From the Conventional Monetary Policy to the Modern Policy of the Bank of Algeria, Trending Towards the Strategy of Islamic Finance.

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Abstract :
This research paper aims to clarify the nature of monetary policy through a study of its concept, objectives, and tools, and then the most important criticisms leveled at it, especially after the global financial crisis that the world witnessed in 2008 and its inability to solve it, which led the central banks of some countries to adopt new procedures and tools that were not an option, but were rather imposed due to the circumstances of the crisis known as the modern monetary policy. These measures have contributed to supporting economic activity and financial stability at the local and international levels, necessitating the amendment of the Monetary and Loan Law in 2016 to confront the crisis of the decline in oil prices that the Algerian economy experienced in 2014, such as resorting to new types of financing that work to advance the wheel of economic development in a way that allows the creation of Wealth away from oil revenues and far from foreign borrowing, in addition to a new strategic option, which is the trend towards Islamic finance by opening Islamic windows in conventional banks as a strategic financing option that expectedly contributes to providing more efficient and economically efficacious financing alternatives and promoting economic development.

***Key Words*:** conventional monetary policy, unconventional monetary policy, crises, central bank, monetary and loan law, Islamic finance, Islamic windows.

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Introduction

In order to move towards a market economy and give more independence to the Bank of Algeria, it was necessary to reconsider the reform of the banking system with the issuance of the Monetary and Loan Law on April 14, 1990 AD as the most important law that clearly contributed to changing the course of monetary policy during the nineties as it aimed to achieve monetary balances And raising the rates of economic growth, and since oil prices know continuous fluctuations, the Algerian economy has known from the year 2000 to 2014 positive changes mainly resulting from the large and continuous rise in oil prices, which became known as the oil boom, this is what formed a cash surplus that led to an inevitable necessity For the intervention of the Bank of Algeria to absorb the surplus of liquidity, using

indirect tools represented in the compulsory reserve, liquidity recovery tool and the liquidity deposit on the interest-bearing deposit, through which it achieved an important decline in inflation rates.

Still, starting in 2014, the Algerian economy knew a real crisis due to the decline in oil prices had to be addressed through an unconventional monetary policy (innovated) that was used by the most important central banks in the American, European, Japanese worlds as well as The United Kingdom during the real estate mortgage crisis in order to provide incentives to stimulate demand during the mortgage crisis in order to provide incentives to stimulate demand—these policies, which involve the significant expansion of the assets of the central bank to address the imbalance in the financial system and reduce long-term interest rates and enhance the flow of credit to families and companies, given that unconventional monetary policies are necessary to stimulate growth in the economies of countries experiencing economic recession. But with the current situation that the Algerian economy is experiencing once again from the decline in oil prices and the failure of the traditional financial system to create economic dynamism, and to finance sectors and investments capable of creating added value outside the hydrocarbon sector, prompted the government to move towards Islamic finance by opening Islamic windows and counters in conventional banks as a strategic financing option that is expected to contribute to providing more efficient and economically efficacious financing alternatives and promoting economic development.

From here, the following problem can be posed:

What is the actual situation of the monetary policy used by the Bank of Algeria, and what is the most appropriate strategic financing realistically?

I. Previous studies :

There have been numerous studies on the reasons for the transition to unconventional monetary policy and its importance in addressing the 2008 global crisis, so we find:

- Niels Thygesen study: Can central banks follow unconventional policies while maintaining their independence, especially in recent years after facing enormous challenges and inventing new tools, thus, going beyond its traditional role. Therefore, the focus was on protecting it from political interference through provisions relating to its independence while fulfilling the requirements of transparency and accountability.
- The study of (Kazuo Ueda 2011) that explains the unconventional monetary policy measures adopted by the Bank of Japan during the past two decades and other central banks of the Group of Seven since the beginning of the global financial turmoil and analyzes the effectiveness of these measures by classifying the policies used, namely: future directives for future policy rates, targeted asset purchases and quantitative easing, then an analysis of the effects of the measures adopted by the Bank of Japan on asset prices, and comparing them with those adopted by the Federal Reserve, where it was found that these measures, with the exception of the third, moved asset prices in the expected directions. Still,

most monetary easing measures failed in the weakening of the Yen. Thus, they clearly failed to stop the deflationary trend of the Japanese economy.

- The study of (Sari Ali 2013) It worked to define unconventional monetary policy, explain its tools and conditions for its implementation, as well as its effectiveness in achieving the desired goals. It turns out that the world countries are adopting many forms of monetary easing policies in order to raise the level of economic activity, which may lead to a currency war between the major economic powers.
- The study of (AbdulazizShweish Abd al-Hamid & Bushra Abd al-Bari Ahmad 2014) Quantitative easing, which is one of the newly developed monetary policy tools and its role in addressing some economic problems used by some central banks to achieve several goals, and thus addressing the liquidity crisis that banks have known, with a demonstration of the nature of its use In the United States, Britain, Japan and the European Union, and a clarification of their impact on some economic variables, as well as a review of their potential negatives.
- The study of (2016 Mendonça Carolina Tuckwell & Antonio) Comparing the unconventional monetary policy measures adopted by the European Central Bank and the Federal Reserve, and evaluating their characteristics and effects on the economy, which central banks began to implement after the global economic and financial crisis that erupted in the year 2007 AD. The study showed that both banks had similar goals to implement these measures, as they cut key interest rates and affected their balance sheets in terms of size and composition. Nevertheless, the size of the balance sheet of the Federal Reserve was greater than the size of the European Central Bank, and these measures also contributed to the two economies to mitigate the impact these measures also contributed to the two economies to alleviate the negative impact of the crisis on several macroeconomic indicators. However, analysis of the development of unemployment, inflation and GDP growth indicates a weaker recovery in the EU region, which was due to the sovereign debt crisis it knew after the year 2010 AD.
- The study of (Yahia Boutefnouchet 2017) The impact of the 2008 crisis on monetary policies. A case study of the central banks of the Organization for Economic Cooperation and Development, where central banks adopted different behaviours by introducing new procedures, and that moving to these measures was not an option but was imposed by the conditions of the crisis, especially when the usual monetary policy has failed to resolve it, and these supposedly temporary relief measures have become standard practices for central banks, as in the case of the Bank of Japan, which has been continuing its quantitative easing for more than a decade. This led to a reconsideration of the concept of the Modern Central Bank.
- The study of (Kevin D. Sheedy 2017) The challenges of unconventional monetary policy, given that its tools are a weak alternative to the traditional interest rate policy in achieving stability in the economy using a simple economic model, which showed that unconventional policy tools have less

impact on the stability of the economy than traditional tools, so Central banks must follow monetary policy and, thus, reduce the need to use unconventional policy tools in the future. And for monetary policy to return to being traditional, its objectives must become unconventional.

- The study of (Abdel-Razzaq Bouaita, 2018) The reality and prospects of the contribution of Islamic banking in the Algerian banking system. Through his valuable study he made by giving statistics about Islamic banks operating in Algeria, such as Baraka Bank and Al Salam Bank, he figured that the latter guarantees Permanent financing of investment projects, whether for profit or development; however, it was found that the Islamic banking work in Algeria still faces many obstacles, the most important of which is the lack of clear laws that regulate, facilitate and assist the Islamic banking work; In addition to the lack of training in banking work, it is also necessary to establish a higher and specialized legal authority that works on laying the foundations of Islamic banking in Algeria, monitoring and publishing it, training cadres and referring to them in every single detail.
- The study (Bahih Abdel Qader 2020) Islamic banking windows a step towards Islamic banking, "An analytical study of the experience of the Algerian banking system", where he considered that Islamic windows are among the most important strategies adopted by Algeria, which is licensed to public and private banks, in an attempt to contribute to the financing of the national economy, as he showed that usurious banking transactions in traditional banks have reduced confidence in Algerian society, in addition to their lack of control over the monetary policy of the state on the other hand, and that they were not effective in creating economic and social development—This subject that he saw among the most important works for the success of the Islamic window system, that is to create bridges of formation with national universities in forming cadres and opening specialities in the stages of higher education (Bachelor - Professional and Academic Master - PhD in Islamic banking) in addition to intensifying Islamic banking windows and circulating them to the entire network of the Algerian banking system.

II. An overview of monetary policy:

Monetary policy was considered the only tool in classical thinking for dealing with the inflation crisis, and after the depression crisis in 1929 CE, it was considered the second tool after fiscal policy, and after the stagflation crisis in the late sixties, interest in it was restored again by Milton Friedman and considered it the main tool for dealing with crises since then.

1. Conventional Monetary Policy:

There are many concepts related to the term traditional monetary policy, and in general, it means a set of procedures and means applied by the monetary authorities in charge of managing monetary and credit affairs by making changes in the quantity of money to suit the needs of economic activity.

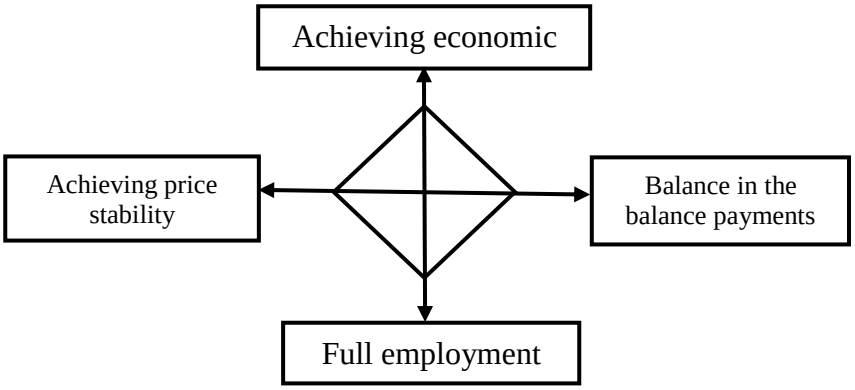
It is divided into two main types:

- Expansive monetary policy: It is used in the event of a recession where the economy suffers from deflation, i.e. high unemployment rates. This policy is represented in increasing the money supply, which increases the ability of banks to grant credit and increase the volume of investment, which leads to an increase in both the level of income and aggregate demand.
- Contractionary monetary policy: It is used in the event of inflation, i.e. a continuous rise in the general level of prices, and this policy is represented in reducing the money supply that limits the ability of banks to grant credit, resulting in an increase in the interest rate and thus a decrease in the volume of investment and a decrease in the level of each of the income and aggregate demand consequently.

The monetary policy seeks to achieve the general or final goals that economic policy seeks, which are known as the objectives of the Magic Square as defined by the English economist "Nicolas Kaldor"(Bakbek, 2014), which are as follows:

- Achieving stability in the general level of prices (fighting inflation);
- Achieving employment or full employment (fighting unemployment);
- Achieving a high rate of economic growth;
- Achieving balance in the balance of payments.

Figure 1: Monetary Policy Final Objectives "Kaldor's Magic Square"



Source: Marie Delaplace - « Monnaie et Financement de l'économie » - Edition Dunod - Paris - p118

It also uses a set of tools (Sari, 2013) in order to achieve the end goals, which are as follows:

- **Indirect tools:** These are the tools that enable the monetary authorities to monitor the development of the monetary and economic situation in general in an indirect way and aim in their entirety to influence the quantity or volume of credit regardless of the uses intended to be directed to it, and they include:
  - **Re-discount rate**: It is the interest rate that the central bank receives from commercial banks in exchange for re-discounting credit instruments. In the event of inflation, the central bank raises the re-discount rate to limit the ability of banks to extend credit by raising the interest rate(Bakbek, 2014), so investors and loan seekers refrain in the event of a recession, thus, the size of the money supply in the economy will be reduced. In the event of

depression, the central bank will reduce the re-discount rate so that commercial banks can expand granting credit, which increases the size of the monetary mass in the economy. The effectiveness of this policy depends on the fulfilment of several conditions, the most important of which are:

- Commercial banks must change their interest rates while changing the discount rate in the same direction. This condition is not fulfilled in all cases, especially when there are other sources of liquidity or credit, whether in the money market itself or in foreign markets.
- The demand for loans must be sensitive to the change in the interest rate, meaning that it increases if it decreases and decreases if it increases, but this sensitivity is not great at all times.

- **Compulsory reserve:** It is the percentage or balance of money that the Central Bank obliges commercial banks to keep in the form of liquid money, where the central bank raises the legal reserve ratio when it aims to limit credit, which leads to the freezing of a large part of the reserves of commercial banks and reduces their ability to create money deposits, so the amount of money supply decreases, and the opposite happens in the case of reducing the reserve ratio, which leads to an increase in supply cash (Kazuo , September 2009). The effectiveness of this policy decreases:

- If the commercial banks have financing outlets other than the central bank;
- If the banks seek to reduce the central bank's influence on them by keeping another type of financial assets that can be converted into cash assets and obtain the required liquidity;
- Weak flexibility of the production system and its failure to respond to the changes adopted by the monetary authority.

- **Open market operations:** The Central Bank's entry into the monetary or financial market as a seller or buyer of gold, foreign currencies, treasury bills, and public bonds. Thanks to this process, it affects the ability of commercial banks to create credit. If the Central Bank's goal is to increase the money supply(Qadi,2003), it intervenes as a buyer and in return pumps liquidity into the economy, but if its goal is to reduce the money supply, it intervenes as a seller and in return absorbs the excess money supply in the economy. The effectiveness of this policy depends on the extent to which the following conditions are met:

- The degree of regularity and progress of the financial markets that allows the absorption of this type of operations by having a sufficient volume of securities necessary for these operations.
- The extent to which the banks rely on financing themselves by the Central Bank. Whenever these banks have excess cash reserves, they can self-finance themselves, and thus the chances of success of this policy diminish.
- The flexibility of demand for credit for interest rates, which depends on the psychological state of businessmen: their optimism, pessimism and future expectations regarding profit and loss.

- The quantity of what the Central Bank has of the desirable securities that it can offer for sale to reduce inflation or that it is ready to buy at high prices to combat deflation, with the possibility of it bearing a loss when sold in addition to the extent to which the securities held are proportional to the objective to be achieved.
- The appropriate scope for conducting open market operations, as if these operations take place on a large scale, they can lead to large fluctuations in the prices of securities and their interest rates, which threatens the profitability of commercial banks, which can push the latter to adopt a defensive policy that may conflict with the defined monetary policy objectives.

- **Direct tools:** It is a set of measures taken by the monetary authorities for the purpose of encouraging certain types of spending or productive investments and directing the flow of credit to them and bringing about the desired expansion, or stopping the excessive and undesirable expansion (Labossiere , 2013) in other types of uses by directly affecting the credit itself, the most important of which are the following:
  - Framing of loans;
  - Literary influence or persuasion;
  - Financing ceilings;
  - Setting an upper limit on interest rates on deposits;
  - Determining the percentage of the borrowing margin for the purposes of purchasing securities.

2. Unconventional monetary policy

There are many concepts related to the term unconventional monetary policy, and in general, it means a set of unusual procedures and means applied (Sheedy, September 2016) by monetary authorities in times of crisis in order to influence economic activity.

A set of conditions must be met for its implementation, which are as follows:

- It must be proportionate as much as possible to the degree of turmoil experienced by the market that will be rescued, and measures must be detailed in order to avoid total disruption to the markets, as the Central Bank must not hesitate to expand or reduce the range of its non-standard tools, especially the duration of unusual provision of liquidity depending on the extent of the defect in the functioning of the financial system;
- Measures must be accompanied by strong messages to commercial banks in order to address issues related to refinancing and budget reform in the medium term;
- Strengthening economic management through close monitoring of economic policies;
- The sum of unconventional measures undertaken by central banks in developed countries is working on structural change in the monetary and financial environment of the global economy (Al-Ahmad, 2013). It

has the right to be an explicit advocate for the necessary reforms of global finance and to modify the imbalance related to the global balance.

Central banks also use a range of unconventional tools, which are as follows:

- **Quantitative Easing (QE)**: It is the Central Banks' purchase of financial assets to increase the amount of money available in the economy in order to maintain market interest rates at the specified target value represented by zero interest rates, leading to a rise in the excess reserves of banks, as well as a rise in prices of purchased financial assets, which reduce their returns. It can also be defined as the increase in the size of the balance sheet of the Central Bank through the increase in monetary obligations that constantly maintain (average) liquidity and risk in its asset portfolio.

  - The Central Bank practices a policy of quantitative management to reduce the impact of economic recession on real economic activities by issuing a new amount of money and pumping it into the economy for free (Abdul Aziz , Abdul Hamid , & Abdul Bari, 2014). This policy was used for the first time by the Central Bank of Japan in the year 2001 AD, and after the global financial crisis of 2008 AD, it was used by the United States of America, the European Union and the United Kingdom. That being the case, the countries of the world entered into a series of currency devaluations and a wave of quantitative management policies that made them enter into a currency war between the major trading centres of the world.

- **Negative Interest Rates (NIR)**: It is the resort of the central banks to reduce interest rates to below zero, that is, to reach negative interest rates, meaning that the central bank receives interest on the money deposited into it instead of paying interest on these deposits. And through this process, the central banks want to deter banks from depositing cash to them and hopes to use it to lend to individuals and companies, which in turn contributes to strengthening the economy and alleviating the economic recession, and negative interest rates reduce the value of the country's currency, which gives exporters a price advantage in foreign markets, in addition to making the inflation rate positive. Still, when the rate of inflation is negative, the Central Bank's imposition of a negative interest rate leads to raising the real interest rate, which is equal to the nominal interest rate minus the inflation rate, and not reducing it (Tuckwell & Mendonça , 2016). And it was used for the first time by the Swiss Central Bank in the early seventies, and it was used by countries after the financial crisis 2008 AD, and the effectiveness of this policy depends on:
  - In the event of a severe crisis and a high degree of uncertainty, the risks of stopping debt service on the part of the borrowers will rise, and in these circumstances, it is not expected that this policy will lead to the achievement of its objective, since commercial banks, in this case, may prefer to continue to deposit their money to The Central Bank and pay interest on it instead of lending it to the public or to the business sector, bearing higher risks;

- Depositors withdraw their money and keep it liquid because imposing a negative rate on deposits may push savers to hoard their savings instead of investing them, which leads to drying up the banks' liquidity sources;
- Raising asset prices and creating price bubbles as a result, which raises the risk of asset price collapses in the future;
- The improvement of the foreign trade conditions of the countries that apply these monetary policies will make the affected countries deliberately take measures to protect their economy by devaluing their currencies as well, which creates the conditions for launching a currency war.

- **Credit Easing (CE):** It is the central bank's purchase of private securities (Abdul Aziz , Abdul Hamid , & Abdul Bari, 2014) either indirectly or directly without financial intermediaries. We note that in this case, the focus is on the papers in its balance sheet assets instead of focusing on increasing its monetary base as in the case of Quantitative Easing, which leads to a rise in asset prices in order to reduce long-term interest rates, in addition to the direct control of central banks to increase liquidity, as financing is directed in a way that allows revitalizing the economy on the one hand, and reduces the possibility of speculative bubbles on the other hand. The effectiveness of this policy reduces:
  - if there are no financing needs;
  - If there is a direct request for liquidity by companies and financial institutions through the issuance of shares or bonds in the financial markets.
- **Low (zero) interest rate cuts**: By this, we mean the reduction of the official or basic interest rate by the Central Bank in certain circumstances to a low level that may be close to zero (Belwafi & Bel Abbas). It is worth differentiating when talking about the zero interest rate policy between three lending cases, which are as follows:

Table 1: Lending Cases

Lender	Borrower	Interest Rate Value
Central Bank	Commercial Bank	Close to zero (which is what is meant to be explained)
Commercial Bank	Commercial Bank	A small percentage that is greater than the previous one, which varies according to the period, for example.
Commercial bank	Economic Dealers	A larger percentage, to varying degrees, determined by factors such as duration, size, and state of the economic factor.

Source: Ahmed Belwafi and Abdel Razzak Bel Abbas, "The Zero Interest Rate Policy and the Principle of Abolition of Usury in the Islamic Economy," Islamic Economic Studies, Vol. 61, No. 2, p. 50.

Considering that the Federal Reserve used it during the depression crisis, as it reduced the basic interest rate from 5% in 1929 AD to 0.5% in 1932 AD, then they used the Central Bank of Japan to continue to use it after the global financial crisis, and the success of this policy depends on:

- The existence of an automatic equilibrium between the real interest rate and the expected inflation rate, so that the sum of the two variables constantly remains zero;
- It requires the use of other auxiliary measures such as quantitative easing.

- **Forward Guidance (FG):**

It is a process through which central banks send signals to the markets to inform them of the possible direction that interest rates will take in the future (Taleb, 2016). It was used for the first time by the Central Bank of New Zealand in the year 1997 AD when the future of interbank rates was announced for the next three months and continued to be used after the 2008 global financial crisis. The effectiveness of this tool depends on the credibility of the Central Bank and its respect for its announced commitments.

3. The difference between conventional and unconventional monetary policy

The main differences between the two policies can be summarized as follows:

Table 2: The difference between conventional and unconventional monetary policy

Unconventional monetary policy	Conventional monetary policy
It is based on unconventional financing: Its primary objective is to provide liquidity to address crises; Its tools are quantitative easing, credit easing and zero interest rates, forward guidance, negative deposit rate, and unlimited foreign exchange intervention; The cash issue is free of charge; lead to an increase in the size of the central bank balance sheet resulting from monetary issuance, quantitative easing and credit easing; The interest rate is zero or negative; The Central Bank can directly intervene without a financial intermediary, i.e. in the primary market, to purchase treasury bonds, guaranteed assets with companies and bad debts with banks; It can subscribe to papers without taking into consideration their quality.	It is based on traditional financing: Its primary objective is price stability; Its tools are indirect (the re-discount rate, the open market and the compulsory reserve rate) and direct (such as moral persuasion); The cash issue is only for a return; Does not affect the size of the central bank's budget; The interest rate is determined by supply and demand; The Central Bank is only allowed to purchase Treasury bonds in the secondary market and from commercial banks and financial institutions; The central bank was only subscribing to high-quality securities.

Source: Prepared by the researcher

III. Features of monetary policy in Algeria from 2001 to the present day:

Our study on monetary policy in Algeria was limited to two main stages, the first stage that was selected starting from the year 2001 AD after the rise in oil prices in that year until 2013 AD, and the second stage from the year 2014 AD to the present day due to the drop in oil prices in it.

1. Monetary Policy from 2001 to 2013:

Oil prices have risen since 2001, which has had a positive impact on the national economy due to its great dependence on the revenues of hydrocarbon exports. The macroeconomic indicators have been strengthened in the national economy, especially at the level of bank liquidity, which has increased since the beginning of 2002. This is what led to the amendment of the Monetary and Loan Law on 26 August 2003 AD by defining the objectives and formulating the monetary policy framework and defining its tools, where the Bank of Algeria has strengthened the indirect means of monetary policy since banks and financial institutions stopped resorting to its role as the latter's lender, and its intervention was through operations outside the money market (The annual reports of the Bank of Algeria (2008), 2017), namely:

- Re-discount;
- Taking and placing deposits;
- Marginal advances for deposits.
- And by operations in the money market using new tools of monetary policy:
- On April 11, 2002, a new tool was introduced, which is the recovery of cash in a blank that is carried out through instant tenders, which can be in the form of deposits for 24 hours or for a term;
- On June 14, 2005, a new tool was introduced, which is the interest-bearing deposit facility, whereby banks form deposits with the Bank of Algeria for a period of 24 hours, where this facility is rewarded at a fixed rate announced in advance by the Bank of Algeria, and it can also be changed according to market fluctuations and the evolution of the rate structure.
- In addition to raising the compulsory reserve ratio to 8% on December 24, 2007, after it was 6.5%. Where the ultimate goal of monetary policy is to maintain the internal and external stability of the currency.

In 2009, the volume of liquidity began to decline due to the global crisis, but an increase in official exchange reserves during the years 2007-2008 led to resistance to external shocks, so the volume of liquidity increased in the years 2010 AD and 2011 AD, then moderated in the year 2012 AD, to decrease again starting from the year 2013 AD. The rate of inflation witnessed a significant increase in the year 2012 AD, which led to the introduction of a new method, namely: recovering liquidity by six months at an interest rate of 1.50%, in addition to extending the maturity periods for recovering liquidity starting from January 2013 for greater absorption of the stable liquidity of banks, and raising the compulsory reserve rate to 12% in May 2013, after raising it to 9% and 11%, and amending the Monetary and Loan Law again on August 26, 2010, considering price stability, i.e. targeting inflation as an explicit and final goal of monetary policy, in addition to financial

stability in general, and the stability of the banking sector in particular, which allows the supervision of banking institutions to discover crises (The annual reports of the Bank of Algeria: 2015 , 2017), as the Financial Stability Committee was established at the level of the Bank of Algeria in the year 2009 AD, in addition to the task of monitoring payment systems, especially after the immediate payment system for large amounts, urgent payments and electronic clearing took effect in 2006.

2. Monetary policy after 2014:

Since June 2014, oil prices have witnessed a significant decline, which negatively affected the national economy due to its great dependence on the revenues of hydrocarbon exports, especially on the level of bank liquidity. Therefore, monetary policy faced a number of challenges, which we list as follows:

- A deficit in the budget and in the external current account, which led to almost total erosion of the Revenue Control Fund's resources and a decrease in exchange reserves;
- High rates of inflation;
- Decrease in bank liquidity;
- A deficit in the trade balance and balance of payments;
- Decrease in the exchange rate of the Algerian Dinar;
- Weakness of traditional monetary policy tools due to the absence of a developed monetary and financial market and the weak savings awareness of individuals, i.e. the tendency to hoard instead of saving.

Therefore, the Bank of Algeria has taken a number of measures:

- The gradual reduction and then the final cessation of liquidity absorption operations in the third quarter of 2016;
- Reducing the mandatory reserve rate from 12% to 8%;
- Reducing the re-discount rate from 4% to 3.5%;
- Determining how to implement both the open market policy tool that allows managing the guide interest rates and the level of bank liquidity according to the needs of the economy and the marginal loan easing tool that allows banks to resort to the Bank of Algeria to cover their treasury needs;
- Determining the maximum rate that banks and financial institutions cannot exceed when distributing loans to their customers.

IV. Unconventional monetary policy in Algeria

Central banks have been unable to address crises due to the inability of monetary policy transmission channels to affect economic activity. When interest rates fall to zero, in this case, central banks lose their ability to influence real rates by means of the key rate, as can the credit channel, due to its connection with the interest rate channel, cannot function normally, and therefore the monetary authorities have no other alternative to stimulate aggregate demand other than resorting to unconventional measures and procedures. Therefore, unconventional monetary

policy refers to all measures designed to directly influence the economy and provide financing to banks, individuals and companies.

1. A brief overview of the use of unconventional monetary policy:

The management of monetary policy is among the main tasks of banks (Boutefnouchet, 2017), where extraordinary measures and procedures have been adopted by introducing new ways to improve the financial conditions of the economy. The following is a brief overview of the countries that have used these measures:

- February 1999: The Bank of Japan (BOJ) lowered the interest rate to almost zero percent (ZLB);
- March 2001: The quantitative easing policy is adopted by the Bank of Japan (BOJ);
- September 2008: The bankruptcy of the American business bank "Lehman Brothers", which led to a global financial crisis that resulted in the expansion of the use of unconventional monetary policy tools by countries;
- November 2008: The US Federal Reserve Board (FED) decided to launch the first program to purchase securities (the quantitative management tool);
- August 2012: European Central Bank Governor Mario Draghi announced that the European system is ready to do whatever it takes to save the euro through the use of quantitative easing;
- March 2016: ECB set key rate at 0% and negative deposit rate - 0.40%, expansion of quantitative easing program.

2. The actual situation of the unconventional monetary policy of the Bank of Algeria:

The Bank of Algeria will resort temporarily and for a period of 5 years for the purpose of reducing the effects of the oil price collapse crisis that the national economy has known since 2014 AD to use unconventional monetary policy tools like many countries, which take several forms according to the priorities of the central banks of each country. The Bank of Algeria has taken the quantitative easing tool, which allows the provision of liquidity to the government with the aim of financing its expenditures or even financing its deficit while accompanying it with the implementation of a program of economic structural reforms, thus, excluding resorting to external borrowing despite the measures taken to reduce public expenditures by reducing the national import bill, and raising taxes; where the government sees that printing more money will prompt capital owners to invest because of its cheap prices, which leads to an increase in production, which in turn leads to an increase in the supply of goods and services, leading to lower prices. Still, in the actual Algerian situation, we know that local investments are limited, as we are aware of our inability to attract foreign direct investments, and if this liquidity is not directed to financing investment projects and is not accompanied by these structural reforms (The Official Journal, 2017), it will have great risks, including:

- High levels of inflation;
- A deficit in the balance of payments;

- A decline in the value of the local currency.

Knowing that there is a difficulty in determining the repercussions of this new policy because there are many factors that control its results, and there are different views on it in different countries: while it did not succeed in Venezuela, it lasted a lot in Japan since 2001 AD to the present day. Still, it succeeded in supporting economic activity and financial stability at the local and international levels after the 2008 global financial crisis, thus, preventing the collapse of the financial system.

3. Evaluating the impact of unconventional monetary policy on the independence of the Bank of Algeria:

Unconventional monetary policy is the only way out of the crisis that the Algerian economy has suffered, especially since its tools of quantitative easing, zero interest rates and negative interest rates have become today major tools for monetary policymakers in various developed countries.

But through what has been studied in this field, we note that the total lack of independence of the Bank of Algeria is through the following:

- The mechanisms for implementing this policy are by the treasury and the Bank of Algeria.
- This policy is used exceptionally for a period of five years by purchasing directly from the treasury the financial bonds issued by the latter, but what happened in fact is that this policy was used for a period of only two years and did not reach the expected results.
- It is assumed that the quantitative easing policy has only one goal, but it was applied in Algeria to achieve several goals, which must be accompanied by several structural reforms to achieve the balances of the state treasury and the balance of payments, and this is what leads us to say that the unconventional monetary policy was not only a prerogative of The Bank of Algeria but also one of the prerogatives of the public treasury.
- Since Algeria experiences imported inflation, the Bank of Algeria cannot intervene in a monetary way only to raise the level of economic activity, but there are other external indicators and policies that it cannot control.

V. Islamic finance as a strategic option to improve the performance of the Algerian banking system:

1- Islamic windows:

The Algerian government has allowed three public banks to open Islamic counters (windows) starting in November 2017, namely, the “Popular National Credit” Bank, the “National Fund for Savings and Reserves” bank, and the “Local Development Bank”. The Bank of Algeria has officially worked in banking windows in accordance with the Law No. 18-02, in October 2018, according to eight types of Islamic transactions, where it can be defined as being part of a traditional financial services institution so that it is a window or a unit affiliated with that institution that provides specialized services in money management and another one in the field of finance and investment according to the laws and transactions of Islamic Sharia (Buhaih,2020), so it can be defined as a space or

place within banking The traditional practice of Islamic banking within the framework of contractual banking for the purpose of providing specific Islamic banking services and products by the monetary authority of the state.

2- Banking services for Islamic windows:

2-1- Mudaraba: is one of the Islamic alternatives to the usurious investment system, and it is one of the Islamic methods that results in many benefits. The partner is the owner of the capital, and the dealer is the speculative partner. If the profit is achieved, it is distributed according to the agreed ratios. If the loss is realized, the bank bears a loss in its capital, and the dealer bears a loss in his work (Buhaih , 2020), and does not result in any indebtedness as a result of the loss unless it is proven that there is a breach or default by his side.

2-2- Participation: Participation works to manage investment projects in participatory and collective ways, as it is considered one of the tools that the Bank of Algeria has officially adopted as a service marketed by Islamic banking counters or windows (Khatwi & Laslous, 2020). It is known as a number of partners collecting their capital financing to carry out a commercial or industrial project, where all parties invest in different proportions and distribute profits or losses according to each party's share in the capital. It differs from speculation as a multi-contributory mechanism.

2-3- Murabaha: The Murabaha formula is considered among the most important forms and financing methods most used in Islamic banks, and we mean that the bank represents the contract request with the customer on the basis of the first purchasing what the second asks for in cash that he pays to the bank in whole or in part, in return for the customer’s commitment to purchase what he ordered and according to the agreed profit. It is done either sooner or later. This tool is important as it is a tool for short and medium-term financial employment, which allows the bank to quickly turn around money.

2-4- Sale on rent: It is of great importance as it represents the provision of financial liquidity to the lessee by obtaining full financing for the leased capital asset, and this asset is either mobile material production means or fixed material means, and it is a legitimate tool approved by the Central Bank of Algeria for the windows of Islamic banks, and we mean the investment of the bank's money to buy expensive means of production that are required in operation and employment, then the Islamic windows lend them to customers in various fields, and their wages are paid according to the contract of an agreement concluded between the two parties.

2-5- Salam sale: Salam financing is considered one of the financing tools in Islamic banks, and the latter can, according to this contract, buy goods that are known in certain quantities and specifications and at a specific price, so he pays their value in the presence of the one who bought them on condition to be delivered to him on a specific date. Salam sale is the opposite of selling for a deferred price, and the jurists defined it as selling something deferred in exchange for something present for the time being.

3- The problem of opening Islamic windows in Algerian banks:

- Absence of a legal framework
- Lack of real will to go into Islamic banking
- Lack of training and qualifications for bank employees in the field of Islamic services
- Opening Islamic windows inside conventional banks helps the latter in development and continuity, and this is incompatible with Sharia
- The problem of providing Islamic banking services within conventional banks, which reduces trust and distorts Islamic banking work
- The difficulty of managing these windows by the Bank of Algeria, through the duplication of conventional and Islamic work in the same bank(Bouaita , 2018)

Conclusion:

It can be said that the world today is swimming over a monetary volcano as a result of quantitative easing policies with the aim of raising the level of economic activity by making the cost of credit low (the policy of cheap money). However, the danger of the spread of monetary easing on a large scale made the world face a new round of competition between currencies and the formation of the so-called currency war, which would plunge the world into another crisis and the fear of it represented in all countries devaluing their currencies at the same time and thus losing confidence in all currencies of countries. As for our study of Algeria, it can be said that these policies have a negative impact, as Algeria uses fiscal policy more than its use of monetary policy (such as taxes), whose results we can only see in the long term, and since Algeria is a rentier economy that depends in the development of its activity on oil revenues, any rise in oil prices leads to an improvement in the economic level of Algeria, including various economic variables and vice versa in the event of a decrease in oil prices. Therefore, unconventional policies, especially the new monetary issuance, exacerbate the crisis due to the lack of production capacity and thus the decrease in demand for the Algerian dinar, which in turn leads to a decrease in the exchange rate of the dinar against the main currencies. The increase in issuance leads to a decrease in the value of the currency for the purpose of encouraging exports, but this policy is only successful in countries that have a productive capacity, and Algeria is not among those countries, and the result is, of course negative. As for Islamic financing through Islamic windows, it is considered the best option to contribute to the economic development in Algeria by consolidating the principles of Islamic finance within a conventional environment. Economic experts have seen that it is better for international banks to abandon interest rates in their dealings, which were considered as a major cause of financial crises, and therefore Islamic banking and its legitimate services must be followed.

Results:

- The central banks' adoption of large-scale unconventional measures in monetary policy is a featured policy of the 2008 global financial crisis. There was enhanced credit support and quantitative easing, credit easing,

interventions in the currency and stock markets and the provision of liquidity in local currencies;

- Despite the great advantages of the indirect monetary policy tools, especially the quantitative easing policy, many economists and analysts oppose the expansion of its use or the recurrence of its use because of their pessimistic view of its long-term effects on currency exchange rates and inflation rates because it contributes to increasing inflation;
- Algeria, by using unconventional monetary policies, negatively affects the national economy, as the increase in the monetary mass in production for no return leads to inflation and therefore the ineffectiveness of these policies;
- Algeria's use of the quantitative easing policy leads to a weakening of the local currency and consequently a decrease in its exchange rate, and an increase in import prices, resulting in a deficit in the balance of payments;

In order to ensure the success of this strategic direction, that is, Islamic finance, in achieving the expected goals, it is necessary to:

- Strengthen Islamic finance in Algeria with its own law regulating its activity similar to the Law of Money and Loan for Conventional Banks, and not just a regulatory text issued by the Bank of Algeria.
- The Islamic financial industry in Algeria should benefit from protectionist measures as an emerging industry, similar to the rest of the other emerging and strategic industries.
- The Fatwa Authority for the Islamic financial industry must be developed into an independent institution with the introduction of the dimension of Islamic financial engineering in its activity and empowering it with legal, material and human mechanisms in order to develop Islamic financing formulas in Algeria, with the need to rely on the method of innovation in the financial products provided within the framework of the Islamic window.
- Form a qualified workforce to practice the activity of Islamic banks.

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