

October 20, 1981 - 81/184

**The Chairman's Summing Up at the Conclusion of the
1981 Article IV Consultation with Algeria
Executive Board Meeting 81/132 - October 14, 1981**

Executive Directors generally agreed with the thrust of the views expressed in the staff appraisal. They praised Algeria for the rapid rate of growth achieved in recent years through high rates of investment and savings and for the efforts pursued to diversify the economy. They noted the corrective measures implemented in 1979-80 and the improvement in the current account of the balance of payments, which enabled the authorities in 1980 to discontinue recourse to international financial credits and thus to be in a better position to ease the high debt service burden of the country. It was noted that broad liquidity in the economy had ceased rising in relation to GDP, a change from a long-standing trend. In view of the heavy reliance of the public finances on fiscal revenue from the hydrocarbon sector, some Directors felt that a more diversified taxation system would be appropriate to maintain an adequate level of domestic savings in the medium term.

Directors welcomed the emphasis that the authorities have put in the new Development Plan for 1980-84 on improving productivity and raising capacity utilization of the extensive industrial sector that has been built up in recent years. They felt that the reorganization of public enterprises presently under way and the more important role to be attributed to decentralized units of the public sector and to the private sector itself in the economic process could contribute significantly to the more efficient use of resources at which the authorities are aiming. Encouragement was given in this context to the use of realistic pricing policies and interest rates in order to offer more incentives for savings and investment, and to achieve a better allocation of resources. Directors welcomed the increased emphasis given in the Development Plan to developing those sectors of the economy that have lagged behind, such as housing, agriculture and infrastructure, so as to gradually eliminate bottlenecks and ensure more balanced growth. In this respect, special mention was made of the plans to encourage productivity in agriculture.

Directors also welcomed the easing of restrictions under the import regime as a result of a more flexible administration of controls and a larger allocation for imports of consumer goods. Some Directors agreed with the staff that Algeria might derive benefits both from a more active exchange rate policy which, in their view, would contribute to a diversification of production and exports over the medium term, and also from the elimination of the exchange rate premium for workers' remittances. Other Directors, however, noted that they had great doubts about the effectiveness of the use of the exchange rate for that purpose, and suggested that a fuller and more explicit analysis was needed, in the specific conditions of Algeria, of the costs and benefits of a more active exchange rate policy, and also of possible alternative means to encourage the inflow of workers' remittances.