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The Acting Chair's Summing Up at the Conclusion of the 2001 Article IV Consultation and Post-Program Monitoring Discussion with Algeria Executive Board Meeting 01/85—August 29, 2001

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities' prudent macroeconomic management and progress in restoring macroeconomic balances under difficult circumstances and in the context of rapidly changing oil prices. A prudent fiscal stance and cautious easing of monetary conditions have led to a major strengthening of the balance of payments position and a large accumulation of official reserves. External debt indicators have improved, and the inflation rate has declined sharply.

Nevertheless, Directors noted that the Algerian economy still faces major challenges over the medium term. Higher economic growth is needed to reduce unemployment and improve living standards, and the export and revenue bases need to be diversified to reduce external and fiscal vulnerability. In Directors' view, these require the introduction of a comprehensive set of reforms to promote private sector investment and raise the efficiency of new investment, particularly in the non-hydrocarbon sectors. In this context, Directors stressed the importance of privatization, restructuring of public enterprises, comprehensive banking reform, enhanced competition, and further trade liberalization.

In the face of mounting social demands, low growth and inflation, and strong fiscal and external positions, Directors endorsed the fiscal stimulus being introduced in 2001, and the authorities' 2001-2004 economic recovery plan. They considered that the recovery plan could temporarily boost growth and thereby reduce unemployment and poverty in the short term, and would not jeopardize Algeria's fiscal and external positions as long as oil prices do not drop significantly from their current levels. However, Directors encouraged the authorities to review the quality of expenditures in consultation with the World Bank. They stressed that the recovery plan would have to be complemented by the accelerated implementation of structural reforms to strengthen growth on a sustainable basis. Directors expressed concern about a possible resumption of inflationary pressures and the vulnerability of the public finances to a marked downturn in oil prices. In this regard, they were encouraged by the authorities' commitment to adjust fiscal policy to future developments in the oil market and to maintain a cautious monetary stance.

Directors welcomed the authorities' commitment to manage the exchange rate float in a flexible way to safeguard competitiveness and dampen external shocks. They recommended that the exchange system be further liberalized to strengthen the role of market

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forces and to continue reducing the importance of the parallel market, noting that liberalization is particularly appropriate in the current context of a strong reserve buildup.

While Directors expressed concern at the overall pace of structural reforms in 2000, they welcomed the reforms implemented in 2001 as well as the authorities' assurances that their recovery plan would not be a substitute for accelerated structural reform. Directors were encouraged by recent achievements, including the sale of a second cellular telephone license, the transfer to a foreign investor of public assets in the steel- making sector, and the recapitalization of state-owned banks. They welcomed the recent ordinance extending the scope of privatization to all economic sectors and streamlining its procedures. Directors emphasized that privatization should be undertaken in a transparent manner and in consultation with all concerned parties. They suggested that the social safety net be strengthened to cushion the impact of public sector restructuring in the event of labor retrenchment.

Directors were encouraged by the adoption of an ordinance simplifying the investment incentives structure and leveling the playing field between public and private investors as well as foreign and domestic investments. They also welcomed the government's efforts to implement a comprehensive tariff reform and commended the authorities for the recent adoption of an ordinance accelerating tariff reductions and reducing the number of tariff bands. Directors commended the authorities for eliminating the minimum duty values system and encouraged them to streamline the list of goods subject to a temporary additional rate and to consider further reductions in the maximum tariff rate.

Directors stressed the importance of further restructuring the banking system, strengthening bank supervision, and modernizing the payments system. They also put emphasis on other structural reforms, such as those pertaining to agricultural land, housing, and the judiciary. Directors recommended liberalization of most remaining administered prices, and the reinstatement of the periodic adjustment of domestic petroleum prices to reflect international oil prices and exchange rate fluctuations. They welcomed the authorities' measures to enhance transparency, and urged the strengthening of efforts to improve governance—including at the local and regional levels.

Directors welcomed the ongoing efforts to remove the data weaknesses that currently hamper the monitoring of economic conditions and formulation of economic policies. They urged the authorities to strengthen data coverage, quality, and timeliness, and to use the Fund's General Data Dissemination System (GDDS) as a framework for statistics development.

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