

Algeria: Staff Report for the 2000 Article IV Consultation

As required under Article IV of its Articles of Agreement, the International Monetary Fund conducts periodic consultations with its member countries. In the context of the 2000 Article IV consultation with Algeria, the following documents have been released and are included in this package:

- the staff report for the 2000 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended in **April, 2000**, with the officials of Algeria on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on June 16, 2000.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a staff statement released on the day of the Board discussion of **July 7, 2000** updating information on recent economic developments.
- the Public Information Notice (PIN), which summarizes the views of the Executive Board as expressed during the **July 07, 2000, Executive Board** discussion of the staff report that concluded the Article IV consultation.
- a report on Recent Economic Developments prepared by IMF staff as background to the Article IV staff report.
- a Report on the Observance of Standards and Codes on banking supervision.

The policy of publication of Article IV staff reports and PINs allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

ALGERIA

Staff Report for the 2000 Article IV Consultation

Prepared by the Staff Representatives for the 2000 Consultation with Algeria

Approved by P. Chabrier and I. Kapur

June 16, 2000

- The discussions for the 2000 Article IV consultation were, at the request of the authorities, held in Algiers in two main stages (November 9–23, 1999 and February 13–27, 2000). This two-stage approach was decided at the time of the 1999 Annual Meetings when it became clear that the government would change in the near future and that the government then in power was not in a position to engage in forward looking policy discussions. Therefore, the first stage was of a technical and preparatory nature and policy discussions were effectively concentrated during the second stage in February 2000. Further policy discussions were held in Washington on the sidelines of the Spring meetings.
- The missions comprised Messrs. Lazare (Head), Iradian, Joly, and Ms. Bazzoni (all MED). Messrs. Durand, Frécaut (both MAE), Védrenne (World Bank), and Chaize (MAE consultant) assisted the missions at various stages on banking issues. Mr. Dhonte (MED) took part in the November mission. Mr. Hadded (OED) attended the technical and policy discussion meetings.
- The missions met with the Ministers of Finance, Energy, and Participation and Reform Coordination, and their senior staff, the Governor and senior officials of the Bank of Algeria (BA); officials of the *Conseil National de la Planification*; as well as a range of government officials, banking, and corporate representatives, including the state-owned oil company Sonatrach.
- The authors of the report are Messrs. Lazare, Iradian, Joly, and Ms. Bazzoni.

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EXECUTIVE SUMMARY

- During the 1994–98 program period, Algeria made commendable progress toward the restoration of macroeconomic balances and achieved extensive liberalization of the economy. Growth resumed, inflation was tamed, and the balance of payments position strengthened markedly. In 1998–99, faced with the negative impact of falling oil prices on the fiscal and balance of payments positions, as well as with a large deficit of the capital account, Algeria appropriately reacted by tightening its demand management. Coupled with a turnaround in oil prices in the course of 1999, this resulted in a large reduction in the fiscal deficit and in a virtual stabilization of foreign exchange reserves in the second part of the year. Economic activity decelerated, mainly due to adverse weather conditions and continued structural deficiencies, particularly in the public sector. Inflation decreased further.
- With higher oil prices and significant improvements in the security situation, short-term economic and financial prospects have improved significantly. In this context, the policy mix envisaged by the authorities seems appropriate. The draft supplementary budget law targets a small budget surplus in 2000 on the basis of a conservative oil price assumption; this fiscal stance, coupled with the decision to save any hydrocarbon revenue in excess of those budgeted in a stabilization fund and a monetary policy aimed at maintaining low inflation, are signs of the authorities' commitment toward macroeconomic stability and will help to cope with potential shocks in the future.
- The authorities recognize the need to increase substantially real growth performance over the medium term to allow for a reduction in unemployment and a rise in standards of living. To achieve this goal, the new government's program provides for an acceleration of key reforms like banking reform, restructuring and privatization of public sector companies, and improved governance through, inter alia, a reduction in government intervention, judicial reform, and reform of tax and customs administration.
- While regretting the government's hesitancy vis-à-vis further trade liberalization and the partial reversal since 1997 of the progress achieved in this area, the staff welcomes and broadly supports this program. In its view, providing detailed implementation plans and producing early results will now be key to ensuring its credibility and to consolidating the initial interest shown by domestic and foreign private investors. The staff also stresses the importance of quick and steadfast implementation to boost growth performance.
- The authorities affirmed their interest in a close collaboration with the Fund and requested periodic discussions between Article IV consultations, albeit outside the setting of a formal Fund arrangement. They also requested Fund technical assistance especially in modernizing banking supervision, improving the functioning of the interbank market, strengthening tax and customs administration, and statistics.

I. INTRODUCTION

1. **The Executive Board concluded the last Article IV consultation (SM/98/157) on July 24, 1998.** Executive Directors commended the authorities for their steadfast implementation, under very difficult circumstances, of an ambitious Fund-supported program of macroeconomic adjustment and structural reforms.¹ However, Directors expressed concern about the sluggish growth in the nonhydrocarbon sector and the resulting further tensions in the labor market. In that connection, they emphasized the need to preserve macroeconomic stability and accelerate structural reforms to boost growth performance and reduce unemployment.
2. **Significant progress was achieved in the peace process.** Following President Bouteflika's election in April 1999, the authorities took political initiatives to end the seven-year-old civil strife. In particular, a truce was concluded with the *Armée Islamique du Salut*, which announced in January 2000 its disbandment, and an amnesty law was passed by parliament in July 1999. The President's peace policy was approved by an overwhelming majority in a September 1999 referendum. While in recent months the security situation within the country has significantly improved, incidents of violence concentrated in a limited number of regions have persisted.
3. **In December 1999, the appointment of a new government led by Prime Minister Benbitour, a former finance minister, has given a new impetus to the reform process.** The new cabinet includes some of President Bouteflika's top advisors and representatives from most of the political parties. In January 2000, the new government presented a broad-ranging social, political, and economic program to parliament. The program, which received full endorsement by both chambers, sets a comprehensive and ambitious reform agenda, but is not specific on the pace and sequencing of the reforms (Box 1).
4. **Algeria's relations with the World Bank currently focus on technical assistance and project implementation.** The World Bank has approved no new lending to Algeria in 1999, and disbursement under the existing loan portfolio has been slow. However, during 1999 the World Bank has strengthened its dialogue with the authorities; possible areas for World Bank's intervention—some of them in cooperation with the Fund—include: privatization procedures, banking reform, housing financing, social safety net issues, and private sector involvement in public utilities, as well as the environment for the promotion of small- and medium-size enterprises. Algeria's preliminary discussions in view of negotiations on an Association Agreement with the European Union and on membership in the World Trade Organization have proceeded at a slow pace.
5. **Executive Board consideration of the current consultation was postponed due to the delay in the formation of a new government following the April 1999 presidential elections.** Issuance of this report to the Executive Board was further delayed by a few weeks to allow a small

¹ A three-year extended arrangement expired in May 1998; all purchases under the arrangement were made. In May 1999, Algeria purchased SDR 223.5 million under the Compensatory and Contingency Financing Facility (EBS/99/73).

MED/FAD mission to go to Algiers to clarify differences between newly published cash and payment order basis fiscal data for 1999.²

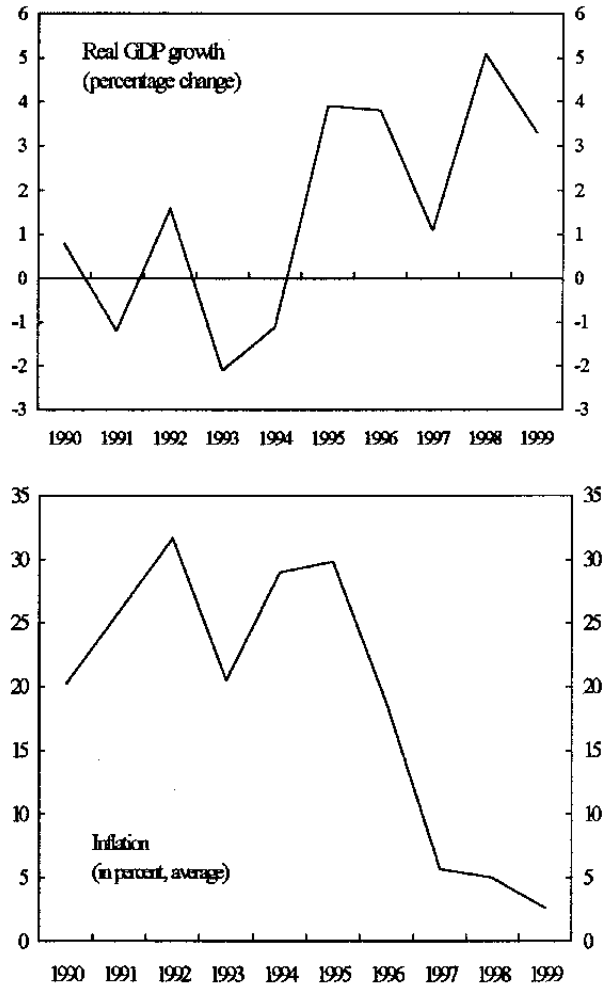
6. The authorities have expressed their intention to **participate in the pilot program for the public release of Article IV staff reports.**

II. RECENT ECONOMIC DEVELOPMENTS

7. **Algeria was successful in restoring macroeconomic stability and implementing structural reform between 1994 and 1998** owing, in large part, to its steadfast implementation of Fund-supported programs. During the 1990–94 period, annual real growth was negative, averaging -0.9 percent; the performance was even worse in the nonhydrocarbon sector. During the same period, inflation remained in the two-digit range (about 27 percent on average for the consumer price index). In comparison, average annual growth reached 3.4 percent in 1995–98, and average inflation was about 9 percent (and even close to 5 percent in 1997–98). Progress on the structural front was also widespread, with the establishment of institutional and markets mechanisms necessary to complete the transition from a centrally planned to a diversified market economy. Besides, relative prices were realigned and numerous external trade and payment restrictions were abolished.³ Inefficient public enterprises had to be restructured; this process entailed massive layoffs, which contributed to the rise in unemployment (below).

8. **In 1999, the tightening of demand management policies in response to low world oil prices resulted in a small fiscal deficit, and contributed to lowering inflation and limiting the loss of foreign exchange reserves.** During the first half of 1999, the Algerian economy continued to be adversely affected by low world oil prices. This resulted in a sharp fall in hydrocarbon

Chart 1. Algeria: Real GDP growth and Inflation, 1990–99



² See paragraph 10, footnote 10 below.

³ See Occasional Paper 165 by Karim Nashashibi, Patricia Alonso-Gamo, Stefania Bazzoni, Alain Féler, Nicole Laframboise, and Sebastian Paris Horvitz for details on the macroeconomic and structural developments in 1994-98.

export receipts, a deterioration in the fiscal position, and a substantial loss of gross official reserves. The authorities' policy response was to tighten the fiscal stance, maintain high real interest rates, and let the Algerian dinar depreciate vis-à-vis the U.S. dollar. As a result, the deterioration in the external position was limited and price stability was preserved.

A. Activity and Inflation

9. **In 1999, activity in the nonhydrocarbon sectors slowed down while inflation performance improved.** Real growth decreased to 3.3 percent in 1999 from 5.1 percent in 1998 despite a strong performance in the hydrocarbon sector (Chart 2).⁴ The slowdown in the nonhydrocarbon sector activity was indeed even more pronounced, particularly in agriculture and public manufacturing.⁵ The decline in the latter contrasted with the rapid expansion of the industrial private sector, which, nevertheless, still represents a modest share of total industrial output.⁶ Against this background and owing to a labor force growth of about 3 percent per annum, the unemployment rate, which was estimated at 26.4 percent in 1997,⁷ has probably continued to increase significantly and may hover around 30 percent. The consumer price index (CPI) rose by only 2.6 percent on average in 1999 following a 5.0 percent increase in 1998.⁸ A large part of the 1999 disinflation is attributable to lower imported food prices.

B. Fiscal Policy

10. **The tightening of the fiscal stance in 1999 resulted in a substantially lower than anticipated budget deficit.** The fiscal position deteriorated sharply in the first part of the year due to low oil prices and to an acceleration of current expenditure. The overall fiscal deficit at end-June 1999 amounted to DA 80 billion (equivalent to 2.5 percent of the annual GDP) compared to DA 28 billion (1 percent of the annual GDP) at end-June 1998. In response, the authorities tightened expenditure management and, in particular, froze expenditure on new investment projects. This, coupled with a strong recovery in oil prices, resulted in an overall fiscal position better than

⁴ The value added in the hydrocarbon sector increased by 6.2 percent owing to a jump in natural gas production which more than offset the impact on oil production of the reduction in Algeria's OPEC quota in 1999.

⁵ The substantial drop in budget capital expenditure on a cash basis may also have contributed to the deceleration in activity.

⁶ The private sector represents about 25 percent of value added in industry. Food processing and pharmaceuticals are among the most dynamic private industries.

⁷ Latest year for which data are available.

⁸ These data correspond to the CPI for Algiers; the national CPI data show an average increase of 2.1 percent in 1999 against an increase of 6.2 percent in 1998.

anticipated in the budget law. Data for 1999 as a whole indicate an overall budget deficit—on a cash basis—of about 0.5 percent of GDP compared to 3.9 percent in 1998.^{9,10}

11. Hydrocarbon revenue performance boosted total revenue, while nonhydrocarbon tax revenue performance was weak. Hydrocarbon revenue surged in the second half of 1999¹¹ owing to a strong recovery in world oil prices and the depreciation of the Algerian dinar vis-à-vis the U.S. dollar (below). As a result, hydrocarbon revenue reached 18.5 percent of GDP in 1999 compared to 15.3 percent of GDP in 1998. However, nonhydrocarbon revenue declined to 11.2 percent of GDP in 1999 from 12.5 percent of GDP in 1998 mainly because of shortfalls in VAT and income tax receipts. The latter was partly due to the reduction in income tax rates introduced with the 1999 Budget Law.¹² Two additional factors seem to explain this weak tax performance: (i) tax evasion, which was favored by rumors of a possible tax amnesty expected to be granted by the new president; and (ii) financial difficulties for many public enterprises, which in 1998 still accounted for 75 percent of corporate income tax receipts.

12. Reflecting drastic cuts in capital expenditure, overall expenditure dropped by more than 1 percentage point of GDP.¹³ Current expenditure increased by about 0.5 percent of GDP compared to 1998, and a projected decline of 1 percentage point of GDP in the 1999 budget law, reflecting: (i) an increase in personnel expenditure due to the full-year impact of the salary increase granted in the last quarter of 1998, and a 1 percentage point increase in social security contributions;

⁹ In percent of GDP, hydrocarbon revenues improved by an amount (3.2 percentage points of GDP) broadly equivalent to the reduction in the overall deficit. The decline in total expenditure broadly offset the drop in nonhydrocarbon revenue (below).

¹⁰ On a payment order basis, preliminary data show that Algeria would have recorded in 1999 a fiscal deficit equivalent to 1.7 percent of GDP. The difference between cash and payment order bases is mostly explained by large amounts of capital expenditures committed in late 1999—following the end of the freeze of capital expenditures on new projects—which will be paid only in 2000. An FAD/MED mission in May 2000 found that the fiscal data series on a payment order basis suffers from serious weaknesses (inter alia, the series mixes accounting data with less reliable estimates) and should be treated with caution in the assessment of the fiscal situation in Algeria. In addition, the two data series are also not directly comparable. In particular, the cash basis data series compiles expenditure payments made in 1999 whether they relate to amounts committed in 1999 or in 1998. Data on a payment order basis, by contrast, correspond to payments made in the course of 1999 or in the first few months of 2000.

¹¹ Oil prices started recovering in the spring of 1999, but because of the adjustment lag of gas prices, the value of gas exports only picked up late in the year.

¹² The corporate income tax rate was reduced to 30 percent from 38 percent and the rate on reinvested profits from 33 percent to 15 percent. The top rate on individual income tax was reduced from 50 percent to 40 percent.

¹³ The drop in the ratio of expenditure to GDP partly reflected the impact of the surge in oil prices on the total nominal GDP.

(ii) an increase in the number of beneficiaries of *Mudjahidins* pensions,¹⁴ and (iii) the impact of the exchange rate depreciation on debt servicing. However, as a result of the large cuts in capital expenditures implemented in the first half of the year in response to low revenues, capital expenditure—on a cash basis—fell to 5.9 percent of GDP in 1999 (from 7.6 percent of GDP in 1998), which more than offset the rise in current expenditure.¹⁵

C. Monetary and Financial Sector Developments

13. **Despite a sharp increase in domestic credit, money supply slowed down in 1999.** Reflecting, in part, financial difficulties in the hydrocarbon sector in the wake of the large decrease in oil prices in 1998–99, credit to the economy increased by about 28 percent.¹⁶ This rapid credit expansion fueled banks' demand for refinancing by the central bank.¹⁷ To a lesser extent, this phenomenon was also due to profitability and liquidity problems facing the banks.¹⁸ Helped by the contractionary effect of the decline in net foreign assets, monetary growth, nevertheless, slowed down to 14 percent in 1999 from 19 percent in 1998. In an effort to curtail the demand for high-powered money, the central bank kept the rediscount rate at 9.5 percent through September 1999—when it was lowered to 8.5 percent—and kept the average refinancing cost high (about 13 percent on average in nominal terms in 1999).

14. **Banks' refinancing needs have significantly declined since December 1999.** Refinancing of the banking system dropped from DA 334 billion at end-November 1999 to DA 270 billion at end-April 2000. This improvement largely reflects the turnaround in the financial situation of the hydrocarbon sector, which enabled it to reduce its demand for credit. This easing of liquidity tensions allowed the monetary authority to further lower the rediscount rate to 7.5 percent in January 2000.

¹⁴ *Mudjahidins* pensions benefit veterans of the independence war and some of their dependents. Expenditures on *Mudjahidins* pensions amounted to DA 60 billion in 1999, far exceeding the DA 28 billion that had been appropriated in the budget law. In the staff's view, the DA 50 billion mentioned in the draft supplementary budget law are also likely to be exceeded in 2000 (Table 2).

¹⁵ These capital expenditure cuts were reversed too late in the year to have a major impact on 1999 disbursements, particularly as regards new projects. However, on a payment order basis, capital expenditure reached DA 254 billion (8.0 percent of GDP).

¹⁶ As credit to the government rose also significantly (22 percent), domestic credit expanded by 25 percent of the initial money stock. This increase in credit to the government is partly attributable to public banks accounting some nonperforming claims on public enterprises as claims on the government. The draft supplementary budget law includes a provision ensuring official take over of these debts by the treasury.

¹⁷ Commercial banks' refinancing by the central bank increased by about 36 percent in 1999.

¹⁸ Given the interest rate structure, state-owned banks' margins were negative in 1999 on numerous operations and a significant part of their assets (claims on the government substituted for nonperforming loans to public enterprises in past restructuring operations) yielded low cash earnings.

D. External Developments

15. **The sharp increase in world oil prices in the course of 1999 strengthened the external position.** The current account improved from a deficit of 1.9 percent of GDP in 1998 to a balanced position in 1999. This swing was due to the strong recovery in earnings from hydrocarbon exports, which rose from US\$9.8 billion in 1998 to US\$11.9 billion in 1999 (Chart 2). Imports grew modestly from US\$8.6 billion to US\$9.0 billion during the same period, partly due to a tight fiscal policy. The trade surplus, therefore, more than doubled to US\$3.4 billion, equivalent to 7.1 percent of GDP. Meanwhile, the deficit on services widened somewhat, owing mainly to a substantial increase in travel abroad by Algerian residents and higher profit remittances by foreign oil companies under production-sharing agreements.

16. **The capital account deficit widened** from US\$0.8 billion in 1998 to US\$2.4 billion in 1999, reflecting the limited access to new borrowing and a large negative entry for errors and omissions.¹⁹ Algeria's purchase of SDR 223.5 million under the CCFE contributed to limiting the depletion of reserves. Gross official reserves, nevertheless, decreased from US\$6.8 billion at end-1998 to US\$4.4 billion at end-1999.

17. In response to weak oil prices in early 1999, **Algeria let the exchange rate of the dinar vis-à-vis the U.S. dollar depreciate by about 13 percent in nominal terms.** In real effective terms the depreciation was limited to 8 percent (Chart 3).

18. **The stock of external debt continued to decline.** At end-1999, it amounted to US\$28.3 billion (or 59 percent of GDP) compared to US\$30.5 billion at end-1998, owing to net amortization and to cross exchange rate fluctuations.²⁰ The debt service ratio, while showing an improvement compared to 1998 when it reached 45 percent, was still high at about 40 percent of exports of goods and nonfactor services in 1999.

E. Structural Reforms

19. **No new major reform was introduced between the end of the extended arrangement in May 1998 and the end of 1999.** However, some of the reforms initiated during the program period, such as the overhaul of housing policies and the opening of the banking system to new domestic and foreign banks, continued to be phased in in 1999. Implementation of other structural reforms, mainly privatization, virtually came to a halt, although minority stakes in three public sector companies were listed in 1999 on the newly-created Algiers Stock Exchange. Furthermore, changes in tariff positions

¹⁹ This is mostly due to a one-month lag between delivery and payments of hydrocarbon exports in a context of rapidly increasing oil prices.

²⁰ More than half of Algerian external debt is denominated in currencies different from the U.S. dollar. The appreciation of the U.S. dollar vis-à-vis these currencies in 1999 has contributed to lowering the value of the stock of debt expressed in U.S. dollars.

and the introduction since 1997 of minimum dutiable values for some imports have resulted in increased effective protection.

III. POLICY DISCUSSIONS

A. Overview

20. **Over the medium term, the new government's main macroeconomic objectives are to: (i) increase nonhydrocarbon GDP growth to a rate sufficient to allow for a significant decline in unemployment and a rise in the standard of living; (ii) maintain inflation in a 3–4 percent range; and (iii) continue to strengthen the external sector position while reducing the external debt service burden.** During the policy discussions, the authorities stressed that an early completion of Algeria's transition to a fully effective market-based economy was a prerequisite for the achievement of these objectives. They underscored that the state should refrain from playing a direct role in production activities and should rather focus on establishing regulations consistent with an effective functioning of markets and on building an environment conducive to the development of private investment. They also insisted on the crucial role that foreign investors are expected to play in the development of the Algerian economy and noted that the government's program had been welcomed by foreign investors. Consistent with these objectives, the government's economic program has set a comprehensive and ambitious reform agenda including extensive restructuring/privatization of public enterprises and public utilities, banking sector reform, wide-ranging energy sector liberalization, housing and land reform. Strengthening governance and transparency is also high on the government's agenda. The government also felt that these reforms should be cast in a supportive macroeconomic framework where financial policies, in particular fiscal policy, would remain prudent while meeting the basic infrastructures and social needs of the population.

21. **The staff expressed appreciation for the scope of the government's program and urged the authorities to quickly and steadfastly implement their reform agenda.** It welcomed, in particular, the emphasis put by the government on banking sector reform and public sector restructuring. It felt that the comprehensiveness of the government's agenda for privatization as well as the call for an involvement of private domestic and foreign investors in all productive activities, marked a break with the past. However, it stressed the urgent need to prepare detailed action plans and to quickly and steadfastly implement the envisaged reforms; it discussed with the authorities key policy measures necessary to achieve their objectives and recommended introducing further trade liberalization. It finally discussed with the authorities various macroeconomic scenarios consistent with the envisaged policies.

22. **The authorities affirmed their interest in a close collaboration with the Fund and requested periodic discussions between Article IV consultations, albeit outside the setting of a formal Fund arrangement.** They also requested Fund technical assistance, particularly in modernizing banking supervision, improving the functioning of the interbank market, strengthening tax and customs administration, and statistics.

B. The 2000 Budget, Fiscal Policy and Reforms

23. **The authorities stressed that the initial budget law for 2000 that was elaborated by the previous government was not consistent with their program and that a supplementary budget law had to be presented to parliament this spring.** The initial budget targeted an overall fiscal deficit of 2.5 percent of GDP based on an oil price assumption of US\$15 per barrel.^{21, 22} The new government felt that this budget did not address some of its expenditure priorities. In addition, the oil price assumption was clearly overly pessimistic while revenue projections for nonhydrocarbon taxes did not take into account the significant 1999 shortfall.

24. **The government stressed its firm intention to maintain strict fiscal discipline in 2000.** The draft supplementary budget law for 2000, which is based on an oil price of US\$19 per barrel and an exchange rate of DA 69 per U.S. dollar, targets a small fiscal surplus (0.3 percent of GDP). Compared to the initial budget law, hydrocarbon revenue projections increase by DA 196 billion (5 percent of GDP), while nonhydrocarbon revenue estimates are revised downward by DA 45 billion to take into account the 1999 shortfall.²³ On the expenditure side, current expenditures and capital expenditures are increased by DA 8 billion and DA 56 billion respectively.²⁴ In addition, any hydrocarbon revenues in excess of those budgeted would be saved in a newly created stabilization fund.²⁵ The government felt that this policy stance would help: (i) to reconstitute the cushion of external reserves that had been used in 1998–99; and (ii) to service the stock of public debt in the context of strictly limited domestic bank and nonbank financing capacities.^{26,27}

²¹ Other macroeconomic assumptions for 2000 included a real growth rate of 5 percent, an inflation rate of 4–5 percent, and an exchange rate of DA 65 per U.S. dollar.

²² Revenue measures included an increase in excise taxes for petroleum and tobacco products, an increase in some stamp duties, and lower VAT rates for some goods and services. In addition, effective protection was raised by changing the distribution of goods across tariff rates. The expenditure policy stance remained tight, particularly with no increase on nominal wages and a modest increase in capital expenditure compared to the budget for 1999.

²³ Nontax revenues (dividends from public sector companies) and grants are also revised upward by a total DA 11 billion.

²⁴ The bulk of current expenditure growth is earmarked for health, education, and drought-related expenditure items while the rise in capital expenditure will benefit local development programs (basic social and transport infrastructure, and social housing), as well as water management projects.

²⁵ Operational details concerning the functioning of this stabilization fund and, in particular, rules governing the use of the proceeds accumulated in the fund, were not available at the time of the discussions. In the staff's view, those rules should not result in the emergence of a separate expenditure program financed by the stabilization fund. Similarly, stringent regulatory mechanisms should be put in place to ensure transparency and prevent the misuse of resources.

²⁶ By law, monetary financing of the treasury is subject to strict limit and nonbank financing is constrained by the still underdeveloped treasury bill market.

²⁷ Additional domestic public debt is expected to be issued as a result of bank restructuring (below).

25. **The staff concurred with the fiscal policy intentions of the government.** In particular, the staff noted that assumed oil and gas prices in 2000 and thereafter would result in a temporary bunching of hydrocarbon revenues in 2000.²⁸ It stressed that, in this context, the fiscal objective for 2000 should be set in a multi-year perspective. In particular, it concurred with the government on the need to avoid setting expenditures at a level that would not be sustainable. In addition, the fiscal stance should remain prudent to contribute to a reconstitution of an appropriate level of net foreign assets in 2000 and to accumulate domestic assets to ensure a timely servicing of all debt obligations from 2001 (including the domestic obligations resulting from previous and ongoing bank restructuring). In this context, the staff felt that, based on an oil price assumption of US\$19 per barrel and an assumed exchange rate of DA 71 per U.S. dollar, the small budget surplus targeted in the supplementary budget law—which was likely to be consistent with an outcome surplus of about 1.5 percent of GDP—was appropriate.²⁹ The staff strongly supported the view that revenues coming from higher oil prices should be saved; in particular it estimated that, based on an oil price of US\$24.5 per barrel (the current WEO assumption), the fiscal surplus should be about 5 percent of GDP in 2000 (Tables 1 and 2).

26. **The staff agreed with the government that dependence vis-à-vis hydrocarbon revenues should be reduced over time and that a comprehensive reform of public spending was a key fiscal reform over the medium term.** It concurred with the authorities that the reduction in nonhydrocarbon tax effort that had occurred in 1999 needed to be quickly reversed, and supported the government's plan to strengthen tax and customs administration, as well as to broaden the domestic tax base. On the expenditure side, the staff supported the authorities' concern about the low quality of public services and the limited implementation capacity for public investment projects.³⁰ It shared the authorities' approach to improve public service quality by reducing the ratio between personnel expenditure and material and supply expenditure, and reorienting expenditure towards basic social services, in particular health and education. The staff also encouraged the authorities to improve financial information in order to meet the requirements of the Code of Good Practices on Fiscal Transparency.

C. Monetary Policy and Banking Sector Reform

27. **In 2000, the BA's monetary policy will be geared toward keeping inflation close to 3 percent (its medium-term final objective), in a context of rapidly increasing net foreign**

²⁸ This results, in particular, from gas prices which, as noted previously, adjust with a lag of about six months to oil price fluctuations.

²⁹ Capital expenditures, for which the amount effectively spent is usually significantly below the amount appropriated in the budget law, may also contribute to the achievement of this surplus.

³⁰ The substantial projected increase in capital expenditure (in percent change) in 2000 results mostly from the unusually low 1999 base (on a cash basis), with the ratio between projected cash expenditures and budgeted amounts coming back to its medium- and long-term level (80 percent).

assets. Owing to a higher level of hydrocarbon prices and to the government's cautious fiscal stance, net foreign assets are expected to surge (below). The impact of this rise on money supply will, however, be held back by the projected net government repayment to the banking system and by the drop in the credit demand of the hydrocarbon sector. Against this background, and based on an oil price assumption of US\$19 per barrel, the monetary authority intended to target a broad money growth of about 10 percent in 2000. This increase would be slightly higher than the nominal nonhydrocarbon GDP growth owing to the fact that the hydrocarbon sector would accumulate deposits in the banking system,³¹ but it would remain well below nominal GDP growth.

28. **The staff broadly concurred with the authorities' monetary objective, which seemed consistent with the maintenance of a low inflation rate.** However, it indicated that inflation could temporarily rise to 4 percent in 2000, particularly in light of the expected rise in imported food prices. Should oil prices be above US\$19 per barrel in 2000 and the government continues to fully save its share of unanticipated hydrocarbon revenues, the monetary authority could, in the staff's view, allow for a larger monetary expansion. In a scenario based on oil prices at US\$24.5 per barrel in 2000, the staff estimated that a money supply increase of about 15 percent in 2000—well below nominal GDP growth—would be compatible with a low inflation rate (Table 3).³²

29. **The authorities agreed that market forces still played an insufficient role in the formation of interest rates.** The BA accordingly planned to reduce the relative importance of the rediscount window in commercial banks' refinancing and had already restrained eligibility conditions for rediscount. It had also doubled the frequency of liquidity auctions (to now twice a month) since end-1999. The staff stressed that the framework used to conduct monetary policy could also be made more explicit, for instance by adopting and announcing a monetary intermediate target.³³ This would improve transparency and allow the BA to increase its analysis and forecasting expertise.

30. **The staff concurred with the authorities that state-owned banks need further restructuring.** In spite of repeated recapitalizations since 1991, the financial condition of the six government-owned banks (including CNEP, the savings bank)—which together still carry out about 95 percent of financial intermediation—is still uncertain and constitutes a source of serious concern (Box 2). Their profitability is low, at best; their liquidity fragile; their solvency uncertain;³⁴ and their

³¹ Assuming that the hydrocarbon sector would not accelerate investments and that the new deposits would be used to finance its medium-term investment plans.

³² The increase in monetary growth relative to the scenario of US\$19 per barrel reflects expected larger deposits of the hydrocarbon sector in the banking system.

³³ Since monetary survey data are available only with a few-month lag, this monetary target would have to be an aggregate under the control of the central bank.

³⁴ The public banks' solvency is strengthened by the presence in their balance sheet of a large proportion of treasury securities, as a result of the successive bank restructurings.

efficiency inadequate. Their liquidity is threatened by the size of their claims on the government that were not serviced in cash by the treasury in 1997 and 1998.³⁵ This problem could be mitigated in the future by a timely service in cash of the treasury's debt. To preserve banks' solvability, the authorities have agreed to take over their claims on liquidated public enterprises and more generally to compensate them for directed credit.³⁶ However, additional measures will still be needed to deal with nonperforming loans extended to existing public enterprises.³⁷ As appropriately stressed in the new government's program, an ambitious, two-pronged banking reform strategy is necessary to: (i) clean up banks' loan portfolios, in close relation with nonfinancial public enterprises restructuring; and (ii) improve banks' efficiency (with a key priority being an overhaul of the inefficient payments system)³⁸ and address management weaknesses (requiring a clarification of the respective roles of the managers and the government as a shareholder).

31. Already the government has decided the establishment of a National Council for Banking Reform presided by the prime minister; this council will be responsible for designing the overall banking reform strategy and monitoring its implementation. The staff noted that an assessment of the medium-term viability of each bank would need to be undertaken and that improved management and efficiency of the public banks and enhanced governance would be key to the success of bank restructuring efforts. As part of the restructuring process, bank regulation and supervision should be substantially strengthened, including through maintenance of cautious entry policy for private banks and design of clear exit policy.

32. A November 1999 assessment of the Basel Core Principles (BCPs) indicated that, although the authorities have recently made an important effort to define prudential norms, regulations related to connected lending and large exposures are materially noncompliant while those on banks' internal risk management and controls, consolidated supervision, and money laundering were found noncompliant. The major problem, though, remains with the enforcement of regulation. Important deficiencies with prudential reporting impede the assessment of compliance with key prudential norms so that the BCPs related to offsite supervision were found noncompliant. Similarly, on-site supervision has remained until now limited: the state-owned banks that represent the bulk of the banking system have not yet been subject to a comprehensive on-site examination.

³⁵ 1999 obligations were serviced in cash late in the year, which contributed to an improvement in the public banks' liquidity position.

³⁶ The treasury agreed in late 1999 to take over a cumulated amount of nonperforming loans to liquidated public enterprises close to DA 200 billion (equivalent to about 6 percent of GDP).

³⁷ The amount of nonperforming claims on existing public sector companies that the treasury may have to take over is still being estimated; preliminary data show that it could be in excess of DA 50 billion. Precise timing, terms, and conditions of these operations, as well as those described in the previous footnote, were not yet known at the time of the discussions.

³⁸ The authorities have requested the World Bank's assistance in this area.

D. External Policy

33. **The continued strong oil and gas markets, coupled with cautious financial policies, were expected to lead to a major improvement in the current account and external reserve positions in 2000.** Based on the average oil price of US\$19 per barrel (i.e., the assumption used by the government in the draft supplementary budget law) the staff estimated that the current account would record a surplus of 5.6 percent of GDP and the official reserves would recover to US\$6.5 billion by end-2000. This improvement would largely be due to the lag effect of gas prices, which in 2000 would benefit fully from high oil prices during the last six months of 1999 and the first half of 2000. Based on the WEO oil price assumption of US\$24.5 per barrel and the fiscal policy described previously, the staff projections would entail a large external current account surplus of about 11 percent of GDP (Table 4). Overall, gross official reserves would recover to US\$9.6 billion by end-2000, equivalent to 9.4 months of imports of goods and nonfactor services.³⁹ In both scenarios, the capital account deficit would be reduced by more than half to about US\$1 billion. New borrowing, while increasing slightly, would continue to be small relative to actual debt service payments. Consequently, the external debt stock would decrease further from 59 percent of GDP at end-1999 to 51 percent of GDP at end-2000 in the first scenario and to 48 percent of GDP at end-2000 in the second scenario. Similarly, the debt service ratio would fall in 2000 from 40 percent of exports in 1999 to 29 percent in the first scenario and to 24 percent in the second scenario, respectively.

34. **In the staff's view, these balance of payments scenarios were conservative.** In particular, both scenarios were based on modest increases in nonhydrocarbon exports, foreign direct investment, and disbursements from multilateral and bilateral creditors. The staff agreed with the authorities that rapid implementation of the privatization plans, including in the telecommunications sector with the envisaged sale of a second cellular telephone license, could significantly accelerate foreign direct investment.

35. **External debt service obligations could fall even further if Algeria's current drive toward a more active management of its external debt stock, in particular through the negotiation of debt-to-equity swaps with official creditors, were successful.**⁴⁰ The staff supported the authorities' intention to ask reputed international agencies to assess in the near future Algeria's sovereign risk. A rating could facilitate in due course Algeria's return to international financial markets and the implementation of initiatives to manage its external liabilities through market-based instruments. The authorities indicated to the staff that they were discussing with the Russian government with a view to reaching an early agreement on bilateral debt.

³⁹ Although current official reserves are not negligible both in terms of months of imports and in percent of short-term debt, Algeria needs to build up a substantially larger cushion because of its vulnerability to external shocks and of its fairly limited access to external borrowing.

⁴⁰ Successful negotiations would require an amendment to the previous Paris Club minutes based on a consensus among creditors.

36. **With respect to the exchange rate policy, the authorities confirmed their commitment to a managed float regime.** While stressing the role of the interbank market in setting the exchange rate, the BA stated that it was committed to intervening in the market, seeking to strike a balance between different objectives, primarily external competitiveness and domestic price stability. Following its 1998–99 depreciation, the real effective exchange rate of the dinar—which was close to its lowest level ever of 1995–96—had, in the central bank’s view, reached an appropriate level. Turning to the near future, the BA stressed that, despite the recent upswing in oil prices, it would resist a sustained real effective exchange rate appreciation in an attempt to preserve competitiveness of the nonhydrocarbon sector. In addition, the BA remained committed to letting the exchange rate ease in real effective terms if terms of trade were to significantly deteriorate and the external position to weaken.

37. **While broadly supporting the exchange rate policy followed by the BA, the staff stressed that the interbank foreign exchange market should be deepened through a further liberalization of the exchange system.** The staff shared the authorities’ view that the initially large misalignment of the exchange rate had been broadly corrected during the initial phases of the 1994–98 program period. The staff also shared the authorities’ view that, at this juncture, addressing the structural weaknesses in the Algerian economy—particularly in the banking and public sectors—was a prerequisite for an improvement in the competitiveness of the nonhydrocarbon sector. It urged the authorities to continue applying the managed float in a flexible way with a view to avoid real effective exchange rate appreciation on a sustained basis to preserve competitiveness of the nonhydrocarbon sector and reconstitute in the short term a more adequate level of external reserves, and to stand ready to adjust the exchange rate as needed in the future. In particular, a need to let the exchange rate depreciate may, *inter alia*, result from a reduction in effective external protection. In the event of a conflict between the managed float and the monetary targets, priority should be given to the latter. The likelihood of inconsistency is, however, largely reduced in the near future by the still limited capital mobility. However, the staff regretted that market forces did not play a greater role in the formation of the exchange rate on the interbank market. In this regard, the BA welcomed the staff’s recommendations to eliminate the remaining 50 percent surrender requirement of nonhydrocarbon exports and raise the amount of the foreign exchange allocation for tourism. The BA also confirmed its intention to achieve capital account convertibility once the banking system, as well as prudential oversight capacity, have been appropriately strengthened.⁴¹

38. **Increased trade liberalization is needed to integrate Algeria further into the world economy (Box 3).** Such a policy would improve the allocation of resources, enhance competitiveness, promote foreign investment and transfer of technology to potential export sectors, and contribute to export diversification. The staff noted that keeping high external protection was not in full consistency with the government’s intentions to achieve a high growth rate, to increase and diversify nonhydrocarbon exports, as well as to join the WTO and negotiate an association

⁴¹ Already in March 2000, the BA liberalized portfolio investments for nonresidents and clarified the regulation concerning the repatriation of dividends and investment profits.

agreement with the European Union (EU). In this connection, the staff urged the authorities to: (i) lower the maximum tariff rate from 45 percent to 35–40 percent before the end of 2000, and to 20–25 percent over the medium term; (ii) reduce other tariff bands; and (iii) amalgamate other duties and charges in the tariff structure to achieve a simple average tariff rate lower than 15 percent. The staff also recommended elimination, as soon as possible, of nontariff barriers and of minimum dutiable values, and a reduction in duty exemptions. It also urged the government to take steps toward economic integration with the neighboring economies. The authorities stressed that they preferred to lower protection in the context of the ongoing negotiations with the EU and accession to the WTO.

E. Other Structural Policies

39. **The authorities envisaged quick and broad-ranging privatization of nonfinancial public enterprises.** Despite its scaling-down during the past years,⁴² the economic public sector has remained large. For instance, its share of total industrial production was still about 75 percent in the late 1990s. The staff agreed with the authorities to consider that privatization was needed to increase public enterprises' productive efficiency and to instill market-based consumer-oriented management. The new government stated its firm commitment to: (i) open up the public sector and accelerate the privatization process, which has proved slow up to now; (ii) broaden its scope, for example to telecommunications and public utilities; and (iii) allow de facto foreign investors to become the strategic partner in a number of large enterprises subject to privatization. The possibility of opening up the capital of the state-owned hydrocarbon company Sonatrach was also part of the government's program. The staff regretted that privatization modalities, as well as the calendar or the list of companies offered for total or partial privatization, were still not known at the time of the discussions. However, the government had already stressed that mass privatization was not an option and that maximization of the sales price would not be the only criterion used to select anchor investors. In the staff's view, the authorities have to strike the right balance between their wish for quick divestiture, their concern about potential labor shedding, and the necessity of a transparent and efficient process.

40. **The staff agreed with the authorities that the issue of large loss-making public enterprises needed to be addressed as soon as possible, in particular in the context of bank reform** (above). The government could either restructure them financially or find investors that would agree to take them over. In the staff's view, given the number of enterprises to be restructured and the time required to privatize them, both approaches might have to be used. Already, the authorities have started discussions with potential investors on a small number of large companies. In any case, the staff recommended to clarify the situation of these enterprises vis-à-vis their main creditor—the banking system—so that future restructuring costs would not be borne by banks.

⁴² According to official figures, more than 1,000 small public enterprises or units have been shut down since 1996.

41. **The staff welcomed the government's decision to further liberalize the economy** by opening the energy and the transportation sectors, as well as public utilities to foreign partners. Liberalization of telecommunications in the near future and the elimination of nationality restrictions for certain professions (tourism, insurance) would also help to attract foreign direct investment, facilitate the transfer of skills and new technologies and boost exports. The government also announced its intention to increase private sector involvement in the water sector.⁴³

42. **The clarification of the institutional and legal framework protecting property rights is essential to foster domestic and foreign investment.** The lack of clarity about land ownership is indeed a major constraint on the development of agriculture, the housing sector, and even production capacities. The government indicated its willingness to address this issue, but, so far, no action seems to have taken place. The staff urged, in particular, the authorities to accelerate passage by parliament of a long-standing bill clarifying ownership issues in the agricultural sector and to take steps to facilitate land availability for housing and business construction. The staff welcomed the authorities' intention to reform the judicial system whose better functioning is key to the effectiveness of many structural reforms.

43. **Solving the housing problem is a priority for the new government.** Starting in 1997, Algeria has undertaken significant reforms in the housing sector. However, the challenge of completing the shift from a public-driven to a demand-driven system still existed (Box 4). The government strategy focused on three main axes: (i) developing the activities of the secondary mortgage institution (SRH) with the support of the World Bank; (ii) privatizing remaining viable construction enterprises; and (iii) continuing implementing the housing subsidy scheme introduced in 1997. The staff broadly concurred with the authorities' policy. However, it underlined the need for a global housing sector strategy, which would address, inter alia, the issue of a rapidly degrading large stock of public housing and limit the public housing program for rent to the poorest households. It also recommended against the extension of the housing subsidy scheme to a much larger share of the population.

44. **The targeting of the social safety net could still be improved. The financial situation of the social security system seems precarious.** The social safety net established in 1994 has been complemented by new schemes over the recent years (Box 5) and is now quite extensive. The authorities considered that all the schemes needed to be regularly assessed in order to improve their efficiency and avoid overlapping. The staff agreed with this approach and, moreover, encouraged the authorities to remove market distortions such as interest subsidies (linked to schemes aiming at favoring employment and small enterprise creation), which were introduced in some of the most recent social programs. The staff also strongly recommended a comprehensive assessment of the financial situation and prospects of social security institutions. The national pension scheme (*Caisse*

⁴³ The government also intended to present to parliament a draft mining law that would liberalize the sector and allow for foreign investment. Already, the government offered 48 mining sites for sale in April 2000; due to restrictions in the current regulatory framework, foreign investors will, nevertheless, not be allowed to bid.

nationale de retraite, or CNR), for instance, recorded increasing deficits over the past years, since revenue only covered about 70 percent of expenditure. The staff took note of the authorities' decision to transfer 2 percentage points of payroll taxes from the unemployment insurance (*Caisse nationale d'assurance chômage*, or CNAC) to CNR. Yet, it felt that this measure might prove both insufficient to ensure the medium-term sustainability of CNR's financial position and destabilizing for CNAC's.

45. **The authorities did not envisage an increase in domestic petroleum product prices in the short term and favored a very gradual approach for their liberalization.** The price of some petroleum products was increased in January 2000 due to a tax revision. However, the practice of adjusting periodically petroleum product prices to reflect international oil prices and the dinar/U.S. dollar exchange rate was interrupted in late 1997. The staff recommended to reestablish this practice and to liberalize retail prices over a reasonably short period of time.

46. **The new government's program attached high importance to governance issues.** In particular, the authorities' broad strategy aimed at: (i) reducing government intervention and discretion in the economy through an ambitious privatization program, banking sector and bank management reform, and tax reform; (ii) increasing government transparency and accountability through reform of tax and custom administration, budgetary procedures and expenditure controls; and (iii) promoting a rule-based competitive environment through judicial and legal reforms. It also considered its request for participation in the pilot project on the publication of the Article IV staff report as a major step toward more transparency and accountability.

F. Data Issues

47. **A major improvement in Algeria's statistical base is essential to strengthen the monitoring of economic conditions and the formulation of economic policies.** While some progress has been made in balance of payments statistics, the long lags in the compilation of data in the fiscal and monetary sectors (in particular, commercial bank data), the weaknesses of the fiscal data series on a payment order basis, as well as the scarcity of data available on the private sector and on the labor market, are serious impediments to macroeconomic management. The insufficient collection of data from the private sector has also prevented the timely creation of an aggregate industrial output index as well as a unit wage cost index. In addition, available data are not always systematically transmitted to the Fund on a timely basis. The staff encouraged the authorities to allocate sufficient resources for the compilation of statistics. More generally the staff encouraged the authorities to look to the General Data Dissemination System as a framework for statistics development.

48. **The authorities, who stressed that the government's program called for improved economic information, broadly concurred with the need to strengthen data coverage, quality, and timeliness,** particularly in view of the liberalization and structural reform of the economy. They welcomed the result of the recent STA mission on monetary statistics and indicated their willingness to implement its recommendation. They requested further technical assistance from STA to enhance the presentation of balance of payments data according to the fifth edition of the IMF's Manual.

They also showed interest in upgrading national accounts and CPI data and confirmed interest in the GDDS.

G. Prospects for the Medium Term and Capacity to Repay the Fund

49. **Algeria's main economic challenge over the medium term is to spur economic growth and reduce unemployment.**⁴⁴ This requires, in addition to consolidating macroeconomic stability, an early and steadfast implementation of an ambitious program of structural reform. To illustrate this point, the staff prepared three macroeconomic scenarios (Table 5). The first two scenarios differ mostly on the oil price assumption—US\$19 per barrel in 2000 and virtual nominal stability thereafter in the first scenario; US\$24.5 per barrel in 2000 and a gradual nominal decrease to about US\$19 per barrel over the medium term in the second scenario (i.e., the WEO price assumption). Both scenarios assume a relatively measured pace of structural reform. Therefore, despite additional investment, real growth—about 4.0–4.5 percent per annum—is insufficient to allow for a sustained and quick decrease in the unemployment rate. The third scenario is based on the same oil price assumption as the second, but assumes an accelerated pace of structural reform.

50. **A continued prudent macroeconomic policy stance, in particular with maintenance of fiscal discipline, is assumed in the first two scenarios.** The projected fiscal stance involves an improvement in the nonhydrocarbon balance of about 3 percentage points of nonhydrocarbon GDP between 2000 and 2004. Fiscal prudence would, inter alia, allow to maintain over the medium term gross official reserves above US\$6 billion (i.e., the equivalent of 5–6 months of imports) in the first scenario, and to achieve a comfortable level of reserves in the second scenario (about 10 months of imports over the medium term). The proposed fiscal policy, in particular the envisaged sterilization of any hydrocarbon revenues on top of those projected in the first scenario, is consistent with the stabilization fund envisaged in the government's draft supplementary budget law. It would contribute to setting aside foreign assets that would be expected to be drawn down if oil prices were to decline further than anticipated over the medium term. Fiscal prudence is also required by intergenerational fairness consideration, as oil and gas are depletable natural resources.

51. **A key feature of the first scenario is that, given prudent external borrowing assumptions, the budget should remain in slight surplus over the medium term to ensure timely repayment of total public debt, in particular of its domestic component.** If oil prices were to decline below a level of about US\$19 per barrel over the medium term, additional tax or spending cut measures or additional external borrowing might be necessary to ensure timely repayment of domestic debt obligations.

52. **An accelerated and broader reform agenda, coupled with the maintenance of a prudent macroeconomic policy stance, are assumed in the third scenario.** To start reducing

⁴⁴ Algeria's labor force is estimated to grow by about 250,000 persons per year (i.e., about 1,000 jobs need to be generated each working day to stabilize unemployment at its current high level).

unemployment and to significantly improve living standards, the Algerian economy must be set on a sustainable higher growth rate path, in the 6–7 percent per annum range.⁴⁵ The third scenario shows that this growth target can be achieved provided that the efficiency of investment is substantially increased relative to the first two scenarios. This implies a resumption of trade liberalization and a quick and steady implementation of the government's proposed reforms. The latter requires that the government demonstrates strong implementation capacity and ability to overcome possible opposition from vested interests. The budget would remain in surplus all along the projection period, despite an assumed increase in expenditure to strengthen the social safety net. The current account surplus would be lower than in the second scenario, due to a higher level of imports. This deterioration would be almost offset by an increase in foreign direct investment, attributable to the enhanced credibility of the reform strategy, so that the final level of gross official reserves would be close to the one in the second scenario.

53. Assumptions in the various scenarios, especially for the balance of payments, can be regarded as relatively conservative, except for hydrocarbon prices. Indeed assumptions on foreign direct investment and on new medium- and long-term borrowing are prudent and steadfast implementation of the privatization program may result in additional foreign exchange accumulation. By contrast, none of the scenarios envisages a sharp fall in oil prices, for instance to levels observed during the winter of 1998–99. A large negative shock on hydrocarbon revenues seems unlikely in 2000, since gas prices are already assured to stay high until end-2000. Yet, this risk cannot be ruled out completely for the next years. The appropriate economic policy response to such a shock depends on: (i) its nature (temporary or permanent); and (ii) the scenario under consideration. If the shock were temporary and not too large, it could probably be weathered, in the second and third scenarios, through a drawdown of foreign exchange reserves accumulated in 2000. However, this would be more difficult in the first scenario, where lower external reserves and the need to timely service all debt obligations would require either foreign borrowing or a tightening of the fiscal stance. If the shock were of a permanent nature (or simply protracted), a fiscal policy adjustment would be required in all the scenarios.

54. In all the scenarios, external debt indicators show substantial improvement. In accordance with the desire of the authorities to avoid massive external borrowing, external debt would decline to a 30–32 percent of GDP range in 2004, depending on the scenario under consideration. The debt service would also register a significant decrease to end up at about 25 percent in 2004, down from 39.6 percent in 1999. Algeria's capacity to repay the Fund would remain assured: debt service to the Fund would peak at about 9 percent of the total in 2003; and

⁴⁵ Additional growth is expected to come from nonhydrocarbon sectors. For instance, Algeria's productivity in agriculture is particularly low and construction activity remains subdued despite large housing needs. Comprehensive and accelerated reform would be expected to unleash the potential of these sectors. In this scenario, as in the first two scenarios, hydrocarbon GDP is conservatively assumed to grow at about 4 percent per year over the medium term; hydrocarbon growth could, however, increase further if the medium-term government's objective to double oil production would materialize within the projection period, which would also require a substantial increase in Algeria's OPEC quota.

Fund credit outstanding to Algeria would steadily decline from 107 percent of quota in 2000 to 36 percent in 2004.

IV. STAFF APPRAISAL

55. **During the 1994–98 program period Algeria made—in particularly difficult circumstances—commendable progress toward the restoration of macroeconomic balances and implemented extensive liberalization of the economy.** In part due to steadfast implementation of program policies, prompt policy corrections when warranted, and also to exceptional financing, growth performance—although held back by security concerns—turned positive, the inflation rate fell to the vicinity of 5 percent, and the balance of payments position strengthened markedly. On the structural front, a comprehensive set of reforms increased the role of price signals in the allocation of resources, while the trade and exchange systems were liberalized, in particular with the establishment of external current account convertibility in 1997.

56. **In 1998–99, Algeria adopted an appropriate set of macroeconomic policy corrections to meet the challenge of falling oil prices.** Faced with the negative impact of this drop on the fiscal and balance of payments positions, as well as with a large deficit of the capital account of its balance of payments, Algeria appropriately reacted by tightening its demand management by substantially cutting budget expenditure, letting the exchange rate depreciate vis-à-vis the U.S. dollar, and keeping real interest rates high. These measures, coupled with a turnaround in oil prices in the course of 1999, resulted in a reduction in the fiscal deficit to about 0.5 percent of GDP in 1999—against a budget target of 2.4 percent of GDP—and in a virtual stabilization of foreign exchange reserves in the second part of the year. They also contributed in part to a reduction in the inflation rate.

57. **Algeria’s short-term economic and financial prospects have strengthened markedly.** First, high oil prices since mid-1999 have restored the balance of payments’ viability. Second, the world economy, in particular neighboring Europe, offers a supportive environment. Third, significant improvements in the security situation in the wake of the peace initiative taken by President Bouteflika have resulted in better prospects for investments from both domestic and foreign private sector investors. Nevertheless, security has to be consolidated further so as to reinforce the investment climate.

58. **Despite this better environment, the Algerian economy still faces a major challenge over the medium term.** While consolidating the progress achieved toward macroeconomic stabilization, it needs to increase real growth performance from its 3–4 percent per annum rate to 6–7 percent per annum rate to allow for a reduction in unemployment and a rise in standards of living. This requires the completion of the transition toward a fully effective market-based economy, and the introduction of a comprehensive set of reforms to develop domestic and foreign private investment, raise efficiency of the new investment, and provide an appropriate institutional environment.

59. **The staff welcomes and broadly supports the program published by the new Algerian government.** This program aims at putting the Algerian economy on a higher sustainable growth path through extensive structural reform and consolidation of macroeconomic stability. It rightly puts

the emphasis on an acceleration of key reforms like banking reform, and restructuring and privatization of the public sector companies. The envisaged privatizations in the telecommunications and energy sectors (of which the possible opening up of the capital of the state-owned oil company Sonatrach), as well as private sector involvement in the management of public utilities, would have been considered taboos in the past. The staff also welcomes the emphasis put in the government's program on governance issues through, inter alia, a reduction in government intervention, judicial reform, and reform of tax and customs administration, as well as by Algeria's request for participation in the pilot project on the publication of the Article IV staff report.

60. Regarding macroeconomic policies, the staff is encouraged by the content of the draft supplementary budget law. The targeting of a small budget surplus on the basis of a conservative oil price assumption (US\$19 per barrel) and the decision to save any hydrocarbon revenues in excess of those budgeted in a stabilization fund are signs of the government's commitment toward the maintenance of a prudent macroeconomic stance. The staff is also encouraged by the stated intention of the authorities to devote monetary policy to the maintenance of low inflation. The envisaged exchange rate policy strikes an appropriate balance between safeguarding competitiveness gains and preserving achievements on the inflation front. The staff supports the authorities' intention to request a rating of Algeria's sovereign risk. This would facilitate at an appropriate time Algeria's return to international financial markets and a more active management of the government's external liabilities. The staff also supports the authorities' stated intention to reach early agreement with Russia on bilateral debt.

61. While current oil price projections and the government macroeconomic policy intentions are consistent with a substantial strengthening of the balance of payments position in 2000 and the medium term, the staff continues to recommend, in the event of an unexpected and durable decline in oil prices, a tightening of demand management. In particular, as in 1999, progress achieved in exchange system liberalization should not be reversed and policy adjustments should instead rely on exchange rate and demand management.

62. To achieve higher growth and reduce unemployment, quick and steadfast implementation of structural reforms is required. In the staff's view, providing detailed plans for implementing the policies defined in broad terms in the government's program and producing early results in privatizing/restructuring a sizeable share of the public sector enterprises will be key to ensuring credibility of the government program and to consolidating the initial interest shown by domestic and foreign private investors. Proposed structural reforms, like land and housing reform, judicial reform, energy and telecommunication sector liberalization, and further exchange system liberalization need to be promptly implemented, so that the envisaged supply response can materialize and permit to attain the ambitious growth objectives. In addition, the staff urges the government to reestablish a periodic adjustment in domestic petroleum prices to reflect international oil prices and the dinar/U.S. dollar exchange rate fluctuations interrupted since late 1997. It also recommends to liberalize these prices over a reasonably short period of time.

63. Particularly important to the success of the government strategy are the early implementation of banking sector reform and an increase in the role of market forces in the

determination of interest rates. In particular, public banks' balance sheet have to be restructured and operational efficiency significantly strengthened to ensure that the banking system efficiently intermediates scarce financial resources. The staff concurs with the authorities' views that banking reform should be implemented in liaison with public enterprise restructuring. It also supports the authorities' efforts to strengthen banking supervision and their intention to further develop the role played by the money, financial, and foreign exchange markets.

64. **The staff regrets the partial reversal since 1997 of the progress achieved in trade liberalization and the government's hesitancy vis-à-vis further trade liberalization.** It considers that the maintenance of a high degree of protection would not be consistent either with the achievement of the government's growth objectives or with Algeria's policy to join the WTO and negotiate an association agreement with the EU. It also encourages the government to take steps toward an economic integration with the neighboring countries.

65. **The staff welcomes the call for improved economic information contained in the government's program and the authorities' interest in the GDDS as a framework for statistics development.** However, major improvements are needed in Algeria's economic statistics. Long lags in the compilation of data, particularly in the fiscal and monetary sectors, the weaknesses of the fiscal data series on a payment order basis, as well as the scarcity of data available on the private sector and on the labor market, are serious impediments to macroeconomic management. Although systematic and timely transmission of data would also facilitate the Fund's surveillance activities, the provision of data to the Fund is viewed by the staff as generally adequate for effective surveillance. Additional resources should be allocated to upgrade the statistical apparatus, in particular on real sector statistics. In addition, the staff urges the authorities to meet the requirements of the Code of Good Practices on Fiscal Transparency.

66. **The staff welcomes the authorities' intention to maintain a close policy dialogue with the Fund.** This should help safeguard the progress achieved since the beginning of the 1994 program with the Fund and encourage further policy reforms in the upcoming period. It is recommended that the next consultation take place on the standard 12-month cycle.

Table 1. Algeria: Selected Economic and Financial Indicators, 1996–2000

	1996	1997	1998	1999	Proj. 2000
	(Annual percentage change)				
National income and prices					
GDP at constant prices	3.8	1.1	5.1	3.3	4.3
Hydrocarbon sector	6.3	6.0	4.0	6.2	4.0
Other sectors	3.0	-0.5	5.5	2.3	4.4
GDP deflator	25.7	6.5	-4.2	10.9	19.3
Consumer price index (average)	18.7	5.7	5.0	2.6	4.0
External sector 1/					
Exports, f.o.b.	28.9	4.5	-26.6	21.5	57.7
<i>Of which:</i> hydrocarbons	30.0	4.2	-25.9	21.9	58.7
Imports, f.o.b.	-10.0	-10.6	6.2	3.8	7.0
Terms of trade	23.8	3.7	-26.3	19.6	52.2
Real effective exchange rate 2/	2.5	9.9	4.8	-8.0	...
	(Changes as a percent of beginning money stock M2)				
Money and credit					
Net foreign assets 3/	13.5	23.6	-6.4	-8.6	23.6
Domestic credit 3/	11.3	11.8	10.0	25.0	-7.2
Credit to the government (net) 3/ 4/	-15.1	15.6	11.0	9.2	-1.9
Credit to the economy 3/ 4/	26.4	-3.9	-0.9	15.7	-5.3
Money and quasi-money	14.4	18.2	19.1	14.0	15.5
Liquidity ratio (M2/nonhydrocarbon GDP)	33.4	55.6	60.1	63.2	68.2
	(In percent of GDP)				
Central government finance					
Overall budget balance (deficit-)	3.0	2.4	-3.9	-0.5	5.0
Revenue	32.2	33.5	27.8	29.8	33.1
Hydrocarbons 5/	20.3	21.4	15.3	18.5	23.1
Nonhydrocarbons 6/	11.9	12.1	12.5	11.4	10.0
Expenditure 7/	29.2	31.2	31.7	30.3	28.1
Current expenditure	21.5	23.3	23.9	24.3	20.7
Investment	6.8	7.3	7.6	5.9	7.3
Other 7/	0.9	0.6	0.2	0.2	0.1
Domestic bank financing	-5.0	-3.9	3.4	2.0	-5.5
	(In billions of dollars; unless otherwise specified)				
External sector					
Exports, f.o.b.	13.2	13.8	10.1	12.3	19.4
<i>Of which:</i> hydrocarbons	12.7	13.2	9.8	11.9	18.9
Imports, f.o.b.	9.1	8.1	8.6	9.0	9.6
Interest payments	2.2	2.1	2.0	1.9	1.9
Current account (deficit -)	1.2	3.5	-0.9	0.0	6.1

Table 1. Algeria: Selected Economic and Financial Indicators, 1996–2000

	1996	1997	1998	1999	Proj. 2000
Overall balance (deficit -)	-2.1	1.2	-1.7	-2.4	5.2
Gross official reserves (end-period)	4.2	8.0	6.8	4.4	9.6
External current account (in percent of GDP)	2.7	7.2	-1.9	0.0	10.8
External debt	33.7	31.2	30.5	28.3	26.8
External debt (in percent of GDP)	71.9	65.2	64.3	59.1	47.9
(In billions of Algerian dinars; unless otherwise indicated)					
Memorandum items:					
GDP (current prices)	2,565	2,762	2,782	3,186	3,964
Crude oil export unit value (US\$/bbl)	21.7	19.5	12.9	17.9	24.5
Exchange rate (DA/US\$) (end of period)	56.2	58.4	60.4	69.3	71.0
Exchange rate (DA/US\$) (average)	54.7	57.7	58.7	66.5	71.0

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

1/ In U.S. dollars terms.

2/ Annual average changes in the total trade-weighted INS index. A decrease in the index implies a depreciation.

3/ Annual change as a percentage of broad money at the beginning of the period.

4/ Including the impact of financial restructuring package involving the swap of Government bonds for public enterprises' commercial debt.

5/ Including dividends on current profits paid by Sonatrach.

6/ Including grants.

7/ Including special accounts, net lending, and allocation to the Rehabilitation Fund.

Table 2. Algeria: Summary of Central Government Operations, 1996-2000

	1996	1997	1998	Budg. 1999	Est. 1999	Budget 2000	Supp. Budget 2000	Proj. 2000
(In billions of Algerian Dinars)								
Budget revenue and grants	825	927	775	937	950	1,029	1,191	1,312
Hydrocarbon revenue	520	592	426	525	588	569	765	916
Nonhydrocarbon revenue	305	334	349	412	358	460	420	391
Tax revenue	291	314	330	380	315	426	381	352
Taxes on income and profits	68	82	88	96	72	109	89	84
Taxes on goods and services	130	148	155	185	150	208	186	168
Customs duties	84	74	75	85	80	93	91	87
Registration and stamps	9	11	11	14	13	16	16	13
Nontax revenues	15	20	19	32	44	34	39	39
Fees	11	16	15	17	17	17	17	17
Bank of Algeria dividends	3	4	4	15	27	17	12	12
Dividends from PEs					0	0	10	10
Grants	0	0	0	0	4	0	6	6
Total expenditure	725	845	876	1,009	962	1,112	1,176	1,112
Current expenditure	551	644	664	728	775	822	830	822
Personnel expenditure	223	245	269	285	286	299	299	299
Mudjahidins' pensions	19	25	38	28	60	51	51	60
Material and supplies	35	44	47	53	54	60	61	61
Current transfers	185	220	199	242	249	266	272	263
Debt service	89	109	111	120	126	146	147	139
Capital expenditure	174	202	212	281	187	290	346	290
Budget balance	101	81	-101	-72	-11	-83	15	200
Special accounts balance	2	1	-7	0	-6	-3	-3	-3
Net lending by the treasury	2	-2	0	3	0	0	0	0
Budget balance excluding								
Rehabilitation Fund	100	84	-108	-75	-16	-86	12	197
Allocations to the Rehabilitation Fund	24	18	0	0	0	0	0	0
Primary balance	164	176	3	45	110	60	159	336
Overall balance	75	66	-108	-75	-16	-86	12	197
Financing	-75	-66	108	75	16	86	-12	-197
Bank	-173	-107	96	143	64	...	...	-218
Nonbank	-7	-23	20	30	25	...	...	40
Foreign	105	64	-8	-98	-73	...	...	-20
(In percent of GDP)								
Total revenue	32.2	33.5	27.8	29.5	29.8	29.4	32.3	33.1
Hydrocarbon revenue	20.3	21.4	15.3	16.5	18.5	16.3	20.8	23.1
Nonhydrocarbon	11.9	12.1	12.5	13.0	11.2	13.1	11.4	9.9
Tax revenue	11.3	11.4	11.9	11.9	9.9	12.2	10.3	8.9
Total expenditure	28.3	30.6	31.5	31.7	30.2	31.8	31.9	28.1
Current expenditure	21.5	23.3	23.9	22.9	24.3	23.5	22.5	20.7
Wages and salaries	8.3	8.5	9.3	8.6	8.7	8.3	7.9	7.3
Goods and other services	2.5	2.8	3.4	2.9	3.8	3.4	3.3	3.3
Current transfers	7.2	8.0	7.2	7.6	7.8	7.6	7.4	6.6
Debt service	3.5	4.0	4.0	3.8	4.0	4.2	4.0	3.5
Capital expenditure	6.8	7.3	7.6	8.8	5.9	8.3	9.4	7.3
Budget balance	3.9	2.9	-3.6	-2.3	-0.4	-2.4	0.4	5.1
Special accounts balance	0.1	0.0	-0.2	0.0	-0.2	-0.1	-0.1	-0.1
Net lending	0.1	-0.1	0.0	0.1	0.0	0.0	0.0	0.0
Rehabilitation and recapitalization	1.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance	6.4	6.4	0.1	1.4	3.5	1.7	4.3	8.5
Overall balance	2.9	2.4	-3.9	-2.4	-0.5	-2.5	0.3	5.0
Memorandum items:								
Nominal GDP (in billions of DA)	2,565	2,762	2,782	3,181	3,186	3,500	3,685	3,964
Crude oil price (US\$ per barrel)	21.7	19.5	12.9	15.0	17.9	15.0	19.0	24.5
Average exchange rate (DA/US\$)	54.7	57.7	58.7	59.5	66.5	65.0	69.0	71.0

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

Table 3. Algeria: Monetary Survey, 1996–2000

	1996	1997	1998	<u>Est.</u> 1999	<u>Proj.</u> 2000
(In billions of Algerian dinars; at the end of the period)					
Foreign assets (net)	134	350	281	170	516
Foreign assets (Bank of Algeria)	253	485	423	330	679
Foreign liabilities (Bank of Algeria)	130	142	145	157	160
Foreign assets (commercial banks)	32	23	28	28	29
Foreign liabilities (commercial banks)	21	16	25	31	32
Net domestic assets	781	731	1,007	1,299	1,181
Domestic credit	1,057	1,165	1,273	1,595	1,489
Credit to government (net) 1/	281	424	542	661	634
Credit to the economy 1/	777	741	731	934	855
Other items net 2/	-276	-434	-266	-296	-308
Money and quasi-money (M2)	915	1,082	1,288	1,469	1,696
Money	589	672	814	889	1,027
Quasi-money	326	410	474	579	669
(Percent change over 12-month period)					
Money and quasi-money (M2)	14.4	18.2	19.1	14.0	15.5
<i>Of which:</i> money	13.5	14.0	21.2	9.3	15.5
Net domestic assets (banking system)	1.0	-6.4	37.7	29.0	-9.1
Credit to the economy	37.3	-4.6	-1.4	27.7	-8.4
(Changes as a percent of beginning money stock)					
Money and quasi-money (M2)	14.4	18.2	19.1	14.0	15.5
Foreign assets	13.5	23.6	-6.4	-8.6	23.6
Net domestic assets	1.0	-5.5	25.5	22.7	-8.1
Domestic credit	11.3	11.8	10.0	25.0	-7.2
Net credit to government	-15.1	-4.8	1.7	9.2	-1.9
Credit to the nongovernment	26.4	16.5	8.3	15.7	-5.3
Memorandum items:					
Liquidity ratio (e.o.p. M2/GDP)	35.7	39.2	46.3	46.1	42.8
Liquidity ratio (e.o.p. M2/NH GDP)	50.0	55.6	60.1	63.2	68.2
Domestic credit/GDP	41.2	42.2	45.8	50.1	37.6
Net credit to government/GDP	10.9	15.3	19.5	20.8	16.0
Credit to the economy/GDP	30.3	26.8	26.3	29.3	21.6
Nominal GDP in billions of DA	2,565	2,762	2,782	3,186	3,964

Sources: Bank of Algeria; and Fund staff estimates and projections.

1/ This includes the impact of banks' restructuring packages. The conversion of banks' claims on public enterprises in banks' claims on the government results, other things being equal, in a decrease of credit to the economy and an equal increase in credit to the government.

2/ This includes the debt-rescheduling proceeds blocked in special accounts at the Bank of Algeria.

Table 4. Algeria: Balance of Payments, 1996–2000
(In billions of U.S. dollars; unless otherwise indicated)

	1996	1997	1998	Est. 1999	Proj. 2000
Current account	1.25	3.45	-0.91	0.02	6.05
Trade balance	4.13	5.69	1.51	3.36	9.84
Exports, f.o.b.	13.22	13.82	10.14	12.32	19.43
Hydrocarbons	12.65	13.18	9.77	11.91	18.90
Other exports	0.57	0.64	0.37	0.41	0.53
Imports, f.o.b.	-9.09	-8.13	-8.63	-8.96	-9.58
Services account (net)	-3.76	-3.30	-3.48	-4.13	-4.67
Nonfactor services (net)	-1.40	-1.08	-1.48	-1.84	-1.90
Credit	0.75	1.07	0.74	0.72	0.78
Debit	-2.15	-2.15	-2.22	-2.56	-2.68
Factor services (net)	-2.36	-2.22	-2.00	-2.29	-2.77
Credit	0.21	0.26	0.37	0.22	0.35
Debit	-2.56	-2.48	-2.37	-2.51	-3.12
Interest payments	-2.24	-2.11	-1.95	-1.85	-1.86
Other	-0.32	-0.37	-0.42	-0.66	-1.27
Transfers (net)	0.88	1.06	1.06	0.79	0.88
Capital account	-3.34	-2.29	-0.83	-2.40	-0.88
Direct investment, net	0.27	0.26	0.50	0.46	0.66
Official capital, net	-3.40	-2.51	-1.33	-1.97	-1.75
Drawings	1.82	1.69	1.83	1.08	1.25
Total amortization	-5.22	-4.20	-3.16	-3.04	-3.00
Short-term capital and errors and omissions	-0.21	-0.04	0.00	-0.89	0.21
Overall balance	-2.09	1.16	-1.74	-2.38	5.17
Financing	2.09	-1.16	1.74	2.38	-5.17
Change in official reserves (increases -)	-2.98	-4.42	1.20	2.40	-5.12
Fund repurchases	-0.14	-0.35	-0.45	-0.36	-0.10
Exceptional financing	5.21	3.61	0.99	0.39	0.04
Rescheduling	3.53	2.22	0.52	0.00	0.00
Multilateral balance of payments support	0.94	0.80	0.13	0.08	0.04
Fund purchases	0.74	0.59	0.34	0.31	0.00
Memorandum items:					
Gross official reserves (in billions of US\$) 1/	4.2	8.0	6.8	4.4	9.6
In months of total imports	4.5	9.4	7.6	4.6	9.4
In percent of broad money	26.0	43.4	32.1	20.9	38.1
In percent of short-term debt	74.9	182.9	205.6	138.4	301.4
Gross reserves to short-term debt (ratio)	10	40	40	26	56
Algerian crude oil price (US\$/barrel)	21.7	19.5	12.9	17.9	24.5
Gross external debt (in billions of US\$) 2/	33.7	31.2	30.5	28.3	26.8
Debt service/exports (in percent)	28.7	29.3	44.8	39.6	24.1
Debt/GDP (in percent)	71.9	65.2	64.3	59.1	47.9
Current account (in percent of GDP)	2.7	7.2	-1.9	0.0	10.8
GDP (in billions of US\$)	46.9	47.9	47.4	47.9	55.8
Exchange rate (DA/US\$, average)	54.7	57.7	58.7	66.5	71.0

Sources: Bank of Algeria (data through 1999); and Fund staff projections.

1/ According to the information provided by the Bank of Algeria all official reserves are liquid.

2/ According to the Bank of Algeria, its actual data include short-term debt, use of Fund resources, and debt to Russia.

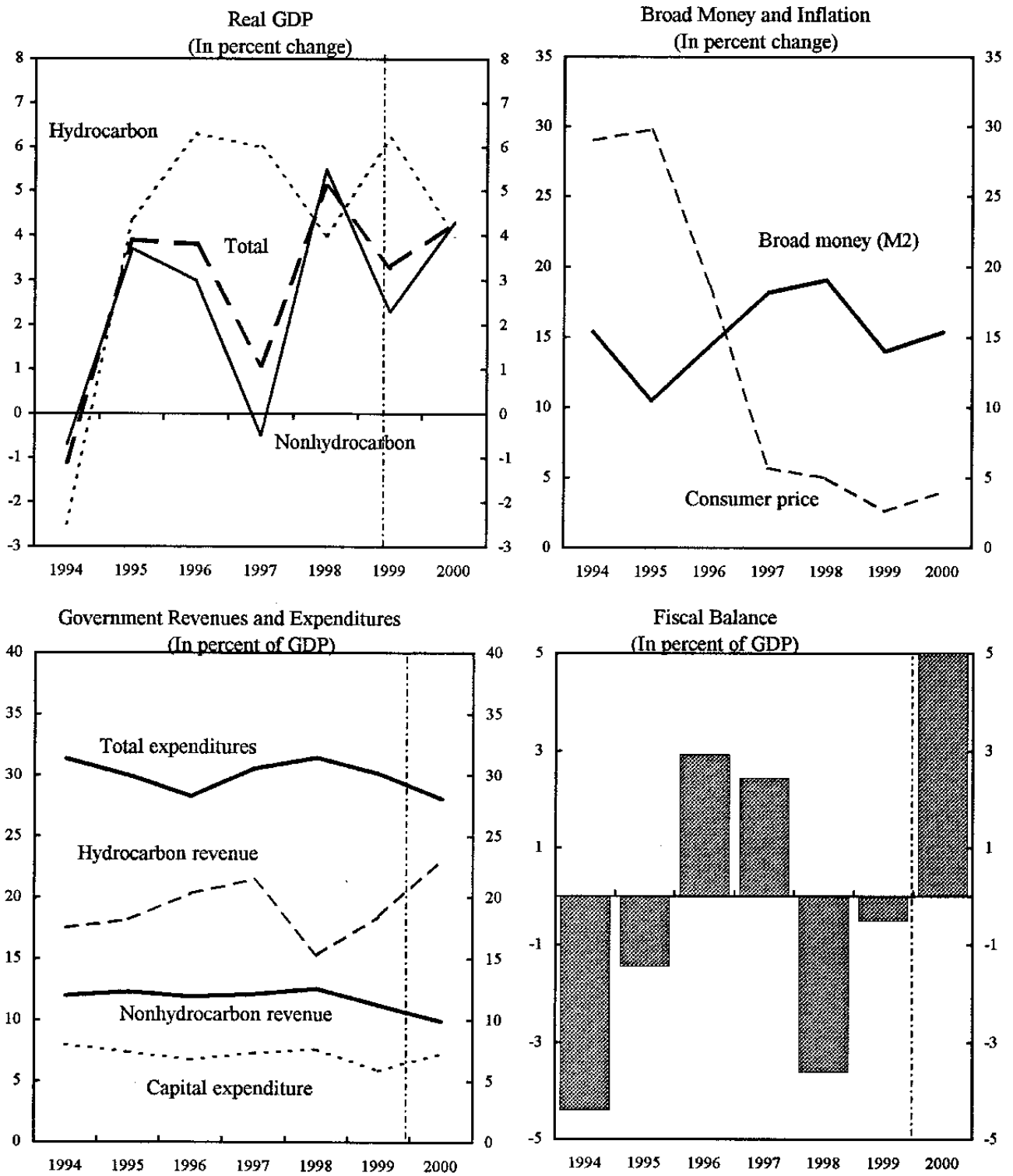
Table 5. Algeria: Illustrative Medium-Term Scenarios, 1999–2004

	1999	Projection Scenario I					Projection Scenario II					Projection Scenario III				
		2000	2001	2002	2003	2004	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004
Main assumptions																
Oil prices (US\$ per barrel)	17.9	19.0	18.0	18.3	18.7	19.0	24.5	19.8	18.5	18.7	19.0	24.5	19.8	18.5	18.7	19.0
ICOR	7.9	7.5	7.1	7.0	6.9	6.9	7.5	7.1	7.0	6.9	6.8	7.0	6.2	5.7	5.4	5.4
Selected economic and financial indicators																
Real GDP (in percentage change)	3.3	4.1	4.0	4.1	4.2	4.3	4.3	4.2	4.1	4.3	4.3	4.5	5.0	5.7	5.9	6.1
Hydrocarbon GDP (volume change)	6.2	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Nonhydrocarbon GDP (in percentage change)	2.3	4.2	4.0	4.1	4.2	4.4	4.4	4.2	4.2	4.4	4.5	4.7	5.3	6.3	6.6	6.8
CPI inflation (in percent, average)	2.6	4.0	3.0	3.0	3.0	3.0	4.0	3.0	3.0	3.0	3.0	4.0	3.0	3.0	3.0	3.0
Real effective exchange rate (in percentage change)	-8.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Monetary expansion (M2, in percentage change)	14.0	10.4	6.9	7.2	7.5	7.6	15.5	7.8	7.5	7.5	7.6	15.5	8.6	8.3	9.0	9.1
Net credit to the government (in percent of GDP)	20.8	20.9	21.5	18.9	16.5	14.0	16.0	14.6	12.7	10.6	8.6	15.7	14.4	12.4	9.9	7.4
Credit to the economy (in percent of GDP)	29.3	22.9	24.1	26.1	27.8	30.0	21.6	22.2	24.8	26.4	28.6	21.6	22.3	24.9	27.3	30.2
Liquidity ratio (M2/nonhydrocarbon GDP)	63.2	65.0	64.8	64.8	64.8	64.8	68.2	68.1	68.1	68.1	68.1	68.0	67.7	66.9	66.3	65.7
Overall budget balance (in percent of GDP)	-0.5	1.5	0.0	0.2	0.4	0.5	5.0	2.4	0.4	0.5	0.6	5.1	2.1	0.3	0.7	1.0
Hydrocarbon revenues (in percent of GDP)	18.5	20.8	19.2	18.9	18.8	18.7	23.1	20.7	19.0	18.8	18.6	23.1	20.5	18.6	18.1	17.7
Nonhydrocarbon revenues (in percent of GDP)	11.4	10.7	11.3	11.4	11.5	11.5	10.0	10.8	11.3	11.4	11.5	10.1	10.8	11.4	11.6	11.8
Expenditure (in percent of GDP)	30.3	30.1	30.4	30.1	29.9	29.6	28.1	29.1	29.9	29.7	29.5	28.1	29.2	29.7	29.0	28.5
Hydrocarbon exports (in billions of US\$)	11.9	15.6	14.3	15.2	16.1	17.0	18.9	16.5	15.4	16.2	17.0	18.9	16.5	15.4	16.2	17.0
Imports, f.o.b. (in billions of US\$)	9.0	9.6	10.3	10.9	11.6	12.5	9.6	10.3	11.0	11.7	12.5	9.8	10.6	11.4	12.4	13.4
External current account (in percent of GDP)	0.0	5.6	1.8	1.8	1.7	1.4	10.8	5.6	2.5	2.3	1.8	10.6	5.2	1.8	1.2	0.8
International reserves (in billions of US\$)	4.4	6.5	6.4	6.5	6.5	6.4	9.6	11.6	12.1	12.5	12.7	9.6	11.7	12.2	12.3	12.3
In months of imports	4.6	6.3	5.8	5.5	5.2	4.8	9.4	10.6	10.4	10.1	9.5	9.2	10.4	10.0	9.3	8.6
In percent of short-term debt	138.4	204.1	194.5	202.7	197.8	182.9	301.4	355.9	381.2	381.7	362.8	304.0	355.1	377.1	369.6	345.5
Debt service (as percentage of exports of G&S)	39.6	28.8	31.8	29.8	26.2	25.2	24.1	27.7	29.0	25.6	24.8	24.0	27.7	29.0	25.7	24.7
External debt (in percent of GDP)	59.1	51.2	47.4	42.1	37.0	32.1	47.9	45.4	41.9	36.8	32.0	48.3	45.5	41.6	36.0	30.8
National savings (in percent of GDP) 1/	29.1	34.6	31.2	31.3	31.4	31.4	39.0	34.6	32.4	32.3	31.9	38.8	35.1	33.8	33.3	33.1
Government	5.4	9.3	8.0	8.2	8.5	8.6	12.3	10.1	8.4	8.5	8.7	12.4	9.7	8.0	8.4	8.7
Nongovernment	23.7	25.3	23.2	23.1	22.9	22.8	26.7	24.5	24.0	23.8	23.2	26.4	25.4	25.8	24.9	24.4
Investment (in percent of GDP)	27.4	29.0	29.4	29.5	29.7	30.0	28.2	29.0	29.9	30.0	30.1	28.2	29.9	32.0	32.1	32.3
Government	5.9	7.8	8.0	8.0	8.1	8.1	7.3	7.7	8.0	8.0	8.1	7.3	7.6	7.7	7.7	7.7
Nongovernment	21.5	21.2	21.4	21.5	21.6	21.9	20.9	21.3	21.9	22.0	22.0	20.9	22.3	24.3	24.4	24.6

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

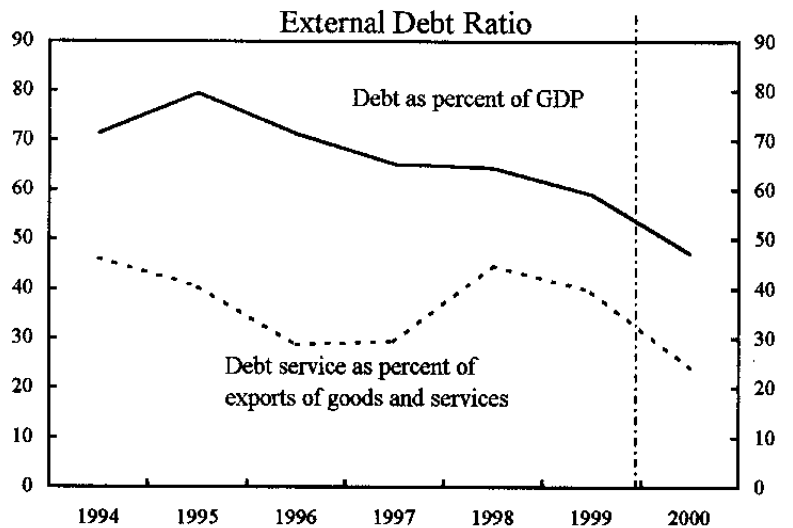
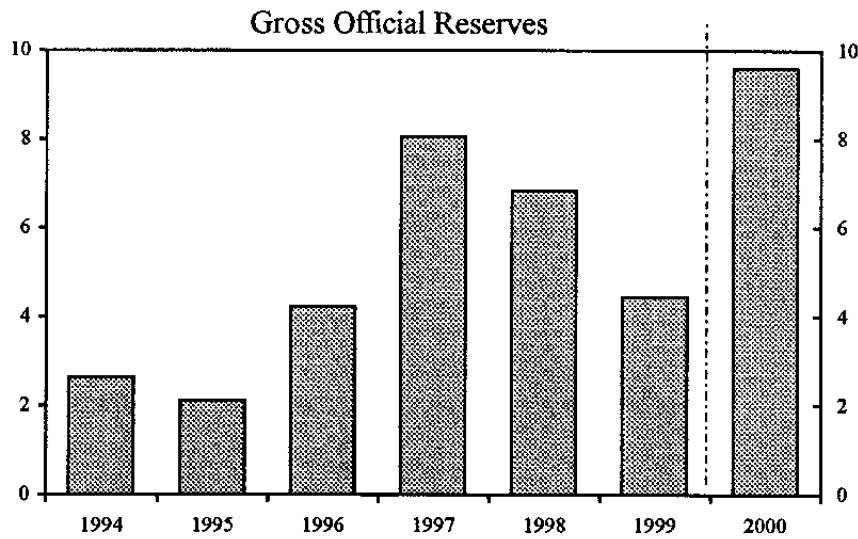
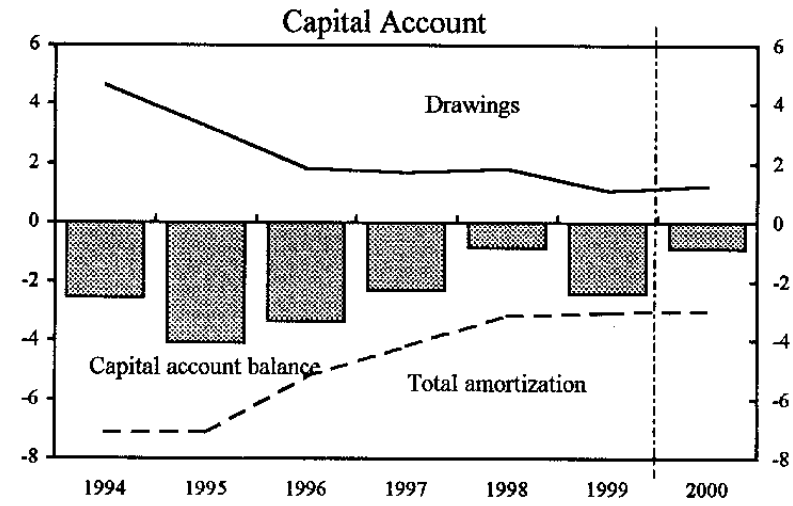
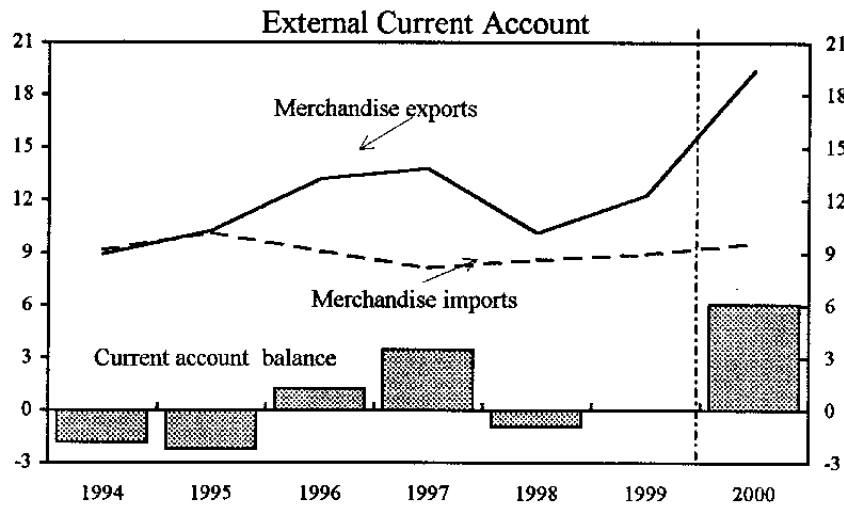
1/ The data for 1999 come from the national accounts and might not be fully consistent with balance of payments data.

Chart 2. Algeria: Selected Economic and Financial Indicators, 1994–2000



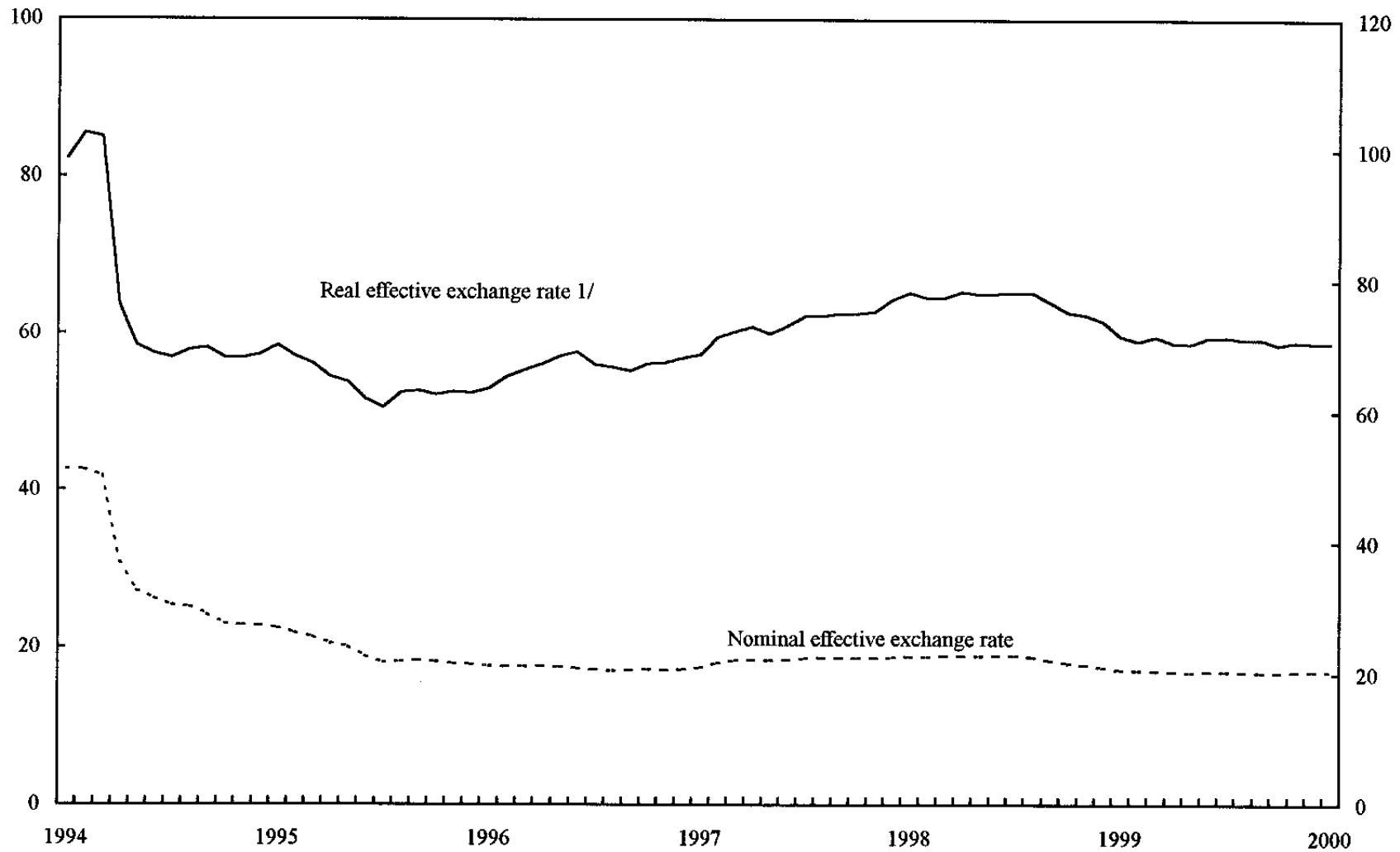
Sources: Algerian authorities; and Fund staff estimates.

Chart 3. Algeria: External Sector Developments, 1994–2000
(In billions of U.S. dollars; unless otherwise specified)



Sources: Authorities; and Fund staff projections.

Chart 4. Algeria: Nominal and Real Effective Exchange Rates, 1994–2000



Source: International Monetary Fund: Information Notice System.

1/ Trade-weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices; increase means appreciation.

Box 1. The Government's Program

The new government's program is a broad statement of development objectives and priorities:

- Governance will be improved through a more transparent, efficient, and acceptable public service; in particular, the government will fight corruption and fraud. Individual rights will be guaranteed with the reform of the judicial system. Citizen's participation in public life will be strongly encouraged.
- Economic policy is to be based on four major structural reforms.
 - First, the banking sector will be restructured including through a strengthening of banking supervision and an enforcement of prudential requirements. The banking sector will open up to competition and private and foreign participation to improve services, reduce costs, and render credit allocation more efficient. The payments system will be modernized.
 - Second, the government plans to privatize most of the public nonfinancial enterprises and expand the role and scope of the private sector in the economy. The telecommunication sector will be liberalized with the sale of a second cellular telephone license to private investors. The legal and regulatory framework will be reformed to create a better investment climate. Receipts from privatization will be used to reduce public debt.
 - Third, the energy sector will be reformed by allowing more competition and opening the capital of the sector's enterprises.
 - Fourth, the government will address land reform and housing sector issues.
- Fiscal and monetary policy will be geared towards macroeconomic stability, while a more active management of external debt will be sought.
- Foreign policy will be geared towards international cooperation, in particular with Maghreb countries. Algeria will endeavor to join the WTO and to negotiate an association agreement with the EU.
- Human development will be fostered by a sustained effort to improve the education, health, and social security systems. The fight against poverty will be stepped up, through a reform of the social safety net aimed at better targeting the various schemes. Environmental issues will be tackled urgently.

Box 2. Banking Sector Reform

- Algeria's banking system is still dominated by the six public banks (including CNEP, the former savings-housing bank). Private banks—domestic or foreign—are allowed to enter the market, but represent a marginal share of the banking sector (about 5 percent of assets and deposits). Public banks have a large network of about 1,050 branches altogether; they have about 30,000 employees (0.5 percent of total employment). Their balance sheets stand out by the unusually large share of claims on the government (about 20 percent of total assets) inherited from past restructuring.
- Since 1991, government-owned banks have been recapitalized several times, sometimes directly through cash transfers from the treasury. They have also benefited from substitutions of government bonds for nonperforming loans to public enterprises, mostly in 1992–93 and 1997–98. By using external debt rescheduling proceeds, the treasury repaid a significant share of these bonds ahead of schedule, thus providing banks with sudden large inflows of liquidity. The remaining debt outstanding was not serviced in 1997 and 1998, but accrued interest was capitalized. In 1999 obligations were serviced in cash late in the year, which contributed to an improvement in the public bank's liquidity position. The total cost for the treasury of recapitalization and debt takeovers between 1991 and 1999 is estimated at about 45 percent of GDP.^{1/}
- Despite these efforts, public banks' operational efficiency remains weak. Besides, among large uncertainties about the reliability of their financial data, there are still doubts regarding their profitability and solvency. The main factor of bank fragility has been their continued financial support, sometime at the behest of past governments, to loss-making public enterprises (their only customers when resource allocation used to be administered). Banks also have to cope with the severe shortcomings of the payments system that constitute a major impediment to financial deepening, as well as overall economic activity.
- A new cleaning up of banks' balance sheets is needed. According to authorities' estimates, it will cost at least an additional 8 percent of GDP including, in particular, the taking over by the treasury of public banks' claims on public enterprises which have been liquidated, and the financial support extended to loss-making enterprises at the behest of past governments. Additional amounts of nonperforming claims on existing public sector companies may also have to be taken over by the treasury. But the timing of this taking over, as well as terms and conditions are not yet known. The new government has expressed its determination to tackle banking issues by implementing over the medium term a comprehensive bank restructuring strategy. The authorities are currently defining specific steps and have established a National Council for Banking Reform presided by the Prime Minister. This council will be responsible for designing the overall reform strategy and monitoring its implementation. It will be important in this process to ensure that the cleaning up of banks' loan portfolios is closely connected with nonfinancial public enterprises restructuring. Another major focus should be put on improving banks' efficiency, with a key priority being the upgrade of the payments system, and on addressing management weaknesses, based on a clarification of the respective roles of the managers and the shareholder. An assessment of the medium-term viability of each bank would need to be undertaken. As part of the restructuring process, banking regulation and supervision should be substantially strengthened, including maintaining a cautious entry policy for private banks and designing a clear exit policy.

^{1/} Data deficiencies, in particular on the precise timing of some of these operations, prevent the estimation of an "augmented fiscal balance" that would incorporate in the fiscal accounts past restructuring operations.

Box 3. Algeria's Trade Policies

- Algeria's tariff ranges between 5 percent and 45 percent with 4 bands (5 percent, 15 percent, 25 percent, and 45 percent). Average unweighted import duty is estimated at 24 percent, including customs fees of 2 percent and 0.4 percent levied on all products. While this is slightly lower than other countries in the region, it remains significantly higher than the average tariff rates in many Latin American and Eastern European economies.¹
- At the start of its structural adjustment program in the early 1990s Algeria made rapid progress in dismantling trade barriers. Many nontariff barriers were removed and tariffs were lowered bringing Algeria from 10 on the Fund index of trade restrictiveness—the most restrictive figure—to 7 in 1998. However, the pace of tariff liberalization has slowed down since 1997, and measures have reversed the progress achieved. In particular, minimum dutiable values are applied on selected goods and many tariff positions have been changed in the budget laws for 1998, 1999, and 2000, with the effect of increasing effective protection.
- The distortions created by the tariff regime can be measured by effective protection rates that compare value-added of an activity at domestic tariff-inclusive prices in relation to international prices. Effective protection in Algeria is high in labor-intensive sectors, textiles and many food products, in which Algeria may potentially have a comparative advantage in exports.² Development of labor-intensive exports can be an important source of employment creation to solve Algeria's chronic unemployment problem. Dispersion of protection in Algeria is increased and its transparency reduced by duty exemptions. Duty reductions on inputs further increase the effective protection enjoyed by the final products resulting in increased levels of protection for final goods and dispersion of incentives between sectors. A streamlining of these exemptions would increase revenue collection and make effective protection more uniform between sectors.
- To reduce the anti-export bias and increase transparency of protection Algeria should gradually lower its top tariff rate from 45 percent to the 20–25 percent range, lower other tariff bands, amalgamate other duties and charges in the tariff structure, with a view to, inter alia, achieve a simple average tariff rate lower than 15 percent. It should also eliminate nontariff barriers and minimum dutiable values, and reduce duty exemptions. First, gradually lowering protection would send the right signals to the public enterprises, and to new investments. Second, lower protection now is essential for export development by changing incentives from import substitution to export production. This would enable it to take better advantage of its close access to the European markets and of its potential in exporting labor-intensive products. Reducing the existing tariff exemptions would help to mitigate losses in customs revenue from lowering of tariffs.
- Access to most industries and services is open to foreign service providers and benefits from national treatment. The government intends to open mining and the telecommunications and transport sectors to foreign and local competition. Removal of present nationality requirements would promote foreign presence and related transfer of know-how and capital in this sector.

Algeria applied to the GATT/WTO in 1987 and the first meeting of the working party took place in April 1998. Renewed interest in joining the WTO has been expressed by the new government. An EU Association Agreement is under negotiation.

¹ See for SM/98/176, 07/10/98 for further details.

² As compared to Egypt 30 percent, Tunisia 34 percent, Morocco 28 percent, Venezuela 14 percent, Argentina 13 percent, Mexico 16 percent, Poland 12 percent, and Hungary 13 percent.

Box 4. Housing Sector Reform

- **The public sector has historically played a major role in providing housing in Algeria.** Despite large investment, the public supply of housing has been insufficient to meet housing demand arising, in particular, from increased urbanization and high population growth. In addition, heavy state intervention at all stages of housing supply and financing resulted in mounting quasi-fiscal deficits at the level of public construction enterprises, public developers (OPGIs) and the state-owned housing finance institution (CNEP).
- **In the mid-90s the government started implementing a comprehensive housing sector reform, which was successful in improving the financial and institutional framework.** Efficiency gains were also achieved. As part of the reform:
 - *The housing sector has been largely liberalized.* The government has lifted trade and payments restrictions on imported inputs and liberalized the price of construction. In addition, the government started to gradually adjust rents, which, however, continue to be well below market prices. Similarly, despite a marked increase the rent collection rate remains low (about 50 percent). Finally, a new legislation was enacted for land management, and land transactions were liberalized. But these changes do not seem to have alleviated an acute shortage of land for construction, particularly by the private sector.
 - *Public construction companies and developers have been restructured.* In particular: (i) the three regional Construction Industry Holdings have executed their program and about 70 percent of the local public construction enterprises have been privatized; (ii) the privatization of building materials enterprises has been initiated; and (iii) the restructuring program for national public construction companies is under implementation. In addition, the government addressed the issue of the OPGIs, which were physically and financially restructured. Their number was progressively scaled back from 53 to 25 and part of their functions, such as maintenance activities, were progressively sub-contracted to the private sector.
 - *Housing finance has been reformed.* The CNEP has been restructured^{1/} and transformed into a commercial bank—subject to the same prudential oversight as other commercial banks—and its monopoly on housing financing has been eliminated. At the same time, housing finance institutions dealing with refinancing of mortgage loans (*Société de Refinancement Hypothécaire*) and insuring mortgage credit risk (*Société de Garantie des Crédits Immobiliers*) have recently started to be operational.
 - *The government has adopted a new policy for housing subsidies.* Subsidized mortgage loans to developers and owners have been scaled down and replaced with more transparent up-front grants geared toward low-income families. However, implicit subsidies on the sales of public land to public developers still remain.
- **While significant progress has been achieved, the challenge of alleviating housing shortage still exists. The government is determined to address the remaining policy constraints impacting housing demand and supply.** At end-1999, the housing stock was estimated at about 4 million units for a population of about 30 million. The resulting occupancy ratio of 7.5 inhabitants per unit continues to be one of the highest in the world. In addition, a large share of the housing stock is of a poor quality and proper maintenance is not ensured. On the demand side, effective demand is compressed by the lack of access to adequate housing financing. The challenges are therefore to:
 - (i) develop the mortgage market and long-term affordable mortgage loans, in particular for individuals; and
 - (ii) complement market loans with adequately targeted upfront government grants to make housing affordable to low income households. On the supply side, serious constraints to the production of sufficient affordable housing units include the lack of availability of land with legal title and adequate infrastructure. The challenges are therefore to:
 - (i) accelerate the titling process; (ii) auction for sale more state-owned titled land for private/public developers and self-builders, on an equal basis; (iii) relax urban regulations; and (iv) increase government spending for basic housing infrastructure. There is also a need to scale down the public program for social rental units that was revamped in 1997. The program, which cannot be financed only through budgetary resources, is likely to crowd out private ownership programs. In addition, its targeting is poor and its costs high. Finally, the already existing public housing stock is poorly managed and rapidly degrading, and these issues need to be solved before launching large new projects.

^{1/} However, the financial situation of CNEP is still not fully transparent and the need for further public funding cannot be ruled out.

Box 5. The Social Safety Net

The current social safety net¹ was first introduced in 1994 to replace the previous system of generalized subsidies and allowances paid to persons without income. Two schemes were then created:

- *Indemnité d'activités d'intérêt général (IAIG)* was designed to provide compensation to those able to work. They can be hired at about half the minimum wage (DA 2,800 a month), on the basis of an eight-hour workday, in community-based activities. The low remuneration was designed to ensure self-targeting of those with low reservation wages. In practice, the full minimum wage is sometime paid, especially in urban areas. At end-September 1999, there were about 135,000 beneficiaries of IAIG (against about 500,000 in 1996).
- *Allocation forfaitaire de solidarité (AFS)* was introduced to provide financial support to those unable to work (pensioners and the disabled). They receive an allowance of DA 900 a month, plus DA 120 for each dependent up to a maximum of three. At end-September 1999, there were 827,000 beneficiaries of AFS (420,000 heads of households and 407,000 dependents). About three-quarters of the direct beneficiaries were elderly people without pensions or other sources of income (about 20 percent of the total elderly population). The remaining direct beneficiaries were handicapped people who were less than 100 percent incapacitated.² About 60 percent of the total number of beneficiaries are located in rural areas.

In 1997, the basic social safety net was supplemented for a 3-year period by three new programs supported by the World Bank:

- The main scheme, representing about 80 percent of additional costs, is a public work program (*Travaux d'utilité publique à haute intensité de main d'oeuvre-TUP-HIMO*). While IAIG mainly targets the poor, TUP-HIMO targets the unskilled unemployed; they are thus offered temporary jobs paid at the minimum wage in labor-intensive community-based activities, such as road maintenance. The labor content of TUP-HIMO projects tends to be higher than in IAIG projects. There were about 129,000 beneficiaries of TUP-HIMO at end-September 1999.
- The two other schemes are less far-reaching. The community development program (*Développement communautaire-DC*) aims to provide populations in poor areas with base equipment and infrastructure to improve their living standards. The projects are implemented with the assistance of beneficiaries, so as to increase ownership. The second scheme (*Action sociale de proximité-ASP*) sets up teams, composed of social, educational, and psychological specialists, in poor communities to provide advice on health, hygiene, and various social issues.

On the whole, there were about 1,191,000 people—or 3.7 percent of total population—enrolled in the three main schemes (AFS, IAIG and TUP-HIMO) at end-September 1999. The total cost of the social safety net was about DA13.5 billion in 1998 (about 0.5 percent of GDP or 1.5 percent of budget expenditure). The supplementary programs theoretically expired at end-1999. Yet, given in particular the large number of people benefiting from TUP-HIMO, the authorities are likely to prolong them and will have thus to find new financing. They are also about to launch a new micro-credit scheme, which goals are to fight poverty and create small businesses. This program targets people that are not eligible to the micro-enterprise scheme due to age or lack of education or of financial resources. Projects are financed with small subsidized bank loans. More generally, the authorities want to assess regularly all the schemes to improve their efficiency and avoid overlapping

¹ Social schemes, including Social Security, are very numerous in Algeria. This box only describes the schemes targeted at poverty reduction and managed by *Agence de développement social (ADS)*. ADS is an Agency created in 1996 and supervised by the Ministry of Labor and Social Affairs.

²The severely handicapped (100 percent incapacitated) above 18 years old and without any income get a DA 2,500 monthly allowance directly from the Ministry of Labor and Social Affairs.

ALGERIA: FUND RELATIONS
(As of March 31, 2000)

A. Financial Relations

Membership Status Joined 9/26/63; Article VIII

General Resources Account	SDR Million	% Quota
Quota	1,254.70	100.0
Fund holdings of currency	2,549.37	203.2
Reserve position in Fund	85.08	6.8
SDR Department	SDR Million	% Allocation
Net cumulative allocation	128.64	100.0
Holdings	0.44	0.3
Outstanding Purchases and Loans	SDR Million	% Quota
Extended arrangements	1,156.25	92.2
Contingency and Compensatory	223.50	17.8

Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
CCFF	5/07/99	--	223.50	223.50
EFF	5/22/95	5/21/98	1,169.28	1,169.28
Stand-by	5/27/94	5/22/95	457.20	385.20
Stand-by	6/03/91	3/31/92	300.00	225.00

Projected Obligations to Fund (SDR million; based on existing use of resources and present holdings of SDRs):

	Overdue	Forthcoming				
	02/29/2000	2000	2001	2002	2003	2004
Principal	0.0	61.2	110.5	229.6	306.6	250.8
Charges/interest	0.0	54.9	69.9	62.9	49.4	34.3
Total	0.0	116.1	180.4	292.5	356.0	285.1

B. Nonfinancial Relations

Exchange Rate Arrangement

From January 21, 1974 to October 1, 1994, the exchange rate of the dinar was determined on the basis of a fixed relationship with a basket of currencies, adjusted from time to time. On October 1, 1994, the BA introduced a managed float for the dinar through daily fixing sessions that include six commercial banks which has been replaced by an interbank foreign exchange market as of January 2, 1996. At the end of February, the average of the buying and selling rates for the U.S. dollar, which is the representative rate under Rule 0-3, was US\$1 = DA 72.4, equivalent to SDR 1 = DA 97.9.

Last Article IV Consultation

The 1998 Article IV consultation discussions with Algeria were held in Washington and Rome in April–May 1998. The staff report (EBS/98/157, 6/25/98) was discussed by the Executive Board on June 25, 1998.

Algeria maintains an exchange rate system, which is free of restrictions on the making of payments and transfers for current international transactions.

Technical Assistance

- An FAD mission visited Algiers in April–May 1991 to assist in the design of social safety nets.
- An MAE mission visited Algiers in May–June 1991 to advise the BA on the development of monetary instruments and the money market.
- An STA mission visited Algiers in June–July 1991 to assist the authorities in improving Algeria's money and banking and public finance statistics.
- A PDR mission visited Algiers in June 1992 to provide technical assistance in freeing exchange controls and implementing an interbank foreign exchange market.
- A staff team visited Algiers in February 1993 to discuss alternative exchange market strategies.
- An FAD panel expert, visited Algiers for four weeks beginning February 6, 1993 to provide assistance in the introduction of decentralized micro-computerized applications.
- An STA mission visited Algiers in February 1993 to provide assistance in the area of balance of payments statistics.
- A staff team from MED and MAE visited Algiers in July–August 1993 to advise on the implementation of a market-based exchange system.
- An FAD technical assistance mission visited Algiers in November 1993 to update the work carried out during a 1991 social safety net mission and provide inputs to the ongoing UFR program.
- An MAE technical assistance mission met with representatives of the BA in Geneva from August 15 to 18, 1994 to provide advice on the introduction of fixing sessions in the foreign exchange market and transition to an interbank market.
- A staff team from MAE and PDR met with representatives of the BA and commercial banks in Paris from August 21 to 24, 1995 to provide advice on the transformation of existing fixing sessions into an interbank foreign exchange market.

- An FAD technical assistance mission met with the authorities in Rome in September/October 1995 to provide advice on VAT reform.
- An MAE consultant visited Algeria four times in 1998–99 to assess the status of the banking system and provide advice in banking supervision
- An MAE consultant visited Algiers in January and April 2000 to provide further advice in banking supervision.
- An STA mission visited Algiers in February 2000 to provide assistance in the area of monetary statistics.
- A staff team from MED and MAE visited Algiers in April 2000 to advise on banking and monetary issues.
- A staff team from MED and FAD visited Algiers in May 2000 to help clarify fiscal data issues.

Resident Representative/Advisor

None.

**ALGERIA: FINANCIAL RELATIONS WITH THE WORLD BANK
(As of March 4, 2000)**

The World Bank's portfolio in Algeria has a total of 8 current operations and 54 closed loans, with cumulative commitments of US\$4.45 billion (less cancellations). Of this total, US\$2.3 billion has been repaid. Commitments for the 8 current investment operations amount to US\$677.7 million.

Bank assistance fluctuated in the 1990s, with strong support in FY1995-96 to the stabilization and adjustment program (about \$900 million). Project implementation was affected by the security situation, as well as the lack of managerial and technical capacity of some implementing agencies. Following a series of portfolio performance reviews, the government addressed a range of implementation problems, making some progress with respect to procurement, audit compliance, and disbursement bottleneck issues. Recently, a clean-up of the on-going portfolio was completed in close partnership with the government. Recent new lending focused on safety nets and employment creation (social safety net; rural employment and low-income housing) benefiting the most vulnerable population. In FY1999, there was no lending activity. Disbursement ratios in FY1998 and FY1999 were 10.4 and 8.8, respectively. The annualized disbursement ratio for FY2000 is 11.6. These low disbursement ratios are associated to limited implementation capacity, resulting from a combination of circumstances related to the security situation and delays in the decision-making processes associated to political changes in the country.

The advent of the new government signifies a privileged opportunity for the Bank to strengthen its relations with Algeria. Pending the definition of sectoral priorities and programs by the authorities, priority areas of Bank assistance to Algeria are:

- continued efforts to improve the development impact of projects and to realign their objectives and scale with new priorities and budget constraints;
- programmatic priorities for new assistance focusing on: (i) support to the reform program to sustain private sector development, with focus on financial sector reform and small and medium enterprises development; (ii) infrastructure development, with focus on water and sanitation and housing/housing finance; (iii) continued support to safety nets and the social sectors; (iv) reform of the telecommunications sector; and (v) institutional development initiatives, including support for government budget procedures.
- renewed discussions on strategy notes in key sectors in preparation of a new assistance program with the Bank (CAS), including Social Protection, Financial Sector, and Private Sector Development.

The Bank will launch the CAS preparation efforts in FY2001, and final document is expected to be presented to the Board in the same year.

ALGERIA: FINANCIAL RELATIONS WITH THE WORLD BANK

(As of March 4, 2000)

(In millions of U.S. dollars)

	Total Net Commitments		Undisbursed Balance				
IBRD lending operations¹							
54 loans closed ²		3,773.3					
8 active loans							
Low income housing		150			140		
Rural employment		89			70.8		
Ind. Pollution control		78			71.1		
Social safety I		50			8.7		
Highways VI		130			82.9		
Water supply and sewer		110			95.4		
Basic and secondary		40			11.9		
Education							
Cadastre		30.7			5.9		
Total active loans		677.7			486.7		
Repayments ⁶		2,274.5					
Debt outstanding ⁶		1,644.5					
Net lending by the World Bank	1994	1995	1996	1997	1998	1999	2000³
Commitments	140	331	428	89	150	0	0
Disbursements	198	440	505	118	220	57	37
Debt service	303	363	393	378	338	334	176
Principal	189	237	249	249	223	204	107
Interest ⁴	114	126	145	129	114	129	68
Net transfer ⁵	-104	77	112	-260	-118	-276	-139

¹IDA has no operations in Algeria.²Less cancellations, includes adjustment lending.³Data as of March 4, 2000.⁴Includes charges.⁵Equal to disbursement minus debt service.⁶As of January 31, 2000.

ALGERIA: STATISTICAL ISSUES

Available economic and financial data have been provided to the staff on a regular basis, allowing for adequate surveillance and monitoring of performance under the EFF. However, after the expiration of the EFF in May 1998, the reporting of statistics to the Fund has deteriorated. Also in recent years the production of statistics has suffered from a profound lack of financial resources. Algeria needs to reverse this trend to improve the coverage, quality, and timeliness of economic data.

Real sector

Real sector data are being reported on an irregular basis with substantial lags to STA. PPI and industrial production series were provided for only six quarters between the first quarter of 1995 and the second quarter of 1996. Both series will be published in International Financial Statistics (IFS) once historical data are made available by the authorities to check the accuracy of the reported data. The latest national accounts information in the IFS pertains to data reported for 1995. The data on trade volumes have not been updated since 1992 for IFS publication, although some estimated data are available from Direction of Trade Statistics.

Government finance

For the first time in many years Algeria reported government statistics (GFS) data for publication in the GFS Yearbook. Data cover the period 1994–96. However, the institutional coverage of the data reported is unknown and a clarification has been sought from the authorities. Moreover, summary data for the period 1985–93 were provided, but could not be processed because their format did not follow the GFS standards.

Monetary accounts

Monetary data are generally adequate for policy formulation and monitoring of economic developments. However, the data are no longer reported in a timely manner; the reporting lag is currently about six to nine months. Interest rates had not been reported to STA for many years. However, recently, end of year data have been reported to STA.

Balance of payments

While the authorities have taken action to report and to provide data on balance of payments for 1992–96 to STA, a full breakdown is still required for their inclusion in the Fund's publications, International Financial Statistics (IFS) and Balance of Payments Statistics Yearbook (OPBSY).

The balance of payments compilation system is broadly reliable. However, there is a need to:

- (i) improve the coverage of the balance of payments by including transactions not covered by

the exchange record; (ii) improve the currentness of data by compiling quarterly data; (iii) adopt a more rigorous and uniform application of the residency criterion; and (iv) improve data on exports of foreign oil companies from Algeria, their profit remittances including in the form of oil and gas exports, and related imports and direct investments.

Algeria: Core of Statistical Indicators, as of June 9, 2000

	Exchange rate	International Reserves	Broad Money	Interest Rates	Consumer Price Index	Exports/Imports	Current Account Balance	Overall Government Balance	GDP/GNP	External Debt and Debt Service
Date of latest observation	04/30/00	04/30/00	09/30/99	01/31/00	12/31/99	12/31/99	12/31/99	12/31/99	12/31/99	12/31/99
Date received	05/09/00	05/09/00	02/20/00	02/20/00	02/20/00	02/20/00	02/20/00	02/20/00	02/20/00	02/20/00
Frequency of data 1/	D	M	M	M	M	Q	Q	Q	A	A
Frequency of Reporting 1/	M	M	V	M	V	V	V	V	V	V
Source of data 2/	A	A	A	A	A	A	A	A	A	A
Mode of reporting 3/	C	C	C	C	C+V	V	V	V	V	V
Confidentiality 4/	C	C	C	C	C	C	C	C	C	C
Frequency of publication 1/	D	M	M	M	M	A	A	Q	A	A

1/ D-daily; W-Weekly; M-monthly; Q-quarterly; A-annually; V-irregularly in conjunction with staff visits.

2/ A-direct reporting by central bank, ministry of finance, or other official agency; N-official publication or press release; P-commercial publication, C-commercial electronic data provider, E-EIS.

3/ E-electronic data transfer; C-cable or facsimile; T-telephone; M-mail; V-staff visits.

4/ C-for unrestricted use

ALGERIA: SOCIAL INDICATORS

	1992	1993	1994	1995	1996	1997
Population						
Resident population (in millions)	26.2	26.8	27.4	28.0	28.6	29.3
Population aged 0-14 (in millions)	10.7	10.7	10.8	11.0	11.0	11.1
Rural population (percent of total)	44.4	43.3	45	44.2	...	...
Birth rate (per thousand)	28.2	29	...	26.2	...	27.1
Death rate (per thousand)	5.9	6	...	5.4	...	4.9
Growth rate (in percent)	2.4	2.3	2.2	2.2	2.2	2.2
Health						
Infant mortality (per thousand)	39.0	...	...	33.5	...	32.0
Population per physician (per thousands)	...	0.82	...	...	...	...
Education						
Primary net enrollment (in percent)	103.9	105.2	105.5	106.6	107.5	...
Primary enrollement (net) 1/	94.7	95.2	95.7	95.1	94.1	...
Secondary enrollment (net) 1/	54.6	55.1	55.4	56.2	56.2	...
Illiteracy rate 2/	...	...	...	41.7	...	39.7
Employment						
Labor force (percent of total population)	24.1	24.4	24.8	27.0	...	...
Unemployment (percent of labor force)	23.8	23.1	24.4	28.1	...	26.4
Income						
GDP per capita in U.S. dollars 3/	1,823	1,853	1,530	1,477	1,592	1,613

Sources: Algerian authorities; World Development Report (World Bank, 1999); and Social Indicators of Development (World Bank, 1999).

1/ Percentage of age group over same age group enrolled in education.

2/ In percent of population of at least 15 years old.

3/ Converted at the official exchange rate.

**Statement by the IMF Staff Representative
July 7, 2000**

Since SM/00/122 was issued, the staff has received the following information:

- The supplementary budget law for 2000 was passed by parliament. The few amendments voted do not appear to have any significant impact on the figures quoted in the staff report.
- The council of ministers approved a draft law liberalizing the telecommunications sector.
- Oil prices remained high during the first semester of 2000. The average price for the Algerian crude (Saharan blend) stood at about US\$26.5 per barrel over January–April 2000. Effective July 1, 2000, Algeria’s OPEC quota was brought from 788,000 barrels a day to 811,000 barrels a day (+2.9 percent).
- Reflecting strong hydrocarbon export revenues, gross foreign exchange reserves have steadily increased from US\$4.4 billion at end-December 1999 to US\$6.5 billion at end-May 2000. Meanwhile, the treasury has accumulated substantial deposits on its central bank account (DA 147 billion at end-May 2000).
- The dinar remained fairly stable against the Euro since the fall of 1999, while it depreciated continuously against the US dollar until last April (down to 76 dinars per US dollar from 69.3 dinars per US dollar in December 1999) before recovering slightly in May (to 75.2 dinars per US dollar). In real effective terms, the exchange rate depreciated by 2.7 percent over the first four months of the year.
- After having picked up in January and February, the inflation rate (measured by the 12-month change in the consumer price index for the Algiers area) fell sharply in the following months. It was even negative in May (-0.5 percent, down from 2.4 percent in February). As in 1999, the contribution of food prices to the disinflation process has been substantial.



INTERNATIONAL MONETARY FUND

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IMF Concludes Article IV Consultation with Algeria

On July 7, 2000, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Algeria.¹

Background

Between 1994 and 1998, Algeria was successful in restoring macroeconomic stability and implementing structural reform, owing in large part to its steadfast implementation of IMF-supported programs. Growth resumed, inflation was tamed, and the balance of payments position strengthened markedly. Progress on the structural front was also widespread, with the establishment of institutional and market mechanisms necessary to complete the transition from a centrally planned to a diversified market economy. Besides, relative prices were realigned and numerous external trade and payment restrictions were abolished. Inefficient public enterprises had to be restructured, which entailed massive layoffs and contributed to the rise in the unemployment rate.

In 1998 and the first half of 1999, the Algerian economy was adversely affected by low world oil prices. This resulted in a sharp fall in hydrocarbon export receipts. In addition, the balance of payments position was also weakened by a large deficit of the capital account reflecting limited access to new external borrowing. This resulted in a substantial loss of gross official reserves, from about 9.5 months of imports at end-1997 to slightly above 4 months in summer 1999. The authorities' policy response was to tighten the fiscal stance, maintain high real interest rates, and let the Algerian dinar depreciate vis-à-vis the U.S. dollar. Coupled with a turnaround in oil

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. In this PIN, the main features of the Board's discussion are described.

prices in the course of 1999, this resulted in an improvement in the current account from a deficit of 1.9 percent of GDP in 1998 to a balanced position in 1999; foreign exchange reserves stabilized in the second part of 1999. Owing to net amortization, the stock of external debt declined by US\$2 billion to US\$28.3 billion (or 59 percent of GDP). The debt service ratio, while lower than in 1998, remained high at about 40 percent of exports of goods and nonfactor services in 1999.

The fiscal position deteriorated sharply in the first part of 1999 due to low oil prices and to an acceleration of current expenditure. In response, the authorities tightened expenditure management and, in particular, froze expenditure on new investment projects. This, coupled with the strong recovery in oil prices, resulted in an overall fiscal position better than anticipated in the budget law. Indeed, preliminary data for 1999 indicate an overall budget deficit of about 0.5 percent of GDP compared to 3.9 percent in 1998.

In 1999, activity in the nonhydrocarbon sectors slowed down while inflation performance improved. Real growth decreased to 3.3 percent in 1999 from 5.1 percent in 1998 despite a strong performance in the hydrocarbon sector (6.2 percent). Nonhydrocarbon GDP increased by only about 2.5 percent against a 5.5 percent growth in 1998. In particular, activity in the agricultural sector and in the industrial public sector decelerated, which was mainly due to adverse weather conditions and continued structural deficiencies. Against this background and owing to a labor force growth of about 3 percent per annum, the unemployment rate has probably continued to increase to about 30 percent. The consumer price index (CPI) rose by only 2.6 percent on average in 1999 following a 5.0 percent increase in 1998. Part of the 1999 disinflation is attributable to lower food prices.

No new major reform was introduced between the end of the extended arrangement in May 1998 and the end of 1999. However, some of the reforms initiated during the program period, such as the overhaul of housing policies and the opening of the banking system to new domestic and foreign banks, continued to be implemented through 1999. Similarly, minority stakes in three public sector companies were listed in 1999 on the newly-created Algiers Stock Exchange. However, changes in tariff positions and the introduction since 1997 of minimum dutiable values for selected imports have resulted in increased effective protection.

Executive Board Assessment

Executive Directors commended the Algerian authorities' success—in particularly difficult circumstances—in restoring macroeconomic balance and implementing wide-ranging structural reforms. Implementation of the authorities' IMF-supported programs in the mid-1990s has resulted in improved growth, a marked decline in inflation, and stronger fiscal and external positions. At the same time, the role of markets in allocating resources has increased, and the trade and exchange system has become more liberal.

Directors praised the authorities' policy response to the challenge of falling oil prices in 1998 and the first half of 1999. Demand management was tightened by cutting budget expenditure, the exchange rate was allowed to depreciate vis-à-vis the U.S. dollar, and real interest rates

were kept high. These policies were important in limiting the depletion of foreign exchange reserves and consolidating the fiscal position.

Directors considered that higher oil prices and an improved domestic political climate had created an opportunity to address Algeria's major policy challenges decisively—namely, to reduce dependence on the hydrocarbon sector; raise living standards; reduce unemployment from its very high level; and absorb the large numbers of new entrants to the labor force, without sacrificing the hard-won gains of macroeconomic stability. A substantial increase in the growth rate is essential in meeting these challenges and will require an acceleration of structural reforms to complete the transition to a market-based economy.

Against this background, Directors broadly supported the reform program announced in early 2000. They welcomed its emphasis on accelerating reform of the banking sector and public sector companies but stressed the need for detailed implementation plans. Directors emphasized the critical role that only the private sector could play in the reform process. The economic environment—including government regulations—should be improved to promote private economic activity, including domestic and foreign investment.

Regarding policies to preserve macroeconomic stability during the period of restructuring, Directors welcomed the supplementary budget for 2000 recently passed by Parliament, and endorsed the authorities' intention to save any hydrocarbon revenue in excess of that budgeted in a stabilization fund. They strongly endorsed the authorities' intention to ensure transparent management of the resources allocated to this fund, which should be appropriately integrated with other fiscal activities. To ensure a strong fiscal position over the medium term, Directors emphasized the desirability of reducing dependence on hydrocarbon revenue, and encouraged the authorities to continue to broaden the tax base and to strengthen tax and customs administration. Regarding budget expenditures, Directors recognized the need for a strong safety net, partly to preserve social consensus during a period of major transition. They also recognized the need to improve basic social services, particularly health and education. Meeting these demands on public resources in a sustainable manner would require continuing efforts to orient expenditure to items of the highest priority.

Directors endorsed the authorities' intention to pursue a prudent monetary policy geared toward keeping inflation low, while further developing the role of indirect monetary policy instruments. Directors considered that Algeria's exchange rate policy struck an appropriate balance between safeguarding competitiveness gains and preserving price stabilization gains. They also considered that the interbank foreign exchange market should be deepened through a further liberalization of the exchange system. Directors supported the authorities' intention to manage external liabilities more actively and to request a rating of Algeria's sovereign risk. Continued progress in these areas would further facilitate Algeria's integration in capital markets and attract foreign investment.

Regarding specific steps in the process of structural reform, Directors attached particular importance to early and comprehensive improvement in the efficiency and financial health of the government-owned banks. This had to proceed in step with a thorough restructuring of public

enterprises, claims on which accounted for a substantial share of these banks' assets. Directors also stressed the need to strengthen banking supervision and, in this context, welcomed the authorities' ongoing efforts to improve compliance with Basel Core Principles. They also welcomed the establishment of the National Council for Banking Reform.

Regarding reform of public sector enterprises, Directors emphasized the importance of accelerated and steadfast implementation of the privatization program within a fair and transparent framework. They welcomed plans to liberalize the energy, transport, and telecommunication sectors. Directors noted the critical need for improved housing as well as the role which housing construction could play in boosting employment and growth. They encouraged the authorities to formulate a comprehensive strategy to further reduce housing shortages and promote private sector investment in this sector. Directors saw particular urgency in improving the availability of land for housing and business construction, as well as a need to clarify agricultural land ownership.

Directors considered that the maintenance of a high degree of protection would impede growth. They urged the authorities to accelerate trade liberalization both on a regional and multilateral basis.

Directors welcomed the emphasis in the government's program on improving governance and transparency through, inter alia, a reduction in government intervention in the economy and judicial reform. They welcomed the authorities' participation in the pilot project on the publication of the Article IV staff report and the publication of a Report on the Observance of Standards and Codes module on banking supervision.

Directors welcomed the authorities' interest in the General Data Dissemination System as a framework for redressing the significant weaknesses in Algeria's economic statistics. In this regard, they believed that additional resources should be allocated to upgrade the statistical apparatus.

Directors welcomed the authorities' intention to maintain a close policy dialogue with the Fund and to seek technical assistance in key areas of expertise of the Fund.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. As part of a pilot project, the staff report for the 2000 Article IV consultation with Algeria is also available.

Algeria: Selected Economic Indicators

	1995	1996	1997	1998	1999
Domestic economy					
			In percent		
Real GDP	3.9	3.8	1.1	5.1	3.3
GDP deflator	28.7	25.7	6.5	-4.2	10.9
Consumer price index (CPI), period average	29.8	18.7	5.7	5.0	2.6
External sector			In billions of U.S. dollars 1/		
Exports of goods, f.o.b.	10.3	13.2	13.8	10.1	12.3
Imports of goods, f.o.b.	-10.1	-9.1	-8.1	-8.6	-9.0
Current account, excluding capital grants (in percent of GDP)	-5.4	2.7	7.2	-1.9	0.0
Capital account balance	-4.1	-3.3	-2.3	-0.8	-2.4
Gross official reserves	2.1	4.2	8.0	6.8	4.4
External debt (in percent of GDP)	76.4	71.9	65.2	64.3	59.1
Debt service ratio (in percent of current external receipts)	40.5	28.7	29.3	44.8	39.6
Real effective exchange rate (percentage change, depreciation)	-16.2	2.5	9.9	4.8	-8.0
Financial variables			In percent of GDP 1/		
Overall budget balance	-1.4	3.0	2.4	-3.9	-0.5
National savings	25.9	30.4	25.8	25.1	29.1
Gross domestic investment	32.2	25.1	23.8	27.7	27.4
Change in broad money (M3) (in percent)	10.5	14.4	18.2	19.1	14.0
Interest rate (central bank repurchase rate, in percent)	14.0	13.0	11.0	9.5	8.5

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

1/ Unless otherwise noted.

INTERNATIONAL MONETARY FUND

ALGERIA

Recent Economic Developments

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Approved by the Middle Eastern Department

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Algeria: Basic Data

Area:	2.4 million square kilometers
Population (1998)	29.3 million
Population growth (1998)	2.3 percent
Employment in the nonagricultural sector	4.8 million
GDP per capita (1998)	US\$1,618

IMF Position (March 2000)

Quota	SDR 1254.7 million
Fund holdings of dinars	SDR 2549.4 million
Holdings of SDRs	SDR 0.44 million
Exchange rate	US\$1 = DA 73.5

	1999	1995	1996	1997	1998	1999
	In billions of dinars at current prices				(Percentage change in constant prices)	
National accounts						
Nongovernment consumption	1,635	2.6	2.0	-1.0	2.4	2.9
Government consumption	542	4.1	2.7	2.7	2.6	2.5
Gross fixed investment	873	2.6	3.5	0.8	3.3	2.7
Total domestic demand	3,050	2.8	-1.2	-0.1	6.4	2.1
Exports of goods and services	881	6.3	7.1	6.3	1.6	6.2
Imports of goods and services	744	2.0	-13.3	2.4	6.5	1.8
Gross domestic product	3,186	3.8	3.8	1.1	5.1	3.3
					(Annual percentage change)	
Money and prices						
Consumer prices (end of period)		29.8	18.7	5.7	5.0	2.6
GDP deflator		28.7	25.7	6.5	-4.2	10.9
Broad money		10.5	14.4	18.2	19.1	14.0
Bank credit to the nongovernment sector		84.9	37.3	-4.6	-1.4	27.7
					(In billions of U.S. dollars)	
Balance of payments						
Merchandise exports		10.3	13.2	13.8	10.1	12.3
Merchandise imports		10.2	9.1	8.1	8.6	9.0
Services and transfers, net		-2.4	-2.9	-2.2	-2.4	-3.3
Current account balance		-2.2	1.2	3.5	-0.9	0.0
(In percent of GDP)		-5.6	2.7	7.2	-1.9	0.0
Gross official reserves (excluding gold)		2.1	4.2	8.0	6.8	4.4
Gross official reserves (in months of imports)		2.1	4.5	9.4	7.6	4.6
					(In percent of GDP)	
Government finances						
Revenue		30.6	32.2	33.5	27.8	29.8
Expenditures 1/		32.0	29.2	31.2	31.7	30.3
Balance		-1.4	3.0	2.4	-3.9	-0.5

Sources: Data provided by the Algerian authorities; IMF, **International Financial Statistics**, and Fund staff estimates.

1/ Including net lending, special accounts, and operations of the Rehabilitation Fund.

I. INTRODUCTION

1. **Owing in large part to its steadfast implementation of Fund-supported programs in 1994–98, Algeria’s macroeconomic performance has improved dramatically.** During the 1990–94 period, annual real growth was negative, averaging -0.9 percent; the performance was even worse in the nonhydrocarbon sector. During the same period, inflation remained in the two-digit range (about 27 percent on average for the consumer price index).¹ In comparison, average annual growth reached 3.4 percent in 1995–98 (Table 7), and average inflation was about 9 percent (and even close to 5 percent in 1997–98). In 1999, growth remained close to its recent trend and inflation fell to 2.6 percent. However, such a growth rate is not sufficient to reduce unemployment and absorb the new entrants into the labor force. As a result, the unemployment rate, which was estimated at 26.4 percent in 1997, may now hover around 30 percent.

2. **The Algerian economy remains heavily dependent on developments in the hydrocarbon sector,** which accounts for about one-quarter of GDP (Table 6), two-thirds of government revenue, and virtually all export receipts. As a result, fluctuations in hydrocarbon prices have a major impact on the overall macroeconomic situation. In 1998 and during the first half of 1999, the Algerian economy was adversely affected by the decline in international oil and gas prices.² The decrease in the value of hydrocarbon exports contributed to a deterioration in the current account position of some 9 percentage points between 1997 and 1998 (Table 5). Similarly, the fiscal position changed from a significant surplus in 1997 (2.4 percent of GDP) to a large deficit in 1998 (3.9 percent of GDP).³ Owing to measures implemented in late 1998 and during the first half of 1999, such as letting the nominal exchange rate ease vis-à-vis the U.S. dollar and freezing budgetary allocations, and to a turnaround in oil prices in the spring of 1999, the fiscal position improved by more than 3 percentage points of GDP in 1999 and recorded a small deficit (0.5 percent of GDP). Meanwhile, the current account of the balance of payments returned to balance.

3. **After the substantial fiscal consolidation of the 1994–97 period, fiscal policy has remained prudent.** The overall fiscal balance shifted from a deficit of 8.7 percent of GDP in 1994 to a surplus of 2.4 percent of GDP in 1997. A key explanatory factor for this strong performance was the increase in hydrocarbon revenue. Yet, discretionary revenue and expenditure policy measures also played an important role. Fiscal policy in 1998–99 remained prudent (see above). Nevertheless, the reduction in the tax effort in 1999 will have to be

¹ This is the consumer price index for the Algiers area.

² Crude oil export prices declined from US\$19.5 per barrel in 1997 to US\$12.9 per barrel in 1998 before recovering to US\$17.9 per barrel in 1999.

³ Close to two-thirds of the value of hydrocarbon exports goes to the government in the form of hydrocarbon revenues.

addressed in the near future. Besides, fiscal policy remains burdened by quasi-fiscal deficits resulting from losses in the economic public sector and contingent liabilities in social security institutions.

4. **Monetary policy has been successful in taming inflation, but market forces could play a more important role in its operations.** As mentioned above, inflation, which was still in the two-digit range in the mid-1990s, has receded steadily in recent years. The monetary authority is firmly committed to keeping it low, with a medium-term target of about 3 percent. Although significantly modernized in the 1990s, the monetary policy operating framework could be further improved by letting market forces play a greater role in the formation of interest rates and by increasing its transparency.

5. **Despite substantial reform during the 1990s, the banking sector still needs further restructuring.** Government-owned banks have been repeatedly restructured since 1991. Yet, their operational efficiency remains mediocre at best and there are still serious doubts regarding their profitability and solvency, the latter hinging on the large share (about 20 percent) of claims on the government in their balance sheets and the implicit government guarantee on nonperforming loans to public enterprises. Banking supervision has also been somewhat strengthened.

6. **The performance of the industrial public sector remains poor.** Despite substantial restructuring during the past four years that led to massive layoffs, public enterprises are still in a difficult situation. The 1998 industrial production rebound proved short-lived and the disappointing 1999 performance indicates that further restructuring is needed.

7. **Algeria's external position has improved, but remains highly sensitive to oil prices fluctuations.** The external debt to GDP ratio declined from about 72 percent in 1996 to about 59 percent in 1999, owing to increasing net amortization with the end of the consolidation periods of previous debt reschedulings. The latter also implied during the same period an increase to about 40 percent in the debt service to exports ratio. The 1998–99 fall in hydrocarbon prices, with foreign exchange reserves dropping by about US\$4 billion in 18 months, showed that Algeria's external position has remained fragile.

II. REAL SECTOR DEVELOPMENTS

A. Overall Developments

8. **After a sharp increase in 1998 (5.1 percent), economic activity slowed down to 3.3 percent in 1999**, despite a 6.2 percent increase in the hydrocarbon sector GDP. In 1998, growth performance improved due mainly to a rebound in agricultural and industrial production. In 1999, nonhydrocarbon sectors grew by only 2.5 percent (compared to 5.5 percent in 1998). In particular, growth in the agricultural sector decreased to 2.7 percent (from 11.4 percent in 1998), while growth in the industrial sector dwindled to about 1 percent (8.4 percent in 1998).

9. **The recent growth performance was insufficient to allow for a decrease in the unemployment rate.** The latter stood at 26.4 percent in 1997 (latest year for which statistics are available). With the main engine of growth being in the recent past the highly capital-intensive hydrocarbon sector and in a context of layoffs in the wake of public enterprise restructuring, it is very likely that the unemployment rate has still increased.

10. **Inflation performance has improved significantly since the mid-1990s.** The low inflation level (about 5 percent, as measured by the consumer price index) attained at the end of the Fund-supported program period was maintained throughout 1998. Reflecting in part a drop in food prices, inflation decreased markedly in 1999 to an annual average of 2.6 percent.

Agriculture

11. **In 1999, agriculture contributed to about 11 percent of total value added; its share of total employment was about 24 percent in 1997 (Table 19).**⁴ Production in this sector over the recent past has been affected by large variations in weather conditions. Agricultural output increased by more than 11 percent in 1998, after an even larger decrease in 1997 due to a severe drought. The increase in production was much more modest in 1999 (2.7 percent), because of disappointing cereal crops which suffered once again from a lack of rainfall in some parts of the country.

12. **Domestic production is insufficient to cover consumption needs.** This is particularly true for cereals, for which only 10 percent of domestic demand was satisfied by domestic supply in 1997,⁵ and to a lesser extent for milk. Total food imports currently account for about a quarter of total merchandise imports; this share has barely changed since the beginning of the 1990s.

⁴ Latest year for which data are available.

⁵ Source: Food and Agriculture Organization (FAO): Using 1997 tends to somewhat overestimate the dependency on imports, since cereal crops were especially affected that year by a severe drought.

13. **Crop yields are particularly low in Algeria. For cereals, crop yields are usually below 1,000 kilograms per hectare (Table 12). Their average over the 1990–99 period was 867 kilograms per hectare, against respectively 1,027 and 1,254 kilograms per hectare in neighboring Morocco and Tunisia, and 5,115 kilograms per hectare in the United States.⁶**

Land use and institutional framework

14. **Algeria enjoys a land area of 2.4 million sq. km, making it the second largest country in Africa.** Yet, only a very limited part of it is suitable for cultivation. Arable land only represents a small fraction of this surface (about 8.2 million hectares, or 3.4 percent of the total land area) and has only slightly increased since the beginning of the 1990s (Table 11). An important share of cultivated land is devoted to cereals (about 43 percent in 1998); fodder and fruit productions occupy respectively about 6 percent and 5 percent of the total surface. Most of the arable land suffers from a lack of rainfall. However, irrigated areas only make up about 7 percent of the cultivated land; they are essentially used for vegetable and tree crops. The development of irrigation is thus high on the authorities' agenda.

15. **About one-third of arable land is still publicly owned, yet privately managed.** State farms (*Domaines agricoles socialistes*) were dismantled in 1987 and transformed in smaller structures either collectively managed (*Entreprises agricoles collectives* (EACs)) or individually managed (*Entreprises agricoles individuelles* (EAI)). The land remained possession of the state but the farmers were given 99-year leases to exploit it. They had the obligation to keep it during the first five years. After this period, they could hand over the lease to their heirs, or enter into a partnership, or renounce their right to cultivate the land. The farmers were (and are still) otherwise free to choose what they would cultivate and sell (and at what price). There is no rent or dividend paid to the state for these leases. Farmers just have to pay the land tax, as private owners do.⁷ Over time, EACs have tended to lose their collective character and have rather become groups of individual units, so that their status has become ambiguous.

16. **Privately-owned land totals about 5 million hectares, or about two-thirds of arable land.** With the help of the World Bank, the status of about one-half of it has been cleared in land registers. Despite these favorable evolutions, land ownership issues still hamper the development of private agriculture. For instance, farmers hardly get loans when they do not own the land. The authorities are aware of this phenomenon; but past policy statements have overall tended to nuance its importance and sometimes to blame banks for being overly cautious.

17. **Through a program introduced in 1998, the government plans to expand cultivated land by offering concessions on pieces of its private domain. Applicants must**

⁶ Source: FAO.

⁷ In practice, the collection of this tax has proved difficult.

meet three criteria; their projects must be: (i) profitable; (ii) ecologically sustainable; and (iii) socially acceptable. 600,000 hectares are already available for this program and could lead to the creation of 50,000 concessions, each employing 10 people on average. In a few years, the cultivated land area could eventually increase by 1.5 million hectares (18 percent) owing to this scheme. The authorities have also endeavored to develop Saharan agriculture; the results, however, have proved modest up to now, because of very high transportation and irrigation costs.

18. **Aid to agriculture has been scaled down since 1994–95 with the freeing of agricultural input prices and the liberalization of most output prices.** However, the authorities regard an active sectoral policy as still necessary to keep the threat of desertification in check, increase productivity, and facilitate farmers' insertion in the economy. A large part of the government's support to agriculture will be distributed from 2000 on through the newly created *Fonds national de la régulation et du développement agricoles* (FNRDA). The FNRDA replaces the former *Fonds de garantie des prix agricoles* and *Fonds national de développement agricole*. It is managed by *Caisse nationale de mutualité agricole* and indirectly financed by budgetary allocations to a special account. Agriculture production is subsidized through different channels: grants for the acquisition of equipment goods; interest subsidies on loans⁸ (in some cases, interest payments may be entirely taken over by the government); and the price support mechanism. Minimum prices indeed remain for domestically produced wheat and are usually somewhat higher than international prices. The budgetary cost of the price support system was about DA 8 billion in 1999.

Recent developments

19. **Cereal production was the most affected by the spring 1999 drought.** It fell by almost a third, from an excellent 1998 crop slightly exceeding 3 million tons.⁹ At about 2 million tons, it was 16 percent below its average level of the 1990s. Although cereal production only accounts for about 15 percent of total agricultural production, its large swings explain much of the changes in agricultural production in 1998 (sharp rebound) and 1999 (much lower growth).

20. **Other crops did not suffer much from the drought in 1999, except for pulses whose production dropped by about 15 percent.** Vegetable production, which makes up about 11 percent of total production, was almost stable, while date production (about 5 percent of the total) increased by about 10 percent. Date crop was thus more than double its 1990 level, owing to a simultaneous increase in yields (by about 55 percent over the period) and cultivated area (33 percent). Dates rank first among nonhydrocarbon export products.

⁸ The authorities are also contemplating canceling the debt of the agricultural sector.

⁹ Or three times its 1997 level.

21. **Animal production accounts for about 50 percent of agricultural production.** The Algerian herd was roughly stable during the 1990s at about 22 million heads (Table 13). It is composed of sheep (about 80 percent), goats (14 percent), and cattle (6 percent). Domestic demand for meat and poultry is overwhelmingly met through domestic production; in this sector, the self-sufficiency ratio (SSR)¹⁰ was close to 98 percent in 1997. Meat production grew on average at about 2 percent a year during the 1990s. Red meat production increased by slightly more than 3 percent in 1999, while chicken meat production recorded a 25 percent jump. As a result of disrupted input supply from public enterprises, egg production suffered a dramatic decline until 1996, when it reached a trough (40 percent below its 1990 level). Since then, it has continuously increased at a fast pace, including in 1999 (9 percent).

22. **Milk production increased substantially during the 1990s, with a sharp acceleration at the end of the period.** Consequently, the sector's SSR rose from 36 percent in 1990 to 42 percent in 1997. Given the 30 percent production increase in 1999, this ratio is now probably above 50 percent.

23. **Fishery remains marginal in Algeria** (3 percent of agricultural production) despite a likely large development potential given Algeria's access to the Mediterranean. Most fisheries are individual enterprises and use small fishing boats. However, in 1999, private investors created a larger company (Union Pêche) and acquired larger trawlers. The authorities have tried to develop this activity, notably through the modernization of ports. They have also allowed, since 1994, foreigners to fish in Algerian waters.

B. Hydrocarbon Sector

Overview

24. **The hydrocarbon sector dominates the Algerian economy.** In 1999, it accounted for 28 percent of GDP, close to the average for the Gulf countries. Moreover, with an average annual real growth rate of 5.5 percent over the past five years, hydrocarbons have been the driving force of economic growth. Likewise, hydrocarbons, either through exploration and development or the expansion of production capacity, account for about one-fourth of gross investment in the economy, and the bulk of foreign direct investment. On the external side, hydrocarbons represent the main source of foreign exchange earnings accounting for about 95 percent of total merchandise exports. The hydrocarbon sector is also providing nearly 60 percent of total fiscal revenue directly to the treasury.

25. **By end-1998, Algeria ranked 15th in the world in terms of oil reserves and 8th in terms of gas reserves.** Algeria's proven recoverable reserves of crude oil were estimated at 9.6 billion barrels in 1998, and at the current extraction rate would be depleted in about

¹⁰ The SSR is the percentage of food demand met by domestic production. These estimates are computed from FAO data.

35 years. Algeria possesses sedimentary basins that probably contain larger reserves of crude oil than current estimates suggest. Recoverable reserves may rise in future years as a result of new discoveries and continued implementation of enhanced recovery systems. Proven natural gas reserves amount to 36 billion barrels of oil equivalent, and at current extraction rates would not be exhausted for at least 70 years. Algeria also has reserves of condensate and liquefied petroleum gas. Total recoverable hydrocarbon reserves in tons of oil equivalent are broken down as follows: 57 percent for natural gas; 28 percent for crude; 9 percent for condensate; and 6 percent for liquefied petroleum gas.

The institutional framework

26. **The hydrocarbon sector remains highly concentrated around a limited number of parastatals.** Sonatrach (*Société nationale pour le transport et la commercialisation des hydrocarbures*), the predominant state-owned enterprise in the hydrocarbon sector, is also the largest Algerian enterprise in terms of employment, with a work force of about 35,000 at end-1998. Sonatrach's activities include petroleum exploration, oil and gas production and marketing, and pipeline transportation. Oil refining is under the responsibility of Naftec (*Entreprise nationale de raffinage des produits pétroliers*) while domestic distribution of petroleum products is managed by Naftal (*Entreprise nationale de commercialisation et de distribution de produits pétroliers*) which were both spun off from Sonatrach in the early 1980s. Domestic marketing of natural gas and electricity is the responsibility of Sonelgaz (*Société nationale d'électricité et de gaz*). In addition, several public enterprises are involved in hydrocarbon-related activities such as drilling and petroleum engineering, petroleum production, and maritime transportation of hydrocarbon products.

27. **The petroleum code, established by the 1986 hydrocarbon law, allowed foreign participation in oil exploration under the terms of concession agreements, service contracts, or production-sharing contracts.** For the first time, foreign companies were permitted to repatriate their profits. Nevertheless, the government's right to acquire a majority interest in any joint venture was maintained. The 1991 amendments to the 1986 law extended some of these provisions to joint ventures in oil production and in the development and exploitation of gas fields. Moreover, foreign companies were granted fiscal status in Algeria, enabling them to avoid double taxation, and Sonatrach's transportation monopoly was terminated.

28. **A decree of April 6, 1996, introduced the following changes as regards the participation of foreign companies in the oil and gas sector:**

- A foreign company is no longer required to form a commercial company subject to Algerian law with its head office in Algiers if it sets up a joint stock company with Sonatrach.
- In the case of a field not yet developed or underdevelopment, the foreign company has to pay a special bonus to obtain access to known reserves.

- If a foreign company or consortium finances a pipeline, priority will be given to transporting hydrocarbons from the field(s) operated by that company or consortium in association with Sonatrach.

29. **The foreign partners of Sonatrach have the right to use the proceeds of gas exports covered by joint marketing agreements with Sonatrach.** The foreign partners are not required to repatriate in Algeria their share of proceeds from these sales.

Production and exports

30. **The exploitation of hydrocarbon resources generates five different types of fuels, which are consumed domestically and/or exported:** (i) crude oil, for which production is limited by Algeria's OPEC quota, set at 788,000 barrels a day in March 2000; (ii) refined petroleum products; (iii) natural gas, which can be transported through pipelines or converted into liquefied natural gas; (iv) condensate, which is a by-product of natural gas production; and (v) liquefied petroleum gas, which must be separated into butane and propane (Tables 8 and 9). The domestic market consumes about 20 percent of Algeria's total hydrocarbon sales.

31. **Reflecting the diversification strategy pursued by Sonatrach, the product mix has evolved through time, with the share of crude oil declining at first in favor of refined products, and later in favor of gas.** By 1998–99, the share of gas products in total export receipts had increased to an average of 34 percent, with a corresponding decline in the contribution of petroleum products to 66 percent. Three factors contributed to this evolution. First, gas production and exports more than doubled between 1986 and 1999 as a result of further increases in gas liquefaction capacity and in pipeline capacity, particularly during the 1996–99 period. Second, the growth of crude oil output has been restrained by OPEC quota agreements in 1998–99. Third, increases in domestic consumption of refined petroleum products, in the context of unchanged production levels, have reduced export capacity of these products.

32. **Two major gas pipelines are used to facilitate exports to Europe.** The Maghreb-Europe gas pipeline (GME) to Morocco, Spain, and Portugal was completed in 1996 and has a capacity of 10 billion cubic meters per year. The capacity of the Trans-Mediterranean gas pipeline (TME) to Italy has recently been expanded to 25 billion cubic meters per year.

33. **The expansion of the TME, the construction of the GME, and the revamping of the liquefied natural gas facilities has helped to boost Algeria's gas exports considerably.** Together with new gas production facilities that came on stream in 1997 and 1998, Algeria was able to increase gas exports (including liquefied natural gas) to about 76 billion cubic meters in 1999 as compared with 32 billion cubic meters in 1994.

Investments in the oil sector

34. **Algeria has witnessed significant foreign and domestic investment in the energy sector over recent years, notwithstanding political uncertainties and the civil strife.**

State-owned oil company, Sonatrach, and its partners have made plans to invest more than US\$20 billion to boost oil production capacity to 1.3–1.5 million barrels a day by 2003, from current capacity levels of about 900,000 barrels a day. Further investments have also been planned for the country's petrochemical and refining industries. The number of new discoveries has increased in recent years from a cumulative of 20 in 1986–89, to 34 in 1990–94, and to 46 in 1995–99.¹¹

Implications for macroeconomic policy

35. **The presence of a large natural resource sector has been an important element in shaping the structure and management of the Algerian economy.** For instance, it weakened incentives to develop tradable production outside the hydrocarbon sector, and influenced the design of the tax structure by reducing the necessity to develop alternative revenue sources.

36. **Indeed, Algeria's dependence on hydrocarbon revenue as the major source of foreign exchange also has important macroeconomic implications since the volatility of international oil prices has translated into the volatility of important macroeconomic aggregates.** Movements in international energy prices have generated corresponding variations in the value of exports, government revenues, and the availability of foreign exchange.

37. **Links between macroeconomic aggregates, on the one hand, and international oil prices, on the other hand, have operated through a number of channels.** With respect to the impact on growth, oil price variations have affected both demand and supply. In the face of adverse price (or output) developments in the hydrocarbon sector, negative wealth effects are likely to have somewhat reduced consumption demand, reinforced by a compression of government expenditure and lower investment outlays.

38. **Through the budget's dependence on revenue from the oil sector, fluctuations in oil prices had important direct implications for public expenditure management through 1999.** Favorable oil prices were often partly seen as signaling permanent increases in income, and contributed to higher levels of public expenditure that were difficult to reduce once the boom had proven only temporary.

C. Industry

39. **Algeria embarked in the 1970s in an import-substitution strategy, which led to the rapid development of a concentrated public manufacturing sector.** This sector was sheltered from external competition and heavily dependent on imported raw materials, equipment, and spare parts. It had to face two major policy changes over the past decade:

¹¹ However, only four discoveries were made in 1999.

first, the compression of imports at the beginning of the 1990s that created input shortages; second, the subsequent liberalization of external trade, that exposed it to foreign competition. As a result, the manufacturing sector has considerably shrunk as share of GDP, from above 12 percent in 1993 down to about 9 percent in 1999. The manufacturing sector is still dominated by public enterprises, which make up about 75 percent of industrial production, but the private sector seems to have recently gained momentum.

Industrial sector reform

40. **Until the beginning of 1994, resource allocation in Algeria was governed mostly by administrative decisions and direct state controls on prices, production, and credit.** Efforts had been made prior to 1994 toward the restructuring of public enterprises. In particular, most public enterprises had been granted legal and financial autonomy while being financially rehabilitated through debt forgiveness by the treasury.¹² These reforms, however, proved insufficient for two main reasons. First, they could not prevent the accumulation of further losses by public enterprises given that many of these enterprises could not initially set their prices freely and continued to enjoy easy access to commercial bank credit. Second, initial reforms did not involve physical restructuring of public enterprises. These shortcomings were subsequently addressed mainly by liberalizing prices and subjecting most public enterprises to harder budget constraints. Moreover, for the largest loss-making enterprises,¹³ a ceiling was imposed on their access to commercial bank credit, while medium-term plans were drawn to cut operating losses by imposing better inventory control and cost management procedures. By end-1996, all these enterprises had been granted autonomy in conjunction with the completion of their financial restructuring and the signing of performance contracts with their managers.

41. **Public enterprise restructuring led to the creation in 1995 of 11 holdings regrouping enterprises by broad economic branches.** Local public enterprises, previously supervised by regional authorities, were regrouped under five additional holdings. The mission of these holdings was to restructure and privatize public enterprises under the guidance of the *Conseil national des participations de l'Etat* (CNPE, chaired by the Prime Minister). Following external audits, public enterprises were classified in three categories: (i) those to be closed; (ii) those to be restructured; and (iii) those to be sold quickly. Restructuring was nevertheless given priority over privatization. By end-1999, about a thousand small enterprises/units¹⁴ had been shut down and 450,000 employees had been laid off. Other restructuring measures included corporatization, financial restructuring, labor shedding, spinning-off, and outsourcing of noncore activities.

¹² More precisely, banks' nonperforming loans to public enterprises were swapped with government bonds. The government was thus provided with claims on public enterprises that it decided to cancel in most cases later on.

¹³ A list of 23 large public enterprises, whose large losses required special monitoring and restructuring, had been drawn in the early 1990s.

42. **Government disengagement from productive activities called for the adoption of a comprehensive legal framework to privatize public enterprises.** The 1995 privatization law, which complemented measures introduced in 1994, allowed 100 percent private ownership in most public enterprises, except those in the financial, hydrocarbon, mining, and telecommunication sectors. The law proved too constraining for investors, by imposing rigid payment requirements and employment obligations. This text was amended in 1997 to provide more flexibility. Payment in several installments was authorized and employment obligations for the buyer were lifted.¹⁵ Several privatization modalities are available: public offering of shares through the stock exchange, sale of assets or shares through competitive bidding, and negotiated direct sales to investors.

43. **At end-1999, no majority privatization had taken place though the preparatory work had accelerated after June 1998.** At that time, a decree was issued with a list of 88 enterprises (and 350 subsidiaries) to be privatized. Some of them were put out for sale.¹⁶ According to the authorities, the process was hindered by ownership issues and the lack of solvent domestic demand. Besides, the examination of bids proved time-consuming given the large number of control steps aiming at ensuring transparency. There were three partial privatization in 1999 through public offerings of shares: Eriad-Setif (food processing), Saidal (pharmaceuticals), and El Aurassi Hotel floated 20 percent of their capital on the newly created Algiers Stock Exchange. Some assets were also sold through tenders. The chemical-pharmaceutical holding had for instance about 1,200 public pharmacies in its portfolio; 483 of them had been put out for sale, and 106 had already been sold by end-1999. In early 2000, a joint venture was formed between a public company and a European investor to manufacture soap and detergents in Algeria.

Recent developments

44. **After a significant decline during the mid-1990s, industrial production recovered sharply in 1998 (8.4 percent).** The recovery was broadly based, affecting the private sector (5 percent) but most notably the public sector (9.2 percent). In the latter, for which the statistical coverage is much better, production increase was particularly strong in chemicals (16.3 percent); food processing (14.2 percent); and steel, mechanical, and electrical construction (11.8 percent). Two sectors still registered a decline: leather products and wood and paper products (Table 14).

45. **However, the 1998 recovery proved short-lived.** In 1999, industrial production barely increased. Though the private sector continued to expand at a faster pace (8 percent), production declined in the public sector (-0.8 percent). In the latter, production actually

¹⁴ Most of them were small local enterprises.

¹⁵ Nevertheless, the authorities introduced financial incentives to induce the buyer to avoid layoffs.

¹⁶ Among them: about 20 hotels, 20 brick factories, and 4 breweries.

decreased in all sectors except steel, mechanical, and electrical construction, for which output was boosted (8.5 percent) by the renovation of furnaces in the El Hadjar steel complex. Other sectors' performance ranged from a slight decrease (food processing, chemicals, and construction materials) to a large drop (textiles, wood and paper products, and leather products). The latter sectors have seen their production decline almost continuously over the past decade; between 1989 and 1999, their production fell by more than 60 percent (and even by 80 percent for leather products).

46. **It remains difficult to assess the situation of public enterprises at end-1999.** According to the holdings, their financial situation has improved over the past two years. In particular, their operating profits would have substantially increased owing to better inventory management and labor retrenchment. Yet, the situation of some large enterprises (that were part of the 23 mentioned above) is still a matter of concern. A handful of them concentrate a large part of banks' nonperforming loans and still need to be restructured.

D. Labor Market

Labor market policy

47. **In response to high unemployment, numerous employment programs have been designed and implemented; a large number of them have been especially targeted at the young unemployed.** The *Emplois salariés d'initiative locale* (ESILs) aim at providing low-skilled youth with minimum qualification and experience to enhance their employability. The ESILs work through subsidies that give businesses incentives to hire the unemployed. There were about 150,000 beneficiaries in 1998 (about 72,000 in full time equivalent). The efficiency of this scheme has, nevertheless, been debated because of potential windfall effects (firms might use it to hire employees they would have hired). One of the weaknesses of this program is that between 1990 and 1998, for the million jobs that benefited from this scheme, the retention rate¹⁷ at the end of the subsidy period was only 2 percent.

48. **Unemployment is also high among the most educated young people.** To remedy this situation, the authorities created a specific scheme in 1998 (*Contrats pré-emploi*, CPEs). In this scheme, firms may hire unemployed skilled youth at no cost for one year; these workers will indeed receive a monthly allowance from the government amounting to the minimum wage. There were about 5,000 beneficiaries in 1998 and twice as many during the first half of 1999.

49. **A micro-enterprise scheme targeted at the youth, in which more attention is paid to projects' profitability than in previous similar programs, was introduced in 1997.** This scheme is managed by *Agence nationale pour le soutien à l'emploi des jeunes* (ANSEJ), which is in charge of a first analysis of the projects and of deciding whether they can be

¹⁷ The retention rate is the percentage of ESIL employees that are kept by firms at the end of the subsidy periods.

submitted to banks. Even in case of a positive answer by ANSEJ, banks still have the option of denying the youth's financing request. A personal financial contribution is required from the applicant. The ANSEJ's contribution may take various forms: (i) an interest subsidy on the bank's loan; (ii) an advance that must be repaid after the loan is paid off; and (iii) a subsidy if the project is deemed promising enough. This scheme has up to now not been evaluated. According to the authorities, 16,000 projects were implemented in 1998 and could lead to about 47,000 job creations.

50. **Two public works schemes, whose main goal is to fight poverty, also contribute substantially to active labor market policies.** The *Indemnité d'activités d'intérêt général* (IAIG) is designed to provide compensation to the poor able to work. They can be hired at about half the minimum wage (DA 2,800 a month), on the basis of an eight-hour work day, in community-based activities, such as reforestation and street cleaning. The modest remuneration was designed to ensure self-targeting of those with low reservation wages. In practice, the full minimum wage is sometime paid especially in urban areas. At end-September 1999, there were about 135,000 beneficiaries of IAIG (against about 500,000 in 1996). The targeting of this program seems perfectible; in particular, it is not clear that it benefits the most disadvantaged. Whereas IAIG mainly targets the poor, the *travaux d'utilité publique à haute intensité de main d'oeuvre* (TUP-HIMO) targets the unskilled unemployed; they are offered temporary jobs paid at the minimum wage in labor-intensive community-based activities, such as road maintenance. The labor content of TUP-HIMO projects tends to be higher than in IAIG projects. There were about 129,000 beneficiaries of TUP-HIMO at end-September 1999.

51. **Algeria has also a large vocational and technical training system, which provides about 290,000 places to train skilled workers and technicians using institution-based training and apprenticeships.** Yet, the dropout rate is high (18 percent) and proposed qualifications could better match market needs. *Agence nationale pour l'emploi* (ANEM) is in charge of placement services. According to the authorities, its functioning needs to be assessed in order to improve its performance.

52. **In 1994, two schemes were created to help workers laid off for economic reasons: unemployment insurance and early retirements.** They currently cover about 250,000 people. They are theoretically available to both the public and private sectors; in practice, they are essentially used in the context of public enterprise restructuring. The unemployment insurance's revenues derive from payroll taxes paid by both employers (2.5 percentage points of taxable wage) and employees (1.5 percentage point).¹⁸ Besides, every time they fire an employee the employers are required to pay an initiation fee to the insurance company amounting to up to one year's salary (depending on seniority); moreover, the employee will

¹⁸ These are the contribution rates that were applied in 1999 (i.e., before the 2000 shift of two contribution points from the unemployment insurance to the pension scheme).

receive a severance package equal to 3 months of salary. Unemployment benefits start after three months on the dole, with a replacement rate of 80 percent, and are phased out over time.

53. **The dismissal of workers is possible in severe disciplinary cases.** In economic cases, no prior administrative authorization is needed, but the decision can be brought to a labor tribunal. Labor shedding is possible for restructuring public enterprises, but only as a last resort, that is when collective negotiations (arbitrated by labor inspectors) have failed to provide an alternative (reduction of wages and/or working hours, early retirement ...).

Recent labor market developments

54. **According to the latest census, Algeria's population at mid-1998 was 29.3 million.** Population growth has steadily decreased in the recent decades, to an annual average of 2.3 percent during the 1987–98 period. Yet, owing to higher rates recorded in the 1970s and 1980s, the age structure of the population remains young (48 percent of the population is under the age of 20), even though less than 10 years ago (about 55 percent in 1987). As a result, the labor force has been growing faster than the population at a rate of nearly 4 percent a year in 1981–95, and at an estimated 3 percent at the end of the 1990s.

55. **The latest employment survey dates back to September 1997. At that time, total labor force stood at 7.7 million, or 27 percent of the population (Table 19).** This low activity rate is attributable to the large school enrollment and still low participation of women, despite its steady increase. Indeed, the participation rate rose from 36 percent of all persons 15 years to 64 years of age in 1977 to about 48 percent in 1997 on account of both rising male and female participation rates.

56. **As the pace of employment creation since the mid-1980s was insufficient to absorb the large number of new entrants in the labor force, unemployment escalated from 10 percent in 1985 to 26.4 percent in 1997, when 5.7 million Algerians were employed and 2 million unemployed.** No data is available for the more recent past. Yet, it seems very likely that unemployment has increased since 1997. Indeed, the most dynamic part of the economy since then has been the hydrocarbon sector, which is highly capital-intensive. In the nonhydrocarbon sector, average growth during the 1997–99 period was, at about 2.5 percent a year, significantly below the labor force growth rate. Meanwhile, public enterprise restructuring led to about 450,000 layoffs.

57. **The structure of employment in 1997 stands out by the substantial proportion of self-employment (about 28 percent), which reflects a large distribution sector and the importance of agriculture.** Employment in general government made up 23 percent of the total, while the share of the broad public sector (including public enterprises) was slightly above 50 percent.

58. **Information on wages is scarce, except for the legally binding minimum wage (*salair national minimum garanti*, SNMG).** SNMG was raised to DA 6,000 a month in

September 1998. It was previously raised from DA 4,000 to DA 4,800 in July 1997, then to DA 5,400 in January 1998. This 50 percent increase in 15 months aimed to offset the adverse impact of high inflation on SNMG's purchasing power during the previous years. Indeed, SNMG remained fixed at DA 4,000 from January 1994 to July 1997. Meanwhile, consumer prices recorded a cumulative increase of about 85 percent.

59. **Civil servants' wages are set by the "tripartite" committee**, which includes the government, the labor union (*Union Générale des Travailleurs Algériens*) and employers. The *tripartite's* decisions do not legally apply to public enterprises which are free to negotiate wages at their level; yet, they are often used as a reference (Table 18). The private sector is just bound to apply the minimum wage. Civil servants' wages were raised by 10 percent in July 1997, by 5 percent in January 1998, and by 5 percent again in September 1998. There was no increase in 1999.

E. Inflation

60. **Until the beginning of 1994, Algeria had a generalized system of subsidies. Its elimination required a major liberalization of the price system as well as substantial increases in administered prices.** In 1994, prices of all inputs for agriculture and housing construction were freed, and controls on retail prices and profit margins were lifted for most goods and services except for a limited number of products, including a few essential food staples, energy products, and public transportation fares that remained subsidized. The generalized subsidies on these goods were eliminated over the following two years as prices were raised toward their opportunity cost. Over 1994–96, prices of subsidized food and petroleum products had to be increased on average by almost 200 percent to reach their opportunity cost. For petroleum products, the implicit subsidy should have been eliminated, as the transfer price from the national oil company to the refineries was set at the world price level, with adjustments every six months in line with international oil prices and exchange rate developments. However, the adjustments have been interrupted since late 1997. As of end-1999, some prices remained administered, mainly in the transportation and energy sectors; their weight in the consumer price index was about 13 percent.¹⁹

61. **As a result of the impact of the large depreciation of the Algerian dinar and adjustments of administered prices, CPI²⁰ peaked at almost 30 percent in 1994 and 1995.** It then decreased almost continuously to about 19 percent in 1996 and further to about 5 percent in 1997 (Table 16). Inflation decreased from 5.0 percent in 1998 to 2.6 percent in 1999. A large part of the 1999 decrease seems attributable to food and beverages prices that constitute by far the main item of the CPI (with a 44 percent weight). Their average

¹⁹ The weights used in the consumer price index (CPI) are derived from the estimated structure of private consumption in 1989. As a result of price liberalization and changing consumer tastes, this structure has significantly changed during the past decade; but up to now, these weights have not been re-estimated.

²⁰ Inflation is defined here as the annual average increase in the Algiers area's CPI.

increase in 1999 was only 1.2 percent, as compared to 5.7 percent in 1998; consequently, their contribution to disinflation was about 2 percentage points. This sharp slowdown in domestic food prices mirrored the fall in international prices of basic foodstuffs.²¹

²¹ The corresponding *International Financial Statistics* index declined by 15.2 percent in 1999. The decline was even more pronounced in the case of beverages (-21.3 percent).

III. PUBLIC FINANCE

A. Introduction

62. **A substantial fiscal consolidation was achieved during 1994–97 in conjunction with the implementation of Fund-supported programs.** The overall fiscal balance shifted from a deficit of 8.7 percent of GDP in 1993 to a surplus of 2.4 percent of GDP in 1997 (Chart 1). A key explanatory factor for this strong performance was the increase in hydrocarbon revenue (from 16 percent of GDP in 1993 to 21.4 percent of GDP in 1997), which was mainly due to the recovery in oil prices and the depreciation of the Algerian dinar.

63. **Discretionary revenue and expenditure policy measures also played an important role.** This resulted in a major turnaround in the central government primary nonhydrocarbon balance, which improved by about 7 percentage points of nonhydrocarbon GDP between 1993 and 1997 (Table 1).²² In particular, in 1994–96 fiscal policy was contractionary, mainly through expenditure restraint, which lowered the noninterest expenditure ratio by 7 percentage points to 36 percent of nonhydrocarbon GDP in 1996. In addition, nonhydrocarbon tax revenues increased by about 2 percentage points of nonhydrocarbon GDP. In 1997, fiscal policy was somewhat loosened as the increase in expenditure more than offset further strengthening of the tax effort.

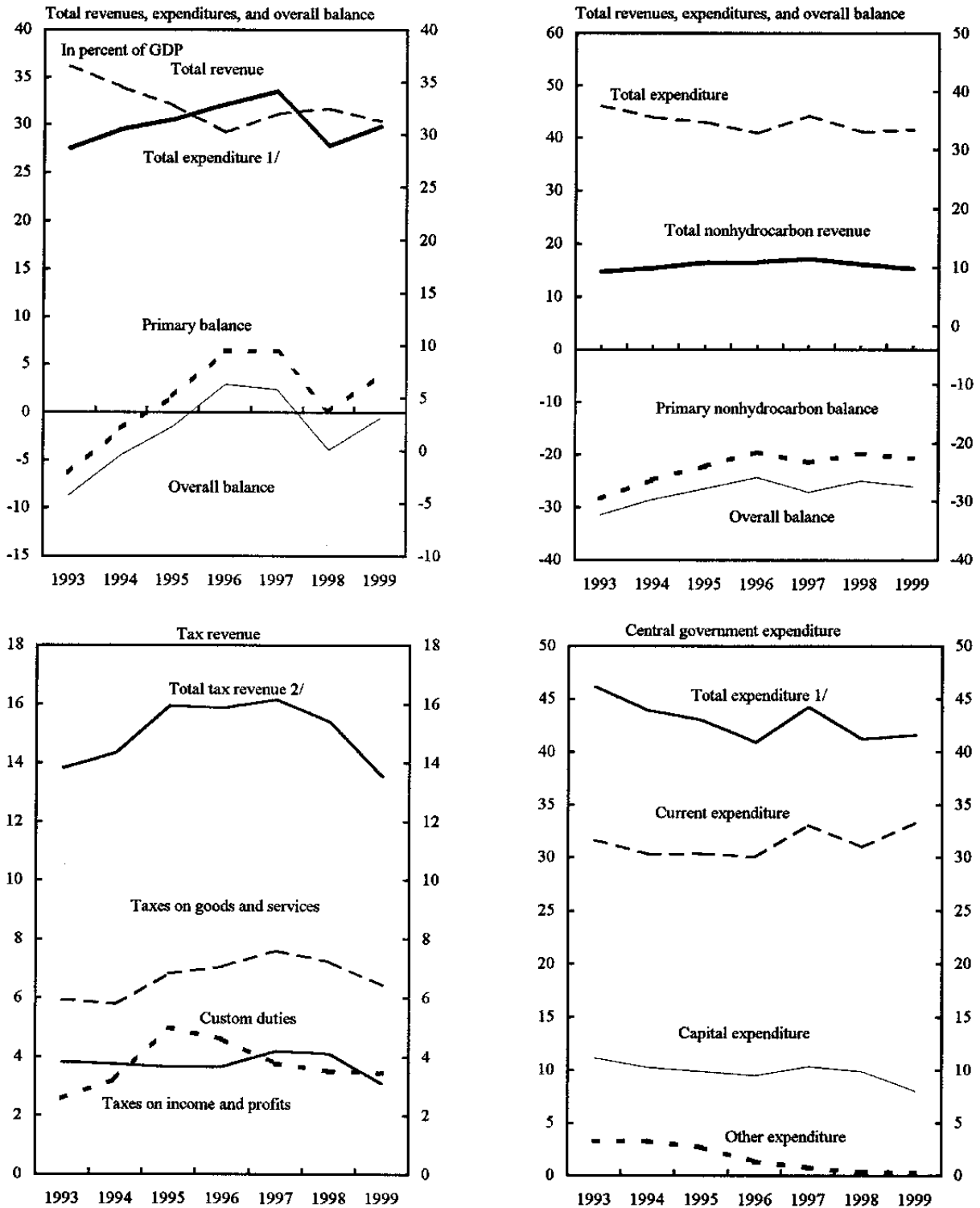
64. **Fiscal policy in 1998–99 remained prudent.** Due to a drop in world oil prices, the overall balance reached a deficit of 3.9 percent of GDP in 1998 before improving by 3.4 percentage points of GDP in 1999 (Tables 20–22). Similarly, the primary balance deteriorated by about 6 percentage points of GDP between 1997 and 1998, before recovering partially in 1999. However, the primary nonhydrocarbon deficit as a share of nonhydrocarbon GDP improved by about one percentage point over the same period. This reflected the authorities' decision to react to the fall in world oil prices by containing public expenditure.^{23,24}

²² The primary nonhydrocarbon balance is defined as nonhydrocarbon revenue minus total expenditure, plus interest payments. Nonhydrocarbon revenue is defined as total revenue minus taxes and dividends paid by oil companies.

²³ Comprehensive analysis of overall fiscal developments is still constrained by the lack of data, particularly with respect to special treasury accounts, the financial situation of public enterprises, local government, and social security operations. Accordingly, it is not possible to present consolidated accounts of the general government or the public sector.

²⁴ The fiscal year in Algeria coincides with the calendar year and treasury operations are presented on a cash basis. Fiscal data on a payment order basis are also available. Yet, they suffer from major weaknesses and should, therefore, be treated with caution in the assessment of the government's fiscal position. Fiscal data are provided for the central government and for extrabudgetary accounts on a net basis. The overall fiscal position described in this section is the consolidated position of the budgetary accounts, the extrabudgetary accounts, and the treasury's net lending to the public sector.

Chart 1. Algeria: Fiscal Developments, 1993–99
(In percent of nonhydrocarbon GDP, unless otherwise indicated)



Sources: Algerian authorities; and Fund staff estimates.

1/ Including net lending, special accounts, and operations of the Rehabilitation Fund.

2/ Indirect taxes on petroleum products and dividends from oil companies are classified as hydrocarbon revenue.

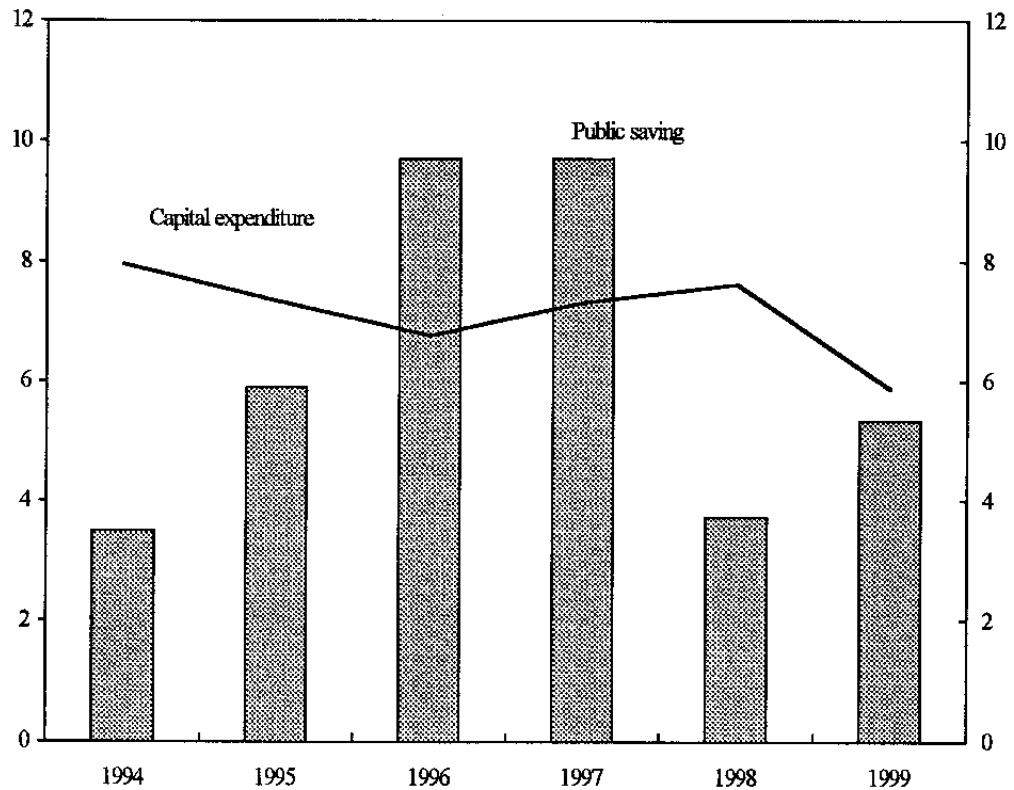
Table 1. Algeria: Summary of Central Government Operations, 1993–99

	1993	1994	1995	1996	1997	1998	1999
	(In percent of GDP)						
Total revenue	27.5	29.5	30.6	32.2	33.5	27.8	29.8
Hydrocarbon revenue	15.9	17.5	18.2	20.3	21.4	15.3	18.5
Nonhydrocarbon revenue	11.6	12.0	12.3	11.9	12.1	12.5	11.2
Total expenditure and net lending	34.2	33.0	31.7	29.1	31.3	31.7	30.4
Current expenditure	24.9	23.4	22.6	21.5	23.3	23.9	24.3
Capital expenditure	8.7	8.0	7.4	6.8	7.3	7.6	5.9
Other expenditure	0.6	1.6	1.8	0.8	0.7	0.2	0.2
Primary balance	-6.3	-1.7	1.7	6.4	6.4	0.1	3.5
Overall balance	-8.7	-4.4	-1.4	2.9	2.4	-3.9	-0.5
	(In percent of nonhydrocarbon GDP)						
Nonhydrocarbon revenue	14.8	15.5	16.5	16.7	17.2	16.3	15.4
Total expenditure and net lending	46.1	43.9	43.0	40.9	44.3	41.2	41.6
Total non-interest expenditure and net lending	43.2	40.3	38.7	36.1	38.6	36.0	36.2
Primary nonhydrocarbon balance	-28.4	-24.8	-22.2	-19.4	-21.5	-19.8	-20.6
Overall nonhydrocarbon balance	-31.3	-28.4	-26.5	-24.3	-27.1	-24.9	-26.0

Sources: Algerian authorities and Fund staff estimates.

65. **Government saving declined significantly in 1998–99.** Because of the drop in world oil prices and despite the containment of capital expenditure, government saving declined from 9.7 percent of GDP in 1997 to 3.7 percent of GDP in 1998 before recovering to 5.3 percent of GDP in 1999 (Chart 2).

Chart 2. Algeria: Fiscal Indicators, 1994–99
(In percent of GDP)



Source: Algerian authorities; and staff estimates.

B. Revenue Developments in 1998–99

66. **Revenue developments were affected by weak world oil prices in 1998 and the first half of 1999; tax effort declined.** Budgetary revenues in Algeria in 1998–99 averaged about 28 percent of GDP (Table 24). While this ratio compares favorably with other middle income countries, more than 60 percent of these revenues emanated from hydrocarbon receipts²⁵ (Chart 3). As a result, revenue developments are particularly sensitive to changes in world oil prices and exchange rate fluctuations (Chart 4). For example, a 10 percent change in

²⁵ The share of hydrocarbon revenue in total revenue increased constantly from 58 percent in 1993 to 64 percent in 1997. In 1999, it was back to 62 percent.

the exchange rate of the dinar against the U.S. dollar would result in a variation of about 2 percent of GDP in total revenue, with more than 80 percent of it due to the effect on hydrocarbon revenues and the rest to the response of taxes on imported goods. Similarly, a US\$1 per barrel fluctuation in world oil prices would result in a loss or gain in budgetary receipts on hydrocarbon exports equivalent to about 1 percent of GDP.²⁶

67. **Hydrocarbon revenue recovered in the second half of 1999.** After a substantial increase between 1994 and 1997, hydrocarbon revenue decreased from 21.4 percent of GDP in 1997 to 15.3 percent of GDP in 1998, before recovering to 18.5 percent of GDP in 1999. These fluctuations were largely due to changes in world oil prices. In particular, the revenue drop of 28 percent in nominal terms between 1997 and 1998 reflected a fall in the average world oil price of US\$6.5 per barrel, which was only partially offset by an increase in export volume. The recovery of 38 percent in nominal terms in 1999 was due both to the rebound in world oil prices in the second half of the year²⁷ and to an average annual depreciation of about 13 percent of the Algerian dinar vis-à-vis the U.S. dollar. Fluctuations in oil prices did not affect domestic hydrocarbon revenue in 1998–99 because the transfer price from Sonatrach to the refineries has not been adjusted since late 1997.²⁸ This resulted in an implicit higher taxation of domestically consumed oil products in 1998, which reverted to an implicit subsidy in the second half of 1999.²⁹ Finally, the oil price drop weakened the financial position of Sonatrach in 1998–99. As a result, dividends paid by the oil company to the government in 1999 were substantially lower than anticipated in the budget law, and Sonatrach had to borrow from the banking system to comply with tax payments.

68. **Nonhydrocarbon revenue performance deteriorated.** After a constant increase from 14.8 percent of nonhydrocarbon GDP in 1993 to 17.2 percent in 1997, the share of nonhydrocarbon revenue in nonhydrocarbon GDP declined by about 2 percentage points in 1998–99, reflecting mainly changes in the tax system (see below) and increased tax evasion (Table 2).

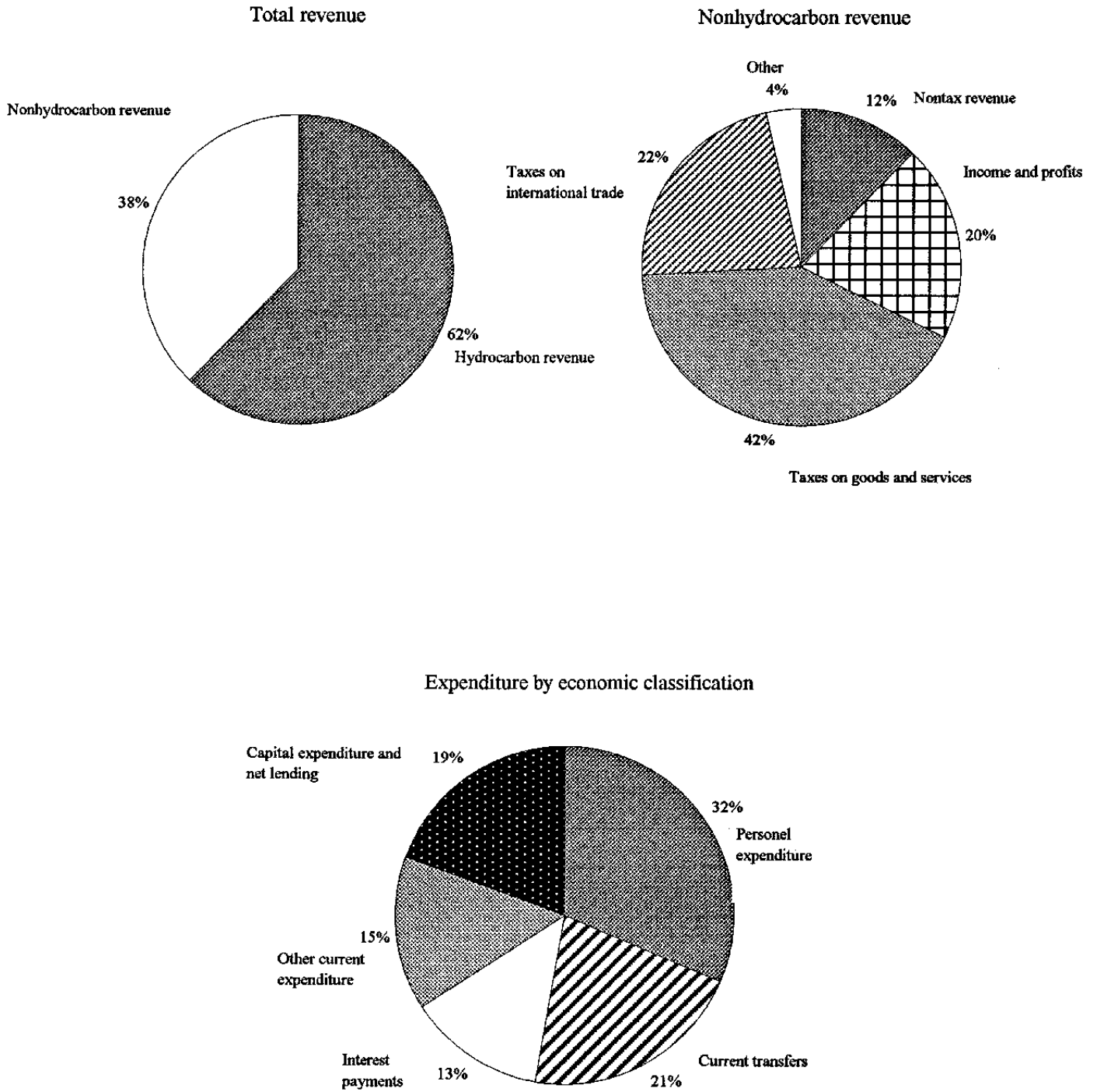
²⁶ These estimates are based on 1999 data.

²⁷ Because of a 6-month lag in the response of gas prices to changes in oil prices, the full impact of the recovery in oil prices on budgetary hydrocarbon receipts did not occur before late 1999.

²⁸ Hydrocarbon revenues include three components: (i) taxation from oil companies on hydrocarbon exports; (ii) taxation from oil companies on domestically-sold oil products; and (iii) dividends paid by Sonatrach. In 1999 the three components represented 86.7 percent of the total, 8.5 percent and 4.8 percent respectively.

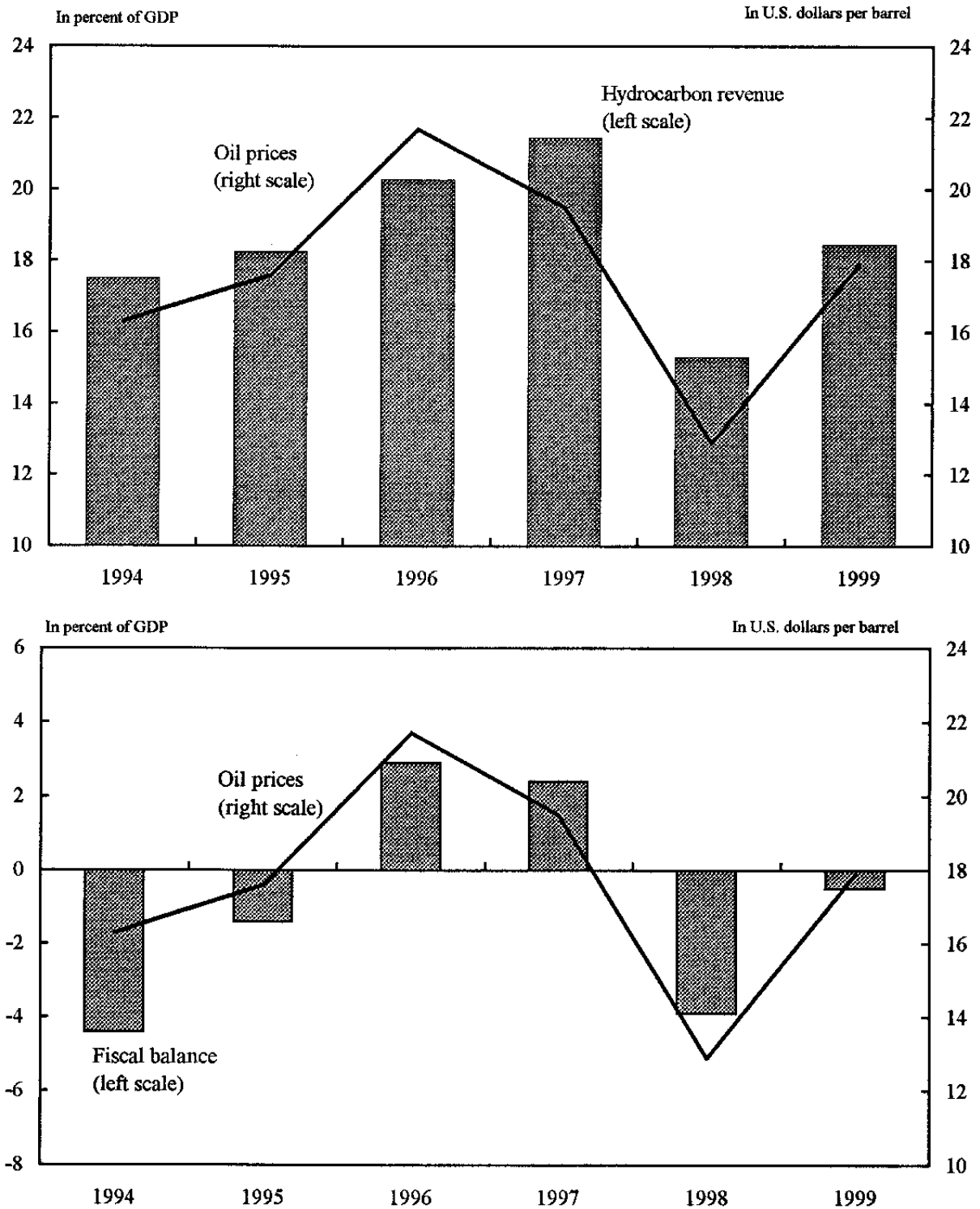
²⁹ Under the Fund supported program an agreement was reached with the Algerian authorities to revise every 6 months the transfer price of crude oil from Sonatrach to the refineries to take into account developments in the world oil prices and the exchange rate between the Algerian dinar and the U.S. dollar, thus removing implicit subsidization of domestically consumed oil products.

Chart 3. Algeria: Composition of Revenue and Expenditure, 1999



Sources: Algerian authorities; and Fund staff estimates.

Chart 4. Algeria: Hydrocarbon Revenue, Fiscal Balance, and Oil Prices, 1994-99



Sources: Algerian authorities; and Fund staff estimates.

Table 2. Algeria: Central Government Nonhydrocarbon Revenue, 1993–99
(In percent of nonhydrocarbon GDP)

	1993	1994	1995	1996	1997	1998	1999
Nonhydrocarbon revenue	14.8	15.5	16.5	16.7	17.2	16.3	15.4
Tax revenue	13.8	14.4	15.9	15.9	16.2	15.4	13.5
Taxes on income and profits	3.8	3.8	3.7	3.7	4.2	4.1	3.1
Wage income taxes	2.5	2.1	2.1	1.8	2.1	2.0	1.4
Other	1.3	1.7	1.5	1.9	2.1	2.1	1.7
Taxes on goods and services	5.9	5.8	6.8	7.1	7.6	7.2	6.4
VAT and excises on imports	2.2	2.3	2.6	2.4	2.2	2.4	2.3
VAT and excise on domestic transactions	3.5	3.2	3.0	3.2	3.8	3.3	2.7
TVA-TC-TSA domestic transactions	2.7	2.4	2.1	2.3	2.7	2.3	1.8
Tobacco excises (TIC)	0.9	0.8	0.9	0.9	1.1	1.0	0.9
VAT on petroleum products/levy	0.0	0.0	0.5	0.4	0.4	0.5	0.4
Excises on petroleum products	0.0	0.0	0.4	0.9	1.1	1.0	0.9
Other indirect taxes	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Customs duties	2.6	3.3	5.0	4.6	3.8	3.5	3.5
Registration and stamps	0.8	0.6	0.4	0.5	0.5	0.5	0.5
Nontax revenue	1.0	1.2	0.6	0.8	1.0	0.9	1.9
Fees	1.0	0.7	0.6	0.6	0.8	0.7	0.7
Bank of Algeria dividends	0.0	0.5	0.0	0.2	0.2	0.2	1.2

Sources: Algerian authorities and Fund staff estimates.

69. **Tax revenue as a share of nonhydrocarbon GDP decreased from 16.2 percent in 1997 to 13.5 percent in 1999, the lowest point in the decade.** The deterioration concerned both direct taxes and taxes on goods and services. While until 1997 numerous new taxes were introduced—including: the VAT (1992), the corporate and personal income tax (1992) and the taxation of capital (1993)—and measures were adopted to broaden the tax base, since 1998 the tax reform has concentrated mainly on lowering tax rates. Similarly, during the latter period and in contrast to the program period, no new measures were passed to streamline tax exemptions.

70. **Direct tax revenue dropped in 1999.** After a decline as a share of nonhydrocarbon GDP in the early 1990s reflecting the weaknesses of both individual and corporate income taxes, direct taxes recovered slightly in 1996–98, mainly on account of the positive real growth of the nonhydrocarbon sector. But in 1999, they fell by almost 20 percent in nominal terms compared to 1998. This drop, which affected both personal and corporate income taxes, was partially explained by the lowering of tax rates. In particular, the 1999 budget law reduced the normal corporate income tax rate from 38 percent to 30 percent, and the rate on reinvested profits from 33 percent to 15 percent. In addition, the top marginal personal income tax rate was reduced from 50 percent to 40 percent and income brackets were revised with the objective of reducing the average income tax rate. Other factors contributed to explain lower tax yields including: (i) the still weak financial situation of public enterprises, which in 1998 accounted for 75 percent of corporate income taxes; (ii) tax evasion, which had been favored by a rumor on a possible tax amnesty, expected to be granted by the new president; and (iii) numerous tax exemptions granted in application of the investment code and programs introduced in recent years to promote economic activity and reduce the unemployment rate, in particular among the young population.

71. **Revenue from taxes on goods and services also decreased in 1999.** Their share over nonhydrocarbon GDP had increased from 5.9 percent in 1993 to 7.6 percent in 1997, partially due to measures introduced during Fund-supported adjustment programs, which included, in particular, a reform of the taxation of domestically consumed petroleum products. Since 1998 this trend has been reversed and in 1999, taxes on goods and services fell by about 3 percent in nominal terms compared to the previous year. The shortfall was particularly marked for VAT receipts on domestic transactions, which dropped by almost 15 percent in nominal terms, while the VAT base, as measured by the nominal nonhydrocarbon GDP excluding the agricultural sector, increased by about 7 percent in 1999. The performance of VAT receipts on imported goods was somewhat more satisfactory with a small increase in nominal terms. However, total imports increased by more than 17 percent in dinar terms between 1998–99 and changes in the import structure were marginal. Two main factors seemed to explain these shortfalls: (i) reduction of VAT rates for some goods and services (e.g., hotels and tourist services); and (ii) increased tax evasion. In addition, with the 1999 budget law, all suppliers of the hydrocarbon sectors have been exonerated from the VAT. While this measure aimed at avoiding increasing tax credits and does not directly reduce tax receipts, it is likely to encourage nontransparent practices and, therefore, to affect tax performance.

72. **Revenue from taxes on international trade decreased in 1999 as a share of imports.** Receipts from custom duties increased as a share of total imports from 14.9 percent in 1994 to 15.7 percent in 1997, despite the reduction in tariff protection.³⁰ Factors that contributed to this included the elimination of some tax exemptions and the reduction in rate dispersion. Since 1998 the trend has been reversed and in 1999 the share dropped to 13.5 percent. The fall in the average effective tariff rate does not seem to reflect changes in the tariff structure. In fact, the average weighted statutory rate for custom duties has remained at about 16 percent between 1997 and 1999 despite: (i) further changes in the rates; and (ii) a redistribution of goods across rates aiming at increasing effective protection. Possible explanations include: (i) increased tax exemptions granted to imports of equipment goods; and (ii) delays in tax payments. Information concerning the latter is not available. As for custom duties exemptions, Table 3 shows that about 35 percent of imports paid in 1999 lower than statutory duties, which amounts to an estimated loss of custom revenue of about 1 percent of GDP. Table 3 also indicates that most exemptions concern capital goods, for which collection rates are less than 50 percent, but also that many food and consumer goods imports enter at reduced duties.

73. **Nontax revenue** as a share of nonhydrocarbon GDP accounted for only about 5 percent of the nonhydrocarbon revenue in 1998 in line with the average for the 1994–97 period. In 1999, this share increased to about 12 percent of GDP reflecting higher dividends paid by the Bank of Algeria to the government.

C. Expenditure Developments in 1998–99

74. **Over 1998–99, expenditure contracted as a share of nonhydrocarbon GDP.** From 1997 to 1998, government expenditures decreased from 44.3 percent of nonhydrocarbon GDP to 41.2 percent (Table 4),³¹ reflecting a tightening of both capital and current expenditures. In 1999, higher current expenditures were almost offset by lower capital expenditures.³²

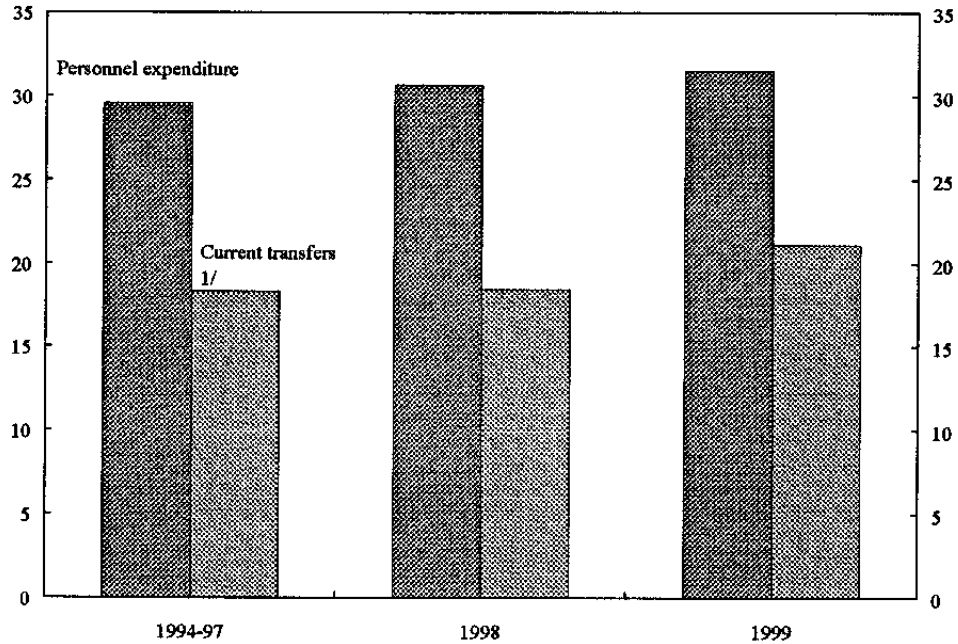
75. **The share of current spending over nonhydrocarbon GDP at end-1999 was similar to its 1997 level.** However, current expenditure over total expenditure increased constantly from about 75 percent in 1997 to 81 percent in 1999, mainly reflecting an expanding wage bill and current transfers, as well as lower capital expenditures in 1999 (Chart 5).

³⁰ The shares refer to fob imports. Between 1994 and 1997 the maximum tariff duty rate was lowered from 60 percent to 45 percent. The number of bands was also reduced.

³¹ Total expenditure refers to budgetary expenditure, net lending, special accounts, and the Rehabilitation Fund.

³² These lower capital expenditures, on a cash basis, could be due to delays in commitments (see below). Numerous payment orders would indeed have been issued only late in 1999, leading to payments in 2000.

Chart 5. Algeria: Personnel Expenditure and Current Transfers, 1994–99
(In percent of total expenditure)



Source: Algerian authorities.
1/ Including Mudjahidin's pensions.

Table 3. Algeria: Import Taxes Indicators, 1998–99

Sector	1998		1999	
	Weighted statutory rate (in percent)	Actual duty collection as percent of potential	Weighted statutory rate (in percent)	Actual duty collection as percent of potential
Food	15	89	14	89
Energy	3	94	7	73
Raw materials	12	96	6	95
Semi-finished products	16	65	16	77
Agricultural				
Capital goods	16	46	16	50
Other capital goods	16	40	18	36
Consumer goods	22	82	19	82
Total	16	68	16	65

Sources: Algerian authorities and Fund staff estimates.

Table 4 Algeria: Central Government Expenditure, 1993–99
(In percent of nonhydrocarbon GDP)

	1993	1994	1995	1996	1997	1998	1999
Total expenditure 1/	46.1	43.9	43.0	40.9	44.3	41.2	41.6
Current expenditure	31.7	30.3	30.4	30.1	33.1	31.0	33.3
Personnel	13.3	13.3	12.8	12.2	12.6	12.5	12.3
Wages and salaries	12.6	12.8	12.3	11.6	12.1	12.1	12.0
Other	0.7	0.6	0.6	0.5	0.5	0.5	0.3
Mudjahidins' pensions	1.1	1.1	1.1	1.0	1.3	1.8	2.6
Material and supplies	1.8	1.6	2.0	1.9	2.2	2.2	2.3
Public services	4.4	3.7	3.8	3.8	3.8	3.5	3.5
Hospitals	1.7	1.5	1.5	1.6	1.5	1.3	1.3
Others (government entities)	2.7	2.2	2.3	2.3	2.3	2.2	2.2
Current transfers	8.1	6.9	6.4	6.3	7.5	5.8	7.2
Family allowances	1.0	1.2	1.7	2.0	2.3	2.0	1.6
Public works and social assistance	2.4	1.0	0.9	0.8	0.6	0.6	0.6
Food subsidies	3.2	2.7	1.2	0.7	0.0	0.0	0.0
Agricultural price support	0.7	0.4	0.5	0.4	0.3	0.2	0.2
Housing	0.3	0.3	0.5	1.0	1.5	0.9	0.6
Youth Employment Support Fund	0.0	0.0	0.0	0.1	0.1	0.2	0.3
Other transfers	0.5	1.2	1.6	1.4	2.7	1.8	3.9
Interests on debt	3.0	3.6	4.3	4.9	5.6	5.2	5.4
Capital expenditure	11.1	10.3	9.9	9.5	10.4	9.9	8.0
Net lending by the treasury	1.3	0.6	0.2	0.1	-0.1	0.0	0.0
Allocation to the Rehabilitation Fund 2/	2.7	2.8	2.5	1.3	0.9	0.0	0.0

Sources: Algerian authorities; and Fund staff estimates.

1/ Including net lending and operations of the Rehabilitation Fund.

2/ Excluding the compensation for commercial bank's foreign exchange losses on principal payments of external debt contracted on behalf of the treasury.

76. **After a constant decline in 1994–96, reflecting a tight income policy,³³ the wage bill rose by about half a percentage point of nonhydrocarbon GDP between 1996 and 1999 due to: (i) a 20 percent nominal wage increase granted in steps in 1998; (ii) a small net recruitment; and (iii) a drift of about 3 percent per annum.³⁴ In terms of its share in total expenditure, the wage bill increased from about 27 percent in 1997 to about 30 percent in 1999.³⁵**

77. **Including Mujahidin pensions, current transfers, which averaged about 17 percent of total expenditure in 1994–96, increased to 21 percent by 1999. In addition, their composition changed. In particular, after the elimination of food subsidies, which was almost entirely completed by end-1996, the share of “other transfers” in total transfers more than doubled to 45 percent in 1999. While in 1999 the increase partly reflected one off-spending, including security and election-related expenditure, little information is available on the content of other transfers.**

78. **Capital expenditures declined both as a share of nonhydrocarbon GDP and as share of total expenditure. Their nominal increase was limited to 5 percent in 1998, thus resulting in a decline of about 1 percent in real terms. In 1999, they dropped by about 12 percent in nominal terms compared with 1998.³⁶**

79. **Capital expenditures are now considerably lower than in the early 1990s. In particular, after their surge in 1993, capital expenditures were reduced as a share of nonhydrocarbon GDP by about 1.5 percentage points in 1994–96. They rose again in 1997, before a new drop. In 1994–96 the decline in capital expenditure in real terms reflected the recognition of the low social rate of return of past investment. In 1998–99, it was due to weak project implementation and the authorities’ decision to freeze capital expenditures to adjust the fiscal stance in a context of lower oil prices, declining tax effort, and limited access to foreign financing (see below).**

80. **Nonbudgetary expenditures³⁷ were virtually zero in 1998–99 following the closure of the Rehabilitation Fund at end-1996³⁸ and the elimination of net lending to public**

³³ During the period 1994–96, only two increases in nominal wages, each of 10 percent, were granted despite an annual average inflation of more than 25 percent during the same period.

³⁴ In addition, personnel expenditure rose because of a one percentage point increase in social security contributions paid by employers.

³⁵ The share of salary expenditure in total expenditure is higher if one takes into account that a large share of expenditure recorded as “public services” are wages paid to public institutions such as hospitals and universities.

³⁶ On a cash basis. The 1999 decrease could nevertheless reflect calendar effects related to commitments.

³⁷ Nonbudgetary expenditures include the special treasury accounts, net lending by the treasury, and allocation to the Rehabilitation Fund.

³⁸ The Rehabilitation Fund was created with the 1991 budget law to finance the restructuring of public enterprises and commercial banks. While it was formally closed at end-1996, disbursements ended in 1997 (Table 27).

enterprises. However, the lack of adequate provisions for transfers or loans to public enterprises in a context in which, despite significant progress, several large public enterprises continued to experience financial difficulties, has resulted in an accumulation of quasi-fiscal deficits (see Section IV. A.). Fiscal policy remains also burdened by contingent liabilities in social security institutions.³⁹

81. The functional composition of expenditure did not change significantly; however spending on housing increased.⁴⁰ As shown in Chart 6, most expenditure categories saw their share in total expenditure decrease slightly between 1997 and 1998 (see also Table 25). In particular, the share of social sectors (education, health, and other social sectors) decreased by about 1 percentage point to reach 38 percent of total expenditure in 1998. Housing was the only sector that registered a marked increase with its share more than doubling to about 8 percent of total expenditure. This increase reflected the high priority attached by the government to the housing problem and the effects of the housing reform, which included higher budgetary provisions for the construction of social housing (Table 29). In addition, since 1998, a new system of up-front housing subsidies for low-income households has been introduced.

Budget financing

82. The overall fiscal deficit in 1998–99 was financed primarily by the banking system. This reflected the still limited development of the domestic treasury bill market, the government's desire to limit the increase in the stock of domestic public debt, as well as limited availability of foreign financing.

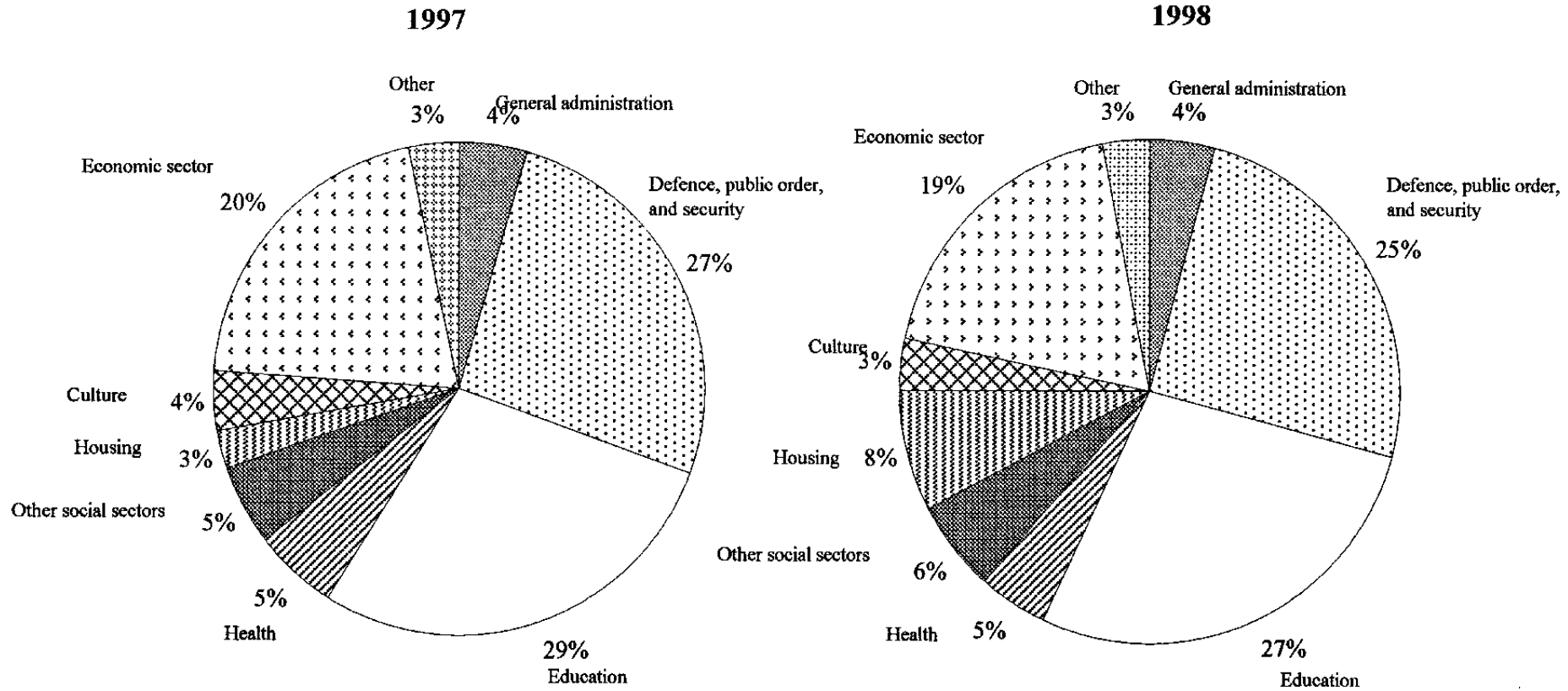
83. Bank financing increased in 1998–99. After two years of fiscal surpluses in 1996 and 1997 when the treasury was able to reduce its liabilities to the banking system,⁴¹ a substantial borrowing requirement reappeared in 1998 and 1999. In particular, the liabilities to the central bank, which were reduced in the previous two years, increased significantly. Because of the strict limits imposed by the law on central bank financing of the treasury, this borrowing took place mainly by using external debt rescheduling proceeds accumulated by the treasury in a blocked account at the central bank. In addition, the practice of early repayments of restructuring treasury bonds to commercial banks was interrupted.

³⁹ The financial situation of the social security system seems indeed precarious. For instance, the national pension scheme (*Caisse nationale de retraite*, or CNR) recorded increasing deficits over the past years, since revenue only covered about 70 percent of expenditure. The transfer in 2000 of 2 percentage points of payroll taxes from the unemployment insurance (CNAC) to CNR might prove both insufficient to ensure the medium-term sustainability of CNR's financial position and destabilizing for CNAC's.

⁴⁰ Data on the functional classification of expenditure for 1999 were not yet available at the time of the Article IV consultation discussions.

⁴¹ Repayments to the banking system also reflected external debt rescheduling proceeds.

Chart 6. Algeria: Expenditure by Functional Classification, 1997-98



Sources: Algerian authorities; and Fund staff estimates.

84. **The treasury's liabilities to the nonbanking sector increased by DA 20 billion and DA 25 billion in 1998 and 1999 respectively, after a reduction in 1996 and 1997. This was mainly due to a limited repayment of treasury bills issued to the housing bank (CNEP) in exchange for its nonperforming loans to public developers, and to an increase in negotiable treasury bills held by nonbank financial institutions.⁴² Net foreign financing was negative both in 1998 and 1999, reflecting limited access to foreign borrowing and a substantial increase in debt service following the end of the consolidation periods of previous debt rescheduling agreements.**

⁴² The CNEP, although it was rechartered as a commercial bank in 1997, is still considered a nonbank in data on budget financing.

IV. FINANCIAL SECTOR

A. Banking System

85. **As of end-1999, the banking system was composed of the Bank of Algeria,⁴³ 17 commercial banks, and 10 other financial institutions.** There were six public banks⁴⁴ (including CNEP, the former savings and loan institution which was transformed in a commercial bank in 1997). Private banks—domestic or foreign—have been allowed to enter the market since the beginning of the 1990s. One of them—El Baraka Bank—follows Islamic banking principles and was chartered as soon as 1990. The other private banks were chartered between 1997 and 1999. Public banks still dominate the banking sector. Their share of total assets and deposits is about 95 percent.⁴⁵ They have a large network of about 1,050 branches altogether,⁴⁶ and about 30,000 employees (5 percent of total employment).

86. **Since 1991, government-owned banks have been repeatedly restructured.** Indeed, despite the introduction of market-based reforms in the early 1990s, they have lacked the institutional framework and the experience to promote efficient financial intermediation. Moreover, they have been burdened by a legacy of compulsory lending to public enterprises (Table 33) and sectoral credit specialization, which have considerably weakened the quality of their portfolios. A cleaning up of their balance sheets had to be done several times in the 1990s, under various modalities:

- Substitutions of government bonds⁴⁷ for nonperforming loans to public enterprises took place in 1992–93 for a substantial amount (about 23 percent of GDP). By using external debt rescheduling proceeds, the treasury repaid most of these bonds ahead of schedule by 1996. A second loan-bond swap took place in 1997 in favor of Bank of BADR, BNA,⁴⁸ and CNEP.⁴⁹ The cost of this second debt takeover by the treasury was equivalent to about 8.5 percent of GDP. Similar swaps also took place in 1991 and 1998 (amounting to a cumulated 3 percent of GDP). The bonds issued by the treasury have most often not been serviced in cash; accrued

⁴³ With the passage of the law on money and credit in 1990, the Bank of Algeria was granted autonomy to conduct monetary policy.

⁴⁴ Banque nationale d'Algérie (BNA), Banque extérieure d'Algérie (BEA), Banque de l'agriculture et du développement rural (BADR), Crédit populaire d'Algérie (CPA), Banque de développement local (BDL), and Caisse nationale d'épargne et de prévoyance (CNEP).

⁴⁵ This is an estimate since, at end-1999, private banks' and CNEP's data were not included in the monetary statistics.

⁴⁶ The Postal System (CCP) also has a large network of about 3,200 offices through which it collects deposits.

⁴⁷ These bonds were nonnegotiable. They had a 12-year maturity and bore a 10 percent interest rate.

⁴⁸ BADR and BNA had lent extensively to food and pharmaceutical importing agencies, to finance the foreign losses suffered by these agencies in the wake of the 1994 devaluation of the dinar.

⁴⁹ CNEP was burdened with nonperforming loans to the housing sector.

interest was capitalized and thus increased treasury's debt owed to banks by about 4 percent of GDP over the 1996–99 period.

- Over 1991–97, public banks received DA 168 billion in cash (about 11 percent of GDP) to compensate them for foreign exchange losses incurred on past external borrowing contracted mostly on behalf of the state.
- Between 1991 and 1997, government-owned banks had to be recapitalized several times, either with cash transfers or government bonds, to comply with capital adequacy ratios (see below). The cumulated cost of these operations was about 5 percent of GDP.

87. The recapitalization of each bank was accompanied in the mid-1990s by the signing of performance contracts between the government and bank managers. Performance contracts held bank managers directly and solely responsible for respecting the capital adequacy ratios established by the Bank of Algeria. The banks, in turn, were being provided with increased autonomy with respect to operational decisions, notably the allocation of credit. In the context of the bank-enterprise mechanism (*dispositif banques entreprises*) commercial banks started in 1996 to reschedule some of the debt of certain public enterprises by converting short-term overdrafts into medium-term loans. These debt-restructuring operations were conditioned upon the liquidation of a number of nonviable units within otherwise viable enterprises, the implementation of performance contracts by public enterprise managers, and equity participation from banks.

88. Meanwhile, banking supervision has been somewhat strengthened. In the previous system of public bank monopoly, little attention was indeed paid to prudential regulation since there was an implicit government guarantee. Starting in 1994, efforts were aimed at ensuring that commercial banks conformed to upgraded standards for banking operations and accounting, and that they initiated a program of internal and financial restructuring. All existing banks were required to reapply for certification with the Bank of Algeria, which started imposing reserve requirements and an increasingly stringent capital/risk-weighted assets ratio.⁵⁰ In addition, in 1995 the Bank of Algeria started implementing new prudential regulations to limit risk concentration and establish clear rules for loan classification and provisioning. In particular, banks are now required: (i) to limit overdrafts to the equivalent of 15 days of turnover (compared with 45 days previously); (ii) not to record overdue interest payments as revenues; and (iii) to establish provisions for off-balance sheet claims.

89. Despite these efforts, public banks' operational efficiency remains mediocre at best. They fail to provide some basic banking services to large segments of the population. This is attested by the fact that households are still reluctant to become customers of public banks for basic banking services. Indeed, most of them use CCP (the postal system's financial

⁵⁰ This ratio was raised by steps from 5 percent in 1996 to 8 percent in 1999.

arm) for fund transfers and cash withdrawals. For a significant part, this reluctance stems from the severe shortcomings of the payments system.

90. **There are still serious doubts regarding government-owned banks' profitability and solvency.** Returns on assets and on equity are particularly low in international or even regional comparison. This phenomenon has various causes. First, yields on assets are poor. This is partly due to the capitalization of interests due on government bonds (see above). In this regard, these banks have suffered from their continued financial support, sometime at the behest of past governments, to loss-making public enterprises. However, losses on credit extended to the private sector have also been significant, pointing to a possible lack of expertise and loose internal controls. Second, the cost of banks' resources is high relative to lending rates. Given the low mobilization of savings in the banking system and the reluctance of households to hold sight accounts in public banks, the latter have to resort extensively to resources, such as central bank refinancing, whose cost sometimes exceeds the yield of some assets (such as business equipment loans, whose rates do not appear market-determined). In this context, banks' compliance to capital adequacy ratios hinges on the large share (about 20 percent) of claims on the government⁵¹ in their balance sheets and the implicit government guarantee on nonperforming loans to public enterprises.

B. Financial Markets

91. **The secondary market for treasury bills began operating in March 1998. Securities are traded twice a week in a facility provided by the treasury. These securities currently are:**

- Short-term treasury bills, with maturities ranging from 13 to 52 weeks;
- Medium-term treasury notes, with a 2-year maturity.⁵²

92. **The market is accessible only to primary dealers (*Spécialistes en valeurs du Trésor*, or SVT). These are generally banks or institutional investors. The system's central depository is the Bank of Algeria.**

93. **The Algiers Stock Exchange, which opened in July 1999, is still modest in size. Three public companies were subsequently listed, after they were authorized to float 20 percent of their capital:**

- *Eriad-Setif*, a food-processing enterprise.
- *Saidal*, a pharmaceutical enterprise.

⁵¹ With a zero-weight risk.

⁵² There has been, up to now, only one issuance of these 2-year notes.

- El Aurassi Hotel.
- Besides, bonds issued in 1998 by Sonatrach,⁵³ the state-owned oil company, were listed as well.

94. **The Algiers stock market is managed by *Société de gestion de la bourse des valeurs* (SGBV), which is controlled by the market's brokers-dealers (*Intermédiaires en opérations de bourse*, IOB). It is supervised by a securities and exchange commission (*Commission d'organisation et de surveillance des opérations de bourse*, COSOB), which is in charge of protecting investors and ensuring a smooth and transparent functioning of the market.**

C. Monetary Policy

95. **For a large part, the Law on Money and Credit, adopted in 1990, laid the groundwork for the current monetary framework.** In 1992, the Bank of Algeria ceased to impose credit ceilings on commercial bank lending and started relying on central bank refinancing of the economy.⁵⁴ In 1994, the Bank of Algeria introduced a remunerated reserve requirement on commercial banks.⁵⁵ Repurchase auctions to provide liquidity to commercial banks were introduced in 1995. These aimed at increasing the role of interest rates by allowing competitive market practices to prevail and by ensuring greater transparency regarding the criteria for credit allocation. Finally, open market operations were formally introduced in 1996.

96. **In the recent past, the relative importance of the various monetary policy instruments has varied with banks' refinancing needs.** Banks' liquidity substantially improved in 1996 and 1997, and to a lesser extent in 1998. Meanwhile, the supply of loanable funds by nonbank financial institutions (mainly insurance companies) on the money market increased markedly. As a consequence, banks' refinancing requests to the central bank were quite limited during this period. This led to a decrease of Bank of Algeria's claims on deposit money banks, which reached a low point in mid-1998. At that time, about 90 percent of central bank refinancing was granted through the rediscount window. The situation reversed during the second half of 1998: banks' refinancing demand increased sharply due to liquidity problems in the wake of falling hydrocarbon prices. By the end of 1999, Bank of Algeria's claims on deposit money banks had almost doubled, at about DA 310 billion. The importance of the rediscount window was considerably less: the amounts granted through this scheme had decreased in nominal terms and represented about 40 percent of the total. In the meantime, the share of refinancing extended through liquidity auctions rose from about 10 percent to

⁵³ Sonatrach raised about DA 12 billion by issuing these 5-year bonds, bearing an interest rate of 13 percent.

⁵⁴ However, it maintained ceilings on individual bank's refinancing.

⁵⁵ At 2.5 percent of deposits, excluding foreign currency deposits.

about 30 percent, and the share of the overdraft facility from 0 percent to 30 percent. Open market operations remained only marginal all over the period, owing in part to the limited supply of tradeable securities available to deepen the market.

97. **Market forces still play an insufficient role in monetary policy operations.** In practice, a substantial part of banks' refinancing remains granted through the rediscount window, which rate is clearly set by the Bank of Algeria and the interest rate of liquidity auctions does not fully play the key role of reflecting the monetary policy stance which it was supposed to play. The Bank of Algeria accordingly plans to continue to reduce the relative importance of the rediscount window in the coming years. This should be facilitated by a new regulation, adopted in early 2000, tightening paper eligibility criteria and reducing the rate of rediscounting (the percentage of the paper's face value that is actually rediscounted). Besides, the frequency of liquidity auctions was raised to twice a month at the end of 1999.

98. **The monetary policy framework used by the monetary authority could be more explicit.** The final objective is a low level of inflation in the medium term; this level is not specified but considered to be about 3 percent. The Bank of Algeria currently uses an intermediate monetary target (on broad money), which is nevertheless not systematically released to the public. External communication on this intermediate target only happens when Bank of Algeria's officials are asked to testify before Parliament or the *Conseil national économique et social* (a consultative body).

99. **The choice of the right intermediate target in Algeria is uneasy.** Targeting the exchange rate or inflation does not seem appropriate in this country at the moment. As an economy highly dependent on oil prices, Algeria needs a lot of flexibility in its exchange rate policy. As to inflation targeting, rapidly changing economic structures have made inflation forecasting particularly difficult and uncertain, which could undermine the authority's credibility if such a framework were to be adopted. Thus, the Bank of Algeria is left with two alternatives: an interest rate target, or a monetary target. The latter suffers a priori several drawbacks: monetary aggregates are available with a few-month lag, and monetary statistics are not comprehensive;⁵⁶ monetary aggregates are potentially very sensitive to oil price variations and the decision of the government to sterilize their impact on foreign exchange reserves; in the context of a potentially unstable money demand, such an intermediate target could also lead to wide interest rate fluctuations. Yet, a monetary target remains useful in the short term. First, since most public banks may still not feel completely bound by hard budget constraints and seem relatively insensitive to refinancing interest rates,⁵⁷ it could prove more effective for monetary control than an interest rate target. Second, the setting of the monetary target could be explained to the public relatively easily; this would thus enhance transparency.

⁵⁶ As already mentioned, as of end-1999, CNEP's and private banks' data were not included in monetary statistics. This is, nevertheless, expected to change in 2000.

⁵⁷ This assessment derives from the observation that in 1999 banks resorted massively to the overdraft facility, despite its very high cost, for their refinancing.

D. Recent Monetary Developments

100. **Money growth remained high in 1998.** The 1997 money growth (18.2 percent) was mainly driven by a rapid accumulation of net foreign assets (Table 30). In 1998, the still large increase in liquidity (19.1 percent) was attributable to a large increase in net domestic assets as net foreign assets declined due to lower oil prices. In 1998, net domestic assets increased by DA 276 billion (37.7 percent) after a DA 50 billion decrease in 1997. The increase in domestic credit⁵⁸ was exactly the same for both years (DA 108 billion). The divergence was thus entirely due to "other items net" which decreased by DA 158 billion in 1997 and then increased by DA 168 billion in 1998. This change corresponded to the sterilization of debt rescheduling proceeds in 1997 and to their use in 1998 to finance the turnaround in the fiscal position.

101. **In 1999, money supply growth slowed down despite the surge in domestic credit.** This deceleration, with a 14 percent increase, was mainly due to a further depletion of net foreign assets (minus DA 111 billion). Credit to the economy increased strongly in 1999 (see below), as well as credit to the government because of the use of the rescheduling proceeds and as a result of public banks accounting some nonperforming claims on public enterprises as claims on the government. As a whole, domestic credit growth exceeded 25 percent (DA 322 billion).

102. **Commercial banks' refinancing by the Bank of Algeria increased very rapidly in 1999** (about 36 percent between December 1998 and December 1999; see Table 31). Refinancing demand was fueled by the public bank's operating inefficiencies (see above) and by a substantial increase in credit to the economy (about 28 percent on a year-on-year basis). About half of this increase is attributable to additional recourse to bank loans by the hydrocarbons sector, in order to cope with cash difficulties engendered by the fall in oil prices early in 1999. Loans to the public housing sector also fueled the increase in credit to the economy.

103. **The data available for the very last months of 1999 and the first months of 2000 point to a reversal of this trend, with a significant decrease of commercial banks' refinancing by the Bank of Algeria.** This should probably be attributed to an improvement in the financial situation of the hydrocarbon sector, which was then benefiting from much higher export revenues.

⁵⁸ An analysis of a breakdown of domestic credit data is hindered by the impact of banks' balance sheets restructuring on monetary statistics. Indeed, when claims on the government are substituted for nonperforming claims on public enterprises, the stock of credit to the government is adjusted upwards and the stock of credit to the economy downwards for an equal amount (leaving thus domestic credit unchanged). Besides, the line "other items net" (part of net domestic assets) includes a special account at the Bank of Algeria used to sterilize external debt rescheduling proceeds. The variations of this account's balance were very large until 1998.

104. **The liquidity ratio has increased significantly since 1997.** During the 1994–96 period, as a result of price liberalization and tighter monetary policy, prices increased sharply (and so did nominal GDP) while M2 growth was contained. Consequently, the liquidity ratio⁵⁹ fell by almost 14 percentage points. Once the initial impact of liberalization on prices began to wane, disinflation was quick in 1997. Coupled with positive real interest rates, which made term deposits attractive, disinflation stimulated the demand for money. The liquidity ratio thus increased by 3.5 percentage points in 1997 and again by 7.1 percentage points to 46.3 percent in 1998. In 1999, in the absence of major changes in its main determinants, it remained close to its 1998 level (at 46.1 percent).

105. **Owing to disinflation, nominal interest rates have substantially decreased during the past years.** For instance, the rediscount rate, which stood at 13 percent at end-1996, was lowered to 11 percent in 1997 and 9.5 percent in 1998 (Table 34). It remained at this level until September 1999, when it was lowered to 8.5 percent.⁶⁰ The other refinancing rates were brought down in a similar way, as were commercial banks' deposit and lending rates.

106. **Some of the indicators traditionally used to assess the monetary policy stance are not available or relevant in Algeria.** The yield curve cannot be constructed with market interest rate⁶¹ or banks' lending rates.⁶² The use of a monetary condition index⁶³ seems irrelevant. First, the weight that should be given to the exchange rate is difficult to determine. Indeed, some imports are probably not very sensitive to exchange rate variations;⁶⁴ as for exports, they are overwhelmingly (95 percent) composed of hydrocarbon products, for which prices are internationally set in dollar terms. Second, given that Algeria was some years ago a partly command economy, it would be difficult to assess monetary policy stance in the past since most prices (including interest rates) were administered. In other words, a reference period against which the current situation would be assessed could hardly be found.

107. **In the Algerian context, the level of real interest rates may not be a reliable indicator of the monetary policy stance.** To assess the level of real interest rates, it is necessary to have an idea of inflation expectations. One possibility is to use the monetary authority's medium-term inflation target, i.e., 3 percent. With this assumption, the rediscount rate stood at about 5.5 percent in real terms at end-1999, and the average refinancing rate at

⁵⁹ Ratio of end-of-period broad money stock (M2) to nominal GDP.

⁶⁰ It was lowered again to 7.5 percent in January 2000.

⁶¹ The longest maturity for negotiable treasury bills is only 2 years.

⁶² There is no clear reference available for lending or deposit rates.

⁶³ A monetary condition index is usually a linear combination of changes in a short-term real interest rate and in the real effective exchange rate.

⁶⁴ For instance, capital goods imported by the hydrocarbon sector, or some food imports.

about 9 percent.⁶⁵ These levels are much higher than the recent trend in GDP growth rate. With such a gauge, monetary policy seemed thus rather restrictive in 1999, and this would vindicate the rediscount rate drop in January 2000. Yet, this result is debatable. Given Algeria's recent experience with moderate inflation, it could be argued that inflation expectations are still higher than 3 percent, which would weaken the previous conclusion. The rapid increase in monetary aggregates since 1997 (see above) does not point either toward a restrictive monetary policy.

⁶⁵ This much higher figure is due to the intensive use of the overdraft facility, whose rate should be punitive. If the overdraft were only marginally used, the average refinancing cost would be closer to 6 percent in real terms.

V. EXTERNAL SECTOR

A. Balance of Payments

Overall developments

108. **Following the sharp fall in oil prices in 1998/99, the external current account swung from a surplus of 7 percent of GDP in 1997 to a deficit of 2 percent of GDP in 1998.** As the capital account remained in deficit and the exceptional financing declined from US\$3.6 billion in 1997 to US\$1 billion in 1998 due to the end of the consolidation period under the second Paris Club rescheduling, international reserves fell to US\$6.8 billion by end-1998, from a peak of US\$8.9 billion in May 1998.

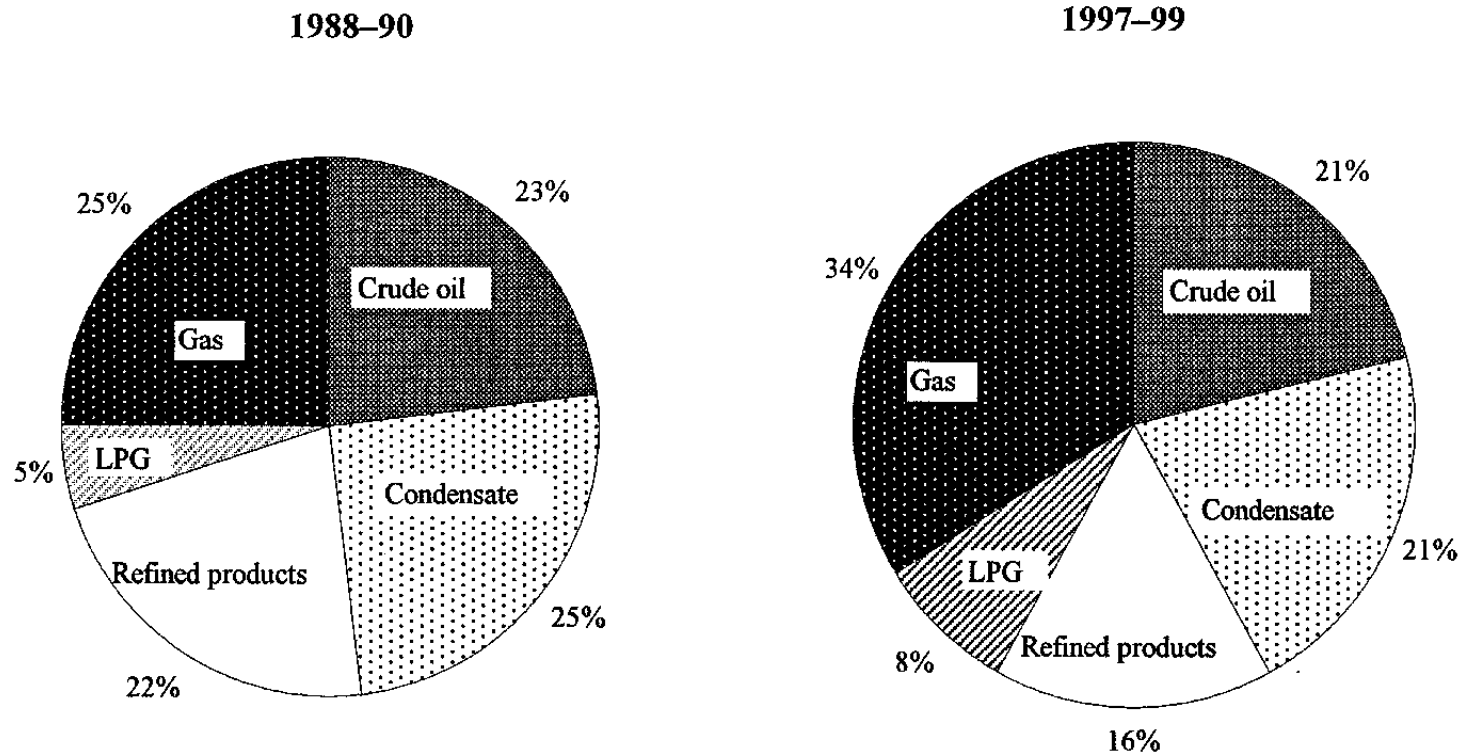
109. **In 1999, the positive impact on the external position of the sharp recovery in oil prices during the second half of the year was attenuated by the lagged response of gas prices and a worsening of the capital account.** As hydrocarbon export revenue recovered and imports grew modestly, partly due to a tight fiscal policy, the current account position moved back to a balanced position. The capital account deficit, however, widened from US\$0.8 billion in 1998 to US\$2.4 billion in 1999, reflecting limited access to new borrowing in the face of still large amortization obligations. Exceptional financing continued to fall to about US\$0.4 billion. Official foreign reserves, therefore, decreased further to US\$4.4 billion by end-December 1999, equivalent to about 4.6 months of imports of goods and nonfactor services (Table 35).

Exports

110. **Following mainly large variations in hydrocarbon prices, hydrocarbon export value fell from a peak of US\$13.2 billion in 1997 to US\$9.7 billion in 1998 and then recovered to US\$11.9 billion in 1999 (Table 37).** The sharply higher prices for oil in the second half of 1999 boosted earnings from crude oil, condensates and refined products. Earnings from gas exports, however, posted only modest gains in spite of a substantial volume growth as the recovery of gas prices exhibited the usual six-month lag vis-à-vis oil prices. The price of Algerian crude, the Saharan Blend, averaged US\$17.9 a barrel in 1999, up from US\$12.9 per barrel in 1998, while the export price of natural gas in 1999 was 14.5 percent lower than in 1998.

111. **Total hydrocarbon exports in volume terms increased significantly in 1999 (Table 36).** Crude oil output averaged 758,000 barrels per day (bpd) in 1999, down from 823,000 bpd a year earlier. However, the rise of gas export volumes in 1999 (about 46 percent) more than compensated the impact of OPEC's restrictions on oil production in 1999. Gas output capacity and exports were boosted, in particular, by the coming on stream of two new projects: Tin Fouye Tabankort (TFT) and Hassi R'Mel Sud. Consequently, the composition of hydrocarbon exports continued to change toward a greater share of gas (Chart 7).

Chart 7. Algeria: Composition of Hydrocarbon Exports, 1988–99
(In percent of total)



Source: Algerian authorities.

112. Despite several years of economic reform and adjustment, nonhydrocarbon exports still represent less than 5 percent of total exports. Nonhydrocarbon exports peaked in 1997 at US\$0.6 billion and then fell to US\$0.4 billion by 1999; i.e., about 3 percent of total exports in the latter year (Table 41).⁶⁶ In per capita terms Algeria has one of the lowest nonhydrocarbon exports among developing and transition economies. In 1999, Algeria's nonhydrocarbon exports amounted to US\$14 per capita as compared to US\$200-650 in Tunisia and Morocco.⁶⁷ Nonhydrocarbon exports consist mostly of semi-finished products, agricultural products and phosphates and the main markets are Spain (22 percent), Italy (16 percent), and France (12 percent).

Imports

113. After dropping significantly in 1997, imports rose to US\$8.6 billion in 1998 and US\$9.0 billion in 1999. Import volume also increased by 6.4 percent in 1998 and 2.0 percent in 1999, partly due to the modest recovery in domestic demand (Table 38). In constant dollar terms (1995 prices) average annual imports for 1995-99 were about 10 percent lower than in the first half of the 1990s, and 65 percent lower than in the 1980s when imports were boosted by the overvalue of the official exchange rate. The share of food imports, mainly cereal, declined slightly from 29 percent of imports in 1997 to 27 percent in 1999 (Table 41). The share of consumer goods in total imports remained relatively low at about 15 percent.

Services and transfers

114. The deficit on services, which was broadly stable in the previous two years, widened in 1999 to US\$4.1 billion (Table 35). The US\$0.3 billion increase in nonfactor services deficit reflected stagnant service exports (about US\$0.7 billion) and higher than expected service imports (mainly freight, insurance, and foreign travel by domestic residents) at US\$2.6 billion. Spending by Algerian residents on travelling abroad rose sharply from US\$0.1 billion in 1997 to US\$0.9 billion in 1999. The deficit in factor services in 1999 deteriorated by US\$0.3 billion due in part to lower receipts from investment income, following the fall in the stock of official foreign exchange reserves. Interest payments fell by US\$0.1 billion to US\$1.85 billion as a result of the reduction in the stock of external debt and valuation effects. The share of the amount allocated to Sonatrach's foreign partners⁶⁸ rose from US\$0.4 billion in 1998 to US\$0.7 billion in 1999.

115. Transfers have declined from an annual average of US\$1.1 billion in the previous two years to US\$0.8 billion in 1999. Officially recorded transfers consist mostly of workers'

⁶⁶ This decline resulted in large part to the expiration of specific contracts with Former Soviet Union countries.

⁶⁷ Nonenergy exports in the case of Tunisia; nonphosphate and nonphosphate derivative exports in the case of Morocco.

⁶⁸ The production share allocated to Sonatrach's foreign partners is recorded in oil exports. This balance of payments' entry is offset by a similar entry for factor services imports.

remittances from abroad (mainly from Europe). The drop in remittances in dollar terms reflects partly the depreciation of the Euro vis-à-vis the U.S. dollar.

Capital account and official reserves

116. Following the two debt reschedulings in 1994 and 1995, capital inflows declined markedly, in part because some official export credit agencies limited the amounts of new export guarantees available for Algeria. External borrowing, which had consistently exceeded US\$6 billion annually in the late 1980s and early 1990s—when macroeconomic imbalances were rising—dropped to an annual average of US\$1.8 billion in 1996–98 (Chart 8), when macroeconomic stability was restored. Algeria, however, received balance of payments support of more than US\$21 billion between 1994 and March 1998, most of which from debt reschedulings with the Paris and London Clubs. The remainder was provided as balance of payments support by multilateral financial institutions, most notably the Fund, which provided about US\$3 billion during this period.

117. In 1998, the capital account deficit continued to narrow for the third consecutive year. This reflected lower amortization obligations and, to a lesser extent, an increase in foreign direct investment, which almost doubled to US\$0.5 billion in 1998. However, exceptional financing declined from US\$3.6 billion in 1997 to US\$1.0 billion in 1998 due largely to the end of the consolidation period under the 1995 Paris Club rescheduling.

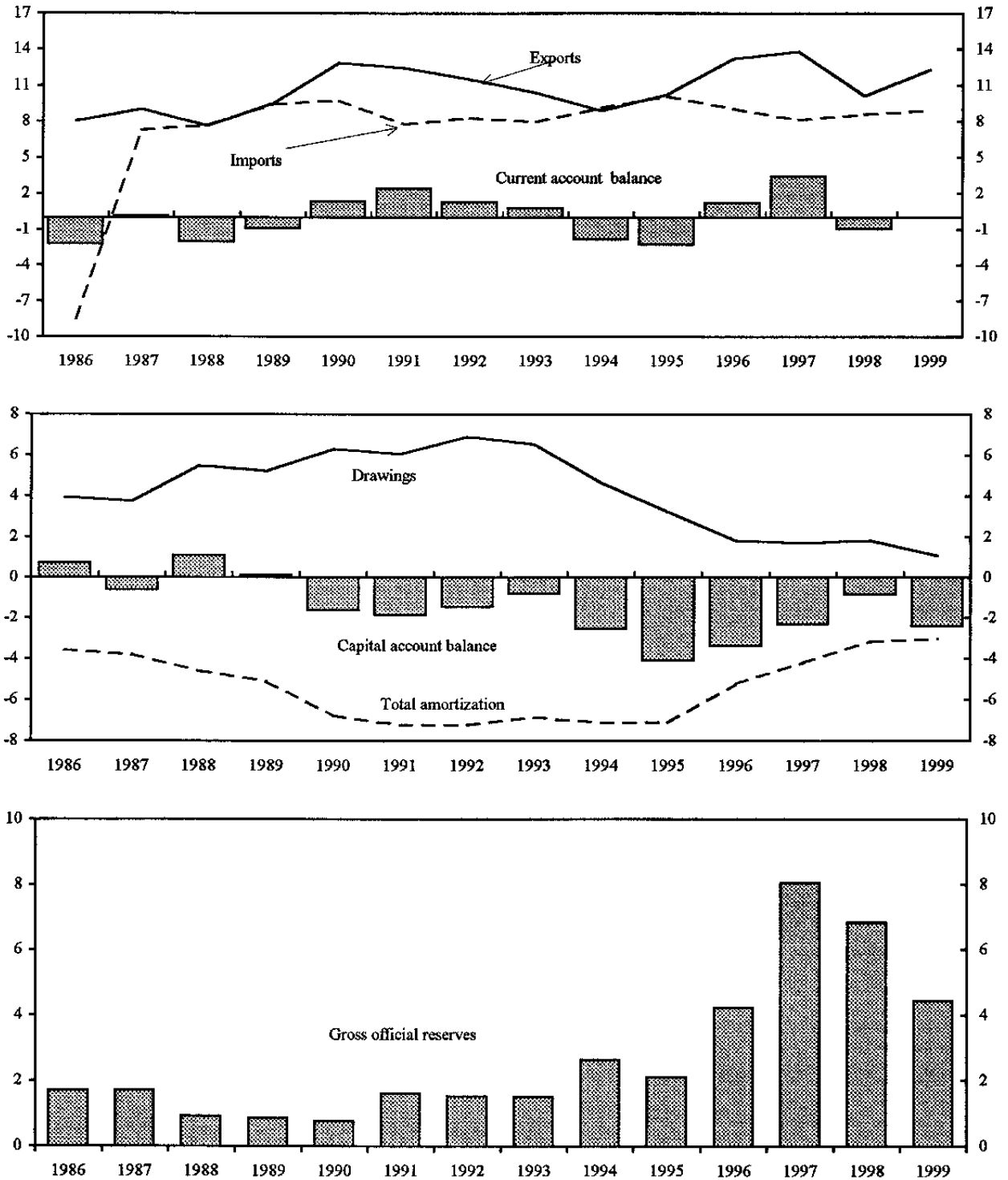
118. In 1999, the capital account deficit widened by US\$1.6 billion to US\$2.4 billion, reflecting limited access to new borrowing and a large negative entry for errors and omissions.⁶⁹ Direct investment remained at about US\$0.5 billion and was nearly exclusively in the hydrocarbon sector. New borrowing fell sharply to about US\$1.1 billion as compared to US\$1.8 billion in the previous year. Exceptional financing continued to fall by about US\$0.6 billion to US\$0.4 billion as a result of the above mentioned 1995 consolidation period under the Paris Club rescheduling and in the absence of new exceptional financing, except for the purchase under the Fund's Compensatory and Contingency Financing Facility (CCFF).⁷⁰

119. Official reserves fell by US\$2.4 billion in 1999, reducing the level of reserves to US\$4.4 billion by end-December 1999 (Chart 8). The deterioration in the capital account deficit and the decline in exceptional financing more than offset the improvement in the external current account. Net outflow of resources (defined as debt service minus new borrowing minus exceptional financing) increased to US\$3.3 billion from US\$2.4 billion in 1998 and US\$1 billion in 1997 (Chart 9).

⁶⁹ This was mainly due to a one-month lag between delivery and payment of hydrocarbon exports in a context of rapidly increasing oil prices.

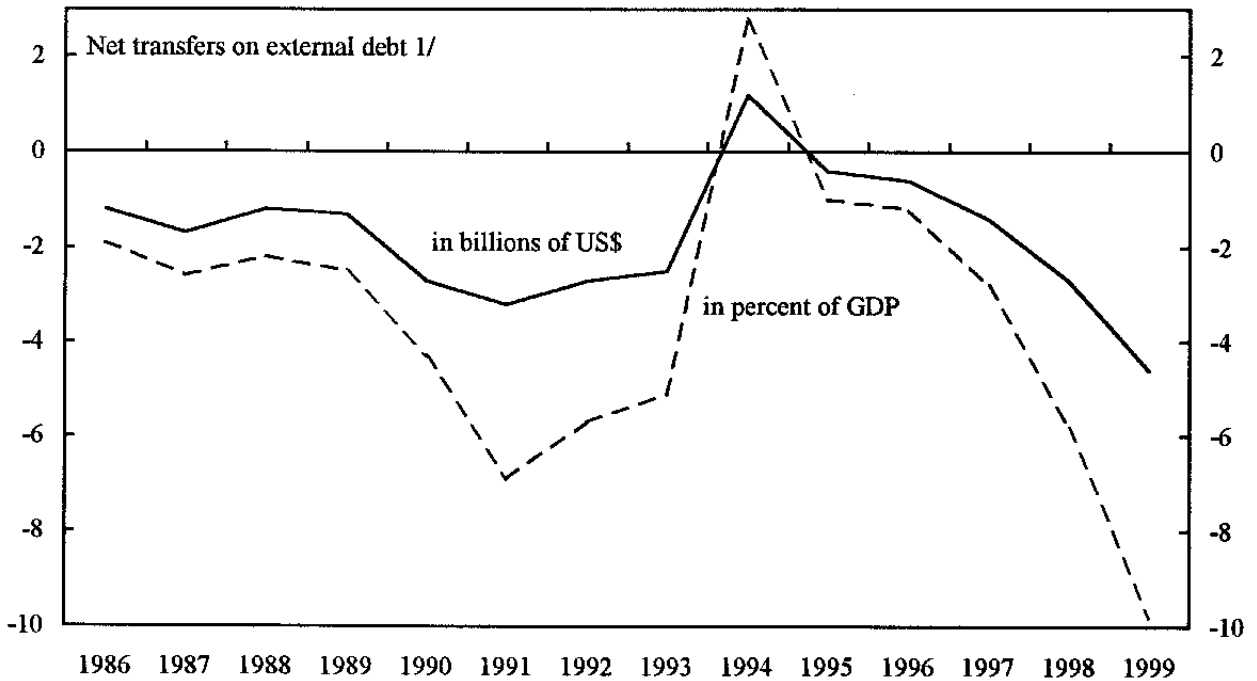
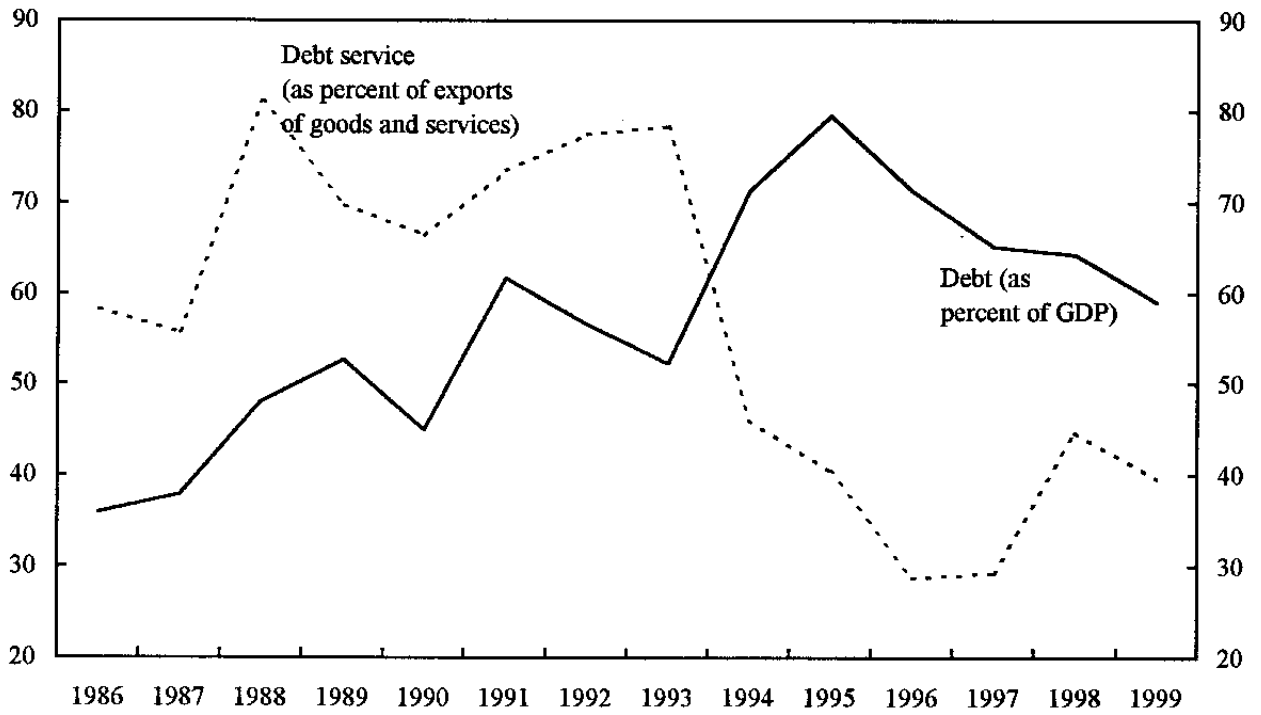
⁷⁰ SDR 223.5 million (equivalent to US\$0.3 billion).

Chart 8. Algeria: Balance of Payments, 1986-99
(In billions of U.S. dollars)



Source: Algerian authorities.

Chart 9. Algeria: External Debt, 1986–99



Source: Algerian authorities.

1/ Net transfers on external debt: drawings + IMF purchases + rescheduling – debt service.

B. External Debt

120. **The stock of external debt declined gradually from a peak of US\$33.7 billion in 1996 to US\$30.5 billion in 1998.** External debt to GDP ratio declined from about 72 percent in 1996 to 64 percent in 1998. The debt service to exports of goods and services ratio, however, increased from 29 percent in 1996/97 to 45 percent in 1998 reflecting the sharp fall in hydrocarbon exports in that year (Chart 9).

121. **In 1999, Algeria's outstanding external debt obligations decreased by US\$2 billion to US\$28.3 billion, of which US\$15.2 billion had already been rescheduled.** The decrease in the stock of total debt is due to net amortization and to the exchange rate valuation effect.⁷¹ External debt to GDP declined further in 1999 to 59 percent, and the debt service ratio, while still high at about 40 percent of exports of goods and nonfactor services, showed an improvement compared to 1998.

122. **Of the total debt outstanding, 20 percent is owed to multilateral institutions, 67 percent to official creditors, and 13 percent to private creditors (Table 39).** About 42 percent of the external debt is denominated in U.S. dollar, 38 percent in Euro, 13 percent in Yen, and the remaining 7 percent in other currencies. Over half of Algeria's debt is at variable rates. Average maturity on new commitments was around 10 years during the past three years.

C. Trade Policy

123. **Algeria's tariffs ranges between 5 percent and 45 percent with 4 bands (5 percent, 15 percent, 25 percent, and 45 percent).** The average unweighted import duty is estimated at about 24 percent, including customs fees of 2 percent and 0.4 percent levied on all products. While this is slightly lower than in other countries in the region, it remains significantly higher than the average tariff rates in many Latin American and Eastern European economies.

124. **At the start of its structural adjustment program in the mid-1990s Algeria made rapid progress in dismantling its trade barriers.** Many nontariff barriers were removed and tariffs were lowered bringing Algeria from 10 in the Fund's index of trade restrictiveness to 7 in 1998. However, the pace of lowering tariff protection has slowed down since 1997 and recent measures have partly reversed the progress achieved. In particular, minimum dutiable values have been applied on selected goods and many tariff positions have been changed in the budget laws for 1998, 1999, and 2000 with the effect of increasing effective protection.

⁷¹ More than half of Algerian external debt is denominated in currencies different from the U.S. dollar. The appreciation of the U.S. dollar vis-à-vis these currencies in 1999 has contributed to lowering the value of the stock of debt expressed in U.S. dollar.

125. **The distortions created by the tariff regime can be measured by effective protection rates that compare value-added of an activity at domestic tariff-inclusive prices in relation to international prices.** Effective protection in Algeria is high in labor-intensive sectors, such as textiles, and many food products. Duty reductions and exemptions on inputs further increase the effective protection enjoyed by the final products and dispersion of incentives between sectors.

126. **Algeria applied to the GATT/WTO in 1987 and the first meeting of the working party took place in April 1998.** Renewed interest in joining the WTO has been expressed by the new government. An EU association agreement is under negotiation.

D. Exchange Rate Policy

127. **The external value of the Algerian dinar is set on the interbank foreign exchange market, which was established in early 1996.** No margin limits are imposed on buying and selling exchange rates in the interbank foreign exchange market. Foreign exchange proceeds must be repatriated within 120 days. Petroleum companies are subject to the same rule, but proceeds may be deposited in a guaranteed account with a foreign correspondent bank of the BA. All export proceeds from crude and refined hydrocarbons, by-products from gas, and mineral products must be surrendered to the BA. Exporters of other products must surrender 50 percent of export proceeds; the remaining portion may be retained in a foreign currency account. Exporters may use the funds in these accounts for imports or other payments pertaining to their business, or they may transfer the funds to another foreign currency account. As oil exports proceeds from Sonatrach revert to the Bank of Algeria, the latter remains the largest supplier of foreign exchange, and hence plays a major role in the interbank market.

128. **Settlements with countries with which no payments agreements are in force are made in convertible currencies.** Resident travelers may export foreign currency withdrawn from their foreign currency accounts up to the equivalent of FF 50,000 a trip for an unlimited number of trips a year. There are no restrictions on the importation of foreign banknotes, but residents and nonresidents must declare them when they enter Algeria. The restrictions on payments for the current transactions, including tourism travel, were lifted in 1997, and Algeria accepted its obligations under Article VIII sections 2, 3 and 4 in September 1997.

129. **During 1998 and early 1999, in the face of declining reserves, the authorities let the dinar depreciate; the dinar stabilized in the latter part of 1999 as hydrocarbon prices started recovering.** Between October 1998 and June 1999, the Algerian dinar depreciated by 18 percent vis-à-vis the U.S. dollar. By contrast, during the second semester of 1999, the dinar held fairly steady against the dollar as the fiscal and external situation benefited from the rebound of oil prices. For the year as a whole, the dinar depreciated by

13 percent against the U.S. dollar. Since the Euro depreciated vis-à-vis the U.S. dollar during this period, the nominal depreciation of the dinar against the main European currencies was modest. For instance, the dinar depreciated in 1999 by 8.5 percent against the French franc. Overall, during 1999, the dinar depreciated by about 7.5 percent in real effective terms.

Table 5. Algeria: Supply and Use of Resources at Current Prices, 1995-99

	1995	1996	1997	1998	1999
	(In billions of dinars)				
Gross domestic product	1,967	2,565	2,762	2,782	3,186
Resource gap	-73	161	233	-17	137
Exports of goods and nonfactor services	540	775	846	636	881
Imports of goods and nonfactor services	613	613	614	653	744
Gross domestic spending	2,040	2,404	2,530	2,798	3,049
Consumption	1,407	1,759	1,872	2,028	2,176
Government	310	421	462	504	542
Nongovernment	1,097	1,338	1,410	1,525	1,635
Gross investment	632	645	658	770	873
Gross fixed capital formation	580	639	681	740	825
Change in stocks	52	5	-24	30	48
Gross domestic savings	560	806	890	754	1,010
Net factor income from abroad	-104	-129	-129	-119	-142
Net current transfers	53	48	79	82	58
National savings	509	725	840	717	926
Gross national product	1,862	2,436	2,634	2,662	3,045
	(In percent of GDP)				
Gross domestic product	100	100	100	100	100
Resource gap	-3.7	6.3	8.4	-0.6	4.3
Exports of goods and nonfactor services	27.4	30.2	30.6	22.9	27.6
Imports of goods and nonfactor services	31.2	23.9	22.2	23.5	23.3
Gross domestic spending	103.7	93.7	91.6	100.6	95.7
Consumption	71.5	68.6	67.8	72.9	68.3
Government	15.7	16.4	16.7	18.1	17.0
Nongovernment	55.8	52.2	51.0	54.8	51.3
Gross investment	32.2	25.1	23.8	27.7	27.4
Gross fixed capital formation	29.5	24.9	24.7	26.6	25.9
Change in stocks	2.7	0.2	-0.9	1.1	1.5
Gross domestic savings	28.5	31.4	32.2	27.1	31.7
Net factor income from abroad	-5.3	-5.0	-4.7	-4.3	-4.5
Net current transfers	2.7	1.9	2.8	3.0	1.8
National savings	25.9	28.3	30.4	25.8	29.1
Gross national product	94.7	95.0	95.3	95.7	95.5

Source: Algerian authorities.

Table 6. Algeria: Sectoral Distribution of GDP at Current Prices, 1995–99

	1995	1996	1997	1998	1999
(In billions of dinars)					
Hydrocarbons	503	733	819	640	900
Other sectors	1,283	1,619	1,723	1,915	2,057
Agriculture	190	278	261	309	336
Industry	208	222	236	270	283
Construction and public works	201	246	275	299	316
Nongovernment services	453	560	607	662	718
Government services	230	313	344	374	403
Imports taxes and duties	181	212	221	226	230
Gross domestic product	1,967	2,565	2,762	2,782	3,186
(In percent of GDP)					
Hydrocarbons	25.6	28.6	29.6	23.0	28.2
Other sectors	65.2	63.1	62.4	68.9	64.6
<i>Of which:</i>					
Agriculture	9.7	10.8	9.4	11.1	10.6
Industry	10.6	8.7	8.5	9.7	8.9
Government services	11.7	12.2	12.5	13.5	12.7
(Annual percentage of change)					
Hydrocarbons	50.6	45.6	11.6	-21.8	40.6
Other sectors	26.0	26.3	6.4	11.1	7.4
<i>Of which:</i>					
Agriculture	35.2	46.2	-6.1	18.6	8.7
Industry	22.9	6.9	6.1	14.6	4.8
Government services	23.2	36.0	9.9	8.7	7.8
Gross domestic product	33.3	30.4	7.7	0.7	14.6

Source: Algerian authorities.

Table 7. Algeria: Sectoral Distribution of Real GDP Growth, 1995–99
(In percent)

	1995	1996	1997	1998	1999
Hydrocarbons	4.4	6.3	6.0	4.0	6.2
Other sectors					
Agriculture	15.0	21.3	-13.5	11.4	2.7
Mining	-1.6	-4.3	-13.4	5.5	-3.0
Energy (nonhydroelectric) and water	-0.5	4.5	3.9	8.7	7.0
Public industry	-1.7	-13.4	-7.6	9.2	-0.8
Food processing	-7.7	-4.4	-2.4	14.2	-1.1
Steel, mechanical and electrical construction	9.2	-20.4	-20.9	11.8	8.5
Chemical industry	-8.5	-13.0	6.5	16.3	-2.2
Textiles	-11.4	-27.1	-8.8	0.6	-17.4
Leather products	-20.4	-31.2	-19.1	-3.4	-28.9
Building materials	4.2	4.6	-5.1	5.3	-3.1
Wood and paper	-10.4	-19.3	-2.5	-8.5	-16.5
Other	-23.8	-45.2	-17.9	-1.9	-6.9
Private industry	0.4	0.0	5.0	5.0	8.0
Construction and public works	2.7	4.5	2.5	2.4	1.4
Nongovernment services	3.3	3.0	2.4	5.4	3.1
Government services	3.5	3.0	3.0	2.5	2.5
Import taxes and duties	1.0	-4.5	0.5	5.4	1.8
Gross domestic product	3.8	3.8	1.1	5.1	3.3
Gross domestic absorption	2.7	-2.2	-0.2	6.6	2.2
Consumption	2.8	2.2	-0.1	2.5	2.9
Government	4.1	2.7	2.7	2.6	2.5
Nongovernment	2.6	2.0	-1.0	2.4	2.9
Gross investment	2.6	3.5	0.8	3.3	2.7
Exports of goods and nonfactor services	6.3	7.1	6.3	1.6	6.2
Imports of goods and nonfactor services	2.0	-13.3	2.4	6.5	1.8
Memorandum item:					
Real per capita GDP	1.8	2.0	-0.6	3.5	1.7

Source: Algerian authorities.

Table 8. Algeria: Production, Exports, and Consumption of
Petroleum Products, 1994–98

(In millions of tons)

	1994	1995	1996	1997	1998
Crude petroleum and substitutes					
Production	56.5	56.8	59.8	60.9	62.3
Crude petroleum and substitutes	34.9	35.4	37.5	37.7	38.3
Condensate 1/	16.7	16.5	16.9	16.7	16.6
Liquefied petroleum gas (LPG)	4.9	5.0	5.4	6.5	7.4
Imports	0.3	0.5	0.5	0.3	0.2
Refinery input	20.0	21.0	20.2	20.8	18.9
Direct exports	34.6	34.6	38.4	38.4	40.7
Crude	15.5	15.4	18.2	17.3	19.3
Condensate	15.7	15.7	16.3	16.0	15.5
Liquefied petroleum gas (LPG)	3.5	3.5	3.9	5.1	5.9
LPG consumption	1.4	1.4	1.4	1.4	1.5
Discrepancy 2/	0.7	0.3	0.3	0.7	1.4
Refined products					
Production	18.8	19.5	18.4	19.6	18.9
Exports	13.0	13.3	12.6	14.4	12.8
Domestic consumption	6.0	5.8	5.7	5.6	5.5
Discrepancy 2/	-0.1	0.3	0.1	-0.3	0.6
Memorandum item:					
Total exports	47.6	47.9	51.0	52.7	53.5

Source: Algerian authorities.

1/ By-product of gas production.

2/ Reflects change in inventories and errors of measurement.

Table 9. Algeria: Production, Exports, and Consumption
of Gas Products, 1994–98

	1994	1995	1996	1997	1998
(In billions of cubic meters)					
Gross production	138.2	144.6	151.8	155.8	151.7
Input into oil production	70.0	67.3	71.5	67.1	64.0
Net production 1/	68.2	77.3	80.3	88.7	87.7
Volume transported 2/	49.1	55.2	59.4	68.0	72.2
Domestic consumption	11.3	11.6	11.9	13.2	11.4
Sales to liquefaction plants	24.5	24.9	26.5	32.2	32.5
LNG production	18.0	17.9	19.8	24.4	24.8
<i>Of which:</i> LNG exports	18.1	17.8	19.8	24.3	24.7
Exports by pipeline	13.5	19.7	21.2	24.2	24.7
Discrepancy 3/	-0.3	-0.6	-0.3	-1.7	3.6
(Annual percentage change)					
Gross production	-0.5	4.7	5.0	2.6	-2.6
Input into oil production	3.1	-3.8	6.2	-6.1	-4.7
Net production 1/	-4.0	13.4	3.9	10.4	-1.1
Volume transported 2/	-6.8	12.4	7.6	14.5	6.2
Domestic consumption	-0.8	2.2	3.0	10.9	-14.3
Sales to liquefaction plants	-10.4	-0.1	8.2	21.4	0.9
LNG production	-11.0	-0.6	10.2	23.3	1.7
<i>Of which:</i> LNG exports	-10.1	-1.8	11.6	22.6	1.8
Exports by pipeline	-9.4	45.4	8.1	13.9	2.2
(In billions of cubic meters)					
Memorandum item:					
Total exports	31.6	37.5	41.1	48.5	49.5

Source: Algerian authorities.

1/ Net of gas reinjected into producing oil wells.

2/ Equal to net production minus gas flared, gas used for lifting and for fuel gas, and other losses in the fields.

3/ Reflects errors in measurement.

Table 10. Algeria: Domestic Prices of Major Energy Products, 1994–99
(In dinars per liter; unless otherwise indicated)

	1994	1995	1996	1997	1998	1999
Butane (13 kg/bottle)	60.0	70.0	120.0	157.0	157.0	157.0
Propane (35 kg/bottle)	160.0	170.0	240.0	278.0	278.0	278.0
LPG fuel (kg)	1.4	1.7	3.1	4.3	4.3	4.3
Super gasoline	11.0	14.5	17.0	20.5	20.5	20.5
Regular gasoline	8.2	12.5	15.0	18.4	18.4	18.4
Jet fuel	6.5	7.5	9.5	11.5	11.5	11.5
Gas oil	6.5	6.5	8.5	9.9	9.9	9.9
Fuel oil (heavy)	6.5	6.5	8.5	9.9	9.9	9.9

Source: Algerian authorities.

Table 11. Algeria: Land Use Patterns, 1994–98
(In thousands of hectares)

	1994	1995	1996	1997	1998
Cereals	1,286	2,579	3,663	1,153	3,575
Durum wheat	684	1,176	1,586	591	1,707
Bread wheat	209	505	693	234	870
Barley	361	824	1,283	265	939
Other	32	74	102	25	59
Pulses	111	106	90	80	78
Fodder crops	505	485	480	486	488
Industrial crops 1/	36	39	36	38	43
Vegetables 2/	279	293	291	267	267
Grapes	69	57	56	52	52
Fruit trees	450	416	427	452	432
Natural prairies	37	40	40	42	42
Others	5,270	4,054	2,997	5,669	3,240
Total cultivated land	8,043	8,069	8,081	8,202	8,216
Fallow	5,282	4,038	2,967	3,416	3,202

Source: Algerian authorities.

1/ Industrial tomatoes and tobacco.

2/ Potatoes, tomatoes, garlic and onions, and watermelons.

Table 12. Algeria: Crop Yields, 1994–98
(In kilogram per hectare)

	1994	1995	1996	1997	1998
Cereals					
Hard wheat	822	1,010	1,283	771	878
Soft wheat	725	616	1,368	879	896
Barley	648	708	1,404	721	745
Potatoes	9,508	13,677	13,463	14,104	16,025
Pulses					
Fava beans	384	413	811	240	582
Chickpeas	335	415	736	524	614

Source: Algerian authorities.

Table 13. Algeria: Livestock, 1994–98
(In thousands of heads)

	1994	1995	1996	1997	1998
Bovine	1,269	1,267	1,228	1,255	1,317
Ovine	17,842	17,302	17,565	16,387	17,949
Caprine	2,544	2,780	2,895	3,121	3,257
Cameline	114	126	136	151	150

Source: Algerian authorities.

Table 14. Algeria: Index of Industrial Production in Public Enterprises, 1995-99

	Weights (in percent)	1995	1996	1997	1998	1999
(1989 = 100)						
Water and energy	6.9	132.4	138.3	143.7	156.3	167.3
Hydrocarbons	17.8	107.6	113.2	118.2	119.2	122.3
Mining and quarrying	2.7	81.1	77.7	67.2	70.8	68.7
Mechanical and electrical	26.3	74.5	59.6	46.8	53.1	57.6
Construction materials	8.8	89.7	93.8	89.0	93.4	90.5
Chemicals	7.0	86.2	75.0	79.9	93.2	91.2
Food processing	14.5	89.0	85.1	83.1	95.4	94.4
Textiles	9.2	73.1	53.3	48.6	48.1	39.8
Leather and hides	2.2	42.6	29.3	23.7	22.4	16.0
Woods and paper	4.6	60.1	48.5	47.3	45.3	37.8
General index	100.0	87.6	81.1	78.2	83.8	84.6
General index (excluding hydrocarbons)		82.9	73.7	68.9	75.6	75.8
General index of manufactured commodities		78.9	68.3	63.1	69.0	68.4
(Annual percentage change)						
Water and energy		-0.5	4.5	3.9	8.8	7.0
Hydrocarbons		1.4	5.2	4.4	0.8	2.6
Mining and quarrying		-1.6	-4.2	-13.5	5.4	-3.0
Mechanical and electrical		8.9	-20.4	-21.1	13.5	8.5
Construction materials		4.1	4.6	-5.1	4.9	-3.1
Chemicals		-8.6	-13.0	6.5	16.6	-2.1
Food processing		-7.7	-4.4	-2.4	14.8	-1.0
Textiles		-11.4	-27.1	-8.8	0.6	-17.3
Leather and hides		-20.4	-31.2	-19.1	-5.5	-28.6
Woods and paper		-10.4	-19.3	-2.5	-4.2	-16.6
General index		-1.0	-7.4	-3.6	7.2	1.0
General index (excluding hydrocarbons)		-1.8	-11.1	-6.5	9.7	0.3
General index of manufactured commodities		-1.7	-13.4	-7.6	9.4	-0.9

Source: Algerian authorities.

Table 15. Algeria: Production of Minerals, 1995-99 1/

	1995	1996	1997	1998	1999
(In thousands of tons, unless otherwise indicated)					
Iron ore	2,237	2,244	1,614	1,783	1,337
Phosphates	757	1,051	1,062	1,155	1,097
Zinc and lead	8.4	6.9	8.1	9.8	11.0
Mercury 2/	8.4	11.1	14.2	6.5	7.0
(Annual percentage change)					
Iron ore	9.3	0.3	-28.1	10.5	-25.0
Phosphates	8.1	38.8	1.1	8.7	-5.0
Zinc and lead	25.4	-17.9	17.4	20.4	13.0
Mercury 2/	-35.4	32.1	27.9	-54.2	7.7

Source: Algerian authorities.

1/ Excluding hydrocarbons.

2/ In thousands of containers, each weighing 34 kilograms.

Table 16. Algeria: Consumer Price Index, 1995–99 1/

	Weights (in percent)	1995	1996	1997	1998	1999
		(1989 = 100)				
Foodstuffs, beverages, and tobacco	44.1	425.9	510.6	539.7	570.6	577.4
Clothing and shoes	11.6	306.3	347.7	369.5	388.5	418.4
Housing costs	5.6	360.0	454.0	541.5	580.6	597.6
Furniture	6.8	305.2	330.2	343.7	354.7	362.8
Health and medical care	3.4	410.3	479.6	527.7	556.7	581.8
Transportation and communications	11.5	351.2	432.0	452.5	459.5	473.2
Education and entertainment	6.5	452.5	520.4	500.5	496.8	482.8
Other services	10.5	441.9	522.3	551.0	590.9	631.8
General index	100.0	394.6	468.2	494.9	519.4	533.1
		(Annual percentage change)				
Foodstuffs, beverages, and tobacco		30.8	19.9	5.7	5.7	1.2
Clothing and shoes		19.7	13.5	6.3	5.1	7.7
Housing costs		35.0	26.1	19.3	7.2	2.9
Furniture		16.4	8.2	4.1	3.2	2.3
Health and medical care		28.1	16.9	10.0	5.5	4.5
Transportation and communications		46.3	23.0	4.8	1.5	3.0
Education and entertainment		24.4	15.0	-3.8	-0.7	-2.8
Other services		29.9	18.2	5.5	7.2	6.9
General index		29.8	18.7	5.7	5.0	2.6

Source: Algerian authorities.

1/ Includes 256 items and covers households in the area of Algiers.

Table 17. Algeria: Income of Households, 1995–99
(In billions of dinars)

	1995	1996	1997	1998	1999
Wages and salaries 1/	571	666	721	781	820
Agriculture	22	33	33	37	39
Central government	255	304	335	366	388
Other sectors	293	330	353	378	393
Self-employed	486	618	636	723	795
Transfers	240	247	294	328	384
Gross income	1,296	1,532	1,650	1,832	1,982
Disposable income	1,168	1,377	1,479	1,644	1,789

Source: Algerian authorities.

1/ Includes social security contributions paid by employees.

Table 18. Algeria: Gross and Net Wages in Public Enterprises, January 1994–December 1996

	January 1994		January 1995		December 1996	
	Gross	Net	Gross	Net	Gross	Net
(In dinars)						
Salaries						
Managers	13,965	12,187	15,361	13,102	16,897	14,362
Supervisors/technicians	10,839	9,842	11,924	10,588	13,155	11,655
Workers	7,892	7,272	8,681	7,830	9,549	8,603
(Percentage change)						
Salaries						
Managers	6.3	6.3	10.0	7.5	28.6	25.3
Supervisors/technicians	15.5	17.4	10.0	7.6	10.3	10.0
Workers	2.3	9.4	10.0	7.7	23.8	9.8

Source: Algerian authorities.

Table 19. Algeria: Labor Force, Employment, and Unemployment, 1994–97 1/
(In thousands; unless otherwise indicated)

	1994	1995	1996	1997 3/
Labor force	6,814	7,561	7,811	7,757
Agriculture	1,023	1,084	1,154	...
Other sectors	5,791	6,477	6,657	...
Employment	4,325	4,505	4,641	5,708
Agriculture	1,023	1,084	1,154	...
Other sectors	3,302	3,421	3,487	...
Industry	528	519	502	...
Construction and public works	667	678	705	...
Government 2/	1,211	1,292	1,326	...
Other	896	932	954	...
Work at home	829	931	984	...
Unemployed	1,660	2,125	2,186	2,049
(In percent of labor force)	24.4	28.1	28.0	26.4

Sources: Algerian authorities (ONS surveys).

1/ Data are not strictly comparable over time, as surveys are conducted in different months and use different classifications.

2/ Including military draft.

3/ Employment data for 1997 include work at home. The unemployment rate is calculated according to the ILO definition.

Table 20. Algeria: Summary of Central Government Operations, 1995-99
(In billions of dinars)

	1995	1996	1997	1998	1999
Total budget revenue and grants	600.8	825.2	926.7	774.5	950.5
Hydrocarbon revenue	358.8	520.0	592.5	425.8	588.2
Nonhydrocarbon revenue	242.0	305.2	334.2	348.7	358.4
Tax revenue	233.2	290.6	314.0	329.8	314.8
Taxes on income and profits	53.6	67.5	81.8	88.1	72.2
Taxes on goods and services	99.9	129.5	148.1	154.9	149.7
Customs duties	73.3	84.4	73.5	75.5	80.2
Registration and stamps	6.4	9.2	10.6	11.3	12.7
Nontax revenues	8.9	14.6	20.2	18.9	43.6
Fees	8.7	11.5	15.8	14.7	16.5
Bank of Algeria dividends	0.2	3.1	4.4	4.2	27.1
Grants	0.0	0.0	0.0	0.0	3.9
Total budget expenditure	589.1	724.6	845.2	875.7	961.7
Current expenditure	444.4	550.6	643.6	663.9	774.7
Personnel expenditure	187.5	222.8	245.2	268.6	286.1
Mudjahidins' pensions	15.6	18.9	25.0	37.9	59.9
Material and supplies	29.4	34.7	43.6	47.5	53.6
Current transfers 1/	149.7	185.3	220.5	199.1	248.7
Debt service	62.2	89.0	109.4	110.8	126.4
Capital expenditure	144.7	174.0	201.6	211.9	187.0
Budget balance	11.8	100.5	81.5	-101.2	-11.2
Special accounts balance	-0.7	1.5	1.1	-6.9	-5.6
Net lending by the treasury	2.4	2.4	-1.5	0.1	-0.3
Treasury balance excluding Rehabilitation Fund	8.6	99.7	84.1	-108.1	-16.5
Allocation to the Rehabilitation Fund	36.9	24.4	18.0	0.0	0.0
Primary balance 2/	34.0	164.2	175.5	2.7	109.9
Overall balance	-28.2	75.3	66.1	-108.1	-16.5
Financing	28.2	-75.3	-66.1	108.1	16.5
Bank 3/	-108.0	-173.1	-106.7	95.9	64.4
Nonbank	-14.7	-7.4	-23.1	20.2	24.7
Foreign 4/	150.9	105.2	63.8	-8.0	-72.6

Source: Algerian authorities.

1/ Covers expenditures for food subsidies, agricultural price support, and cash transfers for the poor.

2/ Including special accounts, net lending and operations of the Rehabilitation Fund.

3/ Including debt rescheduling proceeds blocked on account at the Bank of Algeria.

4/ Includes external debt rescheduling proceeds.

Table 21. Algeria: Composition of Central Government Revenue, 1995–99

	1995	1996	1997	1998	1999
	(In billions of dinars)				
Total budget revenue and grants	600.9	825.2	926.7	774.5	950.5
Hydrocarbon revenue	358.8	520.0	592.5	425.8	588.2
Export taxes	305.2	451.0	514.8	328.6	510.1
Domestic	30.9	45.0	50.0	50.0	50.0
Profit transfer	30.9	45.0	50.0	50.0	50.0
Except levy on Naftal	...	...	...	...	...
Fuel taxes	...	...	...	...	...
Sonatrach dividends and entry rights	22.7	24.0	27.7	47.3	28.1
Dividends	22.7	12.4	27.7	47.3	28.1
Entry rights	0.0	0.0	0.0	0.0	0.0
Nonhydrocarbon revenue	242.1	305.2	334.2	348.7	358.4
Tax revenue	233.2	290.6	314.0	329.8	314.8
Taxes on income and profits	53.6	67.5	81.8	88.1	72.2
Wage income taxes	31.0	33.2	40.8	42.5	32.6
Other	22.5	34.3	41.1	45.6	39.6
Taxes on goods and services	99.9	129.5	148.1	154.9	149.7
VAT and excises on imports	37.7	43.4	43.7	51.5	53.3
VAT and excises on domestic activities	44.6	59.3	73.2	70.7	63.8
TVA-TC-TSA domestic transaction	31.3	42.8	51.7	49.1	41.9
Tobacco excises (TIC)	13.3	16.6	21.5	21.6	21.8
VAT on petroleum products/levy	7.8	6.7	8.5	9.8	10.4
Excises on petroleum products	6.6	15.6	21.2	21.6	20.8
Other indirect taxes	3.2	4.5	1.4	1.4	1.4
Customs duties	73.3	84.4	73.5	75.5	80.2
Registration and stamps	6.4	9.2	10.6	11.3	12.7
Nontax revenue	8.9	14.6	20.2	18.9	43.6
Fees	8.7	11.5	15.8	14.7	16.5
Bank of Algeria dividends	0.2	3.1	4.4	4.2	27.1
Grants	0.0	0.0	0.0	0.0	0.0
	(In percent of total revenue and grants)				
Total budget revenue and grants	100	100.0	100.0	100.0	100.0
Hydrocarbon revenue	59.7	63.0	63.9	55.0	61.9
Nonhydrocarbon revenue	40.3	37.0	36.1	45.0	37.7
Tax revenue	38.8	35.2	33.9	42.6	33.1
Taxes on income and profits	8.9	8.2	8.8	11.4	7.6
Taxes on goods and services	16.6	15.7	16.0	20.0	15.7
Customs duties	12.2	10.2	7.9	9.7	8.4
Registration and stamps	1.1	1.1	1.1	1.5	1.3
Nontax revenue	1.5	1.8	2.2	2.4	4.6
Grants	0.0	0.0	0.0	0.0	0.0

Source: Algerian authorities.

Table 22. Algeria: Central Government Revenue, 1995–99
(In percent of GDP)

	1995	1996	1997	1998	1999
Total budget revenue	30.6	32.2	33.5	27.8	29.8
Hydrocarbon revenue	18.2	20.3	21.4	15.3	18.5
Export taxes	15.5	17.6	18.6	11.8	16.0
Domestic	1.6	1.8	1.8	1.8	1.6
Profit transfer	1.6	1.8	1.8	1.8	1.6
Except levy on Naftal	0.0	0.0	0.0	0.0	0.0
Fuel taxes	0.0	0.0	0.0	0.0	0.0
Sonatrach dividends	1.2	0.9	1.0	1.7	0.9
Nonhydrocarbon revenue	12.3	11.9	12.1	12.5	11.2
Tax revenue	11.9	11.3	11.4	11.9	9.9
Taxes on income and profits	2.7	2.6	3.0	3.2	2.3
Wage income taxes	1.6	1.3	1.5	1.5	1.0
Other	1.1	1.3	1.5	1.6	1.2
Taxes on goods and services	5.1	5.0	5.4	5.6	4.7
VAT and excises on imports	1.9	1.7	1.6	1.9	1.7
VAT and excise on domestic transactions	2.3	2.3	2.7	2.5	2.0
TVA-TC-TSA domestic transactions	1.6	1.7	1.9	1.8	1.3
Tobacco excises (TIC)	0.7	0.6	0.8	0.8	0.7
VAT on petroleum products/levy	0.4	0.3	0.3	0.4	0.3
Excises on petroleum products	0.3	0.6	0.8	0.8	0.7
Other indirect taxes	0.2	0.2	0.1	0.0	0.0
Customs duties	3.7	3.3	2.7	2.7	2.5
Registration and stamps	0.3	0.4	0.4	0.4	0.4
Nontax revenue	0.5	0.6	0.7	0.7	1.4
Fees	0.4	0.4	0.6	0.5	0.5
Bank of Algeria dividends	0.0	0.1	0.2	0.1	0.9

Source: Algerian authorities.

Table 23. Algeria: Composition of Central Government Expenditure, 1995-99

	1995	1996	1997	1998	1999
	(In billions of dinars)				
Total budget expenditure	589.1	724.6	845.2	875.7	961.7
Current expenditure	444.4	550.6	643.6	663.9	774.7
Personnel expenditure	187.5	222.8	245.2	268.6	286.1
Wages and salaries	179.5	213.3	235.0	258.2	278.1
Other	8.0	9.4	10.1	10.4	8.0
Mudjahidins' pensions	15.6	18.9	25.0	37.9	59.9
Material and supplies	29.4	34.7	43.6	47.5	53.6
Public services	55.4	69.9	74.0	75.2	81.9
Hospitals	21.3	28.5	29.9	28.8	31.2
Other	34.2	41.4	44.1	46.4	50.6
Current transfers	94.2	115.4	146.5	123.9	166.8
Family allowances	24.5	36.4	44.2	42.5	36.2
Public works and social assistance	13.6	14.2	12.0	13.6	14.2
Food subsidies	18.3	11.9	0.7	0.2	0.4
Agricultural price support	7.2	6.9	5.3	5.3	4.6
Housing	7.9	18.1	28.8	19.0	14.5
Youth Employment Support Fund	...	2.1	2.7	5.3	6.1
Other transfers	22.8	25.7	52.8	38.0	90.8
Interest on debt	62.2	89.0	109.4	110.8	126.4
Domestic	13.0	15.9	35.4	29.4	0.0
Foreign	49.2	73.1	74.0	81.4	0.0
Capital expenditure	144.7	174.0	201.6	211.9	187.0
Net lending by the treasury	2.4	2.4	-1.5	0.1	-0.3
Allocation to the Rehabilitation Fund 1/	36.9	24.4	18.0	0.0	0.0
Total expenditure 2/	628.4	751.4	861.7	875.8	961.4
	(In percent of total expenditure)				
Total expenditure	100.0	100.0	100.0	100.0	100.0
Total budget expenditure	93.7	96.4	98.1	100.0	100.0
Current expenditure	70.7	73.3	74.7	75.8	80.6
Personnel expenditure	29.8	29.6	28.5	30.7	29.8
Wages and salaries	28.6	28.4	27.3	29.5	28.9
Mudjahidins' pensions	2.5	2.5	2.9	4.3	6.2
Material and supplies	4.7	4.6	5.1	5.4	5.6
Public services	8.8	9.3	8.6	8.6	8.5
Current transfers	15.0	15.4	17.0	14.1	17.4
Food subsidies	2.9	1.6	0.1	0.0	0.0
Other transfers	3.6	3.4	6.1	4.3	9.4
Interest payments	9.9	11.8	12.7	12.7	13.2
Capital expenditure	23.0	23.2	23.4	24.2	19.4
Net lending by the treasury	0.4	0.3	-0.2	0.0	0.0
Allocation to the Rehabilitation Fund	5.9	3.2	2.1	0.0	0.0

Sources: Algerian authorities and Fund staff estimates.

1/ Excluding the compensation for commercial banks' foreign exchange losses on principal payments of external debt contracted on behalf of the treasury.

2/ Including net lending and allocations to the Rehabilitation Fund.

Table 24. Algeria: Central Government Expenditure, 1995–99
(In percent of GDP)

	1995	1996	1997	1998	1999
Total expenditure 1/	32.0	29.2	31.2	31.7	30.4
Current expenditure	22.6	21.5	23.3	23.9	24.3
Personnel	9.5	8.7	8.9	9.7	9.0
Wages and salaries	9.1	8.3	8.5	9.3	8.7
Other	0.4	0.4	0.4	0.4	0.3
Mudjahidins' pensions	0.8	0.7	0.9	1.4	1.9
Material and supplies	1.5	1.4	1.6	1.7	1.7
Public services	2.8	2.7	2.7	2.7	2.6
Hospitals	1.1	1.1	1.1	1.0	1.0
Others (government entities)	1.7	1.6	1.6	1.7	1.6
Current transfers	4.8	4.5	5.3	4.5	5.2
Family allowances	1.2	1.4	1.6	1.5	1.1
Public works and social assistance	0.7	0.6	0.4	0.5	0.4
Food subsidies	0.9	0.5	0.0	0.0	0.0
Agricultural price support	0.4	0.3	0.2	0.2	0.1
Housing	0.4	0.7	1.0	0.7	0.5
Youth Employment Support Fund	0.0	0.1	0.1	0.2	0.2
Other transfers	1.2	1.0	1.9	1.4	2.8
Interests on debt	3.2	3.5	4.0	4.0	4.0
Capital expenditure	7.4	6.8	7.3	7.6	5.9
Net lending by the treasury	0.1	0.1	-0.1	0.0	0.0
Allocation to the Rehabilitation & Recapitalization Fund 2/	1.9	1.0	0.7	0.0	0.0

Sources: Algerian authorities and Fund staff estimates.

1/ Including net lending and operations of the Rehabilitation Fund.

2/ Excluding the compensation for commercial bank's foreign exchange losses on principal payments of external debt contracted on behalf of the treasury.

Table 25. Algeria: Sectoral Allocation of Budgetary
Capital Expenditure, 1994-98

	1994	1995	1996	1997 1/	1998
(In millions of dinars)					
Agriculture and fishery	2,945	2,057	4,106	6,661	10,165
Irrigation and waterworks	12,885	14,078	17,570	22,615	25,850
Industry and energy	5,143	6,250	5,754	6,861	6,800
Tourism	4	0	8	0	0
Economic infrastructure	15,543	17,828	22,154	26,769	22,750
Housing	6,848	4,743	8,361	9,568	32,000
Education and professional training	17,329	19,366	24,173	28,518	31,600
Social infrastructure	6,826	7,607	8,682	7,931	10,200
Administrative infrastructure	9,315	10,276	12,600	14,501	19,240
Urban development	18,475	19,333	20,900	21,250	17,880
Not allocated	28,504	39,376	49,025	50,588	19,215
Total	123,821	140,914	173,341	195,262	195,262
(Annual percentage change)					
Agriculture and fishery	33.1	-30.2	99.6	142.2	52.6
Irrigation and waterworks	7.2	9.3	24.8	78.1	14.3
Industry and energy	-6.1	21.5	-7.9	34.5	-0.9
Tourism	0.0	0.0	0.0	0.0	0.0
Economic infrastructure	-10.1	14.7	24.3	72.7	-15.0
Housing	65.4	-30.7	76.3	34.8	234.4
Education and professional training	17.6	11.8	24.8	83.4	10.8
Social infrastructure	59.9	11.4	14.1	24.9	28.6
Administrative infrastructure	57.8	10.3	22.6	66.7	32.7
Urban development	-3.8	4.6	8.1	16.4	-15.9
Not allocated	48.9	38.1	24.5	81.3	-62.0
Total	18.6	13.8	23.0	12.7	0.2
(In percent of total)					
Agriculture and fishery	2.4	1.5	2.4	3.4	5.2
Irrigation and waterworks	10.4	10.0	10.1	11.6	13.2
Industry and energy	4.2	4.4	3.3	3.5	3.5
Tourism	0.0	0.0	0.0	0.0	0.0
Economic infrastructure	12.6	12.7	12.8	13.7	11.7
Housing	5.5	3.4	4.8	4.9	16.4
Education and professional training	14.0	13.7	13.9	14.6	16.2
Social infrastructure	5.5	5.4	5.0	4.1	5.2
Administrative infrastructure	7.5	7.3	7.3	7.4	9.9
Urban development	14.9	13.7	12.1	10.9	9.2
Not allocated	23.0	27.9	28.3	25.9	9.8
Total	100.0	100.0	100.0	100.0	100.0

Source: Algerian authorities.

1/ Commitments under the 1997 budget law.

Table 26. Algeria: Central Government Domestic Debt, 1995-99
(In billions of dinars; end of period)

	1995	1996	1997	1998	1999
Total domestic debt 1/	438.7	638.4	576.8	675.2	698.1
Treasury, equipment and C/C bills	37.9	42.2	64.4	82.0	115.4
Central bank overdrafts	235.3	231.9	164.4	158.4	152.4
Refinancing bonds	165.5	364.3	335.1	374.6	374.6
Public enterprises, EPIC, agroindustries	83.2	257.1	221.9	227.7	227.7
OPGI (real estate companies)	82.3	82.3	82.3	106.3	106.3
Banks	0.0	24.9	30.9	40.6	40.6
Bonds (CNR)	0.0	0.0	0.0	46.3	43.2
Bonds (CNAS)	0.0	0.0	0.0	13.9	12.5
Memorandum items:					
Domestic debt as percent of GDP	22.3	24.9	20.9	24.3	21.9
GDP	1,967	2,565	2,762	2,782	3,186

Source: Algerian authorities.

1/ Excluding the blocked account at the Bank of Algeria and other deposits.

Table 27. Algeria: Rehabilitation Fund Operations, 1995-99
(In billions of dinars)

	1995	1996	1997	1998	1999
Commercial banks	68.5	45.5	18.0	0.0	0.0
Foreign exchange losses	54.5	45.5	0.0	0.0	0.0
Recapitalization	14.0	0.0	18.0	0.0	0.0
Interest 1/	0.0	0.0	0.0	0.0	0.0
Public enterprises	22.9	24.4	0.0	0.0	0.0
Foreign exchange losses 2/	0.0	0.0	0.0	0.0	0.0
Trading enterprises	0.0	0.0	0.0	0.0	0.0
Other enterprises	0.0	0.0	0.0	0.0	0.0
Other subsidies	22.9	24.4	0.0	0.0	0.0
Total	91.4	69.9	18.0	0.0	0.0

Source: Algerian authorities.

1/ Interest payments on public enterprise debt purchased from the banks by the treasury.

2/ Refers to the so-called *Entreprises de revente en l'Etat*, which have imported mostly essential consumer goods at the behest of the Government.

Table 28. Algeria: Compensation Fund Operations, 1995-99 1/
(In billions of dinars)

	1995	1996	1997	1998	1999
Resources	38.8	33.3	0.0	0.0	0.0
Budget allocation	38.8	33.3	0.0	0.0	0.0
Compensatory tax	0.0	0.0	0.0	0.0	0.0
<i>Of which: on imports</i>	0.0	0.0	0.0	0.0	0.0
Subsidy expenditures	38.8	33.1	0.0	0.0	0.0
Carried over from previous year	0.0	0.3	0.0	0.0	0.0
Foodstuffs 2/	18.3	11.9	0.0	0.0	0.0
Agricultural inputs and other	7.2	6.9	0.0	0.0	0.0
Cash transfers	13.6	14.2	0.0	0.0	0.0
Amount carried over to following year	-0.3	-0.2	0.0	0.0	0.0
Balance	0.0	0.2	0.0	0.0	0.0

Source: Algerian authorities.

1/ On a cash basis.

2/ On an accrual basis; the reconciliation between accrual and cash basis is ensured by the amount carried over from one year to the next.

Table 29. Algeria: Housing Supply, 1995-99

	1995	1996	1997	1998	1999
(In thousands of dwellings delivered)					
Formal	131.5	112.3	111.6	121.4	124.2
Social	105.2	96.6	95.6	112.1	116.8
Rental	48.1	43.0	50.4	55.8	45.2
Owner occupied	57.1	53.6	45.2	56.3	71.7
Other formal	26.3	15.7	16.0	9.3	7.4
Public	22.7	13.8	14.3	8.3	6.6
Private	3.6	2.0	1.6	1.0	0.8
Autoconstruction	35.4	20.0	25.0	25.0	25.0
Total	166.9	132.3	136.6	146.4	149.2
(In percent of total)					
Formal	78.8	84.9	81.7	82.9	83.2
Social	61.7	73.0	70.0	76.6	78.3
Rental	26.2	32.5	36.9	38.1	30.3
Owner occupied	35.5	40.5	33.1	38.5	48.0
Other formal	16.3	11.9	11.7	6.4	5.0
Public	14.1	10.4	10.5	5.7	4.4
Private	2.1	1.5	1.2	0.7	0.6
Autoconstruction	22.0	15.1	18.3	17.1	16.8
Total	100.8	100.0	100.0	100.0	100.0

Source: Algerian Ministry of Housing.

Table 30. Algeria: Monetary Survey, 1995-99

	1995	1996	1997	1998	1999
	(In billions of dinars)				
Foreign assets (net)	26.3	133.9	350.3	280.7	169.6
Central bank	15.6	122.4	343.0	278.7	172.6
Commercial banks	10.7	11.6	7.4	2.0	-3.0
Net domestic assets	773.2	781.1	731.2	1,007.2	1,299.0
Domestic credit	967.2	1,057.4	1,164.9	1,273.4	1,594.9
Credit to government (net)	401.6	280.5	423.6	542.3	661.3
Central bank 1/	231.9	172.4	155.7	99.3	159.0
Commercial banks 2/	111.1	43.9	188.8	354.6	405.5
CCP and treasury deposits	58.6	64.2	79.1	88.4	96.8
Credit to the nongovernment 2/	565.6	776.8	741.3	731.1	933.6
Government lending funds	-13.8	-12.3	-12.9	-13.7	-13.2
Medium- and long-term foreign liabilities	-120.9	-96.5	-55.3	-39.0	-39.5
Other items (net)	-59.3	-167.5	-365.5	-213.6	-243.2
Money plus quasi-money	799.5	915.1	1,081.5	1,287.9	1,468.6
Money	519.1	589.1	671.6	813.7	889.3
Currency outside banks	249.7	290.9	337.6	390.8	439.9
Demand deposits	210.8	234.0	254.8	334.5	352.6
Deposits with the treasury and the postal checking system	58.6	64.2	79.1	88.4	96.8
Quasi-money	280.4	325.9	409.9	474.2	579.2
	(Annual percentage change)				
Money and quasi-money	10.5	14.5	18.2	19.1	14.0
Money	9.1	13.5	14.0	21.2	9.3
Quasi-money	13.2	16.2	25.8	15.7	22.1
Net domestic assets	16.6	1.0	-6.4	37.7	29.0
Domestic credit	24.9	9.3	10.2	9.3	25.2
Credit to government 2/	-14.3	-30.2	51.0	28.0	21.9
Credit to nongovernment 2/	84.9	37.3	-4.6	-1.4	27.7
	(In percent)				
Memorandum items:					
Total liquidity/GDP	40.6	35.7	39.2	46.3	46.1
Money/GDP	26.3	23.0	24.3	29.3	27.9
Currency outside banks/GDP	12.7	11.3	12.2	14.0	13.8
Domestic credit/GDP	49.2	41.2	42.2	45.8	50.1
Money/M2	64.9	64.4	62.1	63.2	60.6
Currency outside banks/M2	31.2	31.8	31.2	30.3	30.0
Money multiplier	3.1	3.0	3.0	3.2	3.2

Source: Bank of Algeria; and Fund staff estimates.

1/ Includes, as a net item, deposits of the BAD and ministries with the central bank.

2/ This includes the impact of banks' restructuring packages. The conversion of banks' claims on public enterprises in banks' claims on the government results, other things being equal, in a decrease in credit to the economy and an equal increase in credit to the government.

Table 31. Algeria: Balance Sheet of the Bank of Algeria, 1995–99

	1995	1996	1997	1998	1999
(In billions of dinars)					
Net foreign assets	15.6	122.4	342.9	278.7	172.6
Net domestic assets	239.6	183.5	13.7	124.8	276.9
Credit to government	231.9	172.4	155.7	99.3	159.0
Credit to banks	190.3	259.1	219.1	226.2	310.8
Other items net	-182.6	-248.1	-361.1	-200.6	-193.1
Reserve money	255.2	305.9	356.6	403.5	449.5
Currency in circulation	252.3	293.5	341.7	396.4	444.9
Bankers deposits	2.9	12.4	14.9	7.1	4.6
(Annual change; in billions of dinars)					
Net foreign assets	-35.1	106.8	220.5	-64.2	-106.1
Net domestic assets	53.1	-56.1	-169.8	111.1	152.1
Credit to government	-14.4	-59.5	-16.7	-56.4	59.7
Credit to banks	139.9	68.8	-40.0	7.0	84.6
Other items net	-72.4	-65.5	-113.0	160.5	-7.5
Reserve money	18.0	50.7	50.7	46.9	46.0
Currency in circulation	27.9	41.2	48.2	54.7	48.5
Bankers deposits	-9.9	9.5	2.5	-7.8	-2.5
(Annual percentage change)					
Net foreign assets	-69.2	684.8	180.1	-18.7	-38.1
Net domestic assets	28.5	-23.4	-92.5	810.9	121.9
Credit to government	-5.8	-25.6	-9.7	-36.2	60.1
Credit to banks	277.6	36.2	-15.5	3.2	37.4
Reserve money	7.6	19.9	16.6	13.2	11.4
Currency in circulation	12.4	16.3	16.4	16.0	12.2
Bankers deposits	-77.3	327.6	20.2	-52.3	-35.2

Source: Bank of Algeria.

Table 32. Algeria: Distribution of Credit to the Economy
by Maturity, 1995–99

	1995	1996	1997	1998	1999
(In billions of dinars; end of period)					
Short term	465.4	600.7	449.7	407.5	556.1
Medium term	95.0	169.7	285.9	317.0	370.4
Long term	4.0	5.5	5.6	6.5	7.1
Total	564.4	775.9	741.2	731.0	933.6
(Annual percentage change)					
Short term	104.7	29.1	-25.1	-9.4	36.5
Medium term	27.9	78.6	68.5	10.9	16.8
Long term	33.3	37.5	1.8	16.1	9.2
Total	85.2	37.5	-4.5	-1.4	27.7
(In percent of total credits)					
Short term	82.5	77.4	62.5	63.7	59.6
Medium term	16.8	21.9	36.7	35.5	39.7
Long term	0.7	0.7	0.8	0.8	0.7
Total	100.0	100.0	100.0	100.0	100.0

Sources: Bank of Algeria; and Fund staff estimates.

Table 33. Algeria: Distribution of Credit to the Economy
by Sector, 1995–99

	1995	1996	1997	1998	1999
(In billions of dinars; end of period)					
Public sector	462.0	637.8	632.6	601.9	767.1
Private sector	102.5	137.8	108.6	129.1	166.4
Local administration	1.1	1.2	0.1	0.1	0.1
Total	565.6	776.8	741.3	731.1	933.6
(Annual percentage change)					
Public sector	122.1	38.1	-0.8	-4.9	27.4
Private sector	6.0	34.4	-21.2	18.9	28.9
Local administration	0.0	9.1	-91.7	0.0	0.0
Total	85.0	37.3	-4.6	-1.4	27.7
(In percent of total credits)					
Public sector	81.7	82.1	85.3	82.3	82.2
Private sector	18.1	17.7	14.6	17.7	17.8
Local administration	0.2	0.2	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0

Sources: Bank of Algeria; and Fund staff estimates.

Table 34. Algeria: Structure of Interest Rates, 1995-99
(In percent per annum)

	As of Dec. 1995	As of Dec. 1996	As of Dec. 1997	As of Dec. 1998	As of Dec. 1999
Central bank rediscount	14.0	13.0	11.0	9.5	8.5
Central bank overdraft	24.0	24.0	24.0	19.0	19.0
Money market					
Repurchase agreements 1/	23.0	19.0-21.0	13.3	13.0	12.0
Auctions	19.5	17.5	14.5	11.8	11.1
Commercial banks' deposit rate 2/	16.5-18.0	16.5-18.0	8.5-12.0	8.5-12.0	8.5-10.0
Commercial banks' lending rate	19.0-24.0	17.0-21.5	9.0-13.0	8.5-12.5	8.5-11.3
Foreign currency deposits					
denominated in U.S. dollars 3/	5.8	5.7	5.7	5.4	5.2
CNEP (savings and housing)					
Deposit rate					
Savings	16.0	16.0	16.0	12.0	7.5-9.0
Housing	12.0	12.0	12.0	10.0	7.0-9.0
Lending rate (housing)					
Individuals	12.0-22.0	12.0-22.0	10.0-17.5	8.5-10.0	8.5-10.3
Developers	16.0-20.0	16.0-20.0	10.0-17.5	8.5-10.0	8.5-10.3
Treasury bonds					
Negotiable					
13 weeks	...	...	12.9	10.0	9.8
26 weeks	...	...	13.9	10.0	9.9
52 weeks	...	...	...	10.0	10.0
2 years	...	...	...	8.0	8.0
Nonnegotiable					
6 months	9.5	9.5	9.5	...	...
12 months	10.0	10.0	10.0	...	...
24 months	11.3	11.3	11.3	...	...
36 months	13.0	13.0	13.0	...	...
Equipment bonds					
1 year	...	...	...	...	...
2 years	...	...	...	...	...
3-20 years	11.0-15.0	11.0-15.0	11.0-15.0	...	...
Negotiable	18.0	18.0	18.0	...	...
Memorandum item:					
Consumer price index (12-months increase)	29.8	18.7	5.7	5.0	2.6

Sources: Algerian authorities: Bank of Algeria and Ministry of Finance.

1/ Central bank overnight rate.

2/ No interest is paid on sight deposits; interest on term deposits is subject to a 15 percent securities revenue tax, whereas government bond yields are tax exempt.

3/ Free for banks to determine on the basis of Libor plus 150 basis points.

Table 35. Algeria: Balance of Payments, 1995-99
(In billions of U.S. dollars; unless otherwise indicated)

	1995	1996	1997	1998	<u>Est.</u> 1999
Current account	-2.24	1.25	3.45	-0.91	0.02
Trade balance	0.16	4.13	5.69	1.51	3.36
Exports, f.o.b.	10.26	13.22	13.82	10.14	12.32
Hydrocarbons	9.73	12.65	13.18	9.77	11.91
Other exports	0.53	0.57	0.64	0.37	0.41
Imports, f.o.b.	-10.10	-9.09	-8.13	-8.63	-8.96
Services account (net)	-3.52	-3.76	-3.30	-3.48	-4.13
Nonfactor services (net)	-1.33	-1.40	-1.08	-1.48	-1.84
Credit	0.68	0.75	1.07	0.74	0.72
Debit	-2.01	-2.15	-2.15	-2.22	-2.56
Factor services (net)	-2.19	-2.36	-2.22	-2.00	-2.29
Credit	0.12	0.21	0.26	0.37	0.22
Debit	-2.31	-2.56	-2.48	-2.37	-2.51
Interest payments	-2.31	-2.24	-2.11	-1.95	-1.85
Other	0.00	-0.32	-0.37	-0.42	-0.66
Transfers (net)	1.12	0.88	1.06	1.06	0.79
Capital account	-4.08	-3.34	-2.29	-0.83	-2.40
Medium- and long-term capital	-3.89	-3.13	-2.25	-0.83	-1.51
Direct investment, net	0.00	0.27	0.26	0.50	0.46
Official capital, net	-3.89	-3.40	-2.51	-1.33	-1.97
Drawings	3.22	1.82	1.69	1.83	1.08
Total amortization	-7.11	-5.22	-4.20	-3.16	-3.04
Short-term capital and errors and omissions	-0.20	-0.21	-0.04	0.00	-0.89
Overall balance	-6.32	-2.09	1.16	-1.74	-2.38
Financing	6.32	2.09	-1.16	1.74	2.38
Change in official reserves (increases -)	0.53	-2.98	-4.42	1.20	2.40
Fund repurchases	-0.26	-0.14	-0.35	-0.45	-0.36
Exceptional financing	6.05	5.21	3.61	0.99	0.39
Rescheduling	4.94	3.53	2.22	0.52	0.00
Multilateral balance of payments support	0.63	0.94	0.80	0.13	0.08
Fund purchases	0.47	0.74	0.59	0.34	0.31
Memorandum items:					
Gross official reserves (in billions of US\$)	2.1	4.2	8.0	6.8	4.4
In months of total imports	2.1	4.5	9.4	7.6	4.6
As percent of debt service	22.3	56.3	126.8	133.1	90.0
Algerian crude oil price (US\$/barrel)	17.6	21.7	19.5	12.9	17.9
Gross external debt (in billions of US\$) 1/	31.6	33.7	31.2	30.5	28.3
Debt service/exports (in percent)	40.5	28.7	29.3	44.8	39.6
External debt to exports ratio (in percent)	288.9	241.3	209.5	280.1	217.1
Debt/GDP (in percent)	76.7	71.9	65.1	64.3	59.1
Current account (in percent of GDP)	-5.4	2.7	7.2	-1.9	0.0
GDP (in billions of US\$)	41.2	46.9	47.9	47.4	47.9
Exchange rate (DA/US\$, average)	47.7	54.7	57.7	58.7	66.5

Sources: Bank of Algeria (through 1999 data); and Fund staff projections.

1/ According to the information provided by the Bank of Algeria all official reserves are liquid.

2/ Source: According to the Bank of Algeria, its actual data include short-term debt, use of Fund resources, and debt to Russia.

Table 36. Algeria: Volume of Hydrocarbon Exports, 1995–99

	1995	1996	1997	1998	1999
	(In billion of BTUs)				
Petroleum and petroleum products					
Crude petroleum	669	784	746	819	830
Condensate	755	786	772	767	739
Refined petroleum products	570	541	616	549	585
Liquefied petroleum gas (LPG)	235	264	343	392	467
Total	2,229	2,375	2,476	2,526	2,620
Natural gas and liquefied natural gas					
Liquefied natural gas (LNG)	687	772	935	955	1,708
Natural gas	731	788	903	1,027	1,271
Total	1,417	1,559	1,838	1,982	2,978
Total hydrocarbon trade	3,646	3,934	4,314	4,508	5,598
	(In percent of total hydrocarbon volumes)				
Petroleum and petroleum products					
Crude petroleum	18.4	19.9	17.3	18.2	14.8
Condensate	20.7	20.0	17.9	17.0	13.2
Refined petroleum products	15.6	13.7	14.3	12.2	10.4
Liquefied petroleum gas (LPG)	6.4	6.7	8.0	8.7	8.3
Total	61.1	60.4	57.4	56.0	46.8
Natural gas and liquefied natural gas					
Liquefied natural gas (LNG)	18.8	19.6	21.7	21.2	30.5
Natural gas	20.0	20.0	20.9	22.8	22.7
Total	38.9	39.6	42.6	44.0	53.2

Source: Algerian authorities.

Table 37. Algeria: Exports of Hydrocarbons, 1995-99

	1995	1996	1997	1998	<u>Est.</u> 1999
Crude petroleum					
Value (in millions of US\$)	2156.2	3118.7	2661.7	1942.9	2735.0
<i>Of which: profit repatriation</i>	0.0	264.1	312.8	387.4	521.2
Volume (millions of barrels)	122.7	143.8	136.6	150.2	152.1
(millions of metric tons)	15.6	18.3	17.4	19.0	19.4
Unit price (US\$ per barrel)	17.6	21.7	19.5	12.9	17.9
Condensate					
Value (in millions of US\$)	2,375	3,025	2,806	1,953	2,422
<i>Of which: profit repatriation</i>	0.0	51.8	35.0	38.7	52.1
Volume (millions of barrels)	137.0	142.6	140.0	139.1	134.7
(millions of metric tons)	15.7	16.3	16.0	15.9	15.3
Unit price (US\$ per barrel)	17.3	21.2	20.0	13.9	17.9
Refined petroleum products					
Value (in millions of US\$)	1,861	2,206	2,272	1,487	1,995
Volume (millions of barrels)	103.1	97.8	111.4	99.3	106.2
(millions of metric tons)	13.3	12.6	14.4	12.7	13.5
Unit price (US\$ per barrel)	18.1	22.6	20.4	15.0	18.8
Liquefied petroleum gas (LPG)					
Value (millions of US\$)	582.9	818.7	987.0	766.6	1,155.0
<i>Of which: profit repatriation</i>	0.0	6.3	19.6	35.8	48.1
Volume (millions of barrels)	40.8	45.9	59.6	68.1	79.7
(millions of metric tons)	3.5	3.9	5.0	5.7	6.7
Unit price (US\$ per barrel)	14.3	17.9	16.6	11.3	14.4
Liquefied natural gas (LNG)					
Value (in millions of US\$)	1,401	1,818	2,440	1,925	1,831
Volume (millions of m3 of LNG)	29.1	32.7	39.9	24.5	43.8
Volume (billions of BTUs)	686.7	771.5	934.5	955.1	1,637.0
Unit price (US\$ per 1000 m3 of LNG)	76.3	88.3	97.2	74.8	67.3
Unit price (US\$ per million BTUs)	2.0	2.4	2.6	2.0	1.8
Natural gas (NG)					
Value (in millions of US\$)	1,352	1,647	1,991	1,700	1,768
Volume (billions of m3)	19.6	21.2	24.1	27.5	32.2
Volume (billions of BTUs)	730.8	787.7	903.1	1,026.6	1,204.0
Unit price (US\$ per m3)	69.2	78.2	81.9	62.1	54.2
Unit price (US\$ per million BTUs)	1.9	2.1	2.2	1.7	1.5
Total hydrocarbon receipts (US\$ mn)					
Part des associés de Sonatrach	...	...	370.3	462.0	621.5
(In percent of total exports)					
Crude petroleum	22.1	24.6	20.2	19.9	23.0
Condensate	24.4	23.9	21.3	20.0	20.3
Refined petroleum products	19.1	17.4	17.2	15.2	16.8
Liquefied petroleum gas (LPG)	6.0	6.5	7.5	7.8	9.7
Gas	28.3	27.4	33.6	37.1	30.2
Liquefied natural gas (LNG)	14.4	14.4	18.5	19.7	15.4
Natural gas (NG)	13.9	13.0	15.1	17.4	14.8

Source: Algerian authorities.

Table 38. Algeria: Trade Indices, 1995-99

	1995	1996	1997	1998	1999
	(1980 = 100)				
Total export volume index	164.6	177.7	195.2	201.1	213.1
Nonhydrocarbon export volume index	140.2	155.6	188.5	151.7	124.9
Total import volume index	97.0	87.1	84.7	90.2	92.0
Food import volume index	151.1	131.6	133.2	136.4	140.5
Terms of trade index	42.3	50.2	51.9	38.9	49.0
	(Annual percentage change)				
Total export volume index	7.1	8.0	9.8	3.0	6.0
Nonhydrocarbon export volume index	70.4	11.0	21.1	-19.5	-17.7
Total import volume index	1.0	-10.2	-2.8	6.5	2.0
Food import volume index	-12.9	-12.9	1.2	2.4	3.0
Terms of trade index	-2.8	18.7	3.4	-25.0	25.8

Source: Algerian authorities.

Table 39. Algeria: External Debt, 1994-98 1/

	1994	1995	1996	1997	1998
(In millions of U.S. dollars; unless otherwise indicated)					
Total external debt 1/	29,973	32,781	33,421	30,890	30,665
Long-term debt	28,178	31,042	31,062	28,710	28,469
Official creditors	10,664	15,395	17,938	18,245	19,414
Multilateral (excluding IMF)	3,344	3,915	4,085	3,854	4,390
<i>Of which:</i> World Bank	1,709	2,049	1,939	1,795	1,676
Bilateral	7,319	11,480	13,853	14,391	15,025
Concessional	1,899	2,790	2,951	2,775	2,892
Private creditors	17,514	15,647	13,124	10,465	9,054
Commercial banks	4,909	4,916	4,628	4,265	3,952
Supplier 2/	1,437	1,033	654	420	344
Other private	10,908	9,698	7,841	5,780	4,758
IMF	1,159	1,478	2,031	2,018	2,011
Short-term debt	637	261	328	162	186
Disbursements	5,638	4,158	3,629	2,110	1,512
Official creditors	1,529	1,592	1,577	1,207	768
Multilateral (excluding IMF)	701	932	823	792	594
<i>Of which:</i> World Bank	300	554	286	250	56
Bilateral	828	660	755	415	174
Private creditors	3,268	2,092	1,308	438	400
IMF purchases	841	475	744	465	344
Principal repayment	3,546	2,391	2,078	2,371	3,143
Official creditors	653	643	646	1,046	980
Multilateral (excluding IMF)	450	454	411	698	412
<i>Of which:</i> World Bank	208	260	252	234	208
Bilateral	203	189	235	348	569
Private creditors	2,698	1,577	1,297	975	1,728
IMF repurchases	195	171	136	350	435
Interest payments	1,560	1,814	2,094	2,050	1,993
Official creditors	398	804	1,235	1,126	1,196
Multilateral (excluding IMF)	203	251	281	252	279
<i>Of which:</i> World Bank	119	137	139	120	124
Bilateral	196	553	954	874	917
Private creditors	1,098	918	771	818	683
IMF charges	31	69	75	93	99
Short-term debt	33	22	13	13	15
Total debt service	5,106	4,204	4,172	4,421	5,137
Official creditors	1,051	1,447	1,880	2,172	2,177
Multilateral (excluding IMF)	652	705	692	951	691
Bilateral	399	742	1,189	1,221	1,486

Table 39. Algeria: External Debt, 1994–98 1/

	1994	1995	1996	1997	1998
Private creditors	3,796	2,495	2,068	1,793	2,411
IMF repurchases and charges	226	240	211	443	534
Short term debt	33	22	13	13	15
Debt restructurings					
Total amount rescheduled	4,229	5,096	3,674	2,294	470
Principal rescheduled	3,740	4,410	3,250	2,118	545
Official creditors	541	535	363	224	83
Private creditors	3,199	3,875	2,887	1,895	462
Interest rescheduled	457	381	289	89	0
Official creditors	79	68	46	20	0
Private creditors	377	312	243	69	0
Average terms on new commitments (all creditors)					
Interest (in percent)	5.5	6.5	5.5	5.6	5.3
Maturity (in years)	8.9	8.5	9.1	10.6	11.2
Grace period (in years)	3	2.8	2.9	3.2	3.2
Grant element (in percent)	16.5	12.3	17	16.6	19.2
Average terms on new commitments (official creditors)					
Interest (in percent)	5	6.2	5.8	5.5	6.2
Maturity (in years)	14.1	9.6	10.3	11.1	14.8
Grace period (in years)	5.8	3.3	3.7	3.6	3.6
Grant element (in percent)	25.7	14.5	17.4	17.1	18.8

Source: World Bank, Debtor Reporting System (DRS).

1/ The World Bank's DRS data which are used in this table may not correspond exactly to the external debt data published by the Algerian authorities

2/ Suppliers' credits comprise export credit guaranteed by an export credit agency as well as other supplier's credit arranged directly with suppliers.

Table 40. Algeria: Stock of External Debt, 1/ Disbursement of Loans,
and Debt Service by Creditor, end-1997

	Stock of debt in millions of US\$	In percent of total	Disbursement in millions of US\$	Debt service in millions of US\$
Bilateral	21,382	69	2,497	4,413
France	4,517	15	473	1,175
Germany	1,457	5	129	327
Italy	4,189	13	595	870
Japan	1,913	6	164	351
Spain	1,815	6	595	227
United States	2,829	9	403	642
Other OECD	3,143	10	340	528
Others 2/	1,520	5	174	293
Multilateral	5,829	19	1,230	1,442
IMF	1,913	6	467	464
World Bank	1,932	6	248	357
Other institutions	1,985	6	515	621
Private	3,850	12	557	812
Total	31,060	100	4,283	6,667

Source: Algerian authorities.

1/ Excluding short-term debt of US\$ 162 million.

2/ According to the Bank of Algeria, its actual data include short-term debt, use of Fund resources, and debt to Russia.

Table 41. Algeria: Breakdown of Imports and Exports, 1995-99

	1995	1996	1997	1998	Est. 1999
(In millions of U.S. dollars)					
Imports					
Food	2,762	2,601	2,544	2,657	2,609
Energy	115	110	132	110	127
Raw materials	790	498	499	558	526
Semi finished	2,390	1,788	1,564	1,732	1,665
Agricultural equipment	41	41	21	45	81
Industrial equipment	2,934	3,023	2,831	2,907	3,155
Consumer goods	1,757	1,037	1,095	1,314	1,422
Total	10,789	9,098	8,686	9,323	9,586
Exports					
Food	111	136	37	28	22
Energy	9,730	12,595	13,210	9,664	11,910
Raw materials	39	44	40	50	44
Semi finished	284	496	387	268	272
Agricultural equipment	4	3	1	1	24
Industrial equipment	18	46	23	22	36
Consumer goods	74	156	23	19	18
Total	10,260	13,476	13,721	10,052	12,326
<i>Of which: nonhydrocarbon</i>	530	881	511	388	416
(In percent)					
As share of total imports					
Food as share of imports	26	29	29	28	27
Industrial goods	27	33	33	31	33
Consumer goods	16	11	13	14	15
As share of total exports					
Nonhydrocarbons	5	7	4	4	3

Source: Algerian authorities.

Table 42. Algeria: Nominal and Real Effective Exchange Rates, 1990–99

	Q1	Q2	Q3	Q4
(1990 = 100)				
Nominal effective exchange rate				
1990	114.9	110.3	95.3	79.5
1991	54.4	52.4	52.3	40.2
1992	40.3	40.5	39.6	40.9
1993	41.8	41.6	41.9	42.3
1994	42.4	28.0	24.9	22.9
1995	21.9	19.9	18.2	18.0
1996	17.6	17.5	17.1	17.2
1997	18.0	18.4	18.7	18.7
1998	18.9	19.0	18.7	17.8
1999	17.1	17.0	16.9	16.9
Real effective exchange rate				
1990	108.3	109.5	95.9	86.3
1991	61.3	61.7	63.5	52.0
1992	54.4	58.9	63.0	67.1
1993	70.7	72.6	74.6	78.0
1994	84.2	59.9	57.7	57.0
1995	57.3	53.3	51.9	52.4
1996	54.3	57.0	55.7	56.4
1997	59.1	60.6	62.4	63.2
1998	64.8	65.3	64.9	62.2
1999	59.4	59.1	59.4	58.7

Source: IMF (Information Notice System).

Algeria: Summary of the Tax System, 1999

(All amounts in Algerian dinars)

Tax	Nature of Tax	Exemptions and Deductions	Rate														
<p>1. Tax on income and profits</p> <p>1.1 Tax on overall income of individuals (<i>Impôt sur le revenu global des personnes physiques</i> - IRG)</p>	<p>Levied on overall Algerian-source net annual income of individuals domiciled in Algeria for tax purposes. Overall net income (the tax base) is defined as the sum of total net income from:</p> <p>I. <u>Wages, salaries, pensions, and annuities</u></p> <p>II. <u>Industrial and commercial profits</u> (as defined in Arts. 14 and 15 of the law). Tax base calculation: a. <u>presumptive method</u>, for two groups of taxpayers with annual turnover of no more than DA 1,500,000 (sales) or DA 800,000 (others). b. <u>actual profit method</u> for persons whose activity yields higher turnover than the above amounts.</p> <p>III. <u>Noncommercial profits</u> (as defined in tax code). Tax base calculation: a. <u>actual profit method</u>, for annual income above DA 800,000; b. <u>administrative assessment</u>, for income below DA 800,000.</p> <p>IV. <u>Agricultural income</u> (as defined in Arts. 35, 36, and 37 of the law)</p> <p>V. <u>Capital incomes</u></p> <p>VI. <u>Capital gains from sale of developed or undeveloped property</u></p>	<p>- Persons whose overall net income does not exceed DA 30,000.</p> <p>- The foreign diplomatic community in Algeria, on a reciprocity basis.</p> <p>- For each category of income separate exemptions and deductions are provided by the law.</p>	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"><u>Taxable income bracket</u></th> <th style="text-align: left;"><u>Rate</u></th> </tr> </thead> <tbody> <tr> <td>Up to 60,000</td> <td>0</td> </tr> <tr> <td>60,001 - 180,000</td> <td>10%</td> </tr> <tr> <td>180,001 - 360,000</td> <td>20%</td> </tr> <tr> <td>360,001 - 720,000</td> <td>35%</td> </tr> <tr> <td>720,001 - 1,920,000</td> <td>40%</td> </tr> <tr> <td>Above 1,920,001</td> <td>50%</td> </tr> </tbody> </table> <p><u>Tax withholding at the source</u></p> <ul style="list-style-type: none"> - wages paid by foreign corporations to nonresident (20% final tax) - bonus paid by employers, payments to person carrying out teaching, research, supervisory and similar activities in addition to their main employment activities (15%); - noncommercial profits paid by a person established in Algeria to a person outside Algeria (20%) - amounts paid in respect of fees and copyright and patent royalties (20% final tax); - income from shares (20%); - income from "bons de caisse anonymes" (25%); - income from debt-claims deposits and guarantees (15%); - interest from saving deposits, saving accounts linked to housing financing Treasury bonds or similar bonds with more than 5-year maturity (1%, 15%). 	<u>Taxable income bracket</u>	<u>Rate</u>	Up to 60,000	0	60,001 - 180,000	10%	180,001 - 360,000	20%	360,001 - 720,000	35%	720,001 - 1,920,000	40%	Above 1,920,001	50%
<u>Taxable income bracket</u>	<u>Rate</u>																
Up to 60,000	0																
60,001 - 180,000	10%																
180,001 - 360,000	20%																
360,001 - 720,000	35%																
720,001 - 1,920,000	40%																
Above 1,920,001	50%																

Algeria: Summary of the Tax System, 1999

(All amounts in Algerian dinars)

Tax	Nature of Tax	Exemptions and Deductions	Rate
<p>1.2 Corporate profit tax (<i>Impôt sur les bénéfices des personnes morales ou des sociétés - IBS</i>)</p>	<p>Levied on all total annual profit or net income earned in Algeria by companies, whatever their form or purpose, except as exempted by the law (Art. 136), and industrial, commercial, and similar public establishments and institutions.</p>	<p>Chargeable to all companies except:</p> <ul style="list-style-type: none"> - partnerships and joint ventures in accordance with the commercial code; - civil corporations not established as joint stock companies; - other special regimes provided for under the finance law (which may opt to pay the corporate profit tax). <p>Exemptions:</p> <ul style="list-style-type: none"> - activities declared of priority: for 3-6 years, depending on establishment; - consumer cooperatives; - associations of disabled persons; - theater activities; - tourism enterprises: for 10 years; - sporting enterprises or commercial companies: 5 years. 	<p><u>General rate:</u> 30%</p> <p><u>Reduced rate:</u> 15%</p> <p>for some reinvested profits (eligible investments are listed in decree 92-270 of July 6, 1992)</p> <p><u>Tax withholding at the source:</u></p> <ul style="list-style-type: none"> - income from shares: 20% - income from claims, deposits, and guarantees: 10% - income of foreign enterprises with no permanent professional premises: 18% - sums earned by enterprises under management contracts: 20% - income from foreign shipping companies: 10%
<p>1.3 Payroll Tax Flat-rate payment (<i>Versement forfaitaire - VF</i>). Allocated in full to local governments.</p>	<p>Monthly tax on all those paying wages or pensions. Tax base is identical to that of the IRG.</p>	<p>Temporary exemptions of 3 years for new enterprises created by young entrepreneurs. Partial temporary exemption of 5 years for exporting enterprises.</p>	<p>6% on wages 1% on pensions and annuities.</p>
<p>1.4 Property Tax 1.4.1 Real estate tax 1.4.1.1 Tax on developed property (<i>Taxe foncière sur les propriétés bâties</i>). Allocated in full to local governments.</p>	<p>Annual tax on houses, factories, and all developed property, fixed factory equipment, building lots, and land for industrial and commercial use.</p>	<p>Exemption of property allocated to public service and not generating income, property belonging to the Government, local government, or public institutions and for administrative use. The following are exempted: owner-occupiers with a monthly income of less than twice the minimum wage (SNMG) and whose developed property tax is less than DA 800.</p>	<p>From 25% to 40% on rented property 10% on nonrented property and in the south of the country 5% on land <500sq. m. 7% on land >500sq. m. and <1000sq. m. 10% on land >1000sq. m..</p>

Algeria: Summary of the Tax System, 1999

(All amounts in Algerian dinars)

Tax	Nature of Tax	Exemptions and Deductions	Rate																
1.4.1.2 Tax on undeveloped property (<i>Taxe foncière sur les propriétés non bâties</i>) Allocated in full to local governments	Annual tax levied on undeveloped properties.	Some temporary exemptions are granted by the law. Property belonging to the State, the wilayas and local authorities. Temporary exemptions for properties non-used for agricultural purposes.	5% in nonbuild-up areas 3% for agricultural land																
1.4.1.3 Estate tax (<i>Impôt sur le patrimoine</i>)	Annual tax on the value of real estate property, private cars, private planes and race horses.	Job-related property is exempted.	<table border="0"> <tr> <td><8,000,000</td> <td>0.0%</td> </tr> <tr> <td>8,000,001–10,000,000</td> <td>0.5%</td> </tr> <tr> <td>10,000,001–20,000,000</td> <td>1.0%</td> </tr> <tr> <td>20,000,001–30,000,000</td> <td>1.5%</td> </tr> <tr> <td>30,000,001–50,000,000</td> <td>2.0%</td> </tr> <tr> <td>>50,000,000</td> <td>2.5%</td> </tr> </table>	<8,000,000	0.0%	8,000,001–10,000,000	0.5%	10,000,001–20,000,000	1.0%	20,000,001–30,000,000	1.5%	30,000,001–50,000,000	2.0%	>50,000,000	2.5%				
<8,000,000	0.0%																		
8,000,001–10,000,000	0.5%																		
10,000,001–20,000,000	1.0%																		
20,000,001–30,000,000	1.5%																		
30,000,001–50,000,000	2.0%																		
>50,000,000	2.5%																		
1.4.2 Transfer and registration duties (<i>Droits de mutation et d'enregistrement</i>)	Transfer duties on the net value of property. For transfers as a result of death, the rate is based on the amount transferred and the degree of kinship. Lease and insurance documents, contracts, and documents establishing or modifying companies are subject to fixed and/or proportional duties.	Transfers of government and local government property and HLM offices are exempt. Certain specific exemptions are provided for socioeconomic objectives.	Fixed taxes of DA 300 to DA 700 <table border="0"> <tr> <td>Transfer of assets and shares</td> <td>5%</td> </tr> <tr> <td>Assignment of claims</td> <td>5%</td> </tr> <tr> <td>Exchange</td> <td>3%</td> </tr> <tr> <td>Transfer of goodwill</td> <td>5%</td> </tr> <tr> <td>Establishment of firms of capital stock</td> <td>1-2%</td> </tr> <tr> <td>Transfer of real estate</td> <td>5%</td> </tr> <tr> <td>Sale of movable property</td> <td>5%</td> </tr> <tr> <td>Direct inheritance per block of assets</td> <td>0–50%</td> </tr> </table>	Transfer of assets and shares	5%	Assignment of claims	5%	Exchange	3%	Transfer of goodwill	5%	Establishment of firms of capital stock	1-2%	Transfer of real estate	5%	Sale of movable property	5%	Direct inheritance per block of assets	0–50%
Transfer of assets and shares	5%																		
Assignment of claims	5%																		
Exchange	3%																		
Transfer of goodwill	5%																		
Establishment of firms of capital stock	1-2%																		
Transfer of real estate	5%																		
Sale of movable property	5%																		
Direct inheritance per block of assets	0–50%																		
1.4.3 Recordation tax (<i>Taxe de publicité foncière</i>)	Tax based on the net value of taxes stated in documents pertaining to property transfer and mortgage registration, memoranda and subrogation, reduction, and satisfaction.																		

Algeria: Summary of the Tax System, 1999

(All amounts in Algerian dinars)

Tax	Nature of Tax	Exemptions and Deductions	Rate																		
<p>2. Tax on production and consumption</p> <p>2.1 Value added tax (VAT) <i>(Taxe sur la valeur ajoutée - TVA)</i></p>	<p>VAT is levied on sales, building construction, and services other than those subject to special taxes of an industrial, commercial, or artisanal nature, carried out in Algeria, regardless of the legal status of the parties and the form or nature of their involvement. VAT is also optional for exporters, oil companies, or other VAT payers, enterprises benefiting from duty-free purchases. Producers and the like, wholesalers and the like, and subsidiaries are subject to this tax.</p>	<p>Exemptions: the retail sector, the agricultural sector, some liberal professions and activities subject to specific indirect taxes, as well as exported merchandise.</p> <p>Persons with total turnover of up to DA 800,000 (service providers) and or up to DA 1,500,000 (others) are exempt.</p>	<table> <tr> <td>Special reduced rate</td> <td align="right">7%</td> </tr> <tr> <td>Reduced rate</td> <td align="right">14%</td> </tr> <tr> <td>Regular rate</td> <td align="right">21%</td> </tr> </table>	Special reduced rate	7%	Reduced rate	14%	Regular rate	21%												
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<p>2.2 Excise on alcoholic products <i>(Droits de circulation)</i></p>	<p>Tax on alcoholic products and wines.</p>		<p>Fixed duty: wines 4,000/hl Alcoholic products: from 10/hl to 62,000/hl</p>																		
<p>2.3 Additional excise duty <i>(Taxe spécifique additionnelle)</i></p>	<p>Applies to a list of goods specified in the finance law.</p>		<p>10-150%.</p>																		
<p>2.4 Domestic consumption tax <i>(Taxe intérieure de consommation)</i></p> <p>Beer, tobacco.</p>	<p>Tax on the consumer goods listed in the left-hand column. The tax base includes VAT. The chargeable event consists of consumption of the taxable goods.</p>	<p>Levied on exported products, including alcohol, which is tax-free when used for industrial purposes.</p>	<table> <thead> <tr> <th align="left"><u>Product</u></th> <th align="right"><u>Rate (DA)</u></th> </tr> </thead> <tbody> <tr> <td>A. Beer</td> <td align="right">3,480/hl</td> </tr> <tr> <td colspan="2">Local products:</td> </tr> <tr> <td>B. Cigarettes</td> <td></td> </tr> <tr> <td> a. dark tobacco</td> <td align="right">935/kg</td> </tr> <tr> <td> b. light tobacco</td> <td align="right">1150/kg</td> </tr> <tr> <td>C. Cigars</td> <td align="right">1340/kg</td> </tr> <tr> <td>D. Smoking tobacco</td> <td align="right">535/kg</td> </tr> <tr> <td>E. Other tobacco</td> <td align="right">625/kg</td> </tr> </tbody> </table>	<u>Product</u>	<u>Rate (DA)</u>	A. Beer	3,480/hl	Local products:		B. Cigarettes		a. dark tobacco	935/kg	b. light tobacco	1150/kg	C. Cigars	1340/kg	D. Smoking tobacco	535/kg	E. Other tobacco	625/kg
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Algeria: Summary of the Tax System, 1999

(All amounts in Algerian dinars)

Tax	Nature of Tax	Exemptions and Deductions	Rate
			Imported products: B. Cigarettes a. dark tobacco 2,534/kg b. light tobacco 2,534/kg C. Cigars 2,990/kg D. Smoking tobacco 1,460/kg E. Other tobacco 1,460/kg
2.5 Tax on petroleum products	Tax on domestically consumed petroleum products.	Exported products.	Premium gasoline 95% Regular gasoline 77% Fuel oil 10% Gas oil 13% Propane 28% Butane 62% GPL 246%
2.6 Tax on professional activities (<i>Taxe sur l'activité professionnelle</i>) Allocated in full to local governments.	Turnover tax on individuals or companies subject to IRG or IB5.	Several.	2.55%.
3. Taxes on international trade 3.1 Customs duties (<i>Droits de Douane</i>)	Levied on imported goods.	Investment goods and products directly used in hydrocarbon prospecting and exploitation. Goods imported by the Ministry of Defense.	5%, 15%, 25%, and 45%; all duties are assessed ad valorem on C.I.F. values (except for products subject to minimum dutiable values).
3.2 Service fees (<i>Redevance Douanière, RD and Redevance pour Formalité Douanière, RFD</i>)	Flat fiscal duties on imports.	Same as for customs duties.	0.4% RD and 2% RFD; all duties are assessed ad valorem on C.I.F. values (except for products subject to minimum dutiable values).

Report on the Observance
of Standards and Codes

Basel
Core Principles

Algeria

Prepared by a staff team from the International Monetary Fund and the World Bank in the context of an Article IV mission, on the basis of information provided by the Algerian authorities.

The International Monetary Fund
June 2000

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CORE PRINCIPLE ASSESSMENT SUMMARY¹

COUNTRY: ALGERIA

I. GENERAL

1. In the context of the Article IV consultation discussions, a joint IMF/World Bank team prepared the following assessment of Algeria's compliance with the Basel Core Principles for Effective Banking Supervision.²

2. The team based its assessment on intensive discussions with representatives of the different subdivisions of the Bank of Algeria's Departments of Research, Credit and Inspection, as well as with the Vice-Governor of the Bank of Algeria. It also incorporates the information collected or views expressed during meetings with heads of most state-owned banks and some private commercial banks. The assessment is based on these discussions, as well as written material, notably Algeria's Banking Law of April 10, 1990. The assessment team enjoyed the full cooperation of its counterparts at the central bank, which devoted a lot of their time to the discussions and provided all the information that was available.

II. INSTITUTIONAL AND MARKET STRUCTURE

3. Regulation and supervision of the banking sector in Algeria is shared between three institutions but the Bank of Algeria has the main responsibility both operationally and through the central role played by the governor. The Banking Law 90-10 of April 10, 1990 (*loi sur la monnaie et le crédit*) defines the principles and modalities of surveillance of the Algerian banking system. This task is shared between three institutions:

- The Money and Credit Council is responsible for licensing and regulation (Arts. 44 et seq.).
- The Banking Commission is in charge of surveillance and has jurisdiction and powers to take sanctions (Arts. 143 et seq.).
- The central bank is responsible for implementation (Arts. 91 et seq., Art. 148).

The Money and Credit Council is also the Executive Board of the Bank of Algeria (Art. 42).

¹ The assessment was conducted in November 1999. It was coordinated by Mr. Durand (IMF) and conducted by a joint IMF/World Bank team comprising Messrs. Védrenne-Lacombe (World Bank) and Chaize (Bank of France, retired).

² The assessment was conducted following the "Core Principles Methodology," which has been approved by the Basel Committee on Banking Supervision, as well as by the Core Principles Liaison Group, in which the IMF and the World Bank are represented. The compliance was measured against essential criteria only.

4. The Money and Credit Council and the Banking Commission are collegiate bodies. The members of the Banking Commission are appointed for a renewable five-year term (Art. 144). Salaries, expenses, and attendance fees of the members of both institutions are paid by the central bank (Arts. 24, 36, and 144). The central bank prepares draft regulations and takes care by delegation of the banking commission of off-site surveillance and on-site inspections.

5. The Governor, who has a six-year term, chairs the three institutions and assumes the ultimate responsibility for policy implementation and for the unity of action of the whole group. He can only be removed for serious dereliction of duty (Art. 22). While holding this office, the Governor may not hold any legislative, governmental, or civil service office or exercise any other professional activity: nor may he borrow (Art. 23).

6. The market structure is characterized by the strong presence of the public sector. As of end-1999, the banking system was composed of the Bank of Algeria, 17 commercial banks, and 10 other financial institutions. There were 6 public banks (including CNEP, the former savings and loan institution, which was transformed in a commercial bank in 1997). Private banks—domestic or foreign-owned—have been allowed to enter the market since the beginning of the 1990s. One of them—El Baraka Bank—follows Islamic banking principles and was chartered as soon as 1990. The other private banks were chartered between 1997 and 1999. Public banks still dominate the banking sector. Their share of total assets and deposits is estimated at about 95 percent. Credit to the economy by the banking system remains small (about 30 percent of GDP).³

7. Since 1991, government-owned banks have been repeatedly restructured. Indeed, despite the introduction of market-based reforms in the early 1990s, they have lacked the institutional framework and the experience to promote efficient financial intermediation. Moreover, they have been burdened by a legacy of directed lending to public enterprises and sectoral credit specialization, which have weakened the quality of their portfolios considerably. A cleaning-up of their balance sheets had to be done several times in the 1990s, in particular through substitution of government bonds for nonperforming loans to public enterprises and recapitalization.⁴

8. Despite these efforts, public banks' operational efficiency remains mediocre at best. They fail to provide some basic banking services to large segments of the population. This is attested by the fact that households are still reluctant to become customers of public banks for basic banking services. Indeed, most of them use CCP (the postal system's financial arm) for fund transfers and cash withdrawals. For a significant part, this reluctance stems from the

³ Against about 50 percent of GDP in Tunisia and Morocco.

⁴ Public enterprises were also restructured in the 1990s. This process led notably to the closure of about a thousand small enterprises/units and to about 450,000 layoffs.

severe shortcomings of the payments system (e.g., the check clearance process may take up to several weeks).⁵

9. There are still serious doubts regarding government-owned banks' profitability and solvency. Returns on assets and on equity are particularly low in international or even regional comparison. This phenomenon has various causes. First, banks have suffered from their continued financial support, sometime at the behest of past governments, to loss-making public enterprises. Moreover, capitalization of interests due on government bonds have created a liquidity constraint and implied recourse to costly central bank refinancing. In addition, losses on credit extended to the private sector have also been significant, pointing to a possible lack of expertise and loose internal controls. Second, the cost of banks' resources is high relative to lending rates. Given the low mobilization of savings in the banking system and the reluctance of households to hold sight accounts in public banks, the latter have to resort extensively to resources, such as central bank refinancing,⁶ whose cost sometimes exceeds the yield of some assets (such as business equipment loans, whose rates do not appear market-determined). In this context, banks' compliance to capital adequacy ratios hinges on the large share (about 20 percent) of claims on the government in their balance sheets and the implicit government guarantee on nonperforming loans to public enterprises.

III. MAIN FINDINGS

10. The Basel Core Principles (CPs) are grouped into seven major categories: (i) preconditions for effective banking supervision; (ii) licensing and structure; (iii) prudential regulations and requirements; (iv) methods for ongoing supervision; (v) information requirements; (vi) formal powers of supervision; and (vii) cross-border banking.⁷

11. **Preconditions for effective banking supervision (CP 1).** As a result of many years of implicit guarantee by the treasury of dominant state-owned banks, the "culture" of banking and banking supervision is not yet fully developed. This may result in delays before newly enacted regulations and guidelines are fully implemented across the banking system. In addition, the difficult financial situation of major players in the banking system and the weakness of the operational capacity of state-owned banks are both an impediment for the development of an efficient banking supervision system. Also, state ownership of the main banks potentially weakens banking supervision efficiency.

12. The Banking Law and relevant regulations are considered sufficient to cover banking activities from a prudential standpoint. Nevertheless, the central bank will have to find a

⁵ The authorities have requested the World Bank's assistance in tackling this issue.

⁶ The average refinancing rate was about 12 percent in 1999 due to the intensive use of the overdraft facility (whose rate is 19 percent) by some banks.

⁷ See Appendix I: summary of assessment findings.

suitable opportunity to clarify in its legislation what is covered by other activities that banks may undertake, as well as to define the modalities for coordination between the banking system supervisors and the financial market supervisors.

13. **Licensing and structure (CPs 2–5).** These principles focus on the definition of banking activities and the proper use of the name “bank” as well as supervisory means to protect the sound ownership and structure of banks. Algeria is compliant with all the principles in this group. Most of the licensing criteria have been met. However, some financial institutions were licensed before the current procedures were introduced; their situation should be reviewed and necessary steps should be taken to bring them into compliance. While the Banking Law allows insurance companies to conduct on a derogatory basis some banking operations, it would be desirable to enforce a clear separation between banking and insurance operations. Bank investments must also be regulated.

14. **Prudential regulations and requirements (CPs 6–15).** There is a substantial need for improved enforcement of the existing regulations. This would entail strengthening prudential reporting, and bank surveillance and inspection. The supervisory authorities have almost completed a major project to define prudential standards and are contemplating issuing new regulations on internal bank controls. The new texts comply with international standards, with the possible exception of coverage of certain risks. For instance, Algerian banks are required to maintain a minimum level of capital and an 8 percent risk-weighted minimum capital adequacy ratio (CP 6). The risk-weighted ratio is based on the model of the Basel Capital Accord but does not include the Basel norms for market risks. Moreover, capital ratios are not calculated on a consolidated basis, although this is for the time being a minor problem in practice.

15. On large exposures (CP 9), there is a regulation but the authorities have not been able to check compliance with it because these exposures are not being reported adequately. There are also rules for credit granting and for the evaluation of loans and of loan-loss provisions (CPs 7 and 8); the current legislation requires banks to regularly evaluate their loans and to provision doubtful loans, but regulatory time limit on reporting to the supervisory authorities of nonperforming loans or on the classification of claims should be enforced.

16. **Methods for ongoing supervision (CPs 16–20).** This group of principles relates to the supervisory methods that should be applied, both on-site and off-site, and the necessity to evaluate these methods qualitatively on an ongoing basis. The principles stipulate the need for supervision of banks on a consolidated basis.

17. On-site inspection has been fairly limited until now. It has only consisted of examinations of limited scope—examinations of agencies or small private banks and a few cross-sectional thematic surveys. As of November 1999, the major banks, all of them public, had not yet been subjected to any global or in-depth examination.

18. The resources available to the Inspection Department are still limited; a major plan to boost these resources is being implemented; it will quadruple the number of staff available

over the next five years. An off-site surveillance unit has already been established and the computer equipment put in place. The Inspection Department is also expected to centralize and use the information on banks and enterprises held by other departments, especially Research and Credit.

19. Algeria does not apply consolidated supervision. However, this has been so far less harmful to effective supervision than is the case in many other countries, because of the structure of the banking system.

20. **Information requirements (CP 21).** The central bank, until now, has been receiving monthly accounting statements, which it analyzed mainly for monetary policy purposes. As of end-December 1998, the banks have been required to calculate the prudential ratios themselves. Thus far, only the Research Department has been estimating the capital adequacy ratio of the main credit institutions based on the results, summarily updated, of an external audit conducted in 1995.

21. **Formal powers of supervisors, including remedial measures and exit (CP 22).** The law gives legal powers to the Bank of Algeria to call for remedial action for weak banks, so that Algeria broadly meets the requirements of Principle 22. Some aspects of these provisions should be specified, including their legal underpinning, the ability to appeal the central bank's decisions, the suspension of effects of judgments pending appeal, and the procedures in place to enforce sanctions. Similarly, the Banking Commission should be able to turn to the courts if the offenses committed are of a penalty nature. But the major weakness lies in the absence of internal explicit rules mitigating against supervisory forbearance. Possible shortcomings relating to remedial action should also be seen against the background that all major banks are owned by the government.

22. **Cross-border banking (CP 23–25).** These Principles are all related to issues such as cooperation between home and host country supervisors and exchange of information, consolidated supervision on a global basis, and equal treatment of foreign establishments. The national supervisory authorities have not established any formal bilateral arrangements with any foreign supervisory authorities. The possibility of signing such agreements is raised in legislation on the installation abroad of banks incorporated in Algeria, and informal contacts are set up as necessary. Locally incorporated banks can be prohibited from undertaking activities in countries where the laws on banking secrecy could prevent the communication of information necessary for their supervision. The supervisory authorities, acting as the supervisory authorities of the host country, would not refuse to supply information to the supervisors of the country of origin, provided there was reciprocity and confidentiality.

IV. MAIN RECOMMENDATIONS AND RESPONSE OF THE AUTHORITIES

23. Most of the regulatory framework is already in place; new regulations should be introduced, however, to deal with foreign exchange and interest rate risks and money laundering. But first and foremost, the authorities should develop their capacity to enforce efficiently the existing regulations.

24. The priority is to improve the prudential reporting and the collection of information likely to lead to a reliable assessment of the situation of the banks vis-à-vis the prudential norms. Despite government ownership of the larger banks, the supervisory institutions should acquire a thorough knowledge of each of the major players in the banking sector and, more particularly, of the quality, distribution, and profitability of their assets, as well as of the reliability of their information systems and transparency. Coordination with external auditors should be an essential step in this process.

25. In order to deal with the specific background against which regulators are operating, it is essential for the authorities to focus on the measures needed to allow a smooth transition to a performing banking system. This would entail:

- conservatively applying licensing procedures so as to avoid the creation of new banks with unclear business plans or management skills whose quick failure would unnecessarily damage the public confidence;
- defining a policy for banks' exit to allow the rapid and orderly exit from the system of nonviable banks;
- establishing a legal framework and defining procedures with which supervisors can manage a banking crisis situation; and
- giving particular attention to compliance with the principles of good governance, which, in both the public and the private banking sectors, means providing a clear demarcation for the shareholders' right to intervene in the management of a bank.

26. The full report on the assessment of Algeria's compliance with the Basel Core Principles was discussed with the authorities. They expressed broad agreement with the conclusion reached by the staff. The authorities took a very constructive approach showing a genuine desire to start as soon as possible to improve the situation. Based on the findings of this assessment, the authorities have already embarked on an intensive program of technical assistance with IMF experts aiming at developing their supervisory capacity⁸ and increasing their effective knowledge of the banking system from a financial—as well as operational—perspective, which is a prerequisite for an efficient approach to bank supervision. The

⁸ As a result, on-site inspections of the government-owned banks have started to be conducted in the first half of 2000.

program involves the training of on-site personnel, including helping them in the preparation of on-site limited-scope inspections in the major banks, the identification of the information needed to fulfill off-site monitoring, the organization of the storage of the data received to foster its availability for processing, streamlining of the current organization to better identify responsibilities, and the development of synergies among data collecting departments.

SUMMARY OF ASSESSMENT FINDINGS

Algeria—Compliance with the Basel Core Principles on Effective Banking Supervision

(Assessment of November 1999, using October 1999 methodology)

CPs Major Categories	Main Findings
Precondition for effective banking supervision (CP 1)	There are weaknesses in the public and market infrastructure. Some amendments of laws and regulations are recommended. The major issue remains the divestiture of the State from the banking sector.
Licensing and structure (CPs 2–5)	The CPs in this group of principles are essentially in compliance, but a strengthening of licensing procedures is essential.
Prudential regulations and requirements (CPs 6–15)	9 of the 10 principles in this group are noncompliant. The authorities have made efforts to issue new regulations, but they need to enforce compliance with these rules. There is also a need to adopt the Financial Action Task Force (FATF) principles on money laundering.
Methods of ongoing supervision (CPs 16–20)	Algeria does not comply with most of the CPs in this category. However, steps are being taken to improve off-site and on-site supervisions through an intensive IMF technical assistance program.
Information requirements (CP 21)	The reporting process of Algerian banks could be improved by developing coordination with external auditors. They should be required to immediately inform the supervisory authority if they detect any matters of material significance to the bank concerned.
Formal powers of supervisors (CP 22)	Measured against essential criteria, Algeria is largely compliant with CP 22. However, additional measures should be taken to avoid supervisory forbearance.
Cross-border banking (CPs 23–25)	Algeria is not compliant with this group of principles, but for the time being this is not a priority. The Bank of Algeria, however, would have the power to enter into formal agreements with other country supervisors to facilitate future supervision.