

The concept of central bank independence and its role in determining the fiscal-monetary coordination, the Algerian experience

Zahaf youcef ^{1*}, Chibi abderrahim ²

¹ Maghnia University center , *LEPPESE* Laboratory (Algeria),

zahaf.youcef@cumaghnia.dz

² Maghnia University center, *LEPPESE* Laboratory (Algeria),

Abderrahim.chibi@cumaghnia.dz

Received:13/11/2022

Accepted:11/12/2022

Published:31/12/2022

Abstract:

This scientific paper aims to shed light on the concept of central bank independence and its impact on the work of central banks in light of what is known as coordination between financial and monetary policies, by addressing various recent studies in the field and drawing the most important conclusions from them. Highlighting the Algerian economy in this aspect and analyzing it. The most important results were that the independence of the central bank is essential to focus on in order to build a strong relationship between the monetary and financial authorities in Algeria in order to find radical solutions to stand up and advance the Algerian economy.

Keywords: central bank independence; fiscal-monetary coordination; Algeria; economic performance; bank of Algeria.

JEL Classification : M11 ; C18 ; O13

Introduction

Central bank as representative of monetary policy, knew many discussions and arguments among researchers and scientists. Especially about its role and independence. The degree of independent in making monetary policy has a big connection with the central bank role in its strategies.

The policy role of central banks only came into focus in the 20th century. The Federal Reserve opened in 1914 and the Bank of Canada in 1934; the Reserve Bank of India and the Central Bank of Argentina started in 1935 as private institutions, also many of central banks came to existence earlier in the 17th century like bank of England was established in 1694.(wachtel & blejer, 2020, p. 111)

CBI became a globally accepted truth of economics about 30 years ago, it is clearly valuable for ensuring that monetary policy is conducted in a way that is consistent with appropriate central bank objectives and free of political influences (wachtel & blejer, 2020, p. 105).Due to the fact that in the 1990s countries all over the world started reforms the Legislation regulating the work of their central bank, removing monetary policy from government control. And because of that, independent central banks can change interest rates and target the exchange rate or money supply to ensure price stability or achieve low inflation rates.(bodea & higashijima, 2015, p. 47)

This work ideas deals with the following problematic situation: the areas of overlap between central bank independence and fiscal-monetary coordination, Algeria as an example. Based on what has been started before the following questions:

- 1-What's the real meaning of central bank independence?
- 2-Why is coordination and interaction between fiscal and monetary policies so important?
- 3-Where is the Algerian economy situated from all the global economic changes and developments?

Thus, the hypotheses derived are as follows:

The meaning of central bank independence is said to be related to the instruments used in its policy and the legislation of its own policies.

All academic researches may agree on the point that fiscal and monetary policies are related somehow to every economic discipline.

The Algerian economic regime is characterized by the dominance of the financial authority.

Relying on the analytical, descriptive and deductive approach, we will answer the various problematic raised, trying to contribute to the

enrichment of this topic, especially in the aspect of the national economy, which is of interest to us.

2-Literature review:

Delimitating a topic is the first step to deal with it intelligently. This is true when talking about the central bank independence where very heated debates took place among economists and researchers when it comes to what is it, how it functions, and its relationship with fiscal-monetary coordination.

In this respect, De Haan and Eijffinger (2016), tried to find out in their big role of CBI by discussing the concept of monetary policy making and CBI, by employed many economic and political studies. Also, the concept of interactions between central banks and fiscal authority was determined. It seems that opinions and outlooks connected with CBI concept are innumerable between supporters and opponents of the idea. And the recent financial crisis has changed the role of central banks as evidenced by the large set of new unconventional monetary and macro-prudential policy measures.(de haan & eijffinger, 2016, p. 1)

Agoba et al (2019), investigate the ability of CBI to improve fiscal performances in Africa, accounting for election years, and also to examine whether the effectiveness of CBI in improving fiscal performance is enhanced by higher political institutional quality by applying a two-stage system GMM with Windmeijer (2005) small sample robust correction estimator, on CBI data from 48 African countries, 90 other developing countries and 40 developed countries over the period 1970–2012. The findings of the study were very important as they provide insight into the benefits of having strong institutions to complement independent central banks in order to control fiscal indiscipline in election years.(Agoba, Abor, Osei, Sa-adu, Amoah, & dzeha, 2019, p. 810)

Wachtel and blejer (2020), examine how central bank independence became the cornerstone of central banking in the late 20th century. And the main role played by central banks facing inflation and how it affects economy, besides, dealing with different crises, for that, the study showed that CBI is part of the accepted wisdom of modern economics. Furthermore, after the last crisis the idea of the policy tools should be set by a committee that is independent of political influence.(wachtel & blejer, 2020, pp. 105-128-129)

An empirical study by Elgin et al (2021), aim to reach the reality of that CBI is working together e with economic policy to face and minimize the adverse economic effects caused by covid19.using panel data regression

of two different monetary policy variables, first, conventional monetary policy tool, the percentage cut in the policy, and various macro financial measures. The results showed that there is an association between CBI and economic policy to mitigate covid19 economic effects. Additionally, the fact that more independent monetary policy authorities have adopted smaller cuts in the policy rate and reserve requirements, fiscal and macro-financial packages are relatively larger in countries with more independent central banks.(Elgin, Yalaman, Yasar, & Basbug, 2021, p. 1)

A work paper by javier & salmeron (april2021), which made reference to CBI concept from the theoretical and practice side. After expressing several aspects related to CBI .as result, the benefits of central bank independence are more than just theoretical potential. And, In the current situation of the COVID-19 crisis, central banks have achieved prominence in their role in providing essential support by keeping interest rates low and guaranteeing liquidity. so, it would be positive that monetary policy authorities stick to their independence and autonomy – something that is not at odds with accountability – in order to continue to make decisions with a long-term view, and that the necessary coordination between fiscal and monetary policy is the result of free and independent decisions.(garcia-arenas & salmeron, 2021, pp. 36-38)

Ashoor (2021), focused in his study about the idea of fiscal-monetary policy coordination, without compromising the independence of central bank especially in times of crises, Furthermore, the research concluded by studying the most important literature that coordination between the monetary and financial policies is very necessary, main results showed that the crisis has shown that central banks need to be much stronger and have broader powers. however, the traditional academic concept of the complete independence of the central bank as an absolute good is not enough for this new world.(Ashoor, 2021, pp. 104-110)

3-The Concept of Central Bank Independence:

To define central bank independence, first we need to know, the main goals of central bank which are stabilizing prices and targeting inflation to protect the economy against crisis and countercyclical. Second, to achieve its big role central bank needs to be clear in his instruments, also the existence of authority to defend its policies. More than that, central bank as manager of the monetary system and the mediator between other banks can't work in weak financial environment and t non-efficient financial markets in which it does the strategies planned to achieve the goals.

The concept of central bank independence and its role in determining the fiscal-monetary coordination, the Algerian experience

Central Bank Independence (CBI) means that monetary policy is delegated to unelected officials and that the government's influence on monetary policy is restricted. (de haan & eijffinger, 2016, p. 2)

While exact definitions vary, the literature generally defines political independence as the degree of influence which elected politicians have over the central bank, and operational independence as the ability of the central bank to select and use monetary instruments with autonomy. (Balls, Howat, & Stansbury, 2018, p. 16)

Table number (01): Measuring political and operational independence

Political independence	Operational independence
<ul style="list-style-type: none"> ➤ Governor not appointed by government- ➤ Governor's term > 5 years ➤ Board not appointed by government ➤ Board term > 5 years ➤ No government representative on board ➤ No government approval for monetary policy formulation ➤ - Provisions to strengthen central bank in event of conflict with government 	<ul style="list-style-type: none"> ➤ Direct credit facility to government is: <ol style="list-style-type: none"> 1. Not automatic 2. At market interest rates 3. Temporary 4. For a limited amount ➤ -Central bank does not participate in primary market for government debt ➤ -Discount rate is set by central bank

Source: (Balls, Howat, & Stansbury, 2018, p. 17)

Table 01 shows that there are two types of central bank independence, the first is political and the second is operational and functional. The first focuses on how the governor of the central bank is appointed, his powers, the duration of his work, and the extent to which there are government employees within the central bank Council. As for functional independence, he examines the extent to which the bank is obliged to provide financing for the government deficit, as well as various monetary decisions such as the re-discount rate, as well as the bank's intervention in the government debt markets.

Central bank independence is a more complex concept than it seems. In fact, it encompasses three spheres: (garcia-arenas & salmeron, 2021, p. 36)

1. the independence of its members, which is simply the limits imposed on politicians not to influence the composition of the central bank's board of directors or its decisions;
2. financial independence, that is, central banks' autonomy in order to manage their operations and not be captive to government decisions, and finally,
3. the independence of policies, or the central bank's powers to elaborate and execute its monetary policy, for which, among others, it must not be forced to finance government spending and it must be able to set its own objectives or determine which instruments it uses (for example, the ECB sets the objectives for the euro area, while in the United Kingdom they are set by Parliament, but in both cases the central bank has autonomy in its use of instruments). Based on these three spheres, we can get an idea of whether a central bank is more or less independent.

Central bank independence takes on a variety of specific institutional forms, but its aim is to create an institution somewhat insulated from short-run political forces and charged with controlling inflation as a primary duty. (Sims, 2016, p. 6)

3-1- The classic concept of central bank independence:

From the beginning of the advocating of central bank independence, there were many attempts to make clear the concept of this independence and it's important for economic performance.

Bodea and Higashijima (2015), mentioned that the laws of central bank in the concept of independence limit bank's ability to provide funds directly to governments or give it more control over the financing conditions, including the maturity and cost of lending. (bodea & higashijima, 2015, p. 52)

Sims (2016), described the independence of central banks as the intention of separate monetary and fiscal policies, not a complete separation but with the conservation of the idea of every monetary policy action has a fiscal consequence and affects. (Sims, 2016, p. 6)

More than that Watchel and Blejer (2020), showed that there are no doubt in the value of central bank independence for ensuring that monetary policy is conducted in a way that is consistent with appropriate central bank objectives and free of political influences. (wachtel & blejer, 2020, p. 105) so it's very clear that one of the most important determinants of central bank independence is the independence of making decisions about the strategy and policy of the monetary authority, and the its directions.

3-2- The new sight of central bank independence:

The last crisis forced central banks to reconsider their strategies and policies, as all economic authorities to face the new situation.

Walsh (2011), argued in his study about the effectiveness of monetary policy in the classic way without fiscal acquiescence, so central bank will ultimately fail without the fiscal support to achieve its goals especially inflation targeting even in the entirely operational central bank independence.

Wachtel and blejer (2020) mentioned that the last financial crisis brought a reborn emphasis on the lender-of-last-resort role and the use of central bank lending to ensure financial stability and prevent bad costs of the crisis especially in the case of providing liquidity to achieve economic goals and objectives.(wachtel & blejer, 2020, p. 106)

4-The Importance of Central Bank Independence on the Economy Performance:

Central banks as representative of monetary policy, have their standing in economic fields and policies, furthermore they play roles enormously influential, like money printing, which is a very accurate role connected to many economic variables such as the currency weight, purchasing power, and price stability. Therefore, monetary authority fought for the importance of its tendencies to be an independent entity, and not an instrument in government actor's hands.

One of the main arguments in favor of central bank independence is to do with inconsistency over time: a central bank which focuses on the short-term and makes decisions tied to an electoral term, for instance, central bank is incentivized to implement an expansive monetary policy to stimulate short-term growth, even if it results in a loss of credibility and an upward revision of medium-term and long-term inflation expectations.(garcia-arenas & salmeron, 2021, p. 37)

The Reserve Bank of New Zealand Act of 1989 launched an era of central bank reforms that generally had two dimensions, the first is about the objectives of monetary policy by adopting inflation targeting, and the second is about the relationship between the central bank and the fiscal authority was altered to give more operational independence to the central bank. This combination of clear objectives and operational independence was thought up to address the failures of monetary policy during the previous two decades when inflation rates in many countries had been allowed to rise to undesirable levels.(Walsh, 2011, p. 19)

Theoretically, central bank independence is considered the primary solution for the inflationary bias of governments. Empirically, it has been argued that countries with higher CBI were able to achieve lower inflation

levels and improved economic performance compared to those with lower degree of CBI.(Fouad, Fayed, & Emam, 2019, p. 68)

Central bank independence is considered a key precondition for achieving central bank primary objective of price stability.(Bezhoska, 2017, p. 36)

Across the world, central banks played central roles in the response to the financial crisis. They aggressively eased monetary conditions by slashing interest rates and introducing innovative new tools that massively expanded their balance sheets. By buying private sector assets, the assumed credit (and potentially interest rate) risk on their balance sheets. In many countries, they also financed – usually temporarily – government programs to bail out or resolve struggling financial institutions. Where, Central banks have big macroeconomic expertise to understand the inter-linkages in the financial system. Additionally, they can provide unlimited liquidity to the financial system.(Balls, Howat, & Stansbury, 2018, pp. 49-50)

It is important to realize that in the model of Rogoff (1985), which is the theoretical basis for the views outlined by Bernanke (2010), the time inconsistency problem of monetary policy can only be reduced if monetary authority is delegated to an independent and conservative central bank. In addition, if the central bank would be fully under the spell of the government, its inflation aversion would not matter.(de haan & eijffinger, 2016, p. 3)

The lately financial crisis in 2008 gave the world economy enough motives and reasons to reconsider the ways monetary policies were being managed, and what their functions in the economy should consist of. It seems to be widely accepted by economists that central banks should, to some degree, be run independently from political influence.(Bedikanli, 2018, p. 2)

5-The Potential Economic Achievements of Central Bank Independence and Coordination between Monetary and Fiscal Policies:

The idea of central bank's Independence came within the framework of financial and monetary coordination to ensure a strong economy, and increase the chances of facing and managing the crisis in many terms. Several studies have touched upon the role played by the central bank, which is characterized by independence in supporting the general economic policy to achieve its objectives alongside with the financial authority, including the following:

The potential bad results on economy can arise if an independent central bank is reluctant to coordinate policies with the fiscal authority, because, in normal times, the central bank should actively adjust policy to neutralize the effects of fiscal shifts on aggregate demand and inflation. But, in a crisis, cooperation may be necessary to ensure fiscal expansion in a

crisis is successful, in another words ,the cooperation policy between central bank and fiscal authorities – just as normal policy – needs to be transparent so that it is clear that actions by the central bank are consistent with its mandate and do not threaten its independence.(Walsh, 2011, pp. 20-21)

Central bank independence attempts to separate monetary and fiscal policy, but it is not a complete separation, because every monetary policy action has fiscal consequences. During rapid inflations or long periods of very low inflation and interest rates, coordination of fiscal and monetary policy is necessary.(Sims, 2016, p. 02)

The concept of the fiscal-monetary coordination process is as the mechanism through which negotiations take place between the financial authority and the monetary authority, each enjoying its independence from the other, in order to achieve the best-desired results from both, and to create the appropriate framework for activating the performance of each.(Ashoor, 2021, p. 105)

Jakob and Sylvester (2016) , mentioned that things have changed since the onset of the financial crisis. First, during the crisis central banks had to intervene at a grand scale to maintain financial stability. And, as pointed out by Blinder (2012), during a financial crisis the monetary and fiscal authorities have to work together more closely than under more normal situations for several reasons.(de haan & eijffinger, 2016, p. 5)

Balls et al (2018), said in their recommendations, that a coordination mechanism should be established that respects the following three principles. First, it should be triggered by the central bank, second, it should protect democratic control over fiscal policy and it should be limited to the zero lower bound. An open letter system, in which the central bank outlines its views about the appropriate stance of fiscal policy at times when interest rates are below a pre-defined level close to the zero lower bound, would meet these principles.(Balls, Howat, & Stansbury, 2018, p. 57)

6-Economic solutions through central bank independence and its functionality:

The issue of the independence of central banks has taken a great place in scientific studies and has also played a major role in pointing out many economic concepts that needed to be known and understood in order to raise economic performance and achieve general economic goals.

Table number (02): A template for ideal central bank independence

	The benefits of locating this function in the central bank			The cost of locating this function in the central bank		The threat this function poses to central bank independence			recommendation
	Does decision-making need to be operationally-independent?	Does the CB have valuable resources and expertise for this function?	Can the CB operate independently in this function?	Is there harmony between the objectives of the new function and those of monetary policy?	Is there harmony between the tools of the new function and those of monetary policy?	Can a clear and transparent accountability mechanism be created for this function?	Can this function avoid first order distributional impacts?	Can this function be performed without public money?	
									Legend: √=yes ~somewhat X=no
Monetary policy	√	√	√	√	√	√	√	√	monetary policy should be housed in the central bank.
Monetary-fiscal coordination	X	√	X	√	~	√	√	~	At the ZLB, the central bank should coordinate with government and take a view on fiscal stance.
Monetary-debt management coordination	X	√	X	√	~	√	√	X	At the ZLB, there should be coordination between MP and debt management
Systemic risk monitoring	√	√	X	√	~	~	√	√	A systemic risk monitoring body should bring together regulators but be led by the government.
Macro-prudential tools	√	√	~	√	~	~	~	√	A macro-pru policy committee should bring together different regulators but be led by CB.
Crisis management	X	√	X	~	~	X	X	X	The CB should not take the lead in crisis management.
Bank supervision	√	X	√	~	~	~	~	√	We are neutral about whether the central

The concept of central bank independence and its role in determining the fiscal-monetary coordination, the Algerian experience

n									bank should have supervisory responsibilities
Bank conduct	√	X	X	√	√	~	X	√	Conduct should not be housed within the central bank

Source:(Balls, Howat, & Stansbury, 2018, p. 40)

Table 02 shows as a lot of options in many ways and situations, so they can be used as reference to face economic situations and crises under the concept of central bank independence and the monetary authorities independent.

Returning to Table No. 02, we note that there are many situations in which the monetary authorities cannot enjoy full functional and operationally independence in order to achieve economic goals, the most important of these situations are the coordination processes between the financial and monetary authorities and those related to crises, as well as public debt management processes .This is in addition to the monitoring of systemic risks, which should preferably be carried out by the government.

Unlike other cases, an independent central bank is more effective in conducting economic affairs, such as banking supervision and macro-prudential tools, and sometimes by operations for monitoring systemic risks, and of course for managing monetary policy in general.

7- The Independence of Bank of Algeria and Its Impact on Algerian Economic Performance:

At this stage of our research, we will touch on an overview of the independence of the Bank of Algeria in numbers and we will also present some recent studies by researchers who highlighted the effects of this independence at various levels, both on the legislative side and the economic side in general. also, we will show the impact on the performance of the Algerian economy.

7-1- Measuring the degree of independence of the Bank of Algeria:

Table No. 03 summarizes the evolution of the independence of the Bank of Algeria in accordance with the monetary and loan law and its amendments, where we note the extent to which the degree of its independence has changed from one amendment to another .Where under law 90-10 the degree of independence was 11, then it decreased after order 01-01 and then improved under Order No. 10-04 and returned to decrease after the last amendment in 2017 Under Law No. 17-10, and therefore these changes indicate the instability of the work of the Bank of Algeria during

the period from 1990 to the present day, where various changes affect the programs and reforms that require the permanence of the prevailing system, and also remain some the changes justified, especially the last amendment in 2017 imposed by various crises which touched the economy In particular, the oil crisis of 2014 and the emptiness of the resource control Fund in 2017, which required immediate measures to revive the national economy, especially in the aspect of financing projects and development programs launched by the state.

Table number (03): Measuring the degree of independence of the Bank of Algeria according to the law and accountability index.

The Monetary and Loan Law and its most prominent amendments		Law 90-10	the ordinance no 01-01	the ordinance no 03- 11	the ordinance no 10- 04	Law 17-10	
Standards	weight	Ranking score					
01	Central Bank goal	02	01	01	01	02	02
02	Appointment of the term of the members of the bank's board of directors	02	02	00	00	00	00
03	Central Bank Board Structure	02	01	01	02	02	02
04	Dismissal of board members	02	01	00	01	01	01
05	Central bank credit to the government	03	1.50	1.50	1.50	00	00
06	Lender of last resort	02	00	00	00	00	00
07	Independence of tools in managing monetary policy	03	1.50	1.50	1.50	03	03
08	Financial Independence	01	01	01	01	01	01
09	accountability	01	01	01	01	01	01
10	Transparency and data disclosure	01	01	01	01	01	01
The degree of overall independence of the Bank of Algeria		19	11	08	10	12.50	11

Source:(Boudali & Bechikr, 2022, p. 94)

7-2- the impact on the functionality of bank of Algeria and economic variables:

Kitchah and Zeghdoud (2020) argued the use of CWN model index, to measure the degree of autonomy of Central Banks, and determine the impact of legislative indicators adopted from the articles and provisions of the ordinance no 03- 11 on money and credit, amended by the law no 17-10. This study reveals the existence of an evident relationship between legislative indicators and the degree of independence of the Bank of Algeria ,and the main results show that the law 17-10 restricted the independence of the Algerian central bank, and lifting restrictions on government lending to finance the budget deficit, indicating the tendency of financial dominance and the return of internal debt as a main resource for creating money and, consequently, expecting higher inflation rates in the future.(Kitchah & Zeghdoud, 2020, pp. 354-374)

Another study by Bekhedda and Meziane(2022) about measuring the impact of the independence index of the Bank of Algeria on variables such as the role during the period 1980- 2019, by tracking the changes in the independence index of the Bank of Algeria, which was calculated based on the model (Neypti et webb, Cukierman), and how they affect each of the rates Inflation, unemployment rate, per capita GDP rate, and the balance of payments equilibrium rate, using deductive approach , both descriptive and analytical, when addressing the relationship of the Central Bank's independence index with the other variables, and the outputs of eviews10 with var approach. The most important results were the existence of a direct correlation between the independence of the Central Bank of Algeria and inflation, the same for GDP per capita and unemployment rates, as for the relationship with the balance of payments balance is as an inverse relationship in the short term due to the lack of rapid response of variables to the indicators of the independence of the central bank.(Bekhedda & Meziane, 2022, pp. 100-116)

7-3-The impact in the concept of monetary policy effectiveness:

Bennabi (2017) for many reasons addressed in her study the important role of CBI in achieving high levels of effectiveness of monetary policy. and she take the bank of Algeria as example, showing the stages taken by Algerian legislature since the bank of Algeria establishment in december1962, and all amended laws which manage the limits of Algerian central bank. Main results shown by this article were the positive relationship between monetary policy effectiveness and central bank

independence. In case of Algeria there are attempts to improve central bank independence but it still limited.(Bennabi, 2017, pp. 58-72)

While, Beloudnin (2021), Through his topic, tried to study the extent of the independence of the Bank of Algeria's structure from its legal side, as it is the backbone of the banking activity in the country. The saying of the structure of the central bank between independence and dependence, it means the extent of interference by the executive authority or another authority in the work of the bank on the one hand, and its freedom to exercise its various powers stipulated in laws and legislature. consequently, main results were that the structure of bank of Algeria is dependent to an executive authority represented by the president of the republic, and the independence of bank of Algeria stays remain relative, since the monetary policy always response to the executive authority in Algeria and not by central bank strategies.(Beloudnine, 2021, pp. 180-196)

7-4- The impact in the case of targeting inflation:

Central bank independence takes a great place among scientific research work. In particular, after becoming inflation targeting fundamental in the new regulatory framework for monetary policy, that was established in August 2010(Boukerchawi & Baghdaoui, 2020, p. 76). many authors started their research seeking for answers about the Algerian situation concerning the concept of central bank independence, and inflation targeting fact and limits. First ,Youssfi & Benbouziane (2018), analyze the concept of Inflation Targeting (IT) policy especially Taylor rule as a framework for a modern monetary policy, which resulted in the emergence of new ideas for the makers of monetary policy at the central bank, by trying to apply the Traditional and Augmented Taylor rule on the Bank of Algeria using Generalized method of moments in the period from 1994Q1 until 2016Q4.main results shown were that the Augmented Taylor rule (Forward- looking) apply to the central bank's behavior by focusing on the main objective of monetary policy represented by target inflation provided techniques of inflation forecast, unlike traditional Taylor rule which didn't explain the behavior of the bank of Algeria in price stability , as well as the high degree of transparency and credibility in monetary policy framework.(youssfi & Benbouziane, 2018, pp. 78-79-93)

Later Boukerchawi and Baghdaoui (2020) aim in their study to indicate and demonstrate the big role played by CBI in the frame work of effective monetary policy those targets certain levels of inflation and stabilize prices as final objective. Using deductive approach, they reach the facts that showed that it wouldn't be possible the inflation targeting goal because the economic authorities in Algeria can't fulfillment of the necessary requirements in the current situation in other words it need more

independence to be established for the monetary authority. (Boukershawi & Baghdaoui, 2020, pp. 68-79)

8- The situation of Algerian economic in all these developments:

The Algerian economy has known several stages from independence to the present day, starting with the period of directed economy and then adopting the orientation towards a free market economy, where during all these stages the power in the country adopted several reforms affected on many fields, the most important of which are the reforms of the Monetary Authority, where all these changes and the attempts to adapt after all the stages that he has gone through, especially in terms of economic policies that play the important role in the advancement of the Algerian economy and correcting its course, including the monetary and financial policies in the country, which play a very important role, each according to his competence and the authority entrusted to him, but the work of these policies remains in line with the characteristics of the Algerian economy and its resources. In the following, we touch on the most important studies that touched on the coordination between the financial and monetary policies, and challenges facing bank of Algeria.

Sewan (2019) concluded that in Algeria, the exchange rate is considered the ultimate goal of monetary policy, because of its effects and effective role on economic growth, in terms of as increasing the country's trade openness. She also pointed to the ineffectiveness of the interest rate instrument, due to the weakness of the financial and banking system in Algeria. As a conclusion of her research paper, she stressed the weakness of fiscal and monetary policies in influencing economic growth in Algeria, where growth is influenced on changes in fuel prices, and the Algerian economy was affected by the crisis of 2014 and has not recovered from it to this day.

In fact, Fiscal policy in Algeria is the most dominant and monetary policy is used to achieve financial stability without focusing on monetary goals that are within its competence. Moreover, the researcher touched upon to the IMF recommendations that Algeria avoid the current combination of fiscal and monetary policies, which are centered on increasing spending and financing the budget deficit through monetary financing and increasing restrictions on imports, as these measures have advantages in the short term but have several risks in the long term, the most important of which is the aggravation of the inflation problem.

Knowing that, the best solution remains to search for the optimal combination between fiscal and monetary policies by strengthening the

independence of the Monetary Authority in the country so that it moves towards its main role, which is inflation targeting. (Sewan, 2020-2021, pp. 349-350-351)

In their study Chibi et al (2021), confirm that in Algeria the fiscal authority is dominance in the interaction between monetary and fiscal policy, furthermore, there is evidence of a non-Ricardian fiscal policy, and fiscal problems, causing by the disregard of monetary requires and goals. Hence, it is better for monetary policy to be independent and aimed at containing inflation. Finally, they recommend the central bank's commitment to sterilizing liquidity resulting from monetary financing as needed.(Chibi, Chekouri, & Benbouziane, 2021, pp. 202-203-204)

One of the most important findings of the researcher Adjri (2019) was conducted at the end of her doctoral thesis, that the problem posed for the possibility of coordination between fiscal and monetary policies in Algeria, is the inability to pursue an expansionary monetary policy, depending on reducing interest rate, coinciding with an expansion fiscal policy. by increasing government expenditure. the interest rate will rise, triggering the reduce of credit expansion and volume of private investment, which have negative effects on the performance of the Algerian economy. Therefore, in order to achieve effective coordination between the financial and monetary policies in Algeria, it is necessary to examine the common goals between both financial and monetary.(Adjri, 2019, p. 292)

“In general, Algeria has experienced two regimes from 1963-1990 and from 1990 to the present day. The first period is characterized by a controlled economy. The Central Bank had no great role to play either in relation to the exchange rate which was fixed or the interest rate which met the planning requirement. The second period from 1990 to the present day could also be split in two periods from 1990 to 2003 and from 2003 to the present day. This period saw the propulsion of the Bank of Algeria to the head of the banking and financial system in Algeria. The second period was characterized by a financial boom and the relaxation of the budget constraint with its consequences on monetary policy.”(Chibi, Chekouri, & Benbouziane, 2021, p. 202)

9- Conclusion:

No one could deny the main role of central bank targeting inflation and facing the price stability constraint. Accordingly, any infringement of this fundamental parameters of central bank work as monetary authority, or disregard it, economy would pay costs very badly. So, we can say:

Regarding central bank independence, there are many positions of several authors but no one assume that CBI must be limited entirely, so it should be, even with reconsideration of this independence in line with the

country economic character, but never under complete control or complete dominance by political authorities.

When it comes to fiscal-monetary coordination and interaction, each act or strategy launched by central bank automatically would have fiscal impact in economy, so from this point it's impossible to be entirely independent from fiscal authority, more than that, central banks became more and more so powerful in the economic scene, especially, with its role facing the last crisis on 2008. Researchers stressed that it must just the best combination between authorities to maintain economic stability and reach goals designed by economic policy.

looking at the previous studies, the recommendation for the need of a coordinating mechanism or framework between the monetary authority and the government always exist in the literature on the concept of central bank independence, for that, the importance of central bank independence keeps economic benefits more than disturb the connection between monetary and fiscal authorities.

Concerning the Algerian economy, Algerian legislature started many reforms concerning the monetary authority role represented bank of Algeria since the 1990s starting clarifying the bank of Algeria role in making monetary policy even though it's started with limited independence, expanded by the law 03-11 and limited again by amendment 17-10.

The interaction between fiscal and monetary policies in Algeria is always interacted in a counteractive manner, which confirm the bad role of fiscal policy by dominance the economic landscape, and planning strategies far away from bank of Algeria and its concerns about the important targets defines by monetary policy.

The concept of the independence of the Bank of Algeria remains limited and negatively affects the sustainability of development and economic growth, especially in terms of the work of the central bank to achieve monetary objectives such as inflation targeting and monitoring and reducing the issuance of money to finance the government deficit directly. Therefore, even the gains of coordination between the two financial and monetary policies cannot be achieved at the level of the Algerian economy because the bleeding caused by the central bank's use for financing the government's needs in a frightening way threatens the stability of the national economy unless the state restores the prestige of the Bank of Algeria and attempts to establish financial markets and institutions that contribute to ensuring financing for the economy. As is well known, the absolute dependence on fighting inflation without strong production is

nothing but depriving future generations of wealth, as well as increasing the depth of inflation and burdening the state with debts and future debt burdens.

Bibliography

- Adjri, k. (2019). the impact of coordination between monetary and fiscal policy on growth achievement in algeria empirical study 1986-2017. tlemcen, economic science department-abu bakr belqiad university tlemcen-, algeria.
- Agoba, a., Abor, j., Osei, k., Sa-adu, j., Amoah, b., & dzeha, g. (2019). central bank independence, elections and fiscal policy in africa examining the moderating role of political institutions. *international journal of emerging markets* , 14 (05).
- Ashoor, e. j. (2021). coordination between monetary and fiscal policies in times of crisis and its impact on independence of central banks: literature review. *ishtar journal of economics and business studies (IJEBS)* , 02 (03), 104-112.
- Balls, e., Howat, j., & Stansbury, a. (2018). central bank independence revisited: after the financial crisis, what should a model central bank look like? great briain: mossavar-rahmani center for business and government.
- Bedikanli, m. (2018). the effects of central bank independence on inflation a study on OECD-countries. sweden, UMEA university.
- Bekhedda, e., & Meziane, m. t. (2022). the reflection of the independence of the bank of algeria on variables such as the role in algeria a standard study during the period 1980-2019. *journal of economics and business management* , 06 (01), 100-122.
- Beloudnine, a. (2021). structure of the Bank of Algeria between power and freedom According to the Monetary and loan law 03/11 amended and supplemented. *The journal of Teacher Researcher of Legal and Political Studies* , 06, 180-197.
- Bennabi, f. (2017). relationship of the independence of the central bank to the effectiveness monetary policy. *MAAREF ACADEMIC REVIEW* , 12 (22), 58-76.
- Bezhoska, a. a. (2017). central bank independence -the case of the ational bank of republic of macedonia. *journal of central banking theory and practice* , 06 (03), 35-65.
- bodea, c., & higashijima, m. (2015). central bank independence and fiscal policy: can the central bank restrain deficit spending? *british journal of political science* , 47 (01), 47-70.
- Boudali, s., & Bechikr, a. (2022). Using the accountability model to measure the degree of independence of the Bank of Algeria and its role in targeting inflation During the period 1990-2019. *Aggregates of Knowledge Review* , 08 (01), 82-100.
- Boukershawi, b., & Baghdaoui, d. (2020). analysis of the independence degree of algeria's bank and its role in targeting inflation during the period of 2001-2018. *The Academia Journal of Social and Human Studies (AJSHS)* , 12 (02), 68-82.
- Chibi, a., Chekouri, s. m., & Benbouziane, m. (2021). interaction between monetary and fiscal policy in algeria: an application of a model with marcovian regime switwhing. *les cahiers du cread* , 37 (01), 137-210.
- de haan, j., & eijffinger, s. (2016). the politics of central bank independence. netherlands: de nederlandshce bank.
- Elgin, c., Yalaman, a., Yasar, s., & Basbug, g. (2021). economic policy responses to the covid-19 pandemic: the role of central bank independence. *economic letters*.
- Fouad, j. m., Fayed, m. e., & Emam, h. t. (2019). A New Insight into the Measurement of Central Bank Independence. *Journal of Central Banking Theory and Practice* (01), 67-96.

*The concept of central bank independence and its role in determining the
fiscal-monetary coordination, the Algerian experience*

- garcia-arenas, j., & salmeron, a. m. (2021). central bank independence: from the theory to the practice. caixabank research. caixabank.
- Kitchah, m., & Zeghdoud, s. (2020). the impact of legislative indicators of the autonomy of the bank of algeria within the frame of the ordinance n03-11 on money and credit amended by the law n 17-10. review of humain science , 20 (02), 354-376.
- Sewan, a. (2020-2021). the impact of coordination between monetary and fiscal policy on growth case of algeria. algeria, university of abdelhamid benbadis mostaganem-economic departement-, algeria.
- Sims, c. A. (2016). fiscal policy, monetary policy and central bank independence . kansas city fed jackson hole conference. kansas city.
- wachtel, p., & blejer, m. (2020). a fresh look at central bank independence. cato journal , 40 (1), 105-132.
- Walsh, c. e. (2011). central bank independence revisited. economic papers , 30 (01), 18-22.
- youssfi, K., & Benbouziane, m. (2018). bank of algeria and taylor rule emperical study. journal of strategy and development , 08 (14), 78-95.