplementary finance law, de facto transformed Algeria into a hostile environment for foreign investors wishing to retain control and management of their projects, its effects began to gradually manifest themselves in the figures from 2012 onward.

Flows plummeted from 2571 million in 2011 to 1500 million in 2012, a decline of 42% in a single year. This abrupt break cannot be explained by external factors alone: it clearly reflects the departure of major investors from the manufacturing and services sectors. The paradox is that the hydrocarbon sector continued to attract investment, the nature of its extraction contracts differed from the spirit of this rule, meaning that non-oil and gas investment declined far more sharply than the overall figures suggest.

2015 brought a double shock: the price of a barrel collapsed from 115 \$ to less than 40 \$, GDP contracted along with it, domestic demand weakened, and flows fell to -538 million for the first time below the billion-dollar mark in a decade.

▪ **Fourth Phase: The Accumulation of Shocks (2017-2022)**

This phase reveals a deep structural fragility: even during periods of relative calm, flows remained within a range of 2747 to 2571 million, unable to surpass their previous levels and regain the dynamism of 2009- 2011. The most profound shock occurred in 2020, with a contraction of flows to 1144 million dollars. What concerns the analyst is that the decline was not catastrophic in absolute terms, but it occurred within a context of a near-total halt in investor activity worldwide, which means that this level of 1144 million did not reflect genuine attractiveness, but rather the continuation of existing projects instead of an influx of new investments.

The year 2022 was the most concerning: just 242 million (less than a quarter of a billion dollars) a level comparable to that of 1998, in the midst of the civil war. This occurred even as the Algerian economy recorded a trade surplus thanks to soaring gas prices following the Russo-Ukrainian war. This striking contrast between abundant rent-seeking revenues and the scarcity of foreign investment embodies the deepest contradiction of the Algerian economic model.

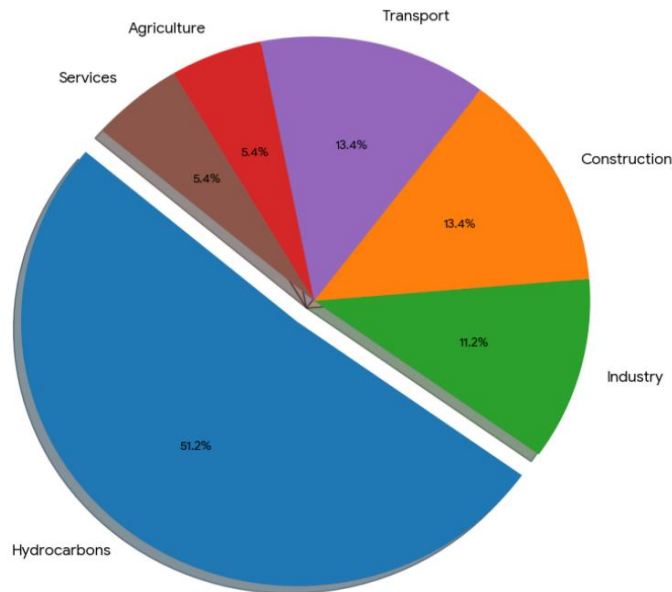
▪ **FIFTH PHASE: THE CAUTIOUS RECOVERY (2023–2024)**

The rebound to 1214 million in 2023 and then to 1226 in 2024 warrants cautious optimism. On the positive side, this recovery is taking place within a challenging international context where global investment flows have declined by 11%, meaning that Algeria is swimming against the tide. The 2022 investment law, which repealed the 49/51 rule in non-strategic sectors and established a digital one-stop shop for investors, has helped restore some confidence.

On the reserves side, 1226 million in 2024 remains below the levels reached in 2006-2007, even though the Algerian economy is now three times larger. This means that if Algeria wishes to return to a relative level comparable to its 2009 peak, it would need flows exceeding 4 billion dollars per year, which is nearly triple its current level.

2. The sectoral distribution of Foreign Direct Investment (FDI) in Algeria :

Figure n° 01 the sectoral structure of FDI in Algeria during the period 2000-2024

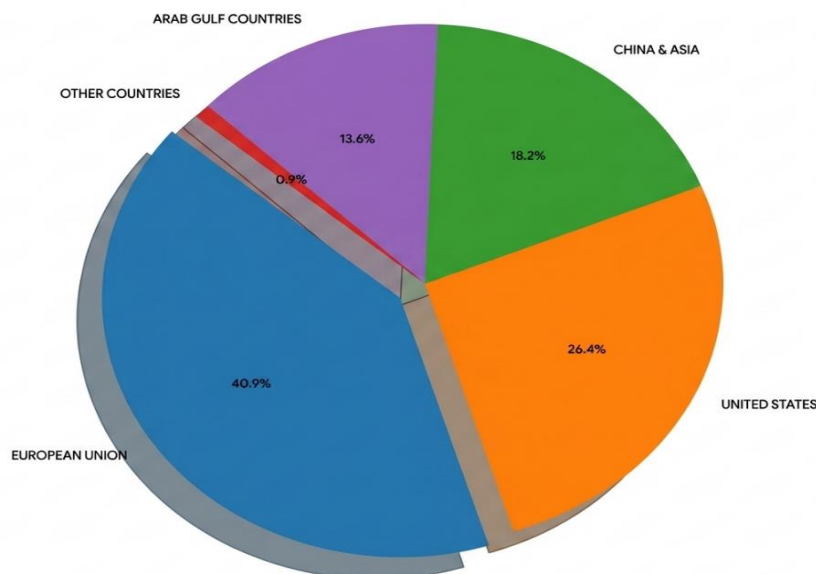


Source: Prepared by the authors based on data from the Algerian Agency for Investment promotion (AAPI), the Bank of Algeria, and United Nations conference on trade and Development (UNCTAD).

The empirical data illustrated by the graph highlight a "**structural sectoral polarization**" of foreign direct investment flows in Algeria over the last quarter century. The hydrocarbon sector remains the major anchor of economic attractiveness with a predominant share of 51.2%, which corroborates the prevalence of a resource-driven growth model. As a corollary, the emergence of the transport and construction sectors (13.4% respectively) reflects a direct correlation with cycles of massive public investment in basic infrastructure. However, the marginal contribution of industry (11.2%), agriculture and services (5.4% each) reveals a persistence of entry barriers in high value-added segments. In conclusion, the transition trajectory toward a diversified economy remains at the "latent mutation" stage, necessitating an overhaul of strategic incentives to stimulate non-rent productive sectors.

3. The geographical distribution of Foreign Direct Investment (FDI) in Algeria :

Figure n° 02: Sectoral Distribution of FDI in Algeria (2000–2024)



Source: Prepared by the authors based on data from the Algerian Agency for Investment promotion (AAPI), the Bank of Algeria, and United Nations conference on trade and Development (UNCTAD).

Through the graphical representation, the geographical mapping of FDI flows to Algeria (2000-2024) reveals a "structural dependence on traditional partners" along with a strategic reorientation towards emerging powers. The European Union maintains its leading position with 40.9% of the shares, illustrating the depth of historical ties and proximity. The United States follows with 26.4%, mainly driven by the energy sector. Moreover, the rise of China and Asia (18.2%) reflects a successful pivot to the East. Finally, the contribution of the Gulf countries (13.6%) highlights a targeted interest, while the rest of the world remains marginal (0.9%), suggesting the need for increased diversification of capital sources to mitigate the risks of geographical concentration.

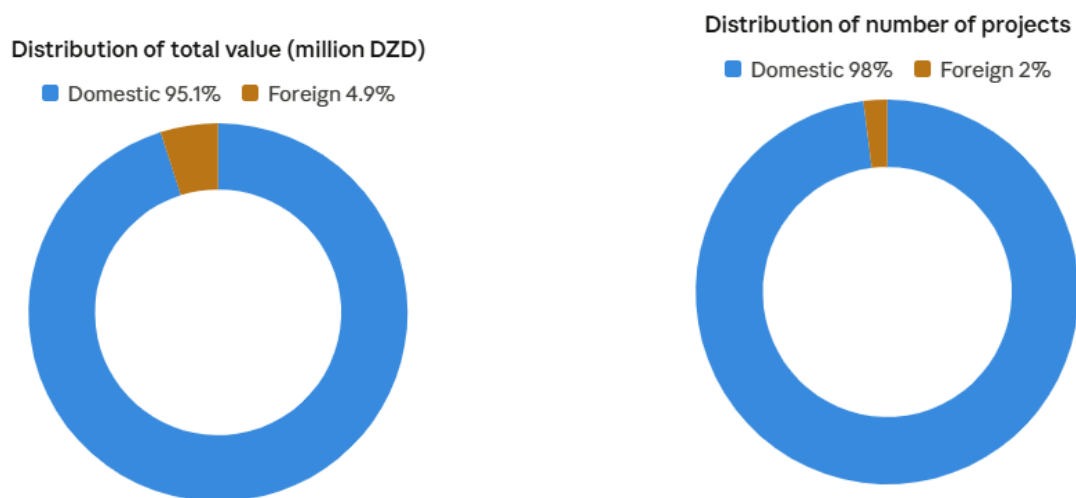
4. CONTRIBUTION OF FDI TO JOB CREATION :

Table n°02 : Jobs created by FDI and domestic investment in Algeria 2024

INVESTMENT TYPE	NUMBER OF PROJECT	%	AMOUNT (MILLION DA)	%	NUMBER OF JOBS	%
DOMESTIC INVESTMENT	11 570	98	4 500 000	95	262 400	92
FDI	218	2	230 000	5	22 600	8
TOTAL	11788	100	4 730 000	100	285 000	100

Source: Prepared by the authors based on AAPI data

Figure n° 03: distribution of domestic vs. FDI in Algeria- 2024



Source: Prepared by the authors based on the data presented in the table n°02

The data presented in the table and the graph highlight a clear dominance of domestic investment in the structure of investments in Algeria during the period studied. Indeed, it represents about 98% of the total number of projects and 95% of the overall value of investments, in addition to its majority contribution to job creation with more than 92%. This situation reflects the persistence of the central role of national capital in the economic dynamics of the country, indicating that economic growth in Algeria is still largely based on internal resources and on national economic actors, whether public or private.

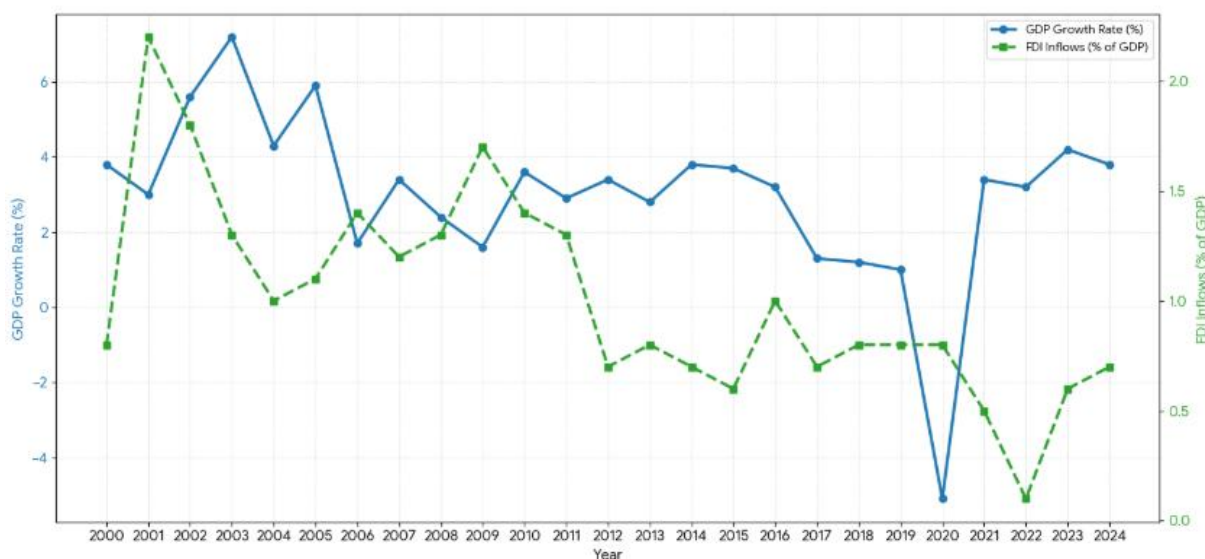
Moreover, foreign direct investment (FDI) appears to be relatively limited in quantitative terms, with only 2% of the total number of projects and 5% of the overall value of investments. However, this small share should not hide its qualitative importance. Indeed, FDI is often characterized by capital- and technology-intensive projects, which may explain its relatively higher contribution to job creation (8%) compared to its financial share (5%). This suggests a certain effectiveness of foreign investment in certain targeted sectors.

In addition, this unbalanced distribution between domestic and foreign investment reveals the existence of structural constraints limiting the attractiveness of the Algerian economy for foreign capital, in particular administrative rigidities, obstacles related to the business climate and difficulties in financing and capital transfer. Moreover, the sectoral concentration of FDI in restricted fields limits its impact on economic diversification.

Thus, the Algerian economy remains in a transitional phase where domestic investment is the main engine of growth, while FDI plays a complementary role but still insufficient to induce a deep structural transformation. Therefore, the improvement of the business and the continuation of institutional reforms appear essential in order to strengthen the attractiveness of the country and to direct foreign investments towards sectors with high added value, climate capable of supporting sustainable and diversified growth.

5. ANALYSIS OF THE IMPACT OF FOREIGN DIRECT INVESTMENT ON GDP IN ALGERIA DURING THE PERIOD 2000–2024:

Figure n° 03: Sectoral Distribution of FDI in Algeria (2000–2024)



Source: Prepared by authors based on World Bank Data.

Through the double graph combining the economic growth rate and FDI flows as a percentage of gross domestic product in Algeria during the period (2000–2024), several analytical findings can be identified:

▪ **LOW CORRELATION BETWEEN THE TWO VARIABLES (DECOUPLING EFFECT):**

The graph shows that the evolution of FDI (green curve) does not systematically follow that of economic growth (blue curve). For example, in 2003, economic growth exceeded 7%, while FDI flows did not experience a comparable dynamic. This decoupling indicates that growth in Algeria is mainly driven by the hydrocarbon sector and public spending, rather than by the attractiveness of foreign investment.

▪ **SENSITIVITY TO REFORMS AND STRUCTURAL TRANSFORMATIONS:**

The period 2000–2002 is characterized by a relative recovery of FDI, reaching about 2.2% of GDP in 2001, supported by the first legislative reforms (Ordinance 01-03) and the launch of some privatizations.

However, from 2012 onwards, a downward trend is taking place, with levels persistently below 1%, reflecting the negative impact of regulatory constraints, notably the 49/51 rule, on the attractiveness of the business climate.

▪ **IMPACT OF GLOBAL ECONOMIC CRISES (2020–2022):**

During the 2020 health crisis, the economy recorded a significant contraction of about -5.1%, while FDI did not shrink by the same amount, reflecting their dependence on long-term projects, particularly in the energy sector.

On the other hand, the year 2022 highlights an anomaly, with a historically low level of FDI despite the improvement in macroeconomic indicators, revealing a gap between cyclical performance and the structural attractiveness of the economy.

▪ **PRUDENT RECOVERY (2023–2024):**

The recent period shows a moderate improvement in both indicators, with economic growth stabilizing around 4% and a gradual increase in FDI reaching about 0.7%. This trend reflects the

initial positive effects of the new investment law (2022), aimed at simplifying procedures and modernizing the single window.

Analytical conclusion

The graph highlights an Algerian economy marked by growth highly dependent on energy rent. At the same time, FDI remains constrained by institutional and structural constraints related to the business climate, which explains their limited contribution to sustainable economic diversification outside the hydrocarbon sector.

Through the above, it can be stated that the graph clearly reflects the nature of the Algerian economy, characterized by growth highly dependent on energy rent, where economic performance is mainly determined by the fluctuations of the hydrocarbon sector. On the other hand, foreign direct investment remains limited by structural and institutional factors related to the business climate and the regulatory framework, which restricts their ability to play a central and sustainable role in diversifying the economy and achieving growth outside the energy sector.

6. OBSTACLES TO FDI IN ALGERIA:

Foreign direct investment (FDI) in Algeria may face several obstacles that could reduce the attractiveness of the business environment and influence the decisions of foreign investors, which negatively impacts on FDI flows to the country. Here are the main obstacles⁹:

- Rule 49/51: this rule limited the participation of foreign investors in projects, thus reducing their decision-making autonomy and affecting the attractiveness of the Algerian market.
- Delays in obtaining licenses and work permits: bureaucracy and slow administrative procedures are major obstacles, delaying the launch of investment projects.
- The weakness of law enforcement: despite the existence of investment laws, insufficient enforcement and legal instability reduce confidence among foreign investors.
- The lack of clarity in policies and regulations: frequent changes in laws and unclear procedures can create uncertainty for foreign investors.
- Exchange rate volatility and currency risks: fluctuations in the local currency influence profits transferred abroad, thereby increasing the financial risks associated with investment.
- Corruption: corruption, in various forms such as bribery, favoritism and undue influence, leads to higher investment costs and reduced transparency.
- Difficulties in accessing industrial land: foreign companies face difficulties in obtaining suitable industrial land or in operating it in a stable manner.
- The lack of skilled labor: some sectors suffer from a lack of skills and specialized expertise needed for foreign investment.
- The weakness of logistics and port services: inadequate logistics infrastructure can lead to high transport costs and slow down trade.
- Restrictions on the repatriation of profits and competition: financial constraints and strong market competition can influence the decisions of foreign investors.

IV. CONCLUSION:

From the above, it can be affirmed that the relationship between foreign direct investment (FDI) and economic growth is based on a logic of interaction and mutual influence, rather than on a one-way relationship. Indeed, while foreign investment can contribute to stimulating economic growth,

the latter also plays an important role in strengthening a country's ability to attract more foreign investment flows, as international capital tends to flow to economies characterized by stable and positive growth rates. In the case of Algeria, despite the availability of various investment opportunities and advantages, as well as certain economic and tax incentives, foreign direct investment flows remain below the level targeted by national economic policies.

This situation reflects a gap between the existing potential and the results achieved, in an international environment marked by intense competition between developed and developing countries to attract this type of investment, considered one of the main sources of external financing and one of the most closely linked to the requirements of development. Therefore, strengthening the role of foreign direct investment in Algeria requires the establishment of a more stable and attractive investment environment, making it possible to attract larger investment flows and direct them to productive sectors with high added value outside the hydrocarbons sector. Such efforts would help to strengthen economic growth and support a comprehensive and sustainable development process.

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