

The Fiscal-Monetary Policy and Economic Growth in Algeria: VECM Approach

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Abstract : The objective of this study is to examine the relative effectiveness of monetary and fiscal policy in Algeria using the econometric modelling techniques of cointegration and vector error correction modelling to analyse and draw policy inferences. The chosen variables of fiscal policy are government expenditure and net taxes on products, while the effect of monetary policy is presented by the inflation rate and the official exchange rate. From the results, we find that in the long-run, the impact of government expenditures is positive, while the effect of taxes is negative on growth. Additionally, we find that the inflation rate is found to have little effect on GDP per capita but the impact of the exchange rate is insignificant. We conclude that fiscal policy is more powerful than monetary policy in promoting economic growth in Algeria.

Keywords : economic growth, monetary policy, fiscal policy, VECM

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