

Analysis and Evaluation of the Monetary Situation in Algeria (2013-2023)

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Abstract:

This research paper aims to analyze and evaluate the monetary situation in Algeria during the period from 2013 to 2023, using a descriptive-analytical approach to cover all aspects of the study.

Among the key findings of the study is that the monetary policy adopted by the Algerian Central Bank plays a vital role in maintaining monetary stability in the face of both internal and external economic challenges. Despite the ongoing efforts by the monetary authorities in Algeria to improve the monetary situation and achieve a balance between money supply and inflation rates, they still face significant economic challenges and difficulties due to the ongoing fluctuations in oil prices.

Keywords: Monetary situation; Domestic assets; Central bank; Commercial banks; Algeria.

Jel Classification Codes: E51, G21, E5.

1. INTRODUCTION:

The monetary situation is considered one of the most important topics that reflect the economic condition of any country. It is also one of the main pillars and one of the key factors that significantly impact economic stability and a country's ability to face local and international economic challenges. It is considered one of the vital issues. Algeria heavily relies on the oil and gas sector as the main source of revenue. Monetary analysis

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helps in understanding how monetary policies affect inflation rates, interest rates, foreign exchange reserves, and the balance of payments. Despite continuous efforts for economic reform, Algeria's monetary situation faces numerous challenges that impact the effectiveness of monetary policies.

Economic studies indicate that Algeria's monetary situation is significantly affected by fluctuations in global oil prices, as oil and gas exports constitute the main source of national revenue. These fluctuations lead to instability in government revenues, putting pressure on the Algerian central bank to adopt flexible monetary policies capable of adapting to these changes. Additionally, the local economic situation, such as high unemployment and inflation rates, directly impacts the stability of the monetary situation.

1.1 Research Problem:

Given the significant attention many economic researchers have paid to the importance of the monetary situation in Algeria, the research problem has crystallized around a main question, which is:

How has the monetary situation in Algeria evolved during the period from 2013 to 2023?

1.2 Study Hypotheses:

In order to further explore the research problem and provide an answer to it, the study hypotheses are as follows:

- The monetary situation in Algeria has developed very negatively during the period from 2013 to 2023, due to several factors, including Algeria's heavy reliance on oil revenues without resorting to economic diversification.

1.3 Study Objectives:

The aim of this study is to provide a comprehensive assessment of the monetary situation in Algeria during the period from 2013 to 2023. This will be achieved through the analysis of a set of key economic indicators.

1.4 Study Methodology:

In order to answer the research problem and address the elements of this study, the descriptive approach was used for the theoretical aspect. As for the practical side, the analytical approach was adopted by collecting

data related to the monetary situation from the reports of the Bank of Algeria and analyzing them.

2. 2. Conceptual Reading on Monetary Policy:

2.1 Concept of Monetary Policy:

The definitions of monetary policy have varied and differed from one researcher to another and from one authority to another. Below are some definitions:

- "It is a set of measures and actions related to regulating the process of currency issuance and controlling credit, in such a way that it becomes impossible to separate money and credit in the impact that these measures and actions have on price movements" (Marie, 2023, p. 103).
- "It is a set of rules and provisions adopted by the government or its various institutions to influence economic activity by affecting the money supply to create expansion and contraction in the purchasing power of society, in line with achieving the objectives of economic policy." (Belazouz, 2004, p. 112).
- "It is a set of tools applied by the monetary authorities controlling money and credit affairs. This control is achieved either by influencing the quantity of money or the amount of means of payment, in accordance with the surrounding economic conditions. The goal of this influence is to absorb excess liquidity or inject the economy with a new flow of money." (Aqeel, 1999, p. 207)

It can be concluded from the above that monetary policy includes all the measures taken by the government, the central bank, and the treasury, with the aim of influencing the amount, provision, and use of money and credit, as well as government borrowing. Therefore, the role of monetary policy does not stop at the limits of controlling the amount of issued currency and the availability of bank credit, but also extends to shaping the fiscal policy of the government sector, given the clear impact of the latter on the money supply.

2.2 Objectives of Monetary Policy:

Among the ultimate goals of monetary policy, the following can be distinguished (Benani, 2009, pp. 106-107):

- **Relative Stability in the General Level of Domestic Prices:** This is important for avoiding and combating inflation and addressing issues of depression and stagnation. When there is uncertainty about fluctuations in the prices of goods and services, it negatively affects stability and economic growth.
- **Fighting Unemployment (Achieving Full Employment):** This goal is important for two reasons. The first reason is that high unemployment rates cause social problems. The second reason is that high unemployment leads to the loss of productive factors in the economy, specifically the underutilized labor force.
- **Improving the Balance of Payments:** The balance of payments is a record of all economic transactions between residents of a particular country and other countries over a certain period, usually one year.
- **Achieving High Economic Growth Rates:** Economic growth is the main goal of monetary policy, as it depends on several factors, most of which are beyond the reach of macroeconomic policy.

3. Analysis and Evaluation of the Monetary Situation in Algeria from 2013 to 2023:

In order to analyze and evaluate the monetary situation in Algeria during the period from 2013 to 2023, a general analysis was conducted that covers the main changes Algeria experienced during this period in the monetary field. This analysis begins with the evaluation of key indicators, as follows.

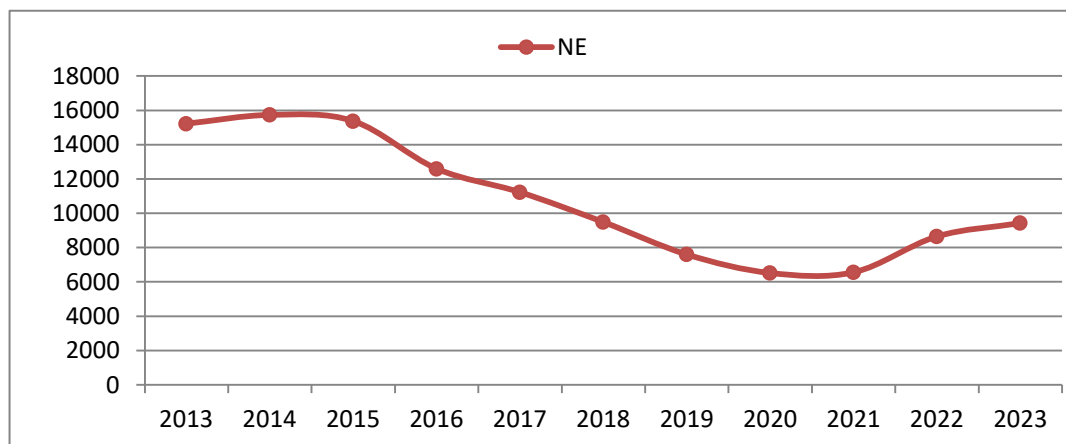
3.1 Net Foreign Assets:

Foreign assets are one of the key indicators used to evaluate the monetary and economic situation of Algeria. They reflect the difference between the external assets owned by the country (such as foreign currency reserves) and external liabilities (such as foreign debt). This indicator can provide valuable information about Algeria's ability to face economic crises and its financial solvency. The table below illustrates the development of

net foreign assets (expressed in Algerian dinars) in Algeria during the period from 2013 to 2023 as follows:

Fig.1. Development of Net Foreign Assets in Algeria during the period 2013-2023 (in billions of dinars)

Years	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
NE	15225.2	15734.5	15375.4	12596	11227.4	9485.6	7598.7	6518.2	6559.1	8650.4	9427.3



Source: Compiled by me based on (The annual reports of the Bank of Algeria, 2014-2015-2016-2017-2018-2019-2020-2021-2022-2023)

It can be observed from the chart above that Algeria's foreign assets between 2013 and 2023 experienced a continuous and significant decline from 2014 to 2023. In 2014, the value of foreign assets in Algeria was 15,734.5 billion Algerian dinars, which then decreased to 9,427.3 billion Algerian dinars in 2023, representing a decline of more than 6,300 billion dinars. This decrease reflects significant economic challenges, especially amid fluctuations in oil prices and a decline in energy export revenues, which are the primary source of income in Algeria.

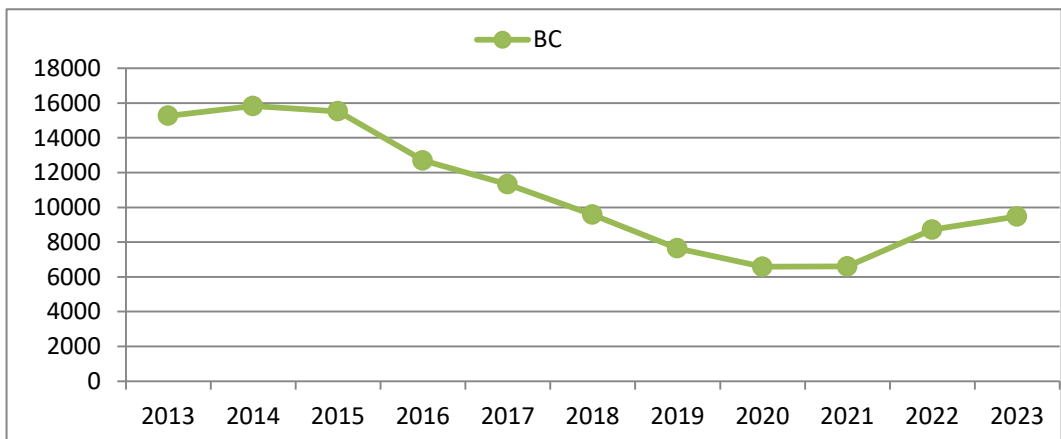
It can also be noted that Algeria's net foreign assets slightly declined in 2020-2021 compared to previous years. Despite the difficult conditions faced by the global economy due to the COVID-19 pandemic, particularly in Algeria, this suggests that the Algerian government took measures to stabilize the economy and protect the country's reserves from global shocks caused by the pandemic.

Despite the overall decline in net foreign assets, the marginal improvement in 2022 and 2023 compared to previous years points to a degree of financial stability, possibly due to improved oil prices or some domestic policies that helped rebuild foreign reserves. Therefore, the continued decline in net foreign assets in Algeria during the period from 2014 to 2023 highlights the need for Algeria to diversify its economy. Relying solely on oil as the primary source of revenue is not sustainable, Algeria needs to strengthen non-oil sectors such as industry, agriculture, tourism, and others

Net foreign assets include both the central bank and commercial banks. The central bank "is a central monetary institution that functions as the 'bank of banks,' a financial agent for the government, and is responsible for managing the monetary system of the country(Ammar & Amina, 2020, p. 724)".The central bank reserves in Algeria developed during the period from 2013 to 2023 as follows:

Fig.2. Development of the Central Bank Reserves in Algeria during the period 2013-2023 (in billions of dinars)

years	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
BC	15267.2	15824.5	15522.5	12694.1	11320.8	9572.4	7638.6	6576.3	6596.5	8716.2	9472.6



Source: Compiled by me based on (The annual reports of the Bank of Algeria, 2014-2015-2016-2017-2018-2019-2020-2021-2022-2023)

It can be observed from the chart above that the development of the central bank reserves, which show the amount of funds or balances held by the central bank, exhibited a gradual increase from 2013 until 2017. In 2017, the total reserves reached 11,320.8 billion Algerian dinars, which was the highest level among the years shown in the chart above. After 2017, a decline in reserves is noted, with reserves amounting to 7,638.6 billion Algerian dinars in 2019 and 6,576.3 billion Algerian dinars in 2020. This decline indicates the impact of financial or economic crises that affected the central bank's ability to retain its reserves.

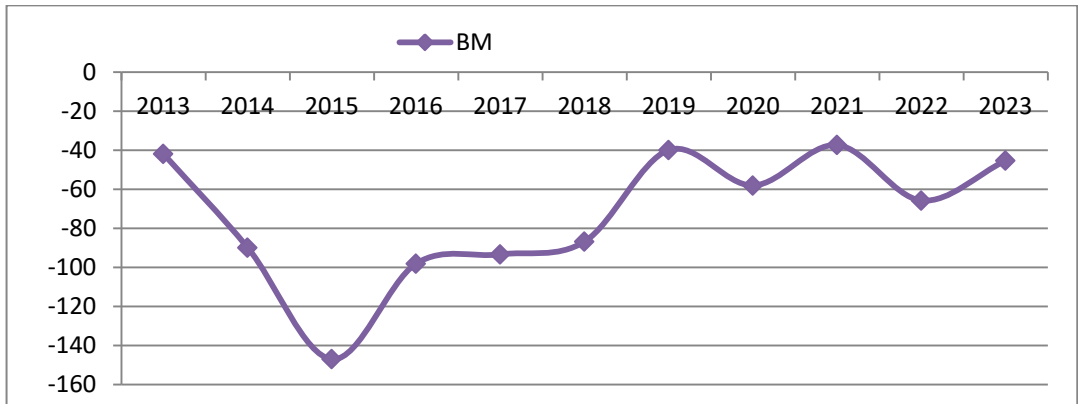
However, after 2020, the central bank reserves slightly improved. In 2021, the reserves rose again to 6,596.5 billion Algerian dinars, indicating an improvement in the central bank's position following a period of significant decline. In the following years, 2022 and 2023, there were modest increases in the reserves, which may reflect financial stability or a limited improvement in the central bank's financial situation.

Thus, the increase in the central bank's reserves may be due to a rise in oil revenues, improvements in monetary policy, or better economic conditions in the country.

Commercial banks are institutions that exchange present money for bank deposits and exchange bank money and present deposits. Additionally, commercial banks exchange deposits for promissory notes, government bonds, and guarantees from commercial institutions (Qawadriyah, Qadi, & Nasira, 2022, p. 5) . The reserves of commercial banks in Algeria have developed during the period 2013-2023 as follows:

Fig.3. Development of Commercial Bank Reserves in Algeria during the period 2013-2023 (in billions of Algerian Dinars)

years	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
BM	-42	-90	-147.1	-98.1	-93.4	-86.8	-39.9	-58.1	-37.4	-65.8	-45.3



Source: Compiled by me based on (The annual reports of the Bank of Algeria, 2014-2015-2016-2017-2018-2019-2020-2021-2022-2023)

As shown in the figure above, it can be observed that commercial banks in Algeria faced a deficit (i.e., their expenses or loans exceeded their revenues) during the period from 2013 to 2023. They experienced a significant and negative deficit, with the largest deficit recorded in 2015, amounting to -147.1 billion Algerian Dinars. This undoubtedly indicates that commercial banks were under significant pressure in that year. There was also a substantial deficit in 2018 (-93.4 billion Dinars) and 2016 (-98.1 billion Dinars), reflecting periods of intense financial pressure on commercial banks.

However, in 2021 and 2022, this deficit somewhat improved. In 2021, the deficit was estimated at -37.4 billion Algerian Dinars, which was a relatively good improvement compared to previous years. Similarly, in 2023, the deficit was around -45.3 billion Algerian Dinars. This suggests that commercial banks began to gradually improve their financial situation, although there was still a deficit.

Therefore, the increasing deficit in commercial banks may reflect growing financial pressures, such as non-performing loans, high operating costs, or perhaps a decline in interest revenue from loans.

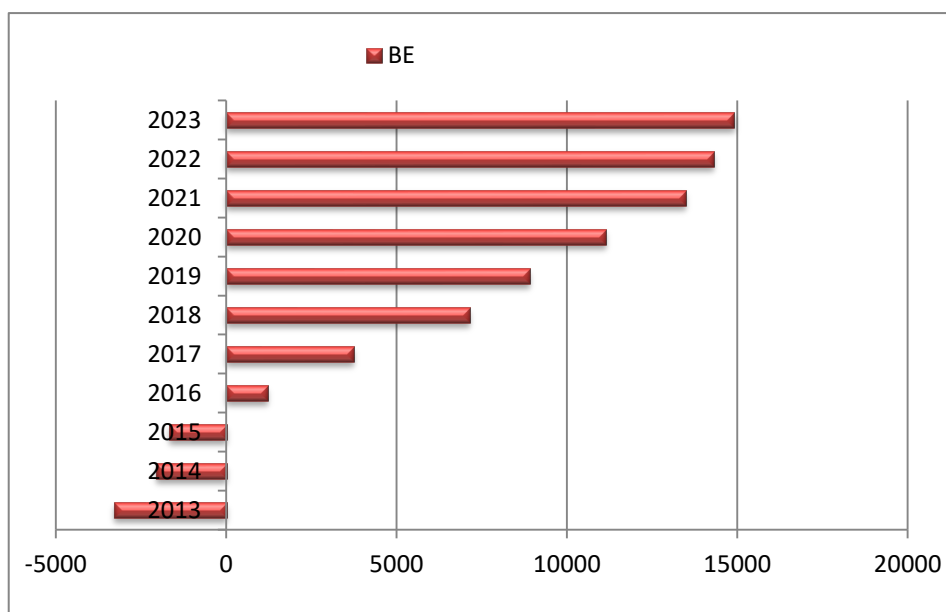
3.2 Net Domestic Assets:

Net domestic assets refer to the difference between the assets owned by Algeria domestically, such as local loans and local payments, after accounting for the value of foreign assets (such as foreign reserves). It is

considered one of the key factors in assessing the country's monetary situation, as it reflects the economy's ability to sustain growth and provide domestic liquidity without putting pressure on foreign reserves.

Fig.4. Development of Net Domestic Assets in Algeria during the period 2013-2023 (in billions of Algerian Dinars)

Years	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
BE	3283.6	2047.7	1670.9	1220.2	3747.2	7151.1	8907.9	11141.4	13494.4	14304.9	14903.5



Source: Compiled by me based on (The annual reports of the Bank of Algeria, 2014-2015-2016-2017-2018-2019-2020-2021-2022-2023)

As observed in the figure below, the development of net domestic assets in Algeria during the period from 2013 to 2023 shows a significant shift. Between 2013 and 2016, Algeria's net domestic assets were negative. In 2013, the net domestic assets amounted to -3283.6 billion Algerian Dinars, and this figure continued to decrease negatively until 2015, when it reached -1670.9 billion Dinars. This suggests that Algeria was experiencing a significant deficit in its domestic assets, meaning that the country was consuming more than its internal resources, which led to the accumulation of domestic debt or an increase in the deficit.

However, starting from 2016, a period of recovery emerged, with net domestic assets in Algeria reaching 1220.2 billion Dinars in that year. The value of net domestic assets gradually turned positive, indicating that Algeria experienced a noticeable improvement. This shift was primarily attributed to the rise in oil prices, which positively impacted the state's public revenues. By 2023, net domestic assets reached 14,903.5 billion Dinars.

Therefore, the changes in net domestic assets can be explained by several indicators, including government spending, tax revenues, and domestic debt.

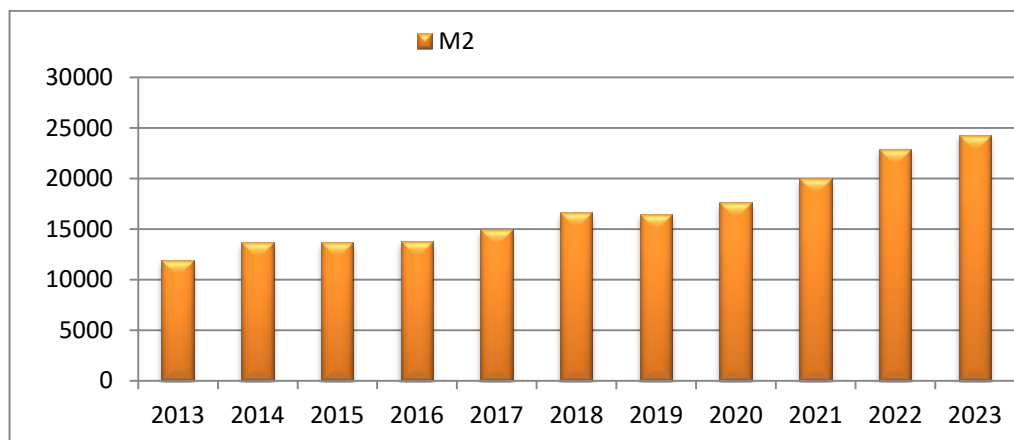
3.3 Development of the Money Supply:

Money and quasi-money are essential elements in determining the monetary situation of any economy. They play a vital role in determining the level of liquidity available in the market and have a direct impact on inflation, interest rates, and lending relationships within the Algerian banking system. The monetary situation heavily depends on revenues from oil and gas, and it is affected by fluctuations in the prices of these essential resources, as well as the monetary policies adopted by the central bank.

One of the goals of the stabilization and structural adjustment program that Algeria signed with international financial institutions was to control the growth of monetary expansion and maintain macroeconomic balances. However, despite this, the rapid increase in money supply continued after the completion of these programs, with the pace of growth varying according to both the time factor and the components of the money supply (Musitfa, 2008, p. 117) . This can be observed in the figure below:

Fig.5. Development of Money and Quasi-Money in Algeria during the period 2013-2023 (in billions of Algerian Dinars)

Years	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
M2	11941.5	13686.7	13704.5	13816.3	14974.6	16636.7	16506.6	17659.6	20053.5	22955.3	24330.8



Source: Compiled by me based on (The annual reports of the Bank of Algeria, 2014-2015-2016-2017-2018-2019-2020-2021-2022-2023)

As observed in the figure above, the development of money and quasi-money in Algeria from 2013 to 2023 has shown a significant increase over the years. In 2013, the value of money and quasi-money was around 11,941.5 billion Algerian Dinars, while by 2023, this value had risen to approximately 24,330.8 billion Algerian Dinars. Thus, this substantial growth in money and quasi-money amounts to about 12,389.3 billion Algerian Dinars over a period of ten years, indicating a significant increase in the money supply in the Algerian economy.

This increase is primarily attributed to several factors, such as increased government spending due to fiscal deficits, or the central bank's continued printing of money to stimulate the economy amid declining oil and gas revenues. Additionally, the printing of money to cover fiscal deficits or to increase liquidity in the financial system is another contributing factor.

Therefore, it can be said that the growth in money and quasi-money reflects an increase in liquidity in the economy, which contributes to stimulating domestic demand for goods and services. This rise also indicates the potential for increased lending or government support, and as a result, it may contribute to improving domestic consumption.

4. CONCLUSION:

In conclusion, this evaluative study of the monetary situation in Algeria during the period from 2013 to 2023 highlights the pivotal role that the monetary policy of the Algerian central bank plays in maintaining monetary stability amid both internal and external economic challenges. Despite the ongoing efforts by Algeria's monetary authorities to improve the monetary situation in order to achieve a balance between the money supply and control inflation rates, the monetary situation still faces significant economic challenges and numerous difficulties. These issues stem from the continuous fluctuations in oil prices, which constitute the bulk of national revenues, as well as the pressures arising from budget deficits and public debt. These factors directly impact the effectiveness of the adopted monetary policies.

4.1 Study Results: Several results have been reached through this study, including the following:

- Algeria remains vulnerable to fluctuations in global oil markets, as fluctuations in oil prices have caused instability in national revenues, which has negatively impacted monetary policies and increased the difficulty of controlling inflation and achieving stability in the national currency.
- Although the Algerian central bank has succeeded in implementing some monetary policies to regulate the money supply and achieve relative stability in the exchange rate of the dinar, the current monetary policies have not yet been able to address all the challenges comprehensively, especially in light of the unstable economic situation.
- Algeria's foreign reserves are insufficient to cope with significant economic fluctuations, which reinforces the need to improve precautionary policies.
- The Algerian economy still heavily relies on the oil and gas sector, making it vulnerable to sharp fluctuations in global energy markets.

4.2 Study Recommendations: Several recommendations have emerged from this study, including the following:

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- Algeria should focus on diversifying national income sources by investing in non-oil sectors such as industry and agriculture, to reduce dependence on oil and gas.
- Transparency in monetary policy management should be enhanced, and the role of regulatory institutions should be expanded to ensure the sustainability of monetary and financial stability in the country.
- It is essential to improve the local investment environment and provide incentives to encourage foreign investments, contributing to sustainable economic growth that strengthens the monetary situation.
- Transparency in the financial and banking system should be improved, and partnerships between the public and private sectors should be strengthened to encourage investments and stimulate the private sector.
- The government should focus on implementing social policies that positively impact the most vulnerable segments of society, contributing to social stability and mitigating the effects of economic crises.

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