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June 27, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Algeria - Staff Report for the 1985 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1985 Article IV consultation with Algeria, which will be brought to the agenda for discussion on a date to be announced. A draft decision appears on page 21.

Mr. Sacerdoti (ext. 8514) or Mr. Lienert (ext. 8512) are available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

ALGERIA

Staff Report for the 1985 Article IV Consultation

Prepared by the 1985 Staff Representatives for the 1985
Article IV Consultation with Algeria

Reviewed by the Committee on Article IV Consultations

Approved by A.D. Ouattara and S. Kanesa-Thanan

June 26, 1985

I. Introduction

The 1985 Article IV consultation discussions with Algeria were held in Algiers during the period April 23-May 6, 1985. The Algerian representatives included Mr. Benhamouda, Minister of Finance; Mr. Oubouzar, Minister of Planning; Mr. Bouraoui, Governor of the Central Bank; and other senior officials of ministries and agencies concerned with economic and financial matters. The staff representatives were Mr. E.L. Bornemann (head), Mr. E. Sacerdoti, Mr. I. Lienert, Mrs. L. Schmitz, Mr. L. Dicks-Mireaux (EP), all of the African Department, and Ms. J. Arnold (secretary-GEN). Mr. Salehkhrou, Executive Director for Algeria, attended the final policy discussions.

Algeria continues to avail itself of the transitional arrangements of Article XIV.

II. Recent Economic Developments and Policies

1. Background

Algeria is an important producer of hydrocarbons, and unlike other oil producers, it has achieved relatively rapid GDP growth in the early 1980s, despite the international recession and declining oil prices. This performance has been facilitated by a diversification of its export mix (away from crude oil and towards natural gas and condensate), and the development of a relatively large industrial sector. The economy is centrally planned with tight government controls over investment and imports, and a large number of public enterprises in producing and distribution activities. Beside providing nearly all export receipts, the publicly-owned hydrocarbon sector has been a major source of government revenue.

In the early 1980s, the Algerian authorities have introduced greater flexibility into economic management. In particular, public enterprises are being restructured, a greater role has been assigned to market prices, productivity has been boosted by a wage bonus system, some limited liberalization of imports has taken place, and finally, the development of complementary private sector activities has been encouraged.

2. Recent economic developments

Real GDP growth in 1984 is estimated to have accelerated to around 6 percent, ^{1/} the highest rate recorded in the 1980s (Table 1 and Chart 1). Crude oil production in 1984 rose for the first time since peak output of 54.2 billion tons in 1978. At 32.2 billion tons, output in 1984 reached the OPEC ceiling, nearly 40 percent below Algeria's 1978 output level. Production of refined petroleum products rose by 12 percent in 1984 to reach a new peak; in part this was due to increased gasoline refining capacity and a new production unit of bitumen and lubricants. Similarly, the opening of a new LPG production unit was responsible for a near doubling of LPG output. The increase in natural gas and condensate production slowed down in 1984, after having experienced particularly rapid growth during 1980-83.

GDP outside the hydrocarbon sector also grew more rapidly in 1984 than during the two preceding years. Manufacturing, construction, and public works increased rapidly, at 8-11 percent. The number of housing units completed in 1984 was 110,000, twice the level of completions in 1980. Finally, there was a rebound in agricultural output, following two years of decline induced in part by the droughts of 1982 and 1983. Concerning expenditure, both consumption and investment remained broadly stable as a percent of GDP; there was only a marginal increase in the resource surplus, to nearly 3 percent of GDP.

The increase in consumer prices as recorded by the official index, was 6.5 percent in 1984, somewhat higher than the 4.6 percent recorded in 1983. In part, this reflected the passing through to consumer prices of higher producer prices for agricultural crops in the 1983/84 season. The prices of bread, cereals and flour, were raised further in March 1985, by 15-33 percent. Minimum wages have been frozen since January 1983, but some wage-earners will receive increases in basic wages during 1985, back-dated to January 1, in accordance with the continuing implementation of a nationally harmonized salary scale applicable to all sectors of the economy.

^{1/} The Algerian authorities have not prepared national accounts in constant prices since the late 1970s. The data referred to are staff estimates, which are based on available production volume and price data.

Table 1. Algeria: Selected Economic and Financial Indicators, 1980-85

(In percent; unless otherwise specified)

	1980	1981	1982	1983	1984 Prov.	1985 Proj.
<u>Trends in income and expenditure</u>						
Growth rates in real terms						
Hydrocarbon sector	-8.1	-8.0	3.2	4.5	7.1	...
Other sectors	7.5	8.4	3.8	5.4	5.8	...
Of which:						
agriculture	7.1	9.8	-8.7	-5.0	4.1	...
manufacturing	7.0	10.8	7.5	10.0	8.3	...
construction and public works	3.2	4.5	5.4	6.1	10.9	...
GDP	3.5	4.6	3.6	5.2	6.0	...
Gross fixed capital formation/ Nominal GDP	33.7	32.9	34.1	34.4	34.7	...
Changes in stocks/Nominal GDP	5.3	4.1	2.8	3.2	2.6	...
Gross domestic savings/Nominal GDP	43.3	40.9	39.0	40.0	40.2	...
Resource surplus/Nominal GDP	4.3	4.0	2.0	2.3	2.9	...
Actual increase of planned investments (in current prices)	-0.2	10.9	16.6	6.7	-0.8	...
<u>Trends in government finance</u>						
Growth rates						
Current revenue	26.9	32.7	-5.1	8.9	19.9	15.4
Petroleum revenue	42.0	35.3	-18.6	-9.0	16.3	7.2
Other	8.7	28.6	17.4	29.6	22.9	21.7
Current expenditure	32.3	16.5	27.8	9.6	15.0	8.1
Of which:						
Wages and salaries <u>1/</u>	29.8	21.9	23.0	13.4	7.2	...
Transfers and subsidies <u>1/</u>	48.4	34.3	-0.2	12.0	14.7	...
Capital expenditure	29.3	28.6	46.7	27.9	3.6	12.1
Treasury loans and advances (net)	15.9	-1.3	-10.9	21.5	-10.4	5.9
Overall Treasury deficit (-)/GDP	-4.1	3.4	-5.2	-8.7	-5.5	-2.1
Treasury loans for investments/ Planned investments of enterprises	74.8	76.7	73.1	80.7	81.5	...
Domestic bank financing/Overall Treasury deficit	84.6	144.9 <u>2/</u>	53.7	77.2	79.5	66.7

Table 1. Algeria: Selected Economic and Financial Indicators,
1980-85 (concluded)

(In percent; unless otherwise specified)

	1980	1981	1982	1983	1984 Prov.	1985 Proj.
<u>Trends in monetary aggregates</u>						
Growth rates						
Domestic credit	17.2	12.0	31.0	24.6	17.1	...
Credit to Government (net)	24.0	-23.8	43.8	45.7	28.7	...
Credit to the economy	14.2	29.2	27.4	17.0	12.5	...
Money and quasi-money	17.3	16.7	26.4	20.3	14.5	...
Money and quasi-money/Nominal GDP	57.4	56.9	66.1	71.5	73.7	...
Currency in circulation/Nominal GDP	26.0	25.0	23.5	25.9	26.2	...
<u>Trends in the balance of payments 3/</u>						
Growth rate in merchandise exports						
Value	42.9	14.1	0.1 4/	-0.5	4.7	5.5
Volume	-12.5	-7.7	-1.3	7.0	4.7	2.4
Unit price	63.3	23.6	1.4	-7.0	-0.0	3.0
Growth rate in merchandise imports						
Value	22.0	16.0	4.7	-0.6	1.4	4.7
Volume	10.1	12.6	2.7	-0.2	-0.2	-1.3
Unit price	10.8	3.0	1.9	-0.4	1.6	6.1
Annual changes in the terms of trade	47.3	20.0	-2.6	-18.4	-9.1	-2.9
Current account (deficit -)/						
Nominal GDP	0.6	0.2	-0.4	-0.2	0.2	0.8
Gross official non-gold reserves (number of months of imports of goods and services)	3.2	2.9	2.7	2.1	1.8	1.0
<u>Trends in external debt</u>						
Ratio of disbursed debt to total, including undisbursed	62.8	67.8	68.6	68.9	75.8	...
Ratio of disbursed debt to nominal GDP	39.3	35.0	30.6	27.3	25.2	21.9
Ratio of disbursed debt to merchandise exports (f.o.b.)	122.1	110.2	106.1	103.0	101.9	93.8
Ratio of debt service payments to exports of goods, services, and private transfers	26.1	27.0	30.2	32.0	32.4	33.0
Of which: interest	9.5	10.3	9.6	8.5	9.1	8.5
amortization	16.6	16.7	20.6	23.5	23.4	24.5

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

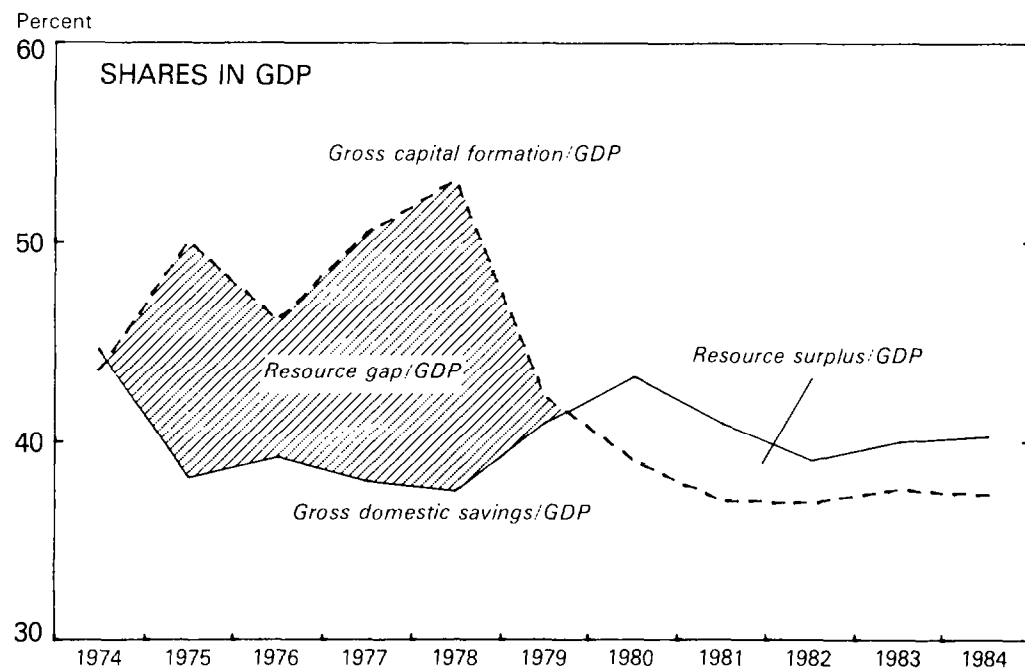
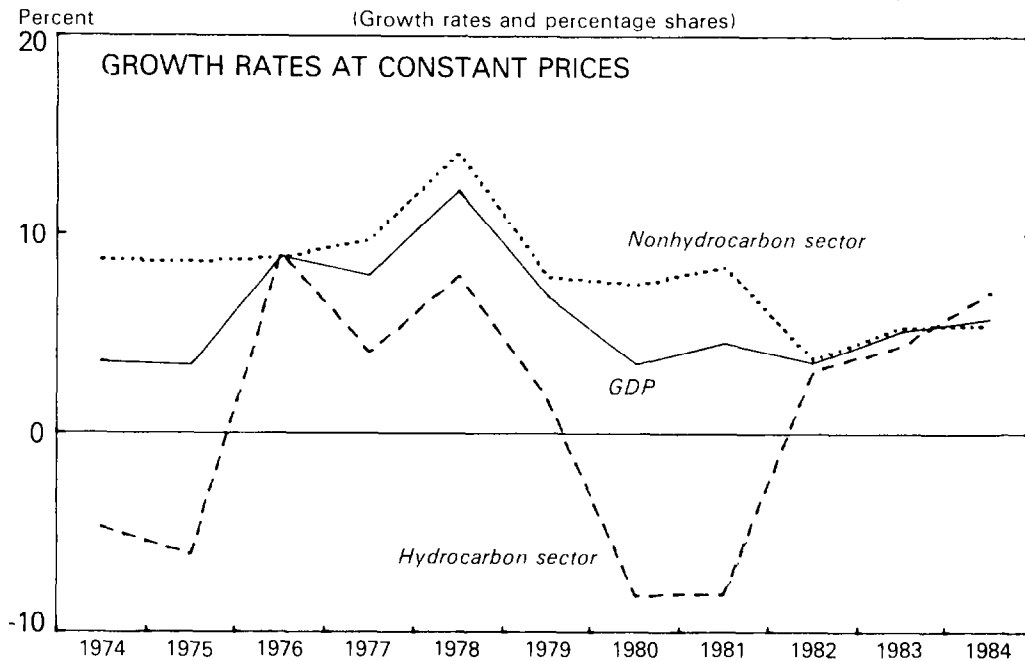
1/ Wages, salaries, transfers, and subsidies are on an accrual basis. All other government finance items are on a cash basis.

2/ Reduction in net indebtedness to the banking system as a percentage of overall Treasury surplus

3/ Based on SDRs.

4/ Calculated on balance of payments data net of retroactive payments received in 1982.

CHART 1
ALGERIA
SELECTED NATIONAL ACCOUNTS AGGREGATES, 1974-84



Source: Data provided by the Algerian authorities; staff estimates for constant price National Accounts.

The overall Treasury deficit, which had expanded rapidly to nearly 9 percent of GDP in 1983, fell to 5.5 percent in 1984 (Table 1). As a consequence, there was a marked decline in advances to the Treasury by the Central Bank, which is the major source of financing of the deficit. During the last two years, total government revenue growth has accelerated. In 1983, non-petroleum tax revenue exceeded 50 percent of total receipts for the first time in recent years (Chart 2); by 1984, the share had risen further, to 57 percent, compared to only 38 percent three years earlier. Successful efforts to improve tax administration and limit evasion, together with the restructuring of public enterprises, were the major reasons for these developments. At the same time, tax receipts from hydrocarbons have been stable in dinar terms since 1982. On the expenditure side, the growth of wage outlays and equipment budget expenditures decelerated markedly in 1984, following rapid increases in 1982-83; on the other hand, interest payments on the public debt rose sharply. The budgetary costs associated with public enterprise restructuring rose from DA 8.5 billion in 1983 to DA 10 billion in 1984. In addition, some existing Treasury loans, amounting to DA 15 billion over 1983-84 were converted into equity, without affecting the overall budget deficit.

Total domestic credit expansion has decelerated progressively since 1982. In 1984, it slowed to 17 percent from 24.6 percent in 1983, due to both less-rapid increases in credit to Government and to the economy; for the former, the growth rate of 28.7 percent contrasts with increases of 40-45 percent in both 1982 and 1983. Nonetheless, the ratio of money and quasi-money to GDP continued to increase in 1984, to 73.7 percent, compared to 71.5 percent in 1983 and only 57.4 percent four years earlier; the growth of demand deposits has been particularly rapid (28 percent p.a. during 1980-1984).

The current account of the balance of payments has remained in virtual equilibrium for each year of the 1980-84 Plan period (Chart 3). Despite the continuing fall in world oil prices, Algeria's hydrocarbon export receipts in SDR terms rose by 4.2 percent in 1984 (Table 2). The major source of the increase came from the first full-year operation of the trans-Mediterranean gas pipeline to Italy opened in 1983; moreover, upliftings of natural gas exceeded contract levels. Exports of refined petroleum products rose from their depressed 1983 levels. On the other hand, crude oil and condensate volumes stagnated, and liquefied natural gas (LNG) exports fell due to a cut in contracted upliftings. Imports have now been stable for three consecutive years, reflecting increased substitution of imports by domestic production and continuing tight controls. The increase in the trade surplus of SDR 0.5 million more than offset a larger deficit on services, due to increased interest payments on the external debt and a further fall in workers' remittances. As a consequence, the current account changed from a small deficit in 1983 to a slight surplus in 1984 (0.2 percent of GDP in each case).

Table 2. Algeria: Balance of Payments Summary, 1980-85

(In millions of SDRs) ^{1/}

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u> Proj.
Exports, f.o.b.	10,489	11,972	12,237	11,920	12,479	13,420
Of which: hydrocarbons	(10,277)	(11,734)	(12,104) ^{2/}	(11,771)	(12,290)	(13,220) ^{3/}
Imports, f.o.b.	-7,373	-8,556	-8,957	-8,902	-9,024	-9,450
<u>Trade balance</u>	<u>3,116</u>	<u>3,416</u>	<u>3,280</u>	<u>3,018</u>	<u>3,455</u>	<u>3,970</u>
Services (net)	-3,190	-3,644	-3,778	-3,259	-3,507	-3,630
Of which: interest payments on external debt	(-1,192)	(-1,497)	(-1,459)	(-1,318)	(-1,471)	(-1,470)
Balance of goods and services	-74	-228	-498	-241	-52	340
Transfers (net)	259	304	332	162	143	140
Of which: receipts from workers' remittances	(340)	(421)	(493)	(306)	(283)	(290)
<u>Current account</u>	<u>185</u>	<u>76</u>	<u>-166</u>	<u>-79</u>	<u>91</u>	<u>480</u>
<u>Capital account</u>	<u>855</u>	<u>108</u>	<u>-816</u>	<u>-349</u>	<u>-471</u>	<u>-340</u>
Direct investment (net)	246	-1	-58	-11	-14	-10
Foreign long-term borrowing	2,383	2,367	2,162	2,585	2,947	3,350
Repayments on foreign long-term loans	-1,911	-2,250	-2,740	-3,157	-3,240	-3,640
Other capital (net)	33	-24	-107	64	92	100
Operations pending settlement	104	16	-73	172	-258	-140
Net errors and omissions	-9	-8	-15	10	19	--
Allocations of SDRs	30	29	--	--	--	--
Overall surplus or deficit ^{4/}	<u>1,061</u>	<u>205</u>	<u>-997</u>	<u>-418</u>	<u>-361</u>	<u>140</u>

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

^{1/} Converted at average annual exchange rates of DA/SDR: 1980: 4.9946; 1981: 5.0890; 1982: 5.0698; 1983: 5.11923; 1984: 5.10801; 1985: 5.04543.

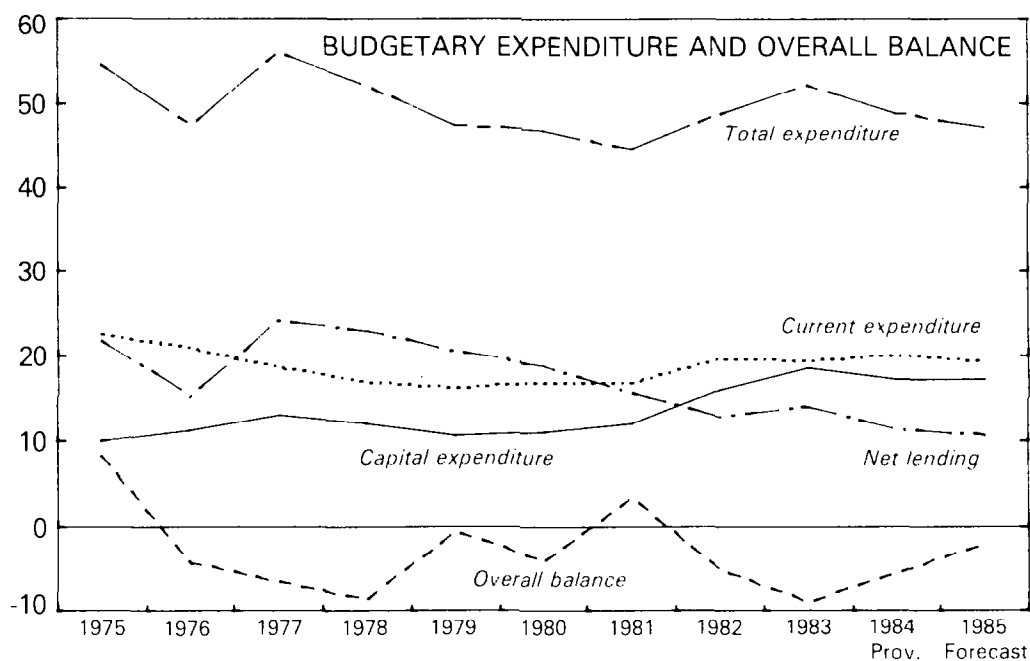
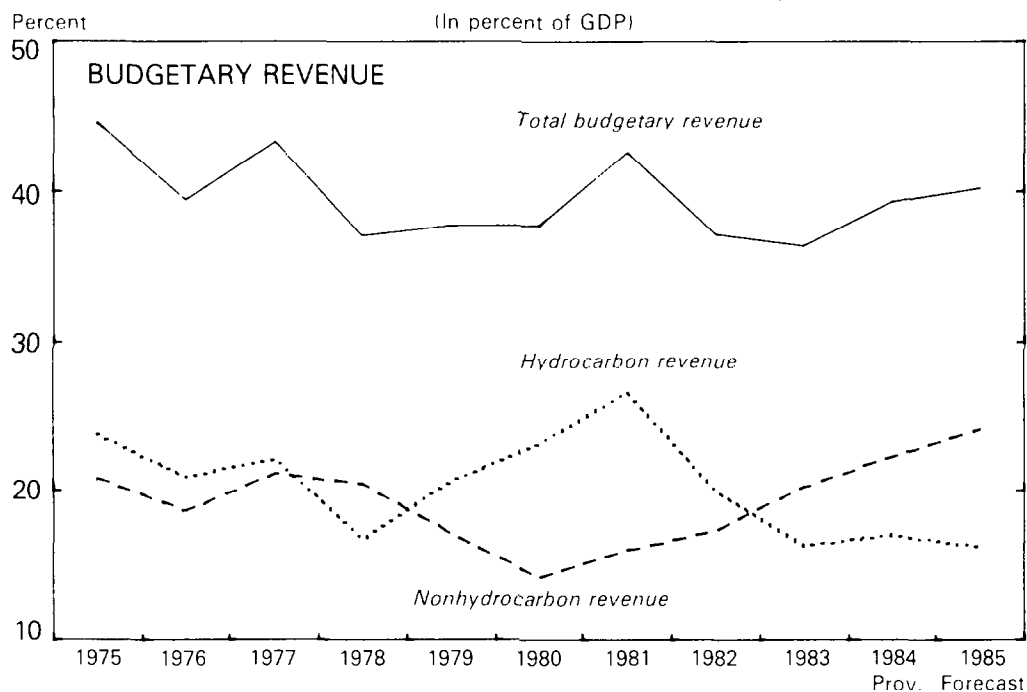
^{2/} Including SDR 255 million of retroactive payments by France for gas purchases effected in 1980 and 1981.

^{3/} Including SDR 250 million of retroactive payments by Spain under its multi-year LNG contract.

^{4/} Excludes valuation changes.



CHART 2
ALGERIA
SELECTED BUDGETARY INDICATORS, 1975-85



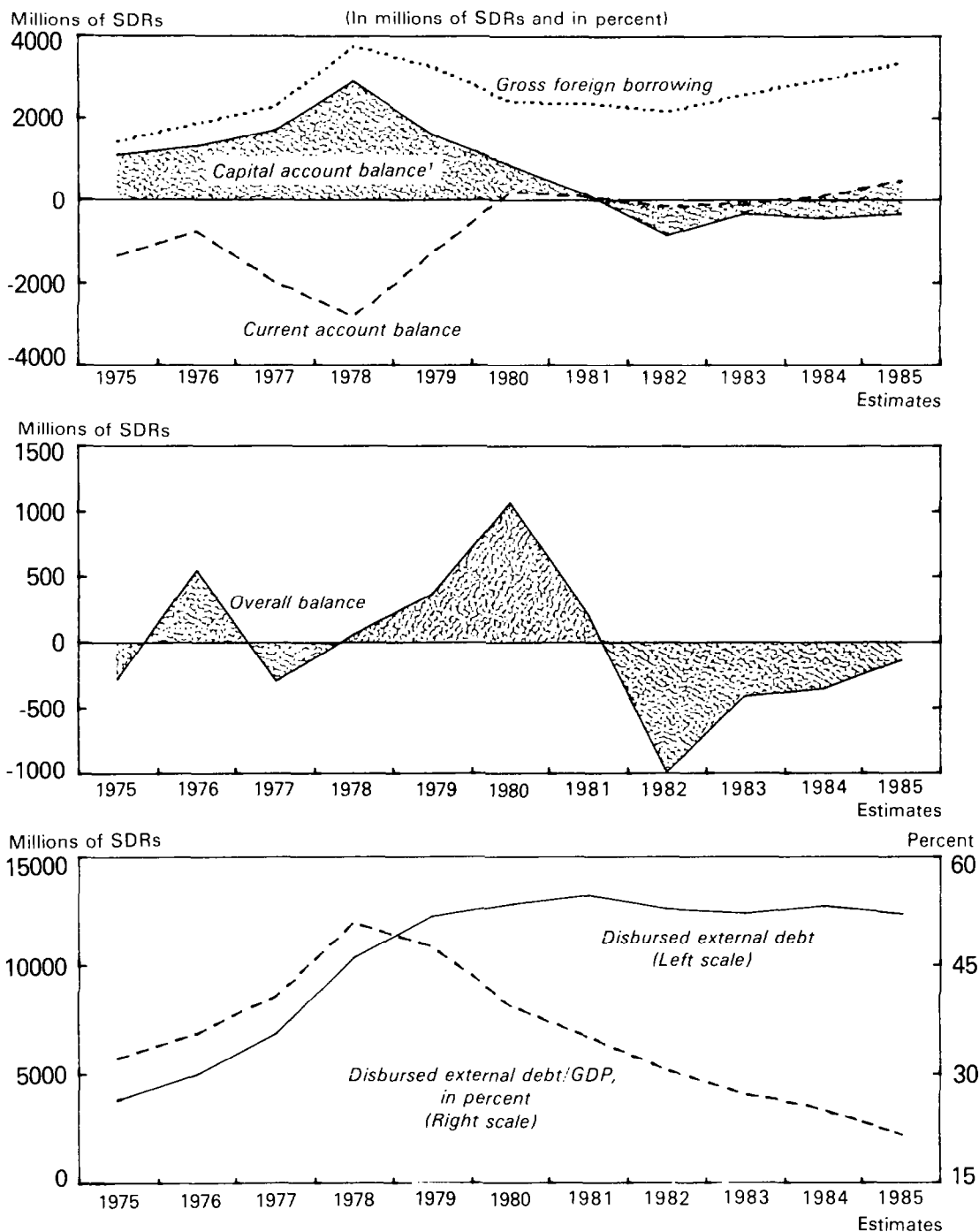
Source: Data provided by the Algerian authorities.



CHART 3

ALGERIA

BALANCE OF PAYMENTS AND EXTERNAL DEBT, 1975-85

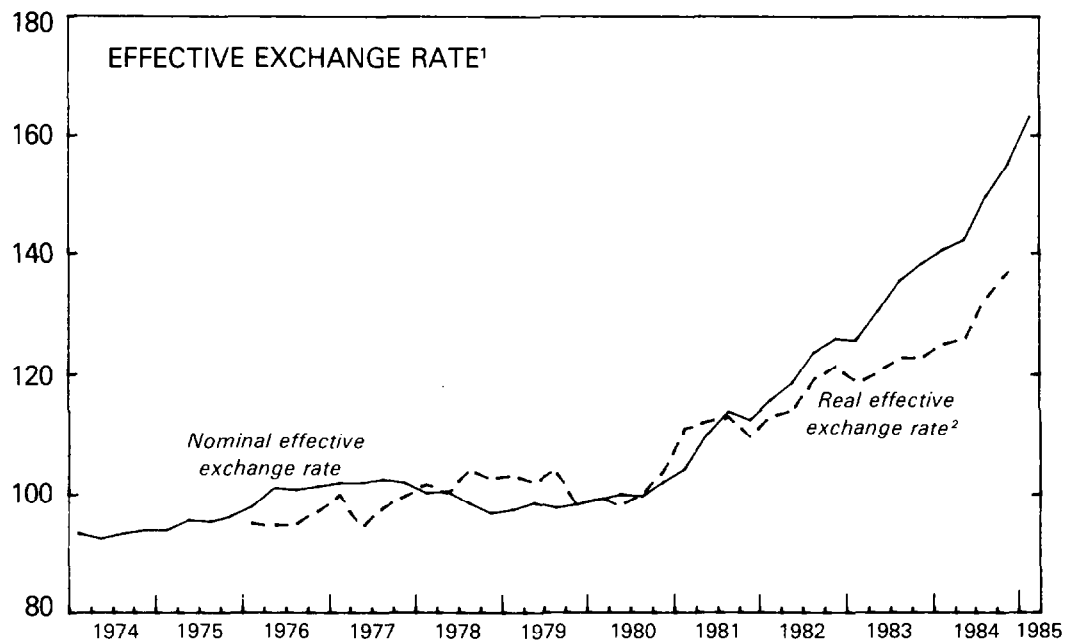
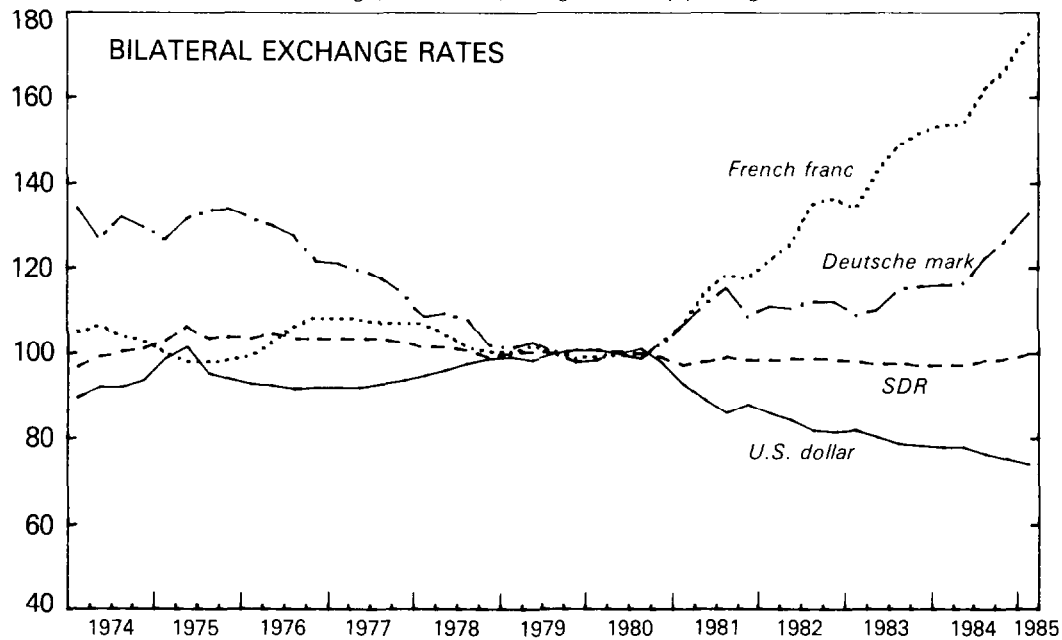


Sources: Data provided by the Algerian authorities, and staff estimates

¹ Including errors and omissions, and SDR allocations for 1979-81.



CHART 4
ALGERIA
INDICES OF SELECTED EXCHANGE RATES, 1974-85
(Period average, 1980 = 100; foreign currency per Algerian dinar)



Source: IMF Data Fund

¹Weighted by the geographical distribution of 1980 imports

²Effective exchange rate deflated by the consumer price index relative to partner countries: staff estimates for quarterly profile of Algerian consumer price index in 1982-84



The capital account remained in deficit in 1984. Amortization payments again exceeded foreign borrowing, reflecting the policy of the Algerian authorities to reduce foreign indebtedness. The ratio of disbursed debt to GDP was reduced to 25 percent, compared to a peak of 48 percent in 1979. Nonetheless, there was a rise in the debt service ratio to 32.5 percent because of bunched amortization payments and higher interest rates. Most of Algeria's debt is in the form of suppliers' credit or it is from financial institutions, and is on non-concessional terms, with an average interest rate of 9 percent in 1984. The overall balance of payments in 1984 was in deficit for the third consecutive year, although by a smaller amount than in 1982 and 1983. This resulted in a further decrease in nongold reserves which stood at SDR 1.5 billion (1.8 months of imports) at the end of 1984, compared with a peak of SDR 3.2 billion (2.9 months of imports) three years earlier. There was, however, a renewed reserve build-up in early 1985, to SDR 2.1 billion at end-April.

The exchange rate of the dinar continues to be determined on the basis of a basket of currencies, whose weights reflect payments for both current and capital transactions. Owing to the large weight of the U.S. dollar in the basket, the import-weighted ^{1/} nominal effective exchange rate has appreciated substantially (Chart 4). Relative to 1980, the appreciation to early 1985 was 63 percent; the real effective exchange rate appreciation over the same period was less (around 40 percent).

There were no major changes in 1984 in the regulations governing Algeria's trade and exchange system. The Government has full control of foreign trade: goods on List A may be imported only by designated State importing monopolies, whereas List B products may be imported directly by any public enterprise. In 1984, there was a product-by-product review of imports, resulting in a net transfer of goods from List A to List B. Concerning transfers, foreign workers continue to receive 40 percent above the official exchange rate for each remittance in excess of DA 700. A new measure introduced in 1984 was the establishment of convertible dinar accounts (EDAC accounts), in which private exporters may deposit up to 4 percent of export receipts for the purposes of their expenditure abroad on items such as travel, accommodation and spare parts; these accounts are not remunerated.

III. Report on the Discussions

1. Structural policies

The consultation discussions focused in particular on reviewing the structural measures undertaken during the 1980-84 Plan period, which aimed at reorganizing the economic system by improving the efficiency

^{1/} The weights are those used for the surveillance exercise.

of public enterprises and introducing some flexibility in decision-making, a process which is to be continued during the period of the new 1985-89 Plan.

a. Outcome of 1980-84 Plan

In commenting on the outcome of the 1980-84 Plan, the Algerian representatives said they were broadly satisfied, especially given the rather ambitious targets (Table 3). The 6 percent average growth of real GDP in the nonhydrocarbon sector during 1980-84 must be seen in the light of a difficult world environment, which adversely affected the economy's export base. Although actual growth rates fell short of objectives, it was only for agriculture that the Algerian representatives expressed disappointment. Agricultural output was not only affected by the droughts of 1982 and 1983, but also by poor productivity due to inadequate production methods, insufficient technical expertise, and shortages of input supplies. In contrast, manufacturing industry had become more efficient, recording both higher productivity and capacity utilization than in the 1970s. Similarly, construction, especially for residential purposes, accelerated strongly during the five-year period. Social infrastructure was one of the high-priority sectors; although the number of completions of housing units (400,000) was well below target (700,000), the Algerian representatives stressed that the number of units built in 1980-84 equalled those constructed during the entire 1962-79 period. Associated with the boom in this sector were shortages of construction materials, which had delayed projects and raised costs.

For 1980-84, the objective was to spend around DA 465 billion, ^{1/} and to restructure investment away from large industrial projects and towards economic infrastructure. In the event, actual investment expenditure fell short of this target by over DA 100 billion. The Algerian representatives did not express concern with this outcome. The important feature, they explained, was that the structure of investment during 1980-84 was virtually exactly as planned. The share of non-industrial investment in the overall total rose from under 40 percent in 1978-79 to 61 percent in 1980-84. A substantial portion of this shift was towards economic infrastructure and housing, which had been neglected in the past. Despite the marked deceleration in nonhydrocarbon industrial investment, after the rapid increase in the 1970s, there was a considerable expansion of the productive base of domestic industry, in line with the policy objectives of greater self-sufficiency and the completion of projects initiated earlier.

^{1/} This is the sum of annual plans expressed in current prices. The 1980-84 Plan document contained a five-year objective of DA 400 billion in constant 1979 prices.

Table 3. Algeria: Targets and Outcomes of the 1980-84 and 1985-89 Plans

	1980-84 Plan			1985-89 Plan		
	Targets	Outcome	1/	Targets		
<hr/>						
	(Average annual growth rates)					
<u>Production</u>						
Hydrocarbons	4.6	-0.5		4.0		
Nonhydrocarbons	9.8	5.8		7.6		
Agriculture	4.0	1.2		4.5		
Other industries	12.4	9.5		9.1		
Construction <u>2/</u>	9.3	6.0		8.7		
Transport, commerce and services <u>3/</u>	10.5	4.0		7.2		
Gross domestic production <u>4/</u>	8.2	4.2		6.6		
<u>Expenditure</u>						
Consumption	8.9	6.5		5.9		
of which: private	8.6	6.5		5.8		
Gross fixed investment	7.3	4.5		7.3		
Exports of goods and services	4.9	2.5		5.3		
Imports of goods and services	6.0	5.8		6.1		
<hr/>						
<u>Savings, investment and the resource gap</u>						
(percent of gross domestic production <u>4/</u>)						
	Plan		Outcome		Plan	
	constant prices	constant prices	current prices	current prices	constant prices	constant prices
	1979	1984	1979	1984	1984	1989
Savings <u>5/</u>	45.3	43.5	46.5	46.1	43.3	45.1
Investment	51.0	50.2	48.1	42.7	40.0	43.1
Resource gap	-5.7	-6.8	-1.6	+3.4	+3.3	+2.0
Exports	34.1	29.0	35.6	30.8	30.1	28.2
Imports	39.7	35.8	37.3	27.5	26.8	26.2

Source: Data provided by the Algerian authorities.

1/ Preliminary estimates.

2/ Public works programs, including in the petroleum sector.

3/ Excluding government services.

4/ Gross domestic production in the Algerian system of national accounts is gross domestic product less value added in government services.

5/ The Algerian definition: gross domestic production less consumption. These percentages are higher than those in Chart 1, which are based on GDP, not gross domestic production.

Private consumption grew more rapidly than investment during 1980-84, as envisaged in the Plan, which had stressed the need to improve the standard of living. The distribution of income was narrowed through the implementation of the first stages of the national wage policy. In particular, there were rapid wage increases in sectors such as public administration and agriculture in 1982-83, in order to reduce wage differentials with the high-paying public enterprise sector. Despite the rapid increase in per capita consumption, the share of imports of goods and services in GDP fell strongly, from 37 percent in 1979 to 27 percent in 1984 (Table 3).

b. Reorganization of public enterprises

The Plan envisaged a comprehensive restructuring of the large public enterprise sector. The first phase involved the splitting of enterprises into smaller, more-efficient units. This was completed by the end of 1984, and the number of enterprises increased from 70 to 466. A major change was the separation of the production and distribution activities. Enterprises specialized by product group have replaced large firms; at the same time, there has been some decentralization away from Algiers. All areas of economic activity have been affected. As examples, in the energy and hydrocarbon sectors, two enterprises were split into 28 units; the 14 light and heavy industrial firms became 95. The Algerian authorities view the organic restructuring as beneficial in many respects. There is now greater clarity of separate economic functions, permitting an identification of profit and loss-making activities, and allowing greater efficiency in decision-making. At the same time, the splitting of enterprises has laid the basis for the second phase of financial restructuring, which aims at ensuring that the new companies start with an adequate capital base and are in a position to obtain satisfactory financial results.

The staff observed that the cost to the Treasury of the financial rehabilitation of public enterprises had been high. The Algerian representatives explained that financial restructuring of public enterprises has involved replenishing the capital base of firms, reducing bank and inter-company indebtedness, and consolidating existing loans into equity participation. Public enterprises had been established with inadequate capital in the past and had been financed essentially by bank credits. Rectification of this situation was long overdue. The total budgetary and nonbudgetary cost of restructuring was DA 33.5 billion during 1983-84, the equivalent of 6 3/4 percent of GDP. Further budgetary outlays of DA 9-10 billion are expected for 1985, which is likely to be the final year of restructuring operations. In addition, the process of rehabilitation is being complemented by a more realistic price system.

c. Price and income policies

The Algerian representatives stressed the importance of the reform of industrial price-setting practices which has already begun. Before the splitting of the large public enterprises, losses of some production units could be recouped elsewhere within the firm, particularly by the profits made on the distribution of imported goods. This cross-subsidization of activities has now ceased. The objective now is to align prices with production costs at normal operating levels. Already adjustments have taken place; in some cases price increases have been substantial. The Algerian representatives recognize that the process will take considerable time. For certain essential items, explicit subsidies will continue. Budgetary subsidies exist for three items (cereals and related products, edible oil and textbooks). These have been held constant in nominal terms during 1980-84, as prices have been raised gradually. These subsidies currently amount to 0.7 percent of GDP. In addition, a special subsidy fund ("fonds de compensation") was established in 1983 to maintain prices of specified essential goods ^{1/} at low levels. Expenditure from the Fund is the equivalent of nearly 1 percent of GDP. Revenue is derived from special taxes on luxury goods, most of which are imported.

Agricultural prices have already been liberalized for many products, and producers are also generally free in the marketing of their produce. Official producer prices are maintained for a few key commodities, particularly cereals. The staff team observed that the producer price increases accorded to these products appear to have been inadequate to stimulate output; this contrasted with the rapid increase in production of commodities such as fresh vegetables and fruits whose prices are free.

At the same time as the price reform is in progress, there is also a major restructuring of wages. This has now gathered momentum, following the passing in 1978 of Le Statut Général du Travailleur, which seeks to establish a uniform nationwide salary scale across all economic sectors, applicable to both the public and private sectors. A classification of all jobs has been under way, and at the beginning of 1985, a decree established a matrix into which all job positions in the country must be slotted. All firms are expected to complete the task of classification before the end of 1985. Since wage levels in public enterprises are still above those in other sectors, two interim wage scales (which differ across sectors) have been applied from the beginning of 1985. As from 1986, all basic wage levels will be determined by the harmonized scale. The overall impact of the full implementation of the new system is estimated to be an increase of 10 percent of the wage bill, with important inter-sectoral variations around this average.

^{1/} These items are decided by decree each year. For 1985, milk, sugar, olive oil, fertilizer, and other agricultural inputs are to be subsidized.

In order that the wage structure does not become excessively rigid, the system of productivity bonuses will be strengthened, and a number of modifications to the bonus system are under study.

d. Role of private sector

The 1980-84 Plan recognized the importance that increased development of the private sector could play in achieving national objectives. In particular, it could encourage a smoother functioning of the economy by providing services which were incomplete in the public sector, especially through sub-contracting, thereby aiding the removal of sectoral bottlenecks. Specific sectors such as agriculture, textiles, food processing, construction materials, housing, tourism and artisanal activities, were seen as possible areas for promotion. However, it was felt that private sector activities should not assume such an importance in production activities that the socialist principles which govern economic organization are undermined.

The Algerian representatives were in general satisfied with the progress that had been made, although they noted that private investment had been too concentrated, both by branch of activity and regionally. The institutional framework had been improved by the passing in mid-1982 of three laws, relating to private investment, the statute of artisans, and the status of joint ventures with foreign firms. The law on private investment now allows the approval of projects up to a value of DA 35 million (DA 30 million during 1982-84). Authorized investments benefit from substantial tax exemptions, access to long-term bank credit at low interest rates for amounts up to 30 percent of the project value, availability of short-term credit for operational funds, and an allocation of import licenses on the same basis as state enterprises.

Private sector access to agricultural land has been encouraged in the southern areas of the country. Many new small undertakings have been established, and the Government has supported this by providing access to credit. Further encouragement was given in the 1985 Budget by the granting of a tax exemption for 5 years for new land placed under cultivation or grazing. The impact on agricultural production so far has however been small. Nonetheless the Algerian authorities view these developments favorably, as they have been consistent with the policy objective of developing the south of the country, and reversing the trend of increased dependence on imports of agricultural commodities.

Housing has also been an area where the private sector has been active. Although the number of housing units constructed outside public programs was well below the plan objective, the number of private housing units being completed at the end of the Plan period (25,000 per year) compares favorably with the 10,000 per year rate existing at the beginning of the period.

Finally, the liberalization of certain imports without payments discussed in paragraph 3 below has been directed towards satisfying certain import needs of the private household sector.

e. The new Five-Year Plan, 1985-89

The second Five-Year Plan, which was approved by the Government at the end of 1984, aims at consolidating the orientations and results achieved during the 1980-84 period. There is emphasis on achieving balanced economic growth through increasing efficiency and flexibility of economic management, including a larger role for planning at the regional level, and through better use of productive capacity. To that end, public enterprises will be given more autonomy, but at the same time they will be increasingly judged on their attainment of satisfactory financial results, implying further progress in the establishment of a realistic price system. Concerning incomes policies, wage increases will continue to be linked with productivity gains, and at the same time, at ensuring the adequacy of remuneration in priority sectors such as agriculture. In the context of decentralization of economic control, a more important role is envisaged for the banking system. An important priority of the new Plan is increased mobilization of savings so as to reduce the Government's large contribution to the financing of development. In particular, the authorities seek increased private participation in the financing of housing and related infrastructure.

The quantitative targets for production and expenditure growth during 1985-89 are consistently above the 1980-84 outcome (Table 3). Investment is projected to grow rapidly (7 percent per annum in real terms); total investment for the period has been set at DA 550 billion. The major emphasis is on completing projects already begun during 1980-84; the backlog of uncompleted projects at the end of 1984 exceeded DA 300 billion. The structure of investment will continue to shift from hydrocarbon and heavy industries towards high priority sectors: agriculture, water management, transportation infrastructure, and housing.

The staff representatives observed that given the experience of the first Plan, the quantitative objectives of the Plan appeared ambitious, especially for investment, nonhydrocarbon exports and imports. The Algerian representatives replied that the targets constituted upper limits. The authorities were aware of the existing external constraints and would not hesitate to act pragmatically should circumstances require modifications to the multi-year objectives. An even-greater role will be assigned to the annual plans than in the past, so as to permit a continuous adaptation of investment targets and import programmes to available external resources. The main purpose of the Plan will be to provide guidance for the structure of investment and the relative priorities between sectors.

2. Financial policies

A further improvement in public finances appears likely in 1985, with the overall budget deficit 1/ dropping significantly to perhaps 2 percent of GDP. Mirroring the projected reduction in the Treasury deficit, credit to the Government is expected to continue to decelerate. Total government revenue is expected to increase by 15.5 percent in 1985. Nonhydrocarbon revenues are likely to continue to rise rapidly, due to a further improvement in tax administration, the implementation of a new schedule of taxes on wages and salaries, the removal of the deduction of social security contributions for the purposes of computing taxable income, and higher profits from restructured public enterprises; indirect taxes are expected to grow in line with domestic sales. The increase in hydrocarbon receipts in 1985 is partly due to a change in the costs that SONATRACH is allowed to deduct for taxable income purposes. On the expenditure side, the increase in current outlays is expected to be very modest on the assumption of little increase in the public sector wage bill, thereby contributing to a further increase in the substantial surplus on the Treasury's current transactions, to around 22 percent of GDP. Capital expenditure is projected to stabilize as a percent of GDP, and net lending by the Treasury is again expected to decline, consistent with further financial restructuring of public enterprises.

In order to mobilize savings, a reform of the banking sector and changes of savings instruments are in advanced stages of preparation. In this context, the staff representatives commented that interest rates were relatively low in Algeria and should be at least positive in real terms. Also, the reform in the financial area would imply that the Central Bank should assume a more important role than at present. To exercise effective control, it would be essential that banking statistics be improved, and be prepared on a more timely basis.

The Algerian representatives replied that it was more important to provide appropriate channels which can absorb excess private savings. To this end, the policy of sales of construction lots and residential units will be continued over the 1985-89 Plan period. Nonetheless, they also agreed that there is a need to adjust deposit rates upwards in view of their low levels at present. Several draft laws concerning savings, credit, interest rates, and the role of the banking system are to be considered at ministerial level shortly; it is quite likely that interest rates will be raised in this context. As examples there are proposals to raise deposit rates at CNEP (the National Savings Institution) from 5 to 6 percent, and also to have the commercial banks issue 10-year certificates of deposits bearing an interest rate of

1/ A supplementary budget for 1985 was approved in May 1985, which transferred some expenditures from current transactions to capital outlays, with no impact on the overall deficit.

around 9 percent. On the other hand, there is some reluctance to raise lending rates, which traditionally have been kept quite low; it is expected that this policy conflict will be resolved in coming months. The draft laws reform and codify the relationship between the commercial banks, the Central Bank, and the Treasury; the latter institution has so far played a fundamental role in financial intermediation in Algeria. There will be an increased role for the commercial banks, especially for the provision of medium-sized investment credits. These are presently provided by the Algerian Development Bank (BAD), which in turn is funded by long-term loans from the Treasury. Finally, a new bank specializing in finance for local authorities is being created, in addition to the agricultural sector bank established in 1982. This will enhance further the aim of widening the network of banks within the country.

With regard to the availability of monetary statistics, the creation of the agricultural sector bank had resulted in important delays in the provision of estimates for monetary aggregates for 1983 and 1984, and the unavailability of quarterly data for 1984. The mission was assured that the creation of another new bank would not create similar difficulties, and that the reporting of monetary aggregates would improve during 1985.

3. External policies and prospects

Commenting on export prospects for 1985 and beyond, the Algerian representatives expect further diversification away from crude oil and refined petroleum products. Exports of crude oil will fall again in 1985, due to a 9 percent decline in Algeria's OPEC quota to 663,000 barrels per day. New extraction facilities will allow an expansion of condensate exports as from late 1985. LNG exports are expected to increase rapidly in 1985-86 due to expanded sales to major European clients; the Algerian representatives were also confident that a presently-inoperative contract with a large non-European customer will be successfully renegotiated. Work is underway on the construction of additional gas pipelines in Algeria to enable sales to Italy to reach the full contract level of 12.5 billion m³ of natural gas in 1986 (slightly over half this amount was exported in 1984). In total, hydrocarbon exports during the 1985-89 plan period are projected at 4 percent volume growth per annum. The Algerian representatives stressed that this projection is at the lower end of possible scenarios. Export receipts in 1985-86 will also be boosted by two equal retroactive payments from Spain amounting to US\$250 million in each year; these result from the final settlement of a dispute concerning a 1975 contract. The staff team expressed doubt that nonhydrocarbon exports would increase by 20 percent per annum, as projected in the 1985-89 Plan. The Algerian representatives recognize that at the present time, they have

few products of adequate quality and price to export. Nonetheless, they indicated that action is being considered to raise the quality of domestically produced goods, to lighten export procedures, to extend bilateral trade agreements, and if necessary, to subsidize producers of exportables.

Imports are programmed to remain stable in dinar terms in 1985. The Algerian representatives explained that the stabilization of imports is possible because of continuing increases in domestic production of import substitutes. Moreover, they indicated that actual imports are likely to be close to planned imports in 1985 because of improvements in program execution by importing public enterprises. Since early 1983, the authorities have encouraged the importation of cars, equipment goods, and posted packages which are financed from abroad. As a result, there was a strong expansion in 1983-84 of automobiles which are financed by workers' savings abroad. The Algerian authorities view this development favorably, as it is an alternative method of channelling workers' remittances toward the country, thereby reducing the burden on official foreign exchange resources. For the same reason, the limit applicable to imported equipment goods without official foreign exchange payment was raised from DA 100,000 to DA 200,000 in the 1985 budget. However, the Algerian authorities stated that the external constraints are likely to require continuing tight control over the planning of imports in the medium-term. The projected annual 6 percent growth rate for imports must be seen as a maximum, and could be lower depending upon export prospects and prospective capital flows.

A significant feature concerning invisible transactions is a likely decline in interest payments on foreign debt over the medium-term, reflecting the Government's policy of reducing outstanding external debt and also lower interest rates in international capital markets. In sum, the current account surplus may increase to nearly 1 percent of GDP in 1985. Such a surplus could continue thereafter, assuming there are no major adverse disturbances in world oil markets, and provided Algeria exercises flexibility in pricing arrangements in order to increase the volume of gas exported.

The staff team inquired about recent and prospective borrowing policies. The Algerian representatives pointed out that the country had returned to the international capital markets in 1983-84 because borrowing conditions were considered to be favorable. They cited as an example the latest loan of US\$600 million concluded in early 1985; it carries an interest rate of 1/2 a percentage point over LIBOR, and has a grace period for 5 years. They stressed that the Government was firmly committed to reducing foreign debt levels, but at the same time, external reserves will be maintained at an adequate level in terms of flows of imports.

The staff representatives observed that the nominal import-weighted effective exchange rate of the dinar had appreciated by over 60 percent between 1980 and early 1985. As Algeria's consumer prices have been rising somewhat less than in its partner countries, the increase in the real effective exchange rate was less, but still sizeable at around 40 percent. Although it was realized that in the particular circumstances of Algeria this development had a limited impact on trade flows, the staff representatives were of the view that it appeared inconsistent with the efforts of the authorities to introduce a more realistic price structure, including a true reflection of international prices, especially in the manufacturing sector. Furthermore, in view of the importance that the new Five-Year Plan had given to the diversification of Algeria's exports, in particular the expected expansion in industrial exports outside the hydrocarbon sector, the present exchange rate policy did not appear conducive to achieve that objective. Rather than waiting until excessive pressures had built up, it would be preferable to begin adjusting the rate in small steps relatively soon.

The Algerian representatives reiterated their view that in Algeria's case, the exchange rate played virtually no role as an instrument of economic policy at the present time, given the dependence on hydrocarbon exports, the planned system of imports, and the existing system of price controls. The present method of exchange rate determination by reference to a basket of currencies based on total payments was consistent with the aim of maintaining both stable nominal exchange rates and stability in the economy. A downward adjustment would adversely affect investment plans by adding to the dinar outlays needed for imported capital goods. Algeria had also avoided domestic price pressures by allowing the dinar to be pulled up by the strong U.S. dollar. The Algerian representatives acknowledged that the exchange rate could become an issue in the coming years should sizeable exportable surpluses emerge in the industrial sector. They would continue to review the situation carefully and approach the problem in a pragmatic way when the need for adjustment arises. They explained that following a review of the impact of recent trends in the exchange rate on the Algerian economy, which had been carried out after the previous consultation discussions, some proposals had been presented to the political authorities, but so far no decisions had been taken.

IV. Staff Appraisal

Algeria's economic growth of over 4 percent per annum during the 1980-84 Plan period compares favorably with other countries at a similar stage of development. In large part this was because Algeria has been able to diversify its hydrocarbon exports away from crude oil towards condensate and natural gas for which world demand is growing.

The good performance was also partially due to the pursuit of prudent domestic policies, especially since 1983, which has avoided the build-up of excessive demand and price pressures. Due to both of these factors, and tight controls over imports, the current account of the balance of payments has been kept in equilibrium, and foreign indebtedness has been reduced. In the absence of any major disturbance in world oil markets, it is expected that these trends will continue in the medium-term, with foreign debt as a ratio of GDP falling even further below the 25 percent level recorded at the end of 1984, following the substantial reduction from 48 percent in the late 1970s.

Given the difficult world economic environment and the domestic droughts during the middle of the five-year period, the outcome of the 1980-84 Plan was favorable. In particular, the structure of investment was reorientated toward infrastructure and housing, where there has been considerable progress in these previously-neglected areas. Industry benefited from the implementation of the first phase of reorganization of public enterprises, which appears to have resulted in increased efficiency and productivity. In this context, the decision to increase prices gradually to cover costs, or where this is not possible, to identify clearly the subsidy element, is a step in the right direction. Further progress in reducing loss-making activities by the continuance of a more-flexible pricing policy appears necessary. Many enterprises are already on a sounder financial footing, thanks to substantial government aid associated with the restructuring exercise. It is important that these efforts be consolidated in 1985 so as to avoid additional recourse to the Treasury in subsequent years. The encouragement given to the private sector during the 1980-84 Plan period is also welcome; some rigidities in the planning system will have to be eased further in order to promote private sector complementarity with public sector activities.

Like its predecessor, the new 1985-89 Plan contains ambitious objectives, especially concerning investment and imports. However, the Algerian authorities have stated that they would be prepared to modify these objectives should economic circumstances dictate. The increased emphasis on flexibility in annual plans to reflect changing economic circumstances in each year is appropriate. This is expected to be accompanied by further increases in flexibility in economic decision-making at the regional and enterprise level. Reforms within the financial sector are currently in preparation; the staff supports measures which would improve the efficiency of banking services, increase the role of the Central Bank, and promote more attractive savings instruments. In particular, the staff welcomes the intentions of the authorities to raise interest rates gradually, to levels which would be positive in real terms. Such reforms would encourage the absorption of any excess liquidity through the financial system.

The Government's overall budgetary position has been improved by the broadening of the nonhydrocarbon tax base and a policy of containing expenditures since 1983, especially those not associated with restructuring of public enterprises. Further progress in this direction appears likely in 1985, with the overall Treasury deficit declining to perhaps 2 percent of GDP, compared with a peak of nearly 9 percent in 1983. It would be desirable to maintain this policy stance in the medium-term, given the uncertainty concerning hydrocarbon-based revenue, which still provides over 40 percent of government revenue.

Algeria continues to maintain a restrictive trade and exchange system based on annual import programs and exchange controls. There was some liberalization in 1982-83, which has had a beneficial impact on the supply of foreign goods in the country. The restrictions on foreign exchange payments were effective when Algeria became a Fund member and are maintained under the transitional arrangements of Article XIV. A multiple currency practice is maintained in respect to workers' remittances, which is subject to Fund approval under Article VIII. In the absence of policies that would permit its elimination, Fund approval of this multiple currency practice is not proposed.

The exchange rate of the dinar continues to be determined by a fixed relationship with a basket of currencies, based on Algeria's payments for both current and capital transactions. Given the large weight of the U.S. dollar in the basket, the real import-weighted effective exchange rate has appreciated substantially over the last four years. The Algerian authorities consider that the present system has been beneficial in that it has not raised the cost of foreign payments payments, including the amortization of dollar-denominated debt. Moreover, Algeria's hydrocarbon exports are dollar-denominated and imports have not been stimulated because these are controlled through the annual program. Although Algeria's current account is in balance, it is the staff's view that the present exchange rate policy may conflict with several objectives of the new 1985-89 Plan. In particular, it appears incompatible with the authorities' aim of establishing a more flexible price system in all areas of economic activity, and it is likely to hamper the rapid expansion of nonhydrocarbon exports, especially manufacturing products whose development is an important objective of the Plan. The staff believes that a more realistic pricing of foreign exchange is preferable to second-best policies such as export subsidization, the transfer of workers' savings through imports, and the maintenance of an exchange premium to stimulate the flow of workers' remittances through official channels.

The staff is pleased to note that the Algerian authorities are taking steps to improve the currentness of the monetary statistics, which hitherto has been unsatisfactory. The staff believes that this will assist the authorities and outside commentators to appraise better current developments in Algeria.

It is proposed to hold the next Article IV consultation on the standard 12-month cycle.

V. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision relating to Algeria's exchange measures subject to Article VIII, Sections 2 and 3, in concluding the 1985 Article XIV consultation with Algeria and in the light of the 1985 Article IV consultation with Algeria conducted under Decision No. 5392-(77/63) adopted April 29, 1977 (Surveillance over Exchange Rate Policies).
2. The Fund urges Algeria to ease further the restrictions on payments and transfers in respect to current international transactions which are still in effect, and to adopt policies which would enable it to eliminate the multiple currency practice resulting from the premium on workers' remittances from abroad, as described in SM/85/185.

ALGERIA - Relations with the Fund

(As of May 31, 1985)

I. Membership Status

- (a) Date of membership: September 26, 1963
- (b) Status: Article XIV

A. Financial Relations

II. General Department (General Resources Account)

- (a) Quota: SDR 623.1 million
- (b) Total Fund holdings of currency: SDR 457.61 million
(73.44 percent of quota)
- (c) Fund credit: None
- (d) Reserve tranche position: SDR 165.49 million
- (e) Current operational budget (maximum use of currency for
repurchases: SDR 5.5 million)
- (f) Lending to the Fund: None

III. Current Stand-By and Special Facilities

- (a) Current stand-by: None
- (b) No previous stand-by arrangements
- (c) Current special facilities: None

IV. SDR Department

- (a) Net cumulative allocation: SDR 128.64 million
- (b) Holdings: SDR 117.46 million (91.31 percent of net cumulative allocation)

V. Administered Accounts

- (a) Trust Fund loan: None
- (b) SFF Subsidy Account: None

VI. Overdue Obligations to the Fund: None

B. Non-financial Relations

VII. Exchange Rate Arrangement: Since January 21, 1974, the exchange rate of the dinar has been determined on the basis of a fixed relationship with a basket of currencies. At the end of February 1985, the average of the buying and selling rates for the U.S. dollar, which is the

ALGERIA - Relations with the Fund (continued)

representative rate under Rule 0-3, was US\$1 = DA 5.2072, equivalent to SDR 1 = DA 4.9959.

VIII. Last Article IV Consultation

The 1983 Article IV consultation discussions with Algeria were held in Algiers during the period November 5-21, 1983. The staff report (SM/84/57) was discussed by the Executive Board on April 18, 1984, and the following decision was taken:

1. The Fund takes this decision relating to Algeria's exchange measures subject to Article VIII, Sections 2 and 3, in concluding the 1983 Article XIV consultation with Algeria and in the light of the 1983 Article IV consultation with Algeria conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).
2. The Fund welcomes the steps taken by the Algerian authorities to liberalize some restrictions on payments and transfers for current international transactions and the termination of the remaining bilateral payments arrangements with Fund members. The Fund urges Algeria to ease further the external payments restrictions and to adopt policies which would enable it to eliminate the multiple currency practice resulting from the premium on workers' remittances from abroad, as described in SM/84/60.

IX. Resident representative/Advisor: None

ALGERIA - Financial Relations with the World Bank Group

(In millions of U.S. dollars)

<u>IBRD/IDA Lending Operations 1/:</u>	<u>Disbursed</u>	<u>Undisbursed</u>
Agriculture and rural development	8.3	6.5
Education	25.2	19.1
Energy, power and utilities	241.3	310.7
Telecommunications	7.7	120.3
Transportation	292.1	95.9
Industry	57.6	--
Total	<u>632.2</u>	<u>552.5</u>
Repayments	228.1	
Debt Outstanding	404.2	

IFC Investments: None; Algeria is not a member of IFC.

Technical assistance

The IBRD has provided technical assistance to Algeria through its standard lending operations for projects.

Recent economic and sector missions

May, 1984: A mission to prepare a country economic memorandum;
similar mission is scheduled for July, 1985.

1/ As of March 31, 1985.

ALGERIA - Basic Data

Area, population, and GDP per capita

Area	2.4 million square kilometers
Population	
Total (1984 estimate)	21.6 million
Growth rate (1985 estimate)	3.2 percent
GDP per capita end-1984	SDR 2,530

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u> Prov.
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(In billions of dinars)

Gross domestic product at
current prices

	<u>162.9</u>	<u>191.8</u>	<u>208.7</u>	<u>231.9</u>	<u>257.7</u>
Agriculture	12.9	16.3	16.1	16.6	18.7
Petroleum and natural gas	51.2	59.2	60.6	61.5	64.5
Other mining, energy, and water	2.0	2.3	2.8	3.0	3.1
Manufacturing	14.0	16.4	18.6	22.5	26.6
Construction and public works	20.2	22.8	26.4	30.6	36.8
Government services	19.2	22.4	26.5	29.9	32.3 ^{1/}
Other services	32.6	37.5	42.1	48.5	53.8
Import taxes and duties	10.8	15.0	15.7	19.3	21.9
Change in GDP (percent)	26.7	17.8	8.8	11.1	11.1

Domestic expenditure at
current prices

	<u>155.9</u>	<u>184.2</u>	<u>204.5</u>	<u>226.5</u>	<u>250.2</u>
Private consumption	69.9	86.9	96.6	104.7	114.9
Public consumption	22.5	26.5	30.8	34.5	39.1
Gross fixed investment	54.9	63.0	71.3	79.9	89.5
Changes in stocks	8.6	7.8	5.9	7.5	6.7

Resource surplus

	<u>7.0</u>	<u>7.6</u>	<u>4.2</u>	<u>5.4</u>	<u>7.5</u>
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<u>Increase in consumer price index (percent)</u>	9.5	14.6	6.7	4.6	6.6
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Government finance

Current operations

Budget revenue	61.6	81.7	77.6	84.5	101.4
Of which: petroleum receipts	(37.7)	(51.0)	(41.5)	(37.7)	(43.8)
Current budget expenditure	-27.6	-32.1	-41.1	-45.0	-51.8
Special accounts (net)	0.9	1.0	-0.5	2.5	-0.4
Balance I	34.8	50.6	36.0	42.0	49.1

^{1/} IMF staff estimate.

ALGERIA - Basic Data (continued)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u> Prov.
	(In billions of dinars)				
<u>Capital operations</u>					
Institutional savings <u>2/</u>	6.9	9.2	13.7	13.7	10.6
Capital budget expenditure	-17.8	-23.0	-33.7	-43.1	-44.6
Advances and loans to public enterprises (net)	-30.6	-30.2	-26.9	-32.7	-29.3
Balance II	-41.5	-44.0	-46.8	-62.1	-63.3
Overall surplus (deficit -) (Balance I + II)	-6.6	6.6	-10.8	-20.1	-14.1
<u>Financing</u>					
Foreign financing	-0.2	-0.1	-0.1	--	--
Domestic financing	6.8	-6.5	10.9	20.1	14.1
Bank system	5.6	-9.5	5.8	15.5	11.2
Other	1.2	3.0	5.1	4.6	2.9
<u>Money and credit (end of period)</u>					
Foreign assets (net) <u>3/</u>	16.5	18.8	14.0	11.3	9.3
Domestic credit	101.5	113.7	149.0	185.7	217.4
Credit to Government (net)	33.0	25.1	36.2	52.7	67.8
Credit to economy	68.5	88.5	112.8	133.0	150.0
Of which: rediscounted	(11.8)	(22.6)	(27.0)	(22.2)	(26.9)
Money	84.4	97.9	125.3	152.8	175.2
Of which: Currency in circulation	(42.3)	(48.1)	(49.2)	(60.0)	(67.5)
Quasi-money	9.1	11.2	12.6	13.2	14.7
Government lending funds	3.1	3.7	3.9	6.1	6.2
Medium- and long-term foreign borrowing	9.9	9.5	8.4	9.5	14.2
Other items (net)	11.5	10.2	12.6	15.5	16.3
Savings deposits <u>4/</u>	10.3	12.1	16.2	19.1	21.9

2/ This item comprises bonds and savings by public institutions and local governments.

3/ The figures have been revised substantially since the 1983 Article IV Consultation because of a reclassification of documentary bills of credit presented to resident commercial banks.

4/ Not included in the monetary survey.

ALGERIA - Basic Data (concluded)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u> Prov.
(In millions of SDRs)					
<u>Balance of payments</u>					
Exports, f.o.b.	10,489	11,972	12,237	11,920	12,479
Imports, f.o.b.	-7,373	-8,556	-8,957	-8,902	9,024
Trade balance	3,116	3,416	3,280	3,018	3,455
Service (net)	-3,190	-3,644	-3,778	-3,259	-3,507
Transfers (net)	259	304	332	162	143
Current balance	185	76	-166	-79	91
Capital account	855	108	-816	-349	-471
Direct investment	(246)	(-1)	(-58)	(-11)	(-14)
Gross borrowing	(2,383)	(2,367)	(2,162)	(2,585)	(2,947)
Amortizations	(-1,911)	(-2,250)	(-2,740)	(-3,157)	(-3,240)
Other	(137)	(-8)	(-180)	(236)	(-166)
Errors and omissions	-9	-8	-15	10	19
SDR allocation	30	29	--	--	--
Overall surplus or deficit	1,061	205	-997	-418	-361
<u>Outstanding external debt</u> (end of year)	12,806	13,195	12,598	12,362	12,721
<u>External debt service</u>					
Total	3,003	3,563	4,071	4,199	4,414
Amortization	1,902	2,206	2,774	3,086	3,181
Interest	1,101	1,357	1,296	1,113	1,233
<u>Gross non-gold foreign reserves</u> (end of period)	2,958	3,175	2,196	1,796	1,494
<u>Exchange rate of dinar</u> (period average)					
Dinars per SDR	4.994	5.089	5.069	5.119	5.108
Dinars per U.S. dollar	3.837	4.316	4.592	4.789	4.983
Indices of import-weighted effective exchange rate					
Nominal	100.0	109.9	120.9	132.5	146.9
Real	100.0	111.1	116.6	121.0	130.0