

The Experiment of Implementing Quantitative Easing Policy in Algeria

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Abstract:

Quantitative easing is regarded as an unconventional monetary policy that has been utilized by various advanced economies ease the repercussions of the global financial turmoil of (2008). The main purpose of this paper is to assess the implementation of quantitative easing in Algeria, which was introduced as an alternative financing method starting in October (2017). This policy change was made possible through a revision of the Monetary and Credit Law, enabling the Bank of Algeria to directly fund the public treasury's deficit and sustain economic development despite the pressures from the oil market slump. The main goal of this study is to investigate and explore the rationale behind adopting this policy, the mechanisms and conditions associated with its execution, and to evaluate its broader economic consequences.

Keywords: Quantitative easing, unconventional financing, Algerian economy, Monetary and Credit Law.

JEL Classification Codes: E61 ; E65

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Introduction :

Quantitative easing is recognized as one of the most vital instruments in unconventional monetary policy adopted by numerous developed nations during times of crisis or economic downturns. This policy is typically implemented when traditional interest rate adjustments fail to effectively boost economic activity. Japan was the first to adopt it in 2001, followed by the United States, the United Kingdom, and the Eurozone in the aftermath of the 2008 global financial crisis. The impacts, however, have varied across different economies.

By the end of (2014), the Algerian economy found itself in a challenging position following a 50% decline in oil prices within just six months, putting the country in an exceptional financial situation. In response, the government explored various measures to mitigate the impact of the crisis. This included using the Revenue Regulation Fund, depleting foreign currency reserves, and turning to national bank loans in (2016). Despite these efforts, by (2017), the public treasury was still facing a shortfall of (500) billion Algerian dinars. In light of this financial gap, exacerbated by the volatility of oil prices, and to avoid external borrowing, preserve the economic and social development model, and maintain ongoing funding for government development programs, the government adopted unconventional financing. Beginning in October (2017), the Law on Money and Credit was revised to permit the Central Bank to directly finance the public treasury's deficit through the unconventional monetary policy of quantitative easing.

This study aims to evaluate Algeria's experience with unconventional financing and examine how it compares to the quantitative easing policies implemented by advanced economies during the global financial crisis. Given that Algeria is one of the few developing nations to adopt this financing approach, the research will also investigate the factors that led to its adoption, the mechanisms and conditions under which it was implemented, as well as the challenges it encountered and the broader implications of its application.

Problematic:

Drawing upon the aforementioned, the research problem question emerges as : What were the driving factors behind the Bank of Algeria's adoption of the quantitative easing policy, and what impact has its implementation had on the national economy? To explore this issue, the following sub-questions have been proposed:

- What is quantitative easing, and what are the channels through which its impacts spread?
- What are the underlying factors and motivations behind its implementation in Algeria?
- What are the difficulties associated with applying quantitative easing policy in Algeria?
- What are the potential impacts this policy could have on the national level?

Hypotheses of the study:

The purpose of our study is to examine the following hypotheses :

- The goal of quantitative easing is to increase liquidity in the market by introducing financial assets into circulation.
- The consequences of quantitative easing policy vary between different economies.

Aims of the study:

This study seeks to explore and gain a deeper understanding of quantitative easing, a modern tool of unconventional monetary policy. This will involve defining the policy, investigating its transmission channels, and analyzing the outcomes of its implementation. Additionally, the study will assess its application in Algeria, evaluating its effectiveness and identifying ways to minimize any potential adverse effects on the national economy.

Methodology:

A descriptive approach was used to outline the various theoretical concepts associated with quantitative easing. Furthermore, an analytical method was applied to evaluate the implementation of the quantitative easing policy in Algeria. This encompassed a theoretical exploration of the conditions that led to the policy's adoption, the motivations driving it, and the effects following its execution.

Study axes:

We divided the study into two axes:

- **First axis:** The theoretical structure underlying the quantitative easing policy.
- **Second axis:** The study's analytical framework: the implementation of the quantitative easing policy in Algeria.

Firstly. The theoretical structure underlying the quantitative easing policy:

New monetary policy tools have emerged to help revive the economy during crises. One of these tools is quantitative easing, which was adopted by several developed nations to reduce the consequences of the 2008 global financial crisis, which nearly caused the global economy to collapse as traditional monetary policy measures proved ineffective in resolving the issue.

1. The concept of quantitative easing:

Quantitative easing, often referred to as “money printing,” is an unconventional monetary policy tool used by central banks to boost the national economy when traditional methods fail. As part of this process, the central bank purchases financial assets to raise and expand the money supply within the economy. This strategy contrasts with the usual approach, which typically involves buying or selling financial assets to keep market interest rates at a targeted level, often aiming to bring rates close to zero (The Economist explains, 2015).

There is no universally agreed-upon definition of quantitative easing. However, the most commonly accepted definition describes it as an unconventional monetary policy tool that involves expanding the central bank’s balance sheet by increasing the monetary base (Joyce & Miles, 2012, p. 27).

Quantitative easing is also described as the method through which central banks directly inject money into the economy by buying government bonds and other major bonds. This aids in alleviating financial pressures from credit obligations, allowing businesses to invest and expand, and supporting economic growth in various sectors. Typically, the central bank that buys these bonds later sells them once the economy improves, potentially earning profits as the economy recovers (Metai & Rachedi, 2016, p. 12).

This policy was first introduced in Japan on March 19th, 2001, after interest rates dropped to 0.3%, with the aim of preventing deflation and encouraging economic growth (Metai & Rachedi, 2016, p. 17). Following the 2008 global financial crisis, it was later implemented by the Federal Reserve in the US, as well as by the UK and the Eurozone.

Drawing upon the previous explanation, it is clear that the implementation of quantitative easing consists of two key stages. The initial stage consists of the central bank purchasing government bonds

from commercial banks and other financial institutions. This boosts demand, drives up bond prices, and ultimately reduces long-term interest rates. The second stage, on the other hand, involves the issuance of short-term debt instruments and expanding the monetary base by creating additional currency.

2. Objectives of quantitative easing policy:

The use of quantitative easing aims to achieve a set of positive objectives for economic variables, particularly in challenging situations like crises. While these objectives may differ from one country to another, the primary goals are represented in (Chibout, 2022, p. 56):

- **Influencing long-term interest rates:** When the central bank oversees the economy by modifying short-term interest rates, it results in a decrease in these rates, which stimulates consumption and investment, ultimately boosting economic activity. However, once short-term interest rates near zero, they cannot be reduced further. To continue providing stimulus, the next step is to lower long-term interest rates. The central bank's purchases of bonds increase demand for long-term government bonds, driving up their prices and lowering the corresponding interest rates.
- **Reducing bond price risks:** Bond prices are sensitive to changes in interest rates over the life of the bond. A key objective of quantitative easing programs is to mitigate these risks, especially for sovereign bonds, which in turn positively influence the returns on commercial and investment bonds. This stimulates investor activity, enhancing market liquidity.
- **Reducing bankruptcy and financial default risks:** Quantitative easing helps mitigate these risks by providing a financial lifeline to institutions at risk of bankruptcy, safeguarding their assets from collapse, rebuilding market confidence, and limiting the spread of financial instability to other regions, especially in the context of global financial integration.
- **Achieving economic recovery through increased bank lending and money supply:** Quantitative easing aims to stimulate economic recovery by expanding the money supply and improving banks' capacity to lend. This is accomplished by purchasing long-term assets, which helps push inflation toward desired levels. The central bank governors of Japan, the European Union, and the UK have pointed out that this is the central reason for implementing quantitative easing.

3. The channels of the monetary easing policy and the associated risks and challenges:

3.1 The channels of monetary easing policy:

Monetary easing policy plays a role in affecting the real economy through various channels, aiming to address the crisis and reduce its severity. The main channels can be summarized as follows (Younsi & Medoukh, 2019, pp. 338-339):

- **Signaling channel:** This involves the announcement of asset purchase programs, signaling that interest rates will stay low at least until the completion of these programs. As a consequence, long-term interest rates decline.
- **Confidence channel:** When economic agents view monetary easing as an effective policy, it boosts demand for consumption and investment on one hand, while simultaneously increasing asset prices and reducing their yields on the other.
- **Portfolio rebalancing channel and wealth effect:** When the central bank purchases financial securities, it raises their prices, along with the prices of other assets, by providing liquidity to selling investors who then adjust their investment portfolios. This increases demand for alternative assets, driving up their prices and reducing their yields, which in turn lowers financing costs for economic agents. Additionally, the increase in asset prices boosts the wealth of asset holders, further stimulating demand for both investment and consumption.
- **Bank lending channel:** When the central bank purchases long-term securities from banks and financial institutions, it increases their reserves, and thereby expanding the amount of credit available to businesses and individuals. The success of this mechanism depends on banks' willingness to lend and the availability of sufficient collateral to back these loans.
- **Exchange rate channel:** Monetary easing policy can significantly influence exchange rates. When the central bank buys financial securities, it lowers their yields, encouraging investors to move towards foreign securities with higher returns. As a result, there is a higher demand for foreign currencies in exchange for the national currency, which causes the domestic currency to lose value and strengthens the country's competitive position.

3.2 The risks associated with quantitative easing:

- The implementation of quantitative easing policy creates several risks, including:
- Quantitative easing policy can potentially contribute to the creation of bubbles in stock and bond prices by boosting demand, which may eventually lead to a financial crisis. A key factor in the onset of the (2008) global financial crisis was the collapse of the housing price bubble.
- The central bank's acquisition of government bonds leads to an increase in public debt. For example, in the United Kingdom, government debt rose to 100% of GDP.
- The central bank's purchase of long-term securities causes a significant expansion of its balance sheet. Consequently, exiting quantitative easing and increasing interest rates may cause the central bank to incur losses on its balance sheet.
- Quantitative easing policies in advanced economies can lead to volatility in the financial markets of emerging countries. This occurs as capital flows in from developed nations, where investors pursue higher returns on financial assets. However, these funds are typically withdrawn once the quantitative easing programs end and interest rates increase.
- Quantitative easing policies can undermine the independence of central banks, as their purchases of long-term bonds may primarily be used to finance the public budget deficit. This could lead to inflationary pressures without meeting the intended growth and employment goals. As a result, central banks must establish clear objectives and actively work toward achieving them (Younsi & Medoukh, 2019, p. 340).

4. The impacts of the implementation of quantitative easing:

The implementation of quantitative easing should be dependent on specific economic conditions, with its effects varying across countries, encompassing both positive and negative outcomes (Gern, 2015, p. 04).

4.1 The positive effects of the implementation of quantitative easing:

The positive effects of quantitative easing are seen in:

- Motivating banks to deliver more loans, which supports the broader economy.
- An increase in the money supply motivates both consumers and businesses to seek loans, and thereby stimulating investment.
- Higher overall spending by individuals and institutions due to the rise in lending and borrowing activities.
- Increased employment as investors gain access to capital through loans, leading to stronger product promotion and greater business activity, which ultimately boosts job creation.

4.2. The negative effects of quantitative easing:

Quantitative easing has several negative impacts, including:

- Poorly executed quantitative easing can result in a higher general price level and an increase in the money supply, leading to inflation. This contributes to a decline in economic efficiency and a slowdown in economic growth.
- The reduction in interest rates resulting from quantitative easing may lead households to prefer saving their money rather than investing it.
- Hoarding undermines commercial banks' ability to provide liquidity to investors, presenting a serious economic risk. This behavior disrupts both banks and investments, and contradicting the primary objective of quantitative easing, which is to stimulate economic progress.
- A significant rise in asset purchases causes central banks' balance sheets to grow substantially, which could result in global financial instability.
- The devaluation of currencies in countries implementing quantitative easing can result in noticeable changes in relative exchange rates. This can lead to a currency war, where countries competitively lower their currencies to boost exports and reduce imports, aiming to reduce the trade deficit.

Secondly.The analytical approach adopted in the research: The adoption of quantitative easing policy in Algeria:

The idea of quantitative easing made its debut in Algeria as an unconventional financing tool with the implementation of the Currency and Credit Law No. 17, dated 11/10/2017. This followed the government’s shift away from traditional methods of financing the budget deficit, which had become unsustainable due to the drop in oil prices since mid-2014, leading the Bank of Algeria to adopt a quantitative easing policy.

1. Reasons for implementing quantitative easing in Algeria:

Key statistics reflecting the financial and monetary state of the national economy before adopting unconventional monetary financing to sustain economic development in Algeria highlight several financial imbalances. The table below presents the most notable of these imbalances:

Table N°01: Trends in key economic and monetary indicators leading up to the implementation of quantitative easing

Indicator	2014	2015	2016	2017
Oil prices in US dollar	100.02	53.1	45.00	54.1
Balance of payments balance in US dollar	-5.88	-27.54	-26.03	-21.76
Foreign exchange reserves in billion US dollar	178	144	114.1	97.3
General budget balance in billion Algerian dinar	-3068	-3103.8	-2285.9	-1234.7
Revenue regulation fund balance in billion Algerian dinar	4408.4	3081.9	784.55	00.00
Exchange rate against the US dollar	80.56	100.46	109.55	110.96
Inflation rate	2.92%	4.78%	6.40%	5.59%

Source: (Central Bank & Ministry of Finance, 2024).

Several factors prompted the Algerian government to adopt an accommodative policy, namely quantitative easing, all of which are linked to the steep decline in oil prices in recent years. The hydrocarbons sector, which represents 97% of Algeria's total exports, is the main source of export revenue. This heavy dependence on oil has made the national economy highly susceptible to fluctuations in oil prices. The decline in the prices of oil has put the economy's financial stability at risk, exacerbating the financial crisis that has persisted since (2014).

Table (1) illustrates the drop in oil prices between (2014) and (2017), which contributed to the worsening of several economic and monetary indicators. During this period, the general budget faced a continuous deficit, which was financed through the Revenue Regulation Fund, leading to its depletion by (2017). Similarly, the balance of payments registered a deficit, which was covered by foreign exchange reserves, which fell from \$178 billion in (2014) to \$97.3 billion in (2017).

Following the decline in the indicators cited above, the national currency weakened. The dinar's annual average exchange rate rose from 100.46 dinars per US dollar in (2015) to 109.47 dinars per US dollar in (2016), reflecting an 8.2% depreciation. It further increased to 110.96 dinars per US dollar in (2017). Moreover, the inflation rate increased from 2.92% in (2014) to 6.40% in (2016), before showing a slight improvement to 5.59% in (2017).

2. The implementation of the quantitative easing policy by the Bank of Algeria:

The Bank of Algeria adopted a quantitative easing policy in accordance with the provisions of the Monetary and Credit Law No. 17-10, issued on 11/10/2017. This law includes a single article (Article 45 bis) that amends Articles 46 and 47 of Ordinance 03-11. It enables money creation without equivalent reserves at the central bank to fund the general budget, as a response to the fall in global oil prices. The essence of the amendment to the Monetary and Credit Law lies in the introduction of Article 45 bis, which states that, regardless of any contradictory provisions, the Bank of Algeria is authorized, for an exceptional five-year term, to directly purchase Treasury-issued securities. This is explicitly stipulated in (The Official Gazette, Law 17-10, 2017, p. 04) :

- Providing for the Treasury's funding necessities.
- Funding the internal public debt.

- Financing the National Investment Fund.

As stated in this article, this mechanism is designed to support the adoption of the economic and budgetary structural reform plan, projected to be fully implemented by the end of the set period.

- State Treasury balances.
- Balance of payments balance.

The regulations outlined in the same article of the law establish the mechanism for monitoring the implementation of this financing by the Treasury and the Bank of Algeria.

In line with Article (46) of the Monetary and Credit Law, the Bank of Algeria has the authority to provide financing to the public treasury. and open an overdraft account for it, with the condition that the balance surpass 10% of the total ordinary revenues recorded by the state in the previous year. The overdraft period is restricted to 240 days, either consecutively or intermittently. as specified in (The Official Gazette, Ordinance 03/11/2003, p. 08).

The Bank of Algeria is also permitted to directly buy bonds issued by the Treasury to fulfill its financing needs and to finance the repayment of domestic public debt through sovereign bonds. Additionally, the Treasury is allowed to allocate resources to the National Investment Fund, when necessary, as part of the state's contributions to long-term investments or public investment programs. These instruments will be recorded as assets on the Bank of Algeria's balance sheet, while the loans will be recorded as liabilities. In other words, the Bank of Algeria will provide significant liquidity in exchange for sovereign Treasury bonds, which are guaranteed.

It is important to note that the amendment fundamentally changed the financial linkage between the central bank and the public treasury. This article stipulates that the provisions of Article (46) have been abolished, permitting the treasury to establish an overdraft facility without a credit ceiling and under more advantageous conditions. As a result, the issuance ceiling is no longer fixed but is instead determined by the treasury's ability to cover its various expenditures and debts to bondholders. This includes the (2016) national loan bonds for growth, treasury bonds issued to purchase the bank debt of Sonelgaz, and treasury bonds issued for the benefit of Sonatrach (Younsi & Medoukh, 2019, p. 348).

In October (2017), the Bank of Algeria launched the quantitative easing policy. The amount of money issued under this policy, in accordance with Article 45 bis of Law 17/10 on currency and credit, is shown in the table below:

Table N°02: The amount of money issued under the quantitative easing policy in Algeria

Month	Oct 2017	Nov 2017	Jan 2018	Sept 2018	Nov 2018	Dec 2018	Jan 2019
The amount of money issued	570	2185	3585	4005	5198,2	5956,2	6556,2

Source: (Bank of Algeria, 2019).

According to the data in (N°02), it is clear that the volume of unconventional financing utilized by the government has been consistently rising. In November (2017), 2,185 billion Algerian dinars were issued, followed by 3,585 billion dinars in January (2018). This upward trend continued, reaching 6,556.2 billion dinars in January (2019). Between November (2017) and January (2019), a total of 6,556.2 billion dinars was mobilized through the unconventional financing mechanism. Approximately 73% of this amount, granted by the central bank, was directed toward financing the public treasury, servicing public debt, and supporting the National Pension Fund, with most of this amount going towards consumption expenditures. The remaining 27% was directed to the National Investment Fund, classified as investment expenditures. This suggests that if the government maintains this approach, quantitative easing could lead to inflationary pressures (Bank of Algeria, 2019, p. 6).

As a result, liquidity levels increased, reaching 1,380.6 billion Algerian dinars by the close of (2017), and continued to increase to 1,557.6 billion dinars by the close of December (2018), (Bank of Algeria, 2018, p. 140). With the ongoing growth in terms of banking liquidity, it hit a high of 2,081 billion dinars in January (2019), (Bank of Algeria, 2019, p. 140). The Bank of Algeria then suspended its liquidity injection operations, halting this form of financing for the rest of (2019). Furthermore, it implemented the necessary monetary policy measures to absorb the liquidity generated by unconventional financing.

3. Barriers to the effective application of quantitative easing in Algeria :

Several obstacles hinder the execution of the quantitative easing policy in Algeria, such as:

- The use of quantitative easing in Algeria will have detrimental effects on the national economy if it is not accompanied by a series of financial and economic reforms, mainly if it is employed to cover the public treasury deficit.
- The nature of the national economy, which is heavily dependent on the hydrocarbons sector, any shift in this structure would require a long-term strategic plan, whereas the duration of quantitative easing in Algeria has been limited to (05) years.
- Poor transparency and lack of clarity in how the issued funds are used and managed results in reduced trust from economic agents in the markets.
- The unclear direction and inconsistent declarations concerning the amount of money to be issued for financing investments remain significant challenges.
- There is a notable distinction between the application of quantitative easing in Algeria and in developed countries. In developed economies, this policy was introduced as a response to the failure of traditional monetary policy tools to stimulate economic activity, particularly when interest rates became ineffective, leading to a liquidity trap. In contrast, Algeria implemented this policy primarily to finance the budget deficit stemming from the decline in oil prices that weakened the country's financial base, rather than as a result of ineffective traditional monetary policy tools.
- Advanced economies are marked by adaptive and responsive production systems that adapt to shifts in the money supply, as proposed in the Keynesian model. On the other hand, Algeria faces limited capacity to improve its economic performance, leading to the direct impact of monetary issuance on overall price levels (Younsi & Medoukh, 2019, p. 351).

4. The repercussions of quantitative easing implementation :

The outcomes of enacting this policy in Algeria can be classified into two categories: positive effects, which are short-term and beneficial to the economy, and negative effects, which exacerbate existing problems and are likely to persist in the medium to long term if the policy continues. These effects can be summarized as follows:

4.1. Positive effects of the quantitative easing policy:

The positive effects of quantitative easing implementation can be outlined as follows:

- The most immediate and noticeable effect was the rapid transition from a liquidity deficit in the banking system to a significant surplus. After banking liquidity had fallen to 482.4 billion dinars by the end of October (2017), the implementation of quantitative easing led to a substantial increase in liquidity, which reached 1,575.6 billion dinars by the end of December (2018), compared to 1,380.6 billion dinars in December (2017). With liquidity hitting 2,081 billion dinars in January (2019), the Bank of Algeria subsequently decided to cease its liquidity injection process. The ability to cover the national budget with ease, without the need for external borrowing, while ensuring the continuation of the state’s investment projects and covering operational expenditures.
- Repayment of various debts owed by the state, particularly those related to state-owned companies such as Sonelgaz and Sonatrach.
- Provision of necessary funding to cover wages and subsidies for consumer goods.
- Ensuring the continuity of public investment, thus sustaining production and job positions.
- Avoidance of new taxes on individuals, especially with the decline in purchasing power and the rise in general price levels

4.2. Negative effects of the quantitative easing policy:

Inflation rates followed a declining trend during the period of implementing this policy, in contrast to the period before its application, as illustrated in the following table:

Table N°03: Inflation rate following the implementation of the quantitative easing policy

Year	2017	2018	2019	2020
Inflation rate %	5,59	4,3	2	2,4

Source: (World Bank, 2024).

While some analysts have raised concerns about the accuracy of the figures released by the National Statistics Office (ONS), particularly regarding the methodology used to calculate the inflation rate—such as including subsidized goods in the sample and using an outdated base year—these figures are still officially accepted both locally and internationally. Therefore, as a general assessment, it can be concluded that this policy helped Algeria manage challenging financial conditions, especially following the collapse of oil prices. However, in our view, the decline in inflation rates until (2019) does not truly capture the living standards, taking into account the notable price hikes, the weakening of the Algerian dinar, and the shrinking purchasing power. As a result, from July (2019) onward, the Bank of Algeria opted to discontinue the unconventional financing process and cease liquidity injections due to the high levels of banking liquidity, which directly affect general price levels in a context of stagnation in the production sector. This could potentially lead to increased inflation in Algeria over time. The International Monetary Fund has voiced concerns with a negative outlook, forecasting that inflation rates could surpass 10%, along with a loss of independence for the central bank. Moreover, a weak growth rate of approximately 15% was recorded in (2018), (Bentalbi & Chellal, 2019, p. 200).

- An increase in domestic public debt or government debt.
- The Algerian dinar depreciated steadily, contributing to the overall decline of the national currency in official transactions, reaching unprecedented levels against major foreign currencies. Owing to the sharp fall in oil prices and the effects of the COVID-19 crisis, the Algerian dinar depreciated by 9.09% versus the US dollar and 16.9% versus the euro between the end of (2019) and the end of (2020), (Bank of Algeria, 2020, p. 06).
- A decline in the central bank's ability to act independently of government intervention, which represents a significant indicator of the effectiveness of monetary policy.

Conclusion:

During financial crises, central banks are often forced to resort to unconventional monetary policies, with quantitative easing being one of the main tools used. This policy is typically implemented when traditional monetary policy tools are no longer effective. While quantitative easing is relatively straightforward to execute, its overuse

can lead to significant negative consequences for the economy, particularly if the central bank does not carefully analyze the increase in the money supply.

Two hypotheses were formulated at the outset of this study to facilitate the research process. Upon testing these hypotheses, the study reached the following conclusions:

Quantitative easing is the process of injecting liquidity into the market in the form of financial assets with the aim of increasing overall liquidity. This hypothesis is valid, as the Bank of Algeria adopted a quantitative easing policy under Monetary and Credit Law No. 17-10. This law permits the issuance of currency without corresponding reserves at the central bank, in order to finance the state budget, domestic public debt, and the National Investment Fund following the decline in global oil prices since (2014).

The effects of quantitative easing policies vary from one economy to another. This hypothesis is also valid. Such variation is attributed to several factors, most notably the availability of essential conditions for the effective and timely implementation of the policy. In the case of Algeria, the effects of this policy can be classified into short-term positive impacts and medium- to long-term negative consequences.

Based on our study, we have drawn the following conclusions:

- Quantitative easing is an unconventional policy implemented by countries like Japan, the US, the UK, and the EU, with significant effects on their economies through several channels, transmitting its impact in various ways.
- Algeria is one of the few developing countries to have implemented quantitative easing, alongside Venezuela. This financing method in Algeria was necessitated by the exceptional circumstances resulting from the 2014 oil shock. This policy was pursued to cover the budget shortfall, rather than due to the inefficiency of standard monetary policy measures.
- Among leading economies, the primary aims of quantitative easing were to revive their economies and promote economic growth. However, in Algeria, the key objective was to fund the budget shortfall and sustain the implementation of planned projects.
- There is a notable difference between the experience of advanced countries and that of Algeria in implementing quantitative easing. The former benefit from flexible production systems that respond to changes in the money supply and feature low inflation rates, usually

below 2%. In contrast, Algeria adopted this policy amidst high inflation and an economy struggling with low productivity outside the oil and gas sector.

- The absence of an active financial market in the Algerian economy restricts the effectiveness of quantitative easing, especially over the short to medium term.
- Algeria's approach to quantitative easing entails printing money without any tangible backing.
- The recent amendment of the Currency and Credit Law which permits the government to be directly financed, puts the central bank's independence at risk.
- Under Law 10-17, the Bank of Algeria has essentially become the state's financier, purchasing financial assets for the public treasury without regard to the risk levels associated with them.
- The ceiling for currency issuance in Algeria, according to Law 10-17, is tied to the budget deficit. As a result, the financing ceiling remains undefined.
- The inflation rate followed a declining trend during the implementation of this policy, but this does not reflect the real living conditions in Algeria, which are characterized by rising prices and a deteriorating purchasing power. This difference arises from the approach taken by the ONS in measuring inflation, which includes subsidized goods in the price index and uses an outdated base year.
- As of July 2019, the Bank of Algeria froze the unconventional financing process and stopped printing money due to the rising banking liquidity, which directly impacts overall price levels in the face of an unproductive industrial sector. This could contribute to an upward trend in inflation over time.

Recommendations:

Based on the findings, the following recommendations can be made:

- Activating the Algerian financial market by encouraging commercial banks and financial institutions to engage with it.
- Focusing on diversifying the economy and reducing reliance on the oil sector.
- Priority should be given to restoring and consolidating the independence of the Bank of Algeria, following its erosion by the recent Currency and Credit Law amendment.
- Strengthening trust in the Bank of Algeria by publishing the details of its quantitative easing programs, making analysis more straightforward.

- Exploring alternative sources of financing, such as imposing taxes on wealth and combating tax evasion and fraud.
- It is essential to shift towards Islamic finance by establishing Islamic banks, which would help mobilize resources and reduce the amount of money circulating outside the banking system due to religious objections to dealing with usury-based banks.

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