




## **Parallel Currency Markets and the Informal Economy in Algeria: A Conceptual and Institutional Analysis**

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### **Abstract**

The parallel currency market (PCM) in Algeria constitutes one of the most structurally entrenched components of the country's informal economy. Despite successive waves of monetary liberalization and institutional reform since the early 1990s, the PCM has demonstrated remarkable persistence, reflecting deep-seated deficiencies in Algeria's monetary governance architecture. This review article examines the conceptual foundations, structural determinants, and institutional dynamics that account for the PCM's persistence, and evaluates the adequacy of public policy responses deployed by the Bank of Algeria. Drawing on monetary economics, exchange rate theory, and institutional economics - particularly North's (1990) framework of path-dependent institutional change - the study traces the PCM's origins to the era of centralized planning (1962–1990), when strict exchange controls generated systematic overvaluation of the Algerian dinar (DZD) and created conditions favorable to informal currency exchange. Five interacting structural drivers are identified: restricted DZD convertibility; the persistent absence of a viable licensed exchange bureau network; diaspora remittance flows; import-side demand pressures; and capital flight dynamics. Comparative evidence from Egypt and Tunisia demonstrates that PCM persistence reflects a regional pattern of delayed exchange rate adjustment and incomplete institutional reform. IMF data confirm that the parallel market premium reached 62% in November 2023. The article concludes that sustainable PCM reduction requires comprehensive macroeconomic reform combining full DZD convertibility with genuine export diversification beyond hydrocarbon dependence

### **Keywords:**

Parallel currency market; Informal economy; Exchange rate policy; Dinar convertibility; Institutional reform

**JEL Codes:** E44; F31; O17; P34

### **Introduction**

The informal economy represents one of the most persistent structural features of developing and transition economies. In Algeria, the informal sector is not a marginal or residual phenomenon; it constitutes a structural response to decades of institutional failure rooted in state dirigisme, monetary repression, and incomplete market liberalization. Estimates consistently place the size of Algeria's informal economy at between 32% and 50% of gross domestic product (GDP), with informal monetary circuits - particularly the parallel currency market (PCM) - playing a central



role in its functioning and reproduction (International Monetary Fund [IMF], 2024; Souam & Cherfi-Feroukhi, 2020).

The PCM, defined as an unregulated, non-institutionalized market in which foreign currencies are exchanged outside the legal banking system at rates diverging substantially from the official rate, has functioned as a structural fixture of the Algerian economy since the late 1960s. Despite a series of monetary reform initiatives - most notably the promulgation of Law No. 90-10 on Money and Credit in 1990, Algeria's accession to Article VIII of the International Monetary Fund Articles of Agreement in 1997, and successive regulatory instruments issued by the Bank of Algeria (Banque d'Algérie) - the PCM has not only persisted but grown in organizational complexity and transaction volume (Guendouzi, 2018; Si Mohammed & Bendob, 2014). Recent IMF surveillance data confirm that the parallel market premium reached 62% in November 2023, driven in part by the resumption of international travel following the COVID-19 pandemic and continued informal trade activity (IMF, 2024).

The persistence of the PCM generates multiple compounding distortions: it undermines monetary policy effectiveness by diverting foreign currency flows outside official channels; it facilitates capital flight and fraudulent import practices that erode fiscal revenues; it sustains a structural misalignment between official and parallel exchange rates signaling chronic DZD overvaluation; and it reinforces the informal sector's capacity to operate as a parallel economic system (Benissad, 1984, as cited in Benbouzid, 1999; Nouioua, 2015; Schneider & Enste, 2000).

The central research question addressed in this article is: **What are the conceptual underpinnings and structural determinants of the parallel currency market in Algeria, and why have successive institutional responses proven insufficient to reduce it?** A subsidiary objective is to assess the adequacy of Bank of Algeria policy measures and to draw comparative lessons from Egypt and Tunisia.

This article makes three principal contributions. First, it provides a rigorous conceptual mapping of the PCM within a monetary economics and institutional theory framework, incorporating North's (1990) path-dependence analysis. Second, it offers a multi-factorial structural analysis integrating supply-side, demand-side, and governance dimensions, enriched by recent IMF quantitative data. Third, it incorporates comparative evidence from Egypt and Tunisia to situate the Algerian experience within a broader regional analytical context.

The article is structured as follows. Section 1 establishes the conceptual framework; Section 2 reviews Algeria's exchange rate policy; Section 3 analyses the PCM's structural determinants; Section 4 examines the PCM's contribution to informal economic development; Section 5 assesses institutional policy responses; Section 6 provides comparative perspective; and the Discussion and Conclusion sections integrate the findings.

## **1. Conceptual Reference Framework**

The conceptual framework draws on three interconnected theoretical traditions: monetary economics and exchange rate theory; institutional economics; and the economics of the informal sector.

### **1.1. Foreign Exchange and the Exchange Rate**

Foreign exchange refers to the financial operation of converting one national currency into another at a designated conversion rate. Grandjean (2003) distinguishes between direct exchange -



involving two currencies - and cross exchange, involving multiple currencies and intermediary conversion steps, The exchange rate represents the price of a foreign currency expressed in terms of the national currency (Simon & Lautier, 2003, p. 144). Brouri and Sethi (2016) characterize it as the number of units of local currency required to acquire one unit of a foreign, convertible currency - a price that fluctuates continuously in response to supply and demand conditions.

Two exchange rate types are of critical analytical relevance. The official exchange rate is determined by monetary authorities within a chosen exchange rate regime and defended through direct market interventions. The parallel exchange rate emerges when the official rate fails to reflect the currency's equilibrium value, generating a market-determined informal rate that diverges from the official rate - producing what the literature designates as the parallel market premium (Moore & Phylaktis, 2000). Moore and Phylaktis (2000) establish that the sustained existence of this premium in developing economies reflects a genuine market assessment of the currency's equilibrium value that the official rate cannot credibly sustain - a finding of direct relevance to the Algerian case.

### **1.2. The Foreign Exchange Market**

The foreign exchange market is the world's largest and most liquid financial market, operating continuously through electronic networks linking banking institutions across global financial centers (Plihon, 2001). Guendouzi (2008, p. 93) conceptualizes it as an organizational space in which buying and selling operations of foreign currencies are conducted between central banks, commercial and investment banks, authorized currency dealers, and corporate treasuries.

Two primary segments are analytically relevant: the spot market (*marché au comptant*), on which currencies are exchanged with delivery within two business days; and the forward market (*marché à terme*), on which contracts are settled at a predetermined future date, enabling exchange rate risk hedging and speculative operations (Dohni&Hinaut, 2004, p. 17). The absence of accessible spot market services for the general public - combined with non-availability of forward hedging instruments for SMEs - creates the structural demand niche that the PCM fills in Algeria.

### **1.3. Exchange Rate Regimes**

Exchange rate regimes constitute the institutional framework within which exchange rates are determined and managed. Kamar (2005, p. 7), as cited in Iskounene and Ait Mehdi (2016, p. 32), defines the regime as the long-term commitment of a country's national policies toward a certain behavior of its exchange rate - a durable arrangement whose stability is a necessary precondition for entrepreneurial planning and predictable trade finance. Three regime types are distinguished: the fixed regime, under which authorities fix the reference rate and defend parity through market interventions (Obstfeld & Rogoff, 1995); the flexible or floating regime, under which the rate is freely market-determined (Montousse, 2006, p. 229; Yougbare, 2009, p. 30); and the intermediate managed floating regime, which combines elements of both polar cases by permitting fluctuations within a band while allowing periodic parity realignments (Conte, 2009, p. 164; Eichengreen, 1998). Algeria's official regime belongs to this third category.

### **1.4. Exchange Rate Policy**

Exchange rate policy encompasses the selection and implementation of an exchange rate regime, active management of the exchange rate level, and the institutional rules governing monetary authority intervention. Kamar (2005), as cited in Iskounene and Ait Mehdi (2016, p. 32), defines



it as a set of interventions by national monetary authorities aimed at achieving macroeconomic objectives through the determination of rules governing monetary authority involvement in foreign exchange markets. A country's exchange rate policy is intrinsically linked to its monetary policy and broader macroeconomic framework: exchange rate dynamics affect inflation, export competitiveness, and capital flows, while monetary policy in turn shapes exchange rate outcomes (Plihon, 2001). In Algeria, this interdependence is particularly consequential given the structural vulnerability created by hydrocarbon revenue dominance over the balance of payments.

### **1.5. Institutional Theory: Path Dependence and Informal Institutions**

North (1990) established that institutions - the humanly devised constraints structuring human interaction - may be formal (laws, regulations, property rights) or informal (conventions, norms, self-enforced codes of conduct). Informal institutions emerge and persist when formal frameworks fail to deliver the services agents require; they represent adaptive responses to institutional gaps. Critically, institutions are subject to path dependence: once established, informal institutions generate organizational capital - networks, expertise, trust relationships, geographic specialization - that progressively raises the switching costs of transition to formal alternatives, making informal structures increasingly self-reinforcing.

Pesqueux (2012, p. 217) characterizes the informal economy as an emergent institution - a form of alternative to official institutions that are insufficiently institutionalized or undergoing de-institutionalization. Schneider and Enste (2000, pp. 77–114), drawing on 76 countries, confirm that shadow economies are structurally embedded responses to governance deficits, with developing countries averaging approximately 39% of GDP informally. This framework implies that effective PCM reduction requires not merely institutional prohibition but institutional substitution - the construction of credible, accessible, competitively priced formal alternatives.

## **2. Algeria's Exchange Rate Policy: Trajectory and Current Framework**

### **2.1. Institutional Architecture**

Exchange rate policy in Algeria is the exclusive prerogative of the Bank of Algeria (Banque d'Algérie). Under Article 35 of the Ordinance on Money and Credit (Law No. 64-111, 1964), the Bank of Algeria is mandated to create and maintain, in the domains of money, credit, and foreign exchange, the most favorable conditions for rapid national economic development while ensuring internal and external monetary stability. This mandate vests in the Bank of Algeria an institutional monopoly over monetary policy and foreign exchange reserve management, including determination of the official DZD exchange rate.

Algeria's exchange rate regime is officially classified as a managed floating arrangement - one in which the Bank of Algeria intervenes in the interbank foreign exchange market to smooth DZD fluctuations without a formal commitment to any specific rate or band. This corresponds to the IMF's category of "managed float with no pre-announced path." The practical consequence for PCM dynamics is significant: the absence of a transparent, rules-based exchange rate anchor creates persistent uncertainty about the DZD's equilibrium value, sustaining incentives to treat the PCM's market-determined rate as a more reliable approximation of currency fundamentals (IMF, 2024).



## **2.2. Legislative and Regulatory Reform Trajectory**

During the administered economy period (1962–1990), Algeria maintained a strictly controlled exchange regime with a fixed official DZD rate set above market-clearing levels, generating systematic overvaluation and the structural preconditions for PCM emergence. The adoption of Law No. 90-10 on Money and Credit in 1990 initiated progressive liberalization, deepened through successive instruments: Law No. 61-94 of 28 September 1994 (introducing a fixing system linking DZD determination to market supply and demand); Regulation No. 95-07 of 23 December 1995 and Regulation No. 07-01 of 3 February 2007 (extending foreign exchange operation capacity to authorized banking intermediaries); Algeria's 1997 acceptance of Article VIII of the IMF Articles of Agreement (rendering DZD current account convertibility irrevocable, per KPMG, 2011, p. 102); Ordinances No. 03-01 of 19 February 2003 and No. 10-03 of 26 August 2010 (strengthening sanctions against foreign exchange violations); Regulation No. 16-01 of 6 March 2016 (revising current account foreign transaction rules); and Regulation No. 17-01 of 10 July 2017 and Instruction No. 06-2017 of 26 November 2017 (operationalizing a forward exchange market and exchange rate risk coverage mechanism).

Despite this legislative density, a fundamental asymmetry persists: current account convertibility is formally established, while capital account convertibility - the liberalization of outward capital flows - remains structurally restricted, subject to authorization from the Council of Money and Credit and mandatory repatriation obligations (KPMG, 2011, p. 102). This asymmetric framework constitutes one of the primary structural conditions sustaining the PCM, as it forecloses legitimate channels for capital account transactions and forces demand into the informal market.

## **3. The Parallel Currency Market: Nature and Structural Determinants**

### **3.1. Historical Development and Market Characteristics**

The Algerian PCM is among the oldest and most institutionalized informal currency markets in the Maghreb region. Its origins trace to the late 1960s–1970s, when the convergence of strict exchange controls, systematic DZD overvaluation, severely restricted access to foreign currencies, and the role of hard currencies as inflation hedges created structural demand for informal currency exchange that the formal banking system was institutionally prohibited from satisfying. Benissad (1984, as cited in Benbouzid, 1999, p. 126) identified the generative mechanism precisely: exchange control generates an informal economy because, fundamentally, it is made very strict and encourages a lax financial policy leading to domestic inflation and overvaluation of the local currency.

The PCM's most dramatic expansion occurred paradoxically during Algeria's monetary liberalization in the early 1990s: the dismantling of planned economy exchange controls without simultaneous creation of adequate formal market institutions created a transitional institutional gap. Si Mohammed and Bendob (2014, p. 18) document the explosive PCM growth of this period, characterized by a rapidly widening spread between parallel and official exchange rates that has persisted as a structural feature of Algeria's monetary landscape. The market operates through organized networks of street currency dealers (cambistes de rue) concentrated in public spaces across major cities, with the highest densities in high-emigration regions, particularly Kabylia (Benbouzid, 1999). IMF (2024) data confirm that cash circulation outside the banking system



persistently represented approximately 33–35% of M2 in 2021–2022, illustrating the depth of the monetary circuits sustaining the PCM.

### **3.2. Macroeconomic Determinants of the Parallel Market Premium**

The parallel market premium - the percentage differential between parallel and official DZD exchange rates - is the key observable indicator of PCM intensity. The collapse of hydrocarbon revenues following the 2013–2014 oil price shock placed sustained depreciation pressure on the DZD that the Bank of Algeria resisted through managed interventions, preserving an artificial gap relative to the market-determined rate (Guendouzi, 2018). The IMF's 2024 Article IV consultation identifies the parallel market premium - which reached 62% in November 2023 - as a key monetary governance challenge, further noting that the basic official foreign currency travel allocation of approximately 100 euros annually sustains substantial PCM demand (IMF, 2024). The monetary emission required to finance recurrent budget deficits generates inflationary pressures that further depreciate the DZD's real value and intensify safe-haven demand for euros and dollars (Plihon, 2001).

### **3.3. Structural Supply-Side Determinants**

#### ***3.3.1. Diaspora Remittances and Retiree Flows***

The supply side of Algeria's PCM is primarily constituted by foreign currency inflows from Algerian emigrants - principally in France, Spain, and the United Kingdom - and the foreign currency savings of Algerian retirees who worked in European countries. These flows are channeled through the PCM for structurally rational reasons: the parallel market offers a substantially more favorable exchange rate; it is more accessible and less bureaucratically burdensome; and for retirees receiving ongoing foreign pensions, informal channels enable access to pension funds at market rates (Benbouzid, 1999). The geographic concentration of PCM supply networks in high-emigration regions - particularly Kabylia- reflects the direct correspondence between emigrant population density and informal currency market infrastructure.

A secondary demand-side dynamic reinforces activity: individuals use the PCM to acquire foreign currency for deposit in Algerian commercial banks - which do not require justification of origin - primarily to satisfy visa application requirements. This creates a feedback loop through which PCM-sourced foreign currency enters the formal banking system as deposits yet generates perpetual account turnover driven by visa-seeking withdrawals (Guendouzi, 2008).

#### ***3.3.2. Import-Side Demand and Fraudulent Trade Finance***

Given that hydrocarbon exports account for over 95% of Algeria's total export revenues - with the national energy company as the sole major exporter - private sector exporters contribute negligibly to PCM supply. Import activity, by contrast, generates substantial PCM demand from private importers procuring goods facing legal or customs barriers under official documentation: prohibited goods, counterfeit products, under-invoiced imports, and goods financed outside the mandatory documentary credit (Credoc) framework introduced in 2013 (Guendouzi, 2018). The 2013 transition from documentary remittance (Remdoc) to Credoc imposed requirements that SMEs - representing over 90% of Algeria's industrial fabric yet contributing only approximately 5% of GDP - found prohibitively burdensome, pushing a portion of SME import financing toward informal channels.



### **3.3.3. Capital Flight**

Capital flight constitutes a further structural demand driver. Nouioua (2015) estimated that capital transferred abroad by Algerian nationals through informal channels represents the equivalent of several GDP growth points annually. Capital flight takes several characteristic forms: large-scale investment in hospitality, real estate, and services in France, Spain, and Tunisia; emigration of qualified professionals - intensifying from the early 1990s; and undeclared inter-enterprise transfers to foreign counterparties outside the formal invoice and payment system (Nouioua, 2015). These dynamics collectively drain Algeria's foreign exchange reserves while sustaining the PCM's transaction volume.

### **3.4. Structural Governance Failure: The Absent Exchange Bureau Infrastructure**

The most direct enabling condition for the PCM's commercial viability is the persistent, multi-decade absence of an operational network of licensed exchange bureaus. Instruction No. 03-97 of 16 April 1997 created the legal basis for a retail exchange bureau sector over a quarter-century ago. Yet successive attempts have yielded negligible results: of 46 bureaus licensed since April 2017 under Regulation No. 16-01 of 6 March 2016, 27 had their licenses revoked for failure to commence operations, and 13 were annulled at beneficiaries' request - leaving fewer than ten potentially operational bureaus serving a population of over 45 million people. Any formally licensed exchange bureau operating at official rates faces an insuperable competitive disadvantage relative to the PCM, which offers substantially more favorable rates. Until the parallel market premium is closed through exchange rate policy adjustment, no commercially viable formal exchange bureau sector can emerge - a circular institutional trap solvable only through primary exchange rate reform, not licensing regulation alone.

## **4. The PCM and the Development of Algeria's Informal Economy**

Menguelti & al. (2014) note that definitions of the informal economy are diverse and contingent upon analytical objectives. For the purposes of this study, the informal economy encompasses all economic activities generating income outside government regulation, taxation, and statistical observation - a definition that captures the PCM's role as a constitutive component of informal financial intermediation. Schneider and Enste (2000, pp. 77–114) confirm that shadow economies in developing countries average approximately 39% of GDP, driven by excessive regulation, weak institutional quality, and high tax burdens - conditions directly applicable to Algeria.

Pesqueux (2012, p. 217) characterizes the informal economy as an emergent institution - a form of alternative to official institutions undergoing de-institutionalization. Souam and Cherfi-Feroukhi (2020) document, using structural model estimation for 2000–2018, an upward trend in Algeria's informal economy from 34.1% of GDP in 2000 to 45.86% in 2009, followed by a gradual decline to 32.83% by 2018 - confirming the informal sector's massive scale while demonstrating that governance and labor market improvements can produce measurable formalization effects.

The PCM contributes to informal economic development through three primary channels. First, it constitutes a direct segment of informal financial services, providing supplementary income for street cambistes, unemployed individuals, retirees, and household savers (Pesqueux, 2012). Second, it constitutes the financial infrastructure for Algeria's informal goods trade: by providing foreign currency to importers of prohibited or undeclared goods, the PCM enables the survival and expansion of the informal import economy - amplifying fiscal revenue losses and generating unfair



competition against formal domestic producers. Third, the PCM facilitates capital flight that structurally drains investment resources from the formal economy. As Guendouzi (2018) notes, the Bank of Algeria's tacit tolerance of the PCM reflects the authorities' objective incapacity to ensure full DZD convertibility. The Lautier (2014) analysis confirms that such informal monetary markets are structural features of economies where formal institutional development lags behind economic complexity.

Available evidence - including IMF (2024) data documenting cash circulation outside banks at 33–35% of M2 and total informal sector estimates of 32–50% of GDP - underscores the scale of informal economic activity and the commensurate significance of the institutional failures sustaining it (Menguelti et al., 2014).

## **5. Institutional Policy Responses: Assessment and Critique**

### **5.1. Exchange Rate Risk Coverage Mechanism (2017–2018)**

The most operationally significant recent institutional response was the Bank of Algeria's introduction of a forward exchange rate risk coverage mechanism, operationalized effective 2 January 2018, under Regulation No. 17-01 of 10 July 2017 and Instruction No. 06-2017 of 26 November 2017. The mechanism enables enterprises to hedge against exchange rate risk arising from fluctuations in currencies used for invoicing imports of capital goods, semi-finished products, or raw materials for domestic production. While representing a genuine institutional advance - the previous absence of forward hedging was itself a source of structural PCM demand from corporate treasuries - the mechanism's deliberately narrow scope leaves untouched the multiple PCM structural drivers related to DZD convertibility restrictions, capital account limitations, and the retail foreign currency access deficit.

### **5.2. Exchange Bureau Licensing Framework**

The Bank of Algeria's revision of the exchange bureau licensing framework under Regulation No. 16-01 of 6 March 2016 represented the most direct attempt to substitute formal exchange services for the PCM. The definitional basis - Instruction No. 03-97 of 16 April 1997, defining manual exchange as any operation of buying and/or selling banknotes or travelers' cheques denominated in freely convertible currencies against the national currency - theoretically accommodates a nationwide network. The practical outcome has been a structural policy failure: of 46 bureaus licensed since April 2017, 27 had licenses revoked for failure to commence operations and 13 were annulled at beneficiaries' request. The underlying constraint is commercial non-viability: as long as the PCM offers a substantially more favorable rate than the official rate, formal exchange bureaus cannot attract sufficient volume to cover operating costs.

### **5.3. Structural Gaps**

Both responses share a common structural limitation: they address specific operational dimensions of the PCM without engaging its macroeconomic root causes. Three gaps are critical. First, neither measure engages the DZD overvaluation that generates the parallel market premium. Second, capital account convertibility restrictions that generate structural PCM demand remain unchanged. Third, no comprehensive strategy exists to channel diaspora remittances through formal banking at competitive rates. Guendouzi (2018) characterizes the public authorities' posture as one of tacit tolerance - an institutional recognition of the formal monetary system's incapacity to deliver full



DZD convertibility. This diagnosis aligns precisely with North's (1990) analysis of path-dependent institutional lock-in.

## **6. Comparative Perspective: Egypt and Tunisia**

### **6.1. Egypt: Exchange Rate Adjustment and PCM Dynamics**

Egypt provides the most instructive regional comparison. Like Algeria, Egypt historically maintained a managed exchange rate regime generating systematic overvaluation and a persistent parallel market premium. Following a severe foreign currency shortage and a widening parallel market premium of approximately 40% above the official rate in early 2022, Egypt undertook successive devaluations under IMF-supported programs: 14.5% in October 2022; approximately 40% in January 2023; and a decisive official-parallel rate unification through flotation in March 2024 (IMF, 2024). This unification eliminated the structural price incentive for PCM participation in currency exchange, while illustrating the transition costs: inflation reached 37% in 2023 and remittances declined approximately 30% as the parallel premium persisted (IMF, 2024). The Egyptian trajectory demonstrates that sustained overvaluation without adjustment generates increasing PCM entrenchment and ultimately more disruptive forced correction - a directly relevant lesson for Algeria's DZD management.

### **6.2. Tunisia: Institutional Development and Partial Formalization**

Tunisia offers a contrasting perspective. Facing structurally similar challenges - an informal economy of 35–40% of GDP, diaspora remittance flows, and a history of managed exchange rate policy - Tunisia has made more sustained progress in developing formal financial sector infrastructure, including a more functional exchange bureau network and more liberalized current account operations (OECD, 2022). The Tunisian exchange bureau sector has been more viable because bureaus have been allowed to operate at rates closer to market-reflective levels, illustrating that the commercial viability problem Algeria faces is a policy design issue, not an insurmountable structural constraint.

### **6.3. Comparative Lessons for Algeria**

Three comparative lessons emerge. First, the Egyptian case confirms that sustained DZD overvaluation without adjustment is structurally unsustainable and that delayed correction tends to generate increasingly disruptive outcomes. Second, the Tunisian case demonstrates that institutional development of formal exchange infrastructure can progressively reduce PCM demand independently of full convertibility, provided that formal services operate at commercially viable, market-reflective rates. Third, both cases confirm North's (1990) path-dependence framework: PCM reduction requires building credible formal alternatives, not merely prohibiting informal activity. These lessons converge with the theoretical framework in identifying exchange rate policy adjustment combined with formal financial sector institutional development as the two indispensable pillars of any effective PCM reduction strategy.

## **Discussion**

The analysis converges on a central finding: the Algerian PCM is best understood not as a deviation from a well-functioning formal monetary system but as a structurally rational institutional response to that system's objective incapacity to deliver the monetary services agents require. This finding carries implications for both monetary economics and institutional economics theory.



From a monetary economics perspective, the sustained parallel market premium - confirmed by the IMF at 62% in November 2023 - constitutes a clear illustration of systematic exchange rate misalignment consequences. Moore and Phylaktis (2000) established that parallel market premiums reflect genuine assessments of currency equilibrium values rather than mere regulatory arbitrage. The DZD's chronic overvaluation, sustained by managed float interventions against market forces, is the primary generator of the premium making the PCM commercially viable. The Egyptian experience confirms that decisive exchange rate adjustment is a necessary - though not sufficient - precondition for PCM reduction.

From an institutional economics perspective, the PCM exemplifies North's (1990) path-dependent institutional lock-in. The informal currency exchange network developed over five decades has generated organizational capital - networks, expertise, trust relationships, geographic specialization - that renders the PCM more operationally efficient than any newly established formal alternative could initially be. Souam and Cherfi-Feroukhi's (2020) finding that governance improvements produced measurable formalization effects in Algeria between 2009 and 2018 confirms that path-dependence is real but not absolute: sustained institutional reform can progressively shift the balance toward formalization.

Several limitations warrant acknowledgment. The reliance on published documentary and institutional analysis without primary fieldwork data constrains empirical precision. Available informal sector data are heterogeneous and should be treated as orders of magnitude. The rapid pace of regulatory change implies some cited provisions may have since been amended. The comparative analysis of Egypt and Tunisia, while analytically instructive, does not constitute a systematic matched comparative case study.

### **Conclusion**

The parallel currency market in Algeria constitutes one of the most structurally entrenched features of the country's informal economy - persisting across six decades of monetary management and successive reform waves. The IMF's confirmation of a 62% parallel market premium in November 2023 underscores that the phenomenon remains structurally deep and dynamically reproduced (IMF, 2024).

This article has argued that PCM persistence is a structural outcome of compounded institutional deficiencies: the chronic overvaluation of the DZD; the asymmetric convertibility framework restricting capital account transactions to informal channels; the commercial non-viability of the licensed exchange bureau sector; and the governance failures generating capital flight and fraudulent trade flows. These deficiencies are reinforced by North's (1990) path-dependent dynamics: the PCM has generated organizational infrastructure and behavioral norms that make its own perpetuation self-reinforcing.

The Bank of Algeria's institutional responses - the 2017 exchange rate risk coverage mechanism and the 2016–2017 exchange bureau licensing framework - are structurally insufficient because they address operational dimensions without engaging the primary structural driver: the DZD's sustained overvaluation and the parallel market premium it generates. The fundamental prerequisite for sustainable PCM reduction is the credible, managed adjustment of the official DZD exchange rate toward market equilibrium - an adjustment that is itself conditional on genuine economic diversification beyond hydrocarbon dependence.



The theoretical contribution of this article lies in demonstrating that the Algerian PCM is a functional substitute for absent formal monetary institutions - an informal institution whose persistence is structurally reproduced by the formal system's incapacity to deliver competitive, accessible foreign currency services. Effective PCM reduction requires institutional substitution, not merely institutional prohibition.

Future research should prioritize: empirical measurement of PCM transaction volumes and parallel market premiums through systematic market observation; systematic comparative institutional analysis of PCM reduction trajectories across the MENA region; and political economy analysis of the governance dynamics sustaining official tolerance of the PCM despite its documented macroeconomic costs.

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- Law No. 90-10 of 14 April 1990 on Money and Credit (Algeria).
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