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National Economy Growth between the Budget Deficit Problem and the Need for Sources of financing

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Abstract:

This study aims to analyze the development of the public treasury's ability to create financial sustainability. In circumstances where non-hydrocarbon revenues were growing slowly. Likewise, the continued decline in the average price of a barrel of oil, starting in 2018, which led to a significant decrease in petroleum taxation, and therefore in total revenues.

Whereas, due to the strong rise in total expenditures, related to current expenditures and capital expenditures, the budget deficit did not shrink, which resulted in a sharp decline in public saving, which made the government borrow from the banking system, especially after consuming the resources of the Revenue regulation fund (RRF). As public saving during the period 2014-2020 was unable to finance public investment, which resulted in an increased demand for financing sources.

Keywords: budget deficit, financing sources, Budget Revenue, public savings, public expenditure.

(JEL) Classification: P34, P44, O28, G18, H5, H62.

1. Introduction:

The fluctuation of the global oil market in its downward trend during the period that extended between 2014 and 2018 raised the issue of the finances of oil-producing countries. The national income of these countries is still strongly linked to fluctuations in hydrocarbon revenues. This has always translated into a more complex problem of growing public budget deficit, which made it periodically resort to financial markets and central banks for public borrowing. However, the size of these loans can reach a level that involves financial risks, which will directly lead to a decline in the ability of governments to repay the public debt.

And Algeria, as one of the oil-producing countries, it was necessary through this study to clarify the extent of the development of the financial capabilities of the national economy and that will be through analyzing the development of treasury savings that can cover public spending. Based on what has been said, we can pose the following problem:

What are the repercussions of the decline in public savings on public investment and on the budget balance in the national economy?

This study aims to examine the evolution of resources available to the public treasury to finance the increase in public spending and the budget deficit, especially in the years when hydrocarbon revenues decreased and the tax collection process slowed down. These are the reasons that prompted the government to turn to the banking system in order to borrow.

The importance of the study is reflected in the role which the public treasury plays in maintaining the financial viability of the national economy**.**

The analytical descriptive approach was used to determine the reality of the public treasury's capacity and the extent to which this capacity is affected by the development of the state's financing needs.

The descriptive analytical approach emerges when we analyze the statistics and historical data collected in a five-year time series drawn from reports on economic and monetary developments in Algeria during the period of 2014 to 2020.

2. Budget Revenue:

Government revenues are government income. The main sources of revenue in OECD countries are typically taxes and social contributions, with some income from charges for services provided by the state. In some countries, revenues may include a significant portion from non-tax sources, such as income from state-owned enterprises or royalties on natural resources. Revenue policy is typically designed to serve multiple purposes. The most fundamental is to collect funds to pay for the provision of goods and services for the population, such as health care and defense. Policies will often also be designed not to worsen inequality, such as by levying higher income taxes on those with higher incomes. Policies can be used to encourage socially beneficial activities (such as tax breaks on research and development) and discourage harmful ones (such as taxes on carbon emissions or tobacco). In some cases, these different purposes may conflict with each other. (Elsa, 2021, p. 80) The structure of government revenues shows the sources of revenues and helps identify the relative contribution of citizens and/or sectors of the economy towards paying for public expenditure. So, for example, according to the latest available data, most important change in the composition of average revenues was the increase in the relative importance of net social contributions (+1 p.p.). This increase is the highest in Korea (5.8 p.p.) and Norway (3.5 p.p.). In Mexico, the relative importance of taxes rose by over (10 p.p). reflecting, among other things, policies increasing taxes on income, profits and personal gains, and tax administration measures to increase efficiency. (Elsa, 2021, p. 82) The Guide on Resource Revenue Transparency (2007) focuses on actual and potential revenues from nonrenewable resources, and especially on oil and gas. Oil production provides the most dramatic illustration of the problems posed by resource riches for developing countries: very large, quickly growing, but time-limited production and revenue flows, combined with a high degree of volatility because of fluctuating world prices. When administration is weak, ownership of such wealth provides ample scope for inefficient policies, discretionary behavior, and outright corruption, all of which could contribute to poor growth performance and eventual dissipation of national oil wealth. (International Monetary Fund, 2007, p. 2) Governments benefiting from large flows of revenue from exploitation of natural resources face a range of issues that need to be explicitly considered for fiscal transparency:

- ✓ revenues are subject to high and unpredictable price volatility, with potentially destabilizing budgetary and liquidity effects.
- ✓ As resources are limited, it is important to take into account alternative options concerning possible exploitation rates and the intergenerational distribution of income flows, as well as the distribution of spending and the immediate social impact of resource industries.
- ✓ the economic impact of large inflows of resource revenues needs to be carefully considered in light of possible “Dutch disease” effects, characterized by an appreciating real exchange rate and the associated adverse impact on the no resource tradable sector of the economy. (International Monetary Fund, 2007, pp. 29-30)

Issues related to medium- and long-term sustainability take on added importance for countries with significant resource-related revenues. Periods of relatively high commodity prices may produce pressure for budget expenditure commitments that cannot be sustained when commodity prices fall back to trend levels or below; and such trends may be particularly difficult to assess. Moreover, issues of fiscal sustainability for such countries need to take into account resource exhaustibility, as well as the inherent volatility of commodity prices. (International Monetary Fund, 2007, p. 57).

With regard to the evolution of public revenues in the **AlgerianState** budget, during the study period, and in a context of instability of non-hydrocarbon budget revenues, the continuous fluctuation of the average price of a barrel of oil led to the following results:

- ✓ The decrease in hydrocarbon revenues during the first period (2014-2016), led to a similar decrease in the total budget revenues.
- ✓ An increase in hydrocarbon revenues during the second period (2017-2018), which led to a similar increase in the total budget revenues.
- ✓ In an unstable context of non-hydrocarbon budget revenue (notably tax revenue), the continued decline in the average oil price, from $64.4 per barrel in 2019 to $42.1 per barrel at the end of September 2020, led to a drop in oil prices. Hydrocarbon prices revenues (oil taxes and profits of oil companies), thus creating a sharp contraction in total budget revenues.

Table (01): Budget Revenue Components and Budget revenue to GDP ratio.

years	2015	2016	2017	2018	2019	Dec 2020
Hydrocarbon revenue	2373.5	1781.1	2177	2887.1	2518.5	1394.7
Tax revenues	2354.6	2482.2	2630	2648.5	2836.4	1997.7
Non-tax revenue	374.8	846.8	1240.9	1215.8	1231.61	996.5
Net Revenue Regulation Fund	-2336	-1387.9	0	0	0	0
Unit Value of Crude Oil Exports - dollars/barrel	53.06	45	54.05	71.27	64.4	42.1
Ratio of budget revenues to GDP %	30.53	29.17	32.55	33.32	32.47	32.15

Source: (Bank of Algeria, 2018, p. 115). (Bank of Algeria, 2021, pp. 6-29)

However, looking at the figures in the last line of Table 1, we see that budget revenues as a percentage of GDP are still insufficient to finance the budget deficit created by increased public spending. Especially in light of the exhaustion of the budgetary resource adjustment fund as of 2017. The average price of a barrel of oil rose from $100.23 a barrel in 2014 to $45 a barrel in 2016, then to $54.07 and $71.27 in 2017 and 2018.

To reach $42.1 in September 2020, its lowest level. On the other hand, poor collection and weak growth of non-hydrocarbon revenue in its two components, tax revenue and non-tax revenue, are among the main reasons that also contributed significantly to the decline in budget resources.

in short, the liquidity flowing into the treasury is affected by two factors:

- ✓ Decreased revenues in the hydrocarbon sector.
- ✓ Low tax collection.

- ✓ An increase in the number of tax evaders.
- ✓ Numerous exemptions and tax advantages.

3. Domestic Public Debt:

The effects of government debt on the real interest rate, or the degree to which government deficits crowd out private-sector economic activity, depend to a large extent on whether consumers view debt as net wealth. If consumers are connected to all future generations and can borrow and lend against their future income streams, changes in debt will not crowd out private consumption and investment because consumers effectively internalize the government's intertemporal budget constraint and regard a debt-financed reduction in taxes today as implying an equivalent increase in future tax burdens. This extreme polar case is generally referred to as the Ricardian equivalence hypothesis. (Hamid & Douglas, 2006, p. 3). Public debt levels have significant implications for the stability of public finances and the economy as a whole. Government debt can be raised to finance current expenditures or invest in physical capital, but it comes at a cost in the form of interest payments and should be based on the objective appraisal of economic capacity gaps, infrastructural development needs and sectoral/social priorities as well as a prudent assessment of costs and benefits. (Elsa, 2021, p. 74)

In a broader macroeconomic context for public policy, governments should seek to ensure that both the level and rate of growth in their public debt are on a sustainable path and that the debt can be serviced under a wide range of circumstances, including economic and financial market stress, while meeting cost and risk objectives. While the responsibility for compliance with debt ceilings and for conducting debt sustainability analysis (DSA) lies with the fiscal authorities, public debt managers should share fiscal and monetary policy authorities' concerns that public sector indebtedness remains on a sustainable path. Debt managers should ensure that the fiscal authorities are aware of the impact of government's financing requirements and debt levels on borrowing costs. Examples of indicators that address the issue of debt sustainability include the public sector debt service ratio, and ratios of public debt to GDP, exports, and tax revenue. Such indicators should be evaluated considering a wide range of scenarios. (International Monetary Fund, 2014, p. 5)

So, risk management practices are essential given that a government's debt portfolio is usually the largest financial portfolio in the country and can contain complex and risky financial structures, which have the potential to generate substantial risk to the government's balance sheet and overall financial stability. Sound risk management by the public sector is also essential for risk management by the private sector. Sound debt structures help governments reduce their exposure to interest rate, currency, refinancing, and other risks. Many governments seek to support these structures by establishing targets and ranges for key risk indicators or, where feasible, target portfolios related to the desired currency composition, duration, and maturity structure of the debt to guide borrowing activities and other debt transactions. When made public, such targets help to increase the predictability and transparency of debt management operations, and in turn reduce uncertainty for investors. (International Monetary Fund, 2014, p. 6)

If credits, advances, or overdrafts to the government by the central bank are permitted, the conditions when they are permitted, and any limits thereof, should be publicly disclosed. The amounts and terms of credits, advances, or overdrafts to the government by the central bank and those of deposits of the government with the central bank should be publicly disclosed. (International Monetary Fund, 2014, p. 10) General government gross debt also rose sharply in per capita terms. In 2019, general government

gross debt per capita averaged USD 56 961 PPP across OECD countries. In 2020, it rose in all 26 countries with data available, and by more than USD 3 000 PPP per capita in nominal terms in 22 countries. This is notably faster than in recent years. For example, among OECD-EU countries, per capita debt rose by just under USD 2 000 PPP per capita a year during2007-19 on average. In 2020, it rose by almost USD 5 400 PPP per capita, to just under USD 52 000 PPP per capita. Most public debt owed by OECD countries (83.5%) is in the form of debt securities, that is, government bonds or similar instruments. In 32 of 36 OECD countries, more than 50% of public debt is in the form of debt securities. Only in Estonia, Greece and Norway is more than 50% in the form of loans. (Elsa, 2021, p. 74)

In the **Algerian economy**, the state's domestic public debt consists of net loans granted by bank of Algeria and commercial banks to the public treasury, which amounted to 7800 billion Algerian dinars at the end of September 2020. These are the bonds that the state must pay, plus accrued interest. In fact, the high amount of these loans reflected the government's inability to keep domestic public debt at levels that would put the national economy out of risk. It appears that during the period 2014-2020, the government only increased its borrowing after 2017, especially when public savings were insufficient to finance investment expenditure, when it issued the following securities:

- ✓ Government treasury bills and similar bonds purchased by commercial banks.
- ✓ Financial bonds purchased by the Bank of Algeria from the Public Treasury.

Indeed, the public treasury and the national economy have not borne the costs and risks of domestic public debt, especially since it has increased rapidly and reached a level that government revenues could not cover.

In this context, the following indicators have emerged:

- ✓ The increase in domestic public debt as a percentage of GDP.
- ✓ Lower tax revenue as a percentage of GDP.

These are the two indicators that show the scale of the evolution of public indebtedness with the banking system.

and the relationship between the public treasury and the banking system is explained through the following financial instruments: Tax revenue, Budget deficit, Internal public debt. The continued decline in tax revenues and the high budget deficit and domestic public debt prompted the Bank of Algeria to move towards issuing the Algerian dinar, without assets, to finance the budget deficit and domestic public debt.

4. Public Savings:

Net saving refers to the difference between current revenues and current expenditures or the fiscal balance without taking into account capital expenditures. Net saving does not consider investment expenditures or capital transfers, instance e.g. to publicly owned enterprises or financial institutions. Net saving is typically associated with the "golden rule" of public finance, which advocates that, in the course of an economic cycle, the current revenues should cover current expenditures. This also implies that debt issuance should only be for growth-promoting investment leading to a sustainable fiscal stance. In 2017, the average net saving in OECD countries was -1.8% of GDP, with slightly more than 50% of the countries reporting positive net saving levels. The United States had the largest negative net saving in 2017, amounting to 4.9% of GDP, partially explained by a change in trend in 2016 as the federal government increased expenditure after several years of consolidation. This trend is expected to continue as fiscal policy relaxed substantially in early 2018 resulting from a tax reform combined with congress

raising spending ceilings in 2018 and 19 all of which led to further spending (OECD 2018a). Conversely, Norway had the highest positive net saving in 2017 (6.9%), as under the fiscal framework, withdrawals from the Norwegian Wealth Fund (e.g. revenues from off-shore petroleum production) cover the non-oil budget deficits to a ceiling set by the fiscal rule, while still protecting the interests of future generations. In consequence, it is unlikely that while this arrangement is in place net savings will be ever negative. In 2007, only 8 OECD countries reported negative net savings compared to 17 in 2017. Still, all countries that had positive net savings in 2007 reported lower levels in 2017, except Austria (0.1 p.p.), the Czech Republic (0.4 p.p.), the Netherlands (0.8 p.p.) and Germany (1.2 p.p.) who reported higher net saving levels. These countries have been at the forefront of advocating and implementing austerity policies. (Angel, 2019, p. 54)

In Algeria public saving is the difference between total budget revenue and current expenditure.

As is known, many countries use public savings as one of the most important sources on which they rely to finance public investment, which greatly contributes to bringing the economy back to the level of internal balance and external. Table n° (2) clearly shows that the State, if on the one hand it has become capable of financing current expenditure through public savings, on the other hand it is incapable of financing public investment with the remainder of this savings. This is the main reason that creates the budget deficit. This while recalling that current expenditure is mainly made up of personnel expenditure and social, economic and financial transfers.

Table (02): Fluctuations in public savings

Years	2015	2016	2017	2018	2019	sep 2020
Total revenue	5103	5110.1	6047.9	6751.4	6586.5	4388.9
Current expenses	4617	4583.8	4677.2	4648.2	4879.12	3489.9
Public savings	486	526.3	1370.7	2103.2	1707.38	899

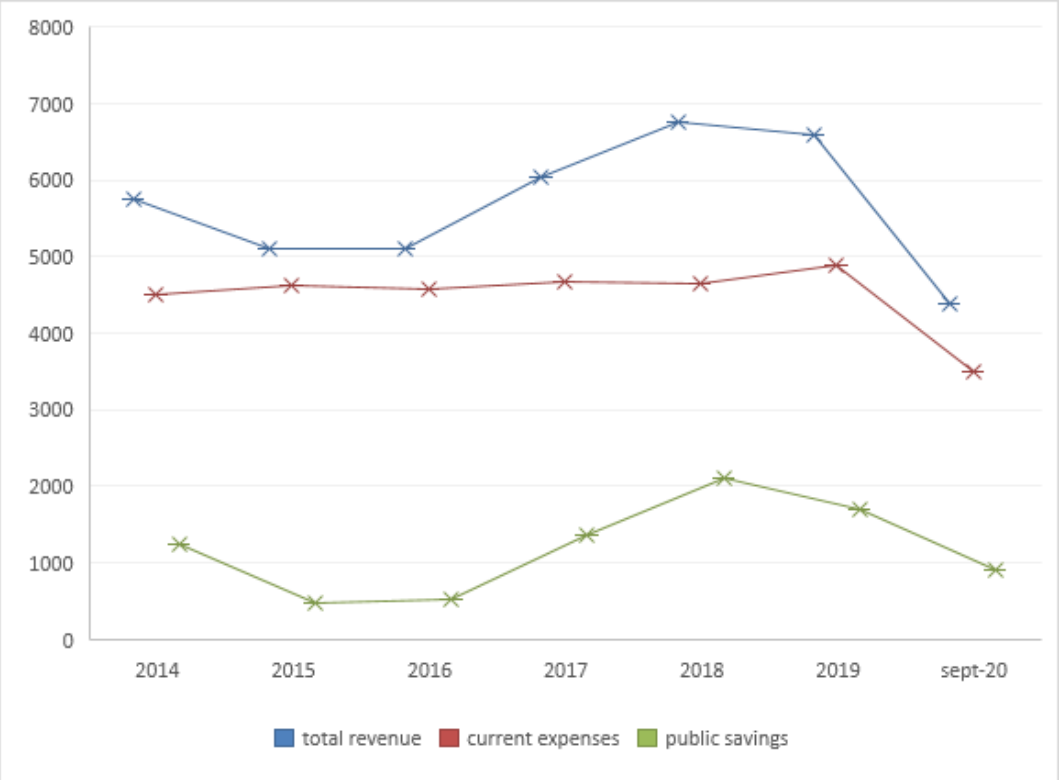
Source: (Bank of Algeria, 2018, p. 115). (Bank of Algeria, 2021, pp. 6-29)

In fact, the low level of public savings reached at the end of 2020, which was 899 billion Algerian dinars, directly reflected the amount of financing that the gvernment would request from the Bank of Algeria and commercial banks. Especially since public investment requires an amount of 1522.02 billion Algerian dinars, and here appears the government's need for a financial envelope of 622.09 billion Algerian dinars.

Thus, in the event of the persistence of these imbalances which have affected public savings, public finances will have negative effects on the following indicators: Imbalance of public accounts., Delay in restoring financial viability.

Relying on the data of Table No. 2, we draw up the following graph:

Figure (01): total revenue less current expenses



Source: Prepared by the researcher

5. Budget Deficit:

Body The Ricardian modification to the standard analysis begins with the observation that, for a given path of government spending, a deficit-financed cut in current taxes leads to higher future taxes that have the same present value as the initial cut. This result follows from the government's budget constraint, which equates total expenditures for each period (including interest payments) to revenues from taxation or other sources and the net issue of interest-bearing public debt. Abstracting from chain-letter cases where the public debt can grow forever at the rate of interest or higher, the present value of taxes (and other revenues) cannot change unless the government changes the present value of its expenditures. This point amounts to economists' standard notion of the absence of a free lunch—government spending must be paid for now or later, with the total present value of receipts fixed by the total present value of spending. Hence, holding fixed the path of government expenditures and non-tax revenues, a cut in today's taxes must be matched by a corresponding increase in the present value of future taxes. (Robert J, 1989, pp. 38-39) On the other hand, the fiscal balance is the difference between a government’s revenues and its expenditures. It shows the extent to which expenditure in a given year is financed by the revenues collected in that year. When the government spends more than it collects as revenues, it has a fiscal deficit; when it spends less, it has a fiscal surplus. The primary balance is the fiscal balance excluding net interest payments on public debt. That is, the primary balance is the difference between the amount of revenue a government collects and the amount it spends on providing public goods and services. A country has a primary deficit if it is spending more on public goods and services than it collects in taxes. This means the government must borrow money to pay for the everyday public goods and services it provides for citizens,

which may not be sustainable. The primary balance is thus a critical indicator of the short-term sustainability of a government's finances. (Elsa , 2021, p. 67) To be more clear, a government fiscal balance can be significantly affected by economic cycles and one-off events. Government revenues (particularly tax revenues) tend to decline during economic downturns, as there is less economic activity subject to the corresponding taxes. At the same time, public spending may increase as more people become unemployed and qualify for social assistance or unemployment benefits. The government could also decide to carry on additional expenditure (e.g. investment) to counterbalance the effects of less private activity. As such, the general government fiscal balance alone does not depict a full picture of the government's underlying fiscal position. General government structural balance, which takes into account the effects that could be attributed to the economic cycle and one-off events, better captures structural trends for assessing the sustainability of public finances in the long run. Estimating the structural balance requires estimating the structural and cyclical components of both the fiscal balance and output, (also referred to as the potential GDP [i.e. the economy working at full capacity not affecting inflation]). In turn, the output gap measures the difference between actual and potential GDP. (Angel , 2019, p. 56)

In Algeria the budget has been running a deficit since 2015, and this deficit has grown steadily, reflecting the government's diminishing ability to increase public investment to support GDP growth and job creation, the two main objectives of fiscal policy.

Table (03): The phenomenon of an increase in public expenditure in relation to public revenue

Years	2015	2016	2017	2018	2019	Sep 2020
total revenue	5103	5110.1	6047.9	6751.4	6586.5	4388.9
Budget expenditure	7656.3	7297.4	7282.6	7726.3	7725.47	5010.99
Fiscal balance	-2553.3	-2187.4	-1234.8	-974.9	-1138.97	-622.09

Source: (Bank of Algeria, 2018, p. 115). (Bank of Algeria, 2021, pp. 6-29)

With this, increasing public investment, as is known, leads to the following positive results: Increase in production in the short term due to the effect on demand., Long-term increase in production due to the supply effect.

However, these effects on the national economy are closely linked to the method of financing public investment, which is always carried out by hydrocarbon revenues in periods of strong growth. The sharp fluctuations in energy prices, and the weak growth in the collection of tax resources, between 2014 and 2020, had a negative impact on the evolution of public finances, and then on the State budget, which led to the restriction of "fiscal policy". By the government's inability to increase capital expenditure (State investment expenditure), in order to achieve the objective of "controlling the budget deficit". But it should be noted that the measures related to the reduction of the budget deficit through "capital expenditure" were followed by a significant decline in the economic activity of the government, which

led to a severe economic contraction which resulted in the following negative effects at the end of 2020, according to World Bank statistics: Recording of a negative GDP growth rate of -5.10%., The high unemployment rate of the total labor force, which stands at 12.30%., The deterioration of the official exchange rate of the Algerian dinar as local currency against the US dollar (average for the period 1 dollar = 126.78 dinars).

6. Funding Capacity for Public Expenditure:

Body financial net worth over time indicates good financial health. Conversely, net worth may be depleted by public debt, indicating a worsening of the government's fiscal position that could affect confidence and increase risk. (Elsa , 2021, p. 76)Public investment can enhance productivity and promote economic growth as well as foster societal wellbeing. Many types of government expenditure Financial net worth, or the difference between governments' financial assets and liabilities, shows a government's ability to meet its financial obligations. Assets reflect a source of additional funding and income available to governments; liabilities reflect debts accumulated over time. A consistent increase in the governments constitute investment: purchases of transport and energy infrastructure, school and hospital buildings, IT systems, defence systems, and intangible assets. Government investment often includes purchases needed to implement long-term policies, such as investment in green energy infrastructure to support action on climate change. (Elsa, 2021, p. 94) In general, in oil-producing countries, the evolution of capital expenditure reflects the following effects:

- ✓ Slower growth in government revenue.
- ✓ The priority of providing the necessary resources for current expenditure. (Arab Monetary Fund, 2020, p. 131)

Arab countries, including Algeria, depend on borrowing from internal and external sources to finance the public budget deficit through short and long-term financing tools (bonds, treasury bills, and sukuk), loans and advances. Each country balances its economic policy priorities and financial. And the financing opportunities available to achieve the required balance between the various sources of financing the budget deficit. In this context, and in light of the high deficit in its budgets during 2019, Arab oil-producing countries continued to borrow from domestic and foreign debt markets to meet their financing needs. (Arab Monetary Fund, 2020, p. 132)

In fact, the **Algerian** government could not maintain a level of foreign exchange, as well as keep the money in the Budget Resource Adjustment Fund: which ensured the financial security of the public treasury for a long time.

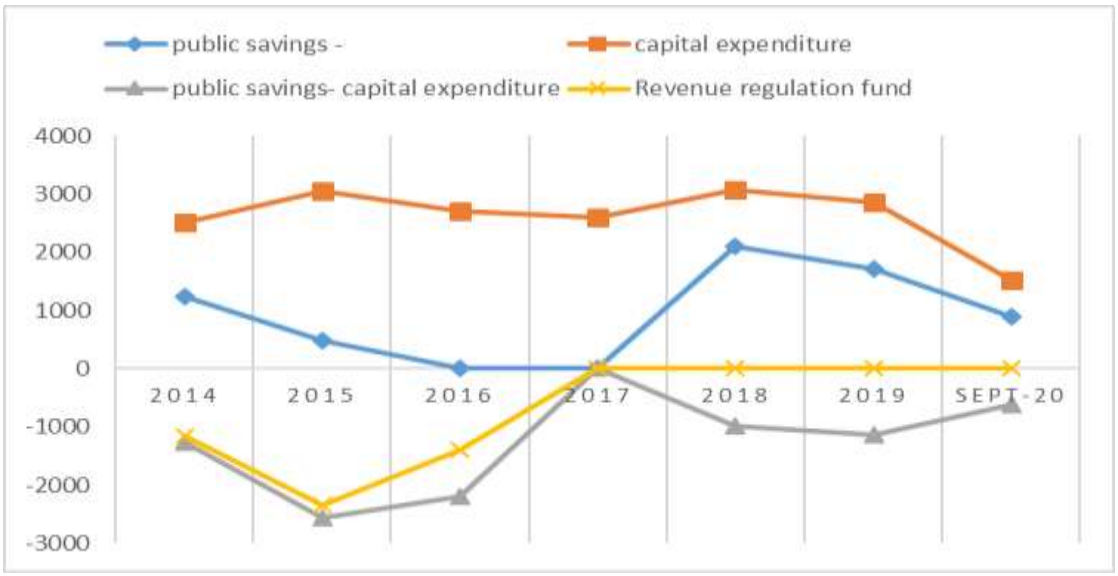
Indeed, when the public treasury was unable to finance investment spending, it resorted to the following sources:

- ✓ The bonds of the "National Loan for Economic Growth" issued by the Public Treasury, pursuant to a resolution issued on Jumada Al-Thani 19 1437 AH corresponding to March 28, 2016. (non-inflationary financing)
- ✓ "Financial bonds" issued by the public treasury on an exceptional basis, to be purchased directly by the Bank of Algeria for a period of five (5) years, in order to contribute specifically to "covering the financing needs of the treasury"," financing the public debt" "financing the National Investment Fund". Pursuant to Law No. 10-17 of Muharram 20 1439 corresponding to October 11, 2017. (inflationary financing)

So, during the period 2014-2020, fiscal policy is the state program that depends mainly on the success of the Ministry of Finance in raising sufficient revenues to cover public expenditure, in order to achieve economic and social objectives.

The budget is the financial plan through which the government aspires to achieve goals, especially those related to increasing national production and reducing unemployment. In this context, the government has always expected, when drawing up the budget law, to collect revenue that is lower than expenditure. Moreover, the "high budget deficit" led to "public borrowing" and a "demand for liquidity" from the banking sector to finance part of the "investment expenditure" that saving publics could not finance, prompting the government to take decisions to implement a fiscal policy based on domestic debt. In fact, we find that the Algerian government has lost many benefits for the national economy, due to its implementation of a non-expansionary fiscal policy in public investment. While the "non-expansionary fiscal policy" places public investment at a level that does not guarantee an increase in GDP relying.

Figure (02): the negative relationship between public saving and public investment



Source: Prepared by the researcher

In order to eliminate the public budget deficit and control public finances, state intervention in the economy must be reformed, because the sharp declines in the price of oil from June 2014 revealed the extent of the vulnerabilities of public finances. These materialized in deep imbalances in 2015 and 2016. Combined with totally inappropriate fiscal policy measures implemented over the 2015-2018 period, these imbalances led to the depletion of the stock of net financial savings of the State (Revenue Regulation Fund, FRR), and correlatively the use of monetary financing (monetary creation) of the deficits of the overall Treasury balances. This is why public finances imperatively and immediately need (i) adjustment measures to restore the balance of public accounts and (ii) far-reaching reforms to ensure their medium and long-term viability and make them more efficient state economic interventions. Budgetary adjustments must concern both non-hydrocarbon tax revenue and public expenditure. These adjustments will make it possible to reduce and sustainably contain the Treasury's financing needs and the crowding-out effect, inherent in the scale of the Treasury's recourse to internal sources of financing, which reduces the resources available for corporate financing. A budgetary adjustment that is all the more

necessary to control inflation, as the amounts disbursed by the Bank of Algeria within the framework of non-conventional financing and dedicated to the financing of the investment program, as well as certain amounts dedicated to reimbursements of public debt, will be injected into the banking circuits over the next few years. Regarding non-hydrocarbon tax revenue, this will be:

- ✓ improve the collection of direct taxation on company profits and indirect taxation on domestic activities (domestic VAT), whose shares in tax revenue are abnormally low compared to those of taxes on wages and VAT at imports and the same shares in developed and emerging countries.
- ✓ Reduce explicit and implicit subsidies (energy and fuel subsidies) and only benefit the lowest income populations. As an indication, the slight increases in the tax on petroleum products in 2016 and 2018, made it possible to increase the amounts collected from 0.3 billion dinars in 2015 to 141 billion dinars in 2018,
- ✓ To rationalize first, the various tax and customs exemptions in order to broaden their base, then the almost generalized interest rate subsidy, which has had almost no effect on private investment. In addition to their positive impact on public finances, these rationalizations will eventually lead to a structure of relative prices, reflecting the economic costs and will contribute to a more rational allocation of resources. This will allow a broadening of the field of commercial investment to various activities and will ensure its profitability.

On the **public expenditure** side, rationalization should concern both current expenditure (personnel expenditure and current transfers) and capital expenditure regarding staff costs:

- ✓ The link between the evolution of labor productivity and remuneration must constitute the rule in terms of evolution of remuneration in the public service.
- ✓ Likewise, the high weight of these expenditures in the civil service argues in favor of the rationalization of human resource management in the majority of public administrations.

In terms of **current transfers**:

- ✓ The rationalization of direct subsidies, including to certain public service establishments, by targeting vulnerable segments of the population, becomes a requirement with regard to equity and economic rationality,
- ✓ The overhaul of the mode of financing of local communities, would reduce the expenses of transfer towards these entities and would involve the citizen more in the local public life.

With regard to **capital expenditure**:

- ✓ Improving the efficiency and economic profitability of projects (their impact on economic growth).
- ✓ Special attention must be given to the maturation of projects to avoid waste and additional costs and compliance with standards in the cost-benefit analysis, social profitability and project profiles.
- ✓ Deeply revise the State policy on financing the housing sector.
- ✓ Use targeted external financing, particularly from international and regional financial institutions. This recourse would be appropriate, not only in terms of alleviating the pressures on public finances and the balance of payments, but also in terms of the effectiveness of investments (relevance, maturation and monitoring of execution). (Bank of Algeria, 2019, pp. 50-52)

7. Conclusion:

During the period 2014-2020, public savings were not able to finance state investment expenditure (capital expenditure), as the public treasury was still looking for sources to finance the emerging budget deficit. These sources are:

- ✓ The financial resources available in the Revenue Regulation Fund (FRR), completely exhausted in 2017.
- ✓ Bank financing, from the bank liquidity that exists at the level of the banks.
- ✓ Financing from the Bank of Algeria as part of the issue of the Algerian dinar without hedging, starting in 2017.

Public investment has a central role to play in the national economy. Modern economic theories in the field of public finance indicate that increased public investment in developing economies such as Algeria can help shift economic activity from economic stagnation to the expansion of development projects. Government Increasing this investment can also lead to the following positive results, Create jobs, in the short and long term, Development of economic activity, for the private sector , Gross domestic product growth. Within the framework of the common objectives between fiscal and monetary policy to achieve growth and development of the national economy, and to eradicate poverty and unemployment, one of the decisive challenges for the Algerian State is to ensure the environment of the necessary internal conditions, to mobilize domestic savings, from the public and private sectors, by improving the performance of the Algiers Stock Exchange, in order to maintain appropriate levels of productive public investment

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