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The impact of the stability of the economic environment resulting from low inflation rates on enhancing domestic investment levels in the Algerian economy during the period 1990-2023.

Bouraghda Fatih
University of Blida 2 Algeria
bouraghdafatih@gmail.com

Elahcene moufida
University of Blida 2 Algeria
elahcenemoufida2@gmail.com

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Abstract

This study aims to analyze the impact of economic environment stability, resulting from lower inflation rates, on enhancing the level of domestic investment in the Algerian economy during the period (1990–2023) . To achieve this objective, the Autoregressive Distributed Lag (ARDL) model was employed. The results reveal that the stability of the economic environment, driven by declining inflation rates, significantly contributes to supporting domestic investment by creating a less volatile and more favorable environment for investors' decisions. Furthermore, the findings indicate that the increase in the proportion of the working-age population constitutes an additional determinant in promoting investment through expanding the demand base and raising the level of savings

Keywords: *Stability of the economic environment, investment, economic growth, model ARDL*
Jel Classification Codes *: C23 ; G21; N10;P20.*

introduction

Inflation is one of the most important macroeconomic indicators and the most influential on the performance of the national economy. It directly impacts economic stability and affects all financial and monetary variables related to investment, production, and consumption. Sharp fluctuations in inflation rates create uncertainty among economic actors, eroding purchasing power, weakening real returns on capital, and increasing risks to the investment environment, limiting the economy's ability to attract domestic investment. Conversely, controlling inflation rates and maintaining them at stable levels enhances confidence in the business environment and provides an economic climate more conducive to directing resources toward productive investment.

In the Algerian context, this topic is of exceptional importance, given the structural fluctuations that the national economy has experienced over the past three decades, particularly those related to its heavy dependence on oil and gas revenues, which have directly impacted the inflation rate. Since the early 1990s, Algeria has experienced periods of high inflation, coinciding with deep economic and financial imbalances, followed by phases of economic reform aimed at restoring macroeconomic balances through strict monetary and fiscal policies. This led to a marked divergence in inflation rates during the period 1990-2023, which in turn impacted domestic investment trends, both in the productive and service sectors, Based on the

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above, this research raises the following main question: **To what extent did the stability of the economic environment resulting from the decline in inflation rates contribute to enhancing the levels of local investment in the Algerian economy during the period (1990-2023)?**

Hypotheses

-Providing a stable economic environment resulting from low inflation rates allows for enhancing levels of local investment in Algeria;

-The rising age of the population is a demographic factor that stimulates investment levels in Algeria.

Sub-questions: In order to clarify the main question posed above, we can formulate the following sub-questions:

-What is meant by investment, its types, and its importance to the economy?

-Is a stable economic environment resulting from low inflation a sufficient condition for increasing domestic investment, or does this require the presence of other supporting factors?

-What is the impact of demographic factors, particularly the increasing proportion of the working-age population (15–65 years), on enhancing local investment levels?

Importance of the Study: Most Arab countries, including Algeria, attach great importance to investment due to its vital role in stimulating economic growth and promoting sustainable development. However, achieving high and stable levels of domestic investment remains dependent on a number of fundamental factors, most notably a stable economic environment. Controlling inflation rates and reducing their fluctuations is one of the most important conditions necessary to ensure this stability, as it contributes to enhancing the confidence of economic actors and creating a more attractive and sustainable investment climate. This positively impacts the Algerian economy's ability to attract and expand the base of domestic investment in the long term.

Research objective: This research aims to analyze the impact of declining inflation rates as an indicator of economic stability in Algeria, and to study its implications for local investment levels during the period (1990-2023). It also seeks to highlight the theoretical framework of investment and its economic, social, and institutional determinants, with the aim of deriving effective mechanisms that can support local investment and direct it toward achieving economic growth requirements and sustainable development goals.

Methodology: The nature of this research requires the adoption of an inductive approach, employing statistical tools and econometric techniques to analyze the relationship between low inflation rates and the stability and levels of local investment in Algeria during the period under study.

1. The conceptual framework for investment

Investment is the main driver to advance economic development, and the main determinant for developing the economic activity of any country, because it helps to increase the standard of living for individuals and its improvements, because it works to generate job opportunities and reduce the severity of the unemployment crisis (chelabi, 2012, p. 5) So in this part we will be extremes for the most important basic investment as follows:

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1.1. Definition of investment

Investment is one of the most important pillars of economic and social development, which made it the concern of many economic thinkers who gave him several definitions , It can be presented as follows :

Investment comes from the word “fruit,” which means increase and growth. Investing means growing or increasing, and growth can take its final form in cash, finance, or trade, or in the form of real estate or movable property (qararat, tunis, & bn zaemat, 2019, p. 60) .

- As for its concept from an economic perspective: it is defined as the use of savings in forming investments or new productive capacities necessary for the processes of producing goods and services, and maintaining or renewing existing productive capacities. These productive capacities or investments are nothing but productive goods, that is, goods that do not satisfy consumption purposes, but rather contribute to the production of other goods and services. These goods are also called capital goods, that is, goods that represent the real or physical capital that is indispensable for any production process (Ben Nouy, 2017, p. 50) .

-As for financial and banking scholars, they have defined investment with multiple definitions, just as economists have. Some of them have defined it as spending certain sums of money in the hope of recovering them in the future while achieving a reasonable profit margin (Mahmoud, 2020, p. 189), As for its concept from the financial and banking perspective, it means the funds used to purchase and obtain shares and bonds belonging to private or public companies for a specific period extending over long periods of time in order to achieve financial returns (Mahmoud, 2020, p. 189).

-From the perspective of the Algerian legislator, the term was defined in Law No. 16-09 on the promotion of investment in Algeria as a set of activities and businesses that involve the creation of new development processes, the expansion of productive and economic capacities, as well as contributions to capital associated with various companies contributing to the national economy (Majmadi, 2017, p. 62) .

Accordingly, local investment can be defined as the investment undertaken by the public sector, the government, or one of the public institutions or bodies with a general motive such as alleviating unemployment and increasing growth rates. This type has developed as there are now companies or institutions that include a number of investors from different social classes, where they invest their savings in various production and service projects.

1.2.The importance of investment

The importance of investment lies in an impact on the level of economic activity, as it is considered a major definition of economic growth in the long term through its effect on the cash balance, and thus the full employment of national income, in addition to that, the investment requires a picture of the institution's sign in view of the impact of the economic and financial environment, and thus increases the diversification of productivity and opens the door for competition in the commercial market, as it is important in :(Salman, 2015, pp. 4-5)

Investment increases national income;

- Contributes to the creation of technology, by introducing modern and advanced technology and adapting it to the conditions of society;

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-Investment contributes to combating unemployment through the use of many workforce and then fighting the paragraph, ignorance and some forms of backwardness;
-Investing in supporting the community infrastructure contributes, because investing in a project that accompanies the establishment of a building, constructing a road, or building bridges to other basic structures;
- Investment contributes to providing foreign exchange that would have been transferred abroad, while goods and services have not been produced locally, and this also contributes to supporting the balance of payments, especially if the investor can produce high quality goods and be able to export them to international markets;
-Investing in supporting the financial resources of the state, by paying the project's taxes, contributes to the government in order to disburse it according to the requirements of the public interest;
-Investing in implementing the economic policy of the state by going to the establishment of projects that achieve this policy;
-It contributes to the employment of savings money, as there are savings for money, but they do not know how to run it, and here lies the role of investment in employing these savings and providing returns to savers.

2. Basic concepts of economic stability

Economic stability is one of the fundamental pillars of sustainable growth and development. It contributes to creating an environment conducive to investment and sound economic decision-making, and reflects the ability to efficiently manage economic resources to achieve long-term growth and economic balance goals.

2.1. The concept of economic stability

Economic stability is an economic situation in which the efficient use of all available productive resources is achieved, while controlling fluctuations in the general price level to avoid severe inflation or deflation, while simultaneously maintaining a sustainable path of real growth in the gross domestic product. This concept reflects two essential dimensions: price stability and sustained growth, two goals that fiscal policy, in conjunction with monetary and structural policies, seeks to achieve in a balanced manner, Maintaining full employment of available economic resources, Achieving an appropriate degree of stability in the general price level , Economic stability is also defined as the absence of significant fluctuations in key indicators of economic performance, such as GDP growth, unemployment rates, inflation rates, and currency exchange rates. Stable economies achieve stable and manageable GDP growth and employment growth, while striving to limit inflation (United Nations). Thus, achieving macroeconomic stability, in its broadest sense, refers to several dimensions, including monetary stability, which is manifested in a stable general price level and a low and stable inflation rate (Bushra Ghaly, 2020, pp. 215-216).

Based on the above, a comprehensive definition of economic stability can be provided. Economic stability is defined as the ability to optimally and rationally exploit available economic resources, with the goal of maintaining stable price levels, achieving low inflation

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and unemployment rates, and achieving a sustainable balance of payments, thus contributing to high and sustainable economic growth rates.

2.2.The importance of economic stability

The importance of economic stability lies in several aspects, including (Khochmane, 2023, p. 35):

- Avoiding financial and economic crises and fluctuations in economic activity, as economic instability can hinder growth, affect living standards, and increase economic uncertainty.
- The issue of economic stability is of both national and international concern, given the interconnectedness between various economies and sectors. This interconnectedness has increased the potential for the repercussions of instability crises to spread across national borders.

3.Literature Reviews

Economic literature indicates that low inflation rates represent one of the fundamental factors in creating a stable economic environment capable of enhancing investment. In an early study, he explained that high inflation weakens and reduces growth by reducing investment and productivity growth, and this leads to a decrease in investment levels (Fischer, 1993, pp. 485-512) High inflation reduces economic growth by weakening investment and decreasing productivity. It leads to lower levels of real savings and makes saving less attractive, while stimulating short-term consumption. This shift reduces resources allocated to long-term investment, weakening the ability to achieve sustainable economic growth. The uncertainty caused by uncontrolled inflation also discourages companies from expanding their investments or launching new projects, leading to economic stagnation. Therefore, maintaining a low and stable inflation rate is a strategic goal of macroeconomic policy, as it enhances confidence in the business environment and provides the resources needed to support investment and long-term growth (Loso, Iwan, & Wahab, 2024, pp. 786-796), . While the study reached (Kofi, Kpodo, & Bonuedi, 2022, pp. 1-17) Uncertainty about inflation, linked to high volatility in commodity prices, is hampering domestic investment, he said (Boyd, Levine, & Smith, 2001, pp. 221-248) (Emmanuel Olusola, Chimezie, & Shuuya, 2022). The low inflation enhances the efficiency of the banking system in directing savings towards productive investment, as a result of low real interest rates and the decline in credit risk, and the stability of the overall environment resulting from controlling inflation enhances the confidence of local and foreign investors, which supports long -term capital flows and stimulates investment in strategic sectors.

4.Analyzing the impact of inflation stability as a supporting factor for enhancing economic stability on investment levels in Algeria.

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This study seeks to analyze the nature of the relationship between inflation stability and investment levels in Algeria during the study period, considering that price stability represents one of the fundamental pillars of ensuring an economic environment attractive to investment. To achieve this goal, we will apply the following:

4.1. Study variables

Table 01: Definition of variables

symbol	index	variables	Explanation
dependent variable			
y	Fixed capital accumulation	investment	Fixed capital accumulation is one of the primary indicators measuring the level of investment activity in an economy. Increased investment in fixed assets, such as factories, equipment, and infrastructure, reflects the expansion of an economy's productive capacity and enhances its ability to meet growing demand.
independent variables			
$\mathbf{x_1}$	inflation	Stability of the economic environment	It refers to the rise in the general level of prices, as a decrease in this indicator indicates the availability of a stable economic environment, which enhances confidence in the economy and stimulates an increase in the volume of investments.
$\mathbf{x_2}$	Working age group	demographic factor	An increase in the number of active working-age groups is an important demographic factor contributing to increased investment levels. A higher population density expands the available labor force base for the economy, increasing production capacity and stimulating demand for investment projects. A larger workforce also enhances investor confidence in the potential for business expansion and sustainable returns, making a high percentage of the active population a key factor in supporting investment volume levels.

Source: Prepared by the researcher

4.2- Model estimation

To estimate the dynamic relationships between the study variables, the following methodology will be adopted in estimating the model to ensure the accuracy and objectivity of the results:

4.2.1. Stationarity Analysis of Time Seri

Examining the stationarity of time series is a fundamental step in econometric analysis, as the results of economic tests and models depend largely on the characteristics of these series. The presence of non-stationary components often leads to spurious estimates and distorts the dynamic relationships between economic variables. Therefore, testing stationarity is a prerequisite for ensuring the validity of estimates and the accuracy of the results derived from

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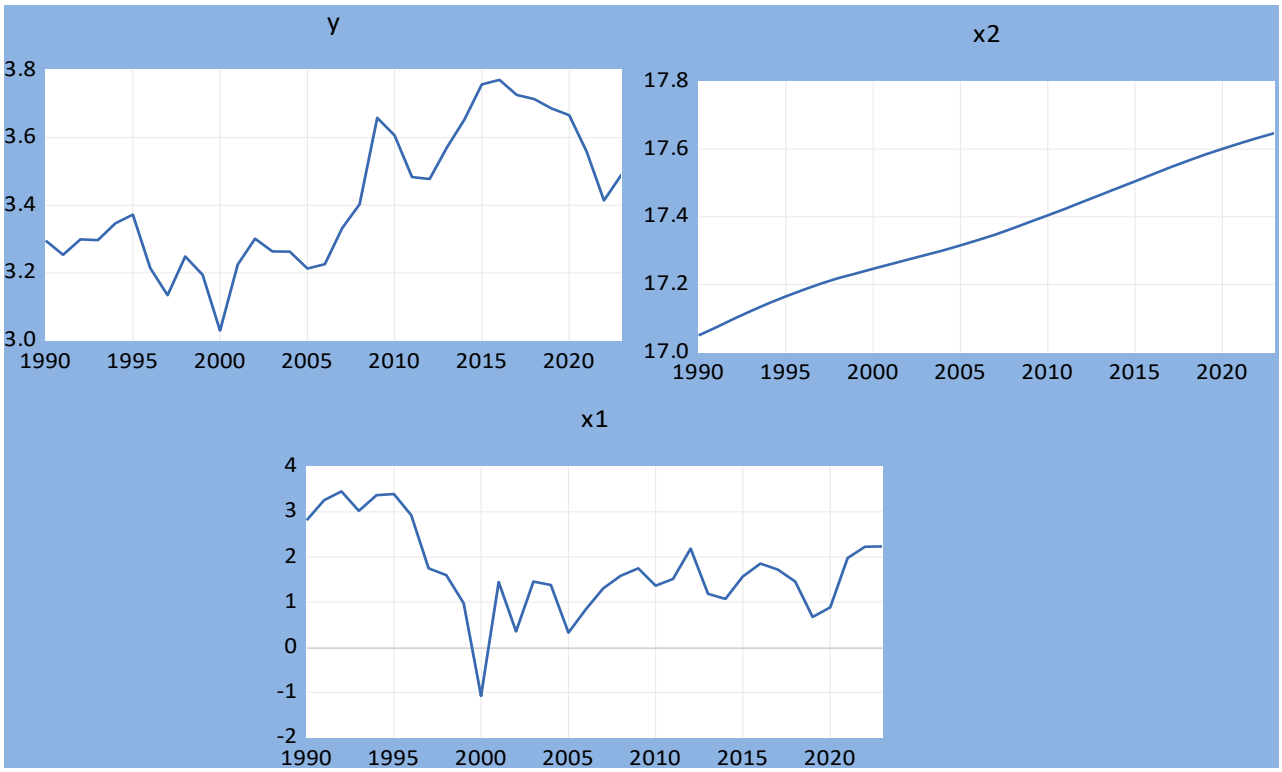
the model, But before estimating stability, a graphical representation of the study variables will be conducted.

Figure 1: Time Series Graph



The stability results were as follows:

Table 2: Unit root test

At level										
time series	ADF test					PP test				
	With Constant & Trend		With Constant		Without Constant & Trend	With Constant & Trend		With Constant		Without Constant & Trend
	b=0	λ=0	c=0	λ=0	λ=0	b=0	λ=0	c=0	λ=0	λ=0
y	0.1685	0.59	0.1735	0.582	0.759	0.1685	0.498	0.1735	0.546	0.776
x_1	0.6855	0.3155	0.0358	0.0988	0.1907	0.6855	0.3638	0.0358	0.1239	0.2003
x_2	0.1393	0.7772	0.6297	0.8547	0.3119	0.1393	0.6060	0.6297	0.7906	03681
At First Difference										
y	0.928	0.0021	0.658	0.0003	0.0000	0.7905	0.0023	0.6859	0.0003	0.0000
x_1	0.2766	0.0000	0.7852	0.0000	0.0000	0.2766	0.0000	0.7852	0.0000	0.0000
x_2	0.8395	0.0041	0.4578	0.0.006	0.0000	0.8395	0.0033	0.4578	0.0.005	0.0000

Source: Prepared by the researcher

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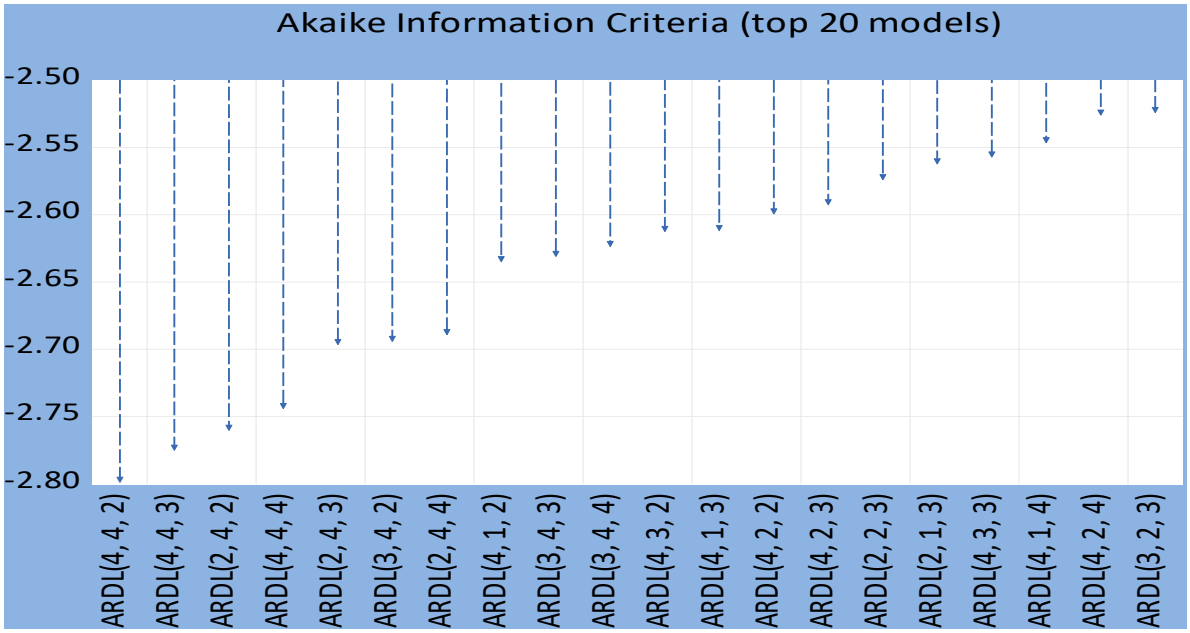
The results of the stationarity tests showed that all the time series under study were non-stationary at the level, but they became stationary after taking the first difference, which indicates their integration of the first order (I(1)).

4.2.2. Cointegration Test

After ensuring that the time series under study are stationary at the first difference (I(1)), it becomes necessary to examine whether there is a long-term equilibrium relationship between these variables. If cointegration exists, it can be said that the variables move together in the long run despite their short-term fluctuations, ensuring the absence of spurious estimates and enhancing the reliability of the standard model. Accordingly, a cointegration test will be conducted to verify this relationship. However, before proceeding with the cointegration test, it is necessary to estimate the optimal lag periods for the variables included in the model. Choosing the appropriate lag length is a fundamental step to ensuring the validity of the results.

Figure 2: Optimal ARDL Model



Source: Prepared by the researcher based on the outputs of the Eviews 12 program.

It is clear from the graph that the minimum value of the AIC criterion is associated with the highest column, given that the values are negative, which indicates that the optimal model to represent the relationship under study is the ARDL(4,4,2) model.

The results of the joint integration were as follows:

Table No. 3: Results of Wald test to confirm the existence of the simultaneous integration relationship

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F-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
			Asymptotic: n=1000	
F-statistic	9.940659	10%	2.63	3.35
k	2	5%	3.1	3.87
		2.5%	3.55	4.38
		1%	4.13	5

Source: Prepared by the researcher based on the outputs of the Eviews 12 program.

The results of the ARDL Bounds Test showed that the calculated value of the F statistic reached (9.94), which is clearly above the upper critical limits at the significance levels. This indicates that the studied variables move together in the long run, despite their short-term fluctuations.

4.2.3. Estimation of long-term parameters and error correction model

A- Estimation of long-term parameters:

Table 4: Results of long-term parameter estimation

Levels Equation Case 2: Restricted Constant and No Trend				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
X1	-0.099001	0.033577	-2.948437	0.0090
X2	0.847675	0.097950	8.654167	0.0000
C	-11.97521	1.644608	-7.281499	0.0000
EC = Y - (-0.0990*X1 + 0.8477*X2 - 11.9752)				

Source: Prepared by the researcher based on the outputs of the Eviews 12 program.

b- Estimation of short-term parameters and error correction model

Table 5: Results of short-term parameter estimation.

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ARĐL Error Correction Regression
Dependent Variable: D(Y)
Selected Model: ARDL(4, 4, 2)
Case 2: Restricted Constant and No Trend
Date: 08/17/25 Time: 20:27
Sample: 1990 2023
Included observations: 30

ECM Regression
Case 2: Restricted Constant and No Trend

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(Y(-1))	0.828114	0.135613	6.106439	0.0000
D(Y(-2))	0.225647	0.165909	1.360071	0.1916
D(Y(-3))	0.321281	0.136217	2.358597	0.0306
D(X1)	-0.018819	0.014864	-1.266089	0.2226
D(X1(-1))	0.083423	0.020721	4.025913	0.0009
D(X1(-2))	0.060062	0.015359	3.910517	0.0011
D(X1(-3))	0.037849	0.013074	2.895062	0.0101
D(X2)	-35.81418	14.60038	-2.452962	0.0253
D(X2(-1))	103.5728	22.33841	4.636532	0.0002
CointEq(-1)*	-1.468284	0.214675	-6.839559	0.0000

Source: Prepared by the researcher based on the outputs of the Eviews 12 program.

The results show that the value of the error correction coefficient (-1.468824) is negative and significant at the (1%) level, which confirms the existence of a long-term equilibrium relationship between the variables, and reflects a relatively high speed in the return of local investment to its equilibrium path after any short-term shock.

4.3- Diagnostic tests for the estimated model

4.3.1. Test for autocorrelation of errors

Table No. 6: Results of the test for the presence of the autocorrelation problem for the estimated residuals

Breusch-Godfrey Serial Correlation LM Test:
Null hypothesis: No serial correlation at up to 2 lags

F-statistic	0.667429	Prob. F(2,15)	0.5276
Obs*R-squared	2.451550	Prob. Chi-Square(2)	0.2935

Source: Prepared by the researcher based on the outputs of the Eviews 12 program.

It is clear from the following that the model does not suffer from the problem of self-correlation of errors.

4.3.2. Normal distribution of residuals

Figure 3: Jarque-Bera test results on estimated residuals

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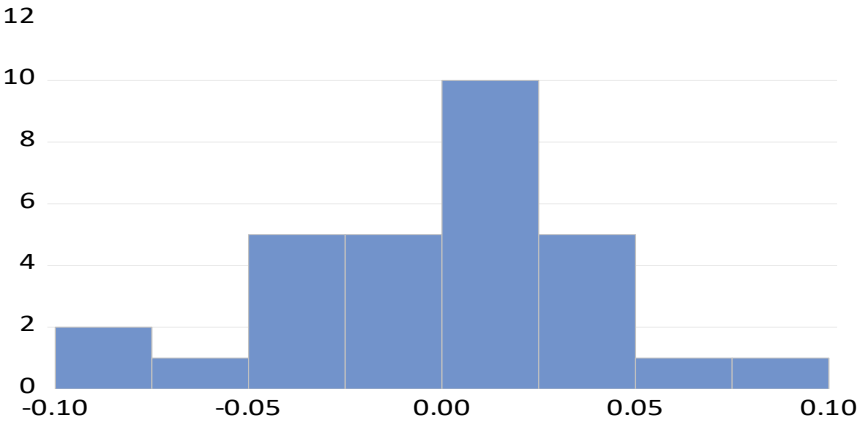

Source: Prepared by the researcher based on the outputs of the Eviews 12 program.

The results of the Jarque-Bera test indicate that the residuals are normally distributed, which confirms that the estimated model has strong statistical specifications and gives greater credibility to the conclusions drawn about the relationship between the stability of the economic environment and the levels of local investment in Algeria.

4.3.3. Testing the hypothesis of non-variance of the error term

Table 7: Breusch-Pagan-Godfrey test results

Heteroskedasticity Test: Breusch-Pagan-Godfrey
Null hypothesis: Homoskedasticity

F-statistic	1.314869	Prob. F(11,18)	0.2927
Obs*R-squared	13.36596	Prob. Chi-Square(11)	0.2701
Scaled explained SS	4.885355	Prob. Chi-Square(11)	0.9366

Source: Eviews 12

Since the computed F-statistic falls below the critical value at the 5% significance level, we fail to reject the null hypothesis of homoscedasticity of the estimated model's residuals.

3.2.4- RAMSEY RESET test

Table 8: RAMSEY RESET test

Ramsey RESET Test
Equation: UNTITLED
Omitted Variables: Squares of fitted values
Specification: Y Y(-1) Y(-2) Y(-3) Y(-4) X1 X1(-1) X1(-2) X1(-3) X1(-4) X2 X2(-1) X2(-2) C

	Value	df	Probability
t-statistic	1.267691	16	0.2230
F-statistic	1.607042	(1, 16)	0.2230
Likelihood ratio	2.871306	1	0.0902

Source: Eviews 12

It is clear from the table that the probability value of Fisher's test is greater than 0.05, indicating that the linear formula adopted to represent the relationship between the variables is appropriate and reliable.

4.3.4. Testing the structural stability

The study relied on two tests to assess the presence of any potential structural collapses in the data over time: the CUSUM test and the CUSUMSQ test. The results presented in Figure

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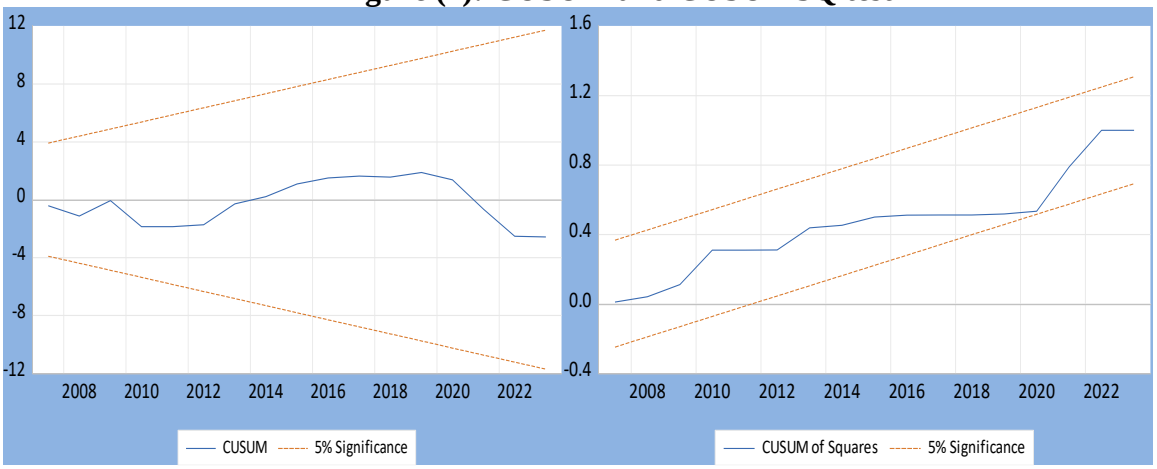
4 indicate that the statistics of both tests fall within the critical limits at the 5% significance level, reflecting the structural stability of the estimated coefficients in the ARDL model.

Figure (4): CUSUM and CUSUMSQ test



Source: Eviews 12

5. Analysis and discussion of the results:

$$y = -11.975 - 0.0099\mathbf{x_1} + 0.8476\mathbf{x_2}$$

-The estimation results supported the first hypothesis, which states that a stable economic environment, represented by low inflation rates, effectively contributed to boosting domestic investment levels in Algeria. The results showed that every one-unit decrease in the inflation rate is associated with a 0.009 increase in domestic investment. This is attributed to several interconnected factors. First, investors' economic confidence is enhanced by reduced uncertainty associated with price fluctuations, allowing them to more accurately predict investment returns. Second, lower inflation improves the purchasing power of individuals and the private sector, increasing savings opportunities and directing them toward productive investments. Third, low inflation reduces the cost of bank financing and improves real returns on capital, which encourages the expansion of economic projects and increases the volume of invested capital.

-The estimation results allowed us to accept the second hypothesis, which states that the increasing population age group represents a demographic factor that stimulates investment levels in Algeria. A one-unit increase in the proportion of young people contributes to a 0.84-unit increase in investment levels. This is due to the fact that an increasing number of the active working-age population increases the available labor force and increases the productive capacity of the economy, which increases investment opportunities in various sectors. Furthermore, the presence of a large youth group contributes to an increase in aggregate demand for goods and services, which encourages investors to expand their activities to meet this growing demand. The high proportion of young people also enhances market dynamism and stimulates innovation and entrepreneurship, creating a more attractive investment environment for local and foreign capital, and promoting sustainable economic growth in the medium and long term.

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6.conclusion

Investment is the primary driver of sustainable economic growth. However, its effectiveness remains dependent on the stability of the economic environment (low inflation rates) in which it is practiced, particularly with regard to low inflation rates and price stability. Investors, both local and foreign, always seek an economic climate characterized by a high degree of financial and price stability, which ensures low risks and enhanced certainty when making investment decisions. From this perspective, this study sought to analyze the impact of a stable economic environment resulting from low inflation rates on enhancing levels of domestic investment in the Algerian economy during the period (1990-2023). This analysis concluded with a set of basic findings that can be summarized as follows:

-The Algerian economy enjoys an acceptable level of economic stability, thanks to the adoption of a rational monetary policy aimed at curbing inflation, which contributed to creating a more stable and reliable economic climate for investors, which was ultimately reflected in the rise in levels of local investment.

- The study results demonstrated that the demographic factor, represented by the high proportion of the active working-age population, is a key lever for boosting domestic investment. It contributes to stimulating the demand side through expanding consumption, while simultaneously supporting the supply side by increasing savings capacity and providing a qualified workforce. This dual interaction creates a more fertile and attractive economic environment, enhancing the effectiveness of economic policies in driving sustainable growth in Algeria.

Based on the results extracted from this study and presented above, we can offer some recommendations as follows:

-Supervisory authorities must continue to adopt balanced monetary policies aimed at maintaining low inflation rates, thus contributing to enhancing economic stability and supporting investor confidence.

-The Algerian state should focus on enhancing the importance of investing in young human energies by developing education and training, thus transforming the demographic factor of working age into a major driver for attracting investment.

-Encouraging local savings through innovative financial instruments to capitalize on the growth in the active segment and direct their savings toward financing productive projects.

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