



An Evaluative Review of Algerian Dinar Exchange Rate Policies for the Period 1964-2022.

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Abstract :

This study undertakes an evaluative review of the Algerian Dinar exchange rate policies from its inception in 1964 to the year 2022. The historical method was employed to present a chronological sequence of legal texts and monetary reforms. Additionally, a descriptive and analytical approach was used to provide insight into these policies. Through this study, it becomes evident that Algeria has shown a keen interest in the issue of the Algerian exchange rate vis-à-vis foreign currencies and the extent to which it has chosen the most successful policy to stimulate commercial transaction activity. However, the effectiveness of the adopted policy depends on Algeria's available resources and the level of economic resilience in the face of international economic changes. And despite all the reforms that the Algerian banking system has witnessed, it still faces significant challenges and suffers from shortcomings that necessitate further reforms to align with the transformations and changes occurring in the local and international banking environment.

Keywords: Algerian Dinar Exchange Rate, Exchange Rate Policies, Algerian Economy, US Dollar, Euro.

Résumé

Cette étude porte sur une évaluation des politiques de prix du dinar algérien, depuis son apparition en 1964 jusqu'en 2022. L'approche historique a été utilisée pour présenter la chronologie de l'évolution des textes juridiques et des réformes monétaires. Par ailleurs, l'approche descriptive et l'approche analytique ont été utilisées. A travers cette étude, il est apparu clairement que l'Algérie s'intéressait à la question du prix du dinar algérien. Le taux de change algérien par rapport aux devises étrangères et la mesure dans laquelle choisir la politique la plus efficace pour stimuler le mouvement des devises transactions commerciales. Toutefois, l'efficacité de la politique adoptée est due aux capacités que



possède l'Algérie et au niveau de flexibilité de l'économie aux transformations économiques internationales. Malgré toutes les réformes qu'a connues le système bancaire algérien, il reste confronté à des défis majeurs et souffre de points négatifs et nécessite des réformes continues pour s'adapter aux transformations et aux changements que connaît l'environnement bancaire local et international.

Mots clés : tarification du dinar algérien, politiques de change, économie algérienne, dollar américain, euro.

Introduction :

Currency pricing (exchange rates) represents a vital element of economic policy. It both influences and is influenced by various other economic variables. Moreover, its fluctuations mirror the general economic dynamics, and thus, a strong currency consistently reflects the strength and diversity of economic activities within a country. Consequently, nations worldwide strive to formulate exchange rate policies that enable their currencies to establish an equilibrium rate between supply and demand, thereby allowing them to play an active role in their economies by influencing other economic variables.

Regarding Algeria, as a nation that endured a protracted period of colonial rule, it endeavored to secure economic independence from the French economy. This endeavor culminated in the establishment of its independent currency, the Algerian Dinar, in 1964. In doing so, Algeria sought to accord the Dinar the requisite attention, with the aim of establishing it as a genuine pivot in its economic relations with the global community, while simultaneously enhancing its positioning amidst other monetary variables within the economy. However, the economic reality underscores that the Algerian Dinar is essentially a neutral factor within the national economy. This neutrality arises primarily from its exceedingly weak capacity to exert influence on or be influenced by other economic variables. This inherent weakness can be predominantly attributed to the structural nature of the Algerian economy, which directly manifests in the configuration of its trade relations with other countries. These relations are notably susceptible to fluctuations in strong international currencies, primarily the US Dollar and the Euro.

Therefore, Algerian economic authorities must undertake a series of measures to restore the prominence of the Algerian Dinar among the array of economic variables. These measures should aim to grant it an active role in both influencing and responding to

the various changes that occur in its economic environment. Hence, the primary research question of our study is formulated as follows:

What are the most significant exchange rate policies experienced by the Algerian economy?

To explore this subject, we have devised a structured plan with three main research dimensions as follows:

- The first dimension : pertains to the nature of exchange rate policies.
- The second dimension : delves into the historical evolution of the Algerian Dinar's pricing policy.
- The third dimension : encompasses the evaluation and analysis of the Algerian Dinar's pricing development during the period from 2000 to 2022.

The Importance of the Study: This study aims to analyze and interpret fluctuations in exchange rates, as well as the importance attached to the exchange rate issue, which holds significance for policymakers, investors, and international financial and monetary institutions. The importance of this matter lies in the fact that the exchange rate is not merely a price or ratio determined by a specific methodology; rather, it plays a crucial role in impacting various aspects of economic activity, including but not limited to investment, production, imports, and capital flows.

I. Exchange Rate Policies

1. The Nature of Exchange Rates, Their Types, and Systems

1-1. Exchange Rate Concept: Exchange rate can be defined as the "rate at which currencies are exchanged for one another" (Ahmed, 2014, p 363), It can also be defined as the "number of units of foreign currency required to obtain one unit of the domestic currency, or vice versa" (Paul, 1995, p 05), According to the latter definition, exchange rates can be considered from two perspectives (Sami, 1987, p131): firstly, the exchange rate represents the "number of units of the national currency required to purchase one unit of foreign currency," and secondly, it can be viewed as the "number of units of foreign currency needed to acquire one unit of the national currency." Therefore, the exchange rate is the mechanism by which one nation's currency is traded against the currencies of other nations on a global scale (Hamdi, 2000, p181).

1-2 Currency Exchange Motivations: Among the most prominent factors driving the buying and selling of currencies are as follows: international trade transactions, foreign investments, payment of profit dividends, foreign aid inflows, and debt settlements.

1-3 Forms and Types of Exchange Rates

- Nominal Exchange Rate: The nominal exchange rate for a currency is determined based on the supply and demand for it in the foreign exchange market at a specific point in time. Hence, the nominal exchange rate can fluctuate in response to changes in supply and demand. The nominal exchange rate is further divided into the official exchange rate, which is applied in official current transactions, and the parallel exchange rate, which is employed in parallel markets. Furthermore, the nominal exchange rate fluctuates daily, either positively or negatively, concerning the strength of a currency relative to other currencies in the foreign exchange market. This rate responds to a set of determinants, such as changes in local and global price levels, developments in interest rates, and psychological factors influencing market participants. The patterns of fluctuations in this nominal exchange rate are determined through an exchange rate index, which reflects the average variations in the values of other currencies concerning a specific currency. This is done while assigning a weighted value to each currency in parallel with the role of the country in monetary and international trade relations.
- The Real Exchange Rate: This is the number of units of foreign goods required to purchase one unit of domestic goods. For instance, an increase in the export rate in parallel with an increase in the production costs of the exported materials at the same rate does not necessarily lead to increased exports. This is because the rise in returns has not resulted in a change in the profits of exporters. With the evolving dynamics and changes in interest rates, price levels in all countries, in addition to the behaviors of market participants in the foreign exchange market influenced by psychological factors, the nominal exchange rate does not reflect the real exchange rate. This is because the real exchange rate amalgamates fluctuations in the nominal exchange rate with inflation rates. Moreover, the real exchange rate reflects the level of price competitiveness of a country's goods. When the real exchange rate index trends upward, it signifies a weakening in the price competitiveness of exported goods. Conversely, when the index declines, it is considered a positive factor that enhances price competitiveness and, consequently, promotes exports. Therefore, the movement of the real exchange rate index holds significant importance for the balance of payments, as well as the development and growth of commodity, monetary, and financial markets. (Ali, 2015, p07).

The real exchange rate is calculated according to the following relationship: (Abdelmajid, 2003, p104)



For instance, if we consider the United States and Algeria, we can express it as $(P_{us}/P_{dz}) TCR = TCN$, where: TCR: Real exchange rate, TCN: Nominal exchange rate, P_{us} : Price index in the United States, P_{dz} : Price index domestically.

1-4 Pricing Methods: These refer to how exchange rates are presented, and there are three methods:

- The first method (Direct Pricing) (Abdelmajid, 2003, p104): It expresses the number of units of the national currency required to obtain one unit of a foreign currency. For example, in Algeria, it is common to discuss the number of units of currency (dinars) required to obtain one US dollar or one euro.
- The second method (Indirect Pricing): It involves expressing the price of one unit of the national currency in terms of a foreign currency.

The third method (Cross Pricing)(Muneer, 1998, p436): If an American investor, for instance, wishes to purchase British pounds with Algerian dinars, they would have to calculate the quantity of British pounds obtainable in exchange for Algerian dinars through the US dollar.

1-5 Exchange Rate Systems: The exchange rate system refers to the set of rules that determine the roles of both central monetary authorities and other participants in the foreign exchange market. Exchange rate systems can be classified into two fundamental patterns: (Al-Taher, 2013, p 200)

- Fixed Exchange Rate System: In a fixed exchange rate system, a reference rate is established between the currency of a specific country and another international currency or a basket of currencies. The central bank is committed to exchange the national currency based on this established rate (the fixed equilibrium rate). In this system, the equilibrium rate is determined administratively by authorities, and it often reflects a directive role in the management of the economy.
- Flexible Exchange Rate System: In a flexible exchange rate system, the currency's value is determined freely based on the interaction of supply and demand in the foreign exchange market. Therefore, the exchange rate continuously fluctuates in response to supply and demand dynamics. In such a system, there is no direct commitment from the central bank for continuous intervention to support the exchange rate.

2. Exchange Rate Policy

Exchange rate policy encompasses the array of measures that monetary authorities can implement within any adopted system to steer their domestic currency in service of their economy and developmental agendas.

2-1 Exchange Rate Policy Objectives: Exchange rate policy aims to maintain a sufficient level of international reserves, which can reduce the vulnerability of the economy to external shocks and minimize excessive exchange rate fluctuations in the short and long term. Additionally, it seeks to ensure external and financial stability for the economy. The specific objectives of exchange rate policy can be detailed as follows:

- Inflation Control: Improving the exchange rate leads to a decrease in imported inflation and enhances the competitiveness of local institutions. In the short term, lower import costs have a positive impact on reducing imported inflation.
- Resource Allocation: The real exchange rate directs resources toward export-oriented international goods. This expands the base of international goods, making a significant number of products suitable for export.
- Income Distribution: The exchange rate plays a crucial role in income distribution among different local working sectors or groups.
- Promotion of Local Industries: The central bank can reduce the exchange rate to encourage national industry, which boosts exports. A devalued currency by the central bank also protects the local market from foreign
- competition and encourages exports. (Saleh Al-Din, 2011, p03)

2-2 Exchange Rate Policy Tools:

Various tools and mechanisms are essential for achieving the objectives of exchange rate policy, with the most prominent being as follows (Abdelmajid, 2003, p134):

- Exchange Rate Adjustment: When adjusting the balance of payments, monetary authorities either devalue the currency or reevaluate it. In a fixed exchange rate system, this is done by reducing the currency's value. In a floating exchange rate system, it impacts the currency's value. Lowering the national currency's value, i.e., increasing the foreign exchange rate, leads to a decrease in the prices of exported national products. Devaluation is widely used to promote exports. However, the success of this policy depends on the availability of a set of conditions:
 - Global demand for the country's products must be highly elastic so that currency devaluation leads to a substantial increase in global production.



- Local supply of export goods must also be sufficiently elastic to respond to increased demand resulting from higher exports.
- Price stability in the local market is crucial.
- Other competing nations should not implement similar currency devaluation measures.
- Exported goods must meet quality standards and health requirements necessary for international trade.
- It should adhere to the Marshall-Lerner conditions, specifically that $e_m + e'_m > 1$, where e_m is the elasticity of demand and e'_m is the elasticity of exports. This is a crucial factor for success.

The process of devaluation must be executed with precision and efficiency, and its success relies on several key indicators, including:

- Choosing the right timing for devaluation.
- Selecting the appropriate exchange rate.
- Exercising control over the results of this process.

And the core purpose of currency devaluation is to enable authorities to manage exchange rates to align domestic price levels with foreign goods. However, the outcomes of this procedure can vary depending on the country's economic circumstances.

There are different scenarios for currency devaluation, each arising from distinct economic conditions. For example, it may be applied in critical situations like budget deficits, balance of payments deficits, or unemployment. Similarly, it might be employed in favorable economic circumstances, such as inflationary expansion leading to external imbalances or as a measure to counteract inflation. (Mahmoud, 1996, p99)

- Utilizing Exchange Rate Reserves: Under fixed or semi-managed exchange rates, monetary authorities maintain their currency's exchange rate. When their currency is under pressure, they sell their foreign currency reserves in exchange for the domestic currency, and when the currency strengthens, they purchase foreign currencies using the domestic currency. When reserves are insufficient, the central bank may devalue the domestic currency.

- Exchange Controls: Exchange control policies subject all buying or selling transactions involving hard currency to special licenses. These controls are used to combat capital flight, especially speculative capital flight. Measures taken by monetary authorities include:

- Preventing pre-import clearance.



- Requiring the repatriation of foreign currencies obtained abroad through exports within a specified timeframe.
- Designating allocations in hard currency placed under traveler's exchange for tourism.
- Segregating bank accounts into resident and non-resident accounts, with non-residents benefiting from foreign exchange transfers. Transactions from non-resident accounts outside of a business or financial justification are subject to licensing.
- Dual Exchange Rate System: The multiple exchange rate system aims to reduce the impact of fluctuations in markets and direct trade policy to serve specific purposes. One of the primary methods used is adopting a dual or multiple exchange rate system with one or more rates for the currency exchange. One rate is applied to essential or priority imports or imports of sectors targeted for support and development. For domestic goods intended for export or non-essential imports, the standard exchange rate applies. However, this approach may undermine currency confidence, make exchange rates subject to authorities' discretion, and face challenges in compliance with conditions often imposed by the International Monetary Fund (IMF).

II. The Evolution of Exchange Rate Policy in Algeria

1- The Evolution of Exchange Rate Systems in Algeria

1-2 Exchange Control System: Exchange control is a system in which a currency is made non-convertible, and all forms of transactions involving foreign currency are monitored by monetary authorities. Control, in this context, implies the regulation and supervision of exchanges conducted using foreign currencies, with the objective of ensuring the prudent use of available foreign currency resources. (Abdelmajid, monetary system, 2011, p203)

Algeria implemented the Exchange Control System in October 1963. This system is characterized by the following features:

- Stringent regulations with no official exchange rate - Absence of a formal foreign exchange market. And one of the primary objectives of this system, which was introduced immediately after gaining independence, was to restructure the national economy by isolating it from the external world. It aimed to protect emerging industries, rationalize the use of foreign currency resources, and maintain the stability of the Algerian dinar's exchange rate.

1-2-1 Pre-1990 Period: In fact, this era was marked by several sub-periods, including:

A. Between 1962 and 1970: During this period, various measures were implemented, such as:



- The quota system, which restricted foreign trade and subjected all transactions settled in foreign currency to licensing by the Ministry of Finance.
- Direct monopolization of foreign trade and the negotiation of bilateral agreements to diversify and expand economic relations with foreign partners.
- B. The period from 1971 to 1977 witnessed the intensification of the establishment of monopolies managed by national companies on behalf of the state.
- C. The issuance of Law 78-02 in 1978, which included the nationalization of all foreign trade operations. This law explicitly excluded private intermediaries from foreign trade and granted exclusive authority to the public body to manage economic and financial relations between Algeria and the rest of the world.
- D. The issuance of Law 86-12 on 19/08/1986, which pertains to the regulation of commercial banks and the central bank. This law defined the framework of the banking system and enabled banks to regain their authority in the field of foreign exchange. It granted the Central Bank of Algeria the legislative and regulatory authority related to foreign exchange in the field of foreign trade. However, this system revealed its limitations during the external debt crisis of 1986 when the Algerian economy faced severe challenges due to the dramatic decline in oil prices and the depreciation of the dollar in global exchange markets.
- H. The Law 88-01 issued on January 12, 1988, which established the autonomy of public institutions, had tangible outcomes in terms of organizing and defining the responsibilities of the Algerian banking and financial system. This was achieved through the allocation of new responsibilities to the Central Bank, which included its involvement in the preparation of laws related to foreign exchange and international trade. Additionally, it became responsible for overseeing their implementation. Moreover, the law abolished the overall import licensing system, replacing it with foreign exchange budgeting. Commercial banks, in collaboration with the External Borrowing Committee, were authorized to finance the imports of institutions within the framework of loans arranged between governments.
- 1-2-2 The post-1990 era represented a significant turning point in Algeria's economic direction. Law 90-10, enacted on April 14, 1990, pertaining to finance and borrowing, solidified market-driven economic mechanisms. Regarding foreign exchange control, this law underwent substantial amendments that allowed for the opening of the Algerian economy to the global stage. To strengthen this approach, the task of monitoring and regulating the foreign exchange market was entrusted to the Council of Finance and Borrowing, considered as the board of directors of the Bank of Algeria. Subsequent amendments in 2001, under Presidential Decree 01/01 issued on February 27, 2001,

marked the first modification of Law 90/10. These amendments primarily addressed administrative aspects related to the operation of the Bank of Algeria while preserving the core content of the law. The adjustments included provisions regarding the appointment of the Governor of the Bank of Algeria and its deputies. Furthermore, distinctions were made between the boards of directors of the Bank of Algeria and the Council of Finance and Borrowing.

2- A Historical Overview of the Algerian Dinar Exchange Rate

Algeria has witnessed the application of various exchange rate systems, each closely linked to the respective stage of its economic development. These systems have evolved from fixed exchange rates to flexible exchange rate regimes.

Certainly, here's the text translated into high academic economic English terminology:

2-1 Fixed Exchange Rate System: The value of the Algerian dinar in terms of foreign currencies was not determined based on economic and financial criteria. Instead, it was purely an administrative value unrelated to the performance and efficiency of the national economy. In this context, two distinct phases can be identified:

- **First Phase (1964-1973):** The international monetary system, at least until 1971, was governed by the Bretton Woods agreements. Under this system, each country that was a member of the International Monetary Fund (IMF) was obliged to declare the equivalence of its currency to a specific weight of net gold or, in the case of the U.S. dollar, the same fixed equivalence with a specific quantity of gold. During this period, Algeria fixed the exchange rate of the dinar to be equivalent to 0.18 grams of gold, which was the same equivalence as the French franc. This equivalence held from 1964, the year the national currency was established, until 1969 when the French franc devalued. In the period of the franc's devaluation, Algeria initiated the implementation of its development plan, which required exchange rate stability. This was one of the reasons that led the Algerian dinar not to follow the devaluation of the French franc, despite its fixed relationship: 1 DZD = 1.25 francs, meaning one French franc was equivalent to 0.888 DZD between August 1969 and December 1973.

With the continued depreciation of the Algerian dinar against various currencies used for imports, particularly the devaluation of the French franc, a new pricing system emerged with the aim of achieving two objectives:

- Providing substantial support to Algerian institutions by setting the dinar's value above its real value. This was intended to alleviate the cost burden of equipment, primary materials, and various imported inputs, especially for emerging institutions.

Allowing national institutions to make long-term forecasts without being exposed to violent (downward) exchange rate fluctuations, achieved through the stability of the external value of the Algerian dinar.(Mahmoud, 2005, p 155)

- **The Second Phase (1974-1987):** the value of the Algerian dinar was determined based on a basket comprising 14 currencies, including the US dollar. The exchange rate of the Algerian dinar with respect to the priced currencies was calculated by the Algerian central bank using the following methods:

- Calculating the relative changes in the currencies comprising the basket with respect to the US dollar, where the relative change for each currency is calculated with respect

$$\frac{(\$ / jio) - (\$ / jin)}{(\$ / jio)}$$

to the US dollar, or the larger value between the two variables $\frac{(\$ / jio) - (\$ / jin)}{(\$ / jin)}$ or

$$\frac{(\$ / jio) - (\$ / jin)}{(\$ / jin)}$$

$\frac{(\$ / jio) - (\$ / jin)}{(\$ / jin)}$ is used as the numerator for calculating the relative change The variables used in this calculation are as follows:

- \$: US dollar.
- Ji: Each of the 13 hard currencies included in DZ the basket.
- \$/jio: The price of the US dollar concerning each of the other hard currencies in the basket in 1974.
- \$/jin: The price of the US dollar concerning each of the other currencies included in the prevailing basket on the day of pricing.
- Calculating the weighted average of the relative changes in the currencies that constitute the DZD (Algerian Dinar) basket concerning the \$ (USD) i.e., the sum of the relative changes \$/ji, where this coefficient (ai) represents the weight of each currency in the basket.

- Base year 1974, n: Valuation day.

- Calculating the weighted average of the relative changes in the currencies that constitute the Algerian Dinar (DZD) basket concerning the U.S. Dollar (USD) i.e., the sum of the relative changes \$/ji, where this coefficient (ai) represents the weight assigned to each currency within the basket.
- Calculating the daily exchange rate of the US Dollar (USD) with respect to the Algerian Dinar (DZD) is done as follows:
 - $(\$/DA)_n = (1 + \text{Weighted Sum of Relative Changes } \$/ji \text{ by Factor } ai)$

- $(\$/DA)_n$ = Daily exchange rate of USD to DZD
- $(\$/DA)_0$ = Exchange rate of USD to DZD in 1974 (Base Year)

Following this process, exchange rates for the Algerian Dinar with respect to other priced currencies by the central bank are calculated using a cross-exchange rate method. (Mahmoud, 2005, p 158)

- Exchange Rate Management: The sudden deterioration in oil prices in 1986 led the Algerian economy into a severe crisis characterized by a deficit, resulting in a significant slowdown in economic activity due to the decline in imports of various inputs needed by the production sector, which remained dependent in this area on the global market. This situation led to attempts to introduce radical reforms in various areas, moving towards an economy driven by the mechanisms of the free market. Subsequently, the Algerian Dinar became convertible in current transactions with foreign countries. During this phase, Algeria adjusted the exchange rate of the Algerian Dinar through the following methods:

- Gradual depreciation: This measure aimed to gradually reduce the value of the Algerian Dinar in a controlled manner. It was implemented from the end of 1987 to the beginning of 1991. The reason for resorting to the gradual depreciation (Abdelmajid, monetary system, 2011, p230) was the weakening of available foreign exchange reserves and an increase in the debt service burden.
- The explicit devaluation method was applied after the Central Bank Council made a decision in late September 1991 to devalue the Algerian dinar by 22% against the dollar, bringing it to 22.5 dinars per dollar. This exchange rate was relatively stable until March 1994. However, with the conclusion of the extended agreement with the International Monetary Fund (IMF), the dinar's exchange rate was reduced by 40.17% to reach 36 dinars per dollar.

Table (1) Evolution of the Algerian Dinar Exchange Rate against the US Dollar.

Date	Exchange Rate (DZD per USD)	Comments
Late 1986	4.824	-
Late 1987	4.936	Start of the gradual devaluation process
Late 1989	8.032	-
Late 1990	12.1191	Acceleration of devaluation in line with reform pace
	15.8889	
Late 1991	16.5949	Continued rapid devaluation for stability and the possibility of foreign trade liberalization
	17.7653	Stability at this level for six months



	22.5	A 22% reduction based on an agreement with the International Monetary Fund (IMF), with the situation continuing until 1994
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Source: kadi Abdel-Majid, "The International Dimension of the Monetary System under the Auspices of the International Monetary Fund," p. 239.

- The Third Phase :

- Fixed Sessions System: Starting from October 1, 1994, the Central Bank initiated weekly "fixing" sessions with the aim of determining the exchange rate of the Algerian Dinar. This phase serves as a transitional stage with the ultimate goal of establishing an interbank exchange market. The objectives of these fixing sessions were as follows:
 - Determining the Dinar's exchange rate through auctions.
 - Enhancing the convertibility of the Dinar within its official exchange rate framework and reducing its value in the parallel market.

Regarding the operation of the "fixing" system, it consisted of sessions that brought together representatives of resident commercial banks under the supervision of the Algerian Central Bank. Initially held on a weekly basis and later transitioning to daily sessions, the Algerian Central Bank would open the session by offering the available amount of hard currencies, denominated in the reference currency, which was the U.S. Dollar, at a predetermined exchange rate. During these sessions, commercial banks would submit their bids for the desired amount and the exchange rate that suited them. and the exchange rate of the Algerian Dinar was gradually adjusted through the presentation of hard currencies by the Central Bank and their demand by the commercial banks. The exchange rate of the Dinar was eventually determined based on the lowest rate offered by the participating banks. The "fixing" system remained in operation throughout a trial transitional phase until December 1995, at which point it made way for the interbank exchange market. (Abdelmajid, monetary system, 2011, p241)

- Interbank Exchange Market: On December 23, 1995, the Bank of Algeria issued Regulation No. 95-08, which included the establishment of an interbank exchange market where all banks and financial institutions participated daily in buying and selling foreign currencies convertible into Algerian Dinars through mutual agreement. This establishment of the interbank market aimed to liberalize the exchange system and coincided with the improvement in the balance of payments and the completion of the process of Dinar convertibility in international current transactions in 1997.

The exchange rate policy since the early 1990s has aimed at stabilizing the real effective exchange rate of the Dinar in the long term at its equilibrium value determined according to the fundamentals of the national economy. (Abdelmajid, monetary system, 2011, p243)

III. Evaluation and analysis of the evolution of the pricing of the Algerian Dinar during the period 2000-2022.

The exchange rates of the Algerian Dinar, compared to major hard currencies, are determined flexibly in the interbank market (interbank exchange market) based on the supply and demand conditions, following international rules applicable in this field. However, from the perspective of the supply of hard currencies in the interbank exchange market, the Bank of Algeria remains the primary source of hard currencies supplied in this market, where the exchange rates applied to transactions are determined based on market mechanisms. Therefore, the external value of the Dinar is represented by the exchange rate determined in the interbank exchange market, where nineteen banks intervene alongside the Bank of Algeria (Zouhair,2015, p17).To analyze the evolution of the Algerian Dinar exchange rate during the period 2015-2000, the following table can be presented:

Table 02: Annual Average Exchange Rate of the Algerian Dinar for the period 1994-2022.

Year	1994	1995	1996	1997	1998	1999	2000	2001
US DOLLAR	35,10	47,69	54,75	57,73	58,74	66,64	75,29	77,27
EURO	-	-	-	-	-	70,97	69,43	69,20
Year	2002	2003	2004	2005	2006	2007	2008	2009
US DOLLAR	79,69	77,38	72,07	73,36	72,65	69,37	64,57	72,65
EURO	75,37	87,47	89,64	91,30	91,24	95,00	94,86	101,30
Year	2010	2011	2012	2013	2014	2015	2016	2017
US DOLLAR	74,40	72,85	77,55	79,38	80,56	100,4	109,4	110,96
EURO	99,19	102,22	102,16	105,44	106,9	111,4	121,1	125,32
Year	2018	2019	2020	2021	2022			
US DOLLAR	116,62	119,36	126,83	135,11	142,0			

EURO	137,69	133,71	144,88	159,76	149,5 8
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Source: Bank of Algeria Website, <https://www.bank-of-algeria.dz/>

From the previous table, several changes in the exchange rate of the Algerian Dinar can be observed, which can be summarized in the following points (Lahcen and lakheder, 2017, p. 133):

1. Period from 1995 to 2002: During this period, the Algerian Dinar followed a managed floating exchange rate system, starting in 1995. This system introduced more flexible exchange rate arrangements. In the early years of implementing the comprehensive economic reform program (Abdel Haq and Malak, 2007, p214), the Algerian Dinar witnessed significant fluctuations. The value of the Dinar experienced steady declines, in line with the depreciation of the U.S. Dollar against the Euro. The primary reason for this was the impact of the September 11, 2001 events, particularly the collapse of the World Trade Center towers. This event led to a decrease in the value of the Dinar against the U.S. Dollar, from 75.29 Algerian Dinars in 2000 to 79.69 Algerian Dinars in 2002. Similarly, the value of the Dinar against the Euro decreased from 69.43 Algerian Dinars in 2000 to 75.37 Algerian Dinars in 2002.

2- In the period from 2003 to 2004, oil prices witnessed a significant improvement, transitioning from \$6.54 per barrel in 2003 to \$73.67 per barrel in 2004. This led to an increase in Algeria's petroleum exports, resulting in the rise of the Algerian Dinar's value against the US Dollar, from 77.38 DZD in 2003 to 72.07 DZD in 2004.

3- The value of the dinar against the dollar continued to rise in the period from 2005 to 2007 due to the increase in petroleum exports, while the value of the dinar against the euro decreased to reach 95.00 DZD in 2007 compared to 3.91 DZD in 2005.

4- In 2008, the global financial crisis had an impact on the Algerian Dinar. During this period, the oil markets experienced sharp fluctuations, as crude oil prices jumped from \$150 per barrel in 2008 to \$40 per barrel by 2009. Similar to other world currencies, the value of the Algerian Dinar declined against the US Dollar, from 69.37 DZD in 2007 to 74.4 DZD in 2010.



5- The improvement in the value of the US Dollar against the Euro led to a depreciation of currencies following managed float systems against the Dollar, as was the case in Algeria in 2009 and 2010. This was done to maintain stability in the prices of their exports and imports.

6- In the period from 2010 to 2022, the Algerian Dinar witnessed a depreciation against the US Dollar and the Euro due to a combination of factors. This depreciation was a result of several cumulative factors that have been affecting Algeria since the 1980s. The key observations and factors contributing to this depreciation can be summarized as follows (Dawood, 2013, p69):

- From 1986 to 1991, the Algerian authorities allowed a gradual depreciation of the exchange rate following the counter oil shock of 1986. This was implemented as a measure to address the repercussions of the collapse in oil prices. During this period, the Dinar depreciated by approximately 31% against a basket of currencies. Another depreciation occurred between 1989 and 1991.
- An official devaluation occurred between 1991 and 1994, under pressure from the International Monetary Fund (IMF) in exchange for financial assistance to Algeria. The primary objective of this devaluation, as proposed by the IMF, was to correct the overvaluation of the Dinar and reduce the gap between the official and parallel exchange rates, which had been growing significantly.
- The adoption of a new exchange rate policy, the managed float, since 1995 aimed to protect medium-term competitiveness by maintaining stability in the real effective exchange rate. This was achieved through interventions by the Bank of Algeria in the foreign exchange market.
- Excessive growth in imports, reaching \$58.33 billion in 2014, posed a challenge to maintaining the stability of the Dinar. The increasing demand for foreign currency to settle these imports resulted in an imbalance between the supply and demand for the Dinar in the foreign exchange market, contributing to its depreciation.
- The Algerian authorities' use of Dinar depreciation against the US Dollar as a measure to increase the revenues from oil receipts denominated in US Dollars during periods of collapsing oil prices.

In conclusion, while the value of the Algerian Dinar has been closely tied to oil prices, it is not the sole factor influencing its exchange rate. Given Algeria's global connectivity,



several external factors, such as financial crises, Eurozone issues, and internal factors, including high import demand and expansive economic policies, play significant roles in driving changes in the Dinar's value.

Conclusion:

The Algerian exchange rate system has been characterized by administrative management for over two decades, with a notable distance from economic reality. This was evident through the pricing systems that later exhibited relative flexibility. Three fundamental exchange rate policies were implemented across different historical stages of the Algerian Dinar. Each policy reflected the general economic policy of the state. Initially, the Dinar was pegged directly to the French Franc, and later, it was linked to a basket of currencies starting in the mid-1970s (1973) to avoid fluctuations in the value of the French Franc. Finally, the managed float system for the Dinar (a floating exchange rate system) was adopted in late 1987, following a series of devaluations during the crisis period Algeria experienced from the mid-1980s to the mid-1990s. subsequently, a system of stabilization sessions was implemented from October 1994, which was followed by the establishment of an interbank exchange market. This marked the adoption of a managed floating exchange rate system. All these measures were taken under the exchange control system, with a focus on enhancing the convertibility of the Dinar in current transactions. However, the Monetary and Credit Law represented a significant qualitative leap in the economic and financial field, particularly in terms of exchange and foreign trade. It granted all exchange-related powers to the Bank of Algeria through the Monetary and Credit Council, and this direction was further institutionalized by Law 03-11.



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