



Dedollarization in the Global Monetary System: Risks and Opportunities for Algeria's Economy



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Abstract

This article analyses the dynamics of dedollarization in the global monetary system and implications for the economy of Algeria. Motivations for dedollarization, including geopolitical reorientations, reserve currency diversification, and the emergence of alternative monetary systems are examined. Potential boons for the economy of Algeria, including decreased openness to exchange rate risk, strengthened monetary autonomy, and facilitated trade diversification outside the dollar safe haven, are also measured. Costs of dedollarization are explored, including transition costs, liquidity contraction, and exposure to volatile liquid assets. This paper delineates Algeria's dependencies, policy alignment, and geopolitical positioning in the current financial landscape. Ultimately, a coordinated, gradual approach to dedollarization could buttress Algeria's economic immunity, minimizing exposure to macro financial instability.

Keywords

Dedollarization;
Global monetary system;
Algeria economy;
Monetary policy;
Currency risk.

الكلمات المفتاحية

إلغاء الدولار؛
النظام النقدي العالمي؛
الاقتصاد الجزائري؛
السياسة النقدية؛
مخاطر العملة.

إلغاء الدولار في النظام النقدي العالمي: المخاطر والفرص أمام الاقتصاد الجزائري

ملخص

تتناول هذه الدراسة بالتحليل المتعمق ديناميكيات إلغاء الدولار في النظام النقدي العالمي وانعكاساتها على الاقتصاد الجزائري. وتبحث في الدوافع الجوهرية لهذه الظاهرة، بما في ذلك إعادة التوجهات الجيوسياسية، وتنويع عملات الاحتياط، وظهور أنماط وأنظمة نقدية بديلة. كما تقيم المنافع المحتملة للاقتصاد الجزائري، مثل الحد من التعرض لمخاطر تقلبات أسعار الصرف، وتعزيز الاستقلالية والسيادة النقدية، وتوسيع قاعدة الشركاء التجاريين خارج نطاق الاعتماد على الدولار كملاذ آمن. وتستعرض الدراسة كذلك التكاليف المحتملة لعملية إلغاء الدولار، والتي تشمل أعباء الانتقال، وتقلص مستويات السيولة، وزيادة التعرض للأصول السائلة عالية التقلب. وتسلط الورقة الضوء على أوجه الاعتماد البنوي للاقتصاد الجزائري، وخياراته في مجال مواءمة السياسات الاقتصادية، وموقعه الجيوسياسي في المشهد المالي الدولي الراهن. وتخلص الدراسة إلى أن اعتماد نهج تدريجي ومنسق لإلغاء الدولار من شأنه أن يعزز مناعة الاقتصاد الجزائري ويحد من قابليته للتأثر بحالات عدم الاستقرار المالي الكلي.

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Doi:

I- Introduction:

More than seven decades has been at the center of the global monetary system. The dollar's paramount status as a reserve currency, leading medium of international trade settlement and pricing for both oil and other commodities have not only defined world economic structure and function, but they also equally influenced its current political shape. Over the years, this 'Dollar Hegemony' has not only ensured global liquidity and easier trade integrations but has also provided several blessings to US with one of them being the exorbitant privilege of financing its deficits with its own currency. It has been the overlay which for many countries, Algeria included to a considerable degree given that so many areas of external trade and monetary management have historically comprised a key component in the hydrocarbon export basket, set significant level of constraints within which both fiscal policy action and monetary prudence were defined over decades.

However, the past few decades have seen a rising number of threats to the continued hegemony of the dollar over this century. Geopolitical realignment, large sanctions against major economies, the ascent of China and other emerging powers, and a larger role played by regional financial institutions have so far been driving the "dedollarization" process. Because this is not a marginal, concern any more: for the erosion in the status of the US dollar as international currency at this point extends well beyond merely single enthusiasts and individual states. It is now a concrete and policy relevant question for a variety of economies, ranging from the largest emerging markets to resource exporters. Crucially processes leading to the adoption of alternative currencies like, and, regional settlement systems indicate that an increasing multipolarity is shaping global monetary order.

Dedollarization would be complicated for Algeria. A radical shift in the use of currencies for international trade carries profound implications for a major exporter whose trading partners are also dollar reliant, particularly concerning the quantum and prices of energy export receipts revenue, as well as the importance of US currency transaction position or foreign reserves stability on budgetary predictability. Moreover, in diversifying away reliance on the dollar, such a move could simultaneously boost Algeria's monetary sovereignty and rein in its exposure to US extraterritorial sanctions while also potentially positioning the country better to forge new strategic trade partnerships

This emerging landscape poses a fundamental question for research: how far can Algeria withstand and adjust to the global dedollarization movement, benefit from it as much as possible in terms of new growth, diversification and resilience? The provisional assumption of this work is a two-pronged one: first, that dedollarization involves transitive hazards market fluctuation, exchange rate flux encumbrance and institutional adjustment equivalence that are to be prevented at all time; second, that an adequately fitted policy package can help Algeria kiss those risks into long-run stratagems boosters so as to walk through the alley link.

This study locates the Algerian experience within a worldwide process of change in the international monetary system, and thus involves a double perspective: on the one hand, we need to consider dedollarization as an internationally generalized phenomenon driven by deep structural determinants; on the other hand, we also need to examine national configurations of vulnerabilities and potentialities that differ case by case from wider trends. The goal is to provide a more sophisticated grasp of how a dollar-dependent emerging market can reposition itself in an increasingly diversified, albeit competitive international financial arena.

II.1. Conceptual and Theoretical Framework of Dedollarization:

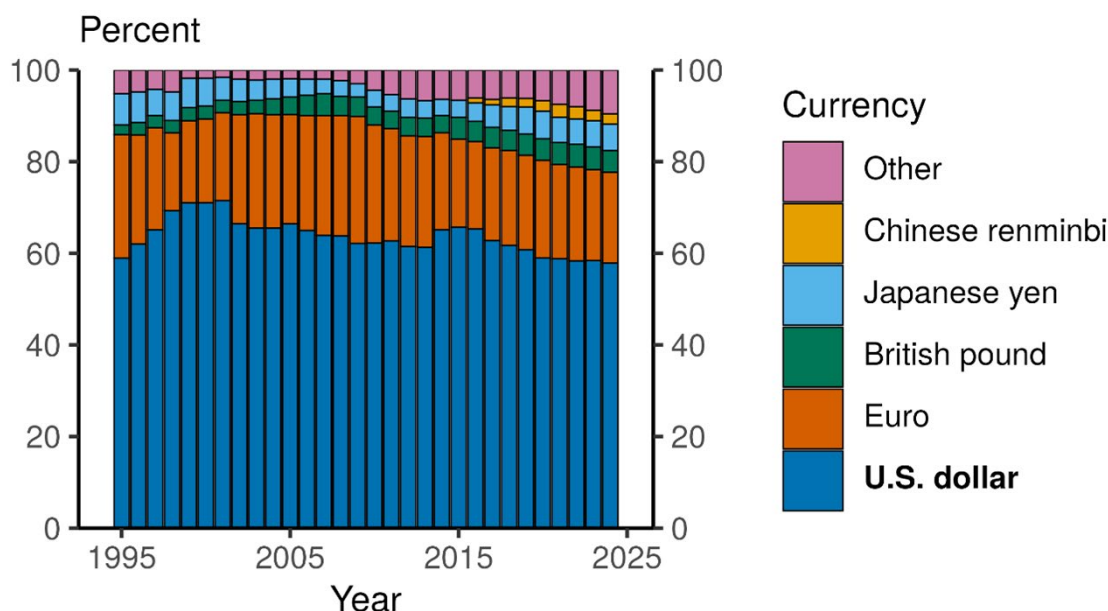
II.1.1 History of Dollar Dominance:

The declining importance of the USD since the 1970s, is evident by a series of events and policy changes, specifically with what became known as the "Nixon Shock". This would be a major break from the post-World War II tradition, which saw the US dollar become the dominant reserve currency in the world. Bretton Woods Agreement, which was signed by lots of countries in 1944, stipulated linking the US dollar to gold and that implanted it as a central unit for most of major international currencies. Dollar built upon economic stability, fueled by programs such as the Marshall Plan. When US president Richard Nixon removed gold convertibility in the 1970s; he set off shockwaves that ultimately destroyed the Bretton Woods System. The petrodollar boom, combined with an increased global competition, undermined the dominance of the dollar. Key geopolitical events, such as the OPEC embargo of 1973, had already begun to demonstrate the power and weakness of the US dollar. The failure of the silver standard in the 19th and early 20th centuries, gold-backed stability against post-Nixon Shock uncertainty; contrasting between the post-World War II era and subsequent decades during the 1970s highlighted the deficiencies in a singular currency system. The waning role of the US dollar in the 1970s was essentially due to economic difficulties, policy changes and intensification of global competition brought about by the Nixon Shock.

The US dollar has somehow managed to withstand multiple crises and economic cycles, but it reigns supreme as the global reserve currency. A host of factors has contributed to this continued dominance that together underpins the US dollar in the global arena. For one, the US, having had one of the largest and most diversified economies in the world, both in terms of sheer economic firepower and scale, makes the U.S. economy attractive to trade with on top of it being relatively safe. US financial markets, typified by institutions like New York Stock Exchange and the US Treasury market, are renowned for deep and liquid depth that make it one of the safest & most reliable platform for transacting on a global scale, attracts security as well as liquidity seeking investors. Additionally, the US dollar also gets strong backing from its political and economic stability along with another factor that keeps it well on-demand is legal framework rigorous and respect for property rights in the states, which attracts global investors, indirectly contributing to increased confidence in the United States Dollar. Commodities, especially oil (also referred to as petrodollars), are priced in US dollars leading to the constant demand for the currency around the world maintaining its status of global reserve. The dominant position of the US dollar in international trade and finance has generated network effects, which underpin its influence over the global financial system. More importantly, the absence of alternative makes way for a safe-haven status of the dollar in uncertain times as well as inertia, historically derived from decades of dominance. Historical US economic and monetary policies are reinforced by diplomatic tools used to support the international use of the US dollar, forging agreements, alliances and diplomatic relationships. In conclusion, the long-lasting hegemony of the US dollar is a more complicated set of economic, financial and political forces that contribute in unison to confirm it as a major reserve currency.

The British pound, not the US dollar, commanded the heights less than a century ago in the aftermath of World War I, the US took a leading role in designing the Bretton Woods Agreement (1944), which gave rise to international trade with dollar convertibility. By 1970, this agreement had been all but defeated and President Nixon put an end to US dollar convertibility for gold in the year 1971. As a result, the US Dollar began to be linked with international demand for such. Being the largest contributor to international institutions, the United States, in consequence, led almost 90% of transaction payment to be done in American dollars leaving total international trade (\$22 trillion) is US dollar-denominated (Aktar, Islam & Alam 2022). Thanks to prestige of global trade and reserve status, no other country has been able to rival this. In Q1 2022, the share of foreign exchange reserves in US dollars stood at 54%, with the euro and Japanese yen accounting for 19% and 5%, respectively, by the end of 2021. The use of the dollar in global trade is 88% and for Yuan, that making efforts to de-dollarize its economy, it is 7% For reference, it took 24 years for the US dollar to shrink from central bank reserve levels by just 12%, almost a century before its potential replacement in 2023 (Mosharrafa, 2024).

Figure 1. Foreign exchange reserves

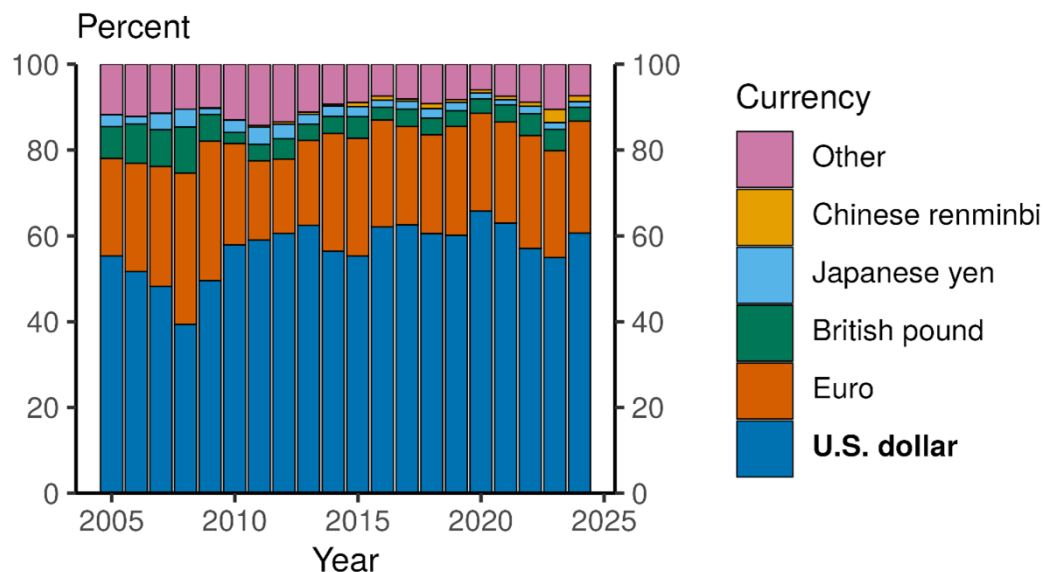


Source: (Bertaut et al., 2025)

The concept of money is acknowledged due to its role as a means of exchange, an intermediary that makes it easier for the public to carry out functions of purchasing goods and services. It also serves as a savings account for folks that want to collect and store money for later use. Lastly, money is a unit of account: it serves as a standard measure for pricing and comparing different goods and services in an economic context, this sets the framework under which it introduces this notion of dollar domination. This term involves much more than just referring to the US dollar as it relates to its essential functions of money that spread across the world economy. In this respect, the US dollar is not only used as a key unit of

account in currency markets but also serves as an ultimate store of value for investors around the world. In addition, it can serve as an effective and generally trusted means of exchange in many exchanges, which demonstrates the broad use of the US dollar on a global economic level the history of the dominance of the dollar is opened by important stages, demonstrating how the United States shaped an international economic order. The challenges to this system began in the early 20th century, and only a few decades after World War I ended, the Bretton Woods Agreement of 1944 left the US dollar as the world reserve currency with a gold standard backing. For the first time in history, the US dollar was backed by gold while at the same time propped up by an economy as stable and powerful as it ever had been. Because of the leading position that the United States had taken after World War II, the dollar, with its anchor to gold, became central in a post-war economic order that built on America's strength. But it was really the Nixon Shock of 1971 when President Richard Nixon ended the dollar's convertibility to gold and other countries followed suit, switching to floating exchange rates. Through all these changes, the US dollar was not dethroned, due in part to its stability and lack of an obvious replacement. The petrodollar system, in which oil and other commodities were priced in US dollars, also generated increased demand for the currency, along with fostering its centrality in global trade. The depth and liquidity of US financial markets, including the institution formerly known as the New York Stock Exchange plus the deepest and most liquid bond market in the world (US Treasury) were global magnets, as was indeed the settlement currency (the USD) in so many international financial transactions. Over the centuries, dollar hegemony has developed as a series of power plays that formed part of economic strength, policy machination and global marketplace functionality. This gives the US a number of privileges as a result due to \$US primacy in the world economy. The dollar's exorbitant privilege means economic policy can be used much more aggressively in the United States, as it effectively has a monopoly on printing dollars. In addition, they can, and do, use that influence to advance their economic and political interests. Alternatively, as we know that the US dollar is the leading global reserve currency, demand for it will continue to be strong. With it, the US government can then borrow at lower interest rates saving debt science. Because so many international transactions are conducted in dollars, this also protects American businesses from exchange rate risk (at the same time it makes them more competitive in global markets); Due to its use as the reference currency across the globe, usually any global uncertainty in relation to fiat money is a boon for the greenback against other currencies. This supports the financial sovereignty of America (Française, 2020).

Figure 2. Share of foreign currency debt issuance



Source: (Bertaut et al., 2025)

II.1.2 definition of dedollarization:

De-dollarization is the intentional effort of countries to reduce their dependence on US dollar, for example, through diversification of currency reserves and promotion of alternative currencies (Liu & Papa 2022). Three categories of evidence underpin this strategic pivot. Firstly, central banks have reduced their US dollar asset holdings, but increasingly diversified global Reserve assets to other currencies such as the euro and Chinese Yuan. The practice of trading in alternative currencies has come to embody engagement in currency swaps and bilateral agreements as tangible examples of a shift away from an absolute-dependence on the US dollar-dollar (Arslanalp et al., 2022). In addition, alternative payment systems are being put in place including through the use of digital currency to reduce reliance on the legacy US dollar-denominated global financial system. At the same time, an ever-longer list of trade agreements are allowing for transactions in currencies other than the US dollar an explicit attempt to try to create a multipolar world of money as opposed to merely one nation's national currency. Finally, the fact that nations are negotiating and entering trade

agreements that encourages using more of their own currencies or other forms of money only adds to the de-dollarization. These multifaceted initiatives, underpinned by a backdrop of history from the end of World War II, have begun to contest the long-time supremacy of the US dollar in what reflects an incremental yet deliberate fragmentation away from this hegemony (Eichengreen et al., 2017).

Figure 3. The role of the U.S. dollar as the foundation of the global financial system



Source: (Magarill, 2025)

II.1.3 the Causes of Dedollarization:

- Geopolitical Reconfiguration and Financial Interdependence Hegemony:

One of the key drivers behind de-dollarization is the increasing perception that liberal international finance, change due to geopolitical competition. 88 The United States has used the control of financial infrastructure toward strategic foreign policy objectives and this has forced certain states to look for ways to insulate themselves from American influence.

Systemic Risk and Sanctions: The weaponized interdependence concept is based on the access to global networks central states can use to pressure others (Farrell & Newman, 2019). The United States has resorted to using its chokehold over the dollar-based financial system, through ownership of the SWIFT messaging network and correspondent banking, forcing other countries to submit under powerful economic sanctions. This has changed dollar dependence from an economic convenience to a major strategic weakness. Conclusion The broad sanctions on Russia have illustrated this all too well on the global stage by triggering states China at the forefront indeed to embark on building robust alternatives to economies designed in acknowledgment of US jurisdiction (Ryan, 2024)

The Emergence of a Multipolar World Order: Transition from a unipolar to multi-polar world system fundamentally counteracts the structural underpinnings of dollar hegemony. The rise of China as an economic giant provides broad agreement. Beijing has carefully continued its mantra to slowly internationalize the renminbi by enforcing a web of bilateral currency swaps, promoting RMB-denominated trade contracts (especially in energy), and creating an alternative to SWIFT with the Cross-Border Interbank Payment System (CIPS). This is an economic project that has geopolitical roots in an effort to form a financial domain that can oppose the United States (Papa, 2022).

Rise of Alternative Currencies

This is multilateral hypopolarity, exhibited in BRICS+ incorporation Egypt, Ethiopia, Iran, Saudi Arabia and UAE in 2024, sparking dedollarization via money settlement regional blocks. With the BRICS+ trade being conducted in local currencies, as it rose by 28% of overall value exchanged during 2023. Such rise is attributed to both economic interconnectivity and political alignment against Western dominance.

Well, BRICS+ according to the scholarly analysis is seen as a counter-hegemonic force enabling dedollarization through RMB internationalization and common currency explorations, potentially accelerating the rebalancing of global power relations .By then, 60% of China's Belt and Road Initiative (Arslanalp et al., 2022). lending had converted into RMB, thus contributing to network effects for alternatives. In terms of global sovereignty this search for a new order is positive as it lessens dependency on the dollar but internal differences prevent these (i.e. the Indian associated with dollars) are hurdles that will likely slow down any move toward reform or regulation (Arnold, 2024) RMB trade finance doubles to 8% since the bin arrangement beginning with BRICS+ and chipping away at dollar invoicing in commodities like oil (Saaïda, 2024).

-Economic Fundamentals and Macroeconomic Imbalances:

Central banks and governments have more than that to worry them, though there is a good case for further diversification away from the dollar on sound economic grounds.

Reserve diversification: Global FX reserves by currency composition show a clear diversification trend, albeit gradual. The greenback, as it is colloquially known, has long been the world's most important reserve currency but its share has shrunk from more than 70% in the late 1990s to around two-thirds today. Leading research by International Monetary Fund introduces a concept called stealth erosion. They find that this is not merely a byproduct of passive drift, but rather an intentional decision on the part of central banks to build positions in “nontraditional” reserve currency such as the Chinese renminbi, along with other currencies like the Canadian and Australian dollars (Arslanalp, Eichengreen, & Simpson-Bell, 2023). This diversification acts as a risk management strategy so that they are not overly exposed to the Federal Reserve or long-term exchange rate fluctuations.

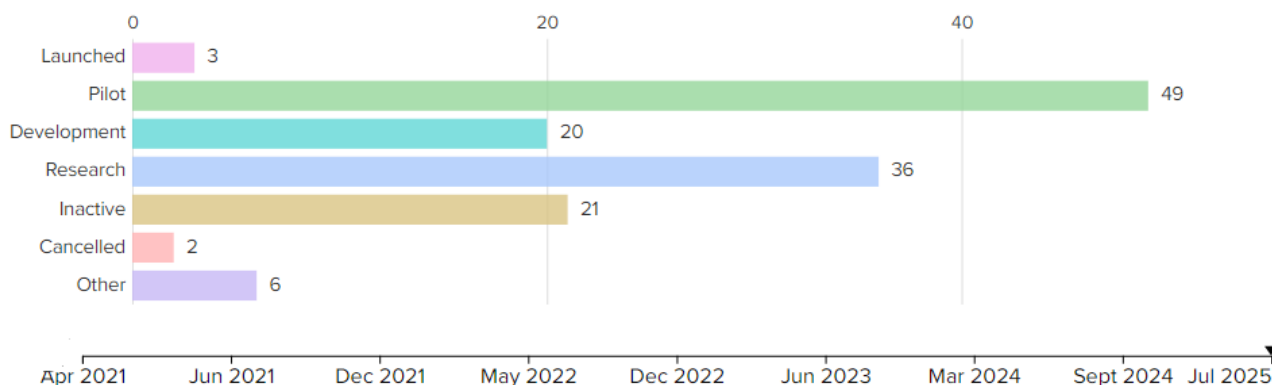
Addressing Negative Spillovers: In emerging market economies, a large share of dollar borrowing makes them particularly vulnerable to spillovers from U.S. monetary policy decisions. This was: tightening by the u.s. federal reserve may lead to capital flight, vulnerability in emerging markets Countries that deregister the circulating medium during modern globalization appear to seek after two aims, more incredible impact over their own macroeconomic policy using forward looking fiscal and openness setting and less helplessness in respect of stunning changes inside general capital streams (Eichengreen et al., 2018)

-Future of Money Technological Disruption

New payment paths in international trade finally open thanks to financial technology, changing the way we make international payments and threatening the dollar first role as transaction currency.

Central Bank Digital Currencies (CBDCs): The theme of innovation that will be delivered upon is CBDC development. While most cases begin with a focus on national needs, the ultimate goal of many states is to pave the way for cross-border transactions. For example, the central banks of China, Hong Kong, Thailand and the United Arab Emirates (UAE) and the Bank for International Settlements (BIS) are experimenting with a platform that facilitates cross-border payment-versus-payment transactions using multiple CBDCs called “mBridge”. These platforms could facilitate less expensive and faster international transactions, avoiding the dollar-centric legacy correspondent banking system, which originates from the dollar acting as a crucial intermediary asset (Bank for International Settlements 2022). Adopting such multi-cbdc arrangements in any form of commerce would thereby dilute the incumbency advantage of the dollar over every other nation.

Figure 4. Number of countries and currency unions exploring CBDC 2021-2025



Source: (Central Bank Digital Currency Tracker - Atlantic Council, 2025)

Long-term ideological and technological challenge to the state-centric fiat currency system: Decentralized Finance (DeFi) & Non-State Alternative Assets While DeFi and the broader crypto-asset universe represent still a nascent area, if significant scale was achieved it would represent a clear long-term...medium.com in a more mainstream manner, the issue has also been complicated by significant central bank gold buying. Gold represents a diversification away from dollar-based financial assets, to a reserve asset that is not the liability of any one country essentially an insurance policy against ongoing political financial status quo (World Gold Council, 2023).

II.1.4 Consequences of Dedollarization:

- The decline of exorbitant privilege: Implications for the United States

The direct effects of de-dollarization are fairly simply, and they will primarily impact US shores as the advantages of having the global reserve currency or what Nixon advisor Valéry Giscard d'Estaing called America's exorbitant privilege wane.

Increased Borrowing Costs and Fiscal Constraints: Global demand for dollar-denominated assets, especially U.S. Treasury securities, ensures rich financing terms for the U.S. as it undertakes large government (federal budget) and current account deficits under conditions of adversity to the contrary; This will reduce the relative demand of U.S. debt, and force the U.S. to offer higher yields in order to attract capital away from central banks and private investors looking for more diversified portfolios. Over time, this will drive up the interest that needs to be paid on the national debt and thereby force fiscal policy makers towards greater discipline (Richardson & Zhang, 2013)

The erosion of that global-leverage/status in geopolitics: The international role of the US dollar benefits U.S. foreign policy, particularly via economic sanctions. The U.S. will no longer be able to use the "nuclear option" as a weapon of statecraft, as more other payment systems like China's CIPS and bilateral currency arrangements become stronger. This will give nations credible "financial off-ramps", weakening the ascendancy of sanctions as a tool of American power (Ryan, 2024).

Less Monetary Policy Sovereignty: The fact that the world wants dollars has always cushioned some of the domestic impacts of US monetary policy. Less dollar internationalization would imply more powerful and direct effects of Federal Reserve policy decisions on domestic inflation and credit conditions, making the Federal Reserve's policy space less elastic during crises.

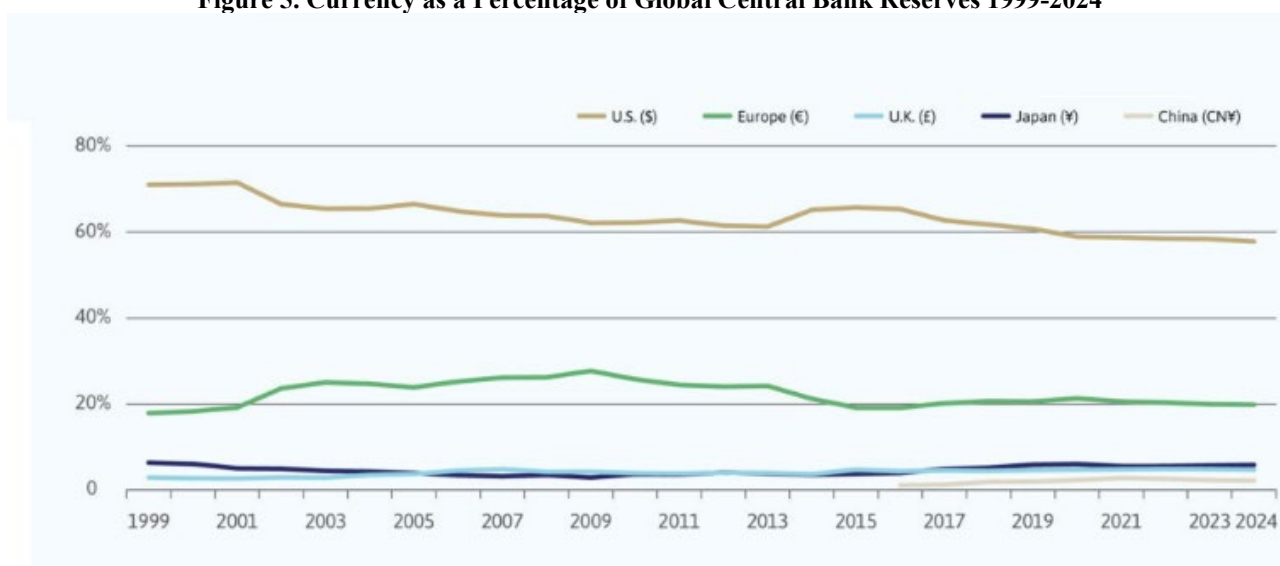
- Punishment for Potential Reserve Currencies:

Internationalization trilemma: An emerging reserve currency issuer faces the classical Mundell-Fleming trilemma that is, it can choose at most two of three possible options thus needing to select between a fixed FX rate and free capital movement, an independent monetary policy mechanical. China is critical, and it may arguably not be prepared to take the sorts of drastic steps required to create the deep, liquid, trusted financial markets needed for a real reserve currency by progressively liberalizing its capital account and reducing state control over its domestic financial system; a process that would carry tremendous political and economic risks.

Currency Appreciation Pressure would be on part of sustained increase in global demand for the renminbi. That might make China's buying power stronger, but it could also cause its heavily export-dependent economy based on price competitiveness to spin out of control.

Global Lender of Last Resort: The world implicitly looks to the primary reserve currency issuer as the provider of liquidity in a time of international financial stress (e.g., the U.S. Federal Reserve via currency swap lines during 2008 and now 2020). It is unclear whether the People's Bank of China wants to or is capable of playing such a role.

Figure 5. Currency as a Percentage of Global Central Bank Reserves 1999-2024

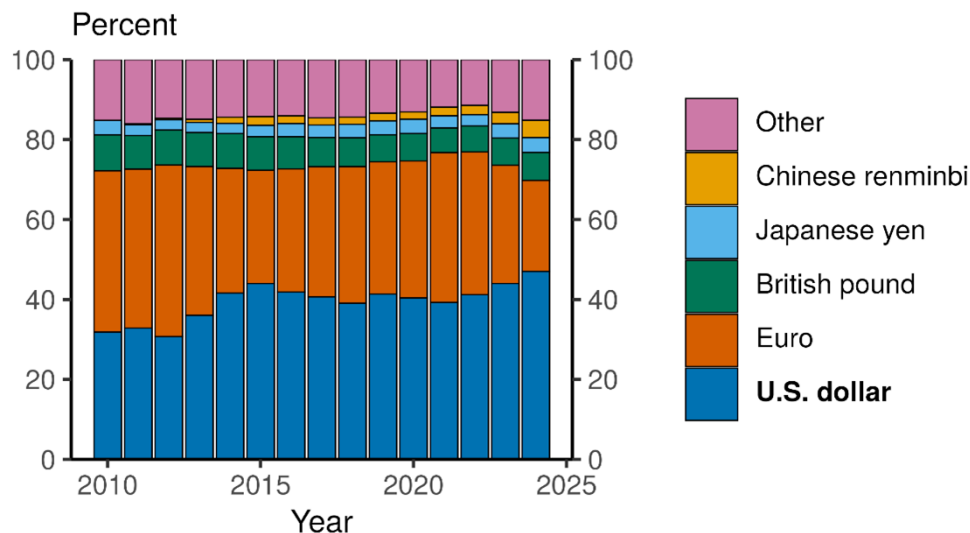


Source: (Magarill, 2025)

Effects on the international financial system Fragmentation and volatility

Higher Transaction Costs and Complications: A world in which there were many reserve currencies would arguably be less efficient. This is the function of the dollar as a universal vehicle currency, which greatly facilitates global trade and finance. This would impose higher transaction costs upon transfers because of the need to convert more frequently and force companies and investors to handle exchange rate risks in an increased distortionary multi-vehicle world (Eichengreen, Mehl, & Chitu 2018).

Figure 6. Share of international payments



Source: (Bertaut et al., 2025)

Potential for both Instability: The full transition period might see some volatility. The uncertain for the future hierarchy of currencies could well increase volatile in capital flows and sharp jolts of exchange rates. There is a risk that some members could split off into opposing currency blocs, which in turn could create a more antagonistic and less coordinated international financial climate as this may result in multiple reserve sites. (Papa 2023)

Resilient but Fragmented: Increased Resilience, as a Principal Benefit One of the potential benefits of multipolarity would be greater resilience. As long as the dollar is the center of the system, shock originating in the United States can quickly spread outward throughout entire world economy (current case). A more fragmented system with several currency blocs could possibly contain financial contagion, shocks being absorbed mainly within their own currency zone. Whole parts are structurally implemented inefficiencies and there is a balance to be struck between the efficiency of integration versus the stability provided by modularity.

III. 2. Risks of Dedollarization for Algeria:

The momentum toward global dedollarization now presents a difficult dilemma for Algeria, whose economic system is heavily reliant on its hydrocarbon wealth. While the political lure of distancing itself from the US dollar is understandable, particularly in view of its aspirations to join coveted blocs like BRICS, a realistic examination qualifies extensive economic and financial risks. With these risks to the possibility of an economy already tainted by important structural vulnerabilities (Camporeale et al., 2021; Kheloufi 2024).

III. 2.1 Short-Term Risks:

Exchange Rate Volatility during Transition:

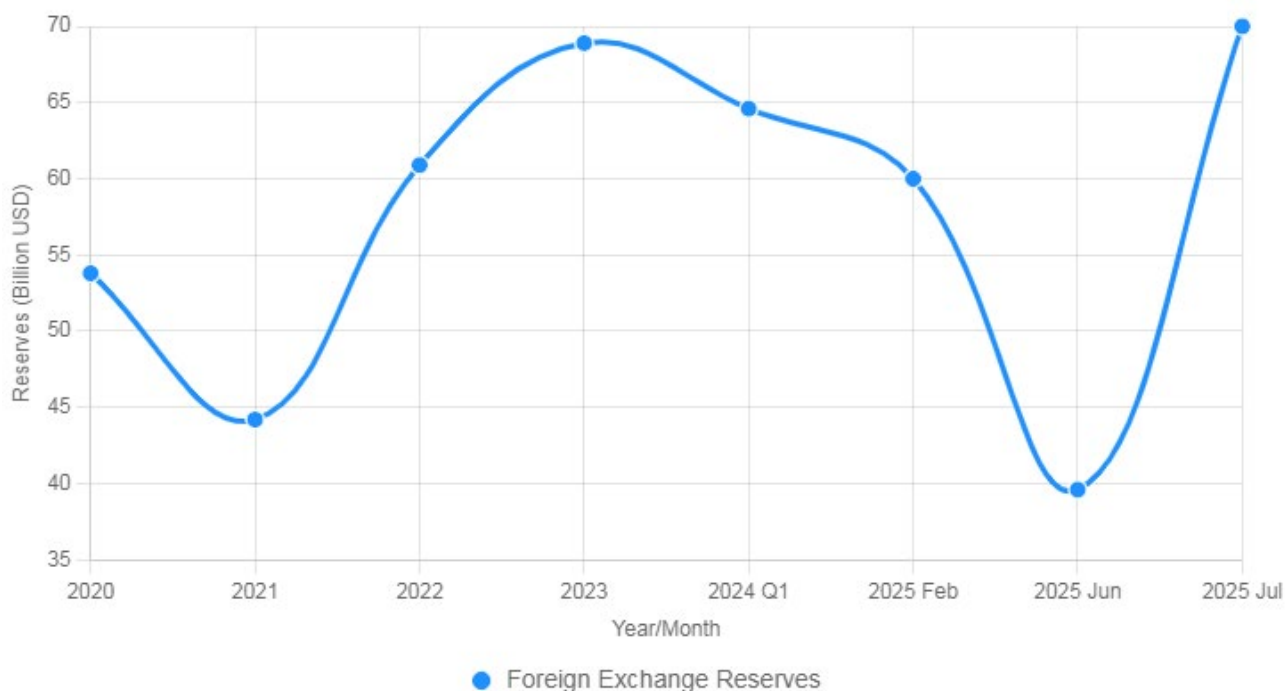
The mainstay of Algeria's economy is the hydrocarbon sector, with dollar-denominated prices for hydrocarbons and virtually all trade transactions. Any deviation from this norm would expose the Algerian Dinar to severe vulnerability. If Algeria decided to invoice its exports in a basket of currency like euros, or Yuan itself it would then immediately become exposed to the cross-fluctuations between European and Chinese currencies (Bouyacoub, 2025) For the Bank of Algeria, which long faced a difficult balancing act between exchange rate management and other objectives Inflation! This could lead to the disorderly devaluation of the dinar against import currencies predominantly prone to imported inflation and, accordingly, a general erosion in household purchasing power. Research on Algeria has found a clear positive relationship

between the volatility of the exchange rate and inflation, with effects in the short term that manifest themselves and are strengthened in every passing month. After all, the country faces a “Dutch disease”, thanks to its dominant energy sector that historically has led to a real exchange rate appreciation and weakened the competitiveness of other sectors. And poorly managed transition could set off a vicious cycle of depreciation and instability (Gasmi & Laourari, 2018).

Potential Decline in Reserves Liquidity:

External sector buffers are essential in Algeria, with foreign exchange reserves having eroded in recent years. These stores of value reserves are primarily in U.S. dollar denominated assets because the U.S. has the most stable and liquid markets in the world (Eulerpool, 2024). To a key extent, they would still have to be held in dollars, but this requires a de-dollarization strategy of sorts put the reserves into other currencies like the Yuan or ruble. However, these markets lack the same liquidity. At a time of crisis, they are likely to find it too hard to get rid of large amounts of these currencies in order to protect the dinar (or resort to using them when their reserves have already been depleted), and this can result in massive capital losses. In addition, the active management of a multi-currency reserve portfolio involves some complex technical work and hedging instruments. The still-limited convertibility of the Chinese Yuan for instance represents a non-trivial operational risk for a central bank. In fact, by 2018, more than 60% of the Algerian reserve portfolio was denominated in dollars exposure (Bouyacoub, 2025).

Figure 7. Algeria foreign exchange reserves 2020-2025

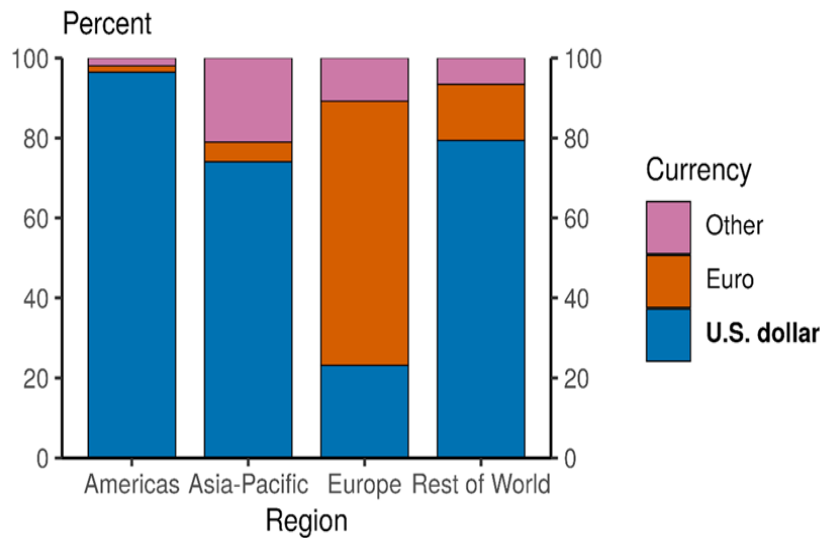


Source: author

III. 2.2 Trade and Payment Risks:

Complexity in Negotiating Non-Dollar Trade Contracts:

Establishing long-term natural gas and oil sales contracts priced in alternative currencies is a difficult thing to do. If buyers, who are used to the stability and predictability of the dollar, ask for currency risk protection clauses or price discounts to reflect uncertainties, Algeria's revenues will be lower. The complexity of such contracts in volatile market conditions can prompt disputes and mistrust between trading partners.) Sonatrach, the cornerstone of the economy, would need to thoroughly revise its contracting and financial risk management mechanisms. Politically, the same holds true on imports. Algeria usually imports everything including foodstuffs to industrial equipment and invoices frequently arrive in dollars or euros (The Arab Weekly, 2018). Moving to other currencies would burden Algerian importers with numerous exchange rates and that will complicate the accounting and planning. Realistically, that is subject to significant operational, legal and contractual costs renegotiation of long-term contracts, revision of arbitration/choice-of-law clauses, adaptation payment-deadline and margin-call practices (Chupilkin et al., 2023).

Figure 8. Share of export invoicing

Source: (Bertaut et al., 2025)

Higher Transaction Costs in Illiquid Currencies:

The high daily volume of trades minimalizes the transaction costs, and that is why the U.S. dollar has a favorable position with low spreads between bids and asks. By necessity, doing business in more exotic currencies amounts to an automatic increase in conversion costs on every single transaction. India has a high level of dependence on foreign trade so these additional costs, which are marginal in themselves, would add up to become a major burden on the nation. Furthermore, payment delays and additional counterparty risks are associated with the fact that most of the non-dollar settlement systems are weaker and less sophisticated compared to the dollar-based system; this weak infrastructure could disrupt supply chains (J.P.Morgan 2025, Rizvi, 2022).

III. 2.3 Macroeconomic Stability Concerns:

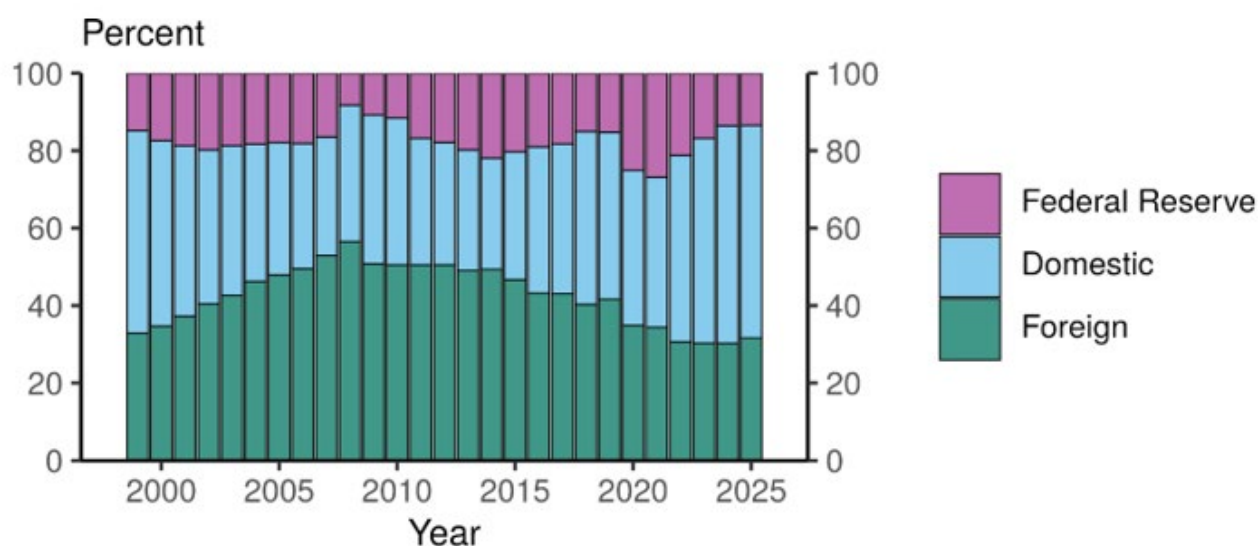
Inflationary Pressures from Currency Shifts:

In its structural form, Algeria is an import-dependent economy for many of the consumer goods that are essential to daily needs. If the dinar depreciates significantly during a chaotic monetary transition, then consumer prices would move up on that same day (import-inflation). The government that relies relatively heavily on public subsidies to sustain social peace would experience those costs explode putting unbearable financial pressure over an already stretched budget (IMF, 2024). However, if not managed properly, this inflationary shock could undermine household and business confidence and even trigger social unrest that Algerian authorities have traditionally sought to keep under control by means of hydrocarbon rent (Kheloufi 2024).

Reduced Access to Global Capital Markets and Debt:

Algeria's external debt is very low and most of it owed to multilateral institutions, but this does not mean that it would be resilient if hydrocarbon revenues were to crash or massive investment needs for economic diversification emerged. Credit rating agencies and investors might dislike such a significant shift away from a dollar-based financial system, especially as part of what they would see as an unstable reorientation of geopolitics. The brokerage says, and added theoretically, 'This would lead to an increase in the cost of borrowing for Algeria if it ever needed to tap international markets for funds as well as a stricter access to capital. That will encumber its budget mobility and access to funds for the expansion and diversification initiatives important for its future sustainability (Kermi & Dahmoune, 2024; World Bank, 2025).

Figure 9. Foreign holdings of government debt



Source: (Bertaut et al., 2025)

IV. 3. Opportunities of Dedollarization for Algeria:

IV. 3.1 Boosting Monetary Sovereignty & Policy Space:

At the most basic level, dedollarization provides an opportunity to reclaim and strengthen national monetary sovereignty. The monetary policy decisions that made by U.S Federal reserve is out of Hong Kong's control due to the economy reliance on US dollar (Li, 2023). Regardless of their own economic characteristics, if the U.S., in order to manage domestic inflation pressures starts raising interest rates, this can lead economies dependent on capital inflows and dollar funding into capital outflows or currency pressures as we see now in many important countries. Algeria could therefore wean its economy slowly off dependence, providing some insulation against such external shocks. It would also enable the Bank of Algeria much greater scope to design its own monetary policy such as interest rates and exchange rate management - for domestic purposes, with a focus on controlling local inflation, promoting employment, and developing non-hydrocarbon sector. On the medium to long term, even though right now the Algerian Dinar is not convertible yet, a thorough de-dollarization strategy supported by vigorous domestic reforms can serve as rampart to increase the share of the Algerian dinar in regional trade and hence reinforce its international status while lessen transaction costs for Algerian businessmen (Zoubir, 2024).

IV. 3.2 Shift in Global Politics and Consolidation of South-South Cooperation

Access to Alternative Financial Architectures: One of the key draws of the BRICS is likely the potential for another financial institution, The New Development Bank (NDB) Africa's third largest economy, Algeria, announced its official formal entry into the NDB with a \$1.5 billion investment stake (Khan, 2023), giving it further sovereign options to seek an alternative to Western-led institutions like the IMF and World Bank for funding big infrastructure and development projects. With less policy conditionalities, the Algerian Government would have more flexibility to implement its national development strategy.

Enhanced Geopolitical Clout: Instead of merely remaining a regional energy supplier, Algeria bucks by aligning itself with other great powers such as China, Russia and India in the de-dollarization movement and rises to the status of a player on issues of global importance while at the same time restructuring the financial order. Among the circles, this cements its capacity at negotiation in the wider world arena while also reinforcing its status as a bridge between Africa and the Arab Worlds and becoming more influential with BRICS nations.

Strengthening Strategic Partnerships: A departure from the dollar would obviously involve a greater degree of economic integration with peers who are also charting this course. Such a step would deepen Algeria's "comprehensive strategic partnership" with China, its top provider, and its historical links to Russia. This might take the form of tariff

reductions, targeted FDI into important sectors and improved collaboration over technology transfer and security (Chatham House, 2020).

IV. 3.3 Mitigating Vulnerability to Economic Statecraft and Sanctions

The single-greatest source of American economic statecraft for enforcing foreign policy goals is the global dominance of the U.S. dollar. By processing and clearing transactions in the U.S. banking system, the United States can track them, stop them, or even confiscate them if certain criteria are met. Of course, this creates high-levels of economic pressure for the target countries. This is why de-dollarization is necessary for any country wishing to have the power of an independent foreign policy. Algeria, in this sense, can avoid such geopolitical exposure by utilizing it's to develop an independent Pay system making itself free from the threat of hostile actions with regard to both its trading activity and monitoring its foreign reserves". By utilizing such systems, Algeria will no longer be victimized by various geopolitical actors who fight a brutal economic game on its lands. These sorts of abilities are particularly useful for such a countries like Algeria, which quite always experienced a complicated geopolitical image both within the region and the international arena (Zoubir, 2024).

IV. 3.4 Promotion of Diversification of Trade and Market Entry

Moving trade settlements out of the dollar can provide economic payback directly by increasing trade with economies with significant latent demand. This can also be a great stepping-stone to deeper integrations with new high-growth markets.

Lower Transaction Costs, and Financial Frictions: Firms would save on the costs and risks of double conversion (e.g.: dinars to dollars then dollars to Yuan) by settling trade with its major partners, such as China or Turkey, in their local currency; maybe even a coming-soon BRICS common currency. This fiscal prudence can help enhance the competitiveness of Algerian exports and make imports cheaper, hence increasing trade quantities.

Opening up New Markets: Any de-dollarization strategy like what is outlined above needs to be connected to a broader pivot towards the Engineered Economies of the Global South and this part. Thus, that would support Algeria in its quest to expand its exports range beyond hydrocarbons with building more convenient ways of facilitating them, which will open greater access to luxuriant and inflationary markets of Asia, Africa and Latin America. It is also in line with the national objective of reducing economic reliance on hydrocarbons, a challenge that continues to be at the heart of Algeria's long-term sustainability (World Bank 2024).

V. 4. Policy Recommendations for Algeria

V. 4.1 Build a Resilient Economic Foundation before Rushing to De-dollarize

The most important policy imperative is domestic. To be sure, the success of any external monetary strategy hinges on how strong and resilient the domestic economy remains. De-dollarization out of structural weakness is a nonstarter.

Greatly Enhance the Investment Environment: Algeria's future economic wellbeing as-you-know-it-is is on a par with releasing an oil simulant and will rise or fall in lockstep with hydrocarbon rents. Such a move of course will mean nothing short of a sea change in the business environment. To revive FDI in non-energy sectors should be fundamentally overhauled More than incremental reforms will be required of the policymakers (African Development Bank Group, 2023). It is offering everything from legal certainty and the reduction of bureaucracy, to a more competitive field for private companies. A more diversified economy will naturally lead to a smoothing of the demand for the Algerian dinar.

Put In Place Credible Fiscal Consolidation: The country's fiscal policy is extremely pro-cyclical, growing when oil prices are high and coming under severe stress during downturns. Having a durable, downside resistant fiscal framework that separates the demand for public spending from volatile energy revenues is necessary (Sachs, 2022). This requires expanding the tax base by improving collection in the non-hydrocarbon sector and switching from the expensive general subsidy system to a focused one. Reduced levels of debt are the foundation upon which currency faith resides.

V. 4.2 Gradual Integration with BRICS Mechanisms:

Algeria ought to phase in its integration into BRICS-led financial architectures for dedollarization without disruptive dislocations. The latter could use this new platform for infrastructure financing in non-dollar currencies, and it is consistent with the BRICS' direction towards local currency settlements (Stimson Center 2025; Al-Badawi 2025). A

policy guidance outlines a proposal to engage in the NDBs multilateral guarantee mechanism released during Timmons (2025) regarding features of 2025 fiscal framework, BRICS Summit, Rio on long-term sources of sustainable development finance easing reliance on dollar-denominated multilaterals similar International Monetary Fund. That would be to at the very least push for changes in the Contingent Reserve Arrangement so that it could cover external shocks with local currency, which would bolster Algeria.

In anticipation of these changes, Algeria ought to seek partner-state status within BRICS as a first step toward possible full membership and join informal consultations on such priorities as IMF quota reform and UN tax cooperation (Stimson Center, 2025). This would permit Algeria to support BRICS-based de-dollarization initiatives, by using their strategies and focusing on the end of dollar dominance through currency swaps (e.g., with the Chinese renminbi) and alternate supra-national organizations (Al-Badawi, 2025). Similarly, to hedge against the US as a dominant currency threat with its ongoing dedollarisation push (Geopolitical Economy Report, 2025; SLGuardian, 2025). Such bilateral agreements with BRICS countries could consider replicating Russia's domestic trade by local currencies local syndicate model.

V. 4.3 Diversification of Trade and Reserves:

In terms of reducing exposure to the dollar, Algeria must broaden its trade network and reserves beyond Western markets with non-dollar assets. Policy recommendations should include promoting two-way trade in local BRICS and Arab currencies on the basis of what have been strong ties as well where trade with China has already reached \$12.5 billion by 2024 (Xinhua, 2025). Suggestions include swap agreements like those that China has with other emerging markets, as well as a scenario where oil and gas exports are settled in renminbi or a future BRICS unit of account (Investing News Network, 2025; Al-Badawi, 2025). This would also be consistent with the (World Bank 2025b) recommendations to diversify export markets and to build value chains in sectors such as renewables and IT, which could help reduce risk from reliance on carbon-intensive exports under new institutions like the EU Carbon Border Adjustment Mechanism.

Reserve diversification is also critical; Algeria's central bank ought to shift its reserves gradually towards gold, renminbi, or other BRICS currencies facilitated by the analyses of Arab-BRICS nexus pathways (Al-Badawi, 2025; World Bank, 2025a). Carbon-pricing fiscal policies such as those that allowed Malaysia to strengthen its reserves with green revenues, could be accommodated (World Bank, 2025a), and incentives for non-dollar investments from China and other partners provided through measures like the 2022 Investment Law to help boost FDI from green technologies and services (Kermi & Dahmoune, 2024). Indeed, these measures would help underpin Algeria's economic diversification opportunities by addressing problems related to hydrocarbon reliance (Kermi & Dahmoune 2024; World Bank 2025b).

V. 4.4 Adoption of Digital Financial Tools:

Digitalization is of vital importance for efficient derogation. Algeria will also need to develop its own Central Bank Digital Currencies (CBDCs) and connect with initiatives such as BRICS PAY or China's Cross-Border Interbank Payment System (CIPS) in order to support cross-border transactions in local currencies (Al-Badawi 2025; Investing News Network, 2025). The policy recommendations proposed are based on the blockchain-based payment systems of BRICS in 2025 and have suggested creating a national CBDC framework, which will reduce transaction costs and boost financial autonomy (Stimson Center, 2025; Krishnan, 2025). Pilots of RMB settlement energy trading; reduce reliance on SWIFT and corresponding risk of sanctions.

Furthermore, it is argued that the adoption of new technologies to digitize trade processes for example through the enhancement of the Algerian Port Community System would support dedollarization by enhancing efficiency in non-dollar settlements (World Bank, 2025b). Joining forces with BRICS in the realm of innovation technologies, such as the blockchain for trade finance, would place Algeria in a multipolar financial world that will be highlighted by them eventually throughout their strategies (Al-Badawi, 2025; Geopolitical Economy Report, 2025).

V. 4.5 External Strategy: Be Cautious, Phased and an Experiment

Start with Partial, Voluntary, Non-Dollar Trade Invoicing: Instead of directly going for the currency mandate (which at this stage is still powerful), which would potentially scare away other nations from trading with each other in fear they will next be forced to use a digital Yuan. The government should incentivize state-owned enterprises just to experiment and try non-dollar invoicing on a few % of trades voluntarily. Some existing contracts with Chinese partners might be switched to Yuan, or companies doing business with European partners could choose more often to settle in euros. Provides a hands-on laboratory for developing solutions to the practical problems of pricing, settlement and risk management (Eichengreen et al., 2021).

Activate Bilateral Currency Swap Lines: Swap lines are already an exceptional market based liquidity insurance instrument. Algeria should actively seek to negotiate currency swap agreements with the major non-dollar centres of these countries' central banks, particularly The People's Bank of China. These agreements serve as a sustainable cushion ensuring that a temporary deficit in the due currency of its trading partner does not hamper flows, and thus foster market confidence in the global trade authenticated with non-dollar trades.

V. 4.6 Institutional and Policy Reforms:

Improving institutional strength has been a key element in successful dedollarisation. According to IMF estimates, Algeria should reform its monetary policy to facilitate competition from alternative currencies while keeping the key rate of the central bank at 3% and introducing macro prudential measures such as reserve requirements for foreign deposits in order to restrict dollarization (IMF International Monetary Fund, 2025). Suggestions also extend towards building institutional capacities through training with reference to World Bank interventions institutions such as the Algerian Investment Promotion Agency (World Bank, 2025a). Public-private dialogues could also assist in bringing about value chain reforms, in support of the BRICS focus on developing a more equitable global economic architecture (Krishnan et al. 2025; Stimson Center 2025).

Geopolitically, we must seek to coordinate policies that promote dedollarization while pursuing diplomatic hedging strategies in the form of UN-based tax cooperation with a view to counter US dominance (Stimson Center 2025). This softening may require adjusting to guarantee that fiscal deficits are financed by way of diversified financing, with the strategy implemented no afterwards than 2025 and paying off debt incurred in case no longer a part of monetary policy deficit targets (International Monetary Fund, 2025).

V. 4.7 Investing in Gold against Dedollarization:

For Algeria, a larger allocation to gold would contribute to diversification of its reserves, reducing vulnerability to fluctuations in the dollar and assisting its portfolio of US\$67.8 billion in international reserves (equivalent to 14 months of imports as at mid-2025) (World Bank, 2025a; International Monetary Fund, 2025). While gold represents roughly 5.12% of its reserves, additional accumulation could resemble BRICS tactics to keep the dinar stable during economic diversification, with the aid of gold as it hedges against devaluation and inflation. The 5%-10% allocation is statements GOLD SUMMARY RENT Seeking Allegations YTD Gold USD 1,636 now being recommended by poor countries and the Rosa Luxemburg Sifting North Africa and its advantages are evidenced by study after study from other experts whose analysis is here such as but not limited that wrote about these very reasons earlier in the year or what Research Affiliates spoke on Sept. 8th in their webinar of potential benefits of owning gold in today's complex economic marketplaces which are complementary to Algeria's reported non-hydrocarbon driven robust Q1-year-on-year GDP growth of 4.5% (Rosa Luxemburg Sifting North Africa, n.d.; Crux Investor, 2025; Research Affiliates, 2025)..

Gold also makes sense for Algeria in the context of a de-dollarizing world where it must anticipate its non-sovereign asset will not directly or individually be sanctioned or devalued through foreign policy actions—primarily because of its willingness to trade oil without USD and BRICS integration (Investopedia, 2025; Geopolitical Economy Report, 2025). It is anticipated that this would have the knock on effect of reducing transaction costs, increasing economic sovereignty and be a further attraction for NDB backed investments in renewables and manufacturing (World Bank, 2025b; Rosa Luxemburg Sifting North Africa, n.d.; Geopolitical Economy Report, 2025).

VI - Conclusion:

This study analyzed about the phenomenon of dedollarization within the global monetary system and its implications to the economy of Algeria. The findings show that dedollarization involves, on one hand substantial challenges but on the other promising prospects for Algeria. A sudden move to wean themselves off U.S. dollars, meanwhile, might hike transaction costs for foreign trade, trigger exchange rate volatility and threaten Algeria with the risk of other currencies or payment systems collapsing. These challenges could also disrupt Algeria's hydrocarbon exports that are still largely dollar-denominated, possibly undermining fiscal receipts and external reserves.

On the contrary, if dedollarization is strategically conducted, then substantial opportunities are at stake. And stepping back from the U.S. dollar would reduce the dependence on it and as a consequence reinforce monetary sovereignty in Algeria, resilience to extraterritorial sanctions, and opportunities for more international payment methods with key partners in Africa-Asia-Middle East. Second, Algerian and other national interests can be furthered by advancing local currency or regional payment system-based agreements while reinforcing interregional South–South economic integration that would alleviate the cost of foreign exchange and better serve to deepen a more widespread diversification of economies.

Key Results:

Strategic Opportunity Dedollarization will give more power to Algeria in international trade, and allow for a stronger role within BRICS and African trade frameworks.

Risk Exposure (TRADE) This transition raises high exposure to Algeria given the short-term macroeconomic instability particularly in currency exchange markets.

Trade Diversification Impact As countries pursuing dedollarization, it is more likely to see a reinforcement of South–South cooperation as well as reduced dependence on Western markets.

Institutional Path Algeria's existing financial infrastructure and monetary policy framework need to be drastically refurbished in order to seize the full advantages of dedollarization.

Study Recommendations:

Reform Monetary Policy Framework Reform credible monetary policy (norm rule-based monetary plan), anchored by fiscal discipline, inflation targeting and the independence of Central Bank to preclude devaluation of Algerian dinar.

Diversify trade partners Engage with BRICS, African Union states, and like-minded Asian players when entering into new trade agreements to reduce reliance on dollar hegemony.

Building Alternative Payment Systems Invest in bilateral currency swap agreements, digital payment gateways, and prospective BRICS alternative reserve currency mechanisms.

Hedge against Volatility Create robust FX reserves by maintaining exposure to varied basket of currencies like euro, Yuan and gold against transitional shocks.

Institutional and Financial Sector Reform Strengthening banking systems, payment infrastructures and regulatory frameworks to efficiently support multi-currency transactions.

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