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RESEARCH ARTICLE

Fiscal and Monetary Policy Governance Mechanisms: Evidence from Saudi Arabia and Lessons for Algeria

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Keywords Governance; Monetary Policy; Fiscal Policy.

Abstract
This study aims to highlight selected mechanisms for the governance of fiscal and monetary policy that could be applied in Algeria, drawing on the experience of the Kingdom of Saudi Arabia in managing the financial system. These mechanisms include strengthening the resilience of the banking system through macroprudential policy tools to monitor capital adequacy and liquidity, and to mitigate risks associated with currency exposure and high-risk sectors such as real estate; diversifying investment fund portfolios and encouraging long-term investment to ensure asset stability; governing the stock market through oversight of the volume of shares traded and daily trading value, while preserving the robustness of stock market capitalization; and developing regulatory and supervisory frameworks for banks and financial markets to enhance the financial system's capacity to absorb shocks and protect investors.

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Introduction

Fiscal and monetary policies constitute core instruments for achieving economic stability and sustainable growth, as they operate in a complementary manner to manage aggregate demand, control inflation, and support financial stability. However, the effectiveness of these two policies is highly dependent on the existence of a clear institutional framework grounded in sound governance principles, which ensures transparency, coordination, and a well-defined allocation of roles among the relevant authorities. The experience of the Kingdom of Saudi Arabia has emerged as a successful model in this regard, particularly in the context of the implementation of Vision 2030 and the Financial Sector Development Program. These initiatives have strengthened coordination between fiscal and monetary policies, with a strong emphasis on stability, development, and financial inclusion. In addition, the efforts of the Capital Market Authority—especially since 2018—have contributed to consolidating governance requirements and developing financial markets in a manner that supports the objectives of the Vision. This experience represents an important reference framework from which Algeria can benefit by adapting fiscal and monetary policy governance mechanisms to its own economic and institutional specificities, thereby enhancing financial stability and supporting sustainable economic development. This leads to the formulation of the following research question:

Main Research Problem

What are the main mechanisms of fiscal and monetary policy governance adopted by the Kingdom of Saudi Arabia, and to what extent can Algeria benefit from them?

Sub-questions:

- What is meant by fiscal and monetary policy governance?
- What are the main mechanisms and pillars of fiscal and monetary policy governance adopted by the Kingdom of Saudi Arabia?

Research Hypotheses:

- Fiscal and monetary policies in some countries suffer from several shortcomings, which necessitates the adoption of governance mechanisms.
- There are various governance mechanisms, some of which have served the fiscal and monetary policies of the Kingdom of Saudi Arabia and could be adapted for use in Algeria.

Objectives of the Study:

- To establish a comprehensive understanding of the concept of governance.
- To clarify key concepts related to fiscal and monetary policy and their governance.
- To identify the main mechanisms of fiscal and monetary policy governance adopted by the Kingdom of Saudi Arabia and examine the possibility of benefiting from them in Algeria.

Methodology of the Study:

This study adopts a descriptive and analytical approach, as both are well suited to the nature of the research topic. The methodology is based on collecting relevant data related to the study variables and analyzing them in order to derive results of significance for scientific research.

Structure of the Study:

First Section: A Conceptual Framework for the Governance of Fiscal and Monetary Policy

1. The concept of governance, its characteristics, and methods of implementation.

2. The concept of fiscal and monetary policy and the relationship between them.
3. Governance of fiscal and monetary policy.

Second Section: Selected Mechanisms for the Governance of Fiscal and Monetary Policy in the Saudi Experience and the Possibility of Application in Algeria

1. The efforts of the Capital Market Authority in implementing governance requirements in 2018 and their role in achieving Saudi Vision 2030.
2. Proposed mechanisms and pillars for the governance of fiscal and monetary policies that could be applied in Algeria.

Previous Studies

1) **Radwan Selim (2008), "The Role of Fiscal and Monetary Policies in Achieving Economic Development":** This study highlights the role of fiscal and monetary policies in fostering economic development. The focus was placed on the financial aspect of the process, emphasizing the importance of financial intermediation in mobilizing savings in developing countries. The study raises the issue of effectiveness associated with policy implementation and outlines the necessary reforms at the official level to remove obstacles that prevent the efficient use of economic policy instruments.

2) **Rqab Tarek (2017–2018), "The Impact of Integration Between Monetary and Fiscal Policies on Unemployment in Algeria":** This research aimed to examine the effect of the integration between monetary and fiscal policies on unemployment in Algeria during the period 1990–2015. The study relied on time-series analysis of the relevant variables and applied appropriate econometric modeling to capture the relationship between unemployment rates and fiscal and monetary policy indicators. The results indicated the presence of a cointegration relationship among the studied variables, emphasizing the need for policymakers to enhance the effectiveness of economic policies in generating employment and promoting domestic and foreign investment in line with global economic developments.

3) **Brahimi Fawzia & Hadidi Adam (2022), "The Impact of Monetary Policy Governance on Reducing Inflation in Algeria":** This study focused on the key aspects of monetary policy and the application of governance principles, particularly transparency and disclosure. It employed tools supporting the application of monetary policy governance in central bank decisions among commercial banks, highlighting its effectiveness in mitigating inflation. The study concluded that properly governed monetary policy significantly reduces inflationary pressures in the economy.

4) **Ismail Siddiqi & Abdel Rahim Cheibi (2022), "Coordination Between Fiscal and Monetary Policy in Algeria (1970–2019): An ARDL Study":** The objective of this research was to examine the relationship between fiscal and monetary policies in Algeria from 1970 to 2019 using the ARDL (Autoregressive Distributed Lag) model. Findings revealed that fiscal policy is influenced in the long run by inflation, while in the short run it responds to interest rates and oil prices. Conversely, monetary policy is affected in the long run by interest rates and budget balance, while in the short run it primarily responds to budgetary considerations.

5) **Fateh Ghtas (2023), "The Impact of Coordination Between Monetary and Fiscal Policies on the Balance of Payments in Algeria: An Analytical and Econometric Study (1990–2020)":** This study aimed to analyze and measure the effect of coordination between monetary and fiscal policies on Algeria's balance of payments over the period 1990–2020. Using descriptive-analytical and empirical methodologies, the study concluded that there is no causal relationship between overall public expenditures and the balance of payments, and that the necessary institutional arrangements for full coordination between monetary and fiscal policies are largely absent in the national economy.

I. Conceptual Framework on the Governance of Fiscal and Monetary Policy

1. Concept, Characteristics, and Implementation of Governance

1.1 Concept of Governance

The concept of governance varies across regions and among scholars, resulting in multiple definitions. Among the most recognized are:

- **OECD (Organization for Economic Co-operation and Development):** Governance is defined as *"a set of relationships between those managing the company, the board, shareholders, and other stakeholders."* (Ben Hossin, 2015).
- **IFC (International Finance Corporation):** Governance is defined as *"the system through which companies are directed and controlled."* (Said & Zohdi, et al, 2021).
- Governance can generally be understood as a system of oversight and guidance that delineates responsibilities and rights, establishes relationships with all relevant parties, clarifies the rules and procedures necessary for sound decision-making, and reinforces trust and credibility within the organizational environment (Hawelf & Boufateh, 2013).
- **Algeria:** According to the Charter of Good Corporate Governance in Algeria (March 2009), governance is *"a voluntary and deliberate process by which an organization introduces greater transparency and rigor in its management, administration, and monitoring."*.

In essence, governance encompasses a set of internal laws and administrative procedures that regulate operations in accordance with standards ensuring that managers safeguard the rights of stakeholders.

1.2 Characteristics and Implementation Methods of Governance

Governance possesses several defining characteristics and can be implemented through various methods. These characteristics can be summarized as follows:

Table 01: Governance Characteristics and Approaches to Implementation

Characteristics of Governance	Ways to Achieve Quality Governance (Means to Attain These Characteristics)
Transparency	- Ensuring easy access to information for investors and the independence of media channels. - Timely provision of information regarding changes in the investment system. - Collecting and providing information on the role and impact of investments on the national economy.
Predictability	- Ensuring that investment policies, legal, and regulatory frameworks are transparent and clear. - Ensuring that rules and procedures governing investment are simple and easy to understand. - Efficiency and effectiveness of investment facilitation measures.
Credibility	- Building trust between policymakers, decision-makers, law enforcers, and all economic units in society. - Ensuring stability and consistency in decisions and laws related to policy implementation.
Accountability	- Providing appropriate ethical standards for public sector employees. - Establishing measures and standards to combat corruption. - Activating legal mechanisms to hold violators accountable. - Providing efficient mechanisms to resolve disputes among investors.
Participation	- Ensuring active participation of all members of society and institutions in decision-making, law implementation, monitoring performance, and correcting deviations. - Encouraging collaboration between the public and private sectors to improve the investment climate.

Source: Agoudjil, A., & Qalqil, N. (2021, April 8). Governance mechanisms and pillars of tax administration, performance, and local taxation for achieving sustainable local development. Unpublished paper presented at the National Scientific Symposium on the Role of Governance in Achieving Sustainable Development in Algeria: Reality and Ambition, University of Médéa, Algeria, p. 5.

2. Concept of Fiscal and Monetary Policy and Their Interrelationship

2-1 Concept of Fiscal Policy

Fiscal policy refers to the set of governmental measures related to taxation and public expenditure, aimed at adjusting the level of public spending or tax revenue to achieve economic objectives, particularly addressing unemployment and inflation (Mergad & Houhou, 2015). One of the primary tools of fiscal policy to stimulate economic activity is increasing public expenditure, which constitutes a key component of aggregate demand.
In essence, fiscal policy represents the use of specific governmental actions to promote economic growth and stability. These actions include the core instruments of fiscal policy, namely taxes, public expenditures, loans, and the general budget (Mokhtar, 2016).

2-2 Concept of Monetary Policy

Monetary policy is defined as a set of measures associated with the management of money and banking mechanisms, primarily implemented through the central bank. It involves deliberate actions intended to influence the money supply in order to achieve objectives set within a given economic framework (Ghattas, 2023).

2-3 The Relationship between Fiscal and Monetary Policy

The interaction between fiscal and monetary policies is characterized by their interdependence. Fiscal policy focuses on increasing government expenditure and reducing taxes to stimulate economic activity, especially when the economy operates below full employment levels. In such cases, monetary policy must align accordingly by preventing excessive increases in interest rates; otherwise, investment levels may decline, leading to a reduction in aggregate demand and the potential failure of fiscal measures. Therefore, monetary policy must adjust interest rates to a level that ensures sufficient investment to stimulate national economic growth (Akkar & Nassah, 2020).

3. Governance of Fiscal and Monetary Policy

3-1 Governance of Fiscal Policy

Fiscal policy governance encompasses a set of laws and internal regulatory controls designed to establish a strong and stable banking system. It relies on transparent methods, effective tools, and accountable procedures to achieve economic stability and create a conducive environment for investment (Thabit & Haj Issa, 2022).

3-2 Governance of Monetary Policy

Monetary policy governance refers to a framework of principles and standards applied to the instruments of monetary policy to ensure their effective implementation, minimize criticisms, and achieve their intended objectives (Brahimi & Hadidi, 2022).

II. Selected Mechanisms for the Governance of Fiscal and Monetary Policy: The Saudi Experience and Lessons for Algeria

1. Efforts of the Capital Market Authority in Implementing Governance Requirements in 2018 to Achieve Saudi Arabia's Vision 2030

The Capital Market Authority (CMA) in Saudi Arabia has undertaken a series of initiatives under the Financial Leadership Program and the Financial Sector Development Program to establish the Saudi capital market as the primary market in the Middle East and to position it among the top ten financial markets globally.

The following table highlights the main achievements of the CMA in 2018 and their respective impacts:

Table 2: Summary of Key Achievements of the Capital Market Authority under Governance Mechanisms in 2018 to Support Saudi Arabia's Vision 2030 and Their Expected Impact

Pillar	Objective	Achievement	Impact / Explanation

Facilitating Financing	1) Deepen the capital market and enhance its role in capital formation	Updated rules for the investment of qualified foreign financial institutions in listed securities	Organized the rules, procedures, requirements, and conditions to determine the eligibility of foreign investors in listed securities and define their obligations, as well as the responsibilities of licensed entities in this regard
		Updated the Mergers and Acquisitions Regulations	Alignment with global best practices while considering the characteristics of the Saudi capital market
		Amended rules for public offerings, continuous obligations, order book construction, and share allocation in updated IPOs	* Enhanced market stability * Relaxed certain constraints on price ranges and offer coverage by participating entities * Adjusted the subscription price mechanism based on supply and demand * Increased flexibility in share allocation, thereby improving market efficiency
	2) Develop the Sukuk and debt instruments market	Listing of debt instruments issued by the Saudi government	Developed the debt market to meet the needs of diverse investor segments and encourage liquidity injection, thereby deepening the Saudi capital market
	3) Strengthen the role of funds in financing the national economy	Enabled fund managers to use aggregated orders for client execution	Facilitated fair and precise asset management
Investment Promotion	1) Support the growth of asset management and enhance institutional investment	Announcement of the establishment of a Central Securities Depository Company	Enabled the provision of new securities such as derivatives, helping diversify trading strategies
	2) Increase the market's attractiveness to foreign investors	Inclusion of the Saudi capital market in MSCI, FTSE Russell, and S&P Dow Jones indices under the emerging markets classification	Enhanced market efficiency, attractiveness, and global/regional significance
		Representation of CMA in international organizations for securities regulators (IOSCO) and its committees (2018–2020)	Strengthened the global presence and importance of the Saudi capital market
		Representation of Saudi Arabia in the Financial Stability Board (FSB) in 2019	Promoted financial stability, advanced CMA strategy, and enhanced international alignment
Enhancing Trust	1) Strengthen the regulatory environment of the capital market	Approval of FinTech sandbox license instructions	Authorized the first FinTech sandbox licenses for two local companies to provide crowdfunding services in Saudi Arabia
		Amendments to investment account regulations	Enabled electronic account opening and streamlined procedures in line with regulatory, supervisory, and oversight requirements, while ensuring investor protection

		Launch of the Investor Protection App	* Simplified submission of complaints and claims * Increased efficiency and speed in processing complaints * Enabled automated tracking and completion of procedures electronically between CMA and market participants
		Implementation of the task segregation project between CMA and the Saudi Stock Exchange (Tadawul) initiated in 2013	Clarified and enforced regulatory, supervisory, and oversight responsibilities of Tadawul in accordance with the Capital Market Law
	2) Enhance transparency and disclosure in the capital market	Adoption of rules for registering auditors of CMA-supervised entities	Established standards and criteria for auditors of entities under CMA supervision

Source: Saudi Arabian Monetary Authority, *Fifty-Fifth Annual Report*, 2019, p. 121.

2. Proposed Mechanisms and Pillars for Governance of Fiscal and Monetary Policies for Implementation in Algeria

2.1 Stability, Development, and Financial Inclusion in the Financial Sector

2.1.1 Government Focus on Promoting Development and Inclusion in the Financial Sector as Outlined in the Financial Sector Development Program

This can be achieved by removing the key restrictions and barriers that prevent financial institutions from entering new markets or introducing new products. It has been emphasized that enhancing development and inclusion in the financial sector should not come at the expense of reducing the focus on financial stability. Efforts should aim to improve access to financial services and increase the ability to benefit from financial sector offerings, particularly for women. The Saudi Arabian Monetary Authority highlighted the progress made in implementing the recommendations of the 2017 Financial Sector Stability Assessment (IMF, 2018).

Table 3: Banking Services in Saudi Arabia (Unit: Million Riyals)

Year	**2016**	**2017**	**2018**
Banking Services	20,709	20,963	21,217

Source: Saudi Arabian Monetary Authority, *Fifty-Fifth Annual Report*, 2019.

As observed from the table, banking services have shown continuous improvement. The total value reached SAR 20,963 million in 2017 and increased to SAR 21,217 million in 2018. This indicates the state's commitment to promoting development and financial inclusion in the financial sector through the provision of banking services.

2-1-2 Government Encouragement of Banks to Adopt Governance Approaches

The government encourages banks to adopt sound governance frameworks due to their significant role in enhancing banking efficiency in mobilizing and allocating credit. Banks that implement effective governance practices enjoy a competitive advantage in attracting capital compared to those that do not, thereby strengthening their long-term competitiveness. Moreover, good governance enhances banks' capacity to finance small and medium-sized enterprises (SMEs), which constitute a vital pillar for economic growth and financial stability (Boukari & Bsouih, 2022).

2-1-3 Capital Market Authority Reforms in the Stock Market

The Capital Market Authority (CMA) implemented major reforms in the Saudi stock market by facilitating the trading of debt instruments on the Tadawul Exchange and issuing both short- and long-term bonds. Disclosure requirements for debt issuances by large listed companies were relaxed, contributing to the development of the domestic debt market. In addition, the Authority strengthened the trading infrastructure, enhanced governance practices, and established a framework for international market participants.

Table 04: Main Indicators of the Saudi Stock Market

Year	Number of Shares Traded (Million)	Change (%)	Value of Shares Traded (Billion SAR)	Change (%)	Market Capitalization of Issued Shares (Billion SAR)	Change (%)	Number of Executed Transactions (Thousand)	Change (%)	Stock Price Index (Points)	Change (%)
2014	70,118.4	34.1	2,146.5	56.7	1,812.9	3.4	35,761.1	23.5	8,333.3	−2.4
2015	65,920.0	−6.0	1,660.6	−22.6	1,579.1	−12.9	30,444.2	−14.9	6,911.8	−17.1
2016	67,729.2	2.7	1,157.0	−30.3	1,682.0	6.5	27,273.7	−10.4	7,210.4	4.3
2017	43,968.7	−35.1	836.3	−27.7	1,689.6	0.5	21,895.3	−19.7	7,226.3	0.2
2018	37,791.5	−14.0	870.9	4.1	1,859.0	10.0	25,011.9	14.2	7,826.7	8.3

Source: Saudi Arabian Monetary Authority, *Fifty-Fifth Annual Report*, 2019., p. 114.

Based on the table, the daily average value of traded shares reached approximately SAR 3.5 billion in 2018, compared to SAR 3.3 billion in the previous year, representing an increase of 4.6%. Meanwhile, the daily average number of traded shares declined to about 151.9 million shares, compared to 173.2 million shares in the previous year, reflecting a decrease of 12.3%. In contrast, the daily average number of executed transactions increased to approximately 100.5 thousand transactions, compared to 87.6 thousand transactions in the previous year, representing a growth rate of 14.7%. This clearly reflects the implementation of significant reforms by the Capital Market Authority in the Saudi stock market. Furthermore, the Saudi stock market experienced fluctuations in trading volumes and the number of transactions, alongside relative stability in market capitalization. This indicates that the country's fiscal and monetary policies have contributed to maintaining market resilience. It also underscores the importance of governance tools in fiscal and monetary policies to ensure market stability and protect the economy from risks arising from sharp fluctuations in trading activity and prices.

Table 5: Number of Investors and Registered Portfolios in Tadawul

Year	Number of Investors Registered in Tadawul	Change (%)	Number of Investor Portfolios Registered in Tadawul	Change (%)
2016	4,616,540	1.3	8,988,585	6.7

2017	4,675,535	1.3	9,378,957	4.3
2018	4,741,870	1.4	9,844,247	5.0

Source: Saudi Arabian Monetary Authority, p. 115.

Based on the table, the number of investors registered in Tadawul increased in 2018 to approximately 4.7 million investors, representing a growth rate of 1.4%. Similarly, the number of registered investor portfolios rose to about 9.8 million portfolios, reflecting an increase of 5.0%. This upward trend indicates enhanced investor participation and growing confidence in the Saudi financial market, supported by governance reforms and institutional development initiatives.

Table 06: Stock Market Capitalization

Indicator	2010	2011	2012	2013	2014	2015	2016	2017
Stock Market Capitalization (% of GDP)	67.1	50.6	50.9	62.8	63.9	64.4	69.5	65.9
General Stock Market Price Index (Change %)	8.2	−3.1	6.0	25.5	−2.4	−17.1	4.3	0.2
Banking Sector Stock Price Index (Change %)	6.6	−12.7	0.4	22.0	2.5	−14.9	−67.4	8.2

Source: Prepared by the researcher based on Country Report No. 18/263 issued by the International Monetary Fund, p. 48.

The data presented in Table (6) show that stock market capitalization as a percentage of GDP remained relatively high throughout the period under review, reflecting the structural importance of the Saudi stock market within the national economy. Despite fluctuations in stock price indices—both at the general market level and within the banking sector—the overall market capitalization demonstrated resilience. This stability highlights the effectiveness of fiscal and monetary policy governance mechanisms in mitigating market volatility and supporting financial stability, particularly during periods of economic uncertainty.

2-1-4 Enhancing Liquidity Management

Liquidity management is strengthened through the establishment of a liquidity forecasting framework and the use of open market operations to manage liquidity and increase its effectiveness, with the aim of limiting short-term interest rate volatility. This approach has been successfully implemented in the Kingdom of Saudi Arabia and has contributed to greater monetary stability

2-1-5 Adoption of Macroprudential Safety Instruments

Macroprudential safety instruments have been implemented through the use of indicators such as the loan-to-deposit ratio, the loan-to-value ratio, and risk weights on real estate loans, in order to avoid unnecessary tightening of credit conditions.

Table 7: Evolution of Macroprudential Safety Instruments Aimed at Preventing Credit Tightening

Indicator	2010	2011	2012	2013	2014	2015	2016	2017
Foreign-currency-denominated deposits as a percentage of total deposits (%)	12.6	12.2	13.0	12.6	10.0	10.0	7.6	8.6
Foreign-currency-denominated loans as a percentage of total loans (%)	13.4	12.4	11.7	10.6	9.9	8.9	8.2	8.0
Loans to the real estate, construction, and building sector as a percentage of total loans (%)	3.5	3.1	2.8	2.2	2.1	2.2	2.6	2.6

Source: Prepared by the researcher based on Country Report No. 18/263 issued by the International Monetary Fund, p. 48.

The table shows that the ratios of foreign-currency-denominated deposits and loans declined between 2010 and 2017, from 12.6% to 8.6% for deposits and from 13.4% to 8.0% for loans. This trend reflects a reduction in risks associated with exchange rate volatility and represents a direct outcome of the implementation of macroprudential safety instruments aimed at enhancing financial system stability and strengthening monetary policy governance. Moreover, the share of loans granted to the real estate, construction, and building sector remained relatively low, decreasing from 3.5% in 2010 to 2.6% in 2017. This indicates effective control over credit growth in sectors prone to volatility, thereby contributing to sound risk management and reinforcing the resilience of the banking system.

2-1-6 Strengthening the Role of Banks in Absorbing Asset Quality and Liquidity Shocks

Banks have been relied upon to absorb negative shocks related to asset quality and liquidity by reinforcing supervisory oversight of the methodologies adopted by banks in loan classification, whether in terms of credit analysis, decision-making, or credit forecasting.

Table 08: Number of Banks Positioned to Withstand Asset Quality and Liquidity Shocks

Indicator	2010	2011	2012	2013	2014	2015	2016	2017
Number of licensed banks	23	23	23	23	23	23	24	25
Number of banks holding 25% of total banking assets	2	2	2	2	2	2	2	2
Number of banks holding 75% of total banking assets	6	6	6	6	6	6	6	6

Source: Prepared by the researcher based on Country Report No. 18/263 issued by the International Monetary Fund, p. 48.

The table highlights that the increase in the number of licensed banks did not lead to a reduction in banking asset concentration. This finding confirms that governance of fiscal and monetary policies should not focus solely on quantitative expansion in the number of banks, but rather on strengthening the structural resilience of the banking system. This can be achieved through enhanced supervision of systemically important banks, the promotion of effective competition, and the improvement of liquidity risk and asset quality management mechanisms.

2-1-7 Combating Money Laundering and Terrorism Financing

Saudi Arabia strengthened its framework for combating money laundering and terrorism financing through the issuance of new regulations in November 2017, which introduced a National Risk Assessment (NRA) and implemented a risk-based supervisory framework. Given that cash represents one of the key enablers of money laundering and terrorism financing activities, the primary objective of this system is to limit the use of cash by encouraging the expansion, availability, and acceptance of non-cash payment instruments. This approach contributes to enhancing financial transparency, reducing illicit financial flows, and strengthening the overall governance of the financial system (IMF, 2018).

2-2 Exchange Rate and External Stability

2-2-1 Fiscal Consolidation and Improvement of the Current Account Position

Fiscal consolidation policies have been adopted with the aim of improving the current account balance and, ultimately, generating savings for future generations.

Table 9: Evolution of the Current Account Balance Following Fiscal Consolidation

Year	2013	2014	2015	2016	2017
Current account balance, excluding interest payments (%)	20.2	10.1	-7.5	-3.0	2.6

Source: Country Report No. 18/263 issued by the International Monetary Fund, p. 7.

Based on the table and the corresponding graphical representation, it can be observed that the current account experienced a deficit in 2015 and 2016, amounting to approximately 18% and 14% of GDP, respectively. However, the balance returned to a surplus in 2017, reaching 2.2% of GDP. This shift reflects the initial success of fiscal consolidation measures aimed at improving the current account position and strengthening external balance.

2-2-2 Periodic Review of the Exchange Rate Peg and Enhancement of Flexibility

The exchange rate peg is periodically reviewed to ensure its continued suitability. Increasing exchange rate flexibility enables higher fiscal revenues through several channels, most notably:

- boosting exports and reducing imports, thereby increasing foreign currency inflows.

Table 10: Expected and Actual Export Values of the Kingdom of Saudi Arabia

(Unit: USD billion)

Year	2016	2017	2018	2019	2020	2021	2022	2023
Expected exports	–	–	–	284.0	271.2	263.1	259.4	257.4
Actual exports	183.6	221.1	285.8	–	–	219.68	337.52	–

Source: Prepared by the researcher based on data from pp. 52–94 and the referenced website, accessed on 18/11/2023 at 18:07.

The table indicates that Saudi Arabia is moving in the right direction toward greater exchange rate flexibility, as reflected in the significant increase in export revenues. While exports were expected to reach USD 259.4 billion in 2022, actual exports amounted to USD 337.52 billion, exceeding all previous years. This outcome can be attributed, on the one hand, to the rise in global oil prices and, on the other hand, to geopolitical developments such as the Russia–Ukraine conflict, which contributed to higher energy prices.
In addition, Saudi Arabia's reduced involvement in the Yemeni conflict led to lower military expenditures and allowed for the reallocation of resources toward unprecedented increases in oil production, further boosting oil export revenues. These developments align with the recommendations of the International Monetary Fund, particularly regarding the periodic review of the exchange rate peg and the enhancement of exchange rate flexibility through export expansion and increased foreign currency inflows.
The table also shows a decline in exports in 2021, which can be attributed to the global COVID-19 pandemic between 2019 and 2021. The pandemic led to a sharp contraction in global oil demand due to lockdown measures, placing significant pressure on public finances.

- **Encouraging Domestic Capital to Invest Locally**

Table 11: Assets of Investment Funds Managed by Local Investment Companies by Type of Investment

End of period – (Unit: million Saudi riyals)

Year	Domestic equities	Foreign equities	Domestic sukuk & bonds	Foreign bonds	Domestic money market instruments	Foreign money market instruments	Other domestic assets	Other foreign assets	Real estate investments	Total assets
2014	24,477	11,215	3,973	2,019	45,674	15,194	4,189	410	3,560	110,711
2015	20,025	10,573	5,830	2,017	43,691	12,976	4,014	407	3,365	102,898
2016	16,386	4,940	5,577	1,282	40,793	10,570	4,698	388	3,200	87,836
2017	17,988	5,420	4,996	1,528	55,169	11,598	8,743	542	4,249	110,233

2018	21,512	4,321	4,494	1,032	54,447	12,736	2,588	123	19,609	111,862

Source: Saudi Arabian Monetary Authority (SAMA), previously cited reference, p. 125.

Based on the table, domestic equity investments increased at the end of 2018, reaching SAR 21.5 billion. This reflects a recovery after a sharp decline between 2014 and 2016, followed by a gradual rebound in 2017 and 2018. This trend indicates that investment funds respond not only to monetary policy signals but also to developments in fiscal policy and the general government budget.

Investment in domestic sukuk and bonds declined at the end of 2018 to approximately SAR 4.5 billion. Similarly, investment in other domestic assets fell to around SAR 2.6 billion, while investment in other foreign assets decreased to nearly SAR 123 million. In contrast, real estate investments increased significantly in 2018, reaching approximately SAR 19.6 billion.

Despite these declines in certain asset classes, total assets in 2018 increased compared to the previous year, amounting to SAR 111.86 billion. This reflects the continued diversification strategies of local investment companies across domestic and foreign assets, as well as the effectiveness of initiatives aimed at encouraging domestic capital to invest locally. Notably, Al Ahli Capital, a local investment company, ranked first among asset managers, underscoring the growing role of national institutions.

Table 12: Governance Mechanisms of Assets Managed by Local Investment Companies

Mechanism	Evidence from the study	Governance function
Liquidity governance	Increase in domestic money market instruments	Maintaining monetary stability
Risk governance	Decline in foreign assets	Limiting exposure to external shocks
Expectations governance	Volatility in domestic equities	Guiding investor behavior
Debt governance	Limited bond issuance	Reducing reliance on financial leverage
Real asset governance	Rising real estate investment	Absorbing excess financial liquidity

Source: Prepared by the researchers.

Raising real interest rates through increases in policy rates by the Federal Reserve reflects Saudi Arabia's commitment to maintaining the exchange rate peg, thereby attracting foreign capital inflows. This contributes to an appreciation of the domestic currency in the foreign exchange market and supports the implementation of a relatively independent interest rate policy.

Moreover, enhancing the elasticity of demand increases the effectiveness of exchange rate adjustments in correcting balance of payments imbalances. When demand elasticity is low, larger exchange rate adjustments are required to eliminate external imbalances (Equiti, 2018).

The Saudi Arabian Monetary Authority continued to maintain the official exchange rate of the Saudi riyal against the US dollar at SAR 3.75 per dollar in 2018. The nominal effective exchange rate index declined by approximately 1.6 points, from 119.14 at the end of 2017 to 117.59 at the end of 2018. Similarly, the real effective exchange rate index decreased by about 5.8 points, from 122.21 at the end of 2017 to 116.45 at the end of 2018 (Saudi Arabian Monetary Authority, 2019).

2.3. Key Governance Mechanisms of Fiscal and Monetary Policy Applicable to Algeria

Drawing on the Saudi experience, several fiscal and monetary policy governance mechanisms can be adapted to the Algerian context. First, strengthening **expenditure governance and revenue enhancement** can be achieved through expanding value-added tax revenues on imported goods, thereby improving fiscal sustainability without imposing excessive domestic tax burdens.

Second, **governance of public finances** requires continuous monitoring and adjustment of the current account position to enhance external balance and macroeconomic resilience. In this regard, policies aimed at **boosting exports and rationalizing imports** contribute to reducing foreign currency outflows while increasing foreign exchange earnings, ultimately supporting greater exchange rate flexibility.

Third, achieving **full employment** necessitates stimulating economic growth and job creation through stronger private sector participation. This should be accompanied by governance-oriented labor market reforms, including enhancing female labor force participation, removing legal and institutional barriers to women's employment, and implementing inclusive labor market policies that support sustainable employment outcomes.

Fourth, greater emphasis should be placed on the **governance of financial technology and digital transformation**, through the implementation of a comprehensive financial sector development program. This includes advancing digitalization, exploring the potential adoption of a digital currency, and removing structural constraints that discourage financial institutions from entering new markets or introducing innovative financial products.

Fifth, improving the **regulatory and supervisory governance of capital markets** requires issuing a modernized securities law aligned with the requirements of a contemporary economy. Such reforms would encourage foreign participation in the Algerian stock exchange and facilitate the listing of selected state-owned enterprises, thereby enhancing market depth and transparency.

Moreover, establishing a **sovereign asset and liability management framework** is essential to strengthen public financial management, improve fiscal discipline, and enhance transparency. Finally, governance reforms should progressively orient **state-owned enterprises toward strategic industries**, in parallel with broader economic diversification efforts, to reduce dependency on hydrocarbons and promote long-term economic sustainability (IMF, 2022).

Conclusion

This study highlights the critical importance of strengthening the governance of fiscal and monetary policies through an analytical examination of the Saudi Arabian experience, which offers valuable insights applicable to the Algerian context in pursuit of financial and economic stability. The empirical evidence demonstrates that the concentration of banking assets, along with the ratios of foreign currency–denominated loans and deposits, constitutes a decisive factor in determining the financial system's resilience to shocks.

By adopting macroprudential policy instruments, diversifying investment portfolios, and reinforcing regulatory oversight of banks and financial markets, systemic risks can be mitigated, investor protection enhanced, and long-term stability promoted. Accordingly, these governance mechanisms represent a viable framework that Algerian fiscal and monetary authorities may draw upon to design effective policies capable of balancing economic protection with the competitiveness of domestic financial markets.

Key Findings

- Saudi Arabia has enhanced financial stability through effective liquidity allocation, with a particular emphasis on domestic monetary instruments via investment funds. These instruments have supported monetary policy governance by absorbing excess liquidity and channeling it toward low-risk assets, thereby reducing market volatility and strengthening overall financial stability.
- The Kingdom has also promoted economic diversification and reduced systemic risks by expanding long-term investment channels, particularly real estate investments toward the end of the study period. In this context, investment funds have emerged as a key mechanism of fiscal policy governance by diversifying portfolios, reducing reliance on short-term instruments, and contributing to a more sustainable distribution of financial risks.

- Despite an increase in the number of licensed banks, data indicate that approximately 75% of banking assets remained concentrated in only six banks during the period 2010–2017. This reflects the limited impact of quantitative banking expansion on enhancing the structural resilience of the banking system and its capacity to absorb asset quality and liquidity shocks.
- The ratios of foreign currency–denominated deposits and loans declined from 12.6% and 13.4% in 2010 to 8.6% and 8.0% in 2017, respectively, while credit to the real estate and construction sector remained relatively low at 2.6%. This trend reflects the successful implementation of macroprudential tools in strengthening banking system resilience and shielding the economy from currency-related and sector-specific risks.
- The overall decline in foreign currency exposure and the tightening of credit to high-risk sectors underscore the effectiveness of precautionary policies in protecting the financial system from potential shocks, while highlighting the role of governance in steering banks toward more stable credit practices.
- Indicators of the Saudi stock market reveal sustained capital strength and market capitalization despite a decline in trading volumes, reflecting the capacity of fiscal and monetary policies to support market stability and protect investors against excessive trading volatility.

Recommendations

- Algerian investment funds should be encouraged to increase their allocation to domestic monetary instruments, particularly money market instruments and Treasury bills, as a mechanism for strengthening monetary policy governance. Such measures would contribute to absorbing excess liquidity, enhancing financial system stability, and reinforcing the role of the Bank of Algeria in managing money supply.
- The diversification of Algerian investment fund portfolios toward long-term investments—especially well-regulated real estate investments supported by appropriate regulatory and incentive frameworks—should be promoted to strengthen fiscal policy governance and mitigate systemic risks.
- The Bank of Algeria should intensify supervision of systemically important banks in terms of capital adequacy and liquidity, while encouraging a more balanced distribution of assets across the banking sector to enhance the system's ability to withstand asset quality and liquidity shocks.
- The Algerian central bank should implement comprehensive macroprudential instruments, with particular attention to monitoring foreign currency–denominated loans and deposits and regulating credit to high-risk sectors such as real estate and construction. These measures are essential for reinforcing banking system resilience and safeguarding the national economy against currency-related and sectoral vulnerabilities.

Ethical Considerations

This study is based exclusively on secondary data obtained from publicly available sources, including official reports, statistical databases, and previously published academic literature related to fiscal and monetary policy governance in Saudi Arabia and Algeria. No primary data collection involving human participants, personal data, surveys, interviews, or experiments was conducted. Therefore, ethical approval from an institutional review board was not required. The authors confirm that the research was carried out in accordance with accepted standards of academic integrity, transparency, and responsible research conduct.

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