

**Modernization of the Budgetary System in Algeria: *Transition from a Logic of Consumption to a Logic of Exploitation*"
- Analytical Study -**

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Abstract:

This research paper aims to examine the reform of the budgetary system by exploring the shift from a consumption-based logic to an approach centered on the optimal exploitation of financial resources and windfall revenues, particularly from oil. The study highlights the reforms imposed by economic necessity, within the context of a centrally planned system in the post-independence era, the transition to a market economy in the early 1990s, and the period of booming oil revenues at the start of the 2000s.

Based on a comprehensive analysis of Algeria's public finance indicators and key macroeconomic variables, and through an examination of the major components of budgetary reform as defined by Organic Law No. 18-15 on Finance Laws, this study concludes that the revival of the Algerian economy is closely dependent on the implementation of results-oriented development programs and the reinforcement of the domestic economic fabric. To this end, the establishment of a coherent medium- and long-term fiscal strategy is essential; not only for effective performance management but also for ensuring the sustainability of both financial and macroeconomic indicators. Such a strategic orientation is fundamental to achieving long-term economic balance and resilience.

Keywords: key economic metrics, budgetary balance, Budgetary Reform, Results-Based Management

JEL Classification: H61 ; P41 ; P43 ; R11

Introduction:

The modernization of the budgetary system remains an urgent necessity for economies dependent on natural resources, such as Algeria, in light of the continuous economic challenges and fluctuations in revenue sources. Algeria's significant reliance on hydrocarbon revenues exposes its public finances to the volatility of international oil prices, creating substantial pressure on the budget and complicating macroeconomic management, especially during periods of price decline (Hamidi, 2017). This fragility underscores the critical need for effective economic diversification strategies, a goal that traditional budgetary systems often struggle to achieve (Benabdallah, 2006; Hamidi, 2017; Djaadi H., 2022). The traditional focus on inputs or the "logic of consumption" (input-based budgeting) may not be sufficient to efficiently allocate resources towards diversification or to address the structural deficiencies associated with resource abundance, such as the Dutch Disease phenomenon, which has been analyzed in detail in the Algerian context (Benabdallah, 2006). Additionally, these systems can reinforce rent-seeking behaviors and hinder the growth of non-oil productive sectors (Benabdallah, 2006; Djaadi M., 2022).

Faced with these economic challenges, there was a consideration to undertake radical reforms to align with the national economy and local and global changes, with funding from the World Bank to initiate reforms starting in 2001. The aim was to achieve effective management of financial resources and enhance efficiency through the allocation of expenditures in a way that serves the national economic diversification strategy and addresses oil price volatility.

Research Problem: Based on the above, we pose the problem of budgetary reform from the perspective of achieving economic equilibrium and improving economic indicators. Therefore, before delving into the reform, it is necessary to identify the real reasons that necessitated the budgetary reform. How can budgetary reform improve economic growth through the adoption of optimal resource utilization and the achievement of results?

Hypotheses: To answer the problem, we propose the following hypotheses:

- The input and line-item budget management approach is inconsistent with the financial procedures and economic orientations for revitalizing the national economy.
- A results-based program budgeting policy enables us to evaluate the performance of fiscal policy and government programs and rationalize public spending.
- Adopting a results-based management approach and focusing on sectoral programs leads to an improvement in the financial and economic situation of the state.

Study Objectives: The study aims, through an implicit comparison between two methods of budget management at the level of the general budget from line-item and input budgeting to results-based and performance-based program budgeting—to clarify the objectives of budgetary reform by directing budget management towards medium-term program planning with annual commitments according to the objectives set within the program portfolio of the ministerial sectors, which fall under the orientations of the state's general policy aimed at revitalizing the national economy and improving public life.

Literature Review:

The modernization of public budgeting systems represents a crucial endeavor for countries seeking to enhance fiscal discipline, improve the delivery of public services, and align government spending with strategic objectives (Blöndal, 2012; Zouhar, 2021). In a study by Ben Ghaouider, it is noted that there is a significant shift away from traditional budget models (Ben Ghaouider, 2023), often described as input-based or relying on a "logic of consumption," towards performance or program budgeting systems that focus on results and a logic of performance or operation (Benabdallah, 2006; Blöndal, 2012). This shift reflects a growing recognition that effective public financial management is crucial not only for achieving macroeconomic stability but also for realizing broader social and economic goals, including the efficient allocation of resources and accountability for achieved results (Chornovol et al., 2020; Zouhar, 2021).

Traditional budgeting systems (such as line-item budgeting, like those historically used in Algeria under Law 84-17) often face criticism for their rigid focus on input items and incremental annual adjustments, and their lack of a clear link between allocated funds and policy objectives or public service delivery performance (Ben Ghaouider, 2023; Blöndal, 2012). These systems typically operate on an annual basis, hindering multi-year planning, and lack transparency and results accountability mechanisms (Ben Ghaouider, 2023; Djaadi M., 2022). These limitations can pose a particular challenge for economies dependent on rentier resources like Algeria, where volatile revenues primarily from hydrocarbons necessitate robust financial frameworks and strategic resource allocation to promote economic diversification and stability (Bouisky Halima and Aissani El Arem, 2020; Djaadi M., 2022). The imperative to move beyond a rentier economic structure and enhance the effectiveness of public spending provides a strong impetus for budgetary reform in the Algerian context (Djaadi M., 2022).

Performance and program budgeting, as increasingly adopted by many OECD countries and emerging economies, offer a different approach and method (Blondal, 2012; Zouhar, 2021). This model is based on setting clear policy objectives, structuring budgets around programs designed to achieve these objectives, and the systematic

measurement and reporting of performance (Ben Ghaouider, 2023; Blöndal, 2012). Key institutional features associated with successful implementation include medium-term expenditure frameworks (*MTEFs*) that provide a multi-year perspective, a shift towards top-down budgeting techniques to enforce fiscal discipline (which we will refer to later in detail), increased budget transparency, and a focus on outcomes rather than merely controlling inputs (Blöndal, 2012; Zouhar, 2021). This often involves granting managers greater flexibility over inputs in exchange for stricter accountability for results, a "trade-off" central to modern public financial management reforms (Blöndal, 2012).

However, international experience highlights significant challenges in transitioning to and effectively implementing performance budgeting. Establishing meaningful performance indicators, developing robust monitoring and evaluation systems, fostering a performance-oriented culture within public administration, and ensuring adequate institutional capacity are crucial but demanding prerequisites (Blöndal, 2012; Zouhar 2021).

In Algeria, this transformation is officially based on the modernization of the budgetary system, particularly through the implementation of Organic Law No. 18-15 relating to finance laws (Ben Ghaouider, 2023; Boukelthoum, 2024; Djaadi M., 2022). This legal framework represents a fundamental shift, mandating the transition from a traditional input-based budget to a system organized around programs and performance evaluation (Ben Ghaouider, 2023; Djaadi M., 2022). A key component of this reform is the introduction of the Medium-Term Budget Framework (MTBF), designed to align annual budgets with multi-year strategic planning and fiscal discipline (Boukelthoum, 2024). The stated goal is the full implementation of this program and performance budgeting approach starting from the 2023 fiscal year (Ben Ghaouider, 2023; Djaadi M., 2022).

The objectives underlying the Algerian budgetary reform are multifaceted. First, the transformation aims to improve the effectiveness and efficiency of public spending by focusing on results and measuring performance (Ben Ghaouider, 2023; Boukelthoum, 2024). This includes strengthening accountability mechanisms for public managers and providing a clearer basis for evaluating the impact of public policies (Ben Ghaouider, 2023). Furthermore, the reform is explicitly linked to supporting the national economic diversification strategy, aiming to direct resources more effectively towards productive sectors outside hydrocarbons and reduce the economy's dependence on oil revenues (Hamidi, 2017; Djaadi M., 2022). By rationalizing public spending and aligning it with strategic national priorities, the new budgetary framework seeks to overcome the limitations of the previous system (line-item budgeting) and promote sustainable and diversified economic growth (Benabdallah, 2006; Djaadi M., 2022). This shift represents a conscious effort to move from a passive, consumption-oriented management of rent revenues to a more active, results-based "exploitation" of resources for broader economic development.

Therefore, the Algerian reform, scheduled to begin implementation in 2023, will need to overcome these challenges and address potential shortcomings in areas such as information systems and clear procedural guidelines to achieve the expected benefits of improved efficiency, accountability, and strategic alignment (Ben Ghaouider, 2023).

Based on the aforementioned, we find that previous studies have addressed budgetary reform and budget management from the perspective of fiscal policy objectives within the framework of the interventionist and welfare state, without addressing the impact of fiscal policy implementation in the context of budgetary reform and the modernization of budget management on national economic indicators and the real objectives of state intervention in the general economy.

In the following section, we will discuss the budget systems in Algeria and the technical transition to a results-based program budgeting system within the framework of the budgetary reform according to *Organic Law (LOLF) 18-15 of September 02, 2018, relating to finance laws in Algeria*.

1. The Management of Line-Item Budgets and Their Impact on the Algerian Economy

Law No. 84-17 of July 07, 1984, relating to finance laws, is considered the first financial constitution of Algeria after independence. Public finance management in Algeria continued to comply with the French *Order of January 02, 1959*, relating to finance laws, despite the introduction of amendments and orders from the Council of the Revolution regulating the general framework for the preparation of finance laws (Ben Azouz, Z, Zerouk Mohamed, and Si Mohamed, 2023, p. 616), until the promulgation of the aforementioned Law 84-17. This law was considered the cornerstone of the provisions and guidelines for the preparation of annual finance laws, including the general provisions defining finance laws and addressing the general budget, its types, and structure, in addition to addressing other types of the general budget and how to prepare them, starting from the initial finance law, then the supplementary or amended law, and finally the budget settlement law. It also included the documents annexed to the finance law, divided into (Meftah, F, 2016, pp. 322-325):

Table (A) for revenues, under the title of fiscal year N.

Table (B) distributing the ministerial sectors for the appropriations opened in the operating budget.

Table (C) including the distribution of expenditure appropriations among various sectors according to the national program authorization plan under the capital expenditure budget or government investment expenditures and operations.

Special tables: including quasi-fiscal revenues, considered as quasi-fiscal duties, rights, fees, and royalties.

The budget code was based on input and line items, known as traditional budgeting, divided into two codes: *the general revenue code* and *the general expenditure code*, which are further divided into *divisions, chapters, articles, and paragraphs*. .

1-1. Public Expenditure Policy in Light of Centralized Planning and Development Programs:The central planning period in the Algerian economy was characterized by reliance on a public investment spending policy to embody a developmental policy and on oil revenues for its financing, through the application of the "*manufacturing industries*" model, or the 1980s period of self-correction and the restructuring of public institutions. However, following the oil crisis and the decline in oil prices, the pace of public investments slowed down due to the funding deficit and the decrease in foreign currency revenues. This led to the period of radical reforms with the adoption of a market economy at the beginning of 1989, in agreement with the International Monetary Fund, to curb the increasing budget deficit and restore macroeconomic equilibrium, while imposing austerity economic policies by reducing the volume of spending through controlling the wage bill and prioritizing public investments, lifting subsidies on subsidized products by reducing social transfers, in addition to tax reform. Consequently, the medium-term central plans were abandoned, and annual plans were adopted based on annual budgets formulated according to the availability of the tax base (Meddahi, 2022. p06-11). With the financial abundance at the beginning of the 2000s and the rise in oil prices, fiscal policy shifted towards an expansion in public spending for economic recovery, mainly relying on increased public expenditure financed by oil revenues. This involved initiating the Economic Recovery Program (2001-2004), which was allocated a financial envelope of 525 billion Algerian dinars, followed by the Growth Support Program (2005-2009) with a financial envelope estimated at 4202.07 billion Algerian dinars, and then the Growth Consolidation Program (2010-2014). To implement this latter program, a substantial budget of 21803 billion Algerian dinars was allocated, which included the completion of major ongoing projects, and finally the five-year program (2015-2019) with an initial budget estimated at 21000 billion Algerian dinars (Djedi, 2018).The state's heavy dependence on hydrocarbon revenues undermined efforts to diversify the economy, and public spending became increasingly vulnerable to fluctuations in global oil prices.

Based on (Meddahi, 2022), the sectoral contribution as a percentage in the formation of Algeria's Gross Domestic Product (GDP) during the implementation period of these programs shows an increase in the contribution rate from oil revenues during the implementation of the Economic Recovery Program and the Complementary Growth Support Program from 35.22% to 41.96% on average and respectively. This coincided with the recovery of global oil prices. In contrast, a decrease was observed in the period from 2010 to 2014, reaching 32.39% (Meddouri, 1999 · p. 262).

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This contribution reached its lowest level throughout the implementation of the programs in 2016, where it reached 17.4%. This decline is attributed to the collapse of global oil prices during that period and not to an improvement in the contribution of other sectors of the local economy to the GDP.

Figure 01 : Annual Financial Transactions Related to Government Programs by Wilayas in 2017

وضعية العمليات المبلغة عند نهاية 2017، حسب البرنامج والولايات
الوحدة: الاف الدنانير

الولاية / البرنامج	عدد العمليات	رخصة البرنامج الأولية	رخصة البرنامج النهائية	اعتمادات الدفع
البرنامج التكميلي لدعم النمو				
الجزائر	47	16 957 179	23 155 315	23 145 315
الجلفة	24	1 303 875	2 049 285	2 049 285
تلمسان	73	3 700 980	8 446 680	8 319 480
يومرداس	26	3 130 677	6 431 877	6 431 877
المجموع الجزئي	170	25 092 711	40 083 157	39 945 957
برنامج دعم النمو الاقتصادي				
الجزائر	59	5 338 750	6 126 000	2 599 216
الجلفة	23	1 090 842	1 442 242	1 096 110
تلمسان	44	3 964 750	4 749 150	4 493 273,76
يومرداس	43	2 748 175	4 166 575	3 623 175
المجموع الجزئي	169	13 142 517	16 483 967	11 811 774,76
المجموع	339	38 235 228	56 567 124	51 757 731,76

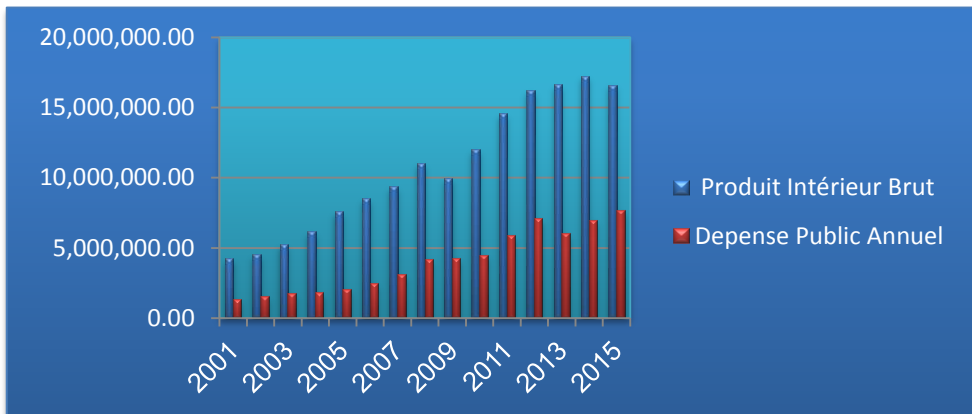
المصدر: وزارة الداخلية والجماعات المحلية والتهيئة العمرانية.

Source: National Office of Statistics (ONS), Algeria, 2018

1-1-1. The Impact of Windfall Revenues on Public Spending: Reliance on oil revenues, which constitute a significant portion of national income through taxes paid by the oil sector, particularly foreign companies, tends to be associated with a lack of accountability (Abushamsieh et al., 2014, p. 467). Capital expenditure is often the first item to be reduced in the face of increasing fiscal pressures during downturns, reflecting a bias against investment (Essama-Nssah and Moreno-Dodson, 2011). In resource-rich countries, the cyclical nature of public spending can be asymmetric, exhibiting pro-cyclical spending during prosperous times, where unexpected gains are shared with the population in the form of higher wages, increased public sector employment, and larger subsidies, and counter-cyclical or acyclical spending during difficult times. When this persists, it often leads to excessive debt accumulation and generates macroeconomic instability, accompanied by rising inflation and a decline in the purchasing power of the most vulnerable groups (Zouhar, 2021, p. 11). Starting from 2001, the Algerian economy experienced unexpected gains from oil revenues, which entrenched the dominance of the rentier sector through the implementation of a budget dependent on injecting and spending

based on financial abundance. This contributed to raising the Gross Domestic Product (GDP). In contrast, the real productive sectors, agriculture and industry, withdrew due to the absence of planning and the poor optimal exploitation of these revenues across the various implemented programs. According to Al- (Djaadi M., 2022), oil rentier states witness a unique growth model in their economies by investing rentier income with attention and focus on public policy priorities at the expense of other sectors, including the private sector, whose interest lies in its dependence on the public sector; The public sector exerts a form of dominance over the rest of the sectors in the economy (Latrache, 2013·p.04). This leads to their inability to develop long-term plans and link them to medium-term expenditure frameworks and annual budgets, thereby hindering the path of economic diversification.

Figure 02: Evolution of Public Expenditure and the Gross Domestic Product (GDP) Curv



Source:

National Office of Statistics (ONS), Algeria, 2016

The figure 02 indicates that annual public expenditures experienced a continuous increase until 2012. This is attributed to the financial abundance resulting from the recovery of oil prices. A slight decline was observed in 2013, coinciding with the fall in oil prices. Despite this, a resurgence in public expenditures was recorded, which is due to the adoption of deficit financing to cover the budget gap.

Among the conditions for deficit financing and fiscal prudence are:

- Increased borrowing must be consistent with a sustainable fiscal policy, as a large fiscal deficit is a source of macroeconomic instability (Zouhar, 2021, p. 57).
- The government should shift its focus from controlling the level of the deficit to controlling the level of expenditures. These spending limits should be based on prudent economic assumptions for the economy (Blöndal, 2012, p. 789).
- Reconciling the demands of administrations, government commitments, and revenue projections. This operates under the influence of strong constraints such as

inflation, labor contracts that determine wage increases for state employees, increased demand for health and education services and service facilities, debt servicing, increased spending on social assistance, exceptional expenditures, and dedicated accounts and funds such as the Highlands Support Fund and the Amazigh Language Support Fund, among others.

2.The Modernization of the Budgetary System: Towards Results-Oriented Budgeting and Performance-Based Evaluation

Results-Based Management (RBM), or **Gestion Axée sur les Résultats** (GAR) in French, is a modern approach in public management aimed at directing strategic, human, and financial efforts towards achieving desired results in the short, medium, and long term. This approach involves formulating public policies based on the principle of management focused on achieving measured outcomes, starting from predefined objectives and an understanding of the public interest, and should be subject to evaluation and accountability (Cliche, 2015, p. 23-61).

2-1. The Imperative of Reforming and Modernizing the Budgetary Framework: according (Zoulikha, 2024) argues that the existing line-item budgetary system has been characterized by shortcomings and flaws that have led to its failure in achieving economic objectives and diversifying the sources of budget revenues. Financial laws have frequently resorted to supplementary financial laws without establishing a multi-year strategy. Furthermore, the defined timeframe for budget programming is insufficient and needs to evolve towards adopting a multi-year medium-term framework. Deficiencies have also been noted in the format of the line-item budget, such as the duplication between the operating budget and the capital budget, ambiguity, and inconsistency in expenditures. Additionally, there is an overestimation in special allocation accounts by ministerial departments and a lack of defined responsibilities and transparency in management. Financial management is based on the principle of legality while neglecting efficiency, effectiveness in performance, and accountability. In short, the budget management system in Algeria, based on the line-item and means budget, has proven its failure to keep pace with external changes and its inability to implement financial corrections in budgetary systems and the macroeconomy.

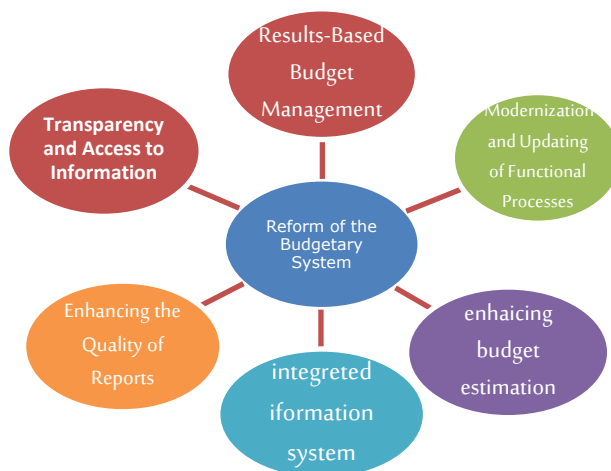
2.2. Stages of Modernizing the Budgetary System and Updating Financial Laws: Algeria has embarked on a series of reforms within the framework of fiscal and accounting reform and the modernization of budget management, in line with the requirements of modern trends in public finance and to optimize the use of financial resources and rationalize spending. To this end, it has concluded several agreements with international bodies to implement the reform in the form of an organic law governing financial laws.

2.2.1. International Agreements for Modernizing the Budgetary System

Driven by the need to keep pace with international reforms aimed at improving public management and modern administration, an agreement was reached with the World Bank in 2001 for a loan (Loan No. 7047 dated April 18, 2001). This loan aimed to finance the budgetary reform program. Despite a delay exceeding three years, the agreement resulted in a series of reports concerning the financing of fiscal reform, focusing on the following points: the multi-year framework, improving budget presentation and disclosure, and the public expenditure cycle (Ahmed, 2019; In addition, a contract was established with the Canadian firm for economic and social consulting, *CRC SOGEMA*, through the conclusion of an agreement for two projects: **Project 1:** 2004/2007, titled "Budget Modernization System," funded by the World Bank. **Project 2:** 2008/2012, a continuation of the first project, primarily aimed at managing and rationalizing public spending

In response to these two projects, the consultative group was established, leading to the adoption of a results-oriented budget within the modernization of budget management. Furthermore, principles were enshrined in addition to the traditional principles of transparency, performance, and accountability for the management of public expenditures..

Figure :03 Goals of Budgetary Reform Based on Organic Law 18-15 in Algeria



2-2-2. Transition Towards a Results-Based Program Budget within the Budgetary Reform Framework:The first of these steps initiated by Algeria in implementing this reform was the promulgation of Organic Law No. 18-15 related to Finance Laws of 2018 (Organic Law 18-15, 2018), which was followed by the issuance of a series of executive decrees working towards its application and contributing to creating a conducive environment for its implementation (Hireche & Rafea, 2021). This law sought to strengthen the modernization of budget management in a way that ensures transparency and reliability in the management of public

funds, through a comprehensive revision of the budget preparation and execution system based on accepted international practices.

Organic Law No. 18-15 related to Budget Laws is defined as the legislative framework governing the preparation, execution, and control of finance laws and is considered a financial constitution (Sabaa, 2020). It is intended to bring about a profound reform of public management by defining the objectives to be adhered to and achieved, while activating the control system. Specialists considered it the result of an effort between the executive authority and the approval of the legislative authority.

2-3. Key Orientations of Organic Law 18/15 Related to Finance Legislation: The Key Directions Introduced by the Law, Which Came into Effect in 2023, with 2022 Selected as the Reference Year, Notably Including: (Saba, 2020)

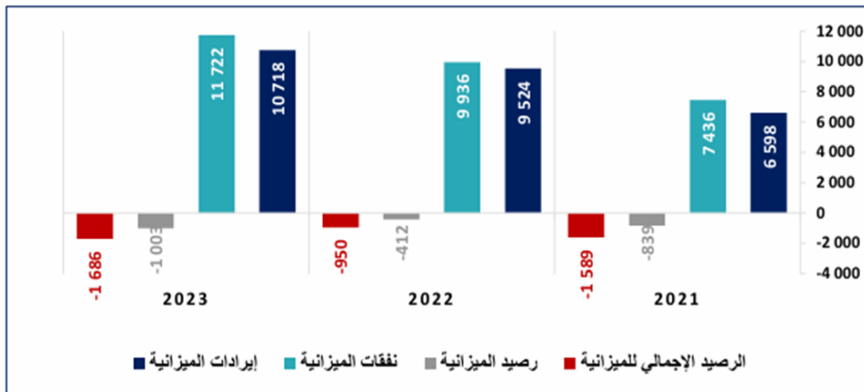
2.3.1. Enhancing the Structural Balance of the Budget: The state's fiscal policy is committed to rationalizing public spending through a series of measures, particularly those related to operating expenditures. The law also aims to finance the budget through ordinary revenues to achieve sustainability and continuity, and to adopt a strategic perspective by establishing a multi-year budgetary system to facilitate the budgetary process and achieve objectives through program planning and ensuring continuity to enhance monitoring of implementation and the effectiveness of fiscal policy application (Djaadi, 2022, p. 204). This is in addition to providing financial support to financial institutions that work to support growth and encourage investment in productive sectors.

Currently, Algeria's budgetary policy relies on financing deficits through domestic financing methods without resorting to external borrowing up to the date of this research. These domestic financing methods take the form of borrowing from commercial banks and the central bank, and issuing government bonds for trading in financial markets. These sources vary in their impact. Borrowing from the central bank, which takes the form of an increase in the money supply to finance treasury deficits, does not operate under the constraint of necessarily reducing credit granted to others in the event of an expansion of credit to the government. However, it may be accompanied by a rise in prices in markets and financial assets. As for the sources of banks and the private sector through the issuance of government bonds for acquisition and deficit financing, these entail bearing interest payments. Therefore, the net contribution to this financing is less than the total contribution and, as we will see, it is included annually within the government loan interest expenses (Kourdoudi, 2018, p. 200).

The Algerian economy recorded a deficit in the general budget attributed to the growth of public spending without effective performance of programs, which are primarily of a social nature. This led to an increase in the annual budget deficit,

where the budget balance witnessed a significant deterioration in 2023, moving from a deficit of 441.51 billion Algerian dinars (2022) to a deficit of 1003.48 billion Algerian dinars (2023), representing an expansion of 143.85%, which constitutes 3.08% of the Gross Domestic Product.

Figure 04: Main Public Finance Indicators for the Period 2021-2023 (in Billions of Dinars)



Source: Bank of Algeria. (2024, June). [Economic and Monetary Evolution]. Bank of Algeria

2.3.2. Designing and Preparing the Medium-Term Budgetary Framework: This is achieved through three stages, within the framework of preparing a budget based on results and performance, which adopted the following hierarchical approach:

A) The Medium-Term Budgetary Framework (MTBF): The MTBF falls within a three-year financial programming horizon, reflecting the situation for the current year (n) and the two subsequent years (n+1 and n+2) for estimates of expenditures, revenues, budget balance, and public debt. This is in line with the sectoral guidelines to be financed by the state. It allows for the establishment of budget management from a multi-year perspective, starting from the current assessment of the fiscal year and defining the main strategy for the following years. This enhances the consistency of sectoral policies and increases the efficiency of joint allocation, thereby ensuring the effective and efficient allocation of resources.

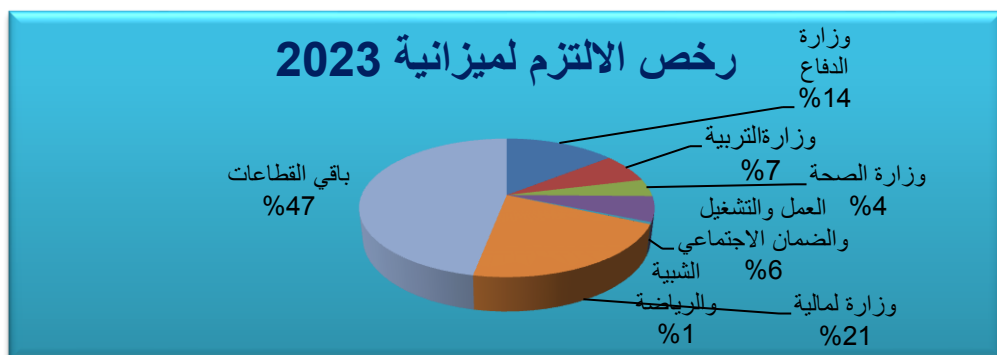
According to Decree No. 20-335 of 2020, the MTBF aims to:

- Strengthen macroeconomic balance and budgetary discipline.
 - Improve the allocation of potential resources according to expenditure priorities based on strategic choices.
 - Enhance budgetary measures and rationalize spending.
 - Ensure sustainable financial coverage and evaluate budgetary prospects.
- This is based on several data points taken into account when designing the medium-term framework:
- The evolution of ordinary tax collection and hydrocarbon revenues.

• The evolution of spending the treasury's financial situation as well as developments in the Gross Domestic Product and the general price level. (Chugunov et al., 2020) argue that a medium-term budget framework should include procedures aimed at determining the following:

1. Multi-year budget targets regarding the national deficit, debt level, and other general financial indicators. 2. Promising assessments based on a stable policy assumption for each type of revenue and expenditure in the state budget, with aggregated data on specific sectors of the federation and social insurance for the current and subsequent fiscal years. 3. A description of the measures planned for the medium-term perspective that affect the national financial situation, identifying the main types of revenues and expenditures. 4. An assessment of issues such as the planned measures for policy measures; it should be considered that their direct long-term effects on national opportunities will likely affect the sustainability of public finances in the long run.

B) The Medium-Term Expenditure Framework (MTEF): For each program portfolio, the MTEF defines a multi-year expenditure program over three years. It is prepared through discussion sessions and the formulation of proposals that are prioritized within the major budgetary guidelines, particularly maintaining budgetary equilibrium. The proposals of ministers and program managers fall within the spending ceilings defined in the expenditure allocation by program portfolio in the guiding note. The estimates are primarily an assessment of the needs of departments and agencies and the allocation of revenues assigned to them. The Minister of Finance, responsible for preparing the government expenditure budget, evaluates and adjusts these needs. This process seeks to reconcile the demands of departments with government commitments and revenue projections. In parallel, economic conditions such as inflation, labor contracts that determine wage increases for state employees, increased demand for health services, debt servicing, etc., are considered. Economic downturns can also lead to increased spending. Consequently, an economic recession leads to increased spending on social assistance and exceptional expenditures to stimulate economic activity. Generally, the needs expressed by departments and agencies to maintain and improve their programs exceed the government's policy margin (*budget ceiling*), so priority choices must be made, and budget rationalization measures must be taken. Thus, in 2023, as shown in the figure below, the Ministries of Defense, Health, Social Services, Education, and Leisure and Sports accounted for the lion's share of the increase in appropriations. Out of an additional \$24 billion in appropriations compared to 2022, nearly 76% was allocated to these sectors.



source: Compiled by the Researcher Using Data from the Ministry of Finance Website, 2023

The figure illustrates the orientations of public policy as reflected in the targeted ministerial sectors. For instance, providing security and developing the army are prioritized due to Algeria's geostrategic location and the instability in the Sahel region, falling under the "Protection and Security" program. Public policy has also been directed towards the employment sector, which includes several ministries holding public sector jobs, such as the Ministry of Education. The Ministry of Education allocated approximately 1.2 billion Algerian dinars to the "General Administration" program, which falls within the program portfolio of that ministry.

Figure 05: Prepared by the Student, Illustrating the Public Budget of Algeria for 2022-2023 from the Ministry of Finance Website"



The comparison is made between the two years chosen by the figure, considering the year of implementation of Organic Law No. 18-15. The indicators of 2022 were considered as an initial benchmark, and for the first time, medium-term programs were established for ministerial sectors. This allowed for the recording of positive burdens and differences between the two years, attributed to the adoption of

programs and the allocation of appropriations based on estimated costs, regardless of financial surpluses.

However, medium-term expenditure frameworks themselves are not without their own problems. (Blöndal, 2012) points out that medium-term expenditure frameworks face several issues, which have been divided into three groups; most OECD member countries have also encountered these problems:

There is a tendency to overestimate the growth potential of the economy when making multi-year forecasts. This has made excessive resources available during the forecast period and created upward pressure on public spending.

Ministries and departments considered their allocations of resources during the forecast period as an entitlement, leading to difficulty in making subsequent revisions to expenditures, even if an error was discovered in the basis upon which the allocations were made.

Multi-year budget forecasts are made in real terms rather than nominal figures. This is particularly problematic in the face of rising inflation rates, which increases expenditure levels and makes them difficult to cover on the revenue side, leading to further pressure on public finances (Blöndal, 2012, p. 787).

Therefore, it is necessary to use more rigorous and "cautious" economic forecasts to avoid over-allocation of resources and to estimate public finance resources in nominal terms.

C) Budgetary Commitment Framework: This is a document through which budgetary expenditures for a single year are evaluated, reflecting the usual level of expenditure commitments in the implementation of the state budget. The expenditure commitment plan is prepared by the minister and shows, on a monthly or quarterly basis, the level of commitment for each program and its sub-sections, taking into account the level and pace of implementation for the last known fiscal year, and the levels adopted and included as proposals within the medium-term expenditure framework submitted by the minister and the program manager (Article 11 of Decree No. 20-335 of 2020), in addition to:

- Mandatory and non-compressible expenditures such as salaries.
- The hierarchical ordering of priorities for each sector.

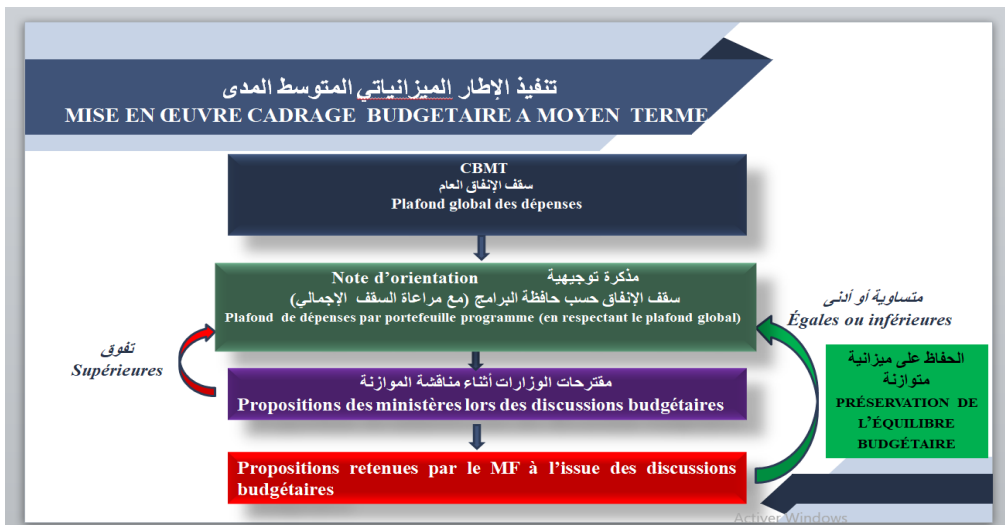
The proposed expenditure commitment levels from the minister or the head of the public institution, under the expenditure commitment plan, are presented to all program managers, who in turn prepare a practical commitment plan that must be communicated to the competent comptroller. Commitment levels can also be reviewed during the fiscal year exceptionally and for justified reasons.

Achieving a balance between revenues and expenditures is based on a set of forecasts that rely on assumptions that evolve over time, especially a set of measures that also do not have a stable return. Therefore, it is necessary to assess

the evolution of the economy and income several times a year. The Ministry of Finance, through its departments and branches, carries out this process throughout the year to address changes in financial data, especially concerning the revenue side. This falls under the policy of forecasts and economic and financial vigilance. Through financial reports and the review of commitment authorizations, data is also established for the guiding note for year n+1.

Pro-cyclical spending has negative effects on equity and growth by exacerbating macroeconomic instability and reducing social and investment spending. Unwanted efforts to correct public finances can put pressure on productive public spending that supports growth and the long-term sustainability of public finances.

Figure 06: Compiled by the Researcher Based on the Budget Preparation Framework of Organic Law 18/15 and the Seminar on Budgetary Reform and Organic Law (General Inspectorate, 2023)



2.4. Management by Programs and Enhancing the Analytical Capacity of

Inputs: This refers to the allocation of appropriations according to the programs outlined by ministers for various sectors. In other words, the program is the operational unit for budget implementation (Gouider, 2023). It falls within the program portfolio specific to each sector, with the program branching into sub-programs and then into activities and sub-activities as needed. Programs are formulated in accordance with strategic orientations and government plans and activities, starting from a focus on priorities within each medium-term budgetary framework. The registration of a program is subject to study, analysis, and evaluation according to specific criteria. In this regard, the definition of program objectives is based on effectiveness, economic and social feasibility to achieve the quality of public service and improve the optimal exploitation of available resources, with consistency and clarity in objectives to be measurable according to

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performance indicators for each fiscal year (Executive Decree No. 20-403/2020). Furthermore, public investment operations are subject to feasibility studies and project maturity before their registration and the preparation of a file called the "Maturity File" (Djaadi, 2022), which contains an assessment of the technical and economic impact of the operation, in addition to evaluating the costs related to the program and the schedule of programmed expenditure due dates with commitment authorizations according to the estimated situation of recurrent expenditures.

2.4.1. data Analysis of public Budget:The balances of public finances witnessed a notable deterioration in 2023, with the fiscal deficit doubling to 3.08% compared to 1.28% in 2022. This is explained by the increase in public expenditures (17.97%) at a faster rate than budget revenues (12.54%). Transfer expenditures took the lion's share, increasing by approximately 29.9%. Regarding revenues, they were supported by non-hydrocarbon revenues, which increased by 28% between 2022 and 2023. The net treasury loans recorded an increase of 2.49% in 2023 compared to 2022, with the balance of special accounts shifting to a deficit of 25.29 billion Algerian dinars. Non-hydrocarbon revenues constituted 43.86% of the total budget expenditures in 2023. This development compared to 2022 is a result of supporting public expenditures within the framework of strong economic growth in the non-hydrocarbon sector.

In fact, taxes on income represented the main source of tax revenue at 44.69% of total tax revenue. This is attributed to the increase in the overall income tax (IRG) and the corporate profit tax (IBS), which recorded 529.39 billion Algerian dinars during the same period. This increase is due to the recovery in economic activity.

Figure 07: Tax Revenue of the Public Budget of Algeria for the Years 2022-2023

2023	2022	الإيرادات الضريبية
%44,69	%41,83	الضرائب على المداخيل
%40,03	%42,01	الضرائب على الاستهلاك
%10,13	%11,29	الرسوم الجمركية وما يعادلها
%3,37	%3,08	الضرائب والرسوم الأخرى
%1,72	%1,70	الضرائب على رأس المال
%0,07	%0,08	إيرادات الغرامات

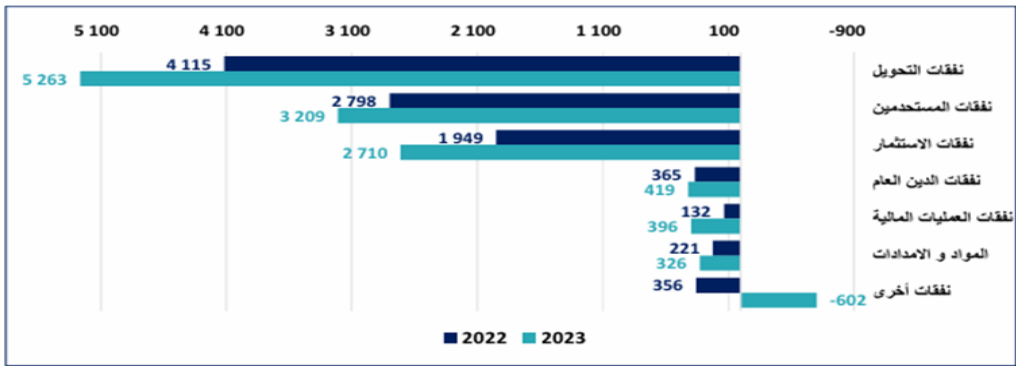
Source: Bank of Algeria. (2024). [Economic and Monetary Evolution]. Bank of Algeria.

Expenditures under the new practices of the general budget recorded an increase estimated at 17.97% in 2023 (the year of implementation of Organic Law 18-15). The significant increase in budget expenditures (11721.53 billion Algerian dinars)

directly affected the ratio of budget expenditures to the total Gross Domestic Product (GDP), which reached 35.97% in 2023 compared to 31.02% in 2022.

The analysis of the expenditure structure reveals that the significant increase is mainly attributed to the rise in capital expenditures. Despite its relative share of 26.5% of total expenditures, capital expenditures, according to the Bank of Algeria's report, played a crucial role in the overall dynamics of total public spending, contributing approximately 57.41% to the total increase recorded in 2023.

Figure 08: Structure of Public Budget Expenditures of Algeria in Billions of Dinars for the Years 2022-2023



Source: Bank of Algeria. (2024). [Economic and Monetary Evolution]. Bank of Algeria.

It should be noted that public debt expenditures witnessed a notable increase of 14.78% in 2023, amounting to 419.45 billion Algerian dinars compared to 365.42 billion Algerian dinars in 2022. Despite its low proportion in total expenditures, the burden of public debt contributed only 3.02% to the increase in total expenditures (Bank of Algeria, 2024).

Managing public debt is one of the important tasks aimed at providing a dynamic balance to the budgetary system by reconciling budget and debt strategies. Debt management is not merely a forecast of the debt burden but also a tool that provides an opportunity to ensure the achievement of specific tasks by public administration in the budget sector. Furthermore, it is possible to achieve a higher level of economic growth than the level resulting from the choice of targeted social planning in ensuring the well-being of all generations (Chugunov et al., 2019, 2020).

2.5. Formulation and Monitoring of Performance Indicators and Output Evaluation: The program constitutes the new allocation of the budget; therefore, it must be supported by a strategy, objectives, and quantitative and qualitative performance indicators (Sabaa, 2020). There are two schools of thought on this subject. The first argues that any target will either be set too low to be guaranteed to be achieved or too high to ever be achievable. The second school believes that setting targets is a very important tool to ensure that agencies focus on those aspects of their operations that are considered high priority from a political point of view

(Blöndal, 2012, p. 794). These elements must appear in documents that are formulated, designed, and attached to the draft budget. Each program must contain specific annual performance indicators. In this regard, outputs are evaluated based on the assessment of programs that reflect public policies, and through the evaluation of reports submitted by the government that track the implementation of the finance law. The latter is enhanced through the briefing of parliamentary committees on government activity, promoting accountability and oversight, and the extent to which results are achieved, with explanations provided by program managers for the discrepancies observed through performance indicators (Law No. 18-15, 2018).

Taking into account the values and characteristics of governmental and sectoral institutions of the state, management tools allow for the measurement, evaluation, and reporting of the degree of achievement of outcome objectives, the quality of outputs, and the impact of public service delivery. This involves the use of objectively verifiable indicators, established at the level of each department and directed at officials regardless of their hierarchical level, so that they can know the progress made in projects, programs, or policy guidelines that they must implement and for which they must achieve a specific goal. Therefore, these tools allow for the improvement of public performance management (Mazouz, 2017, pp. 24-64).

The main objective of justifying performance indicators is to promote financial discipline and efficiency by ensuring control over the use of budget funds. This also contributes to increasing the level of predictability of public expenditures and the interoperability of activities by participants in budget processes (Chugunov et al., 2019, 2020).

2.5.1. Analysis of Growth Rates and Public Performance Indicators within the Framework of Public Investment: The Algerian economy recorded a recovery and strong growth in 2024, supported by a rebound in the extractive industries sector's output and the solid performance of the agriculture, construction, and services sectors, with a growth rate reaching 4.1% in 2023 compared to 3.2% in 2022. This recovery, exceeding the global growth rate of 3.2% in 2023, is attributed to the Algerian economy's recovery after the global health crisis period, registering significant growth between 2015 and 2023. This growth is also explained by the increase in aggregate demand resulting from the noticeable expansion in domestic spending (+7.9%) and the recovery of exports (+3.1%). This rise in aggregate demand is mainly due to household final consumption, which increased by 3.8% compared to 3.5% in 2022, accompanied by an increase in imports to cover aggregate demand.

Regarding the analysis of the Gross Domestic Product (GDP) by economic sector, seven sectors account for 80% of the total GDP. Extractive industries rank second, registering a recovery after the recession experienced in 2022, with a growth of 4.5% in 2023, contributing 22.9% to the overall growth, mainly driven by the

growth of oil activity. The construction sector recorded a growth of 3.7%, and the agriculture, fishing, and forestry sector, which received support from the state, registered a growth of 3.5% in 2023, thus contributing 8.4% to the overall growth, representing 12.9% of the GDP (Bank of Algeria, 2024).

Figure 09: Growth Rate Based on Value Added for the Reference Year 2001.

Taux de croissance annuelle des valeurs ajoutées aux prix chaînés (Base 2001)						
Secteur d'activité	2018	2019	2020	2021	2022	2023
Agriculture, Chasse et Sylviculture	3.3	2.8	2.8	-2.3	5.3	3.0
Pêche, Aquaculture	1.8	-6.7	3.6	1.6	-0.3	-0.4
Branche Unité Fictive (BUF)	3.8	3.1	1.2	-2.6	1.9	3.0
Industries extractives	-12.1	-8.4	-20.9	19.8	-5.1	4.9
Industries manufacturières	2.5	2.3	3.4	5.4	12.8	2.4
Production et distribution d'électricité, de gaz	3.7	4.4	-1.1	3.3	5.6	4.5
Construction	7.8	4.7	-1.3	5.8	4.0	3.4
Commerce, réparation-auto et d'articles domestiques	2.7	2.0	-4.1	3.5	4.4	5.5
Hôtels et restaurations	5.4	-7.0	-60.8	33.4	55.7	19.7
Transports, et communications	3.6	2.2	-7.2	3.8	4.3	2.6
Activités financières	4.5	3.8	-1.9	-1.6	2.2	4.4
Immobilier, location et services aux entreprises	3.3	1.9	4.0	1.5	3.7	2.6
Administration publique	2.8	1.4	0.3	0.6	2.2	2.7
Education	2.5	1.7	-2.8	1.2	1.9	2.0
Santé et action sociale	3.3	2.0	15.3	7.4	1.5	2.7
Services collectifs sociaux et personnels	4.5	3.4	-3.1	5.0	3.1	2.3
Services domestiques	2.9	1.8	-4.7	-1.7	2.7	1.8
Valeurs Ajoutées Brutes	1.8	0.8	-4.4	4.4	3.9	3.7
Impôts sur les importations	-15.7	15.8	-24.5	-14.2	-11.3	10.4
Autres impôts sur produits nets de subventions	-0.2	-1.2	-11.3	-1.3	2.9	10.1
Produit Intérieur Brut	1.4	0.9	-5.0	3.8	3.6	4.1

Source: National Office of Statistics (ONS), Algeria, from the website.

Results:

Based on our analysis of the data before and after the reform, the study arrived at the following results.

- **Lack of Strategic Vision During Periods of Financial Abundance:** The analysis revealed that the financial surpluses accumulated since the early 2000s—primarily due to soaring oil revenues—were not invested within the framework of a coherent and effective economic strategy. Instead, these surpluses reinforced a rentier and consumption-driven expenditure pattern marked by inefficiency and short-sightedness, alongside a diminishing role for economic planning and strategic prioritization.
- **Poor Governance and the Escalation of Financial Corruption:** The study demonstrated that weak governance and the prevalence of rent-seeking practices—particularly in rentier states reliant on hydrocarbon exports—have significantly contributed to the erosion of public resources and hindered the

effectiveness of fiscal policies. These findings underscore the urgent need for structural reform in public financial management.

- **The Necessity of Adopting Budgetary System Reform:** This situation led to the emergence of a national consensus, supported by international institutions, on the necessity of adopting fundamental reforms that address the core of fiscal policy. This includes modernizing the budget preparation system by transitioning from a structural allocation model to one based on programs and performance, focused on results. The reform project emphasizes the establishment of modern public management principles, such as enhancing expenditure transparency, linking financing to strategic objectives, and improving the effectiveness of public policies, aligning with international institutional recommendations.

The research concluded that adopting a three-year budget planning framework enables a relative stability in financial forecasts, providing sufficient time to correct imbalances and direct resources toward productive sectors such as industry and agriculture. This approach contributes to fostering growth and diversifying the economy.

- The study results demonstrated that the budget functions as a tool for supporting economic growth and stability. Financial reforms have started to translate into positive indicators at the level of economic growth, which rose to 4.1%, supported by an increase in investment expenditures, while maintaining the stability of public financial assets.
- In addition, there was an improvement in transparency and the strengthening of oversight tools, through empowering the legislative authority and the Court of Auditors. This was coupled with the adoption of performance indicators that facilitate the assessment of the effectiveness of public policies and contribute to building trust among economic stakeholders.

Despite the efforts to succeed in the exploitation-based approach, the early stages of the budgetary reform showed some drawbacks:

- **Budget Deficit and Growing Debt Burdens:** It was revealed that public debt reached 14.78% in 2023, while the budget deficit showed a concerning growth rate of 143.85% compared to 2022. This was attributed to fluctuations in revenues and the lack of balance between current expenditures and investment spending, reflecting the fragility of the current financial framework.
- **Weak Capacity of the State to Sustain Public Debt:** The results of econometric models indicate that Algeria's capacity to bear public debt is limited, particularly in the long term. The economy could face negative repercussions if the debt exceeds 32% of GDP 11. (Bentour, A. 2018).
- **Based on the critical analysis of the "Ricardian Equivalence Theory",** the research confirmed the unrealistic nature of this theory in the Algerian context. It

was found that debt levels influence individual behavior, interest rates, and investment patterns. Additionally, financial surpluses contribute to reducing long-term interest rates and stimulating private investment.

- **Inadequacy of the Current Model in Financing Operating Expenses:** The data indicated that only 54% of operating expenses are covered by ordinary revenues, posing structural challenges to the sustainability of expenditures. This highlights the urgent need for a comprehensive review of the budget structure (Dr. Beldjilali Ahmed's intervention – Finance and Budget Committee).

propose **Chugunov et al. (2019)** the following measures to improve the management of budget deficits and public debt: establishing a limit for the deficit and its funding sources, restructuring public debt management, reducing borrowing costs, bolstering the domestic debt market, and replacing external debt with domestic financing.

The study concluded that a flexible fiscal policy should be adopted, one capable of responding to the overall economic situation. This includes utilizing expansionary financial tools in the presence of a negative output gap and reducing expenditures in times of surpluses, in order to achieve overall balance and macroeconomic stability.

Conclusion:

Economic changes create a pressing need to reconsider the financial and budgetary systems being developed and established in advanced countries regarding their potential use in developing economies. In this article, the process of formulating an effective budget policy that aligns with the strategic tasks of Algeria's social and economic development requires the development and modernization of the budgetary system. At its core is the revitalization of the system of objectives, principles, directions, and tasks of state authorities, the participation of stakeholders, and the suitability of its long-term regulatory measures to internal and external changes in the economic environment and social transformations aimed at ensuring macroeconomic stability, accelerating economic growth, and improving the living standards of the population. Priority directions for budget modernization in the context of economic transitions have been identified, particularly concerning increasing the efficiency of public spending and placing restrictions on its growth level, and improving the mechanism for managing the budget deficit, public debt, and guarantees, as well as reducing their limits. The research has shown a significant impact of the transition towards a program-based budget on social and economic processes.

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