INTERNATIONAL MONETARY FUND

IMF Country Report No. 21/253

# ALGERIA

December 2021

## 2021 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ALGERIA

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 2021 Article IV consultation with Algeria, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its November 19, 2021 consideration of the staff report that concluded the Article IV consultation with Algeria.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on November 19, 2021, following discussions that ended on October 3, 2021, 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 November 4, 2021.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Algeria.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR21/341

# IMF Executive Board Concludes 2021 Article IV Consultation with Algeria

FOR IMMEDIATE RELEASE

**Washington, DC – November 19, 2021:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Algeria.

The Algerian economy is gradually recovering from the concomitant Covid-19 pandemic and oil shocks in 2020. The authorities' swift response helped mitigate the health and social impact of the crisis. Stepped-up vaccination and targeted containment measures have helped slow down a third wave of infection. Following a contraction of 4.9 percent in 2020, real GDP grew by 2.3 percent, on a year-on-year basis, in 2021Q1, driven by a rebound in hydrocarbon prices and production and the relaxation of containment measures. The external current account balance improved significantly in the first six months of 2021, following a marked deterioration in 2020.

The pandemic has increased Algeria's ongoing economic vulnerabilities following a succession of adverse shocks since 2014. Continued large fiscal and external current account deficits in recent years have reduced policy space as public debt increased significantly and international reserves declined. Rising inflation, reflecting higher international food prices and an episode of drought in Algeria, is also adversely affecting households' purchasing power.

The economy is projected to recover in 2021 and 2022, but the outlook remains uncertain and challenging. Real growth is forecast at 3.2 percent in 2021 and the external current account deficit is projected to narrow sharply as exports rebound. Risks are, however, tilted to the downside. The main risks concern the evolution of oil prices, the pandemic, and the social and geopolitical environment.

## Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They noted that Algeria has been hit hard by the pandemic and commended the authorities' timely and comprehensive efforts to contain its human and economic costs. While a gradual recovery is underway, pre-pandemic vulnerabilities remain and risks to the economic outlook are on the downside, despite the recent rebound in hydrocarbon prices. In this context, Directors called for a well-calibrated policy mix to support macroeconomic stability and promote sustainable, resilient and inclusive growth.

Directors generally agreed with the need for a gradual and sustained fiscal consolidation, underpinned by both revenue-enhancing and spending measures. They saw merit in adapting the pace and composition of the adjustment to the evolution of the pandemic and to domestic economic conditions in order to

[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] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

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protect the most vulnerable. They also commended the authorities' recent efforts to modernize budget management and improve public sector efficiency. Going forward, Directors encouraged the authorities to diversify budget financing sources and avoid central bank financing.

Directors underscored that a well-calibrated monetary policy combined with greater exchange rate flexibility could support stabilization efforts. They encouraged the authorities to continue to reinforce bank supervision, implement a crisis management framework, and strengthen governance at state-owned banks. Directors also welcomed forthcoming reforms to strengthen central bank independence.

Directors commended the authorities for their strategy to revive growth and reduce the economy's dependence on hydrocarbons. They welcomed the focus of the new Government Action Plan and agreed with the reform priorities identified to help transition Algeria to a more inclusive and sustainable growth model. Recent announcements about plans to strengthen transparency and the anti-corruption institutional framework, enhance climate resilience as well as efforts to encourage digitalization, foreign direct investment, and competition to foster private sector investment and job creation are steps in the right direction. Strengthening the AML/CFT framework also remains a priority.

It is expected that the next Article IV consultation with Algeria will be held on the standard 12-month cycle.

## Algeria: Selected Macroeconomic Indicators, 2019–22

Population: 43.4 million; 2019
Per capita GDP: US$ 3,940 (2019)
Quota: SDR 1,959.9 million
Gini coefficient: 0.28 (2015)
Key export markets: EU
Main exports: oil and gas

| | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|
| | | Est. | Proj | |
| **Output** | | | | |
| Real GDP growth (percent) | 0.8 | -4.9 | 3.2 | 2.4 |
| Nonhydrocarbon GDP growth (percent) | 2.0 | -3.9 | 2.0 | 2.4 |
| **Employment** | | | | |
| Unemployment (percent, end of period) | 11.4 | … | … | … |
| **Prices** | | | | |
| Inflation (percent, average) | 2.0 | 2.4 | 6.5 | 7.7 |
| **Central government finances (percent of GDP)** | | | | |
| Total revenue | 32.3 | 30.1 | 28.0 | 27.6 |
| *Of which, hydrocarbon* | 13.1 | 10.3 | 11.1 | 12.4 |
| Total expenditure | 41.9 | 41.9 | 39.8 | 39.4 |
| Overall budget balance (deficit-) | -9.6 | -11.7 | -11.8 | -11.8 |
| Gross government debt | 45.8 | 50.7 | 59.2 | 65.4 |
| **Money and credit** | | | | |
| Broad money (percent change) | -0.8 | 7.4 | 17.0 | 13.3 |
| Credit to the economy (percent change) | 9.0 | 3.0 | 1.8 | 5.6 |
| **Balance of payments** | | | | |
| Current account balance (percent of GDP) | -9.9 | -12.7 | -4.9 | -3.6 |
| FDI (percent of GDP) | 0.8 | 0.8 | 0.7 | 0.7 |
| Gross reserves (months of imports) 1/ | 17.6 | 12.5 | 11.1 | 9.9 |
| External debt (percent GDP) | 2.2 | 2.4 | 2.0 | 1.9 |
| **Exchange rate** | | | | |
| REER average (percent change) | 2.3 | -4.6 | … | … |

Sources: Algerian authorities; and IMF staff estimates.
1/ In months of next year's imports of goods and services.

INTERNATIONAL MONETARY FUND

# ALGERIA

## STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

November 4, 2021

## KEY ISSUES

**Context.** The concomitant Covid-19 pandemic and oil price shock in 2020 have taken a heavy toll on the Algerian economy and the population. The authorities' response helped mitigate the social and economic impact of the crisis. Nevertheless, the crisis exacerbated the Algerian economy's vulnerabilities, making even more urgent the need for a new, more inclusive and sustainable, growth model. A recovery is underway in 2021, but the outlook remains challenging. While the recent rebound in hydrocarbon prices should buoy the recovery and ease immediate financing constraints, addressing long-standing structural challenges will help to realize Algeria's vast growth potential for the benefit of its population.

**Key Policy Recommendations.** A recalibration of the policy mix is key to strengthen the post-Covid recovery by addressing macroeconomic imbalances such as elevated fiscal deficits, diversifying the economy away from hydrocarbons, and fostering growth and job creation. This will require a reset of the policy mix through gradual fiscal adjustment supported by greater flexibility of the exchange rate and tighter monetary policy. This adjustment should be adapted to the evolution of the pandemic and to domestic economic conditions, and include policies to mitigate its impact on vulnerable groups. In parallel, structural reforms should be implemented to transition to a new growth model.

**Fiscal Policy.** The authorities are envisaging a set of fiscal reforms, but budget deficits are projected to remain elevated in the medium term, giving rise to very large financing needs. Mitigating the human and economic cost of the pandemic are immediate priorities and require creating space for higher health and social spending, particularly in case of a resurgence of the pandemic. Sustained and broad-based fiscal consolidation is also needed to stabilize government debt and preserve international reserves.

**Monetary, Exchange Rate, and Financial Sector Policies.** The authorities have allowed substantial exchange rate adjustment since 2013. However, international reserves are falling, and inflationary pressures are rising, amidst high food prices, large fiscal deficits, and an accommodative monetary stance. Greater exchange rate flexibility would facilitate the adjustment of the economy and support its diversification. The monetary policy stance needs to protect price stability and international reserves. Central bank financing of the government should be avoided to preserve macroeconomic stability.

Financial stability risks need to be carefully monitored and addressed though timely corrective actions.

**Reforms to transition to a new growth model.** Algeria's transition to a new growth model requires fundamental reforms—some of them are already underway, others feature in the Government Action Plan—to strengthen the transparency and the governance of legal, fiscal, and monetary institutions across the public sector to reduce vulnerabilities to corruption and barriers to entry into the formal sector. Efforts to diversify the economy away from hydrocarbon, enhance the business climate and foster private sector investment and job creation will also be critical.

Approved By
**Taline Koranchelian and Kevin Fletcher**

Discussions were held via VTC during September 13 to October 3, 2021. The mission team comprised Geneviève Verdier (head), Mahmoud Harb, Jiawei Li, Priscilla Muthoora (all MCD), Stéphane Couderc (MCM), and Fabien Gonguet (FAD). André Kahn, Tanja Santucci and Ron Snipeliski (all LEG) participated in specific meetings. Kamel Badsi (OED) joined most of the meetings.
The mission met with Prime Minister and Minister of Finance, Mr. Benabderrahmane; Governor of the Bank of Algeria, Mr. Fadli; Energy and Mines Minister, Mr. Arkab; Public Works Minister, Mr. Nasri; Commerce and Exports Promotion Minister, Mr. Rezig; Labor, Employment, and Social Security Minister, Mr. Lahfaya; and National Solidarity, Family, and Women's Affairs Minister, Ms. Krikou. The team also held discussions with other senior government and central bank officials as well as with representatives of the economic and financial sectors, civil society, and trade unions. Nicholas Staines provided early input to the report. Jiawei Li and Tatiana Pecherkina provided excellent assistance for the preparation of this report.

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## ANNEXES

# Abbreviations

| | |
|---|---|
| AML/CFT | Anti-Money Laundering and Combating of Financial Terrorism |
| AQR | Asset Quality Review |
| CASNOS | Caisse nationale de sécurité sociale des non-salariés |
| CNR | Caisse nationale des retraites |
| FRR | Fonds de régulation des recettes |
| PAG | Plan d'Action du Gouvernement |
| PSR | Programme Spécial de Refinancement |
| SOB | State-owned bank |
| SOE | State-owned enterprise |

# CONTEXT

1. **Algeria entered the Covid-19 pandemic with significant economic challenges.** The oil price shock in 2014 led to a sharp decline in hydrocarbon revenue and severely tested the country's growth model. The authorities initially relied on currency depreciation to adjust to this sizeable shock, before embarking on fiscal consolidation in 2016. Structural reforms were launched in parallel to help diversify the economy away from hydrocarbons and the Bank of Algeria (BA) modernized its monetary policy framework.

2. **Efforts to adjust to lower oil prices stalled with domestic political developments in 2018–19.** Fiscal consolidation was reversed in 2018 amid mounting social discontent as growth slowed and unemployment rose. In 2019, former President Bouteflika's re-election bid for a fifth term was followed by widespread social unrest (the 'Hirak' movement), leading to his resignation. A protracted period of transition and policy paralysis ensued until the election of President Tebboune in December 2019. Following early legislative elections in June 2021, a new government was appointed in July. Overall, macroeconomic imbalances increased significantly between 2013 and 2019: the budget deficit widened from 0.9 to 9.6 percent of GDP, government debt rose more than six-fold, and reserves declined from 32 to 17.6 months of imports. Faced with rising financing needs, the government resorted to monetary financing between 2017 and 2019.

3. **The pandemic further aggravated economic imbalances.** Despite the authorities' efforts to alleviate the health and social impact of the shock, the economy suffered a broad-based contraction in 2020. Official data shows that the number of job seekers rose by 673,000 while job offers declined by 130,000 (Agence Nationale de l'Emploi). The drop in oil prices widened the current account deficit, and international reserves continued to fall. Fiscal savings in the oil stabilization fund were spent.

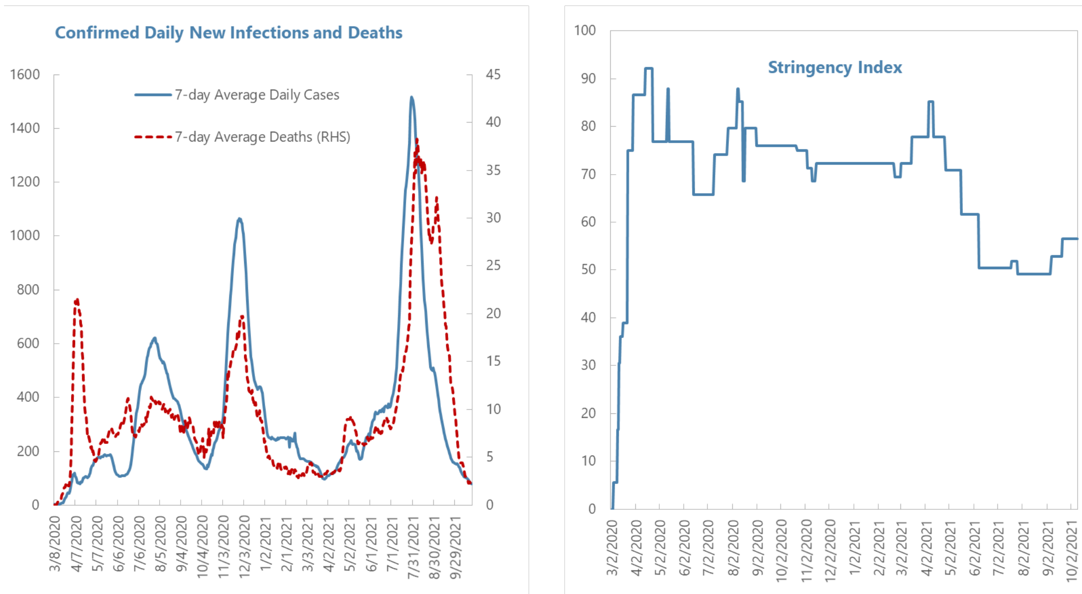
4. **The consultation focused on policies to mitigate the impact of the pandemic, address pre-existing economic vulnerabilities, and unlock Algeria's growth potential.** Discussions focused on a policy-mix to strengthen the post-Covid recovery by reducing macroeconomic imbalances while protecting the most vulnerable, and reinvigorating reforms to diversify the economy, improve economic governance, and revive growth.

# RECENT DEVELOPMENTS

5. **Like other countries, Algeria has been hit hard by the Covid-19 pandemic.** To date, Algeria has had over 205,000 infections and over 5,800 deaths out of a population of 44 million. Timely implementation of sanitary measures and an acceleration of the vaccination campaign in July 2021 have helped bring a third wave of infections under control (Text Figure 1). By mid-October, close to 11 million people (25 percent of the population) had received at least one dose

of the vaccine. Local production of the Sinovac vaccine since September is expected to boost Algeria's vaccination drive.

**Text Figure 1. Confirmed Coronavirus Infections and Deaths and Stringency Index**




Source: Our World in Data (https://ourworldindata.org/coronavirus/country/algeria), covid github data
Note: The Stringency Index, compiled by Oxford Coronavirus Government Response Tracker Project is a composite measure of nine response indicators including school closures, workplace closures and travel restrictions. It measures the strictness of governments' responses (100=strictest).

**6.** **The authorities implemented a comprehensive set of measures to cushion the economy**. In addition to containment and health measures, they eased fiscal policy through tax deferrals, increased health spending, allowances for the unemployed, and a one-off transfer to poor households (Table 1). The BA eased monetary policy by lowering the reserve requirement coefficient from 10 to 2 percent and the policy rate from 3.5 to 3 percent. It also relaxed prudential requirements. The dinar fell against the US dollar and the euro by about 13 and 16 percent respectively, between December 2019 and September 2021.

**7.** **A moderate recovery is underway, but inflation is rising.** After contracting by 4.9 percent in 2020, real GDP grew by 2.3 percent (y-o-y) in 2021Q1, reflecting a gradual pick-up in domestic activity following the easing of containment measures and higher external demand. Hydrocarbon production expanded by 7½ percent (y-o-y) over the same period. Inflation accelerated to a 12-month average of 4.1 percent in June 2021 driven by cost-push factors, including a drought episode in 2021, and base effects. Non-food inflation also rose, partly due to exchange-rate depreciation.

## Table 1. Algeria: Policy Response to COVID-19 in 2020–21

**Sanitary measures**

*2020:* Closure of international borders; shutdown of schools, universities, restaurants, and shops; cancellation of public and private events; shutdown of transportation services (internal and external); fully-paid mandatory leave for half of civil servants; targeted lockdowns of provinces. Most strict sanitary measures were lifted starting 2020H2.

*2021:* Targeted lockdowns and physical distancing requirements have been periodically reintroduced depending on the evolution of the pandemic. Sanitary restrictions were tightened in July 2021 and were subsequently relaxed as a third wave of infections receded.

**Fiscal policy**

*Tax measures* [1]

Extension of deadlines for the declaration and payment of income taxes for individuals and enterprises

Extension of the repayment calendar of overdue tax liabilities

Suspension of penalties for companies facing delays in completing public contracts

Temporary VAT and custom duty exemptions for imports of Covid-19 pharmaceutical products and medical equipment as well as of imports of inputs used in their production

*Cumulative expenditure measures (1.3 percent of GDP)* [2]

Purchase of medication and other medical equipment and sanitary measures, excluding vaccines *(0.1 percent of GDP)*

Vaccine procurement *(0.2 percent of GDP)*

Exceptional bonuses to civil servants on the frontline, mostly health workers *(0.5 percent of GDP)*

Social support measures to low-income households, the unemployed and selected sectors (*0.4 percent of GDP)*

**Monetary and macro-financial**

Reduction in policy rate by a cumulative 50 basis points from 3.50 to 3.00 percent.

Successive reductions in the reserve requirement ratio from 10 to 2 percent

Easing of solvency, liquidity and non-performing loan (NPL) ratios for banks and derogation to extend lending without additional NPL provisioning

Resumption of refinancing facilities to boost liquidity in the banking system

**Trade**

Various measures to cut the import bill (e.g. reduction in the capital budget of Sonatrach, lower services imports)

Ban on exports of several products: food, medical and hygiene items

Sources: Algerian Authorities, World Bank Economic Monitor for Algeria, and IMF staff estimates and calculations.

Notes:

1/ Listed tax measures were introduced under the 2020 supplementary budget law and the 2021 budget and supplementary budget laws. Their actual timeline is set by various decrees. Most temporary tax exemption measures will remain in place until the end of the pandemic. Most income tax deferral measures did not go beyond the end of the fiscal year; thus, staff expects their impact on the full-year tax collection in each of 2020 and 2021 to be somewhat small.

2/Measures above do not take into account any liabilites assumed by the government on account of guarantees on bank lending to state-owned enterprises or other corporates. Their cost is expressed in percent of the 2021 GDP.

8. **The current account deficit improved, after widening significantly following the concomitant oil price shock and OPEC+ production quotas in 2020.** It narrowed by 47.3 percent (y-o-y) in 2021H1, driven by higher hydrocarbons exports volumes and prices, the strong performance of nonhydrocarbon exports, and import compression policies. Higher net exports and the authorities' use of the 2021 IMF SDR allocation of US$2.67 billion to shore up FX reserves helped slow their decline. FX reserves reached US$46.2 billion (11.8 months of imports) at end-August, from US$48.2 billion (12.5 months of imports) at end-2020.

9. **The pandemic and oil shocks have caused further deterioration in public finances.** Large capital expenditure cuts in 2020 more than offset additional spending of around 1 percent of GDP in response to the pandemic and revenue losses from the support measures (Table 1). Hence, the nonhydrocarbon primary deficit (NHPD) narrowed by 3.3 percent of nonhydrocarbon GDP (NHGDP) to 24.2 percent of NHGDP in 2020. However, the sharp fall in oil revenue widened the overall budget deficit to 11.7 percent of GDP in 2020 from 9.6 percent in the previous year. Despite a recovery in hydrocarbon revenue, the fiscal plans announced in the 2021 supplementary budget law are expected to keep the fiscal deficit broadly stable in 2021, reflecting an increase in capital spending to underpin the economic recovery and combat the pandemic, as well as a delayed hit to domestic tax intake.

10. **Preliminary budget plans for 2022 envisage fiscal reforms and continued large deficits.** The 2022 budget draft provides for the creation of a cash compensation mechanism in preparation for a reform of universal subsidies and includes plans to broaden the income tax base and phase out inefficient taxes. In parallel, it incorporates fiscal easing measures to boost the recovery and support household purchasing power, including income tax cuts, wage increases, broader access to unemployment benefits and measures to promote access to housing. The fiscal deficit is projected at 11.8 percent of GDP based on staff's estimate.

11. **Meeting the treasury's large financing needs has remained challenging.** Financing needs in 2017 had prompted the revision of the banking law to authorize monetary financing for five years. The 2018 Article IV consultations advised against such measures, highlighting the risks to inflation, international reserves, and the BA's balance sheet (Annex I). In 2019, monetary financing—which had reached 32 percent of GDP— was halted. In 2020, the deficit was mostly financed by running down government and other public entities' deposits. The BA financed the government in 2021, by investing part of its equity in three-year treasury obligations for a cumulative DZD 520 billion (2.3 percent of GDP), and by extending temporary advances to the treasury of DZD 335 billion (1.5 percent of GDP), which have already been repaid.[1] In July 2021, the BA launched a DZD 2,100 billion (9.3 percent of GDP) special refinancing program (*Plan*

[1] Under Article 46 of the Central Bank Law, the BA can provide temporary advances to the government for up to 240 days in a calendar day, and up to 10 percent of the government's ordinary revenues observed in the previous fiscal year. The investment purchases (under Article 53 of the Central Bank Law) were conducted at significantly higher interest rates than the treasury bond purchases by the BA between 2017 and 2019.

*special de refinancement*, PSR) to extend fresh lending to the government and the rest of the economy under an operation involving the BA, state-owned banks (SOBs) and the treasury (Box 1).

**12. Financial stability risks have increased.** Non-performing loans, which increased sharply in 2019 amid domestic political strife, were exacerbated by the pandemic. While the BA's measures during the pandemic reduced banks' refinancing needs, some banks still face fragile liquidity situations and regularly need to access the interbank market. Despite high average solvency ratios (Table 7), the exposure of some SOBs to state-owned enterprises (SOEs) limits their ability to provide credit to the economy.[2]

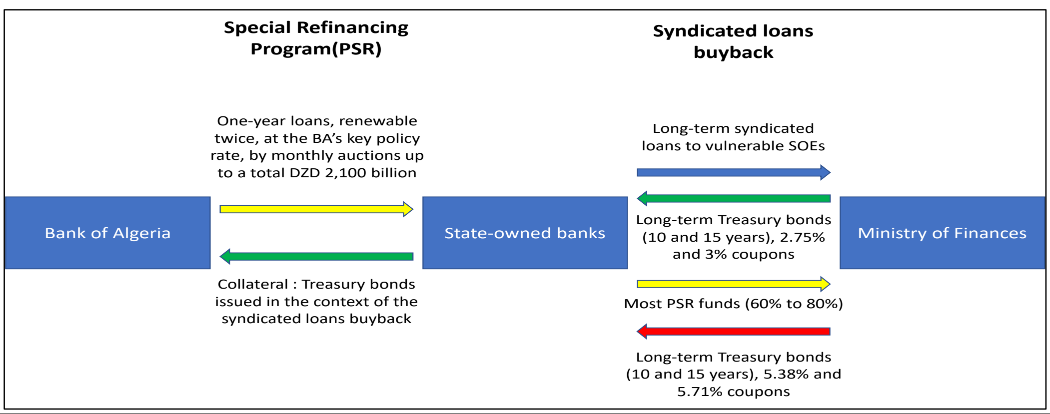
### Box 1. The SOE Debt Buyback and PSR Operations

**In June 2021, a financing operation involving the treasury, SOBs and the BA was set up to meet budget funding needs.** The main motivation for this arrangement was to increase lending capacity at the SOBs. This arrangement involves three steps:

i. The treasury swaps long-term syndicated loans (with long grace periods) to SOEs against long-term treasuries (with 10- and 15-year maturities), issued well below market rates.[1]

ii. The BA refinances SOBs using these securities as collateral under the PSR. These treasuries are the only eligible collateral in the PSR. The PSR is implemented through monthly fixed-rate refinancing operations, conducted at the BA's policy rate on a one-year maturity, for a maximum total volume set at DZD 2,100 billion (9.3 percent of GDP).[2] PSR operations are renewable twice and include an early repayment option.

iii. By agreement with the Ministry of Finance (MOF), SOBs invest most of their PSR funds into long-term treasuries, again issued below market rates.[3]




[2] Syndicated loans with maturity of up 25 years and grace periods of up to 10 years—provided at the request of the government to finance investment projects—weigh on these banks' liquidity.

### Box 1. The SOE Debt Buyback and PSR Operations (concluded)

**This operation could:**

i. *pose significant risks for monetary stability:* The BA's recognition as PSR collateral of long-term treasuries issued below market yields exposes its balance sheet to significant financial risks. Based on prevailing market yields, those treasuries are worth 60 to 65 percent of their nominal value, while the BA accepts them at their nominal value with an insufficient haircut (15 percent). If such operations are repeated rather than implementing fiscal consolidation, the BA is at risk of further misuse of its instruments to address fiscal needs. A renewal of the PSR would jeopardize the BA's monetary stability mandate, with adverse consequences for inflation and FX reserves.

ii. *put public finances at risk:* While it optically lowers borrowing costs through the issuance of significant volumes of long-term treasuries below market yields, it simultaneously transfers SOEs' long-term loans to the government's balance sheet. Thus, it causes a significant increase in public debt and raises fiscal risks should those loans become impaired.

iii. *cause moral hazard and may compromise SOBs' capacity to finance the economy:* The operation burdens participating SOBs' with overpriced long-term treasuries, which are likely to remain illiquid because they cannot be sold without generating losses. Consequently, they may become lastingly dependent on central-bank liquidity, causing risks to financial stability and monetary policy implementation.

[1/] These treasuries are issued at their nominal value, with coupons of 2.75 percent on the 10-year maturity and 3 percent on the 15-year maturity, vs. market yields exceeding 7.5 percent on those maturities.

[2/] At end-August 2021, the amount of refinancing under the PSR amounted to DZD 1,259 billion.

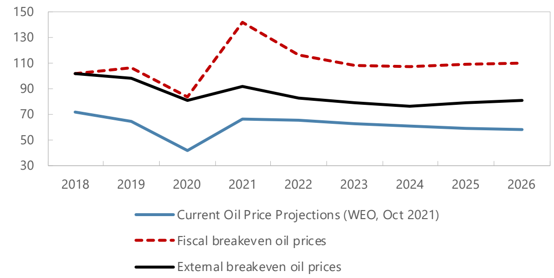
[3/] These treasuries are issued at their nominal value, with coupons of 5.38 percent on the 10-year maturity and 5.71 percent on the 15-year maturity.

# OUTLOOK AND RISKS

**13. Staff projects a moderate recovery in 2021, with growth at 3.2 percent.** Growth will be driven by the rebound in hydrocarbon production and prices as well as ongoing vaccination efforts. The external position—assessed to be substantially weaker in 2020 than the level implied by economic fundamentals and desirable policy (Annex II)—is projected to improve sharply in 2021. The current account deficit is projected to narrow to 4.9 percent of GDP, reflecting a pick-up in both hydrocarbon and nonhydrocarbon exports and a moderate increase in imports. Inflation is forecast to rise to 6.5 percent in 2021 on exogenous supply factors and accommodative monetary policy.

**14. The medium-term outlook remains challenging despite the recent increase in hydrocarbon prices.** Staff project that growth will taper off and output stagnate in the medium term. This reflects both a decline in hydrocarbon production because of capacity constraints and the global transition to greener energy. Oil prices are projected to normalize and stay below the average fiscal and external breakeven prices through the forecast period (Text Figure 2). Under the current macroeconomic policy mix, inflation is expected to continue to rise and international reserves to drop to low levels over the medium term. Fiscal space will shrink further, and government debt will rise, putting its sustainability at risk.

**Text Figure 2. Projected Crude Oil and Breakeven Prices**
**(US$/barrel)**




Source: IMF staff projections and calculations.
Note: The oil price projections are based on the October 2021 World Economic Outlook projections. Spot oil prices have risen since these projections were finalized.

**15. Risks are tilted to the downside.** Prospects for recovery are contingent on the evolution of oil prices, the pandemic and the social and geopolitical environment. The recent increase in hydrocarbon prices represents an upside. However, weaker SOE and bank balance sheets could pose fiscal risks, and the delicate social environment coupled with the recent increase in oil prices could delay needed adjustment (Annex III).

***Authorities' Views***

**16. The authorities assessed the outlook as favorable and foresee a sustained recovery.** In their view, timely policy measures have helped restore confidence, preserve resilience, and prevent a deterioration of corporate and bank balance sheets. They indicated that the increase in inflation was cyclical, primarily reflecting exogenous cost-push factors and speculation. They disagreed with staff's 2020 external balance assessment, arguing that the results are highly uncertain, given the limitations of econometric approaches in the face of large shocks and volatility.

# POLICY DISCUSSIONS

*The authorities' strategy aims to support the post-Covid recovery and reignite growth through accommodative macroeconomic policies and comprehensive reforms detailed in a new Government Action Plan (PAG). The pandemic and the ongoing structural shift towards renewable energy have underscored the need to accelerate the diversification of the economy away from hydrocarbons. Discussions focused on the delicate balance between preserving the recovery and reducing fiscal and external imbalances to foster medium-term growth in a context of rising economic hardship and reduced policy space. The role of enhanced economic governance and lower informality for inclusive growth was also discussed.*

**Text Table 1. Key Economic Reforms and Policy Initiatives of the Government Action Plan**

| Strategic pillar | Main areas of focus | Announced policy initiatives |
|---|---|---|
| **Consolidating rule of law and reforming governance** | Independence of the judiciary, good governance, efficient and transparent management of public finances, modernization of public administration including through digitalization | -Planned reform of the investment code and competition law to foster a sound business environment<br>-Planned legislative reform to decriminalize management acts and encourage risk-taking<br>-Forthcoming reform of the law on Money and Credit<br>-Ongoing efforts to promote digitalization and facilitate business creation, for example by revamping the one-stop shop |
| **Supporting economic recovery and renewal** | Supporting the recovery through the following: modernization of the banking and financial sector, reforms to the commercial public sector and state-owned enterprises, business climate, incentives for formalization, research and development, and emergence of start-ups, digitalization<br><br>Spurring new growth drivers through the following: development strategy for the energy and mining sectors including transition to renewable energy sources, agriculture and fishing, pharmaceuticals, and tourism<br><br>Export diversification and facilitation, including through updated or new free trade agreements<br><br>Support to small and medium entreprises | -Development of Islamic finance<br>-Measures to boost non-hydrocarbon exports including fiscal incentives<br>-Launch of domestic production of vaccines against Covid-19<br>-Personal income tax relief to support household purchasing power under the 2022 draft budget law<br>-Preparation of a legal framework for PPPs to sustain investment in infrastructure<br>-Preparation for the launch of large investment projects in infrastructure and mining, in partnership with foreign investors |
| **Reinforcing human development and social cohesion** | Creating jobs and reducing unemployment, promoting human capital, improving living conditions and enhancing efficiency and equity of social policies | -Planned reforms to improve the targeting of subsidies<br>-Planned reform of unemployment benefits<br>-Salary adjustment in the civil service under the 2022 draft budget law<br>-Hiring of youth in the civil service under the "Dipositif d'Aide à l'Insertion Professionnelle"(DAIP)<br>-Measures to enhance citizens' access to housing in the 2022 draft budget law<br>-Reinforced controls on the prices of foodstuff and fighting against speculation |

Source: Government of Algeria "Plan d'Action du Gouvernement", September 2021 (Chapters 1-3) and policy announcements about draft budget law for 2022.

## A. Authorities' Strategy

**17. The authorities' strategy aims to revive growth and reduce the dependence on hydrocarbons in the medium term.** This strategy is based on the development of new growth drivers, alternative sources of financing for the economy, and structural reforms to stimulate private investment, improve economic governance, and reduce vulnerabilities to corruption. The PAG includes a broad set of reform priorities to enhance governance, economic recovery and social cohesion (Text Table 1). Implementation is expected to start in 2022. Staff welcomed the authorities' strategy, underscoring the need for adequate costing and an implementation timeline.[3] Staff also highlighted the need to balance the benefits of some support measures against their costs. For instance, permanent tax incentives for specific sectors generate excessive costs for the budget and could distort competition and weaken the fairness of the tax system.

**18. Still, the underlying macroeconomic policy mix is risky.** The authorities' fiscal plans are expected to translate into substantial narrowing in the NHPD in the medium term. Despite savings on spending and revenue from reducing tax exemptions, the decline in hydrocarbon

[3] Staff's baseline scenario incorporates some of these reforms and assumes that spending is limited by financing constraints over the medium term; estimates will be refined once details about cost and implementation calendar become available.

production and rising debt service will result in continued high overall deficits of around 12 percent of GDP through 2026, giving rise to very large financing needs. This would put pressure on banks' balance sheets while raising risks of crowding out private-sector credit. Public debt would rise sharply, reaching close to 84 percent of GDP by 2026 (Annex IV). After improving in the coming years, the current account would widen again, causing FX reserves to fall to 3 months of imports by 2026.[4]

**19. Moreover, prolonged import compression policies could have deleterious effects.** The authorities have introduced measures to contain imports (Text Table 2). These together with conjunctural factors have contributed to a sharp reduction in goods imports from almost US$60 billion in 2014 to US$45 billion in 2019 and US$35.5 billion in 2020. Based on information provided by the authorities, staff has currently assessed that these measures do not constitute an exchange restriction. However, staff cautioned that their prolonged use risks reducing competition in products markets, raising prices, and undermining growth.

***Authorities' Views***

**20. The authorities considered staff's baseline projections pessimistic.** They deemed that the growth dividends and cost-savings from fiscal reforms will considerably reduce fiscal financing needs over the medium term. They also considered staff's assessment of risks from the PSR to be overstated given its limited size. They did not anticipate any need to renew the PSR. They indicated that regulation measures had helped substantially reduce the import bill—including by deterring over-invoicing and fraud—without adverse effects on supply and prices.

## B. Maintaining Macroeconomic Stability

**21. There was agreement that mitigating the human and economic cost of the pandemic are immediate priorities.** Higher health spending and targeted support to the most vulnerable and affected sectors would be warranted in the event of a resurgence of the pandemic. Fiscal space for such measures could be created by reprioritizing spending and reducing capital expenditures from their comparatively high current levels.

**22. At the same time, a tighter policy mix is needed to maintain macroeconomic stability.** This is particularly important, given the projected normalization of oil prices and longer-term implications of the global transition to renewable energy. Accordingly, staff presented an alternative scenario with the following policy mix: (i) a gradual but sustained fiscal consolidation; (ii) sufficient exchange-rate flexibility to facilitate adjustment and reduce the gap

[4] To maintain reserves at 3 months of imports, the baseline scenario assumes some external borrowing in 2026.

with the parallel market; and (iii) a recalibration of monetary policy (Annex V). The scenario also incorporates plans to support the recovery, while diversifying financing sources.

**Text Table 2. Algeria: Selected Import Compression Measures since 2016**

| Measure | Details |
|---|---|
| Ban on imports[1] | Cars (2016), 851 product categories including cell phones, home appliances, raw materials and some foodstuffs (2018); Semi-knocked down (SKD) and completely knocked-down (CKD) kits for vehicle assembly (2019) |
| Provisional additional safeguard duties (Droits Additionnels Provisioires de sauvegarde:DAPS) | The 2018 supplementary budget introduced additional duties ranging between 30% and 200% for 1095 tariff lines. The DAPS replaced the broad ban on imports introduced in 2018 (above). |
| 45-day term payment for imported goods[2] | The 2021 budget law stipulates that payment transfers are subject to a term of 45 days, starting from the day of shipment. Some categories of imports are exempt (e.g., “strategic" food products, emergency imports). |
| Other | Reduction in imports of SONATRACH (2020) and of services; import of passenger vehicles only by approved dealers subject to conformity with technical specifications (2021); requirement for importers to 'specialize' by registering for imports with homogenous activity codes within subgroups of products (2021). |

Sources: World Bank Spring Economic Monitor (2021); Government of Algeria Budgets (various)

Note:

[1]The import bans are mostly temporary in nature. The dates in parenthesis indicate the year in which the measures were introduced.

[2]Based on information provided by the authorities to staff, this measure has not been applied in practice to date.

**23. Staff emphasized the need to act simultaneously on all policy levers.** Fiscal consolidation is needed to restore the sustainability of public and external finances and should not be further postponed as delays would amplify the magnitude and costs of adjustment. In parallel, greater nominal exchange rate flexibility would support fiscal consolidation, help reduce REER overvaluation, and maintain reserve buffers. Monetary tightening would help consolidate the gains from adjustment and contain inflationary pressures. Staff emphasized the need for proactive communication on the adjustment strategy to muster support for policy recalibration.

**24. Fiscal effort starting in 2022 and over five years would stabilize debt and generate fiscal space while easing the impact of consolidation on the most vulnerable.** Staff recommended a medium-term fiscal consolidation strategy supported by structural reforms together with revenue and spending measures sufficient to narrow the NHPD by 10.5 percent of NHGDP over 2022–26, with sequencing that minimizes their social impact. The pace of fiscal consolidation should be adapted to the evolution of the pandemic and to domestic economic conditions. Consolidation efforts should rely on prioritizing capital expenditure while reforms to improve its efficiency would limit the fallout on growth. Savings on current spending could be achieved by reining in civil service hiring and following through on announced plans for subsidy reform (Box 2). The launch of a parametric reform in 2022 would help restore the sustainability of the pension system, although this will only yield savings in the long term (Box 3). Recouping tax arrears, phasing out unwarranted tax exemptions, and enhancing compliance and collection efficiency would boost nonhydrocarbon revenue. Enhancing progressivity of the tax system is also important for equity objectives. Windfall gains from a rise in hydrocarbon prices beyond the assumed trajectory should be used to rebuild fiscal buffers.

**25. Diversifying financing sources would avert the need for abrupt fiscal consolidation and mitigate risks to macroeconomic stability.** Measures to spur the development of the secondary debt market and promote financial deepening would support the government's financing over time. In the meantime, recourse to foreign borrowing, for instance to finance priority investment projects, could ease pressures on the domestic banking system and leave room for credit to the private sector. Staff recommended prohibiting monetary financing of the budget deficit, including by discontinuing the PSR to protect the independence of the BA and the ability of monetary policy to control inflation.

***Authorities' Views***

**26. The authorities broadly agreed on the need to recalibrate the policy stance and protect the most vulnerable, though they had a different view regarding the timing and calibration.** They considered that starting fiscal adjustment in 2022 would be premature, given the need to protect the nascent recovery. They projected that the fiscal deficit could be halved by 2023 through comprehensive reforms, including measures to recoup tax arrears, revisions to the tax code to encompass the informal sector in the tax base, better targeting of subsidies and spending efficiency gains from improvements in public financial management. The authorities also highlighted that the legislative framework for public-private partnerships (PPP) was currently under preparation and envisaged PPPs would minimize the on-budget cost of infrastructure investment.

**27. The authorities highlighted the considerable depreciation of the dinar since 2013**. The dinar has fallen by 45 percent against the dollar while the REER has depreciated by 15 percent. They did not consider the parallel-market rate as an appropriate benchmark given the volume and type of transactions on this market.

## Box 2. Towards Subsidy Reform in Algeria

**Algeria's subsidies entail large fiscal costs.** Several on-budget social transfers aim to provide affordable housing and ensure broad access to education and to low-cost basic food products, electricity, natural gas and water, for a total of 4 percent of GDP in 2019. Off-budget implicit subsidies mainly include foregone revenue from setting energy prices at levels below international market value or cost-recovery, and losses incurred by SONATRACH when importing fuel, which have led to episodic support by the government (5 percent of GDP in 2016). The cost of these implicit energy subsidies is estimated at 8 percent of GDP (authorities' calculation).

**Universal price subsidies are regressive, create inefficient incentives and distortions, and crowd out more efficient spending.** In Algeria, more affluent households consume significantly more subsidized products than low-income households and hence benefit relatively more from subsidies. There is over-consumption of subsidized products relative to peer countries—for instance, Algeria is the world's first per capita importer of powdered whole milk. Subsidies create an incentive to smuggle fuel products into neighboring countries with higher fuel prices. Finally, energy subsidies are harmful to the environment, contributing to higher pollution and global warming and discouraging investments in cleaner, renewable energy.

**Staff supports the authorities' intention, as announced in the PAG, to gradually shift away from universal subsidies to more targeted support for low-income households.** Immediate priority should be given to the costlier, more distortionary subsidies and those which affect low-income households the least. Mitigation measures—which could be financed from part of the savings generated by the reform—should be implemented to protect more vulnerable households from its impact, especially when tackling food subsidies. Price increases associated with phasing out subsidies should be staggered over time and, if needed, accompanied by an automatic pricing mechanism to hedge against political interference. A successful subsidy reform requires strong and committed leadership, and transparent communication on the reform strategy and compensation mechanisms. A review of the social safety net in Algeria would be useful to identify efficiency gains and targeting improvements.

**International experience suggests that well-designed subsidy reform carries growth dividends, with limited effects on inflation.** In the short run, the reform could have a negative growth impact and cause some inflation. However, experience in other MENA countries shows that these effects are transitory, especially when price increases are clearly planned and communicated in advance. In the long run, a well-designed subsidy reform could also have a positive effect on competitiveness and growth, thanks to the removal of price distortions, greater energy efficiency and expected boost in energy exports. By reallocating fiscal gains to the poor, the reform can also contribute to reducing inequality and poverty.

**Box 3. Ensuring the Sustainability and Equity of Algeria's Public Pension System**

**Algeria's pension system is relatively generous, both in terms of eligibility and benefits.** The system relies on two defined-benefit schemes—one for employees, one for the self-employed—whose payments are administered respectively by the *Caisse nationale des retraites* (CNR) and the *Caisse nationale de sécurité sociale des non-salariés* (CASNOS). The system provides high gross replacement rates of almost 80 percent for full career workers, compared with a 50 percent global average. While coverage is only 54 percent of the labor force, reflecting the informal sector, about 80 percent of the population has access to benefits thanks to generous eligibility criteria for dependents and survivors.

**Absent reforms, the scheme's already large deficit would further deteriorate, deepening sustainability concerns.** CNR, the larger of the two schemes, is already insolvent, as it only finances 45 percent of its benefit expenses from contributions, requiring subsidies, transfers and loans from the treasury and various extrabudgetary entities, including the main social security fund (3.5 percent of GDP in 2018). Maintaining current coverage, eligibility and replacement rates would double pension spending and increase pension system deficits to 8.9 percent of GDP by 2050.

**The main determinants of these challenges are structural.** The relatively high accrual rate—the share of pensionable income earned as pension each year—is disconnected from the contribution rate and from life expectancy at retirement. Pensions are based on short reference periods (5 years for CNR, 10 years for CASNOS), making benefits even more generous and aggravating distributional inequities. Therelaxed eligibility rules for survivorship pensions lack explicit financing mechanisms. Pension indexation and wage valorization mechanisms are discretionary, subjecting pensioners and the budget to uncertainty.

**A gradual reform strategy would ensure sustainability and more efficient targeting.** Contribution rates would need to double to bring the schemes to an equilibrium—a drastic, unrealistic increase. A more realistic reform scenario would imply a combination of gradual parametric adjustments, which would tackle both sustainability and equity considerations. These adjustments could reduce unfunded pension liabilities by more than half, and include retirement age increases, lower accrual rates, tightened eligibility for survivor pension, and rule-based wage valorization and benefit indexation.

## C. Reforming the Policy Framework to Support Adjustment

**28. Reforms to the fiscal policy framework would support and sustain adjustment by reducing the level and improving the composition of spending**. These should include:

- *Enhancing monitoring and management of contingent liabilities from SOEs*. Non-financial SOE debt is high (29 percent of GDP at end-2020 based on staff's estimate). Around two-thirds of this debt is publicly guaranteed and SOEs require periodic support from the government. The authorities should formulate and disclose an ownership strategy, and classify SOEs according to their viability, strategic importance, and nature of their activities, while strengthening governance. They also need to improve SOEs' financial reporting and transparency, develop a consolidated report on their financial performance, and reinforce their monitoring to manage fiscal risks.

- *Enhancing the efficiency and management of public investment.* The rationalization of investment expenditure should rely on a more attentive appraisal, selection and financial monitoring of public investment projects. Projects should be prioritized according to their feasibility, readiness, and economic impact. Staff warned against fiscal risks associated with PPPs and highlighted the importance of sound governance mechanisms, which include a clear, fair, and predictable legal framework, the ability for the MOF to stop PPP projects that are fiscally unaffordable and the transparent disclosure of all future budgetary costs and fiscal risks from PPPs.

- *Continuing to implement the organic budget law (OBL) to confirm the shift to modern public financial management practices*. Continued efforts, in line with IMF advice, towards the introduction of program budgeting and full-fledged medium-term budget and expenditure frameworks, and the rollout of modern information systems for fiscal management will help improve resource allocation choices and public policy implementation.

- *Improving the transparency of policy operations across the public sector*. Much budget information is outside of the public eye or published late. There is limited reporting of recent monetary financing, transfers from and between off-budget public entities, financial data and quasi-fiscal activities by SOEs. Staff highlighted the need to enhance budget integrity and comprehensiveness by regularly publishing information on budget outturns and off-budget operations.

***Authorities' Views***

**29. The authorities agreed with the reform priorities and noted that several measures have already been taken or feature in the PAG.** They highlighted that reforms to boost nonhydrocarbon tax revenue were under consideration and that plans have been announced for opening partially the capital of some SOEs to private investors. They also emphasized the progress achieved towards the implementation of the OBL and the rollout of new IT solutions for fiscal management.

**30. Monetary and financial sector policies can also help adjustment by enhancing monetary policy effectiveness and reducing macro-financial stability risks.** This requires:

- *Reinforcing the independence of the BA*. Communication on the use of the BA's instruments to achieve its legal mandates should be reserved to the BA.

- *Strengthening liquidity management*. Improved collateral and emergency liquidity-assistance (ELA) frameworks would help address liquidity shocks while maintaining sufficient reserve requirements (Annex VI). Moreover, a more active management of liquidity, based on an improved liquidity forecasting framework, would help transmit the key policy rate to the banking system and to the economy.

- *Reinforcing bank supervision and resolution frameworks*. Further strengthening of the supervision function and an effective resolution regime should be priorities in the face of systemic risks. Bank-specific issues should be addressed, including through asset quality reviews (AQRs), funding and capital plans, performance criteria for SOBs, and sound lending policies.

- *Strengthening governance at SOBs to mitigate financial stability risks from lending to SOEs.* SOBs should implement an effective business strategy and be run on a commercial basis. Ultimately, a controlled phasing-out of the government from their capital should be envisioned.

- *Developing the domestic debt market.* Bolstering market transparency, strengthening the medium-term debt strategy and the legal framework for public debt management and reinforcing investor protection would support that objective.

- *Improving the foreign-exchange regulatory framework.* The liberalization in 2021 of the surrender requirements for nonhydrocarbon and non-mineral exports is a step in the right direction. It should help foster the development of the interbank spot FX market. More generally, a simplification of FX regulations would help narrow the parallel market premium (30 percent on average over 2020–21), reduce market distortions and improve the effectiveness of monetary policy.

***Authorities' Views***

**31. The authorities broadly agreed with the staff's proposed financial sector reforms.** They indicated that revisions to the banking law were under consideration, which will reinforce the BA's independence. They highlighted steps to address supervision and systemic banking-liquidity issues identified in the 2020 Financial System Stability Assessment, drawing on IMF technical assistance. They emphasized that the BA had conducted AQRs and stress-testing and was working on improving short-term liquidity forecasting and the collateral framework and developing an ELA framework. They stressed their strong commitment to reform, confirmed by the BA's close engagement with the IMF on technical assistance. The authorities also noted that the governance of SOBs has been strengthened by separating their supervisory and executive functions and that a comprehensive financial sector reform was under consideration.

## D. Reforms to Unlock Algeria's Growth Potential

**32. Supporting the post-Covid recovery and developing Algeria's vast growth potential will require sustained structural reforms.** With the pandemic, change has become even more urgent. The PAG's objectives of economic diversification and development of high value-added sectors, international trade and FDI need far-reaching reforms. Priorities include reforms to economic governance and policies to foster private sector-led growth.

**33. Ongoing efforts to improve governance can be deepened further.**[5] While the *anti-corruption* framework is being strengthened, it would benefit from simplifying the institutional setting and more systematically applying sanctions against corruption. The legal framework regarding *AML/CFT*, as well as the effectiveness of existing AML/CFT measures, should be reinforced as pertains to domestic politically exposed persons, asset declaration regime and beneficial ownership transparency. While *fiscal governance* is improving with the modernization of fiscal management enabled by the OBL, there is room to increase transparency on fiscal operations, both on- and off-budget, modernize control mechanisms and IT systems, and strengthen MOF oversight on SOE finances and public investment projects. The legal framework provides for key elements of sound *central bank governance* — clear mandates, transparency obligations, oversight mechanism — but central bank independence needs to be strengthened. And despite recent efforts to reduce monopolies and obstacles to FDI, the *regulatory climate* could benefit from further easing in product market regulation, trade, foreign investment and FX transactions, and from improving private sector access to information.

**34. Staff highlighted a set of priority reform areas to improve governance and reduce potential for corruption.** These include (i) enhancing transparency across the public sector; (ii) reducing administrative complexity and burdensome procedures; (iii) mitigating risks of political interference by strengthening independence of bodies outside the executive; (iv) reinforcing government oversight and control capacities, especially on SOE finances, tax compliance and asset declaration; (v) anchoring good governance principles in the legal framework and improving its effective application; and (vi) reinforcing digitalization efforts to increase the efficiency of monitoring and control procedures.

**35. Reducing barriers and disincentives to entry into the formal sector is an important prerequisite for the emergence of a dynamic private sector.** Staff discussed findings of analytical work which suggest that heavy regulatory burdens and policy distortions play an important role in explaining informality in Algeria (Annex VII). Staff recommended measures to: (i) create an enabling environment for private-sector participation through labor and product markets, and financial sector reforms; (ii) minimize distortions from tax policy and strengthen tax collection; (iii) promote a culture of compliance with laws and regulations through governance reforms.

***Authorities' Views***

**36. The authorities agreed on the need to improve governance and to reduce informality, noting that both issues feature prominently in the PAG.** The authorities broadly

[5] Staff diagnostics and recommendations (Table 2) focused on six key areas. These include the anti-corruption framework; financial sector oversight and anti-money laundering and combating the financing of terrorism (AML/CFT); budget management; SOE governance; central bank governance; and transparency in the hydrocarbons sector.

concurred with the mission's diagnostic and the proposed priority reforms. After the recent introduction of a citizens' budget, the full implementation of the OBL by 2023 and ongoing digitalization efforts will further contribute to improving budget transparency. Future reforms to enhance SOE oversight and to strengthen public investment management practices are under discussion. The authorities anticipate that comprehensive tax reforms and financial inclusion efforts will create new incentives to participate in the formal economy.

## Table 2. Algeria: Governance Assessment - Overview of the Main Areas for Improvement and Key Recommendations

| KEY AREAS FOR IMPROVEMENT | BROAD RECOMMENDATIONS |
|---|---|
| **Anti-Corruption Framework** | |
| - Early stages of evidence-based framework for anti-corruption policy and coordination<br>- Room to improve the enforcement of anti-corruption legislation<br>- Lack of financial and institutional independence of anti-corruption and judicial institutions | - Develop robust and comprehensive corruption assessment and risk mapping process<br>- Systematically enforce sanctions against corruption, including routine application of asset recovery mechanisms<br>- Ensure greater operational autonomy of anti-corruption and judicial institutions |
| **AML/CFT** | |
| - Omission of key assets and of sources and value of income in the asset declaration regime and partial implementation of the existing regime due to resource constraints<br>- Non-coverage of domestic politically-exposed persons in the current legal framework regarding preventive measures required from financial institutions<br>- Limited accuracy and accessibility of beneficial ownership information | - Bolster the asset declaration regime and increase effectiveness of existing regime implementation, including through better access of asset declarations to the public<br>- Amend the legislation to require financial institutions to implement preventive measures with respect to domestic politically exposed persons<br>- Facilitate the verification and accessibility of beneficial ownership information |
| **Budget Management** | |
| - Limited and irregular publication of budget data and information, lack of systematic reporting on off-budget operations, and lack of transparency regarding appraisal and selection criteria of investment projects<br>- Scope for improving control and enforcement mechanisms for revenue collection, impeding tax compliance<br>- Limited access to information on public procurement | - Enhance fiscal transparency through timely publication of draft budget laws, budget execution reports (including in-year) and information on public investment projects and off-budget operations<br>- Invest in IT systems and digital solutions (revenue, expenditure, public investment, procurement) to enable faster controls and limit human intervention<br>- Adopt legal reforms to boost public procurement transparency requirements |
| **SOE Governance** | |
| - Fragmented government oversight over SOEs<br>- SOE corporate governance practices not aligned with international standards<br>- Limited transparency and disclosure on SOE financials and activities | - Reinforce and professionalize financial oversight over SOEs, especially within the ministry of finance<br>- Enhance SOE corporate governance by enacting new SOE Law following international standards<br>- Adopt common transparency policy for all SOEs and publish financial reports of individual SOEs and consolidated report on the financial performance of the SOE portfolio |
| **Central Bank Governance** | |
| - Insufficiently restrictive legal framework on monetary financing<br>- Scope for improving central bank communication on its monetary policy and financial stability mandates<br>- Challenges in institutional setting for banking supervision<br>- Difficult supervision of deposit-taking state-owned banks which at times have a quasi-fiscal mandate | - Reinforce the legal framework to prevent monetary financing<br>- Conduct a Central Bank Transparency Code review (IMF methodology)<br>- Reserve any public communication on its policies and instruments exclusively to the central bank<br>- Streamline and reinforce the institutional setting for banking supervision and apply sanctions when warranted<br>- Reform the governance of state-owned banks, including through more professional government oversight and more effective internal controls and risk management |
| **Hydrocarbon Transparency** | |
| - Possibility of granting hydrocarbon contracts by direct negotiation without criteria or conditions established by law<br>- Scope for improving legal requirements and practices for disclosure of hydrocarbon bidding processes, contract award and administration | - Introduce legal reform to clarify cases where exceptions to competitive bidding are allowed and to require enhanced transparency through the entire hydrocarbon contract bidding, award and administration processes. |

Source: IMF staff.

# STAFF APPRAISAL

**37. Timely sanitary measures and stepped-up vaccination have helped contain the impact of Covid-19 pandemic in Algeria.** A third wave of the pandemic in July 2021 was brought under control. Around 11 million people have received a first dose of vaccine and the local production of the Sinovac vaccine since late September should boost the government's immunization drive. A gradual recovery has started, supported by the increase in hydrocarbon prices and production.

**38. The pandemic has nevertheless compounded economic woes, stemming from a succession of adverse shocks.** The pandemic and concomitant oil shock in 2020 came on the heels of difficult years during which the economy's attempts to adjust to the decline in oil prices since 2014 were disrupted by domestic political developments. The pandemic exacerbated the loss of international reserves and the increase in public debt. Real GDP growth fell for the sixth consecutive year, turning negative in 2020, and unemployment increased.

**39. A gradual recovery is underway but long-standing macroeconomic imbalances have left policymakers with significantly reduced policy space.** Continued large fiscal deficits have contributed to elevated external current account deficits, despite import compression policies, and given rise to large financing needs which were largely met through the central bank. The fiscal and external deficits widened further in 2020 and international reserves continued to fall.

**40. While welcoming the authorities' reform strategy, staff cautions against the underlying macroeconomic policy mix.** The authorities need to strike a delicate balance between preserving the post-Covid recovery and reducing fiscal and external imbalances to foster medium-term growth. This requires continued support to the vulnerable and the health sector. At the same time, rising concerns about Algeria's external and debt sustainability need to be addressed. Reforms announced in the PAG are welcome and support medium-term growth. However, in the absence of policy recalibration, persistently high fiscal deficits would give rise to very large financing needs, deplete FX reserves, and pose risks to inflation, financial stability and to the BA's balance sheet. The banking system's capacity to lend to the rest of the economy would be severely hampered, with adverse consequences for growth.

**41. A more prudent strategy would help achieve better economic outcomes in the medium term and strengthen the economy's resilience**. A policy mix including fiscal consolidation starting in 2022, greater exchange rate flexibility together with monetary tightening could help address fiscal and external imbalances. This adjustment should be adapted to the evolution of the pandemic and to domestic economic conditions, including through policies to mitigate its impact on vulnerable groups.

42. **Monetary financing should be discontinued to stem inflation, contain the depletion of FX reserves, and avoid financial instability**. Budget financing sources should be diversified, including through external borrowing for priority investment projects, for instance. The financial arrangement between the BA, SOBs and the Treasury results in a more rapid increase in public debt and generates moral hazard in SOEs and public banks. Syndicated loans now recorded as government assets are a source of fiscal risk that would materialize in case of partial or total write-off of these loans.

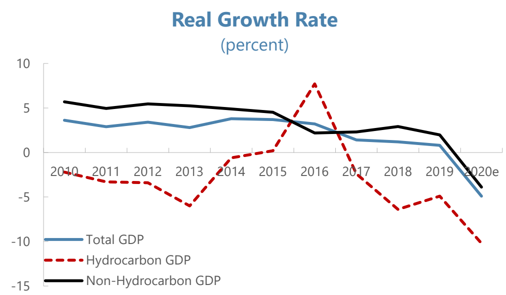
43. **The strategy should be supported by strengthening policy frameworks to underpin adjustment while mitigating fiscal and financial stability risks.** The authorities should sustain efforts to modernize budget management, monitor fiscal risks, especially from investment projects and SOEs, and enable public-sector efficiency gains. Strengthening liquidity management would help make monetary policy more effective. Reinforcing the independence of the BA would help protect its operations and its price stability mandate. Financial stability risks can be mitigated by reinforcing bank supervision and the crisis management framework. Efforts to strengthen governance at SOBs and reduce risks from lending to SOEs should be enhanced.

44. **To support the transition to a more sustainable growth model, structural reforms should be intensified**. This includes reforms to strengthen transparency, reduce burdensome procedures and reinforce digitalization efforts, mitigate risks of political interference, anchor good governance in the legal framework and reinforce oversight across the public sector; and reduce barriers to entry into the formal sector. The authorities' efforts to scale back restrictions to FDI and plans to modernize the legal framework for investment and competition—which would help diversify the economy and foster private sector investment and job creation—are a step in the right direction. Tapering off import compression measures is advisable—their prolonged use risks reducing competition in product markets, raising prices, and undermining growth. Also welcome are recent announcements about plans to reduce administrative burdens and strengthen the anti-corruption institutional framework.

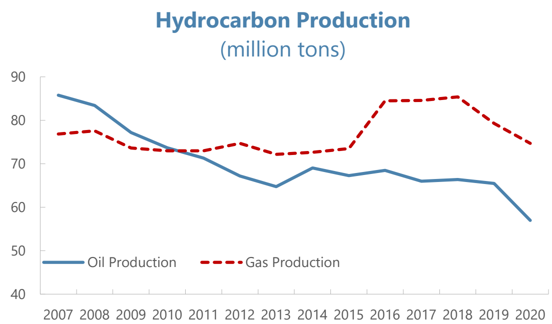
45. **Staff recommends that the next Article IV consultation take place on the standard 12-month cycle.**

## Figure 1. Algeria: Selected Macroeconomic Indicators

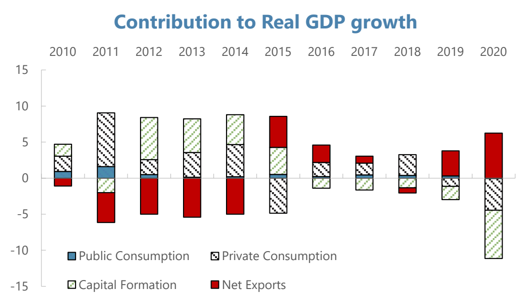
*A succession of exogenous shocks since 2014 has caused a steady slowdown in growth. The pandemic and oil price slump prompted a record GDP contraction in 2020.*



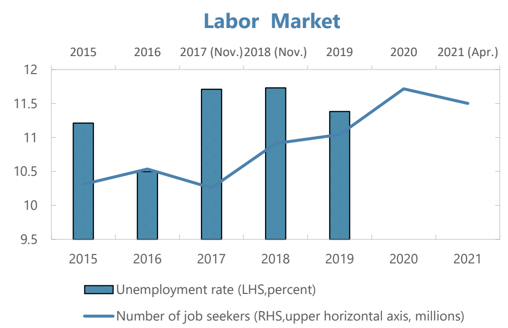

*Oil extraction has been declining since 2007, while gas production has been rising. OPEC+ quotas and lower demand led to sharp production cuts in 2020.*



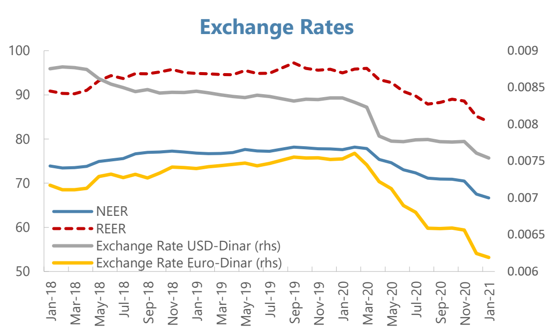

*The slowdown in growth since 2015 has been driven by domestic demand.*



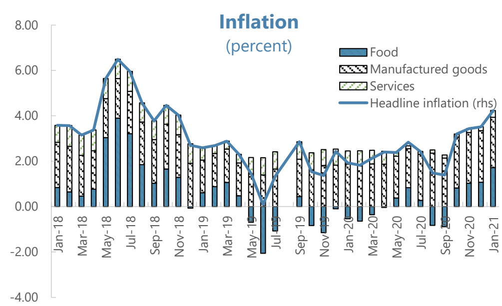

*The pandemic had a strong impact on the unemployment rate which has likely risen in 2020.*




*The authorities allowed moderate exchange rate adjustment in nominal and real terms in the second half of 2020.*




*Inflation picked up pace in 2021, on delayed exchange rate pass-through and cost-push factors.*

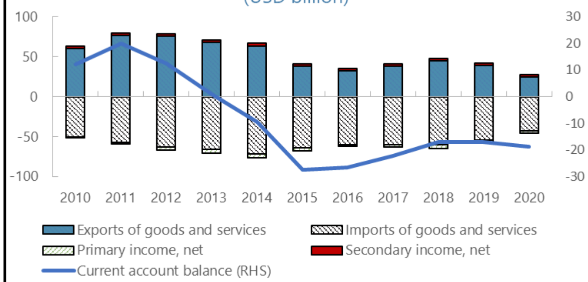



Source: Algerian Authorities and IMF staff estimates.

## Figure 2. Algeria: External Sector Developments

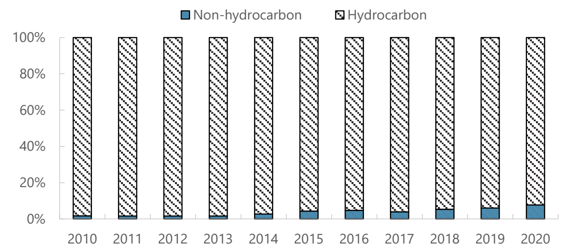
*The decline in hydrocarbon prices and production since 2014 has turned Algeria's current account surpluses into large deficits.*

**Current Account**
(USD billion)



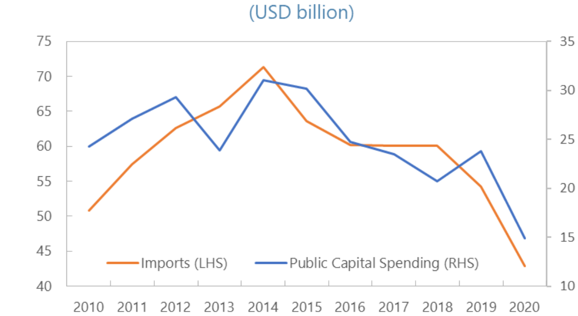

*Algeria's exports base remains highly concentrated.*

**Composition of Goods Exports**
(Percent)



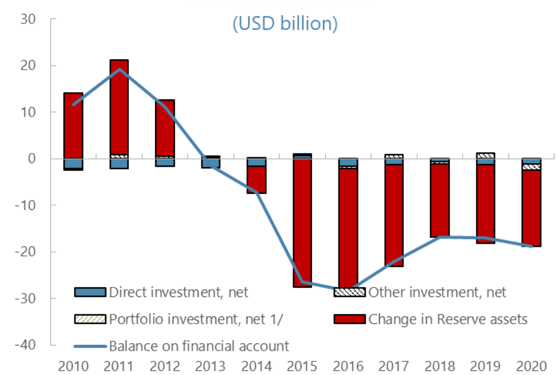

*The dynamics of imports followed closely those of public capital spending.*

**Public Capital Spending and Imports**
(USD billion)



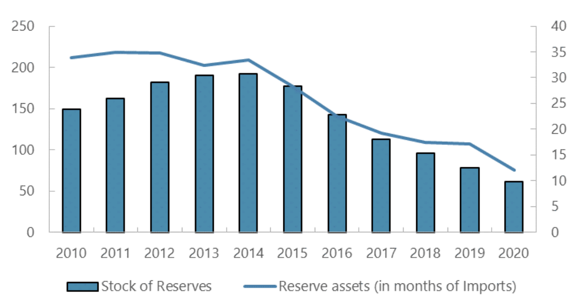

*Current account deficits have been financed by running down reserves given limited financial inflows.*

**Financial Account**
(USD billion)



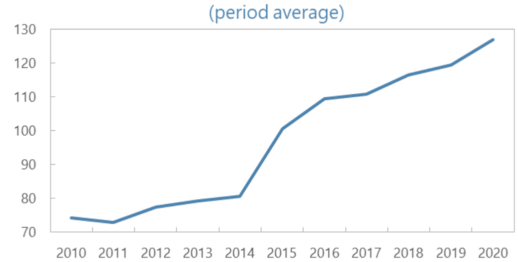

*FX reserves declined rapidly and reached around 12 months of imports at end-2020.*

**Stock of Reserve assets**




*The Algerian dinar/US dollar exchange rate depreciated significantly between 2010 and 2020.*

**Algerian Dinar/US Dollar Exchange Rate**
(period average)

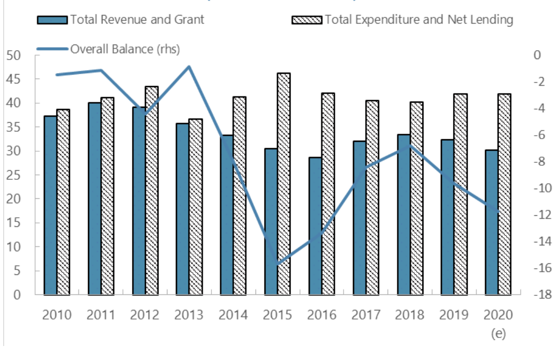



Source: Algerian Authorities and IMF staff estimates.

## Figure 3. Algeria: Fiscal Indicators

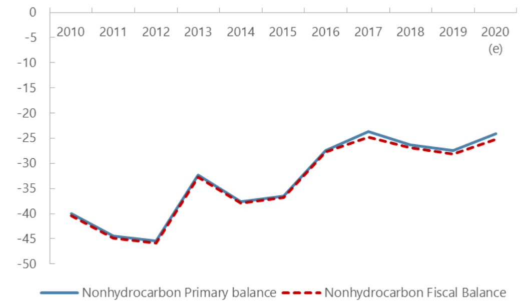
*The evolution of the overall budget balance has been mostly a function of fluctuations in oil revenue.*

**Government Revenue and Spending**
(Percent of GDP)



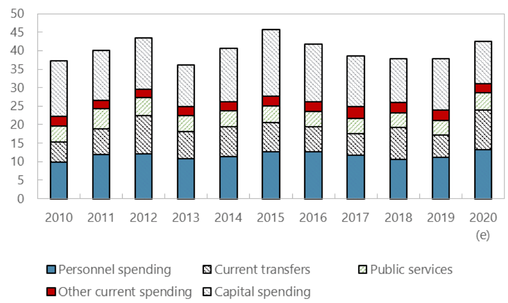

*Nonhydrocarbon fiscal deficits have gradually narrowed since 2012.*

**Nonhydrocarbon Balance**
(Percent of Nonhydrocarbon GDP)



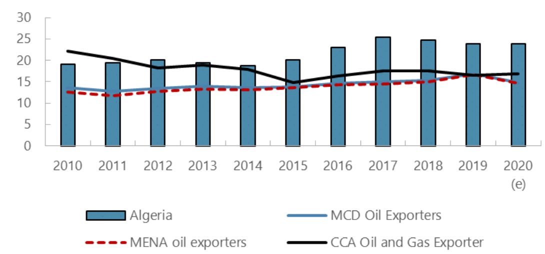

*Savings have been achieved on current transfers since 2012 but capital outlays are high.*

**Composition of Government Expenditure**
(Percent of GDP)



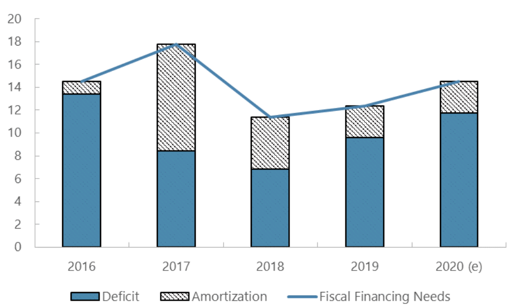

*Nonhydrocarbon revenue is similar to peers in the region.*

**Nonhydrocarbon revenue to Nonhydrocarbon GDP**
(Percent)



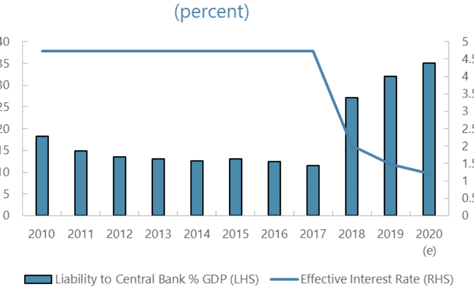

*Meeting large fiscal financing needs from domestic sources has been challenging.*

**Fiscal Financing Needs**
(Percent of GDP)




*Substantial borrowing from the central bank since 2017 has suppressed debt interest costs.*

**Liability to Central Bank and Effecitve Interest Cost**
(percent)



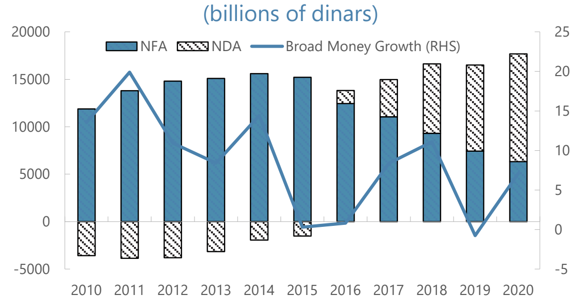

Source: Algerian Authorities and IMF staff estimates.

## Figure 4. Algeria: Monetary and Financial Sector Indicators

*Broad money growth has been subdued in recent years as the decline in net foreign assets partly offset the growth in net domestic assets.*

**Broad Money Growth and Components**

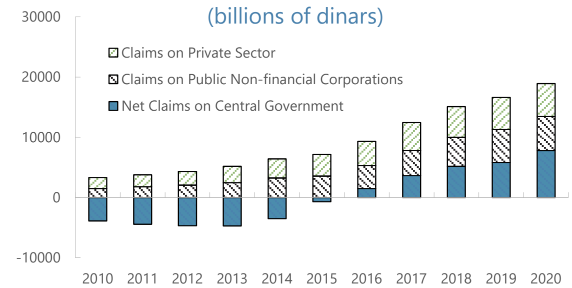
(billions of dinars)




*The increase in net domestic assets was driven by growing net credit to the government.*

**Net Domestic Credit**

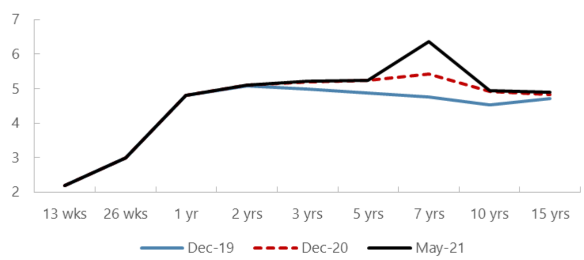
(billions of dinars)




*Government bond yields have started to increase as direct central bank financing under Article 45 ceased in 2019.*

**Government Bond Yields**

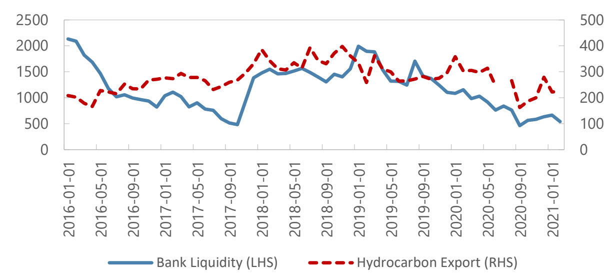
(Percent)




*Banking sector liquidity fell in tandem with the decline in hydrocarbon exports.*

**Bank Liquidity and Hydrocarbons Exports**

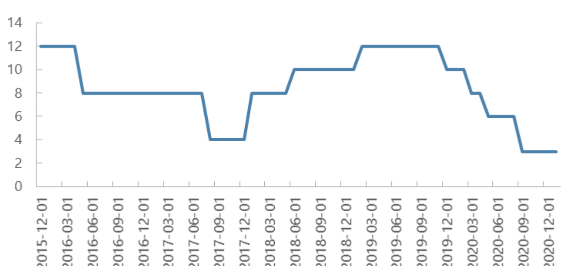
(billions of dinars)




*The Bank of Algeria lowered reserve requirements during the pandemic to boost liquidity.*

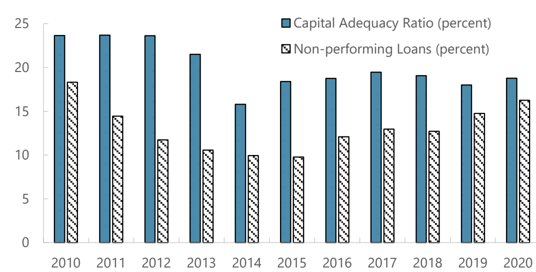
**Reserve Requirement**

(Percent)




*The deterioration in banks' asset quality threatens public banks' capital buffers.*

**Selected Financial Soundness Indicators**




Source: Algerian Authorities.

## Table 3. Algeria: Selected Economic and Financial Indicators, 2016–26

| | 2016 | 2017 | 2018 | 2019 | Prel. 2020 | Projections 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Output and prices | | | | | (Annual percentage change) | | | | | | |
| Real GDP | 3.2 | 1.4 | 1.2 | 0.8 | -4.9 | 3.2 | 2.4 | 1.8 | 0.7 | 0.0 | 0.1 |
| Hydrocarbon sector | 7.7 | -2.4 | -6.4 | -4.9 | -10.2 | 9.4 | 2.1 | 3.2 | -0.8 | -1.9 | -0.1 |
| Nonhydrocarbon sector | 2.2 | 2.3 | 2.9 | 2.0 | -3.9 | 2.0 | 2.4 | 1.5 | 1.0 | 0.3 | 0.2 |
| Per capita | 1.0 | -0.8 | -0.8 | -1.2 | -6.6 | 1.3 | 0.7 | 0.1 | -0.8 | -1.5 | -1.4 |
| Consumer price index (period average) | 6.4 | 5.6 | 4.3 | 2.0 | 2.4 | 6.5 | 7.7 | 8.8 | 9.9 | 10.8 | 10.9 |
| Investment and savings | | | | | (In percent of GDP) | | | | | | |
| Savings-investment balance | -16.5 | -13.1 | -9.6 | -9.9 | -12.7 | -4.9 | -3.6 | -3.5 | -4.7 | -5.8 | -6.1 |
| National savings | 34.2 | 35.4 | 37.6 | 36.1 | 29.9 | 35.3 | 36.7 | 35.0 | 32.4 | 30.4 | 29.3 |
| Central government | 2.1 | 5.4 | 5.0 | 4.3 | -1.6 | -1.2 | -1.2 | -2.2 | -2.9 | -3.6 | -3.7 |
| Nongovernment 1/ | 32.1 | 30.0 | 32.6 | 31.8 | 31.5 | 36.6 | 37.9 | 37.2 | 35.3 | 34.0 | 33.0 |
| Investment | 50.8 | 48.5 | 47.3 | 46.0 | 42.6 | 40.2 | 40.3 | 38.6 | 37.1 | 36.2 | 35.4 |
| Central government | 15.5 | 13.8 | 11.8 | 13.9 | 10.1 | 10.5 | 10.6 | 9.9 | 9.1 | 8.4 | 8.5 |
| Nongovernment 1/ | 35.3 | 34.7 | 35.5 | 32.1 | 32.5 | 29.7 | 29.7 | 28.7 | 28.0 | 27.8 | 26.9 |
| o/w Nongovernment nonhydrocarbon | 29.3 | 30.7 | 29.5 | 25.5 | 28.7 | 26.8 | 26.9 | 26.2 | 25.7 | 25.6 | 25.3 |
| Central government finances | | | | | (In percent of GDP) | | | | | | |
| Revenue | 28.6 | 32.0 | 33.4 | 32.3 | 30.1 | 28.0 | 27.6 | 27.0 | 26.9 | 26.7 | 26.7 |
| Expenditure (incl. net lending) | 42.0 | 40.5 | 40.2 | 41.9 | 41.9 | 39.8 | 39.4 | 39.1 | 38.9 | 38.8 | 39.0 |
| Overall budget balance | -13.4 | -8.4 | -6.8 | -9.6 | -11.7 | -11.8 | -11.8 | -12.0 | -12.0 | -12.0 | -12.2 |
| Central bank financing (flow) | 0.0 | 11.6 | 16.5 | 4.9 | 0.0 | 2.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Gross government debt (excluding guarantees) | 20.4 | 26.8 | 37.8 | 45.8 | 50.7 | 59.2 | 65.4 | 71.1 | 76.0 | 80.1 | 83.8 |
| | | | | | (In percent of nonhydrocarbon GDP) | | | | | | |
| Nonhydrocarbon primary balance | -27.5 | -23.7 | -26.3 | -27.5 | -24.2 | -28.1 | -28.6 | -27.2 | -24.1 | -21.5 | -20.2 |
| Nonhydrocarbon balance | -27.8 | -24.8 | -26.9 | -28.2 | -25.2 | -28.7 | -30.2 | -29.8 | -28.0 | -26.7 | -26.2 |
| Revenue | 34.6 | 39.9 | 42.9 | 40.2 | 34.5 | 35.2 | 34.4 | 33.2 | 32.3 | 31.5 | 31.0 |
| Hydrocarbon | 11.6 | 14.3 | 18.2 | 16.2 | 11.8 | 14.0 | 15.5 | 15.0 | 13.6 | 12.5 | 12.0 |
| Nonhydrocarbon | 23.0 | 25.5 | 24.8 | 23.9 | 22.8 | 21.2 | 18.9 | 18.2 | 18.7 | 18.9 | 19.0 |
| Expenditure (including net lending) | 51.2 | 50.6 | 51.9 | 52.3 | 48.3 | 50.0 | 49.1 | 48.0 | 46.7 | 45.6 | 45.2 |
| Current expenditure | 31.6 | 30.8 | 33.4 | 29.8 | 30.6 | 31.5 | 31.0 | 31.8 | 32.0 | 32.3 | 32.3 |
| Capital expenditure | 18.7 | 17.2 | 15.2 | 17.3 | 11.6 | 13.2 | 13.2 | 12.1 | 10.9 | 9.9 | 9.9 |
| Net lending | 0.8 | 2.6 | 3.3 | 5.3 | 6.0 | 5.2 | 4.8 | 4.1 | 3.8 | 3.5 | 3.1 |
| External sector 2/ | | | | | | | | | | | |
| Current account balance (percent of GDP) | -16.5 | -13.1 | -9.6 | -9.9 | -12.7 | -4.9 | -3.6 | -3.5 | -4.7 | -5.8 | -6.1 |
| Exports, f.o.b. (percent change) | -15.9 | 19.0 | 19.1 | -14.2 | -37.9 | 69.1 | 8.3 | -1.4 | -6.5 | -5.5 | -1.8 |
| Hydrocarbons | -16.4 | 20.0 | 17.2 | -14.5 | -39.8 | 62.7 | 8.3 | -2.5 | -7.8 | -6.6 | -2.3 |
| Nonhydrocarbons | -6.2 | -1.9 | 62.3 | -6.7 | -7.7 | 135.7 | 8.4 | 6.5 | 2.0 | 1.0 | 0.8 |
| Imports, f.o.b. (percent change) | -6.1 | -0.9 | -0.8 | -8.1 | -20.4 | 7.4 | 1.4 | -0.7 | 1.1 | 2.3 | 1.9 |
| Crude oil export unit value (US$/bbl) | 45.5 | 54.1 | 71.2 | 64.5 | 42.1 | 66.6 | 65.6 | 62.7 | 60.6 | 59.1 | 58.1 |
| Share of hydrocarbons in total exports (in percent) | 95.2 | 96.0 | 94.5 | 94.1 | 91.3 | 87.9 | 87.8 | 86.9 | 85.7 | 84.7 | 84.3 |
| Gross official reserves | | | | | | | | | | | |
| In US$ billions | 114.1 | 97.3 | 79.9 | 62.8 | 48.2 | 43.6 | 38.5 | 33.3 | 25.6 | 15.2 | 12.3 |
| In months of next year's imports of goods and services | 22.8 | 19.4 | 17.7 | 17.6 | 12.5 | 11.1 | 9.9 | 8.4 | 6.3 | 3.7 | 3.0 |
| Gross external debt (percent of GDP) | 2.4 | 2.3 | 2.3 | 2.2 | 2.4 | 2.0 | 1.9 | 1.7 | 1.6 | 1.5 | 5.4 |
| Money and credit | | | | | (Annual percentage change unless otherwise indicated) | | | | | | |
| Net foreign assets | -18.3 | -11.1 | -15.8 | -20.3 | -14.9 | -12.8 | -7.9 | -10.2 | -21.7 | -43.3 | -19.3 |
| Credit to the economy | 8.8 | 11.9 | 12.3 | 9.0 | 3.0 | 1.8 | 5.6 | 4.8 | 7.3 | 9.7 | -1.1 |
| Money and quasi-money | 0.8 | 8.4 | 11.1 | -0.8 | 7.4 | 17.0 | 13.3 | 12.8 | 12.3 | 12.0 | 11.5 |
| Memorandum items: | | | | | | | | | | | |
| GDP (in billions of dinars at current prices) | 17,515 | 18,876 | 20,452 | 20,428 | 18,724 | 22,606 | 24,771 | 27,284 | 30,207 | 33,550 | 37,431 |
| NHGDP (in billions of dinars at current prices) | 14,489 | 15,177 | 15,904 | 16,438 | 16,345 | 17,990 | 19,879 | 22,197 | 25,152 | 28,520 | 32,252 |
| GDP (in billions of US$ current prices) | 160 | 170 | 175 | 171 | 148 | … | … | … | … | … | … |
| GDP capita per (in US$) | 3,919 | 4,080 | 4,119 | 3,940 | 3,337 | 3,716 | 3,817 | 3,939 | 4,089 | 4,261 | 4,460 |
| Exchange rate (DA per US$) | 109.4 | 110.9 | 116.6 | 119.4 | 126.9 | … | … | … | … | … | … |
| REER (percent change) | -1.0 | 2.4 | -4.7 | 2.3 | -4.6 | … | … | … | … | … | … |

Sources: Algerian authorities; and IMF staff estimates and projections.
1/ Including public enterprises.
2/ In U.S. dollars.

## Table 4. Algeria: Balance of Payments, 2016–26

(in billions of US dollars)

| | | | | | | Projections | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
| Current account | -26.5 | -22.3 | -16.9 | -17.0 | -18.7 | -8.2 | -6.3 | -6.4 | -9.1 | -11.9 | -13.3 |
| Balance on goods | -20.4 | -14.4 | -7.5 | -9.3 | -13.6 | -1.1 | 1.4 | 1.1 | -1.9 | -4.8 | -6.2 |
| Exports, f.o.b. | 29.1 | 34.6 | 41.2 | 35.3 | 21.9 | 37.1 | 40.1 | 39.6 | 37.0 | 34.9 | 34.3 |
| Hydrocarbons | 27.7 | 33.2 | 38.9 | 33.2 | 20.0 | 32.6 | 35.3 | 34.4 | 31.7 | 29.6 | 28.9 |
| Other | 1.4 | 1.4 | 2.2 | 2.1 | 1.9 | 4.5 | 4.9 | 5.2 | 5.3 | 5.4 | 5.4 |
| Imports, f.o.b. | 49.4 | 49.0 | 48.6 | 44.6 | 35.5 | 38.2 | 38.7 | 38.4 | 38.8 | 39.7 | 40.5 |
| Balance on services | -7.4 | -8.0 | -8.3 | -6.4 | -4.4 | -5.1 | -5.4 | -5.4 | -5.4 | -5.6 | -5.8 |
| Exports | 3.4 | 3.1 | 3.3 | 3.2 | 3.0 | 3.0 | 3.1 | 3.0 | 3.1 | 3.0 | 3.0 |
| Imports | 10.8 | 11.1 | 11.5 | 9.6 | 7.4 | 8.1 | 8.5 | 8.4 | 8.5 | 8.7 | 8.9 |
| Primary Income (net) | -1.6 | -2.8 | -4.6 | -4.3 | -3.0 | -4.4 | -4.9 | -4.9 | -4.6 | -4.3 | -4.3 |
| Inflows | 2.4 | 2.0 | 1.2 | 1.0 | 0.8 | 0.7 | 0.6 | 0.5 | 0.4 | 0.3 | 0.2 |
| Outflows | -4.0 | -4.9 | -5.7 | -5.3 | -3.8 | -5.1 | -5.5 | -5.4 | -5.0 | -4.6 | -4.5 |
| Interest payments | 0.0 | 0.0 | 0.0 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.5 |
| Secondary income (net) | 2.8 | 2.9 | 3.4 | 3.0 | 2.3 | 2.4 | 2.6 | 2.7 | 2.8 | 2.9 | 3.0 |
| Capital and financial account | 28.3 | 22.1 | 16.9 | 16.9 | 18.8 | 8.3 | 6.3 | 6.4 | 9.1 | 11.9 | 13.3 |
| Capital account | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Foreign Direct Investment | 1.6 | 1.3 | 0.6 | 1.4 | 1.1 | 1.1 | 1.3 | 1.4 | 1.4 | 1.5 | 1.6 |
| Portfolio Investment | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Investment | 0.4 | -0.9 | 0.4 | -1.3 | 1.3 | 2.6 | -0.1 | -0.1 | -0.1 | 0.0 | 8.8 |
| Official reserves (increases (-)) | 26.3 | 21.8 | 15.8 | 16.8 | 16.4 | 4.5 | 5.1 | 5.2 | 7.7 | 10.4 | 2.9 |
| Memorandum items: | | | | | | | | | | | |
| Algerian crude oil price (US$/barrel) 1/ | 45.5 | 54.1 | 71.2 | 64.5 | 42.1 | 66.6 | 65.6 | 62.7 | 60.6 | 59.1 | 58.1 |
| Gross official reserves (in billions of US$) 2/ | 114.1 | 97.3 | 79.9 | 62.8 | 48.2 | 43.6 | 38.5 | 33.3 | 25.6 | 15.2 | 12.3 |
| Idem, in months of next year's imports | 22.8 | 19.4 | 17.7 | 17.6 | 12.5 | 11.1 | 9.9 | 8.4 | 6.3 | 3.7 | 3.0 |
| Reserves (in percent of ARA EM metric) 3/ | 1121.0 | 881.5 | 647.2 | 538.0 | 471.6 | 193.7 | 135.1 | 107.1 | 85.5 | 50.6 | 25.2 |
| Net international investment position (in billions of US$) | 94.6 | 86.4 | 67.3 | 49.7 | 35.1 | 26.9 | 20.6 | 14.2 | 5.1 | -6.8 | -20.0 |
| Gross external debt (in billions of US$) | 3.8 | 4.0 | 4.0 | 3.8 | 3.5 | 3.4 | 3.3 | 3.1 | 3.0 | 3.0 | 11.8 |

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

1/ Weighted average of quarterly data.

2/ Gross official reserves include holdings of SDR assets and, for 2021, Algeria's share of the general SDR allocation by the IMF in August 2021.

3/ ARA EM metric includes additional buffer for commodity intensive countries (projection period only).

## Table 5a. Algeria: Summary of Central Government Operations, 2016–26 1/

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Projections | | | | | |
| | | | | | (In billions of Algerian dinars) | | | | | | |
| Budget revenue and grants | 5,012 | 6,048 | 6,827 | 6,602 | 5,641 | 6,329 | 6,831 | 7,375 | 8,123 | 8,970 | 10,008 |
| Hydrocarbon revenue 2/ | 1,683 | 2,177 | 2,887 | 2,668 | 1,922 | 2,511 | 3,076 | 3,333 | 3,421 | 3,568 | 3,880 |
| Nonhydrocarbon revenue | 3,329 | 3,871 | 3,940 | 3,933 | 3,719 | 3,818 | 3,755 | 4,043 | 4,702 | 5,402 | 6,127 |
| Tax revenue | 2,482 | 2,630 | 2,712 | 2,843 | 2,625 | 2,622 | 2,934 | 3,481 | 4,083 | 4,736 | 5,375 |
| Nontax revenue | 847 | 1,241 | 1,228 | 1,090 | 1,094 | 1,197 | 821 | 562 | 618 | 667 | 753 |
| o/w Bank of Algeria dividends and interests | 611 | 920 | 1,000 | 800 | 800 | 900 | 488 | 186 | 191 | 183 | 206 |
| Total expenditure (incl. net lending and special Treasury accounts) | 7,355 | 7,638 | 8,223 | 8,566 | 7,839 | 8,989 | 9,751 | 10,662 | 11,751 | 13,006 | 14,590 |
| Current expenditure | 4,586 | 4,677 | 5,314 | 4,895 | 5,009 | 5,670 | 6,156 | 7,053 | 8,043 | 9,201 | 10,416 |
| Current non-interest | 4,539 | 4,508 | 5,212 | 4,781 | 4,838 | 5,558 | 5,849 | 6,466 | 7,065 | 7,742 | 8,480 |
| Personnel expenditure | 2,219 | 2,218 | 2,169 | 2,283 | 2,283 | 2,625 | 2,780 | 2,960 | 3,169 | 3,408 | 3,664 |
| Mudjahidins' pensions | 226 | 228 | 242 | 253 | 267 | 284 | 306 | 333 | 366 | 406 | 450 |
| Material and supplies | 186 | 189 | 216 | 216 | 109 | 113 | 160 | 176 | 194 | 213 | 234 |
| Current transfers 3/ | 1,909 | 1,874 | 2,584 | 2,029 | 2,178 | 2,536 | 2,603 | 2,996 | 3,336 | 3,716 | 4,132 |
| Interest payments | 47 | 169 | 102 | 114 | 172 | 112 | 307 | 587 | 978 | 1,458 | 1,936 |
| Capital expenditure | 2,712 | 2,605 | 2,418 | 2,846 | 1,894 | 2,383 | 2,633 | 2,690 | 2,748 | 2,816 | 3,184 |
| Net lending and special Treasury accounts net operations | 58 | 356 | 491 | 825 | 937 | 937 | 963 | 920 | 960 | 990 | 990 |
| Overall balance | -2,344 | -1,590 | -1,396 | -1,965 | -2,199 | -2,660 | -2,920 | -3,287 | -3,628 | -4,036 | -4,583 |
| Primary overall balance | -2,297 | -1,421 | -1,294 | -1,851 | -2,027 | -2,548 | -2,614 | -2,700 | -2,649 | -2,578 | -2,646 |
| Nonhydrocarbon balance | -4,026 | -3,767 | -4,283 | -4,633 | -4,120 | -5,171 | -5,997 | -6,620 | -7,049 | -7,604 | -8,463 |
| Nonhydrocarbon primary balance | -3,979 | -3,598 | -4,181 | -4,519 | -3,948 | -5,059 | -5,690 | -6,033 | -6,071 | -6,146 | -6,527 |
| Net financing | 2,344 | 1,590 | 1,396 | 1,965 | 2,199 | 4,753 | 2,920 | 3,287 | 3,628 | 4,036 | 4,583 |
| Domestic | 2,243 | 1,593 | 1,399 | 1,966 | 2,200 | 4,754 | 2,920 | 3,287 | 3,628 | 4,036 | 4,583 |
| Bank 4/ | 2,178 | 1,510 | 932 | 1,842 | 1,302 | 3,878 | 2,820 | 3,187 | 3,528 | 3,936 | 4,483 |
| o/w gross central bank financing | 0 | 2,185 | 3,371 | 1,001 | 1 | 520 | 0 | 0 | 0 | 0 | 0 |
| Nonbank 5/ | 65 | 83 | 467 | 125 | 898 | 877 | 100 | 100 | 100 | 100 | 100 |
| Foreign | 101 | -3 | -3 | -2 | -2 | -1 | 0 | 0 | 0 | 0 | 0 |
| Memorandum items | | | | | | | | | | | |
| Gross financing requirements | 2,547 | 3,356 | 2,323 | 2,525 | 2,720 | 3,506 | 3,262 | 4,806 | 6,391 | 6,950 | 7,238 |
| Financing need to be filled with new domestic debt issuance | 994 | 2,925 | 3,346 | 2,174 | 630 | 2,631 | 3,162 | 4,706 | 6,291 | 6,850 | 7,138 |
| Principal payments on public debt | 203 | 1,766 | 927 | 561 | 522 | 846 | 342 | 1,519 | 2,763 | 2,914 | 2,655 |
| Central bank financing | 0.0 | 11.6 | 16.5 | 4.9 | 0.0 | 2.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Oil stabilization fund | | | | | | | | | | | |
| in percent of GDP | 4.5 | 0.0 | 1.5 | 1.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Gross government debt, including guarantees (percent of GDP) | 37.1 | 44.4 | 54.2 | 62.5 | 69.5 | 74.7 | 79.6 | 84.0 | 87.6 | 90.6 | 97.4 |
| Gross government debt, excluding guarantees (percent of GDP) | 20.4 | 26.8 | 37.8 | 45.8 | 50.7 | 59.2 | 65.4 | 71.1 | 76.0 | 80.1 | 83.8 |
| o/w owed to central bank .. | … | 11.6 | 27.2 | 32.1 | 35.0 | 31.3 | 28.4 | 24.9 | 21.1 | 17.3 | 15.0 |
| Net savings (in percent of GDP) | -16.0 | -26.8 | -36.3 | -44.3 | -50.7 | -59.2 | -65.4 | -71.1 | -76.0 | -80.1 | -83.8 |

Sources: Algerian authorities; and IMF staff estimates and projections.
1/ On cash basis.
2/ Including Sonatrach dividends.
3/ Includes 500 billion dinars of transfers to pension fund in 2018
4/ Bank financing includes domestic debt issuance and a drawdown of the oil stabilization fund and other government deposits at the central bank. In 2021, the repurchase of syndicated loans owed by SOEs for a total amount of DA 2,100 billion, under the financial operation including the PSR, is included in bank financing.
5/ Includes proceeds from sales of state-owned assets.

## Table 5b. Algeria: Summary of Central Government Operations, 2016–26 1/

| | | | | | Prel. | Projections | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
| | | | | | (In percent of GDP) | | | | | | |
| Budget revenue and grants | 28.6 | 32.0 | 33.4 | 32.3 | 30.1 | 28.0 | 27.6 | 27.0 | 26.9 | 26.7 | 26.7 |
| Hydrocarbon revenue 2/ | 9.6 | 11.5 | 14.1 | 13.1 | 10.3 | 11.1 | 12.4 | 12.2 | 11.3 | 10.6 | 10.4 |
| Nonhydrocarbon revenue | 19.0 | 20.5 | 19.3 | 19.3 | 19.9 | 16.9 | 15.2 | 14.8 | 15.6 | 16.1 | 16.4 |
| Tax revenue | 14.2 | 13.9 | 13.3 | 13.9 | 14.0 | 11.6 | 11.8 | 12.8 | 13.5 | 14.1 | 14.4 |
| Nontax revenue | 4.8 | 6.6 | 6.0 | 5.3 | 5.8 | 5.3 | 3.3 | 2.1 | 2.0 | 2.0 | 2.0 |
| o/w Bank of Algeria dividends and interests | 3.5 | 4.9 | 4.9 | 3.9 | 4.3 | 4.0 | 2.0 | 0.7 | 0.6 | 0.5 | 0.6 |
| Total expenditure (including net lending and special accounts) | 42.0 | 40.5 | 40.2 | 41.9 | 41.9 | 39.8 | 39.4 | 39.1 | 38.9 | 38.8 | 39.0 |
| Current expenditure | 26.2 | 24.8 | 26.0 | 24.0 | 26.8 | 25.1 | 24.9 | 25.8 | 26.6 | 27.4 | 27.8 |
| Current non-interest 3/ | 25.9 | 23.9 | 25.5 | 23.4 | 25.8 | 24.6 | 23.6 | 23.7 | 23.4 | 23.1 | 22.7 |
| Personnel expenditure | 12.7 | 11.7 | 10.6 | 11.2 | 12.2 | 11.6 | 11.2 | 10.8 | 10.5 | 10.2 | 9.8 |
| Mudjahidins' pensions | 1.3 | 1.2 | 1.2 | 1.2 | 1.4 | 1.3 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 |
| Material and supplies | 1.1 | 1.0 | 1.1 | 1.1 | 0.6 | 0.5 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| Current transfers | 10.9 | 9.9 | 12.6 | 9.9 | 11.6 | 11.2 | 10.5 | 11.0 | 11.0 | 11.1 | 11.0 |
| Interest payments | 0.3 | 0.9 | 0.5 | 0.6 | 0.9 | 0.5 | 1.2 | 2.2 | 3.2 | 4.3 | 5.2 |
| Capital expenditure | 15.5 | 13.8 | 11.8 | 13.9 | 10.1 | 10.5 | 10.6 | 9.9 | 9.1 | 8.4 | 8.5 |
| Net lending and special Treasury accounts net operations | 0.3 | 1.9 | 2.4 | 4.0 | 5.0 | 4.1 | 3.9 | 3.4 | 3.2 | 3.0 | 2.6 |
| Overall balance | -13.4 | -8.4 | -6.8 | -9.6 | -11.7 | -11.8 | -11.8 | -12.0 | -12.0 | -12.0 | -12.2 |
| Primary overall balance | -13.1 | -7.5 | -6.3 | -9.1 | -10.8 | -11.3 | -10.6 | -9.9 | -8.8 | -7.7 | -7.1 |
| Nonhydrocarbon balance | -23.0 | -20.0 | -20.9 | -22.7 | -22.0 | -22.9 | -24.2 | -24.3 | -23.3 | -22.7 | -22.6 |
| Nonhydrocarbon primary balance | -22.7 | -19.1 | -20.4 | -22.1 | -21.1 | -22.4 | -23.0 | -22.1 | -20.1 | -18.3 | -17.4 |
| Net financing | 13.4 | 8.4 | 6.8 | 9.6 | 11.7 | 11.8 | 11.8 | 12.0 | 12.0 | 12.0 | 12.2 |
| Domestic | 12.8 | 8.4 | 6.8 | 9.6 | 11.8 | 21.0 | 11.8 | 12.0 | 12.0 | 12.0 | 12.2 |
| Bank 4/ | 12.4 | 8.0 | 4.6 | 9.0 | 7.0 | 17.2 | 11.4 | 11.7 | 11.7 | 11.7 | 12.0 |
| o/w gross central bank financing | 0.0 | 11.6 | 16.5 | 4.9 | 0.0 | 2.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Nonbank 5/ | 0.4 | 0.4 | 2.3 | 0.6 | 4.8 | 3.9 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 |
| Foreign | 0.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | | | | | (In percent of non-oil GDP) | | | | | | |
| Budget revenue and grants | 34.6 | 39.9 | 42.9 | 40.2 | 34.5 | 35.2 | 34.4 | 33.2 | 32.3 | 31.5 | 31.0 |
| Hydrocarbon revenue 2/ | 11.6 | 14.3 | 18.2 | 16.2 | 11.8 | 14.0 | 15.5 | 15.0 | 13.6 | 12.5 | 12.0 |
| Nonhydrocarbon revenue | 23.0 | 25.5 | 24.8 | 23.9 | 22.8 | 21.2 | 18.9 | 18.2 | 18.7 | 18.9 | 19.0 |
| Tax revenue | 17.1 | 17.3 | 17.1 | 17.3 | 16.1 | 14.6 | 14.8 | 15.7 | 16.2 | 16.6 | 16.7 |
| Nontax revenue | 5.8 | 8.2 | 7.7 | 6.6 | 6.7 | 6.7 | 4.1 | 2.5 | 2.5 | 2.3 | 2.3 |
| Bank of Algeria dividends and interests | 4.2 | 6.1 | 6.3 | 4.9 | 4.9 | 5.0 | 2.5 | 0.8 | 0.8 | 0.6 | 0.6 |
| Total expenditure (including net lending and special accounts) | 50.8 | 50.3 | 51.7 | 52.1 | 48.0 | 50.0 | 49.1 | 48.0 | 46.7 | 45.6 | 45.2 |
| Current expenditure | 31.6 | 30.8 | 33.4 | 29.8 | 30.6 | 31.5 | 31.0 | 31.8 | 32.0 | 32.3 | 32.3 |
| Current non-interest 3/ | 31.3 | 29.7 | 32.8 | 29.1 | 29.6 | 30.9 | 29.4 | 29.1 | 28.1 | 27.1 | 26.3 |
| Interest payments | 0.3 | 1.1 | 0.6 | 0.7 | 1.1 | 0.6 | 1.5 | 2.6 | 3.9 | 5.1 | 6.0 |
| Capital expenditure | 18.7 | 17.2 | 15.2 | 17.3 | 11.6 | 13.2 | 13.2 | 12.1 | 10.9 | 9.9 | 9.9 |
| Net lending and special Treasury accounts net operations | 0.4 | 2.3 | 3.1 | 5.0 | 5.7 | 5.2 | 4.8 | 4.1 | 3.8 | 3.5 | 3.1 |
| Overall balance | -16.2 | -10.5 | -8.8 | -12.0 | -13.5 | -14.8 | -14.7 | -14.8 | -14.4 | -14.2 | -14.2 |
| Primary overall balance | -15.9 | -9.4 | -8.1 | -11.3 | -12.4 | -14.2 | -13.1 | -12.2 | -10.5 | -9.0 | -8.2 |
| Nonhydrocarbon balance | -27.8 | -24.8 | -26.9 | -28.2 | -25.2 | -28.7 | -30.2 | -29.8 | -28.0 | -26.7 | -26.2 |
| Nonhydrocarbon primary balance | -27.5 | -23.7 | -26.3 | -27.5 | -24.2 | -28.1 | -28.6 | -27.2 | -24.1 | -21.5 | -20.2 |
| Financing | 16.2 | 10.5 | 8.8 | 12.0 | 13.5 | 26.4 | 14.7 | 14.8 | 14.4 | 14.2 | 14.2 |
| Domestic | 15.5 | 10.5 | 8.8 | 12.0 | 13.5 | 26.4 | 14.7 | 14.8 | 14.4 | 14.2 | 14.2 |
| Bank 4/ | 15.0 | 9.9 | 5.9 | 11.2 | 8.0 | 21.6 | 14.2 | 14.4 | 14.0 | 13.8 | 13.9 |
| o/w central bank | 0.0 | 14.4 | 21.2 | 6.1 | 0.0 | 2.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Nonbank 5/ | 0.4 | 0.5 | 2.9 | 0.8 | 5.5 | 4.9 | 0.5 | 0.5 | 0.4 | 0.4 | 0.3 |
| Foreign | 0.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

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

1/ On cash basis.
2/ Including Sonatrach dividends.
3/ Includes 500 billion dinars of transfers to pension fund in 2018
4/ Bank financing includes domestic debt issuance and a drawdown of the oil stabilization fund and other government deposits at the central bank. In 2021, bank financing includes DZD 2,100 billion in bond issuance for the repurchase of syndicated loans owed by SOEs under the financial operation including the PSR.
5/ Includes proceeds from sales of state-owned assets.

## Table 6. Algeria: Monetary Survey, 2016–26

(in billions of dinars, unless otherwise stated)

| | | | | | Prel. | Projections | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
| | (In billions of Algerian dinars; at end of period) | | | | | | | | | | |
| Net foreign assets | 12,443 | 11,058 | 9,316 | 7,429 | 6,321 | 5,512 | 5,075 | 4,557 | 3,568 | 2,022 | 1,631 |
| *o/w Bank of Algeria* | 12,544 | 11,155 | 9,406 | 7,472 | 6,384 | 5,539 | 5,074 | 4,533 | 3,524 | 1,961 | 1,556 |
| Foreign assets (BA) | 12,725 | 11,354 | 9,606 | 7,672 | 6,615 | 6,148 | 5,714 | 5,204 | 4,230 | 2,702 | 2,334 |
| Foreign liabilities (BA) | 181 | 199 | 200 | 200 | 231 | 242 | 254 | 266 | 280 | 294 | 308 |
| Foreign assets (comm. banks) | 62 | 65 | 92 | 90 | 82 | 86 | 90 | 94 | 99 | 104 | 109 |
| Foreign liabilities (comm. banks) | 164 | 163 | 182 | 134 | 144 | 113 | 89 | 70 | 55 | 43 | 34 |
| Net domestic assets | 1,374 | 3,916 | 7,321 | 9,082 | 11,419 | 15,247 | 18,449 | 21,978 | 26,231 | 31,353 | 35,582 |
| *o/w Bank of Algeria* | -7,143 | -4,978 | -2,749 | -839 | 495 | 2,016 | 3,593 | 5,201 | 7,363 | 10,189 | 12,194 |
| Domestic credit | 9,531 | 12,629 | 15,298 | 16,828 | 19,126 | 23,207 | 26,671 | 30,439 | 34,893 | 40,155 | 44,473 |
| Credit to government (net) 1/ | 1,499 | 3,641 | 5,200 | 5,820 | 7,788 | 11,665 | 14,485 | 17,672 | 21,200 | 25,136 | 29,619 |
| Credit to the economy | 8,031 | 8,989 | 10,097 | 11,008 | 11,338 | 11,542 | 12,186 | 12,766 | 13,693 | 15,019 | 14,854 |
| *o/w Private sector* | 4,007 | 4,606 | 5,078 | 5,291 | 5,459 | 5,655 | 6,093 | 6,447 | 6,983 | 7,735 | 7,724 |
| Other items net | -8,157 | -8,713 | -7,977 | -7,746 | -7,707 | -7,960 | -8,222 | -8,461 | -8,662 | -8,802 | -8,891 |
| Money and quasi-money (M2) | 13,816 | 14,974 | 16,637 | 16,511 | 17,740 | 20,759 | 23,524 | 26,535 | 29,799 | 33,375 | 37,213 |
| *o/w Money* | 9,407 | 10,266 | 11,404 | 10,979 | 11,931 | 13,862 | 15,705 | 17,752 | 19,996 | 22,448 | 25,039 |
| Reserve money | 5,401 | 6,177 | 6,658 | 6,633 | 6,879 | 7,556 | 8,668 | 9,734 | 10,887 | 12,150 | 13,750 |
| | (In percent change over 12-month period) | | | | | | | | | | |
| Money and quasi-money (M2) | 0.8 | 8.4 | 11.1 | -0.8 | 7.4 | 17.0 | 13.3 | 12.8 | 12.3 | 12.0 | 11.5 |
| Credit to the economy | 8.8 | 11.9 | 12.3 | 9.0 | 3.0 | 1.8 | 5.6 | 4.8 | 7.3 | 9.7 | -1.1 |
| *o/w Private sector* | 10.4 | 15.0 | 10.2 | 4.2 | 3.2 | 3.6 | 7.7 | 5.8 | 8.3 | 10.8 | -0.1 |
| Memorandum items: | | | | | | | | | | | |
| Credit to the economy/GDP | 45.9 | 47.6 | 49.4 | 53.9 | 60.6 | 51.1 | 49.2 | 46.8 | 45.3 | 44.8 | 39.7 |
| Credit to the economy/NHGDP | 55.4 | 59.2 | 63.5 | 67.0 | 69.4 | 64.2 | 61.3 | 57.5 | 54.4 | 52.7 | 46.1 |
| Credit to private sector/NHGDP | 27.7 | 30.4 | 31.9 | 32.2 | 33.4 | 31.4 | 30.6 | 29.0 | 27.8 | 27.1 | 23.9 |

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

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

## Table 7. Algeria: Financial Soundness Indicators, 2010–20

(in percent)

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 (Prelim.) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Capital adequacy ratio | 23.6 | 23.7 | 23.4 | 21.5 | 15.8 | 18.4 | 18.8 | 19.5 | 19.0 | 18.0 | 18.8 |
| - Public banks | 21.7 | 21.9 | 21.6 | 19.9 | 14.7 | 17.8 | 18.4 | 19.6 | 19.2 | 17.8 | 18.5 |
| - Private banks | 31.6 | 31.2 | 31.9 | 28.5 | 20.4 | 21.0 | 20.3 | 18.9 | 18.2 | 18.9 | 20.3 |
| Tier I capital adequacy ratio | 17.7 | 16.9 | 17.5 | 15.5 | 13.2 | 15.8 | 16.2 | 15.0 | 15.0 | 14.3 | 15.1 |
| - Public banks | 14.8 | 14.1 | 14.8 | 13.1 | 11.6 | 14.6 | 15.4 | 14.3 | 14.4 | 13.5 | 14.2 |
| - Private banks | 29.3 | 28.8 | 29.7 | 26.3 | 19.7 | 20.3 | 19.6 | 18.1 | 17.4 | 18.2 | 19.5 |
| NPLs net of provisions/Regulatory capital | 21.1 | 19.4 | 16.1 | 17.1 | 24.8 | 26.5 | 35.0 | 36.4 | 39.3 | 52.6 | 59.9 |
| - Public banks | 27.5 | 25.1 | 20.3 | 21.7 | 28.1 | 29.6 | 40.0 | 40.8 | 44.9 | 60.7 | 69.5 |
| - Private banks | 3.0 | 2.3 | 3.2 | 2.6 | 14.5 | 15.8 | 16.7 | 16.2 | 13.4 | 14.6 | 14.0 |
| NPLs/total loans | 18.3 | 14.5 | 11.5 | 10.6 | 9.9 | 9.8 | 12.1 | 13.0 | 12.7 | 14.8 | 16.3 |
| - Public banks | 20.5 | 16.1 | 12.4 | 11.4 | 10.1 | 9.9 | 12.6 | 13.7 | 13.4 | 15.6 | 17.0 |
| - Private banks | 4.1 | 4.0 | 5.2 | 4.8 | 8.5 | 8.6 | 8.7 | 7.8 | 7.1 | 8.2 | 9.7 |
| NPLs net of provisions/total loans | 4.9 | 4.4 | 3.5 | 3.4 | 3.8 | 3.9 | 5.5 | 6.2 | 6.3 | 7.9 | 8.9 |
| - Public banks | 5.4 | 4.9 | 3.9 | 3.7 | 3.7 | 3.8 | 5.6 | 6.5 | 6.8 | 8.4 | 9.5 |
| - Private banks | 1.4 | 1.0 | 1.3 | 0.9 | 4.7 | 4.7 | 4.6 | 3.9 | 3.0 | 3.4 | 3.4 |
| Provisions/classified loans | 76.5 | 69.8 | 69.5 | 68.2 | 61.8 | 59.9 | 54.6 | 52.3 | 50.1 | 46.7 | 45.4 |
| - Public banks | 73.7 | 69.6 | 69.4 | 67.4 | 63.6 | 61.5 | 55.4 | 52.4 | 49.4 | 45.9 | 44.1 |
| - Private banks | 66.7 | 75.9 | 71.7 | 80.3 | 45.0 | 45.3 | 46.1 | 50.6 | 57.3 | 58.7 | 65.2 |
| Return on equity | 16.7 | 24.7 | 23.3 | 19.0 | 23.7 | 21.3 | 17.8 | 18.8 | 22.4 | 13.7 | 9.0 |
| - Public banks | 29.8 | 26.1 | 22.7 | 18.0 | 25.1 | 23.1 | 18.9 | 20.0 | 22.7 | 11.9 | 8.5 |
| - Private banks | 20.3 | 21.4 | 24.8 | 21.5 | 20.0 | 16.1 | 15.3 | 14.7 | 21.2 | 22.4 | 11.9 |
| Return on assets | 2.2 | 2.1 | 1.9 | 1.7 | 2.0 | 1.9 | 1.8 | 2.0 | 2.4 | 1.5 | 1.5 |
| - Public banks | 1.8 | 1.8 | 1.5 | 1.3 | 1.8 | 1.7 | 1.7 | 2.0 | 2.3 | 1.2 | 1.4 |
| - Private banks | 4.6 | 4.5 | 4.5 | 3.7 | 3.4 | 3.1 | 2.8 | 2.6 | 3.4 | 3.2 | 2.3 |
| Interest margin/gross revenues | 63.8 | 64.9 | 64.2 | 69.5 | 67.2 | 66.8 | 72.5 | 73.0 | 78.8 | 78.9 | 75.7 |
| - Public banks | 71.6 | 73.6 | 72.1 | 73.3 | 66.7 | 65.8 | 72.3 | 72.7 | 80.8 | 81.7 | 75.8 |
| - Private banks | 44.2 | 44.4 | 45.2 | 59.1 | 69.1 | 71.5 | 73.4 | 74.2 | 71.1 | 69.7 | 75.3 |
| Non-interest expenses/earnings before tax | 31.4 | 33.6 | 35.6 | 33.5 | 40.7 | 40.0 | 34.1 | 36.0 | 29.3 | 30.8 | 35.0 |
| - Public banks | 31.6 | 34.8 | 38.1 | 34.0 | 40.6 | 39.2 | 31.4 | 33.7 | 26.4 | 28.1 | 33.1 |
| - Private banks | 31.0 | 30.8 | 29.8 | 32.3 | 41.3 | 43.4 | 46.3 | 46.2 | 40.5 | 39.5 | 41.5 |
| Liquid assets/total assets | 53.0 | 50.2 | 45.9 | 40.5 | 38.0 | 27.1 | 23.5 | 23.5 | 19.8 | 16.0 | 13.1 |
| - Public banks | 54.2 | 51.1 | 45.1 | 39.4 | 37.0 | 25.8 | 22.7 | 21.9 | 18.4 | 14.2 | 10.3 |
| - Private banks | 43.7 | 43.2 | 50.9 | 46.5 | 44.0 | 35.9 | 29.1 | 33.1 | 28.5 | 27.3 | 30.3 |
| Liquid assets/short-term debt | 114.3 | 103.7 | 107.5 | 93.5 | 82.1 | 61.6 | 58.4 | 53.7 | 47.4 | 44.2 | 37.1 |
| - Public banks | 118.1 | 106.6 | 110.5 | 95.7 | 83.4 | 60.2 | 58.8 | 52.2 | 46.3 | 42.2 | 31.4 |
| - Private banks | 88.5 | 84.6 | 93.5 | 84.1 | 75.4 | 69.8 | 56.2 | 60.6 | 52.6 | 52.5 | 59.5 |

Source: Bank of Algeria

# Annex I. Authorities' Response to Past IMF Recommendations

| Recommendation | Implementation status |
|---|---|
| **A. Macroeconomic policy** | |
| Starting in 2018, sustained but gradual fiscal consolidation using available fiscal space | Little headway due to political developments and then COVID pandemic. Streamlining of some subsidies (e.g. on wheat and milk powder) in 2020 and cuts to spending, but the overall deficit increased. |
| Tapping a broad range of financing options but excluding direct borrowing from BA | The Algerian authorities are reluctant to borrow externally except for specific projects. They are also envisaging public-private partnerships. The IMF's Monetary and Capital Markets (MCM) department is providing technical assistance on the development of domestic debt market. Direct monetary financing, under the 2017 revision of the banking law, was stopped in early 2019. |
| Independent monetary policy aimed at containing inflationary pressures | The Banking Law was revised in 2017 to permit central bank financing of the deficit for a period of five years. Financing was substantial in 2017-19, but sterilization helped contain inflationary pressures. A financial operation involving the Treasury, public banks and the BA was set up in 2021 to extend fresh lending to the government and the economy. |
| Gradual exchange rate depreciation | The dinar depreciated 13 percent versus the US Dollar from end-2017 to end-2020. |
| **B. Reforms for sustainable and inclusive growth** | |
| Strengthening governance and transparency and reducing red tape | Reforms at all six public banks to separate management from oversight functions were implemented in April 2021. |
| Improving access to finance | The Algerian authorities introduced a Sharia-compliant governance framework and regulations and public banks launched Islamic Banking services in 2020. Preparations are underway to introduce Islamic insurance. |
| Opening the economy to more foreign investment and trade | The 2020 budget law eliminated the 51/49 rule requiring majority Algerian ownership for new businesses, except for strategic sectors (hydrocarbons, mining, defense, and pharmaceuticals manufacturing). The 2019 new hydrocarbons law provides a more favorable tax regime and contract flexibility to investors. |
| Improving the functioning of the labor market and reducing skills mismatch | The 2018 Law on Apprenticeships aims to support apprenticeship training. The government undertook, with support from the EU, an evaluation of vocational and educational training (VET) in 2019. Efforts have been constrained by the pandemic. |
| Promoting greater inclusion of women in the labor market | Enhanced efforts to support women entrepreneurship, especially in rural areas, through the provision of microcredit. |
| **C. Strengthening the policy framework to increase policy effectiveness** | |
| Strengthening the PFM system | The 2018 Organic Budget Law introduced major reforms to be implemented by 2023, including program budgeting; medium-term budget and expenditures frameworks; recognition of cost of subsidies provided by SOEs in the fiscal accounts. |
| Improving the efficiency of public spending | The authorities are implementing, with assistance from the EU, an information management system which will enable them to better track public spending. |
| Enhancing liquidity management | The BA has been working on improving the collateral framework. Forthcoming technical assistance from MCM will make recommendations on short-term liquidity forecasting and on collateral frameworks and Emergency Liquidity Assistance (ELA) |
| Curbing the parallel foreign exchange market | FX surrender requirements on nonhydrocarbons and non-mining exporters lifted in mid-2021. |
| Continuing efforts to strengthen the prudential framework | The BA increased capital requirements for banks in 2018. With support from the Middle East Technical Assistance Center (METAC), the BA has been enhancing the supervisory review and evaluation process and developing a risk assessment methodology and risk scoring model for supervisors. |
| Improving crisis preparedness | In progress. Forthcoming technical assistance from MCM will provide recommendations on the setting up of an ELA. |

# Annex II. External Sector Assessment

***Overall Assessment:*** *Algeria's external position in 2020 was substantially weaker than the level implied by fundamentals and desirable policy settings, based on a current account gap estimated at -7.7 percent of GDP. The current account norm estimated using consumption allocation rules for exporters of exhaustible resources is 9.1 percent of GDP in the medium term, implying that Algeria's current account trajectory is not consistent with intergenerational equity. External debt is low but could increase in the event of adverse shocks or if fiscal deficits cannot be entirely financed domestically. Foreign exchange reserves, while still above adequacy metrics, are rapidly declining. The improved outlook for oil prices and production coupled with nominal depreciation of the dinar since 2020 are expected to help narrow somewhat the estimated current account gaps.*

***Potential Policy Responses:*** *Sustained fiscal consolidation accompanied by greater flexibility of the nominal exchange rate and structural reforms to foster economic diversification are needed to restore external sustainability in the medium term.*

**Foreign Assets and Liabilities: Position and Trajectory**

**Background.** Algeria's external assets consist mostly of international reserves, whose size dwarfs Foreign Direct Investment (FDI) liabilities and external debt. International reserves, excluding monetary gold but including SDRs, peaked at US$194 billion in 2013 and have declined continuously since to US$48.2 billion at end-2020, representing 12.5 months of imports.

**Assessment.** The steep decline in the NIIP since 2013 points to increasing vulnerabilities over the medium-term. Under the baseline scenario, the NIIP is projected to turn negative in 2025, reaching US$ -6.8 billion as reserves continue to decline. Reserve coverage is projected to decline and to require external borrowing in 2026 to be maintained at 3 months of imports.

| | | | | | |
|---|---|---|---|---|---|
| 2020 (% GDP) | NIIP: 24.0 | Gross Assets: 45.9 | Debt Assets: 2.8 | Gross Liab.: 21.9 | Debt Liab.: 9.0 |

**Current Account**

**Background.** Algeria's external current account balance is largely determined by the balance of trade in goods. Hydrocarbons make up the bulk of goods exports. Their share in total exports, while declining, is significant and averaged 85 percent between 2016 and 2020. Goods imports have declined in tandem with government capital spending. Various import compression policies have been introduced since 2015 to protect FX reserves and reduce over invoicing and fraud. Coupled with conjectural factors, they have contributed to reduce goods imports from almost $60 billion in 2014 to $35.5 billion in 2020. The decline was most notable in the non-food consumer goods and industrial equipment categories but was not sufficient to offset the decline in hydrocarbon exports.

**Assessment.** The current account (CA) regression approach of the Fund's external balance assessment (EBA-lite) methodologies suggests that the current account balance remained far from its norm in 2020, which translates into a significant REER overvaluation as in previous assessments. The estimated gap is expected to narrow somewhat in 2021 as oil prices recover. In view of the strong correlation between fiscal and external deficits and the structure of the exports, fiscal consolidation would help narrow policy gaps and bring the current account balance closer to its norm. Greater nominal exchange rate flexibility would also contribute to reducing the current account gap.

- A consumption-based model, which accounts for the exhaustibility of resources to determine the sustainability of the current account trajectory, suggests that the deficit is too high. Notably, the current account path is considered sustainable if the Net Present Value (NPV) of future wealth (in this case hydrocarbon revenues plus income on financial assets or investment) are equal to the NPV of imports of goods and services net of non-oil exports.[1] This intertemporal constraint generates a path for imports ('annuities' or 'allocation rules') and thus a current account norm consistent with intergenerational equity.[2] Import trajectories calculated under a constant real per capita annuity allocation rule, to account for population growth, yield a current account norm of 9.1 percent of GDP in the medium term. Given the projected path for the current account deficits over 2020–26, a significant current account gap of -14.1 percent of GDP would remain over the medium term in the absence of policy adjustment.

- The EBA-lite current account model suggests that the actual current account, adjusted for the temporary effect of the pandemic on oil prices and export volumes, was weaker than warranted by medium-term fundamentals and desirable policies in 2020. The current account gap estimated using this approach was -7.7 percent of GDP. Given an assumed elasticity of the current account with respect to the REER of 0.18, this translates into a REER overvaluation of 41.8 percent. This estimate is nevertheless subject to considerable uncertainty as it is sensitive to the size of the additional cyclical adjustment applied to account for the temporary effect of the pandemic as well as various underlying assumptions (on trade elasticities and desirable policies). As noted in previous assessments, the existence of a parallel exchange market also complicates the interpretation of model results.

**Table 1. Algeria: Model Estimates for 2020 (in percent of GDP)**

| | CA model | REER model |
|---|---|---|
| **CA-Actual** | **-12.7** | |
| Cyclical contributions (from model) (-) | -2.0 | |
| COVID-19 adjustor (+) 1/ | 1.5 | |
| Additional temporary/statistical factors (+) | 0.0 | |
| Natural disasters and conflicts (-) | 0.8 | |
| **Adjusted CA** | **-10.0** | |
| **CA Norm** (from model) 2/ | **-2.3** | |
| Adjustments to the norm (+) | 0.0 | |
| **Adjusted CA Norm** | **-2.3** | |
| **CA Gap** | **-7.7** | **2.5** |
| o/w Relative policy gap | -6.8 | |
| Elasticity | -0.18 | |
| **CA Gap** | | |
| **REER Gap (in percent)** | **41.8** | **-13.8** |

1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on oil trade balances (1.6 percent of GDP) and on tourism (-0.1 percent of GDP).
2/ Cyclically adjusted, including multilateral consistency adjustments.

**Real Exchange Rate**

**Background.** The REER depreciated by 15 percent between January 2015 and December 2020, albeit with periods of relative stability during 2018-19. The small size of the nonhydrocarbon tradeable sector, coupled with supply-side constraints and the gradual pace of depreciation, dampened the effect on the overall competitiveness. At the same time, expansionary fiscal policy also offset the impact of REER depreciation on the current account given the high import content of public spending, notably investment.

**Assessment.** The EBA-REER model estimates suggest undervaluation of -13.8 percent but are unreliable. Staff assessment gives more weight to the CA regression model, which has often proven to be more informative and reliable than the REER model. The latter tends to be a poor fit for many countries (IMF, 2019).

**Capital and Financial Accounts: Flows and Policy Measures**

**Background.** Algeria's economy remains mostly closed to external capital flows. Inward FDI averaged 1.3 percent of GDP between 2016 and 2020 and was mostly concentrated in the energy sector. Portfolio flows were nil.

**Assessment.** The elimination of the 49 percent limit on foreign ownership in Algerian investment projects (the '51/49' rule), except for strategic sectors, removes an important constraint on inward FDI and, if accompanied by reforms to improve the business climate, could attract FDI in the medium-term. The liberalization in 2021 of the surrender requirements, except for hydrocarbon and mineral exports, could help ease supply bottlenecks by facilitating imports of raw materials and inputs.

**FX Intervention and Reserves Level**

**Background.** Algeria's current account deficits have been financed by running down foreign exchange reserves. The de jure exchange rate arrangement is managed floating, while the de facto exchange rate arrangement is crawl-like. The BA intervenes in the foreign exchange market directly by proposing its own rates and by making foreign exchange available to banks at their request. The BA sets the buying and selling rates of the dinar against the US dollar in this market within a margin of 0.015 dinar.

**Assessment.** The downward trajectory in FX reserves is projected to continue with their level dropping below 100 percent of the ARA metric starting in 2024.

[1] Proven hydrocarbon reserves at end-2020 were estimated at 12,200 million barrels for crude oil and 4,504 cubic meters for natural gas (OPEC, 2020). Staff projections assume that hydrocarbons production grows at a constant rate of 1 percent, peaking in 2039. From 2040 onwards, both production and consumption decline by 1 percent annually. Hydrocarbon prices are assumed to increase in line with the US GDP deflator by 2.1 percent. Future hydrocarbon revenue is discounted at a rate of 5 percent, which is the assumed rate of return on foreign assets, while population growth is 1.5 percent.

[2] Bems, R. and I. de Carvalho Filho. 2009. "Exchange Rate Assessments: Methodologies for Oil-Exporting Countries", IMF Working Paper 09/281.

# Annex III. Risk Assessment Matrix[1]

| Risks | Likelihood | Economic Impact | Policy Response |
|---|---|---|---|
| **Conjunctural shocks and scenario (Global)** | | | |
| • **Uncontrolled Covid-19 local outbreaks and subpar/volatile growth in affected countries.** Outbreaks in slow-to-vaccinate countries force new lockdowns.<br><br>• **Global resurgence of the Covid-19 pandemic.** Local outbreaks lead to a global resurgence of the pandemic (possibly due to vaccine-resistant variants), which requires costly containment efforts and prompts persistent behavioral changes rendering many activities unviable. | High<br><br>Medium | High<br>▪ Delayed economic recovery, rising inflation and unemployment which could fan social tensions.<br>▪ Limited policy space hampers the ability to respond to the shock.<br>▪ Weakened corporate and bank the balance sheets worsen macro-financial vulnerabilities. | • Step up the vaccination campaign and continue to adapt containment measures as needed.<br>• Provide additional temporary and targeted fiscal support to the most vulnerable within the existing budget envelope.<br>• Adopt a medium-term fiscal adjustment plan supported by exchange rate and monetary policy.<br>• Resort to external financing to create temporary fiscal space.<br>• Allow the exchange rate to adjust and play its role as shock absorber. |
| • **Disorderly transformations.** Covid-19 triggers structural transformations, but the reallocation of resources is impeded by labor market rigidities, debt overhangs, and inadequate bankruptcy resolution frameworks. This, coupled with a withdrawal of Covid-19-related policy support, undermines growth prospects, and increases unemployment, with adverse social/political consequences. Adjustments in global value chains and reshoring (partly driven by geostrategic and national security concerns) shift | Medium | ▪ Medium Disorderly transformation would stymie Algeria's efforts to diversify its economy, worsening balance of payments and fiscal vulnerabilities. | • Adopt a medium-term fiscal adjustment plan supported by exchange rate and monetary policy<br>• Accelerate the implementation of structural reforms to support diversification, growth and job-creation.<br>• Allow the exchange rate to adjust and play its role as absorber of external shocks. |

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon

| | | | |
|---|---|---|---|
| production activities across countries. | | | |
| • **De-anchoring of inflation expectations in the U.S. leads to rising core yields and risk premia.** A fast recovery in demand (supported by excess private savings and stimulus policies), combined with Covid-19-related supply constraints, leads to sustained above-target inflation readings and a de-anchoring of expectations. The Fed reacts by signaling a need to tighten earlier than expected. The resulting repositioning by market participants leads to a front-loaded tightening of financial conditions and higher risk premia, including for credit, equities, and emerging and frontier market currencies. | Medium | **Low/Medium.** Financial spillovers will be small in the short-term given Algeria's very limited global financial integration. However, tighter global financing conditions would complicate Algeria's access to international debt markets if it eventually choses to do so. | • Adopt a medium-term fiscal adjustment plan supported by exchange rate and monetary policy and structural reforms to support diversification, growth and job-creation.<br>• Advance reforms of the fiscal and monetary policy frameworks to enhance policy credibility.<br>• Prioritize borrowing from bilateral and multilateral creditors should Algeria choose to tap external funding. |
| • **Widespread social discontent and political instability.** Social tensions erupt as a withdrawal of pandemic-related policy support results in unemployment and, amid increasing prices of essentials, hurts vulnerable groups (often exacerbating pre-existing inequities). | Medium | **High.** Growing social instability would delay fiscal consolidation and reforms and widen macroeconomic imbalances. | • Step up the vaccination campaign and continue to adapt containment measures as needed.<br>• Provide additional temporary and targeted fiscal support to the most vulnerable within the existing budget envelope.<br>• Expand available fiscal space by mobilizing non-oil revenue and phasing out inefficient spending.<br>• Accelerate the implementation of structural reforms to support diversification, growth and job-creation.<br>• Pursue institutional reforms to improve governance. |
| • **Rising commodity prices amid bouts of volatility.** Commodity prices increase by more than expected against a weaker U.S. dollar, post-pandemic pent-up demand and supply disruptions, and for some materials, accelerated plans for renewable energy adoption. Uncertainty surrounding | Medium | **Medium/High**<br>▪ Higher oil prices would benefit Algeria's economy, but could also generate pressure on public spending and delay reforms. Rising prices for other | • Adopt a medium-term fiscal adjustment plan supported by exchange rate and monetary policy.<br>• Seize the opportunity of any rise in hydrocarbon prices to rebuild fiscal savings and international reserves<br>• Expand available fiscal space by mobilizing nonhydrocarbon |

| | | | |
|---|---|---|---|
| each of these factors leads to bouts of volatility, especially in oil prices. | | commodities would increase the import bill and spending on subsidies.<br>▪ Conversely, accelerated plans for renewable energy could reduce demand for hydrocarbons and depress Algeria's exports. | revenue and phasing out inefficient spending.<br>• Allow the exchange rate to adjust and play its role as external buffer.<br>• Accelerate the implementation of structural reforms to support diversification, growth and job-creation |
| **Structural risks (Global)** | | | |
| • **Intensified geopolitical tensions and security risks.** Geopolitical tensions in selected countries/regions cause economic/political disruption, disorderly migration, higher volatility in commodity prices (if supply is disrupted), and lower confidence, with spillovers to other countries. | **High** | **Medium/High.** While higher oil prices, from increased risks in the Middle East would benefit Algeria's economy, instability could generate pressure on public spending (in particular, security and social spending), and delay reforms. | • Provide additional temporary and targeted fiscal support to the most vulnerable within the existing budget envelope.<br>• Expand available fiscal space by mobilizing non-oil revenue and phasing out inefficient spending.<br>• Pursue institutional reforms to improve governance and structural reforms to spur growth and job creation |
| **Idiosyncratic risks** | | | |
| **Weaker SOE's and public banks' balance sheets** result in government guaranteed debt being called and/or require capital injections. | **High** | **High**<br>• Sharp increase in public debt and recapitalization needs.<br>• Reduced lending to the private sector.<br>• The deterioration in financial health of major SOEs playing key sectoral roles weighs on growth and investment. | • Improve monitoring and management of fiscal risks.<br>• Streamline governance of SOEs and condition state support on improved transparency, restrucutring and reforms<br>• Develop a government shareholder policy focused on enhancing profitability and efficiency<br>• Divest from non-core assets and open the capital of selected SOEs to the private sector |
| **Very large fiscal financing needs put pressure on the balance sheets of the central bank and commercial banks** and undermine the effectiveness and credibility of monetary policy. | **High** | **High**<br>• Additional inflationary pressures<br>• Accelerated pace of decline in FX reserves<br>• Abrupt exchange adjustment | • Prohibit any form of direct or indirect financing of the budget deficit by the Central Bank and strengthen its independence<br>• Expand available fiscal space by mobilizing nonhydrocarbon revenue and phasing out inefficient spending. |

| | | | |
|---|---|---|---|
| | | | • Adopt a medium-term fiscal adjustment plan.<br>• Explore alternative non-inflationary financing for the deficit. |
| **Partial or delayed implementation of macroeconomic adjustment and necessary structural reforms, including governance reforms,** result in policy inconsistency and persistence of macroeconomic imbalances. | Medium | High<br>• Widening of fiscal and external imbalances.<br>• Unsustainable debt dynamics.<br>• Abrupt exchange adjustment. | • Increase transparency about the state of the economy, including through timely publication of economic data and communication.<br>• Adopt a medium-term fiscal adjustment plan supported by exchange rate and monetary policy.<br>• Provide additional temporary and targeted fiscal support to the most vulnerable to the adjustment and reform.<br>• Pursue institutional reforms to improve governance |

# Annex IV. Public and External Debt Sustainability Analysis

*Public debt is projected to rise under the authorities' current policies to high levels in the medium term, raising risks to its sustainability. Domestic financing constraints limit the ability of the government to carry a heavy and rising debt burden while continued recourse to monetary financing from the central bank would raise risks to macroeconomic stability. Placing debt on a sustainable trajectory in the medium term requires significant progress on fiscal consolidation to arrest unfavorable debt dynamics driven by subdued growth and rising interest costs. Broad fiscal reforms are also required to tackle challenges to debt sustainability from large government guarantees and other sources of fiscal risks.*

1. **Central government debt has increased dramatically since 2016.** Over 2008–15, central government debt, excluding guarantees on SOE debt, remained relatively low at around 8 percent of GDP, as a shift to gaping budget deficits from a long-standing surplus was offset first by drawing on savings of public entities and then, as oil prices fell, on the oil stabilization fund (*Fonds de Stabilisation des Recettes*, FRR). Government debt subsequently rose rapidly from 8.7 percent of GDP in 2015 to 50.7 percent of GDP in 2020, reflecting elevated primary deficits and subdued economic growth which was further weighed down by the dual pandemic and oil price shocks. Around 70 percent of outstanding government debt at end-2020 were owed to the BA, reflecting substantial central-bank direct financing of the budget deficit between 2017 and 2019.

2. **Recurrent materialization of budget risks has also contributed to the rise in government debt.** In 2016, the government recognized liabilities of around 5 percent of GDP to SONATRACH on losses incurred on sales of fuel at subsidized prices. In 2017, the treasury also repurchased loans owed by the national electricity and gas company Sonelgaz for an amount equivalent to 3 percent of GDP. It has also on-lent around 3 percent of GDP per year on average to the National Salaried Pension Fund (CNR) over 2018–20 to cover financing shortfalls. Meanwhile, SOE publicly guaranteed debt has more than doubled since 2014, reaching 18.8 percent of GDP in 2020.

3. **Without credible fiscal consolidation, government debt sustainability may be at risk over the medium term.** Under the current baseline projections, total government debt, excluding guarantees, would continue to rise over the forecast horizon to reach 84 percent of GDP by 2026, well above the 70 percent benchmark for emerging countries. Despite government plans for fiscal reforms, current projections point to the continuation of sizeable fiscal deficits because of declining hydrocarbon revenue, pressures on current spending and high capital outlays. The government's decision to directly monetize the deficit between 2017 and 2019 has suppressed borrowing costs, but the authorities have committed to stop any additional direct financing of the budget by the central bank. Hence, interest costs are poised to rise, consuming around 19 percent of budget revenue in 2026 under staff's baseline scenario, an unprecedented level since 1989.

4. **Persistently large fiscal financing needs and the modest absorption capacity of the domestic debt market will constrain the government's ability to carry an increasing debt burden and pose risks to macroeconomic stability.** Gross financing requirements are expected to stay very large at around 19 percent of GDP on average per year over 2020–26. The government is reluctant to tap external financing for budget financing purposes, although it has some space to ramp up external borrowing given the very low level of external and FX debt. Given the modest absorption capacity of the Algerian debt market, domestic financing of large budget needs will lead to severe crowding out of private sector borrowing, with negative repercussions on growth. Staff's baseline does not incorporate any direct monetary financing of the fiscal deficit, but meeting budget financing needs domestically will entail a substantial relaxation of money supply which risks of stoking inflation, putting pressure on the dinar and international reserves, and leading to disorderly adjustment through sharp devaluation or demand compression.

5. **Stress tests highlight that the high level of debt and its steep upward trajectory under the baseline generate significant vulnerability to a broad range of shocks, as illustrated in the heat map.** Shocks to real growth or moderate fiscal slippages would drive debt higher than 90 percent of GDP by 2026, while a combined macro-fiscal shock illustrating, for example, a fall in oil prices, would lead debt to rise to 119 percent of GDP in 2026. Debt levels as well as gross financing needs are particularly sensitive to a real interest rate shock which would push debt to 106 percent of GDP in 2026 and gross financing needs to an annual average of 24 percent of GDP over 2021–2026. Under unchanged fiscal policies with a constant primary deficit of 12 percent of GDP from 2021 onwards, government debt would increase to 97 percent of GDP in 2026. The evolution of predictive densities of debt (see below) illustrates the substantial risk of government debt breaching 100 percent of GDP under a wide range of scenarios. The large size of the fiscal adjustment assumed under the baseline scenario relative to historical standards (see Realism of assumptions tool) tilts risks surrounding the debt trajectory to the upside.

6. **Contingent liability risks from SOE debt and the pension systems as well as other budget risks are also material.** Total debt of non-financial SOEs is high, at 29 percent of GDP at end-2020 on staff's estimates. SOEs have recurrently required government support in recent years, partly reflecting their quasi-fiscal role. In 2021, the treasury is expected to repurchase syndicated loans extended by public banks to SOEs for a total amount of DZD 2,100 billion (9.3 percent of GDP) in the context of the financing operation incorporating the central bank's PSR (Box 1). An unknown portion of the repurchased loans is explicitly publicly guaranteed. As such, the full amount of the repurchases is added the government's debt burden, but at least part of the repurchased amount is expected to be deducted from the outstanding stock of SOE guaranteed debt. The budget has also accumulated obligations to SONATRACH for fuel subsidies between 2016 and 2020, currently estimated at DA 900–1000 bn (around 5 percent of 2020 GDP) but not yet included in the debt figures as the government is yet to conclude an arrangement with SONATRACH to recognize them. Also excluded are obligations arising from the use of

savings in public entities, including the Algeria Post and the National Investment Fund, to finance the 2020 deficit. Pension Fund obligations to the Treasury are also not reflected.

**7. Debt is mostly domestically held and denominated in dinars.** After its last disbursement from the IMF in 1999, external debt has continued to decline and the government did not borrow externally until 2016, when the African Development Bank (AfDB) provided a €900 million budget support loan. At end-2020, public external debt represented only 1 percent of GDP. In addition to the AfDB loan, remaining sovereign external debt is mostly on concessional terms and owed to bilateral creditors.

**8. Total external debt is projected to grow moderately between 2020 and 2026.** Staff projections show that total external debt would increase from 2.4 percent of GDP to 5.4 percent of GDP in 2026, reflecting an assumption about external borrowing under the baseline scenario to maintain reserves at 3 months of imports in 2026. Bound stress tests show that the trajectory of external debt is nevertheless subject to several risks, notably an adverse current account shock (Table 1, Figure 6).

## Figure 1. Algeria: Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

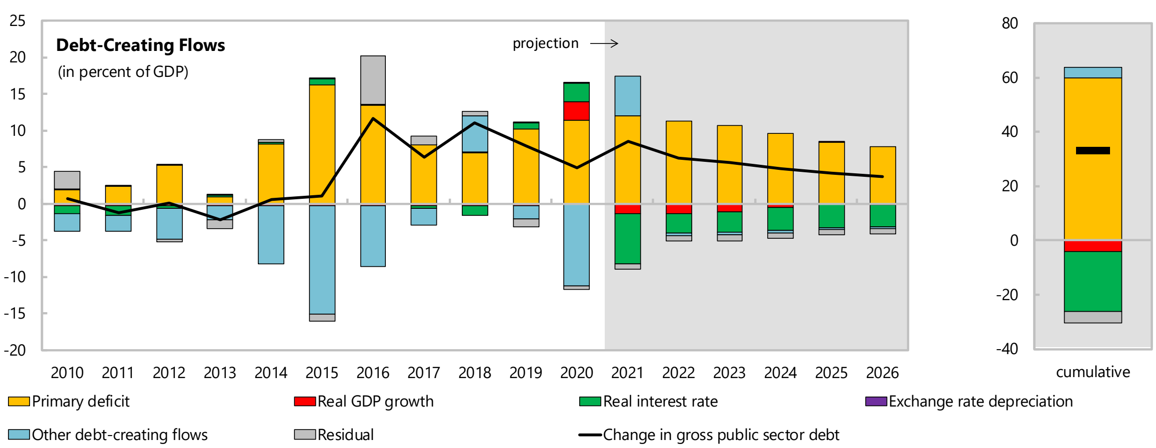
(in percent of GDP unless otherwise indicated)

### Debt, Economic and Market Indicators [1]

| | Actual | | | Projections | | | | | | As of April 08, 2016 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2010-2018 [2] | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | Sovereign Spreads | | |
| Nominal gross public debt | 15.3 | 45.8 | 50.7 | 59.2 | 65.4 | 71.1 | 76.0 | 80.1 | 83.8 | EMBIG (bp) 3/ | | n.a. |
| Public gross financing needs | 9.9 | 12.3 | 14.2 | 24.8 | 13.2 | 17.6 | 21.2 | 20.7 | 19.3 | 5Y CDS (bp) | | n.a |
| Real GDP growth (in percent) | 2.9 | 0.8 | -4.9 | 3.2 | 2.4 | 1.8 | 0.7 | 0.0 | 0.1 | Ratings | Foreign | Local |
| Inflation (GDP deflator, in percent) | 5.5 | -0.9 | -3.6 | 17.0 | 7.0 | 8.2 | 9.9 | 11.1 | 11.4 | Moody's | n.a. | n.a. |
| Nominal GDP growth (in percent) | 8.6 | -0.1 | -8.3 | 20.7 | 9.6 | 10.1 | 10.7 | 11.1 | 11.6 | S&Ps | n.a. | n.a. |
| Effective interest rate (in percent) [4] | 3.2 | 1.5 | 1.8 | 1.2 | 2.3 | 3.6 | 5.0 | 6.4 | 7.2 | Fitch | n.a. | n.a. |

### Contribution to Changes in Public Debt

| | Actual | | | Projections | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2010-2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | cumulative | debt-stabilizing primary balance [9] |
| Change in gross public sector debt | 3.1 | 8.0 | 4.9 | 8.5 | 6.2 | 5.7 | 4.8 | 4.2 | 3.7 | 33.1 | |
| Identified debt-creating flows | 2.1 | 9.1 | 5.4 | 9.2 | 7.0 | 6.5 | 5.6 | 4.9 | 4.4 | 37.6 | |
| Primary deficit | 7.0 | 10.2 | 11.4 | 12.0 | 11.3 | 10.7 | 9.6 | 8.5 | 7.8 | 59.9 | -3.4 |
| Primary (noninterest) revenue and grants | 33.7 | 31.2 | 29.5 | 27.3 | 26.8 | 26.2 | 26.1 | 26.0 | 26.0 | 158.4 | |
| Primary (noninterest) expenditure | 40.8 | 41.4 | 41.0 | 39.3 | 38.1 | 36.9 | 35.7 | 34.4 | 33.8 | 218.2 | |
| Automatic debt dynamics [5] | -0.6 | 0.6 | 5.2 | -8.2 | -3.9 | -3.9 | -3.6 | -3.2 | -3.1 | -26.0 | |
| Interest rate/growth differential [6] | -0.6 | 0.6 | 5.1 | -8.2 | -3.9 | -3.9 | -3.6 | -3.2 | -3.1 | -26.0 | |
| Of which: real interest rate | -0.3 | 0.9 | 2.6 | -6.9 | -2.6 | -2.8 | -3.2 | -3.2 | -3.0 | -21.8 | |
| Of which: real GDP growth | -0.3 | -0.3 | 2.4 | -1.3 | -1.3 | -1.0 | -0.5 | 0.0 | -0.1 | -4.2 | |
| Exchange rate depreciation [7] | 0.0 | 0.0 | 0.1 | … | … | … | … | … | … | … | |
| Other identified debt-creating flows | -4.3 | -1.7 | -11.2 | 5.4 | -0.4 | -0.4 | -0.3 | -0.3 | -0.3 | 3.7 | |
| FRR withdrawal (+) or accumulation (-) (negative) | -1.7 | -1.1 | -6.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Contingent liabilities | 0.0 | 0.0 | 0.0 | 9.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 9.3 | |
| Deposits of public entities (- reduces financing need) | -2.6 | -0.6 | -4.8 | -3.9 | -0.4 | -0.4 | -0.3 | -0.3 | -0.3 | -5.5 | |
| Residual, including asset changes [8] | 1.0 | -1.1 | -0.5 | -0.7 | -0.7 | -0.8 | -0.8 | -0.8 | -0.7 | -4.4 | |




Source: IMF staff.

1/ Public sector is defined as general 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).

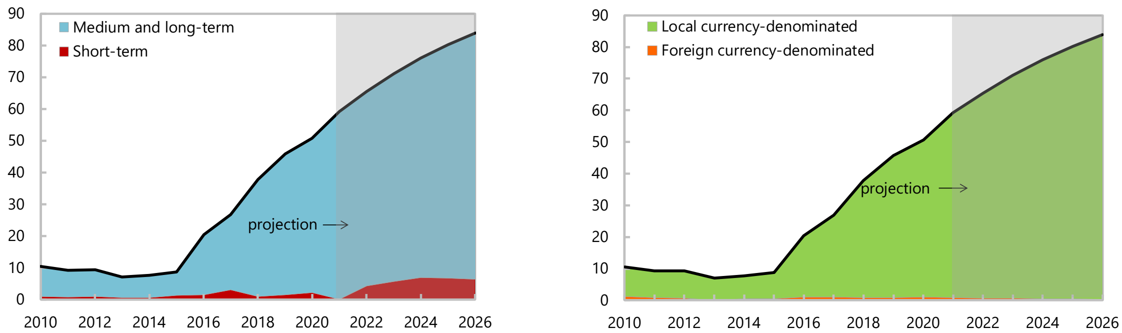
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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.

## Figure 2. Algeria Public DSA - Composition of Public Debt and Alternative Scenarios

### Composition of Public Debt

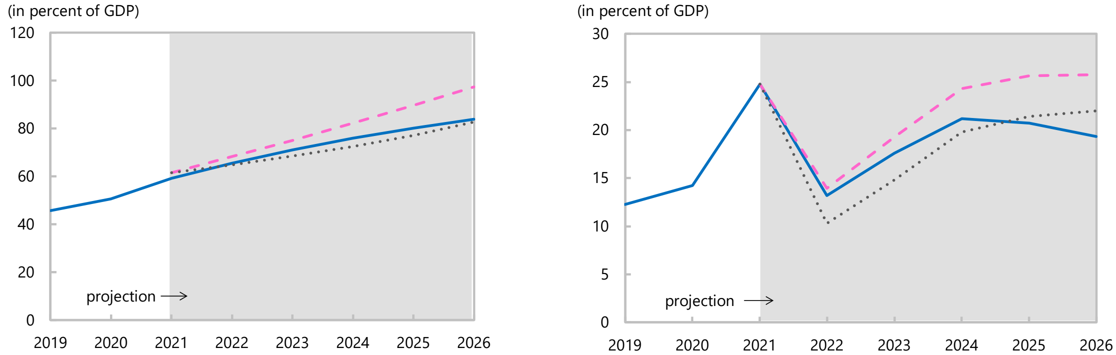
**By Maturity** (in percent of GDP) — **By Currency** (in percent of GDP)




### Alternative Scenarios

Baseline — Historical — Constant Primary Balance

**Gross Nominal Public Debt** (in percent of GDP) — **Public Gross Financing Needs** (in percent of GDP)



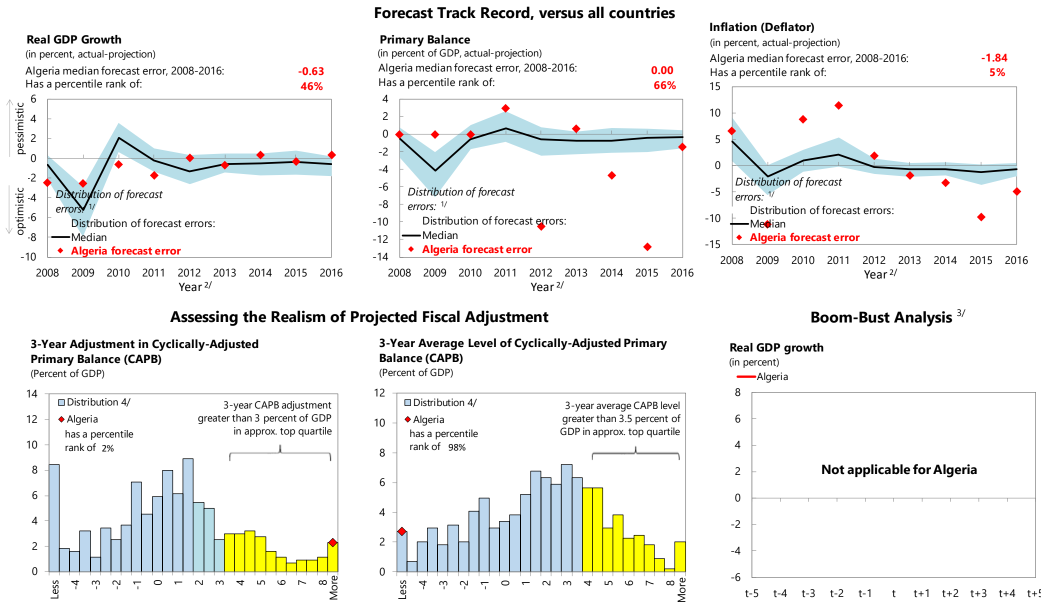

### Underlying Assumptions
(in percent)

| Baseline Scenario | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|
| Real GDP growth | 3.2 | 2.4 | 1.8 | 0.7 | 0.0 | 0.1 |
| Inflation | 17.0 | 7.0 | 8.2 | 9.9 | 11.1 | 11.4 |
| Primary Balance | -12.0 | -11.3 | -10.7 | -9.6 | -8.5 | -7.8 |
| Effective interest rate | 1.2 | 2.3 | 3.6 | 5.0 | 6.4 | 7.2 |
| **Constant Primary Balance Scenario** | | | | | | |
| Real GDP growth | 3.2 | 2.4 | 1.8 | 0.7 | 0.0 | 0.1 |
| Inflation | 17.0 | 7.0 | 8.2 | 9.9 | 11.1 | 11.4 |
| Primary Balance | -12.0 | -12.0 | -12.0 | -12.0 | -12.0 | -12.0 |
| Effective interest rate | 1.2 | 2.4 | 3.7 | 5.1 | 6.5 | 7.5 |

| Historical Scenario | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|
| Real GDP growth | 3.2 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 |
| Inflation | 17.0 | 7.0 | 8.2 | 9.9 | 11.1 | 11.4 |
| Primary Balance | -12.0 | -8.3 | -8.3 | -8.3 | -8.3 | -8.3 |
| Effective interest rate | 1.2 | 2.4 | 4.4 | 6.6 | 9.0 | 10.7 |

Source: IMF staff.

## Figure 3. Algeria: Public DSA - Realism of Baseline Assumptions




Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

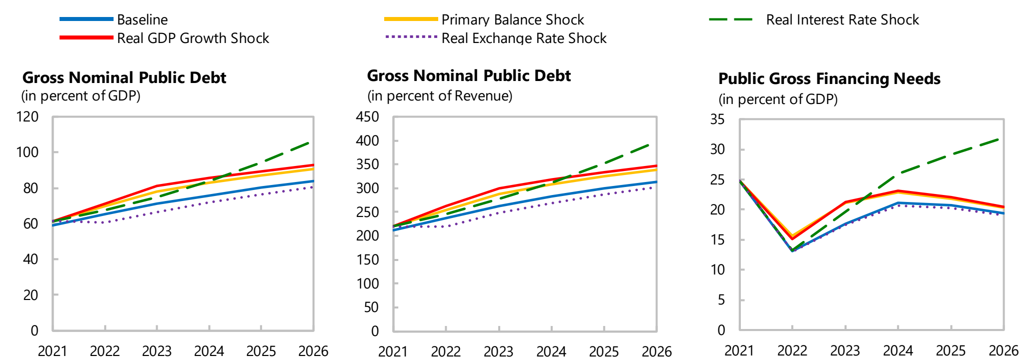
2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Algeria, as it meets neither the positive output gap criterion nor the private credit growth criterion.

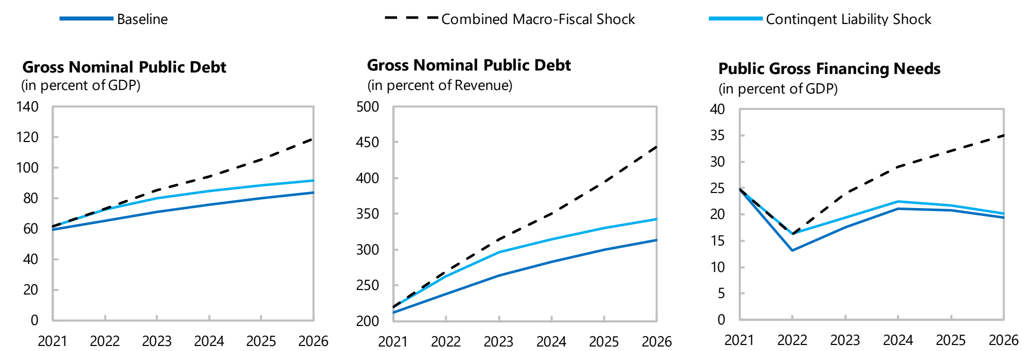
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

# Figure 4. Algeria: Public DSA - Stress Tests

## Macro-Fiscal Stress Tests




## Additional Stress Tests




## Underlying Assumptions

(in percent)

| | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|
| **Primary Balance Shock** | | | | | | |
| Real GDP growth | 3.2 | 2.4 | 1.8 | 0.7 | 0.0 | 0.1 |
| Inflation | 17.0 | 7.0 | 8.2 | 9.9 | 11.1 | 11.4 |
| Primary balance | -12.0 | -13.7 | -13.1 | -9.6 | -8.5 | -7.8 |
| Effective interest rate | 1.2 | 2.4 | 3.9 | 5.5 | 6.6 | 7.4 |
| **Real Interest Rate Shock** | | | | | | |
| Real GDP growth | 3.2 | 2.4 | 1.8 | 0.7 | 0.0 | 0.1 |
| Inflation | 17.0 | 7.0 | 8.2 | 9.9 | 11.1 | 11.4 |
| Primary balance | -12.0 | -11.3 | -10.7 | -9.6 | -8.5 | -7.8 |
| Effective interest rate | 1.2 | 2.4 | 6.7 | 10.9 | 15.1 | 18.1 |
| **Combined Shock** | | | | | | |
| Real GDP growth | 3.2 | -0.2 | -0.8 | 0.7 | 0.0 | 0.1 |
| Inflation | 17.0 | 6.4 | 7.6 | 9.9 | 11.1 | 11.4 |
| Primary balance | -12.0 | -14.2 | -13.1 | -9.6 | -8.5 | -7.8 |
| Effective interest rate | 1.2 | 2.4 | 7.3 | 11.7 | 15.6 | 18.4 |

| | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|
| **Real GDP Growth Shock** | | | | | | |
| Real GDP growth | 3.2 | -0.2 | -0.8 | 0.7 | 0.0 | 0.1 |
| Inflation | 17.0 | 6.4 | 7.6 | 9.9 | 11.1 | 11.4 |
| Primary balance | -12.0 | -13.0 | -13.1 | -9.6 | -8.5 | -7.8 |
| Effective interest rate | 1.2 | 2.4 | 3.8 | 5.4 | 6.5 | 7.3 |
| **Real Exchange Rate Shock** | | | | | | |
| Real GDP growth | 3.2 | 2.4 | 1.8 | 0.7 | 0.0 | 0.1 |
| Inflation | 17.0 | 23.7 | 8.2 | 9.9 | 11.1 | 11.4 |
| Primary balance | -12.0 | -11.3 | -10.7 | -9.6 | -8.5 | -7.8 |
| Effective interest rate | 1.2 | 2.4 | 3.7 | 5.2 | 6.5 | 7.3 |
| **Contingent Liability Shock** | | | | | | |
| Real GDP growth | 3.2 | -0.2 | -0.8 | 0.7 | 0.0 | 0.1 |
| Inflation | 17.0 | 6.4 | 7.6 | 9.9 | 11.1 | 11.4 |
| Primary balance | -12.0 | -14.3 | -10.7 | -9.6 | -8.5 | -7.8 |
| Effective interest rate | 1.2 | 2.6 | 4.0 | 5.2 | 6.4 | 7.2 |

Source: IMF staff.

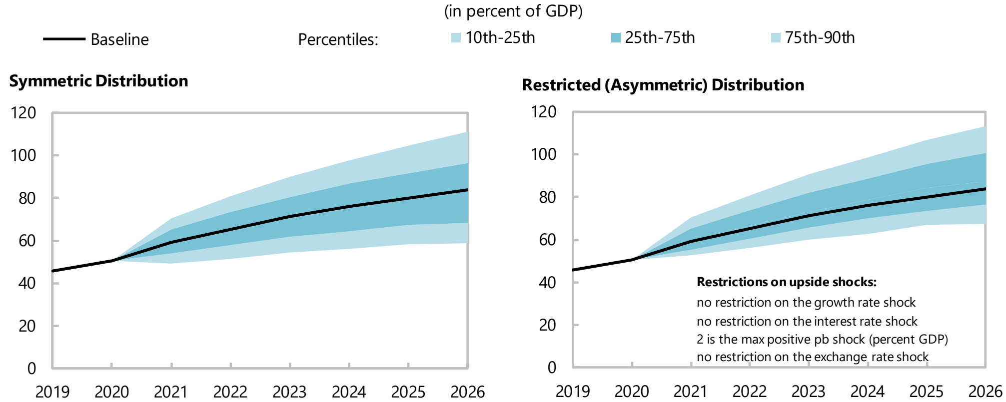
## Figure 5. Algeria: Public DSA Risk Assessment

### Heat Map

| | | | | | |
|---|---|---|---|---|---|
| Debt level [1/] | Real GDP Growth Shock | Primary Balance Shock | Real Interest Rate Shock | Exchange Rate Shock | Contingent Liability shock |
| Gross financing needs [2/] | Real GDP Growth Shock | Primary Balance Shock | Real Interest Rate Shock | Exchange Rate Shock | Contingent Liability Shock |
| Debt profile [3/] | Market Perception | External Financing Requirements | Change in the Share of Short-Term Debt | Public Debt Held by Non-Residents | Foreign Currency Debt |

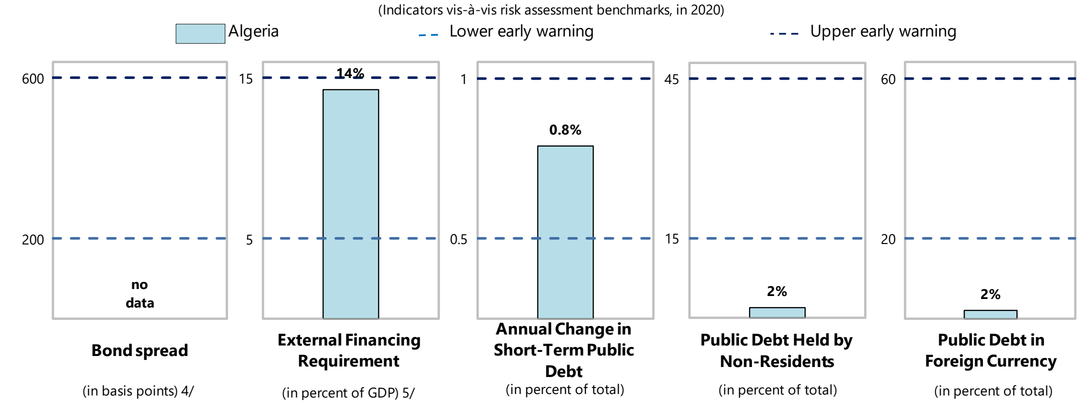
### Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)




### Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2020)




Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over German bonds, an average over the last 3 months, 09-Jan-16 through 08-Apr-16.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

## Table 1. Algeria: External Debt Sustainability Framework, 2013-2026

(in percent of GDP, unless otherwise indicated)

| | Actual | | | | | | | | Projections | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | Debt-stabilizing non-interest current account 6/ |
| 1 **Baseline: External debt** | 1.6 | 1.4 | 1.8 | 2.4 | 2.3 | 2.3 | 2.2 | 2.4 | **2.0** | **1.9** | **1.7** | **1.6** | **1.5** | **5.4** | **-0.2** |
| 2 Change in external debt | -0.1 | -0.2 | 0.4 | 0.6 | -0.1 | 0.0 | 0.0 | 0.1 | -0.3 | -0.2 | -0.2 | -0.1 | -0.1 | 4.0 | |
| 3 Identified external debt-creating flows (4+8+9) | -1.3 | 3.7 | 17.2 | 15.6 | 12.2 | 9.2 | 9.2 | 12.3 | 4.2 | 2.8 | 2.7 | 3.9 | 5.1 | 5.4 | |
| 4 Current account deficit, excluding interest payments | -0.4 | 4.4 | 16.4 | 16.5 | 13.1 | 9.6 | 9.9 | 12.7 | 4.9 | 3.6 | 3.5 | 4.7 | 5.8 | 5.9 | |
| 5 Deficit in balance of goods and services | -1.2 | 3.7 | 15.4 | 17.3 | 13.2 | 9.0 | 9.2 | 12.2 | 3.7 | 2.3 | 2.3 | 3.8 | 5.1 | 5.5 | |
| 6 Exports | 32.6 | 29.7 | 22.9 | 20.3 | 22.1 | 25.3 | 22.5 | 16.9 | 23.9 | 24.7 | 23.2 | 20.7 | 18.6 | 17.2 | |
| 7 Imports | 31.3 | 33.4 | 38.4 | 37.6 | 35.3 | 34.3 | 31.7 | 29.1 | 27.7 | 27.0 | 25.5 | 24.5 | 23.7 | 22.7 | |
| 8 Net non-debt creating capital inflows (negative) | -0.9 | -0.7 | 0.4 | -1.0 | -0.7 | -0.4 | -0.8 | -0.8 | -0.7 | -0.7 | -0.7 | -0.7 | -0.7 | -0.7 | |
| 9 Automatic debt dynamics 1/ | 0.0 | 0.0 | 0.5 | 0.1 | -0.1 | 0.0 | 0.1 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | |
| 10 Contribution from nominal interest rate | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | |
| 11 Contribution from real GDP growth | 0.0 | -0.1 | -0.1 | -0.1 | 0.0 | 0.0 | 0.0 | 0.1 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| 12 Contribution from price and exchange rate changes 2/ | 0.0 | 0.0 | 0.5 | 0.1 | -0.1 | 0.0 | 0.1 | 0.2 | ... | ... | ... | ... | ... | ... | |
| 13 Residual, incl. change in gross foreign assets (2-3) 3/ | 1.2 | -3.9 | -16.8 | -15.0 | -12.3 | -9.3 | -9.2 | -12.2 | -4.5 | -3.0 | -2.9 | -4.1 | -5.2 | -1.4 | |
| External debt-to-exports ratio (in percent) | 4.9 | 4.6 | 7.9 | 11.8 | 10.5 | 9.0 | 10.0 | 13.9 | 8.5 | 7.6 | 7.3 | 7.6 | 7.9 | 31.7 | |
| **Gross external financing need (in billions of US dollars) 4/** | 0.8 | 11.0 | 29.6 | 28.5 | 24.5 | 19.1 | 19.4 | 21.1 | 10.0 | 8.2 | 8.4 | 11.0 | 13.8 | 15.2 | |
| in percent of GDP | 0.4 | 5.1 | 17.9 | 17.8 | 14.4 | 10.9 | 11.3 | 14.3 | 6.0 | 4.7 | 4.6 | 5.7 | 6.7 | 7.0 | |
| **Scenario with key variables at their historical averages 5/** | | | | | | | | | **2.0** | **5.0** | **7.9** | **9.3** | **9.2** | **13.7** | **-0.4** |
| **Key Macroeconomic Assumptions Underlying Baseline** | | | | | | | | | | | | | | | |
| Real GDP growth (in percent) | 2.8 | 3.8 | 3.7 | 3.2 | 1.4 | 1.2 | 0.8 | -4.9 | 3.2 | 2.4 | 1.8 | 0.7 | 0.0 | 0.1 | |
| GDP deflator in US dollars (change in percent) | -2.4 | -1.8 | -25.1 | -6.6 | 4.9 | 1.8 | -3.2 | -9.3 | 9.9 | 2.0 | 3.1 | 4.7 | 5.8 | 6.1 | |
| Nominal external interest rate (in percent) | 1.9 | 1.3 | 4.3 | 0.9 | 1.2 | 1.1 | 1.7 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 16.2 | |
| Growth of exports (US dollar terms, in percent) | -9.8 | -7.0 | -40.1 | -14.6 | 16.0 | 17.8 | -13.1 | -35.4 | 60.8 | 7.9 | -1.4 | -6.0 | -5.1 | -1.7 | |
| Growth of imports (US dollar terms, in percent) | 4.9 | 8.6 | -10.8 | -5.4 | -0.2 | -0.1 | -9.7 | -20.9 | 7.9 | 1.9 | -0.7 | 1.1 | 2.3 | 1.9 | |
| Current account balance, excluding interest payments | 0.4 | -4.4 | -16.4 | -16.5 | -13.1 | -9.6 | -9.9 | -12.7 | -4.9 | -3.6 | -3.5 | -4.7 | -5.8 | -5.9 | |
| Net non-debt creating capital inflows | 0.9 | 0.7 | -0.4 | 1.0 | 0.7 | 0.4 | 0.8 | 0.8 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | |

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate,
e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

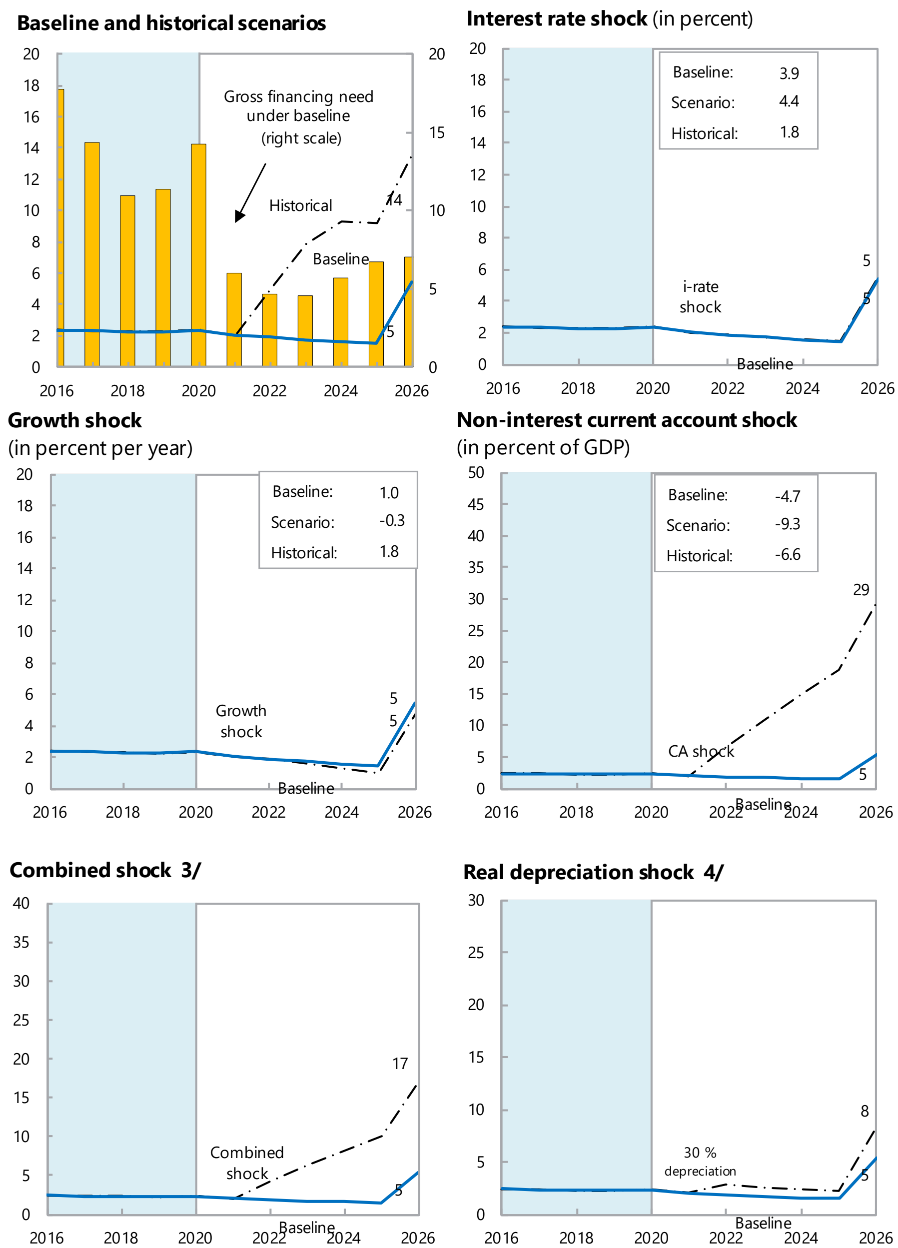
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels

## Figure 6. Algeria: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)




Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2022.

# Annex V. Alternative Scenario

*In addition to the baseline, staff discussed an alternative scenario consistent with the recommended policy mix. The adjustment scenario shows that fiscal consolidation of sufficient scale alongside enhanced exchange rate flexibility, monetary policy tightening and progress on structural reforms would go a long way towards protecting fiscal and external sustainability, rebuilding policy space and enhancing resilience to external shocks.*

The alternative scenario assumes a three-pronged adjustment strategy starting in 2022 and relying on simultaneous action on all three policy levers through (i) gradual fiscal adjustment of around 10.5 percent of NHGDP staged over five years; (ii) sufficient exchange-rate flexibility to support adjustment and close the gap with the parallel market; and (iii) monetary policy tightening. Under this policy mix, government financing needs would be substantially reduced, and government debt would peak below 60 percent of GDP. External borrowing would alleviate pressures on the domestic banking system and help maintain international reserves at adequate levels through the projection horizon, supporting the ability of the economy to respond to potential adverse external developments. Policy space would be rebuilt, and growth would accelerate, reflecting a substantial reduction in distortions from the policy setting and progress on structural reforms. The recommended adjustment incorporates measures to minimize its impact on low-income households through targeted support measures.

Specific assumptions are as follows:

**1. Fiscal revenue**. Nonhydrocarbon tax revenue is supported in the outer years by improvements in collection capacity, for example through digitalization reforms, and widening of the tax base from a targeted phasing-out of inefficient tax exemptions (on VAT for example). Stronger tax collections, alongside efforts to recoup part of the current stock of overdue tax payments, would limit the projected decline in total revenue, mostly owing to lower imports and dividend transfers from the BA and the gradual decline in oil production. Enhanced exchange-rate flexibility will partially shield hydrocarbon income from oil price volatility.

**2. Fiscal spending**. The fiscal adjustment relies on reduction in both capital and primary spending, while health and social spending should be increased as needed to support the fight against the pandemic and the nascent economic recovery. At 16 percent of NHGDP on average per year over the last five years, Algeria's capital outlays are particularly high; cuts of around 2 percent of NHGDP relative to their projected 2021 level would bring them closer to peers, while concurrent fiscal reforms to enhance the efficiency of public investment would increase the economic benefits drawn from infrastructure. The authorities' announced plans to improve the targeting of subsidies should achieve savings on spending and boost hydrocarbon revenue. Reforms to rein in hiring in the civil service with a replacement rate of less than 1, in line with the published 2022 budget guidelines, would achieve savings on payroll spending. In parallel, parametric pension reform starts in 2022 although the ensuing budget savings are assumed to materialize only in the outer years. Reforms to the governance of SOEs and enhanced monitoring of their financial performance would help mitigate materialization of fiscal risks. Part of savings achieved on spending will be reinjected in the economy through targeted transfers to low-income households.

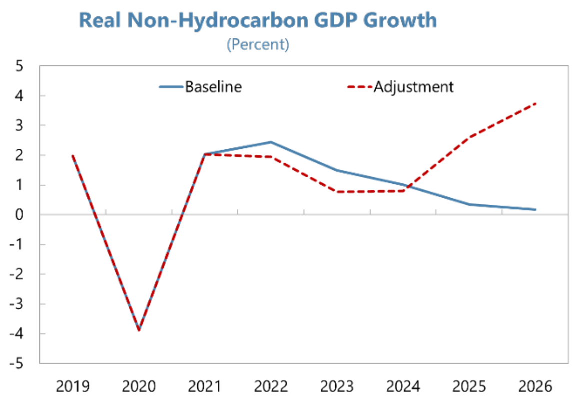
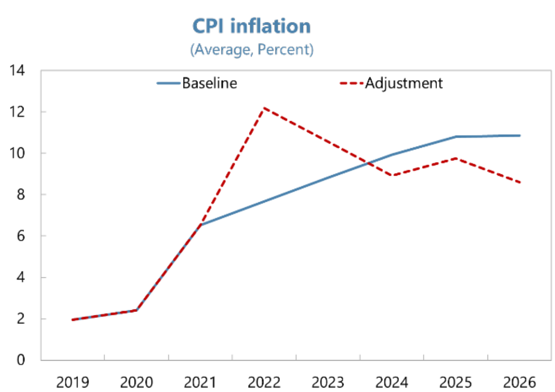
**3. Exchange Rate and Monetary Policy**. Allowing for sufficient exchange-rate flexibility would help forestall the continued appreciation of the REER projected under the baseline scenario and realign the dinar with macroeconomic fundamentals. The exchange rate is assumed to be adjusted to durable shifts in terms-of-trade, supporting the authorities' efforts to diversify the economy and stimulate nonhydrocarbon exports. Import compression policies are relaxed. The combination of exchange rate flexibility and recommended fiscal adjustment would help tackle ongoing pressures on the balance of payment, protect international reserves and substantially reduce the premium on the parallel FX market. Monetary policy is tightened as needed starting in 2022, to contain any increase in inflation from exchange rate pass-though, supported by structural reforms to streamline the policy framework.

**4. Fiscal Financing**. The government avoids any direct and indirect monetary financing of its deficit to protect macroeconomic stability. The treasury diversifies its financing sources through a combination of domestic borrowing at market rates and external borrowing. A rise in interest cost will partly offset savings on primary spending.

**5. Economic Growth and Structural Reforms.** The tightening of the policy mix would weigh on domestic demand and precipitate a slowdown in nonhydrocarbon GDP growth in 2022–2024. However, growth will recover and substantially accelerate thereafter, supported by stronger public spending efficiency, enhanced credit supply to the private sector and improved macroeconomic stability. In parallel, lifting restrictions on current account transactions and advancing structural reforms would enhance the business climate and support the recovery. For instance, easing restrictions on foreign investment would help Algeria bridge the gap in terms of FDI inflows relative to regional peers. Reforms to strengthen the competition framework and scale back barriers to domestic and foreign entry would spur the expansion of the private sector and spawn new capacities in the nonhydrocarbon sector, supporting efforts to wean the economy off oil dependence. Greater efficiency and wider coverage of social protection would support human capital accumulation and productivity. Governance reforms would improve public spending efficiency.

**6. Communication.** Proactive communication of adjustment policies to the broad public would be crucial for successful implementation. Fiscal reforms typically face resistance, as they have a material impact on income redistribution and generate short-term economic costs while their benefits tend to materialize only gradually. Laying out a clear case for the adjustment strategy would facilitate broad-based understanding and muster support among members of the public. Dialogue with the civil society and involvement of private sector representatives in the design and implementation of economic and fiscal reforms would enable ownership of the adjustment policies. Reforms to streamline governance and enhance transparency, most notably on budget matters and SOE financial performance, would also help build trust.

**7. Contingency plans.** While the credibility of the commitment to fiscal consolidation plans is crucial, the pace of fiscal consolidation should be adapted to the evolution of the Covid-19 pandemic and to broad domestic economic conditions. At all times, health and social spending need to be prioritized and ramped up as needed to combat the pandemic and its economic fallout. Accelerated and larger cuts to capital spending could be warranted to create further space for this purpose. Higher external borrowing beyond the assumptions of the alternative scenario would also help create temporary fiscal space. Conversely, the windfall gains from any potential rise in hydrocarbon prices should be used to rebuild budget deposits and international reserves, while pressing ahead of the adjustment.

<table>
<tr><th colspan="2">Alternative and Baseline Scenarios</th></tr>
<tr><td>Nonhydrocarbon real GDP growth<br></td><td>Baseline: The rise in oil exports and a slow easing of the health crisis support a recovery in 2022–2023 under the assumption of an absence of renewed severe tightening of domestic containment measures. A decline in hydrocarbon revenue, policy distortions and structural bottlenecks weigh on growth in the outer years.<br>Adjustment: A tighter policy mix weighs on domestic demand in 2022–2023. Economic recovery in the outer years is supported by progress on economic reforms and alleviation of policy distortions, for example from crowding-out of private sector bank lending by large fiscal financing needs or FX scarcity in the economy</td></tr>
<tr><td>Inflation<br></td><td>Baseline: Inflation initially accelerates in 2021-2022 on cost-push factors and the lagged pass through of exchange rate depreciation. It remains high in the longer term, as monetary policy remains supportive against the background of large government funding needs.<br>Adjustment: A significant tightening of the monetary policy stance drives a gradual reduction in inflation.</td></tr>
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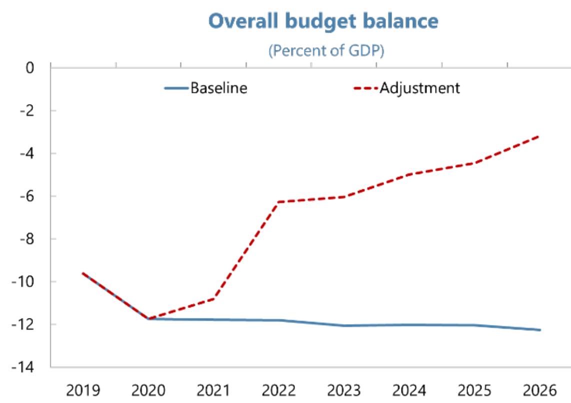
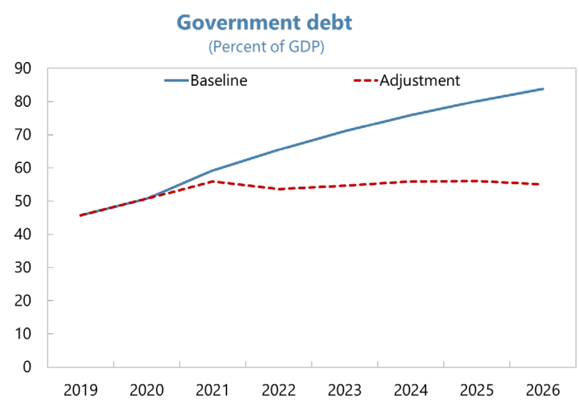
**Fiscal balance**




**Baseline**: Rising interest cost, declining hydrocarbon revenue and only limited reduction in budget spending result in persistent double-digit fiscal deficits. Very large fiscal financing needs raise pressures on the domestic banking system.

**Adjustment**: Fiscal consolidation drives a fast and durable reduction in the budget deficit and reduces financing needs to more moderate levels.

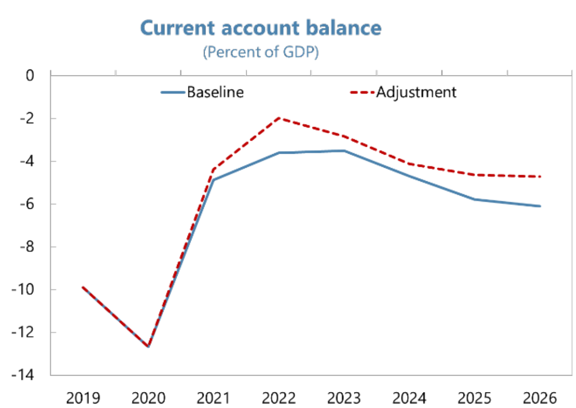
**Debt**




**Baseline**: Government debt continues to rise through the projection horizon, driven by persistent large fiscal deficits, increasing interest costs and subdued growth.

**Adjustment**: Progress on fiscal consolidation and improved growth prospects lead government debt to peak in 2025 and gradually decline thereafter.

**Current account**




**Baseline**: A loose fiscal and monetary policy stance alongside a gradual decline in hydrocarbon exports result in continued large external deficits.

**Adjustment**: The tightening of the policy mix dampens domestic demand and drives a narrowing in the current account deficit. The acceleration in growth and the decline in oil revenue lead to moderate widening in the current account deficit in the outer years. Nonhydrocarbon exports inch up, supported by improved diversification and structural reforms boosting supply capacity in the tradeable sector.

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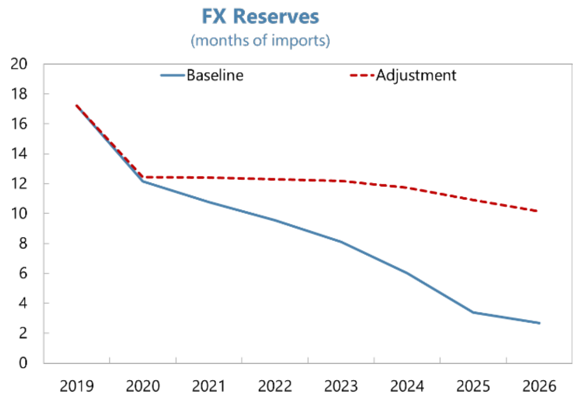
**Reserves**

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**Baseline**: Reserves fall through the projection horizon on continued large external deficits and reluctance to borrow externally.

**Adjustment**: A more sustainable current account deficit path and recourse to external financing of the budget moderates the decline in FX reserves and keeps import coverage above 11 months.

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# Annex VI. Improving Liquidity Management in Algeria

1. **Significant gaps in the liquidity management framework limit the BA's ability to address shocks through its monetary policy.** The transmission of the BA's key policy rate to the banking system and to the economy is weak, leading the BA to (appropriately) use reserve requirements as primary instrument to address liquidity stress, as evidenced by the Covid-19 pandemic.[1] While fully justified in those circumstances, a significant, persistent decrease in reserve requirements presents many drawbacks: (i) it affects all banks in the same manner, while participation in refinancing operations allows a differentiation in the effects of monetary policy across banks; (ii) it may be conducive to moral hazard if banks get used to persistently low reserve requirements; (iii) it reduces the effectiveness of the reserve requirements averaging mechanism in encouraging interbank market activity and development; (iv) it visibly reduces the central bank's leeway to address further liquidity shocks (while unconventional monetary policy measures can still be effective when the key policy rate has reached its lower bound); and (v) it may reduce the relevance of the key policy rate as the primary tool to signal and transmit the central bank's monetary policy stance, thereby confusing public perceptions on the central bank's primary instrument.

2. **Activating the liquidity management should give a greater operational relevance to the key policy rate in signaling and transmitting the BA's monetary policy stance.** This implies that using the key policy rate (used as fixed rate or as reference rate in variable rate auctions) would be the primary tool to address liquidity **shocks**. It requires that the BA's liquidity management operations have a sufficient volume and frequency to meaningfully influence the banks' financing costs, and consequently the economy's financing costs.

3. **Reinforcing the financial system's resilience to liquidity shocks will also support a better transmission of monetary policy.** A three-fold strategy could help building 'lines of defense', which could absorb liquidity shocks and unencumber reserve requirements—de facto currently the primary tool to address liquidity stress in Algeria.

4. **First, the authorities should foster the development of the secured interbank money market through appropriate infrastructure and incentives.** The interbank money market should be the first line of defense when a liquidity shock occurs, by allowing the reallocation of excess reserves between banks. When a liquidity shock negatively affects confidence between banks, the unsecured money market may not be an effective backstop. By contrast, an effective secured money market[2] can be more resilient as collateral facilitates the reallocation of excess reserves between banks even in a low-confidence environment, provided that there is legal certainty on the collateral

[1] Between November 2019 and February 2021, the BA decreased the reserve requirement ratio from 12 to 2 percent (through 5 consecutive cuts), releasing about DZD 700 billion in banking-system liquidity. Over the same period, the BA reduced its key policy rate from 3.50 to 3 percent. In addition, in September 2020 the BA introduced monthly-one month refinancing operations in complement to its regular weekly refinancing operations, attenuating banks' rollover stress in a context of surging liquidity tensions.

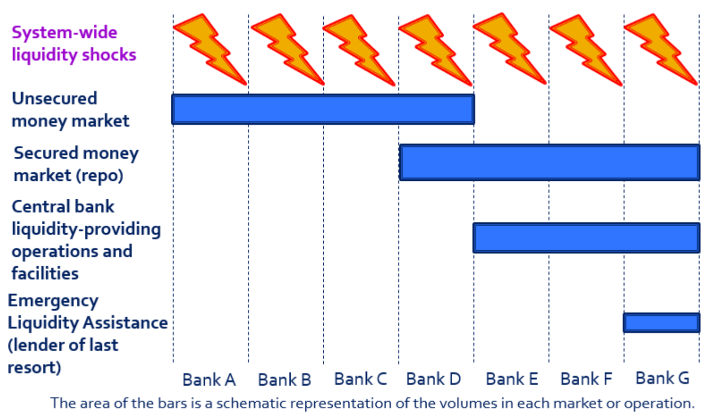
[2] This could be achieved through developing the necessary legal and operational architectures (master agreement for interbank repos, electronic trading platforms etc.) and ensuring that the market participants have sufficient incentives (financial, regulatory, reputational) to transact preferably between themselves than with the central bank.

and sufficient high-quality assets available to banks. An appropriate legal and technical infrastructure would strengthen the development of the interbank repo market in Algeria.

5. **Second, strengthening the potential "firepower" of the BA's system-wide liquidity injections requires a broader collateral framework.** Currently government debt securities account for the bulk of the eligible collateral for the BA's monetary policy operations. The framework for the acceptance of performing credit claims is not actively used, for operational reasons. Making that framework operational, while applying strict risk control measures, would help diversify and broaden the eligible collateral, increasing the BA's capacity to inject liquidity and reducing the need for lowering reserve requirements in face of system-wide liquidity shocks.

6. **Third, an effective Emergency Liquidity Assistance (ELA) framework would help address residual idiosyncratic issues, while fostering the necessary reforms by the weakest links in the banking system.** An ELA should be provided on a conditional basis to solvent banks facing temporary liquidity issues to preserve financial stability. The provision of ELA should be accompanied by strict conditions that the beneficiary bank implement specific remedial measures, agreed and verified by the supervisor, so that the bank becomes more resilient to future liquidity shocks.

**Figure 1. System-wide liquidity shock in a banking system with complete safety nets framework**




Note: The systemic liquidity shock is partly absorbed through the reallocation of excess reserves between banks (for banks A, B, C, D). The secured money market allows a further interbank reallocation of excess reserves, as collateral offers appropriate protection to the lenders and preserves some banks' (D, E, F, G) market access, despite perceptions of higher credit risk. Residual liquidity needs are addressed (for banks E, F, G) by central bank's system-wide measures. Bank G runs out of eligible collateral for monetary policy and needs additional central bank financing: Bank G receives it as Emergency Liquidity Assistance (Lender of Last Resort – LOLR), providing that it verifies all conditions (in particular, solvency). Without LOLR, the central bank's system-wide liquidity measures would have been calibrated differently, and probably sub-optimally.

# Annex VII. Informality in Algeria

**1. As in most of the developing world, informality is a major policy challenge in Algeria.** Informality can be detrimental to inclusive growth and social welfare as it excludes large swathes of the population from social safety nets. This can aggravate income inequality, particularly in times of economic hardship as the ongoing pandemic has shown (Délechat and Medina, 2021). In addition, informality contributes to perpetuating gender and generational inequality, as it disproportionately affects women and the youth (Jutting and Laiglesia 2009, Ohnsorge and Yu 2021). It also undermines tax collection and hence reduce fiscal policy space and the quality of public services.

**2. Commonly used measures suggest that informality in Algeria is significant but similar to that of peer countries (Figure 1).**

- *National estimates suggest that informal employment accounted for 42 percent of total employment in 2019*. The decline in informal employment from around 50 percent of total employment in 2009 mostly reflected increased hiring in the public sector (IMF, 2014). Informal employment is concentrated in agriculture as well as in commerce and construction, two sectors which were hit hard by the Covid-19 pandemic in 2020.

- *Single indicator-based measures also suggest that informality is pervasive in Algeria*. 'Excess' demand for cash—as measured by the share of currency in circulation outside banks relative to broad money—is higher in Algeria than in other Middle East and North Africa (MENA) countries. It has also been rising since 2008. A parallel market for the Algerian dinar with an important the exchange rate premium may similarly reflect 'excess' demand for foreign exchange. Excess demand for either cash or FX can arise for various reasons, including precautionary motives, tight regulations or lack of confidence in the banking sector, but tends to be associated with higher informality as it helps keep transactions unregistered and untraceable.

- *Informality in Algeria is, however, lower than the median level for peer countries*. The share of self-employment in total employment, commonly used to compare informal employment across countries was 30.1 percent in Algeria in 2019 compared to a median of 47.3 percent in a sample of 153 countries. Model estimates of the shadow economy for 158 countries indicate that, over the period 1991–2017, informality in Algeria closely tracked that of the median country and remained mostly below it.[1] A similar conclusion emerges when comparing Algeria with other MENA countries or with other hydrocarbon exporters.

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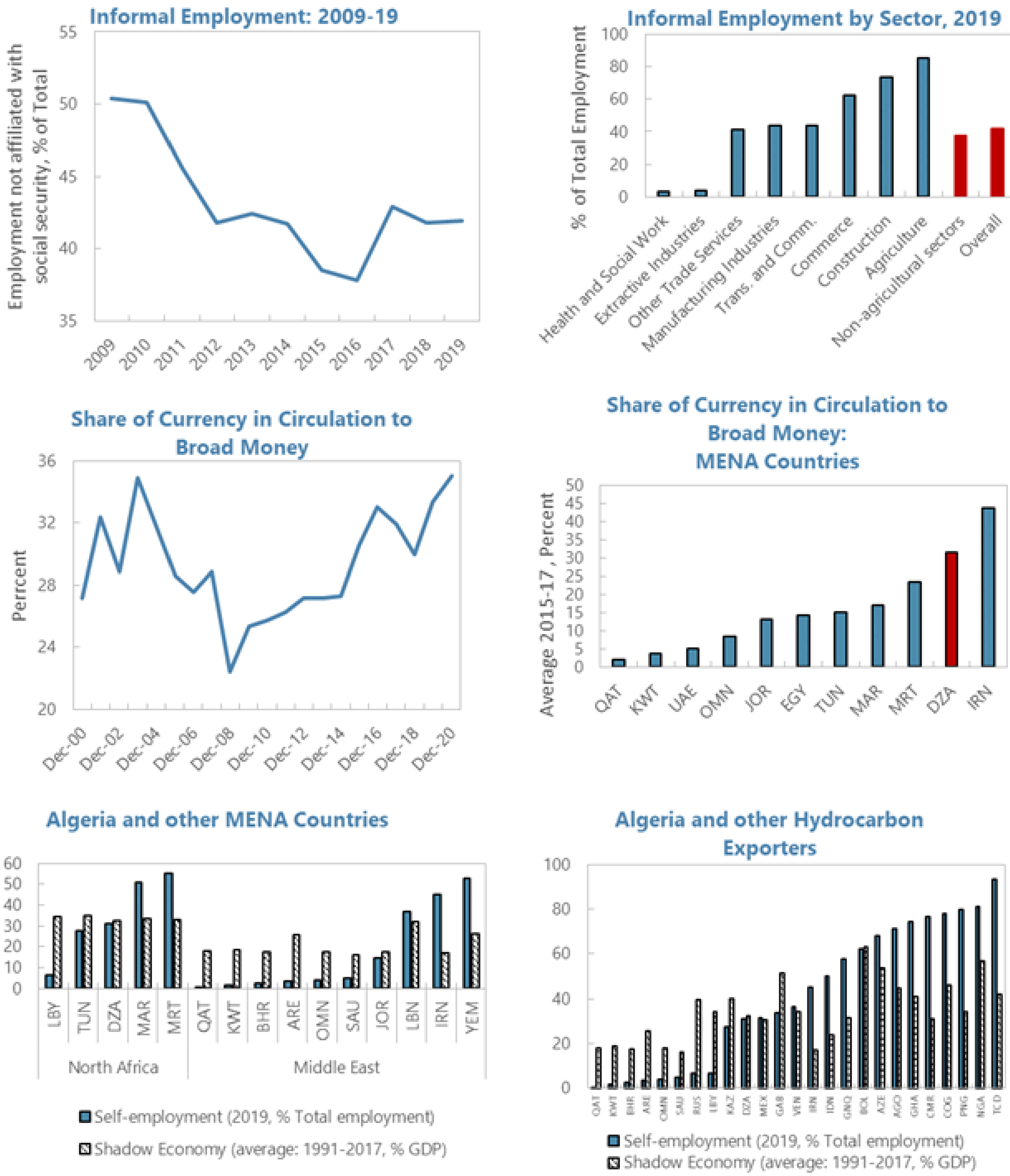
[1] These estimates are based on structural equations MIMIC models which exploit the information across Multiple Indicator and Multiple Causes variables to estimate the size of the 'shadow economy' (Medina and Schneider, 2018).

## Figure 1. Informality in Algeria



**3. Substantial efforts have been deployed by the authorities to encourage formalization in recent years.** The government has encouraged voluntary compliance through tax incentives or investment in infrastructure, while extending support to job creation and SMEs, working on promoting financial inclusion, and strengthening enforcement (Table 1). Data on the implementation of these initiatives is scant, and reducing informality takes time, but available information indicates there is room for improvement. For instance, the voluntary tax compliance scheme and affiliation to social security scheme under the 2015 supplementary budget had low take-up rates (Charmes and Remaoun, 2016) and the use of cash remains pervasive despite measures to facilitate payments through banks.

**Table 1. Selected Recent Policy Measures to address Informality in Algeria**

| | |
|---|---|
| **Encouraging voluntary compliance** | • Several measures under the 2015 Supplementary Budget Law, for example:<br>-Voluntary tax compliance program: temporary possibility offered to holders of funds generated from non-illicit informal activities to deposit them with banks in exchange for the payment of a 7 percent flat tax<br>-Temporary possibility for all non-affiliated employees and their dependents to benefit from social security coverage for three years, in exchange for the payment of a flat contribution of 12 percent of the minimum wage<br>-Waiver of sanctions for employers who regularize the situation of non-affiliated employees within a set timeframe<br>• Temporary partial exemption and tax allowances extended to certain categories of entrepreneurs under the flat income tax (IFU) regime<br>• Construction of hundreds of indoor and outdoor market facilities, while offering temporary work permits to young traders and temporary tax exemptions and rebates to new-settled traders |
| **Supporting job creation and improving the business climate** | • Simplification of the process for business registration<br>• Multiple schemes to support the employment of the youth and the long-term unemployed<br>• Extending subsidized loans to young entrepreneurs and VSMEs under various schemes<br>• Granting young entrepreneurs privileged access to public procurement bids and tax exemptions |
| **Strengthening enforcement** | • Enhancing third-party reporting obligations: creation of reporting obligations regarding customer identity and key features of transactions for suppliers subject to the professional tax, i.e. large suppliers (2018 budget law)<br>• Increased sanctions against employers in case of non-affiliation of their employees to social security (2015 supplementary budget law)<br>• Ongoing plans to label goods with bar codes to improve traceability and product safety, with the target of making this form of labelling compulsory within 5 years |
| **Enhancing financial inclusion, developing digitalization and reducing the use of cash** | • The imposition of mandatory use of bank cheques for the settlement of all transactions exceeding a certain threshold taken in 2011 and 2014<br>• Plans to impose the mandatory installation of electronic payment terminals in shops<br>• A host of measures to encourage the development of Islamic finance, including by uniformizing tax treatment with traditional finance under the 2021 supplementary budget law<br>• Non-deductibility of eligible expenses exceeding DA 300,000 settled in cash (2018 Budget Law)<br>• Launch of online portals for tax declaration and payment on a trial basis (Jibaya'tic and Moussahama'tic) |

Source: 2015 supplementary budget law, Algerian authorities, Charmes (2016) and various media reports.

**4. Existing evidence suggests that policy distortions and structural factors are the key drivers of informality in Algeria (Table 2).** An analysis of the informality gap in North African countries relative to advanced economies by the IMF (forthcoming) suggests that in addition to structural factors (like the greater importance of the agricultural sector and lower level of human capital), these gaps also reflect a number of policy distortions. In the case of Algeria, business and labor market regulation, the tax burden, and the quality of governance play a non-negligible role in informality.

**Table 2. Commonly identified determinants of informality in the literature**

| | Cost-increasing policy distortions | Benefit-reducing policy failures |
|---|---|---|
| **Policy distortions** | • High cost of business creation<br>• Rigid labor market regulation leading to misalignment between wage and productivity dynamics<br>• Complex legislation, red tape<br>• Heavy tax burden<br>• Constraints on competition and hegemony of large players and public corporations<br>• Price controls<br>• Administrative barriers to entry<br>• Corruption | • Weak judiciary undermining the enforcement of contracts and the protection of property rights<br>• Corruption constraining access to public services (or reducing the cost of informality by offering channels to escape enforcement)<br>• Weak quality of public services<br>• Poor access to finance<br>• Weak information |
| **Structural factors** | • Undiversified economy with high reliance on agriculture and/or extractive industries<br>• High share of youth in the population<br>• Poor education outcomes<br>• Cultural barriers to participation of certain categories of the population in labor markets | |

Source: Jutting and Laiglesia (2009), Charmes and others (2018), Loayza (2018), Ohnsorge and Yu (2021)

5. **The Government's Action Plan (PAG) identifies an ambitious set of measures to advance formalization, which need be complemented by efforts to tackle policy distortions.** The PAG lists a wide range of measures to tackle informality, including by extending further support to start-ups and SMEs, streamlining administrative and tax control processes, and leveraging digital solutions to promote financial inclusion. In parallel, reforms to address policy distortions need to be prioritized. The creation of an enabling business environment through product market, labor and financial reforms would be key to support the capacity of workers to obtain formal jobs, reduce barriers to entry, enhance benefits of participation for firms and individuals and discourage the use of cash. Reforms are also needed to minimize distortions from tax policy while improving compliance. Lastly, governance reforms to enhance accountability and reduce corruption and waste can help to promote a culture of compliance and increase tax morale.

# References

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INTERNATIONAL MONETARY FUND

# ALGERIA

## STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

November 5, 2021

Prepared By: Middle East and Central Asia Department in consultation with the Statistics Department

## CONTENTS

# RELATIONS WITH THE FUND

As of September 30, 2021

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

| **General Resources Account** | SDR (million) | Percent of Quota |
|---|---|---|
| Quota | 1,959.90 | 100 |
| Fund holdings of currency | 1,442.01 | 73.58 |
| Reserve position in Fund | 517.90 | 26.42 |

| **SDR Department** | SDR (million) | Percent of Quota |
|---|---|---|
| Net cumulative allocation | 3,076.66 | 100.00 |
| Holdings | 2,796.75 | 90.90 |

**Outstanding Purchases and Loans** None

**Financial Arrangement**

| **Type** | **Approval Date** | **Expiration Date** | **Amount Approved (SDR million)** | **Amount Drawn (SDR million)** |
|---|---|---|---|---|
| EFF | 5/22/1995 | 5/21/1998 | 1,169.28 | 1,169.28 |
| Stand-by | 5/27/1994 | 5/22/1995 | 457.20 | 385.20 |
| Stand-by | 6/03/1991 | 3/31/1992 | 300.00 | 225.00 |

**Projected Obligations to Fund**

| | *Forthcoming* | | | | |
|---|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2024 | 2025 |
| Principal | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Interest/Charges | 0.04 | 0.19 | 0.19 | 0.19 | 0.19 |
| Total | 0.04 | 0.19 | 0.19 | 0.19 | 0.19 |

| | |
|---|---|
| **Implementation of HIPC Initiative** | Not applicable |
| **Implementation of Multilateral Debt Relief Initiative** | Not applicable |
| **Implementation of Catastrophe Containment and Relief** | Not applicable |

**Exchange Rate Arrangement**

From January 21, 1974 to October 1, 1994, the exchange rate of the dinar was determined on the basis of a fixed relationship with a basket of currencies, adjusted occasionally. 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 October 20, 2021, the average of the buying and selling rates for the U.S. dollar was US$ 1 = DZD 137.195, equivalent to SDR 1 = DZD 193.98. 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. The de jure exchange rate arrangement is managed floating, and the de facto exchange regime is classified as crawl-like. Algeria maintains an exchange system free from restrictions on the making of payments and transfers for current international transactions.

**Article IV Consultation**

Algeria is on a 12-month consultation cycle. The last Article IV consultation was concluded by the Executive Board on May 30, 2018 (IMF Country Report 18/168). The discussions for the 2021 Article IV consultation were held remotely via VTC from September 13 to October 3, 2021.

**Technical Assistance**

| | | |
|---|---|---|
| FAD | Organic budget law | April 2015 |
| FAD | Tax administration | April 2015 |
| MCM | Management of foreign exchange reserves | April 2015 |
| RES | Macro-modeling | May 2015 |
| MCM | Macroprudential policies and financial stability | July 2015 |
| MCM | Liquidity management, monetary operations, and interbank market developments | September 2015 |
| MCM | Enhancing bank regulation and supervision | November 2015 |
| FAD | Tax and customs administration | November 2015 |
| MCM | Setting up a liquidity committee | December 2015 |
| FAD | Tax administration | February 2016 |
| MCM | Financial stability and macroprudential policy framework | April 2016 |
| MCM | Liquidity management | May 2016 |
| FAD | Public financial management | July 2016 |
| FAD | Tax administration | October 2016 |
| MCM | Debt market development | October 2016 |
| FAD | Tax administration | November 2016 |

| | | |
|---|---|---|
| MCM | Upgrading banking regulations | March 2017 |
| MCM | Forward market development | March 2017 |
| FAD | Tax administration | April 2017 |
| MCM | Collateral framework | July 2017 |
| METAC | Banking supervision | October 2017 |
| FAD | Tax administration | November 2017 |
| FAD | Medium-term budget framework and fiscal risk management | November 2017 |
| MCM | Forward market development (workshop) | November 2017 |
| FAD | Custom administration | December 2017 |
| STA | External sector statistics | January 2018 |
| FAD | Tax policy (local government) | March 2018 |
| METAC | National accounts | March 2018 |
| MCM | Monetary policy and risks to financial stability | March 2018 |
| FAD | Tax administration | September 2018 |
| FAD/METAC | Implementation of organic budget law | January 2019 |
| FAD | Tax policy (local administration) | July 2019 |
| STA | Government Finance Statistics | July 2019 |
| LEG | Anti-money laundering regulations | September 2019 |
| METAC | Tax arrears management | October 2019 |
| FAD | Pension reform | November 2019 |
| FAD | Tax administration (IT systems) | January 2020 |
| FAD | Tax administration and Covid-19 | June 2020 |
| FAD | Fiscal risk management and program budgeting | November 2020 |
| METAC | Public investment management | January 2021 |
| METAC | Tax arrears management | January 2021 |
| METAC | Program budgeting | March 2021 |
| METAC | Post-crisis tax administration | June 2021 |
| METAC | Program budgeting | July 2021 |
| METAC | Management of PPPs | October 2021 |
| METAC | Tax arrears management | October 2021 |
| MCM | Monetary policy operations and liquidity management (long-term expert resident) | October 2016-October 2018 |
| METAC | Follow-up mission on Supervisory Review and Evaluation Process | November 2019 |
| METAC | Follow-up mission on SREP | April 2020 |
| METAC | Implementation of Basel II & III standards | May 2020 |
| METAC | Implementation of Basel II & III standards | June 2020 |
| METAC | Implementation of Basel II & III standards | October 2020 |
| MCM | Analysis of domestic government securities markets | August 2021 |
| MCM | Liquidity forecasting | ongoing |

**Financial Sector Assessment Program**

Algeria first participated in the FSAP in 2003. The FSAP was updated in 2007 and in 2013. A Financial System Stability Assessment was conducted in 2019 and 2020 and was concluded by the Executive Board on a lapse-of-time basis in July 2020 (Press Release 20/316).

**Resident Representative**

None.

# RELATIONS WITH THE WORLD BANK GROUP

(As of October 20, 2021)

| Title | Products | Provisional timing of missions | Expected delivery date |
|---|---|---|---|
| **A. Mutual Information on Relevant Work Programs** | | | |
| Bank work program in next 12 months | **a. Sector work** | | |
| | • Pilot Household Survey | - | FY22 |
| | • Support to the Cash Compensation Program for the Subsidy Reform | - | FY22 |
| | **b. Technical assistance** | | |
| | • Addressing Barriers to increased Exports in Algeria | - | FY23 |
| | • Supporting Business Environment Reforms in Algeria II (including support for Microbusinesses) | - | FY22 |
| | • e-Commerce & Women led SMEs | - | FY23 |
| | • GovTech development as part of e-Government Strategy effective implementation | - | FY22 |
| | • Support for the development of distance learning tools and e-education for Early Childhood Education | - | FY22 |
| | • Disaster Risk Management Resilience Support | October 2021 | FY22-FY23 |
| | • Promoting the Participation of Women in the Energy Sector | - | FY22 |
| | • Renewable Energy TA | November 2021 | FY22-FY23 |

| | | | |
|---|---|---|---|
| IMF work program in next 12 months | Staff visit<br>Staff visit<br>2022 Article IV consultation<br>Continued technical assistance expected in the following areas:<br>• Liquidity forecasting<br>• Collateral framework<br>• Parallel market exchange rate<br>• Emergency liquidity assistance<br>• Domestic debt markets<br>• Bank supervision and regulation<br>• Public financial management<br>• Public-private partnerships<br>• Subsidy reforms<br>• Tax arrears<br>• Government finance statistics | March 2022<br>September 2022<br>June 2022<br><br><br><br><br><br>FY 2022 | |
| **B. Requests for Work Program Inputs** | | | |
| Fund request to Bank | Analysis related to subsidy reform<br>Sectoral analysis | As needed<br>As needed | |
| Bank request to Fund | Assessment of macroeconomic stance and prospects<br><br>Data sharing | Semiannual (and on ad hoc basis if requested)<br><br>Ongoing | Following Article IV and staff visits |
| **Title** | **Products** | **Provisional timing of missions** | **Expected delivery date** |
| **C. Agreement on Joint Products and Missions** | | | |
| Joint products in next 12 months | Continuous close coordination on the reform agenda | Ongoing | |

# STATISTICAL ISSUES

| I. Assessment of Data Adequacy for Surveillance |
|---|
| **General:** Data provision has several shortcomings but remains broadly adequate for surveillance. |
| **National Accounts:** National accounts broadly follow the 1993 SNA recommendations. However, nonprofit institutions serving households are not included in the published estimates. Annual national accounts are available since 1980 and quarterly national accounts since 2000. Volume measures are derived at prices of the previous year, then chain linked.<br><br>**Price Statistics:** The monthly consumer price index was published with a delay of less than one month prior to the pandemic. The index reference period is 2001 with weights from 2000. The quarterly producer price index was published with a delay of less than one quarter prior to the pandemic. The index base period is 1989. |
| **Government finance statistics:** Key shortcomings include insufficient institutional coverage (coverage is limited to the central government), 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 concerns about accuracy that give rise to reluctance to publish provisional data. The authorities have not reported GFS data for publication in the Government Finance Statistics Yearbook since 2011. |
| **Monetary statistics:** The central bank of Algeria (BA) submits the monetary statistics for the central bank, other depository corporations (ODCs), and other financial corporations to STA on a timely basis. Monetary statistics are published in the International Financial Statistics. The monetary data are based on the Standardized Report Form (SRF) following the methodology of the Monetary and Financial Statistics Manual and Compilation Guide (MFSMG). BA reports data on some key series and indicators to the Financial Access Survey, including two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) of the United Nations Sustainable Development Goals. |
| **Financial Sector Surveillance:** BA reports Financial Soundness Indicators (FSI), which are published on the IMF's FSI website. However, the periodicity and timeliness of the data need to be improved as the FSIs are currently reported only on a yearly basis. |
| **Balance of payments:** Balance of payments statistics are of relatively good quality. The data collection system appears comprehensive in terms of payments measurement but has incomplete coverage of transactions other than settlements (e.g., reinvested earnings) and some position data. A January 2018 TA mission worked with the compilers to address several weak areas, including (i) recording of construction projects as FDI vs. services; (ii) trade statistics; and (iii) FDI position data. Balance of payments and IIP statistics are disseminated regularly on the national website and transmitted to the IMF for re-dissemination in the IFS. |

| II. Data Standards and Quality | |
|---|---|
| Algeria began participation in the General Data Dissemination System (GDDS; replaced with the | No data ROSC is available. |

| | |
|---|---|
| enhanced framework, e-GDDS, in 2015) on April 21, 2009, and disseminates only metadata as part of the IMF Data Standards Initiatives. | |

## Algeria: Table of Common Indicators Required for Surveillance
## As of October 26, 2021

| | Date of latest observation | Date received | Frequency of Data[7] | Frequency of Reporting[7] | Frequency of publication[7] |
|---|---|---|---|---|---|
| Exchange Rates | 09/2021 | 10/2021 | M | M | M |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1] | 09/2021 | 10/18/2021 | M | M | M |
| Reserve/Base Money | 09/2021 | 10/18/2021 | M | M | M |
| Broad Money | 08/2021 | 10/18/2021 | M | M | M |
| Central Bank Balance Sheet | 09/2021 | 10/18/2021 | M | M | M |
| Consolidated Balance Sheet of the Banking System | 08/ 2021 | 10/18/2021 | M | M | M |
| Interest Rates[2] | 09/2021 | 10/17/2021 | M | M | M |
| Consumer Price Index | 06/2021 | 09/2021 | M | I | I |
| Revenue, Expenditure, Balance and Composition of Financing[3]—General Government | NA | NA | - | - | - |
| Revenue, Expenditure, Balance and Composition of Financing[3]—Central Government[4] | 03/2021 | 09/2021 | M | I | A |
| Stocks of Central Government and Central Government-Guaranteed Debt[5] | 2020A | 03/2021 | I | I | N.A. |
| External Current Account Balance | Q2 2021 | 08/2021 | Q | Q | Q |
| Exports and Imports of Goods and Services | Q2 2021 | 08/2021 | Q | Q | Q |
| GDP/GNP | 2021Q1 | 08/2021 | Q | I | I |
| Gross External Debt | 2021Q2 | 08/2021 | Q | I | Q |
| International Investment Position[6] | Q4 2020 | 07/2021 | Q | Q | Q |

[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)

**Statement by Hossein Mirshojaeian Hosseini, Executive Director for Algeria and Kamel Badsi, Senior Advisor to Executive Director**
**November 19, 2021**

Our Algerian authorities thank the staff team for the constructive policy dialogue during the virtual mission. They highly value staff's policy advice as they steer the economy out of the crisis. The mission had much to cover since the conclusion of the last consultation (the 2018 Article IV consultation) in May 2018—three and half years ago and almost two years before the onset of the pandemic. Staff had decided to delay the consultations due to political developments in 2018-19, and the COVID-19 pandemic delayed them further, although the 2020 FSAP mission was initiated and completed during the pandemic.

Our authorities welcome staff's contribution in the Selected Issues Paper to their own ongoing efforts to enhance governance and strengthen institutions in Algeria. As important as they are, however, the authorities believe that governance issues are one of the many challenges facing the country at this juncture, but not necessarily the most urgent nor the most critical. There are more urgent issues with deeper economic and social implications, including developing an effective social safety net and addressing the challenging issues of youth unemployment, income and gender disparities and the growing serious threat of climate change. All these issues are high on the authorities' medium to long term policy agenda and measures to enhance governance and strength institutions will continue to be implemented concomitantly with these initiatives to reinforce their impact.

**The COVID-19 Pandemic and Vaccine Rollout**

Algeria has faced three major waves of the virus so far with the last wave peaking in mid-summer 2021. The authorities maintained high levels of restriction on mobility during the first year of the pandemic and eased them only slowly from April 2021. The government's efforts together with a successful vaccine rollout have been reflected in a sharp drop in infection and mortality rates since July 2021. By end-October, a quarter of the population had received at least one dose of the vaccine (including the one-dose Johnson & Johnson vaccine). The government's plan is to vaccinate 70 percent of the over-18 population by end-2022, supported by local production of the Sinovac vaccine since September 2021 that has significantly boosted vaccine availability.

**The Economic and Social Impacts of the Pandemic**

Algeria was hit hard in 2020 by the combination of economic shutdowns due to the pandemic, prolonged closure of borders, and collapse of international oil prices. The December 2019 presidential elections and the appointment of a new government in July 2021, following early legislative elections the previous month, restored the country's social and political cohesion. Still, the impact of the unprecedented shock of the COVID-19 pandemic together with the collapse of the international oil market took a heavy toll on the economy: output contracted, the twin deficits widened significantly, government debt rose sharply, and foreign exchange reserves declined while still remaining comfortable and well above the ARA metric at end-2020. With the recovery of oil prices in 2021, the drain on foreign reserves has slowed noticeably and their level (including the recent SDR allocation) is likely to exceed the staff's estimate for end-2021. The pandemic also took a heavy toll on people's lives and livelihoods despite the government's intensified efforts to shield the population through income and employment support programs. Still, unemployment and poverty increased. As the economy is recovering from the crisis, one of the government's key priorities is to meet the high expectations of the people and the unfulfilled aspirations of the youth.

**Algeria and the Global Energy Market**

The benefits to the economy from the recovery of the oil market in 2021 have been somewhat muted by constraints on increases in oil output due to Algeria's compliance with the OPEC+ production sharing agreement. Algeria is committed to the stability of the international oil and gas markets and has become a major supplier of gas to Europe. Algeria's worldwide natural gas and LNG exports increased 44 percent in the first nine months of 2021, over the corresponding period in 2020, while natural gas exports through two pipelines to southern Europe, governed by long term contract with SONATRACH (Algeria's national oil and gas company), almost doubled during the same period.

**The Economic Outlook in the Context of Structural Reforms**

Following a real output contraction of 5 percent in 2020 (largely reflecting a 10 percent decline in the output of the hydrocarbon sector) the economy has been on an upswing in 2021, growing at an annual rate of 4 percent by mid-year. The recovery reflects the cautious relaxation of restrictions on mobility, the opening of borders, the recovery of the international oil market and the authorities' broad-based policy support. The authorities responded swiftly to dampen the economic and social impacts of the crisis by rolling out a series of health and macroeconomic measures, with special focus on protecting vulnerable groups.

Looking beyond 2021, and without minimizing risks to the outlook and uncertainties, including those associated with the pandemic, the authorities are more sanguine than staff about Algeria's medium term economic prospects as they envisage larger dividends from the structural reforms in train and those embodied in a new Government Action Plan (GAP) (www.apn.dz) that they will begin implementing in 2022. At the core of the PAG is a set of mutually reinforcing measures to open the economy, stimulate private investment, diminish informality, and gradually reduce the economy's high dependence on the hydrocarbon sector. Consistent with these plans, in early 2021 the authorities eliminated the 49 percent limit on foreign ownership (the so-called 51/49 rule), thus opening many economic areas, with the exception of strategic sectors, to inward FDI. The authorities also liberalized the foreign exchange surrender requirements for exporters, except for hydrocarbon and mineral exports, thus easing importation of raw material and inputs by private sector producers and exporters. Additionally, the legislative framework for public-private partnership is under preparation with the aim of facilitating private sector investment and reducing the on-budget costs of infrastructure investment. There are also serious considerations to opening partially the capital of some state-owned enterprises to private investment. The authorities feel that these positive initiatives could have been better recognized by staff and reflected in the report. Envisaging a significant payout from these reforms, the authorities disagree with the premise of staff's baseline scenario that foresees nonhydrocarbon activity coming to a virtual standstill by mid-decade as the current recovery momentum dissipates quickly.

The authorities recognize the difficulties in striking the right balance between preserving the post-pandemic recovery and reducing the twin deficits (and especially the nonhydrocarbon fiscal deficit) to foster macroeconomic stability and medium-term growth, while providing protection to the needy. They are determined to maintain an appropriate policy mix to support the nascent recovery until it is on firmer grounds. They agree with staff on the need for a recalibration of policies to support a sustained and inclusive recovery over the medium term but favor a timetable and an action plan that are steady but gradual, realistic, and well sequenced.

**Fiscal Policy and Reforms**

The fiscal support measures in response to the crisis comprised corporate tax relief and temporary exemptions of VAT and customs duty on imports of medical supplies and equipment, and inputs used in local production of the vaccine. Close to 1 percent of GDP was also spent on exceptional bonuses to frontline health workers and to support low-income households and the unemployed. The overall budget deficit widened by 2 ppts to 11.7 percent of GDP in 2020 and is expected to remain close to that level in 2021. The fiscal stance will be maintained in 2022 but the authorities intend to reduce the fiscal deficit by half in 2023 through a revenue-expenditure mix, including measures to recoup tax arrears, bring the informal sector into the tax base, and reduce subsidies. The 2022 preliminary budget under discussion in parliament contains provisions for a cash compensation facility in preparation for a comprehensive reform of universal, costly and inefficient subsidies. There are also provisions to continue to protect the unemployed and vulnerable households as long as the pandemic persists. With a view to containing the wage bill, the government has decided to limit new hiring to one for every four retirees, pending a more comprehensive reform of civil service employment. The authorities recognize the need to mobilize nonhydrocarbon tax revenue to finance social spending and high-priority nonhydrocarbon infrastructure investment, and more broadly to lessen the exposure of government finances to the vagaries of the international oil market. They intend to work closely with staff on exploring the revenue options and will seek Fund technical assistance.

Gross government debt increased in 2020 reflecting the pandemic-related increase in the overall budget deficit but, at around 60 percent of GDP, the debt/GDP ratio remains manageable. The authorities are nevertheless cognizant of potential debt sustainability issues associated with higher deficits and, as mentioned earlier, are determined to lower the deficit over the medium term through a balanced mix of revenue and expenditure measures. The fact that public debt is virtually all of medium-to long-term maturity and in local currency provides added comfort. The Algerian authorities are averse to foreign borrowing as a matter of policy. Algeria is a net creditor to the Fund and a new member of the Fund's SDR Voluntary Transactions Arrangement.

**Monetary Policy, Government Financing, and Inflation**

With the sharp and sudden drop in oil revenue and the rise in pandemic-related expenditure in 2020, there were few options for the government to finance its deficit other than drawing down its deposits with the Bank of Algeria (BA) and resorting to monetary financing, a practice that had been launched in 2017 but discontinued in 2019. In 2021, the BA financed the government by investing part of its equity in treasury obligations and extending temporary advances to the treasury (consistent with the Central Bank Law) that has since been repaid. In June 2021, the monetary authorities instituted a special financing arrangement (PSR), based on a three-way repo arrangement between the treasury, the BA and state-owned commercial banks to provide liquidity to six public banks to enable them to meet the financing needs of the government and the economy at large, as a part of the National Economic Recovery Plan. Of the maximum DZD 2,100 billion set under the arrangement, DZD 1,680 billion had already been utilized by banks by early-November 2021, of which about half has already been on-lent to the treasury. The authorities do not fully share staff's view that the arrangement poses significant risks to financial stability or creates moral hazard issues since the arrangement is capped, is targeted, is non-renewable and there is the option of early repayment that banks will be encouraged to use. The net contribution of the PSR to overall liquidity has been more modest as banks and treasury deposits with the BA have increased since the inception of the PSR.

The authorities recognize the need to improve the BA's monetary policy framework. The intention is to end monetary financing of the government—as had been done before the crisis—as soon as conditions permit. During the crisis, the successive reductions in reserve requirements and the PSR were the main sources of liquidity support to banks and through them to the economy. Once the crisis abates sufficiently, and liquidity conditions can be better assessed for a growing economy operating under normal conditions, the authorities intend to deepen the money markets, diversify sources of budget financing, and strengthen the monetary transmission mechanism, with Fund technical support.

The authorities are concerned by the pickup in inflation that reflects a combination of higher international food prices, currency depreciation, cost-push factors and supply bottlenecks during the pandemic. The inflation rate is expected to remain in mid-to-upper single digits over the next two years, depending on how fast the transitory factors dissipate and global supply constraints unwind.

**Financial Sector Stability**

Algeria's banking system is adequately capitalized, profitable and has weathered the crisis well, as evidenced by financial soundness indicators. There are, however, areas for improvement. As the 2020 FSAP was concluded by the Board in July 2020 on a lapse-of-time basis, the Board did not have the chance to discuss the report, and the Article IV mission did not fully assess the progress made on FSAP recommendations. A comprehensive financial sector reform is underway, heavily drawing on the findings of the FSAP. With METAC assistance, the BA has developed new guidelines and regulations for bank monitoring and has switched from on-site to off-site monitoring. The BA has also finalized the regulatory framework for the short-and long-term liquidity. It has strengthened its stress testing capacity and with IFC assistance is in the process of upgrading its stress testing model. A new regulatory framework has been developed and is being implemented to further strengthen the governance of state-owned banks by separating their supervisory and executive functions. Draft regulations are also being prepared to address the shortcomings identified in the FSAP report in the anti-money laundering framework. Revisions to the banking law are also under consideration to reinforce the BA's autonomy.

**Exchange Rate Policy**

The authorities have maintained exchange rate flexibility, as reflected in a sizable depreciation of the dinar against the US dollar since 2013. In managing the exchange rate policy, the authorities have been mindful of the impact of a rapid depreciation of the dinar on domestic prices at a time when international prices are increasing steeply. Depreciation would also have a fairly limited impact on the external current account balance that is largely driven by the hydrocarbon sector, but it would have an impact on nonhydrocarbon import demand as trade is liberalized.

The authorities disagree with staff on the extent of potential misalignment of the official exchange rate. In their view, the parallel market rate used as a reference by staff is not an appropriate benchmark given the small size of the market and the nature of its transactions, dominated by private (personal) transactions, inside and outside of the country, by the large Algerian diaspora. Moreover, the estimate in the External Sector Assessment, in staff's own view, is not a reliable indicator of currency misalignment, even without discounting for the transitory impact of the pandemic. Regardless, the authorities are committed to exchange rate flexibility as a part of a broader package of policy reforms. The termination of the surrender requirements for exporters is expected to improve the supply of foreign exchange as demand is expected to pick up with import recovery.

**Foreign Trade Policy**

The authorities are committed to a liberal trade policy. Import bans on a large number of items that had been in place since 2016 following the 2014-15 oil market collapse were removed in 2018 and 2019 and were largely replaced by provisional safeguard duties that were also lifted later. Importation of passenger vehicles is a special case. The ban on imports of semi-knocked down and completely knocked-down passenger vehicles has been maintained to prevent gross misuse and avoid turning Algeria into a junkyard of re-assembled old European cars. From this year, imports of passenger vehicles are only permitted by approved dealers and in conformity with technical specifications, including pollution standards. Otherwise, and except for imports of the hydrocarbon and mineral sectors, there are no major restrictions on imports. The authorities find the frequent use of "import compression policies" in the Staff Report, that is typically synonymous with quantitative import restrictions, rather misleading.

**Labor Market Support**

Employment was severely hit by the crisis, and as in many other countries, women, young, low-skilled and workers in the informal sector were hit the hardest. The government's efforts during the crisis were focused on protecting the unemployed and young job seekers and on reducing long term scarring of the labor market. Algeria has a number of job creation and temporary employment protection schemes with focus on young cohorts and women. ANADE[1] (ex ANSEJ[2]), set up in July 2020, is dedicated to creating jobs for the 19-40 years old cohorts by supporting micro enterprises. The "Start UP System", also established in 2020, supports the capital of start-up companies that are typically set up by educated young entrepreneurs. ANGEM[3], a micro credit system, promotes self-employment, working from home, and crafts and trade activities, largely catering to female workers. The female unemployment rate in Algeria is twice as high as males'. Another program, DAIP[4] promotes professional integration of first-time job seekers, including through internships. There are other programs that cater to those temporarily unemployed, including CNAC[5] and employment assistance program managed by ADS[6].

**Response to Climate Change**

As in many other countries, Algeria is bearing the full force of global warming that is increasingly becoming more visible in water and food insecurity. In response to this serious global threat, the government is working on a national plan, as a strategic priority, to alleviate risks, while building the economy's resilience to climate change. Optimization of water resources and safeguarding against pollution in an arid country like Algeria are clear priorities. The government has an ambitious program to develop renewable energy sources

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ANADE: [1]Agence Nationale d'Appui et de Développement de l'Entreprenariat, ANSEJ: [2]Agence Nationale de Soutien à l'Emploi des Jeunes, ANGEM: [3]Agence Nationale de Gestion du Micro-crédit, DAIP: [4]Dispositif d'Aide à l'Insertion Professionnelle, CNAC: [5]Caisse Nationale d'Assurance Chômage, ADS: [6]l'Agence de Développement Sociale (notably, solar and wind power) and improve energy efficiency in transport, construction, and industrial sectors, with the objective of achieving energy savings of around 63 million tons of oil equivalent by 2030. The energy efficiency program is projected to reduce $CO_2$ emissions by 193 million tons by the end of the decade. Local private and foreign investment is being actively encouraged in a number of energy-saving areas, including solar power and thermal insulation industries. Domestic energy subsidies over the years have led to misallocation of resources, wasteful use and pollution, as well as creating a major fiscal drag. As already announced in the PAG, the authorities intend to move away from universal subsidies, including those on domestic energy products, to more targeted support for low-income groups. The energy efficiency program in the transport sector is encouraging the use of least polluting and most available fuels, particularly LPG and CNG, and discouraging the use of diesel.

**Concluding Remarks**

Our Algerian authorities express their gratitude to staff for close policy engagement and technical assistance, and to management and the Board for continued support. They stress that their differences in views and perceptions with staff on some issues in no way diminish the high value they attach to staff's policy advice. They look forward to continued engagement with staff and to staff's technical support as they develop and implement their medium-term reform agenda to open the economy and gradually reduce its high reliance on the hydrocarbon sector. Broad public acceptability of the reform agenda is imperative to the success of the authorities' plans and, with that mind, the authorities feel it is important for the policy agenda to be firmly grounded by social stability and cohesion.