

The role of the exchange reserve and external debt in activating foreign trade in Algeria in the period 2014-2023

Tahir baala*

**Laboratory of Human Resources Management and Sustainable Development (Algeria) University Center Of Tipaza,
baala.tahir@cu-tipaza.dz**

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Abstract:

Our study focuses on external macroeconomic variables, and showing the relationship between them, where we show the role of the exchange reserve and external debt in the revival of foreign trade in Algeria, by presenting the most important and latest statistics in the exchange reserve and external debt and their impact on foreign trade in Algeria for a specific period of time, through analysis and comparison of these statistics.

Keywords: exchange reserve, external debt, foreign trade

JEL classification codes: F310 ;F34 ;F13

* Corresponding auteur : Tahir baala, baala.tahir@cu-tipaza.dz

Introduction :

The international movement in the field of international trade has forced governments to reserve a place in the global goods and services market by increasing the competitiveness and development of their products, while reaching the lowest cost through various cost strategies, in light of external forces and global market threats, in order for these countries to achieve a significant increase in their resources, which is accompanied by an increase in the life cycle of their products and at the same time improve their internal indicators such as the unemployment rate at least in the short term.

The forces affecting foreign trade are many, varied and overlapping, including those related to the external environment of the international market and those related to the internal environment such as social, cultural and political factors. in this study, we focus on the economic aspect, namely the exchange reserve and external debt. Algeria's foreign trade suffers from instability and a large disparity between exports and imports, in addition to many external and internal obstacles, despite the state's efforts to implement many measures, policies and even support in order to increase the share of exports and reduce imports .

-From the foregoing we have **the following problematic:**

What is the impact of exchange reserves and external debt on foreign trade in Algeria?

To answer this problem, the following sub-questions were asked:

- What is the concept of foreign trade and what is it
- What are the obstacles and threats of foreign trade
- What is the concept of exchange reserve and external debt the most important thing related to them
- What is the relationship and impact between the exchange reserve and external debt on foreign trade

Objectives of the study:

- Modern concepts related to foreign trade, exchange reserve and external debt :
- Knowledge of the current status of various monetary and commercial statistics in Algeria :

- Trying to find the best ways to increase imports and reduce exports through financial resources.

Study plan :

- Theoretical aspect: foreign trade and exchange reserve, external debt.
- Applied aspect: the economic relationship between foreign trade, exchange reserves and external debt 2023/2024 in Algeria.

I. The concept of foreign trade, exchange reserve and external debt

1.1: foreign trade:

Foreign trade is one of the macroeconomic variables that many economists have paid attention to and provided their interventions, which is why we find a lot of different definitions, orientations and theories.

1.1.1- Definition of international trade:

- "The exchange of goods, services and capital across the state border or its territory, or the exchange of various goods and services between the corresponding countries." (elkurdi, 2023)
- "The process of physical exchange of goods across the political borders of the state, either entering it, called imports, or leaving it, called exports. (Mahmoud, 2019)
- "International commercial transactions in the form of the movement of goods, people, and capital, arise between individuals residing in different political units, or between governments or economic organizations residing in different political units." (eljamal, 2017)
- "Various processes of foreign trade exchange, whether in the form of goods, individuals or capital, between individuals residing in different political units with the aim of satisfying the greatest possible needs." (Khalid, 2014)
- From it we can say that foreign trade is the exit of goods and services from one country with political borders to another country in exchange for amounts in hard currency.

1.1.2 Types of trade policies:

Many different trade policies and systems have appeared in the world, the most prominent of which are two types, the first is the policy of commercial freedom, the second is protection, and all these policies had supporters and opponents: (Ramzi, 2022)

-The bottom line of this policy is that the individual is the sole or main basis of the commercial process, and that the competition of individuals definitely leads to prosperity and this is done only through the facilities provided by the state. B-protectionism: protectionism is considered as a current and a commercial political economic theory, to which the state resorts according to the dictates of economic, social and other necessities. The importance of foreign trade: International trade plays an influential role in the functioning of the national economic system, and this role is manifold to take many forms . international trade is a major source of foreign exchange, which is used to finance economic projects, and it is also necessary to eliminate unemployment as it helps in creating new job opportunities. moreover, international trade is an auxiliary factor in the transfer of advanced technology from one country to another. (essyed, 2020)

There is no doubt that there is a great role of foreign trade at the level of the domestic economy and the international economy, and the level or rate of foreign trade of the state is an indicator of economic growth in it, which is reflected in the social, scientific and political aspects of the state. Perhaps the most important of these is its ability to find or provide the following: (aelzaboun, 2019)

- The national economy operates within a set of financing, investment and consumer activities at the level of the individual and society, which makes it need sources to activate those components !
- Foreign trade from exports generates a financial return that can be used as a source of financing for development projects and services needed by the state !
- Through foreign trade, countries are trying to find some kind of balance in their economic situation.

1.1.3Characteristics of foreign trade:

International trade has characteristics that differentiate it from local trade and are considered the difference between them, and many economists have

worked hard to provide these characteristics, and in our research we summarize the most important of these characteristics: (elsamarai, 2022)

- Local and foreign commercial activity for marketing or export purposes, as well as the import of local and foreign inputs is complementary to the economies of any country.
- Foreign trade is an essential source of obtaining major foreign currencies :
- International trade is subject to many geo-economic factors, including differences in the level of development and economic growth between countries, following the development of the needs of the population and the development of production.

1.2: exchange reserves and external debt

1.2.1Definition of exchange precautions:

There are a lot of definitions of exchange reserves that differ in terms of Outlook and economic orientation, so we have provided you with a different set of definitions in order to know all the characteristics.

- "Is a term for deposits and bonds of foreign exchange held by the central bank, and also this reserve also contains foreign currency exchange and precious metals." (Ismail, 2019)
- "Those external assets that are available at any time to the monetary authorities and are under their control for the purposes of direct financing of the imbalance of payments, or controlling their volume indirectly by intervening in the exchange markets to influence the currency exchange rate, or for other purposes or for all societal purposes." (al-Husseini, 2018)
- "External assets available at the disposal of monetary authorities and under their control to meet the needs of balance of payments financing or intervention in exchange markets to influence the currency exchange rate or other related purposes" (International Monetary Fund, 2014)
- We can say that the exchange reserve is a monetary block of foreign currency at the disposal of the central bank, which is used to cover the deficit, conduct state functions and finance various development projects.

1.2.2 Factors affecting the exchange rate and its reserves:

The following are ten factors influencing the exchange rate according to the following: (Mahmoud R. , 2022)

- Relative price levels ;
- Tax policies ;
- Preference of foreign goods over domestic
- Productivity :- High exchange rates for foreign currencies :- Wars and natural disasters affecting national economies ;
- Inflation ;
- External debt; :- Interest rates ; :- Government interventions in exchange rates.

Uses of drainage precautions: Under a system of fixed or semi-managed exchange rates, the monetary authorities resort to maintaining the exchange rate of their currency, sell their hard currency against the local currency, and when the currency improves, they buy foreign currency against the local currency, and when the reserves are insufficient, the central bank reduces the local work. (Shahin, 2018), in addition to adjusting the exchange rate, there are areas and interventions for exchange reserves, economically, socially and politically. we are interested in our research with the intervention of exchange reserves and their impact on foreign trade, which is what we are looking for.

1.2.3 External debt:

Although the issue of external debt has gone at least in the Algerian economy, its impact on the economy and some sectors has been removed, and the most important thing is that external debt still takes up space from Statistics, so let's present in this part of the research the definition of external debt and its effects.

- "External debt is a real financial resource, because it leads to an increase in the financial resources available to the country, unlike domestic debt . " (Abdul Haq bin tafat, 2023)
- "Gross debt on a certain date, which is equivalent to the amounts of ongoing contractual obligations and leading to the payment by residents of the country to non-residents of bonds for the fulfillment of the principal debt with or without interest." (bouchneb, 2021)

1.2.4 Implications for external debt:

Foreign debts have more negative consequences than their answers, and therefore we find most of the debtor countries still suffering today from the dependencies of external indebtedness , and we cannot determine the effects accurately, but there are many of them that go beyond even economic life. (Mohamed, 2020)

in our research we briefly point out the most important economic effects of external debt.

- Impact on economic growth :
- Impact on exports
- Influence the mobilization of domestic savings :- Impact on inflation.

The relationship that connects foreign trade with exchange reserves and external debt, we can not be presented only theoretically, because in order to reach the disclosure of this economic relationship, we have to disclose it by presenting various statistics, studying and analyzing them in order to find out whether they exist or not and what kind of relationship and this is what we will find out in the remaining part of our research.

II. foreign trade, exchange reserves and external debt in Algeria during the period (2014-2023)

The economic relationship between foreign trade, exchange reserves and external debt 2024/2023 in Algeria.

2.1- Foreign trade:

It is necessary to know the development of foreign trade in Algeria, in order to discover the real and direct impact of the exchange reserve and external debt in Algeria as one of the external macroeconomic factors that may affect foreign trade.

2.1.1Development of foreign trade in Algeria(2014-2023) :

In recent years, Algeria has witnessed significant changes at the level of foreign trade, especially at the level of the general policy of a country that has provided great support to exporters in addition to developing trade policies that protect the national product.

in order to know the development of foreign trade, we present the following table:

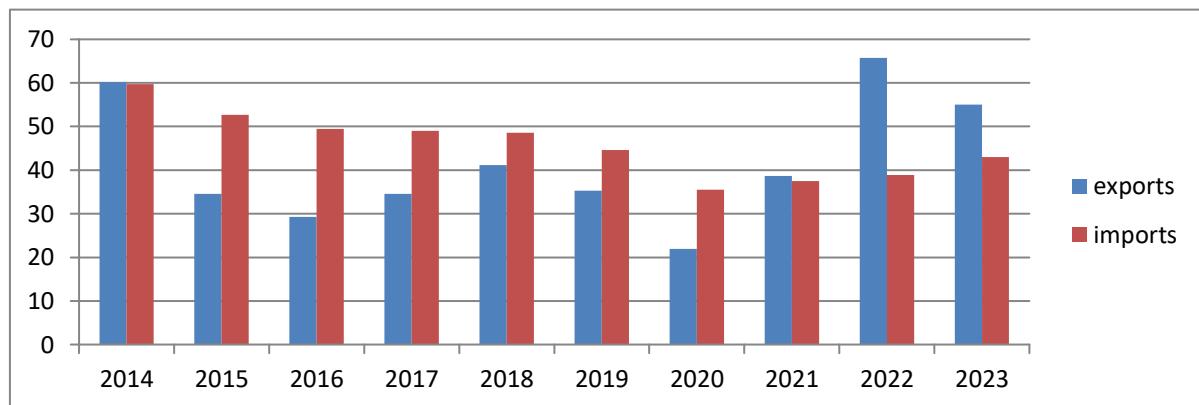
Table No. (01): development of foreign trade in Algeria during the period (2014-2023)

Unit: billion dollars

year	exports	imports	Trade balance
2014	60.129	59.670	0.459
2015	34.565	52.649	- 18.083
2016	29.309	49.437	- 20.128
2017	34.569	48.981	- 14.412
2018	41.146	48.573	- 7.727
2019	35.323	44.632	- 9.309
2020	21.932	35.547	- 13.615
2021	38.637	37.466	1.171
2022	65.718	38.868	26.850
2023	54.980	42.962	12.018

Source: prepared by the researcher based on the statistics of the Central Bank of Algeria

Figure 01: development of foreign trade in Algeria during the period (2014-2023)



Analysis:

The Algerian trade balance witnessed a surplus at the beginning of the study period in 2014, by an amount of approximately 459 million dollars, this period was characterized by a public policy of liberalization of foreign trade, but starting from 2015 the trade balance knew a deficit of approximately 18 billion, and this is a very large figure in economic terms is considered a crisis in the trade balance, and the reason for this deficit is due to the collapse of oil prices, and of course this is a continuous collapse accompanied by a continuous deficit of the trade balance until 2020, in which the deficit reached 13 billion dollars, not forgetting the corona pandemic 2019 despite the austerity measures adopted by governments since the beginning of the collapse of oil prices in order to

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improve the trade balance, a bill has arrived Imports to 35 billion dollars in 2020, half of the imports before the crisis in 2014, but to no avail. However, in the last three years 2021/2022/2023, there was a balance and a surplus in the trade balance, of course, due to the improvement in fuel prices and the trade policies followed in this period in encouraging exporters and reducing imports.

2.2External debt:

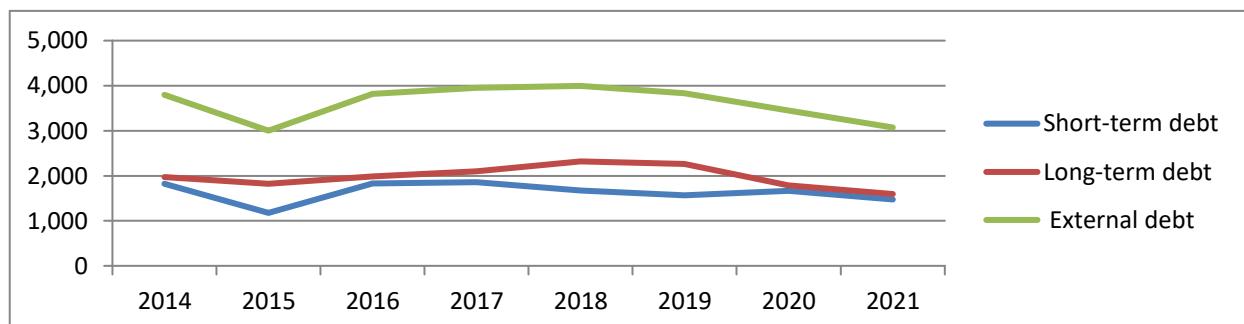
Foreign debt is one of the influential forces in the economic life of every country, especially countries that have a lot of debts, and we are looking at the impact of debt on foreign trade in Algeria in this part of the research. The development of external debt in Algeria for the period (2014-2021) : It is recognized that there will be a change in external debt, whether increasing or decreasing, and Algeria is one of the few countries that has sought to get rid of indebtedness .To find this development, we present the development of external debt in Algeria the following table:

Table No. (02): the overall development of foreign debt in Algeria during the period (2014-2021) Unit: billion dollars

year	Long-term debt	Short-term debt	Total debt
2014	1.975	1.821	3.796
2015	1.823	1.180	3.003
2016	1.986	1.832	3.818
2017	2.096	1.858	3.954
2018	2.319	1.674	3.993
2019	2.264	1.566	3.830
2020	1.784	1.665	3.449
2021	1.597	1.473	3.070

Source: prepared by the researcher based on the statistics of the Central Bank of Algeria

Figure No. (02): the overall development of foreign debt in Algeria during the period (2014-2021)



Analysis:

The external debt on Algeria for the study period 2014/2021 is not large , and its value has been stable for the duration of the study, as it did not exceed 4 billion dollars and did not drop below 3 billion dollars, and this reflects the financial capacity of Algeria, and the stability of its monetary policy, but there was a decrease in debt around 600 million dollars in 2015, and then there was an increase, which peaked in 2018 at 3.99 billion dollars, and after that, the indebtedness witnessed a decline to reach the lowest value in 2021 at 3.07 billion dollars. It should be noted that the composition of debts, most of which are long-term debts, is not accounted for by public policy .From this observation, we can say that Algeria is one of the few developing countries with a good financial position.

2.3 Exchange reserve .

The exchange reserve is considered one of the Protecting macroeconomic forces of the national economy, from crises and shocks, addressing the imbalance and covering the deficit, in addition, the exchange reserve is one of the most important economic indicators adopted to determine the economic and financial stability of the country.

2.3.1 The development of the exchange reserve in Algeria (2014-2023) :

The exchange reserve in Algeria has changed significantly due to several external factors, such as changes in fuel prices and global financial crises with the decline of the dinar exchange rate against foreign currencies, and in this part of our research we present the development of the exchange reserve in Algeria.

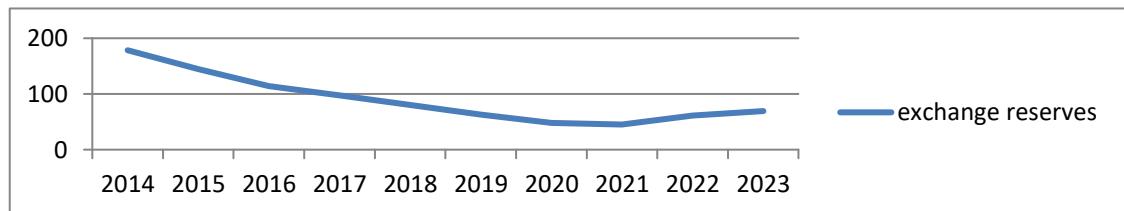
Table no. (03): exchange reserve development in Algeria (2014-2023) :

Unit: billion dollars

year	2018	2017	2016	2015	2014
amount	79.88	97.33	114.13	144.13	178.93
year	2023	2022	2021	2020	2019
amount	68.98	60.99	45.29	48.16	62.75

Source: prepared by the researcher based on the statistics of the Central Bank of Algeria

Figure 03: development of exchange reserves in Algeria (2014-2023)



Source: prepared by the researcher based on the statistics of the Central Bank of Algeria

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Through the above figure, we note that the exchange reserve in Algeria has undergone significant changes in its value, as it was estimated at the beginning of the study period in 2014 at 178 billion dollars, which is the largest value in this study, the exchange reserve began to decline to the point of losing 133 billion dollars in just seven years, more than 74% of the total exchange reserves in Algeria, and the first reason for this erosion in exchange reserves is the collapse of oil prices, which prompted the government to cover the deficit in the general budget balance of payments from exchange reserves, but since 2022, exchange reserves have witnessed a marked improvement, reaching an increase of more than USD 20 billion by the end of 2023 this improvement is due to the rise in fuel prices.

2.4. The relationship between exports, exchange reserves and external debt in Algeria for the study period

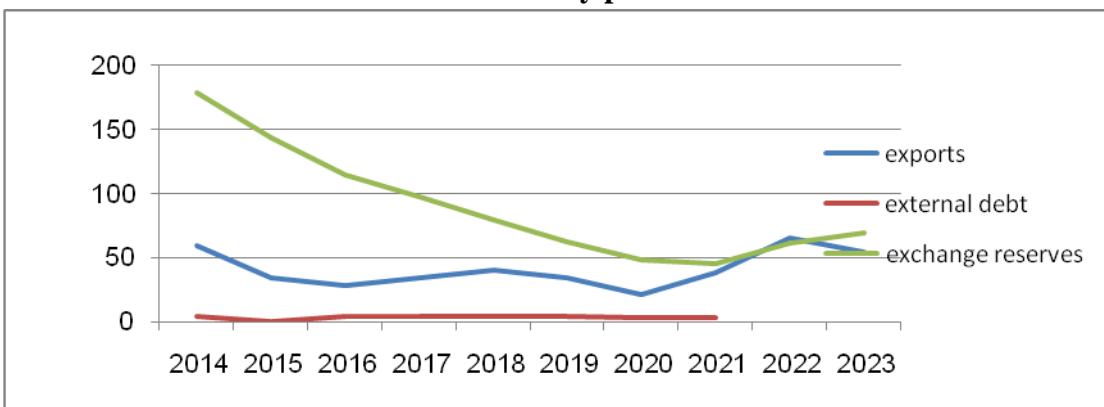
The subject of exports take great importance to developing countries, which reflects the exit of goods and services outside the political borders. for the success of the export process, there must be a stable financial system and minimize the exchange risks suffered by countries, the basis of trade exchanges is to provide monetary and financial stability. in this part of our research, we focus on the economic relationship that combines exports, exchange reserves and external debt and analyze it as one of the most important external macro variables that maintain financial stability affecting the export process.

Table No. (04) : development of exports, exchange reserves and foreign debt for the study period

year	exports	exchange reserves	foreign debt
2014	60.129	178.93	3.796
2015	34.565	144.13	3.003
2016	29.309	114.13	3.818
2017	34.569	97.33	3.954
2018	41.146	79.88	3.993
2019	35.323	62.75	3.830
2020	21.932	48.16	3.449
2021	38.637	45.29	3.070
2022	65.718	60.99	
2023	54.980	68.98	

Source: prepared by the researcher based on the statistics of the Central Bank of Algeria

Figure no. (04): development of exports, exchange reserves and external debt for the study period



Source: prepared by the researcher based on the statistics of the Central Bank of Algeria

Statistics for the period 2014/2023, indicate a large discrepancy in the figures between the components of the study, but the one who reflects on the course of the curve of the figure above finds there is a kind of parallel in the general tendency of the curve, especially between the exchange reserve and exports, although the exchange reserve is declining and accompanied by a decline also for exports, and this is natural, because one of the main components of exports and exchange reserves are hydrocarbons, this is explained by the decline in oil prices, so the annual yield of the exchange reserve decreases, and this is a clear economic relationship, and in our research we want to reveal the inverse relationship, the impact of exchange reserves and foreign debt on exports. we conclude that due to the decline in the exchange reserve, exports declined This is due to the austerity policy and the corona pandemic, and many goods were prevented from exporting with wide consumption during the corona period. However, in recent years we have found a noticeable increase in the exchange reserve accompanied by an improvement in the volume of exports, and this confirms the positive relationship between the exchange reserve and exports, unlike external debt, we note that the curve remained at approximately the same level throughout the study period, meaning there is no effect or relationship between external debt and exports.

2.5 The relationship between imports, exchange reserves and external debt in Algeria for the study period

There is a close relationship between imports, exchange reserves and external debt, because the process of transferring products and services from manufacturing countries to consuming countries depends mainly on the availability of financial compensation, which is mostly foreign currency in the

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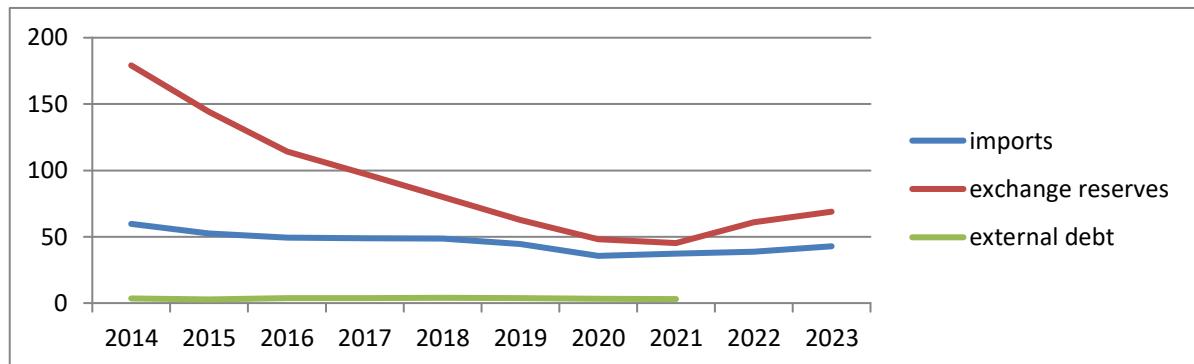
form of cash reserves or on an account. on the financial solvency of a country within the framework of what is known as short-term external debt.

Table no. (05): development of imports, exchange reserves and external debt for the study period

year	imports	exchange reserves	foreign debt
2014	59.670	178.93	3.796
2015	52.649	144.13	3.003
2016	49.437	114.13	3.818
2017	48.981	97.33	3.954
2018	48.573	79.88	3.993
2019	44.632	62.75	3.830
2020	35.547	48.16	3.449
2021	37.466	45.29	3.070
2022	38.868	60.99	
2023	42.962	54.980	68.98

Source: prepared by the researcher based on the statistics of the Central Bank of Algeria

Figure no. (05): development of imports, exchange reserves and external debt for the study period



Source: prepared by the researcher based on the statistics of the Central Bank of Algeria

There is a parallel between the curve of exchange reserves and imports in the figure, they have almost the same marginal slope, despite the significant difference in amounts, especially at the beginning of the study period, this is due to the decline in exchange reserves, which forced the government to reduce the import bill, in order to counter this terrible erosion in exchange reserves, through a set of financial and trade we noticed that it has no effect on imports, especially Short-term debt, from which we conclude that foreign debt does not affect imports or foreign trade

III. Conclusion:

Foreign trade in Algeria, despite the improvement of its trade balance in recent years through various measures and policies adopted, it still has not achieved the expected goals, after our study we found that foreign trade in Algeria is affected by a set of economic variables, the most important of which are foreign exchange reserves, due to the latter's correlation with oil prices, and this poses a risk through dependence abroad, and its impact on the general economic balances in addition to reducing the citizen's choices of goods and services, and therefore it was necessary to look for solutions to reduce the impact and relationship between exchange reserves and foreign trade in Algeria.

we put forward a set of results and recommendations:

- The existence of a positive economic relationship between exchange reserves and foreign trade in Algeria :
- There is no economic relationship between foreign debt and foreign trade in Algeria :
- The large impact of imports on the size of exchange reserves in Algeria :- Oil prices play an important role in determining and controlling imports and exports in Algeria :
- Trying to find the most effective ways and solutions to get rid of the dependence of the fuel sector on the national economy :
- Support exporters by facilitating the process of marketing and transporting their products globally :
- Support the national product and try to improve it to compensate for imported products.

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