Journal of Advanced Economic Research / V: 10 (ISS: 02) / 2025

PISSN : 2572-0198 / EISSN : 2676 -1572

Analysing the Influence of Country Risks on Foreign Direct Investment in Egypt

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Received: *10/02/2025* ***Accepted:*** *22/09/2025* ***Published***: *30/10/2025*

Abstract *:*

In light of the fluctuations in FDI flows within the MENA region, the share of these flows as a proportion of global FDI is significantly affected. The majority of investments are driven by non-resident investors, with the foreign investment climate heavily influenced by local developments. Enhancing foreign direct investment (FDI) in host countries requires long-term planning and addressing various factors specific to the MENA region. This study aims to assess the impact of country-specific risks on foreign direct investment, using Egypt as a case study. Monthly financial data from 2010 to 2023 were analysed, with each type of risk factor (economic, financial, and political) evaluated for its effect on FDI. The study employed the Autoregressive Distributed Lag (ARDL) model to analyze the data. The findings indicate a significant long-term relationship between country risk indicators and foreign direct investment. Specifically, the study reveals that economic, financial, and political risks negatively influence FDI over time. Political and economic instability, regulatory challenges, and geopolitical risks in Egypt during the study period increased uncertainty, thereby impacting the stability of the investment environment. This research contributes to understanding the dynamics of investment flows in Egypt and offers insights into the broader North African and Middle Eastern region (excluding Gulf countries). It enriches the existing literature on country risks and their influence on FDI, with a focus on Egypt as a representative case study.

keys words: *Country risks, Foreign direct investment, ARDL Model, Egypt*

Jel Classification Codes : *F34 ; F21; C32 ; O55*

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1. Introduction :

Foreign direct investment (FDI) is widely regarded as a fundamental driver of economic growth. Global and regional entities, along with economic organizations, have provided various definitions of FDI. According to the International Monetary Fund (IMF), FDI involves an investor owning more than 10% of a company's equity or shares. The IMF, the United Nations Conference on Trade and Development (UNCTAD), and the Organisation for Economic Cooperation and Development (OECD) collectively define FDI as an international investment where a resident entity in one economy establishes a lasting interest in an enterprise in another economy (IMF, 2002). FDI has gained attention due to its proven role in boosting economic growth rates. Consequently, many researchers have investigated its necessity and effectiveness in achieving desired growth outcomes. For instance, studies by (Ebghaei, 2023) and (Ali F darrat, 2011) have highlighted FDI's role in fostering development in host countries, particularly in developing nations. However, global trends reveal that country-specific factors, such as national risks, significantly influence investors' decisions. Shapiro (1999) describes national risks as uncertainties in a country's political and economic environment, affecting investment decisions. Wang Peiji (2009) further notes that instability in political, economic, and financial environments negatively affects institutional and corporate performance, posing significant risks to host nations. National risks are broadly categorized into political, financial, economic, and social risks (Kazunobu Hakawa, 2012) . Studies, such as those by (kan Mashur Mustaque, 2013) and (Kurul Z, 2017), suggest that both economic and non-economic factors, including market size, competitiveness, and political stability, play a crucial role in shaping FDI flows. Political stability, in particular, is identified as a critical determinant of FDI, as it fosters a conducive environment for foreign investments (Samina Sabir, 2019). Stability ensures the enactment and enforcement of laws that protect property rights and contractual agreements, thereby reducing investment risks and encouraging long-term commitments (E, 2022). Researchers also agree that factors such as trade openness, resource availability, and market efficiency mitigate national risks, strengthening the relationship between FDI and political stability (Kurecic, 2017). Studies by (Click, 2005) and (Warren, 2023) emphasize that variables like exchange rates and the strength of the local currency are vital in attracting FDI (Hooman Lajevardi, 2024). Other challenges, such as corruption, payment delays, and contract expropriation, are identified as significant barriers to FDI (Kazunobu Hakawa, 2012). The ICRG political risk rating provides a comprehensive measure of political risk, assessing 12 components, including government stability, investment profile, and conflict. The index ranges from 0 (high risk, low confidence) to 100 (low risk, high confidence), serving as a valuable tool for understanding FDI risks (Sarah Hebous, 2020)

The study focuses on assessing the impact of country-specific risks, such as political, economic, and financial risks, on foreign direct investment flows in Egypt. The study employs the ARDL (Autoregressive Distributed Lag) model for econometric analysis, using monthly data from 2010 to 2023. This research aims to examine the relationship between country risks and foreign direct investment in Egypt, which has faced significant political and economic challenges as part of a sensitive geographic region. The objective of this study is to clarify how different country-specific risks affect Egypt’s investment environment and to analyze how these risks influence foreign direct

investment flows over the examined period.

2. Literature review and hypothesis development:

Previous literature generally indicates that there are significant barriers to foreign direct investment (FDI) in developing countries. These barriers largely stem from country risks, including political stability, corruption, economic conditions, and financial factors. National security concerns are a major consideration for foreign investors when selecting a destination. However, many empirical studies have primarily focused on economic risks, often neglecting other critical factors influencing FDI (Moustafa, 2020). In the MENA (Middle East and North Africa) region, factors such as market size, trade openness, political risk, and the operating environment of companies play a significant role in shaping FDI flows. For example, market size affects consumer purchasing power, which, in turn, is linked to higher GDP levels and wage rates, reducing a country's attractiveness for investment (Rania Salem, 2020). Multinational companies often face uncertainty when making decisions about expanding their businesses, as they lack complete knowledge of future conditions (Karen M. Hogan, 2012) and (Jayaraman Vijayakumar, 2009)

Research suggests that well-developed financial markets enhance resource allocation efficiency and help mitigate liquidity risks, particularly in the case of Egypt (Makoni, 2018). Financial risk refers to the likelihood that a country may be unable to meet its foreign debt obligations. Countries with high financial risks are more prone to financial crises, making foreign direct investment (FDI) less secure. FDI differs from short-term bank loans or portfolio investments as it cannot be quickly withdrawn, exposing foreign investors to the host country's financial instability. (Kazunobu HAYAKAWA, 2012) .

Furthermore, studies show that MENA countries, which face higher investment risks than industrialized nations, heavily rely on political risk to explain their FDI patterns. Empirical evidence confirms this, whether measured by standard deviation or interquartile range in dynamic panel models. To reduce risk instability in MENA countries, policies should adopt a longer-term focus (Gemayel, 2004); Based on OECD theoretical studies, fragile states in the MENA region pose significant risks to foreign investors seeking a conducive business environment. FDI inflows are more likely in MENA countries with stable political environments. This paper examines the impact of political risk on FDI flows from three MENA countries: Algeria, Saudi Arabia, and Turkey, a non-oil-producing nation. Panel regression techniques are employed to analyze the relationship between political risk and FDI (Abelkader Nassour, 2020).

The study by (Kazunobu HAYAKAWA, 2012) highlights that political risks significantly affect FDI flows, while financial risks do not exhibit the same correlation (Abelkader Nassour, 2020) further investigates the relationship between political risks and FDI in Algeria, Turkey, and Saudi Arabia from 1984 to 2017. This research shows that FDI flows are positively influenced by democratic accountability, investment profiles, and legal systems, while a reverse relationship exists between military involvement in politics and FDI (Ivan Deseatnicov, 2016). Research by (kan Mashur Mustaque, 2013) . confirms that political risk indicators are negatively associated with FDI, especially in higher middle-income countries. (Hong Wei & Hou, June 2020) emphasize the role of culture and promotion in attracting FDI, using China as a model, which has had a significant impact on FDI

promotion in developing countries. International organizations and regional bodies have studied how country risk classifications impact FDI. For example, the IMF has used data from over 100 countries, demonstrating the significance of country risk classifications on FDI (Jayaraman Vijayakumar, 2009). The Middle East and North Africa (MENA) region has become a risk area for investors, with country risks playing a critical role in attracting FDI (Moustafa, 2020). Due to a lack of data, empirical studies on country risks and their relationship with FDI have been limited, primarily focusing on Egypt. For instance, shows a strong positive relationship between corruption and FDI in Egypt from 1970 to 2019. He argues that legal measures must address corruption without harming the economy's openness to FDI. (Rania Salem, 2020) highlights that macroeconomic variable, such as natural resource abundance (e.g., gas, oil, and alternative energy), do not attract sufficient foreign investors to Egypt. In the context of risk classifications, (Ashraf Helmy, 2016) illustrates the direct and indirect effects of political risk on important variables like economic growth, employment, exchange rates, and FDI flows in Egypt from 2006 to 2015. Political risk indicators influenced these variables differently, indicating the importance of addressing political stability to foster economic development. Similarly, (Ai Ngoc Nhan Le, 2023) examined the relationship between political stability, trade openness, and FDI in 25 Asia-Pacific countries from 1990 to 2020. While political stability had a negative impact, trade openness mitigated uncertainty, enhancing FDI flows in those regions. This indicates that country risks related to political and economic conditions of the host nation can significantly impact FDI, affecting returns on foreign investments. Based on these previous studies, we formulate the following hypothesis: H1: Higher country risks reduce the volume of foreign direct investment. We will test this hypothesis using the ARDL model, with FDI as the dependent variable and economic, financial, and political risks as independent variables.

We test this hypothesis with the help of the ARDL model; here (FDI is the dependent variable) and the independent variables (economic, financial, and political). However, if *H1* Higher levels of country risks, including economic, financial, and political risks, have a negative impact on foreign direct investment (FDI) flows in Egypt.

3. Methodology and Data

This study focuses on selected variables based on previous research and economic theories that highlight the impact of country risks on FDI. Independent variables examined include political, financial and economic risks, while FDI is the adopted variable. During 2010-2023 monthly data were collected for Egypt to examine the importance of these risks in the Egyptian context. Information was collected from Bloomberg, the World Bank's global development indicators, and the Central Bank of Egypt. The PRS Group provided country risk ratings from ICRG (International Country Risk Manual), but Bloomberg's political risk scores were preferred due to data availability. Economic risk data, financial risk factors and FDI flows were obtained from the Bank's indicators International for Global Development. For more details on political risk scores and other sources, you can refer to Bloomberg and World Bank databases. The ARDL standard model is used.

Figure1 : The development of foreign investment and country risks in Egypt during the period (2010–2023),

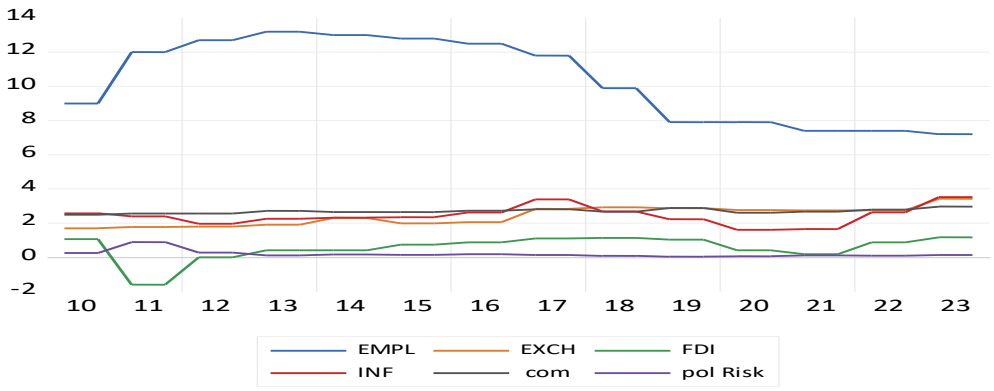


Figure 1 Illustrates that Egypt has experienced critical periods during the designated research timeframe (2010–2023), marked by significant political and economic developments impacting foreign direct investment (FDI) flows. The political unrest following the January 2011 revolution led to a decline in FDI, as many investors withdrew until the political landscape became more stable. Following the International Monetary Fund (IMF) support and the 2016 decision to float the Egyptian pound, the Egyptian government implemented an economic reform program between 2016 and 2019. During this period, the economy stabilized, and foreign investment began to gradually recover, particularly in infrastructure and energy sectors. However, the global COVID-19 pandemic, which began in early 2020, also contributed to economic challenges in Egypt, particularly in the industrial and tourism sectors, reducing investor interest. The Russian-Ukrainian conflict and global economic fluctuations continued to affect Egypt from 2022 to 2023, contributing to rising inflation and other economic pressures. In the fiscal year 2022–2023, net foreign direct investment (FDI) inflows to Egypt reached approximately $10 billion, marking a 12.4% increase compared to around 8.9% inflows in the previous fiscal year (2021–2022). This net inflow rose significantly to around $23.7 billion during the June–March period of the fiscal year 2023–2024, largely driven by $15 billion in inflows from January to March 2024, linked to the Ras El Hikma contract execution. In the fiscal year 2022–2023, 84% of net foreign investment flows to non-oil economic sectors were driven by the creation of new businesses and the expansion of existing enterprises. The sale of businesses and productive assets to non-residents accounted for 11% of these inflows

3.1 Methodology

The Autoregressive Distributed Lag (ARDL) model is a modern econometric approach introduced by Pesaran and Shin (1997) and further developed by Pesaran (2005). This model is widely used due to its dynamic nature and the fact that it involves a single equation when time series data ($t = 1 \ldots T$) with sufficient observations are available. Pesaran (2001) also proposed a technique to test for cointegration, which reveals both short-term and long-term relationships between variables and examines long-term boundaries (Al-Masb, 2021)

This modeling approach overcomes the limitations of traditional cointegration methods, which required stationarity and cointegration of the same order for the series being analyzed, as per (Engle and Granger, 1987) and (Johansen and Juselius, 1990).

The ARDL model serves as an alternative and offers the following distinctive features: It does not require all series to be integrated of the same order; they can be either I(0), I(1), or a combination of both, but should not be integrated at order I(2).

The model is suitable for small sample sizes, typically ranging from 30 to 80 observations. It differentiates between dependent and independent variables. The model selection is guided by statistical criteria such as the Hannan-Quinn, Schwarz, or Akaike criterion. Pesaran (2001), Shin, and Smith used the Wald test for the Fisher statistic (F-statistic) to test the hypothesis of no cointegration. From a theoretical perspective, the assumption that country risks impact FDI globally is supported by various economic theories. This study aims to evaluate the extent to which Egypt's FDI index is influenced by diverse risk factors. Using time series data from 2010 to 2023, the researcher employed the ARDL model to analyze these relationships.

The study seeks to determine whether country risk indicators contribute to foreign investment in Egypt over this period, employing the aforementioned methodology. The estimated model in the study is expressed in the following form:

$$FDI = \alpha 0 + \alpha 1(pol\ RISK) + \alpha 2(\ COM) + \alpha 3(INF) + \alpha 4(\text{EMPL}) + \alpha 5(EXCH) + \varepsilon$$

3.2 Data collection

Variables have been selected based on previous studies and data has been collected from a variety of sources.

Table 1. Definition and description of the study variables

Variables	Description (Units of Measurement)	Database
FDI	FDI, net inflows (% of GDP)	IMF and ICRG World Bank and Central Bank of Egypt
Pol Risk	Political Risk	
COM	Exports of goods and services (% of GDP)	
INF	Inflation, consumer prices (annual %)	
EMPL	Unemployment, youth total (% of total labor force ages 15-24) (modeled ILO estimate)	
EXCH	Exchange Rate	

***Source*:** Prepared by the author (2024).

Table 2: Stability test of variables

Variables	Exogenous	ADF statistics	Prob*	PP statistics	Prob*	Decision
FDI	level	-2.515249	0.1231	-2.638446	0.0979	I(1)
FDI	1 st difference	-4.869576	0.0031	-4.975866	0.0025	
Pol RISK	level	-2.939588	0.1666	-3.008701	0.1482	I(1)
Pol RISK	1 st difference	-4.799178	0.0037	-6.189875	0.0001	
COM	level	-3.618036	0.0478	-2.716871	0.2381	I(1)

COM	1 st difference	-5.376404	0.0011	-7.587989	0.0000	
INF	level	-3.634687	0.0498	-1.69246	0.7267	I(0)
INF	1 st difference	-2.248934	0.4443	-5.128454	0.0017	
EMPL	level	-1.953060	0.5974	-3.151004	0.1153	I(1)
EMPL	1 st difference	-3.007848	0.1498	-5.737071	0.0004	
EXCH	level	- 2.595483	0.2849	-2.684980	0.2498	I(1)
EXCH	1 st difference	-5.298088	0.0012	-5.298088	0.0012	

***Source*:** Prepared by the author (2024).

Table 2 To analyze time series stability, the EViews12 software will use the Dickey-Fuller (ADF) and Phillips-Perron (PP) tests to ensure stationarity for the variables under consideration. Based on the findings the results of the ADF and PP tests, it was determined that the time series is stationary at the level, as the computed values are significantly lower than the critical values at the 1%, 5%, and 10% significance levels. After taking the first differences, we observed that the time series becomes fully stable at the first differences, indicating integration to the first degree. This implies that we accept the null hypothesis and reject the alternative hypothesis. Given that the time series is integrated, the variables exhibit cointegration. Upon verifying the stability test, we confirmed that the variables are stable at the first differences and thus integrated of order one, which justifies our reliance on the ARDL model methodology.

Table 3 . Bound Tests Results

Model: k=5	**F-statistic 66.07**		
Test Statistics	Critical Values	I(0)	I(1)
t-statistic	10%	2.08	3
	5%	2.39	3.38
	2.5%	2.7	3.73
	1%	3.08	

***Source*:** Prepared by the author (2024).

k :The model indicates that there are five (5) independent variables.

Table 3 The existence of a long-term equilibrium relationship between the model variables is confirmed by rejecting the null hypothesis and accepting the alternative hypothesis, based on the statistical value 66.07862 = F-stat, which is greater than all critical value thresholds at different significance levels (10%, 5%, 2.5%, 1%). Consequently, the explanatory indicators that describe nation risks and the foreign direct investment index have a cointegration connection.

Table 4. Error Correction Model (ECM) Rating Result

Model: ARDL (1 . 1. 1. 1. 1. 1)				
Short Run Equation				
Variables	Coefficient	Standard Er.	t-statistic	Probability
EMPL	-0.064	0.020	-3.092	0.005
EXCH	-0.397	0.126	-3.129	0.000
INF	0.759	0.084	8.962	0.000
COM	-0.696	0.428	-1.6257	0.119
Pool RISK	-3.306	0.192	-1.7200	0.000

Dependent Variable: LMD				
Independent Variables	Coefficient	Standard Er.	t-statistic	Probability
EMPL	-0.071	0.022	-3.125	0.005
EXCH	-0.439	0.143	-3.057	0.006
INF	0.839	0.089	9.328	0.000
COM	-0.769	0.471	-1.633	0.118
Pool RISK	-3.653	0.240	-1.5198	0.000

***Source*:** Prepared by the author (2024).

Table 4 According to the estimation results, the error correction coefficient and its corresponding probability have a negative sign (-0.874072). The presence of both a short-term causal relationship and a long-term cointegration relationship between foreign direct investment and its explanatory variables is confirmed by the statistical significance of 0.00000 P = at the 5% level. Long-term, the different discrepancies in the research variables will be automatically rectified at an 87% rate, suggesting that the model has an error correction or adjustment process.

It is clear that the model variables account for 96% of the variations in the foreign direct investment index, as indicated by the coefficient of determination R2 = 0.96. Furthermore, we have solved the spurious regression issue because the coefficient of determination value is lower than the DW statistic.

Table 5. Diagnostic Test

Serial correlation LM test: Breusch-Godfrey Serial Correlation LM test	
F-statistics:	1.011292(0.3888)
Heteroskedasticity test:	
ARCH	F-statistics: 0.196392(0.6616)
Breusch-Pagan-Godfrey	F-statistics:1.550591(0.2094)
Normality test:	
Jarque bera:	**0.166180(0.920268)**
Ramsey RESET test	**F-statistics: 1.847363(0.487148)**

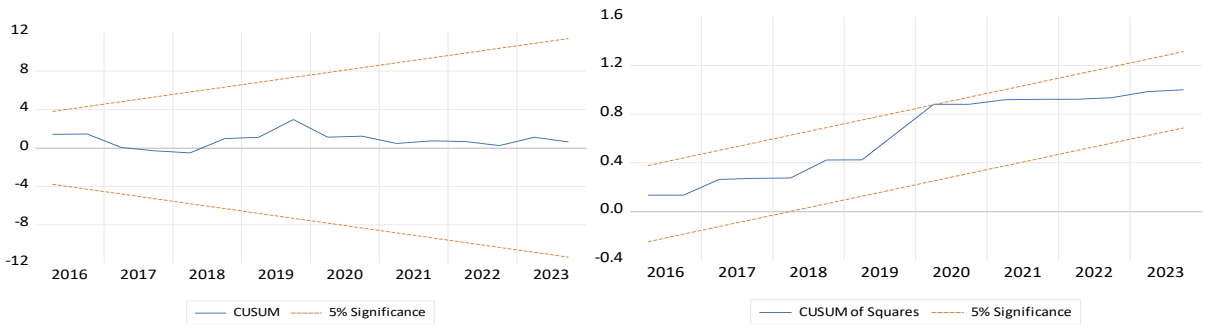
Note: Numbers in parenthesis denote p-values.

Table 5 demonstrates that the χ^2 value exceeds the critical value at the 5% significance level, and the Fisher statistic P-value for ARCH is 0.66, which is greater than 5%. Thus, we accept the null hypothesis, indicating no serial correlation in the residuals of the research model. This also suggests that the residuals do not follow a normal distribution. For the Breusch-Pagan-Godfrey test, the Fisher P-value is 0.20, exceeding 5%, and the χ^2 value is also higher than the critical value at the 5% level. Consequently, we accept the null hypothesis, which states that the error variance is homogeneous and constant. This implies that the variables are independent and lack a linear relationship.

The Bera-Jarque test yields a probability greater than 5%, with the skewness statistic calculated as -0.122527 and kurtosis at 1.874087. Furthermore, the probability of the Bera-Jarque test is 0.48, exceeding 5%. Therefore, we accept the null hypothesis, which suggests that the residuals follow a normal distribution.

The cumulative sum (CUSUM) and cumulative sum of squares (CUSUMSQ) tests, shown in Figure 2, clearly indicate that both statistics fall within the critical bounds at the 5% significance level. This confirms the stability of the model. The results of the model, in both the long term and short term, exhibit consistency and reliability.

Figure 2. CUSUM Test And CUSUMSQ Test



***Source*: Prepared by the author (2024).**

3.3 Regression results

Through conventional modeling and stability testing of time series, and by evaluating the degree of integration between the variables under examination, we have arrived at the following conclusions:

- ✓ All-time series are stationary and integrated of order one (I(1)).
- ✓ The estimation results for lagged values indicate that they are randomly distributed.
- ✓ The coefficient of determination ($R^2 = 0.96$) shows that the independent variables explain 96% of the variation in the dependent variable. The Fisher statistic (Prob(F-statistic) = 0.000000) suggests that the model is statistically significant. Additionally, the Durbin-Watson statistic (DW = 2.22) confirms the absence of autocorrelation in the residuals.
- ✓ The ARDL model's bounds test revealed a long-term equilibrium relationship between the research variables, alongside evidence of short-term effects and causal relationships. Table 4 presents the estimation results of the Error Correction Model (ECM), which captures the short-term dynamics of the variables.

A detailed statistical and economic analysis of the model outputs is provided as follows:

✓ Table 4 shows that the derived coefficients are significant at the 5% and 1% levels, with the effects spread between negative and positive coefficients based on the degree of delay.

✓ As we can see, the variables (Pol RISK), (COM), (EMPL), and (EXCH) at the start of the period (t = 0) had a negative and substantial effect on the variable (FDI).

✓ The variable (INF) has had a positive and significant short-term effect on (FDI).

✓ The error correction word stated before appears with a negative sign and its corresponding probability

✓ The unemployment variable (EMPL) has a negative long-term effect on foreign direct investment and is statistically significant at the 5% level. During this time, Egypt had economic hardships as a result of political upheaval following the 2011 revolution and the global health crisis, which led to increased unemployment rates. These high unemployment rates, in turn, reduced foreign direct investment inflow. The increased unemployment rates made the investment climate less appealing to international investors due to the dangers connected with economic and social instability.

✓ The exchange rate variables (EXCH) and (INF) have a negative long-term impact on foreign direct investment and are statistically significant at the 5% level. This negative impact was caused by political and economic changes that occurred during this time period, as well as the floatation of the Egyptian pound in 2016, which lowered investor confidence. Although this approach was critical to establishing financial balance, it caused doubt and uncertainty. Investors have lost faith in Egypt's economy due to currency volatility.

✓ The nation risk variable (Pol RISK) has a negative long-term impact on foreign direct investment and is statistically significant at the 5% level. It reflects continuous political and economic volatility, as well as the regulatory and geopolitical threats.

✓ **Fiscal and Fiscal Policy Impact Assessment:** The study showed that fiscal policy stability and interest rates are among the most important factors influencing foreign investment flows. It found that inflation, which reduces purchasing power (economic challenges), can contribute to the decline in investment, as previous studies have highlighted.

✓ **Geopolitical dynamics and political risks:** One of the most significant political risks lies in conflicts and changes in successive governments, which have a negative impact on foreign investment flows. The political coup d'état that followed the January 2011 Revolution had a long-term negative impact, affecting all countries experiencing political instability.

✓ **Market dynamism:** Investors tend to avoid markets facing currency fluctuations and financial risk escalation, which emerged with the Egyptian pound during the study period. Structural economic changes, such as the exchange rate liberalization in 2016, were linked to negative impacts on investment flows.

✓ **Social dynamics:** According to various studies, unemployment contributes to a decline in foreign investment flows, which was evident in Egypt due to poor infrastructure. These points reflect a thorough understanding of the factors influencing foreign direct investment (FDI) in Egypt.

4. Conclusion:

Based on the foregoing, we believe that nation risks have had an impact on foreign direct investment in Egypt in both the short and long term between 2010 and 2023. nation risks are crucial in evaluating the desirability of a nation for investment, especially because investors want economically and politically stable settings free of disputes and crises. since a result, governments should endeavor to regulate and decrease country risks, since this leads to increased growth and job possibilities for youth through the transfer of experience and technology.
We attempted via our investigation to identify the key causes that contributed to the reduction in foreign direct investment, which are:

✓ Political instability raises nation risks, leading to decreased investment owing to concerns about rapid political changes. - nation risks can impact investor trust, making it difficult to inject money.
✓ The increase in geopolitical threats in the domestic or regional domains has had an impact on the Egyptian economy, particularly the local currency.

✓ Egypt's increased country risks are attributable to the regulatory environment and insufficient infrastructure, which have resulted in a drop in investment.

✓ Egypt's geographical location has made it vulnerable to regional and geopolitical threats, which have had a detrimental impact on the Egyptian economy, particularly oil price volatility and tourism.
✓ The analysis shows the detrimental impact of country risks on long-term foreign direct investment in Egypt, reflecting the recent fluctuations and crises.
✓ The study also underscored the importance of Qatari risks in increasing investment flows to Egypt until late 2023. Compared to other countries in the North Africa region and the Middle East such as the United Arab Emirates, Egypt shows a significant impact on political and economic risks, reflecting that the country faces challenges associated with economic reforms. (inflation, exchange rate ...) and also political structure in order to enhance investors' confidence.
After the study reached both theoretical and practical results addressing various country-level risks, some policy recommendations for the Egyptian government can be made to enhance the foreign investment environment:

✓ Economic and Financial Policy Stability: The Egyptian government should aim to strengthen monetary policy instruments, such as interest rates and inflation control, to ensure investor confidence and attract foreign investment. Stability in these policies helps reduce economic risks and boosts a favorable investment climate.
✓ Effective Political Stability: The Egyptian government should pursue political policies that promote democracy and stability, as political uncertainty poses significant risks to foreign investment. Indicators like political stability indices and governance measures can be used to assess and mitigate these risks, fostering a better investment environment. Currency Risk Management: To reduce the negative impact of currency fluctuations on foreign investment, the Egyptian government should implement policies such as exchange rate liberalization and capital flow management. These measures help stabilize the economy, enhancing investor confidence.

✓ Infrastructure Support: Investing in infrastructure and economic development initiatives that reduce unemployment can attract foreign investors. Addressing unemployment through improved infrastructure and economic plans will create job opportunities and enhance the overall investment climate.

✓ The recommendations provided can support sustainable economic policies aimed at improving Egypt's foreign investment environment. Managing monetary policy, ensuring political stability, reducing currency risks, and investing in infrastructure are critical for attracting foreign investment. These efforts can lead to better decision-making regarding the direction of government investment and contribute to the overall economic stability of Egypt.

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