

The Algerian Monetary Policy in Response to the COVID-19 Health Crisis

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Abstract ;

The Coronavirus pandemic is one of the most important crises the world's economy and Algeria have faced, given the impact it has had on various sectors. The Algerian authorities have begun to act since the first case of coronavirus was recorded. Thus, this study aims to assess the importance of the used monetary policy to face the consequences of the crisis by analyzing the quantitative procedures and tools and how has the Central Bank used to deal with the pandemic. Through this study, it has been shown that the Central Bank of Algeria has taken several measures and actions to ensure the stabilization of the economy and control inflation as precautionary relief and economic recovery measures. Finally, monetary policy alone is not enough to face such crises unless it is combined with fiscal policy.

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1. Introduction

The monetary policy is one of the pillars of economic policy. It aims to control the money supply and ensure price stability, full employment, and exchange rates

Since independence and the establishment of the central bank, monetary policy in Algeria has evolved through several stages. As early as January 1988, there were several significant reforms, particularly following the enactment of the currency and credit law, which aimed to completely redefine the structure of the Algerian banking system. Central banks, especially the Bank of Algeria, have a significant impact on economic fluctuations by being a crucial stabilizing element. Central banks typically employ tools of monetary policy to achieve their objectives. Economists classify these tools as quantitative instruments that affect the money supply in circulation, qualitative instruments that affect the quality of credit and its cost, and finally, direct instructions given in cases where quantitative and qualitative instruments fail to achieve the objectives of monetary policy.

Monetary policy has always been present in response to various crises faced by the Algerian economy, such as during the oil counter-shock crisis in 1986, the 2008 financial crisis, and also the Covid-19 pandemic crisis

The Covid-19 pandemic is a major health crisis caused by an emerging infectious disease called coronavirus 2019, which began spreading in late 2019 in mainland China. The pathogen of the disease is the SARS-CoV-2 virus, which is responsible for the pandemic.

The World Health Organization declared on March 11, 2020, that this virus had caused a pandemic.

In Algeria, the virus began to spread when an Italian citizen tested positive for SARS-CoV-2

The epidemic spread to all cities (provinces) of Algeria. Additional cases of Covid-19 were subsequently discovered. According to official figures, in this country of 44 million inhabitants, there were 180,350 cases and 4,510 deaths as of August 7, 2021; however, specialists estimate that these figures are significantly underestimated (BC.maissa, 2021)

Thus, the Algerian economy had to face a three-dimensional crisis: oil, political, and health. Indeed, the already vulnerable and fragile Algerian macroeconomic environment was severely affected by the simultaneous effects of the COVID-19 pandemic and the collapse of oil prices, forcing the new authorities to deal with a multifaceted crisis. To prevent the spread of the virus throughout the country, the Algerian government implemented strict measures on economic agents such as the closure of businesses, government offices, hotels, and cafeterias, as well as flight cancellations and mandatory leave for half of the state employees, all public and private events, gatherings, and educational, sports, and religious activities were suspended. Since late March 2020, a curfew has been implemented in the most affected cities (provinces) of the country

The research problem is as follows: what are the monetary policy measures implemented by the Bank of Algeria to mitigate the effects of the health crisis and revitalize the country's economy?

Research hypotheses:

- The government has implemented emergency and stimulus measures to address this crisis, which has slowed down the country's economy.
- The Bank of Algeria has prepared a special capped refinancing program to contribute to accelerating the dynamics of all economic activities.

Research objectives: The aim of this research work can be summarized in two points:

- To determine the effectiveness of monetary policy measures in addressing this health crisis using an analysis of economic indicators and data.
- To assess whether these measures were sufficient in addressing this crisis or if coordination with fiscal policy would be necessary.

Research Methodology:

The research employed a descriptive approach within the theoretical framework and an analytical approach to analyse data extracted from various available sources.

2. The evolution of the COVID-19 health crisis in Algeria

COVID-19 is caused by SARS-CoV-2, a virus from the Coronaviridae family. This zoonotic disease, whose origin is still debated, emerged in December 2019 in Wuhan, Hubei Province, China. The disease quickly spread within China before spreading worldwide, leading to a global pandemic.

COVID-19 is a respiratory disease that can be fatal in patients of advanced age or with another chronic illness. It spreads through close contact with infected individuals.

Asymptomatic individuals can also contract the disease, but there isn't enough scientific data to conclusively prove this. Globally, the number of infections and deaths experienced a sharp increase between March 2020 and August 2020.

On January 22 and 23, 2020, the Director-General of the World Health Organization convened a global emergency committee to determine the level of threat associated with the Covid-19 virus worldwide, which was then considered moderate. The Director-General of the World Health Organization, upon the recommendation of the same committee, declared the coronavirus Covid-19 a global pandemic and a Public Health Emergency of International Concern on January 30, 2020. (ministere de la santé, 2020, p. 05)

COVID-19 is a coronavirus that presents symptoms such as fever, cough, shortness of breath, and other symptoms may include fatigue, muscle aches, diarrhoea, sore throat, loss of smell, and abdominal pain.

The symptoms last for about five days, but they can resolve within two to four days, and most of the time, they are mild. (faical, sohayb, & imane, 2020)

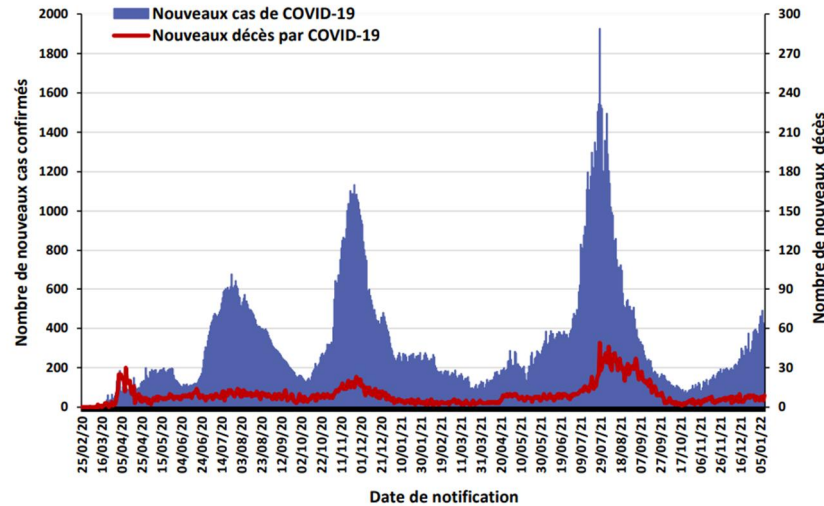
After a deep and synchronized recession caused by lockdowns aimed at containing the COVID-19 pandemic, the global economy has faced an uncertain pace of recovery in the wake of this pandemic.

Like most countries around the world, Algeria has prioritized managing and reducing the spread of the virus to decrease the number of cases and alleviate pressure on hospitals. From the onset of the pandemic, the government imposed strict lockdown measures on individuals and businesses such as:

- Cancellation of flights and imposition of quarantine on repatriated Algerians
- Closure of schools and universities
- Cancellation of public and private events
- Mandatory leave for half of state employees with continued payment of their salaries
- Imposition of a curfew for the most affected city (provinces) by the pandemic.

"Executive Decree No. 20-69 of March 21, 2020, regarding preventive measures to combat the spread of the Coronavirus (COVID-19)"

"Figure 01: Evolution of the daily number of new confirmed cases and new deaths due to COVID-19 from February 25, 2020, to January 09, 2022, in Algeria"



Source: World Health Organization, 2022, page 01.

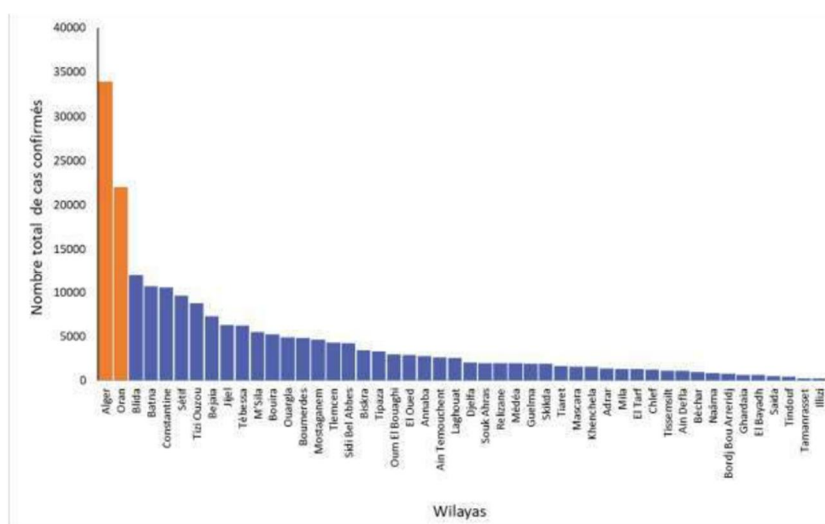
Through this graph, we can observe that the COVID-19 pandemic in Algeria has passed through 3 waves, which can be summarized by the following data reflecting the trends in the number of patients for whom biological or radiological confirmation has been obtained.

Table 1: Epidemiological Situation as of January 31, 2022

Key Dates	
1st confirmed case of COVID-19	February 25, 2020 (Ouargla)
1st death due to COVID-19	March 12, 2020 (Blida)
1st outbreak	March 1, 2020
1st major epidemic episode	July 2020
2nd major epidemic episode	November 2020
Introduction of vaccination	January 30, 2021
1st case of the B.1.1.7 variant (alpha)	February 25, 2021
1st case of the B.1.525 variant (eta)	March 12, 2021
1st case of the B.1.617 variant (delta)	May 3, 2021
3rd major epidemic episode	July 2021
1st case of the B.1.1.529 variant (omicron)	December 14, 2021

Source: National Institute of Public Health, 2022, page 01

Figure 2: Number of confirmed COVID-19 cases by province from February 25, 2020, to December 31, [Year]



Source: World Health Organization, 2022, page 04

The Algerian economy has also experienced negative effects due to lockdowns, job losses, and an expected increase in precautionary savings, leading to a decrease in private consumption and investment.

3. *The conduct of monetary policy in Algeria between (2010-2019); before the COVID-19 health crisis:*

During this period, monetary policy was amended and supplemented by Ordinance No. 10-4 of August 26, 2010, which aimed to amend and supplement certain articles of Ordinance 03-11 of August 26, 2003, regarding currency and credit.

Ordinance No. 10-04 of August 26, 2010

Article 35 of the August 2010 ordinance states: "The Bank of Algeria's mission is to ensure price stability as an objective of monetary policy, to create and maintain, in the fields of currency, credit, and exchange, the most favourable conditions for sustained economic development, while ensuring monetary and financial stability." (**Article 35 of Ordinance No. 10-04 dated August 26, 2010**)

In this article, the Bank of Algeria explains its monetary policy, which primarily aims to maintain price stability and avoid an increase in inflation. During this period, the Bank of Algeria used inflation targeting for the first time, which is a central bank policy aimed at adjusting monetary policy to achieve a specified annual inflation rate. The inflation target was set at 4% in 2010.

The Bank of Algeria maintains two intermediate objectives: controlling the growth rate of the money supply (M2) and credit to the economy.

3.1 The objectives of monetary policy (2010-2019):

During this period, inflation remained the sole ultimate objective of monetary policy. Inflation generally fluctuated around its target, with very slight variations; its lowest rate was 3.8% in 2014, and its highest rate was 5.9% in 2017. In terms of intermediate objectives, stability of the exchange rate and growth rate of credit and the money supply were also pursued.

The intermediate objective was maintained in 2015 and even lowered to 7.9% in 2016, with credit growth reaching only 16% in 2015 against a target of 25-27%, and 10% in 2016, while the target had been well anticipated and revised downward to between 9 and 11%. Until that year, hydrocarbon deposits, which were the main source of money creation, experienced a sharp decline.

In 2014, there was a significant decrease in the real effective exchange rate, with a 4-point drop from 105 to 101.

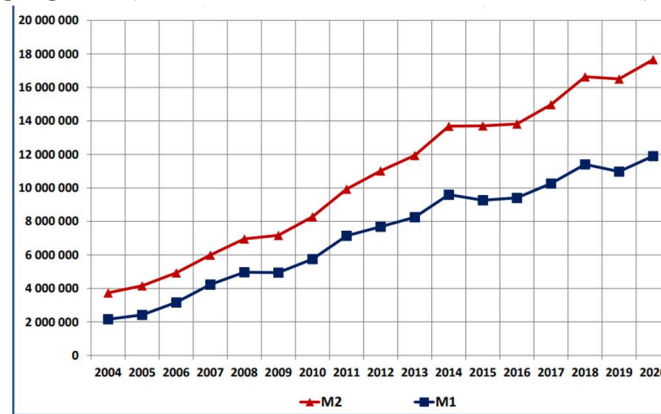
The transition to a target objective in 2017 is marked by a change in the previously used rate ranges. These are set at 4.7% for M2, which is still poorly anticipated, and at 8.3% and 13.5% for economic credit, which have an effective rate of 12.3%. (amani & haddad, 2020)

3.2 Monetary Policy Instruments (2010-2019):

Since the early 2000s, liquidity absorption tools have gradually decreased, with refinancing being reactivated at the end of 2016. (Regulation 16-03 dated 07/28/2016)

The Bank of Algeria suspended bank liquidity absorption operations at the end of 2016 due to the contraction of excess liquidity. In the first half of 2017, it successfully adapted to the evolving liquidity situation by reintroducing refinancing instruments, especially open-market operations, as the main instrument (at 7 days and then at 3, 6, and 12 months). (aoudia, 2017)

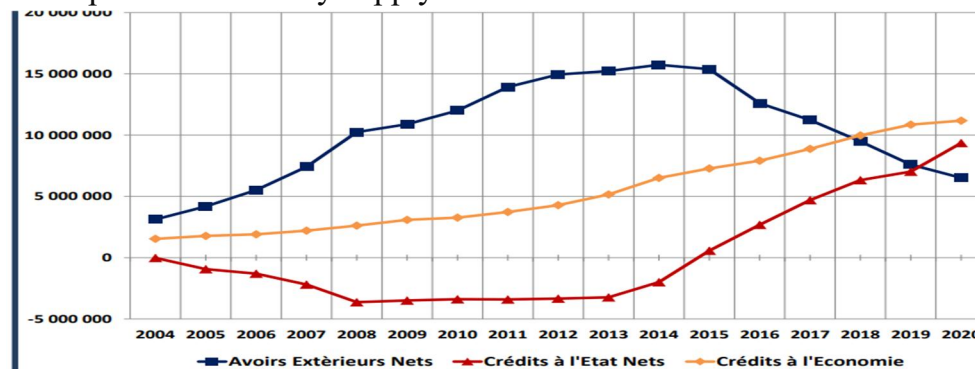
Figure 03: Monetary aggregates (annual amounts in millions of dinars)



Source: Bank of Algeria bulletin 2022, page 76

According to this graph, it can be observed that the monetary aggregates M1 and M2 experienced growth from the year 2004 until 2008. After that, there was a period of slight stability. Between 2008 and 2009, from the year 2010 onwards, both aggregates experienced modest growth. In 2016, this growth was slightly higher compared to 2015. This situation contrasts with the strong pace of monetary expansion in 2014. The stabilization of monetary and quasi-monetary liquidity is mainly linked to the substantial decrease in demand deposits in banks in 2015, following their significant growth in 2014. Until the year 2020, the monetary aggregates M1 and M2 continued to record an increase.

Figure 04: Counterpart of the money supply



Source: Bank of Algeria bulletin 2022, page 76

The analysis of the counterparts of the money supply is primarily characterized by the significant decrease in government credits in 2015 (-5000000), mainly due to the utilization of the FRR "Reserve Fund for Pensions" a decrease that is projected to continue in 2017. Additionally, there is a notable increase in credits to the economy, amounting to 10000000 between the years 2019 and 2020.

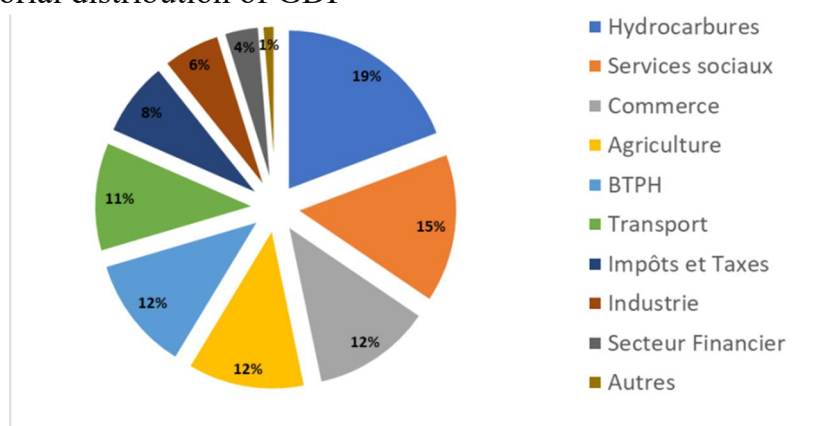
4. *Monetary situation in Algeria during the year 2019 before the onset of the COVID-19 crisis:*

Hydrocarbons represent a significant portion of the Algerian economy, accounting for over 95% of exports, 60% of tax revenues, and 19% of GDP. The decline in hydrocarbon production and prices, coupled with the lack of economic diversification in Algeria, led to a decrease in GDP from 1.4% in 2018 to 0.8% in 2019. Non-hydrocarbon growth also slowed, decreasing from 3.3% in 2018 to 2.6% in 2019. (la banque mandiale, 2020)

In 2019, inflation was moderate, at around 2.7%, while the unemployment rate was close to 12%, particularly among youth. The closure of the monetary financing program, financing of the 2019 budget deficit, and the gradual increase in banks' reserve requirement ratio led to a decrease in monetary liquidity.

The Bank of Algeria implemented unconventional financing in 2017, which concluded in March 2019, with a total of 6,556 billion dinars printed and 4,726 billion dinars injected into the economy (equivalent to 23% of the 2019 GDP). Unconventional financing was coupled with the withdrawal of liquidity from the accounts of state-owned enterprises to finance the budget deficit and an increase in the mandatory reserve ratios from 4%. (la banque mondiale, 2020)

Figure 05: Sectorial distribution of GDP



Source: United Nations System in Algeria, June 2020, page 08

5. *The monetary policy in response to the COVID-19 health crisis:*

5.1 *The impact of the COVID-19 pandemic on the Algerian economy:*

The impact of the COVID-19 pandemic on the economy is manifested by a decrease in economic growth. Indeed, in all three cases, the quantity of GDP would decrease compared to its baseline level. In the first case, the real GDP growth would be -7.2%. However, in the second case, the negative impact on GDP would be 11.4%. The third scenario would result in an increase in the negative impact on GDP compared to the baseline scenario, with a forecast of -15.7%. (samira & ait mohamed, 2021)

-The lockdown measures have an impact on all sectors of the economy, but to varying degrees. Businesses, especially small and medium-sized enterprises, are facing significant losses that jeopardize their operations and solvency, with a considerable portion of their employees at risk of income losses and job loss.

-What has been observed is that the emergence of the COVID-19 pandemic has revealed a clear flaw in the structuring of an Algerian economy based on oil rents. The effects of the pandemic on the Algerian economy cannot be fully identified and contained as the pandemic will certainly have medium and long-term effects.

-In 2020, its growth rate recorded -5.5% compared to 1.3% in 2019, and this is due to the decline in oil prices caused by the lack of global demand for this strategic substance. (fatima, 2022)

- Crude oil prices reached their lowest level in 18 years due to the global economic slowdown and decreased demand for oil.

- Algeria pledged to decrease its oil production by 200 kb/d. Consequently, Algeria's oil production decreased by 11.9% compared to the same reference period last year between January and November 2020.

The Algerian trade balance was affected by the decline in oil prices on the global market. Due to the oil crisis that the global economy experienced in the second half of 2014, the trade balance has witnessed a remarkable deficit in recent years, but the COVID-19 crisis has exacerbated this deficit. Exports contracted by 39% year-on-year in 2020, mainly due to the decrease in hydrocarbon exports to \$10 billion in 2020 compared to \$17 billion in 2019. (fatima, 2022)

- Algeria's general budget has a deficit of 1,500 billion dinars due to its main revenue sources being strong foreign currencies from oil and gas exports at a rate of 98%. Additionally, the state relies on 50% of oil revenues and spends 70% of these revenues. Moreover, during the COVID-19 pandemic, it lost half of its strong currency revenues.

5.2 Measures taken by the central bank to address the COVID-19 health crisis:

Many measures have been taken to address the economic challenges caused by the pandemic, including stimulus measures, relaxation of prudential regulations, and relief measures applicable to bank customers.

5.2.1 Stimulus measures:

During a meeting focused on reviewing the main developments in the national and international economic, monetary, and financial situation, as well as its short and medium-term prospects, including those concerning inflation, bank liquidity, credit, and economic growth, the Bank of Algeria took the following measures (bank of algeria , 2021)

- Lower the key interest rate from 3.5% to 3.25% on March 15, then to 3% on April 30, and decrease the reserve requirement ratio from 10% to 8% during the month of March, then to 6% in April, and 3% in September 2020.

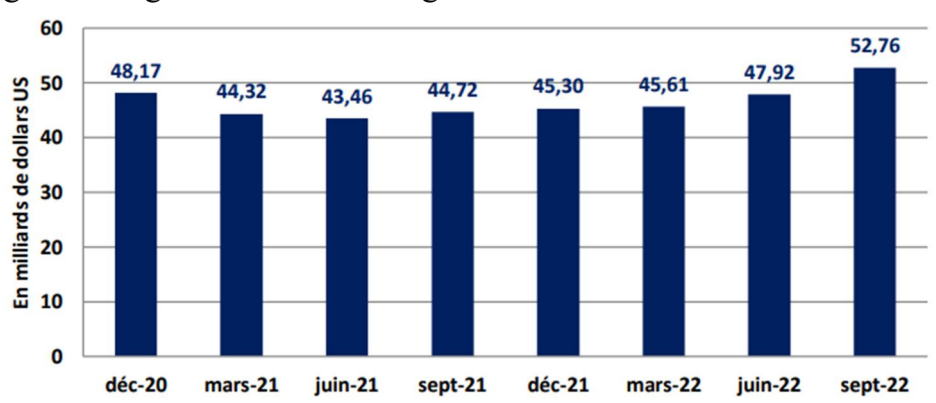
- Increase the refinancing threshold by the Bank of Algeria for tradable public securities as follows:

- a. Remaining maturities of less than 1 year: from 90% to 95%
- b. Remaining maturities from 1 year to less than 5 years: from 80% to 90%
- c. Remaining maturities equal to or greater than 5 years: from 70% to 85%.

-In October 2020, monetary authorities allocated \$564 million to various sectors in -response to the COVID-19 pandemic. This contributed to reducing import billing by an amount of 10 billion Algerian dinars, equivalent to 6% of GDP.

- Algeria's foreign exchange reserves consist of fixed-income securities and deposits spread across major global currencies such as (USD, EUR, GBP, and CNY) with different weights during the Covid-19 period. The graph below illustrates the distribution of foreign exchange reserves by currencies and investment instruments. (mohamed, ghalem, & ilham, 2022)

Figure 07. Foreign exchange reserves including SDRs



Source: Bank of Algeria, 2022, page 19

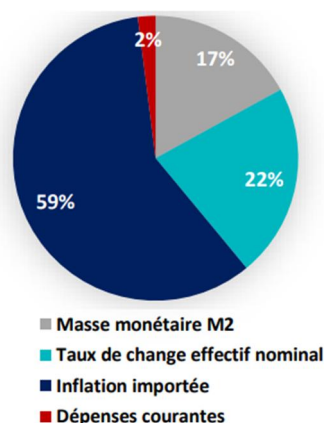
5.2.2 Prudential relief measures:

These relief measures adopted on March 1, 2020 (Instruction 05-2020), were extended until 2021. It is noteworthy that the Bank of Algeria made the decision to:

- Reduce the minimum liquidity ratio threshold to 60%
- Exempt banks and financial institutions from the obligation to constitute the safety cushion
- Authorize banks and financial institutions to defer payment of credit instalments coming due or to reschedule the debts of their clients affected by the pandemic
- Allow banks and financial institutions to grant new credits to clients who have benefited from deferral or rescheduling measures (banque d'algerie, 2022, p. p 44)

Actually, the Bank of Algeria aims to provide more liquidity to banks, enabling them to extend more credit to businesses and drive the economy. This is to bolster financing resources.

Figure 08: Key determinants of inflation in 2021



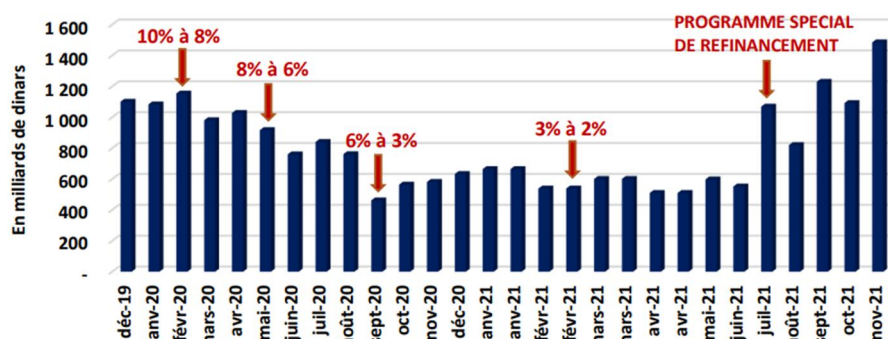
Source: Bank of Algeria, 2021, page 49

According to a study conducted by the Bank of Algeria, the significant increase in inflation in 2021 is primarily attributed, to the extent of 59%, to import-induced inflation. This is due to the lack of capacity to replace domestic production with imported products, exposing domestic prices to changes in global prices and further weakening the national economy against external shocks. (younes & abbes, 2020)

Furthermore, in 2021, the other two key factors of inflation in Algeria, namely the M2 money supply (excluding deposits of the national hydrocarbon company and foreign currency deposits) and the nominal effective exchange rate, only contributed 17% and 22% respectively.

When comparing across economies primarily reliant on hydrocarbon sector revenues, it's evident that budgetary expenditures allocated to address the health crisis in Algeria remain low, representing only 0.4% of GDP. Compared to Kuwait, where these expenditures represent 1.5% of GDP, and Qatar, where they reach 9% of GDP. (younes & abbes, 2020)

Figure 09: Evolution of bank liquidity



Les taux sur les figures représentent les taux de la réserve obligatoire

Source: Bank of Algeria, 2021, page 48

According to this graph, it is observed that despite the significant increase and diffusion of bank liquidity, the year 2021 was characterized by a decrease in the demand for lendable funds in the interbank money market. Indeed, the interbank market ended the year 2021 with a total amount of 1,400 billion dinars, compared to 600 billion dinars the previous year.

6. Conclusion:

Monetary policy of a country is a mean to implement its economic policy, which involves a set of tools available to monetary authorities to influence economic activity through the use of the money supply.

In Algeria, there are crises in oil, politics, and health. Indeed, Algeria's already fragile and vulnerable macroeconomic environment has been severely impacted by the COVID-19 pandemic and the simultaneous decline in oil prices, forcing the new authorities to confront a multi-faceted crisis. However, the Algerian government reacted swiftly to halt the spread of the COVID-19 virus by implementing comprehensive economic, political, and institutional measures to support households, businesses, and other economic actors.

For either to be effective on its own, monetary policy must be closely coordinated with fiscal policy. That's why the central bank's key rate was reduced from 3.5% to 3.25% on March 15, to 3% on April 30, then from 10% to 8% in March, to 6% in April, and to 3% in September 2020. This was done to allow an increase in bank liquidity, which will lower credit costs and facilitate financing for special government and corporate programs.

The monetary situation in Algeria has improved across several macroeconomic factors following the implementation of various measures by the central bank. For instance, the money supply reached 7.2% by the end of 2020 after experiencing a decline at the end of 2019. Furthermore, liquidity began to improve, reaching 632.3 billion dinars due to measures taken by the Bank of Algeria.

Term deposits recorded positive growth for the year 2020, reaching 2.4%. Based on the findings of this study, it is possible to conclude that the Algerian economy, like many other countries, will be severely impacted in the short term. However, if Algeria succeeds in controlling COVID-19, it could lead to sustainable growth through a rapid increase in manufacturing exports. Additionally, it is essential for Algeria to develop new strategies to quickly adapt to the new global order after the COVID-19 pandemic, in order to gain an advantage or avoid falling behind.

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