

**INTERNATIONAL MONETARY FUND**

WASHINGTON, D.C. 20431


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(202) 623-6262

Facsimile Cover Sheet

MSG. NO. (Fax Center use only)		DATE October 30, 1991		PAGE 1 OF 3	
TO	NAME Mr. Ali Khadr				
	AGENCY World Bank				
	CITY/COUNTRY Washington D.C.				
	FACSIMILE TELEPHONE NO. <u> 477-8528 </u> (Country Code) (City Code) (Number)				
		TEXT			INTERNAL DISTRIBUTION
		The attached was sent to Crédit Lyonnais on October 21, 1991.			
FROM	NAME Greg Dahl				
	DEPT./DIV. African, North African Division				
ROOM NO. 8-216		EXTENSION 8513		ACCOUNT CODE 024	
(TYPE) AUTHORIZED BY Greg Dahl			SIGNATURE 		



INTERNATIONAL MONETARY FUND

WASHINGTON, D.C. 20431

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Facsimile Cover Sheet

MSG. NO. (Fax Center use only)	DATE October 25, 1991	PAGE 1 OF 2
TO	<p>NAME Monsieur Mourad Medelci</p> <p>AGENCY MMinistre delegue au Budget Immeuble Mauritania</p> <p>CITY/COUNTRY Alger, Algerie</p> <p>FACSIMILE TELEPHONE NO. 213 2 73-19-52 (Country Code) (City Code) (Number)</p>	
FROM	<p>TEXT</p> <p>NOTE: MESSAGE WAS TRANSMITTED BY THE ORIGINATING DEPARTMENT NO LOG NUMBER OR TRANSMISSION DATA APPENDED</p> <p>INTERNAL DISTRIBUTION</p> <p>M. MIRAKHOR M. TOURE M. GONDWE M. BORNEMANN M. ARMIUS M. DHONTE</p> <p>NOTE: MESSAGE WAS TRANSMITTED BY THE ORIGINATING DEPARTMENT NO LOG NUMBER OR TRANSMISSION DATA APPENDED.</p> <p>NAME J.R. Artus</p> <p>DEPT./DIV. African/European Department</p>	

ROOM NO. 9220	EXTENSION 7676	ACCOUNT CODE 0024
AUTHORIZED BY (TYPE) J.R. Artus		SIGNATURE J.R. Artus



INTERNATIONAL MONETARY FUND

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Facsimile Cover Sheet

MSG. NO.	DATE	October 25, 1991	PAGE 1 OF 2
(Fax Center use only)			
TO	NAME Monsieur Mourad Medelci AGENCY Ministre delegue au Budget Immeuble Mauritania CITY/COUNTRY Alger, Algerie FACSIMILE TELEPHONE NO. 213 2 73-19-52 Country Code City Code (Number)		
TEXT	INTERNAL DISTRIBUTION M. MIRAKHOR M. TOURE M. GONDWE M. BORNEMANN M. ARTUS M. DHONTE		
FROM	NAME J.R. Artus DEPT./DIV. African/European Department		

ROOM NO.	9120	EXTENSION	7676	ACCOUNT CODE	0024
(TYPE)			SIGNATURE		
AUTHORIZED BY J.R. Artus					



INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

CABLE ADDRESS
INTERFUND

Washington, le 25 octobre 1991.

Monsieur le Ministre,

Nous avons appris que le Conseil des Ministres réuni le mardi 15 octobre, a adopté le projet de loi de finances pour 1992.

Afin que les services du Fonds disposent des informations les plus à jour possibles lors de la réunion du conseil d'administration du Fonds monétaire international le premier novembre prochain, nous vous serions très reconnaissants de bien vouloir nous indiquer en ce qui concerne l'objectif retenu par les autorités de parvenir à un excédent du solde du trésor de 5,5 pour cent du P.I.B. en 1992, si postérieurement au départ d'Alger de la mission du Fonds, des décisions modifiant l'avant-projet de loi de finances sont intervenues. Compte tenu des contraintes de calendrier, nous vous serions très reconnaissants si ces données pouvaient nous être communiquées par télécopie (au 1-202-623 7095), ce lundi 28 octobre 1991.

Veuillez agréer, Monsieur le Ministre, l'assurance de notre haute considération.

A handwritten signature in dark ink, appearing to read "J. R. Artus", is positioned above the typed name and title.

Jacques Artus
Directeur Adjoint
Département Europe

M. Mourad Medelci
Ministre délégué au Budget
Immeuble Mauritanie
Alger
Algérie



INTERNATIONAL MONETARY FUND

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Facsimile Cover Sheet

MSG. NO. (Fax Center use only)	DATE October 25, 1991	PAGE 1 OF 3
TO	<p>NAME Mr. Abdelkarim Harchaoui AGENCY Directeur Général de la Concurrence et des Prix Ministere de l'Economie Palais du Gouvernement CITY/COUNTRY Alger, Algeria FACSIMILE TELEPHONE NO. 213 2 73-54-73 (Country Code) (City Code) (Number)</p>	
TEXT	INTERNAL DISTRIBUTION M. MIRAKHOR M. TOURE N. GONDWE M. BORNEMANN M. ARTUS M. DHONTE NOTE: MESSAGE WAS TRANSMITTED BY THE ORIGINATING DEPARTMENT LOG NUMBER OR TRANSMISSION DATA APPENDED.	
FROM	<p>NAME G. Dahl DEPT./DIV. African/North African</p>	

ROOM NO. 8216	EXTENSION 8513	ACCOUNT CODE 0024
(TYPE) AUTHORIZED BY Gregory DAHL		SIGNATURE



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MSG. NO. (Fax Center use only)	DATE October 25, 1991	PAGE 1 OF 3
TO	<p>NAME Mr. Abdelkarim Harchaoui AGENCY Directeur Général de la Concurrence et des Prix Ministere de l'Economie Palais du Gouvernement CITY/COUNTRY Alger, Algerie FACSIMILE TELEPHONE NO. 213 2 73-54-73 (Country Code) (City Code) (Number)</p>	
	TEXT	INTERNAL DISTRIBUTION M. MIRAKHOR M. TOURE M. GONDWE M. BORNEMANN M. ARTUS M. DHONTE
FROM	<p>NAME G. Dahl DEPT./DIV. African/North African</p>	
ROOM NO. 8216 (TYPE)	EXTENSION 8513	ACCOUNT CODE 0024
AUTHORIZED BY Gregory DAHL	SIGNATURE 	



INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

CABLE ADDRESS
INTERFUND

Washington, le 25 octobre 1991

Monsieur le directeur général,

Comme vous le savez, la réunion du conseil d'administration du Fonds monétaire international qui doit examiner la première revue de l'actuel accord de confirmation, est prévue pour ce vendredi premier novembre.

Dans le cadre de la préparation de cette réunion, et comme nous en avons discuté par téléphone, nous vous serions reconnaissants de bien vouloir nous adresser copie des textes les plus récents révisant les tarifs du gaz et de l'électricité et de ceux mettant en vigueur les mesures de libéralisation des prix telles que décrites en annexe à l'aide-mémoire du 30 septembre 1991. Il serait très utile que ces décrets puissent nous parvenir par télécopie ce lundi 28 octobre 1991.

En ce qui concerne les tarifs du gaz et l'électricité, nous vous serions reconnaissants de bien vouloir nous indiquer si les pourcentages de hausses indiqués dans votre télécopie du 21 octobre 1991 correspondent à des augmentations de l'ensemble des prix y compris l'abonnement forfaitaire (dont le montant semble toutefois pour partie varier avec la capacité de consommation installée chez l'abonné), ou si au contraire les pourcentages de hausses indiqués concernent seulement la partie variable du coût, c'est-à-dire le nombre de thermies effectivement consommé par l'abonné.

En effet, à l'examen du précédent décret d'augmentation des tarifs du gaz et l'électricité daté du 13 octobre 1991 qui est maintenant rapporté, nous avons certaines difficultés à reconcilier les détails du tarif du gaz et de l'électricité mentionnés à la fin de ce décret avec d'autres chiffres dont nous avons discuté par ailleurs. Par exemple, pour le gaz haute pression, catégorie 11 du tarif, le décret stipule que le prix de la thermie consommée est de 0,731 centimes à compter du premier octobre 1991, c'est-à-dire après effet de la hausse de 25 pourcent prévue par ce décret, ce qui implique un tarif de 0,585 centime par thermie préalablement à l'ajustement. En outre, le texte mentionne l'existence de tarifs forfaitaires d'abonnement. Pourtant, dans votre télécopie du 21 octobre dernier, vous faites état d'un ancien tarif de 1,49 centime par thermie, ce qui est un chiffre cohérent grosso modo avec ceux qui nous avaient jusqu'à présent été

communiqués par Monsieur Hamdi, mais très supérieur (150 pour cent) à celui déduit des dispositions du décret tel qu'indiqué supra. Les mêmes différences existent quand on compare le prix du gaz moyenne pression avec les tarifs de l'électricité. Nous vous serions tout particulièrement reconnaissants de bien vouloir nous communiquer lundi 28 octobre 1991, l'explication nous permettant de reconcilier ces deux sources d'information.

Veillez agréer, Monsieur le Directeur Général, l'assurance de notre haute considération.



Gregory C. Dahl
Chef de division adjoint
Département Afrique

Monsieur Abdelkarim Harchaoui
Directeur Général de la Concurrence
et des Prix
Ministère de l'Economie
Palais du Gouvernement
Alger, Algérie



INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

8-216 SN/SOT/ML
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MSG. NO. (Fax Center use only)	DATE October 25, 1991	PAGE 1 OF 2
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TO	NAME Monsieur Abderhamane Hadj-Nacer
	AGENCY Gouverneur Banque d'Algerie
	CITY/COUNTRY Alger, Algerie
	FACSIMILE TELEPHONE NO. 213 2 60-37-77 (Country Code) (City Code) (Number)

TEXT	INTERNAL DISTRIBUTION M. MIRAKHOR <u>M. TOURE</u> M. GONDWE M. BORNEMANN M. ARTUS M. DHONTE
FROM	NAME J.R. Artus DEPT./DIV. European Department

NOTE: MESSAGE WAS TRANSMITTED
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LOG NUMBER OR TRANSMISSION
DATA APPENDED.

ROOM NO. 9120	EXTENSION 7676	ACCOUNT CODE 0024
(TYPE) AUTHORIZED BY J.R. Artus	SIGNATURE <i>J.R. Artus</i>	



INTERNATIONAL MONETARY FUND
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Facsimile Cover Sheet

MSG. NO. (Fax Center use only)	DATE October 25, 1991	PAGE 1 OF 2
TO	<p>NAME Monsieur Abderhamane Hadj-Nacer</p> <p>AGENCY Gouverneur Banque d'Algerie</p> <p>CITY/COUNTRY Alger, Algerie</p> <p>FACSIMILE TELEPHONE NO. 213 2 60-37-77</p> <p>(Country Code) (City Code) (Number)</p>	
TEXT	INTERNAL DISTRIBUTION M. MIRAKHOR M. TOURE M. GONDWE M. BORNEMANN M. ARTUS M. DHONTE	
FROM	<p>NAME J.R. Artus</p> <p>DEPT./DIV. European Department</p>	
ROOM NO. 9120	EXTENSION 7676	ACCOUNT CODE 0024
(TYPE) AUTHORIZED BY J.R. Artus		SIGNATURE



INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

CABLE ADDRESS
INTERFUND

Washington, le 25 octobre 1991.

Monsieur le Gouverneur,

Les services du Fonds préparent actuellement un bref supplément au rapport au conseil d'administration de façon à fournir au conseil les informations les plus à jour possibles sur le financement du programme, les récents ajustements de prix administrés et les perspectives budgétaires pour 1992. Pour que la première revue de l'accord de confirmation ait lieu à la date prévue, le vendredi premier novembre prochain, il est nécessaire que nous mettions la dernière main à ce document au plus tard le mardi 29 octobre 1991. Par conséquent, afin de ne pas retarder cette réunion du conseil, nous vous serions reconnaissants de bien vouloir nous communiquer d'ici le lundi 28 octobre, des informations sur les arriérés de paiement extérieurs (c'est-à-dire les suspens dont le retard de paiement est supérieur à 60 jours) à fin septembre 1991 comme expliqué dans mon téléx du 25 septembre dernier. De même, de façon à pouvoir calculer l'écart entre les réserves effectives à fin septembre 1991 et l'objectif fixe à cette échéance, nous vous serions également reconnaissants de nous indiquer quel était à cette date le montant des engagements extérieurs à court terme de la Banque d'Algérie, tel que figurant sur la ligne "institutions financières internationales" du document statistique adressé mensuellement au Fonds.

Nous vous serions également reconnaissants de bien vouloir nous indiquer quel est l'état d'avancement du plan d'action visant à éliminer les arriérés extérieurs d'ici la date de réunion du conseil d'administration du fonds, tel que nous en avons discuté par téléphone.

Veuillez agréer, Monsieur le Gouverneur, l'assurance de notre haute considération.

A handwritten signature in dark ink, appearing to read "J. R. Artus", is positioned above the typed name and title.

Jacques Artus
Directeur Adjoint
Département Europe

M. Abderrahmane Hadj-Nacer
Gouverneur de la Banque d'Algérie
Alger
Algérie



INTERNATIONAL MONETARY FUND

WASHINGTON, D.C. 20431

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MSG. NO. (Fax Center use only)	DATE October 25, 1991	PAGE 1 OF 2
TO	<p>NAME Monsieur Fodil Bey</p> <p>AGENCY Ministre Delege au Commerce</p> <p>CITY/COUNTRY Alger, Algerie</p> <p>FACSIMILE TELEPHONE NO. 213 2 73-54-73 (Country Code) (City Code) (Number)</p>	
FROM	<p>TEXT</p> <p>NOTE: MESSAGE WAS TRANSMITTED BY THE ORIGINATING DEPARTMENT NO LOG NUMBER OR TRANSMISSION DATA APPENDED.</p> <p>NAME J.R. Artus</p> <p>DEPT./DIV. European Department</p>	<p>INTERNAL DISTRIBUTION</p> <p>M. MIRAKHOR M. TOURE M. GONDWE M. BORNEMANN M. ARTUS M. DHONTE</p>
ROOM NO. 9120	EXTENSION 7676	ACCOUNT CODE 0024
(TYPE) AUTHORIZED BY J.R. Artus		SIGNATURE <i>J.R. Artus</i>

**INTERNATIONAL MONETARY FUND**

WASHINGTON, D.C. 20431

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7095**FACSIMILE INQUIRIES**

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Facsimile Cover Sheet

MSG. NO. (Fax Center use only)		DATE October 25, 1991		PAGE 1 OF 2	
TO	NAME Monsieur Fodil Bey				
	AGENCY Ministre Delege au Commerce				
	CITY/COUNTRY Alger, Algeria				
	FACSIMILE TELEPHONE NO. 213 2 73-54-73 <div style="display: flex; justify-content: space-around;"><div>(Country Code)</div><div>(City Code)</div><div>(Number)</div></div>				
TEXT					INTERNAL DISTRIBUTION M. MIRAKHOR M. TOURE M. GONDWE M. BORNEMANN M. ARTUS M. DHONTE
FROM	NAME J.R. Artus				
	DEPT./DIV. European Department				
ROOM NO. 9120		EXTENSION 7676		ACCOUNT CODE 0024	
AUTHORIZED BY J.R. Artus (TYPE)			SIGNATURE 		



INTERNATIONAL MONETARY FUND

WASHINGTON, D. C. 20431

CABLE ADDRESS
INTERFUND

Washington, le 25 octobre 1991.

Monsieur le Ministre,

Comme vous le savez, la réunion du conseil d'administration du Fonds monétaire international qui doit examiner la première revue de l'actuel accord de confirmation est prévue pour ce vendredi premier novembre.

Compte tenu de ces contraintes de calendrier, nous sommes quelque peu préoccupés de ne pas avoir reçu de la part des autorités algériennes les éléments d'information concernant les mesures additionnelles d'ajustement des prix administrés que le gouvernement entend prendre pour compléter les mesures annoncées récemment, et dont la communication nous est nécessaire pour pouvoir tenir la réunion du conseil à la date prévue. Les estimations de l'impact des mesures déjà prises, établies avec Monsieur Harchaoui, montrent que 1,3 milliard de dinars de mesures additionnelles restent à prendre pour réaliser l'objectif de 4.3 milliards d'économies ou de recettes budgétaires nouvelles en 1991.

Compte tenu de la proximité de la date de la réunion du conseil et de la nécessité de communiquer ces éléments au conseil préalablement à la réunion sous la forme d'un supplément au rapport distribué en début de mois, nous vous serions très reconnaissants de bien vouloir nous transmettre ces données au plus tard le lundi prochain 28 octobre 1991.

Veuillez agréer, Monsieur le Ministre, l'assurance de notre haute considération.

A handwritten signature in dark ink, appearing to read "J. R. Artus", is positioned above the typed name and title.

Jacques Artus
Directeur Adjoint
Département Europe

M. Ahmed Fodil Bey
Ministre délégué au Commerce
Palais du Gouvernement
Alger
Algérie



CLOSED DOCUMENT
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This ☒ document or ☐ file has been removed as it belongs to the following category:

- ☐ Legal documents and records that are protected by attorney client privilege;
- ☐ Personnel files and medical or other records pertaining to individuals;
- ☐ Documents and proceedings of the Grievance Committee;
- ☐ Records furnished to the Fund by external parties, including members, with security marking confidential or above (declassification can be requested)
- ☒ Other sensitive:
Board of Governors

Department/Division/ Collection:	Middle East and Central Asia Department Divisions Records, 1950-2005, predominant 1950-1992
Series/Subseries:	MED Division Country Desk Files, 1950-2004, predominant 1969-1992 Algeria sub-series, 1977-1997
Box number:	2 (A138723-002)
File number:	4
ADLIB ref. number:	137791
File title & dates:	Algeria - Mission files (Review of Stand-by Arrangement, August 1991)
Doc. title & dates:	Draft letter to Algeria's commercial bank creditors informing about Algeria 1991-93 Financing Facility, October 1991



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- ☒ Other sensitive:
Board of Governors

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Series/Subseries:	MED Division Country Desk Files, 1950-2004, predominant 1969-1992 Algeria sub-series, 1977-1997
Box number:	2 (A138723-002)
File number:	4
ADLIB ref. number:	137791
File title & dates:	Algeria - Mission files (Review of Stand-by Arrangement, August 1991)
Doc. title & dates:	Special brief prepared for the Managing Director's meeting with the Algerian delegation, October 16, 1991



Office Memorandum

*Any. mission file
re: "Support Letter"*

91 SEP 13 PM 12:24

TO: The Managing Director

September 13, 1991

OFFICE OF
THE MANAGING DIRECTOR

FROM: Mamoudou Touré

SUBJECT: Algeria - Draft Letter to Banks

Attached for your consideration is a draft for your letter to the presidents of the eight commercial banks involved in drawing up a term sheet for the proposed syndicated loan to Algeria.

Given that the bulk of the existing bank debt is with the Japanese banks, we would also suggest that you send a separate letter to the Japanese Vice-Minister of Finance, Mr. Chino. A draft for that letter is attached. In addition, since the Japanese Export-Import Bank is currently considering the level of its commitment to Algeria, we would suggest a letter to its President, for which a third draft is attached. The office of the Japanese Executive Director has requested an advance copy of the letters to be sent to Japanese banks.

The attached drafts have been reviewed by Mr. Edo (ETR) and Mr. Elizalde (LEG).

Regarding the Reuters dispatch yesterday quoting Prime Minister Ghazali as asking for more flexibility from the Fund (copy attached), we have been assured by Mr. Hammoudi that the Prime Minister was referring to the state of negotiations prior to your meeting with Minister Benissad, who returned to Algiers yesterday, and that the agreements reached with Minister Benissad are not in question.

Attachments

cc: The Deputy Managing Director (on return)
Mr. P. Andrews

Contributor

G. Dahl



INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

MANAGING DIRECTOR

September 13, 1991

CABLE ADDRESS
INTERFUND

Dear Mr. Chino,

Following recent discussions with the Algerian authorities, it is my pleasure to inform you that, on the basis of understandings I have reached with the authorities, I intend to propose to the Executive Board of the Fund to complete the first review of Algeria's program under the stand-by arrangement approved by the Executive Board on June 3, 1991, subject to adequate financing assurances. As part of my understandings with the authorities, the Fund staff and the authorities will begin discussions in the coming weeks on the 1992 budget and on an extended fund facility which could cover the years 1992-94.

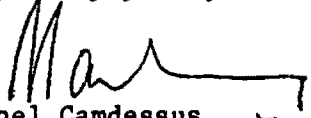
As you are no doubt aware, a gap of about US\$1.1 billion in the financing of Algeria's 1991 program has emerged. This gap is closely related to the delays in the anticipated agreement between Algeria and its commercial bank creditors on a financing package for 1991 equivalent to the principal falling due on syndicated loans during 1991, estimated at US\$1.0 billion.

In light of Algeria's precarious reserves position and the assistance the Fund and the European Community are prepared to provide, I am writing to the Presidents of the eight commercial banks involved to emphasize that a favorable resolution of their discussions with the Algerian authorities on a financing package is now urgently needed.

I sent a similar message to the President of the European Communities in connection with the recent Ecofin meeting, at which a loan to Algeria of ECU 400 million was approved.

In view of the deep commitment of the Algerian authorities to their adjustment program, I personally attach particular importance to the cooperative effort to support Algeria at this critical juncture. May I ask for your support for commercial bank participation in the syndicated loan now under discussion and for Japanese Export-Import Bank financing?

Very truly yours,


Michel Camdessus

Mr. Tadao Chino
Vice-Minister of Finance for
International Affairs
Ministry of Finance
Government of Japan
Immediate dispatch

**INTERNATIONAL MONETARY FUND**

WASHINGTON, D.C. 20431

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MSG. NO. (Fax Center use only)		DATE September 13, 1991		PAGE 1 OF 2	
TO	NAME Mr. Abdulla A. Saudi President AGENCY Arab Banking Corporation				
	CITY/COUNTRY Bahrain				
	FACSIMILE TELEPHONE NO. 973		533-163 or 530-110		
	(Country Code)		(City Code) (Number)		
	TEXT				INTERNAL DISTRIBUTION Mr. Mirakhor
FROM	NAME Michel Camdessus DEPT./DIV.				
ROOM NO. 12-400		EXTENSION		ACCOUNT CODE 024	
(TYPE)			SIGNATURE		
AUTHORIZED BY E.L. Bornemann					



INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

September 13, 1991

Dear Mr. Saudi,

Following recent discussions with the Algerian authorities, it is my pleasure to inform you that, on the basis of understandings I have reached with the authorities, I intend to propose to the Executive Board of the Fund to complete the first review of Algeria's program under the stand-by arrangement approved by the Executive Board on June 3, 1991, subject to adequate financing assurances. As part of my understandings with the authorities, the Fund staff and the authorities will begin discussions in the coming weeks on the 1992 budget and on an extended arrangement which could cover the years 1992-94.

As you are no doubt aware, a gap of about US\$1.1 billion in the financing of Algeria's 1991 program has emerged. This gap is closely related to the delays in the anticipated agreement between Algeria and its commercial bank creditors on a financing package for 1991 equivalent to the principal falling due on syndicated loans during 1991, estimated at US\$1.0 billion.

In light of Algeria's precarious reserves position and the assistance the Fund and the European Community are prepared to provide, I am sure you will agree that a favorable resolution of your discussions with the Algerian authorities on a financing package is now urgently needed.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Ma", followed by a long horizontal line.

Michel Camdessus

Mr. Abdulla A. Saudi
President
Arab Banking Corporation
Bahrein
Immediate Dispatch

**INTERNATIONAL MONETARY FUND**

WASHINGTON, D.C. 20431

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Facsimile Cover Sheet

MSG. NO. (Fax Center use only)		DATE September 13, 1991		PAGE 1 OF 2	
TO	NAME Mr. René Thomas President AGENCY Banque Nationale de Paris				
	CITY/COUNTRY Paris, France				
	FACSIMILE TELEPHONE NO. <u>33</u> <u>1</u> <u>40-14-67-81</u> or <u>40-14-69-73</u> (Country Code) (City Code) (Number)				
	TEXT				INTERNAL DISTRIBUTION Mr. Mirakhor
FROM	NAME Michel Camdessus DEPT./DIV.				
ROOM NO. 12-400		EXTENSION		ACCOUNT CODE 024	
AUTHORIZED BY (TYPE) E.L. Bornemann		SIGNATURE <i>E. Bornemann</i>			



INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

September 13, 1991

Dear Mr. Thomas,

Following recent discussions with the Algerian authorities, it is my pleasure to inform you that, on the basis of understandings I have reached with the authorities, I intend to propose to the Executive Board of the Fund to complete the first review of Algeria's program under the stand-by arrangement approved by the Executive Board on June 3, 1991, subject to adequate financing assurances. As part of my understandings with the authorities, the Fund staff and the authorities will begin discussions in the coming weeks on the 1992 budget and on an extended arrangement which could cover the years 1992-94.

As you are no doubt aware, a gap of about US\$1.1 billion in the financing of Algeria's 1991 program has emerged. This gap is closely related to the delays in the anticipated agreement between Algeria and its commercial bank creditors on a financing package for 1991 equivalent to the principal falling due on syndicated loans during 1991, estimated at US\$1.0 billion.

In light of Algeria's precarious reserves position and the assistance the Fund and the European Community are prepared to provide, I am sure you will agree that a favorable resolution of your discussions with the Algerian authorities on a financing package is now urgently needed.

Allez de ce que vous pouvez faire ! Amicalement

Very truly yours,

A handwritten signature in dark ink, appearing to read "Michel Camdessus".

Michel Camdessus

Mr. René Thomas
President
Banque Nationale de Paris
Paris, France
Immediate Dispatch



INTERNATIONAL MONETARY FUND

WASHINGTON, D.C. 20431

FACSIMILE NUMBER

(202) 623-4661

FACSIMILE INQUIRIES

(202) 623-6262

Facsimile Cover Sheet

MSG. NO. (Fax Center use only)		DATE September 13, 1991		PAGE 1 OF 2	
TO	NAME Mr. Jean-Yves Haberer President AGENCY Crédit Lyonnais				
	CITY/COUNTRY Paris, France FACSIMILE TELEPHONE NO. <u>33</u> <u>1</u> <u>42-95-30-40 or 49-26-71-77</u> (Country Code) (City Code) (Number)				
TEXT		INTERNAL DISTRIBUTION Mr. Mirakhor			
FROM	NAME Michel Camdessus DEPT./DIV.				
ROOM NO. 12-400		EXTENSION		ACCOUNT CODE 024	
(TYPE)		SIGNATURE <i>E.L. Bornemann</i>			
AUTHORIZED BY E.L. Bornemann					



INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

September 13, 1991

Dear Mr. Haberer,

Following recent discussions with the Algerian authorities, it is my pleasure to inform you that, on the basis of understandings I have reached with the authorities, I intend to propose to the Executive Board of the Fund to complete the first review of Algeria's program under the stand-by arrangement approved by the Executive Board on June 3, 1991, subject to adequate financing assurances. As part of my understandings with the authorities, the Fund staff and the authorities will begin discussions in the coming weeks on the 1992 budget and on an extended arrangement which could cover the years 1992-94.

As you are no doubt aware, a gap of about US\$1.1 billion in the financing of Algeria's 1991 program has emerged. This gap is closely related to the delays in the anticipated agreement between Algeria and its commercial bank creditors on a financing package for 1991 equivalent to the principal falling due on syndicated loans during 1991, estimated at US\$1.0 billion.

In light of Algeria's precarious reserves position and the assistance the Fund and the European Community are prepared to provide, I am sure you will agree that a favorable resolution of your discussions with the Algerian authorities on a financing package is now urgently needed.

Ne pas de ce que vous pouvez faire. Amicalement

Very truly yours,

A handwritten signature in dark ink, appearing to read "Michel Camdessus".

Michel Camdessus

Mr. Jean-Yves Haberer
President
Crédit Lyonnais
Paris, France
Immediate Dispatch



INTERNATIONAL MONETARY FUND

WASHINGTON, D.C. 20431

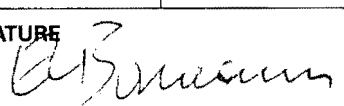
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Facsimile Cover Sheet

MSG. NO. (Fax Center use only)		DATE September 13, 1991		PAGE 1 OF 2	
TO	NAME Mr. Thomas Labrecque Chairman AGENCY Chase Manhattan Bank				
	CITY/COUNTRY New York FACSIMILE TELEPHONE NO. <u>212 552-5040</u> (Country Code) (City Code) (Number)				
TEXT		INTERNAL DISTRIBUTION Mr. Mirakhor			
FROM	NAME Michel Camdessus DEPT./DIV.				
ROOM NO. 12-400		EXTENSION		ACCOUNT CODE 024	
(TYPE) AUTHORIZED BY E.L. Bornemann		SIGNATURE 			



INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

September 13, 1991

Dear Mr. Labrecque,

Following recent discussions with the Algerian authorities, it is my pleasure to inform you that, on the basis of understandings I have reached with the authorities, I intend to propose to the Executive Board of the Fund to complete the first review of Algeria's program under the stand-by arrangement approved by the Executive Board on June 3, 1991, subject to adequate financing assurances. As part of my understandings with the authorities, the Fund staff and the authorities will begin discussions in the coming weeks on the 1992 budget and on an extended arrangement which could cover the years 1992-94.

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In light of Algeria's precarious reserves position and the assistance the Fund and the European Community are prepared to provide, I am sure you will agree that a favorable resolution of your discussions with the Algerian authorities on a financing package is now urgently needed.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Michel Camdessus".

Michel Camdessus

Mr. Thomas Labrecque
Chairman
Chase Manhattan Bank
New York, NY
Immediate Dispatch

**INTERNATIONAL MONETARY FUND**

WASHINGTON, D.C. 20431

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Facsimile Cover Sheet

MSG. NO. (Fax Center use only)		DATE September 13, 1991		PAGE 1 OF 2	
TO	NAME Mr. Yoh Kurosawa President				
	AGENCY Industrial Bank of Japan				
	CITY/COUNTRY Tokyo, Japan				
	FACSIMILE TELEPHONE NO. 81 3 3201-3469 (Country Code) (City Code) (Number)				
TEXT		INTERNAL DISTRIBUTION Mr. Mirakhor			
FROM	NAME Michel Camdessus				
	DEPT./DIV.				
ROOM NO. 12-400		EXTENSION		ACCOUNT CODE 024	
AUTHORIZED BY E.L. Bornemann (TYPE)		SIGNATURE			



INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

September 13, 1991

Dear Mr. Kurosawa,

Following recent discussions with the Algerian authorities, it is my pleasure to inform you that, on the basis of understandings I have reached with the authorities, I intend to propose to the Executive Board of the Fund to complete the first review of Algeria's program under the stand-by arrangement approved by the Executive Board on June 3, 1991, subject to adequate financing assurances. As part of my understandings with the authorities, the Fund staff and the authorities will begin discussions in the coming weeks on the 1992 budget and on an extended arrangement which could cover the years 1992-94.

As you are no doubt aware, a gap of about US\$1.1 billion in the financing of Algeria's 1991 program has emerged. This gap is closely related to the delays in the anticipated agreement between Algeria and its commercial bank creditors on a financing package for 1991 equivalent to the principal falling due on syndicated loans during 1991, estimated at US\$1.0 billion.

In light of Algeria's precarious reserves position and the assistance the Fund and the European Community are prepared to provide, I am sure you will agree that a favorable resolution of your discussions with the Algerian authorities on a financing package is now urgently needed.

Very truly yours, *Wally*

A handwritten signature in dark ink, appearing to read "Michel", followed by a long horizontal line.

Michel Camdessus

Mr. Yoh Kurosawa
President
Industrial Bank of Japan
Tokyo, Japan
Immediate Dispatch



INTERNATIONAL MONETARY FUND

WASHINGTON, D.C. 20431

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Facsimile Cover Sheet

MSG. NO. (Fax Center use only)	DATE September 13, 1991	PAGE 1 OF 2
TO	NAME Mr. Ken-ichi Suematsu President AGENCY Mitsui Taiyo Kobe Bank CITY/COUNTRY Tokyo, Japan FACSIMILE TELEPHONE NO. <u>81</u> <u>3</u> <u>3501-8536</u> (Country Code) (City Code) (Number)	
	TEXT	INTERNAL DISTRIBUTION Mr. Mirakhor
FROM	NAME Michel Camdessus DEPT./DIV.	
ROOM NO. 12-400	EXTENSION	ACCOUNT CODE 024
(TYPE) AUTHORIZED BY E.L. Bornemann	SIGNATURE	



INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

MANAGING DIRECTOR

September 13, 1991 CABLE ADDRESS
INTERFUND

Dear Mr. Suematsu,

Following recent discussions with the Algerian authorities, it is my pleasure to inform you that, on the basis of understandings I have reached with the authorities, I intend to propose to the Executive Board of the Fund to complete the first review of Algeria's program under the stand-by arrangement approved by the Executive Board on June 3, 1991, subject to adequate financing assurances. As part of my understandings with the authorities, the Fund staff and the authorities will begin discussions in the coming weeks on the 1992 budget and on an extended arrangement which could cover the years 1992-94.

As you are no doubt aware, a gap of about US\$1.1 billion in the financing of Algeria's 1991 program has emerged. This gap is closely related to the delays in the anticipated agreement between Algeria and its commercial bank creditors on a financing package for 1991 equivalent to the principal falling due on syndicated loans during 1991, estimated at US\$1.0 billion.

In light of Algeria's precarious reserves position and the assistance the Fund and the European Community are prepared to provide, I am sure you will agree that a favorable resolution of your discussions with the Algerian authorities on a financing package is now urgently needed.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Ma" followed by a long horizontal stroke.

Michel Camdessus

Mr. Ken-ichi Suematsu
President
Mitsui Taiyo Kobe Bank
Tokyo, Japan
Immediate Dispatch



INTERNATIONAL MONETARY FUND

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Facsimile Cover Sheet

MSG. NO. (Fax Center use only)		DATE September 13, 1991		PAGE 1 OF 2	
TO	NAME Mr. Tatsuya Horie President AGENCY Long Term Credit Bank of Japan Tokyo, Japan CITY/COUNTRY FACSIMILE TELEPHONE NO. <u>81</u> <u>3</u> <u>3214-4391</u> (Country Code) (City Code) (Number)				
	TEXT				
				INTERNAL DISTRIBUTION Mr. Mirakhor	
FROM	NAME Michel Camdessus DEPT./DIV.				
ROOM NO. 12-400		EXTENSION		ACCOUNT CODE 024	
(TYPE)		SIGNATURE <i>E. Bornemann</i>			
AUTHORIZED BY E.L. Bornemann					



INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

September 13, 1991

Dear Mr. Horie,

Following recent discussions with the Algerian authorities, it is my pleasure to inform you that, on the basis of understandings I have reached with the authorities, I intend to propose to the Executive Board of the Fund to complete the first review of Algeria's program under the stand-by arrangement approved by the Executive Board on June 3, 1991, subject to adequate financing assurances. As part of my understandings with the authorities, the Fund staff and the authorities will begin discussions in the coming weeks on the 1992 budget and on an extended arrangement which could cover the years 1992-94.

As you are no doubt aware, a gap of about US\$1.1 billion in the financing of Algeria's 1991 program has emerged. This gap is closely related to the delays in the anticipated agreement between Algeria and its commercial bank creditors on a financing package for 1991 equivalent to the principal falling due on syndicated loans during 1991, estimated at US\$1.0 billion.

In light of Algeria's precarious reserves position and the assistance the Fund and the European Community are prepared to provide, I am sure you will agree that a favorable resolution of your discussions with the Algerian authorities on a financing package is now urgently needed.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Michel Camdessus".

Michel Camdessus

Mr. Tatsuya Horie
President
Long Term Credit Bank of Japan
Tokyo, Japan
Immediate Dispatch

**INTERNATIONAL MONETARY FUND**

WASHINGTON, D.C. 20431

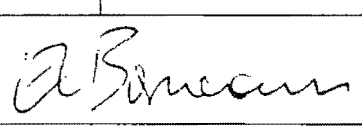
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Facsimile Cover Sheet

MSG. NO. (Fax Center use only)		DATE September 13, 1991		PAGE 1 OF 2	
TO	NAME Mr. Matsuhide Yamaguchi President				
	AGENCY Japanese Export-Import Bank				
	CITY/COUNTRY Tokyo, Japan				
	FACSIMILE TELEPHONE NO. 81 3 3287-9540 (Country Code) (City Code) (Number)				
TEXT		INTERNAL DISTRIBUTION Mr. Mirakhor			
FROM	NAME Michel Camdessus				
	DEPT./DIV.				
ROOM NO. 12-400		EXTENSION		ACCOUNT CODE 024	
(TYPE) AUTHORIZED BY E.L. Bornemann			SIGNATURE 		



INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

September 13, 1991

Dear Mr. Yamaguchi,

Following recent discussions with the Algerian authorities, it is my pleasure to inform you that, on the basis of understandings I have reached with the authorities, I intend to propose to the Executive Board of the Fund to complete the first review of Algeria's program under the stand-by arrangement approved by the Executive Board on June 3, 1991, subject to adequate financing assurances. As part of my understandings with the authorities, the Fund staff and the authorities will begin discussions in the coming weeks on the 1992 budget and on an extended arrangement which could cover the years 1992-94.

As you are no doubt aware, a gap of about US\$1.1 billion in the financing of Algeria's 1991 program has emerged. This gap is closely related to the delays in the anticipated agreement between Algeria and its commercial bank creditors on a financing package for 1991 equivalent to the principal falling due on syndicated loans during 1991, estimated at US\$1.0 billion.

In light of Algeria's precarious reserves position and the assistance the Fund and the European Community are prepared to provide, I have written to the Presidents of the eight commercial banks involved to emphasize that a favorable resolution of their discussions with the Algerian authorities on a financing package is now urgently needed. I have also sent a similar message to the President of the European Communities in connection with the recent Ecofin meeting, at which a loan to Algeria of ECU 400 million was approved.

In view of the deep commitment of the Algerian authorities to their adjustment program, I personally attach particular importance to a cooperative effort to support Algeria at this critical juncture, in which Japanese Export-Import Bank financing plays a key role.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Michel Camdessus".

Michel Camdessus

Mr. Matsuhide Yamaguchi
President, Japanese Export-Import Bank
Immediate dispatch

**INTERNATIONAL MONETARY FUND**

WASHINGTON, D.C. 20431

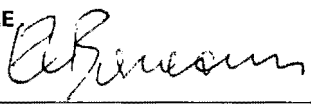
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Facsimile Cover Sheet

MSG. NO. (Fax Center use only)		DATE September 13, 1991		PAGE 1 OF 2	
TO	NAME Mr. Bernard Jacquet President AGENCY Union de Banques Arabes et Françaises				
	CITY/COUNTRY Paris, France				
FACSIMILE TELEPHONE NO.		33 (Country Code)	1 (City Code)	40-88-30-25 (Number)	
TEXT					
FROM	NAME Michel Camdessus				INTERNAL DISTRIBUTION Mr. Mirakhor
	DEPT./DIV.				
ROOM NO. 12-400		EXTENSION		ACCOUNT CODE 024	
(TYPE) AUTHORIZED BY E.L. Bornemann		SIGNATURE 			



INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

September 13, 1991

Dear Mr. Jacquet,

Following recent discussions with the Algerian authorities, it is my pleasure to inform you that, on the basis of understandings I have reached with the authorities, I intend to propose to the Executive Board of the Fund to complete the first review of Algeria's program under the stand-by arrangement approved by the Executive Board on June 3, 1991, subject to adequate financing assurances. As part of my understandings with the authorities, the Fund staff and the authorities will begin discussions in the coming weeks on the 1992 budget and on an extended arrangement which could cover the years 1992-94.

As you are no doubt aware, a gap of about US\$1.1 billion in the financing of Algeria's 1991 program has emerged. This gap is closely related to the delays in the anticipated agreement between Algeria and its commercial bank creditors on a financing package for 1991 equivalent to the principal falling due on syndicated loans during 1991, estimated at US\$1.0 billion.

In light of Algeria's precarious reserves position and the assistance the Fund and the European Community are prepared to provide, I am sure you will agree that a favorable resolution of your discussions with the Algerian authorities on a financing package is now urgently needed.

Very truly yours,

A handwritten signature in dark ink, appearing to read "M. Camdessus", with a long horizontal stroke extending to the right.

Michel Camdessus

Mr. Bernard Jacquet
President
Union de Banques Arabes et Françaises
Paris, France
Immediate Dispatch



CLOSED DOCUMENT
IN ACCORDANCE WITH THE POLICY ON ACCESS TO THE
IMF ARCHIVES

This ☒ document or ☐ file has been removed as it belongs to the following category:

- ☐ Legal documents and records that are protected by attorney client privilege;
- ☒ Personnel files and medical or other records pertaining to individuals;
- ☐ Documents and proceedings of the Grievance Committee;
- ☐ Records furnished to the Fund by external parties, including members, with security marking confidential or above (declassification can be requested)
- ☐ Other sensitive:

Department/Division/Collection: Middle East and Central Asia Department Divisions Records, 1950-2005, predominant 1950-1992

Series/Subseries: MED Division Country Desk Files, 1950-2004, predominant 1969-1992
Algeria sub-series, 1977-1997

Box number: 2 (A138723-002)

File number: 4

ADLIB ref. number: 137791

File title & dates: Algeria - Mission files (Review of Stand-by Arrangement, August 1991)

Doc. title & dates: Letter for the Managing Director to send to the presidents of commercial banks involved in the drawing up of a term sheet for a medium-term financing for Algeria, September 1991



Office Memorandum

TO: Mr. Edo
✓ Mr. Elizalde

September 11, 1991

FROM: G. Dahl *G. Dahl*

SUBJECT: Algeria - Draft Letter to Commercial Banks

Attached for your review and clearance is a draft letter for the Managing Director to send to the presidents of the eight commercial banks involved in the drawing up of a term sheet for a medium-term financing for Algeria. This letter is a follow-up to the letter the Managing Director sent on September 9, 1991, to the president of the European Community, of which a copy is attached for your reference. (The letter to the EC was drafted by the Managing Director himself, and therefore was not circulated for review.)

Your comments by tomorrow morning, September 12, would be appreciated.

Attachment

GCD/mdbanks

Sir:

Following recent discussions with the Algerian authorities, it is my pleasure to inform you that I intent to propose to the Executive Board of the Fund to complete the first review of Algeria's program under the stand-by arrangement approved by the Executive Board on June 3, 1991. In addition, the Fund staff will begin discussions with the Algerian authorities in the coming weeks on the 1992 budget and on an extended ~~fund facility~~^{arrangement} which could cover the years 1992-94.

As you are no doubt aware, a gap of about US\$1.1 billion in the financing of Algeria's 1991 program has emerged. This gap is closely related to the delays in the anticipated agreement between Algeria and its commercial bank creditors on a medium-term financing package equivalent to the principal falling due on syndicated loans, estimated at US\$1.0 billion in 1991.

In light of Algeria's precarious reserves position and the assistance the Fund and the European Community are prepared to provide, I'm sure you will agree that a favorable resolution of your discussions with the Algerian authorities on a financing package is now urgently needed.

Very truly yours,

- **Arab Banking Corporation** Bahrein
Président : M. Abdulla A. Saudi

Fax : 530 110
533 163
- **Chase Manhattan Bank** New York
Président : M. Arthur F. Ryan

Fax :
- **Industrial Bank of Japan** Tokyo
Président : M. Yoh Kurosawa

Fax : (03) 3201 3469
- **Long Term Credit Bank of Japan** Tokyo
Président : M. Tatsuya Horie

Fax : (03) 3214 4391
- **Mitsui Taiyo Kobe Bank** Tokyo
Président : M. Ken-ichi Suematsu

Fax : (03) 3501 8536
- **Crédit Lyonnais** Paris
Président : M. Jean-Yves Haberer

Fax : (1) 49 26 71 77
- **Banque Nationale de Paris** Paris
Président : M. René Thomas

Fax : (1) 40 14 67 81
- **Union de Banques Arabes et Françaises** Paris
Président : M. Bernard Jacquet

Fax : (1) 40 88 30 25

En ce qui concerne la Chase les contacts ont toujours lieu avec Londres, peut-être votre secrétaire pourrait-elle vérifier le meilleur numéro de fax à New York.



DIRECTEUR GÉNÉRAL

FONDS MONÉTAIRE INTERNATIONAL
WASHINGTON, D. C. 20431

ADRESSE TÉLÉGRAPHIQUE
INTERFUND

Le 9 septembre 1991

Monsieur le Président,

A la suite des conversations qui viennent de se terminer ce dimanche avec les autorités algériennes, je suis maintenant en mesure de vous confirmer que les progrès accomplis nous permettront de proposer au Conseil d'Administration du Fonds de compléter la première revue du programme et d'engager dans les prochaines semaines à Alger des discussions pour la préparation du budget 1992 ainsi que des travaux préliminaires pour la préparation d'une facilité élargie qui pourrait couvrir la période 1992-94. Je suis donc en mesure de vous donner un avis favorable pour la mise en place du concours financier des Communautés européennes à l'Algérie.

Compte tenu de la situation précaire des réserves de change de l'Algérie, il serait souhaitable que le premier décaissement d'un prêt des Communautés européennes à l'Algérie soit sensiblement plus élevé que le second.

J'envoie un message analogue aux Présidents des banques commerciales concernées.

Veuillez agréer, Monsieur le Président, l'assurance de ma parfaite considération.


Michel Camdessus

Monsieur Henning Christophersen
Président des Communautés européennes
Remise Immédiate



Office Memorandum

To: Mr. Dahl

September 12, 1991

From: Michael Edo *ME*

Subject: Algeria--Draft Letter to Commercial Banks

1. As the draft letter now reads, the Managing Director is making an unqualified statement to the commercial banks that he intends to propose to the Fund's Executive Board that the first review of Algeria's program be completed. We have discussed this and agreed on revised drafting which makes it clearer that the Managing Director will propose completion of the first review if (i) the Algerian authorities implement the measures that they have agreed with him (including agreement on a budgetary framework for 1992) and (ii) adequate financing assurances are received. An implication, which it is not necessary to state in this letter, is that agreement on a budgetary framework for 1992 will be reached following assessment of revised medium term macroeconomic projections, to ensure that the program's medium term objectives can be achieved. This assessment will be made when the draft letter of intent, with supporting tables, will be circulated to departments for comments.

2. As this letter has to be processed very quickly, I can accept for the purpose of the letter your estimates in paragraph 2 for the remaining financing gap for 1991 and for the principal falling due on syndicated loans in 1991. Mr. Di Tata talked to you about the commercial bank debt issues and Mr. Rozwadowski is meeting with Mr. Thiam on the balance of payments projections. ETR's comments on the draft letter of intent (which I understand will be circulated shortly) will include comments on the external sector estimates and projections.

cc: Mr. Boorman
Mr. Artus (o/r)

file - Review mission

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

December 3, 1991

To: Senior Staff

From: The Secretary's Department

Subject: Executive Board Meetings 91/153 and 91/154, November 13, 1991,
a.m. and p.m.*

Report by MD - Ministerial Meeting of Group of 24 Countries

Discussion: 30 minutes

MD reported on his visit to Brussels to attend the meeting of the Ministers of the Group of 24 Countries on coordinated economic assistance to the countries of Central and Eastern Europe. Text of Ministers' declaration circulated (EBD/91/299, 11/13/91).

MD informed Directors that the Government of Austria had offered to establish in Vienna for a period of 3-5 years a training facility in macroeconomics for officials from Central and Eastern European countries, to be under the direction of the Fund and other international agencies.

Work Program and Temporary Changes in Article IV Consultation Cycles

Staff representative: Van Houtven

Discussion: 4 hours, 40 minutes

EDs considered statements by the Managing Director on the work program (Buff Document No. 91/201, 11/6/91) and on temporary changes in Article IV consultation cycles (Buff Document No. 91/210, 11/13/91). They also had before them an updated tentative schedule of Executive Board Meetings (Secretary's Circular 91/158, 11/12/91). [See also the Managing Director's memorandum to the staff on the Fund's work program, circulated on November 19, 1991.]

I. Temporary Changes in Article IV Consultation Cycles

Directors broadly supported the proposal to change temporarily the cycle of Article IV consultations for non-G-7, nonprogram countries generally to accommodate the work load arising from the Fund's involvement in the U.S.S.R. and the Baltic states. Directors agreed to report to the Managing Director by November 20, 1991 on consultations with their capitals regarding the proposed change in cycle; the change in procedure would be effective as of November 22, 1991, and it would be reviewed no later than November 22, 1992. Many speakers stressed that the central role of Fund surveillance should continue undisturbed. Many speakers also stressed that the involvement of the Fund in the U.S.S.R. and the Baltic states must not come at the expense of its relationship with smaller members, including especially the provision of technical assistance. A number of speakers also

*Précis for limited distribution; not basis for official action

stated that the role of the Article IV consultation as an important--and sometimes the only--forum for an exchange of views between the Fund and many nonprogram members should not be jeopardized, and that standard Article IV consultation procedures should be reinstated as soon as circumstances allowed.

II. Work Program

Speakers generally supported the proposed work program. They acknowledged that the work relating to the U.S.S.R., the formerly centrally planned economies of Central and Eastern Europe, and the applicants for Fund membership, called for choosing carefully the issues to be addressed in the period covered by the work program. Those choices should be made even-handedly to ensure that the pre-eminent needs of members in all regions were met. EDs agreed to continue their dialogue on the work program during their informal retreat on December 12-13, 1991.

A few speakers said that the rules on the circulation periods for Board papers should be observed more strictly.

1. Work Related to the U.S.S.R. and Other Applicants

Speakers supported the Fund's provision of technical assistance and policy advice to the authorities in the U.S.S.R. and its constituent republics. Most speakers agreed that additional staff--fixed-term, contractual, and permanent--would be needed, but many said that emphasis should be placed on secondment of staff from national and other international institutions and on redeployment of Fund staff, so as to keep the Fund lean. Several Directors suggested that staff redeployment to the new Divisions in the European Department should not be limited to staff from only the European and Research Departments. While several speakers welcomed the intention of making most of the new positions fixed term, a number of Directors noted that, in the light of the magnitude and duration of the work that would be required, it was likely that many would become permanent. A few speakers observed that securing secondments from other institutions might be problematical because of pressure on the same institutions to retain staff with expertise in Eastern Europe and the U.S.S.R.

A number of EDs said that the Fund should not rule out the possibility of establishing resident representative posts in the capitals of the U.S.S.R. republics if they were requested. A few Directors noted that the modalities for technical assistance cost sharing between the Fund and the U.S.S.R. should be laid out more clearly.

Directors agreed to establish in the coming months one committee each to consider the membership applications from the three Baltic states, and two Pacific states. They also agreed to establish a Committee on Rules for the 1992 Regular Election of Executive Directors in advance of July 1992.

2. Country-related Activities

Directors broadly supported the revised consultation schedule in the attachment to Buff Document No. 91/210 (11/13/91). A number of Directors noted the importance of increasing the frequency of staff visits to those countries for which a lengthening of the consultation cycle had been proposed. Several speakers recommended that staff reports and background papers on recent economic developments be made more concise, and that special appendices be devoted only to issues that were clearly within the Fund's area of competence.

3. Implications of the Coming into Effect of the Quota Increases

EDs agreed to discuss the current outlook for consents to quota increases under the Ninth General Review and approval of the Third Amendment of the Articles on December 4, 1991.

Speakers welcomed the proposed review of the guidelines on the allocation of currencies under the operational budget, and the role of reserves in measuring members' relative external financial strength. A few EDs said that all the ways in which members contributed to supporting the Fund's costs--including through the allocation of currencies--should be taken into account in sharing the burden of the costs to the Fund arising from members' arrears.

4. World Economic Outlook, Debt and Trade Issues

Speakers generally supported the work program related to the world economic outlook, debt and trade issues. A number of speakers, noting the attention to be given to Central and Eastern Europe and the U.S.S.R. and the concomitant need to determine work priorities carefully, suggested that trade issues be de-emphasized. A few other speakers considered that trade issues should be given greater prominence in light of their importance to the functioning of the international monetary system and, in particular, to the prospects of the primary commodity producing and other less developed countries. Those speakers welcomed in particular the planned paper on interlinkages between the policies of the industrial and developing countries.

A few EDs commented that the informal sessions on exchange market developments were not useful; others, however, saw them as a form of surveillance over the policies of the major industrial countries that should be continued.

5. Systemic Issues and the Role of the SDR

While speakers generally welcomed the scheduled completion of the report of the Working Party on the Measurement of International Capital Flows, there were differences of view concerning the priority that should be accorded proposed papers on systemic issues and the role of the SDR.

One group of Directors said that the Fund was not giving enough attention to its systemic role, and the proposed papers represented only a minimum effort. Those speakers attached particular importance to the papers on international liquidity and the role of the SDR, and on exchange arrangements of formerly centrally planned economies; indeed, a few speakers said, consideration of the latter paper ought to be advanced from March 1992, given the timeliness of the issues it would cover.

Other Directors commented that the paper on the role of the SDR should be brief, concentrating on operationally relevant issues, particularly--a few speakers recommended--the practical issues related to a resumption of SDR allocations. A few speakers called into question the practical relevance of the proposed paper on determinants of equilibrium exchange rates, but others, noting the Board's recent debates on equilibrium exchange rates, stressed its importance.

6. Policies on Use of Fund Resources, and Design of Fund Policy Advice

Speakers welcomed the proposed paper on the expansion of eligibility for access to the ESAF. A few EDs stressed that expanded eligibility for other countries must not compromise further ESAF access on the part of countries with current SAF/ESAF arrangements. All speakers said--although a few did so with reluctance--that they could go along with the proposed postponement of the review of the CCFF. With a few dissenting, Directors generally agreed that the papers relating to the design of Fund policy advice--on the role of financial markets and intermediation in transforming centrally planned economies, on economic implications of unproductive public expenditure, and on issues in energy pricing policy--could be made available to the Board for information only and need not be discussed.

A number of speakers said that they looked forward to having a prospective overview of the Research Department's work program, given the Fund's current emphasis on the formerly centrally planned economies and the U.S.S.R.

7. Other Operational Matters

EDs agreed with the proposed scheduling of the midyear and annual reviews of the Fund's income position, as well as of the paper on the cooperative strategy on overdue financial obligations.

Views were divided on the advisability of holding a seminar on the broad principles of burden sharing. Some Directors said that the burden sharing mechanisms should be reassessed with a view to designing a more equitable system, and, in that regard, that a regular Board meeting--rather than a seminar--would be appropriate. Some other Directors said that reopening the burden sharing discussion in any forum would be fruitless, and that the Board's limited time should be devoted to other matters. A few other Directors, calling attention to the added costs to the Fund arising

from its involvement in the U.S.S.R., the concomitant increase in the rate of charge on the use of Fund resources, and the related implications for Fund debtors of the burden sharing of the cost of arrears, said that the need for a review of the burden sharing mechanisms was more urgent than ever.

8. Administrative and Related Matters

A few speakers requested that the documentation for the Board discussion of the Administrative Budget be issue oriented and concise.

Many speakers called attention to the importance of resolving the technical issues concerning the establishment of an Administrative Tribunal, hopefully no later than end-1991 or early 1992.

A number of speakers expressed interest in the planned report on an Independent Evaluation Unit in the Fund, and on meeting with the Ombudsman to assess staff morale. One Director also expressed interest in a paper on the policy and practice concerning the attendance of outsiders at Executive Board meetings.

Report by MD - Cambodia

MD reported briefly on staff participation in a forthcoming mission to Cambodia under the aegis of the U.N. Transitional Authority in Cambodia (UNTAC) for the supervision of elections. Staff also to participate in an Asian Development Bank mission in late November 1991 on future technical assistance to Cambodia.

Algeria - Review under Stand-by Arrangement

Staff representatives: Artus, Edo
Discussion: 2 hours, 45 minutes

EDs considered a staff paper on the review under the ten-month stand-by arrangement for Algeria in an amount equivalent to SDR 300 million approved on June 3, 1991 (EBS/91/171, 10/1/91).

Speakers remarked that the authorities' failure to meet some of the performance criteria in the first half of 1991 was due partly to exogenous factors--a shortfall in external financing and social disturbances--and partly to delays in implementing planned measures. Some EDs considered that, while the authorities clearly intended to adjust the economy, they had not yet developed an adequate track record in support of further Fund financing at the present stage. In reaching that conclusion, they said, they had noted that real interest rates had been negative and were likely to remain so in coming months; in addition, the credit ceilings under the arrangement might well be exceeded in the coming period, thus intensifying inflationary pressure. Moreover, the fiscal actions taken in recent months were in their view unimpressive--the authorities having relied

importantly on exceptional revenues--while the fiscal policy intentions for the coming period seemed somewhat sketchy, public enterprise restructuring had been delayed, exchange rate policy might not be supportive of stabilization, and the national elections to be held shortly added significantly to the great uncertainty facing the economy. Without adequate adjustment, the authorities would find it very difficult to maintain domestic and external confidence.

In the circumstances, those EDs said, it would be best to delay the proposed purchase under the stand-by arrangement until early 1992, by which time the authorities would have had a further opportunity to show that the adjustment program had been brought back on track. They remarked that they were worried that acceptance of the proposed decision would send the wrong signal to the membership in general about the role of a record of sound policy performance in the Fund's consideration of requests for financial assistance; as a result, they commented, the value of the Fund's "seal of approval" of members' adjustment efforts could be undermined.

Other EDs noted that the authorities had already adopted important policy measures under the stand-by arrangement with a view to bringing the adjustment program back on track. They noted that, in order to restrain credit growth, the authorities had imposed limits on central bank credit to the commercial banks and had significantly increased the interest rates on such credit. In addition, the authorities had recently adjusted administered prices and had reached a debt refinancing agreement with the country's core commercial bank creditors, the first tranche of an EC balance of payments support loan was expected shortly; and progress had been made in permitting foreign participation in the hydrocarbon sector. They stressed that Fund financing at the present stage was important in the authorities' efforts to arrange adequate external financing in support of their adjustment efforts. There were clearly risks in approving the proposed decision, those EDs remarked, but the Board had approved financing in similarly difficult cases in the past.

All speakers stressed that in the coming months the authorities must maintain strict demand-management policies--tightening them as necessary--further liberalize prices, implement planned tax and public enterprise reforms and other structural adjustments, and make further progress in the collection and provision of economic data.

Decision approved, with five abstentions.

Burundi - Enhanced Structural Adjustment Arrangement, and Exchange System

Staff representatives: Abu-zobaa, Basu
Discussion: 30 minutes

EDs considered a staff paper on Burundi's request for arrangements under the ESAF in an amount equivalent to SDR 42.7 million and the first arrangement thereunder in an amount equivalent to SDR 12.8 million

(EBS/91/167, 10/1/91). They also had before them a policy framework paper for the period 1991-94 (EBD/91/276, 9/30/91).

Speakers noted that the performance under the arrangement under the SAF in 1986-89 had been mixed: economic growth and inflation performance had been good, but internal and external imbalances had widened, and the economy remained dependent on coffee and vulnerable to external developments. The adoption of a strong and comprehensive reform program to be supported by the arrangements under the ESAF was therefore most welcome. Speakers noted that the authorities had already taken a variety of substantial prior actions, but that they would have to adhere strictly to the new program, which focused on improving the fiscal position and controlling the expansion of bank credit. Speakers remarked that they were inclined to support the proposed arrangement partly because the recommended level of access was relatively low, the financing in support of the adjustment program would be used mainly to strengthen reserves, and the authorities had an admirable record of meeting external debt obligations. In addition, they noted that the external position had not yet come under pressure.

Decisions approved.

* * * * *

Decisions taken since previous Board meeting to be recorded in minutes of Meeting 91/153

Approval of Minutes (91/41-91/44)

Executive Board Travel (EBAP/91/264 and EBAP/91/266)

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

Buff Document No. 91/208 - November 12, 1991

Statement by Mr. Mirakhor on Algeria
Executive Board Meeting 91/153
November 13, 1991

At the present time, Algeria is going through a most difficult phase of its economic and political transformation resulting from a program of wide ranging reforms. The economic reforms are aimed at opening the country to foreign competition and investment, and to allow the private sector to play a major role in an economy with a greatly increased reliance on the market mechanism. The reforms, which had been launched in 1986, gradually built up speed through the late 1980s and culminated in the bold and comprehensive program embodied in the request last April for a stand-by arrangement. The system of central planning had left the Algerian economy with pervasive rigidities and distortions, but the many economic reforms which were implemented in the agriculture, services, and the public enterprise sectors have markedly improved the performance of the economy. Beginning in 1989, pricing, exchange, and trade policies became more active and flexible. Fiscal deficit was substantially reduced with the retrenchment of the Treasury from financing the investments of public enterprises, while its own recourse to the central bank financing was dramatically curtailed.

The 1991 program was implemented under adverse external conditions when international oil prices were returning to their pre-Middle East crisis levels, international reserves were declining and heavy debt amortization levels were putting severe pressures on external debt management. The decision to implement the program under difficult conditions indicates the firm determination of the authorities to transform the economy. Concurrently with the major economic reforms, the authorities took up a further challenge in the political arena by announcing plans for general elections to be held on June 27, 1991. Convinced that meaningful and long lasting economic transformation must be accompanied by the reform of the political process, the authorities embarked on implementation of an orderly program of political liberalization. Fast unfolding political events in May and June, however, not only preempted the elections but also interrupted the normal operations of the economy via work stoppages, strikes, and civil unrest. The large shortfall in foreign financing to the tune of US\$1.1 billion, higher than programmed debt service payments, and continued slow disbursements, combined with political events, led to a sharp decline in imports and output levels. In turn, unavoidable slippages occurred in public finance, credit performance, and in the implementation of trade and exchange liberalization measures envisaged in the program. As the staff paper indicates, however, the authorities have taken firm steps to put the program back on track and enhance the medium-term policy measures.

To address the financial and structural imbalances, the authorities implemented bold measures in reforming the exchange system and prices.

Since the reform process began in 1986 and up to 1989, the Algerian dinar depreciated by 55.6 percent; by a further 29.6 percent in 1990, by 50 percent to February 1991, and most recently by 22 percent to September 1991. To illustrate the impact of exchange rate adjustments, it is worth noting that the official exchange rate which was DA 9 to US\$1 in October 1990 is now DA 22.50. These repeated depreciations, while improving the competitiveness of the export-oriented and import-competing manufacturing sector, did nonetheless increase import costs and debt servicing for public enterprises, which in turn led to a worsening of their financial situation. Furthermore, price increases in the manufacturing sector effected in order to pass through this large depreciation resulted in a heavy build-up of inventories and contraction of industrial output.

The large currency depreciations have substantially reduced the enterprises' financial capacity to import raw materials and intermediate goods. This has resulted in compression of imports and reduced production that worsened the financial situation of the enterprises, leaving them no recourse but to seek increased credits from the banking system. This was the main reason for the slippages in the monetary sector. In a sense, the overruns in the monetary area were inevitable, given the sensitive social situation in the country and the authorities' attempt to avoid any further disruptions and disturbances. Indeed, the only alternative policy left to the authorities, if credit requests were to be rejected, was to accept substantial layoffs, which would have triggered general strikes and unrest in the country as the large declines in economic activity would have exacerbated the problem of high levels of unemployment.

In the fiscal area, the slowdown in the economic activity was the main cause of the poor performance in non-oil tax revenues, especially in the "taxe compensatoire" revenues. In the event, the financial situation of the "Fonds de compensation" worsened despite the measures taken in the 1991 Law of Finance to increase its revenues. This, in turn, led to the slippages in the fiscal sector despite the fact that overall budget situation was satisfactory in a number of respects. To reform the tax and tariff systems, the authorities intend to implement in 1992 new codes that would simplify the existing procedures and strengthen the fiscal situation by expanding the revenue base and stimulate public savings. In addition, expenditures will be streamlined so as to enhance the efficiency of public investment.

In the external sector, higher than expected debt service payments, and shortfall in external financing due to protracted negotiations with commercial banks, compounded by complicated technical procedures for mobilizing bilateral lines of credit, constrained foreign exchange availability. These constraints have delayed somewhat the implementation of the comprehensive trade system reform package. Despite the pressing financial needs of the economy, strains on the balance of payments, and import compression and its adverse effects on output, external financial obligations have been met in a timely and orderly manner.

Firmly committed to reforms, the new Government, which took office in July 1991, is also implementing additional measures to correct the pressures on the balance of payments and promote employment. The authorities have implemented a further 22 percent depreciation of the dinar. Reduction in the "surtaxe compensatoire" and in the "taxe compensatoire" for machinery and equipment and raw materials for industry, especially the construction and textiles sectors, was introduced in the supplementary Law of Finance adopted by the Parliament in August 1991. Furthermore, measures are being implemented to encourage wholesalers, concessionaires and qualified enterprises to import raw materials and intermediate products necessary for the expansion of output.

Despite the precarious social situation and the upcoming elections--set for the 26th of December 1991--the authorities have decided to increase energy prices (except for gasoil) between 96 and 183 percent and basic consumer goods prices by up to 300 percent in order to reduce the "Fonds de compensation" subsidies as well as to improve its financial position. The items with sharply lower subsidies include sugar, cooking oil, powdered and pasteurized milk and corn. The higher fuel prices are expected to yield budgetary revenue estimated at more than 1 billion dinars for the fourth quarter of 1991. The price increases in essential consumer goods have permitted a substantial reduction in subsidies from the compensation fund and it is anticipated that for the fourth quarter of 1991 it would be equivalent in terms of annual savings of over 8 billion dinars. In total, the reduction in implicit and explicit subsidies under the initial program adopted on June 3, 1991 plus the measures implemented following the first review, exceeds 21 billion dinars for 1991. Put differently, the total adjustments in 1991--for the subsidized items only--are expected to amount to more than 2 percent of the GDP, a massive adjustment by any standard.

The authorities also intend to allow greater flexibility in the pricing policies by removing existing restrictions. In addition to substantial price liberalization implemented thus far (40 categories), further measures will remove restrictions on 15 other categories. To mitigate the adverse effects of this liberalized pricing policy on the more vulnerable segments of the population, the authorities intend to put in place a social safety net with technical assistance from the Fund. The process of reforms in the industry and services sectors will be further enhanced with a comprehensive restructuring and rehabilitation of the public enterprises beyond the 22 firms and commercial banks addressed by the present program. To make these enterprises accountable only to market forces, a new "code de commerce", to be introduced in early 1992, will include provisions regarding bankruptcy and judicial liquidation similar to those existing for private enterprises. This will rationalize the public enterprise sector and enable the viable firms to become competitive on a market basis.

In order to enhance the effectiveness of exchange rate and pricing measures, tight monetary policy consisting of imposition of credit ceilings on banks and the 22 public enterprises and increases in the discount rate, the money market rate and the rate for credits above ceiling will be

strictly implemented. For instance, policies aimed at imposing ceilings for each bank and each public enterprise under restructuring and rehabilitation will be reinforced. Furthermore, prudential and accounting regulations in conformity with international standards will be introduced to improve supervision and make banks more efficient. Finally, the market rate of interest will become the instrument of monetary policy and reliance on direct credit controls will be gradually reduced.

To strengthen the external position, foreign financing is being secured, mainly with Italy. A loan was recently extended to Algeria by the EC and an agreement was reached with the commercial banks, led by Crédit Lyonnais of France, with the objective of reprofiling the debt service. In addition, mobilization of bilateral lines of credits is being pursued by the Algerian commercial banks. Furthermore, Eximbank of Japan has informed our authorities that its management has agreed to co-finance two sectoral adjustment loans with the World Bank. Moreover, the opening of the oil sector to foreign investment is beginning to produce positive results and significant new external resources are expected to materialize in the near future.

Structural reforms are viewed by the authorities as essential to the revitalization of the domestic economy. The main objective would be to revitalize economic activity, as the low levels of output have had negative effects on the standard of living of the population, employment, and the financial situation of the enterprises. The financial restructuring of the banks and the 22 public enterprises is being pursued and the audit contracts signed; it is expected that the restructuring will be completed by the end of December 1991, and extended to other public enterprises in 1992. Furthermore, the authorities are well advanced in discussions with the World Bank for a sectoral adjustment loan concerning the fiscal and tariff areas as well as the trade system; completion of these discussions is expected shortly. The private sector has been allowed access to hard currency and trade and encouraged to play greater role in the economy. Further incentives are planned by the new Ministry of Medium and Small Enterprises in order to boost the private sector's activities in the medium term.

The authorities have also prepared a program of new investments, especially in the oil sector. The first step in this program was to revamp operations on existing industrial sites, the second was to encourage foreign investment in the oil production as well as exploration activities, and the final step will be the opening of the gas industry to foreign investment. In this respect, legal provisions have already been introduced in the Supplementary Law of Finance of 1991 to remove restrictions on foreign participation. Furthermore, the Investment Law concerning the oil sector will soon be reviewed in order to encourage further involvement of foreign investment in the oil and gas industry. Additional provisions will be introduced with the aim of removing restrictions on domestic and foreign investment and introducing incentives, such as tax exemption, in order to increase foreign direct investment in the economy. These initiatives can

be expected to foster further growth of domestic production and increase employment in the medium term.

In the pricing area, the authorities are committed to pursuing the pace of reforms implemented so far with the objective of allowing the full play of market forces. In this regard, it is expected that all energy prices will be allowed to reflect their economic costs by 1992, except for the price of gasoil which will be adjusted gradually. Furthermore, all subsidized prices will be phased out as soon as a comprehensive social safety net is effectively in place. However, bread semolina and milk will continue to be subsidized further until the social safety net would be stabilized; but, prices of these items will be adjusted gradually. In order to allow the economy to become less dependent on hydrocarbons, exchange rate policy will play a greater role to boost non-oil exports.

As regards the debt management policy, the authorities' objective is to continue to discharge their external financial commitments while seeking additional external financing. The opening of the economy to foreign direct investment should induce capital inflows, thereby reducing substantially recourse to external bank borrowing, cushioning the economy against external shocks in the short run, and strengthening the balance of payments situation in the medium term. Since the medium-term economic program will alleviate the financial imbalances and increase the diversification and efficiency of the Algerian economy, the authorities are convinced that the program will also strengthen external creditworthiness and improve access to international capital markets. In this regard, it is important to note that while the debt stock of Algeria is about US\$25 billion, the value of proven oil reserves alone are estimated at US\$150 billion. Clearly, the problem for the Algerian economy is one of liquidity and not solvency. This is why the authorities are determined to pursue their strategy of debt reprofiling rather than seeking to reschedule external debt.

All medium-term policies mentioned above will be implemented with the ultimate objective of enabling the Algerian economy to actively participate in the process of regional integration of the North African economies in the framework of the Maghreb Arab Union. In launching and implementing sound economic reforms, complemented by a medium-term program to fully utilize all the potentialities of the country's resources, Algeria expects a positive response from the international financial community in terms of better access to international capital markets than has been possible thus far. Given the strategic importance of Algeria, its enormous hydrocarbon resources, and the fact that the country has continued to honor its international financial obligations despite enormous social and economic costs, such expectations should be realizable.



INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

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CABLE ADDRESS
INTERFUND

CC: TRE
MR. MIRAKHOR
AFR
SEC

SEP 13 1991

Dear Sirs:

I am enclosing herewith the text of the Stand-by Arrangement for
Algeria approved by the Executive Board on June 3, 1991.

Sincerely,

A handwritten signature in cursive script, appearing to read "Klaus Boese".

Klaus Boese
Senior Operations Officer
Operations Division for
General Resources

Enclosure

Banque Centrale d'Algerie
38, Avenue Franklin Roosevelt
Algiers
Algeria

SUR/91/53

CONFIDENTIAL

June 10, 1991

The Chairman's Summing Up at the Conclusion of the
1991 Article IV Consultation with Algeria
Executive Board Meeting 91/74 - June 3, 1991

Directors were in broad agreement with the views expressed by the staff. They welcomed the Algerian authorities' strengthened commitment to structural reform and their decision to accelerate the pace of change toward the goal of a market economy. They commended in particular the recent introduction of a liberal trade and payments system in the framework of the prudent fiscal and monetary policies delineated in the authorities' comprehensive economic and financial program for 1991. Directors strongly supported the authorities in their determination to continue meeting Algeria's debt service payments in a timely fashion.

Directors were impressed with the scope of the import and payments liberalization introduced in early April. Free access to imports at an appropriate official exchange rate should improve the efficiency of resource use and the climate for investment, enhancing Algeria's growth prospects over the medium term and increasing employment. Directors also noted that the level of reserves was low, and that there was doubt whether in the months immediately ahead the authorities would be able to provide sufficient foreign exchange at the current official rate to meet the pent-up demand for imports. Taking into account other factors, such as the differential between the official and the parallel exchange rate, most Directors agreed that a flexible exchange rate, buttressed by tight financial policies, was appropriate to support the liberalization measures. Some Directors considered that the authorities should move, at an appropriate time, toward using the exchange rate as a nominal anchor, and they referred in this context to the objective of the authorities to achieve external convertibility of the dinar for most current transactions by early 1992. Furthermore, a number of speakers, noting that import liberalization would be accompanied by domestic price deregulation, observed that the size of the resulting price shock was difficult to foresee, and they urged the authorities to be particularly mindful of the danger of an inflationary spiral.

Directors were pleased to note that the tight fiscal policy and limits on credit and on central bank rediscounts and advances were expected to result in an increase in broad money during 1991 well below the recent rate of inflation. The resulting decline in the excess liquidity in the economy, building on progress made in 1990, would, Directors observed, assist the authorities in managing the transition to a market-based system by reducing inflationary pressures. Directors welcomed the special measures that had been implemented to restrict credit to the 22 large enterprises in need of major restructuring. Directors welcomed the liberalization of interest

rates, which had been implemented in 1990, and the decision of the authorities to allow the money market rate to fluctuate according to supply and demand. They urged the authorities to permit rates to rise quickly to levels that would be positive in real terms. Noting the absence of dynamism in the financial market, and particularly the lackluster response of the commercial banks to their new environment, Directors stressed the importance of financial sector reform, including restructuring of the balance sheets of commercial banks which are burdened with nonperforming loans. Directors also emphasized the importance of moving forward urgently with the restructuring of the state economic enterprises.

Directors supported Algeria's fiscal policy, including the limitation of treasury access to central bank credit. They welcomed the strong restraint on budget outlays but expressed concern about the growth of public sector wages and urged the authorities to reduce budget subsidies further. They endorsed the priority that the authorities attached to a broad-based tax reform.

Directors observed that domestic price decontrol would be an essential element in ensuring that the beneficial effects of import liberalization would be felt, and that enterprises would respond to market signals. In this regard, Directors emphasized the importance of the authorities' undertaking to continue the liberalization of domestic prices. At the same time, Directors urged the authorities to accelerate their policy of adjustment of the prices that are still administered, including energy and food prices, while putting in place a suitable safety net.

Directors commended the authorities for their continuing commitment to servicing Algeria's external debt in a timely fashion. Directors noted with satisfaction that external payments arrears, which had emerged in 1990 for the first time, were in the process of being paid. They emphasized the importance of the authorities' commitment to avoid any arrears during the program period, and they stressed the urgency of a suitable agreement with the banks.

Directors were pleased to note that Algeria's medium-term balance of payments prospects remain positive as a result of good prospects for exports, particularly gas. Directors cautioned that Algeria was still at the early stages of its program for a fundamental reorientation of the economy and that the measures adopted would only start to show results with determined and sustained application over the medium term. Such policies and prudent debt management would enable Algeria to improve its balance of payments position over the medium term, Directors considered.

In view of Algeria's dependence on hydrocarbon exports and vulnerability to fluctuations in world market prices for hydrocarbons, Directors supported Algeria's request for an external contingency mechanism.

Directors urged the authorities to give high priority to improving economic and financial data, which was essential to guide policymakers in the new economic environment.

To conclude, many speakers emphasized that the Fund should continue to support Algeria's transition to a market economy, and they saw a good case for the stand-by arrangement to be followed by an extended Fund arrangement.

It is expected that the next Article IV consultation with Algeria will be held on the standard 12-month cycle.



Office Memorandum

EA

To: The Acting Managing Director

November 11, 1991

From: Mamoudou Touré

Subject: Algeria - Supplement to Staff Report for First Review

Attached for your consideration and approval is a slightly revised version of the supplement to the staff report for the first review under the stand-by arrangement with Algeria (EBS/91/171, October 1, 1991), which we sent to you on November 7, 1991. ^{1/} This revised version reflects information on the authorities' policy intentions with respect to adjustments in administered prices in 1992, as communicated to us over the weekend by the authorities. The review is now on the agenda of the Executive Board for Wednesday, November 13, 1991.

Given the shortness of time before the Board meeting, we are sending the attached to Mr. Van Houtven for immediate distribution to the Board.

The draft supplement has been cleared by Mr. Edo (ETR), and reviewed by Mr. Nashashibi (FAD), Mr. Francotte (LEG), and Mr. Papaioannou (TRE).

Attachment

cc: The Managing Director (on return)
Mr. Van Houtven
Mr. Andrews

^{1/} In accordance with the Managing Director's instructions, the version we sent to you and to Mr. Van Houtven on November 7 was prepared for distribution but, in the event, was never distributed.

INTERNATIONAL MONETARY FUND

ALGERIA

Staff Report for Review Under Stand-by
Arrangement - Supplemental Information

Prepared by the African Department

(In consultation with the Exchange and Trade
Relations, Fiscal Affairs, Legal,
and Treasurer's Departments)

Approved by Mamoudou Touré and Michael Edo *MSZ*

November 11, 1991

This supplement presents information on the financing of the program, adjustments to administered prices, and the draft 1992 budget, received subsequent to the distribution of the staff report (EBS/91/171) on September 30, 1991. It reflects in part the work of a staff team which visited Algiers September 27-October 7, 1991, to examine the draft 1992 budget. 1/

Financing of the program

The core group of Algeria's commercial bank creditors 2/ reached an agreement with the Algerian authorities on October 9, 1991, on a term sheet for a financing facility which provides refinancing of principal maturities falling due to the banks during the period October 1, 1991 through March 31, 1993, on (a) earlier syndicated loans and (b) trade-related credits of over one year maturity outstanding as of October 1, 1991, that are not guaranteed by export credit or multilateral agencies. The facility consists of two tranches. Tranche A, designed to refinance credits with original maturities of two years and over, will carry an interest rate of Libor plus 1.5 percent and be repaid over eight years including a three year grace period. Tranche B, designed to finance credits with original maturities over 360 days but less than two years, will carry an interest rate of Libor plus 1.375 percent repayable over five years, also with three years' grace. The facility covers 100 percent of maturities falling due through March 31, 1992 and 95 percent of the maturities falling due

1/ The team consisted of Messrs. G. Dahl (Head-AFR), E. Ahmad (FAD), M. Lazare (AFR) and F. Rozwadowski (ETR).

2/ Arab Banking Corporation, Banque Nationale de Paris, The Chase Manhattan Bank, N.A., Crédit Lyonnais, The Industrial Bank of Japan, Limited, The Long Term Credit Bank of Japan, Ltd., The Mitsui Taiyo Kobe Bank, Limited, and Union de Banques Arabes et Françaises - U.B.A.F.

thereafter. Drawdowns are to be quarterly. It is estimated that this facility will provide about US\$430 million of financing in 1991, US\$880 million of financing in 1992, and US\$190 million of financing through March 1993, for a total of about US\$1.5 billion. Over half of the total is expected to come from Japanese banks, with the bulk of the remainder from Arab, French and U.S. banks. The facility is now in the process of syndication. There is an early participation fee for responses received by December 6, 1991, and the coordinating bank expects signature of the final agreement by mid-December.

The first tranche, of ECU 250 million (about US\$300 million), of the special balance of payments support loan from the European Communities is now expected to be disbursed in December 1991.

Gross official reserves of the Bank of Algeria were US\$800 million at end-September 1991. After adjusting for short-term liabilities of US\$121 million, net external reserves (excluding liabilities to the Fund) were US\$679 million, compared with the proposed performance criterion (adjusted for export deviations) of US\$458 million, implying a margin above the criterion of US\$221 million and a small shortfall in relation to the indicative target of US\$700 million. However, there were still external payments arrears amounting to US\$350 million at the end of September, which were entirely eliminated by early November 1991. These arrears are evidence of the introduction of exchange restrictions. However, in view of the fact that they are now eliminated, the staff recommends a waiver, as reflected in the revised proposed decision below.

The agreement with the banks and the special support from the EC should permit attainment of the end-December performance criterion for net international reserves of US\$1.23 billion. In addition, a further US\$300 million in advance payments for the right to participate in investments in the hydrocarbon sector is expected in the fourth quarter. A draft law permitting the participation of foreign firms in the development of existing petroleum structures has been approved by the Government and is currently before the Parliament. These additional resources should permit attainment of the indicative target for international reserves at end-December 1991 of US\$1.53 billion.

Adjustments to administered prices

Following lengthy delays, the authorities are implementing the sharp increases in the tariffs on electricity and natural gas consumed by industrial users, that were envisaged for April 1991. In mid-October 1991, the authorities announced price increases for high-voltage electricity, by 89 percent, and for high-pressure gas, by 68 percent, with the increases effective from October 1, 1991. A further increase in the price of high-pressure gas by 68 percent is to take effect December 1, 1991, for a total compound increase of 183 percent. In a move which goes beyond the measures envisaged last April, the price of

medium-voltage electricity was increased effective October 1, 1991, by 35 percent.

In addition, the authorities have recently adjusted a number of administered prices of subsidized food items and petroleum products, as shown in Table 1. These measures are estimated to have a combined favorable impact on the Compensation Fund and the budget of DA 3.0 billion in 1991. However, the authorities have been unable to implement further price increases to achieve an additional DA 1.3 billion of budgetary savings, as anticipated in the program. Instead, they are reducing expenditures by DA 1.3 billion on a commitments basis. They have also indicated a commitment to adjust the domestic prices of petroleum products to world market levels according to an accelerated timetable, with the bulk of the adjustment completed before end-1992. They also plan to reform the subsidy scheme for basic consumer goods in early 1992 in conjunction with the implementation of a new social safety net system. As part of this reform, prices of all basic consumer goods will also be adjusted to their economic costs, and subsequently liberalized, according to an accelerated timetable, with the price adjustment completed by mid-1992, except for bread, milk, and semolina, for which a somewhat more gradual adjustment is envisaged.

The draft 1992 budget

As mentioned in the authorities' policy memorandum attached to their letter of September 30, 1991 (EBS/91/171, Attachment I), the authorities aim to achieve a surplus on treasury operations in 1992 (before contributions for public enterprise restructuring) of 5.5 percent of GDP. The staff team that visited Algiers in late September-early October reviewed with the authorities the elements of the draft 1992 budget, which was at that time in process of formulation, and found that the achievement of the overall target of a surplus of 5.5 percent of GDP will require that several key policy decisions are taken very soon.

The most important of the policy areas still being examined by the authorities was the question of a comprehensive reform of the system of consumer subsidies and the elaboration of a more efficient and effective social safety net. Such a reform should replace the current system of generalized subsidies, the cost of which has been ballooning while only a small proportion of the benefits accrued to the more vulnerable social groups. Thus, the new system should permit a preservation or enhancement of the present level of support for needy groups, while reducing overall costs. In its discussions with the authorities, the staff has stressed the need to set the level of benefits under the new system in such a way as to ensure that households in the lowest 20 percent or so of the income scale receive equal or increased benefits compared with the current system, while limiting the benefits available to households at higher income brackets, thus ensuring that overall costs are contained.

Table 1. Algeria: Adjustments of Administered Prices, October 1991

(In Algerian dinars, unless otherwise indicated)

Commodity	Unit	Previous price	New price	Percent increase	New price equivalent
Effective October 16, 1991:					
Super gasoline	liter	3.75	4.80	28	US\$0.81 per U.S. gallon
Regular gasoline	liter	3.10	4.20	35	US\$0.71 per U.S. gallon
Diesel fuel	liter	0.95	1.20	26	US\$0.20 per U.S. gallon
Butane	13 kilos	19.00	23.00	21	US\$0.04 per pound
Propane	35 kilos	58.00	60.00	3	US\$0.04 per pound
Effective October 19, 1991:					
Crystalized sugar	kilo	2.22 ^{1/}	6.00	170	US\$0.12 per pound
Powdered milk, box	kilo	15.00	24.00	60	US\$0.48 per pound
Powdered milk, bag	kilo	10.83	22.00	103	US\$0.44 per pound
Pasteurized milk	liter	1.70	2.00	18	US\$0.34 per U.S. gallon
Vegetable oil	liter	4.62 ^{1/}	5.88 ^{1/}	27	US\$0.99 per U.S. gallon
Corn	quintal	170	280	65	US\$0.06 per pound

Source: Information provided by the Ministry of Economy, Government of Algeria.

^{1/} Average price of several different packagings.

A second area of uncertainty relates to the revenue projections in the context of tax reform. The authorities are proceeding with their plans for the implementation in early 1992 of a value added tax (VAT) to replace several existing taxes, as well as reformed taxes on corporate and individual incomes, and a new and simplified customs tariff. However, the statistical base for projecting revenues from the new taxes is weak, and the revenue projections are therefore subject to possible errors. Thus, the staff has stressed the need to be conservative in projecting revenues from the new taxes in 1992. This concern is heightened by the fact that, in the staff's view, the VAT structure as proposed at the time of the discussions with the staff was unnecessarily complex, with too many rates and too many exemptions, which could lead to problems of implementation and administration and thus a shortfall in revenue, particularly during the period of transition to the new system.

Revised Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. Algeria has consulted with the Fund in accordance with paragraph 4 of the stand-by arrangement for Algeria (EBS/91/79, Supplement 2, June 17, 1991) and paragraph 50 of the memorandum on economic and financial policies annexed to the letter dated April 27, 1991 from the Minister of Economy and the Governor of the Bank of Algeria, in order to review progress in the implementation of the policies and measures described in that memorandum, and to reach understandings regarding the circumstances in which purchases under the arrangement can be resumed.
2. The letter with its annexed memorandum and table, dated September 30, 1991, from the Minister of Economy and the Governor of the Bank of Algeria, shall be attached to the stand-by arrangement for Algeria, and the letter of April 27, 1991, with its annexed memorandum and table, shall be read as modified and supplemented by the letter of September 30, 1991, its annexed memorandum and table.
3. Accordingly, the limits for end-September and end-December 1991, referred to in paragraphs 4(a)(1), (2), (3), (4), (5), (6), and (7) of the stand-by arrangement for Algeria shall be as specified in the table annexed to the letter of September 30, 1991.
4. The Fund decides that the first review contemplated in paragraph 4(c) of the stand-by arrangement for Algeria is completed, and that Algeria may proceed to make purchases under the arrangement notwithstanding the nonobservance of paragraph 4(d)(1) and purchases under it up to the equivalent of SDR 150 million until November 22, 1991 notwithstanding paragraph 4(a).



Office Memorandum

main file - review

TO: The Managing Director
The Deputy Managing Director

DATE: November 7, 1991

FROM: E.L. Bornemann *EB*

SUBJECT: Algeria - Supplement to Staff Report for First Review

Attached for your consideration and approval is a supplement to the staff report for the first review under the stand-by arrangement with Algeria (EBS/91/171, October 1, 1991). The review is on the agenda of the Executive Board for tomorrow, November 8, 1991.

Given the shortness of time before the Board meeting, we are sending the attached to Mr. Van Houtven for immediate distribution to the Board.

The draft supplement has been cleared by Mr. Edo (ETR), and reviewed by Mr. Nashashibi (FAD), Mr. Francotte (LEG), and Mr. Papaioannou (TRE).

Attachment

cc: Mr. Van Houtven
Mr. P. Andrews

INTERNATIONAL MONETARY FUND

ALGERIA

Staff Report for Review Under Stand-by
Arrangement - Supplemental Information

Prepared by the African Department

(In consultation with the Exchange and Trade
Relations, Fiscal Affairs, Legal,
and Treasurer's Departments)

Approved by E.L. Bornemann and ^{for} Michael Edo ^{Ag}

November 7, 1991

This supplement presents information on the financing of the program, adjustments to administered prices, and the draft 1992 budget, received subsequent to the distribution of the staff report (EBS/91/171) on September 30, 1991. It reflects in part the work of a staff team which visited Algiers September 27-October 7, 1991, to examine the draft 1992 budget. 1/

Financing of the program

The core group of Algeria's commercial bank creditors 2/ reached an agreement with the Algerian authorities on October 9, 1991, on a term sheet for a financing facility which provides refinancing of principal maturities falling due to the banks during the period October 1, 1991 through March 31, 1993, on (a) earlier syndicated loans and (b) trade-related credits of over one year maturity outstanding as of October 1, 1991, that are not guaranteed by export credit or multilateral agencies. The facility consists of two tranches. Tranche A, designed to refinance credits with original maturities of two years and over, will carry an interest rate of Libor plus 1.5 percent and be repaid over eight years including a three year grace period. Tranche B, designed to finance credits with original maturities over 360 days but less than two years, will carry an interest rate of Libor plus 1.375 percent repayable over five years, also with three years' grace. The facility covers 100 percent of maturities falling due through March 31, 1992 and 95 percent of the maturities falling due

1/ The team consisted of Messrs. G. Dahl (Head-AFR), E. Ahmad (FAD), M. Lazare (AFR) and F. Rozwadowski (ETR).

2/ Arab Banking Corporation, Banque Nationale de Paris, The Chase Manhattan Bank, N.A., Crédit Lyonnais, The Industrial Bank of Japan, Limited, The Long Term Credit Bank of Japan, Ltd., The Mitsui Taiyo Kobe Bank, Limited, and Union de Banques Arabes et Françaises - U.B.A.F.

thereafter. Drawdowns are to be quarterly. It is estimated that this facility will provide about US\$430 million of financing in 1991, US\$880 million of financing in 1992, and US\$190 million of financing through March 1993, for a total of about US\$1.5 billion. Over half of the total is expected to come from Japanese banks, with the bulk of the remainder from Arab, French and U.S. banks. The facility is now in the process of syndication. There is an early participation fee for responses received by December 6, 1991, and the coordinating bank expects signature of the final agreement by mid-December.

The first tranche, of ECU 250 million (about US\$300 million), of the special balance of payments support loan from the European Communities is now expected to be disbursed in December 1991.

Gross official reserves of the Bank of Algeria were US\$799 million at end-September 1991. After adjusting for short-term liabilities of US\$121 million, net external reserves (excluding liabilities to the Fund) were US\$678 million, compared with the proposed performance criterion (adjusted for export deviations) of US\$458 million, implying a margin above the criterion of US\$220 million and a small shortfall in relation to the indicative target of US\$700 million. However, there were still external payments arrears amounting to US\$350 million at the end of September, which were entirely eliminated by early November 1991. These arrears evidence the introduction of exchange restrictions. However, in view of the fact that they are now eliminated, the staff recommends a waiver, as reflected in the revised proposed decision below.

The agreement with the banks and the special support from the EC should permit attainment of the end-December performance criterion for net international reserves of US\$1.23 billion. In addition, a further US\$300 million in advance payments for the right to participate in investments in the hydrocarbon sector is expected in the fourth quarter. A draft law permitting the participation of foreign firms in the development of existing petroleum structures has been approved by the Government and is currently before the Parliament. These additional resources should permit attainment of the indicative target for international reserves at end-December 1991 of US\$1.53 billion.

Adjustments to administered prices

Following lengthy delays, the authorities are implementing the sharp increases in the tariffs on electricity and natural gas consumed by industrial users, that were envisaged for April 1991. In mid-October 1991, the authorities announced price increases for high-voltage electricity, by 89 percent, and for high-pressure gas, by 68 percent, with the increases effective from October 1, 1991. A further increase in the price of high-pressure gas by 68 percent is to take effect December 1, 1991, for a total compound increase of 183 percent. In a move which goes beyond the measures envisaged last April, the price of

medium-voltage electricity was increased effective October 1, 1991, by 35 percent.

In addition, the authorities have recently adjusted a number of administered prices of subsidized food items and petroleum products, as shown in Table 1. These measures are estimated to have a combined favorable impact on the Compensation Fund and the budget of DA 3.0 billion in 1991. However, the authorities have been unable to implement further price increases to achieve an additional DA 1.3 billion of budgetary savings, as anticipated in the program. Instead, they are reducing expenditures by DA 1.3 billion on a commitments basis. They have also indicated a commitment to adjust the domestic wholesale price of diesel fuel to its world market level in January 1992, calculated on the basis of the programmed exchange rate, and to remove all subsidies on basic consumer goods by mid-1992 in conjunction with the implementation of a new social safety net system. The prices of all basic consumer goods will be completely liberalized except for the prices of bread, milk and semolina, which will remain subject to controlled margins.

The draft 1992 budget

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The most important of the policy areas still being examined by the authorities was the question of a comprehensive reform of the system of consumer subsidies and the elaboration of a more efficient and effective social safety net. Such a reform should replace the current system of generalized subsidies, the cost of which has been ballooning while only a small proportion of the benefits accrued to the more vulnerable social groups. Thus, the new system should permit a preservation or enhancement of the present level of support for needy groups, while reducing overall costs. In its discussions with the authorities, the staff has stressed the need to set the level of benefits under the new system in such a way as to ensure that households in the lowest 20 percent or so of the income scale receive equal or increased benefits compared with the current system, while limiting the benefits available to households at higher income brackets, thus ensuring that overall costs are contained.

A second area of uncertainty relates to the revenue projections in the context of tax reform. The authorities are proceeding with their

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plans for the implementation in early 1992 of a value added tax (VAT) to replace several existing taxes, as well as reformed taxes on corporate and individual incomes, and a new and simplified customs tariff. However, the statistical base for projecting revenues from the new taxes is weak, and the revenue projections are therefore subject to possible errors. Thus, the staff has stressed the need to be conservative in projecting revenues from the new taxes in 1992. This concern is heightened by the fact that, in the staff's view, the VAT structure as proposed at the time of the discussions with the staff was unnecessarily complex, which could lead to problems of implementation and administration and thus a shortfall in revenue, particularly during the period of transition to the new system.

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Office Memorandum

8-216

TO: 91 SEP 25 PM 4:14
The Managing Director

OK [Signature]

September 25, 1991

FROM: OFFICE OF
THE MANAGING DIRECTOR

[Signature]

SUBJECT: Algeria - Staff Report for First Review

Attached for your consideration and approval is the draft staff report for the first review under the stand-by arrangement with Algeria. It has been cleared by Mr. Edo (ETR), and has been reviewed by Mr. Nashashibi (FAD), Mr. Elizalde (LEG), and Mr. Tavlas (TRE).

The draft contains blanks on page 12 to be completed regarding the adjustments in administered prices expected to be taken shortly. When the details of these price adjustments are known, we will fill in the blanks accordingly. We understand that all the prior actions (exchange rate adjustment, interest rate increases, and adjustments in administered prices) will be implemented on September 28-29, 1991. The authorities attribute the delays to legal and technical factors.

We plan to issue a supplement prior to the discussion in the Executive Board, describing the results of the examination of the draft 1992 budget to be undertaken by the forthcoming mission, and providing an update on financing assurances.

The staff report needs to be issued at the latest on Monday, September 30, 1991, because of the required changes in the performance criteria for end-September. We will issue the report only upon confirmation from the staff team that will be in Algiers that the prior actions have been taken. On this basis, may we have your approval by noon Friday, September 27, 1991?

Attachment

cc: The Deputy Managing Director (on return)
Mr. P. Andrews



Office Memorandum

Key summary file
"Staff Report"

To: Mr. Dahl

September 23, 1991

From: Karim Nashashibi *KN*

Subject: Algeria--Staff Report

In reading this report the Board may get the unsettling feeling that the staff knows little about the Central Government's fiscal accounts and even less about its public sector. Yet, the staff appraisal does not raise a single fiscal policy issue. Because of the large and mostly unexplained swings in fiscal accounts, the appraisal should recognize the areas of fiscal weakness and the risks entailed in program monitoring so that they can be addressed in the course of the forthcoming EFF negotiations.

1. The underlying fiscal deterioration in 1991

There appears to be an underlying deterioration in the fiscal stance in 1991 despite the measures recently agreed to by the authorities in the context of the first review. The staff report would be strengthened if there was some analysis of areas of fiscal policy, as suggested below, which the authorities can control and which can be readily monitored.

While the report does describe the fiscal slippages in the first half of 1991, we would suggest following the "domestic deficit" approach as a means of reaching some meaningful assessment of fiscal developments. Tax revenue declined from 15.1 percent of GDP in 1990 to 14.1 percent of GDP in 1991, while current expenditure increased from 18.9 percent of GDP to 23.1 percent of GDP. Excluding hydrocarbone revenues, debt payments and capital expenditures which combine most external payments and receipts, we can reach a rough approximation of the domestic balance. This balance deteriorates from a small surplus of DA 1.7 billion in 1990 (0.4 percent of GDP) to a deficit of 34.9 billion in 1991 (5.3 percent of GDP). This is a turnaround in the underlying fiscal stance of almost 6 percent of GDP in one year. Most of this deterioration can be accounted for by the accumulation of subsidies stemming from the authorities' reluctance to adjust prices. Thus, in line with cost and exchange rate movements "other expenditures," which include subsidies of various kind, increase from the equivalent of 2 percent of GDP in 1990 to 5.9 percent of GDP in 1991. Since some of these subsidies were implicit on account of the overvaluation of the exchange rate, the actual increase may be lower. In any case, these movements need to be explained in greater detail in the text. In this respect, the understanding of subsidy trends would be considerably facilitated if a table on the flows in and out of the Compensation Fund were to be tallied up in a table. We should also note that exceptional petroleum

revenues (DA 7 billion in 1991) stemming from the sales of oil exploration rights should not, from an analytical point of view, be listed in recurrent revenues. Rather, they should be listed as financing items "below the line" or earmarked for the public enterprise rehabilitation fund. We have followed a similar practice with regard to privatization proceeds in a number of countries.

2. Budgetary impact of exchange rate movements

The original program was based on an exchange rate of DA 16 to the dollar, and it was calculated that a change in the average exchange rate to DA 19 would benefit the budget by some DA 20 billion (i.e., the Treasury's overall surplus would be DA 51 billion, as compared to the program's 31 billion). However, the revised program, which is now based on the DA 19 average rate, shows a gain of only 800 million. What explains the big difference relative to the original numbers? The answer should be part of the discussion of fiscal policies in the staff report.

3. Domestic arrears and program monitoring

To the extent that the expenditure data are on a cash rather than on a commitment basis, the deterioration in the domestic balance may be far worse. The paper mentions the carry-over of the Compensation Fund's expenses from 1990, equivalent to 4.6 percent of GDP, and the unexpected surplus of DA 12.9 billion in "other special accounts" (2.7 percent of GDP) which may be explained by an accumulation of domestic arrears. The sheer magnitude of these unprogrammed swings undermines any confidence we may have had in our ability to monitor the program. Moreover, there is a possibility that the 22 public enterprises under study by the World Bank and the 55 non-autonomous public enterprises, which continue to receive implicit subsidies, may have been accumulating substantial domestic arrears in the wake of the price and exchange reform. To define realistic budgetary targets and to monitor fiscal developments, it is essential to establish expenditure on a commitment basis, identify and monitor the Government's domestic arrears and trace transfers between the Government and all public enterprises. This should be cited in the staff appraisal (pp. 19-20) as a major priority in preparing the ground for an EFF.

4. The 1992 budget

Unless a much firmer statistical basis is provided for the evaluation of fiscal policy, the attainment of a Treasury surplus of 5.5 percent in 1992 (as opposed to 4.9 percent in 1991) is not particularly meaningful, other than providing a minimum amount of resources, as determined by the World Bank, for the restructuring of the 22 public enterprises. A much more meaningful criteria in measuring fiscal performance for 1992 would be the extent to which the

domestic deficit, as described above, can in fact be reduced within a clearly defined macroeconomic framework. The paper should expand the second paragraph on page 12 and alert the Board about potential fiscal problems in 1992, such as those which may stem from the tax reform as described below, the continuous increase in subsidies which may result from the lack of adequate price pass-through, and the ongoing deterioration in the social security accounts.

5. Tax reform

The reference to the tax reform (page 12) should be elaborated upon. We have indications that the Algerian authorities have not made adequate preparations for the introduction of the VAT and have rejected the assistance of two experts who were to spend an extended period in Algiers to improve tax administration. Moreover, the design of the VAT seems to be contrary to FAD recommendations. Instead of one rate, four rates are being proposed with substantial exemptions. Therefore, the revenue impact of the VAT as proposed on tax revenues could be negative rather than neutral. In addition, the Algerian authorities plan to have a reform of income taxes beginning in 1992, but no details have been given to us so far on their implementation procedures.

6. Safety net

This area will be a critical part of an EFF as it will be instrumental in phasing out the Compensation Fund. FAD has provided technical assistance in this respect (which is noted in the staff report); we suggest that the need for incorporating the recommendations into the 1992 budget be highlighted in the report. Proposals by the authorities to introduce an unemployment compensation scheme will have to be scrutinized as they may have major budgetary implications in the coming years.

7. Monetary developments

We wish to highlight two points here:

a. Higher bank financing of the enterprise sector should not be related to the higher taxe compensatoire (page 7), because the tax was incorporated in the original program, and if anything, it was reduced relative to the program target (see pages 6 and 10 in the staff report).

b. Despite the (moderate) increase in interest rates, real interest rates are substantially negative (e.g., the central bank rediscount rate is 11.5 percent, against the background of 35 percent of inflation). Depending on inflationary expectations this may undermine exchange rate policy as well as macroeconomic stabilization. We feel that this should be discussed in the staff report, with the policy implications drawn in the staff appraisal.

cc: Mr. Tanzi (o/r)
Mr. Bornemann
Mr. Edo
Mr. Conrad
Mr. Ahmad



Office Memorandum

Chy. ...
"Staff Report"

To: The Managing Director

September 20, 1991

From: Michael Edo *ME*

Subject: Algeria--Letter of Intent

I would like to bring to your attention two issues regarding the draft letter of intent for Algeria, which has been sent to you from the African Department.

1. Several of the performance criteria and indicators were breached at end-June 1991, some by wide margins. The divergences at end-June were such that the targets for September and December have to be modified. The import liberalization measure, which was an important part of the program, has in practice not yet been implemented, and the date for currency convertibility is now proposed for later than initially envisaged. Under these circumstances, ETR feels that, in line with the approach taken in a number of other arrangements where wide divergences from program targets have occurred, the purchases under the stand-by arrangement be rephased, with the purchase that was contingent on the June 1991 test date deferred to 1992 to become available on observance of criteria for a new test date, March 1992. This would require an extension of the period of the arrangement; the targets for the new test date would be made consistent with the agreed budgetary framework for 1992.

2. Given the importance of the exchange rate issues, ETR proposes for your consideration that there be a side letter on the exchange rate, stating the authorities' commitments to move the exchange rate (after the initial change to DA 22.5 to US\$1) to at least DA 24.5 per U.S. dollar by end-1991.

cc: The Deputy Managing Director (o/r)
Mr. Toure
Mr. Boorman
Mr. Andrews



Office Memorandum

To: Mr. Dahl

September 23, 1991

From: Michael Edo *ME*

Subject: Algeria--Draft Staff Paper

As we discussed this morning, I am sending you detailed ETR comments on the Algeria staff report. The main points that I would mention are the following.

1. The draft staff report suggests that the main cause of the unsatisfactory performance under the program has been a severe shortfall in foreign financing; policy inadequacies are noted but not emphasized. I think the report should provide a somewhat different presentation to the Board, indicating the gravity of the policy slippages, and then describing the corrective actions which the authorities have taken or propose to take on the basis of which management and the staff are presenting the review paper to the Board.
2. There is some question whether the proposed actions are strong enough to achieve the targets for end-1991 and early 1992. This applies in particular to the exchange rate measure. The staff report could discuss this issue more explicitly, given the interest of Board members in exchange rate issues.
3. As there has been a shortfall in external financing thus far in 1991, the report could discuss financing assurances issues in more detail, stating more clearly what was expected under the original program, why these expectations were not fulfilled, and what the basis is for the expectation that the new assumptions are more likely to be realized. There could be a discussion of the external arrears which have arisen and a statement on how it is proposed to eliminate these arrears (since no modification to the original arrears target is proposed, the program continues to specify a zero ceiling on external arrears and Algeria will remain in breach of this criterion as long as external arrears remain outstanding).
4. It would be useful to include a discussion of developments under the external contingency mechanism and on the adjustments that have been made on account of oil price developments.

cc: Mr. Bornemann (w/o attachments)

Algeria--Comments on Staff Report1. Program issues

Several of ETR's comments to the LOI have not been incorporated. We would urge strongly that: i) waivers for the end-June performance criteria that were missed be requested; ii) a performance criterion on arrears for the rest of 1991 be added; iii) the program be extended for at least one quarter and the purchase corresponding to the end-June performance criteria be rephased and made conditional on performance as of end-March 1992; and iv) a decision be made on whether the documents should include revised program numbers for end-September. This decision would be contingent upon the date of Board discussion of the current review of the program.

2. Macroeconomic analysis of the first half of 1991

The basic premise of the staff report is that a severe shortfall in foreign financing resulted in a derailment of the program and that this was partially augmented by some policy slippages. In our view, the policy slippages should be given more prominence as they extend to a wide array of areas, including: delaying adjustment in administered prices, imposing restrictions on imports, expanding budgetary subsidies, delaying audits of enterprises to be restructured, incurring in external arrears, and expanding bank credit to enterprises. In each of these and any other areas where policy implementation may have differed from the program, the staff report should clearly state what was expected under the program and how implementation differed.

In addition to areas where policy slippages have occurred, there are other areas where it is unclear what was envisaged in the program, including interest rate and exchange rate policies. In both these areas, the report describes the recent policy changes but it is not clear to the reader whether these changes were envisaged from the outset of the program or whether they were implemented to correct the program derailment of the first half of the year.

The effect of the policy actions should be stated clearly as well, such as the better-than-programmed current account and inflation outcomes due to the imposition of import controls and the delays in adjusting administered prices, respectively. Failing to point out weaknesses in policy implementation may make the staff appear as wanting to mislead the Board. Moreover, it would be important to point out the policy slippages because the corrections taking place during the second half of the year would provide the rationale for granting waivers, modifying the performance criteria for end-December, and completing the current review.

Perhaps the weakest aspect of program design seems to have been the monetary program. Although credit ceilings under the program were missed by wide margins the explanation given in the report is unsatisfactory. It would seem that the program was framed in the context of negative real interest rates and no effective way of enforcing credit ceilings. It would be useful if the report were more candid in its assessment of the design of the monetary program, including the assumption on money demand (see point 4 below).

3. External financing

The size of the foreign financing shortfall and the importance it is given in explaining why the program went off track necessitate a more detailed accounting of the reasons for the shortfall and an identification of the creditors involved. In particular, the report could state whether the large disbursements now expected for the second half of 1991 correspond to the same undisbursed loans from the first half of the year and the reasons why it is now expected that the disbursements will occur.

The report should indicate the amount of external arrears that arose in the first half of 1991, include a schedule for their elimination, as requested in point 1 above, and the appraisal should urge the authorities to adhere to such schedule and avoid incurring in new arrears.

4. Monetary program

It is striking that the revised monetary program assumes a substantially higher demand for real balances. The inflation target for 1991 has been kept at the original programmed level of 35 percent (as measured by the CPI), while the output assumption has been reduced from 4.5 percent to zero, and the expansion in broad money for the year has been almost doubled to 21 percent. The report should explain the different assumption about money demand and the reasons for the change. Are these reasons related to the increase in interest rates recently implemented?

5. Fiscal program

In the description of the Supplementary Finance Law to Parliament it is stated that expenditures will be adjusted upwards to accommodate salary accords reached previously and the widening deficits of the social security accounts. The background section should refer to these developments, as it would appear they were not contemplated under the program.

The Supplementary Law would increase the budgetary subsidy to the Compensation Fund from DA 3.8 billion to DA 17.7 billion. How are these figures related to Table 5 describing the fiscal program? Table 5 seems to have the unadjusted numbers in the original program column for 1991, which makes the comparisons between the table and the text hard, as the text refers to adjusted numbers. For example, page 11 refers to the original program objective for the surplus on Treasury operations of DA 49 billion,

while Table 5 contains DA 31 billion and this compares with DA 32 billion under the revised program. Incidentally, at the bottom of Table 5, where data are shown in percent of GDP, the "overall deficit" should be replaced by "overall surplus".

Algeria: Comments on the Staff Report

The staff report is less than frank about the risks of failure in achieving the program's objectives under the revised program. These risks and the political constraints should be discussed more thoroughly.

Trade liberalization

The staff should be more critical in analyzing the reasons for the nonimplementation of the trade liberalization. A situation where the liberalization is in place de jure but not de facto damages the program's credibility especially as it was a main element of the original program. The review of the experience should mention the staff's recommendation in the last staff report (EBS/91/79) to use an active exchange rate policy to support import liberalization if reserve levels remained low and then explain the authorities' decision to keep the official exchange rate pegged at about DA 18 per U.S. dollar between April and August 1991.

To make matters worse, the report does not present a convincing argument that the import liberalization will be implemented by end-1991 as now promised. Since the reserve situation will remain precarious and further exchange rate action appears to be ruled out, it is clear that further slippages in the implementation of import liberalization will be used to balance the external accounts. The report does not mention the qualification to import liberalization included in the letter of intent, that liberalization will be "coordinated" with the programmed foreign financing and the level of reserves. This is worrying because the staff tacitly admit that the programmed financing and reserves are far from assured (see below).

The adjustment of the exchange rate to DA 22.5 per U.S. dollar is unlikely to provide the basis for full import liberalization. In this regard, the staff should note that the parallel rate was DA 37 per U.S. dollar in August compared with DA 30 per U.S. dollar in July. No other policies to secure the import liberalization are mentioned, except assurances on macroeconomic policies that are similar to those given in June 1991.

The report should also provide some additional background to developments in the institutional arrangements for importing, which were also an important part of the program. In this light, the single sentence on p. 16 about concessionaires and wholesalers is inadequate (and incorrect since wholesalers do not usually require foreign investment). In particular it should be pointed out that the selective nonimplementation of the changes in April 1991 made the system more restrictive for wholesalers by withdrawing their right to transact in foreign currencies while not giving them access to foreign exchange at the official exchange rate.

External debt and financing

The use of a term "additional financing" rather than showing a financing gap in the balance of payments is a bit deceptive. The existence of a financing problem and thus a financing gap is evident from the persistence of external payments arrears. Moreover, the vagueness of the articulation of the components of the additional financing, and the need to make reference to the margin in the performance criteria for reserves, suggests that most of this financing is not assured.

The argument that there will not be a financing gap in 1992 rests on the assumption of a \$1 billion drop in amortization payments. This estimate is optimistic given the extent of the increases in amortization payments in recent years as well as the extent and frequency of upward revisions to first estimates of amortization used in this and the previous stand-by.

There should be more discussion on the reasons for the delay in negotiating the refinancing with commercial banks since it was originally envisaged that an agreement was close at hand. The commercial banks have an interest in dragging their feet as they are getting repaid and are rapidly reducing their exposure.

As noted in the comments of the letter of intent, there is no discussion of the fact that arrears were supposed to have been cleared as a prior action for the program at the start of June 1991, but were \$115 million by the end of June 1991.

Other points

The title of the staff report should include the request for a waiver and the modification of the program.

Some clear concerns about the weak debt and debt service data and projections should be raised given the size of the upward revisions and the magnitude of the debt problem.

There are some problems in the figures on gross reserves in terms of months of imports in Table 4.

Algeria--Comments on Staff Report

Exchange rate policy

1. The stated intention in the LOI dated April 27, 1991 as regards exchange rate policy--to pursue a flexible exchange rate policy--and the subsequent implementation thereof--a virtual peg to the French franc--are in very stark contrast, and the report needs to discuss this. In particular, we would welcome the staff's views on the implementation of exchange rate policy since the issuance of the last LOI.
2. Page 19, 8th line from the bottom. As the recent inflexibility of the exchange rate appears to have been a major reason for lack of progress in implementing the program, we are pleased to learn that price liberalization is currently envisaged with respect to the exchange rate. However, the sentence as it stands is pretty cryptic, and we would like to see a fuller elaboration of the discussions on possible exchange system reforms that must have taken place. This should include the staff's views on the present exchange rate arrangement, which has been in place for almost two decades.
3. Page 19, line 3. The appraisal should note by when the full implementation is expected to have been completed.
4. Page 3, bottom--page 4, top. The stalled liberalization of the exchange and trade system should also be placed in the context of the inflexible implementation of exchange rate policies. Also, the higher-than-programmed debt service obligations should be explained.

Jurisdictional issues

1. As noted in our comments on the LOI, the imposition of minimum financing requirements for imports could represent the imposition of an exchange restriction in breach of the restrictions clause. We would therefore like to see some elaboration of this point in the report.
2. Page 14, line 6. The newly accumulated arrears on current payments would also represent a breach of the restrictions clause. We would want to see some elaboration.

Other points

1. The shortfall in foreign financing is for the most part related to delays in reaching an agreement with creditor commercial banks, and is therefore not exogenously determined as the report says in several places.
2. Page 4, line 12. The distinction between a liberal de jure and de facto exchange and trade system seems quite complacent. If, in fact, promulgated laws are not enforced it is a matter of grave concern.

3. The customary INS chart should be included.
4. The Selected Economic and Financial Indicator table should include the nominal effective exchange rate index.

Algeria--Comments on Draft Staff Report

We have the following comments related to the external contingency mechanism and arrears:

The draft report provides no information regarding developments under the external contingency mechanism and the associated adjustments to performance criteria. While we understand that the ECM has not been triggered and is unlikely to be triggered in the immediate future in view of oil price developments and prospects, it would be useful if the report could include a brief paragraph to this effect. It could also explain the adjustments that have been made to performance criteria for June on account of oil price developments and in this respect it would be helpful to include updated versions of Tables II and III from the Technical Memorandum. As to the future, we presume that the baseline underlying adjustments to performance criteria is not being amended; this would also be made clear by including Tables II and III from the Technical Memorandum.

It is indicated on pages 4-5 of the draft that new arrears on current payments of US\$115 million emerged in the first half of 1991. The report should provide more information on the circumstances behind these arrears and which creditors were affected, flagging in particular that Algeria has repeatedly been late in making debt service payments to the IBRD by 30 days or more.

Algeria--Comments on the Draft Staff Report

The staff report needs to elucidate the details behind the shortfall in external financing, the purportedly major cause for the program's slippages, and the envisaged disbursements for the second half of 1991.

In the section on developments in the first half of 1991 (pages 3-4), the report would benefit from a discussion of the sources, by major creditor, of the US\$1.1 billion disbursement shortfall and the reasons for the delays, including whether there were linked to actions (or inactions) on the part of the authorities. The cause for the US\$0.5 billion larger-than-programmed amortization payments should also be explained in a similar fashion. In this section, the staff report should also detail the creditors to whom new external arrears have emerged, equivalent to US\$115 million.

The inclusion of such a discussion will facilitate the evaluation of the revised program of external financing disbursements for the second half of 1991 (pages 14-15). As the text now stands the source and status of the additional US\$1.1 billion in external financing is unclear. For example, does not the 18 month pre-export financing of hydro-carbon exports just push-back the financing problem to 1992? The text should also expand on the prospects and the terms of the commercial bank syndicated loan (including the commitment of any collateral on the part of the authorities). Finally, the report should explain, probably in this section, the timeframe for the clearance of the recently accumulated external arrears. We would also appreciate if the report contained an explanation of the ramifications of the program's revision on the medium-term outlook, if any.

Algeria--Comments on Draft Letter of Intent

We have only a few comments on the well written draft.

1. Export credits

We welcome the policy of reducing the exceptional reliance on expensive short-term trade credits (page 15). The use of the term "sweeteners", however, carries a connotation of corruption, though we understand that the payments represented fees charged by lenders for extending credits of longer maturities than are normally available for imports of raw materials, spare parts and consumer goods. (Normal commercial terms for such goods would limit repayment periods to a maximum of 180-days.) Accordingly, we recommend indicating that these credits carried large risk premia, paid as part of the contract price.

2. Foreign Investment in the hydro-carbon sector

We understand that the "advanced payments" associated with foreign participation in the hydro-carbon sector (pages 14 and 16) represent the sale of equity (or the rights to produce) in a particular oil field. This point should be clarified, as the draft seems to imply that these transactions represent some form of pre-payment in respect of future foreign exchange expenditures. On a related point, the paper should note that these sales will reduce future net export earnings and government revenue. (Although in the long-run the investments may be "self-financing" through an increase in the extraction rate of crude, the cash-flow benefits over the next few years could be tempered by OPEC quotas.)



Office Memorandum

To: Mr. Dahl

September 20, 1991

From: Hector Elizalde *H.E.*

Subject: Algeria - Staff Report for Review under Stand-By Arrangement

1. To allow Algeria to make a purchase upon completion of the review will require the granting of a waiver by the Executive Board, and the report should so indicate. The proposed changes on pages 1 and 3 have that purpose in mind.

2. The proposed decision should be redrafted along the following lines:

"1. Algeria has consulted with the Fund in accordance with paragraph 4(c) of the stand-by arrangement for Algeria (EBS/91/79, Supplement 2, June 17, 1991) and paragraph 50 of the memorandum on economic and financial policies annexed to the letter dated April 27, 1991 from the Minister of Economy and the Governor of the Bank of Algeria, in order to review progress in the implementation of the policies and measures described in that memorandum, and to reach understandings regarding the circumstances in which purchases under the arrangement can be resumed.

2. The letter, with its annexed memorandum and table, dated September , 1991, from the Minister of Economy and the Governor of the Bank of Algeria, shall be attached to the stand-by arrangement for Algeria, and the letter of April 27, 1991, with its annexed memorandum and table, shall be read as modified and supplemented by the letter of September , 1991, its annexed memorandum and table.

3. Accordingly, the limits for end-September and end-December, 1991, referred to in paragraphs 4(a)(1), (2), (3), (4), (5), (6) and (7) of the stand-by arrangement for Algeria shall be as specified in the table annexed to the letter of September , 1991.

4. The Fund decides that the first review contemplated in paragraph 4(c) of the stand-by arrangement for Algeria is completed and that

notwithstanding paragraph 4(a) of the arrangement, Algeria may make purchases under it for the equivalent of SDR 150 million until November 15, 1991."

Attachment

cc: Mr. Edo

INTERNATIONAL MONETARY FUND

ALGERIA

Staff Report for Review Under Stand-By Arrangement

Prepared by the African and the Exchange and
Trade Relations Departments

(In consultation with the Fiscal Affairs, Legal
and Treasurer's Departments)

Approved by Mamoudou Touré and Michael Edo

September __, 1991

I. Introduction

On June 3, 1991, the Fund approved a 10-month stand-by arrangement for Algeria in an amount of SDR 300 million (48 percent of quota), and an associated external contingency mechanism in an amount of SDR 210 million (34 percent of quota) in support of Algeria's economic and financial program for 1991 (EBS/91/79, 5/17/91). A purchase equivalent to SDR 75 million was made following Executive Board approval of the arrangement. Upon completion of this first review, Algeria will be eligible to make a second purchase equivalent to SDR 75 million (Table 1). A third purchase, in the same amount, is subject to observance of the performance criteria for end-September 1991, and a fourth purchase is subject to observance of end-December 1991 performance criteria as well as completion of a second review. As of August 31, 1991, the Fund's holdings of Algeria dinars subject to repurchase were equivalent to SDR __ million, or __ percent of quota.

and the granting of a waiver

Algeria's relations with the Fund are summarized in Appendix I, and selected economic indicators are given in Table 2.

Discussions with the Algeria authorities for the first review under the stand-by arrangement were initiated in Algiers during the period August 3-14, 1991, and were concluded in Washington during the period September 3-11, 1991. The Algeria representatives included Mr. Hocine Benissad, Minister of Economy, Mr. Abderrahmane Hadj-Nacer, Governor of the Bank of Algeria, Mr. Ali Benouari, Minister-Delegate of the Treasury, Mr. Admed Foudil Bey, Minister-Delegate of Commerce, Mr. Mourad Medelci, Minister-Delegate of the Budget, and other senior officials. The staff team consisted of Messrs. J.R. Artus (head-AFR), G. Dahl (AFR), E. Ahmad (FAD), M. Lazare (AFR), and S. Thiam (AFR), and Mrs. I. Klotz (assistant-AFR). Mr. M. Hammoudi, Assistant to the Executive Director for Algeria, also participated in the policy discussions.

The discussions focussed on developments and performance in the first half of 1991, on policy actions needed in the second half of 1991, and on the financing of the program. Of particular concern were the slippages in public finance and credit performance and in the implementation of the trade and exchange liberalization, in relation to program objectives (Table 3 ~~{performance criteria}~~). Although the slippages were in large measure due to exogenous factors such as a shortfall in external financing, which is expected to be reversed during the second half of 1991, it was clear that firm measures needed to be taken by the authorities, in particular in controlling credit expansion, in adjusting prices so as to minimize the growing cost of subsidies, and

further adjusting the exchange rate, in order to ensure achievement of program objectives during the second half of 1991. In view of the ~~nonobservance of~~ ^{nonobservance of} ~~divergences from~~ ^{divergences from} several of the performance criteria for end-June, resulting in part from factors beyond the control of the authorities, and the impossibility of coming fully back within the previously envisaged financial framework in the second half of the year, the authorities requested ^{and that a purchase for the equivalent of SD 275 million be allowed upon} modifications of the performance criteria for end-September and end-December.

The staff continues to work closely with the World Bank staff concerned with Algeria. The Bank's Executive Board approved an Enterprise and Financial Sector Adjustment Loan on June 25, 1991, and a Trade, Price and Fiscal Reform Loan is currently under preparation. ^{complete of the first} Algeria's relations with the World Bank Group are summarized in Appendix II.

II. Developments and Performance in the First Half of 1991

1. The external sector

As described in some detail in the authorities' memorandum of September __, 1991 (Attachment I), developments in the first half of 1991 were disappointing in several respects (Table 4). Of central importance to the program, a shortfall in foreign financing impeded effective implementation of the liberal trade and exchange system described in the authorities' letter of April 27, 1991 (see Attachment III of EBS/91/79, 5/17/91). Debt service payments were US\$0.5 billion higher than programmed, while disbursements on foreign borrowings were



Office Memorandum

TO: Mr. Tanzi
Mr. Edo

September 19, 1991

FROM: E.L. Bornemann

EB

SUBJECT: Algeria - Briefing Memorandum for Staff Visit

Attached for your comments and clearance is the draft briefing memorandum prepared in connection with the forthcoming staff visit to Algeria to examine the draft Finance Law for 1992, and the measures proposed by the authorities to limit subsidy expenditures in 1992. I would appreciate your sending your comments directly to Mr. Dahl (ext. 8513), with a copy of any written comments to me, by noon, Thursday, September 19, 1991.

Attachment

cc: Mr. Touré
Mr. Gondwe
Mr. Artus
Mr. Hino
Mr. Dahl
Mr. Jbili

GCD/brief9

TO: The Managing Director

DATE: September __, 1991

FROM: Mamoudou Touré

SUBJECT: Algeria - Staff Visit

In accord with the understandings you reached with Minister Benissad, a small staff team consisting of Messrs. Dahl (Head-AFR), Ahmad (FAD), Lazare (AFR), and Rozwadowski (ETR) will visit Algiers for about 10 days beginning September 27, 1991, to examine the draft Finance Law for 1992 in order to determine if it is consistent with the target of a minimum overall surplus for the Treasury, before payments into the enterprise restructuring fund, of 5.5 percent of GDP, and to review the authorities' proposals for limiting subsidy expenses in 1992. 1/ To these ends, the mission will need to examine in some detail at the technical level the revenue projections in light of the proposed tax reform, the proposed budgetary expenditures, the projected revenues and subsidy operations of the Compensation Fund (including proposals for social safety nets), and Treasury lending operations.

The mission will also ascertain whether key policy actions described in the draft letter of intent have been taken. The key measures which should be in place by end-September at the latest are: an exchange rate adjustment to DA 22.5 per U.S. dollar; price increases (yielding DA 1.3 billion in 1991 for gasoline, DA 2.2 billion in 1991 for diesel and other non-gasoline hydrocarbon products, and

1/ Mr. Dahl's last day in the office is Tuesday, September 24.

DA 0.8 billion in 1991 for subsidized food items); bank-by-bank limits on central bank financing through rediscounts and the money market; and interest rate increases (to 11.5 percent for the central bank rediscount rate, 17 percent for central bank interventions in the money market, and to 20 percent for the rate on overdrafts at the central bank).

The timing of the mission has been chosen to permit the mission to report by telephone to headquarters ^{regarding the implementation of these measures} so that the staff report for the first review can be circulated to the Executive Board before the end of September. Circulation of the staff report after the end of September would not be possible, given that revisions to the end-September performance criteria are being proposed.

The mission will confine itself to the above objectives and will not engage in policy discussions with the authorities regarding other aspects of the 1991 program or the prospects for 1992 (other than as directly related to the budget).

This memorandum has been reviewed by Mr. Edo (ETR) and Mr. Nashashibi (FAD).

cc: Mr. P. Andrews

Contributor
G. Dahl



Office Memorandum

To: Mr. Dahl

September 19, 1991

From: Michael Edo *ME*

Subject: Algeria--Letter of Intent

caution

1. This is a very difficult case. We went to the Board in June with a program that promised full import liberalization immediately and currency convertibility by end-1991, but that did not have firmly in place the demand management and exchange rate policies or the financing resources to achieve those objectives. In the event, import liberalization has not in practice been implemented and currency convertibility cannot be achieved in 1991. This letter of intent proposes to complete the first review, with modified targets but with policies which may well prove to be inadequate to meet those targets. Clearly the risk of failure is again high. We need to proceed with some ~~accord~~, while recognizing the discussions which have already taken place with the Algerian authorities.

2. As indicated above, the import liberalization and currency convertibility objectives of the original program were not achieved. Real GDP growth in 1991 is now likely to be negative, in contrast to the growth of 5 percent envisaged in the program. External arrears have emerged, where none were expected under the program. In the first half of 1991, NDA increased by 25 percent, instead of the decline of 7 percent specified in the program; the program NDA targets for the remainder of the year are unachievable and the letter of intent proposes substantial modifications to these targets. Despite the nonobservance of performance criteria at end-June 1991, the draft LOI does not request any waiver for end-June, which would enable Algeria to make the purchase related to the end-June test date if the modified performance criteria for end-September are met. In view of the large divergences from program targets, we propose that the purchases under the stand-by arrangement be rephased, with the purchase that was contingent on the June 1991 test date deferred to 1992 to become available on observance of criteria for a new test date, March 1992. This would require an extension of the period of the arrangement; the targets for the new test date would be consistent with the budgetary framework for 1992 which is to be agreed as part of the discussions in the current review.

3. In a number of places (e.g., in the second paragraph of the Minister's cover letter), the LOI seems to imply that the original program targets can still be achieved. These passages should be reworded to reflect the fact that modifications are in fact being requested.

4. Much of the exchange rate changes in 1991 took place in the early months of the year. While the dinar depreciated by 31 percent against the U.S. dollar in the first quarter, it depreciated by only 3 percent in the second quarter, and in fact appreciated in July. Since February 1991, both the nominal and the real effective exchange rates have appreciated (by 6 percent and 11 percent, respectively). The spread between the official and the parallel market rates remains at 75 percent, and will be reduced to only slightly below 50 percent after the exchange rate action proposed in the letter of intent (which moves the rate to DA 22.5 per U.S. dollar). In the discussions with the authorities, it was suggested that the exchange rate should be further moved to at least DA 24 per U.S. dollar by end-1991; this should be reflected in the letter of intent (or in a side letter) and the authorities should indicate that the rate would be adjusted further if required to meet the program's (modified) objectives.

5. The fiscal surplus target of 5.5 percent of GDP for 1992 seems inadequate, given the experience of 1991 (the exchange rate depreciation benefit accrues to the budget, which has large oil revenues, while the liabilities accrue to the parastatals, which have large debt servicing and import obligations, and whose large borrowing in 1991 more than offset the fiscal surplus and led to a rate of monetary expansion much higher than programmed). My own back of the envelop calculation suggests that we need a fiscal surplus of at least 6 percent of GDP in 1992. Please let us discuss, since an important point made to the Algerian authorities was that, for completion of this review, the budgetary framework for 1992 should be strong enough to ensure that the medium-term macroeconomic objectives can be realized.

6. As part of the original program, the authorities were supposed to liberalize the regulations for the operations of domestic wholesalers (who essentially use parallel market private transfers to Algeria to finance imports) and of concessionaires (distribution companies in Algeria for foreign imports of cars, large appliances, etc.). The letter of intent should include specific language for the liberalization of these regulations by end-1991; in view of the difficult official foreign exchange position, such liberalization is important as it would have the beneficial effect of facilitating private transfer receipts and foreign investment inflows into Algeria.

7. Since new external arrears have emerged, a development not envisaged in the original program, the letter of intent should confirm that all then outstanding arrears were eliminated at the beginning of June (this was a prior action of the original program) and should include performance criteria on the stock of arrears for the remainder of the arrangement period.

Other comments

1. When the Algerian delegation was here, they indicated that some price, interest rate, and exchange rate actions would be taken in the early part of this month. These actions, apparently, have not yet been taken and may well not be implemented until the end of the month. In light of the other problems of performance under this program, this delay is cause for some concern.
2. The original program targets should be included in Table 1 (alongside the proposed modified targets).
3. The imposition of minimum financing requirements for imports (paragraph 2 of the draft letter) could represent the imposition of an exchange restrictions, in breach of the restrictions clause. This issue should be addressed more fully in the staff report.

cc: Mr. Bornemann



Office Memorandum

To: Mr. Bornemann

September 18, 1991

From: Michael Edo

Subject: Algeria--Letter of Intent

To provide adequate time for ETR to review the draft Algeria letter of intent, I would be grateful if the deadline for receipt of comments from departments can be extended to noon on Thursday, September 19, 1991.

cc: Mr. Dahl ✓



Office Memorandum

To: Mr. Dahl

September 18, 1991

From: Hector Elizalde ~~HE~~.

Subject: Algeria - Letter of Intent and Memorandum
on Economic and Financial Policy

The letter should include a request for a waiver, as Algeria did not observe some of the performance criteria for end-June 1991, and the intention is to allow the authorities to proceed to make purchases upon the completion of the first review under the program. Accordingly, a sentence along the following lines should be added at the end of the first paragraph of the letter:

"On the basis of these understandings, the Algerian authorities request a waiver for those performance criteria for end-June 1991 that were not observed."

On another point, please find a marked-up copy of page 3 of the memorandum.

Attachment

cc: Mr. Bornemann
Mr. Edo

the program projected a surplus of US\$0.1 billion.

4. The monetary statistics for the first half of 1991 indicate a number of overruns. Although credit to the Government remained within program limits, the total amount of net domestic ^{assets} credit went well beyond the program ceiling for the period ending June 30, 1991. At this stage in the rehabilitation of public enterprises, the commercial banks were faced with a greatly increased growth in the demand for credit, owing particularly to the increase in external debt service as a result of the depreciation of the dinar. The amortization of banks' external debt was

DA 4.5 billion above program forecasts. Moreover, about

55 nonautonomous public enterprises (not including the 22 dismantled enterprises) active in sectors such as construction, transport, and services, required more than DA 8 billion in credit. This can largely be explained by the slowdown in economic activity linked to the decline in imports and its impact on supplies for enterprises, as well as by delays in the clearing of these enterprises' claims, particularly against local governments. The slowdown in economic activity has also been reflected in a growth in the demand for credit by the autonomous public enterprises which, as a whole, have been unable to adjust their costs, owing in particular to a delay in implementing the rehabilitation plan.

5. Faced with these sizable demands for credit, the banks resorted to the money market (with increased intervention by the Bank of Algeria) to obtain funds at a time when the mechanisms needed to limit the supply of funds had not yet been fully implemented. Moreover, persisting problems

EBS/91/171

CONFIDENTIAL

October 1, 1991

To: Members of the Executive Board
From: The Acting Secretary
Subject: Algeria - Review Under Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the review under the stand-by arrangement for Algeria, which is tentatively scheduled for discussion on Friday, November 1, 1991. A draft decision appears on page 20.

Mr. Artus (ext. 7676), Mr. Dahl (ext. 8513), or Mr. Lazare (ext. 8892) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

INTERNATIONAL MONETARY FUND

ALGERIA

Staff Report for Review Under Stand-By Arrangement

Prepared by the African and the Exchange and
Trade Relations Departments

(In consultation with the Fiscal Affairs, Legal,
and Treasurer's Departments)

Approved by E.L. Bornemann and Michael Edo

September 30, 1991

I. Introduction

On June 3, 1991, the Fund approved a ten-month stand-by arrangement for Algeria in an amount of SDR 300 million (48 percent of quota), and an associated external contingency mechanism in an amount of SDR 210 million (34 percent of quota) in support of Algeria's economic and financial program for 1991 (EBS/91/79, 5/17/91). A purchase equivalent to SDR 75 million was made following Executive Board approval of the arrangement. Upon completion of this first review and the granting of a waiver, Algeria will be eligible to make a second purchase equivalent to SDR 75 million (Table 1). A third purchase, in the same amount, is subject to observance of the performance criteria for end-September 1991, and a fourth purchase is subject to observance of end-December 1991 performance criteria as well as completion of a second review. As of August 31, 1991, the Fund's holdings of Algerian dinars subject to repurchase were equivalent to SDR 545.9 million, or 87.6 percent of quota. Algeria's relations with the Fund are summarized in Appendix I, and selected economic indicators are given in Table 2.

Discussions with the Algerian authorities for the first review under the stand-by arrangement were initiated in Algiers during the period August 3-14, 1991, and were concluded in Washington during the period September 3-11, 1991. The Algerian representatives included Mr. Hocine Benissad, Minister of Economy, Mr. Abderrahmane Hadj-Nacer, Governor of the Bank of Algeria, Mr. Ali Benouari, Minister-Delegate of the Treasury, Mr. Admed Foudil Bey, Minister-Delegate of Commerce, Mr. Mourad Medelci, Minister-Delegate of the Budget, and other senior officials. The staff team consisted of Messrs. J.R. Artus (head-AFR), G. Dahl (AFR), E. Ahmad (FAD), M. Lazare (AFR), and S. Thiam (AFR), and Mrs. I. Klotz (assistant-AFR). Mr. M. Hammoudi, Assistant to the Executive Director for Algeria, also participated in the policy discussions.

Table 1. Algeria: Fund Position During Period
of Stand-By Arrangement, June 1991-March 1992

	1991			1992
	June 3 - July 14	July 15- Nov. 14	Nov. 15- Feb. 14, 1992	Feb. 15- March 31
(In millions of SDRs)				
Transactions under tranche policies (net)	75	75	75	75
Purchases				
Ordinary resources	75	75	75	75
Borrowed resources	--	--	--	--
Repurchases	--	--	--	--
Transactions under special facilities	--	--	--	--
Total Fund credit outstanding (end of period)	545.9	620.9	695.9	770.9
Under tranche policies	545.9	620.9	695.9	770.9
(As percent of quota)				
Total Fund credit outstanding (end of period)	87.6	99.6	111.7	123.7
Under tranche policies	87.6	99.6	111.7	123.7

Source: Staff estimates.

Table 2. Algeria: Selected Economic and Financial Indicators, 1986-91

	1986	1987	1988	1989 Prog.	1989	1990 Est.	1991 Prog. 1/	1991 Rev. prog.
(Percent change, unless otherwise indicated)								
National income and prices								
GDP at constant prices	1.2	-0.7	-2.1	4.7	3.4	-1.5	4.5	--
Hydrocarbon sector	1.8	4.8	3.7	3.6	3.2	6.3	4.0	1.2
Other sectors 2/	0.1	-4.3	-6.4	5.2	3.6	-6.7	4.8	-0.7
GDP deflator	-1.6	7.6	5.9	10.9	14.7	27.6	37.4	38.9
Consumer price index	12.4	7.4	5.9	10.0	9.3	16.6	35.0	35.0
External sector 3/								
Exports, f.o.b.	-38.1	12.0	-15.6	13.3	25.5	34.0	-7.6	-8.6
Imports, f.o.b.	-9.2	-14.8	5.8	10.6	23.2	1.9	3.8	-6.8
Terms of trade	-43.6	14.1	-23.5	2.5	12.3	18.0	-12.8	-12.8
Real effective exchange rate 4/	-9.3	-15.6	-17.9	...	-12.7	-29.6	...	...
Government finance								
Budgetary revenue	-14.9	0.6	0.5	28.4	24.0	24.1	60.9	70.1
Hydrocarbon revenue	-54.2	-4.5	17.6	61.4	88.9	24.0	88.8	102.1
Budgetary expenditure 5/	6.3	-1.4	15.3	10.2	4.1	9.6	57.1	57.5
Treasury loans and advances (net)	-23.2	-8.7	29.2	-33.0	-67.7	-110.4	...	285.7
Money and credit								
Net foreign assets 6/	-2.5	-0.1	0.1	-0.5	-0.9	--	2.8	4.9
Domestic credit 6/	11.9	11.4	13.8	8.6	9.3	13.3	9.4	18.8
Credit to the Government (net) 6/	10.9	9.7	9.4	1.8	3.4	-3.8	-0.6	3.2
Credit to the economy (net) 6/	1.0	1.6	4.4	6.8	5.9	17.1	10.0	15.5
Money and quasi-money	1.4	13.6	13.6	7.4	5.2	11.3	11.7	20.5
Currency outside banks 6/	5.7	3.3	5.0	...	3.5	4.9	...	...
Liquidity (in percent of GDP) 7/	91.3	93.7	103.8	...	98.0	86.2	66.6	71.9
Interest rate (rediscount rate)	3.3	5.0	5.0	7.0	7.0	10.0	...	...
(In percent of GDP)								
Budgetary surplus (+)/deficit (-) 5/	-4.5	-3.5	-8.3	--	-2.2	3.4	4.8	6.8
Treasury loans and advances (net)	-6.2	-5.3	-6.6	-3.3	-1.8	0.1	--	-0.3
Overall treasury deficit (-) 5/	-12.3	-7.6	-14.0	-3.1	-2.3	3.6	4.5	4.9
Domestic bank financing	8.5	7.2	7.6	1.5	2.7	-3.5	-1.1	-1.7
Gross domestic investment	32.5	30.5	30.4	31.0	30.7	32.4	28.7	32.0
Gross domestic savings	28.3	31.9	29.1	32.8	30.4	37.3	25.4	29.8
Resource gap (deficit -) 8/	-3.6	0.9	-2.6	1.8	-1.6	4.2	1.2	0.3
(As percent of exports of goods and nonfactor services)								
Current account deficit (-)	-25.6	1.5	-25.1	-5.2	-10.7	10.5	-2.5	9.2
External debt	243.0	254.3	302.4	232.9	258.5	194.3	214.9	217.5
Debt service payments	59.0	54.5	80.3	68.1	69.4	66.4	70.2	74.1
(In billions of U.S. dollars)								
Overall balance of payments (deficit-)	-1.5	-0.3	-0.8	-0.4	-0.6	-0.2	0.7	-0.5
Gross official reserves (end-period)	1.7	1.7	0.9	1.1	0.9	0.7	1.5	1.5
(months of imports of goods and nonfactor services)	2.0	2.3	1.3	1.6	1.1	0.9	1.7	1.9
(In billions of dinars)								
GDP (current prices)	285.9	305.5	316.8	371.9	374.3	470.9	692.1	654.0

Sources: Data provided by the Algerian authorities; and Fund staff projections.

1/ At an average exchange rate of DA 16 per U.S. dollar, as presented in EBS/91/79.

2/ Excluding government services.

3/ In terms of U.S. dollars.

4/ December-to-December changes in the total trade-weighted index calculated for surveillance purposes. A decrease in the index implies a depreciation.

5/ Excluding allocations to the Enterprise Restructuring Fund.

6/ As percent of broad money at the beginning of the period.

7/ Calculated using average money, quasi-money, and savings deposits at the CNEP.

8/ Calculated using balance of payments data.

The discussions focused on developments and performance in the first half of 1991, on policy actions needed in the second half of 1991, and on the financing of the program. Of particular concern were the slippages in public finance and credit performance and in the implementation of the trade and exchange liberalization, in relation to program objectives (Table 3). Although the slippages were in part due to exogenous factors such as a shortfall in external financing, which is expected to be reversed during the second half of 1991, there were also delays in implementing policies envisaged in the program, especially monetary policies. It was clear that firm measures needed to be taken by the authorities, in particular in controlling credit expansion, in further adjusting prices so as to minimize the growing cost of subsidies, and in further adjusting the exchange rate, to ensure achievement of program objectives during the second half of 1991. In view of the nonobservance of several of the performance criteria for end-June, resulting in part from factors beyond the control of the authorities, and the impossibility of coming fully back within the previously envisaged financial framework in the second half of the year, the authorities requested modifications of the performance criteria for end-September and end-December and that a purchase for the equivalent of SDR 75 million be allowed upon completion of this first review.

The staff continues to work closely with the World Bank staff concerned with Algeria. The Bank's Executive Board approved an Enterprise and Financial Sector Adjustment Loan on June 25, 1991, and a Trade, Price and Fiscal Reform Loan is currently under preparation. Algeria's relations with the World Bank Group are summarized in Appendix II.

II. Developments and Performance in the First Half of 1991

1. The external sector

As described in the authorities' memorandum of September 30, 1991 (Attachment I), developments in the first half of 1991 were disappointing in several respects (Table 4). Of central importance to the program, a shortfall in foreign financing impeded the effective implementation of the liberal trade and exchange system described in the authorities' letter of April 27, 1991 (see Attachment III of EBS/91/79, 5/17/91). Debt service payments were US\$0.5 billion higher than programmed, while disbursements on foreign borrowings were US\$1.1 billion lower than programmed, in part because several official lines of credit became effective only after a delay. Despite the resulting low level of reserves, the authorities introduced the extensive liberalization of the trade and exchange system in April 1991, supported by the large devaluation of the dinar between mid-1990 and February 1991, which amounted to 50 percent in real terms. However, with financing uncertain and reserves low, the authorities were obliged to ask importers, assisted by their Algerian banks, to seek favorable foreign credit terms for imports, of at least 18 months' maturity for intermediate and

Table 3. Algeria: Performance Criteria and Indicative Targets
for the 1991 Program

	1990	1991					
	December	June		Sept.		Dec.	
	Performance	Prog. 1/	Act.	Orig. prog.	Rev. prog.	Orig. prog.	Rev. prog.
(In billions of dinars)							
I. Performance criteria							
A. Quantitative criteria							
1. Change in net domestic assets 2/ 3/ 4/	34.8	-6.4	24.9	4.2	46.6	32.9	59.3
2. Total net reduction in Treasury debt and change in Rehabilitation Account balance 2/ 3/ 4/ 5/	11.6	20.6	22.4	18.0	6.1	-2.6	-11.1
3. Change in net bank credit to the 22 enterprises requiring fundamental restructuring 2/	20.9	3.9	4.5	5.4	6.0	6.5	6.5
4. Minimum balance of Treasury operations, excluding funding for Rehabilitation Fund 2/ 3/ 4/ 5/	17.0	40.6	45.7	40.8	29.5	31.0	31.8
(In billions of U.S. dollars)							
5. External borrowing guaranteed or contracted by the Central Government							
a. Net disbursements of nonconcessional loans of maturities of 1 to 12 years 2/ 3/	—	-0.34	-1.87	0.18	0.18	0.27	0.27
b. Outstanding short-term debt	1.80	1.78	1.70	1.58	1.58	1.45	1.45
6. Stock of net international reserves (excluding gold and obligations to the Fund) 3/	0.73	0.53	0.38	0.93	0.50	1.23	1.23
B. Structural criterion							
1. Completion by end-January 1992 of all diagnostic studies on the 22 public enterprises mentioned above (I.A.3)							
(In billions of U.S. dollars)							
II. Indicative targets							
1. Disbursements of nonconcessional loans contracted or guaranteed by the Central Government of maturities of 1-3 years 2/	—	1.64	1.15	2.40	2.40	3.00	3.00
2. Stock of net international reserves (excluding gold and obligations to the Fund) 3/	0.73	0.73	0.38	1.23	0.70	1.53	1.53

1/ Adjusted in accordance with the provisions of the technical memorandum.

2/ Cumulative change since end-December 1990.

3/ Subject to adjustments described in the technical memorandum.

4/ Performance criteria at end-December 1991 are based on a maximum amount of DA 14 billion of Compensation Fund expenditures incurred in 1991, but not yet paid because of normal payment periods.

5/ Including a maximum amount of DA 7 billion of exceptional oil revenues owing to foreign investment in the hydrocarbon sector.

Table 4. Algeria: Balance of Payments, 1990-92

(In millions of U.S. dollars)

	1990		1991		1992 Proj.		
	Prog.	Act.	Jan.-June Prog. Est.	Prog. Rev. prog.			
Merchandise (net)	3,024	3,157	1,233	2,237	1,692	2,713	2,000
Exports (f.o.b.)	12,728	12,817	6,303	6,381	11,764	11,713	12,100
Hydrocarbons	12,348	12,337	6,113	6,191	11,314	11,263	11,600
Other	380	480	190	190	450	450	500
Total imports (f.o.b.)	-9,704	-9,660	-5,070	-4,144	-10,072	-9,000	-10,100
Officially financed imports (f.o.b.)	-8,704	-8,660	-4,720	-3,794	-9,322	-8,250	-10,100
Foodstuffs	(-1,918)	(-1,902)	(-1,130)	(-1,023)	(-2,063)	(-2,200)	(-2,200)
Intermediate goods	(-2,962)	(-2,952)	(-1,598)	(-1,290)	(-3,292)	(-2,600)	(-3,250)
Capital goods	(-2,790)	(-2,772)	(-1,404)	(-1,200)	(-2,849)	(-2,600)	(-2,850)
Consumer goods	(-1,034)	(-1,034)	(-588)	(-281)	(-1,118)	(-850)	(-1,800)
Imports without payment (c.i.f.) ^{1/}	-1,000	-1,000	-350	-350	-750	-750	—
Nonfactor services (net)	-1,249	-1,191	-748	-389	-1,394	-998	-1,400
Credits	610	524	323	376	660	565	650
Debits	-1,629	-1,485	-967	-661	-1,794	-1,303	-2,050
Unofficial services	-230	-230	-104	-104	-260	-260	—
Factor income (net)	-1,940	-2,088	-1,020	-1,050	-2,017	-2,000	-1,899
Interest received	90	72	35	20	93	50	120
Interest paid	-2,030	-2,160	-1,055	-1,070	-2,110	-2,050	-2,019
Transfers (net)	300	294	150	153	400	410	1,500
Unofficial transfers (net)	1,230	1,230	454	454	1,010	1,010	—
Current account balance	<u>1,365</u>	<u>1,402</u>	<u>69</u>	<u>1,405</u>	<u>-309</u>	<u>1,135</u>	<u>201</u>
Capital account balance	<u>-1,685</u>	<u>-1,631</u>	<u>11</u>	<u>-1,694</u>	<u>977</u>	<u>-515</u>	<u>775</u>
Direct investment (net)	-20	-39	20	30	160	60	100
Medium- and long-term drawings (net)	-1,310	-853	-405	-2,015	692	-698	675
Drawings	4,880	5,850	3,095	1,985	7,292	6,352	6,645
Bilateral	(940)	(1,200)	(520)	(300)	(1,300)	(1,020)	(1,200)
World Bank	(309)	(300)	(267)	(150)	(620)	(550)	(635)
Other multilateral	(364)	(200)	(166)	(150)	(340)	(290)	(300)
Financial institutions	(380)	(220)	(150)	(200)	(1,750)	(450)	(2,050)
Export credits	(2,134)	(2,990)	(1,542)	(885)	(2,482)	(2,300)	(1,860)
Suppliers' credits	(753)	(940)	(450)	(300)	(800)	(600)	(600)
Additional financing	(—)	(—)	(—)	(—)	(—)	(1,142)	(—)
Amortization	-6,190	-6,703	-3,500	-4,000	-6,600	-7,050	-5,970
Short-term credit (net)	-515	-676	396	291	125	123	—
Credit received	-132	-456	-20	-100	-350	-300	—
Credit granted	-383	-220	416	391	475	423	—
Errors, omissions and others	160	-63	—	—	—	—	—
Overall balance of payments	<u>-320</u>	<u>-229</u>	<u>80</u>	<u>-289</u>	<u>668</u>	<u>620</u>	<u>976</u>
Financing	<u>320</u>	<u>228</u>	<u>-83</u>	<u>289</u>	<u>-667</u>	<u>-620</u>	<u>-976</u>
Change in net reserves (increase -)	130	86	107	316	-477	-477	-976
Gross reserves	(130)	(86)	(—)	(217)	(-800)	(-800)	(-906)
Fund purchases	(—)	(—)	(107)	(99)	(323)	(323)	(100)
Fund repurchases	(—)	(—)	(—)	(—)	(—)	(—)	(-170)
Other liabilities	(—)	(—)	(—)	(—)	(—)	(—)	(—)
Arrival	190	143	-190	-27	-190	-143	—
Financing gap	—	-1	3	—	-1	—	—
Memorandum items:							
Gross reserves (excluding gold)	730	747	730	530	1,530	1,530	2,430
In months of imports (goods and nonfactor services)	0.7	0.9	1.5	1.4	1.4	1.9	2.4
Crude oil export unit value (U.S. dollars per barrel)	17.2	24.4	21.7	20.1	20.0	20.0	21.0
Debt service ratio (in percent of total exports) ^{2/}	61.6	66.4	68.7	77.3	70.1	74.1	62.7
Total debt stock ^{2/}	24.1	24.7	23.9	22.3	25.3	24.8	25.4
Debt stock (in percent of exports) ^{2/ 3/}	180.7	185.1	360.7	330.0	203.6	202.0	199.2

Sources: Data provided by the Algerian authorities; and staff estimates.

^{1/} Importations sans paiement (ISP) are those paid through the parallel market and are reported c.i.f.. Some service payments are also made through the parallel market and the counterpart for both items is recorded as net unofficial transfers.

^{2/} Includes short-term debt and use of Fund resources. Exports include receipts on account of nonfactor services.

^{3/} End-1991 and end-1992 debt stocks evaluated at exchange rate of DA 22.5 per U.S. dollar.

consumer goods and three years' maturity for capital goods, while demands for foreign exchange against cash dinars could not be fully met. Thus, the trade and exchange liberalization, which was in place de jure, was not yet functional de facto.

This delay, combined with the difficulties experienced by importers in obtaining foreign credits meeting the terms requested by the authorities, and some reported delays in clearing imports as importers anticipated a reduction in the taxe compensatoire in the Supplementary Finance Law, caused imports to decline sharply, by US\$0.9 billion compared with the programmed level and by 23 percent, or US\$1.2 billion, compared with the first half of 1990. Exports, however, were slightly higher than programmed. Thus, whereas the current account in the first half of 1991 had been expected to be almost in balance, a surplus of US\$1.4 billion was registered. This surplus was more than offset by a deficit in the capital account of US\$1.7 billion, as described above, and official reserves declined by US\$0.4 billion, instead of remaining unchanged as programmed. While arrears of some US\$143 million were eliminated by early June, new arrears on current payments emerged, amounting to about US\$115 million.

2. Output and prices

The slowdown in imports, combined with the effects of the civil disturbances and work stoppages in May-June, led to an estimated drop of 10 percent in non-hydrocarbon, nonagriculture GDP in the first half of 1991. With a rebound in agriculture of 35 percent as a result of favorable weather, and with hydrocarbon GDP growing by an estimated 1 percent, overall GDP is estimated to have declined in the first half at an annual rate of 1.1 percent. The good agricultural crop had a favorable effect on the prices of food items not subject to controls, while the prices of a number of basic consumption items subject to price controls were not adjusted, and announced price adjustments for electricity and gas were delayed until September. As a result of these factors, the consumer price index rose on a year-on-year basis by only 20 percent through June 1991, compared with an anticipated rate of inflation of 35 percent for the year.

3. Public finance

Revenue performance in the first half of 1991 was below expectations (Table 5). Comparing the projected revenues based on an exchange rate of about DA 16 per U.S. dollar with the actual outcome at an average exchange rate of DA 16.8 per U.S. dollar, hydrocarbon revenue, at DA 76.7 billion, was close to but below the projected level of DA 77.8 billion, whereas a positive effect of the exchange rate depreciation had been expected. Non-hydrocarbon revenues were even more disappointing, at only DA 41.0 billion, compared with about DA 44.3 billion programmed. The decline in the volume of imports more than offset the exchange rate effects on customs collections, while the weakness in economic activity led to a considerable shortfall relative to program

Table 5. Algeria: Summary of Central Government Operations, 1988-91

	1988	1989	1990	1991			
				First semester program 1/	First semester outcome 2/	Original program 1/	Revise program
(In millions of dinars)							
Total revenue	93,453	116,413	152,500	122,100	117,600	246,200	259,40
Hydrocarbon revenue	24,086	45,492	76,200	77,800	76,650	143,900	154,00
Non-hydrocarbon revenue	69,367	70,921	76,300	44,300	40,950	102,300	98,40
Tax revenue	58,079	64,555	71,100	41,800	37,400	96,800	92,40
Taxes on income and profits	20,938	21,943	21,600	7,400	10,200	25,000	25,00
Taxes on goods and services	28,213	30,646	34,700	22,000	16,500	46,200	41,00
Customs duties	6,061	8,407	11,300	10,700	9,100	21,600	23,00
Registration and stamps	2,867	3,559	3,500	1,700	1,600	4,000	3,40
Nontax revenues	11,288	6,366	5,200	2,500	3,550	5,500	6,00
Exceptional hydrocarbon revenues	--	--	--	--	--	--	7,00
Total expenditure 4/	119,654	124,521	136,500	78,500	75,600	212,900	215,00
Current expenditure	76,214	80,229	88,800	53,100	55,400	135,700	151,00
Wages and salaries	39,463	43,124	49,000	(37,500	30,300	73,000	72,00
Material and supplies	2,870	3,370	3,800	(	1,000	7,700	7,50
Debt service	11,840	11,316	14,200	1,600	3,600	18,200	18,00
Public services	18,921	22,488	11,500	11,000	8,100	25,400	15,00
Others	3,120	-69	10,300	3,000	12,400	11,400	38,50
Capital expenditure 4/	43,440	44,292	47,700	25,400	20,200	77,200	64,00
Budget deficit/surplus 4/	-26,201	-8,108	16,000	43,600	42,000	33,300	44,40
Special accounts	2,507	6,403	300	-2,000	5,600	-2,300	-10,60
Compensation Fund	--	--	-1,500	-3,000	-7,300	200	-8,10
Others	--	--	1,800	1,000	12,900	-2,500	-2,50
Net lending by the Treasury	-20,799	-6,738	700	--	-1,900	--	-2,00
Treasury balance 4/	-44,493	-8,443	17,000	41,600	45,700	31,000	31,80
Allocation to the Rehabilitation Fund	--	--	--	--	-12,000	-16,900	-16,90
Financing	44,493	8,443	-17,000	...	-33,700	-14,100	-14,90
Domestic	43,471	8,439	-16,600	...	-30,600	-14,160	-12,90
Banking system	24,122	9,959	-16,400	...	-22,900	-6,960	-10,80
Central bank	18,491	8,216	-14,500	...	-22,200	--	1,50
Commercial banks	1,882	418	-1,900	...	300	-10,460	-11,30
Others	3,749	1,325	--	...	-1,000	3,500	-1,00
Nonbank	19,349	-1,520	-200	...	-7,700	-7,200	-2,10
External (net)	-349	343	900	...	-1,100	--	-2,00
Adjustment	1,371	-339	-1,300	...	-2,000	60	-
Memorandum items:							
Rehabilitation fund: balance	--	--	--	...	3,200	-4,900	-4,90
Resources	--	--	--	...	12,000	16,900	16,90
Expenditures	--	--	--	...	-8,800	-21,800	-21,80
Central Bank including Rehab. Fund	18,491	8,216	-14,500	...	-22,200	4,900	6,40
GDP	316,760	374,342	470,900	...	...	692,112	654,00
(In percent of GDP)							
Total revenues	29.5	31.1	32.4	...	...	35.6	39.
Hydrocarbon revenues	7.6	12.2	16.2	...	...	20.8	23.
Nonhydrocarbon	21.9	18.9	16.2	...	...	14.8	15.
Tax revenue	18.3	17.2	15.1	...	...	14.0	14.
Total expenditure	37.8	33.3	29.0	...	...	30.8	32.
Current expenditure	24.1	21.4	18.9	...	...	19.6	23.
Capital expenditure	13.7	11.8	10.1	...	...	11.2	9.
Budget surplus (+)/deficit (-) 4/	-8.3	-2.2	3.4	...	...	4.8	6.
Treasury balance 4/	-14.0	-2.3	3.6	...	...	4.5	4.

Source: Data provided by the Algerian authorities and staff estimates.

1/ Estimated at an average exchange rate of DA 16 to the US dollar.

2/ At a realized exchange rate of DA 16.8 to the US dollar.

3/ Estimated at an average annual exchange rate of DA 19 to the US dollar.

4/ Excluding allocations to the Enterprise Rehabilitation Fund.

expectations in the taxes on goods and services. Overall revenue was thus some DA 4.5 billion below the level projected at an exchange rate of DA 16 per U.S. dollar.

Current budgetary expenditure exceeded the expected level by about DA 2.3 billion, arising primarily from substantially higher social expenditures such as subsidies to hospitals and for medicines, while expenditure on wages and salaries remained below the envisaged level. The increase in current spending was more than offset, however, by a level of capital spending that was some DA 5.2 billion below expectations, reflecting the social disruptions, delays in payments, and some shortages in construction materials. Total expenditure was thus about DA 2.9 billion less than expected.

With both revenues and expenditures below expectations, the surplus on budget operations, at DA 42 billion by end-June, was close to expectations. However, the Compensation Fund, which provides for generalized subsidies on items of basic consumption, was in deficit on a cash basis by DA 7.3 billion, more than twice the programmed DA 3 billion, largely as a result of a shortfall in receipts from the taxe compensatoire (proceeds of which go directly into the Compensation Fund) that stemmed from the lower-than-expected level of imports. The payments from the Compensation Fund went entirely toward the carry-over of expenses incurred but not paid in 1990, which, at DA 21.8 billion, was higher than expected and represented the entire expenditure incurred in 1990.

The other special accounts in the Treasury registered an unexpected surplus of DA 12.9 billion, compared with a surplus of DA 1 billion programmed. Although details are not available, it appears that there may have been delays in effecting payments, resulting in accumulations in various special accounts. Without the temporary accumulations, which brought the overall treasury surplus (before contributions to the Enterprise Rehabilitation Fund) to a level that exceeded the minimum requirement by DA 4.1 billion, the end-June performance criterion on the treasury surplus would not have been observed.

4. Money and credit

As described in the authorities' letter of September 30, 1991 (Attachment I), a number of factors led to a substantial overshooting of the end-June ceiling on net domestic assets of the banking system. The depreciated exchange rate relative to 1990 increased the dinar costs of debt service and, together with the higher taxe compensatoire, raised the cost of imports. Rather than fully passing through such increased costs in higher prices, enterprises instead sought bank financing. Similarly, the slump in output and the reluctance of enterprises to lay off workers in the current social environment also led to increased demands for credit, as did delays on the part of the Treasury in effecting large payments for financing rehabilitation and for subsidies. Under the previous system of central planning, banks provided

operating funds to enterprises virtually on demand, and this practice may be proving difficult to change. At the same time, the Bank of Algeria's monetary policy remained accommodating during the first half of 1991. Requests from the banks for advances in the money market at an average interest rate of under 11 percent were honored without effective limits. Although the authorities were designing a system for limiting the expansion of credit by restricting central bank credit to the banks, with the technical assistance (in May-June) of a staff team from the Central Banking Department, this system had not yet been implemented. As a result, central bank credit to the banks rose sharply. Ongoing weaknesses in the monetary data reporting system and the accounting systems of the banks also obscured to some extent the dimensions of the credit expansion that was taking place. The result was that credit to the economy, aside from credit to the 22 enterprises in need of fundamental restructuring, expanded by 17 percent in the six months to end-June 1991, compared with 8 percent programmed (Table 6). When account is taken of the portion of the increase in other items (net) not otherwise explained (by the revaluation of foreign liabilities and a recapitalization of the banks) the increase rises to 38 percent, compared with a growth of 21 percent in 1990.

Credit to the 22 enterprises in need of restructuring also increased faster than programmed, at DA 6.3 billion compared with the ceiling of DA 3.9 billion. However, as none of the DA 9 billion in payments to these enterprises from the enterprise rehabilitation fund was made in the first half, which would have reduced their need for credit, the performance may be considered positive and an indication that at least this aspect of the effort to impose a hard budget constraint on these enterprises was working.

Reflecting the substantial, albeit temporary, overall treasury surplus through June described above, credit to the Government declined by more than the minimum established in the program.

The excessive growth in credit to the economy and in other items (net) had an adverse monetary impact in the first half. Broad money grew by 7 percent, compared with the programmed contraction of 2.2 percent.

5. Structural reforms

In April 1991, the authorities reclassified about 40 categories of items, thereby reducing administrative control over prices (see Attachment III, EBS/91/79). The minimum period between price adjustments for items subject to controlled margins was also reduced, from six months to three months. The price system was thus made significantly more flexible, and the publicly quoted prices of many items sold in Algeria rose sharply, reflecting in part the unification of the previously separate official and parallel markets.

Table 6. Algeria: Monetary Survey, 1990-91

	1990 Dec.	1991 June		1991 Sept.	1991 Dec.	
		Prog.	Act.	Rev. prog.	Prog. <u>1/</u>	Rev. prog.
(In billions of dinars; end of period)						
Foreign assets (net)	6.5	8.5	6.0	9.4	22.8	23.2
Net domestic assets	336.5	334.5	361.3	383.0	366.0	395.8
Domestic credit	414.0	409.5	429.3	455.6	437.1	478.4
Credit to the Government (net)	167.0	145.4	144.6	160.9	156.8	178.2
Central Bank	93.5	...	67.8	...	...	...
Commercial banks <u>2/</u>	73.6	...	76.8	...	...	...
Credit to the 22 public enterprises	64.7	60.0	69.2	70.7	62.6	71.2
Credit to the economy	182.3	204.2	215.5	224.0	217.7	229.0
Central Bank	—	...	—	...	...	...
Commercial banks	182.3	...	215.5	...	...	...
Of which: central bank advances and rediscounts	(65.7)	(...)	(119.8)	(...)	(...)	(...)
Medium- and long-term foreign liabilities	-93.1	-118.0	-135.0	-166.3	-163.8	-166.3
Government lending funds	-13.6	-13.6	-13.3	-13.3	-13.6	-13.3
Other items (net)	29.1	56.4	84.0	107.0	106.3	97.0
Revaluation of net foreign assets	—	-2.1	-2.8	-4.3	-4.3	-5.6
Money and quasi-money	343.0	340.9	367.4	388.2	384.5	413.4
Money	270.1	...	294.8	...	...	...
Of which: currency outside banks	(134.9)	(...)	(148.9)	(...)	(...)	(...)
Quasi-money	72.9	...	72.6	...	...	...
<u>Memorandum items:</u>						
Deposits with the housing agency (CNEP)	83.8	92.3	92.3	96.5	100.8	100.8
(Percent change since previous December)						
Domestic credit (net) <u>3/</u>	13.3	-0.8	4.5	12.1	7.1	18.8
Credit to the Government (net) <u>3/</u>	-3.8	-6.2	-6.5	-1.8	-2.9	3.2
Credit to the 22 public enterprises <u>3/</u>	6.8	1.1	1.3	1.8	1.9	1.9
Credit to the economy <u>3/</u>	10.3	4.3	9.7	12.2	8.2	13.6
Money and quasi-money	11.3	-2.2	7.1	13.2	10.3	20.5
Of which: currency outside banks	(12.6)	(...)	(10.3)	(...)	(...)	(...)
Deposits with the housing agency (CNEP)	13.8	10.1	10.1	15.2	20.3	20.3
(As percent of GDP) <u>4/</u>						
Domestic credit	81.7	62.8	64.5	66.5	64.9	68.2
Credit to the Government (net)	35.9	23.9	23.8	25.1	24.8	26.4
Credit to the 22 public enterprises	11.3	8.9	10.2	10.3	9.1	10.4
Credit to the economy	34.5	30.1	30.4	31.1	31.1	31.4
Money and quasi-money	67.6	52.7	54.3	55.9	56.0	57.8
Of which: currency outside banks	(26.4)	(...)	(21.7)	(...)	(...)	(...)
Deposits with the housing agency (CNEP)	16.3	13.5	13.5	13.8	14.1	14.1
Liquid liabilities (M3) <u>5/</u>	83.9	66.2	67.8	69.7	70.1	71.9

Source: Data provided by the Algerian authorities.

^{1/} Adjusted to reflect an exchange rate at end-December 1991 of DA 22.5 per U.S. dollar, and taking into account the overall effect on credit to Government of the exchange rate adjustment as anticipated in the program.

^{2/} Includes the counterpart of deposits of individuals with the Treasury and the Postal Checking System.

^{3/} As percent of broad money stock at the beginning of the year.

^{4/} Average stock (current month and previous December) divided by GDP.

^{5/} Money, quasi-money, and savings deposits at the savings bank (CNEP).

An important element of the program is the rapid conclusion of diagnostic studies and audits of the 22 large public enterprises in need of fundamental restructuring. With assistance from the World Bank, contracts for these studies and audits were signed in September, after some delays resulting in part from discussions between the authorities and the Bank on the appropriate terms of reference.

III. The Program for the Second Half of 1991

1. Public finance

In August 1991, the authorities presented a Supplementary Finance Law to Parliament, in part to adjust budgeted expenditure levels to reflect the depreciation of the exchange rate and salary accords reached previously (already taken into account in the program), and in part to provide for a reduction in the levels of the taxe compensatoire, to which there had been extensive resistance since the increases in the 1991 Finance Law. Thus, the Supplementary Finance Law provided for a decrease in the taxe compensatoire on average by 50 percent. The budgetary subsidy to the Compensation Fund was increased (by DA 9.1 billion relative to the program) to cover the higher-than-expected carryover from 1990 and higher-than-projected expenses for 1991. In addition, a widening deficit of the social security accounts (as a result of increased benefits) required that a larger proportion of spending for social purposes be covered by budgetary allocations. Budgetary spending for social purposes was also affected by rising costs of hospitals and subsidized medicines (although reforms of health care financing are being considered). Allocations for these purposes increased by DA 9 billion. ^{1/} As approved by the Parliament, the Supplementary Finance Law also included additional revenues from an anticipated adjustment in the retail price of gasoline that was estimated to yield DA 1.3 billion by end-year.

However, even with these measures the original program objective for the surplus on treasury operations of DA 49 billion (taking into account the program adjusters for the exchange rate) can no longer be achieved. To some extent, this is due to a slippage in performance with respect to domestic tax collection, and in this regard the authorities plan a major tax reform to be introduced during 1992, which should improve collections in the medium term. However, taking into consideration the exogenous factors that have led to a fall in expected revenues, the authorities, in consultation with the staff, have chosen a new objective of a treasury surplus of DA 31.8 billion. To achieve this objective, additional measures of DA 18.9 billion beyond those described above are needed. Therefore, the authorities intend to reduce current

^{1/} This increase, together with the larger transfer to the Compensation Fund, account for the increase in the two lines "public services" and "other" in Table 5 taken together.

expenditures by DA 3.7 billion below the level provided in the Supplementary Finance Law, and to limit capital expenditures to only DA 64 billion (compared with DA 69.2 billion in the Supplementary Finance Law). They also expect exceptional petroleum revenues in connection with new foreign investments in the hydrocarbon sector (see below) to yield DA 7 billion (about US\$300 million). ^{1/} These adjustments are reflected in Table 5.

In addition, in order to advance toward the objective of reducing the gaps between administered prices and economic costs, the authorities have decided to implement substantial increases in the prices of diesel fuel and certain other petroleum products and basic food items. The retail price of diesel fuel was raised in September from DA 0.95 per liter to DA 1.20 per liter (equivalent to US\$0.20 per U.S. gallon), while the prices of gasoline was increased by about 30 percent. In addition, the retail prices of sugar, milk, edible oil, and maize--all items subsidized by the Compensation Fund--were raised by substantial amounts. With the additional price increases envisaged for October 1991, the increases in fuel product and food prices are expected to have a beneficial impact on the Compensation Fund amounting to DA 3.0 billion in 1991. These measures are in addition to the extra revenue from the increases in gasoline prices.

With these measures, revenues are projected at DA 259.4 billion in 1991, and expenditures at DA 215.0 billion. Together with a deficit of DA 10.6 billion in the special treasury accounts, of which DA 8.1 billion stems from the Compensation Fund, the overall treasury surplus should reach the revised performance criterion level of DA 31.8 billion (4.9 percent of GDP), excluding the DA 16.9 billion budgeted allocation to the enterprise rehabilitation fund.

The authorities remain committed to introducing a major tax reform, including a value-added tax, in 1992, in order to improve tax design, administration, and revenues. They have also stressed the importance of a speedy introduction of a cost-effective social safety net, and are currently considering the recommendations made by a recent Fund technical assistance mission and by the World Bank staff. However, implementation of a new social safety net system can probably not be expected before early 1992.

^{1/} No more than DA 7 billion, however, will be counted toward the achievement of the performance criteria if such revenues are higher.

2. Money and credit

In July, the Bank of Algeria changed its method of intervention in the money market, with the result that the average money market rate rose from less than 11 percent in the first half of 1991 to about 12 percent. However, given the dimensions of the increase in credit in the first half, it became apparent that more forceful action was necessary. Therefore, the authorities have now implemented a system of limits on central bank credit to the commercial banks, as described in their letter of September 30, 1991. They have also increased the central bank rediscount rate from 10.5 percent to 11.5 percent, the rate charged on central bank interventions in the money market from about 12 percent to about 17 percent, and the rate on commercial bank overdrafts in their accounts at the Bank of Algeria from 15 percent to 20 percent. The "usury rate"--the maximum rate chargeable on bank loans--remains 20 percent, effectively limiting the profitability of commercial bank lending operations when liquidity is obtained from the Bank of Algeria. The ceilings on central bank rediscounts have been raised overall by 55 percent, which only partly offsets the additional costs to banks of the higher rates on central bank advances, since money market advances from the Central Bank were approximately twice as large as rediscounts prior to the upward adjustment in the ceilings. The overall effect of the changes is to moderately increase the average cost of funds to the banks and to sharply increase the marginal costs. However, in general interest rates in Algeria remain negative in real terms.

In view of the substantial deviations from the program ceiling on net domestic assets of the banking system in the first half of 1991, it is not possible to meet the original objectives of the program for the third and fourth quarters of the year. In consultation with the staff, the authorities have proposed new ceilings, as shown in the table attached to Appendix I and as reflected in Table 3 and Table 6. Given the programmed increase in reserves, these ceilings imply a growth in broad money of 20.5 percent during 1991, or substantially less than the anticipated rate of inflation as measured by the GDP deflator of 39 percent.

3. External policies and prospects

As a result of the shortfall in external financing in the first half of 1991, Algeria's balance of payments was under considerable pressure, and gross reserves fell to a new low of US\$400 million (two weeks of imports of goods and nonfactor services) at end-July, while arrears on current payments again emerged. However, crude oil export prices, which in the first half of the year were below projected levels, are now higher than programmed. In addition, in September the European Communities approved a special balance of payments support loan for Algeria in an amount of ECU 400 million, of which a first disbursement of ECU 250 million (about US\$300 million) is expected in October. It is

also expected that at least US\$300 million will be received in connection with agreements for investments in the hydrocarbon sector (see below). Furthermore, an agreement with Algeria's commercial bank creditors on a syndicated loan is expected before year-end, to provide new credits approximately equal to the principal payments on earlier borrowing falling due from October 1, 1991 through the first quarter of 1993. This agreement may yield US\$250 million in 1991, compared with US\$1.0 billion originally programmed. Finally, the authorities have negotiated 18-month financial loans for US\$400 million with future hydrocarbon exports as collateral (pre-export financing) to offset the difficulties encountered in obtaining normal trade credits, but which may also contribute to meeting the need for additional financing. Thus, the additional financing need of US\$1.1 billion shown in Table 4 appears likely to be obtained. Furthermore, this figure is based on the program target for an increase of reserves of US\$800 million during 1991, whereas the performance criterion, based on an increase of US\$500 million, allows for a margin of US\$300 million.

As shown in Table 4, the authorities continue to aim at a substantial reduction in their reliance on suppliers' credits compared with the levels of the 1980s, which proved very expensive because of premiums attached to such credits, and carried short maturities.

In view of the positive prospects for program financing, the authorities intend to ensure that the liberalization of imports and the foreign exchange system, announced in April, has been fully implemented de facto by end-1991. To further support the liberalization, the authorities in September adjusted the exchange rate of the dinar from about DA 18 per U.S. dollar to DA 22.5 per U.S. dollar, thereby reducing the gap between the official and parallel rates to about 25 percent (based on quotations for the parallel rate in Europe in July of about DA 30 per U.S. dollar). 1/

Taking into account the compression of imports in the first half of 1991, but in anticipation of a rebound to the levels originally projected in the second half as adequate financing becomes available, imports for all of 1991 are now projected at US\$9.0 billion, or some US\$1.1 billion less than initially programmed. As exports are close to the programmed level, a current account surplus of US\$1.1 billion is now expected in place of a deficit of US\$0.3 billion in the original program. This difference is expected to be offset by a decline of equal magnitude in net capital flows, as described above. The program objective of an increase in gross reserves of US\$800 million has been retained.

1/ Subsequent parallel market quotations for the dinar indicate a depreciation in the rate from about DA 30 per U.S. dollar in July to about DA 36 per U.S. dollar in August.

In a move with potentially far-reaching significance, the authorities have prepared for the consideration of Parliament a revision to the law governing investments in the hydrocarbon sector that would allow foreign investments in the development and production operations of existing structures. The authorities are offering access rights for such investments against an advance payment, and considerable interest has been expressed by foreign firms. As mentioned above, at least US\$300 million in such advance payments is expected in 1991, and larger sums could be obtained in 1992. The authorities also intend, by end-1991, to facilitate and encourage the establishment of concessionaires and wholesalers in Algeria by relaxing rules that currently require advance agreement on levels of investment by the firms involved.

Algeria's medium-term balance of payments prospects remain positive. Based on current staff projections for crude oil prices in world markets, Algerian crude should sell for about US\$21 per barrel in 1992 and US\$21.50 per barrel in 1993, as assumed in Scenario 2 of Table 6 of EBS/91/79. On this basis, and assuming agreement is reached on the medium-term syndicated bank loan currently being finalized, but without taking into account resources that may be obtained from the more open investment policy in the hydrocarbon sector, the current account is expected to be approximately in balance in 1992 and no financing gap is foreseen, while a current account surplus of some US\$2 billion is projected for 1993 and beyond. Thus, a significant reduction in the stock of Algeria's external debt should be possible by 1995.

4. Output and prices

In view of the slump in output in the non-hydrocarbon, non-agriculture sectors in the first half of 1991, overall GDP for 1991 is not expected to rise above the 1990 level, and some contraction of output is possible. An increase in the GDP deflator of 39 percent is projected. The CPI will likely rise by more than the 23 percent observed on a 12-month basis through August, but may remain below the 35 percent originally foreseen. Price increases in 1991 have been moderated by the sharp rise in agricultural output, which has restrained food prices. The full effects on demand and prices of the higher-than-expected growth in money are also not likely to be felt until 1992, given the continuing rigidities in the Algerian economy.

5. Structural reforms

In keeping with their commitment to continue to liberalize the domestic price system, the authorities have transferred an additional 15 categories of items to the free-price list. They have also eliminated entirely the waiting period between price registrations for goods subject to controlled margins, which had previously been reduced from six months to three months. They intend, as part of a Law on Competition currently being drafted, to eliminate the mandatory filing of producer prices for goods not subject to controlled margins or other administrative control.

The diagnostic studies and audits of the 22 large public enterprises in need of fundamental restructuring are proceeding, and are to be concluded by end-January 1992. In addition, some 55 local public enterprises that are not yet autonomous, mostly in the construction sector, are experiencing difficulties. The authorities now intend to grant these enterprises autonomy by end-1991 while providing for any necessary financial restructuring.

6. The external contingency mechanism

In connection with the stand-by arrangement, the Executive Board approved an external contingency mechanism in an amount of SDR 210 million, which could be available to finance up to 50 percent of export deviations beyond a threshold of US\$400 million. In the event, export prices have been close to the projected levels. Cumulative net export deviations (calculated based on international market quotations for crude oil) were negative US\$69 million at the end of June 1991, i.e., well within the threshold. The monthly deviation in July was negative US\$68 million but the deviations for August-September were positive, yielding a cumulative net deviation as of end-September of negative US\$126 million.

IV. Staff Appraisal

In the face of divergences from the program objectives in the first half of 1991, partly owing to exogenous factors such as a shortfall in external financing and social disturbances in May-June, and partly owing to delays in implementing envisaged measures, the authorities have now taken firm action to restore the program substantially to the course originally set. Limits have been imposed on central bank credit to the commercial banks and interest rates on such credit have been increased significantly, actions that will help to ensure that credit to the economy will not continue to grow unchecked and that market forces will play a restraining role on credit expansion. Substantial progress on an agreement with Algeria's foreign bank creditors on a medium-term loan, the special loan from the European Communities, and, more significantly, the further opening of Algeria's hydrocarbon sector to foreign investment, in connection with which payments for entry rights are expected before year-end, should provide the needed financing of the balance of payments. The exchange rate of the dinar has been devalued by approximately 20 percent in real effective terms compared with the level prevailing in March-August 1991, and by about 55 percent compared with the mid-1990 level. This policy, together with the relaxation of the external financing constraints, is expected to permit full effective implementation of the import and exchange liberalization measures announced in April 1991. The enhanced availability of imports will in turn have a beneficial effect on output levels, and will provide a much-needed impetus toward improved efficiency for monopolistic producers unaccustomed to competition. Substantial increases in the domestic prices of petroleum products and subsidized basic consumption items have

helped to contain ballooning subsidy costs. And a significant movement, in several steps, toward a more liberal domestic price system has given producers greater latitude in passing on costs within the context of competitive market conditions. In short, substantial progress has been made toward a market-oriented system in which price signals form the basis for economic decisions.

The revised program does, however, present distinct risks particularly in relation to external financing, several elements of which are still uncertain. A firm agreement with the commercial banks is still pending. The payments for entry rights expected in respect of investments in the hydrocarbon sector, although potentially very large, may also be delayed, depending as they do on complex negotiations. And the pre-export financing may, in large measure, only substitute for a shortfall in normal trade credits. Moreover, while it appears likely that the balance of payments will be financed by end-1991, it is possible that significant portions of financing will be received only in November and early December, so that the import and exchange liberalization may not be meaningfully in place until close to year end. Thus, most of the beneficial effects on imports and the economy may be felt only in 1992.

During the remaining months of the 1991 program and the early part of 1992, the staff sees five broad policy priorities. The first is a still broader implementation of price flexibility throughout the Algerian economy. In order to make rational decisions in the context of a market-oriented system, enterprises (and consumers) need to face prices that accurately and quickly reflect market forces. In the case of the exchange rate, the authorities should continue the policy of adjustment during the next few months, so as to reach a rate by early 1992 that could sustain the convertibility of the dinar for most current transactions and that could serve as a nominal anchor for the authorities' 1992 macroeconomic program.

A second priority, in the view of the staff, is the rapid implementation of a firm monetary policy, which was not put in place as planned in the first half of 1991. There needs to be a clear break with the past system, in which enterprises obtained bank financing virtually automatically in the context of fulfilling plan objectives. Enterprises should now face hard budget constraints. The rate of interest on central bank intervention in the money market should be maintained at a level that ensures that the quantitative limits on such credits are not reached. The quantitative limits should be firmly enforced, and the authorities should be prepared, in light of developments in the monetary aggregates, to further adjust interest rates toward levels that are positive in real terms should this prove necessary.

A third priority is the acceleration and broadening of the financial and economic restructuring of public enterprises, including those already granted autonomy and those not yet autonomous. Further large but temporary transfers from the Treasury to enterprises for

restructuring will be needed, and adequate provision for such transfers should be included in the 1992 budget, now under preparation. A firmer foundation also needs to be laid for a comprehensive and ambitious program of economic restructuring of public enterprises, which would entail the closure of unviable enterprises as well as the support and strengthening of viable ones. To this end, the modalities for the dissolution of enterprises need to be defined.

A fourth priority is adequate preparation for the introduction of the major tax reforms and the revised social safety net envisaged for 1992. With regard to the tax reform, revenue potentials may not be realized unless sufficient attention is paid to both tax design and administrative preparation, especially for the value-added tax. With respect to the social safety net, key decisions should be taken as early as possible, so that the necessary administrative arrangements can be undertaken to ensure a speedy implementation.

Finally, macroeconomic management in Algeria continues to be hampered by weaknesses in the available economic statistics and delays in reporting. Further progress in improving the statistics, building in part on recent technical assistance from the Fund, should remain a high priority. With regard to public finance statistics, the feasibility of reporting on a commitment basis should be examined.

On the basis of the measures taken by the Algerian authorities in response to the slippages in the first half of 1991 and assurances received by the staff that they remain fully committed to the program, the staff recommends approval of the proposed decision, which reflects the authorities' request for a purchase on completion of the review and a modification of the performance criteria for end-September and end-December. The staff is confident of Algeria's ability and commitment to repay the Fund in a timely fashion.

V. Proposed Decision

1. Algeria has consulted with the Fund in accordance with paragraph 4(c) of the stand-by arrangement for Algeria (EBS/91/79, Supplement 2, June 17, 1991) and paragraph 50 of the memorandum on economic and financial policies annexed to the letter dated April 27, 1991 from the Minister of Economy and the Governor of the Bank of Algeria, in order to review progress in the implementation of the policies and measures described in that memorandum, and to reach understandings regarding the circumstances in which purchases under the arrangement can be resumed.
2. The letter with its annexed memorandum and table, dated September 30, 1991, from the Minister of Economy and the Governor of the Bank of Algeria, shall be attached to the stand-by arrangement for Algeria, and the letter of April 27, 1991, with its annexed memorandum and table, shall be read as modified and supplemented by the letter of September 30, 1991, its annexed memorandum and table.
3. Accordingly, the limits for end-September and end-December 1991, referred to in paragraphs 4(a)(1), (2), (3), (4), (5), (6), and (7) of the stand-by arrangement for Algeria shall be as specified in the table annexed to the letter of September 30, 1991.
4. The Fund decides that the first review contemplated in paragraph 4(c) of the stand-by arrangement for Algeria is completed and that notwithstanding paragraph 4(a) of the arrangement, Algeria may make purchases under it for the equivalent of SDR 150 million until November 15, 1991.

Algiers, September 30, 1991

Mr. Michel Camdessus
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. Camdessus:

In accordance with the provisions of the stand-by arrangement of June 3, 1991, the Algerian authorities and the Fund staff have examined, as part of the first program review, the progress made in the economic and financial program adopted for 1991. The results of this examination are presented in the attached memorandum, which amends and supplements the letter from the authorities of April 27, 1991. On the basis of the understandings described in these documents, the Algerian authorities request that a purchase for the equivalent of SDR 75 million be allowed upon completion of this review.

While the Government believes that the policies and measures contained in the attached memorandum and the letter of April 27, 1991 are adequate to achieve the revised program targets, it will take any additional measures that may prove necessary. It will consult with the Fund while the stand-by arrangement is in effect on the adoption of any measures that might be deemed appropriate in accordance with Fund policies in this regard.

Sincerely yours,

/s/
Abderrahmane Hadj Nacer
Governor
Bank of Algeria

/s/
Hocine Benissad
Minister of Economy

Attachment

Memorandum on Economic and Financial Policy

I. Results Posted During the First Half of 1991

1. During the first half of 1991, the overall trends in the economic and financial aggregates were less favorable than had been projected in the program. Following the decrease in the gross domestic product in 1990, now estimated at -1.5 percent, production in many sectors of the economy (particularly industry, construction, and public works) showed a marked decline during the first six months of 1991, largely as a result of shortages of raw materials and semifinished products, and various disturbances of economic and social activity in May and June 1991. Consequently, despite an exceptional surge of 35 percent in agricultural production linked to highly favorable weather conditions, and relative stagnation in the hydrocarbon sector, gross domestic product in 1991 is likely at best to stabilize in volume terms at the 1990 level, although further contraction is possible. Thanks to a bounteous harvest, however, consumer prices rose at an annual rate of only 20 percent during the first half of the year, well below the projected rate of 35 percent.

2. As indicated in the aide-mémoire attached to the letter of April 27, 1991, the authorities have begun an extensive liberalization of trade and exchange regulations, eliminating import licenses, and granting free access to foreign exchange for virtually all imports. However, the external financing essential for the realization of the liberalization exercise has in practice been less than expected. Debt service payments due in the first half of 1991 exceeded the programmed amount by US\$500 million, while the total amount of medium- and long-term loans was US\$2 billion, as against a programmed US\$3.1 billion. Financing declined in part as a result of delayed reactivation of certain bilateral lines of credit. Moreover, owing to the low level of foreign exchange reserves, and pending an agreement with creditor commercial banks for the refinancing of medium- and long-term debt maturities, the authorities were obliged to limit access to short-term credit and credit for cash settlements of imports. Specifically, the Algerian banks were requested to cooperate with their customers in seeking external financing under more favorable conditions, with at least 18-month maturities. Foreign trade liberalization was also predicated on the installation of concessionnaires and wholesalers. Authorized concessionnaires have, however, been slow to set up for business, owing to a wait-and-see attitude and, occasionally, to procedural and regulatory factors. In light of these financing constraints, imports amounted to only US\$3.8 billion in the first half of 1991, instead of the programmed US\$4.7 billion. Imports of intermediate goods and equipment declined by 19 percent and 14 percent, respectively.

3. For the most part, exports of both hydrocarbons and traditional goods met program estimates. The current account of the balance of payments showed a surplus of US\$1.4 billion during the first half year,

against a target of near equilibrium. However, the surplus was more than offset by the above-mentioned unfavorable factors affecting the capital account, which showed a negative balance of US\$1.7 billion. The overall balance of payments recorded a deficit of US\$0.3 billion, whereas the program had targeted a surplus of US\$0.1 billion.

4. The monetary statistics for the first half of 1991 indicate a number of overruns. Although credit to the Government remained within program limits, the total amount of net domestic assets went well beyond the program ceiling for the period ending June 30, 1991. At this stage in the rehabilitation of public enterprises, the commercial banks were faced with a greatly increased growth in the demand for credit, owing particularly to the rise in external debt service as a result of the depreciation of the dinar. The amortization of banks' external debt was DA 4.5 billion above program forecasts. Moreover, about 55 nonautonomous public enterprises (not including the 22 enterprises in need of fundamental restructuring)--active in sectors such as construction, transport, and services--required more than DA 8 billion in credit. This can largely be explained by the slowdown in economic activity linked to the decline in imports and its impact on supplies for enterprises, as well as by delays in the clearing of these enterprises' claims, particularly against local governments. The slowdown in economic activity has also been reflected in a growth in the demand for credit by the autonomous public enterprises which, as a whole, have been unable to adjust their costs, owing in particular to a delay in implementing the rehabilitation plan.

5. Faced with these sizable demands for credit, the banks resorted to the money market (with increased intervention by the Bank of Algeria) to obtain funds at a time when the mechanisms needed to limit the supply of funds had not yet been fully implemented. Moreover, persisting problems with regard to accounting practices in the commercial banks has resulted in considerable increases within the "other items net," which are not broken down. In particular, the "other items net" have been influenced by: (i) delays in the payments owed by the Treasury to the banks and other parastatals on account of exchange rate losses; and (ii) the number of credit operations that the banks had not yet reflected in the accounts of their customers. This, combined with delays in launching bank modernization and organization programs, particularly as regards the processing and transmission of financial and accounting data, has complicated the conduct of monetary policy.

6. In connection with Treasury operations, the performance criterion on the balance on Treasury operations for end-June was met (DA 45.7 billion at end-June 1991 as against a program target of DA 41.6 billion). The budget surplus (DA 42.0 billion) was very close to the amount forecast in the program (DA 43.6 billion), while the improvement of other Treasury operations was better than expected and more than offset the increased deficit in the Compensation Fund. Although hydrocarbon tax revenue was very close to the amount projected in the program, revenue from taxes on goods and services fell below program estimates by

DA 5.5 billion, and customs duties collected were DA 1.6 billion less than anticipated, reflecting the decline in imports. As regards expenditure, wage bill disbursements, which included the wage increases agreed in November 1990, were below the program estimates, while the increases in family allowances, the education allowance, and the minimum old age pension not provided for as part of the program, had only a moderate impact on budget expenditure during the first half year. Lower tax revenue has been offset by the extremely slow pace of disbursements on appropriations for capital spending and lags in subsidy payments to public entities. Special accounts (other than the Compensation Fund and the Enterprise Rehabilitation Fund) posted a surplus of DA 12.9 billion, compared with a program estimate of DA 1 billion. However, the Compensation Fund showed a deficit of DA 7.3 billion compared with program estimates of less than DA 3 billion. In particular, payments carried over from the 1990 fiscal year exceeded the initial estimates and revenue from the compensatory tax amounted to less than the anticipated amounts, owing to the slump in economic activity and imports.

7. In accordance with the program target of letting prices send the signals to the Algerian economy needed for rational decision making, and along with import liberalization, the official exchange rate for the dinar was increased from DA 12.2 per U.S. dollar at end-December 1990 to DA 18.4 at end-June, an average rate of DA 16.8 per dollar during the first half year, compared with an average rate of DA 9.0 per dollar in 1990 and the estimate of DA 16.0 per dollar assumed in the program. Domestic market prices have been liberalized for many products and the prices of some goods, petroleum products, and subsidized energy products have been raised, as stated in the aide-mémoire of April 27, 1991, with the exception of gas and electricity, for which the planned increases did not take effect until August 1991. The beneficial effects of these measures are already visible in the unification of the domestic markets and the increased availability of many products.

8. As regards the rehabilitation of public sector enterprises, for the 22 nonautonomous enterprises, audit contracts were recently signed and the studies should be finished by end-1991. The credit granted to these enterprises, which is a program performance criterion, has remained very close to the limits set in the program, despite delays in the Rehabilitation Fund's payment of amounts allocated to financing debt service costs as a result of the depreciation of the dinar. The financial recovery of the commercial banks began with the payment at end-June 1991 of the DA 8.8 billion programmed for the recapitalization of these financial institutions.

II. Program for the Second Half of 1991

Price and exchange rate policy

9. In response to the unfavorable developments recorded in the first half of 1991, the authorities have decided to strengthen their economic

and financial policies in many areas, including those of price and exchange rate policy. On September 29, the authorities adjusted the exchange rate to DA 22.5 per U.S. dollar and will continue to apply, in conjunction with the other adjustment policies, a flexible exchange rate policy for the remainder of the program. By end-1991, in close coordination with the external financing of the program and the improvement in exchange reserve levels, the authorities intend to achieve full convertibility of the dinar for import transactions by lifting restrictions on access to credit in foreign currency and by introducing free access to foreign exchange reserves for cash settlement of imports. The authorities still intend to make the dinar convertible for almost all current transactions, but the financing difficulties experienced in 1991 could make it necessary to postpone this target from early 1992 to mid-1992.

10. The policy of gradual price liberalization with a view to letting the market determine most prices will be steadfastly pursued. Thus, in accordance with the program target of shifting most products with mark-up ceilings to the declared price category before 1992, the authorities have just liberalized some 15 groups of products (cf. attachment). Moreover, the minimum waiting period required of enterprises between two filings of prices (products with markup ceilings), which had been shortened from six to three months in April 1991, has recently been eliminated altogether, which permits a more rapid adjustment by enterprises of their prices to market costs and conditions. Finally, the authorities have decided to eliminate the mandatory declaration of producer prices for liberalized prices. This legal measure will be included in the draft law on competition currently being prepared. As regards products with supported prices, the Government is aware of the high budgetary cost and present inefficiency of subsidies, which also benefit the well-off segments of society. Moreover, government price controls, unrelated to real market conditions, are not likely to promote a supply response, while exacerbating wasteful allocation of scarce resources. However, in the process of reforming the price system for essential food items, appropriate mechanisms must first be introduced to ensure adequate protection of the most disadvantaged groups. The authorities are preparing a comprehensive plan in this area, which they expect to present to the National Popular Assembly by the end of the year. They would also like to discuss the plan with the Fund staff. In the meantime, the authorities have recently raised the prices of a number of subsidized products, with a view to scaling back the Compensation Fund's deficit.

Monetary policy

11. To contain the rapid growth of the money supply that occurred during the first half of the year, the Bank of Algeria has taken a number of steps, beginning in July with a cutback in its supply of liquidity on the money market, particularly through the advance fixing of the volume of these funds in the interbank market. This measure, together with the first steps toward public enterprise rehabilitation,

made it possible to reduce total advances of the Bank of Algeria to banks from DA 83.3 billion at end-June 1991 to DA 79 billion by mid-August 1991. With the introduction of an auction system, the average money market rate rose from less than 11 percent in the first half year to about 12 percent. More recently, the central bank discount rate was raised from 10.5 percent to 11.5 percent, while the rate applied to commercial bank overdrafts at the Central Bank was increased from 15 percent to 20 percent. Moreover, stricter limits were imposed on central bank interventions in the money market, which brought the interest rate for such interventions in the money market to 17 percent by end-September, a rate that will be maintained until end-October 1991. Subsequently, the target for the money market interest rate will be adjusted to keep the growth of the banking system's net domestic assets within the programmed limits. To offset partially the higher costs of money market resources for banks, the Central Bank's discount ceilings, still set at their 1990 level, have been raised 55 percent on average. Furthermore, the Bank of Algeria has introduced a system of ceilings for each bank's total use of central bank resources through discounts and money market operations. Similarly, to improve monitoring of monetary developments over time, the banks now forward estimated balance sheets to the Bank of Algeria with a time lag not exceeding one month.

12. The speeding up of the economic rehabilitation of the public enterprises should also facilitate the conduct of monetary policy. In the context of credit to the 55 regional public enterprises for construction and public works, the authorities recently decided to make these enterprises autonomous before end-1991 and to adopt a plan for their financial rehabilitation. A follow-up rehabilitation program being prepared for the autonomous public enterprises will be examined during the second program review early in 1992. Banks' external debts that have not been on-lent will be audited before end-1991 and the necessary measures adopted to complete bank rehabilitation.

13. These measures should permit a considerable reining in of the slippages that occurred in the first half of 1991. Nevertheless, the authorities will be unable to retain the initial targets and propose that changes be made in the performance criteria for end-September and end-December 1991 as indicated in Table 1. The level of projected net domestic assets enables the Government to envisage a growth in the money supply (M2) on the order of 21 percent, which implies an improvement in the liquidity ratio (M2/GDP) from 0.69 in 1990 to 0.58 in 1991.

Budgetary policy and Treasury accounts

14. In 1991 as a whole, allowing for the effects of the depreciation of the dinar, Treasury operations, specifically those related to the budget, show a significant revenue gain in comparison with the initial finance law. This gain results primarily from the impact of dinar depreciation on oil revenue, customs duties, and indirect taxation. This development, which is favorable to the equilibrium of government

accounts, will nevertheless be partially offset by the effects of the slowdown in economic activity during the first half year and by new expenditures, particularly those linked to the effect of the depreciation in the exchange rate and price liberalization, the wage increase in accordance with the decision adopted in the fall of 1990, and the increase in family and education allowances. Similarly, some allocations in the initial finance law for current expenditure, including that relating to the government debt, and capital expenditure have proven to be inadequate in view of the depreciation of the dinar. In August 1991, the Government therefore submitted a draft supplementary finance law to the National Popular Assembly. This finance law, which has just been adopted, adjusts the amount of budgetary funding and revenue. Projected revenues include DA 1.3 billion in additional resources, reflecting the increase in the price of gasoline.

15. With regard to the Compensation Fund, as a result of the slowdown in economic activity and in imports in particular, revenue from the compensatory tax proved to be significantly lower than the amount programmed, while expenditure proved to be higher, owing to the considerable depreciation of the exchange rate with respect to the level used as a basis for the program estimates. Moreover, in order to stimulate investment and the sectors in difficulty, especially construction and textiles, it has appeared necessary to: (i) remove the 20 percent compensatory tax on domestically produced textiles and to reduce from 25 percent to 15 percent the rate applicable to imported fabrics; (ii) exempt from the compensatory tax items including paper, some industrial equipment, materials for construction, public works and drilling, and also machine parts; (iii) reduce from 25 percent to 15 percent the rate of tax applied to spare parts for industrial vehicles; and (iv) reduce the rate of compensatory tax on equipment intended for industrial activities and on imports of lumber and finished textile products. The uniform rate of 25 percent has been maintained for other imports. The cost of these various measures to moderate the compensatory tax is estimated at DA 3.8 billion over the last four months of 1991. In order to limit the deficit of the Compensation Fund, however, the supplementary finance law has provided for an additional budgetary allocation of DA 13.9 billion for the Compensation Fund. Moreover, the authorities have decided to limit the outlays of the Compensation Fund by increasing the prices of some subsidized products, especially diesel oil, corn, propane, tomato concentrate, and sugar. These increases are equivalent to savings of some DA 3.0 billion in 1991.

16. Furthermore, the Government has taken the necessary steps so that the deficit from Treasury interventions does not exceed US\$2 billion on December 31, 1991, and that capital expenditure (excluding funding for the Rehabilitation Fund) is not greater than DA 64 billion in 1991. It has also taken the required measures to reduce current expenditure by DA 3.7 billion with respect to the figures of the supplementary finance law.

17. Taking all these factors into account, including exceptional oil revenues of DA 7 billion, budgetary revenue is estimated at DA 259.4 billion, and actual budgetary expenditure at DA 215 billion, of which DA 151 billion is current expenditure and DA 64 billion is capital expenditure, excluding allocations for the Rehabilitation Fund. The actual budgetary surplus is projected at DA 44.4 billion, excluding the Rehabilitation Fund. The Compensation Fund should, on a cash basis, show a deficit in 1991 of DA 8.1 billion, corresponding to expenditure of DA 44.4 billion and revenue of DA 36.3 billion, and to a carry-over of some DA 14.0 billion of expenditure to 1992 (with normal payment lags of three months), as opposed to DA 21.8 billion carried over from 1990 to 1991. Taking into account the deficit of the other special treasury accounts of DA -2.5 billion (excluding the Public Enterprise Rehabilitation Fund) and the projected deficit of DA 2 billion for treasury interventions, the overall treasury operations excluding the Public Enterprise Rehabilitation Fund should show a surplus of DA 31.8 billion, compared with a target initially set in the program at DA 31 billion at an average exchange rate of DA 16 per U.S. dollar, and a target of approximately DA 49 billion at an average exchange rate of DA 19 per dollar.

18. In the months to come, the Government will be concerned with studying and proposing to the National Popular Assembly a comprehensive plan aimed at protecting the most vulnerable social groups during the transition to a market economy, in particular, by bringing into play the mechanisms of national solidarity and introducing greater rationality in the system of consumer subsidies. New, less distortional fiscal instruments, such as the value-added tax (VAT) and customs tariff reform, will be introduced beginning in 1992. The authorities will continue to seek the support of Fund staff in these areas.

19. With regard to public finances in 1992, the target of the authorities is to attain a surplus in the Treasury account, exclusive of funding for the Public Enterprise Rehabilitation Fund and of exceptional oil revenues, on the order of 5.5 percent of GNP, compared with 4.9 percent in 1991, and 3.6 percent in 1990. This target, which is being used as the basis for preparing the draft 1992 Finance Law, could speed up the process of rehabilitating the economy and containing inflationary pressures, while introducing market economy mechanisms. The realization of this goal will be helped by increased reforms aimed at eliminating price distortions, while protecting the most disadvantaged social groups.

Balance of payments

20. As regards the balance of payments for the whole of 1991, overall official imports may amount to US\$8.3 billion, which, despite an increase anticipated for the second half year as a result of lower compensatory tax rates and better access to external credit sources, is 12 percent below the program target of US\$9.3 billion. Since overall exports should match the estimated volume, the current account will

probably show a surplus of US\$1.1 billion, rather than the initially anticipated deficit of US\$0.3 billion. Debt amortization should amount to US\$7.1 billion, which is considerably higher than predicted (US\$0.5 billion), while total drawings should amount to US\$5.2 billion (as opposed to the target of US\$7.3 billion) and consist of US\$1.0 billion in bilateral loans, US\$0.8 billion in loans from international organizations, and US\$2.9 billion in commercial loans. Current or pending financial loan disbursements are estimated at US\$0.5 billion, leaving a financial gap of US\$1.1 billion. This financial gap will be covered by the first tranche, of US\$0.3 billion, of the European Community (EC) loan; additional revenue in the amount of US\$0.3 billion will be obtained from operations in connection with investments in the hydrocarbon sector and by additional financial loans secured in current discussions with commercial banks. In order to maintain access to the international financial market, the authorities have undertaken a whole series of measures, mainly as concerns commercial banks. In this regard, they take note of the support given by the Fund staff to reinforce Algeria's position.

21. With a view to expediting the re-establishment of a strong position abroad and to improving the conditions for a medium-term economic revival, the Algerian authorities have also taken a number of steps to encourage investment. To this end, fiscal adjustments have been made to the supplementary finance law to promote investments, especially in the hydrocarbon sector. Moreover, negotiations are already under way with potential foreign partners who could introduce advanced technologies for recovering crude oil from reserves that are currently being exploited but that have low or declining yields. Such agreements could also lead to advance payments for access rights. In this connection, the authorities will table a draft law designed to give international oil companies more room for intervention in the hydrocarbon sector. As regards concessionaires, to make their operations efficient the authorities will amend the regulations concerning them by end-1991, in particular by removing the preliminary investment constraints that are unrelated to the distribution and supply of goods and after-sale services.

Table 1. Algeria: Performance Criteria and Indicative Targets
for the 1991 Program

	1990 December Performance	June Performance	1991 Sept. Programmed	Dec.
(In billions of dinars)				
I. Performance criteria				
A. Quantitative criteria				
1. Change in net domestic assets <u>1/</u> <u>2/</u> <u>3/</u>	34.8	24.9	46.6	59.3
2. Total net reduction in Treasury debt and change in Rehabilitation Account balance <u>1/</u> <u>2/</u> <u>3/</u> <u>4/</u>	11.6	22.4	6.1	-11.1
3. Change in net bank credit to the 22 enterprises requiring fundamental restructuring <u>1/</u>	20.9	4.5	6.0	6.5
4. Minimum balance of Treasury operations, excluding funding for Rehabilitation Fund <u>1/</u> <u>2/</u> <u>3/</u> <u>4/</u>	17.0	45.7	29.5	31.8
(In billions of U.S. dollars)				
5. External borrowing guaranteed or contracted by the Central Government				
a. Net disbursements of nonconcessional loans of maturities of 1 to 12 years <u>1/</u> <u>2/</u>	—	-1.87	0.18	0.27
b. Outstanding short-term debt	1.80	1.70	1.58	1.45
6. Stock of net international reserves (excluding gold and obligations to the Fund) <u>2/</u>	0.73	0.38	0.50	1.23
B. Structural criterion				
1. Completion by end-January 1992 of all diagnostic studies on the 22 public enterprises mentioned above				
II. Indicative targets				
(In billions of U.S. dollars)				
1. Disbursements of nonconcessional loans contracted or guaranteed by the Central Government of maturities of 1-3 years <u>1/</u>	—	1.15	2.40	3.00
2. Stock of net international reserves (excluding gold and obligations to the Fund) <u>2/</u>	0.73	0.38	0.70	1.53

1/ Cumulative change since end-December 1990.2/ Subject to adjustments described in the technical memorandum.3/ Performance criteria at end-December 1991 are based on a maximum amount of DA 14 billion of Compensation Fund expenditures incurred in 1991, but not yet paid because of normal payment periods.4/ Including a maximum amount of DA 7 billion of exceptional oil revenues owing to foreign investment in the hydrocarbon sector.

Products Transferred from the Category of Markup Ceiling to
the Category of Declared Prices

- Toilet soap
- Articles of personal hygiene
- China and household articles
- Air conditioners
- Plumbing items
- Hardware items
- Plaster and lime
- Lumber and veneer
- Electric and electronic mechanized office equipment
- Electric motors and transformers
- Computer hardware
- Bicycles and motorcycles
- Automobiles
- Industrial vehicles
- Machines, devices, and mechanical tools
- Public works equipment
- Beverages served in food establishments (nonclassified)

N.B.: Hotel and restaurant operations, currently in the category of price ceilings by decree by the Minister of the Economy, will also be transferred to the system of declared prices.

ALGERIA - Relations with the Fund
(As of August 31, 1991)

I. Membership Status

- (a) Date of membership: September 26, 1963
- (b) Status: Article XIV

A. Financial Relations

II. General Department (General Resources Account)

- (a) Quota: SDR 623.1 million
- | | <u>Millions
of SDRs</u> | <u>Percent
of quota</u> |
|--|-----------------------------|-----------------------------|
| (b) Total Fund holdings of currency: | 1,169.00 | 187.61 |
| (c) Fund credit: | 545.90 | 87.61 |
| of which: Credit tranche | 230.70 | 37.02 |
| CCFF | 315.20 | 50.59 |
| (d) Reserve tranche position: None | | |
| (e) Current operational budget (maximum use of currency for repurchases): None | | |
| (f) Lending to the Fund: None | | |

III. Stand-By Arrangements and Special Facilities

- (a) Current stand-by arrangement: Upper credit tranche arrangement, June 3, 1991-March 31, 1992, SDR 300 million, SDR 75 million utilized, with an ECM of SDR 210 million under the CCFF.
- (b) Previous stand-by arrangements: First credit tranche arrangement, May 31, 1989-May 30, 1990, SDR 155.7 million, fully utilized
- (c) Use of special facilities: SDR 315.2 million on June 5, 1989 for compensatory financing under the CCFF.

IV. SDR Department

- (a) Net cumulative allocation: SDR 128.64 million
- (b) Holdings: SDR 1.10 million (0.86 percent of cumulative allocation)

V. Administered Accounts

- (a) Trust Fund loan: None
- (b) SFF Subsidy Account: None

VI. Financial Obligations to the Fund:

ALGERIA - Relations with the Fund (continued)
(As of August 31, 1991)

Algeria: Projected Payments to the Fund, 1991-97
(In millions of SDRs)

	1991	1992	1993	1994	1995	1996	1997	Total
A. Obligations from existing drawings								
1. Principal repurchases	--	117.7	235.5	117.7	--	--	--	470.9
2. Charges and interest ^{1/}	36.9	48.4	33.8	15.0	10.0	10.0	10.0	164.1
Total obligations	36.9	166.1	269.2	132.7	10.0	10.0	10.0	634.9
(In percent of quota)	5.9	26.7	43.2	21.3	1.6	1.6	1.6	101.9
B. Obligations from prospective drawings								
1. Principal repurchases	--	--	--	28.1	140.6	121.9	9.4	300.0
2. Charges and interest ^{1/}	4.0	22.4	24.9	24.8	18.9	6.9	.3	102.2
Total obligations	4.0	22.4	24.9	52.9	159.5	128.8	9.7	402.2
(In percent of quota)	.6	3.6	4.0	8.5	25.6	20.7	1.6	64.6
C. Cumulative (existing and prospective)								
1. Principal repurchases	--	117.7	235.5	145.9	140.6	121.9	9.4	770.9
2. Charges and interest ^{1/}	40.9	70.8	58.7	39.8	28.9	16.9	10.4	266.3
Total obligations	40.9	188.6	294.1	185.6	169.6	138.8	19.7	1,037.1
(In percent of quota)	6.6	30.3	47.2	29.8	27.2	22.3	3.2	166.4

Source: Staff estimates.

^{1/} Projections are based on current rates of charge, including burden-sharing charges where applicable, for purchases in the GRA, and on current interest rates for SAF, ESAF and Trust Fund. The current SDR interest rate is assumed for net use of SDRs.

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ALGERIA - Relations with the Fund (continued)
(As of August 31, 1991)

B. Nonfinancial Relations

VII. Exchange Rate Arrangement

Since January 21, 1974, the exchange rate of the dinar has been determined on the basis of a fixed relationship with a basket of currencies, adjusted from time to time. At the end of August 1991, the average of the buying and selling rates for the U.S. dollar, which is the representative rate under Rule 0-3, was US\$1 = DA 17.9577, equivalent to SDR 1 = DA 24.0091.

VIII. Last Article IV Consultation

The 1991 Article IV consultation discussions with Algeria were held in Algiers during the period October 16-November 2, 1990, in Washington February 8-March 4, 1991, and in Paris March 12-16, 1991. The staff report (EBS/91/79) was discussed by the Executive Board on June 3, 1991, and the following decision was adopted:

1. The Fund takes this decision in concluding the 1991 Article XIV consultation with Algeria and in the light of the 1991 Article IV consultation with Algeria conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

2. Algeria maintains the restrictive measures described in SM/91/114 in accordance with Article XIV, Section 2. The Fund encourages Algeria to remove these restrictions as soon as circumstances permit.

IX. Technical Assistance

a. Mr. Bouley accompanied a World Bank Mission to Algeria for about two weeks in January-February 1990, to advise the authorities on investment budget procedures.

b. Mr. Conrad visited Algiers June 23-25, 1990, to review with the authorities the ongoing technical assistance program for tax reform, including technical assistance financed by the UNDP.

c. Messrs. Conrad, Corfmat and Cornely (panel expert) visited Algiers October 19-24, 1990, to assist with a seminar for tax officials on value-added tax policy and administration.

d. Messrs. Rondeau, Landsberg, and Malo, all panel experts, visited Algiers for nine, four, and five weeks, respectively, in October-December 1990, under the IMF/UNDP technical assistance program, to assist with the implementation of improvements in tax administration.

ALGERIA - Relations with the Fund (concluded)
(As of August 31, 1991)

e. Messrs. Donovan, Raymond, and Dahl visited Algiers November 3-8, 1990, to assess the needs for Fund technical assistance in statistics.

f. Messrs. Ahmad and Marciniak visited Algiers April 22-May 5, 1991, to assist in the design of social safety nets.

g. Messrs. Baliño and Nascimento visited Algiers May 23-June 2, 1991, to advise the Bank of Algeria on the development of monetary instruments and the money market.

h. Messrs. Raymond and Marie visited Algiers June 12-July 1, 1991 to assist the authorities in improving Algeria's money and banking and public finance statistics.

X. Resident Representative/Advisor:

None

ALGERIA--Financial Relations with the World Bank Group
(As of August 31, 1991)

1. The Bank involvement in Algeria has been intermittent. After an interval of about nine years, during which Algeria was not an active borrower, lending resumed in FY73. Bank commitments had increased to US\$1,120.5 million by July 1980, with the approval of 23 projects, mainly in the education and infrastructure sectors. Other sectors included industry (industrial finance and cement), agriculture (irrigation and meat production), and a technical assistance loan for rural development. The collaboration with the Algerian authorities was again interrupted in 1980 until December 1983 when the Executive Directors approved a project in telecommunications. After 1984, basic understandings on project selection and processing criteria resulted in a renewed interest by the Algerian Government in borrowing from the Bank. This led to the approval of a series of loans in the water, transportation, agriculture, education, energy, and irrigation sectors. Seven new projects were approved during FY87 and FY88 totalling about US\$835 million, plus US\$200 million for a commercial cofinancing operation also approved in FY88. In addition, two projects were cofinanced during this period with the Japanese Exim Bank for US\$135 million.
2. Overall, project implementation experience in recent years has been mixed. During the early 1980s, the most common causes of the low disbursement and implementation rates were related to procurement and to delays in critical policy decisions. Later, additional efforts toward improving project design, supervision, and monitoring have considerably improved project performance. Although further improvement is sought, recent progress on ongoing projects has been satisfactory and disbursement rates have again reached regional averages.
3. The Bank's economic and sector work focuses on supporting the lending program and improving the policy dialogue with the Government. Reports on external trade reform and consumer price subsidy reform were recently prepared and discussed with the Government. A report on agricultural sector reform and a review of public sector investment were also completed in 1990. In addition, reports on environmental issues and the quality and efficiency of secondary education in Algeria, which will support the Bank's expanding efforts in these sectors, were discussed with the authorities in the fall of 1990. Moreover, studies of industrial and financial sector reform, and private sector development are currently underway. As the economic reform program progresses, future economic and sector work will continue to focus on the most pressing policy issues.
4. The objective of the Bank's lending program is to support present and future reform and adjustment efforts. To this end, the program now covers a broad range of activities aimed at raising economic productivity, improving living standards, and developing institutional

ALGERIA--Financial Relations with the World Bank Group (continued)
(As of August 31, 1991)

capabilities. The Bank's first adjustment operation in Algeria, the Economic Reform Support Loan (ERSL) approved in August 1989, supported a wide range of policy initiatives. To support the ERSL, a Technical Assistance Loan was approved in early 1990. Adjustment lending has continued with the approval of an Enterprise and Financial Sector Adjustment Loan, supporting bank and public enterprise financial rehabilitation and restructuring in June 1991. Further adjustment lending targeted for approval in FY 1992 will support external trade, price, and fiscal reform. Finally, expanded project lending in agriculture, industry, environment, and human resource development complements a strong portfolio of traditional infrastructure projects.

5. As of August 31, 1991, cumulative commitments to Algeria were US\$3,537.27 million (less cancellations). Of this amount, US\$755.69 million has been repaid and US\$1,864.05 million has been disbursed, leaving US\$1,673.22 million undisbursed.

ALGERIA--Financial Relations with the World Bank Group (concluded)
(As of August 31, 1991)

World Bank Group Lending to Algeria 1/

(In millions of U.S. dollars)

<u>IBRD lending operations</u>	<u>Disbursed 1/</u>	<u>Undisbursed 1/</u>
Agriculture/Rural development	120.65	276.19
Education and Health	31.46	132.50
Energy, power, and utilities	865.80	474.52
Telecommunications	95.17	9.13
Transportation	425.53	273.19
Industry	59.39	97.74
Technical assistance	2.29	23.71
Adjustment lending	263.76	386.24
Total	1,864.05	1,673.22
Repayments	755.69	
Debt outstanding	1,108.36	

IFC Investment: None thus far.

Net World Bank lending, FY 1984-91 1/

	1984	1985	1986	1987	1988	1989	1990	
Commitments	418.00	262.00	--	464.00	371.00	341.00	457.50	43
Disbursements	65.58	116.41	108.61	126.75	174.85	169.69	296.84	25
Debt service	50.61	63.48	81.76	222.91	214.82	172.08	202.01	16
Principal	(28.87)	(42.20)	(46.99)	(64.27)	(99.29)	(101.60)	(126.09)	(8
Interest <u>2/</u>	(21.74)	(21.28)	(34.77)	(158.64)	(115.53)	(70.48)	(75.92)	(6
Net transfer <u>3/</u>	14.97	52.93	26.85	-96.16	-39.97	-2.39	94.83	-

1/ As of August 31, 1991; IDA has no operations in Algeria.

2/ Includes charges.

3/ Equal to disbursements minus debt service.

الجمهورية الجزائرية الديمقراطية الشعبية
REPUBLIQUE ALGERIENNE DEMOCRATIQUE ET POPULAIRE

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Le Ministre

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Alger, le 7 Novembre 1991

ORIG: AFR

Monsieur le Directeur Général

CC: MD

DMD

MR. MIRAKHOR

MR. P. ANDREWS

Suite aux précédentes discussions relatives à la mise en oeuvre de l'accord de confirmation entre l'Algérie et le Fonds Monétaire International, j'ai l'honneur de vous confirmer les éléments suivants :

1.- Depuis le début de l'année, la mise en oeuvre de la nouvelle politique des prix dans le cadre de la réforme économique se poursuit. Dans cet esprit et conformément à la loi sur les prix, un nombre de plus en plus important de familles de produits est passé de la catégorie des prix à marge plafonnée à celle des prix déclarés. Viennent également d'être totalement levées les contraintes réglementaires qui empêchaient les entreprises d'ajuster souplement leurs prix par l'exigence de délais minimaux entre deux modifications de tarif .

Les prix de l'énergie à usage industriel (electricité moyenne et haute tension ; gaz moyenne et haute pression) ont été ajustés sur les coûts économiques. Parallèlement, le relèvement du prix de l'énergie à usage domestique se poursuit.

Monsieur le Directeur Général
du Fonds Monétaire International

Pour ce qui est des prix plafonnés, dont la plupart sont subventionnés par le Fonds de compensation et qui sont déterminés par des actes réglementaires, le gouvernement a entamé, en octobre 1991, le processus qui permet progressivement de gérer ces prix en alliant l'objectif de vérité des prix - donc la suppression des effets pervers des prix administrés - à la protection nécessaire des couches sociales les plus défavorisées.

Vous connaissez par ailleurs les conditions dans lesquelles l'Assemblée populaire nationale, dans sa souveraineté, a tempéré les propositions du gouvernement dans le cadre de la préparation de la loi de Finances complémentaire pour 1991 : cela a eu pour conséquence de retarder la date d'effet des décisions prises.

Du fait de ce retard, les décisions du gouvernement ne produiront leurs effets, pendant l'exercice 1991, que pendant 75 jours (du 15.10 au 31.12) au lieu des 100 à 120 jours envisagés au moment où la revue se déroulait à Alger.

En dépit d'un tel handicap, les décisions du gouvernement sur les prix auront, d'ici fin 1991, engendré des économies de l'ordre de 3 milliards de dinars, ce qui, sur une année pleine, correspond à 15 milliards de dinars, soit le tiers du soutien. S'il avait été possible de prendre les décisions dans les délais que nous envisagions lors de nos discussions d'août 1991, leur effet aurait été de 4,5 à 5 milliards de dinars.

2.- Ces augmentations de prix ont été mises en oeuvre il y a moins d'un mois, notamment pour ce qui concerne les produits à prix soutenus. Elles ont aggravé la détérioration du pouvoir d'achat des ménages, déjà fortement entamé par les renchérissements, nombreux et importants, des produits non

subventionnés, enregistrés depuis plus d'une année (cf annexe). D'où les vives réactions de la population - tout à fait prévisibles au demeurant - qui rendent pour le moins difficile et à vrai dire peu imaginable, l'application immédiate d'un second train d'augmentations des prix.

3.- Néanmoins, il est tout à fait possible de reconfirmer l'ensemble des engagements pris, à la seule réserve de l'horizon temporel, qui se trouve déplacé à cause des éléments que j'ai rappelés.

C'est ainsi que :

+ Les engagements relatifs à la diminution de 3 milliards de dinars sur les dépenses du Fonds de Compensation seront tenus avec un décalage correspondant au retard initial, c'est à dire avant fin janvier 1992 ;

+ les engagements relatifs à l'augmentation des recettes fiscales sur la consommation des carburants (de 1,3 milliards de dinars) seront également tenus avant fin janvier 1992 ;

+ pour l'exercice 1991, la différence entre les engagements et les prévisions, de l'ordre du milliard de dinars, sera compensée par des économies budgétaires. Par ailleurs, d'autres ajustements des prix des carburants et produits pétroliers, dont le gas-oil, interviendront en janvier 1992 pour se rapprocher encore plus des coûts économiques, compte tenu du taux de change;

+ les subventions aux prix seront supprimées au fur et à mesure que le mécanisme de soutien à la consommation des ménages les plus défavorisés sera mis en place. Le processus de préparation et de mise en oeuvre de ce mécanisme est déjà engagé puisque, après examen par le gouvernement, il vient

d'être présenté à l'Assemblée populaire nationale et sera discuté avec les partenaires sociaux (syndicats ouvriers et patronaux) dès la semaine prochaine. Nous escomptons que le

systeme commencera à porter ses effets au cours du premier trimestre 1992. En contrepartie du soutien adéquat aux ménages par la mise en place d'un filet social, le soutien des prix sera donc supprimé avant fin juin 1992 à l'exception de produits tels que le pain, le lait et la semoule.

Je vous prie d'agréer, Monsieur le Directeur Général, l'expression de ma haute considération.

Pour le ministre de l'Economie ,
le ministre délégué au Commerce



A. FOUDIL BEY

مصالح رئيس الحكومة

Alger, le 7 Novembre 1991

Monsieur le Directeur Général,

Le ministre délégué au Commerce vient de vous faire parvenir une lettre par laquelle il vous fait savoir que les programmes d'allègement des subventions aux produits de première nécessité et d'augmentation des recettes fiscales sur les carburants mis en oeuvre après la revue de l'accord de confirmation porteront leurs fruits - respectivement 3 et 1,3 milliards de dinars - avec un retard de quelques semaines sur le calendrier convenu.

Vous savez que cela résulte des conditions dans lesquelles l'Assemblée Populaire Nationale, dans sa souveraineté, a traité les propositions du gouvernement dans le cadre de la préparation de la loi de Finances complémentaire pour 1991 : elle en a tempéré les effets et en a retardé la date de mise en oeuvre.

Je dois rappeler que cette réaction est d'autant plus compréhensible, qu'avant l'arrivée de mon gouvernement, l'Assemblée populaire nationale n'avait jamais été informée ni du contenu de l'accord de confirmation et de ses conditionnalités, ni même de son existence. Et pourtant, c'est bien l'Assemblée populaire nationale qui a été l'auteur de toutes les lois sur les réformes économiques.

Monsieur le Directeur Général
du Fonds Monétaire International.

C'est dire que le fait que mon gouvernement ait tenu à informer pour la première fois, aussi bien l'Assemblée populaire nationale que l'ensemble des partenaires sociaux, syndicats ouvriers et patronaux, devrait, à notre sens, être perçu par nos partenaires comme l'expression de l'attachement de l'Algérie à ses engagements internationaux et un gage de crédibilité.

C'est au demeurant dans ce même souci que j'ai rappelé au gouverneur de la Banque d'Algérie qu'il convient de revenir à la stricte application de l'article 101 de la loi relative à la monnaie et au crédit qui prévoit la publication de la situation mensuelle des comptes de la banque, et ce depuis la promulgation de la loi.

Au moment où le processus des élections est mis en mouvement - puisque nous en sommes à la période de dépôt des candidatures - je suis sûr que vous comprendrez qu'une nouvelle augmentation de prix serait comprise comme une provocation intolérable et injustifiée, alors qu'au même moment, le gouvernement s'emploie à rassembler les conditions de sérénité propres à assurer la paix civile, qui est encore plus nécessaire à la tenue d'élections législatives impeccables que le dispositif électoral proprement dit qui vient d'être adopté par l'Assemblée populaire nationale.

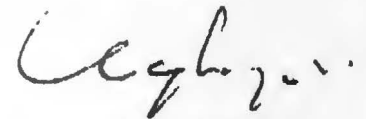
Il me semble également opportun de rappeler, à cette occasion, les travaux engagés pour créer les conditions d'une économie efficace. L'Assemblée populaire nationale doit, au cours de ses travaux actuels sur la loi de finances pour 1992, poursuivre la mise en oeuvre de la réforme fiscale et traiter d'un nouveau code douanier. Sur un autre plan, le Conseil de la monnaie et du crédit poursuit son travail réglementaire, concernant notamment la libéralisation et l'organisation des activités de commerce extérieur (importation et exportation) et le marché des devises à terme. Par ailleurs, vous savez que l'encadrement des activités de banques et d'institutions financières permet les investissements de non résidents, puisqu'une banque étrangère a déjà été agréée.

Enfin, le programme engagé par le gouvernement en vue de doter le pays d'une législation propre à encourager les activités de recherche, d'exploitation et de récupération secondaire dans le secteur des hydrocarbures, dans un cadre d'association avec des non résidents, se poursuit activement. Il est envisagé une décision de l'Assemblée populaire nationale dans une quinzaine de jours.

C'est là une action à laquelle le gouvernement a consacré des efforts d'autant plus importants qu'il considère que la reconstitution de réserves de change, rapidement et à un niveau substantiel et beaucoup plus élevé que ceux envisagés lors de toutes les précédentes discussions, constitue une condition sine qua non d'une libéralisation effective et crédible du commerce extérieur, ce qui implique, bien entendu, un apurement de tout arriéré de paiement. C'est là un objectif auquel j'attache personnellement la plus grande importance et que j'entends voir réalisé dans les délais les plus brefs .

Je saisis cette occasion pour mettre l'accent sur une conviction que je crois partager avec vous pour l'avoir souvent rencontrée dans votre discours, à savoir que la faisabilité d'ensemble des réformes dont mon pays a besoin repose, non seulement sur des ajustements qui gagneraient à être aussi réels que crédibles, mais également sur une attention toute particulière à la justice sociale, qui commence par la protection des couches sociales les plus défavorisées, une attention sans laquelle il ne saurait y avoir en Algérie de crédibilité pour un programme de réforme politique et économique.

Je vous prie d'agréer, Monsieur le Directeur Général, l'expression de ma parfaite considération.



S.A. GHOZALI

EVOLUTION DES PRIX A LA CONSOMMATIONde certains produits

PRODUITS	1989	1990	1991 1er semestre	OBSERVATIONS
<u>Matériaux de construction :</u>				
* Ciment	350	745	1.460	
* Briques (les 1000)				
- 9 trous	720	1.157	-	
- 10 trous	2.100	3.029	6.535	
- 12 trous	2.535	3.680	8.172	
* Rond à béton en couronne Ø6 à 12	3.500	6.241	10.505	sortie usine
<u>Engrais</u>				
* N P K	1.364	1.637	2.447(2/2/91)	6.638 (13/10/91)
* Amonitrate	924	1.109	1.687(")	4.098 (")
* Engrais binaires	1.397	1.676	2.232	6.239 (")
<u>P.M.A.</u>				
* tracteurs à roues 60 à 70 chevaux	98.226	168.490	224.436	
* moissonneuse-batteuse	229.297	343.312	650.063	
* charrue à 2 disques	6.426	13.755	-	

PRODUITS	1989	1990	1991 1er semestre	OBSERVATIONS
<u>Limonade :</u>				
+ Soda (G.M.)	1,35	2,50	4,50	
+ Soda (P.M.)	0,70	1,30	2,00	
<u>Cahier scolaire :</u>				
+ 96 pages (piqué-collé)	2,70	2,70 prix soutenu	6,00 exclusion du soutien au 1/1/1991	Juillet 1991
<u>E.N.I.E.M. :</u>				
+ Réfrigérateur 300 L 2p	2.971,15	6.987,61	16.555,20	
+ Chauffe-bains 10 L	2.301,13	2.364,45	6.167,60	
<u>E.N.I.E. :</u>				
+ T.V. noir et blanc (44cm)	2.000,00	2.869,25	4.724,20	
+ T.V. couleur (51cm)	6.500,00	8.470,90	15.229,45	
+ Radio-cassette	1.049,95	1.049,95	2.196,27	
+ Produits du textile	+ 20 %	+ 30 %	+ 50 %	

PRODUITS	Avant Loi de Finances 1991	Après déplafonnement des produits Loi de Finances 1991
ISIS 400 grs	3,50 (1989)	12,00
ISIS 600 grs ou NOOR	4,80 (1989)	15,00
Savon de ménage (morceau 500 grs)	2,50 (14/8/90)	7,00
Aliments du bétail		
+ démarrage	275 DA/Q1 (19/5/90)	495 DA
+ pondeuse	215 DA/Q1 (19/5/90)	395 DA

Greg,

They have not changed
the draft letter but several tops and
bottoms of pages are missing

الجمهورية الجزائرية الديمقراطية الشعبية
REPUBLIQUE ALGERIENNE DEMOCRATIQUE ET POPULAIRE

MINISTERE DE L'ECONOMIE

Le Ministre

وزارة الاقتصاد

الوزير

30 SEP. 1991

N° 215 /SP/ME/91.

MONSIEUR LE DIRECTEUR GENERAL,
FONDS MONETAIRE INTERNATIONAL,
WASHINGTON

(A L'ATTENTION DE M. MICHEL CANDESSUS)

Monsieur le Directeur Général,

Je vous prie de trouver ci-joint la lettre d'intention et le memorandum dont les termes ont été convenus récemment entre les services du Fonds Monétaire International et la délégation algérienne. Je vous signale que la page 4 du memorandum a été revue et complétée suivant les attentes de vos services.

En vous remerciant de votre précieuse compréhension, je vous prie d'agréer, Monsieur le Directeur Général, l'expression de ma haute considération.



Le Ministre de l'Economie

H. BENISSAD

MESSAGE RETRANSMISSION HAS BEEN REQUESTED

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- ☒ page overlap
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- ☐ incomplete

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REPUBLIQUE ALGERIENNE DEMOCRATIQUE ET POPULAIRE

MINISTERE DE L'ECONOMIE

STAFF DU MINISTRE

Téléphone : (2) 73 74 16

Fax : (2) 73 19 55

Telex : 67 174

(2) 73 35 43

FAX MESSAGE

Destinataire : M^r Le Directeur Général, F.M.I. Washington.

à l'attention de : M^r Michel Camdesous.

Expéditeur : Le Ministre de l'Economie. (Algerie).

Date : 1. 10. 91. PJ : 21 pages -

MESSAGE

Veuillez trouver ci joint la lettre
d'intention et le Memorandum couvrant
pour le FMI et la délépation Algérienne

ORIG: AFR

CC: MD

DMD

MR. MIRAKHOR

ETR

FAD

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MR. P. ANDREWS

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الجمهورية الجزائرية الديمقراطية الشعبية
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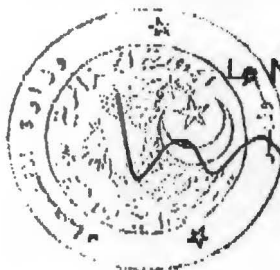
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Le Ministre de l'Economie

H. BENISSAD

الجمهورية الجزائرية الديمقراطية الشعبية
REPUBLIQUE ALGERIENNE DEMOCRATIQUE ET POPULAIRE

MINISTERE DE L'ECONOMIE

وزارة الاقتصاد

ALGER le

30 SEP. 1991

Monsieur le Directeur Général

Conformément aux dispositions de l'accord de confirmation du 3 Juin 1991, les autorités algériennes ont procédé avec les services du Fonds à un examen de l'évolution du programme économique et financier adopté pour 1991, dans le cadre de la première revue de ce programme. Les résultats de cet examen sont exposés dans le memorandum ci-joint qui modifie et complète la lettre des autorités datée du 27 Avril 1991. Sur la base de l'accord de principe décrit dans ces documents, les autorités algériennes demandent qu'un achat de devises pour un montant équivalent à 75 Millions de DTS leur soit autorisé dès que la présente revue du programme aura été menée à son terme.

Le Gouvernement estime que les politiques et mesures exposées dans le memorandum ci-joint et la lettre du 27 Avril 1991 sont adéquates pour réaliser les objectifs du programme tels que révisés, et prendra toute mesure additionnelle nécessaire qui s'imposerait. Il consultera le Fonds durant la période de l'accord de confirmation sur l'adoption de toute mesure qui pourrait s'avérer appropriée, conformément aux pratiques du Fonds concernant ces consultations.

Veuillez agréer, Monsieur le Directeur Général, l'expression de notre haute considération.

Abderahmane Hadj Nacer
Gouverneur
Banque d'Algérie

Pièce - Jointe

Mr. Michel Camdessus
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Hocine Benissad
Ministre de
L'Economie

[Signature]
وزير الاقتصاد



Mémoire sur la politique économique et financière

1. Les résultats enregistrés au cours du premier semestre 1991

1. Durant le premier semestre 1991, l'évolution des agrégats économiques et financiers a été, dans l'ensemble, moins favorable que celle qui était prévue au programme. Après la baisse du produit intérieur brut en 1990, estimée désormais à -1,5 %, de nombreux secteurs de l'économie (en particulier l'industrie et le bâtiment et travaux publics) ont enregistré une chute marquée de leur production durant les six premiers mois de 1991, due essentiellement au manque de matières premières et demi-produits et à certaines perturbations de l'activité économique et sociale, aux mois de mai et juin derniers. Dès lors, et malgré une hausse exceptionnelle de 35 % de la production agricole en relation avec les conditions climatiques très favorables, et une relative stagnation du secteur des hydrocarbures, le produit intérieur brut devrait au mieux se stabiliser en volume au niveau de 1990, voire se contracter encore. Par contre, la hausse des prix à la consommation a été de 20 % en rythme annuel durant la première moitié de l'année en relation notamment avec la bonne récolte agricole, soit nettement moins que le taux de 35 % programmé.

2. Comme indiqué dans l'aide-mémoire annexé à la lettre du 27 avril dernier, les autorités ont mis en oeuvre une vaste libéralisation de la réglementation en matière de commerce et de change avec l'élimination des licences d'importation et l'accès libre aux devises pour l'importation de virtuellement tous les produits. Toutefois, le financement extérieur indispensable prévu au programme pour concrétiser

- 2 -

cette libéralisation s'est avéré, dans la pratique, moindre que celui anticipé. Les paiements au titre du service de la dette échue au cours du premier semestre 1991 ont été supérieurs de 500 millions de dollars au montant prévu initialement, tandis que le montant total des emprunts à moyen et à long termes a été de 2 milliards de dollars, contre un montant programmé de 3,1 milliards de dollars. En partie, la baisse des mobilisations résulte du renouvellement tardif de certaines lignes de crédit bilatérales. De plus, en raison du faible niveau des réserves de change, et dans l'attente d'un accord avec les banques commerciales créditrices pour le refinancement des échéances de la dette à moyen et long termes, les autorités ont été dans l'obligation de limiter l'accès au crédit à court terme et au paiement au comptant des importations. En particulier, il a été demandé aux banques algériennes de rechercher, en relation avec leurs clients, des financements extérieurs à des conditions plus favorables et d'une durée d'au moins 18 mois. La libéralisation du commerce extérieur s'appuyait aussi sur la mise en place de concessionnaires et de grossistes. Or les concessionnaires agréés ont tardé à s'installer, à la fois pour des raisons "d'attentisme" et parfois pour des raisons objectives de procédures et de réglementation. Compte tenu de ces contraintes de financement, les importations qui étaient programmées à 4,7 milliards de dollars dans la première moitié de 1991, n'ont atteint que 3,8 milliards de dollars. Les importations de biens intermédiaires et d'équipement ont chuté respectivement de 19% et 14%.

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3. Les exportations ont dans l'ensemble été conformes aux prévisions du programme, aussi bien pour les hydrocarbures que pour les marchandises traditionnelles. Ainsi, le compte courant de la balance des paiements a dégagé un excédent au premier semestre de 1,4 milliard de dollars contre un objectif de quasi-équilibre. Cependant, cet excédent a été plus que compensé par les facteurs défavorables indiqués précédemment qui ont affecté le compte de capital, celui-ci s'étant soldé négativement à 1,7 milliard de dollars. La balance globale des paiements a enregistré un déficit de 0,3 milliard de dollars alors qu'un surplus de 0,1 milliard de dollars était prévu au programme.

4. Les statistiques monétaires relatives au premier semestre 1991 témoignent de certains dépassements. Bien que les crédits au gouvernement se soient inscrits dans les limites du programme, le montant total du crédit intérieur net a très largement dépassé le plafond fixé dans le programme pour la période s'achevant le 30 juin 1991. Dans cette phase de conduite de l'assainissement des entreprises publiques, les banques commerciales ont été confrontées à une forte croissance de la demande de crédit, en raison notamment de l'augmentation du service de la dette extérieure en contexte de dépréciation du dinar. C'est ainsi que les échéances au titre du principal de la dette extérieure des banques se sont accrues de 4,5 milliards de dinars par rapport aux prévisions contenues dans le programme. En outre, environ 55 entreprises publiques non autonomes (hors les 22 entreprises déstructurées), actives dans les secteurs tels que la construction, le transport et les services, ont nécessité un montant de plus de 8 milliards de dinars de crédit. Cela s'explique en

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grande partie par le ralentissement de l'activité économique lié à la chute des importations et à ses conséquences sur les approvisionnements des entreprises mais aussi par les retards dans l'assainissement des créances de ces entreprises sur les collectivités locales en particulier. Le ralentissement de l'activité économique s'est aussi traduit par une croissance de la demande de crédit de la part des entreprises publiques autonomes qui, dans l'ensemble, n'ont pas pu procéder aux ajustements de leurs coûts, en particulier à cause du retard dans la mise en place du dispositif de l'assainissement.

5. Face à ces demandes importantes de crédit, les banques ont eu recours au marché monétaire (avec une intervention accrue de la Banque d'Algérie) pour se procurer des liquidités à un moment où les mécanismes nécessaires pour limiter l'offre de liquidités n'étaient pas encore complètement mis en oeuvre. De plus, la persistance de problèmes d'imputation comptable au niveau des banques commerciales s'est traduite par des accroissements importants des montants non ventilés à l'intérieur des autres postes nets. En particulier, les autres postes nets ont enregistré : (1) les sommes à récupérer auprès de l'Etat pour les annuités et les intérêts versés sur les crédits extérieurs rétrocédés, pour les crédits à l'agriculture ou pour la perte de change sur les emprunts extérieurs non rétrocédés aux entreprises (2) une série d'opérations relatives au commerce extérieur ou aux crédits intérieurs que les banques n'ont pas encore enregistré dans les comptes des clients. Ceci avec les retards dans le lancement des programmes de modernisation et d'organisation dans les banques, en particulier en matière de traitement et transmission des données financières et comptables, ont engendré des difficultés dans la conduite de la politique monétaire.

6. En ce qui concerne les opérations du Trésor, le critère de performance à la fin du mois de juin a bien été satisfait (45,7 milliards de dinars à fin juin 1991 pour un objectif de 41,6 milliards dans le programme). L'excédent budgétaire

- 5 -

(42,0 milliards de dinars) est très proche du montant anticipé dans le programme (43,6 milliards de dinars) tandis que l'amélioration, plus importante que prévue, des autres opérations du Trésor a fait plus que compenser l'augmentation du déficit du fonds de compensation. Tandis que les recettes fiscales sur les hydrocarbures ont été très proches du niveau projeté dans le programme, les recettes, au titre des impôts sur les biens et services, ont été inférieures de 5,5 milliards de dinars aux estimations du programme et les droits de douanes perçus se sont révélés inférieurs aux prévisions pour un montant de 1,6 milliard de dinars en liaison avec la chute des importations. Du côté des dépenses, les décaissements au titre de la masse salariale qui comprennent le paiement des augmentations de salaires décidées en novembre 1990, ont été inférieurs aux montants estimés dans le programme, tandis que le relèvement des allocations familiales, de la prime de scolarité et du minimum vieillesse non prévus dans le cadre du programme n'ont eu qu'un impact modéré sur les dépenses budgétaires au premier semestre. La baisse des recettes fiscales a été compensée par le rythme très lent de consommation des crédits d'équipement et le décalage dans le versement des subventions aux établissements publics. Les comptes d'affectation spéciale (autres que le fonds de compensation et le fonds d'assainissement) ont dégagé un excédent de 12,9 milliards de dinars à comparer avec une estimation de 1 milliard dans le programme. En revanche, le fonds de compensation a enregistré un déséquilibre de 7,3 milliards de dinars entre ses recettes et ses dépenses, à comparer avec une estimation de moins 3 milliards de dinars dans le programme. En particulier, les paiements dus au titre de l'exercice 1990 ont été

- 6 -

supérieurs aux estimations initiales et les revenus tirés de la taxe compensatoire se sont révélés inférieurs aux montants anticipés en raison du déclin de l'activité économique et des importations.

7. En conformité avec l'objectif de permettre aux prix de transmettre à l'économie algérienne les signaux nécessaires à des prises de décision rationnelles, et concomitamment avec la libéralisation des importations, le taux officiel de change du dinar est passé de 12,2 dinars par dollar à la fin décembre 1991 à 18,4 dinars par dollar à la fin du mois de juin, soit un cours moyen de 16,8 dinars par dollar durant le premier semestre qui est à comparer à un cours moyen de 9,0 dinars par dollar en 1990 et à l'hypothèse de 16,0 dinars par dollar du programme. Les prix sur le marché intérieur ont été libérés pour un grand nombre de produits et les prix de certains biens, produits pétroliers et produits énergétiques subventionnés ont été relâchés, comme indiqué dans l'aide mémoire du 27 avril 1991, à l'exception du gaz et de l'électricité pour lesquels les hausses prévues n'ont été effectuées qu'en août 1991. Les effets bénéfiques de ces mesures sont d'ores et déjà visibles dans l'unification du marché intérieur et la meilleure disponibilité de nombreux produits.

8. En ce qui concerne l'assainissement des entreprises du secteur public, pour les 22 entreprises non autonomes, les contrats d'audit ont été récemment signés et les études devraient être achevées d'ici la fin de l'année 1991. Le crédit accordé à ces entreprises, qui est un critère de performance au sens du programme, est resté très proche des limites fixées dans le programme, malgré le retard pris dans le paiement par le fonds d'assainissement des sommes affectées au financement du

- 7 -

coût du service de la dette dû à la dépréciation du cours du dinar.

L'assainissement de la situation financière des banques commerciales est en cours avec le versement effectué à fin juin 1991 des 8.8 milliards de dinars prévus pour la recapitalisation de ces institutions financières.

II. Le programme pour le deuxième semestre de 1991

La politique des prix et du taux de change

9. En réponse aux développements défavorables qui ont été enregistrés dans la première moitié de l'année 1991, les autorités ont décidé de renforcer leurs politiques économiques et financières dans de nombreux domaines, y compris ceux de la politique des prix et du taux de change. Les autorités ont ajusté depuis le 30.09.1991. le cours de change du dinar à un taux de 22,5 dinars par dollar et continueront à suivre une politique de change flexible durant le reste du programme, en liaison avec les autres politiques d'ajustement. D'ici la fin de 1991, en liaison avec le financement extérieur du programme et l'amélioration du niveau des réserves de change, les autorités ont l'intention de parvenir à une totale convertibilité du dinar pour les transactions sur les importations par la levée des restrictions à l'accès au crédit en devises et par la mise en place d'un libre accès aux réserves de change pour le règlement au comptant des importations. Les autorités ont toujours l'intention de rendre le dinar convertible pour la quasi totalité des transactions courantes, mais les difficultés de financement rencontrées en 1991 pourraient nécessiter un report de cet objectif du début de l'année 1992 vers le milieu de 1992.

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10. La politique de libéralisation progressive des prix en vue de parvenir à la détermination de la plupart des prix par le marché sera poursuivie résolument. Ainsi, conformément à l'objectif du programme de transférer avant 1992 la plupart des produits à marge plafonnée vers la catégorie des prix déclarés, les autorités viennent de libérer une quinzaine de familles de produits (cf. annexe). En outre, le délai minimum imposé aux entreprises entre deux dépôts de prix (produits à marge plafonnée) qui avait été ramené de 6 mois à 3 mois en avril 1991, vient d'être complètement supprimé, permettant aux entreprises d'ajuster plus vite leurs prix aux coûts et aux conditions du marché. Enfin, les autorités ont décidé de supprimer l'obligation de déclaration des prix à la production pour les prix libérés. Cette dernière mesure, de nature législative, sera intégrée dans le projet de loi relative à la concurrence en cours d'élaboration. Concernant les produits à prix soutenus, le gouvernement est conscient de l'ampleur du coût budgétaire et de l'efficacité insuffisante actuelle des subventions qui profitent aussi aux couches aisées. De même, la gestion administrée des prix, déconnectée des conditions réelles du marché, n'est pas de nature à encourager une réaction de l'offre et aggrave les gaspillages dans l'allocation des ressources rares. Cependant, la réforme du système des prix des produits de large consommation nécessite que les mécanismes appropriés soient mis en place au préalable pour garantir une protection suffisante des couches les plus défavorisées. Les autorités préparent un dispositif global en la matière qu'elles comptent soumettre à l'Assemblée Populaire Nationale d'ici la fin de l'année. Elles se

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proposent d'en discuter avec les services du Fonds. En attendant, et pour réduire le déficit du fonds de compensation, les autorités viennent de relever les prix de certains produits subventionnés.

Politique monétaire

11. Dans le but de limiter la croissance rapide de la masse monétaire enregistrée au cours de la première moitié de l'année, la Banque d'Algérie a pris un certain nombre de mesures. Dans un premier temps, en juillet, l'offre de liquidités de la Banque centrale sur le marché monétaire a été réduite, en particulier par la fixation anticipée du volume de ces concours sur le marché interbancaire. Cette mesure, combinée à un début d'assainissement des entreprises publiques, a permis d'entamer un processus de réduction du montant total des avances de la Banque d'Algérie aux banques à 79 milliards de dinars à la mi août contre 83,3 milliards de dinars à fin juin 1991. Le taux moyen sur le marché monétaire a été porté de moins de 11 pour cent au premier semestre à environ 12 % avec l'introduction d'un mécanisme d'adjudication. Plus récemment, le taux de réescompte de la Banque centrale a été relevé, de 10.5 % à 11,5 %, et le taux appliqué aux découverts des banques commerciales à la Banque centrale a été augmenté de 15 à 20 %. En outre, les interventions de la Banque centrale sur le marché monétaire ont été plus sévèrement limitées, de manière à parvenir à la fin septembre à un niveau de taux d'intérêt des interventions de la Banque d'Algérie sur le marché monétaire de 17 %. Ce taux d'intervention sera maintenu à 17 % jusqu'à la fin octobre 1991. Par la suite, l'objectif pour le taux d'intérêt sur le marché monétaire sera modulé de manière à maintenir la croissance des avoirs intérieurs nets du système

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bancaire dans les limites prévues. Pour compenser partiellement les banques du renchérissement des ressources sur le marché monétaire, les plafonds de réescompte de la Banque centrale, fixés à ce jour à leur niveau de 1990, ont été relevés de 55 % en moyenne. De plus, la Banque d'Algérie a mis en place un dispositif de plafonnement par banque du recours total à ses ressources par le réescompte et le marché monétaire. Aussi, pour permettre un meilleur suivi dans le temps de l'évolution de la situation monétaire, les banques transmettent désormais à la Banque d'Algérie des balances prévisionnelles avec un décalage d'un mois au plus.

12. L'accélération de l'assainissement économique des entreprises publiques devrait aussi faciliter la conduite de la politique monétaire. En ce qui concerne le crédit aux 55 entreprises publiques régionales de bâtiment et travaux publics, les autorités viennent de décider de les faire passer à l'autonomie avant fin 1991 et d'arrêter en même temps un dispositif d'assainissement de leur situation financière. Pour les entreprises publiques autonomes, un programme destiné à parachever leur assainissement est en préparation et fera l'objet d'un examen lors de la deuxième revue du programme au début de 1992. Pour les dettes extérieures non rétrocédées des banques, un audit sera fait avant fin 1991 afin de prendre les mesures nécessaires pour compléter l'assainissement des banques.

13. Ces mesures devraient permettre une résorption importante des dérapages qui sont intervenus au premier semestre 1991. Cependant, il ne nous sera pas possible de revenir sur les objectifs initiaux et nous nous proposons de modifier les critères de performance pour fin

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septembre et fin décembre 1991, tel qu'indiqués au tableau 1. Le niveau des avoirs intérieurs nets prévus nous permet d'envisager une croissance de la masse monétaire (M2) de l'ordre de 21 %, ce qui implique une amélioration du taux de liquidité (M2/PIB) de 0,69 en 1990 à 0,58 en 1991.

Politique budgétaire et comptes du Trésor

14. En ce qui concerne l'année 1991 dans son ensemble, une fois pris en compte les effets de la dépréciation du cours du dinar, les opérations du Trésor et en particulier celles relatives au budget, laissent apparaître une importante plus-value de recettes par rapport à la loi de finances initiale. Ce gain résulte principalement de l'effet de la dépréciation de la valeur du dinar sur les recettes pétrolières, les droits de douanes et la fiscalité indirecte. Cet élément favorable à l'équilibre des comptes publics sera toutefois partiellement compensé par les effets du ralentissement de l'activité économique au premier semestre et par des dépenses nouvelles, en particulier celles liées à l'effet de dépréciation du taux de change et de libéralisation des prix, l'augmentation des salaires, conformément aux décisions arrêtées à l'automne 1990, et celle des allocations familiales et de la prime scolaire. De même, une partie des dépenses courantes, dont celles relatives à la dette publique, et des dépenses d'équipement inscrites dans la loi de finances initiale se sont révélées insuffisantes, compte tenu de la dépréciation du dinar. Le gouvernement a donc soumis à l'Assemblée Populaire Nationale, en août 1991, un projet de loi de finances complémentaire qui vient d'être adopté et qui ajuste le montant

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des dotations et des recettes budgétaires. Les recettes prévues intègrent 1,3 milliard de dinars de ressources additionnelles correspondant à l'augmentation du prix de l'essence.

15. En ce qui concerne le fonds de compensation, par suite du ralentissement de l'activité économique et notamment des importations, les recettes au titre de la taxe compensatoire se sont révélées sensiblement inférieures au montant estimé dans le programme, pendant que les dépenses se sont avérées plus élevées suite à la dépréciation sensible du taux de change par rapport au niveau ayant servi de base aux prévisions du programme. En outre, afin de relancer l'investissement et les secteurs en difficulté, notamment du bâtiment et du textile, il est apparu nécessaire : (i) de supprimer la taxe compensatoire au taux de 20% sur les textiles issus de la production intérieure et de réduire de 25 à 15% le taux applicable aux importations de tissus; (ii) d'exonérer de taxe compensatoire les papiers, certains équipements industriels et les matériels de bâtiment et travaux publics et de forage ainsi que les pièces destinées aux machines; (iii) de réduire de 25 à 15% le taux de taxe appliqué aux pièces de rechange des véhicules industriels; et (iv) de réduire le taux de taxe compensatoire sur les équipements destinés aux activités industrielles ainsi que sur les importations de bois et de produits textiles confectionnés. Le taux uniforme de 25 pour cent est maintenu sur les autres importations. Le coût de ces diverses mesures d'allègement de la taxe compensatoire est estimé à 3,8 milliards de dinars sur les quatre derniers mois de l'année 1991. Toutefois, afin de limiter le déséquilibre du compte du fonds de compensation, la Loi de Finances complémentaire a prévu une dotation

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budgétaire supplémentaire de 13,9 milliards de dinars au bénéfice du fonds de compensation. De plus, les autorités ont décidé de limiter les dépenses du fonds de compensation en procédant à une augmentation des prix de certains produits subventionnés, en particulier le gas oil, le maïs, le propane, le concentré de tomate, et le sucre. Ces hausses équivalent à une économie ayant un impact de 3,0 milliards de dinars environ sur l'année 1991.

16. Le gouvernement a pris par ailleurs les mesures nécessaires pour que le déficit des interventions du Trésor ne dépasse pas 2 milliards de dinars au 31 décembre de l'année 1991 et que la consommation des crédits du budget d'équipement (hors dotations au fonds d'assainissement) ne soit pas supérieure à 64 milliards de dinars en 1991. Il a également pris les mesures nécessaires pour réduire les dépenses courantes de 3,7 milliards de dinars par rapport aux chiffres de la Loi de Finances complémentaire.

17. Compte tenu de l'ensemble de ces éléments, y compris une recette pétrolière exceptionnelle de 7 milliards de dinars, les prévisions de recettes budgétaires sont estimées à 259,4 milliards de dinars, pour des dépenses budgétaires effectives de 215 milliards de dinars, dont 151 milliards de dinars de dépenses de fonctionnement et 64 milliards de dépenses d'équipement hors dotation au fonds d'assainissement, soit un excédent budgétaire effectif de 44,4 milliards de dinars hors dotation au fonds d'assainissement. Le fonds de compensation devrait dégager en 1991, sur une base encaissements-décaissements, un déficit de 8,1 milliards de dinars, correspondant à des dépenses de 44,4 milliards de dinars et des recettes de 36,3 milliards de dinars et à un report de

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14,0 milliards de dinars environ de dépenses sur 1992 (délais normaux de paiement) contre 21,8 milliards de dinars de reports 1990 sur 1991. En tenant compte du solde des autres comptes spéciaux du Trésor (hors fonds d'assainissement des entreprises publiques), soit -2,5 milliards de dinars, et du déficit projeté de 2 milliards de dinars pour les interventions du Trésor, le solde global du Trésor hors fonds d'assainissement des entreprises publiques devrait dégager un excédent de 31,8 milliards de dinars, pour un objectif initialement fixé à 31 milliards de dinars dans le programme pour un taux de change de 16 dinars par dollar en moyenne et un objectif d'environ 49,0 milliards de dinars pour un taux de change moyen de 19 dinars par dollar.

18. Pour les mois à venir, le gouvernement s'attachera à étudier et proposer à l'APN un dispositif global visant à protéger les groupes sociaux les plus vulnérables dans cette phase de passage à l'économie de marché; notamment, en faisant jouer les mécanismes de solidarité nationale et en introduisant une plus grande rationalité dans le système de subventions au consommateur. De nouveaux instruments fiscaux non distordants, tels que la T.V.A. et la réforme du tarif douanier, seront introduits à partir de 1992. Les autorités continueront à solliciter l'appui des services du Fonds dans ces domaines.

19. En ce qui concerne les finances publiques en 1992, l'objectif des autorités est de parvenir à un excédent du compte du Trésor hors dotation au fonds d'assainissement des entreprises et hors recettes pétrolières exceptionnelles, de l'ordre de 5,5 pour cent du PIB par rapport à 4,9 pour cent en 1991 et 3,6 % en 1990. Cet objectif, qui servira de base à la préparation [du projet] de la Loi de Finances 1992,

sert de base à la préparation du projet de Loi de Finances 1992, est de nature à accélérer le processus d'assainissement de l'économie et à contenir les pressions inflationnistes, dans le contexte de la mise en place des mécanismes d'une économie de marché. La réalisation de cet objectif sera favorisée par un approfondissement des réformes visant à éliminer les distorsions de prix, tout en protégeant les catégories sociales les plus défavorisées.

Balance des paiements

20. En ce qui concerne la balance des paiements pour l'ensemble de 1991, les importations globales officielles pourraient atteindre 8,3 milliards de dollars E.U., soit 12 % de baisse par rapport à l'objectif du programme (9,3 milliards de dollars E.U.), en dépit d'une reprise prévue au deuxième semestre par suite des baisses de taux de la taxe compensatoire, ainsi qu'un meilleur accès aux sources de crédits extérieurs. Comme les exportations globales devraient être conformes aux prévisions, le compte courant devrait être en excédent de 1,1 milliard de dollars au lieu du déficit de 0,3 milliard de dollars E.U. initialement prévu. L'amortissement de la dette devrait atteindre 7,1 milliards de dollars E.U., soit un niveau sensiblement plus élevé que prévu (+0,5 milliard). Les tirages devraient par contre enregistrer un niveau de 5,2 milliards de dollars E.U. (contre un objectif de 7,3 milliards de dollars E.U.) se décomposant en 1,0 milliards de crédits bilatéraux, 0,8 milliard de crédits des organismes internationaux et de 2,9 milliards de crédits commerciaux dans leur ensemble. Les crédits financiers mobilisés ou en cours de mobilisation

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gap financier de 1,1 milliard de dollars E.U. Ce montant du gap financier sera couvert par la première tranche de 0,3 milliard de dollars E.U. du prêt de la Communauté Européenne (CE), les recettes additionnelles de 0,3 milliard de dollars E.U. résultant d'opérations liées à des investissements dans le secteur des hydrocarbures, et par les crédits financiers additionnelles qui seraient mobilisés dans le cadre des discussions en cours avec les banques commerciales. Pour maintenir l'accès au marché financier international, les autorités ont entrepris toute une série d'actions, notamment en direction des banques commerciales. Dans ce cadre, elles prennent note de l'appui des services du Fonds pour conforter la position de l'Algérie.

21. En vue d'accélérer le rétablissement d'une position extérieure forte et de favoriser les conditions de la relance de l'économie sur le moyen terme, les autorités algériennes ont également pris un certain nombre de mesures destinées à encourager les investissements. Dans cet esprit, des aménagements fiscaux ont été apportés dans la Loi de Finances Complémentaire à l'effet de favoriser les investissements, notamment dans le domaine des hydrocarbures. En outre, des négociations sont déjà en cours avec d'éventuels partenaires extérieurs qui pourraient apporter des technologies de pointe de récupération des réserves de pétrole brut déjà en exploitation où les rendements sont faibles ou déclinant. De tels accords pourraient également induire le paiement anticipé de droits d'entrée. Dans ce cadre, les autorités vont déposer un projet de loi visant à l'élargissement du champ d'intervention des compagnies pétrolières internationales dans le secteur des hydrocarbures. En ce qui concerne les concessionnaires et

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pour rendre effective leur activité, les autorités procéderont avant fin 1991 à des aménagements de la réglementation les concernant, en particulier par la levée de la contrainte de l'investissement préalable non lié à la distribution et à la fourniture de produits et services après vente.

Produits à marges plafonnées transférés
au régime des prix déclarés

- Savon de toilette
- Produits d'hygiène corporelle
- Vaisselle et articles de ménage
- Climatiseurs
- Articles de robinetterie
- Articles de quincaillerie
- Plâtre et chaux
- Bois et placage
- Appareils mécanographiques électriques et électroniques de bureau
- Moteurs et transformateurs électriques
- Matériel informatique
- Cycles et motocycles
- Véhicules automobiles
- Véhicules industriels
- Machines, appareils et engins mécaniques
- Matériels de travaux publics
- Boissons servies dans les établissements de consommation
(non classés)

N.B.: seront également transférées au régime des prix déclarés, les activités d'hôtellerie et de restauration, classées actuellement dans les prix plafonnés par arrêté du Ministre de l'Economie.

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Tableau 1. Algérie : Critères de réalisation et objectifs indicatifs du programme pour 1991

	1990	1991		
	Décembre Réal.	Juin Réal.	Septembre Programme	Décembre
I. Critères de réalisation (En milliards de dinars)				
A. Critères quantitatifs				
1. Variation des avoirs intérieurs nets 1/ 2/ 3/	34,8	24,9	46,6	59,3
2. Total du désendettement net du Trésor et de la variation du solde du compte du Fonds d'assainissement 1/ 2/ 3/ 4/	11,6	22,4	6,1	-11,1
3. Variation du crédit bancaire net aux 22 entreprises nécessitant une restructuration fondamentale 1/	20,9	4,5	6,0	6,5
4. Solde minimum des opérations du Trésor, hors dotation au Fonds d'assainissement 1/ 2/ 3/ 4/	17,0	43,7	29,5	31,8
5. Emprunts extérieurs garantis ou contractés par l'Etat (En milliards de dollars E.U.)				
a. Mobilisations nettes d'emprunts non-concessionnels et d'échéances 1-12 ans 1/ 2/	—	-1,87	0,18	0,27
b. Encours de la dette à court terme	1,80	1,70	1,58	1,45
6. Encours minimum des réserves internationales nettes (à l'exclusion de l'or et des obligations vis-à-vis du Fonds) 2/	0,73	0,38	0,50	1,23
B. Critère structural				
1. Achèvement de toutes les études diagnostiques pour les 22 entreprises précitées avant fin-janvier 1992				
II. Objectifs indicatifs (En milliards de dollars E.U.)				
1. Mobilisations d'emprunts non-concessionnels contractés ou garantis par l'Etat, d'échéances 1-3 ans 1/	—	1,15	2,40	3,00
2. Encours des réserves internationales nettes (à l'exclusion de l'or et des obligations vis-à-vis du Fonds) 2/	0,73	0,38	0,70	1,53

1/ Variation cumulée depuis fin décembre 1990.

2/ Sous réserve des ajustements décrits dans le memorandum technique.

3/ Les critères de réalisation à la fin décembre 1991 sont fondés sur un montant maximum de 14 milliards de dinars de dépenses du Fonds de compensation encourues en 1991 mais non encore payées du fait de délais normaux de paiement.

4/ Y inclus un montant maximum de 7 milliards de dinars de recettes pétrolières exceptionnelles dues à des investissements étrangers dans le secteur des hydrocarbures.

Conformément aux dispositions de l'accord de confirmation du 3 Juin 1991, les autorités algériennes ont procédé avec les services du Fonds à un examen de l'évolution du programme économique et financier adopté pour 1991, dans le cadre de la première revue de ce programme. Les résultats de cet examen sont exposés dans le memorandum ci-joint qui modifie et complète la lettre des autorités datée du 27 Avril 1991. Sur la base de l'accord de principe décrit dans ces documents, les autorités algériennes demandent qu'un achat de devises pour un montant équivalent à 75 Millions de DTS leur soit autorisé dès que la présente revue du programme aura été menée à son terme.

Le Gouvernement estime que les politiques et mesures exposées dans le memorandum ci-joint et la lettre du 27 Avril 1991 sont adéquates pour réaliser les objectifs du programme tels que révisés, et prendra toute mesure additionnelle nécessaire qui s'imposerait. Il consultera le Fonds durant la période de l'accord de confirmation sur l'adoption de toute mesure qui pourrait s'avérer appropriée, conformément aux pratiques du Fonds concernant ces consultations.

Veuillez agréer, Monsieur le Directeur Général
l'expression de notre haute considération.

Abderahmane Hadj Nacer
Gouverneur,
Banque d'Algérie

Pièce - Jointe



Hocine Benissad
Ministre de
L'Economie

Mémoire sur la politique économique et financière

1. Les résultats enregistrés au cours du premier semestre 1991
1. Durant le premier semestre 1991, l'évolution des agrégats économiques et financiers a été, dans l'ensemble, moins favorable que celle qui était prévue au programme. Après la baisse du produit intérieur brut en 1990, estimée désormais à -1,5 %, de nombreux secteurs de l'économie (en particulier l'industrie et le bâtiment et travaux publics) ont enregistré une chute marquée de leur production durant

montant programmé de 3,1 milliards de dollars. En partie, la baisse des mobilisations résulte du renouvellement tardif de certaines lignes de crédit bilatérales. De plus, en raison du faible niveau des réserves de change, et dans l'attente d'un accord avec les banques commerciales créditrices pour le refinancement des échéances de la dette à moyen et long termes, les autorités ont été dans l'obligation de limiter l'accès au crédit à court terme et au paiement au comptant des importations. En particulier, il a été demandé aux banques algériennes de rechercher, en relation avec leurs clients, des financements extérieurs à des conditions plus favorables et d'une durée d'au moins 18 mois. La libéralisation du commerce extérieur s'appuyait aussi sur la mise en place de concessionnaires et de grossistes. Or les concessionnaires agréés ont tardé à s'installer, à la fois pour des raisons "d'attentisme" et parfois pour des raisons objectives de procédures et de réglementation. Compte tenu de ces contraintes de financement, les importations qui étaient programmées à 4,7 milliards de dollars dans la première moitié de 1991, n'ont atteint que 3,8 milliards de dollars. Les importations de biens intermédiaires et d'équipement ont chuté

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3. Les exportations ont dans l'ensemble été conformes aux prévisions du programme, aussi bien pour les hydrocarbures que pour les marchandises traditionnelles. Ainsi, le compte courant de la balance des paiements a dégagé un excédent au premier semestre de 1,4 milliard de dollars contre un objectif de quasi-équilibre. Cependant, cet excédent a été plus que compensé par les facteurs défavorables indiqués précédemment qui ont affecté le compte de capital, celui-ci s'étant soldé négativement à 1,7 milliard de dollars. La balance globale des paiements a enregistré un déficit de 0,3 milliard de dollars alors qu'un surplus de 0,1 milliard de dollars était prévu au programme.

4. Les statistiques monétaires relatives au premier semestre 1991

dépréciation du dinar. C'est ainsi que les échéances au titre du principal de la dette extérieure des banques se sont accrues de 4,5 milliards de dinars par rapport aux prévisions contenues dans le programme. En outre, environ 55 entreprises publiques non autonomes (hors les 22 entreprises d'Etat)

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grande partie par le ralentissement de l'activité économique lié à la chute des importations et à ses conséquences sur les approvisionnements des entreprises mais aussi par les retards dans l'assainissement des créances de ces entreprises sur les collectivités locales en particulier. Le ralentissement de l'activité économique s'est aussi traduit par une croissance de la demande de crédit de la part des entreprises publiques autonomes qui, dans l'ensemble, n'ont pas pu procéder aux ajustements de leurs coûts, en particulier à cause du retard dans la mise en place du dispositif de l'assainissement.

5. Face à ces demandes importantes de crédit, les banques ont eu recours au marché monétaire (avec une intervention accrue de la Banque d'Algérie) pour se procurer des liquidités à un moment où les mécanismes nécessaires pour limiter l'offre de liquidités n'étaient pas encore complètement mis en oeuvre. De plus, la persistance de problèmes d'imputation comptable au niveau des banques commerciales s'est traduite par des accroissements importants des montants non ventilés à l'intérieur des autres postes nets. [En particulier, les autres postes nets ont enregistré : (1) les sommes à récupérer auprès de l'Etat pour les annuités et les intérêts versés sur les crédits extérieurs rattachés, pour les crédits à l'agriculture ou pour la perte de change sur les emprunts extérieurs non rattachés aux entreprises (2) une série d'opérations relatives au commerce extérieur ou aux crédits intérieurs que les banques n'ont pas encore enregistré dans les comptes des clients.] Ceci avec les retards dans le lancement des programmes de modernisation et d'organisation dans les banques, en particulier en matière de traitement et transmission des données financières et comptables, ont engendré des difficultés dans la conduite de la politique monétaire.

6. En ce qui concerne les opérations du Trésor, le critère de performance à la fin du mois de juin a bien été satisfait (45,7 milliards de dinars à fin juin 1991 pour un objectif de 41,6 milliards dans le programme). L'excédent budgétaire

programme (43,6 milliards de dinars) tandis que l'amélioration, plus importante que prévue, des autres opérations du Trésor a fait plus que compenser l'augmentation du déficit du fonds de compensation. Tandis que les recettes fiscales sur les hydrocarbures ont été très proches du niveau projeté dans le programme, les recettes, au titre des impôts sur les biens et services, ont été inférieures de 5,5 milliards de dinars aux estimations du programme et les droits de douanes perçus se sont révélés inférieurs aux prévisions pour un montant de 1,6 milliard de dinars en liaison avec la chute des importations. Du côté des dépenses, les décaissements au titre de la masse salariale qui comprennent le paiement des augmentations de salaires décidées en novembre 1990, ont été inférieurs aux montants estimés dans le programme, tandis que le relèvement des allocations familiales, de la prime de scolarité et du minimum vieillesse non prévus dans le cadre du programme n'ont eu qu'un impact modéré sur les dépenses budgétaires au premier semestre. La baisse des recettes fiscales a été compensée par le rythme très lent de consommation des crédits d'équipement et le décalage dans le versement des subventions aux établissements publics. Les comptes d'affectation spéciale (autres que le fonds de compensation et le fonds d'assainissement) ont dégagé un excédent de 12,9 milliards de dinars à comparer avec une estimation de 1 milliard dans le programme. En revanche, le fonds de compensation a enregistré un déséquilibre de 7,3 milliards de dinars entre ses recettes et ses dépenses, à comparer avec une estimation de moins 3 milliards de dinars dans le programme. En particulier, les paiements dus au titre de l'exercice 1990 ont été

de décision rationnelles, et concomitamment avec la libéralisation des importations, le taux officiel de change du dinar est passé de 12,2 dinars par dollar à la fin décembre 1991 à 18,4 dinars par dollar à la fin du mois de juin, soit un cours moyen de 16,8 dinars par dollar durant le premier semestre qui est à comparer à un cours moyen de 9,0 dinars par dollar en 1990 et à l'hypothèse de 16,0 dinars par dollar du programme. Les prix sur le marché intérieur ont été libérés pour un grand nombre de produits et les prix de certains biens, produits pétroliers et produits énergétiques subventionnés ont été relevés, comme indiqué dans l'aide mémoire du 27 avril 1991, à l'exception du gaz et de l'électricité pour lesquels les hausses prévues n'ont été effectuées qu'en août 1991. Les effets bénéfiques de ces mesures sont d'ores et déjà visibles dans l'unification du marché intérieur et la meilleure disponibilité de nombreux produits.

8. En ce qui concerne l'assainissement des entreprises du secteur public, pour les 22 entreprises non autonomes, les contrats d'audit ont été récemment signés et les études devraient être achevées d'ici la fin de l'année 1991. Le crédit accordé à ces entreprises, qui est un critère de performance au sens du programme, est resté très proche des limites fixées dans le programme, malgré le retard pris dans le paiement

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coût du service de la dette dû à la dépréciation du cours du dinar. L'assainissement de la situation financière des banques commerciales est en cours avec le versement effectué à fin juin 1991 des 8.8 milliards de dinars prévus pour la recapitalisation de ces institutions financières.

11. Le programme pour le deuxième semestre de 1991

La politique des prix et du taux de change

9. En réponse aux développements défavorables qui ont été enregistrés dans la première moitié de l'année 1991, les autorités ont décidé de renforcer leurs politiques économiques et financières dans de nombreux domaines, y compris ceux de la politique des prix et du taux de change. Les autorités ont ajusté depuis le 30.09.1991 le cours de change du dinar à un taux de 22,5 dinars par dollar et continueront à suivre une politique de change flexible durant le reste du programme, en liaison avec les autres politiques d'ajustement. D'ici la fin de 1991, en liaison avec le financement extérieur du programme et l'amélioration du niveau des réserves de change, les autorités ont l'intention de parvenir à une totale convertibilité du dinar pour les transactions sur les importations par la levée des restrictions à l'accès au crédit en devises et par la mise en place d'un libre accès aux réserves de change pour le règlement au comptant des importations. Les autorités ont toujours l'intention de rendre le dinar convertible pour la quasi totalité des transactions courantes, mais les difficultés de financement rencontrées en 1991 pourraient nécessiter un report de cet objectif du début de l'année 1992 vers le milieu de 1992.

enregistrée au cours de la première moitié de l'année, la Banque d'Algérie a pris un certain nombre de mesures. Dans un premier temps, en juillet, l'offre de liquidités de la Banque centrale sur le marché monétaire a été réduite, en particulier par la fixation anticipée du volume de ces concours sur le marché interbancaire. Cette mesure, combinée à un début d'assainissement des entreprises publiques, a permis d'entamer un processus de réduction du montant total des avances de la Banque d'Algérie aux banques à 79 milliards de dinars à la mi-août contre 83,3 milliards de dinars à fin juin 1991. Le taux moyen sur le marché monétaire a été porté de moins de 11 pour cent au premier semestre à environ 12 % avec l'introduction d'un mécanisme d'adjudication. Plus récemment, le taux de réescompte de la Banque centrale a été relevé, de 10,5 % à 11,5 %, et le taux appliqué aux découverts des banques commerciales à la Banque centrale a été augmenté de 15 à 20 %. En outre, les interventions de la Banque centrale sur le marché monétaire ont été plus sévèrement limitées, de manière à parvenir à la fin septembre à un niveau de taux d'intérêt des interventions de la

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bancaire dans les limites prévues. Pour compenser partiellement les banques du renchérissement des ressources sur le marché monétaire, les plafonds de réescompte de la Banque centrale, fixés à ce jour à leur niveau de 1990, ont été relevés de 55 % en moyenne. De plus, la Banque d'Algérie a mis en place un dispositif de plafonnement par banque du recours total à ses ressources par le réescompte et le marché monétaire. Aussi, pour permettre un meilleur suivi dans le temps de l'évolution de la situation monétaire, les banques transmettent désormais à la Banque d'Algérie des balances prévisionnelles avec un décalage d'un mois au plus.

12. L'accélération de l'assainissement économique des entreprises publiques devrait aussi faciliter la conduite de la politique

compléter l'assainissement des banques.

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septembre et fin décembre 1991, tel qu'indiqués au tableau 1. Le niveau des avoirs intérieurs nets prévus nous permet d'envisager une croissance de la masse monétaire (M2) de l'ordre de 21 %, ce qui implique une amélioration du taux de liquidité (M2/PIB) de 0,69 en 1990 à 0,98 en 1991.

Politique budgétaire et comptes du Trésor

14. En ce qui concerne l'année 1991 dans son ensemble, une fois pris en compte les effets de la dépréciation du cours du dinar, les opérations du Trésor et en particulier celles relatives au budget, laissent apparaître une importante plus-value de recettes par rapport à la loi de finances initiale. Ce gain résulte principalement de l'effet de la dépréciation de la valeur du dinar sur les recettes pétrolières, les droits de douanes et la fiscalité indirecte. Cet élément favorable à l'équilibre des comptes publics sera toutefois partiellement compensé par les effets du ralentissement de l'activité économique au premier semestre et par des dépenses nouvelles, en particulier celles liées à l'effet de dépréciation du taux de change et de libéralisation des prix, l'augmentation des salaires, conformément aux décisions arrêtées à l'automne 1990, et celle des allocations familiales et de la

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des dotations et des recettes budgétaires. Les recettes prévues intègrent 1,3 milliard de dinars de ressources additionnelles correspondant à l'augmentation du prix de l'essence.

15. En ce qui concerne le fonds de compensation, par suite du

les recettes au titre de la taxe compensatoire se sont révélées sensiblement inférieures au montant estimé dans le programme, pendant que les dépenses se sont avérées plus élevées suite à la dépréciation sensible du taux de change par rapport au niveau ayant servi de base aux prévisions du programme. En outre, afin de relancer l'investissement et les secteurs en difficulté, notamment du bâtiment et du textile, il est apparu nécessaire : (i) de supprimer la taxe compensatoire au taux de 20% sur les textiles issus de la production intérieure et de réduire de 25 à 15% le taux applicable aux importations de tissus; (ii) d'exonérer de taxe compensatoire les papiers, certains équipements industriels et les matériels de bâtiment et travaux publics et de forage ainsi que les pièces destinées aux machines; (iii) de réduire de 25 à 15% le taux de taxe appliqué aux pièces de rechange des véhicules industriels; et (iv) de réduire le taux de taxe compensatoire sur les équipements destinés aux activités industrielles ainsi que sur les importations de bois et de produits textiles confectionnés. Le taux uniforme de 25 pour cent est maintenu sur les autres importations. Le coût de ces diverses mesures d'allègement de la taxe compensatoire est estimé à

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budgétaire supplémentaire de 13,9 milliards de dinars au bénéfice du fonds de compensation. De plus, les autorités ont décidé de limiter les dépenses du fonds de compensation en procédant à une augmentation des prix de certains produits subventionnés, en particulier le gaz oil, le maïs, le propane, le concentré de tomate, et le sucre. Ces hausses équivalent à une économie ayant un impact de 3,0 milliards de dinars environ sur l'année 1991.

16. Le gouvernement a pris par ailleurs les mesures nécessaires pour que le déficit des interventions du Trésor ne dépasse pas 2 milliards de dinars au 31 décembre de l'année 1991 et que la consommation des crédits

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16. Le gouvernement a pris par ailleurs les mesures nécessaires pour que le déficit des interventions du Trésor ne dépasse pas 2 milliards de dinars au 31 décembre de l'année 1991 et que la consommation des crédits du budget d'équipement (hors dotations au fonds d'assainissement) ne soit pas supérieure à 64 milliards de dinars en 1991. Il a également pris les mesures nécessaires pour réduire les dépenses courantes de 3,7 milliards de dinars par rapport aux chiffres de la Loi de Finances complémentaire.

17. Compte tenu de l'ensemble de ces éléments, y compris une recette exceptionnelle de 2 milliards de dinars, les prévisions de

14,0 milliards de dinars environ de dépenses sur 1992 (délais normaux de paiement) contre 21,8 milliards de dinars de reports 1990 sur 1991. En tenant compte du solde des autres comptes spéciaux du Trésor (hors fonds d'assainissement des entreprises publiques), soit -2,5 milliards de dinars, et du déficit projeté de 2 milliards de dinars pour les interventions du Trésor, le solde global du Trésor hors fonds d'assainissement des entreprises publiques devrait dégager un excédent de 31,8 milliards de dinars, pour un objectif initialement fixé à 31 milliards de dinars dans le programme pour un taux de change de 16 dinars par dollar en moyenne et un objectif d'environ 49,9 milliards de dinars pour un taux de change moyen de 19 dinars par dollar.

18. Pour les mois à venir, le gouvernement s'attachera à étudier et proposer à l'APN un dispositif global visant à protéger les groupes sociaux les plus vulnérables dans cette phase de passage à l'économie de marché; notamment, en faisant jouer les mécanismes de solidarité nationale et en introduisant une plus grande rationalité dans le système de subventions au consommateur. De nouveaux instruments fiscaux non distordants, tels que la T.V.A. et la réforme du tarif douanier, seront introduits à partir de 1992. Les autorités continueront à solliciter l'appui des services du Fonds dans ces domaines.

19. En ce qui concerne les finances publiques en 1992, l'objectif des autorités est de parvenir à un excédent du compte du Trésor hors dotation au fonds d'assainissement des entreprises et hors recettes pétrolières exceptionnelles, de l'ordre de 5,5 pour cent du PIB par rapport à 4,9 pour cent en 1991 et 3,6 % en 1990. Cet objectif, qui sert de base à la préparation [du projet] de la Loi de Finances 1992.

Balance des paiements

20. En ce qui concerne la balance des paiements pour l'ensemble de 1991, les importations globales officielles pourraient atteindre 8,3 milliards de dollars E.U., soit 12 % de baisse par rapport à l'objectif du programme (9,3 milliards de dollars E.U.), en dépit d'une reprise prévue au deuxième semestre par suite des baisses de taux de la taxe compensatoire, ainsi qu'un meilleur accès aux sources de crédits extérieurs. Comme les exportations globales devraient être conformes aux prévisions, le compte courant devrait être en excédent de 1,1 milliard de dollars au lieu du déficit de 0,3 milliard de dollars E.U. initialement prévu. L'amortissement de la dette devrait atteindre 7,1 milliards de dollars E.U., soit un niveau sensiblement plus élevé que prévu (+0,5 milliard). Les tirages devraient par contre enregistrer un niveau de 5,2 milliards de dollars E.U. (contre un objectif de 7,3 milliards de dollars E.U.) se décomposant en 1,0 milliard de crédits bilatéraux, 0,8 milliard de crédits des organismes internationaux et de 2,9 milliards de crédits commerciaux dans leur ensemble. Les crédits financiers mobilisés ou en cours de mobilisation

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gap financier de 1,1 milliard de dollars E.U. Ce montant du gap financier sera couvert par la première tranche de 0,3 milliard de dollars E.U. du prêt de la Communauté Européenne (CE), les recettes additionnelles de 0,3 milliard de dollars E.U. résultant d'opérations liées à des investissements dans le secteur des hydrocarbures et par les crédits financiers additionnelles qui seraient mobilisés dans le cadre des discussions en cours avec les banques commerciales. Pour

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21. En vue d'accélérer le rétablissement d'une position extérieure forte et de favoriser les conditions de la relance de l'économie sur le moyen terme, les autorités algériennes ont également pris un certain nombre de mesures destinées à encourager les investissements. Dans cet esprit, des aménagements fiscaux ont été apportés dans la Loi de Finances Complémentaire à l'effet de favoriser les investissements, notamment dans le domaine des hydrocarbures. En outre, des négociations sont déjà en cours avec d'éventuels partenaires extérieurs qui pourraient apporter des technologies de pointe de récupération des réserves de pétrole brut déjà en exploitation où les rendements sont faibles ou déclinant. De tels accords pourraient également inclure le paiement anticipé de droits d'entrée. Dans ce cadre, les autorités vont déposer un projet de loi visant à l'élargissement du champ d'intervention des compagnies pétrolières internationales dans le secteur des hydrocarbures. En ce qui concerne les concessionnaires et

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pour rendre effective leur activité, les autorités procéderont avant fin 1991 à des aménagements de la réglementation les concernant, en particulier par la levée de la contrainte de l'investissement préalable non lié à la distribution et à la fourniture de produits et services après vente.

ANNEXE

Produits à marges plafonnées transférés
au régime des prix déclarés

- Savon de toilette
- Produits d'hygiène corporelle
- Vaisselle et articles de ménage
- Climatiseurs
- Articles de robinetterie
- Articles de quincaillerie
- Plâtre et chaux
- Bois ^{ou de} et placage
- Appareils mécanographiques électriques et électroniques de bureau
- Moteurs et transformateurs électriques
- Matériel informatique
- Cycles et motocycles
- Véhicules automobiles
- Véhicules industriels
- Machines, appareils et engins mécaniques
- Matériels de travaux publics
- Boissons servies dans les établissements de consommation
(non classés)

N.B.: seront également transférées au régime des prix déclarés, les activités d'hôtellerie et de restauration, classées actuellement dans les prix plafonnés par arrêté du Ministre de l'Economie.

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Tableau 1. Algérie : Critères de réalisation et objectifs indicatifs du programme pour 1991

	1990	1991		
	Décembre	Juin	Sep.embre	Décembre
	Réal.	Réal.	Programme	Programme
I. Critères de réalisation	(En milliards de dinars)			
A. Critères quantitatifs				
1. Variation des avoirs intérieurs nets 1/ 2/ 3/	34,8	24,9	46,6	59,3
2. Total du désendossement net du Trésor et de la variation du solde du compte du Fonds d'assainissement 1/ 2/ 3/ 4/	11,6	22,4	6,1	-11,1
3. Variation du crédit bancaire net aux 22 entreprises nécessitant une restructuration fondamentale 1/	20,9	4,5	6,0	6,5
4. Solde minimum des opérations du Trésor, hors dotation au Fonds d'assainissement 1/ 2/ 3/ 4/	17,0	45,7	29,5	31,8
5. Emprunts extérieurs garantis ou contractés par l'Etat	(En milliards de dollars E.U.)			
a. Mobilisations nettes d'emprunts non-concessionnels et d'échéance 1-12 ans 1/ 2/	—	-1,87	0,18	0,27
b. Encours de la dette à court terme	1,80	1,70	1,58	1,45
6. Encours minimum des réserves internationales nettes (à l'exclusion de l'or et des obligations vis-à-vis du Fonds) 2/	0,73	0,38	0,50	1,23
B. Critère structurel				
1. Achèvement de toutes les études diagnostic pour les 22 entreprises précitées avant fin-janvier 1992				
II. Objectifs indicatifs	(En milliards de dollars E.U.)			
1. Mobilisations d'emprunts non-concessionnels contractés ou garantis par l'Etat, d'échéance 1-3 ans 1/	—	1,15	2,40	3,00
2. Encours des réserves internationales nettes (à l'exclusion de l'or et des obligations vis-à-vis du Fonds) 2/	0,73	0,38	0,70	1,53

1/ Variation cumulée depuis fin décembre 1990.

2/ Sous réserve des ajustements décrits dans le memorandum technique.

3/ Les critères de réalisation à la fin décembre 1991 sont fondés sur un montant maximum de 14 milliards de dinars de dépenses du Fonds de compensation encourues en 1991 mais non encore payées du fait de délais normaux de paiement.

4/ Y inclus un montant maximum de 7 milliards de dinars de recettes pétrolières exceptionnelles dues à des investissements étrangers dans le secteur des hydrocarbures.

Ar of 9-11-91

Alger, le -- septembre 1991

Monsieur le Directeur Général,

Conformément aux dispositions de l'accord de confirmation du 3 juin 1991, les autorités algériennes ont procédé avec les services du Fonds à un examen de l'évolution du programme économique et financier adopté pour 1991, dans le cadre de la première revue de ce programme. Les résultats de cet examen sont exposés dans le mémorandum ci-joint qui modifie et complète la lettre des autorités datée du 27 avril 1991.

Le gouvernement estime que les politiques et mesures exposées dans le mémorandum ci-joint et la lettre du 27 avril 1991 sont adéquates pour réaliser les objectifs du programme, et prendra toute mesure additionnelle nécessaire qui s'imposerait. Il consultera le Fonds durant la période de l'accord de confirmation sur l'adoption de toute mesure qui pourrait s'avérer appropriée, conformément aux pratiques du Fonds concernant ces consultations.

Veuillez agréer, Monsieur le Directeur Général, l'expression de notre haute considération.

Abderhamane Hadj Nacer
Gouverneur
Banque d'Algérie

Hocine Benissad
Ministre de
l'Economie

Piece-jointe

Mr. Michel Camdessus
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Mémoire sur la politique économique et financière

I. Les résultats enregistrés au cours du premier semestre 1991

1. Durant le premier semestre 1991, l'évolution des agrégats économiques et financiers a été, dans l'ensemble, moins favorable que celle qui était prévue au programme. Après la baisse du produit intérieur brut en 1990, estimée désormais à -1,5 %, de nombreux secteurs de l'économie (en particulier l'industrie et le bâtiment et travaux publics) ont enregistré une chute marquée de leur production durant les six premiers mois de 1991, due essentiellement au manque de matières premières et demi-produits et à certaines perturbations de l'activité économique et sociale, aux mois de mai et juin derniers. Dès lors, et malgré une hausse exceptionnelle de 35 % de la production agricole en relation avec les conditions climatiques très favorables, et une relative stagnation du secteur des hydrocarbures, le produit intérieur brut devrait au mieux se stabiliser en volume au niveau de 1990, voire se contracter encore. Par contre, la hausse des prix à la consommation a été de 20 % en rythme annuel durant la première moitié de l'année en relation notamment avec la bonne récolte agricole, soit nettement moins que le taux de 35 % programmé.

2. Comme indiqué dans l'aide-mémoire annexé à la lettre du 27 avril dernier, les autorités ont mis en oeuvre une vaste libéralisation de la réglementation en matière de commerce et de change avec l'élimination des licences d'importation et l'accès libre aux devises pour l'importation de virtuellement tous les produits. Toutefois, le financement extérieur indispensable prévu au programme pour concrétiser

cette libéralisation s'est avéré, dans la pratique, moindre que celui anticipé. Les paiements au titre du service de la dette échue au cours du premier semestre 1991 ont été supérieurs de 500 millions de dollars au montant prévu initialement, tandis que le montant total des emprunts à moyen et à long termes a été de 2 milliards de dollars, contre un montant programmé de 3,1 milliards de dollars. En partie, la baisse des mobilisations résulte du renouvellement tardif de certaines lignes de crédit bilatérales. De plus, en raison du faible niveau des réserves de change, et dans l'attente d'un accord avec les banques commerciales créditrices pour le refinancement des échéances de la dette à moyen et long termes, les autorités ont été dans l'obligation de limiter l'accès au crédit à court terme et au paiement au comptant des importations. En particulier, il a été demandé aux banques algériennes de rechercher, en relation avec leurs clients, des financements extérieurs à des conditions plus favorables et d'une durée d'au moins 18 mois. La libéralisation du commerce extérieur s'appuyait aussi sur la mise en place de concessionnaires et de grossistes. Or les concessionnaires agréés ont tardé à s'installer, à la fois pour des raisons "d'attentisme" et parfois pour des raisons objectives de procédures et de réglementation. Compte tenu de ces contraintes de financement, les importations qui étaient programmées à 4,7 milliards de dollars dans la première moitié de 1991, n'ont atteint que 3,8 milliards de dollars. Les importations de biens intermédiaires et d'équipement ont chuté respectivement de 19% et 14%.

3. Les exportations ont dans l'ensemble été conformes aux prévisions du programme, aussi bien pour les hydrocarbures que pour les marchandises traditionnelles. Ainsi, le compte courant de la balance des paiements a dégagé un excédent au premier semestre de 1,4 milliard de dollars contre un objectif de quasi-équilibre. Cependant, cet excédent a été plus que compensé par les facteurs défavorables indiqués précédemment qui ont affecté le compte de capital, celui-ci s'étant soldé négativement à 1,7 milliard de dollars. La balance globale des paiements a enregistré un déficit de 0,3 milliard de dollars alors qu'un surplus de 0,1 milliard de dollars était prévu au programme.

4. Les statistiques monétaires relatives au premier semestre 1991 témoignent de certains dépassements. Bien que les crédits au gouvernement se soient inscrits dans les limites du programme, le montant total du crédit intérieur net a très largement dépassé le plafond fixé dans le programme pour la période s'achevant le 30 juin 1991. Dans cette phase de conduite de l'assainissement des entreprises publiques, les banques commerciales ont été confrontées à une forte croissance de la demande de crédit, en raison notamment de l'augmentation du service de la dette extérieure en contexte de dépréciation du dinar. C'est ainsi que les échéances au titre du principal de la dette extérieure des banques se sont accrues de 4,5 milliards de dinars par rapport aux prévisions contenues dans le programme. En outre, environ 55 entreprises publiques non autonomes (hors les 22 entreprises déstructurées), actives dans les secteurs tels que la construction, le transport et les services, ont nécessité un montant de plus de 8 milliards de dinars de crédit. Cela s'explique en

grande partie par le ralentissement de l'activité économique lié à la chute des importations et à ses conséquences sur les approvisionnements des entreprises mais aussi par les retards dans l'assainissement des créances de ces entreprises sur les collectivités locales en particulier. Le ralentissement de l'activité économique s'est aussi traduit par une croissance de la demande de crédit de la part des entreprises publiques autonomes qui, dans l'ensemble, n'ont pas pu procéder aux ajustements de leurs coûts, en particulier à cause du retard dans la mise en place du dispositif de l'assainissement.

5. Face à ces demandes importantes de crédit, les banques ont eu recours au marché monétaire (avec une intervention accrue de la Banque d'Algérie) pour se procurer des liquidités à un moment où les mécanismes nécessaires pour limiter l'offre de liquidités n'étaient pas encore complètement mis en oeuvre. De plus, la persistance de problèmes d'imputation comptable au niveau des banques commerciales s'est traduite par des accroissements importants des montants non ventilés à l'intérieur des autres postes nets. [Explication de la très forte croissance des autres postes nets.] Ceci avec les retards dans le lancement des programmes de modernisation et d'organisation dans les banques, en particulier en matière de traitement et transmission des données financières et comptables, ont engendré des difficultés dans la conduite de la politique monétaire.

6. En ce qui concerne les opérations du Trésor, le critère de performance à la fin du mois de juin a bien été satisfait (45,7 milliards de dinars à fin juin 1991 pour un objectif de 41,6 milliards dans le programme). L'excédent budgétaire

(42,0 milliards de dinars) est très proche du montant anticipé dans le programme (43,6 milliards de dinars) tandis que l'amélioration, plus importante que prévue, des autres opérations du Trésor a fait plus que compenser l'augmentation du déficit du fonds de compensation. Tandis que les recettes fiscales sur les hydrocarbures ont été très proches du niveau projeté dans le programme, les recettes, au titre des impôts sur les biens et services, ont été inférieures de 5,5 milliards de dinars aux estimations du programme et les droits de douanes perçus se sont révélés inférieurs aux prévisions pour un montant de 1,6 milliard de dinars en liaison avec la chute des importations. Du côté des dépenses, les décaissements au titre de la masse salariale qui comprennent le paiement des augmentations de salaires décidées en novembre 1990, ont été inférieurs aux montants estimés dans le programme, tandis que le relèvement des allocations familiales, de la prime de scolarité et du minimum vieillesse non prévus dans le cadre du programme n'ont eu qu'un impact modéré sur les dépenses budgétaires au premier semestre. La baisse des recettes fiscales a été compensée par le rythme très lent de consommation des crédits d'équipement et le décalage dans le versement des subventions aux établissements publics. Les comptes d'affectation spéciale (autres que le fonds de compensation et le fonds d'assainissement) ont dégagé un excédent de 12,9 milliards de dinars à comparer avec une estimation de 1 milliard dans le programme. En revanche, le fonds de compensation a enregistré un déséquilibre de 7,3 milliards de dinars entre ses recettes et ses dépenses, à comparer avec une estimation de moins 3 milliards de dinars dans le programme. En particulier, les paiements dus au titre de l'exercice 1990 ont été

supérieurs aux estimations initiales et les revenus tirés de la taxe compensatoire se sont révélés inférieurs aux montants anticipés en raison du déclin de l'activité économique et des importations.

7. En conformité avec l'objectif de permettre aux prix de transmettre à l'économie algérienne les signaux nécessaires à des prises de décision rationnelles, et concomitamment avec la libéralisation des importations, le taux officiel de change du dinar est passé de 12,2 dinars par dollar à la fin décembre 1991 à 18,4 dinars par dollar à la fin du mois de juin, soit un cours moyen de 16,8 dinars par dollar durant le premier semestre qui est à comparer à un cours moyen de 9,0 dinars par dollar en 1990 et à l'hypothèse de 16,7 dinars par dollar du programme. Les prix sur le marché intérieur ont été libérés pour un grand nombre de produits et les prix de certains biens, produits pétroliers et produits énergétiques subventionnés ont été relevés, comme indiqué dans l'aide mémoire du 27 avril 1991, à l'exception du gaz et de l'électricité pour lesquels les hausses prévues n'ont été effectuées qu'en août 1991. Les effets bénéfiques de ces mesures sont d'ores et déjà visibles dans l'unification du marché intérieur et la meilleure disponibilité de nombreux produits.

8. En ce qui concerne l'assainissement des entreprises du secteur public, pour les 22 entreprises non autonomes, les contrats d'audit ont été récemment signés et les études devraient être achevées d'ici la fin de l'année 1991. Le crédit accordé à ces entreprises, qui est un critère de performance au sens du programme, est resté très proche des limites fixées dans le programme, malgré le retard pris dans le paiement par le fonds d'assainissement des sommes affectées au financement du

coût du service de la dette dû à la dépréciation du cours du dinar.

L'assainissement de la situation financière des banques commerciales est en cours avec le versement effectué à fin juin 1991 des 8.8 milliards de dinars prévus pour la recapitalisation de ces institutions financières.

II. Le programme pour le deuxième semestre de 1991

La politique des prix et du taux de change

9. En réponse aux développements défavorables qui ont été enregistrés dans la première moitié de l'année 1991, les autorités ont décidé de renforcer leurs politiques économiques et financières dans de nombreux domaines, y compris ceux de la politique des prix et du taux de change. Les autorités ont ajusté depuis le le cours de change du dinar à un taux de 22,5 dinars par dollar et continueront à suivre une politique de change flexible durant le reste du programme, en liaison avec les autres politiques d'ajustement. D'ici la fin de 1991, en liaison avec le financement extérieur du programme et l'amélioration du niveau des réserves de change, les autorités ont l'intention de parvenir à une totale convertibilité du dinar pour les transactions sur les importations par la levée des restrictions à l'accès au crédit en devises et par la mise en place d'un libre accès aux réserves de change pour le règlement au comptant des importations. Les autorités ont toujours l'intention de rendre le dinar convertible pour la quasi totalité des transactions courantes, mais les difficultés de financement rencontrées en 1991 pourraient nécessiter un report de cet objectif du début de l'année 1992 vers le milieu de 1992.

10. La politique de libéralisation progressive des prix en vue de parvenir à la détermination de la plupart des prix par le marché sera poursuivie résolument. Ainsi, conformément à l'objectif du programme de transférer avant 1992 la plupart des produits à marge plafonnée vers la catégorie des prix déclarés, les autorités viennent de libérer une quinzaine de familles de produits (cf. annexe). En outre, le délai minimum imposé aux entreprises entre deux dépôts de prix (produits à marge plafonnée) qui avait été ramené de 6 mois à 3 mois en avril 1991, vient d'être complètement supprimé, permettant aux entreprises d'ajuster plus vite leurs prix aux coûts et aux conditions du marché. Enfin, les autorités ont décidé de supprimer l'obligation de déclaration des prix à la production pour les prix libérés. Cette dernière mesure, de nature législative, sera intégrée dans le projet de loi relative à la concurrence en cours d'élaboration. Concernant les produits à prix soutenus, le gouvernement est conscient de l'ampleur du coût budgétaire et de l'efficacité insuffisante actuelle des subventions qui profitent aussi aux couches aisées. De même, la gestion administrée des prix, déconnectée des conditions réelles du marché, n'est pas de nature à encourager une réaction de l'offre et aggrave les gaspillages dans l'allocation des ressources rares. Cependant, la réforme du système des prix des produits de large consommation nécessite que les mécanismes appropriés soient mis en place au préalable pour garantir une protection suffisante des couches les plus défavorisées. Les autorités préparent un dispositif global en la matière qu'elles comptent soumettre à l'Assemblée Populaire Nationale d'ici la fin de l'année. Elles se

proposent d'en discuter avec les services du Fonds. En attendant, et pour réduire le déficit du fonds de compensation, les autorités viennent de relever les prix de certains produits subventionnés.

Politique monétaire

11. Dans le but de limiter la croissance rapide de la masse monétaire enregistrée au cours de la première moitié de l'année, la Banque d'Algérie a pris un certain nombre de mesures. Dans un premier temps, en juillet, l'offre de liquidités de la Banque centrale sur le marché monétaire a été réduite, en particulier par la fixation anticipée du volume de ces concours sur le marché interbancaire. Cette mesure, combinée à un début d'assainissement des entreprises publiques, a permis d'entamer un processus de réduction du montant total des avances de la Banque d'Algérie aux banques à 79 milliards de dinars à la mi août contre 83,3 milliards de dinars à fin juin 1991. Le taux moyen sur le marché monétaire a été porté de moins de 11 pour cent au premier semestre à environ 12 % avec l'introduction d'un mécanisme d'adjudication. Plus récemment, le taux de réescompte de la Banque centrale a été relevé, de 10.5 % à 11,5 %, et le taux appliqué aux découverts des banques commerciales à la Banque centrale a été augmenté de 15 à 20 %. En outre, les interventions de la Banque centrale sur le marché monétaire ont été plus sévèrement limitées, de manière à parvenir à la fin septembre à un niveau de taux d'intérêt des interventions de la Banque d'Algérie sur le marché monétaire de 17 %. Ce taux d'intervention sera maintenu à 17 % jusqu'à la fin octobre 1991. Par la suite, l'objectif pour le taux d'intérêt sur le marché monétaire sera modulé de manière à maintenir la croissance des avoirs intérieurs nets du système

bancaire dans les limites prévues. Pour compenser partiellement les banques du renchérissement des ressources sur le marché monétaire, les plafonds de réescompte de la Banque centrale, fixés à ce jour à leur niveau de 1990, ont été relevés de 55 % en moyenne. De plus, la Banque d'Algérie a mis en place un dispositif de plafonnement par banque du recours total à ses ressources par le réescompte et le marché monétaire. Aussi, pour permettre un meilleur suivi dans le temps de l'évolution de la situation monétaire, les banques transmettent désormais à la Banque d'Algérie des balances prévisionnelles avec un décalage d'un mois au plus.

12. L'accélération de l'assainissement économique des entreprises publiques devrait aussi faciliter la conduite de la politique monétaire. En ce qui concerne le crédit aux 55 entreprises publiques régionales de bâtiment et travaux publics, les autorités viennent de décider de les faire passer à l'autonomie avant fin 1991 et d'arrêter en même temps un dispositif d'assainissement de leur situation financière. Pour les entreprises publiques autonomes, un programme destiné à parachever leur assainissement est en préparation et fera l'objet d'un examen lors de la deuxième revue du programme au début de 1992. Pour les dettes extérieures non rétrocédées des banques, un audit sera fait avant fin 1991 afin de prendre les mesures nécessaires pour compléter l'assainissement des banques.

13. Ces mesures devraient permettre une résorption importante des dérapages qui sont intervenus au premier semestre 1991. Cependant, il ne nous sera pas possible de revenir sur les objectifs initiaux et nous nous proposons de modifier les critères de performance pour fin

septembre et fin décembre 1991, tel qu'indiqués au tableau 1. Le niveau des avoirs intérieurs nets prévus nous permet d'envisager une croissance de la masse monétaire (M2) de l'ordre de 21 %, ce qui implique une amélioration du taux de liquidité (M2/PIB) de 0,69 en 1990 à 0,58 en 1991.

Politique budgétaire et comptes du Trésor

14. En ce qui concerne l'année 1991 dans son ensemble, une fois pris en compte les effets de la dépréciation du cours du dinar, les opérations du Trésor et en particulier celles relatives au budget, laissent apparaître une importante plus-value de recettes par rapport à la loi de finances initiale. Ce gain résulte principalement de l'effet de la dépréciation de la valeur du dinar sur les recettes pétrolières, les droits de douanes et la fiscalité indirecte. Cet élément favorable à l'équilibre des comptes publics sera toutefois partiellement compensé par les effets du ralentissement de l'activité économique au premier semestre et par des dépenses nouvelles, en particulier celles liées à l'effet de dépréciation du taux de change et de libéralisation des prix, l'augmentation des salaires, conformément aux décisions arrêtées à l'automne 1990, et celle des allocations familiales et de la prime scolaire. De même, une partie des dépenses courantes, dont celles relatives à la dette publique, et des dépenses d'équipement inscrites dans la loi de finances initiale se sont révélées insuffisantes, compte tenu de la dépréciation du dinar. Le gouvernement a donc soumis à l'Assemblée Populaire Nationale, en août 1991, un projet de loi de finances complémentaire qui vient d'être adopté et qui ajuste le montant

des dotations et des recettes budgétaires. Les recettes prévues intègrent 1,3 milliard de dinars de ressources additionnelles correspondant à l'augmentation du prix de l'essence.

15. En ce qui concerne le fonds de compensation, par suite du ralentissement de l'activité économique et notamment des importations, les recettes au titre de la taxe compensatoire se sont révélées sensiblement inférieures au montant estimé dans le programme, pendant que les dépenses se sont avérées plus élevées suite à la dépréciation sensible du taux de change par rapport au niveau ayant servi de base aux prévisions du programme. En outre, afin de relancer l'investissement et les secteurs en difficulté, notamment du bâtiment et du textile, il est apparu nécessaire : (i) de supprimer la taxe compensatoire au taux de 20% sur les textiles issus de la production intérieure et de réduire de 25 à 15% le taux applicable aux importations de tissus; (ii) d'exonérer de taxe compensatoire les papiers, certains équipements industriels et les matériels de bâtiment et travaux publics et de forage ainsi que les pièces destinées aux machines; (iii) de réduire de 25 à 15% le taux de taxe appliqué aux pièces de rechange des véhicules industriels; et (iv) de réduire le taux de taxe compensatoire sur les équipements destinés aux activités industrielles ainsi que sur les importations de bois et de produits textiles confectionnés. Le taux uniforme de 25 pour cent est maintenu sur les autres importations. Le coût de ces diverses mesures d'allègement de la taxe compensatoire est estimé à 3,8 milliards de dinars sur les quatre derniers mois de l'année 1991. Toutefois, afin de limiter le déséquilibre du compte du fonds de compensation, la Loi de Finances complémentaire a prévu une dotation

budgétaire supplémentaire de 13,9 milliards de dinars au bénéfice du fonds de compensation. De plus, les autorités ont décidé de limiter les dépenses du fonds de compensation en procédant à une augmentation des prix de certains produits subventionnés, en particulier le gas oil, le maïs, le propane, le concentré de tomate, et le sucre. Ces hausses équivalent à une économie ayant un impact de 3,0 milliards de dinars environ sur l'année 1991.

16. Le gouvernement a pris par ailleurs les mesures nécessaires pour que le déficit des interventions du Trésor ne dépasse pas 2 milliards de dinars au 31 décembre de l'année 1991 et que la consommation des crédits du budget d'équipement (hors dotations au fonds d'assainissement) ne soit pas supérieure à 64 milliards de dinars en 1991. Il a également pris les mesures nécessaires pour réduire les dépenses courantes de 3,7 milliards de dinars par rapport aux chiffres de la Loi de Finances complémentaire.

17. Compte tenu de l'ensemble de ces éléments, y compris une recette pétrolière exceptionnelle de 7 milliards de dinars, les prévisions de recettes budgétaires sont estimées à 259,4 milliards de dinars, pour des dépenses budgétaires effectives de 215 milliards de dinars, dont 151 milliards de dinars de dépenses de fonctionnement et 64 milliards de dépenses d'équipement hors dotation au fonds d'assainissement, soit un excédent budgétaire effectif de 44,4 milliards de dinars hors dotation au fonds d'assainissement. Le fonds de compensation devrait dégager en 1991, sur une base encaissements-décaissements, un déficit de 8,1 milliards de dinars, correspondant à des dépenses de 44,4 milliards de dinars et des recettes de 36,3 milliards de dinars et à un report de

14,0 milliards de dinars environ de dépenses sur 1992 (délais normaux de paiement) contre 21,8 milliards de dinars de reports 1990 sur 1991. En tenant compte du solde des autres comptes spéciaux du Trésor (hors fonds d'assainissement des entreprises publiques), soit -2,5 milliards de dinars, et du déficit projeté de 2 milliards de dinars pour les interventions du Trésor, le solde global du Trésor hors fonds d'assainissement des entreprises publiques devrait dégager un excédent de 31,8 milliards de dinars, pour un objectif initialement fixé à 31 milliards de dinars dans le programme pour un taux de change de 16 dinars par dollar en moyenne et un objectif d'environ 49,0 milliards de dinars pour un taux de change moyen de 19 dinars par dollar.

18. Pour les mois à venir, le gouvernement s'attachera à étudier et proposer à l'APN un dispositif global visant à protéger les groupes sociaux les plus vulnérables dans cette phase de passage à l'économie de marché; notamment, en faisant jouer les mécanismes de solidarité nationale et en introduisant une plus grande rationalité dans le système de subventions au consommateur. De nouveaux instruments fiscaux non distordants, tels que la T.V.A. et la réforme du tarif douanier, seront introduits à partir de 1992. Les autorités continueront à solliciter l'appui des services du Fonds dans ces domaines.

19. En ce qui concerne les finances publiques en 1992, l'objectif des autorités est de parvenir à un excédent du compte du Trésor hors dotation au fonds d'assainissement des entreprises et hors recettes pétrolières exceptionnelles, de l'ordre de 5,5 pour cent du PIB par rapport à 4,9 pour cent en 1991 et 3,6 % en 1990. Cet objectif, qui sert de base à la préparation [du projet] de la Loi de Finances 1992,

est de nature à accélérer le processus d'assainissement de l'économie et à contenir les pressions inflationnistes, dans le contexte de la mise en place des mécanismes d'une économie de marché. La réalisation de cet objectif sera favorisée par un approfondissement des réformes visant à éliminer les distorsions de prix, tout en protégeant les catégories sociales les plus défavorisées.

Balance des paiements

20. En ce qui concerne la balance des paiements pour l'ensemble de 1991, les importations globales officielles pourraient atteindre 8,3 milliards de dollars E.U., soit 12 % de baisse par rapport à l'objectif du programme (9,3 milliards de dollars E.U.), en dépit d'une reprise prévue au deuxième semestre par suite des baisses de taux de la taxe compensatoire, ainsi qu'un meilleur accès aux sources de crédits extérieurs. Comme les exportations globales devraient être conformes aux prévisions, le compte courant devrait être en excédent de 1,1 milliard de dollars au lieu du déficit de 0,3 milliard de dollars E.U. initialement prévu. L'amortissement de la dette devrait atteindre 7,1 milliards de dollars E.U., soit un niveau sensiblement plus élevé que prévu (+0,5 milliard). Les tirages devraient par contre enregistrer un niveau de 5,2 milliards de dollars E.U. (contre un objectif de 7,3 milliards de dollars E.U.) se décomposant en 1,0 milliards de crédits bilatéraux, 0,8 milliard de crédits des organismes internationaux et de 2,9 milliards de crédits commerciaux dans leur ensemble. Les crédits financiers mobilisés ou en cours de mobilisation sont estimés à 0,5 milliard de dollars E.U., ce qui laisse subsister un

gap financier de 1,1 milliard de dollars E.U. Ce montant du gap financier sera couvert par la première tranche de 0,3 milliard de dollars E.U. du prêt de la Communauté Européenne (CE), les recettes additionnelles de 0,3 milliard de dollars E.U. résultant d'opérations liées à des investissements dans le secteur des hydrocarbures, et par les crédits financiers additionnelles qui seraient mobilisés dans le cadre des discussions en cours avec les banques commerciales. Pour maintenir l'accès au marché financier international, les autorités ont entrepris toute une série d'actions, notamment en direction des banques commerciales. Dans ce cadre, elles prennent note de l'appui des services du Fonds pour conforter la position de l'Algérie.

21. En vue d'accélérer le rétablissement d'une position extérieure forte et de favoriser les conditions de la relance de l'économie sur le moyen terme, les autorités algériennes ont également pris un certain nombre de mesures destinées à encourager les investissements. Dans cet esprit, des aménagements fiscaux ont été apportés dans la Loi de Finances Complémentaire à l'effet de favoriser les investissements, notamment dans le domaine des hydrocarbures. En outre, des négociations sont déjà en cours avec d'éventuels partenaires extérieurs qui pourraient apporter des technologies de pointe de récupération des réserves de pétrole brut déjà en exploitation où les rendements sont faibles ou déclinant. De tels accords pourraient également induire le paiement anticipé de droits d'entrée. Dans ce cadre, les autorités vont déposer un projet de loi visant à l'élargissement du champ d'intervention des compagnies pétrolières internationales dans le secteur des hydrocarbures. En ce qui concerne les concessionnaires et

pour rendre effective leur activité, les autorités procéderont avant fin 1991 à des aménagements de la réglementation les concernant, en particulier par la levée de la contrainte de l'investissement préalable non lié à la distribution et à la fourniture de produits et services après vente.

Produits à marges plafonnées transférés
au régime des prix déclarés

- Savon de toilette
- Produits d'hygiène corporelle
- Vaisselle et articles de ménage
- Climatiseurs
- Articles de robinetterie
- Articles de quincaillerie
- Plâtre et chaux
- Bois et placage
- Appareils mécanographiques électriques et électroniques de bureau
- Moteurs et transformateurs électriques
- Matériel informatique
- Cycles et motocycles
- Véhicules automobiles
- Véhicules industriels
- Machines, appareils et engins mécaniques
- Matériels de travaux publics
- Boissons servies dans les établissements de consommation
(non classés)

N.B.: seront également transférées au régime des prix déclarés, les activités d'hôtellerie et de restauration, classés actuellement dans les prix plafonnés par arrêté du Ministre de l'Economie.



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Doc. title & dates: Algeria - Draft Letter from the Prime Minister, November 6, 1991

Classification: Strictly Confidential



Office Memorandum

91 SEP 20 PM 6:57

TO: The Managing Director

DATE: September 20, 1991

FROM: OFFICE OF
THE MANAGING DIRECTOR
Mamoudou Touré

SUBJECT: Algeria - Letter of Intent

Attached for your consideration and approval is the draft letter of intent prepared in connection with the first review of Algeria's 1991 program supported by a 10-month stand-by arrangement. It has benefitted from comments from FAD (Mr. Nashashibi), LEG (Mr. Elizalde), and TRE (Mr. Tavlás). ETR has reservations, and Mr. Edo is sending you a separate note. ETR is insisting on a rephrasing of purchases and a side letter on the further exchange rate change envisaged by end-December. We think that it is much too late to envisage a rephrasing of purchases. The Minister would have had to be informed of such a proposal during his visit to Washington, as part of the negotiations. It would also not be understood by the EC and the commercial banks, whom you have recently asked to support Algeria, if we were to withdraw or lessen our support. Regarding the side letter on the exchange rate, we informed ETR of your decision not to request such a letter.

With respect to the understandings reached regarding actions to be taken before circulation of the letter to the Executive Board, we understand that the Cabinet approved yesterday the exchange rate depreciation and adjustment of administered prices. Regarding the latter, we have no details as yet. The increase in interest rates on central bank rediscounts may not be implemented until the Money and Credit Council meets on September 29.

Attachment

cc: The Deputy Managing Director (on return)
Mr. P. Andrews

is that legally
necessary or
for dragging?

Memorandum on Economic and Financial Policy

I. Results Posted During the First Half of 1991

1. During the first half of 1991, the overall trends in the economic and financial aggregates were less favorable than had been projected in the program. Following the decrease in the gross domestic product in 1990, now estimated at -1.5 percent, production in many sectors of the economy (particularly industry, construction, and public works) showed a marked decline during the first six months of 1991, largely as a result of shortages of raw materials and semifinished products, and various disturbances of economic and social activity in May and June 1991.

Consequently, despite an exceptional surge of 35 percent in agricultural production linked to highly favorable weather conditions, and relative stagnation in the hydrocarbon sector, gross domestic product in 1991 is likely at best to stabilize in volume terms at the 1990 level, although further contraction is possible. Thanks to a bounteous harvest, however, consumer prices rose at an annual rate of only 20 percent during the first half of the year, well below the projected rate of 35 percent.

2. As indicated in the aide-mémoire attached to the letter of April 27, 1991, the authorities have begun an extensive liberalization of trade and exchange regulations, eliminating import licenses, and granting free access to foreign exchange for virtually all imports. However, the external financing essential for the realization of the liberalization exercise has in practice been less than expected. Debt service payments due in the first half of 1991 exceeded the programmed

amount by US\$500 million, while the total amount of medium- and long-term loans was US\$2 billion, as against a programmed US\$3.1 billion. Financing declined in part as a result of delayed reactivation of certain bilateral lines of credit. Moreover, owing to the low level of foreign exchange reserves, and pending an agreement with creditor commercial banks for the refinancing of medium- and long-term debt maturities, the authorities were obliged to limit access to short-term credit and credit for cash settlements of imports. Specifically, the Algerian banks were requested to cooperate with their customers in seeking external financing under more favorable conditions, with at least 18-month maturities. Foreign trade liberalization was also predicated on the installation of concessionnaires and wholesalers. Authorized concessionnaires have, however, been slow to set up for business, owing to a wait-and-see attitude and, occasionally, to procedural and regulatory factors. In light of these financing constraints, imports amounted to only US\$3.8 billion in the first half of 1991, instead of the programmed US\$4.7 billion. Imports of intermediate goods and equipment declined by 19 percent and 14 percent, respectively.

3. For the most part, exports of both hydrocarbons and traditional goods met program estimates. The current account of the balance of payments showed a surplus of US\$1.4 billion during the first half year, against a target of near equilibrium. However, the surplus was more than offset by the above-mentioned unfavorable factors affecting the capital account, which showed a negative balance of US\$1.7 billion. The overall balance of payments recorded a deficit of US\$0.3 billion,

whereas the program had targeted a surplus of US\$0.1 billion.

4. The monetary statistics for the first half of 1991 indicate a number of overruns. Although credit to the Government remained within program limits, the total amount of net domestic assets went well beyond the program ceiling for the period ending June 30, 1991. At this stage in the rehabilitation of public enterprises, the commercial banks were faced with a greatly increased growth in the demand for credit, owing particularly to the rise in external debt service as a result of the depreciation of the dinar. The amortization of banks' external debt was DA 4.5 billion above program forecasts. Moreover, about 55 nonautonomous public enterprises (not including the 22 enterprises in need of fundamental restructuring)--active in sectors such as construction, transport, and services--required more than DA 8 billion in credit. This can largely be explained by the slowdown in economic activity linked to the decline in imports and its impact on supplies for enterprises, as well as by delays in the clearing of these enterprises' claims, particularly against local governments. The slowdown in economic activity has also been reflected in a growth in the demand for credit by the autonomous public enterprises which, as a whole, have been unable to adjust their costs, owing in particular to a delay in implementing the rehabilitation plan.

5. Faced with these sizable demands for credit, the banks resorted to the money market (with increased intervention by the Bank of Algeria) to obtain funds at a time when the mechanisms needed to limit the supply of funds had not yet been fully implemented. Moreover, persisting problems

with regard to accounting practices in the commercial banks has resulted in considerable increases within the "other items net," which are not broken down. [Explanation of the very strong surge in other items net]. This, combined with delays in launching bank modernization and organization programs, particularly as regards the processing and transmission of financial and accounting data, has complicated the conduct of monetary policy.

6. In connection with Treasury operations, the performance criterion on the balance on Treasury operations for end-June was met (DA 45.7 billion at end-June 1991 as against a program target of DA 41.6 billion). The budget surplus (DA 42.0 billion) was very close to the amount forecast in the program (DA 43.6 billion), while the improvement of other Treasury operations was better than expected and more than offset the increased deficit in the Compensation Fund. Although hydrocarbon tax revenue was very close to the amount projected in the program, revenue from taxes on goods and services fell below program estimates by DA 5.5 billion, and customs duties collected were DA 1.6 billion less than anticipated, reflecting the decline in imports. As regards expenditure, wage bill disbursements, which included the wage increases agreed in November 1990, were below the program estimates, while the increases in family allowances, the education allowance, and the minimum old age pension not provided for as part of the program, had only a moderate impact on budget expenditure during the first half year. Lower tax revenue has been offset by the extremely slow pace of disbursements on appropriations for capital spending and lags in subsidy payments to public entities. Special accounts (other than the Compensation Fund and

the Enterprise Rehabilitation Fund) posted a surplus of DA 12.9 billion, compared with a program estimate of DA 1 billion. However, the Compensation Fund showed a deficit of DA 7.3 billion compared with program estimates of less than DA 3 billion. In particular, payments carried over from the 1990 fiscal year exceeded the initial estimates and revenue from the compensatory tax amounted to less than the anticipated amounts, owing to the slump in economic activity and imports.

7. In accordance with the program target of letting prices send the signals to the Algerian economy needed for rational decision making, and along with import liberalization, the official exchange rate for the dinar was increased from DA 12.2 per U.S. dollar at end-December 1990 to DA 18.4 at end-June, an average rate of DA 16.8 per dollar during the first half year, compared with an average rate of DA 9.0 per dollar in 1990 and the estimate of DA 16.0 per dollar assumed in the program. Domestic market prices have been liberalized for many products and the prices of some goods, petroleum products, and subsidized energy products have been raised, as stated in the aide-mémoire of April 27, 1991, with the exception of gas and electricity, for which the planned increases did not take effect until August 1991. The beneficial effects of these measures are already visible in the unification of the domestic markets and the increased availability of many products.

8. As regards the rehabilitation of public sector enterprises, for the 22 nonautonomous enterprises, audit contracts were recently signed and the studies should be finished by end-1991. The credit granted to these

enterprises, which is a program performance criterion, has remained very close to the limits set in the program, despite delays in the Rehabilitation Fund's payment of amounts allocated to financing debt service costs as a result of the depreciation of the dinar. The financial recovery of the commercial banks began with the payment at end-June 1991 of the DA 8.8 billion programmed for the recapitalization of these financial institutions.

II. Program for the Second Half of 1991

Price and exchange rate policy

9. In response to the unfavorable developments recorded in the first half of 1991, the authorities have decided to strengthen their economic and financial policies in many areas, including those of price and exchange rate policy. On ... , the authorities adjusted the exchange rate to DA 22.5 per U.S. dollar and will continue to apply, in conjunction with the other adjustment policies, a flexible exchange rate policy for the remainder of the program. By end-1991, in close coordination with the external financing of the program and the improvement in exchange reserve levels, the authorities intend to achieve full convertibility of the dinar for import transactions by lifting restrictions on access to credit in foreign currency and by introducing free access to foreign exchange reserves for cash settlement of imports. The authorities still intend to make the dinar convertible for almost all current transactions, but the financing difficulties

experienced in 1991 could make it necessary to postpone this target from early 1992 to mid-1992.

10. The policy of gradual price liberalization with a view to letting the market determine most prices will be steadfastly pursued. Thus, in accordance with the program target of shifting most products with mark-up ceilings to the declared price category before 1992, the authorities have just liberalized some 15 groups of products (cf. attachment).

Moreover, the minimum waiting period required of enterprises between two filings of prices (products with markup ceilings), which had been shortened from six to three months in April 1991, has recently been eliminated altogether, which permits a more rapid adjustment by enterprises of their prices to market costs and conditions. Finally, the authorities have decided to eliminate the mandatory declaration of producer prices for liberalized prices. This legal measure will be included in the draft law on competition currently being prepared. As regards products with supported prices, the Government is aware of the high budgetary cost and present inefficiency of subsidies, which also benefit the well-off segments of society. Moreover, government price controls, unrelated to real market conditions, are not likely to promote a supply response, while exacerbating wasteful allocation of scarce resources. However, in the process of reforming the price system for essential food items, appropriate mechanisms must first be introduced to ensure adequate protection of the most disadvantaged groups. The authorities are preparing a comprehensive plan in this area, which they expect to present to the National Popular Assembly by the end of the year. They would also like to discuss the plan with the Fund staff. In

the meantime, the authorities have recently raised the prices of a number of subsidized products, with a view to scaling back the Compensation Fund's deficit.

Monetary policy

11. To contain the rapid growth of the money supply that occurred during the first half of the year, the Bank of Algeria has taken a number of steps, beginning in July with a cutback in its supply of liquidity on the money market, particularly through the advance fixing of the volume of these funds in the interbank market. This measure, together with the first steps toward public enterprise rehabilitation, made it possible to reduce total advances of the Bank of Algeria to banks from DA 83.3 billion at end-June 1991 to DA 79 billion by mid-August 1991. With the introduction of an auction system, the average money market rate rose from less than 11 percent in the first half year to about 12 percent. More recently, the central bank discount rate was raised from 10.5 percent to 11.5 percent, while the rate applied to commercial bank overdrafts at the Central Bank was increased from 15 percent to 20 percent. Moreover, stricter limits were imposed on central bank interventions in the money market, which brought the interest rate for such interventions in the money market to 17 percent by end-September, a rate that will be maintained until end-October 1991. Subsequently, the target for the money market interest rate will be adjusted to keep the growth of the banking system's net domestic assets within the programmed limits. To offset partially the higher costs of money market resources for banks, the Central Bank's discount

ceilings, still set at their 1990 level, have been raised 55 percent on average. Furthermore, the Bank of Algeria has introduced a system of ceilings for each bank's total use of central bank resources through discounts and money market operations. Similarly, to improve monitoring of monetary developments over time, the banks now forward estimated balance sheets to the Bank of Algeria with a time lag not exceeding one month.

12. The speeding up of the economic rehabilitation of the public enterprises should also facilitate the conduct of monetary policy. In the context of credit to the 55 regional public enterprises for construction and public works, the authorities recently decided to make these enterprises autonomous before end-1991 and to adopt a plan for their financial rehabilitation. A follow-up rehabilitation program being prepared for the autonomous public enterprises will be examined during the second program review early in 1992. Banks' external debts that have not been on-lent will be audited before end-1991 and the necessary measures adopted to complete bank rehabilitation.

13. These measures should permit a considerable reining in of the slippages that occurred in the first half of 1991. Nevertheless, the authorities will be unable to retain the initial targets and propose that changes be made in the performance criteria for end-September and end-December 1991 as indicated in Table 1. The level of projected net domestic assets enables the Government to envisage a growth in the money supply (M2) on the order of 21 percent, which implies an improvement in the liquidity ratio (M2/GDP) from 0.69 in 1990 to 0.58 in 1991.

Budgetary policy and Treasury accounts

14. In 1991 as a whole, allowing for the effects of the depreciation of the dinar, Treasury operations, specifically those related to the budget, show a significant revenue gain in comparison with the initial finance law. This gain results primarily from the impact of dinar depreciation on oil revenue, customs duties, and indirect taxation. This development, which is favorable to the equilibrium of government accounts, will nevertheless be partially offset by the effects of the slowdown in economic activity during the first half year and by new expenditures, particularly those linked to the effect of the depreciation in the exchange rate and price liberalization, the wage increase in accordance with the decision adopted in the fall of 1990, and the increase in family and education allowances. Similarly, some allocations in the initial finance law for current expenditure, including that relating to the government debt, and capital expenditure have proven to be inadequate in view of the depreciation of the dinar. In August 1991, the Government therefore submitted a draft supplementary finance law to the National Popular Assembly. This finance law, which has just been adopted, adjusts the amount of budgetary funding and revenue. Projected revenues include DA 1.3 billion in additional resources, reflecting the increase in the price of gasoline.

15. With regard to the Compensation Fund, as a result of the slowdown in economic activity and in imports in particular, revenue from the compensatory tax proved to be significantly lower than the amount programmed, while expenditure proved to be higher, owing to the

considerable depreciation of the exchange rate with respect to the level used as a basis for the program estimates. Moreover, in order to stimulate investment and the sectors in difficulty, especially construction and textiles, it has appeared necessary to: (i) remove the 20 percent compensatory tax on domestically produced textiles and to reduce from 25 percent to 15 percent the rate applicable to imported fabrics; (ii) exempt from the compensatory tax items including paper, some industrial equipment, materials for construction, public works and drilling, and also machine parts; (iii) reduce from 25 percent to 15 percent the rate of tax applied to spare parts for industrial vehicles; and (iv) reduce the rate of compensatory tax on equipment intended for industrial activities and on imports of lumber and finished textile products. The uniform rate of 25 percent has been maintained for other imports. The cost of these various measures to moderate the compensatory tax is estimated at DA 3.8 billion over the last four months of 1991. In order to limit the deficit of the Compensation Fund, however, the supplementary finance law has provided for an additional budgetary allocation of DA 13.9 billion for the Compensation Fund. Moreover, the authorities have decided to limit the outlays of the Compensation Fund by increasing the prices of some subsidized products, especially diesel oil, corn, propane, tomato concentrate, and sugar. These increases are equivalent to savings of some DA 3.0 billion in 1991.

16. Furthermore, the Government has taken the necessary steps so that the deficit from Treasury interventions does not exceed US\$2 billion on December 31, 1991, and that capital expenditure (excluding funding for

the Rehabilitation Fund) is not greater than DA 64 billion in 1991. It has also taken the required measures to reduce current expenditure by DA 3.7 billion with respect to the figures of the supplementary finance law.

17. Taking all these factors into account, including exceptional oil revenues of DA 7 billion, budgetary revenue is estimated at DA 259.4 billion, and actual budgetary expenditure at DA 215 billion, of which DA 151 billion is current expenditure and DA 64 billion is capital expenditure, excluding allocations for the Rehabilitation Fund. The actual budgetary surplus is projected at DA 44.4 billion, excluding the Rehabilitation Fund. The Compensation Fund should, on a cash basis, show a deficit in 1991 of DA 8.1 billion, corresponding to expenditure of DA 44.4 billion and revenue of DA 36.3 billion, and to a carry-over of some DA 14.0 billion of expenditure to 1992 (with normal payment lags of three months), as opposed to DA 21.8 billion carried over from 1990 to 1991. Taking into account the deficit of the other special treasury accounts of DA -2.5 billion (excluding the Public Enterprise Rehabilitation Fund) and the projected deficit of DA 2 billion for treasury interventions, the overall treasury operations excluding the Public Enterprise Rehabilitation Fund should show a surplus of DA 31.8 billion, compared with a target initially set in the program at DA 31 billion at an average exchange rate of DA 16 per U.S. dollar, and a target of approximately DA 49 billion at an average exchange rate of DA 19 per dollar.

18. In the months to come, the Government will be concerned with studying and proposing to the National Popular Assembly a comprehensive plan aimed at protecting the most vulnerable social groups during the transition to a market economy, in particular, by bringing into play the mechanisms of national solidarity and introducing greater rationality in the system of consumer subsidies. New, less distortional fiscal instruments, such as the value-added tax (VAT) and customs tariff reform, will be introduced beginning in 1992. The authorities will continue to seek the support of Fund staff in these areas.

19. With regard to public finances in 1992, the target of the authorities is to attain a surplus in the Treasury account, exclusive of funding for the Public Enterprise Rehabilitation Fund and of exceptional oil revenues, on the order of 5.5 percent of GNP, compared with 4.9 percent in 1991, and 3.6 percent in 1990. This target, which is being used as the basis for preparing the draft 1992 Finance Law, could speed up the process of rehabilitating the economy and containing inflationary pressures, while introducing market economy mechanisms. The realization of this goal will be helped by increased reforms aimed at eliminating price distortions, while protecting the most disadvantaged social groups.

Balance of payments

20. As regards the balance of payments for the whole of 1991, overall official imports may amount to US\$8.3 billion, which, despite an increase anticipated for the second half year as a result of lower

compensatory tax rates and better access to external credit sources, is 12 percent below the program target of US\$9.3 billion. Since overall exports should match the estimated volume, the current account will probably show a surplus of US\$1.1 billion, rather than the initially anticipated deficit of US\$0.3 billion. Debt amortization should amount to US\$7.1 billion, which is considerably higher than predicted (US\$0.5 billion), while total drawings should amount to US\$5.2 billion (as opposed to the target of US\$7.3 billion) and consist of US\$1.0 billion in bilateral loans, US\$0.8 billion in loans from international organizations, and US\$2.9 billion in commercial loans. Current or pending financial loan disbursements are estimated at US\$0.5 billion, leaving a financial gap of US\$1.1 billion. This financial gap will be covered by the first tranche, of US\$0.3 billion, of the European Community (EC) loan; additional revenue in the amount of US\$0.3 billion will be obtained from operations in connection with investments in the hydrocarbon sector and by additional financial loans secured in current discussions with commercial banks. In order to maintain access to the international financial market, the authorities have undertaken a whole series of measures, mainly as concerns commercial banks. In this regard, they take note of the support given by the Fund staff to reinforce Algeria's position.

21. With a view to expediting the re-establishment of a strong position abroad and to improving the conditions for a medium-term economic revival, the Algerian authorities have also taken a number of steps to encourage investment. To this end, fiscal adjustments have been made to the supplementary finance law to promote investments, especially in the

hydrocarbon sector. Moreover, negotiations are already under way with potential foreign partners who could introduce advanced technologies for recovering crude oil from reserves that are currently being exploited but that have low or declining yields. Such agreements could also lead to advance payments for access rights. In this connection, the authorities will table a draft law designed to give international oil companies more room for intervention in the hydrocarbon sector. As regards concessionaires, to make their operations efficient the authorities will amend the regulations concerning them by end-1991, in particular by removing the preliminary investment constraints that are unrelated to the distribution and supply of goods and after-sale services.

ATTACHMENT

Products Transferred from the Category of Markup Ceiling to
the Category of Declared Prices

- Toilet soap
 - Articles of personal hygiene
 - China and household articles
 - Air conditioners
 - Plumbing items
 - Hardware items
 - Plaster and lime
 - Lumber and veneer
 - Electric and electronic mechanized office equipment
 - Electric motors and transformers
 - Computer hardware
 - Bicycles and motorcycles
 - Automobiles
 - Industrial vehicles
 - Machines, devices, and mechanical tools
 - Public works equipment
 - Beverages served in food establishments (nonclassified)
-

N.B.: Hotel and restaurant operations, currently in the category of price ceilings by decree by the Minister of the Economy, will also be transferred to the system of declared prices.

Table 1. Algeria: Performance Criteria and Indicative Targets
for the 1991 Program

	1990 December Performance	June Performance	1991 Sept. Programmed	Dec.
(In billions of dinars)				
I. Performance criteria				
A. Quantitative criteria				
1. Change in net domestic assets <u>1/</u> <u>2/</u> <u>3/</u>	34.8	24.9	46.6	59.3
2. Total net reduction in Treasury debt and change in Rehabilitation Account balance <u>1/</u> <u>2/</u> <u>3/</u> <u>4/</u>	11.6	22.4	6.1	-11.1
3. Change in net bank credit to the 22 enterprises requiring fundamental restructuring <u>1/</u>	20.9	4.5	6.0	6.5
4. Minimum balance of Treasury operations, excluding funding for Rehabilitation Fund <u>1/</u> <u>2/</u> <u>3/</u> <u>4/</u>	17.0	45.7	29.5	31.8
(In billions of U.S. dollars)				
5. External borrowing guaranteed or contracted by the Central Government				
a. Net disbursements of nonconcessional loans of maturities of 1 to 12 years <u>1/</u> <u>2/</u>	—	-1.87	0.18	0.27
b. Outstanding short-term debt	1.80	1.70	1.58	1.45
6. Stock of net international reserves (excluding gold and obligations to the Fund) <u>2/</u>	0.73	0.38	0.50	1.23
B. Structural criterion				
1. Completion by end-January 1992 of all diagnostic studies on the 22 public enterprises mentioned above				
II. Indicative targets				
(In billions of U.S. dollars)				
1. Disbursements of nonconcessional loans contracted or guaranteed by the Central Government of maturities of 1-3 years <u>1/</u>	—	1.15	2.40	3.00
2. Stock of net international reserves (excluding gold and obligations to the Fund) <u>2/</u>	0.73	0.38	0.70	1.53

1/ Cumulative change since end-December 1990.2/ Subject to adjustments described in the technical memorandum.3/ Performance criteria at end-December 1991 are based on a maximum amount of DA 14 billion of Compensation Fund expenditures incurred in 1991, but not yet paid because of normal payment periods.4/ Including a maximum amount of DA 7 billion of exceptional oil revenues owing to foreign investment in the hydrocarbon sector.



Office Memorandum

File

TO: Mr. Tanzi (FAD)
Mr. Edo (ETR)
Mr. Bhuiyan (TRE)
Legal Department

DATE: September 17, 1991

FROM: E.L. Bornemann *ELB*

SUBJECT: Algeria - Letter of Intent

Attached for your comments is the draft letter of intent for the first review of the stand-by arrangement with Algeria, negotiated during the recent visit of an Algerian delegation to Washington. Also attached for your background information are working tables used during the negotiations. In view of the need to finalize the staff report before the departure of a staff team for Algeria early next week, could you please send your comments to Mr. Dahl (ext. 8513) by close of business, Wednesday, September 18, 1991, with a copy of any written comments to me.

We expect to be circulating the draft staff report soon for your comments.

Attachment

cc: Mr. Touré
Mr. Gondwe
Mr. Artus
Mr. Hino
Mr. Jbili

ORIGINAL: FRENCH

Algiers, September -- , 1991

Mr. Michel Camdessus
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. Camdessus:

In accordance with the provisions of the stand-by arrangement of June 3, 1991, the Algerian authorities and the Fund staff have examined, as part of the first program review, the progress made in the economic and financial program adopted for 1991. The results of this examination are presented in the attached memorandum, which amends and supplements the letter from the authorities of April 27, 1991.

While the Government believes that the policies and measures contained in the attached memorandum and the letter of April 27, 1991 are adequate to achieve the program targets, it will take any additional measures which may prove necessary. It will consult with the Fund while the stand-by arrangement is in effect on the adoption of any measures which might be deemed appropriate in accordance with Fund policies in this regard.

Sincerely yours,

/s/
Abderrahmane Hadj Nacer
Governor
Bank of Algeria

/s/
Hocine Benissad
Minister of Economy

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the Enterprise Rehabilitation Fund) posted a surplus of DA 12.9 billion, compared with a program estimate of DA 1 billion. However, the Compensation Fund showed a deficit of DA 7.3 billion compared with program estimates of less than DA 3 billion. In particular, payments carried over from the 1990 fiscal year exceeded the initial estimates and revenue from the compensatory tax amounted to less than the anticipated amounts owing to the slump in economic activity and imports.

7. In accordance with the program target of letting prices send the signals to the Algerian economy needed for rational decision making, and along with import liberalization, the official exchange rate for the dinar was increased from DA 12.2 per dollar at end-December 1991 to DA 18.4 per dollar at end-June, an average rate of DA 16.8 per dollar during the first half year, to be compared with an average rate of DA 9.0 per dollar in 1990 and the program's hypothetical DA 16.7 per dollar. Domestic market prices have been liberalized for many products and the prices of some goods, petroleum products, and subsidized energy products have been raised, as stated in the aide-mémoire of April 27, 1991, with the exception of gas and electricity for which the planned increases did not take effect until August 1991. The beneficial effects of these measures are already visible in the unification of the domestic market and the increased availability of many products.

8. As regards the rehabilitation of public sector enterprises, for the 22 nonautonomous enterprises, audit contracts were recently signed and the studies should be finished by end-1991. The credit granted to these enterprises, which is a program performance criterion, has remained very

close to the limits set in the program, despite delays in the Rehabilitation Fund's payment of amounts allocated to financing debt service costs as a result of the depreciation of the dinar. The financial recovery of the commercial banks began with the payment at end-June 1991 of the DA 8.8 billion programmed for the recapitalization of these financial institutions.

II. Program for the second half of 1991

Price and exchange rate policy

9. In response to the unfavorable developments recorded in the first half of 1991, the authorities have decided to strengthen their economic and financial policies in many areas, including those of price and exchange rate policy. On ... , the authorities adjusted the dinar exchange rate to the rate of DA 22.5 per dollar and will continue to apply, in conjunction with the other adjustment policies, a flexible exchange rate policy for the remainder of the program. By end-1991, in close coordination with the external financing of the program and the improvement in exchange reserve levels, the authorities intend to achieve full convertibility of the dinar for import transactions by lifting restrictions on access to credit in foreign currency and by introducing free access to foreign exchange reserves for cash settlement of imports. The authorities still intend to make the dinar convertible for almost all current transactions, but the financing difficulties experienced in 1991 could make it necessary to postpone this target from

early 1992 to mid-1992.

10. The policy of gradual price liberalization with a view to letting the market determine most prices will be steadfastly pursued. Thus, in accordance with the program target of shifting most products with mark-up ceilings to the declared price category before 1992, the authorities have just liberalized some 15 groups of products (cf. attachment). Moreover, the minimum waiting period required of enterprises between two filings of prices (products with mark-up ceilings) which had been shortened from 6 to 3 months in April 1991, has just been eliminated altogether, which permits a more rapid adjustment by enterprises of their prices to market costs and conditions. Finally, the authorities have decided to eliminate the mandatory declaration of producer prices for liberalized prices. This legal measure will be included in the draft law on competition currently being prepared. As regards products with supported prices, the Government is aware of the high budgetary cost and present inefficiency of subsidies which also benefit the well-off segments of society. Moreover, government price controls, unrelated to real market conditions, are not likely to promote a supply response, while exacerbating wasteful allocation of scarce resources. However, in the process of reforming the price system for essential food items, appropriate mechanisms must first be introduced to ensure adequate protection of the most disadvantaged groups. The authorities are preparing a comprehensive plan in this area which they expect to present to the National Popular Assembly by the end of the year. They would also like to discuss the plan with the Fund staff. In the meantime, the authorities have recently raised the prices of a number of subsidized

products with a view to scaling back the Compensation Fund's deficit.

Monetary policy

11. The Bank of Algeria has taken a number of steps to contain the rapid growth of the money supply noted during the first half of the year. To begin with, in July it cut back the Central Bank's offer of liquidity on the money market, particularly through the advance fixing of the volume of these funds on the interbank market. This measure, together with the first steps toward public enterprise rehabilitation, made it possible to reduce total advances of the Bank of Algeria to banks from DA 83.3 billion at end-June 1991 to DA 79 billion by mid-August 1991. With the introduction of an auction system, the average money market rate rose from less than 11 percent in the first half year to about 12 percent. More recently, the central bank discount rate was raised from 10.5 percent to 11.5 percent, while the rate applied to commercial bank overdrafts at the Central Bank was increased from 15 percent to 20 percent. Moreover, stricter limits were imposed on central bank interventions in the money market which brought the interest rate for central bank interventions in the money market to 17 percent by end-September, an intervention rate which will be maintained until end-October 1991. Subsequently, the target for the money market interest rate will be adjusted to keep the growth of the banking system's net domestic assets within the programmed limits. To offset partially the higher costs of money market resources for banks, the Central Bank's discount ceilings, still set at their 1990 level, have been raised 55 percent on average. Furthermore, the Bank of

Algeria has introduced a system of ceilings for each bank's total use of central bank resources through discounts and money market operations. Similarly, to improve monitoring of monetary developments over time, the banks now forward estimated balance sheets to the Bank of Algeria with a time lag not exceeding one month.

12. The speeding up of the economic rehabilitation of the public enterprises should also facilitate the conduct of monetary policy. In the context of credit to the 55 regional public enterprises for construction and public works, the authorities recently decided to make these enterprises autonomous before end-1991 and to adopt a plan for their financial rehabilitation. A follow-up rehabilitation program being prepared for the autonomous public enterprises will be examined during the second program review early in 1992. Banks' external debts which have not been onlent will be audited before end-1991 and the necessary measures adopted to complete bank rehabilitation.

13. These measures should permit a considerable reining in of the slippages which have occurred in the first half of 1991. Nevertheless, we shall be unable to return to the initial targets and propose that changes be made in the performance criteria for end-September and end-December 1991 as indicated in Table 1. The level of projected net domestic assets enables us to envisage a growth in the money supply (M2) in the order of 21 percent, which implies an improvement in the liquidity ratio (M2/GDP) from 0.69 in 1990 to 0.58 in 1991.

Budgetary policy and Treasury accounts

14. In 1991 as a whole, allowing for the effects of the depreciation of the dinar, Treasury operations, specifically those related to the budget, show a significant revenue gain in comparison with the initial finance law. This gain results primarily from the impact of dinar depreciation on oil revenue, customs duties, and indirect taxation. This development, which is favorable to the equilibrium of government accounts, will nevertheless be partially offset by the effects of the slowdown in economic activity during the first half-year and by new expenditures, particularly those linked to the effect of the depreciation in the exchange rate and price liberalization, the wage increase in accordance with the decision adopted in the fall of 1990, and the increase in family and education allowances. Similarly, some allocations in the initial finance law for current expenditure, including that relating to the government debt, and capital expenditure have proven to be inadequate in view of the depreciation of the dinar. In August 1991, the Government therefore submitted a draft supplementary finance law to the National Popular Assembly. This finance law, which has just been adopted, adjusts the amount of budgetary funding and revenue. Projected revenues include DA 1.3 billion in additional resources reflecting the increase in the price of gasoline.

15. With regard to the Compensation Fund, as a result of the slowdown in economic activity and in imports in particular, revenue from the compensatory tax proved to be significantly lower than the amount programmed, while expenditure proved to be higher, owing to the

considerable depreciation of the exchange rate with respect to the level used as a basis for the program estimates. Moreover, in order to stimulate investment and the sectors in difficulty, especially construction and textiles, it has appeared necessary to: (i) remove the 20 percent compensatory tax on domestically produced textiles and to reduce from 25 to 15 percent the rate applicable to imported fabrics; (ii) exempt from the compensatory tax items including paper, some industrial equipment, materials for construction, public works and drilling, and also machine parts; (iii) reduce from 25 to 15 percent the rate of tax applied to spare parts for industrial vehicles; and (iv) reduce the rate of compensatory tax on equipment intended for industrial activities and on imports of lumber and made-up textile products. The uniform rate of 25 percent has been maintained for other imports. The cost of these various measures for relieving the compensatory tax is estimated at DA 3.8 billion over the last four months of 1991. In order to limit, however, the deficit of the Compensation Fund, the supplementary finance law has provided for an additional budgetary allocation of DA 13.9 billion for the Compensation Fund. Moreover, the authorities have decided to limit the outlays of the Compensation Fund by increasing the prices of some subsidized products, especially diesel oil, corn, propane, tomato concentrate, and sugar. These increases are equivalent to savings of some DA 3.0 billion in 1991.

16. Furthermore, the Government has taken the necessary steps so that the deficit from Treasury interventions does not exceed US\$2 billion at December 31, 1991, and that capital expenditure (excluding funding for

the Rehabilitation Fund) are not greater than DA 64 billion in 1991. It has also taken the required measures to reduce current expenditure by DA 3.7 billion with respect to the figures of the supplementary finance law.

17. Taking all these factors into account, including exceptional oil revenues of DA 7 billion, budgetary revenue is estimated at DA 259.4 billion, and actual budgetary expenditure at DA 215 billion, of which DA 151 billion are current expenditure and DA 64 billion are capital expenditures, excluding allocations for the Rehabilitation Fund. The actual budgetary surplus is projected at DA 44.4 billion, excluding the Rehabilitation Fund. The Compensation Fund should, on a cash basis, show a deficit in 1991 of DA 8.1 billion, corresponding to expenditures of DA 44.4 billion and revenue of DA 36.3 billion, and to a carryover of some DA 14.0 billion of expenditure to 1992 (with normal payment lags of three months), as opposed to DA 21.8 billion carried over from 1990 to 1991. Taking into account the deficit of the other special treasury accounts of DA -2.5 billion (excluding the Public Enterprise Rehabilitation Fund) and the projected deficit of DA 2 billion for treasury interventions, the overall treasury operations excluding the Public Enterprise Rehabilitation Fund should show a surplus of DA 31.8 billion, as compared with a target initially set in the program at DA 31 billion at an average exchange rate of DA 16 to the dollar, and a target of approximately DA 49 billion at an average exchange rate of DA 19 to the dollar.

18. In the months to come, the Government will be concerned with

studying and proposing to the National Popular Assembly a comprehensive plan aimed at protecting the most vulnerable social groups during the transition to a market economy; in particular, by bringing into play the mechanisms of national solidarity and introducing greater rationality in the system of consumer subsidies. New, nondistortional fiscal instruments, such as VAT and customs tariff reform, will be introduced beginning in 1992. The authorities will continue to seek the support of the Fund's staff in these areas.

19. With regard to public finances in 1992, the target of the authorities is to attain a surplus in the Treasury account, exclusive of funding for the Enterprise Rehabilitation Fund and of exceptional oil revenues, in the order of 5.5 percent of GNP, compared with 4.9 percent in 1991, and 3.6 percent in 1990. This target, which is being used as the basis for preparing the (draft) 1992 Finance Law, could speed up the process of rehabilitating the economy and containing inflationary pressures, while introducing market economy mechanisms. The realization of this goal will be helped by increased reforms aimed at eliminating price distortions, while protecting the most disadvantaged social categories.

Balance of payments

20. As regards the balance of payments for the whole of 1991, overall official imports may amount to US\$8.3 billion, which, despite an increase anticipated for the second half-year as a result of lower compensatory tax rates and better access to external credit sources, is

12 percent below the program target of US\$9.3 billion. Since overall exports should match the estimated volume, the current account will probably show a surplus of US\$1.1 billion, rather than the initially anticipated deficit of US\$0.3 billion. Debt amortization should amount to US\$7.1 billion, which is considerably higher than predicted (+US\$0.5 billion), while total drawings should amount to US\$5.2 billion (as opposed to the target of US\$7.3 billion) and consist of US\$ 1.0 billion in bilateral loans, US\$0.8 billion in loans from international organizations, and US\$2.9 billion in commercial loans. Current or pending financial loan disbursements are estimated at US\$0.5 billion, leaving a financial gap of US\$1.1 billion. This financial gap will be covered by the first tranche, of US\$0.3 billion, of the European Community (EC) loan; additional revenue in the amount of US\$0.3 billion will be obtained from operations in connection with investments in the hydrocarbon sector and by additional financial loans secured in current discussions with commercial banks. In order to maintain access to the international financial market, the authorities have undertaken a whole series of measures, mainly as concerns commercial banks. In this regard, they take note of the support given by the Fund's staff to reinforce Algeria's position.

21. With a view to expediting the re-establishment of a strong position abroad and to improving the conditions for a medium-term economic revival, the Algerian authorities have also taken a number of steps to encourage investment. To this end, fiscal adjustments have been made to the supplementary finance law to promote investments, especially in the hydrocarbon sector. Moreover, negotiations are already under way with

potential foreign partners who could introduce advanced technologies for recovering crude oil from reserves that are currently being exploited but which have low or declining yields. Such agreements could also lead to advance payments for access rights. In this connection, the authorities will table a draft law designed to give international oil companies more room for intervention in the hydrocarbon sector. As regards concessionaires, to make their operations efficient the authorities will amend the regulations concerning them by end-1991, in particular by removing the preliminary investment constraints that are unrelated to the distribution and supply of goods and after-sale services.

Table 1. Algeria: Performance Criteria and Indicative Targets
for the 1991 Program

	1990 December Performance	June Performance	1991 Sept. Programmed	Dec.
(In billions of dinars)				
I. Performance Criteria				
A. Quantitative criteria				
1. Change in net domestic assets <u>1/</u> <u>2/</u> <u>3/</u>	34.8	24.9	46.6	59.3
2. Total net reduction in Treasury debt and change in Rehabilitation Account balance <u>1/</u> <u>2/</u> <u>3/</u> <u>4/</u>	11.6	22.4	6.1	-11.1
3. Change in net bank credit to the 22 enterprises requiring fundamental restructuring <u>1/</u>	20.9	4.5	6.0	6.5
4. Minimum balance of Treasury operations, excluding funding for Rehabilitation Fund <u>1/</u> <u>2/</u> <u>3/</u> <u>4/</u>	17.0	45.7	29.5	31.8
(In billions of U.S. dollars)				
5. External borrowing guaranteed or contracted by the Central Government				
a. Net disbursements of nonconcessional loans of maturities of 1 to 12 years <u>1/</u> <u>2/</u>	—	-1.87	0.18	0.27
b. Outstanding short-term debt	1.80	1.70	1.58	1.45
6. Stock of net international reserves (excluding gold and obligations to the Fund) <u>2/</u>	0.73	0.38	0.50	1.23
B. Structural criterion				
1. Completion by end-January 1992 of all diagnostic studies on the 22 public enterprises mentioned above				
II. Indicative targets				
(In billions of U.S. dollars)				
1. Disbursements of nonconcessional loans contracted or guaranteed by the Central Government of maturities of 1-3 years <u>1/</u>	—	1.15	2.40	3.00
2. Stock of net international reserves (excluding gold and obligations to the Fund) <u>2/</u>	0.73	0.38	0.70	1.53

1/ Cumulative change since end-December 1990.2/ Subject to adjustments described in the technical memorandum.3/ Performance criteria at end-December 1991 are based on a maximum amount of 14 billion dinars of Compensation Fund expenditures incurred in 1991, but not yet paid because of normal payment periods.4/ Including a maximum amount of 7 billion dinars of exceptional oil revenues owing to foreign investment in the hydrocarbon sector.

ATTACHMENT

Products Transferred from the Category of Mark-up Ceiling to
the Category of Declared Prices

- Toilet soap
- Articles of personal hygiene
- China and household articles
- Air conditioners
- Plumbing items
- Hardware items
- Plaster and lime
- Lumber and veneer
- Electric and electronic mechanized office equipment
- Electric motors and transformers
- Computer hardware
- Bicycles and motorcycles
- Automobiles
- Industrial vehicles
- Machines, devices, and mechanical tools
- Public works equipment
- Beverages served in food establishments (nonclassified)

N.B.: Hotel and restaurant operations, currently in the category of price mark-up ceilings by decree by the Minister of the Economy, will also be transferred to the system of declared prices.

TABLE 1. ALGERIA: SUMMARY OF CENTRAL GOVERNMENT OPERATIONS, 1988-91 (DA million)

	1988	1989	1990	1991 First Semester Program 1/	1991 First Semester Outcome 2/	1991 Original Program 1/	1991 Revised Program 3/
Total revenue	93,453	116,413	152,500	122,100	117,600	246,200	259,400
Hydrocarbon revenue	24,086	45,492	76,200	77,800	76,650	143,900	154,000
Non hydrocarbon revenue	69,367	70,921	76,300	44,300	40,950	102,300	98,400
Tax revenue	58,079	64,555	71,100	41,800	37,400	96,800	92,400
Taxes on income and profits	20,938	21,943	21,600	7,400	10,200	25,000	25,000
Taxes on goods and services	28,213	30,646	34,700	22,000	16,500	46,200	41,000
Customs duties	6,061	8,407	11,300	10,700	9,100	21,600	23,000
Registration and stamps	2,867	3,559	3,500	1,700	1,600	4,000	3,400
Nontax revenues	11,288	6,366	5,200	2,500	3,550	5,500	6,000
Exceptional hydrocarbon revenues			0		0		7,000
Total expenditure 4/	119,654	124,521	136,500	78,500	75,600	212,900	215,000
Current expenditure	76,214	80,229	88,800	53,100	55,400	135,700	151,000
Wages and salaries	39,463	43,124	49,000	37,500	30,300	73,000	72,000
Material and supplies	2,870	3,370	3,800		1,000	7,700	7,500
Debt service	11,840	11,316	14,200	1,600	3,600	18,200	18,000
Public services	18,921	22,488	11,500	11,000	8,100	25,400	15,000
Others	3,120	-69	10,300	3,000	12,400	11,400	38,500
Capital expenditure 4/	43,440	44,292	47,700	25,400	20,200	77,200	64,000
Overall deficit/surplus	-26201	-8108	16,000	43,600	42,000	33,300	44,400
Special accounts	2,507	6,403	300	(2,000)	5,600	-2300	(10,600)
Compensation Fund	--	--	(1,500)	(3,000)	(7,300)	200	(8,100)
Others	--	--	1,800	1,000	12,900	-2500	(2,500)
Net lending by the Treasury	-20799	-6738	700	--	(1,900)	--	(2,000)
Overall Treasury balance 4/	(44,493)	(8,443)	17,000	41,600	45,700	31,000	31,800
Allocation to the Rehabilitation Fund	--	--	--		(12,000)	(16,900)	(16,900)
Financing	44,493	8,443	(17,000)	...	(33,700)	(14,100)	(14,900)
Domestic	43,471	8,439	(16,600)	...	(30,600)	(14,160)	(12,900)
Banking system	24,122	9,959	(16,400)	...	(22,900)	(6,960)	(10,800)
Central bank	18,491	8,216	(14,500)	...	(22,200)	0	1,500
Commercial banks	1,882	418	(1,900)	...	300	(10,460)	(11,300)
Others	3,749	1,325	0	...	(1,000)	3,500	(1,000)
Nonbank	19,349	(1,520)	(200)	...	(7,700)	(7,200)	(2,100)
External (net)	(349)	343	900	...	(1,100)	0	(2,000)
Adjustment	1,371	(339)	(1,300)	...	(2,000)	60	0
Memorandum items:							
Rehabilitation fund: balance	--	--	--	...	3,200	(4,900)	(4,900)
Resources	--	--	--	...	12,000	16,900	16,900
Expenditures	--	--	--	...	(8,800)	(21,800)	(21,800)
Central Bank including Rehab. Fund	18,491	8,216	(14,500)	...	(22,200)	4,900	6,400
GDP	316,760	374,342	470,900	...	...	692,112	654,000

Table 1. (continued)

	1988	1989	1990	1991 First Semester Program	1991 First Semester Outcome	1991 Original Program	1991 Revised Program
(In percent of GDP)							
Total revenues	29.5	31.1	32.4	...	...	35.6	39.7
Hydrocarbon revenues	7.6	12.2	16.2	...	...	20.8	23.5
Nonhydrocarbon	21.9	18.9	16.2	...	...	14.8	15.0
Tax revenue	18.3	17.2	15.1	...	...	14.0	14.1
Total expenditure	37.8	33.3	29.0	...	...	30.8	32.9
Current expenditure	24.1	21.4	18.9	...	...	19.6	23.1
Capital expenditure	13.7	11.8	10.1	...	...	11.2	9.8
Overall deficit	-8.3	-2.2	3.4	...	...	4.8	6.8
Overall treasury balance	-14.0	-2.3	3.6	...	...	4.5	4.9

Source: Data provided by the Algerian authorities and staff estimates.

Notes:

- 1/ Estimated at an average exchange rate of DA 16 to the US dollar.
- 2/ At a realized exchange rate of DA 16.8 to the US dollar.
- 3/ Estimated at an average annual exchange rate of DA 19 to the US dollar.
- 4/ Excluding allocations to the Enterprise Rehabilitation Fund.

TABLE 2. ALGERIA: Budgetary Perspectives, 1991

Million Algerian Dinars

	Realisations			Programme		
	December 1990	1990 % of GDP	June 1991	September 1991	December 1991 1/	1991 % of GDP
Total revenue	152,500	0.32	117,600	172,000	259,400	0.40
Hydrocarbon revenue	76,200	0.16	76,650	111,500	154,000	0.24
Non hydrocarbon revenue	76,300	0.16	40,950	60,500	98,400	0.15
Tax revenue	71,100		37,400	56,000	92,400	
Taxes on income and profits	21,600		10,200	14,000	25,000	
Taxes on goods and services	34,700		16,500	25,000	41,000	
Customs duties	11,300		9,100	14,500	23,000	
Registration and stamps	3,500		1,600	2,500	3,400	
Nontax revenues	5,200		3,550	4,500	6,000	
Exceptional hydrocarbon revenues	0		0	0	7,000	
Total expenditure 2/	136,500	0.29	75,600	136,000	215,000	0.33
Current expenditure	88,800	0.19	55,400	100,000	151,000	0.23
Wages and salaries	49,000		30,300	52,000	72,000	
Material and supplies	3,800		1,000	4,500	7,500	
Debt service	14,200		3,600	5,500	18,000	
Public services	11,500		8,100	12,000	15,000	
Others	10,300		12,400	26,000	38,500	
Capital expenditure 2/	47,700	0.10	20,200	36,000	64,000	0.10
Overall deficit/surplus	16,000	0.03	42,000	36,000	44,400	0.07
Special accounts	300		5,600	(4,500)	(10,600)	
Compensation Fund	(1,500)		(7,300)	(7,500)	(8,100)	
Others	1,800		12,900	3,000	(2,500)	
Net lending by the Treasury	700		(1,900)	(2,000)	(2,000)	
Overall Treasury balance 2/	17,000	0.04	45,700	29,500	31,800	0.05

Notes: The current use of Fund resources is SDR 75 million, or 12 percent of quota, under the SBA arrangement for SDR 300 million.

Budget proposals are normally presented to Parliament at the end of September for the following financial (calendar) year.

1/ Based on an annual average exchange rate of DA 19=\$1.

2/ Excluding budgetary contribution for the Enterprise Rehabilitation Fund.

Table 3. Algeria: Monetary Survey, 1990-91

(In billions of dinars)

ALGMON (monproj) 11-Sep-91 11:17	1990 Dec. Actual	1991 June Prog.	1991 June Actual	1991 Sept. Prog.	1991 Dec. Prog. 1/	1991 Dec. Rev.Prog.
Foreign assets (net)	6.5	8.5	6.0	9.4	22.8	23.2
(Absolute change)	0.0	2.0	-0.5	2.9	16.2	16.7
Net domestic assets	336.5	334.5	361.3	383.0	366.0	395.8
(Absolute change)	34.8	-7.4	24.9	46.6	24.1	59.3
Domestic credit	414.0	409.6	429.3	455.6	437.1	478.4
Credit to Government	167.0	145.4	144.6	160.9	156.8	178.2
(Absolute change)	-11.6	-21.6	-22.4	-6.1	-10.2	11.1
of which: Foreign loan reval.	--	4.7	6.9	11.5	12.3	11.5
Credit to 22 ents., net	64.7	60.0	69.2	70.7	62.6	71.2
(Absolute change)	20.9	3.9	4.5	6.0	6.5	6.5
Credit to the economy	182.3	204.2	215.5	224.0	217.7	229.0
(Absolute change)	31.7	15.0	33.2	41.7	28.5	46.7
(Percentage change)	21.0%	7.9%	18.2%	22.9%	15.1%	25.6%
Medium- and long-term foreign liabilities	-93.1	-118.0	-135.9	-166.3	-163.8	-166.3
(Absolute change)	-32.6	-29.2	-42.8	-73.2	-75.1	-73.2
Enterprise rehabilitation fund	--	--	--	--	--	--
Government lending funds	-13.6	-13.6	-13.3	-13.3	-13.6	-13.3
Other items, net	29.1	56.4	81.2	107.0	106.3	97.0
(Absolute change)	27.2	24.5	52.1	77.9	74.3	67.9
Revaluation of net foreign assets	--	-2.1	-2.8	-4.3	-4.3	-5.6
Money and quasi-money	343.0	340.9	367.4	388.2	384.5	413.4
(Percentage change)	11.3%	-2.2%	7.1%	13.2%	10.3%	20.5%
Deposits with the CNEP	83.8	...	...	...	100.8	100.8
(Absolute change)	10.1	...	...	...	17.0	17.0
M3 (M2 + Deposits with CNEP)	426.8	...	...	...	485.3	514.2
Official reserves, net (US\$)	0.73	0.72	0.50	0.59	1.21	1.21
Net foreign assets (US\$)	0.54	0.53	0.33	0.42	1.01	1.03
MLT foreign liab. US\$	-7.64	-7.28	-7.39	-7.39	-7.28	-7.39
Exchange rate, dinars/US\$	12.191	16.2	18.385	22.5	22.5	22.5

Sources: Data provided by the Algerian authorities; and Fund staff projections.

1/ Adjusted to an end-1991 exchange rate of DA 24.5 per U.S. dollar.

28-Aug-91

Table 4. Algeria: Balance of Payments, 1990-92
(In millions of U.S. dollars)

	1990 Prog.	1990 Act.	1991 J.-J. Prog.	1991 J.-J. Est.	1991 Prog.	1991 Proj.	1992 Proj.
Merchandise (net)	3024	3157	1233	2237	1692	2713	2000
Exports, (f.o.b.)	12728	12817	6303	6381	11764	11713	12100
Hydrocarbons	12348	12337	6113	6191	11314	11263	11600
Other	380	480	190	190	450	450	500
Total Imports, (f.o.b.)	-9704	-9660	-5070	-4144	-10072	-9000	-10100
Off-financed imports, (f.o.b.)	-8704	-8660	-4720	-3794	-9322	-8250	-10100
Foodstuffs	-1918	-1902	-1130	-1023	-2063	-2200	-2200
Intermediate goods	-2962	-2952	-1598	-1290	-3292	-2600	-3250
Capital goods	-2790	-2772	-1404	-1200	-2849	-2600	-2850
Consumer goods	-1034	-1034	-588	-281	-1118	-850	-1800
Imports without payment (c.i.f.)	-1000	-1000	-350	-350	-750	-750	--
Nonfactor services (net)	-1249	-1191	-748	-389	-1394	-998	-1400
Credits	610	524	323	376	660	565	650
Debits	-1629	-1485	-967	-661	-1794	-1303	-2050
Unofficial services	-230	-230	-104	-104	-260	-260	--
Factor income, (net)	-1940	-2088	-1020	-1050	-2017	-2000	-1899
Interest received	90	72	35	20	93	50	120
Interest paid	-2030	-2160	-1055	-1070	-2110	-2050	-2019
Transfers, (net)	300	294	150	153	400	410	1500
Unofficial transfers, (net)	1230	1230	454	454	1010	1010	--
CURRENT ACCOUNT BALANCE	1365	1402	69	1405	-309	1135	201
CAPITAL ACCOUNT BALANCE	-1685	-1631	11	-1694	977	-1657	775
Direct investment, (net)	-20	-39	20	30	160	60	100
MLT drawings, (net)	-1310	-853	-405	-2015	692	-1840	675
Swings	4880	5850	3095	1985	7292	5210	6645
Bilateral	940	1200	520	300	1300	1020	1200
World Bank	309	300	267	150	620	550	635
Other multilateral	364	200	166	150	340	290	300
Financial institutions	380	220	150	200	1750	450	2050
Export credits	2134	2990	1542	885	2482	2300	1860
Suppliers credits	753	940	450	300	800	600	600
Amortization	-6190	-6703	-3500	-4000	-6600	-7050	-5970
Short term credit, (net)	-515	-676	396	291	125	123	--
Credit received	-132	-456	-20	-100	-350	-300	--
Credit granted	-383	-220	416	391	475	423	--
Errors, omissions and others	160	-63	--	--	--	--	--
OVERALL BALANCE OF PAYMENTS	-320	-229	80	-289	668	-522	976
FINANCING	320	228	-83	289	-667	-620	-976
Change in net reserves (incr.-)	130	86	107	316	-477	-477	-976
Gross reserves	130	86	--	217	-800	-800	-906
Fund purchases	--	--	107	99	323	323	100
Fund repurchases	--	--	--	--	--	--	-170
Other liabilities	--	--	--	--	--	--	--
Arrears	190	143	-190	-27	-190	-143	--
Financing gap		-1	3	--	-1	1142	--

Sources: Data provided by the Algerian authorities; and staff estimates.

Memorandum items:

Gross reserves (excl. gold)	730	747	1460	530	1530	1530	2430
In months of imports (g&nfs)	0.7	0.9	3.1	1.4	1.4	1.9	2.4

AFR-9104662
JSD-JJMM-AS/JJMM

ORIGINAL: FRENCH

Algiers, September -- , 1991

Mr. Michel Camdessus
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. Camdessus:

In accordance with the provisions of the stand-by arrangement of June 3, 1991, the Algerian authorities and the Fund staff have examined, as part of the first program review, the progress made in the economic and financial program adopted for 1991. The results of this examination are presented in the attached memorandum, which amends and supplements the letter from the authorities of April 27, 1991.

While the Government believes that the policies and measures contained in the attached memorandum and the letter of April 27, 1991 are adequate to achieve the program targets, it will take any additional measures deemed necessary. It will consult the Fund while the stand-by arrangement is in effect on any measure which may seem appropriate, in accordance with Fund practices as regards consultations.

Sincerely yours,

/s/

Abderhamane Hadj Nacer
Governor
Bank of Algeria

/s/

Hocine Benissad
Minister of Economy

Attachment

Memorandum on Economic and Financial Policy

I. Results posted during the first half of 1991

1. During the first half of 1991, the overall trends in the economic and financial aggregates were less favorable than had been projected in the program. Following the decrease in the gross domestic product in 1990, now estimated at -1.5 percent, production in many sectors of the economy (particularly industry, construction, and public works) showed a marked decline during the first six months of 1991, largely as a result of shortages of raw materials, semi-finished products, and various disturbances of economic and social activity in May and June 1991. Consequently, despite an exceptional surge of 35 percent in agricultural production linked to highly favorable weather conditions, and relative stagnation in the hydrocarbon sector, gross domestic product could at best stabilize in volume at the 1990 level, although further contraction is possible. By contrast, consumer prices rose at an annual rate of 20 percent during the first half of the year, reflecting a bounteous harvest; this is well below the projected rate of 35 percent.

2. As indicated in the aide-mémoire attached to the letter of April 27, 1991, the authorities have begun an extensive liberalization of trade and exchange regulations, eliminating import licenses, and granting free access to foreign exchange for virtually all imports. However, the external financing envisaged in the program as essential for the realization of the liberalization exercise has in practice amounted to less than was expected. Debt service payments due in the first half of 1991 exceeded the programmed amount by US\$500 million, while the total amount of medium- and long-term

loans was US\$2 billion, as against a programmed US\$3.1 billion. Financing declined in part as a result of delayed reactivation of certain bilateral lines of credit. Moreover, owing to the low level of foreign exchange reserves, and pending an agreement with creditor commercial banks for the refinancing of medium- and long-term debt maturities, the authorities were obliged to limit access to short-term credit and credit for cash settlements of imports. Specifically, the Algerian banks were requested to cooperate with their customers in seeking external financing under more favorable conditions, with at least 18-month maturities. Foreign trade liberalization was also predicated on the installation of concessionnaires and wholesalers. Authorized concessionnaires have, however, been slow to set up for business, owing to a wait-and-see attitude and, occasionally, for procedural and regulatory reasons. In light of these financing constraints, imports, although programmed for US\$4.7 billion in the first half of 1991, amounted to only US\$3.8 billion. Imports of intermediate goods and equipment declined by 19 percent and 14 percent, respectively.

3. For the most part, exports of both hydrocarbons and traditional goods met program estimates. The current account of the balance of payments showed a surplus of US\$1.4 billion during the first half-year, against a target of near equilibrium. However, the surplus was more than offset by the above-mentioned unfavorable factors affecting the capital account, which showed a negative balance of US\$1.7 billion. The overall balance of payments showed a deficit of US\$0.3 billion, while the program projected a surplus of US\$0.1 billion.

4. The monetary statistics for the first half of 1991 indicate a number of overruns. Although credit to the Government remained within program limits, the total amount of net domestic credit went well beyond the program ceiling for the period ending June 30, 1991. At this stage in the rehabilitation of public enterprises, the commercial banks were faced with a greatly increased growth in the demand for credit, owing particularly to the increase in external debt service as a result of the depreciation of the dinar. Maturities of principal in banks' external debt thus increased by 4.5 billion dinars as against program forecasts. Moreover, about 55 nonautonomous public enterprises (not including the 22 dismantled enterprises) active in sectors such as construction, transport, and services, required more than 8 billion dinars in credit. This can largely be explained by the slowdown in economic activity linked to the decline in imports and its impact on supplies for enterprises, as well as by delays in the clearing of these enterprises' claims, particularly against local governments. The slowdown in economic activity has also been reflected in a growth in the demand for credit by the autonomous public enterprises which, as a whole, have been unable to adjust their costs, owing in particular to a delay in implementing the rehabilitation plan.

5. Faced with these sizable demands for credit, the banks resorted to the money market (with increased intervention by the Bank of Algeria) to obtain funds at a time when the mechanisms needed to limit the supply of funds had not yet been fully implemented. Moreover, persisting problems with regard to the charging of accounts among the commercial banks has resulted in considerable increases within other net items of amounts which are not

broken down. [Explanation of the very strong surge in other net items]. This, combined with delays in launching bank modernization and organization programs, particularly as regards the processing and transmission of financial and accounting data, has complicated the conduct of monetary policy.

6. In connection with Treasury operations, the performance criterion for end-June was met satisfactorily (45.7 billion dinars at end-June 1991 for a program target of 41.6 billion dinars). The budget surplus (42.0 billion dinars) is very close to the amount forecast in the program (43.6 billion dinars) while the improvement of other Treasury operations was better than expected and more than offset the increased deficit in the Compensation Fund. While tax revenue from hydrocarbons was very close to the amount projected in the program, revenue from taxes on goods and services fell below program estimates by 5.5 billion dinars, and customs duties collected were 1.6 billion dinars less than anticipated, reflecting the decline in imports. As regards expenditure, wage bill disbursements, which included the wage increases legislated in November 1990, were below the program estimates, while the increase in family allowances, the school fees premium, and the minimum old age pension not provided for as part of the program, had only a moderate impact on budget expenditure during the first half year. Lower tax revenue has been offset by the extremely slow pace of term loan consumption and lags in subsidy payment to public entities. Earmarked accounts (other than the Compensation Fund and the Rehabilitation Fund) posted a surplus of 12.9 billion dinars, compared with a program estimate of 1 billion dinars. However, the Compensation Fund showed an imbalance of

7.3 billion dinars between its revenue and expenditure, compared with program estimates of less than 3 billion dinars. In particular, payments due for the 1990 fiscal year exceeded the initial estimates and revenue from the compensatory tax amounted to less than the anticipated amounts owing to the slump in economic activity and imports.

7. In accordance with the program target of letting prices send the signals to the Algerian economy needed for rational decision making, and along with import liberalization, the official exchange rate for the dinar was increased from 12.2 dinars per dollar at end-December 1991 to 18.4 dinars per dollar at end-June, an average rate of 16.8 dinars per dollar during the first half year, to be compared with an average rate of 9.0 dinars per dollar in 1990 and the program's hypothetical 16.7 dinars per dollar.

Domestic market prices have been liberalized for many products and the prices of some goods, petroleum products, and subsidized energy products have been raised, as stated in the aide-mémoire of April 27, 1991, with the exception of gas and electricity for which the planned increases did not take effect until August 1991. The beneficial effects of these measures are already visible in the unification of the domestic market and the increased availability of many products.

8. As regards the rehabilitation of public sector enterprises, for the 22 nonautonomous enterprises, audit contracts were recently signed and the studies should be finished by end-1991. The credit granted to these enterprises, which is a program performance criterion, has remained very close to the limits set in the program, despite delays in the Rehabilitation Fund's payment of amounts allocated to financing debt service costs as a

result of the depreciation of the dinar. The financial recovery of the commercial banks began with the payment end-June 1991 of the 8.8 billion dinars programmed for the recapitalization of these financial institutions.

II. Program for the second half of 1991

Price and exchange rate policy

9. In response to the unfavorable developments recorded in the first half of 1991, the authorities have decided to strengthen their economic and financial policies in many areas, including those of price and exchange rate policy. On ... , the authorities adjusted the dinar exchange rate to the rate of 22.5 dinars per dollar and will continue to apply, in conjunction with the other adjustment policies, a flexible exchange rate policy for the remainder of the program. By end-1991, in close coordination with the external financing of the program and the improvement in exchange reserve levels, the authorities intend to achieve full convertibility of the dinar for import transactions by lifting restrictions on access to credit in foreign currency and by introducing free access to foreign exchange reserves for cash settlement of imports. The authorities still intend to make the dinar convertible for almost all current transactions, but the financing difficulties experienced in 1991 could make it necessary to postpone this target from early 1992 to mid-1992.

10. The policy of gradual price liberalization with a view to letting the market determine most prices will be steadfastly pursued. Thus, in accordance with the program target of shifting most products with mark-up ceilings to the declared price category before 1992, the authorities have

just liberalized some 15 groups of products (cf. attachment). Moreover, the minimum waiting period required of enterprises between two filings of prices (products with mark-up ceilings) which had been shortened from 6 to 3 months in April 1991, has just been eliminated altogether, which permits a more rapid adjustment by enterprises of their prices to market costs and conditions. Finally, the authorities have decided to eliminate the mandatory declaration of producer prices for liberalized prices. This legal measure will be included in the draft law on competition currently being prepared. As regards products with supported prices, the Government is aware of the high budgetary cost and present inefficiency of subsidies which also benefit the well-off segments of society. Moreover, government price controls, unrelated to real market conditions, are not likely to promote a reaction on the supply side, while exacerbating wasteful allocation of scarce resources. However, in the process of reforming the price system for mass consumption goods, the appropriate mechanisms must first be introduced to ensure adequate protection of the most disadvantaged groups. The authorities are preparing a comprehensive plan in this area which they expect to present to the National Popular Assembly by the end of the year. They would also like to discuss the plan with the Fund staff. In the meantime, the authorities have recently raised the prices of a number of subsidized products with a view to scaling back the Compensation Fund's deficit.

Monetary policy

11. The Bank of Algeria has taken a number of steps to contain the rapid growth of the money supply noted during the first half of the year. To

begin with, in July it cut back the Central Bank's offer of liquidity on the money market, particularly through the advance fixing of the volume of these funds on the interbank market. This measure, together with the first steps toward public enterprise rehabilitation, made it possible to reduce total advances of the Bank of Algeria to banks from 83.3 billion dinars at end-June 1991 to 79 billion dinars by mid-August 1991. With the introduction of an auction system, the average money market rate rose from less than 11 percent in the first half year to about 12 percent. More recently, the central bank discount rate was raised from 10.5 percent to 11.5 percent, while the rate applied to commercial bank overdrafts at the Central Bank was increased from 15 percent to 20 percent. Moreover, stricter limits were imposed on central bank interventions in the money market which brought the interest rate for central bank interventions in the money market down to 17 percent by end-September, an intervention rate which will be maintained until end-October 1991. Subsequently, the target for the money market interest rate will be adjusted to keep the growth of the banking system's net domestic assets within the programmed limits. To offset partially the higher costs of money market resources for banks, the Central Bank's discount ceilings, still set at their 1990 level, have been raised 55 percent on average. Furthermore, the Bank of Algeria has introduced a system of ceilings for each bank's total use of central bank resources through discounts and money market operations. Similarly, to improve monitoring of monetary developments over time, the banks now forward estimated balance sheets to the Bank of Algeria with a time lag not exceeding one month.

12. The speeding up of the economic rehabilitation of the public enterprises should also facilitate the conduct of monetary policy. In the context of credit to the 55 regional public enterprises for construction and public works, the authorities recently decided to make these enterprises autonomous before end-1991 and to adopt a plan for their financial rehabilitation. A follow-up rehabilitation program being prepared for the autonomous public enterprises will be examined during the second program review early in 1992. Banks' external debts which have not been onlent will be audited before end-1991 and the necessary measures adopted to complete bank rehabilitation.

13. These measures should permit a considerable reining in of the slippages which have occurred in the first half of 1991. Nevertheless, we shall be unable to return to the initial targets and propose that changes be made in the performance criteria for end-September and end-December 1991 as indicated in Table 1. The level of projected net domestic assets enables us to envisage a growth in the money supply (M2) in the order of 21 percent, which implies an improvement in the liquidity ratio (M2/GDP) of 0.69 in 1990 to 0.58 in 1991.

Budgetary policy and Treasury accounts

14. In 1991 as a whole, allowing for the effects of the depreciation of the dinar, Treasury operations, specifically those related to the budget, show a significant revenue gain in comparison with the initial finance law. This gain results primarily from the impact of dinar depreciation on oil revenue, customs duties, and indirect taxation. This development, which is favorable to the equilibrium of government accounts will nevertheless be partially

offset by the effects of the slowdown in economic activity during the first half-year and by new expenditure, particularly that linked to the effect of the depreciation in the exchange rate and price liberalization, the wage increase, in accordance with the decision adopted in the fall of 1990, and the increase in family allowances and the school fees premium. Similarly, a portion of current expenditure, including that relating to the government debt, and capital expenditure entered in the initial finance law, has proven to be inadequate in view of the depreciation of the dinar. In August 1991, the Government therefore submitted a draft supplementary finance law to the National Popular Assembly. This finance law, which has just been adopted, adjusts the amount of budgetary funding and revenue. Projected revenue amounts to 1.3 billion dinars in additional resources and reflects the increase in the price of gasoline.

15. With regard to the compensation fund, as a result of the slowdown in economic activity and in imports in particular, revenue from the compensatory tax proved to be significantly lower than the amount programmed, while expenditure proved to be higher, owing to the considerable depreciation of the exchange rate with respect to the level used as a basis for the program estimates. Moreover, in order to stimulate investment and the problem sector, especially construction and textiles, it has appeared necessary to: (i) remove the 20 percent compensatory tax on domestically produced textiles and to reduce from 25 to 15 percent the rate applicable to imported fabrics; (ii) exempt from the compensatory tax paper, some industrial equipment, building, public works and drilling materials, and also machine parts; (iii) reduce from 25 to 15 percent the rate of tax

applied to spare parts for industrial vehicles; and (iv) reduce the rate of compensatory tax on equipment intended for industrial activities and on imports of lumber and made-up textile products. The uniform rate of 25 percent has been maintained for other imports. The cost of these various measures for relieving the compensatory tax is estimated at 3.8 billion dinars over the last four months of 1991. In order to limit, however, the account imbalance in the Compensation Fund, the supplementary finance law has provided for additional funding of 13.9 billion dinars for the Compensation Fund. Moreover, the authorities have decided to limit the outlays of the Compensation Fund by increasing the prices of some subsidized products, especially diesel oil, corn, propane, tomato concentrate, and sugar. These increases are equivalent to savings of some 3.0 billion dinars in 1991.

16. Furthermore, the Government has taken the necessary steps so that the deficit from Treasury interventions does not exceed 2 billion dollars at December 31, 1991, and that term loan consumption (excluding funding for the Rehabilitation Fund) is not greater than 64 billion dinars in 1991. It has also taken the required measures to reduce current expenditure by 3.7 billion dinars with respect to the figures of the supplementary finance law.

17. Taking all these factors into account, including exceptional oil revenues of 7 billion dinars, budgetary revenue is estimated at 259.4 billion dinars, for actual budgetary expenditure of 215 billion dinars, of which 151 billion are operating expenses and 64 billion are equipment expenses, excluding funding for the Rehabilitation Fund, or an

actual budgetary surplus of 44.4 billion dinars, excluding funding for the Rehabilitation Fund. The Compensation Fund should, on a cash basis, show a deficit in 1991 of 8.1 billion dinars, corresponding to expenditures of 44.4 billion dinars and revenue of 36.3 billion dinars, and to a carryover of some 14.0 billion dinars of expenditure to 1992 (with normal payment periods), as opposed to 21.8 billion dinars carried over from 1990 to 1991. Taking into account the balance of the other special Treasury accounts (excluding the Public Enterprise Rehabilitation Fund), i.e., -2.5 billion dinars, and the projected deficit of 2 billion dinars for Treasury interventions, the overall balance of the Treasury, excluding the Public Enterprise Rehabilitation Fund, should show a surplus of 31.8 billion dinars, as compared with a target initially set in the program at 31 billion dinars for an average exchange rate of 16 dinars to the dollar, and a target of approximately 49 billion dinars for an average exchange rate of 19 dinars to the dollar.

18. In the months to come, the Government will be concerned with studying and proposing to the National Popular Assembly a comprehensive plan aimed at protecting the most vulnerable social groups during this phase of the transition to a market economy; in particular, by bringing into play the mechanisms of national solidarity and introducing greater rationality in the system of consumer subsidies. New, nondistortional fiscal instruments, such as VAT and customs tariff reform, will be introduced beginning in 1992. The authorities will continue to seek the support of the Fund's staff in these areas.

19. With regard to public finances in 1992, the target of the authorities is to attain a surplus in the Treasury account, exclusive of funding for the Enterprise Rehabilitation Fund and of exceptional oil revenues, in the order of 5.5 percent of GNP, compared with 4.9 percent in 1991, and 3.6 percent in 1990. This target, which is being used as the basis for preparing the (draft) 1992 Finance Law, could speed up the process of rehabilitating the economy and containing inflationary pressures, while introducing market economy mechanisms. The realization of this goal will be helped by increased reforms aimed at eliminating price distortions, while protecting the most disadvantaged social categories.

Balance of payments

20. As regards the balance of payments for the whole of 1991, overall official imports may amount to US\$8.3 billion, which, despite an increase anticipated for the second half-year as a result of lower compensatory tax rates and better access to external credit sources, is 12 percent below the program target of US\$9.3 billion. Since overall exports should match the estimated volume, the current account will probably show a surplus of US\$1.1 billion, rather than the initially anticipated deficit of US\$0.3 billion. Debt amortization should amount to US\$7.1 billion, which is considerably higher than predicted (+US\$0.5 billion), while total drawings should amount to US\$5.2 billion (as opposed to the target of US\$7.3 billion) and consist of US\$ 1.0 billion in bilateral loans, US\$0.8 billion in loans from international organizations, and US\$2.9 billion in commercial loans. Current or pending financial loan disbursements are estimated at US\$0.5 billion, leaving a financial gap of US\$1.1 billion. This financial

gap will be covered by the first tranche, of US\$0.3 billion, of the European Community (EC) loan; additional revenue in the amount of US\$0.3 billion will be obtained from operations in connection with investments in the hydrocarbon sector and by additional financial loans secured in current discussions with commercial banks. In order to maintain access to the international financial market, the authorities have undertaken a whole series of measures, mainly as concerns commercial banks. In this regard, they take note of the support given by the Fund's staff in strengthening Algeria's position.

21. With a view to expediting the re-establishment of a strong position abroad and to improving the conditions for a medium-term economic revival, the Algerian authorities have also taken a number of steps to encourage investment. To this end, fiscal adjustments have been made to the supplementary finance law to promote investments, especially in the hydrocarbon sector. Moreover, negotiations are already under way with potential foreign partners who could introduce advanced technologies for recovering crude oil from reserves that are currently being exploited but which have low or declining yields. Such agreements could also lead to the anticipated payment of import duties. In this connection, the authorities will table a draft law designed to give international oil companies more room for intervention in the hydrocarbon sector. As regards concessionaires, to make their operations efficient the authorities will amend the regulations concerning them by end-1991, in particular by removing the preliminary investment constraints that are unrelated to the distribution and supply of goods and after-sale services.

ATTACHMENT

Products with a Mark-up Ceiling Transferred to
the System of Declared Prices

- Toilet soap
- Articles of personal hygiene
- China and household articles
- Air conditioners
- Plumbing items
- Hardware items
- Plaster and lime
- Lumber and veneer
- Electric and electronic mechanized office equipment
- Electric motors and transformers
- Computer hardware
- Bicycles and motorcycles
- Automobiles
- Industrial vehicles
- Machines, devices, and mechanical tools
- Public works equipment
- Beverages served in food establishments (nonclassified)

N.B.: Hotel and restaurant operations, currently in the category of price mark-up ceilings by decree by the Minister of the Economy, will also be transferred to the system of declared prices.

Table 1. Algeria: Performance Criteria and Indicative Targets
for the 1991 Program

	1990 <u>December</u> Performance	1991 <u>June</u> <u>Sept.</u> <u>Dec.</u> Performance Performance Programmed
I. Performance Criteria	(In billions of dinars)	
A. Quantitative criteria		
1. Change in net domestic assets <u>1/</u> <u>2/</u> <u>3/</u>		
2. Total net reduction in Treasury debt and change in Rehabilitation Account balance <u>1/</u> <u>2/</u> <u>3/</u> <u>4/</u>		
3. Change in net bank credit to the 22 enterprises requiring fundamental restructuring <u>1/</u>		
4. Minimum balance of Treasury operations, excluding funding for Rehabilitation Fund <u>1/</u> <u>2/</u> <u>3/</u> <u>4/</u>		
	(In billions of U.S. dollars)	
5. External borrowing guaranteed or contracted by the Central Government		
a. Net disbursements of nonconcessional loans of maturities of 1 to 12 years <u>1/</u> <u>2/</u>		
b. Outstanding short-term debt		
6. Stock of net international reserves (excluding gold and obligations to the Fund) <u>2/</u>		
B. Structural criterion		
1. Completion by end-January 1992 of all diagnostic studies on the 22 public enterprises mentioned above		
II. Indicative Targets	(In billions of U.S. dollars)	
1. Disbursements of nonconcessional loans contracted or guaranteed by the Central Government of maturities of 1-3 years <u>1/</u>		
2. Stock of net international reserves (excluding gold and obligations to the Fund) <u>2/</u>		

1/ Cumulative change since end-December 1990.

2/ Subject to adjustments described in the technical memorandum.

3/ Performance criteria at end-December 1991 are based on a maximum amount of 14 billion dinars of Compensation Fund expenditures incurred in 1991, but not yet paid because of normal payment periods.

4/ Including a maximum amount of 7 billion dinars of exceptional oil revenues owing to foreign investment in the hydrocarbon sector.

SP/HR 8-216
mission file
SEC-9104272
PM
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ORIGINAL: FRENCH

THE PEOPLE'S DEMOCRATIC REPUBLIC OF ALGERIA

MINISTRY OF THE ECONOMY

August 18, 1991

The Minister

ORIG: AFR

No. A05/SP/ME/91

CC: ~~MD~~

DMD

Mr. Michel Camdessus
Managing Director
International Monetary Fund
Washington

MR. P. ANDREWS

Dear Mr. Camdessus:

The first program review with the Fund has just been successfully completed. At the time of his departure, Mr. Artus gave us a draft letter of intent which makes reference to measures included in the 1991 Supplementary Finance Bill, the discussion of which in the National Assembly will not begin until tomorrow. Not wishing to anticipate the decisions of the Legislature, the Government will be in a position to discuss said letter of intent and decide on its terms with the Fund staff once the Bill has been approved.

Very truly yours,

/s/

Minister of the Economy

ORIG: AFR

CC: MD

DMD

THE ORIGINAL IS BEING TRANSLATED

REPUBLIQUE ALGERIENNE DEMOCRATIQUE ET POPULAIRE

MR. P. ANDREWS

MINISTERE DE L'ECONOMIESTAFF DU MINISTERE

Téléphone : (2) 73 74 16 Fax : (2) 73 19 55 Telex : 67 174
(2) 73 35 43

FAX MESSAGE

Destinataire : le Directeur Général du FTI

à l'attention de : Mr CAMDESSUS

Expéditeur : Ministre de l'Economie Algérien

Date : 19/08/91 PJ : 01

MESSAGE

Veuillez trouver en annexe une correspondance
que Mr le Ministre adresse à Mr le Directeur
Général du FTI, Mr Michel CAMDESSUS.

08/127

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الجمهورية الجزائرية الديمقراطية الشعبية
REPUBLIQUE ALGERIENNE DEMOCRATIQUE ET POPULAIRE

MINISTERE DE L'ECONOMIE

وزارة الاقتصاد

Le Ministre

n°-AOS/SP/NE/91


18 AOUT 1991 الوزير

Monsieur Michel CAMDESSUS
Directeur Général
Fonds Monétaire International
Washington

Monsieur le Directeur Général,

J'ai l'honneur de vous indiquer que la première revue du programme économique conclu avec le Fonds a eu lieu dans de bonnes conditions. A son départ M. ARTUS nous a remis un projet de lettre d'intention qui fait référence à des mesures incorporées dans le projet de loi de finances complémentaire pour 1991 et dont la discussion ne commencera que demain à l'assemblée nationale ; ne pouvant préjuger des décisions du législateur, le gouvernement dès l'adoption de cette loi sera en mesure de discuter de cette lettre et d'en arrêter le contenu avec les services du Fonds.

En comptant sur votre compréhension, je vous prie d'agréer, Monsieur le Directeur Général, l'expression de ma haute considération.

Le Ministre de l'Economie

IN

ORIG: AFR

CC: MD

DMD

THE ORIGINAL IS BEING TRANSLATED

REPUBLIQUE ALGERIENNE DEMOCRATIQUE POPULAIRE

MR. P. ANDREWS

MINISTERE DE L'ECONOMIE

STAFF DU MINISTRE

Téléphone : (2) 73 74 16 Fax : (2) 73 19 55 Telex : 67 174
(2) 73 35 43

FAX MESSAGE

Destinataire : le Directeur Général du FTI

à l'attention de : Mr CAMDESSUS

Expéditeur : Ministère de l'Economie Algérien

Date : 19/08/91 PJ : 01

MESSAGE

Veuillez trouver en annexe une correspondance
que Mr le Ministre adresse à Mr le Directeur
Général du FTI, Mr Michel CAMDESSUS.

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الجمهورية الجزائرية الديمقراطية الشعبية
REPUBLIQUE ALGERIENNE DEMOCRATIQUE ET POPULAIRE

MINISTERE DE L'ECONOMIE

وزارة الاقتصاد

Le Ministre

n° AOS / SP / NE / 91


18 AOUT 1991 الوزير

Monsieur Michel CAMDESSUS
Directeur Général
Fonds Monétaire International
Washington

Monsieur le Directeur Général,

J'ai l'honneur de vous indiquer que la première revue du programme économique conclu avec le Fonds a eu lieu dans de bonnes conditions. A son départ M. ARTUS nous a remis un projet de lettre d'intention qui fait référence à des mesures incorporées dans le projet de loi de finances complémentaire pour 1991 et dont la discussion ne commencera que demain à l'assemblée nationale ; ne pouvant préjuger des décisions du législateur, le gouvernement dès l'adoption de cette loi sera en mesure de discuter de cette lettre et d'en arrêter le contenu avec les services du Fonds.

En comptant sur votre compréhension, je vous prie d'agréer, Monsieur le Directeur Général, l'expression de ma haute considération.

Le Ministre de l'Economie

N



Office Memorandum

mission file

To: Mr. G. Dahl

April 4, 1991

From: Pierre Francotte

Subject: Algeria - Stand-By Arrangement - Draft Technical Memorandum

I have no difficulty with the draft technical memorandum that will accompany the letter of intent. One point, however. The draft refers in various places to adjustments that will be made to performance criteria in the event that certain developments occur, and it is not clear whether the intention is that these adjustments would be automatic or subject to approval by the Board. In this connection, I would like to point out that such adjustments could be automatic only if the circumstances in which they would be made and their extent are fully specified in the technical memorandum; otherwise, they would need to be submitted to the Board for approval.

cc: Mr. Nashashibi
Mr. Wickham
Mr. Elizalde


INTERNATIONAL MONETARY FUND

April 2, 1991

TO: Mr. Artus

Algeria

On further reflection, I believe that, in place of the fixed maximum adjustment to the performance criteria resulting from exchange rate deviations, we need to have increasing maxima from one quarter to the next, as discussed in the attached note.

G. Dahl 

cc: Mr. Winglee
Mr. Ouanes
Mr. Marciniak

4/2/91

Algeria - Adjustments of Performance Criteria
for Exchange Rate Movements

If we assume the baseline exchange rate profile for 1991 is:

Q1	DA 15.54 = US\$1
Q2	16.20
Q3	23.00
Q4	26.14
Q1-Q2	15.87
Q1-Q3	18.25
Q1-Q4	20.22

then if the adjustment formula is

$$x = 6 * (ER - 16) * T/12$$

where ER is the average exchange rate from the beginning of the year and T is the number of months since the beginning of the year, we could set the maximum adjustment according to the above exchange rate profile, as follows:

Maximum adjustment end-June	= DA 0 billion
end-Sept.	= 10.1
end-Dec.	= 25.3

Thus, if there is an export deviation of US\$-600 million in the third quarter, the performance criterion for the budget surplus would be adjusted down by $400 * 16.2 * .88 = \text{DA } 5.7$ billion (the limit), leaving $200 * 16.2 * .88 = \text{DA } 2.85$ billion of additional hydrocarbon revenue shortfall for which the criterion had not been adjusted. However, if the authorities had maintained the exchange rate according to the baseline scenario during the first two quarters, they could depreciate the rate to DA 24.9/US\$ in the third quarter to arrive at an average rate Q1-Q3 of 18.88 which yields a calculated adjustment on account of the exchange rate movement of DA 12.95 billion. Since the maximum adjustment is fixed at DA 10.1 billion, the remaining DA 2.85 billion would be available to offset the shortfall on account of export earnings. Similarly, if the export shortfall occurs in the fourth quarter rather than the third, the fourth quarter exchange rate would need to move to DA 28.03/US\$ compared with the baseline value of 26.14 in order to offset that part of the export shortfall for which there was no adjustment.

Greg Dahl

xradj

The minimum balances for Treasury operations and the ceilings on credit to the Central Government and net domestic assets will be adjusted by an amount in millions of dinars equivalent to the cumulative sum of export deviations (column 15 in Table 3) expressed in millions of U.S. dollars multiplied by 14.3. 1/ If the sum of deviations is negative, the adjustment will be limited to DA -5.7 billion. For example, if the negative sum of deviations is US\$ 200 million, the minimum surplus for Treasury operations will be reduced by DA 2.86 billion and the ceilings for credit to the Central Government and net domestic assets will be raised by DA 2.86 billion.

2. Adjustments related to the exchange rate

The quarterly minimum balance for Treasury operations and the ceilings on credit to the Central Government and net domestic assets will be adjusted in the same way, by an amount x in billions of dinars, where $x = 6 * (ER - 16) * T/12$, ER is the average exchange rate since the beginning of 1991, and T is the number of months since the beginning of the year (e.g., 6 through the end of June). 2/ There will be no adjustment to the end-June 1991 performance criteria, while the maximum adjustment in the event of positive deviations will be capped at DA 10.1 billion for end-September 1991 and at DA 25.3 billion for end-December 1991.

1/ Exchange rate of DA 16.2 per U.S. dollar multiplied by the 88 percent effective rate of taxation on the profits of Sonatrach.

2/ The coefficient 6 is an estimate of the overall annual budgetary impact of a change in the exchange rate amounting to one dinar per U.S. dollar.

FRD/COM/mmalgkan

April 1, 1991

TO: Mr. Artus

FROM: Karim Nashashibi

SUBJECT: Algeria--Letter of Intent

Our discussion of the program on March 29 helped clarify a number of issues. The major doubt we still have relates to the timing of this program. In particular, even if the authorities undertake the sharp price changes envisaged (against all electoral logic) will a successor government carry through with the exchange rate action commitment? Our other comments are the following.

1. Fiscal policies

a. There are two main risks involved in maintaining central government revenue in 1992: (i) decentralization of economic decision-making usually results in a fiscal imbalance for the central government, because devolution of revenues tends to be stronger than that of enterprise-related expenditures; and (ii) a complete overhaul of the tax system, involving the introduction of a global income tax, a corporate income tax, and a VAT (p. 22). Experience has shown such reforms to have negative revenue impacts at least in the short run. These risks make it important to establish a strong revenue base in 1991 through timely action on the exchange rate and full pass-through of the exchange rate changes on subsidized commodities. In this respect we would have favored spelling out the magnitude of the subsidy program by detailing some of the major commodities which benefit from these subsidies and by expressing the government's intention to phase out

these subsidies within the near future (possibly in paragraph 33 which needs to be clarified). The mission should also aim at including both the expenditure and the revenue side of the compensation fund in its budgetary presentation.

b. The presentation of the budget on a cash basis may conceal substantial domestic arrears from the central government toward public enterprises and autonomous entities. This would pose major problems in our monitoring of the program and we hope that during the first program review the mission can obtain reliable expenditure estimates on a commitment basis.

c. Imposing a 25 percent surcharge on three quarters of imports is distortive (paragraph 28). Either as a revenue raising measure or as a proxy for an exchange rate adjustment, it should have been imposed across the board with possibly higher subsidies on some of the commodities not covered by the surcharge. Will the exchange rate action envisaged be sufficient to make up for the revenue shortfall resulting from the elimination of this tax?

2. Wage policies

a. Public sector wage policy, excluding the autonomous enterprises, appears to favor a reduction in the average real wage, while substantially reducing wage differentials (p. 25). Is this the right policy in an economy where the lack of work incentives has been a major factor behind the weak economic performance? We would suggest not to using wage policy to improve income distribution; rather, a separate safety net for the poorer groups should be established.

b. The letter would be strengthened by some discussion of wage setting in the autonomous enterprises (EPEs).

3. External debt obligations

The budget table does not show any external financing, while the debt service of the country is over 70 percent. How reasonable is it to expect that enterprises will service this foreign debt when they are in need of rehabilitation? In fact, the budget would service the foreign debt incurred by public enterprises through the Rehabilitation Fund. In this respect, the paper could indicate that the fiscal surplus in Algeria does not carry the usual meaning, rather, it mirrors an arbitrary split of obligations within the public sector.

A major risk entailed in this program are the external debt obligations of the "autonomous" enterprises. Will they be able to generate their own external debt payments through domestic price increases? Will they not be already under great pressure to raise domestic prices, given their import dependence? If inflation starts picking up and the authorities attempt to moderate the enterprises' price adjustments, there will be a profit squeeze which will initially manifest itself in payments arrears and ultimately in budgetary transfers.

cc: Mr. Tait
Mrs. Ter-Minassian
Mr. Bornemann
Mrs. Nagy
Mr. Ahmad



Office Memorandum

TO: Mr. Artus

March 29, 1991

FROM: Michael Edow *ME*

SUBJECT: Algeria--Letter of Intent

If the import liberalization measure described in paragraph 12 (and Appendix A) of the letter of intent is implemented as a prior action and given that a significant reduction of the gap between the official and parallel market exchange rates is not expected to take place until the first review, we think that strong pressures on the foreign reserve position could rapidly develop. There is an inconsistency here in the program design that we think needs to be addressed, and we would make two suggestions for your consideration: (a) monetary policy could be significantly strengthened (the rediscount rate could be adjusted to positive levels in real terms at the start of the program, rather than at end-1991, a measure which would also help to attract the positive net inflows of short-term capital assumed in the program); and (b) the letter of intent (or a side letter) could clearly indicate that the authorities are fully committed to the import liberalization objective and are prepared to adjust the exchange rate more rapidly than currently envisaged if this becomes necessary to preserve the foreign exchange reserve position.

On fiscal policy, despite the price changes foreseen for 1991, current expenditures are projected to be relatively unchanged from 1990 and capital expenditures are expected to increase by only 8 percent. It would be useful to have some more explanation of the measures that the authorities are implementing to ensure that expenditures are in fact kept within these limits. If expenditures are larger than programmed and if the increase in revenues is lower than the program assumption (17 percent in real terms), the result would be a larger budget deficit than now envisaged.

In discussions with the staff in the latter part of last year, the authorities expected that the external arrears which had emerged would be cleared by the end of the year. In the event, this was not done and some external arrears still exist. We would suggest that clearance of these external arrears be explicitly identified as a prior action under the program (this seems to be implicit in the draft MEFP, which states that the arrears would be eliminated by the end of April).

The brief for the mission that visited Algiers last year to negotiate the program authorized an access level equivalent to 48 percent of quota for an 18-month period. Owing to the delays in the negotiations, the program period has been reduced to eleven months, but the draft letter of intent proposes the same total access. We can support the retention of the same total access but suggest that the program period be extended to thirteen months (this would essentially add one additional test date and corresponding purchase to the timetable

proposed in the draft letter). Since the key exchange rate measure is postponed to the first review, we would suggest that only 8 percent of quota be available on Board approval, and that each of the four remaining purchases (which would all take place after the first review) be 10 percent of quota.

It is to be noted that the external prospects are weaker than was anticipated at the start of the negotiations last year. For 1991, the programmed increase in reserves is lower by US\$1 billion and the projected disbursements of external loans are larger by US\$2 billion than was expected at the time the brief was written. The draft MEFP notes that it will be necessary to mobilize US\$7.3 billion in medium- and long-term external financing, of which sources have been identified for US\$6 billion. However, it is not clear that agreement will in fact be reached with the various sources mentioned in paragraph 43 of the MEFP. Besides, there is the remaining amount of US\$1.3 billion to be raised. We think this issue should be brought to the attention of management when the MEFP is forwarded for approval.

We have not received the technical memorandum which contains a number of automatic adjustments that affect the application of various performance criteria when exchange rate changes occur. We are concerned that the combination of these adjustments and the financing provided under the contingency mechanism could result in an excessively high proportion of financing relative to adjustment in some circumstances. We would appreciate the opportunity to comment on the technical memorandum before the MEFP is sent to management.

I am forwarding through Mr. Winglee some detailed comments, including comments on the contingency mechanism, the specification of external debt limits, and the use of the term "convertibility" in the MEFP.

cc: Mr. Bornemann

March 28, 1991

Algeria: Comments on Letter of Intent

We have the following comments on the letter.

1. In a number of places, the term "convertibility" is used (page 1 of the Minister's cover letter; paragraphs 6, 12, and Appendix A of the letter of intent). Since this term has several meanings, we would suggest that the use of the term should be at least clarified and the letter of intent should describe the nature of liberalization of specific exchange restrictions which are being contemplated. (For example, we assume that the authorities are at present not planning to achieve convertibility in respect of capital transactions). The meaning of the statements that the "dinar was made convertible for almost all goods" (paragraph 12) and "Effective April 1, 1991, the dinar will be convertible at the official exchange rate for all merchandise imports other than ..." (Appendix A) is unclear. Aren't these sentences simply stating that foreign exchange would be made available to import these goods at the official exchange rate, i.e., imports of these products are being liberalized?

2. Paragraph 15. It is not obvious why increases in retention ratios will contribute immediately to an expansion in export earnings. Will they be providing additional financial incentives in terms of more favorable exchange rates (as retained foreign exchange will be allowed to be sold at a more depreciated rate), or will producers of export goods have access to foreign exchange which they have not been able to obtain previously? Paragraph 40 states that the "new" foreign exchange retention system will contribute to a growth of nonhydrocarbon exports in 1991. We assume that the "new" system is referring to the increases in the retention ratios mentioned in Paragraph 15. The staff report should discuss the operation of the scheme in detail.

3. Paragraph 40. What are "imports without payment (i.e., imports for which foreign exchange is obtained outside the official exchange system)"? Are these imports financed with retained export earnings? If so, the expression should not be used, because retained export earnings must be treated as part of official sources of foreign exchange. The expression "outside the official exchange system" is normally used to refer to parallel market operations, and we assume that this paragraph is not referring to imports that are financed with foreign exchange from such a market which does not seem to exist in Algeria.

4. Paragraph 43. The financing gap in 1991 is estimated at US\$7.3 billion, of which US\$6.0 billion is identified. It would be helpful if some indications are given as to how the remaining gap is planned to be filled.

5. External payments arrears outstanding at end-February 1991 amounted to US\$90 million, and the authorities are planning to eliminate them by end-April 1991 (paragraph 42). The program would appear stronger if the elimination of payments arrears is made a prior action. It would seem that the authorities should be able to achieve this, because the Board discussion of the request for stand-by arrangement is most likely to take place after April.

6. Page 38. Why does the sentence on the undertaking regarding external payments arrears refer only to arrears of the public sector? The undertaking not to incur external payments arrears should cover all types of external payments arrears. The expression "multiple exchange rate practices" should be changed to "multiple currency practices" (fourth line from the bottom of paragraph) and the word "incompatible" should be changed to "inconsistent" (third line from the bottom of paragraph).

Algeria--Comments on the LOI and Memorandum on Policies

1. In paragraph 43, the description of external financing of the program should mention how the remaining US\$ 1.3 billion are to be met. We understand that most of these resources are to come from bilateral sources. Since new disbursements of external loans are projected to rise significantly in the program period, it will be important to have adequate assurances regarding the availability of all the major flows before issuance of the report.
2. Despite the authorities' concerns regarding the maturity profile of their debt and their efforts to extend it, it seems that a substantial portion of new borrowing is of relatively short maturity (as implied in Table 1 by the indicative target on gross disbursement in the 1-3 year maturity range). Thus, the debt servicing profile can be expected to remain short over the next few years. This may raise concerns regarding Algeria's medium-term viability, and consequently we would have liked to review the medium-term balance of payments projections. In any event, in paragraph 45 a short description of the size of future financing requirements and of how they are assumed to be met in the medium-term is needed, and it will be important that the forthcoming staff paper deal adequately with this issue. Incidentally, also in paragraph 45 (page 35), in view of the arrears accumulated in 1990 the reference to "no delays observed in external debt servicing" seems inconsistent.
3. It is not clear why the authorities are so concerned about the contribution of short-term debt to the short maturity profile of external debt (bottom paragraph in page 2 of the LOI) unless the short-term debt is not related to trade and therefore not easily rolled over. If the authorities are concerned about the high cost of these credits, mention should be made the disadvantageous terms at which such debt has been contracted. Incidentally, in relative terms these credits may not be that expensive, particularly because the need to obtain resources from banks to securitize their own loans would tend to make net lending from banks expensive.
4. The nonaccumulation of external payments arrears (page 38) by the public sector should be included specifically as a performance criterion. We presume that the text of the arrangement will make this clear.

Algeria -- Comments on Letter of Intent

1. Our main comment concerns the degree of financing assurances that will be available at the time of Board discussion. The MEFP notes that it will be necessary to mobilize US\$7.3 billion in medium-and long-term external financing (paragraph 43). The financing from the three sources (banks, new trade credits, and multilaterals) mentioned in the paragraph add up to US\$6 billion. Where is the remaining US\$1.3 billion to be raised from? In addition, how firm will the commitments for the identified US\$6 billion be at the time of Board consideration of the proposed SBA? For example, it is noted that agreement in principle is close to being reached on a bank refinance operation. Although we would not suggest that the Fund press for an early agreement on this transaction, the question remains of what will be done if the deal falls apart or is inconsistent with program assumptions (see below for further comments on this issue). At a minimum, it is essential that external financing be added to the list of items to which special attention will be paid in the two reviews that are contemplated (in paragraph 50). Apart from this change, we understand that the LOI or MEFP may not be the places to address these issues, but they should certainly be brought to the attention of management in the cover note when the documents are sent for approval.

2. The pros and cons of the refinancing operation involving collateralized principal payments that the Algerian authorities plan to undertake have been discussed in the past and are not taken up again in these comments. However, clarification of a few issues regarding this operation are in order. First, surely the Algerian authorities should attempt to undertake future refinancing operations without recourse to collateralization. Paragraph 45, however, is noncommittal on this point. A strong and sustained policy effort will of course be beneficial in this regard. Second, will the operation require a waiver of the negative pledge clause in World Bank loans? If so, are the authorities and the Bank staff working toward this end? Third, we would suggest that paragraph 43 clarify that the US\$1.2 billion expected to be received from the operation is net of the proceeds of the bank loan used to purchase the zero coupon bond. Fourth, we understand that the banks are pushing for Algeria to use some of its own resources to purchase the zero coupon bond, rather than have the collateral funded entirely from the proceeds of the bank loan itself. We presume that this possibility is accounted for in the financing scenario.

3. As regards the debt limits in the proposed SBA, we note that there are three, all of which involve somewhat different concepts: (a) net nonconcessional disbursements at maturities of one to 12 years; (b) the outstanding stock of short-term debt; and (c) the gross disbursement of nonconcessional loans at maturities of 1-3 years, which is an indicative target and not a performance criterion. If data availability permits, it would be preferable to have a uniform concept. For example, limits on net disbursements could be set with reference to changes in

the outstanding stock of debt, with an overall limit for maturities from zero to twelve years, and sub-limits on maturities from zero to three and from zero to one year. By setting such "concentric" ceilings which could be designed to be relatively liberal in the zero to twelve range, but relatively tight in the zero to one and zero to three range, substitution of shorter term debt by longer term debt could be encouraged. Alternatively, greater control over the maturity structure of debt could be achieved by setting limits on the principal falling due over a specific time period--say one, three, or five years--rather than concentrating only on final maturity. 1/

4. We presume that elimination of the remaining external arrears (which we understand relate mainly to import payments rather than debt service) will be a requirement for Board discussion (see paragraph 42).

5. The authorities are making laudable efforts to strengthen external debt management. However, the data situation with regard to external debt is still seriously deficient, and unless this is corrected improved debt management will be hampered. Paragraph 41 of the MEFP therefore makes the situation seem better than it really is.

6. A minor presentational point: the figures on net and gross disbursements in paragraph 41 appear to be incorrectly rounded when compared with the figures in Table 1.

1/ See "The Use of Limits on External Debt in Fund Arrangements," EBS/88/51, March 2, 1988, page 14, attached.

b. The use of sublimits

Whether or not an upper maturity limit is specified, additional mechanisms are often needed to monitor the maturity structure of debt. This need became increasingly evident in recent years as a bunching of amortization obligations left many countries with very large gross financing requirements just at the time their creditworthiness was being called into question. As countries recover from debt-servicing difficulties, it becomes important to monitor the maturity structure of debt to facilitate a restoration of creditworthiness and help ensure that the earlier experience is not repeated.

Complete control over the maturity structure of debt could only be attained by setting limits on the principal falling due over a specific time period--say one, three, or five years--rather than focusing only on final maturity, as has been the customary approach. Such a comprehensive monitoring, which has been attempted in one Fund arrangement, requires the capacity to monitor on a regular basis the impact of loan activity on the aggregate amortization schedule, a capacity not yet in place in many countries. Debt monitoring systems could usefully be upgraded to include the capability of tracking the impact of newly contracted debt on future amortization patterns.

At present, the principal mechanism for maturity monitoring, established in the 1979 guideline, is the inclusion of a sublimit on the contracting of foreign loans with final maturities of over one year and up to five years. This sublimit provides an incomplete means of monitoring the maturity structure of debt, inasmuch as new loans of longer final maturity also raise amortization requirements over the near term, particularly if contracted in sufficiently large magnitudes and with short grace periods. However, a sublimit does provide a useful degree of control over the amortization schedule; in setting the numerical sublimit, approximate account can be taken of the impact of loans to be contracted under the primary limit with final maturity in excess of five years. Whenever the maturity structure of external debt is of concern, limits should be placed on the contracting of debt and a standard sublimit should be specified. A separate limit should be placed on short-term debt. 1/

1/ It has become standard practice that the limit on debt in the 1 to 5-year maturity range be specified as a sublimit of the primary limit, rather than as a distinct limit (as would be the case with one limit on debt in the 1 to 5-year maturity range and another covering debt in the 5 to 12-year maturity range). While the two cases would yield the same result if both limits were fully utilized, the advantage of the standard sublimit formulation is that it permits switching, at the discretion of the authorities, into the higher end of the maturity spectrum.

Algeria - Comments on Letter of Intent

The letter of intent spells out an ambitious trade liberalization program that would certainly reduce allocative distortions in the economy. The program does also provide increased flexibility to domestic producers to restructure production in accordance with changes in relative prices, but more could be done. The system of declared prices, by which producers have to declare price changes, is an unnecessary remnant of a state controlled economy. It also creates a measure of inflexibility for domestic producers because of the 3 month waiting period (p.7). Furthermore, the system of concessionaires and wholesalers should be independent from Central Bank control.

The planned trade liberalization requires a realistic exchange rate policy to avoid the appearance of trade or exchange restrictions for balance of payments purposes. In this respect, it would be preferable to have a more flexible and market determined exchange rate regime to achieve the proposed currency convertibility.

The reforms of the exchange and trade systems are the cornerstones of the program and should therefore carefully be reviewed in September 1991 and March 1992. The letter of intent should spell out for this purpose in greater detail what reform measures will be conditions for the completion of these reviews.

2. Editorial comments

P.9, No.11: The paragraph should state clearly that all quantitative restrictions will be eliminated as well as the foreign exchange allocation.

P.37, No. 48: Add "(Attachment I)" at the end of the first prior action.

Algeria--Comments on Letter of Intent

We have comments related to the inbuilt adjustments to performance criteria, the contingency mechanism and assessment of capacity to repay the Fund.

1. Inbuilt adjustments to performance criteria and the contingency mechanism

We are concerned that the combination of the inbuilt adjustments to performance criteria and the Fund financing provided under the contingency mechanism may provide for an excessively high proportion of financing relative to adjustment in response to an adverse movement in oil prices. After talking with Mr. Winglee, we understand that, as laid out in more detail in Section B of the technical memorandum (which has not been circulated for review), the contingency financing from the Fund is to be deducted from the cumulative deviation before the adjustments to the performance criteria are calculated. Under this procedure a negative deviation of 100 percent of quota, for example, would imply a deviation net of contingency financing of 72.5 percent of quota, after deducting the contingency financing of 27.5 percent (i.e., 100 percent less the threshold of 45 percent, multiplied by the financing proportion of $\frac{1}{2}$). This deviation would provide for a lowering of the reserve target of 24.2 percent of quota (72.5 percent multiplied by one third) and a raising of the borrowing limit by the same amount. The residual that would need to be addressed by additional adjustment would be only 24.1 percent of quota, i.e., less than a quarter of the original shock.

We would prefer revising the inbuilt adjustments so as to lower the proportion of financing provided in the face of a negative shock. One possibility would be to define the NIR performance criterion in the standard fashion, i.e., including liabilities to the Fund. Then the proportion of financing (in the form of reserve drawdown, contingency drawing from the Fund, and additional capital market borrowing) would be limited to at most two thirds. Under this proposal, to the extent that Algeria received contingency financing from the Fund, the gross reserve drawdown permitted by the inbuilt adjustment would be reduced.

If it is decided to stick at this stage with the adjustments that have been negotiated, the description on page 33 needs to be modified to indicate more clearly the procedure to be followed. A casual reader who does not have time to delve into the technical memorandum may easily be misled by the draft text.

On the contingency mechanism itself, the present drafting of paragraph 6 in Table 1 does not achieve what we think is intended. It would seem to imply that contingency financing would be provided in a quarter after the mechanism is activated only if the net sum of deviation in that quarter exceeds the level of the net sum of deviation on which the previous ECM drawing was based. The word "cumulative"

needs to be inserted at various points to clarify the intention. Thus, the paragraph would read:

"6. Proportion of net sum of deviations to be financed:
In the first quarter in which the threshold is exceeded:
50 percent of cumulative net sum of deviations in excess of the threshold. In subsequent quarters, [when the net sum of deviations is negative,] 50 percent of the cumulative net sum of deviations to the extent that it exceeds the level of the cumulative net sum of deviations on which the previous ECM drawing was based."

2. Capacity to repay the Fund

On page 35, the letter includes the statement that "Algeria would not expect to experience any difficulty in repaying the Fund and maintaining external viability." It would be better to have: "Algeria would not expect to experience any difficulty in maintaining external viability. In any event, the authorities are fully committed to meeting financial obligations to the Fund as they fall due."

When the staff report is drafted it will need to include a section assessing capacity to repay the Fund. Inter alia, this section should discuss the reasons for the occurrence of arrears in 1990, possible risks attached to refinancing by foreign banks in 1992-93, and implications of different scenarios for oil prices. The standard table of indicators of debt service obligations to the Fund should be included (example attached).

Table 13. Mozambique: Indicators of Financial Obligations to the Fund, 1989-2000

	1989 Prov.	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
		Projections										
Debt service to the Fund (baseline scenario)												
In millions of U.S. dollars	0.2	0.3	0.4	2.2	6.3	10.3	13.0	22.0	28.3	28.1	24.0	21.1
In percent of exports of goods and services	0.1	0.1	0.1	0.6	1.5	2.2	2.4	3.5	3.9	3.3	2.4	1.8
In percent of total debt service due	—	0.1	0.1	0.5	1.5	2.5	3.2	6.0	9.2	6.5	4.4	3.4
In percent of nonreschedulable debt service ^{1/}	0.3	0.2	0.3	1.4	3.8	6.2	7.4	11.2	13.0	12.4	6.6	4.8
In percent of gross official reserves	0.1	0.1	0.2	0.7	1.9	3.0	3.4	5.0	5.7	5.3	4.3	3.6
Debt service to the Fund (Scenario I)												
In percent of exports of goods and services	0.1	0.1	0.2	0.6	1.6	2.3	2.6	3.8	4.3	3.7	2.8	2.1
In percent of total debt service due	—	0.1	0.1	0.5	1.5	2.5	3.2	6.0	9.2	6.5	4.4	3.4
In percent of gross official reserves	0.1	0.1	0.2	0.7	1.9	3.0	3.4	5.0	5.7	5.3	4.3	3.6
Memorandum items:												
Fund credit outstanding												
In millions of U.S. dollars	57.4	67.4	107.1	145.1	159.4	149.9	137.6	116.2	88.4	60.7	36.9	15.9
In percent of quota	70.0	85.0	135.0	183.0	201.0	189.0	173.5	146.5	111.5	76.5	46.5	20.0
In percent of GDP	4.5	5.0	7.5	9.6	9.6	8.2	6.9	5.3	3.7	2.3	1.3	0.5
Gross Fund financing												
In millions of U.S. dollars	16.4	11.9	39.7	39.7	19.8	—	—	—	—	—	—	—
In percent of Mozambique's gross financing needs ^{2/}	2.4	0.6	3.3	3.3	1.7	—	—	—	—	—	—	—
US\$/SDR exchange rate	1.344	1.300	1.300	1.300	1.300	1.300	1.300	1.300	1.300	1.300	1.300	1.300

Sources: Bank of Mozambique; and staff estimates.

^{1/} Nonreschedulable debt service includes debt to multilateral organizations and uninsured suppliers, leasing, after-cutoff-date debt, London Club debt contracted after 1987, debt service on new borrowing after 1988, and on refinancing, excluding amortization resulting from debt rescheduling under the 1987 Paris Club accord.

^{2/} Gross financing needs are defined as the sum of the current account deficit before grants, amortization of medium- and long-term debt, repayments to the Fund, targeted reduction in payments arrears, and targeted accumulation of reserves.



Office Memorandum

To: Mr. Jacques Artus

From: Pierre Francotte *W*

Subject: Algeria - Letter of Intent

March 29, 1991

I have reviewed the draft letter of intent and attached Memorandum of Economic Policies in Mr. Elizalde's absence, and I have the following comments:

1. The language in the letter of intent concerning the requests for use of Fund resources and external contingency mechanism needs to be revised in accordance with the comments pencilled in on the attached. In particular, please note that Algeria is not requesting external contingency financing at this time, but an external contingency mechanism (the request for external contingency financing will come when the ECM is triggered). Please let me know if any of these changes give you difficulties.

2. Two points concerning Table 1 of the letter, which contains the factors proposed for the ECM. First, paragraph 7 should be deleted (much of it merely describes the symmetry rule of the CCFE decision, and the part that goes beyond this should not be specified *ex ante*). Secondly, I understand the clause in paragraph 6 as providing for a reduction of the proportion of financing to 0 percent after the first quarter in which the deviation occurs. If this understanding is incorrect, the clause should be modified.

3. Indicative targets and performance criteria of different amounts appear to be contemplated for NIR and external borrowing for the same periods. As I understand them, the indicative targets would serve as early warning signals, in the sense that their breach would trigger discussions with the staff (the draft refers to "consultations with the Fund", which, in Fund terminology, means consultations with the Executive Board; as I presume that this is not your intention, I have modified the language to refer to the staff), but would not affect the right of Algeria to make purchases. Notwithstanding this distinction with performance criteria, the specification of different indicative targets and performance criteria is puzzling, as it could suggest that the authorities and the Fund staff are of two minds on the level of performance that is expected in this respect.

4. The structural performance criterion that is contemplated calls for the "initiation" of studies by a certain date and their completion by another specified date. As you know, performance criteria must be objectively monitorable and should call for meaningful action. In this connection, the definition of the

performance criterion creates two difficulties. First, the concept of "initiation" is rather vague (does it mean the establishment of a committee, a decision to establish a study group, the beginning of its work by such a study group?). Secondly, the completion of a study is not a very meaningful criterion, because it does not refer to the substance of the conclusion of the studies. Accordingly, it may be best to specify that the progress in initiating and completing such studies will be reviewed during the review, rather than make it a performance criterion.

5. The draft Memorandum refers to an attached technical memorandum, which was not included in the set of documents sent to us. I would appreciate it if you could forward a copy to us for review.

6. I have written some additional comments on the attached copies of the relevant pages.

Attachment

cc: Mr. Boorman
Mr. Tanzi
Mr. Blalock
Mr. Elizalde (o/r)

reserves, despite the projected decline in international petroleum prices and the introduction of a comprehensive import liberalization program.

In support of the implementation of the policies set forth in the Government's economic and financial program, Algeria wishes to obtain the support of the International Monetary Fund within the framework of a stand-by arrangement in an amount equivalent to SDR 300 million for a period of 12 months. The Government also requests ^{an} external contingency ~~mechanism, in association with the stand-by arrangement,~~ financing up to a maximum amount equivalent to SDR 210 million, in accordance with the factors set out in the attached Table 1. The

Government of Algeria understands that, in accordance with the principle of symmetry applicable under the facility, should favorable external contingencies occur during the period of the ^{program supported by} requested arrangement,

~~there would be increases in the balance of payments targets which might be accompanied by adjustments~~ ^{will be made by the} ~~in the use of Fund resources of up to SDR~~

210 million. The Government is aware that the use of Fund resources ^{is} ~~contingent~~ ^{on observance of} ~~in particular to the results obtained with regard to all the~~

performance criteria agreed with the Fund and ~~to the completion of two~~ ^{in the context of which} reviews under the stand-by arrangement, ~~as well as to the implementation~~ of measures and policies consistent with the program and with balance of payments financing requirements. ^{will be assessed.} In view of the uncertainties

surrounding developments in the world market for hydrocarbons in 1991, these measures and policies have been drawn up in such a way as to

address a range of eventualities. ~~Reviews will take place to complement those planned under the stand-by arrangement in the event that the Government of Algeria should request the use of resources under the~~

~~compensatory and contingency financing facility.~~]

The Government of Algeria is of the opinion that the measures and policies described in the attached memorandum are such as to make it possible fully to achieve the objectives of the program for 1991.

However, the Government will take any other additional measures which may prove necessary in order to ^{meet} ~~comply with~~ the program targets and will consult with the Fund ~~during the stand-by period~~ on the adoption of any measure which might be deemed appropriated in accordance with Fund ^{practices} ~~practices~~ in this regard.

Sincerely yours,

Abderrahmane Hadj-Nacer
Governor, Bank of Algeria

Ghazi Hidouci
Minister of Economy

Attachment

8. Inbuilt adjustments to the program for hydrocarbon prices

44. With around 95 percent of Algeria's export receipts derived from hydrocarbons, the balance of payments and the budget are greatly affected by fluctuations in the international price of crude oil and natural gas, which have been very large in recent months. To reduce the impact of the effects of these price fluctuations on execution of the 1991 program, built-in adjustment mechanisms have been included in addition to the request for external contingency ~~financing~~ ^{mechanisms} under the compensatory and contingency financing facility (CCFF). The macroeconomic framework underlying the program for 1991 was drawn up on the basis of an average export price for Algerian crude of US\$20 per barrel, consistent with the Fund staff's projection of January 25, 1991 in the context of the periodic World Economic Outlook (WEO) exercise. The performance criteria and indicative targets for net international reserves (excluding liabilities to the Fund) and for net disbursements of medium- and long-term loans contracted or guaranteed by the public sector will each be adjusted by one third of the impact of the cumulative deviations resulting from the differences between the prices of the indicators for liquid hydrocarbon and gas exports and the baseline projections of these reference prices, using the baseline volumes, prices, and methods of calculation in Section B of the technical memorandum. The objectives for Treasury operations and the ceilings on credit will be adjusted by the full amount of the dinar equivalent of the deviations resulting from oil prices if these are

management policies and the flexible exchange rate policy while maintaining the objectives of liberalizing the economy. However, the Government feels that a more likely outcome is that international oil prices will be on the order of US\$21 per barrel in 1992 and may be expected to remain at this level in real terms in the medium term. This would permit imports to be less constrained in 1992 and in the medium term, while also providing for a large current account surplus that would be used to reduce external borrowing and reduce Algeria's debt service ratio to 42 percent by 1995.

III. Program Monitoring

47. The Bank of Algeria will be responsible for coordinating the monitoring of the program, and will advise the Fund on a regular basis of developments under the program in comparison with the performance criteria and indicative targets set forth below, which are defined in the technical memorandum attached to this memorandum. To this end, during the stand-by period, the authorities will periodically send the Fund staff the information required for monitoring the progress achieved under the program and will strengthen existing arrangements for preparing and gathering economic and financial information in a timely fashion, in particular as regards the external debt and monetary aggregates.

48. The program calls for a number of measures to be implemented before ~~discussion of the stand-by arrangement~~ ^{consideration of the request for} the stand-by arrangement by the Executive Board of the Fund. These actions include: (1) publication by the Bank of Algeria of

the list of products whose importation is no longer restricted and for which importers have access to foreign exchange on the official market, without discrimination between the public and private sectors; (2) the measures on domestic price liberalization or adjustments, scheduled by the Government for the first quarter of 1991; and (3) adoption by the authorities of a program for the rehabilitation of banks and public enterprises.

49. Purchases from the Fund under the stand-by arrangement will be subject to compliance with the performance criteria set forth below. The following quarterly quantitative performance criteria ^{will apply} ~~have been set~~ for purposes of monitoring program execution (see Appendix B): (1) a ceiling on net domestic assets; (2) a subceiling on the sum of net debt reduction by the Treasury vis-à-vis the banking system and net changes in the account established for public enterprise rehabilitation; (3) a subceiling on net credit to the 22 selected public enterprises requiring fundamental restructuring; (4) minimums for the balance of Treasury operations, excluding contributions to the Rehabilitation Fund for public enterprises; (5) limits on net nonconcessional borrowings at maturities of more than one year and less than or equal to 12 years, contracted or guaranteed by the public sector; (6) limits on the outstanding external debt at maturities less than or equal to one year, contracted or guaranteed by the public sector; and (7) minimums with respect to net international reserves (excluding obligations vis-à-vis the Fund), which will be equal to the indicative targets minus a margin of US\$300 million (US\$200 million for June 1991). The program ^{will} ~~(includes)~~

the following structural performance criterion: initiation by end-July 1991 of all the diagnostic studies on the 22 public enterprises requiring fundamental restructuring, and their completion by end-January, 1992. In addition, the following, quarterly indicative targets have been selected: (1) ceilings on gross nonconcessional borrowing at maturities of more than one year and less than or equal to three years, contracted or guaranteed by the public sector and (2) minimums with respect to net international reserves (excluding obligations vis-a-vis the Fund). In the event the indicative targets are not met, the authorities will ~~consult~~ ^{discuss the matter} with the Fund ^{Staff} with a view to reaching decisions on corrective measures which may prove necessary. As explained above, the program entails a mechanism for adjusting the performance criteria and indicative targets in light of the deviations in international petroleum prices from the baseline projections. (See also the technical memorandum.) In addition, during the period of the stand-by arrangement, the Central Government will accumulate no domestic payments arrears and the public sector will not incur external payment arrears. In addition, the authorities do not intend to impose or intensify restrictions on payments and transfers for current international transactions, to introduce or modify multiple exchange rate practices, to conclude bilateral payments agreements that are ^{inconsistent} ~~incompatible~~ with Article VIII of the Fund Agreement, or to impose or intensify restrictions on imports for balance of payments reasons.

50. ~~Subject to compliance with the performance criteria and the clauses set forth above, the program calls for four purchases during the stand-~~


~~by period. The first purchase may be effected immediately following approval of the stand-by arrangement by the Fund's Executive Board; subsequent purchases will depend upon compliance with the performance criteria set forth in the program and upon the conclusion of two reviews~~
For addition,
~~intended to assess the progress achieved in carrying out the stand-by~~
will be conducted
program supported by
arrangement. The first review is scheduled for not later than mid-September 1991 and will examine in particular the progress achieved with implementing the exchange rate policy and the import liberalization, as well as with the program to rehabilitate public enterprises and banks. The second review, scheduled for mid-March 1992 at the latest, will also address these questions, in addition to the preparation of the economic and financial and policy framework for 1992.



Office Memorandum

March 29, 1991

To: Mr. Dahl
Mr. Marciniak
Mr. Winglee

From: A. Ouanes 

Subject: Algeria - 1991 Fiscal Program

Attached is an updated fiscal table including the quarterly data as agreed to on March 28, 1991 with Mr. Hamdi. Please ensure that your own quarterly data are consistent with these. Note also that the 1991 program data have been rounded off to the nearest 100 million.

Attachment

cc: Mr. Artus

Table 3: Algeria: Summary of Central Government Operations
(in millions of dinars)

Afiscum	1987	1988	1989	1990	1990	1990	1991				1991
				Original	Revised	Est.	Budget	March	June	Sep	Program
				Budget	Budget						
Total revenue 1/	92,955	93,453	116,413	136,500	144,400	153,000	195,300	62,400	123,100	177,900	246,200
Hydrocarbon revenue 1/	20,480	24,086	45,492	48,500	56,400	76,200	99,200	39,500	77,900	112,200	143,900
Non hydrocarbon revenue	72,475	69,367	70,921	88,000	88,000	76,800	96,100	22,900	45,200	65,700	102,300
Tax revenue	57,968	58,079	64,555	78,000	81,500	71,800	89,600	21,900	42,700	62,000	96,800
Taxes on income and profits	19,840	20,938	21,943	26,000	26,500	21,000	29,500	4,400	20,000	23,000	25,000
Taxes on goods and services	28,647	28,213	30,646	39,500	41,000	35,800	42,100	11,500	23,000	34,500	46,400
Customs duties	7,062	6,061	8,407	9,000	10,000	11,200	14,000	5,300	10,700	16,400	21,600
Registration and stamps	2,419	2,867	3,559	3,500	4,000	3,800	4,000	700	1,700	2,500	4,000
Non-tax revenues	14,507	11,288	6,366	10,000	6,500	5,000	6,500	1,000	2,500	3,700	5,500
Total expenditure 2/	103,748	119,654	124,521	140,012	149,412	135,500	183,300	43,200	79,500	130,600	212,900
Current expenditure	65,481	76,214	80,229	84,000	92,400	87,500	118,300	25,900	53,100	88,100	135,700
Wages and salaries	36,986	39,463	43,124	...	46,276	48,000	60,800	18,000	34,000	54,000	73,000
Material and supplies	2,644	2,870	3,370	...	3,906	3,800	6,300	1,500	3,500	5,400	7,700
Debt service	3,812	11,840	11,316	...	14,420	14,400	15,800	700	1,600	2,700	18,200
Subsidies	18,869	18,921	22,488	...	27,524	21,300	23,939	4,500	11,000	19,000	25,400
Safety net expenditure 3/	...	...	...	...	...	...	8,000	...	...	1,000	3,200
Others	3,143	3,120	-69	...	274	...	3,461	1,200	3,000	6,000	8,200
Capital expenditure 2/	38,267	43,440	44,292	56,012	57,012	48,000	65,000	17,300	26,400	42,500	77,200
Overall deficit/surplus	-10793	-26201	-8108	-3512	-5012	17,500	12,000	19,200	43,600	47,300	33,300
Special accounts	3,767	2,507	6,403	...	...	-1000	...	5,000	-2000	-6500	-2300
Compensation Fund	...	...	...	...	...	...	...	4,000	-3000	-5000	200
Others	...	...	...	...	...	...	...	1,000	1000	-1500	-2500
Net lending by the Treasury	-16100	-20799	-6738	...	...	...	1,500	...	...	...	...
Overall Treasury balance 2/	-23126	-44493	-8443	-3512	-5012	16,500	13,500	24,200	41,600	40,800	31,000
ation to the Rehabilitation Fund	...	...	...	...	...	...	-12000	...	-13300	-16900	-16900
Financing	23,126	44,493	8,443	...	...	-16500	-1500	-24200	-28300	-23900	-14100
Domestic	22,222	42,773	8,436	...	...	-17607	-1500	-24200	-28300	-23900	-14160
Banking system 4/	22,129	24,122	9,959	...	...	-13707	...	-21200	-26300	-22700	-6960
Central Bank (excluding Rehabilitation Fund)	16,260	18,491	8,216	...	...	-16076	...	-18800	-22100	-18100	...
Commercial banks	2,123	1,882	418	...	...	-1081	...	-1400	-5200	-6800	-10460
Others 5/	3,719	3,749	1,325	...	...	3450	...	-1000	1,000	2,200	3,500
Non bank	5,869	18,651	-1523	...	...	-3900	...	-3000	-2000	-1200	-7200
External (Net)	93	-300	343	...	...	...	...	...	...	...	...
Adjustment 6/	811	2,020	-336	...	...	1107	...	...	...	...	60
Memorandum items:											
Rehabilitation Fund : Balance	...	...	...	...	...	...	...	...	...	...	-4900
Resources (+)	...	...	...	...	...	...	12,000	...	13,300	16,900	16,900
Expenditures (-)	...	...	...	...	...	...	12,000	...	-13300	-16900	-21800
Central Bank (including Rehabilitation Fund)	16,260	18,491	8,216	...	...	-16076	...	-18800	-22100	-18100	4,900
GDP	305,545	316,760	374,342	481,900	481,900	481,900	692,112				692,112

(in percent of GDP)

Total revenue 1/	30.4%	29.5%	31.1%	28.3%	30.0%	31.7%	28.2%				35.6%
Hydrocarbon revenue 1/	6.7%	7.6%	12.2%	10.1%	11.7%	15.8%	14.3%				20.8%
Nonhydrocarbon	23.7%	21.9%	18.9%	18.3%	18.3%	15.9%	13.9%				14.8%
Tax revenue	19.0%	18.3%	17.2%	16.2%	16.9%	14.9%	12.9%				14.0%
Total expenditure 2/	34.0%	37.8%	33.3%	29.1%	31.0%	28.1%	26.5%				30.8%
Current expenditure	21.4%	24.1%	21.4%	17.4%	19.2%	18.2%	17.1%				19.6%
Capital expenditure 2/	12.5%	13.7%	11.8%	11.6%	11.8%	10.0%	9.4%				11.2%
Overall deficit	-3.5%	-8.3%	-2.2%	-0.7%	-1.0%	3.6%	1.7%				4.8%
Net lending by the Treasury	-5.3%	-6.6%	-1.8%	0.0%	0.0%	0.0%	0.2%				0.0%
Overall Treasury balance 2/	-7.6%	-14.0%	-2.3%	-0.7%	-1.0%	3.4%	2.0%				4.5%

Sources: Data provided by the Algerian authorities and Fund staff projections.

1/ Including DA 6.7 billion on domestic sales in 1991.

2/ Including Budgetary allocations for the Public enterprise rehabilitation Fund.

3/ Budgetary set aside for the social cost associated with the public enterprise restructuring operations
4/ Data taken from the monetary survey.

5/ Deposits in the Postal Checking System and private deposits in the Treasury.

6/ Adjustment including "variation des encaisses div."

INTERNATIONAL MONETARY FUND

March 29, 1991

TO: Mr. Artus

Algeria

Attached are revised tables reflecting the quarterly phasing of Treasury accounts agreed between Mr. Ouanes and Mr. Hamdi yesterday.

G. Dahl

cc: Mr. Ouanes
Mr. Winglee
Mr. Marciniak
Mr. Spencer

Table 3: Algeria: Summary of Central Government Operations
(in millions of dinars)

Affaires	1987	1988	1989	1990 Original Budget	1990 Revised Budget	1990 Est.	1991 Budget	1991 March June Sep			1991 Program
Total revenue 1/	92,955	93,453	116,413	136,500	144,400	153,000	195,300	62,400	123,100	177,900	246,200
Hydrocarbon revenue 1/	20,480	24,086	45,492	48,500	56,400	76,200	99,200	39,500	77,900	112,200	143,900
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Non-tax revenues	14,507	11,288	6,366	10,000	6,500	5,000	6,500	1,000	2,500	3,700	5,500
Total expenditure 2/	103,748	119,654	124,521	140,012	149,412	135,500	183,300	43,200	79,500	130,600	212,900
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Wages and salaries	36,986	39,463	43,124	...	46,276	48,000	60,800	18,000	34,000	54,000	73,000
Material and supplies	2,644	2,870	3,370	...	3,906	3,800	6,300	1,500	3,500	5,400	7,700
Debt service	3,812	11,840	11,316	...	14,420	14,400	15,800	700	1,600	2,700	18,200
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Safety net expenditure 3/	8,000	1,000	3,200
Others	3,143	3,120	-69	...	274	...	3,461	1,200	3,000	6,000	8,200
Capital expenditure 2/	38,267	43,440	44,292	56,012	57,012	48,000	65,000	17,300	26,400	42,500	77,200
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Compensation Fund	4,000	-3000	-5000	200
Others	1,000	1000	-1500	-2500
Net lending by the Treasury	-16100	-20799	-6738	1,500
On Treasury balance 2/	-23126	-44493	-8443	-3512	-5012	16,500	13,500	24,200	41,600	40,800	31,000
Contribution to the Rehabilitation Fund	-12000	...	-13300	-16900	-16900
Financing	23,126	44,493	8,443	-16500	-1500	-24200	-28300	-23900	-14100
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Central Bank (excluding Rehabilitation Fund)	16,260	18,491	8,216	-16076	...	-18800	-22100	-18100	...
Commercial banks	2,123	1,882	418	-1081	...	-1400	-5200	-6800	-10460
Others 5/	3,719	3,749	1,325	3450	...	-1000	1,000	2,200	3,500
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Central Bank (including Rehabilitation Fund)	16,260	18,491	8,216	-16076	...	-18800	-22100	-18100	4,900
GDP	305,545	316,760	374,342	481,900	481,900	481,900	692,112				692,112
(in percent of GDP)											
Total revenue 1/	30.4%	29.5%	31.1%	28.3%	30.0%	31.7%	28.2%				35.6%
Hydrocarbon revenue 1/	6.7%	7.6%	12.2%	10.1%	11.7%	15.8%	14.3%				20.8%
Nonhydrocarbon	23.7%	21.9%	18.9%	18.3%	18.3%	15.9%	13.9%				14.8%
Tax revenue	19.0%	18.3%	17.2%	16.2%	16.9%	14.9%	12.9%				14.0%
Total expenditure 2/	34.0%	37.8%	33.3%	29.1%	31.0%	28.1%	26.5%				30.8%
Current expenditure	21.4%	24.1%	21.4%	17.4%	19.2%	18.2%	17.1%				19.6%
Capital expenditure 2/	12.5%	13.7%	11.8%	11.6%	11.8%	10.0%	9.4%				11.2%
Overall deficit	-3.5%	-8.3%	-2.2%	-0.7%	-1.0%	3.6%	1.7%				4.8%
Net lending by the Treasury	-5.3%	-6.6%	-1.8%	0.0%	0.0%	0.0%	0.2%				0.0%
Overall Treasury balance 2/	-7.6%	-14.0%	-2.3%	-0.7%	-1.0%	3.4%	2.0%				4.5%

Sources: Data provided by the Algerian authorities and Fund staff projections.

1/ Including DA 6.7 billion on domestic sales in 1991.

cluding Budgetary allocations for the Public enterprise rehabilitation Fund.

udgetary set aside for the social cost associated with the public enterprise restructuring operations

4/ Data taken from the monetary survey.

5/ Deposits in the Postal Checking System and private deposits in the Treasury.

6/ Adjustment including " variation des encaisses div."

Table 4. Algeria: Monetary Survey, 1987-91

(In billions of dinars)

ALGMON (monproj) 29-Mar-91 11:16	1987 Dec.	1988 Dec.	1989 Dec. Adj.2/	1990 Dec. Est.	1991 March Program	1991 June Program	1991 Sept. Program	1991 Dec. Program
Foreign assets (net)	9.1	9.3	6.5	6.1	8.1	8.0	14.4	15.8
(Absolute change)	-0.2	0.1	-2.8	-0.4	2.0	1.9	8.3	9.7
Net domestic assets	248.7	283.7	301.6	334.5	322.8	327.1	338.7	367.4
(Absolute change)	31.1	35.0	...	32.9	-11.7	-7.4	4.2	32.9
Domestic credit	303.7	339.2	373.0	405.0	398.0	402.3	413.9	437.7
Credit to Government	123.1	147.2	178.6	164.9	148.4	143.3	146.9	162.6
(Absolute change) 1/	22.1	24.1	10.0	-13.7	-16.5	-21.6	-18.0	-2.3
of which: Foreign loan reval.	--	--	--	--	4.7	4.7	4.7	4.7
Credit to 22 ents., net	21.8	32.8	43.8	53.5	55.5	57.4	58.9	60.0
(Absolute change)	...	11.0	11.0	9.7	2.0	3.9	5.4	6.5
Credit to the economy	158.8	159.2	150.6	186.6	194.1	201.6	208.1	215.1
(Absolute change) 1/	...	0.4	6.4	36.0	7.5	15.0	21.5	28.5
(Percentage change) 1/	...	0.2%	4.0%	23.9%	4.0%	8.0%	11.5%	15.3%
Medium- and long-term foreign liabilities	-39.7	-53.8	-60.5	-93.2	-123.9	-123.9	-123.9	-123.9
Enterprise restructuring fund	--	--	--	--	--	--	--	4.9
Government lending funds	-10.3	-11.3	-12.8	-13.6	-13.6	-13.6	-13.6	-13.6
Other items, net	-5.0	9.5	1.9	36.3	62.3	62.3	62.3	62.3
Revaluation of net foreign assets	--	--	--	--	-2.0	-2.0	-2.0	-2.0
Money and quasi-money	257.8	293.0	308.1	340.6	328.9	333.1	351.1	381.3
(Percentage change)	13.6%	13.6%	5.2%	10.5%	-3.4%	-2.2%	3.1%	11.9%
Deposits with the CNEP	48.5	58.6	72.5	87.9	...	...	...	104.9
(Absolute change)	9.3	10.1	13.9	15.4	...	...	...	17.0
M3 (M2 + Deposits with CNEP)	306.3	351.6	380.6	428.5	...	...	...	486.1
GDP	305.5	316.8	374.3	481.9	...	...	...	692.1
Growth rate	-0.7%	-2.1%	3.4%	1.1%	...	...	...	4.5%
Deflator	7.62%	5.89%	14.29%	27.33%	...	...	...	37.44%
Liquidity ratio (M3/GDP)	0.94	1.04	0.98	0.84	...	...	...	0.66
Velocity (GDP/M3)	1.07	0.96	1.02	1.19	...	...	...	1.51
Official reserves, net IMF (US\$)		0.92	0.86	0.73	0.73	0.72	1.12	1.21
Net foreign assets (US\$)	1.85	1.38	0.81	0.50	0.50	0.49	0.89	0.98
MLT foreign liab. US\$	-8.04	-7.99	-7.53	-7.65	-7.65	-7.65	-7.65	-7.65
Exchange rate, dinars/US\$	4.939	6.731	8.032	12.191	16.2	16.2	16.2	16.2

Sources: Data provided by the Algerian authorities; and Fund staff projections.

1/ 1990 figures adjusted for special bond operations.

2/ Adjusted for special equipment bond issues to the BADR and CPA in 1989.

Table 1. Algeria: Performance Criteria and Indicative Targets for the 1991 Program

	1990	1991			
	Dec. Actual	March Indicative	June	Sept. Program	Dec.
(In billions of dinars)					
I. Performance criteria <u>1/</u>					
A. Quantitative criteria					
1. Change in net domestic assets <u>1/ 2/</u>	32.9	-11.7	-7.4	4.2	32.9
2. Total net reduction in Treasury debt and change in Rehabilitation Fund balance <u>1/ 2/</u>	13.7	16.5	21.6	18.0	-2.6
3. Change in net bank credit to the 22 enterprises requiring fundamental restructuring <u>1/</u>	9.7	2.0	3.9	5.4	6.5
4. Minimum balance of Treasury operations, excluding contribution to Rehabilitation Fund <u>1/ 2/</u>	16.5	24.2	41.6	40.8	31.0
(In billions of U.S. dollars)					
5. External borrowing guaranteed or contracted by the public sector					
a. Net nonconcessional disbursements at maturities of one to 12 years <u>1/ 2/</u>	—	-0.28	-0.36	0.05	0.15
b. Outstanding short-term debt	1.80	1.78	1.78	1.58	1.45
6. Minimum increase of net international reserves excluding gold and obligations to the Fund <u>2/ 3/</u>	0.73	0.53	0.53	0.93	1.23
B. Structural criterion					
1. Initiation by end-July 1991 of the diagnostic studies on the 22 public enterprises requiring fundamental restructuring and their completion by end-January 1992					
II. Indicative Targets <u>1/</u>					
(In billions of U.S. dollars)					
1. Disbursements of nonconcessional loans contracted or guaranteed by the Central Government at maturities of 1-3 years <u>1/</u>	—	0.74	1.56	2.22	2.98
2. Stock of net international reserves excluding gold and obligations to the Fund <u>2/ 3/</u>	0.73	0.73	0.73	1.23	1.53

1/ Cumulative change with respect to end-December 1990.

2/ Subject to adjustment as described in the technical memorandum Section B.

3/ Subject to adjustment for sales of gold from end-December 1990.

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FIRST PRELIMINARY DRAFT

AS GIVEN TO ALGERIAN
AUTHORITIES IN ALGIERS
8/12/91 FOR DISCUSSION

Monsieur le Directeur General,

1. Conformement aux dispositions de l'accord de confirmation du 3 juin 1991, les autorites algeriennes et les services du Fonds ont procede aux discussions relatives a la premiere revue du programme economique et financier adopte pour 1991. Les resultats de ces discussions sont exposes dans les paragraphes ci-dessous qui modifient la lettre des autorites datee du 27 avril 1991.

Les developpements au cours du premier semestre 1991

2. Les developpements economiques et financiers intervenus dans la premiere moitie de 1991 ont ete sensiblement moins favorables que ceux anticipes dans le programme. Apres une baisse du P.I.B. en 1990, qui est aujourd'hui estimee a -1,5%, de nombreux secteurs de l'economie ont enregistres durant les six premiers mois de 1991 un declin marque de leur production du en particulier au manque de matieres premieres et de biens intermediaires importes ainsi qu'aux perturbations intervenues dans les activites de production en mai et juin derniers. Des lors, en depit de la reprise attendue de la production agricole due a des conditions meteorologiques favorables, le produit interieur brut devrait a nouveau se contracter en 1991. Le taux d'inflation a atteint un rythme d'environ 20%, pour une estimation de 35% pour l'annee 1991.

3. Comme indique dans l'aide-memoire annexe a la lettre que vous ont adresse les autorites algeriennes le 27 avril dernier,

les pouvoirs publics ont mis en oeuvre en avril 1991 une vaste liberalisation de la reglementation en matiere d'importations et de change, avec en particulier l'elimination des licences d'importation et un libre acces aux devises pour l'importation de virtuellement tous les produits. Cependant, le financement exterieur indispensable pour concretiser ce libre acces s'est avere moindre que celui anticipe. Les paiements au titre du service de la dette echus au cours du premier semestre 1991 ont ete superieurs d'environ 500 millions de dollars au montant prevu initialement, tandis que les credits financiers se sont reveles inferieurs d'environ 250 millions de dollars aux previsions et certaines lignes de credit bilateral ont ete renouvelees avec retard. En raison du faible niveau des reserves en devises qui en est resulte, et en l'absence d'un accord avec les banques commerciales creditrices de l'Algerie sur un "reprofilage" des emprunts a moyen et long terme, les autorites se sont vues dans l'obligation de limiter l'acces au financement a court terme et au reglement immediat des importations retardant ainsi la mise en oeuvre effective des mesures de liberalisation. Il a ete demande aux banques algeriennes de preter assistance aux importateurs dans la recherche de financements exterieurs a des conditions favorables, en general sur la base de prets amortis sur une duree d'au moins 18 mois. En plus des difficultes auxquelles elles ont ete confronte dans la recherche de ce type de prets, les banques algeriennes ont eu besoin d'une periode d'adaptation pour faire face a ces nouvelles responsabilites.

De la meme maniere, la reforme donnait egalement un role essentiel aux concessionnaires et grossistes qui devaient se substituer aux anciens monopoles d'Etat en matiere d'importation. Cependant, le nombre d'operateurs qualifies pret a se lancer rapidement dans ce type d'operations s'est revele moindre que prevu. Dans le cas des concessionnaires, ceci est du en partie aux procedures d'approbation prealable appliquees durant cette periode, qui exigeaient que les concessionnaires s'engagent des le depart a faire des investissements importants en Algerie. En raison des ces contraintes de financement et des difficultes de la phase de transition de la reforme, le montant total des emprunts a moyen et a long terme qui s'etait eleve a 3,2 milliards de dollars durant les six premiers mois de 1990, est revenu aux environs de 1,7 milliard de dollars durant le premier semestre de 1991, tandis que les importations qui atteignaient 4,8 milliards de dollars dans la premiere moitie de 1990, sont tombees aux environs de 3,8 milliards de dollars durant la meme periode de 1991. Les importations de biens intermediaires et d'equipement ont chute respectivement de 19% et 14%.

4. Si les importations ont baisse, les exportations d'hydrocarbures durant le premier semestre ont ete conformes aux previsions initiales, et les autres exportations ont sensiblement augmente a la suite de la depreciation du cours du dinar. Ainsi, le compte courant de la balance des paiements est en amelioration de 1,3 milliard de dollars par rapport au

niveau prevu dans le programme. Cependant, cette amelioration a ete plus que compensee par les facteurs defavorables qui ont affecte le compte de capital comme indique precedemment. La balance globale des paiements a enregistre un deficit de 0,3 milliard de dollars alors qu' un surplus de 0,1 milliard de dollars etait attendu dans le programme.

5. Les statistiques monetaires relatives au premier semestre 1991 temoignent egalement de resultats tres preoccupants. Bien que les credits au gouvernement et aux 22 entreprises non autonomes se soient inscrits dans les limites du programme, le montant total du credit interieur net a tres largement depasse le plafond fixe dans le programme pour la periode s'achevant le 30 juin 1991. Alors que l'assainissement des entreprises du secteur public est loin d'etre acheve, les banques commerciales ont ete confronte a une forte croissance de la demande de credit, pour partie due au cout plus eleve que represente le service de la dette exterieure avec un dinar deprecie. Les banques elles-memes ont du faire face a une augmentation d'un montant de ---milliards de dinars du service de leur dette exterieure qui n'avait pas ete pleinement anticipe dans le programme. De meme, environ 55 entreprises publiques locales qui ne sont pas encore autonomes, dans des secteurs tels que la construction, le transport et les services, ont necessite un montant de ---milliards de dinars de credits, en grande partie dus aux retards de paiement qu'elles ont du supporter de la part des collectivites locales. [Explication de la tres forte

croissance des autres postes nets]. Le ralentissement de l'activite economique s'est egalement traduit par une croissance de la demande de la part des entreprises qui dans l'ensemble n'ont pas procede a l'ajustement a la baisse de leurs effectifs rendue necessaire par la reduction de leur activite. Face a ces demandes, les banques ont eu recours au marche monetaire pour se procurer les liquidites necessaires a un moment ou les mecanismes necessaires pour limiter l'offre de liquidites n'etaient pas encore mis en oeuvre. Des retards repetitifs dans la transmission des donnees statistiques a la banque centrale et l'apparition de problemes de comptabilisation dans les comptes des banques commerciales qui se sont traduits par des accroissements importants des montants non ventiles a l'interieur des autres postes nets, ont rendu difficile pour les autorites le suivi etroit de la situation monetaire et la mise en oeuvre de mesures correctrices. La mise en place d'une procedure de plafonnement temporaire au niveau de chaque banque des accroissements de credits accordes qui etait prevue dans le cadre du programme a de meme demande plus de temps que prevu pour etre effectuee.

6. En ce qui concerne les operations du tresor, le critere de performance a la fin du mois de juin a bien ete satisfait, l'amelioration plus importante que prevue de l'excédent budgetaire et des autres operations du tresor faisant plus que compenser l'augmentation du deficit du fonds de compensation. Tandis que les recettes fiscales sur les hydrocarbures ont ete tres proches du niveau projete dans le programme, les recettes

au titre des impôts sur les biens et services ont été inférieures de 5,6 milliards de dinars aux estimations du programme et les droits de douanes perçus se sont révélés inférieurs aux prévisions pour un montant de 1,6 milliard de dinars en liaison avec le recul de l'activité économique. Du côté des dépenses, les décaissements au titre de la masse salariale qui ont inclus le paiement des augmentations de salaires décidées en novembre 1990, ont été proches des montants estimés dans le programme. Cependant, le relèvement des allocations familiales, de la prime scolaire et du minimum vieillesse non prévus dans le cadre du programme et estimés à ----milliards de dinars sur une base annuelle ont gonflé les dépenses courantes. Ces éléments défavorables ont été cependant plus que compensés par le rythme très lent de consommation des crédits d'équipement et les retards intervenus dans le versement des subventions aux établissements publics. L'excédent du budget général s'est donc élevé à 51.5 milliards de dinars à comparer à un montant estimé de 33 milliards dans le programme. En revanche, le fonds de compensation a enregistré un déséquilibre de 7,3 milliards de dinars entre ses recettes et ses dépenses, à comparer avec une estimation de --- milliard de dinars dans le programme. En particulier, les paiements dus au titre de l'exercice 1990 ont été supérieurs aux estimations initiales et les revenus tirés de la taxe compensatoire se sont révélés inférieurs aux montants anticipés en raison du déclin de l'activité économique et des importations.

7. En conformite avec l'objectif de permettre aux prix de transmettre a l'economie algerienne les signaux neccessaires a des prises de decisions rationnelles, et concomitamment avec la liberalisation des importations, le taux officiel de change du dinar est passe de 12,2 dinars par dollar a la fin decembre 1991 a 18,4 dinars par dollar a la fin du mois de juin, soit un cours moyen de 16,8 dinars par dollar durant le premier semestre qui est a comparer a un cours moyen de 9,0 dinars par dollar en 1990. Les prix sur le marche interieur ont ete liberes pour un grand nombre de produits et les prix de certains biens, produits petroliers et produits energetiques subventionnes ont ete releves, comme indique dans l'aide memoire du 27 avril 1991. Les effets benefiques de ces mesures sont d'ores et deja visibles dans l'unification du marche interieur et la meilleure disponibilite de nombreux produits.

8. L'assainissement en cours des entreprises du secteur public s'est poursuivi au cours du premier semestre conformement aux previsions. En ce qui concerne les 22 entreprises non autonomes, les contrats d'audit [ont ete recemment signes] et les etudes devraient etre achevees d'ici la fin de l'annee 1991. Le plafond de credit a ces entreprises, qui est un critere de performance au sens du programme [a ete observe], malgre le retard pris dans le paiement par le fonds de rehabilitation des sommes affectees au financement du cout du service de la dette du a la depreciation du cours du dinar. L'assainissement de la situation financiere des banques

commerciales est en cours avec le versement effectue a fin juin 1991 des 8.8 milliards de dinars prevus pour la recapitalisation de ces institutions financieres.

Le programme pour le deuxieme semestre de 1991

La politique des prix et du taux de change

9. En reponse aux developpements defavorables qui ont ete enregistres dans la premiere moitie de l'annee 1991, les pouvoirs publics algeriens ont decide de renforcer leurs politiques economiques et financieres dans de nombreux domaines, y compris ceux de la politique des prix et du taux de change. Les autorites ont ajuste depuis le -----le cours de change du dinar a un taux de [24] {26} dinars par dollar et continueront a suivre une politique de change flexible durant le reste du programme, en liaison avec les autres politiques d'ajustement. D'ici la fin de 1991, les autorites ont l'intention de parvenir a une totale convertibilite du dinar pour les transactions sur les importations par la levee des restrictions a l'accès aux credits en devises et par la mise en place d'un libre acces aux reserves de change pour le reglement immediat des importations. Les pouvoirs publics ont toujours l'intention de rendre le dinar convertible pour la quasi totalite des transactions courantes, mais les difficultes de financement rencontrees en 1991 pourraient necessiter un report de cet objectif du debut de l'annee 1992 vers le

milieu de 1992.

10. [detail des mesures de liberalisation des prix]

Politique monetaire

11. Dans le but de limiter la croissance rapide de la masse monetaire enregistree au cours de la premiere moitie de l'annee, la Banque d'Algerie a pris les mesures suivantes. Dans un premier temps, en juillet, l'offre de liquidites par la banque centrale sur le marche monetaire a ete reduite, en particulier par la fixation anticipee du volume de ces concours sur le marche interbancaire. Cette mesure, ainsi que la recapitalisation des banques a fin juin, ont permis de reduire le montant total des avances de la Banque d'Algerie aux banques de 82 milliards de dinars a fin juin a.....milliards de dinars a ----- . Cependant, le taux moyen sur le marche monetaire a ete limite a environ 12 pour cent grace a un systeme d'allocation des liquidites entre les differentes banques. Plus recemment, le taux de reescompte de la Banque centrale a ete releve, de 10.5 pour cent a 12 pour cent, et le taux applique aux decouverts des banques commerciales a la Banque centrale a ete augmente de 15 a 20 pour cent. En outre, les interventions de la banque centrale dans le marche monetaire ont ete plus severement limitees, et le systeme d'appel d'offres a ete introduit de telle maniere que les taux d'interet soient determines seulement par le jeu de l'offre et

de la demande a chaque seance du marche monetaire, les interventions de la banque centrale ayant pour objet de parvenir dans un premier temps a un niveau de taux d'interet d'environ 17 pour cent. Par la suite les objectifs de taux d'interets seront modules de maniere a maintenir la croissance des avoirs interieurs nets du systeme monetaire dans les limites prevues.

Pour compenser partiellement les banques du rencherissement des ressources sur le marche monetaire, les plafonds de reescompte de la Banque centrale, fixes a ce jour a leur niveau de 1990, ont ete releves de ...pour cent en moyenne. Des plafonds trimestriels de credit, banque par banque, ont ete fixes, et une penalite de depots non remuneres a la Banque centrale equivalente a 50 pourcent de tout depassement des plafonds fixes sera imposee aux banques.

En outre, des plafonds indicatifs sur les avoirs interieurs nets (autre que le credit a l'Etat) ont ete specifies par banque pour prevenir toute imputation d'actifs dans les comptes d'attente. En ce qui concerne le credit aux 55 entreprises publiques locales non autonomes les autorites [.....].Pour les entreprises publiques autonomes un programme destine a parachever leur assainissement est en preparation et fera l'objet d'un examen lors de la deuxieme revue du programme au debut de 1992. Dans le but d'assurer un meilleur suivi dans le temps des developpement au niveau monetaire, les banques disposent desormais de balance previsionnelle avec un decalage d'un mois au plus. Ces mesures

devraient permettre une resorption importante des derapages qui sont intervenus au premier semestre 1991. Cependant, il ne nous sera pas possible de revenir sur les objectifs initiaux et nous proposons de modifier les criteres de performance pour la fin septembre et fin decembre 1991, tel qu'indiques au tableau 1. Le niveau des avoirs interieurs nets prevus nous permet de limiter la croissance de la masse monetaire (M2) a... pour cent, qui implique une amelioration du taux de liquidite (M2/PIB) de.... en 1990 a en 1991. Cette reduction des pressions inflationnistes permettra d'atteindre l'objectif de taux de croissance des prix a la consommation de 35% pour l'annee 1991.

Politique budgetaire et comptes du Tresor

12. En ce qui concerne l'annee 1991 dans son ensemble, une fois pris en compte les effets de la depreciation du cours du dinar, les operations du Tresor et en particulier celles relatives au budget, laissent apparaitre une importante plus-value de recettes par rapport a la loi de finances initiale. Ce gain resulte principalement de l'effet de la depreciation de la valeur du dinar sur les recettes petrolieres, les droits de douanes et la fiscalite indirecte. Cet element favorable a l'equilibre des comptes publics a toutefois ete partiellement compense par les effets du ralentissement de l'activite economique au premier semestre et par des depenses nouvelles,

en particulier l'augmentation des salaires, conformément aux accords arretes a l'automne 1990, celle des allocations familiales et de la prime scolaire. Ces augmentations ont pese sur l'equilibre des comptes des etablisements publics et organismes de securite sociale. De meme une partie des depenses courantes, dont la dette publique, et des depenses d'equipement inscrites dans la loi de finances initiale se sont revelees insuffisantes compte tenu de la depreciation du dinar. Le gouvernement a donc presente a l'Assemblee Populaire Nationale en aout 1991 un projet de loi de finances rectificative qui ajuste le montant des dotations et des recettes budgetaires. Ce projet de loi integre d'ores et deja un certain nombre de mesures de redressement des comptes publics, en particulier le relevement du prix a l'entree des raffineries pour l'essence et le super (gain en 1991: 1,3 milliard de dinar) et l'autorisation de l'importation des vehicules automobiles de moins de trois ans (gain en matiere de droits de douanes: 1 milliard de dinars).

13. En ce qui concerne le fonds de compensation, par suite du ralentissement de l'activite economique et notamment des importations, les recettes au titre de la taxe compensatoire se sont revelees sensiblement inferieures au montant estime dans le programme. En outre, afin de relancer l'investissement et les secteurs du batiment et du textile, il est apparu necessaire a l'issue de negociations entre le gouvernement et les operateurs economiques, de (i) supprimer la taxe compensatoire au taux de 20% sur les textiles issus de la

production interieure et de reduire de 25 a 15% le taux applicable aux importations (ii) exonerer de taxe les papiers, les equipements industriels et les materiels de BTP et de forage ainsi que les pieces destinees aux machines (iii) reduire de 25 a 15% le taux de la taxe applique aux pieces de rechange des vehicules industriels et (iv) de reduire le taux de taxe compensatoire sur les equipements destines aux activites industrielles ainsi que sur les importations de bois et les produits textiles confectionnes. Le cout de ces diverses mesures d'allegement de la taxe compensatoire est estime a environ 5 milliards de dinars sur les quatre derniers mois de l'anne 1991. Toutefois afin de limiter le desequilibre du compte du fonds de compensation, le gouvernement a inclus dans le projet de loi de finances complementaire decrit ci-dessous une dotation budgetaire supplementaire de 10 milliards de dinars au benefice du fons de compensation. De plus les pouvoirs publics ont decide de limiter les depenses du fonds de compensation en procedant a une augmentation des prix de detail de certains des produits alimentaires et petroliers subventionnes, en particulier le riz, le mais, les haricots, les lentillles, les pois-chiches, les huiles alimenatires, le concentre de tomates, le sucre (dont le prix moyen de detail est accru de 200%), le lait, le butane, le propane et le gazole (dont le prix est plus que double). Ces hausses equivalent a une economie de quatre milliards de dinars environ sur les quatre derniers mois de 1991.

14. En outre, le gouvernement a pris les mesures nécessaires pour que le solde des interventions du Trésor ne dégage pas un déficit au 31 décembre de l'année 1991 et que la consommation des crédits du budget d'équipement ne soit pas supérieure à 65 milliards de dinars en 1991. Par ailleurs, le gouvernement prendra les mesures nécessaires pour d'une part réduire de 3 autres milliards de dinars par rapport aux chiffres de la loi de finances complémentaire les dépenses courantes, et d'autre part, procédera à la vente de droits d'exploration pétrolière pour un montant de 5 milliards de dinars d'ici fin 1991. Afin de limiter le déficit du fonds de compensation les prix de détail de la farine et de la semoule seront relevés afin de dégager une économie de 1,6 milliard de dinars sur les quatre derniers mois de 1991. [autres mesures d'économie ou mesures alternatives].

15. Compte tenu de l'ensemble de ces éléments, les recettes budgétaires, sont estimées à 260,8 milliards de dinars, pour des dépenses budgétaires effectives de 212,6 milliards de dinars, dont 147,6 milliards de dinars de dépenses de fonctionnement et 65,0 milliards de dépenses d'équipement, soit un excédent budgétaire de 51,2 milliards de dinars. Le fonds de compensation devrait dégager en 1991 sur une base encaissements-décaissements un déficit de 16,9 milliards de dinars [correspondant à des dépenses de -----milliards de dinars et des recettes de ----- milliards de dinars]. En tenant compte du solde des autres comptes spéciaux du Trésor

(hors fonds de rehabilitation des entreprises publiques), soit -2,5 milliards de dinars et de l'equilibre projete pour les interventions du Tresor, le solde global du Tresor, hors fonds de rehabilitation des entreprises publiques, devrait degager un excedent de 31,8 milliards de dinars, pour un objectif initialement fixe a 31 milliards de dinars dans le programme pour un taux de change de 16 dinars par dollar en moyenne et un objectif de 51,5 milliards de dinars pour un taux de change moyen de 19.4 dinars par dollar.

Conscient du fragile equilibre des comptes publics et en particulier des difficultes du fonds de compensation, le gouvernement a decide de ne faire aucune depense nouvelle en 1991, autre que celles inscrites dans la loi de finances complementaire. En particulier, les salaires et les prestations sociales ne seront plus augmentees d'ici a la fin de l'annee 1991.

16. Dans les mois a venir, de nouvelles initiatives seront mises en oeuvre pour rationaliser le systeme de subventions au consommateur, tout en assurant la protection des groupes les plus defavorises. De nouveaux instruments fiscaux non distordants, tels que la T.V.A., pour lesquels les preparatifs sont bien avances, seront introduits a l'occasion de la prochaine loi de finances. Les autorites dans l'etude de ces mesures ont beneficie de l'assistance technique du Fonds et elles continueront a solliciter l'appui des services du Fonds dans ce domaine.

Balance des paiements

17. En ce qui concerne la balance des paiements pour l'ensemble de 1991 les importations globales officielles pourraient atteindre 8,3 milliards de dollars E.U. soit 12 pour cent de baisse par rapport a l'objectif du programme (9,3 milliards de dollars E.U.), en depit d'une acceleration au deuxieme semestre par suite des baisses de taux de la taxe compensatoire, ainsi qu'un meilleur acces aux sources de credits exterieurs.

Comme les exportations globales devraient etre conformes aux previsions, le compte courant devrait etre en surplus de pret de 1,1 milliards de dollars au lieu du deficit de 0,3 milliards de dollars E.U. initialement prevu. L'amortissement de la dette devrait atteindre 7.1 milliards de dollars E.U., soit un niveau sensiblement plus eleve que prevu (+0,5 milliard). Les tirages devraient par contre enregistrer un niveau de 5,2 milliards (contre un objectif de 7,3 milliards) se decomposant en.... de credits bilateraux,.... de credits des organismes internationaux, et de.... credits commerciaux dans leur ensemble. Les credits financiers ne devraient atteindre que....ce qui laisserait subsister un gap financier de.... milliards de dollars E.U.

Ce montant du gap financier serait couvert par un pret syndique des banques de ... milliards de dollars E.U. encore en

discussion avant la fin septembre 1991, ainsi que par un pret des Communautés Europeennes (CE), de.... milliards de dollars qui sera decide pendant la premiere quinzaine du mois de septembre. Dans l'hypothese ou ces deux financements ne seraient pas disponible avant fin septembre, les autorites algeriennes.....

18. En vue de corriger le desequilibre perceptible de la balance des paiements decrit ci-dessus, les autorites algeriennes ont pris un certain nombre de mesures. Il est attendu de l'ajustement substantiel du taux de change qu'elle reduise la demande en importation, et permette de rationaliser l'utilisation des ressources exterieures peu abondantes. En outre la Loi de Finance Complementaire, recemment adpotee, a leve les restrictions anterieures sur les joint ventures pour l'exploitation des champs de petrole existants, et des negociations sont deja en cours avec d'eventuels partenaires exterieurs qui pourraient apporter des technologies de pointe de recuperation des reserves de petrole brut deja en exploitation ou les rendements sont faibles ou declinant, en echange d'un partage ulterieur de production. De tels accords pourraient egalement induire le paiement anticipe de droits d'entres, ressources substantielles qui pourraient etre affectees a la reduction de la dette exterieure. En ce qui concerne le systeme d'importation, il ne sera desormais plus exige des societes desirant installer un regime de concessions en Algerie, de developper des capacites de

production ou d'autres investissements non lies a la distributon ou au service apres-vente de leur produits, ce qui pourrait faciliter leur implantation rapide. C'est dans ce cadre que l'Assemblee nationale populaire a recemment adopte une modification a la Loi sur la Monnaie et le credit d'Avril 1990 qui transfere le pouvoir d'autorisation des investissements etrangers et l'implantation des concessionnaires de la Banque d'Algerie au Ministere de l'economie. Bien entendu, la Banque d'Algerie gadera toute la responsabilite en matiere de politique monetaire, du credit et du systeme de change.

*

* *

Le Gouvernement estime que les politiques decrites dans cette lettre sont de nature a lui permettre d'atteindre les objectifs du programme , [mais] [et] prendra toute mesure additionnelle necessaire a cet effet. L'Algerie consultera les services du FMI, en concertation, sur l'adoption de toutes mesures appropriees, en accord avec les regles du FMI en la matiere.

ALGERIE: REALISATIONS ET PERSPECTIVES BUDGETAIRES

	1991				
	Premier semestre 1991	Loi de finances complementaire 1/ Estimations Estimations Difference gouvernement du Fonds			Programme propose 2/
Recettes budgetaires totales	117,682	250,800	254,413	-3613	263,805
Recettes sur hydrocarbures	76,632	154,800	154,800	0	158,100
Autres recettes	41,050	96,000	99,613	-3613	105,705
Recettes fiscales	37,509	91,000	94,613	-3613	95,705
Impot sur le revenu et les benefices	10,200	25,200	25,000	200	25,000
Impot sur les biens et services	16,400	40,500	41,803	-1303	42,282
Droits de douane	9,100	21,900	24,610	-2710	25,223
Enregistrement et timbre	1,600	3,400	3,200	200	3,200
Recettes non fiscales	3,541	5,000	5,000	0	10,000
Depenses budgetaires totales 3/	75,615	223,900	223,550	350	212,564
Depenses de fonctionnement	55,401	150,800	150,450	350	147,564 4/
Salaires et cotisations		73,500	73,500	0	73,500
Materiel et fournitures		9,000	8,900	100	8,900
Interets verses		18,000	18,000	0	18,114
Subventions de fonctionnement		15,000	14,750	250	14,750
Action economique et sociale		35,300	35,300	0	35,300
Depenses d'equipement 3/	20,214	73,100	73,100	0	65,000
Excedent (ou Deficit) budgetaire	42,067	26,900	30,863	-3963	51,242
Comptes d'affectation speciale	6,888	(20,000)	(21,650)	1650	(19,438)
Fonds de compensation	(7,326)	(17,500)	(17,150)	-350	(16,938)
Autres fonds	16,131	(2,500)	(2,500)	0	(2,500)
Prets nets du Tresor	(1,917)	0	(2,000)	2000	0
Besoin de mesures nouvelles		24,904	22,591		0
Solde des comptes du Tresor	48,955	31,804	31,804		31804
Dotation au fonds de restructuration	(12,000)	(16,900)	(16,900)		(17,274)

1/ Fonde sur un taux de change annuel moyen
de 1 US\$ = 19 dinars.

2/ Fonde sur un taux de change annuel moyen
de 1 US\$ = 19,4 dinars.

3/ A l'exclusion des dotations budgetaires
au fonds de rehabilitation des entreprises.

4/ Le total de ces depenses inclut une somme
de 3 milliards de dinars non ventilee
par type de depenses.

Algerie: Situation Monetaire, 1990-1991

(En milliards de dinars)

ALGMON (monproj)	1990	1990	1991	1991	1991	1991	1991	1991
12-Aug-91	Dec.	Dec.	March	March	June	June	Dec.	Dec.
12:02	Prog.	Actual	Prog.	Actual	Prog.	Actual	Prog.	Rev.Prog.
Avoirs extérieurs, nets	6.5	6.6	8.7	6.7	8.5	4.2	24.3	24.4
(Variation absolue)	-0.0	0.1	2.1	0.1	2.0	-2.4	17.8	17.8
Avoirs intérieurs, nets	341.9	336.4	330.2	348.7	334.5	362.7	354.5	388.1
(Variation absolue)	40.3	34.8	-11.7	12.3	-7.4	26.3	12.5	51.7
Credit intérieur	412.3	412.2	405.3	412.9	409.6	427.8	454.4	485.8
Credit à l'état	167.0	167.0	150.5	148.0	145.4	144.8	174.1	174.1
(Variation absolue)	-11.6	-11.6	-16.5	-19.0	-21.6	-22.3	7.1	7.1
dont: Emprunts extérieurs	--	--	4.7	6.6	4.7	7.3	14.1	14.1
Credit aux 22 entreprises, net	56.1	62.9	58.1	65.5	60.0	69.2	62.6	69.4
(Variation absolue)	12.3	19.1	2.0	2.6	3.9	6.3	6.5	6.5
Credit à l'économie	189.2	182.3	196.7	199.4	204.2	213.9	217.7	222.3
(Variation absolue)	38.6	31.7	7.5	17.1	15.0	31.5	28.5	40.0
(Variation pourcentage)	25.6%	21.0%	4.0%	9.4%	7.9%	17.3%	15.1%	21.9%
Engagements extérieurs								
à moyen et long terme	-88.8	-88.8	-118.0	-123.2	-118.0	-127.9	-174.8	-166.9
(Variation absolue)	-28.3	-28.3	-29.2	-34.4	-29.2	-39.1	-86.0	-78.1
Fonds d'assain. des entr.	--	--	--	--	--	--	-15.5	4.1
Fonds de prêts de l'Etat	-13.6	-13.6	-13.6	-13.4	-13.6	-13.3	-13.6	-13.3
Autres postes (nets)	31.9	26.5	56.4	72.4	56.4	76.0	103.9	98.3
(Variation absolue)	30.0	24.6	24.5	45.9	24.5	49.5	71.9	71.8
Reévaluation des avoirs ext. nets	--	--	-2.1	-2.6	-2.1	-2.7	-9.7	-6.3
Monnaie et Quasi-monnaie (M2)	348.5	343.0	336.8	355.4	340.9	366.9	369.1	406.3
(Variation pourcentage)	13.1%	11.3%	-3.4%	3.6%	-2.2%	7.0%	5.9%	18.4%
Depôts à la CNEP	83.8	83.8	...	...	...	...	100.8	100.8
(Variation absolue)	10.1	10.1	...	...	...	...	17.0	17.0
M3 (M2 + Depôts à la CNEP)	432.3	426.8	...	...	...	...	469.9	507.1
Reserves off., nets (US\$)	0.73	0.73	0.73	0.44	0.72	0.42	1.21	1.21
Avoirs extérieurs, nets (US\$)	0.53	0.54	0.53	0.38	0.53	0.23	1.01	1.02
Engagements ext. MLT (US\$)	-7.28	-7.28	-7.28	-6.94	-7.28	-6.95	-7.28	-6.95
Taux de change, dinars/US\$	12.191	12.191	16.2	17.765	16.2	18.385	24.0	24.0

Sources: Données fournies par les autorités algériennes; et prévisions des services du Fonds.

12-Aug-91

Algeria: Balance of Payments
(In millions of U.S. dollars)

Provisoire	1990 Prog.	1990 Act.	1991 J.-J. Prog.	1991 J.-J. Est.	1991 Prog.	1991 Proj. FMI
Merchandise (net)	3024	3157	1233	2237	1692	2713
Exports (f.o.b.)	12728	12817	6303	6381	11764	11713
Hydrocarbons	12348	12337	6113	6191	11314	11263
Other	380	480	190	190	450	450
Total Imports (f.o.b.)	-9704	-9660	-5070	-4144	-10072	-9000
Off. financed imports (f.o.b.)	-8704	-8660	-4720	-3794	-9322	-8250
Food	-1918	-1902	-1130	-1023	-2063	-2200
Intermediate goods	-2962	-2952	-1598	-1290	-3292	-2600
Capital equipment	-2790	-2772	-1404	-1200	-2849	-2600
Consumer goods	-1034	-1034	-588	-281	-1118	-850
Importations sans paiement (c.i.f.)	-1000	-1000	-350	-350	-750	-750
Non factors service (net)	-1249	-1191	-748	-389	-1394	-998
Credits	610	524	323	376	660	565
Debits	-1629	-1485	-967	-661	-1794	-1303
Unofficial services	-230	-230	-104	-104	-260	-260
Transferts and factor services (net)	-410	-564	-416	-463	-607	-630
Factor services (net)	-1940	-2088	-1020	-1070	-2017	-2050
of which interest paid	-2030	-2160	-1055	-1070	-2110	-2050
Transferts (net)	300	294	150	153	400	410
Unofficial Transferts (net)	1230	1230	454	454	1010	1010
Current account	1365	1402	69	1385	-309	1085
Capital account	-1685	-1631	11	-1674	977	-1627
Lending and investment (net)	-20	-39	20	30	160	60
MLT borrowing (net)	-1310	-853	-405	-1995	692	-1810
Drawings	4880	5850	3095	2005	7292	5240
Bilateral	940	1200	520	300	1300	900
World Bank	309	300	267	150	620	550
Other multilateral	364	300	166	150	340	290
Financial institutions	380	220	150	6	1750	500
Export credits	2134	2930	1542	1099	2482	2400
Suppliers credits	753	900	450	300	800	600
Amortization	-6190	-6703	-3500	-4000	-6600	-7050
Short term credit (net)	-515	-676	396	291	125	123
Credit on imports	-132	-456	-20	-100	-350	-300
Credit on exports	-383	-220	416	391	475	423
Errors and omissions and others	160	-63	0	0	0	0
Overall balance of payment	-320	-229	80	-289	668	-542
Financing	320	228	-80	289	-668	542

12-Aug-91

Algeria: Balance of Payments
(In millions of U.S. dollars)

Provisoire	1990 Prog.	1990 Act.	1991 J.-J. Prog.	1991 J.-J. Est.	1991 Prog.	1991 Proj. FMI
Change in reserves (- increase)	130	86	107	316	-477	-477
Gross reserves	130	86	0	217	-800	-800
Fund purchases	0	0	107	99	323	323
Fund repurchases	0	0	0	0	0	0
Other liabilities	0	0	0	0	0	0
Arrears	190	143	-190	-27	-190	-143
Financing Gap		-1	3	0	-1	1162

Sources: Data provided by the Algerian authorities.

Memorandum items:

Gross reseves (excl. gold)	730	747	1460	530	1530	1530
in months of imports	0.7	0.8		0.8	1.7	

INTERNATIONAL MONETARY FUND
FONDS MONETAIRE INTERNATIONAL

MEETING ATTENDANCE
PRESENCE A LA REUNION

ALGERIE

(Country)
(Pays)

REVUE

(Purpose of mission)
(Objet de la mission)

5

(Meeting number)
(Numéro de la réunion)

5-8-90

(Date)
(Date)

ALGER

(City)
(Ville)

a.m.
p.m.

RANQUE D'ALGERIE

(Place)
(Lieu)

(Please print)
(En majuscules)

COUNTRY REPRESENTATIVES
REPRESENTANTS DES PAYS

SURNAME NOM	FIRST NAME PRENOMS	MINISTRY OR ORGANIZATION MINISTERE OU ORGANISATION	Function or Title Fonction ou Titre
1. <u>S.A.A.D</u>	<u>Hocine</u>	<u>B.A.D.R</u>	<u>Directeur</u>
2. <u>BENCHENANE</u>	<u>Hocine</u>	<u>B.A.D.R</u>	<u>Directeur</u>
3. <u>HADJ-SADOK</u>	<u>Takkar</u>	<u>C.E.A</u>	<u>Directeur</u>
4. <u>HELLEL</u>	<u>HAFID</u>	<u>B.D.L</u>	<u>Co-études</u>
5. <u>BACHMADAD</u>	<u>Khellil</u>	<u>B.D.Z</u>	<u>Directeur</u>
6. <u>DJOUJ</u>	<u>KARIM</u>	<u>B.A</u>	<u>Directeur</u>
7. <u>ACHARI</u>	<u>Brake</u>	<u>B.A</u>	
8. <u>LAKSACI</u>	<u>Mohammed</u>	<u>B.A</u>	<u>D.G</u>
9. <u>YAHIA-CHERIF</u>	<u>Brakim</u>	<u>B.A</u>	<u>D.G</u>
10. <u>HARCHAOUI</u>	<u>Abdelkrim</u>	<u>Min. Economie</u>	<u>D.G.</u>
11. <u>SENANE</u>	<u>Anor</u>	<u>R.E.A</u>	<u>Chef. Depart.</u>
12. <u>HASADZI</u>	<u>Abdelhamid</u>	<u>BNA</u>	<u>Chef. DE</u>
13. <u>ALLAM</u>			<u>Directeur</u>

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REPRESENTANTS DU FONDS

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OBSERVATEURS

1. <u>J. ARTUS</u>	
2. <u>G. DAHL</u>	
3. <u>S. THIAM</u>	
4. _____	
5. _____	

INTERNATIONAL MONETARY FUND
FONDS MONETAIRE INTERNATIONAL

MEETING ATTENDANCE
PRESENCE A LA REUNION

ALGERIE REVUE ~~DU~~ PROGRAMME
(Country) (Purpose of mission)
(Pays) (Objet de la mission)

6 5-8-91 ALGER 3:00 a.m.
(Meeting number) (Date) (City) (Time)
(Numéro de la réunion) (Date) (Ville) (p.m.)

BANQUE D'ALGERIE
(Place)
(Lieu)

(Please print)
(En majuscules)

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REPRESENTANTS DES PAYS

SURNAME NOM	FIRST NAME PRENOMS	MINISTRY OR ORGANIZATION MINISTERE OU ORGANISATION	Function or Title Fonction ou Titre
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2. <u>LAKSACI</u>	<u>Mohammed</u>	<u>B.A.</u>	
3. <u>BOUSRI</u>	<u>Masoud</u>	<u>B.E.A.</u>	<u>Director General</u>
4. <u>NEDIR</u>	<u>Mustapha</u>	<u>B.D.L.</u>	
5. <u>YAHIA TENE</u>	<u>Ahcene</u>	<u>B.A.D.R.</u>	<u>DIRECTEUR</u>
6. <u>BELFODIL</u>	<u>Mohamed</u>	<u>B.N.A.</u>	<u>Director</u>
7. <u>ATTOU</u>	<u>MUSTAPHA</u>	<u>B.R.Y.A.</u>	<u>Director</u>
8. <u>OUKIL</u>	<u>Hocine</u>	<u>C.P.A.</u>	<u>Director</u>
9. <u>LEFNAOUI</u>	<u>Bélaïd</u>	<u>B.A.</u>	<u>C.E.P.</u>
10. <u>CHIKHI</u>	<u>Masoud</u>	<u>B.A.</u>	<u>Director General</u>
11. <u>ACHARI</u>		<u>B.A.</u>	
12. <u>ALLOUACHE</u>	<u>Fouir</u>	<u>B.D.L.</u>	<u>Director</u>

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REPRESENTANTS DU FONDS

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OBSERVATEURS

1. <u>J. ARTUS</u>	
2. <u>G. DAHL</u>	
3. <u>J. THIAM</u>	
4. _____	
5. _____	

INTERNATIONAL MONETARY FUND
FONDS MONETAIRE INTERNATIONAL

MEETING ATTENDANCE
PRESENCE A LA REUNION

ALGERIE

(Country)
(Pays)

REVUE

(Purpose of mission)
(Objet de la mission)

8-8-91

(Date)
(Date)

ALGER

(City)
(Ville)

3:20 ^{a.m.}
_{p.m.}

(Meeting number)
(Numéro de la réunion)

BANQUE D'ALGERIE

(Place)
(Lieu)

(Please print)
(En majuscules)

COUNTRY REPRESENTATIVES
REPRESENTANTS DES PAYS

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1. <u>M^r MAOUCHI</u>	<u>Mohamed</u>	<u>B. A. - DGIG</u>	<u>C.E.</u>
2. <u>M^r HOCINI</u>	<u>Reda</u>	<u>B. A. DGIG</u>	<u>C.E.</u>
3. <u>M^r ZEGHLI</u>	<u>Mohamed</u>	<u>B. A. DGIG</u>	<u>C.E.</u>
4. <u>DERROUIS</u>	<u>Hocin</u>	<u>Director gal Blic</u>	<u>Dir. gal</u>
5. <u>M^r Djoudi</u>	<u>KARIN</u>	<u>B. A.</u>	<u>Director</u>
6. <u>M^r LAKSACI</u>	<u>Mohammed</u>	<u>D. G. ETUDES - B A</u>	
7. <u>M^{me} ACHARI</u>	<u>Branka</u>	<u>B A</u>	
8. _____	_____	_____	_____
9. _____	_____	_____	_____
10. _____	_____	_____	_____
11. _____	_____	_____	_____
12. _____	_____	_____	_____

FUND REPRESENTATIVES
REPRESENTANTS DU FONDS

OBSERVERS
OBSERVATEURS

1. <u>J. ARTUS</u>	_____
2. <u>G. DAHL</u>	_____
3. <u>M. MAOUCHI</u>	_____
4. <u>R. HOCINI</u>	_____
5. <u>M. ZEGHLI</u>	_____

mission file

- mission documenti

4-8-91

LAKSA ci Mohamed
YAHIA - CHERIF Brahim
BABAA MHI Hadji
HARCHAoui Abdelkrim
Hadda Aliou
LEFRAOUI Belaid
Noureddine Chichi
ACHARI Braouke
Djoudi KARIM

Banque d'Algérie

II. Economie

II. Economie

II. Economie

Banque d'Algérie

II. Economie

II. Economie

II. Economie

FMI:

J. ARTUS

G. DAHL