
**FOREIGN CAPITAL INFLOWS, DOMESTIC
SAVINGS AND ECONOMIC GROWTH
THE CASE OF ALGERIA**

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DEDICATIONS

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ABSTRACT

Understanding the growth process is central to development economics. Analyzing and interpreting the determinants of growth, either the process has worked or failed in countries is ultimately an empirical issue. This study attempts to explain this issue not limited to the economic impact of FCI, domestic savings, and Interest rate on economic growth in Algeria but also on how they are related in a dynamic framework. The model for analysis was developed based on the Two Gaps economic growth model. The analysis of this relationship is based on annual time series data for the period of 1980-2010. This study employs approaches in its estimation of the dynamic relationship vector error correction model and granger causality. The results show that domestic savings have a positive and significant effect, but foreign capital inflows are insignificant to Algeria's economic growth in the long run. Also, the interest rate has significant influence towards economic growth in Algeria in the long run. The insignificant impact of FCI on economic Growth in Algeria. Could be due to the fact that FCI in Algeria during the period of the study is quite small. The finding, particularly on interest rates and savings has some policy relevance at the macro development perspective.

ABSTRAK

Memahami proses pertumbuhan adalah keutamaen dalam ekonomi pembangunan. Menganalisa dan menginterpretasi penentu pertumbuhan, sama ada proses itu berjaya atau gagal di merupakan isu empirik. Kajian ini bertujuan untuk menjelaskan isu ini bukan sahaja terhadap kesan ekonomi dari FCI, simpanan domestik, dan kadar bunga keatas pertumbuhan ekonomi di Algeria, tetapi juga mengenai bagaimana mereka berhubungan dalam kerangka yang dinamik. Model analisa dibangunkan berdasarkan model pertumbuhan ekonomi Dua Jurang. Analisa ini adalah berdasarkan kepada data siri masa tahunan bagi tempoh 1980-2010. Kajian ini menggunakan pendekatan ARDL, VECM dan kausaliti Granger dalam penganggaran hubungan dinamik. Hasil kajian menunjukkan bahawa simpanan domestik memberi kesan positif dan signifikan, tetapi aliran masuk modal asing memberikan kesan yang tidak ketara kepada pertumbuhan ekonomi Algeria dalam jangka masa panjang. Kadar bunga juga mempengaruhi pertumbuhan ekonomi Algeria dalam jangka masa panjang. Kesan FCI yang tidak ketara pada pertumbuhan ekonomi Algeria dalam tempoh kajian mungkin disebabkan oleh jumlah FCI yang kecil. Hasil kajian menunjukkan kadar bunga dan simpanan adalah relevan pada perspektif dasar pembangunan makro.

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

One of the most central questions in economics over the years has been why some countries are poor than the others. A vast majority of economies in the world today are seemingly experiencing economic destitution whereas a few countries are experiencing the fruits of prosperity. Economists have endeavoured to explore the nature and the causes of economic growth for explaining the path to prosperity. As a result, numerous determinants of economic growth have been established in macroeconomic growth theory and policy. There has seemingly been increased attention on the role of foreign capital, and domestic saving in growth. Though recent developments of this literature have generated insights relevant for explaining the general characteristics of developing economies, the extended research is necessary in this area.

In recent years, there has been extensive empirical work on savings, investment and economic growth. The reasons for this are threefold. Firstly, the growing concern over the falling savings rates in the major developing countries; secondly, the growing divergence in saving and investment rates between the developing countries; and thirdly, recent growth literature which emphasizes the role of investment in economic growth. Foreign capital inflows have also received considerable attention recently, which have beneficial effects in financing investment and economic growth. However

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