

SM/07/395
Supplement 2

February 15, 2008

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Algeria—Staff Report for the 2007 Article IV Consultation—Draft Public Information Notice**

Attached for the **information** of Executive Directors is the background section of the draft Public Information Notice (PIN) for the staff report for the 2007 Article IV consultation with Algeria (SM/07/395, 12/26/07), which was discussed at the Board meeting on **Monday, February 11, 2008**. 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 the paper.

Questions may be referred to Mr. Fanizza (ext. 34069), Mr. Loko (ext. 37611), and Mr. Sensenbrenner (ext. 39965) in MCD.

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, the African Development Bank, the Arab Monetary Fund, the European Commission, and the Islamic Development Bank.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

Other Distribution:
Department Heads



INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 08/xx
FOR IMMEDIATE RELEASE
[February __, 2008]

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2007 Article IV Consultation with Algeria

On February 11, 2008, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Algeria.¹

Background

Algeria's market-oriented economic reforms over recent years started to bear fruits, with higher growth, low inflation, and strong fiscal and external positions. Real GDP growth peaked at 4.6 percent in 2007 from 2 percent in 2006 reflecting strong growth in the nonhydrocarbon sector (6 percent) driven by services and construction and public works. Inflation remained low despite rising food prices. Unemployment declined further in 2007, but remains high particularly among the youth.

Algeria's external position has continued to strengthen. Boosted by high world oil prices, international reserves have now passed the US\$100 billion mark, and the external current account remained above 20 percent of GDP in 2007.

The fiscal policy stance remained expansionary. The nonhydrocarbon fiscal deficit reached about 37.5 percent of GDP in 2007 from 36 percent in 2006, as a result of the public investment program and higher wage bill. Nevertheless, higher hydrocarbon revenues kept the overall fiscal surplus at 12 percent in 2007, further increasing savings in the hydrocarbon stabilization fund (FRR).

¹ 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 [February 11, 2007 Executive Board discussion based on the staff report.

Progress continued in structural reforms to strengthen financial intermediation and improve the business environment to spur further private investment and growth in the medium term.

Executive Board Assessment

<Begin Typing Here>

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Selected Economic Indicators

| | 2003 | 2004 | 2005 | Est. 2006 | Proj. 2007 |
|--|-------|-------|-------|--------------|---------------|
| (Annual percentage change, unless otherwise indicated) | | | | | |
| Domestic Economy | | | | | |
| Real GDP | 6.9 | 5.2 | 5.1 | 2.0 | 4.6 |
| Hydrocarbon sector | 8.8 | 3.3 | 5.8 | -2.5 | -1.0 |
| Other sectors | 5.9 | 6.2 | 4.7 | 5.6 | 6.0 |
| Consumer price index (average) | 2.6 | 3.6 | 1.6 | 2.5 | 3.7 |
| Gross national savings (in percent of GDP) | 43.3 | 46.2 | 51.8 | 54.4 | 54.5 |
| Gross national investment (in percent of GDP) | 30.3 | 33.2 | 31.2 | 29.2 | 31.0 |
| (In billions of US dollars; unless otherwise indicated) | | | | | |
| External sector | | | | | |
| Exports, f.o.b. | 24.5 | 32.2 | 46.3 | 54.7 | 59.9 |
| Imports, f.o.b. | 13.4 | 18.0 | 19.9 | 20.7 | 25.2 |
| Current account (in percent of GDP) | 13.0 | 13.1 | 20.6 | 25.2 | 23.6 |
| Gross official reserves | 32.9 | 43.1 | 56.2 | 77.8 | 108.5 |
| Idem, in months of next year's imports | 18.1 | 21.0 | 26.5 | 29.1 | 32.2 |
| External debt (in percent of GDP) | 34.4 | 25.6 | 16.7 | 4.9 | 3.5 |
| Debt service ratio (in percent of exports) | 17.9 | 17.6 | 12.5 | 23.8 | 3.1 |
| Terms of trade (deterioration -) | 9.7 | 13.6 | 30.0 | 9.8 | 3.4 |
| Real effective exchange rate (depreciation -) 1/ | -9.5 | 0.6 | -3.9 | -0.3 | -0.5 |
| (In percent of GDP) | | | | | |
| Central government finance | | | | | |
| Total revenue | 37.1 | 36.1 | 40.9 | 43.0 | 42.7 |
| Total expenditure and net lending | 29.3 | 29.2 | 29.0 | 29.4 | 30.9 |
| Overall budget balance (deficit-) | 7.8 | 6.9 | 11.9 | 13.6 | 11.8 |
| (In percent of nonhydrocarbon GDP) | | | | | |
| Central government finance | | | | | |
| Total revenue | 57.6 | 58.0 | 73.6 | 79.5 | 77.5 |
| Total expenditure and net lending | 45.5 | 47.0 | 52.2 | 54.4 | 56.0 |
| Nonhydrocarbon balance | -27.8 | -30.1 | -34.7 | -36.0 | -37.6 |
| (Annual percentage change, unless otherwise indicated) | | | | | |
| Money and credit | | | | | |
| Net foreign assets | 33.4 | 33.1 | 34.0 | 31.9 | 33.5 |
| Domestic credit | -1.4 | -8.6 | -17.8 | -5.9 | -16.0 |
| Credit to the government (net) | -5.3 | -13.2 | -24.4 | -8.9 | -21.4 |
| Credit to the economy | 8.9 | 11.2 | 15.9 | 7.1 | 13.8 |
| Broad money | 15.6 | 11.5 | 11.1 | 18.7 | 23.1 |
| Interest rate (central bank rediscount rate, in percent) | 4.5 | 4.0 | 4.0 | 4.0 | 4.0 |

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

1/ For 2007, as of November.