

BANQUE D'ALGERIE

بنك الجزائر

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**Monetary policy frameworks in Africa
in a changing financial landscape: the
case of Algeria**

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**AACB Continental Seminar
May 2015**



SUMMARY

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1. **Algeria's macro-monetary environment in 2003-2014**
2. **The monetary policy objective**
3. **The monetary policy development framework**
4. **Monetary policy instruments**
5. **Banque d'Algérie's monetary policy procedures**
6. **Lessons learned from monetary policy implementation
(amid a structural excess in liquidity)**
7. **Banque d'Algerie's recent efforts for modelling inflation
and its determinants**

1- Algeria's macro-monetary environment in 2003-2014

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- Gradual increase in oil export revenues: (current balance: 13% of GDP in 2003; 22.7% in 2007; 8.9% in 2011 but only 0.5% in 2013)
- Sharp decline in foreign debt: 34.4% of GDP in 2003; 4.8% in 2006; 1.6% in 2013
- Appreciable growth in the non-petroleum sectors: 6.6% on average from 2003 to 2013
- Improvement in public finances 2003-2008 (strong growth in oil taxes, changes in ordinary taxes: positive budget balance: 5.4% of GDP in 2003, 9.1% in 2008, but negative balance from 2009 (-5.7 in 2009, -4.5% in 2012, -0.4% in 2013), significant deterioration in 2014 (-7.3% of estimated GDP for the year).

Ghana's macro-monetary environment in 2003-2014 (cont.)

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- Insufficient coverage of current budget expenditure by non-petroleum revenue (between 45% and 55% depending on the year) → use of oil taxes
- Increase in the savings of the Revenue Regulation Fund (stabilization fund) until 2012):
 - tighter protection against procyclical fiscal spending
 - consolidation of capacity for public investment programmes (RIF in 2012 = \$71.2 billion)
but drop in outstanding RIF in 2013 and 2014

1- Algeria's macro-economic environment in 2003-2014 (cont'd)

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- Increase in money supply (M2) and loans (in particular investment loans), including:
 - bank deposits in GDP/DA (41.4% in 2003; 51.2% in 2014),
 - flow of credit in the economy/GDP: 26.3% in 2003; 37.3% in 2014 → relatively low level of debt in the national economy).
- Sharp rise in medium and long term loans: 39.3% in 2003, 59.9% in 2010 and 75.3% in 2014
- Structural excess liquidity since 2002 (persistence, and even increase in excess liquidity)
- Relatively low inflation except in 2012.

1- Algeria's macro-economic environment in 2003-2014 (cont'd)

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Evolution de données monétaires

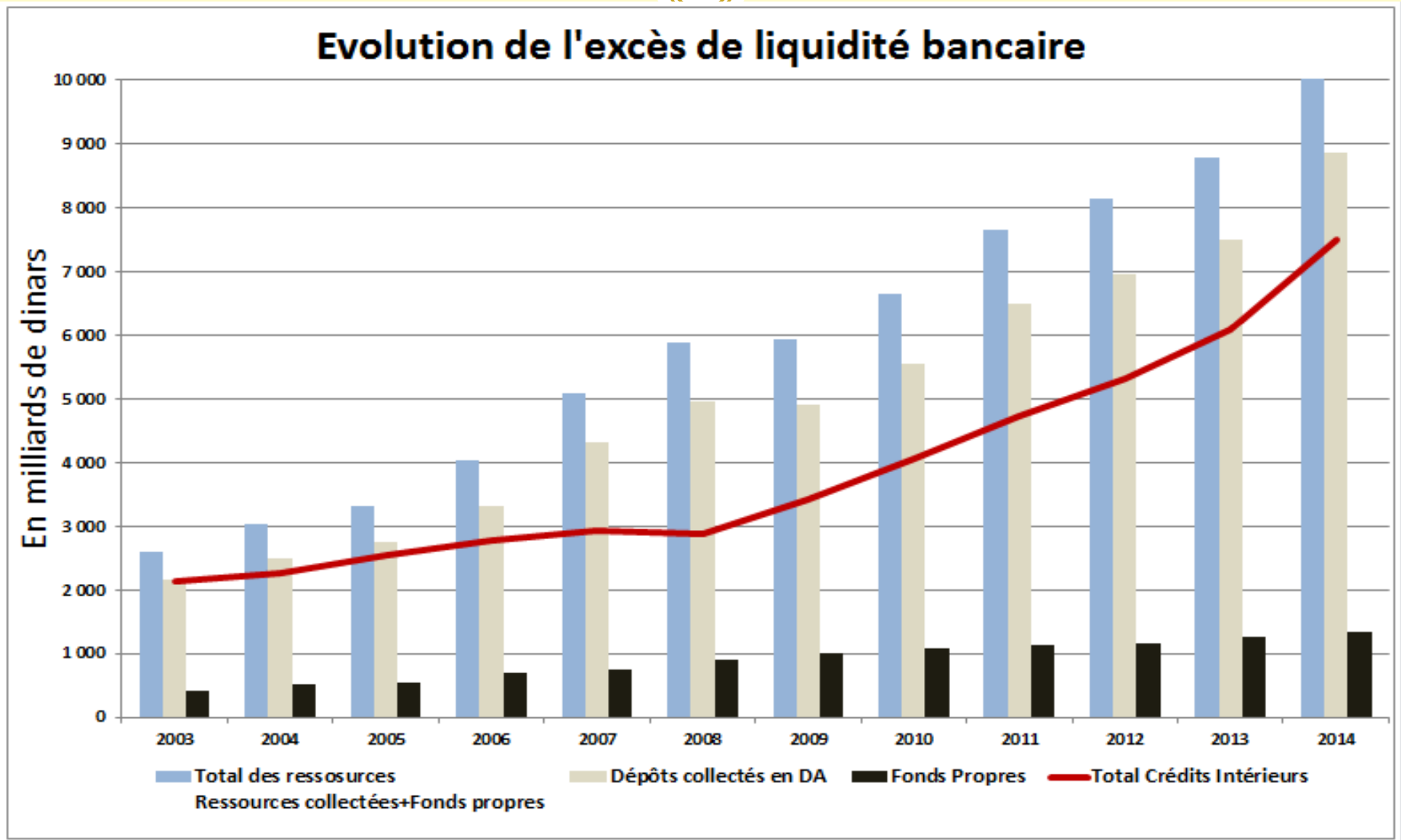
En milliards de dinars et dollars

	2008	2009	2010	2011	2012	2013	2014 *
Données monétaires globales							
Accroissement de M2	16,0%	3,1%	15,4%	19,9%	10,9%	8,4%	14,5%
Accroissement de crédits à l'économie	18,6%	18,0%	5,9%	14,0%	15,1%	20,3%	26,0%
Accroissement des avoirs ext. nets (BA)	38,5%	6,2%	11,9%	15,6%	7,6%	2,2%	3,6%
Données des banques							
Accroissement des dépôts en DA	14,5%	-0,6%	13,2%	16,4%	7,3%	7,5%	17,6%
Crédits / Dépôts collectés en DA	53,3%	63,3%	59,2%	57,9%	62,2%	69,5%	74,5%
Crédit intérieur / Dépôts collectés en DA	59,0%	70,3%	73,5%	73,8%	77,1%	82,1%	86,0%
Données des finances publiques							
Evolution des recettes d'hydrocarbures	46,2%	-41,0%	20,4%	37,0%	5,1%	-12,1%	-7,9%
Evolution des recettes hors hydrocarb.	23,7%	14,7%	17,8%	21,7%	19,0%	5,8%	2,3%
Evolution des dépenses courantes	32,5%	3,7%	15,6%	45,9%	23,3%	-13,6%	8,6%
Evolution des dépenses d'équipement	37,6%	-1,4%	-7,1%	9,2%	15,2%	-16,8%	31,8%
Encours du Fonds de régulation des recettes	4280,1	4316,5	4842,8	5381,7	5633,7	5563,5	4408,5
Fonds de régulation des recettes en \$	60,128	59,348	65,494	70,759	72,133	71,188	50,151
Données sur l'inflation							
Inflation en moyenne annuelle	4,86%	5,74%	3,91%	4,52%	8,89%	3,26%	2,92%

* Données provisoires

1- Algeria's macro-economic environment in 2003-2014 (cont'd & end)

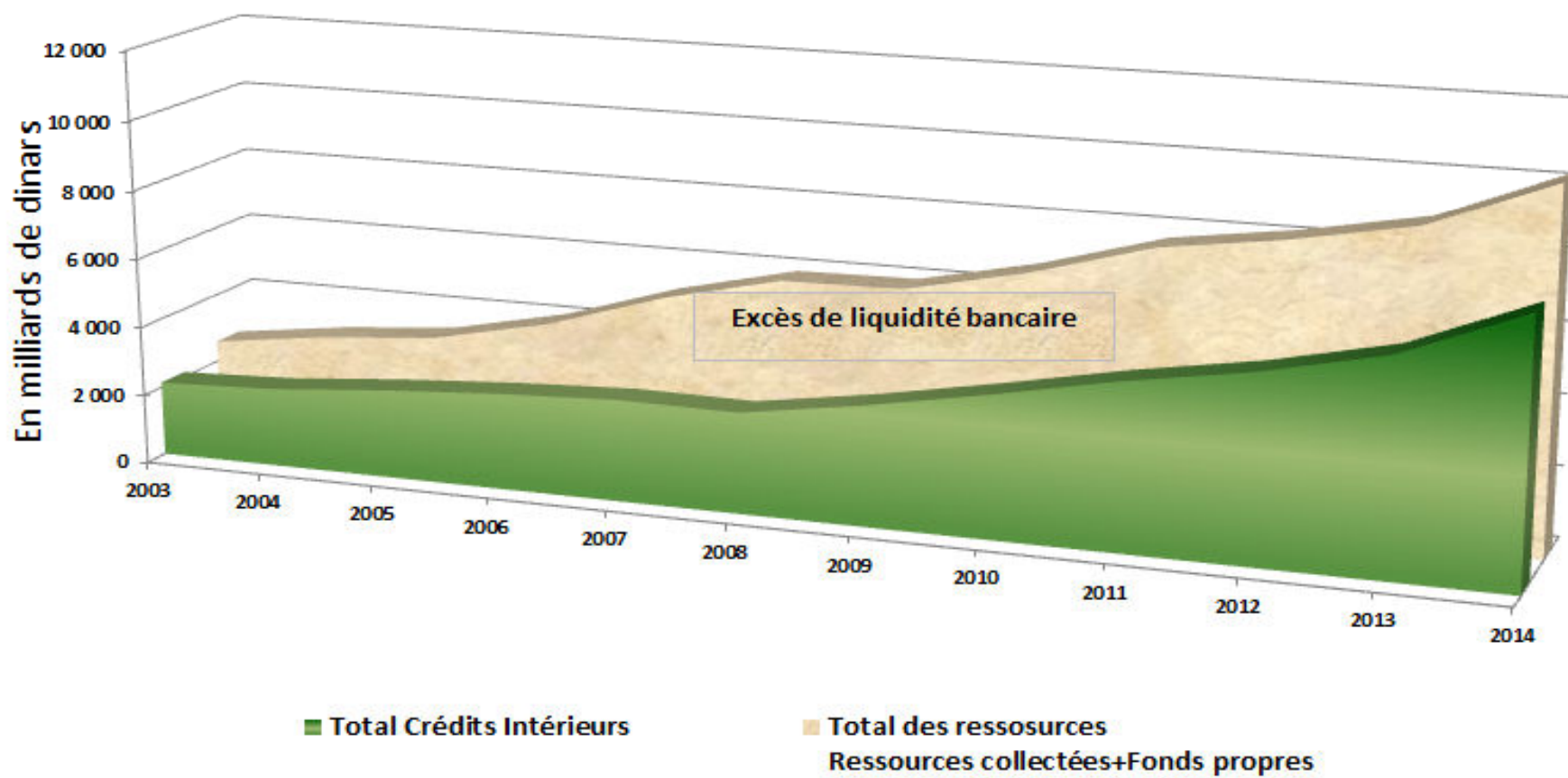
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1- Algeria's macro-economic environment in 2003-2014 (cont'd & end)

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Evolution de l'excès de liquidité bancaire



2- Banque d'Algérie's monetary policy objective

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Currency and Credit Order n° 03-11, which was amended and supplemented on 26 August 2010:

- Sets price stability as the objective of monetary policy
- stipulates that the central bank is responsible for monetary and financial stability
- states that the central bank's responsibilities are to, among others:
 - ✓ regulate money circulation,
 - ✓ regulate bank liquidity,
 - ✓ direct and control loan distribution,
 - ✓ regulate the foreign exchange market, and
 - ✓ ensure the safety and soundness of the banking system.

3- Monetary policy development framework

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- The *Conseil de la Monnaie et du Cr dit/Currency and Credit Council* (in charge of monetary issues) is empowered to:
 - ✓ Define,
 - ✓ conduct,
 - ✓ Monitor, and
 - ✓ Evaluate monetary policy.
- In this respect, the Council:
 - ✓ Sets annual monetary targets (trends in monetary and credit aggregates, inflation target,...),
 - ✓ provides the appropriate monetary instruments,
 - ✓ Ensures information is disseminated widely to avoid default risk.

3- Monetary policy development framework (cont'd)

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In practice, Banque d'Algérie, at the beginning of each year:

- ✓ Presents the projections for monetary and loan trends using a series of indicators and economic behaviour functions,
- ✓ proposes appropriate intervention instruments for conducting monetary policy,
- ✓ Offers clarifications on Council members' questions

4- Monetary policy instruments

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- To achieve price stability, Banque d'Algérie uses a series of regulated instruments to conduct its monetary policy.
- It:
 - ✓ Performs open market transactions (to provide liquidity and/or absorb excess liquidity),
 - ✓ Accepts the standing facilities provided at the initiative of banks,
 - ✓ Subjects banks to the establishment of minimum compulsory reserves.

4- Monetary policy instruments (cont'd & end)

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In terms of instruments, a new detailed regulation was enacted in 2009. This regulation aims to establish the instruments and procedures for conducting monetary policy operations (*excluding the rediscounting operations and establishment of compulsory reserves stipulated in previous provisions*)

This regulation especially includes:

- ✓ the definition of eligible parties and counterparts, and ways of evaluating them,
- ✓ Open market operations (temporary purchase, sale and collection of fixed term deposits);
- ✓ Standing facilities,
- ✓ Procedures for tendering operations,
- ✓ Terms for regulating monetary policy operations (through real time gross settlements – the RTGS system).

5- Banque d'Algerie's monetary policy practices

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- Like other central banks, Banque d'Algérie is expected, through its main monetary policy operations, to:
 - ✓ determine short term interest rates,
 - ✓ manage bank liquidity,
 - ✓ provide direction on monetary policy.

- Since the beginning of 2002, Algeria's banking system records excess liquidity (an excess that increased steadily until 2014, except in 2009, when there were external shocks)
 - ➔ this is structural excess in bank liquidity

5- Banque d'Algérie's monetary policy practices (cont'd)

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- Therefore, Banque d'Algérie's monetary policy has consisted in absorbing this excess liquidity through:
 - ✓ Liquidity recovery operations (for 7 days, 3 months and 6 months),
 - ✓ Initiatives by banks for deposit facilities with payments processed within 24 hours,
 - ✓ Minimum compulsory reserves.
- Banque d'Algérie does not issue debt securities that could have contributed to absorb the excess bank liquidity, at least partially.

5- Banque d'Algérie's monetary policy practices (cont'd)

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In practice, Banque d'Algérie:

- holds weekly auctions for liquidity recovery operations settled within 7 days and monthly auctions for liquidity recovery operations settled within 3 and 6 months,
- establishes the rate for compulsory reserves (currently it is 12% of the deposits that banks collect in DA),
- establishes the rate of interest for its transactions and compulsory reserve requirements,
- ensures that the real actual exchange rate is close to the medium term balance level.

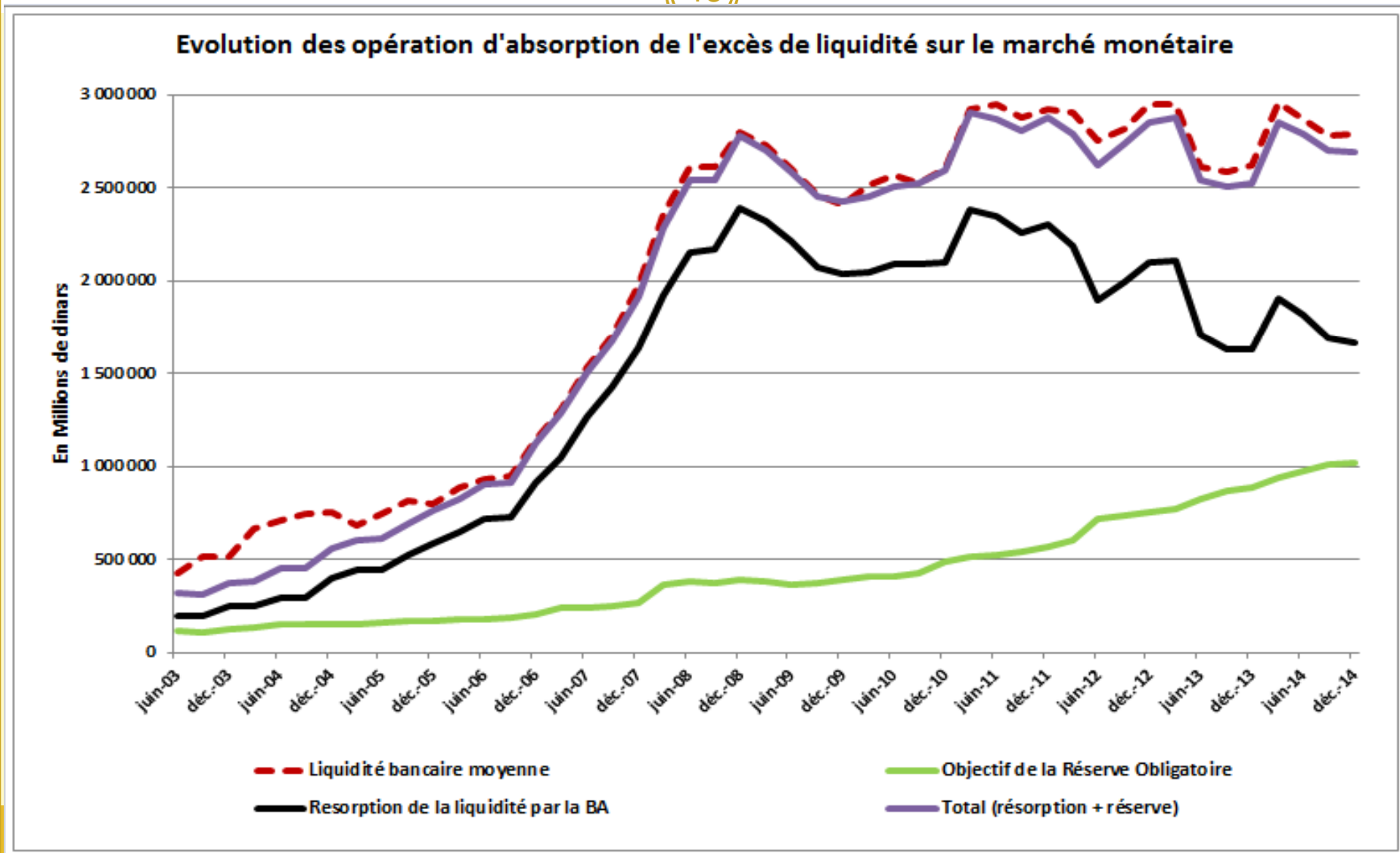
5- Banque d'Algérie's monetary policy practices (cont'd)

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- Changes in Banque d'Algérie's operations
 - ✓ liquidity recovery: 100 billion by end of 2002, 400 billion by end of 2004, 1100 billion by end of 2007, 1350 billion by end of 2012
 - ✓ compulsory reserves rates: 6.25% by end of 2003, 8% by end of 2008, 9% by end of 2010, 11% by end of 2012 and 12% by end of 2013
 - ✓ Since 2009, BA interest rates are:
 - liquidity recovery in 7 days = 0.75 %,
 - liquidity recovery in 3 months = 1.25 %,
 - ✓ liquidity recovery in 6 months = 1.50% (instrument introduced as from January 2013)

5- Banque d'Algérie's monetary policy practices (cont'd)

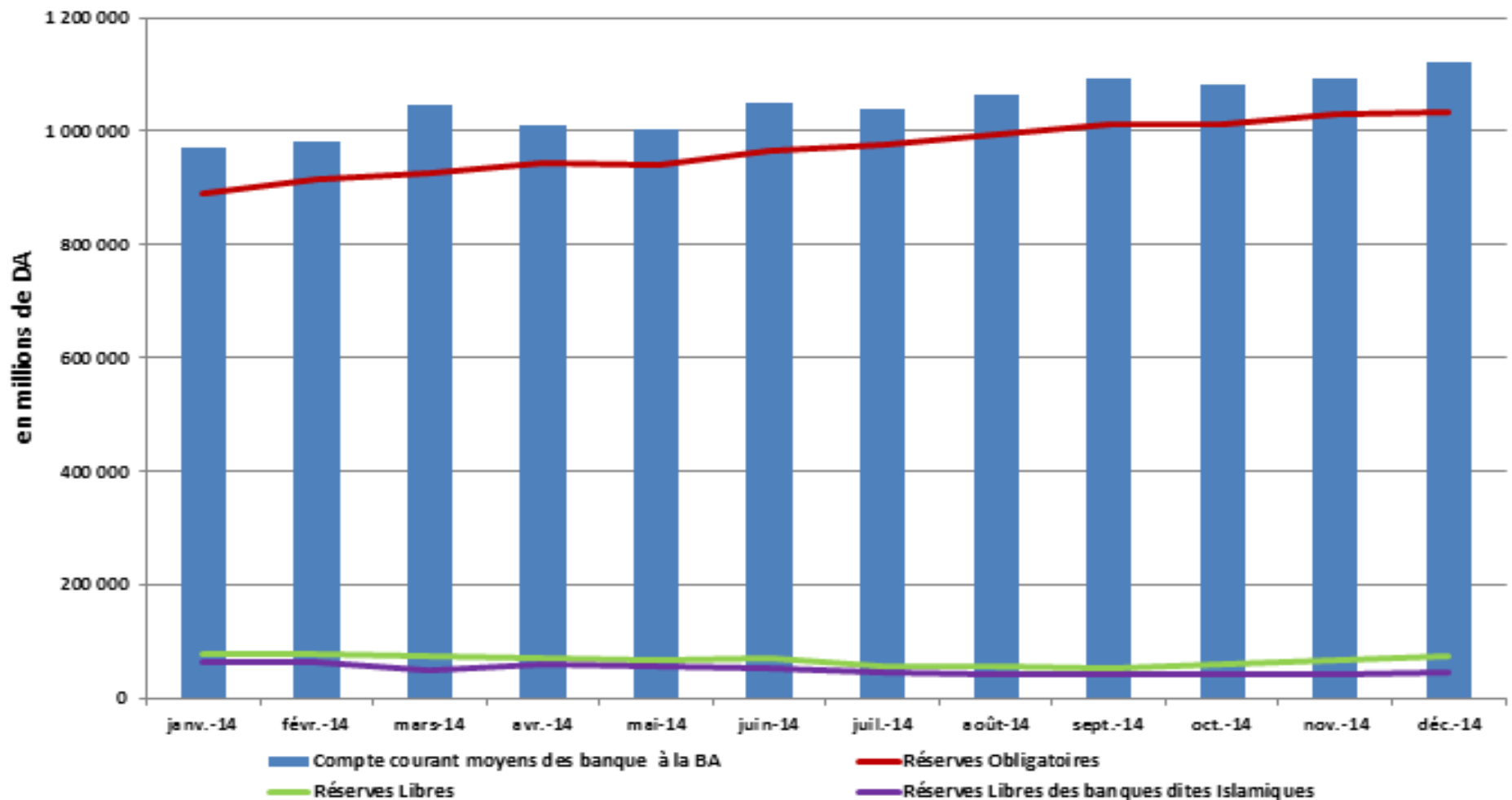
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5- Banque d'Algérie's monetary policy practices (cont'd)

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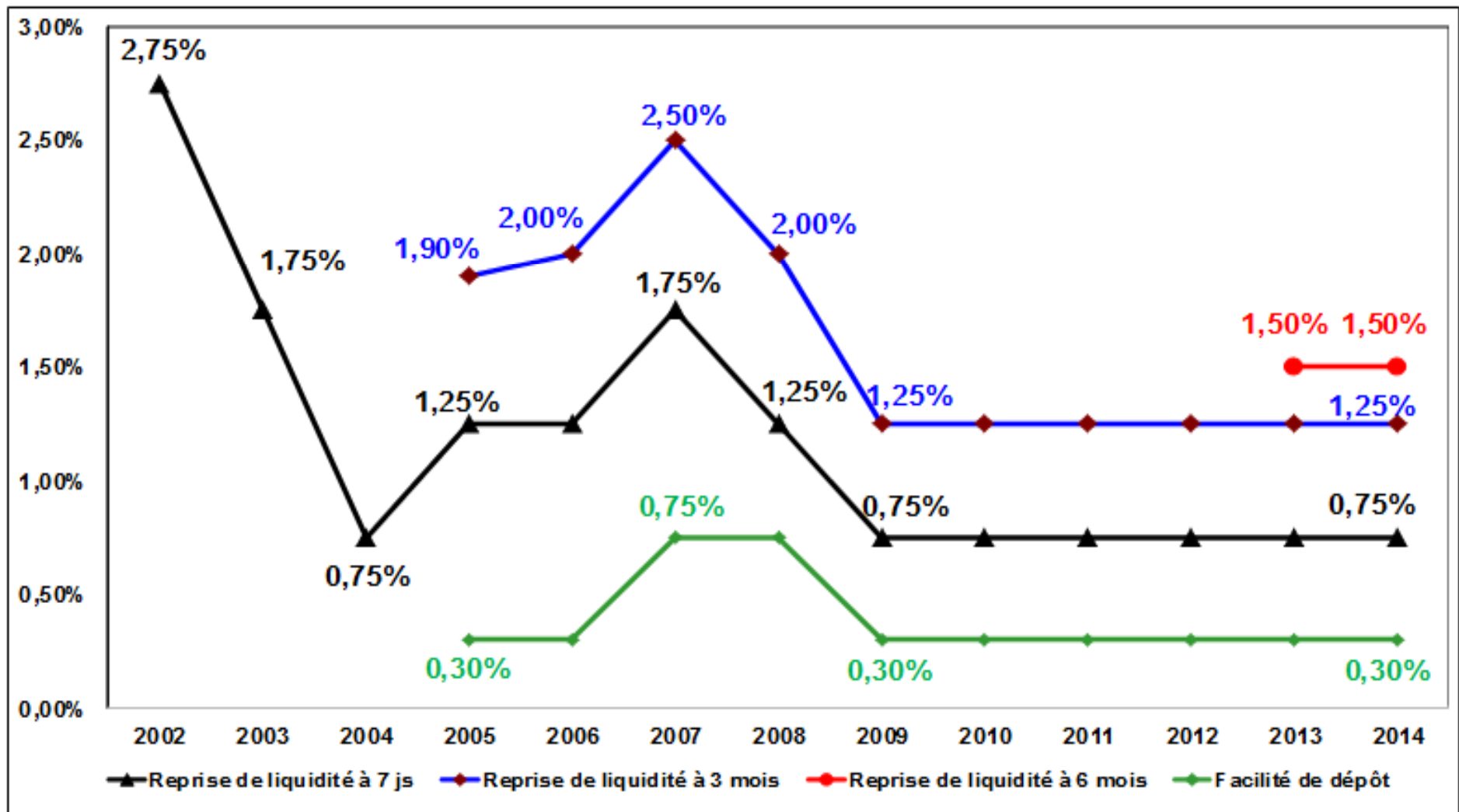
Réserves obligatoires et réserves libres



5- Banque d'Algérie's monetary policy practices (cont'd)

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Structures des taux d'intérêts de la Banque d'Algérie : 2002 - 2014



5- Banque d'Algérie's monetary policy practices (cont'd)

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Bilans de la Banque d'Algérie pour les exercices 2013 et 2014

en millions de dinars

Actif	déc-13	déc-14	Passif	déc-13	déc-14
Avoirs extérieurs	15 214 111	15 766 528	Billets et pièces de monnaie en circulation	3 247 648	3 734 636
Créances sur les banques et établissements financiers	0	0	Dépôts des banques créditrices de monnaie	863 088	912 282
Créances sur les autres institutions financières	0	0	Dépôts des autres institutions financières	17 603	10 157
Créances sur l'Etat	0	0	Reprises de liquidité + facilités de dépôt	1 829 900	1 818 600
Autres créances	3 966	2 804	Dépôts de l'Etat	5 643 222	4 488 176
Débiteurs divers	2 224	2 216	Autres dépôts	15 184	17 473
Comptes de régulation	160 363	85 676	Engagements extérieurs à court terme	1 674	1 695
Autres postes de l'actif	199 794	199 622	Créditeurs divers	1 859	4 004
			Comptes de régularisation	1 693 669	2 493 165
			Autres postes du passif	2 266 611	2 576 658
TOTAL ACTIF	15 580 458	16 056 846	TOTAL PASSIF	15 580 458	16 056 846

*) Données provisoires pour 2014

5- Banque d'Algérie's monetary policy practices (cont'd)

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Algeria's structural excess liquidity results from autonomous factors of bank liquidity:

- increase in monetized external assets between 2003 and 2013, a factor of growth in bank liquidity
- budget expenditure/receipts: sharp growth in expenditure (context with increasing oil taxes) feeding bank liquidity
- increase in fiduciary money: a factor restricting bank liquidity
- other: Banque d'Algérie's expenditure, a factor increasing bank liquidity

5- Banque d'Algérie's monetary policy practices (cont'd)

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- Banque d'Algérie's monetized foreign assets:
 - ✓ Monetization base → legal framework
 - ✓ money generated through monetization of oil revenue (excluding partners' share) which, with the exception of 2009 and 2014, is in progress;
- this explains the impact of oil sector deposits on bank liquidity
 - ✓ Self-financing investments (largely imported) in the oil sector,
 - ✓ Regulation of oil taxes which represent, with the tax on windfall profits, about 67 - 72% of oil export revenue.

5- Banque d'Algérie's monetary policy practices (cont'd)

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➤ Impact of budget expenditures:

Current expenditure is rising and largely surpasses non-oil revenue → partial use of oil taxes for current expenditure and for all capital expenditure (capital expenditure is high)

- ✓ result: rising corporate and household deposits → increase in liquidity for their banks

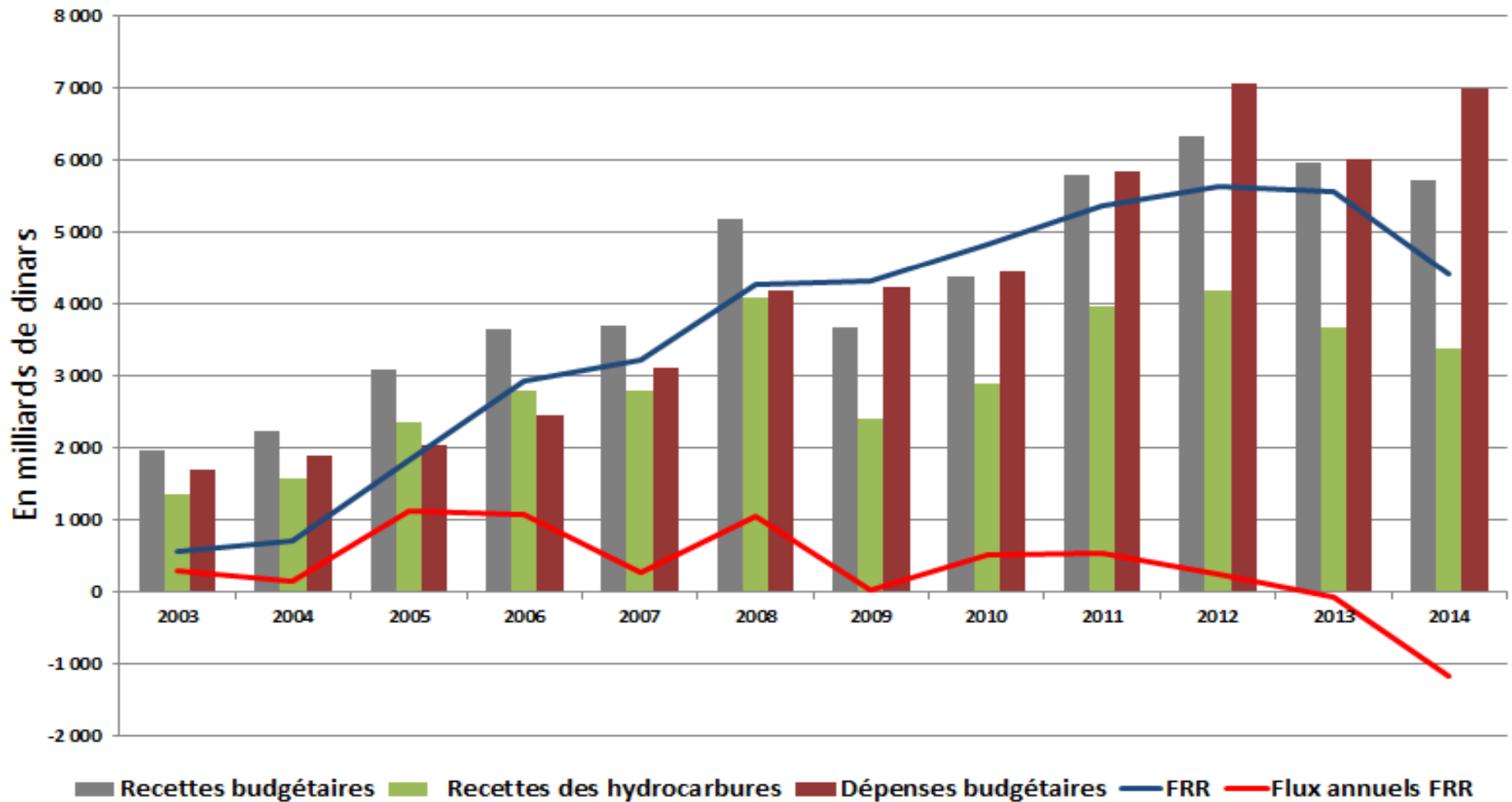
➤ On the contrary:

- ✓ significant increase of treasury savings in the receipts of the regulation fund (until 2012), causing a partial sterilization of oil taxes → a restrictive factor on bank liquidity.

5- Banque d'Algérie's monetary policy practices (cont'd)

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Structure des recettes et dépenses de l'Etat



5- Banque d'Algérie's monetary policy practices (cont'd)

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- With increasing state expenditure, excess liquidity is largely disseminated in the banking sector, leading to low demand in liquidity on the interbank market → rate curve is low.

- For monitoring cost:
 - ✓ the curve on performance of securities on the Treasury's securities market is higher
 - ✓ the Treasury (encouraged by Banque d'Algérie) offers a wide range of securities traded on the secondary market for Treasury securities → a representative rate curve.

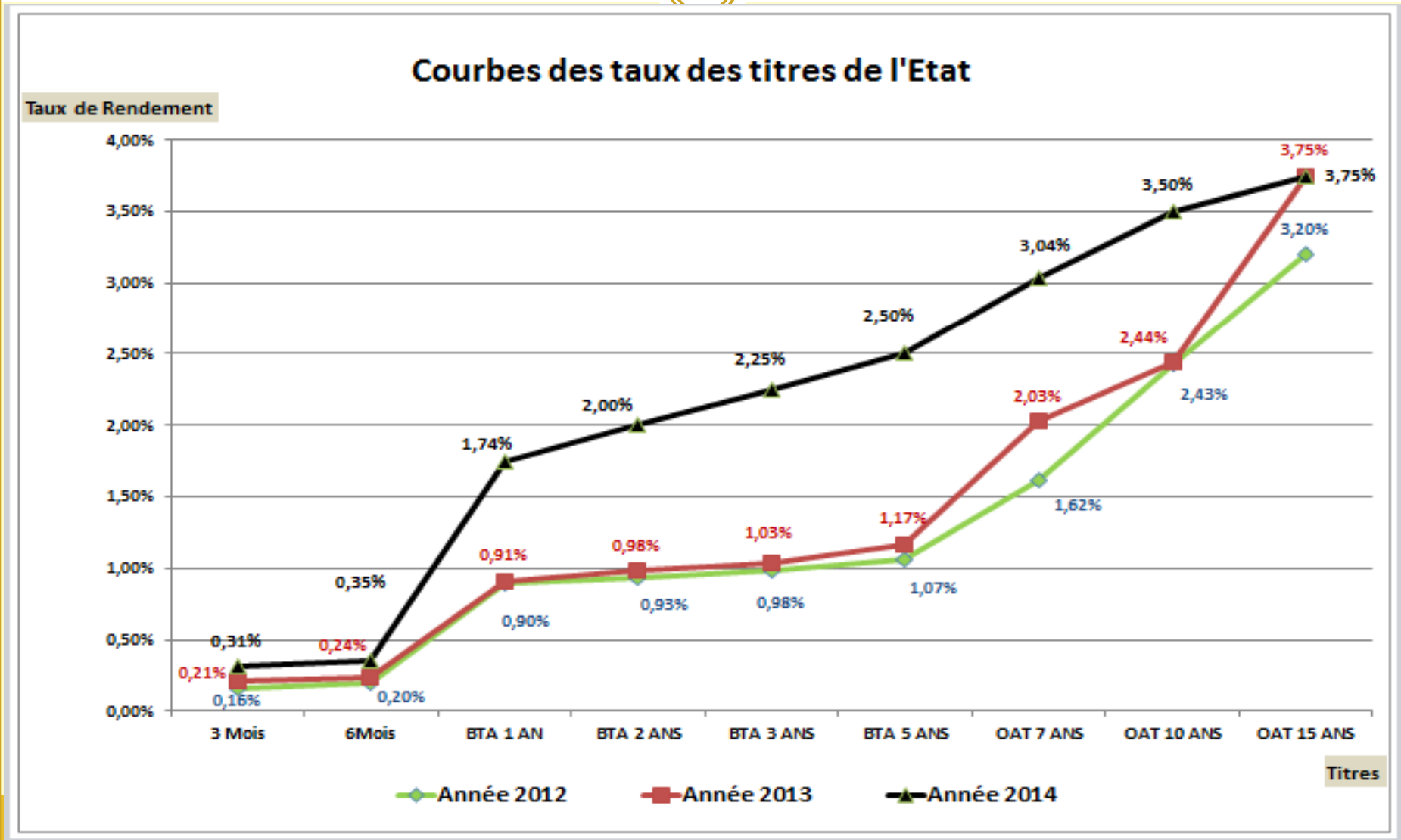
5- Banque d'Algérie's monetary policy practices (cont'd)

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- **For securities issued by the Treasury:**
- Banque d'Algérie, on behalf of the Public Treasury, organises auction operations on securities (primary market)
- On the secondary market of these securities:
 - The players on this market are specialists in Treasury Securities that have been approved by the Treasury to promote and sell Treasury securities.
 - The specialists on this market are currently thirteen in number:
 - ✦ eight commercial banks,
 - ✦ five institutional players (insurance companies).

5- Banque d'Algérie's monetary policy practices (cont'd)

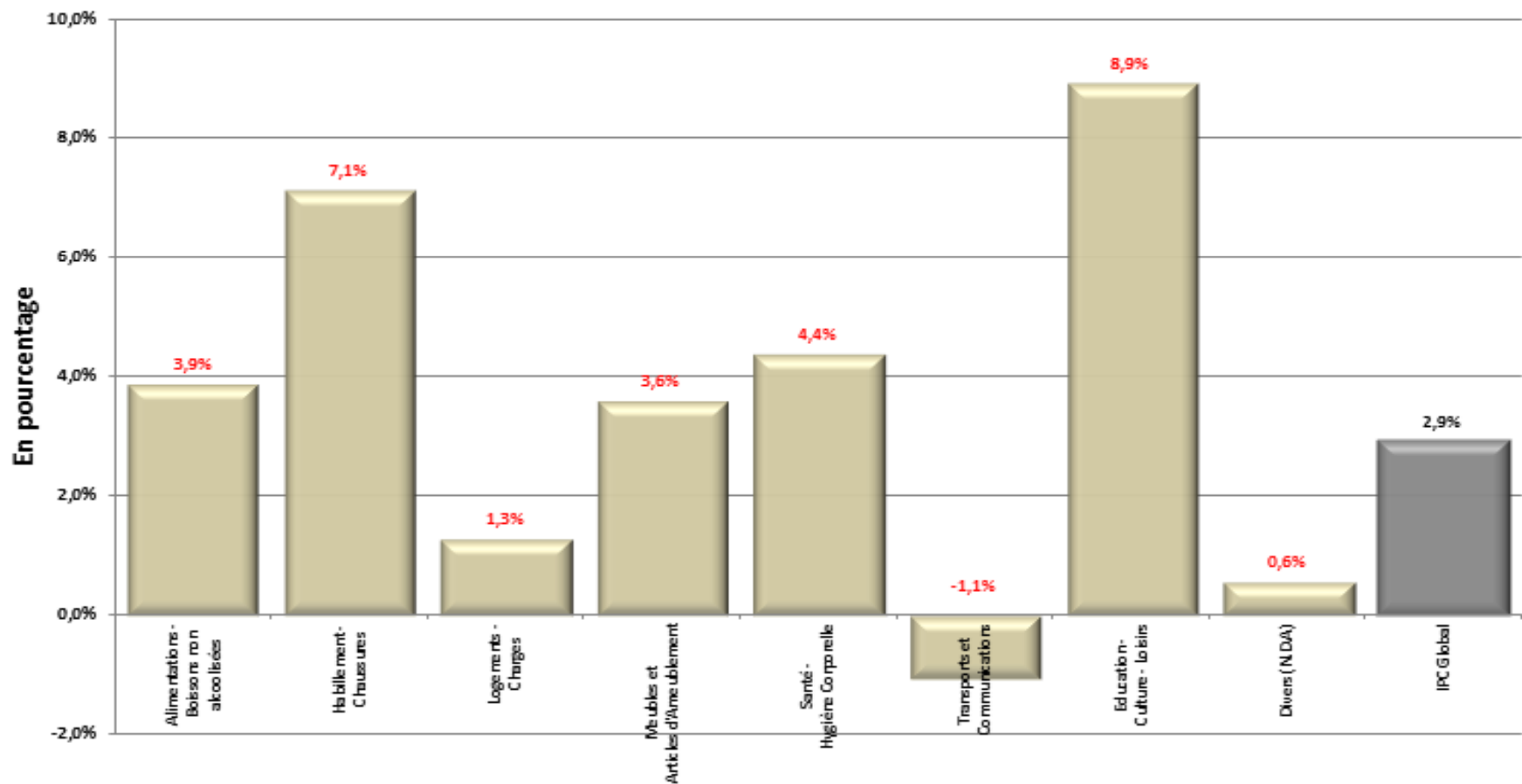
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5- Banque d'Algérie's monetary policy practices (cont'd)

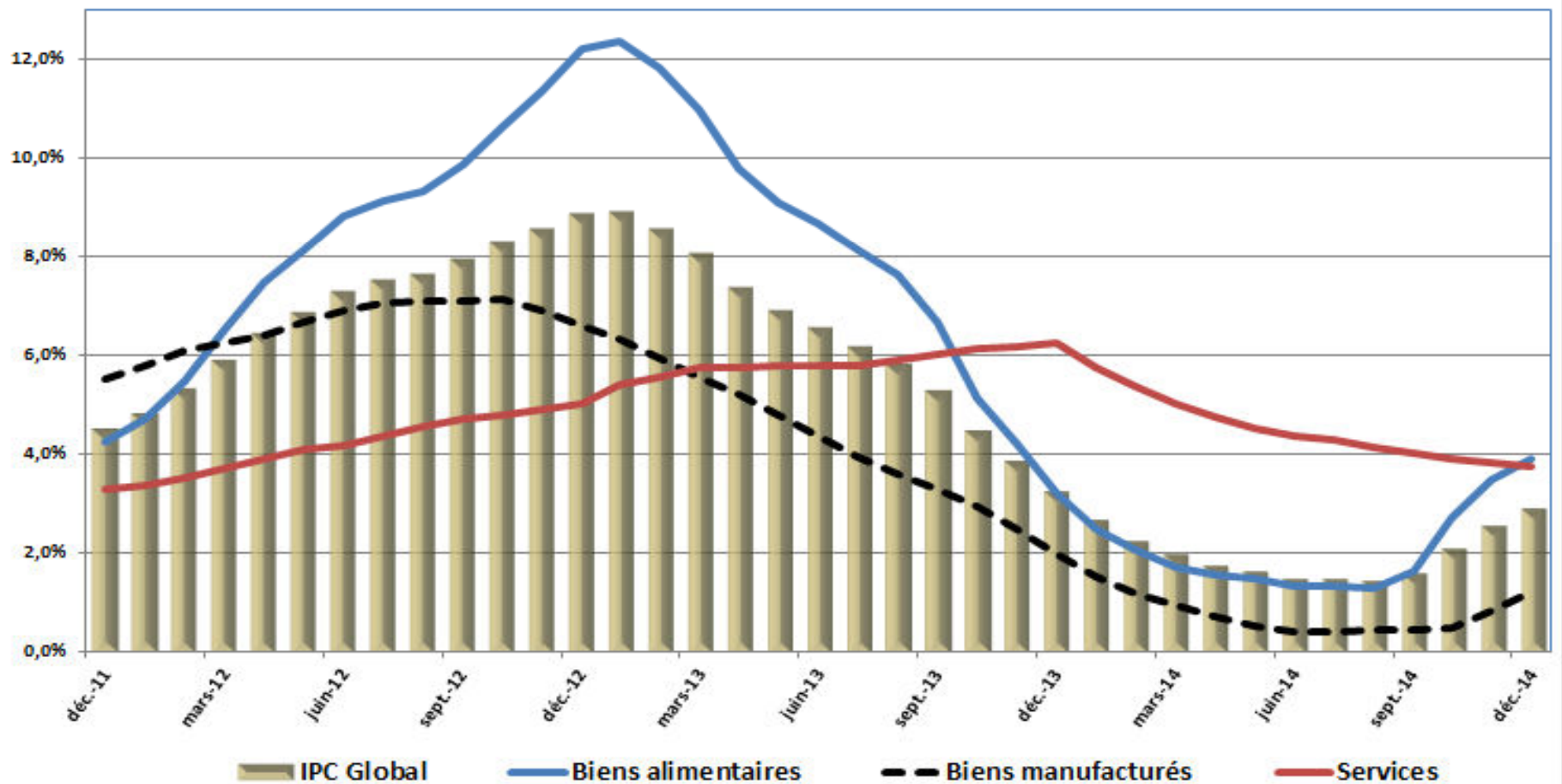
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Inflation annuelle moyenne selon le groupe de produits à décembre 2014



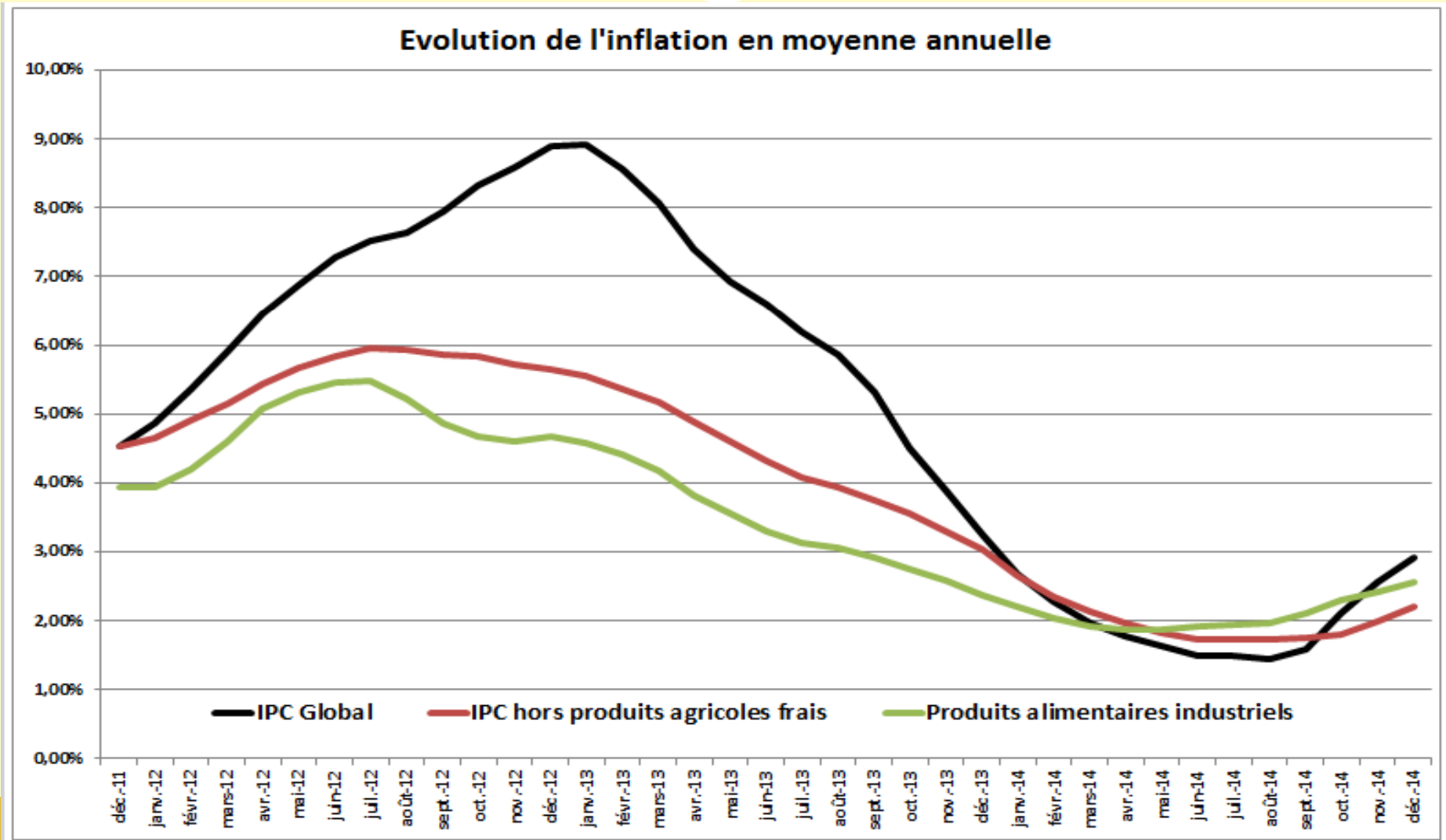
5- Banque d'Algérie's monetary policy practices (cont'd)

Inflation annuelle moyenne selon la catégorie de produits

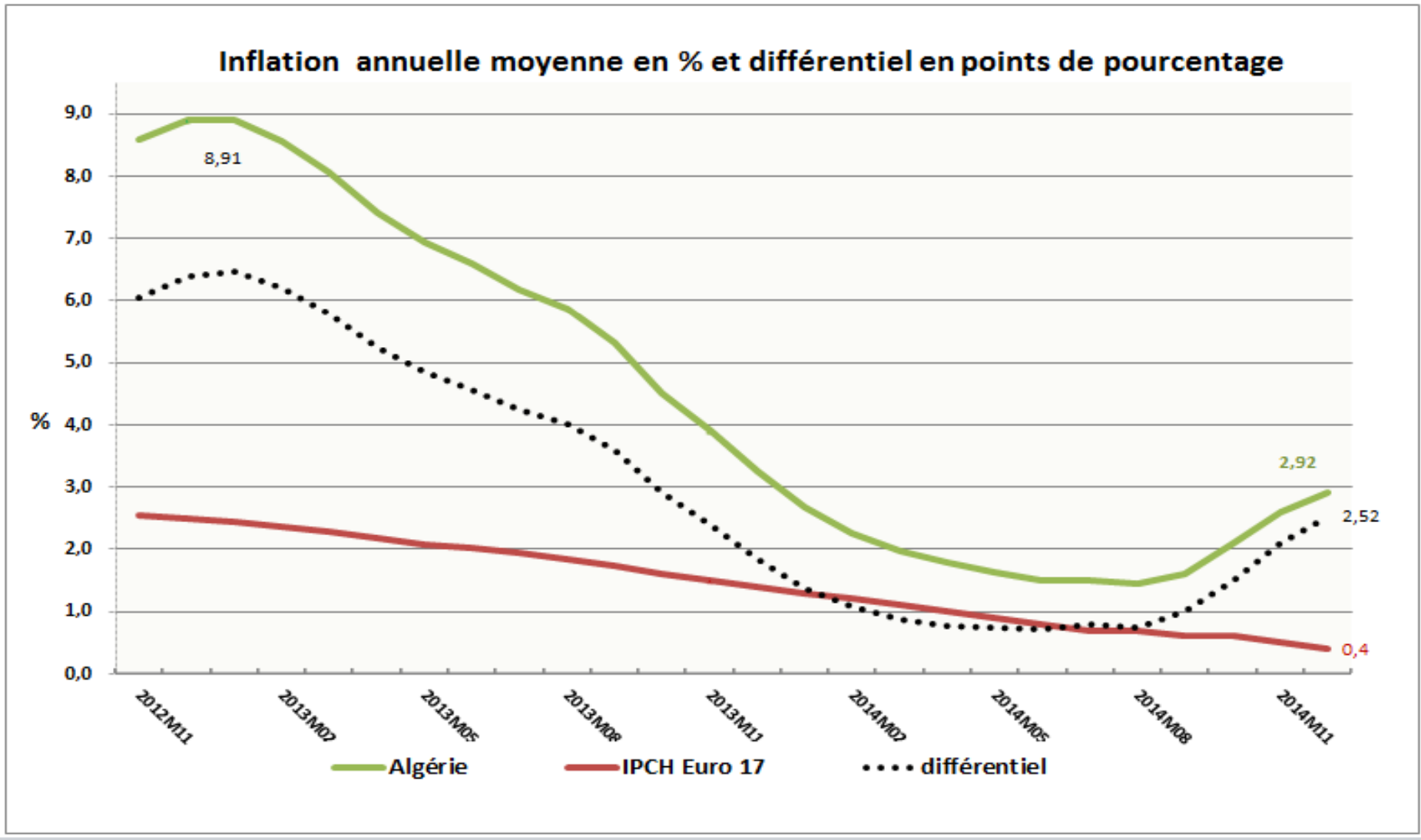


5- Banque d'Algérie's monetary policy practices (cont'd)

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5- Banque d'Algérie's monetary policy practices (cont'd & end)



6- Lessons learned from monetary policy implementation

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Banque d'Algérie uses its open market operations for:

- management of bank liquidity: goal accomplished
- providing direction on interest rates: not national interest rate in terms of costing the contribution of liquidity to banks, but rather in terms of interest rate for the recovery of liquidity, which is not a good monetary policy transmission channel,
- Orientation of monetary policy: without the usual interest rate, the question then is: “Do the liquidity recovery operations on the monetary market clearly indicate the orientation of monetary policy through the rates established?” ???
- However: inflation, with the exception of 2012, remains under control (3.3% in 2013 and 2.9% in 2014).

7- BA's recent modelling efforts on inflation and its determinants

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With the objective of the monetary policy (price stability), Banque d'Algérie has made efforts to:

- assess and analyse the determinants of inflation, measured by the increase in consumer prices. These determinants are:
 - ✓ Monetary inflows outside the oil sector and exclusive of currency deposits,
 - ✓ The prices of highly imported products (international prices for imported foodstuffs),
 - ✓ The nominal rate of exchange,
- conduct more detailed tracking of imported commodities,
- make projections on inflation trends in the short term (pending actual targeting of inflation).

Thank you for your attention