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February 27, 1984

To: Members of the Executive Board
From: The Secretary
Subject: Algeria - Staff Report for the 1983 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation discussions with Algeria. A draft decision appears on page 20.

It is proposed to bring this subject to the agenda of the Executive Board for discussion on Wednesday, April 18, 1984.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Sacerdoti (ext. (5)8514) or Mrs. Schmitz (ext. (5)8516).

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ALGERIA

Staff Report for the 1983 Article IV Consultation

Prepared by the 1983 Staff Representatives for the 1983
Article IV Consultation with Algeria

Reviewed by the Committee on Article IV Consultations

Approved by J.B. Zulu and S. Kanesa-Thanan

February 24, 1984

I. Introduction

The 1983 Article IV consultation discussions with Algeria were held in Algiers during the period November 5-21, 1983. The Algerian representatives included Mr. Brahimi, Minister of Planning; Mr. Benhamouda, Minister of Finance; Mr. Bouraoui, Governor of the Central Bank; and other senior officials of ministries and agencies concerned with economic and financial matters. The staff representatives were Mr. Ch. François (head), Mr. E. Sacerdoti, Miss A. Doizé, Mrs. L. Schmitz, and Miss M. Earll (secretary), all of the African Department. Mr. Salekhou, Executive Director for Algeria, attended the final policy discussions.

Algeria continues to avail itself of the transitional arrangements of Article XIV.

II. Recent Economic Developments and Policies

1. Background

Algeria is a large hydrocarbon producer and exporter, which, during the 1970s, utilized extensive resources from the hydrocarbon sector to lay the basis for a relatively large industrial sector. In view of rapid population growth, the emergence of serious shortages in housing and other social and economic infrastructure, and shortfalls in agricultural production, the 1980-84 Development Plan shifted the emphasis of growth from the industrial sector to the lagging sectors. For industry, the priority was placed on increasing capacity utilization and productivity, and reorganizing state enterprises into smaller companies, with the objectives of facilitating managerial decision-making and increasing efficiency. The reorganization of the state enterprise system was to be accompanied by a more realistic and flexible pricing system and a strengthening of the capital base of the

companies, so as to put an end to the large accumulation of losses that had been financed increasingly by the banking system.

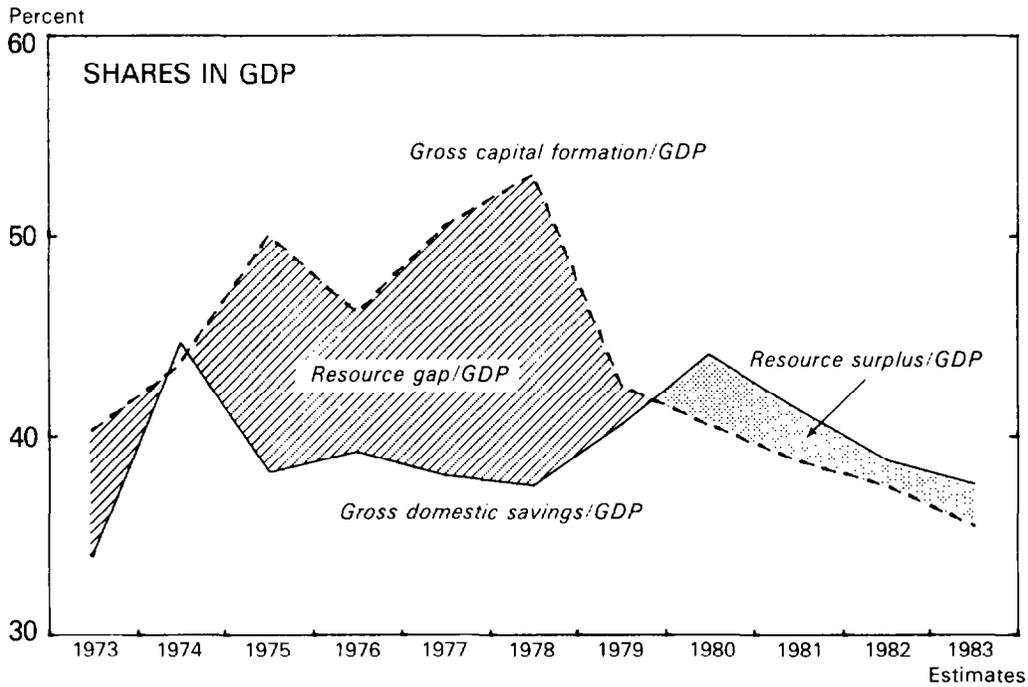
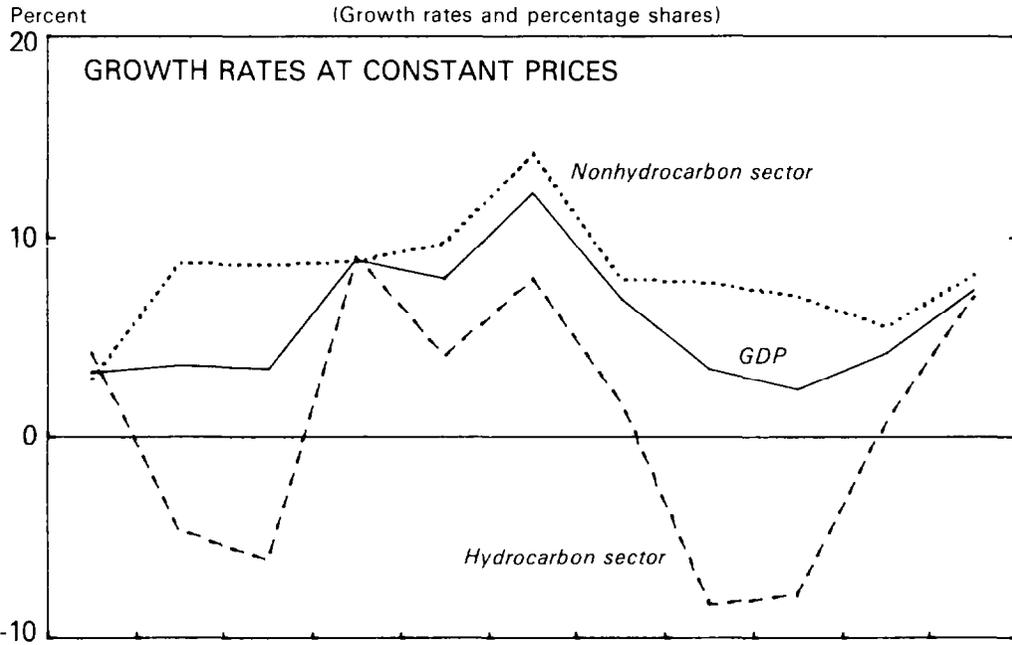
In 1980-81 the growth in nonhydrocarbon GDP was sustained at about 7 percent per year, as a result of rapid expansion of manufacturing production. The ratio of investment to GDP declined to 35 percent, from 43 percent on average in the period 1976-79, as a result of intended slowdown of investment in industry, while the rate of increase of consumption in real terms exceeded that of GDP. With the sharp increase in the price of petroleum, the current account of the balance of payments moved into a surplus, permitting the authorities to expand imports of consumer goods and to start a policy of conservation of petroleum resources; at the same time recourse to external borrowing was reduced substantially, and the external debt stabilized. With a large increase in fiscal resources from hydrocarbons, the Treasury recorded an overall surplus in 1981.

2. Developments in 1982 and 1983

During 1982 and 1983, despite a further decline in the production of crude petroleum, the level of hydrocarbon production increased, because of rising production of condensate and natural gas. The increase in value added in the hydrocarbon sector at constant prices is estimated at 1 percent in 1982 and 7 percent in 1983 (Table 1 and Chart 1). Production of crude petroleum declined in 1982 by 11 percent to 33.5 million tons and further to about 31.6 million tons in 1983, as a result of weak international demand and of production agreements between major oil exporting countries. At the same time condensate production increased sharply, from 8.9 million tons in 1981 to 12.3 million in 1982 and 14.4 million in 1983, reflecting the entry into operation of extraction facilities at the large Hassi R'Mel gas field; condensate is almost entirely exported. Marketed natural gas production also increased substantially, by 30 percent in 1982 and more than 50 percent in 1983, because of the conclusion of new export contracts for liquefied natural gas and, in mid-1983, the entry into operation of the transmediterranean pipeline to Italy.

The growth of value added outside the hydrocarbon sector continued to be rapid, in both 1982 and 1983 (5.5 percent in 1982 and 8.1 percent in 1983 according to provisional data), as a result of the expansion in manufacturing (about 10 percent per year, in line with previous years' performance) and of the acceleration in construction and public works. Because of unfavorable weather conditions, which mainly affected the cereal crops, agricultural production declined in 1982, while a modest growth is estimated to have taken place in 1983. Overall GDP growth at constant prices is estimated at 4.2 percent in 1982 and at 7.3 percent in 1983. Inflationary pressures abated in 1982, when the index of consumer prices rose by 6.7 percent compared with a 14.6 percent rise in 1981; an acceleration to 8 percent is estimated for 1983 because of the adjustment of a number of administered prices. The increase in average

CHART 1
 ALGERIA
 SELECTED NATIONAL ACCOUNTS AGGREGATES, 1973-83



Source: Data provided by the Algerian authorities.



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Table 1. Algeria: Selected Economic and Financial Indicators, 1979-83

(In percent; unless otherwise specified)

	1979	1980	1981	1982	1983 Est.
<u>Trends in income and expenditure</u>					
Growth rates in real terms <u>1/</u>					
Hydrocarbon sector	1.8	-8.4	-7.9	0.9	7.0
Other sectors	7.9	7.7	7.0	5.5	8.1
Of which:					
agriculture	11.5	6.6	3.9	-6.9	1.6
manufacturing	20.2	7.4	10.3	9.0	10.6
construction and public works	15.8	0.9	5.0	10.0	8.7
GDP	6.2	3.4	2.4	4.2	7.3
Gross fixed capital formation/					
Nominal GDP	40.2	35.1	34.7	34.9	34.2
Changes in stocks/Nominal GDP	2.3	5.4	4.0	2.6	1.3
Gross domestic savings/Nominal GDP	40.6	44.0	41.3	38.8	37.6
Resource gap (deficit -)/Nominal GDP	-1.9	3.5	2.6	1.3	2.1
Growth rate of planned investments (in current prices)					
	5.9	-0.2	10.9	16.3	8.7
<u>Trends in government finance</u>					
Growth rates					
Current revenue	23.9	28.2	33.5	-7.9	12.2
Petroleum revenue	52.7	42.0	35.3	-18.6	3.7
Other	0.2	11.0	30.7	9.7	22.6
Current expenditure	14.3	34.1	27.0	11.1	18.4
Wages and salaries	18.0	29.8	21.9	23.0	31.6
Transfers and subsidies	14.0	48.4	34.3	-0.2	24.5
Capital expenditure	9.8	29.3	28.6	39.8	16.8
Treasury loans and advances (net)	10.4	15.9	-1.2	-23.7	19.4
Overall Treasury deficit (-)/GDP	-1.2	-4.3	3.6	-4.8	-6.0
Treasury loans for investments/					
Planned investments of enterprises	64.9	74.8	76.7	61.8	65.8
Domestic bank financing/Overall					
Treasury deficit	27.8	80.7	-142.8 <u>2/</u>	59.2	79.2

1/ Components of gross domestic production.

2/ Reimbursement to the banking system as a percentage of overall Treasury surplus.

Table 1. Algeria: Selected Economic and Financial Indicators, 1979-83 (concluded)

(In percent; unless otherwise specified)

	1979	1980	1981	1982	1983 Est.
<u>Trends in monetary aggregates</u>					
Growth rates					
Net domestic credit	13.2	17.2	12.0	31.0	24.4
Credit to Government	7.1	24.0	-23.8	43.8	38.5
Credit to the economy	16.1	14.2	29.2	27.4	20.0
Money and quasi-money	19.1	17.3	16.7	26.3	23.9
Money and quasi-money/Nominal GDP	63.0	57.9	58.0	66.8	72.7
Currency in circulation/Nominal GDP	28.0	26.2	25.6	23.8	25.5
<u>Trends in the balance of payments 3/</u>					
Growth rate in merchandise exports					
Value	44.8	42.9	14.1	-- 4/	2.5
Volume	1.4	-12.5	-7.7	0.8	13.9
Unit price	42.8	63.3	23.6	-0.8	-10.0
Growth rate in merchandise imports					
Value	3.7	22.0	16.0	4.7	-3.5
Volume	-6.5	10.1	12.6	2.7	-2.2
Unit price	10.9	10.8	3.0	1.9	-1.3
Annual changes in the terms of trade	28.0	47.3	20.0	-2.6	-8.8
Current account deficit/Nominal GDP (deficit -)	-5.0	0.6	0.2	-0.4	0.3
Gross official reserves (number of months of imports of goods and services)	2.8	3.4	3.1	1.7	1.8
<u>Trends in external debt</u>					
Ratio of disbursed debt to total, including undisbursed	60.4	62.8	67.8	68.6	70.3
Ratio of disbursed debt to nominal GDP	48.2	39.6	35.7	30.9	26.8
Ratio of disbursed debt to merchandise exports (f.o.b.)	165.7	123.8	110.4	106.1	99.3
Ratio of debt service payments to exports of goods, services, and private transfers	26.4	26.1	27.0	29.9	33.9
Of which : interest	11.0	9.6	10.3	9.5	9.3
amortization	15.4	16.5	16.7	20.4	24.6

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

3/ Based on SDRs.

4/ Calculated on balance of payments data net of retroactive payments received in 1982.

nominal wages per worker is estimated at 3 percent in 1982 and 8 percent in 1983; the increase in 1983 is mainly accounted for by a substantial wage increase in the civil service; in January 1983 a wage increase of 10 percent was granted to lower-skilled workers.

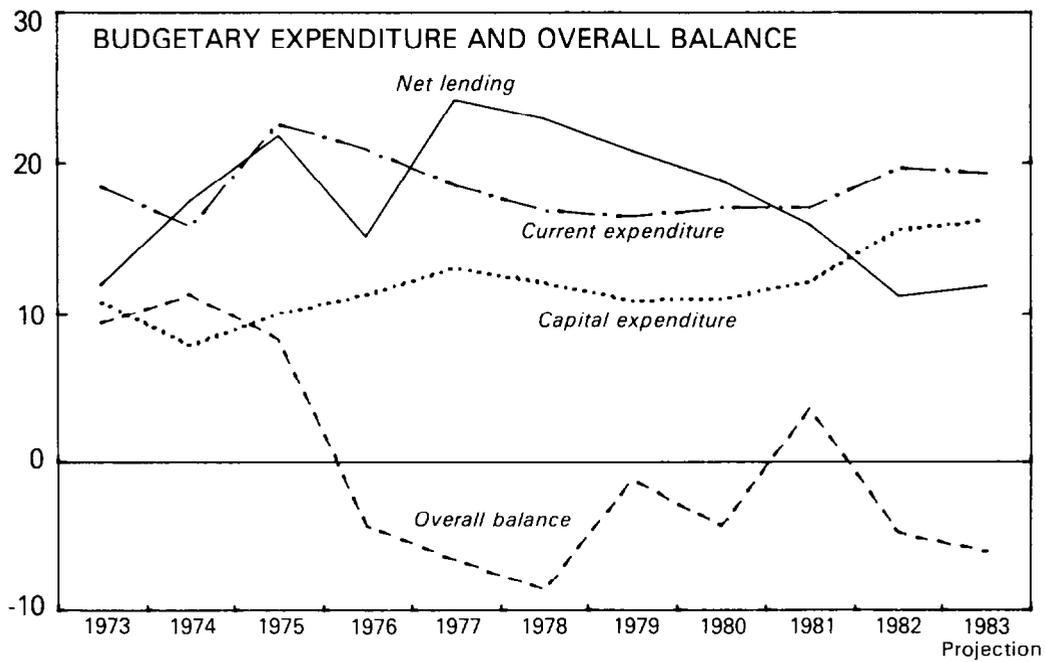
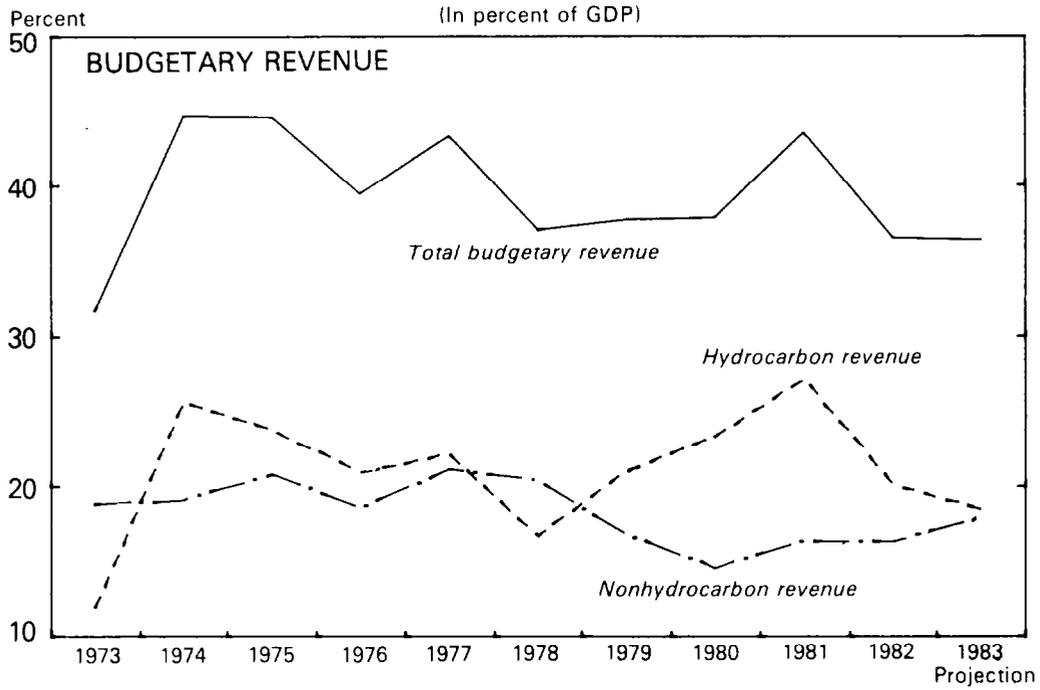
Developments of public finances in 1982 were characterized by a decline in revenue by 8 percent as the decline in hydrocarbon fiscal receipts (which represent more than 50 percent of revenues), of 18.6 percent, was only partially offset by a rise in nonhydrocarbon receipts. On the expenditure side, capital expenditure increased sharply (by 40 percent), reflecting the plan priority for economic and social infrastructure, while loans to public enterprises declined (Chart 2). At the same time, current expenditures continued to increase rapidly reflecting mainly the fast growth of payments for wages and salaries (23 percent compared with 22 percent in 1981) because of wage increases connected with the harmonization of salary levels across the economy; recruiting has remained stable at about 7 percent of personnel per year. As a result of these developments, the overall Treasury position, which had been in surplus in 1981, recorded a deficit equivalent to 4.8 percent of GDP, financed mainly by advances from the Central Bank. In 1983, while hydrocarbon revenue increased only modestly, there was a sharp increase in other revenues (estimated at 25 percent) because of a substantial effort in strengthening tax administration and limiting tax evasion. The growth in domestic production also contributed to the rise in indirect tax revenues (25 percent, compared with 18 percent in 1982). On the expenditure side, the increase in current payment for wages and salaries accelerated, on the basis of provisional estimates, to 32 percent, as the process of revision of the wage structure in the civil service continued. The increase in government direct investment has been again substantial and is estimated at 17 percent, while lending to public enterprises has increased from the low level of 1982. By year-end the overall Treasury deficit is expected to have reached a level equivalent to 6 percent of GDP, which was financed mainly by the Central Bank.

The expansion of money and quasi-money accelerated in 1982 to 26 percent, from 17 percent in 1981, as a result of the substantial increase in credit to Government, which reached 43 percent, and an expansion of 27 percent in credit to the economy, reflecting in part financing needs associated with the enterprises' reorganization. For 1983 the data on credit to the economy and the money supply are not yet available for the whole year because of delays in the reporting of data to the Central Bank due to the splitting of the largest bank into two banks; preliminary data for the first half of the year indicate that the growth rate of credit to the economy, bank deposits, and the money supply have decelerated; the rate of expansion of credit to the Government during 1983 is estimated to have slowed down to 38 percent. With domestic credit expansion forecast at 24 percent (31 percent in 1982) the rate of increase in money and quasi-money is estimated at 24 percent (26 percent in 1982), with a further increase in the liquidity in ratio of the economy.

Despite the weakness in the international demand for oil, the deterioration in the current account of the balance of payments in 1982 was relatively modest and considerably smaller than originally expected. Hydrocarbon exports receipts rose by 3.2 percent in SDR terms, as the increase in condensate and liquefied natural gas exports fully offset the decline in petroleum exports; the 1982 outcome was influenced by the retroactive payments by France in that year of about SDR 260 million on 1980 and 1981 gas exports that were agreed under an export contract revision. At the same time, the rise in imports was relatively small (4.7 percent in SDR terms) because of the ample stock of imported goods accumulated in 1981. With interest charges on the external debt declining somewhat, the current account deficit was contained to SDR 166 million, which compares with a surplus of SDR 76 million in 1981 (Table 2 and Chart 3). Foreign borrowing, which was mostly in the form of suppliers' credit, remained considerably short of scheduled amortization payments amounting to SDR 2.7 billion, so that the overall balance of payments recorded a deficit of SDR 1 billion, with a corresponding decline in official foreign reserves. In 1983 the current account balance is estimated to have returned to a small surplus of about SDR 140 million, as total hydrocarbon export have remained stable as a result of increases in natural gas and condensate exports, and imports are estimated to have registered a small decline, reflecting lower consumer goods imports. For the first time since 1980, two large foreign loans were contracted during 1983 in the international financial market, for an amount of US\$1.6 billion, but only a small part has been drawn during 1983; with foreign borrowing again lower than debt amortization, the overall balance of payments is estimated to have recorded a deficit of SDR 480 million. Algeria's external debt, after reaching a peak in 1980, declined to SDR 12.6 billion at end-1982, an amount equivalent to 31 percent of GDP. A further decline to SDR 12.2 billion, or 27 percent of GDP, is estimated to have taken place in 1983. At end-1982 credits from financial institutions represent 56 percent of total debt and suppliers' credit 24 percent; most of the debt is at nonconcessional terms with an average maturity of 11 years and an average interest rate of 9 percent. Total debt service ratio rose from 27 percent to 30 percent in 1982 as a result of larger capital amortization, and is projected to increase further to 34 percent in 1983.

Algeria maintains extensive restrictions on payments and transfers for current international transactions. The Government has full control of foreign trade, which has traditionally been executed through monopoly rights granted to public enterprises. Since 1980 the system has become more flexible through the introduction of a number of measures, such as the authorization given to an increasing number of companies to import directly without going through the monopoly enterprises, the possibility for a company to make transfers between tariff positions within its import authorization, and the introduction of a transitional period for the first months of each year, in which imports can be effected using a certain proportion of the previous year's

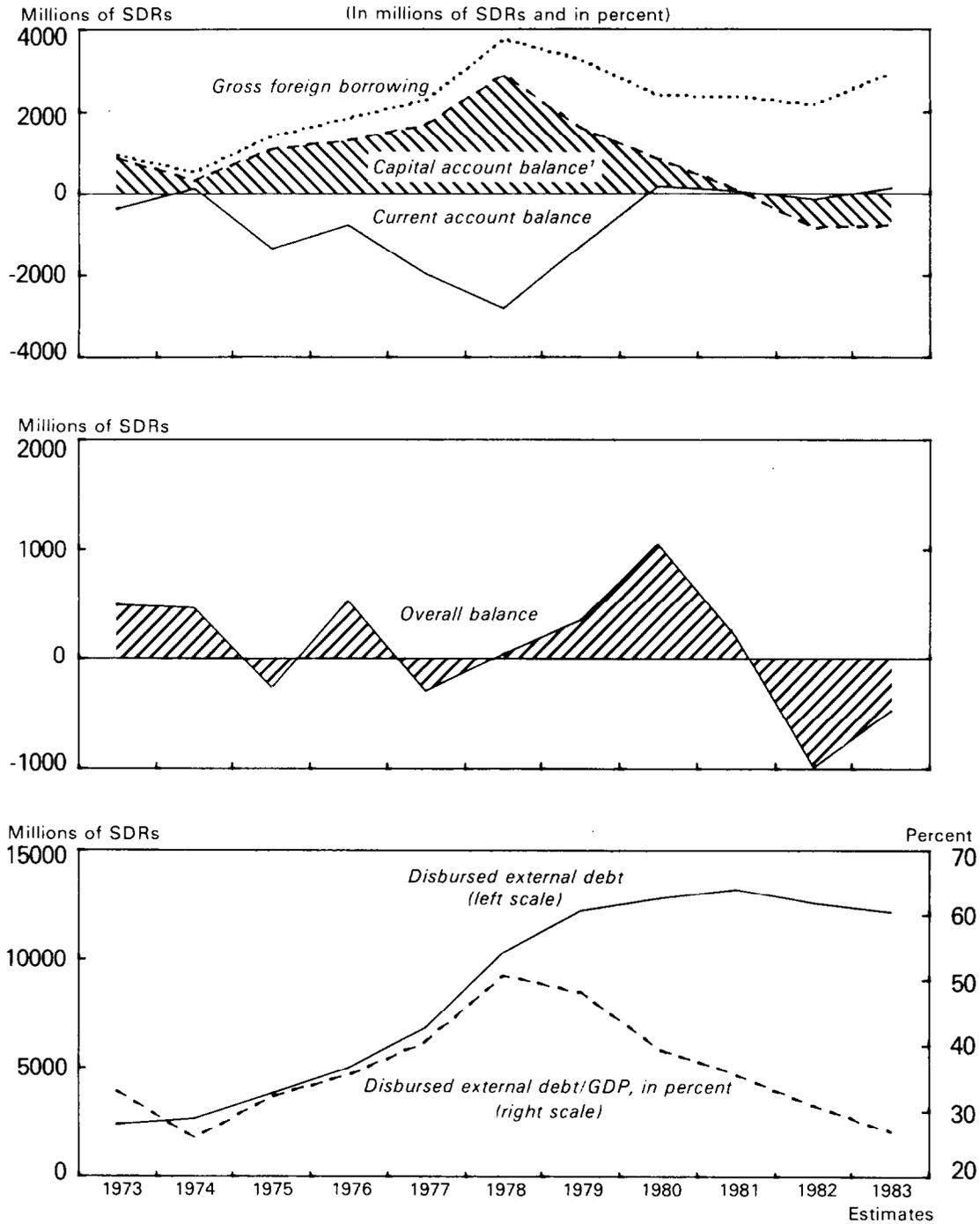
CHART 2 ALGERIA SELECTED BUDGETARY INDICATORS, 1973-83



Source: Data provided by the Algerian authorities.



CHART 3
ALGERIA
BALANCE OF PAYMENTS AND EXTERNAL DEBT, 1973-83



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Table 2. Algeria: Balance of Payments Summary, 1979-84

(In millions of SDRs)

	1979	1980	1981	1982	1983 Est.	1984 Forecast
Exports, f.o.b.	7,340	10,489	11,972	12,237 ^{1/}	12,284	13,910
Imports, f.o.b.	-6,041	-7,373	-8,556	-8,957	-8,643	-9,590
<u>Trade balance</u>	<u>1,299</u>	<u>3,116</u>	<u>3,416</u>	<u>3,280</u>	<u>3,641</u>	<u>4,320</u>
Services (net)	-2,846	-3,190	-3,644	-3,778	-3,806	-3,930
Of which: interest payments on external debt	(-920)	(-1,192)	(-1,497)	(-1,459)	(1,358)	(1,340)
Transfers (net)	278	259	304	332	306	310
Of which: receipts from workers' remittances	(351)	(340)	(421)	(493)	(490)	(500)
<u>Current account</u>	<u>-1,269</u>	<u>185</u>	<u>76</u>	<u>-166</u>	<u>140</u>	<u>700</u>
<u>Capital account</u>	<u>1,587</u>	<u>855</u>	<u>108</u>	<u>-816</u>	<u>-619</u>	<u>-400</u>
Direct investment (net)	7	246	-1	-58	--	--
Foreign long-term borrowings	3,265	2,383	2,367	2,162	2,931	3,000
Repayments on foreign long-term loans	-1,265	-1,911	-2,250	-2,740	-3,311	-3,200
Other capital (net)	-106	33	-24	-107	-137	-140
Operations pending settlement	-314	104	16	-73	-102	-60
Net errors and omissions	7	-9	-8	-15	--	--
Allocations of SDRs	30	30	29	--	--	--
<u>Overall surplus or deficit ^{2/}</u>	<u>355</u>	<u>1,061</u>	<u>205</u>	<u>-997</u>	<u>-479</u>	<u>300</u>

Sources: Data provided by the Algerian authorities and staff estimates for 1983 and 1984.

^{1/} Include SDR 255 million of retroactive payments by France for gas purchases effected in 1980 and 1981.

^{2/} Excludes valuation changes.

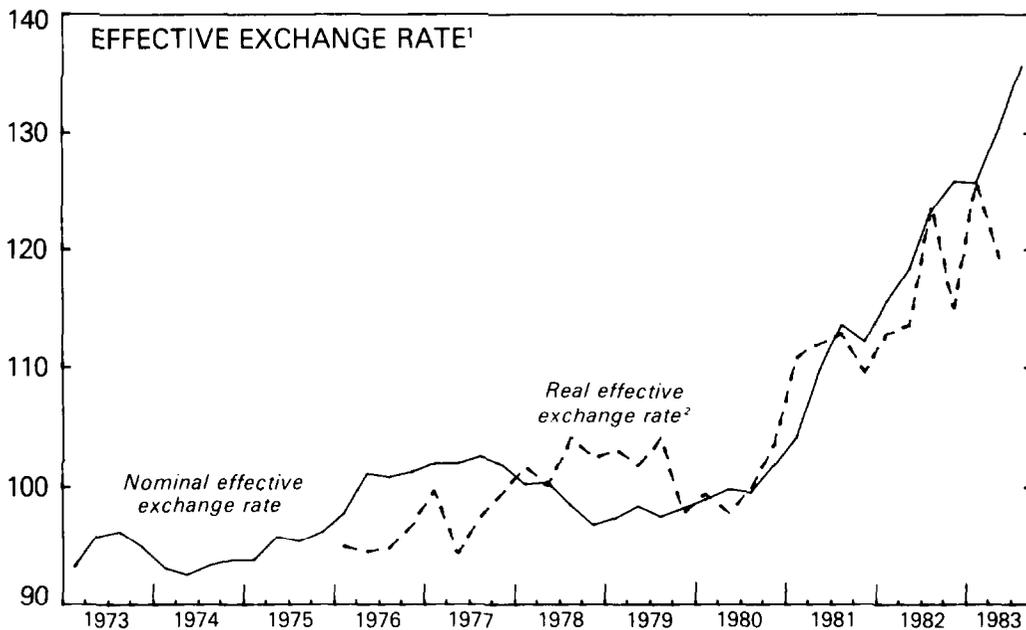
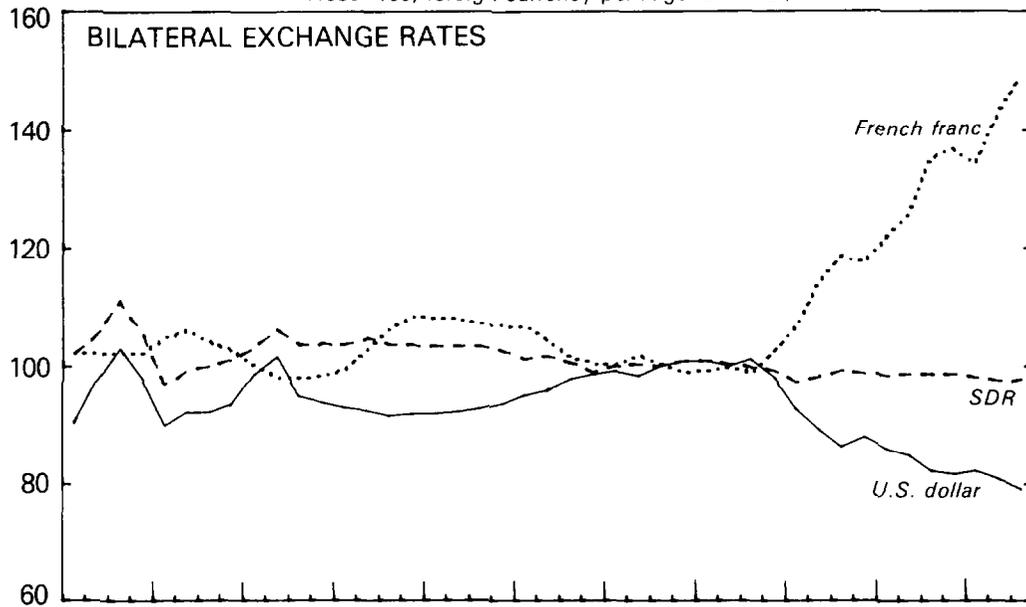
authorization. With the split of major enterprises, the number of companies vested with monopoly rights has increased substantially, and import responsibilities between monopolies have been rationalized. A number of measures have also been adopted in 1982 and 1983 to make the trade and payments mechanism more flexible and liberal. In July 1982 import and payments of specified goods through the postal system up to a maximum value of DA 1,000 were liberalized. ^{1/} The DA 5,000 limit for free imports by nationals returning from abroad was raised to DA 10,000 in March 1983. Special procedures were introduced in 1983 to permit imports of spare parts and payments for technical assistance by public enterprises without prior authorization; at the same time, in the context of new measures to facilitate private sector activity, the import of investment goods up to DA 100,000 by private agents has been allowed without prior authorization and official purchase of foreign exchange. A similar measure was introduced early in 1983 for imports of cars. The last two measures are intended in part to promote the use of savings from the large Algerian community working abroad for the benefit of the national economy.

Since January 1974, when the peg with the French franc was severed, the exchange rate of the dinar has been determined on the basis of a fixed relationship between the dinar and a basket of currencies. The currencies included in the basket and their weight take into account their relative importance in Algeria's external payments for both current and capital payments. According to staff calculations for the purpose at surveillance, at December 1983 the nominal import-weighted effective exchange rate of the dinar had appreciated by 40.9 percent from the average 1980 level (Chart 4). Adjusted for the relative price developments, by the second quarter of 1983 (the last for which price data are available), the appreciation has been 19 percent. Relative to the SDR the dinar depreciated by 3 percent during this period. Since January 1974 a premium had been applied to all remittances from Algerians working abroad, which was based on a fixed conversion of DA 1 = F 1. Since 1980, with the French franc appreciating vis-à-vis the dinar, the premium, represented by the difference between the fixed conversion rate and the official rate, gradually widened. The scope of the premium was reduced, first in May 1982, when returning workers have been required to exchange an amount equivalent to DA 700 at the official exchange rate, the eligibility for the premium being limited only to balances converted in excess of this amount. As the size of the premium continued to increase as a result of the exchange rate developments reaching about 50 percent of the official exchange rate during the first quarter of 1983, in February 1983 the authorities took the decision to limit the size of the premium to 40 percent of the official exchange rate. The budgetary cost of the premium amounts to less than 1 percent of total current budgetary expenditures. The two remaining bilateral payments agreements with Fund members were terminated in 1983.

^{1/} US\$1 = DA 4.84 at October 31, 1983.

CHART 4
ALGERIA
INDICES OF SELECTED EXCHANGE RATES, 1973-83

(1980=100; foreign currency per Algerian dinar)



Source: IMF Data Fund.

¹Weighted by the geographical distribution of 1980 imports.

²Effective exchange rate deflated by the consumer price index relative to partner countries



III. Report on the Discussions

1. Structural policies

a. Investment policy

The Algerian representatives stressed that the investment policy in 1982 and 1983 was fully in line with the objectives of the development plan, as it was characterized by a rapid expansion of government investments in infrastructure and housing, which had lagged behind in previous years, while public enterprises' investments in the industrial sector remained stable. They explained that the almost doubling of the investment outlays by the Government between 1981 and 1983 was the result of the execution of very large public works programs, such as dam, road, and railroad construction, and of the significant acceleration in residential housing programs and urban development. Large investment outlays were geared to develop the high plains area between the developed coastal band and the desert, in which large potential for agriculture and other development exists. In residential construction, after a slow start in 1980 and 1981, a substantial catchup in relation to plan targets had taken place. The representatives stressed that the plan objective of 100,000 yearly residential units' completion has been achieved in both 1982 and 1983; this result represents a doubling of the 1980-81 realizations and was reached in part through extensive recourse to foreign contracting; an important contribution came also from increased private construction, made possible by a new policy in the allocation of land for construction purposes. They consider that, with the continuation of this favorable trend the overcrowded conditions presently prevailing in the country will be substantially attenuated by the end of the decade.

The stabilization of public enterprises' investment reflects the decision of the Plan to aim at achieving a substantial increase in the utilization of existing capacity, rather than in expanding it, and at improving efficiency and productivity, which were relatively neglected during the seventies; new plants, however, continue to be created in sectors, such as cement, where important shortages still exist. It is expected that the next Development Plan will continue to emphasize the improvement in the efficiency of industrial operations so as to obtain the maximum yield from the large resources channelled in the past into this sector.

b. Reorganization of public enterprises, productivity, and prices

Algeria is embarked in a comprehensive restructuring of the public enterprise sector, as envisaged in the Plan, of which the first phase, which involves the reorganization and splitting of enterprises, has been almost completed. However, the financial restructuring of the enterprises, which is to accompany this process, is still at an initial stage of implementation. The main criteria for the reorganization,

which involves the creation of 400 new enterprises from the 70 existing ones, are the regionalization of the enterprise network and the separation of production and marketing activities.

In the light industry sector the administrative reorganization was already completed, and the 46 enterprises created from the original 9 were all operational; in the heavy industry sector the original 5 companies have been replaced by 47 enterprises; and in the hydrocarbon sector SONATRACH has been divided into 5 enterprises. Substantial changes have also been introduced in the distribution sector, where regional enterprises specialized by group of product are taking over the functions previously exercised by either large national distribution companies or by the production companies; the existing national distribution companies are maintained to handle imports. The view of the Algerian representatives was that the reorganization has been beneficial in many respects. The chain of command in the enterprises has been shortened, thereby improving management efficiency and control of costs and production. An important benefit was also that the concentration of company headquarters in Algiers has been reversed, and regional centers have been revitalized. They also felt that the reorganization of the distribution sector, which is still underway, would substantially improve the efficiency of the distribution network by bringing the companies closer to the public they serve.

With regard to the financial restructuring of public enterprises, the Algerian representatives explained that the restructuring plans for the individual enterprises had begun to be submitted to the Council of Ministers for final decisions in the second half of 1983, following the completion of the administrative reorganization. The financial restructuring aims at restoring equilibrium in the financial situation of companies by: (a) replenishing the capital that has been consumed by operating losses, and decreasing bank indebtedness; (b) requiring enterprises to adopt measures to avoid further losses in the future, specifically by bringing costs in line with targets based on a normal level of capacity utilization; and (c) adjusting output prices in line with normative costs, where necessary. The Algerian representatives emphasized that most of the restructuring would not involve cash disbursements by the Treasury but would take the form of consolidating existing loans into equity participation. They said that about one third of the DA 150 billion of long-term loans outstanding by the Development Bank to the enterprises, which are funded by loans from the Treasury, would ultimately be converted into equity participation. With regard to price adjustments, a number of price increases for basic commodities took place in the latter part of 1982 and in 1983, including those for cement (35 percent), other construction materials, detergents (25 percent), gasoline (20 percent), and bread (30 percent); the authorities recognized, however, that these represented only a first step, and that the price increases necessary to bring prices in line with normative costs would be spread over a number of years. For key commodities, it is envisaged that retail prices will remain partly

subsidized. A system of compensatory levies on nonessential products was established in late 1982 to provide financing for a compensatory fund that would take care of subsidies; the fund, however, has made relatively limited intervention in 1983 and subsidies on key commodities have continued to be financed by the budget. The Algerian representatives noted that in recent years the level of subsidy payments has remained broadly stable; the subsidies, which cover part of enterprise costs for cereals, flour, edible oil, and books, have remained stable at about DA 2 billion from 1981 to 1983 (equivalent to 0.9 percent of GDP in 1983) and are expected to remain at that level in 1984, as a result of further retail price increases.

The mission inquired about recent developments in public enterprises' productivity, an increase of which is crucial to the improvement of the companies' financial performance and is a major target of the 1980-84 Plan. The Algerian representatives stressed that productivity increases since 1979 were considerable because of a number of factors. In the first place, companies had been able to increase the capacity utilization of factories, most of which are delivered on a turnkey basis by foreign suppliers; at the same time, the increase in employment in existing factories has been strictly controlled; finally, the system of individual and collective incentives to workers and participation in company results, which has been generalized in 1982 and 1983, had strongly increased workers' motivation and performance. Productivity data obtained from the index of industrial production and employment data show increases of 5 percent in 1981 and 7 percent in 1982, which are substantially higher than in previous years.

c. The role of the private sector

To implement directives already contained in the development plan and political decisions taken by the Party Congress, three laws were enacted in August 1982 on private investment, the statute of artisans, and companies with foreign participation. Their purpose was to stimulate private sector activity by providing a clear regulatory environment and conditions of operations comparable to those previously reserved to state enterprises. The law on private domestic investments aims at increasing private sector activity in the country significantly by authorizing investments up to DA 30 million each subject to the approval of the state or regional investment committees (comités d'agrément); the authorized investments benefit from substantial tax advantages and access to long-term low interest rates, to banks' short-term credit, and to import licenses under conditions similar to those of state enterprises. The Algerian representatives stated that during the few months from the entry into effect of the implementing regulations the number of requests for investment authorizations has been very large. They felt that the new legislation, by giving confidence and security to potential investors, will channel to productive uses large untapped private entrepreneurial and financial resources; it is hoped in particular that it will stimulate investments in Algeria by

nationals residing abroad. The authorities intend to channel private investment into sectors where shortages exist, such as industrial equipment servicing and maintenance, subcontracting with the large state enterprises, and construction and public works. The law on the statute of artisans also aims at providing a clear regulatory framework for small-scale business activities together with adequate access to credit and to technical and advisory services; in addition, it aims to promote the establishment of artisan cooperatives. Finally, the law providing the regulatory framework for the establishment of companies with foreign capital participation aims at creating enterprises in technologically advanced sectors necessary for the development of the country, for which the recourse to foreign knowhow and the direct intervention of a foreign partner are essential. Specific sectors expected to benefit from the legislation are telecommunications, computerized data processing, and certain branches of the chemical industry.

The scope for private activity is also being expanded in the agricultural sector. Within the context of the reorganization of the socialist and cooperative sector (see SM/81/92 of October 9, 1981), 400,000 hectares of agricultural land (6 percent of the total) are being returned to the private sector.

2. Financial policies

a. Fiscal policies

The Algerian representatives stressed that a major objective of fiscal policies is to strengthen the contribution of nonhydrocarbon tax revenues to total revenue, in light of the prospects for much less buoyancy of hydrocarbon fiscal receipts in the future. They said that the efforts of the tax administration to widen the taxable base by bringing under the scope of the turnover and profit taxes small business activities that previously escaped taxation have been very successful in 1982 and 1983. These results have been facilitated by simplifications introduced in 1982 and 1983 in the method of assessment of the profit and turnover taxes, and by information obtained on taxpayers when large denomination banknotes were converted in April 1982. The tax administration is expected to be strengthened further in the coming years.

On the expenditure side, the mission inquired about the reasons for the rapid expansion of payments for wages and salaries in 1982, which considerably exceeded the increase due to recruitment. The Algerian representatives explained that the rapid increase in wages expenditure, which continued also in 1983, was the result of numerous factors. They include the reclassification of job positions according to the norms of the Statut Général des Travailleurs enacted in 1979; the extension to the civil service of the new system of indemnities according to work conditions introduced to the other sectors in 1980 and 1981; the increase in the wages of professionals according to the

new national salary threshold for technicians and managers introduced in late 1981; and the 10 percent wage increase granted in January 1983 to the lower skilled category. In general, these salary actions were designed to align the wages and salaries in the civil service with the level prevailing in industry, the spread between the two being previously very high, with unfavorable consequences on morale and quality of work. The Algerian representatives expected further substantial increases in personnel costs in 1984, as the process of adjusting wages and salaries to the new national norms had not yet been completed.

With regard to the rapid expansion of the investment budget expenditures in 1982 and 1983, the Algerian representatives explained that they reflected the entry into execution of very large public works programs, such as extensive dam construction and road and railroad construction, with large absorptive capacity. The authorities expected that the increase in these expenditures would slow down considerably in 1984, as the bulk of the outlays related to these projects had already been carried out. The mission noted that the rapid growth of government investment since 1981 was compensated by the stability of public enterprise investment and that this was in line with the guidelines and macroeconomic objectives of the 1980-84 Development Plan. At the same time it pointed out that developments in current and capital expenditures would lead in 1983 to a Treasury deficit larger than in 1982 requiring a further large expansion in central bank financing. The Algerian representatives, while concurring with the staff projection of an increase in the deficit, did not view this development with concern. They felt that the increase in central bank claims on to the Treasury would remain within acceptable bounds, and would not lead to excessive liquidity creation, taking into account that the other major component of central bank domestic financing, the rediscount to commercial banks, had recorded only a modest increase in the first nine months of 1983.

b. Monetary and credit policies

The mission inquired about the factors that led to the rapid expansion of bank credit to the economy in 1982. According to the Algerian representatives an important factor was the enterprises' exceptional financing needs arising from their reorganization, such as the establishment of new headquarters, transfer of personnel, and so on. Provisional data for the first half of 1983 indicate that credit growth decelerated markedly. They also pointed out that the expansion of bank credit to the economy in 1982 was accompanied by a decline in long-term financing to enterprises by the Algerian Development Bank, and, therefore, overestimates the total recourse to domestic financing by the enterprise sector. The staff noted in this respect that a comparison of sources of funds for the enterprise sector, including foreign loans, and uses of funds, of which the principal is investment outlays, shows a substantial stability in the total of sources and uses since 1981, accompanied by an increased share of bank credit in the total sources of funds. The Algerian representatives pointed out that

the expansion in the relative recourse to bank debt in recent years had increased the financial charges for enterprises and had made more urgent the restructuring of the enterprises' financial position.

The staff noted that in 1982 the money supply had increased at a rate substantially in excess of that of nominal GNP, as a consequence of the rapid increase in domestic credit. As a result, the ratio of broad money to GDP, which had declined between 1978 and 1981, increased substantially to 67 percent of GDP in 1982, a level which is higher than in neighboring countries and which seems to indicate the existence of excess liquidity in the economy. The Algerian representatives did not consider this development worrisome. They felt that more rapid procedures instituted in 1982 and 1983 by the Government and local authorities for sales of lots for construction and the sale by the state of residential units were absorbing a certain amount of pent-up demand, for which savings had been accumulated. At the same time, savings were utilized in private building activity which was very intense, which they considered a favorable development in view of the housing shortages in the country. With regard to the withdrawal from circulation of the DA 500 notes in 1982, the Algerian representatives pointed out that it had led to a correspondent rise in deposits at commercial banks, the saving bank, and the postal checking system, with the largest increase recorded by commercial banks' deposits. The increase in the use of bank deposits by the public instead of currency remained an important objective of the authorities; to that end, the network of bank branches, which in the past was very limited, was being expanded rapidly, bank operations were being modernized, and regulatory measures had been adopted to promote the circulation of bank checks. A new bank specializing in credit to agriculture entered in operation in 1983; its role is to facilitate the recourse to bank borrowing by agricultural producers, including those in the private sector, and by agricultural services.

3. External sector policies and prospects

The discussions on the balance of payments centered on the prospects for the current account for 1984 and on the external borrowing policy. The authorities were not prepared to discuss in detail medium-term balance of payments projections, as the work for the new Development Plan 1985-89 has just started. However, the Algerian representatives felt that the relatively favorable development in overall hydrocarbon exports in 1983, despite weakness in international demand, would continue in 1984 and beyond owing to the diversification of Algeria's hydrocarbon exports. Natural gas exports through the trans-mediterranean pipeline were scheduled to increase to 6 billion m³ in 1984, 9 billion m³ in 1985, and the full contract level of 12.5 billion m³ in 1986. An expansion of the pipeline to permit transportation of 18 billion m³ was technically possible, and could be envisaged before the end of the decade, if additional consuming countries willing to link to the Italian pipeline network could be found. Exports of

condensate, which had expanded rapidly in recent years, were projected by the authorities to increase by 15 percent a year up to 1986, when a stable level of production capacity would be reached; similarly, a significant expansion of production and export of liquefied natural gas up to 1986 is envisaged. On the other hand, production of crude petroleum is expected to remain stable in the coming years at the level of 32 millions tons per year recorded in 1983, a level that which is considered optimal from the technical point of view. Taking into account that domestic consumption of petroleum products increases by about 10 percent per year, this implies a gradual reduction in the amount of crude and refined products available for export. On the basis of these volumes projections, the mission estimated that export receipts may increase in 1984 by about 13 percent in SDR terms, assuming stable export prices (Table 2). Between 1984 and 1987 export growth in volume terms is projected at 11 percent.

With regard to imports, the Algerian representatives noted that data for the first nine months of 1983 showed that expenditures for imports in SDR terms had been contained at a level about equal to that of the previous year. In their view, this had been made possible by an increase in domestic production of consumer goods, a reduction in stocks of imported goods, and by the decline in the international price of a number of agricultural commodities. For 1984, the official import program being still under preparation, the Algerian representatives were not ready to advance forecasts. The staff felt that imports could increase by about 11 percent in value in terms of SDRs, taking into account the need for extraordinary cereal imports to compensate for the bad crop in 1983. As a result, and taking into account an expected decline in interest payments on the external debt resulting from a reduction in the stock of debt outstanding in 1983, the mission projected for 1984 a current account surplus of about SDR 700 million, equivalent to 1.3 percent of GDP. In light of an expected increase in domestic capacity utilization, which may contain import growth to about 5.5 percent in volume in the years 1985-1987, the projected volume increase in exports, the assumption of a deterioration of terms of trade in 1984 and 1985 and of unchanged terms of trade thereafter, the surplus is likely to persist over the next few years. It is presently projected by the staff to reach SDR 1 billion in 1985 and to decline thereafter to SDR 0.5 billion by 1987.

In view of the expected continuation of a modest current account surplus, the staff inquired about the present and prospective policy on foreign borrowing. The Algerian representatives pointed out that, although the level of international reserves had declined in 1982 and 1983, there was no explicit policy to reconstitute reserves. Algeria's two large loans of US\$750 million and US\$850 million in the international financial markets in 1983 were motivated to a large extent by the desire of public enterprises to take advantage of the favorable terms presently available for Algerian borrowers in the financial markets, so as to finance their investment programs and strengthen their

financial position, especially in light of the large repayment charges they are confronted with. Pressure by public enterprises on the financial authorities for consent to borrow abroad are expected to continue in the period ahead. The authorities stated that, while they would continue to be prudent in their borrowing policy, they would envisage to continue to finance abroad part of the new investments. The staff projections are for a decline of the external debt from SDR 12.6 billion at end-1982 to about SDR 11 billion in 1986-87. With a projected decline both in interest payments and amortization, the debt service ratio is projected to decline from 34 percent in 1983 to 27 percent in 1985 and 22 percent in 1987.

The Algerian representatives stressed that several actions have been taken since 1981 to introduce more flexibility in import allocations and that the new measures adopted in 1983 represent further steps in this direction. Measures were adopted to facilitate imports of spare parts and payments for urgent technical services, and actions were taken to facilitate the import of equipment by the private sector, which are in support of the new policies regarding private investment. They stressed the additional measures taken to limit the premium on remittances by foreign workers. The obligation introduced in 1982 for every national returning from abroad to exchange at the official exchange rate an amount equivalent to DA 700 had, in their view, a positive effect on the amount of remittances, which remain, however, relatively modest in size when compared with those in neighboring countries. To attract such remittances, nonresident accounts in foreign exchange with rate of remuneration similar to those on foreign markets have recently been introduced, but it is still too early to assess their effects. The authorities emphasize that an important flow of savings from the Algerian community in Europe takes place in the form of goods introduced directly in the country and noted that certain measures, indicated in section II, had been taken to stimulate this inflow.

The discussions on the exchange rate were extensive. The staff pointed out that the nominal import-weighted effective exchange rate of the dinar, calculated in relation to 31 countries that are exporters of manufactured goods, had appreciated by 37 percent between 1980 and October 1983, after having remained broadly stable between 1975 and 1980. The appreciation of the real effective exchange rate had been somewhat smaller but still sizable (19 percent between 1980 and the second quarter of 1983). Although this development had had a minimum impact on trade flows given the reliance on hydrocarbon exports and the planned system for imports, in the staff's view it had important consequences for cost and benefit analysis, for the evaluation of investments, and for the profitability of firms, and could induce an excessive propensity of firms toward imports and capital intensive investment and production. It also appeared inconsistent with the efforts of the authorities to introduce a realistic price structure in the economy, reflecting opportunity costs especially in manufacturing. In addition, it could

hamper the marketing abroad of the surpluses that were beginning to emerge in certain domestic productions, and more generally could adversely affect the prospects for a diversification of Algerian exports in the future. The Algerian representatives in general disagreed with the thrust of this analysis; they stressed that the present system of weighting currencies for determining the exchange rate of the dinar had been chosen to ensure stability of the average exchange rate when evaluated in terms of the composition of external outlays, including interest and debt amortization charges. For this reason, they did not consider it appropriate to use a weighting system based only on imports of goods. In addition, they did not think that the development of the exchange rate could lead to excessive imports, in view of the centralized planning procedure that was used to determine import flows. Also, they felt that the diversification of exports was not an issue confronting the Algerian economy at present. Notwithstanding these considerations, they agreed to carry out an analysis of the impact of recent trends in the exchange rate on the Algerian economy.

IV. Staff Appraisal

Over the last two years Algeria has been less adversely affected than other oil-producing countries by the weakness in international demand for oil, owing to the considerable diversification in its hydrocarbon exports with the growing share of natural gas and condensate. As a result of this and of more prudent domestic policies, higher overall growth rates have been achieved in 1982 and 1983, while the current account of the balance of payments has remained close to equilibrium and the external debt has been reduced. The prospects for continued high growth and the current account appear favorable over the next few years reflecting in particular a projected expansion in gas and condensate exports. This should permit a further reduction of the external debt. The favorable external position has enabled the authorities to maintain investment in line with the target of the 1980-84 Development Plan, and in particular to expand significantly the investment efforts in the field of infrastructure and housing, where serious shortages exist.

The staff welcomes the substantial reorganization of the public enterprise system which has taken effect during the last two years and which will contribute to increase efficiency and productivity by reducing the size of enterprises and spreading out managerial responsibilities. The productivity incentives introduced under a national wage policy also have contributed to a productivity increase in industry. It would be important that this administrative reorganization be completed by the financial restructuring now under way and by a gradual increase of prices toward more realistic level, in order to place the enterprises on a sounder financial footing. The staff also welcomes the measures taken to increase the role of the private sector in the economy, which are likely to stimulate the productive use of the untapped entrepreneurial and financial resources existing in the country.

The broadening of the tax base to increase the contribution of the nonhydrocarbon sector to budgetary revenues should strengthen the budgetary position over the medium term. In view of the slowing down of the increase in revenue from the hydrocarbon sector, it is important that the increase in nonhydrocarbon revenues be sustained over the next few years and that the rapid increase in current expenditures be slowed down in the years ahead, so as to contain the size of the Treasury deficit, which increased in recent years. The staff notes that the increase in credit and liquidity has continued to remain rapid in 1982; while the inflationary pressures do not appear to have increased, the staff nevertheless feels that it is important to moderate the rate of increase in credit while improving the efficiency of banking services and encouraging the developments of attractive savings instruments to absorb the high level of liquidity existing in the country.

Algeria continues to maintain a restrictive trade and exchange system, based on import programming and exchange controls. However, the staff welcomes the measures taken in 1982 and 1983 to increase the flexibility of the trade and payments system and to liberalize certain essential imports and payments for goods and services and the intention of the authorities to continue in this direction. The staff also welcomes the termination of the remaining two bilateral agreements with Fund members. The exchange restrictions on current payments and transfers currently in effect were in existence when Algeria became a member of the Fund and are not subject to Fund approval under Article VIII, with the exception of the multiple currency practice referred to below.

In their exchange rate policies, the authorities have maintained a fixed relationship vis-à-vis a currency basket. As a consequence, the staff estimates that the real import-weighted effective exchange rate has appreciated substantially over the last three years. The authorities have expressed the view that the exchange rate policy pursued has been useful to provide stability to the flow of payments for goods, services, and debt amortization, and that import policy is determined independently from cost considerations. While recognizing the absence of balance of payments pressure, it is the staff's view that the appreciation of the exchange rate vis-à-vis the main trading partners for commodities other than hydrocarbons may have an adverse impact on enterprises' decisions, hamper the establishment of a realistic price system, which is a major objective of the authorities, and render the process of diversification of the economy more difficult. Therefore, it welcomes the intention of the authorities to subject exchange rate developments and policy to a careful review.

During 1982 the authorities took some measures to limit the scope of the multiple currency practice arising from the exchange rate premium, which applies to remittances by Algerian workers abroad. With the continued appreciation of the dinar, however, the premium progressively widened and the authorities decided to limit the premium from February 1983 to 40 percent of the official rate. While welcoming the

reduction of the scope of the premium, the introduction of foreign currency deposits for nationals residing abroad, and the provisions to facilitate the transfer of savings through imports, the staff is of the view that the magnitude of the premium indicates a need to follow a more appropriate exchange rate policy. Such a policy would permit the elimination of the multiple currency practice and stimulate more effectively the flow of workers' remittances. Fund approval of the multiple currency practice is not proposed.

V. Proposed Decision

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

1. The Fund takes this decision relating to Algeria's exchange measures subject to Article VIII, Sections 2 and 3, in concluding the 1983 Article XIV consultation with Algeria and in the light of the 1983 Article IV consultation with Algeria conducted under Decision No. 5392-(77/63) adopted April 29, 1977 (Surveillance over Exchange Rate Policies).
2. The Fund welcomes the steps taken by the Algerian authorities to liberalize some restrictions on payments and transfers for current international transactions and the termination of the remaining bilateral payments arrangements with Fund members. The Fund urges Algeria to ease further the external payments restrictions and to adopt policies which would enable it to eliminate the multiple currency practice resulting from the premium on workers' remittances from abroad, as described in SM/83/ .

ALGERIA - Relations with the Fund
(As of December 31, 1983)

Date of membership: September 26, 1963

Quota: SDR 623.1 million (effective)

Exchange system: 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. As of the end of December 1983, the average of the buying and selling rates for the U.S. dollar, which is the representative rate under Rule O-3, was US\$1 = D 4.916, equivalent to SDR 1 = D 5.147.

Fund holdings of dinars: 72.3 percent of quota

SDR position: Algeria's holdings of SDRs amounted to SDR 102.1 million, equivalent to 79.4 percent of its net cumulative allocation.

Gold distribution: Algeria acquired 111,258 ounces of gold.

Direct distribution of profits from gold sales: US\$20.7 million

The 1982 Article IV consultation discussions with Algeria were held in Algiers during the period June 12-24, 1982. The staff report (SM/82/175) was discussed by the Executive Board on October 14, 1982, and the following decision was taken:

1. The Fund takes this decision relating to Algeria's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1982 Article XIV consultation with Algeria, in the light of the 1982 Article IV consultation with Algeria conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Since the last consultation the Algerian authorities have reduced the scope of the multiple currency practice resulting from the premium on workers' remittances from abroad, as described in SM/81/192. The Fund urges Algeria to explore further alternative measures that would enable it to eliminate this practice and to take early action to eliminate the two bilateral agreements with Fund members.

ALGERIA - Financial Relations with the World Bank

(In millions of U.S. dollars)

Lending operations for the period
through December 31, 1983

	<u>Disbursed</u>	<u>Undisbursed</u>
Agricultural and rural development	7.4	8.6
Education	14.9	39.7
Power and utilities	183.3	78.7
Transportation	230.1	158.9
Industry	<u>57.7</u>	<u>—</u>
Total	493.4	285.9
Repayments	170.7	
Debt outstanding, including undisbursed, as of December 31, 1983:	609.3	

Technical assistance:

The IBRD has provided technical assistance to Algeria through its standard lending operations for projects. In addition, the IBRD acted as executing agency for several UNDP-financed project preparations.

Recent economic and sector missions:

Updating of economic missions: May 1980 and February 1981; discussion of plan report: January 1982; country implementation review: June 1982.

ALGERIA - Basic DataArea, population, and GDP per capita

Area	2.4 million square kilometers
Population:	
Total (1982 estimate)	20.2 million
Growth rate (1982 estimate)	3.2 percent
GDP per capita 1982	SDR 2,010

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u> Est.
	<u>(In billions of dinars)</u>				
<u>Gross domestic product at current prices</u>	<u>126.5</u>	<u>161.6</u>	<u>188.1</u>	<u>206.3</u>	<u>232.0</u>
Agriculture	8.7	10.9	12.1	12.2	...
Petroleum and natural gas	33.6	51.1	59.1	60.7	...
Other mining and energy	2.2	2.7	3.2	3.7	...
Manufacturing	13.9	16.0	18.8	21.5	...
Construction and public works	19.1	21.3	23.4	27.5	...
Government services	13.3	16.9	20.1	24.2	...
Other services	29.8	34.0	40.5	45.1	...
Import taxes and duties	6.0	8.7	10.5	11.4	...
Change in GDP (percent)	25.7	27.7	16.3	9.7	12.5
<u>Domestic expenditure at current prices</u>	<u>139.0</u>	<u>156.0</u>	<u>183.3</u>	<u>203.7</u>	<u>227.1</u>
Private consumption	57.2	68.4	84.3	95.1	108.7
Public consumption	18.0	22.1	26.2	31.2	36.0
Gross fixed investment	50.9	56.7	65.3	72.0	79.4
Changes in stocks	2.9	8.8	7.5	5.4	3.0
<u>Resource gap (deficit-)</u>	<u>-2.5</u>	<u>5.6</u>	<u>4.8</u>	<u>2.6</u>	<u>4.9</u>
<u>Increase in consumer price index (percent)</u>	<u>11.6</u>	<u>9.5</u>	<u>14.6</u>	<u>6.7</u>	<u>8.0</u>
<u>Government finance</u>					
<u>Current operations</u>					
Budget revenue	47.8	61.3	81.8	75.3	84.5
Of which: petroleum receipts	(26.5)	(37.7)	(51.0)	(41.5)	(43.0)
Current budget expenditure	-20.9	-27.6	-32.1	-40.6	-45.0
Special accounts (net)	-0.1	0.9	1.0	-0.2	--
Balance I	26.8	34.5	50.7	34.5	39.5

Algeria - Basic Data (continued)

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u> Est.
<u>(In billions of dinars)</u>					
<u>Capital operations</u>					
Institutional savings	11.8	6.9	9.2	10.8	11.6
Capital budget expenditure	-13.8	-17.8	-23.0	-32.1	-37.5
Advances and loans to public enterprises (net)	-26.4	-30.6	-30.2	-23.1	-27.5
Balance II	-28.4	-41.5	-44.0	-44.4	-53.4
Balance I + II	-1.6	-7.0	6.7	-9.8	-13.9
<u>Financing</u>					
Foreign resources	-0.2	-0.2	-0.1	-0.1	--
Domestic resources	1.8	7.2	-6.6	9.9	13.9
Banking system	0.4	5.6	-9.5	5.8	11.0
Other	1.4	1.6	2.9	4.1	2.9
<u>Money and credit (end of period)</u>					
Foreign assets (net)	10.4	13.6	16.2	8.2	...
Domestic credit	86.6	101.5	113.7	149.0	...
Credit to Government (net)	26.6	33.0	25.1	36.2	...
Credit to economy	60.0	68.5	88.6	112.8	...
Of which: rediscounted	(11.5)	(11.8)	(22.6)	(27.0)	...
Money	72.5	84.4	97.9	125.3	...
Of which: currency in circulation	(35.4)	(42.3)	(48.1)	(49.2)	(60.0)
Quasi-money	7.5	9.1	11.2	12.6	...
Government lending funds	3.6	3.1	3.7	3.9	...
Medium- and long-term foreign borrowing	10.3	9.9	9.5	8.4	...
Other items (net)	3.4	8.6	7.6	7.0	...
Savings deposits <u>1/</u>	6.6	10.3	12.1	16.0	...

1/ Not included in the monetary survey.

ALGERIA - Basic Data (concluded)

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u> Est.
	(In millions of SDRs)				
<u>Balance of payments</u>					
Exports, f.o.b.	7,340	10,489	11,972	12,237	12,284
Imports, f.o.b.	-6,041	-7,373	-8,556	-8,957	-8,642
Trade balance	1,299	3,116	3,416	3,280	3,641
Services (net)	-2,846	-3,190	-3,644	-3,778	-3,806
Transfers	278	259	304	332	306
Current balance	-1,269	185	76	-166	140
Capital account	1,587	855	108	-816	-619
Direct investment	(7)	(246)	(-1)	(-58)	--
Gross borrowing	(3,265)	(2,383)	(2,367)	(2,162)	(2,931)
Amortizations	(-1,265)	(-1,911)	(-2,250)	(-2,740)	(-3,311)
Other	(-420)	(137)	(-8)	(-180)	(-239)
Errors and omissions	7	-9	-8	-15	--
SDR allocation	30	30	29	--	--
Overall surplus or deficit	355	1,061	205	-997	-479
<u>Outstanding external debt</u>					
(end of year)	12,242	12,806	13,195	12,598	12,200
<u>External debt service</u>					
Total	2,169	3,003	3,563	4,036	4,568
Amortization	1,265	1,902	2,206	2,750	3,311
Interest	904	1,101	1,357	1,286	1,257
<u>Gross official foreign reserves</u>					
(end of period)	2,214	3,153	3,370	2,391	1,798
<u>Exchange rate of dinar</u>					
(period average)					<u>Dec.</u> <u>1983</u>
Dinars per SDR	4.978	4.994	5.089	5.069	5.135
Dinars per U.S. dollar	3.853	3.837	4.316	4.592	4.925
Indices of import-weighted nominal effective rate <u>1/</u>					
Nominal	97.9	100.0	109.9	120.8	140.9
Real	101.6	100.0	111.4	116.3	119.3 <u>2/</u>

1/ January 1980=100; an increase in the index implies an appreciation.

2/ Second quarter of 1983.

