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Statement by an IMF Staff Mission to Algeria

An International Monetary Fund (IMF) mission headed by Mr. Joël Toujas-Bernaté visited Algeria from November 4-15, 2008 to conduct the annual Article IV consultation discussions. A report on the consultation will be prepared by staff for discussion by the IMF's Executive Board in early 2009, and the report will be [published](#).

The discussions focused on the short- and medium-term economic outlook and policies in the current context of uncertainty regarding the global economic situation. The mission met with Mr. Karim Djoudi, Minister of Finance, and Mr. Mohammed Laksaci, Governor of the Bank of Algeria. The mission also met with representatives of the economic and financial sectors.

For several years now, Algeria has been recording favorable economic performance characterized by more rapid non-hydrocarbon growth and declining unemployment, the virtual elimination of external indebtedness, and substantial external and budgetary surpluses. These favorable developments have continued in 2008.

- Nonhydrocarbon growth is expected to reach about 6 percent, and will continue to be driven by the substantial public investment program (PIP). Total growth is expected to turn out at around 3 percent on account of a decline in hydrocarbon exports.
- Inflation is under control at 4 percent, and is among the lowest in the region, reflecting a cautious monetary policy and support for prices of certain basic foodstuffs. The nominal and real effective exchange rates have remained broadly stable since last year.
- The external position remains strong, with international reserves amounting to about US\$135 billion in October 2008.
- The fiscal position remains sound, in spite of the strong expansion of current and capital expenditures. Thanks to hydrocarbon revenues which remain high, the overall budget surplus is expected to reach about 9 percent of GDP. This has allowed for further accumulation of resources in the Hydrocarbon Stabilization Fund (*Fonds de Régulation des Recettes (FRR)*).

Since the summer, the international environment has abruptly changed with the global financial crisis, the rapid decline in the price of a barrel of oil, and the prospects of a sharp slowdown in the world economy. In view of its limited exposure to international financial flows, the Algerian financial sector is not expected to face a direct contagion effect. However, a significant decline in oil revenues could affect growth over time through a slowdown in the PIP. This environment of great uncertainty calls for heightened flexibility in macroeconomic policies in order to limit the impact of falling oil prices on the economy, preserve macroeconomic stability, and support growth.

Budget policy in 2009 should protect domestic demand from the decline in global hydrocarbon prices. The resources accumulated in the FRR, thanks to the cautious fiscal policies pursued in recent years, will make it possible to continue financing the PIP and the budget deficit, at least for the immediate future. Monetary policy in 2009 should also stand ready to support domestic demand, to the extent that inflationary pressures fade in the wake of the turnabout in commodity prices. Furthermore, the central bank of Algeria should continue the current policy of pursuing stability of the real effective exchange rate.

Against this backdrop, certain economic trends should still remain favorable in 2009, whereas others may deteriorate. Nonhydrocarbon growth may still reach 6 percent provided major public and private investment projects continue, and inflation would stay below 4 percent. However, a decline in hydrocarbon prices, coupled with high import and budgetary expenditures, would lead to a significant deterioration in the external balance and the overall budget deficit.

The government should prepare to adopt a number of precautionary measures in the event that the global economic situation should remain unfavorable for an extended period. Such measures could include further streamlining of government expenditure, including better control of current expenditure, and enhanced efficiency in mobilizing nonhydrocarbon tax receipts. In any case, the government should continue to ensure the quality of public expenditure.

The current crisis underscores the importance of diversifying the economy, which remains reliant on the hydrocarbon sector. Furthermore, productivity is still relatively low compared to partner countries, and unemployment remains very high among young people. The major challenge facing Algeria in the medium term is thus to ensure strong and sustainable nonhydrocarbon growth in order to further reduce unemployment and raise the living standards of the Algerian population. This will require not only macroeconomic stability but also further structural reforms, which have been tentative thus far, in particular with respect to the State's withdrawal from the industrial and financial sectors. In future, the goal will be to ensure the sound development of the financial sector, enable Algeria to become increasingly integrated into the regional and global economy, and improve the business climate.