

Technical Success and Strategic Failure: The Dynamics of Monetary Policy in Algeria (1963–2025)**نجاح تقني وفشل استراتيجي: ديناميكيات السياسة النقدية في الجزائر (1963–2025)****Salima NAIT ALI**

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Received: 18/01/2026**Accepted:** 31/03/2026**Published:** 31/03/2026**Abstract**

For over four centuries, central banks have gradually evolved from state-serving currency issuers into institutions responsible for ensuring monetary and financial stability. This evolution is also evident in Algeria. Since the 1990s, the country has engaged in a process of institutional modernization of its Central Bank, aiming to align its monetary policy framework with international standards. These reforms led to the successive adoption of monetary laws (in 1990, 2001, 2003, 2010, and 2023), granting the Bank of Algeria (BA) de jure (statutory) independence and the official mandate of price stability. This article argues that this institutional convergence masks a fundamental divergence : the actual effectiveness of Algerian monetary policy is neutralized by the structural constraints of a rentier economy. While the BA has achieved remarkable technical performance in controlling inflation and managing shocks, it demonstrates systemic economic inefficiency, as it remains unable to transform oil savings into productive investment.

Keywords : Monetary Policy, Central Bank Independence, Rentier Economy, Inflation, Excess Liquidity.

JEL Classification Codes: E52, E58, O55

الملخص: منذ أكثر من أربعة قرون، تطورت البنوك المركزية تدريجياً من جهات إصدار للعملة تخدم الدولة إلى مؤسسات مسؤولة عن ضمان الاستقرار النقدي والمالي. هذا التطور جلي أيضاً في الجزائر؛ فمنذ التسعينيات، انخرطت البلاد في عملية تحديث مؤسسي لبنكها المركزي، بهدف موازنة إطار سياستها النقدية مع المعايير الدولية. أدت هذه الإصلاحات إلى الاعتماد المتتالي للقوانين النقدية (1990، 2001، 2003، 2010، و2023)، مما منح بنك الجزائر استقلالية قانونية وتفويضاً رسمياً لاستقرار الأسعار. تجادل هذه المقالة بأن هذا التقارب المؤسسي يخفي تباعداً جوهرياً: فالفاعلية الفعلية للسياسة النقدية الجزائرية يتم تحييدها بسبب القيود الهيكلية للاقتصاد الريعي. وبينما حقق بنك الجزائر أداءً تقنياً ملحوظاً في السيطرة على التضخم وإدارة الصدمات، إلا أنه يظهر عدم كفاءة اقتصادية منهجية، حيث يظل غير قادر على تحويل المدخرات النفطية إلى استثمار منتج.

كلمات مفتاحية: السياسة النقدية، استقلالية البنك المركزي، الاقتصاد الريعي، التضخم، فائض السيولة.

تصنيفات JEL : E52, E58, O55

INTRODUCTION:

Unlike the natural sciences, where knowledge accumulates around relatively stable realities, the objectives of monetary policy have undergone profound transformations over time. These shifts result from a combination of factors, primarily a historical context shaped by wars, crises, and globalization. Furthermore, the contributions of economic theorists most notably Milton Friedman (1970) have significantly influenced the direction and instruments of modern monetary policy. Since their inception, central banks have fundamentally redefined their roles. Originally established as simple "banks of issue" responsible for currency circulation and discounting often for the direct benefit of the State their mandates have progressively expanded. This evolution encompasses complex objectives, from financing public needs to ensuring systemic financial stability. Today, central banks stand at the crossroads of contemporary megatrends, including climate change mitigation, the reduction of inequalities, and the digitalization of the economy through the emergence of Central Bank Digital Currencies (CBDCs). Historically, these functions have centered on three primary objectives, whose relative importance has shifted over time : (i) To finance the needs of the State, especially during crises or wars ; (ii) To maintain price stability. This depends on the current monetary system (such as the Gold Standard, fixed exchange rates, or inflation targeting) ; (iii) To maintain financial stability, often by supporting the development of the financial system Financier (Beitone & Rodrigues, 2017).

Within this general framework, Algerian monetary policy has seen several changes since independence. These changes aimed to support the transformation of the national economy and the financial system. This evolution was strongly influenced by the economic situation. In particular, fluctuations in oil prices were a key factor. This is because the economy depends heavily on oil. The Bank of Algeria has regularly adjusted its instruments to respond to economic shocks and structural changes. The evolution of monetary policy in Algeria can be divided into two main periods : The period of central planning (1962–1989) ; The period of autonomy for the Bank of Algeria and the opening to the market (1990–2024). However, in resource-dependent economies, de jure institutional reforms do not systematically guarantee a de facto transition toward full operational autonomy. Despite significant legal frameworks, recurring episodes in the Algerian case have hindered monetary transmission. Consequently, this article seeks to address the following central question: How has monetary policy in Algeria evolved since independence, and to what extent have the institutional reforms initiated since the 1990s enabled the Bank of Algeria to conduct an effective policy regarding price stability and economic regulation ?

I. The Changing Role of Central Banks : A Historical and Theoretical Overview

The history of central banking since 1668 can be divided into five distinct phases :

1.1. Phase 1 : The Foundation of Banks of Issue (≈1668–1840)

This period corresponds to the establishment of the first banks of issue in Europe and Japan, emerging from a need for public financing, particularly to support military expenditures. The

Technical Success and Strategic Failure: The Dynamics of Monetary Policy in Algeria (1963–2025)

Sveriges Riksbank (1668), regarded as the world's first central bank, pioneered this role as a bank of issue. It was followed by the Bank of England in 1694, which was founded to meet an urgent requirement for financing the war against France : "In December 1693, the government of William III faced a need for £1.5 million to fund the war against France" (Beitone & Rodrigues, 2017, p. 202). During this era, central banks served an essential function : providing liquidity to the State, effectively acting as "war chests."

1.2. Phase 2: The Gold Standard Era (≈1840–1914): The Classics

According to Charles Goodhart, this period corresponds to the Victorian era (Goodhart, 2010, p. 8) and is characterized by the expansion of the gold standard. The primary objective became the preservation of gold convertibility and the protection of the banking system against financial panics. During this time, the central bank gradually adopted the role of lender of last resort. In 1873, Walter Bagehot formalized this role by stating his famous rule: "*Lend freely, but at a high rate*" (Bagehot, 1873). Economists of the period, such as Henry Thornton and Bagehot, sought to reconcile monetary discipline (gold convertibility) with financial stability, particularly during periods of crisis.

1.3. Phase 3: Decades of Government Control (≈1914–1980): The Keynesian Period

This phase is marked by major disruptions : the two World Wars, the Great Depression, and the collapse of the gold standard. Central banks then came under direct state control, as money was nationalized and integrated into public policies. During the *Trente Glorieuses*, central banks supported Keynesian policies aimed at economic growth, modernization of the productive system, and post-war reconstruction. The central bank was placed at the service of government policy. As emphasized by J. P. Patat, "*Sir Stafford Cripps, the British Chancellor of the Exchequer, stated in 1947 that the Bank of England was not his adviser, but his 'creature'.*" (Patat, 1992, p. 7). The central bank, as a state institution, was responsible for the control and management of money, while being closely linked to public financial policies and financial stability, with the objective of maintaining economic balance. It also had the theoretical capacity to intervene as a lender of last resort for the government.

However, the oil shocks of 1973 and 1979, stagflation, and the end of the Bretton Woods system challenged the Keynesian model and paved the way for monetarist and neoclassical doctrines.

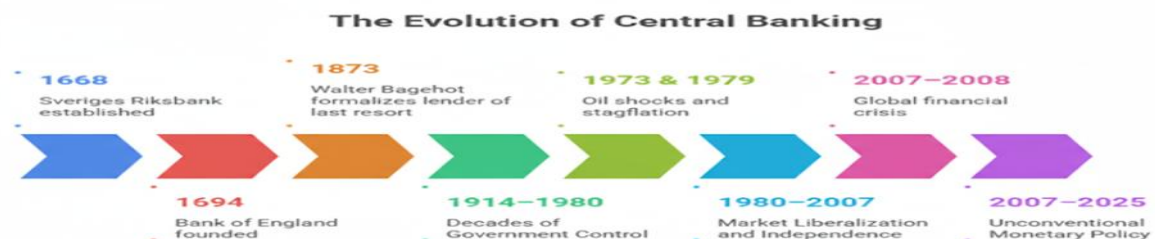
1.4. Phase 4: Market Liberalization and Central Bank Independence (≈1980–2007): The Monetarist/Neoclassical Period

During this period, the very concept of what a central bank is was deeply transformed, particularly with the emergence of a dominant model: the independent central bank. Economic approaches focused on fundamental concepts such as independence, credibility, monetary rules, transparency, information asymmetry, and the transmission channels of monetary policy. Monetary policy gained a central role in macroeconomic stabilization. As emphasized by Frederic Mishkin, "*monetary policy is now at the center of debates on measures likely to promote sustainable growth and price stability in the economy. Fiscal policy has lost its appeal as a stabilization instrument for the whole economy, due to doubts about the ability to adjust fiscal measures in order to achieve the desired degree of stabilization, and also because of concerns about budget deficits. As a result, in recent years, economists and policymakers have recommended that the objective of stabilizing output and*

inflation be assigned to monetary policy. Economists have also increasingly advocated price stability as the main long-term objective of a central bank” (Mishkin, 2007). This period is also characterized by strong financial innovation and a long phase of economic stability, known as the “Great Moderation”.

1.5. Phase 5: Unconventional Monetary Policy (UMP) and Financial Stability (2007–2025)

The 2007–2008 global financial crisis was a **major turning point**. Central banks moved beyond their traditional tools to use **Unconventional Monetary Policies (UMP)**: quantitative easing, negative interest rates, asset purchases, and massive market interventions. Price stability is no longer enough. **Financial stability** became an explicit part of their mandate, although its practical application remains complex. Central banks now have an increasing responsibility to prevent **systemic crises** and manage **asset bubbles**."



Author

II. The Algerian Case : Genesis and Evolution of Monetary Policy"

2.1. Phase 1 : From Colonial Heritage to Centralized Planning (1962–1988)

The Algerian monetary institution has its origins in the Bank of Algeria, created in the 19th century under colonial rule. In 1962, it was transformed into a national central bank. This transition, from a colonial **bank of issue** to a **sovereign monetary authority**, was accompanied by the State taking control of **monetary powers**. From the beginning, the Bank of Algeria inherited a role closely linked to **public needs**. The conduct of monetary policy during the 1962–1988 period can be divided into two distinct sub-periods :

2.1.1. The sub-period 1962–1970 : monetary sovereignty

Following independence, control over monetary and banking powers was transferred to the political authorities. The new law stated : « sont abrogées les dispositions relatives au mode de réalisation et aux limites de pourcentage et de durée... Ce mode de réalisation et ces limites seront désormais déterminés par le Président de la République» (Loi de finances complémentaire n° 65-83, 1965). At the same time, the 'Algerianization' of the banking system and the implementation of economic planning began. This reform also established the obligation for the central bank to finance the Treasury's needs without limitation, upon the simple request of the political authorities. (Loi n° 64-111, 1964).

Technical Success and Strategic Failure: The Dynamics of Monetary Policy in Algeria (1963–2025)

The Objectives	The Instruments
<i>"The mission of the Central Bank is to create and maintain, in the fields of money, credit and foreign exchange, the conditions most favorable to the orderly development of the national economy, by promoting the mobilization of all the country's productive resources, while ensuring the internal and external stability of the currency." (Law No. 62-144, 1962)</i>	➤ Rediscounting ➤ repurchase agreements (repos) of private and public bills ; ➤ Advances secured by gold or foreign currencies ; ➤ Open market operations

During this period, monetary policy was primarily oriented toward financing the public sector. The Central Bank supported the socialist economy and covered **budget deficits**, which led to **inflationary pressures**. Its mission remained limited to technical functions (data collection and executive tasks). Monetary policy was merely a complement to **fiscal policy**, rather than an autonomous instrument. It provided direct credit to **public enterprises** (state-owned enterprises).

2.1.2. The 1970–1988 Sub-period : Centralized Planning

This period is marked by the systematization of **imperative centralized planning** (Ordonnance n° 70-93, 1970). It prioritized heavy industry, where financing was based mainly on debt, with administered interest rates and a limited role for direct finance.

Objectives	The Instruments
<i>"Monetary policy in Algeria was an integral part of financial planning, and its role was limited to adjusting the supply of central bank money to the demand for central bank money" (Naas, 2003, p. 158).</i>	The setting of rediscount ceilings controlled credit in a way that was compatible with the objectives of the economic financing program.

Monetary policy became a simple tool to support financial planning. Its role was essentially limited to adjusting the supply of money to the demand from the banking system, according to the objectives of the National Plan. However, international economic transformations—specifically globalization, the collapse of the socialist bloc, the 1986 oil shock, and the rapid increase in external debt—awakened this administered management model. In this context, the Law on Money and Credit No. 90-10 of April 14, 1990, was adopted.

2.2. Phase 2: Monetary Policy during the Market Economy Period (1990–2024)

Law No. 90-10 on Money and Credit marks a major turning point in the evolution of the Algerian monetary and banking system. It started the transition toward a market economy and established a new institutional architecture : on one side, the Bank of Algeria as the central bank ; on the other, second-tier banks (commercial banks). This structure aimed to strengthen the independence of the Central Bank and to modernize monetary policy instruments. Despite these legislative advances, this period was characterized by several major structural weaknesses : A difficult situation for public enterprises ; High domestic public debt within the banking sector. Bank portfolios were heavily burdened by non-performing loans, which negatively impacted the liquidity and solvency of financial institutions ; Dependence on bank credit. The banking system relied almost exclusively on bank loans, with an almost total exclusion of financial markets. This reflects an economy based essentially on bank debt ; High inflation. Inflation was fueled by an increased budget deficit and excessive growth of the M2 money supply. This context worsened because of the deterioration of the country's security situation during the same period. On the institutional level, the Bank of Algeria

conducts monetary policy through the Council of Money and Credit. This council was established by Law No. 90-10. It was later modified by Ordinance No. 01-01 (2001), then replaced by Ordinance No. 03-11 (2003), which was itself modified by Ordinance No. 10-04 (2010).

Three sub-periods can be distinguished :

2.2.1. The "transitory" sub-period (1990–1993):

Objectives : *"The first paragraph of Article 55 of Law No. 90-10 relating to Money and Credit states: 'The mission of the Central Bank is to create and maintain, in the fields of money, credit and foreign exchange, the conditions most favorable to the orderly development of the national economy, by promoting the mobilization of all the country's productive resources, while ensuring the internal and external stability of the currency'(Algeria, 1990, Art. 55)*

During this initial phase, monetary policy reform was implemented at the level of its framework and instruments, as well as its objectives. These objectives were largely carried over from the 1962 law. The first paragraph of Article 55 of Law No. 90-10 defines the mission of the Bank of Algeria as a central actor in national economic policy, responsible for ensuring monetary stability while directing money and credit toward national development. This reflects a vision in which the Central Bank is not fully independent but remains integrated into the State's economic strategy. Consequently, while the Bank of Algeria does not possess full autonomy in determining the final objectives of monetary policy, it does enjoy a degree of autonomy in the choice of its instruments and intermediate targets.

2.2.2. Sub-period: Macroeconomic Stabilization and Structural Adjustment (1994–1998)

Sub-period	A restrictive monetary policy.	Final Objective	Intermediate Objectives	Operational Objectives
<i>Signing of a Stand-By Arrangement with the IMF (1994); stabilization program followed by a Structural Adjustment Program (1995–1998).</i>	<i>« L'objectif principal de la Politique monétaire est, de facto, la maîtrise du rythme d'inflation au moyen notamment d'un contrôle prudent de l'expansion monétaire et du crédit relativement à l'objectif d'inflation et de croissance. »</i> (Banque d'Algérie, Instruction n° 16-94, 1994).	To control the rate of inflation.	Reduce the growth of the money supply ; Reduce credit growth.	Cap the growth of the Bank of Algeria's domestic assets (credit to the State and banks); Cap the growth of commercial bank assets (credit to the State and the economy)

Author

2.2.3. The 04/1998–2000 sub-period: Consolidation of stabilization gains"

"It should be noted that the Bank of Algeria did not specify its objectives or monetary policy instruments for the years 1998 and 2000. Between 1990 and 2001, the Algerian banking system suffered from **structural illiquidity** and a multi-dimensional crisis. This forced the Bank of Algeria to use a **restrictive monetary policy**, relying mainly on **rediscounting** and **credit controls** to support liquidity and fight inflation. These measures led to a significant reduction in inflation, but resulted in low economic growth.

III. Conduct of Monetary Policy in Algeria (2001–2014)

Between 2001 and 2014, Algeria experienced a period of macroeconomic stability characterized by low inflation, a balance of payments surplus, and moderate growth. During

Technical Success and Strategic Failure: The Dynamics of Monetary Policy in Algeria (1963–2025)

this time, the Algerian banking system faced **structural excess liquidity** due to the rise in oil prices. As stated in the Report: *"the accumulation of hydrocarbon export revenues allowed the banking system to experience a situation of structural excess liquidity."*

This situation required the Bank of Algeria to adopt a specific monetary policy. In this context, commercial banks no longer needed to **seek refinancing** from the Bank of Algeria.

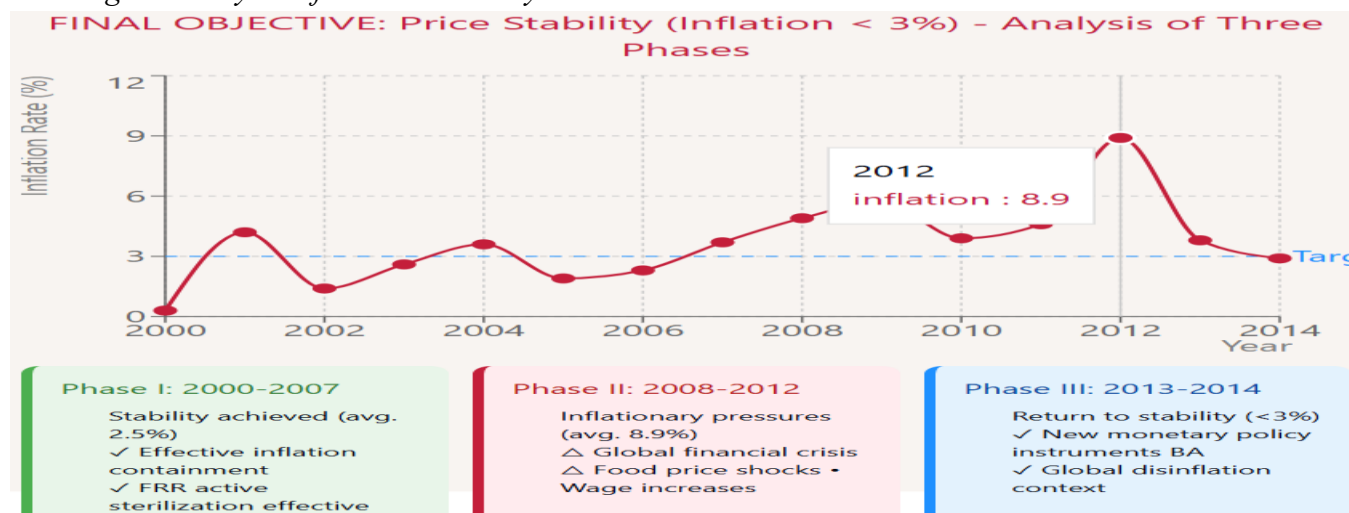
3.1. Architecture of Monetary Policy Objectives (2001–2014)

Faced with the **structural excess liquidity** of the banking system, Algerian monetary authorities adopted a **prudent and active** monetary policy, primarily aimed at **price stability**. To achieve this, the Bank of Algeria increased its interventions in the money market to **sterilize** excess liquidity. In this context, important changes were introduced into monetary legislation.

Paragraph 1 of Article 35 of the 1990 Ordinance on Money and Credit (LMC), amended in 2001 and replaced by Ordinance 03-11 of 2003, states: *"The mission of the Bank of Algeria is to create and maintain, in the fields of money, credit, and foreign exchange, the most favorable conditions for the rapid development of the economy, while ensuring the internal and external stability of the currency."*

Furthermore, the Bank of Algeria's 2003 annual report indicates a **quantified objective a posteriori**: *"the ultimate objective of monetary policy, expressed in terms of medium-term price stability—specifically an inflation rate below 3%—was achieved in 2003."*

On the legislative level, the 1990 LMC was modified in 2001 and replaced by Ordinance 03-11 of 2003. This ordinance establishes the **autonomy** of the Bank of Algeria in the **formulation and execution** of monetary policy. It also maintains strict limits, in terms of both amount and duration, on **advances** granted to the Treasury. In 2010, a new ordinance (OMC 10-10) amended Article 35 of the 2003 ordinance, stating: *"The mission of the Bank of Algeria is to ensure price stability as a monetary policy objective, and to create and maintain... the most favorable conditions for the sustained development of the economy, while ensuring monetary and financial stability."*



Author's own elaboration based on Bank of Algeria data

3.2. Intermediate Objectives : Money Supply (M2), Domestic Credit, and Exchange Rates (2001-2014)

Intermediate Objective	Evolution 2001-2014	Inflation Impact	Limitation/Failure
M2 <i>Money Supply</i>	Volatile Expansion ↗ Peak 24.8% (2007) ↘ Trough 8.3% (2009) → Stabilization ≈12% (2014)	70.7% Explanatory Power Principal Determinant	Partial Control in Context of Massive Over-liquidity - Dependence on net external assets - Structural over-liquidity - Unstable circulation velocity
Domestic Credit <i>Credit to Economy</i>	Sustained Growth Annual Average: 16% Main Driver since 2013 Government Credits Stabilized	Indirect Impact via M2 Component Increasing Contribution	Intermediation Paradox - Low credit/GDP ratio (≈30%) - Insufficient long-term financing - Limited productive investment
REER <i>Real Effective Exchange Rate</i>	Managed Float Regime ↗ Appreciation (2000-09) ↘ Moderate Depreciation post-09 Economic Fundamentals-Based	Stabilization External Shock Control Imported Inflation	Oil Price Vulnerability - Hydrocarbon price dependence - Insufficient diversification - Structural rigidity

M2 and Domestic Credit (%)



REER (Base 100 = 2000)



1. M2 Structural Failure

The failure to contain inflation during 2008–2012 (peak 8.9%) reveals the inefficiency of M2 targeting in the face of external supply shocks and internal wage pressures. The 70.7% correlation masks a bidirectional causality.

2. Domestic Credit Paradox

Despite massive excess liquidity, the credit-to-GDP ratio stagnates at ≈30%, indicating deficient banking intermediation and imperfect transmission to the real economy. The banking system prefers Treasury bills over productive loans.

3. REER Vulnerability

The stability of the REER relies exclusively on hydrocarbon rent. The lack of productive diversification makes the framework unsustainable in the face of a negative oil shock (demonstrated after 2014).

Author

3.3. Monetary Policy between Technical Success and Strategic Failure (2001–2014)

The period 2001–2014, often described as a “phase of stability,” is characterized by inflation at or below 3 percent and by an external surplus. However, this price stability does not result from a credible monetary anchor (such as a Taylor rule, explicit inflation targeting, or an interest rate objective). Instead, it mainly reflects a technical adjustment of excess liquidity generated by oil rents, which masks the absence of genuine macroeconomic policy instruments. The Three Limits of the Monetary Policy Framework :

3.3.1. Monetary instruments used to neutralize excess liquidity rather than channel it toward productive investment

Bank liquidity in Algeria is determined by three main autonomous factors : net external assets (NEA), currency in circulation (CC), and Treasury operations (TO). The central equation is :

Bank Liquidity = NEA – CC – TO. The total effect of autonomous factors can therefore be expressed as : **TEF = NEA – CC – TO.** As a first observation, the fact that the autonomous factors on the liabilities side of the balance sheet (NEA) are larger than those on the assets side (CC + TO) implies an excess liquidity in the banking system. This excess liquidity must be absorbed by the central bank through the use of monetary policy instruments. From 2002

Technical Success and Strategic Failure: The Dynamics of Monetary Policy in Algeria (1963–2025)

onward, the central bank used the traditional instrument of required reserves. However, the scale of excess liquidity made it necessary to gradually adopt additional tools, such as liquidity absorption operations and standing facilities. The introduction of the three monetary

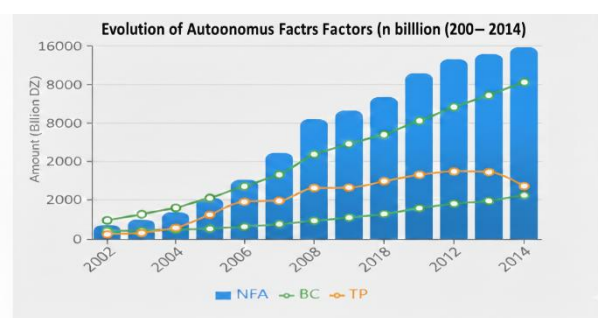
policy instruments followed the order below :



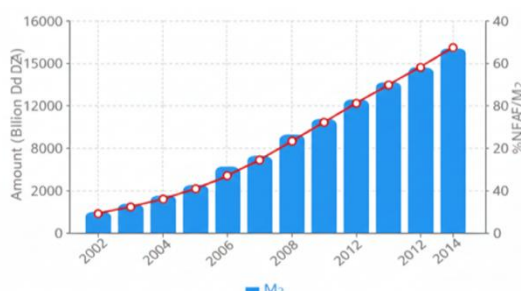
The instrument was introduced in 2002 with an absorption target of 129.7 billion DZD (7-day maturity), representing 44.7 percent of banking liquidity, at a remuneration rate of 2.75 percent. In 2003–2004, the target amount increased to 250 billion DZD in 2003 and then to 400 billion DZD in 2004, with interest rates reduced to 1.75 percent and 0.75 percent, respectively. In August 2005, the introduction of 3-month liquidity absorption operations raised total absorption to 450 billion DZD (150 billion at 7 days and 300 billion at 3 months), representing 64.38 percent of banking liquidity. During the period 2007–2011, the absorption target was increased to 1,100 billion DZD. For 2012–2014, the target rose further to 1,350 billion DZD in 2012.

The Bank of Algeria adopted a passive sterilization strategy, which consists in withdrawing excess liquidity

from the monetary circuit through required reserves, liquidity absorption operations, and deposit facilities. This approach helped to contain inflation, representing an operational success, but it did not lead to a productive reallocation of resources, and therefore constitutes a strategic failure. By contrast, an active sterilization policy could have redirected these abundant liquidity flows toward the financing of productive sectors. Between 2007 and 2014, structural excess liquidity averaged nearly 1,800 billion dinars. If this amount had been invested in non-oil activities with a marginal productivity of capital of 8 to 10 percent (compared with 3 to 4 percent in the oil sector), it could have generated an additional 144 to 180 billion dinars of GDP per year. Over an eight-year period, this represents between 1,150 and 1,450 billion dinars of unrealized GDP, equivalent to a loss of 2 to 3 percentage points of annual economic growth.



Banking excess liquidity increased sharply between 2002 and 2014, rising from 208 billion DZD in 2002 to 2,851 billion DZD in 2014. This expansion was mainly driven by the exponential growth of net external assets (NEA), which rose from 1,743 billion DZD in 2002 to 15,825 billion DZD in 2014, representing an increase of 809 percent.

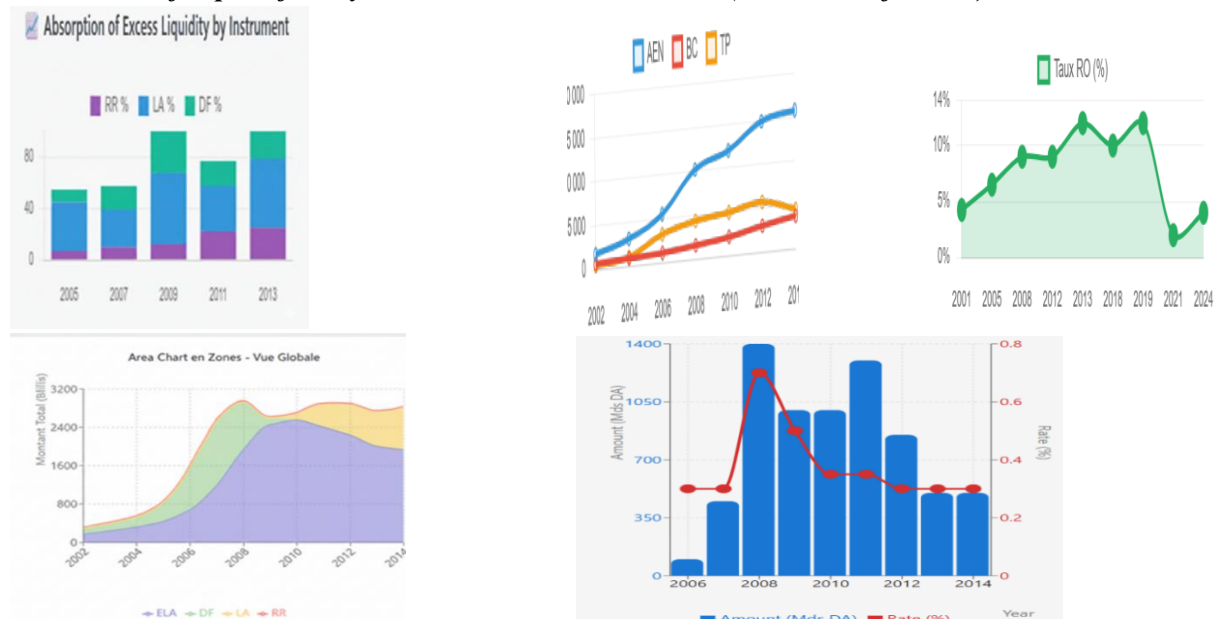


Evolution of the Money Supply (in billions of dinars) and the NFA-to-M2 ratio (2002–2014).

The evolution of the NFA/M2 ratio illustrates this absolute dependence: it rose from 60.06% in 2002 to a peak of 151.76% in 2009, crossing the symbolic 100% threshold as of 2005. This monetary aberration reveals the failing

role of the Bank of Algeria. In a standard economy (Eurozone: 15–25%, USA: 5–10%, emerging markets: 30–50%), an NFA/M2 ratio exceeding 100% means that the entire money supply is backed by foreign exchange reserves, with no significant endogenous creation through bank credit.

Evolution of deposit facility amounts between 2002–2014 (In billions of dinars).



Amount vs Remuneration Rate

2005 : The instrument was introduced with a relatively low outstanding amount of 49.75 billion DZD. 2006 : The outstanding amount surged to 456.72 billion DZD, absorbing 41.29% of the total excess liquidity. 2007–2008 : The amount reached a peak of 1,400.4 billion DZD in 2008. 2009–2014: The rate was reduced to 0.30% in 2009 and remained stable until 2014, accompanied by a progressive decline in outstanding amounts (1,022.12 billion in 2009 and 468.6 billion in 2014).

3.3.2. The Absence of Monetary Transmission through the Credit Channel

The excess liquidity within the Algerian banking system reveals a structural inability to transform savings into productive investment. According to standard economic theory, abundant liquidity should mechanically stimulate activity through the credit channel: **High Liquidity → Lower Interest Rates → Credit Expansion → Increased Investment → Economic Growth.**

However, between 2001 and 2014, Algeria experienced a profound breakdown of this theoretical mechanism. Despite massive surplus liquidity, non-hydrocarbon growth remained weak (2–3%), and credit remained rationed. In practice, public banks—despite holding significant cash surpluses—systematically prefer investing in Treasury bonds, which are perceived as safe assets free of informational risk. Several factors explain this dysfunction :

- **Blocked Credit Channel:** Excess liquidity is channeled toward public securities at the expense of financing the productive sector. The credit-to-savings ratio remained below 70% throughout the period, while the average liquidity ratio exceeded 40% (compared to 10–15% in Tunisia or Morocco).
- **Extreme Information Asymmetry:** In line with the Stiglitz and Weiss (1981) model, the inability to distinguish viable projects from risky borrowers leads Algerian banks (mostly state-owned) to limit lending. This is exacerbated by a lack of evaluation tools, reliable data, and financial reporting. Furthermore, the massive non-performing loans (NPLs) of the 1990s—which required bailouts totaling several trillion DZD—

Technical Success and Strategic Failure: The Dynamics of Monetary Policy in Algeria (1963–2025)

created a culture of excessive caution, disconnected from the current reality of surplus liquidity (Halouane, 2017).

- **Lack of Profitable Projects:** The Algerian economy, dominated by hydrocarbons (98% of exports) and public administration, offers few productive investment opportunities in non-oil private sectors (Aftis, 2013, p. 112).

3.3.3. The Absence of a Stock Market

The lack of a developed stock market has prevented the Algerian economy from absorbing the excess liquidity accumulated within the banking system. In a standard financial framework, the stock exchange serves several essential roles: providing an alternative financing channel, acting as a mechanism to absorb surplus liquidity by offering diversified financial assets, and serving as a tool to direct savings toward productive projects.

In Algeria, the stock market remains underdeveloped. Although the Algiers Stock Exchange was established in 1998, it remains skeletal, with a market capitalization of less than 5% of GDP, insufficient liquidity, and fewer than 50 listed companies. Consequently, instead of financing innovative SMEs or infrastructure projects, accumulated savings have been diverted toward non-productive activities, including:

- **Real estate speculation** (the property bubble between 2000 and 2010);
- **Over-invoiced imports;**
- **The parallel currency market.**

This liquidity leakage is reflected in the sharp increase in currency in circulation, which rose from 673.7 billion DZD in 2002 to 3,734.6 billion DZD in 2014—a 454% increase. Most of this capital remains outside the formal productive circuit. Ultimately, this situation represents a net loss in the transmission of monetary policy.

IV. ALGERIAN MONETARY POLICY (2014–2024) : From Unconventional Financing to Normalization

4.1. The End of Excess Liquidity and "Unconventional" Financing (2014–2024)

Between 2014 and 2024, the global economy, and particularly Algeria, faced a period of high instability marked by the prolonged drop in hydrocarbon prices. This situation, driven by the emergence of shale oil and gas, caused a sharp contraction in export revenues and a drying up of banking liquidity. Faced with this constraint, the Bank of Algeria adopted an exceptional monetary policy. Three main phases can be distinguished :

1. **The Bank of Algeria facing the liquidity dilemma :** Abandoning liquidity absorption and reactivating refinancing instruments (2014–2017).
2. **Recourse to unconventional financing (2017–2019):** Aiming to support public spending and avoid a treasury crisis.
3. **A targeted refinancing program (2021–2022):** To boost credit and cushion post-pandemic effects.

1/ The Bank of Algeria facing the liquidity dilemma: Abandoning absorption and reactivating refinancing instruments (2014–2017)

Between June 2014 and August 2016, the fall in oil prices caused a 70% decrease in banking liquidity, which fell to 820.9 billion DZD in 2016. This contraction ended the phase of excess liquidity and sharply reduced the resources of the Revenue Regulation Fund (FRR).

Despite this decline, the Bank of Algeria paradoxically continued its liquidity absorption operations. It maintained a high volume in the deposit facility. This may be due to a poor distribution of liquidity between banks and an insufficient supply on the interbank market.

From August 2016 to August 2017, the Bank of Algeria reoriented its strategy by reactivating refinancing instruments, which had been abandoned since the 1990s. It introduced several regulatory texts:

- **Instruction No. 02-2016:** Rediscounting;
- **Instruction No. 06-2016:** Open Market Operations;
- **Instruction No. 07-2016:** Marginal Lending Facility.

This reactivation marks a gradual return to classic instruments for supporting bank liquidity, in order to stabilize the financial system after the exhaustion of excess liquidity.

4.2. Sub-period (2017–2019): The Introduction of Unconventional Financing

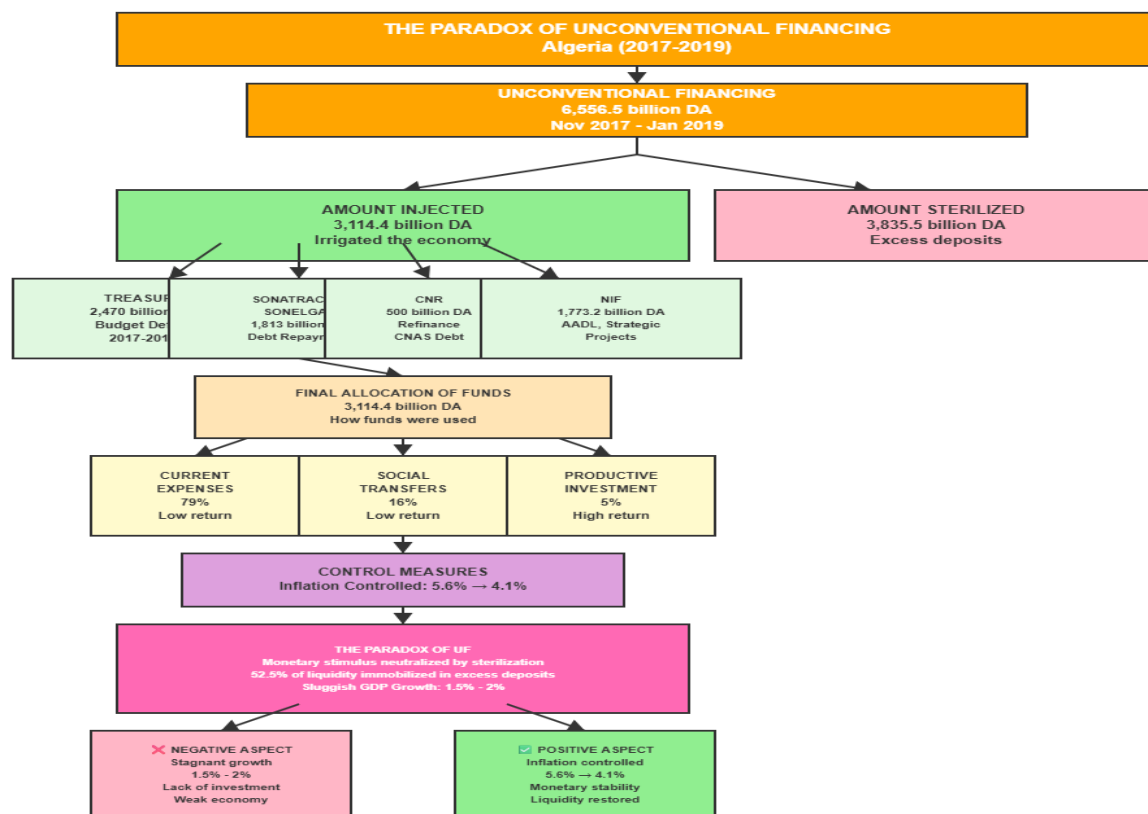
4.2. 1. The State faced a financial deadlock :

- **Depletion of the Revenue Regulation Fund (FRR):** 5,633.751 billion DZD were exhausted between 2012 and 2017 (Banque d'Algérie, 2019).
- **Lack of alternatives:** There was no alternative financing, and external borrowing was prohibited.

Liquidity crisis: Bank liquidity deteriorated, making it difficult to finance the economy. Traditional monetary instruments were no longer sufficient ; only public securities were being presented by banks for refinancing

4.2. 2. Implementation of Unconventional Financing (End of 2017) Starting in the fourth quarter of 2017, the *Law on Money and Credit* was amended by Article 45 bis. This article stipulates: «Notwithstanding any provision to the contrary, the Bank of Algeria shall, upon the entry into force of this provision, on an exceptional basis and for a period of five years, purchase securities issued by the Treasury directly from it, in order to participate notably in: (a) covering the Treasury's financing needs; (b) financing the domestic public debt; (c) financing the National Investment Fund» (*Ordinance No. 03-11, 2017*).

Technical Success and Strategic Failure: The Dynamics of Monetary Policy in Algeria (1963–2025)



4.2.3. The Recourse to Unconventional Financing (UCF) : In 2018, the intervention of the Bank of Algeria was marked by a paradoxical duality: while **6,556.5 billion DZD** were mobilized under Unconventional Financing (UCF), sterilization operations reached **3,835.5 billion DZD**. Consequently, more than half of the created liquidity (**52.5%**) remained immobilized as excess deposits, while only **47.5%** (equivalent to **3,114.4 billion DZD**) actually reached the real economy. This dynamic reveals a system where the monetary impulse is systematically neutralized by a stabilization logic.

This mechanism produced contrasting results: a successful containment of inflation, which dropped from **5.6% to 4.1%**, but a stagnant GDP growth, oscillating between **1.5% and 2%** during the 2018–2019 period. The allocation of the injected funds explains this disconnect between monetary means and economic outcomes:

- **79%** were allocated to financing current expenditures;
- **16%** supported social transfers with low economic returns;
- **Only 5%** were directed toward net productive investment.

As a result, UCF was transformed into an emergency budgetary management tool rather than a genuine recovery lever. This policy, devoid of any conditionality related to structural reforms, certainly stabilized the banking system and moderated inflationary pressures. However, it failed to reduce the structural deficit, stimulate economic diversification, or trigger a sustainable growth dynamic.

Ultimately, this episode represents a major institutional turning point: a substantial violation of **Article 45 bis** (and by extension, the spirit of **Article 35**) of the Law on Money and Credit. By authorizing the direct financing of the Treasury, the Bank of Algeria saw its independence vanish, effectively becoming a mere annex of the State budget. This confirms that the bottlenecks in the Algerian economy are not primarily monetary, but structural, deeply rooted in hydrocarbon dependence.

4.3. Monetary Policy in Response to the COVID-19 Crisis

The economic situation was already fragile in 2019 due to the popular protest movement (Hirak). Global volatility, rising food and energy prices, and supply chain disruptions increased inflationary pressures, despite limited oil resources. Unconventional financing—which ended in March 2019 with 6,556 billion DZD mobilized—was no longer in effect, forcing the Bank of Algeria to adopt an **accommodating monetary policy**. Starting in April 2020, the following prudential measures were implemented:

- **Reduction of the minimum liquidity ratio** to 60%.
- **Removal of the obligation** to maintain a capital buffer.
- **Rescheduling of debts** for clients affected by the crisis, without impacting provisioning requirements.
- **Possibility of granting new loans** to clients with rescheduled debts.

Monetary Easing Policies

- **August 2019:** Resumption of open market operations.
- **2019–2021:** Gradual reduction of the reserve requirement ratio from 12% to 2%.
- **2020:** Reduction of the discount rate (policy rate) from 3.50% to 3.00%.
- **September 2020:** Relaunch of one-month Long-Term Refinancing Operations (LTRO).
- **July 2021:** Launch of the Special Refinancing Program (SRP), capped at 2,100 billion DZD and backed by Treasury bonds.

Phase 4 (2023–2024): The Return to Normalcy and New Pressures

- **Context:** Significant disinflation and a decrease in bank liquidity starting from July 2024.
- **Launch of three-month open market operations** to support the banking system.
- **Injection of 755.93 billion dinars** between July and September 2024.
- **Termination of bilateral liquidity absorption operations** as of mid-2024.
- **Release of 600 billion dinars** as potential liquidity into the interbank market.
- **As of October 2024**, banks in need of liquidity primarily turn to the interbank market.
- **Normalization of the interbank market**, which once again becomes the primary channel for liquidity allocation.

Technical Success and Strategic Failure: The Dynamics of Monetary Policy in Algeria (1963–2025)

4.4. Special Refinancing Program (SRP) - Billions of DZD

The SRP is a liquidity injection without a transmission channel. It mimics the appearance of monetary policy but lacks a functional credit mechanism. It is characterized by limited participation from private banks and takes place in a context where the productive sector remains largely insolvent. Its primary objective is to refinance public banks rather than to stimulate credit.

Figure 4: Special Refinancing Program (SRP)

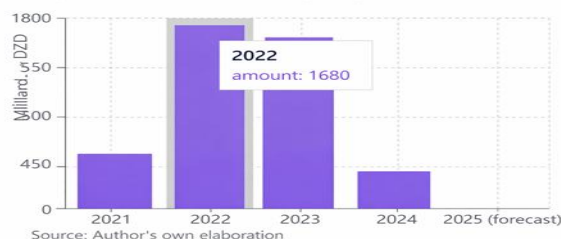


Figure 2 : Money Supply (M2) and Credits to the l'Économie



Evolution of the SRP (2021–2025): The SRP peaked in 2022 with a total of 1,680 million USD, representing a significant refinancing effort. Subsequently, the program saw a marked decline:

- It dropped to approximately 1,000 million USD in 2023;
- It collapsed to about 300 million USD in 2024.

Forecasts for 2025 anticipate the program's near-total disappearance. This downward trend reflects a gradual disengagement from this refinancing instrument. This suggests either an improvement in the liquidity situation or a strategic shift in the financing policies of the Algerian economy.

4.5. Framework of Monetary Policy Objectives (2015–2024)

Figure 1: Inflation Trends (2015–2024)

External shocks including the collapse of oil prices, the global health crisis, and supply chain

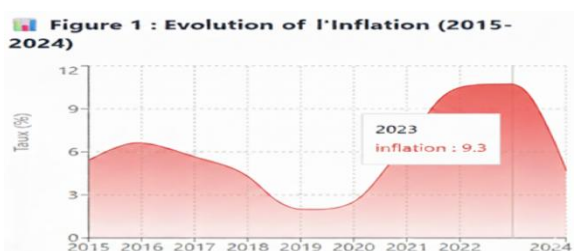
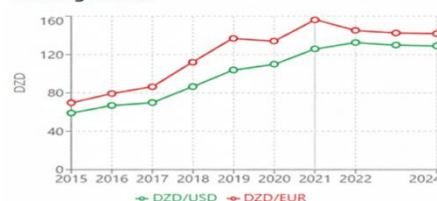


Figure 3 : DZD/USD and DZD/USD et Exchange Rates



disruptions fueled imported inflation, which accounted for nearly 60% of price increases in 2021. The inflationary peak of 9.3% in 2022 reveals the relative failure of restrictive monetary policies when faced with structural factors, such as import dependence and monetary financing. The sharp decline to 4.5% in 2024 is explained more by the appreciation of the dinar than by genuine control over domestic inflationary drivers.

Figure 2: Money Supply (M2) and Credit to the Economy (%)

Between 2015 and 2024, money supply (M2) and credit to the economy exhibited a three-phase evolution. Following a peak in 2018—with growth reaching 18.2% for M2 and 11.3% for credit—both indicators showed a continuous downward trend : 2019–2021: M2 growth stabilized between 8% and 10%, while credit growth remained around 6% to 8% ; 2022–2024: M2 dropped to approximately 5% in 2024, with credit growth similarly declining to 5%. This trajectory reflects a less dynamic economic environment characterized by a significant reduction in available liquidity.

Figure 3: DZD/USD and DZD/EUR Exchange Rates

Between 2015 and 2021, the Algerian dinar (DZD) underwent significant depreciation. The DZD/EUR exchange rate saw a notable increase (reflecting depreciation) until 2021, reaching 159.5, before stabilizing between 150 and 155. Meanwhile, the DZD/USD rate remained relatively stable at approximately 135 in 2021 and has since maintained that level. Overall, the trend illustrates a progressive depreciation of the dinar starting in 2015—most pronounced until 2021—followed by a stabilization phase between 2021 and 2024. This trajectory reflects the dinar's loss of value against major hard currencies.

4.5. Synoptic Table : Monetary Policy – Europe vs. Algeria

Phase	Europe (France, UK, ECB...)	Algeria (Bank of Algeria)
Bank of Issue (1668-1840 / 1880-1962)	Financing European wars.	Colonial currency.
Gold Standard (1840-1914)	Gold standard imposes an exogenous rule.	
Welfare State (1945-1979)	Keynesianism : Full employment, tolerated inflation → growth.	Plannin g : Administered credit, fixed interest rates → administered growth.
Monetarist Revolution (1980-1990)	Volcker : Price stability (2-3%), effective transmission, Great Moderation.	IMF Adjustment : Law 90-10 → formal autonomy.
2008 Crisis	Unconventional monetary policy : Negative interest rates, asset purchases, massive money creation.	Oil rent creates 1,800 Bn DZD/year of excess liquidity → passive sterilization → Non-hydrocarbon (NHC) growth.
2014-2024 Crisis	Covid-19 : Quantitative Easing (QE), State guarantees, monetary easing.	Oil crisis → Unconventional Financing (UCF) 2017-19 (6,556 Bn DZD) → Treasury financing, violation of statutes.

Author

Algeria's monetary history reveals a profound paradox : a **formal autonomy** (Law 90-10) that masks a **structural dependency** on the Public Treasury. Unlike Europe, which depoliticized its currency to guarantee price stability, Algeria has used its monetary policy as a **fiscal buffer** to absorb oil shocks. The transition from "passive sterilization" of excess liquidity (2002–2014) to direct monetary financing of the deficit (2017–2019) broke the institutional safeguards of the Bank of Algeria. This **technical capture** of the central bank by political authorities explains the current inflationary drift, which reached a peak of **9.3% in 2023**. Ultimately, the Bank of Algeria does not regulate a market; it technically manages the financial survival of a rentier state.

Conclusion :

The analysis of Algeria's monetary trajectory from 1962 to 2024 reveals an institution at a crossroads. While the 1990 reforms marked a fundamental shift toward statutory maturity, the experience of the last three decades demonstrates that legal independence is a necessary, but insufficient, condition for the emergence of a diversified economy. The Bank of Algeria has successfully fulfilled its role as a **shock absorber**, preserving fundamental balances and mitigating the impact of oil market volatility, thereby ensuring monetary resilience. However, this technical success highlights the limitations of an isolated approach. Monetary policy alone cannot generate growth; it can only prepare the ground, provided it is supported by a disciplined fiscal policy geared toward structural transformation. Ultimately, the challenge for the coming decade lies in the coordination of the policy mix. Moving from the passive management of oil liquidity to the active promotion of investment requires a strengthened synergy between monetary and fiscal authorities. The transition from a "rent-based currency" to a "development-oriented currency" remains the final horizon to be conquered to complete the work of sovereignty begun in 1962.

Technical Success and Strategic Failure: The Dynamics of Monetary Policy in Algeria (1963–2025)

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