

The contents of this document are preliminary and subject to change.

GRAY/21/2983

November 17, 2021

**Joint Statement by Mr. Binzarah, Mr. Mohieldin, Mr. Abalala, and Ms. Al-Riffai on
Algeria
(Preliminary)
Executive Board Meeting
November 19, 2021**

We thank staff for the informative reports and Messrs. Hosseini and Badsı for their helpful Buff statement. Though the twin shocks of the COVID-19 health crisis and the plummeting oil revenues have exacerbated the pre-existing economic vulnerabilities and reduced the policy space, the authorities have put in place appropriate response measures to mitigate the health, social, and economic impacts of the pandemic. Against this background, we find the policy discussions to be appropriate and rightly focused on: mitigating the impact of the crisis; addressing preexisting vulnerabilities; and unlocking Algeria’s growth potential. We broadly agree with the staff appraisal and would like to add the following comments.

We welcome the authorities’ reform strategy to spur growth by promoting economic diversification away from heightened reliance on the hydrocarbon sector including by strengthening the role of the private sector and of nonhydrocarbon exports. We look forward to the implementation of the Government Action Plan (PAG) in 2022. The PAG rightly focuses on enhancing governance, supporting the economic recovery, and reinforcing human development and social cohesion. In tandem, however, there is room to further address fiscal and external imbalances. In this context, we welcome the authorities’ broad agreement with staff’s recommendation on the need to recalibrate the policy stance and protect the most vulnerable. The timing of policy reforms and their effective implementation will be instrumental in helping the Algerian economy emerge stronger from the crisis.

On restoring fiscal sustainability, we stress the need for fiscal consolidation to be well-timed and gradual to entrench the still nascent recovery towards achieving inclusive and sustainable growth. To that end, effective communication will be crucial to obtain stronger buy-in throughout the envisaged policy reform process, especially as the authorities intend to rationalize expenditures and rightly shift away from universal subsidies towards a more targeted social safety net (SSN). *Can staff provide more detail on who is supporting the authorities’ design and implementation of a more targeted SSN as well as the timeline*

*associated with its envisaged rollout? We note that the authorities are averse to foreign borrowing. In light of the constrained policy space and high financing needs, there is merit in intensifying efforts to diversify budget financing sources including by boosting nonhydrocarbon revenues and deepening the domestic capital market to eschew resorting to the monetary financing of the deficit. On the same note, we welcome that the authorities foresee no need to renew the current financing operation (PSR). The Buff statement indicates that banks will be encouraged to repay early their participation in the PSR, *can staff shed light on what measures are in place to encourage early repayment?**

It will be necessary to strike a balance between protecting foreign reserves and promoting economic growth. To that end, greater flexibility of the exchange rate may be carefully achieved in tandem with other policy reforms that help reduce the external imbalance, maintain macroeconomic stability, and promote growth. We appreciate the added granularity highlighted in the Buff statement around the status of the import restrictions implemented in 2016 and welcome the authorities' commitment to a liberal trade policy. These measures may encourage the importation of investment goods, encourage greater private sector participation, and help strengthen competition in the domestic market. In light of the existing global supply chain disruptions and the higher energy and transportation costs, we encourage the authorities to maintain their vigilance and adjust the monetary policy stance, as needed, to control inflation and protect international reserves.

It would be prudent to closely monitor and mitigate any potential risks to financial stability, including from the high exposure of some state-owned banks, to SOEs, to ensure that their financial viability and their ability to provide credit to the economy is not impaired. We welcome the authorities' broad agreement with staff's proposed financial sector reforms and the Fund's support through technical assistance. We would have liked to see more detail in the report around the policy recommendations highlighted in the 2020 FSAP and what measures were undertaken to date to address them, especially since the assessment was concluded at the Board on a Lapse of Time back in July 2020. *Staff comments are welcome.*

Achieving the desired economic outcomes from the reform policies requires strengthening the policy framework and sustained efforts to implement the required structural reforms. The authorities broadly agree with staff's proposed reform priorities and draw attention to the fact that several measures have already been undertaken or are addressed in the government's action plan. We positively note that one of the government's key priorities is to meet youth aspirations. Strengthening governance to enhance transparency and accountability will produce more favorable economic outcomes. Here, we welcome the progress made on anti-corruption measures, improving fiscal management, and fostering private sector investment and job creation, and look forward to accelerating the reform momentum in 2022.

While staff assesses that the medium-term outlook remains challenging based on the assumption that Algeria's hydrocarbon production will decline, due to capacity constraints, and a global transition to greener energy, we would caution against an overly optimistic assumption that the transition to greener energy will be a rapid one. The current global status points to the fact that fossil fuels may remain prominent in the

energy mix even beyond the medium term which may mean that the medium-term outlook for Algeria may not be as challenging. *Staff comments are welcome.*

According to the Buff statement, some pertinent details and policy reforms undertaken by the authorities were not adequately articulated in the report. *Staff comments are welcome.*

With these remarks, we wish the authorities further success.