FOR AGENDA

EBS/01/130

CONFIDENTIAL

August 6, 2001

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Algeria—Staff Report for the 2001 Article IV Consultation and Post-Program Monitoring Discussion**

Attached for consideration by the Executive Directors is the staff report for the 2001 Article IV consultation with Algeria and post-program monitoring discussion, which is tentatively scheduled for discussion on Wednesday, August 29, 2001. At the time of circulation of this paper to the Board, the Secretary's Department has received a communication from the authorities of Algeria indicating that they consent to the Fund's publication of this paper.

Questions may be referred to Mr. Lazare (ext. 38892), Mr. P. Callier (ext. 37143), and Mr. Joly (ext. 34674).

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Tuesday, August 14, 2001; and to the African Development Bank, the Arab Monetary Fund, the European Commission, and the Islamic Development Bank, following its consideration by the Executive Board.

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ALGERIA

Staff Report for the 2001 Article IV Consultation and Post-Program Monitoring Discussion

Prepared by Middle Eastern Department
(in consultation with other departments)

Approved by P. Chabrier and S. Kashiwagi

August 3, 2001

- The discussions for the 2001 Article IV consultation and post-program monitoring were held in Algiers in two stages (May 18–June 3, 2001 and July 2–8, 2001) because of the May 31, 2001 government's reshuffling, which involved significant changes in the composition of the economic team.
- The missions comprised Messrs. Lazare (Head), Abdallah, Callier, and Joly (all MED), with Mr. Chabrier (MED) taking part in the July mission and Mr. Hadded (OED) attending the technical and policy discussion meetings.
- The missions met with the prime minister, the ministers of finance, participation and reforms coordination, treasury and financial reform, the *délégué au plan*, and their senior staff; the governor and senior officials of the Bank of Algeria (BA); officials of the National Statistics Institute; a range of government and social security agency officials; banking, corporate, and civil society representatives, including officials from the state-owned oil company Sonatrach and the Secretary General and senior staff of Algeria's main trade union (*Union Générale des Travailleurs Algériens*).
- The authors of the report are Messrs. Lazare, Abdallah, Callier, and Joly.

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EXECUTIVE SUMMARY

- After tighter demand management policy enabled the country to weather the low oil prices in 1998–99, higher prices in 2000 and the first half of 2001, coupled with cautious financial policies, led to sharp improvements in the fiscal and external positions. However, growth remained sluggish in the nonhydrocarbon sector in 2000, but is expected to pick up in 2001 owing to (a) a return to normal weather conditions; (b) higher civil service wages; and (c) an increase in government's capital expenditures. The inflation rate, which fell to 0.3 percent in 2000, is expected to climb to 3 percent in 2001.

- The combination of high oil revenues and increased political and social tensions led the authorities to announce, in the spring of 2001, a 2001–04 recovery plan involving a substantial boost to aggregate demand.

- Implementation of market-oriented reforms was slow in 2000 and early 2001. Two laws were adopted to liberalize the telecommunications and mining sectors. The restructuring of the balance sheets of government-owned banks progressed but is not yet complete. The public assets in the steel-making industry were transferred to a company which is majority-owned by a foreign investor, and a mobile telephone license was sold to a foreign investor. The maximum rate in the customs tariff was reduced from 45 percent to 40 percent, and a temporary additional duty replaced the minimum duty values. In addition, the central bank law was amended with, inter alia, the elimination of fixed-term mandates for the governor and vice-governors.

- The authorities aim at addressing the issues of slow growth, high unemployment, and insufficient diversification of exports through (a) the recovery plan for 2001–04; and (b) the continuation of structural reforms. They see this recovery plan as a complement to structural reforms that will ensure an initial acceleration of growth until private investment is better able to contribute to sustained growth. They intend to proceed with (a) privatization and restructuring of state-owned enterprises—for which considerable preparatory work has already been done; (b) the reform of the financial sector; (c) a comprehensive customs tariff reform; and (d) the liberalization of the hydrocarbon sector.

- The staff shares the goals and thrust of the authorities' economic agenda. While recognizing that an easing of the fiscal stance is appropriate in the present context, it stresses that this easing cannot be expected to yield a permanent increase in growth and that the recovery plan's implementation should be tailored in the coming years to Algeria's financial situation. The staff urges the authorities to combine this fiscal stimulus with an acceleration of ongoing structural reforms, in particular with (a) the adoption of measures aimed at intensifying competition, of which trade and tariff reform is an essential component; and (b) the strengthening of the financial system, which requires restructuring of the loss-making nonfinancial enterprises and the balance sheets of the state-owned banks. It also recommends a substantial strengthening of the statistical system and improvements in governance, including at the local and regional levels.

I. Introduction

1. **Algeria established a strong record of policy implementation under the four years of stand-by and extended arrangements from 1994 to 1998.**[1] Both arrangements were fully implemented, with Algeria broadly attaining its stabilization objectives as mentioned below. On May 26, 1999, the Executive Board approved Algeria's request for a SDR 223.5 million purchase under the Compensatory and Contingency Financing Facility (CCFF). Algeria's obligations to the Fund under the General Resources Account amounted to 101.2 percent of its quota at the end of June 2001 (Appendix I). Its payment history to the Fund is excellent with a record of timely payments. In September 1997, it accepted the obligations of Article VIII Sections 2, 3, and 4. Algeria maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions. Algeria is on the standard 12-month consultation cycle.

2. **The 2000 Article IV consultation was concluded on July 7, 2000.** Executive Directors praised the Algerian authorities' macroeconomic management in 1998–99 and encouraged them to continue targeting a strong fiscal position over the medium term. Directors also supported the new government's reform program announced in early 2000. However, they stressed the need for further trade liberalization and early implementation of key reforms such as (a) banking reform; (b) restructuring and privatization of public sector companies; and (c) liberalization of the energy and telecommunications sectors.

3. **While the security situation had tended to improve over the past two years, the social and political situation has recently deteriorated**. The improvement in 1999-2000 was primarily due to President Bouteflika's peace initiative (*Civil Concord*) in 1999. However, incidents of violence concentrated in a limited number of regions have persisted. Moreover, in the spring of 2001, political and cultural tensions erupted and spread from the Berber-speaking region of Kabylia to other parts of the country.

4. **In August 2000, Prime Minister Benbitour resigned and was replaced by Prime Minister Benflis**. In May 2001, the government's reshuffling involved significant changes in the composition of the economic team.

5. **Algeria's relations with the World Bank currently focus on technical assistance and project implementation**. The World Bank has approved only limited new lending to Algeria in 2000, with disbursement under the existing loan portfolio being very slow (Appendix II).

6. **Persistent data weaknesses** in major areas hamper the monitoring of economic conditions and formulation of economic policies.

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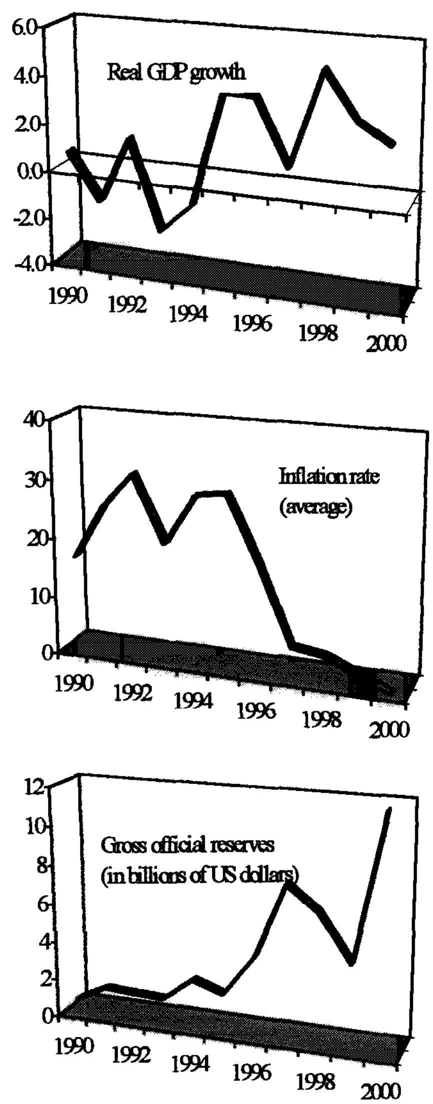
[1] The extended arrangement expired in May 1998.

II. Recent Economic Developments

7. **Algeria made commendable progress toward the restoration of macroeconomic balances and achieved extensive liberalization of the economy between 1994 and 1998.** Growth, which was negative on average during the 1990–94 period, resumed afterward; inflation, which was in the double-digit range during the first half of the 1990s, dropped markedly; and the balance of payments position strengthened substantially (Chart 1). Many market-oriented structural reforms were implemented; relative prices were realigned; numerous external trade and payment restrictions were abolished; and the restructuring of inefficient public enterprises was initiated.[2]

Chart 1. Algeria: Real GDP Growth and Inflation, 1990–2000



Source: Algerian authorities.

8. **Macroeconomic management was appropriate in the context of falling oil prices in 1998–99.** Faced with a negative impact on the fiscal and balance of payments positions, the authorities tightened demand management. Coupled with a turnaround in oil prices in the course of 1999, this step resulted in a sizable reduction in the fiscal deficit and in a virtual stabilization of foreign exchange reserves. At the same time, inflation continued to fall. However, economic activity decelerated in 1999, mainly due to adverse weather conditions and continued structural deficiencies, particularly in the public sector.

9. **Because of the large size of the hydrocarbon sector, fluctuations in oil and gas prices continue to have a major impact on the overall financial situation**. In 2000, high hydrocarbon prices, coupled with cautious financial policies, led to further improvements in the fiscal and external positions, with in particular a substantial accumulation of foreign exchange reserves (Chart 2).

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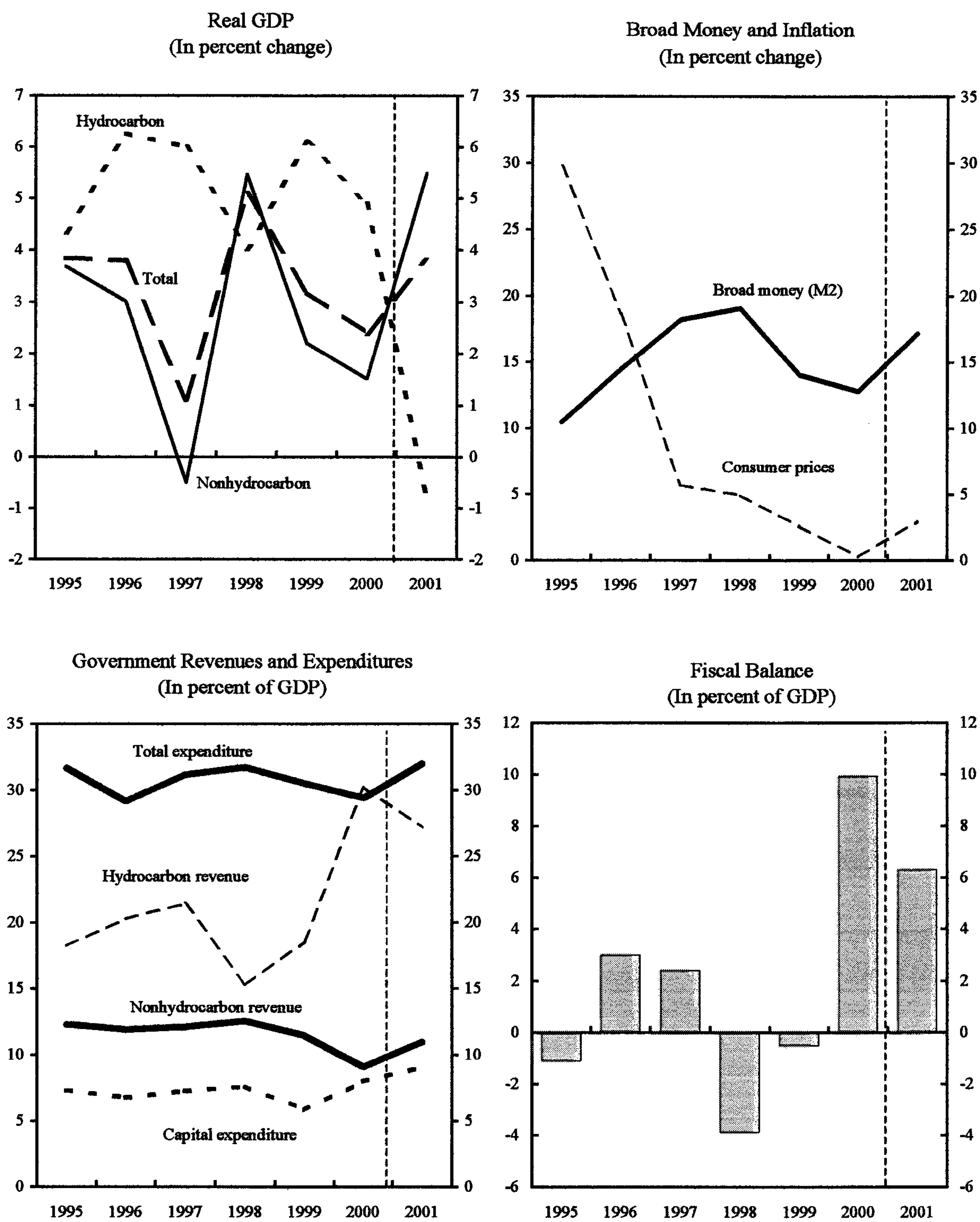
[2] See Occasional Paper 165 "Algeria: Stabilization and Transition to the Market" by K. Nashashibi, P. Alonso-Gamo, S. Bazzoni, A. Féler, N. Laframboise, and S. Paris Horvitz for details on the macroeconomic and structural developments in 1994–98.

Chart 2. Algeria: Selected Economic and Financial Indicators, 1995–2001



Sources: Algerian authorities; and Fund staff estimates.

A. Activity and Inflation

10. **Despite a dynamic hydrocarbon sector, GDP growth was modest in 2000** (Table 1). Hydrocarbon production increased by about 5 percent in 2000, compared to 6.2 percent in 1999. The increases in Algeria's OPEC quota boosted crude oil production, while natural gas production continued to expand significantly. However, overall GDP growth was limited (2.4 percent in 2000) and lower than in 1999 (3.2 percent).

11. **Growth remained sluggish in nonhydrocarbon sectors in 2000**. Agricultural production was once again affected by unfavorable climatic conditions, with cereal production cut in half mainly owing to a severe drought. Industrial production recorded a slight increase (about 1 percent), entirely because of the dynamism of the private sector (Box 1). On the whole, growth in nonhydrocarbon sectors (1.5 percent compared to 2.2 percent in 1999) was too weak to have had much of an effect on unemployment, currently estimated at about 30 percent of the labor force.[3] Preliminary data on the first quarter of 2001 point to a continued decline in the production of the public industrial sector.

12. **Disinflation continued in 2000**. The average increase in the consumer price index (CPI) was 0.3 percent in 2000, after 2.6 percent in the previous year. As in 1999, disinflation was driven by food prices, which decreased on average by 0.8 percent in 2000.[4] However, core inflation, defined as the year-on-year increase in nonfood prices, recorded a trend increase in the course of 2000 and in early 2001, and exceeded 3 percent in the spring of 2001 (Chart 3).

B. Fiscal Policy

13. **With the surge in oil prices, and to a lesser extent the depreciation of the dinar against the U.S. dollar, hydrocarbon revenue reached 30.2 percent of GDP in 2000 compared to 18.5 percent in 1999**. Nonhydrocarbon tax revenue also recovered from its particularly low 1999 level to reach 14.7 percent of nonhydrocarbon GDP, compared to 13.8 percent in 1999, but still fell short of the amount budgeted in the 2000 supplementary budget law.

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[3] Official figures may overestimate the extent of unemployment because of the importance of informal sector employment. The labor force is estimated to be growing by about 3–3.5 percent per year. Therefore, 260,000–300,000 new jobs per year need to be created just to stabilize unemployment.

[4] The drought had a negative impact mostly on cereal production; however, this had no impact on the CPI as cereal prices are supported at the production level.

Box 1. Algeria: Private Sector Development

As a result of liberalization measures adopted in the context of Fund-supported programs, the private sector has developed rapidly over the last few years becoming a major force in Algeria's economy. As shown in the table below, the private sector's share has increased in all sectors since the mid-1990s (except for hydrocarbon-related construction, which remains 100 percent public). It now represents more than 50 percent of total commercial value added, and about three-quarters of nonhydrocarbon value added. In addition to the oil sector and hydrocarbon-related construction, the public sector remains the main player in industry (about 66 percent of value added in 1999, down from about 83 percent in 1994). But even there, the private sector is developing rapidly[1] (about 6–8 percent per year in real terms) while the public sector share is continuously declining. Implementation of the government's privatization program should accelerate the increase in the private sector's share in industrial production. Private banks are also developing rapidly, which should help facilitate the financing of the private sector.

Share of the Private Sector in Value Added

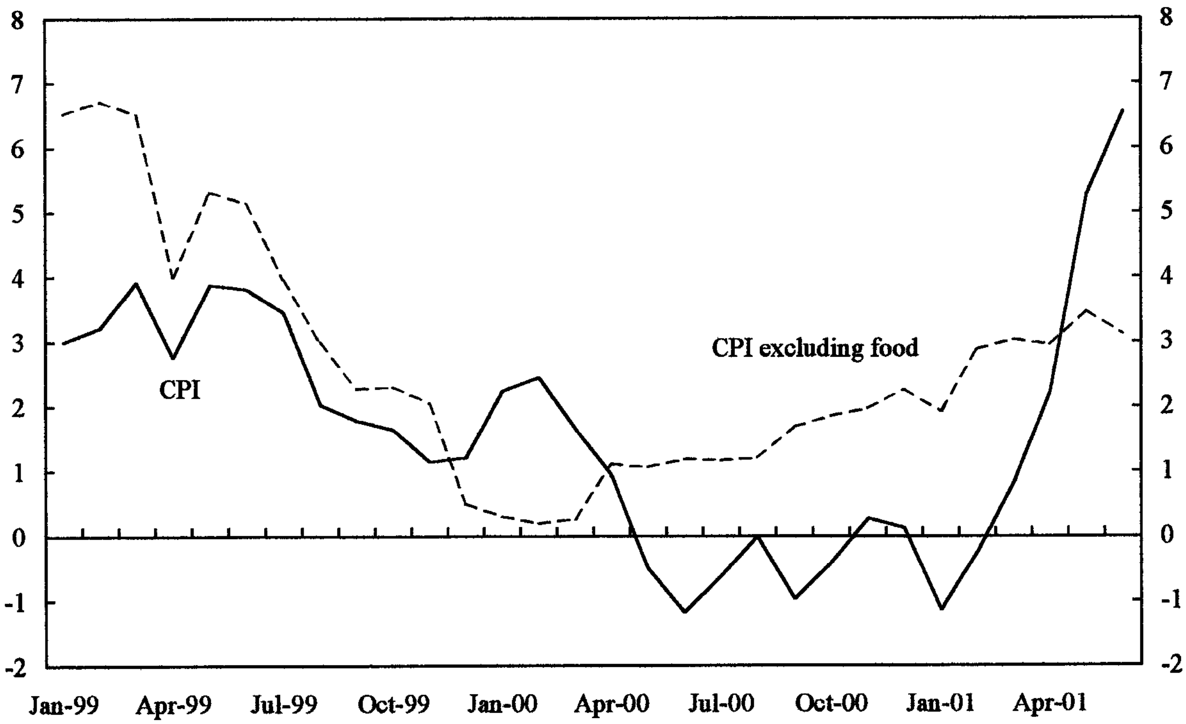
(In percent of total value added in each sector)

	1994	1999
Agriculture	99.1	99.6
Hydrocarbons	0.4	5.0
Hydrocarbon-related construction	0.0	0.0
Industry (excluding hydrocarbons)	16.5	33.6
Construction (nonrelated to hydrocarbons)	60.7	68.0
Transportation and telecommunications	53.9	72.8
Retail trade	84.2	97.0
Services	85.3	89.1
Total	46.6	51.8
Total excluding hydrocarbons	64.8	76.6

Source: Algerian authorities.

[1] The fastest development can be seen particularly in the food processing, textile, and pharmaceutical sectors.

Chart 3. Algeria: Consumer Price Index (CPI), 1999–2001 1/
(1989=100)



Source: Algerian authorities.

1/ Year on year evolution (percentage change).

14. **Expenditures, fueled by a surge in capital outlays, increased by 22 percent in 2000** (Table 2). Regarding current expenditures, the dynamism of interest payments (because of the settlement of interest payments arrears to public banks) and transfers was dampened by a freeze in the nominal base wage. Capital expenditures surged in cash terms by 72 percent relative to 1999, because of (a) disbursements in 2000 of expenditures budgeted in 1999 but frozen until late that year, after the recovery in oil prices had taken place; and (b) a large increase in newly appropriated capital expenditures.

15. **Overall, the surge in hydrocarbon prices allowed the budget position to switch from a 0.5 percent of GDP deficit in 1999 to a surplus of about 10 percent of GDP in 2000**. This sizable surplus contributed to finance external debt amortization and early retirement of domestic debt (below), and resulted in the accumulation of large cash balances (about 8 percent of GDP) on the treasury account at the central bank.

16. **To help preserve these resources, the government established a stabilization fund in 2000.**[5] The 2000 supplementary budget law and the 2001 budget law were built on a conservative oil price assumption (US$19 per barrel). Revenues in excess of budgeted amounts are deposited into the stabilization fund, which is currently not separated from the treasury account at the central bank. By law, the amounts accumulated in the fund can be used to finance the deficit and lower the stock of outstanding debt. The authorities' policy, as stated in the supplementary budget law for 2001, is to restrict the use of the fund's resources to financing debt amortization payments.

C. Monetary and Financial Sector Developments

17. **Broad money growth remained contained to about 13 percent in 2000 (14 percent in 1999) despite the surge in net foreign assets**, which increased by 41 percent of the initial money stock owing to high hydrocarbon prices (Table 3). Domestic credit decreased by 22 percent of the initial money stock.[6] This was essentially attributable to the government's effort to save windfall hydrocarbon revenue and, to a lesser extent, to the reimbursement by the Sonatrach Group (composed of national companies in the hydrocarbon sector) of short-term bank loans contracted in 1999.

18. **Monetary conditions were relaxed during the course of 2000**. In a context of low inflation, the BA decided to lower its rediscount rate to 6 percent in October 2000 (from 7.5 percent). In addition, owing to high hydrocarbon export proceeds and timely servicing of the treasury's debt to state-owned banks, tensions on bank liquidity, which had been particularly acute during the 1999–2000 winter, considerably diminished. As a result of both a lesser recourse to costly refinancing windows (such as the overdraft) and lower refinancing rates, the banks' average cost of refinancing by the BA was more than halved between end-1999 and June 2001.[7] Similarly, interest rates on the interbank market decreased sharply.

19. **The restructuring of state-owned banks' balance sheets progressed but was not completed**. In the course of 2000, the treasury repaid early some of its debt owed to public banks in the form of recapitalization bonds. At the same time, it settled arrears corresponding to the 1997 and 1998 interest payments on the outstanding "restructuring debt" (the bonds it substituted for nonperforming claims in banks' balance sheets in the context of previous

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[5] This fund does not have intergenerational transfer purposes.

[6] In 2000, the Algerian banks reclassified as credit to the government an estimated DA 216 billion of nonperforming credit to the economy assumed by the treasury. Consequently, percentage changes of net domestic credit components are not directly representative of monetary developments.

[7] The banks' average cost of refinancing by the BA decreased from 12.4 percent to 6 percent during that period.

restructuring). The treasury also unilaterally revised the terms of these bonds: their maturity was extended from 12 to 20 years, and their interest rate was lowered from 10 to 6 percent.[8] Meanwhile, discussions continued with public banks on a new assumption by the treasury of nonperforming claims accumulated in 1997 and 1998, and amounting to about 8.2 percent of the 2000 GDP. These discussions were completed in 2001, while the need to take over supplementary amounts on the basis of the end-1999 accounting data was being assessed.

D. External Developments

20. **The balance of payments position strengthened markedly in 2000 and early 2001** (Chart 4 and Table 4). Record hydrocarbon exports, together with a modest increase in imports, resulted in a massive current account surplus of US$8.9 billion—or 16.8 percent of GDP—after a balanced position in 1999. The capital account deficit fell to US$1.4 billion (from US$2.4 billion in 1999), mainly as a result of a reversal of the net short-term capital flows. The overall balance swung from a deficit of US$2.4 billion in 1999 to a surplus of US$7.6 billion in 2000. As a result, gross official reserves increased strongly to US$11.9 billion (equivalent to over one year of imports) by end-2000, from US$4.4 billion at end-1999. Similar developments in early 2001 led to a further rise in gross official reserves to US$15.2 billion at end-June 2001.

21. **The Algerian dinar remained relatively stable in real effective terms** (Chart 5). The nominal exchange rate depreciated on average by 11.7 percent against the U.S. dollar in 2000. However, the depreciation of the real effective exchange rate of the dinar was limited to 2.2 percent.

22. **External debt indicators improved substantially in 2000**. External debt decreased from US$28.3 billion at end-1999 to US$25.5 billion at end-2000.[9] The debt service ratio fell from 40 percent in 1999 to 21 percent in 2000, mainly because of the very large increase in the value of exports. Similarly, the debt to GDP ratio decreased from 48 percent in 1999 to 41 percent in 2000.

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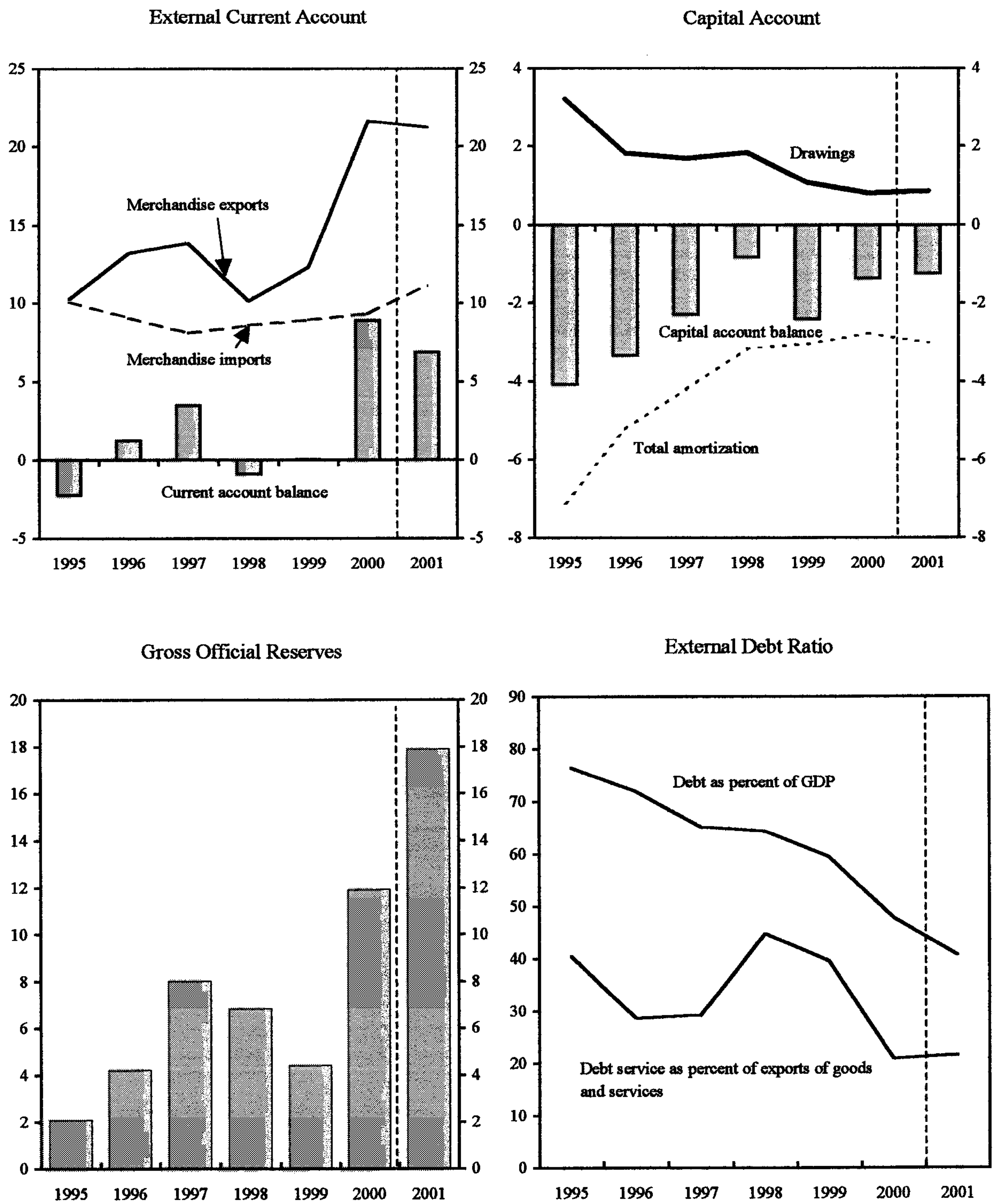
[8] This decision, which affects only state-owned banks, was taken for fiscal reasons without much consideration for its adverse impact on banks' liquidity and profitability.

[9] Ninety-eight percent of the debt is medium- and long-term debt, with an average remaining maturity of about five years.

Chart 4. Algeria: External Sector Developments, 1995–2001

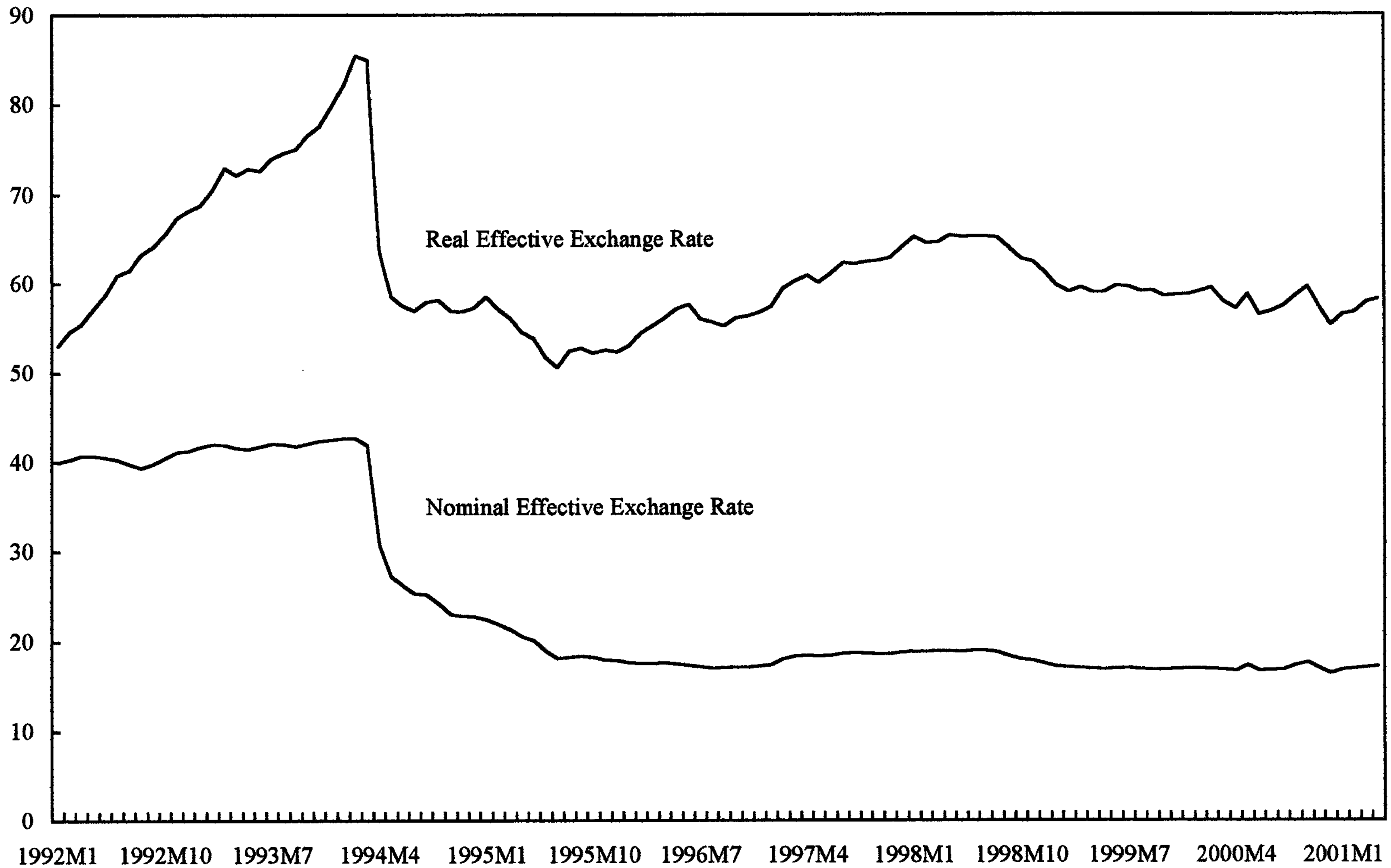
(In billions of U.S. dollars, unless otherwise indicated)



Source: Algerian authorities; and Fund staff estimates.

Chart 5. Algeria: Effective Exchange Rate, 1992–2001

(1990=100)



Source: Information notice system (INS).

E. Structural Reforms

23. **Implementation of structural reforms slowed down after the end of the extended arrangement.** No new major reform was introduced between May 1998 and end-1999, and changes in tariff positions and the introduction of minimum duty values for some products even resulted in an increase in effective external protection. Implementation of the structural reforms envisaged in the two government programs since end-1999 was also slow and limited. In October 2000, parliament approved the program of Prime Minister Benflis. The objective of this program, as that of the previous government,[10] was to accelerate market-oriented structural reforms while maintaining financial stability. However, as of June 2001, only a few laws (notably those liberalizing the telecommunications and mining sectors) had been adopted and a draft law liberalizing the electricity sector had been transmitted to parliament.[11] In addition, in July 2001, the government transferred the public assets in the steel-making sector and a minority stake in the state-owned iron ore mine to a company majority-owned by a foreign investor. Also in July, a second mobile phone (GSM) license was sold to a foreign investor for US$737 million (following competitive bidding).

24. **However, intense preparatory work on various other reforms has taken place.** The government has prepared a draft law liberalizing the hydrocarbon sector and has taken steps toward extending public infrastructure concessions. It also drafted a law aiming at establishing land concession rights on the portion of agricultural land that is still state-owned. It published in early 2001 a first list of public enterprises to be partly or entirely privatized, and contacts have already been established with potential investors. Concerning trade, the authorities have stated their objective to conclude before the end of 2001 the negotiations toward an association agreement with the European Union (EU) and to pursue simultaneously the negotiations for membership in the World Trade Organization (WTO). They are also considering a comprehensive reform of the external tariff (see below).

25. **The government amended the central bank law in early 2001.** The main changes are (a) the enlargement of the membership of the Money and Credit Council (MCC, the monetary authority) with the addition of three new members to the top four officers of the BA and three civil servants; (b) the direct appointment (without a fixed-term mandate) of all the members of the council, including the governor, by the head of state; and (c) the creation of a seven-member executive board, separate from the MCC, in charge of managing the central bank.

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[10] See Box 1 of the staff report for the 2000 Article IV Consultation (SM/00/122).

[11] In addition, the 2001 budget law includes improvements in the tax system (below).

III. Policy Discussions

A. Overview

26. **Despite considerable achievements since the early 1990s, the Algerian economy still suffers from growth well-below potential, high unemployment, and insufficient diversification of its export. These issues call for a comprehensive structural reform agenda** aimed at boosting private sector-led growth in the context of a stable macroeconomic environment in order to durably reduce unemployment and raise the population's standards of living. The government's program, whose goals and thrust are shared by Fund staff, sought to address these issues. However, the pace of structural reform has been excessively slow so far. The combination of high oil revenues and increased political and social tensions led the authorities to announce during the spring of 2001 a "recovery plan", involving a substantial boost to aggregate demand aimed at creating jobs and improving the population's living conditions. While the staff recognized that an easing of the fiscal stance was appropriate in Algeria's present economic, social, and political context, it stressed that this relaxation could not be expected to yield a permanent increase in growth and that the recovery plan's implementation should be tailored in coming years to the evolution of Algeria's financial situation. The staff urged the authorities to combine this fiscal stimulus with an acceleration of the implementation of ongoing structural reforms. Of these, two are of particular importance to improve efficiency in resource allocation at the macroeconomic level (Box 2): (a) the adoption of measures aiming at intensifying competition, of which trade and tariff reform is an essential component; and (b) the strengthening of the financial system, which requires restructuring the loss-making nonfinancial public enterprises and the balance sheets of the state-owned banks.

B. The Macroeconomic Framework for 2001 and the Medium Term, Post-Program Monitoring, and Capacity to Repay the Fund

27. **With continued high prices for oil and gas, the country's external position will remain strong in 2001**. Under the assumption of an average oil price of US$26.6 per barrel, the current account balance is expected to record a large surplus (about 12 percent of GDP), while the capital account deficit is projected to decrease somewhat relative to 2000. Gross external reserves would, therefore, continue to rise quickly, to about US$18 billion (about 16 months of imports) at the end of 2001.

28. **GDP growth is expected to increase to 3.8 percent in 2001, in spite of a slight contraction of production in the hydrocarbon sector** (Table 1). The latter would indeed decrease because of lower OPEC quotas for crude oil and the stagnation of gas production, whose increase in the coming years will result from the completion of ongoing investments. However, activity in nonhydrocarbon sectors is expected to accelerate substantially because of the demand stimulus resulting from the sharp increase in wages in the public sector (below) and the increase in government's capital expenditures (below), and because of a modest rebound in agricultural production.

Box 2. Algeria: Growth Accounting

Algeria's growth performance over the past decades can be analyzed using a production function framework. This framework allows one to determine the respective contribution to growth of factor accumulation and total factor productivity (TFP). Let's assume that production (Y) can be properly described by a Cobb-Douglas function of physical capital (K), human capital (H), and labor (L) with constant returns to scale (A denotes TFP):[1]

$$Y = AK^{\frac{1}{3}}H^{\frac{1}{3}}L^{\frac{1}{3}}$$

This equation can be rewritten in variation (where a dot over a variable denotes its percentage change):

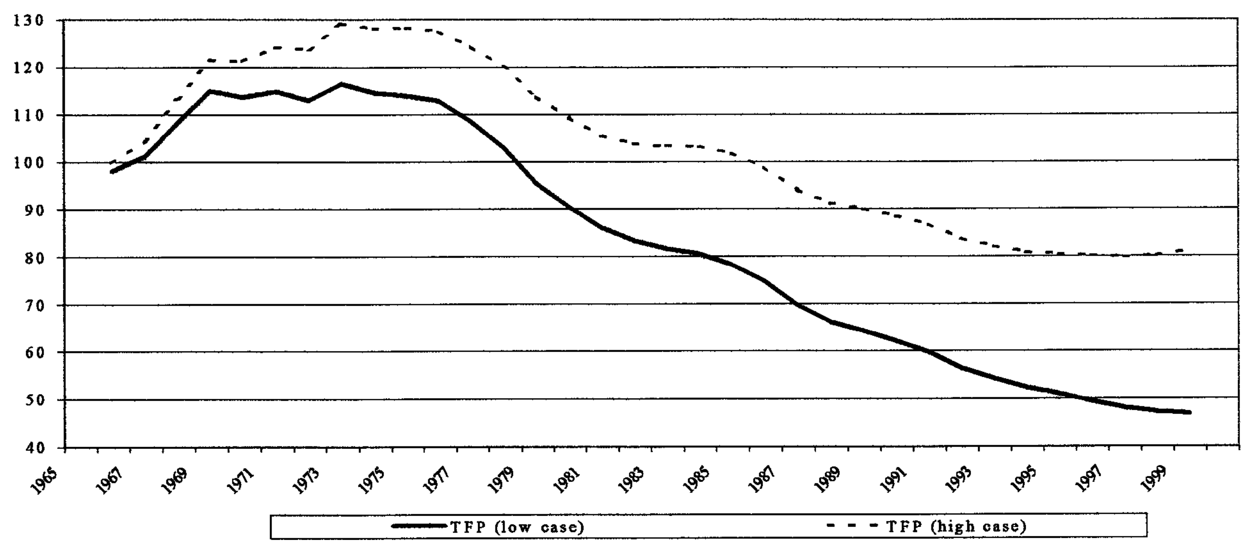
$$\dot{A} = \dot{Y} - \frac{1}{3}(\dot{K} + \dot{H} + \dot{L})$$

TFP growth is thus obtained as the share of growth, which is not explained by factor accumulation.[2]

Output growth has been essentially driven by factor accumulation in Algeria. During 1965–2000, employment—like total population—grew very rapidly (by an average 3.5 percent per year). Capital accumulation was even faster (with an average annual increase of 4.5 percent). Human capital accumulation benefited from dramatic education efforts and sustained labor growth (average annual increase of 9.6 percent). Since the average annual growth rate of real GDP was 3.8 percent during this period, this leads to an **annual average decrease in TFP of about 2.2 percent**. For the sake of robustness, another estimate was made using a less favorable human capital accumulation indicator and giving a higher share (1/2) to physical capital in the production function. TFP growth remains negative even in that case (an average -0.6 percent in 1965–2000). However, TFP seems to broadly stabilize in the last few years, which may evidence the positive impact of the structural reforms passed in the 1990s.

As showed in the following chart, Algeria's growth model seems to have been particularly inefficient between the mid-1970s and the mid-1990s.

TFP Evolutions 1965–2000
(Three-year moving averages, 1965=100)



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[1] G. Mankiw, D. Romer, and N. Weil, "A Contribution to the Empirics of Economic Growth," *Quarterly Journal of Economics*, May 1992.

[2] Human capital per capita is proxied by the average number of years of schooling for the population aged over 25. Data is from R. Barro and J. Lee, "International Data on Educational Attainment Updates and Implications," Working Paper 7911, NBER 2000.

29. **Fiscal policy turned expansionary in 2001**. First, in the initial budget law for 2001, budgeted amounts for capital expenditures increased by almost 20 percent relative to 2000. Second, the government increased the salaries of the civil servants by 15 percent and raised the minimum wage (SNMG) by 33 percent. The effect of this measure on the budget amounts to about 11 percent of current expenditures. Third, the authorities announced in April 2001 a major fiscal stimulus plan (the "recovery plan") covering the period 2001–04 (Box 3).

30. **The authorities stressed that the recovery plan would boost growth prospects and reduce unemployment while upgrading the country's public infrastructure and improving living conditions in poor areas.** The recovery plan consists of additional government expenditures, for a total amount of about 13 percent of the 2000 GDP, as well as a reduction of some taxes levied on enterprises.[12] The authorities expected the recovery plan to boost GDP growth toward the 5–6 percent range during 2002–04 with a minor inflationary impact.

31. **The staff's own baseline scenario, implying a full implementation of the recovery plan and a continued slow pace of structural reform, was less optimistic on the macroeconomic outcome** (Table 6)[13]. Based on the latest World Economic Outlook (WEO) oil price assumptions and assuming a stabilization of the real effective exchange rate, the conclusions of this scenario were that (a) the fiscal stimulus would indeed result in a short-lived increase in growth and employment performance; however, a permanent rise in Algeria's growth trend would require an acceleration of the implementation of structural reforms; (b) the BA's objective of capping inflation at 3 percent per annum was probably achievable in 2001; however, demand-led inflationary pressure thereafter, especially in 2002 and 2003, would likely raise the inflation outcome substantially above the central bank's objective; and (c) nevertheless, at the assumed oil prices, full implementation of the recovery plan would be consistent with a continued, although slower, accumulation of external reserves.

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[12] As a first step toward the implementation of the plan, the 2001 supplementary budget law includes DA 88 billion of additional capital expenditures, reduces the turnover tax (*taxe sur les activités professionnelles*, or TAP) from 2.55 percent to 2 percent and a payroll tax (*versement forfaitaire*, or VF) from 6 percent to 5 percent. It also involves the assumption by the budget of the financing of the family allowances.

[13] The budget authorizations envisaged in the 2001–04 recovery plan were assumed to generate budgetary allocations spread over 2001–06, with an execution rate of about 80 percent. Additional recurrent expenditures equivalent to 10 percent of the new capital expenditures were factored in. Furthermore, the elimination of the TAP and VF by 2004 is assumed. The scenario's growth projections take into account the interaction of the aggregate demand changes induced by these expenditures with an aggregate supply function linking production to real wages.

Box 3. Algeria: The Economic Recovery Plan

The economic recovery plan was announced at the end of April 2001. Facing a modest economic growth performance over the recent past and acute social demands, and taking advantage of the accumulation of large financial resources owing to favorable hydrocarbon market developments, the authorities decided to supplement the implementation of their structural reform program by stimulating aggregate demand with a view to increasing activity over the coming years.[1] More specifically, the plan has four stated goals (a) the stimulation of demand; (b) the development of labor-intensive activities, through increased support to agricultural production and to small- and medium-sized enterprises; (c) the rehabilitation of public infrastructure; and (d) the development of human resources.

The plan allows for additional capital expenditures for a total amount of DA 525 billion (about 13 percent of the 2000 GDP) over the period 2001–04.[2] The expected schedule for the related budget authorizations and their breakdown by main area is the following:

Budget Authorizations by Main Area

(In billions of Algerian dinars)

	2001	2002	2003	2004	2001–04
Direct support to agricultural production and fishing	10.6	20.3	22.5	12.0	65.4
Local development	32.4	42.9	35.7	3.0	114.0
Public works	93.0	77.9	37.6	2.0	210.5
Of which					
Water management	5.4	15.8	10.1	0.0	31.3
Railways	9.7	28.9	16.0	0.0	54.6
Roads	24.5	5.8	0.6	0.0	30.9
Human resources development	39.4	29.9	17.4	3.5	90.2
Other reforms	30.0	15.0	0.0	0.0	45.0
Total	205.4	185.9	113.2	20.5	525.0
As a percent of projected GDP	4.7	4.0	2.2	0.4	...

Source: Algerian authorities

The plan is relatively front-loaded, with about 75 percent of the budget authorizations in 2001–02. However, cash disbursements could be more evenly spread out over a significantly longer period of time. This view is supported by the 2001 supplementary budget law, which provides for additional capital expenditures (mainly related to the recovery plan) of about DA 88 billion in cash terms, well below the corresponding budget authorizations (DA 205 billion). In addition, the authorities indicated that the effective pace of implementation of the fiscal stimulus plan would be tailored each year to Algeria's financial situation.

The plan was not explicitly cast in an overall macroeconomic framework. However, the authorities indicated that they expected it to improve annual GDP growth in the 5–6 percent range in the next three years, without major inflationary pressures.

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[1] The plan itself is indeed presented as a supplement, not a substitute, to structural reforms.

[2] The plan also envisages, although without any specific commitments, a reduction of some taxes paid by enterprises (such as the *versement forfaitaire* and the *taxe sur les activités professionnelles*).

32. **At current and projected oil prices, the magnitude of the recovery plan seemed consistent with the maintenance of a strong balance of payments position**. In the staff's scenario, the external debt is expected to fall by more than one-half to about US$10.5 billion (about 15 percent of GDP) by end-2006. The ratio of debt service to exports would slightly decline and fall below 20 percent in the later years. Algeria's capacity to repay the Fund would remain assured. Debt service to the Fund would peak in 2003 at about 10 percent of the total debt service. Fund credit outstanding would decline to 96.3 percent of quota at the end of 2001 and fall below 20 percent of quota by the end of 2005. The staff considered that it would take a large departure from current WEO oil price assumptions to jeopardize Algeria's capacity to service its existing obligations to the Fund.

33. **However, the recovery plan substantially enhances the budget's vulnerability to a marked and persistent downturn in hydrocarbon prices**. The Fund staff's scenario indeed showed that a very large proportion of the treasury deposits accumulated in 2000–01 owing to high hydrocarbon prices would have been drawn down by 2006. This vulnerability was illustrated by an alternative staff's scenario, based on an oil price of US$15 per barrel over 2002–06 and assuming unchanged economic policies (Table 6). In this scenario, the financing of the budget would not be assured from 2003 and onward.[14] Furthermore, the continuous decline in the stock of external reserves would make the external position of the country precarious toward the end of the period under review.

34. **Fund staff consequently argued that, while the magnitude of the fiscal stimulus in 2001 was appropriate, the recovery plan should be implemented prudently over the medium term.** In this regard, the staff welcomed the authorities' statement that the effective pace of implementation of the fiscal stimulus plan would be tailored year by year to Algeria's evolving financial situation. However, the staff also noted that the ongoing surge in capital expenditures could raise the risk of initiating investment projects whose economic justification was not firmly grounded. Therefore, the staff suggested that the Algerian authorities urgently consult with the World Bank, and other international financial institutions and partners, to review and possibly strengthen the quality of expenditures. The staff also emphasized that a given share of the plan's expenditures could be diverted away from infrastructure toward uses that could have a more immediate impact on the daily life of the population and contribute to fostering support for structural reforms aimed at improving in the long term the economy's efficiency (e.g., financing an enlarged social safety net scheme that would cushion the social impact of public enterprise restructuring).

35. **The staff also encouraged the authorities to pursue a prudent monetary policy stance** aimed at minimizing the price increases induced by the recovery plan's implementation. It recommended an active use of indirect monetary policy instruments to keep monetary expansion in line with the BA's medium-term inflation objective.

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[14] This scenario, which assumes no policy response, only suggests the possible timing and magnitude of the financing problem facing the authorities.

36. **Concerning exchange rate policy, the authorities reiterated their continued commitment to a managed float regime**. Given the frequency of external shocks affecting the Algerian economy, the staff agreed that it was necessary to keep applying the managed float in a flexible way. The staff indicated that the current policy followed by the authorities seemed appropriate to preserve external competitiveness and, in particular, to avoid in the short term a sustained appreciation in real effective terms.

C. Restructuring and Privatization of Public Enterprises and Banking Reform

37. **The staff stressed that the restructuring and privatization of public enterprises should be a central element of the structural reform agenda** since it was key to increasing the economy's productive efficiency and constituted a necessary step to implement other much needed structural reforms, such as banking reform and trade liberalization. The authorities restated their commitment to quick and broad-ranging privatization of nonfinancial public enterprises and allowing foreign investors to become, in effect, strategic partners (as in the recent sale of the country's national steel manufacturer). They also indicated that preparatory work for the full or partial privatization of smaller units (notably in the food processing and building materials sectors) was well under way (Box 4).

38. **The staff was concerned about the slow implementation of the privatization program**. It urged the authorities to accelerate the process using the current legal and regulatory framework rather than to try to amend it first.[15] The staff encouraged the authorities to use a transparent, efficient, nondiscriminatory framework—favoring in particular competitive bidding over negotiated direct sales—and to continue intensifying consultations with all concerned parties. Finally, it recommended that the restructuring/privatization of public enterprises be accompanied by a temporary extension of the social safety net to help manage and reduce the social and human costs of the transition.

39. **The authorities stressed the importance of banking reform.** The financial condition of state-owned banks remains indeed a source of concern.[16] Their profitability is low, solvency uncertain, and efficiency inadequate.[17] The government's program is aimed at tackling these issues, particularly by cleaning up bank loan portfolios. In this regard, the staff

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[15] Nevertheless, the staff recommended that legal obstacles to the sale of a majority stake in banks and cement factories be removed.

[16] Private banks are rapidly developing in Algeria. However, the share of the six state-owned banks in total bank assets still exceeds 90 percent.

[17] The state-owned banks' solvency is, however, strengthened by the presence in their balance sheets of a large proportion of treasury securities as a result of the successive bank restructurings. Therefore, financial sector weaknesses do not present substantial risks for macroeconomic developments in the short term.

Box 4. Algeria: Privatization and Restructuring of the Public Enterprises

Algeria is engaged in a transition from a planned economy dominated by the public sector to a market economy relying on private initiative. Most sectors are now open to private activity, including mining and telecommunications, and draft laws have been prepared to open the key power and hydrocarbon[1] sectors to private investment.[2] However, a remaining challenge is the privatization of existing public enterprises and the management of the enterprises that will remain in the public domain in a manner consistent with a market economy.

Following the creation of numerous small subsidiaries and the breakup of large enterprises in the last few years, there are currently about 950 "national" enterprises, regrouped into five national holdings responsible for exercising the authority of the owner on behalf of the state and 350 "local" enterprises covered by three regional holdings. The holdings are supervised by the National Council for the State's Participations.

The rules for the management of the holdings and for privatization are spelled out in two laws enacted in 1995, the Law on Privatization and the Law on the Government-Owned Capital Portfolio (*Loi sur les Capitaux Marchands de l'Etat*). In practice, the existing legal framework offers sufficient flexibility to undertake privatization in many forms (a) sale of all or a fraction of the shares in an enterprise, through private deals or competitive bidding or through the stock exchange; (b) subscription of shares by private investors in the context of a capital increase; (c) sale of assets; or (d) concessions. The present challenges within the existing framework are to ensure the preservation of competition, foster the transparency of transactions through open bidding, and provide a satisfactory safety net for workers.

Since this regulatory framework has been put in place, numerous public enterprises have been liquidated and assets have been sold to former employees, leading to the creation of many small private enterprises, notably in the construction sector. In addition, there has been a first financial restructuring through a joint action of the public banks and the public enterprises (*dispositif banques-entreprises*). However, there has been no real privatization yet, except for the listing and sale on the stock exchange of 20 percent of the equity of three companies (Eriad-Setif, Saidal, and Aurassi) and the creation of a joint venture in the detergent industry with a major foreign company.

In the current phase of the privatization agenda, enterprises have been classified into three categories: viable, potentially viable, and severely distressed. The government's strategy is to privatize first the viable enterprises; to solve the financial or property rights problems, which undermine the viability of potentially viable enterprises, through an appropriate treatment of the debts and titles in the context of a privatization transaction; and to liquidate or restructure the others in a way that preserves the rights of workers and the integrity of the banking system. The process for the complete restructuring of the public enterprises sector is expected to last over ten years.

Several operations are at an advanced stage of preparation. A major agreement with an important foreign investor has recently been approved by the government for the take over of a majority of the equity of the state-owned, steel-making complex including its port facilities, together with a minority participation in an iron ore-mining supplier (with the option to increase its participation). This transaction will be implemented through the creation of a new company, where the foreign investor will hold a 60 to 70 percent share of the equity. Other enterprises for which transactions are being prepared include beverage enterprises and liège producers—for which government's approval has been given although the agreements have not been signed yet—as well as construction materials (bricks, cement), food-processing enterprises, hotels, and the concession of the second terminal of the Algiers airport. Joint ventures are also being considered for a refinery and a power plant. In the financial sector, negotiations for the opening of the capital of one public bank to the participation of a major foreign bank are well advanced. In addition, "twinning" arrangements between two other public banks and foreign banks are expected.

The union representing the public enterprises' workers, UGTA, is aware of the benefits that a properly implemented privatization strategy could bring in terms of protecting and promoting employment. It calls, however, for decisions to be made in full transparency, after a public debate, and with adequate protection for workers who may be laid off as a result of the decisions made.[3]

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[1] Indirectly, foreign private investments in the hydrocarbon sector are already possible through association and production-sharing agreements with the oil state monopoly, Sonatrach.

[2] In two sectors, banking and building materials, the participation of the private sector to the capital of the enterprises is limited to 49 percent.

[3] An unemployment insurance scheme was established to provide a safety net at a time where massive lay offs in public enterprises were implemented in the 1990's.

concurred with the authorities views, but was disappointed in the slow implementation of this program and argued that this delay had in all likelihood resulted in further deterioration of bank balance sheets which might entail further fiscal costs. The staff welcomed the fact that one of the six public banks was negotiating with a foreign partner a possible opening of its capital and that the authorities were willing to "twin" two public banks with foreign partners before end-2001. In the staff's view, this should rapidly be accompanied by decisions aiming at (a) completing the restructuring of bank balance sheets; (b) improving bank operational efficiency; and (c) clarifying financial relations between banks and public enterprises. On this latter point, the staff recommended that financial support to loss-making enterprises take the form of explicit budget transfers and not bank credits that are likely to be subsequently assumed by the treasury. The staff also emphasized that servicing of the internal public debt in full and on time was important to maintain the integrity of the banking system. Therefore, it urged the authorities to budget sufficient amounts to ensure timely payment of the current debt service and to refrain from unilaterally revising the terms of their liabilities to the public banks.

40. **The authorities emphasized that the supplementary budget law for 2001 included measures toward the recapitalization of public banks.** The staff welcomed this decision and commended the authorities for their steady efforts—with the Fund's technical assistance—at strengthening bank supervision. It agreed with the authorities that the rapid development of Algerian private banks was raising new challenges in terms of bank supervision and called on their vigilance in this regard. The staff also encouraged the authorities to pursue their efforts to modernize the payments system with the World Bank's technical assistance.

D. External Policies

41. **The authorities undertook a reform of their external tariff,** through the supplementary budget law for 2001 and the forthcoming draft budget law for 2002 (Box 5). The authorities expected that the rationalized tariff would (a) improve the competitiveness of Algeria's economy and remove the anti-export bias of the existing tariff; (b) facilitate Algeria's negotiation of an association agreement with the EU and its possible membership with the WTO; and (c) help reduce the wide dispersion of effective protection resulting from past attempts to protect specific industries.

42. **The staff welcomed the authorities' intention to introduce a comprehensive tariff reform but expressed concern on some modalities of this reform.** The staff complimented the authorities for the elimination of the minimum duty values and of the Additional Specific Tax (AST), and for the lowering of the maximum rate from 45 percent to 40 percent in 2001.[18]

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[18] The AST was established initially in 1991 to discourage imports deemed of low priority in the context of a scarcity of foreign exchange and overvaluation of the exchange rate. The list of goods subjected to the AST was later extended and covered domestically produced as well as imported items.

Box 5. Algeria: Customs Tariff Reform

The customs tariff in place in early 2001 suffers from three major weaknesses. First, the nonweighted average rate, at 25.8 percent (including the customs service fees but excluding the tariff equivalent of the minimum duty values) is high, undermining the diversification of exports and penalizing the consumer. Second, the tariff is complex and results in inequities and inefficiencies attributable to the wide dispersion of effective protection, with some industries penalized with negative protection and other benefiting from very high level of protection. Finally, because it is often revised in an ad hoc manner in response to the pressure of special interests, the uncertainty concerning its stability deters investment. In response to these problems, the Algerian authorities have undertaken, with the Fund's technical assistance, a tariff reforms aiming to establish a customs tariff that is (a) simple and clear, easy to understand by the economic agents as well as the customs staff;[1] (b) as neutral as possible from the point of view of protection to avoid wide and arbitrary disparities in level of protection;[2] and (c) stable and credible, to encourage investment in accordance with market signals. To this effect, the entire classification of tariff positions will be reviewed, and goods will be classified into four categories, broadly in accordance to their degree of transformation. The intention of the authorities is to use this rationalized tariff as the basis for the negotiations toward an association agreement with the EU, which is expected to include eventual free trade with the countries of the EU, and for the negotiations toward membership in the WTO.

The tariff reform will be implemented in two phases. The supplementary budget law for 2001 reduces the maximum rate from 45 percent to 40 percent. It also eliminates the minimum duty values. Because the mechanism of minimum duty values has been used extensively to offer protection to local enterprises, they are replaced with a "temporary additional duty" (TAD) during a transition period.[3] The supplementary budget law sets the TAD at 60 percent as of July 1, 2001, and establishes the precise timetable for annual reductions leading to complete elimination on January 1, 2006.[4] In addition, the supplementary budget law for 2001 eliminates the ad hoc Specific Additional Tax and replaces it, for a limited number of goods, with the existing Internal Consumption Tax.

The next phase of the tariff reform will be implemented through the budget law for 2002 (a) the new classification will then come into effect; (b) in addition to the zero rate, there will be a rate for raw materials and possibly equipment goods; (c) a rate for intermediate products; and (d) a rate for final products. Several illustrative scenarios have been examined on the basis of the trade structure of 2000 to help measuring the implications of different rates. The results are summarized in the table below. The existing customs service fees, of 2 percent and 0.4 percent, are not affected by the announced reform.

Tariff (rates in percent)	Average nominal tariff rate 1/	Effect on customs revenue
2000 tariff (0, 5,15, 25, 45)	23.4	-
Reform at (0, 5, 15, 40)	21.3	Revenue increase
Reform at (0, 5, 15, 30)	17.5	Small revenue increase
Reform at (0, 5, 10, 20)	12.2	Revenue decrease

Sources: Algerian authorities; and Fund staff estimates.

1/ Regular customs duties only. Excludes the customs services levies of 2 percent and 0.4 percent, as well as the impact of the minimum duty values of the new TAD.

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[1] However, at this stage the issue of exemptions and special regimes (such as the regime applicable to the hydrocarbon sector or to the promotion of investment) is not covered by the announced reform.

[2] An implication of this objective is that the level of protection granted to a given type of production should not be different depending on whether or not the imports are competing with local production. The staff, in particular, recommended not using the tariff to shield inefficient public enterprises from foreign competition, but rather to provide explicit temporary budget support to viable enterprises that need some time to adjust and become competitive.

[3] The staff noted that the list of tariff positions subjected to the TAD includes a large number of goods that do not require this temporary protection.

[4] In particular, the TAD is scheduled to be reduced to 48 percent as of January 1, 2002.

It concurred with the authorities' intention to rationalize the tariff structure from January 2002. However, the staff called on the authorities to further reduce the maximum tariff rate to about 20–25 percent effective in 2002 and to reduce the nonweighted average rate to no more than 15 percent. It argued that high rates would maintain an anti-exports bias and indicated that a high maximum rate, combined with the increase in the number of positions classified in the category taxed at the highest rate, would imply higher taxation of a number of processed food items and consumer goods. The staff also pointed out that the list of tariff positions subject to a temporary additional duty, intended to provide temporary protection to goods protected by the minimum duty values, included goods that did not require this protection. The staff also argued that the proposed classification of imported capital goods competing with domestically produced ones in the highest bracket risked undermining the competitiveness of a large number of sectors in the short term, while the protection this measure would offer to domestic producers would be limited given import duty exonerations made possible by the investment code and the tariff dismantlement linked to the implementation of a possible association agreement with the EU. The staff urged the authorities to address the problem of noncompetitive public enterprises through direct explicit budget transfers, rather than through the tariff.

43. **The staff recommended measures to deepen the interbank foreign exchange market to enhance the role of market forces in the determination of the exchange rate,** including eliminating the remaining 50 percent surrender requirement of nonhydrocarbon exports and considering the possibility of progressively reducing the surrender requirement to the central bank of hydrocarbon export proceeds. It also suggested further liberalizing the use of foreign exchange deposits and allowing banks to manage freely, within the framework of sound prudential regulations, the foreign exchange mobilized through foreign currency deposits. In addition, the staff suggested measures that would help reduce the demand for foreign exchange on the parallel market, such as increasing the allocation for tourism.[19]

44. **The staff suggested that a more active management of external debt, with a view to reducing its cost and lengthening its residual maturity, could help further reduce the weight of debt service** and provide additional room for maneuvering in the future in case of adverse terms of trade shocks. The authorities concurred with the desirability of lengthening debt maturity, but stated that this objective could better be achieved through new long-term borrowing while amortizing existing debt as scheduled, as opposed to restructuring the existing debt. They emphasized that they would pursue a prudent debt policy and were not willing to borrow large amounts at relatively high interest rates until they could be sure that gains in productivity would justify borrowing additional resources. The staff supported the authorities' policy to seek a "rating" of sovereign risk and to disseminate the financial information required by capital markets. The staff welcomed the authorities' announcement that Algeria was negotiating a bilateral convention with the Russian Federation and that a mutually acceptable settlement of the debt to Russia was within reach. It also welcomed the

[19] On the parallel market, the dinar is exchanged at a discount of 10–15 percent relative to the official exchange rate.

efforts made by the authorities to assess the implications of the enhanced heavily-indebted poor countries (HIPC) initiative for Algeria's claims on eligible countries.

45. **The staff argued that, in light of the strong balance of payments position, Algeria should consider making advance repayments of its obligations to the Fund.**[20] The authorities stated they would consider carefully the advantages and disadvantages of the suggested course of action. In addition, the staff suggested that official reserves data be presented systematically in a manner consistent with the Fund's reserve template.

E. Fiscal, Monetary, and Other Structural Policies

46. **In 2001, the authorities intensified their efforts aiming at a simpler and more efficient tax system.** Acknowledging that the current tax system suffers from numerous exemptions and tax evasion, they have taken steps to accelerate tax reform: the 2001 budget law provided for a reduction in the number of value-added tax (VAT) rates from three to two together with an extension of the VAT coverage to retail trade and a simplification of its procedures. The staff welcomed these decisions and encouraged the authorities to introduce further VAT legislation reforms.[21] It also urged the authorities to abolish the fiscal provisions of the investment code, and to replace them with a few investment incentives aimed at accelerating capital depreciation and reducing the costs of employment for new businesses, to be incorporated into the basic tax laws and available to all investors. The staff commended the authorities for their continuing efforts to modernize the tax and customs administration (with the ongoing establishment of a large taxpayer unit) as well as budgetary procedures. It also suggested accelerating the implementation of a new budget classification, in line with a recent FAD technical assistance report.

47. **The authorities agreed on the potential usefulness of the stabilization fund created in 2000**. The latter has contributed to a better perception of the challenges facing fiscal policy in the medium term. However, the staff stressed the need for a more transparent functioning of the fund. It emphasized that the stabilization fund could not take the place of government commitment to pursue a sound fiscal policy that would, in particular, take account of all potential contingent liabilities of the public sector. In this regard, the staff recommended a comprehensive assessment of the medium- and long-term prospects of the national pension scheme, whose financial situation seemed particularly fragile and could be further undermined by demographic evolutions (Box 6). The staff stressed that the overall

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[20] There are no formal early repurchase expectations.

[21] The VAT has several features that do not follow internationally admitted standards including (a) a complex zero-rating mechanism that applies to suppliers and providers of services to exporters and the hydrocarbon sector; (b) too many exemptions (including capital equipment and the agricultural sector); and (c) ineffective refund procedures (refunds are processed within a one to two year period).

Box 6. Algeria: The Pension System

The National Pension Fund (*Caisse Nationale de Retraite*, or CNR), with the National Fund for Social Insurance (*Caisse Nationale d'Assurance Santé*, or CNAS), and the National Fund for Unemployment Insurance (*Caisse Nationale d'Assurance Chômage*, or CNAC) is the centerpiece of the Algerian system of social security. The CNR was established in 1985 to provide pensions to retirees and eligible dependents (currently around 1.3 million people). It covers all salaried workers, with the exception of the military and executive-level civil servants. The basic requirement for pension benefits is a minimum of 15 years of work, and the retirement age is 60 (except for those who reach 32 years of employment before that age).

Pension benefits accrue at a rate equal to 2.5 percent of the average salary of the last five years for each year of employment, within a maximum of 80 percent, or 32 years of employment. They cannot exceed 15 times the minimum wage. The minimum pension benefits amount to 75 percent of the minimum wage; this floor also applies to the "pension allowance" for workers with 5 to 15 years of activity. Pensions are revised annually, but discretion rather than rule prevails in determining the adjustment.

There are substantial additional benefits accruing to survivor dependents (payment of up to 90 percent of pension benefits), and particularly to the Mujahidins (veterans of the independence war) and their survivors. A Mujahid without disability retires at 55 years of age, and earlier if disabled, with a pension at least equal to 2.5 times the minimum wage.

In 1997, the government introduced a voluntary retirement scheme to encourage early departures. Those who worked for 20 years (15 for women) are entitled to early retirement at 50 years of age (45 for women) with pension benefits calculated on a prorated basis. This scheme, which was favored by employers (no special contributions are required from them), quickly displaced the early involuntary retirement scheme for economic reasons implemented in 1994.

The CNR is mainly financed by payroll taxes paid by employers and workers. The contribution rate of wage earners is currently 6.5 percent and that of employers 9.5 percent. The CNR is also financed by a budgetary allocation, corresponding in principle to the solidarity expenditures (such as minimum pensions) made at the request of the government. This allocation amounted to about 20 percent of the CNR's total revenue in 2000.

During the last 15 years, the CNR's financial situation has been weakened by a surge in expenditure that was not matched by the increase in the revenue generated by social contributions, although their total rate was raised in four steps from 7 percent to 16 percent. While the number of contributors has stagnated,[1] the number of pension recipients has tripled from 415,000 recipients in 1986 to over 1.2 million recipents in 2000, implying a decrease from 8 to 3 of the ratio of workers to pensioners during that period. Expenditures have also been driven upwards by the indexation of the minimum pension on the minimum wage, the increase of Mujahidins' minimum pension from 1.5 to 2.5 times the minimum wage, and the increase in the average replacement ratio. While the CNR's 2000 accounts were balanced, demographic trends cast a shadow over financial prospects in the coming years.

[1] This is due to both labor-shedding in public enterprises and difficulties collecting payroll taxes on private sector companies.

fiscal position over the medium term should also be assessed taking into account the nonrenewable character of hydrocarbon resources which provide the bulk of government revenue. The staff argued that prudence, intergenerational equity, and the need to accumulate assets whose yield could contribute to the desirable diversification of budget revenues called for saving part of the revenue to replace the depleting hydrocarbon reserves.

48. **The staff commended the BA for its efforts to modernize the monetary policy framework, but expressed its disappointment at the recent amendments to the central bank law that could potentially weaken its independence**. The staff noted the effective implementation of reserve requirements in 2001 and observed that a more transparent functioning of the interbank money market has led to more flexible interest rates.[22] The staff encouraged the BA to pursue its efforts to improve liquidity forecasting and monetary programming, and to provide information to money market participants. The staff was also pleased by the authorities' agreement to update the 2000 report on the observance of standards and codes on banking supervision to reflect the amendments to the central bank law.[23] The staff stressed that these amendments were not compatible with best practices for an autonomous, transparent, and accountable central bank. It particularly regretted the elimination of the fixed-term mandate of the governor and vice-governors of the central bank, and stressed that decisions on exchange and interest rate issues should remain free from political interference.

49. **The staff urged the authorities to reduce the role of the rediscount facility in bank refinancing**. Owing to the recent sharp decrease in the overall volume of bank refinancing by the central bank, the relative importance of the rediscount facility has substantially increased. Since the rediscount rate is not frequently adjusted, this considerably limits the ability of the BA to affect the banks' average cost of resources and thus the effectiveness of monetary policy. The authorities acknowledged this issue and reiterated their willingness to use indirect refinancing instruments. They agreed with the staff that reducing the amounts granted through the rediscount window, which was in fact mainly used by only one of the public banks, would first entail restructuring the latter's balance sheet.

50. **The authorities put emphasis on their plans to liberalize many sectors, such as the energy, mines, and telecommunications sectors, as well as to involve the private sector in public services provision**. The staff welcomed these policy orientations and noted the progress achieved in the related legislative work. It encouraged the authorities to proceed

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[22] Banks and financial institutions have to constitute the minimum amount of required reserves in the form of either deposits at the BA, or cash balances in dinar notes and coins in vault. For banks, the minimum amount is calculated by applying a rate of 3 percent to the monthly average of all dinar deposits. Required reserves are currently remunerated at 4 percent.

[23] The updating of the 2000 report is warranted by the amendment eliminating the fixed-term mandate of the governor, which may weaken the latter's authority. This is an issue regarding the Basel Core Principles since the governor plays a central role in the bank licensing and supervising process.

with their plan to increase private sector involvement in the water sector and in the management of port infrastructures.

51. **The staff recommended that price liberalization be pursued**. General consumption subsidies were successfully removed in the 1990s in difficult circumstances. However, many consumer prices, such as those for pasteurized milk and bread, continued to be administered (Box 7). The mission urged the authorities to liberalize those prices. The staff also encouraged the authorities to set the transfer price from the national oil company to the refineries at the world market level, and to adjust it every six months in line with international oil prices and exchange rate developments as it was the case between 1994 and 1997. Since these decisions could have undesirable social consequences, they should be accompanied by appropriate measures targeted at the most vulnerable segments of the population.

52. **Regarding the labor market, the staff warned against the negative impact on low skilled employment of periodic surges in the minimum wage.** However, it complimented the authorities for their plan to reduce the cost of labor through a cut in payroll taxes. The staff also suggested that employment creation might be increased by removing the lengthy and cumbersome constraints on layoffs for economic reasons.

53. **The availability of land remains a major impediment to economic development**. Although the staff noted the new measures aiming at facilitating housing financing, such as the introduction of a leasing scheme for public sector housing units and the loosening of eligibility criteria for the upfront housing subsidy scheme, it believed that the lack of available land was still a major constraint on the development of the housing sector and more generally on business development. In that regard, the staff was encouraged by the elaboration of a draft law relating to the concession regime of the publicly owned agricultural land aiming at clarifying land ownership issues. The staff urged the authorities to take steps to facilitate land availability for housing construction and industrial investment.

54. **The staff complimented the authorities on their increased willingness to foster transparency and urged them to further improve governance**. The staff took note of several concrete actions in the area of transparency and accountability, such as (a) the reform of the tax and customs administrations and of the budgetary classification; and (b) the willingness to reduce government intervention in the economy (banking reform and privatization) and to promote a rule-based competitive environment (reform of the judicial system). The staff encouraged the authorities to further assess Algeria's performance vis-à-vis norms and codes–as they did in 2000 in the area of bank supervision–and suggested it be done next in the area of public finance. The staff noted that the lack of transparency and accountability of both central and local authorities was still a major concern expressed by the population during the spring 2001 demonstrations. It, therefore, urged the authorities to quickly and forcefully address these issues.

Box 7. Algeria: Administered Prices

Up to the beginning of 1994, Algeria had a generalized system of subsidies. Its elimination required a major liberalization of the price system as well as substantial increases in administered prices in the context of the successive Fund-supported programs.

In 1994, prices of all inputs for agriculture and housing construction were freed, and controls on retail prices and profit margins were lifted for most goods and services except for a limited number of products, including a few essential food staples, energy products, and public transportation fares which remained subsidized. The generalized subsidies on these goods were eliminated over the following two years as prices were raised toward their opportunity cost.

During 1994–96, prices of subsidized food and petroleum products were increased on average by almost 200 percent to reach their opportunity cost. For petroleum products, the implicit subsidy should have been eliminated since the transfer price from the national oil company to the refineries was set at the world price level, with scheduled adjustments every six months in line with international oil prices and exchange rate developments. However, the adjustments were discontinued in 1997 and the transfer price of oil to refineries has been set since then at about US$17 per barrel.

As of the spring of 2001, the administered prices which remained in place had a 13 percent weight in the CPI according to the authorities.[1] These prices concerned the following goods and services:

- pasteurized milk, whose price was raised by 25 percent in 2001;
- flour for bread making, as well as regular bread;
- drinking water and water for agricultural use (latest price adjustment in 1998);
- petroleum products (latest price adjustment in 2000 for fuels only);
- electricity and gas (latest price adjustment in 2000);
- rents of social housing (latest price adjustment in 1998);
- government land and real estate for sale (latest price adjustment in 2000);
- railway passenger transportation (latest price adjustment in 1998); and
- railway freight (latest price adjustment in 1999).

In addition, profit margins on medicines are still controlled and there is a price support mechanism for soft and hard wheat.

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[1] The weights used in the CPI are derived from the estimated structure of private consumption in 1988. As a result of price liberalization and changing consumer tastes, this structure has significantly changed during the past decade.

F. Data Issues

55. **Persistent data weaknesses in major areas hamper the monitoring of economic conditions and formulation of economic policies.** While, progress has been recorded in the coverage of the monetary and banking statistics, long lags in their compilation, mainly due to quality issues in the compilation of commercial banks data as well as timeliness issues in their transmission to the BA, are still prevalent and hinder monetary policy analysis and banking supervision. Fiscal data are also compiled with a substantial lag. The current CPI is based on a consumption basket dating back to 1988, before price liberalization and structural changes deeply altered the consumption structure. This considerably reduces its usefulness for monetary policy purposes, and as a reference for wage bargaining and the indexation of some social transfers. Data on priority policy areas for the government—such as the labor market—income distribution, or the development of the private sector, remain scarce, outdated, or unavailable.

56. **The staff urged the authorities to substantially strengthen data coverage, quality, and timeliness.** Some of the weaknesses of the statistical system can be traced back to the structural changes that accompany the transition to a market-oriented economy and to the development of the informal sector. However, the staff argued that the lack of sufficient resources allocated for the compilation of statistics could also play an important role and, therefore, urged the authorities to strengthen their efforts in this area. The authorities, who stressed that the government's program called for improved economic information, broadly concurred with the need to improve data coverage, quality, and timeliness. They emphasized that efforts were ongoing to introduce in late 2002 a new CPI based on updated data on household consumption. They expressed interest for an STA multitopic technical assistance mission to assist them in drawing up a reform strategy. The staff encouraged the authorities to look to the General Data Dissemination System (GDDS) as a framework for statistics development. It also urged the authorities to transmit systematically available data to the Fund on a timely basis to allow adequate surveillance.

IV. Staff Appraisal

57. **Since the outset of its Fund-supported adjustment and reform program in 1994, Algeria made commendable progress—under particularly difficult circumstances—toward the restoration of macroeconomic stability and implemented a comprehensive set of structural reforms**. Growth performance—although held back by security concerns—turned positive, the inflation rate dropped, and the balance of payments' viability was restored, in part because of (a) steadfast implementation of program policies; (b) prompt policy corrections when warranted; and (c) also to the availability of exceptional financing. On the structural front, a comprehensive set of reforms increased the role of price signals in the allocation of resources while the trade and exchange systems were liberalized, resulting in Algeria's acceptance of its obligations under Article VIII Sections 2, 3, and 4 in 1997. Helped by careful domestic demand management, the Algerian economy could weather the oil price downturn of 1998–99, thus demonstrating increased resilience to external shocks.

58. **In 2000, against the background of favorable hydrocarbon prices, Algeria adopted a conservative macroeconomic policy stance**. A measured increase in expenditures coupled with high oil revenues resulted in a fiscal surplus of close to 10 percent of GDP—compared to 0.5 percent of GDP deficit in 1999. This prudent fiscal stance, together with a gradual easing in monetary conditions, was reflected in a major strengthening of the balance of payments position, with a current account surplus amounting to close to 17 percent of GDP in 2000. This conservative policy also translated into an improvement in the external debt indicators, and overall contributed to a marked decline in the inflation rate.

59. **Faced with mounting social demands and in the context of large treasury deposits accumulated at the central bank, the government decided to resort to a more expansionary fiscal policy from 2001**. First, in the initial budget law for 2001, budgeted amounts for capital expenditure increased substantially. Second, civil service wages were raised by 15 percent and the minimum wage by one-third. Finally, the authorities announced a major fiscal stimulus plan ("recovery plan") covering the 2001–04 period.

60. **Notwithstanding its concern of a possible resumption of inflation and the increased vulnerability of public finances to a downturn in oil prices, the staff is encouraged by the government's commitment to adjust the fiscal stance to developments in the oil market**. The staff considers that implementation of the government's recovery plan, which will temporarily boost growth performance, will endanger neither the external nor the treasury positions as long as oil prices remain high. However, the more expansionary expenditure policy stance in 2001 increases the budget's vulnerability to adverse developments in the oil market. In this regard, while there is a substantial risk that the global economic downturn may be more pronounced than currently forecasted, the staff is encouraged by the authorities' intention to tighten the macroeconomic policy stance if oil prices were to decline substantially. The staff is also concerned about the further negative impact that the new macroeconomic stance could have on Algeria's inflation performance in a context of emerging domestic inflationary pressures; it urges the authorities to continue adopting a cautious monetary stance and is pleased that the authorities plan to devote monetary policy to the maintenance of low inflation.

61. **The authorities' continued commitment to implementing the managed float exchange rate regime in a flexible way seems appropriate to safeguard competitiveness while dampening external shocks.** The staff recommends that the exchange system be further liberalized which would strengthen the role of market forces in determining the exchange rate and reduce the importance of the remaining parallel market. The staff also supports a more active management of external liabilities. It welcomes the recent contacts between the Algerian and Russian authorities and encourages an early settlement of bilateral debt issues.

62. **Despite its recently improved macroeconomic performance, the Algerian economy still faces major challenges over the medium term**. While preserving the gains achieved in terms of stability, it needs to significantly improve real growth performance to

allow for a reduction in unemployment and a rise in standards of living. This requires the completion of the transition toward a fully effective market-based economy and the introduction of a comprehensive set of reforms to (a) further develop domestic and foreign private sector investment, which implies privatization/restructuring of the public enterprises as well as a comprehensive banking reform; and (b) raise the efficiency of new investment through enhanced competition and further opening of the economy. While significant improvements in the domestic security situation occurred initially in the wake of the peace initiative taken by President Bouteflika, security and social peace have to be consolidated further to reinforce the investment climate and address the substantial social issues facing the country.

63. **The authorities agreed on the need for an accelerated pace of structural reform.** Indeed, effective progress on the structural reform front in 2000—essentially limited to the adoption of a few laws—was excessively slow. The staff welcomes the government's assurances that its recovery plan is not a substitute for much needed structural reforms. The staff is also reassured by recent achievements, in particular the sale of a second cellular telephone license and the transfer of all the public sector assets in the steel-making sector to a company majority-owned by a foreign investor. It also welcomes the public banks' recapitalization measures included in the supplementary budget law for 2001. The staff calls on the government to further accelerate the pace of privatization and public sector restructuring, along with banking sector reform. It also urges the government to implement privatization in the most transparent manner and in consultation with all concerned parties. It suggests that an enhanced social safety net would cushion the impact of public sector restructuring in the event of labor retrenchment.

64. **The staff welcomes the government's intention to adopt a comprehensive tariff reform but expresses concerns about some envisaged aspects of this reform.** The government should be commended for some of the initial measures taken in the supplementary budget law for 2001, in particular (a) the elimination of the minimum duty values; (b) the reduction of the maximum rate from 45 percent to 40 percent in 2001; and (c) its intention to rationalize the tariff structure and limit the number of nonzero rates to three in 2002. However, the staff is concerned about the possible increase in protection and import taxation that would result from the conjunction of (a) the maintenance of a high maximum rate; (b) the reclassification of many processed food items and consumer goods to the maximum rate; and (c) the adoption of an excessively large list of goods submitted to the temporary additional duty replacing the minimum duty values. It strongly encourages the government to further reduce the maximum rate to the 20–25 percent range from early 2002 while streamlining the list of goods subject to the temporary additional rate, and to reduce the nonweighted average tariff to no more than 15 percent. Furthermore, the staff appeals to the government to refrain from using tariffs to shield inefficient public enterprises from international competition and instead recommends, where needed, that an explicit temporary budgetary subsidy targeting viable enterprises be introduced to give them time to restructure.

65. **Other structural reforms, such as agricultural land, housing, and judicial reforms need to be promptly implemented**. In addition, the staff recommends that the government reestablishes a periodic adjustment in domestic petroleum prices—interrupted since 1997—to reflect international oil price and exchange rate fluctuations. It also recommends adjusting these prices to reflect the economic costs of petroleum products and to liberalize these prices over a reasonably short period of time. More generally, the staff recommends liberalization of most remaining administered prices.

66. **The staff welcomes ongoing efforts to improve statistics in some areas; however, it is concerned that persistent data weaknesses in major areas continue to hamper the monitoring of economic conditions and formulation of economic policies**. Long lags in the compilation of data and weak data quality in some sectors, as well as the scarcity of data available on the private sector and the labor market are serious impediments to macroeconomic management. To correct these problems, the staff urges the authorities to substantially strengthen data coverage, quality, and timeliness. The staff encourages the authorities to look to the Fund's GDDS as a framework for statistics development. Although systematic and timely transmission of data would also facilitate the Fund's surveillance activities, the provision of data to the Fund is viewed by the staff as generally adequate for effective surveillance.

67. **The staff commends the authorities for their increased willingness to foster transparency and urges them to further improve governance**. The publication of the 2000 Article IV staff report, the reform of the tax and customs administrations, the willingness to reduce government intervention in the economy (through banking reform and privatization) and to promote a rule-based competitive environment (through the envisaged reform of the judicial system) are positive signs. Nevertheless, efforts to improve governance, including at the local and regional levels, need to be strengthened.

68. **The staff welcomes the authorities' intention to maintain a close policy dialogue with the Fund and to continue implementing recommendations made by recent technical assistance missions**. This should help safeguard the progress achieved since the mid-1990s and encourage further policy reforms in the upcoming period.

69. It is proposed that the next Article IV consultation with Algeria take place on the standard 12-month cycle.

Table 1. Algeria: Selected Economic and Financial Indicators, 1997–2001

	1997	1998	1999	2000	Proj. 2001
	(Annual percentage change)				
National income and prices					
GDP at constant prices	1.1	5.1	3.2	2.4	3.8
Hydrocarbon sector	6.0	4.0	6.1	4.9	-0.7
Other sectors	-0.5	5.5	2.2	1.5	5.5
GDP deflator	6.5	-4.2	10.4	23.7	4.3
Consumer price index (average)	5.7	5.0	2.6	0.3	3.0
External sector 1/					
Exports, f.o.b.	4.5	-26.6	21.5	75.7	-2.0
Of which: hydrocarbons	4.2	-25.9	21.9	76.8	-1.6
Imports, f.o.b.	-10.6	6.2	3.8	4.2	19.5
Terms of trade	3.7	-26.3	19.6	75.7	-0.1
Real effective exchange rate 2/	9.9	4.8	-7.9	-2.2	...
	(Changes as a percent of beginning money stock M2)				
Money and credit					
Net foreign assets	23.6	-6.4	-8.6	41.3	29.0
Domestic credit	11.8	10.0	25.0	-22.3	-9.5
Credit to the government (net) 3/	15.6	11.0	9.2	-10.7	-14.7
Credit to the economy 3/	-3.9	-0.9	15.7	-11.6	5.2
Money and quasi-money	18.2	19.1	14.0	12.8	17.2
Liquidity ratio (M2/nonhydrocarbon GDP)	55.6	60.1	64.2	69.7	71.2
	(In percent of GDP)				
Central government finance					
Overall budget balance (deficit-)	2.4	-3.9	-0.5	9.9	6.3
Revenue	33.5	27.8	30.0	39.3	38.2
Hydrocarbons 4/	21.4	15.3	18.6	30.2	27.2
Nonhydrocarbons	12.1	12.5	11.3	9.1	10.9
Grants	0.0	0.0	0.1	0.0	0.1
Expenditure 5/	31.2	31.7	30.5	29.4	32.0
Current expenditure	23.3	23.9	24.5	21.3	22.7
Investment	7.3	7.6	5.9	8.0	9.1
Other 5/	0.6	0.2	0.2	0.0	0.2
Domestic bank financing	-3.9	3.4	2.0	-10.2	-5.6
	(In billions of dollars; unless otherwise specified)				
External sector					
Exports, f.o.b.	13.8	10.1	12.3	21.7	21.2
Of which: hydrocarbons	13.2	9.8	11.9	21.1	20.7
Imports, f.o.b.	8.1	8.6	9.0	9.3	11.2
Interest payments	2.1	2.0	1.9	1.9	1.8
Current account (deficit -)	3.5	-0.9	0.0	8.9	6.9
Overall balance (deficit -)	1.2	-1.7	-2.4	7.6	6.1
Gross official reserves (end-period)	8.0	6.8	4.4	11.9	17.9
External current account (in percent of GDP)	7.2	-1.9	0.0	16.8	12.0
External debt	31.2	30.5	28.3	25.5	23.3
External debt (in percent of GDP)	65.2	64.3	59.4	47.9	40.7
	(In billions of Algerian dinars; unless otherwise indicated)				
Memorandum items:					
GDP (current prices)	2,762	2,782	3,168	4,012	4,344
Crude oil export unit value (US$/barrel)	19.5	12.9	17.9	28.5	26.6
Exchange rate (DA/US$) (end of period)	58.4	60.4	69.3	75.3	...
Exchange rate (DA/US$) (average)	57.7	58.7	66.5	75.3	...

Sources: Algerian authorities; and Fund staff estimates and projections.

1/ In U.S. dollars terms.
2/ Annual average changes in the total trade-weighted INS index. A decrease in the index implies a depreciation.
3/ Including the impact of financial restructuring package involving the swap of Government bonds for public enterprises' commercial debt.
4/ Including dividends on current profits paid by Sonatrach.
5/ Including special accounts, net lending, and allocation to the Rehabilitation Fund.

Table 2. Algeria: Summary of Central Government Operations, 1997–2001

	1997	1998	1999	2000	Proj. 2001
	(In billions of Algerian dinars)				
Budget revenue and grants	927	775	950	1,578	1,662
Hydrocarbon revenue	592	426	588	1,213	1,182
Of which: Stabilization fund	...	...	...	453	386
Nonhydrocarbon revenue	334	349	358	365	475
Tax revenue	314	330	315	350	396
Taxes on income and profits	82	88	72	82	91
Taxes on goods and services	148	155	150	165	189
Customs duties	74	75	80	86	98
Registration and stamps	11	11	13	16	18
Nontax revenues	20	19	44	15	79
Grants	0	0	4	0	5
Total expenditure	845	876	962	1,178	1,380
Current expenditure	644	664	775	856	984
Personnel expenditure	245	269	286	290	347
Mudjahidins' pensions	25	38	60	58	79
Material and supplies	44	47	54	55	66
Current transfers	220	199	249	292	346
Debt service	109	111	126	162	146
Capital expenditure	202	212	187	322	395
Budget balance	81	-101	-11	400	282
Special accounts balance	1	-7	-6	-1	-9
Net lending by the treasury	-2	0	0	1	0
Primary balance	176	3	110	561	419
Overall balance	66	-108	-16	399	273
Overall balance excluding stabilization fund	...	...	...	-54	-113
Financing	-66	108	16	-399	-273
Bank	-107	96	64	-407	-244
of which					
Net borrowing	...	...	...	-90	-59
Change in cash balances	...	...	...	-317	-185
Nonbank	-23	16	25	106	58
Foreign	64	-3	-73	-97	-87
	(In percent of GDP)				
Total revenue	33.5	27.8	30.0	39.3	38.2
Hydrocarbon revenue	21.4	15.3	18.6	30.2	27.2
Nonhydrocarbon	12.1	12.5	11.3	9.1	10.9
Tax revenue	11.4	11.9	9.9	8.7	9.1
Total expenditure	30.6	31.5	30.4	29.4	31.8
Current expenditure	23.3	23.9	24.5	21.3	22.7
Capital expenditure	7.3	7.6	5.9	8.0	9.1
Primary balance	6.4	0.1	3.5	14.0	9.6
Overall balance	2.4	-3.9	-0.5	9.9	6.3
	(In percent of nonhydrocarbon GDP)				
Nonhydrocarbon revenue	17.2	16.3	15.7	15.4	17.4
Tax revenue	16.2	15.4	13.8	14.7	14.5
Current expenditure	33.1	31.0	33.9	36.0	36.1
Capital expenditure	10.4	9.9	8.2	13.5	14.5
Nonoil primary balance	-21.5	-19.8	-20.9	-27.4	-28.0
Nonoil balance	-27.1	-24.9	-26.5	-34.3	-33.3
Memorandum items:					
Nominal GDP (in billions of DA)	2,762	2,782	3,168	4,012	4,344
Crude oil price (US$ per barrel)	19.5	12.9	17.9	28.5	26.6
Average exchange rate (DA/US$)	57.7	58.7	66.5	75.3	...

Sources: Algerian authorities; and Fund staff estimates and projection.

Table 3. Algeria: Monetary Survey, 1997–2001

	1997	1998	1999	Est. 2000	Proj. 2001
	(In billions of Algerian dinars; at the end of the period)				
Foreign assets (net)	350	281	170	776	1,256
Foreign assets (Bank of Algeria)	485	423	330	919	1,392
Foreign liabilities (Bank of Algeria)	142	145	157	145	138
Foreign assets (commercial banks)	23	28	28	28	29
Foreign liabilities (commercial banks)	16	25	31	27	27
Net domestic assets	731	1,007	1,299	880	686
Domestic credit	1,165	1,273	1,594	1,268	1,111
Credit to government (net) 1/	424	542	659	504	260
Credit to the economy 1/	741	731	935	764	851
Other items net 2/	-434	-266	-295	-387	-425
Money and quasi-money (M2)	1,082	1,288	1,468	1,656	1,942
Money	672	814	890	1,035	1,213
Quasi-money	410	474	579	621	729
	(Percent change over 12-month period)				
Money and quasi-money (M2)	18.2	19.1	14.0	12.8	17.2
Of which: money	14.0	21.2	9.4	16.3	17.2
Net domestic assets (banking system)	-6.4	37.7	29.0	-32.2	-22.1
Credit to the economy	-4.6	-1.4	27.9	-18.3	11.4
	(Changes as a percent of beginning money stock)				
Money and quasi-money (M2)	18.2	19.1	14.0	12.8	17.2
Foreign assets	23.6	-6.4	-8.6	41.3	29.0
Net domestic assets	-5.5	25.5	22.6	-28.5	-11.7
Domestic credit	11.8	10.0	24.9	-22.2	-9.5
Net credit to government	-4.8	1.7	9.0	-10.5	-14.7
Credit to the nongovernment	16.5	8.3	15.8	-11.7	5.2
Memorandum items:					
Liquidity ratio (end of period M2/GDP)	39.2	46.3	46.3	41.3	44.7
Liquidity ratio (end of period M2/NH GDP)	55.6	60.1	64.2	69.7	71.2
Domestic credit/GDP	42.2	45.8	50.3	31.6	25.6
Net credit to government/GDP	15.3	19.5	20.8	12.6	6.0
Credit to the economy/GDP	26.8	26.3	29.5	19.0	19.6
Nominal GDP in billions of DA	2,762	2,782	3,168	4,012	4,344

Sources: Bank of Algeria; and Fund staff estimates and projections.

1/ This includes the impact of banks' restructuring packages. The conversion of banks' claims on public enterprises in banks' claims on the government results, other things being equal, in a decrease of credit to the economy and an equal increase in credit to the government. The adjustment amounts to about DA 216 billion in 2000.

2/ This includes the debt-rescheduling proceeds blocked in special accounts at the Bank of Algeria.

Table 4. Algeria: Balance of Payments, 1997–2001

(In billions of U.S. dollars; unless otherwise indicated)

	1997	1998	1999	Est. 2000	Projections 2001
Current account	3.5	-0.9	0.0	8.9	6.9
Trade balance	5.7	1.5	3.4	12.3	10.1
Exports, f.o.b.	13.8	10.1	12.3	21.7	21.2
Hydrocarbons	13.2	9.8	11.9	21.1	20.7
Other exports	0.6	0.4	0.4	0.6	0.5
Imports, f.o.b.	-8.1	-8.6	-9.0	-9.3	-11.2
Services account (net)	-3.3	-3.5	-4.1	-4.2	-4.0
Nonfactor services (net)	-1.1	-1.5	-1.8	-1.5	-1.5
Credit	1.1	0.7	0.7	0.9	1.0
Debit	-2.2	-2.2	-2.6	-2.4	-2.5
Factor services (net)	-2.2	-2.0	-2.3	-2.7	-2.5
Credit	0.3	0.4	0.2	0.4	0.6
Debit	-2.5	-2.4	-2.5	-3.1	-3.1
Of which: Interest payments	-2.1	-2.0	-1.9	-1.9	-1.8
Transfers (net)	1.1	1.1	0.8	0.8	0.8
Capital account	-2.3	-0.8	-2.4	-1.4	-0.8
Medium- and long-term capital	-2.3	-0.8	-1.5	-1.5	-1.0
Direct investment, net	0.3	0.5	0.5	0.4	1.1
Loans, net	-2.5	-1.3	-2.0	-2.0	-2.1
Drawings	1.7	1.8	1.1	0.8	0.9
Total amortization	-4.2	-3.2	-3.0	-2.8	-3.0
Short-term capital and errors and omissions	0.0	0.0	-0.9	0.2	0.2
Overall balance	1.2	-1.7	-2.4	7.6	6.1
Financing	-1.2	1.7	2.4	-7.6	-6.1
Change in official reserves (increases -)	-4.0	1.2	2.4	-7.5	-6.0
Fund repurchases	-0.4	-0.5	-0.4	-0.1	-0.1
Exceptional financing	3.2	1.0	0.4	0.0	0.1
Rescheduling	2.2	0.5	0.0	0.0	0.0
Multilateral balance of payments support	0.3	0.1	0.1	0.0	0.1
Fund purchases	0.6	0.3	0.3	0.0	0.0
Memorandum items:					
Gross official reserves (in billions of US$) 1/	8.0	6.8	4.4	11.9	17.9
In months of total imports	9.4	7.6	4.6	12.2	15.8
In percent of broad money	43.4	32.1	21.0	49.6	68.5
In percent of total debt service	120.8	123.1	84.6	248.9	365.3
In percent of short-term debt 2/	170.4	181.1	124.4	393.7	540.3
Algerian crude oil price (US$/barrel)	19.5	12.9	17.9	28.5	26.6
Gross external debt (in billions of US$) 3/	31.2	30.5	28.3	25.5	23.3
Debt service/exports (in percent)	29.3	44.8	39.6	20.9	21.6
External debt to exports ratio (in percent)	209.5	280.1	217.1	113.0	105.1
Debt/GDP (in percent)	65.2	64.3	59.4	47.9	40.7
Current account (in percent of GDP)	7.2	-1.9	0.0	16.8	12.0
GDP (in billions of US$)	47.9	47.4	47.6	53.3	57.3
Exchange rate (DA/US$, average)	57.7	58.7	66.5	75.3	...

Sources: Bank of Algeria (through 2000 data); and Fund staff projections.

1/ According to the information provided by the Bank of Algeria all official reserves are liquid.
2/ On the remaining maturity basis.
3/ According to the Bank of Algeria, its actual data inlcude short-term debt, use of Fund resources and debt to Russia.

Table 5. Algeria: Indicators of External Vulnerability, 1997–2001

	1997	1998	1999	2000 Estimate	2001 Projection
Financial indicators					
Central government debt (in percent of GDP)	81.6	83.9	71.7	62.3	59.0
Broad money (percent change, 12-month basis)	18.2	19.1	14.0	12.8	17.2
Private sector credit (percent change, 12 month basis)					
13 weeks T-bill yield (in percent per annum)	12.9	10.0	9.8	5.9	...
13 weeks T-bill yield (real) (in percent per annum) 1/	12.9	10.0	9.8	5.9	...
External Indicators					
Exports (percent change, 12-month basis in US$)	4.5	-26.6	21.5	75.7	-2.0
Imports (percent change, 12-month basis in US$)	-10.6	6.2	3.8	4.2	19.5
Terms of Trade (percent change, 12 month basis)	3.7	-26.3	19.6	75.7	-0.1
Current account balance (in percent of GDP)	7.2	-1.9	-1.9	16.8	12.0
Capital account balance (in percent of GDP)	-4.8	-1.8	-5.0	-2.6	-1.4
Gross official reserves (in US$ billions)	8.0	6.8	4.4	11.9	17.9
Foreign currency deposits in the banking system (in US$ billions) 2/	2.1	2.5	2.5	2.4	...
Official reserves in months of imports GS 3/	9.4	7.6	4.6	12.2	15.8
Broad money to reserves (ratio)	2.3	3.1	4.8	1.8	1.4
Total short-term external debt to reserves (ratio) 4/	0.6	0.6	0.8	0.3	0.2
Total external debt (in percent of GDP)	65.2	64.3	59.4	47.9	40.7
Total external debt to exports GS 3/	2.1	2.8	2.2	1.1	1.1
External interest payments to exports GS 3/	0.1	0.2	0.1	0.1	0.1
External amortization payments to exports GS 3/	0.3	0.3	0.2	0.1	0.1
Exchange rate (per US$, period average)	57.7	58.7	66.5	75.3	...
REER (percent change; 12 month basis) 5/	9.9	4.8	-7.9	-2.2	...

Sources: Algerian authorities; and Fund staff estimates and projections.

1/ Computed on the basis of actual CPI rather than projected CPI.

2/ Foreign currency deposits of residents in commercial banks, redeposited at the Bank of Algeria.

3/ Imports and exports of goods and services (GS) exclude factor income, in line with the fifth edition of the Balance of Payments Manual.

4/ On a remaining maturity basis.

5/ The consumer price indices have been used as inflation indicators. A decrease in the REER index implies a depreciation.

Table 6. Algeria: Illustrative Medium-Term Scenarios, 2000–06

		Proj.	Scenario based on WEO oil prices					Scenario with low oil prices 1/				
			Projection					Projection				
	2000	2001	2002	2003	2004	2005	2006	2002	2003	2004	2005	2006
Main assumption												
Oil prices (US$ per barrel)	28.5	26.6	24.5	22.5	21.5	21.0	21.0	15.0	15.0	15.0	15.0	15.0
Hydrocarbon GDP (volume change)	4.9	-0.7	1.8	3.9	6.1	3.5	3.5	1.8	3.9	6.1	3.5	3.5
Real effective exchange rate (percentage change)	-2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Selected economic and financial indicators												
Real GDP (in percentage change)	2.4	3.8	4.9	4.8	4.9	2.7	3.4	4.9	4.8	4.9	2.7	3.4
Nonhydrocarbon GDP (in percentage change)	1.5	5.5	5.9	5.1	4.5	2.3	3.3	5.9	5.1	4.5	2.3	3.3
CPI inflation (in percent, average)	0.3	3.0	6.8	7.0	6.2	5.0	3.9	6.8	7.0	6.2	5.0	3.9
Monetary expansion (M2, in percentage change)	12.8	17.2	17.9	15.8	13.2	9.4	7.8	...	...	...	...	...
Net credit to the government (in percent of GDP)	12.6	6.0	4.7	4.7	6.0	6.4	6.0	...	...	...	...	...
Credit to the economy (in percent of GDP)	19.0	19.6	20.9	21.7	21.8	21.7	21.3	...	...	...	...	...
Liquidity ratio (M2/nonhydrocarbon GDP)	69.7	71.2	74.4	76.6	78.2	79.5	79.8	...	...	...	...	...
Overall budget balance (in percent of GDP)	9.9	6.3	2.5	0.5	-0.2	0.6	1.3	-5.4	-7.4	-7.6	-6.6	-6.1
Hydrocarbon revenues (in percent of GDP)	30.2	27.2	24.4	22.2	21.1	20.6	20.3	19.7	17.7	17.1	16.9	16.7
Nonhydrocarbon revenues (in percent of GDP)	9.1	11.0	11.5	12.1	12.4	12.6	12.7	12.6	12.8	12.4	12.1	12.0
Expenditure (in percent of GDP)	29.4	32.0	33.5	33.8	33.6	32.5	31.7	37.7	37.9	37.1	35.7	34.7
Hydrocarbon Exports (in billions of US$)	21.1	20.7	19.2	18.3	18.5	18.7	19.4	13.1	12.4	13.1	13.6	14.1
Imports, f.o.b. (in billions of US$)	9.3	11.2	12.0	12.4	12.7	12.9	13.5	12.0	12.3	12.6	12.8	13.4
External current account (in percent of GDP)	16.8	12.0	8.0	5.8	5.4	5.9	6.1	-1.6	-3.7	-3.1	-2.2	-2.2
International reserves (in billions of US$)	11.9	17.9	21.2	23.7	25.2	27.0	29.0	16.3	13.3	9.6	6.2	2.7
In months of imports	12.2	15.8	17.3	18.8	19.5	21.0	21.1	13.4	10.6	7.5	4.7	2.0
In percent of short-term debt 2/	393.7	540.3	604.2	608.5	661.8	757.7	834.0	460.2	340.4	251.3	173.0	77.6
External debt service (as percentage of exports of G&S)	20.9	21.6	23.5	23.1	21.7	19.7	18.1	32.7	32.6	29.9	26.9	24.9
External debt (in percent of GDP)	47.9	40.7	35.8	30.5	24.9	20.1	15.4	40.4	34.2	27.5	22.1	16.9
National savings (in percent of GDP)	40.6	40.4	38.9	37.3	36.6	36.0	36.0	...	...	...	...	...
Government	17.9	15.4	12.5	10.4	9.4	9.0	9.1	...	...	...	...	...
Nongovernment	22.6	25.0	26.4	26.9	27.2	27.0	26.9	...	...	...	...	...
Investment (in percent of GDP)	23.8	28.4	30.9	31.5	31.3	30.2	29.9	...	...	...	...	...
Government	8.0	9.1	10.1	9.9	9.6	8.4	7.8	...	...	...	...	...
Nongovernment	15.8	19.3	20.8	21.7	21.7	21.7	22.1	...	...	...	...	...

Sources: Algerian authorities; and Fund staff estimates and projections.

1/ Illustrative scenario aiming at showing the effects of lower oil prices under unchanged policies. In particular, no additional external borrowing is assumed.
2/ On the basis of remaining maturities.

ALGERIA: FUND RELATIONS

(As of June 30, 2001)

A. Financial Relations

Membership Status Joined 9/26/63; Article VIII

General Resources Account	**SDR Million**	**Percent of Quota**
Quota	1,254.70	100.0
Fund holdings of currency	2,439.94	194.5
Reserve position in Fund	85.08	6.8

SDR Department	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	128.64	100.0
Holdings	8.30	6.4

Outstanding Purchases and Loans	**SDR Million**	**Percent of Quota**
Extended arrangements	1,046.81	83.4
Contingency and Compensatory	223.50	17.8

Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
CCFF	5/07/99	--	223.50	223.50
EFF	5/22/95	5/21/98	1,169.28	1,169.28
Stand-by	5/27/94	5/22/95	457.20	385.20
Stand-by	6/03/91	3/31/92	300.00	225.00

Projected Obligations to Fund in millions of SDRs; based on existing use of resources and present holdings of SDRs):

	Overdue	Forthcoming				
		2001	2002	2003	2004	2005
Principal	0.0	62.3	229.6	306.6	250.8	181.8
Charges/interest	0.0	29.3	52.7	41.3	28.6	19.1
Total	0.0	91.6	282.3	347.9	279.4	200.9

B. Nonfinancial Relations

Exchange Rate Arrangement

From January 21, 1974 to October 1, 1994, the exchange rate of the dinar was determined on the basis of a fixed relationship with a basket of currencies, adjusted from time to time. On October 1, 1994, the BA (BA) introduced a managed float for the dinar through daily fixing sessions that included six commercial banks. The fixing has been replaced by an interbank foreign exchange market as of January 2, 1996. At the end of May 2001, 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 79.9, equivalent to SDR 1=DA 100.2. No margin limits are imposed on the buying and selling exchange rates in the interbank foreign exchange market, except for the U.S. dollar, where a margin of DA 0.015 has been established between the buying and selling rates of the BA for the dinar against the U.S. dollar.

Last Article IV Consultation

The 2000 Article IV consultation discussions with Algeria were held in Algiers in February 13-27, 2000. The staff report (SM/00/122, 6/16/00) was discussed by the Executive Board on July 7, 2000.

Algeria maintains an exchange rate system which is free of restrictions on the making of payments and transfers for current international transactions.

Technical Assistance

- An FAD mission visited Algiers in April–May 1991 to assist in the design of social safety nets.

- An MAE mission visited Algiers in May–June 1991 to advise the BA on the development of monetary instruments and the money market.

- An STA mission visited Algiers in June–July 1991 to assist the authorities in improving Algeria's money and banking and public finance statistics.

- A PDR mission visited Algiers in June 1992 to provide technical assistance in freeing exchange controls and implementing an interbank foreign exchange market.

- A staff team visited Algiers in February 1993 to discuss alternative exchange market strategies.

- An FAD panel expert visited Algiers for four weeks beginning February 6, 1993 to provide assistance in the introduction of decentralized microcomputerized applications.

- An STA mission visited Algiers in February 1993 to provide assistance in the area of balance of payments statistics.

- A staff team from MED and MAE visited Algiers in July–August 1993 to advise on the implementation of a market-based exchange system.

- An FAD technical assistance mission visited Algiers in November 1993 to update the work carried out during a 1991 social safety net mission and provide inputs to the ongoing UFR program.

- An MAE technical assistance mission met with representatives of the BA in Geneva from August 15–18, 1994 to provide advice on the introduction of fixing sessions in the foreign exchange market and transition to an interbank market.

- A staff team from MAE and PDR met with representatives of the BA and commercial banks in Paris from August 21 to 24, 1995 to provide advice on the transformation of existing fixing sessions into an interbank foreign exchange market.

- An FAD technical assistance mission met with the authorities in Rome in September/October 1995 to provide advice on VAT reform.

- An MAE consultant visited Algeria four times in 1998–99 to assess the status of the banking system and provide advice in banking supervision

- MAE consultants visited Algiers in 2000 and 2001 to provide further advice in banking supervision.

- An STA mission visited Algiers in February 2000 and February 2001 to provide assistance in the area of monetary statistics.

- A staff team from MED and MAE visited Algiers in April 2000 to advise on banking and monetary issues, and another staff team from MED and FAD visited in May 2000 to help clarify fiscal data issues.

- Two FAD missions on tax administration visited Algiers in July 2000 and April 2001, and the first in a series of visits by an expert in tax administration took place in Algiers during May–June 2001.

- An FAD mission on customs administration visited Algiers in July 2000, and the first in a series of visits by a customs administration expert took place in Algiers in March 2001.
- An MAE mission (with MED participation) on review of monetary policy operations visited Algiers in November 2000.
- An FAD mission on budgetary procedures visited Algiers in February 2001.
- Three FAD missions on tariff reform visited Algiers in January, March and June 2001.

Resident Representative/Advisor

None.

ALGERIA: FINANCIAL RELATIONS WITH THE WORLD BANK

(As of April 1, 2001)

The World Bank's portfolio in Algeria has a total of 10 current operations and 59 closed loans with cumulative commitments of US$4.54 billion (less cancellations). Of this total, US$2.5 billion has been repaid. Net commitments for the ten current investment operations amount to US$668.1 million.

Bank assistance fluctuated in the 1990s, with strong support in FY 1995–96 to the stabilization and adjustment program (about US$900 million). The security situation, as well as the lack of managerial and technical capacity of some agencies responsible for implementing certain projects, affected their completion. Following a series of portfolio performance reviews, the government addressed a range of implementation problems, making some progress with respect to procurement, audit compliance, and disbursement bottleneck issues. Efforts to maintain a lean portfolio continue, in full coordination with the authorities.

Lending was renewed in FY 2000, with three new loans approved. They covered two strategic fronts: technical assistance for institutional strengthening and reforms, and assistance for emergency situations. The reimbursable technical assistance projects included assistance to the telecommunicationss and post ministry (US$9 million) and assistance to the ministry of participation and coordination of reforms (US$5 million). Support to the emergency situation was channeled through the Ain Temouchent Emergency Earthquake project (US$63.5 million) to reconstruct areas affected by the earthquake in 1999.

Currently, it is expected that the Executive Board will approve four operations before the end of FY 2001. All of them will continue to support institutional strengthening and sectoral reforms. They include technical assistance in the following sectors (a) ministry of energy and mining (US$18 million, already approved); (b) budget system modernization (US$23.7 million, already approved); (c) transport sector (tentatively US$8 million, negotiations scheduled for April 2001); and (d) financial system infrastructure modernization (tentatively US$18 million, negotiations scheduled for April 2001). The World Bank is currently preparing a public expenditure review of social expenditures, to be finalized by June 2001.

The World Bank's lending program for the medium term remains to be established. Depending on the decisions and choice of priorities during the 2001 Spring Meetings, a Country Assistance Strategy (CAS) note would be produced during FY 2002 presenting the areas for World Bank support.

Algeria: Financial Relations with the World Bank

(As of April 1, 2001)

	Total Net Commitments	Undisbursed Balance
	(In millions of U.S. dollars)	
IBRD lending operations 1/		
59 loans closed 2/	3,879.5	
10 active loans		
Low income housing	150.0	140.0
Rural employment	89.0	56.2
Ind. Pollution control	78.0	66.5
Highways VI	130.0	45.7
Water supply and sewer	81.9	65
Privatization Assistance	5.0	5.0
Telecommunicationss and Postal Sector	9.0	8.5
Temouchent Emergency Earthquake Reconstruction Project (TEERP)	83.5	77.6
Budget System Modernization	23.7	23.7
Energy and Mining Technical Assistance	18.0	18.0
Total active loans	668.1	506.2
Repayments 3/	2,457.6	
Debt outstanding 3/	1,532.9	

	1995	1996	1997	1998	1999	2000 4/	2001 4/
Net lending by the World Bank (by fiscal year)							
Commitments	331	428	89	150	0	98	42
Disbursements	440	505	118	220	57	69	45
Debt service	363	393	378	338	334	316	212
Principal	237	249	249	223	204	188	127
Interest 5/	126	145	129	114	130	128	85
Net transfer 6/	77	112	-260	-118	-276	-246	-167

Source: World Bank.

1/ IDA has no operations in Algeria.
2/ Less cancellations, includes adjustment lending.
3/ As of January 31, 2000.
4/ Data as of April 1, 2001.
5/ Includes charges.
6/ Equal to disbursement minus debt service.

ALGERIA: STATISTICAL ISSUES

After the expiration of the extended arrangement in May 1998, the reporting of statistics to the Fund, in particular in between MED missions, has deteriorated despite some recent progress in the monetary statistics area. Also, in recent years the production of statistics has suffered from a severe lack of financial resources. Algeria needs to reverse this trend, and improve the quality and timeliness of economic data before this deterioration reaches the point where it would prevent adequate surveillance.

Real sector

Real sector data are being reported on an irregular basis with substantial lags to STA. Producer Price Indix (PPI) and industrial production series were provided for only six quarters between the first quarter of 1995 and the second quarter of 1996. Both series may be published in *International Financial Statistics* (*IFS*) as soon as historical data are made available by the authorities to check the accuracy of the reported data. The latest national accounts information in *IFS* pertains to data reported for 1998. *IFS* import trade data at current prices are derived from the Direction of Trade Statistics. Concerning exports, only volume and price data for petroleum through 1996 have been reported.

Government finance

For the first time in many years Algeria reported government statistics data, which covered the 1994–96 period, for publication in the *Government Financial Statistics Yearbook*. However, the institutional coverage of the data reported is unknown and a clarification has been sought from the authorities.

Monetary accounts

Monetary data are broadly adequate for policy formulation and monitoring of economic developments, however, the timeliness of the data needs to be improved. An STA mission to provide technical assistance in monetary statistics (March 2001) found that progress had been made in (a) accelerating the reporting of balance sheet data from the national savings bank (CNEP) to the central bank; (b) in the timeliness of reporting of data to the Fund for the monetary authorities; and (c) reporting of interest rates. However, reporting of balance sheet data by the commercial banks is very untimely, and most commercial banks do not report complete data that are needed to compile the monetary survey. The latest available monetary survey corresponds to November 2000. The authorities have agreed on a work program to address these issues.

Balance of payments

The balance of payments compilation system is broadly reliable. However, there is a need to (a) improve the coverage of the balance of payments by including transactions not covered by the exchange record; (b) improve the timeliness of data by compiling quarterly data; and (c) adopt a more rigorous and uniform application of the residency criterion.

Algeria: Core Statistical Indicators

(As of July 23, 2001)

	Exchange rate	International Reserves	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/GNP	External Debt and Debt Service
Date of latest observation	05/31/01	05/31/01	11/30/00	12/31/00	05/31/01	12/31/00	12/31/00	12/31/00	12/31/00	12/31/00
Date received	06/13/01	06/13/01	07/02/01	04/02/01	06/18/01	01/20/01	01/20/01	04/15/01	01/20/01	01/20/01
Frequency of data 1/	D	M	M	M	M	Q	Q	Q	A	A
Frequency of Reporting 1/	M	M	V	M	M	V	V	V	V	V
Source of data 2/	A	A	A	A	N	A	A	A	A	A
Mode of reporting 3/	C	C	E	E	I	V	V	V	V	V
Confidentiality 4/	C	C	C	C	C	C	C	C	C	C
Frequency of publication 1/	D	M	M	M	M	A	A	Q	A	A

1/ D-daily; W-weekly; M-monthly; Q-quarterly; A-annually; V-irregularly in conjunction with staff visits.
2/ A-direct reporting by central bank, ministry of finance, or other official agency; N-official publication or press release; P-commercial publication, C-commercial electronic data provider, E-EIS.
3/ E-electronic data transfer; C-cable or facsimile; I-Internet website; T-telephone; M-mail; V-staff visits.
4/ C-for unrestricted use.

ALGERIA: SOCIAL INDICATORS

	1994	1995	1996	1997	1998	1999
Population						
Resident population (in millions)	27.5	28.1	28.6	29.0	29.5	30.0
Population aged 0-14 (in millions)	10.9	11.0	11.1	11.1	11.2	11.3
Rural population (percent of total)	44.2	43.4	42.7	41.9	41.2	40.4
Birth rate (per thousand)	...	27.2	...	26.5	...	25.3
Death rate (per thousand)	6.6	6.4	6.0	6.1	...	5.6
Growth rate (in percent)	2.2	2.0	1.8	1.7	1.6	1.5
Health						
Infant mortality (per thousand live births)	...	38.3	37.0	35.3	...	34.0
Physicians (per thousand people)	...	...	...	...	...	0.8
Education						
Primary School enrollment (percent net) 1/	95.7	95.1	94.1	...	...	...
Secondary School enrollment (percent net) 1/	55.5	56.2	56.3	...	...	...
Illiteracy rate 2/	39.8	38.5	37.1	35.8	34.5	33.4
Employment						
Labor force (percent of total population)	24.6	26.9	27.3	27.8	28.2	28.6
Unemployment (percent of labor force)	24.4	28.1	28.0	28.0	28.0	29.2
Income						
GDP per capita in U.S. dollars 3/	1,524	1,468	1,642	1,649	1,606	1,589

Sources: Algerian authorities; and World Development Indicators (World Bank, 2001)

1/ Percentage of age group over same age group enrolled in education.
2/ In percent of population aged 15 and above.
3/ Converted at the official exchange rate.

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Public Information Notice (PIN) No.
FOR IMMEDIATE RELEASE
August [ ], 2001

IMF Concludes 2001 Article IV Consultation with Algeria

On [August 29, 2001], the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Algeria.[24]

Background

Since the outset of its Fund-supported adjustment and reform program in 1994, Algeria made—in particularly difficult circumstances—substantial progress toward the restoration of macroeconomic stability and implemented a comprehensive set of structural reforms. Growth turned positive, the inflation rate dropped, and the balance of payments' viability was restored. Assisted by a tightening of domestic demand management, the Algerian economy was able to weather the oil price downturn of 1998–99, thus demonstrating increased resilience to external shocks.

With the surge in oil prices from the spring of 1999, the balance of payments position strengthened markedly in 2000. While the Algerian dinar remained relatively stable in real effective terms in 2000, record hydrocarbon exports boosted total merchandise exports and imports increased modestly in dollar terms. This resulted in a massive current account surplus of about 17 percent of GDP in 2000 (following a balanced position in 1999), which contributed to the rise in gross official reserves to US$11.9 billion (equivalent to over a year of imports) by end-2000, from US$4.4 billion at

[24] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. This PIN summarizes the views of the Executive Board as expressed during the [August 29, 2001] Executive Board discussion based on the staff report.

end-1999. Similar developments in early 2001 led to a further increase in gross official reserves to US$15.2 billion at end-June 2001. The debt service ratio fell to 21 percent in 2000 from 40 percent in 1999, partly because of the large increase in the value of exports. Since amortization exceeded drawings, external debt decreased by US$2.8 billion to US$25.5 billion at end-2000 (41 percent of GDP).

High hydrocarbon prices also contributed to a sharp improvement in the budget position. Notwithstanding a 22 percent increase in expenditures in 2000—fueled by a surge in capital outlays—, the increase in hydrocarbon revenue resulted in a switch in the budget balance to a surplus of close to 10 percent of GDP in 2000 from a small deficit in 1999. The latter allowed early retirement of domestic debt and the accumulation of large cash balances on the treasury account at the central bank. To help preserve these resources, the government established a stabilization fund in 2000.

Despite a dynamic hydrocarbon sector, GDP growth was modest in 2000. Hydrocarbon production increased by about 5 percent in 2000, compared to 6.2 percent in 1999. However, overall GDP growth was modest (2.4 percent in 2000) and lower than in 1999 (3.2 percent) due to sluggish growth in nonhydrocarbon sectors in 2000 (1.5 percent compared to 2.2 percent in 1999). In particular, agricultural production was once again affected by unfavorable climatic conditions while industrial production recorded only a slight increase, entirely attributable to the dynamism of the private sector. On the whole, growth was in all likelihood too weak to have had an effect on unemployment, currently estimated at about 30 percent of the labor force. Reduction in inflation, mainly driven by food prices, continued in 2000: the average increase in the consumer price index dropped to 0.3 percent from 2.6 percent in 1999. However, the 12-month moving average increased by 1.7 percent during the year ending in June 2001.

Regarding structural reforms, only a few laws (notably those liberalizing the telecommunications and mining sectors) were adopted by parliament since end-1999. However, in July 2001, the public sector assets in the steel-making sector were transferred to a company which is majority-owned by a foreign investor. That month, a second mobile telephone license was sold to a foreign investor. In addition, intense preparatory work on various other reforms took place. In particular, the government has prepared a draft law liberalizing the hydrocarbon sector and has taken steps toward extending public infrastructure concessions. It published, in early 2001, a first list of public enterprises to be partly or entirely privatized. Concerning trade, the authorities have stated their objective to conclude before the end of 2001 the negotiations towards an association agreement with the European Union (EU) and to pursue simultaneously the negotiations for membership in the World Trade Organization (WTO). In this context, they are also in the process of introducing a comprehensive reform of the external tariff.

Executive Board Assessment

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Public Information Notices (PINs) are issued, (a) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (b) following policy discussions in the Executive Board at the decision of the Board.

Algeria: Selected Economic Indicators

	1996	1997	1998	1999	2000
Domestic economy				In percent	
Real GDP	3.8	1.1	5.1	3.2	2.4
GDP deflator	25.7	6.5	-4.2	10.4	23.7
Consumer price index (CPI), period average	18.7	5.7	5.0	2.6	0.3
External sector		In billions of U.S. dollars 1/			
Exports of goods, f.o.b.	13.2	13.8	10.1	12.3	21.7
Imports of goods, f.o.b.	-9.1	-8.1	-8.6	-9.0	-9.3
Current account, excluding capital grants (in percent of GDP)	2.7	7.2	-1.9	0.0	16.8
Capital account balance	-3.3	-2.3	-0.8	-2.4	-1.4
Gross official reserves	4.2	8.0	6.8	4.4	11.9
External debt (in percent of GDP)	71.9	65.2	64.3	59.4	47.9
Debt service ratio (in percent of current external receipts)	28.7	29.3	44.8	39.6	20.9
Real effective exchange rate (percentage change) 2/	2.5	9.9	4.8	-7.9	-2.2
Financial variables		In percent of GDP 1/			
Overall budget balance	3.0	2.4	-3.9	-0.5	9.9
National savings	30.4	25.8	25.1	28.1	40.6
Gross domestic investment	25.1	23.8	27.7	28.1	23.8
Change in broad money (M3) (in percent)	14.4	18.2	19.1	14.0	12.8
Interest rate (central bank repurchase rate, in percent)	13.0	11.0	9.5	8.5	6.0

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

1/ Unless otherwise noted.
2/ A decrease in the index implies a depreciation.