INTERNATIONAL MONETARY FUND

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ALGERIA

2013 ARTICLE IV CONSULTATION

February 2014

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the Article IV consultation with Algeria, the following documents have been released and are included in this package:

- The **Staff Report** for the 2013 Article IV consultation, prepared by a staff team of the IMF, for the Executive Board's consideration on a lapse of time basis, following discussions that ended on November 25, 2013, 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 January 9, 2014.
- An **Informational Annex** prepared by the IMF.
- A **Press Release** summarizing the views of the Executive Board.

The document listed below has been or will be separately released.

Selected Issues Paper

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

ALGERIA

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION

January 9, 2014

KEY ISSUES

Inflation subsided in 2013 but preexisting and emerging macro-financial vulnerabilities need to be tackled. After reaching a 15-year high in 2012, inflation is coming back within the central bank's target thanks to tighter monetary policy and fiscal consolidation. However, a recent surge in credit and a new increase in public sector wages call for continued caution over price stability. In addition, the economy's vulnerability to developments in the hydrocarbon sector is worsening. Declining hydrocarbon production and surging domestic consumption are squeezing export volumes, compounding the longstanding risk of lower oil prices. The policy mix will need to remain geared towards maintaining macroeconomic and financial stability.

Despite the ongoing consolidation efforts, fiscal policy is not on a sustainable path. Fiscal policy is de facto procyclical, and the deficit is well above its long-term sustainable level, implying negative net public savings in the long run. Designing and implementing a full-fledged fiscal rule—combining a realistic and smoothed budgeted oil price, a floor on the primary balance, a drawing rule, and a sovereign wealth fund—would help contain macroeconomic vulnerability and build savings for future generations. In the meantime, policies to develop the hydrocarbon sector—with a view to extending the lifetime of existing reserves and preserving fiscal revenue—would help achieve a sustainable fiscal framework.

Wide-ranging structural reforms are required to accelerate nonhydrocarbon growth and reduce unemployment. Measures are needed to enhance the business climate, attract foreign investment, and improve Algeria's integration into the world economy. Public investment needs to be preserved, and its efficiency reinforced. The financial sector is critical to the development of the economy; measures are needed to support private sector credit, jumpstart capital markets, and ensure the compliance of the financial framework with AML/CFT requirements. Finally, the job market needs to be more inclusive to youth and women, who bear the brunt of unemployment.

Exchange rate regime. The de facto exchange rate regime is classified as "other managed arrangement." Algeria has accepted the obligations of Article VIII Sections 2(a), 3, and 4.

Approved By
Daniela Gressani and David Marston

A staff team comprising Mr. Zeidane (head), Ms. Lahreche, and Mr. Jewell (all MCD), and Mr. Tapsoba (FAD) conducted the discussions in Algiers during November 12-25. Mr. Badsi (OED) also participated in the discussions.

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APPENDICES

Glossary

AML/CFT	Anti Money Laundering/Combating the Financing of Terrorism
ANGEM	Agence Nationale de Gestion du Micro-crédit (National Agency for Micro-Credit)
ANSEJ	Agence Nationale de Soutien à l'Emploi des Jeunes (National Agency for Youth Employment Support)
BA	Banque d'Algérie
CGER	Consultative Group on Exchange Rate
CNAC	Caisse Nationale d'Assurance Chômage (National Unemployment Insurance Institution)
EU	European Union
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
FRR	Fonds de Régulation des Recettes (oil fund)
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
ICT	Information and Communication Technology
IMF	International Monetary Fund
MoF	Ministry of Finance
MTBF	Medium Term Budget Framework
NEER	Nominal effective exchange rate
NHGDP	Nonhydrocarbon GDP
NHPB	Nonhydrocarbon primary balance
NPL	Nonperforming Loan
OECD	Organization for Economic Cooperation and Development
PIH	Permanent income hypothesis
REER	Real effective exchange rate
SME	Small and Medium Enterprise
SOE	State-owned enterprise
SWF	Sovereign Wealth Fund
TAP	Taxe sur l'Activité Professionnelle (Turnover Tax)
WTO	World Trade Organization

INTRODUCTION

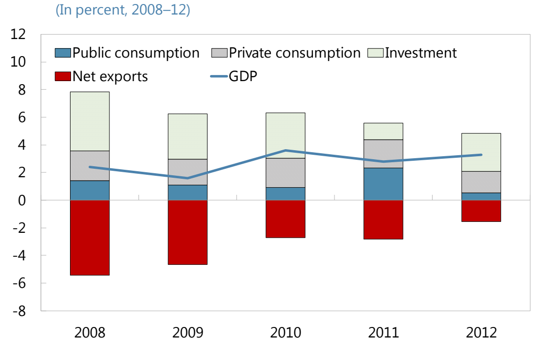
1. The economy stabilized in 2013. Following a rapid increase in public spending in 2011–12 to meet pressing social demands and to weather the recent regional turmoil, inflation spiked in 2012. It was subsequently reined in through monetary policy tightening initiated in May 2012 and fiscal consolidation implemented in 2013. External and fiscal buffers are large, and the banking sector is sound.

2. However, long-standing vulnerabilities remain and new uncertainties are emerging. Following large surpluses for most of the past decade, the current account balance is expected to turn into a deficit in the medium term as fast-growing domestic consumption of hydrocarbons squeezes exports. Despite recent fiscal consolidation, the fiscal stance remains unsustainable. Economic growth continues to be overly dependent on public spending and vulnerable to a protracted decline in oil prices. Unemployment is still high, especially among youth and women.

RECENT ECONOMIC DEVELOPMENTS

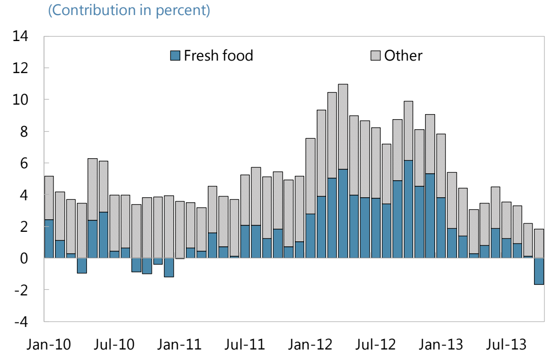
3. Growth and inflation. Real GDP growth increased to 3.3 percent in 2012 from 2.8 percent in 2011, led by strong growth in the nonhydrocarbon sector, driven by public sector spending, while the hydrocarbon sector contracted for the seventh consecutive year. Inflation rose to 8.9 percent in 2012—the highest level in 15 years—following a surge in current spending that resulted in excess liquidity. Inflation has decelerated thus far in 2013. Fiscal consolidation and monetary tightening (both increased liquidity absorption and an increase in the reserve requirement rate) brought core inflation to 3.7 percent in October from a peak of 5.9 percent in 2012. Food inflation has decelerated more rapidly, helped by the fiscal and monetary policy mix, falling international prices, and better domestic agricultural production. Overall inflation declined to 4.5 percent in October.

Real GDP Growth: Demand Side Contributions
(In percent, 2008–12)



Sources: Algerian authorities; and IMF staff calculations.

CPI Inflation
(Contribution in percent)



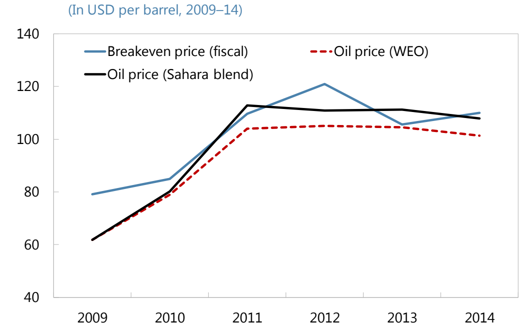
Sources: Algerian authorities; and IMF staff calculations.

4. External position. The external position, though still very strong, has started to weaken. The current account surplus narrowed to 6.0 percent of GDP in 2012 from 9.9 percent in 2011, as imports increased sharply and hydrocarbon exports contracted slightly due to lower production levels and increasing domestic consumption. The trend of weak hydrocarbon exports and rapid import growth continued into 2013, with the current account recording a slight deficit through the first three quarters of 2013. Capital inflows remain limited, with FDI falling to just $1.5 billion (less than 1 percent of GDP) in 2012. Official reserves rose to $191 billion in 2012 from $182 billion in 2011 (equal to nearly three years of imports of goods and services), but growth in reserves has since slowed. External debt amounted to 1.9 percent of GDP at end-2012.

5. The real effective exchange rate (REER) is on the strong side, despite a steady depreciation in recent months. For the first six months of the year, both the REER and nominal effective exchange rate (NEER) were relatively stable, appreciating by less than 1 percent. Between June and October 2013, however, the REER depreciated 6.2 percent, reaching its lowest level since mid-2011. The depreciation in the REER outpaced the depreciation in the NEER, reflecting lower inflation in Algeria relative to its trading partners. Nevertheless, staff estimates suggest that the REER remains somewhat on the strong side (Appendix 1).

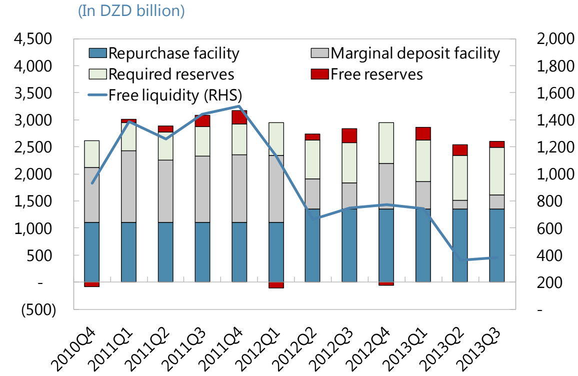
6. Public finances. The fiscal stimulus initiated in 2010 reached full steam in 2012. Current spending in 2012 increased by 23 percent in nominal terms to 30.2 percent of GDP and 45.0 percent of nonhydrocarbon GDP (NHGDP), as public sector wage increases with back payments reached their full impact. Capital spending grew by 15 percent, increasing from 13.6 percent to 14.4 percent of GDP between 2011 and 2012. Fiscal revenue has been resilient, at 40.5 percent of GDP, supported by buoyant nonhydrocarbon revenue. As a result of higher spending and stable revenue, the fiscal deficit widened significantly, from 1.2 percent of GDP in 2011 to 4.0 percent in 2012 (and from 44.7 percent to 45.3 percent of NHGDP), and the breakeven price of oil (US$120.9) was significantly above the market price for Algerian oil (US$111 per barrel). Data as of end-August 2013 suggest that the fiscal consolidation provided for in the 2013 budget law is on track, with public spending contained and fiscal revenue stable. The oil fund (*Fonds de Régulation des Recettes, FRR*) continued to grow in absolute terms (to DZD 5,633 billion), but declined as a share of GDP (from 37.1 percent to 35.6 percent of GDP between 2011 and 2012).

Fiscal Breakeven Price of Oil
(In USD per barrel, 2009–14)



Sources: Algerian authorities; and IMF staff calculations.

Bank Liquidity
(In DZD billion)



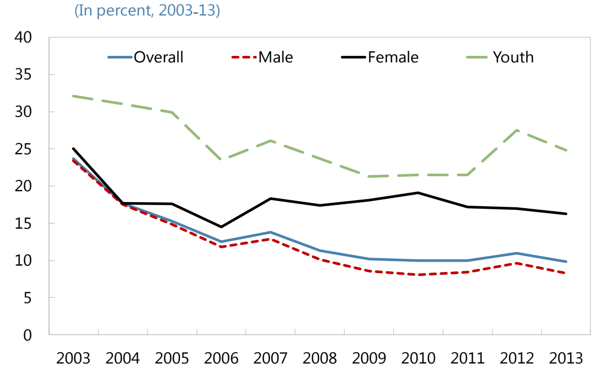
Sources: Algerian authorities; and IMF staff calculations.

7. Monetary. Broad money (M2) growth slowed significantly, from 19.9 percent in 2011 to 10.9 percent in 2012 (22.1 percent to 16.6 percent excluding the deposits of the national oil company). This was the result of slower accumulation of NFA (7.4 percent, compared to 16.2 percent in 2011), and increased public savings that partially offset higher credit growth (credit to the economy increased by 15.1 percent compared to 13.5 percent in 2011). Excess liquidity was high at the start of 2012, but slowed as the central bank increased the reserve requirement ratio in May 2012 and then again in May 2013, and upped the volume of liquidity absorption in May 2012. Money growth has remained subdued in 2013 (7.1 percent increase through September compared to end-December 2012), largely as a result of slower growth in NFA. Credit to the economy, however, has been more dynamic than in 2012, reaching 22.3 percent through September, driven by 33.6 percent growth in credit to the public sector—an 11-year high. Credit to the private sector grew by 16.9 percent, ahead of last year's pace of 13.5 percent.

8. Financial sector. The banking sector remains solvent and liquid. The overall capital adequacy ratio in 2012 was 23 percent, little changed from the previous year. The ratio of nonperforming loans (NPLs) declined to 11 percent, following government repurchases of state-owned enterprise (SOE) debt and the restructuring of the debts of viable small- and medium-sized enterprises (SMEs), and reflecting the growth in credit. Seventy percent of NPLs are provisioned, bringing the net NPL ratio to 3.5 percent. Liquidity remained comfortable. Credit to the economy increased somewhat, but access to finance remains low compared to other countries in the region and to countries at a similar level of development. Financial markets remain underdeveloped, with only one new listing on the stock exchange in 2013, bringing the total number of listed companies to four, and two corporate bonds. In 2013, the Ministry of Finance announced that eight SOEs would be listed, although no timeline has been defined so far.

9. Employment. Over the years, Algeria has made significant progress in addressing unemployment, with the overall unemployment rate falling from 30 percent in 2000 to 9.8 percent in 2013, although the participation rate remains low. Declining unemployment likely supported the reduction in inequality that occurred between 2000 and 2011 (Box 1). Nevertheless, unemployment rates among youth (24.8 percent) and women (16.3 percent) remain high, owing to weak private sector activity, skills mismatches, and labor market rigidities.

Unemployment Rates
(In percent, 2003-13)

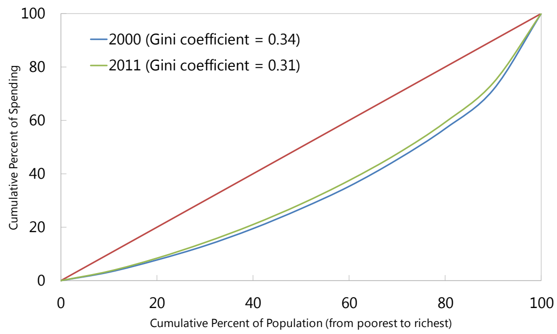


Source: Algerian authorities.

Box 1. Growth and Inequality

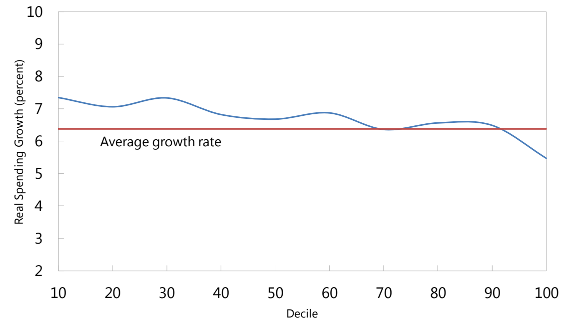
Economic growth in Algeria over the last decade has been relatively more favorable to the poor than to the rich, helping to reduce inequality. An analysis of household survey data indicates that Algeria's Gini coefficient fell from 0.34 in 2000 to 0.31 in 2011, reflecting an increase in the share of spending by poorer households relative to total household spending in the economy (Figure 1). On average across all households, real spending increased by 6.4 percent over the period (Figure 2). The strongest growth was experienced by the 10th and 30th deciles, while the slowest growth occurred in the richest decile.

Figure 1: Annual Spending by Decile
(Overall economy)



Sources: Algerian authorities; and IMF staff calculations.

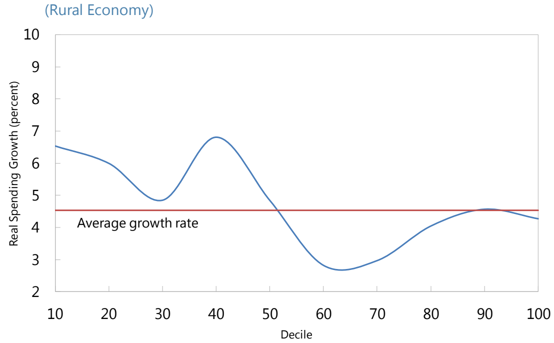
Figure 2: Growth Incidence Curve, 2000–11
(Overall Economy)



Sources: Algerian authoritie;s and IMF staff calculations.

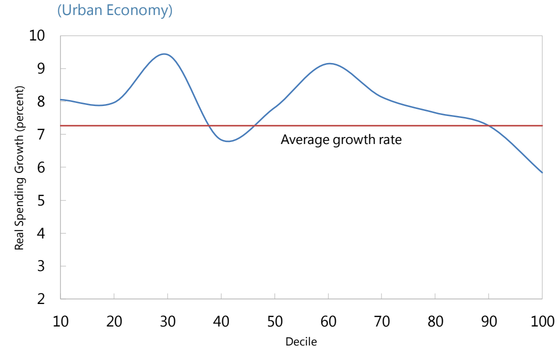
Disparities remain stronger among rural households than among urban households. Although both rural and urban areas saw a narrowing in inequality over the last decade, the Gini coefficient of rural households (0.37) was twice that of urban households (0.18) in 2011. On average, rural households increased their spending by 4.5 percent in real terms, while urban households experienced a 7.3 percent increase (Figures 3 and 4). Among rural households, the lowest growth in spending occurred in the 60th and 70th deciles.

Figure 3: Growth Incidence Curve, 2000–11
(Rural Economy)



Sources: Algerian authorities; and IMF staff calculations.

Figure 4: Growth Incidence Curve, 2000–11
(Urban Economy)



Sources: Algerian authorities; and IMF staff calculations.

Algeria's pro-poor growth over the past decade coincided with a significant decline in unemployment and increases in social spending. Between 2000 and 2011, the unemployment rate fell steadily, from 29.5 percent to 10.0 percent. Over the same period, per capita spending on health and education doubled in real terms. Although further study is warranted before drawing definitive conclusions, these developments may have disproportionately benefited the poorer segments of society.

10. Outlook

- *Growth and inflation*. Real GDP growth is expected to slow to 2.7 percent in 2013 as fiscal consolidation takes hold and as hydrocarbon exports remain weak. Nonhydrocarbon growth is projected to decline from 7.1 percent to 5.9 percent, mainly reflecting a slowdown in construction and government services. Real GDP growth should pick up in 2014, driven by a recovery in the hydrocarbon sector, following higher investment, and by stronger external demand as Southern Europe's outlook improves. Inflation is projected to fall to 4.5 percent this year as the government withdraws fiscal stimulus, monetary policy remains prudent, and food prices soften.

- *External*. The current account surplus is projected to narrow further in 2013, falling to 1.1 percent of GDP. Lower oil prices and rising domestic consumption are expected to weigh on exports, while imports continue to grow. Looking ahead, a small current account deficit is projected by 2015, on the assumption of lower oil prices and continued growth in domestic hydrocarbon consumption.

- *Fiscal*. The overall deficit for 2013 is expected to improve significantly to 0.2 percent of GDP (34.3 percent of NHGDP). In 2014, spending is expected to increase slightly, by 1 percent of GDP, mostly due to capital spending. On the revenue side, however, declining oil prices and broadly stable export volumes will constrain hydrocarbon revenue, while nonhydrocarbon revenue is projected to remain stable as a share of NHGDP. Consequently, the fiscal deficit is expected to reach 2.1 percent in 2014. The deficit is projected to worsen in 2015 before improving somewhat at the end of the projection period as current spending is contained and nonhydrocarbon revenue improves. The nonhydrocarbon overall deficit is expected to improve slowly, from 34.3 percent of NHGDP in 2013 to 27.4 percent of NHGDP by 2018, but fall short of placing fiscal policy on a sustainable path. In addition, the breakeven price of oil is expected to remain above the market price over the medium term. Gross fiscal savings are expected to increase further in DZD terms, stabilizing at 36.6 percent of GDP by the end of the projection period. Gross public debt will remain low (Appendix II).

- *Monetary*. Money supply is expected to grow by 8.6 percent in 2013, as higher fiscal savings somewhat offset the fast growth in credit to the public sector. Credit to the private sector is expected to increase by 1 percentage point of GDP but remain low at 22.6 percent of NHGDP in 2013. Absent structural reforms to support private sector growth and develop the financial sector, private sector credit is only expected to increase slowly over the medium term.

11. Risks. Risks are mainly tilted to the downside and are largely related to the oil dependency of the country, while outward spillovers are likely to be limited (Box 2).

- *A prolonged decline in oil prices*. Although still sizable, the accumulation of fiscal savings in the FRR has been slowed by the financing needs created by consecutive fiscal deficits. The fiscal breakeven oil price in 2014 is projected to be higher than medium-term oil prices, underscoring the risks to fiscal sustainability should oil prices experience a sustained decline.

- *A worsening global environment*. A deeper slowdown in emerging markets, or a protracted period of slower growth in Europe, would negatively affect the balance of payments (through lower hydrocarbon demand and prices) and the fiscal balance (through lower hydrocarbon revenue), ultimately affecting growth. Risks to the financial sector are small, given the country's limited exposure to international financial markets.

- *Further pressure to use the hydrocarbon rent*. Despite high levels of spending in 2011 and 2012, and additional wage increases in 2013, social demands remain elevated and could further increase ahead of the presidential election in 2014. Additional current spending to placate the population would worsen the fiscal balance, increase reliance on the hydrocarbon rent, and fuel inflation.

- *Intensification of regional tensions*. Instability in neighboring countries and tensions in Egypt and Syria create risks to security that could weigh on investments, notably FDI. On the other hand, instability elsewhere in the region may lead to significantly higher oil prices, which could have a positive net impact on the economy.

Algeria: Risk Assessment Matrix			
	Nature/Source of Main Threats	Likelihood of Severe Realization of Threat in the Next 1-3 Years (high, medium or low)	Overall Level of Concern Expected Impact if Threat is Realized (high, medium or low)
Risks to growth			
Euro zone	*Short term:* Financial stress in the euro area re-emerges	**Medium**	**High.** A further slowdown in growth in the euro area (Algeria's main gas export partner) would negatively affect the balance of payments, through both lower hydrocarbon prices and lower demand, and the fiscal balance. A slowdown in growth in the United States or emerging markets/China would also affect the country through lower global demand and its potential impact on oil prices. In all cases, spillovers through capital markets would be limited, given Algeria's very limited exposure to international financial markets.
	Medium-term: Protracted period of slower European growth	**High**	
US	*Short term* : Fiscal policy shock in the United States	**Low**	
Emerging markets	*Short term:* Protracted economic and financial volatility, especially for emerging markets	**High**	
	Short/medium term : Lower than anticipated emerging markets growth potential	**Medium**	
China	*Medium term:* Sharp slowdown in growth in China	**Medium**	
Risks to capital markets			
	Short/medium term : Advanced bond market stress	**Medium/Low**	**Low.** Algeria's capital account is not open, and risks related to both capital outflows and inflows are marginal. Algeria is a net creditor, and its large international reserves are mainly invested in high-grade sovereign bonds. A stress on the international bond market would complicate the reserve investment strategy.The financial sector is little exposed to the international environment, and risks to financial stabiilty are unlikely to affect the country, though second-round effects on the real sector would be possible.
	Medium term : Risks to financial stability from incomplete regulatory reforms	**Medium**	
Other risks			
	Short term : Global oil shock	**Low**	**High.** Algeria's fiscal and external sectors are heavily reliant on oil revenues. A lasting decline in oil prices would worsen the fiscal balance absent significant efforts to curb current spending and increase nonhydrocarbon revenues. Conversely, an increase in oil prices would support both the current account and fiscal balances.
	Medium term : Distortions from unconventional monetary policy	**High**	**Low.** Large swings in Algeria's main partners' currency values could complicate the management of the exchange rate. Given Algeria's very limited exposure to financial markets, the impact of market repricing or the side effects from exit modalities is not expected to affect the country.
	Medium term : Sustained decline in commodity prices	**Low**	**Low.** Algeria is a net importer of nonhydrocarbon commodities and would benefit from lower prices through an improved current account balance and lower inflation.
Algeria-specific risks			
	Medium term : Shocks to food prices (notably wheat)	**Low**	**Low.** Food price increases would put further pressure on the fiscal balance through subsidies, and may feed inflation.
	Short/medium term : Further demands on the hydrocarbon rent	**High**	**High.** Despite large spending in 2011 and 2012, frustration remains elevated in the population (inflation, lack of housing, unemployment) and the next presidential election is looming (2014). Additional current spending would further worsen the fiscal balance and increase Algeria's reliance on hydrocarbon rents, and could fuel inflation.
	Short/medium term : Intensification of regional tensions (notably in Mali and Libya)	**Medium**	**High.** Algeria's hydrocarbon infrastructure is located in the Southern part of the country and is vulnerable to terrorist attacks. Further security concerns may increase the risk premium of investing in the country.
	Short/medium term : Domestic political instability	**Low**	**High.** Increased political instability could deter foreign investment and lead to a deterioration of the fiscal position and a depletion of the oil stabilization fund.

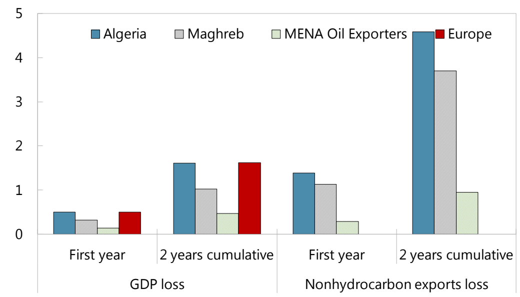
Box 2. Algeria's Inward and Outward Macroeconomic Spillovers

The limited openness of the Algerian economy significantly constrains the potential outward spillover effects of a shock in the country to both the region and the rest of the world. With financial flows restricted by the closed capital account, the current account is the main potential channel of shock contagion. A domestic shock that would affect demand and imports from Algeria is unlikely to have any significant outward spillover: Algeria's imports from the Maghreb, at less than US$2 billion in 2012, represent only 3.5 percent of the combined exports of Morocco and Tunisia. Imports from the EU, at about US$25 billion in 2012, are less than 2 percent of this region's non-EU exports. However, in the current tight oil market conditions, a shock to Algeria's oil production could affect global prices, and generate external spillovers.

A decline in growth in Europe would have negative spillover effects in Algeria, reflecting the large dependence of the country on gas exports to the EU. Nonhydrocarbon exports would also be negatively affected, as Europe is also the main client for these.[1]

Lower hydrocarbon prices would also harm Algeria's fiscal balance and balance of payment, as reflected by the simulation of a permanent US$ 25 decline in oil prices under a no-policy-change scenario.

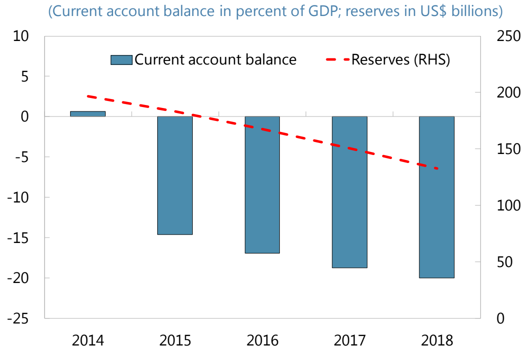
Impact of a Slower Growth in Europe
(Percent change relative to baseline)



Sources: IMF staff calculations, using Cashin,P., K. Mohaddes and M. Raissi (2012) and Behar, A. and J. Espinosa-Bowen (forthcoming).

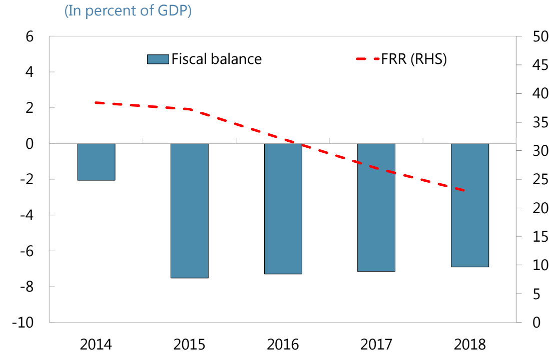
Algeria: External and Fiscal Vulnerability to Oil Shocks

Current Account and Reserves
(Current account balance in percent of GDP; reserves in US$ billions)



Source: IMF staff calculations.

Fiscal Balance and FRR
(In percent of GDP)



Source: IMF staff calculations.

Note: The oil shock scenario assumes a permanent US$ 25 negative shock starting in 2015.

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[1]The simulation assumes a 0.5 points decline in European GDP growth compared to the baseline. Growth simulations are based on the calibration of a GVAR model. See Cashin, P., K. Mohaddes and M. Raissi (2012), The Global Impact of the Systemic Economies and MENA Business Cycles, IMF Working Paper 12/255. Nonpetroleum export results are simulated using Behar, A. and J. Espinosa Bowen (forthcoming), Export Spillover Implications of Global Shocks for the Middle East and Central Asia, IMF Working Paper.

12. Discussions focused on the three main policy challenges facing the country. In the short term, macroeconomic and financial stability will need to be consolidated. To ensure long-term fiscal sustainability, the management of hydrocarbon wealth needs to be improved. Finally, Algeria needs to raise the rate of economic growth and create more jobs.

Box 3. Authorities' Response to Past IMF Policy Recommendations

The authorities generally agree with staff's policy recommendations, but overall implementation is sometimes held back by slow decision-making processes. Since the last Article IV consultation, progress has been recorded in tightening monetary policy, implementing fiscal consolidation, and improving the business environment. However, measures that would have implied a relaxation of the State's control over the economy—such as setting higher indicative FX ceilings for travelers, lifting the ban on consumer credit, or revising the FDI ownership rules—have not been implemented.

Implementation Status of the 2012 Article IV Actionable Policy Recommendations

Recommendation	Implementation status
Strengthen macroeconomic policy	*Partial progress.*
Tighten monetary policy.	A new deposit auction window (6 months) was created in January 2013, bearing a slightly higher interest rate. The other policy rates were not increased. The reserve requirement was increased from 11 to 12 percent in May 2013.
Enhance coordination between the Ministry of Finance and Banque d'Algerie. Updated Treasury cash flows could be discussed at regular intervals.	BA and the Ministry of Finance have initiated coordination meetings.
Set higher and realistic indicative FX ceilings for travelers.	Not implemented.
Fiscal sustainability	*Limited progress.*
Cost and disclose the main implicit subsidies—such as energy subsidies—in an appendix to the 2014 budget law.	Implemented.
Review and rationalize VAT exemptions.	The authorities requested and received IMF technical assistance to help them achieve this recommendation.
Set medium-term sector envelopes early in the process for the 2014 budget.	The authorities have started the preparation of the MTBF and program budgets, which are scheduled to be implemented in the 2015 budget law.
Improve the business environment and spur growth	*Partial progress.*
Further simplify the procedures for creating and operating a business.	Administrative requirements to start a business were simplified, a custom green line was established, with more than 100 agreed operators; online tax filings and payments have been made possible. However, these efforts were not sufficient to improve Algeria's Doing Business ranking.
Revise the FDI ownership rules to lift existing restrictions or limit them to strategic sectors.	No progress.
Lift the ban on consumer credit.	No progress. However, following the tripartie meetings in October 2013, a steering committee has been established to propose a way to lift the ban.

THEME 1. CONSOLIDATING MACROECONOMIC AND FINANCIAL STABILITY

13. The surge in public spending prior to 2013 weakened the fiscal position and put upward pressure on the equilibrium real effective exchange rate, raising Dutch-disease concerns. The fiscal consolidation undertaken in 2013, combined with monetary policy tightening and measures to ease supply constraints and foster competition, has helped to slow inflation. A mix of fiscal, monetary, and exchange rate policies should aim to pursue disinflation, put the fiscal stance on a sustainable path, and improve the economy's external competitiveness.

14. Staff and the authorities agreed on the need for the central bank to continue to guard against inflation. Although inflation has declined substantially, the recent surge of credit to the economy could fuel domestic demand, thereby generating inflationary pressures. Staff recommended that the BA maintain a prudent monetary policy while introducing measures that will bolster its effectiveness over time (Box 4).

- *Ongoing efforts to mop up excess liquidity would benefit from increased coordination with the Ministry of Finance.* The BA raised the reserve requirement rate from 11 percent to 12 percent in May 2013, and maintained the volume of liquidity absorption. The BA should be prepared to tighten the monetary stance to avoid any further buildup of excess banking liquidity. The need to absorb liquidity would be significantly reduced if the financing need for the budget was covered by debt issuance rather than by drawings on the FRR. Such a shift would need to be accompanied by enhanced liquidity forecasting and more formal and systematic exchanges of information between the BA and the Ministry of Finance regarding both treasury cash flows and liquidity management operations, in order to ensure a smooth supply of liquidity to the economy. The authorities saw merit to this approach, and underscored that coordination between the BA and the Ministry of Finance was making progress. The Ministry of Finance remained cautious, however, about increasing the level of public debt to support monetary policy, insisting that the responsibility for price stability lay with the BA.

- *Staff recommended a more active use of interest rates to bolster the long-term effectiveness of monetary policy.* The recent decline in excess liquidity, supported by tight liquidity management, should create the conditions for interest rates to become a more effective monetary policy tool. The current monetary policy framework is marked by extremely low interest rates. The six-month liquidity absorption window introduced in January 2013 carried an interest rate of only 1.5 percent, bringing the average interest rate on repurchase facilities to 0.95 percent. The discount rate, which banks use as a reference to set loan rates, has not been adjusted since March 2004. Amid limited supply of t-bills, and given regulatory requirements for insurance companies to hold government securities, the three-month rate was only 21 basis points in late October 2013, well below the BA's deposit rate of 30 basis points. The BA should signal its policy stance more actively through interest rates (both the discount rate and deposit auction facilities), while a more active t-bill and t-bond issuance policy should bring interest rates on government debt securities to more normal levels. Although the authorities agreed that interest rates would play a useful signaling role, they questioned the effectiveness of raising them in an environment of excess liquidity. Nevertheless, they saw scope for more active monetary policy if excess liquidity tapers as expected.

Box 4. Enhancing the Effectiveness of Monetary Policy Transmission Channels in Algeria

The 2012 surge in inflation highlighted the challenges faced by monetary policy in an environment of excess liquidity and limited financial sector development. The BA has three policy instruments under the current framework: liquidity management tools, the interest rate, and the exchange rate. Excess liquidity has led the BA to give up using the rediscount rate as a signaling instrument, and to adjust only marginally and infrequently the rates on deposit facilities. The exchange rate is assigned to preserving competitiveness, but has been on occasion implicitly used to contain price pressures. Consequently, required reserves and deposit facilities are the main policy instruments. An empirical analysis over 2001Q1–2013Q2 suggests that transmission channels (credit, market rates, and money) are operative, but weak. This weakness results in monetary policy impulses having only a limited impact on the BA's final targets of growth and inflation.

To improve the effectiveness of monetary policy, wide ranging structural reforms are needed to:

- *Adapt the macroeconomic policy framework to an environment of excess liquidity*: The major structural impediment to an effective monetary policy lies in the combination of excess liquidity and a lack of savings instruments. To reduce the supply of liquidity the national oil company could be allowed to hold part of its resources in foreign exchange, either domestically or internationally. A more proactive borrowing policy by the Ministry of Finance, perhaps backed by a full-fledged hydrocarbon savings rule, would also help absorb excess liquidity, support the development of financial markets, bring liquid resources back to the financial sector, and unclog the interest rate transmission channel.
- *Provide the right signals to the markets:* The interest rate needs to be used more proactively. Changes in the auction facilities rate should be accompanied by changes in the discount rate to ensure the pass-through of monetary policy through bank lending and borrowing rates. To improve the role of the exchange rate as a transmission channel, measures should be taken to diversify the supply of foreign exchange, notably by easing repatriation and surrender requirements and by lifting the tight de facto required reserve ratio on banks' foreign exchange deposits.
- *Create the conditions for financial sector deepening*: Government intervention through interest subsidies has increased significantly since 2009. This discourages capital market deepening by removing incentives for enterprises to finance themselves outside of the banking sector. Subsidies should be reviewed, the performance of subsidized credits carefully monitored, and provisions made for existing schemes to lapse. The ban on consumer credit needs to be lifted, the development of credit registries stepped up, and measures to facilitate access to credit by SMEs (such as an efficient guarantee system) adopted. To curb the use of cash in the economy, the use of checks and electronic means of payments in transactions with administration and public services and large payments should be mandatory. To develop capital markets, the capital of large SOEs and state-owned banks should be opened. Corporate bond issuance by large SOEs could also be encouraged, as a complement to banking credit, to finance large investments.

15. A larger supply of savings instruments is needed to curb inflationary pressures and breathe life into the financial market. In 2012, the lack of savings instruments (aside from time and current deposits), in the context of rapidly increasing household income following expansionary fiscal policy, led to higher consumption and inflationary pressures. It is therefore important to increase and diversify the supply of savings instruments, notably by developing housing savings—

through the development of mortgage finance instruments and a retrenchment of State intervention—and capital markets.

16. The ongoing fiscal consolidation should be pursued beyond 2013. The draft 2014 budget law appropriately limits increases in current spending, while providing for higher capital spending; however, the main shortcomings are the new increases in the wage bill and the broadening of tax exemptions. The fiscal position remains vulnerable to a lasting decline in oil prices and requires further consolidation that should be friendly to inclusive growth and more progressive in terms of tax and spending.

- *Tax revenues need to be bolstered*, including by eliminating or reducing the most costly tax exemptions—particularly VAT exemptions. Staff commended the authorities for publishing, in the context of the 2014 budget law, the cost of tax exemptions, although the methodology needs to be improved. Staff also recommended that efforts to improve tax administration continue. The ongoing computerization of the tax administration should also remain a priority. The restructuring of tax control and collection offices into a smaller number of tax centers (*centres des impôts*, CDI) and local tax offices (*centres de proximité des impôts*, CPI) is moving forward, but must be accompanied by a strengthening of tax inspection capacities to expand the tax base and improve collection efforts.

- *The growth in current spending needs to be contained*. Staff recommended controlling wage bill growth by stabilizing the size of the civil service and anchoring wage growth to productivity improvements. Current transfers should be stabilized in real terms through subsidy reform (see below) and improvements in the efficiency of public services. In this regard, the recent move to set up contractual arrangements with public entities, particularly hospitals, is a step in the right direction and should support this objective.

- *Subsidies represent a large share of GDP and should be reviewed*, to improve their equity and effectiveness and reduce their cost to the economy. International experience shows that subsidies are often costly, inequitable, and a source of economic distortions. The cost of implicit subsidies for hydrocarbon products amounted to an estimated US$22.2 billion in 2012, or 10.9 percent of GDP. Explicit subsidies cost an additional 5 percent of GDP in 2012. These subsidies are highly inequitable, as they mostly benefit upper-income groups. Staff recommended that the prices of subsidized items—particularly those that do not figure prominently in the consumption basket of poor households—be progressively brought to market levels. Similarly, the price of those services whose quality has improved through public investment (such as water and electricity) should be adjusted to reflect these quality upgrades, while efforts should be made to improve efficiency where needed. The authorities commendably published the cost of implicit subsidies in the 2014 budget law. The cost of subsidies borne by SOEs should also be recognized and included in the budget, particularly in light of the recent increase in credit to SOEs and the history of episodic bailouts. Over time, subsidies should be eliminated and replaced with a targeted cash-transfer system, which will require a fundamental reform of the safety net system. The authorities felt the time was not ripe yet for an overhaul of subsidies.

17. Staff and the authorities agreed that the exchange rate policy should continue to aim to keep the dinar in line with its equilibrium level. The fiscal consolidation undertaken this year implies that the equilibrium REER level has depreciated compared to last year. Maintaining the dinar in line with its equilibrium value therefore serves to enhance the external competitiveness of the economy. Over the medium term, the deepening of the foreign exchange market would create the conditions for a more flexible exchange rate.

- *International reserves remain well above standard adequacy levels*, but the authorities should be mindful of emerging vulnerabilities over the long run, as the current account surplus is declining, hydrocarbon resources are by nature finite, and the current policy framework for managing hydrocarbon wealth does not ensure long-term sustainability. Indeed, the ratio of reserve imports coverage is expected to decline over the medium term, though it will remain at a comfortable level.

Algeria: Reserve Adequacy Measures

	2011	2012	2013	Adequacy threshold
Reserves in				
US$ billion	182	191	196	…
Months of imports	34.9	34.9	35.6	3
Percent of short-term debt	336	167	211	1
Percent of broad money	133.7	134.3	131.1	20

Sources: Algerian authorities; and IMF staff calculations.

- *The foreign exchange market should be developed*. To diversify the supply of foreign exchange on the interbank market, where the BA is currently the main supplier, repatriation and surrender obligations of export receipts should be relaxed, and the de facto high reserve requirement rate on foreign currency deposits (100 percent for individuals and 30 percent for firms) should be lowered. Similarly, the requirement that banks surrender to the BA foreign exchange associated with inward foreign investment should be relaxed. These measures, combined with the development of money and capital markets, would also help to establish a forward exchange market. Finally, the authorities should examine the possibility of boosting competition on the interbank market by allowing operators engaged in international trade to purchase foreign currency outside of their paying bank.

- *Staff and the authorities concurred on the need to eliminate the parallel foreign exchange market premium*, which is a source of distortions in the economy. The dinar is fully convertible for current transactions, but the existence of a premium for foreign exchange on the illegal parallel market—which reached 40 percent in November 2013—indicates that a portion of demand is met on the parallel market. To limit pressures on the parallel market, staff urged the authorities to significantly raise the indicative forex ceilings for travelers to more realistic levels. In the longer term, a gradual lifting of capital account restrictions should be envisaged.

18. The financial sector appears healthy, but the authorities should be mindful of the risks. The recent FSAP indicates that the financial sector is stable, with the main vulnerability lying in the concentration of credit risk. The authorities should maintain their efforts to monitor financial stability, particularly by improving the institutional framework and the quality of the annual report issued by the BA, and to expand the framework of macro-prudential surveillance. Accelerating the CAMELS rating exercise and completing it before the end of 2014 will foster the shift to risk-based banking supervision. The authorities should also enhance financial sector safety nets and establish a dedicated bank resolution regime. Finally, it is important to introduce a mechanism for cleaning up old and fully provisioned NPLs.

THEME 2. IMPROVING THE MANAGEMENT OF HYDROCARBON WEALTH

19. Under current economic policies and trends, Algeria will deplete its financial savings in the long term, leaving future generations worse off. Like other resource-rich countries, Algeria faces the challenge of transforming finite resource wealth into other assets to support sustainable development and preserve intergenerational equity. Although the country has accumulated substantial fiscal and external buffers to date, the time horizon for hydrocarbon production is relatively short, fiscal policy is on an unsustainable path, and the current account surplus is shrinking. Under baseline assumptions, without policy adjustments, the country could become a net borrower within 20 years (with a debt-to-GDP ratio above 100 percent by 2050)—or even sooner if hydrocarbon prices experience a sustained fall.

20. Staff advised adopting a rule-based fiscal framework to manage hydrocarbon wealth. International experience suggests that a well-designed fiscal framework can make a significant contribution to economic growth and stability in resource-rich countries. It can also help preserve fiscal and external buffers, and protect against political pressure to increase public spending. It could be particularly useful in Algeria, where fiscal policy has typically been pro-cyclical, reflecting pressures to spend hydrocarbon wealth when oil prices are high. Under current projections, the nonhydrocarbon primary deficit (NHPB) is projected to decline as a share of NHGDP, but further consolidation is necessary to ensure fiscal sustainability and long-term savings for future generations.[1]

- Staff recommended the adoption of a full-fledged fiscal rule. The current framework, whereby fiscal savings accumulate in the oil savings fund (FRR) based on a budgeted oil price of US$ 37 per barrel, is incomplete, since there is no limit to the withdrawal of funds from the FRR to finance spending, and no limit on the fiscal balance. To protect fiscal savings, an appropriate fiscal rule should target a primary balance consistent with long-term sustainability and establish a limit on drawings from the FRR.

- Staff applied different models to determine possible paths to fiscal sustainability.[2] Under the permanent income hypothesis (PIH), fiscal sustainability is ensured when a country sustains a

[1] Fiscal sustainability implies targeting a nonresource fiscal balance that can be maintained after resource revenue runs out.

[2] IMF staff has developed a toolkit for designing fiscal rules that aim to smooth revenue volatility and assess long-term fiscal sustainability in resource-rich countries. The toolkit includes intergenerational equity and price-based rule

(continued)

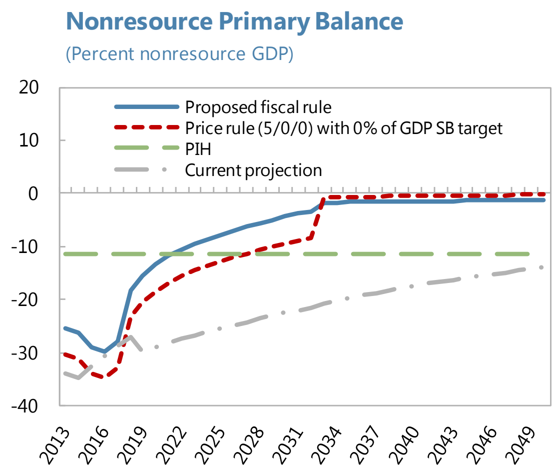
constant nonhydrocarbon deficit equal to the implicit return on the present value of future national resource revenue. When applied to Algeria, the PIH rule suggests that a NHPB deficit equal to 11 percent of NHGDP on a permanent basis would ensure long-term sustainability and adequate savings for future generations. The consolidation undertaken in 2013 leaves Algeria far from the PIH benchmark. Indeed, the consolidation required under the PIH approach is substantial and difficult to implement; therefore, while the PIH would be the first-best rule to ensure intergenerational equity, a more practical approach is needed.

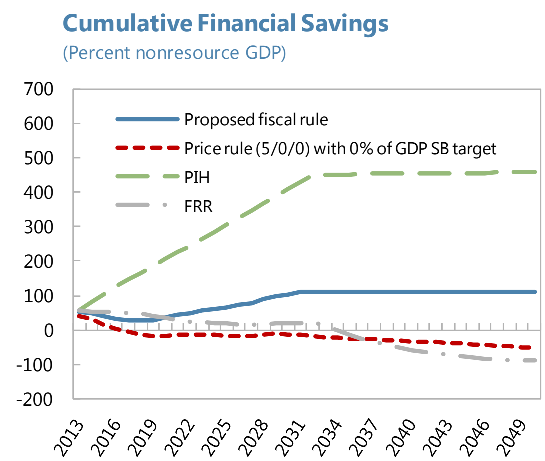
- Another approach is to combine a backward-looking, five-year oil price formula with a 5 percent floor on the "structural" primary balance and a cap on drawings from the oil savings fund.[3] Such an approach would help Algeria manage revenue volatility stemming from fluctuating commodity prices, secure comfortable financial savings for the long term, and preserve real wealth per capita.[4] Moreover, it would provide space to increase government debt issuance, thereby supporting the development of capital markets. Under this rule, placing the NHPB on a path that converges with the PIH benchmark in 2026 would require (1) an additional consolidation of 3 percent per year over the medium term and (2) continued fiscal consolidation in compliance with the fiscal rule over the long term. A consolidation of this magnitude is ambitious but feasible.

models. See IMF, 2012, "Macroeconomic Policy Frameworks for Resource-Rich Developing Countries," (Washington DC: International Monetary Fund).

[3] A structural primary balance is defined as the primary balance excluding the cyclical component of resource revenue. The choice of a price formula implies a trade-off between smoothing expenditures and adjusting to changes in price trends. Budgets that rely on price formulas with a short backward-looking horizon will better track changes in prices, but the formulas may result in more volatile spending. In contrast, budgets that rely on price rules with long backward looking formulas will have smoother expenditure paths but might under- or overshoot actual revenues if the price trend changes.

[4] Staff considered several combinations of price-based rules and structural primary balance targets (see accompanying selected issues paper). The combination presented here is one possible approach for achieving fiscal sustainability and long-term savings. The results should be interpreted with caution, however, given uncertainties regarding Algeria's resource horizon, future oil prices, long-term GDP growth rates, and other variables. Setting a primary balance floor greater than 5 percent would safeguard against these uncertainties, and help maintain the real wealth per capita over the long term. It would also smooth spending at the end of oil production (assumed to be in 2032), after which the floor would need to be adjusted to -1 percent of NHGDP.





- Staff recommended that the upcoming organic budget law include provisions for the new fiscal rule. An automatic correction mechanism could be built into the rule to adjust for ex-post deviations. An explicit set of escape clauses should also be included to allow for deviations from the rule under exceptional economic circumstances and avoid amplifying the pro-cyclical macroeconomic impact of severe shocks. The triggers for escape clauses should be strict, and a process for reactivating the rule should also be provided for. The authorities agreed in principle on the relevance of protecting fiscal savings, but they felt that the current price saving rule served them well. Staff argued that the current rule could be useful, but only if coupled with a structural primary balance target consistent with long-term sustainability.

- A better management of fiscal savings appears possible. The FRR—currently a government deposit in local currency at the BA—generates low effective average returns by international standards. During 2008–11, the implicit average annual return, based on dividend payments from the central bank to the government, was less than 2 percent. Staff suggested that the FRR could be converted into a sovereign wealth fund, possibly managed by the BA, adhering to best international practices, and targeting a range of objectives, including macro-fiscal management and savings for future generations. The sovereign wealth fund resources should not be used for off-budget and guarantee operations. The authorities, however, cautioned that Algeria lacks the political buy-in and specific technical skills necessary to establish a sovereign wealth fund at this time.

21. Staff welcomed the progress in strengthening the fiscal framework to leverage the hydrocarbon windfall. The medium-term budget framework (MTBF) and performance-based budgeting are expected to come into effect in 2016, with a transition period beginning in 2015. Staff encouraged the authorities to set up medium-term budget envelopes for line ministries and identify performance-based programs as soon as the 2015 budget law, and agreed with the authorities that it will be important to ensure consistency between the upcoming five-year public investment program and the MTBF. Staff also welcomed the ongoing rationalization—and scheduled regular updates—of program authorizations, which should improve the management of capital spending.

Similarly, consistent issuance of budget review laws within two years following the end of the fiscal year is good practice that could be bolstered by shortening the complementary period. In support of what has been achieved so far, the introduction of an integrated financial management information system should be a priority for the budget office. Staff recommended that Algeria apply principles of transparency and accountability on natural resource revenue similar to EITI principles. The authorities were open to publishing a detailed account of hydrocarbon revenues in the draft budget law report and listing them as executed in the budget review law.

22. Structural reforms in the hydrocarbon sector would support a sound fiscal framework.

- Extending the time horizon for hydrocarbon production and increasing exports will require more foreign investment in the oil and gas industry. The last three oil and gas licensing rounds drew limited interest from foreign investors. Since then, the authorities have adopted a new hydrocarbon law with more favorable terms, but security concerns have increased following the terrorist attack in January 2013, and the requirement that the state-owned oil company retain a minimum 51 percent stake in any hydrocarbon project remains in place. To attract more investment, reforms to improve the business environment are necessary, and careful preparation is needed to ensure the success of the planned 2014 licensing rounds.

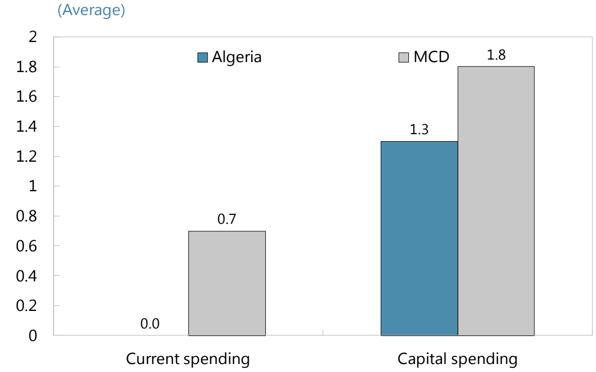
- To support hydrocarbon exports growth, domestic consumption needs to be contained. Energy subsidies should be progressively eliminated and energy efficiency strengthened. The use of renewable energy sources would also help achieve this objective. Finally, the authorities should develop a strategy for diversifying export markets, especially for gas.

THEME 3. ACCELERATING GROWTH AND EMPLOYMENT

23. Algeria's growth potential is far from being fully realized. Achieving higher growth will require a more effective use of public sector resources, as well as wide-ranging reforms to support the development of the private sector and foster productivity.

- *Public capital spending needs to be preserved and its efficiency increased*. Staff analysis of fiscal multipliers suggests a growth-friendly consolidation should focus on increasing public investment while reining in current spending. However, the impact of capital spending on growth appears to be low by regional standards. This is consistent with previous

First Three Years Fiscal Multipliers
(Average)



Source: IMF staff calculations.

findings pointing out that Algeria is lagging behind comparators in terms of capital accumulation and productivity.[5] It is therefore critical to preserve capital spending, while enhancing its efficiency. Investment decisions should yield a positive rate of social return, while ongoing efforts to improve the planning, implementation, monitoring, and maintenance of public investment projects should be strengthened.

- *Efforts to improve competitiveness and the business climate need to be intensified*. Algeria has traditionally ranked low in competitiveness surveys, such as the World Economic Forum's *Global Competitiveness Report* and the World Bank's Doing Business rankings. Reforms to the business climate should be accelerated, particularly by streamlining administrative procedures, introducing efficient "one-stop shops," and eliminating the requirement of a minimum 51 percent Algerian ownership in foreign investments—or at least limiting it to strategic sectors. Staff also urged that measures be taken to address the country's competitive disadvantages in other critical areas, including rapidly rising unit labor costs, onerous taxes on businesses, and elevated import and export costs (Box 5).

- *To enhance economic growth, higher productivity is needed*. Algeria's limited economic openness hampers technology transfers. Progress towards WTO accession is critical and needs to be complemented by a more active export promotion policy and by measures to facilitate trade transactions. Similarly, Algeria's restrictive FDI regime undermines the country's attractiveness to FDI and limits technology transfers. In addition to measures geared towards more openness, the authorities should design policies to improve the quality and relevance of education and training, foster innovation and entrepreneurship, develop the ICT industry, and promote its integration into the economy.

[5] See "Promoting Faster Growth in Algeria", *in* Algeria: Selected Issues Paper, IMF Country Report No. 13/48.

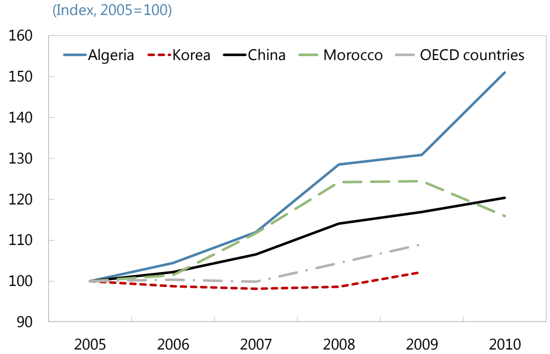
Box 5. Price Competitiveness in Algeria

Improving Algeria's competitiveness is critical for developing a strong nonhydrocarbon sector. Although Algeria has achieved macroeconomic stability thanks to prudent management of its natural resource endowment, the dominant role of the hydrocarbon sector has led to a lack of diversification that has exposed the economy to oil prices shocks and has failed to generate enough jobs to address high levels of unemployment. Despite low domestic energy prices, Algeria's economy is highly uncompetitive, contributing to an underdeveloped private sector.

Implicit subsidies allow Algeria to maintain a competitive advantage with respect to the domestic prices of hydrocarbon products. As part of a policy to share the country's natural resource wealth, the Algerian government has kept the prices of hydrocarbon products at levels below international market prices. This policy of implicit subsidies has resulted in some of the lowest prices for hydrocarbon products in the world. The advantages of cheap energy, however, must be weighed against the hidden costs, including foregone revenue, increased domestic consumption of hydrocarbons, and smuggling.

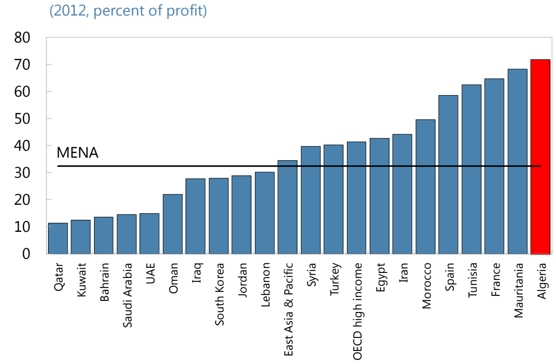
Other indicators highlight areas where Algeria is at a competitive disadvantage. Over the period 2005–10, Algerian unit labor costs increased by 50 percent, exceeding gains in OECD countries (on average), as growth in wages surpassed productivity gains. Starting a business is time-consuming and expensive, and business taxes and other administrative costs are the most onerous in the region. Notwithstanding the country's advantageous location on the Mediterranean Sea, export and import costs are high. The information and communication technology sector is relatively underdeveloped and costly, and transportation costs are elevated.

Unit Labor Costs
(Index, 2005=100)



Sources: Algerian authorities, OECD, and IMF staff calculations.

Total Tax Rate on Businesses
(2012, percent of profit)

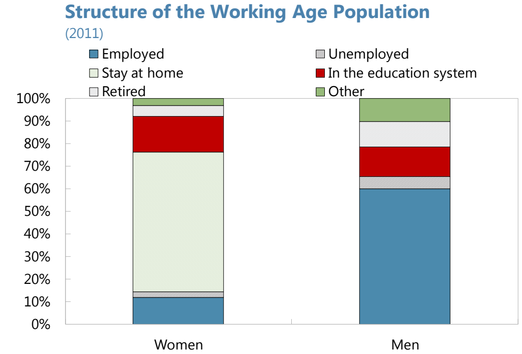


Source: World Bank Doing Business Indicators.

Algeria should take steps to improve its price competitiveness. To address rising unit labor costs, the government should anchor further wage increases—including minimum wage increases—to improvements in productivity. To reduce the cost of starting and operating a business, the government should streamline administrative procedures, improve the efficiency of one-stop shops, and reform the TAP business tax, by replacing it with excises, notably on high-rent sectors. Reducing export and import costs will require reforms to lower port and terminal fees and streamline administrative procedures, including by creating one-stop shops. To accelerate development and reduce costs in the ICT sector, the government needs to attract more foreign investment and generate more competition.

Box 6. Women and the Labor Market

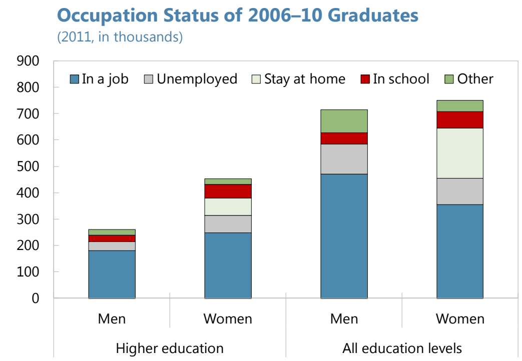
Unemployment among women in Algeria is high while participation rates are extremely low. The unemployment rate among women reached 17.2 percent in 2011 versus 8.4 percent for men. Only 14 percent of working-age women participated in the labor market, compared to 72 percent of working-age men.[1] In addition, under-employment was more prevalent among women: 21.5 percent of them worked less than 25 hours a week (compared to 6.5 percent of men), and 60 percent were willing to work more hours.



Source: Algerian authorities.

Female employment is also extremely skewed. More than 30 percent of working women have jobs in academics, compared to 6.6 percent of men. Women also account for about 42 percent of total employment in support functions and in intermediate occupations, but represent only 9.8 percent of management positions.

The employment rate of women in the informal sector is thought to be relatively high, although less than for men. 30.8 percent of active women (and 48.9 percent of men) are not registered in the social security system. The manufacturing and services sectors are the main sources of informal employment for women, while construction and commerce rank first for men.



Source: Algerian authorities.

The employment landscape is changing, as younger and more educated women enter the labor market. Among 2006–10 graduates, women outnumbered men, particularly in higher education levels. Over half of the active female population in 2011 was between 15 and 34 years old, compared to 43 percent of the male population, reflecting the relatively recent participation of women in the labor market. Most women are looking for steadier work, and 15.5 percent are looking for a position that would better suit their skills (compared to 8.3 percent for men), suggesting a possible higher skills mismatch for women, or higher aspirations.

Improving labor market prospects for women would increase the supply of labor, with a positive impact on potential growth. Low education, care duties, the lack of flexibility in working arrangements, and the lack of preschool care are among the most common determinants of women under-employment. In Algeria, progress in female education and relatively high preschool enrollment rates are supporting labor force participation and employment, but other constraints should be lifted. Active labor market policies should also include programs aimed at women, to improve their access to capital and employment. Simulations suggest that cutting by half the number of stay-at-home women would add about 4 million workers to the labor force. Assuming a gradual absorption over 10 years in the nonhydrocarbon sector, the impact on nonhydrocarbon potential growth would be about 0.3 percentage points per year.

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[1] Employment data released in December 2013 indicate that female unemployment continued to decline between 2011 and 2013 (by 0.9 points), while participation improved, to 16.6 percent.

24. Faster development of the financial sector is needed to support economic growth. Staff urged the authorities to heed the main recommendations of the recent FSAP mission, which identified priorities for financial sector development (Appendix III).

- *Staff encouraged the authorities to establish conditions for healthy growth of credit to the private sector, notably to SMEs.* The development of credit bureaus and their extension to households should be stepped up. The ban on consumer credit should be lifted, and prudential measures designed to prevent the build-up of risks for households should be implemented. More generally, banking sector competition ought to be encouraged, to provide incentives for banks to service SMEs and to diversify and expand the range of banking services. Progress in these areas would be supported by improvements in the insolvency regime and by strengthening the collateral and guarantees regime. Finally, the welcome expansion of housing finance would further benefit from the government's withdrawal from housing purchase and lending programs. The authorities expressed interest in options to contain the risks from consumer credit growth, and indicated their intention to partially lift the ban on consumer credit. In their view, lack of competition in the banking sector was not a major hindrance to the development of the financial sector.

- *Microfinance programs are mostly government-operated and leave little room for the private sector.* These programs, which include ANGEM, ANSEJ and CNAC, have helped a large number of micro-entrepreneurs start businesses. However, the programs should be reviewed to assess their effectiveness and identify needs for adjustments, particularly with respect to NPLs. Moreover, the authorities could introduce a framework to encourage private micro-finance.

- *Underdeveloped capital markets prevent large savings from being efficiently channeled to support economic growth.* Staff urged the authorities to swiftly implement their decision to list a number of SOEs on the local stock exchange, which could jumpstart stock market development. Along with stock market development, a more active use of sovereign bond auctions, as well as the removal of existing disincentives to corporate securities issuance, would support the development of both primary and secondary bond markets.

- *The authorities should take the necessary steps to remove Algeria from the FATF's gray list.* In October 2013, the FATF identified Algeria as a "jurisdiction with strategic AML/CFT deficiencies not making sufficient progress" in addressing the shortcomings in its framework for combating the financing of terrorism, and called upon its members to take into consideration the risks associated with these deficiencies. The authorities have issued a decree freezing the assets of persons on the UN Security Council's list, and have begun the process of amending Article 87-bis of the Penal Code concerning the definition of terrorist acts. Staff urged the authorities to step up the promulgation of this change in the law.

25. Labor market reforms are necessary to address high unemployment rates among youth and women. Employment rates remain low for these groups despite their access to employment remaining a priority for the authorities. Policies are needed to promote private sector growth, enhance the acquisition of relevant skills through the development of an education for employment plan, and reduce labor market rigidities, particularly in terms of employer contributions. These policies should be complemented with active labor market policies to provide incentives for employers to hire youth and women, support the retraining of the unemployed, improve intermediation on the labor market, and help these groups to start their own businesses. Moreover, given the high economic cost of low participation rates among women (Box 6), the authorities should review the options for bolstering women's participation in the labor market. These measures would contribute to consolidating the progress made over the past decade in reducing inequality.

STAFF APPRAISAL

26. The economy stabilized in 2013 but long-term vulnerabilities are materializing. Inflation has subsided following monetary tightening and fiscal consolidation, external and fiscal buffers are large, and the banking sector is solvent and liquid. However, the economy's vulnerability to developments in the hydrocarbon sector persists. Declining hydrocarbon production and surging domestic consumption are squeezing export volumes, compounding long-standing risks from lower oil prices. The economy is insufficiently diversified, and the conditions for high-productivity, private sector-led growth are lacking. Policies should focus on consolidating macro-financial stability, better managing natural resources, and undertaking structural reforms to accelerate economic growth and job creation.

27. The monetary and fiscal policy mix should guard against a renewed rise in inflation. The recent surge in credit to the economy, as well as the planned increase in current spending in 2014, could revive inflationary pressures. The BA should stand ready to further mop up excess liquidity and use interest rates more actively. New increases in current spending should be avoided, and the Ministry of Finance should rely more on debt issuance and less on drawings from the FRR to finance the budget deficit.

28. The fiscal consolidation initiated in 2013 is welcome, but further efforts are needed. The wage bill should be contained by freezing the size of the civil service. Subsidies should be gradually phased out and replaced by a targeted cash-transfer system to protect the poor. Transfers to public entities should be stabilized in real terms, and tax exemptions reduced. To protect economic growth, capital spending should be preserved and its efficiency and effectiveness enhanced.

29. To better manage hydrocarbon revenue volatility and ensure fiscal sustainability, Algeria should adopt a full-fledged fiscal rule. A fiscal rule based on a five-year average, backward-looking oil price, combined with a limit on the structural primary balance, would ensure savings for future generations and improve the management of volatile hydrocarbon revenue. Transforming the oil fund into a sovereign wealth fund and setting annual ceilings for drawings from the fund in the budget law would also support fiscal sustainability. Public financial management needs to be improved. In this area, the authorities have committed to establishing a medium-term budget framework as well as sector performance-based budget programs. Future reforms should include increasing the transparency of hydrocarbon revenue collection and developing an integrated financial management information system.

30. Enhancing net hydrocarbon exports is critical for fiscal and external sustainability. Increasing hydrocarbon production and extending the time horizon of reserves will require more investment. FDI restrictions should be relaxed, the business environment needs to be improved, and the national oil company's investment plans should be implemented without delay. Phasing out implicit subsidies would help contain domestic energy consumption and support exports.

31. The authorities should avoid exchange-rate overvaluation and deepen the official foreign exchange market. Staff estimates the dinar to be somewhat on the strong side, despite a sizeable depreciation of the currency in recent months. The authorities should continue to target the equilibrium real effective exchange rate to protect the competitiveness of nonhydrocarbon exports. The BA should deepen the inter-bank foreign exchange market by relaxing repatriation and surrender obligations, and by reducing the de facto high reserve requirement rate on foreign currency. The premium in the illegal parallel exchange market is detrimental to growth and should be forcefully tackled by the central bank. Furthermore, the indicative foreign exchange ceilings for travelers should be increased to more realistic levels.

32. The financial sector is stable, but reforms are needed to support its development. The authorities should build on the FSAP recommendations to preserve the stability of the financial sector and foster its development. The authorities should prevent segmentation in the banking sector, speed up the development of credit bureaus, revisit guarantee mechanisms, and strengthen collateral and insolvency regimes. The ban on consumer lending should be lifted, and more space provided for mortgage finance. Capital market development would benefit from more sovereign debt issuance and the listing of well-performing state-owned enterprises on the stock exchange. Disincentives to private sector debt and equity issuance should be removed. The authorities should also take immediate steps to address deficiencies in their AML/CFT framework.

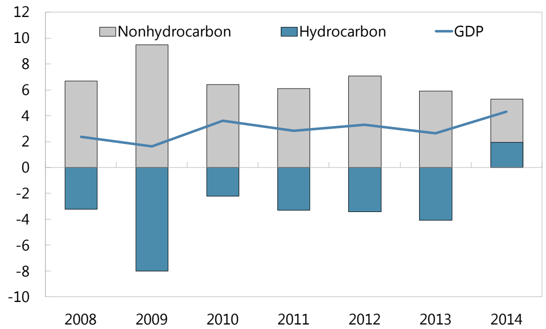
33. Accelerating economic growth and job creation will require wide-ranging structural reforms. Algeria's macroeconomic stability is commendable, but economic growth is insufficient to reduce unemployment, especially among youth and women. Broad structural reforms are necessary to unleash private-sector led growth. These include improving the business environment, enhancing cost competitiveness, and relaxing the restrictive FDI regime. Deeper trade integration through WTO accession would create new markets for exports and foster competition. Reforms are needed to increase labor market flexibility and ensure that job seekers are equipped with the right skills.

34. It is proposed that the next Article IV consultation be held on the standard 12-month cycle.

Figure 1. Algeria: Selected Macroeconomic Indicators

The continued contraction in the hydrocarbon sector in 2013 weighed on overall growth.

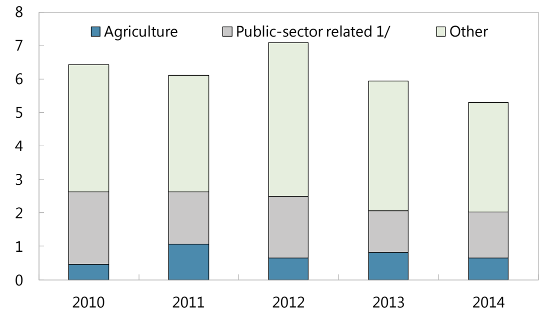
Hydrocarbon and Nonhydrocarbon Growth
(Percent)



Sources: Algerian authorities; and IMF staff calculations.

The contribution of the public sector to nonhydrocarbon growth is expected to decline in 2013.

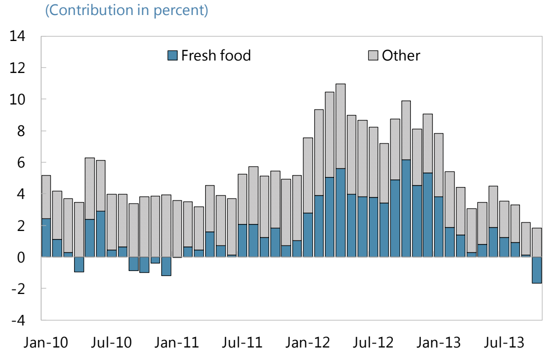
Sources of Nonhydrocarbon Growth
(In percent)



Sources: Algerian authorities; and IMF staff calculations.
1/ Includes construction and public works, and government services.

CPI inflation slowed after peaking in the first months of 2012.

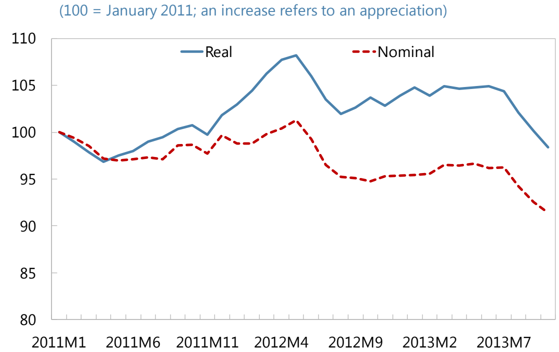
CPI Inflation
(Contribution in percent)



Sources: Algerian authorities; and IMF staff calculations.

The real effective exchange rate depreciated in the last months of 2013, largely offsetting past appreciation.

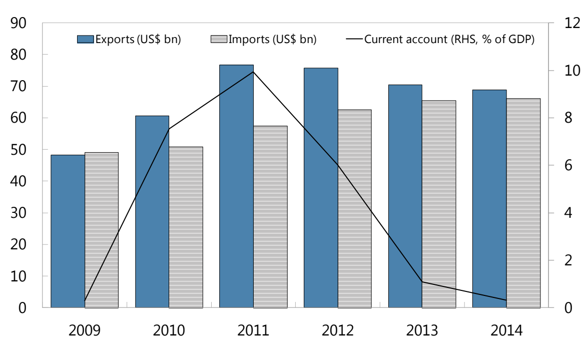
Effective Exchange Rate
(100 = January 2011; an increase refers to an appreciation)



Sources: Algerian authorities; and IMF staff calculations.

The current account is expected to weaken as hydrocarbon prices stabilize and imports pick up.

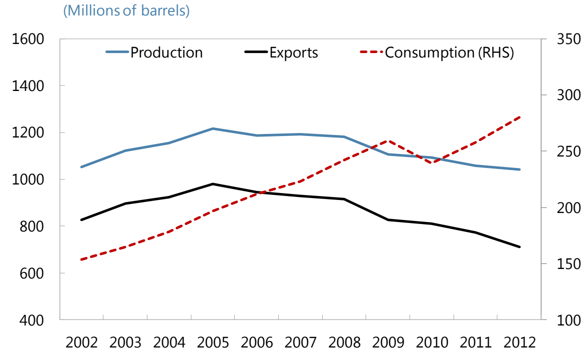
Current Account



Sources: Algerian authorities; and IMF staff calculations.

Domestic hydrocarbon consumption continued to grow quickly, weighing on exports as production declined.

Hydrocarbon Production, Consumption, and Exports
(Millions of barrels)

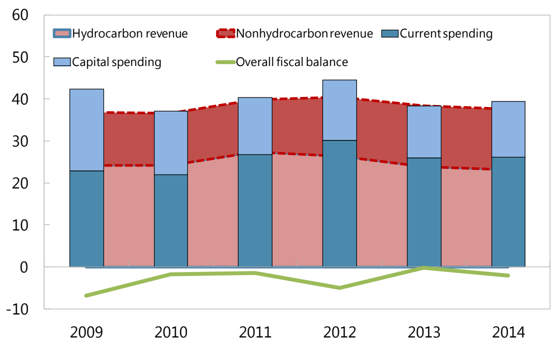


Source: Algerian authorities.

Figure 2. Algeria: Fiscal Indicators

Fiscal consolidation in 2013 will bring the overall balance close to equilibrium, but rising spending and stable hydrocarbon prices will lead to a small deficit in 2014.

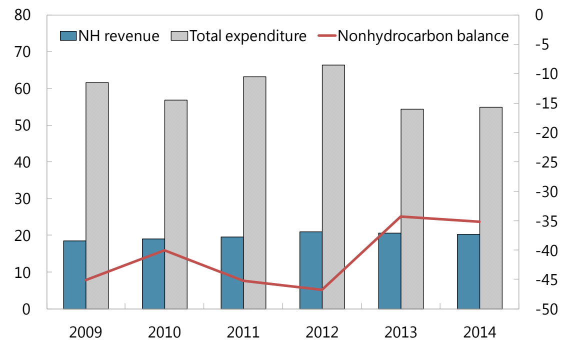
Overal Fiscal Balance
(In percent of GDP, 2009-2014)



Sources: Algerian authorities; and IMF staff calculations.

The NH balance is expected to improve in 2013, as current spending decline, but nonhydrocarbon revenue growth will remain lackluster.

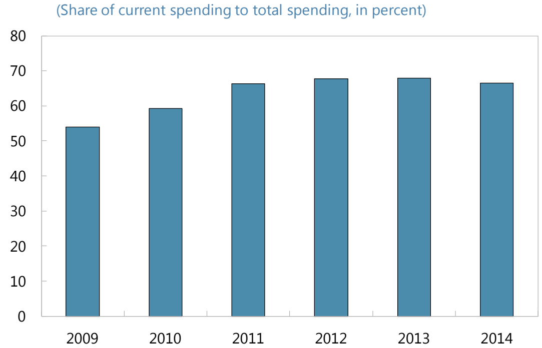
Nonhydrocarbon Fiscal Balance
(In percent of NHGDP)



Sources: Algerian authorities; and IMF staff calculations.

Current spending will be large as a share of total spending…

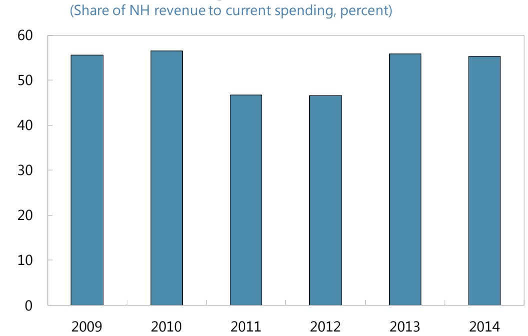
Current Spending Relative to Total Spending
(Share of current spending to total spending, in percent)



Sources: Algerian authorities; and IMF staff calculations.

… and financed only partially by nonhydrocarbon revenue.

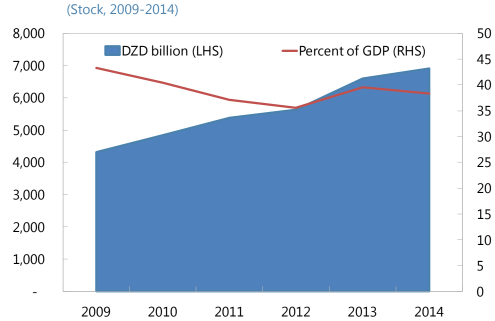
Current Spending and NH Revenue
(Share of NH revenue to current spending, percent)



Sources: Algerian authorities; and IMF staff calculations.

Fiscal savings are expected to increase from 2013 onwards, with the share of the FRR stabilizing at around 30 percent of GDP.

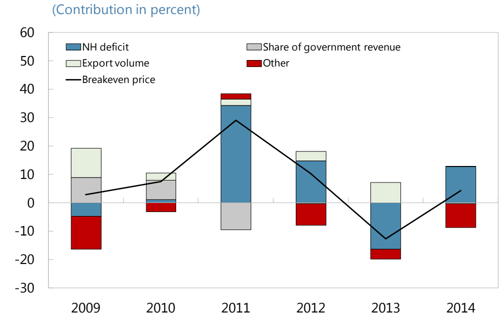
Oil Fund
(Stock, 2009-2014)



Sources: Algerian authorities; and IMF staff calculations.

Fiscal consolidation in 2013 contributed to lowering the breakeven price, but lower export volumes put it under pressure.

Change in the Fiscal Breakeven Price
(Contribution in percent)

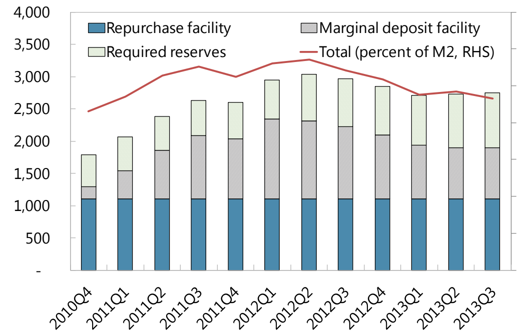


Sources: Algerian authorities; and IMF staff calculations.

Figure 3. Algeria: Monetary Indicators

The BA increased liquidity absorption and required reserves…

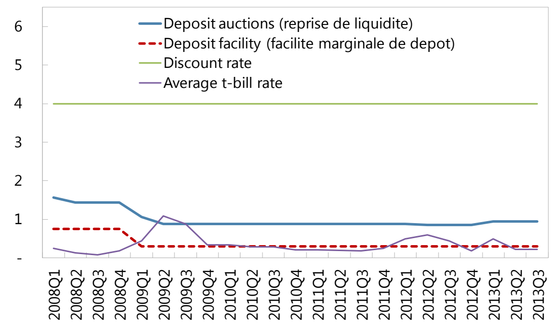
Liquidity Management
(Liquidity management in DZD bn and in percent of M2)



Sources: Algerian authorities; and IMF staff calculations.

…but shied away from raising interest rates.

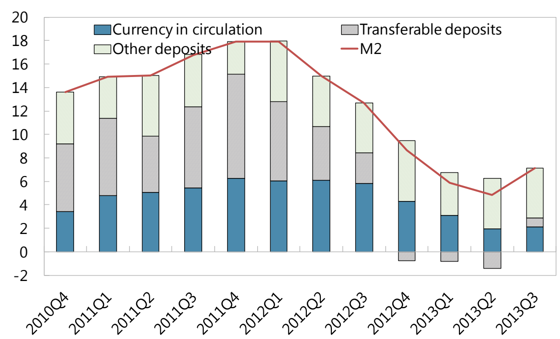
Interest Rates
(In percent, 2008Q4–2013Q2)



Sources: Algerian authorities; and IMF staff calculations.

It did however succeed in slowing money growth.

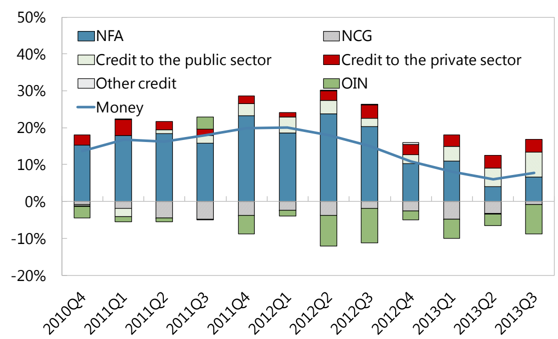
M2 Growth and Determinants
(In percent)



Sources: Algerian authorities; and IMF staff calculations.

The slowdown in NFA accumulation and increase in government savings offset growth in public sector credit.

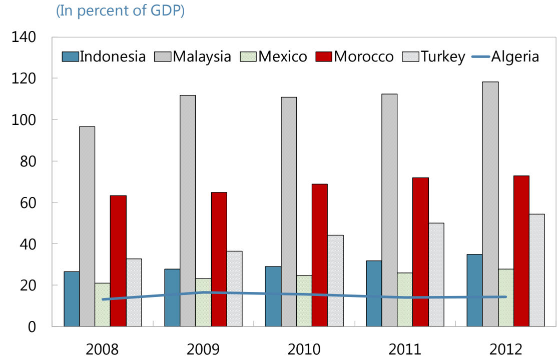
Contribution to M2 Growth
(In percent, 2010Q4-2013Q2)



Sources: Algerian authorities; and IMF staff computations.

Credit has remained low by international standards.

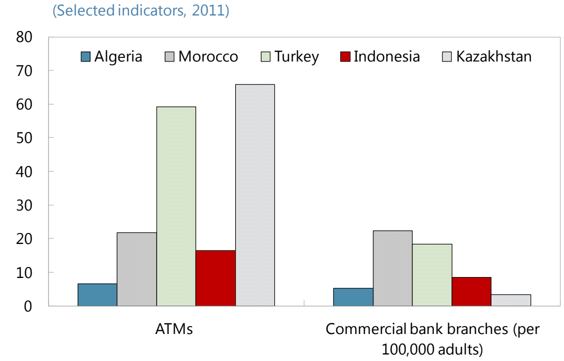
Credit to the Private Sector
(In percent of GDP)



Sources: World Bank, *World Development Indicators*.

Financial services are underdeveloped.

Financial Services
(Selected indicators, 2011)

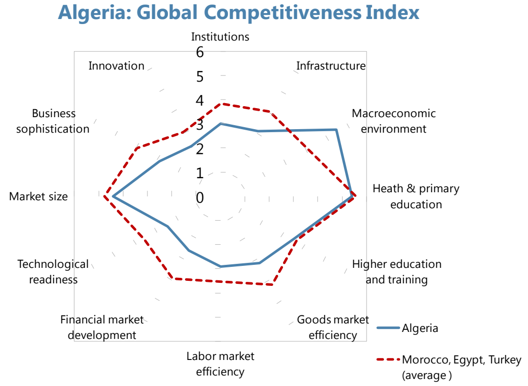


Sources: World Bank, *World Development Indicators*.

Figure 4. Algeria: Structural Issues

The business environment remained weak, hampering private sector development.

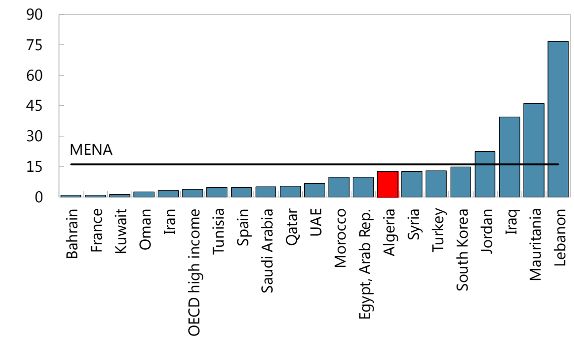
Algeria: Global Competitiveness Index



Source: World Economic Forum, 2013.

The cost of starting a business is relatively high.

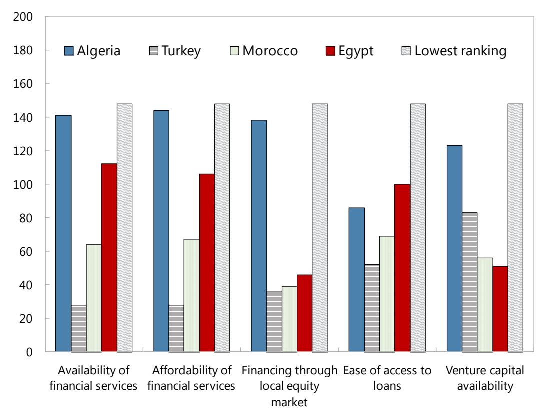
Cost to Start a Business
(2012, percent of per capita income)



Source: World Bank Doing Business

Financial services are underdeveloped…

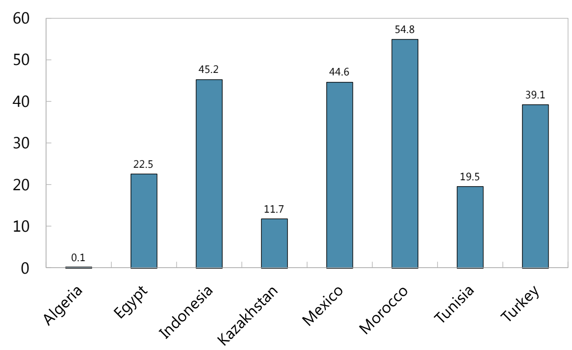
Financial Sector Development
(Ranking)



Source: 2013 WEF Competitiveness Report.

…and capital markets are nascent.

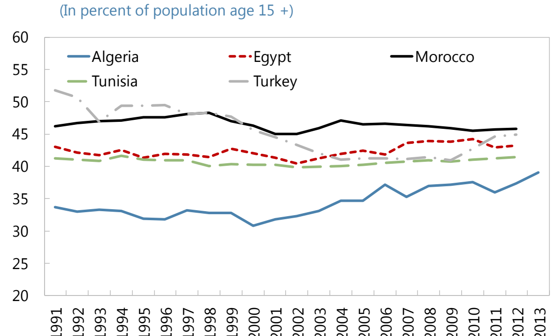
Market Capitalization
(In percent of GDP, 2012)



Sources: World Bank; and IMF staff calculations.

The employment ratio has increased but remains low by regional standard…

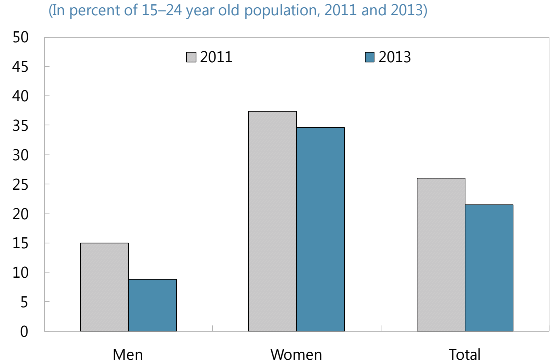
Employment Ratios
(In percent of population age 15 +)



Sources: Algerian authorities; and World Bank, *World Development Indicators*.

…and the share of youth that are neither employed, nor in school, nor in vocational training is high, though declining.

Youth not in Education, Employment or Training
(In percent of 15–24 year old population, 2011 and 2013)



Source: Algerian authorities.

Table 1. Algeria: Selected Economic and Financial Indicators, 2009–18

				Prel.			Proj.			
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Oil and gas sector										
Hydrocarbon production (in ton oil equivalent)	181	183	177	173	166	169	173	178	183	188
Hydrocarbon exports										
Of which: liquid petroleum exports (in millions of barrels/day)	1.5	1.4	1.3	1.3	1.2	1.2	1.2	1.2	1.2	1.2
Of which: natural gas exports (in billions of m3)	53.7	56.1	51.8	51.7	48.7	49.0	49.5	50.2	50.9	51.7
Crude oil export unit value (US$/bbl)	61.8	80.1	112.9	110.8	111.3	107.9	101.5	97.2	94.3	92.3
Share of hydrocarbons in total exports (in percent)	98.3	98.3	98.3	98.4	98.1	97.8	97.4	97.0	96.6	96.3
National income and prices										
GDP at constant prices	1.6	3.6	2.8	3.3	2.7	4.3	4.2	4.3	4.3	4.3
Hydrocarbon sector	-8.0	-2.2	-3.3	-3.4	-4.1	2.0	2.3	2.7	2.9	2.9
Other sectors	9.5	6.4	6.1	7.1	5.9	5.3	4.9	4.9	4.7	4.7
Consumer price index (period average)	5.7	3.9	4.5	8.9	4.5	4.5	4.0	4.0	4.0	4.0
External sector 1/										
Exports, f.o.b. (percent change)	-42.5	26.4	27.7	-1.6	-7.2	-2.4	-4.9	-2.8	-1.4	-0.3
Hydrocarbons	-42.5	26.4	27.7	-1.5	-7.5	-2.7	-5.3	-3.2	-1.7	-0.6
Nonhydrocarbons	-45.0	26.0	26.5	-6.0	9.9	13.1	13.5	12.3	9.0	8.9
Imports, f.o.b. (percent change)	-1.8	4.0	15.4	14.9	4.9	0.9	1.5	2.2	2.5	2.5
Current account balance (in percent of GDP)	0.3	7.5	9.9	6.0	1.1	0.3	-1.2	-2.1	-2.5	-2.5
Money and credit										
Net foreign assets (percent change)	5.0	10.3	16.2	7.4	10.3	10.1	6.5	4.3	5.5	5.6
Credit to the economy	18.5	5.1	13.5	15.1	29.6	10.3	9.1	9.1	9.9	8.0
Money and quasi-money	4.8	13.5	19.9	10.9	8.6	10.2	10.6	10.2	10.1	10.1
Velocity of broad money (GDP/M2)	1.4	1.4	1.5	1.4	1.4	1.4	1.3	1.3	1.3	1.2
Idem, in percent of nonhydrocarbon GDP	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.0	1.0	0.9
Liquidity ratio (M2/GDP)	73.2	69.1	68.4	69.5	71.7	73.1	75.6	78.0	79.7	82.7
					In percent of GDP					
Saving-investment balance	0.3	7.5	9.9	6.0	1.1	0.3	-1.2	-2.1	-2.5	-2.5
National savings	47.3	49.9	48.2	46.6	43.6	43.4	43.1	42.7	42.9	42.0
Government	12.6	13.8	12.4	10.4	12.1	11.1	10.5	10.2	10.0	10.3
Nongovernment	34.6	36.0	35.8	36.3	31.6	32.3	32.6	32.5	32.9	31.6
Investment	47.0	42.3	38.3	40.6	42.6	43.1	44.3	44.8	45.4	44.5
Government	19.5	15.1	13.6	14.4	12.3	13.2	13.0	12.8	12.6	12.6
Nongovernment	27.4	27.3	24.7	26.3	30.2	29.9	31.4	32.0	32.8	31.9
Central government finance										
Overall budget balance (deficit -)	-6.9	-1.3	-1.2	-4.0	-0.2	-2.1	-2.5	-2.6	-2.6	-2.2
Total revenue	36.9	36.6	39.9	40.5	38.4	37.6	36.5	35.5	34.8	34.9
Total expenditure (including net lending)	43.8	37.9	41.0	44.5	38.7	39.7	38.9	38.2	37.3	37.1
					In percent of nonhydrocarbon GDP					
Central government finance (in percent of NHGDP)										
Total revenue	53.6	56.2	62.4	60.3	54.6	52.5	49.7	47.5	45.8	45.1
Hydrocarbon	35.2	37.2	42.9	39.3	34.0	32.3	29.6	27.5	25.7	24.5
Nonhydrocarbon	18.4	19.0	19.5	20.9	20.6	20.2	20.1	20.0	20.1	20.5
Total expenditure	61.5	56.8	63.1	66.4	54.4	54.8	52.6	50.6	48.8	47.6
Current expenditure	33.2	33.7	41.8	45.0	36.9	36.5	34.9	33.5	32.2	31.3
Capital expenditure	28.4	23.1	21.3	21.4	17.5	18.4	17.7	17.1	16.6	16.2
Nonhydrocarbon primary balance	-44.5	-39.5	-44.8	-46.4	-34.0	-34.9	-32.7	-30.8	-28.9	-27.2
Nonhydrocarbon primary balance, net of one-off spendings	-44.5	-37.8	-39.8	-42.2	-33.7	-34.9	-32.7	-30.8	-28.9	-27.2
Nonhydrocarbon balance	-45.2	-39.1	-44.7	-45.3	-34.3	-35.2	-33.0	-31.0	-29.1	-27.4
Memorandum items:										
GDP (in billions of dinars at current prices)	9,968	11,992	14,520	15,843	16,682	18,023	19,270	20,609	22,209	23,541
NHGDP (in billions of dinars at current prices)	6,859	7,811	9,278	10,635	11,743	12,923	14,139	15,421	16,838	18,219
GDP (in billions of US$ current prices)	137	161	199	204	209	214	216	222	229	242
GDP capita per (in US$)	3,886	4,481	5,428	5,448	5,503	5,519	5,473	5,523	5,589	5,830
Crude oil exports (in millions of barrels/day)	0.7	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.7
Nonhydrocarbon exports (percent of total exports)	1.7	1.7	1.7	1.6	1.9	2.2	2.6	3.0	3.4	3.7
Gross official reserves (end of period)	149	162	182	191	196	197	195	192	188	185
In months of next year's imports of goods and services	35	34	35	35	36	35	34	33	31	30
Gross government debt (in percent of GDP)	9.7	10.6	9.4	9.2	9.4	10.2	8.5	8.2	8.1	7.9

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

1/ In U.S. dollar terms.

Table 2. Algeria: Balance of Payments, 2009–18

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
	(In billions of U.S. dollars; unless otherwise indicated)									
Current account	0.4	12.2	19.8	12.3	2.3	0.7	-2.7	-4.7	-5.7	-6.1
Trade balance	7.8	18.2	28.0	20.2	12.5	10.4	6.4	3.4	1.2	-0.5
Exports, f.o.b.	45.2	57.1	72.9	71.7	66.6	65.0	61.8	60.0	59.2	59.0
Hydrocarbons	44.4	56.1	71.7	70.6	65.3	63.5	60.2	58.2	57.2	56.9
Volume change (in percent)	-10.1	-3.3	-3.7	-3.8	-7.3	0.3	0.7	1.1	1.3	1.5
Price change (in percent)	-36.0	30.7	32.6	2.4	-0.1	-3.0	-5.9	-4.3	-3.0	-2.1
Other	0.8	1.0	1.2	1.2	1.3	1.4	1.6	1.8	2.0	2.2
Imports, f.o.b.	-37.4	-38.9	-44.9	-51.6	-54.1	-54.6	-55.4	-56.7	-58.0	-59.5
Volume change (in percent)	12.4	-1.8	3.4	16.2	5.4	1.9	1.8	2.0	1.9	1.9
Price change (in percent)	-12.6	5.8	11.7	-3.1	-1.2	-1.6	0.0	0.4	0.7	0.8
Services and income (net)	-10.0	-8.7	-10.8	-11.0	-12.6	-12.2	-11.7	-10.9	-9.8	-8.6
Services (net)	-8.7	-8.3	-8.8	-7.1	-7.6	-7.6	-7.8	-8.1	-8.3	-8.6
Credit	3.0	3.6	3.7	4.0	3.9	3.9	3.9	3.9	3.9	4.0
Debit	-11.7	-11.9	-12.6	-11.1	-11.4	-11.5	-11.7	-12.0	-12.3	-12.6
Income (net)	-1.3	-0.4	-2.0	-3.9	-5.1	-4.6	-3.8	-2.8	-1.4	0.0
Credit	4.7	4.6	4.5	3.9	2.7	3.1	3.6	4.5	5.9	7.3
Debit	-6.1	-5.0	-6.5	-7.8	-7.7	-7.7	-7.4	-7.3	-7.3	-7.4
Interest payments	-0.2	-0.1	-0.2	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Other, including profit repatriation	-5.9	-4.9	-6.3	-7.5	-7.6	-7.6	-7.3	-7.2	-7.2	-7.3
Transfers (net)	2.6	2.7	2.6	3.2	2.4	2.5	2.6	2.7	2.9	3.0
Capital account	3.5	3.4	0.3	-0.3	0.6	0.8	1.6	2.1	2.5	2.7
Medium- and long-term capital	3.8	3.9	1.0	0.9	0.6	0.8	1.6	2.1	2.5	2.7
Direct investment (net)	2.5	3.5	2.0	1.5	1.2	1.2	2.0	2.5	2.8	2.9
Loans (net)	1.3	0.4	-1.1	-0.6	-0.6	-0.5	-0.4	-0.4	-0.3	-0.2
Drawings	2.2	0.6	0.1	0.2	1.1	1.2	1.2	1.2	1.2	1.3
Amortization	-0.9	-0.1	-1.2	-0.9	-1.7	-1.7	-1.6	-1.6	-1.5	-1.5
Short-term capital and errors and omissions	0.0	0.0	-0.6	-1.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	3.9	15.6	20.1	12.0	2.9	1.4	-1.0	-2.6	-3.2	-3.4
Financing	-3.9	-15.6	-20.1	-12.0	-2.9	-1.4	1.0	2.6	3.2	3.4
Official reserves (increases -)	-3.9	-15.6	-20.1	-12.0	-2.9	-1.4	1.0	2.6	3.2	3.4
Memorandum items:										
Current account balance (in percent of GDP)	0.3	7.5	9.9	6.0	1.1	0.3	-1.2	-2.1	-2.5	-2.5
Algerian crude oil price (US$/barrel) 1/	61.8	80.1	112.9	110.8	111.3	107.9	101.5	97.2	94.3	92.3
Gross official reserves (in billions of US$)	148.9	162.2	182.2	190.7	196.0	196.8	195.3	192.1	188.4	184.5
Idem, in months of next year's imports	35.2	33.9	34.9	34.9	35.6	35.2	34.1	32.8	31.5	30.9
Gross external debt (in billions of US$)	5.7	5.7	4.4	3.8	3.2	2.8	2.4	2.0	1.7	1.5

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

1/ Weighted average of quarterly data.

Table 3. Algeria: Summary of Central Government Operations, 2009–18 1/

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
							Proj.			
					In DZD billion					
Budget revenue and grants	3,676	4,393	5,790	6,411	6,409	6,781	7,027	7,324	7,720	8,211
Hydrocarbon revenue 2/	2,413	2,905	3,980	4,184	3,989	4,175	4,190	4,236	4,328	4,470
Nonhydrocarbon revenue	1,263	1,488	1,810	2,227	2,420	2,606	2,837	3,088	3,391	3,740
Tax revenue	1,147	1,298	1,527	1,984	2,175	2,384	2,585	2,803	3,055	3,333
Taxes on income and profits	462	562	685	886	852	943	1,031	1,134	1,256	1,387
Taxes on goods and services	478	515	573	685	817	895	969	1,045	1,128	1,223
Customs duties	170	182	222	355	441	475	507	539	576	619
Registration and stamps	36	40	47	58	64	71	78	86	95	104
Nontax revenues	117	190	283	243	245	222	252	285	336	407
Fees	68	64	79	74	78	81	85	88	91	95
Bank of Algeria dividends and interests	48	121	137	115	112	85	107	131	173	233
Dividends from Pes	1	4	67	53	55	55	61	66	72	79
Grants	0	0	0	0	0	0	0	0	0	0
Total expenditure	4,221	4,440	5,853	7,058	6,384	7,084	7,438	7,797	8,221	8,667
Current expenditure	2,275	2,632	3,879	4,783	4,331	4,710	4,939	5,166	5,430	5,708
Personnel expenditure	880	1,193	1,740	1,980	1,873	2,004	2,116	2,233	2,357	2,488
Mudjahidins' pensions	131	151	163	185	194	200	206	212	219	225
Material and supplies	113	122	130	135	156	164	173	182	193	204
Current transfers	1,114	1,130	1,808	2,441	2,070	2,302	2,405	2,509	2,632	2,761
Interest payments	37	36	38	42	38	40	40	29	29	30
Capital expenditure	1,946	1,808	1,974	2,276	2,053	2,373	2,499	2,631	2,791	2,959
Budget balance	-545	-47	-63	-647	26	-303	-411	-473	-502	-456
Overall balance	-688	-151	-168	-634	-41	-370	-478	-539	-568	-523
Primary overall balance	-650	-115	-131	-592	-3	-330	-438	-511	-539	-493
Nonhydrocarbon balance	-3,100	-3,056	-4,148	-4,818	-4,030	-4,544	-4,668	-4,776	-4,897	-4,993
Financing	688	151	168	634	41	370	478	539	568	523
Domestic	701	235	235	795	45	374	482	544	572	527
Bank	46	-439	-493	-119	-896	8	123	194	231	194
Nonbank	655	674	728	914	941	366	359	351	341	333
Foreign	-22	-15	-18	-3	-4	-4	-4	-5	-4	-4
					(In percent of GDP)					
Total revenue	36.9	36.6	39.9	40.5	38.4	37.6	36.5	35.5	34.8	34.9
Hydrocarbon	24.2	24.2	27.4	26.4	23.9	23.2	21.7	20.6	19.5	19.0
Nonhydrocarbon	12.7	12.4	12.5	14.1	14.5	14.5	14.7	15.0	15.3	15.9
Of which: Tax revenue	11.5	10.8	10.5	12.5	13.0	13.2	13.4	13.6	13.8	14.2
Total expenditure	42.3	37.0	40.3	44.6	38.3	39.3	38.6	37.8	37.0	36.8
Current expenditure	22.8	21.9	26.7	30.2	26.0	26.1	25.6	25.1	24.4	24.2
Of which: wages and salaries	8.8	9.9	12.0	12.5	11.2	11.1	11.0	10.8	10.6	10.6
Of which: wages and salaries (excluding backpayments 2010–1	8.8	8.8	8.8	9.6	11.0	11.1	11.0	10.8	10.6	10.6
Of which: current transfers	11.2	9.4	12.5	15.4	12.4	12.8	12.5	12.2	11.9	11.7
Capital expenditure	19.5	15.1	13.6	14.4	12.3	13.2	13.0	12.8	12.6	12.6
Budget balance	-5.5	-0.4	-0.4	-4.1	0.2	-1.7	-2.1	-2.3	-2.3	-1.9
Overall balance	-6.9	-1.3	-1.2	-4.0	-0.2	-2.1	-2.5	-2.6	-2.6	-2.2
					(In percent of nonhydrocarbon GDP)					
Total revenue	53.6	56.2	62.4	60.3	54.6	52.5	49.7	47.5	45.8	45.1
Hydrocarbon revenue	35.2	37.2	42.9	39.3	34.0	32.3	29.6	27.5	25.7	24.5
Nonhydrocarbon revenue	18.4	19.0	19.5	20.9	20.6	20.2	20.1	20.0	20.1	20.5
Of which: Tax revenue	16.7	16.6	16.5	18.7	18.5	18.5	18.3	18.2	18.1	18.3
Total expenditure	61.5	56.8	63.1	66.4	54.4	54.8	52.6	50.6	48.8	47.6
Current expenditure	33.2	33.7	41.8	45.0	36.9	36.5	34.9	33.5	32.2	31.3
Of which: Personnel expenditure	12.8	15.3	18.8	18.6	16.0	15.5	15.0	14.5	14.0	13.7
Capital expenditure	28.4	23.1	21.3	21.4	17.5	18.4	17.7	17.1	16.6	16.2
Nonhydrocarbon overall balance	-45.2	-39.1	-44.7	-45.3	-34.3	-35.2	-33.0	-31.0	-29.1	-27.4
Nonhydrocarbon primary balance, net of on-off spendings										
Memorandum items										
Oil stabilization fund										
in billions of Algerian dinars	4,316	4,843	5,382	5,633	6,601	6,913	7,512	7,841	8,181	8,611
in percent of GDP	43.3	40.4	37.1	35.6	39.6	38.4	39.0	38.0	36.8	36.6
Net savings	33.6	29.8	27.7	26.4	30.2	28.2	30.5	29.8	28.8	28.7

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

1/ On cash basis.

2/ Including Sonatrach dividends.

Table 4. Algeria: Statement of Central Government Operations, 2009–18 1/

					Projections					
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
					(In billions of Algerian dinars)					
Revenue (a)	3,676	4,393	5,790	6,411	6,417	6,679	7,009	7,363	7,854	8,211
Taxes	1,147	1,298	1,527	1,984	2,175	2,384	2,585	2,803	3,055	3,333
Taxes on income, profits and capital gains	462	562	685	886	852	943	1,031	1,134	1,256	1,387
Taxes on goods and services	478	515	573	685	817	895	969	1,045	1,128	1,223
Taxes on international trade and transactions	170	182	222	355	441	475	507	539	576	619
Registration and stamps	36	40	47	58	64	71	78	86	95	104
Other revenue	2,529	3,095	4,263	4,427	4,234	4,396	4,443	4,521	4,664	4,878
Nontax revenues	117	190	283	243	245	222	252	285	336	407
Fees	68	64	79	74	78	81	85	88	91	95
Bank of Algeria dividends and interests	48	121	137	115	112	85	107	131	173	233
Dividends from public enterprises	1	4	67	53	55	55	61	66	72	79
Rents (Oil revenue), *of which:* 2/	2,413	2,905	3,980	4,184	3,989	4,175	4,190	4,236	4,328	4,470
Stabilization fund	401	1,319	2,300	2,535	2,253	2,487	2,503	2,548	2,640	2,783
Sonatrach dividends	85	85	150	130	120	110	110	110	110	110
Grants	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Expenditure (b)	4,221	4,440	5,853	7,058	6,384	7,084	7,438	7,797	8,221	8,667
Expense (b.1)	2,275	2,632	3,879	4,783	4,331	4,710	4,939	5,166	5,430	5,708
Compensation of employees	880	1,193	1,740	1,980	1,873	2,004	2,116	2,233	2,357	2,488
Goods and services	113	122	130	135	156	164	173	182	193	204
Interest payments	37	36	38	42	38	40	40	29	29	30
Subsidies	3	3	3	3	5	5	5	5	5	5
Grants	503	609	989	1,053	992	1,048	1,097	1,151	1,206	1,267
Social benefits (incl. Mudjahidins' pensions)	183	210	235	254	257	266	275	291	308	328
Other expense (subsidies public enterprises)	556	460	745	1,317	1,010	1,184	1,235	1,276	1,332	1,387
Net acquisition of nonfinancial assets (b.2)	1,946	1,808	1,974	2,276	2,053	2,373	2,499	2,631	2,791	2,959
Gross operating balance (a-b.1)	1,401	1,761	1,911	1,629	2,086	1,968	2,069	2,197	2,424	2,503
Net lending/borrowing (a-b) (Overall balance)	-545	-47	-63	-647	34	-405	-430	-435	-367	-456
Net aquisition of financial assets	74	613	656	463	340	157	23	11	46	-87
Domestic	120	173	163	208	67	67	67	67	67	67
Currency and deposits	-4	35	24	79	0	0	0	0	0	0
Loans (net lending by the treasury)	124	138	139	129	67	67	67	67	67	67
Deposits public entities	0	0	0	0	0	0	0	0	0	0
Foreign	-46	439	493	255	273	90	-44	-55	-21	-153
Currency and deposits	-46	439	493	255	273	90	-44	-55	-21	-153
Net incurrence of liabilities	633	659	710	911	884	349	341	333	324	315
Domestic	655	674	728	914	888	353	345	337	328	320
Currency and deposits (public entities)	673	699	741	928	942	406	399	391	381	373
Loans	-18	-25	-13	-14	-53	-53	-53	-53	-53	-53
Foreign	-22	-15	-18	-3	-4	-4	-4	-5	-4	-4
Loans	-22	-15	-18	-3	-4	-4	-4	-5	-4	-4
					(In percent of GDP)					
Revenue (a)	36.9	36.6	39.9	40.5	38.5	37.1	36.4	35.7	35.4	34.9
Taxes	11.5	10.8	10.5	12.5	13.0	13.2	13.4	13.6	13.8	14.2
Other revenue, *of which:*	24.2	24.2	27.4	26.4	23.9	23.2	21.7	20.6	19.5	19.0
Rents (Oil revenue) 2/										
Expenditure (b)	42.3	37.0	40.3	44.6	38.3	39.3	38.6	37.8	37.0	36.8
Expense (b.1)	22.8	21.9	26.7	30.2	26.0	26.1	25.6	25.1	24.4	24.2
Compensation of employees	8.8	9.9	12.0	12.5	11.2	11.1	11.0	10.8	10.6	10.6
Social benefits (Mudjahidins' pensions)	1.8	1.7	1.6	1.6	1.5	1.5	1.4	1.4	1.4	1.4
Goods and services	1.1	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Grants	5.0	5.1	6.8	6.6	5.9	5.8	5.7	5.6	5.4	5.4
Interest payments	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.1	0.1	0.1
Net acquisition of nonfinancial assets (b.2)	19.5	15.1	13.6	14.4	12.3	13.2	13.0	12.8	12.6	12.6
Gross operating balance (a-b.1)	14.1	14.7	13.2	10.3	12.5	10.9	10.7	10.7	10.9	10.6
Primary balance	-5.1	-0.1	-0.2	-3.8	0.4	-2.0	-2.0	-2.0	-1.5	-1.8
Oil stabilization fund	43.3	40.4	37.1	35.6	39.6	38.4	39.0	38.0	36.8	36.6
					(In percent of nonhydrocarbon GDP)					
Revenue (a)	54	56	62	60	55	52	50	48	47	45.1
Taxes	17	17	16	19	19	18	18	18	18	18
Other revenue, *of which:*	37	40	46	42	36	34	31	29	28	27
Rents (Oil revenue) 2/	35	37	43	39	34	32	30	27	26	25
Expenditure (b)	62	57	63	66	54	55	53	51	49	48
Expense (b.1), *of which:*	33	34	42	45	37	36	35	33	32	31
Personnel expenditure	13	15	19	19	16	16	15	14	14	14
Net acquisition of nonfinancial assets (b.2)	28	23	21	21	17	18	18	17	17	16
Memorandum items:										
Nonhydrocarbon primary balance	-2,920	-2,916	-4,005	-4,789	-3,918	-4,540	-4,580	-4,642	-4,666	-4,896
Primary balance	-507	-10	-26	-605	72	-365	-390	-406	-338	-426
Nonhydrocarbon balance	-2,958	-2,952	-4,043	-4,831	-3,956	-4,580	-4,620	-4,671	-4,695	-4,926
Overall balance excluding stabilization fund	-946	-1,365	-2,364	-3,182	-2,220	-2,892	-2,932	-2,983	-3,008	-3,239
Oil stabilization fund (in billions of Algerian dinars)	4316.5	4842.8	5381.7	5633.4	6600.6	6913.5	7512.0	7840.7	8181.4	8611.5

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

1/ On cash basis.

2/ Including dividends of Sonatrach.

Table 5. Algeria: Balance Sheet for the Central Government Based on GFSM 2001, 2008–12 1/

		2008			2009			2010			2011			2012		
	Closing Opening balance	Transaction	Other economic flows 2/	Closing Opening balance	Transaction	Other economic flows 2/	Closing Opening balance	Transaction	Other economic flows 2/	Closing Opening balance	Transaction	Other economic flows 2/	Closing Opening balance	Transaction	Other economic flows 2/	
							(In billions of Algerian dinars)									
Net worth and its changes:	9,196	2,282	-30	11,448	1,908	-191	13,164	1,776	-235	14,705	1,557	-15	16,247	2,414	-65	18,596
Nonfinancial assets	6,962	1,973		8,936	1,946		10,882	1,808		12,690	1,974		14,664	2,276		16,940
Net Financial Worth:	2,233	309	-30	2,512	-39	-191	2,282	-32	-235	2,015	-418	-15	1,583	138	-65	1,656
Financial assets	4,464	114		4,578	594		5,172	627		5,800	292		6,092	1,050		7,142
Domestic	290	160		450	155		605	134		740	174		913	153		1,067
Currency and deposits	153	19		172	31		203	-4		199	35		234	24		258
Loans	137	141		278	124		402	138		541	139		680	129		809
Foreign	4,173	-46		4,127	439		4,567	493		5,060	119		5,179	896		6,075
Currency and deposits	4,173	-46		4,127	439		4,567	493		5,060	119		5,179	896		6,075
Liabilities	2,230	-195	30	2,066	633	191	2,890	659	235	3,784	710	15	4,509	911	65	5,486
Domestic	2,078	-171		1,907	655	178	2,740	674	212	3,626	728	107	4,462	914	97	5,473
Currency and deposits	974	199		1,173	673		1,846	699		2,545	741		3,286	928		4,214
Loans	1,104	-370		734	-18	178	894	-25	212	1,081	-13	107	1,175	-14	97	1,259
Foreign	152	-23	30	159	-22	13	150	-15	23	158	-18	-92	48	-3	-32	13
Loans	153	-23	30	159	-22	13	150	-15	23	158	-18	-92	48	-3	-32	13
Memorandum items:																
Net worth (in percent of GDP)	98.3			103.7			132.1			122.6			70.7			80.9
Net financial worth (in percent of GDP)	23.9			22.7			22.9			16.8			6.9			7.2
Financial assets (in percent of GDP)	47.7			41.5			51.9			48.4			26.5			31.1
Liabilities (in percent of GDP)	23.8			18.7			29.0			31.6			19.6			23.9
Change in Net worth (in percentage)	56.3			24.5			15.0			11.7			10.5			14.5
Change in Net financial worth (in percentage)	512.8			12.5			-9.2			-11.7			-21.5			4.6
Liabilities/Assets	0.2			0.2			0.2			0.3			0.22			0.23
Liabilities/Financial Assets ratio	0.5			0.5			0.6			0.7			0.74			0.77

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

1/ Includes Central Government and special accounts.

2/ Other economic flows record holding gains and losses and other changes in the volume of assets and liabilities.

Table 6. Algeria: Monetary Survey, 2008–13

	2009	2010	2011	2012	Proj. 2013	2014	2015	2016	2017	2018
	(Billions of Algerian dinars; at end of period)									
Net foreign assets	10,758	11,871	13,795	14,811	16,339	17,997	19,174	19,998	21,092	22,273
Of which: Bank of Algeria	10,746	11,887	13,759	14,807	16,781	18,051	19,178	19,904	21,140	22,480
Foreign assets (BA)	10,914	12,062	13,681	15,051	16,532	18,190	19,367	20,190	21,285	22,466
Foreign liabilities (BA)	167	175	192	197	197	197	197	197	197	197
Foreign assets (commercial banks)	58	29	77	79	83	89	95	99	103	107
Foreign liabilities (commercial banks)	46	44	40	76	79	85	90	95	98	102
Net domestic assets	-3,465	-3,591	-3,866	-3,798	-4,383	-4,815	-4,597	-3,929	-3,395	-2,797
Domestic credit	-892	-544	-659	-343	54	644	1,334	2,146	3,109	3,958
Credit to government (net) 1/	-4,079	-3,892	-4,458	-4,716	-5,613	-5,605	-5,481	-5,288	-5,057	-4,863
Credit to the economy 2/	3,187	3,348	3,800	4,373	5,666	6,249	6,816	7,434	8,166	8,821
Of which: Private sector	1,621	1,824	2,001	2,271	2,651	2,984	3,318	3,686	4,120	4,524
Other items net	-2,573	-3,047	-3,207	-3,455	-4,436	-5,459	-5,931	-6,074	-6,505	-6,755
Money and quasi-money (M2)	7,293	8,281	9,929	11,013	11,956	13,181	14,577	16,069	17,697	19,476
Excluding Sonatrach deposits	6,518	7,290	8,900	10,374	11,317	12,342	13,597	14,991	16,487	18,125
Money	5,022	5,756	7,142	7,682	8,233	9,090	10,088	11,151	12,307	13,573
Quasi-money	2,271	2,524	2,787	3,330	3,723	4,091	4,490	4,918	5,390	5,904
	(Percent change over 12-month period)									
Money and quasi-money (M2)	4.8	13.5	19.9	10.9	8.6	10.2	10.6	10.2	10.1	10.1
Excluding Sonatrach deposits	15.3	11.8	22.1	16.6	9.1	9.1	10.2	10.2	10.0	9.9
Of which: Money	1.1	14.6	24.1	7.6	7.2	10.4	11.0	10.5	10.4	10.3
Credit to the economy	18.5	5.1	13.5	15.1	29.6	10.3	9.1	9.1	9.9	8.0
Of which: Private sector	14.7	12.5	9.7	13.5	16.7	12.6	11.2	11.1	11.8	9.8
Memorandum items:										
Liquidity ratio (average M2/GDP)	73.2	69.1	68.4	69.5	71.7	73.1	75.6	78.0	79.7	82.7
Liquidity ratio (e.o.p. M2/NHGDP)	106.3	106.0	107.0	103.6	101.8	102.0	103.1	104.2	105.1	106.9
Idem, excluding deposits of Sonatrach	95.0	93.3	95.9	97.6	96.4	95.5	96.2	97.2	97.9	99.5
Sonatrach deposits	774	991	1,029	638	639	839	980	1,078	1,210	1,351
M2 velocity	1.367	1.448	1.462	1.439	1.395	1.367	1.322	1.283	1.255	1.209
Credit to the economy/GDP	32.0	27.9	26.2	27.6	34.0	34.7	35.4	36.1	36.8	37.5
Credit to the economy/NHGDP	46.5	42.9	41.0	41.1	48.3	48.4	48.2	48.2	48.5	48.4
Credit to private sector/NHGDP	23.6	23.3	21.6	21.4	22.6	23.1	23.5	23.9	24.5	24.8

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

1/ Net credit to government excludes Treasury postal accounts ("dépôts CCP") deposited at the BA.

2/ The projections, including the public credit bought by the Treasury in 2010 and 2011, are 14.4 and 15.1 for 2010 and 2011, respectively.

Table 7. Algeria: Financial Soundness Indicators, 2009–12

(In percent)

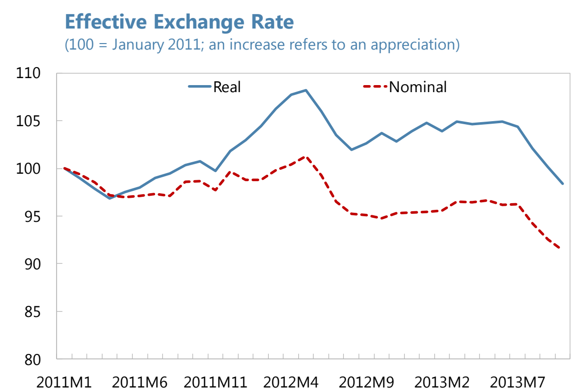
	2009	2010	2011	2012
Capital adequacy ratio	26.15	23.64	23.67	23.41
- Public Banks	23.87	21.70	21.91	21.55
- Private Banks	35.16	31.64	31.16	31.92
NPLs/total loans	21.14	18.31	14.45	11.46
- Public Banks	23.63	20.47	16.06	12.35
- Private Banks	3.84	4.08	4.00	5.16
Provisions/classified loans	65.41	76.48	69.78	69.54
- Public Banks	65.02	73.69	69.64	69.41
- Private Banks	82.01	66.68	75.90	71.73
NPLs net of provisions/total loans	7.31	4.86	4.35	3.49
- Public Banks	8.27	5.39	4.88	3.78
- Private Banks	0.69	1.36	0.96	1.46
Return on equity	26.01	16.70	24.67	23.27
- Public Banks	27.85	29.77	26.07	22.69
- Private Banks	20.87	20.34	21.39	24.75
Liquid assets/short-term debt	114.52	114.29	103.73	107.51
- Public Banks	118.37	118.14	106.60	110.49
- Private Banks	89.00	88.47	84.61	93.47

Source: Bank of Algeria.

Appendix I. Real Effective Exchange Rate Analysis

The real effective exchange rate appears to be on the strong side, despite recent efforts to offset the real appreciation incurred in 2012.

1. The REER appreciated 8.3 percent between April 2011 and June 2013, mainly reflecting higher relative inflation in Algeria. The REER increased sharply in the first half of 2012 as inflation spiked to as high as 11.0 percent year-on-year in April. It reversed some of these gains in the middle months of 2012, but resumed its appreciating trend toward the end of the year. In 2013, the REER appreciated slightly in the first half of the year before depreciating 6.2 percent in recent months, reflecting the decline in inflation as well as a depreciation of the NEER.



Sources: Algerian authorities; and IMF staff calculations.

2. The exchange rate is somewhat strong compared to Algeria's macroeconomic fundamentals. The REER was assessed using three complementary methodologies developed by the Consultative Group on Exchange Rates (CGER). The results suggest that the dinar is somewhat on the strong side.

CGER-type Analysis

Methodology[1]	Medium-term current account norm[2]	Underlying current account[2]
Macroeconomic balance	4.4	-2.5
External sustainability	5.1	-2.5

Source: IMF staff calculations.

[1] Based on CGER methodologies. Misalignment is defined as the real exchange rate adjustment that would close the gap between the estimated current account norm and the underlying current account.

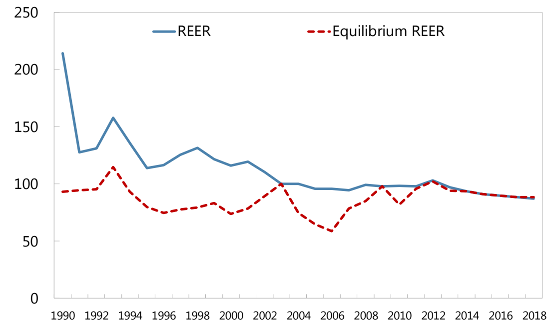
[2] In 2018 (percent of GDP).

3. Macroeconomic balance approach. The macroeconomic balance approach calculates the difference between Algeria's underlying current account and an estimated current account norm based on projected values of medium-term economic fundamentals. The exchange rate adjustment that would eliminate this difference is then calculated using an estimated elasticity of the current account with respect to the real exchange rate. Algeria's current account norm using this approach is estimated to be 4.4 percent of GDP. This compares to a projected current account deficit of -2.5 percent of GDP in 2018, suggesting some overvaluation of the dinar.

4. External sustainability approach. The external sustainability approach calculates the difference between the underlying current account balance and the balance that would stabilize net foreign assets (NFA) at some benchmark level. Using the same elasticity as in the macroeconomic balance approach, the exchange rate misalignment is equal to the adjustment necessary to bring the underlying current account in line with its NFA-stabilizing level. The current account balance necessary to stabilize Algeria's NFA-to-GDP ratio at its 2012 level (93 percent) is estimated to be 5.1 percent, suggesting once again that the dinar is somewhat on the strong side.

5. Equilibrium real exchange rate approach. The equilibrium real exchange rate approach directly estimates an equilibrium exchange rate as a function of medium-term fundamentals. The exchange rate adjustment needed to restore equilibrium over the medium term is then calculated as the difference between the estimated equilibrium real exchange rate and its current value. The REER in October 2013 was 3.0 percent above its estimated equilibrium value.

REER vs. Equilibrium REER



Sources: Algerian authorities; and IMF staff calculations.

Appendix II. Public Sector Debt Sustainability Analysis

Algeria: Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(in percent of GDP unless otherwise indicated)

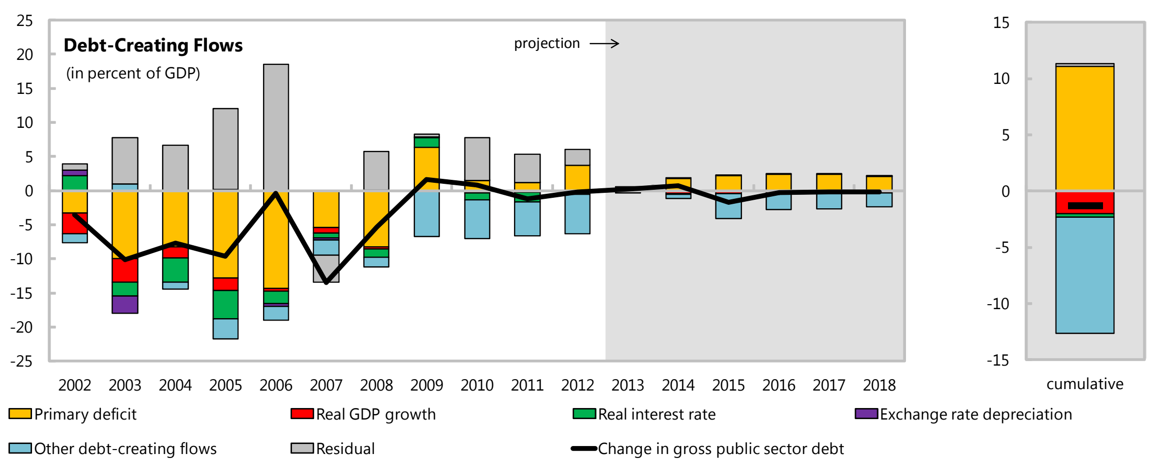
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2002-2010 [2/]	2011	2012	2013	2014	2015	2016	2017	2018
Nominal gross public debt	25.8	9.4	9.2	9.4	10.2	8.5	8.2	8.1	7.9
Public gross financing needs	n.a.	3.5	5.7	1.4	4.3	9.2	7.1	7.0	6.9
Real GDP growth (in percent)	4.0	2.8	3.3	2.7	4.3	4.2	4.3	4.3	4.3
Inflation (GDP deflator, in percent)	8.4	17.8	5.6	2.6	3.6	2.6	2.5	3.4	1.7
Nominal GDP growth (in percent)	12.7	21.1	9.1	5.3	8.0	6.9	7.0	7.8	6.0
Effective interest rate (in percent) [4/]	4.1	3.0	3.1	2.2	2.1	2.2	2.2	2.5	2.5
Oil savings	41.8	37.1	35.6	39.6	38.4	39.0	38.0	36.8	36.6

As of December 2013		
Sovereign Spreads		
EMBIG (bp) 3/		n.a.
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	n.a.	n.a.
S&Ps	n.a.	n.a.
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2002-2010	2011	2012	2013	2014	2015	2016	2017	2018	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-5.3	-1.2	-0.2	0.3	0.8	-1.7	-0.2	-0.2	-0.2	-1.3	
Identified debt-creating flows	-11.2	-5.4	-2.5	0.2	0.7	-1.7	-0.3	-0.2	-0.2	-1.5	
Primary deficit	-6.0	1.2	3.7	0.0	1.8	2.3	2.5	2.4	2.1	11.1	-2.3
Primary (noninterest) revenue and grants	39.1	39.9	40.5	38.4	37.6	36.5	35.5	34.8	34.9	217.7	
Primary (noninterest) expenditure	33.1	41.1	44.2	38.4	39.5	38.7	38.0	37.2	37.0	228.8	
Automatic debt dynamics [5/]	-2.7	-1.6	-0.5	-0.3	-0.5	-0.4	-0.4	-0.4	-0.3	-2.3	
Interest rate/growth differential [6/]	-2.5	-1.6	-0.5	-0.3	-0.5	-0.4	-0.4	-0.4	-0.3	-2.3	
Of which: real interest rate	-1.2	-1.3	-0.2	0.0	-0.1	-0.1	0.0	-0.1	0.1	-0.3	
Of which: real GDP growth	-1.3	-0.2	-0.3	-0.2	-0.4	-0.4	-0.3	-0.3	-0.3	-2.0	
Exchange rate depreciation [7/]	-0.2	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	-2.5	-5.0	-5.8	0.5	-0.6	-3.6	-2.4	-2.2	-2.1	-10.4	
Domestic non-bank borrowing (negative)	-2.5	-5.0	-5.8	-5.6	-2.0	-1.9	-1.7	-1.5	-1.4	-14.2	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Accumulation of savings in oil savings fund	n.a	n.a	n.a	6.1	1.4	-1.7	-0.7	-0.7	-0.6	3.8	
Residual, including asset changes [8/]	5.9	4.2	2.3	0.0	0.1	0.0	0.0	0.0	0.0	0.2	



Source: IMF staff.

1/ Public sector is defined as central government.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

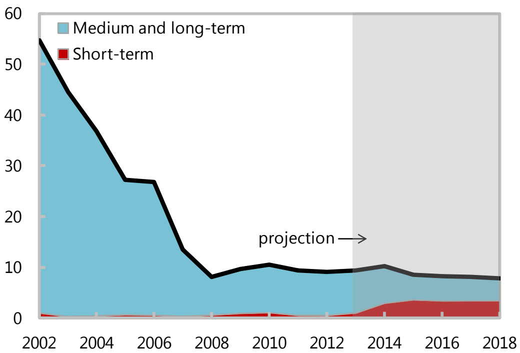
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Algeria: Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

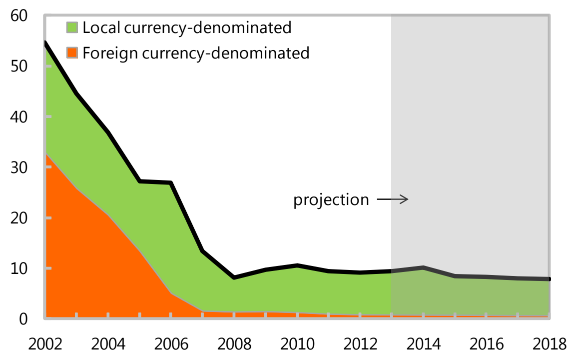
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

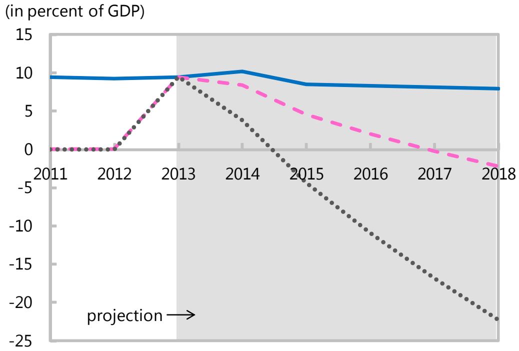


Alternative Scenarios

Baseline — Historical — Constant Primary Balance

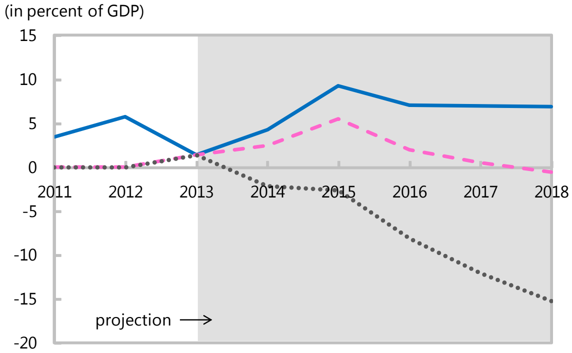
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2013	2014	2015	2016	2017	2018
Real GDP growth	2.7	4.3	4.2	4.3	4.3	4.3
Inflation	2.6	3.6	2.6	2.5	3.4	1.7
Primary Balance	0.0	-1.8	-2.3	-2.5	-2.4	-2.1
Effective interest rate	2.2	2.1	2.2	2.2	2.5	2.5
Constant Primary Balance Scenario						
Real GDP growth	2.7	4.3	4.2	4.3	4.3	4.3
Inflation	2.6	3.6	2.6	2.5	3.4	1.7
Primary Balance	0.0	0.0	0.0	0.0	0.0	0.0
Effective interest rate	2.2	2.1	2.3	2.6	3.6	-10.4

Historical Scenario	2013	2014	2015	2016	2017	2018
Real GDP growth	2.7	3.6	3.6	3.6	3.6	3.6
Inflation	2.6	3.6	2.6	2.5	3.4	1.7
Primary Balance	0.0	4.6	4.6	4.6	4.6	4.6
Effective interest rate	2.2	2.1	5.2	-4.3	-2.4	-2.0

Source: IMF staff.

Appendix III. FSAP Main Recommendations[1]

Recommendation	Responsible	Term
Leverage hydrocarbon revenue for financial sector development: Improve intergenerational smoothing of hydrocarbon revenue (full-fledged fiscal rule, sovereign wealth fund (SWF)).	BA/MoF	MT-LT
Exchange controls: Gradually reduce restrictive measures on foreign exchange transactions.	BA/MoF	MT-LT
FX market: Allow non-hydrocarbon exporters to sell directly into the foreign exchange market, to stimulate its development, including for forward contracts	BA	ST
Liquidity management: Create a structural liquidity shortage to facilitate monetary policy implementation.	BA	ST
SOB reform: Complete corporate governance reform agenda	MoF	ST-MT
Consumer lending: Replace consumer lending restrictions with prudential measures; introduce an effective public credit registry for households, and introduction of personal bankruptcy framework.	BA	MT
Banking Supervision: Facilitate the write-off of NPLs; Improve operational framework for supervision; continue towards Basel II/III; develop stress-test expertise.	BA	ST MT
Small- and medium-sized enterprise (SME) lending: Revisit existing government support programs for microenterprises and SMEs, including partial credit guarantee funds.	MoF	MT
Insurance: Adapt MTPL premiums and reduce compulsory reinsurance.	Insurance Dir.	MT
Insolvency Regime: Modernize the insolvency regime to mitigate risk and strengthen the credit environment.	MoJ, MoF	MT
Collateral Regime: Improve debt enforcement procedures.	MoJ, MoF	ST–MT
Criminal Sanctions: Clarify Criminal Code sanctions on mismanagement of funds in state-owned enterprises (SOEs), with judicial training on implementation.	MoJ	ST
Payment Systems: Set-up a payment system council to monitor the modernization of payment systems and formalize a plan to decrease the proportion of fiduciary money in M2.	BA	MT
Capital market development: Finance budget deficits through the issuance of T-bonds along the yield curve and revisit the issuance policy at the MoF to foster liquidity.	MoF	LT
Stock exchange: Implement the modernization program set-up by the COSOB in 2012.	COSOB/MoF	LT
Crisis management: Establish (i) special resolution regime (SRR) for failing financial institutions; (ii) memorandum of understanding (MoU) outlining principles for financial crisis management; and (iii) MoU between safety net participants on information exchange, and decision-making processes.	BA, MoF	LT ST
AML/CFT: Implement action plan established with the FATF International Cooperative Review Group.	BA, MoF, MoJ	ST

[1] ST: Short term (within one year); MT: Medium term (1–3 years); LT: Long term (longer than 3 years).

INTERNATIONAL MONETARY FUND

ALGERIA

January 9, 2014

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

The Middle East and Central Asia Department
(In collaboration with other departments)

CONTENTS

RELATIONS WITH THE FUND

(As of November 16, 2013)

A. Financial Relations

Membership Status: Joined: September 26, 1963; Article VIII.

General Resources Account

	SDR Million	Percent Quota
Quota	1,254.70	100.00
Fund holdings of currency	810.92	64.63
Reserve position in Fund	443.78	35.37

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	1,198.18	100.00
Holdings	1,074.28	89.67

Outstanding Purchases and Loans

None

Financial Arrangements (In millions of SDR)

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-by	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):

	Forthcoming				
	2013	2014	2015	2016	2017
Principal	0.00	0.00	0.00	0.00	0.00
Charges/interest	0.02	0.12	0.12	0.12	0.12
Total	0.02	0.12	0.12	0.12	0.12

Implementation of HIPC Initiative: Not Applicable.

B. Nonfinancial Relations

Exchange Rate Arrangement

6. 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 Bank of Algeria introduced a managed float for the dinar through daily fixing sessions that included six commercial banks. This system has been replaced by an interbank foreign exchange market as of January 2, 1996. On December 12, 2013, the average of the buying and selling rates for the U.S. dollar was US$ 1 = DZD 78.21, equivalent to SDR 1 = DZD 120.15. No margin limits are imposed on the buying and selling exchange rates in the interbank foreign exchange market, except for a margin of DA 0.015 between the buying and selling rates of the Bank of Algeria for the dinar against the U.S. dollar.

7. The de facto exchange regime is classified as other managed arrangement with no preannounced path for the exchange rate. Full surrender requirements are in effect on hydrocarbon export proceeds. Limits on the making of payments for invisible transactions and current transfers, which have remained in place since Algeria accepted the obligations of Article VIII, sections 2(a), 3, and 4, in 1997, are indicative according to the authorities. Inward direct investment is generally free of restrictions but a 49 percent foreign ownership limit has been introduced in December 2009; controls are maintained on other capital account payments and transfers.

Latest Article IV Consultation

The discussions for the 2012 Article IV consultation with Algeria were held in Algiers during October 29—November 11, 2012. The Staff Report (IMF Country Report 13/47) was discussed by the Executive Board on January 16, 2013 and published on February 2013.

Technical Assistance

- An FAD mission visited Algiers in May 2008 to continue the program of assistance in tax administration.

- An MCM mission visited Algiers in May 2009 to advise on strengthening banking supervision and regulation.

- An MCM mission visited Algiers in June 2009 to prepare the program for harmonizing financial sector infrastructure in the Maghreb.

- An MCM expert visited Algiers for a long-term banking supervision TA from December 2010 to December 2011.

- An FAD mission visited Algiers in October 2011 to provide assistance on tax administration.

- An STA mission visited Algiers in April 2012 to provide assistance on monetary and financial statistics and financial stability indicators.

- An MCM mission visited Algiers in September 2012 to provide assistance on banking supervision, macro-prudential policy and monetary policy.

- An FAD mission visited Algiers in September 2012 to provide assistance on public financial management.

- An FAD mission visited Algiers in March 2013 to provide assistance on expenditure management.

- An FAD mission visited Algiers in November 2013 to provide assistance on tax administration

Financial Sector Assessment Program

Algeria participated in the FSAP in 2003. The Executive Board discussed the Financial System Stability Assessment on January 14, 2004, (see IMF Country Report No. 04/138). The FSAP was updated in 2007 and in 2013.

Resident Representative/Advisor

None.

RELATIONS WITH THE WORLD BANK GROUP

JMAP Implementation, FY13

As of December 20, 2013

Title	Products	Provisional timing of missions	Expected delivery date
A. Mutual Information on Relevant Work Programs			
Bank work program in next 12 months	a. **Country Partnership Strategy** FY11-FY14, including Analytical and Technical Assistance activities on a reimbursable basis, no lending in line with government's policy. b. **Sector work** on: • State-owned Banks for Ministry of Finance • Revising social sector strategy • Climate change • Integrated desert management • Support for rural renewal • Agricultural development • Improving business climate c. **Technical assistance** on • Credit Registry with Central Bank • Financial Crisis simulation (FIRST) • RAMP • Social Programs Monitoring and Evaluation • Support to analysis of the Household Survey/poverty analysis • Agricultural Program • Competitiveness Poles • Agricultural Statistical Capacity • Algeria Telecom Strategic and Operational Support • Broadband Strategy • GEF grant for improved desert ecosystems and climate change resilience	Ongoing activities with multiple missions throughout the year	FY11-FY14 activities

IMF work program in next 12 months	2013 Article IV Consultation Analytical work on • Monetary policy transmission channels in Algeria • Price competitiveness in Algeria • A fiscal rule for Algeria Staff visit 2014 Article IV consultation Technical assistance missions on: • FAD: Tax policy • MCM: macroprudential supervision	November 12-25, 2013 Ongoing April 2014 October 2014 November 2013 December 2013	January 2014 January 2014 April 2014 January 2015 January 2014 January 2014
B. Requests for Work Program Inputs			
Fund request to Bank	Developments on the subsidy reform Sectoral analysis	As needed As needed	
Bank request to Fund	Assessment of macroeconomic stance and prospects Data sharing	Semiannual (and on ad hoc basis if requested) At least 1 operation predicted Ongoing	Following Article IV and staff visits
C. Agreement on Joint Products and Missions			
Joint products in next 12 months	FSAP update Continuous close coordination on the reform agenda	September 2013 Ongoing	January 2014

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance	
General: Data provision has some shortcomings, but is broadly adequate for surveillance.	
National Accounts: Following STA recommendations, the NSO is now compiling annual national accounts (ANA) at prior year prices. The ANA broadly follow the 1993 SNA recommendations, but nonprofit institutions serving households are not taken into account. Work is ongoing to compile QNA. **Price Statistics:** Data are published with a delay of less than one month.	
Government finance statistics: Key shortcomings include insufficient institutional coverage (coverage is limited to Budgetary Central Government, albeit in a wide sense, including the general budget, the annexed budget, and the special treasury accounts), classification problems, long lags for production of statistics, and lack of reconciliation of financing with the monetary accounts. Key factors behind these weaknesses include the lack of financial resources allocated to the compilation of statistics, insufficient interagency coordination, and concern about accuracy that give rise to reluctance to publish provisional data.	
Monetary statistics: Monetary statistics compiled by the authorities are largely in line with the methodology in the Monetary and Financial Statistics Manual, 2000 and its companion Compilation Guide, 2008. Timeliness of reporting by state-owned commercial banks has significantly improved over the last two years; consequently, data on depository corporations—as well as finance companies—are usually available within a period of two to three months. Reporting formats (balance sheet and appendices) applied to commercial banks and finance companies were updated in 2009 and the updated version was enforced in 2010. All respondents now provide all requested data, thus making the monetary statistics more meaningful than before. Data on insurance corporations are not yet collected, but the Banque d'Algérie, with the continuing support of the IMF Statistics Department, launched in 2009 a project to this end.	
Balance of payments: Balance of payments statistics are generally of good quality. International investment position data are not available, mainly because of capacity issues in compiling FDI stocks.	
II. Data Standards and Quality	
Algeria began participation in the General Data Dissemination System (GDDS) on April 21, 2009.	No data ROSC is available.

ALGERIA: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
As of December 20, 2013

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]
Exchange Rates	09/13	11/12/13	D	M	W
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	09/13	11/12/13	D	M	M
Reserve/Base Money	09/13	11/12/13	M	M	M
Broad Money	09/13	11/12/13	M	M	M
Central Bank Balance Sheet	09/13	11/12/13	M	M	A
Consolidated Balance Sheet of the Banking System	09/13	11/12/13	M	M	A
Interest Rates[2]	09/13	11/12/13	M	M	M
Consumer Price Index	09/13	11/12/13	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]—Central Government[4]	07/13	11/12/13	M	I	A
Stocks of Central Government and Central Government-Guaranteed Debt[5]	06/13	11/12/13	Q	I	A
External Current Account Balance	09/13	11/12/13	Q	Q	A
Exports and Imports of Goods and Services	09/13	11/12/13	Q	Q	A
GDP/GNP	2013	11/12/13	A	A	A
Gross External Debt	06/13	11/12/13	A	A	A
International Investment Position[6]	...	...	PA	PA	PA

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.

[3] Foreign domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents. Data are partial, because of shortcomings in the compilation of FDI.

[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); and Not Available (NA), Partially available (PA)

INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

Press Release No. 14/28
FOR IMMEDIATE RELEASE
January 28, 2014

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

IMF Executive Board Concludes 2013 Article IV Consultation with Algeria

On January 27, 2014, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Algeria without a meeting.[2]

Economic performance in 2013 has been satisfactory. Inflation, which reached 8.9 percent last year, has decelerated significantly in 2013 thanks to fiscal consolidation and prudent monetary policy. Real gross domestic product (GDP) growth is expected to slow to 2.7 percent in 2013 from 3.3 percent in 2012, reflecting a continued decline in hydrocarbon sector output and lower public spending, somewhat offset by the strong growth of private demand and investment by state-owned enterprises. However, Algeria's external position, though still very strong, has started to weaken. The current account surplus is expected to narrow to 1.1 percent of GDP in 2013, as robust domestic hydrocarbon consumption, together with declining prices, weighs on hydrocarbon exports and import growth remains sizeable. Risks are tilted to the downside: Algeria is vulnerable to a prolonged decline in oil prices, a worsening of the global environment, further pressure on the hydrocarbon rent, and an intensification of regional tensions. Outward spillovers are likely to be limited. Algeria faces a number of challenges. Despite stabilization in 2013, new inflationary pressures may arise following the recent surge in credit and a new increase in public sector wages. Fiscal and external vulnerabilities to developments in the hydrocarbon sector are worsening, as the domestic consumption drag on export volumes is compounding the longstanding risk related to lower oil prices. In addition, notwithstanding the ongoing consolidation, fiscal policy is not on a sustainable path. It is de facto pro-cyclical, and the non-hydrocarbon primary deficit is well above its long-term sustainable level, implying negative net public savings in the long run. Finally, shortcomings in competitiveness and productivity are weighing on economic growth, which remains below its potential and below the level required to significantly reduce unemployment, especially for youth

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[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.

[2] *Article IV consultations are concluded without a Board meeting when the following conditions apply:* (i) there are no acute or significant risks, or general policy issues requiring Board discussion; (ii) policies or circumstances are unlikely to have significant regional or global impact; (iii) in the event a parallel program review is being completed, it is also being completed on a lapse-of-time basis; and (iv) the use of Fund resources is not under discussion or anticipated.

and women. Although stable, the financial sector is underdeveloped, constraining access to financing, in particular for small- and medium-sized enterprises.

Executive Board Assessment

In concluding the 2013 Article IV consultation with Algeria, Executive directors endorsed staff's appraisal, as follows:

Algeria's economic performance, marked notably by the decline in inflation, unemployment and inequality, has been good. However, strong credit growth and another public sector wage increase call for continued caution over price stability. In addition, the economy's vulnerability to developments in the hydrocarbon sector worsened, as declining hydrocarbon production and surging domestic consumption are squeezing export volumes, compounding the longstanding risk of lower oil prices. Finally, unemployment remained high among youth and women. Against this background, the authorities are encouraged to take measures to consolidate macroeconomic and financial stability, ensure long-term fiscal sustainability, and promote strong private sector-led non-hydrocarbon growth and robust job creation.

The decline in inflation brought about by monetary tightening and fiscal consolidation is welcome. However, the recent surge in credit to the economy, together with the planned increase in current spending in 2014, could revive inflationary pressures, and the Banque d'Algérie should stand ready to increase liquidity absorption and raise interest rates if needed. Avoiding new increases in current spending, and financing the budget deficit by issuing debt rather than by drawings from the oil fund, would also help.

The fiscal consolidation initiated in 2013 should continue in order to ensure fiscal sustainability. This implies containing the wage bill; gradually phasing out subsidies while establishing a targeted cash-transfer system to protect the poor; stabilizing transfers to public entities in real terms; and reducing tax exemptions. To protect economic growth, it will be important to preserve capital spending and enhance its efficiency and effectiveness.

Algeria should adopt a full-fledged fiscal rule to better manage hydrocarbon revenue volatility and attain fiscal sustainability. A fiscal rule using a backward-looking average oil price and setting a limit on the structural primary balance consistent with long-run fiscal sustainability would improve the management of hydrocarbon revenue. Further, the oil fund could be transformed into a sovereign wealth fund, and annual ceilings on drawings established to preserve financial savings. To improve public financial management, the transparency of hydrocarbon revenue collection should be increased and an integrated financial management information system developed.

Preserving fiscal and external sustainability would call for increasing hydrocarbon production and extending the time horizon of reserves. It will be important to improve the business environment, attract Foreign Direct Investment (FDI) in the hydrocarbon sector, and swiftly implement the national oil company's investment plans. Phasing out implicit subsidies would help contain domestic energy consumption and support exports.

The authorities should continue targeting the equilibrium real effective exchange rate to protect the competitiveness of non-hydrocarbon exports. The premium in the illegal parallel exchange market is detrimental to growth and should be forcefully tackled. Furthermore, there is a case for increasing the indicative foreign exchange ceilings for travelers to more realistic levels.

The stability of the financial sector is welcome. To support its development, competition in the banking sector should be fostered, the development of credit bureaus sped up, the guarantee mechanisms revisited, collateral and insolvency regimes strengthened. The ban on consumer lending should be lifted, and more space provided for mortgage finance. Issuing more sovereign debt and listing well-performing state-owned enterprises on the stock exchange, while removing disincentives to private sector debt and equity issuance, would support the development of capital markets. Finally, immediate steps need to be taken to address deficiencies in the Anti-Money Laundering/Combating the Financing of Terrorism framework.

To accelerate economic growth and job creation, wide-ranging structural reforms are needed. Improving the business environment, enhancing cost competitiveness, and relaxing the restrictive FDI regime are of particular importance, together with deeper trade integration through WTO accession, trade facilitation, and export promotion. Reforms are needed to increase labor market flexibility and ensure that job seekers are equipped with the right skills.

Algeria: Selected Macroeconomic Indicators Baseline Scenario, 2012–14

	2012 Proj.	2013 Proj.	2014 Proj.
Output			
Real GDP	3.3	2.7	4.3
Nonhydrocarbon real GDP	7.1	5.9	5.3
Employment			
Unemployment rate (in percent)	11.0	9.8	…
Prices			
Consumer prices (period average)	8.9	4.5	4.5
	(In percent of GDP unless, otherwise indicated)		
Public finances			
Revenue	40.5	38.4	37.6
Hydrocarbon	26.4	23.9	23.2
Expenditure and net lending	44.5	38.7	39.7
Current	30.2	26.0	26.1
Capital	14.4	12.3	13.2
Budget balance	-4.0	-0.2	-2.1
Nonhydrocarbon primary balance (in percent of NHGDP)	-46.4	-34.0	-34.9
Total government debt	9.2	9.4	10.2
	(Annual percentage change, unless otherwise indicated)		
Monetary sector			
Credit to the economy 1/	15.1	29.6	10.3
Broad money	10.9	8.6	10.2
Velocity of broad money (level)	1.4	1.4	1.4
Three-month treasury bill rate (end of period, in percent)	0.4	…	…
(In percent of GDP, unless otherwise indicated)	(In percent of GDP, unless otherwise indicated)		
Balance of Payments			
Hydrocarbon exports of goods (in US$, percentage change)	-1.5	-7.5	-2.7
Hydrocarbon exports of goods (in percent of total exports of goods)	98.4	98.1	97.8
Imports of goods (in US$, percentage change)	14.9	4.9	0.9
Merchandise trade balance	9.9	6.0	4.9
Current account	6.0	1.1	0.3
Foreign direct investment	0.7	0.6	0.6
Total external debt	1.9	1.5	1.3
Gross reserves (in billions of U.S. dollars)	190.7	196.0	196.8
In months of next year's imports of goods and services	34.9	35.6	35.2
Exchange rate			
Real effective exchange rate (2005 = 100)	107.2	…	…
Local currency per U.S. dollar (period average)	77.6	…	…
Oil and gas sector			
Total exports of oil and gas products (in billions of U.S. dollars)	70.6	65.3	63.5
Hydrocarbon production (in mn TOE)	173.0	166.0	169.2
Average crude oil export price (in U.S. dollar/barrel)	110.8	111.3	107.9
Average hydrocarbon export price (change, in percent)	2.4	-0.1	-3.0
	(In percent of GDP)		
Investment and Saving			
Gross capital formation	40.6	42.6	43.1
Of which: Nongovernment	26.3	30.2	29.9
Gross national savings	46.6	43.6	43.4
Of which: Nongovernment	36.3	31.6	32.3
Memorandum Items:			
Nominal GDP (in billions of U.S. dollars)	204	209	214

Sources: Algerian authorities; and Fund staff estimates and projections.
1/ credit to the private sector and public enterprises