

Algeria's Experience with Unconventional Monetary Policies

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Summary: This study aims to introduce the concept of unconventional monetary policy specifically, non-traditional financing as a key response to financial and economic crises since 2008. It highlights the increasingly prominent role of central banks in implementing such policies and programmes to stimulate the financial system and foster economic growth, particularly in light of the limitations of conventional monetary tools. In the case of Algeria, the oil shock of 2014 precipitated a severe shortage of financial resources, resulting in deficits in both the general budget and the balance of payments. In response, the Algerian government adopted a policy of non-traditional financing to address these deficits and avoid external borrowing. The research employs a descriptive and analytical methodology, focusing on the Algerian economy through the examination of statistical data and annual reports issued by the Bank of Algeria for the period 2017-2023. The findings indicate that unconventional financing was not an effective mechanism for covering the deficit or restoring equilibrium to the general budget and balance of payments. This ineffectiveness is largely attributed to the Algerian economy's heavy reliance on oil-based fiscal revenues.

Keywords: Monetary Policy; Unconventional Financing; Quantitative Easing; Central Bank; Credit management.

Jel Classification Codes: E4, E52, E50, E31.

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- Introduction :

Monetary policy is regarded as one of the most significant economic policies with substantial short-term impact. Its primary role lies in achieving a set of objectives defined by the monetary authority through financial stability, which constitutes the nucleus and fundamental pillar of any state in confronting unforeseen financial crises.

Governments resort to monetary policy when faced with imbalances, whether domestic or external. In order to attain the desired objectives, a range of instruments long recognised for their efficiency and responsiveness to emergency circumstances are employed. In advanced economies, monetary policy represents an effective mechanism for safeguarding the national economy. However, developments within the international financial system and the severe crises experienced by many countries have diminished the effectiveness of traditional monetary instruments. Consequently, central banks have been compelled to explore non-conventional financing methods capable of achieving the same objectives unattainable through traditional tools. Indeed, several American, European, and Japanese banks introduced such unconventional instruments, which, despite their inherent risks, yielded successful outcomes. Algeria, like other nations, adopted this approach specifically quantitative easing (an unconventional monetary policy) in response to the financial crisis triggered by the decline in hydrocarbon prices in 2014.

Accordingly, the following research problem is posed:

Problem Statement: Has unconventional monetary policy contributed to achieving the intended objectives in Algeria during the period from 2017 to 2023?

To elaborate, the study addresses the following subsidiary question:

- To what extent has monetary policy, following the introduction of unconventional instruments, succeeded in attaining its objectives? What conditions has the Algerian economy experienced subsequent to the application of these tools?

Significance of the Study:

The importance of this study derives from the relevance of its subject, which remains a pressing issue both locally and internationally in the wake of recurrent global and national financial crises. These crises compelled the introduction of new monetary policy instruments to mitigate their effects, and such tools proved instrumental in resolving some of the most severe global downturns. Algeria sought to adopt this novel financing method as an exceptional and urgent solution to the crisis precipitated by the collapse of oil prices in 2014.

Objectives of the Study:

The principal aim of this research is to examine recent developments in the Algerian economy within the financial and monetary spheres, to present the main trajectories of the unconventional financing experiment, and to identify modern instruments of unconventional monetary policy in terms of their concept, origins, and mechanisms of application in financing the public treasury, as well as their effects and future prospects.

Methodology:

Given the importance and sensitivity of the topic, the study relies on a descriptive-analytical method to highlight the significance of unconventional monetary policy programmes in containing crises and to analyse the various adjustments undertaken.

Research Hypotheses:

Based on this study, the following hypotheses have been formulated:

- The central bank employed quantitative easing, classified among unconventional monetary policy instruments, to restore financial stability in the Algerian economy.
- The national economy witnessed recovery following the implementation of this newly introduced instrument.

1. The Nature of Unconventional Monetary Policy

Economist Paul Krugman (2018, أحمد) is considered the first to write on unconventional monetary policy. The Bank of Japan was the first central bank worldwide to apply such instruments prior to the global financial crisis, specifically between April 2001 and March 2006. With the onset of the crisis in 2007, this new and exceptional policy, previously known only in theoretical economics, gained widespread application, particularly among advanced economies, and continues to be employed to this day. Beginning in September 2008, the United States Federal Reserve

launched its first package of quantitative easing measures. As the crisis extended to the real sector, the role of unconventional policy became that of stimulating the economy, reducing the cost of funds, and raising expected inflation rates to encourage economic growth. As Kumarajan (2013) described, it was “a step in the dark.”

It is noteworthy that emerging economies did not initially participate in the application of unconventional monetary instruments, as their policies were contractionary, aimed at curbing inflation, controlling capital flows, and regulating credit volumes (أحمد، 2018).

The global financial crisis of 2007–2009 represented one of the earliest instances of recourse to unconventional monetary policy by central banks under extraordinary circumstances. Measures included enhanced credit support, quantitative and credit easing, interventions in currency and securities markets, and the provision of liquidity in both local and foreign currencies. These interventions, implemented through newly devised non-traditional means, expanded central bank balance sheets and injected liquidity to influence revenue structures and returns, thereby stimulating aggregate demand.

Definition of Unconventional Monetary Policy:

There is no comprehensive definition of unconventional monetary policy, as it has been described either in terms of objectives or instruments. It may therefore be defined from two perspectives:

- **From the perspective of objectives:** It comprises a set of newly introduced and atypical measures within monetary policy, employed by monetary authorities (central banks) to influence economic activity and achieve specific economic goals within a given timeframe. This definition emphasises the targeting of tangible economic variables such as growth or employment (صاري، 2013).
- **From the perspective of instruments:** It refers to monetary policy applied during crises to provide liquidity in local and foreign currencies, extend credit facilities, implement quantitative easing, enhance credit support, and intervene in currency and securities markets. The overarching aim is to sustain the functioning of the financial sector and protect the real economy from the repercussions of financial crises (Joyce (2012 ،

Unconventional monetary policy may also be defined as the central bank assuming the role of intermediary in the credit process to compensate for disruptions in private intermediation. This is characterised by the ease with which central banks can obtain funds through the issuance of government bonds without restrictions or risk, thereby providing a mechanism to stimulate the economy (Gertler , Karadi(2010 ،

From these definitions, several conclusions may be drawn:

- The primary objective of conventional monetary policy was to target inflation (price stability), whereas the objective of unconventional monetary policy is to target quantitative variables such as employment levels or specific production targets.
- Repeated attempts by central banks to influence short-term interest rates have led to the expansion of their balance sheets.
- During periods of financial distress, when intermediation may be disrupted, central banks can intervene to support credit flows and act as intermediaries by borrowing from savers and lending to investors.
- Quantitative easing, credit easing, and zero-interest policies are employed to address liquidity problems in the banking system, thereby ensuring adequate and cost-free financing for economic activities.

2. Instruments of Unconventional Monetary Policy

2.1 Quantitative Easing:

Quantitative easing is one of the unconventional monetary policy instruments employed by central banks to stimulate the economy when traditional policy proves ineffective, particularly when short-term interest rates approach zero (the liquidity trap). It seeks to influence long-term interest rates through quantitative measures. Quantitative easing entails the central bank injecting new funds directly into the economy by purchasing long-term financial assets, thereby raising their

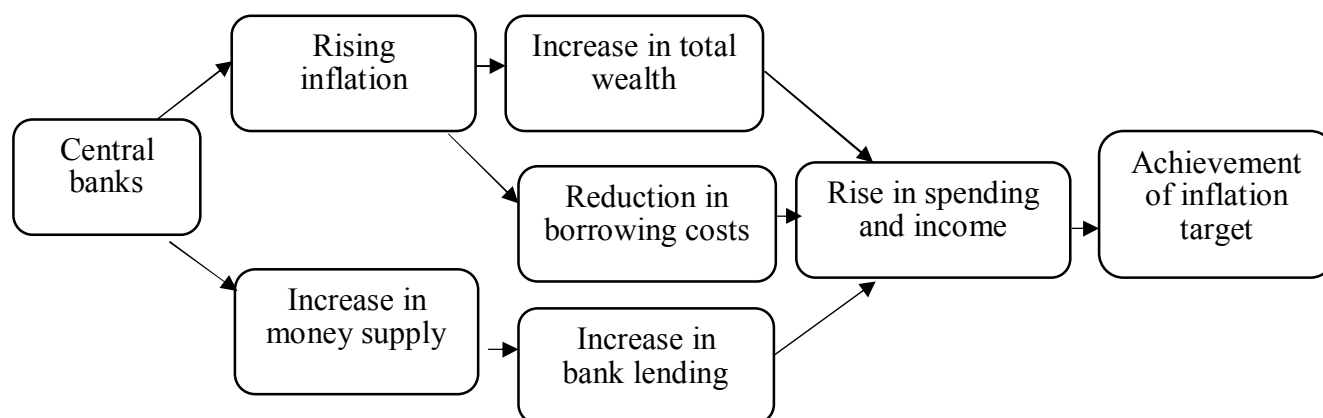
prices, lowering long-term interest rates, encouraging investment, and stimulating economic activity) Akacem , Selka(2015 ,

The use of quantitative easing reflects the monetarist theory advanced by Friedman in the 1980s, which posited that governments should control the money supply to ensure economic stability and prevent excessive inflation or deflation. This theory highlights the relationship between money supply and bank deposits, whereby an increase in money supply can lead to greater credit provision by banks to firms and households)Ryan-Collins , R(2013 ,

Through quantitative easing, central banks purchase assets (bonds, securities) extensively from financial institutions and commercial banks. This raises asset prices and reduces yields, while simultaneously increasing the reserves of financial institutions and banks. The result is enhanced financial and monetary activity, increased bank lending, reduced borrowing costs for firms and households, and consequently higher spending and investment. This process ultimately leads to growth in overall economic wealth and attainment of the targeted inflation rate, which constitutes the principal objective of quantitative easing (2022 , محسن)

As shown in the following figure:

Figure 1: Channels for transmitting quantitative management policy



Source:)Asgeirsdottir(2014 ,

2.2 Qualitative Easing:

This policy, sometimes referred to as qualitative easing, is employed by the central bank with the objective of influencing the relative prices of assets without altering the overall size of its balance sheet (i.e., without creating new money ex nihilo). This instrument relies on a swap operation involving two main steps: the purchase of weak assets, whereby the central bank acquires specific assets that have lost their market value (such as mortgage-backed securities) from financial institutions; and the simultaneous exchange of assets, in which the bank sells short-term bonds in return for long-term bonds. The purpose of this process is to affect the yield curve: purchasing long-term bonds reduces long-term interest rates toward a desired level, while selling short-term bonds increases their yields. These changes are intended to improve financial conditions in certain sectors, particularly those suffering from liquidity problems (2018 , أحمد)

The qualitative easing instrument provides the central bank with a unique capacity to exercise precise control over liquidity operations within the financial system. It enables the reactivation of the economy through targeted financing, whereby liquidity is injected into specific sectors or asset markets in need of support, while simultaneously curbing speculative bubbles. Qualitative control thus directs funds toward productive activities rather than allowing them to accumulate in speculative markets.

Quantitative easing proves effective in restoring confidence to banks, which are often the most severely affected by financial crises. By contrast, the effectiveness of qualitative easing appears limited when there is direct demand for liquidity from firms and financial institutions through the issuance of shares or bonds (2019 , نظيرة)

2.3 Forward Guidance:

Forward guidance is an unconventional instrument that relies on explicit communication by the central bank with markets in order to influence the behavior of economic agents. This tool revolves around providing clear instructions and statements from the central bank regarding its expectations of market conditions and the levels of key economic variables over a specified period, as well as announcing future intentions. Such guidance includes disclosure of the bank's future plans, such as maintaining low interest rates for an extended period or raising them only upon achieving specific economic objectives (e.g., reaching a certain unemployment rate or a targeted inflation level).

Economist Woodford (2012) highlights the importance of forward guidance through two main factors:)Woodfoud(2012 ،

- **First factor: Difficulty in diagnosing central bank intentions.** One of the principal challenges in implementing unconventional monetary policy lies in the difficulty economic agents face in discerning the central bank's intentions, often referred to as the "credibility problem." This challenge becomes particularly acute in the pre-guidance financial and monetary environment, where the zero interest rate compels central banks to maintain a tighter monetary stance than they would prefer, especially if they are unable to provide credible assurances of continued easing. Central banks attempt to convince agents that they will adopt a more flexible monetary policy than current economic conditions dictate, with the aim of altering expectations. This is especially relevant when the zero lower bound no longer constitutes an obstacle to further theoretical easing in the future. To overcome this challenge, central banks must clarify their decisions by pledging to adopt a more accommodative policy going forward. In this way, the risk of excessively high real rates in the present period becomes less damaging to short-term economic activity.
- **Second factor: The binding power of forward guidance.** The actual strength of forward guidance lies in its capacity to compel monetary authorities to adhere to their announced decisions. This commitment benefits monetary policy by enhancing the credibility of central banks: when they fulfill their declared future promises, agents' confidence rises, and expectations become more accurate. The more credible the central bank's commitments, the more reliable and precise economic agents' forecasts become. In the context of efforts by many advanced-economy central banks to improve transparency since the 1980s, the Reserve Bank of New Zealand was a pioneer in this regard. It was the first to adopt an explicit inflation-targeting framework and, in 1997, became the first central bank to employ forward guidance extensively by publicly announcing the future trajectory of interbank interest rates for the subsequent three months.

2.4 Zero Interest Rate Policy:

The central bank adopts a zero-interest rate policy during crises to facilitate access to credit for individuals and firms. This instrument involves the central bank setting zero or negative interest rates on excess reserves held by commercial banks. Such a measure incentivizes commercial banks to seek more productive uses for their surplus liquidity, primarily through increased lending and financing of consumers and investors. This policy has been implemented in several advanced economies in response to global financial crises, including Japan and the United Kingdom, with the objective of stimulating aggregate demand and revitalizing the economy)Wright(2011 ،

Empirical studies have demonstrated that changes in foreign exchange rates are partly attributable to the impact of interest rate differentials. Investors tend to sell currencies with lower interest rates and purchase those with higher rates, thereby exerting downward pressure on the former and upward pressure on the latter, ultimately influencing exchange rate movements (فريد، 2009)

2.5 Negative Interest Rate Policy:

The Bank of Japan was the first to implement this policy at the beginning of the 21st century. The adoption of negative interest rates began to spread following the 2008 crisis. In 2009, the Swedish central bank introduced negative rates, recording the world's largest cut at -1.1%. Switzerland and Denmark subsequently followed, with rates reaching -0.75%. These unprecedented measures aimed to depreciate their currencies against the euro and the dollar, thereby preserving the competitiveness of their exports.

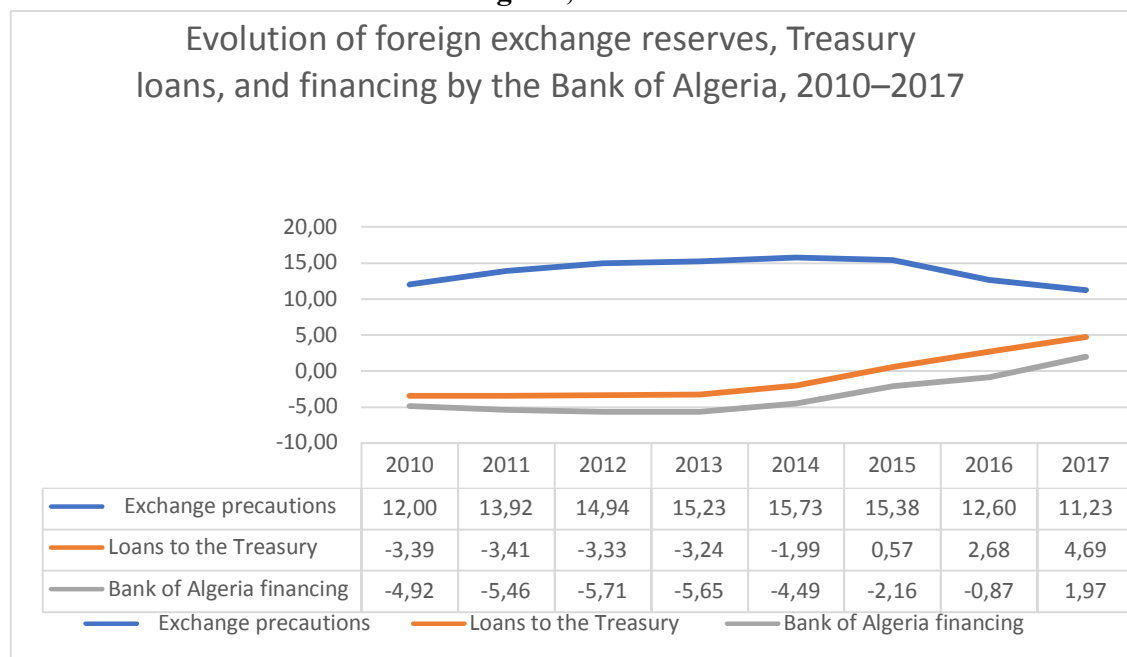
The negative interest rate policy functions as a punitive monetary tax imposed by the central bank on commercial banks that prefer to hold excess liquidity as deposits with the central bank rather than lending it to individuals and firms, thereby stimulating economic activity (Benati, 2013)

3. Unconventional Financing in Algeria

The oil crisis that began in 2014 marked the principal turning point of Algeria's financial and economic crisis. The country's macroeconomic and microeconomic indicators were closely and directly tied to hydrocarbon revenues. With the onset of the sharp decline in oil prices beginning in 2014, the Algerian economy was immediately affected. This steep deterioration in hydrocarbon prices reflects the magnitude of the financial shock experienced by the country. Hydrocarbon revenues reached a record level of approximately USD 64 billion in 2013, but by 2016 they had plummeted to only USD 27 billion. This substantial decline in revenues was the direct cause of the financial and economic pressures Algeria faced (Algeria B, 2017).

The collapse in hydrocarbon revenues led to a rapid and comprehensive deterioration in Algeria's macroeconomic indicators, most notably those related to the external sector, such as the balance of payments, which recorded negative values due to reduced foreign currency inflows, and the trade balance, where imports exceeded the value of non-hydrocarbon exports. These successive imbalances caused a significant and rapid erosion of the country's foreign exchange reserves, which fell from record levels in 2013 to nearly half within four years. The following figure illustrates this development:

Figure 02: Evolution of foreign exchange reserves, Treasury loans, and financing by the Bank of Algeria, 2010–2017



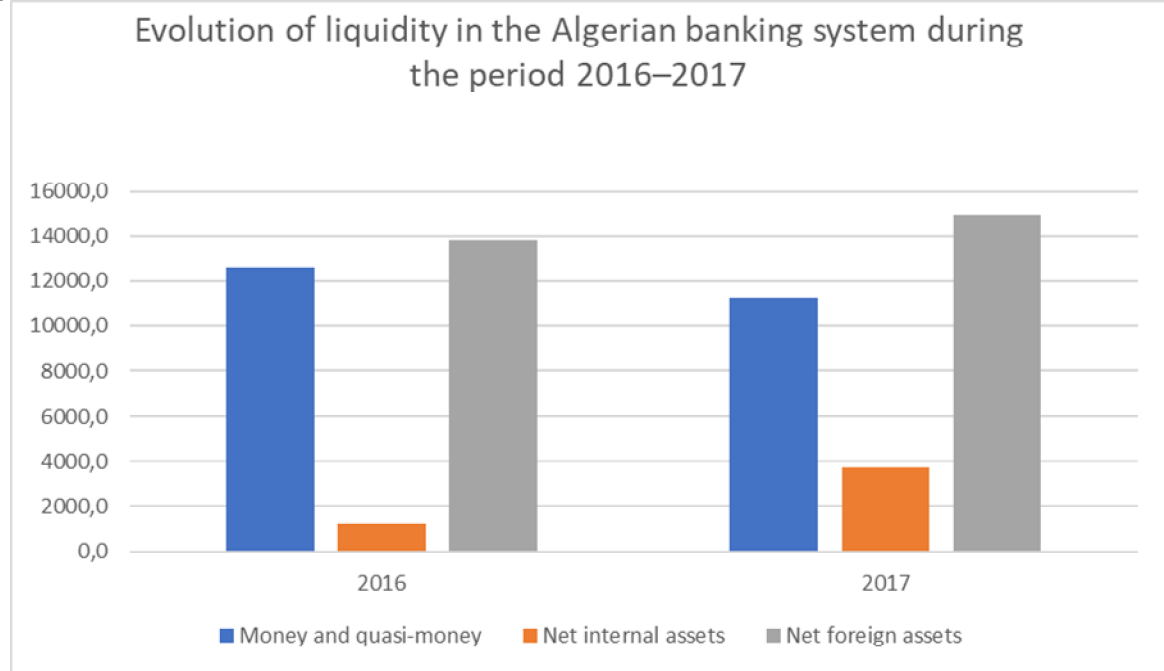
Source: Bank of Algeria, Annual Report 2017: Economic and Monetary Situation, p. 121

As a result of the decline in oil prices, the credit balance of the Public Treasury at the Bank of Algeria decreased in line with the fall in foreign exchange reserves beginning in 2015. This development marked the initial shift of the Treasury's balance from creditor to debtor, serving as an indicator of the Treasury's deficit and the onset of reliance on the Bank of Algeria to inject exceptional financial resources into the Public Treasury by the end of 2016.

This situation was reflected in the liquidity of the banking system, which experienced a significant decline due to the reduction in deposits from Sonatrach and the deterioration of both public and private savings as a result of weakened economic and investment activity. Consequently, banking liquidity levels fell from their normal average of around 75% to levels exceeding 92%.

This sharp deterioration hindered the ability to attract new savings and made it difficult to provide fresh credit to the economy. The following figure illustrates this trend:

Figure 03: Evolution of liquidity in the Algerian banking system during the period 2016–2017



Source: Bank of Algeria statistics, available at: <http://www.bank-of-algeria.dz>

Due to the impossibility of resorting to domestic borrowing as a result of liquidity shortages in the financial and banking system, and the political decision not to resort to external borrowing, the government was compelled to seek alternatives to cover the overall deficit. This led the Bank of Algeria to adopt an unconventional financing policy (Raouf Boucekkine (2018)).

1. The Unconventional Financing Program in Algeria:

On October 11, 2017, Law No. 17-10 was enacted, representing a significant addition to Ordinance No. 03-11 concerning the Monetary and Credit Law. This amendment revised Article 45 of the original ordinance to allow the Bank of Algeria (the central bank) to purchase Treasury bonds (government securities) directly from the Public Treasury. The measure was approved as an exceptional and temporary arrangement for a period of five years, intended to cover the financing needs of the Public Treasury (budget deficit), the financing of domestic public debt, as well as the financing of the National Investment Fund. This amendment marked the beginning of Algeria's implementation of a domestic quantitative easing policy as a mechanism to counter the erosion of foreign exchange reserves.

As a result of this program, the Public Treasury received financial allocations amounting to 2,185 billion DZD in 2017, 3,371.2 billions DZD in 2018, and 1,000 billion DZD in 2019, stemming from Algeria's use of unconventional financing between October 2017 and January 2019 (Algeria B. «Monthly position of the Bank of Algeria 2017-2019» (2019-2017)).

The following table illustrates the evolution of unconventional financing operations carried out by the Bank of Algeria in favor of the Public Treasury:

Table 01: Evolution of unconventional financing in Algeria during the period 2017–2019 (unit: billion DZD)

period	Cash issue value (billion DZD)	Monthly status of non-traditional financing (billion DZD)
October 2017	570	570
November 2017	1615	2185
December 2017	00	2185
January 2018	1400	3585
February 2018	00	3585
March 2018	00	3585

April 2018	00	3585
May 2018	00	3585
June 2018	00	3585
July 2018	00	3585
August 2018	00	3585
September 2018	420	4005
October 2018	00	4005
November 2108	1187.2	5192.2
December 2018	364	5556.2
January 2019	1000	6556.2

Source: Monthly Situation of the Bank of Algeria, October 2017–January 2019.

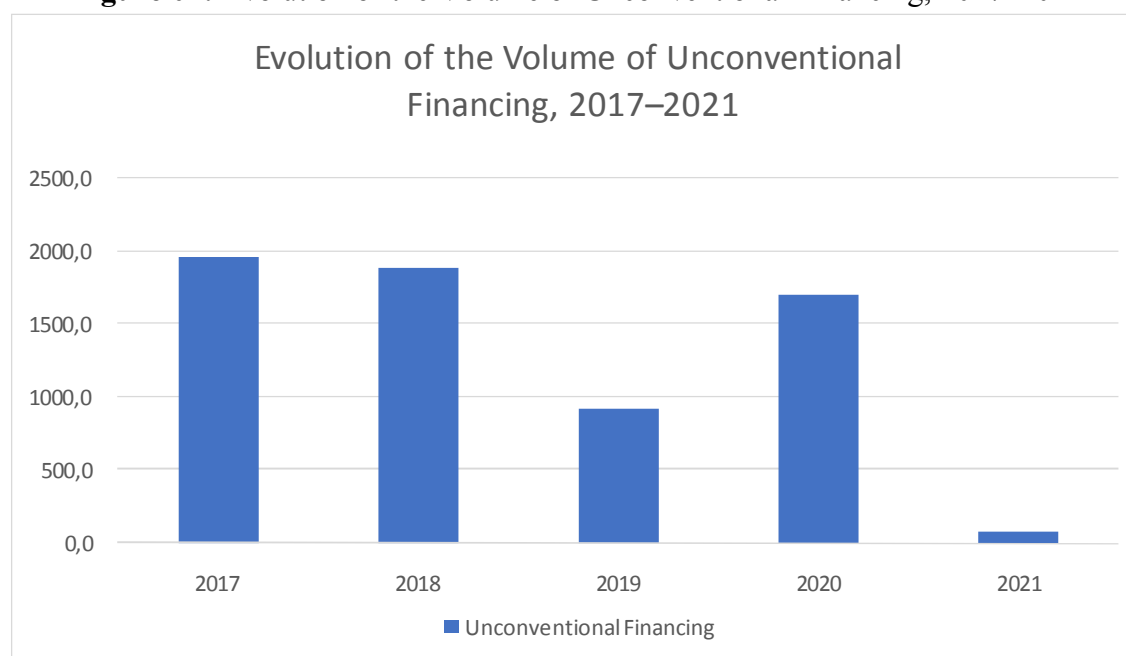
The financial envelope of the unconventional financing program was allocated as follows
)Algeria B. «Annual Report of the Bank of Algeria(2019) :

- **2,470 billion DZD** to finance the public budget deficit.
- **1,813 billion DZD** to finance domestic public debt, including the debts of public economic enterprises, most notably Sonelgaz (513 billion DZD) and Sonatrach (400 billion DZD).
- **2,273 billion DZD** to finance the National Investment Fund, including 500 billion DZD to cover the deficit of the National Pension Fund.

By January 2019, 47.7% of the total monetary issuance, estimated at 6,556.2 billions DZD, had been employed, equivalent to 3,124.2 billions DZD in unconventional financing. Despite the official announcement of the termination of the unconventional financing policy (or domestic quantitative easing) in Algeria, this termination was practically limited to halting new monetary issuance. In reality, the government continued to utilize the remaining surplus of the financial envelope previously allocated to this program, and this use persisted until the end of 2021.

Unconventional financing provided the Algerian government with substantial financial resources, enabling it to manage and confront two major economic crises : the oil price shock that began in 2014, and the COVID-19 pandemic that emerged in early 2020. The following figure illustrates this development (2023، حمزة)

Figure 04: Evolution of the Volume of Unconventional Financing, 2017–2021



Source: Compiled by the researcher based on: Bank of Algeria, Annual Reports 2018–2021.

2. The Impact of the Unconventional Financing Program on Achieving Stated Objectives

Algeria experienced a sharp aggravation of its general budget deficit beginning in 2017, following the continued decline in international oil prices and the depletion of the Revenue Regulation Fund. This situation led the government to rely on financing from the Bank of Algeria

through various channels, thereby necessitating the application of Law No. 17-10 amending Ordinance No. 03-11 on Money and Credit. This legislation aimed to restore balance to both the national budget and the balance of payments key objectives of the unconventional financing policy.

Statistical data revealed a growing structural deficit in the public budget since 2017. Despite the overall worsening of the deficit, the year 2020 witnessed an exceptional reduction in the budget deficit, resulting from the government's initiative to cut expenditures in response to the COVID-19 crisis. The budget contracted by -10.8%, primarily due to a -33.5% reduction in capital expenditures.

The following table illustrates the evolution of the general budget deficit during the period 2015–2023 (unit : billion DZD) :

Table 02: Evolution of the General Budget Deficit, 2015–2023 (unit: billion DZD)

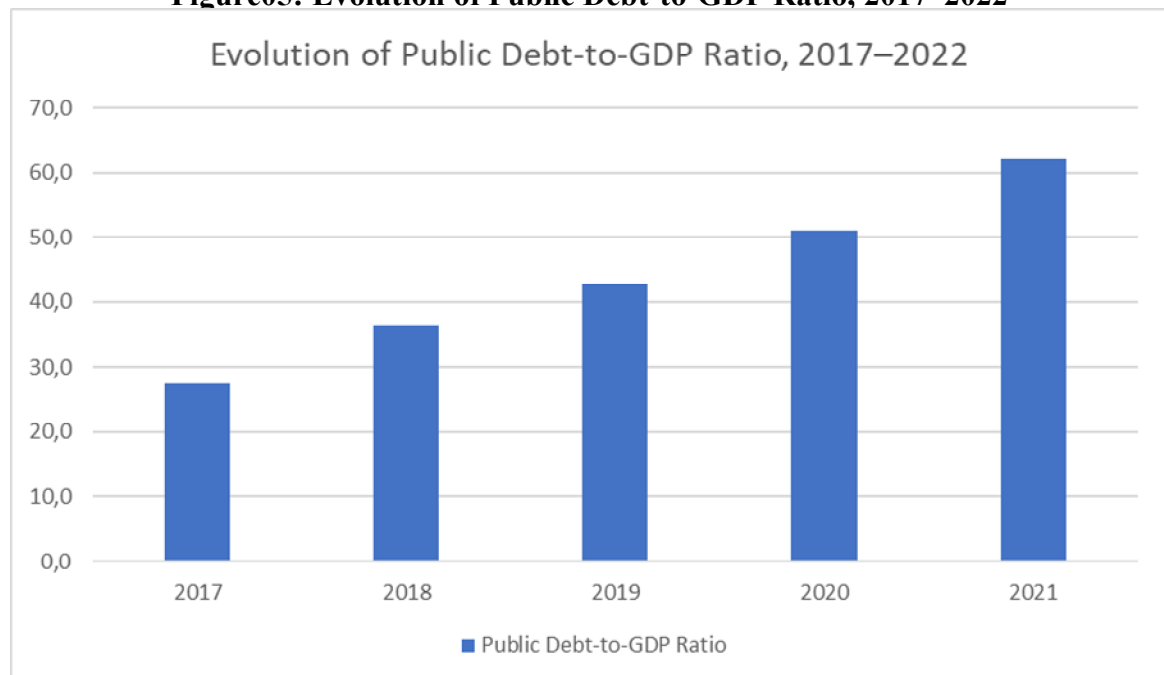
Year	Total revenues	Total expenditures	Overall deficit
2015	4684,65	8858,06	-4173,41
2016	4747,43	7984,18	-3236,75
2017	5635,51	6883,22	-1247,70
2018	6424,49	8627,78	-2203,29
2019	6 507,91	8 557,16	-2 049,25
2020	6 289,72	7 823,11	-1 533,39
2021	5 328,18	8 113,03	-2 784,85
2022	5683,22	9858,43	-4175,21
2023	7907,92	13786,82	-5884,90

Source: Compiled by the researcher based on Finance Laws for the years 2015–2023.

From the table covering the period 2015–2023, it is evident that Algeria's general budget deficit represents a structural challenge. The oil price shock of 2015 resulted in a record deficit, which required several years and multiple fiscal policies supported by rising energy prices to be substantially reduced by 2022. Nevertheless, the continued expansion of government spending, particularly social expenditures, led to a renewed increase in the deficit ratio in 2023.

As a consequence of the persistent general budget deficit, public debt levels were negatively affected, doubling during the period 2017–2022. The following figure illustrates the evolution of the ratio of public debt to GDP :

Figure05: Evolution of Public Debt-to-GDP Ratio, 2017–2022



Source : Bank of Algeria, Annual Report 2021, p. 111.

Linking the monetary financing policy implemented by the Bank of Algeria (the central bank) to its stated objectives and the actual outcomes reveals a significant performance gap.

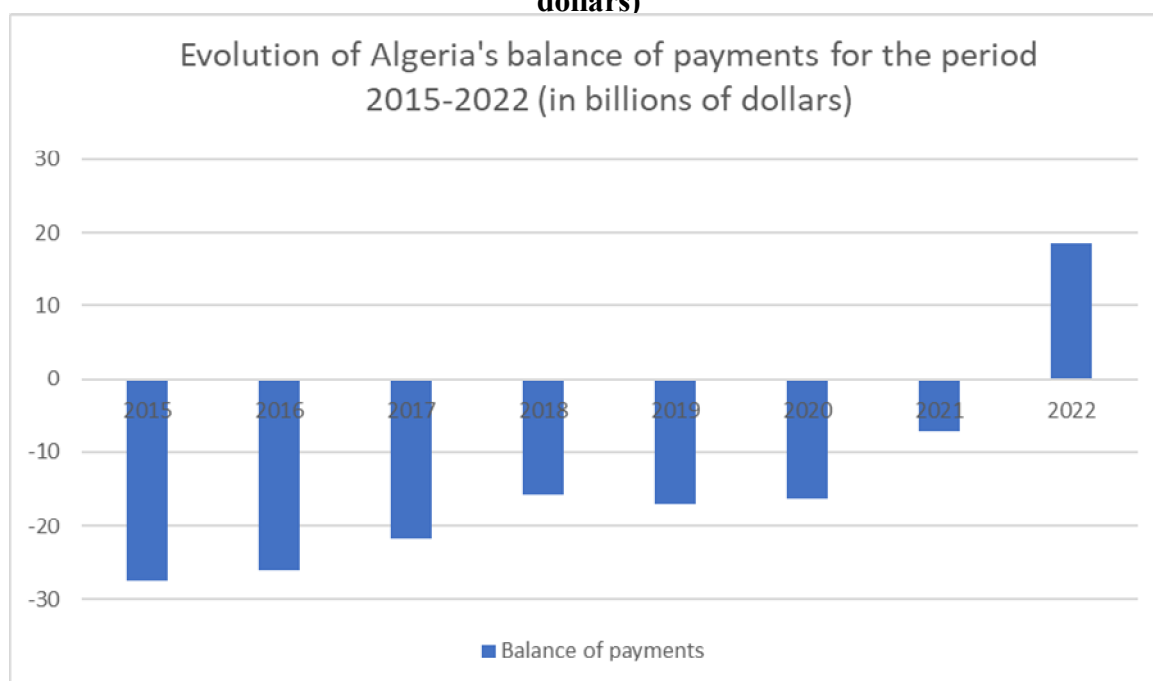
Despite the injection of liquidity, monetary financing did not succeed in restructuring the economy to make it less dependent on oil revenues, indicating that the allocated funds failed to generate a sustainable developmental impact.

Field results confirm that fluctuations in Algeria's public treasury revenues remain organically tied to petroleum taxation revenues, both in periods of increase and decline. The events of 2022 provided decisive evidence of this dependency : during the first nine months of 2022, Algeria recorded its first positive shift in the general budget since 2013. This improvement was entirely attributable to the rise in global oil prices, a direct consequence of the Russia–Ukraine war, which generated substantial financial surpluses. Specifically, a surplus of **916.7 billions DZD** was achieved, compared to a deficit of **1 billion DZD** during the same period in 2021. In addition, petroleum taxation revenues alone reached **3,665 billion DZD**, while the Revenue Regulation Fund was financed for the first time since February 2017, with an allocation of **698.1 billions DZD**, according to the Bank of Algeria's 2022 Annual Report (Algeria B. o., Annual Report, 2022)

This financial improvement, driven entirely by an external price shock (the Russia–Ukraine war), underscores that monetary financing failed to decouple public revenues from petroleum volatility, and that Algeria's financial stability remains contingent upon global energy prices.

A similar situation was observed in the balance of payments, which had experienced continuous deficits since the oil price shock and only recorded positive values in 2022. This improvement was a direct reflection of the trade balance, represented by hydrocarbon exports that approached USD 41 billion by the end of the third quarter of 2022. The following figure illustrates this trend :

Figure06: Evolution of Algeria's balance of payments for the period 2015-2022 (in billions of dollars)



Source : Compiled by the researcher based on Bank of Algeria statistics.

Analysis of the evolution of Algeria's balance of payments during the period 2015–2022 reveals a phase characterized by significant volatility, primarily driven by the country's heavy reliance on hydrocarbon revenues and fluctuations in global oil prices.

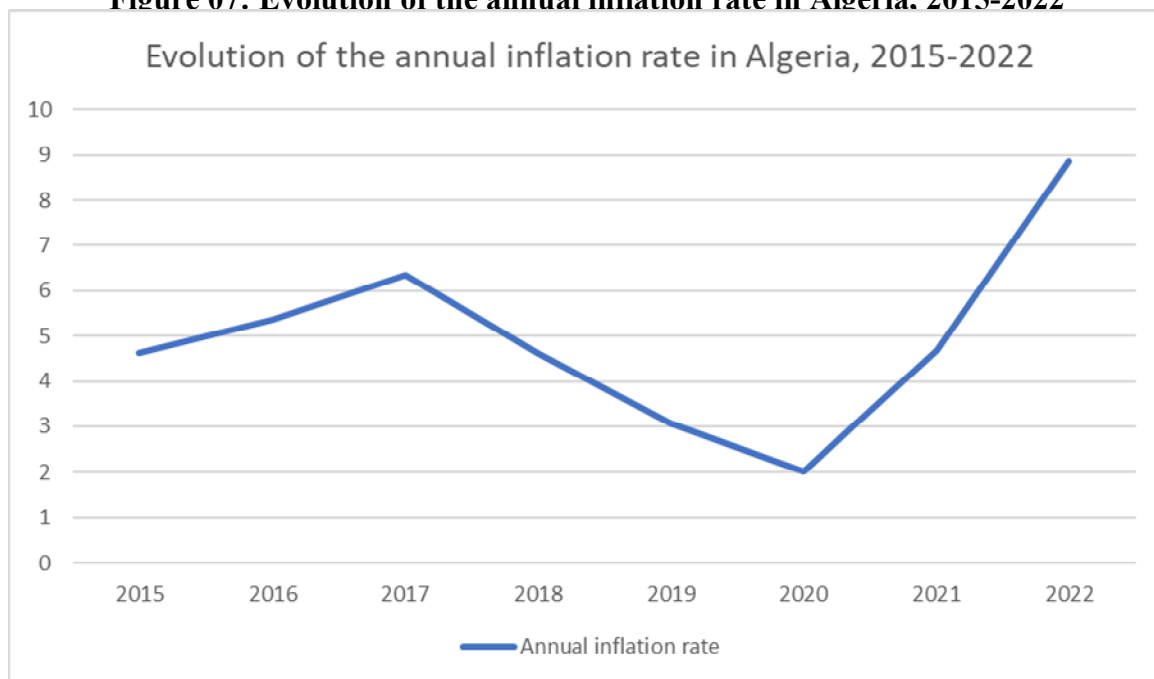
3. Analysis of the Impact of the Unconventional Financing Program on the Objectives of the Bank of Algeria

Monetary policy whether conventional or unconventional considers monetary stability to be one of its central objectives. This stability is divided into two fundamental dimensions : internal and external. The Bank of Algeria (the central bank) seeks to achieve these objectives through the enactment and implementation of the Monetary and Credit Law. The performance of the central bank is evaluated based on its ability to control key variables, specifically inflation rates, which

represent internal monetary stability, and exchange rates, which represent external monetary stability, both of which have direct implications for the balance of payments.

With the adoption of monetary financing mechanisms by the Bank of Algeria in favor of the Public Treasury, the inflation rate witnessed a notable decline in the initial period, falling from 6.36% in 2017 to 2.03% in 2020. However, during the last two years, inflation reached unprecedented and historic levels, recording successive increases beginning in the second quarter of 2021, reaching 7.21% by the end of that year, and continuing in 2022 to reach 9.29% by December, as illustrated in the figure showing the evolution of the average inflation rate for the period 2015–2022.

Figure 07: Evolution of the annual inflation rate in Algeria. 2015-2022



Source : Compiled by the researcher based on Bank of Algeria statistics.

Following the enactment of Law No. 17-10 (amending Ordinance No. 03-11), which authorized unconventional financing (money creation), the Bank of Algeria undertook a series of counter-monetary policy operations to mitigate its inflationary effects. One of the direct outcomes of these operations was the absorption of a significant share of excess liquidity from the banking and financial system, amounting to more than 1,700 billion DZD by early 2019. These absorption measures, combined with other economic factors, contributed to the decline in inflation rates during the period 2017–2020. Agricultural production also improved, increasing the supply of goods and thereby easing inflationary pressures on food prices. Meanwhile, imports continued to decline, which reduced demand for foreign currency and supported the stability of domestic prices.

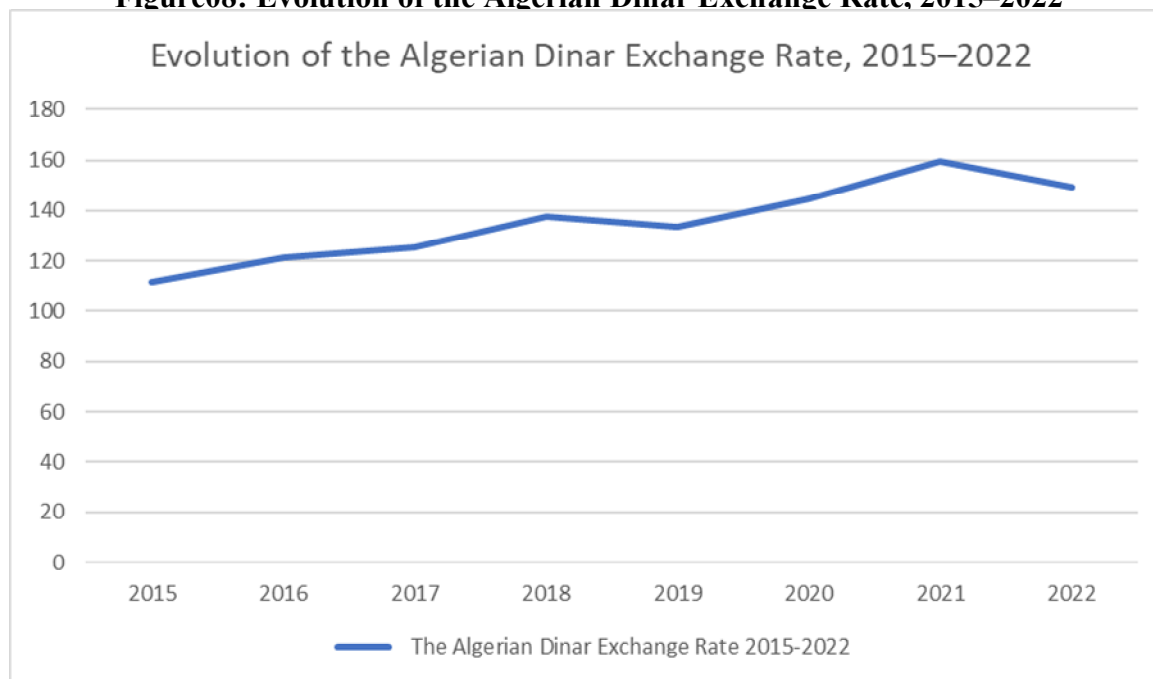
During 2021–2022, Algeria experienced a sharp rise in inflation, reaching historic levels not recorded for a long time. The International Monetary Fund (IMF) argued that domestic economic policies and conditions such as insufficient production and import restrictions played a greater role in driving inflation to record levels, despite the influence of external factors. Additional contributors included disruptions in retail markets, wage increases, and the government's expansionary fiscal policy (International, 2022)

Contrary to some analyses (such as the IMF's), the Bank of Algeria attributed the record inflation primarily to external factors, estimating that 59% of the increase was due to global inflation transmitted through imports. Internal factors, represented by the monetary aggregate M2 and the nominal exchange rate, accounted for only 17% and 22%, respectively (Algeria B. o., Annual Report, 2021). This indicates that the Bank of Algeria denies any significant impact of monetary financing on the inflation rates observed during the current period.

Despite these global and domestic economic changes, the Bank of Algeria addressed inflationary pressures through a different strategy. Rather than tightening conventional monetary policy (such as raising interest rates), the bank focused on using the exchange rate as its primary

tool. Beginning in the second half of 2022, the value of the Algerian dinar was deliberately raised. This followed a period of successive devaluations from 2014 to the end of 2019, which had led to historically low levels between 2020 and the first half of 2022, when the exchange rate of the euro reached 162 DZD, representing a -43.4% depreciation compared to 2014 levels. This trend is illustrated in the following figure :

Figure08: Evolution of the Algerian Dinar Exchange Rate, 2015–2022



Source : Compiled by the researcher based on Bank of Algeria statistics.

The figure illustrates the continuous depreciation of the national currency against the euro, with an average annual decline of approximately -7%, culminating in a -34.3% depreciation by the end of 2022 compared to 2014. This depreciation coincided with the fall in oil prices and state revenues. The objectives behind lowering the value of the national currency were :

- Controlling imports in light of declining foreign exchange reserves, in order to maintain balance in the balance of payments.
- Increasing the value of petroleum tax revenues in national currency, thereby providing additional resources for the Public Treasury.
- Enhancing the profits of the Bank of Algeria through surpluses generated from the depreciation of the national currency.

- Conclusion

The decline in hydrocarbon revenues at the end of 2014 led to a reduction in petroleum taxation and, consequently, a decrease in the financing of the Public Treasury from this source. As a result, the Algerian government was compelled to choose between two options : external borrowing, with its associated constraints imposed by international financial institutions, or internal borrowing from the Public Treasury through the Bank of Algeria.

Between 2016 and late 2017, the Bank of Algeria resorted to conventional instruments to finance the Treasury deficit (rediscounting, open market operations through the purchase of Treasury bonds in the money market). However, these conventional measures failed to achieve the desired objectives. Consequently, the Bank of Algeria decided to adopt unconventional financing, consisting of monetary issuance in exchange for the purchase of Treasury bonds by the central bank.

In the absence of alternative sources of financing, unconventional financing provided an urgent mechanism for mobilizing resources directly from the Bank of Algeria. It offered the government a temporary solution to finance the general deficit and public debt, ensure the continuity of public expenditure, and thereby sustain the national economy. Yet, after nearly two

years of applying this mechanism, public finances did not improve, and both the Treasury deficit and the balance of payments—two of the policy's stated objectives remained unresolved. The five-year period of implementation demonstrated that Algeria's financial and economic system continues to be dependent on fluctuations in oil prices. Evidence of this dependency was the restoration of balance in the balance of payments and the achievement of budget surpluses immediately following the rise in oil prices triggered by the Russia–Ukraine war in 2022.

It can therefore be argued that unconventional financing did not provide the expected impetus to the national economy by stimulating investment and consumption. Its adoption occurred under unfavorable political and social conditions, which hindered the implementation of the reforms initially planned to accompany this mechanism. The success of unconventional financing lies in the execution of appropriate structural reforms and the establishment of a strong financial system.

Given Algeria's dependence on hydrocarbon revenues and the instability of these revenues, it is imperative to identify alternative sources of financing for the national economy by creating genuine resources for the Public Treasury. This requires stimulating and encouraging non-hydrocarbon sectors that generate added value, such as agro-industrial production, strategic services, petrochemical industries, and the promotion of start-ups. Expanding the tax base rather than raising tax rates alongside attracting foreign direct investment, which remains contingent upon the country's business climate, investment law, and a clear and incentivizing legislative and regulatory framework, is essential.

Furthermore, aligning with international standards necessitates the modernization and reform of the banking system, improving its performance in terms of governance and management, particularly in mobilizing and utilizing savings. The banking sector must contribute to financing projects with high economic value, while fostering the creation and development of small and medium-sized enterprises.

The banking system must also confront new technologies, digitize and secure data, and diversify its products to regain the confidence of users, agents, and clients. Finally, incorporating service quality improvement standards into the banking system, supporting clients in their projects, and engaging in advisory and regular marketing activities for banking services are crucial steps toward strengthening financial stability and economic development.

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